

STATE FINANCE COMMISSION

K E R A L A

FINAL REPORT

FEBRUARY, 1996

PM. **Abraham,** I.A.S. (Retd.)
Chairman

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Dated : 29th February, 1996.

His Excellency the Governor of Kerala,
Thiru vanan tnapuram.

Sir,

The State Finance Commission was constituted by Government of Kerala in their Notification dated 23-4-1994 under Clause I of Article 243 (I) of the Constitution of India and Section 186 of the Kerala Panchayat Raj Act 1994 to study the financial position of the Panchayats and to make recommendations to the Governor. By virtue of Article 243 (Y) of the Constitution and Section 205 of the Kerala Municipalities Act, 1994, the State Finance Commission has the responsibility to study the finances of Municipalities also.

An Interim Report of the Commission was submitted to the Governor on 30-09-1995. I have pleasure in submitting herewith the Final Report of the State Finance Commission.

Yours faithfully,

(P.M. Abraham)

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FEBRUARY 1996

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KEY TO ABBREVIATIONS AND TERMS

1. Constitutional Amendments	: The Seventy third and Seventy fourth Constitutional Amendments.
2. CFC	: Central Finance Commission.
3. TFC	: Tenth Finance Commission of Government of India.
4. SFC	: State Finance Commission.
5. KPRA, 1994	: Kerala Panchayat Raj Act, 1994.
6. KMA, 1994	: Kerala Municipalities Act, 1994.
7. Municipalities	: Municipal Councils and Municipal Corporations, unless the context implies only Municipal Councils.
8. PRI	: Local Bodies consisting of Village Panchayats, Block Panchayats, District Panchayats, Municipalities and Municipal Corporations. Also referred to as Local Bodies.
9. Panchayat Raj Legislation	: KPRA 1994 and KMA 1994.
10. LBs	: Local Bodies comprising all Panchayat Raj Institutions.(PRI)
1 l. GOI/Central Government	; Government of India. :
12. GOK	Government of Kerala.
13. VRM	: Village Road Maintenance Grant to Village Panchayats as per G.O.Rt,No.52/83/LA&SW - dated 5.1.1983
14. VTC	: Vehicle Tax Compensation given to Local Bodies from out of the Motor Vehicle Tax.
15. KSEB	Kerala State Electricity Board.
16. KWA	Kerala Water Authority. Director
17. DLFA	of Local Fund Audit. KPRA
18. 1994 Acts	1994 and KMA 1994. Kerala
19. 1960 Acts	Panchayat Act, 1960.
20. Own Taxes of Local Bodies	These comprise taxes assigned to Local Bodies and collected by them as well as two taxes statutorily assigned to Local Bodies but collected and made over to Local Bodies viz., Basic Tax or Land Revenue and Surcharge on Stamp Duty on Transfer of Property.
21. Shared Tax	This refers to Motor Vehicle Tax which is the only tax of State Government statutorily shareable with Local Bodies.
22. TOR	Terms of Reference.

ACKNOWLEDGEMENTS

1. The State Finance Commission was appointed by Government of Kerala in Notification dated, 23.04.1994. An Interim Report was submitted to the Governor on 30.09.1995. This is the Final Report of the State Finance Commission.

2. The State Finance Commission was assisted by a Secretariat headed by Shri. N Mohan Das/as its Secretary, Shri. K.G. SukumaraPillai, Joint Secretary, Shri. R. Raveendranathan Nair, Joint Director of Panchayats, Shri A. Hameed Kunju, Under Secretary, Shri C.A. Mathew, Accounts Officer, Sri. B. Sreekumar, Section officer and Smt. M. Sabina Paul, Municipal Commissioner were the other senior officials of the Secretariat. Shri. N. Narayana Pillai worked as Consultant to the Commission since May 1995.

3. The Commission gratefully acknowledges the support it received from the State Government and its various Departments and senior officials by way of inputs of information and suggestions.

4. The Commission benefited a great deal from the Resource Group under the Chairmanship of Dr. Raja Chelliah constituted by the Planning Comnission and the five working groups set up by the Resource Group to go into various aspects of interest to the State Finance Commission. The Commission has also benefited a great deal from its interaction with the National Institute of Public Finance and Policy (NffFP), and the National Institute of Urban Affairs (NIUA), New Delhi and from discussions with Dr. A. Parthasarathy Shome, Director and Professors O.P. Mathur and Dr. Indira Rajaraman of NEPFP with whom certain aspects of the Terms of Reference of the Commission were discussed. We are specially grateful to Prof.O.P. Mathur for the extended discussion we had with him on some aspects of the Report. However, none of them is in any way responsible for any of the infirmities in this Report. The stenographic work vas done by Shri. P. Unnikrishnan Nair, Confidential Assistant with efficiency and competency.

P.M. Abraham
CHAIRMAN
STATE FINANCE COMMISSION

Thiruvananthapuraru,
29-02-1996.

CHAPTER I

INTRODUCTION

APPOINTMENT OF STATE FINANCE COMMISSION

1.1 Government of Kerala in their Notification No.31354/SS 1/94/Fin. dated 23-4-94 constituted the State Finance Commission under Clause-I of Article 243 (I) of tie Constitution of India and Section 186 of the Kerala Panchayat Raj Act, 1994 (KPRA1994) *(Annexure-U}.* Shri. P.M. Abraham was appointed as the Chairman and Shri. K Mohandas and Shri. K.A. Ornmer as members. The Chairman assumed charge on 27-5-94. The Notification dated 23-4-94 gave to the Chairman and Members a term of one year from the date from which they assumed charge. Government subsequently extended the term of Chairman and Members.

1.2 By virtue of Article 243 Y of the Constitution of India and Section 205 of the Kerala Municipality Act 199#(KMA 1994), the State Finance Commission constituted in pursuance of Article 243 (I) of the Constitution has the responsibiliiy to study the finances of the Municipal bodies also.

Terms of Reference

1.3 The Terms of Reference of the Commission are given in para (3) of the Notification dated 23-4-94 *(Annexure-IJ).* they are reproduced below:

"Tlie Finance Commission shaU review the financial position of the Panchayats and make recommeidations as to:

a) the Principles which should govern -

i) the distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the

State, which jnav be divided between them under Part IX of the Constitution and the allocation between the Panchayats at all levels of their respective shares of such proceeds;

ii) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Panchayats;

iii) the gjant-ih-aid to the Panchayats from the Consolidated Fund of the State;

b) the measures needed to improve the financial position of the Panchayats".

The same Terms of Reference mutatis mutandis, hold good for the Commission's study of the-finances of Municipalities as well.

1.4 In Article 243 (!) and in 243 (Y) which give the Terms of Reference of the Finance Commission and in the corresponding Section 186 (10) of the Kerala Panchayat Raj Act, 1994 and Section 206 of the Kerala Municipalities Act, 1994 there is a provision for the Governor to refer to the Finance Commission any other matter in the interest of financial security of Panchayats and Municipalities. Such a provision however, does not form part of the Terms of Reference as given in the Notification dated, 23-4-94 nor has any such matter been referred to the Commission for consideration.

Interim Report (September '95)

1.5 In response to i request dated 2-8-95 from Government, the State Finance Commiision submitted to Governor on 30-9-95 an Interim Report. The Interim Report may be read along with the Final Report and is part of the Report pf the State Finance Commission, The Interim Report dated 30^-95 dealt with the constitution of the Commission, its Terms of Reference, the work done till them and covered the following areas:

1) A general picture regarding Local Bodies.
2) The broad approach of the State Finance Commission.
3) The implications on the transfer of responsibilities as envisaged in the Panchayat Raj Legislation.
4) The additional expenditure resulting from Panchayat Raj Legislation.
5) Payment of arreais by Government to the Local Bodies.
6) Recommendations of the Central Finance Commission and the follow-up actions to be taken in pursuance thereof.

1.6 It was mentioned in the Interim Report that wherever necessary conclusions or recommendations of the Interim Report will be incorporated in the Final Report and that a major area not covered in the Interim Report and which will receive attention in the Final Report is the resource base of the Local Bodies. The Final Report does not seek to reproduce the analysis and reasoning contained in the Interim Report. The recommendations made in the Interim Report have however been included in the Schedule II which gives the recommendations of tie State Finance Commission.

1.7 The work done by the State Finance Commission till the formulation of the Interim Report was mentioned in para 1.6 to 1.11 of the Interim Report. Subsequent to the Interim Report, newly elected bodies in various tiers of Panchayats and Municipalities took office with effect *from* 2-10-1995. The Slate Finance Commission visited various centres in the State during October - December, 1995 to afford an opportunity to the newly elected Local Bodies and other interested persons to meet the Commission and to give their suggestions and opinions on various matters in its Terms of Reference. The calendar of its sittings in various centres in the State is given in *Annexure-1.2.* At these sittings 181 written memoranda were received by the Commission, besides oral presentations; most of these are from representatives of Local Bodies.

Suggestions in writing were also received from Shri. V.S. Achutbanandan, MLA and Leader of the Opposition, Shri. K.V. Thomas, M.P. and Shri. K.P. Nooruddin, MLA.

1.8 The Commission met in all 13 times. The Final Report was approved by the Commission at its meeting on 29-2-*96,

1.9 The next State Finance Commission is due for appointment in 1999. The recommendations of the State Finance Commission are intended to cover the period from 1996-97 till 2000-2001 or till the State Government take decisions on the recommendations of the Second State Finance Comnussion, whichever is later.

1.10 The 73rd and 74th Constitutional Amendments amended Article 280 of the Constitution to enlarge the Terms of Reference of the Central Finance Commission to include recommendations for augmenting the Consolidated Fund of a State to supplement the resources of Local Bodies in the State on the basis of the recommendations of the State Finance Commissiois. The Tenth Finance Commission has'made recommendations for augmenting the Consolidated Fund of the State on an adhoc basis. The Eleventh Finance Commission's recommendations will cover the period from 2000-2001 to 2004-2005. According to Article 243 (I) of the Constitution, after the appointment of the First State Finance Commission, the next SFC will be due for appointment in April 1999. The next Central Finance Commission is likely to be *i* appointed sometimes in mid 1997 and the report is likely to become

available in early 2000 by which time the report of the Second State Finance Commission may not be available. This is the position in - I almost all other States as well. It would have been an advantageous

arrangement if the Sate Finance Commission in Kerala and in other States could give their Reports at least six to nine months ahead of the submission of the *Report* of the next Central Finance Commission.

Article 280 of the Constitution empowers the President to appoint a Finance Commission on the expiration of every fifth year or at *such earlier times as the President considers necessary*. There is no corresponding provision in Article 243 (I) dealing with the State Finance Commission. All the State Finance Commissions would be giving their report in 1996 and all States would more or less will be in the same position that the next report may not be available before the 11th Central Finance Commission submits its Report. It is hoped that the State Government will find a pragmatic solution to the problem.

Special cell for further studies

1.11 The devolution of substantial responsibilities and financial resources to Local Bodies is designed to usher in a new era of Local Self-Government. For all concerned, including the State Government, this is a new phenomenon requiring concurrent monitoring and constant vigil against possible pitfalls. It is an undisputed fact that the financial administration of the vast majority of rural and urban Local Bodies in the State has been in an unsatisfactory state as highlighted by the First Panchayat Finance Commission (Naha Commission 1985) and the First and Second Municipal Finance Commissions as well as in this Report and it will be uncharitable to accuse them for this lapse as very little attention was bestowed on this important aspect by all concerned. The Constitutional status given to the Local Bodies and the new powers and responsibilities flowing from it make it imperative that the financial administration can no longer be a matter of low priority.

1.12 The implementation of the recommendations of the Commission has to be closely watched to analyse the results achieved. Important basic economic indicators of the Panchayats and Municipalities which will

help the State Government to make accurate assessments of the financial and development needs of the Local Bodies are now virtually lacking and the same can be collected and collated for future use only if a concerted attempt is started now itself.

1.13 The Commission, therefore recommends that Government constitute a special cell in the Finance Department after expiry of the term of the Commission (as is being done after each pay revision) for the following specific functions:

i) to watch the implementation of the recommendations of the State Finance Commission.

ii) to monitor the annual receipts and expenditure of the rural and urban Local Bodies through suitably designed formats which will help the future Commissions in their work.

iii) to prepare a reliable database on important and basic economic indicators of the rural and urban Local Bodies through appropriately drawn up formats and to preserve the same in floppy disc for future reference.

vi) to update relevant data wherever necessary and

vii) to conduct comprehensive case studies in selected Local Bodies on upgradation of standards of civic administration at a desired level as well as special problems, assessment of gap between the existing resources and cost of civic services at satisfactory standards.

1.14 It is important that the cell is suitably staffed and should include persons with a background of research and investigation into problems of finance and socio-economic development. Such a cell can become the nucleus of the Secretariat of the next Finance Commission.

Terms of Reference

1.15 The First Term of Reference of the SFC is to review the financial position of Local Bodies. This is primarily addressed in Chapter IV.

1.16 The Second Term of Reference of the State Finance Commission is to make recommendations about the principles that should govern the distribution between the State and the Local Bodies the net proceeds of taxes, duties, tolls and fees leviable by the State and which may be divided between them. The division of the tax domain can be on the basis of assignment of specific taxes, duties, tolls and fees for exclusive exploitation by Local Bodies or on the basis of tax sharing or revenue sharing. The second step would be to suggest the allocation of the identified revenue among different Local Bodies. The task of the State Finance Commission would extend to suggesting the interse distribution of the revenue resources among different classes of Local Body such as Panchayats, Municipalities and among Panchayats, the Village, Block and District Panchayats.

1.17 The starting point for addressing the Terms of Reference is a comprehensive listing of all sources of revenue of the State Government by way of taxes, duties, tolls and fees. This is given in Annexure 1.3. There are already a number of taxes which stand assigned to Local Bodies and these are enumerated in Chapter IV. Among the non-tax revenues, the items that can be considered as candidates for assignment or sharing between Government and Local Bodies are Item No. 10 (Miscellaneous General Service including Lotteries), No. 15 Urban Development (including receipts from Town Planning Department), Item No. 21 Forestry and Wild Life, Item No. 27 Receipts from Roads & Bridges (including Tolls) and Item No. 25 (Non-ferrous Mining and Metallurgical Industries).

1.18 At present Item No. 2 - Land Revenue, No. 3 Stamp and Registration Fees and No. 7 Tax on Vehicles are either assigned or the revenue shared between State Government and the Local Bodies. Regarding the remaining tax revenues and the non-tax revenues the option of assigning or sharing them has been considered along with other

relevant matters in Chapter XII. The discussion in Chapter X regarding the flow of Plan and non-Plan funds to Local Bodies also has a bearing on this Term of Reference.

1.19 The Third Term of Reference is to recommend the principles that should govern the determination of taxes, duties, tolls and fees that may be assigned to or appropriated by the Local Bodies. This is closely linked to the First Term of Reference and is dealt with together.

1.20 The principles that should govern the flow of grant-in aid to Local Bodies form the Fourth Term of Reference of S.F.C. This is principally dealt with in Chapters X and XL

1.21 The Fifth and last Term of Reference is to recommend measures needed to improve the financial position of Local Bodies. The focus of the entire report is on this Term of Reference and this has specifically, but not exclusively, been dealt with while discussing individual existing sources of revenue in Chapters V to X and in Chapter XI and while discussing additional sources of income in Chapter XII.

CHAPTER II

STATE'S FINANCE ; A GENERAL PICTURE

2.1 The terms of reference of the SFC do not require it to study the overall financial position of the State but it is obvious that its task cannot be performed in a vaccum and should be performed with an adequate awareness of the financial position of the State. An important source of income of Local Bodies is from assigned or shared taxes and grants in aid from the State Govt. and the natural though not exclusive locus of further sources would also be the State Government. The Commission has therefore obtained information from the State Government about their current financial position as well as their projection of revenue and expenditure for the next 5 years.

2.2 The State Budgpt for 1995-96 (Revenue Account) anticipates Revenue Receipts of Rs. 4,928.69 Crorcs and a Revenue Expenditure of Rs. 5,777.19 Crores leaving a deficit of Rs. 848.50 Crores. Revenue deficits have been a constant feature since the early eighties, with its size increasing substantially in recent years. From Rs. 27.23 Crores in 1980-81, it grew to Rs. 371.31 Crores in 1993-94 and is estimated to touch Rs. 848.50 Crores in 1995-96. This widening gap is the result of revenue expenditure rising at a faster rate than income and has come about despite bouyant revenue receipts and concerted additional resource mobilisation by the State Government. The trends in Revenue Receipts and Expenditure during the period 1987-88 to 1995-96 are given in Annexure-lLl ind H.2 respectively. The index (1987-88 = 100) of Revenue Receipts has grown to 311 in the Budget Estimate of 1995-96 and of Revenue expenditure to 324. The main sources of Revenue of the State Government and the relative share in the State

:

Revenue of Rs. 3922.05 crores in 1993-94 are:

(a) State Taxes and Duties (59.79%)

(b) Share of Central Taxes (19.15%)

(c) Non-Tax Revenue (21.06%)

2.3 Out of the total revenue expenditure of Rs. 4,293.36 crores in 1993-94, 60.23% was on Development expenditure and 39.77% on non-development expenditure. The per capita tax Revenue in 1993-94 was Rs. 748 compared to the All India average of Rs. 531 and was the seventh highest in India. This position has been reached despite assigning to Local Bodies on an exclusive basis, tax jurisdiction in respect of Entertainment Tax and Profession Tax which in many States are levied by the State Government.

2.4 An abstract showing the different sources of State Revenue and their relative importance during 1990-91, 1991-92, 1992-93, 1993-94, 1994-95 (RE) and 1995-96 is given in Table 2.1. In 1993-94 State's own Taxes and duties contributed 59.79% to total income, non-tax revenue 8.14%, State's share of Central taxes 19.15% and grant-in-aid from Government of India 12,82%. Sales Tax contributes to about 2/3 of the total income from State Taxes and duties (65.39% in 1993-94) followed by State excise (14.11%) Stamps & Registration (9.82%) and Taxes on vehicles (6,44%). Among sources of Non-Tax Revenue the largest single contributor was Forest Revenue (31.85%) followed by Miscellaneous items (28.90%) and Social and Developmental services (21.12%).

TABLE 2.1 ABSTRACT SHOWING

TOTAL INCOME OF THE STATE

(Rs. In crores)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
		(Actuals)			<RE->	(B.E.)
1 STATE'S OWM REVENUE:						
(a) Slate's own Taxes and duties	134034	1673.95	1686.96	2344.82	2648.46	2859.09
(b) Non-Tax Revenue	208.83	234.72	279.40	323.27	354.90	372.48
TOTAL (a +b)	1549,17	1908.67	2166.36	2668.09	3003.36	3231.57
11. State's Share of Central Taxes	486.25	576.41	686.96	751.18	823.45	940.65
III. Grant-in-aid from Central Qovt.	367.51	367.04	465.41	502.78	662.73	756.47
TOTAL (t + II + HI)	2402.93	2852.12	3318.73	3922,05	4489.54	4928.69

2.5 The Revenue expenditure is broadly classified into development expenditure and non-development expenditure and the trends in this regard in 1980-81 and from 1987-88 to 1995-96 are shown in Annexure-n.2. Development expenditure in 1993-94 accounted for 60.23% of the total Revenue expenditure and non-development expenditure for 37.62%. Within "Development expenditure" the main items were Education (44.30%) Health (14.21%) Community Development (14.21%) Agriculture (11.15%) and Industry (4.25%). The main items under non-development expenditure were Interest charges (40.25%) Pensions (27.22%) General Administration (20.73%) and collection of taxes (7.21%).

2.6 The financing arrangements envisaged for the VHI Plan visualise a net contribution of Rs, 550 crores from Public Enterprises (mainly Kerala State Electricity Board), Rs. 1,461 crores from Provident Fund, Rs. 1509 crores from small savings and Rs. 604 crores from Additional Resource Mobilisation resulting in a total of Rs. 4,124 crores. After deducting Rs. 2,060 crores being the revenue deficit and Rs. 544 crores, being the negative capital receipts, the State's Resources available for the Plan is estimated at Rs. 1,520 crores. To this is added market borrowing of Rs. 1,078 crores, negotiated loan from Financing Institutions of Rs. 500 crores, revenue deficit grant of Rs. 290 crores and Central Assistance of Rs. 1,467 crores and assistance for Externally Aided Projects of Rs. 665 crores. The aggregate Plan Resources for the VIII Plan is estimated at Rs. 5,460 crores. The outlay and expenditure in Annual Plans during the Vffl Plan has been as follows:

(Rs. in lakhs)

	Outlay	Expenditure
1992-93	91,300	82,532
1993-94	1,00,300	1,09,142
1994-95	1,26,000	1,32,029 (RE)
1995-96	1,55,000	1,55,000 (BE)

2.7 The finances of the State present a picture of mounting revenue deficits, and establishment/administrative expenses and interest charges and very low return on capital invested. Though there is an earnest attempt to raise resources by new Additional Resource Mobilisation measures which is reflected in the tax revenue collection, it has not matched the spurt in revenue expenditure. Economy measures introduced by the State have also not shown the desired effect.

2.8 The Gross Fiscal Deficit (GFD) of the State has increased from Rs,448 Crores in 1987-88 to about Rs. 935 Crores in 1993-94 as may be seen from Table 2.2. The increasing gap between revenue receipt and revenue expenditure has been met by loans and advances from the Ceatre and market borrowings. The revenue deficit as a percentage of Gross Fiscal Deficit has been around 40% which is higher than most of the States. There has however been a small decline in the ratio lately, but this is largely due to the increase in borrowing than to a redaction in revenue deficit. This is an unhealthy trend as u implies that a major portion of borrowings is going towards meeting the current expenditure. Consequently, the debt servicing liability of the State may increase in the future,

TABLE 2.2

REVENUE DEFICIT (RD) & GROSS FISCAL DEFICIT (GFD) RATIOS

	RD (Rs. crores)	GFD (Rs. crores)	RD/GFD (%)	GFD/TE (%)
1987-88	1M.59	448.06	37	22
1988-89	163.94	412.11	44	18
1989-90	250.15	604.53	|g	'.;
1990-91	422.02	798.55	32	25
1991-92	364.34	803.44	36	22
1992-93	3S7.41	731.99	(8	18
1993-94	371.31	935.16	39	19

TE - Total Expenditure (Capital Plus Revenue)

2.9 In this connection the decision of the State Government that the Abkari Policy will be modified from next financial year banning the sale of arrack in the State will have an adverse impact on the resource of the State unless it is matched by compensating levies and or economies in existing expenditure items. The appropriate revenue loss and how it is proposed to be made good are not known.

The Perspective

2.10 During the next five year period viz. 1996-97 to 2000-2001 A.D. no dramatic changes in the trends hitherto observed in revenue receipts and revenue expenditure are likely. The three items which account more than 90% of the revenue expenditure are salary expenditure including teaching grants, interest payments and pension. No dramatic changes in respect of these in the short run is possible. Where the State Government can manipulate the trends with greater freedom would be in increasing revenue receipts and by achieving economies in establishment and administrative expenditure. There is good scope in both these direction but substantial improvement is possible only with demonstrable political and administrative will, especially the will to take unpopular decisions.

2.11 On the request of the State Finance Commission the State Government has made available to us the projection of revenue and expenditure by 2000 AD on the basis of trend estimates and also by regressing each item with the State Domestic Product (SDP). The alternative projections are based on different rates of growth in State Domestic Product during the next five years. The estimates giving the best and worst scenarios are given in Table 2.3.

TABLE 23

REVENUE RECEIPTS, REVENUE EXPENDITURE,

GROSS FISCAL DEFICIT (1999-2000)

Estimates (Rs. Crores) 1999-2000 AD				
(	Revenue Receipts	Revenue Expenditure	Revenue Deficit	Gross Fiscal Deficit*
Est. 1	5972.48	6571.63	599.15	1497.87
Est. 2	6476.54	7058.28	581.74	1454.35
Est. 3	8278.74	9090.11	811.37	2028.12

** RD to GFD assumed at 40%*

According to these projections the estimate of Gross Fiscal Deficit by the year 2000 AD could be between Rs. 2028 crores and Rs. 1454 crores.

2.12 The above scenario does not offer to Local Bodies who naturally expect a portion of their financial needs to be met by subvention from the state Government much to cheer. But in spite of the fiscal deficit and the paucity of resources, assistance to Local Bodies has been a longstanding obligation and commitment of the State Government and they have been discharging these obligations with varying degrees of adequacy and satisfaction in the past. The State Government has reaffirmed this commitment and also enlarged the role of Local Bodies through the 1994 Acts. These factors cast an obligation on the State Government to enlarge the scale and scope of their financial assitance to Local Bodies.

2.13 The current flow of funds from State Government to Local Bodies has been taking place in the above background despite the mounting revenue and fiscal deficits. Government have been providing or have commitments to provide grants, some of them statutory, to Local Bodies. The actual amounts paid or payable by State Government as grants to Local Bodies during the period 1990-91 to 1993-94 are given in Table 2.4.

TABLE 2.4 GRANTS TO LOCAL BODIES

(Rs. in takhs)

	1990-91	1991-92	1992-93	1993-94
1. Statutory Grants:				
i) Panchayats	3841*	3394*	4922*	4313*
ii) Municipalities	362	442	654	768
ill) Corporations	360	419	603	745
Total Grant (1) as a percentage of				
State Revenue	2.95	2.23	2.85	2.18
(I. Non-Statutory Grants:				
i) Tied	1394	1193	1715	1883
ii) Untied	1855	1868	2009	2195
Grant (1) as a percentage of State Revenue	2.10	1.60		1.53
III. Total Grant {I + II)	7812	7316		9904
Total Grant as a % of				
State Revenue	5.04	3.83	1.72	
IV. Statutory Grant, Payable but not paid	205	1198	9903	
V. Total of IV & I as a % of			4.57	3.71
State Revenue	3.08	2.86		
			1034	3740®
			3.33	
				3.59
Vi. Non-Statutory Grant payable but				
not paid	366	355	367	379"
Total of VI & II as a % of				
State Revenue	2.33	1.79	1.89	1.67
Grand Total (1 + II + IV + VI)	8383	. 8869	11304	14003
Grants as a % of State Revenue	5.41	5.08	*522*	5.26

Source: Board of Revenue, Registration Department, Report of the Committee of Motor Vehicle Tax Compensation and Budget documents.

* Includes share of Motor Vehicle Tax Compensation to Municipalities/Corporations. Includes Motor Vehicle Tax Grant based on Babu Paul Committee's recommendation. **Director of Panchayats.

CHAPTER III

APPROACH OF THE STATE FINANCE COMMISSION*

3.1 The 73rd and 74th Constitutional amendments and the resultant State Acts open up new vistas of responsibilities as well as of opportunity for the Local Bodies. The 1994 Acts have transferred to the Local Bodies the responsibility in respect of a large number of programmes covering all entries in the 11th and 12th schedules of the Constitution.

Previous Studies:

3.2 The finances of Local Bodies in India in general have been studied by Committees appointed by Government of India in the past. The Royal Commission on Decentralisation (1907-08), the Local Finance Enquiry Committee (1951), the Taxation Enquiry Commission (1953-54), the Study Team on Panchayat Raj Finances (1963), the Committee of Municipalities constituted by the Central Council of Local self Government (1963), the Rural Urban Relationship Committee (1965-66) are some of the important Committees whose Reports have contributed to the evolution of the existing state of fiscal autonomy.

3.3 Government of Kerala also had appointed Committees or Commissions in the past which studied different aspects of finances of Local Bodies. The Taxation Enquiry Committee (1969) under the Chairmanship of Dr. M.J.K. Thavaraj (the Thavaraj Committee), the Kerala Municipal Finance Commission (1983) under the Chairmanship of Shri. N.G. Nair (the N.G. Nair Commission), the Panchayat Finance Commission (1985) under the Chairmanship of Shri. K. Avukadarkutty Naha (the Naha Commission) and the Second Municipal Finance Commission (1993) under the Chairmanship of Shri. K. Mohandas (the Mohandas

This Chapter includes most of Chapter III of the Interim Report of State Finance Commission (Sept. 95) to make the Final Report more self contained.

Commission) are the important Committee or Commissions which considered various aspects of local finances. All the above except the Thavaraj Committee (1969) were focussed exclusively on finances of Local Bodies and the Thavaraj Committee (1969) covered the wider area of taxation besides the existing tax jurisdiction of State Government and Local Bodies.

3.4 The aforesaid reports dealt with local finances before the 73rd and 74th Constitutional Amendments of 1992. Bui one common thread running through almost all these reports is the mismatch between expenditure responsibility and financial resources of Local Bodies. This vertical imbalance has been identified as the crux of the problem in local finance by the various expert groups. The Constitutional Amendments of 1992 envisage vastly enhanced expenditure responsibilities for Local Bodies without making *any* specific assignment of taxes to match the expenditure responsibilities. Articles 243 H and 243 X have left it to the State Legislature to authorise Local Bodies to collect taxes, duties, tolls and fees or to assign such taxes, etc. to them and to provide grants-in-aid to them. The State legislature can obviously give to Local Bodies a portion or whole of only such of these taxes, duties, tolls and fees falling within their competence under the Seventh Schedule in the Constitution. This the State Legislatures were competent to do even before the Constitutional Amendments. The Kerala Panchayat Raj Act, 1994 and the Kerala Municipalities Act 1994 while entrusting vastly enhanced functional and expenditure responsibility to Local Bodies hare retained virtually the same arrangements for tax assignment and sharing as existed before the Constitutional Amendments. This has led to (he already existing mismatch between resources and responsibilities widening manyfold. The Kerala Panchayat Raj Act, 1994 and Kerala Municipalities Act 1994 aim at wide decentralisation of expenditure without disturbing the existing centralisation of resources. In many

ways, this is a mirror image of the problem of fiscal federalism in Centre-State relations in India where also the phenomenon of mismatch between expenditure responsibility and financial resources exists.

3.5 Local Bodies in Kerala have been endowed with almost all the powers to raise resources by way of tax and non-tax instruments that have been recommended by various Committees from time to time except the power to levy octroi. In addition they also receive Government grants, tied or untied. These grants form a small portion of the resources of the urban Local Bodies, As far as Panchayats are concerned Government grants form a larger, though not a dominant portion of their resources.

3.6 The Terms of Reference of the State Finance Commission have been given in para 1.3 above. This being the first Commission after the historic 73rd and 74th Constitutional amendments, there are obviously no precedents which the Commission can examine for obtaining insights. The Commission has benefited from its interaction with agencies of State Government as well as the Ministries of Government of India, national level Institutions and other State Finance Commissions. Special mention may be made of the Resource Group under the chairmanship of Dr. Raja Chelliah set up at the initiative of the Planning Commission and the five Working Groups constituted under its auspices to report on various aspects covered by the Terms of Reference of the State Finance Commissions.

Broad approach of State **Finance Commission:**

3.7 It is useful to delineate the broad approach of the State Finance Commission in addressing the various items in the Terms of Reference. A question has been raised whether the State Finance Commission should, in assessing the financial needs of Panchayat Raj Institutions

take into account only the non-plan expenditure or Plan expenditure as well. The Central Finance Commission in recommending devolution of Central Revenues to States has been confining its attention to non-plan expenditure. The Terms of Reference of SFC given both in the Constitutional Amendments as well as in KPRA 1994 & KMA 1994 require it to make recommendations as to the principles that should govern the grant-in-aid from Government to Local Bodies, Grants for financing selected Plan Schemes was even earlier a part of the total grants given to Local Bodies and the major flow of grant funds from Government to Local Bodies in future will be plan funds. Section 195 of KPRA 1994 envisages Government grants being given as are necessary for the proper discharge of functions under the Act after having regard to the recommendation, if any, of the SFC; these functions under the Act encompass Plan and non-Plan activities. Section 283 (3) of KMA 1994 similarly contemplates Government grants after considering the recommendation of SFC and development needs, among others. The SFC's mandate is confined to the principles that should govern grants to Local Bodies. Data on size of the Plan, its sectoral allocation etc. would have been extremely useful to SFC in addressing this Term of Reference but the absence of such data is not necessarily fatal to this Term of Reference.

3,8 The 1994 Acts, while conferring substantial additional responsibility on the Local Bodies, have conspicuously not added to the already available tax domain of the Local Bodies. The tax domain of Local Bodies remain almost exactly the same as were available in the pre 1994 period and those resources were insufficient even for meeting their pre 1994 responsibilities. This sharply increases the already existing adverse mismatch between functional responsibility and financial resources which need to be corrected by location of additional resources.

3.9 The enlarged responsibility of Local Bodies as envisaged in the 1994 Acts broadly fall into two categories. The *first* category is their traditional responsibility which they have been performing even before the 73rd and 74th Constitutional amendments. These activities cover the provision of civic services such as street lighting, public taps, garbage removal, surface drainage etc. The *second* category comprise the additional responsibilities conferred on them by the 73rd and 74th Constitutional amendments and the consequent State Legislation. These comprise activities which were the direct responsibility of the State Government and which by virtue of the Constitutional amendments and the consequential 1994 Acts have now been transferred to Local Bodies. They cover activities, projects and institutions coming under both Plan and non-Plan categories.

3.1(1 The funding of the two broad categories of responsibilities of the Local Bodies referred to in para 3.9 above has been on the following lines:

(a) the traditional activities of the civic services were funded by revenues raised by the Local Bodies supplemented by grants from State Government;

(b) the additional responsibilities which have now been transferred to Local Bodies were entirely financed from out of resources available to the State Government.

3.11 The additional responsibilities given by 1994 Acts, prior to this legislation were discharged by the State Government and the entire expenditure on them on both capital and revenue accounts were met by the State Government from out of the resources at its disposal. The State Government would have continued to discharge these responsibilities but for the 1994 Acts and would have continued to find finances for them. The entrustment of these additional responsibilities to the Local Bodies would involve substantial expenditure on their part and the entire expenditure on them should continue to be financed by

the State Government during the Eighth Plan and even during the Ninth Plan till a formula for transfer of resources from Government to Panchayat Raj Institutions to match their responsibilities becomes operative.

3.12 Even for discharging the traditional functions as they existed prior to the 1994 legislation, the income of Local Bodies was being supplemented by grants from Government in varying degrees. With the entrusttnent of additional substantial responsibilities to the Local Bodies for Plan and non-Plan Schemes and projects hitherto handled by the State Government, the expenditure responsibility of Local Bodies goes up many fold. The 1994 Panchayat Raj legislation while entrusting the additional responsibilities has not increased their access to source of revenue. The possibility of the existing sources of revenue yielding additional income does exist but they would not match the additional expenditure responsibility. Additional .funds can accrue to a Local Body in a number of ways such as assignment of specific existing State taxes to Local Bodies, sharing of existing State taxes, levy of new taxes by the Local Bodies or even by Government with a provision for tax sharing and grants or a combination of all these. In addition, funds will also flow from Government of India on the basis of the recommendation of the Central Finance Commission. Local Bodies should continue to play an active role in raising revenue both by improving collection from existing sources as well as from new sources as may be identified.

3.13 The K.P.R. Act, 1994 and K.M. Act 1994 provide for the transfer of specific responsibilities hitherto handled by Government to Local Bodies and along with it the connected Plan and Budget provisions. The transfer of responsibilities is a one-time affair (barring instances where the statutory provisions have not been fully implemented in the first instance) whereas the transfer of Plan and budget provision would be

recuwisg ones. In the remaining period of 1995-96 and most probably during 1996-97, the local Bodies with the transferred responsibilities and the earmarked runds for such responsibilities as obtaining in the Annual Plan and Budget will be performing an agency function. After the newly elected PR Is come into existence, the process of formulating schemes starting from the basic units such as Grama Sabfcs and Ward Committees would start and wend its way upwards through prescribed channels resulting in the emergence of a document covering the functional domain of Local Bodies and giving the mode of financing tha programme in the document. With the emergence of such a document the Local Bodies would get weaned away from performing agency functions in respect of the transferred functions and would assume their rightful role as units of self government, ideally, they should also be financially strong with a high degree of self reliance. While fresh sources of revenue which will reinforce their self reliance need to be found, given the limited bases for taxation riot already used heavily by the State and Centre and their vastly enhanced expenditure responsibility, an increase in the degree of self reliance will be a difficult objective.

3.14 In view of the broad conclusion mentioned in para 3.11 above no additional resource mobilisation by the Local Bodies solely on account of the additional responsibilities entrusted to them by virtue of the Constitutional amendments should normally arise in the short run, say during 1995-96 and perhaps in 96-97 also. Local Bodies are of course, free to spend more than what is required of them by virtue of transfer of functions accompanied by transfer of budget provision. They will however come under increasing pressure from the public to provide expanded and better facilities and services than are possible by the transfered funds. During January - February '96 many are already facing such demands in respect of water supply. Therefore Local Bodies would face the need for resource mobilisation even for transferred items.

3.15 The traditional responsibility of the Local Bodies which they were discharging even prior to the Constitutional amendments and the consequential State Legislation were being funded by resources raised by the Local Bodies supplemented by Government grants. The level of the civic services need upgradation in order to satisfy the felt needs as well as the expectation of the citizens. A major task of theirs would be to raise additional resources in order to upgrade the level of civic services. With the available access to sources of revenue, it may be beyond their capacity to find the required additional resources for meeting the required capital and revenue expenditure.

3.16 The resource mobilisation on the part of the Local Bodies has been uneven. The possibility of better exploitation of resources even within the frame work of existing access to sources of income does exist. The concept of a presumptive income of a Local Body would be useful in order to encourage the Local Bodies to step up their resource mobilisation efforts. A related concept which will help to regulate Government grants will be an index of tax effort by Local Bodies. Much more work than what the State Finance Commission has been able to do needs to be done to develop and refine these concepts. With the readily available data State Finance Commission has suggested a crude index of tax effort but hopes that further work on the concept of a presumptive income and index of tax effort will be undertaken by Government and other agencies having an abiding interest in finances of Local Bodies.

3.17 The additional funds required by Local Bodies would need to be met from a combination of the following sources:

(a) better utilisation of existing sources of revenue.

(b) additional resources mobilisation by Local Bodies by giving them access to new sources of revenue which satisfy the criteria that the

tax base is local in nature and is not extensively used already as a base for taxation by Government.

(c) additional resources from the State Government from out of their revenues.

(d) additional resources from the Central Government including those recommended by the Tenth Finance Commission.

(e) loans from financial institutions for capital expenditure.

(f) economy in expenditure on the part of civic bodies including recourse to privatisation of selected services which can be justified on the basis of cost-benefit analysis.

CHAFEER IV

LOCAL BODIES IN KERALA - A GENERAL OVERVIEW AND THEIR FINANCIAL POSITION

4.1 Prior to the Panchayat Raj Legislation of 1994 Kerala had only Village Panchayats, Municipal Councils and Municipal Corporations. The Kerala Panchayat Raj Act, 1994 has created two new tiers of Panchayats viz., Block Panchayats and District Panchayats; these came into existence for the first time in the State on 2-10-1995.

Existing Grading of Local Bodies

4.2 Kerala has 991 Village Panchayats divided into Special Grade, Grade I, Grade II and Grade III Panchayats. The classification of Pancbayats made in 1983 is based upon their annual income at that time. Panchayats with more than Rs.1.75 lakhs as annual income were classified as Special Grade, those with more than Rs, 1 lakh and upto Rs,1.75 lakhs as Grade I and those with income of more than Rs.50,000/- and upto Rs.l lakh as Grade n and those with income not exceeding Rs.50,000/- as Grade HI Panchayats. This classification made in 1983 has remained unchanged eventhough it has ceased to have any relevance as may be seen from Table 4.1.

TABLE 4.1
CLASSIFICATION OF VILLAGE PANCHAYATS AND MUNICIPALITIES AS PER EXTANT INCOME NORMS

	Panchayats	1983*	1993-94
1.	Special Grade (Annual income of more than Rs.l. 75 lakhs)	350	979
2.	Grade I (Rs.l lakh and above and upto Rs.1.75 lakhs)	435	2
3.	Grade H (Rs.50,000 and above and upto Rs.l lakh)	206	2
4.	Grade ffi (not exceeding Rs.5Q,000)	10	Nil
	Total	1001	983

	Municipal Councils	1993	1993-94
1.	Grade I (Annual income of Rs.?0 lakhs and above)	14	25
2.	Grade II (Rs,40 to Rs.70 lakhs)	21	20
3.	Grade ffi (Below Rs.40 lakhs)	20	9
		55	54

*Note": 1. The classification of Panchayats was made in 1983 and of Municipalities in 1993. **The** classification of Municipalities done in 1993 was on the basis of average income for 3 years*

2. Panchayats in 1995 number 991 but analysis is tnade of 983 for which data is available.

3. f 993-94 data is based on SFC Survey, 1995.

4.3 With the introduction of two new tiers of Panchayats, in addition to the 991 Village Panchayats, there are 152 Block Panchayats and 14 District Panchayats.

4.4 The Urban Local Bodies comprise 54 Municipal Councils and 3 Municipal Corporations - Thiruvananthapuram, Kochi and Kozhikode. The'Municipalities are divided into three categories on the following basis :

i) Grade I - Annual income of Rs.70 lakhs and above;

ii) Grade *II* - Annual income of Rs.40 to 70 lakhs.

iii) Grade III - All other Municipalities.

The number of Municipalities in various grades have undergone change since the original classification as can be seen from Table 4,1 but no ^classification has been done.

Average population and area of Local Bodies :

4.5 According to the 1991 Census, Kerala's population is 290,98 lakhs with 85.15% in rural areas and 14.85% in urban areas. Between 1981 and 1991, the population grew at 1.34% per year and the mid 1995 population is estimated at 304.86 lakhs. The Rural-Urban distribution in 1981 was 85.60 : 14.40. The relatively modest population growth is superimposed on an already heavily populated State with the result that density of population (749 per sq. km in 1991) is the second highest in India,

4.6 There has been a marginal reduction in the number of Village Panchayats from 1001 in 1985 to 991 in 1995. This has taken place partly due to the upgradation of some of them to Municipalities, The number of Municipalities has grown from 45 in 1985 to 54 *in 1995.* The total number of Revenue villages in the State is 1384 and obviously many Panchayats cover more than one village and some villages fall in more than one Panchayat. The village is the basic unit of Revenue administration in the State and is also the unit for data collection for many purposes. It is therefore desirable that no village falls in more than one Panchayat. The SFC would recommend that Government may undertake a delimitation of revenue villages to achieve this objective.

4.7 The average population of a Panchayat in 1981 was 22103 and in 1991, 25004. Around this average, variations abound as they did in 1981 when the least populous Panchayat (Vattavada in Idukki District) had a population of 3554 and the most populous (Munnar in Idukki) had 78833. In 1995 the population ranges from 4806 (Vattavada in Idukki District) to 82082 (Munnar in Idukki District.)

4.8 *The* average population of a Municipality in 1991 is 52058, compared to 43829 in 1981, Here also the range of variation is considerable, from 19657 (Kunnamkulam in Thrissur District) to 174666 (Alappuzha in Alappuzha District). Among the three Corporations the most populous is Kochi (5.46 lakhs) followed by Thiruvananthapuram (5.24 lakhs) and Kozhikode (4.19 lakhs).

4.9 The average area of a Panchayat in the State is 37.50 sq. km and of a Municipality is 22.63 sq.km. The biggest Panchayat is Kuraily in Idukki District with 816.72 sq.km. and the smallest is Valapattanam in Kannur District with 2,04 sq.km. Among Municipalities, the biggest is Payyanrjoor in Kannur District. (54.63 sq.km,} and the smallest is

Kunnamkulam in Tnrissur District (6.96 sq.km.)

Existing fiscal devolution

4.10 The existing structure of fiscal devolution to Local Bodies in Kerala, which has not undergone any change as a result of the 1994 Acts, has the following elements:-

A. *Own Taxes:* ie., taxes assigned by statute to them and which are levied by them;

B. *Assigned Taxes:* ie., taxes which are statutorily assigned to Local Bodies but collected by State Government and made over to Local Bodies;

C. Shared Taxes: ie., taxes which are assigned to the State and collected by them but a share of the proceeds is disbursed among Local Bodies;

D. *Non-Tax Revenue:* ie., income from sources such as property, licence fees, etc.

E. *Grants* from Government which may be either tied or untied

F. *Loans* from Government and other Financial Institutions,

4,11 The different sources of income of Panchayats and Municipalities are given in Annexure - IV, 1

4.12 The District and Block Panchayats which are the two new tiers created by the Panchayat Raj Act, 1994 do not have any tax assigned to them or any shareable tax. Their sources of income under the 1994 Act, apart from grants and loans from State Government are:

i) levy of user charges from beneficiaries of institutions transferred to them;

ii) surcharge on any levy collected by the Village Panchayat not exceeding 5% on direction from the State Government.

4.13 The Tax sources of Village Panchayats and Municipalities enumerated in Annexure-IV. 1 are substantially the same as those available to them under the 1960 Act. Certain changes of a marginal nature have been made however and these are the following:

i) under the Kerala Panchayat Raj Act, 1994, Section 202(2) makes it obligatory for Panchayats which provide services to the community by way of water supply, street lighting, scavenging and drainage to levy a service charge not exceeding the rates prescribed by State Government. Under the 1960 Act, this was not obligatory but only optional on the part of the Village Panchayats;

ii) Section 201 provides that the Village Panchayat by resolution can decide to levy a land cess on all lands except those exempted by the State Government. The rate of tax is l/10th % of the capital value of the land. This provision existed in the 1960 Act also but the rate of tax was prescribed as 1/16 % of the capital value;

iii) The 1960 Act empowered Panchayats to levy a tax on vehicles. This provision has been deleted in the 1994 Act.

Financial Position of Local Bodies :

4.14 One of the tasks assigned to the Commission is the review of the financial position of the Local Bodies in Kerala. Through a survey conducted in 1995, the SFC has collected data on the income, expenditure and related aspects from Local Bodies. Responses were received from 983 out of the total of 991 Village Panchayats, and 54 Municipalities and 3 Corporations. No review of the financial position

of individual Local Bodies has been attempted in this Chapter, but the overall position of rural and urban Local Bodies is analysed separately. The extent of non-responses from Village Panchayat is 0.8% and therefore the total dimensions of income, expenditure etc. of Village Panchayats may deemed to be underestimated to the above extent. Only the income and expenditure actually received or incurred have been taken into account ignoring receivables and deferred expenditure. The 152 Block Panchayats and the 14 District Panchayats are not included in this study as they did not exist at the time of the survey.

Receipts :

4.15 The receipts of Local Bodies consist of (i) own tax revenue from taxes assigned by Government and collected by Local Bodies, (ii) taxes assigned to Local Bodies but collected by Government and given entirely to Local Bodies, (iii) shared taxes, (iv) non-tax revenue, (v) grants-in aid from State Government and, (vi) loans from Government or financing institutions. Funds received for Centrally Sponsored Schemes like JRY and NRY are excluded from the purview of this study. Table 4.2 shows the share of various items in the total revenue of the Local Bodies in the State:

TABLE 4.2

SHARE OF DIFFERENT SOURCES IN TOTAL RECEIPTS OF LOCAL BODIES

Sl. No.	Item	% to total income			
		1990-91	1991-92	1992-93	1993-94
	Panchayats :				
1.	Tax Revenue	33	38	33	33
2.	Assigned Taxes (Surcharge on Stamp Duty and Basic Tax)	22	20	22	24
3.	Shared Taxes (Motor Vehicles Tax)	3	2	4	6
4.	Non-Tax Revenue	11	12	11	12
5.	Grants	31	28	30	25
	Total	100	100	100	100
	Municipalities and Corporations :				
1.	Tax Revenue	58	62	56	59
2.	Assigned Taxes (Surcharge on Stamp Duty)	1	5	6.5	8
3.	Shared Taxes (Motor Vehicle Tax)	5	3		4
4.	Non-tax Revenue	27	24.4	26	21
5.	Grants	6	5.6	6	8
	Total	100	100	100	100

Source ; SFC Survey (1995)
Note : (i) ***Receipts*** *under capital account like loans are not included.*
(ii) Grants include plan and non plan grants from State Government

Own Tax Revenue :

4.16 The major items of tax revenue are Building/Property tax, Profession tax and Entertainment tax. Receipts from other taxes like vehicle tax, show tax, etc. are included under "other items" in Table 4.3.

TABLE 43.

MAJOR ITEMS OF OWN TAX REVENUE

(Rs. in lakhs)

SI. No.	Item	Collection during the year 1990-91	1991-92	% of increase	1992-93	% of increase	1993-94	% of increase	Average % of increase
* Panchayats :									
1 .	Building Tax	1511 (50)	1788 (50)	18.3	1762 (49)	(-)1.45	2249 (51)	27.6	14.8
2.	Profession Tax	831 (27)	1093 (30)	31.5	1091 (30)	(-)0.18	1255 (29)	15.0	15.4
3.	Entertainment Tax	480 (16)	514 (14)	7.0	564 (16)	9.73	653 (15)	15.78	10.8
4.	Other items	213 (7)	223 (6)	4.7	172	(-)22.87	229 (5)	33.14	4.9
Total		3035 (100)	3618 (100)	19.8	35S9 (100)	(-)0.8	4386 (100)	22.2	J7.4
Municipalities and Corporations :									
1 .	Property Tax	2061 (52.86)	2282 (54.4)	10.72	2250 (49.10)	(-)1.4	2757 (49.49)	22.53	10.6
2.	Profession Tax	228 (5.85)	252 (6-0)	10,52	276 (6.0)	9.52	356 (6.39)	28.98	16,3
3.	Entertainment Tax	1393 (35.73)	1540 (36.70)	10.55.	1906 (41.60)	23.76	2295 (41.19)	20,40	18.2
4.	Other items	217 (5.56)	(2.90)	i 43.77	149 (3.30)	22.13	163 (2.93)	9.39	(-) 4.1
Total		3899 (100)	4196 (100)	7.6	4581 (100)	9.2	5571 (100)	21.6	12.8

Note : Figures in brackets indicate percentage.

Source : SFC Survey,. 1995,

Non-Tax Revenue :

4.17 The major items of non-tax revenues are 'Income from Properties' and "Licence Fees'. Other receipts are included under 'Miscellaneous receipts' in Table 4.4.

TABLE 4.4

NON-TAX REVENUE **OF LOCAL BODIES**

(Rs. in lakhs)

SI No.	Collection during the year 1990-91	1991-92	% of increase	1992-93	% of increase	1993-94	% of increase	Average increase (%)
Pancbayats :								
1. Income from properties	63 J (62.2)	670 (59.9)	6.2	761 (61.6)	13.6	856 (54.5)	12.5	10.8
2. Licence fees	125 (12.3)	155 (13.9)	24.0	145 (U.7)	(-)6.0	165 (10.5)	13.8	10.6
3. Miscellenous receipts	258 (25.5)	294 (26.2)	13.9	330 (26.7)	12.2	550 (35.0)	66.6	30.9
Total	1014 (100)	1119 (100)	10.4	1236 (100)	10.4	1571 (100)	27.1	16.0
Municipalities and Corporations :								
1. Income &om properties	1028 (58.1)	1196 (72)	16.3	1119 (53.4)	(-)6.4	1286 (63)	14.9	8.3
2. Licence Fees	191 (10.8)	171 (10.3)	(-)10.5	238 (11-4)	39.2	289 (14.2)	21.4	16.7
3. Miscellaneous receipts	549 (31.1)	295 (17.7)	(-)46.2	738 (35.2)	150.1	466 (22.8)	(-)36.8	22.4
Total	1768 (100	1662 (100)	(-)6	2095 (100)	26.0	2041 (100)	(-)2.5	5.8

Note : The figures in brockets indicate ***percentage***

Source : SFC ***Survey,*** *1995.*

Assigned Taxes Collected by Government :

4.18 The Surcharge on Duty on Transfer of Property collected by Government after deduction of collection charges is passed on to the Local Bodies. Basic Tax collected by Government after deducting collection charges is assigned to the Village Panchayats in the State. The details of receipts are indicated in Table 4.5.

TABLE 4.5 RECEIPTS FROM

SURCHARGE ON STAMP DUTY & BASIC TAX

(Rs. in Jaihs)

SI. No,	Collection during the year 1990-91	1991-92	% of. increase	1992-93	% of increase	1993-94	*% of* increase	Averaje increase *(%)*
Panchayats :								
I. *Surcharge* on Stamp Duty	1526 (77.2)	1397 (75,1)	(-) 8.5	1846 (78.9)	32.!	2560 (81.7)	38.7	20.8
2. Basic Tax	451 (22.8)	464 (24.9)	2.9	493 (21.1)	6.3	573 (18.3)	16.2	8.5
Total	1977 (100)	1861 (100)	(-) 5,9	2339 (100)	25.7	3133 (100)	33.9	17.9
Municipalities and Corporations .								
Surcharge on Stamp Duty	268	,.;	30.2	536	53.6	780	45.5	43.1

Source : SFC Survey, }995.
Note : The figures in brockets indicate percentages.

