Municipal Finances in India

by

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The views presented here are those of the author, and they should not be interpreted as reflecting those of the World Bank.
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Research Project Name: National and State Analysis of Indian Urban Development
ABSTRACT

This paper presents the current information and studies in the field of municipal finance in India, highlights major problem areas as well as the various attempts at resolving them, and, finally, suggests appropriate policy and research action for the Bank.

The chapters are organized in the following fashion; the first reviews the organization of urban government, and indicates the trends in both the amount and composition of municipal revenues and expenditures, from a national perspective. Chapter II discusses municipal functional responsibilities and revenue authority for financing urban services. Chapter III identifies the major sources of municipal revenue and the main obstacles to their fuller utilization. Chapter IV reviews the current system and practices of inter-governmental relations concerning municipal authorities. Chapter V describes the practices with regard to internal municipal budgetary expenditure control and accounting systems, and cites examples of successful financial management practices. Chapter VI indicates the role of municipal bodies in providing civic service and facilities, as well as their role in and the methods used for medium and long-term fiscal planning and programming. The last chapter focuses on the major problem areas and identifies gaps in knowledge requiring Bank intervention through policy action and research studies.
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Organizational Framework

Municipal government in India covers five distinct types of urban local authorities, viz., the municipal corporations, the municipal councils, the notified area committees, the town area committees and the cantonment boards. The municipal corporations and councils are fully representative bodies, while the notified area and town area committees are either fully or partially nominated bodies. The cantonment boards are created under a central legislation and consist of partially elected authorities supervised by the Union Ministry of Defence.* The municipal authorities are creatures of the state governments where the district officer exercises indirect control over their functioning, except in the case of the municipal corporations which deal directly with the state government. Unlike the rural local authorities (panchayati raj), the urban local authorities are not organized hierarchically,

* The paper would exclude any further discussion of the cantonment boards, as these represent a special category of municipal institution functioning outside the aegis of the state governments. References to municipal bodies in the union territories have also been avoided for the same reason.
nor are their activities integrated with either
the rural local authorities or the states' field
administration in the districts.

Types of authorities

The state-wise distribution of municipal
authorities in India is shown in Table-1 below:

Table - 1
State-wise Distribution of Municipal Authorities
in India, 1980

<table>
<thead>
<tr>
<th>A. Larger states</th>
<th>Notified Area and</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Corporations</td>
<td>Town Area Committees</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Assam</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td>Bihar</td>
<td>1</td>
<td>71</td>
</tr>
<tr>
<td>Gujarat</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>Haryana</td>
<td>-</td>
<td>28</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Karnataka</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Kerala</td>
<td>3</td>
<td>29</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>6</td>
<td>180</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>5</td>
<td>221</td>
</tr>
<tr>
<td>Orissa</td>
<td>-</td>
<td>26</td>
</tr>
<tr>
<td>Punjab</td>
<td>3</td>
<td>97</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>-</td>
<td>144</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>2</td>
<td>94</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>5</td>
<td>174</td>
</tr>
<tr>
<td>West Bengal</td>
<td>2</td>
<td>91</td>
</tr>
</tbody>
</table>
### B. Smaller States

<table>
<thead>
<tr>
<th>State</th>
<th>Municipal Corporations</th>
<th>Notified Area and Town Area Committees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manipur</td>
<td>-</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Nagaland</td>
<td>-</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Sikkim</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Tripura</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

### C. Union Territory

<table>
<thead>
<tr>
<th>State</th>
<th>Municipal Corporations</th>
<th>Notified Area and Town Area Committees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delhi</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Total: 40 1274 815 2129

Source: All-India Institute of Local Self-Government, Bombay.

Municipal corporations are constituted for cities and bigger towns and they enjoy more tax powers, functional competence and autonomy in decision-making, compared to other types of municipal authorities. The municipalities enjoy more or less the same tax powers as the corporations, except that the degree of state control here is relatively more. The notified area authorities are constituted for rapidly growing towns which do not qualify for full-municipalization, while the town area committees are created for small townships having pronounced rural characteristics.

**Tax powers and functions**

Municipal authorities enjoy tax powers and functional competence as conferred on them by the state governments through a process of delegation.
incorporated in the governing legislations constituting such authorities. However, the state governments can impose parallel taxes or undertake similar functions. A few municipal legislations empower the local authorities to levy any tax which the state legislature has the power to impose with the consent of the state government (e.g., under the U.P. Municipal Corporations Act, 1959), although this type of general tax power has not been used so far. The taxation powers of the corporations are confined to a few items and are generally of a compulsory nature; on the other hand, the tax powers of the other types of urban local authorities cover a wider range, optional in nature and subject to a procedure for their imposition requiring the final sanction of the state governments. The tax powers of the notified area and the town area committees are about the same as in the case of the municipalities, except for a greater degree of state control over the town area committees in this regard.

Municipal authorities are endowed with specific local functions covering regulatory, maintenance and development activities within their jurisdictions. Most municipal legislations lay down detailed list of functions; these are sometimes laid down in the financial rules. Generally municipal functions are classified into obligatory and discretionary; in West Bengal and Orissa such a distinction is absent. Classifying the municipal
functions into obligatory and discretionary does not mean that a local authority cannot undertake a discretionary function unless all the obligatory duties have been satisfactorily performed, since enforcement of such a condition would entail detailed laying down of physical standards of performance which is not easy for regulatory functions, nor practicable for service functions in view of the general paucity of resources.

Criteria for municipalization

Most municipal legislations do not lay down any specific criteria for constituting an urban local authority; where they do, a population criteria is generally followed, except in West Bengal where the census tests of urbanization and an income adequacy criterion are followed; in Tamil Nadu an estimated minimum annual income of Rs 300,000 needs to be assured. An official committee estimated during the mid-sixties that a minimum population of 20,000 would be needed to provide the basic urban services. On this basis, a large number of the existing urban local authorities would have to be de-municipalized. In fact, most of the existing municipal areas, under the census eligibility tests

for urbanization, are rural in character. Constitution of municipal corporations, at the other end of the municipal scene, should follow the population test of 500,000 and an annual income of Rs 10 million in terms of the recommendations of an official committee. There is at least one corporation that does not fulfil the population test (Chandernagore), while there are a few municipalities with more than the required population waiting to be accorded corporation status (Srinagar, Coimbatore, Vishakhapatnam). Apart from the population and income criteria, other factors, such as, territorial extent, commercial and industrial importance, political and functional importance etc. are also considered to be relevant.

Delimitation of a municipal area is generally done on the basis of a compact settlement area; the area is extended later to bring in peripheral urbanized tract in a piecemeal manner. There is a general reluctance on the part of the existing municipal authorities to extend their boundaries even with substantial urban growth on the periphery (e.g., Calcutta, Madras, Patna, Baroda, Ahmedabad);

2. Ibid.

on the other hand, large tracts of rural areas are included at the time of according corporation status to the municipalities (e.g., Delhi, KAVAL cities of U.P., Poona). In the case of Bombay corporation, extension of its boundary took place on the basis of a separate budget, tax concession and reduced level of municipal services for the suburbs and, later, for the extended suburbs.

Executive structure

Municipal executive in India has always been highly centralized and built on the notion of separation of executive powers and functions (mistakenly termed as separation between the deliberative and the executive wings) - the executive powers are exercised by the council or its standing committee, while the executive functions remain the prerogative of the chief executive: the commissioner in the corporations and the chairman* in the municipalities. Since the corporation commissioner is a state-appointed official and the municipal president is an elected councillor, one notices the anomaly that the most autonomous form of municipal government (i.e. the municipal corporation) abhors political executive and in substance no different from the smaller urban local authorities (viz., the notified and the town area

* The terms chairman and president of a municipality have been used interchangeably.
committees and the cantonment) in executive decision-making. Only the municipalities stand out as unique local government institutions with an elected chairman as the chief executive. The reason for this anomaly is historical - there has not been any change in the executive system of the corporations - except during a brief interval in Calcutta between 1923-51 - ever since the system was adopted in Bombay in 1888; in the municipal arena the district officer or his nominee used to be the ex-officio chairman of a municipality until 1919 when the Montford reforms replaced him by an elected councillor, inheriting his decision-making prerogatives (weak-Mayor system in the American parlance). The only exception to this system occurred in the erstwhile Madras Presidency in 1933 in the wake of centralization of municipal personnel and the municipal executive structure was remodelled on the corporation system. After Independence and the reorganization of states, all the southern states, viz., Tamil Nadu, Kerala, Andhra Pradesh and Karnataka, have followed the Madras pattern.

4. The corporation system of local executive is also prevalent in the rural local government set-up. One might recall that under the French system of local administration the Mayor was initially state-appointed; after this position became elective, the Mayor combined the dual role of acting both as a state agent as well as a representative of the council. Similar developments did not take place in India; hence the anomaly. The author is grateful to Prof. G.W.Jones of London School of Economics for clarifying the French system.
State-municipal relations

From the point of view of state-municipal relations significant differences in formal position exists in respect of the municipalities belonging to the Bengal pattern on the one hand, and the Madras pattern on the other. Within the Bengal pattern, Gujarat and Maharashtra municipalities having developed internal organizational strength through improved staffing practices under separate personnel system, the nature of state control is somewhat positive and enlightened. Municipalities in the north and central India, by and large, have adopted centralized staffing pattern under the unified personnel system, while those of eastern India lack a well-developed staffing pattern and continue to function under the rubric of the separate personnel system. In these areas the extent of state control varies - in northern and central India, control of municipal staff is exercised by the newly-appointed state functionary, called, the director of municipalities; and in eastern India state control is exercised through ad hoc posting of state officers to the municipalities. Municipalities in the southern states, following the Madras pattern, have not only centralized municipal cadres controlled by the state director, but their decision-making mechanism has been effectively integrated with the state administration so
much so that these display the characteristics of the French system of local administration.

At the corporation level, wherever centralization of staff has taken place (Kerala, Andhra Pradesh, Rajasthan, U.P.), there has been serious inroads into municipal autonomy. This is in addition to the internalization of state control through the appointment of the commissioner. Only in the corporations of Maharashtra and Gujarat, the institutional autonomy is still retained and the commissioner has learnt to live with the wishes of the majority party of the council and the powerful standing committee.

Commenting on the nature of state-municipal relations, an expert sums up the position thus:

The municipal Acts in India abound in regulatory and punitive provisions which have helped the state executive administration to evolve a system of overlordship much like the French 'tutelege'. State control over municipal financial administration is the strictest. There are the Draconian provisions about default powers, rescission of municipal resolutions, removal of members and supersession and dissolution. Less drastic state powers include those relating to inspection, calling for information and reports, and giving directions and conditional grants-in-aid. Wherever integrated and/or unified municipal services have been introduced, the state governments have

encroached upon municipal powers over personnel administration.6

Major changes

In a number of states, such as, Maharashtra, Andhra Pradesh, Gujarat, Kerala, Assam, Orissa, Madhya Pradesh, Rajasthan, Haryana and Karnataka, new laws on municipal administration have been passed. These are either consolidations of earlier Acts or at best slightly changed versions of the older ones. Even the legislations contemplating major amendments to the municipal legislations in a few states (e.g., Punjab) "are intended not to confer more powers on the municipal bodies, but to extend the radius of state control".7

In the case of municipal corporations, Himachal Pradesh has created one for Simla, its capital, with a completely nominated council - thus ending the possibility of any future conflict between the elected councillors and the appointed commissioner. On the other hand, West Bengal has recently passed a new legislation for Calcutta corporation with a cabinet (mayor-in-council) form of executive - thereby abolishing the preeminent position of the commissioner in executive decision-making.8

7. Ibid.
As indicated earlier, whenever centralized municipal cadres have been introduced it has affected the executive role of the municipal chairman; in the southern states following the Madras pattern, the executive functions have been completely transferred to the municipal chief officer, while in the other states, adhering to the Bengal pattern, the municipal chief officer has been designated as the chief executive to function under the overall control and supervision of the chairman. Sometimes this results in a conflict situation, where the state director becomes an arbiter in the internal decision-making of a municipality.

Patterns and Trends in Municipal Finance

Data Limitations

An analysis of patterns and trends of municipal finance should be done on the basis of historical and cross-section data of the various municipal authorities in the country. Unfortunately, such data is not available in India. This itself is indicative of the marginal importance of the municipal sector within the total

public sector in the country, as also its insignificance from the point of view of the gross domestic product. The only comprehensive attempt in collecting financial data of the municipal authorities was made by a committee of ministers appointed by the Central Council of Local Self-Government, headed by Rafiq Zakaria in 1963, which made a complete census enumeration of municipal finances for a single year, i.e., 1960-61 (Zakaria Committee). The committee was assisted by the central Town and Country Planning Organisation (TCPO) in the matter of data collection and analysis. Inspite of minor inconsistencies in the data, the report still represents the most comprehensive attempt so far in providing a factual basis of municipal financial analysis in the country and is serving till today as the benchmark state of the art report on the subject. Two subsequent attempts in collecting municipal financial data on a sample basis are: (i) TCPO attempt in 1978 to collect sample financial data \((N = 344)\) of all types of urban local authorities for 1975-76 to assist the seventh Finance Commission, and (ii) an attempt by the National


Council of Applied Economic Research (NCAER) to collect sample financial data \((N = 39)\) of various municipal authorities for 1976-77 for a study on municipal resource mobilization. We shall primarily rely on the Finance Commission/TCPO and the NCAER data for our analysis and would use the Zakaria Committee's data essentially for control and benchmark purposes.

**Importance of municipal finance**

In the absence of reliable financial statistics of municipal finance it is difficult to size-up the share of the municipal sector in the total public sector of the country; however, on the basis of the Zakaria Committee's data one could roughly place it at around 8% in 1960-61. The NCAER study attempts comparison of relative taxation by the central, state and municipal governments during 1977-78 as presented in Table 2-below:

Assuming an identical relationship between taxation and total expenditure in the municipal sector, one could conclude that the relative position of the municipal sector has weakened by about 57% between 1960-61 and 1977-78. One could also presume that this is

---

Table 2

Relative Taxation - Central, State and Municipal Governments in 1977-78

<table>
<thead>
<tr>
<th>Taxes Levied By:</th>
<th>Per capita Tax (₹)</th>
<th>Tax Revenue (₹ Million)</th>
<th>Tax Revenue (Share in total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government</td>
<td>317</td>
<td>706</td>
<td>51.13</td>
</tr>
<tr>
<td>State Governments</td>
<td>275</td>
<td>612</td>
<td>44.34</td>
</tr>
<tr>
<td>Municipal Governments</td>
<td>50</td>
<td>63</td>
<td>4.53</td>
</tr>
<tr>
<td></td>
<td>1,381</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

Source: NCAER Study, p. 33 (Table III.14).

primarily due to the dramatic increase in the expanding role of the state governments since Independence, particularly as a result of the implementation of the successive five year plans from 1950-51 onwards.

Overall trend

The overall trend in the municipal budgetary position between 1970-71 to 1976-77 shows considerable improvement; the growth in municipal expenditure has been slower than in municipal revenues resulting in unspent surpluses, which is more pronounced in the case of corporations than in municipalities, as shown in Table 3.
Table 3

Overall Budgetary Position of Municipal Authorities: 1970-71 and 1976-77

(Rs. per capita)

<table>
<thead>
<tr>
<th></th>
<th>Revenue Account</th>
<th>Capital Account</th>
<th>Overall Position</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>70-71</td>
<td>76-77</td>
<td>70-71</td>
</tr>
<tr>
<td>Corporations</td>
<td>2.60</td>
<td>20.13</td>
<td>(-)3.16</td>
</tr>
<tr>
<td>Municipalities</td>
<td>2.14</td>
<td>7.29</td>
<td>(-)0.86</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>2.50</strong></td>
<td><strong>17.09</strong></td>
<td><strong>(-)2.57</strong></td>
</tr>
</tbody>
</table>

Source: NCAER Study, p.16 (Table III.1).

