Fiscal Decentralisation in Haryana: Some Suggestions for the Sixth State Finance Commission

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ABSTRACT

Through 73rd and 74th Constitutional Amendments, Panchayat and Municipal systems were provided a systematic and endurable structure of participatory political process at grass root level. State finance commission is constituted for determination of vertical and horizontal transfers to municipalities and panchayats. Haryana state finance commission (SFC) has been constituted regularly. Sixth SFC was constituted on 22nd September 2020 for the period 2021-22 to 2025-26. The state has also showed progressive development towards achieving sustainable development goals except gender equality (SDG 5) and life on land (SDG 15) goals. Haryana has been a pioneer state in carrying out fiscal reforms. As per the budget estimates for 2020-21, fiscal deficit was projected at Rs. 25,682 crore, constituting 2.73 per cent of GSDP, which is well within the stipulated norm of three per cent under FRBM Act. Similarly, the debt to GSDP ratio has also been maintained below the norm of 25 per cent as prescribed under the FRBM Act. The state of Haryana through the Panchayati Raj Act, 1994 has devolved all 29 functions, included in the Eleventh Schedule of the Constitution, to all the three rungs of Panchayats. Fifth SFC recommended vertical devolution of seven per cent and horizontal devolution in the ratio of 45 per cent for Municipalities and 55 per cent for Panchayats. Sixth State Finance Commission may review previous SFC reports, suggest, inter alia, new local taxes, present data on which the reports are based, complain about poor data base, attempt estimates of local taxable capacities in terms of measurable indicators, indicate full O&M requirement of core services and suggest budget and accounting reforms of the local governments.

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It may recommend to standardise procedures for levy of property and other taxes, norms for basic services and norms for staffing and salaries, incentivise performance through levy and collection of taxes and user charges, economy in expenditure and people's participation.

Keywords: *Haryana, State Finance Commission, Devolution, Panchayats, Municipalities, Local Governments, Decentralisation*

INTRODUCTION

SEVENTY third and 74^{th} Constitutional Amendments were passed by the Parliament of India in 1992 and ratified by States in 1993. Through these amendments local self-government was introduced in rural and urban India, respectively. Through this enactment, Panchayat and Municipal systems were provided a systematic and endurable structure of participatory political process at grass root level. The amendment has also enlarged the space for people's representation and their agency in matters of governance and moved decisions making closer to them. The operative vision of grass root governance mandated by constitution has given greater emphasis on devolution of powers to panchayats and municipalities as enshrined in the Constitution of India. Article 243 G and other articles of the constitution have made it very explicit that there is greater need for devolution of roles and responsibilities and power and authority to local governments. This translates to statutory transfer of rights, powers, authority and resources as also roles, responsibilities, duties and obligations from state government to local governments by an Act of State Legislative Assembly.

State Finance Commission is constituted for determination of vertical and horizontal transfers to municipalities and panchayats in the state. Haryana State Finance Commission (SFC) has been constituted regularly. Sixth SFC was constituted on 22^{nd} September 2020 for the period 2021-22 to 2025-26 under the chairmanship P. Raghavendra Rao, a retired civil servant.

The commission is required to make recommendations relating to the following matters:

1. (a) the principles which should govern:

(i) the distribution between the State and the Zila Parishads, Panchayat Samitis and Gram Panchayats, of the net proceeds of the taxes, duties, tolls and fee leviable by the State which may be divided between them under Part IX of the Constitution of India and the allocation between the Zila Parishad, Panchayat Samiti and Gram Panchayats at all levels of their respective shares of such proceeds;

(ii) the determination of the taxes, duties, tolls and fee which may be assigned to, or appropriated by, the Gram Panchayats, Panchayat Samitis and Zila Parishads; and

(iii) the grants-in-aid to the Zila Parishad, Panchayat Samiti and Gram Panchayat from the Consolidated Fund of the State.

(b) the measures needed to improve the financial position of the Gram Panchayats, Panchayat Samitis and Zila Parishads.

