

CHAPTER 3

LOCAL BODY FINANCE - EXISTING SCENARIO

5.3.1. The Existing Scenario of Local Body Finance as derived from the analysis of data is discussed hereunder in respect of each tier of the Local Body.

A. Municipal Corporations

5.3.2. The total revenue receipts and expenditure and the surplus/deficit of the Corporations are indicated in the Appendix No.22. The net financial position as in the year 1993-94 and the commitments pending discharge are indicated in the statement below:

Table 5.2 Statement showing Fiscal Conditions of Corporations as on 31.3.94
(Including the Debt and Liabilities Position) (Rs. in Lakhs)

	Revenue Surplus/ Deficit	Capital Surplus/ Deficit	Net	Loan	Ways & Means Advance	Pen- sion	P.F.	Total	Net Position
Coimbatore	224.64	165.05	389.69	—	—	—	—	—	+389.69
Chennai	86.58	-311.92	-225.34	15305.38	—	4.93	382.90	15693.21	-15918.55
Madurai	-46.32	41.18	5.14	Nil	—	—	447.00	447.00	-441.86
Salem	40.74	-15.85	24.89	49.51	—	—	81.36	130.87	-105.98
Tiruchirapalli	35.78	-12.83	22.95	145.08	—	1.59	94.81	241.48	-218.53
Tirunelveli	113.57	-6.17	107.40	688.15	75.11	—	60.75	824.01	-716.61

(-) Indicates 'Nil'

Review of Resources and Outlays

5.3.3. The per capita income exceeded Rs.200 in all the Municipal Corporations, except Tirunelveli. The per capita expenditure of Rs.55 in Tirunelveli and Rs.270 in Chennai indicates the wide variation among the Municipal Corporations in income and expenditure levels. The revenue budget had shown surplus in all Corporations except Madurai in the year 1993-94. Similar surpluses had been shown in the earlier years also.

5.3.4. In terms of per capita, the Capital receipt ranged between Rs.44 and Rs.46 during the three years commencing from 1991-92 to 1993-94. The Capital receipts and Outlays mainly depend upon the special schemes and the availability of loans/special grants from the Government. The revenue surplus generated was not adequate for Capital funding. The aggregate revenue receipts of Municipal Corporations increased from Rs.193.99 crores in 1991-92 to Rs.243.85 crores in 1993-94, recording an increase of 25.7 %. In terms of per capita, it went up from Rs.268.13 in 1991-92 to Rs.337.03 in 1993-94.

Own Revenue

5.3.5. Of the revenue receipts, own tax accounted for 37.6 % in 1991-92 which has slightly fallen down in 1992-93 to 28.12 % but has recovered in 1993-94 to 45.2 %. There were wide variations in the per capita own tax i.e. Rs. 63.54 in Tirunelveli and Rs.27.76 in Coimbatore which was 2.5 times more.

5.3.6. Of the own taxes, property tax contributed the maximum percentage. For all Corporations put together, it worked out to 94 % in 1991-92, 92.24% in 1992-93 and 85.13 % in 1993-94. In terms of per capita there had been real rise of 16%. Regarding individual Corporations, it ranged between 86 % to 96 % based on three years' average income. Tax reforms proposed are likely to generate sizeable income in coming years.

5.3.7. The next major contributory of own taxes was Profession Tax which contributed on an average 5.5 per cent, increased to 14.70 % in 1993-94. The increase was due to the implementation of provisions of the new enactment in 1992. Proper Tax administration, with tax mapping is likely to yield good returns in future.

5.3.8. The non-tax revenues have risen from Rs.23.38 crores in 1991-92 to Rs.41.33 crores in 1993-94, recording an increase of about 76.8 %. This constituted 12 % of the total revenue in 1991-92 and increased to 17 % in 1993-94. The per capita income was Rs.32.31 in 1991-92 and increased to Rs. 57.13 in 1993-94. However, the average income is below the State average in all the Corporations except Coimbatore and Chennai in 1993-94. The per capita non-tax revenue varied between Rs.35 in Salem to Rs.67 in Coimbatore. These variations reflect the differences in user charges and administrative efficiency in collection of non-tax revenues among the Corporations.

5.3.9. Of the non-tax revenues, income from properties contributed a major share, namely, 45 % in 1993-94. User charges contributed 20 % over these years, of which water charges contributed 90 % of that revenue. The other non-tax revenues like building licence fees etc. contributed only a meagre income, namely, 8 % in 1993-94. The revenue gap measured as a shortfall of own revenues as percentage to total outlays was 28. The revenue gaps in Chennai, Madurai and Tiruchirappalli were high, while in Coimbatore and Tirunelveli the own revenues were in excess of total Revenue outlay. The reforms suggested for auctioning for leasing of properties and for working out user charges through a tariff cell, proposed, could generate considerable additional income.

Assigned/Shared Taxes

5.3.10. The assigned/shared revenue from the Government increased from Rs.87.37 crores in 1991-92 to Rs.174.30 crores in 1992-93 but has fallen down to Rs.84.22 crores in 1993-94. The increase/decrease relates to the adjustment of Surcharge on Sales Tax to the Corporations in the respective years. In terms of per capita, the assigned revenues contributed Rs.120.76 in 1991-92, Rs.240.91 in 1992-93 and Rs.116.70 in 1993-94. The share of this revenue has been high in Chennai ranging from 40 to 69 % while it was 30 to 45 % in Salem and Tiruchirappalli and between 20 and 30 % in other Corporations. This clearly indicates the in-built imbalances in the system of assigned/shared taxes among the Corporations and that the design of the present system of distribution of Government Taxes needs correction. The components consist of Surcharge on Sales Tax which was the major source and the next was Stamp Duty Surcharge and the third was Entertainment Tax. The imbalances of the last two are inherent since they are local taxation which depend on local potential and are distributed on derivation basis. Revised norms for sharing and equitable distribution method of Government taxes like on Sales Tax, Motor Vehicle Tax etc., now being proposed, are expected to ensure decrease in the imbalances among the local bodies.

