Financial Provision in Local Self Government: An Analysis

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Abstract-The present paper analyses the financial provision in local self government in India. The 73rd and 74th constitutional amendments make the creation of local bodies. With these amendments, the states have come under a constitutional obligation to create a variety of local bodies, corresponding to population size, both for rural and urban areas. With the objective of ensuring administrative and financial efficiency the constitution of India split the functions and financial powers of the government into three parts namely, central, state and concurrent. Consequently, the centre was assigned resources and functions having national and interstate base while the states were assigned resources and functions which had local and regional character. The financial needs of local bodies are increasing on account of widening and deepening of their functions while availability of financial resources to them is lagging behind. Further revenue resources of local bodies are characteristically non-buoyant and inelastic. Most of the tax items assigned to the LBs are inelastic and unproductive and their base is very narrow. The analytical methodology has been used in present study. This study is based on secondary sources.

Key words: Finance, Efficiency, Local Self Government, Taxation.

Introduction-After independence, Indian Constitution came into existence in 26 January, 1950. The constitution provided, on an obligatory basis, a two-tiered government, namely – the Central (Federal / Union) Government (or Government of India) for the country as a whole and the state level governments with their respective territorial jurisdictions. The allocation of subjects and functions between the Centre and states was as per three lists, namely, the Union list, the state list and the concurrent list. There was no separate list for local self government or local bodies. The 73rd and 74th Constitutional Amendments in June 1993 initiated the next stage of Centre-state financial relations. The subjects to be handled by these bodies are listed in Schedule XI and Schedule XII of the constitution for rural and urban level bodies respectively.

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However, the amendments do not provide for a separate allocation of resources for the local bodies.[1]

And, therefore, state governments transfer a part of their own resources to the local bodies within their respective territorial jurisdictions. In other words, it means the following:-

- A state may wholly assign some of its taxes, duties, tolls and fees to the local bodies,
- It may share the revenue of some / all taxes, duties, tolls and fees with them, and
- It may give grants / loans to them.

Status of Local Self Government in India-There are a total of 2,67,428 local government bodies, of which 2,62,771 are rural and 4,657 urban. Of the rural local governments, 632 are zila parishads at the district level, 6,672 are panchayat samitis at the block level and 2,55,466 are gram panchayats at the village level. The panchayati raj system is a three-tier system with elected bodies at the village, taluk and district levels. The modern system is based in part on traditional, in part on the vision of Mahatma Gandhi and in part by the work of various committees to harmonize the highly centralized Indian governmental administration with a degree of local autonomy. The result was intended to create greater participation in local government by people and more effective implementation of rural development programmes. Although, as of 2015, implementation in all of India is not complete, the intention is for there to be a gram panchayat for each village or group of villages, a *tehshil* level council, and a zila panchayat at the district level.[2]

At present there are about 3 million elected representatives at all levels of the panchayat, one half of which are women. These members represent more than 2.4 lakh gram panchayats, about 6,000 intermediate level tiers and more than 500 district panchayats. Panchayats cover about 96 percent of India's more than 5.8 lakh villages and nearly 99.6 % of the rural population. The Constitution of India visualizes panchayats as institutions of self-governance. However, giving due consideration to the federal structure of India's polity, most of the financial powers and authorities to be endowed on panchayats have been left at the discretion of concerned state legislatures. Consequently, the powers and functions vested in PRIs vary from state to state. These provisions combine representative and direct democracy into a synergy and are expected to result in an extension and deepening of democracy in India. Hence, panchayats have journeyed from an institution within the culture of India to attain constitutional status.[3]

In addition, the 73rd and 74th Constitutional Amendments also provided for each State to constitute a State Finance Commission every five years. Setting up of local bodies with specifically assigned subjects is now a constitutional necessity, and they are now considered as essential form of local self government. Now, it is obligatory for each state to legislate for specified varieties of local bodies corresponding to the classification of local areas into villages, rural areas, areas in transition from rural to urban ones and urban areas. The above mentioned amendments of the constitution primarily provide for two main categories of local self governments, namely:-

(a) Rural Local Bodies (RLBs) and
(b) Urban Local Bodies (ULBs).

The Constitutional Amendments incorporated two schedules to the constitution. Eleventh schedule contains a subject list of 29 entries for rural bodies while twelfth schedule contains a subject list of 18 entries for urban bodies. Both subject lists relate to economic and social reconstruction and uplift including planning at the local level.

State Finance Commission-Article-243 (I) and Article-243(Y) of the Constitution of India envisages formation of State Finance Commission (SFC) in each state every fifth year to cover the following[4]:-

(i) Study the financial position of the local bodies,
(ii) Recommend those principles on the basis of which the taxes, duties, tolls and fees are to be transferred to or shared with the local bodies are to be selected,
(iii) Recommend those principles on the basis of which the state should give grants to local bodies,
(iv) Recommend those principles on the basis of which the resources transferred from states to local bodies should be distributed between the latter,
(v) Make recommendations for improving the financial position of the local bodies,
(vi) Make recommendations on matters referred to it by the governor in the interests of sound finance of the local bodies.