Shared Tax :

4.19 Only Motor Vehicle Tax collected by Government is shared with the Local Bodies. The receipts under this item are indicated below in Table 4.6.

TABLE 4.6

RECEIPTS FROM MOTOR VEHICLE TAX

(Rs. in lakhs)

SI No.	**Receipts** during the year 1990-**91**	1991-92	% of increase	1992-93	% of increase	1993-94	% of increase	Average increase (%)
Vehicle Tax Compensation	282	188	(-) 33.3	434	130	757.	74.4	57.0
Municipalities and Corporations :								
Vehicle Tax Compensation	337	205	(-) 39,2	448	118.5	339	(-) 24.3	18.3

***Source : SFC survey** 1995.*

4.20 In the case of both assigned taxes and shared taxes, the receipts shown are the actual receipts by the Local Bodies and do not include arrears payable by Government. The quantum of arrears have been indicated in Chapter TV of the Interim Report of the Commission (September, 1995).

Grants :

J

4.21 Table 4.7 indicates the tied and untied grants received by the Local Bodies from Government :

TABLE 4.7 TIED AND UNTIED GRANTS

(Rs. in lakhs)

SI. No.	Receipts during the year							
	1990-91	1991-92	% of increase	1992-93	% of increase	1993-94	% of increase	Average increase (%)
Panchayats :								
1. Tied Grants	1065 (37.7)	903 (33.7)	(-) 15.2	1339 (41)	48.3	1228 (37.2)	( ) 8.3	•
2. Untied Grants	1758 (62.3)	1778. (66.3)	1.1	1923 (59)	8.2	2070 (62.8)	7.6	•.:.
Total	2823 (100)	2681 (100)	(-) 5.0	3262 (100)	21.7	3298 (100)	1,1	5.9
Municipalities and Corporations :								
1. Tied Grants	97 (22.8)	90 (23.7)	(-) 7.2	86 (18.6)	(-) 4.4	125 (16)	45.3	11.2
2. Untied Grants	328 (77.2)	290 (76.3)	(-) 11.6	376 (81.4)	29.6	656 (84.0)	74.5	30.8
Total	425 (100)	380 (100)	(-) 10.6	462 (100)	21.6	781 (100)	68.8	26.6

Source : SFC survey. 1995

*Note : i) The figures **in** brackets indicate **percentage,***

*ii) Both Plan and Non-plan grants from **State** Government are **included.***

4.22 A composite picture of receipts of Local Bodies from all sources (Revenue and Capital) is given in Annexure FV-2. The total receipts of Village Panchayats have shown an annual average increase of 13.14% during the period 1990-91 to 1993-94. Among the different sources of own tax revenues, the most buoyant is Profession Tax which registered an average annual increase of 15.4% and the least bouyant is Entertainment Tax with 10.8% of average annual increase. The largest source of revenue among own tax items in absolute terms is Building Tax followed by Profession Tax.

4.23 The total receipts of Municipalities and Corporations have shown an average annual growth rate of 12.7% with Entertainment Tax registering the highest average annual increase of 18.2% followed by Profession Tax with 16.3%. The least buoyant is Property Tax with 10.6% average annual increase. The largest item of tax revenue in absolute term is Property Tax followed by Entertainment Tax,

4.24 Both in the case of Panchayats and Municipalities and Corporations, own tax revenue constitutes the major share of total receipts, the percentage of which is 34% in the case of Panchayats and 58% in the case of Municipalities and Corporations. Within the broad group of Local Bodies, there are individual variations which belie the general trend but the trends which emerge from the above analysis represent the broad sweep of the behaviour of different sources of revenue of Local Bodies.

Expenditure :

4.25 The various items of expenditure of Local Bodies are broadly classified into (1) General Account and (2) Capital Account. The General Account is further divided into (a) General and (b)Debt servicing. Table 4.8 shows the percentage of expenditure on various items under the above classification:

TABLED

EXPENDITURE OF LOCAL BODIES UNDER GENERAL AND CAPITAL ACCOUNT

SI. No-	% to total expenditure			
	1990-91	1991-92	1992-93	1993-94
Panchayats :				
1. General Account ;				
a) General	70.09	72,41	71.81	70.13
b) Debt Servicing	2.21	2.72	2.21	2.41
2. Capital[1] Account	27.70	24.87	25.98	27.46
Total	100.00	100,00	100.00	100.00
Municipalities and Corporations :				
1. General Account				
a) General.,	60.28	63.56	63.11	61.81
b) Debt Servicing	11.06	8.38	7.98	8.64
2. Capital Account	28.66	28.06	28.91	29.55
Total	100.00	100.00	100.00	100.00

General Account - General

4.26 Expenditure on management and collection., public works, education, etc., come under this item. Item-wise details are given in Annexure IV-3.

Establishment Expenditure :

4.27 Establishment expenditure includes expenditure on salaries, wages, pension contribution etc. The percentage of establishment expenditure to the total own income of the local bodies is as indicated in Table 4.9.

TABLE 4.9

ESTABLISHMENT COST AS PERCENTAGE OF OWN INCOME

Year	Establishment cost	Total own income	% of total establishment cost to own income
Panchayats:	(Rs. in lakhs)		
1990-91	2779.76	6026.04	46.13
1991-92	2981.33	6598-30	45.18
1992-93	3179.26	7163.87	44.38
1993-94	3630.77	9090.23	39.94
Municipalities and Corporations :			
1990-91	2139.32	5934.48	36.05
1991-92	2451,22	6206.65	39.49
1992-93	2631,77	7212.87	39,49
1993-94	3610.54	8391.52	43.03

4.28 The cost of establishment is already high and because of it* linkage with State Government pay and D.A, pattern, has an inbuilt upward momentum. Reduction in staff especially in the context of additional responsibilities, is not a realistic proposition. Village Panchayats and Municipalities should aim at freezing establishment strength at current levels and by increasing revenue, bring down the establishment cost to not more than 30% of their own income. Where additional responsibilities as a result of Panchayati Raj Legislation require additional staff, the staff and the funds for them should be provided by the agency transferring the responsibilities to the Local Bodies.

Debt Servicing

4.29 The expenditure on debt servicing is given in Table 4.10

TABLE 4.10

EXPENDITURE ON DEBT SERVICING

(Rs. in lakhs)

SI. No.	Expenditure during 1990-91	1991-92	% of increase	1992-93	% of increase	1993-94	% of increase	Average: increase f%)
Panchayats								
3. Repayment of Loans	!21 (58.2)	147 (58.6)	21.5	124 (54.6)	(-) 15.6	175 (58,9)	41.1	15.7
2. Interest payment	87 (41.8)	104 (41.4)	19.5	103 (45-4)	(-) 0.9	122 (4U)	18.4	12.3
Total	208 (100%)	251 (100%)	20.6	227 (100%)	(-) 9.5	297 (100%)	30.8	14.0
Municipalities and Corporations:								
1. Repayment of loans	658 (79.9)	490 (75.0)	(-) 25.5	52 i (74.1)	6.3	767 (76.1)	47.2	9.3
2. Interest payment	165 (20.1)	163 (25.0)	(-) 1.2	182 (25.9)	U.6	240 (23.9)	31.8	14.9
Total	823 (100%)	653 (100%)	(-) 20.6	703 (100%)	7.6	1007 (100%)	43.2	1O.I

Source : SFC Survey, 1995.

4.30 Table 4.11 shows the expenditure on debt servicing as a percentage of revenue expenditure, total expenditure and total revenue receipts of Local Bodies:

TABLE 4.11

DEBT SERVICING AS A PERCENTAGE OF REVENUE AND EXPENDITURE

	Expenditure on debt servicing	As % of Revenue Expenditure	As % of total Expenditure	As % of total revenue receipt
	(Rs. in lakhs)			
Panchayats :				
1990-91	208.03	3.06	2,09	2,28
1991-92	250.66	3.62	2.56	2.65
1992-93	226.99	2.98	2.09	2.09
1993-94	297,19	3,32	2.27	2.26
Municipalities and Corporations :				
1990-91	823.36	15.51	9.40	12.29
3991-92	652.77	11.65	7.37	9.61
1992-93	703,31	11.23	6.97	8.66
1993-94	1006.61	12.26	7.67	10.58

4.51 The expenditure on debt servicing is higher for the Urban Local Bodies who are in a better position to obtain loans from financial institutions like LIC, HUDCO and who have a specialised institution viz., the Kerala Urban Development Corporation lending to Urban Local Bodies.

Capital Account :

432 Item-wise details of expenditure under Capital Account are given in Annexure TV-4. Details of total expenditure under General Account and Capital Account are given in Annexure IV-5.

4.33 On the expenditure side, the average annual increase for Village Panchayats during the period 1990-91 to 1993-94 has been 9.8&. Among the different items, Public Works show the highest growth rite of 14.9% with Public Health showing the least rate (-4.4%). In Municipalities and Corporations expenditure on water supply grew faster than others (22.7 average % per year) and Debt servicing registered the lowest growth (10.1%),

4.34 In 1993-94 the average receipt of a Village Panchayat from all sources including Capital Receipts was Rs. 13,85 lakhs rod the average expenditure including Capital Expenditure was Rs.12.55 lakhs. For Municipalities, it was Rs.133 lakhs and Rs.128 lakhs respectively. A surplus is a statutory requirement as Section 214(2) of Kerala Panchayat Raj Act 1994 and Section 293(2} of Kerala Municipalities Act 1994 (as in 1960 enactments) require Local Bodies to have surplus budgets and is in no way indicative of the robustness of their finances. A picture of average income from ail sources, expenditure thereof and surplus of Local Bodies may be seen in Table 4.12.

TABLE 4.12

STATEMENT SHOWING AVERAGE INCOME AND EXPENDITURE OF LOCAL BODIES

(Rs. in lakhs)

	Year			
	1990-91	1991-92	1992-93	1993-94
Village Panchayats :				
Income .	10.06	10.17	11.6!	13.85
Expenditure	9.57	9.37	10.47	12.55
Surplus	0.49	0.80	1.14	1.30
Municipalities :				
Income	90.44	95.72	115.24	133.07
Expenditure	88.56	92.96	110.18	128.41
Surplus	1.88	2.76	5.06	4.66
Corporations :				
Income	936.00	947.00	1138.67	1318.67
Expenditure	887.34	922.67	952.34	1604.34
Surplus/Deficit	48.66	24.33	186.33	(-) 285.67

Note : Income and expenditure include Revenue and Capital items

Arrears of obligatory payments

435 The picture of income and expenditure of Local Bodies masks certain weaknesses. The income and expenditure statements do not reflect the arrears that some Local Bodies owe by way of obligatory payments towards P.P., pension contribution decretal amount, payment to contractors for works already done, arrears to *KWA* etc. More than 90% of the Panchayats owe arrears to KWA, The Commission conducted a sample survey on 85 Panchayats and 47 Municipalities to ascertain the extent of arrears payable other than to KWA and the result of the survey is given in Table 4.13.

TABLE 4.13

SAMPLE SURVEY OF ARREARS BY WAY OF OBLIGATORY PAYMENTS

SI. No.	Item	Arrears Nil	Arrears upto Rs.l lakhs	Arrears upto Rs. 1 to 2 lakhs	Arrears upto Rs. 2-3 lackhs	Arrears upto Rs. 3-4 lakhs	Arrears upto Rs. 4-5 lakhs
1.	Arrears of P.F.	59	26	Nil	Nil	Nil	NU
2.	Arrears of pension contribution	70	15	Nil	Nil	Nil	N i J
3.	Arrears of Decretal payments	84	Nil	1	Nil	Nil	Nil
4.	Arrears of payment to contractors	74	6	2	1	1	1

Source : SFC Survey.

436 It was found that 30% of Panchayats, remittance of P.F. Contribution collected from the employees was pending. Arrears of pension was pending in 17%, decretal payment in 1.2% and payment to contractors in 13% Panchayats.

437 Among Municipalities, remittance of P.F. Contribution collected from the employees was pending m 38%, remittance of Pension contribution in 64%, decretal payments in 38% and payment to contractors in 43% Municipalities.

Minus Fund Panchayats:

4.38 Another factor noticed was the diversion of grants by Panchayats for purposes not envisaged by the grants. A Panchayat is said to be the minus fund Panchayat when its balance of funds is less than its liabilities. The term liabilities include funds received for specific purposes which are intended for use only for specified purposes. But some Panchayats utilise these tied funds for purposes which are not authorized and most of such unauthorised diversion is to meet the cost of establishment, public works and debt servicing.

4.39 The SFC conducted a Survey in 7 Districts viz., Pathanamthitta, Thrissur, Alappuzha, Ernakulam. Kasaragode, Kollam and Thiruvananthapuram which have a total of 501 Panchayats. Out of this total, 105 Panchayats are found to be minus fund Panchayats as on 1-4-1995.

4.40 The position is unlikely to be different in the remaining Districts. In an analysis of these minus fund Panchayats it is seen that the percentage of establishment expenditure or expenditure on public works or both to total expenditure is quite high and this seems to be the principal reason for the diversion of funds. For example, in the Edavilangu Panchayat in Thrissur District, the percentage of establishment expenditure to total expenditure is over 50% and that of public works to total expenditure is 34.42%. There are many minus fund Panchayats where establishment expenditure constitute more than 40% of the total expenditure and expenditure on public works also constitute 40% and upwards in most of these Panchayats.

4.41 The SFC in Chapter X has recommended certain changes in the scheme of Government grants to Local Bodies which essentially dispenses with the system of ear-marking non-plan grants for specific purposes. This should go a long way in changing the present picture of a large lumber of Panchayats using Government grants for purposes which ire not authorised by Government.

CHAPTER - V

BUILDING/PROPERTY TAX

5.1 In this and the following five chapters, we examine at some length the major sources of income of Local Bodies. Appropriate changes in existing taxation structure have also been recommended. Tax on buildings is a tax under Section 200 read along with Section 203 of the Kerala Panchayat Raj Act, 1994 which empowers Panchayats to levy tax on the net annual rental value of buildings subject to a maximum of 10% and a minimum of 6%. Section 230 of the Kerala Municipalities Act, 1994 read along with Section 233 empowers a Municipality to levy a property tax on the net annual rental value of buildings and appurtenant land subject to a minimum and maximum of 10 and 25% in a Municipality and 15 and 25% in a Municipal Corporation. The minimum rate prescribed for Municipalities and Corporations includes an element of service tax for specified services. For Government buildings and buildings not ordinarily let out on rent, the annual rental value is calculated on the basis of present estimated cost of construction after providing for depreciation.

5.2 The Panchayat Raj Act, 1994 and Kerala Municipalities Act, 1994 provide for tax exemption for the following categories of buildings;

i) Places of Worship;

ii) Free or Charitable Choultries;

iii) Buildings of recognised educational institution including hostels;

iv) Protected ancient monuments;

v) Burial and burning grounds;

vi) Government property other than buildings as may be exempted by Government;

vii) Huts in Panchayats; Municipalities can by a resolution exempt properties whose annual rental value does not exceed Rs.300/-

viii)Panchayat and Municipal properties

In addition to the statutory exemptions, Government have issued orders from time to time exempting other categories of houses such as those constructed under One Lakh Houses Scheme, buildings for Scheduled Caste/Scheduled Tribe constructed by Government or under J.R.Y. Scheme.

5.3 The criteria adopted for exemption of 'huts' varies from Panchayats to Panchayats. Case study conducted by the Naha Commission in 1985 in 12 selected Panchayats revealed that 50 % to 68 % of the total number of buildings were exempted from the levy of building tax by stretching the definition of huts. Such exemptions are self-perpetuating in nature notwithstanding its effect on Local Bodies' finances.

5.4 The exemption granted under the 1960 Act to certain categories of buildings such as "buildings which are attached to places of public worship and are used for residential or other purposes connected there with", "charitable hospitals and dispensaries" and "buildings owned and occupied by unrecognised educational institutions" is no longer available under the Kerala Panchayat Raj Act, 1994. This change in the statute will certainly increase the tax yield of the Village Panchayats to a certain extent.

5.5 The rate of building tax is decided by the Local Body subject to the statutory minimum and maximum and the assessments every five years is made by the official machinery available with the Local Body. The Naha Commission (1985) had reported that out of 1001 Panchayats in the State, 703 were levying building tax at the minimum percentage of 6 % only. Table 5.1 which gives the 1985 and 1995 data shows that

in 1995, the majority of Panchayats still collect the tax only at the minimum permissible rate even though there has been a marginal shift to higher rates among the Panchayats. This is indicative of the continuing reluctance of Panchayat to tax at a higher rate even when empowered to do so.

TABLE 5.1

RATE OF BUILDING TAX IN 1985 AND 1995

Rate at which Building Tax is levied	No. of Panchayats in 1985	No. of Panchayats in 1995
6%	703	546
'7%	94	120
7.5%	4	Nil
8%	155	217
9%	12	42
10%	33	45
Total	1001	970*

** Data from 21 Panchayats have not been received.*

The situation in Municipalities and Corporations is given in Table 5.2 from which also a tendency for the rates to hover around the median rate can be discerned.

TABLE 5.2

URBAN LOCAL BODIES LEVYING PROPERTY TAX AT DIFFERENT RATES

Rate of property including service tax	No. of tax Corporations	No. of Municipalities
(1)	(2)	(3)
10		22
12		9
12.5		1
13		3
14		5
15	1	7
15..50		1
16		1

(1)	(2)	(3)
16.50		1*
17		2
17.5		1
18	1	
21		1
21.25	1	-
Total	7	54

Proposals for reform of Property/Building **Tax by earlier Commissions:**

5.6 The need for reforming the present system of taxation has been felt by the Naha Commission (1985) and the First and Second Municipal Finance Commissions (1976 and 1993). The Naha Commission did not advocate any substitution of the annual rental value as the basis for the levy but suggested a number of other changes. These briefly are:

i) the work of tax revision be entrusted to officers outside the Panchayat;

ii) the maximum reduction that can be effected by the Panchayat on the enhanced Building Tax should be restricted to 20% of the enhancement assessed by the Tax Revision Officer. The powers of Deputy Director of Panchayats for reduction may be restricted to l/3rd of the quantum of enhancement made by the Tax Revision Officer;

iii) existing minimum and maximum rates of Building Tax may be revised as follows:

GRADE	Minimum	Maximum
H & HI Grade Panchayats	8%	12%
I Grade Panchayats	8%	15%
Special Grade Panchayats	10%	15%

iv) only those huts whose rental value is Rs.240 and below alone need be exempted from the purview of Building Tax.

Recommendation of the Municipal Finance Commission, 1976

5.7 The main recommendation of the Municipal Finance Commission (1976) are:

i) A differential rate of property tax on rented building be prescribed;

ii) Model Bye-laws prescribing extent of appurtenant lands which may be considered for taxation may be framed and circulated to the Local Bodies instead of leaving it to the discretion of the Assessment Officer. Adjacent land in excess of the prescribed limits have to be assessed on the basis of capital value in case such land is not agricultural land;

iii) The assessment of property tax may be made by a Central Valuation Agency.

iv) Appeals against assessment may be disposed of by Committees in which outside agencies may also be represented.

Recommendation of the Kerala Municipal Finance Commission, 1993:

5.8 The Commission suggested a new method, *it.*, floor area based taxation, whereby rental values of each Municipality is standardised per unit of floor area of urban properties for a gives locality taking into account road access, type of structure of building, its use etc. For this, a grouping of the areas into different zones and a rational classification of buildings based on structural characteristics, nature of use of building, location of building, etc. are necessary. On the basis of rental value of a few selected buildings of same type under each group in the given location, the average rental value per square meter for a year may be worked out for all buildings under each group on location basis. These rates which will be different for different types of buildings and for different locations may be called 'unit value'. The Commission recommended the replacement of reasonable letting value by the 'unit

value' as a base for assessment of property tax. The principle of arriving at unit value is more or less same as laid down in the guide lines for assessment of property tax issued by the Government in Circular No. 21282/B2/88/LAD, dt 17-5-88, but which has not been followed, This Commission further recommended that provision may be made in the Municipal Act for assessment of buildings unlawfully constructed on condition that the assessment does not confer any right for regularisation of unauthorised construction.

Recommendations of State Finance Commission

5.9 Property Tax and Building tax form the single most important source of revenue and the Local Bodies should be prepared to realise its fill potential. The entire area of building tax/property tax is afflicted by under-valuation and lack of uniformity in valuation. It is also characterised by a large number of exemptions and artificial restrictions on the permitted extent of revision, etc. The potential of property tax/ building tax for yielding resources is quite high but has not been exploited to a satisfactory extent by the Local Bodies. The SFC is of the opinion that even without raising the rates of taxation it should be possible to obtain substantial increases *from* this source. One of the major criticisms against the present system of taxation based on estimated rental value is that it is often arbitrary and frequently treat equal properties unequally. The majority of buildings are residential and owner occupied. Even with regard to buildings rented out, there is no well developed rental market and the actual rent is seldom documented or disclosed to tax authorities. Same type of houses in the same locality are assessed to substantially varying quantum of tax. Similar conditions exist in almost all other States. A number of Experts and Committees have suggested that the present basis viz., annual rental value should be replaced by a tax based on the plinth area and not the rental value.

5.10 in Kerala also some attempts were made to evolve a slightly modified basis for property taxation. For Urban Local bodies, the Department of Local Administration issued guide-lines dated 17-5-1988 to divide the Local Body initially into different zones according to the importance of the locality. Each zone will be divided into three localities depending upon its proximity to a black topped road. In each such locality the buildings should be divided into 3 or 4 types depending upon the quality of construction. Based on prevailing rental values an average rent per sq.ft. for each type of house in each locality and zone should be worked out and that average should be made applicable uniformly to ail buildings of the same type, locality and zone. The average thus arrived can be the basic figure which can be used to arrive at the annual rental values. But these guidelines have not been implemented with the result that the system based upon tax officer assessing annual rental value continues.

5.11 The S.F.C. has considered the suggestion to adopt the plinth area as the indicator to arrive at the annual rental value. During the sittings of the Commission in various Districts during October-December, 1995, most of the Local Bodies have also expressed themselves in favour of adopting plinth area as the indicator of rental value. The motivation of various Expert Groups for suggesting a change over from annual rental value to plinth area as the basis is that in many States the annual rent has been interpreted as the fair rent under the relevant Legislation. This has resulted in Local Bodies being legally prevented from revising periodically the annual rental value on the basis of the market rent. The situation in Kerala is different because no such inability to revise annual rental value has arisen. Section 5 of the Kerala Buildings (Lease and Rent Control) Act; 1965 states that in the case of residential and non-residential buildings the fair rent fixed can go up to 15% in excess of the monthly rent on the basis of which the property tax or the house

tax for the building was fixed. The local Bodies in Kerala have been revising regularly the annual rental values. Notwithstanding this there is a lot of merit in considering a change in the manner in which annual rental value is arrived at. The most appropriate area for such a switch over will be the residential buildings, whether owner occupied or tenanted. A complete change over to plinth area as the indicator for all types of buildings including residential, commercial, etc, would need to be preceded by a field survey and study involving the division of the Local Bodies into different zones and localities and the categorisation of buildings in accordance with the quality of construction etc. In the case of commercial establishments, zoning might encounter problems because of the practical difficulty in hiving a very large number of zones. The income earning potential of commercial properties will vary sharply with its distance from the main road of the locality. Buildings which earn very high rent co-exist in the same locality with others whose actual or potential rent is not very high. Some premises which are rented out for marriages and receptions, for example receive rents for upwards of 200 days in a year and whether a property tax worked out on plinth area basis can capture even broadly the variegated nature of rent earning capacity of commercial properties is doubtful. The SFC has not been able to study in detail the raplications of the switch over to plinth area as the indicator of rent for commercial properties and is therefore hesitant to recommend such system without further field surveys and studies. The SFC would recommend that since the preponderance of views of experts is for a switch over to plinth area basis, this option may be further studied in detail by a suitable agency so that on its basis Government or the next SFC can take an informed view. In the case of residential buildings the difficulties likely to be encountered are much less. *The* building is a proxy for the ability to pay of the assessee and it does not mike much of a difference if a residential building is situated within 50 ft. of the street or 150 feet.

This is so even if the building is rented out and as such the adoption of plinth area as the basis would not lead to any serious distortions. Therefore the Commission would recommend that the present system of assessing rental value of residential buildings in Rural and Urban Local Bodies may be dispensed with and plinth area may be adopted as the basis for arriving at the rental value.

5.12 The modus operandi may be on the following lines, The entire area of the Local Body may be divided into territorial zones based upon the following factors:

i) Civic amenities like roads, surface drainage, street lighting etc.;

is) Proximity to markets and shopping, centers.

iii) Proximity to public offices such as Post Offices, educational institutions, Banks etc.:

iv) Proximity to medical institutions;

v) Proximity to Factories and Industries.

As far as possible the number of zones should be kept to a minimum and in rural areas need not be more than two.

The next step is to classify the different residential buildings which comes under each territorial zone .They may be classified based on the nature of construction such as:

1) R.C.C. building with superior quality wood, mosaic or marble flooring, sanitary fittings, attached bath rooms, etc.

2) R.C.C. ordinary buildings with ordinary quality wood, ordinary flooring and sanitary fittings;

3) Tiled roof or asbestos,, or GI roof;

4) Huts

5) Any other type of buildings not corning under the above categories.

5.13 All buildings located in a zone should be classified based upon the type of construction. If in a Local Body, there are let us say, 5 zones and 6 different types of buildings, then there could be 30 categories of buildings. The Annual rental value currently being assessed IE respect of the different types of buildings in a zone should be taken into consideration and as average monthly rent or yearly rent for each category of buildings expressed as a rate per sq.mt. of plinth area should be arrived at The Chief Executive of the Local Body should personally supervise this work and the senior officials should personally verify a minimum percentage of the buildings whose current annual rental value is taken into account *in* arriving at the average rental value per sq.mt. The average rental value thus arrived should be the unit rate which will be the basis to *determine* the tax. The unit rate thus arrived at should be made available to the public *in* the form of a draft notification and after considering any suggestions or objections received a final notification fixing the unit rate per sq.mt, for each zone and for each type of building should be published. Thereafter, these rates become operative from prescribed dates. The annual rental value thus arrived at is tie reflection of the actuals being charged and these actuals have a tot of inbuilt infirmities and inequalities. Therefore, the average worked out should be considered only as a unit value and actual levy could be a multiple of the unit value as may be decided by the Local Body The Authorities of the Local Body will no doubt take care to ensure that the current rate fixed as well as the unit value will yield revenue at least equal to the yield based upon the current levels.

5.14 The methodology would require a property owner or a house owner to give tax irrespective of the age of the building. It will only be fair and just that a rebate is given depending upon the age of the building while making individual assessment on the basis of the unit value. For buildings which are 25 years and below in age a rebate of 10% of the

annual rental value may be given and for buildings above 25 years a rebate of 20% of the annual rental value may be given. For residential buildings which are rested out a surcharge of 25% may be levied.

5.15 Under the current regime of property taxation the same rate applies irrespective of the use to which the property is put such as residential (owner occupied) and commercial (rented). We have already recommended that residential properties (owner occupied as well as rented) may be taxed on the basis of plinth area as the indicator of rental value with a 25$ surcharge for rented premises. In the case of commercial properties foe rental basis is proposed to be retained but the minimum rates should be set higher than at present. In many States, as well as countries abroad, commercial properties are charged at a higher rate than are non-commercial properties. Our recommendations in this regard are given in Table 5.3

TABLE 5.3

BUILDING TAX/PROPERTY TAX FOR COMMERCIAL PROPERTIES

	CORPORATIONS		MUNICIPALITIES		PANCHAYATS	
	Mini-mum	Maxi mum	Mini-mum	Maxi mum	Mini-mum	Maxi mum
I. EXISTING RATE						
1. Basic Charge	*1%*		5%		*6%*	10%
2. Service Tax for lighting	2%		*2%*		Nil	Nil
3. Service Tax ,, for drainage	2%				Nil	Nil
4. Service Tax for water	1%				Nil	Nil
5. Service Tax for sanitation	3$		3%		Nil	Nil
	15%	25%	10%	25%	*6%*	10%

*2. PROPOSED

1.	Basic chaise	12%		10%		9%	12%		
2.	Service charge	No change	No change	No change		No change			
		20%	25%	15%	25%	9%	12%		

**** The tax levied should** not however exceed the **maximum percentage prescribed tinder the Act.***

5.16 For owner occupied commercial properties, a rebate of 10% may be allowed provided the owner and the occupier are identical. Where the occupier is a company, partnership of any other juridical person, the rebate will not apply

For commercial properties where rental value is proposed for retention as the basis, rate papers whose annual rental value whether actual or potential exceeds R&J2000 may be statutorily required to *file* a return yearly at the end of the year showing the actual rental income earned and the tax on ji at the prescribed rate. Any difference between the assessed tax and the tax due should be covered by additional payment from the assessee or a refund from the Local Body. *The* degree of under assessment is quite phenomenal, especially in urban Local Bodies. For a leading club in Trivandrum which has an auditorium in great demand for marriages and meetings, the assessed property tax is about Rs. 1291 whereas the annual rental income from the Hall and guest rooms is in excess of Rs.10 lakhs, A similar Community Hail within a radius of a kilometre is assessed at nearly Rs, 3.5 lakhs. Instances of such anomalies abound showing a deplorable lack of control and system in making assessment by the Local Body. The introduction of a system of filing returns and making assessment on the basis of actual rent will go a long way in eliminating these anomalies.

The Local Body should have the authority to require any rate payer to file the return, irrespective of the stated rental value which may be

shown by him as below the threshold level. This provision may first be introduced in the Urban Local Bodies with enabling power given to Rural Local Bodies also to introduce such system. For assessing the rental levels, a composite total may be taken ignoring self serving division of rents into components such as furniture - hire, electricity charges, etc.

5.17. The revision of tax takes place once in every five years only. In the interim period between two general revisions, only the newly constructed or demolished buildings are added or deleted from the assessment register. As the resource needs of the Local Bodies increase in response to both inflationary pressures and demands for greater public services, the income from Building Tax/Property Tax should be responsive to such needs. This goal can be achieved only if the time lag between the general tax revisions is reduced. The periodicity of revisions of tax in some of the other states in India is indicated below:

Rajasthan	3 Years
Madhya Pradesh, Gujarat, Maharashtra and Karnataka	4 Years
Assam, West Bengal, Bihar, Uttar Pradesh, Haryana, Orissa, Andhra Pradesh and Tamil Nadu	5 Years

The S.F.C. recommends that the general revisions may take place every 4 years instead of 5 years.

5.18 In the Panchayats where the provisions of the Kerala Building Tax Rules, 1963 have been implemented there may be several cases of unauthorised construction of buildings, violating the provisions in the rules. In Kerala Municipalities Act there is a provision for assessing such buildings to tax without, conferring any right on the owner. Under K.P.R. Act 1994 Building Tax is levied on such buildings only after the unauthorised construction is regularised as per rules. In the interim period, which may normally extend upto one or two years, such

buildings are not brought under the purview of buildings tax, and the panchayat concerned are losing a substantial income on this account. These buildings may be brought under the tax notwithstanding the unauthorised nature of construction without conferring on them any right to regularisation or immunity from punitive action including demolition.

5.19 The exemption from Building Tax given to 'huts' in the K.P.R. Act 1994 is widely misused by stretching the definition beyond reasonable limits. While recognising the need for fixing a level below which the building will not be liable, the criterion may be the plinth area. The State Finance Commission would recommend that for residential areas, the plinth area may replace annual rental value as the basis for taxation. All residential buildings with a plinth area of less than 20 sq.mt, in Panchayats and Municipalities with mud walls or thatched roofs may be exempted from building tax/property tax. / -1 non-residential buildings irrespective of t »r area or type of construction should be made liable to pay the tax.

5.20 At present much time is taken for the disposal of revision petitions against the assessment of tax by the Secretaries of the Village Panchayat. This practice adversely affects the timely collection of tax resulting in accumulation of arrears in the year in which a general revision of assessment is made. Consequently the tax collection in the subsequent years also becomes difficult. So also, in practice, the Panchayat councils also take much time for the disposal of appeal petitions for tax reduction. This also causes discontent among the tax payers and the appellants normally hesitate to pay the tax for the remaining period until the decisions on their appeal petitions are known. Therefore a time limit for the disposal of revision petitions and appeal petitions has to be prescribed in the relevant rules.

5.21 The Building Tax Rules do not permit to round off the annual tax amount to the next higher rupee. Much labour and time are therefore required to work out the totals in the assessment registers and demand registers. Hence necessary provisions in this regard may be made in the relevant rules for rounding off the annual as well as half-yearly tax amount to the next higher rupee.

5.22 The building tax/property tax payable by some buildings is fixed at a very low level, and the cost of collection itself is likely to absorb a substantial portion of the revenue. The preceding sections have suggested certain changes in the regime of tax. The Commission feels that there should be minimum property/building tax payable by a tax payer and this may be fixed at Rs.15 per half year in a Panchayat, Rs.20 in a Municipality and Rs.25 in a Corporation.

5.23 In order to assist Local Bodies in collecting the amounts due to them under the K.M. Act 1994 a provision may be introduced for charging interest @ 2% per month on the arrears. Such a provision did exist in the Kerala Municipalities Act, 1994 (Sub Section (2) of Section 538) but was modified in the Amendment Act 8 of 1995 and the interest on delayed payment was made applicable only to dues above Rs. 50,000. None of the assessees of Profession Tax and many of the assessees of Property/Building Tax will have such arrears and are thus outside the influence of this provision. The existence of such a provision is reported to have helped the Local Bodies to realise better collection. In all tax administration there is a penalty for delayed payment and there is no reason why this should not apply to Local Body finances. The SFC recommend that this provision may be reintroduced in the K.M. Act, 1994 and introduced in the K.P.R. Act 1994.

CHAPTER VI

ENTERTAINMENT TAX AND SHOW TAX

Entertainment Tar

6.1 Entertainment tax is one of the most important sources of income for Local Bodies in the State. The basic enactments governing the levy of Entertainment Tax are the Kerala Local Authorities Entertainment Tax Act, 1961, and the Kerala Additional Tax on Entertainment and Surcharge on Show Tax (Amendment Act) 1975. Section *200* of Kerala Panchayat Raj Act, 1994 lists Entertainment Tax as one of the taxes leviable by the Village Panchayats but does not make any further mention of the tax elsewhere in the Act, The Kerala Municipalities Act, 1994 does not make any mention at all about Entertainment Tax eventhough this tax is an important source of income for the Municipalities. This is because of the separate existence of enactments governing the levy of Entertainment Tax,

6.2 The rate of Entertainment Tax is to be fixed between the minimum of 15% and maximum of 30% on the price of tickets and the Additional Entertainment Tax is fixed at 60% of the tax.

6.3 The method of assessment, common to both Urban and Rural Local Bodies is by stamping the admission tickets with a seal or adhesive stamp on payment of tax. The tax is collected in advance either at the time of stamping the tickets or its sale to the customer.

6.4 The Local Bodies in the State are entitled to get between a minimum of 24 paise and a maximum of 48 paise as Entertainment Tax and Additional Entertainment Tax for every rupee collected as price of the admission ticket for any cinematographic exhibition depending upon the rate of Entertainment Tax chosen by them as indicated in Table VIL

TABLE 6.1

Entertainment tax and Additional Entertainment Tax in relation to Price of Tickets Re. 1

Price of Ticket	Entertainment: Tax At Minimum	Entertainment: Tax At Maximum	Addl-Entertainement tax		Entertainment Tax and Add- Entertainment Tax	
	15%	30%	If ET. is 55%	If ET is 30%	If ET is 15%	If ETis 30%
Re.I	0.15	0.30	0.09	0.18	0.24	0.48

6.5 Entertainment Tax and Additional Entertainment Tax are leviable on any exhibition, performance, amusements, games, race, sports or gambling and the single largest source is the cinema. But the overwhelming portion of the income comes from cinema houses.

6.6 As per details collected from Local Bodies, there are 957 cinema houses operating in 714 Panchayats, 60 in Corporations and 230 in Municipal areas as on 31-3-1994, Thus there are 269 Panchayats which do not have any Cinemas operating with in them. The rates of tax fall under following categories:

	No of Panchayats
Below 15% of price of admission	7
15% to 19%	292
20% to 24%	320
25% to 30%	95
Total	714

It is astonishing that 7 panchayats including 4 in Thiruvananthapuram district levy Entertainment Tax at rates lower than the prescribed minimum. Among Urban Local Bodies, all the 3 Corporations and all the Municipalities except seven, levy Entertainment Tax at the maximum rate prescribed in the relevant Act.

6.7 As the Table 6.2 shows the yield from Entertainment Tax and Additional Entertainment Tax during 1990-91 to 1993-94 recorded appreciable growth in all Local Bodies.

TABLE 6.2

RECEIPT FROM ENTERTAINMENT TAX AND ADDITIONAL ENTERTAINMENT TAX

Sl.NO.	Year	Panchayats	% of increase	Municipalities	% of Increase	Corporations	%of Increase
	1990-91	480		929		464	
	1991-92	SI4	7.08	1038	11.73	502	8.19
	1992-93	164	9.73	1245	!9.94	66!	31.67
4,	1995-94	152	15.60	I4S3	19.12	812	22.84

Source : SFC Survey, 1995

The increase has been so remarkable in Urban areas that in 25 Municipalities (Annexure VI. 1) receipt from Entertainment Tax and Additional Entertainment Tax has even replaced Property tax to become the single largest source of own income. But for the Panchayats, though the trend had been one of increase, the rate of growth was at a much lower rate.

6,8 , During the period 1990-91 to 1993-94 the income from Entertainment Tax and Additional Entertainment Tax together has been steadily contributing to about 18 to 20% of the receipt of Special Grade Panchayats from ail assigned taxes levied and collected by them, and to 11 to 12% in the case of Grade I Panchayats. For Grade n and III Panchayats this ranged from 6 to 11%. But as a component of total receipts from ail sources, its share was 7% for Special Grade, 3% for Grade-I, *2%* for Grade n and only 1% for Grade ffl Panchayats. Among Municipalities, its contribution to the receipts from assigned taxes levied and collected by them was 43 to 50%, 34 to 48% and 30 to 34% for I, H and UJ grades respectively and 16 to 20%, 13 to 16% and 12 to 15% of their total receipts, in that order. In the case of Corporations it accounted for 29 to 36% of the assigned taxes levied and collected by them and 16 to J9% of their total receipts from ail sources.

6.9 The average tax collected per day per cinema house is Rs,647 during 1993-94. It varied from Rs.3708 in Corporations to Rs, 187 in Panchayats as may be seen from Table 6.3,

TABLE 6.3

TAX COLLECTED PER DAY PER CMEMA HOUSE (1993-94)

1 Category	No.of theatres	Income from E.T. & Addl. E.T. during 1993-94 (Rs, *in* lakhs)	Receipt per theatre per day Rs.
Panchayat	957	652	
Municipality	230	1483	!87
			1767
Corporation	60	832	3708
All Local Bodies	1247	2947	647

Source: SFC Survey, J995

The collection in Panchayat areas looks abnormally low even after discounting for the lower rates of tickets prevailing as compared to rural areas. As can be seen from Annexure VL2 which gives the details in respect of Panchayats, disaggregated to the district level, the tax collected vastly differs from district to district. Thiruvananthapuram with 97 cinema houses and 41076 total seats collected in 1993-94 Rs.25.80 lakh whereas Malappuram with 80 cinema houses and 42501 • seals collected Rs. 122.44 lakh and Kozhikode with 91 cinema houses and 46404 seats collected Rs.83.33 lakh. There is no satisfactory explanation for the wide variation among districts. Tax evasion is a factor perhaps in all places but in certain districts it has assumed epidemic proportions with Local Bodies by design or accident abdicating their basic responsibility to administer the tax in a responsible manner.

6.10 The low level of collection of the tax from most Panchayats does not seem to arise from objective reasons and gives room for concern at the efficiency of tax administration at the Panchayat level. There is evidence to suggest massive evasion of tax which cannot take place without the collusion of the Local Bodies. The average daily tax collected from a cinema house in a Panchayat is Rs.187 and the average per seat, Paise 39. At a daily minimum of two shows on week days and 3 shows on week ends, there will be 68 shows in a month, not counting extra shows on festival days. The average number of seats per cinema house is 478 or say 475. Even at a very conservative average per seat realisation of Rs.2.50 and an occupancy rate of 33.3%, the ticket sale should be Rs.395 or say Rs.390 per show or Rs.26520 for the 68 shows in a month. At the minimum tax rate of 24 Paise in the Rupee, the tax Payable will be Rs.6364 per month or Rs.212 per day. We have seen from para 6.6 above that about 58% of the Panchayats levy the tax at rates between 20 to 30% and if 20% is taken as the average tax rate — the actuals will be more — the tax payable on ticket sale of Rs.26520/- at 32 Paise per Rupee would go upto Rs.8486 per month or Rs.282 per day. The Panchayats in Idukki, Pathanamthitta and Thiruvananthapuram show very poor collection with daily tax collection at Rs.65, Rs.67 and Rs.73 respectively. At Rs.73 per day for the estimated minimum of 68 shows per month, the collection per show works out to Rs.32. The total ticket sale per show consistent with this level of tax collection at the minimum rate of Paise 24 in the Rupee is only Rs. 100 and would even be less if the tax rate is above the prescribed minimum.

6.11 The Commission's interaction with knowledgeable persons in the cinema exhibition industry goes to show that it is impossible for an exhibitor to carry on his activities unless he gets a minimum collection in the Thiruvananthapuram, Idukki and Pathanamthitta districts much

higher than is consistent with the tax he is paying. The exhibitor has to meet the cost of his establishment, interest charges, rent for the premises if it is on rent, electricity charges, insurance charges and above all the payments to the film distributor. He gets income mainly from ticket sale, supplemented by income from advertisement. Even in a B Class circuit of film distribution, wherein most of the Panchayat areas fall, exhibitors in districts like Thiruvananthapuram, Pathanamthitta and Idukki will not be able to survive on the level of daily ticket sales consistent with the tax they are remitting to the Panchayats.

6.12. In order to put an end to the malpractices indulged in assessment and collection of Entertainment Tax and Additional Entertainment Tax and also to simplify the existing procedural formalities, the previous Commissions had made several suggestions. Among them, the one that has been favoured by a majority of those who gave evidence before the SFC, is the recommendation to levy Entertainment Tax on the basis of seating capacity as done in Andhra Pradesh. The Naha Commission (1985) had pointed out that there was unanimity of opinion among all those who has tendered evidence before it that levying of tax on gross collection capacity per show will prevent evasion to a great extent besides securing for panchayats an assured income. They recommended the introduction of such a system and also pointed out that in the Budget Speech of 1981-82, the Government had proposed the introduction of such a system and that even a draft Bill had been introduced in the Legislature. The Mohandas Commission (1993) has also recommended that Entertainment Tax "may be levied at a fixed rate not less than 20% of gross collection per show based on total seating capacity of each theatre". This will help eliminate almost all possible irregularities now practiced except admitting people in excess of the approved seating capacity, which can be minimised by frequent checks and fines.

Recommendations of SFC

6.13 According to available indications evasion takes place on a widespread scale in Panchayats eventhough other Local Bodies may not also be free from it. Even among Panchayats some areas may be exhibiting this tendency more than others. At this stage, State Finance Commission would not like to recommend a wholesale shift of gross collection capacity as the basis for Entertainment Tax for all cinema houses in the State. The objective of any reform is to discourage tax evasion and thereby to increase the income of the Local Bodies. Where a Local Body is deriving a reasonable level of income from cinema houses by way of Entertainment Tax it is better that they are left with the existing system rather than compelling them to move to a new system. What is required under this circumstance is an option for Local Bodies to follow either the current system or a modified system based upon gross collection capacity as the basis for taxation. Even under the current legal provisions there is a provision for the cinema house owners to compound the tax payable but hardly anyone is making use of this provision. If an option without any further conditions is given it may encounter the same response and therefore the decision whether to change over to a system of collecting Entertainment Tax on the basis of gross collection or not should not be left to the exhibitor or to the Panchayat. The objective criteria should be the actual Entertainment Tax that the exhibitor has been paying during the immediately preceding year and if the tax paid, considered along with the tax rate, the total seating capacity and prices of tickets is consistent with an occupation ratio of less than 25% of the gross seating capacity, then it should be incumbent upon the Local Body to fix the tax payable on the basis of gross seating capacity at a minimum of 25% of the seating capacity. The Local Body should be free to fix the rate above the minimum. The Entertainment Tax remitted during the immediately preceding year

should be the criterion and Local Bodies should fix the tax on the basis of gross seating capacity within a period of two months from date stipulated by Government after making necessary changes in the legal provisions.

Merger of Entertainment Tax and Additional Entertainment Tax

6.14 The Additional Entertainment Tax as originally conceived and implemented accrued to the State Government. Subsequently receipts from Additional Entertainment Tax also came to be made over for the exclusive use of Local Bodies. As the proceeds form both Entertainment Tax and Additional Entertainment Tax now go to Local Bodies, the need for separate collection, accounting and appropriation no longer exist. Recognising this, the Naha Commission (1985) had recommended the merger of Entertainment Tax and Additional Entertainment Tax into a single item suitably refixing the rate of Entertainment Tax. Implementation of this recommendation will help in simplification of existing procedures and the State Finance Commission reiterates the above recommendation,

Show Tax

6.15 The Kerala Panchayat Raj Act 1994 vide sub section 4(1) under Section 200 empowers the Village Panchayats in the State to levy and collect a 'Show Tax' on every 'exhibition' performed in their territory. Similarly sub section 1 under Section 269 of Kerala Municipalities Act, 1994 empowers the Urban Local Bodies also to levy and collect 'Show Tax'. The rates of Show Tax in urban areas as prescribed in Kerala Municipalities Act, 1994 and in the Kerala Panchayat Raj (levy of Show Tax) Rules, 1995 are as follows:

a.	Regular Cinematographic exhibitions in licenced theatres	Rs. 2 per show
b.	Other cinematographic exhibitions	Rs. 10 per show
c.	Regular exhibitions other than cinemas	Rs. 5 per show
d.	Other exhibitions	Rs. 30 per show

The above rates show an improvement over the rates fixed in 1962 which had remained unchanged till the recent revision in the Kerala Municipalities Act 1994 and the Kerala Panchayat Raj (levy of Show Tax) Rules, 1995. The Show Tax for dramatic performances and circus fixed in 1965 has not been revised,

6.16 In addition to Show Tax the Local Bodies in the State are empowered to levy and collect a "Surcharge on Show Tax" at the rate of 25% of Show Tax on every show, as per Kerala Additional Tax on Entertainment Tat and Surcharge on Show Tax Act, 1963. The trend of receipts from Show Tax and Surcharge on Show Tax for the period 1990-91 to 1993-94 is given in Table 6.4

TABLE 6.4

RECEIPTS FBOM SHOW TAX 4 SURCHARGE ON SHOW TAX

(Rs. in lakhs)

		1990-91	199 J -92	1992-93	1993-94
(0	Panchayats	18,00	18.00	20.00	25.00
		(0.58)	(0.48)	(0.55)	(0.57)
(ii)	Municipalities	7.00	8,00	7.00	8.00
		(0.30)	(0.31)	(0.25)	(0.25)
OH	Corporations	3.00	1.00	2.00	4.00
`		(0.17)	(0.08)	(0.09)	(0.18)

(Figures in brackets indicate percentage to total receipts from all asigned fixes levied by Local Bodies)

Source i SPC Survey, 1995.

6.17 Similar to Additional Entertainment Tax, proceeds from "Surcharge on Show Tax" too was originally intended to augment State Government's resources but from 1.8.1975 the entire proceeds go to Local Bodies along with Additional Entertainment Tax. So now it is irrelevant to continue the practice of levying, collecting and accounting Show Tax and surcharge on Show Tax separately. With respect to this tax State Finance Commission makes the following recommendations;-

i) The distinction between Show Tax and Surcharge on Show Tax may be abolished and both merged into one.

ii) The regime of fixed rates may be replaced by one where the present rates are fixed as the minimum with freedom given to Local Bodies to fix rates above them at intervals of not less than two years.

CHAPTER VII. PROFESSION TAX AND OTHER TAXES

7.1 Panchayats and Municipalities are levying Profession Tax on individuals and companies by virtue of section 204 of K.P.R. Act, 1994 and Section 245 of the K.M. Act 1994. This tax was leviable under the 1960 Acts as well. All companies and individuals transacting business or engaged in a profession for not less than 60 days in a half-year are liable to pay the tax at such rates as are fixed by the Local Body subject to the maximum rates prescribed by Government. The maximum tax leviable, fixed in Article 276 (2) of the Constitution is Rs. 2500 per year.

7.2 Government in S.R.O. 674/90 in Kerala Gazette No. 24/1990 have exempted in Panchayats half-yearly income of Rs. 2400 and below from the tax and prescribed 16 slabs of income for individuals and corresponding maximum half-yearly tax ranging from Rs. 10 to Rs. 1250. In G.O. MS.No. 129/90/LAD, dated 10-8-1990 Government have exempted in Municipalities half-yearly income of Rs. 3600 and below for individuals from the tax and has prescribed 14 slabs of income and corresponding maximum half-yearly tax ranging from Rs. 9 to Rs. 1250. These slabs and rates are given in Annexure VII.l.

7.3 Companies or persons engaged in business are assessed either on the basis of their income on which Income Tax or Agricultural Income Tax or both are assessed or if the profit is not ascertainable, on the basis of turn over. The minimum income for computing tax rates range from Rs, 6000 to Rs. 80,000 in Panchayats and from Rs. 12,000 to Rs.36,000 in Municipalities. The existing slabs and rates are given in Annexure VIL2.

7.4 Profession Tax as a source of income for Panchayats has during the period 1990-91 to 1993-94 increased from Rs. 831 lakhs to Rs. 1255 lakhs (51% increase) but its share in the total own income of the Panchayats has remained more or less static at about 14% (13.79% in 1990-91 and 13.8% in 1993-94). In Municipalities, the increase was from Rs, 157 lakhs to Rs, *226* lakhs (44%); its share in the total own income of the Municipalities has remained more or less static at about 45% (4.27% in 1990-91 and 4.63% in 1993-94). In Municipal Corporations it increased *from Rs. 72* 3akhs to Rs. 131 lakhs in 1993-94 showing an increase by 82%, The share of total own income was about 3.5% (3.16% in 1990-91 and 3.72% in 1993-94).

7.5 The full potential of this tax is yet to be realised by the Local Bodies. Substantial improvement in collection is expected from the obligation cast on the employer or Head of office under Section 205 of the K.P.R.Act 1994 and Section 252 of the K.M. Act 1994 to deduct the tax payable from the salary of the employer. Such an obligation arises on receiving a notice of demand from the Local Body. Section 249 and 250 of K.M. Act 1994 require Heads of Offices and owners of buildings to furnish to the Municipality details of employees and occupants. A corresponding provision is not found in the K.P.R. Act 1994 and SFC recommend that it should be incorporated in the Rules and, if necessary, in the Act itself. The optimisation of the potential of this tax source is dependent upon the Local Body compiling a complete list of assessees. The record of Local Bodies in this regard is far from satisfactory. The Department of Economics & Statistics of Government of Kerala has compiled data from the 1991 census for all the Panchayats and Municipalities showing, among other things, number of "Main workers" defined as "those who have worked for major part of the year preceding the enumeration" and separately the number of workers in Manufacturing, Processing, Servicing & Repairs in other than house-hold industry (MPSOH) and in Trade &

Commerce and Transport and Communication. Employees in private sector assessed to profession tax in the Municipalities and Panchayats i of Kasaragode and Kannur Districts for which published information is available is only a small proportion of "Main Workers" and even of workers in M.P.S.O.H. The details may be seen in Annexure Vn.3. It is doubtful whether any of the workers in the Census count would be earning less than Rs. 400 per month in Panchayats and Rs. 600 in Municipalities. The Local Bodies should gear up the machinery to obtain list of employees, the salary, etc. from various offices in the jurisdiction and to serve notice on them through the employers. The tax mapping of the area with assignment of Unique Premises Number recommended in Chapter XH will go a long way in tapping the full potential of profession tax as well.

7.6 Tax from self-employed persons such as Doctors, Lawyers, Accountants, tuition masters, etc. cannot obviously be collected from the employers but has to be directly levied. The data base of Local Bodies in respect of self-employed is poor with the result that many escape the tax net and even if in the tax net, assessment of their income presents problems and scope for disputes. Here also concerted tax mapping will bring more assessees into the tax net. The Second Municipal Finance Commission (1993) recommended that the tax on them may be levied at a flat rate. The S.F.C. endorses this recommendation with some modifications on the number of income slabs and the rate of tax. The recommended rates are given in Annexure VII.4.

