

CHAPTER - IV

CHAPTER – IV**REVIEW OF THE RECOMMENDATIONS
OF THE FIRST FINANCE COMMISSION**

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REVIEW OF THE RECOMMENDATIONS OF THE FIRST FINANCE COMMISSION

4.1 INTRODUCTION

The First Maharashtra State Finance Commission was appointed on 23rd April 1994. By using different angles and approaches of the Commission studied the position of Local Government in Maharashtra and submitted its report on 31st January 1997. In this report the Finance Commission has made recommendations regarding share of Tax and Grants. Wherever necessary, the Commission has recommended per capita share of grants/taxes. For this purpose, the population of 1991 has been taken as the basis.

The present chapter is divided into two parts viz. Part A and Part B. part A deals with Panchayat Raj institution and part B deals with urban bodies.

- A) Recommendations of Commission Regarding Panchayat Raj Institution**
- 1) Zilla Parishad**
- 1) Land Revenue Grant and Cess thereon**

Commission recommended that, payment of grant of land revenue and cess should be linked to their demand and not to actual recovery, because the Commission informed that present grant

released on the basis of recovery resulting Panchayat Raj institutions received less amount. Present rate of recovery of land revenue and cess is 50 to 60 percent of the demand. The Commission recommended that Panchayat Raj bodies should be given 66.67 percent of the demand of land revenue and cess as an advance grant every year in one or two installments. If recovery is more than this level, the difference should be given in subsequent year. However, if recovery is less than the amount of advance grant in particular year, no recovery should be effected from these bodies. It also recommended the government should issue order to revenue machinery to pay equal attention to the recovery of land revenue and cess as in the case of other government dues.

The estimate of additional total income from original cess and increase cess was Rs. 2376 lakh and Rs. 1344 lakh, respectively in the year 1997-98 to 2000-2001.

2) Cess on Irrigation Tax

Commission recommended that like the grants of land revenue and cess, the irrigation cess grant equal to 66.67 percent of demand should be given to Zilla Parishad as an advance grant. The additional total income to be received in view of the above recommendations during the years 1997-98 to 2000-2001 was Rs. 5070 lakh.

3) Local Cess Matching Grants

The Commission has recommended that increased cess should be given equal to 66.67 percent of the demand. Due to this, the Zilla Parishads and Panchayat Samities would receive the local cess matching grants at the increased rate. The additional total income of Rs. 2372 lakhs would be received from such grants during the years 1997-98 to 2000-2001.

4) Forest Revenue Grant

In order to undertake the project and work in the forest areas the Zilla Parishads received grant equal to 7 percent of the forest revenue. The Commission recommended the percentage of this grant to be raised to 10 percent. Due to this, during 1997-98 to 2000-2001 the total additional income received would be (in view of increase in forest revenue grant) Rs. 4174 lakh.

4) Agency Charges

The present agency charges were less so Commission recommended, this rate be increased to 10 percent instead of 3 percent resulting in Rs. 4807 lakhs additional income would receive (during 1996-97 to 2000-2001) to Zilla Parishads.

6) Grant to Zilla Parishad for Road Maintenance and Repairs

The Commission recommended that from 1997-98 to 2000-2001 the percentage of funds to be received for the repairs of roads should

be increased to 40 percent of funds as per the norms. Due to this the Zilla Parishads would receive additional total income of Rs. 26665 lakh during 1997-98 to 2000-2001.

7) Grants for Maintenance and Repairs of Building

According to figure of 1994-95 grant available to Zilla Parishads for maintenance and repair was less than 8 percent of demands so Commission recommended that from 1997-98 onwards this amount should be equal to 50 percent of the funds required as per norms for maintenance and repair of Building. Due to this recommendation Zilla Parishad received additional income of Rs. 12659 lakhs (during 1997-98 to 2000-2001).

Commission agreed with the view that funds made available for the Panchayat Raj institutions by Central Commission should be utilised for maintenance and repair of buildings.

The Zilla Parishads could receive income from the following two sources.

1) Income from the agency and transferred schemes

The Commission recommended that income from this scheme should be allowed to be retained with the Zilla Parishad without transferring it to the government. It was estimated that Zilla Parishad could receive an income of Rs. 145 lakh per year from these schemes.

