CHAPTER - I

INTRODUCTION

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1.1 Introduction

The contemporary Administrative system today has provided for the institution of Local Self-Government in all over the modern as well as third world countries with the primary objective of combining Democracy with Development and to take the underdeveloped and developing countries to the destination of progress and prosperity. Local Self-Government has become an integral part of the three tier structure of administrative system in few countries in the modern world with individual national government at the apex level as First tier. It functions in accordance with their national constitutions within their national boundaries. The constituent units which are called States or Provinces form the Second tier. The third tier at the bottom is the Local Government which is created by National and State enactments and functions within a limited jurisdiction as provided by various statutes.

1.2 Rationale for LBs

Local bodies are claimed to have several advantages and are recommended as an integral part of an ideal governmental structure, particularly for a geographically big country like India. There are several state functions which should answer the local needs and should be in conformity with ground realities. And for this reason, they are best assigned to the local authorities. Examples of such functions include public parks, street lights, scavenging, and drainaging. They need variations and adjustments from city to city, and within a large city, from locality to locality and even street to street. The local residents can also express their problems and preferences in these matters. In welfare-oriented modern governance, it is desirable to accommodate their aspirations and needs. Moreover, local bodies provide a meaningful and responsible training ground for the citizens in matters of political, social and economic rights and obligations.

Thus, the justification for having local governments flows from the fundamentals of the theory of fiscal federalism. In a vast country like ours, there are several governmental and collective services which are best provided by separate levels of government. The guiding factors in the allocation of such services as between different governmental
levels should be productive efficiency, economy of resources and uniformity of treatment. At the level of local governments, a close link can be established between many governmental services and their financing through taxation etc. It is far easier to devise local taxes on a judicious admixture of the benefits-received principle, cost-of services principle and the principle of relative taxable capacity. While, it is quite difficult to determine relative taxable capacity of the members of society at national or even regional level, the task is much less difficult at the local level.

1.3 The Government of India Act 1935

The experience of the Government of India Act, 1919, prompted the British Government to move further in the direction of provincial fiscal autonomy, culminating in the Government of India Act, 1935, which came into force in 1937. In this Act, the functions of the Central and Provincial Governments were classified such that the Provincial Legislative List contained 94 entries, the Federal Legislative List contained 59 entries and a third list contained the concurrent legislative powers and had 36 entries. In the same way, the financial resources were also divided into three categories, namely, (a) Federal, (b) Provincial, and (c) Jointly Federal and provincial.

The third list covered those taxes and duties which could be levied only by the Central Government but the revenues from which were to be shared with the Provincial Governments. The Government of India Act, 1935, laid a firmer foundation for financial federalism, the structure of which was to form the main basis for financial federalism after Independence.

1.4 Financial Federalism under Constitution

Indian federal financial set up (including inter-governmental financial arrangements) has been prescribed in a great detail in our Constitution which came into force in 1950. Since then, the Constitutional provisions have undergone two further significant revisions.
1.4.1 Stage I

After independence, Indian Constitution came into existence in 1950. Its structure was closely patterned along the lines of the Government of India Act of 1935 which itself provided for a multilayered (or multi-tiered) government set up for our country. The Constitution provided, on an obligatory basis, a two-tiered government, namely,

(i) The Central (Federal/Union) Government (or Government of India) for the country as a whole; and

(ii) The state level governments with their respective territorial jurisdictions.

It is noteworthy that in both Government of India Act, 1935 and our Constitution, it was not mandatory to have governments at sub-state level. Even then, by using the enabling provisions, both the Centre and the states had constituted a variety of local bodies (LBs). The centre had constituted Port Trusts and Cantonment Boards etc, while states had constituted, within their respective territorial jurisdictions, a variety of municipal bodies and assigned them functions and resources out of the State List.

The allocation of subjects and functions between the Centre and states was as per three Lists, namely, the Union List, the State List and the Concurrent List. There was no separate List for local bodies.