7.7 The existing income slabs arc 16 in Panchayats and 14 in Municipalities and only the maximum tax rate is specified. The slabs are far too many and should be reduced. These tax rates were fixed in 1990 and call for revision if only to adjust them to inflation, if not for any other reason. The differential rate of taxation for individuals in the same income level in Panchayats and Municipalities does not have any compelling rationale

and need to be abolished. Income is income whether in Rural or Urban area and equal income deserves to be treated equally for taxation. In the light of the foregoing consideration, the SFC recommends that the rates of profession tax may be uniform in urban and rural Local Bodies and that the number of slabs be reduced and the rates rationalised as shown in Table 7.1. These rates constitute 1% of the income at the minimum of the income slab.

TABLE 7.1

RKATES OF PROFESSION TAX PROPOSED FOR MUNICIPALITIES / PANCHAYATS

Class	Half-yearly income	Maximum half-yearly tax
		Rs.
I	Rs.3000 - 5999	30
II	Rs.6000- 11999	60
III	Rs.12000- 17,999	120
IV	Rs. 18000- 29,999	180
V	Rs.30000 - 44,999	300
VI	Rs.45000 - 59,999	450
VII	Rs.60000 - 74,999	600
VIII	Rs.75000 - 99,999	750
IX	Rs. 100000 - 1,24,999	1000
X	Rs. 1,25,000 and above	1250

7.8 According to Section 204(3) of K.P.R. Act 1994, the aggregate income from all sources is taken into account for deciding upon the income slab of the tax payer. Section 245(2) of K.M. Act 1994 also specifies aggregate income as the basis but the explanation to the Section excludes local allowance, house rent allowance, conveyance allowance, and dearness allowance. There is no such exclusion in the K.P.R. Act 1994. While allowances such as HRA and Traveling allowance should be excluded as they are essentially in the nature of reimbursement of specific expenses, similar justification is lacking in the case of Dearness

Allowance, Bonus etc. Exclusion of Dearness Allowance and Bonus in urban areas and their inclusion in rural areas for computing Profession Tax lacks justification and S.F.C. recommends that D.A., Bonus etc., should be taken as part of taxable income in urban areas as is already the case in rural areas. HRA and other compensatory allowances may be excluded in both urban and rural areas.

Land Cess

7.9 Section 201 of the Kerala Panchayat Raj Act, 1994 confers power on Panchayats to levy a cess annually on every land in the Panchayat area other than those exempted by Government at the rate of 1/10% of the capital value of the land. There was a corresponding provision in the Kerala Panchayat Raj Act, 1969 where the rate leviable was 1/16 of the capital value. There is no corresponding provision in the Kerala Municipality Act, 1994 or in the earlier 1960 Act. Under the Kerala Panchayat (Levy and Collection of Land Cess) Rules, 1971, the capital value of any land should be its market value which will be determined by the Assessing Officer designated by Government taking into consideration the price paid for the land in the current year or in the preceding 3 years, the price paid for similar land in the vicinity or rate of capital value adopted for the purpose of land acquisition for similar lands or for disposal of Government lands under Land Assignment Rules. Government in G.O. (MS) No. 67/70/LAD dated 7-9-'70 has exempted the following categories of lands from the land cess under Section 66 (A) of Kerala Panchayat Act, 1960.

i) Lands belonging to Government which are not leased out.

ii) Lands which are declared as forests

iii) Lands not put to use and from which no rent is realised by the owners

iv) Lands appurtenant to Buildings and which are assessed to Building Tax or to buildings which are not liable to be assessed for building tax

v) Lands left for common use such as roads, play grounds and open spaces

vi) Land valued at less than Rs. 5000/- owned by an individual (G.O. MS.120/79/LA & SWD dated 3-6-1974)

vii) Lands owned by Food Corporation of India (G.O.MS 69/76/LA & SWD dated 15-3-1976)

This is an optional levy and Panchayats have generally been reluctant to invoke this power conferred on them with only a few notable exceptions. The total income derived from this source from 1989-90 to 1992-93 is very small and has been declining in recent year's as may be seen from Table : 7.2.

TABLE 7.2

RECEIPTS FROM LAND CESS

Year	(Rs. in lakhs)
1989-90	9.4
1990-91	62
1991-92	5.4
1992-93	4.4

7.10 During the course of the evidence tendered before the Commission we tried to ascertain why such an apparently potent source of income has not been used by the Panchayats. No convincing reasons were forthcoming. The two reasons generally put forward were :

(a) The levy would meet with a lot of opposition because exemption limit is too low

(b) There are practical difficulties in collecting the levy because the land holder may not have sufficient income at the time when the levy is to be paid as capital value per se does not generate income.

7.11 The above reasons do not appear to be genuine obstacles to the levy of laud cess. The Aryankavu Panchayat in Quilon District is one of the few panchayats where steps have been taken to invoke this taxing power. The panchayat by a resolution dated 23-7-94 decided to levy the land cess from 1993-94 on all lands whose capital value exceeds Rs. 50,000/-. The Taluk Panchayat Officer, Pathanamthitta who is the Assessing Officer in the case of one Assessee (Assessee A) after excluding Assessee A's land which are barren or waterlogged fixed the capital value of land at Rs. '7500 per hectare in his order dated 15-6-95 and on the basis Assessee A was required to pay the Cess on *Land.* The assessee A filed a writ petition in the High Court which was dismissed and appeal filed by assessee A has also been dismissed by the High Court. This shows that there is no intrinsic legal difficulty in levying the Land Cess. The main obstacle obviously is the lack of necessary will on the part of the panchayats to levy and collect the tax.

7.12 Land is an immovable tax base and would be an ideal candidate for being assigned exclusively for Local Bodies as a base for taxation. The reluctance of the Local Bodies to exercise the available jurisdiction is perhaps understandable but is not consistent with their obligations to increase the revenues so that they are in a position to meet their obligations. One of the difficulties in exploiting this is that the levy which could be substantial is demanded at a time when no generation of income has taken place. Therefore in many, though not in all cases, it may create practical difficulties for assessees. If the levy is made at a time when an additional income is generated this difficulty will not exist. The State Finance Commission has elsewhere recommended the introduction of a system of collecting a tax on sale of land. When such

a system is introduced Government can do away with the provision under Section 201 under which Panchayats can levy a land cess. *The* State Finance Commission would therefore recommend accordingly.

Other Taxes

7.13 The Local Bodies levy or are empowered to levy certain other taxes (surcharge on taxes levied by it, Tax on advertisement and cess on land conversion and tax on animals in the case of Municipalities). The receipts from all these come to about 5% and 3% of the total tax revenue respectively of Panchayats and Municipalities. The Commission has no specific recommendations to make on these items other than in the case of tax on advertisement'. The Eighth Schedule of the Kerala Panchayat Raj Act gives the maximum and minimum rate of tax leviable. The period for which the rate is applicable is not mentioned for items 1 to 5 in the Schedule. The range between the minimum and maximum also do not make adequate allowance for the difference in the market rate between an interior location and say a location on a junction on the National or State Highway. Section 271 of Kerala Municipalities Act leaves it to the Council to resolve the rate of advertisement tax but such rates require the approval of the Government. These areas of decision making should be vacated by Government and at best Government may fix the minimum rate chargeable and leave it to the Panchayat or Municipality to fix it above those rates. After all public display of advertisement at a particular spot is not a fundamental right and if a prospective customer finds the rate too high, he will not use the site and the demand and supply equation will result in an appropriate rate without the intervention of Government.

CHAPTER - VII

NON-TAX REVENUE

8.1 Local Bodies derive non-tax revenue principally through income from properties, licence fees, receipts under Special Acts and miscellaneous receipts. This is not an insignificant source of revenue for Local Bodies and in 1993-94 this contributed to *12%* of the income from own sources of the Panchayats and *21%* of the income of Municipalities. The predominant item contributing the bulk of the non-tax revenue in the case of both Panchayats and Municipalities is income from properties which contribute more than W the share of the total non-tax revenue. The details of the receipts are given in Table 8.1.

TABLE 8.1

NON-TAX INCOME OF PANCHAYTS & MUNICIPALITIES

(Rs. in lakhs)

	1990-91		1991-92		1992-93		1993-94	
	Income	% to total own income	Income	% to total own income	Income	% to total own income	Income	% to total own income
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
I. Panchayats :								
1. Income from properties t 2. Licence fees	630.68 125.58	10.47 2.08	669.84 155.53	10.15 2.36	^760,74 144.93	10.62 2.02	855.38 165.37	9.41 1.82
3. Receipts under Special Acts	37.62	0.62	42.81	0.65	48.04	0.67	43.18	0.48
4. Miscellaneous fees	220.00	3,65	250.59	3,80	282.30	3.94	506.88	5.58
II Municipalities :								
1. Income from properties	767.42	20.94	952.98	23.66	851.88	19,91	963.26	19.74
2. Licence Fees	148.06	4.04	124.52	3.09	148.72	3.48	171.00	3.50

(1)	(2)	(3)	*(4)*	(5)	(6)	(7)	(8)	(9)
Receipts from Special Acts	11.04	0.30	9.94	0.25	14.67	0.34	13.16	0.27
4 Miscellaneous fees	317.69	8.67	205.32	5,10	243.60	5.70	295.24	6.05
III. Corporations :	.							
1 Income from Property	260.26	11.47	24181	11.14	266.79	9,08	322.37	9.18
2 License fees	42.86	1.89	46.47	2.13	SS.97	3.03	117.88	3.35
3 Receipts from special accounts	34.80	1.53	32,71	1.50	29.47	1.00	32.80	0.93
4 Miscellaneous fees	185,55	8.18	47.35	2.17	451,10	15.36	124.92	3.55

8.2 There is good scope for increasing income from properties as well as from licence fees. The property income is derived mainly from developed properties such as office and shopping complexes. This is more true of Urban Local Bodies than of Rural Local Bodies. The Urban Local Bodies are able to make use of bans from Kerala Urban Development Finance Corporation for developing such commercial complexes. Eveanthough there are doubts whether they are able to realise the full potential income from such investments many derive substantial income from this source. During the period from 1970 to 93-94 KUDFC disbursed to Urban Local Bodies a total of Rs.56,74 crores as Joan.

8.3 So far as the rural Local Bodies are concerned, the Rural Development Board functions in a different manner. No loans are given by them. The Panchayat makes a proposal for the construction of buildings for commercial purposes or for their own use and the Rural Development Board, if it approves the proposal, finances it subject to the Panchayat meeting a part of the capital cost. The entire process of construction including calling for tenders, supervising the construction etc., is handled by the Rural Development Board and the total cost inclusive of centage charge at *15%* is treated as the amount to be recovered from the Local Body with interest. An analysis was done on the rate

of return obtained by the Local Bodies on such investments, selected at random, made by Rural Development Board, and the details are in Annexure VIIl-1. This discloses that the rate of return is negative in most cases and even cases where the rate of return is not so, it is well below 12%. During the evidence tendered to the Commission, suggestions were made for the discontinuance of the present practice of Rural Development Board undertaking construction of the buildings and charging to the Local Body the entire cost including centage and the cost over runs not attributable to the Local Body.

8.4 The poor returns of Local Bodies from their investment financed by Rural Development Board is largely attributable to the poor choice of projects and lack of effective cost control mechanisms in the execution of these projects. Development of shopping and commercial complexes are taking place all over the State and the vast majority of them are financed by non-Governmental agencies. It is doubtful whether the construction of shopping or office complexes should be an item of priority to Local Bodies, It is ironic that many Local Bodies have constructed such complexes but there is no single modern garbage treatment facility in any Local Body. The SFC is of the view that construction of shopping complexes and office complexes should not be a high priority item to Local Bodies. There are many other socially more useful purposes which should command a higher priority. Moreover the major contribution in this area is being made by the private sector and there is no evidence to suggest that they are reluctant to go in for investments which will fetch adequate returns. If Local Bodies have real estate suitable for development as shopping or office complexes, they can invite private developers to develop these on the basis of open competetive tenders with provisions for payment of a share of the rent or for giving free to the Local Body a portion of the developed property. The Local Bodies should however be free to undertake these

projects provided they are credit-worthy and can be financed by funds raised ai commercial rates of interest. All over the State, a large number of private agencies are undertaking the construction of such complexes depending upon funds borrowed from financial institutions at market rates. There is no compelling reason why Local Bodies cannot do likewise. Such borrowing and lending will be done with both agencies keeping their eyes open and after the projects, hopefully, undergo rigorous valuation. There should be no question of Government or any agency guaranteeing such loans or giving loans at concessional rates of interest. The present practice of Rural Development Board being the financing agency as well as the construction and supervising agency should cease and it may lend money to Local Bodies on merits and at market rates after rigorous evaluation of projects.

8.5 Both Rural Development Board and KUDFC should preferably have a soft window from which funds will be available for socially desirable purposes which do not promise attractive returns and for which alternate channels are not readily available, such as garbage disposal plants, generation of energy from wastes, etc. They have at present a differential interest rate structure but it needs to be further liberalised for selected categories of projects. The modalities of this need to be worked out including a scheme for subsidisation of interest rate on such soft loans.

NON-TAX REVENUE (PANCHAYATS)

Licence Fees :

8.6 Income from Licence Fees is a major source of income of Panchayat under Non-Tax Revenue, Section 236 of the K.P.R. Act, 1994 empower the Panchayat to levy fees at such rates as may be fixed by the Panchayat for grant of licences and permissions,

In the Section of K.P.R.A. 1994 dealing with licensing of various

activities, Government have reserved for itself rule making power which cover the license fees also and such license fees fixed under the I960 Act are still in vogue till new Rules under the 1994 Act are framed. Licenses are required for conducting private markets (Section 222 of the KPR Act 1994); private cart stands (Section 227 of the KPR Act, 1994); private slaughter houses (Section 230 of KPR Act / 1994); use of places for dangerous and offensive trades (Section 232 of the KPR Act 1994); construction or establishment of factories, workshops or work place and installation of machinery (Section 233 of the KPR Act 1994); construction of buildings *in* Panchayats where Municipal Building Rules are extended, keeping dogs or pigs in the Panchayat area; for occupation of poramboke lands vested with Panchayats; for permanent and temporary cinema theatres under cinema Regulation Act, 1958; for places of public Resort under PPR Act 1963 and: for manufacture and sale of food articles under the PFA.Act 1957.

In addition to the above the Panchayats levy fees from public markets/ cart-stands/slaughter houses, etc. run by the Panchayats and also for various other purposes contemplated under Registration of Births and Deaths Rules 1970_S Kerala Panchayats Taxation and Appeal Rules, 1963, etc.

8.7 The income from this source is well below its potential because of the low rate of fees and the Jong period for which the rates remain without revision. Currently the rates in vogue are those prescribed under the

1960 Act and the dates from which various rates have remained unchanged are famished below:

A. Rules under the Kerala Panchayat Act 1960

Rules	Date/year from which the rate of fees/licence fees are in force
1	2
1. Kerala Panchayats (Compounding of Offences) Rules, 1966	1966
2. Kerala Panchayat (Construction and Maintenance of Public and private latrines and removal of waste and rubbish from private Premises) Rules, 1964	1964
3. Kerala Panchayat (Custody of records and grant of proceedings or Records) Rules, 1962	11-11-86
4. Kerala Panchayat (Landing place, Halting place and cart stand) Rules, 1964	01-01-78
5. Kerala Panchayat (Slaughter Houses and Meat stall) Rules, 1964	1964
6. Kerala Panchayat (Public and Private Markets) Rules, 1964	3/1988
7. Kerala Panchayat (Taxation and Appeal Rules) 1963	1963
8. Kerala Panchayat (Licencing of dogs, pigs and disposal of stray dogs and pigs) Rules, 1963	27-11-86
9- Kerala Panchayat (Licencing of Dangerous and offensive Trades and Factories) Rules, 1963	1963
10. Kerala Panchayat (Removal of encroachment and imposition and recovery of penalities for unauthorised occupation) Rules, 1964	1964

B.' Rules appliable both to Rural and Urban Local Bodies:

1. Kerala Cinema Regulation Rules, 1988	1988
2. Kerala Hindu Marriage Registration Rules, 1957	No fee
3. Kerala Registration of Birth & Death Rules, 1970	1-4-70
4. Kerala Places of Public Resort Rules, 1965	2/1969
5. Kerala Prevention of Food Adulteration Rules, 1957	1957

The existing rates of fees/licence fees under the above two categories are at Annexures VIII-2 and VIII-3.

8.8 Rules under the Kerala Panchayat Raj Act, 1994 have not so far been issued by Government. A perusal of the Annexures Vffl-2 and 3 shows that rates of certain fees were fixed as long ago as in 1963 and some are as low as Re.l. Income from licence fees in 1992-93, according to the Administration Report of Panchayats, was Rs.209 lakhs and the licence fees/fee, etc. are revised taking into account at least inflation, if not other factors, there is scope for an increase in income to the extent of even 5 to 10 times the present levels.

The number of trades brought under licence under the D &O trade rules is 126 only at present. The list of trades in Schedule-I to the said rules is not exhaustive or upto date. A list of trades which can be brought under licence and added to the schedule I of the rules is at Annexure-Vm-4.

8.9 The present practice is for Government to notify specific rates for individual items. This has three main consequences

i) Any revision will also have to be made by Government and as is seen by the Col.7 of Annexure-VIII 2 and 3 the gap between revision becomes unconscionably long.

ii) The rates prescribed are applicable throughout the State and cannot obviously take into account local conditions and preferences.

iii) The itemised central control cannot take into account emerging situation. New types of businesses and vocations emerge and a Local Body will be in a much better position to monitor the situation and take advantage of it by suitable changes than a central authority such as the State Government.

8.10 The State Finance Commission makes the following recommendations:

i) Instead of specifying a unique rate for each item, Government may specify only the minimum rate and leave it to the Local Bodies to fix rates above it except in the case of births and deaths. The minimum rates are suggested in Col.7 of Annexure-Vni-2 and 3.

ii) It is not possible to notify an exhaustive list of trades which would need licences and fees. After enumerating various item, a residuary category viz., 'Trades, Profession, Establishments not elsewhere classified" may be added and a minimum Licence fee prescribed for it

8.11 The existing and proposed rates of revision of Non-Tax Revenue items under Fee, Fine, etc., in Municipalities may be seen at Annexure-Vin.5.

Fine and Fees from unauthorised use of road Porombokes

8.12 It is frequently noticed that establishments like workshops use road porombokes more or less on a regular basis for carrying on their activities. Similarly misuse of road porombokes for storing construction materials is also frequent. Such practices diminish the road space to the public and increase the risk of accidents. Provisions available in the Kerala Municipalities Act, 1994 and Kerala Panchayat Raj Act, 1994 enable the Local Bodies to impose fines for misuse of road porombokes. For example, Section 370 of Kerala Municipalities Act 1994 prohibits the storing of materials unauthorisedly in a public road or making repairs to motor vehicles etc., in public road. Schedule 4 of the Act prescribes a penalty of Rs. 1000/- for any infringement of these provisions. Section 220(c) of the K.P.R.A. 1994 prohibits the deposit of any material in any public road, and the 6th Schedule of K.P.R.A. 1994 prescribes a fine of Rs.200 for any infringement. These provisions are very seldom used by Local Bodies and the unabated continuance of such encroachment and nuisances is an everyday sight. The surviellance of this aspect can even be entrusted to Non-Governmental organisations or personnel engaged on contract basis, if the present staff is unable to attend to this and such persons can be remunerated on the basis of the fine or fees levied by the designated statutory authority. The Local Bodies especially the Urban Local Bodies should make full use of these provisions in order to abate the nuisances if not to collect some revenue as well

8.13 The levy of fine on encroachments should be invoked but it will take procedurally some time before the fine could be imposed by the competent authority. In the meanwhile provision may be included in the Kerala Municipalities Act, 1994 and Kerala Panchayat Raj Act, 1994 for the Local Bodies to collect a daily fee from persons unauthorisedly using road porombokes without in any way conferring on such person any rights or immunity from penal action whatsoever. This is somewhat analogous to the provision in Kerala Municipalities Act, 1994 whereby property taxes may be levied even on unauthorised buildings without prejudice to the right of the Municipality to demolish it and without conferring any right on the person for regularising the unauthorised construction.

Revenue from porombokes

8.14 According to Section 62 and 82 of the Kerala Panchayat Act, I960, all poromboke lands, water courses, public land adjacent thereto are vested with the Panchayats. The Naha Commission (1985) had pointed out that Panchayats do not get full benefit of such vesting because they have not been furnished details of such lands by the Revenue Department. From the representations made to SFC by Local Bodies, it would seem that the same situation prevails even today. In many cases details such as the survey numbers, area, authorised occupants, if any and the conditions of use of the poromboke in such cases are not available with the Panchayats. These details should be furnished to the Local Bodies by the Revenue Department within a definite time frame. Within the framework of rules or guidelines of Government, LBs should be free to put the porombokes to temporary use short of alienation of the property and to derive income therefrom. Similarly it has been represented to the SFC that in many Kuthakapattom leases, the rates have remained unrevised for long periods. The right to revise the lease rates within limits set by Government and to appropriate the income should be effectively vested in the Local Body.

CHAPTER IX

SURCHARGE ON DUTY ON TRANSFER OF PROPERTY & BASIC TAX

9.1 Surcharge on Duty on Transfer of Property and Basic Tax though collected by Government are assigned statutorily to Local Bodies on an exclusive basis, These two taxes are dealt with in this Chapter. The discussion on Motor Vehicle Tax which is the only shared tax and SFC's recommendation thereon are contained in Chapter XI.

9.2 The Kerala Stamp Act, 1959 empowers the State Government to levy Stamp Duty on Transfer of Property subject to specified conditions. Section 206 of K.P.R. Act, 1994 and Section 207 of K.M. Act 1994 empower Village and Municipalities respectively to levy a Surcharge on Stamp Duty not exceeding 5 % of the value of the property transferred. This is among the taxes which the Local Bodies are empowered to levy; the rates are however set by Government and the collection is made by the Registration Department. The surcharge is collected along with the Stamp Duty and 3% is deducted towards collection charges. 75% of the net amount collected from all Panchayats in the State is distributed among Village Panchayats in proportion to their population and the remaining 25% is also to be distributed among Village Panchayats in such proportion as may be fixed by Government. - The whole of the net amount collected from Municipal and Corporation areas is distributed among them on the basis of collection.

9.3 The K.P.R. Act, 1994 has made the following changes to the corresponding provision in the 1960 Act:

i) the permissible rate of Surcharge has been increased to 5% from 4% for Panchayats;

ii) under the 1960 Act, the collections from Panchayats were pooled

cm a Taluk basis. 75% of it was distributed among Panchayats of the Taluk on population basis after deducting 3% for collection charges. In a major departure from the above formula, the K.P.R. Act, 1994 has done away with the Talukwise pooling and distribution of the surcharge and introduced a state level pooling. Now 75% of the State pool will be distributed among Village Panchayats on population basis. The collection charges are retained at 3%.

iii) the permissible rate of surcharge in Municipal areas has been increased from 4 to 5%. For Corporation areas, the rate remains at 5%.

9.4 The rates of Stamp Duty and Surcharge during the previous and present Panchayat/Municipal/Corporation enactments are shown in Table: 9.1

TABLE - 9.1

RATE OF ST^MP DUTY AND SURCHARGE UNDER THE 1960 AND 1994 ACTS

	Stamp duty	. Surcharge	Registration fee*	Total
Under 1960 Acts				
Panchayats	6%	4%	2%	12%
Municipalities	8.5%	4%	2%	14.5%
Corporations	8.5%	5%	2%	15.5%
	The above rates were introduced from 1-4-1971			
Under 1994 Acts				
Panchayats	6%	5%**	*2%*	13%
Municipalities	8.5%-	5%	*2%*	15.5%
Corporations	8.5%	5%	*2%*	15.5%

{) Registration fee is collected by State Government and is not snared with Local Bodies.*

*{**) 5% is the maximum rate permitted. At the time of the Report the rate remains at 4%,*

9.5 The trends in actual receipts by Local Bodies are given in Table 9.2. In Panchayats it has grown from Rs.2239 lakhs in 1990-91 to Rs.4030

lakhs in 1994-95 (79.99%) in Municipalities from Rs.362 lakhs to Rs.953 lakhs (163.25%) and in Corporations from Rs.360 lakhs to Rs.938 lakhs (160:55%) during the same period. The actual receipts understate the amount due to Local Bodies because of the short payments made by Government due to budgetary constraints.

9.6 The increase in collection has taken place despite the widespread under valuation of properties. A more recent phenomenon is the total avoidance of the Stamp Duty through the devise of transferring effective ownership through the device of power of attorney. Government should examine whether it is possible to require that all power of attorneys are compulsorily registered before any transaction is concluded regarding the property such as mortgaging the property by deposit of title etc. and the power of attorney itself is subject to Stamp Duty which has some relationship to the value of property covered by the power of attorney.

Under valuation - Statutory Provisions to prevent it:

9.7 Section 45 A and 69 of the Kerala Stamp Act, 1959 confers powers on the State Government to make rules for the prevention of under valuation of instruments. Government had accordingly issued rules for the purpose as per G.O.(P)No.636/68/RD dated 28-12-1968. The Rules empower the District Collector (now delegated to the District Registrar) to pass an order in writing provisionally determining the value of the properties and the duty payable. Every year large number of under valuation cases are detected but this hardly touches even the fringe of the problem as may be seen from Table 9.3. For example, in 1994-95, out of over 11 lakhs instruments registered 2.57 lakhs (23.27%) were sent for adjudication on the ground of under valuation and 41870 cases were decided during the year yielding Rs. 135.93 lakhs or Rs.322 per document. The additional income is a minuscule portion of the total income from Stamp Duty. By no stretch

of imagination can we conclude that the existing arrangement has succeeded in discouraging under valuation and the consequential loss of revenue to State Government or Local Bodies.

9.8 **By** Act 14 of 1988, a new clause - 28 A, was introduced in the Kerala Stamp Act, 1959 by which the District Collector shall fix the minimum value of lands for the purpose of determining the duty chargeable at the time of registration of instruments involving lands. This section which came into force from 9-2-1988 was deleted with effect from 11-11-1991 by Act 16 of 1991. However, Government as per Notification No.SRQ 645/95 dated, 23-5-95 have introduced a new set of rules to fix the fair market value of the land in the State. The Revenue Divisional Officers have been authorised to fix and notify the fair value of land after classifying them into relevant categories. Appeals against the Notification can be made to the District Collector whose decision shall be final. Since the Local Bodies have a substantial stake in the land value fixed, the SFC recommends that the Revenue Divisional Officer should send the draft notification to the local Village Panchayat for their views and comments within a period of two weeks before publishing it in the Gazette.

9.9 Table 9.1 shows the incidence of various levies on transfer property. The cumulative total of the different levies which is also given in Table 9.1 is fairly high and is part of the reason for wide spread evasion by way of under valuation. Even though this source is capable of yielding more revenues to Government and to Local Bodies, the State Finance Commission would not like to recommend any increase in the rates. With the implementation of the scheme under which the Revenue Divisional Officers will notify the minimum prices of land in different localities, even with the existing rates the yield should go up substantially. The notification of minimum prices by itself may increase yields by a substantial margin and along with the notification of minimum prices

Government can reduce the rates of Stamp Duty as well as the surcharge. In any case the State Finance Commission would suggest that the increase in the ceiling rate of surcharge from 4 to 5% for Municipalities and Panchayats introduced by 1994 Act need not be given effect to and prevailing rate of 4% may continue until the new system of notifying prices of property comes into effect and the position is reviewed by Government.

9.10 The Surcharge on Stamp Duty levied by urban Local Bodies is given back to them in its entirety on the basis of collection without keeping back 25% in a State pool as in the case of Village Panchayats. Even though there has been a general rise in Sand prices, the extent of the rise and frequency of transactions are uneven among urban areas with certain pockets attracting commercial and real estate development commanding higher price than other areas. The rationale for providing 25% of the collection from rural areas to be put in a common pool is to promote horizontal equity among Local Bodies. This rationale would hold good also in the case of Urban Local Bodies. One fear that has been expressed by Local Bodies in this regard, which is real in the light of the past experience, is that the pooled funds will be distributed by Government to their favorites with scant regard for equity or fairplay. It should, however, be possible to allay this fear by enunciating clear cut principles by which this pooled resources will be distributed among Local Bodies. The Commission has elsewhere recommended that the Basic Tax recommended for urban Local Bodies should be put into a pool and it further recommends that 25% of surcharge on Stamp Duty levied on behalf of Municipal Councils should similarly be put into a state pool. The criteria on which this should be distributed among Muncipal Councils is suggested in Chapter X. The Surcharge on Stamp Duty as well as Basic Tax collected from Corporation areas may be returned to them on collection basis.

Avoidance of arrears by Government;

9,11 Until 1987-88 the receipts from this source was exhibited in the State Budget under the head of account "0030-Staraps and Registration - 02 • Stamps Non-Judicial 901 - Deduct payment to Local Bodies of net proceeds of Duty on Transfer of Property" and released to the Commissioners of Corporations and Municipalities and to Taluk Panchayat Officers by the Inspector General of Registration on the basis of the amount payable to the Local Bodies as per prescribed norms. The amounts due to each Local Body was brought to their Public Account by the Treasuries concerned. Under this system the receipts during a financial year under surcharge could be released to the Local Bodies before 31st March of the same financial year. But this system was changed in 1988-89 and-the surcharge payable to Local Bodies was provided under the expenditure head "3604-102-99-Compensation and Assignment" and the badgetted amount alone could be released to the Local Bodies. The provision made under this head was consistently inadequate to meet the requirements leading to accumulation of huge arrears. (More details about the arrears are available in Chapter VI of the Interim Report (September 1995). As pointed out in the Interim Report (September 1995) retention with Government of tax receipts statutorily assigned to Local Bodies amounts to reverse subsidy of Government by Local Bodies and should be avoided. In order to ensure this. Government may revert to the - system prior to 1988-89 in the case of Surcharge on Stamp Duty as well as Basic Tax which wili obviate the accumulation of arrears.

TABLE - 9.2

SURCHARGE ON STAMP DOTY

TRANSFER OF PROPERTY

(Rupees in lakhs)

	1990-91	5991 92	%of increase	5992-93	%0f increase	1993-94	%of increase	1994-95	% of increase	%of overall increase over 1990-91
Panchayats	2239	2420	808	33J2	36.85	3766	13.70	4030	7.01	79.99
Municipalities	362	442	2209	654	47,96	768	16.54	953	24.08	163.25
Corporations	360	419	1638	603	43.91	745	23.54	938	25.90	S60.55
Total	296 i	3281	1GSO	4569	39.40	5279	15.41	5921	12.16	99.96

Source: inspector General of Registration Government of Kerala,

TABLE = 93

DETAILS OF UNDERVALUATIOIV CASES **REPORTED AND**

SETTLED FROM 1986-87 **TO 1994-95**

(Rupees in lakhs)

Year	No. of documents registered	No. of under valuation cases reported	No.of under valuation cases settled	Amount collected from cases settled {Rs. in lakhs)
Head *of* Account ;	0030 Stamps aid Registration			
1986-87	981358	13230	698	03.43
1987-88	9)9492	47189	Soil	33.66
1988-89	908556	39392	5927	33.85
1989-90	861136	56984	6790	04.12
1990-91	873898	57143	4755	23.10
199I-92	1051515	54721	10556	77.67
1992-93	. 1 041801	466582	18826	136.79
1993-94	1060790	480369	911J2	143.22
1994-95	110059	257551	41870	135.93

Source: Inspector General of Registration, Government of Kerala

BASIC TAX

9.12 'Basic Tax' or land tax under the Kerala Land Tax Act, 1961 is levied by the Land Revenue Department on all lands except lands belonging to Government and a few other exempted categories. The current rates prevalent since 1-4-1993 are 50 paise, 1 Rupee and 2 Rupees per Are respectively in Panchayats, Municipalities and Corporations. The total collection of basic tax since 1990-91 has been as follows:

	(Rs. in lakhs)
1990-91	595.00
1991-92	613.00
1992-93	618.00
1993-94	1235.00

9.13 Under Section 202 of the Kerala Panchayat Raj Act, 1994, Government are required to pay annually to each Panchayat in the State a grant viz., basic tax grant, equal to the total collection of the basic tax in the preceding year. 75% of tax collected is to be given on the basis of collection and the balance 25% is for distribution among grama panchayats on the basis of area, population, available financial resources and the requirement of development. The Urban Local Bodies are not eligible for any grant from out of the proceeds of the Basic Tax. The Basic Tax is collected by the State Government but virtually the entire proceeds is statutorily assigned to village panchayats.

9.14 Neither the Acts of 1960 or of 1994 provide for deduction of any collection charges by Government. Provision for deduction of 3% towards collection charges is made in the Kerala Panchayat Basic Tax Grant Rules, 1978 and these continue to be in force. The SFC had enquired Government whether any study has been conducted to ascertain the cost of collection but was told that none has been done.

Till such studies are done, the collection charge may remain as 3%.

9.15 Though Panchayats are the beneficiaries of basic tax, its levy and collection are under the jurisdiction of the Revenue Department. The Estimates Committee (1982-84) in their 9th Report (1984) had recommended the entrustment of collection of land revenue to Panchayats. At present there are no proposals before the Government for entrusting the collection of Basic Tax to panchayats. The Commission consulted the State Government on the feasibility of allowing Panchayats to collect Basic Tax on land and their views are:

"The Basic Tax can be collected only by an agency which is keeping the basic land records. It is based on the land records that tax is being collected now. Therefore, if the tax is to be collected by the Panchayat, the Village records will also have to be transferred to the Panchayat. Alternatively, the village office should send the details of the village records to the Panchayat for collection of tax or the Panchayat officials should be allowed to go through the village records maintained in the village office. This is not a practicable proposition as it involves delay and time consuming process. Further, it may be noted that the panchayat is not coterminus with village in our State. As on today, there are about 1000 panchayats as against over 1400 village in the state.There is a proposal to make panchayat co-terminus with village and block with taluk. It will take some more years to achieve this objective. Till then it will be very difficult for the panchayat to collect the Basic Tax. Another point to be noted is the fact that it is the village office which carries out the changes in the village records with regard to the sales and purchase transaction of land. So, thandaper register is an important document maintained in the village office for the purpose. The tax can be collected only from the man who really owns the land. That is known only in the village office. If the tax is collected from an interested party other than the land owner, it may create further problem in future. Therefore, it is not a practicable proposition that the tax should be collected by the Panchayat".

9.16 The Expert Committee appointed by Government of India (Appu Committee) recommended transfer of land administration to Panchayat only after watching the performance of Panchayat Raj Institutions for a period of five years or so. The Naha Commission (1985) had examined in detail the question of entrusting collection of Basic Tax to Panchayats and found that it is not a practicable step. The State Finance Commission is of the view that the collection of land revenue may continue to vest with Government. Entrustment of collection alone to Village Panchayats would necessitate duplication of records, The Panchayats have to gear themselves up for facing the enlarged responsibilities under the 1994 Acts and therefore priority should be to address these enlarged responsibilities. During the interaction of SFC with representatives of elected bodies during October - December 1995, very few of them showed enthusiasm for taking up the responsibility of land tax collection.

9.17 The existing rate of Basic Tax prevalent since 1-4-1993 is fifty paise in Panchayat area, one rupee in Township or Municipal area and two rupees in Corporation area per are per annum. The rate is quite low compared to other Stages in the country as well as to the value of the land. During the discussion the State Finance Commission had with various interests, this source emerged as a potential source for additional revenue for Panchayats.

9.18 Under the Kerala Panchayat Raj Act, 1994 no independent revenue raising powers are given to Block Panchayats or the District Panchayats. It will be desirable to give some independent source of income to these levels of Panchayats. One such source can be a surcharge or increase in Land Tax which will go to the Block and District Panchayats. Since the base rate itself is not high and since the total yield from the tax during 1993-94 was only Rs. 12.35 crores. it is not possible to expect a substantial receipt from any increase in the rate of Land Tax;

nevertheless an increase would go to meet the needs of the District and Block Panchayats to some extent. The State Finance Commission propose that the Basic Tax may be enhanced from the current level of 50 paise, 1 rupee and 2 rupees per are in Panchayats Municipalities, and Corporations respectively to Rs.l, Rs.2 and Rs.4 respectively. The additional annual yield will be about Rs. 12.35 crores if it is collected in all the Districts. 60% of the collection from the enhanced tax may go to Block Panchayats and balance to the District Panchayat. The interse distribution among Block Panchayats may be on the basis of collection. In order to promote the objective of fiscal responsibility and accountability, the additional levy may be made a permissive one and the concerned District Panchayat may be authorised to decide on the levy by a resolution. Should any District Panchayat desire not to invoke the power, the potential income foregone should nevertheless be taken as part of their presumed income while deciding upon the quantum of grants being given to the District and Block Panchayats.

9.19 There are number of small holdings where the total annual demand per year is less that Rs.5 and for various reasons including the high cost of collection the revenue remains uncollected. The Commission recommends that irrespective of the size of the holding, the minimum tax from a land owner in a village may be fixed at Rs.5 per year in Panchayat areas, Ks.7.50 in Municipalities and Rs.10 in Corporation area. The entire income from this source goes to the Local Bodies and all residents should have a stake in the financial health of their Local Body and should take pride in contributing to its fund. Therefore this contribution to its funds should not be considered as an onerous burden even by the small land owners.

9.20 The Urban Local Bodies are not eligible for a share in the basic tax collected by the State Government. According to section 202 (1) of the Kerala Panchayat Raj Act, 1994, 75% of the Basic Tax collected from

the Panchayat during the preceding year is to be given to the Panchayats and according to section 202 (2), the balance 25% of the tax collected from the "entire land of the State" is to be distributed among Panchayats on the basis of specified criteria. In actual practice the State Government have not been giving to Panchayats any share of the tax collected from outside the Panchayat area eventhough the wording of section 202 (2) makes it clear that Panchayats are eligible for 25% of the tax collected from the entire area of the State. In any case, the justification for excluding Urban Local Bodies from a share of the Basic Tax is not clear nor has any strong case been made for it. Land is an immovable asset and by all canons applicable to local taxation, is an eminently suitable tax base that can be given to Local Bodies irrespective of whether they are rural or urban. The area of Rural Local Bodies will gradually shrink with urbanization. The SFC would recommend that Urban Local Bodies should also be eligible for Basic Tax grant on the basic of actual collection. The total amount may be credited to a State pool for distribution among Urban Local Bodies on the basic of specified criteria.

CHAPTER X

GRANTS IN AID FROM GOVERNMENT

10.1 The fourth Term of Reference of the State Finance Commission is to make recommendations regarding the principles that should govern the gram-in-aid to Local Bodies from the Consolidated Fund of the State. No distinction is made, or contemplated between grants for Plan and Non-Han purposes. It is worth emphasising that what is required of the Commission is to make recommendations on the principles thai should govern the flow of grant-in-aid rather than on the specific quantum of such grants.

10.1 Grant-in-aid from State Government to Local bodies can be schematically expressed as follows:

GRANTS FROM STATE GOVERNMENT TO LOCAL BODIES

PLAN GRANTS 1		NON-PLAN GR	4NTS
i New grants for transferred development responsibilities under KPRA 1994 & KM A, 1994	Old grants being given even prior to KPRA 1994 and KMA 1994	New grants for transferred no« plan activities under KPRA J.994 and *KMA* 1994	1 Old grants being given even prior to KPRA 1994 and KMA 1994

1 Grants	1 Statutory Non-Statutory	
	Specific purpose	Grants — i Genera purpos

The Centrally Sponsored Schemes of Government of India have been providing Local Bodies with Plan funds even before the P.R.I. Legislation, We are not taking this component into account because its quantum and the purposes for which it can be used are exogenously determined.

10.3 The new Plan grants are those required for development projects and schemes, under Schedules 3,4 and 5 of K.P.R. Act 1994 and Schedule 1 of K.M. Act, 1994. The old Plan grants are the untied Plan funds which State Government have been giving to Local Bodies since 1990. The new Non-Plan grants are those required for meeting the recurring needs of Non-Plan projects and existing assets which State Government have transferred or will transfer to Local Bodies in pursuance of PR! Legislation. In addition, many Plan Schemes of the VTK Plan will become non-plan schemes during the next Plan. No inventor)' of the projects and assets being transferred to Local Bodies is available except in the case of roads. Government of Kerala have been giving non-Plan grants to Local Bodies which are statutory or non-statutory in nature. The statutory grants are the Surcharge on Stamp Duty, Basic Tax and a share of Motor Vehicles Tax and the non-statutory grants are given as specific or general purpose grants.

Evolution of development plan under PR! legislation

10.4 The Panchayat Raj Legislation prescribes a specific procedure for formulation of development plans at the local level. The Constitutional amendments envisage the entrustment of responsibilities for preparation of plans for economic development and social justice to the Local Bodies as well as for implementation of schemes for economic development and social justice as may be entrusted to them including those that relate to matters listed in the ll th and I2th schedules. Section 175 of K.P.R. Act, 1994 requires every Village, Block and District Panchayat to prepare annual development plans for their respective areas for the next year taking into account the plan submitted by the lower level Panchayats. The plan prepared by the District Panchayat will be forwarded to the District Planning Committee (DPC), In addition to the annual plans, the Village, Block and District Panchayats are also required to prepare a masterplan for a prescribed

period which should be submitted to the D.P.C, through the District Panchayat. It is also enjoined in Section 175(5) that the final decision in respect of such a development plan shall be taken long before the beginning of a financial year, A similar regime for formulating development plans is prescribed for Urban Local Bodies also. Under Section 51 of K.M.A. 1994 Urban Local Bodies should formulate the Annual Development Plans taking into consideration schemes, if any, given by the Ward Committees and forward it to the District Phoning Committee (DPC) which will prepare a draft development Plan for the entire district and forward it to Government. Section 54 of the K.M.A. 1994 also envisages a Metropolitan Planning Committee to prepare draft Plans for the entire metropolitan region.

10.5 The aforementioned procedure envisages planning from below. After the State level authorities receive the district plans a State Development Plan taking into consideration various aspects including resource availability will emerge. This procedure is yet to be initiated and it will take some time before a Plan envisaged by the P.R. Legislation emerges. It is such a Plan which will contain details of the actual programmes to be taken up by various levels of Local Bodies, their cost and hopefully, the financing pattern for such schemes.

10.6 At the request of SFC the State Planning Board has furnished information on the expenditure incurred by Government during 1990-91 to 1994-95 for the functions which have now been assigned to Local Bodies under the P.R. Legislation. The information in Annexure K.I shows that the share of the State Plan outlays expended on functions which now stand transferred to Local Bodies ranged between 16.7% of total Plan outlay in 1992-93 to 18.7% in 1994-95.

State's Annual Plan - 1996-97

10.7 State Government in January, 1996 approved an Annual Plan with an outlay of Rs.21OO crores for 1996-97. This Plan envisages devolution

of funds of Local Bodies. Rs.212 crores are to be given to Local Bodies as untied funds for such developmental schemes as they may formulate subject to approval of such schemes by Government. This represents a major step-up of grants given as untied Plan funds which in earlier years averaged about Rs.20 crores. The scale of the grant for 1996-97 is as follows.

i)	Village Panchayats	Rs. 10 lakhs each
ii)	Block Panchayats	Rs. 10 lakhs each
iii)	District Panchayats	Rs.2 crores each
iv)	Municipalities	Rs.1 crores each
y)	Corporations	Rs.5 crores each

The above grants are on a uniform scale for different tiers of local government and is probably ad-hoc in nature pending evolution of a criteria for devolution. In addition, the Annual Plan 1996-97 also envisages a flow of about Rs.328 crores to Local Bodies. This is inclusive of the 20% State Share for JRY Schemes. Rs.118 crores ear-marked for development schemes targeted towards the SC/ST is also proposed to be placed the disposal of the Local Bodies. The total devolution envisaged out of the State Plan of Rs.2100 crores works out, according to the State Planning Board to Rs.540 crores or about 26% of the total outlay. These funds will go to Local bodies as grant.

Criteria for plan grants

10.8 While considering the question of devolution of funds for Plan purposes, the Commission had before it a number of suggestions made by representatives of Local Bodies as well as others. One suggestion was that in addition to the current structure of devolution, some buoyant taxes such as sales tax or abkari or both should also be made shareable with the LBs. Another set of suggestion was that a certain portion of

State Revenue - 50% was frequently mentioned - should be earmarked for LBs. Plan grants will be the major stream of grants from Government to LBs and SFC's mandate is to suggest the criteria for devolution of funds rather than enter into the quantum of Government grants. The SFC has no planning function assigned to it and there are other empowered agencies specified in the 1994 Acts and under Government looking after this aspect. In the context of this approach and in the absence of a quantification of the funds required for Plan schemes coming under the the jurisdiction of the LBs not merely during 1996-97 but also for the remainder of the 5 year period, it would not be possible for the SFC to estimate the Plan funds required by LBs. for the transferred development schemes. Without such an estimation it would also not be possible to arrive at what portion of sales tax or abkari or any other source of income or all State income put together should go to the LBs for financing development schemes. Moreover, SFC has not studied the State's finances or the resources required by it for the responsibilities retained by it.

10.9 The selection of a satisfactory criteria consisting of either one index or a number of indices will be limited by the availability of data at different levels of disaggregation. The higher the levels of aggregation, the better is the availability of data but so is the difficulty of taking into account interse differences among Local Bodies. The lower the level of disaggregation, the better will be the ability to tailor-make the grant to local conditions but availability of reliable data at lower levels of disaggregation is relatively poor. The SFC has examined the criteria being currently used by various State agencies for fiscal devolution and has attempted to identify a suitable criteria.

Different formulae of devolution of funds

10.10 The flow of Central Plan assistance to State is governed by the Gadgil formula, applied initially during the Fourth Five year Plan, and

subsequently modified in 1980 and again in 1991. Currently, under the formula 60% of Central Assistance is on the basis of population, 25% on per capita income, 7.5% on criteria of fiscal management and attainment of national objectives and 7,5% on the basis of special problems. Per capita income below the District level is not available and therefore the above model is not capable of adoption for devolution of funds to the Panchayat level institutions.

10.11 The JRY funds allotted to different States is on the basis of the proportion of rural poor in the State to the total rural poor in the country and from the State level it is given to Districts on the basis of an index of backwardness computed by giving equal weightage to proportion of rural SC/ST population in a district to the total SC/ ST population in the State and the inverse of per capita production of the agricultural workers in the district. We have information regarding SC/ST population right upto the Panchayat level. But information on the second index is not available at the Panchayat level or Block level.

Development indicators available for Kerala

10.12 A number of studies on socio-economic characteristics of the State population are available and some of them provide data at the panchayat level. The 1991 census had collected data on a number of aspects of rural and urban life and the department of Economic and Statistics is in the process of publishing it. The data on Kasaragod and Kannur Districts have already been published. These publications give a wealth of data for each Panchayat and Municipality in the District on SC/ST population, literacy rate, worker participation rate and number of workers classified as main workers, marginal workers agricultural labourers etc. The data of the remaining districts have also been analysed and compiled for printing. One advantage of this database is that it covers both Urban and Rural Local Bodies.

10.13 The Urban Poverty Alleviation Cell in the Department of Local Administration, Government of Kerala conducted a survey in 1994 in all Urban Local Bodies to identify the number of families and population exposed to "high risk to poverty" defined as the exposure of a family to at least 4 out of the following 9 risk factors:

i) Family of SC/ST

ii) Family with children under five years of age;

iii) Family having even one illiterate adult;

iv) Family with only one or no adult employed;

v) Family living in kutcha house;

vi) Family without a house-hold latrine;

vii) Family with no access to safe drinking water;

viii) Family having only two or less meals per day;

ix) Family with an alcoholic or drug addict.

This survey represents an attempt to develop a new index of poverty and the results are being used by Govt. for channelising funds under various schemes of State as well as Central Government for poverty alleviation programme in urban areas. The percentage of population at risk as per the survey varies among Municipalities from 5.43% (Thrissur) to 58,97% (Ponnani) with 22.83% as the average among Municipalities. Among Corporations 34.14% in Kochi. 26.82% in Thiruvananthapuram and 29.41% in Kozhikode are at risk and the average for the 3 Corporations is 31.65%. This survey did not cover the Rural Local Bodies and the results therefore cannot be applied to rural areas.

10.14 A survey conducted by the Department of Rural Development in 1992 has identified the number of families below poverty line and this

data is available at the Panchayat level. The survey did not cover the Municipal areas. The survey came to the conclusion that about 37,92% of rural families are below the poverty line. This estimate is at considerable variance with estimates made by the Planning Commission by applying the National Sample Survey data according to which the population below poverty line is 13.88% in Kerala in 1987-88. There is some definitional differences as well as a time gap between the two surveys which may explain the differences to some extent but it nevertheless remains a fact that the two estimates show a wide difference. The survey did not cover urban areas. The SFC is there reluctant to use the data from the survey of the Department of Rural Development as a possible indicator for fiscal devolution.

Criteria for devolution of plan funds

10.15 Based on a review of available panchayat level indicators the SFC is of the view that the 1991 census data on socio-economic characteristics provide a workable basis for constructing a criteria for devolution of plan funds. The chosen indicators with the suggested weights are given in Table 10.1,

TABLE - 10.1

CRITERIA FOR DEVOLUTION OF PLAN GRANTS

Indicator	For Urban Local Bodies	For Rural Local Bodies
i) Population in 1991 Census	75	
ii) Population of SC/ST in 1991 Census	10	
iii) Total workers excluding workers in manufacturing processing, servicing and repairs outside household industry	15	10
iv) Proportion of agricultural workers among workers	Nil	10
	100	100

10.16 The first two indicators are self-explanatory. Population is a neutral index and therefore a high weightage is given to this factor. The modified Gadgil formula allocates only 60% of Plan assistance on the basis of population. The range of inter-state differences in levels of socio economic development is far more than such differences among Local Bodies in Kerala. Therefore a distinctly higher weightage for population is justifiable in the SFC's devolution formula. The census data gives information on number of "Main workers" and "Marginal Workers". "Main workers" are defined as those who have worked for major part of the year preceding the enumeration and "Marginal Workers" are those who have worked any time at all in the year preceding the enumeration but have not worked for the major part of the year. It also gives data on broad occupational categories such Cultivators, Agricultural labourers, workers as Livestock, Forestry, Fishing, Hunting, Plantation and allied activities, Mining and Quarrying, workers in Manufacturing, Processing, Servicing or repairs in Household industry (MPSH) workers in Manufacturing, Processing Servicing and repairs Outside Household industry (MPSOH) workers in construction and trade and commerce. The group under MPSOH represents employment in the more organised sector of the economy and the higher their proportion among total workers, the better is the index of economic development. Therefore we have taken the percentage of workers excluding those in MPSOH as an indicator. For the rural sector the proportion of the agricultural workers is taken as an indicator as they represent the relatively unorganised sector of employment and the higher their proportion the greater is the state of economic backwardness. The census definition of agricultural workers is "A person who has worked in another person's land for wages in money, kind or share".

10.17 The total Plan funds for the transferred functions are to be distributed amont 3 tiers of Panchayats, Municipalities and Corporations. Each

have different territorial and population jurisdiction and the composition of functional responsibility also is not identical. A break-up of the the proposed 1996-97 Annual Plan showing the funds earmarked to different tiers of Panchayats and to urban Local Bodies furnished by the State Planning Board shows that 55.80% goes to Village Panchayat 14.33% to Block Panchayats, 14.93% to District Panchayats 5.64% to Municipalities and 2.17% to Corporations. (Annexure X.2) This pattern of inter-se distribution may be taken as provisional until modified in the Annual Plan of 1997-98 and beyond. The Plan funds for Local Bodies may first be distributed among the different groups of Local Bodies in the same proportion and the inter-se distribution among the various units in the same group of Local Body may follow the criteria in para 10.15. An illustrative example of applying the criteria to a village panchayat is given in Annexure X.3.

10.18 The question of evolving a principle for devolution of funds initially among the three groups of Local Bodies (Corporations, Municipalities and Panchayats) was considered by the SFC. An important factor to be considered is the composition of the functional responsibility for each group. Schedule 3,4 and 5 of KPRA 1994 and schedule 1 of KMA 1994 enumerate the responsibilities transferred but it does not automatically follow that in each and every LB, each of these enumerated items exists and therefore is being transferred to the Local Body. After the transfer of responsibilities have been completed in all respects, it should be possible to suggest a criteria for the sharing of funds among the three groups of Local Bodies. Till such time we may go by the inter se allocation among the groups of Local Bodies indicated by the State Govt. or the State Planning Board.

