

CHAPTER - 5

RESOURCES OF RURAL LOCAL BODIES

PANCHAYAT UNIONS

2.5.1. The structure and the duties and responsibilities allocated to the Panchayat Unions are dealt with in detail under Part IV "Streamlining the Delivery Mechanism". The revenues available to the Panchayat Unions can be broadly classified under

1. Own Taxes
2. Assigned/Shared revenues
3. Grants (Statutory and Non-statutory) and
4. Other Miscellaneous Revenues.

They are discussed in detail hereunder:

2.5.2. 1. **Own Taxes:** The only source of Own Tax relevant to PUs is Local Cess Surcharge. Section 168 of the Tamil Nadu Panchayats Act, 1994 empowers the Panchayat Unions to levy LCS at a minimum of Rs.5 and a maximum of Rs.10 on every rupee of land revenue. This is in addition to the Local Cess levied by the Government under Section 167 of the said Act. Under the Tamil Nadu Panchayats Act, 1958, the maximum levy of LCS was Rs.2.50 and it was enhanced in 1992 to Rs.5 (minimum) and Rs.10/- (maximum) and all the Panchayat Unions have switched over to the minimum rate of Rs.5/- from the year 1992.

2.5.3. Damodaran Committee (1990) which examined the question of enhancement of LCS had recommended only a maximum of Rs.3.50. In view of the higher rates now adopted, the potential for levy under this taxation has increased. The following figures of realisation under this source will indicate the growth of revenue:

Table - 2.42 Panchayat Unions - Own Tax Revenues

Year	Income (Rs.in crores)	Per capita (in rupees)	Percentage to total income
1989-90	12.86	3.96	6.26
1990-91	15.18	4.67	6.08
1991-92	9.55	2.94	3.65
1992-93	15.46	4.76	5.21
1993-94	21.24	6.53	5.48

2.5.4. Though the rate has been revised from 1993-94, the impact has not been fully reflected in 1993-94. The per capita income was Rs.2.15 in 1988-89; it has increased to Rs.3.96 in 1989-90 and to Rs.6.53 in 1993-94. The average per capita income worked out to Rs.4.57. This income contributed roughly 5 to 6 % of the total income of Panchayat Unions. The income exhibited in the Panchayat Union accounts does not reflect the actual collection but only the adjustments made out of the collection. Though the levy is made by Panchayat Unions, the collection is done by the Revenue Department.

2.5.5. A system of provisional advance payment and final adjustment after the Jamabandhi is in vogue for this purpose. Considerable delay is noticed in adjustments as could be seen from the figures given below and this has been pointed out even by Damodaran Committee (1990).

Table 2.43 Panchayat Unions - Adjustment of LC and LCS

Year	Collection of Land Revenue as per Govt. Accounts	LC and LCS due for adjustment *	Amount actually adjusted as per Accounts
		(Rs. in crores)	
1990-91	24.83	18.54	4.28
1991-92	27.64	20.64	2.44
1992-93	25.41	18.97	12.03
1993-94	43.13	32.21	9.73
1994-95	36.68	27.93	12.76

(* Worked out on the basis of G.O.Ms.No.836,RD & LA, dated: 7.6.82.)

2.5.6. This could be avoided by simplifying the procedure which has been discussed in subsequent paragraphs. The per capita income derived out of this source by Panchayat Unions category-wise is given below:

Table 2.44 Panchayat Unions - Per capita Income from LCS - Categorywise

Category	Per capita income in Rupees
I	13.06
II	6.78
III	5.38
IV	4.02
V	4.05
VI	2.77

There is wide variation among the income derived in Category I and other categories. Panchayat Unions having more than Rs.4 per capita of land revenue are classified as Category I and they comprise mostly of wet lands.

2.5.7. There is also wide variation among the Panchayat Unions within the same Category also. The potential of Panchayat Unions varies and hence equal realisation out of this tax is not possible. This is evident from the figures given under Maximum and Minimum per capita realisation under each category indicated below:

Table 2.45 Panchayat Unions - Measures of Variations in Per Capita Own Tax: Category-wise (In Rupees)

Measures/Category	Catgry.I	Catgry.II	Catgry.III	Catgry.IV	Catgry.V	Catgry.VI
Per capita Own Tax						
Revenue:Mean	13.06	6.78	5.38	4.02	4.05	2.77
Standard Deviation	12.60	6.69	4.60	3.81	6.27	2.61
Minimum	0.16	-1.15	0.00	0.00	0.00	0.00
Maximum	60.40	30.85	24.77	35.63	38.88	13.65
Coef. of Variation	96.48	98.67	85.50	94.78	154.81	94.22
PU>= Average	11	17	25	52	12	24

2.5.8. The categorisation of PUs based on per capita land revenue was introduced right from the inception (initially with four Categories and later on, with six Categories) to equalise the imbalances through higher Government assistance to the PUs in the lower Categories. In this context a matching-cum-incentive grant was introduced to enable the Panchayat Unions to levy a higher rate between the minimum and the maximum rates prescribed, and realise additional income by way of matching grant. The percentage of matching grant was related to rate of levy and collection. This aspect is discussed in more detail under "Grants".

2.5.9. Suggestions to increase the minimum to Rs.10 and the maximum to Rs.20 under LCS were made to State Finance Commission. The impact of levy of cess and surcharge over the land revenue on the agriculturists has been discussed in earlier Reports and in a more detailed manner by Damodaran Committee (1990). The land revenue is unpredictable and the collection of basic Land Revenue remains at Rs.5 to 6 crores for many decades. The successive governments have not considered any revision of land revenue. The collection of land revenue is often affected due to adverse seasonal conditions. The acceptability for this increase is very remote, especially when the policy of the Government is to give more relief and aids to agriculturists even at the existing level of taxation by way of subsidies. The SFC recommends to continue the existing minimum and maximum prescribed in the TNP Act 1994.

