CHAPTER –7

COMPARISON OF RECOMMENDATIONS OF THE THREE STATE FINANCE COMMISSIONS
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The SFCs were constituted in different States under different set of circumstances. The prevalent conditions of State-Local fiscal relations were different but the Constitutional mandate required that in future these relations should become as per the provisions of the 73rd and 74th Amendment to the Constitution. Therefore, these Commissions were more or less given the similar terms of references to function and give recommendations to these governments. It is not surprising that there might be several similarities in these recommendations while dissimilarities may also not ruled out. In this chapter an attempt has been made to highlight such features in the recommendations of our sample States. As already noted, these States are different locationally and were different in terms of State-Local fiscal relations. Comparative analyses of their recommendations are discussed below and all the common features of these three States are furnished in Table 7.1 given at the end of the chapter.

7.1 GLOBAL SHARING OF REVENUES

7.1.1 RECOMMENDATION BY SFC OF TAMIL NADU

Out of the total resources, the government retains 92 per cent (pool A) and remaining 8 per cent (pool B) of the resources goes to local bodies for devolution between different urban and rural local bodies. 15 per cent of it (1.2 per cent of pool B) is reserved for equalisation fund and remaining 85 per cent (i.e., 6.8 per cent of pool B) is earmarked for general devolution to local bodies. 40 per cent of it goes to ULBs (urban pool) and 60 per cent goes to PRIs (rural pool). Out of the urban pool, 31 per cent goes to Municipal Corporation, 31 per cent to municipalities and remaining 38 per cent goes to Town Panchayats. On the other hand, out of the rural pool, 43 per cent each goes to Village Panchayat and Panchayat Union Council, while the remaining 14 per cent goes to District Panchayat.
7.1.2 RECOMMENDATIONS BY SFC OF UP

Out of total resources the government retains 90 per cent and remaining 10 per cent goes to local bodies for devolution between different ULBs and PRIs. Out of this 10 per cent resources, 7 per cent is earmarked for ULB’s and 3 per cent goes to PRI’s. Out of 3 per cent of the net proceeds of State taxes (which is of the order of Rs 162.00 crs) one-fifth thereof, should be earmarked for Zila Panchayats and the balance four-fifth for Gram Panchayats. 7 per cent of the net proceeds of State’s total tax, may be earmarked for devolution of funds to the ULBs. Inter-se apportionment of the above is as 3.12 per cent to Nagar Nigams, 3.12 per cent to Nagar Palika Parishads and only 0.76 per cent to Nagar Panchayats respectively.

7.1.3 RECOMMENDATIONS BY SFC OF DELHI

Out of total resources, the State Government retains 87.5 per cent and remaining 12.5 per cent of the resources goes to local bodies. 9.5 per cent on non-matching basis devolves to NDMC and MCD, while 1.5 per cent goes to MCD and NDMC on matching basis. Maximum 1.5 per cent on matching basis equivalent to saving in expenditure against projections is made by the Commission.

7.2.1 DEVOLUTION PATTERN RECOMMENDED BY THE SFC OF UP

1. The local bodie’s share in net proceeds of the State’s tax revenue be passed on directly to them by the State finance department.

2. As in the case of devolution of funds to the ULBs, devolution of funds to the PRIs be passed on directly to them by the State finance department.

3. Higher devolution of funds from non-plan side to enable the rural bodies to carry out their non-plan functions of maintenance, etc. The provision for grants-in-aid on non-plan side in the budget of PRIs should be done away with, including the provision for grants equivalent to the amount of land revenue (non-plan and plan).
7.2.2 BASIS OF DEVOLUTION

The SFC of UP suggested that the criterion for devolution of net proceeds of State's tax revenues to PRI's and ULB's should be 80 per cent on the basis of population living in their respective area and 20 per cent on the basis of physical area under their jurisdiction, whereas the SFC of Delhi recommended this criterion as 70 per cent on the basis of population and remaining 30 per cent on the area basis. The SFC of TN does not discuss the criterion of devolution.

7.2.3 DIVERSION OF DEVOLUTION

Kshetra Panchayats of UP are entrusted with the responsibilities of maintenance of some capital assets which at present are supposed to be looked after by gram panchayat's or any such statutory body. Then 10 per cent of the non-plan devolution should be earmarked for kshetra panchayat, out of the gram panchayats share and inter se distribution of said amount between kshetra panchayat should be on the same criterion / formula which has been recommended by the SFC of UP for Zila panchayats and gram panchayats.

7.2.4 DEVOLUTION IN INSTALLMENTS

To insure that the ULBs fulfill the responsibility cast on them of improving their own resources seriously, it is suggested by the SFC of UP that, initially only 90 per cent amount of the devolution should be released to the local bodies and the remaining 10 per cent should be released only after it is established that the local body concerned has shown marked improvement in collecting its own revenues.

7.2 GRANTS-IN-AID

7.2.1 TAMIL NADU

Recommendations made by the SFC of TN regarding grants-in-aid

1. **Specific Purpose Grants:** The grants are given either as incentive for tax efforts or for matching the efforts in maintaining of services. Mostly the grants are discretionary and unpredictable and no specific provision has been made in the
statute to make them compulsory, except in a few cases. To improve this, SFC of TN suggested that the services like maternity, dispensary and family welfare should be based on National Goals. So the specific purpose grants given for these services will be covered by devolutions under 73rd and 74th Amendments to the Constitution and the fund allocated for this purpose by the Central and State Government should be passed on the local bodies on the basis of the prescribed norms. Incentive and untied grants now available will be taken care of while devolutions are distributed since such grants are necessary to ensure additional resource generation. The reimbursement of D.A increases may be sanctioned to the local bodies outside the general devolution. This should be applicable in case of municipalities also.

2. **Half Grants for Dustless Surface and Roads Grants**: In town panchayats, grants are given for improvement of roads and dustless surfacing of the roads. For this SFC of TN recommends that the lengths of the roads should be measured for the purpose of allocation of share out of motor vehicles tax to the divisible pool. Moreover, the improvement of roads can be taken up under special schemes formulated for town panchayats.

3. **House tax Matching Grants**: The village panchayats have a very meager income under house tax. The existing system of house tax matching grants can also be linked to collection performance instead of providing equal amount.

4. **Drainage Grants**: A regular yearly drainage grants must be given for taking up drainage schemes.

5. **Non-tax Revenue Grants**: In PUCs, the Local Road Grant (LRG) may be continued on the existing principle of population and the lengths of roads. The rate for length of roads may be adopted at the revised rates indicated by Chief Engineer (High Ways and Road Ways) (CE (HW & RW)) and the amount needed for maintenance of PUC roads has also been arrived at on the basis of the rates given by the HW & RW department and has been taken into account for arriving at the share of local bodies for Motor Vehicle Tax (MVT). Since the share on MVT is proposed to be taken to the divisible pool for distribution, no separate local roads grants may be made thereafter. Till then the grants may continue.

6. **Grants for maintenance of Maternity Centers and Dispensary**: The dispensaries of PUCs may be continued with grants to meet the full cost of
maintenance, but their working needs examination. Rural dispensaries could be privatized by permitting local willing doctors to use the building. The government should reimburse the entire cost of the ayahs as grant and continue them, as PUC’s staff till retirement, for services.

7. **Grants for Remunerative Schemes:** In village panchayats with higher population / income, remunerative schemes like establishing shops, markets, bus stands and community centers may be encouraged with assistance from government but they should not be entirely on loan, but on grants-cum-loan basis. The freedom to implement the schemes should be left to the panchayats except for technical guidelines and supervision.

8. **Development Grants:** The grants intended for VP may be directly adjusted to the panchayat funds by the District Authorities to avoid delay in routing through the panchayat unions. Freedom is given to the local bodies, to utilise the funds for priority items in the area rather than sticking to the purpose indicated for the grants.

9. **The grants for street lighting and water supply** of VP will have to continue on regular basis. The consumption charges in public lighting and also the repair charges for water sources may be met by government in full.

10. **Centrally Sponsored Employment Programmes:** The role of the SFC is mainly concerned with the deficiencies in the maintenance of the assets created by local body from its resources and assets created through other schemes and handed over to the local bodies. The maintenance grants are in the nature of discretionary grants and they can neither be predicted nor insisted. The Massive Employment Oriented Programmes are currently based on certain guidelines indicated by the concerned ministries and administrative departments and relate to capital formation. The guidelines may be re-examined as a part of devolution for more flexibility to include civic service infrastructures also for better public utility.

