CHAPTER VII
CONCLUSION

7.1 Introduction

In the foregoing chapters revenues and expenditures of the Panchayats and finance under People's Plan Campaign were analysed in detail. An attempt is made here to highlight the major findings of the study and to give recommendations for better finances of local bodies.

The 73rd amendment to the Constitution makes local government autonomous institutions. The enactment of the Kerala Panchayat Raj Act 1994 is a landmark in the history of local self governments in Kerala. Under the people's plan campaign, about 35 to 40% of the states plan for the development schemes and programmes was formulated and implemented by local bodies. In spite of all these Panchayats have not attained a solid fiscal base for their autonomy. The taxation powers are not fully exercised and other sources of revenue are not fully tapped by Gram Panchayats. The financial assistance in the form of grant-in-aid from the state government has been substantial in recent years.

Financial controls are still exercised by the state government on local bodies. There is much controversy as to whether such controls are needed and if so to what extent. It is to be pointed out that accountability is essential for any decentralised machinery for managing the financial responsibility. The agency
or institution responsible for incurring expenditure must also be accountable for the revenue required. Those who pay tax have the right to enjoy the benefit of services provided with such amounts. Bhadouria and Dubey has rightly remarked, "The connection between the payment of local taxes and the enjoyment of services is direct and clear and this fact is more convincing to the tax payer and more stimulating to his interest than the remote connection which is often so difficult to see in the budget of higher level governments".¹

For any sound system of local finance, there should be a clear definition and distribution of functions among various layers of government. Along with that there should be improvements of the finances of local bodies by allocating certain independent sources of revenue. The inter governmental fiscal transfers should also be based on a sound system. "The design of inter governmental fiscal relations is influenced by political, social and cultural factors as well as by economic considerations. Within the narrower economic context, this design reflects a balance among different (and not always easily reconcilable) objectives, namely the efficient allocation of government resources, income redistribution and macro economic management".²

With this background the major findings of the study are given.

7.2 Findings

1. The total revenue of Panchayats increased considerably during the eleven year period. Even after adjusting for inflation the total revenue increased
substantially especially during the people's plan campaign.

This is mainly because of higher amounts of grants-in-aid in the form of plan fund allocated to Panchayats as part of decentralised planning.

2. There is an increasing trend in all items of revenue of Panchayats, without any exception.

3. Direct taxes which are directly collected by Panchayats did not increase substantially over the eleven year period. In most of the years they declined if the inflation factor is taken into account.

Direct taxes form an important source of own revenue of Gram Panchayats. But Gram Panchayats are not realising their full potential. The following reasons account for it

a) There have been undervaluation of buildings to fix building tax.

b) The building taxes are fixed in 1993-94. No revision has been made thereafter.

c) Modifications and extensions to the existing buildings are not brought to the notice of authorities in most cases.

d) There exists more potential to levy profession tax which is not tapped by Gram Panchayats.

e) Advertisement tax is not levied by Gram Panchayats now. There is high potential to levy and collect advertisement tax

f) Land cess is an optional levy and Panchayats under study have not
exercised their power to levy this tax.

4. Gram Panchayats are not getting the shared taxes and assigned taxes in time. They are also not getting the full share of these taxes.

5. The non-tax revenue (own-fund) constitutes a very small portion of the total revenue of Panchayats. This item of revenue in much below its potential due to the low rates of fees and long period for which the rates remain without revision. The current rates of fees are those prescribed under the Kerala Panchayat Act 1960.

6. Tax revenue had the highest proportion of total revenue among various items of revenue till 1997-98.

It is quite natural that when the grant in aid increased substantially due to people's plan campaign, its proportion shot up and consequently the proportion of tax revenue came down.

7. Grant- in-aid form a lion's share of the total revenue of Panchayats especially from 1997-98 onwards. Even after adjusting for inflation the grant in aid revenue has shown the highest rate of increase every year.

8. Although grant-in-aid has been substantial, it is not received in time with the result that Panchayats could not effectively utilise them.

9. Some members and employees of Panchayats (only a negligible minority) have observed that Gram Panchayats did not have a capacity to spend so much money all on a sudden when the People's Plan Campaign was
introduced and huge plan funds were devolved to them. Even now Gram Panchayats are ill equipped to make use of such a huge amount of money, according to them.

10. Many development projects and welfare schemes are tied to contribution of voluntary labour and other resources. Hence additional resource mobilization, although not substantial, could be done by Gram Panchayats under People's Plan Campaign.