The data also shows that a large part of revenue surplus has been diverted to bridge the deficit under capital account, especially in corporations. In municipalities the capital budget was more or less balanced. This is the result of a faster growth in receipts of municipal bodies, especially revenue receipts, than in their expenditure.\(^{13}\)

The growth of revenue expenditure among the municipal authorities during 1970-71 to 1976-77 may be seen in Table 4 below:

One notices that the growth in establishment and collection charges is marginally higher than the overall

-17-

Table - 4

Growth of Revenue Expenditure of Sample Municipal Bodies, 1970-71 to 1976-77
(Per cent/year)

<table>
<thead>
<tr>
<th>Items of Expenditure</th>
<th>Corporations</th>
<th>Municipalities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Establishment and</td>
<td>13.8</td>
<td>13.3</td>
<td>13.7</td>
</tr>
<tr>
<td>collection charges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Public Health</td>
<td>13.7</td>
<td>13.7</td>
<td>13.7</td>
</tr>
<tr>
<td>3. Public Safety</td>
<td>15.8</td>
<td>12.0</td>
<td>15.3</td>
</tr>
<tr>
<td>4. Medical</td>
<td>14.6</td>
<td>4.7</td>
<td>14.3</td>
</tr>
<tr>
<td>5. Water Supply</td>
<td>4.4</td>
<td>12.9</td>
<td>5.5</td>
</tr>
<tr>
<td>6. Education</td>
<td>12.6</td>
<td>9.2</td>
<td>12.3</td>
</tr>
<tr>
<td>7. Roads</td>
<td>14.5</td>
<td>10.0</td>
<td>13.9</td>
</tr>
<tr>
<td>8. Others</td>
<td>10.7</td>
<td>15.0</td>
<td>11.1</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>12.5</strong></td>
<td><strong>12.6</strong></td>
<td><strong>12.5</strong></td>
</tr>
</tbody>
</table>

Source: NCAER Study, p. 19 (Table III.4).

increase in municipal expenditure. The growth of expenditure on water supply in the corporations is only 35% of the general growth rate on this account, which could mean that the municipalities have been more active in this field in recent years. On the other hand, growth in expenditure in medical and education in the municipalities is only 33% of the general growth rate, thus indicating a shift of municipal priorities for environmental rather than personal social services.
An attempt was made in the NCAER study to compare the compound growth rates of total revenue, tax revenue and revenue from commodity taxes for the central, state and sample municipal authorities during 1970-71 to 1976-77. The result shows that the annual growth of municipal revenue was only slightly lower (15%) than for state (17.6%) and central government (17.1%). The growth rates of municipal taxes are particularly lower in the states where octroi is not levied; among the octroi-levying states, the growth rate of octroi was much higher in the corporations and major municipalities than in smaller municipal towns. This indicates that as between the two major municipal taxes - property tax and octroi - the relative potentialities of property tax has been under-utilized.

Resource structure

An analysis of the trend in the municipal revenue structure may be made by comparing the data available in the Zakaria Committee and the NCAER study as per Table 5.

Table 5
India: Revenue Structure of Municipal Authorities 1960-61 and 1976-77
(In Percentages)

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>Corporations</th>
<th>Municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60-61*</td>
<td>76-77+</td>
</tr>
<tr>
<td>1. Tax revenue</td>
<td>72.70</td>
<td>72.33</td>
</tr>
<tr>
<td></td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: *Zakaria Committee, 1963, p. 156.

Compared to the corporations, the municipalities rely less on tax revenue, and more on non-tax revenues* and grants. In recent years, the reliance on grants by the municipalities seems to have increased at the cost of non-tax revenues; this seems to be the position in the case of the corporations as well, although to a lesser degree.

We now turn to a state-wise comparison of municipal revenue structure on the basis of the Zakaria Committee's report and the TCPO data appearing in the seventh Finance Commission's report. The combined data is presented in Table 6.

A casual look into the figures presented would make one feel somewhat uneasy about the 1975-76 data pertaining to

* Non-tax revenues comprise of rents, fees, income from commercial undertaking, interest on investments etc.
Table - 6

India: Revenue Structure of Municipal Authorities in Larger States, 1960-61 and 1975-76

(In Percentages)

<table>
<thead>
<tr>
<th>Larger States</th>
<th>Tax Income 60-61</th>
<th>Nontax revenues 60-61</th>
<th>Revenue Grants 60-61</th>
<th>Total Ord. Income</th>
<th>Nontax revenues 75-76</th>
<th>Revenue Grants 75-76</th>
<th>Total Ord. Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Andhra Pradesh</td>
<td>61.76</td>
<td>18.93</td>
<td>17.54</td>
<td>19.31</td>
<td>19.26</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>2. Assam</td>
<td>50.00</td>
<td>17.80</td>
<td>35.14</td>
<td>32.20</td>
<td>11.42</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>3. Bihar</td>
<td>49.75</td>
<td>12.79</td>
<td>16.75</td>
<td>37.46</td>
<td>46.70</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>4. Gujarat</td>
<td>70.36</td>
<td>19.52</td>
<td>69.07</td>
<td>10.12</td>
<td>6.83</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>5. Haryana</td>
<td>-</td>
<td>28.10</td>
<td>-</td>
<td>7.53</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Himachal Pradesh</td>
<td>-</td>
<td>25.96</td>
<td>-</td>
<td>3.82</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Jammu &amp; Kashmir</td>
<td>85.30</td>
<td>14.70</td>
<td>49.37</td>
<td>2.01</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Karnataka</td>
<td>64.78</td>
<td>20.51</td>
<td>17.75</td>
<td>14.71</td>
<td>2.58</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>9. Kerala</td>
<td>54.22</td>
<td>31.93</td>
<td>18.48</td>
<td>13.85</td>
<td>9.27</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>10. Madhya Pradesh</td>
<td>70.54</td>
<td>15.39</td>
<td>17.24</td>
<td>5.08</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Maharashtra</td>
<td>76.25</td>
<td>16.99</td>
<td>15.73</td>
<td>6.76</td>
<td>15.49</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>12. Orissa</td>
<td>43.10</td>
<td>14.30</td>
<td>22.84</td>
<td>42.10</td>
<td>26.04</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>13. Punjab</td>
<td>68.70</td>
<td>30.00</td>
<td>18.98</td>
<td>1.30</td>
<td>1.72</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>14. Rajasthan</td>
<td>61.40</td>
<td>25.50</td>
<td>21.50</td>
<td>13.10</td>
<td>0.15</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>15. Tamil Nadu</td>
<td>63.01</td>
<td>26.22</td>
<td>32.16</td>
<td>10.77</td>
<td>3.04</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>16. Uttar Pradesh</td>
<td>53.22</td>
<td>27.60</td>
<td>21.40</td>
<td>19.18</td>
<td>18.82</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>17. West Bengal</td>
<td>65.22</td>
<td>19.55</td>
<td>10.90</td>
<td>15.23</td>
<td>29.00</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

All India  
66.29 63.47 20.41 23.58 13.30 12.95 100

Gujarat, Karnataka and Rajasthan. On an overall basis it would appear that over time the proportion of non-tax revenues has increased, while the reliance on tax revenues and grants has decreased. By itself this may be regarded as a welcome development, but without a more reliable data base spread over a continuous period, it is difficult to come to any firm conclusion. The fact that this contradicts the position discussed earlier (Table-5), is another indication of the unreliability of 1975-76 data presented in the seventh Finance Commission report; we use it primarily for its state-wide break-up. This is also reflected in the municipal expenditure data discussed later. The variation in external assistance to the municipalities indicates lack of any settled policy on the part of the states towards grants-in-aid; in case of West Bengal this has shot up by doubling its proportion, while in as many as 9 states this is still below 10%. A comparison of municipal revenue structure by population size-classes was compiled by the TCPO for the seventh Finance Commission for the year 1975-76, as presented in Table 7.

The data seems somewhat abnormal for the size-class II; barring this, it would appear that the reliance on tax resources is more on the part of the large authorities than the smaller ones. Surprisingly, the latter authorities are depending more on non-tax revenues than on grants to make up for their weak revenue bases. At the size-class IV, one would have expected the proportion of grants to be somewhat more to reveal a consistent pattern.
### Table-7

**India: Revenue Structure of Samia Municipal Authorities by Size-Classes, 1975-76**

<table>
<thead>
<tr>
<th>Class</th>
<th>Population Size</th>
<th>Tax Income</th>
<th>Non-tax Revenues</th>
<th>Revenue Grants</th>
<th>Total Ordinary Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>2,000,000 and above</td>
<td>71.14</td>
<td>18.66</td>
<td>10.20</td>
<td>100</td>
</tr>
<tr>
<td>II.</td>
<td>500,000 - 1,999,999</td>
<td>48.88</td>
<td>39.81</td>
<td>11.31</td>
<td>100</td>
</tr>
<tr>
<td>III.</td>
<td>100,000 - 499,999</td>
<td>69.16</td>
<td>16.94</td>
<td>13.90</td>
<td>100</td>
</tr>
<tr>
<td>IV.</td>
<td>50,000 - 99,999</td>
<td>64.87</td>
<td>22.44</td>
<td>12.69</td>
<td>100</td>
</tr>
<tr>
<td>V.</td>
<td>20,000 - 49,999</td>
<td>61.70</td>
<td>22.52</td>
<td>15.78</td>
<td>100</td>
</tr>
<tr>
<td>VI.</td>
<td>10,000 - 19,999</td>
<td>62.44</td>
<td>21.49</td>
<td>16.07</td>
<td>100</td>
</tr>
<tr>
<td>VII.</td>
<td>9,999 and below</td>
<td>54.42</td>
<td>30.22</td>
<td>15.36</td>
<td>100</td>
</tr>
</tbody>
</table>

**All - India**

<table>
<thead>
<tr>
<th>Tax Income</th>
<th>Non-tax Revenues</th>
<th>Revenue Grants</th>
<th>Total Ordinary Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>63.47</td>
<td>23.58</td>
<td>12.95</td>
<td>100</td>
</tr>
</tbody>
</table>


**Expenditure pattern**

A comparison of the pattern of municipal expenditure during 1960-61 and 1976-77 for the corporations and the municipalities is presented in Table - 8.

It would be seen that there is hardly any pattern in terms of prioritization among various municipal functions in the corporations and the municipalities. Only education
Table 8

India: Patterns of Ordinary Expenditure of Municipal Authorities, 1960-61 and 1976-77

(In Percentages)

<table>
<thead>
<tr>
<th>Expenditure Items</th>
<th>Corporations</th>
<th>Municipalties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60-61*</td>
<td>76-77+</td>
</tr>
<tr>
<td>1. General administration and revenue collection</td>
<td>12.30</td>
<td>8.33</td>
</tr>
<tr>
<td>2. Public health</td>
<td>47.50</td>
<td>25.95</td>
</tr>
<tr>
<td>3. Public safety</td>
<td>8.20</td>
<td>4.62</td>
</tr>
<tr>
<td>4. Education</td>
<td>15.00</td>
<td>16.64</td>
</tr>
<tr>
<td>5. Public works</td>
<td>8.50</td>
<td>11.34</td>
</tr>
<tr>
<td>6. Others (Interest and Miscellaneous)</td>
<td>8.50</td>
<td>33.12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Corporations</th>
<th>Municipalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: * Zakaria Committee, 1963, p.158.
+ NCAER Study, 1980, p.28.

in the corporations and public works in the municipalities received somewhat stable allocations.

A state-wise comparison of the pattern of the municipal expenditure between 1960-61 and 1975-76 may be made on the basis of Tables 9 and 10. During 1960-61 for Karnataka and Maharashtra the data on general administration (including tax collection) and roads excluded the municipalities; therefore, the figures are
<table>
<thead>
<tr>
<th>Larger States</th>
<th>Gen. Admn. &amp; Coll. of Revenues</th>
<th>Public Health</th>
<th>Public Safety</th>
<th>Education</th>
<th>Roads</th>
<th>Loan Repayments</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Andhra Pradesh</td>
<td>15.29</td>
<td>41.38</td>
<td>7.16</td>
<td>22.29</td>
<td>10.66</td>
<td>2.06</td>
<td>1.16</td>
<td>100</td>
</tr>
<tr>
<td>2. Assam</td>
<td>12.80</td>
<td>56.30</td>
<td>7.30</td>
<td>3.10</td>
<td>5.70</td>
<td>5.89</td>
<td>8.91</td>
<td>100</td>
</tr>
<tr>
<td>3. Bihar</td>
<td>6.60</td>
<td>38.81</td>
<td>3.87</td>
<td>23.50</td>
<td>8.93</td>
<td>2.56</td>
<td>15.73</td>
<td>100</td>
</tr>
<tr>
<td>4. Gujarat</td>
<td>9.20</td>
<td>24.20</td>
<td>6.92</td>
<td>7.44</td>
<td>33.28</td>
<td>10.87</td>
<td>8.09</td>
<td>100</td>
</tr>
<tr>
<td>5. Jammu &amp; Kashmir</td>
<td>13.42</td>
<td>34.47</td>
<td>8.87</td>
<td>-</td>
<td>22.70</td>
<td>18.54</td>
<td>2.00</td>
<td>100</td>
</tr>
<tr>
<td>6. Karnataka</td>
<td>2.44*</td>
<td>50.66</td>
<td>5.72</td>
<td>11.99</td>
<td>6.06*</td>
<td>7.07</td>
<td>16.06</td>
<td>100</td>
</tr>
<tr>
<td>7. Kerala</td>
<td>12.15</td>
<td>34.43</td>
<td>23.47</td>
<td>0.64</td>
<td>13.89</td>
<td>4.36</td>
<td>11.06</td>
<td>100</td>
</tr>
<tr>
<td>8. Madhya Pradesh</td>
<td>10.34</td>
<td>29.92</td>
<td>10.01</td>
<td>18.22</td>
<td>10.55</td>
<td>1.31</td>
<td>19.65</td>
<td>100</td>
</tr>
<tr>
<td>9. Maharashtra</td>
<td>3.73*</td>
<td>41.29</td>
<td>6.89</td>
<td>11.28</td>
<td>5.14*</td>
<td>15.98</td>
<td>15.69</td>
<td>100</td>
</tr>
<tr>
<td>10. Orissa</td>
<td>8.82</td>
<td>36.37</td>
<td>10.22</td>
<td>11.96</td>
<td>23.66</td>
<td>0.84</td>
<td>8.13</td>
<td>100</td>
</tr>
<tr>
<td>11. Punjab</td>
<td>23.71</td>
<td>38.78</td>
<td>17.55</td>
<td>8.43</td>
<td>8.74</td>
<td>2.70</td>
<td>0.09</td>
<td>100</td>
</tr>
<tr>
<td>12. Rajasthan</td>
<td>24.40</td>
<td>45.59</td>
<td>11.34</td>
<td>3.40</td>
<td>5.35</td>
<td>1.63</td>
<td>8.29</td>
<td>100</td>
</tr>
<tr>
<td>13. Tamil Nadu</td>
<td>9.51</td>
<td>37.83</td>
<td>11.36</td>
<td>19.02</td>
<td>10.35</td>
<td>7.30</td>
<td>4.58</td>
<td>100</td>
</tr>
<tr>
<td>15. West Bengal</td>
<td>23.77</td>
<td>33.64</td>
<td>10.58</td>
<td>5.67</td>
<td>5.87</td>
<td>5.04</td>
<td>15.43</td>
<td>100</td>
</tr>
</tbody>
</table>

All - India: 13.13 32.02 12.54 14.34 12.59 4.29 13.09 100

* Excluding municipalities.