Existing Procedure for adjustment:

2.5.10. Further, the term "Land Revenue" covers a wide variety of assessments on land and under this head, the Revenue Department collects basic Land Revenue, water charges, additional water charges, miscellaneous revenues like penalty, encroachment fees and other items classified by the department. But the LC and LCS could be levied only on the basic Land Revenue. The maintenance of accounts for the demand and collection of LC and LCS is subject to the classification of components liable for LC and LCS by Revenue Department from time to time. The demand raised against the assessee is for one lump sum consisting of various components explained above. The collection made against the lump sum demand will have to be proportionately accounted for against each of the components included therein. The figures of collection will again depend upon the figures to be furnished by the Revenue officials at the Village and Taluk levels, after settlement in Jamabandhi. Thus the present system involves reference to Village and Taluk level accounts to ascertain the figures. The local bodies are not aware of either demand or the collection relating to LC and LCS and they have to depend only on the adjustments effected by the Department at the appropriate time as prescribed under the rules and executive instructions. The delay in adjustment referred to earlier in para 2.5.5. can be attributed to the delay in administration in the finalisation of the accounts and arriving at the amounts realised under the various components. At the inception of Panchayat Unions, to ensure predictability of income, a system of advance payment based on the average settled land revenue based on previous three normal Faslis (years) was adopted. It was expected that the average demand will take care of vagaries of monsoon and other adverse seasonal conditions. Even to ascertain the average for a particular year, there was difficulty for Development Department due to non-availability of figures of basic Land Revenue

Revised Procedure for Adjustment:

2.5.11. Damodaran Committee (1990) collected the figures of land revenue from the Collectors of Districts but found them to vary very widely with the expected State figures of Basic Land Revenue between Rs. 5 and 6 crores. With the help of the Commissioner of Revenue Administration, the figures were reconciled and the figures of land revenue so arrived at were utilised for the re-classification of Panchayat Unions. Adjustments based on the figures to be ascertained from the Revenue officials have caused considerable administrative delay. The system needs simplification to ensure predictability and easy adjustment. As the basic land revenue has not undergone any perceptible change for many years, an average land revenue can be arrived at, once in five years, and the said average land revenue could be adopted as the basis for all assignments and grants released during the course of 5 years without any relation to demand and collection. The average land revenue now worked out by the State Finance Commission for the purpose of arriving at revised classification of the blocks can be the basis for adjustments for the next five years. Certain reductions can be allowed to cover the deficiencies in collection which is very much fluctuating among the Districts. The

Government can decide to release 85 or 90% on the basis of the above mentioned average demand, without any further need for adjustment based on actual collections every year. Such a system will ensure regular adjustment of the revenues from the Government account to the Panchayat Unions. The collection officials could also be motivated to ensure that the actual collections do not fall below 85 or 90%. Similar suggestions were made by Damodaran Committee also in 1990.

2.5.12. Whenever there is waiver of land revenue on account of adverse seasonal conditions the local bodies are being requested to waive LC and LCS. In principle the Government have agreed that Panchayat Unions will be given compensation for such losses. The system of compensation has so far helped one or two districts, and that too, not in all the years of waiver. No compensation appears to have been made regularly all these years. If this only source of tax available to Panchayat Unions is also linked with land revenue for waiver, it will create total financial imbalance. Though there is force in giving remission to agriculturists, in view of the peculiar position of the local bodies, the loss due to the waiver should not be passed on to the local bodies.

2.5.13. The LCS should be credited to general funds only as required in the Act Provisions. The executive instructions directing remittance to education fund account may be withdrawn since there is no need for a separate Education account as at present. The maintenance of school building could be made compulsory by allocating a minimum percentage of its general revenue towards that.

2.5.14. A regular systematic review of adjustment of Revenues to Panchayat Unions by higher authorities viz., collectors/CRA may also be adopted to minimise delays at lower levels.

Alternative for Linkage to Land Revenue:

2.5.15. Damodaran Committee (1990) examined the question whether the linkage of land revenue for levy of LC and LCS could be eliminated and whether the levy can be made on the land holding instead of as a cess on the land revenue. This could not be examined in detail because of the necessity to study the possible impact of the levy on the land holdings as well as on the local bodies. This will also have to depend only on the revenue officials at the village level for the particulars and to update it every year. However, it will be equally difficult as in the case of land revenue, in view of the fact that the levy will be based on the area of holdings and the nature of land covered without requiring calculation over the various components of Land Revenue. SFC considers that no other alternative for linkage is available except the one indicated above. This needs detailed study after the collection of data relating to Land holdings from Revenue Department. The SFC recommends for further study on this aspect.

2.5.16. Recommendations

The SFC recommends the following:

1. The continuance of the rate of LCS now in force and that the PUs may be encouraged to avail the provision to the maximum extent possible.
2. Adoption of the following procedure for adjustment of the revenue to Panchayat Unions: To avoid delays involved in identifying the demand and collection under LC/LCS from Taluk Accounts in view of the combined levy of LR consisting of all items defined as LR like Water Cess, Penalties, Encroachment fees etc., the revised procedure may be adopted for easy adjustment of revenue under LC/LCS. The basic land revenue has not undergone any perceptible change for many years. An average land revenue can be arrived at, once in five years, The Local Cess Surcharge could be arrived at on the average LR and adopted as the basis for the assignment of LCS to be released during the course of next 5 years It need not be related to demand and actual collection. The average land revenue now worked out by the SFC for the purpose of arriving at Revised classification of the blocks can be the basis for adjustments for the next five years. Reductions can however be allowed to cover the deficiencies in collection. The Government can therefore decide to release 85 or 90% of the LCS arrived at on the basis of Average L.R. demand. There is no need for any adjustments based on actual collections every year. 10 or 15% reduction allowed on average demand may be retained by Government to compensate the fluctuation in the figures. This will ensure regular adjustment of the revenues from the Government account to the Panchayat Unions. The collection officials could also be motivated to ensure that collection does not fall below 85 or 90%.
3. While remission or waiver is given to agriculturists, under LR in view of the special condition, the loss due to such waiver/remission of LR should not affect the LC & LCS payable to Local Body. If however Government needs waiver of LC & LCS also government should pay the full amount due as compensation to Panchayat Unions.
4. The LCS should be credited to General Funds only as envisaged under the Act. The executive instructions directing remittance to "Education fund account" may be withdrawn since there is no need for a separate "Education fund account" in Panchayat Unions as at present. The maintenance of school buildings could be ensured from the General Fund itself.

