9.1 Summary:

The Panchayats have assumed increasing importance in the political and administrative set up embodied in the Indian constitution and in the principal of democracy and the welfare state. The villages are the nerve-centers of political, economic and developmental activities and panchayats are conferred with the responsibility of providing an efficient civic administration suited to the local needs ensuring planned development of the villages and utilising panchayat resources to the best advantages of the community.

Panchayats are body created by the state legislature entrusted with such functions as are declared to them. Being in the juristic position, they enjoy autonomy in their functioning. However, they also act as agents of the government in administering the civic affairs and thus their actions are circumscribed by the will of the state government. Although they exercise some governmental functions at village level, they cannot be sovereign bodies enjoying complete autonomy.

The sources of income of the GPs in Karnataka state are tax revenue and non-tax revenue. The tax revenue is mainly derived from property tax and water rate. The non-tax revenue includes income from various fees, fixed property and grants. The GPs’ finance is mainly derived from non-tax revenue sources. The tax revenue sources do not make any significant contribution towards GPs’ finance. The average annual contributions of non-tax revenue sources to total revenue of the GPs in Gangavathi and Yelaburga talukas are 84.35% and 92.13% respectively; while the average annual contributions of tax revenue sources to total revenue of the GPs in Gangavathi and Yelburga talukas are 15.65% and 7.87% respectively during the study.
period. The income generation from the taxes is very meager in the GPs of most backward Yelburga taluk.

The major and second major sources of tax revenue are property tax and water rate respectively. The average annual contributions of property tax to the total tax revenue in the GPs of Gangavathi and Yelburga talukas are 83.41% and 59.48% respectively; while the average annual contributions of water rate to the total tax revenue are 13.46% and 30.11% respectively.

The non-tax revenue sources are of two forms such as internal and external non-tax revenue. The most important among the non-tax revenue sources are the external non-tax i.e., grants. They contribute around 97% to the total non-tax revenue of the GPs in the both talukas, thus illustrating the imbalance in the non-tax revenue of the GPs. Only external non-tax source i.e., grants are the lifeline for the GPs in Gangavathi and Yelburga talukas which contribute nearly 82% and 89% to the total income respectively. The GPs in the most backward Yelburga taluk were depended more on the grants. Excessive dependence on government funds, grants or loans, stifles local initiative and enterprise.

The expenditure of the GPs is classified into the two main heads namely development and non-development expenditure. The development expenditure is incurred on public safety, public works, public health, civic related services, production related services, centrally and / or state sponsored schemes. The non-development expenditure is incurred on administrative and miscellaneous heads. The average annual share of development expenditure in total expenditure of the GPs in Gangavathi and Yelburga talukas are 86.62% and 89.28% respectively; while the average annual share of non-development expenditure in total expenditure are 13.38% and 10.72% respectively during the study period. The most important among the development expenditure are centrally and / or state sponsored schemes. Their share
stands at more than 60% of the total expenditure followed by public safety, civic amenities and public works.

Imbalance between needs and resources of the GPs resulted in two types of gaps viz., (i) revenue gap and (ii) resource gap. The revenue gap arises from excess of panchayat expenditure over its own revenue. The revenue gap of the GPs denotes the extent of shortfall of own revenue to meet total expenditure needs. The resource gap appears from excess of panchayat total income (internal income plus external income) over its total expenditure whenever higher level governments transferred financial resources to the GPs in form of grants. Resource gap of the GPs indicates the extent of unutilised grants. The management of both revenue gap and resource gap in the GPs of Gangavathi taluk is superior to the GPs of Yelburga taluk during the study period.

9.2. Findings:

Some major findings emanating from the analysis of the sixth, seventh and eighth chapters are succinctly described as follows:

1) There is the buoyancy in the gross revenue of the GPs in the both talukas. For instance, in case of the GPs in Gangavathi taluk the gross revenue was Rs. 322.73 lakhs in 2002-03, which shoot up to Rs. 655.46 lakhs in 2007-08. In other words, the rise was of the order of 225.80% during the study period. On the other hand, the gross revenue increased by 491.42%, from Rs. 209.73 lakhs in 2002-03 to Rs. 1235.84 lakhs in 2007-08 with respect to the GPs of Yelburga taluk.

