

CHAPTER 1

INTRODUCTION

1.1 In its notification dated 21st January, 2009 the Ministry of Home Affairs set up the IIIrd Finance Commission for the Union Territories of Andaman & Nicobar, Daman & Diu and Lakshadweep. All these are Union territories without legislative assemblies. The relevant text of the notification specifying the terms of reference for the 3rd Finance Commission are reproduced below.

1.2 The Commission shall review the financial position of the Panchayats and Municipalities and make recommendations relating to the following matters, namely:-

- a) the distribution between the Union territory Administrations of Andaman and Nicobar Islands, Lakshadweep Islands, Daman and Diu and Dadra and Nagar Haveli and their Respective Panchayats and Municipalities of the net proceeds of the taxes , duties, tolls and the fees leviable by the respective Union territory Administration:
- b) The determination of the taxes, duties tolls and fees which may be assigned to, or appropriated by the Panchayats and Municipalities of the Andaman and Nicobar Islands, Lakshadweep Islands, Daman and Diu Dadra and Nagar Haveli;
- c) The grants-in-aid to the Panchayats and Municipalities of Andaman and Nicobar Islands; Lakshadweep Islands, Daman and Diu and Dadra and Nagar Haveli from the Consolidated Fund of India; and
- d) The measures needed to improve the financial position of the Panchayats and Municipalities in the Andaman and Nicobar Islands, Lakshadweep Islands, Daman & Diu and Dadra and Nagar Haveli and to improve their capacity to enlarge their resource base.

1.3 In making its recommendations, the Commission shall, inter alia , have regard

to :-

the objective of balancing the receipts and expenditure on revenue account of the Andaman and Nicobar Islands, Daman and Diu, Dadra and Nagar Haveli and Lakshadweep and their Panchayats and Municipalities; thereafter, in a manner that Sufficient surplus is generated for capital investments;

- a) the maintenance and upkeep of capital assets and maintenance expenditure on plan schemes to be completed during the 10th Five Year Plan period and the norms on the basis if which specified amounts are recommended for the maintenance of the capital;
- b) the need for ensuring reasonable returns on the investments by the Panchayats and Municipalities in commercial undertakings, power projects, public sector enterprises, etc;
- c) the revenue resource of the Panchayats and Municipalities based on the existing resources and taxes duties, tolls and fees proposed to be levied or appropriated by the Panchayats and Municipalities for the period 2001-02 to 2009-2010, to coincide with the period of the National Finance Commission and also assess the expenditure needs for this period and the broad areas of development to be undertaken by the Panchayats and Municipalities.
- d) the long term perspectives plans and developmental goals of the Andaman and Nicobar Islands, Daman and Diu, Dadra and Nagar Haveli and Lakshadweep, the order of investments required to achieve these goals and the possible sources for the required resources;
- f) the scope for better fiscal management consistent with efficiency and economic expenditure;

1.4 The Commission may also evolve a system for monitoring consistent with physical progress of projects or schemes (on both plan and non-plan sides) against financial outlays made available.

1.4 In making its recommendations on the various matters aforesaid, the Commission shall adopt the latest population figures as of 2001 census in all such cases where population is a factor for providing the

grants-in-aid or for the assessment of taxes, duties, tolls, fees, etc., to the Panchayats and Municipalities.

1.6 The Commission shall make its report available within a period of nine months, from the date of its constitution, and the Commission shall indicate the basis on which it has arrived at its finding and make available the Panchayat-wise and Municipality -wise estimates of receipts and expenditure.

1.7 Under Article 243.1 of the Constitution, Finance Commissions for States and Union Territories are to be set up once in every five years. The provision for the periodic appointment of an independent Finance Commission is to limit the scope of discretion of the higher levels of governments in the matter of transfer of resources. The 73rd and 74th Constitutional amendments had made it mandatory to transfer 29 subjects & 18 subjects and functions to the rural and urban local bodies respectively. Hence, the primary responsibility of providing of local public services and other development functions now rest with the local bodies, yet their fiscal autonomy and the own resource base still remains abysmally low. This shortfall is attempted to be rectified by pronouncements of the Finance Commissions.

1.8 Union Territories are different from States in the Union of India particularly with regard to powers of legislation and in financial matters. The budgets of these Union territories (which are without legislatures) are presented as part of the Central budget. Almost all powers on financial matters rests with the Central Government. Even the administration of these Union Territories is controlled by an Administrator who is appointed by the President of India. (In Andaman he is designated as the Lt. Governor while in Daman & Diu and Dadra & Nagar Haveli and Lakshadweep he is called the Administrator.

1.9 Both the Plan and Non-Plan expenditure are also met out of the Consolidated Fund of India. The Plan and Non-Plan funds are not linked to the resources (unlike the state Government) available in the Union Territory but are based on the requirements of these Union Territories. Therefore elements which are vital in funding the plan of a State Government like balance from current revenue (BCR), additional revenue mobilisation (ARM), contribution from state enterprises, capital receipts etc are largely not relevant. Unlike, state Govts, these UTs cannot also borrow money and hence loan repayment is not part of the budgetary exercise. All receipts collected in these UTs goes into the Consolidated Fund of India.

1.10 Despite these liberal terms, it does not mean that fiscal prudence is given short shrift in budgetary formulation of the UTs and subsequently their local self-govt. bodies. The terms of reference of this Commission especially 3 (d) and 4 (a) 4 (c) and 4 (f) amply explain the importance the Home Ministry attaches to fiscal rectitude and prudence. It simply means that the procedures adopted for funding the Plan and Non- Plan Schemes of these UTs is slightly different from those of the State Governments. The Commission in making its recommendations shall take due note of these factors and work within the prescribed framework.

1.11 Local self governments have the mandate for providing and maintaining basic infrastructure like

- 1) water supply
- 2) Sewerage/sanitation
- 3) Solid waste collection and disposal
- 4) Primary education
- 5) Primary health.

1.12 The quantum of community facilities and amenities to be provided depend upon the topography of the region, the size of the population and the income level of the people residing there. The main constraint is the availability of funds not only for the capital costs but also for operating and maintaining these facilities.