11. **Grants for municipalities:** For municipalities regular system of revenue grants from the State Government and to avoid complacency, the eligibility for grants-in-aid may be related to the fiscal capacity as well as performance of the municipality.
7.2.2 UTTAR PRADESH

Recommendations made by the SFC of UP regarding grants-in-aid:

For Grants, SFC of UP suggests that with a view to synchronise the effects of increasing devolution with additionality of grants-in-aid flowing from the Central Government, the same formula should be applied for its inter-se distribution, which is suggested for increased devolution of funds on the non-plan side. Further, these grants should be utilised strictly for civic services like improving drainage facilities, garbage disposal, latrines, street lighting, etc. for which the necessary schemes should be drawn up by the urban local bodies and got approved from the State Government.

The SFC of UP recommends discontinuation of the present system of grants-in-aid to ULBs and to adopt a system of vertical resource sharing in which all State taxes are pooled and a proportion thereof devolved to the urban local bodies. For PRIs also the present system of grants should also be done away with. Instead they may be given a share in the net proceeds of the State taxes. As the ULBs were not collecting more than 50 to 55 per cent of the current demand of their own taxes, the Commission recommends that assignment of more taxes and duties to the ULBs is not likely to be of great help and it will do more harm than good to both the urban local bodies and the State Government.

Regarding grants-in-aid on plan side, these are essentially of non-recurring nature and it was not found feasible to envisage the shape of things to come in respect of non-recurring items of expenditure. The functions given to PRIs and ULBs are envisaged in 11th and 12th Schedule of the Constitution. The Commission feels that if and when a decision is taken by the State Government to pass on those schemes to the ULBs, the State Government accordingly will also have to pass on necessary funds for the purpose also to them. It is also suggested, as per recommendations of the Tenth Union Finance Commission, that the grant recommended by them should not be utilised for meeting salaries and wages.

Apart from devolution of funds, the SFCs have recommendations related to tax reforms, introduction of new taxes and reforms in general administration. All the
recommendations aim at delivery of civic services at a reasonable level to all the citizens whether in urban or rural areas.

7.3 REFORMS IN RESOURCE RAISING

7.3.1 TAX REVENUES

7.3.1.1 PROPERTY TAX

It is well known that property tax (hereafter PT) is the major source of revenue for local governments in India; therefore it is very important to strengthen it. The SFC of TN recommends to switching over the present system of ‘Annual Value System’ to ‘Area Linking Unit Value System’. It ensures better acceptability to the people and yields more revenue for the local bodies. Whereas the SFC of UP is in favour of adopting ‘Carpet Area’ as the basis for assessing the Annual Rental Values of building in ULBs. The SFC of Delhi suggests for adoption of ‘Unit Area Method’ (UAM) as an alternative to reasonable annual rent (actual and assessed) for computing the Annual Rateable Value (ARV).

The SFC of TN divides the local bodies into six categories for fixing Basic Rental Plinth and the SFC of UP determines property tax based on the the criterion as the Annual Rental Value of the property i.e. location of property (property on the principal main road / main road or other than these), use of property (residential, commercial or industrial), type of construction (pucca building with RCC / RBC roof or semi pucca or other). It also suggests that for calculating of Annual Rental Value of building / properties measurement of carpet Area would be calculated as: rooms & covered veranda—full measurement of internal dimension; balcony or corridor—50 per cent measurement of internal dimension; garage—25 per cent measurement of internal dimension; area covered by bathrooms, latrine, kitchen, portico, stairs shall not form part of the carpet area for purpose of determining Annual Rental Value.
Revision of rates of Property Tax: Once the property tax is determined, it has to be revised after some time keeping in view the increase in the value of property. It is suggested that TN may go for general revision of property tax once in three years based on inflation rate with reference to consumer price index, but it would be done without deployment of additional staff by dividing the area into zones and revision made zone-wise every year. A preliminary analysis of the revised structure reveals that it will lead to additional revenue of 25 to 45 per cent. In the present system of UP for revision and assessment of Annual Rental Value of buildings, which is done in every five years, may continue. However, wider powers should be given for ensuring speedy recovery of property and other taxes. The SFC of Delhi is in favour of reducing "ex-parte" timing from 3 years to 3 months. A study made by Human Settlement Management Institute (HSMI) bears out that the municipalities are collecting only a fraction of the potential revenues due to sheer management inadequacies. Therefore, it is advisable to identify all the legal hurdles and abnormalities, which produce hindrances in tapping this source fully. If the under assessment is rectified properly then collection of property tax may go up to 300 per cent.

Deduction: TN and UP have considered the depreciation of the property and therefore allowed the deduction of the Annual Rental Value attributable to the building.

<table>
<thead>
<tr>
<th>Tamil Nadu Age of Building</th>
<th>0-10 years</th>
<th>11-20 years</th>
<th>21-30 years</th>
<th>31&amp; above</th>
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<tbody>
<tr>
<td>Discount</td>
<td>5 per cent</td>
<td>10 per cent</td>
<td>20 per cent</td>
<td>30-40 per cent</td>
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<table>
<thead>
<tr>
<th>Uttar Pradesh Age of Building</th>
<th>25 years and below</th>
<th>25-40 years</th>
<th>Above 40 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount</td>
<td>10 per cent</td>
<td>20 per cent</td>
<td>30 per cent</td>
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</tbody>
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In UP the rates of property tax after allowing deductions are as below: property tax @2.5 per cent of annual rental value, water tax @ 2 per cent of annual rental value and sewerage tax @ 2 per cent of annual rental value.

Exemption: The existing provision for exemption of PT in TN should be removed and it is recommended by the SFC of TN, that all Central Government properties, charitable and educational institutions, etc should not be totally exempted from PT but instead of it,
concessions may be given in the levy of general purpose tax by restricting the levy of service tax alone. In case of industrial estates, tax concession should be given only for five years. If the Government in the interest of public cannot collect tax, compensation for loss of revenue should be simultaneously made available to the local bodies by the State Government. The SFC of UP also gave suggestion for removing the existing provision for exemption of the urban property from PT and all the property in the ULBs area should be brought in the tax net. PT should also be imposed on that portion of the building or land attached to the places of worship, which has been given on rent and are being used for purposes other than public worship. Whereas the SFC of Delhi was of the view to exempt all non-residential properties from Delhi Rent Control Act.

**Rebate:** To encourage people's participation in paying PT, it is suggested by the SFC of TN, a rebate of 2 per cent may be allowed for prompt payment and 5 per cent for the advance payment of tax. These rebate rates may be indicated in the pass book/ card itself. Whereas the SFC of UP is in favour of giving rebate of 40 per cent of Annual Rental Value allowed in respect of, owner occupied residential buildings; this also includes deduction allowed according to age of building.

**Penalty:** The SFC of TN gave advice that in the case of defaulters a penalty of five per cent of the tax may be added for each half year concerned. Whereas the SFC of UP was of the view that, penalty should be made on late payment after due date @ 2 per cent per month.

**Collection Procedure of Property Tax:** All the three States are in favour of increasing PT collection and suggest some points for its efficient collection. The SFC of TN suggests that new system of collection of PT should be introduced and at the time of first assessment a passbook or a card may be issued which contains all particulars about tax levied. It is the responsibility of the taxpayer to pay the tax at the appropriate counters in the zones. At the time of payment entries will stand as proof for payment of tax.

The SFC of UP advises that tax collection should be made on self-assessment basis and it will annually be done with the demand notice. Ten per cent incentive amount may
be provided with a payment within one month of the demand notice. The carpet area rates in respect of each local body are to be determined by the State Government. The foregoing schemes of PT should be applied uniformly in all the local bodies. Quinquennial assessment of properties should strictly be made and regular exercise for enumeration of houses should be carried out. Delhi has shown an increasing trend of PT collection and the SFC of Delhi suggests that it may be further increased by widening of base and logical assessment will also be converted into revenue in a gradual process.

The SFC of UP recommends that levy of circumstances and property tax should be obligatory for all the Zila Panchayats so that none of the Zila panchayat is left with any option in the matter.

