CHAPTER 8

CONCLUSIONS
SUMMARY AND CONCLUSIONS

The concept of local self-government is not new to India, the similar system may be traced back during Chola period. The British rule eclipsed the system, however, the Imperial Government latter on realised the necessity of local self-government and initiated many measures to create local bodies under various enactments. Though several committees and commissions were appointed earlier to examine the financial requirements of ULB’s and PRI’s, yet they were adhoc in character and did not enjoy any Constitutional status. It has been strongly suggested by many, that the chronic problem of local finance can be solved only through having scientific method of devolution of power and resources. The SFCs should make recommendation so as to ensure a stride and adequate flow of resources to the local bodies through grants and loans (in addition to the assigned heads of revenue and shared taxes). The 1992, Acts suggest for an appointment of State Finance Commission in all the States within one year from the commencement of the Constitution Amendment Act initially and thereafter for every five years, to review the finances of the local bodies and to recommend the principles on the basis of which the taxes are to be appropriated by or assigned to the local bodies, as also grants-in-aid to the local bodies from the Consolidated Funds of the States. The basic function of the SFC is to look into the finances of the local bodies, both rural and urban and to devise a system of distribution of the government revenues to the local bodies, its powers of taxation and the responsibilities for improving its local finances and services.

Fiscal federalism revolves around the two questions, (i) which level of government provides which functions, so as to avoid potential incompatibilities and destructive competitions among the government and achieve a social welfare maximum? (ii) how much people sort themselves among the various jurisdiction again with the goal of avoiding incompatibilities and intergovernmental competitions and achieving a social welfare maximum?. Different theories of fiscal federalism have tried to answer these
questions. In the present study the theories given by Stigler and Oates have been examined.

Stigler gave two principles of local governments and concluded that these two principles implies that decision-making should occur at the lowest level of government consistent with the goals of allocational efficiency and distributional equity. To achieve an optimal federalist system, various legitimate functions of government are best distributed among the governments within the fiscal hierarchy. The National Government is the proper government for resolving the distributional question in order to avoid inconsistencies and competition among governments. Oates solidified Stigler’s principle by suggesting that the optimal form of federal government in which each level of government, possessing complete knowledge of the tastes of its constituents and seeking to maximize their welfare, would provide the Pareto-efficient level of output and would finance this through benefit pricing.

Those functions that supply public services to meet the varying tastes and preferences of citizens should necessarily go to the lower-level governments. Whereas the functions which are not involved in such variations in requirements and preferences and which enjoy economies of scale should go to the higher (National / State) level of government. Whereas such clear-cut demarcation is not possible, it results in spatial spillover of benefits and costs. The National Government in such cases should try to internalise them by providing financial assistance to local self-governments. This is the economic justification of grants from higher-level governments to lower level governments. The resources of revenue, those whose base is spatially mobile, should necessarily go to the National Government and those, which are immobile, should go to the local governments. Benefit levies are more efficient when they are administered at local level, as it is easier to assess the benefits and costs. The sources, which involve redistributive role, should go to the National Government on efficiency ground.

When the structure of rural and urban local bodies in TN, UP and NCT of Delhi is compared, the structure of TN and UP seems almost similar except the difference in nomenclature. Delhi on the contrary being a former union territory and now a quasi-state government does have different structure for local bodies. In TN and UP, there are three
horizontal urban local bodies and three vertical rural local bodies, whereas, NCT of Delhi is quite different. It has two tier rural local bodies; one at the grass root level and the second tier is only a non-statutory and advisory body at the block level and three horizontal urban bodies i.e., MCD, NDMC and DCB. Among all the local bodies in the NCT of Delhi, only MCD conforms to the norms of the local self-government. MCD has also is unique character that it also has rural areas within its jurisdiction. The NDMC has a unique setup, in the sense; it has excluded the modality of electing Municipal Councilors.

Rural local bodies of all these three States consist of gram sabha. The common features of the gram sabha are that, it consists of persons registered in the electoral roll relating to village panchayat, these sabha elect members, Chairman and Vice-Chairman. The quorum for a meeting of gram sabha are \( \frac{1}{3} \) in the case of TN and \( \frac{1}{5} \) in UP and \( \frac{2}{3} \) for NCT of Delhi. Gram Sabha meets at lease thrice in a year but not more than six months are intervening between any two meetings in TN. Two general meeting in UP are necessary. Village Panchayat of TN and gaon panchayat of UP constitute for five years. Village Panchayat can be constituted in TN with minimum population of 500 or more. Whereas this minimum limit is 1,000 in case of gram panchayat of UP. The chairman is known as President in TN and Pradhan in UP and NCT of Delhi. VP in TN have five to fifteen members whereas nine to fifteen in case UP depending upon the population and these members are chosen by direct election. In all these three States provision for reservation of SC/ST and women in proportion to the population but not exceeding 27 per cent exists.