Future of Untied Funds

10.19 The untied funds for Plan purposes placed at the disposal of Local Bodies was a useful device imparting to them a measure of freedom

to initiate programmes relevant to the local area. This was all the more welcome in the context of centralised planning and programme formulation. This planning regime would change with plans being formulated right from the Panchayat and Municipality levels. Even though the size and content of the plan may undergo changes as the plan proposals from Local Bodies are integrated and matched with resources by the Dist. Planning Committee and the State Govt. it is unlikely that the approved Plan will contain any element not suggested initially by the Panchayat or Municipality. The available funds should therefore be applied to programmes they themselves had formulated and this reduces the need and indeed the scope for a footloose untied fund to be used for a purpose not contemplated at the time of formulation of the initial Plan. Mid year changes in a Plan may become necessary and should be possible with the approval of designated authorities, perhaps the Dist. Planning Committee and the funds required for such changes should come from adjustment from within the approved programme. The SFC recommends that with the activation of the planning process contemplated in the PRI Legislation, the untied funds should taper off and become part of the grants being given for the approved Plan.

Non-plan grants for traditional functions

10.20 State Government have been in the past giving non-Plan grants to Local Bodies (the traditional grants) and with the transfer of new non-plan functions, will have to give additionally new grants to cover their expenditure. The traditional non-plan grants comprised statutory as well as non-statutory grants and were for specific purposes as well as for general purposes. There were as many as 23 different grants for Panchayats and 12 to Municipalities (Annexure X.4) even though not all were paid to the same Panchayat or Municipality in any one year. The arrangements in Government for monitoring the conformity

to intended use of the specific purpose grants are far from satisfactory, even to the point where no effective machinery can be said to exist. The discussion on Chapter IV about the Minus Fund Panchayats shows frequent diversion of specific purpose grants to other purposes in the Districts covered by the study. The situation is unlikely to be radically different in other Districts. The State Government have not been able to take any corrective steps for either preventing or even limiting the diversion of specific purpose grants to other purposes. This diversion of specific purpose grants takes place for a number of reasons such as insufficiency of resources even to meet their house keeping expenses, undertaking commitments especially in the area of public works which are beyond their resource availability and urgent need to meet the loan repayment obligations.

10.21 The end result of this situtation is that Government are defacto not exercising any effective control over the actual utilisation of specific purpose grants by the Local Bodies. The problem is a complex one and rigid insistance on the part of Government against diversion or recourse to punitive action such as withholding further grants or adjusting the diverted amount from amounts due to them by way of assigned or shared tax revenue will cause a lot of hardship to many Panchayats especially those which are not in a position to meet even their house keeping expenses. In the light of the past experience the State Finance Commission is of the view that the distinction between non-plan specific purpose and general purpose grants need not be maintained and the entire non-plan non-statutory grant may be given as a single general purpose grant. It should be left to the Local Bodies to decide on the application of the non-plan grants according to their own priority and perception of their needs. The State Finance Commission further recommends that the past non-Plan specific purpose grants which may be lying unutilised or have been diverted

for purposes other than those envisaged in the grant may also be treated as a general purpose grant.

10.22 The non-plan non-statutory grants to Local Bodies during 1993-94 and 1994-95 and the percentage these constitute in the total revenues of State Government is given in Annexure X.5. These grants for both general and specific purposes for Panchayats constituted from 0.25% to 0.26% of the total state revenue during 1993-94 and 1994-95 and 0.07% for Municipalites and Corporations during the same period.. The quantum of grants given to Panchayats, Municipalities and Corporations has also been increasing in absolute terms.

10.23 The two new tiers of Panchayats at the Block and District levels will also become eligible for Government Grants from 1995-96 onwards. Their recurring house keeping expenses and non-recurring cost for building, vehicles, etc have to be met by Government grants as these Panchayats have no independent sources of income. The recurring expenses are estimated at Rs.911.62 lakhs. These estimates are tentative and the firm estimates will have to be added to the future projection of Government Grants. In addition, the share of District and Block Panchayats in the election expenses also has to be given as a separate grant by Government for which an estimate had been made in chapter V of the Interim Report (Sept. 1995)

Non-statutory grants as a percentage of State **revenue**

10.24 The specific and general purpose grants were intended to meet certain felt needs of the Local Bodies. It is not the case of even Government that the grants given are adequate or sufficient to take care of the needs of the Local Bodies. At the same time a large step up from the current level will put a severe strain on State's resources; a step-up of a modest nature is however necessary. The non-statutory non-plan

grants given to all Local Bodies constituted about 0.33% of State's Revenues during 1993-94 and 1994-95 excluding statutory transfers. This does not include the full quantum of grants as per prescribed norms but only the grants actually disbursed. In many cases the norms themselves are outdated and inadequate. Taking these aspects into consideration and also the over-riding responsibility of the State Government to nurse and nature the local bodies, the State Finance Commission recommend that the non-statutory non-plan grants given for traditional functions may be fixed at 1% of the State Revenue and may be distributed between Urban and Rural Local Bodies in proportion to the Urban and Rural population. Since the 3 Corporations are being trated as a class apart, their share on the basis of their population in the urban population may be disbursed directly to them. In computing the State Revenue, the tax and non-tax revenue of State Government minus the following items should be taken into account.

i) Land Tax or Basic Tax

ii) Surcharge on Duty on Transfer of Property

iii) Motor Vehicle Tax given as grant to Local Bodies

iv) One time Tax on Building now proposed by the S.F-C to be assigned to L.B.s.

v) 50% of net collection from sale of court fee stamp (now porposed by S.F.C to be assigned to L.Bs.

A statement showing the State Revenue and level of grants is given in Annexure X.5.

10.25 At the 1993-94 level of State Revenues, minus the items enumerated above 1% would amount to Rs. 2898.65 lakhs as against the actual disbursal of Rs.899.36 lakhs as non-plan non-statutory grants to

Local Bodies. This grant is in lieu of the current bunch of non-plan non-statutory specific and general purpose grants being given. All of them will form one general purpose grant. The recurring and non-recurring grants for establishment, office building, etc. to be given to the new District and Block panchayats and the grant to be given to them to meet their share of election expenses will be over and above the general purpose grants recommended above. In para 5.15 of the Interim Report, SFC had, on the basis of the 1991 census data of Rural-Urban distribution of population, recommended that *13%* of the election expenditure may be borne by the Panchayats and 27% by the Urban Local Bodies. The census data includes among Urban population, the population of certain centers with urban characteristics which are part of Village Panchayats. If we exclude the population of such centers falling within Panchayats, the relative proportion would change. The population in Municipalities and Corporations according to 1991 census is 43.21 lakhs (15%) and in Village Panchayats 247.77 lakhs (85%). Therefore the sharing of election expenses between Urban and Rural Local Bodies should be in the proportion 15 : 85.

10.26 Statutory Grants:

In addition to the non-statutory grants referred to in the preceding paragraphs, State Government also gives statutory grants to Village Panchayats and Municipalites from the proceeds of the surcharge on Stamp Duty, Basic tax and Motor Vehicle tax. The basis of allocation of 75% of Surcharge on Stamp Duty and Basic Tax to Panchayat and of 100% of the Surcharge on Stamp Duty to Municipalities is statutorily prescribed and the State Finance Commission does not suggest any changes in the disposition of the above assigned taxes except in the case of the Surcharge on Stamp Duty payable to Municipal Councils where 25% is recommended for

being earmarked for a common pool. Section 202(2) of the K,P.R. Act, 1994 stipulates that the 25% of Basic Tax which will go into State pool may be distributed among Village Panchayats on the basis of a composite criteria whose elements are area of the Panchayat, its population, available financial resources, development needs and administrative expenses. Section 206(5) stipulates that 25% of the Surcharge on Stamp Duty may be pooled and distributed among Panchayats on the criteria of area, available resources needs of development and cost of administration. A formula for distribution of the pooled funds is suggested elsewhere in this chapter.

Constitution of a Rural Pool

10.27 Municipalities are not at present entitled to a share of the Land Tax. The Surcharge on Stamp Duty collected from Municipal areas is given to the concerned Municipality in its entirety without keeping any part of it in a common pool. The State Finance Commission has recommended elsewhere that the urban Local Bodies may also be made eligible for the Land Tax estimated at about 3% of the total collection and this may be put in a common pool. In addition State Finance Commission has also recommended that 25% of the surcharge on stamp duty from Municipal council areas may be put in a State pool to be distributed among the Municipal Councils. The surcharge collected from the three Corporations will not be subject to this and the entire amount collected may be transferred to them on collection basis. With these components there will emerge a pool of funds for Village Panchayats and Municipal Councils (referred to as the rural pool and the urban pool). The Rural pool will comprise of :

i) Various non-statutory non-plan specific purpose and general purpose grants consolidated into one general grant at 1% of State revenues; the amount credited to the pool will be in proportion of the rural population in State's population.

ii) 25% of the basic tax from Panchayat areas at the current rates,

iii) 25% of the Surcharge on Stamp Duty from Panchayat areas.

Urban Pool

10.28 The Urban Pool will consist of

i) Various non-statutory non-plan grants being given by State Government consolidated into one general grant at 1% of State Revenue. The share of Urban Pool will be in proportion to the population in Municipal Council areas to the State's population.

ii) 100% of the Basic Tax collected from Urban areas as recommended by the State Finance Commission

iii) 25% of Surcharge on Stamp Duty collected from Municipal Council areas.

The non-plan ^grants which Govt. will be paying and L.Bs for the transferred responsibilities will not form part of either pool. An estimate is presented in Table 10.2 of the likely size of the urban and rural pools for 1996-97.

TABLE 10.2

NON-PLAN GRANTS FOR DISTRIBUTION AMONG LOCAL BODIES

(Rs. in lakhs)

Rural pool	Rs.	Urban pool	Rs.
i) 25% of Basic Tax from Panchayats	303	100% of Basic Tax from Urban Areas	75
ii) 25% of surcharge on Stamp Duty	1010	25% of surcharge on Stamp Duty from Municipal Council areas	238
iii) Consolidated general grant at 1% of state Revenues (Panchayat Share) as recommended in para 10.24	280	Consolidated general grant at 1% of State Revenue 2468 (Municipal Council's Share)	
Total	3781		593

Criteria for devolution from the Urban and Rural Pools

10.29 Eventhough Section 202 (2) and 206 (5) of Kerala Panchayat Raj Act, 1994 lists out the criteria for distribution of 25% of Basic Tax and Surcharge on Stamp Duty, no relative weights have been assigned to different indicators and everyone is left in doubt as to how the criteria will actually be applied. The State Finance Commission has recommended an enlargement of the State pool and creation of a State pool for the Municipal Councils also. Local Bodies are generally apprehensive about the manner in which such pooled funds will be distributed by Govt. and fear that adhocism and favouritism might influence the actual devolution of such funds. This fear is not entirely unjustified in the light of past practices and it is essential that a transparent and equitable formula is devised for the distribution of the pooled funds. The SFC has recommended elsewhere in the chapter a formula for distribution of Plan funds. The formula for distribution of the non plan and the pooled portion of statutory grants needs to be a different one because the objectives of these grants are not identical. Some of the traditional "grants have been given on a per capita basis and SFC had received representations that even the pooled funds may similarly be distributed on the basis of population which is a neutral index. But such an index would ignore differences in resources and other relevant factors among the Local Bodies. Therefore a composite criteria which includes population as well as other relevant factors would be desirable than population alone. The formula need not be identical for urban and rural local bodies as their characteristics are not uniform.

Exclusion of Municipal Corporations from Urban Pool

10 .30 In constituting the urban pool we recommend that the 3 Corporations may be kept out of the urban pool. The three Corporations have large

concentration of population and have special problems. They are more successful than Municipal Councils, in getting more funds from State Govt. for the improvement of civic services. It is reported that the State Government have decided to give special assistance for schemes in Thiruvananthapuram city taking into account its status as the capital city. There may be other similar programmes in the remaining 2 cities as well. Moreover in any scheme of devolution, considerable weightage will be given to population and these corporations with their high concentration of population may gain an advantage over others. Their annual income levels are a class apart from that of Municipal Councils. At the same time their need of funds are no less acute. The SFC therefore is of the opinion that they may be treated as a class apart and kept out of the urban pool. Therefore while constituting the urban pool no contribution from the 3 Corporations need be credited to it. The Surcharge on Stamp Duty may continue to be paid to the three Corporations on the basis of collections without crediting any portion of it to the urban pool. Similarly the consolidated general grant at 1% of the State revenue may likewise be paid to the 3 Corporations, in proportion to their population to the total urban population, after the initial division of the grant between urban and rural Local Bodies. 1% of the Surcharge on Stamp Duty and of the general grant will be credited to the fund for Local Development proposed in Chapter XII.

Formula for devolution of Rural and Urban Pools

1031 The SFC has recommended in chapter XII that 1% each of the Rural and Urban Pools may be credited to the porposed Fund for Local Development. After making this appropriation the remaining 99% of the annual accruals may be distributed on the basis of the composite criteria given in Table 10.3.

TABLE 10.3

CRITERIA FOR DISTRIBUTION OF RURAL AND URBAN POOLS

	Criteria	Village Panchayats	Municipal Councils
1.	Population in 1991 Census	75	80
2.	Population of SC/ST in 1991 Census	5	5
3.	Financial need of LBs	15	10
4.	Tax effort of LBs	5	5
	Total	100	100

10.32 Population and Financial Needs

The indicator of population and SC/ST population are self explanatory, these are neutral and objective indices and the high weightage assigned to them will reduce the degree of subjectivity in the index. The next indicator is the financial need of the LBs and this is based on the classification of LBs on the basis of the 993-94 income from all sources excluding Motor Vehicle Tax and Loans. Motor Vehicle Tax is excluded because of the highly erratic nature of its flow to individual Local Bodies. The existing classification of Panchayats and Municipal Councils based on annual income has become outdated. For the distribution of the Rural pool they may be classified into the following groups.

Group	Income range	No. of Panchayats in 1993-94
i) Group I	Annual Income of above Rs. 20 lakhs	106
ii) Group n	Income of above Rs. 10 lakhs and upto Rs. 20 lakhs	175
iii) Group in	Income of above Rs.5 lakhs and upto Rs.10 lakhs	498
iv) Group IV	Income of Rs. 5 lakhs and below	204
	Total	983

(Data of 8 Panchayats has not been received)

Out of the 15 per cent set apart for the indicator of financial needs, 50 per cent may be distributed among Panchayats in Group IV, 42.5 per cent among Group in and 7.5 per cent among Group n on the basis of their population in the total population in the same group.

For Municipal Councils, a lower weightage is given to financial needs because the revenue potential in Municipal Council areas is much higher than in Panchayats. As in the case of Panchayats, the existing classification of Municipalities on the basis of annual income is outdated and for the purpose of devolution of funds from the Urban pool, the following classification may be taken into account.

Group	Income range	No. of Municipal Councils in 1993-94
i) Group I	Annual Income of above Rs. 1 crore	13
ii) Group n	Annul Income of above Rs.75 lakhs and upto Rs.l crore	11
iii) Group III	Annual Income of above Rs.50 lakhs and upto Rs.75 lakhs	13
iv) Group IV	Annual Income of above Rs.40 lakhs and upto Rs.50 lakhs	8
v) Group V	Annual Income of Rs. 40 lakhs and below	9
	Total	54

Of the 10% set apart for financial needs, 50% may be distributed among Group V, 30% among Group IV and 20% among Group in on the basis of the population in the total population in the same Group.

10.33 The classification of Panchayats and Municipalities on the basis of the income in 1993-94 is based on the State Finance Commission survey conducted in 1995. The list of Panchayats and Municipalities under each category is available with the Secretariat of the State Finance Commission. As mentioned elsewhere the State Finance Commission survey does not have information on 8 Panchayats and these have to be classified. The income data furnished by the Local

Bodies also need to be got confirmed when this factor is proposed as a criteria for devolution of funds. Some local bodies are seen to have excluded from their income grants disbursed by way of payments directly made by Government to KWA on their behalf. The State Finance Commission therefore recommends that the income of 1993-94 should be the basis for classification of the Local Bodies into various groups. Their income from taxes and non-tax revenues raised by them, the tied and untied grants and the Government grants by way of Surcharge on Stamp Duty (75% share) and Basic Tax (75% share) may be ascertained through the Director of Panchayats/ Municipalities and the final classification should be based on the departmentally verified figures.

10.34 Some apprehension has been expressed that some Local Bodies who fall on the margin of different income slabs could become eligible for higher grants by deliberately collecting less revenue and thus come under a lower income slab. In order to obviate any such possibility, however remote, the income classification of various LBs. must be frozen for the next 5 years on the basis of their 1993-94 income and any revision of this should be made only on the recommendation of the next State Finance Commission.

10.35 5% of the pooled funds is earmarked for distribution on the basis of tax effort of the LBs. A number of indicators are relevant for ascertaining the level of tax effort. There is a large number of variables that are relevant such as the rates of the taxes levied, the number and scale of exemptions from tax given, the maximisation of tax potential by covering all the taxable units within the tax net, the actual percentage of tax collected etc. From these indicators one can construct a profile of the potential or presumptive income of Local Bodies. We hope that more work will be done in this direction by Governmental and non-Governmental agencies but we also feel that

in the meanwhile, this factor should not be completely disregarded in the formula for devolution of funds, A 5% weightage may be assigned to this factor and the tax effort may be judged by two indicators viz.

i) The percentage of collection to demand

ii) The rate at which Property Tax is being levied.

The overall percentage of collection to demand among Panchayats and Municipal Councils is given in Table 10.4.

TABLE 10.4

PERCENTAGE OF COLLECTION OF REVENUE TO DEMAND

	1991-92	92-93	93-94	Average
Village Panchayats	96.3	95.74	93.26	95.1
Municipal Councils	85.62	87.95	88.43	87.33

Source : ***Director of Panchayats and Director of*** *Municipalities.*

The collection rate is quite high among Panchayats and we suggest that half of the 5% set apart may be given to Panchayats whose collection during the preceeding year is 100% of the demand. So far as Municipalities are concerned, half of the 5% may be distributed among those whose collection rate is 95% or more during the preceding year. The remaining half may be distributed on the basis of tax rate of Property/Building Tax. We have suggested elsewhere certain modifications in the regime of Property Tax which require legislative changes. We are assuming that for 1996-97 the exising regime of taxation would continue and even if it is changed for residential properties, tax on the basic of rental value will continue for non-residential properties. The median rate for Panchayat is 8% and for Municipal Councils 18%. We recommend that the remaining

half of the 5% set apart for tax effort may be distributed on population basis among Panchayats who are charging House Tax/ Property Tax above the median rate. An illustrative example of how the aforesaid devolution criteria will be applied is given in Annexure-X.6.

1036 We have excluded the District and Block Panchayats from the purview of the Rural Pool. This is the logical result of absence of tax sources for these two levels of Panchayats. In our recommendations we have proposed new tax instruments to be palced at the disposal of District Panchayats. These taxes are optional and the entire collection from them is to be distributed among Panchayats without any contribution to the rural pool. After the District and Block Panchayats have worked for sometime and have stabilised their income from the tax sources at their disposal, the question of their contributing to the pool and of being entitled to a share of pool can be considered.

CHAPTER XI

MAINTENANCE GRANT FOR BUILDINGS AND ROADS TRANSFERRED TO LOCAL BODIES

11.1 As part of the functional devolution under the Panchayat Raj Legislation a number of Government institutions and assets have been transferred or are scheduled for transfer to Local Bodies. Among such assets are about 20,000 Kms of roads, 282 Buildings housing Krishi Bhavans, 4504 Lower Primary, Upper Primary and High schools, over 1000 Government dispensaries and primary health centres, 1700 veterinary institutions etc. A complete inventory of such buildings is not yet available. According to Section 181 of Kerala Panchayat Raj Act, 1994, and Section 30 (4) of Kerala Municipalities Act, 1994, along with the transfer of a scheme or institution to a Local Body the Government should transfer the entire budget and plan provisions ear-marked for them. An important item of expenditure for Local Bodies under the new dispensation would be the cost of maintenance of the aforementioned transferred assets. In this context it is useful as well as necessary to evolve certain norms of maintenance expenditure on the basis of which Government can and should provide maintenance grant to Local Bodies to whom Government institutions have been transferred in pursuance of the scheme of functional devolution.

11.2 In G.O.Rt No.ll90/77/PW dt.7-7-77, Government have prescribed the following norms for maintenance expenditure of Government buildings:

a) i) For ordinary Buildings constructed before 1-4-62 : 3% of capital cost

ii) For ordinary buildings constructed after 1-4-62 : 2% of capital cost

b) i) For special buildings like Hospitals, rest houses, residential quarters etc. constructed before : 4% of capital cost

ii) For special buildings constructed after 1-4-62 : 3% of capital cost

c) i) Prestigious buildings constructed before 1-4-62 : 6% of capital cost

ii) Prestigious buildings constructed after 1-4-62 : 5% of capital cost

The above norms fixed in 1977 are still in force. Most of the buildings transferred to Local Bodies would come under the category of "ordinary buildings" attracting a maintenance grant of 2 or 3% and hospital buildings will be "special building" attracting a maintenance provisions of 3 or 4% depending on the year of construction.

11.3 The extant maintenance norms for buildings falls far short of requirements. The cost of construction which is the basis for calculating the maintenance grant is the historical cost whereas the maintenance grant should cover the current cost of materials and labour. The historical cost of a building constructed twenty years ago will be only a fraction of the current cost. The cut off date of 1.4.1962 for deciding whether the maintenance grant is 2% or 3% of capital cost (for ordinary buildings). lumps together buildings aged upto 33 years in one group. The formula is admittedly inappropriate to cope with the gallopping cost of labour and materials used for maintenance of buildings. So long as the building were maintained by Govt. from out of their funds, the above factor did not perhaps matter much as the limiting factor governing maintenance expenditure was not so much the 1977 norms as the budgetary constraints and Govt. could target the available funds to those which needed urgent repairs and maintenance. But with the transfer of the buildings to Local Bodies the need to regulate the flow of funds to Local Bodies for maintenance according to prescribed norms assumes importance as each L.B. is a separate entity with its own budget and expenditure responsibility.

11.4 Inadequate as they are, Govt. have been unable to provide funds even as per the outdated and inadequate maintenance norms prescribed by it in 1977. At the request of the SFC, the Chief Engineer, Buildings and Local Works selected at random a few buildings scheduled for transfer to Local Bodies and analysed the 1977 norms and the actual maintenance expenditure incurred. The results are given in Annexure.XI.l. The analysis shows that (i) actual maintenance expenditure has been at about 44% of the normative level and in some cases has been as low as 24%, (ii) The actual maintenance expenditure incurred in the 27 buildings analysed (Annexure XI. 1) works out to Rs. 27.70 per sq.m. The SFC has held discussion with officials of the PWD as well as with independent experts with a view to gaining insights into what should be an appropriate norm of maintenance expenditure. The full list of Govt. buildings transferred to Panchayats is not available with the Commission and the process of transfer is still to be completed. The types of buildings are also not uniform and therefore any normative level will necessarily have to gloss over these differences. There is general agreement among those consulted by the Commission that maintenance norms should be related to the current cost of construction rather than to historic cost and further, that the maintenance expenditure can be calculated as a percentage of the cost of construction. These percentages can remain the same as in the 1977 norms so long as they are applied to current cost of construction.

11.5 Given the different types of buildings, variety of locations and other relevant factors, it will be difficult to arrive at a universally applicable cost of construction. Our broad objective is to arrive at a workable base cost of construction for estimating the cost of annual maintenance and repairs. With this objective in view, the SFC has obtained from PWD estimates of current cost of construction of a few categories of buildings. These estimate are based on the 1992 Schedule of rates and currently tender excess in bids on estimates based on 1992 schedule of

rates is running at about 60% above estimated rates; part of this tender excess is attributable to notorious delays in settling contractors bills. Apart from this, prices of many inputs have gone up substantially since the last revision of schedule of rates in 1992. The comparative rates of labour and selected materials required for maintenance works during 1986, 1992 and in end 1995 are given in Table. 11.1.

TABLE - 11.1

COST OF SELECTED INPUTS REQUIRED FOR MAINTENANCE IN 1986,1992 AND 1995

Inputs	Estimated cost 1986	1992	1995
	Rs.	*Rs.*	*Rs.*
A. Labour			
1. Male Mazdoor	27.00	40.50	100.00
2. Women Mazdoor	22.00	33.00	90.00
3. Mason	40.00	60.00	120.00
4. Carpenter	40.00	60.00	125.00
5. Painter	25.00	50.00	110.00
6. Plumber	40.00	60.00	120.00
7. Wireman	35.00	60.00	120.00
B. Materials :			
1. Cement (per M.T)	1300	1900	3400
2. Bricks (per 1000)	400	680	1400
3. River sand (M3)	40	60	400
4. M. Proofing tiles (per 1000)	1500	1800	3000
5. Hip and Ridge Tiles (per 1000)	5000	6000	12000
6. Synthetic enamal paint (per litre)	84.00	126.00	145.00
7. Varnish (per litre)	39.90	56.00	85.00
8. Plastic emulsion paints	91.35	137.00	165.00
9. Water proof cement paint	12.60	17.00	22.00
10. Coconut cadju madal	1.00	1.50	2.50

Source : Iyer and Mahesh, Architects, Thiruvananthapuram

11.6 Most of the aforesaid labour inputs and some of the material inputs would be required for maintenance of buildings and maintenance norms should take the prevailing prices into account if they are to be realistic.

11.7 The SFC has obtained from the Chief Engineer, Buildings & Local Works, current estimates based on 1992 schedule of rates of seven buildings of the types that have been or are scheduled for transfer to Local Bodies. In order to arrive at the actual cost of construction, tender excess at an average of 50% of the estimate, which is the currently available mechanism for allowing for cost escalations since the 1992 revision of schedule of rates, has been added to the estimated cost furnished by the Chief Engineer. The data in respect of 4 out of the 7 buildings thus arrived at is given in Annexure.,XI,2. It shows the 1995 cost of construction of a UP/LP School at about Rs.275GA per sqm. and of a primary Health Centre at about Rs.42GO/- per sqrn.

11.8 The data shows that (i) current levels of maintenance expenditure on buildings is sub-optimal and is causing serious impairment to the utility of the buildings, (ii) the current cost of construction of a typical UP/LP school works out to between Rs. 2500 and 3000 per sq.metre. and of a primary health centre to between Rs. 3600 to Rs. 4800 per sq.metre.

11.9 The government buildings being transferred to PRIs belong to different vintages and the extant 1977 formula for calculating maintenance entitlement as a percentage of historical cost is inappropriate and needs change. With a large number of buildings being transferred to PRIs, it may be administratively difficult for government to decide on maintenance grant to be transferred to each PR! on a building by building basis and a common norm would be of advantage to Government also. Without details such as full inventory of buildings transferred to PRIs with their assets, it is not possible for SFC to quantify the total maintenance grant required to be given to Local Bodies.

11.10 The SFC recommends that

(i) Maintenance grant should be based on current cost of construction estimated at about Rs, 2750 per sq. metre for a UP/LP school and about Rs. 4200 per sq. metre for a dispensary or Primary Health Centre at 1995 prices. 2% of this should be the annual maintenance grant in respect of buildings like LP school and UP school and 3% for buildings like hospitals and dispensaries.

ii. The cost of construction which is the basis of calculating maintenance grant should be indexed for inflation and the maintenance grant should be reflexed every year. The rate recommended above may hold good for 96-97 and for subsequent years, it may be reflexed as follows :

i.	for 1997-98	96 rate +7%
ii.	for 98-99	96 rate + 15%
iii	for 99-2000	96 rate + 22%
iv	for 2000-2001	96 rate + 28%

iii. The recommended maintenance norms would require a substantial step up of funds which government have been spending on the transferred buildings. Govt. should shoulder this burden in the interest of preventing the buildings from becoming increasingly dilapidated and also seek to obtain funds from Government of India.

Maintenance of Roads

11.11 Kerala has a wide net-work of village roads but their state of repair leave a lot to be desired. The network has been built up at a huge cost and is a valuable asset whose preservation should attract a very high priority. But low level of maintenance is putting this valuable investment to the risk of disintegration even to the point of disappearance. Timely and proper maintenance of roads will prolong

the life of the road, reduce vehicle operating costs including fuel costs and add to road safety. The Committee on Norms for Maintenance of Roads (1993) appointed by Ministry of Surface Transport has observed "the failure to maintain roads is tantamount to an act of disinvestment for it implies the sacrifice of past investments in roads. Continuous neglect of maintenance may even lead to complete loss of infrasturcture built at great cost. However, bad roads seldom deter users or curb the volume of traffic. Instead they raise the cost of road transport and thus the road users bear the brunt of these additional costs",

11.12 The extent of roads under Local Bodies as on 1-4-1994 (before transfer of P.W.D, roads to Local Bodies) is shown in Table i 1.2

TABLE 11.2

ROADS UNDER LOCAL BODIES

(in kilometres)

	Black topped	Meta-lled	Grave-lied	Ear-them	Total
Panchayats	6506	5616	31346	58648	102 116
Municipalities	1837	776	2320	-	4933
Corporations	1342	164	499	-	2005*
TOTAL	9685	6556	34165	58648	109054

(*) Represents length of roads in 1992-93

Source : 1. Directorate of Panchayats
2. Road length in Urban Local Bodies taken from Report of die Committee constituted to recommend norms and rates of compensation to Local Bodies (1995) (Dr. Babu Paul Committee)

11.13 In addition to the above, the Local Bodies will be entrusted with 19465 Kms. of Public Works Department roads in pursuance of the Panchayat Raj Legislation. There is, however, lack of clarity in Kerala Panchayat Raj Act 1994 about the exact location of functional responsibilites regarding roads of various descriptions and their maintenance. Entries 4 & 16 of Schedule 3 and entries 8 (a).

8(d),8(d)(1) and 8(d)(2) Schedule 5 seem to overlap. Sections 166(2) and 173(2) give to the village and District Panchayats exclusive jurisdiction over subjects enumerated in Schedules 3 and 5 respectively subject to guidelines and direction of Government. It is upto Government to give a harmonious interpretation of these entries which prima facie seern to overlap.

11.14 19465 Kms. of PWD roads stand vested in Village Panchayats by virtue of Section 169 of Kerala Panchayat Raj Act 1994. Out of these the State PWD has at the time of this Report transferred to Village Panchayats,3437 Kms. of roads. As and when the remaining roads are transferred to Panchayats., Government will have to transfer to the concerned Panchayats the related Plan and budget provision as required by Section 181 of the Kerala Panchayat Raj Act 1994. The funds transferred will no doubt include the provision needed for the maintenance of these roads.

Existing Scheme of grants for roads maintenance

11.15 The current schemes of Government Grants to Local Bodies for maintenance of roads has two streams:

(i). Village Road Maintenance Grants (VRM) as per norms fixed in G.O.(Rt)NO.52/83/LA&SW, dated 5.1.83 for roads which do not qualify for grants from the Motor Vehicles Tax. Approximately 85% of Panchayat roads qualified for Village Road Maintenance grant in 1994-95.

ii. Panchayats and Municipalities get grants from Motor Vehicles Tax known as Vehicle Tax compensation (VTC) for maintenance of other roads; these roads constituted 14.95% of roads in Panchayats and all motorable roads in Urban Local Bodies.

11.16 G.O.(Rt)No.52/83/LA&SW, dated 5.1.1983 has prescribed the following scale of VRM grants to Panchayats:

i. Metalled and black topped roads ; Rs. 1200 per Km.

ii. Gravelled Roads : Rs. 900 per Km.

iii. Earthern Roads : Rs.750 per Km.

These 1983 norms have become outdated but payments have not been made by Government even at these inadequate rates as will be seen from Table 11.3. The arrears payable by Government to Panchayats on this account stood at Rs. 43.87 crores as on 31.3.1995

TABLE 113

V.R.M. GRANTS TO PANCHAYATS

(Rs. in lakhs)

		1990-91	91-92	92-93	93-94	94-95
(i)	Eligible grant as per G.O. dated 5. 1.1983.	635	651	662	675	678
(ii)	Grants received	270	296	295	297	299
(iii)	Short-fail	366	355	367	378	379
(iv)	Extent of shortfall	57.6%	54.5%	55.4%	56%	55.9%

Source : Director of Panchayats. Village

Roads Eligible for V T C

11.17 According to Section 19 of the Motor Vehicles Taxation Act, 1976, the State Government should give to each Local Body, from the proceeds the tax collected under the Act every year, such compensation as may be fixed by Government in accordance with such principles as have been prescribed. As per Rule 11 of Kerala Motor Vehicles Tax Rules, 1975 the cost of collection and the administrative costs for the control of motor vehicles should be deducted from the receipts and the net amount divided between Government and Local Bodies on the basis of the recommendation

of a Committee appointed by Government. The Act or Rules do not ear-mark a specific portion of the proceeds to Local Bodies.

11.18 The Committee constituted by Government under Rule 11 of the Kerala Motor Vehicles Rules, 1975 for fixing the V.T.C to the Local Bodies for the five year period from 1-4-1978 to 31-3-1983 recommended payment of 10 % of net MV. Tax collected by Government in proportion to length of roads maintained by each Local Body and the type of such roads. The next Committee constituted in G.O.Ms No.63/84/T&.D., dt. 10-9-1984 to make recommendations for the five years from 1-4-1983 to 31-3-1988 could submit only an interim report covering 1983-84, 1984-85 and 1985-86 only. Despite the above Reports, government did not enunciate any clear principle or policy on devolution of Motor Vehicle Tax to Local Bodies with the result that decisions were made purely on an adhoc basis.

11.19 The Committee constituted in G.O.Ms. No. 75/89/PW&T dated 4-7-89 and reconstituted in G.O.Ms No.40/93/PW&T dated 6-5-93 in its Report submitted in January 1995 (referred hereinafter as the Babu Paul Committee) recommended that 65% of the net proceeds of the tax should be distributed among Government and the Local Bodies and the Guruvayoor Township and Kannur Cantonment in proportion to the length of roads under each agency. Government have not so far accepted or rejected the suggested formula. In G.O.Rt. No.334/95 PW&T dated 15-3-95 it accepted the principles for apportionment of available grant among different Local Bodies. The quantum of Motor Vehicles Tax grant given (or Vehicle Tax Compensation as it is called) and more pointedly its inter-se distribution among Local Bodies does not follow any recognizable pattern and seem to be dictated more by budgetary constraints and the relative strength or clout of various competing interests in the decision

making process than by any rational principles. These have been well documented in the Mohandas Commission Report (1993) on Municipal Finances.

11.20 Before addressing the question of grants required for road maintenance, an estimate of the funds required is necessary. The present level of expenditure is no reliable guide as its inadequacy is well known and well recognised to need any reiteration. The SFC has, therefore, attempted to arrive at a normative level of maintenance expenditure. No studies have been done by the State Govt. to arrive at normative levels of maintenance and repairs expenditure and the scale of Village Road Maintenance grants laid down in 1983 and which has remained unchanged till now is neither adequate nor appropriate.

11.21 The Ministry of Surface Transport INMOST) Govt. of India appointed an Expert Committee in 1993 to evolve suitable norms for maintenance of State roads. The Committee examined the existing norms and criteria and made recommendations for suitable updating of existing norms. Separate maintenance norms were evolved for State Highways, Major District Roads and 'Other Roads. Local Bodies will be concerned with Major District Roads and "Other Roads" which would include Village roads. The Group proposed annual expenditure norms per kilometre for different categories of roads with varying traffic densities and for different price zones. The norms recommended are the minimum needs and are at 1992-93 price levels and need annual updating. The price zones are based on the procurement price of stone chips and stone metal and the highest cost assumed is Rs.800 per cubic metre and the lowest Rs.300. In Kerala, this has currently touched Rs.1000 per M^3 in some places. They have also taken into account costs of other inputs and recommended maintenance norms for State Highways, Major District Roads and Other Roads. The maintenance norms recommended by the Committee for District Roads and Other Roads are given in Table. 11.4.

TABLE-11.4

MAINTENANCE AND REPAIR NORMS (1992-93 PRICES)

Category of road	Lowest price zone(Less than ISO commercial vehicles per day)	Highest price zone (Less than 150 commercial vehicles per day)
I MAJOR DISTRICT ROADS	(Rupees per Km)	
Black topped	18247	22286
W.B.M.	17803	36461
Unsurfaced	6300	6300
IT. OTHER ROADS (For all traffic densities)		
Blacktopped	16953	20992
W.B.M.(Metalled)	14855	30346
Unsurfaced	6300	6300

Note : The estimates are for single lane road with a width of 3.5 metres.

Source : Ministry of Surface Transport, Govt of India.

11.22 The above norms are at 1992-93 price levels and are recommended as the minimum. Suitable price escalation need to be applied to update the norms periodically and for 1996-97, a price escalation of 20% may be applied over the 1992-93 norms. Thus for the unsurfaced roads, it may be taken as Rs. 7560 or say Rs. 7500/~ per km, for W.B.M. Rs. 17825 or say Rs, 17,800 and for Black topped, Rs. 19,343 or say Rs. 19300.

11.23 Based on these norms, the funds needed annually for maintenance of roads now with the Local Bodies is estimated in Table 11,5.

TABLE -11.5

FUNDS FOR MAINTENANCE OF ROADS UNDER LOCAL BODIES

Types of roads »	Norms per km (1996-	Road Length		Funds Required		Total
		Pancha-yats	Munici-palities	Pancha-yats	Munici-palities	
	(InRs.)	(in km)		(Rs. in lakhs)		
Black topped W B	19300	6506	3179	1255.66	613.55	1869.21
M (Metalled)	17800	5936	940	1056.61	167.32	1223.93
Unsurfaced	7500	93111	2819	6983.33	211.42	7194.75
TOTAL		105553	6938	9295.60	992.29	10287.89

11.24 The Local bodies spent during *93-94,* about Rs,30 crores on the maintenance of roads out of which about 23 crores was met out of VRM and VTC grants and the balance from their own revenues. For meeting the road maintenance expenditure, all agencies including Local Bodies will have to step up their contribution and maintenance expenditure. The LBs should step up the expenditure from the 93-94 level of Rs.7.36 crores by 25%.

11.25 The normative maintenance and repair expenditure to be incurred on the network of roads with Local Bodies, the expenditure now incurred on them and the gap to be met from appropriate sources is worked out in Table ; 11.6

TABLE - 11.6

MAINTENANCE OF ROADS AT NORMATIVE LEVELS

(1996-97) *(Rs. in crores}*

1.	Funds required for 112491 kms. of roads currently with Local Bodies (including 3437 km PWD roads already transferred)	102.88
2.	VTC & VRM (at 1994-95 level)	22.90
3.	Expenditure from own funds of Local Bodies (1993-94)	7.36
4.	Gap after taking into account (2) and (3)	72.53
5.	25% step up by L.Bs. from own funds	1.84
6.	Gap to be met from other sources	70.69
	Rounded to	71.00

11.26 The estimate of funds does not take into account 16028 kms of PWD roads which have not yet been transferred to Panchayats. As and when they are transferred, the funds for their maintenance and repair may also be transferred to the concerned Panchayats.

11.27 Funds required for maintenance of roads currently under the control of the Local Bodies is massive but should not inhibit bold decision because maintenance is the key to the very survival of these assets- The combined effort of State and Central Governments supplemented by those of Use Local Bodies should be harnessed to tackle this problem, Central Government derives very substantial revenues from roads and Road Transport Industry by way of excise and customs revenue on automobiles, excise and customs revenue on petrol and petroleum products and corporate taxes on units in the industry. They have a vital stake in maintaining and preserving a good road net work and this would promote inter-state commerce, reduce fuel consumption and promote road safety. The income derived by the State Government from the road transport and automobile industry is only from Motor Vehicle Tax and sales tax on automobiles and petrol and petroleum products and is small when compared to Government of India's income from the transport sector. A substantial portion of the funds required for the maintenance of roads should appropriately come from Government of India. The State Finance Commission would recommend that 50% of the gap estimated in 1996-97 at Rs. 71 crores should come from Government of India via Centrally Sponsored Scheme or other appropriate channels and the remaining 50% from Govt. of Kerala. The input for Govt. of Kerala may come as a statutory grant from Motor Vehicles Tax for which already a provision exists and the portion of the MVT to be given to Local Bodies for roads maintenance may be stepped up from the current levels as recommended in para 11.30.

11.28 There is a substantial flow of funds from Government of India to the rural sector by way of various Central schemes such as JRY, Employment Assistance schemes, etc. At present JRY funds can be used for maintenance of assets only to the extent of 10% and no funds of Employment Assurance Scheme can be used for maintenance.

Maintenance and repair of roads and other assets are as labour intensive as arty other activity and they aim at the preservation of endangered community assets, which activity *is* as important as the creation of new assets. Therefore, the existing restrictions on the expenditure on maintenance should be removed or the ceiling increased at least to !/3rd of JRY and Employment Assistance Schemes.

11.29 The prevalent Village Road Maintenance Grant has ceased to be effective or adequate and will continue *10* be so even if Government is in a position to give the grant as per the 1983 norms in full. In this context the SFC has also examined whether there is sufficient justification for maintaining a distinction between roads eligible for VRM and those eligible for Motor Vehicle Tax grant. The ratio decidante is whether the roads are used by stage carriages; this rationale is open to question, MV Tax is collected from all Motor Vehicles registered under the Central Motor Vehicles Act. As on 31-3-93, out of 781398 motor vehicles in the state, 59% were two wheelers and three wheelers. The state has also witnessed the emergence of a large number of mini lorries and vans. These vehicles use or are capable of using the available network of roads including the village roads which are currently not eligible for grants from MV Tax, Thus the current distinction between roads eligible for VRM and those for MV Tax grant is a distinction without a difference and may be abolished and VRM may be merged with VTC. All roads maybe made eligible for grants from MV Tax,

11.30 The proceeds from MV Tax and the VTC & VRM paid to Local Bodies is given in Table 11.7. The Table also shows VRM due but not paid by Govt. Taking this factor also into account, the VRM & VTC paid and payable to Local Bodies constituted 20.84% in 1993-94 and 16.69% in 1994-95 of the net collection of MV., Tax, The funds required for proper maintenance of roads are massive and this

can be met even partially only by a step up of the VTC (in which VRM is merged). The SPC recommends that the VTC may be 25% of the net collection of MV Tax and it may be distributed among various Local Bodies in charge of the net work on the principles of apportionment recommended by the Babu Paul Committee. As already pointed out in para 11.25, as and when additional PWD roads are transferred to Local bodies, additional funds over and above the aforesaid 25% of the net collection of MV Tax may be transferred to Local Bodies.

TABLE 11.7

MOTOR VEHICLE TAX COLLECTION, VEHICLE TAX COMPENSATION AND VILLAGE ROAD MAINTENANCE GRANT TO LOCAL BODIES

(Rs. in lakhs)

		1993-94	1994-95
1.	Actual Collection	13,323.26	16,490.69
2.	Administration expenses	372.43	443.10
3.	Net collection	12,950.83	16,047.59
4.	Vehicle Tax Compensation disbursed to Local Bodies	2,024.00	2,000.00
5.	% of (4) to (3)	15.63	12.46
6.	VRM to Local Bodies	297.00	298.81
7.	% of (4) & (6) to (3)	17.92	14.33
8.	VRM due but not paid to Local Bodies	378.00	379.00
9.	% of (4), (6) and (8) to (3)	20.84	16.69
10.	25 % of net collection of M.V. Tax	3237.70	4011.90

Note : 1. Administration expenses have been taken from the State Govt's Budget Documents

Source : 1993 & 1994 data compikd by SFC from official sources.

CHAPTER XII

STRENGTHENING THE RESOURCE BASE OF LOCAL BODIES

12.1 The fifth Term of Reference of the State Finance Commission is to recommend measures to improve the financial position of the Pancbayats. While discussing the existing sources of revenue the State Finance Commission has made a number of recommendations for improving the administration and tax yield from those sources. In this Chapter the State Finance Commission has examined possible additional source of income as well as some systemic changes.

12.2 The existing structure of devolution of finances to Local Bodies explained in Chapter IV has shown that Local Bodies in Kerala have a set of exclusive revenue sources such as Building/Property Tax, Profession Tax, Entertainment Tax, Advertisement Tax etc. Almost all the tax instruments recommended by various Expert Commitees as suitable for exploitation by Local Bodies have been placed at the disposal of Local Bodies in the State with the exception of Octroi even before the 1994 Acts. This along with the sharing of Motor Vehicles Tax and grants given by the State Government has imparted a measure of financial strength to Local Bodies. The State Finance Commission has however already pointed out in Chapter TV that the financial pictures of Local Bodies as disclosed by their income and expenditure statements masks a number of deficiencies and inadequacies. There are a number of Local Bodies especially Panchayats whose own income is insufficient to pay even their establishment expenditure. A still larger number falls under the category of "minus fund Panchayats" which means that funds placed at the disposal of Panchayats by Govt for purposes other than meeting house keeping expenses are in fact being used for housekeeping expenses: In

addition there are many Local Bodies including apparently prosperous Municipal Bodies which owe a lot of money to various authorities and are unable to discharge these obligations out of their income. Many owe large payments to Kerala Water Authority, Kerala Urban Development Finance Corporation and Kerala State Rural Development Board. In addition a number of Local Bodies are in arrears in remitting to the designated authorities amounts due by way of remittances of provident fund deducted from salaries of employees, pension and leave salary contribution etc. The end result of all these is that the Local Bodies have very little resources left for a meaningful upgradation of the level of civic services.

12.3 In the light of these considerations as also in the light of the need to improve the existing level of civic services as well as to supplement funds which Government devolves on LBs. for Plan Schemes, there is need to look at ways to augment the resources of LBs by giving them access to additional sources of revenue by way of tax as well as non-tax measures.

Octroi

12.4 Octroi or entry tax imposed on goods brought for consumption in a specified area is a revenue source at the disposal of Local Bodies in about 8 States including Maharashtra and Gujarat. This tax is collected from the transporter at the point of entry of the transport vehicle into the jurisdiction of the Local Body. At the check-post the tax assessment on the goods brought in the vehicle for sale or consumption within the jurisdiction of the Local Body is made and the levy is collected before the good's entry into the Local Body area. This has proved to be a prolific source of income to Local Bodies in the States where it is levied. There has been strong resistance to the continuance of Octroi even in the States where they are existing and

some States, which had this levy have given it up. Many leading economists have cautioned against the distortionary effects of Octroi. The levy is arbitrary and unscientific and has led to rampant corruption, Government of India have also advised the States against the levy of Octroi as it affects, among other things, free flow of goods across State and Local Bodies' boundaries. It leads to wastage of fuel and avoidable idling of transport vehicles because of the detention of transport vehicles at check-posts for the assessment and collection of the tax. Even States which have been levying Octroi are making efforts to give it up and one such example is West Bengal which has given up Octroi because of its deleterious effect on economic development. The State Finance Commission is also of the view that while Octroi may turn out to be a good source of income to the Local Bodies, arguments against its introduction are quite persuasive and strong. Octroi is basically a tax on goods and if the view is that any commodity can suffer additional tax it should be possible to levy a tax on such goods sold in the locality without resorting to the practice of stopping the transport vehicle carrying the goods for collecting the tax.

Bidding Tax Levied by Government

12.5 One of the taxes currently being levied and appropriated by Government which appear eminently suitable for assignment to Local Bodies is the Building Tax levied and collected by Government. This tax is levied under the Kerala Building Tax Act, 1975. Under Section 5 of this Act every building, and whose plinth area is more than 75 sqmtrs. is subjected to a building tax at specified rates on the basis of plinth area. The receipts from the source has in recent years been as follows:

1993 - 94 - Rs. 858.92 lakhs

1994 - 95 - Rs. 695.57 lakhs

Buildings are immovable assets which are ideal tax bases of Local Bodies. The Local Bodies have already a machinery for assessing the building for Building/Property Tax. It is also desirable that the number of agencies levying tax on the same base is restricted to the minimum. Already apart from the Local Bodies and the Revenue Department, a tax is also levied on the same base under the Kerala Construction Workers Welfare Fund Act, 1989. The State Finance Commission would, therefore recommend that the Building Tax currently collected by the State Government may be exclusively assigned to the Village Panchayats and Municipalities who may assess and appropriate the tax leviable under the Kerala Building Tax Act 1975. The income that will accrue to the Local Bodies as a result of this on the basis of 1994-95 revenues will approximately be Rs. 695 lakhs.

Court fee stamps on documents submitted to the Local Bodies

12.6 Local Bodies at all levels receive a number of applications for prescribed licences, permits, etc. as well as a number of petitions on various statutory and non-statutory matters which are required to be affixed with Court Fee Stamps as per the provisions of Kerala Court fees and Suits Valuation Act 1959. The same Court Fee Stamps are prescribed for all petitions before Government and its agencies and the total income by sale of the Court Fee Stamps goes to the State Exchequer. The income from this source was Rs. 289 lakhs in 1991-92, Rs. 640 lakhs in 1992-93 and Rs. 695 lakhs in 1993-94.

12.7 It has not been possible to make an estimate of the relative volumes of petitions, applications, etc. bearing Court Fee Stamps made to Government on the one hand and to Local Bodies on the other. At the time of tendering evidence, representatives of a number of Local Bodies pleaded for a share of this income or a separate Court Fee

Stamp for petitions and applications made to Local Bodies. The State Finance Commission finds justification for Local Bodies getting the benefit of Court Fee Stamps which are required to be affixed to documents filed before the Local Bodies, The revenue from this source is small but the principle behind the demand for revenue sharing is unassailable. Printing a distinct series of Court Fee Stamps for Local Bodies would require lot of changes from the existing system, not commensurate with the expected income from the source. A more practical alternative would be to ear-mark for the Local Bodies a portion of the income derived from this source. For the purpose of this exercise it is assumed that 5% of the total collection is the collection charge and the balance 95% may be distributed equally between Government and Local Bodies. Among the Local Bodies, the amount may be distributed on population basis.

Share of Building exemption fees

12,8 Under the Kerala Building Rules 1984 Government is the authority competent to give exemptions from the Rules to applicants. The Rules empower Government alone to give exemptions and a number of applications for exemptions are made, and are given also. Government have also laid down a scale of fees ranging from Rs.50 to Rs.5000/- to be paid by each applicant while applying for the exemption. The procedure for grant of exemption is mat the application hi the prescribed form is routed through the concerned Local Body, The Local Body has to inspect the site, attest the building plan and clearly identify the points which require relaxation of the Building Rules. After completing mis procedure the application is forwarded to Government which after examining the matter takes a decision. The applicant has to enclose with this application a chalan for the payment of fees prescribed by Government. Many Local Bodies have represented to the Commission that all the field work connected with

the *grant* of exemption is done by the Local Body, and therefore they should legitimately get a share of the fee obtained by the Government for grant of exemption. The income from this source is not substantial and in 1993-94 it was Rs.177 lakhs and in 1994-95, Rs,259 lakhs. Prior to granting exemption all fields work etc. is dose by the Local Body and at present it does not get compensated for is efforts. The State Finance Commission is of the view that it is only fair and just that a portion should go to the concerned Local Body. The Commission recommends that the Local Body should be made eligible for 50% of the building exemption fee. The applicants should remit it direct to the Local Body at the time of applying for exemption and the balance to Government by chalan into the Treasury.

12.9 The fees were fixed in August, 1988 and have not been revised till now. Even if the fees are merely indexed for inflation, there is a case for revision by about 75%. The State Finance Commission would recommend that the scale of fees may be revised and taking into account the fact that the rates may remain unrevised for at least tie next three years, may be increased by 100%.

Library Cess

12.10 The Kerala Public Libraries (Kerala Granthasala Sanganm) Act, 1989 (Section 48) prescribes levy of a library cess as a surcharge on the Building Tax/Property Tax levied by Panchayats and Municipalities it the rate of 5% of the tax. This is collected by the Local Body and remitted to the State Library Council. Although the law relating to the levy of library cess came into force from May 1989, it was only from 1-4-95 that collection of the same was ordered by Government as per Circular No. 15477/C3/95/LAD. dated 20-5-1995. The total collection from Building Tax / Property Tax of all Local Bodies during 1993-94 is Rs. 5006 lakhs (Panchayats Rs. 2249 lakhs, Municipalities Rs. *1334*

lakhs and Corporation Rs. 1423 lakhs) and 5% of it comes to Rs. 250 lakhs. This constitutes a very useful augmentation of the resources of the State Library Council and the network of libraries supported by the Council render a valued service to the community. The objective of the Library Cess is a very laudable one and the need for financial help to the Libraries is not in doubt.

12.11 During the sittings of the State Finance Commission at different Centres in the State, many representatives of Local Bodies have suggested that the practice of Local Bodies collecting a levy and passing it on to a State Level authority may be discontinued. The Local Bodies themselves are short of funds and are dependent upon Government grant and it is somewhat incongruous that they are collecting a levy and passing it on to a State Level authority. This representation was made without detracting from the need of the Library Council for funds. The Commission finds itself in sympathy with the above suggestion. Financial support to the State Library Council should be the responsibility of the State and the present arrangements seek to devolve on Local Bodies a part of the responsibility of State Government of financially supporting the Libraries. It is against the principles of fiscal federalism that a lower unit of Government collects taxes to pass it on to a State Level authority with a view to reducing the financial commitment of the State Government. Local taxes are meant to be used locally and the local Government is accountable to the rate payers for the taxes levied from them. Local Bodies themselves are short of funds for many essential functions and responsibilities. Since this tax has become a part of the tax scenario and therefore may continue to be collected by the Local Bodies and earmarked for improving the infrastructure of the educational institutions under their control. Necessary statutory changes may be made.