**Valuation Cell for assessment of property:** Both TN and UP felt need of a valuation cell consisting of technically qualified people to help local bodies in assessment of properties and assist in determination of cost of services for user charges. The SFC of UP added that employees engaged in octroi collection should be deployed in updating the work of enumeration of houses and number plates allotted for each house so that no house escapes the house tax net. The SFC of TN further says, if the assessees/lessees resort to legal proceeding or if the local body is compelled to resort to legal action for collection, a special provision should be made in the enactment concerned, whereby the assessees may have to deposit 50 per cent of the tax assessed in case of new assessments or to deposit the old tax and 50 per cent of increase in new tax in the case of general revision and similarly the lessees may have to deposit the accepted lease amount. In case of habitual defaulters, distraint proceeding should be resorted to instead of filing suits. In this regard, the SFC of UP says that the government should enact a common legislation for all ULBs so that the ambiguities about levy and recovery of taxes presently evident in the uniform policy for levy and recovery of property and other taxes may be removed. The Development Authorities and Jal Sansthans which are operating in a municipal area should be brought under the umbrella of elected local bodies. The power of sanctioning building plans in the area falling in the jurisdiction of local bodies should vest in the local bodies and not in the Development Authorities so that local bodies are able to administer in a better way regarding the levy and collection of property tax.
Service Tax Component: The total property tax in TN may be divided into two heads namely general-purpose tax and service tax component on 50:50 basis, whereas this criteria is not followed by UP and Delhi. The SFC of TN suggests fetching transparency and reduced litigation. A directory of PT may be printed and made available to all the taxpayers, clearly indicating the rate of taxation adopted area-wise with all exemptions / concessions incentives and penal provisions.

Computerisation: Due to large number of PT assessees’s huge records have to be maintained, the TN and UP felt the need of computerization of all the data related to PT in order to administer this tax efficiently.

Surcharge Duty on Transfer of Property: The SFC of TN suggests following points that will help in enhancing the Surcharge Duty on Transfer of Property:

a) Giving legal backing for issue of periodical guidelines on value of properties to be adopted for registration.
b) It is brought to the notice of the government that huge evasion of stamp duty and surcharge is observed in the case of transfers of high-rise buildings. It needs proper legislation to curb this evasion.
c) To levy stamp duties on built-up areas in high-rise buildings for adopting with suitable modifications, amendments of the provisions of law are needed.
d) Regarding transfer of documents to neighbouring States for registration, the re-registration can be made compulsory as per the value of land obtained in TN with reference to the guidelines.
e) There is much scope for increasing revenue by plugging the loopholes and by checking evasions.
f) The procedure similar to the one adopted in the case of entertainment tax may be adopted for adjustment of the revenue to local bodies.

7.3.1.2 PROFESSION TAX: All the three States levy professional tax but only SFC of TN suggests some points to improve its collection through this tax. The local bodies should take immediate steps for tax mopping of all kinds of assesses. Notices may be issued to those who have not registered themselves for it. Penal action may be initiated at least in
a few cases, which will make others to seek voluntary registration and enrolment. Rates may be revised after an interval of time.

7.3.1.3 HOUSE TAX: A suggestion was made by the SFC of TN that the Property tax should be introduced in the town panchayats by switching over from the house tax. The components falling under the service tax (viz. part of property tax) may be examined in detail and fixed keeping in mind the priority of service in the town panchayats, subject to the maximum ceiling prescribed for the property tax.

7.3.1.4 WATER TAX: The SFC of TN recommends that compulsory levy of water tax as an addition to house tax in VPs. The Government may permit the house connections in village panchayats where adequate water is available for supply. This will help in generating more revenues. It is also suggested to municipal corporation and municipalities to levy higher charges. Whereas in UP the property tax, water tax and sewerage tax are to be collected together by ULBs concerned and the receipts of these taxes are to be passed to Jal Sansthas or executive body of the Water Supply and Sewerage Schemes. The SFC of UP recommends that the ULBs which do not produce and distribute potable water themselves but where Jal Sansthas supply water for them, should pay for water to Jal Sansthas. A mutually agreed percentage may be adopted for the purpose and if ULBs fail to pay them (Jal Sansthas) the same should be recovered from local bodies by the State Government out of devolutions to them from the State budget. To avoid illegal tapping of water it is needed to tighten the assessment machinery to ensure that such illegal tapping of water is brought to book and necessary charges recovered. Observing that water supply is an essential service, which should be maintained on commercial lines, it is necessary to revise charges / rates and the entire domestic water supply should be metered but the minimum flat rate should be raised so that sustained level of revenues accrues to the ULBs. If the meter reader staffs are in surplus it should be reduced to save the staff cost. Where adequate water tax / water charges are not being levied by the ULBs, they should be prevailed upon to levy and recover them. For drinking water, the tube wells should be repaired and the chocked pipelines should also be repaired properly.
7.3.1.5 TAX ON ANIMALS AND CARRIAGES: This tax is only levied by TN and UP. The SFC of TN suggests to abolish this tax and a uniform pattern of licensing of animals like dogs, pigs and other domestic animals may be introduced.

7.3.1.6 TIMBER TAX: Tax on timber is unique to Chennai Corporation and may be continued and extended to other corporations, after due examination.

7.3.1.7 VACANT LAND TAX: The levy of vacant land tax is considered necessary since these lands derive the incremental price benefit due to basic amenities provided. The SFC of TN suggested that the burden of vacant land tax should not be passed on to upon the buyer, since only the sellers mainly avail of the incremental benefits of price. It should be levied for a specific period, by a tax rate of 0.5 to 1 per cent of the capital value, which is considered to be a normal rate on vacant land.

7.3.1.8 VEHICLE TAX: Vehicle Tax is levied in all these three States. The SFC of TN recommends that since the tax on carts and bicycles has been abolished, local bodies may in lieu of that levy tax on motorised vehicles, two wheelers and tractors, which do not come within the purview of Motor Vehicle Taxation Act. The rates of levy on two wheelers be Rs 10-15 and Tractors Rs 15-30 but the bicycles and charts be exempted from it.

7.3.1.9 PILGRIM TAX: The SFC of TN advised that pilgrim tax or a similar tax may be levied in respect of places of holiday & resorts, seasonal specialities, temple towns and places of geological or archaeological importance. So it is necessary to identify these areas and promote them. For the specific season pilgrim tax may be higher but uniformly levied at the lesser rate throughout the year. Such tax may be levied on bus passengers as an addition to bus fares, which may be passed on to the local government.

7.3.1.10 SURCHARGE ON SALES TAX: Since this tax has been merged with compounded sales tax, the SFC of TN suggests that 15 per cent of the sales tax may be assigned to local bodies and taken to a divisible pool.
7.3.1.11 ADVERTISEMENT TAX: All these three States levy this tax. While SFC of TN suggests that,

(a) The entire hoarding whether in city or in the highway should be under the control of concerned local bodies and the revenue earned should go to the local bodies concerned.

(b) If, in the interest of proper regulation, the highways department has to regulate the hoarding, the yield may be made available to the local bodies concerned, after retaining some charges. The rates should depend upon size, location, type and message.

7.3.1.12 ENTERTAINMENT TAX: All three States levy this tax. The SFC of TN suggests that the assignment to the local bodies should be 90 per cent of the local realisations of this compounded tax. This revenue can be divided between the PUCs and the VPs in the ratio of 30:70.

7.3.1.13 CABLE TV: In TN, this tax is collected with entertainment tax, at the rate of Rs 60 per connection. It is advised by the SFC of TN that the entire money go to local bodies after retaining the local charges.

7.3.1.14 TAX ON LUXURIES IN HOTEL AND LODGING HOUSE: This tax is newly introduced in TN and it is suggested by the SFC of TN that 25 per cent of the income from tax on luxuries in hotel and lodging house may be allocated to the local body for inclusion in general divisible pool for distribution to all local bodies.

7.3.1.15 SUGARCANE CESS: This tax is collected in TN only and SFC of TN suggested that revenue collected through sugarcane cess should be passed on to local body and this money should be used to improve roads of that area.

7.3.1.16 INCOME FROM SOCIAL FORESTRY: The panchayats of TN may be permitted to raise forestry in all poramboke lands and tank bunds irrespective of ownership. A regular system of tender cum auction should be prescribed to enable realisation of real income.
This suggestion was made by the SFC of TN whereas no such comments are given by UP and Delhi.

7.3.1.17 FISHERY RENTAL: In TN, the power of auctioning assets of local body should only be given to concerned local body. The SFC of TN gave suggestion for appointing a committee consisting of representatives of panchayats and officials for ensuring proper implementation. Power of interferences should be given to collectors if implementations are not done properly. Fish Farmers Development Co-operative Agencies should also participate in the auctions. In case of PWD tanks, a share of proceeds should be made available to the local panchayats. In respect of bigger tanks, covering more than one panchayat or PUC, auction may be done through a Committee consisting of the representatives of the local bodies involved.

7.3.1.18 PATTA TREES: The SFC of TN suggests that a committee consisting of representatives of PUC, PUC commissioner and concerned revenue official should auction wind-fallen trees. The Committee should decide the auction to ensure better price and the amount goes to PUC Council Treasury for credit to the village panchayat funds.

7.3.1.19 FAIRS AND FESTIVALS: Local bodies contribute to the expenditure on civic amenities provided to the temples. The SFC of TN suggests that the temple authorities may collect an additional fee along with the entrance tickets and pass on that money to concerned local bodies.