11. Beneficiary contribution constitutes only a very small percentage of total revenue of Panchayats. However there is difference of opinion among the members and employees of Panchayats regarding the adequacy of beneficiary contribution.

12. Although an increasing long term trend is observed in the funds for central government sponsored schemes, no substantial increase has taken place in this item of revenue over the period. The proportion of this item to the total revenue also declined considerably especially during the period of People's Plan Campaign.

13. Pension funds started flowing to the Gram Panchayats since 1996-97 and thereafter it has been showing an increase every year. Hence, the Gram Panchayat acts as an agent of the state government in distributing the various types of pensions to people coming under its jurisdiction.

14. Gram Panchayats have been given funds by the state government for the management of institutions transferred to them. From the year 1996-97
onwards, they have been receiving such funds. It has changed the composition of revenue thereafter.

15. The additional work connected with the people's plan campaign adversely affected the collection of own fund. Majority of the members and employees of Panchayat have the same opinion. The additional staff provided for undertaking additional work related to the peoples plan is quite inadequate.

16. A drastic change has taken place in the revenue composition of gram Panchayat during the People's Plan Campaign. This is mainly because of the fact which has already been referred, i.e., increase in grant-in-aid. Higher amounts have also been devolved to Panchayats for the management of the institutions transferred and also for the payment of various pensions.

17. Each item of expenditure without any exception shows an increasing trend over the eleven year period.

18. Management expenditure has shown a significant increase in the last three years of study. The honorarium and other remunerations payable to the members of Panchayats increased considerably. The establishment expenses connected with the People's Plan Campaign rose up. All these account for higher management expenditure during the period of People's Plan Campaign.

19. The expenditure made by Panchayats on public works and infrastructure
varied year after year. However, during the last four years of study, there have been higher investments in this sector by Gram Panchayats.

The real indices (after adjusting for inflation) of expenditure on public works and infrastructure are comparatively very high during the People's Campaign. This is due to the fact that higher plan funds have been received by Panchayats from state government for this purpose.

20. The expenditure in productive sector had been negligible before the People's Plan Campaign. Certain Panchayats did not make any investment in this sector before the campaign. This expenditure was significantly very high during the period from 1997-98 to 2000-01.

The real indices which show the change after considering the change in money value indicate that the rate of increase of this item in very high during the last four years.

21. The expenditure in social services, on an average, has shown a gradual increase up to 1996-97. Thereafter a high rate of increase could be noted. As per the guidelines for sectoral allocation, it is mandatory that Panchayat should spend between 30 to 40% of the plan funds in the service sector. Hence it is quite natural that during this period the expenditure on social services increased significantly.

22. A larger portion of the amount spent in production sector and service is on individual beneficiary oriented programmes. The result is that non
beneficiaries have distanced themselves from matters related to Panchayats including attending Gram Sabhas.

23. Other expenditure including pension payments, expenditure for the management of institutions and debt payments constitutes a larger portion of total expenditure during the period from 1996-97 onwards. Larger amounts have been transferred to Gram Panchayats for pension payments and for the management of institutions transferred.

24. Beneficiaries in general are spending the amount for the purpose for which they are given the funds, i.e., in most cases diversion of funds have not been noticed.

25. There are huge amounts of cash balances with the Panchayats at the end of every year especially during the period of People's Plan Campaign. Delay in getting the grant-in-aid is the main reason for it. The plan fund which constitutes a larger portion of the total revenue of Panchayats, is not received in time with the result that huge spill over could be noticed.

26. The accounting system in Gram Panchayats is scientific and systematic. They have the proper uniform system of accounting every transaction.

27. The budgetary practices followed by the Gram Panchayats are not at all effective. Budgets are prepared by Panchayats to comply with the requirements. In most cases, details of shared taxes, assigned taxes and other grants in aid to be received from the state government are not known at the time of preparing the budget. Only estimated figures which
are seldom realistic are given in the budget. Even in the case of those items which are within the control of Panchayat authorities, no analysis or scientific estimates are made by Panchayats to budget the figure related to them.

28. The auditing system prevailing in the Panchayat in quite effective. However, the performance auditing can be made more effective. Social auditing to be undertaken by the Gram Sabha is not at all effective.

29. Loans have not been taken by any of the Panchayats under study during the eleven year period, although there is provision to do so. The reason for not taking the loan are many. There is difference of opinion among members and employees of Panchayats with regard to this. Majority of the members think that existing funds are sufficient to undertake the projects for the development of the area and hence loans are not availed. Majority of the employees opine that the additional responsibility connected with availing of loans prevents the Panchayats to take loan.