Grants-in-aid

5.3.11. Grants-in-aid covered only 5% of the aggregate revenue receipts in 1991-92 but has fallen down to 3.2 % in 1993-94. Of these grants, specific purpose grants constituted 90 %. Chennai Corporation received the maximum grant of 64 % in 1991-92 which exceeded 80 % in 1992-93 and 1993-94. There were larger deficiencies in the system of grants which exhibited the ad hoc nature of the grant which is bound to increase imbalances. The grant system is found unpredictable and no specific pattern is in force except in respect of specific purpose grants. The grants distribution policy of the State Government needs revision. The suggestions of the State Finance Commission in this direction will be more helpful.

General Observation

5.3.12. The expenditure on revenue side went up from Rs.149.72 crores in 1991-92 to Rs. 187.56 crores in 1993-94, exhibiting an increase of 25 %. In terms of per capita, the expenditure rose from Rs.206.93 to Rs.259.22. The highest expenditure was on obligatory services accounting for 48 % in all the years. In terms of per capita, this showed an increase from Rs.96.31 in 1991-92 to Rs.129.29 in 1993-94, registering an increase of 34% during these years. The expenditure of the total staff including those covered on services increased from Rs.87.30 crores in 1991-92 to Rs.107.31 crores in 1993-94. The expenditure level does not however reflect the adequacy of service levels. The minimum service levels indicated by the State Finance Commission and the cost needed therefor combined with additional devolution of funds may push the expenditure to a higher level with better service.

5.3.13. The fiscal condition in revenue account in 1993-94 revealed that there was revenue surplus in all the Corporations except Madurai, while the Capital account, exhibited deficit in all the Corporations except Coimbatore and Madurai. However, these revenue/capital surplus or deficit did not take into account the commitments on debt servicing consisting of loan annuities and the pension and provident fund liabilities in the respective Local Body as already explained in Chapter on "Debt Servicing" in Part II. If these overdue liabilities are taken into account, except in the case of Coimbatore Corporation where the loan particulars are shown as 'nil' in the information furnished to State Finance Commission, all other Corporations have huge deficit in their accounts. Of these, Chennai Corporation recorded the maximum deficit of Rs.159.19 crores, since the overdue liability on loans contributes to Rs. 153.05 crores as on 31-3-94. The next largest deficit is in Tirunelveli Corporation where the overdue loan liability accounted for Rs.6.88 crores. All the Corporations except Coimbatore have appropriated huge amounts collected by way of provident fund subscriptions and it is a matter of concern how these amounts are going to be made available to the subscribers with interest commitment on that amount. It may thus be seen that the finances of all the Corporations are very weak and the deficits are very huge when their liabilities are taken into consideration, though the revenue account shows surplus. However there is scope for meeting current liabilities alone in the respective years in the Corporations.

B. Municipalities

Aggregate Fiscal Condition

5.3.14. The statement showing the consolidated revenue/capital receipts and revenue/capital expenditure for 3 years from 1991-92 to 1993-94 is given below:

Table 5.3 Consolidated Budgets of Municipalities
(Amount Rs. in lakhs) (Per Capita in Rs.)

Details	1991-92		1992-93		1993-94	
	Amount	Per capita	Amount	Per capita	Amount	Per capita
Revenue Receipts	12432.87	173.64	13548.77	189.23	15727.50	219.66
Revenue Expenditure	11405.98	159.30	13047.77	182.23	14245.76	198.96
Revenue Surplus:	1026.89	14.34	501.00	7.00	1481.73	20.69
Capital Receipts	5178.98	72.33	5948.93	83.09	5923.73	82.73
Capital Expenditure	5300.33	74.03	6072.27	84.81	6099.61	85.19
Capital Deficit	-121.34	-1.69	-123.34	-1.72	-175.88	-2.46
Total Receipts	17611.85	245.976	19497.69	272.315	21651.23	302.393
Total Expenditure	16706.30	233.329	19120.03	267.040	20345.37	284.154
Surplus	905.5470	12.647	377.6677	5.27471	1305.85	18.238

5.3.15. The aggregate revenue receipts show an increase from Rs.124.33 crores in 1991-92 to Rs.157.28 crores in 1993-94. The revenue expenditure has also recorded corresponding increase from Rs.114.06 crores to Rs.142.46 crores in 1993-94. In terms of per capita, the revenue receipts had increased from Rs.173.64 to Rs.219.66. The revenue expenditure has also recorded an increase from Rs.159.30 to Rs.198.96. The surplus under Revenue Account has been marginal from Rs.10 to 15 crores, accounting for a per capita of Rs.20.69 in 1993-94. The capital receipts as well as capital expenditure have also recorded an increase from 1991-92 to 1993-94, but it has finally exhibited a deficit of Rs.1.21 crores in 1991-92 and Rs.1.76 crores in 1993-94. The net surplus increased from Rs.9.0 crores in 1991-92 to Rs.13.06 crores in 1993-94 but this net surplus has not taken into account the following liabilities:-

- | | | |
|--------------------------------------|---|------------------|
| 1. Loans and ways and means advances | - | Rs.137.80 crores |
| 2. Pension commitment | - | Rs.1.66 crores |
| 3. Provident Fund commitment | - | Rs.11.54 crores. |

If these commitments are taken into account, the Municipal Finance will indicate a net deficit of Rs.137.94 crores in the year 1993-94. The ranges of Revenue Receipts and Expenditure, Revenue Surplus and Deficit with reference to grades and also population are furnished below for information. The position indicates that though there was marginal surplus in aggregate position, there were 28 Municipalities (27%) with deficit in their revenue account and 28 with marginal surplus, 47 with sizeable surplus. This further confirms that the aggregate surplus/deficit cannot be the criteria for gap filling as resources of one Municipality cannot be diverted to other deficit institution. Further, even the Municipality showing surplus may slide down to deficit if the liabilities are taken into account.

