APPENDICES
APPENDIX - I

RECOMMENDATIONS OF THE FINANCE COMMISSION FOR ZILLA PARISHADS AND MANDAL PANCHAYATS - 1989

The Commission's recommendations are given below.

(1) Taking into account the growth of allocations in 1987-88, 1988-89, the allocation for 1989-90 and the capacity of the Zilla Parishads and Mandal Panchayats to spend, as reflected in the last two years' performance we feel that in the State Plan allocations, 12 per cent compound rate of growth should be provided for in the Eighth Plan period. This would give the following allocations:

(Rs. Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>270 (B.E)</td>
</tr>
<tr>
<td>1990-91</td>
<td>302</td>
</tr>
<tr>
<td>1991-92</td>
<td>338</td>
</tr>
<tr>
<td>1992-93</td>
<td>379</td>
</tr>
<tr>
<td>1993-94</td>
<td>425</td>
</tr>
<tr>
<td>1994-95</td>
<td>476</td>
</tr>
</tbody>
</table>

(2) As argued earlier, it is desirable to give the Zilla Parishads and Mandal Panchayats a sense of fiscal independence by assigning a part of tax revenue rather than by providing specific grants-in-aid from year to year. This will limit
the freedom of the State Government to adjust allocations to suit its fiscal requirements. The plan allocation to Zilla Parishads and Mandal Panchayats for 1989-90 works out to a little less than 20% of the revenue proposed to be collected from sales tax and State excise duties in that year. We recommend that in the next five years the same percentage of revenue from these two taxes should be allocated to the Zilla Parishad Plans. If these taxes grow at a compound rate of 12 per cent per annum the proposed share will amount to the allocations indicated above. Although growth rates of these tax revenues in the past have been higher we have made a conservative assumption because there are some doubts as to whether their growth will be equally high in the coming years. If the rate of growth turns out to be higher than 12 per cent, Zilla Parishads will naturally have larger resources at their disposal.

Non-plan expenditure has grown by six per cent between 1987-88 and 1989-90. We are keenly aware that administrative expenditure should not be allowed to grow in a resource-scarce situation. Nor do we want the high cost urban administrative structure to be replicated in the rural areas. But economy should not be practised at the expense of essential services. We therefore recommend that non-plan allocation should grow at the same rate in the coming years. The total allocations resulting from these recommendations are given below:
The Commission feels that such a transfer will not cast an unduly heavy burden on the finances of the State, particularly if some of the measures suggested earlier to improve State finances are taken immediately. Larger central transfers resulting from the award of the Ninth Finance Commission and an increased central plan outlay on certain rural development programmes in the next Plan should leave the State Government with a larger volume of resources for financing rural development. In view of the fact that rural development is a high priority programme covering 71 per cent of the State's population suitable adjustments in allocations to other sectors have to be made so that overall fiscal balance is maintained.

The proposed increases in allocation should by and large satisfy the growing demand for resources. Since the Central Plan is bound to provide a larger volume of resources in areas like poverty alleviation, employment generation, SC/ST Welfare the State Government will be in a position to buttress
expenditure in the Zilla Parishad Plan in these areas as well as provide more resources for preferred areas like primary education, public health, roads and bridges, water supply, animal husbandry etc.

(5) Zilla Parishads have represented about the inadequacy of the per capita grant to cover administrative costs. Mandals have stated that they do not have enough resources for spending on development schemes which they consider desirable. We, therefore recommend that the per capita grant should be raised to Rs.15/- from 1989-90 itself. The Mandals should get Rs.10/- out of this and the Zilla Parishads Rs.5/-. This would enable the Mandals to have some untied funds for expenditure on schemes which they consider desirable. The smaller Zilla Parishads will have enough money to cover their administrative expenditure; the larger ones will have more untied resources to cover discretionary development.