30. The management expenditure is required to be met from funds directly collected by Panchayats. But in some years, especially during the period of People's Plan Campaign, Panchayats couldn't meet the expenditure from their own funds.

31. Along with the increased amount of plan funds received, investment in women's welfare increased significantly during the period of People's Plan Campaign.
32. On an average, investment for the welfare of scheduled castes declined except in the year 1998-99 during the period of people's campaign.

33. As per the guidelines for sectoral allocation of plan funds, productive sector should get the highest allocation (40-50%). Majority of the members as well as employees of Panchayats opined that the highest proportion should be allocated to productive sector itself.

34. Majority of the members and employees of Gram Panchayats think that the accounting system in Gram Panchayats is quite scientific.

But the researcher has gone through the accounts of the Gram Panchayats and found that they are not scientific. The books containing various heads of accounts to record the transactions are kept by Gram Panchayat. Uniformity can also be observed in the format of the accounts kept by different Panchayats. But the double entry system of accounting, which is more scientific, is not strictly followed by the Gram Panchayats.

7.3 Testing of hypotheses

The hypotheses of the study have been tested in the foregoing chapters. The results of these are given here.

7.3.1 Hypothesis : 1

There is no significant difference between Panchayats in terms of their revenue and expenditure.
This hypothesis cannot be fully accepted or rejected. Based on the testing, the following conclusion is arrived at.

There is significant difference between Panchayats in terms of the following items of revenue and expenditure.

**Items of revenue**

1. Direct taxes
2. Total taxes
3. Non-tax revenue (own-fund)
4. Fund for central government sponsored schemes.
5. Total revenue

**Items of expenditure.**

1. Management expenditure
2. Expenditure for education, culture, management of institutions, debt heads and pension payments
3. Total expenditure

For other items of revenue and expenditure, there are no significant differences between Panchayats (see ANOVA in Chapter IV & V)

*7.3.2 Hypothesis: 2*

There is significant difference between various years in respect of revenue
and expenditure of Panchayats.

This hypothesis is accepted. The analysis of variance in respect of various items of revenue and expenditure clearly show that there is significant difference between various years. (see ANOVA in Chapter IV & V)

7.3.3 Hypothesis : 3

There is a decline in own funds of Panchayats in real terms, i.e. after adjusting for inflation, every year.

The real indices of direct taxes and non-tax revenue (own fund) make it clear that the own revenue of Panchayats declined in real terms (See, Tables 4.17 and 4.37). Hence this hypothesis is accepted.

7.3.4 Hypothesis : 4

There is no correlation between own fund and management expenditure. Hence the own fund is not sufficient to meet the management expenditure.

There is a high degree of positive correlation between own fund and management expenditure in all Panchayats. (See, Tables 5.76, 5.78, 5.80, 5.82, 5.84 and 5.86). However, certain Panchayats have management expenditure more than own revenue in all the years of study while others have management expenditure more than own revenue during the period of People's Plan Campaign. Currently the management expenditures of all Panchayats are more
than their own revenues (See, Tables 5.75, 5.77, 5.79, 5.81, 5.83 and 5.85).
Hence, it can be concluded that although there is a high degree of positive
correlation between own fund and management expenditure, own fund is not
sufficient to meet the management expenditure.

7.3.5 Hypothesis : 5

The potential of direct taxes for yielding resources has not been exploited
to a satisfactory level by Panchayats.

This hypothesis is accepted. The analysis of secondary data and the
opinions of the majority of members, and employees make the point valid. (See
Para 4.5., and Table 4.76)

7.3.6 Hypothesis : 6

There is a drastic change in the pattern of revenue and expenditure during
the People's Plan Campaign from those of the preceding period.

The composition revenue and the composition of expenditure changed
dracastically during the People's Plan Campaign as it is evident from Table 6.24
Hence the above hypothesis is accepted.
7.4 Recommendations

On the basis of the analysis of secondary data and on the basis of the interaction with the members and employees of Panchayats and with the experts in the field of local finance, the following recommendations are made.

1. Steps must be taken to assess the building tax correctly. Even without raising the rates of tax, the revenue from this source can be enhanced substantially if the correct assessment is done.

2. There should be a permanent system of observing and finding out modifications and extensions to the existing buildings, reassessing taxes on that basis and collecting taxes.