2. (a) the principles which should govern:

(i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fee leviable by the State, which may be divided between them under Part IX A of the Constitution of India and the allocation between the Municipalities at all levels of their respective shares of such proceeds;

(ii) the determination of the taxes, duties, tolls and fee which may be assigned to, or appropriated by the Municipalities; and

(iii) the Grants-in-aid to the Municipalities from the Consolidated Fund of the State.

(b) the measures needed to improve the financial position of the Municipalities.

In making its recommendations, the Commission shall have regard, among other considerations, to:

(i) the objective of balancing the receipts and expenditure of the State and for generating surplus for capital investment;

(ii) the resources of the State Government and demands thereon particularly in respect of expenditure on Civil Administration, maintenance and upkeep of capital assets, maintenance expenditure on plan schemes and other committed expenditures or liabilities of the State; and

(iii) the requirements of the Panchayati Raj Institutions and the Municipalities, their potential for raising resources and for reducing expenditure.

Source: *Finance Department, Haryana*

Against the backdrop, the paper is organised in six sections. Beside the introductory part, section two presents a brief profile of the Haryana Economy. Next section deals with the public finance management and fiscal health of the State. Section four is devoted to the devolution to local governments-both Panchayats and Municipalities in the State. Section five reviews the previous state finance commissions. Section six outlines some suggestions to the Sixth Haryana State Finance Commission for its report.

SECTION 2: THE ECONOMY - A BRIEF PROFILE

The state of Haryana was carved out on November 1, 1966 as a result of the bifurcation of the state of Punjab. It is surrounded by Himachal Pradesh in North, Uttar Pradesh in East, Punjab in West and Rajasthan in South. Adjacent to the National Capital Territory of Delhi, the state surrounds it from three sides. It is spread over an area of 44,212 sq. km with an area covering 1.3 per cent of the country. Haryana contributes significant amount of wheat and rice to the pool i.e., a national repository system of surplus food grain. Haryana is India's 4th largest producer of cotton. The state has also made rapid strides in development of industrial sector. Major industries in Haryana are automotive, IT, agriculture and petrochemicals. Haryana's structural transformation has been seen from an agrarian State to industrial State, with services sector recording robust growth. The state has also showed progressive development towards achieving sustainable development goals except gender equality (SDG 5) and life on land (SDG 15) goals (NITI Aayog, 2021).

Though Haryana is geographically a small State, the contribution of the State to the National Gross Domestic Product at constant (2011-12) prices has been estimated as 3.8 per cent as per the Quick Estimates of 2019-20. As per the Advance Estimates for the year 2020-21, the GSDP of the State at current prices has been estimated as Rs. 7,64,872.41 crore, recording the negative growth of 2.0 per cent in 2020-21 due to Covid-19 as compared to the growth rate of 10.7 per cent achieved in 2019-20. The GSDP at constant (2011-12) prices is estimated to be Rs. 5,28,069.75 crore with a negative growth of 5.7 per cent in 2020-21 as compared to the growth of 8.2 per cent recorded in 2019-20. However, this negative growth of 5.7 per cent recorded in real GSDP is lower than the negative growth of 8.0 per cent recorded at All India level in 2020-21 (Economic Survey of Haryana, 2021). The GSDP of the State at current and constant (2011-12) prices is given in Table 1.

Per capita income: In 1966, when Haryana was formed as State, the per capita income of the State at current prices was only Rs. 608. Since then, the per capita income has increased multi fold with the exception in 2020-21 due to the impact of Covid-19 pandemic. The per capita income of the State at constant (2011-12) prices is estimated to be Rs. 1,63,992 during 2020-21 with a negative growth of 6.9 per cent as compared to the growth rate of 6.8 per cent recorded in 2019-20. At current prices, the State's per capita income is likely to be Rs. 2,39,535 during 2020-21

TABLE 1: GROSS STATE DOMESTIC PRODUCT OF HARYANA

(Rs. thousand crore)