In UP, Pradhan of gram panchayat can be removed by a majority of \( \frac{2}{3} \) members of the panchayats present and voting. No motion in the first year is allowed but in case motion fails, it cannot be moved again within one year. Whereas in NCT of Delhi also for removal of Pradhan of gaon sabha, \( \frac{2}{3} \) majority of the members present and voting is required.

Intermediate levels of panchayat have different nomenclature. In TN, it is known as PUC, whereas in UP it is called Kshetra Panchayat and in case of NCT of Delhi it is
known as Panchayat Samiti. Panchayat Samiti is a non-statutory local body that acts as an advisory body. The PUCs are headed by Chairman and KP by Pradhan. PUCs consist of elected members (at the rate of one for 5,000 population), MP’s, MLA’s and Presidents of village panchayat. The KP consists of elected members (at the rate of 1 for 2,000 population), all Pradhans (ex-officio), MP’s and MLA’s. PUC notice by 2/3rd members and the government after considering the view of the members of the council can remove the Chairman and in KP it may be done by the majority of the elected members. No notice within one year and no fresh notice within one year of rejections can be considered. In both KP and PUC, seats are reserved for SC/ST and women in proportion to their population but not exceeding 27 per cent.

Town Panchayat in Tamil Nadu and Nagar Panchayat in Uttar Pradesh are in a transition stage of being converted into an Urban Local Bodies from Village Panchayat, having a population limit of minimum 5,000 and 75 per cent of the male working population are engaged in non-agriculture activities in TN and 30,000 to 1 lakhs in case of UP. Town Panchayats (TN) consists of two persons nominated by State Government, MPs, MLAs and MLCs of State. Whereas Nagar Panchayat (UP) consists of ten to twenty four members and ex-officio members MP’s and MLA’s representing constituencies and two to three MLCs.

In Tamil Nadu, Municipalities are having minimum population of 20,000 and 75 per cent of male working population members are engaged in non-agricultural activities. In case of UP, minimum population varies between 1 to 5 lakhs. In NCT of Delhi it is known as New Delhi Municipal Council it has no limitation of population.

Municipalities of Tamil Nadu consist of a Chairman and twenty to twenty five councillors out of whom one councillor is the Vice Chairman and two members nominated by the State Government. The municipality of UP consists of the Chairperson and twenty five to fifty five elected, and ex-officio members comprising all the MP’s, MLAs representing constituencies and three to five MLCs nominated by the State. NDMC consists of a Chairperson nominated by the Central Government, three MLAs of Delhi, five members nominated by Central Government, two members nominated by Central Government in
consultation with the Chief Minister of Delhi and two MPs. Reservation for SC/ST and women are similar in these entire municipalities and it is according to Article 243-T of the Constitution of India.

Municipal Corporation of TN consists of 155 elected councillor, MPs, MLAs and 10 members nominated by the State Government. Municipal Corporations of UP consists of Nagar Pramukh and Sabhasads whose number varies between 60 to 10, MP's and MLA's of that area and the State Government nominates five to ten members. The Sabhasads are chosen by direct elections. Municipal Corporation of Delhi is composed of the directly elected councilors, on the basis of adult franchise from various wards, ten persons are nominated by the administrators, all the MP's of MCD, the MLA's and 1/5th MLA's of the NCT of Delhi nominated by the speaker of that Legislative Assembly. In all the three States seats are reserved for SC/ST and women candidates in proportion to the population and as per Article 243-T of Indian Constitution.

It may be argued that in TN among ULBs of various nature there is non-uniformity in adopting XII schedule on the functions of maintenance of roads and bridges, water supply, public health, vital statistics, regulation of slaughter houses, public and private drainage, plantation of trees and provision of public bathing. In case of Uttar Pradesh, it is on the function of Planning of Social & Economic development, to take care of fire services, poverty alleviation programme, vital statistics, plantation of trees, public bathing and provision of rest houses. In case of NCT of Delhi both the ULBs have adopted all the functions to be performed. The functions that are performed by all the local governments in these three States are public amenities including street lighting, parking lots, bus stops, public conveniences and public and private latrines. It means upkeeping of the city has been recognized as the sole function to be performed by them.

In case of PRIs, the assignment of functions among VPs, Panchayat Samiti and District Boards are of different nature in all the States. The basic unit of PRIs remains village level of local body. Therefore, it would be interesting to observe that the common functions are minor irrigation, water management, maintenance of roads, culverts, bridges, ferries, waterways & other means of communication, libraries & cultural
activities, health and sanitation. Relief work and promotion of tourism have not been taken up by any PRIs. Among all the three States, the indicative list under XI Schedule has been adopted to the maximum extent by the Uttar Pradesh.