3. The revision of tax is expected to take place in every five years. But the revision of building tax has not been made since 1993-94. The State Finance Commission recommended to reduce the time lag between general tax revisions to four years. Even if the time lag is not reduced, the revision should be made at least in every five years.

4. All the above steps and additional work connected with People's Plan Campaign required more staff. Hence the state government should deploy the required staff to the Panchayats to enable them to discharge their functions efficiently.

5. Profession tax net should be widened. Self employed persons such as doctors, lawyers and businessmen should be required to pay profession
tax. However the data related to the income of such persons are not available with the Panchayats. The second Municipal Finance Commission (1993) recommended to levy a flat rate of profession tax in the case of such persons. The State Finance Commission endorsed this recommendation with some modifications on the number of income slabs and the rate of tax. Anyhow there must be provisions to include such persons in the profession tax net.

6. Advertisement tax must be imposed by Panchayats. The Eighth schedule of the Kerala Panchayat Raj Act gives the minimum and maximum rate of tax leviable. But the Panchayats under study, do not levy advertisement tax.

7. Gram Panchayats are empowered to levy cess on land conversion. But the Panchayats under study do not levy this tax. Since land conversions are taking place on a large scale, it is a good source of revenue to the Panchayats and Gram Panchayats must impose this cess.

8. House boats and other tourist boats are conducting tours in the rivers passing through the Panchayats under study. There is ample potential to collect revenue by levying taxes for the same. Hence provision must be made to empower the Gram Panchayats to levy such taxes.

9. Panchayats should do a systematic tax mapping. Each premise may be assigned a premise number. For that, trained staff may be provided to Panchayats.
10. The rates of fees and other charges coming under non-tax revenue should be enhanced rationally. The rates of certain fees were fixed long ago. The fees are to be revised taking into account, at least the inflation rate.

11. People engaged in the business of cable television and video parlours should be charged entertainment tax.

The State Finance Commission made a strong recommendation to this effect. The State Finance Commission recommended that cable television operators may be required to pay annual licence fee and also entertainment tax. The rates were also suggested by the Commission.

12. Provision may be made in the Kerala Panchayat Raj Act to charge a certain rate of interest on the arrears of tax due to the Panchayat. This provision will help the Panchayat to have a better collection of own revenue. In general, there is a penalty for delayed payment in tax administration. Hence it can be applied to local finance.

13. Shared taxes and assigned taxes must be devolved to Panchayats in time.

Under Sec. 202 of the Kerala Panchayat Raj Act 1994, state government should pay annually to each Panchayat, basic tax grant calculated on the basis of the collection of basic tax in the preceding year. Hence the amount of such grant can be made known to the Panchayats at least at the beginning of the financial year, so that they can have realistic figures of such grant in the budgets.

14. The amount of plan fund due to each Panchayat in an year must be made
known at least at the beginning of the financial year. This also helps the Panchayats to have realistic figures of such fund in the budget.

15. Delay in getting instalments of plan fund may be due to the lapse of duty on the part of Panchayat or that of the government. Anyhow steps should be taken to avoid such delays.

16. The fund for centrally sponsored programme for poverty alleviation, at the disposal of Gram Panchayats, should be enhanced.

The State Finance Commission has recommended that 25% of such funds should be made available to local bodies

17. Maintenance grant given by state government to Gram Panchayats should be calculated on the basis of current cost of constructions and not on a historical cost.

18. State government must consider giving incentive grants to Gram Panchayats for efforts to raise additional resources, taking in to account the resource potential of Panchayats.

19. The rules and procedures for the receipts and expenditures of Gram Panchayats should be simplified. Hard rules and complex procedures cause much delay in receiving funds and in implementing projects. Huge closing balance of cash with the Gram Panchayats can thus be avoided.

20. A contingency fund should be created to meet the emergency requirements in times of natural calamities.
For example, in the area of the Panchayats under study, flood is a natural calamity that occurs every year. But the Gram Panchayats seldom do anything to meet this calamity. There should be provision to create contingency fund by Panchayats by keeping apart a certain percentage to their revenue. Panchayat committee must be given the discretionary power to spend the money from this fund to meet such calamities.

21. There should be a proper system of monitoring the projects undertaken by the Panchayats. The existing system of monitoring is not at all effective.

22. Diverting funds, earmarked for certain sectors to other sectors must be avoided. Members of Gram Sabha should be made aware of such problems so that they can raise voice against it.

23. Co-operative ventures in productive sector must be encouraged by Gram Panchayats. This can be done by giving priority to co-operative ventures in allocating funds in the productive sectors.