5. A regular monthly review of adjustment of the revenues to PUs by revenue authorities may also be prescribed at District and State levels to minimise abnormal delays now noticed at lower levels.
6. Alternative suggestion to link the levy to land holdings instead of on Land Revenue may be studied further.

Land Revenue Reform:

2.5.17. Some reforms on the basis of levy of land revenue were suggested to SFC. This study is beyond the purview of the SFC. However, SFC considers that suggestion may be brought to notice of the Government. The suggestions are based on the presumptive levy on agricultural income at current day yield and basic floor rates for crops specific levy.

ASSIGNED / SHARED REVENUE

2.5.18. The following are available to Panchayat Unions as assigned/shared revenues:

1. Local cess under sec. 167 of the Tamil Nadu Panchayats Act.
2. Entertainment Tax levied under the Tamil Nadu Entertainments Tax Act.
3. Seigniorage fees collected by the Geology and Mines Department on minor minerals in the areas of the local bodies concerned.

The income from the above sources in the last 5 years as obtained by SFC is given hereunder.

Table 2.46 Panchayat Unions - Income from Assigned/Shared Revenues by Sources
(Amount Rs.in crores)

TAX YEAR	LOCAL CESS		ENTERTAIN- MENT TAX		MINES & MINERALS		TOTAL	
	Amount	%	Amount	%	Amount	%	Amount	Percapita (In Rs)
1989-90	1.87	28.48	4.50	68.73	0.18	2.79	6.55	2.02
1990-91	3.12	35.55	5.05	57.53	0.61	6.92	8.78	2.70
1991-92	1.71	24.36	4.67	66.68	0.63	8.96	7.01	2.16
1992-93	2.76	32.84	5.04	59.93	0.61	7.23	8.41	2.59
1993-94	3.74	38.59	5.36	55.20	0.60	6.20	9.70	2.99
5years Average	2.64	32.63	4.92	60.87	0.53	6.50	8.09	2.49

2.5.19. The per capita average income from Assigned / Shared Revenues category wise and the variation in realisation observed within each category could be seen below:

Table 2.47 Panchayat Unions - Measures of Variations in Per Capita shared Revenue Category wise 1993-94 (Per Capita in Rs.)

Measures	Catgry.I	Catgry.II	Catgry.III	Catgry.IV	Catgry.V	Catgry.VI
Per Capita Shared Revenue:Mean	4.98	3.12	2.96	1.96	2.29	3.10
Standard Deviation	6.90	2.48	2.38	1.67	3.54	3.61
Minimum	0.26	0.00	0.39	0.00	0.00	0.00
Maximum	36.72	12.73	10.38	12.40	24.54	21.66
Coef.of variation	138.55	79.49	80.41	85.20	154.59	116.45
PUs>=Average	9	14	21	51	10	20

2.5.20. The details of the revenues are examined below:

1. LOCAL CESS: Local Cess was levied at 45 Paise per rupee of land revenue under the Tamil Nadu Panchayats Act 1958. This levy was a combination of various cesses collected at the time of the abolition of the District Boards and the creation of Panchayat Unions. Since the rate was in force for decades, Damodaran Committee (1990) suggested an increase from 45 Paise to Re.1 per rupee of land revenue. The Government have amended the Tamil Nadu Panchayats Act 1958 suitably in 1992 and have increased the levy to Re.1/- per rupee of land revenue. The Tamil Nadu Panchayats Act, 1958 envisaged the distribution of 45 Paise collected as below:

- i. 4/9th of local cess to Elementary Education account of PUs.
- ii. 2/9th of local cess collected in Town Panchayat areas to the concerned Town Panchayats.
- iii. Not less than 20 Paise per capita to Village Panchayats.
- iv. Balance to the General Fund of Panchayat Unions.

The amended Act 1992 and rules issued in G.O.Ms.No.106, R.D., Dated: 20.5.93 provided for a specific method of distribution as below:

- i. 20% to Education Account
- ii. 75% of proceeds in Village and Town Panchayats to the respective panchayats
- iii. 5% to Panchayat Unions

2.5.21. However the new Act of 1994 has indicated an enabling provision to ensure that 20% of the proceeds to be transferred to Education account and the balance to be credited to Panchayat Unions. Under the enabling provision in section 169 of the Act, suitable rules have to be issued for adjustment of this amount to Village Panchayats, Panchayat Union Councils, and District Panchayats. No rules have been issued so far. No amount is collectable and transferable to Town Panchayats under the new Act of 1994 as they have been taken out of Panchayat Development area. The distribution to village panchayats and Education Account is continued on the basis of earlier amended enactment of 1992 pending issue of rules under the Tamil Nadu Panchayats Act 1994. Section 169 also contains an enabling provision for deduction of expenses incurred by the Government in the collection of the cess but no deduction has been given effect to. According to the rules, now in force the Panchayat Unions are eligible to retain 25% including the distribution to Elementary Education Account of 20%. This would mean that out of one rupee collected, Panchayat Unions will be eligible to keep 25 Paise including the education account while the Panchayats will get 75 Paise. The total income from this source to Panchayat Unions works out to less than about Re.0.50 per capita and average per Panchayat Union works out to about Rs.0.35.

2.5.22. The apportionment among the Panchayats and Panchayat Unions was previously prescribed based on proportion of cess levied by the then District Boards, Village Panchayats and by Government under Elementary Education Act. The Panchayat Unions were levying LCS only at 25 Paise then, which was later on raised with a ceiling of Rs.2.50. Now a minimum of Rs. 5 and a maximum of Rs.10 have been prescribed under LCS and all Panchayat Unions have levied the minimum of Rs.5. Thereby the income of Panchayat Unions has doubled. The LCS Matching Grant will also bring additional income. Except for maintenance of Elementary Education buildings, there is no other function necessitating the maintenance of a separate Education Fund with 20% distribution. This maintenance aspect could be taken care of by Panchayat Unions from their General Fund.