Principles of Local Taxation-Local bodies which are considered as sine qua non of stable democracy must have adequate financial resources of their own to meet their expenditure on locally determined functions. Although local inequalities in the standard of services can be set right through the device of differential grants and assigned revenues, the main emphasis should be on stability of local resources and their augmentation. In the devolution of powers of taxation to local bodies,

the Taxation Enquiry Commission (1953) has laid down the criteria: suitability of a tax, the capacity of levy and administer the tax equitably and efficiently and the devolution should be sufficiently prompt, flexible and diversified. Bird and Wallich (1993) has suggested the main characteristics of local taxation are following[5]:-

- The tax base should be relatively immobile and allow local authorities some way in varying rates without losing most of their tax base,
- The tax yield should be adequate to meet local needs and sufficiently buoyant over time, that is, it should expand at least as fast as expenditure,
- Tax yield should be relatively stable and predictable over time,
- The tax base should be visible to ensure accountability.
- Tax should be perceived to be reasonable fair by the tax payers.
- The tax should be relatively easy to administer efficiently and effectively. In practice, a local tax system having all the above characteristics is a rare possibility.

Local Finance under the Federal Set up in India-We have adopted new constitution in 1950, which embodies the characteristics of a federal constitution. The new constitution includes three list, viz. Union, State and Concurrent. There is no separate list of taxes for local bodies including Municipalities which would continue to depend on the state legislatures to whatever taxation powers are given from the state list to local bodies. In the absence of clear cut demarcation of taxes between the state governments and municipalities, there have been frequent encroachments by the state governments in the legitimate domain of municipalities. The Local Finance Enquiry Committee which reported in 1951, after a careful scrutiny of the problem of local finances, recommended that one tax from the Union list (item 89) namely, terminal tax on goods and passengers carried by railways, sea and air and the following 12 taxes from the state list be reserved for the utilization of local bodies[6]:-

(i) Tax on land and buildings (item 49),
(ii) Tax on mineral rights subject to limits imposed by the Parliament relating to mineral development (item 50),
(iii) Taxes on entry of goods into local areas for consumption, use or sale (item 52),
(iv) Tax on consumption or sale of electricity (item 53),
(v) Tax on advertisement other than published in newspapers (item 55),

(vi) Tax on goods and passengers carried by rail or inland waterways (item 56),
(vii) Taxes on vehicles other than those mechanically propelled (item 57),
(viii) Tax on animals and boats (item 58),
(ix) Toll tax (item 59),
(x) Taxes on profession, trade, callings and employment (item 60),
(xi) Capitation taxes (item 61),
(xii) Tax on entertainment, including amusements (item 62).

Taxation Enquiry Commission (1953), besides examining the taxation structures of central and the state governments, also made an enquiry into the finances of local bodies and made comprehensive recommendations for improving their finances. The observation of the Commission in the context of local finances is very significant. The incorporation in the Union list, of the terminal taxes on goods carried by railways, the limitations on account of profession tax livable on any assesses and the immunity of Union properties from local taxation, has resulted in contraction of the powers of taxation and consequently of the potential resources of local bodies, and the inclusion of only two lists, viz., Union and State, has obliterated the legal distinction between the spheres of taxation of local bodies and state governments which has created new problems in regard to the devising of an adequate and satisfactory system of local taxation and local finance. The Commission has pointed out the relative inelasticity of local finance in comparison to the state and central finances.[7]

Even the 73rd and 74th Constitutional amendments have not considered the issue of demarcating the sources of revenue between the state governments and local bodies. However, this amendment by making a provision for the constitution of State Finance Commission, under Article 243(i) and 243(y) after the expiry of every five years, for recommending devolution of resources from state government to local bodies, has altered the erstwhile fiscal arrangement between the state government and local bodies and has tried to rectify the imbalance.

The Constitutional Amendment Act provided a constitutional status to the Municipalities and assigned them a number of functions, ensures them stability, provides a suitable frame work to function with greater freedom and also makes institutional arrangements for devolution of finances from the state government to the municipalities. The inclusion of certain issues relating to Municipal finances, Commission has added a new dimension to the character of fiscal federalism in India and also

demonstrates the fact that the nation as a whole should feel interested in the financial health of Municipalities a stake in the task of restructuring and strengthening Municipal governments local as units of self-government in urban India.[8]

Conclusion-In the light of above discussion it can be said that local self government play a very greater role of an ideal governmental structure. They provide a meaningful and responsible training ground for the citizens in the matters of political, social and economic rights and obligations. A brief and quick account of federal finance and its principles shows that the institutional framework militates against the expansion of local finances, and a striking feature of federal finance in India is the progressive increase in dependence of local bodies on assigned revenue and grants-in-aid. In most of the cases, they feel reluctant to impose and collect taxes to the maximum extent. The nearer the government to the people, the more reluctant it becomes to impose and realize taxes. Local governments cannot be allowed unrestricted transfers without an appropriate system of checks and balances. With a view to ensuring harmonization of the tax system, checking fiscal profligacy and reducing distortions in the allocation of resources, it is necessary that the state government retain control of the tax structure of local bodies. But such controls are to be judiciously and objectively use and their operation should not be vitiated by political considerations. The local self government will take time to take firm roots. It may not have yielded the desired results, but it must succeed in near future with the time to time informs in financial autonomy of the local bodies in India.

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