

General Recommendations

6A.1 Twenty nine functions were transferred to the local bodies in 2006. However, many of the schemes are still being run by the UT administration. It is essential that all these schemes be run by the local self-government institutions. This will reduce the workload of the government departments substantially. It will help them to focus more clearly on their regulatory and statutory functions and hopefully perform more effectively. Meanwhile, the Panchayats and Municipalities can focus on development work at the grass roots level embedded in these 29 functions. Schemes should be planned and implemented by the local bodies rather than have them thrust down on them by higher authorities, for which they need to be given untied funds. The Commission recommends that at least 35 per cent of the total plan fund be immediately devolved to the local self-government institutions in all the Union Territories including the Municipalities. However, individual UTs should estimate the current expenditures on those components of the 29 functions that have not been devolved yet to the local bodies. The Commission proposes that within one year, all the functions, corresponding functionaries and funds be devolved to the local bodies and till such time the fixed share of atleast 35 per cent of the plan fund may continue.

6A.2 It is observed that local body institutions are deprived of a predictable flow of maintenance grants in all the UTs. The Second Finance Commission did recommend that fixed maintenance grants be provided to the local bodies. Fixed grants do not take care of the inflation and also differential requirements of individual local bodies and increasing cost of provisioning of public services. The Commission recommends that 2 per cent of the total non-plan expenditure from the UT budget be provided as the maintenance grants to local bodies over and above what is being provided as salary and other expenditure for staff on diverted capacity to local bodies. To keep the distribution principle of non-plan grants simple and transparent, the Commission recommends that funds should be distributed on per-capita basis across Panchayats.

6A.3 It is important that a transparent devolution mechanism be set up for the distribution of plan funds. The Second Finance Commission had suggested an elaborate devolution mechanism on the basis of tax proceeds and the type of grants to be given and followed it up in good measure by giving guidelines for utilising these grants. However, given the wide diversity and disparity in the various UTs and their local bodies, it may be difficult to prescribe a rigid formula. But the Commission has tried to evolve a mechanism of transfers which is simple, transparent and easy to implement. The Commission proposes that it should be a combination of need and cost disabilities of the local bodies in the provision of public services. It is not only that the UTs are in remote part of the Country (except Daman and Dadra Nagar Haveli), there are huge intra-UT differences in the cost of provisioning of public services. So the Commission proposes that 50 per cent weightage should be given to the need reflected in population share and 50 per cent should be the cost disability reflected in the unit cost of provisioning of public services in the distribution of Plan fund. The Commission proposes that PWD norms for all civil works be used as an index of cost disability.

6A.4 One observation this Commission would like to make is that Village Panchayats should get a much larger share than they are presently getting. There is a tendency for the funds to get stuck at the District Panchayat level. The Second Finance Commission had suggested certain norms but these are more followed in the breach. Each UT administration should ensure a fair and equitable distribution among the hierarchy of the Panchayats. The Commission proposes that at least 75 per cent of the total devolved funds be used by the lowest tier of the government.

6A.5 The Commission has also observed that the budgets of the lower tiers of Panchayats are controlled by the District Panchayats which is in contravention to the spirit of decentralisation as envisaged in the Constitution. Each tier of Panchayat should be able to function autonomously without any interference or financial control from higher tiers. In this regard, the Commission proposes that transfer of funds from the UT Administration to lower tier of Panchayats should be made directly without channelizing these through the District Panchayat. This would enable each tier of Panchayat to formulate their Annual Budget independently.

6A.6 The timeliness and quantum of funds to be devolved to the local bodies needs to be predictable. Therefore the Commission is of the opinion that the transfer of funds to the local bodies should be done in ten equal instalments over the first three quarters of the financial year.

6A.7 The Commission is of the view that the Annual Plan of each tier of local body should be vetted by a District Planning Committee to be constituted as per the norms laid down in Article 243 ZD of the 73rd and 74th Constitution Amendment Act 1992. The District Planning Committee shall be assisted in this task by District Level Technical Advisory Groups (DLTAGs) constituted out of Departmental Staffs of the line departments.

6A.8 Along with the transferred functions the UT administration should also transfer the staff to the Panchayati Raj institutions. Many of the Panchayats (at various levels) are very poorly staffed. There should be immediate rationalisation of staff on the basis of the work being done. It is also not essential to create new posts in the local bodies as the same staff can be transferred. The work of the UT administration will come down and correspondingly the requirement of staff will also be less. Meaningless recruitment of staff will only render the bureaucratic structure heavy without the concomitant benefits. However, it is important to undertake huge capacity building exercise of the staff for the purpose accounting, managing data base and above all for sensitization and awareness on the benefits of decentralization and the processes that have been undertaken since the 73rd and 74th Constitutional amendments in the country for decentralization.

6A.9 Transferring these functions will require considerable efforts and the Home Ministry may be required to use its good offices to prod recalcitrant UT administrations into timely devolution of funds. This will ensure healthy and vibrant local body institution capable of carrying on tasks assigned to them under the Constitution.

6A.10 No new taxes at the local bodies level is being recommended by this Finance Commission. This may initially seem to go against the thinking of all Commissions which normally recommend a plethora of taxes. It is being done essentially since the First and Second Finance Commissions had recommended a host of measures to boost up the resources of the Panchayats and Municipalities.

The First Finance Commission had recommended widening of the tax base, review of tax rates, making taxes like property tax compulsory, transfer income generating assets to the local bodies and a host of such measures. The Second Finance Commission had also stressed on strengthening the resource base. It they sought to increase tax collections by supporting new tax measures and reforming the old tax structures. A host of user charges were recommended. This Commission re-endorses their recommendation but notes with regret that little has been done to make them a reality. Hence, it is suggested that the old recommendations should be implemented in right earnest.

6A.11 The Finance Commission observed that accounting standards are not up to the mark. Ledgers, cashbooks, etc should be updated regularly and all inventory registers should be maintained. Statutory audits should be conducted at prescribed intervals. This will help in providing financial management of these local bodies in a better way. As proposed Panchayat level computerisation and use of accounting software is a must and dedicated fund should be provided to each Panchayat.