Chapter - VI

SUMMARY OF FINDINGS

AND

CONCLUSIONS
Balwantrai Mehta Study Team realizing the importance of popular participation and recommended the creation of Panchayati Raj Institutions which are to be statutory, elective, comprehensive in duties and functions, equipped with necessary executive machinery with adequate resources and enough autonomy and freedom.

The Panchayati Raj bodies require funds and it is for the state legislatures to prescribe taxes and fees leviable by the Gram Panchayat. But this is not enough, just as at the Central level, the constitution provides for the setting up of a Finance Commission every five years to recommend the devolution of taxes and grants-in-aid and their allocation to Gram Panchayats at all levels.

Gram panchayats have to play a crucial role in achieving overall development of rural areas. However, the Gram panchayats are endowed with inadequate tax powers and multiple functional responsibilities. The Gram panchayats are unable to achieve many of their objectives because of lack of funds.

Inevitably, Gram panchayats cannot perform satisfactorily the developmental functions that are bestowed on them unless they have command over larger financial resources. In order to revitalize the Gram panchayats, it is absolutely necessary to extricate them from their present status and find out ways and means to make them viable units of administration and development. They should be assured broad fiscal autonomy before they can function with administrative autonomy.

Panchayati Raj in Andhra Pradesh, in its present form and content, largely owes its origin to the report of the Balwant Rai Mehta committee. Rajasthan and Andhra Pradesh were the two early advocates of the Panchayati Raj in India. On 29 July, 1986 the Government of Andhra Pradesh passed a legislation known as Andhra Pradesh Mandal Praja Parishads, Zilla Praja Parishads and Zilla Pranalika Abhivrudhi.
Mandals Bill with an object to reorganize the existing Panchayati Raj system in Andhra Pradesh.

In Andhra Pradesh at present the Panchayati Raj Institutions are functioning on the basis of the Andhra Pradesh Panchayati Raj Act 1994. Gram panchayat is a body constituted for local administration of village, which governed in accordance to Andhra Pradesh Panchayati Raj Act, 1994. This Act came into force by repealing earlier Andhra Pradesh Gram panchayat Act 1964.

The Gram Panchayats are unable to achieve many of their objectives because of lack of funds. Inevitably, Gram Panchayats cannot perform satisfactorily the developmental functions that are bestowed on them unless they have command over larger financial resources.

It is necessary to study the financial resources of Gram Panchayats, which have to play an increasingly important role in the democratic life of the country. The inadequacy of the financial resources of Gram Panchayats is at present the most serious obstacle to the progress of Gram Panchayats. The successful functioning of Gram Panchayats, however, depends on adequate financial resources. But in India, in almost all States, Gram Panchayats have been suffering with inadequate financial resources.

The Gram Panchayats are incapable of exercising its tax levying power. In such a situation, the Gram Panchayats in Andhra Pradesh are going to face financial crisis to carryout their bare minimum responsibilities. In the light of the above circumstances, there is a need to find out the ways where the Gram Panchayats can stand on their own feet for discharging their increasing responsibilities.

The gram panchayats have many responsibilities on both civic and developmental fields such as education, public health, water supply, communications,
agriculture, minor irrigation, village and small scale industries and social welfare. In this context the finances of gram panchayats assume a major importance. But the gram panchayats are endowed with inadequate tax powers and multiple functional responsibilities. Unless the gram panchayats have a command over larger financial resources they cannot perform satisfactorily the developmental functions that are bestowed on them.

The gram panchayats are unduly dependent on Government and are not able to generate local resources and their financial resources are meager. The financial assistance to the gram panchayats from Government has not increased in proportion to their ever growing functional responsibilities over the decades.

The inadequacy of the financial resources of gram panchayats is at present the most serious obstacle to the progress of gram panchayats. The successful functioning of gram panchayats, however, depends on adequate financial resources. But in India, in almost all States, gram panchayats have been suffering with inadequate financial resources. They have also inadequate powers to levy taxes. As gram panchayats are now saddled heavily with ever growing functional responsibilities, the need to mobilize more financial resources by the gram panchayats is greater than before.