The taxes imposed by ULBs of TN, UP and NCT of Delhi are not uniform; the only tax that is common to all the levels of ULBs is Professional/Trade & Calling and Employment tax. Whereas the entire local bodies except Town Panchayat of TN impose Property tax and Entertainment tax. In lieu of Property tax they impose House tax. The other common taxes, which are imposed by almost all the local bodies except a few, are education tax, water tax, vehicle tax, advertisement tax, toll compensation, tax on transfer of immovable property and theater tax.

In case of PRIs, fees and fines are the only source of revenue which are common to all the levels of PRIs, the other common taxes which are imposed by almost all the local bodies except a few are, water tax, animal and vehicle tax.

Property tax is the main tax for ULBs in Tamil Nadu. To municipalities in TN it contributes more than 30 per cent of the total non-debt receipts. This source contributes more than 20 per cent to the town panchayats whereas about 15 per cent to the contribution from this source to municipal councils of TN. Total receipts from own taxes in all the three type of ULBs varies between 27 to 40 per cent. Non-Tax revenues contribute to town panchayat and municipalities about 30 per cent, whereas in case of municipal corporation their contribution is only about 12 per cent. Total own sources revenue contributes about $2/3^{rd}$ to the total receipts in case of town panchayats and municipalities whereas for municipal corporation its contribution is between 50 to 62 per cent.

In case of Uttar Pradesh, the share of Property tax is about 27 per cent in municipal corporation and only 9 per cent in municipalities. The total tax revenue accrues to the extent of 40 per cent to municipal corporations and 16 per cent in municipalities. Non-Taxes revenue contributes about 26 per cent in municipal corporation and only 9 per cent in municipalities.
cent in municipalities. The total own tax revenue finances to the extent of 66 to 71 per cent to municipal corporations and 27 to 31 per cent in municipalities.

The picture of relative share of these sources in NCT of Delhi is also not different. In MCD, property tax contribution was in the range of 39 to 45 per cent and in NDMC it was only 4 to 6 per cent in total non-debt receipts. The role of non-tax receipts was 7 to 12 per cent in MCD and while in NDMC it was above 80 per cent. In aggregate, MCD’s total own source revenue in total receipt was 58 to 66 per cent and this share was 82 to 87 per cent in NDMC.

The source of finance among PRIs in all the three States is different. House tax is the main tax for village panchayats in TN. Total tax revenue shares only 9 to 12 per cent out of which about 7 per cent is from house tax. Non-taxes also share about 10 per cent thereby total own source revenue contribution is nearby 20 per cent to the total revenue receipts. Certain local cess surcharge and non-tax resources are the main sources of revenue to PUCs. While local cess surcharge contributes about 5 per cent, non-taxes contribute slightly more than this ratio, thereby the share of total own source of revenue goes up to 12 per cent. In UP, the gram panchayats depend largely on surcharge on land revenue along with other taxes. Total tax revenue contribution is about 12 to 15 per cent in the total revenue receipts in which surcharges are about 4 to 8 per cent. The contribution of non-taxes revenue varies from 2 to 5 per cent and total own source of revenue shares in the range of 15 to 20 per cent. In case of ZP, non-tax revenue is the major source of revenue.

Various types of local governments depend on their respective parent governments to finance their expenditure needs to varied extent. The intergovernmental fiscal transfers to bridge this gap comes in the form of revenue sharing, statutory grants and also non-statutory grants. Apart from certain grants in certain cases, the ratio of total transfers in total revenue receipts provides a measure of dependence of these local bodies on their parent governments.
In Tamil Nadu the degree of dependence of Municipal Corporation is maximum compared to Town Panchayats and Municipalities while in case of Municipal Corporations it is more than 50 per cent, on the contrary in other forms of government it is about 36 per cent. In the total transfers of Municipal Corporation 35 to 58 per cent contribution a by shared revenues and grants contributed very meager amount of 3 to 6 per cent. Similarly in case of municipalities shared revenue contribute 27 to 30 per cent whereas grants only contribute 4 to 8 per cent and also in case of Town Panchayats shared revenue contribute 30 to 39 per cent and grants gave their contribution only of 3 to 5 per cent. Obviously the PRIs depend heavily on transfers in the range of 80 to 86 per cent, out of which 40 to 46 per cent is contributed by the grants and shared revenues contribute 36 to 40 per cent.

In Uttar Pradesh the dependence of Municipalities and Nagar Panchayat on State Governments is to the extent of 68 to 73 per cent, whereas Municipal Corporations depend less to the extent of 28 to 33 per cent and in case of PRIs, Gram Panchayats get these transfers to extent of 80 to 85 per cent of the total receipts and to Zila Panchayats these transfers are around 50 per cent.