2) The overall shares or ratios of the tax revenues and the non-tax revenues to the total revenues demonstrate that the former is low at 15.65% and the latter is very predominately at 84.35% in the GPs of Gangavathi taluk. While in case of the GPs of Yelburga taluk the overall ratio of tax revenues to the total revenues is abysmally low at 7.87%, but the overall share of the non-tax revenues to the total revenues is
revenues exhibits the absolute domination at 92.13%. These revelations affirm the first hypothesis positively. Additionally, the year wise fluctuations in respect of the ratios of tax revenues to the total revenues vis-à-vis the ratios of non-tax revenues to the total revenues are evident in the GPs of the both talukas.

3) The declining ratios of tax revenues to total revenues are the undesirable and regrettable as the soaring ratios of the non-tax revenues. The deteriorating tax ratios in the GPs of Yelburga taluk is steeper than the GPs of Gangavathi taluk.

4) To a very large extent, the behaviour of the total revenues is dependent on the behaviour of the non-tax revenues. In other words, the non-tax revenues have a greater influence than the tax revenues on the total revenue. Whenever the non-tax revenues declined the total revenues also declined and vice versa.

5) Regrettable aspect of the previously mentioned revelations is that the GPs of the both talukas have failed to optimally harness the sources of tax revenues delegated to them. Conversely, it can also be authentically said that their reliance on the sources of non-tax revenues is titanic. Besides the dependency on non-tax revenues in the GPs of Yelburga taluk is more than the GPs of Gangavathi taluk.

6) The external non-tax revenue constitutes the major chunk compared to the internal non-tax revenue, in respect of the GPs in the both talukas. The overall average share of internal non-tax to the aggregate non-tax is very low around 3%. On the contrary, the average ratio of external non-tax to the aggregate non-tax is very high almost 97%. Therefore, non-tax revenues of the GPs are mainly derived from external non-tax sources i.e., grants. The internal non-tax sources did not make significant contribution towards finance of the GPs in the both talukas. This finding confirms the second hypothesis positively.

7) The proportion of income from the external sources is greater than the internal sources in the GPs of the both talukas. The overall average share of internal
sources in the aggregate revenues comes to not so appreciable level of 17.81%. On the contrary, the average ratio of external sources to the aggregate revenues stands at a whopping level of 82.19%. This is the scenario as for the GPs in Gangavathi taluk. As for the GPs in Yelburga taluk, the internal sources and external sources contributed 10.54% and 89.46% respectively to the total revenues. Therefore, the GPs’ resources are mainly derived from external sources. The internal sources did not make significant contribution towards finance of the GPs in the both talukas. Hence, they largely depended on the state or central government for financial assistance in form of grants. This finding helps to verify the third hypothesis positively.

8) The inferences drawn from the above elucidation are that the GPs reliance on the external sources is predominately high. Moreover, the GPs are unwilling to exploit the internal sources optimally; this is one possibility. The other possibility is that the internal sources are rather very inflexible in yielding the revenues up to the anticipated levels.

9) The share of own revenue (IRM) of the all GPs in Gangavathi and Yelburga talukas are 17.81% and 10.54% respectively of their total revenues for the period from 2002-03 to 2007-08. The data indicates that not only IRM is very poor but also declining during the period. The share of own revenue in total revenue declined sharply from 17.05% in 2002-03 to 12.86% in 2007-08 and from 12.08% in 2002-03 to 6.37% in 2007-08 in the GPs of Gangavathi and Yelburga talukas respectively. The tax and the internal non-tax sources are generally impotent, ineffective, inelastic and insufficient sources of generating the income and sustain the GPs to the desired levels.