### Table - 10

**India: Pattern of Ordinary Expenditure of Sample Municipal Authorities in Larger States, 1975-76**

(In Percentages)

<table>
<thead>
<tr>
<th>Larger States</th>
<th>General Admn.</th>
<th>Collection of Revenue</th>
<th>Public Health</th>
<th>Public Safety</th>
<th>Medical Supply</th>
<th>Education</th>
<th>Roads</th>
<th>Loan Repayments</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>7.93</td>
<td>1.95</td>
<td>22.86</td>
<td>3.65</td>
<td>0.12</td>
<td>16.80</td>
<td>18.68</td>
<td>20.97</td>
<td>0.32</td>
<td>6.72</td>
</tr>
<tr>
<td>Assam</td>
<td>16.33</td>
<td>7.78</td>
<td>21.21</td>
<td>9.02</td>
<td>1.45</td>
<td>7.31</td>
<td>0.26</td>
<td>10.15</td>
<td>3.64</td>
<td>22.85</td>
</tr>
<tr>
<td>Bihar</td>
<td>13.70</td>
<td>1.07</td>
<td>29.92</td>
<td>6.94</td>
<td>0.93</td>
<td>3.65</td>
<td>7.44</td>
<td>12.31</td>
<td>13.24</td>
<td>10.80</td>
</tr>
<tr>
<td>Gujarat</td>
<td>5.13</td>
<td>4.22</td>
<td>8.87</td>
<td>2.26</td>
<td>6.57</td>
<td>2.46</td>
<td>10.28</td>
<td>0.01</td>
<td>9.95</td>
<td>50.25</td>
</tr>
<tr>
<td>Haryana</td>
<td>13.47</td>
<td>0.16</td>
<td>26.99</td>
<td>7.65</td>
<td>5.48</td>
<td>16.20</td>
<td>0.90</td>
<td>3.11</td>
<td>1.67</td>
<td>24.37</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>13.95</td>
<td>14.13</td>
<td>28.47</td>
<td>4.85</td>
<td>0.30</td>
<td>14.17</td>
<td>0.05</td>
<td>3.62</td>
<td>0.86</td>
<td>19.60</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>26.81</td>
<td>0.27</td>
<td>29.33</td>
<td>3.87</td>
<td>-</td>
<td>-</td>
<td>1.71</td>
<td>-</td>
<td>0.31</td>
<td>37.70</td>
</tr>
<tr>
<td>Karnataka</td>
<td>16.67</td>
<td>-</td>
<td>17.14</td>
<td>8.33</td>
<td>1.78</td>
<td>8.09</td>
<td>1.14</td>
<td>-</td>
<td>6.55</td>
<td>40.30</td>
</tr>
<tr>
<td>Kerala</td>
<td>32.69</td>
<td>1.61</td>
<td>12.17</td>
<td>7.73</td>
<td>11.21</td>
<td>6.15</td>
<td>0.96</td>
<td>7.75</td>
<td>7.57</td>
<td>12.16</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>17.91</td>
<td>11.11</td>
<td>20.58</td>
<td>7.40</td>
<td>1.45</td>
<td>9.40</td>
<td>4.25</td>
<td>4.47</td>
<td>7.09</td>
<td>16.34</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>6.53</td>
<td>5.91</td>
<td>15.93</td>
<td>4.38</td>
<td>13.51</td>
<td>5.10</td>
<td>9.30</td>
<td>12.03</td>
<td>3.99</td>
<td>23.32</td>
</tr>
<tr>
<td>Orissa</td>
<td>12.48</td>
<td>11.19</td>
<td>23.80</td>
<td>8.30</td>
<td>0.92</td>
<td>2.71</td>
<td>12.61</td>
<td>0.12</td>
<td>3.33</td>
<td>24.64</td>
</tr>
<tr>
<td>Punjab</td>
<td>12.60</td>
<td>17.16</td>
<td>28.37</td>
<td>8.89</td>
<td>1.47</td>
<td>9.14</td>
<td>0.59</td>
<td>4.34</td>
<td>8.93</td>
<td>8.51</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>15.20</td>
<td>14.59</td>
<td>48.46</td>
<td>8.45</td>
<td>0.79</td>
<td>1.63</td>
<td>0.66</td>
<td>0.07</td>
<td>2.13</td>
<td>8.02</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>15.69</td>
<td>0.23</td>
<td>24.77</td>
<td>4.69</td>
<td>5.84</td>
<td>11.27</td>
<td>14.80</td>
<td>4.52</td>
<td>7.48</td>
<td>10.71</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>8.05</td>
<td>10.97</td>
<td>41.33</td>
<td>5.03</td>
<td>3.31</td>
<td>6.50</td>
<td>2.22</td>
<td>0.35</td>
<td>6.24</td>
<td>16.00</td>
</tr>
<tr>
<td>West Bengal</td>
<td>27.76</td>
<td>2.72</td>
<td>21.90</td>
<td>5.36</td>
<td>2.27</td>
<td>6.82</td>
<td>7.24</td>
<td>2.41</td>
<td>0.62</td>
<td>22.90</td>
</tr>
</tbody>
</table>

| All-India              | 10.63         | 5.44                  | 21.25         | 4.78          | 7.30           | 6.16      | 10-03 | 7.23            | 5.34   | 21.84 |

not comparable. The Bihar data on general administration (including tax collection) also appears to be unusually low; on the other hand, expenditure on miscellaneous items in Bihar, Karnataka, Madhya Pradesh, Maharashtra, Uttar Pradesh and West Bengal appear to be unusually high. The data for 1975-76 shows a number of peculiarities; apparently the figures for at least three states are to be suspected: Gujarat, Jammu and Kashmir and Karnataka. In all these three states the expenditure on miscellaneous items would appear to be abnormal. If one recalls the unusual nature of revenue data for Gujarat in 1975-76 the conclusion would be to ignore the municipal financial reporting for the state altogether.* Apart from these one would also like to question the Kerala data on general administration and collection of revenue. The unusually low allocation for education in Himachal Pradesh is probably due to the fact that only the Simla Corporation has education responsibilities; for other municipal areas, education is a state function.

An analysis of municipal expenditure by population size-classes may be made on the basis of data presented in Table - 11.

Again it would appear that for the first two top size-classes the figures are somewhat unusual; class II

* Considering the weaknesses of the 1975-76 municipal revenue and expenditure data reported in the seventh Finance Commission (as supplied by the TCP0) one should use it only for broad aggregative purposes; in the absence of any other recent estimates of municipal finances we have used this as indicative, keeping the 1960-61 Zakaria Committee's data for benchmark and control.
<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. 2,000,000 and above</td>
<td>9.95</td>
<td>3.48</td>
<td>17.16</td>
<td>4.65</td>
<td>16.55</td>
<td>1.60</td>
<td>10.02</td>
<td>11.39</td>
<td>4.66</td>
<td>20.54</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>II. 500,000 - 1,999,999</td>
<td>5.94</td>
<td>5.08</td>
<td>14.50</td>
<td>2.16</td>
<td>5.19</td>
<td>6.85</td>
<td>8.10</td>
<td>6.21</td>
<td>8.31</td>
<td>37.66</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>III. 100,000 - 499,999</td>
<td>10.55</td>
<td>4.14</td>
<td>27.46</td>
<td>5.14</td>
<td>3.71</td>
<td>7.80</td>
<td>10.89</td>
<td>7.15</td>
<td>3.43</td>
<td>19.73</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>V. 20,000 - 49,999</td>
<td>13.83</td>
<td>8.74</td>
<td>23.70</td>
<td>7.29</td>
<td>3.86</td>
<td>8.49</td>
<td>9.96</td>
<td>3.33</td>
<td>5.05</td>
<td>15.75</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>VI. 10,000 - 19,999</td>
<td>17.98</td>
<td>14.67</td>
<td>23.81</td>
<td>6.96</td>
<td>2.10</td>
<td>5.75</td>
<td>3.97</td>
<td>4.19</td>
<td>4.03</td>
<td>16.54</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>VII. 9,999 and below</td>
<td>23.56</td>
<td>12.49</td>
<td>19.34</td>
<td>8.24</td>
<td>1.60</td>
<td>5.89</td>
<td>2.12</td>
<td>6.03</td>
<td>2.88</td>
<td>17.85</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>All-India</td>
<td>10.63</td>
<td>5.44</td>
<td>21.25</td>
<td>4.78</td>
<td>7.30</td>
<td>6.16</td>
<td>10.03</td>
<td>7.23</td>
<td>5.34</td>
<td>21.84</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

data in particular appears somewhat abnormal. Here again the Gujarat data imperfections may have crept in. Otherwise, it would seem that classes III to VI data would represent the normal pattern, the top two classes (I and II) and the bottom class (VII) would be somewhat different. As one would expect, the smaller municipalities spend proportionately more on general administration and revenue collection than on normal civic functions.

A per capita analysis of municipal expenditure is possible on the basis of data collected directly by the seventh Finance Commission from the various states for 1976-77. The per capita figures have been calculated for the major states in Table - 12. Here again, Jammu and Kashmir data is not reported fully, Tamil Nadu data is not reported at all, and in several other states the data relates to earlier years. Inspite of these imperfections, one notices that Maharashtra tops the list with Gujarat trailing far behind. Even if one ignores the contribution of Bombay corporation and the fact that the expenditure data contains capital items as well, one could say that Maharashtra is perhaps the only state in India where the per capita municipal expenditure is reasonably satisfactory.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Andhra Pradesh</td>
<td>9.75</td>
<td>529.0</td>
<td>54.26</td>
<td>5</td>
</tr>
<tr>
<td>2.</td>
<td>Assam</td>
<td>2.09</td>
<td>46.1</td>
<td>22.06</td>
<td>15</td>
</tr>
<tr>
<td>3.</td>
<td>Bihar</td>
<td>7.64</td>
<td>166.6</td>
<td>21.81</td>
<td>16</td>
</tr>
<tr>
<td>4.</td>
<td>Gujarat</td>
<td>8.64</td>
<td>623.4</td>
<td>72.15</td>
<td>2</td>
</tr>
<tr>
<td>5.</td>
<td>Haryana</td>
<td>2.30</td>
<td>132.5</td>
<td>57.61</td>
<td>4</td>
</tr>
<tr>
<td>6.</td>
<td>Himachal Pradesh</td>
<td>0.26</td>
<td>17.5</td>
<td>67.31</td>
<td>3</td>
</tr>
<tr>
<td>7.</td>
<td>Jammu &amp; Kashmir</td>
<td>0.82</td>
<td>23.7</td>
<td>28.30</td>
<td>12</td>
</tr>
<tr>
<td>8.</td>
<td>Karnataka</td>
<td>3.68</td>
<td>365.9</td>
<td>42.14</td>
<td>9</td>
</tr>
<tr>
<td>9.</td>
<td>Kerala</td>
<td>4.07</td>
<td>115.4</td>
<td>28.35</td>
<td>13</td>
</tr>
<tr>
<td>10.</td>
<td>Madhya Pradesh</td>
<td>7.78</td>
<td>373.4</td>
<td>47.99</td>
<td>6</td>
</tr>
<tr>
<td>11.</td>
<td>Maharashtra</td>
<td>19.07</td>
<td>2155.2</td>
<td>113.01</td>
<td>1</td>
</tr>
<tr>
<td>12.</td>
<td>Orissa</td>
<td>2.08</td>
<td>91.8</td>
<td>44.13</td>
<td>3</td>
</tr>
<tr>
<td>13.</td>
<td>Punjab</td>
<td>4.52</td>
<td>148.1</td>
<td>32.77</td>
<td>11</td>
</tr>
<tr>
<td>14.</td>
<td>Rajasthan</td>
<td>5.30</td>
<td>239.0</td>
<td>45.09</td>
<td>7</td>
</tr>
<tr>
<td>15.</td>
<td>Uttar Pradesh</td>
<td>14.92</td>
<td>540.3</td>
<td>36.21</td>
<td>10</td>
</tr>
<tr>
<td>16.</td>
<td>West Bengal</td>
<td>14.55</td>
<td>409.2</td>
<td>28.12</td>
<td>14</td>
</tr>
<tr>
<td><strong>All India (16 States)</strong></td>
<td><strong>112.47</strong></td>
<td><strong>5977.1</strong></td>
<td></td>
<td><strong>53.14</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Source:**

2. Finance Commission, 1978, op.cit., p.222. Municipal expenditure figures for Karnataka are for 1974-75; municipal expenditure for Gujarat are for 1975-76, West Bengal figures are for 1975-76 except for Calcutta which is for 1976-77. Tamil Nadu municipal expenditure data was not available.
2. MUNICIPAL FUNCTIONS AND REVENUES

Functional Responsibilities

Following the English practice, delegation of the states' functional responsibilities to the municipal authorities are made in terms of the doctrine of ultra vires, meaning that unless a particular subject is specifically delegated, the municipal authorities cannot undertake it or exceed the extent of such delegation. However, the state governments are not averse to undertake parallel functions without formally amending the extent of functions already delegated. In systemic terms this implies that the legal delegation to the municipal authorities follows the English practice, but the unlimited encroachment into the municipal domain by the states approaches the Soviet system.

Municipal functions are enumerated in terms of house-keeping tasks, regulatory activities and civic responsibilities and are described even in terms of minor components, so much so that a major function like public health and sanitation would sometimes be broken-up into about 15 components for detailed clarification;
mercifully, this is not attempted in all cases either because it would lead to absurdities (water supply) or the broad functional description is well understood to render further decomposition (medical or primary education) unnecessary. The practice is to divide a particular state function vertically and delegate its various sub-functions to the municipal authorities; in such a delegation the state governments assume the process activities, like, laying down of standards, functional planning, construction, resource matching etc., leaving operations and maintenance activities to the municipalities. Municipal functional domain could be influenced as matters of states' executive discretion and not on the basis of voluntary acceptance by the municipal authorities. That such intrusion at the vertical level for each function in effect means joint responsibility, with consequent effect on the final output, is not generally appreciated.

A brief description of the exact nature of municipal regulatory functions would include enforcement of building bye-laws, registration of births and deaths, controlling noxious trades and nuisance industries, regulating markets and slaughter-houses, ensuring the quality of food and drug sold, checking weights and measures etc. The municipal civic functions cover areas, such as, water supply, drainage, sewerage and conservancy, public health, sanitation, dispensaries and maternity homes,
primary education, street lighting and cleaning, roads and public works.

These functions are spelt out more or less in identical terms in the Municipal Acts of Gujarat, Madhya Pradesh, Maharashtra, Mysore (Karnataka), Punjab, Rajasthan and Uttar Pradesh and cover wide fields of activity ... The municipal Acts of Assam and Bihar enumerate the purposes to which the municipal fund may be applied, while in Andhra Pradesh, Kerala and Madras (Tamil Nadu), the same are laid down in Financial Rules. The Acts of Orissa and West Bengal do not give any detailed enumeration of the functions of municipal bodies.15

The legislative uniformity spelling out municipal functional areas are traceable to the provisions in the major legislations in the former British Presidencies. States which have come into being as a result of integration of the former Princely states, however, fellow a centralist tradition - the functional areas allotted to the municipal authorities are somewhat limited as the Princely states used to discharge many normal municipal functions though its own machinery, like, water supply, education, health services, parks and recreation etc. This explains why Karnataka, Andhra Pradesh (Telangana region), Jammu & Kashmir, Himachal Pradesh, Madhya Pradesh and Rajasthan display somewhat restrictive attitude towards municipal functional

responsibilities. Over a period of time, however, these differences have narrowed down. The outstanding example here is that of the Bombay corporation, conceived on the pattern of the English municipal corporations under the Act of 1835, where from its inception in 1888 the functional domain has remained almost unchallenged.

It might be appropriate at this stage to examine the extent of concurrent jurisdiction of the states and the municipal authorities in municipal functions on an all-India basis. Absence of detailed state-wise information naturally inhibits any precise conclusion either on a national scale or in terms of a particular state or group of states. Nevertheless, available information does point out that only in regard to such minor functions as disposal of the dead, or maintenance of cattle pounds, the states have not as yet shown any active interest.