1.4.2 Stage II

The 73rd and 74th Constitutional Amendments in June 1993 initiated the next stage of Centre-state financial relations. With some exceptions, these Amendments make the creation of local bodies, with a pre-determined framework of the subjects to be handled by them, a constitutional obligation on the past of the states. The nomenclature of these bodies is indicative of the extent of urbanization of the areas served by them. The subjects to be handled by these bodies are listed in Schedule XI and Schedule XII of the Constitution for rural and urban level bodies respectively. However, the Amendments do not provide for a separate allocation of resources for the local bodies. And, therefore, state governments transfer a part of their own resources to the local bodies within their respective territorial jurisdictions. In other words, it means the following.
(a) A state may wholly assign some of its taxes, duties, tolls and fees to the local bodies.

(b) It may share the revenue of some/all taxes, duties, tolls and fees with them.

(c) It may give grants/loans to them.

In addition, the 73rd and 74th Constitutional Amendments also provided for each State to constitute a State Finance Commission every five years. The job of a SFC is to

- Study the financial position of the local bodies;
- Recommend those principles on the basis of which the taxes, duties, tolls and fees are to be transferred to or shared with the local bodies are to be selected;
- Recommend those principles on the basis of which the state should give grants to local bodies;
- Recommend those principles on the basis of which the resources transferred from states to local bodies should be distributed between the latter;
- Make recommendations for improving the financial position of the local bodies;
- Make recommendations on matters referred to it by the governor in the interests of sound finance of the local bodies.

1.4.3 Stage III

Federal finance in India entered its third stage with the 80th Constitutional Amendment (in June 2000). Later, another significant change took place with 88th Amendment of the Constitution in 2004. With this amendment, the Centre specifically acquired the right to levy service tax (which till then it could levy only by virtue of having residual taxation powers). However, as of now, its collection and appropriation may be in the hands of both the Centre and states in accordance with the law passed by Parliament.

1.5 Allocation of Functions/Resources

The Constitution of India adopted more or less the pattern laid down in the Government of India Act of 1935. With the objective of ensuring administrative and financial efficiency, it split the functions and financial powers of the Government into three parts, namely, Central, State and Concurrent. It also provided for a variety of inter-
governmental resource transfers. Consequently, the Centre was assigned resources and functions having national or interstate base while the states were assigned resources and functions which had local and regional character.

1.6 Levels of Government

Before 73rd and 74th Amendments of the constitution, our Constitution provided for only two levels of government, namely, at the Centre and at the state levels. There was no specified allocation of functions and resources for local bodies. However, a local government could be constituted by a state within its own territorial jurisdiction by assigning some functions and resources (out of its own sphere) to that body and pertaining to the area for which that local body was constituted. For this reason, even within the same state, different local bodies could have different composition of functions and resources. There was no assured uniformity in this matter even between similar local bodies.

This situation underwent a basis change with 73rd and 74th Amendments (year 1992, w.e.f.1993) of the Constitution. With these amendments, the states have come under a constitutional obligation to create a variety of local bodies, corresponding to population size, both for rural and urban areas. These bodies may be known by several alternative names. Thus the rural bodies may be referred to as ‘panchayats’ (and gram sabhas etc.) and urban bodies as ‘municipalities’ (also as nagar panchayats, municipal councils, and municipal corporations, etc.). The Amendments also apply to union territories (both with and without a Legislative Assembly). However, these amendments may be extended to these areas as well areas after a due legal procedure. The functions assigned to rural bodies are listed in Schedule XI and those assigned to urban bodies are listed in Schedule XII. These functions pertain to social, economic, educational and cultural uplift and consolidation. But the local bodies still continue to be creatures of states which determine their jurisdictions and assign subjects and resources to them out of the State List.
1.7 Constitutional Position

As there was no Constitutional obligation to have local bodies. The only rationale for their existence was the belief that they could improve the quality of such state services which were characterized by inter-local dissimilarity. Guided by this belief, the Centre had also constituted port trusts and cantonment boards etc. Similarly, the other forms of local authorities, though of great variety and importance, were created by the states on their own volition with specified respective territorial jurisdictions and with assigned functions and resources to them out the State List. There was no assured inter-state uniformity in such assigned resources and functions between local bodies of even the same type. In a union territory, local bodies derived their origin, functions and resources from the Centre.