10) The GPs in the most backward Yelburga taluk rely more upon the external sources (grants) than the GPs in the backward Gangavathi taluk.
11) Among the sources of tax revenue, the property tax and the water rate are the major generators respectively to the total tax revenue for the GPs in the both talukas. The property tax constitutes a substantial part of tax revenue of the GPs. The average contribution of property tax to total tax revenue is 83.41% and 59.48% in the GPs of Gangavathi and Yelburga talukas respectively. The average contribution of water rate to total tax revenue is 13.46% and 30.11% in the GPs of Gangavathi and Yelburga talukas respectively. This testifies the fourth hypothesis positively.

12) A tax on property is the largest source of tax revenue for the GPs, but it has not been revised along with the changes in the value of the property. As a result, both the rate of property tax and the income from this source is very low compared to the rapid rise in the value of the property. The GPs have not been dynamic to revise the tax rates often even once in five years.

13) The Revenue from other taxes i.e., entertainment tax, vehicle tax, advertisement and hoarding tax, tax on factory is very insignificant. The average contribution of the other taxes to total tax revenue is 3.13% and 10.41% in the GPs of Gangavathi and Yelburga talukas respectively. The contribution of the other taxes to total tax revenue in the GPs of Yelburga taluk is superior to the GPs of Gangavathi taluk.

14) The Indian constitution has not reserved taxes exclusively for the local bodies.

15) Different sources of taxes allocated for the panchayats are not lucrative. For example, the other taxes i.e., tax on entertainment other than cinematography shows, tax on vehicles other than motor vehicles, tax on advertisement and hoarding are not yielding substantial revenue.

16) Panchayats in general have low taxable capacity. There is general poverty and economic backwardness in rural areas which limits the capacity to tax.
17) There is unwillingness on the part of panchayats to impose all the taxes or even to increase the rates of existing taxes.

18) There are three external sources which fetch adequate income to the GPs namely (i) grants from the GOK, (ii) grants from the CFCs and (iii) grants from the centrally and / or state sponsored schemes. The detailed analysis of these sources brought to surface the following points;

(a) The grants from the centrally and / or state sponsored schemes formed the first largest source for the GPs of the both talukas; they yield 64.93% and 62.60% of the total external non-tax revenues in the GPs of Gangavathi and Yelburga talukas respectively.

(b) The grants distributed by the GOK formed the second largest source for the GPs of the both talukas; it concedes 25.18% and 26.14% of the total external non-tax revenues in the GPs of Gangavathi and Yelburga talukas respectively.

(c) The grants disbursed by the CFCs enjoy the third largest source for the GPs of the both talukas; it concedes 9.89% and 11.27% of the total external non-tax revenues in the GPs of Gangavathi and Yelburga talukas respectively.

This analysis confirms the fifth hypothesis positively. The generosities with which the union and state governments as well as the CFCs disburse grants to the LSGs are the fountainhead of augmenting the revenues. Without such a munificent gesture of these bodies, the very survival is doubtful. As usual, the annual erratic fluctuations have been observed in the amounts of grants under all the three categories.

19) The erratic fluctuations are found in the collection of revenues from various sources, pertaining to the GPs of the both talukas. The inconsistency reflects the inefficiency in the management of various sources of revenue. Internal and external factors are responsible for this sorry state of affairs.
20) Though the KPR Act empowers the panchayats to raise loans from financial and other institutions, the process involved is not that simple due to the stringent conditions laid down for raising loans. Therefore, the panchayats in the state have not made any attempts to raise loans for their developmental needs.

21) The overall shares or ratios of the development and the non-development expenditures to the total expenditure demonstrate that the former is very predominately at 86.62% and the latter is low at 13.38% in the GPs of Gangavathi taluk. While as for the GPs of Yelburga taluk the overall ratio of the development expenditure to the total expenditure exhibits the absolute domination at 89.28%, but the overall ratio of non-development expenditure to the total expenditure is abysmally low at 10.72%. These revelations testify the sixth hypothesis firmly. Additionally, the soaring ratios of the development expenditure and plummeting ratios of the non-development expenditure are clearly evident in respect of the GPs in the both talukas.