Year	*GSDP at Current Prices*	*GSDP at Constant Prices*	*Nominal GSDP Growth Rate (%)*	*Nominal GDP Growth Rate of (%) India*
2011-12	0.29	0.29	16.04	15
2012-13	0.34	0.32	16.63	13.3
2013-14	0.39	0.34	15.05	11.5
2014-15	0.43	0.37	9.49	10.5
2015-16	0.49	0.41	13.35	8.7
2016-17	0.56	0.45	13.30	9.9
2017-18	0.64	0.48	14.88	10
2018-19	0.70	0.51	9.30	11.2
(Q) 2019-20	0.78	0.55	10.73	7.2
(A) 2020-21	0.76	0.52	-2.02	-3

Note: Q: Quick Estimates A: Advance Estimates
Source: Authors' computation from the data provided in Economic Survey of Haryana and Economic Survey of Government of India

showing the contraction of 3.3 per cent as compared to the growth of 9.4 per cent recorded in 2019-20. Though, the State is maintaining per capita income during 2020-21 at both current and constant prices higher as compared to the National per capita income of Rs. 1,27,768 and Rs. 85,929, respectively.

Structural Transformation of Haryana's Economy

In 1966, at the time of formation of Haryana State, the State's economy was predominantly an agrarian economy. At the beginning during 1969-70 of Fourth Five Year Plan, the contribution of Agriculture and Allied Sectors (crops, livestock, forestry and fishing) to the GSDP at constant prices was the largest (60.7%) followed by Services (21.7%) and Industry (17.6%) Sectors. During the period of 37 years (1969-70 to 2006-07) intervening 4th and 10th Five Year Plans, Industry and Services Sectors registered higher average annual growth than the Agriculture and Allied Sectors which resulted in the increased share of Industry and Services Sectors and decreased share of Agriculture and Allied Sectors in the GSDP (Reserve Bank of India, 2021). The share of Agriculture and Allied Sectors in GSDP declined from 60.7 per cent in 1969-70 to 21.3 per cent in 2006-07 while the share of Industry Sector increased from 17.6 per cent in 1969-70 to 32.1 per cent in 2006-07. The share of Services Sector increased from 21.7 per cent to 46.6 per cent during this period.

Since the 11th Five Year Plan, the pace of structural transformation of the State's economy remained continued. In spite of the robust growth recorded in Services Sector during the past era, the spread of Covid-19 pandemic has largely affected the economic activities in 2020-21. Almost all the sectors with the exception of Agriculture and Allied Activities have been adversely affected. As a result, the share of Agriculture and Allied Sectors has improved to 18.9 per cent in 2020-21 but the share of Industry Sector has decreased to 30.2 per cent. The share of Services Sector at constant prices has been recorded as 50.9 per cent in 2020-21 (Government of Haryana, 2021).

SECTION 3: STATE OF PUBLIC FINANCE

Haryana is one of the most progressive States in the country. It has been a pioneer State in carrying out fiscal reforms and public finance management (World Bank, 2020). Public finance relates to the collection of taxes by the government and the use of those tax funds towards production and distribution of public goods. Resource generation, resource allocation and expenditure management (resource utilisation) are the essential components of a public financial management system. The purview of public finance is considered to be three fold namely; efficient allocation of resources, distribution of income, and macro-economic stabilisation. As a result of prudent fiscal management, fiscal parameters such as fiscal deficit and debt to GSDP ratio of the State are within the stipulated limits prescribed by the successive Union Finance Commissions and the Government of India. As per the budget estimates for 2020-21, fiscal deficit was projected at Rs. 25,682 crore, constituting 2.73 per cent of GSDP, which is well within the stipulated norm of three per cent under FRBM Act. Similarly, the debt to GSDP ratio has also been maintained below the norm of 25 per cent as prescribed under the FRBM Act.