Tax on sale of properties

12.12 Daring internal discussions within the Commission as well as during its interaction with the representatives of the Local Bodies and others a proposal to have a levy on sale of property in addition to the stamp duty and surcharge thereon came up. Two alternative suggestions emerged: one to have a betterment levy or tax and the other to have a tax on sale of property. Betterment levy or tax is designed to obtain for the taxing Government a portion) of the increase in value or price which accrues to the owner of the property due to various beneficial steps taken by Government which have had the *effect* of enhancing property values. Increase in property values has taken place throughout the State eventhough the extent of increase differs from place to place. Whenever a property is brought to sale, the State as well as the Local Body even now get share of its price by way of stamp duty on the sale of property and surcharge on stamp duty. According to Section 30 of Kerala Stamp Act, 1959 the incidence of stamp duty can be on the buyer or the seller. As a matter of widespread practice, the incidence, including that of the surcharge, is almost invariably on the buyer of property with the result that the seller of the property does not nominally part with any portion of the consideration received by him by way of stamp duty or surcharge. It can be argued that he also share a part of the levy because the final price arrived at is after taking into consideration the incidence of the levy,

12.13 The sale price an owner receives is the cumulative result of various factors including the demand and supply situation, the improvements he himself has made in the property and the improvements which have been been made in the surroundings by way of roads, street lighting, sanitation, garbage removal* provisions for markets, bus stands, etc. It would therefore be just and appropriate that the civic body claims from the seller of the property a portion of the sale price fee receives.

At present he does not part with any portion of the sale price to the Local Body. By its very nature it is difficult to quantify for each sale the exact incremental value which can be directly attributed to the services provided by the civic bodies.

12.14 Kerala has had not much experience in collecting betterment levies. Attempts were made earlier to collect irrigation cess and betterment contribution from lands which have benefited from irrigation schemes. Section (4) (a) of the Travancore - Cochin Irrigation Act 1956 (No. VII of 1956) empowered a Panchayat with the previous sanction of Government to levy an annual cess on any area benefited by a petty irrigation work (benefiting an area not exceeding five acres). The cess was to be fixed on an average basis to yield a return not exceeding 3% on the capital expenditure incurred by the Panchayat after making provision for depreciation and maintenance. Section 5 of the Act empowered Government to levy a cess on lands benefiting from minor irrigation schemes and Section 17 a betterment contribution from holders of land benefiting from a major irrigation scheme. The Malabar Irrigation Works (Construction and Levy of Cess) Act of 1947 also permitted the levy of irrigation cess from benefited lands. The levy of betterment contribution by Government under the Travancore-Cochin Irrigation Act, 1956 met with a lot of opposition, arising mainly because of the unscientific nature of assessment, the disputed nexus between the irrigation scheme and the actual benefit, the huge arrears which were allowed to accumulate and the natural resistance to payment of any levy. So far as Panchayats are concerned hardly any Panchayat levied the cess on lands benefited by petty irrigation works. At present a Bill (The Kerala Irrigation Bill 1994) is under consideration of the Legislature in which there are provisions for collecting irrigation cess in respect of irrigation works, betterment levy on lands notified under clause (8) of the Bill and betterment

contribution in respect of major irrigation schemes. This envisages an assessment of the increase to the value of the benefited land and the collection of betterment levy from the owner in 24 annual installments.

12.15 Eventhough the concept the betterment levy or tax levied by Local Bodies to mop up a part of increase in the value of property value attributable to civic services rendered by them is attractive, there are possible difficulties in actual implementation of such a levy. One major difficulty which is of a conceptual nature is that the extent of betterment cannot be assumed to be uniformly spread over the entire area of the Local Body and any uniform advalorem levy attributable to betterment would draw legitimate criticism on this account. It is, of course possible, though difficult, to make individual determination of benefits derived from each property and levy a tax on this basis. The process however will be time consuming and cumbersome. Unlike in the case of an Irrigation Scheme the betterment to a property flows from a package of services rendered by the Local Body. Such a measure is also likely to encounter the difficulties of similar earlier measures arising from the fact that collection from the rate payer will not coincide with the generation of income and therefore is likely to be resisted.

12.16 The Naha commission (1985) had recommended the levy of a tax on sale of land. The Commission observed that large number of land transactions by sale or otherwise are going on in the State every year and proposed the levy of a tax on transfer of land at the rate of Rs. 5 per cent (or Rs. 500 per acre.) Naha Commission had estimated that at the rate of Rs. 5 per cent the additional income of Rs. 25 lakh per year will result. The arguments for mopping up a portion of the sale price received by the seller of property are quite strong. The sale price realised by the seller represents an ability to pay and the Local Body will be justified in mopping up a small portion of it. The State Finance

Commission recommend that District Panchayats may be empowered lo levy a tax on the sale price of all immovable properties within the District where the price is Rs. 25000/- or more at the rate of 1%. The decision whether to levy the tax or not may be left to the District Panchayat and if it decides to levy it, the Registration Department should collect it from the entire District including areas coming under Urban Local Bodies. 3% of collection may be retained by Government as collection charges. The State Finance Commission is of the view that a beginning should be made by empowering District Panchayats with taxation powers. In assessing the need for resources they should take into account the sources available to them without routinely asking State Government for additional funds. The State Finance Commission has attempted to make a beginning in the process of eliminating the tax impotence of District & Block Panchayats and replacing it by tax competence by recommending that two new resource mobilisation measures viz., the tax on sale of land and doubling of the rate of Basic Tax should be left to the District Panchayat to decide. But we would also sound a word of caution against District Panchayat following the soft option of not exploiting the revenue avenues because we also recommend that the quantum of grant from Government may also be regulated taking into account their presumptive income.

12.17 The revenue realised from Urban Local Bodies in the District may be given to them as a statutory grant on the basis of collection from their respective areas. The revenue from the rural areas of the District may be divided in equal proportion between the District Panchayat and Block Panchayats. The interese distribution among Block Panchayats may be in proportion to the population of each Block Panchayat to the 1991 population of the District.

Tax on operators of Cable Television

12.18 Entertainment tax under the existing legislation is payable by exhibitors of cinemas and the other establishments staging plays, circus, etc. When the Kerala Local Authorities Entertainment Tax Act, 1961 was formulated, entertainment provided at households or establishments through cable televison did not exist. In recent years, especially the last 5 years, this mode has assumed importance as a source of entertainment. Many States have initiated separate legislation or amended the existing ones relating to Entertainment Tax to levy a tax on operators providing entertainment through cable television. Some States also bring within the purview of such legislation, video parlous where customers pay entrance or admission fee for watching a video film or for participating in video games. In Kerala so far this category is not subject to any tax. There is no doubt that the above mode provides entertainment or amusement and they represent a dimunition of the potential of entertainment tax realisable from cinema operators.

12.19 The Tamil Nadu Government by Act 37 of 1994 amended the Tamil Nadu Entertainment Tax Act, 1939 requiring operators of cable television to pay registration fee as well as a 40% tax on the amount collected by way of fees etc. from their customers. The amendment of the Act and Rules made there under took effect from 1-9-1994, Maharashtra Government have enacted the Bombay Entertainment Duty (Amendment Act) 1993 effective from 25-12-1992 bringing within the purview of Entertainment Tax exhibition of cinematography through video. In addition, a tax is leviable at 25% of the total payment made by a customer to the cable operator. A 10% surcharge is also levied on the tax so levied. In addition to the above two States it is reported that taxes on Cable operators are being levied by West Bengal, Uttar Pradesh and Karnataka.

Proprietors of cable television, video parlours and video games derive income from providing the service besides providing amusement and entertainment to the public. Cinema exhibitors who are in a similar position are liable for entertainment tax. There is no compelling or sound reason why the former should be exempted from a similar tax. In Kerala video parlours and video games may not be as popular or prevalent as in some other States but their emergence as mode of entertainment on a more extensive scale cannot be ruled out. Cable television has made a good start in Kerala and it is likely to register further expansion in the years to come. This mode of entertainment may be subjected to Entertainment Tax to be levied and appropriated by Local Bodies on the following lines;

i) Cable television operators may be required to pay annual licence fee at a minimum of Rs, 500 or at the rate of Rs. 5 per connection whichever is higher.

ii) In addition, cable TV operators and proprietors of video parlours and video games may be made liable to Entertainment Tax @ 20% of the payment made by a customer in Municipal Corporation, 15% in Municipalities and 10% in Panchayats. While calculating the percentage the total monthly payment made of any description whatsoever may be taken into account.

Taxation of Government Properties:

12.21 Article 285 of the Constitution states as follows:

i) The property of the Union shall, save in so far as Parliament may by law otherwise provide, be exempt from all taxes imposed by a State or by any authority within a State.

ii) Nothing in clause (1) shall, until Parliament by law otherwise provides, prevent any authority within a State from levying any tax

on any property to which such property was immediately before the commencement of this Constitution liable or treated as liable, so long as that tax continues to be levied in that State.

The Kerala Panchayat Raj Act, 1994 and Kerala Municipalities Act, 1994 do not provide for any exemption for State Government properties. The State Government however is empowered to exempt any particular building or category of Government buildings from the purview of Buildings/Property Tax. The Local Bodies have been levying Property Tax/Building Tax on State Government properties. This power to exempt has not been exercised by Government to give any wide ranging exemptions. Even though Central Government properties are exempt from taxes levied by Local Bodies, Central Government have recognised that payments will have to be made for specific services rendered by the local authorities. The Ministry of Finance in their letter No. 4(7)P/65 dated 29-3-1967 has stipulated that the service charges shall be calculated in the following manner;

i) In respect of isolated Central Government properties where al] services are availed of by the Central Government in the same manner as in respect of private properties, the Central Government will pay service charges equivalent to 75% of the Property tax realised from private individuals.

ii) *In* the case of large and compact colonies which are self-sufficient with regard to services or where some of the services are being provided by the Central Government Department themselves the service charges will be calculated in the following manner:

(a) In the case of colonies which do not directly avail of civic services within the area and are self-sufficient in all respects, the payment of service charges will be restricted to $33V_3$% of the normal rate of Property Tax applicable to private properties.

(b) In respect of colonies where only a partial we of the services is made, service charges will be paid at 50% of the normal property rate.

(c) In respect of colonies where ail the services normally provided by the Municipal Body to the residents of other areas within its limits ate being availed of, service charges will be paid at 75% of the Property Tax rate realised from private individuals.

In Municipalities in Kerala service charges are not separately levied but are part of consolidated House or Property Tax. Government of India have issued certain instructions regarding the calculation of service taxes in respect of such cases. The Railways have issued a set of separate instructions regulating payment of service taxes by levied Local Bodies.

12.22 In respect of Central Public Sector Undertakings under the Companies Act there is no exemption from Municipal taxation and they are to be treated on a par with other assesses. Some statutory bodies such as the Airport Authority, Port Trusts, etc. have been claiming exemption from taxation on the ground that they are owned by Central Government. In a recent decision of the Supreme Court reported in newspaper in August *1995,* it has been held that the International Airport Authority of India cannot claim immunity from Municipal Taxation under Article-285 (1) of the constitution of India.

12.23 The Local Bodies have long been demanding that the Union properties should be brought under the purview of Municipal taxation. With the growth in Government activities many Government departments have a distinct commercial bias and earn a lot of revenue. In pursuance of the recommendation of the Central Council of Local Government and Urban Development at its 25th meeting held at New Delhi on 7-5-94 the Ministry of Urban Development has constituted in November

1994 a Working Group consisting of representatives of concerned Union Ministries, some State Governments and Municipalities with a view to examine toe issue in its entirety and make recommendations for Government's consideration within *6* months. The Report of the Working Group is awaited and it is hoped that the Working Group will suggest suitable legislative measures in order to make Central Government properties also liable for Municipal taxation. Under the Panchayat Raj legislation the Local Bodies have been given new responsibilities. *In almost* all Local Bodies Building Tax/Property Tax is the most important source of income. When the need of the hour is to strengthen the finances of Local Bodies, the perpetuation of the exemption given to Central Government properties will be out of step with the spirit and purpose of the 73rd and 74th Constitutional amendments. The State Finance Commission strongly recommend that Central Government properties should be liable for Building Tax/ Property Tax by Local Bodies with a proviso that Central Government may exempt any specified class of building. This is however a matter which requires an amendment of the Constitution or the enactment of Central act and the State Finance Commission hopes that the Central Government would process the recommendation of the Working group expeditiously. In the meanwhile, the practices followed by Local Bodies in the State are not uniform. The State Government may issue consolidated instructions to Local Bodies embodying the current instructions of Government of India and judicial pronouncements on the subject.

Economy in Establishment and Administrative Expenditure

12.24 A major area of concern is the galloping increases in the establishment and administrative expenditure of the Local Bodies. Annexures XII.I & Xn.2 give the broad break up of the total expenditure incurred by Local Bodies on various items and they show that establishment

expenditure has been on the average, p-owing at 14.01% during 1990-91 to 93-94. In Panchayat, the average annual rate of growth was 9.36%, in Municipal Council 15.07% and in Corporation 34.19%. In 1993-94, it absorbed nearly 40% of the own income of Panchayats. 50.5% of the Municipalities and 32,5% of the Corporations. The Panchayat Raj Legislation of 1994 has created 2 new tiers of Panchayats and the additional expenditure on their Establishment and Administration has been estimated in Table 12.1 at Rs. 911.62 lakhs.

TABLE 12.1 AVERAGE ANNUAL

EXPENDITURE FOR BLOCK i DISTRICT PANCHAYATS

	Block Panchayats (132) Rs.	District Pancbayats 04) Rs.
Salary of Staff	3,40,78,400	1,28,87,000
Allowances to Elected functionaries	1,65,96,000	41,88,000
Sitting fee	32,5,820	7,20,000
T.A. to elected functionaries	33,74,400	9,24,000
T.A. to office staff including Secretary	18,24,000	8,40,000
Office Expenses	54,72,000	70,00,000
Total	6,46,03,040	2,65,59,000

The staff of Block Panchayat, and to some extent of District Panchayat has been found by redeployment from elsewhere and therefore should not represent net additional expenditure for Government. But there are other elements in the establishment expenditure which are additionalilies, besides non-recurring expenditure on office building, equipment, vehicles, etc.

12.25 The single largest item under Establishment and Administration is staff salaries. Kerala has developed a system of having a state cadre for different levels of bureaucracy in the Local Bodies and of centralised recruitment by Public Service Commission right down to the level of Class IV employees like peons and sweepers. The scale of staff which a Local Body can employ is also laid down by the State Govt. The terms of service such as pay and allowances, annual

increments etc. are therefore uniform and any revision of salaries or allowances such as D.A. made for Government servants is automatically applicable to staff in Local Bodies also. The State Govt. in turn regularly revise D.A, rates in tune with D.A. revision made by Central Govt. The establishment expenditure of Local Bodies therefore *has* an in-built momentum to *increase* without any linkage with their increase in income or financial position. A large part of the expenditure incurred on different items other than establishment is also on salaries. Examples of these are Public Works and Public Health,

12.26 The trend in expenditure as disclosed in Table 4.9 shows that while the expenditure on establishment and administration has increased in absolute terms, as a per centage of total own income, it has not increased. In 1993-94 it was 39.94% of own income of Panchayats and 43.03% of Municipalities. This of course is due to the rate of increase *in* total income being higher than in expenditure on establishment and administration, But this picture is not entirely correct as many Local Bodies are in arrears in remitting Provident Fund, Pension and leave salary contributions and some have even not paid to the staff a part or whole of arrears of pay. Therefore the increase in establishment and administration expenses both in absolute terms as well as a proportion of income is bound to be higher than shown in Table 4,9.

12.27 The need for achieving maximum economy in establishment and administration expenses cannot be over-emphasised. Even in a situation with an in built momentum for increase, economy should be possible, eventhough the scope may be limited. The following avenues seem to offer scope for economy:

(i) There is at present a basic staff pattern for Local Bodies prescribed by Govt., This has set like yesterday's concrete and is followed

routinely in Local Bodies irrespective of whether individual Local Bodies can make do with less. Freedom should be given to Local Bodies to employ less than !he prescribed scale and the staff rendered surplus should be with drawn from the Local Body arid kept in a reserve pool under the Head of the Department and paid for by Government funds till they are posted elsewhere. The decision to make do with less than the prescribed scale, once taken by a Local Body should be revokable only after the expiry of 3 years.

ii) The option of privitisation of selected services by Local Bodies should be actively explored and adopted wherever possible. Local Bodies in Gujarat and Maharashtra, among others, have made commendable progress m this respect. Kochi Corporation has made a beginning in respect of garbage collection and disposal, maintenance of public gardens etc., This is an experiment which can be emulated with profit by other Local Bodies including Panchayats. There may be initial problems arising from the difficulty of redeploying existing staff recruited for or committed to activities chosen for privatisation but as the experience of Kochi Corporation shows, they need not be insurmountable. In Kochi Corporation solid waste collection, transporting and disposal have been privatised in selected localities. Corporation's workers who were engaged in these localities before privatisation were diverted to other areas of the city where either no service or partial services were being rendered. This experiment is relatively of recent origin but so far has been a success in improving the delivery of services and in reducing the cost of delivery. As per data obtained from the Corporation, garbage handling capacity of the vehicle has gone up from 7.5 m3/day to 57 m3/day. The cost of transportation was Rs. 133/day per cubic metre before privatisation, but it has come down

to Rs.4l per cubic metre. The collection and transportation of waste has gone up from 150 tons to 280 tons a day. There is overall economy in operation as the cost has come down from Rs.315Aon/day *in* departmental operation to Rs.205/ton/day by privatisation. The contractor are at liberty to use their own vehicles as well as hire Corporation's departmental vehicles, so besides avoiding vehicle idling the rent received for the vehicles forms an additional income. Is the new set up the waste is handled only once as it is directly lifted from the bin to the vehicle without manual loading and unloading. Prior to the implementation of the new system the system in practice was open storage, manual collection and transportation in open slow moving trucks or tractors. The new garbage vehicles can transport larger volumes of waste compared to departmental trucks and tractors. Besides reducing the operating cost it reduces pollution also. On a comparative analysis of actual expenses for a year before and after privatisation it is reported that operational expenditure/maintenance cost of vehicles including salary of staff, etc. before privatisation was Rs.172 lakhs and after privatisation it has come down to Rs. 112 lakhs.

Unique Premises Numbering system

12.28 The first and foremost tasks of the Local Bodies or, of any taxing authority for that matter, is to ensure that all those liable to pay taxes actually do so. But no systematic tax mapping has been done by Local Bodies and where some sporadic efforts have been made in this direction, no systemic changes have been made to prevent and reduce the incidence of tax evasion. *A* survey by the Times Research Foundation in Calcutta discovered that 34% of factories in Calcutta registered under the Factories Act did not figure in the Municipal Assessment Registers and in a survey of 16537 premises mentioned

in the records of the Corporation's licensing department showed that only about 9000 were assessed for property tax. In its recommendations to the Ministry of Urban Development (as it then was) the Times Research Foundation recommended that a Unique Premises Number may be assigned to each premise and this should be used for statutory, regulatory and revenue records by the Local Bodies as well as all Government agencies. They had recommended a 16 digit code for exhibiting relevant information such as the ward number, street number, premises number, sub-premises number and use code. Once a comprehensive tax mapping is completed and Unique Premises Numbers (UPN) assigned, the concerned agencies can share the computerised information and identify the entries from their records without resorting to field surveys. For example an application for a D&O license would contain the UPN and the Local Body can check up whether he is assessed to property tax, service tax, profession tax, etc. A systematic tax mapping followed by a permanent identification number given to each premise would assist different wings of the Local Body in preventing evasion and it should be of great help to Government Departments dealing with Sales Tax, Factories Act, Industrial Registration etc. and for agencies such as the Kerala State Electricity Board, Kerala Water Authority, etc. The success of the Scheme would depend upon the effort taken by the Local Bodies in doing the systematic mapping and upon the degree to which various agencies insist upon their clients quoting the Unique Premises Numbering in all applications and correspondence.

12.29 The State Finance Commission recommends that all Local Bodies conduct a systematic tax mapping followed by assigning Unique Premises Number to each Premise which will be Unique Permanent Number. An expert group may be constituted by Government to devise a Unique Premises Number System for Local Bodies in Kerala.

The cost of tax mapping may be met by a Centrally Sponsored Scheme and computerisation of the data in Urban Local Bodies may form part of the scheme. For Panchayats, it may be 100% C.S.S. and for Corporation and Municipalities 50% of the cost may be met by Centre and 50% by the Local Bodies, There are 55,13,200 households in the State as per the 1991 census out of which 41,02,167 are in rural areas and 14,11,033 in urban areas. The fee payable to investigators who would do the tax mapping may be fixed at Rs.2 per household and this work out to Rs.28.22 lakhs in Urban Local Bodies and Rs.82.04 lakhs in Rural Local Bodies. 5% of the above cost may be added for the cost of printing stationery etc. and 10% for training of the enumerators and for administrative expenses. The total cost including the cost of computer hardware and software is estimated at about Rs.300 lakhs. The details are at Table 12.2.

TABLE 12.2

COST OF UNIQUE PREMISES NUMBERING SYSTEM

	Total cost	**To be borne by Govt.** of India (50% for **Urban** 100% for Rural LBs)
		Rs. in lakhs
A. Urban Local Bodies		
(i) Cost of enumerating 1411033 households in Urban Local Bodies	28.22	14.11
(ii) Cost of Stationery etc.@ 5%	1.41	0.70
(iii) Training & Administration @ 10%	2.82	1.41
B.Rural Local Bodies		
(i) Computerisation of data	171.00	85.50
(ii) Cost of enumerating households in Rural 41,02,167		

Local Bodies	82.04	82.04
(iii) Cost of stationery @ 5%	4.10	2.05
(iv) Training & Administration @ 10%	8.20	8.20
Total	297.79	194.01

Restructuring of the format for budget & accounts

1230 Section 214 of the K.P.R.Act, 1994 deals with presentation and sanction of the budget of the Panchayat. The corresponding sections for the Municipalities and Corporations are section 285 to 293 of the K.M.Act, 1994. The annual accounts of panchayats shall be prepared in the Annual Financial Statement[1] (form No.II) and the 'Annual Demand and collection statement' (Form No.III) prescribed under the K.P. (Accounts) Rules 1965 and got approved by the Panchayat not later than the first day of June following the accounting year. The details regarding assets and liabilities at the end of each financial year are also furnished as part of the Annual Financial Statement. The procedure of compilation of accounts with regard to the Municipalities and Corporations is also similar.

12.31 As per Section 78 of the KP Act, 1960 it was the duty of the Secretary to prepare the annual budget of every panchayat in the manner prescribed under the K-P.(Budget) Rules, 1963. The budget estimate so prepared had to be forwarded to the respective District Panchayat officer for scrutiny and the District Panchayat Officer had to return it to the Executive Authority with his observations regarding the modifications to be made therein. The panchayat has to consider those observations and pass the budget with such modifications as the Panchayat may deem fit. But under the new KPR Act, 1994 scrutiny of budget estimate by any departmental authority is not contemplated

and the Panchayat Council is fully empowered to pass its budget without prior approval of the department.

12.32 So far as the Municipality/Corporation is concerned the Secretary, as per Section 285 of the KMA 1994, shall prepare and submit to the Standing Committee a budget containing a detailed estimate of income and expenditure for the ensuing year, and, if it, is in his opinion, necessary or expedient to vary taxation or to raise loans, shall submit his proposals also in regard thereto. The Standing Committee shall consider the estimates and proposals of the Secretary and having regard to all the requirements of the Act frame a budget estimate of the income and expenditure of the council. The Budget estimate prepared by the Standing Committee shall be laid before the Council. The Council may refer the budget estimate back to the Standing Committee for further consideration and resubmission within a specified time or adopt the budget estimate, either as it stands, or subject it to such alteration as it deems expedient. If the Standing Committee fails to frame the budget within the time limit prescribed under the Act, the Chairman shall arrange to place before the Council the budget estimate prepared by the Secretary, and the Council is bound to pass the budget estimate prepared by the Secretary with or without modification before the beginning of the

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ensuing financial year. The working balance should not be less than 5% of the estimated receipts excluding receipts from endowments, government grant, contribution and debt accounts, as in the case of Panchayats. As per Section 145 of the K.M.Act, 1960 Government had the authority to direct a Council to modify their estimates to be in keeping with the provisions of the Act or on grounds if any excessive or inadequate appropriations for any of the items in the budget. The K.M. Act, 1994 does not contain any similar provision.

1233 Budget is an estimate of income and expenditure for a year prepared some time in the 3rd quarter of the preceding year and approved in the last quarter. There is a statutory compulsion for the Local Bodies to show a working balance in the budget of not less than 5% of the estimated receipts excluding receipts from endowments, Govt. grants and loans. The Local Bodies, perhaps imitating their big brothers in the hierarchy want to show big budgets and include in them items not adequately covered by a reasonable estimation of resource availability and in order to accommodate this, show exaggerated receipts from various sources which will show a surplus as statutorily required. The actuals especially on the receipt side would in such circumstances would be quite short of the budget estimates. It is difficult to device an institutional arrangement by which this tendency can be discouraged. But one useful step can be to insist that if during the course of the year where actuals on foe receipt or expenditure side are likely to vary from estimates by a specified margin say, 25%, a revised estimate should be presented to the Council for approval not later than by the end of the third quarter of the financial year.

12.34 At the time of the preparation and presentation of the budget, the preceding year's annual accounts, audited or unaudited, should be available. We have noticed that many Local Bodies have substantial liabilities by way of payment of pension contribution, leave salary contribution, P.P. contribution, arrears of salary and allowances, arrears payable to K..WA and overdue payments to financial institutions by way of principal and interest or outstanding court decrees. Similarly the other side of the coin is that there are receivables on account of grants due from state Government arrears of taxes, overdue payment of rent for Panchayat properties, etc. The Budget document should have an Explanatory memorandum listing out these liabilities and receivables and also explaining wherever necessary why

full provision is not being made for obligatory payments. This will hopefully enable the Local Body to become pointedly aware of the liabilities and receivables and take an informed decision on the deployment of available income. Similarly a statement showing rates of taxes, fees etc. that have remained unrevised may also be ac obligatory document circulated to members along with the Budget.

1235 For the presentation of annual accounts, Government have prescribed different formats for Panchayats and Municipalities. It is found that even though the form lists out most of the items to be covered, in actual practice either some items which ought to be shown separately are grouped together and/or all relevent details are not given. For example, one item which is required to be exhibited is tax arrears, but there is no provision for showing separately arrears under different taxes or classification of arrears by age. No attempt is required to be nude to identify arrears considered uncollectable. On the side of receivables also similar lack of information is inbuilt in the currently prescribed form for accounts. The objective of both the Budget and Annual Accounts should be to give the Council, a true and detailed picture of the finances,

1236 Another aspect that needs serious consideration is whether Local Bodies who are borrowing money from Government/institutions should create a sinking mad in order to finance the repayment of the loans. Similarly serious thought should be given to whether Local Bodies should create a depreciation reserve so that the replacement of assets which are inevitable are at least partly financed out of the depreciation reserve itself

12.37 The SFC in the foregoing paragraphs has raised certain issues which require farther consideration by experts conversant with the subject of budget formulation and accounting- The SFC would therefore

suggest that Government may appoint a small expert group which will go into the whole question of the format of budget and accounts and other related questions such as the need for a sinking fond, depreciation reserve etc. In the light of the recommendations of the Expert Group and in consultation with the representatives of the Local Bodies a final decision can be taken.

System of Audit

12.38 The audit of the Local Bodies is conducted by the Director of Local Fund Audi who is also in charge of the audit of many other autonomous bodies such as Charitable Societies, Dewaswom Board, Universities, etc. It is understood that about 60% of the workload of the Director of Local Fund Audit arises from Local Bodies. The system of concurrent audit exists in the 3 Municipal Corporations and in 11 Municipal Councils. Local Bodies pay to the Director of Local Fund Audit an audit fee at 0.75% of their net receipts. The audit of the Local Bodies is heavily in arrears. The position regarding pendency of audit is given in Tablel2.3

TABLE : 12.3

PENDENCY IN AUDIT OF LOCAL BODIES

	1990-91	1991- -92	1992-93	1993-94	1994-95
	(% of	Local Bodies	in which audit is pending)		
Panchayats	15.3%	15.3%	49.7%	71.8%	98.4%
Municipal Council	70.4%	83.3%	96.3%	100%	100%
Municipal Corporation	66.6%	100%	100%	100%	100%

Source : DLFA

The Table should not imply that there are no pending audits pertaining to the pre-1990-91 period, on the contrary there are a number of such cases going back to the 1970s.

The reason for pendency in audit is stated to be the non-receipt of annual accounts and DCB statements for various years from the Local Bodies in the tine limit prescribed. The inordinate delay in conducting the audit of accounts defeats the very purpose of audit.

12.39 SFC recommend that Government should review the whole arrangements for auditing and accounting of Local Bodies. The existing organisation of Director of Local Fund Audit should be strengthened with the addition of professionals and Local Bodies could also be selectively permitted to use outside agencies for performing the audit function. There may also be need for changing the whole system of accounts of some of the Local Bodies especially the Corporations and major Municipalities if they want to tap resources from the open market. So far the raising of funds have been relatively easy because they were confined to borrowing from Government, Semi Government institutions and through bonds and debentures, ail guaranteed by the State Government. These circumstances cannot be assumed as eternal and LBs should take note of the changes taking place in the debt market. In future, LBs who want to raise finds from the market may have to obtain credit ratings from independent agencies and may have to depend on their own strength without the crutch of Government guarantees. This will be facilitated only if the system of accounting is in confirmity with the commercial system of accounting and the audit function is performed by professionally qualified auditors, SFC suggest that this subject also may be remitted to the Expert Group recommended in para 12.37 above.

Fund for Local Development

12.40 We have in this Chapter discussed a number of measures for strengthening the resource base of Local Bodies. Despite the augmentation of resources that would result from these measures, the

Local Bodies will still be in need of long term capital for investment in various sectors dealing with civic services. Many of the needed projects covering garbage disposal, drainage, water supply, etc. are essentially non-remunerative. But, at the same time they require considerable inputs of capital. It is, therefore desirable that some thought is given to the building up of a Fund which will help Local Bodies to make the necessary investments. Such a Fund will necessarily have to come from a combination of different sources including Local Bodies themselves, State Government, Central Government and Financial Institutions and the market. The investment efforts may also attract the participation of international lending and donor agencies either directly or through intermediaries The State Finance Commission is of the view that a fund should be built up which can be used for leveraging funds and for subsidising the interest rate on non-remunerative but desirable schemes to strengthen civic infrastructure. This Fund which may be called the Fund for Local Development may be constituted from contributions from the following sources;

i) From the Funds coming from the Tenth Finance Commission's recommendation, 1 % may be set apart each year. This will amount to Rs.51.06 lakhs per year or Rs.204.25 lakhs during the 4 year period from 1996-97 onwards.

ii) From the Urban Pool and Rural Pool recommended in Chapter X, 1% may be set apart for the Fund, This is estimated to yield Rs.43.74 lakhs in a year.

iii) The 3 Municipal Corporations are not participating in the Urban Pool for reasons mentioned in Chapter X. 1% of the surcharge on stamp duty and 1% of the non-statutory non-plan grants payable to them may be credited to the Fund. This may amount to Rs. 10.88 lakhs.

iv) 1% of the own income of all Local Bodies (i.e., total income minus Government grants of all descriptions and borrowings) may be contributed to the Fund, This is estimated to yield Rs.135.70 lakhs at 1993-94 level of income.

12.41 Initially there will be no contributions from the District and Block Panchayats. In order to become eligible for benefits from the Fund, they will have to contribute annually to it. How this can be made possible may be reviewed after some time when a clearer picture would emerge regarding the revenue sources of these Panchayts,

12.42 The annual corpus of the Fund will be about Rs.241 lakhs at 1993-94 level of income. With the buoyancy in revenues of State and Local Bodies, the annual corpus for from 1996-97 is likely to be about Rs.4 crores per year, yielding a minimum of Rs.20 crores over a 5 year period. With prudent management the corpus could double itself every five years.

The main purposes of the Fund are:

(a) to leverage funds front the market and

(b) to offer a scheme of interest subsidy on desirable but non-remunerative schemes.

12.43 It will take some time before the Fund will grow into a significant size and it is being suggested as a long term measure. The Fund should be allowed to grow into a sizeable amount of say Rs.25 crores, before any drawal should be permitted. Government should, in consultation with the Local Bodies, clearly formulate the purposes for which the Fund can be used. They should give the Fund a statutory status and should have the farsightedness to see the Fund as a long term financing instrument. The Fund will succeed in its objective only if Government is committed to insulate it from populist measures. They should allow the Fund to be administered in a professional manner by a competent Financial Institution of all India standing.

CHAPTER XIH

WATER SUPPLY & STREET LIGHTING

13.1 The Kerala Water Authority (KWA) is a statutory body established under the Kerala Water Supply and Sewerage Act. 1986 (Act 14 of 1986) for the development and regulation of water supply and waste water collection and disposal in the State. Its waste water disposal activity is still in its infancy and is undertaken at present even partially only in the Thiruvananthapuram and Kochi Municipal Corporations. Their role in providing drinking water is much more extensive, covering as it does as on 31..03..1993, all areas except 95 Panchayats. The position is reported to have improved since 31..03.. 1993. Individual consumers are served and billed directly by Kerala Water Authority except in Thrissur Municipality where the Municipality is the bulk consumer. Otherwise the responsibility of Local Bodies with regard to drinking water in the State is a limited one confined mainly to providing street taps which constitute 17% of all connections given by Kerala Water Authority as on 1.4.1995.

TABLE 13.1

CATEGORY OF CONSUMERS OF KWA

Category of Consumer	Number as on 1-4-1995	% to total connection in the State
I. D Domestic connection	532561	
2} Non-domestic private connection	50610	
	849	
Industrial connections		
3) Sub Total	584020	82.80%
n. D Street taps in Panchayats	86725	
2) Street taps in Municipalities & Corporations	34335	
Sub Total	121060	17.20%
Grand Total	705080	100%

13.2 The Kerala Water Authority levies an annual charge, fixed in 1991, of Rs.1314 per street tap in Municipalities and Rs.875 in Panchayats. The supply of water is assumed at a rate of 5 litres per minute for 12 hours in Municipalities and 8 hours in Panchayats and is billed at Re. 1 per Kilo litre. The annual demand comes to Rs.1199 lakhs (Rs.748 lakhs for Panchayats and Rs.451 lakhs for Municipalities). The Kerala Water Authority had estimated the cost at Rs.3.86 per Kilo litres even in 1991 while the rate fixed by Government was Re.l. The costs have since gone up further and is currently estimated by Kerala Water Authority at about Rs.6 per Kilo litre. But Kerala Water Authority is not charging the above rates or anything near it to domestic consumers,

13.3 The Kerala Water Authority and the Local Bodies have a lot of grievances against each other. There are huge arrears which the Local Bodies - both urban and rural - owe to Kerala Water Authority and the Local Bodies complain of poor level of service including non-maintenance of the taps, use of sub-standard materials while replacing parts, inadequacy or even absence- of water through the taps for prolonged periods etc. Some Local Bodies even dispute the number of taps for which they are billed. According to Kerala Water Authority the total arrears payable to the Kerala Water Authority by Local Bodies as on 1.4.1995 has reached a staggering Rs.97.09 crores.

13.4 The above arrears have been building up over the past 15 years or so and dates back to the pre KWA days as may be seen from Table 13.2.

TABLE 13.2

ARE EARS DUE TO KERALA WATER AUTHORITY FROM LOCAL BODIES

(Ks. in lakhs)

		Arrears as on 1-4-1984	Arrears in the period l-4-'84 to 31-3-1991	Arrears as on 1-4-1995
1	Municipal Corporations	741,85	1304.40	2224
2	Municipal Councils	860,68	1407.36	2547
3.	Panehayats	583.65	3668.58	4938
	Total	2186.18	63S0.34	9709

1.3.5. The payments made voluntarily by Local Bodies is insignificant and whatever little payment made, is by way of Government adjusting a part of the grant-in-aid payable by it to the Local Bodies. This adjustment of Government grant towards arrears owed by Local Bodies to K.W.A. has been permitted in G.O.(MS)No.l88/94/LAD dt.2.8.1994 and has started from 1994-95.

TABLE 13.3

PAYMENT TO KWA BY LOCAL BODIES

(Ks. in lakhs)

	1993-94		1994-95	
	Paid directly	By adjustment from Govt. grants	Paid directly	By adjustment from Govt. Grants
Corporations	Nil	Nil	Nil	72
Municipalities	19	Nil	82	150
Panchayats	74	Nil	160	447
Total	93	Nil	242	669

13.6 KWA is a statutory body whose ability to provide services is determined to a great extent by their ability to recover at least the cost of operations and maintenance. The huge arrears owed by Local Bodies has a crippling effect on the ability of KWA to maintain its services at satisfactory levels and the reluctance or inability of Local

Bodies, to pay the dues to KWA will prove to be self-defeating. A? the same time, the complaint of the Local Bodies that the availability of water through the taps is far from satisfactory is also valid. Whatever be the reason or justification for the accumulation of arrears, it will not be realistic to expect the Local Bodies to liquidate the arrears as well as meet the current payment obligations. Therefore it *is* necessary to work out a suitable arrangement by which this problem can be tackled.

13.7 The annual payment for a tap is Rs. 1314 in an urban local body and Rs.875 in Panchayat Assuming that about 40 families benefit from a tap and assuming that the cost is equally shared by beneficiaries, the incidence of this would come to Rs.32.85 per family per year or Rs.2.75 per month in the urban Local Bodies. In rural Local Bodies the share per benefited family would be Rs.2LS8 and the monthly incidence Rs.i.80. Admittedly the beneficiaries are the poorer sections in the community but at the same time it will be incorrect to assume that they are bereft of any capacity to meet at least a part of the user charges. In a pilot scheme an experimental scheme of constituting a beneficiaries Committee and for making the payment on a shared basis by the beneficiaries is underway. The main difficulty in collecting the amount from the beneficiaries would be not so much their inability to pay the small amounts involved but the cost involved in making the collection of relatively small amounts. Many of the beneficiaries do not come within the tax net of local bodies as their houses do not pay property tax or the residents any profession tax. Some efforts however are required to meet at least a portion of the water charges from user charges collected from the beneficiaries. This assumes importance *in* view also of the fact that the current level of Re. I/- per kilo litre fixed in 1991 is obviously a highly subsidised rate, even assuming that the assumed supply of 5 litres per minute for 12 hours in an urban Local Body and for 8 hours in the Panchayat

is not forthcoming and therefore the effective rate is higher than the prescribed charge of Re. 1. With increasing cost of various inputs the rate fixed by KWA in 1991 may not hold good for ions: and any revision of the rate without an element of increase in user charges will worsen the financial position of Local Bodies.

13.8 Even though the incidence of water charges per benefited family is small there are obvious difficulties in devising a cost effective method of collecting it from beneficiaries. A possible alternative would be to tag the water charges along with some other levy. An obvious candidate for this is the House Tax/Property Tax. In the Kerala Panchayat Raj Act, 1994 Section 203 empowers the Panchayats to levy a tax on buildings, subject to a maximum of 10% and a minimum of 6%. The building tax is a general levy and is not ear marked even nationally for any particular purpose. Section 200(2) of K.P.R.Act, 1994 empowers Panchayats to levy a service charge not exceeding prescribed rates for sanitation, water supply, scavenging, street lighting and drainage wherever such services are provided by the Village Panchayat. From a reading of Section 200 it is clear that service tax is an independent tax instrument which stand by itself without being an adjunct to any other taxes, Government, however in Rule 3 (i) read along with 4 (ii) of the Kerala Panchayat Raj Service Tax Rules, 1995 notified on 7.12.1995 have made the service tax an adjunct of the building tax and further have specified its use only for maintenance, renewal and expansion of existing water supply schemes or any scheme that may be entrusted to the Panchayats by the Kerala Water Authority. This Rule, unnecessarily restricts the scope of the service tax leviable under Section 200(2). The Rules do not seem to contemplate the use of the service tax to meet the expenditure in connection with the street taps unless street taps are deemed to come under the existing water supply scheme". Providing water through street taps is one of the basic ructions performed by

Local Bodies in Kerala and should be deemed to be a part of the existing water supply scheme is contemplated in Rule 4(ii) of the K.P.R. Service Tax Rules 1995. Many of the beneficiaries of street taps are not assessed to building or property tax but at the same time are not bereft entirely of capacity to meet the whole or a pan of cost of the service. In the light of this the State Finance Commission, would recommend that the 1995 KPR Service Tax Rules may be modified in order to recognise the status of service tax as an independant tax and to provide the option of levying a service tax either as an adjunct to the building tax from persons who are subject to such levy or as a separate tax from house-holds, who are not assessed to house tax. The ear-marking of Service Tax proceeds to meeting the cost of maintenance, repairs, etc. of water supply schemes also may be modified in order to make it clear that meeting the expenditure of street tap will also be one of the purposes to which the service tax can be applied.

13.9 Section 233 (2) of the Kerala Municipality Act, 1994 provides for incorporating in the property tax a service tax for water supply and drainage among other things, to meet the expenses of maintenance or extension in any scheme connected therewith. Therefore unlike in the case of Panchyat Raj Act, a Service Tax is statutorily a part of the Property Tax and not an independent tax instrument. The Municipality is also required to indicate in a notification the respective shares of the service charges for water and drainage. In Municipal Corporations within the prescribed minimum rate of 15%, drainage and water service tax at 2% and 1% are included. The structure of Property Tax as given in Section 233 also suffers from the same disadvantage as was noticed in the case of Panchayats. While there is no harm in Service Tax continuing as an adjunct to property tax *in* respect of persons who are liable to property tax, it is desirable that a service tax for water should also become payable by beneficiaries even if

they are not liable for property tax. Similarly in Section 233(2)(1) of Kerala Municipalities Act, 1994 the scope of the applications of the proceeds of service charges for water should be broadened to include water supply through street taps. The suggestion to dissociate service tax for water from Building/Property tax should apply also to other service taxes covering scavenging, drainage, sewerage and lighting. For various reasons, the extent of service provided or needed, especially in respect of scavenging and sewerage may not be uniform for all buildings throughout the jurisdiction of the *Local* Body and this may call for differential rates. A hospital or hotel with its own incinerator for waste disposal either partially or wholly need not and should not be called upon to pay the same rate of scavenging service tax as similar establishments not having such facilities. Some establishments like hotels generate more liquid and solid waste per unit of building area than other type buildings, and today they are all assessed at a uniform rate. The umbilical cord between Building/ Property tax and taxes for services provided should be severed and Local Bodies should be free to set than within specified limits and the State Finance Commission recommend accordingly.

13.10. The main complaints voiced by the representatives of the Local Bodies while giving evidence before the Commission are that the taps are not maintained properly, the materials used for replacing the parts, etc. are of inferior quality and do not last, the complaints made to Kerala Water Authority for rectification or repairs are not attended to in time or in a satisfactory manner etc. A possible solution to this problem could be entrustment to Local Bodies the function of maintenance of taps. The work may be got done by the Local Body through any experienced plumber who can be engaged by Local Body on a contract or piece rate basis. Such an arrangement would also enable the Local Body to use materials of their choice thus eliminating present complaints regarding inferior materials. A corollary

to the above is that whatever is the actual cost of maintenance incurred by the K.W.A. on the street taps, should be given as a rebate to the Local Bodies,

13.11 The State Finance Commission requested the K.W.A. to furnish an estimate of the cost of maintenance and repairs included in the rate of Re.! A per Kilo litre fixed in 1991 and the cost of maintenance per street tap incurred by the K.W.A during the past few years. No reply has been received from Kerala Water Authority.

13.12 The huge arrears by way of charges payable to K.W.A. presents a complex problem and any solution to this should be pragmatic as well as fair to the interests of the Local Bodies, K.W.A. and State Government. Prior to 1.4,1991, the amounts billed to Local Bodies by KWA is not directly relateable to the quantity of water supplied through street laps. The total cost of operation and maintenance of the water supply scheme was the basis of the charge and from this the water charge directly collected from domestic consumers was reduced and the balance was billed to the Local Body. In certain Urban Local Bodies water charges from individual consumers were collected by the Local Body itself and in certain others they were collected by the Kerala Water Authority. Where water charges were collected by the Local Bodies, the entire cost of operation and maintenance of the scheme was billed to the Local Body. Where Kerala Water Authority was responsible for the collection of water charges from individual consumers, the collection actually made were deducted from the total operation and maintenance cost and the balance was billed to the Local Body. One corrollory to this is that even in Local Bodies where Kerala Water Authority had the responsibility to collect water charges from individual connection, the uncollected portion being the residuary demand was added to the bill sent to Local Bodies, It is not fair to the Local Bodies that the

amount due from private connections which was collectable by the KWA is added to the dues payable by Local Bodies. The amount should be deducted from the dues shown against Local Bodies. In some cases various assets have been transferred from the local Bodies to KWA and no arrangement bas been worked out to settle the amounts due to be paid to Local Bodies, if any, consequent *on* the transfer of such assets. In some areas KWA itself has restricted the supply of water to less than the minimum period of which supply has been assumed while fixing charges and Local Bodies are entitled to rebates on this account. Without these details which are not readily available with either the KWA or the Local Bodies, no satisfactory determination of the quantum of arrears due to KWA by Local Bodies in the pre 1991 period can be made.

13,13 In the light of the foregoing the State Finance Commission make the following recommendations;

i) the pre 1.4.1984 arrears estimated as Rs.2Q.46 crores may be written off;

ii) the arrears accumulated during the period 1.4.1984 to 31.3.I99I according the Kerala Water Authority come to Rs.63,80 crores. To this may be added the arrears from 1.4.1992 upto 31.3.96. There are a number of issues to be settled in respect of these arrears especially relating to the pre 1991 period and before insisting upon a strict regime of payment of arrears, Government should set up a small Comittee who should report within the time frame of say 6 months on the vairous aspects in dispute so that the correct determination of the arrears can be arrived at. The arrears thus arrived at should be recovered from the Local Bodies on a voluntary basis or by adjusting it from grants payable by the Government. Considering the time span over which the arrears have

accumulated, the adjustments may be spread over a period of 8 years, but in no year should the arrear adjusted exceed 15% of the grants due to the Local Body during that year;

iii) the Kerala Water Authority should insist upon payment of current dues of 1996-97 promptly by the Local Bodies and failure of this should be reported to Government who should adjust the dues against the grants payable to Local Bodies. The adjustment should not exceed 50% of the grants payable to Local Bodies and in the case of consecutive defaults in two years, an additional 10% of the grants may be adjusted

iv) The repairs and maintenance function in respect of street taps may be looked after by the Local Bodies who are prepared to take it over and for such Local Bodies 10% rebate of the charges payable by a Panchayat and a 7% rebate by a Municipality should be allowed by the Kerala Water Authority, This rebate will naturally be allowed only on full payment, and they should be permitted to pay 90% or 93% of the bill as the case may be in full settlement of the entire bill provided they have undertaken the responsibility of looking after petty maintenance works of Panchayats. Petty maintenance work consists of repairs or replacement of taps, routine maintenance of the taps including change of washers and repairs to the base of the stand post and works of a similar nature.

Street lighting

13.14 Provision of street lighting is one of the basic functions of Local Bodies. In urban Local Bodies except Thrissur Municipality, the installation cost of street lights is met by KSEB under "Own Your Electric Connection" Scheme. The cost includes the cost of construction of power line, fittings and installation charges. The location where the street lights is to be installed is decided by the

Council of the respective Local Body. In rural local bodies, the KSEB does the installation of the lights under the KSEB's street lighting programme.

13.15 The majority of the street lights in the State use oridinary bulbs or flourescent tubes. If a Local Body requires special types of lamps like sodium vapour lamps, the full cost of installation will be collected from the Local Body and energy charge collected on metered basis. The Local Body has to supply spares for replacement in such cases.

13.16 At the end of 1993-94 there are 5,82,464 street lights of various types in existence as shown in Table 13.4.

TABLE 13.4

DISTRICT-WISE NUMBER OF STREET LIGHTS

Sl. No.	District	Ordinary street lights	Flure-scent fittings	MV/SV Lamps	Total No. of street lights
1.	Thiruvananthapuram	54390	28165	1899	84454
2.	Kollam	55348	10830	1376	67554
3.	Aiapuzha	40257	8983	444	49684
4.	Pathanamthitta	33966	3965	247	38178
5.	Kottayam	42172	8065	228	50465
6.	Idukki	8298	1973	86	10357
7.	Ernakulam	53398	24930	3592	81920
8.	Thrissur	55574	10217	172	65963
9.	Palakkad	37704	6642	850	45196
10.	Malappuram	15592	2054	384	18030
11.	Kozhikode	24314	4428	454	291%
12.	Kannur	26944	2936	1415	31295
13.	Wayanad	2257	528	130	2915
14.	Kasaragode	5699	1009	549	7257
	Total	455913	114725	11826	582464

Source : Kerala State Electricity Board (KSEB)

13.17 KSEB levies a composite tariff depending upon the type of lamp provided and the estimated burning hours consisting of the following components

i) Interest on cost of street lighting power line;

ii) Interest on cost of fittings;

iii) Cost of replacement of lamp, choke, starter, etc.

iv) Cost of maintenance, and

v) Cost of energy

The cost of energy component which was prescribed in 1982 is paise 20 per unit.

13.18 The annual demand of 1994-95 arising on account of street lights is Rs. 10.73 crores or about 2.16% of the total demand of KSEB from various users. At the same time for Local Bodies as a whole, expenditure on street lights claims 8.65% of their income; for Corporations, it is 9.82%, Municipalities 7.69% and for Panchayats 8.71%.

13.19 The annual cost of maintenance estimated by KSEB for all the street lamps in the State for 1993-94 is Rs.23.40 crores as indicated below;

			(Rupees)
I.	**Cost of annual maintenance:**		
i)	Ordinary bulbs - 455913 Nos.	@Rs.l45/-	6,61.07,385
ii)	Fluorescent Tubes 113296 Nos.	@Rs.354	4,01,06,784
iii)	Mercury vapour lamps 8504 Nos.	@Rs.950/-	80,78,800
iv)	Sodium Vapour lamps 3322 Nos.	@Rs.l900/-	63,11,800
II.	**Cost of energy of 135 million units at paise 84 unit**		11,34,00,000
		Total	23,40,04,769

Against this, the annual collection of revenue is Rs. 10.73 crores resulting in a loss of Rs. 12.66 crores per annum; the loss due to

subsidy in energy charge per unit estimated at (64 ps. per unit by KSEB) alone comes to Rs.8.64 crores.

13,20 The average cost incurred per street light per annum at 1993-94 rate works out to Rs.402, out of which the energy content accounts for Rs. 194.85. Excluding the cost of energy, the cost of spares per street light per annum comes to Rs.205/- only. The average will vary with type of lamp used. The estimate of Kerala State Electricity Board presented above does not include the cost of labour for which 10% may be added and therefore the total cost of maintenance may be taken as Rs.225.50 per street lamp.

13.21, During discussions with State Finance Commission, it was pointed out by Kerala State Electricity Board, that the annual cost of energy for street lighting will work out to 2.16% only of the total revenue of Kerala State Electricity Board. Local Bodies in the inter-action with State Finance Commission has complained of street lights not functioning, unreasonable delays in replacement of bulbs or tubes, poor maintenance and sub-standard replacements being used etc. Complaints against Kerala State Electricity Board regarding poor maintenance of street lights and the quality of spares used can be avoided if maintenance is arranged by the Local Bodies themselves. Since the Local Bodies do not have the manpower and other technical facilities, they can get this work done on a contract or piece rate basis by persons or agencies having the necessary experience or qualification. Local Bodies who are prepared to undertake the work may be entrusted with the responsibility of maintenance and replacement or street lamps. The rebate that they Would get for them by way of reduction from the tariff should be worked out on the basis of actual cost incurred by KSEB during 1994-95 duly certified by KSEB and countersigned by the statutory auditor. Annual escalation at the rate of 5% may be allowed on the basis of the base rate.

CHAPTER XIV

NORMATIVE LEVEL OF CIVIC SERVICES

14.1 Local Bodies are providing, or are expected to provide, a range of civic services. The general perception about the level and quality of civic service provided by Local Bodies is that they are neither adequate nor satisfactory. While the productivity of the existing resources engaged in the production and delivery of civic services can and should be improved and innovative means of delivery of services such as privatisation invoked, nevertheless, it remains a fact that the current level of investment in the sector is well below optimum levels. If a Local Body is to aim at providing a satisfactory level of services, substantial investments would be needed.