22) In accordance with the seventh hypothesis, on average almost 75% of the development expenditure and 65% of the total expenditure incurred at the GPs’ level is met from transfers (grants) for the implementation of centrally and / or state sponsored schemes. This combined with the fact that overwhelming proportion of transfers is given for specified purposes; mean that the GPs’ do not have the autonomy to prioritise even the low level of expenditures they make. Analysis has shown that the volume of revenue raised by them is very small and they are heavily dependent on transfers from the central and state governments to finance public services. Since the transfers they receive are not large, the GPs’ play a minor role in providing public services.

23) There is growing and substantial imbalance between internal revenue and total expenditure of the GPs in the both talukas. This revenue gap is the difference between expenditure needs on panchayat basic services and the available own
revenue in the face of the growing population. The widening revenue gap is one of the major problems of the GPs. The revenue gap changed between -74.02% and -86.29%; -79.42% and -94.23% in the GPs of Gangavathi and Yelburga talukas respectively during the study period. This testifies the eighth hypothesis positively. This revenue gap not only led to withdrawal of certain vital functions like water supply, drainage and sanitation from the panchayats under one pretext or the other, but has also contributed towards their functional incapacity. The managerial inefficiency is overt.

24) Resource gap arises whenever revenue gap of the GPs is filled up through external sources i.e., grants. It is the excess of panchayat total receipts over its total expenditure. The gap signifies that the GPs are not full utilised the grants passed to them. It may be due to tied and conditional nature of grants or failure of the GPs to utilised the grants. As for utilisation of grants, the GPs in the Gangavathi taluk exhibited more enthusiasm than the GPs in Yelburga taluk.

25) Panchayats are comparatively undeveloped in character to undertake remunerative enterprises. Modern thinking on local finance is in favour of local bodies taking up commercial ventures to obtain more revenue. However, panchayats have not shown the dynamism to conduct such ventures.

26) At present panchayats lean heavily on state government for financial support. This is not a healthy feature in local finance.

27) The budgeting and budgetary process was not followed and the accounting records were not maintained in the prescribed formats as a result of which true and fair view of income and expenditure of the PRIs were not available and the grants were not utilised in a time bound manner to derive intended benefits. The arrears in audit rendered the financial data unreliable.
9.3 Suggestions:

1) Proper implementation of taxes should be ensured, strong mechanism should be developed for assessing and evaluating the taxes and its effective collection or recovery of taxes and user charges (fees) should be ensured on the part of panchayats for rising of income from internal sources.

2) There are problems with the structure of property taxes levied under the present system, and the state government should consider removing the ceiling rate. However, the more important issue in property tax reform is to institute a scientific mechanism for valuation of property to determine the tax base.

3) An equally important problem at the GP level is the lax enforcement of the tax. It is necessary to create a policy environment that encourages compliance, but it is also necessary to build capacity at the GP level to enforce the tax. Unless this is done, whatever are the changes in the tax structure or valuation system, the revenue productivity is not likely to show any significant improvement.

4) The panchayats should properly utilise its resources viz., properties, land, shopping complexes, etc.

5) Panchayats should overcome their lethargy and reluctance to try new sources of revenue.

6) If the tax collection falls below the specified percentage of demand estimates, the concerned staff should be held responsible, and administrative action be taken against them. Similarly, incentive should be awarded to the staffs who accomplish the target in collection of tax revenue.

7) A monthly review of tax receipts of the panchayats should be made and directions should be issued to office and persons concerned.
8) The panchayats services should be withdrawn to those who are defaulters in the tax payment till the arrears are cleared off.

9) The state government should extend full financial assistance to panchayats. So that they can be carry out several societal friendly activities. Panchayats have to make continuous efforts to provide basic amenities like health, education and drinking water facility, roads, transport facility etc., which require lot of funds. If the state government does not extend financial assistance at the right time, panchayats will face difficulties in attending to their normal functions. Therefore, to develop these panchayats, liberal financial assistance is essential. Apart from this panchayats should also have self-control, self-regulation and prudent management and uses of financial resources.