7.3.2 NON-TAX REVENUES

7.3.2.1 USERS CHARGES: The SFC of TN suggests some steps to streamline the principles for user charges and to ensure higher level of income and services. The local bodies should prioritise the services depending upon local needs to meet the cost involved from out of user charges and service tax. Wherever user charges cannot be identified, it should be set off against the service tax and the local body should aim for full cost recovery of these services. The community that can afford higher rates should be
charged higher rates and those who cannot afford, may be subsidised or totally exempted.

7.3.2.2 LICENCE, FEES AND OTHER CHARGES: The SFC of TN is of the view that the local bodies will have to undertake tax mopping by preparing a computerized list based on immediate survey and the additions and deletions can be made once in a year. This will help in quicker issue of licenses of Dangerous and Offensive trade. The penalty for default may be 3 to 4 times more than the normal license fee. A grace time for renewal with penalty may be given for a period of 3 months. The license fee prescribed should be suitably updated once in 3 years based on inflationary rates and on Consumer Price Index. Whereas UP and NCT of Delhi have not discussed this issue.

7.3.2.3 INCOME FROM PROPERTIES: Some suggestions given by the SFC of TN to increase income from properties are:

i) The local bodies could resort to commercial line and think of switching over to a system of advertising the proposed project calling for applications from the intending allottees even at the initial stages. The allottees could be selected in advance and the rent fixed in accordance with the prevailing market rates.

ii) The local bodies may take advances from intending allottees and this will reduce the financial burden. In all these transactions the government may prescribe suitable built in checks to ensure accountability.

iii) The local bodies may create the assets by deploying their own departmental officials or local contractors. They should not be compelled to give such projects to monopolised government machinery.

iv) In case of default, the defaulter should be compelled to vacate and the allotment made to a new bidder through auction-cum-tender and the advance paid be forfeited or returned to the defaulter after adjusting the arrears of rent to be paid with cost or re-auction with a penal fee for default.

v) The privatisation of the maintenance of these commercial assets on contract system can also be tried with a view to achieve economy in maintenance and to avoid deployment of special staff and to provide for a net return.
7.3.2.4 INCOME FROM SPECIAL SERVICES: To increase revenue from special services it is suggested by the SFC of TN that:

i) Under Town Planning, there is a high potential for collection of development charges.

ii) In the case of new layouts, the cost of providing basic amenities like roads, lights and drainage can be met through development/betterment charges.

iii) This can be tried in industrial areas and in relation to upper middle class areas.

iv) The charges can be fixed in accordance with the norms of the CMDA (Chennai Metropolitan Development Authority).

v) If charges are considered high it may be collected in installments.

7.3.2.5 LICENSING OF EXISTING MARKET SHOPPING COMPLEXES AND BUS STANDS:
The SFC of TN recommends that in the matter of lease or extension of lease, there should be no outside interference. Tender-cum-auction may be adopted and period of lease may be three years with gradual increase in lease amount or rent once in a year at a pre-determined percentage. At the end of three years, fresh auction may be conducted. The existing lessee may also bid and be given preference to continue at higher rates quoted. The defaulters in rent/lease amount should be ineligible for the bidding. Auction should be liable for cancellation by the local body if it is proved that there is subletting of the property.

7.3.2.6 FIXING OF FEES IN THE MARKET BUS STANDS: The SFC of TN suggests some measures for fixing of fees for collection of bus stand fees from buses. The Transport Corporations and private bus operators can be asked to pay a lumpsum to the local body concerned at a rate to be agreed upon depending upon the trips. In big urban areas, the local body may construct dormitories or lodges, in or near the bus stand to enable to travellers stay overnight. This will fetch a sizable income to the local body concerned.
7.3.2.7 PRIVATE MARKET: It is suggested by the SFC of TN that specific service charges may be collected for special services like environmental sanitation by way of garbage clearance, sewerage, water supply, etc by the local body from the private markets.

7.3.2.8 INCOME FROM MARKETING COMMITTEES: Marketing committees collect fees and retain them for maintaining their infrastructure. Hence it is recommended by the SFC of TN to increase the fees and 50 per cent of the collections may be transferred to the concerned local bodies.

7.3.2.9 LAND USE: The SFC of TN is of view that, in all the ULBs and PRIs, a survey should be made for all the porambokes and vacant lands and a list of such assets should be prepared. Vacant lands should be put to proper use by opening shopping complexes, markets, bus stands, slaughter houses, etc. In the new layouts, open spaces are indicated for schools, shops, parks, etc. Excepting the space indication for parks, other places are not handed over to local body. If such open spaces are not utilised for the purpose for which they are reserved within a year, the promoter is permitted to sell it as house sites. All the open spaces reserved should be handed over to the local bodies to avoid conversion by collusion and evasive tactics. The local bodies will then have adequate space for earmarked activities. The SFC of UP recommends that with addition of new area to the ULB, the need for provision of basic civic services comes up, but at the same time it strains the finances because no additional income accrues immediately after addition of new area to the local bodies. On the other hand, in such new areas of local bodies, spurious real estate agencies crop up which start purchasing land at throw away prices and later on sell them at exorbitant rates thereby making big profits. So, it is advisable that this phenomenon should be brought to the notice of the State Government and suitable appropriate action should be taken, so that interests of ULBs are safeguarded and the ULBs have a right to acquire that land and develop that area for housing colonies or carve out plots and sell them to public and the fund may go to the ULBs which could be utilised for general development and other activities. Delhi does not recommend any thing on this tax.
7.3.2.10 TAXES ON AGRICULTURAL LAND FOR SPECIFIC PURPOSES: The SFC of TN recommended that instead of tax on agricultural land, an enabling provision for levy of betterment charges could be made on all the properties in the area. The Panchayats can levy and collect them whenever funds are needed. The SFC of UP suggests that gaon panchayat should in addition be empowered to impose a levy on use of pump set as also a levy on use of tractors in rural areas for carrying out agricultural operations.

7.3.2.11 LAND REVENUE: It is well known that the land revenue is the most important source of revenue for the rural local bodies but the village panchayats are not utilising to the full potential of income from surcharge on land revenues. So the SFC of TN recommends that this should be collected by revenue machinery of the State Government along with the demand for land revenue. The maximum prescribed rate of surcharge on the land revenue is 50 per cent of land revenue. It is further recommended that the amount of surcharge on land revenue that is collected by the revenue staff should not be passed on to gram panchayat on the basis of origin of collection but instead 0.25 per cent of net proceeds of State's taxes be earmarked for devolution to Gram Panchayat and the amount be distributed on the same criteria which the Commission has recommended for devolution to them out of their share in 3 per cent of net proceeds of State's tax revenue. The amount equal to land revenue, which at present is being earmarked for rural local bodies partly on non-plan account and partly on plan account, should be done away with. It has been observed that presently land holding upto 3.125 acres are exempt for land revenue. The SFC of UP also suggests that, from now onwards this should not be the practice.

7.4 NUCLEUS CELL

1. **Constitution of Nucleus Cell:** The SFCs of all the three States, namely, TN, UP and NCT of Delhi recommended that a permanent Finance Commission Division or Valuation Cell should be created and strengthened which would act as Memory / Statistical Data Bank for successive SFCs. TN added that a tax squad under the Valuation Cell might be created at the headquarters for
making surprise checks to avoid evasion of tax mopping. UP is also in favour of a separate cell for PRIs for the same reason.

2. **Database for Local Bodies:** It is a common knowledge that research on fiscal aspects of the local government institutions is seriously hampered by the non-availability of a national or even a State-wise database. So it is advised by the SFC of TN to create an Urban Information System (URBIS) for the database for every urban local body and Rural Information System (RURIS) for rural local bodies.

3. **Panchayati Raj Finance Department Corporation:** It was set up in 1973 but has not served the purpose for which it was set up. The SFC of UP suggests that it would be desirable to wind up this corporation.