The State Government imposed many restrictions on the financial powers of gram panchayats and the taxes allocated to them are limited and less elastic. The general problem of gram panchayats has been one of widening gap between inelastic and limited financial resources and their ever growing functions. Some gram panchayats have many functional responsibilities in both civic and development fields such as public health, water supply, communications, street lighting and other social welfare activities.
The gram panchayats are incapable of exercising its tax levying power. In such a situation, the gram panchayats in Andhra Pradesh are going to face financial crisis to carryout their bare minimum responsibilities. Once the gram panchayats are self-sufficient, there will be a momentum towards development and that will automatically lead to rapid economic development of the country.

Andhra Pradesh is one of the premier states of the Indian Union. It ranks as the fifth largest State in terms of territory and population and is the largest State in South India. It was formed on November 1, 1956 by merging the nine Telugu speaking districts of the old Hyderabad State with the eleven districts of the Andhra State which was separated from the State of Madras in 1953. This is the first linguistic State in the Indian Republic with the city of Hyderabad as its capital.

In 1963, the Andhra Pradesh Government appointed a High Power Committee to examine the question of territorial reorganization of blocks. In December 1963 a new Gram panchayats Act was passed (known as Gram panchayat Act of 1964). The Act was intended to integrate the structure and functioning of village panchayats in Telangana and Andhra areas and try to bring into effective operation the three-tier system introduced on the basis of Balwantrai Mehta Committee's recommendations. However, the Panchayat Samithis and Zilla Parishad Act of 1959 as usual created two or three-tiers.

In 1971, the Andhra Pradesh Government appointed a High Power Committee under the Chairmanship of C.Narasimham, a retired I.A.S. Officer to examine the working of the Panchayati Raj and made proposals for reorganizing it. The committee submitted its report in 1972.

In 1974, the Government of Andhra Pradesh organized five regional Sammelans on Panchayati Raj and after ascertaining the view of all concerned
introduced in the year 1975 two bills in the Andhra Pradesh Legislature, one to amend the Gram panchayat Act and the other to amend the Panchayat Samithis and Zilla Parishads Act.

The Ashok Mehta Committee has been appointed by the Janata Government in December 1977, the terms of reference being broad enough to cover the entire gamut of the panchayati raj system. The committee submitted its report in the month of August 1978. It recognized that there has been structural weaknesses in the Panchayati Raj system.

These recommendations have influenced in the creation of Mandal System in Andhra Pradesh. On 29th July, 1986 the Telugu Desam Government passed a legislation known as Andhra Pradesh Mandal Praja Parishads, Zilla Praja Parishads and Zilla Pranalika Abhivrudhi Mandals Bill, 1986, with an object to reorganize the existing Panchayati Raj Institutions.

The functions of the Gram panchayat in the state are broadly divided into two, namely, obligatory functions and optional functions. These functions include twelve obligatory and twenty seven optional functions. Discharging obligatory functions is the duty of the gram panchayat within the limits of its funds. In addition to the above two types of obligatory and optional functions, gram panchayats have to discharge the functions entrusted by the Central/State Governments from time to time.

For discharging the effective functions, gram panchayats are provided with various financial resources. The sources of finance can be broadly categorised into: (1) tax revenues, (2) non-tax revenues, (3) assigned revenues, and (4) grants-in-aid.

The Andhra Pradesh Panchayati Raj Act, 1994 has incorporated all the requirements of the 73rd amendment Act to the Constitution. It is a comprehensive legislation covering all the three-tiers of Panchayati Raj in the State. The
The nomenclature of the district and the intermediate level bodies stands changed to Zilla Parishad and Mandal Parishad respectively.

The important bodies in Gram panchayat are Gram Sabha and Panchayat. In order to correlate the responsibilities and revenue of Gram panchayat, Panchayat Secretary post was newly created on 12 December 2001.

The State Finance Commissions are recommending the financial support from the state and principles for determination of taxes, tolls and fees that could be assigned to or appropriated by the gram panchayats. At present, not much fiscal power is vested in the hands of the gram panchayats. Their financial resources are largely drawn from tax assignment, tax sharing and grants-in-aid from the state and the center while the share of own tax and non-tax revenue is very small.