Table 5.4 Distribution of Municipalities according to Revenue Receipts and Expenditure

Amount (In Rs.)	Revenue Receipts			Revenue Expenditure		
	1991-92	1992-93	1993-94	1991-92	1992-93	1993-94
Upto 25 Lakhs	8	4	3	7	5	5
25 - 50 Lakhs	5	15	13	19	16	13
50 - 100 Lakhs	32	33	28	35	32	28
1 - 1.5 Crores	22	20	23	23	24	27
1.5 - 2 Crores	10	12	13	6	10	11
Above 2 Crores	16	19	23	13	16	19
Total	103	103	103	103	103	103

Table 5.5 Distribution of Municipalities according to Revenue Surplus and Deficit

Amount (In Rs.)	1991-92		1992-93		1993-94	
	Surplus	Deficit	Surplus	Deficit	Surplus	Deficit
Upto 5 Lakhs	15	20	12	12	14	10
5 to 10 Lakhs	11	9	17	11	14	7
10 to 15 Lakhs	6	2	3	6	8	6
15 to 20 Lakhs	8	4	7	6	8	1
Above 20 Lakhs	22	6	19	10	31	4
Total	62	41	58	45	75	28

Own Revenues

5.3.16. Own Revenue comprises of Own Taxes and Non-Taxes which accounted for 63.5 % of total revenue in 1991-92 and has recorded an increase of 71% in 1993-94. In terms of per capita revenue from own sources, it went up from Rs.110.18 in 1991-92 to Rs.156.07 in 1993-94. Of these own sources, own taxes are the major revenue sources which have contributed to 41% of over-all revenue receipts in 1993-94 recording an increase from 36 % in 1991-92. Of the own taxes, property tax alone went up from 90 % of total tax revenues in 1991-92 to 93.5 % in 1992-93 but has declined to 84 % in 1993-94. This decline in percentage was due to the larger contribution through Profession Tax in 1993-94 which has recorded an increase of 35 % from 1991-92 to 1993-94. In terms of per capita, the property tax contributed to Rs.75.28 in 1993-94 which has risen from Rs.55.68 in 1991-92. This was out of the total per capita income of Rs.219.66 in 1993-94, as against Rs.173.66 in 1991-92. The uniform method of

taxation with fixation of minimum and maximum rate of levy combined with tax reforms on plinth area rental value suggested by State Finance Commission, is likely to contribute sizeable additional revenue from the taxes.

5.3.17. Out of the non-tax revenues, which are the second major component of total revenue receipts, the per capita income rose from Rs.47.98 in 1991-92 to Rs.66.31 in 1993-94. The major portion out of this source was from 'Income from Properties' which was followed by 'User Charges' under water supply. But the income from the properties has been erratic. However, the User Charges recorded 26.5 % of the non-tax revenue in 1991-92 which rose to 33 % in 1993-94. Of the User Charges, water charges accounted for 90 %. The licence fees etc. contributed only 4% of revenue. There is scope for augmentation from these sources, if the recommendations on the leasing of properties, and restructuring user charges are implemented.

Assigned/Shared Taxes

5.3.18. The assigned/shared revenues which contributed 30 % in 1992-93 declined to 25 % in 1993-94, though in absolute terms there was increase in the revenue from Rs.34.57 crores in 1991-92 to Rs.39.21 crores in 1993-94. The assigned revenues accounted for about Rs.54.76 per capita in 1993-94, rising from Rs.48.29 in 1991-92. There was wide variation in this source among different grades namely Rs.33.09 per capita in third grade and Rs.77.89 per capita in special grade.

5.3.19. In the case of Municipalities, Entertainment Tax accounted for the major income from the assigned revenues while the Surcharge on Stamp Duty was the second major component representing 43 % in 1991-92 and 46 % in 1993-94. Surcharge on Sales Tax exhibited a declining trend from 9.2 % in 1991-92 to 2 % in 1993-94. The suggestions for streamlining the assigned revenues with higher shares and also creation of divisible pool for assignments from taxes of State Government other than local taxes will certainly create a better equitable system and sizeable additional revenue.

Grants-in-aid

5.3.20. The Grant-in-Aid to Municipalities accounted for an average of 5.7 % of total revenue. Of these, specific grants constituted 82 % in 1991-92 which declined to 69 % in 1992-93 and picked up to 85 % in 1993-94. Education Grant accounted for the major income from these specific purpose grants, accounting for 67 % in 1991-92 declining to 31% in 1993-94. This was perhaps due to take over of Education by Government. Road grants recorded a steep increase from 4.5 % to 29 %. The distribution of per capita grant revenue varied widely across the groups namely Rs.6.44 in third grade and Rs.12.21 in special grade. This implies higher level of grants being available for higher groups in violation of the general principle of assisting lower groups.

General Observations

5.3.21. The aggregate revenue expenditure increased from Rs.114.0 crores in 1991-92 to Rs.142.6 crores in 1993-94, recording a rise of 25%. In terms of per capita, the revenue expenditure rose from Rs.159.30 in 1991/92 to Rs.198.96 in 1993-94. The highest expenditure under this category was on obligatory services, as pointed out earlier, accounting for nearly 46%. In terms of per capita, this worked out to Rs.91.81 in 1993-94. The capital receipts also rose from Rs.51.79 crores to Rs.59.24 crores with a corresponding increase in the expenditure from Rs.53 crores to Rs.61 crores. In terms of per capita, it accounted for Rs.72.33 to Rs.82.73 under receipts and Rs.74.23 to Rs.85.19 under expenditure. The distribution of per capita expenditure grade-wise indicated inter-class and intra-class variations. Third grade Municipalities had an outlay of Rs.128.26 while the outlay in special grade was nearly double i.e. Rs.246.16. In second and third grades, per capita expenditure was below the state average of Rs.180.17.

5.3.22. This clearly indicates the imbalances among the Municipalities in various grades which is mainly due to constraints on revenue earning capacity and performance. The Staff expenditure including those which are accounted against core services rose from Rs.68.55 crores in 1991-92 to Rs.85.14 crores in 1993-94. The capital receipts and expenditure were mostly based on the assistance from the centrally sponsored schemes.