2.5.23. The SFC considers different options for adjustment of LC in future as below:

- i. the entire LC could be passed on to Village Panchayats, in view of the sizable increase of income under LCS to Panchayat Unions.
- ii. The apportionment of the 25% LC available to Panchayat Unions in each District to the District Panchayats concerned.
- iii. 25% of LC available to Panchayat Unions may be pooled at State level for distribution to District Panchayats on a formula basis.

2.5.24. The difficulties relating to levy demand, collection and adjustment explained earlier in respect of LCS equally applies to Local Cess also, since the figures have to be obtained only from the Revenue officials. Suggestions made by SFC for easy

and regular adjustment of LCS based on average Land Revenue may be adopted for this levy also. Local Cess due to Village Panchayats may be directly credited to VPC fund instead of routing through Panchayat Union general fund to avoid delay in adjustment.

2.5.25. Recommendations

The SFC recommends the following options for apportionment of Local Cess:

- 1.i. The entire LC may be passed on to Village Panchayats. in view of the sizable increase of income under LCS to Panchayat Unions.
 - ii. Apportionment of 25% Local Cess due to Panchayat Unions in the District to the concerned District Panchayats.
 - iii. 25 % of L.C.available to Panchayat Unions may be pooled at State Level for distribution to District Panchayats on a formula basis.
2. Recommendations made by SFC for easy and regular adjustment of LCS based on average land revenue demand may be adopted for LC also.
 3. Local Cess due to Village Panchayats may be directly credited to VPC Fund instead of routing through Panchayat Union General Fund to avoid delay in adjustment.

Entertainments Tax:

2.5.26. i. The Government allocates 60% of Entertainment tax collection in Panchayat Union areas to the Panchayat Unions, of which 30% is to be adjusted to the concerned Village Panchayat where the theatre is located. Representations were made during Conferences and District Sittings that the share due to local bodies may be increased to 90%. At the same time, there was also a plea that the share of Village Panchayats should also be increased. In this context, the origin for the sharing has to be considered. Proceeds of Entertainments Tax was earmarked to Village Panchayats. The Panchayat Unions were permitted to levy Surcharge on Entertainments and Show Taxes under the Local Authorities Finances Act, 1961 and this portion of amount was due to Panchayat Unions. An additional surcharge on Entertainments Tax and Show Tax was levied by the Government to be retained by the Government. While compounding all the components, the share due to the various agencies was reported to have been fixed on the basis of the income then derived in the ratio of 40:30:30. This would mean that 40% of the collections went to the Government inclusive of 10% collection charges normally retained, while 30% went to Panchayats and another 30% went to Panchayat Unions. The legitimate claim of the Panchayat Unions for a share in the compounded tax is to spread the tax benefit to the entire area of Panchayat Unions. In the circumstances,

there is no justification for altering the present sharing pattern between Panchayats and Panchayat Unions in relation to this revenue especially when the Panchayat Unions do not have any other source to depend. This being a local taxation earmarked by Local Finance Taxation Enquiry Commission 1953-54, the retaining of a share to the Government may not be fair and the total revenue can be passed on to the local bodies, in which case the revenue can be divided between the Panchayat Unions and Panchayats in the ratio of 30:70.

Procedure for Adjustment:

ii. During the discussions with officials of the Commercial Taxes Department it was understood that delay in adjustment to local bodies was due to constraints in budget allocations since this apportionment is regulated by budget allocation under "Compensation and assignments". In the case of LCS, Surcharge on Stamp duty, Mines and minerals, the apportionment due to Local Bodies is exhibited as "Deduct Refunds" under the respective Revenue Head. Similarly the apportionment due to Local bodies under this revenue may also be exhibited as "Deduct Refunds" under the revenue head relating to Entertainment Tax which will facilitate adjustment without budget allocation This being the revenue due to Local body it should not get into State Taxes. There can be no objection to this procedure, since similar procedure is already in vogue in respect of other assigned revenues payable to Local Bodies.

iii. The amount due to Village Panchayats/ Panchayat Unions can be credited direct to /V.P.C./Panchayat Union General funds separately instead of adjusting the total amount to General fund of Panchayat Unions to avoid delay in adjustment to Village Panchayats.

2.5.27. Recommendations

1. The SFC considers that there is no justification for altering the present sharing pattern between Panchayats and Panchayat Unions.
2. This tax has been earmarked as a local taxation by Local Finance taxation Enquiry Commission 1954, and the total revenue can be passed on to the local bodies as already recommended under "Municipal Corporations". In such a case, the revenue can be divided between the Panchayat Unions and the Village Panchayats in the ratio of 30:70.
3. The SFC recommends that the constraints in budgetary allocation for adjustment of ET can be avoided in the following manner:

This apportionment may be exhibited under "Deduct Refunds" in the State Revenue Budget under the respective revenue head as adopted in the case of all other assigned revenues like LC, LCS, Surcharge on Stamp Duty and Mines and Minerals. The

SFC recommends that the amount due to Village Panchayats/ PUs may be credited direct to VPC Fund/ General Fund of PU instead of routing the entire amount through General Fund of Panchayat Union to avoid delay in adjustment to VPs.

Mines and Minerals:

2.5.28. Leasing of minor minerals is done by State Government, while the major minerals are controlled by the Central Government. In the case of minor minerals, leases are granted through tender/auction system by the officials of the Revenue Department. Minor minerals generally consist of sand, clay, quarries of metal jellies and black granite. The amount realised by tender/auction is earmarked for being entirely passed on to Panchayat Unions for sharing between Panchayat Unions and Panchayats at the ratio of 50:50.