The position after the above-mentioned 73rd and 74th Constitutional Amendments regarding LBs is as follows:

1.7.1 Obligatory Existence

Setting up of local bodies with specifically assigned subjects is now a Constitutional necessity, and they are now considered an essential form of local self government. Now, it is obligatory for each state to legislate for specified varieties of local bodies corresponding to the classification of local areas into villages, rural areas, areas in transition from rural to urban ones, and urban areas

1.7.2 Two Categories

The above-mentioned Amendments of the Constitution primarily provide for two main categories of local governments, namely,

- Rural local bodies (RLBs), and
- Urban local bodies (ULBs),

However, the nomenclature of local bodies is not a standard and clear one. Thus, local bodies for rural areas are variously referred to as gram sabhas (at the village level), and panchayats etc. for bigger areas. The ‘generic’ term for referring to such bodies is
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‘panchayats’ or panchayati raj institutions (PRIs) or rural local bodies (RLBs). Similarly, the generic name for local bodies for urban areas is ‘municipalities’ or urban local bodies (ULBs), though individually they are also known as panchayats, municipal committees, municipal councils, municipal corporations, etc. More specifically, there are three tiers of ‘primary rural institutes’ and three types of ‘urban local bodies’. In general, it is convenient to classify local bodies into RLBs and ULBs. In addition, other sub-state bodies like zilla parishads are also there.

1.8 Functions

The Constitutional Amendments incorporated two Schedules to the Constitution. Eleventh Schedule contains a subject list of 29 entries for rural bodies while Twelfth Schedule contains a subject list of 18 entries for urban bodies. Both subject lists relate to economic and social reconstruction and uplift including planning at the local level.

However, as yet, there is no legislation which specifically allocates functions out of these Schedules to individual tiers and kinds of LBs.

1.9 Resources

It is important to note that Schedules XI and XII do not contain subjects of ‘revenue resources’. Therefore, in effects, as before, for each specified category of local bodies, the state legislature is to assign functions and resources out of the State List and in conformity with the relevant Schedule (XIth or XIIth, as the case be). The financial resources of the local bodies may comprise

- Assigned taxes,
- Shared taxes,
- Grants,
- Loans, and
- Income from remunerative activities.
1.10 State Finance Commissions

There is a provision for a State Finance Commission (SFC) to be constituted in each state every fifth year to cover the following:

1. To review the financial position of the local authorities and recommend measures for improving it.

2. To make recommendations to the government of the state as to

(a) The principles which should govern

(i) The distribution between the state and local authorities of the net proceeds of the taxes, duties, tolls and fees leviable by the state, which may be divided between them;

(ii) The allocation between the local authorities of the collective shares of such proceeds;

(iii) The determination of taxes, tolls, duties and fees which may be assigned to, or appropriated by the local authorities;

(iv) Grants-in-aid to the local authorities from the consolidated fund of the state; and

(b) Any other matter referred to the Finance Commission by the government of the state in the interest of sound finance of the local authorities.

1.11 Resource Transfers from State Governments

Every state government is expected to

- assign some specific taxes, duties, tolls and fees to local bodies;
- share the net proceeds of some specified taxes, duties, tolls and fees to local bodies; and
- give grants to local bodies out of its Consolidated Fund.
1.12 Tax Revenue

The Scheduled Tax Rates framed under the Government of India Act, 1919 contained an exclusive list of taxes to be utilized by or for the local authorities. The Government of India Act, 1935 allocated every local tax to provincial governments. The same scheme was also incorporated in our Constitution whereby the tax resources are shared between the Centre and the states, and it is for the states to hand over specified tax resources to the local bodies out of their own list.

The Taxation Enquiry Commission. In early 1950s, the Taxation Enquiry Commission noted sorry state of affairs of local bodies and thought that the remedy lay in assigning them a definite tax spectrum consisting of the following six areas.

1. Taxes on advertisements. It can be a very lucrative source of revenue for many local bodies, depending upon their size and location. Places of tourist and religious gatherings, and towns and villages located on heavy traffic junctions and along national highways can exploit this source. But it is noteworthy that most local bodies are not in a position to exploit this source because of their location.

