Local bodies in Haryana are in a dreadful plight as pointed out in the memorandum submitted by the state government to the 13 Central Finance Commission (CFC). It is due to inadequate and uncertain flow of funds to them, limited taxation powers, inefficient utilization of local resources, their inability to administer certain important taxes etc. There exists a wide gap between the resources available and functional responsibilities of local bodies. In view of this, the task before the State Finance Commission of Haryana (SFC), which is to make recommendations on revenue-sharing between the state and local bodies, assignment of taxes and grants-in-aid to them is quite complex.

Finance and planning are the subjected which are highly centralized in India. Despite the federal system these are several points of controversy between the centre and states pertaining to fiscal relations. The third tier of government i.e. local government is given constitutional status vide 73rd and 74th amendments, 1992 and the issue of devolution of more financial resources has become a subject of repeated discussion and debate. However, the concept of democratic local governments could not be popularized and they are still dominated by the bureaucratic wing of the state government. But the fact remains that the financial position of local governments is to be improved for efficient delivery of services. Hence, the local finance and fiscal decentralization play an important role in local government.

The crux of problems of local bodies is finance as stated by Taxation Enquiry Committee, 1953-54. Santhanam Committee, 1963 observed, the PRIS have formidable list of functions to discharge but they do not have necessary financial resources to cope with these functions. Thus experiences show that local bodies can’t function efficiently without individual sources of income. In this direction the enactment of 73rd and 74th amendment acts is a historical step.

A major portion of Part IX of the Indian Constitution covering Articles 243C, D, E, G and K deals with structural empowerment of PRIs but the real strength in terms of both autonomy and efficiency of these institutions is dependent on their financial position (including their capacity to generate own resources).

Now after 73rd & 74th amendments Article 243(1) makes arrangements of transfer of resource from states to local government through SFCs.
The CRC recommended 11th and 12th schedules be restructured in a manner that creates a separate fiscal domain for panchayats and municipalities. Accordingly Article 243H and X be amended making it mandatory for states to make laws for devolving powers to local bodies. A separate tax domain for local governments be created.

Revenue powers assigned to local bodies have a narrow base and are less elastic as compared to revenue sources of the state governments. As such the local bodies have not been able to raise adequate resources to discharge their responsibilities “The problem has aggravated due to enlarged functional domain with the enactment of 73rd & 74th amendments.

- However, across the country, states have not given adequate attention to fiscal empowerment of the panchayats.
- Even in Kerala, Karnataka and Tamil Nadu, panchayats are heavily dependent on state grants.
- Internal resources generation is weak.
- A major portion of the grants received from central and state governments is scheme – specific having no discretion and flexibility for panchayats.
- State’s fiscal position is already tight. So they are not keen to devolve funds to panchayats.
- As per 11th and 12th schedules, panchayats are held responsible but without adequate resources.

State Panchayati Raj acts have given most of the taxation powers to village panchayats and the revenue domain of intermediate and district panchayats has been kept much smaller and remained confined to secondary areas like ferry services, markets, water and conservancy services, cess on stamp duty etc.

In Orissa all taxation powers lies exclusively with the village panchayat. In Rajasthan the situation is not much different except some taxes with panchayat samiti and zila parishad. In M.P., Zila parishads do not have any taxation power. But in Bihar they are given a few powers in this regard. However, in Maharashtra they are given some meaningful powers.
Imposition of profession tax, cattle registration fee for vehicle registration fee are three notable areas which have not been exploited optimally by panchayats.

Apart from allocating substantial share of royalty to local bodies, the state government should consider empowering them to levy local cess on the royalty so accrued to the state governments. States like Tamil Nadu and Karnataka have such provision in their panchayat acts.

In addition to cess, Tamil Nadu also contains the provision of local cess-surchARGE.

For fiscal decentralization to be effective, finance should match expenditure assignments related to the transferred activities. This requires the demarcation of fiscal domain of local bodies to tap resources directly from both tax and non-tax. More devolution of funds from the Union and state governments to local bodies.