5.3.23. The existing classification of Municipalities, according to Grades (using revenues) is found not valid and the figures compiled indicate that the level of services, if measured in terms of money, vary in different Municipalities which imply the existence of horizontal imbalances. The varying number of Municipalities registering revenue deficits in the three years indicate vertical imbalances and the need for maintaining a balance between the expanding roles entrusted to Municipalities and their financial resources. It is necessary to analyse the differences in distribution of revenues and expenditure within and between the identical groups of Municipalities. The inter-class and intra-class differences in the distribution of per capita total revenue grade-wise could be seen from the statement in Appendix No.115. The per capita income in III Grade was Rs.134.20 while it was Rs.271.65 in Special Grade. The variations are observed between the Municipalities with varying population. Similar variations are noticed in respect of Special and III Grade Municipalities having below 25,000 and between 75,000 and one lakh population. Similarly, the inter-class and intra-class variations that exist in distribution of per capita expenditure, within different grades of Municipalities are available in the Statement in Appendix No.115. Wide variations are noticed within each class and especially the variations are found to be too high in II Grade Municipalities. If this per capita expenditure is taken as an indicator for the level of services provided, it can be opined that the service levels vary drastically among the Municipalities. The fiscal performance of the Municipalities under different grades and with different population size is given below:

Table 5.6 Fiscal Performance

Grade	Per capita Own Revenue (In Rs.)	Population Size	Per capita Own Revenue (In Rs.)
Special	159.38	0 to 25000	115.01
Selection	129.19	25000 to 50000	144.05
First	128.30	50000 to 75000	119.88
Second	101.54	75000 to 100000	151.53
Third	90.02	Above 1 Lakh	124.60
All Grades together	129.69	For Total Population	129.69

**Table 5.7 Percentage of own revenue in Total Receipts and Expenditure
A. According to grades of Municipalities**

Grade	Percentage of own revenue in grade	
	Receipts	Expenditure
Special	66.03	73.25
Selection	68.51	75.47
First	66.64	72.31
Second	65.86	64.77
Third	69.36	72.56
All Grades together	66.79	71.99

Table 5.8 B. According to Population Size of Municipalities

Population Size	Percentage of Own Revenue in	
	Receipts	Expenditure
0 - 25000	76.25	79.83
25000 - 50000	69.74	72.20
50000 - 75000	66.19	68.11
75000 - 1 Lakh	67.65	72.29
Above 1 Lakh	65.07	74.13
For Total Population	66.79	71.99

5.3.24. The interpretations further exhibit the deficiency in allocation of grants. It is found that 27 Municipalities which have below average per capita own revenue have received above average grants and 17 Municipalities which have above average per capita own revenue have received below average grants from the State Government. But 40 Municipalities having below average own revenue have been given below average

grant. Similarly, 19 Municipalities having above average per capita own revenue have been given above average grant. This shows that the Municipalities having below average own revenue are being penalised and the general principle of grant distribution is violated. This clearly indicates the ad hoc nature of grant distribution policy of the State Government. The interpretation also reveals that the performance in tax collection has been very poor. The components of water tax widely vary while the water tax was the major component in all grades except in II and III Grades where general purpose tax was the main component. The shares of different components also widely vary and this indicates that the rates are optional.

C. Town Panchayats

5.3.25. The consolidated receipts and expenditure on revenue account and receipts and expenditure on capital account of the Town Panchayats are furnished below:

Table 5.9 Consolidated Budgets of Town Panchayats

Details	1991-92		1992-93		1993-94		3 Year Average	
	Amount Rs.lakh	Percap in Rs.	Amount Rs lakh	Percap in Rs.	Amount Rs.lakh	Percap in Rs.	Amount Rs.lakh	Percap. in Rs.
Revenue Account:								
Receipts	6330.35	72.10	7124.61	81.71	8700.80	99.10	7401.92	84.30
Expenditure	5426.06	61.80	6359.77	72.43	7705.31	87.76	6497.05	74.00
Surplus	904.28	10.30	814.84	9.28	995.49	11.34	904.87	10.31
Capital Account:								
Receipts	1772.32	20.19	2527.85	28.79	2793.75	31.82	2364.64	26.93
Expenditure	1891.05	21.54	2407.16	27.42	3198.03	36.42	2498.75	28.46
Suplus/Deficit	-118.74	-1.35	120.69	1.37	-404.28	-4.60	-134.11	-1.53
Total:								
Receipts	8102.67	92.28	9702.46	110.51	11494.56	130.92	9766.56	111.24
Expenditure	7317.12	83.34	8766.93	99.85	10903.34	124.18	8995.80	102.46
Surplus	785.55	8.95	935.53	10.66	591.21	6.73	770.76	8.78

5.3.26. The consolidated position indicates surplus of Rs.9.95 crores in the revenue account in 1993-94, the average surplus for three years being Rs.9.05 crores. The capital account closed with a deficit of Rs.4.04 crores in 1993-94 and except for the year 1992-93, there have been deficits in the capital account. The average deficit in capital account was Rs.1.34 crores but the net surplus generated during 1993-94 was Rs.5.91 crores. This did not take into account the debt servicing which was overdue and also other liabilities like Pension Contribution and Provident Fund Deposits appropriated. The liabilities are shown below, as they existed at the end of 1993-94:

Liabilities	Rs in Crores	
Loan overdue with interest	47.92	
Ways and Means Advance	9.15	
Pension Contributions	2.22	
Provident Fund Subscription appropriated	1.92	
V Pay Commission Arrears to be remitted to PF Account	0.81	
Total	62.02	
	Rs. in Lakhs	
Revenue Surplus	995.49	
Capital Deficit	(-) 404.28	
Net Surplus	591.21 (or) (+) 5.91	
Fiscal Position	(-) 56.11	

5.3.27. The total liabilities work out to about Rs.62 crores and this results in a total deficit of Rs.56.11 crores in the consolidated position of the Town Panchayats. The number of Town Panchayats according to revenue surplus and deficit and according to revenue receipts and expenditure are furnished below.-

Table 5.10 Distribution of Town Panchayats according to Revenue Surplus and Deficit

Amount in Rs	1991-92		1992-93		1993-94	
	Surplus	Deficit	Surplus	Deficit	Surplus	Deficit
Upto 50000	114	146	110	143	78	98
50000 - 1 Lakh	51	59	44	61	55	54
1 Lakh - 2 Lakhs	57	63	53	38	83	51
2 Lakhs - 3 Lakhs	43	10	33	20	43	20
Above 3 Lakhs	76	17	101	33	117	37
Total	341	295	341	295	376	260

The position of the Town Panchayats shown under Surplus may also turn out to be deficit if the liabilities are taken into account.