Table-13 brings out clearly that out of 38 entries in the state-list only 16 entries have so far been partially delegated to the municipal authorities; of these in only 8 fields there is substantial municipal activity, in the remaining 9 fields the states have reserved a substantially larger role and, in effect, reversed the local delegation. Since education is a single function, varying municipal and state involvement is shown in terms
### Table - 13

**India: Functional Responsibilities for Urban Services under Municipal and State Governments**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>List (II) or Concurrent List (III) listed in the constitution (Schedule VII)</th>
<th>Functions as per the constitution (Schedule VII)</th>
<th>Extent of delegation to the municipal authorities or utilization by the State Governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>II/6</td>
<td>Public health and sanitation</td>
<td>Ms</td>
</tr>
<tr>
<td>2.</td>
<td>II/6</td>
<td>Hospitals and dispensaries</td>
<td>Ms</td>
</tr>
<tr>
<td>3.</td>
<td>III/18,19</td>
<td>Adulteration of food-stuffs and other goods; drugs and poisons</td>
<td>Ms</td>
</tr>
<tr>
<td>4.</td>
<td>II/17</td>
<td>Water supply</td>
<td>Ms</td>
</tr>
<tr>
<td>5.</td>
<td>II/10</td>
<td>Disposal of the dead</td>
<td>M</td>
</tr>
<tr>
<td>6.</td>
<td>II/13</td>
<td>Roads, bridges, ferries and other means of communciation</td>
<td>Ms</td>
</tr>
<tr>
<td>7.</td>
<td>III/35</td>
<td>Mechanically propelled vehicles, including principles of taxation thereon</td>
<td>S</td>
</tr>
<tr>
<td>8.</td>
<td>II/18</td>
<td>Land</td>
<td>mS</td>
</tr>
<tr>
<td>9.</td>
<td>II/11</td>
<td>Education: primary</td>
<td>Ms</td>
</tr>
<tr>
<td>10.</td>
<td>II/33</td>
<td>Places of entertainment and amusements</td>
<td>Ms</td>
</tr>
</tbody>
</table>

Contd...p.35
<table>
<thead>
<tr>
<th></th>
<th></th>
<th>Libraries, museums and similar institutions; ancient and historical monuments and records</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11.</td>
<td>II/12</td>
<td>Markets and fairs</td>
<td>Ms</td>
</tr>
<tr>
<td>12.</td>
<td>II/28</td>
<td>Trade and commerce</td>
<td>Ms</td>
</tr>
<tr>
<td>13.</td>
<td>II/26</td>
<td>Inns and inn-keepers</td>
<td>Ms</td>
</tr>
<tr>
<td>14.</td>
<td>II/31</td>
<td>Relief of the disabled and unemployed</td>
<td>Ms</td>
</tr>
<tr>
<td>15.</td>
<td>II/9</td>
<td>Pounds</td>
<td>M</td>
</tr>
<tr>
<td>16.</td>
<td>II/16</td>
<td>Veterinary services</td>
<td>Ms</td>
</tr>
<tr>
<td>17.</td>
<td>II/15</td>
<td>Public safety, including fire services, control of dangerous and dilapidated buildings and street lighting</td>
<td>Ms</td>
</tr>
<tr>
<td>18.</td>
<td>?</td>
<td>Public housing and shelter</td>
<td>Ms</td>
</tr>
<tr>
<td>19.</td>
<td>?</td>
<td>Recreational facilities</td>
<td>Ms</td>
</tr>
<tr>
<td>20.</td>
<td>?</td>
<td>General welfare</td>
<td>Ms</td>
</tr>
<tr>
<td>21.</td>
<td>?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Municipal (M/m); State (S/s). Capital letter indicates major responsibilities, while small letter indicates minor participation. The constitutional position of the last four functions is not clear.
of primary and secondary education; this has resulted in a total of 17 instead of 16 functional entries referred to earlier. These fields are: (i) medical services, (ii) prevention of food adulteration, (iii) land-use/land-tenure and property rights, (iv) education (secondary), (v) libraries/museums/monuments/archives, (vi) trade and commerce including enterprise activities, (vii) tourist lodges, (viii) welfare of the disabled, and (ix) veterinary services. The remaining 8 functional areas where municipal activities concentrate are: (i) public health and sanitation, (ii) water supply, (iii) disposal of the dead (exclusive), (iv) municipal roads, bridges and ferries, (v) education (primary), (vi) places of entertainment and amusements, (vii) markets and fairs, and (viii) pounds (exclusive).

It would thus be seen that the major civic functions that the municipal authorities handle are public health and sanitation, water supply, public works and roads, primary education, and dispensaries and maternity homes. Other functions are relatively minor or incidental to the major responsibilities.

Only one function in Table-13 has been derived from the concurrent list of the constitution: prevention of adulteration in food stuffs, drugs etc. This power has been recently been placed in the concurrent list
with a view to take over the municipal responsibility in this regard and entrusting the state authorities to undertake this function directly.

In the absence of detailed information regarding municipal functional responsibilities - apart from whatever is mentioned in the various enabling municipal legislations - it is difficult to assert to what extent municipal functional domain is being eroded. However, experience suggests that the centralization trend at the state level is pronounced, mainly in the fields of social services. Also, there is an increasing trend to hive-off municipal functions to specially-created ad hoc bodies under state auspices. This has been expressed by an official committee in the following vein:

In India, there has been an increasing tendency on the part of the State Governments to take over more and more local functions, either directly or by creating special purpose agencies. This has been justified mainly on grounds of the poor performance and inefficiency of the local bodies in the discharge of their functions, inadequacy of efficient staff, want of financial resources, factionalism and mal-administration and indifference of citizens to civic affairs ... the remedy lies not in depriving the local bodies of their functions but in improving and strengthening their organisational and administrative set-up, allocating to them adequate resources and giving expert and technical help in the discharge of their functions.16

At this stage, one might also point out the inadequate constitutional provision for four functions, such as, public safety, public housing and shelter, recreational facilities and general welfare. Quite a few corporations undertake fire services, while all municipalities control dangerous buildings; it is not clear whether the term 'public order' (List II/1) would cover this activity. The constitution is totally silent on public housing; perhaps slum clearance could be subsumed under 'public health and sanitation' (List II/6). Recreational facilities in the urban areas are a major municipal function, like, provision of parks and playgrounds, river-front development, access to scenic spots and other recreational measures; it would be difficult to cover all these under 'places of entertainment and amusements' (List II/33). All municipal legislations contain a residual omnibus power of general welfare or well-being; the state governments also have expanded their welfare services considerably, but some of these cannot be derived either from the constitutional entries on 'relief of the disabled and the unemployable' (List II/9) or 'social security and social insurance' (List III/23). On a strict interpretation of the entry on 'land' (List II/18), as enumerated in the constitution, it is doubtful if even the power of development control
Revenue Authority

Municipal taxation

As in the case of municipal functions, municipal revenue authority also is derivable from the tax powers allocated to the central and state governments and delegated to the municipal sphere. Table-14 attempts to identify these taxes and see to what extent the municipal authorities enjoy exclusive jurisdiction on their utilization.

It will be seen that out of 10 taxes that could be identified with the existing municipal revenue authority, only two are left for their exclusive utilization, viz., (i) taxes on advertisement, and (ii) taxes on animals and boats. In the remaining 8 tax items, the municipal authorities enjoy major tax powers for 7 and the state governments have in effect taken over the remaining tax item on motorized vehicles. The tax item which has not so far been utilized is the capitation (poll) tax. What is noticeable is the increasing tendency on the part of the state governments to encroach into the traditional municipal tax field,

*In a Supreme Court case (Maneklal Chhotalal v. M.G. Makwana, AIR 1967 SC 1373) it was held that having regard to the pith and substance of the subject matter a town planning legislation is covered by Entry 18 of List II (Land); it could also come under Entry 20 of List III (Economic and Social Planning). The legal confusion thus stands confirmed.
as described in Table-14. Compared to the position earlier (mid-fifties) when an expert committee noticed only one state (Assam) levying a professions tax as a solitary example of state intrusion, the situation today covers a wide-spread tendency to levy parallel taxes in 8 out of 10 items. Commenting on the tendency of encroachments on the part of the state governments in the field of local taxation; another official committee later (mid-sixties) expressed the following view:

... the remedy does not lie in appropriating to the State Governments on area of taxation that legitimately belongs to local authorities and thereby further crippling their already meagre resources but in promoting measures that would ensure proper exploitation of those resources by local bodies... 18

The question of reservation of tax fields for exclusive utilization by the local bodies was first raised by the Taxation Enquiry Commission, which recommended the following six taxes for the purpose: (i) taxes on lands and buildings, (ii) octroi, (iii) taxes on non-mechanically propelled vehicles, (iv) taxes on animals and boats, (v) taxes on professions, trades, callings, and employment, and (vi) taxes on advertisements. The


### Table 14
#### India: Revenue Authority for Urban Taxation under Municipal and State Governments

<table>
<thead>
<tr>
<th>No.</th>
<th>Sl.</th>
<th>Central List (I) or State List (II) in the constitution (Schedule VII)</th>
<th>Taxation heads as per the constitution (Schedule VII)</th>
<th>Extent of delegation to the municipal authorities or utilization by the State Governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>I/89</td>
<td>Terminal taxes on goods and passengers, carried by railway, sea or air</td>
<td>Ms*</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>II/52</td>
<td>Taxes on entry of goods into a local area for consumption use or sale therein (petrol)</td>
<td>Ms**</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>II/56</td>
<td>Taxes on goods and passengers carried by road or on inland waterways (terminal toll)</td>
<td>Ms***</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>II/55</td>
<td>Taxes on advertisements other than advertisements in newspapers</td>
<td>M</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>II/49</td>
<td>Taxes on Lands and buildings</td>
<td>Ms+</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>II/57</td>
<td>Taxes on vehicles suitable for use on roads, including tramcars</td>
<td>++Ms</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>II/58</td>
<td>Taxes on animals and boats</td>
<td>M</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>II/59</td>
<td>Tolls</td>
<td>Ms++</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>II/60</td>
<td>Taxes on professions, trades, callings and employment (subject to a maximum on any one person by any state or local authority of Rs 250 per annum)</td>
<td>Ms@</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>II/62</td>
<td>Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling</td>
<td>@@Ms</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>II/61</td>
<td>Capitation tax</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Tax on passengers to pilgrim centres and bound for Calcutta and Howrah. ** Entry tax in M.P. and for the Calcutta Metropolitan area in West Bengal. *** Only in Jammu and Kashmir. House tax in Punjab, urban land tax in Tamil Nadu, multi-storey building tax for Calcutta in West Bengal, Bombay building repairs tax in Maharashtra. Wheel tax of Bombay in Maharashtra and taxes on non-mechanically propelled vehicles elsewhere. Bridge tolls in Bihar, West Bengal and Karnataka. @Employment tax in West Bengal, professions tax in Maharashtra, U.P., Jammu & Kashmir, M.P. and Assam. @@Theatre tax in Maharashtra and Gujarat, show tax in Tamil Nadu, Kerala and Andhra Pradesh. Note: Municipal (M/m); State (S/S); Capital and small letters indicate substantial or minor utilization respectively.
commission also recommended that the local bodies be permitted to impose a theatre or show tax and a duty on transfer of property to be collected by the state governments. The local bodies may also recommend imposition of a terminal toll wherever such taxes exist and also tolls on bridges constructed by them. These recommendations have been supported by the Zakaria Committee and the Rural-Urban Relationship Committee. An earlier official committee, on the other hand, suggested a much wider area of exclusive local tax jurisdiction. In addition to the six tax fields already mentioned, it was suggested that terminal taxes, taxes on mineral rights, taxes on electricity, terminal tolls, tolls, capitation taxes and the entertainment tax should be included in the local tax field. It has also been suggested that there should be an exclusive local tax list in the constitution for use by the elective local authorities, since entry 5 in the State List of the Seventh Schedule in the Constitution contains a mixed bag of authorities like the "municipal corporations, improvement trusts, district boards (since replaced by the zilla parishads), mining settlement authorities and other local authorities for the purpose of local self-government or village administration".


Fees for licences and services

Indian constitution makes a distinction between fees for licences and for services rendered; for the first category of fees there need be no correlation between the amount levied and the cost of administration. This in effect makes licence fee as another form of tax and judicial pronouncements have upheld the contention that where licence fees are in the nature of a tax, all the procedural formalities for imposition of a tax are to be complied with before such a fee is imposed. In the case of municipal taxation such a procedure is extremely cumbersome.

In the case of fees proper, that is to say, fees for services rendered, the obligation is implied for a reasonable correspondence between the cost of services and the amount of fees charged. The rule of *quid pro quo* is applicable here.

Fees may be charges for any function allocated to the municipal authorities and it is possible for a particular function to be financed from both earmarked taxes and fees (water supply, education, roads) or from either of these alternatives.

Although it has been suggested by an official committee that the municipal authorities should utilize licence fees for revenue mobilization, one has to


22. Ibid.
consider that:

There may be found a number of licence fees which could be utilised as a revenue measure as effectively as for regulatory purposes. On the other hand there may be not a few licence fees which could be eliminated or whose rates could be reduced.23

On balance, however, utilization of licence fees is urged not so much for revenue as for better regulation of trades and business.

Other non-tax revenues

The question of undertaking municipal trading and enterprise activities has been debated in India for some time as a means of increasing municipal revenue and thus placing relatively less reliance on taxation. However, the municipal functional lists do not support an indiscriminate extension of municipal enterprise activities, except for public utilities or for promotion of general well-being. The Zakaria Committee thought that if any profit is earned by a municipal utility undertaking, it should reduce the rates charged, rather than be looked upon as a source of municipal income. On the other hand, the Rural-Urban Relationship Committee thought that "municipal concerns should be run on a commercial basis and be a source of revenue to the local body". From the point of view of the revenue

authority one has to conclude that the nature of municipal legislations in India do not support a profit-oriented approach to municipal services and in this respect is different from the practice under the 'general competence' approach of the continental local government and also different from local administration under the Soviet system where local taxation is not a major source of local revenue.

Role of Municipal Governments

Municipal functions and taxation

From the foregoing examination of municipal functional responsibilities and revenue authority the following conclusions may be derived:

(a) Overlapping jurisdiction: In both the municipal functional and tax domain there is state intrusion; so far no convention could be effective and, therefore, official committees have suggested either constitutional reservation of a local tax field or regarding local government as a third level of the government set-up within the country. Perhaps a local tax list, on the lines suggested by the Taxation Enquiry Commission covering 6 tax items, indicated earlier, could be incorporated in the constitution. But this, by itself, would not solve the problem of inadequate tax base of municipal government, as the potential revenue yield of
these taxes is not substantial. The question of overlapping functional jurisdiction between the municipal and state governments is somewhat more complex; perhaps it would be better to allocate the state functions to the municipalities without detailing these too much and allowing the municipalities to undertake activities not specifically reserved by the concerned state government through statute. This would mean allowing the 'general competence' power to the municipalities within the framework of states' functional competence.

(b) Insufficient constitutional entries: It was found that a number of functional areas already being undertaken by or allocated to the municipal authorities do not flow from any reorganizable entry under the state or concurrent lists of the constitution (e.g., land-use control, public safety, public housing, recreation and general welfare). This needs to be corrected without resorting to unrealistic or implausible interpretations of the existing constitutional entries.

(c) Revenue sharing: Since the major tax powers lie at the centre, thoughts must be given as to how some of these taxes could either be assigned to or shared with the municipal authorities in the same manner as these are being done for the states. Specific
pass-through provisions, as in the case of revenue sharing scheme in the USA, could be devised to get around the constitutional status of the municipal authorities. This is already effectively done in the case of terminal taxes; there is no reason why this could not be attempted for income-tax. Moreover, the municipal professions tax is being underutilized, due to its constitutional restrictions to keep within a low ceiling (Rs 250 per annum per assessee) and on the other hand, the high-exemption limit for personal income tax (Rs 15,000 and above assessable income per assessee). Here either the limits of professions tax are to be increased to tap the income-tax exempted assessees, or the municipal authorities are to be compensated by the centre for under-utilization of the personal income tax. It may be wiser to give up the right to professions tax altogether in order to have a municipal surcharge on income-tax. Without an access to the more elastic tax sources in the country, it is not possible for the municipal authorities to make a fiscal break-through.

(d) Larger municipal tax powers: Strengthening of municipal governments needs to be done primarily on the score of its share in the total taxation system; from the present level of 4.5% of share of the country's tax resources, the limit needs to be pushed to at least 10%.
A larger share of GNP to be routed through the municipal (and local) governments rests on the belief that unless local government is an important partner in the governmental system, reforms in local finance would not be worth attempting. In doing this, apart from reservation of local tax field in the constitution, thoughts are to be given as to how through a system of municipal surcharge on some of the state and central taxes, the relative tax jurisdiction of the municipal governments could be improved to reach the 10% target.

(e) Minimum level of municipal services: One could come to the same conclusion from the angle of municipal expenditure on various functions. It was estimated in the mid-sixties that to provide a minimum level of municipal services a per capita income of ₹ 30 (at 1962-63 prices) was essential; barring a few major municipalities and corporations (17% out of the 98 samples selected from all over the country), the majority of the municipal authorities fell below the expenditure limit. The situation has not improved in the mid-seventies, as the data collected by the seventh Finance Commission shows. Making price adjustments, a minimum per capita level of desirable municipal expenditure would be around ₹ 90 (at 1980-81 prices). This cannot be met without drastically overhauling the municipal fiscal base or revenue authority.

Municipal role in urban services

We have already indicated the nature of urban services performed by the municipal authorities from a national viewpoint. Obviously, there would be wide variations between the major corporations and the average municipality. In the metropolitan areas, with the exception of Bombay, Poona and Ahmedabad, even the municipal corporations are hemmed in by special purpose authorities for various functions. At the other end of the scale, in the smaller towns the municipal bodies function mainly as sanitation and roads authorities. Again, depending on whether it is a large or a small state, the functional devolution would vary; the smaller states really combine the dual role of the state and local authorities. The inherited tradition of centralization of powers would also pervade the attitude of a state created as a result of the integration of the Princely states.