2. Octroi and terminal taxes. Octroi is a levy on goods which enter a local area for consumption, sale or use in production. A terminal tax, on the other hand, is a tax on goods which are in transit through the said area. It is therefore more appropriate to refer to it as a transit tax on goods. While there may be a provision for refund and remission of octroi in certain cases, terminal taxation does not admit of such exceptions. Octroi owes its origin in India to a regulation by the East India Company in 1805. The Taxation Enquiry Commission was aware of its socio-economic drawbacks. But it happened to be in the State List and the Commission recommended its reservation for local bodies with necessary improvements in its rate schedule and administration. However, octroi has been abolished in all states except Maharashtra.
3. Taxes on lands and buildings. These taxes are both in the nature of general taxes and service charges. For example, some municipal bodies charge for street lighting, scavenging, water supply etc. on the basis of houses and other property situated in the locality and the valuation thereof. In other cases, a straight tax is imposed, which may sometimes be converted into a family tax for administrative convenience. For example, a tax on a house property may be determined on the basis of its annual rental value on the assumption that it is a good indication of the relative paying capacity of the owner. The rates of these taxes are usually progressive.

4. Taxes on vehicles. The commission also recommended that taxes on vehicles other than those on motor vehicles should be reserved for the local bodies. This category includes taxes on hand-carts, animal-driven carts and other vehicles. Most local bodies are in fact imposing these taxes and in some cases they are also being assigned a share of the Motor Vehicles Tax. However, the potential revenue from this source is highly limited except in very big cities.

5. Taxes on animals and boats. Taxes on animals and boats were another category which the Taxation Enquiry Commission wanted to be reserved for the local bodies. However, the village panchayats usually find it difficult to levy a tax on animals because of its unpopularity. In urban municipal areas, of course, this tax is not met with any opposition. But shortage of space keeps the number of taxed animals low and, therefore, here also this tax does not bring a good amount of revenue.

6. Tax on professions.

The commission also recommended that taxes on professions, trades, callings and employments should be reserved for the local bodies. These taxes are basically for the state government and it is for them to assign them to the local authorities. On the whole, however, the total tax collections from this source are limited. In general, this tax, if imposed, should not be in a uniform basis since that would make it regressive. Instead,
it should be related to the income of the assessee subject to a limit laid down in the
Constitution.

7. Other taxes
A few move potential sources of tax revenue can be identified. They include a variety of
entertainment taxes including one on the use of TV. Some municipalities levy the-
bazari, that is, a tax on sellers in pavement markets, or on those who sell by hawking
their goods. The-bazari rates are sufficiently low for those who use pavements to sell
their wares, but they are slightly higher and are charged on monthly or annual basis from
those who have push carts.

1.13 Fiscal Decentralisation in Karnataka

Karnataka was created on November 1, 1956, with the passing of the State
Reorganization Act. Originally known as the State of Mysore, it was renamed Karnataka

The 73rd and 74th Constitutional Amendments Act, 1992 made it mandatory for the
States to enact new legislations for local self-governance by rural and urban local bodies.
Accordingly, in Karnataka also a new Karnataka Panchayat Raj Act, 1993 was enacted
replacing the Karnataka Zilla Parishads, Taluk Panchayat Samithis, Mandal Panchayats
and Nyaya Panchayat Act, 1983 for rural self-governance. Similarly, Karnataka
Municipal Corporations Act, 1976 for City Corporations and Karnataka Municipalities
Act, 1964 for other urban local bodies were suitably restructured for urban self-
governance.
1.14 Constitution of State Finance Commissions

Article 243(I) and Article 243(Y) of the Constitution of India envisages formation of State Finance Commissions at the expiration of every fifth year to review the financial position of the Panchayats and the Municipalities. Section 267 of the Karnataka Panchayat Act 1993, Section 503-C of the Karnataka Corporation Act (Amendment) 1994 and Section 302-B of the Karnataka Municipalities Act (Amendment) 1994 are the sections which stipulate for constitution of State Finance Commission in accordance with the provision of the 73rd and 74th Amendment to the Constitution of India.
As per the Constitutional obligation, Karnataka has regularly constituted State Finance Commissions to review the financial positions of the Panchayats and Municipalities. The First Commission was constituted in the year 1994 under the chairmanship of G.Thimmaiah, the Second Commission was constituted in the year 2000 under the chairmanship of K.P.Surendranath and the Third commission was constituted in the year 2006 under the chairmanship of A.G.Kodgi.