Table 5.11 Distribution of Town Panchayats according to Revenue Receipts and Expenditure

Amount (in Rs.)	199-/92		1992-93		1993-94		3Yr. Avg.	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Revenue Receipts:								
Upto 5 Lakhs	247	39	202	32	115	18	180	28
5 Lakhs - 10 Lakhs	193	30	204	32	236	37	220	35
10 Lakhs - 15 Lakhs	79	12	87	14	98	15	89	14
15 Lakhs - 20 Lakhs	53	8	54	8	64	10	50	8
20 Lakhs - 25 Lakhs	19	3	39	6	45	7	42	7
Above 25 Lakhs	45	7	50	8	78	12	55	9
Total	636	100	636	100	636	100	636	100
Revenue Expenditure :								
Up to 5 lakhs	247	39	225	35	145	23	199	31
5 Lakhs - 10 Lakhs	214	34	201	32	229	36	219	34
10 Lakhs - 15 Lakhs	87	14	83	13	93	15	88	14
15 Lakhs - 20 Lakhs	47	7	64	10	61	10	60	9
20 Lakhs - 25 Lakhs	13	2	26	4	47	7	30	5
Above 25 Lakhs	28	4	37	6	61	10	40	6
Total	636	100	636	100	636	100	636	100

5.3.28. This indicates that about 376 Town Panchayats (TPs) exhibited surplus ranging up to Rs.3 lakhs, while 260 TPs exhibited deficit. Of them, 78 TPs have shown only marginal surplus up to Rs. 50,000, while 162 TPs have shown deficit of more than Rs.50,000. This implies that though a surplus in the over-all account of TPs at State level is seen, nearly about 25% of the TPs has deficit in their accounts. While evaluating per capita performance, 12 TPs which were formerly Townships have been excluded for analysis purposes, since their per capita income was abnormal due to their lesser population. These Townships had been created on different criteria, namely, industrial labour, educational and other special features.

5.3.29. The total revenue receipts were found more in the higher categories and less in lower categories. The per capita income in Grade II was Rs.50.31 while in Special grade it was Rs.193.95, which was about four times the income of the smaller TPs. It is seen that TPs with varying populations had extreme variations and that the inter-class difference in the per capita revenue receipts was found very high in TPs with population below 10,000 and TPs in Grade I.

5.3.30. Of the total revenue, own tax revenue was found to increase steadily with the Grade. While II Grade TPs have recorded Rs. 16.41 per capita own tax, Special

Grade TPs have recorded Rs.73.87 which was nearly 4.5 times more than the smaller TPs. In Special and Selection Grades, the per capita income from own tax had been more than the State average. This indicates that smaller TPs had a comparative disadvantage in tapping their tax revenue potential adequately. Similarly, while looking at TPs on population criteria, the groups with population between 5000 and 10000 had an income below the State average. The sharp differences explained above indicate the different forms of horizontal imbalances. It is seen that application of identical set of factors as well as rates can generate different levels of income, depending upon the tax base of TPs. Similarly extreme variations were found within the grades.

5.3.31. Of the tax revenues, house tax has contributed about 73 % in 1991-92, 80 % in 1992-93 and 50 % in 1993-94. In terms of absolute figures, the realisation was Rs.15.69 crores in 1991-92, which rose to Rs.16.82 crores in 1993-94. The reduction in percentage in 1993-94 was due to higher performance under the Profession Tax during 1993-94 under the new Enactment of 1992.

5.3.32. The next major tax revenue was from Profession Tax which was 18.77% in 1991-92, rising to 43.87% in 1993-94. The other Own Taxes have recorded very small percentages except Water Tax which, on an average, contributed 5 to 6%.

5.3.33. The performance, both under House Tax and under Profession Tax, in respect of each grade of TPs is given below:

Table 5.12 Tax Collection Performance of Town Panchayats

A. House Tax

(Rs. in Crores)

Grade	1991-92		1992-93		1993-94	
	Demand	Collection	Demand	Collection	Demand	Collection
Special	5.15	2.83 (55.01)	4.70	2.61 (55.59)	5.09	3.01 (59.15)
Selection	16.62	9.30 (55.93)	17.30	11.67 (67.42)	16.91	9.96 (58.92)
First	4.34	3.12 (72.03)	4.59	2.99 (65.22)	4.78	3.21 (67.19)
Second	1.12	0.59 (52.88)	1.06	0.59 (55.62)	1.01	0.59 (57.82)
All Grades together	27.23	16.85 (58.20)	27.66	17.86 (64.59)	27.80	16.78 (60.34)

Table 5.13 B. Profession Tax

(Rs. in Crores)

Grade	1991-92		1992-93		1993-94	
	Demand	Collection	Demand	Collection	Demand	Collection
Special	2.16	0.53 (24.42)	2.20	0.36 (16.40)	3.03	1.69 (55.62)
Selection	8.71	1.89 (21.68)	9.10	1.38 (15.20)	12.72	9.14 (71.85)
First	2.80	0.50 (17.62)	3.59	0.36 (9.92)	5.09	3.69 (72.50)
Second	0.58	0.10 (17.62)	0.75	0.07 (9.68)	1.08	0.84 (77.89)
All Grades together	14.25	3.02 (21.22)	15.64	2.17 (13.89)	21.92	15.36 (70.05)

Note: Demand includes current demand and arrears in the previous year. Figures in brackets indicate percentage of collection in demand.