24. Beneficiary contribution constitutes only a small portion of the income of Panchayats to undertake development activities. Contribution in the form of 'Sramdan' (voluntary labour) is currently made by beneficiaries. But more people should be encouraged to contribute by means of 'Sramdan'. It instills a spirit of co-operation in them. It confers on the local people a sense of ownership, which in turn ensures better
25. Increased management expenditure is mainly due to the additional expenditure in connection with People's Plan Campaign. Hence, it is necessary to have provision to allocate a certain portion of plan funds for meeting management expenditure.

26. A strong data base must be created in the Gram Panchayat related to the socio-economic conditions and education of the people, the infrastructure facilities, education facilities, resources of all kinds and the general facilities available.

In discussing and finalising the development programmes and welfare measures, the Panchayat committee must use the data base.

27. Efforts must be made by Gram Panchayats to start income generating projects and thereby enhance the non-tax revenue. But such remunerative projects require loan capital to a greater extent and the capital in the form of grants provided by state government. Provisions exist enabling the Gram Panchayats to borrow from the financial institutions.

28. State government can consider becoming a guarantor to market borrowing made by selected Gram Panchayats on an experimental basis; provided the loans are used to create income-generating assets.

29. State government must seriously consider the establishment of Panchayati Raj Finance Corporation.
One of the main recommendations of the Santhanam Committee on Panchayati Raj Finance is the creation of such corporation to give loans to the various tiers of Panchayats.

30. Budgeting is a very effective tool in controlling the cost. It is a good planning technique also. Hence budgets should be made realistic. Estimates made on the basis of scientific analysis must be incorporated in the budget.

Zero Base Budgeting can be effectively used by Gram Panchayats.\(^5\) Proper training must be given to the Finance Committee Chairpersons and employees concerned in Zero Base Budgeting.

31. Steps must be taken to make the performance auditing more effective. It should ensure that Panchayat is utilising the resources in an economical and effective manner to achieve the programme objective. It should also examine the impact of the programme or project concerned on the conditions that give rise to the programme.

32. Social auditing currently undertaken by Gram Sabhas should also be made more effective. To make social audit effective, the following points must be given due regard:

(i) Identify the shortcomings in the implementation of the programme or project.

(ii) Examine whether the technology adopted is appropriate or not.
(iii) Scrutinise the policy of the Panchayat committee considering the priorities and perceptions of the people of the locality.

Through social audit, the system of implementing the project should also be made transparent.

7.5 Conclusion

Panchayats in Kerala at present receive huge amounts of plan funds from the state government. On a closer analysis, it can be found that the rate of increase of own revenue is very low compared to that of grant-in-aid. In order to have fiscal autonomy, the own revenue must be enhanced considerably. This is possible in the following ways.

(i) Exploitation of the current own revenue sources to the maximum extent

(ii) Expansion of the revenue base to enable local bodies to collect revenue from new source, by making new provisions in the Act.

(iii) Enhancing the share of shared taxes to local bodies.

(iv) Including more items of taxes collected by state government, in the list of shared taxes.

Of these the first two give more direct own revenue and they only provide an actual addition to fiscal resources of the government, on an aggregate.
Strengthening of rural local finance calls for honest attempts by Gram Panchayats and state government. Gram Panchayats should be able to exploit the tax sources available to them to the maximum. State government should devolve additional sources of revenue to the local bodies and allocate them new taxes. The state government should make arrangements to provide loan finance to local bodies to undertake revenue earning projects.

But the finances that local bodies can raise should be matched with the functions they have to perform. As observed by Gulati, "It goes without saying that not only has the devolution of functions and responsibilities to be matched by endowment of powers and authority but also by devolvement of finances and functional powers and that too in a manner that does not impose such conditions and requirements as would impinge or put constraints on the autonomy within their respective spheres of local bodies."

With the initiation of People's Plan Campaign, Panchayats have been assigned more powers and responsibilities along with devolution of more funds. Due regard must be given to the proper management of these funds. But this should not in any way reduce the importance of the management of conventional revenue and expenditure of Panchayats. Whatever powers and funds are devolved to Gram Panchayats, they must be able to stand on their own feet. They are to be strengthened as institutions of self-government, which calls for a drastic change in the present system, requiring some hard decisions.
Notes and References


5. Zero base budgeting is a budgeting technique which requires justification of each item of the budget request from scratch. It involves the identification of all activities as decision packages which would be evaluated by systematic analysis and ranked in the order of importance.