CHAPTER-II
MOBILISATION OF REVENUE RESOURCES IN PANCHAYATI RAJ INSTITUTIONs

2.1 Introduction

The 73rd Constitution Amendment Act, 1992 conferred a constitutional status on the PRIs considering them as institutions of self government. As per the directive principles of State policy, the State had taken steps to organise the PRIs by endowing them with powers and authority to implement plans for economic development and social justice. For making the fiscal decentralisation meaningful and to maintain the balance between the functional assignments and resource availability, the State, as per the recommendations of successive Finance Commissions had taken steps to assign different revenue earning handles to the PRIs. The act and rules of the PRIs have been suitably amended adding new perspectives to their functions and responsibilities and they are now expected to work with broader frame work for moblising their resource base and become self sufficient to discharge their obligatory functions as per the need and expectations of the people. The amended act of Orissa Gram Panchayat (GP), Panchayat Samiti (PS), Zilla Parishad (ZP) and the rules made thereunder govern the principles of functioning of the three tiers of the PRIs.

2.2 Audit Coverage

A review in respect of revenue mobilization of PRIs covering a period of five years from 2003-04 to 2007-08 was conducted during the period from December 2008 to May 2009 with reference to records of 55 PRIs (40 GPs., 13 PSs.and two ZPs).

2.3 Taxation powers and sources of revenue of Gram Panchayats

Under Section 83 of Orissa GP Act, 1964 (Orissa Act 1 of 1965), the GPs are empowered to levy the following taxes:

(i) Vehicle taxes for four wheeled carriages drawn by horse and two wheeled vehicles;

(ii) Latrine or Conservancy tax payable by the occupiers or owners of buildings in respect of private latrines. privies, cess pools or premises or compounds cleaned by the Panchayat;

(iii) Water rate where water is supplied by Panchayats;

(iv) Lighting rate for public streets or buildings where lighting arrangement has been made by the GP;

(v) Drainage tax where drainage system is maintained by the GP;

(vi) Fees on private markets, cart stands and slaughterhouses;

(vii) Fees on animals brought for sale in public market;

(viii) Fees for regulating the movement of cattle for the protection of crops;

(ix) Fees for use of any building, structure, shop, stall, in public markets;

(x) Fees for use of slaughter houses and cart stands maintained by the GP;

(xi) Rent from temporary occupiers of open ground, structures or buildings belonging to or maintained by the GP;

(xii) License fees on brokers, commission agents weigh men and measures;

(xiii) Any other tax, rate or fees which GP is empowered to impose by any law in force and

(xiv) Any other tax, toll, fee or rate as may be decided by the GP subject to approval by State Government.

Besides the levy of taxes, the GPs are empowered to issue licenses for carrying on trades, business and running of industries, factories and dangerous and offensive trades under Section 55 of OGP Act. They are also competent to have control over places of public resort and entertainment under Section 56 through issue of licenses including their renewal. The GPs are empowered to levy license fees under Section 57 and 71 of the OGP Act, and exercise ownership on Public properties namely village roads, irrigation sources, ferries, wasteland and commercial land, protected and unreserved forests, markets and fairs.

During audit, it was noticed that the PRIs were unable to recover revenues from public for want of guidelines and rates of fees /charges as detailed in succeeding paragraphs.

2.4 Taxation powers and sources of internal revenue of Panchayat Samitis

The Orissa PS Act, 1959 does not empower the PS to levy tax like GPs but section 29 of the Act deals with income of the PS according to which the sources of income of the PS consists of the following items:

(i) Donations and contributions received by the Samiti from the Panchayats or public in any form.

(ii) Proceeds from taxes, surcharges or fees which the Samiti is empowered to levy under the Act or any other law.

(iii) Such contributions as the Samiti may levy on GPs.

(iv) Income from endowments, trusts or other institutions administered by the Samiti. Section 28(i) of the aforesaid Act provides that all moneys received by a Samiti shall constitute a fund called the "Panchayat Samiti Fund".

2.5 Taxation powers and sources of internal revenue of Zilla Parishads

The Orissa Zilla Parisad Act does not empower the ZP to levy any tax like the GPs. However, Section 14 of the Act mentions about the constitution of Zilla Parishad fund and Section 15 of the Act defines the sources of income of ZP, which consists of the following items.

(i) Income from endowments, trusts and other institutions administered by the Parishad.

(ii) Donation and contributions from samitis or from public in any form.