14.2 Before addressing the question of required resources, we need to arrive at what should be a package of services which a Local Body in Kerala should provide; say, by the year 2001. Traditionally Local Bodies in the State have not been playing an active role in providing services such as housing, education, health, etc., It is unlikely that they will emerge by 2001 as substantial providers of services of these sectors. Similarly they, barring a few exception, have ceased to play a major role in providing water through house connections. This function is performed by the Kerala Water Authority. The remaining major areas of service which Local Bodies in Kerala have been providing appear to be the following:

1) maintenance and construction of roads.
ii) collection and disposal of solid waste.
iii) surface drainage system,
iv) street lighting.
v) water supply through public taps.
vi) health care especially anti-malaria programme .

14.3 Some studies have been done regarding the normative level of civic services that Local Bodies should aim to provide. The National Institute of Urban Affairs in their report for the Ninth Finance Commission has summarised the physical standards and norms proposed by various Committees for selected services in urban areas. They are given in Table 14.1

Table 14.1 : Normative level of civic services in NTUA Report (1989)

	Service	Proposed by	Standars
1	Water Supply	Zakaria Committee	i) Population size 1.0 lakh-5.0lakhs:157.5lakhs(litres per capita per day) ii) Population size –5.0 lakh and above 202.5 Ipcd
		National Master Plan India & Mid-term Review	90% of population coveraged by piped with average per capita supply 140 Ipcd
II	Sewerage/Darinage System	National Master Plan –India	100% population coverage by sanitation facilities in Class 1 cities
III	Refuse Disposal	NIUA:Management of Urban Services(Reaserch study)	100% disposal of generated wastes
IV	Street Lighting	Committee on Plan Project (COPP)	One lighting pole per 100 feet of distance (road length)
V	Roads	Central Road Reaserch Institute (CRRI) on the basic of personal discussion with the secientise	75-100 % coverage by surface (all wheather) roads in Municipal area.
VI	Health Centres and Dispansaries	Committee on Plan Projects (COPP)	One Health center for every 20000 population

Source: "Upgrading Municipal Services : Norms and Financial Implication" Research Study Services No.38,N,I.U.A.(1989)

14.4 The aforesaid study suggests that there could be four different methods of arriving at a normative level. These are briefly as follows:

i) The Zakaria Committee had laid down the desirable level of expenditure on the maintenance of basic services at 1960 prices.

These could be adjusted to the current prices and updated. These norms would give a per capita annual expenditure for cities for various types of civic services.

ii) A second method could be to use the average per capita expenditure on various services by the better off municipal bodies.

ill) A third method is to use average expenditure levels of ail municipal bodies. The idea is to bring up municipal bodies which are below the State average to the average levels by 2001.

iv) A fourth method is to use the average expenditure levels of Municipalities of each size class. All sampled Municipal bodies were divided into seven size classes.

The work done by NIUA is specifically in respect of urban Local Bodies and Panchayats were not covered by their study.

14,5 Under the Resource Group constituted in 1995 by the Planning Commission to provide assistance to the State Finance Commissions, a Working Group on expenditure norms under the Chairmanship of Dr Raja J. Chelliah had studied the norms and standards for provision of basic infrastructure services by Local Bodies. They recommended that State Finance Commissions in making their recommendations about devolution of fiscal powers and inter-Governmental transfers need to take a position on the "core" responsibilities of local self-Government The Working Group concluded that the following functions should be regarded as the core function of Local Bodies:

i) Water Supply
ii) Sanitation/Sewerage
iii) Solid Waste Collection
iv) Primary Education.
v) Primary Health.

The Group recommended certain minimum physical standards of basic services which are to be given by Local Bodies in future. The recommendations of the Group are given in Annexure XIV. 1.

14.6 In Kerala we have to evolve a suitable package of civic services which can be considered as "core" responsibilities taking into account various possible options including those mentioned above as well as the parallel channels already existing for the delivery of certain services, There could also be differences in the composition of service between urban Local Bodies and Panchayats. In order to study indepth these aspects and to give an insight into the felt needs of Local Bodies, the State Finance Commission conducted a sample survey covering 3 Corporations, 14 Municipalities and 48 Panchayats. They were invited to indicate the current level of services in respect of roads, street taps, street light, surface drainage and garbage collection & disposal and also to suggest suitable norms for upgradation of these services as well for any new item which should form part of the package. Responses were received from one Corporation 13 Municipalities and 31 Panchayats.

14.7 In the light of the above and in the Ught of the conditions prevailing in the State where some of the major areas of civic services assigned to Local bodies by the Working Group under the Chairmanship of Dr. Raja. J. Chelliah are being performed by agencies other than Local Bodies, it would seem that the following may be the services which should form the core responsibilities of Local Bodies in the State:

i) Provision of street taps.
ii) Provision of street lighting.
iii) Collection and disposal of solid waste.
iv) Surface drainage.
v) Upgradation of roads.

The above may be common to both urban and rural bodies and for urban areas one more item viz., provision of public convenience may be added.

Street Taps

14.8 Provision of water through street taps is one of the main services rendered by Local Bodies and as on 01.04.1992 there were in all 30434 street taps in Municipalities and Corporations and 77307 in Panchayats. The average population for Panchayats in 1991 was 25000. While applying the Naha Commission norm of one street tap for 200 population, a panchayat would need to have 125 street taps on the average. As on 1-4-1995 there are 613 Panchayats which had less than 125 street taps and the number of street taps additionally needed to cover the shortage is estimated at about 42200. The provision of street taps by Local Bodies involves capital expenditure by way of extending the water line and installation of taps and the cost for these will have to be met by the Local Body. It is estimated that one tap will have to be laid at intervals of 200 meters and the current estimated cost of pipe line is Rs.3 lakhs per Km. Assuming that 50% of the cost of the pipeline can be recovered from other users and taking into account the various cost elements the additional cost of installation of 42200 street taps in order to reach the normative level of 125 street taps per Panchayat would come to about Rs, 130 crores. Even if we scale down the number of street taps to 100 per Panchayat and dilute the norms to 1 street tap per 250 persons, the cost will come to Rs.104 crores. A separate estimate has not been made for Urban Local Bodies because of the ongoing Urban Poverty Alleviation Scheme under which additional street taps required can be provided under the scheme:

Street Lighting

14.9 The total number of street lights in the State as on 1-4-1994 is 5,82,464. The norms recommended in the NIUA study referred to earlier is one street light per 100 ft. of road distance. On the basis of the sample survey conducted it has been estimated that in order to

cover the more frequented areas there will be need for nearly 1.97 lakh additional street lights in the Panchayats. The additional cost for providing an additional light point involving extension of line as weli as the light pole would cost around Rs.2200/- excluding cost of lamps and the estimated cost of installation of the required items excluding cost of lamps comes to approximately Rs.43.34 crores. Mo separate estimate of the requirement of street light in urban Local Bodies has been made.

Removal of Solid Waste

14.10 The collection and disposal of solid waste by urban/rural bodies is in a very unsatisfactory state. The failure to collect and dispose garbage has high negative externalities, as was dramatically shown by the plague epidemic in Surat. The arrangement for collection, transportation and treatment of garbage, such as it exists at present, is highly insufficient inefficient and primitive, with few exceptions. This is a problem faced not only by Urban Local Bodies in Kerala but also by some Panchayats which have a high degree of urbanisation. What is needed *is* an efficient system of collecting solid waste, handling it mechanically and transporting it without risk of spillage on the road and of disposing it in an environmentally friendly way. The SFC has not made any estimate of the capital cost involved but fed that this is an area which requires priority attention of all Local Bodies especially of the 3 Municipal Corporations and the major Municipalities in the State. An estimate prepared by the Corporation of Cochin show that the capital cost involved in the physical infrastructure by way of vehicles and associated facilities for collection and disposal of solid waste capable of handling 400 m^3 per day comes to Rs.81 lakhs. This estimate is only indicative of the funds required and each Local Body will have to work out sooner than later, the cost of equipment and other arrangements required for an efficient and safe handling of garbage. Collection and transportation of garbage is only one half of the task and the other half is its disposal in an environmentally friendly

way. The usual way of using it as a land fill is becoming a shrinking option in *view of* the high population density *in* the slate and other ways need to be found and financing provided for them.

Surface Drainage

14.11 Surface drainage in most Local Bodies including Urban Bodies is one of the most neglected aspects of civic services. The Local Bodies have the responsibility of maintaining drains on the sides of the roads vested in them and also for providing adequate drainage system for removing liquid waste generated by establishments like hotels and other buildings. Very often the drains are open channels in the ground with no proper lining or level difference and even these are poorly maintained without periodical clearance of obstructions and they are the breeding ground of various diseases and pose a threat to the health of the community. It is therefore, essential that Local Bodies improve the condition of drains by lining them with rubble or bricks as well as covering the open drains. In the sample survey conducted by the State Finance Commission it is estimated that in the Panchayat, there will be approximately 5000 Kms of open drains which are lined with either brick or stones but which are not covered. It is estimated that the cost covering the open drains by concrete slabs will work out to Rs,375 per metre and the total estimated cost for the entire length works out to about Rs.200 crores. The Panchayat should aim at covering atleast of 10% of the open drains by 2001 AD. The same need exists in Urban Local Bodies also for which the cost has not been estimated. The cost of lining the open drains with stones or bricks will require another huge dose of investment.

Upgradaticn of Roads:

14.12 A major portion of wide network of roads under the control of Local Bodies are earthern and gravelled (53.78% and 31.3% respectively) in Panchayats. They are poorly maintained. The conditions of die roads need to be upgraded by converting in a phased manner tie

existing gravelled and metalled roads to black topped roads. The estimated cost for covering the existing metalled roads to a black topped one with a 3 metre carriage way including cross drainage work is estimated at Rs.2,75,OOG per Km. (1995 price). The cost of upgrading the existing gravelled road to black topped one with a 3 m carriage way is estimated at Rs.4,30,000 per Km. Even if 10^ of the roads are to be upgraded during the next 5 year period it will require an investment of Rs.150 crores (15 crores for upgradation of metalled roads and Rs.135 crores for upgradation of gravelled roads). The above estimates cover the Panchayats and similar estimates need to be made for Municipalities also.

14.13 The cost estimated are by no means precise estimates but are intended only to indicate the enormous additional funds that need to be spent on selected civic services if such services are to reach any level of satisfaction. li will be clearly beyond the capacity of the Local Bodies to provide funds for this from their own resources and State Government may also find it difficult to provide funds to the required extent for this purpose. The sample survey of SFC was conducted at a time when the newly elected Local Bodies were not in position. It will be desirable to take into account perceptions of tbe new Local Bodies in this regard. The approximate cost estimate made need firming up also. The State Government may like to initiate necessary steps in this regard.

14.14 The State Finance Commission has no particular solution to suggest for meeting the need for additional funds except to point out *to* the need for funds required and hope that both State Government and Central Government would take note of these requirements and find ways and means to assist the Local Bodies to upgrade the level of civic services. We hope that when the next Central Finance Commission makes recommendations for strengthening the Consolidated Fund of the State to supplement the resources of Local Bodies, this need will get due consideration.

CHAPTER XV

RECOMMENDATIONS OF THE TENTH FINANCE COMMISSION

GRANTS FOR LOCAL BODIES

15.1 Chapter VII of the Interim Report (September 95) has discussed the recommendation of the T.F.C. regarding devolution of funds from the Centre to the Consolidated Fund of the State with a view to supplement the resources of the Local Bodies. Briefly stated, the T.F.C, has recommended and Government of India has accepted a total devolution of Rs.4,380.93 crores to Panchayats and Rs. 1,000 crores to Municipalities in the different States in 4 installments from 1996-97 to 1999-2000. The eligibility for the grants to Panchayats during the four year period has been worked out at Rs.100 per rural population as per 1971 census and, to Urban Local Bodies, on the basis of the inter state ratio of slum population derived from the 1971 urban population. The total grant in absolute terms and on a per capita basis may be seen in Table 15.1.

15.2 The TFC has further recommended that grants recommended by them should be an additionality over and above the amount flowing to Local Bodies from State Government and State Governments should devise suitable schemes with detailed guidelines for the utilisation of the grants. The Local Bodies should be required to provide suitable matching contribution by raising resources. Further the grant is not intended for expenditure for salaries and wages.

15.3 The State Finance Commission (SFC) has not gone into the criteria adopted by the TFC or the adequacy of the amount recommended. The TFC themselves has observed that their recommendation is on an adhoc basis and a proper evaluation of the needed quantum of

TABLE 15.1

GRANTS RECOMMENDED BY T.F.C. ON PER CAPITA BASIS

Local Bodies	Amount recommend-by the 10th fin.Comm for 4 years from 1996-97	Annual grant reco-mmended by T.F.C.	Population as per 1971 census reckoned by T.F.C.	Per capita grant for 4 years	Per capita annual grant	No.of Local Bodies (1 -4-95)	Population as per 1991 Census	Average population as per 1991 census	Per capita annual grants as per 1991 Census	Average annual grant per Local Body as per 1991 census
I	2	3	4	5	6	7	8	9	10	11
	Rs. in lakhs	Rs. in lakhs	Rs. in lakhs	Rs.	Rs.				Rs.	Rs. in lakhs
Panchayats	17881	4470.25	178.81	100	25	991	247.77	0.25	18.03	4.51
Urban Local Bodies	2543	635.75	25.15	101	25.28	57	43.21	0.75	14.71	11.03
TOTAL	20424	5106.00	203.96				290.98			

assistance will have to await the recommendations of the respective State Finance Commissions. Therefore, the SFC also do not see much point in entering into a discussion on the criteria or the adequacy of the funds recommended by the TFC.

15.4 The Central Government has accepted the recommendation of the Central Finance Commission and therefore additional subvention through the Finance Commission route is closed till the 11th Finance Commission. The only short term remedy by which the inadequate transfer of funds recommended by the TFC can be enhanced is by the Central Government evolving suitable Centrally Sponsored Scheme aimed at improving and creating needed civic infrastructure in urban and rural areas. It is recommended that Central Government may do so with the aim of transferring to local bodies a minimum of 5% of Central Revenue annually through new Centrally Sponsored Schemes with accent on improving the civic infrastructure.

15.5 In para 7.7 of the Interim Report (Sept.95) it was stated that a formula for inter-se distribution of the Central Grants will be embodied in the Final Report. The rural urban distribution of population has undergone changes since 1971 and so has the number of rural and urban local bodies. The 1994 Act create two new tiers of panchayats viz. the District and Block Panchayats. The entitlement of grant recommended by the Central Finance Commission is frozen on the basis of data as in March 1971 and this fixed grant has to be distributed among Local Bodies as they exist now.

15.6 The grant earmarked for Panchayats is Rs.44.70 Crores per year for the four years from 1996-97 onwards. In terms of the functional responsibilities entrusted to the 3 tiers of Panchayats, the Village Panchayats play the most crucial role. They already had a charter of dudes and responsibilities even before the Panchayat Raj Legislation of

1994. To the existing charter a large number of additional duties and responsibilities have been added. They are at the cutting edge of Local Government and are entrusted with responsibilities requiring almost daily contact with the people. All the Civic Services such as sanitation, drainage, street lighting, street taps and village road network are their responsibility. The District and Block Panchayats, on the other hand are new institutions whose duties and responsibilities are the creation of the 1994 Legislation and the duties assigned to them under the 1994 Legislation are by and large, the duties and responsibilities hitherto performed by the State Government. With the transfer of these responsibilities there will be a concomitant transfer of Plan and Budget funds to enable the District and Block Panchayats to discharge their duties. In the light of this the State Finance Commission would recommend that 85% of the Central Finance Commission grants may be earmarked for distribution among the Village Panchayats. This works out to Rs.3799.71 lakhs and, on a per capita basis derived from 1991 population to Rs. 15.33 per person per year. The remaining 15% may be distributed among. Block and District Panchayats in the proportion of 3 : 2 and on a per capita basis. This will come to Rs.1.08 per person in a District Panchayat and Rs.1.62 per person in a Block Panchayat On this basis the entitlement of each District and Block Panchayat is given in Annexure XV. 1, The S.F.C. has recommended in Chapter XII that 1 % of this grant may be credited to the Development Fund for Local Bodies. The entitlements shown in Annexure XV. 1 does not take this into account and therefore should be reduced by 1%.

15.7 The Constitutional Amendments (Article 243 H & 243 X) authorise the Legislature of a State to enact laws to enable Local Bodies to collect taxes, duties, tolls and fees. These obviously will be limited to the areas of State's competence. The State Legislatures were in any case competent to do this even before the Constitutional Amendments

and in Kerala many tax and non-tax instruments from the State's domain had already been placed at the disposal of Local bodies. A new avenue contemplated in the Constitutional Amendments is via the Central Finance Commissions whose Terms of Reference have been amended by the 73rd and 74tn Constitutional Amendments enjoining them to recommend measures needed to augment the Consolidated Fund of the State to supplement the resources of Local Bodies. Therefore there was a natural expectation that consistant with Central Government's rote and interest in ushering in the Panchayat Raj System and with the importance of making it a success right from the start without allowing the initial enthusiasm to get blunted, a substantial devolution will be recommended by TFC The level of devolution now recommended is insufficient to make any noticeable impact on the finances of Local Bodies, The total! devolution for all Local Bodies in the country per year would come to Rs.1345 crores or * mere 1.33% of the Revenue Receipt of Central Government in 1995-96 estimated at Rs. 100787 crores. With the likely buoyancy in Central Revenue in the 4 year period from 1996-97 onwards, the recommended devolution may not amount to even 1% of Central Government revenues. Given the nature and dimension of the widely recognised urban crisis and the equally widely recognised mismatch in all Local Bodies between responsibilities and resource the devolution can at best be considered as only a token one.

15.8 The grant earmarked for Urban Local Bodies is Rs.6,36 crores per year. This entitlement has been worked out on the basis of inter-state ratio of slum population to total urban population in 1971. The funds can be used for any worthwhile purpose and para 7.10 of the Interim Report has prioritised for both Urban and Rural Local Bodies the purposes for which the Central grant may be used. The 1991 urban population was 43.21 lakhs and the grant may be distributed on a per

capita basis. This works out to Rs. 14.71 per person as per the 1991 population, From the total grant 1$ will be earmarked for the Fund for Local Development and only the balance 99% will be distributed.

15.9 The Tenth Finance Commission has recommended that the grant given to Local Bodies should have suitable matching contribution. The raising of resources by Local Bodies *in* the country does not conform to a uniform pattern and differs front State to State. It is not the case in any State that all the revenue of tie Local Bodies come from taxes collected by the Local Bodies themselves. In Kerala even though many tax instruments have been placed exclusively at the disposal of the Local Bodies such as the property tax, house tax, profession tax, entertainment tax, advertisement tax. show tax, etc., yet others are collected by the State Government and assigned or shared with the Local Bodies. A third source is grant-in-aid from the State Government. It is a matter of State policy which naturally differs from State to State, as to what taxes are to be assigned exclusively to Local Bodies or assigned to Local Bodies but collected by the State Govt. and made over to Local Bodies or shared with the Local Bodies or to what extent State Government will supplement resources of Local Bodies by subvention from State revenues. The concept of additionally and of matching the Central grant by additional resources is good as it will motivate the Local Bodies as well is State Government which gives grant-in-aid to the Local Bodies to generate more resources to the Local Bodies and it also would result in the Local Bodies in effect getting double the total the quantum recommended by the Central Finance Commission. But this matching additionality need not necessarily come from the taxes raised by Local Bodies but can also come from any of the sources mentioned above viz. assigned taxes, shared taxes and Government grants. This aspect is specially important in the case of Block and District Panchayats.

CHAFTCK - XVI

CONCLUDING OBSERVATIONS

16.1 As the first Slate Finance Commission, the task assigned to us was challenging and at the same time beset wife a number of difficulties. The database on local finances is weak. While the prescribed accounting practices require Local Bodies to maintain receipts and expenditure separately under Capital and Revenue as well as under Plan and Non Plan heads, there is atleast marginal overlap between these broad» categories and not infrequently, lack of understanding of these distinctions at the ground level. The projection given by Local Bodies of fature income were exercises in optimism rather than realism. Very few had a plan of action covering even the proximate one or two year period and SFC's attempt to solicit their vision of year 2000 in terms of the civic services they should provide did not elicit the expected response.

16.2 Ideally the SFC should arrive at an estimate of funds required by Local Bodies during each year of the reporting period and on the basis of existing sources of revenue, be able to project the extent of the gap. Thereafter the question of how to fill the gap can be addressed. We have 1214 Local Bodies and assessment of gaps in each of them would involve such stupendous work that no such exercise was even attempted by the Commission. Even if the SFC were given the resources and the time to undertake such a study, many a problem would have arisen. A major portion of the expenditure of Local Bodies would be for Plan Schemes transferred by Govt. and while the Annual Plan for 1996-97 has been approved by Govt. in January 1996, no estimate of outlays on transferred subjects of subsequent years exists. SFC could perhaps

assume that all Plan funds required will be given by Government and thus leave this component out of their calculation. Even quantification of Non-Plan expenditure which should be relatively easier presented difficulties. A major portion of non-plan expenditure of Local Bodies which would arise in future is in respect of non-plan items transferred by Government to Local Bodies and no inventory of such items with recurring expenditure on salaries, maintenance of assets etc. is currently available either with Government or with Local Bodies. The Local Bodies also were requested to project their income and expenditure for the period 1996-97 has to 2000-2001 and the response received lacked realism and presented highly exaggerated estimates.

16.3 Another major handicap was the inherent difficulty of assessing the taxable capacity at the local level. The tax domain is currently shared by the Government of India, Govt of Kerala and Local Bodies. At the level of the Panchayat which is the taxing authority at one end of the ladder, there is no estimate of State Domestic Product and how much of taxes are already collected by Government of India and Government of Kerala. The only firm figure is the amount of tax collected by the Local Body. Therefore the SFC had to address the question of additional resources for Local Bodies without & definite estimation of the taxable capacity of the local community.

16.4 The Panchayat Raj system, by itself, even without any commitment of additional resources from Government should lead to some augmentation of resources. Institutions, like individuals will grow to their full potential only in the context of responsibilities, and given the vastly added responsibilities, Panchayat Raj Institutions should show marked improvements both in the quantity and quality of services delivered by them. The latent capacities of local communities long held in check or blunted by a centralised system will be unleashed leading to a flowering of local initiative. If the Local Bodies succeed in

mobilising public co-operation and participation, the same resources should yield greater benefits than under the old system. The evolution of development plans starting from the grass root level of the Grama Sabha will suitably impart a sense of realisrn and a dose of relevance to the schemes that are implemented and thereby make them more suited to what the local community needs. In such a context the Local Body should be able to gamer more resources from the local community. The Local Bodies should be encouraged to raise resources by way of donation and contributions and be allowed to spend funds thus raised with a great deal of freedom and flexibility and least intervention of any governmental agency. The funds collected may be kept separately in order to avoid any possible mix up with other revenues. Many of the purposes for which funds can be raised would involve some form of civil construction such as a road, school, recreational facility etc. The Local Body should be allowed to have the estimates prepared by any competent architect, award the work on the basis of competitive tenders, have the work supervised and check measured for by an architect or any other competent agency and make payments from out of the Fund created by public contribution without the intervention of Government. They should be free to make use of governmental agencies but should not be restricted to such agencies. Such a Fund will be subject to audit as any other part of the revenue of Local Body. Such a step would stimulate them in harnessing local initiative.

16.5 Under Article 243 (G) and 243 (W), Panchayats and Municipalities are endowed with powers and responsibilities in respect of preparation of Plans for economic development and social justice. The basic development Plan as well as perspective plan for development are to be first prepared by Panchayats and Municipalities before it goes to other levels such as the District Planting Committee. There is at present a tendency towards proliferation of programmes touching aspects of economic development and social justice at the grass-root

level which are being administered by a number of different agencies. Government of India themselves have programmes such as Jawahar Rosgar Yojana (JRK), Nehru Rosgar Yojana (NRY), now forming part of the Urban Basic Services for the Poor (UBSP), the Employment Assurance Scheme, the Noon Meal Scheme, the Destitute Pension Scheme, the Western Ghat Development Programme, National Watershed Development Programme etc. There are also schemes under the MP Fund which by their very nature can finance only small schemes of local development. The State Government also have certain sectoral programmes or proposals such as the Fisheries Development Programme, separate authority for Coastal Area Development and Hill Area Development etc. The number and variety of these programmes have increased in recent times and *is* bound to lead to duplication of agencies and also of programmes. It is also bound to dilute the role envisaged in the Constitutional Amendments for the Municipalities and Panchayats as the initiators of programmes for economic development and social justice. In almost all the sponsored programmes, whether of the Central or State Govt. only a nominal role is given to Local Bodies. It is confined at best to implementation of a set of pre-determined programmes and/or the selection of beneficiaries. The Local Bodies are in no way involved in the formulation of these programmes and nor are they given any flexibility to make modifications in the scheme even if certain aspects do not seem appropriate for local conditions.

16,6 If the Local Bodies are to play their assigned role as initiators of programmes of economic development and social justice they have to be given an increasingly important role not merely in the implementation of the various schemes but also in their formulation. Since a very large number of schemes are those of Government of India they should set an example in this regard. They should cease to treat Local Bodies as outposts or agents of Central Government delivering services under schemes in ways and standards laid down in detail at the Central level.

The basic thrust of the various Central and State schemes is the alleviation of poverty in the rural and urban areas by giving the poor employment and income and opportunities to acquire essential assets such as a house, a well etc, and the building up of community assets. Subject to these parameters, the Local Bodies should have an important say in what type of programmes they would like to have, Government of India should take a lead in this regard and give in the first instance 25% of all the funds under various Centrally sponsored programmes targeted at the Rural and Urban poor to be spent on employment and poverty alleviation programmes formulated by the Local Bodies and duly approved by the District Planning Committee. Instead of a straight jacket of a scheme with very little flexibility, there should only be a negative list of purposes for which the funds cannot be used such as salaries & wages of officials, office expenses, purchase of vehicles, office buildings, travelling allowances etc. Subject to this and subject to the scheme meeting the objective of poverty alleviation through employment generation and creation of community assets and their maintenance, Local Bodies should be free to fashion schemes suited to their needs.

16.7 The S.F.C has in the foregoing chapters made a number of recommendations to improve the resources of Local Bodies. They fall mainly into the following categories:

i) improving the yield from existing tax and non-tax sources at the disposal of the Local Bodies.

ii) improving the revenues from tax levied by Government but assigned to Local Bodies

iii) increase in the share of local bodies in the Motor Vehicles Tax which is the only shared tax

iv) assigning additional tax and non-tax sources to Local Bodies

v) additional non-plan, non-statutory grants to Local Bodies,

An estimate of the annual financial impact of these recommendations may be seen in Annexure XVI.l.

16.8 Raising of taxes by any agency even at the current rates is not a popular exercise and any attempt at additional resource mobilisation will be even less popular. This is a more or less universal axiom. As the legend over the U.S. Treasury Building in Washington D,C. states 'Taxes are the price we pay for a civilized society". This saying implies that the tax collector is also responsible to give back to the tax payer improved civic services. If civic services are to reach any acceptable standard of satisfaction there should be substantial qualitative and quantitative improvements in services. The additional resources mobilisation must therefore be accompanied by definite improvement in civic services. The Local Body should present to the rate payers a programme of action and their own vision of what the level of civic services would be in the target year, say 2000 AD. The additional tax efforts will be justified and can be sustained without serious resistance only if improvement in civic services go together with it.

16.9 Many of the increases in tax rates which have been suggested are more apparent than real. One feature of finances of Local Bodies, is that there are very few taxes with built in buoyancy and which automatically rise with the income or wealth of the tax payer. This is a natural corollary of the fact that neither personal income nor wealth is within reach of the Local Body. The only sources which have some buoyancy are the Surcharge on Stamp Duty, Entertainment Tax and Property/ Building Tax. Annual rental values go on increasing at a very healthy rate except perhaps in the tax records of Local Bodies. But part of the fault is systemic because revisions are permitted only every 5 years and are hemmed in by a number of restrictive conditions. Even assuming an annual inflation rate of 8-10 $, the amount realised will in real terms suffer a sharp decline much before the end of the 5th year. The other

tax which is of an ad valorem nature is Entertainment Tax but admission prices in Kerala have not gone up as much as in other states because of consumer resistance. There is also considerable evasion of the tax especially in Panchayats. The Surcharge on Stamp Duty is a buoyant source and when the scheme of fixing minimum land prices is implemented, the revenues should go up substantially. The M.V. Tax could be another good source but so far Govt have been ambivalent about the principles of tax sharing. Other sources of income like Profession Tax, Licence Fees, Basic Tax, Advertisement Tax, Show Tax, etc. are levied as fixed amounts per unit of tax base. The non-statutory grants from Government are also often expressed as fixed amounts without indexation for inflation. On the other hand expenditure on every single item whether it be staff salaries, garbage collection, public works, sanitation, etc. is subject to relentless inflationary pressures. Staff salaries have an in built upward momentum imparted by annual increments, periodical revision of D.A. rates etc. Thus the finances of Local Bodies are in a constant state of squeeze between the mill stone of the relatively inelastic income on the one hand and the netherstone of constantly rising expenditure. They have not been completely squeezed out because of the statutory requirement to have a surplus budget and because the share of major items of expenditure on civic services in the total expenditure of Local Bodies have either remained static or declined.

16.10 With the tax bases that are available to Local Bodies or can be added to it, it is not possible to give Local Bodies highly elastic sources of income. SFC has however, made some effort to increase the elasticity of the sources principally by the following suggestions:

i) the proposed tax on sale of land on an ad valorem basis will be an elastic source of income

ii) the interval of revision of Property/Building Tax is proposed to be reduced from 5 to 4 years

iii) in respect of licence fees which in the past have remained unchanged over long periods, SFC has recommended that State Govt. should only fix a minimum and leave it to the Local Bodies to fix rates above them at their discretion.

iv) SFC has recommended the introduction of Entertainment Tax on cable TV.

v) the share from Motor Vehicles Tax has been recommended to be increased to 25%; MV Tax is a buoyant tax;

vi) non-statutory grants which at present are generally expressed as specific amounts for various purposes are proposed to be merged and expressed as 1% of the State total revenue;

16.11 The role of Local Bodies, as agents and initiators of socio-economic development has been constitutionally recognised. It is incumbent on the State Government not only to recognise and honour this in full measure but also to burnish their image as unit of self government. The most important sinews of a Local Body are its financial resources. Government grants both statutory and non-statutory, will play an important role in the financial health of the Local Bodies. It is therefore essential that State Government put in position suitable and necessary institutional safeguards to protect the financial resources of the Local Bodies. The statutory and non-statutory grants from Government to Local Bodies, especially the former are theirs by right and is not a largesse borne out of State Government's magnanimity or generosity. Therefore type of accumulation of arrears of statutory grants as has occurred should not have occurred at all. The State Government ought to make a firm commitment in this regard. The non-statutory grants have, in contradistinction to statutory grants, been essentially discretionary. The State Finance Commission has recommended that the non-statutory grant may, instead of being made up of a medley of diverse grants, be merged into a single grant and

expressed as a percentage of Slate's total revenue. This percentage further, should be valid for a five year period and the State Finance Commission suggests that this should be enshrined in the Panchayat Raj Legislation. Further, a designated authority, preferably independent of the State Government or if such an authority cannot be located, the Chief Secretary to Government should be entrusted with statutory responsibility to report directly to the Governor every year the quantum of statutory and non-statutory grants due to Local Bodies, the actual amount distributed and the criteria for interse distribution followed by the State Government. Such Annual Reports should be placed before the State Legislature before the expiry of six months of each financial year.

16.12 Sri. K.A. Ommer has signed the Report subject to his Dissenting note given at Schedule I.

(P.M. Abraham)
Chairman

(K. Mohandas)
Member

(K.A. **Ommer)**
Member

Thiruvananthapuram, 29th February, 1996.

NOTE OF DISSENT BY Shri. K.A. OMMER, MEMBER STATE FINANCE COMMISSION

Refer para 10.32 relating to formula for distribution of 15% of amount out of Rural Pool based on Income factor. Since number of Panchayats in each income group will vary amount set apart for each income group at a fixed percentage as proposed in Chapter X, may not provide adequate share to a Panchayat even if large amount is set apart to that particular group due to sharing of the amount so fixed by a large number of Panchayats compared to few number of Panchayats in another group. For example II group have 175 Panchayats while III group have 498 Panchayats, ie., more than 2 1/2 times, compared to II group. So even if a higher percentage is given, share will not be appreciable due to large number of Panchayats in a particular group as mentioned above.

This can be avoided if we adopt Unit Value System as suggested below:

Assume Unit Value (UV) of a Panchayat in group I as 1. Then give weightage to the Panchayat in the next group. We may assume it as 1.25 for II group, 1.50 for III group, 2 for IV group (weightage may be so fixed as to have more share to next lower group). Then multiply each group by the respective Unit Value (UV) and find out total number of unit value (TNUV) by adding group unit value of all the 4 groups.

Then find' out Average Unit Value = (A UV)

$$\frac{\text{15\% of amount set apart for Income Factor}}{\text{Total Number of Unit Value (TNUV)}}$$

Share of a Panchayat belonging to Group IV = Average Unit Value (AUV) X Unit Value assumed for each Panchayat in Group IV.

Similar formula may be adopted in the case of distribution from Urban Pool based on income.

SUMMARY OF RECOMMENDATIONS OF SFC REPORT

Note:

1. *The Summary seeks to capture in a capsule from the main recommendations. For an appreciation of the recommendations, the substantive portion in the Report and not the summary should be relied upon.*

2. *Para number given refers to para number in the Interim or the Final Report as the case maybe.*

PART I - INTERIM REPORT

Recommendations

Sl.No.

1. The identification of responsibilities, funds and staff to be transferred to P.R. Is should be specific so that individual Local Body would be in a position to ascertain the specific function, etc. being transferred.
   (Para 4.13 (i))

2. While identifying funds associated with transferred functions, it should be disaggregated into important components.
   (Para 4.13 (ii))

3. Government should evolve a suitable system for transfer of funds and for monitoring its utilization and for maintenance of accounts. (Para 4.13 (ii))

4. The payment of salaries and allowances for transferred staff may be done by Government during the transitional period (Para 4.13 (iii))

5. Panchayats Raj Institution should be provided with funds for maintenance of assets at prescribed norms.
   (Para 4.13 (iv))

6. In respect of completed road and other civil works, contractor's unpaid bills may be paid by Government, notwithstanding the transfer of such items to Local Bodies. The same procedure may be followed even in respect of on going road projects also. (Para 4.13 (v) & (vi))

7. The additional expenditure arising from the provisions of the Kerala Panchayat Raj Act, 1994 in respect of the two new tiers., viz., the District Panchayat and Block Panchayat may be provided by grant-in-aid by Government.
   (Para 5.12)

8. The expenditure on elections to various Panchayat Bodies and Municipalities may be shared among them as per the formula suggested subject to the modification regarding percentage recommended in para 10.25 of the Final Report (Para5.15)

9. The share of District and Block Panchayats of election expenditure may be met by a grant-in-aid from Government (Para 5.16)

10. Government may provide adequate provision in the budget of 1996-97 onwards for fully discharging the obligation relatable to the year to pass on to the local bodies, their share of the assigned and shared taxes as laid down in the statutory provisions and for giving the specified non-statutory grants. (Para 6.8 (1))

11. Government may taken necessary steps to liquidate the entire arrears in not more than three annual instalments, the first of which should be during 1995-96 itself. (Para 6.8 (ii))

12. On the basis of the final figures of election expenditure, the amount, due from Village Panchayats and Municipalities may be adjusted against the arrears payable to them by Government in three annual instalments. Since the Block and District Panchayats have only very limited access to sources of revenue, the election expenditure payable by them may be met out of grant-in-aid by Government to them. (Para 6.8 (iii))

13. The State Government should formulate suitable schemes with detailed guidelines for the utilization of the grants recommended by the Central Finance Commission and as a first step identify priority areas. (Para 7.10(a))

14. In order to dissipation of resources over a large number of schemes, local bodies may confine the choice of schemes to not more than 2 of the priority areas (Para 7.10 (b))

15. The Central grants will start flowing from 1996-97 onwards and therefore State Government may finalise the formulation of the Schemes and guidelines and forward them to Local Bodies latest by 01.03.96. (Para 7.10 (c))

PART II - FINAL REPORT

Recommendations

Sl. No.

1. A special cell may be constituted in the Finance Department after the expiry of the term of the Commission to watch the implementation of the recommendations of the S.F.C. and for other functions specified (Para 1.13)

2. Government may undertake a delimitation of revenue villages to ensure that no village falls in more than one Panchayat (Para 4.6)

3. The present system of assessing rental value of residential buildings in Rural and Urban Local Bodies may be dispensed with and plinth area may be adopted as the basis for arriving at the rental value (Para 5.11)

4. For buildings which are 25 years and below in age a rebate of 10% of the annual rental value and for buildings above 25 years a rebate of 20% of the annual rental value may be given. For residential buildings rented out a surcharge of 25% may be levied (Para 5.14)

5. In the case of commercial properties, the rental basis is proposed to be retained but the minimum rates should be set higher than at present as proposed in Table 5.3. (Para 5.15)

6. For owner occupied commercial properties, a rebate of 10% may be allowed. A system of filing returns and making assessment on the basis of actual rent may be introduced for commercial properties with annual rental value of Rs. 12000/- or more (Para 5.16)

7. The general revision of Property Tax may take place every 4 years instead of 5 years. (Para 5.17)

8. Building constructed unauthorisedly in Panchayat areas may be brought under tax net without conferring on them any right to regularization or immunity from punitive action including demolition (Para 5.18)

9. All residential buildings with plinth area of less than 20 sq.mt. and with mud walls or thatched roof in Panchayats and Municipalities may be exempted from building tax/property tax. All non-residential buildings irrespective of their area or type of construction should be made liable to pay the tax. (Para 5.19)

10. A time limit for the disposal of revision and appeal petition my be prescribed in the relevant rules. (Para 5.20)

11. Annual as well as half-yearly Building/Property Tax may be rounded off to the next higher rupee. (Para 5.21)

12. There should be a minimum property/building tax payable by a tax payer and this may be fixed at Rs. 15/- per half year in a Panchyat, Rs.20/- in a Municipality and Rs.25/- in a Corporation. (Para 5.22)

13. The provision to charge interest @ 2% per month on the arrears may be reintroduced in the Kerala Municipality Act, 1994 and such a provision may be introduced in the Kerala Panchayat Raj Act, 1994. (Para 5.23)

14. The Local Bodies may have an option to follow either the current system or a modified system based upon gross collection capacity as the basis for taxation (Para 6.13)

15. Entertainment Tax and Additional Entertainment Tax should be merged into a single item. (Para 6.14)

16. The distinction between Show Tax and Surcharge on Show Tax may be abolished and both merged into one;

The regime of fixed rates may be replaced by one where the present rates are fixed as the minimum with freedom given to Local Bodies to fix rates above them at intervals of not less than two years. (Para 6.17)

17. A provision should be incorporated in the Rules and if necessary in the KPR Act requiring Heads of offices and owners of buildings to furnish to the Panchayat details of employees and occupants (Para 7.5)

18. Profession Tax in the case of persons other than salary and wage earners may be levied at the recommended in Annexure VII.4 (Para 7.6)

19. The rates of Profession Tax may be uniform in urban and rural Local Bodies and that the number of slabs be reduced and the rates rationalized. (Para 7.7)

20. D.A., Bonus, etc should be taken as part of taxable income in urban areas as is already the case of rural areas and allowances such as H.R.A. excluded. (Para 7.8)

21. The State Finance Commission has recommended the introduction of a system of collecting a tax on sale of land from land owners at the time of sale of property. When such a system is introduced Government can do away with the provision under Section 201 under which Panchayats can levy a land cess. (Para 7.12)

22. In respect of Advertisement Tax Government may fix the minimum rate chargeable and leave it to Panchayat or Municipality to fix it above those rates. (Para 7.13)

23. The present practice of Rural Development Board being the financing agency as well as the construction and supervising agency should cease that it may lend money to Local Bodies on merits and at market rates. (Para 8.4)

24. Both Rural Development Board and KUDFC should preferably have a soft window for socially desirable purposes. (Para 8.5)

25. Instead of specifying a unique rate of licence fee, etc. Government may specially only the minimum rate and leave it to the Local Bodies to fix rates above it except in the case of births and deaths. (Para 8.10)

26. Ra---- of Non-Tax Revenue item under Fee. Fine, etc. in Municipalities may be revised (Para 8.11)

27. Promotion may be included in the Kerala Municipalities Act, 1994 and Kerala Panchayat Raj Act, 1994 for the Local Bodies to collect a daily fee from persons unauthorisedly using road porombokes without in any way conferring on such persons any right. (Para 8.13)

28. Government should examine whether it is possible to require that all power of attorneys are compulsorily registered before any transaction is concluded regarding the property and the power of attorney itself is subject to Stamp Duty. (Para 9.6)

29. Since the Local Bodies have a substantial stake in the land value fixed, the Revenue Divisional Officer should send the draft notification to the Local Village Panchayat for their views and comments. (Para 9.8)

30. The increase in the ceiling rate of surcharge from 4 to 5% for Municipalities and Panchayats introduced by 1994 Act need not be given effect to and prevailing rate of 4% may continue until the new system of notifying prices of property comes into effect. (Para 9.9)

31. 25% of Surcharge on Stamp Duty levied on behalf of urban Local Bodies should be put into a State pool. The Surcharge on Stamp duty as well as Basic Tax collected from Corporation area may be transferred to them on collection basis. (Para 9.10)

32. Government may never to the pre 1988 system with a view to obviate the accumulation of arrears of Surcharge on Stamp duty payable to Local Bodies. (Para 9.11)

33. Land Tax may be doubled. (Para 9.18)

34. 60% of the additional income from Land Tax may go to Block Panchayat and balance to District Panchayats. The additional levy may be made a permissive one and the concerned District Panchayat may be authorized to decide on the levy by a resolution. (Para 9.18)

35. Irrespective of the size of the holding the minimum Land Tax may be fixed at Rs.5 per year in Panchayat area, Rs.7.50 in Municipalities and Rs.10 in Corporations. (Para 9.19)

36. Urban Local Bodies should also be eligible for Basic Tax grant. The total amount may be credited to a State pool. (Para 9.20)

37. For devolution of plan funds the criteria recommended in para 10.15 may be followed. (Para 10.15)

38. With the activation of the planning process contemplated in the P.R.I Legislation, the untied funds should taper off. (Para 10.19)

39. It should be left to the Local Bodies to decide on the application of the non-plan grants according to their own priority and perception of their needs. The State Finance Commission further recommend that the past non-plan specific purpose grants which may be lying unutilised or have been diverted for purposes other than those envisaged in the grant may also be treated as a general purpose grant. (Para 10.21)

40. Non-Statutory non-plan grants may be fixed at 1% of the State Revenue and may be distributed between Urban and Rural Local Bodies in proportion to their population. (Para 10.24)

41. State Level Fund for Village Panchayats and Municipal Councils called the Rural Pool and Urban Pool respectively may be constituted. (Para 10.27, 28)

42. Criteria for distribution from the Urban and Rural Pool may be on the lines suggested in para 10.29. (Para 10.29,30,31,32,33)

43. Maintenance grant should be based on current cost of construction and not on historical cost. (Para 11.9,10)

44. The norms recommended at Table 11.4 are at 1992-93 price levels and are recommended as the minimum for maintenance and repair of District Roads and other roads. Suitable price escalation need to be applied to update the norms periodically. (Para 11.22)

45. 50% of the gap estimated in 1996-97 at Rs. 71 crores should come from Government of India via Centrally Sponsored Schemes or other appropriate channels and the remaining 50% from Government of Kerala. (Para 11.27)

46. The current distinction between roads eligible for V.R.M. grant and those for M.V. Tax grant may be abolished and the VRM may be merged with V.T.C. All roads be made eligible for grants from M.V. Tax. (Para 11.29)

47. The V.T.C. may be 25% of the net collection of M.V. Tax and it may be distributed among various Local Bodies in charge of the network on the principles of apportionment recommended by the Babu Paul Committee. (Para 11.30)

48. Building Tax collected by Government under the Kerala Building Tax Act, 1975 may be exclusively assigned to the Village Panchayats and Municipalities. (Para 12.5)

49. A portion of the income from the sale of Court-Fee Stamps may be earmarked for the Local Bodies. (Para 12.7)

50. Local Body should be made eligible for 50% of the Building Exemption fee. (Para 12.8)

51. The scale of Building Exemption fees may be increased by 100% (Para 12.9)

52. While Library Cess may continue to collected by the Local Bodies, it may be earmarked for improving the infrastructure of the educational institutions under their control. (Para 12.11)

53. District Panchayats may be empowered to levy a tax on the sale price of all immovable properties within the District where the price is Rs. 25000 or more at the rate of 1% of the sale price. (Para 12.16)

54. Cable television operators may be required to pay annual licence fee as well as Entertainment Tax. (Para 12.20)

55. Central Government properties should be liable for Building Tax-Property Tax by Local Bodies with a proviso that Central Government may exempt any specified class of building. (Para 12.23)

56. All Local Bodies to conduct a systematic tax mapping followed by assigning unique premises number to each premise. (Para 12.29)

57. Government may appoint a small expert group which will go into the whole question of the format of budget and accounts and other related matters of Local Bodies. (Para 12.37)

58. Government should review the whole arrangements for auditing and accounting of Local Bodies. (Para 12.39)

59. A fund for Local Development should up for leveraging funds and for subsidizing the interest rate on non-remunerative but desirable schemes to strengthen civic infrastructure. (Para 12.40)

60. The 1995 KPR Service Tax Rules may be modified in order to recognize the status of Service Tax as an independent tax. The umbilical cord between Building Tax/property Tax and taxes for services provided should be severed and Local Bodies should be free to set them within specified limits. (Para 13.8, 13.9)

61. A possible solution to the problem of complaints against Kerala Water Authority on non-compliance to rectification or repairs could be entrustment to the Local Bodies the function of maintenance of water taps. (Para 13.10)

i. The pre 1-4-1984 arrears due to K.W.A. from Local Bodies estimated as Rs.20.46 crores may be written off;

ii. The arrears from 1-4-84 to 31-3-91 and from 1-4-92 to 31-3-96 arrived at should be recovered from the Local Bodies on a voluntary basis or by adjusting it towards grants payable by the Government. Arrears may be collected over a period of 8 years.

iii. The Kerala Water Authority should insist upon payment of current dues of 1996-97 promptly by the Local Body and failure of this should be reported to Government who should adjust the dues against the grants payable to Local Bodies.

iv. The repairs and maintenance function in respect of street taps may be looked after by the Local Bodies who are prepared to take it over and for such Local Bodies 10% rebate of the charges payable by a Panchayat and 7% rebate by a Municipality should be allowed by the Kerala Water Authority. (Para 13.13 (i) to (iv))

62. If a Local Body requires special type of lamps like sodium vapour lamps, the full cost of installation will be collected from the Local Body and energy charges collected on metered basis. (Para 13.15)

63. Local Bodies who are prepared to undertake, the work may be entrusted with the responsibility of maintenance and replacement of street lamps and a rebate given to them. (Para 13.21)

64. The Central Govt may evolve suitable Centrally Sponsored Schemes with the aim of transferring annually to local bodies a minimum of 5% of Central Revenue. (Para 15.4)

65. 85% of the Central Finance Commission Grant may be earmarked for for Village Panchayats and the remaining 15% may be distributed among Block and District Panchayat in the proportion of 3:2 and on per capita basis. (Para 15.6)

66. The Central Finance Commission Grant to Urban Local Bodies may be distributed on a per capita basis. (Para 15.8)

67. Local Bodies should be competent to execute civil works financed out of funds raised from public on the basis of estimates prepared by architects and without the intervention of any Government agency in the award of supervision of the work. (Para 16.4)

68. 25% of the funds of various centrally Sponsored Programme for poverty alleviation should be at the disposal of the Local Bodies to be spent on poverty alleviation programmes formulated by the Local Bodies and approved by the District Planning Committee. (Para 16.6)

69. A Statutory Authority should give annual reports to the Governor showing the quantum of statutory and non-statutory grants due to Local Bodies and actually paid to them. (Para 16.11)

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Published as Kerala Gazette Extraordinary

FINANCE (SECRET) DEPARTMENT

NOTIFICATION

No. 31354/SS.1/94/Fin. Dated. Thiruvananthapuram, 23-04-1994

1. S.R.O. No. 483/94 - Under clause (I) of Article 243 (I) of the Constitution of India and Section 186 of the Kerala Panchayat Raj Act. 1994 (13 of 1994), the Governor of Kerala is pleased to constitute a Finance Commission consisting of Shri . P.M. Abraham, IAS (Retired), formerly Secretary, Government of India as the Chairman and the following two other persons as parttime members, namely :

1) Shri. K. Mohandas, Secretary to Government Local Administration Department.

2) Shri. K.A. Ommer, formerly Additional Secretary, Finance Department.

2. The Chairman and other members of the Commission shall hold office for a period of one year from the date on which they respectively enter upon their office.

3. The Finance Commission shall review the financial position of the Panchayats and make recommendations as to -

a) The Principles which should govern -

(i) the distribution between the State and Panchayats of the proceeds of the taxes, duties, tolls and fees leviable by the State which may be divided between them under the Part IX of the Constitution and the allocation between the Panchayats at all levels of their respective shares of such proceeds:

(ii) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Panchayats;

(iii) the grants-in-aid to the Panchayats from the Consolidated Fund of the State:

b) the measures needed to improve the financial position of the Panchayats.

4. Orders regarding the terms and conditions of appointment of the Chairman and other members of the Commission will be issued separately.

By Order of the Governer,

Sd/-

M. MOHANKUMAR

Commissioner & Secretary (Finance)

Explanatory Note

(This does not form part of the Notification, but is intended to indicate its general purport.)

As per clause (1) of Article 243 (I) of the Constitution of India, and Section 186 of the Kerala Panchayat Raj Act, 1994 (Act 13 of 1994) the Governer shall constitute a Finance Commission to review the financial position of the Panchayats and make recommendations. Accordingly, the Governor of Kerala has been pleased to constitute the Finance Commission.

This notification is intended to achieve, the above object.