In India, the concept and practice of local government taxation of property and profession much. Most of the revenue accrual comes from taxation of property and profession with minor supplement coming from non-tax receipts like rent from property and fees from services.

So the revenue base of local government be broadened and deepened. For this purpose the IIInd ARC suggested four major aspects of resource mobilization (i) Potential for taxation (ii) fixation of realistic tax rates (iii) widening of tax base (iv) improved collection.

- All common property resources in rural panchayats be identified, listed and made productive for revenue generation.
- Taxation domain of panchayats be expanded including levies on registration of cattle, restaurants, shops, hotels, tourist buses etc.
- Apart from the substantial share in the royalty from minerals, the panchayats be allowed to collect cess/surcharge on royalty for mining activities.
- An index of backwardness be taken into consideration by SFC while devolving funds to PRIs.

Allocations to panchayats are function specific which can be listed in five categories – (i) Livelihood activities like agriculture, land conservation, minor irrigation, animal husbandry, social forestry, small scale industries etc. (ii)
Infrastructure creation like drinking water, road, communication etc. (iii) Social sector activities including education and health (iv) Poverty reduction programmes (v) Miscellaneous activities like PDS, public assets maintenance, rural electrification etc.

Therefore, except for the tied major CSSs and special purpose programme of states, all other allocations to the PRIs be made in united form.

- There should be a separate panchayat sector line in the state budget.
- The state budget should be divided into state wise allocation and district-wise allocation. The allocation for each district should be shown separately in the district-wise allocation. These allocations under various heads be brought together to evolve into a district budget.

(i) Control of debts. at state level.
(ii) Schemes transferred to zila parishad for execution.
(iii) Devolved funds at the disposal of panchayats.

In Kerala, 35 to 40% state plan outlay is provisioned for plans and programmes formulated by local bodies. In Maharashtra also 60% funds are given for district sector plan and 40% for state sector plan. The mode of funds transfer should be through banks on the pattern of Karnataka to reduce time taken in such transfer. The state governments do not adhere to a time frame for release of funds and often by released in the end of the financial year leaving very little time for local bodies to carry out the actual work. Therefore, funds should be released well in time in equality in two months i.e. May and October.

Over the years, the demands of the rural sector have shifted from basics – food, shelter and safety to quality life requirements – potable water, electricity, education, health services, physical infrastructure and agricultural inputs and services etc. The fund requirement for all these is enormous.

Therefore, panchayats be allowed to borrow from banks and other financial institutions (as already suggested by Santhanam Committee, 1963). In the current liberalized credit scenario, local bodies can borrow from the market on the strength of their credit viability without the state’s guarantee and the SFC should provide the guidelines for this purpose.
The MP and MLA local area development funds go against the very fabric of
decentralization and be abolished.

**Urban Local bodies**

The robustness of urban local bodies is reflected in the state of their finances
and their capacity to look after their own needs. Unfortunately, the urban population
is grouping at a faster rate, the ULB have become increasingly dependent on the
centre and state governments for financial resources. There is mismatch between the
functional responsibilities and resource generation capabilities of local governments
which is a result of inadequate delegation of taxation powers or a matter of
administrative convenience.

Besides the SFCs, funds are released to local bodies by the centre and state
governments under various schemes – JNNURM and VIDSSMT – Urban
Infrastructure Development Scheme for Small and Medium Towns.

The ULBs have been authorized to levy and appropriate several taxes like
property tax, entertainment tax etc. They get major share from states in profession tax,
stamp duty, motor vehicle tax etc. But municipalities lack the required tax collection
machinery, political consideration and lot of corruption.

- With the abolition of octroi by most states, property tax is most important
  source of revenue for urban local governments. Earlier ARV (Annual Rental
  Value) was the basis to levy the tax but after a lot of reforms, municipalities
  have switched over from ARV to unit area or capital value method.
- The tax base of local bodies be widened because only properties in urban areas
  are actually assessed. Reason being municipalities are not expanded to keep
  pace with the urban sprawl.
- A large number properties belonging to central and state government are not
  taxed because of provision of Article 285.