Revenue Receipts and Revenue Expenditure

The revenue receipts comprise State's own tax and non-tax revenue; share in central taxes and grant-in-aid from the Union. As per Budget Estimates of 2020-21, the revenue receipts of the Government of Haryana are expected to be Rs. 89,964.14 crore against the estimated revenue expenditure of Rs. 1,05,338.09 crore. The revenue receipts of the State Government was Rs. 77,580.73 crore against revenue expenditure of Rs. 92,256.10 crore in 2019-20 (RE). It was Rs. 65,885.12 crore against revenue expenditure of Rs. 77,155.54 crore in 2018-19.

Total Tax

The tax position of Haryana State from 2017-18 to 2020-21 (BE) is

TABLE 2: TAX POSITION OF THE STATE

(Rs in crore**)**

Year	*State's Own Tax Revenue (OTR)*	*Share in Central Taxes (SCT)*	*Total Tax*
2017-18	41099.38	7297.52	48396.90
2018-19	42585.60	8250.34	50835.94
(RE) 2019-20	47842.04	7111.53	54953.57
(BE) 2020-21	52095.65	8484.82	60580.47

Note: RE - Revised Estimates, BE- Budget Estimates
Source: State Budget Documents.

given in the Table 2. Total tax comprises State's own tax revenue (OTR) and State's share in central taxes (SCT). State total tax is expected to increase from Rs. 48,396.90 crore (Rs. 41,099.38 crore OTR + Rs. 7,297.52 crore SCT) in 2017-18 to Rs. 60,580.47 crore (Rs. 52,095.65 crore OTR + Rs. 8,484.82 crore SCT) in 2020-21 (BE).

Own Tax Revenue

As per the Economic Survey of Haryana 2020-21, the contribution in tax revenue from SGST is estimated at Rs. 22,350 crore in 2020-21 (BE) as compared to Rs. 19,723.86 crore in 2019-20 (RE) showing an increase of 13.31 per cent in 2020-21 (BE) over 2019-20 (RE). The contribution in tax revenue from State Excise is estimated at Rs. 7,500 crore in 2020-21 (BE) as compared to Rs. 6,700 crore in 2019-20 (RE) showing an increase of 11.94 per cent in 2020-21 (BE) over 2019-20 (RE). The contribution in tax revenue from Stamps and Registration is estimated at Rs. 7,500 crore in 2020-21 (BE) as compared to Rs. 6,600 crore in 2019-20 (RE).

Share in Central Taxes

Transfer from the Union mainly consists of State's Share in central taxes, grants for centrally sponsored schemes, grants under the award of the Union Finance Commission and other grants. The Share in Central Taxes is estimated at Rs. 8,484.82 crore in 2020-21 (BE) against Rs.7,111.53 crore in 2019-20 (RE). It shows that Share in Central Taxes is likely to increase by 19.31 per cent in 2020-21 (BE) over 2019-20 (RE).

Grants-in-aid

The Grant-in-Aid received in the State is shown in Table 3. Apart from the significant amount from central taxes, Union Finance Commission has made recommendations regarding Grant-in-Aid to the States for specific purpose. State is expected to receive about Rs. 13,955.45 crore as Grant-in-Aid in 2020-21 (BE) against Rs. 12,492.07

TABLE 3: GRANT-IN-AID RECEIVED FROM UNION GOVERNMENT

(Rs. in crore)

Year	*Amount Received*
2017-18	5185.12
2018-19	7073.54
(RE) 2019-20	12492.07
(BE)2020-21	13955.45

Note: RE - Revised Estimates, BE- Budget Estimates
Source: State Budget Documents

crore in 2019-20 (RE). It indicates that Grant-in-Aid is likely to increase by 11.71% in 2020-21 (BE) over 2019-20 (RE).