ANNEXURE -1.2 (Para 1.7)

CALENDAR OF SITTINGS HELD BY THE COMMISSION AT VARIOUS CENTRES IN THE STATE

Name of Centre	Date of sitting
1. Thiruvananthapuram	- 21-11-1995
2. Kollam	- 30-10-1995
3. Pathanamthitta	- 15-12-1995
4. Alappuzha	- 27-11-1995
5. Kottayam	- 28-11-1995
6. Idukki	- 29-11-1995
7. Ernakulam	- 23-11-1995

8. Thrissur - 9-11-1995

9. Palakkad - 10-11-1995

10. Malappuram - 24-11-1995

11. Kozhikode - 25-11-1995

12. Kannur - 16-10-1995
& 17-10-1995

13. Kasargod - 18-10-1995

ANNEXURE 1.3 (Para 1.17)

STATE REVENUE

(Rs. In crores)

Sl.No	Item of Tax Revenue	RECEIPTS FOR THE YEAR 1990-91 (Accts)	1991-92 (Accts)	1992-93 (Accts)	1993-94 (Accts)
A.	TAX REVENUE :				
1.	Agriculture Income	23.94	35.13	12.52	20.88
2.	Land Revenue	11.12	11.44	11.85	19.79
3.	Stamps & Registration	121.99	152.19	189.61	230.16
4.	Taxes on Immovable property other than Agriculture Land	3.92	4.11	7.60	8.66
5.	State Excise	175.41	210.30	222.21	330.95
6.	Sale Tax	897.43	1122.10	1305.59	1533.24
7.	Taxes, on Vehicles	74.14	94.76	111.89	151.06
8.	Taxes and Duties on Electricity	30.56	41.15	22.15	44.46
9.	Other Taxes and Duties on Commodities end services (Entertainment Tax and Luxury Tax)	1.83	2.82	3.54	5.62
	Total - A	1340.34	1674.00	1886.96	2344.82
B.	NON-TAX REVENUE :				
1.	Interest Receipts	21.42	19.49	23.10	27.60
2.	Dividents and Profits	2.70	3.58	3.86	3.93

3.	Public Service Commission	0.40	0.27	0.12	0.95
4.	Police	1.14	2.12	3.51	2.15
5.	Jails	0.45	0.82	0.41	0.57
6.	Stationery & Printing	3.65	2.42	2.98	2.71
7.	Public Works	1.54	1.16	1.26	1.32
8.	Other Administrative Services	6.39	11.53	9.43	10.98
9.	Recoverics towards Pension and other retirement benefits	4.70	5.26	4.47	4.59
10.	Miscellaneous General Services (Main item Lotteries)	65.56	59.04	65.61	66.64
11.	Education, Sports, Art and Culture	18.47	15.04	17.11	21.77
12.	Medical and Public Health	8.78	11.72	12.63	15.31
13.	Family Welfare	0.12	0.06	0.06	0.08
14.	Housing	0.72	0.75	0.81	0.86
15.	Urban Development (Receipts from Town Planning Dept Main item)	0.80	1.22	1.59	1.77
16.	Labour and Employment	1.58	1.34	1.26	1.52
17.	Crop Husbandry	4.83	4.28	5.41	7.58
18.	Animal Husbandry	2.35	2.58	2.90	3.50
19.	Dairy Development	0.26	0.28	0.50	0.52
20.	Fisheries	1.25	1.30	1.83	1.03
21.	Forestry & Wild life	37.33	55.64	78.71	102.96
22.	Co-operation	7.36	7.88	6.84	7.52
23.	Major and Medium Irrigation	2.07	1.66	1.44	2.36
24.	Village & Small Industries	1.36	2.62	1.41	2.82
25.	Non-ferrous mining and Metallurgical Industries	1.19	1.75	4.45	4.70
26.	Other Industries	---	3.66	8.40	9.39
27.	Roads and Bridges (Tolls come to Rs. 76 lakhs during 1993-94)	3.98	5.07	6.06	7.51
28.	Ports & Light houses	0.56	0.68	0.76	0.72

29.	Inland Water Transport	1.33	1.33	1.64	1.98
30.	Other General Economic Services (Fees for stamping weights and measures - Main item Rs. 2.07 crores during 1993-94)	2.33	3.57	4.21	4.39
31.	Other items	4.21	6.55	6.63	3.54
	Total - B	208.83	234.67	279.40	323.27
	GRAND TOTAL (A + B)	1549.17	1908.67	2166.36	2668.09

ANNEXURE II. 1 (Para 2.2)

TRENDS IN TOTAL REVENUE RECEIPTS - 1987-88 TO 1995-96

(Rs. In lakhs)

		1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
		Accounts	Accounts	Accounts	Accounts	Accounts	Accounts	Accounts	Revised Estimate	Budget Estimate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
I	Taxes and Duties	121456	150227	168841	182660	225037	257392	309605	347191	379974
	Percentage to total	76.58	79.19	82.46	76.02	78.90	77.56	78.91	77.33	77.09
	Index	100	124	139	150	185	212	255	286	313
	(i) Share of Central Taxes*	28933	43680	45590	48626	57642	68695	75118	82245	94065
	Percentage to total	18.35	23.03	22.27	20.24	20.21	20.70	19.15	18.32	19.08
	(ii) State Taxes and Duties	92523	106547	123251	134034	167395	188697	234487	264946	285909
	Percentage to total	58.33	56.16	60.19	55.78	58.69	56.86	59.79	59.01	58.01
II	Non-tax Revenue £	37153	39479	35923	57633	60175	74481	82600	101764	112895
	Percentage to total	23.42	20.81	17.54	23.98	21.10	22.44	21.06	22.67	22.91
	Index	100	106	97	155	162	200	222	274	304
	(i) Interest	3834	2609	1793	2142	1949	2310	2760	3354	3446

Receipts									
Percentae to total	2.41	1.38	0.87	0.89	0.68	0.70	0.70	0.75	0.70
(ii) Other non-tax Revenue	33319	36870	34130	55491	58226	72171	79840	98410	109449
Percentage to total	21.00	19.43	16.67	23.09	20.42	21.75	20.36	21.92	22.21
III Total Revenue	158609	189706	204764	240293	285212	331873	392205	448955	492869
Index	100	120	129	152	180	209	247	283	311

*Including grants in lieu of the Tax on Railway Passenger Fares £ including grants in aid from the center.
Source: Budget in Breaf 1995-96

ANNEXURE 11.2 (Para 2.2)

TRENDS IN REVENUE EXPENDITURE 1980-81 & 1987-88 TO 1995-96

(Rs. In lakhs)

	1980-81	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	19
	Accounts	Accounts	Accounts	Accounts	Accounts	Accounts	Accounts	Accounts	Revised Estimate	Bu Es
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11
1. Development Exp.	50021	116293	135888	146031	180260	196912	228060	258597	315254	34
Percentage to total	75	65.31	65.93	63.54	63.81	61.22	62.38	60.23	60.81	60
2. Non-Development Exp.	16740	61775	70212	83778	102235	124734	137554	170739	203133	22
Percentage to total	25	34.69	34.07	36.46	36.19	38.78	37.62	39.77	39.19	39
3. Total	66761	178065	206100	229809	282495	321646	365614	429336	518387	57
Index*		100	116	129	159	181	205	241	291	32

Base year : 1987-88.
Source: State Budget in Brief 1995-96.

ANNEXURE - IV.1 (Para 4.11)

SOURCES OF REVENUE OF LOCAL BODIES

A. Own Taxes (Taxes assigned by Statute and collected by Local Bodies)

	Village Panchayats	Municipalities
(i)	Building Tax & surcharge on Building Tax	Property Tax
(ii)	Profession Tax	Profession Tax
(iii)	(No Tax on animals, etc. in Panchayats)	Tax on animals, vessels and vehicles
(iv)	Entertainment Tax and Addl. Entertainment Tax	Entertainment Tax and Addl. Entertainment Tax
(v)	Service Tax for sanitation, Water supply, and Street lighting and Drainage	The element of service tax is an integral part of the Property Tax Service tax for lighting and scavenging is included in the prescribed minimum charges in the Municipalities and for lighting, drainage, water supply and scavenging in Corporation.
(vi)	Advertisement Tax	Advertisement Tax
(vii)	Land Cess (optional)	No land cess in assigned to Municipalities
(viii)	Cess on convention of Land Use	Cess on Conversion of Land Use
(ix)	Show Tax and Surcharge 'on Show Tax	Show Tax and Surcharge on Show Tax
(x)	(No tax on timber in Panchayat)	Tax on timber
(xi)	Surcharge on any tax not exceeding 5% leviable by Panchayat on direction of Govt.	Surcharge not exceeding 10% of the Taxes.

B. Assigned Tax: (collected by Government and given to Local Bodies)

(i)	Surcharge on duty on transfer of Property	Surcharge on duty on transfer of Property
	Village Panchayats	Municipalities
(ii)	Basic Tax or Land Tax	Municipalities are not eligible for any share of income from this source.

C. Shared Tax: (levied by Government and shared with Local Bodies)

	Motor Vehicle Tax	Motor Vehicle Tax

D. Non-Tax Fevenue:

(i)	Income from properties, markets, licence fees, contributions, miscellaneous items,	Income from properties, markets, licence fees, contributions, miscellaneous item,

etc.	etc.
(ii) Contributions, Endowments, etc.	Contributions, Endowments, etc.
E. Grants from Government:	
(i) Specific Purpose Grants	Specific Purpose grants
(ii) United funds for developmental purposes	Specific Purpose Grant for developmental purposes
(iii) General Purpose Grant	General Purpose Grant
F. Loans	
Loans from Government and Financing Institutions	Loans from Government and Financing Institutions

ANNEXURE IV-2 (Para 4-22)

TOTAL RECEIPTS OF LOCAL BODIES

(Rs. in lakhs)

	1990-91	1991-92	% of Increase	1992-93	% of Increase	1993-94	% of increase	Average increase (%)
1. Panchayats :								
A. Revenue Receipts:								
1. Own Tax Revenue	3035 (33.2)	3616 (38.2)	19.8	3589 (33.1)	(-) 0.8	4386 (33.4)	22.2	13.7
2. Assigned Taxes Collected by Government	1977 (21.7)	1861 (19.7)	(-) 5.9	2339 (21.5)	25.7	3133 (23.8)	33.9	17.9
3. Shared Tax	282 (3.1)	188 (2.0)	(-)33.3	434 (4.0)	130.0	757 (5.8)	74.4	57.0
4. Non-Tax Revenue	1014 (11.1)	1119 (11.8)	10.4	1236 (11.4)	10.4	1571 (12.0)	27.1	16.0
5. Grants	2823 (30.9)	2681 (28.3)	(-) 5.0	3262 (30.0)	21.7	3293 (25.0)	1.1	5.9
Sub Total :	9131 (100)	9457 (100)	3.7	10860 (100)	14.7	13145 (100)	21.0	13.1
B. Capital Receipts	757	534	(-)29.6	554	3.9	473	(-)14.6	(-)13.4
Sub Total (A+B)	9888	10001	1.1	11414	14.1	13618	19.3	11.5

II. Municipalities and Corporations:

A. Revenue Receipts :

1. Own Tax Revenue	3899	4196	7.6	4582	9.2	5571	21.6	12.8
	(58.2)	(61.8)		(56.4)		(58.6)		
2. Assigned Taxes Collected by Government	268	349	30.2	536	53.6	780	45.5	43.1
	(4.0)	(5.1)		(6.6)		(8.2)		
3. Shared Tax	337	205	(-)39.2	448	118.5	339	(-)24.3	18.3
	(5.0)	(3.0)		(5.5)		(3.6)		
4. Non-Tax Revenue	1768	1662	(-)6.0	2095	26.0	2041	(-)2.5	5.8
	(26.4)	(24.5)		(25.8)		(21.4)		
5. Grants	425	380	(-)10.6	462	21.6	780	68.8	26.6
	(6.4)	(5.6)		(5.7)		(8.2)		
Sub Total	6697	6792	1.4	8123	19.6	9511	17.1	12.7
	(100)	(100)		(100)		(100)		
B. Capital Receipts	994	1216	22.5	1516	24.5	1632	7.7	18.2
Sub Total (A+B)	7691	8010	4.1	9639	20.3	11143	15.6	13.3
Grand Total	17579	18011	2.5	21053	16.9	24761	17.6	12.3

Source : SFC Survey, 1995.
Note : The figures in brackets indicate percentage to total.

ANNEXURE IV-3 (Para 4.26)

EXPENDITURE OF LOCAL BODIES UNDER GENERAL ACCOUNT

(Rs. in lakhs)

		Expenditure during the year							
Sl. No	Item	1990-91	1991-92	% of increase	1992-93	% of Increase	1993-94	% of Increase	Average increase (%)
I.	Panchayats:								
1.	Management and collection	3040	3359	10.5	3491	3.9	4164	19.3	11.2
		(46.1)	(50.3)		(47.2)		(48.1)		
2.	Public Works	1862	1729	(-)7.1	2039	17.8	2586	26.8	12.5

		(28.2)	(25.9)		(27.6)		(29.9)		
3.	Education	236	206	(-)13.1	221	7.8	249	12.7	2.5
		(3.6)	(3.1)		(3.0)		(2.9)		
4.	Water Supply and Drainage	164	171	4.3	245	43.3	173	(-)29.4	6.1
		(2.5)	(2.6)		(3.3)		(2.0)		
5.	Street lighting	499	525	5.2	649	23.6	662	2.0	10.3
		(7.6)	(7.9)		(8.8)		(7.7)		
6.	Public health	255	192	(-)24.7	207	7.8	211	1.9	(-)5.0
		(3.9)	(2.9)		(2.8)		(2.4)		
7.	Maintenance of properties	153	150	(-) 2.0	132	(-)12.0	182	37.9	8.0
		(2.3)	(2.2)		(1.8)		(2.1)		
8.	Others	387	343	(-)11.4	411	19.8	425	3.4	3.9
		(5.8)	(6.1)		(5.5)		(4.9)		
	Total	6596	6674	1.2	7385	10.8	8652	17.0	8.7
		(100)	(100)		(100)		(100)		

II Municipalties and Corporations:

1. Management and Collection	1009	1256	24.5	1334	6.2	1532	14.6	15.2
	(22.5)	(25.3)		(24.0)		(21.3)		
2. Public Works	963	1106	14.8	1270	14.8	1555	22.4	17.3
	(21.5)	(22.3)		(22.8)		(21.6)		
3. Education	67	68	1.5	81	19.1	91	12.3	11.0
	(1.5)	(1.3)		(1.5)		(1.3)		
4. Water Supply and Drainage	439	366	(-)12.0	327	(-)15.2	553	70.6	14.5
	(9.8)	(7.8)		(5.9)		(7.7)		
5. Street lighting	356	359	0.8	413	15.0	542	31.2	15.7
	(7.9)	(7.2)		(7.4)		(7.5)		
6. Public Health	1388	1488	7.2	1745	17.3	2377	36.2	20.2
	(30.9)	(30.0)		(31.4)		(32.9)		
7. Maintenance of Properties	201	231	14.9	280	21.2	346	23.6	19.9

		(4.5)	(4.6)		(5.1)		(4.8)		
8. Others		64	76	18.7	108	42.1	206	90.7	50.5
		(1.4)	(1.5)		(1.9)		(2.9)		
Total		4487	4950	10.3	5558	12.3	7207	29.7	17.4
		(100)	(100)		(100)		(100)		

Source : SFC survey (1995)
Note : The figures in brackets indicate percentage to total

ANNEXURE IV-4 (Para 4.32)

EXPENDITURE UNDER CAPITAL ACCOUNT

(Rs. In lakhs)

Expenditure during the year

Sl. No	Item	1990-91	1991-92	% of Increase	1992-93	% of Increase	1993-94	% of Increase	Average Increase (%)
I.	Panchayats :								
1.	Management and collection	449 (17.2)	384 (15.9)	(-)18.9	301 (11.0)	17.3	380 (10.6)	19.6	(-)5.5
2	Public Works	1713	1540	(-)10.1	1978	28.4	2650	33.9	17.4
3.	Education	(65.7)	(67.2)	(-)39.7	(73.9)	12.7	(78.2)	5.8	(-)15.5
		131	79		62		73		
		(5.0)	(3.4)		(2.6)		(2.2)		
4.	Water Supply, and Drainages	74	54	(-)27.0	73	35.2	39	(-)46.6	(-)12.3
		(2.9)	(2.4)		(2.7)		(1.2)		
5.	Street lighting	90	98	8.9	113	15.3	130	15.0	13.1
		(3.5)	(4.3)		(4.2)		(3.8)		
6.	Public health	53	32	(-)33.6	42	31.2	45	7.1	(-)0.4
		(2.0)	(1.4)		(1.6)		(1.8)		
7.	Others	97	125	28.9	99	(-)20.4	91	(-)8.1	Nil
		(3.7)	(5.4)		(3.7)		(2.7)		
	Total	2607	2292	(-)12.1	2675	10.1	3388	26.6	10.4
		(100)	(100)		(100)		(100)		

Municipalities and Corporations:

1. Management and Collection	186	219	17.7	307	40.1	324	5.5	21.1
	(6.7)	(10.0)		(12.1)		(9.4)		
2. Public Works	16.8	1604	(-) 0.2	1787	11.4	2276	27.3	12.8
	(75.4)	(73.4)		(70.2)		(66.1)		
3. Education	18	23	27.8	15	(-)34.1	56	273.4	88.8
	(0.8)	(1.1)		(0.6)		(1.6)		
4. Water Supply	200	158	(-)21.0	214	35.4	486	127.1	47.2
	(9.4)	(7.2)		(8.4)		(14.1)		
5. Street lighting	65	114	75.4	102	(-)10.0	178	74.5	46.5
	(3.0)	(5.2)		(4.0)		(5.2)		
6. Public Health	51	63	23.5	90	42.0	93	3.4	23.2
	(2.4)	(2.9)		(3.5)		(2.7)		
7. Others	5	4	(-)20.0	31	675.0	32	3.2	219.4
	(0.3)	(0.2)		(1.2)		(0.9)		
Total	2133	2185	2.4	2546	16.5	3445	35.3	18.1
	(100)	(100)		(100)		(100)		

Source : SFC Survey, 1995.
Note : The figures in brackets indicate percentage to total.

ANNEXURE IV-5 (Para 4.32)

TOTAL EXPENDITURE ON GENERAL ACCOUNT AND CAPITAL ACCOUNT

(Rs. In lakhs)

Expenditure during the year

Sl. No	Item	1990-91	1991-92	% of Increase	1992-93	% of Increase	1993-94	% of Increase	Average Increase %
I Panchayats:									
1.	Management and collection	3439	37.23	6.7	3792	1.9	4524	19.3	9.3
		(37.1)	(40.4)		(36.9)		(36.7)		
2.	Public Works	3575	3269	(-)8.6	4017	22.9	5236	30.3	14.9
		(38.0)	(35.5)		(39.0)		(42.4)		

3.	Education	367	284	(-)22.6	290	2.1	322	11.0	(-)3.2
		(3.9)	(3.1)		(2.8)		(2.6)		
4.	Water Supply and Drainage	238	225	(-)5.5	318	41.3	212	(-)33.3	0.8
		(2.5)	(2.4)		(3.1)		(1.7)		
5.	Street lighting	569	623	5.8	762	22.3	792	3.9	10.6
		(6.2)	(6.8)		(7.4)		(6.4)		
6.	Public helth	308	224	(-)27.3	240	11.1	256	2.8	(-)4.4
		(3.2)	(2.4)		(2.4)		(2.1)		
7.	Others	637	615	(-)2.9	642	3.8	698	8.7	3.2
		(8.8)	(6.7)		(6.2)		(5.7)		
	Sub Total	9203	8966	(-)2.6	10070	12.3	12040	19.5	9.7
		(97.8)	(97.3)		(97.8)		(97.6)		
	Debt Servicing	206	251	20.6	227	(-)9.5	297	30.8	13.9
		(2.2)	(2.7)		(2.2)		(2.4)		
	Total (Panchayats)	9411	9217	(-) 2.1	10297	11.7	12337	19.8	3.8
		(100)	(100)		(100)		(100)		
Municipalities and Corporations:									
1. Management and Collection		1195	1475	23.4	1641	11.2	1856	13.1	15.9
		(16.1)	(16.9)		(8.6)		(15.9)		
2. Public Works		2571	2710	5.4	3057	12.8	3831	25.3	14.5
		(34.5)	(34.8)		(34.7)		(32.9)		
3 Education		85	91	7.1	96	5.5	147	53.1	22.1
		(1.1)	(1.2)		(1.1)		(1.2)		
4. Water Supply		639	524	(-)17.9	541	3.2	1044	82.8	22.7
		(8.6)	(6.7)		(6.1)		(9.0)		
5. Street lighting		421	473	12.3	515	8.8	720	39.6	20.3
		(5.7)	(6.1)		(5.9)		(6.2)		
6. Public Health		1439	1551	7.8	1835	18.3	2470	34.6	20.2
		(19.3)	(19.9)		(20.8)		(21.2)		
7. Others		270	311	15.1	419	34.7	584	39.4	29.7

	(3.6)	(4.0)		(4.8)		(5.0)		
Sub Total	88.20	7135	7.8	8104	13.6	10652	31.4	17.7
	(88.9)	(91.6)		(82.0)		(91.4)		
Debt Servicing	823	663	(-)20.6	703	7.6	1007	43.2	10.1
	(11.1)	(8.4)		(8.0)		(8.6)		
Total (Municipalities and Corporations)	7443	7768	4.6	8807	13.1	11659	32.4	16.7
	(100)	(100)		(100)		(100)		
Grand Total	16354	17005	0.9	19104	12.3	23996	25.6	12.93

Source : SFC Survey, 1995 Note : Figures in brackets indicate percentage to total.

ANNEXURE - VI.1 (Para 6.7)

URBAN LOCAL BODIES HAVING INCOME FROM ENTERTAINMENT TAX AND ADDITIONAL ENTERTAINMENT TAX EXCEEDING PROPERTY TAX

(Rs. In lakhs)

Sl No.	Name of Municipalities	Receipts in 1993-93	
		Property Tax	Entertainment Tax & Additional Entertainment tax
1	Nedumangad	11	12
2	Kollam	64	127
3	Pathanamthitta	19	21
4	Alappuzha	48	53
5	Cherthala	16	17
6	Kottayam	82	85
7	Pala	16	42
8	Changanassery	30	47
9	Thodupuzha	16	22
10	Thripunithura	17	25
11	Kothamangalam	13	17
12	North Parur	15	18
13	Aluva	36	38
14	Thrissur	74	127

15	Chalakudy	21	34
16	Kunnamkulam	22	33
17	Guruvayoor	22	39
18	Kondugalloor	11	50
19	Palakkad	85	123
20	Shornur	11	20
21	Manjeri	17	25
22	Tirur	21	43
23	Vadakara	33	58
24	Thalassery	48	60
25	Koothuparamba	7	7

Source : SFC Survey, 1995

ANNEXURE VI.2 (Para 6.9)

COLLECTION OF ENTERTAINMENT TAX AND ADDITIONAL ENTERTAINMENT TAX PER THEATRE AND PER SEAT IN PANCHAYATS: 1993-94

District	No. of theatres	No. of seats	Entertainment Tax and Addl. E.T. collected by Panchayats during 1993-94 (Rs. In lakhs)	Entt. Tax and Addl E.T Per theatre per day (Rs)	Per seat per day (Rs)	Ranking as per No. of Theatres	No. of Seats	Total Receipt	Receipt per theatre per day	Receipt per seat per day
Thiruvananthapuram	97	41076	26	73	0.17	2	6	10	11	11
Kollam	94	42368	46	134	0.30	3	5	6	8	8
Pathanamthitta	38	13282	9	65	0.19	12	14	14	13	10
Alappuzha	57	23633	23	111	0.27	9	10	11	10	9
Kottayam	44	19159	28	174	0.41	11	12	9	6	5
Idukki	49	22639	12	67	0.15	10	11	13	12	12
Ernakulam	72	34946	59	225	0.46	8	8	5	4	4
Thrissur	114	53466	72	173	0.40	1	1	4	7	6
Palakkad	90	43189	82	250	0.52	5	3	3	3	2

Malappuram	80	42501	122	418	0.79	7	4	1	1	10
Kozhikode	91	46404	83	250	0.49	4	2	2	3	3
Wayanad	27	25087	37	375	0.41	13	9	7	2	5
Kannur	81	35805	35	118	0.27	6	7	8	9	9
Kasaragod	23	14802	18	214	0.33	14	13	12	5	7
Total	957	458337	652	187	0.39					

Source: SFC Survey, 1995

ANNEXURE : VII.1 (Para 7.2)

EXISTING RATES OF PROFESSION TAX FOR INDIVIDUALS

A. Panchayats :

Class	Half-yearly income	Maximum half-yearly tax
I More than 2400	but not more than 4200	Rs. 10
II More than 4200	but not more than 6000	Rs. 20
III More than 6000	but not more than 7500	Rs. 30
IV More than 7500	but not more than 10800	Rs. 45
V More than 10800	but not more than 12600	Rs. 60
VI More than 12600	but not more than 15000	Rs. 75
VII More than 15000	but not more than 21000	Rs. 100
VIII More than 21000	but not more than 24000	Rs. 125
IX More than 24000	but not more than 27000	Rs. 150
X More than 27000	but not more than 30000	Rs. 200
XI More than 30000	but not more than 42000	Rs. 300
XII More than 42000	but not more than 51000	Rs. 400
XIII More than 51000	but not more than 60000	Rs. 500
XIV More than 60000	but not more than 75000	Rs. 750
XV More than 75000	but not more than 108000	Rs. 1000
XVI More than 108000	but not more than	Rs. 1250

B. Municipalities :

I More than 3600	but not more than 5400	Rs. 9

II More than 5400	but not more than 7800	Rs. 15
III More than 7800	but not more than 10800	Rs. 24
IV More than 10800	but not more than 14400	Rs. 37
V More than 14400	but not more than 18000	Rs. 50
VI More than 18000	but not more than 24000	Rs. 75
VII More than 24000	but not more than 30000	Rs. 100
VIII More than 30000	but not more than 36000	Rs. 125
IX More than 36000	but not more than 42000	Rs. 175
X More than 42000	but not more than 48000	Rs. 250
XI More than 48000	but not more than 72000	Rs. 500
XII More than 72000	but not more than 102000	Rs. 750
XIII More than 102000	but not more than 126000	Rs. 1000
XIV More than 126000	but not more than	Rs. 1250

Source : 1. SRO 674/90, Kerala Gazette No. 24/1990
2. G.O (MS) No. 129/90/LAD, dated 10-8-1990

ANNEXURE VII-2 (Para 7.3)

EXISTING RATES OF PROFESSION TAX BASED ON TURNOVER

A. Panchayat area:

(Profession Tax rules 1963 substituted by SRO 674/90, K.G. No. 24/1990)

Table	Percentage	Minimum
Where the turnover of business exceeds 20 lakhs of rupees	3	80,000
Where the turnover of business exceeds 16 lakhs of rupees but does not exceeds 20 lakhs of rupees	3	54,000
Where the turnover of business exceeds 8 lakhs of rupees but does not exceeds 16 lakhs of rupees	3.5	36,000
Where the turnover of business exceeds 4 lakhs of rupees but does not exceeds 8 lakhs of rupees	4	24,000
Where the turnover of business exceeds 2 lakhs of rupees but does not exceeds 4 lakhs of rupees	5	15,000
Where the turnover of business exceeds Rs. 50,000 but does not exceeds 2 lakhs of rupees	6	6,000

B. Municipal / Corporation area:

Sl. No.	*Table of turnover basis*	*Percentage*	*Minimum*
I	Turnover exceeding Rs. 12 lakhs	2	36,000
II	Turnover exceding Rs. 6 lakhs but not exceeding Rs. 12 lakhs	3	24,000
III	Turnover exceeding Rs. 3 lakhs but not exceeding Rs. 6 lakhs	4	18,000
IV	Turnover exceeding Rs. 1,50,000 but not exceeding Rs. 3 lakhs	6	12,000
V	Turnover not exceeding Rs. 1,50,000/-	8	

ANNEXURE - VII.3 (Para 7.5)

PROFESSION TAX ASSESSEES IN PRIVATE ESTABLISHMENT AND WORKERS ACCORDING TO 1991 CENSUS

Sl No.	Name of Local Body	No. of assesses as per Local Body (Pvt. Estt)	No. of Workers	Total Main Workers
Kasaragod District				
A.	Municipalities			
1	Kasaragod	3620	7991	13792
2	Kanhangad	32	7935	17621
B.	Panchayats			
1	Aganoor	1640	5374	12280
2	Balal	199	791	6766
3	Kodamballoor	NA	1413	9774
4	Madikkal	229	1966	6476
5	Pallikara	169	2367	7910
6	Panathody	41	1598	12985
7	Pullur peria	41	1598	12985
8	Uduma	328	3364	7860
Kannur District				
A.	Municipalities			

1	Kannur	1349	9510	36944
2	Koothuparamba	770	3793	51501
B.	Panchayats			
1	Cherukunnu	414	1466	4026
2	Kalliasseri	934	3217	6025
3	Kannapuram	416	1973	4639
4	Narath	94	2402	5619
5	Pappinisseri	1550	4351	6897
6	Cheruthazham	95	1259	4648
7	Ezhome	128	1259	4648
8	Kunhimangalam	-	1537	4320

Includes workers under (i) Manufacturing processing, servicing and repairs in other than household industry (ii) Trade and Commerce and (iii) Transport, Storage and Communication. Includes the workers shown under Col. 4 & Agri. Labourers, those under Live Stock, Forestry, Fishing, Hunting and Plantation, Mining and quarying, construction and other services.

Source : 1. State Finance Commission Survey (1995)
2. Panchayat level Statistics, Dept. of Economics & Statistics, Thiruvananthapuram.

ANNEXURE - VII.4 (Para 7.6)

PROPOSED RATES OF PROFESSION TAX IN THE CASE OF PERSONS OTHER THAN SALARY/WAGE EARNERS

Class of profession / trade / calling (other than salary & wages earners)	Half-yearly Tax at flat rate proposed	Basis of rate
(1)	(2)	(3)
1. (a) Legal practitioners including Notaries (b) Private Medical Practitioners (Private Medical Practitioners of Allopathy, Ayurvedic, Homeopathic Siddha and Unani systems of medicines) and persons engaged in other similar professions or calling of a para medical nature (c) Other professionals whose half - yearly income is more than Rs. 3000	Will be assessed at the rates specified in Table 7.1 based on income furnished in the return of income subject to a minimum of Rs. 30 per half year	
2. Dealers / Firms registered under the	Rs. 60	

General Sales Tax Act whose annual gross turn over of all sales or all purchases	Rs. 120
(i) Rs. 50,000/- and below :	Rs. 500
(ii) Above Rs. 50,000/- but not more than Rs. One lakh :	Rs. 1000
(iii) Above Rs. One lakh but not more than Rs. 5 lakhs :	Rs. 1250
(iv) Above Rs. 5 lakh but not more than Rs. 10 lakhs :	
(v) Above Rs. 10 lakhs :	
3. Companies registered under the Companies Act 1956 engaged in any profession or trade (those not coming under 2 above)	Rs. 1250
(i) Whose paid up capital is above Rs. 10 lakhs :	Rs. 500
(ii) Whose paid up capital is not more than Rs. 10 lakhs :	
4. Banking Companies as defined in the Banking Regulation Act (Scheduled Banks, their branches and other Bankers & their branches) :	Rs. 1250
5.	
(a) State level and District level Co-operative Societies registered under the Co-operative Societies Act and engaged in any profession trade or calling (including State Co-operative Bank, District Co-operative Banks, Urban Banks etc., and their branches)	Rs. 1250 Rs. 500
(b) Other Co-operative Societies (below State and District levels):	
6.	Rs. 1250
a. Licensed foreign liquor vendors, Bar attached Hotels, Star Hotels:	Rs. 1250
b. Owners or lessees of petrol / diesel pumps and services stations :	Rs. 1250
c. Owners / lessees of Film (Motion) studio and film Producers / Film Distributors, leading cine artists who have at least one Film in the	

year :		
7. Employers of shops, Establishment and Factories coming under Shops & Establishment Act or Factories Act who do not come under category Nos. 2 & 6 above	Rs. 60	
(i) Without employees :	Rs. 120	
(ii) With employees not exceeding 5 :	Rs. 300	
(iii) With employees more than 5 but less than 10 :	Rs. 750	
(iv) With employees more than 10 :		
8. Holders of permits fort Transport Vehicles granted under Motor Vehicles Act which are used for hire	Rs. 120	
(a) Taxi Car, Van cab or Jeep	Additional Rs. 60 for each vehicle (assuming minimum half-yearly income per vehicle as more than Rs. 6000)	
(i) Upto 2 vehicles :		
(ii) More than two vehicles :		
(b) Lorry, Truck or Bus	Rs. 150	
(i) Up to 2 vehicle :	Additional Rs. 120 for each vehicle (Assuming half-yearly income from each vehicle as more than Rs.12000/-)	
(ii) More than 2 vehicles :		
(c) Three Wheelers passenger / goods vehicle	Rs. 60	
(i) upto 2 vehicle :	Additional Rs. 30/- for each vehicle (Assuming half-yearly income per vehicle as more than Rs. 3,000/-)	
(ii) more than 2 vehicles :		
9. Contractors	Rs. 1000/-	
i) Taking up work of Rs. 10 lakhs and above in a year	Rs. 500/-	At the rate of one rupee per Rs. 1000/- of the contract work assumed on the minimum amount of each slab
ii) -do- Rs. 5 lakhs but less than Rs. 10 lakhs in a year	Rs. 200/-	
iii) -do- Rs. 2 lakhs and above but less than 5 lakhs in a year	Rs. 100/-	
iv) Others		At the above rate assuming minimum amount of contract work as Rs. One lakh

10. Petty trades (dealers not registered under G.S.T) whose half-yearly sales turn over is not less than Rs. 30,000/-	Rs. 30/-	At the rate of one rupee per Rs. 1000/- of sales turn over for Rs. 30,000/-

Notes : If a person / firm is covered by more than one class of profession specified above, he / firm need be assessed only for the highest rate of tax under any one of the classes applicable.

ANNEXURE VIII -1 Para (8.3)

PROFIT/LOSS ON CERTAIN SCHEMES EXECUTED BY THE RURALDEVELOPMENT BOARD

Name of Panchayat	Name of District	Name of Scheme	Capital cost	Income during 93-94 Rs.	12% return on capital cost Rs.	Profitable or not with ref to Col 4 Rs.
Sreekrishnapuram (palakkad)	Palakkad	Shopping Complex	4,15,800	22,100	49,896	Loss
Koppam	Palakkad	Shopping Complex	15,50,000	41,300	66,000	Loss
Alathur	Palakkad	Bus Stand-cum-Shopping Center	15,30,000	79,600	1,83,600	Loss
Mezhluveli	Pathanamthitta	Shopping center-cum-Market Stall	22,77,7080	153,300	2,73,324	Loss
Ollur	Thrissur	Shopping Complex	15,08,500	239,000	1,81,020	Profit
Kolazhy	Thrissur	Shopping center & Office	17,05,643	120,000	2,04,677	Loss
Puthiputhur	Thrissur	Shopping Complex	10,45,576	61,850	1,25,469	Loss
Vilvattom	Thrissur	Shopping Complex	21,16,747	152,519	2,54,009	Loss
Kaiparambu	Thrissur	Shopping Complex	7,96,000	7,800	95,520	Loss
Alagappanagar	Thrissur	Shopping	4,47,900	37,800	53,748	Loss

		Complex				
Neendor	Kottayam	Shopping Room & Market Stall	5,24,800	30,000	62.,976	Loss
Karukachal	Kottayam	Shopping Complex	6,47,556	92,100	77,706	Profit
Erattupetta	Kottayam	Shopping Complex	20,56,000	00	2,46,720	
Perumkadavila	Trivandrum	Shopping Complex	1,01,400	6,426	12,168	Loss
Kadakampally	Trivandrum	Shopping Complex	2,96,700	22,100	35,604	Loss
Kattakada	Trivandrum	Office bldg	10,96,137	23,189	1,31,536	Loss
Vizhinjam	Trivandrum	Shopping Complex	6,98,200	61,000	83,784	Loss

ANNEXURE -VIII-2 (Para 8.7)

NON-TAX REVENUE (PANCHAYATS) - FEES, LICENCE FEES

Sl. No	Existing Rules	Reference to the relevant provisions	Nature of fee	Existing Rate	Date/year from which the rate is in force	Proposed rate of revision
1	Kerala Panchayat (Compounding Offences) Rules 1966	Rule 5	Compounding fee	Rs. 2/-	1966	Rs.10.00
2	Kerala Panchayats (Construction and Maintenance of Public and Private latrines and Removal of waste and rubbish from Private Premises) Rules 1964	Rule 17	Penalty for breach	Rs.10/-	1964	Rs.50.00

3	Kerala Panchayat [Custody of records and grant of Proceeding of Records] Rules 1962.	Rule 4 (a) Rule (b) Rule 6 (1)	Search fee for one year [Search fee for every additional year] Copying fee for 175 words or part	Rs.2.00 Rs.1.00 Rs.1.00	11-11-86 11-11-86 11-11-86	Rs2.00 Rs1.00 Rs.5.00	(No enhan-cement proposed)

4	Kerala Panchayat [Landing place, Halting place and cart stand] Rules 1964	Rule 10 (1) 1)Maximum fee for the use of Public halting place or cart-stand for a period not exceeding 24 hrs if no amenities are provided.	Rates of Fees 1)Maximum fee for the use of Public halting place or cart-stand for a period not exceeding 24 hrs if no amenities are provided.	Maximum for a period not exceeding 24 hrs. if no amenities are provided	Maximum 1-1-78 fee for a period not exceeding 24 hrs. If amenities are provided		

		(1)		(2)	1-1-78	Minimum
		Rs.		Rs.		
(1)	For every hand-drawn cart, rickshaw Cycle or Cycle rickshaw	0.05	0.10	"	2.00	
(2)	For every cart or Vehicle drawn by one or more animals	0.15	0.30	"	3.00	
(3)	For every motor Vehicle other than buses & lorries	0.50	0.75	"	5.00	
(4)	For every bus or lorry	1.50	2.00	"	10.00	
(5)	For every horse, mule, bull, bullock, Cow or Buffalo	0.10	0.15	"	2.00	
Rule 10(2)						
2)	Fee for a single half at public landing place					
(1)	Motor boat or steam launch	0.50	0.75	"	5.00	
(2)	Steam or Motoring	0.75	1.25	"	10.00	
(3)	Cabin boat	0.15	0.30	"	5.00	
(4)	Vallams of capacity of one tonnes or less	0.10	0.25	"	3.00	
(5)	Valloms of above 1 tonne	0.15	0.30	"	5.00	

		upto 5 tonnes				
	(6)	Valloms of above 5 tonnes upto 10 tonnes	0.75	1.00	"	7.00
	(7)	Valloms above 10 tonnes	1.50	2.00	"	10.00
	(8)	Thangara [Changedom]	0.20	0.30	"	3.00
	(9)	Timber heaps upto 20 tonnes	1.50	2.00	"	20.00
	(10)	Timber heaps above 20 tonnes for every additional tonne	0.10	0.20	"	5.00
	(3)	Fees for storing any goods in the space allotted in the landing place				
	(i)	Charges per day for storing goods in open space per 100 sq.ft.		0.30	"	25.00
	(ii)	Rental charges per room per day		2.00	"	25.00
	4)	Fee for stay in the landing place Charges per day per Vallom or boat or stay		0.30	"	5.00
5.	Kerala Panchayat (Public & Private markets) Rules 1964	Rule 7	Levy of fees Markets Schedule Details of items	Maximum per day		Minimum per day
			I For the use of or for the right to expose goods for sale		3/88	
		(a)	Occupying space having are of 1 sq. M or less	0.70	"	2.00
		(b)	Occupying space having area of more than 1 sq. M but not morethan 9 sq.M.	1.00	"	3.00
		(c)	Occupying space having area of morethan 9 sq. M but not more that 25 sq. M	2.00	"	5.00

(d)	Occupying space having area of morethan 25 sq. M	5.00	"	10.00
II	For the use of Shops, Stalls, Pens, or Stand on market days (exclusive of the rent for Permanent use if any allowed			
(a)	Having plinth area of above 10 sq.	..	"	2.00
(b)	Heavy plinth area of above 10sq. M but not morethan 25 sq. M	4.00	"	10.00
(c)	Having plinth area above 25sq.M	8.00	"	15.00
III	Fees on Vehicle or pak animals bringing or on persons carrying any goods fore Sale in the market			
	(a) Head load			
	(i) Weight less than 10 Kg	Exempted	"	Exempted
	(ii) Weight 10 Kg ore more	0.50	"	1.00
	(b) Head load	2.00	"	3.00
	(c) Cycle load	3.00	"	5.00
	(d) Cart load	6.00	"	10.00
	(e) Motor Vehicle load	10.00	"	15.00
	(f) Loads of goods in valloms of one metre girth or less girth	5.00	"	7.00
	(g) Loads of goods in Valloms of morethan 1 metre of girth	8.00	"	10.00
	(h) Cattle, Horse or Ass Load	1.00	"	2.00
IV	Fees on Animals brought for sale into or sold in the Market			
	(a) Sheep and Goats	0.75	"	2.00
	(b) Asses and Pigs	1.00	"	2.50
	(c) Cows, bults and buffaloes	2.00	"	5.00

			(d) Poultry (grown up fowls)		0.25	"	1.00
		Rule27(2)	Penalty for breach of rules	Fine	20.00	1964	200.00
				Fine for continuous offence per day	5.00	"	50.00
6.	Kerala Panchayats (Slaughter houses & Meat stall) Rules 1964	Rule 35	License fee (for renewal)	Minimum	20.00	1964	250.00
			License fee (for new S.H)		20.00	1964	250.00
7.	Kerala Panchayats (Taxation and Appeal) Rules 1963	Rule 13	Demand Notice fee		0.25	1963	2.00
		Rule14(2)	Warant fee		0.50	1963	5.00
		Rule 22	Fees on destrainst	Sum destrained for Under I Rupee	Fees 0.25	1963	0.50
				1 Rupee and above but under 5 rupees	0.50	"	1.00
				5 " 10 "	1.00	"	2.00
				10 " 15 "	1.50	"	3.00
				15 " 20 "	2.00	"	4.00
				20 " 25 "	2.50	"	5.00
				25 " 30 "	3.00	"	6.00
				30 " 35 "	3.50	"	7.00
				35 " 40 "	4.00	"	8.00
				40 " 45 "	4.50	"	9.00
				45 " 50 "	5.00	"	10.00
				50 " 60 "	6.00	"	12.00
				60 " 80 "	7.50	"	15.00
				80 " 100 "	9.00	"	18.00

				100 Rupees and over "	100.00	"	25.00
8.	Kerala Panchayats (Licensing of digs & pigs and disposal of strong dogs & pigs)	Rule 4	Licence fee		Re 1/- for each animal	27-11-86	5.00 for each animal
	Rule 1963	Rule 6	Fine	Rs.20/-		27-11-86	25.00
9.	KP (Licensing of dangerous and offensive Trades and Factories Rules 1963	Rule 5 Scheduld I	List of traders for which licence is required		126 items in Schedule I	1963	List of items to be added to the Schedule I given in Annexure III.
		Rule 17, 18&19	Licence fee for machinery driven by electricity and installation fee for machinery driven by electricity		PI.see Schedule I	1963	100% increase in the existing rate
		Rule 20&21	Do. For machinery driven by Power other than electricity		Pl. see Schedule II "		Do
10.	Kerala Panchayats (Removal of encroachments and imposition and recovery of penalties for unauthorized occupation) Rules 1964	Rule 3(1)	Permission/Licence to occupy land belonging to Panchayat		No fee prescribed. But permission/licence to be issue in accordance with terms and conditions prescribed by Panchayat		
		Rule 3(2)	Fine		..... Rs. 500/-	(1964)	Rs. 1000/-

ANNEXURE - VIII-3 (Para 8.7)

COMMON ACTS/RULES FOR RURAL AND URBAN LOCAL BODIES

Sl. No.	Existing Rules	Reference to the relevant provision	Nature of fee	Existing Rate	Date/Year from which the rate is in force	Proposed rate
1.	The kerala	Rule 19	Fee for	Temporary	Rs.100/- 1998	Rs.250/-

	Cinema gulation Rules 1988	(1) Rule 19 (2)	permission for construction of Cinema Theatre License Fee	theatre Permanent Theatre for an annual license for permanent Theatre and for license for a Period of 12 months	Rs.500/- Rs.500/-	Rs.1000/- Rs.1000/-
2.	The Kerala Hindu Marriage Registration Rules 1957	Rule 30 Rule 13	Fee for filling appeal Fee for issue of Marriage Certificate	-do- As per the existing Rules, no levy	Rs 50/-	Rs.100/- A fee of Rs.5/- proposed for the issue of each Certificate of marriage under Rule 13.
3.	Kerala Registration of Births & Death Rules 1970	Rule 10 (1) Rule 10 (2) Rule 10 (3) Rule 11 Rule 14	Late fee for registration of events (within 21 to 30 days) -do- within 1 year -do- above 1 year Late fee for inclusion of name after 12 months Search fee/extract fee	Rs. 1 for each event Rs 3 for each event Rs 5 for each event Rs. 2 for each event (a) Search fee for single entry in the first year for which the search is made Re. 1/- (b) For every additional year for which search is continued (c) For granting extract relating to each birth of death Re.1/-	1.4.70 " " " " " "	Rs. 2.00 Rs.10.00 Rs.15.00 Rs.10.00 Rs.2.00 Rs.1.00 Rs.5.00
4.	The Kerala Places of Public Resort Rules 1965	Rule 28 (i) to (v)	Licence Fee	Rates prescribed under Rule 28	2/1969	Rates may suitably be revised by Government.

5.	The Kerala Prevension of Food Adulteration Rules 1957	Rule 6 (a)	Licence fee for the manufacture & Sales of food articles.	Schedule I (Manufactures registered under G.S.T)	Rs. 12.00	1957	Rs.50.00
					Rs.15.00	"	Rs.50.00
				1. Aerated water, Ice, Ice candies , Ice Cream, biscuits, bread and other bakery products, confectionary sweet	Rs.12.00	"	Rs.50.00
					Rs.12.00	"	Rs.30.00
					Rs.6.00	"	Rs. 100.00
					Rs. 6.00	"	Rs.100.00
					Rs. 12.00	"	Rs.250.00
				2. Molasses, jaggery, Sugar	Rs.20.00	"	Rs.250.00
				3. Coffee	Rs.20.00	"	Rs.100.00
				4. Tea	Rs.15.00	"	Rs.100.00
				5. Drying Copra, Crushing vegetable oils by county chucks	Rs.15.00		
				6. Grinding chilies, grams, cereals, condiments, etc, and preparing sago and starches			
				7. Diary products			
				8.Oilmills including drying Copra			
				9.Rice Mills			
				10.Restaurents & Hotels			
				11.Any other articles of Food.			
				Licence fee payable by any manufacturer who is not registered under the General Sales Tax Act			

Rule 12 (a)	Licence fee for sale of food	1. Whole sales	Rs. 12.00	"	Rs.50.00
		2. Retail sales	Rs. 6.00	"	Rs.25.00
		3. Dealer not registered under the G.S.T. for the time being in force including hawkers	Rs. 2.00	"	Rs.25.00
Rule 6c & 12(b)	Fee for dulicate copy of licence		Rs. 1.00	"	Rs.5.00

ANNEXURE - VIII 4 (Para 8.8)

LIST OF NEW ITEMS OF TRADES PROPOSED TO BE ADDED TO SCHEDULE I OF D&O TRADES RULES OF PANCHAYATS

1. Audio Cassettes	Recording, Storing & Selling
2. Automobile Spare parts	Manufacturing, Storing & selling
3. Automobile Oil, Iubricants, etc.	Mixing, Storing & Sales
4. Bathies (incandescent sticks)	Manufacturing, Storing & Sales
5. Beauty Parlour	Running of beauty parlour
6. Building materials (excluding items specified)	Manufacturing, Storing & Sales
7. Cattle/Poultry feeds	Manufacturing, mixing, Storing and Sales
8. Cutlery	- do -
9. Cycle	Storing, sales, selling and repairing
10. Egg	Storing and sales
11. Fast food	Preparation and sales
12. Flowers	Storing, processing and sales
13. Food stuff stored in cold storage	Storing, preparation and sales
14. Fruits	Storing and sales
15. Food grain	Storing and selling (Instead of selling wholesale or storying for wholesale trade)
16. Ground nut	Storing and selling (Instead of selling wholesale or storing for

	wholesale trade)
17. Hardware	Manufacturing storing and selling
18. Hospitals- (clinics, Dispensaries)	Management, storage and sale of medicines
20. Ornaments	Manufacturing of ornaments using valuable metals like gold, silver etc. and sales.
21. Marble	Manufacturing , processing and sales
22. Medicines	Manufacturing, storing processing and sales of Ayurvedic, Allopathic and Homeopathic medicines.
23. Metal crusher	Working of
24. Milk & Milk products	Storing, processing & sales
25. Mosaic chips and Mosaic powder	Manufacturing, polishing, storage and sales
26. Automobile spare parts	Manufacturing storing and sales
27. Electric goods, lamps, etc.	Manufacture, storing and sales.
28. Microphones and Loudspeakers	Manufacture, Storing and hiring, sales etc.
29. Office equipments	Manufacturing, storing, and sales
30. Spectacles	Manufacturing, storing, polishing, repairing and sales
31. Paint	Manufacturing, storing and sales
32. Spray painting	Spray painting works
33. Presticides and insecticides	Manufacturing, mixing, storing and sales
34. Motor vehicles	Manufacturing, storing repairing servicing and sales
35. Furniture	Manufacturing, storing, repairing servicing and sales.
36. Photographic equipments	Manufacturing, repairing storing servicing, hirings or sales.
37. Photo framing and laminating	Manufacturing, repairing, storing, hiring's or sales.
38. Plastic goods	Manufacturing, storing and sales.
39. Readymade clothes	Manufacturing, storing and sales.
40. Refrigerator	Manufacturing, storing, repairing and sales.

41. Rose water	Manufacturing, storing and sales.
42. Sandal	Processing, storing and sales
43. Soft drinks & juices	Manufacturing, storing and sales
44. Stainless steel	Manufacturing, storing and sales.
45. Steel	- do -
46. Tea	Processing, packing, storing and sales.
47. Coffee	Processing, flouring, storing and sales.
48. T.V./VCR/ VCP	Storing, sales, hiring and repairing
49. Video Cassette	Recording, storing, hiring and sales.
50. Wood carvings	Manufacturing, carving, polishing storing and sales
51. Tyre	Manufacturing, storing and sales, retrading, volcanising.
52. Upholstery goods	Manufacturing, storing and sales.
53. Footwear	-do-
54. Rubber goods except footwear	-do-
55. Rubber stamps	-do-
56. Vegetables	Storing and sales
57. Watches	Manufacturing, storing, repairing and sales.
58. Metal pots	Manufacturing, storing, hiring of metal pots.
59. Community hall and Auditoriums, Kalyanamandapam	Management, leasing our etc. of wedding halls/ community halls, auditorium, etc.
60. Poultry farm and dairy farms	Running of
61. Umbrella	Manufacturing, storing and sales
62. Beer Parlour	Running of beer parlours
63. Electronic Equipment including photocopier, computers, tax and Electronic typing	Manufacturing, storing, sales repairing, management and services
64. Ice cream parlours	Running of ice cream parlours
65. Dry cleaners	Cleaning, polishing, dying of clothes, management and service

66. Curry powders including spices	Manufacturing, packing, storing, sales.
67. Tailoring shops and Tailoring	Management and service equipments
68. Photo studios	Running of.

ANNESURE -VIII .5 (Part a 8.11)

NON-TAX REVENUE (MUNICIPALITIES)- FEES, FINES, ETC.

SL.No	Existing Rules	Reference to the relevant provision	Name of fee	Existing rates	Date/year from which the rate is in force	Proposed rate of revision
1.	Kerala Municipalities (Penalty for unauthorized occupation of porambokes) Rules 1964	Rule 2	Penalty	Maximum penalty Rs.500	1964	Same rates as those for Panchayats in Annexure-VIII-2
2.	Construction of Establishment of faciories or installation of plants or machinery Rules, 1966	Section 285 K.M.Act,1960 Section 448 K.M Act.1994	Fee	Rates as per1960 Schedule I & II	1966	-do-
3.	Kerala Municipalities Act Schedule II Taxation and Finance Rules	Rule 35 (a)	Distraint Fee	Rates as per Appendix 'C'	1960	-do-
4.	The Kerala Municipalities (Compounding of Officens) Rules, 1968	Rule 5	Compounding Fee	Rs.2	1968	

ANNEXURE - X.1 (Para 10.6)

ESTIMATE OF PLAN FUNDS TO LOCAL BODIES FOR TRANSFERRED RESPONSIBILITIES

(Amount Rs. Lakhs)

Sl.No	Sector	1990-91	1991-92	1992-93	1993-94	1994-95
1.	Crop Husbandry	1815.00	2790.00	3220.00	5400.00	6984.00
2.	Soil & Water Conservation	75.00	128.00	159.00	230.00	315.00

3.	Animal Husbandry	44.00	55.00	58.00	95.00	137.00
4.	Dairy Development	261.00	277.00	187.00	191.00	269.00
5.	Fisheries	93.00	91.00	107.00	182.00	269.00
6.	Forestry	-	-	-	-	-
7.	Investment in Agrl. Financial Institution	-	-	-	-	-
8.	Marketing Storage and Ware Housing	-	-	-	-	-
9.	Rural Development	1950.00	2556.00	2052.00	2585.00	3039.00
10.	Land Reforms	9.00	8.00	9.00	7.00	15.00
11.	Community Devl & Pt.	1909.00	1369.00	2138.00	2564.00	3521.00
12.	Special Programme for Area Devt.	108.00	262.00	55.00	119.00	140.00
13.	Co-operation	169.00	209.00	136.00	213.00	220.00
14.	Major and Medium Irrigation	-	-	-	-	-
15.	Minor Irrigation	169.00	199.00	158.00	267.00	362.00
16.	Command Area Devt.	-	-	-	-	-
17.	Flood Control and Anti Sea Erosion	-	-	-	-	-
18.	Power	-	-	-	-	-
19.	Village and Small Industries	184.00	218.00	310.00	345.00	411.00
20.	Medium & Large Industries	-	-	-	-	-
21.	Mining	-	-	-	-	-
22.	Ports and Light Homes	-	-	-	-	-
23.	Roads and Bridges	1960.00	2217.00	2142.00	2597.00	3644.00
24.	Road Transport	-	-	-	-	-
25.	Water Transport	-	-	-	-	-
26.	Trourism	-	-	-	-	-
27.	Scientific Services and Research	-	-	-	-	-
28.	General Education	437.00	465.00	726.00	1067.00	1156.00
29.	Art and Culture	2.00	1.00	3.00	2.00	2.00

30.	Technical Education	37.00	48.00	59.00	54.00	71.00
31.	Sports and Youth Services	13.00	16.00	12.00	17.00	25.00
32.	Medical and Public Health	228.00	262.00	185.00	360.00	386.00
33.	Sewerage & Water Supply	235.00	216.00	314.00	363.00	296.00
34.	Housing	1001.00	819.00	679.00	1369.00	1787.00
35.	Urban Devt.	182.00	156.00	137.00	149.00	28.00
36.	Information & Publicity	23.00	15.00	17.00	31.00	35.00
37.	Labour and Labour Welfare	117.00	69.00	117.00	158.00	296.00
38.	Welfare of SC/ST/CEC	564.00	657.00	563.00	756.00	856.00
39.	Social Welfare	62.00	101.00	61.00	126.00	122.00
40.	Nutrution	28.00	93.00	103.00	202.00	228.00
41.	Secretarial Eco. Services	-	-	-	-	-
42.	Ec: Advice & Statistics	-	-	-	-	-
43.	Other General Ec: Services	-	-	-	-	-
44.	Stationery and printing	-	-	-	-	-
45.	Public Works	-	-	-	-	-
46.	Civil Supplies	-	-	-	-	-
	Total	11590.00	3097.00	13797.00	19449.00	24750.00
		(17.5)	(18.2)	(16.7)	(17.8)	(18.7)
	State's Total Plan Outlay	66270	71953	82532	109142	132029

Note: Figures in bracket indicate percentage to Total.

