

FINANCES OF LOCAL GOVERNMENTS IN KERALA

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I). Issues presented

- Issues in LG finances
- The structure of Receipts and Expenditure of Grama Panchayats, Municipalities and Municipal Corporation
- Issues in Own Resources Mobilisation
- State Finance Commission (SFC) and Devolution of State Taxes.

II). Data

- Data collected from all the LG's in Kerala
 - Data collected from 104 sample LGs covering all districts based on questionnaire.
- i). 57 GPs , ii). 14 BPs, iii). 14 DPs, iv).14 Municipalities
v).5 Municipal Corporations (MCs)

Table 1

Number of Rural and Urban LGs in Kerala from 1995 to 2015					
LG	1995	2000	2005	2010	2015
Rural					
Grama Panchayat	990	991	999	978	941
Block Panchayat	152	152	152	152	152
District Panchayat	14	14	14	14	14
Urban					
Municipality	55	53	53	60	87
Municipal Corporation	3	5	5	5	6
Total	1214	1215	1223	1209	1200

Issues in Local Finance in Kerala

- Low priority for own resource mobilisation (taxes and non-tax)
- Heavy reliance of funds from State Government
- Rapid growth in non-plan expenditure
- Rapid growth of administration, establishment, operations, maintenance and related items of expenditure.
- Salaries and wages are the items which registered the largest increase
- More demand for maintenance funds of transferred institutions and also for non-maintenance purposes
- Shifting more financial responsibilities of the transferred institutions to LGs by State Government

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- Municipalities and MCs are facing a pension payment crisis of retired staff.
- Low rate of honorarium for elected representatives and executive Heads of LGs.
- Diversion of development fund to State/Central schemes (Housing Scheme)
- Lack of authority to effect periodical revisions of taxes, non-taxes, introduce new fees, levies etc.
- Poor spending on plan outlays
- Lack of achievement of financial and physical targets of annual plans

Low Priority and Poor Execution of Civic Functions

- Collection and disposal of solid waste, regulation of liquid waste disposal etc.
- Waste disposal system has been collapsing in majority of municipalities and MCs.
- No slaughter houses in most of the municipalities.
- No effective control of stray dogs
- Lack of programmes of immunisation, prevention and control of diseases

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- Lack of inadequate Public toilets
- Lack of parking places for vehicles
- Street lighting (situation is better)
- Majority of the LGs are giving low priority
- Reasons – difficulties in execution, public protest, lack of availability of land, problems in land acquisition etc.

Structure of Receipts and Expenditure of Grama Panchayats for 2013-14

- Transfer of funds accounts for 44% of the receipts
- Own revenue (Tax+Non-Tax) accounts for 9% of the receipts
- Property and profession tax are the major taxes
- CSS and Welfare Pensions accounts for 28% of the receipts
- Other items of receipts are World Bank assistance, 13th UFC Grants and other receipts
- Nearly half of the total expenditure is incurred on annual plan
- The establishment, administration and related expenditure accounts for 33% of expenditure.
- The other items of expenditure are Welfare Pensions and CSS
- Average total receipts of a Grama Panchayat is Rs 6.25 crore and expenditure is Rs 6.07 crore

Table 2**Total Receipts of 978 Grama Panchayats (Rs in lakh)**

Item	2013-14	Share (in %)	Average Total Receipts
Tax	32346.90	5.29	33.07
Non Tax	22058.58	3.60	22.55
Total Transfer of funds (GPF + Maintenance Road + Maintenance Non Road + Development Fund)	269705.22	44.07	275.77
World Bank Assistance	23744.56	3.88	24.28
13th UFC grant	47859.50	7.82	48.94
Borrowing	1939.53	0.32	1.98
Centrally Sponsored Schemes	69833.20	11.41	71.40
Welfare Pensions	107378.11	17.54	109.79
Other Receipts	37171.64	6.07	38.01
Total	612037.24	100	625.80 ⁹