### 7.5 IMPROVEMENT OF SERVICES

i) **Street Lighting:** The SFC of UP is of the view that street lighting should follow a uniform norm for installing the number of lamps per kilometer of road length or per thousand populations in the entire area under the local bodies.

ii) **Sanitation:** The condition of sanitation in ULB’s of UP is highly unsatisfactory. So, it is suggested by the SFC of UP that the sanitation works be done according to norms and if necessary, private parities / Non-Governmental Organisations (NGOs) should be given on contract the work of sanitation and disposal of garbage. Regular and close monitoring of the working of staff engaged in sanitation work should be done. Equipments used for purposes of sanitation should be maintained, repaired and changed whenever necessary.

iii) **Maintenance Of Roads:** An expenditure on maintenance of roads, in large number of cases, exceeds the PWD norms and it is surprising that even the
roads remain un-repaired. The SFC of UP suggests finding out loopholes and prescribes certain norms for maintenance of roads.

iv) **Privatisation Of Civic Services:** Privatisation of civic services is advisable by all the three States. The SFC of TN suggests, privatisation could be attempted in selected areas like primary collection and deposition of bins, maintenance of roads, streetlights, hand pumps, pumping stations and transmission system. Privatised pumping activities in sewage station, could be extended to integrated schemes. Sewerage treatment facilities could be linked to reuse treated wastewater. Among rural communities, maintenance of common resources could be initiated. The SFC of UP recommends privatisation of civic services and private participation in ULBs in order to bring about improvement in essential civic services. The SFC of NCT of Delhi suggested in order to improve the civic services and to reduce the cost thereof. Public-Private-Partnerships (P-P-P) is an appropriate strategy for the present. Some of the services, which Delhi government is looking for privatisation, are maintenance of roads, sewage, disposal and solid waste disposal, sanitation (Sulabh Shauchalaya) water supply and urban transport.

v) **Water Scheme Funds:** The SFC of UP is of the view that for better maintenance of rural water schemes, funds should be made available to the rural panchayats directly, otherwise necessary funds should be given to Jal Nigam through rural panchayats for supervision and control over the maintenance.

vi) **Public Lamp:** The SFC of UP recommended that, the maintenance of public lamp posts carried out by the State Electricity Board in the rural area, may be continued, but Gram Panchayats should properly supervise over their maintenance and for this purpose, the GPs should pay to the electricity board out of the Commission’s schemes of devolution.

### 7.6 MAINTENANCE OF ACCOUNTS

1. **Common Budget Estimates:** The SFC of UP prescribes a common detailed format for budget estimates for all the three categories of ULBs, so that budgets of all ULBs should be prepared ward-wise and operated upon
by uniform pattern for which specific recommendations has been made. In addition, the SFC of UP is of the view that the responsibilities of audit of accounts of nagar nigams, nagar palika parishads should be given to Accountant General (UP) and accounts of nagar panchayats may continue to be audited, as present, by the Director of Local Funds Accounts. The Accountant General, (UP) should submit a detailed audit report annually in respect of nagar nigams, nagar palika parishads and nagar panchayats. These audit reports should be placed before the State Legislature through Public Accounts Committee. It is also emphasized that the rules to be framed thereunder which are under consideration of the State Government under finance department, should be finalised without further delay, so that necessary action as provided in the Act is taken in case of gross negligence / irregularities. The SFC of Delhi suggests that the accounts should be maintained in a form which should not only be simple and transparent but should also facilitate their comprehension and comparison of the enormous size and variety of the financial transactions of the municipality from one financial year to another. The prime objectives of the system of classification of municipal accounts should be to facilitate the formulation, authorisation and execution of the budget.

2. Control System of Budgets: It is contemplated that the local bodies prepare the budget well before the commencement of the year and get sanction by the respective councils. So it is advised by the SFC of TN that, the control mechanism with the aid of budget as a tool, should be tightened to the optimum level and for this local bodies should make a plan containing all the details of the schemes to be implemented in the next year.

3. Preparation of Budget: The SFC of UP recommends that budgets of all ULBs should be prepared ward-wise and operated upon by adopting a uniform pattern for which specific recommendation has been made in the report.
7.7 DEBT MANAGEMENT

1. **Loans Converted into Grants:** It is suggested by the SFC of UP that, the outstanding loans given, for sanitation and water supply, urban development schemes, integrated development of small and medium towns and beautification, to different local bodies, outstanding as on 31.3 1994 be converted into grants, but before converting each loan into grants, due scrutiny of each loan will have to be made.

2. **Debt Servicing and Liabilities:** The SFC of TN suggested that, the payment schedule might be revised with more number of installments. Interest rate may be subsidised by the government to lower tiers of ULBs. The local bodies may be allowed to clear the arrears by paying current annuity with one installment of arrears without additional installment on outstandings.

7.8 STAFF

1. **Staffing Pattern in PRIs:** As the people are now by and large aware of the benefits of Rural Development Programmes (RDP), there is need for restructuring the staff. Regarding this the SFC of TN makes a few suggestions; daily chores of street cleaning, scavenging etc should be privatised on lumpsum contracts and no separate staff need be posted for the village panchayats. In respect of combined Water Supply Schemes, covering a number of local bodies, the maintenance may be best left to the care of the Tamil Nadu Water Supply and Drainage Board. With the increasing amount of works under special schemes, there is a growing need for the creation / strengthen of the engineering cell particularly for the ULBs. In this regard the SFC of UP suggests that the State Government is already bearing the burden of payment of salary of Gram Panchayat Adhikari, which may continue to be borne by the State Government. Every ZP has tax collection staff expenditure, so the staff should be properly engaged in recovery of various taxes so that its coverage is enhanced.

2. **Staff Salaries:** The SFC of TN says in respect of special schemes, cost of project staff whether recruited temporarily or existing staff should be built into the project and form an integral part of the overall project cost. It is suggested by the
SFC of UP that local government must take the initiative to collect their pending arrears of tax and non-tax revenues out of which the salary of their employees must be paid regularly.

3. **Supervision of staff:** Barring centralised services, the Executive Officers at the level of nagar palika parishads and nagar panchayats and Mukhya Nagar Adhikaris at the level of nagar nigams should be declared appointing authorities in respect of the subordinate staff under them. It is suggested by the SFC of UP that they should be given power to inflict punishment, including dismissal, over their employees. The powers to hear and decide appeal against the punishment should vest in the Mayor, in the case of nagar nigams and in the Chairman of nagar panchayat and nagar palika parishad respectively.

4. **Surplus staff:** Referring to the surplus staff continuing in the ULBs without proper work assignment, it is advisable to government of UP that the staff originally engaged for octroi collection should be gradually disbanded and the civic services which have been left unattended to, should be entrusted to this staff. The duty hours and work of sanctioned staff are not properly monitored in the light of the norms, thus resulting in poor standard of sanitation services and increasing expenditure on sanitation staff. So it is necessary the work of sanitation staff should be monitored closely and regularly. Encouraging private agencies on contract basis for sanitations and disposal of garbage should also help.

5. **Transfer of staffs:** In order to bring about improvement in performance of Class III and IV employees, the SFC of UP recommends that for those categories of Class III and Class IV employees who do not form part of the centralised services in the ULBs, necessary rules for recruitment of staff and their transfer within a division on the recommendations of the Executive Officer of the ULBs, be made.

6. **Recruitment of staff:** Referring to the high level of expenditure being incurred on the staff, the SFC of UP recommends that some definite norms for sanction and recruitment of staff should be made so that the total income generated by the local bodies are not consumed by the salary of staff.

7. **Deployment of Staff:** The SFC of UP added that, employees engaged in octroi collection should be deployed in updating the work of enumeration of houses and
in installing number plates allotted for each house so that no house escapes the
house tax net.

8. **Provident Fund:** The SFC of TN suggests, that the provident fund
administration may be taken out of the control of the concerned local bodies
since all the local bodies have appropriated the collections without any
investment. It may be centralised and the total Provident Fund deduction by local
bodies may be worked out once in a half year and got compulsorily remitted to
the authority concerned. In case of defaulters, amount may be adjusted from
government assistance to be released to the concerned local bodies. Unless
some drastic action is taken, the appropriation of the provident fund
accumulations by the local bodies cannot be controlled.

9. **Payment of Pension:** The gap between the pension contributions and actual
pension payments is of recurring nature. Since local bodies are paying 20 per
cent of the pension contribution, they cannot be asked to meet entire pension
liability. It is not practical also, because the local bodies are not in a position to
meet even the monthly salary payments. Therefore it is suggested by the SFC of
TN that the government should bear the commitment. It is also felt that a
separate fund should be created for it and government will have to contribute to
the fund from time to time to cover the deficit. The government may give the
entire pensionary payments of the local bodies.

### 7.9 TAX REFORMS

1. **Resource Allocation Mechanism:** The SFC of TN says that the task before the
local bodies is to improve the service level up to acceptable standard and to
maintain and enhance the acceptable standard in the future. A study shows that
most of the local bodies are experiencing fiscal gap. To reduce this fiscal gap the
SFC of TN suggests certain aspects, they are, full exploitation of revenue
potential, proper assessment of property, easy procedure for appeals, revision of
rates on both residential and commercial properties and the components of
property tax, enforcement of good collection through review of exempted cases
from property tax net, revision of rates of other local body taxes and optimum
adoption of user charges. Thus they will strengthen the mobilisation of internal resources. This is also experienced in the case of UP. Therefore it is very important to enhance their own resources. Levy of circumstances and property tax should be made obligatory for all the ZP’s so that none is left with any option in the matter. Local bodies have piled up heavy uncleared liabilities. Most of the local bodies show slackness to tap their own sources of income to the full. So it is important to improve recovery of their own tax and non-tax revenue and cut down their expenditure to the minimum level including expenditure on staff. Moreover, the staff engaged in various schemes should be properly trained so that their level of work improves.