Therefore, municipality should be allowed at least to collect services charges
from those properties and categories of properties exempted for property tax need to
be revised and minimized.

- The appeal process be given to an independent quasi-judicial authority instead
  of CEO.
• The collection efficiency of municipality is 40 to 60% because of poor data base management, improper keep of records, collusion between tax payers and recovery officers etc.

• So, a periodic physical verification of properties and taxes levied on them be carried out by a separate wing, random audit by the CAG, stern action for suppressing the facts.

• Unauthorized construction be brought under the tax net.

• The details of all properties be placed in the public domain.

• A computerized data base of all properties using GIS mapping should be prepared for all municipal areas.

• The upper ceiling of professional tax of Rs. 2500 be enhanced by amending the Article 276(2).

• The levy of taxes be made transparent and objective.

• The cost of collections and cost of compliance for the tax payers should be reduced to a minimum.

• An independent unit to monitor the collections of all taxes be created.

Non-Tax Revenues

Most important source of non-tax resources are the user charges – water charges, sanitation and sewerage, waste collection, parking fee, roads, street light etc. However, the user charges are not collected strictly by municipalities because of – (i) reluctance on the part of elected local representatives to charge for fear of becoming unpopular, (ii) lack of availability of required economic and financial expertise to fix correct rates for utilities, (iii) poor paying capacity of a segment of population is used as an excuse for not charging others.

However, the central government has made it mandatory for municipalities under JNNURM and UIDSSMT to levy reasonable user-charges so that the full cost of operation and maintenance is collected within the next five years.

Provision of imposition of fines are there but rarely used because of fear of court proceedings. For this purpose, power to impose spot fines be given to municipal authorities and there must be provision of municipal police for compliance of civil laws.
**Borrowings**

At present, the borrowing powers of local governments are limited and have to seek approval of state government. Now states have enacted fiscal management and responsibilities acts which compel them to be more cautious in fiscal matters. Now municipalities could find it difficult to secure loans without undertaking financial reform. So local governments should focus on accounting reform reflecting a clear picture of their assets and prudent financial practices.

So, the limit of borrowings for municipalities be fixed on the recommendations of SFCs.

They must be encouraged to borrow without government guarantees.

Asset management systems be in municipalities is dominated by DDA, MMRDA and this has not been instrumental in fiscal decentralization to them. However, Rajasthan has made a provision of 15% proceeds of Jaipur Development Authority to Jaipur Municipal Corporation.

- Municipal bodies should have a periodical updated data base of its properties.
- Land banks available with municipalities as well as the development authorities should be leveraged for generating resources for municipalities. Such resources should be used exclusively to finance infrastructure and not for recurring costs.
- Until the development authorities are merged with urban bodies, a proportion of their revenue be made available to municipalities for meeting their infrastructure needs.
- Any built up property in the municipal area should not be given on rent or lease without following a competitive process not exceeding 5 years in one go.

In Haryana, a local area development tax at the rate of 4% of the value of goods moving from one area to another within the rate is provisioned. Moreover, tax on profession, trade and callings, fire tax at the rate of 1% of ARV, Rs. 100 tax on driving licence, 5 paisa per unit tax on power consumption, Rs. 2500 per year on hotels, restaurants, banquet halls, petrol pumps, nursing homes, gas agencies, private schools and colleges, furniture show rooms, milk dairies, industrial units, Rs.1500 per year on private labs, commercial colleges, computer centres and showrooms of big
cays, Rs. 1000 per year on workshops, service status, ice-factories, flour mills, tent houses, cable operators, printing press, medical and general stores, levies on registration of new vehicles etc. Haryana abolition of house tax and striking down of operation of local area development tax more dependence of local bodies on state government help.

STATE FINANCE COMMISSION

The constitution (73rd and 74th) Amendment Acts, 1992 and Article 280 (3) (c) have altered the erstwhile fiscal devolution system and framework between the states and local governments. Under the new fiscal devolution system every state government is required to constitute, once in five years, a Finance Commission under articles 243 (I) and entrust it with the task of reviewing the financial position of local government and making recommendations as to the principles that should govern.