1.15 Recommendations of First SFC

The First SFC of Karnataka recommended transferring one consolidated share from the total Non-Loan Gross Own Revenue Receipts (NLGORR) of the State government to Panchayat Raj Institutions and Urban Local Bodies in Karnataka. The NLGORR of the State government includes all taxes, duties, fees, interest receipts and other non-loan non-tax receipts levied and collected by the State government. Although the term of reference to the Commission was specifically to suggest the principles governing the sharing of the net proceeds of the taxes, duties, tolls and fees and other revenues levied by the State Government, the First SFC decided to recommend a share in the NLGORR of the State Government, considering the practical difficulties in arriving at the net yield. The First SFC recommended that the total share of PRIs and ULBs out of NLGORR of the State Government should be 36 percent. Based on weightages fixed to the indicators, the Commission recommended that the share of PRIs should be 85 percent of 36 percent i.e., 30.60 percent of NLGORR and that of ULBs was 15 percent i.e., 5.40 percent NLGORR.
Table 1.1

Criteria and Weightages used by First SFC

<table>
<thead>
<tr>
<th>Criteria for PRIs</th>
<th>Weights</th>
<th>Criteria for ULBs</th>
<th>Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Proportion of rural population</td>
<td>23.03%</td>
<td>1. Proportion of urban population</td>
<td>10.30%</td>
</tr>
<tr>
<td>2. Proportion of rural area</td>
<td>32.59%</td>
<td>2. Proportion of urban area</td>
<td>0.74%</td>
</tr>
<tr>
<td>3. Road length per sq.km</td>
<td>8.34%</td>
<td>3. Road length per sq.km</td>
<td>2.78%</td>
</tr>
<tr>
<td>4. Illiteracy rate</td>
<td></td>
<td>4. Illiteracy</td>
<td>1.88%</td>
</tr>
<tr>
<td>5. No. of persons per hospital bed</td>
<td>20.34%</td>
<td>5. No. of persons per hospital bed</td>
<td></td>
</tr>
<tr>
<td>Total weight</td>
<td>84.30%</td>
<td>Total weight</td>
<td>15.70%</td>
</tr>
<tr>
<td>Rounded off to</td>
<td>85%</td>
<td>Rounded off to</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: Report of First State Finance Commission

The State Government accepted the recommendation regarding main devolution pattern suggested by the First SFC as per this order:

- The recommendations of First SFC regarding devolution of 36 percent of NLGorr to PRIs and ULBs came into force from the financial year 1998-99.
- The ratio of 15:85 inter-se devolution between ULBs and PRIs to be achieved by the year 2001-02.
- The year-wise devolution for ULBs was 1998-99=11%, 1999-2000=12.5%, 2000-01=14% and 2001-02=15%.
1.16 Recommendations of Second SFC:

The Second SFC retained the concept of NLGORR as the basis for devolution of funds to the PRIs and ULBs. Considering the fact that the State government had caused 39 plus percentage of devolution during the period from 1997-98 to 2001-02 to the PRIs and ULBs put together, it enhanced the share from 36 percent to 40 percent. The indicators and weightages were slightly modified and relative share of PRIs and ULBs was arrived at 80 and 20 percent respectively. In other words the share of Panchayat Raj Institutions was 32 percent and that of Urban Local Bodies was 8 percent of NLGORR.