2. **Standing Committee:** In order to settle the outstanding liabilities of the ULBs, a standing committee should be constituted to examine such unpaid liabilities and on the recommendations of the Committee, the finance department should recover such disputed unpaid liabilities by setting them off against the amounts to be released to the urban local bodies by way of their share in the net proceeds of State taxes and the budgetary allocation of government and semi-government units.

3. **Revision of Rates of License and Fees:** The SFC of UP suggested that the zila parishad should revise their rates of license and other fees, etc and also pay greater attention to recover their dues through proper follow up.

4. **Uniformity in Levy of Taxes:** To bring about uniformity in levy of taxes of the PRIs of UP, it is suggested by the SFC of UP that instead of having two sets of enactments there should be one common legislation for PRIs so that different ambiguities are done away with and every PRI has the same set of legal provisions throughout the State.

5. **Diversion of Revenues:** Zila parishad should be empowered to award contracts / lease of tanks, etc. of 2 hectares and above for pisciculture purpose, since this would result in diversion of revenue of gram panchayats to zila panchayats.
7.10 ON TRANSITIONAL LOCAL BODIES

It is recommended by the SFC of TN that,

1. A town panchayat can be upgraded into municipality only if it is urban in character and should satisfy the census norms of density of population i.e., minimum population of 30,000, at least 75 per cent of the male working force engaged in non-agricultural activities and its average annual income exceeds Rs 50 lakhs excluding grants, loans and lapsed deposits.

2. Further the SFC of TN recommends that a municipality can be upgraded into municipal corporation only if it has minimum population of 100,000 and average annual income exceeds Rs 50 crores.

3. For constitution of village panchayat of TN in future, a minimum population of 2,500 may be adopted. When two or more VPs desire to be merged, the government may allow a suitable financial incentive. The VPs may be classified into 3 grades according to average annual income for the last 5 years. The annual income range may be reviewed periodically and the revised range may be fixed by the government.

4. Whereas in the case of UP, it is desirable to reduce the number of local bodies so that they may become economically and administratively viable units. As per norms minimum population of 5,000 be required for constituting a gram panchayat. A corporation may be set up with an authorized capital of Rs 25 crores; 4/5th of this should be subscribed by the State Government and the remaining 1/5th by the ULBs.

7.11 HUMAN RESOURCES DEVELOPMENT AND TRAINING

For the local body functionaries a recommendation is made by the SFC of TN that the elected representatives of the people and the administrative machinery of local governments have been entrusted with an onerous task for governance for the twin objectives of Economic Development and Social Justice. In the past, there have been cases of failures in the local government performance due to mal-administration. This
shows the need for training and Human Resource Development (HRD). An integrated training package of inductive, functional and managerial training shall be imparted to officials, non-officials and elected representatives involved, on the functions and responsibilities of local bodies. For this many institutes are listed which can impart training to the local bodies employees. The SFC of UP is also having the same opinion on this issue. It says that the State Government should carry out a crash programme for the training of newly elected representatives of the Panchayati Raj Institutions.

7.12 ADMINISTRATIVE REFORMS

1. **Revision of Administrative Structure:** The SFC of UP recommends for the constitution of Committee of experts to go into the question of reorganising the administrative structure of the urban local bodies like the State Urban Development Authority (SUDA) and directorate of urban local bodies.

2. **Mechanism for Performance and Accountability:** The SFC of TN suggests that for motivating local body personnel to give out their best, a reward be given by incentive (cash award & certificate) for good work and disincentives for poor work. Performance of the local government should be transparent so that it is visible to the citizens. Local officials should also report their performance to citizens periodically. An annual performance report should be published that describes, in simple terms the performance in terms of achievements against the goal set. It should exhibit basic features of revenue and expenditure sources of the budget and measures of the quality and quantity of services provided and make comparison with previous years and with other local governments.

3. **Expert Committee:** The SFC of UP suggests that a Committee of experts should go into the question of reorganising the administrative structure of PRIs including different directorates / units.
7.13 TAX ADMINISTRATION

1. Inefficient Collection of Taxes:

   i) Observing that the urban local bodies of UP are not tapping their tax and non-tax sources or revenue fully, so it is advised by the SFC of UP that the tendency to overlook their own sources of income, should be discouraged.

   ii) PRIs of UP are also not able to collect their tax and revenue properly, so the commission is of the view that new taxes should not be assigned to them, as these taxes will meet the same fate as already assigned taxes have. On the other hand the State Government might lose substantial part of its own revenues.

2. Revision of Tax Structure: The SFC of UP advice that the rates of different taxes like professional tax, vehicle tax, theatre tax, etc., which have not been revised for long should be revised immediately.

3. Recovery of their Dues: it is recommended by the SFC of UP that the ULBs should make special drive for recovery of their dues in full and with that ensure liquidation of their outstanding liabilities.

7.14 MISCELLANEOUS

1. Adequacy of Powers of Local Bodies and Streamlining the Procedure: The SFC of TN recommends that:

   (i) It is generally agreed that there is need for greater decentralisation and delegation of financial powers to the local bodies. Sufficient mechanisms are built by the government to safeguard the public interest and the properties of the local bodies with special references to revenue expenditure, capital expenditure and receipts from lease / auction.

   (ii) The technical sanction power for works may be suitably enhanced.

   (iii) Employment generation schemes be carried out and the responsibilities may vest with the panchayats of that area, who will be fully responsible for proper and timely execution of works.
(iv) Tender procedures should not only be transparent for promoting healthy competition but should also aim at excellence in quality of works. In respect of works, where tender procedure is adopted, along with tender notice, tender schedules may also be published with reference to type, design with instructions to type the schedule filling the rates and submit the sealed tender to overcome the difficulty at present experienced in obtaining tender schedule from the local body offices.

(v) A ‘Work Committee’ be constituted in every local body except VPs with powers to recommend to the council for deciding tenders and also to look into complaints and into quality of implementation. In case of VPs they themselves can attend to this work.

2. Community Participation in Local Administration: The SFC of TN suggests some of the views, as below:

(i) In all development programmes, the role of community is very crucial both for the success of the programme as well as for its sustainability. Emphasis that the community should not only participate in the planning, implementation, monitoring and evaluation of the programmes but to the extent possible should be partners in the cost sharing. The non-governmental organisations (NGOs) are better suited to organise the community and should be involved not only in the task of community organisation but also in policy formation, monitoring and evaluation.

(ii) NGOs which are community based, non-political and are constituted by the marginalised people and have a close and effective rapport with the people they work, may be given their due recognition and effectively utilised in planning, implementation, management and monitoring of programmes at grassroots level in both urban and rural areas.

(iii) Adoption of a bottom up approach to plan for urban poverty alleviation.

(iv) NGOs and wherever possible, organisations like Scouts and NSS can be involved for the proper maintenance of community infrastructure like water supply, roads, street lighting, etc.
(v) In schools and colleges, in their curriculum, the need for proper maintenance of core civic services, involvement of the students and the people in this affair, must be included.

7.15 SUMMARY

In retrospect it may observed that the three different reports of the Commissions are based on three different settings in terms of geographical location, political scenario, different stages of development of State-Local relation and empowerment of local bodies. Therefore the recommendations also have different hues and colours on various aspects of local government and fiscal position. The uniformity among all these reports are in terms of such subjects as setting up of finance cell at State level, need for the reforms in property tax, property tax system, whether it is assessment, enforcement and collection of arrears etc. The reports have also emphasised the need to increase the widening of resources base of both ULBs and PRIs either by improving the existing tax and non-tax resources assigned to them or by adding some more taxes of local nature from the State list to local bodies.

With regard to sharing of taxes between State and local bodies in the form of revenue sharing and grants, the reports have preferred global sharing rather than specific tax sharing, however the ratio may differ. In case of grants-in-aid the variety of these grants among States is noticeable. The grants may be for either general-purpose or even specific purposes to support certain civic functions. In some cases these specific purpose grants have been tied up with matching ratios.

In the area of administration the reports have come up with various suggestions to improve the governance capacity and administrative acumen of both the officials and the elected members at all the levels of local bodies. To support the reform in administration, the reports have recommended for computerisation, privatisation of certain services, reform in budget making and accounting system from cash to accrual basis, etc.
Table 7.1 provides the comparisons of the recommendations for SFC of TN, UP and NCT of Delhi on some of the common issues.