10) The concept of self-reliance and autonomy at the local level cannot be given a concrete shape by the enactment of constitutional amendment alone. The devolution of funds from the state government to local government has also to play its role in achieving the ultimate goal. Therefore, it is recommend that bulk of grants-in-aid should be in the nature of general purpose grants, with a view to giving sufficient, freedom and latitude to GPs in respect of utilisation of such grants in accordance with their needs and priorities. At the same time, it is recommend that grants should be adequate, timely and there should be proper follow-up and monitoring of the uses of grants, and timely and comprehensive audit of accounts, to check leakages and misdirections of funds.

11) It is recommended that the state government may come forward with a well-defined, clear-cut and transparent grants-in-aid policy for rural local bodies. At present, there seems to be no such policy. No general-purpose grants are being given to GPs. The purpose of grants should not only be to assist PRIs in the performance of their functions but also to spur them to make efforts in the
direction of additional resource mobilisation. Also some weightage needs to be given to backwardness.

12) Transfer from higher levels of government to local bodies in a federal set-up should conform to certain principles suggested as follows;

i. Transfers must be adequate to meet the requirements of PRIs, taking into account the fiscal health of the state government and the absorptive capacity of local bodies.

ii. Transfers must be predictable.

iii. Transfers must be stable and not subject to annual fluctuations.

iv. Transfers must satisfy certain conditions and not depend upon the arbitrary decisions of the government.

v. Transfers to a large extent, should spur local bodies to step up their own resource mobilisation effort.

vi. Transfers must be transparent.

13) The fiscal package to be designed for rural local bodies, has to be of such a magnitude that it provides adequate funds for meeting the revenue gap, arising out of mis-match between the expenditure needs and revenue raising capacity and also arising out of their fiscal disabilities.

14) The revenue gap of the panchayats may be reduced mainly in two ways: That they should have more powers to raise revenues through tax and non-tax (internal sources), and the state government should increase financial devolution that is transfer (external sources) of revenues from the state government to the panchayats.

15) The GPs should adopt pre-audit system (pre-expenditure audit) and continuous audit that would ensure the adoption of proper accounting practices and prevents the misappropriation of fund. Otherwise, audit would only remain as an exercise.
of fault-finding and precious little could be done after the expenditure has already incurred. Further, the time taken to prepare and submit annual report and timely addressing of audit queries is also important.

16) In order to ensure proper financial management and accountability, adequate information about the actual transactions of revenue and expenditure should be made available by way of accounts and financial reports that are relevant, easy to comprehend, disclose and monitor the aggregate fiscal position. It is a well-established fact that, accounts needed to be maintained in double entry based system. Further, adoption of accounting formats of GPs as suggested by the Controller and Auditor General of India and computerisation of accounting operations, are the needs of the hour.

17) Government should ensure that database on finances are created at the district level as well as at the state level as per recommendations of the Eleventh and Twelfth Finance Commissions.

18) The PRIs should be made accountable for preparation of their annual accounts in the prescribed formats within a specified period and their accounts should be compiled at the district level and at the state level for an objective assessment of allocation and utilisation of funds.

19) Government should make PRIs accountable to the Chief Audit Officer for submission of records for audit and also to ensure replies to inspection reports / Para.

20) Panchayats should conduct extensive surveys to up-date records.

21) With regard to the governmental control, the state government should limit itself only to providing advice and giving counsel. It should not interfere in the day-to-day working of the panchayats which may affect on functioning of them.
22) Panchayats should do their best to check evasion and corruption.

23) It is also important that the officials of the state government as well as those of the local governments need training on various aspects of local finance and fiscal decentralisation. The objective of training for state government officials is to change their mind set. Infusing confidence in the local bodies is critical to strengthening the local governments and that is possible only when the state government officials are willing to trust. As regards the employees of local governments, training is necessary to build capacity and this should be continuous. Training for the political representatives is also important to enable them to undertake their task effectively. Proper training of the officials and political representatives is critical to the smooth functioning of political and administrative wings of decentralisation.
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