2.5.29. During the discussion with the Department of Geology and Mines, it was understood that annually about Rs.30 crores are collected for minor minerals, excluding granite and another sum of Rs.30 crores towards black granite. Collection from black granite has not yet been distributed to local bodies, pending determination of method of distribution benefiting place of origin and others. The other Rs.30 crores are stated to be distributed as per orders issued in G.O.Ms.No.170, RD & LA, Dated 6.3.89. But, on a perusal of the figures of adjustment made during the years 1991-92 to 1994-95 in the State Accounts and also with reference to figures furnished by local bodies, not more than Rs.2 crores have been adjusted in any one year as against the amount of Rs.30 crores due to the local bodies. This could be seen from the figures given below:

Table 2.48 Panchayat Unions - Mines and Minerals - Adjustment Details
(Rs. in Crores)

	Revenues as per Govt. Acts	Adjustment as per Govt. Acts
1990-91	66.62	2.00
1991-92	24.65	0.72
1992-93	62.82	0.65
1993-94	53.36	1.32
1994-95	63.12	0.55

2.5.30. Prior to 1989 there was difficulty in adjustment due to procedural changes indicated in G.O.Ms.No.834, RD & LA, dated 7.6.82 and it has already been sorted out in G.O.Ms.No.170, RD & LA Dated 6.3.89. Still there seems to be inordinate delay in adjustment of huge amounts. The amount has to be adjusted only at the District level by the Assistant Director of Mines in the Collectorate with the sanction of the Collector concerned and there are no budget constraints. This income will form a major revenue to the local bodies. The arrears adjustable to local bodies will be on an average more than Rs. 25 crores per year which will amount to more than Rs.125 crores over the

period of last five years. The SFC considers that the arrears due could be adjusted immediately by District Officials. The simplification of procedure is needed to avoid such delays.

Simplification of Procedure:

2.5.31. The Departmental Representatives have, during the discussion with SFC, have indicated that there will be no difficulty in adjusting the amount directly when the leases are finalised, normally in the month of June of every year. The Collectors should ensure adjustments of amounts in respect of all those cases where confirmation is ordered, immediately after such confirmation of leases. This could be achieved by including a condition in the orders to be issued confirming the leases, directing the party concerned to make simultaneous remittance of the amount in the local body (Panchayat Union Council) and produce receipts before issue of permission to quarry. The local Presidents and Block Development Officers may also be permitted to supervise the quarrying according to licence / permit and bring to notice the excess exploitation, if any.

2.5.32. The adjustment of income from this source should be made available to LB concerned whether it is Rural or Urban. Regarding Granites there have been representations that though large money is realised by way of exports the local body is not benefited in any way. The revenue collected from Granite appears to be too low compared to its marketing potential and the Government may fix higher rates taking export potential. The amount may be distributed to local bodies of origin (whether Rural or Urban) at 50% and 50% may be retained at State as divisible incentive fund for Distribution on the principles evolved by SFC. In the case of major minerals, 25% of the Royalty received by the State Government may be assigned to the Local bodies. Of this, 50% may be adjusted to local body of origin and the balance taken to the incentive fund at State level for distribution.

2.5.33. Recommendations

The SFC recommends the following:

- 1.** Avoidable delay in adjustment of Revenue to Local Body has been noticed for many years. The revenue has to be adjusted only at the district level by the Assistant Director of Mines in the Collectorate with the sanction of the Collector. There are no budget constraints. This income is one of the major revenue to the local bodies. The arrears adjustable to Local Bodies will be on an average more than Rs.25 crores per year. This will amount to more than Rs.125 crores over a period of the last five years. The arrears may be released immediately to Local Bodies concerned by District Officials.
- 2.** The following simplified procedure to ensure prompt adjustment to Local Bodies:

2.5.34. The Collectors could ensure adjustments immediately after confirmation of leases in respect of all those cases where confirmation is ordered. Orders to be issued confirming the leases may simultaneously direct the party concerned to remit the amount finalised in the local body concerned (PUC) and produce the receipt before issue of permission to quarry. The Local Presidents and Block Development Officers may also be permitted to supervise the quarrying according to licence or permit and bring to notice the excess exploitation, if any. The revenue collected on granite appears to be very low compared to its export potentiality.. The rates may be enhanced. The amount due on granites may be distributed to Local Bodies of Origin at 50 % and the balance of 50 % may be pooled at State level and taken to incentive fund for distribution on the principles evolved by SFC. The respective administrative Heads will distribute to the Local Bodies this amount. In the case of major minerals, 25 % share of the royalty received by the State Government should be assigned to the local bodies. Of this, 50 % may be adjusted to local body of origin and the balance taken to the incentive fund as mentioned earlier.

Non Tax Revenues:

2.5.35. This source contributes 5 to 7% of the total income and it works out to Rs.5 to Rs.7 per capita. The details of item wise Receipt for five years are furnished hereunder.

Table 2.49 Panchayat Unions - Non-Tax Revenues (Amount Rs.in crores)

	Per capita in Rs.									
	1989-90		1990-91		1991-92		1992-93		1993-94	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1.Fees & fairs	3.68	24.55	3.86	23.47	4.38	23.92	4.88	24.21	5.65	25.39
2.Receipt from properties	3.20	21.32	4.41	26.82	3.92	21.37	5.66	28.09	5.16	23.19
3.Receipt from Special services	1.16	7.76	1.07	6.53	1.85	10.09	1.69	8.36	1.51	6.76
4.Other Miscellaneous Revenues	6.96	46.37	7.10	43.18	8.17	44.62	7.94	39.34	9.94	44.66
Total	15.00	100.00	16.44	100.00	18.32	100.00	20.17	100.00	22.26	100.00
Percapita Total income	4.62		5.06		5.64		6.21		6.85	

Most of the Non-Tax revenues in Rural areas relate to the Panchayats and there appears no scope for Panchayat Unions to increase the revenue under this item, except under Social forestry ,and by opening of Panchayat Union markets and shandies or Kalyana Mandapams. The Panchayat Unions will be eligible only for a share in the income from Market/Shandy as the local panchayat in whose area the market is situated will be eligible for a share.