State of Fiscal Health of Haryana

There are various indicators of measuring fiscal health pertaining to state governments. For the purpose, we would only be using three indicators of fiscal health namely Revenue Deficit (RD), Fiscal Deficit (FD) and Primary Deficit (PD). Broad deficit indicators of – revenue, fiscal and primary deficits – for the period 2001-02 to 2013-14 as ratio of Gross State Domestic Product (GSDP) at current prices are given in Table 4. Data indicates that fiscal health of state improved in early half of the decade upto 2006-07 (Sen, 2000). Since then it started an upward trend and fiscal deficit was as high as 4.9 per cent in 2009-10 primarily due to implementation of sixth pay commission recommendations and fiscal measure undertaken in wake of global financial crisis (Bishnoi, 2018). Still Haryana has manageable gross fiscal deficit as FC-XII target of three per cent for the year 2013-14 is well above fiscal deficit of 2.1 per cent realised by Haryana. But the state is not able to bring its revenue deficit to zero as mandated by 13th Finance Commission. This indicates that though Haryana has fiscal deficits within limits set by FRBM Act but it had higher deficits than most of other states in the country and state is able to bring revenue deficit to zero as mandated by FC-XIII (Sen and Rao, 2000; Dholakia, 2003). Haryana Fiscal Responsibility and Budget Management (HFRBM) Act, 2005 which stipulated that (*i*) Revenue Deficit to be reduced to zero by 2008 - 09 (*ii*) Fiscal Deficit to be brought down to three per cent of GSDP by 2009 (*iii*) Debt Liability to be contained to 28 per cent of GSDP by 2010. As per the guidelines of Ministry of Finance, Government of India, the Government of Haryana has amended HFRBM Act, 2005. Now, the Government of Haryana has to attain zero revenue deficit target from 2011-12 and maintain the same till 2014-15, fiscal deficit to be brought down to three per cent of GSDP from 2011-12 and maintain the same till 2014-15. The total debt liability

TABLE 4: DEFICIT INDICATORS OF HARYANA

Year	*Revenue Deficit (%)*	*Fiscal Deficit (%)*	*Primary Deficit (%)*
2011-12	0.49	2.40	1.06
2012-13	1.28	2.99	1.62
2013-14	0.97	2.08	0.61
2014-15	1.90	2.88	1.29
2016-17	2.23	4.27	2.51
2017-18	1.69	3.05	1.14
2018-19	1.20	2.90	0.95
2019-20	2.04	2.88	1.80
RE 2020-21	2.43	2.90	0.85

Source: Authors' computation from the data provided in State Budget Documents

is to be retained at 22.4 per cent of GSDP in 2010-11, at 22.6 per cent in 2011–12, 22.7 per cent in 2012-13, 22.8 per cent in 2013-14 and 22.9 per cent in 2014-15 (Bishnoi, 2018).

SECTION 4: DEVOLUTION TO LOCAL GOVERNMENTS

As per mandate of 73rd Constitutional Amendment, the State Government has been regularly constituting the State Finance Commission under Article 243-I read with Section 213 of the Haryana Panchayati Raj Act, 1994 from time to time to review the financial position of the Panchayats and to make recommendations on the principles which should govern the distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be further divided between them and the allocation between the Panchayats at all levels of their respective shares of such proceeds; the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Panchayats; the grants-in-aid to the Panchayats from the Consolidated Fund of the State and the measures needed to improve the financial position of the Panchayats (Alok, 2021). The grants sanctioned by State Government on the recommendations of the State Finance Commission is distributed/ released to the Gram Panchayats (GPs), Panchayat Samitis (PSs) and Zila Parishads (ZPs) (Table 5).

An amount of Rs.308 crore had been released to local governments– both Panchayats and Municipalities during the year 2015-16 in Haryana. This amount has increased to Rs. 424 crore in the subsequent year i.e., 2017-18. Thereafter, a declining trend is noted in the fiscal transfers to local governments in Haryana as evident from Table 6 been released so-for.