ANNEXURE-X-2 (Para 10.17)

BREAK UP OF EARMARKED FUNDS TO DIFFERNET TIRES OF PANCHAYATS AND URBAN LOCAL BODIES WITH PERCENTAGES

SL. No	Sector	Total State Plan outlay for 1996-97	Funds earmarked for Local Bodies out of col (3) with %					
			Corporations	Municipalities	District Panchayats	Block Panchayats	Village Panchayats	Total L.Bs (4+5+6+7+8)
1.	Crop Husbandry	6139.00+ 1500.00	..	..	949.00+ (15.46) 1500.00	..	5080.00 (82.74)	6029.00+ (98.20) 1500.00

2.	Soil and Water Conservation	420.00	..	..	395.00 (94.00)	..	..	395.00 (94.05)
3.	Animal Husba..ndry	788.00	0.50 (0.06)	..	227.50 (28.87)	..	159.00 (20.18)	387.00 (49.11)
4.	Dairy Development	220.00	..	..	..	..	170.00 (77.27)	170.00 (77.27)
5.	Fisheries	325.00	..	..	325.00 (100.00)	..	..	325.00 (100.00)
6.	Co-operation	576.36	7.02 (1.21)	29.48 (5.11)	232.00 (40.26)	..	..	268.50 (46.58)
7	Rural Development	3949.00	..	..	..	3159.00 (80.00)	790.00 (20.00)	3949.00 (100.00)
8	Special Area Development Programme	50.00	..	..	50.00 (100.00)	..	..	50.00 (100.00)
9	Minor Irrigation	965.00	..	..	405.00 (41.97)	75.00 (7.77)	75.00 (7.77)	555.00 (57.51)
10.	Village and Small Industries	833.00	19.00 (2.28)	139.30 (16.72)	(77.64)	28.00 (3.36)	..	833.00 (100.00)
11.	Roads and Bridges	5625.00	..	--		..	5625.00 (100.00)	5625.00 (100.00)
12	Education	1818.00	..	(60.00) (3.30)	1483.00 (81.57)	..	270.00 (14.85)	1813.00 (99.72)
13.	Allopathy, Ayurveda and Homeopathy	1681.00	..	333.00 (19.81)	..	483.00 (28.73)	436.00 (25.94)	1252.00 (74.48)
14.	Water Supply and Sanitation	3060.00	..	289.00 (9.44)	..	..	2771.00 (90.56)	3060.00 (100.00)
15.	Housing	2835.00	..	167.00 (5.89)	..	..	20638.00 (72.95)	2235.00 (78.84)

16. Urban Development	1405.00	657.00	748.00	..	..	..	1405.00
		(46.76)	(53.24)				(100.00)
17. Welfare of Scs and STs	1150.50	..	..	47.50	888.00	215.00	1150.50
				(4.13)	(77.18)	(18.69)	(100.00)
18. Information & Publicity	35.00	..	..	35.00	..	..	35.00
				(100.00)			(100.00)
19. Labour & Employment	100.00	..	..	100.00	..	..	100.00
				(100.00)			(100.00)
20. Social Security and Welfare	135.00	..	6.00	..	..	129.00	135.00
			(4.44)			(95.56)	(100.00)
21. Nutrition	685.00	27.00	79.00	..	67.00	512.00	685.00
		(3.94)	(11.53)		(9.78)	(74.75)	100.00
22. Total	62794.86+	710.52	1850.78	4649.70	4700.00	18300.00	30457.00
	1500.00	(2.17)	(5.64)	1500.00	(14.33)	(55.80)	(92.87)
23. Difference between item 22 and Total of SPB; Figure	32794.86+		1850.78	4895.70		18300.00	1500.00
			(5.64)	(14.93)		(55.80)	(+)40.00
24. Total 22+23	1500.00						30497.00+
							1500.00
25. Untied funds not distributed by S.P.B.	21200.00						21200.00
26. Grand Total	55494.86						53197.00

* RIDF *Support. Loan from NABARD for Thrissur Kole Project*

Note : *In case where no distribution of SCP/TSP funds is given by S.P.B. the same has been distributed in the ratio for general provision*

ANNEXURE X.3 (Para 10.7)

DISTIBUTION OF PLAN GRANTS AMONG PANCHAYATS

Step I Determination of size of the State Plan integrating the Development Plan of Local Bodies. This will be done by the State Government/Planning Board.

Step II Determination of portion allotted to Local Bodies for the Transferred Plan responsibilities. This will be done by the State Government/Planning Board.

Step III Determination of interse distribution among different classes of Local Bodies of the - funds earmarked for Local Bodies. This will be done by the State Government/Planning Board.

Step IV For each class of Local Bodies the inerse distribution may be made on the criteria suggested in para 10.15 A hypothetical example is given below:

Panchayat A Share of Plan funds:

1. 1. 1991 population is 0.5% of State rural population	0.50% of 70% of funds for Panchayats
2. 2. 1991 SC/ST population is 0.5% of State's population of SC/ST in rural areas	0.50% of 10% of funds for Panchayats
3. 3. 1991 Agri Workers is 0.9% of the States population of Agri. Workers in rural areas.	0.9% of 10% of funds for panchayats.
4. 1991 population of workers excluding workers in MPSOH is 0.7% of the total in the State.	0.7 % of 10% funds for panchayats

The Plan Funds for a Panchayat for the year will be the sum total of the shares of various components worked out on this basis.

ANNEXURE X. 4 (Para 10.20)

NON-PLAN GRANTS: LOCAL BODIES

(A) PANCHAYAT

1. Basic Tax Grant (75%)

2. Basic Tax Grant (25%)

3. Grant for construction of tube wells

4. Grant for maintenance of protected water supply

5. Grant for maintenance of burial and burning grounds

6. Grant for opening and maintenance of burial and burning grounds

7. Minor Irrigation Grant

8. Village Road Maintenance Grant

9. Ferrymen Grant

10. Grant for lighting Public Roads

11. Grant for maintenance of Railway level crossings

12. Grant for establishing mini stadium

13. Establishment Grant

14. Open air theatre grant

15. Establishment grant as per audit report

16. Block grant

17. Building grant

18. Special Grant

19. Surcharge on duty on transfer of property (75%)

20. Surcharge on Duty on transfer of property (25%)

21. Vehicle Tax Compensation grant

22. Flood Relief Grant

23. Initial grant

B. MUNICIPALITIES:

1. General purpose Grant

2. Surcharge on Duty on transfer of property

3. Vehicle Tax compensation grant

4. Grant for Maintenance of Isolation Hospitals.

5. Maintenance of maternity and child welfare centers;

6. Maintenance of Family Planning Centres;

7. Anti-Mosquito and Anti-filaria operations;

8. Maintenance of Nursery Schools;

9. Maintenance of poor homes, beggar homes and relief centers;

10. Maintenance of Town Planning and Town Survey Operations;

11. Maintenance of the Public Ferry Service

12. Grant for constructions and equipments for the furtherance of any of the above services.

ANNEXURE - X-5 (Para 10-22)

NON-PLAN NON-STATUTORY GRANTS TO LOCAL BODIES FOR TRADITIONAL FUNCTIONS

Rs. In lakhs

1993-94 1994-95

A) Village Panchayats

1) Specific purpose 405.88@ 408.63@

2) General purpose 269.47@ 297.73@

Total 675.35 706.36

As a percentage of State Revenue 0.25 0.26

B) Municipalities & Corporations

1) Specific purpose 37.00@ 37.00@ 2) General purpose 148.15@ 155.40@

Total 185.15 192.40

As a percentage of State Revenue- 0.07 0.07

State Budget document

Note : 1) Statutory grants (surcharge on stamp duty, Basic Tax and share of Motor vehicle Tax are excluded from the grants)

2) State Revenue is total income from Tax and Non-Tax sources bout does not include Central Assistance.

ANNEXURE X.6 (Para 10.35)

DISTRIBUTION OF RURAL POOL AMONG PANCHAYATS

Step I - Determination of total size of Rural pool.

This will be dome by State Government.

Step II -1 % of the annual accrual will be credited to the

Fund for Local Bodies and the balance distributed in the

Following manner;

Panchayat 'A' Share of Rural Pool

1. Determine share of Panchayat Population in total State Rural Population Eg. 0.5%	0.5% of 75 % of the pool
2. Determine share of panchayat SC/ST population in total State population of SC/ST in Rural areas Eg. 1.00%	1.00% of 5% of the pool
3. Annual income group of Panchayat puts it in Group IV (ie., Income below Rs. 5 lakhs in 1993-94)	Arrive at 50% of 15% of the pool, If there are 204 Panchayats coming under group IV, the resultant amount will be disbursed among the Panchayats, on population basis.
4. Tax effort	(1) Demand to collection (1/2 of 5%). If the Panchayat achieved 100% collection and there are 50 other similar panchayats, the resultant amount will be distributed among the 51 Panchayats on population basis (2) Tax rate (1/2 of 5%) The panchayat's rate of building tax is 7%. It will not be eligible for any share from this portion of the pool.

ANNEXURE: XI.1 (Para 11.4)

MAINTENANCE EXPENDITURE INCURRED ON SELECTED BUILDINGS

	Capital cost in Rupees with year of construction	Plinth area in sq.m	Maintenance Expenditure as per 1977 norms (in Rs.) Total	Per Sq.m.	Actual Maintenance expenditure (in Rupees) Total	Per Sq.m.	Index of maintenance as per norms in percentage (ie. Actual as a proportion of these norms)
1. Lower Primary School Arrekara	408053 (1962)	292.33	12241	41.87	8600	29.41	70
2. Junior Basic School Pandanadu	520846 (1962)	367.196	15625	42.55	7500	20.43	48
3. Govt. Hospital Kaithakolly	22764 (1987)	220.88	4541	20.56	2100	9.51	46
4. Govt. Lower primary School Kaithakolly	3549796 (1962)	2075.74	141990	68.40	85000	40.95	60
5. Staff Quarters of Govt. Basic Training School, Alayad	780450 (1958)	490.76	31218	63.61	23250	47.38	74
6. P.H. Centre, Kappur (I.P.P Ward)	768968 (1988)	408.43	30759	75.31	7300	17.87	24
7. Lady Teachers' Quarters attached To Govt U.P. School, Beemanadu	96864 (1973)	78.28	2906	37.12	1000	12.77	34
8. Govt. High School Alanallur (1988)	5255237	1391.56	105105	75.53	36800	26.45	35
9. Govt. High school Karimba	2465882 (1980)	649.60	49318	75.92	22000	33.87	45
10. Sports	1622976	923.72	64919	70.28	34000	36.81	52

Hostel, Kannur	(1952)						
11. Asst. Educational Officers' Office Building Koothuparamba	596981 (1987)	329.28	119.40	36.26	5500	16.70	46
12. G.O.H.S Edathanathukara	1658477 (1975)	927	33170	35.78	14000	15.10	42
13. Special Tahasildar's Office, (LA)Ranny	110880	85.42	3326	38.94	3200	37.46	96
14. Veterinary Hospital Meppady	194244 (Before 1962)	104.94	7770	74.04	2300	21.92	30
15. Veterinary Hospital Vythiri	385150	264.46	11555	43.69	3000	11.34	26
16. Veterinary Hospital Kalpetta	589160 (1988)	345	17675	51.23	4000	11.59	23
17. Veterinary Hospital Peravoor	269015 (1990)	199.36	8070	40.48	550	27.59	68
18. P.H.C. Kuzhitram	233626 (1979)	-	7009	-	4000	-	57
19. Govt. High School Cherthala	1927693 (After 62)	1728.09	38553	22.31	24500	14.18	64
20. Govt. High School Karakurussy	5551527	1755.08	111031	63.26	36000	20.51	32
21. Govt. High School Muthalamada	3953623 (After 62)	-	79072	-	30000	-	38
22. Post matric Hostel. Changanasseri	2081071 (1967)	1093.59	62432	57.08	19600	17.92	31
23. Krishi Bhavan, Ettumanoor	93568 (1986)	50.55	1871	37.02	2000	39.56	107

24. I.P.P. Sub Centre Madavannu under P.H.Centre, Thrithala	115 (1987)	62.3	3460	55.54	1730	27.77	50
25. Family Welfare Sub Centre, Karakkad, (After 1962) Chengannor Taluk	122425	66.14	3673	55.53	2400	36.29	66
26. Family Welfare Centre, Manjoor	106895	57.75	3207	55.53	1650	28.57	51
27. L.P.P Sub Centre Kannur Under P.H.C Thrubala	115317	62.3	3460	55.54	1730	27.27	58
Grant Total	3,38,01,105	14029.75	865896	1293.38	388660	629.22	

ANNEXURE : XI.2 (Para 11.7)

COST OF CONSTRUCTION AND ESTIMATED MAINTENANCE COST

1. Costruction of a U.P. School at Mooniyoor in Malappuram District.

i. Plinth area : 1832 m2

ii. Est. cost at 1992 schedule of rates Rs. 3099135

iii. Cost with estimated tender excess @ 50% Rs. 4648702

iv. Rate per sq. mtr. Rs. 2537

v. Annual Maintenance per sq.mtr.@ 2% of cost Rs. 50.75

2. Construction of L.P. School at Kulathoor in Thiruvanathapuram District.

i. Plinth area : 242.96 m2

ii. Est. cost at 1992 schedule of of rates Rs. 475000

iii. Cost with estimated tender excess @ 50% Rs. 712500

iv. Rate per sq. mtr. Rs.2932

v. Annual Maintenance per sq. mtr. At 2 % of cost Rs. 58.65

3. Primary Health Centre at Vellana in Pathanamthitta District

i. Plinth area : 752.09m2

ii. Est. cost at 1992 shedule of rates Rs. 2415000

iii. Cost with estimated tender excess of 50% Rs.3622500

iv. Rate per sq.mtr. Rs.4816

v. a. Annual maintenance per sq.mtr. @ 2 % of cost Rs.

b. -Do- @ 3% Rs. 144.48

4. Primary Health Centre at Badiadukka in Kasaragod Dist.

i. Plinth are : 1190.78 M2

ii. Est. cost at 1992 schedule of rate Rs. 2875000

iii. Cost with estimated tender excess of 50% Rs. 4312500

iv. Rate per sq.mtr Rs.3621

v. a. Annual maintenance per sq.mtr. @ 2% of cost Rs. 72.43

vi. b. -Do- @ 3% of cost Rs. 108.63

Source: Chief Engineer, Building and Local Works. Thiruvananthapuram (for data on Plintharea and estimated cost at 1992 schedule of Rates).

ANNEXURE - XII-1 (Para 12.24)

ESTABLISHMENT EXPENDITURE

(Salaries, wages, pension contribution of the Employees)During the period 1990-91 to 1993-94

Local Bodies and years	Management & Collection	Public Works	Education	Water Supply	Maint of property	Public Health	Street Light	Others	Total Est Cost
Panchayats	244068196	8716300	3932003	845400	2885225	9477874	2372700	5678700	2779763
1990-1991	261355206	9471025	4560905	1121500	2011620	11829750	2632300	5151379	2981336
1991-1992	275886480	9518400	4527295	1317560	3494580	13055624	3476700	6649200	3179258
1992-1993	316812435	11895300	4834193	1154890	3313600	13280400	3805100	7981080	3630769
1993-1994							7981080		
Municipalitie	51990400	19728000	1416400	5912400	3542500	78849400	2381600	0	1638207
1990-1991	62380200	23746700	1701400	4085300	3594500	74415200	2653200	0	1725765
1991-1992	67044180	24524786	2028920	4612800	4169300	85977700	7447400	0	1908050
1992-1993	72407500	28148922	2430810	5958900	4481600	130033852	3193100	0	2466546
1993-1994									
Corporations	13222900	7215500	1541500	2924800	1088700	23995900	121700	0	501110

1990-1991	16755200	8717300	1957600	17118600	902900	26973100	121000	0	725457
1991-1992	8768600	10534700	2311500	19430800	753100	30419800	153800	0	723723
1992-1993	20566400	13758600	2696400	29804900	755400	46733600	84200	0	1143995
1993-1994									
GRAND TOTAL	309281496	35659800	6889903	9682600	7316425	112323174	4876000	5678700	4919080
1990-1991	340490606	41935025	8219905	22325400	6509026	113218050	5406500	5151379	5432558
1991-1992	351699260	44577886	8867715	25361160	8416980	129453124	6077900	6649200	5811032
1992-1993	409786335	53802822	9961403	36918690	8550600	190047852	7082400	7981080	7241311
1993-1994									

Source: SFC Survey, 1995.

ANNEXURE-XII-2 (Para12.24)

ESTABLISHMENT EXPENDITURE AS PERCENTAGE OF EXPENDITURE UNDER VARIOUS FUNCTIONS AND TOTAL REVENUE EXPENDITURE DUHING THE PERIOD 1990-91 TO 1993-94

Local Bodiesand years	Management & Collection %	Public Works %	Education %	Water Supply %	Main of property %	Public Health %	Street Light %	Others	Total Revenue expenditure
PANCHAYATS	80.30	4.68	16.54	3.32	18.81	37.23	4.76	14.67	40.86
1990-1991	77.81	5.48	22.28	5.84	13.44	61.58	5.01	15.03	43.05
1991-1992	79.03	4.67	20.49	6.36	26.55	63.04	5.36	16.17	41.71
1992-1993	76.09	4.60	19.44	5.48	18.23	62.97	5.74	18.80	40.57
1993 -1994									
MUNICIPALITIES	77.57	31.24	40.30	6.94	31.50	92.60	10.93	0.00	50.59
1990-1991	75.89	33.68	47.30	4.48	33.29	81.67	10.98	0.00	51.04
1991-1992	72.62	3139	41.17	4.28	27.74	79.74	9.04	0.00	49.05
1992-1993	69.11	36.96	55.13	3.88	37.68	84.61	9.41	0.00	53.51
1993-1994									
CORPORATIONS	39.08	21.75	48.74	5.45	12.30	44.73	0.88	0.00	24.19
1990-1991	38.63	21.73	60.88	29.68	7.35	46.76	1.03	0.00	32.66
1991-1992	21.33	21.57	72.25	79.15	5.79	45.00	1.09	0.00	30.53
1992-1993	42.47	17.33	57.38	35.47	3.33	55.62	0.42	0.00	31.74
1 993-1994									

Source: SFC Survey, 1995.

ANNEXURE XIV.1 (Para 14.5)

MINIMUM PHYSICAL STANDARDS OF SERVICES

Service	Sector	Minimum levels of services to be obtained to next 5 years		Remarks
		Population/Area target	Service level target	
1.Water supply	Urban Rural	▪ 100% pop. To be covered	▪ Pipe water supply with sewerage 150 iped. ▪ Piped Water supply without sewerage 70 lped ▪ 40 lped with spot sources/ stand posts (. Including wastage of water roughly 20%)	▪ Public stand posts in the low income settlement ▪ One source for 20 families with in a walking distance of 100 meters.
		▪ 100% pop. To be covered including No Source's had core problem villages in some states	▪ 40 lped to safe drinking water ▪ Additional 30 lped in DDP/DPAD areas for cattle needs.	▪ One hand pump/spot source for 250 persons in a walking distances differnce of 100 mt. In hilly areas, To be relaxed as per field condition application to and, semi arid and hilly areas.
II. Sanitation /sewarage	Urban Rural	▪ 100% city area to be covered by sewage system with treatment facilities in large urben centers. ▪ Low cost sanitation methods for other urban areas ▪ All housesheield's to be provided access to safe sanitation ▪ Elimination of manual scavenging by using low cost	▪ Large city: full coverage by sewerage with treatment. ▪ Medlum town: Public sewers with particular coverage by septic tanks. ▪ Small town; Low cost sanitation methods. ▪ Low cost sanitary methods of disposal: Sanitary latrines of different models may be used such as round concreate plat with lining (single pit), square brick/concreate plate with/ without lining (single pit with	▪ In low income means of large cities community latrines may be provided.

		sanitary methods	reposition of double pit) etc.	
III Sold Waste Collection Disposal	Urban	▪ All the solid waste generated should be collected and disposed.	▪ 100 % collection of generated waste . with its proper disposal. ▪ Hazariers wastes such as hospital wastes must be incinerated in all cases. Whereas mechanised composing and incinerated is recommended for large urban centers, sanitary land fill method of disposal may be used in small and medium towns.	Keeping in view the refuse generation level and its composition, each local body should determines of collection bins/ collections centers, kind of transport vehicles to be used. Staff development for various activities type of treatment to be given to the collected wastes, etc.
	Rural	All the solid waste generated should be collected and disposed.	▪ Composing or bio-gas generation from organic waste.	
IV Primary Education	Urban & Rural Both	Fulfilment of national goal of universalisation of element education for children upto 14 years of age. Fullfillment of national goal of health for all by 2000 AD	▪ Provision of primary school in all areas of country as per the following guidelines. - At least three reasonably large all weather rooms with teaching meterial. - At least one teacher per class room/section - One primary school for every 3000-4000 population Area 3 acres seats/school; 300-400	In order to improve enroiments at the upper primary stages specially for girls, the walking distance of school schould normally be 2 kms. In case of primary schools this standard is 1 k.m.
V.Primary Health Care	Urban & Rural Both		▪ One PHC for 20,000-30,000 pop. ▪ One sub center for 3000-5000 pop. ▪ One community health cenre for one lakh pop.	Primary health care has been accepted at the main instrument for achieving the goal of ' Health for All.'

ANNEXURE-XV-1 (Para 15.6)

DISTRIBUTION OF GRANTS AS PER THE AWARD OF THE TENTH FINAMCE COMMISSION AMONG BLOCK AND DISTRICT PANCHAYATS.

Total Provision for Panchayat Rs. 17881 lakhs Population (1991) census) 24776751

Apportinment: VillagePanchayat 85%

Block Panachayat 9%

District Panchayat 6%

Rs. In laksh

	Total Allocation for 4 years	Annual Allocation	Percapita rates
Village Panchayat	15,198.84	3,799,71	15.33
Block Panchayat	1,609,28	402.32	1.62
District Panchayat	1,072.88	268.22	1.08
Total	17,881,00	4,470.25	

BLOCK-WISE DISTRIBUTION (ANNUAL)

Sl.No	Name of Panchayat	Population (1991) Panchayt	Allocation for Block Panchayat	Allocation for district Panchayat
	1	2	3	4
1. KASARAGOD DISTRICT				
1	Manjeswar	261940	4.25	
2	Kasargod	228208	3.71	
3	Kanhangad	236705	3.84	
4	Nileswar	237364	3.86	
		964217	15.66	10.44
2. KANNUR DISTRICT				
1	Payyannur	269604	4.38	
2	Taliparamba	310756	5.05	
3	Irikkur	212553	3.45	
4	Kannur	146785	2.38	
5	Edakkad	235106	3.82	
6	Thalassery	2007776	3.26	
7	Koothuparamba	223974	3.64	

8	Iritty	160277	2.60	
9	Peravoor	124588	2.02	
		1884419	30.60	20.40

**Note: From the total, 1% will be credited to the Fund for Local Development and only the balance 99% will be distribund.*

3. WAYNAD DISTRICT

1	Manandavadi	2050838	3.34	
2	Sulthan Batheri	249695	4.06	
3	Kalpetta	193646	3.14	
		649179	1.54	7.03

4. KOZHIKODE DISTRICT

1	Vadakara	113553	1.84	
2	Thuneri	126479	2.05	
3	Kunnummal	174652	2.84	
4	Thodannur	118583	1.93	
5	Melady	91571	1.49	
6	Perambra	171433	2.78	
7	Baluseri	212592	3.45	
8	Pantalayani	165065	2.68	
9	Chelannur	183331	2.98	
10	Koduvally	227833	3.70	
11	Kunnumangalam	285788	4.64	
12	Kozhikode	256796	4.17	
		2127676	34.55	23.04

5. MALAPPURAM DISTRICT

1	Nilambur	227379	3.69	
2	Wandoor	249374	4.05	
3	Kondotty	247902	4.03	
4	Areekode	190057	3.09	

5	Malappuram	187050	3.04	
6	Perinthalmanna	169300	2.75	
7	Mankada	244562	3.97	
8	Kuttipuram	173643	2.82	
9	Vengara	198473	3.22	
10	Tirurangadi	250749	4.07	
11	Tanur	248171	4.03	
12	Tirur	181276	2.94	
13	Ponnani	134031	2.18	
14	Andathode	135087	2.19	
		2837054	46.07	30.72

6. PALAKKAD DISTRICT

1	Trithala	164254	2.67	
2	Pattambi	232425	3.77	
3	Ottappalam	123806	2.01	
4	Sreekrishnapuram	144928	2.35	
5	Mananarkad	201455	3.27	
6	Attappadi	62033	1.01	
7	Palakkad	264622	4.30	
8	Kuzhalmannam	215751	3.50	
9	Chittur	149821	2.43	
10	Kollengode	209849	3.41	
11	Nenmara	67411	1.09	
12	Alathur	261385	4.25	
		2097740	34.06	22.71

7. THRISSUR DISTRICT

1	Chavakkad	158970	2.58	
2	Chowannur	158938	2.58	
3	Wadakkanchery	203544	3.31	

4	Pazhayannur	155421	2.53	
5	Ollukkara	224751	3.65	
6	Puzhakkal	164359	2.67	
7	Mullassery	86773	1.41	
8	Thalikkulam	123228	2.00	
9	Anthikad	105531	1.71	
10	Cherpu	181107	2.94	
11	Kodakara	196268	3.19	
12	Irinjalakuda	113962	1.85	
13	Vellangallur	106929	1.74	
14	Mathilakam	137386	2.23	
15	Kodungallur	94.446	1.53	
16	Mala	133734	2.17	
17	Chalakkudy	135679	2.2	
		2481026	40.29	26.87

8. ERNAKULAM DISTRICT

1	Paravoor	134964	2.19	
2	Alangad	114345	1.86	
3	Angamaly	179660	2.92	
4	Koovappady	133096	2.16	
5	Vazhakulam	176776	2.87	
6	Edappally	87241	1.42	
7	Vypin	188521	3.06	
8	Palluruthuy	57579	0.94	
9	Vyttila	59138	0.96	
10	Mulanthuruthy	121720	1.98	
11	Vadavukode	138974	2.26	
12	Kothamangalam	151148	2.45	
13	Pampakuda	92477	1.50	

14	Parakkadavu	126834	2.06	
15	Muvattupuzha	138183	2.24	
		1900656	30.87	20.52
9. KOTTAYAM DISTRICT				
1	Vaikom	117754	1.91	
2	Kaduthuruthy	155676	2.53	
3	Ettumanoor	190836	3.10	
4	Uzhavoor	144149	2.34	
5	Lalam	98886	1.61	
6	Erattupetta	98443	1.60	
7	Pamapady	119861	1.95	
8	Pallam	234403	3.81	
9	Madapally	193481	3.14	
10	Vazhoor	108876	1.77	
11	Kanjirappally	185402	3.01	
		1647767	26.77	17.84
10. IDDUKKI DISTRICT				
1	Adimali	138349	2.25	
2	Devikulam	127830	2.08	
3	Nedumkandam	136801	2.22	
4	Elamdesam	117665	1.91	
5	Iddukki	127979	2.08	
6	Kattappana	155904	2.53	
7	Thodupuzha	71316	1.15	
8	Azhutha	160993	2.61	
		1036837	16.83	11.23
11. ALAPPUZHA DISTRICT				
1	Thaikkattuserry	96320	1.56	
2	Pattanakkad	190045	3.09	

3	Kanjikuzhi	148128	2.41	
4	Aryad	110761	1.80	
5	Ambalapuzha	119065	1.93	
6	Champakulam	123317	2.00	
7	Veliyanad	89967	1.46	
8	Chengannur	170675	2.77	
9	Haripad	163350	2.65	
10	Mavelikkara	126462	2.05	
11	Bharanikavu	161580	2.62	
12	Muthukulam	162286	2.63	
		1661956	26.97	17.99

12. PATHANAMTHITTA DISTRICT

1	Mallappally	115229	1.87	
2	Pulikeezhu	90038	1.46	
3	Koipuram	121630	1.98	
4	Elanthoor	105476	1.71	
5	Ranni	171893	2.79	
6	Konni	142256	2.31	
7	Pandalam	24170	0.39	
8	Parakode	194952	3.17	
9	Kulanada	65883	1.07	
10	Azhutha	1876	0.03	
		1033403	16.78	11.19

13. KOLLAM DISTRICT

1	Ochira	86903	1.41	
2	Karanagapally	181448	2.95	
3	Sastahmkottah	142274	2.31	
4	Vettikkavala	177189	2.88	
5	Pathanapuram	157202	2.55	

6	Anchai	210648	3.42	
7	Kottarakara	154080	2.50	
8	Chittumala	118711	1.93	
9	Chavara	152985	2.48	
10	Ancahlumood	160205	2.60	
11	Mukhathala	254143	4.13	
12	Ithikkara	185008	3.00	
13	Chadayamangalam	203296	3.00	
		2184092	35.46	23.65
14. THIRUVANATHAPURAM DISTRICT				
1	Varkala	143985	2.34	
2	Kilimanoor	185520	3.01	
3	Chirayinkeezhu	173663	2.82	
4	Vamanapuram	203314	3.30	
5	Vellanad	207468	3.37	
6	Nedumangad	147296	2.39	
7	Kazhakuttam	229920	3.73	
8	Thiruvananthapuram Rural	138733	2.25	
9	Nemom	255800	4.16	
10	Perumkadavila	214801	3.49	
11	Athiyannoor	199585	3.24	
12	Parassala	170644	2.77	
		2270729	36.87	24.59
	Total	24776751	402.32	268.22

ANNEXURE XVI.1 (PARA-16.7)

ADDITIONAL YIELD ANTICIPATED DURING 1996-97 ON THE BASIS OF THE RECOMMENDATION OF STATE FINANCE COMMISSION

(Rupees in lakhs)

Sl.No	Anticipated Receipts for 1996-97		Remarks
1	Improving yields from existing sources		
I	Higher Building/property Tax on Commercial building	125.00	5% over 50% of the actual yield in 1993-94
Ii	Minimum amount of Building/property Tax	No. separate estimate is made	
iii	Changes in slabs and definitions- Income form profession Tax	80.00	5% p.a over the actual yield in 1993-94
iv	Levy of Entertainment tax on seating capacity in panchayats	33.00	5% p.a over the actual yield in 1993-94
v	Government to fix only minimum of licence fee	23.00	5% p.a over the actual yield in 1993-94
11	Improving yield from taxes levied and assigned to local bodies		
I	Increase in rate of Basic Tax	1250.00	The rate is proposed to be doubled. However the additional tax is an optional one.
ii	Minimum level of Basic Tax to be levied	Not qualified	
iii	Improving yields form shared tax		
I	Increase in share of M.V Tax	2260.00	6% p.a over actual increase in 1994-95
IV	Government Grants		
I	Increase in Non-Plan Non-Statutory Government Grant	2000.00	This estimate is provisional
`V	Assignment of Additional Tax, duties form Government		
I	Assignment of Building Tax	700.00	The actual of 94-95 was Rs. 695.57 Lakhs
Ii	50 % of net collection of Stamp sale	35.00	The total revenue in 93-94 was Rs. 695 lakh

Iii	50% share of building exemption fee	130.00	The actual in 93-94 was Rs. 259 lakhs.
VI	Additional Tax and Non- Tax Revenue		
	(i) Tax on sale of land	800.00	At 1% of the revenue expected is Rs. 10 crores but sales upto Rs.2500/- are exempted. This is an optional tax.
	(ii) Tax on Cable T.V. operation	10.00	Thisestimate is provisional
	GRAND TOTAL	7761.00	

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GOVERNMENT OF KERALA

RECOMMENDATIONS OF THE CABINET SUB-COMMITTEE AS APPROVED BY THE GOVERNMENT ON STATE FINANCE COMMISSION REPORT 1996

ANNEXURE

(Recommendations of the Cabinet Sub-Committee as approved by the Government on State Finance Commission Report 1996)

1. *"A Special Cell may be constituted in the Finance Department after the expiry of the term of the Commission to watch the implementation of the recommendations of the S.F.C. and for other functions specified".*

A Special Cell is recommended by the State Finance Commission for watching the implementation of the recommendations of the Commission, monitoring the receipts and expenditure of the Local Bodies, preparation of a reliable data base and conducting comprehensive studies. Such a Cell would be helpful for the working of the State Finance Commissions which are to be set up every 5 years as per the constitution. A Cell may be constituted consisting of the Officers and Staff now retained from among the Staff sanctioned for the State Finance Commission. The posts are as follows:—

Additional Secretary	..	1
Joint Secretary	..	1
Undersecretary	..	1
Section Officers	..	2
Assistants	..	9
Confidential Assistants	..	3
Typists	..	2
Peons	..	3
Drivers	..	2
Part-time Sweeper	..	1

2. *"Government may undertake a delimitation of Revenue Villages to ensure that no Village falls in more than one Panchayat".*

The Sub-Committee agrees with the recommendation that every Revenue Village should come within geographical area of a local body. It is recommended that the Board of **Revenue** may be asked to study the matter and submit proposals within six months. No additional posts need be created for the purpose.

3. *"The present system of assessing rental value of residential buildings in Rural and Urban Local Bodies may be dispensed with the plinth area may be adopted as the basis for arriving at the rental value".*

The proposal is acceptable. The Local Administration Department may propose amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act and the Rules to give effect to the recommendation.

4. *"For buildings which are 25 years and below in age a rebate of 10% of the annual rental value and for buildings above 25 years a rebate of 20% of the annual rental value may be given. For residential buildings rented out a surcharge of 25% may be levied".*

The proposal is acceptable. The Local Administration Department may propose amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act and the Rules to give effect to the recommendation.

5. *"In the case of commercial properties, the rental basis is, proposed to be retained but the minimum rates should be set higher than at present as proposed in Table 5.3".*

The proposal is recommended. However, commercial properties are often let out at lower rates of rent after accepting large amounts as deposits. The feasibility of reckoning such deposits for determining rental income may also be examined. The Local Administration Department may be asked to propose necessary amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act and the Rules.

6. *"For owner occupied commercial properties, a rebate of 10% may be allowed. A system of filling returns 'and making assessment on the basis of actual rent may be introduced for commercial properties with annual rental value of Rs. 12,000 or more".*

The proposal may be accepted. Local Administration Department may be asked to propose necessary amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act and the Rules.

7. *"The general revision of Property Tax may take place every 4 years instead of* 5 *years".*

The proposal may be accepted. Local Administration Department may be asked to propose necessary amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act and the Rules.

8. *"Building constructed unauthorisedly in Panchayat areas may be brought under tax net without conferring on them any right to regularisation of immunity from punitive action including demolition".*

The proposal may be accepted. Local Administration Department may be asked to propose necessary amendments to the Kerala Panchayat Raj Act.

9. *"All residential buildings with a plinth area of less than 20 Sq.tnt. and with mud walls or thatched roof in Panchayats and Municipalities may be exempted from Building Tax/Property Tax. All non-residential buildings irrespective of their area or type of construction should be made liable to pay the tax".*

The proposal may be accepted subject to the condition that houses constructed by the persons belonging to economically weaker sections utilising Government subsidy should be exempted. Local Administration Department may propose necessary amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act.

10. *"A time limit for the disposal of revision and appeal petition may be prescribed in the relevant rules* ".

The proposal may be accepted and the Local Administration Department may amend the rules for the purpose.

11. *"Annual as well as half-yearly Building/Property Tax may be rounded off to the next higher rupee ".*

The proposal may be accepted and it may be extended to all the amounts transacted by the local bodies. Local Administration Department may propose necessary amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act.

12. *"There should be a minimum property/building tax payable by a tax payer and this may be fixed at Rs. 15 per half year in a Panchayat, Rs. 20 in a Municipality and Rs. 25 in a Corporation. "*

The proposal may be accepted and the Local Administration Department may be asked to propose necessary amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act.

14. *"The Local Bodies may have an option to follow either the current system or a modified system based upon gross collection capacity as the basis for taxation ".*

The proposal may be accepted and the Local Administration Department may be asked to propose necessary amendments to the Kerala Entertainment Tax Act.

15. *"Entertainment Tax and Additional Entertainment Tax should be merged into a single item".*

The proposal may be accepted and the Local Administration Department may be asked to propose necessary amendments to the Kerala Entertainment Tax Act.

16. *"The distinction between Show Tax and surcharge on Show Tax may be abolished and both merged into one:*

The regime affixed rates may he replaced by one where the present rates are fixed as the minimum with freedom given to Local Bodies to fix rates above them at intervals of not less than two years".

The proposal may be accepted and the Local Administration Department may be asked to propose necessary amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act.

17. *"A provision should be incorporated in the Rules and if necessary in the KPR Act requiring Heads of Offices and owners of buildings to furnish to the Panchayat details of employees and occupants".*

The proposal may be accepted and the Local Administration Department may be asked to propose necessary amendments to the Kerala Panchayat Raj Act to introduce provisions similar to those in the Kerala Municipality Act.

18. *"Profession Tax in the case of persons other than salary and wage earners may be levied at the rates recommended in Annexure VII 4".*

The proposal is recommended and the Local Administration Department may be asked to propose necessary amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act.

19. *"The rates of Profession Tax may be uniform in urban and rural Local Bodies and that the number of slabs be reduced and the rates rationalises".*

The proposal is recommended and the Local Administration Department may be asked to propose amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act.

20. *"D. A., Bonus etc., should be taken as part of taxable income in urban areas as is already the case of rural areas and allowances such as H. R. A. excluded".*

The Sub-Committee noted that the difference in the systems of computation of taxable income in urban areas and in rural areas has been existing for a long period and that the inclusion of D. A. and Bonus in the taxable income in respect of employees in the urban areas may create discontent among the employees. However, the Sub-Committee felt that there is no rationale for the existing distinction and recommends that the Kerala Municipalities Act may be amended as proposed by the State Finance Commission.

21. *"The State Finance Commission has recommended the introduction of a system of collecting a tax on sale of land from land owners at the time of sale of property. When such a system is introduced Government can do away with the provision under Section 201 under which Panchayats can levy a land cess".*

The proposal may be accepted and the Local Administration Department may be asked to propose necessary amendments to the Kerala Panchayat Raj Act.

22. *"In respect of Advertisement Tax Government may fix the minimum rate chargeable and leave it to Panchayat or Municipality to fix it above those rates".*

The proposal may be accepted and the Local Administration Department may be asked to propose necessary amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act.

23. *"The present practice of Rural Development Board being the financing agency as well as the construction and supervising agency should cease and it may lend money to Local Bodies on merits and at market rates".*

The Sub-Committee noted that the Kerala State Rural Development Board is already being converted as a financial Institution. The process may be expedited.

24. *"Both Rural Development Board and KUDFC should preferably have a soft window for socially desirable purpose".*

The proposal may be accepted and the Local Administration Department may issue necessary instructions to the Kerala Urban Development Finance Corporation and the Kerala State Rural Development Board.

24A. *"Income from Licence Fees is a major source of income of Panchayats under Non-Tax Revenue and the receipts from this source is well below its potential because of the low rale of fees and the long period for which the rates remain without revision. The rates of certain fees were fixed as long ago in 1963 and some are as low as Re. 1. The rates may be revised taking into account atleast inflation if not other factors".*

The recommendation may be accepted and the Local Administration Department may be asked to propose necessary amendments to the Kerala Municipality Act and the Kerala Panchayat Raj Act and the various Rules referred to by the commission.

25. *"Instead of specifying a unique rate of licence fee, etc. Government may specify only the minimum rate and leave it to the Local Bodies to fix rates above it except in the case of births and deaths".*

The recommendation may be accepted and the Local Administration Department may be asked to make necessary amendments to the Rules.

26. *"Rate of Non-Tax Revenue item under fee, fine etc. in Municipalities may be revised".*

The recommendation may be accepted and the Local Administration Department may make necessary amendments to the Kerala Municipality Act and the Rules.

27. *"Provision may be included in the Kerala Municipalities Act, 1994 and Kerala Panchayat Raj Act !994 for the Local Bodies to collect a daily fee from person unauthorisedly using road porombokes without in any way conferring on such persons any right".*

The Sub-Committee felt that the proposal has very serious implications. The matter may be examined in detail by Local Administration Department in consultation with the Revenue Department.

28. *"Government should examine whether it is possible to require that all power of attorneys are compulsorily registered before any transaction is concluded regarding the property and the power of attorney itself is subject to Stamp Duty".*

The Sub-Committee felt that although the proposal is good in principle, its legality has to be examined in depth before taking a view. The Taxes Department may examine the matter further.

29. *"Since the Local Bodies have a substantial stake in the land value fixed, the Revenue Divisional Officer should send the draft notification to the Local Village Panchayat for their views and comments".*

The Sub-Committee endorses the proposal that the draft notification should be sent to the Village Panchayats. However, if the views and comments of the Panchayats are to be elicited and considered, it will not only delay the process but also affect the objectivity of the fixation of land value. Therefore, the notification should be sent for information only.

30. *"The increase in the ceiling rate of surcharge from 4 to 5% for Municipalities and Panchayats introduced by 1994 Act need not be given effect to and prevailing rate of 4% may continue until the new system of notifying prices of property comes into effect".*

The proposal may be accepted and the Taxes Department may take further action. Also, the Taxes Department may be asked to expedite further action on the notification of land value.

31. "25% *of surcharge on Stamp Duty levied on behalf of Urban Local Bodies should be put in to a State Pool. The surcharge on Stamp Duty as well as basic Tax collected from Corporation area may be transferred to them on collection basis".*

The Proposal may be accepted.

32. *"Government may revert to the pre 1988 system with a view to obviate the accumulation of arrears of surcharge on Stamp Duty payable to Local Bodies".*

The proposal may be accepted. The Finance Department may introduce the new system with effect from the next financial year.

33. *"Land Tax may be doubled".*

The proposal may be accepted and the Revenue Department may be asked to propose specific amendments to the Kerala Land Tax Act.

34. "60% *of the additional income from land Tax may go to Block Panchayat and balance to District Panchayats. The additional levy may be made a permissive one and the concerned District Panchayat may be authorised to decide on the levy by a resolution".*

The proposal may be accepted and the Revenue Department may be asked to propose specific amendments to the Kerala Land Tax Act.

35. *"Irrespective of the size of the holding the minimum Land Tax may be fixed at Rs. 5 per year in Panchayat areas. Rs. 7.50 in Municipalities and Rs. 10 in Corporation".*

The proposal may be accepted and the Revenue Department may be asked to propose specific amendments to the Kerala Land Tax Act.

36. *"Urban Local Bodies should also be eligible for Basic Tax grant. The total amount may be credited to a State Pool."*

The proposal may be accepted and the Local Administration Department may be asked to propose specific amendment to the Kerala Municipality Act.

37. *"For devolution of Plan funds the criteria recommended in Para JO.15 may be followed".*

The Sub-Committee felt that although the Census figures would be available in respect of classification of workers etc. the introduction of the complicated formula proposed by the Commission is unlikely to bring about equitable distribution. Instead of the formula recommended by the Commission the Sub-Committee feels that distribution may be made on the basis of simple, measurable and objective criteria. 90% may be distributed on the basis of population and 10% on the basis of area.

38. *"With the activation of the Planning process contemplated in the P.R.I. Legislation, the untied funds should taper off ".*

The proposal is recommended.

39. "*// should be left to the Local Bodies to decide on the application of the non-plan grants according to their own priority and perception of their needs. The State Finance Commission further recommend that the past non-plan specific purpose grants which may be lying unutilised or have been diverted for purposes other than those envisaged in the grant may also be treated as a general purpose grant."*

The proposal is recommended.

40. *"Non statutory non-plan grants may be fixed at 1% of the state revenue and may be distributed between Urban and Rural local bodies in proportion to their population."*

The Sub Committee that the acceptance of the proposal would involve an immediate outflow of 26.2 crores from the treasury. Government are already meeting the establishment expenditure in respect of the staff transferred to the local bodies. Further the non-plan funds in respect of items transferred to the local bodies are also being made available to them. In such a situation there is no need for fixing the non plan grant at 1% of the state revenue, especially because the figure of one per cent is an arbitrary figure suggested by the commission.

41. *"Stale level Fund for Village Panchayats and Municipal Councils called the Rural Pool and Urban Pool respectively may be constituted."*

The proposal may be accepted. However, the quantum of the pool would be less than that envisaged by the commission in view of non-acceptance of recommendation number 40.

42. *"Criteria for distribution from the Urban and Rural pool may be on the lines suggested in para 10.29".*

The Sub-Committee feels that there is no real benefit from the introduction of the complicated formula suggested by the commission. The Sub-Committee, therefore recommends that the distribution may be 90% based on population and 10% based on area.

43. *"Maintenance grant should be based on current cost of construction and not on historical cost."*

The Sub-Committee feels that the financial situation of the government does not allow the release of maintenance grant based on current cost of construction. Assistance to the local bodies can only be commensurate with the availability of resources and with the standards of maintenance of Government's own buildings. The proposal is therefore not recommended.

44. *"The norms recommended at table 11.4 are at 1992-93 price levels and are recommended as the minimum for maintenance and repair of District Roads and other roads. Suitable price escalation need to be applied to update the norms periodically."*

The proposal is not acceptable at present due to resource constraints.

45. *"50% of the gap estimated in 1996-97 at Rs. 71 crores should come from Government of India via centrally Sponsored Schemes or other appropriate Channels and the remaining 50% from Government of Kerala."*

The proposal is endorsed and the matter may be taken up with Government of India as well as with the next Central Finance Commission.

46. *"The current distinction between roads eligible for VRM grant and those for M.V. Tax grant may he abolished and the VRM may he merged with V.T.C. All roads may he eligible for grants from M.V. Tax."*

The proposal may be accepted.

47. *"The V.T.C. may be 25% of the net collection of M.V. Tax and it may be distributed among various Local Bodies in charge of the network on the principles of apportionment recommended by the Babu Paul Committee."*

The Sub Committee recommends that the percentage net collection of vehicle tax to be distributed to the local bodies may be fixed as 20%.

48. *"Building tax collected by Government under the Kerala Building Tax Act, 1975 may be exclusively assigned to the Village Panchayaths and Municipalities. "*

The proposal may be accepted. The Taxes Department may be asked to propose amendments to the Kerala Building Tax Act.

49. *"A portion of the income from the sale of Court Fee Stamps may be earmarked for the local bodies."*

The Sub Committee recommends that 25% of the income on the sale of Court Fee Stamps may be allotted to the local bodies.

50. *"Local Body should be made eligible for 50% of the Building Exemption fee. "*

The proposal may be accepted. Local Administration Department may make necessary amendments to the rules.

51. *"The scale of building exemption fees may be increased by 100%. "*

The proposal may be accepted. Local Administration Department may made necessary amendments to the rules.

52. "While Library Cess may continue to be collected by the Local Bodies, it may be earmarked for improving the infrastructure of the educational institutions under their control."

Considering the Resource Problems of the Kerala State Library Council, the Sub Committee feels that the existing system may continue. The proposal of the State Finance Commission is not recommended.

53. *"District Panchayaths may empowered to the levy a tax on the sale price of all immovable properties within the District where the price is Rs. 25,000 or more at the rate of 1% of the sale price."*

The proposal may be accepted and necessary amendments made by the Taxes Department.

54. *"Cable television operators may be required to pay annual licence fee as well as Entertainment Tax."*

The proposal of the Commission is recommended with the modification that are the rates proposed by the commission may be the maximum rates and that the Local Bodies will be free to fix lower rates. Local Administration Department may propose necessary amendments to the Kerala Municipalities Act, Kerala Panchayat Raj Act and the Entertainment Tax Act.

55. *"Central Government properties should be liable for Building Tax/Property Tax by the Local Bodies with the provision that Central Government may exempt any specified class of building,"*

The proposal recommended and may be taken up with the Government of India for amendment of the constitution.

56. *"All Local Bodies to conduct a systematic tax mapping followed by assigning unique premises number to each premise."*

The proposal is recommended.

57. *"Government may appointment a small expert group which will go into the whole question of the format of budget and other related matters of Local Bodies. "*

The proposal is recommended. Finance Department may be asked to make specific proposals.

58. *"Government should review the whole arrangements for auditing and accounting of Local Bodies."*

The proposal is recommended. The Sub-Committee felt that audit of accounts of the Local Bodies should be given paramount importance and for this purpose the Local Fund Audit Department should be strengthened. Finance Department may furnish specific proposals based on the Expert Groups' report.

59. *"A Fund for local development should be built up for leveraging funds and for subsidising the interest rate on non remunerative but desirable schemes to strengthen civic infrastructure. From the total grant allocated by the Tenth Finance Commission to Rural and Urban Local Bodies 1% will be earmarked for the fund for Local Development."*

The proposal is recommended.

60. *"The 1995 KPR Service Tax Rule may be modified in order to recognise the status of Service Tax as an independent Tax. The umbilical cord between Building Tax/Property Tax and taxes for services provided should be served and local bodies should be free to set within specified limits."*

The proposal is recommended. Local Administration Department will take action to amend the Rules.

61. *"A possible solution to the problem of complaints against Kerala Water Authority on non-compliance to rectification or repairs could be entrustment to the Local Bodies the function of maintenance of water taps,*

(i) The pre 1-4-1984 arrears due to K.W.A. from Local Bodies estimated as Rs. 20.46 crores may be written off.

(ii) The arrears from 1-4-1984 to 31-3-1991 and from 1-4-1992 to 31-3-1996 arrived at should be recovered from the Local Bodies on voluntary basis or by adjusting it towards grants payable by the Government. Arrears may be collected over a period of 8 years,

(iii) The Kerala Water Authority should insist upon payment of current dues of 1996-97 promptly by the Local Body and failure of this should be reported to Government who should adjust the dues against the grants payable to Local Bodies.

(iv) The repairs and maintenance function in respect of street taps may be looked after by the Local Bodies who are prepared to take it over and for such Local bodies 10% rebate of the charges payable by a Panchayat and a 7% rebate by a Municipality should be allowed by the Kerala Water Authority".

The proposal is recommended.

62. *"If a Local Body requires special type of lamps like sodium vapour lamps, the full cost of installation will be collected from the Local Body and energy charges collected on metered basis. "*

The proposal is recommended.

63. *"Local Bodies who are prepared to undertake, the work may be entrusted with the responsibility of maintenance and replacement of street lamps and a rebate given to them,"*

The proposal is recommended.

64. *"The Central Government may evolve suitable Centrally Sponsored Schemes with the aim of transferring annually to local bodies a minimum of 5% of Central Revenue."*

The proposal is recommended and the matter may be taken up with the Government of India and the next Central Finance Commission.

65. *"85% of the Central Finance Commission Grant may be earmarked for Village Panchayats and the remaining 15% may be distributed among Block and District Panchayat in the proportion of 3 : 2 on per capita basis."*

The proposal is endorsed.

66. *"The Central Finance Commission Grant to Urban Local Bodies may be distributed on a per capita basis."*

The proposal is endorsed.

67. *"Local Bodies should be competent to execute civil works financed out of funds raised from public on the basis of estimates prepared by architects and without the intervention of any Government agency in the award of supervision of the work. "*

The proposal is endorsed.

68. "25% *of the funds of various Centrally sponsored Programme for poverty alleviation should be at the disposal of the Local Bodies to be spent on poverty alleviation programmes formulated by the Local Bodies and approved by the District Planning Committee."*

The proposal is endorsed and the matter may be taken up with the Government of India.

69. "-4 *Statutory Authority should give annual reports to the Governor showing the quantum of statutory and end non-statutory grants due to Local Bodies and actually paid to them."*

The proposal is endorsed. The Chief Secretary may be empowered to furnish the report directly to the Governor.