Grants - in Aid :

2.5.36. The Panchayat Unions were constituted mainly to be the implementing agencies for various development programmes, in the Panchayat Development Blocks, which were earlier implemented in Community Development Blocks through Government. They were requested also to take care of a few common programmes like Maternity centres, dispensaries, Elementary Education, Health protection which were earlier with the District Boards. These programmes were implemented in the entire area of Panchayat Union consisting of village and town panchayats. The very creation of Panchayat Union envisaged major Revenues by way of assignments and grants from the Government, allocated for the respective economic Development programmes under the plan and non-plan provisions of the State Government. The Panchayats were designed to look after civic amenities while the Panchayat Unions were expected to play a vital role and as a fulcrum to implement the socio-economic programmes formulated by Government. In fact the Panchayat Unions had extension officers from various Departments like Agriculture, Animal Husbandry, Co-operation, Industries, etc. It was only in late 80s that these schemes were slowly taken over by the line departments whereby the Panchayat Union was reduced to the level of a government department, ultimately acting as agency for employment oriented programmes now being implemented. It is therefore no wonder that the Panchayat Unions derived their income mostly from grants which are classified as statutory and non-statutory.

2.5.37. The details of Government grants for Revenue items for a period of five years from 1989-90 to 1993-94 are furnished in the statement at Appendix No.82.

2.5.38. The income (total and Per capita) from Grants for five years and the variations in minimum and maximum grant received, category -wise for both statutory and non-statutory grants are given in the Tables below:

Table 2.50 Panchayat Union - Grant-in-aid for 1989-90 to 1993-94

Year	Amount (Rs.in crores)	Percapita (In Rs.)	Percentage to total income
1989-90	170.02	52.31	82.78
1990-91	207.79	63.94	83.20
1991-92	225.91	69.51	86.33
1992-93	251.34	77.34	84.78
1993-94	327.60	108.80	84.58

Table 2.51 Panchayat Unions - Average Per Capita Income from Statutory and Non Statutory Grants with Minimum and Maximum

Category	Average- Statutory	Per capita Non statutory	Minimum Statutory	-Per capita Non statutory	Per capita in Rs.	
					Maximum Statutory	-Per capita Non Statutory
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I	21.92	64.93	2.34	28.68	115.43	166.40
II	13.10	64.29	—	24.04	37.24	193.14
III	11.36	72.96	3.09	25.64	59.59	161.50
IV	8.86	68.21	—	10.56	46.26	199.75
V	9.67	73.83	—	16.42	95.25	326.05
VI	7.40	64.82	—	5.25	33.40	163.64

Statutory Grants:

2.5.39. Section 180 of the Tamil Nadu Panchayats Act 1994 provides for statutory grants to match the collection of Local cess surcharge. Section 182 provides for a Local roads grant based partly on population and partly on the length of roads. These two statutory grants contributed Rs.7 to Rs. 15 per capita and accounted for 11 to 14% of the total income.

Local Cess Surcharge Matching Grant:

2.5.40. Section 180 of Tamil Nadu Panchayats Act 1994 provides for sanction of local cess surcharge matching grant on the proceeds of LCS. For the purpose of sanctioning of such grants, the Panchayat Development Blocks are classified as they are to be reclassified once in five years as laid down in Section 181. This provision also permits sanction of grants at varying rates for the different classes of development blocks. This provision was adopted from 1958 Act.

2.5.41. A classification of blocks is available on the basis of per capita land revenue. Since LR is the basis for the own resources of Panchayat Unions, this has been adopted as basis. Reclassification of blocks has been examined in detail in the Part 4 on "Organisation and Powers". The SFC has recommended the continuance of the present basis and method of classification and that the classification of six categories already done will continue to be operative.

2.5.42. A statement arriving at the LCS Matching Grant now payable by Government for the different categories of blocks is given in table below. Though the latest figures of land revenue of the Panchayat Unions have been obtained from Taluk Officials, they needed reconciliation as the basic land revenue of the State as per these

figures amounted to Rs.9.97 crores a year. This appears to be high when compared to the basic LR reconciled by Damodaran Committee (1990). There is no scope for increase in basic LR. The present commitment on LCS Matching Grant given in the statement has therefore been based on Average basic LR adopted by Damodaran Committee pending reconciliation of figures now collected. Since revised rates for the grants for levy between Rs.5-10 have not been prescribed, the grant due for the maximum rate of Rs.2.50 which was in force, is now being adopted for release. So also the population figures are based on 1981 census inclusive of Town Panchayat area. A Statement of existing commitments to Government has been worked out and furnished in the Table No.2.52 at page 170.

2.5.43. The objective of higher assistance for lower categories and higher weightage to higher levy, envisaged by the formula, has not been achieved. This has also been commented by the Damodaran Committee. That Committee, found out that the formula has contributed for wide variation in the Government assistance to categories IV to VI. The per capita income of LCS itself varied from Rs.8.82 (for category I) to Rs.1.78 (for category VI.) Hence this variation could not be reduced since it was not practical to reduce rate of assistance already in existence to higher categories. The increase in ratio of assistance to lower categories enhanced the commitment of Government considerably. That Committee, therefore, suggested a special per capita grant to equalise the difference in per capita income arising out of the formula for categories IV to VI.

2.5.44. The amount payable adopting the formula admissible for levy of Rs.2.50, for the LCS realised at Rs.5 works out to Rs. 42.97 crores. If higher ratio is to be adopted, the commitment of the Government will increase considerably. The revised formula proposed for adoption as well as the commitment thereon to the Government is given in Appendix No.15.

The SFC emphasises the need for this grant since this will be an incentive for the Panchayat Unions to move to higher rate of Levy. While general principles for distribution of Government allocations are proposed, this has been taken care of by providing a separate reserve to meet equalisation of deficiencies on general devolution and also the incentive grants now available.