Table 5: Local Governments in Haryana

Particulars	*No*
Panchayats	**7030**
Zila Parishads	21
Panchayat Samitis	126
Gram Panchayats	6234
Municipalities	**90**
Municipal Corporations	11
Municipal Councils	22
Municipal Committees	57

Source: Haryana State Government

Table 6: Share of Local Governments in Haryana

Year	*2015-16*	*2016-17*	*2017-18*	*2018-19*	*2019-20*	*2020-21*
Total Revenue (Rs '000 cr)	5416	6032	6269	6588	7758	8996
Own Tax Revenue (Rs '000 cr)	3493	3784	4183	4274	4784	5209
Transfer to Municipality and Panchayat (Rs cr)	308	424	391	222	232#	184#

Source: Authors' computation from the data provided in Handbook of Statistics of India States, RBI

Note: # Figure is extrapolated as no data for Haryana was provided in the given source.

SECTION 5: STATE FINANCE COMMISSIONS IN HARYANA

SFC has been set up in Haryana regularly to review the financial position of the State, Panchayats and Municipalities and to make recommendations with regard to distribution of the net proceeds of taxes/duties and fees etc. between the State Government and Panchayats and Municipalities and to suggest measures needed to improve their financial position. The First SFC was set up in May, 1994 and the award period was 1997-98 to 2000-2001. The Health Minister Kamal Verma was the chairman. There were four other members including the member-secretary. The commission submitted its report in March 1997. After more than three years, in September 2000, the State Government had accepted the recommendations with modifications of the First SFC regarding the sharing of the proceeds of stamps and registration, cattle fairs and motor vehicles tax. The Second SFC was set up on September, 2000 under the chairmanship of Suraj Bhan Kajal with four other members and the award period was 2001-02 to 2005-06. The commission submitted its report in September 2004. It made recommendations for total transfer of Rs. 1117.51 crore to Panchayats and Municipalities for the period 2001-06, of which 696.22 crore to Panchayats and Rs 421.29 crore to Municipalities were earmarked. The State government accepted the report following Articles 243 I (4) and 243 Y (2) in December 2005 with many modifications.

The third SFC was set up in four stages, initially in February, 2005 and finally constituted in December 2007. Former civil servant A N Mathur was the chairman. There were five other members. The commission recommended four per cent of the own tax revenue as devolution to local governments in the ratio of 65:35 to Panchayats and Municipalities. The Fourth SFC was constituted in April 2010 with retired civil servant L S M Salins as chairman and five other members. The commission submitted the report in June 2014 and recommended 2.5 per cent of the net own tax revenue of the State to be shared with Panchayats and Municipalities in the ratio of 65:35 based on the rural-urban population ratio as per 2011 census. The State government deferred the consideration on the recommendations.

The Governor of Haryana constituted the Fifth SFC of Haryana on 26th May, 2016 by nominating as many eight members including a chairman and a member secretary. The award period of the Fifth SFC was 2016-17 to 2020-21. In September 2017, the commission submitted its report which was considered in September 2018. The commission recommended vertical devolution of seven per cent of the State's own tax revenue to local government to be shared in the ratio of 55 per cent for Panchayats and 45 per cent for Municipalities. According to the figures available on the transfer of funds to Panchayats (see Table 6), it suggests that the funds have not been budgeted by the State. For details, please see Alok (2021).

Devolution and Delegation as per State Panchayati Raj Act and Rules

The State of Haryana through its Panchayati Raj Act, 1994 has devolved all 29 matters, enumerated in the Eleventh Schedule of the Constitution, to the three rungs of Panchayats However, activity mapping was done for fourteen departments only.