Table 3**Total Expenditure of 978 Grama Panchayats (Rs in Lakh)**

Item	2013-14	Share (in %)	Average Total Expenditure
Establishment Expenses	53090.74	8.94	54.29
Administrative Expenses	103522.31	17.43	105.85
Operation and Maintenance Expenses	37517.35	6.32	38.36
Expenditure on Decentralised plan programme	275632.98	46.41	281.83
Expenditure on Maintenance Projects	14600.02	2.46	14.93
Expenditure on welfare Pensions	93884.08	15.81	96.00
Expenditure on Centrally Sponsored schemes	9257.38	1.56	9.47
Miscellaneous expenditure	6407.83	1.08	6.55
Total	593912.70	100	607.27

Table 4**Tax Revenue of 978 Grama Panchayats (Rs in Lakh)**

Item	2013-14	Share (in %)	Average Tax Revenue
Advertisement Tax	54.80	0.17	0.06
Entertainment Tax	541.33	1.67	0.55
Profession Tax	13271.70	41.03	13.57
Property Tax	17578.23	54.34	17.97
Service Tax	261.46	0.81	0.27
Other tax items	639.38	1.98	0.65
Grand Total	32346.90	100	33.07

Table 5**Non-Tax Revenue of 978 Grama Panchayats (Rs in Lakhs)**

Item	2013-14	Share (in %)	Average Non-Tax Revenue
Building permit fee	1153.96	5.23	1.18
Cinematograph Licence	9.65	0.04	0.01
D & O Licence	630.08	2.86	0.64
Ferry service	56.20	0.25	0.06
Fines/ Penalties	1330.47	6.03	1.36
Fisheries	59.19	0.27	0.06
Market fee for Public Market	449.99	2.04	0.46
P.P.R Licence	13.53	0.06	0.01
Public Halting place fee	218.33	0.99	0.22
Public slaughter house-gate fee	36.79	0.17	0.04
Rent on Buildings	2951.82	13.38	3.02
River sand	1648.88	7.48	1.69
Other non-tax items	13499.67	61.20	13.80
Grand Total	22058.58	100	22.55

Structure of Receipts & Expenditure of Municipalities for 2013-14

- Transfer of Funds accounts for 36% of the receipts
- Own revenue (Tax+Non-tax) 30% of the receipts
- Property, profession, and entertainment are the major taxes
- 13th UFC Grant, CSS and Welfare Pensions are the third major item of receipts
- One-third of the expenditure is incurred for annual plan.
- Nearly 36% is spent for establishment, administration, operation and maintenance
- Other major items of expenditure are maintenance of assets, Welfare Pensions and CSS
- Average total receipts of a Municipality is Rs21.87 crore and expenditure Rs 18.91 crore per year

Table 6**Total Receipts of 60 Municipalities (Rs in lakh)**

Item	2013-14	Share (in %)	Average Total Receipts
Tax	20183.54	15.38	336.39
Non Tax	19636.34	14.96	327.27
Total Transfer of funds(General Purpose + Maintenance + Development)	47381.18	36.10	789.69
World Bank assistance	2349.53	1.79	39.16
13th UFC grant	9471.32	7.22	157.86
Borrowing	1265.34	0.96	21.09
CSS	14515.1	11.06	241.92
Welfare Pensions	11019.22	8.40	183.65
Other Receipts	5410.34	4.12	90.17
Total	131231.9	100	2187.20

Table 7**Total Expenditure of 60 Municipalities (Rs in lakh)**

Item	2013-14	Share (in %)	Average Total Expenditure
Establishment	26613.64	23.46	443.56
Administration	7253.21	6.39	120.89
Operation and Maintenance	7130.82	6.28	118.85
Decentralised plan	37765.85	33.29	629.43
Maintenance of assets	11170.3	9.85	186.17
Welfare Pensions	11601.56	10.23	193.36
CSS	5383.45	4.74	89.72
Miscellaneous	6541.74	5.77	109.03
Total	113460.56	100	1891.01

Table 8**Tax Receipts of 60 Municipalities (Rs in Lakh)**

Item of Tax	2013-14	Share (in %)	Average Tax Receipts
Property Tax	10482.14	51.93	174.70
Profession Tax	6822.83	33.80	113.71
Entertainment Tax	2402.71	11.90	40.05
Advertisement Tax	135.98	0.67	2.27
Service Tax	6.28	0.03	0.10
Other Tax items	333.6	1.65	5.56
Total	20183.54	100	336.39