Whereas in case of NCT of Delhi, the dependence of MCD is higher as compared to NDMC. MCD depends on the transfers to the extent of 52 to 62 per cent, out of which grants contribute around 40 to 45 per cent and shared revenues give their contribution of 13 to 17 per cent. Whereas NDMC is quite independent for their own resources and only depend to the extent of 8 to 12 per cent on transfers, out of which grants contribute 6 to 9 per cent and shared revenue contribute a very meager amount of 2 to 3 per cent.

In retrospection 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 too have different hues and colours on various aspects of local government and fiscal position. The uniformity among all these reports is 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 or
collection of arrears etc. The reports have also emphasized the need to increase the widening of resource 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 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 SFC report 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 SFC reports have come up with various suggestions to improve the governance capacity and administration 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 computerization, privatisation of certain services, reform in budget making and accounting system from cash to accrual basis, etc.

If we go through the terms of references, it may be observed that the principal references are the same of all the three States but on examining examine minutely it is being observed that the government of Uttar Pradesh has entrusted more tasks, to its State Finance Commission, whereas the scope of NCT of Delhi is limited. The State of NCT of Delhi is different from the other two States, as it does not have PRIs, since its the rural bodies are merged with MCD. There was a long pending demand of local bodies for a scientific devolution of taxes between State and local bodies. The 73rd and 74th Amendment to the Constitution is the landmark in the history of local bodies of India, since a large number of persons are living in rural areas but for their welfare local bodies need financial support. Many important taxes which were collected by the local bodies but had been taken up by the State. Therefore there was a falling in tax revenue to the local bodies, for example in Uttar Pradesh Octroi duties collected by municipalities were abolished and in lieu of this, levy of surcharge was entrusted to the trade tax department.
Though the terms of references are almost same for different state finance commissions yet their approach for devolution of taxes and for determination of tax rate are different. It may be due to the different local needs. Although PT is levied by all the three States, but only Tamil Nadu has examined the property tax in much detail and they have also suggested a detailed scheme for levying of this tax, to achieve progress of the taxation and better compliance. It is therefore suggested that other States can adopt the recommendation of TN, UP and Delhi as a model with certain modifications according to their local needs and requirements.

The SFC of TN has laid special emphasis on the measures of increasing resources for ULBs. The have enumerated certain taxes for this purpose, to name a few these are library tax, lighting tax, surcharge from sale tax, income from minor minerals, land revenues, tax on luxuries in hotels and lodging houses, betting tax, State excise revenue, sugarcane cess, urban land tax, terminal taxes, etc. It has been observed that these taxes are imposed only by ULBs of TN. Taking their benefit in view, it is advised that the other States of India should also follow suit. Uniquely only the Chennai Municipal Corporation imposes timber tax. Though it has not contributed much in the financial position of the Corporation yet it is worth following by other ULBs of the other States.

It has been examined from the financial positions of the UP and NCT of Delhi that betterment tax, tax on transfer of immovable property, theater tax, tax on boats have been levied to raise the revenues but these have not been adopted by the TN. It is suggested that TN should not hesitate in introducing these taxes for the betterment of the financial position. It is also recommended that other States of India should also impose these taxes, wherever they do not exist.

The UP Government took the initiative in introducing the trade tax and toll for cleaning of private latrine and thus helped the ULBs in raising their resources for the improvement of living conditions of their residents. It would be healthy step for other States of India to do the same if they have not as yet introduced it. Similarly NCT of Delhi levied the tax on
consumption, sale of electricity and tax on buildings. It is recommended that the other States may follow this step taking into the local phenomena in view.

It has been observed that Property Tax has been imposed by Zila Parishads in UP whereas Village Panchayats of TN have levied House Tax in its place. If feasible, this tax may be introduced by other States of India also. Not only this, PRIs of UP have taken bold steps by levying circumstances on property tax, land revenue, entertainment tax, sales tax, electricity tax, market fees, toll tax, sanitary fees, exhibition and fair fees, construction and management fees, fees for registration of animal, library fees, school fees, irrigation water charges, water charges and slaughter fees. It is suggested that other States should not lag behind in these respects if they have not already imposed these taxes.

The PRIs of TN came forward in levying local cess surcharge on land revenue, professional tax and pilgrim tax and thus improved their lot to a great extent. It is opined that other States should take this step for their economic betterment as well.

It is for the general information that SFC of UP emphasized the quality improvement of services like, street lighting, sanitation, maintenance of roads and public lamps. These recommendations would prove as beacon lights for the amelioration of lives of the peoples of the ULBs and it is proposed that the ULBs of other States should also incorporate these recommendations in their civic services.

It is also suggested that other investigators may study this research topic by adopting other tools in order to complement and supplement the suggestions made herein. It is also advised that this very topic may also be taken for research by taking other States for comparison in view. Last but not the least this study may prove as a stepping-stone for further studies on the part of other investigators in future.