The non-tax revenues include user charges on public facilities, and on the use of common resources in the form of forests, water bodies, quarried materials and minor minerals and taxes on private property.

Major Tax Powers of gram panchayats are House tax, Vehicle tax, Water, drainage and sanitation taxes, Pilgrim tax, Tax on profession, trade, and callings, Tax on fairs and other entertainments, Tax on advertisement, Octroi on animals or goods or both brought for sale, Lump sum levy of factories in lieu of taxes, Special tax for construction and public works.

Fees and Charges levied for provision of public facilities are, Water rate, Lighting fee, Street cleaning fee, Conservancy fee, Drainage fee, Sanitary fee for public latrines; and pilgrimage fee (sanitation tax/fee). Fee for use of common resources, Fee for the use of panchayat shelter, User charges for hospitals and schools, Fee for use of common resources like grazing land etc.
Fee on markets and weekly bazaars, Fee on animals sold etc. New powers recommended by SFCs, are House tax, Tax on pumps and tractors, Tax on highway services, Tax on village produce sold in regulated markets, Tax on telephones and cable T.V., profession tax

An evaluation of the sources of income of gram panchayats including their tax powers and the authority to borrow shows that, they differ substantially across the various gram panchayats between the fiscal size and sources of revenue available.

After tax assignment, tax sharing is the major source of finance to the gram panchayats. Such revenues are of two kinds. First the law itself authorizes the state government to levy and collect revenue on its own pass on a portion of it to the gram panchayats after deducting collection charges. The second category consists of taxes or fees which normally belongs to the gram panchayats but whose collection is taken over by the state for administrative reasons.

Grants-in-aid comprise an important element of inter-governmental transfers. One of the objectives of providing grants is to enable the gram panchayats to manage functions entrusted to them which could not otherwise be undertaken because of their limited taxable capacity. Furthermore, grants are given to them to undertake functions which are funded by the state government. Grants are also given to encourage gram panchayats to increase their income.

In order to become financially more independent, Panchayati Raj Institutions especially the Gram Panchayats must be encouraged to raise local resources for development before they receive grants from higher layer governments. Gram Panchayats in Andhra Pradesh are financed mainly from four sources viz., (i) Tax revenues, (ii) Non-Tax revenues, (iii) Assigned revenues, and (iv) Grants-in-Aid.
House Tax, Profession Tax, Vehicle Tax, Water Tax, Lighting and Drainage Tax will come under tax revenues.

The major sources of tax revenues of Kalyandurg gram panchayat are house tax, vehicle tax, water tax, library cess, advertisement tax and seignorage fees on quarries. The revenue from house tax increased from Rs. 83.02 thousands in 1997–98 to Rs. 148.62 thousands in 2005–2006 with an annual average amount of Rs. 661.79 thousands.

The vehicle tax revenue was increased from Rs. 17.3 thousands to Rs. 22,000 under study with slight fluctuation in some years and with no income in some another years under study.

The water tax contributed 39.56% of tax revenue with declining trend from Rs. 547.86 thousands in 1997-98 to Rs. 110.75 thousands in 2005–2006. The revenue from library cess contributed an annual average share of 5.71% of its total tax revenue with an annual average yield of Rs. 71,000 under review.

On an average Rs. 1.43 thousand was yielded from advertisement tax and Rs. 5.34 thousand per annum under study was earned from seignorage fees in Kalyandurg gram panchayat.

Remunerative enterprises like daily markets, weekly markets, vegetable markets, fees and fines, donations and contributions, deposits and advances which are levied and collected by gram panchayats are called as Non-Tax revenues. Licence fees levied by the gram panchayats for registration of cattle sold, collection of hides and skins, tea stalls and restaurants or goods for sale in markets for construction and extension of buildings, for use of common land and community property for carrying out dangerous and offensive trades etc.
The contribution of the bus stand receipts to the total receipts of Kalyandurg gram panchayat also fluctuated significantly between 0.11% and 3.15% respectively with an annual average contribution of 1.28% per annum under study. The share of lorry stand receipts to the total revenues of the gram panchayat increased significantly from 0.23% to 1.33% with slight variations in some selected years under review with an annual average contribution of 0.42%.