Own Revenue

5.3.34. It will be seen from the above statement that in Special Grade TPs, the percentage of collection increased from 55 in 1991-92 to 59 in 1993-94. Similarly, in Selection Grade TPs, the percentage rose from 56 to 67 in 1992-93 but declined to 59 in 1993-94. The performance in I Grade TPs was very good in 1991-92 with 72% but declined to 65 % in 1992-93 and had picked up to 67.19 % in 1993-94. In II Grade TPs, the collection performance was 53% in 1991-92, but increased to 58% in 1993-94. On an average, the performance of all the Grades put together, worked out between 58% and 64% in 1992-93 and 60% in 1993-94. This indicates that the low rate of revenue in TPs was not due to low level of taxation alone and that the intra-class variations were due to very low level of collection performance also. It is seen from the above that every year about 40% of the revenue remained uncollected and sizeable amount was allowed to accumulate as arrears. The remedy by way of collection will definitely increase the per capita income rate in TPs even before resorting to tax reforms for raising additional resources. It is also clear that without gearing up the administration, any effort to raise additional resources will not yield better results.

5.3.35. In the case of Profession Tax also, it is found that the total collection in 1991-92 was only 21% which has considerably increased to 70% in 1993-94. Here also the need for organising the administrative structure to bestow their attention on collection performance has to be stressed.

Non-Tax

5.3.36. The non-tax revenue contributed about 26.75% in 1993-94 which accounted for Rs.26.51 per capita. Of the non-tax revenues, the income from properties, contributed between 39% and 41% on an average. The next was User Charges which contributed between 25% and 28%. If it is analysed grade-wise, the average income was more in higher categories, namely, 60.2% in Special grade and 10.46% in II grade. The figures of standard deviation and CV indicate that intra and inter-class variations were very high and the income was found more when the grade is higher. These variations reflect the differences in User Charges and deficiency in the administrative machinery.

Assigned/Shared Taxes

5.3.37. The Assigned/Shared revenues contributed on an average about 34% of the total income with average per capita of Rs.28.70. Here also the income from this source varied very widely between the groups, namely, Rs.19.42 in II Grade and Rs.46.56 in Special grade. The standard deviation and CV indicate inter-class and intra-class differences under this item also. Of the shared revenues, Surcharge on Stamp Duty contributed between 83 and 84% in all these years. The next was the Entertainments Tax which contributed about 13%. The other taxes have been meagre. The income from Surcharge on Sales Tax contributed 1.29% in 1991-92, 2.46 % in 1992-93 and 1.23% in 1993-94, which showed the declining trend of sharing under this revenue. These variations are interpreted to indicate that the design of present system of sharing has only increased the imbalances instead of correcting them.

Grants

5.3.38. Grants-in-Aid contributed only about 3 to 4%, with the per capita income ranging from Rs.2.47 to Rs.3.41. Of the Grants, the General Purpose Grant and Road Grant have contributed higher percentages. Similarly, the incentive grants available to a few TPs have also contributed about 10.96% of the total grants. On an analysis of the grants position, grade-wise, the average per capita was Rs.4.03 in Grade II while it was Rs.4.65 in Special grade. While it was analysed with reference to population basis, large variations were noticed. The system of grants has not actually helped the lower categories with necessary funds to equalise their capacity in realising resources. On an analysis of the expenditure, it was indicated that fiscal performance measured in terms of per capita, showed wide variations within each class. If these indicators were taken as showing the level of service, the service levels varied drastically among the TPs. The various parameters indicated above have clearly indicated that the per capita revenue of TPs was very low for adequate provision of services which also varied drastically among TPs. The full exploitation of revenue potential was lacking. With the reforms proposed on tax and non-tax revenues and with the re-distribution of shared revenues in a scientific system of transfer proposed, there is scope for TPs to improve

their fiscal conditions. However, it is essential that the administration of TPs has to be streamlined on priority basis before implementing the reforms to enable the realisation of benefits with full exploitation.

D. Panchayat Unions

5.3.39. The consolidated revenue receipts/expenditure and capital receipts/expenditure are shown in the Table below:-

Table 5.14 Consolidated Budgets of Panchayat Unions, 1989-90 to 1993-94
(Amount Rs. in lakhs: Per capita in Rs.)

Details	1989-90	1990-91	1991-92	1992-93	1993-94
Revenue Receipts					
Amount	20538.04	24975.61	26169.04	29644.82	38731.59
Per capita	63.19	76.85	80.52	91.22	119.18
Revenue Expenditure					
Amount	19979.56	23014.36	22548.93	24894.02	32508.81
Per capita	61.48	70.81	69.38	76.60	100.03
Revenue Surplus Amount	558.48	1961.25	3620.11	4750.80	6222.78
Per capita	1.72	6.03	11.14	14.62	19.15
Capital Account Receipts					
Amount	783.61	1247.14	1126.03	1177.43	1107.60
Per capita	2.41	3.84	3.46	3.62	3.41
Capital Expenditure					
Amount	1274.51	1505.91	1824.53	1972.23	2157.92
Per capita	3.92	4.63	5.61	6.07	6.64
Capital Surplus/Deficit					
Amount	490.90	258.77	698.50	794.80	1050.32
Per capita	1.51	0.80	2.15	2.45	3.23
Total Receipts					
Amount	21321.65	26222.75	27295.07	30822.25	39839.19
Per capita	65.61	80.69	83.99	94.84	122.58
Expenditure					
Amount	21254.07	24520.27	24373.46	26866.25	34666.73
Per capita	65.40	75.45	75.00	82.67	106.67
Net Surplus	67.58	1702.48	2921.61	3956.00	5172.46
Per capita	0.21	5.24	8.99	12.17	15.92

5.3.40. The results indicate that there was a surplus of Rs.62.22 crores at the end of 1993-94 with a per capita surplus of Rs.19.15 under revenue account. The capital account exhibited a deficit of Rs.10.50 crores with a per capita of (-) Rs.3.23.