Table 9

Non-Tax Receipts of 60 Municipalities (Rs in lakh)			
Item	2013-14	Share (in %)	Average Non-Tax Receipts
D&O Licence	469.23	2.39	7.82
Building permit fee	1386.48	7.06	23.11
Market fee for public market	264.35	1.35	4.41
Public slaughter house gate fee	77.28	0.39	1.29
Public halting place fee	389.56	1.98	6.49
Rent on buildings	5348.11	27.24	89.14
Fines / Penalties	906.33	4.62	15.11
River Sand	345.06	1.76	5.75
Other Non Tax item	10449.93	53.22	174.17
Total	19636.34	100	327.27

Structure of Receipts and Expenditure of MCs for 2013-14

- Transfer of Funds accounts for 37% of the receipts
- Own revenue (Tax and Non-tax) accounts for 36% of the receipts
- 13th UFC Grant, CSS and Welfare Pensions accounts for 24.5% of the receipts
- Total expenditure on decentralised plan accounts for 32%
- Nearly 41.8% is spent for establishment, administration, operation and maintenance
- Other major items of expenditure are maintenance of assets, Welfare Pensions and CSS
- Average total receipts of a MC is Rs. 213.12 crore and expenditure Rs. 160.86 crore

Table 10**Total Receipts of 5 Municipal Corporations(Rs in lakh)**

Item	2013-14	Share (in %)	Average Total Receipts
Tax	25299.95	23.74	5059.99
Non Tax	12430.25	11.66	2486.05
Total Transfer of funds (General Purpose + Maintenance + Development)	39939.09	37.48	7987.82
13th UFC grant	4913.77	4.61	982.75
Borrowing	10.70	0.01	2.14
CSS	15114.98	14.18	3022.99
Welfare Pensions	6156.90	5.78	1231.38
Other Receipts	2697.58	2.54	539.52
Total	106563.22	100	21312.64

Table 11**Total Expenditure of 5 Municipal Corporations (Rs in lakh)**

Item	2013-14	Share (in %)	Average Total Expenditure
Establishment	28038.73	34.86	5607.75
Administration	1502.46	1.87	300.49
Operation and Maintenance	4123.82	5.13	824.76
Decentralised plan	25449.17	31.64	5089.83
Maintenance of assets	10750.71	13.37	2150.14
Welfare Pensions	5266.78	6.55	1053.36
CSS	4420.32	5.49	884.06
Miscellaneous	880.69	1.09	176.14
Total	80432.69	100	16086.54

Table 12**Tax Receipts of 5 Municipal Corporations (Rs in lakh)**

Item of Tax	2013-14	Share (in %)	Average Tax Receipts
Property Tax	13170.44	52.06	2634.09
Profession Tax	8785.64	34.73	1757.13
Entertainment Tax	2439.43	9.64	487.89
Advertisement Tax	431.33	1.70	86.27
Other Tax items	473.11	1.87	94.62
Total	25299.95	100	5059.99

Table 13**Non-Tax Receipts of 5 Municipal Corporations (Rs in lakh)**

Item	2013-14	Share (in %)	Average Non-Tax Receipts
D&O License	346.21	2.79	69.24
Building permit fee	1769.76	14.24	353.95
Market fee for public market	107.70	0.87	21.54
Public slaughter house gate fee	14.90	0.12	2.98
Public halting place fee	181.33	1.46	36.27
Rent on buildings	1724.23	13.87	344.85
Fines / Penalties	578.28	4.65	115.66
River Sand	130.85	1.05	26.17
Other Non Tax item	7576.99	60.95	1515.39
Total	12430.25	100	2486.05

Issues in Mobilisation of Own Resources of LGs

- During the last two decades there has been not much change in the rate of taxes and fees levied by LGs
- Property tax, the Principal tax of LGs witnessed one revision in 2013
- There was 70 percent increase in the tax amount in Grama Panchayats in 2014-15 due to revision
- But the rate revision was almost withdrawn in 2015
- The tax is not revised one in five years as envisaged in Kerala Panchayat Raj Act and Kerala Municipality Act
- Profession Tax, is second major item of tax of Local Governments