Local Roads Grant:

2.5.45. Local Roads Grant is also a statutory grant admissible to Panchayat Unions under Section 182 of the Tamil Nadu Panchayats Act 1994. The grant was originally paid at 40 paise per capita at the inception of the Panchayat Unions. This was in lieu of the toll collected by District Boards and abolished by the introduction of Motor Vehicles Taxation Act in 1931. From 1970-71, the basis was modified to cover population and also the length of roads.(at 18 paise per capita and at different rates per kilometre as worked out by the the Chief Engineer, Highways from time to time with special reference to the

terrain, namely, coastal, deltaic, hilly and ordinary) The existing rates for length of roads which are in force from 1981 have not been revised. The Government, however, sanctioned grant based on the norms and also additional ad-hoc grant on pro-rata basis. The Damodaran Committee (1990) examined the formula adopted and recommended the norms for maintenance based on the surface cadre of various types of roads in consultation with Highways and Rural Works Department. The formula for LRG is even now based on Tracts (Terrain). This basis may be changed and the grant related to surface of the Roads. Highways Department has indicated the current rates for maintenance of the various types of roads in Village Panchayat and Panchayat Union area. The amount needed for maintenance of Panchayat Union roads on normative level has been arrived at with suitable addition for inflation. The amount has been worked out and projected for 1997-98 at Rs.103.30 Crores.

2.5.46. As against this the Government provides Rs.20 Crores a year.(from 1996-97). The sharing of Motor Vehicle Tax has been discussed under Municipal Corporations. An allocation of 40% of Motor Vehicles Tax has been suggested to be earmarked to local bodies considering the nature, type and level of maintenance of Government roads. The amount is included in the divisible pool for distribution among local bodies. There will be no separate LRG after such distribution is adopted . Till then the existing grant may continue.

2.5.47. Recommendations

The SFC recommends the following:

1. The SFC considers that decision will have to be taken on the revised formula for LCS Matching Grant applicable to the rates of levy of LCS from Rs. 5 to 10 as well as on the commitment thereon to the Government. Revised formula and the commitments to State Government are given in Appendix No.15 with reference to revised classification of blocks for adoption. The amount needed will be met out by the Equalisation and Incentive Fund indicated in Part V of the Report.
 - i. The formula for LRG is based on Tracts (Terrains). This may be changed and the rates related to surface of the roads as per the latest rates indicated by CE(HW&RW) to the State Finance Commission. The LRG may be continued on the existing principle of population and length of roads. The rate for length of roads may be adopted at the revised rates indicated by CE (HW&RW).
 - ii. The amount so needed for maintenance of PU Roads has been arrived at on the basis of the rates given by the Highways and Rural Works Department and has been taken into account for arriving at the share of LBs from Motor Vehicle Tax.

- iii. Since the share on MVT is proposed to be taken to the divisible pool for distribution, no separate Local Roads Grant may be made thereafter. Till then the grant may continue.

Non-Statutory Grants:

2.5.48. Panchayat Unions are in receipt of various Non Statutory Grants as below:-

1. Grants for Maternity Centres
2. Grants for maintenance of Dispensaries
3. Development Grants like Village Work Grants (Rural water supply, Link roads and school buildings)

2.5.49. There are other types of grants, namely, Women and Children Welfare Grant, and Social Education Grant. In addition, they are now sanctioned various plan grants under Centrally Sponsored Schemes namely:

1. Jawahar Vela Vaippu Thittam
2. I.J.V.V.T. (Intensive Jawahar Vela Vaippu Thittam)
3. Employment Assurance Scheme
4. MP Local Area Development Scheme
5. Central Rural Sanitation Scheme
6. Decentralised District Plan

They are dealt with hereunder:

Grants for Maintenance of Maternity Centres:

2.5.50. The Panchayat Unions have been entrusted statutorily with the duties of opening and maintenance of Maternity Centres and also Dispensaries. The opening of Maternity Centres is linked with the national policy of population criteria for providing multi-purpose centres. This aspect is now under the control of Health and Family Welfare Department. The Government have taken over the Maternity Centres maintained by Panchayat Unions. However, the Panchayat Unions have been required to meet the payment of salary of Ayahs. Panchayat Unions do not have any other role in the functioning of the Maternity Centres. Under the 73rd Amendment to the Constitution, the maintenance of Maternity Centres and other health programmes have to be entrusted to the Rural Local Bodies and the matter is separately dealt with. If any transfer is to be made to the Local Body, the funds as well as the functionaries will be placed at the disposal of the appropriate level of local body. The question of meeting the salary of Ayahs alone (who form a diminishing category) has been objected to by representatives of Local bodies. 2/3rd assistance by way of Grant is given from the Government for this purpose (Rs.2.60 crores a year). The commitment of Government on the remaining 1/3rd will be only Rs. 1.30 crores. In view of the practical difficulties involved in absorbing these staff,

they are allowed to be under Panchayat Unions. The Government could reimburse the entire cost of the Ayas to Panchayat Unions as grant and continue them as Panchayat Union Staff till they retire, pending decision on the subject to be covered by devolution of functions.

2.5.51. Recommendation:

The SFC recommends the following:

Grant for maintenance of Maternity Centres: The Government should reimburse the entire cost of the Ayahs to Panchayat Unions as grant and continue them as Panchayat Union staff up to the time of their retirement from service, or until the subject is decided under devolution of functions.

Grant for Maintenance of Dispensaries:

2.5.52. The dispensaries maintained by the District Boards were handed over to the Panchayat Unions as successor body. At the initial stages the Panchayat Unions were also encouraged to open dispensaries in their area in addition to the Primary Health Centres located in their areas. The Government assured in sixties a 50% grant for the maintenance of one dispensary in a Panchayat Union, but however limited the maximum of grant to between Rs.5000 and Rs.5400. This limit was based on the level of expenditure in the year 1960. The ceiling is still in existence. This grant is available only to a few Panchayat Unions. Now the Panchayat Unions are not allowed to open new dispensaries. Many of the Panchayat Unions having dispensaries are finding it difficult to maintain them. Apart from the non-availability of doctor or para-medical staff, non availability of adequate medicine contributes to the ineffective working of dispensaries. The implementation of this programme is also related to the entrustment based on 11th Schedule to the 73rd Amendment of the Constitution, and pending decision, the existing dispensaries could be continued by the Panchayat Unions with grant for meeting the full cost of maintenance. Similarly, there are Rural dispensaries functioning on contract basis in which the Doctors/paramedical staff are paid subsidy. The subsidy fixed is stated to be inadequate and the dispensaries are therefore not functioning regularly. The Government may consider the need for continuance of such Rural dispensaries which were formed in the days of District Board when there were no medical facilities in rural areas. This could be privatised by permitting the local Doctors who are willing, to use the building. The working of the dispensaries in Panchayat Unions needs examination.