We present in Table-15 the involvement of municipal authorities, state functional departments and special authorities created by the state in the provision of major city services in Jaipur. It will be noticed that many a primary activity which one would expect to be discharged by the city municipality are in fact operated by state departments. This is due to the fact that the city was a Princely state earlier and after its integration the locally-based state functions have not been devolved. The situation would be different in Ajmer, another city in the same state of Rajasthan, which was a former British territory. One would also notice the existence of a local special authority (urban improvement trust) functioning both as a
### Table - 15

**Inventory of Governments in Jaipur City**

<table>
<thead>
<tr>
<th>City Services</th>
<th>Relative Importance</th>
<th>Jurisdiction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Police protection</td>
<td>S</td>
<td>Revenue district</td>
</tr>
<tr>
<td>2. Traffic control</td>
<td>S</td>
<td>City</td>
</tr>
<tr>
<td>3. Public health and sanitation</td>
<td>M</td>
<td>City</td>
</tr>
<tr>
<td>4. Water supply</td>
<td>S</td>
<td>State</td>
</tr>
<tr>
<td>5. Drainage and sewerage</td>
<td>S</td>
<td>State/City</td>
</tr>
<tr>
<td>6. Highways</td>
<td>S</td>
<td>State</td>
</tr>
<tr>
<td>7. Roads</td>
<td>M, SA</td>
<td>City, Outer city and scheme areas</td>
</tr>
<tr>
<td>8. Education</td>
<td>S</td>
<td>State</td>
</tr>
<tr>
<td>9. Public transport</td>
<td>SA</td>
<td>State</td>
</tr>
<tr>
<td>10. Housing</td>
<td>SA</td>
<td>State</td>
</tr>
<tr>
<td>11. Urban redevelopment</td>
<td>SA</td>
<td>City (scheme areas)</td>
</tr>
<tr>
<td>12. Hospitals</td>
<td>S</td>
<td>State</td>
</tr>
<tr>
<td>13. Parks and recreation</td>
<td>S, M, SA</td>
<td>State/City/Scheme areas</td>
</tr>
<tr>
<td>14. City beautification</td>
<td>S</td>
<td>State</td>
</tr>
<tr>
<td>15. Building regulations</td>
<td>M</td>
<td>City</td>
</tr>
<tr>
<td>16. Town Planning</td>
<td>S</td>
<td>State</td>
</tr>
<tr>
<td>17. Stadia</td>
<td>M, S</td>
<td>Inner city/State</td>
</tr>
<tr>
<td>18. Electricity</td>
<td>SA</td>
<td>State</td>
</tr>
<tr>
<td>19. Land development</td>
<td>SA</td>
<td>City (Outer city and scheme areas)</td>
</tr>
<tr>
<td>20. Burial and cremation</td>
<td>M, SA</td>
<td>City</td>
</tr>
<tr>
<td>21. Fire services</td>
<td>S</td>
<td>State</td>
</tr>
<tr>
<td>22. Museums and monuments</td>
<td>S</td>
<td>State</td>
</tr>
</tbody>
</table>


Note: Capital letter indicate major involvement, small letter indicates minor participation. M/m = Municipality; S/s = State Government department; SA/sa = Special Authority.
redevelopment agency within the walled-city as also a land
development agency on the outskirts of the city limits.
Other state-wide functional agencies cover city transport,
housing and electricity.

Apart from the location of environmental engineering services, the situation in Jaipur typifies the
functional role of the municipal authority in a medium-sized city in the country. The situation in the metropolitan cities may be seen in Table 16.

The position may be summarized as follows:

<table>
<thead>
<tr>
<th>Functional extent</th>
<th>Metropolitan Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bombay</td>
</tr>
<tr>
<td>Exclusively municipal</td>
<td>12</td>
</tr>
<tr>
<td>Exclusively state</td>
<td>6</td>
</tr>
<tr>
<td>Jointly by municipal</td>
<td>2</td>
</tr>
<tr>
<td>and state</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
</tr>
</tbody>
</table>

It may thus be seen that the three municipal corporations of Bombay, Calcutta and Madras handle 12, 7 and 7 items respectively out of a total of 20; the state governments of Maharashtra, West Bengal and Tamil Nadu handle 6, 8 and 11 of the total functional list, while the joint state-municipal sectors cover 2, 5 and 2 of these functions respectively. Apparently the sway of the Bombay corporation on city services is predominant;
### Table - 16

**Inventory of Governments in Metropolitan Cities in India**

<table>
<thead>
<tr>
<th>Service</th>
<th>Bombay</th>
<th>Calcutta</th>
<th>Madras</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Police protection</td>
<td>L(S)</td>
<td>L(S)</td>
<td>L(S)</td>
</tr>
<tr>
<td>2. Traffic control</td>
<td>L(S)</td>
<td>L(S)</td>
<td>L(S)</td>
</tr>
<tr>
<td>3. Public health and sanitation</td>
<td>L(L)</td>
<td>L(L)</td>
<td>L(L)</td>
</tr>
<tr>
<td>4. Water supply</td>
<td>L(L)</td>
<td>L(L), M(S)</td>
<td>M(S)</td>
</tr>
<tr>
<td>5. Drainage and sewerage</td>
<td>L(L)</td>
<td>L(L), M(S)</td>
<td>M(S)</td>
</tr>
<tr>
<td>6. Highways</td>
<td>S(S)</td>
<td>S(S)</td>
<td>S(S)</td>
</tr>
<tr>
<td>7. Roads</td>
<td>L(L)</td>
<td>L(L)</td>
<td>L(L)</td>
</tr>
<tr>
<td>8. Education: Primary</td>
<td>L(L)</td>
<td>L(L)</td>
<td>L(L)</td>
</tr>
<tr>
<td>9. &quot; : Secondary</td>
<td>L(L), S(S)</td>
<td>S(S)</td>
<td>L(L), S(S)</td>
</tr>
<tr>
<td>10. Public transport</td>
<td>L(L)</td>
<td>M(S)</td>
<td>M(S)</td>
</tr>
<tr>
<td>11. Housing</td>
<td>M(S)</td>
<td>L(S), S(S)</td>
<td>M(S)</td>
</tr>
<tr>
<td>12. Urban redevelopment</td>
<td>M(S)</td>
<td>M(S), L(S)</td>
<td>S(S)</td>
</tr>
<tr>
<td>13. Hospitals</td>
<td>L(L), S(S)</td>
<td>S(S)</td>
<td>S(S)</td>
</tr>
<tr>
<td>14. Parks and recreation</td>
<td>L(L)</td>
<td>L(L)</td>
<td>L(L)</td>
</tr>
<tr>
<td>15. City beautification</td>
<td>L(L)</td>
<td>L(L)</td>
<td>L(L)</td>
</tr>
<tr>
<td>16. Building regulations and development control</td>
<td>L(L)</td>
<td>L(L)</td>
<td>L(L), M(S)</td>
</tr>
<tr>
<td>17. Stadia</td>
<td>L(L)</td>
<td>L(S)</td>
<td>L(L)</td>
</tr>
<tr>
<td>18. Electricity</td>
<td>L(L)</td>
<td>M(S), S(S)</td>
<td>S(S)</td>
</tr>
<tr>
<td>19. Fire services</td>
<td>L(L)</td>
<td>S(S)</td>
<td>L(L)</td>
</tr>
<tr>
<td>20. Museums and monuments</td>
<td>S(S)</td>
<td>S(S)</td>
<td>S(S)</td>
</tr>
</tbody>
</table>


Note: L = Local; M = Metropolitan, S = State. Outside notation indicates jurisdiction, notation within brackets indicate ownership.
the Tamil Nadu Government on the other hand, overshadows the Madras corporation in this respect. The functional jurisdiction in Calcutta resembles Madras, where the state special authorities seem to predominate.

Given the present trend of centralization in city services, how does one view the future? The following quotation sums up the future outlook:

... a closer look at the centralisation process reveals two underlying causes for this phenomenon: (a) the hope of retaining service charges and borrowing by the ad hoc authorities to finance the functions, and (b) the desire for uniformity in the coverage of social services. The performance of the ad hoc authorities on resource mobilisation has been dismal and since these are to be subsidised from the state-exchequer, there is a possibility of a reversal of this trend in the urban areas. Therefore, the question of decentralisation of state functions is really tied up with the question of improvement of municipal finance.

Municipal Fiscal Gap

Quantification of service levels

There is a viewpoint propagated by the functional experts that it is possible and desirable to work out physical norms of various civic services and calculate the quantitative service gap with reference to actual physical performance. This then could be converted in money terms.

and after adjusting for population could be expressed as a rough indicator of the expenditure gap in per capita terms. The concept is erroneous, not only because it ignores the limitations of public revenues, but because it unwittingly assigns a higher priority for a quantifiable group of civic services at the cost of more basic regulatory and public health type of civic services that could be classified as pure public goods. The priority and scale of public services are determined on the basis of their placement in the obligation hierarchy of the government; while pure public goods are provided on the basis of a politically determined level of scale, the semi-public and private goods are subjected to an estimation of the citizens' demand (not need). There is no inherent right on the part of the citizens to expect an artificial scale or quality of public services, except that in the case of a purely public good everybody may expect an equal share. This is not to say that quantification of public services may not be attempted; such quantification of specific services subjected to user charges or for the purpose of budgetary control in terms of a programme and performance budgeting framework could be useful both for allocative and control purposes. However, ease of quantification is no justification for prioritization of public, including municipal, services.

Apart from fixation of quantitative norms, data limitations would prevent a satisfactory estimate of availability of various civic services in terms of a target population or a given area, except perhaps for a
few mechanized services. The seventh Finance Commission, for instance, attempted to assess the per capita availability of a few selected civic services in a few sample municipalities (with the assistance of TCPO) but, except for arriving at the per capita availability of water, came to the conclusion that quantification for other services was difficult.

The Zakaria Committee had attempted, on the basis of a study prepared by TCPO, to quantify the gap between the desired and the actual levels of municipal services. According to that estimate, the municipal authorities of all types had a total revenue gap of ₹910 million in 1960-61, being the difference between their total revenue of ₹1203 million and the desired level of revenue of ₹2113 million. At current prices this gap would be at least three times the 1956-57 level on which the TCPO data was based, i.e. about ₹2730 million, even if the larger growth in urban population since 1961 is not taken into account. The Zakaria Committee's estimates are presented in Table-17.

From the table it will be seen that the backlog in maintenance expenditure was heaviest in medium-sized towns (classes B and C), followed by small-sized towns (classes D and E), larger towns and cities (class A)
<table>
<thead>
<tr>
<th>Function</th>
<th>Class A</th>
<th>Class A</th>
<th>Class B</th>
<th>Class C</th>
<th>Class D</th>
<th>Class E</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Water Supply</td>
<td>10.80</td>
<td>10.20</td>
<td>9.80</td>
<td>8.64</td>
<td>7.56</td>
<td>7.42</td>
</tr>
<tr>
<td>2. Drainage and Sewerage</td>
<td>12.20</td>
<td>11.90</td>
<td>10.80</td>
<td>9.30</td>
<td>8.70</td>
<td>8.20</td>
</tr>
<tr>
<td>3. Roads and works</td>
<td>2.50</td>
<td>2.20</td>
<td>1.80</td>
<td>1.35</td>
<td>1.20</td>
<td>1.10</td>
</tr>
<tr>
<td>4. Street Lighting and electricity distr.</td>
<td>3.00</td>
<td>2.85</td>
<td>2.50</td>
<td>2.30</td>
<td>2.15</td>
<td>2.00</td>
</tr>
<tr>
<td>5. Education</td>
<td>6.00</td>
<td>5.00</td>
<td>4.00</td>
<td>3.00</td>
<td>2.00</td>
<td>1.00</td>
</tr>
<tr>
<td>6. Medical and health</td>
<td>3.00</td>
<td>2.00</td>
<td>1.00</td>
<td>0.75</td>
<td>0.50</td>
<td>0.25</td>
</tr>
<tr>
<td>7. Fire fighting</td>
<td>0.50</td>
<td>0.40</td>
<td>0.30</td>
<td>0.20</td>
<td>0.10</td>
<td>0.05</td>
</tr>
<tr>
<td>8. Horticulture</td>
<td>0.50</td>
<td>0.38</td>
<td>0.20</td>
<td>0.08</td>
<td>0.06</td>
<td>0.05</td>
</tr>
<tr>
<td>9. General administration</td>
<td>5.00</td>
<td>4.00</td>
<td>3.00</td>
<td>2.00</td>
<td>2.00</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Total: Desired expenditure</td>
<td>43.50</td>
<td>39.93</td>
<td>33.40</td>
<td>27.62</td>
<td>24.27</td>
<td>21.07</td>
</tr>
<tr>
<td>(b) Total: Actual expenditure</td>
<td>33.95</td>
<td>22.22</td>
<td>15.06</td>
<td>12.74</td>
<td>12.49</td>
<td>11.19</td>
</tr>
<tr>
<td>(c) Deficit (a)-(b)</td>
<td>9.55</td>
<td>16.71</td>
<td>12.34</td>
<td>14.88</td>
<td>11.78</td>
<td>9.88</td>
</tr>
<tr>
<td>Percentage of (c) to 21.96</td>
<td>41.85</td>
<td>54.88</td>
<td>53.89</td>
<td>48.55</td>
<td>46.90</td>
<td></td>
</tr>
</tbody>
</table>

Note: Population Class A Special = 2 million and above, per industrial cities 1 million and above. Other population classes: A = 500,000 to 1,999,999, B = 100,000 to 499,999, C = 50,000 to 99,999, D = 20,000 to 49,999, E = 19,999 and below.

Source: Zakaria Committee, pp.36 and 151.
and, lastly, the largest urban centres (class A special).
The optimum revenue was pegged at a higher level than
the desired maintenance cost on a sliding scale to
emphasize that it is possible to operate the 'essential'
municipal services through appropriate user charges,
leaving the social services to be financed from general
taxation.

**Highest expenditure standard**

Departing from the TCPO's approach (as adopted
by the Zakaria Committee), the NCAER in its study worked
out an estimate of additional municipal financial require-
ments based on per capita highest expenditure standard
(HES) for various services. In the absence of norms for
optimum level of municipal expenditure, except through
the internal budgetary allocations or externally through
a well-designed grants system, the HES has been taken as
something achievable within the existing constraints of
municipal resource mobilization and prioritization. The
HES on each service belonging the municipal authorities within
the same class was taken as the 'standard' level of
expenditure and compared with the Zakaria estimates after
adjusting the prices for 1976-77. The results are
presented in Tables - 18 and 19.

28. Abhijit Datta, "Financing Municipal Services", The
Indian Journal of Public Administration, Vol. XIV,
No.3 (July-September, 1968).
### Table 18

**Per Capita HES Level of Expenditure for Municipal Services, 1976-77**

<table>
<thead>
<tr>
<th>Class of Municipal Authorities</th>
<th>Municipal Services</th>
<th>General Administration*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Water Supply</td>
<td>Sewerage disposal</td>
<td>Street Lighting and ion fire</td>
</tr>
<tr>
<td>A Spl.</td>
<td>7.27</td>
<td>26.13</td>
<td>5.10</td>
</tr>
<tr>
<td>A</td>
<td>15.59</td>
<td>18.19</td>
<td>14.21</td>
</tr>
<tr>
<td>B</td>
<td>10.31</td>
<td>17.20</td>
<td>7.31</td>
</tr>
<tr>
<td>C</td>
<td>23.44</td>
<td>21.00</td>
<td>10.43</td>
</tr>
</tbody>
</table>

* Including miscellaneous and interest payment.

Source: NCAER Study, p.24 (Table III.7).

### Table 19

**Level of Per Capita Expenditure on Municipal Services, 1976-77**

<table>
<thead>
<tr>
<th>Classes of Municipal Authorities</th>
<th>Suggested by the Zakaria Committee*</th>
<th>Highest expenditure standard (HES)</th>
<th>Actual in sample municipal authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Special</td>
<td>139.42</td>
<td>166.97</td>
<td>118.42</td>
</tr>
<tr>
<td>A</td>
<td>125.09</td>
<td>176.85</td>
<td>53.10</td>
</tr>
<tr>
<td>B</td>
<td>107.05</td>
<td>137.35</td>
<td>48.39</td>
</tr>
<tr>
<td>C</td>
<td>88.22</td>
<td>142.30</td>
<td>73.20</td>
</tr>
</tbody>
</table>

* Inflated for 1976-77 prices.