(6) The Government have allocated Rs.2.87 crores in 1989-90 under the District Sub-plan as discretionary development outlay on items not in the approved Zilla Parishad Plan. We recommend that this should be raised to Rs.4 crores in 1989-90, Rs.6 crores in 1990-91, Rs.8 crores in 1991-92, Rs.10 crores in 1992-93, Rs.12.5 crores in 1993-94 and Rs.15 crores in 1994-95.
(7) As the Zilla Parishad administration system has been newly set up it is important that they settle down to development work in allmost. In the first two years they have done reasonably well despite the restrictions on spending imposed by the rules and regulations and ad-hoc orders issued by government from time to time. Now that they have found their feet it is important that they address themselves fully to the task of development rather than divert their energies to the problems of tax collection. The recommendations made above will provide them with enough resources which a tax system would have provided. Therefore no specific recommendation about taxation powers to them is made.

(8) We recommend that the departmental receipts collected in the area of the Mandal Panchayats should be made over to them. This will fetch them around Rs.10 crores per annum. They should however maintain these assets.

(9) We have explained earlier as to how not much effort is put into collection of taxes which the Mandals have power to levy, in particular the tax on buildings. To encourage them to do so we recommend that a matching grant of 1 to 1 should be given to all the Mandals which revise the rate to the ceiling provided in the Act and collect at least 80s of the total assessment.
We estimate that the burden of this matching grant will not exceed Rs. 5 crores per annum. This additional income and the receipts from increased per capita grant and departmental receipts should give the Mandals enough funds to undertake preferred developmental works and essential maintenance and repairs.

(10) The formula for distributing plan resources to Mandals need not be disturbed for the present. The formula for Zilla Parishads should be modified to include the concept of "distance" from the best performer in selected areas such as primary education, water supply, public health and animal husbandry as explained earlier.

(11) The peculiar financial situation faced by the Interim Mandal Panchayats should be looked into by the Government with a view to providing relief from the high cost administrative structure they have inherited and also to bringing them on a par with the set-up in other Mandals.

(12) The staff at the Mandal Panchayat level needs to be strengthened by rationalising the existing personnel structure in the departments and the Zilla Parishads in order to enable them to collect and use the resources effectively and perform their functions adequately.
(13) The built-in restrictions in the Rules and regulations which come in the way of effective spending should be removed since the Zilla Parishads and Mandal Panchayats have acquired expertise in operating the system. The Rules governing receipts and expenditure should on the whole be simplified.

(14) Repairs and maintenance of existing assets, particularly primary schools, health centres and roads and culverts, should have a high priority. In view of the obvious difficulty of creating new assets, we recommend that specific allotments for this purpose should be provided to them after a careful study and assessment of the work to be done within a time bound programme.

(15) The existing delegation of powers to Zilla Parishads and Mandal Panchayats—administrative, technical and financial—should be reviewed with a view to enabling them to perform the tasks assigned to them more effectively and in conformity with the provisions of the Act. This assumes greater importance and urgency in view of the larger resources that will be at their disposal in future.

(16) As Mandal Panchayats face difficulties in operating their financial transactions through the Treasury System we recommend that they should have the freedom to open an account with a
commercial bank nearby, with the permission of the Government as provided in the Act., for limited transactions.

(17) In the absence of precise data and information about loans and advances taken over by the Zilla Parishads and Mandal Panchayats from the predecessor bodies the Commission could not analyse them and make a recommendation. We therefore suggest that a detailed study may be made by the Zilla Parishads and Mandal Panchayats with a view to devising ways and means of future amortisation arrangements.

(18) As no specific powers of taxation are vested in the Zilla Parishads for raising additional resources, the Commission recommends that they should be permitted to create income earning assets and set up enterprises through bank loans guaranteed by Government as provided in the Act.

(19) The need for the creation of new capital assets in Zilla Parishads and Mandal Panchayats such as buildings, tools and equipment, vehicles etc., for essential services will have to be met out of ad hoc capital grants provided by the State Government. The resources for this purpose will increase substantially if the Ninth Finance Commission accepts the strong submission made by the State Government in this regard.