2.6 State Finance Commission

The 73rd Constitution Amendment Act provided for constitution of State Finance Commission (SFCs) at an interval of every five years to look into the resource position of the local bodies and make recommendations to improve their financial position. Accordingly, the 2nd SFC was constituted in June 2003, which submitted its report in September 2004. As observed by the SFC, most of the GPs in Orissa were grappling with narrow tax and non tax base with stagnant source of income as they were not innovative to mobilise their available potential resource base. It recommended for assignment of taxation powers to the PRIs on 17 areas **(Appendix-I)** for augmenting the internal revenue and transfer of non-tax base.

Though the above recommendations were accepted by Government in principle (February 2006), the devolution of the following functions with taxation powers was not made over to the PRIs (March 2009).

i) Markets under the control of Regulated Market Committees;

ii) Sairat sources[††] and minor minerals;

iii) Fees of birth and death certificates and

iv) Sharing of internal income by the three tiers of the PRIs.

2.7 Non-preparation of budget

Annual budget and perspective action plans are considered as part of the vision and mission statements of any organisation and these are essentially required to achieve the objectives with limited available resources. Section 98 of OGP Act, 24 of PS Act and 12 of OZP Act provide for preparation of annual budgets projecting the figures on probable receipts and expenditure of the PRIs. Records of test checked units revealed that non of the PRI units prepared the budget and annual action plans. The annual action plans prepared by the GPs and PSs for some schemes were done in a standalone process as per the scheme requirements which lacked integrated approach.

2.8 Low generation/non-generation of internal income

The revenue generation was made on a few items (**Appendix-II)** of non-tax base like cycle license, and lease / auction of sairat sources and not all of them were tapped every year causing probable loss of revenue to the GPs. The income of the GPs was only restricted to collection of revenue from non-tax base. In test checked ZPs/PSs no such income was generated.

[††] Revenue earning sources.

The meagre amount of income generated by the GPs from internal sources was spent on establishment charges (**Appendix-III)** which included payment of salary of peons and other contingent expenditures leaving hardly any amount for undertaking any developmental activities and provision of basic civic services.

The revenue mobilised by the GPs (**Appendix-IV)** from sairat sources had increased over the years but the quantum continued to be very negligible in terms of percentage to the gross domestic product of the State and varied between 0.02 and 0.03 *percent.* The low generation of income by the GPs was due to non-creation of any revenue earning assets and lack of efforts by the elected local bodies for levy of any taxes/user's fees.

The revenue collected by GPs as a ratio to the State Domestic Product from agriculture and allied activities, which represent the rural income, was very low which ranged between 0.07 and 0.11 *percent*. It was evident from the above fact that despite all emphasis being given on decentralisation, the performance was abysmally low in the provision of civic service and undertaking development activities due to low revenue generation.

Audit observed that the elected local bodies were not interested in augmentation tax and non tax revenues due to political considerations of loosing the goodwill of the people and in the absence of required staff for managing the affairs of the body even though augmentation of revenue was badly necessary for providing the intended level and quality of service to the people.

2.9 Improper management of revenue earning assets

In test checked PSs, no asset register was maintained containing the details of the community assets and properties available at their disposal. The PRIs did not have any revenue surplus for use in creation of capital assets and the only scope for creation of assets was through utilisation of the scheme funds. The Government funded schemes were implemented in the PRIs without pursuing the policy of asset generation to provide impetus for economic growth and poverty alleviation. The assets acquired under SGRY scheme were mostly marketing units constructed by the

PS and handed over to GPs for allotment to the identified beneficiaries. In the test checked PSs, a total number of 962 units were to be constructed upto February 2006 with unit cost of around Rs. 40,000. Out of this, 643 units could be constructed leaving a balance of 319 units (incomplete 297 units and not started 22 units) as of March 2009. Out of the 643 completed units, 480 units were handed over to GPs leaving a balance of 163 units with the PSs and no reasons for attributing to not handing over of these completed units could be furnished to audit. The GPs in turn could allot only 337 units to identified beneficiaries leaving a balance of 143 units remaining vacant as of March 2009. The expenditure incurred on incomplete market complexes was around Rs 1.08 crore which was unproductive.