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- There was no change in the upper limit of the tax (Rs.2,500) since 1988
- The Union Finance Commissions (11th, 12th & 14th) have repeatedly recommended the raising of the ceiling of the tax
- The 14th Union Finance Commission recommended to raise the ceiling from Rs 2500 per annum to Rs 12000
- The recommendations is not implemented so far
- Only a small share of eligible persons are giving the tax
- The LGs should prepare a proper data base on all categories of professionals, traders and businessmen, workers in the unorganised sectors for levying the tax.
- All categories of the fees collected by the LGs should be revised once in five years

SFCs and Devolution of Taxes

Terms of Reference of 4th and 5th SFCs

- sharing among the Government and local LGs of the net-income of the taxes, duties, cess and fees which are being levied by the Government
- fixing the taxes, duties, cess and fees which may be earmarked for the LGs and may be expended by them
- the criteria regulating the financial aid etc. for the LGs from the State Consolidated Fund
- Steps necessary for improving the financial position of the LGs
- The measures needed for the proper institutionalisation of the decentralisation initiatives in the State
- Revisit the recommendations of the previous SFCs which had been accepted by Government but not operationalised

Devolution Recommendations of 4th SFC

(A) General Purpose Fund:

- For meeting establishment, administrative and mandatory expenses of the Local Governments.
- 3.5% of State's Own Tax Revenue (SOTR) calculated on (t-2) basis is devolved as General Purpose Fund.
- An amount of Rs. 25 crore from the share of GPs is set apart for gap funding (gap means establishment costs and obligatory expenses minus total of own fund and GPF).

(B) Maintenance Fund

Maintenance Fund Award (% share of SOTR)

2011-12	4.5% of SOTR (t-2)	
2012-13	5%	“
2013-14	5.5%	“
2014-15	5.5%	“
2015-16	5.5%	“

- 1/3 of the total Maintenance Fund is set apart for the maintenance of non-road assets like buildings, culverts, lanes etc
- The remaining 2/3 for the maintenance of Road assets.

(C) Development Fund

- **The recommended development fund for five years is given below**

Award of Development Fund

Year	Share of the assumed Plan size (in %)	Proposed allocation (Rs in Crore)
2011-12	25	2750
2012-13	27.5	3388
2013-14	28.5	3933
2014-15	29.5	4559
2015-16	30	5193

4th SFC: Status of implementation

Category of Recommendations	Total No. of Recommendations	No. of Recommendations Accepted	No. of Recommendations Implemented
Development Fund	11	10	10
Other Devolution	7	7	4
Institutionalisation	93	84	3
Others	40	39	7
Total	151	140	24