2) Non Agricultural Land Tax

The Commission recommended that every Zilla Parishad should charge this special tax. It was estimated that Zilla Parishad would get an income of Rs. 100 lakh per year from this.

It was estimated that the Zilla Parishads could receive the total additional income of Rs. 21949 lakhs, during the year 1997-98 to 2000-2001, from the income from agency and Transfer schemes, non agricultural land tax, drinking water charges, transferred schemes.

Panchayat Samitis

According to Commission own sources of income of Panchayat Samities were their 60 percent share in the increased cess and matching grants. The recommendation made for the Zilla Parishads in respect of the above grant shall also apply to the Panchayat Samities. The total additional income by the way of the grants would be Rs. 5332 lakhs (during 1997-98 to 2000-2001).

Incentive Grants

In order to bring improvement in the management, administrative efficiency and increase in their resources the Commission recommended that the sum of Rs. 25 lakhs per year should be given to the Zilla Parishads as an incentive grants. For receiving this grants Zilla Parishads should levy and recover water rates in respect of regional water supply schemes so that atleast

70 percent (in year 1997-98) 80 percent in 1998-99 and 100 percent in 2000-2001 of the expenditure was recovered through this income. And atleast 70 percent in 1997-98, 80 percent in 1998-99, 90 percent in 1999-2000 and 100 percent in 2000-2001 of the expenditure on maintenance and repairs of irrigation schemes should be recovered by levying and irrigation rates.

Fifty percent of incentive grant shall passed on to Panchayat Samities by Zilla Parishad.

Gram Panchayat

Taking into account of the gap in the total income and expenditure of Gram Panchayats the Commission has made the make following recommendations.

1) Land Revenue Grant

At present the Gram Panchayats are given this grant equal to the average recovery of ordinary land revenue of 5 years. The Commission recommended that the grant should be given to the extent of 66.67 percent of the demand as an advance, resulting in Gram Panchayat receiving total additional income of Rs. 204 lakhs during 1997-98 to 2000-2001.

2) Gram Panchayat Cess on Land Revenue

Commission made recommended this grant should be given to the extent of 66.67 percent of demand as an advance. Due to this

Gram Panchayats would receive the total additional income of Rs. 1508 lakhs in 1997-98 to 2000-2001.

3) Profession Tax

The Commission recommended an amount of 10 percent of the total recovery made by government from this source, to be given to the local bodies. Further the Commission recommends that, on the basis of population 20 percent of it should be given to Gram Panchayats on per capita basis. While estimating the income from the profession tax for five years, the increase of 5.5 from 1996-97 has been taken into consideration. Total additional income estimated from profession tax was Rs. 3078 lakh during 1997-98 to 2000-2001.

4) Additional Per Capita Grant to Gram Panchayat

The Commission recommended the additional per capita grant (to Gram Panchayat) of Rs. 8 lakhs in 1997-98, Rs. 8 lakhs in 1998-99, Rs. 10 lakhs in 1999-2000, Rs. 11 lakhs in 2000-2001 should be given to the Gram Panchayats. The additional state level total estimated grant was Rs. 18392 lakhs, during 1997-98 to 2000-2001.

Total estimated income which was received by Gram Panchayats by the way of taxes and grants due to recommendations of Commission is Rs. 128338 lakhs (total from 1997-98 to 2000-2001).

4.3 RECOMMENDATIONS OF COMMISSION REGARDING URBAN BODIES

Following are the main recommendations of the Finance Commission regarding fill up the gap between Income and Expenditure of Urban Bodies.

1. Dearness Allowance Grant

This grant is not admissible to Municipal Corporation. Taking into account the financial position of Municipal Councils, the Commission recommended that the percentage of dearness allowance grants should be increased and it should be 90 percent for 'A' Class Municipal Councils, 100 percent for 'B' Class and 'C' Class Municipal Councils. The total additional income from this grant is estimated Rs. 5079 lakhs during the years 1997-98 to 2000-2001. The Finance Commission has given the fresh norms for the allocation of dearness allowance these are as follows.

Percentage of recovery	Dearness allowance
Upto 60 percent	70
From 60 to 70 percent	80
From 70 to 80 percent	85
Above 85 percent	100

2) Grant for Salary and Allowance of Chief Officer

This grant is released to 'C' Class Municipal Councils only, for salary and allowance of Chief Officer. Those Municipal Councils, having population less than 15000 are received this grant, 42 Municipal Councils were receiving this grant in the year 1997. The Commission recommended to remove the population limit and gave grant to all 'C' Class Municipal Councils. The Commission's estimate of the total additional grant was Rs. 571.33 lakhs during 1997-98 to 2000-2001.