Source: NCAER Study, p. 24(Table III.8).
The *NCAER Study* makes the following observations on the HES analysis:

The existing gap between the actual and desired levels is so large that highest is still below the desired level in many cases, but is achievable ... On HES basis the desired level of expenditure of sample municipal bodies should have been (₹ 4663 million) in 1976-77 compared to the actual of (₹ 2357 million) in that year. This indicates that the resources of municipal bodies need to be doubled for improvement in the level of their services.29

In terms of the Zakaria Committee's norms, the municipal authorities need an additional 40% of their current total revenue, but in terms of the HES norms of the NCAER the additional municipal revenue requirement would be 100% to improve their level and quality. The NCAER projects the municipal revenue receipts to ₹ 6482 million and expenditure to ₹ 4884 million for 1982. The expenditure norms of the Zakaria Committee and of the HES, as adjusted for population growth and increased cost of services, are ₹ 7660 million and ₹ 10,270 million respectively, leaving a large gap between the available revenue and desired expenditure of the municipal authorities.30


30. Ibid.
3. **MUNICIPAL REVENUE MOBILIZATION**

### Sources of Municipal Domestic Revenue

**Tax revenue**

Property taxes and octroi are the major sources of the municipal authorities; other municipal taxes are professions tax, non-mechanized vehicles tax, taxes on posters and hoardings, taxes on animals and boats, tolls, show tax etc. The structure of municipal taxation is presented in the Table -20.

It will be seen that relatively speaking property taxes are more important than octroi; together they account for about 95% of the municipal domestic revenue. Over time, the municipalities are leaning more towards octroi and other taxes compared to the corporations where the tax structure remained stable. Other taxes are less significant in revenue terms and their actual levy varies from one municipal authority to another. The cost of collection of these taxes

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31. NCAIR Study, p. 29.
Table - 20

Structure of Municipal Taxation in Sample Municipal Authorities, 1970-71 and 1976-77

(In Percentages)

<table>
<thead>
<tr>
<th>Types of Municipal Taxes</th>
<th>Types of Authorities/Year</th>
<th>Property Tax</th>
<th>Octroi</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1970-71</td>
<td>55.74</td>
<td>38.38</td>
<td>5.88</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>1976-77</td>
<td>55.45</td>
<td>39.64</td>
<td>4.91</td>
<td>100</td>
</tr>
<tr>
<td>Municipalities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1970-71</td>
<td>44.11</td>
<td>50.63</td>
<td>5.26</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>1976-77</td>
<td>40.11</td>
<td>55.31</td>
<td>6.58</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1970-71</td>
<td>54.59</td>
<td>39.59</td>
<td>5.82</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>1976-77</td>
<td>54.08</td>
<td>40.86</td>
<td>5.06</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: NCRR Study, p. 29 (Table III.11).
seems to be high and in their present form these cannot be utilized substantially for revenue purposes. The overall growth in municipal tax-revenue was more or less the same for the corporations (15.2%) and the municipalities (15%); this included the rates of growth in property taxes - 15.1% in the corporations and 11.3% in the municipalities, and octroi - 15.8% in the corporations and 14.1% in the municipalities. Therefore, from the point of view of utilization of the major municipal taxsources, the corporations have done better than the municipalities.

**Tax composition**

The major distinction that one could make in the area of municipal taxation in India is between the states where octroi is levied and the states where it is not. Such a categorization is made in Table 21.

It will thus be seen that the number of states on both sides are exactly equal and the larger (population-wise) states are still relying on octroi. But the trend seems to be for some of the larger states to give up octroi and some of the smaller states opting for it. The only exception seems to be West Bengal where a/entry tax

Table - 21
Octroi and Non-Octroi States in India : 1980

<table>
<thead>
<tr>
<th>Octroi-levying states</th>
<th>Non-octroi states</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sl.No.</td>
<td>States</td>
</tr>
<tr>
<td>1.</td>
<td>Uttar Pradesh</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Haryana</td>
</tr>
<tr>
<td>3.</td>
<td>Punjab</td>
</tr>
<tr>
<td>4.</td>
<td>Himachal Pradesh</td>
</tr>
<tr>
<td>5.</td>
<td>Jammu &amp; Kashmir</td>
</tr>
<tr>
<td>6.</td>
<td>Rajastha</td>
</tr>
<tr>
<td>7.</td>
<td>Gujarat</td>
</tr>
<tr>
<td>8.</td>
<td>Maharashtra</td>
</tr>
<tr>
<td>9.</td>
<td>Orissa</td>
</tr>
<tr>
<td>10.</td>
<td>Meghalaya</td>
</tr>
<tr>
<td>11.</td>
<td>Manipur</td>
</tr>
</tbody>
</table>

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(octroi) was imposed in 1970 as a source of urban development finance for the Calcutta metropolitan area. Traditionally, octroi-levying states have poor property tax administration, except perhaps in Gujarat and Maharashtra. The implications of octroi abolition would, therefore, have consequences for better utilization of the property tax, as well as for the method of compensation devised for the municipalities, leading to a change in the composition of the municipal revenue structure. We shall revert to the question of octroi abolition in the next section on 'obstacles to revenue mobilization'.

**Tax incidence**

Considering the small share of municipal taxes in the total taxes levied in the country, it is unlikely that any change in these taxes would bring about any substantial change in existing pattern of incidence of central and state taxes. Although no detailed study of municipal tax incidence has so far been attempted, available evidence indicates that the tax incidence of octroi is negligible - about 33 0.01 per head per day. Considering that items of mass consumption are taxed at a low rate, the incidence of octroi on the poorer people would be even less.

The tax incidence on property tax is somewhat more complex. Assuming that property taxes are wholly shifted to the tenants and that the rateable value is correlated with the tenants' income, one could say that the incidence on property tax is progressive.

Among other taxes, professions tax might be somewhat progressive, while the tax on non-motorized vehicles would be regressive.

**Non-tax revenues**

The term non-tax revenues covers a wide variety of revenue sources, such as, rents, sale of land, licence fees, fees for services, income from public utilities and interest on investments. In 1976-77, non-tax revenues formed 9.56% of the revenue receipts in the municipal authorities. Between 1970-71 to 1976-77 the share of non-tax revenues increased somewhat in the corporations compared to a slight decrease in the municipalities. The annual growth in non-tax revenue of 15.5% during 1970-71 to 1976-77 is comparable to the annual growth of 15.2% in tax revenue.

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34. Ibid.

Obstacles to Revenue Mobilization

Reluctance to levy direct taxes

The Municipal Councils have generally been averse to levying fresh taxes or enhancing the rates of existing taxes. From a study of the tax structure of 100 local bodies, it appeared that as recently as 1962-63, 21% of the local bodies were levying no property taxes, 34% were levying no service taxes, while 27% were levying no vehicles tax. The Committee on Augmentation of Financial Resources of Urban Local Bodies (Zakaria Committee) has also reported that in 1960-61, 35% of municipalities in Gujarat, 18% in Madhya Pradesh, 38% in Punjab, 83% in Rajasthan and 40% in U.P. were levying neither property tax nor any of the service taxes. In Rajasthan, the levy of house tax, tax on professions, trades and callings, and octroi are obligatory and their rates have been fixed by the State Government, but many local bodies are not collecting house tax or the tax on professions, trades and callings. In Assam and Kerala, the municipal law provides for the levy of a duty on transfer of property, but no local body has utilised this source of revenue. Even where taxes are levied the rates fixed are kept low and the incidence of municipal taxes falls unevenly on different sections of people. 36

While there is a general reluctance to levy direct taxes on the part of the municipal authorities, particularly in the octroi-states, one has to concede that the states have failed to induce the municipalities to act in this direction, despite their enormous hold over the municipal destiny. Take the case of Rajasthan (an octroi-state) where more than 80% of the municipalities have neither imposed property tax nor any of the service taxes.

taxes; the imposition of these taxes are not only obligatory, but the state has fixed their rates as well. To the extent of fixed rates, technically these could be regarded as state taxes and the ultimate responsibility for their collection also devolves on the state. The municipalities come into the picture when they would approach to state government to increase the rates and only the collection of the non-statutory part of the tax could be regarded as legitimate municipal responsibility.

Apart from these technicalities, there seems to be a dichotomy in the fixation of maximum rates. The maximum limits to municipal tax rates were fixed originally with two considerations: (i) since municipal taxation is a delegated state power it was considered proper to fix a limit to such delegation to satisfy the courts, and (ii) the lurking fear of the colonial administration that without such a limit the elected native gentry might hike the tax rates so high as to affect the colonial commercial interests adversely. The first assumption is misconceived, in the light of the procedural formalities in imposition of a new tax or increasing the rates of an existing tax by the municipal authorities; the second fear was unfounded from the beginning and is irrelevant now. There is, thus, a case for abolition of the maximum limit to municipal taxes altogether.
As in the case of municipal functions, in municipal taxation also not much useful purposes is served by classifying municipal taxes as compulsory or optional, once municipal discretion is conceded. Where such discretion is interfered with, the consequential responsibility for such action technically lies with the state. In municipal taxation, the only area in which municipalities have freedom is in the fixation of rates, and this includes fixation of not only the minimum and maximum rates, but also at the intermediate ranges, based on a classification of goods, rateable value etc. Recently, the new Calcutta Municipal Corporation Bill (1980) proposes to lay down the entire rate determination of property taxes in the state itself (maximum, minimum and the intermediate ranges); this would mean that the tax can no longer be regarded as purely municipal and, at best, could be treated as an assigned tax.

The suggestion that the levy and collection of municipal taxes may be taken over by the state governments, has been rejected by an official committee as it strikes at the very root of local self-government. The more practical and effective approach would be to link municipal tax efforts to a system of incentive grants.

37. Ibid.
Property taxes

(i) Tax components: Property taxes consist of a basic house tax on building with its appurtenant land and a number of service taxes in the form of surcharges on the basic tax for water, conservancy and drainage, lighting, fire, education and so on. The service taxes are to be distinguished from service charges or fees; these tied taxes are levied where the service in question is available irrespective of its actual utilization by the tax-payers. This distinction, however, does not operate in Calcutta where a consolidated property tax is levied, combining both the house tax and the service taxes. Even there, whenever a particular component of service, like, water, drainage and sewerage is not available or privately provided, an appropriate rebate is allowed. The principle of quid pro quo latent in service taxes is inconsistent with the ability-to-pay approach, however crudely defined, in property taxation and the benefit approach in service taxes cannot be easily reconciled with the general concept of the basic levy. A consolidated property tax, without any built-in concessions for particular municipal services, would yield larger revenue.

(ii) **Tax rates:** Generally, the municipal enactments envisage a flat or a proportional tax rate. In Calcutta property tax rate structure is progressive with a rate of 15.5% to 33.5% of the annual rental value (ARV). Similar enabling provisions exist in the legislations covering corporations in Andhra Pradesh, Kerala, Madhya Pradesh, Tamil Nadu and Uttar Pradesh. There are at least three problems connected with such progressive rates: (a) generally this is accompanied with a high exemption limit and the large majority of properties subjected to taxation (80-85%) falls within the first two brackets, resulting in high cost of administration for the remaining brackets in maintaining tax differentiation; (b) progression necessarily implies introduction of a step or a slab system between the intermediate range (covered by the minimum and maximum rates), resulting in widespread evasion or inequity at the margin; thirdly, the superficially high tax rates at the top of the tax schedule create an illusion, the average effective rate of the tax (ARV/tax revenue) is not apparent.

The existing property tax rates in selected municipal authorities is presented in Table 22.

39. This problem has been sought to be corrected by the Calcutta Municipal Corporation Bill (1980) by joining the maximum and minimum rates on a straight line, thus creating an infinite number of rates for the intermediate range. However, the revenue implications of this method are thought to be negative. See: K.S.R.N. Sarma, "Property Tax Structure in the Calcutta Corporation Bill, 1980" Nagerlok, Vol.XIII, No.2 (April-June, 1981).
### Table - 22

**Property Tax Rates in Selected Municipal Authorities, 1976-77**

(Per cent per annum)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Municipal Authority</th>
<th>State</th>
<th>House tax Rate</th>
<th>Service taxes and surcharges on total property tax on ARV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Agartala</td>
<td>Tripura</td>
<td>3.0</td>
<td>7.0 - 10.3, 10.0 - 13.3</td>
</tr>
<tr>
<td>2.</td>
<td>Alleppy</td>
<td>Kerala</td>
<td>7.00</td>
<td>8.0, 15.0</td>
</tr>
<tr>
<td>3.</td>
<td>Ambala</td>
<td>Haryana</td>
<td>12.5</td>
<td>- 12.5</td>
</tr>
<tr>
<td>4.</td>
<td>Asansol</td>
<td>West Bengal</td>
<td>7.5</td>
<td>17.0, 24.5</td>
</tr>
<tr>
<td>5.</td>
<td>Baroda</td>
<td>Gujarat</td>
<td>12.0-30.0</td>
<td>11.0 - 14.0, 22.0 - 44.0</td>
</tr>
<tr>
<td>6.</td>
<td>Bhubaneswar</td>
<td>Orissa</td>
<td>12.0</td>
<td>35.0 - 37.5, 45.0 - 47.5</td>
</tr>
<tr>
<td>7.</td>
<td>Bikaner</td>
<td>Rajasthan</td>
<td>7.5</td>
<td>- 7.5</td>
</tr>
<tr>
<td>8.</td>
<td>Bombay</td>
<td>Maharashtra</td>
<td>25.5</td>
<td>36.0, 61.5</td>
</tr>
<tr>
<td>9.</td>
<td>Cannanore</td>
<td>Kerala</td>
<td>12.0</td>
<td>9.0, 21.0</td>
</tr>
<tr>
<td>10.</td>
<td>Cochin</td>
<td>Kerala</td>
<td>5.0</td>
<td>10.0, 15.0</td>
</tr>
<tr>
<td>11.</td>
<td>Coimbatore</td>
<td>Tamil Nadu</td>
<td>7.3</td>
<td>16.7, 24.0</td>
</tr>
<tr>
<td>12.</td>
<td>Dhanbad</td>
<td>Bihar</td>
<td>10.0</td>
<td>20.0, 30.0</td>
</tr>
<tr>
<td>13.</td>
<td>Faridabad</td>
<td>Haryana</td>
<td>10.0</td>
<td>- 10.0</td>
</tr>
<tr>
<td>14.</td>
<td>Gauhati</td>
<td>Assam</td>
<td>10.0</td>
<td>12.0, 22.0</td>
</tr>
<tr>
<td>15.</td>
<td>Gorakhpur</td>
<td>U.P.</td>
<td>4.0-9.0</td>
<td>12.5, 16.5-21.5</td>
</tr>
<tr>
<td>17.</td>
<td>Hyderabad</td>
<td>Andhra Pradesh</td>
<td>2.0-15.0</td>
<td>15.0, 17.0-20.0</td>
</tr>
<tr>
<td>18.</td>
<td>Indore</td>
<td>Madhya Pradesh</td>
<td>6.0-20.0</td>
<td>- 6.0-20.0</td>
</tr>
<tr>
<td>19.</td>
<td>Jaipur</td>
<td>Rajasthan</td>
<td>6.3</td>
<td>- 6.3</td>
</tr>
<tr>
<td>20.</td>
<td>Jamnagar</td>
<td>Gujarat</td>
<td>10.0</td>
<td>3.0, 13.0</td>
</tr>
</tbody>
</table>

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Contd. p. 72
<table>
<thead>
<tr>
<th>No.</th>
<th>Municipal Authority</th>
<th>State</th>
<th>House tax Rate</th>
<th>Service taxes and surcharges tax on ARV</th>
</tr>
</thead>
<tbody>
<tr>
<td>21.</td>
<td>Kanpur</td>
<td>Uttar Pradesh</td>
<td>10.8-18.8</td>
<td>7.2-6.2</td>
</tr>
<tr>
<td>22.</td>
<td>Kharagpur</td>
<td>West Bengal</td>
<td>10.0</td>
<td>16.5</td>
</tr>
<tr>
<td>23.</td>
<td>Kolap</td>
<td>Karnataka</td>
<td>8.0</td>
<td>7.0</td>
</tr>
<tr>
<td>24.</td>
<td>Ludhiana</td>
<td>Punjab</td>
<td>12.5-15.0</td>
<td>-</td>
</tr>
<tr>
<td>25.</td>
<td>Madurai</td>
<td>Tamil Nadu</td>
<td>10.0</td>
<td>17.0</td>
</tr>
<tr>
<td>26.</td>
<td>Mangalore</td>
<td>Karnataka</td>
<td>10.0</td>
<td>13.3</td>
</tr>
<tr>
<td>27.</td>
<td>Mysore</td>
<td>Karnataka</td>
<td>20.0</td>
<td>3.3</td>
</tr>
<tr>
<td>28.</td>
<td>Nasik</td>
<td>Maharashtra</td>
<td>19.0</td>
<td>-</td>
</tr>
<tr>
<td>29.</td>
<td>Ranchi</td>
<td>Bihar</td>
<td>12.5</td>
<td>25.0-30.0</td>
</tr>
<tr>
<td>30.</td>
<td>Sholapur</td>
<td>Maharashtra</td>
<td>22.0</td>
<td>5.0-10.0</td>
</tr>
<tr>
<td>31.</td>
<td>Simla</td>
<td>Himachal Pradesh</td>
<td>12.5</td>
<td>-</td>
</tr>
<tr>
<td>32.</td>
<td>Tiruchirapally</td>
<td>Tamil Nadu</td>
<td>6.00</td>
<td>26.3</td>
</tr>
<tr>
<td>33.</td>
<td>Thane</td>
<td>Maharashtra</td>
<td>19.0-22.0</td>
<td>2.0-12.0</td>
</tr>
<tr>
<td>34.</td>
<td>Vishakhapatnam</td>
<td>Andhra Pradesh</td>
<td>10.0-12.0</td>
<td>14.1-19.8</td>
</tr>
</tbody>
</table>

Source: NCAER Study, p. 41 (Table IV.3).
It would be seen that progressive rates have been adopted both in the corporations (Baroda, Hyderabad, Indore, Kanpur and Ludhiana), as well as in the municipalities (Agartala, Bhubaneswar, Gorakhpur, Hoshiarpur, Thane and Vishakhapatnam). In one municipality the house-tax is on a progressive basis, while the service taxes are on flat rates (Gorakhpur); on the other hand, there are also reverse examples of a flat house-tax rate and a progressive service tax schedule (Agartala, Bhubaneswar, Sholapur and Ranchi). We also have examples of imposition of house-tax alone without any service taxes (Ambala, Bikaner, Faridabad, Indore, Jaipur, Ludhiana and Nasik). Lastly, there are municipal authorities where both the house-tax and the service taxes are on progressive rates (Baroda, Kanpur, Thane and Vishakhapatnam).