Table 1.2
Criteria and Weightages used by Second SFC

<table>
<thead>
<tr>
<th>Criteria for PRIs</th>
<th>Weights</th>
<th>Criteria for ULBs</th>
<th>Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Proportion of rural population</td>
<td>19.81%</td>
<td>1. Proportion of urban population</td>
<td>10.19%</td>
</tr>
<tr>
<td>2. Proportion of rural area</td>
<td>29.33%</td>
<td>2. Proportion of urban area</td>
<td>0.67%</td>
</tr>
<tr>
<td>4. Proportion of rural illiterates</td>
<td>12.03%</td>
<td>4. Proportion of urban illiterates</td>
<td>2.97%</td>
</tr>
<tr>
<td>5. Ratio of rural population per hospital bed</td>
<td>7.50%</td>
<td>5. Ratio of urban population per hospital bed</td>
<td>2.50%</td>
</tr>
<tr>
<td>Total weight</td>
<td>80.42%</td>
<td>Total weight</td>
<td>19.58%</td>
</tr>
<tr>
<td><strong>Rounded off to</strong></td>
<td><strong>80%</strong></td>
<td><strong>Rounded off to</strong></td>
<td><strong>20%</strong></td>
</tr>
</tbody>
</table>

Source: Report of Second State Finance Commission

Recommendations of Second SFC regarding inter-se distribution of funds among ULBs were modified and a new formula has been introduced by the government. Later in June 2006, Government issued as per this order:

- The basis for devolution was altered to Non-Loan Net Own Revenue Receipts (NLNORR) instead of Non-Loan Gross Own Revenue Receipts (NLGORR).
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- As PRIs share in case Second SFC recommendations are accepted is likely to be lower than the current devolution, the formula proposed by the Second SFC is restricted to the ULBs share only.
- Here too, 20% share of ULBs should be achieved in a graduated fashion starting from 2005-06 financial years as was the decision on the First SFCs recommendations.
- The PRIs will continue to receive untied developmental grants at current levels subject to prompt clearance of user charges levied by public utilities.
- As the current levels of grants are much higher than that recommended by the Second SFC, no increases would be made for the Second SFC period and any incentivisation would have to be fashioned within the existing level of grants.

1.17 Recommendations of Third SFC

1.17.1 TSFC Adopts NLNORR concept:

The TSFC, taking cognizance of the mandate given and action taken by the State Government on the recommendations of SSFC, has decided to make recommendations based on Net Own Revenue Receipts of the State.

Thus, the relative shares of PRIs (Component-B) and ULBs (Component-C) would be in the ratio 70:30 out of 33 percent of Net Own Revenue Receipts of the state. In other words, 23 percent of Net Own Revenue Receipts of the State is the share of PRIs and 10 percent of Net Own Revenue Receipts of the state is the share of ULBs.
Table 1.3

Criteria and Weightages used by Third SFC

<table>
<thead>
<tr>
<th>Criteria for PRIs</th>
<th>Share of PRIs</th>
<th>Criteria for ULBs</th>
<th>Share of ULBs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Proportion of rural population</td>
<td>26.41</td>
<td>1. Proportion of urban population</td>
<td>13.59</td>
</tr>
<tr>
<td>2. Proportion of rural area</td>
<td>19.46</td>
<td>2. Proportion of urban area</td>
<td>0.54</td>
</tr>
<tr>
<td>4. Proportion of rural illiterates</td>
<td>8.00</td>
<td>4. Proportion of urban illiterates</td>
<td>2.00</td>
</tr>
<tr>
<td>5. Proportion of rural population per hospital bed</td>
<td>8.14</td>
<td>5. Ratio of urban population per hospital bed</td>
<td>1.86</td>
</tr>
<tr>
<td>6. Proportion Density in rural areas</td>
<td>0.51</td>
<td>6. Proportion Density in urban areas</td>
<td>9.49</td>
</tr>
<tr>
<td><strong>Total PRIs Share</strong></td>
<td><strong>70.28</strong></td>
<td><strong>Total ULBs Share</strong></td>
<td><strong>29.72</strong></td>
</tr>
<tr>
<td><strong>Rounded off to</strong></td>
<td><strong>70%</strong></td>
<td><strong>Rounded off to</strong></td>
<td><strong>30%</strong></td>
</tr>
</tbody>
</table>

Source: Report of Third State Finance Commission

1.17.2 An Appropriate Devolution Pattern:

The TSFC recommends a new pattern of devolution of finances to PRIs and ULBs. There are three main components in the scheme of devolution. The distinctiveness of each of the three components is as follows:

**Component A**: Comprises of salary of officials of various sectors/departments working in PRIs both under Plan and Non-plan.