3) Land Revenue and Non Agricultural Grant

The Commission recommended that the amount of grant which is currently given to the Municipal Corporations and Municipal Councils by the way of land revenue should be increase to 75 from 15 percent. The current rate of non agricultural grant would be continued. Accordingly, both the grants would be given at the rate of 75 percent. Municipal bodies receiving total additional income from this source was estimated Rs. 1139.20 lakhs during 1997-98 to 2000-2001, out of total additional income Municipal bodies could receive Rs. 1069.44 lakhs.

4) Share in Entertainment Tax

The Commission recommended that revised share of entertainment tax should be 50 percent for 'A' Class, 90 percent for 'B' Class, 100 percent for 'C' Class Municipal Councils and 25 percent for the Municipal Corporations.

5) Vehicle Tax

In respect of vehicle tax, the Commission recommended that 25 percent of net income should be set aside and allocated as 'Tax share' to all urban bodies.

6) Surcharge

The Commission recommended, percentage of surcharge should be increased to 1 percent from $\frac{1}{2}$ percent and that amount should be given to the Municipal Councils. The Municipal Corporations were not receiving this grant so the Commission recommended that even in Municipal Corporation area, a provision should be made to charge the surcharge at the rate of 1 percent and that amount should be given to Municipal Corporations.

7) Royalty Tax from Minerals

The grant is given only to 'C' Class Municipal Councils to the extent of Rs. 1 lakh from out of the royalty amount collected from the mineral in their areas. The Commission recommended, this grant should be continued however; the limit of grant should be raised to Rs. 5 lakhs.

8) Profession Tax

As per information of Sales Tax Department the percentage of total income received from profession in the urban areas tax was 90 percent and only 10 percent from rural areas. Taking into account

this condition Commission recommended that an amount equal to 10 percent of net the income of this tax set aside to the local bodies. Out of this amount 80 percent should given to urban bodies and 20 percent to the Gram Panchayats on per capita basis. The Commission had given little more weightage to Gram Panchayats. Total additional income estimated from this source from 1997-98 to 2000-2001, was Rs. 11959.54 lakhs, out of the total estimated amount, the Municipal Corporations would receiving Rs.7497.59 lakhs..

9) Slum Improvement Grant

In some cities (approximately 61) the slum improvement scheme is being implemented by the State. The government gives grants-in-aid at the rate of Rs. 800 per capita. The commission recommended that it should be raised from Rs. 800 per capita to Rs. 1000 per capita.

10) Special Grant to Hill Station Municipal Councils

Considering importance of Hill Station the Commission recommended that a sum Rs. 10 lakhs per year should be given as 'Tourism Development Grant' as special case to each Municipal Council.

11) Primary Education Grants

Commission recommended that the percentage of this grant released to Municipal bodies should be increased by 10 percent for

'A' and 'B' Class Municipal Corporations and 'C' Class Municipal Councils are concerned, the rate of grant may be continued.

12) Incentive Grants

Commission recommended incentive grant release on following terms.

Urban local bodies	Incentive grant	Minimum condition laid down for grant
Municipal Corporations	Rs. 1 crore each	1) Meeting revenue expenditure on operation and maintenance of water supply through water tax atleast upto 70 percent in 1997-98, 80 percent in 1998-99 and 100 percent in 2000-2001 2) The recovery of property tax should be 80 percent of the total demand (including arrears) 3) The income other than taxes should be increased by 25 percent per year.
'A' Class Municipal Councils	Rs. 40 lakh each	
'B' Class Municipal Councils	Rs. 25 lakh each	
'C' Class Municipal Councils		

Considering needs of increasing basic amenities in urban area the Commission suggested to establish an 'Urban Development Fund' and try to obtain assistance from World Bank. Also Commission suggested financially sound bodies to come in open market to raise funds for developmental activities.

Estimate of Additional grant/Share of tax which will be received by the Urban bodies as per recommendations of the Commission (from 1997-98 to 2000-2001) was Rs. 42802.19 lakhs in which additional total estimated income of Municipal Corporation was Rs. 18443.46 lakhs.