The loss of revenue due to non handing over/allotment to the beneficiaries of 306 marketing units was around Rs 61200/- per month at the rate of Rs 200/- per unit

2.10 Non-collection of user charges on water supply and sanitation

As per the TFC recommendations, the PRIs were to be encouraged to take over the assets relating to water supply and sanitation and utilise the grants on repair, maintenance and rejuvenation cost and they were to recover at least 50 *percent* of the recurring cost in the form of user charges. Records of test checked units revealed that (except in one GP Rajpur Rs 3648) none of the GPs recovered the user charges. The expenditure incurred on maintenance of the water supply system and payment of salary to the mechanics was Rs 66.36 lakh during 2006-07 and 2007-08 in the test checked GPs (**Appendix-V)** were met out of general fund of these GPs.

2.11 Poor quality of services provided by PRIs

While the PS and ZP Acts are silent on their duties and functions, Section 44 and 45 of GP Act contain a long list of obligatory and discretionary functions to be performed by the GPs in respect of provisions of social and civic services. With low generation of income, the GPs were hardly able to provide any basic services like provision of drinking water, health and sanitation to the people. Their activities were confined to providing some nominal services which mainly related to water supply and construction of road and drain etc. with utilisation of scheme funds. Non-imposition of any service-related tax by the test checked units were indicative of the fact that such services were not provided by them. The non-visibility of benefits and non-acquisition of revenue productive assets had affected the free riding capacity of the GPs to impose any tax.

2.12 Non-adoption of best practices for augmenting the resources

The TFC had made recommendation for adopting some best practices for augmenting the resources of the PRIs which included the following items.

(i) Levy of certain major taxes and exploitation of non-tax revenue sources to be made obligatory for the PRIs and the minimum rate was to be fixed by the State;

(ii) Minimum revenue collection for panchayats to be insisted;

(iii) Introduction of incentive grants by State Government for revenue collection;

(iv) Levy of tax / surcharges / fees on agriculture holding and

(v) Identification of common property assets in the village Panchayats and making them revenue productive.

No action was taken by the State Government to insist the GPs for adoption of best practices (March 2009).

2.13 Monitoring and evaluation

In order to build up the PRIs as effective organisations of Self Government, the State Government has to provide consistent and continued guidance undertaking regular monitoring activities providing internal vigilance, making inbuilt arrangements for mid-course correction and taking up regular evaluation. A major handicap in analysing the panchayat revenue is the paucity of information and data on panchayat finance. For effective planning and monitoring of the activities related to panchayat finance, compilation of data was an area of concern for which EFC had paid a grant of around rupees eight thousand per panchayat and the TFC had earmarked 15 *per cent* of its grant for computerisation of accounts of the panchayats. Based on the recommendations of EFC, the CAG had prescribed standardised formats for maintenance of accounts by the PRIs. Despite full utilisation of funds of the Finance Commission, the PRIs were not able to establish the required database and the accounts were not maintained in the standarised formats. The data maintained at State level was too inadequate to undertake any meaningful analysis. The State Government had not evaluated the efficiency of the PRIs in mobilizing revenue with reference to the powers vested with them and their adequacy at any level.

2.14 Conclusion

Although the State had withdrawn from direct delivery of services coming within the governance of the PRIs, it still had indirect control over their finance and functioning as, the major funding continued to be made by it. On the contrary, the PRIs had not made any ground work for internal revenue mobilisation. With the meagre amount of internal revenue generation, the PRIs subserved their own interests rather than providing service to the people as, the internal income was grossly utilised in establishment expenditure. Despite the functional autonomy given to them, the PRIs were not able to generate any tax base due to low capacity building to administer and enforce the tax measures. Suitable expenditure policy was not pursued to utilise the scheme funds for capital formation and creation of revenue generating assets. Being traditionally dependant on Government grants, the PRIs functioned as Government agencies to implement the schemes and progress of the State Government at the base level bereft of the ethics of self governance and long after enactment of the Constitution amendment act, they still lived in the past having no vision and conviction of becoming self dependant.

2.15 Recommendations

- A relook should be made by the Government. over allocation of distribution of 29 subjects among three tiers of PRIs with separate taxation powers and consider the possibility of assignment of additional revenue handles. Devolution of more taxation power and finding out new area for revenue mobilisation should be made.

- Capacity building should be enforced to administer and enforce the tax measures through linking of benefits to taxes.

- An expenditure policy of creating revenue-earning assets by utilisation of schematic funds should be pursued.

- The best practices recommended by the TFC should be adopted.

- A minimum revenue collection by the panchayats should be insisted with provision of incentive/disincentives for revenue mobilisation so that the elected bodies would be left with no choice of not imposing taxes.

- A regulatory frame work should be evolved for maintaining economy in administrative expenditure.

- Appropriate and timely revision of tax and non tax revenue of PRIs should be ensured.