Box 1: Glimpses of State Finance Commission's Recommendations

First State Finance Commission

- First SFC was constituted on 31st May, 1994 covering the period of four years i.e. 1997-2001
- The report of First SFC was submitted in March 1997 and the ATR was laid in September 2000.
- State Government considered only one year i.e. 2000-01.
- SFC recommended Rs. 869.31 crore for the period 1997-2001 (Rs. 567.48 crore for Panchayats, and Rs.301.83 crore for Municipalities).
- SFC recommended Rs. 263.38 crore for 2000-01 (Rs.144.59 crore for Panchayats, and Rs. 118.79 crore for Municipalities).
- State Government accepted of Rs.99.49 crore (Rs.34.13 crore for Panchayats and Rs. 65.36 crore for Municipalities).
- Only Rs. 66.36 crore was actually transferred to the local government during 2000-01.
- Municipalities were given Rs. 65.36 crore, but Panchayats were given only Rs.1.00 crore

Second State Finance Commission

- Second SFC was constituted on September 6th, 2000 covering the period of 5 years i.e. 2001-2006
- The report of 2nd SFC was submitted in September 2004 and the ATR was first laid in December 2005, then on September 16th 2006 and on March 6th 2007.
- State Government considered only one year i.e. 2005-06.
- SFC recommended Rs. 1117.51 crore for the period 2001-06 (Rs. 696.22 crore for Panchayats, and Rs. 415.37 crore for Municipalities).
- SFC recommended Rs. 231.05 crore for 2005-06 (Rs.138.43 crore for Panchayats, and Rs.92.62 crore for Municipalities).
- State Government accepted devolution of Rs.100 crore (Rs. 50 crore for Panchayats and Rs. 50 crore for Municipalities).
- Rs.100 crore was transferred to the panchayats and municipalities in 2005-06.
- Municipalities were given Rs.50 crore and Panchayats were given Rs. 50 crore

Third State Finance Commission

- Third SFC was constituted on 22nd December, 2005 covering the period of 5 years i.e. 2006-2011
- Recommended sharing of state taxes at the rate four per cent excluding Excise Duty and LADT with Panchayats and

Municipalities after retaining 1.25 per cent as collection charges of the Government

- Devolution to Panchayats and municipalities in the ratio of 65:35 giving a weightage of 40 per cent to population, 25 per cent to SC population, 25 per cent to number of villages and cities/towns and 10 per cent to literacy gap.
- SFC recommended Rs. 2540.44 crore for the period 2006-11 (Rs. 1651.27 crore for Panchayats, and Rs. 889.17 crore for Municipalities).
- State Government accepted Rs. 1304.60 crore [Panchayats: Rs. 847.99 crore (65%) and Municipalities: Rs. 456.61 crore (35%)]

Fourth State Finance Commission

- Fourth SFC was constituted on 16th April, 2010 covering the period of 5 years i.e. 2011-2016
- The report of 4th SFC was submitted in June 2014.
- SFC recommended Rs. 3573.12 crore for the period 2011-16 [Rs. 2322.52 crore for Panchayats (65%), and Rs. 1250.60 crore for Municipalities (35%)].
- The Panchayats share to be allocated among GPs at the district level: PSs: ZPs in the ratio of 75:15:10 respectively.
- The share of local government, both Panchayats and Municipalities, has recommended 7% of the divisible pool i.e. net own tax revenue.

Fifth State Finance Commission

- Fifth SFC was constituted on 26th May 2016. The report of the commission covers the five year period commencing from 2016 to 2021.
- It is recommended that financial devolution of seven per cent of the State's Own Tax Revenue (SOTR) to panchayats and municipalities in the ratio 55:45 (Panchayats: Municipalities) and stamp duty of two per cent will be over and above the recommended devolution of seven per cent of SOTR to panchayats and municipalities.
- Distribution criteria will be based upon the population and area in the ratio of 80:20.
- Inter-se share of panchayats will be in the ration of 75:15:10 among Gram Panchayat, Panchayat Samiti and Zilla Parishad.
- Specific grants of Rs. 250 crore for establishment of State Level Urban Shared Service Centre and Rs. 70 crore for Swarna Jayanti Haryana Institute for Fiscal Management.