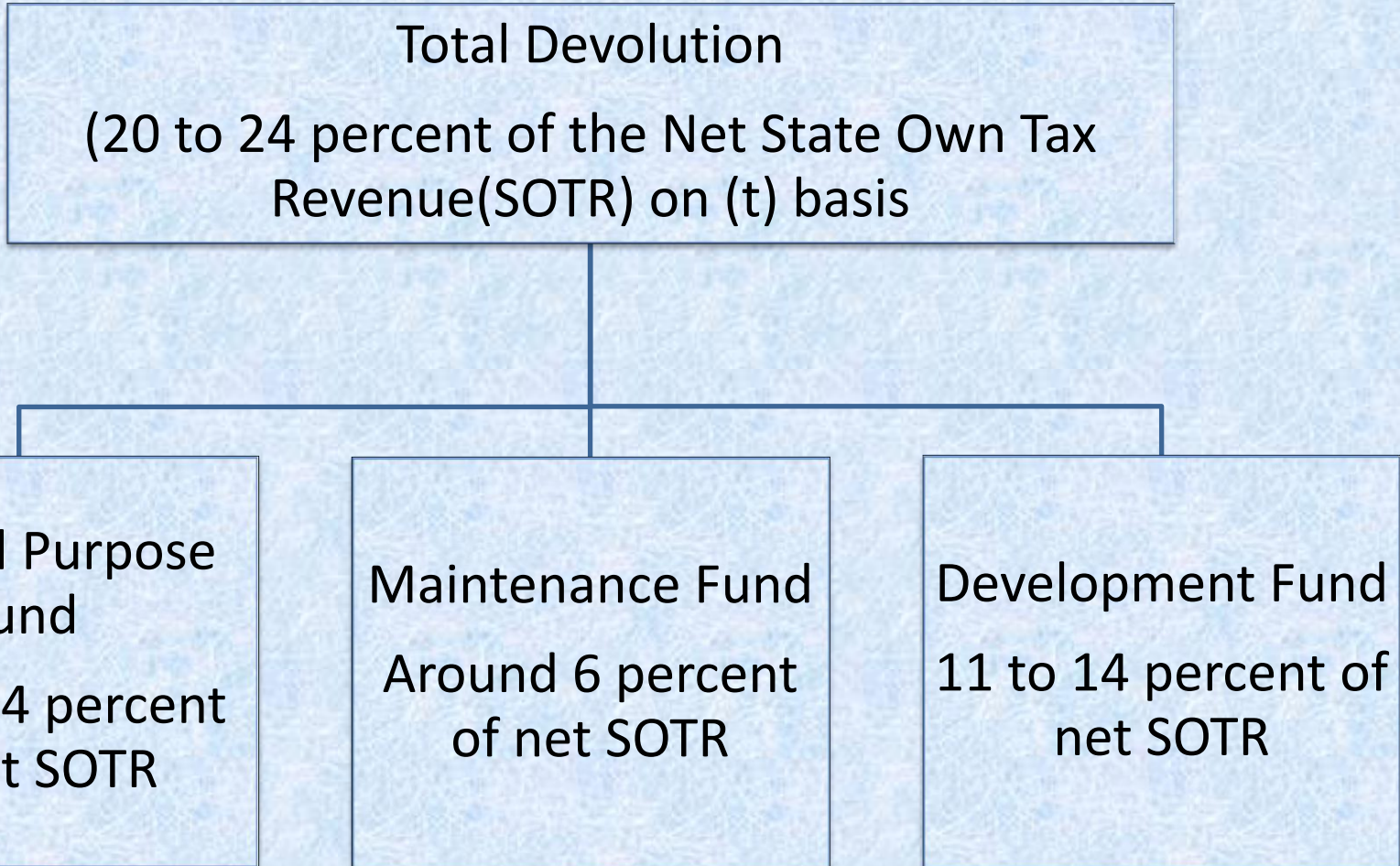
The Approach of 5th SFC on devolution

- The previous Commission has used devolution of funds based on (t-2) method. This means that the devolution of resources is based on the proceeds of SOTR received two years back. The Commission wish to give the award based on SOTR of (t), the year of devolution.
- The Commission gives the award specifying the amount of money to be devolved to each LG for each year of the award period.
- The Commission has projected the resource availability of the State for the award period. The award is based on this assessment.
- As per ToR, the devolution is based on net proceeds of SOTR

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- The Commission gives a share of the net proceeds of SOTR as the development fund instead of fixing a share of annual plan size.
- The Commission thinks that the grant given by the 14th UFC for civic services should be treated as a separate grant and it should be transferred in addition to the devolution of the Commission.
- The Commission feels that maintenance fund should be distributed to each LG on the basis of actual road and non-road assets
- The Commission has prepared a data base of the actual road and non-road assets for the purposes
- The current practice of diverting maintenance fund for non-maintenance purpose should be stopped.

Vertical Devolution (5th SFC)



5th SFC: Status of implementation as on August 13, 2017

- Part I of the Report submitted on December 19, 2015.
- Part II of the Report submitted on March 11, 2016
- Action Taken Report has not laid in Kerala Legislature Assembly so far
- LGs have not received their due share for two financial years 2016-17 and 2017-18 due to non-implementation
- Among the three SFC Reports viz. third, fourth, fifth the only one which was not implemented in due date is fifth
- One recommendation on the increase of honorarium of elected members was implemented
- This indicates a process of fiscal centralisation and destruction of the decentralised development

THANK YOU

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