5.3.41. The net over-all position indicated a surplus of Rs.51.72 crores with Rs.15.92 per capita. However, the distribution of PUs according to revenue surplus and deficit is furnished hereunder. The surplus is mainly due to users indicated in para 5.3.47

Table 5.15 Distribution of Panchayat Unions according to Revenue Receipts and Expenditure

Amount (Rs. in lakhs)	Revenue Receipts					Revenue Expenditures				
	89-90	90-91	91-92	92-93	93-94	89-90	90-91	91-92	92-93	93-94
Upto 25	47	25	18	12	7	59	35	29	19	13
25-50	137	94	99	75	28	144	112	134	114	46
50-75	128	148	131	124	77	118	147	137	132	104
75-100	55	75	85	92	107	46	59	51	80	111
Above100	17	42	51	81	165	17	31	33	39	110
Total	384	384	384	384	384	384	384	384	384	384

Table 5.16 Distribution of Panchayat Unions according to Revenue Surplus and Deficit

Amount (Rs.lakhs)	1989-90		1990-91		1991-92		1992-93		1993-94	
	Surp.	Deft.	Surp.	Deft.	Surp.	Deft.	Surp.	Deft.	Surp.	Deft.
0 - 2	46	34	36	27	24	22	13	16	13	8
2 - 4	42	33	35	23	31	22	28	10	14	17
4 - 6	25	27	35	14	17	13	30	9	22	11
6 - 8	29	21	19	13	23	12	19	10	17	8
8 - 10	22	14	14	9	13	7	15	12	14	3
Above 10	58	33	113	46	163	37	185	37	212	45
Total	222	162	252	132	271	113	290	94	292	92

5.3.42. The above statements indicate that there are 292 PUs having surplus in 1993-94, while 92 PUs have deficit. Of them, 212 PUs have surplus over Rs. 10 lakhs and 45 PUs have deficit of over Rs.10 lakhs. There are 13 PUs having surplus up to 2 lakhs and 8 PUs having deficit up to Rs. 2 lakhs. The liabilities pending discharge have not been taken into account in the over-all position at the State level. Normally in PUs the loan liabilities are comparatively very much less than the urban bodies.

5.3.43. The total revenue receipts have increased from Rs.205.38 crores in 1989-90 to Rs.387.32 crores in 1993-94, which accounted for nearly an increase of 88 %.

This recorded a per capita revenue rise from Rs.63.19 to Rs.119.18. However, it is felt that this per capita receipt is too low to meet adequate provision of services in PUs.

5.3.44. Of the total revenue of PUs, 85 % was contributed by grants. In terms of per capita, this was Rs.52.31 in 1989-90 and it has more or less doubled in 1993-94 to Rs.100.81. Of these grants, 77% accounted for development grants which includes 64% from JVVT alone.

5.3.45. Non-tax revenues have been very low accounting for only 6.58%. Own tax and shared revenues were also contributing very low amounts, namely, 5.3% and 2.91% respectively. The income from these sources varied widely among the categories.

5.3.46. Own tax contributed about 5.3% on an average with per capita of Rs.4.57 in the year 1989-90 and Rs.6.53 in the year 1993-94. The only source available to PUs by way of own revenue was Local Cess Surcharge. While looking into the absolute figures, the income increased from Rs.15.45 crores in 1992-93 to Rs.21.24 crores in 1993-94. This was because of increase in rate of minimum to Rs.5/- in the enactment which was given effect to from late 1993. The full impact has not yet been reflected. There is scope for much more income from this source which will be exhibited from the subsequent years. Along with corresponding matching assistance, there is more scope for sizeable income to PUs.

5.3.47. It is pertinent to indicate that only one Tax Revenue, Local Cess Surcharge (LCS) yielding sizeable amount is credited to Education Account where by the money needed for statutory functions under General Fund was blocked. These factors contributed to the overall surplus shown. PUs are mainly attending to only agency functions for which assistance is made available by the Government. The statutory core functions are not in the limelight in view of the fact that most of these schemes have been withdrawn by the Line Departments. The major work attended to on "Obligatory Functions" was the maintenance of roads linking villages. This accounted for about 42 % of total expenditure. The next was on "Health and Welfare", namely, maintenance of dispensaries which accounted for 37.25 %. The maintenance of assets like school buildings contributed to about 20 %. One notable feature was that there were no wide variations in per capita expenditure as among the different categories.

E. Village Panchayats

5.3.48. The consolidated revenue receipts / expenditure and capital receipts/ expenditure is given below. There is no separate capital account for Village Panchayats. The figures include all grants received including those relating to Centrally Sponsored Schemes.

Table 5.17 Aggregate Budget of Village Panchayats
(Amount Rs. in Lakhs) (Per Capita in Rs.)

Year	Receipts		Expenditure		Net Surplus/Deficit	
	Amount	Per capita	Amount	Per capita	Amount	Per capita
1989-90	10366.11	31.90	9510.97	29.26	855.14	2.63
1990-91	10587.86	32.58	10948.83	33.69	- 360.97	- 1.11
1991-92	9883.03	30.41	8334.60	25.65	10548.43	4.76
1992-93	11769.04	36.21	10193.24	31.36	1575.80	4.85
1993-94	14206.12	43.71	12357.02	38.02	1849.10	5.69
5Yrs. Avg.	11362.43	34.96	10268.93	31.60	1093.50	3.36
Net Surplus					5467.50	16.82

5.3.49. The aggregate receipts rose from Rs.103.66 crores in 1989-90 to Rs.142.06 crores in 1993-94. The per capita increase was from Rs.31.90 to Rs.43.71. The increase accounted for 37% over these years. However, the per capita figure was too low to make adequate provision for services.

5.3.50. Own Tax revenue of VPs which was 8.3% in 1989-90 went up to 11.9% in 1993-94 taking the per capita increase from Rs.2.64 to Rs.5.21. Of the Own Taxes, house tax accounted for 67.7% and Profession Tax 18.5%. The other taxes were only nominal.