**Table 7.1: Comparison of Recommendations made by the SFC's of TN, UP & NCT of Delhi on some of the common issues**

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<tr>
<th>ISSUES</th>
<th>TAMIL NADU</th>
<th>UTTAR PRADESH</th>
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<tr>
<td>Global Sharing of Revenues</td>
<td>Out of the total resources 92% retained by the government and remaining 8% of the resources goes to local bodies to devolve between different ULBs and PRIs.</td>
<td>Out of total resources 90% retained by the government and remaining 10% of the resources goes to local bodies for devolve between different ULBs and PRIs.</td>
<td>Out of total resources 87.5% attained by the State Government and remaining 12.5% of the resources goes to local bodies.</td>
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<td>Out of the 8% resources 6.8% (60 per cent of local bodies resources) devolve to rural local bodies and 2.72% (40% of local bodies resources).</td>
<td>Out of the 10% resources 7% goes to ULB's and 3% to PRI's.</td>
<td>9.5% on non-matching basis devolve to NDMC and MCD.</td>
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<td>Out of 60% of the rural local bodies revenues: DP get share of 14% and 86% goes to PUC and VP.</td>
<td>Out of 3% of the net proceed of State taxes, 1/5th thereof should be earmarked for ZPs and the balance 4/5th for GPs.</td>
<td>1.5% to MCD and NDMC on matching basis.</td>
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<td>Out of which, 31% of the urban pool goes to MC. 31% to the municipalities and remaining 38% goes to TPs.</td>
<td>7% of the net proceeds of State's total tax, earmarked to ULBs, out of these NNs get 3.12%, NPPs get 3.12% and NPs gets 0.76.</td>
<td>Maximum 1.5% on matching basis equivalent to saving in expenditure against projections made by the commission.</td>
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<td>Basis of Devolution</td>
<td>The criteria of 80% population and 20% area for devolution of net proceeds of State's tax revenues to PRI's and ULB's.</td>
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<td>The criteria of 70% population and 30% area for devolution of net proceeds of State's tax revenues.</td>
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<td>Grants-in-aid</td>
<td>The Specific purpose grants like Maternity, Dispensary, Family Welfare etc. will be covered by devolutions under 73rd and 74th Amendments to the Constitution and the funds allocated for the purpose by the Central and State Governments should be passed on to Local Bodies on the basis of the prescribed norms.</td>
<td>The effects of increasing devolution with additionally of grants-in-aid flowing from the Central Government, the same formula should be applied for its inter se distribution, which had suggest for increased devolution of funds on the non plan side. These grants should be utilised strictly for civic services like improving drainage facilities, garbage disposal, latrines, street lighting, etc. for which the necessary schemes should be drawn up by the urban local bodies and got approved for the State Government.</td>
<td>Discontinuance of grants-in-aid system of ULB and to adopt a system of vertical resource sharing in which all-State taxes are pooled and a proportion thereof devolved to the urban local bodies. As the urban local bodies were not collecting more than 50-55 per cent of the current demand of their own taxes, the commission recommends that assignment of more taxes and duties to the ULBs is not likely to be of great help and it will do more harm than good to both to the urban local bodies and the State Government.</td>
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<td>Incentive and untied grants now available will be taken care of while devolutions are distributed since such grants are necessary to ensure additional resource generation (Like House Tax Matching Grant and LCS Matching Grant to PRI)</td>
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<td>ISSUES</td>
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<td>Principles of distribution of funds from State to local bodies are being considered separately. After experimenting the system of distribution, the need for further grants-in-aid can be studied. If there is still need, Equalisation grants will be necessary.</td>
<td>Regarding grant-in-aid on plan side, these are essentially of non-recurring nature and it was not found feasible to envisage the shape of things to come in respect of non-recurring items of expenditure. As the decision of the government on the function to be given to the urban local bodies envisaged in the twelfth schedule of the Constitution have not come about, the commission feels that if and when a decision is taken by the State Government to pass on those schemes to the ULBs, the State Government will have to pass on accordingly necessary funds for the purpose also to them. In so as certainly sponsored and central sector schemes are concerned, the present system of grant-in-aid in each year will depend on the amount that is sanctioned for the purpose by the Gov.</td>
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<td>The reimbursement of D A increases may be sanctioned to the local bodies outside the general devolution. There is every justification in the claim, even though the percentage of requirement may vary among the local bodies.</td>
<td>As per recommendations of the Tenth National Finance Commission, the grant recommended by them should not be utilised for meeting salaries and wages.</td>
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<td>A tariff and valuation cell consisting of technically qualified people may be created at State level, which helps in the valuation of properties. A tax squad under the valuation cell may be also created at Headquarters for making surprise checks to avoid evasion of tax mopping</td>
<td>The difficulties face by the commission in obtaining essential statistical data, the said cell should also be put incharge of preparing annual review of the finance of the ULB's and PRI's and their review report placed before the legislature.</td>
<td>A permanent Finance Commission Division, on the lines of the one in Gol, will set up by government of NCT of Delhi to service, as also act as Memory / Bank for the subsequent Delhi Finance Commissions.</td>
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<td>Reforms in Resource Raising:</td>
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<td>Property Tax: Area Base:</td>
<td>Switching over from Annual Value System to the area linking unit value System</td>
<td>Carpet area as the basis for assessing the Annual Rental Values of building.</td>
<td>The adoption of UAM in place of ARV, For computing the ARV.</td>
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<td>Basic rental plinth area for monthly rental value: Affluent area, Middle-income area and Low-income area.</td>
<td>Criteria for determining ARV of a property in this State: Location of property: Use of property: Type of construction.</td>
<td>UAM may be applied in low-income areas such as LIG flats and resettlement colonies.</td>
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<td>Revision of Rates</td>
<td>General revision in every 3 years on inflation rate with reference to consumer price index. The revised structure reveals that it will lead to an additional revenue generation from 25-50 per cent.</td>
<td>Revision of Annual Rental Value of a property in ULBs.</td>
<td>To reduce “ex parte” timing from 3 years to 3 months.</td>
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<td>Computerization:</td>
<td>Computerization is desirable to administer taxes efficiently.</td>
<td>The data collected &amp; assessment of taxes should be computerized.</td>
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<td>Deduction:</td>
<td>Age of the building (in years) Discount in per cent</td>
<td>Age of the building (in years) Discount in per cent</td>
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<td>0-10 5</td>
<td>Less than 25 10</td>
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<td>11-20 10</td>
<td>25-40 20</td>
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<td>21-30 20</td>
<td>above 40 30</td>
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<td>31&amp; above 30-40</td>
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<td>Rates of taxes on the ARV basis: Corporations: 20-40% Municipalities: 15-35% Town Panchayats 15-30%.</td>
<td>Rates of the property taxes after deductions as below: Property tax @2.4 per cent of ARV, water tax @ 2 per cent of ARV. Latrine or sewerage tax @ 2 per cent ARV.</td>
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<td>Exemption:</td>
<td>Rebates of 40 per cent of ARV are allowed to owner occupied residential buildings.</td>
<td>Exemption of all non-residential properties from Delhi rent control Act.</td>
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<td>Exemption from property tax to should not be minimum. Service taxes should be collected only and prescribed by law. Service exemption confined to property related taxes might be collected tax only. Service tax may be levied in addition to the user charges now collected</td>
<td>Exemption from payment of property tax should be minimal and prescribed by law. Service tax may be levied in addition to the user charges now collected</td>
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<td>There should no restrictions, concessions, abolition or write-off of tax or other revenue sources available/earmarked to local bodies by government without consulting the LBs.</td>
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<td>Exemptions are not granted on recommendation of State Government.</td>
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<td>Total exemption for all educational institutions, Industrial State, Public sector units and Central and State Government properties from taxation is not equitable. Concessions may be giving in the levy of general-purpose tax by restricting the levy to service tax alone.</td>
<td>Property tax should also be imposed on that portion of the building of land attached to the places of public worship which have been given on rent are been used for purpose other than public worship. Such portion of worship should also be subjected to water tax, latrine and sewage tax.</td>
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<td>Collection Procedure: The responsibility of praying tax should devolve legally on taxpayers by suitable provisions in the enactments.</td>
<td>Different procedures and practices for recovery of property tax should be adopted by ULB’s and a uniform procedure for sending demand notice to the taxpayers once in a year by each local body.</td>
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<td>Revision: At the time of first assessment a general revision a passbook or a card may be issued to assesses, which contain particulars about tax levied, due date of payments, grace time allowed for payment. The amount of tax indicated will be final, unless the tax is revised in the meantime.</td>
<td>Tax collections are made on self-assessment forms. Tax collection may be made annually with the demand notice served once a year.</td>
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<td>Rebate: A rebate of 2% may be allowed for prompt payment and 5% for the advance payment of tax.</td>