The share of weekly market receipts of Kalyandurg gram panchayat to its total non-tax revenues declined from 4.06% in 1997–98 to 0.23% in 2004–2005 and increased to 7.08% in next financial year 2005–06. The contribution of daily market receipts to the total non-tax revenues of Kalyandurg gram panchayat fluctuated significantly between 0.55% and 5.68% per annum under study.

The revenue from vegetable market receipts fluctuated between Rs. 4000 and Rs. 20,150 per annum under study. The contribution of panchayat stall rents to the total revenue receipts of Kalyandurg gram panchayat also fluctuated significantly from year to year with a variation of 0.55% to 3.05% per annum.

The share of license fees receipts to the total receipts under non-tax revenues varied from 4.47% to 16.08. The share of building license fees to the total non-tax revenues of Kalyandurg gram panchayat fluctuated between 2.12% to 15.57% during the period under study with an annual average share of 6.45%.

The share of the revenue from the rents of mutton stalls to the total non-tax revenues increased from 0.34% to 0.51% with significant variation from year to year under review. It reveals that the share of the revenue from donations for public tap to the total non-tax revenue varied from 7.22% to 30.24% with an annual average share of 18.28% per annum.
The share of the revenue from advances to the total non-tax revenues increased from 4.91% to 5.48% in the first two years and declined from 5.01% to 1.29% during the next seven financial years under study with significant fluctuations.

The income from the miscellaneous receipts was more in the first two years under study with Rs. 93,150 in 1997–98 and Rs. 1,76,100 in 1998–99.

The income from the non-tax revenues increased from Rs. 5,41,310 in 1997–98 to Rs. 15,75,790 in 2005–06 with slight variations in few years under study. On an average it yielded an amount of Rs. 824.56 per annum.

Taxes levied and collected by State Government but transferred to gram panchayats, such as entertainment tax, land cess, surcharge on stamp duty etc., can be classified as Assigned revenues.

Apart from revenue resources State and Central Governments provide grants to gram panchayats. These grants are either specified or un-specified while Central Government grants are only specified grants. All these grants are generally called as grants-in-aid resources of gram panchayats.

A tax, which is levied on entertainments and amusement, is known as entertainment tax. This tax is levied and collected by the State Government and the proceeds are assigned to local Governments.

The entertainment tax is an outlay tax and therefore is an instrument to discourage expenditure and to stimulate savings during inflationary situations. Since it is a tax on the enjoyment of entertainments, the burden of this tax is not felt by the tax payer.

The share of entertainment tax revenue to the total assigned revenues of Kalyandurg gram panchayat fluctuated significantly between 2.24% in 2001–02 and
29.85% in 1999-2000 with the annual average contribution of 14.61% of the total assigned revenues of the gram panchayat.

The surcharge on stamp duty is the major source of assigned revenues and also to the total revenues of Kalyandurg gram panchayat. It reveals that the income from the assigned revenues of the selected gram panchayat fluctuated between Rs. 2,55,380 in 1998–99 and Rs. 7,69,000 in 2004–05 with an annual average yield of Rs. 4,33,520 per annum.

The annual average revenue of the assigned revenues of Kalyandurg gram panchayat has been contributed by 13.18% of entertainment tax receipts and 86.82% of the surcharge on stamp duty during the nine years under study.

Grants from higher layer governments to lower layer governments provide an opportunity for the latter to share the revenues of the former in order to ensure a minimum level of accomplishment in the provision of local services. Grants provide funds to local authorities in order to carry out our schemes to be executed locally.

The share of salary grant revenue to the total revenues of Kalyandurg gram panchayat during the period under reference varied from 19.29% to 52.61% per annum. The share of management grant revenues to the total grants-in-aid receipts of Kalyandurg gram panchayat fluctuated between 0.17% and 1.82% per annum respectively with an annual average contribution of 0.64%.