5.3.51. Obligatory expenses accounted for Rs.16.91 per capita. It is evident that the VPs were unable to meet their obligatory expenses from out of their own taxes. Even including the resources from non-tax which remained at an average of 10.1% of total receipts, it will not be possible for VPs to meet their obligatory expenses from their total own revenue. It is seen that the grants have recorded a major share of the total resources. On a comparison with the position in 1989-90, the percentage of grants has fallen down from 50.21 in 1989-90 to 43.1 in 1993-94. But, in absolute terms, the income has increased from Rs.50 crores in 1989-90 to Rs.61.29 crores in 1993-94. Of these grants, statutory grants have accounted for 16% and the balance for development grants. The shared taxes have on an average contributed nearly 37.21% of the total receipts. Of them, Surcharge on Stamp Duty alone contributed 95% of the shared taxes while the Entertainment Tax contributed only 3.3%. The above position indicates that VPs were not very much benefited out of the Entertainment Tax when compared to urban bodies.

5.3.52. The number of Village Panchayats distributed according to surplus and deficit with population-wise category and the Village Panchayats distributed according to total revenue and expenditure are given below:

Table 5.18 Distribution of Village Panchayats according to Revenue

Amount (in Rs.)	1989-90		1990-91		1991-92		1992-93		1993-94	
	Surp.	Def.	Surp.	Def.	Surp.	Def.	Surp.	Def.	Surp.	Def.
0 - 5000	2781	1684	2712	1704	2923	1442	2442	1422	2195	1272
5001 - 25000	3077	1969	2247	2723	3394	1646	3205	1761	3042	1779
25001 - 50000	1031	494	595	940	1015	418	1162	495	1291	491
50001 - 1 Lakh	636	295	380	596	642	273	785	296	940	349
Above 1 Lakh	386	230	313	373	616	214	677	338	828	396
Total	7911	4672	6247	6336	8590	3993	8271	4312	8296	4287

Table 5.19 Distribution of Village Panchayats according to Total Receipts and Expenditure

Amount (in Rs.)	1989-90	1990-91	1991-92	1992-93	1993-94	5Yr. Avg
Revenue Receipts:						
0 - 5000	323	289	204	200	138	90
5001 - 25000	2684	2853	3524	2678	1946	1905
25001 - 50000	3264	3253	3579	3329	3261	3301
50001 - 1 Lakh	3251	3124	2666	3008	3254	3597
Above 1 Lakh	3061	3064	2610	3368	4084	3690
Total	12583	12583	12583	12583	12583	12583
Revenue Expenditure						
0 - 5000	433	355	359	290	230	132
5001 - 25000	2956	2723	4068	3309	2523	2275
25001 - 50000	3306	3083	3514	3374	3382	4313
50001 - 1 Lakh	3187	3103	2548	2819	3028	3569
Above 1 Lakh	2701	3319	2094	2791	3420	3194
Total	12583	12583	12583	12583	12583	12583

NB: Total number of Village Panchayats as on date is 12,584, of which one was constituted before Panchayat Elections 1996. Data gathered and analysed are only in respect of 12,583 Village Panchayats.

5.3.53. About 37% of Village Panchayats have registered deficit in 1989-90, while 34% were in deficit in 1993-94. Similarly, in 50% of Village Panchayats, total receipts exceeded Rs. 50 lakhs in 1989-90 while 58% Village Panchayats had total receipts of more than Rs.50 lakhs in 1993-94 including allocation for various Employment

Programmes. The State level aggregate does not reflect the real position of the individual Panchayats. The disaggregated analysis of individual Village Panchayats has taken the grouping according to (1) income per capita range (2) population and (3) percentage of SC/ST. They have indicated that the per capita outlays exceeded per capita receipts in smaller income groups and there were wide variations in per capita total receipts and expenditure among different groups. The inter-class and intra-class differences reflect the differences in fiscal domain in the tax rates, user charges and administrative efficiency in performance. It is also pointed out that Village Panchayats in larger income group were getting more grants and therefore the present system of transfer has increased the imbalances instead of correcting them. Out of 12583 Village Panchayats, 6528 Village Panchayats with below average per capita own revenue received below average per capita grants. On the other hand, 1193 Village Panchayats having above average per capita own revenue got above average per capita grants. This exhibited the violation of the general principles of distribution of grants on equitable basis. The revenue gap measured as a shortfall of own revenues as percentage of total expenditure was 47.2%. This shortfall was higher in Village Panchayats with lower population. Transfers are however justified as tax capacity varied from one to another. Some who enjoyed a higher taxable capacity had a relatively low level of need. They were fiscally strong as measured by the ratio of capacity to meet. Others were in reverse position. It is suggested that in this situation, the transfer mechanism should be made useful to equalise fiscal position among the Village Panchayats.

5.3.54. The State Finance Commission has suggested certain steps to correct imbalances and to provide equal and adequate services to people in different Local Bodies. As a first step, it has recommended the estimation of revenue potential of the Local Bodies, i.e., an index of ability to raise own resources. Then the cost of services proposed to be provided by the Local Body should be worked out. The question will then arise - What would be the level and standard of services to be provided? Fixing standards and levels of different services is a difficult task. However, the expenditure norms and standards for at least key services should be worked out and then the revenue gap or requirement should also be calculated. Once the requirement is known, then it should be financed through proper transfer mechanisms.

5.3.55. In this regard, the State Finance Commission considered the following aspects:

- (1) Full exploitation of revenue potential, proper assessment of property, easy procedure for appeal, revision of rates on both residential and commercial properties and the components of property tax, enforcement of good collection, thorough review of exempted cases from property tax net, revision of rates of other Local Body taxes and optimum adoption of user charges will strengthen the mobilisation of internal resources.
- (2) Assignment of additional taxes subject to the efficiency of Local Body to collect those taxes and piggy-backing on certain elastic

resources such as excise duty, sales tax and motor vehicles tax etc., will improve the taxing powers of the Local Bodies.

- (3) The sharing might be through a formula based on factors such as collection performance, population and expenditure needs. Grant distribution policy should satisfy the principle of equalisation of expenditure, i.e., the transfer should be made in such a way as to reduce the imbalances and equalise the financial status and service levels of the Local Body.
- (4) The feasibility of privatising those services where Non Governmental Organisations (NGOs) can provide the services at competitive cost depending on the nature and type of service should be explored.