<td>10% incentive amount may be provided with a payment within one month of the demand notice.</td>
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<td>Penalty: In the case of defaulters a penalty of 5% of the tax may be added for each half year concerned and collected.</td>
<td>Penalty should be made on late payment after due date @ 2 percent per month</td>
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<td>Efficient System of Collection of Property Tax: Tax collection machinery may be given incentive for higher collection of tax involved.</td>
<td>Enumeration of houses in the local bodies area and allotment of number plates for each house, so that no house escapes the house tax net. Entire amount of collectable arrears will be collected within five years @ Rs 280 crore per annum.</td>
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<td>Action may be taken for poor performance, against the concerned machinery, if no improvement is found even after direction.</td>
<td>It is recommended that quinquennial assessment of properties should strictly be made and regular exercise for enumeration of houses should be carried out.</td>
<td>Subsequently it should be taken to a level of 70%.</td>
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<td>Write-off of arrears should be allowed only after exhausting all methods of collection, including filing of suit. Indiscreet write-off should be subjected to question.</td>
<td>State Government should enact one common legislation for all urban local bodies so that the base and logical ambiguities about levy and recovery of taxes presently evident in the UP municipal corporation act, 1959 and UP Municipal Act, 1916 are done away with and every urban local body has the same set of legal provisions throughout the State.</td>
<td>One time increase due to widening of base and logical assessment will also be converted into revenue in a gradual process. Although MCD has already taken up widening of base and is likely to rationalise discretionary assessment in 1998-99, we take only 25% of such increase as property tax revenue for 1998-99 followed by 40% in 1999-2000 and 50% in 2000-2001.</td>
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<td>Permitting distraint against immovable properties will enable improvement in collection. Reduction in tax for vacancy remissions for a continuous period of 90 days, instead of 30 days now adopted.</td>
<td>A comprehensive enactment embracing the foregoing recommendations of the commission over-riding the president different provisions under various acts, so that the uniform policy for levy and recovery of property and other taxes in all the ULBs is applied.</td>
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<td>House Tax</td>
<td>The main reform needed is to introduce property tax in TPs by switching over from the House zilla tax now levied under Tamil Nadu Panchayats Act, 1994.</td>
<td>Levy of circumstances and PT should be obligatory for all the panchayats.</td>
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<td>Land Use</td>
<td>Both in urban and rural local bodies, a survey should be made to list out all the porambokes and vacant lands and a list of such assets should be prepare.</td>
<td>With addition of new area to the urban local bodies the need for provision of basic civic services comes up, but at the same time it strains the finances of urban local bodies because with the addition of new areas no additional income accrues immediately to the local bodies. On the other hand, in such new areas of local bodies spurious real estate agencies crop up with start punishing land at throw away prices and later on sell them at exorbitant rates thereby making big profits.</td>
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<td>Tax On Agricultural Land For Specific Purposes:</td>
<td>Instead of this agriculture tax levy of betterment charges can be made on all the properties in the area. The panchayats can levy and collect whenever funds are needed. The owners of</td>
<td>The Gram Panchayat should in in addition by empower to impose a levy on use of pump set and tractors in rural areas for carrying out agricultural operations.</td>
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<td>Improvement of Services</td>
<td>vacant lands also may be made liable for this levy of betterment charges.</td>
<td>In order to bring about improvement in essential civic services, private participation to be encouraged in all ULBs.</td>
<td>In order to improve and reduce costs of civic services, privities certain municipal services. Public-Private-Partnerships (P-P-P) are recommended as the appropriated strategy to be adopted for the present.</td>
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<td>Privatization in Civic Services</td>
<td>Areas where privatization could be attempted: Primary collection and deposition at bins-by community groups in all large urban centres. Regional waste management agency for disposal facility</td>
<td>Maintenance of road, street lighting, pumping station. Transmission Systems and Sewage Station etc.</td>
<td>Maintenance of roads, sewage disposal and solid waste disposal, sulabh shauchalaya, water supply, urban transport</td>
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<td>Maintenance of Accounts</td>
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<td>The accounts of ULB may continue to be maintained according to present rule, which should be followed in letter and sprit.</td>
<td>The prime objectives of the system of classification of municipal accounts should be to facilitate the formulation, authorisation and execution of the budget.</td>
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<td>Maintenance of Accounts</td>
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<td>The responsibilities of audit of accounts ULB's should give to accountant general, UP. However the accounts of NPs may continue to be audited, as it present by the Director, local funds accounts.</td>
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<td>common budget estimates:</td>
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<td>The accountant general, UP, should submit a detailed audit report annually in respect of ULB's. These audit reports should be placed before the State legislature through public accounts committee.</td>
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<td>staffing pattern:</td>
<td>To reorganize the staffing pattern in local bodies, there is a need for the re-organization of the structure in the local bodies.</td>
<td>The staff should be properly engaged in recovery of circumstances and property tax and its coverage enhanced. The commission has also suggested that the minimum limit of Rs 2,000/- should be done away with.</td>
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<td>training to local bodies functionary</td>
<td>An integrated training package of induction, functional and managerial training shall be imparted to officials and non-official elected representatives of the three tier PRIs.</td>
<td>The finance then a crash programme for the training of newly elected representatives of the three tier PRIs should be carried out by the State Government.</td>
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<td>tax reforms</td>
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<td>Resource Allocation Mechanism</td>
<td>Full exploitation of revenue potential, proper assessment of property, easy procedure for appeals, revision of rates on both residential and commercial properties and the components of PT, enforcement of good collection, through review of exempted cases from PT net, revision of rates of other local body taxes and optimum adoption of user charges will strengthen the mobilisation of internal resources.</td>
<td>Levy of circumstances and property tax should be obligatory for all the zila panchayats so that none of the zila panchayat is left with any option in the matter.</td>
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<td>Assignment of additional taxes subject to the efficiency of local body to collect those taxes and piggy-backing on certain elastic resources such as exercise duty, sales tax and motor vehicles tax etc., will improve the taxing powers of the local bodies. The sharing might be through a formula based on factors such as collection performance, population and expenditure needs. The feasibility of privatizing those services where non governmental organizations (NGOs) can provided the services at competitive cost depending on the nature and type of services should be explored.</td>
<td>The local bodies have piled up heavy unclear liabilities. The studies made by the commission of a few local bodies show that this has happened because of the slackness on the part of the local bodies to tap their own sources of income to the full. It is high time the urban local bodies bring about improvement in the recovery of their own taxes and non-tax revenues and cut down their expenditure to the minimum level including expenditure on staff. It is also suggested engaged in various schemes of urban local bodies should be not properly trained so that their level of working improves</td>
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<td>On Transitional Local Bodies</td>
<td>The criteria for the Constitution of a Municipal Corporation or upgrading a Municipality into a Municipal Corporation in future may be: i- Minimum population of 10 lakh; and, ii- Average annual income of Rs 50 crores.</td>
<td>A corporation should be set up in a State, where leveraging funds and subsidies interest rate on non-remunerative but desirable schemes to strengthen civic infrastructure. To begin with, such a corporation may be set with an authorized capital of say Rs 25,00 crs, 4/5 of this should be subscribed by the State Government and the remaining 1/5 by the urban local bodies. The corporation should be allowed to be administered in a professional manner and it would be desirable if some competent expert of all India standing were appointed the chairman of this corporation.</td>
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<td>Although the financial position of local bodies are not very</td>
<td>In order to insure that the urban local bodies fulfill the</td>
<td>In most of the State Finance</td>
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<td>State Finance Department</td>
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<td>healthy, even then the State local bodies asked the urban local bodies to provide matching contribution by raising their resources as per the conditions laid down by the tenth finance commission</td>
<td>responsibility cast on them of improving their own resources seriously, while 7 per cent of the net proceeds of the State taxes may be passed on to the ULB’s initially only 90 per cent of their share may be passed and remaining 10 per cent given to them at the end of each year on the basis of their performance measured in terms of following criteria: I- Each local bodies may levied and collects all taxes and non tax items which are of obligatory nature, II- Recovery of their tax and non-tax revenue as percentage of the current demand is at least of the order of 70 per cent in 1997-98 to be stepped up by 5 per cent each year so that it reaches the level of 85 per cent in the year 2000-2001 – the last year of the period of the recommendation.</td>
<td>Departments act as nodal agencies for the work of the State Finance Commission</td>
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