- The distribution between the state and the local governments of the net proceeds of the taxes, duties, tolls and fees leviable by the state.
- The determination of the taxes, duties, tolls and fees that may be assigned to or appropriated by the local government.
- The grant-in-aid to local government from the consolidate fund of the state.

The constitutional amendments have placed crucial responsibilities on the new institution of the Finance Commission of the states. Over the above recommending principles that should govern state-local fiscal relations). State Finance Commission (SFC) is expected to:

- Undertake a review of the finances of local bodies.
- Estimate the future financial requirements of local bodies.
- Suggest Measures for strengthening the finances of local bodies.
- Any other matter referred to the SFC by the Governor in the interest of sound finance of the local bodies.

OBJECTIVES OF THE STUDY

The main objectives of the study are:

- To examine the recommendations of 1st, 2nd, 3rd and 4th SFCs on sharing of taxes/duties between the states, rural and urban local bodies.
• To observe the approaches recommended by SFCs for dealing with the sharing of resources with local governments

• To review the recommendations at grass root level of SFCs.

• To examine the action taken by the government on the recommendations of the Commission, relating to the devolution of powers and taxes.

• To know the opinion of local governments' leaders/officers and general public for getting factual information about the recommendations at grass root level.

**METHODOLOGY**

The study is about the working and recommendation of the State Finance Commissions in Haryana. It is based on the primary as well as secondary sources. In order to collect the relevant information the help of primary as well as of secondary sources is taken up. For this purpose interview of leaders of PRIs and ULBs, officers of local bodies and general public is conducted to elicit factual information. Two districts of Haryana State are selected randomly i.e. Rohtak and Sonipat. The respondents include all elected members of PS, Gram Panchayats as well as those of municipalities from two districts.

**Chapterization**

The Study has been divided in the following chapters:

**First Chapter** discusses the introduction of the study.

**Second Chapter** deals with the recommendations of 1st, 2nd, 3rd and 4th State Finance Commissions of Haryana.

**Third Chapter** deals with the Action taken on Recommendation of first SFC, IInd SFC, IIIrd SFC and further action taken by the state government.

**Fourth Chapter** relates to the implementation of recommendations of SFCs in Haryana.

**Fifth Chapter** relates to the Implementation of SFCs Recommendations and views of respondents.

**The Last Chapter** is that of conclusion along with suggestions.
Main Findings of Study are given as under:-

- The 2nd and 3rd SFCs have not made a through review of the financial position of state. So they should clearly understand the acrobatics of state economy and made a through review of both the state and local bodies finance.
- SFCs have not gone far enough in addressing the question of building up the revenue base for PRIs and municipalities.
- Under the 3rd SFC grant Rs. 11.642 crore and 13.531 crore have been sectioned for the year 2013-14, 2014-15 for Rohtak municipalities. But nothing was received under Ist SFC. So, it can be seen that method of allocation of grants is totally on political ground.
- Officer of both sides admit at large the execution of grant in accordance with the state guidelines, but a less number of executive officers makes a statement that it is not always possible to execute the grants in a straight forward manner and it needs an alternation. (62.5%) of BDPOs and (71.6%) of executive officers/secretaries are having their opinion affirmative. While the (37.5%) of BDPO’s and (28.4%) of EO/Secretaries are having negative response regarding grants execution in accordance with the guidelines laid by the department concerned.
- Majority of respondents admits for taking Panches/Sarpanches in confidence. But one has the different opinion and announces that a dirty politics prevalent at village level and executive officer always suffer from a severe tension on the issue of involvement of Panch/ Sarpanch in action plan as well as the time of taking the works on priority wise. According to BDPO, 75% of respondents give in affirmative answer as compared to only 25% having negative attitude towards poor implementation of action plan.
- Regarding the views on coordination among different local government, (88%) of the respondents are having affirmative response as compared to only 12% of the respondents, having negative response. In case adjustment in the same works are having their 50-50 proportionate figures in each cases. In case of the funds sent back to the issuing authority is 100% true, as told by BDPOs for the views for taking permission and EO/secretaries are 50-50%. Majority
of executive Officers at rural as well as urban areas feels strongly agreed for process adopted for execution and simply agreed followed at number two. Only a few numbers of respondents don’t want to disclose their opinion for their tested interests.