Source: Alok (2021)

Panchayat Finances

Provision of adequate financial powers to the Panchayats by equipping them to generate sufficient resources on their own is necessary to enable them discharge their functions and obligations satisfactorily (Alok, 2021). Under the Haryana Panchayati Raj Act, 1994, Panchayats have been given powers to impose taxes and fees. The Act also provides that the Panchayats may impose any tax, duty or cess which the State Legislature may assign. However, only house tax has been imposed as per 117 (I) of Panchayat Rules in the following rates :

(i) A land owner or a shop keeper Rs. 30 per annum

(ii) A tenant of land or an artisan Rs. 20 per annum

(iii) An unskilled labourer Rs. 10 per annum

(iv) Any other person not falling under above categories may be bracketed with the above classes as may be determined by GP.

House tax is an important source of income to Panchayats. The State Government had abolished House tax with effect from 1 November 2007. Subsequently, State Government enabled the Gram Panchayats by issuing a notification to impose house tax in rural areas. Our field study reveals that in almost all sample Panchayats, house tax is being collected by GPs. In Haryana, *Shamlat*[1] land is the main source of income to Panchayats. The Panchayats have 849587 acres of *shamlat* land out of which 233051 acres are cultivable *shamlat* land and 598856 acres of uncultivable *shamlat* land. During the year 2012-13, the income from *shamlat* land was Rs. 230.94 crore. Lease money is being collected from *shamlat* land in almost all villages (Economic Survey of Haryana, 2020-21).

SECTION 6: SUGGESTIONS FOR SIXTH STATE FINANCE COMMISSION

Though the constitution of the SFC is Haryana has been regular but the treatment to their recommendations has been far from being satisfactory. The state government, in tradition under different political parties, has adopted casual approach by a) nominating a large number of members as the case noted in the 5th SFC; and b) constituting the SFC in four phases in the case of 3rd SFC. Both practices are unparalleled across states in India. The sixth SFC is constituted by the State government by nominating only the chairman and a part time member secretary and no other member. The order is issued from the chief secretary without a reference to the Governor. The practice is inconsistent the constitutional provisions enshrined in Articles 243 I and 243 Y. Moreover, the terms of reference issued by the chief secretary direct the constitutional body to explore avenues so that both Panchayats and Municipalities reduce expenditure.

Under such surroundings, it is a challenge to the sixth SFC to produce a report which could be to liking of State government and consistent to the spirit of the provisions enumerated in Part IX and IX A of the Constitution at the same time.

Nevertheless, the Sixth State Finance Commission, at the outset, may review previous SFC reports; focus on SDG indicators on which the State is lagging; present data on which the reports are based; complain about poor data base; suggest new local taxes, if necessary; attempt estimates of local taxable capacities in terms of measurable indicators; indicate full O&M requirement of core services; and suggest budget and accounting reforms of the local governments.

The Sixth SFC report may recommend standardising (a) procedures for levy of property and other taxes; (b) norms for basic services by Panchayats and Municipalities; and c) norms for staffing and salaries. At the same time, the commission may recommend incentivise fiscal performance by local governments through: (a) levy and collection of taxes and user charges; (b) economy in expenditure and (c) people's participation

In addition, the 6th SFC may recommend the recommend the following for the efficiency:

- Database on local governments and their Finances
- Standardising the template- web based:
- Local Government Profiler, Directory, Assets Register, Institutionalising the arrangements for data collection
- Notification of Activity Maps for all schemes and services
- Delineating roles for the local governments and others in schemes
- The above be the basis for assignment of assets, staff and budget allocations
- Entitlement of local governments for funds that can be indicated preferably in State Annual Budget
- Release of funds in two installments and 2nd installment after the receipt of 1st Installment's Utilisation Certificate

- Release of funds directly to the bank account earmarked
- Payment of interest by the State, if delay is beyond seven days
- Details of grants to be placed before gram sabha and ward sabha

Finally, a clearing house at State level may be recommended for the dissemination of best practices; information sharing; professional inputs through Swarn Jayanti Haryana Institute of Fiscal Management, Panchkula.

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Footnote

1. *Shamlat* land is owned by Gram Panchayat in Haryana according to Village Common Land Regulation Rules, 1964.