The rate schedule presented in Table-22 also indicates a number of instances where the maximum total rate exceeds 25%, such as, Baroda, Bhubaneswar, Bombay, Dhanbad, Hyderabad, Kharagpur, Madurai, Ranchi, Sholapur, Tiruchirapally and Vishakhapatnam. This in a way is indicative of the ineffective valuation of properties, since with a proper valuation it is difficult to conceive of a tax on gross rental exceeding 25%, with an assumed property life of 20 years and a rate of return of 10%. (This is equivalent to 5% rate on a capital value
basis of assessment). If, therefore, under the rental system the rate of taxation exceeds 25%, with life of asset and rate of return being normal, it is not possible to pay the tax out of current rent. There is thus an economic limit to property taxation. Whenever the rate exceeds this limit and if there is no evidence of property sales subjected to such taxation, one could safely assume that it is tolerated due to the cushion of under-valuation. In effect, therefore, there is a derating of properties and one could regard this as an alternative method of getting around an inelastic or frozen tax base.*

It might also be mentioned in this context of discriminatory rates for certain types of properties; for instance, the Gauhati and the Bombay Provincial Municipal Corporations legislations permit charging of a higher rate for certain classes of trade, in Calcutta a 50 per cent additional cess on property tax is being levied for premises used for commercial or non-residential purposes.

(iii) Tax exemption: Among the properties exempted from taxation are those occupied for religious worship, charitable purposes, below a certain rateable

*This is dramatically apparent in Bombay where the rates of municipal taxes have touched 61½%; on top of this there are a number of state taxes that use the urban property base for tax purposes, taking the combined total to around 64½%.
value on account of indigence, properties belonging to foreign embassies and legations, agricultural lands etc. These exemptions, if withdrawn or reduced, would not entail substantial difference in tax revenue (except in Delhi and New Delhi where there is a case for compensatory grant from the centre on account of exemption of foreign embassies). The most important exempted category, however, is those belonging to the central government under the constitution (Article 285) which provides that until a central legislation is enacted governing the method of taxing central government properties, these would be tax-exempt. Even after the lapse of 30 years since the constitution came into being, no such legislation is in sight and the present arrangement is based on executive discretion in this matter, providing for service charges in lieu of taxes. Basically the concept of tax exemption for central government properties is wrong in the present Indian context; it is a hangover from the earlier privileges of the British Crown. The central legislation in this field was attempted, but was supposed to have been successfully vetoed by the centre's major property-owning departments - the railways, posts and

and telegraphs and defence. There is a need to distinguish between the commercial properties of the central government and other properties for differential taxation, also whenever progressive rates are in vogue the chargeable rate could be fixed at the middle rate for office buildings. There is also disagreement about the method of calculation of service charges, particularly with regard to the historic cost of buildings and land.

As for the state government properties, the practice varies: the Rajasthan municipal legislation does not permit it, prior consent of the state government is needed in Karnataka, Maharashtra, Madhya Pradesh and Gujarat for taxing state properties, except for levying service charges. In other states, the concerned departments do make a contribution on this account, although these are not regularly passed on to the municipal authorities. There is, therefore, a need to rationalize the system on a uniform basis for taxing all government properties - central and state.

The other important category which is lightly treated, more by convention than through express legal sanction, is the owner-occupier. Favourable treatment of the owner-occupier is accorded through a rebate, usually

41. NCAER study, p. 55.
of 25%, in assessment; in U.P., this is permissible under law. One study of the property taxation in Gujarat shows that this factor alone, if corrected, could double the tax yield.

(iv) Land taxation: Except in Calcutta and Hyderabad, no other state legislations permit taxation of vacant urban land by the municipal authorities; Tamil Nadu, however, has its own urban land tax. The main justification for taxing vacant lands is to capture a part of the land values that accrue to urban land mainly due to the facilities created by the local authorities. It was suggested in a model assessment code that such land be taxed on the basis of its estimated market value at the time of assessment. If the tax is on land value increment per se then a separate urban land tax could be introduced, as in Tamil Nadu, but its success would depend on: (a) close collaboration between land registration and taxation authorities, (b) creation of a centralized valuation agency, (c) progressivity in rates, and (d) effective action to correct under-valuation.


On the other hand, one could also think of an urban land tax component attached to the municipal property tax system, as in Calcutta and Hyderabad.

(v) **Taxation base:** The most controversial aspect of municipal property taxation is its basis. Following the English practice, in India property taxation is based on the gross annual rental as obtained in a "free" market. Due to the operation of rent control in Indian cities, the free market has ceased to exist and the municipal authorities are supposed to value properties for tax purposes on the basis of fair rent prescribed in the rent control legislations, as per the various judicial pronouncements. This has virtually resulted in a freezing of property tax base, particularly for old structures.

In order to get away from this impasse, various alternative bases have been suggested: (a) capital value, (b) site value, and (c) area-measurement value. It is realized:

(a) that as in the case of rental value, capital value base also assumes a free market (for property transfer),

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45. For a survey of the legal position, as interpreted by the federal court (Supreme Court) see: M.K. Balachandran, "Legal Aspects of Property Tax Reforms," *Nagarlok*, Vol. XII, No.3 (July-September, 1980).

(b) that except for the undeveloped areas and new townships it would be difficult to adopt the site value system, and (c) that the area method, being a tax on quantity rather than on value, would introduce a large element of subjectivity and be inequitable in its impact. In the absence of a suitable alternative valuation base, there are two ways of tackling the problem: (a) to amend the rent control legislations directly and separate the fair rent concept from notional rent for tax purposes, or (b) to allow derating of urban properties through increases in tax rates for older properties, even beyond the ARV itself (this is analogous to the English derating of agricultural and industrial properties after the depression of the thirties). Both these measures would call for suitable legislative action by the states. It is estimated that due to the freezing of rents as a result of the rent control acts, the revenue loss to the municipal authorities amounts to a third of their total revenue in the larger cities and somewhat less in other towns, due to variations in rental and owner-occupied properties in their respective jurisdictions.

(vi) Assessment procedures: Most municipal legislations provide for a quinquennial valuation of properties for tax purposes and an annual assessment of properties that are newly constructed or where substantial improvements or alterations have taken place. However, it is not unusual that the assessment lists are not regularly revised and in the process the municipal authorities lose revenue. In U.P., once the quinquennial valuation is made, it is not open to change the list through annual assessment; elsewhere, such rigidities do not exist. The assessment lag mainly occurs due to paucity of staff at the municipal level and the process of revision of assessment is regarded as cumbersome, mainly because most of the municipal authorities (barring the corporations) do not have any regular machinery to undertake the task. In a few corporations (Bombay, Ahmedabad, Baroda, Madras) every year a part of the municipal area is taken up for valuation and the entire city is covered within the stipulated period of 5-6 years. The lag in assessment introduces inequities in the tax base and results in loss of tax revenue.

The other aspect of assessment concerns its

organization. All official commissions and committees that have so far considered this issue, starting from the first Taxation Enquiry Committee (1925), were unanimous in suggesting the creation of a central valuation agency at the state-level. The ostensible reasons for such centralization are: (a) the municipal tax revision committees consisting of municipal councillors bring down the assessments arbitrarily and to a substantial extent, and (b) professionalization in property valuation demands a centralized cadre under a single authority, not subjected to local pressures. The experience in centralized assessment attempted so far has not been too happy. In Maharashtra and Andhra Pradesh the attempts failed. The experiences of Assam and Orissa are also not altogether happy on account of: (a) lack of legislative support, (b) lack of clarity in the valuation base, (c) lack of understanding by the municipal staff about the methods adopted, and (d) staff not being immune from local pressures, since the actual valuation is mostly carried out by the municipal employees. West Bengal has recently (1978) passed a legislation creating a central valuation board, which stipulates

49. For Assam experience, see: Abhijit Datta, Report on Valuation of Property Taxes in Assam, IIPA, New Delhi (Mimeo), 1971. For Orissa experience, see: NCAER Study, pp. 48-49.
the setting up of a central board and a number of local valuation authorities. These are practically independent of one another, each to function as a valuation agency for an area.

What the enactment provides is, in fact, the setting up of a local valuation agency, which also constitutes an Assessment Tribunal for hearing appeals against the general valuation of properties carried out by the agency. It is not clear whether the valuation authority would, once set up, continue to function after completing the valuation and disposing off appeals, or it will cease to exist hereafter. The Act is also silent on the organization that will amend the list to include new buildings constructed or alterations and additions to the existing building after the general revision is over.

(vii) Tax collection: On the score of tax collection efficiency, the municipal authorities in the northern and eastern India, where the staffing situation is chaotic, are particularly weak. The situation is much better in the south India, such as Tamil Nadu, Andhra Pradesh and Kerala as also reasonably satisfactory in the western India, viz., Maharashtra and Gujarat. A brief description of the situation would be as follows:

In Madhya Pradesh, during 1961-62 majority of the Municipalities collected less than 50 per cent of the dues; 6 less than 10 per cent; 7 between 10 per cent and 20 per cent; 13 between 20 per cent and 30 per cent; 22 between 30 per

cent and 40 per cent; and 20 between 40 per cent and 50 per cent. In West Bengal, out of 87 municipalities the collections made by as many as 35 were below 50 per cent. 51

Apart from improvements in staffing, a better collection efficiency could be achieved through better supervision by the states. Improvements in this sphere could be achieved through a system of incentive grants, tied to collection performance. Timely action on the part of the municipal authorities concentrating on the major tax payers may also yield substantial results. Ultimately, however, the chief municipal officer is to be made personally liable for all collections falling below a specified limit, say, 75 per cent.

(viii) Future outlook: A major break-through in property tax reform in India lies in the direction of reforming its rental base; without either abolition or liberation of the rent control restrictions this seems unlikely. On the other hand, there are formidable difficulties in adopting alternative tax bases. Absence of reform attempt might promote effective derating having adverse distributional consequences. In the near term


52. Ibid.
however, creation of a central valuation agency would help; improvements in tax collection efforts are also called for through streamlining of the collection system and linking tax recovery with incentive grants.

Octroi and terminal taxes

The recent literature on octroi and terminal taxes revolves around the question of their abolition. From the revenue angle one could discuss some of the current issues in terms of (i) administrative problems, (ii) the alternatives, and (iii) experience of octroi abolition. We would discuss these in seriatim.

(i) Administrative problems: These would include high cost of collection, leakage, harassment to traders and transporters etc. Many of these problems could be solved if octroi is regionalized or limited only in big cities. A regionalized octroi, or an entry tax, could be operated only under the auspices of the state government (as in West Bengal and Madhya Pradesh) as it would be difficult to work out inter-local agreements in this area.* For the major cities, however, there is a case for a terminal tax where the problem of refund might be obviated.


* The constitutional propriety of a regionalized octroi (entry tax) is open to doubt as octroi is leviable on goods entering into a local area and (not into a region or a state) for consumption or sale therein.
The hardships to traders and transporters could be mitigated through a number of methods: (a) collection of the tax through the major transporters, (b) construction of bonded warehouses outside the city limits, (c) introduction of permits for through-traffic, (d) construction of by-passes around the city, etc.

The problem of high cost of collection relates to smaller cities and towns; in major cities, like, Ahmedabad and Bombay, the cost of octroi collection is even less than the state sales tax (less than 3%). With regionalization, this problem would probably disappear.

The points of octroi leakage are the importers, transporters, agents and the check-post staff. Introduction of a mobile vigilance squad, rotation of staff between the field and office, exercise of discretion limited to the senior staff, collection of octroi intelligence, rationalization of the rate schedule etc. are being tried in various places with some degree of success.

(ii) Alternatives to Octroi: Octroi substitution could be discussed in terms of taxes on the same base or on alternative bases within the same jurisdiction. So far the alternatives have been discussed by disregarding the possibility of alternative local business taxes. Among the state-wide indirect taxes, a progressive turnover tax is less desirable than a flat-rate levy, since the latter would have a built-in flexibility and pose
lesser administrative problems. A surcharge on sales tax or a municipal sales tax would create several problems of *inter se* distribution of the tax proceeds to the local authorities, introduce distortions in the sales tax structure and deprive the local authorities of the buoyancy in existing octroi revenue.

(iii) **Experience of octroi abolition:** In Andhra Pradesh, octroi was abolished in the Telengana region (coastal Andhra and Rayalaseema regions did not have octroi). The municipal authorities receive full compensation from the state's own revenues on a fixed basis. This has resulted in a deterioration of municipal financial position. Various alternative levies have been suggested at the state-level, the most preferred being a surcharge on sales tax. There is even a thinking on reintroducing octroi.

In Madhya Pradesh, on the other hand, octroi was abolished after a careful consideration of the steps to be taken to find an alternative source of compensation and the method of its distribution among the local authorities on an equitable basis. Here also the municipal authorities complain that the compensation does not cover the lost elasticity in octroi revenue.

(iv) Future outlook: The Madhya Pradesh scheme of a state-wide entry tax for the municipal areas operates on the basis of declaration by the registered dealers, as in sales tax, without the necessity for local check-posts. Other states, notably Karnataka, are opting for such an entry tax in substitution of octroi. The Centre is in principle committed to octroi abolition, although it has not evolved any incentive scheme to goad the states in this direction.

Taxes on professions, trades, callings and employment

We have already advocated an effective merger between the local 'professions' tax and the central income-tax. This was suggested elsewhere as well:

Although it is recognized that the 'professions' tax is a type of income tax; it has not been found possible to utilize the source properly for two main reasons: (a) it is not comprehensive enough to tackle all sources of income or all types of assesses; and (b) the constitutional restriction of Rs 250 placed on assessment limits its proper utilization. Although the
Local Finance Enquiry Committee (1951) and the Taxation Enquiry Commission (1955) suggested the raising of the maximum limit permissible, this is not the heart of the matter. Under any scheme of local income tax, the greatest difficulty arises as to how non-residents are treated, to what extent unearned income is taxed, and whether it is possible to bring corporate income under local taxation. Even if we leave the question of company taxation for the present, to be equitable, the local income tax has to allow rebate or at least impose somewhat lower rates on the residents and, correspondingly tax unearned income at higher rates than earned income, if not also to allow certain deductions to take into account differential family circumstances. None of these refinements can be achieved under the existing local 'professions' tax. The logical solution to this problem is to impose a supplemental levy on the income tax to be distributed among the urban local bodies on the basis of origin.