The contribution of per capita grant revenue to the total grants-in-aid receipts of Kalyandurg gram panchayat fluctuated between 1.32% and 7.30% with an annual average contribution of 3.36% per annum. Its share to the total revenues of Kalyanadurg gram panchayat fluctuated between 0.65% and 2.54% per annum with an average share of 1.22%.
From the financial year 2002–2003, the gram panchayat received the grants from the State Finance Commission. It reveals that the yield from SFC grants declined from Rs. 3,11,450 in 2002–03 to Rs. 2,30,000 in 2004–05. Its share to the total grants declined from 16.23% to 8.71% and its contribution to the total revenues of the gram panchayat declined from 5.63% to 3.71% per annum.

The total tax revenues of Kalyandurg gram panchayat fluctuated between Rs. 4,30,720 and Rs. 16,82,570 per annum with an annual average yield of Rs. 12,43,040 per annum.

The income from non-tax revenues contributed an annual average share of 19.18% of the total revenues with a variation of 11.53% to 30.64% per annum. The annual average yield of the total revenue receipts of Kalyandurg gram panchayat was Rs. 42,98,660 per annum.

Gram panchayats need additional resources and financial autonomy to fulfill their new functional responsibilities. But the record on transfer of funds to gram panchayats for the subjects devolved upon them is not encouraging. Many of the powers given to gram panchayats are delegated powers and most state governments have retained substantial financial and administrative power which suppresses the autonomy of gram panchayats. In many cases, there is neither a sufficient devolution of resources nor adequate revenue raising power with gram panchayats, which reinforces their dependence on higher level bodies rather than their empowerment.

Although local revenue mobilization strengthens accountability, local resources are often inadequate to carry out assigned functions. A standard recommendation to enhance the revenue of gram panchayats is to provide them with larger own revenue raising powers and to reduce their excessive dependence on state and central governments.
Apart from a better design of loans and grants from the state, financial autonomy of gram panchayats can be further strengthened from assigning them powers to levy more of the buoyant and income elastic resources to augment their own financial resources.

The general principles for local taxes of gram panchayats include accountability and transparency, linking of benefit to tax-price, stability, buoyancy and ease of administration and compliance. Before giving gram panchayats higher tax authority and the power of more frequent revision of their tax rates, local tax collections can be improved by improving their administrative capacity.

In most cases the need and capacity are likely to vary with the size of the population served. It is a normal practice for the Finance Commissions to equalize the devolution across the gram panchayats. But, it is highly unequal with respect to population. It is not equalized on a per capita basis even though the gram panchayats dealing with larger populations would need to maintain larger records.

The matching grants can help to improve the accountability of gram panchayats. Another argument is that linking devolution of funds to locally raised matching grants could encourage local tax effort. The requirement of matching grants is one of the reasons why some gram panchayats are unable to utilize grants for various rural development schemes.

To improve the financial position of gram panchayats, it is necessary to increase the share of united grants in transfers, adopting an equalization formula for allocation of grants, increasing own and assigned sources of tax revenue and offering matching grants to induce own tax effort. It is also essential to transfer a fixed percentage of all state taxes to provide stability to local governments and flexibility.
on a timely basis. The government of India, in 2001, makes several recommendations
to improve the financial situation of gram panchayats.

These include linking devolution of Central Finance Commission funds to
states to transfer of administrative and financial powers to gram panchayats;
strengthening revenue raising powers of gram panchayats to reduce their excessive
dependence on state and central governments; improving accountability of local
bodies, simplifying rules and procedures and strengthening financial management and
audit procedures.

The gram panchayats do not have accounting systems or balance sheets. An
emphasis on prevention of misuse of funds has presented local accountability. Once
gram panchayat budget procedure is improved and discretionary funds enhanced,
auditing of their accounts would become inevitable.

There is a systematic lack of uniformity and content in financial data. This can
be rectified by setting up of a special cell in the Finance Department to track and
monitor annual receipts and expenditure and to compile and computerize a database
on basic economic indicators of gram panchayats in the state.

At the end of the first five-year tenure of gram panchayats, carried out a status
review of, among other things, recommendations of State Finance Corporations;
devolution of funds, functions and functionaries for the 29 subjects; and performance
of gram panchayats in mobilization of revenues and undertaking public programmes
in the core services of water supply, street lighting, sanitation and roads. They found
limited progress in several gram panchayats.