- In case of urban local bodies, the (75%) of the respondents are of opinion that the process of audit of utilization of funds is practiced. But 25% of the respondents are of the view that the provision of audit is not in exist and no one indicated ignorance of audit process.

- Respondents of local bodies at rural level have less knowledge of audit as compare to urban level. During interviews negative respondents pointed out that the audit officer often takes bribes for verifying the utilized funds in most cases in all the tier of the local self governments.

- For block samiti, (50%) of respondents admit that the knowledge about income sources are known properly to them. In case of ULB, the corresponding responding proportionate figure has increased by 15 percentage and it has reached up to 75%. Only (50%) and (25%) of the respondents from rural local bodies and ULB indicate their ignorance about this fact.

- Leaders of local self governments are bifurcated in accordance with additional power of taxation which to be conferred. The additional taxation power is directly related with the vote bank. One section is of the opinion that additional taxation power is expected to generate additional revenue, as a result, it ensures to divert this sum for development works. But it requires urgent intervention, so that a better implementation may take place in future.

- In case of block samiti, (75%) and for ULB, the (25%) of respondents think of exercising the full taxation power. On the contrary, the (25%) of urban local bodies’ respondents give their affirmative answer for justifying their views, and rest of the (25%) of respondents are having negative attitude towards this perception. Majority of leaders of rural areas admit that rural local bodies are not exercising their full taxation power. During the collection of information on the related issues, the local leaders form rural areas, where the majority of the people do not like to pay any taxes, and it becomes a difficult task to make
recovery from the defeated party supporters. The winning group always encourages their people to pressurize through their lobby to serve their vested interests by any means.

OBSERVATIONS

- Execution of grants is made in accordance with the state guidelines and probability of alteration exists in most of the cases.
- Petty disputes of different groups in the villages always became main cause of site selection of the work undertaken.
- At execution level the technical assistance at all levels are considered with priority.
- The executive officers are engaged in extra-activities, as a result, they do not pay their much attention towards the main work.
- Audit process is also not free from corrupt practices.
- Rural local bodies are not exercising their full taxation powers.
- Majority of respondents from rural local body feels no way for mitigating the corrupt practices.
- A common man is not satisfied with the way of utilization and site selection for execution of works.
- General public is not satisfied with the quality of materials used in development works and smalls nexus between the elected representatives and officials’ prevalent.
- A few representatives have knowledge about the official transferred under the control of PRIs.
- General Public is not in favour of intervention of local bodies for full freedom to levy taxes.

SUGGESTIONS

- The time of reference of a SFC should invariably be specified in the notification appointing the chairman and members and the period should not be extended from time to time.
• State government must clearly state in their action taken report, the reasons for any modifications or rejections.
• State government must categorize the grant source-wise at time of its releasing to local bodies.
• SFC should not include the grants of Central Finance Commission in its recommendations.
• Revenue from stamp duty and electricity duty, tax on vehicles collect by state agencies is transferred to the ULBs, is not covered under any ‘head’ of SFC grant in municipal registers.
• The report of the commission be tabled in the state legislature.
• Provision of proper tax collection machinery should be made for augmenting the resources base of local bodies.
• Funds which are transferred to local bodies be budgeted separately and devolved directly on the basis of some transparent formula.

Therefore, SFC recommended for creating a centralized agency in finance department, for collection and analysis of statistical data on local bodies. This agency be fully equipped with qualified manpower and modern technology so as to work as repository of data on local government and also to monitor the implementation recommendations of SFC.

• There should be some legal provisions pertaining to fiscal responsibility of local bodies dealing with assignment and collection of revenue/borrowing and mode of incurring expenditure.
• District planning and budgetary should be encouraged to make the fiscal decentralization realistic and practical.
• An annual report at district level containing full details of finances of local bodies should be published every year.