**Component B**: Comprises of devolution of finances to the PRIs [Statutory and Incentive Grants to GPs and for implementation of programmes and schemes under Plan and Non-plan].
Component C: Comprises of devolution of finances to the ULBs [Global Protection, Global Provision and SFC grants].

1.17.3 Incentive Grant for Performance:

The TSFC strongly reiterates that an incentive scheme for GPs should also be drawn up based on their performance in fiscal responsibility and other functions. TSFC feels that the amount of reward should be attractive so as to create competitiveness among the GPs. The TSFC recommends that an amount of Rs. 3.00 lakhs should be given as 'incentive grant to a GP every year. The TSFC has identified the following parameters:

<table>
<thead>
<tr>
<th>SL. No.</th>
<th>Parameters</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Own Tax Mobilization</td>
<td>Collection of property tax should be 75% and above to the total demand for the financial year (arrears and current year's demand)</td>
</tr>
<tr>
<td>2</td>
<td>Collection of Water Rates</td>
<td>Collection of water rate should be 75% and above to the total demand (arrears and current year's demand)</td>
</tr>
<tr>
<td>3</td>
<td>Listing of Properties and Providing satisfactory Civic Amenities</td>
<td>All properties including illegal construction that are liable to be taxed as per KPR Act, 1993 should be listed and taken into ‘Demand Register’. Streetlights, Drinking Water supply and Drainage.</td>
</tr>
<tr>
<td>4</td>
<td>Extent of coverage of Sanitary facilities</td>
<td>10% of the households should be provided with sanitary latrines.</td>
</tr>
<tr>
<td>5</td>
<td>Computerization</td>
<td>Creation of Databank containing all details pertaining to activities of GP. Adoption of appropriate Software for proper monitoring. Creation of Website.</td>
</tr>
</tbody>
</table>

Source: Report of Third State Finance Commission
Introduction

The foregoing analysis shows that the local bodies play a very greater role of an ideal governmental structure. They provide a meaningful and responsible training ground for the citizens in the matters of political, social and economic rights and obligations. The 73rd and 74th constitutional amendments make the creation of local bodies. Before the 73rd and 74th amendments of the constitution, the constitution provided for only two levels of government, namely, at the centre and at the state levels. There was no specified allocation of functions and resources for local bodies. With these amendments, the states have come under a constitutional obligation to create a variety of local bodies, corresponding to population size, both for rural and urban areas. The functions assigned to rural bodies are listed in schedule XI and those assigned to urban bodies are listed in schedule XII. Schedule XI contains a subject list of 29 entries for rural local bodies while schedule XII contains a subject list of 18 entries for urban bodies. But these schedules do not contain subjects of revenue resources. Therefore, the state legislature is to assign functions and resources out of the State list. But local bodies still continue to be creatures of states which determine their jurisdictions and assign subjects and resources to them out of the state list.

With the objective of ensuring administrative and financial efficiency the constitution of India split the functions and financial powers of the government into three parts, namely, central, state and concurrent. Consequently, the centre was assigned resources and functions having national or interstate base while the states were assigned resources and functions which had local and regional character. The financial needs of LBs are increasing on account of widening and deepening of their functions while availability of financial resources to them is lagging behind. Further revenue resources of LBs are characteristically non-buoyant and inelastic. Most of the tax items assigned to the LBs are inelastic and unproductive and their base is very narrow. Out of many taxes assigned, it seems that except house tax all others are inelastic in nature. They have failed in optimal exploitation of property taxation and the Constitution prevents them from levying property tax on GOI property. Octroi has been abolished in all states except...
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Maharashtra. Though the local bodies were empowered to levy productive taxes like entertainment tax, motor vehicle tax and professional taxes, their powers have been taken over by the state government. Local bodies are not getting the shared taxes and assigned taxes in time. In view of this situation, the state government devolved large volume of grants to LBs. Further the incentive grant has been introduced to create competitiveness among the GPs and maximize their mobilization. Since the local governments provide many public services, it is possible to identify the benefits of various services such as electricity, water, garbage disposal, public transit and drainage system, it is possible to levy user charges on them.
References