A major lesson drawn up by Government of India based on results of the first
round of devolution in the wake of the 73rd/74th Amendment is that the gram
panchayat has the highest potential democracy and participation and hence, states
should be enabled to abolish either the district or the block level tier of the gram panchayats. The central government suggests withholding of Finance Commission and other development funds to states unless effective powers are transferred to gram panchayats.

Inadequacy of staff has seriously affected the functioning of the gram panchayats whose expenditure needs are rising due to requirement for additional administrative, trained and technical staff for schools, water supply, communications, accounts, tax collection, sweeping, drain cleaning etc. Staff costs can be reduced by attrition, maintaining core professional staff and drawing local expertise.

It is required to make gram panchayats financially stronger to meet their needs include a carrots and stick approach. They need better tax collection authority and capacity, more untied grants and help with improving accounting and record keeping. Linking Central Finance Commission transfers to more effective fiscal decentralization by states would add to the gains. With the recommendations of the Finance Commissions, the financial status of the gram panchayats, especially of gram panchayats has been improved so much. Because of this development, the functional expenditure of the gram panchayats has also been improved.

To enable the Gram panchayats to perform the functions, they have been authorized to levy taxes on persons, property and business. The important ones include general property taxes, service taxes, taxes on land revenue, on rent of land, taxes on trades, professions and callings, taxes on animals and vehicles, octroi, pilgrim tax, taxes on fairs, taxes on buildings and private latrine. They may realize fees for licences, use of rest houses, and rates on water, electricity and fines and penalties.
Absence of meager mobilization of local resources will not permit the gram panchayats to provide at least the minimum basic services to the people. In utilizing the resources mobilized through their own effort, gram panchayats will be more careful in choosing the items on which funds will be spent. Unless gram panchayats mobilize their own resources they may not be able to make any matching contribution for the Finance Commission grants or other matching grants of State government. Greater dependence on government grants will increase the control of the State Government over them, and reduce their functional autonomy. They would not be able to enjoy any decision-making power.

As the Gram panchayats may find it difficult to raise sufficient revenue from their taxes, they must make serious efforts to increase their own resources through other revenue powers granted them. These powers relate to levy of fees, fines, rents from their properties and tolls. The Gram panchayats can earn substantial revenue by turning these common property resources into remunerative enterprises. In the long-run, Gram panchayats can improve their own resources only through non-tax resources and may not depend only on State or Central Government Grants.

As regards grants-in-aid being provided by the State government, it has to be borne in mind that state government finances are themselves in a shambles. They have been running into hue budget deficits for years together. In fact, on the recommendations of successive finance commissions, the government of India has been giving grants-in-aid to State government. In this scenario, state government does not have the financial ability to give substantial funds to the gram panchayats.

The tax-base in the form of property, profession, income, vehicles such as bicycles, rickshaws, carts etc., is itself not very wide, given the low standards of rural
living. The populist tendencies of the State and gram panchayats prevent a scientific revision of rates of taxes which are basically levied by the Gram panchayats.

The gram panchayats are facing difficulty because of lack of power for re-appropriation of funds from one major head of account to another, for both plan and non-plan sectoral allocations. This results in too much correspondence with the higher layer institution or even lapse of money at the end of each financial year. There is a need to vest power to the gram panchayats itself to make full use of the resources by resorting to change of allocation from one major head to another.

The gram panchayats are not managing any utility services other than water supply. It would be worth consideration if they set-up their own enterprises like distribution of Fertilizers, Seeds, Cattle Feed, etc. This can be advantageous both to the gram panchayats and the beneficiaries, as the former would be earning some revenue out of it, while later would be benefited by low pricing and good quality.

Gram panchayats may also enter into suitable service sectors like agro-processing center, maintenance of cold storage centres, etc. A percentage of Motor Vehicle Tax may be assigned to the gram panchayats for proper maintenance of roads, a portion of the cess collected by Government for traffic on bridges may be given to the concerned gram panchayats. The financial resources of gram panchayats can be classified into four main categories. They are tax revenues, non-tax revenues, assigned revenues and grants-in-aid.