2.5.53. Recommendation :

The SFC recommends the following:

Grant for maintenance of dispensaries:

1. The existing dispensaries may be continued by the Panchayat Unions with grant to meet the full cost of maintenance till the subject is decided under devolution of functions.
2. The Government may consider whether there is need for continuance of Rural Dispensaries which were formed in the days of the District Boards when there were no medical facilities in the rural areas
3. Rural Dispensaries could be privatised by permitting local willing doctors to use the building.
4. The working of the dispensaries in PUs needs examination.

Irrigation Grant:

2.5.54. The minor irrigation tanks with less than 100 acres of ayacut have been transferred to the control of Panchayat Unions. The Government agreed to provide a grant equivalent to annual requirement of maintenance based on the allocations to be worked out by the Collector following a five year cycle system. Due to paucity of funds, meagre allocations are made in the State budget. However with the allocations available under various Employment Programmes and also in drought relief schemes, standardisation as well as major repairs to the tanks are being attended to by Government. The Panchayat Union is not expected to meet any expenditure from its funds. The maintenance will depend on the availability of grant from Government. Since this comes under discretionary and non-statutory functions which depends on Government grant, the Panchayat Unions are not able to predict and plan the works. A regular system of repairs has to be ensured with a predictable level of yearly maintenance grant for a period of five years.

2.5.55. Recommendation:

The SFC recommends the following:

A regular cycle system of undertaking repairs may be evolved with a predictable yearly grant for maintenance for a period of five years.

Development Grants:

2.5.56. The Village Works Grant (viz. link roads, water supply and school buildings) and grant for Animal Husbandry Fisheries envisaged under community development programmes are not now in force. Ad hoc grants for specific schemes are given and there is no regular flow of funds. Special schemes for Rural Water Supply are being taken up through aided schemes of State and Centre through TWAD Board with full assistance in Village Panchayats, Ad hoc yearly grant is given for the maintenance of hand pumps and power pumps in villages through Panchayat Unions to meet the cost of repairs. A re-look of entire water supply programmes may be taken up and a regular system for making good deficiency in water supply with powers to appropriate authorities may be evolved.

Centrally Sponsored Employment Programmes:

2.5.57. There are about six different programmes with Central aid with dual objectives viz., area development and rural employment. But each scheme has its own norms and guidelines. The infrastructure to be created is also indicated in guidelines. They do not cover all the infrastructure comprised in the civic services. A few, like roads and water supply, drainage are covered under this scheme. This is more a capital investment programme with 100% assistance by Centre/ State implemented through Panchayat Unions. The role of State Finance Commission is limited to maintenance of the assets created and handed over to the local body. The development grants are in the nature of discretionary ones and they can neither be predicted nor insisted.

2.5.58. Two more non-statutory Grants, viz. Women and Children Welfare Grant and Social Welfare Grant, Noon Meals grant are sanctioned to Panchayat Unions and the allocation is very negligible. These programmes which are in vogue are based on certain model programmes indicated by the concerned administrative departments. These schemes may be re-examined as a part of devolution.

2.5.59. Recommendations

The SFC recommends the following:

The role of SFC is mainly concerned with the deficiencies in the maintenance of the assets created by Local Body from its resources and assets created through other schemes and handed over to the local bodies. The maintenance grants are in the nature of discretionary grants and they can neither be predicted nor insisted. The Massive Employment oriented programmes are currently based on certain guidelines indicated by the concerned Ministries and administrative departments and relate to capital formation. The guidelines may be re-examined as a part of devolution for more flexibility to include civic services infrastructures also for better public utility.

Table . 2.52 (para 2.5.42 at page 164)

Statement showing the category wise land Revenue, Local cess and Local cess surcharge and Local cess surcharge Matching Grant Admissible for LCS at Rs.250 and Rs.5 at the existing pattern of Assistance

(Amount and Population in Lakhs) (Per capita in Rupees)

Exis- ting Cate- gory	Popu- lation	Land Revenue		Local cess		LCS @ Rs.5/-		LCS @ Rs.2.50		% of LCSMG.	LCSMG at exist- ing rate for levy of Rs.5		LCSMG for levy of Rs.2.50	
		Amt	Per capita	Amt	Per capita	Amt	Per capita	Amt	Per capita		Amt	per capita	Amt	per capita
I	34.75	130.54	3.76	130.54	3.76	652.70	18.80	326.35	9.39	(125)	815.88	23.48	407.94	11.74
II	30.93	72.40	2.34	72.40	2.34	362.00	11.70	181.00	5.85	(140)	506.80	16.39	253.40	8.19
III	52.74	99.86	1.89	99.86	1.89	499.30	9.45	249.65	4.73	(155)	773.92	14.67	386.96	7.34
IV	116.83	151.76	1.29	151.76	1.29	758.80	6.45	379.40	3.24	(170)	1289.96	11.04	644.98	5.52
V	37.61	47.28	1.26	47.28	1.26	236.40	6.30	118.20	3.14	(185)	437.34	11.63	218.67	5.81
VI	52.14	47.39	0.91	47.39	0.91	236.95	4.55	118.48	4.22	(200)	473.90	9.09	236.96	4.54
*	325.00	549.23	1.68	549.23	1.68	2746.15	8.45	1373.08	4.22		4296.80	13.22	2148.91	6.61

Notes:

1. Population according to Damodaran Committee is 366.30 lakhs - Since Town Panchayats have been taken to Municipalities Act, Rural Population is reduced.
2. Land Revenue figures adopted, are based on land revenue compiled by Damodaran Committee which includes land revenue pertinent to Town Panchayat area, pending reconciliation of latest land revenue figures of panchayat unions (Excluding Town Panchayat Area)