The point that needs to be added to this is that after the separation of central corporation tax from income-tax, the personal tax component has correspondence with the residence of the assessee and the place of collection, the standard contrary assumption of the successive federal Finance Commissions notwithstanding. Fees and user charges

We have already indicated the constraints of quid pro quo in respect of service fees. Judicial pronouncements in this regard make it clear that: (1) fees must be in consideration of services rendered by the municipality.

and accepted by the person making the payment, and (ii) the amount collected must be earmarked to meet the expenses for rendering the services and not go into the general municipal fund. Apart from this there are other difficulties, like, the absence of a tradition for relying on fees and user charges for financing municipal services, the practical considerations regarding non-exclusivity in regard to the major municipal services, like roads, fire-fighting, garbage collection and disposal, street lighting and so on. Social services, like, health and education, are regarded as merit goods and cannot be properly charged for.

There are instances of municipalities undertaking remunerative schemes and projects, especially in Kerala and, lately, in Tamil Nadu. In Kerala, the state government has set up the Kerala Urban Development Finance Corporation (KUDFC) as a government company in 1970 with the objects of (i) providing financial assistance to the urban local authorities for their development schemes, (ii) making available technical assistance and guidance to the urban local bodies in implementing their development schemes, and (iii) rendering help to the urban local bodies in

improving their administrative machinery and procedure.* The results of the corporation's activities are to some extent reflected in the municipal income in that state: the head 'income from municipal properties' shows 12% of total income in 1974-75; interestingly in Kerala the structure of municipal income in 1974-75 shows the following composition: tax revenue 61%, non-tax revenue 25%, grants and contributions 14%. Almost half of the non-tax revenues of the municipal authorities in Kerala comes from remunerative ventures. These consist of markets, bus stands, cart stands, slaughter houses, shopping centres and the like. Their average growth rate is about 14%, as against 13% growth rate for total municipal income.

The local bodies are also becoming increasingly involved in the execution of such schemes encouraged by the availability of the loan assistance from the Kerala Urban Development Finance Corporation. In many cases the profitability of the projects is also sound. But the execution of schemes which demand large scale diversions from the general revenues of the local bodies for amortization of the loans should be attempted only if the resources of the local body admit such diversions even though such schemes facilitate building up of assets.57

Similarly, in Tamil Nadu, the state government is encouraging the municipalities to undertake remunerative

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* For an evaluation of the operations of the KUDFC, see f.n. 99 below.

enterprize schemes especially since the new municipal tax sources are meagre and the state government's ability to help them by way of grants is limited due to financial constraints. Similar suggestions have also been made by the NCAER:

So far, the role of remunerative enterprises has been limited in most municipal bodies. There is, however, need and scope for such schemes which can prove useful in the long run - even though their contribution to total revenue receipts may remain insignificant. Small investments in municipal markets, public utilities, etc. are capable of yielding quick returns, besides helping municipal administration in improving the level and quality of civic amenities.

The NCAER Study also reports that in Tamil Nadu the pay-and-use public conveniences have been tried recently and proved to be very successful.

The policy with regard to the municipal enterprizes and remunerative schemes seems to be changing towards permissiveness, inspite of the general philosophy underlying the municipal statutes, due mainly to the unwillingness or inability on the part of the states to allocate new municipal tax sources or to increase the quantum of grants or shared-taxes. But the wider implications of these ventures need to be carefully

58. Tamil Nadu (Rural Development and Local Administration Department), Report of the Municipal Finance Enquiry Committee, Madras, May, 1980, p. 97 (Memo.)

59. NCAER Study, p. 38.

60. Ibid.
considered for the role that the municipal authorities have been traditionally assigned, as providers of purely public and merit goods to the local community.
4. INTER-GOVERNMENTAL FISCAL AND FINANCIAL RELATIONS

Inter-governmental Relations in Urban Finance

Federal-municipal fiscal relations

In India local governments, including municipal authorities, function within the exclusive jurisdiction of the states under the constitution (List II/5), and the centre can do no more than use its influence, advice, exhortation and incentives to the states for an enlightened approach in this matter. One has to admit that so far the centre has been extremely cautious and circumspect to pressurize the states on this count, but it is possible to imagine that in future this attitude might give way to a direct federal involvement in urban affairs, including municipal finance, as has happened in most other urbanized federations, especially in the USA and Australia. The recent revenue sharing plan in the USA and the commonwealth fiscal support to the Australian local authorities have direct relevance to the Indian situation as well. A recent paper indicates such a possibility in the future:
The political balance between the Centre and the States ... might undergo some change if the federal fiscal transfers to the major municipal corporations are made with pass-through clauses in order that the States may not divert earmarked Central assistance for urban development. With rise in urban population in the major cities the necessity for federal concern to improve the quality of life in the urban areas would certainly increase and attempts would be made, as in other developed federations, to ways of by-passing the rural-dominance of the State governments.61

State-municipal fiscal relations

Unlike federal-state fiscal relations which are regulated by express provisions in the constitution, at the state-municipal levels these relationships are wholly on informal lines and in the absence of any well-established institutional arrangement for periodical review through state-appointed finance commissions, the entire area of state-municipal fiscal relations remains vague and uncertain. Appointment of state-municipal finance commissions was suggested by an official committee before the setting up of each federal Finance Commission:

to examine the financial requirements of local bodies for meeting their financial obligations for water supply, sanitation and health and other obligatory services and expenditure on schemes of planning and development... The Commission should make an assessment of prospective revenue which the local body should be expected to realise from the resources allocated to it and lay down the scale for having certain taxes divisible between

the state government and the local bodies. After adding the revenues which the local body can realise from non-tax resources, the balance may be covered by grants-in-aid to the local bodies out of the consolidated fund of the state.62

In 1972, the Central Council of Local Self-Government and the All-India Council of Mayors urged the state governments to appoint municipal finance commissions on the lines suggested by the Rural-Urban Relationship Committee in 1966. Several state governments have since appointed municipal finance commissions and their reports are now available, such as, Andhra Pradesh (1971), Orissa (1974), Maharashtra (1974), Karnataka (1975), Kerala (1976) and Tamil Nadu (1980). The latest Commission of this genre has been appointed in West Bengal which is expected to finalize its report later this year (1981). What distinguishes the West Bengal Commission from others is that it is expected "to cover not only the familiar ground of municipal finances as such, but also simultaneously examine the state's finances for an optimum level of resource transfer to the municipal bodies to make these viable in relation to their needs". It is also supposed to examine the municipal


63. Abhijit Datta, "Municipal Administration in the Coming Decades", op. cit.
plan and non-plan requirements vis-a-vis the state's resources and make specific recommendations to meet the existing and projected shortfall. One interesting aspect of the West Bengal Commission's terms of reference is an examination of the municipal size and its effect on municipal finances. In essence, the terms of reference of the West Bengal Commission follows the footsteps of the federal finance commissions and truly reflects the purpose of such commissions, as originally envisaged by the Rural-Urban Relationship Committee. The experiment in West Bengal is thus the first attempt to integrate municipal finance with that of the state and, ultimately, of the centre, thereby holding the promise of ending the isolation of municipal finance from the mainstream of fiscal policy in the country.

**Fiscal Transfer to the Municipal Authorities**

The fiscal transfer mechanism from the states to the municipal authorities takes several forms, such as:

(i) assigned revenue and shared taxes, (ii) revenue grants, and (iii) plan assistance.

**Assigned revenue and shared taxes**

In India the assigned revenue and shared taxes have taken certain equalization slant; the official reports

64. For details see, West Bengal (L.G.& U.J.Department) Resolution dt. December 6, 1979.
have in no small measure contributed to the confusion of these measures with general grants. As it has been pointed out:

... the assigned and shared taxes are compensatory in nature where the recipient government share the revenue as of right, and not in accordance with their needs ... Assigned and shared taxes must necessarily be distributed on the basis of origin, while the needs element predominates in the allocation of general grants.65

The examples of assigned revenues to the municipal authorities are few: these include the receipts from fines in breach of municipal laws in a few states, the proceeds of entertainment tax in Tamil Nadu and Andhra Pradesh, land revenue in Gujarat, and entry tax in Madhya Pradesh.

The list of shared taxes, on the other hand, are somewhat varied: entertainment tax, land revenues, and property registration fee are generally shared with the municipal authorities; in West Bengal the Calcutta metropolitan entry tax is shared with the municipal authorities. The most important item of shared tax in the municipal field is the motor vehicles tax. This was originally a municipal tax, but since the thirties it has been provincialized and the municipal authorities receive compensation on the basis of revenue foregone, calculated on the average of three

years' receipts immediately before the takeover. Essentially, therefore, this is not a shared tax, but a compensatory grant. Over time, various other considerations have crept in the manner of its distribution—population, road mileage, volume of traffic etc. The original fixed compensation has now been given up, but generally a fixed percentage of the total receipts (say, 25%) is distributed on bases that are not always explicit or rational. Even when this is distributed as a compensatory grant for a functional responsibility (road maintenance), the distributable share needs to be determined on the basis of the functional division of responsibilities between the state and the municipal authorities, the inter se distribution among the municipal authorities might be made on the basis of objective and measurable criteria. *

Revenue grants

The policy towards grants to the municipal authorities has been well-expressed by the Rural-Urban Relationship Committee:

* Such an attempt is now in vogue in Kerala where its inter se distribution among the municipal authorities is based on 'load factor', calculated on the basis of relative traffic densities in various types of roads under state or local authority jurisdictions; however, the amount available to the municipal authorities is the residue after deducting the state expenditure on road maintenance from the tax collection.
The system of grants-in-aid has the advantage that the grants can be related to the needs and resources of urban local bodies. For the smaller and financially weaker municipalities, grants-in-aid are of great importance in the initial stages to enable them to stand on their own legs. Moreover, grants-in-aid also serve as an instrument for the implementation of state policies by encouraging the local bodies to undertake special programmes.

Among the advantages of the grants-in-aid over tax sharing, the Committee listed: (a) greater flexibility of revenue, (b) possibilities of relating grants to the differential means and needs of the municipalities so that the smaller and financially weaker municipalities could be differentially treated during their initial stages of growth, and (c) the possibility of using grants as an instrument of state policy.

Earlier, the Taxation Inquiry Commission suggested the adoption by the states of a few principles, such as, (a) devising a system of general purpose grants to the bigger municipalities and corporations, (b) classification of the local authorities in terms of population, area, resources etc. and relating the grant to these factors as well as the size of the local budgets, (c) the basic grant should be adequate, after taking into account the municipal domestic resources, to finance their basic functions, (d) the basic grant should be

stable over a reasonable number of years, say 3 or 5 years, and (e) in addition, specific grants are to be given for particular items or services, being conditional on maintenance of efficiency and exploitation of their own resources by the local authorities as indicated by the state government from time to time.

Following the recommendations of the Commission, three states have formulated well-defined policies of grants-in-aid to the municipal authorities: Madhya Pradesh (1962), Gujarat (1965) and Kerala (1966). In Gujarat and Kerala, the state governments appointed high-level committees on grants-in-aid (Gujarat: 1965 and 1972, Kerala: 1964).

(i) General-purpose grants: The basic features of the general purpose grant in the three states of Madhya Pradesh, Gujarat and Kerala are that the municipal authorities have been classified on the basis of population and a per capita grant has been fixed for each category. The per capita multiplier is inversely related to the various municipal size-classes so that the larger the class in which an authority falls, the smaller the multiplier. For instance, in Gujarat the pattern is as follows:

The idea is that the municipalities of smaller size have less income potential and need to be compensated to a greater degree. In Madhya Pradesh, the municipal corporations are in a separate category, while the municipal corporations and the major municipalities are clubbed together in Kerala. The municipal corporations are excluded from the scheme of per capita general purpose grant in Gujarat.

The per capita grant undoubtedly ensures certain objectivity and stability on the basis of grant-distribution; however, it suffers from the disadvantage of emphasizing only the needs aspect, while neglecting the efforts or capacities of the municipal authorities. A general purpose grant, as an equalization device, must take both aspects of the fiscal picture for inter se distribution. In order to correct this lacuna, Gujarat has introduced an incentive grant, calculated at 25% of total grants paid in the preceding year and its eligibility is decided on the basis of awarding marks in terms of the following standards of performance:
Standard fixed for grant eligibility

<table>
<thead>
<tr>
<th>Items</th>
<th>Class of municipality</th>
<th>Minimum ₹ per capita per annum</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Income from taxation</td>
<td>A</td>
<td>45</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>2. Revenue income</td>
<td>A</td>
<td>60</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>3. Expenditure on establishment (non-self supporting)</td>
<td>Not more than 35% of municipality's own income from non-self supporting items</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>4. Recovery of municipal dues (excluding octroi)</td>
<td>95%</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>5. Expenditure on medical relief and the municipality's public health income activities</td>
<td>Minimum of 10% of</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

To the extent the overall performance of a municipality falls short of the standards, the incentive grant is reduced proportionately. Another grant on dearness allowances at the rate of 50% of the total expenditure incurred by the municipalities on such allowances to their staff are to be paid on the following basis, rates and conditions:
<table>
<thead>
<tr>
<th>Percentage of property tax rate on ARY levied</th>
<th>Percentage of dearness allowance grant admissible</th>
</tr>
</thead>
<tbody>
<tr>
<td>16% or more</td>
<td>100%</td>
</tr>
<tr>
<td>12% - less than 16%</td>
<td>75%</td>
</tr>
<tr>
<td>8% - less than 12%</td>
<td>50%</td>
</tr>
<tr>
<td>Below 8%</td>
<td>Nil.</td>
</tr>
</tbody>
</table>

The newly established municipalities are to be paid full dearness allowance grant for a period of 5 years from the date of establishment. The grant is not to be paid to the municipal staff of commercial enterprises, school teachers, etc. Only the municipal staff that are appointed against posts created with the sanction of the state government or the director of municipalities would be entitled to the dearness allowance grant.

All the three elements of the Gujarat general-purpose grant system - the basic per capita grant, the incentive grant and the dearness allowance grant - are mutually interdependent, designed to correct the needs aspect of the per capita grant by the performance indicators of the incentive grant and the tax efforts criteria laid down in the dearness allowance grant. The fiscal capacity aspect seems to have been assumed but not empirically tested, through the inverse per capita grant method. The tax effort conditions laid down for the
Dearness allowance grant is less relevant for this type of grant than, say, an inflation-compensation method based on a cost of living index. In any case, while there are various facets in a general purpose grant to be considered together, the quantum of such grant must be large enough to make such an effort worthwhile. In Gujarat the per capita general grant comes to around 6% and the dearness allowance grant claims about 23% of total grants. On the other hand, the share of revenue grants in the total municipal revenue income in Gujarat was a bare 7% in 1975-76 (see Table-6). Under the circumstances, the impact of the Gujarat general-purpose per capita grant on municipal revenue is marginal and in order to make any sense, all the three variants of the general grant - the per capita, incentive and compensation for dearness allowance - need to be worked out together.* A better alternative might be to opt for a single formula-based general-purpose grant, as suggested in a paper cited earlier:

In order to introduce these fiscal parameters in the grant distribution system, one has to device a formula-based grant. Such a formula grant would take into account necessary refinements of the concept of needs, and would also measure the relative fiscal efforts and capacities in an objective manner.

* Recently Gujarat has introduced another general-purpose grant for development purposes paid out of a share (20%) of the state entertainment tax, distributed to the municipal authorities through the newly created Gujarat Municipal Finance Board (GMFB). The GMFB distributes the grant in terms of an elaborate set of yardsticks, criteria and conditions fixed by the state government for the municipalities and municipal corporations. The total amount available for this grant is around 5% of total state assistance.

Specific grants: Traditionally, state grants to the municipal authorities have developed on specific lines. There are two broad types of specific grants: recurring and non-recurring. Recurring grants are given to meet the maintenance expenditure for a particular function, usually these are based on unit-cost principles, as in education and health. In addition, there are a number of compensatory grants in lieu of the transfer of particular items of municipal taxes, income from fines, etc. The variety of such grants is baffling and one may find a number of such grants for financing a particular functional head. The bases of many of these isolated grants are also not clear and one might question the purpose of continuation of these grants on a recurring basis, each to be tied to the apron-strings of the functional departments of the state governments. If exercise of state control is the objective, such control could be exercised in relation to a system of state-wide priority of attainment of a minimum level of service provision and dovetailing these with the pattern of state plan assistance. Adoption of such a system of development assistance would ultimately cause the disappearance of a motley array of non-plan recurring grants.

Non-recurring specific grants consist mainly of a variety of project grants to the municipal authorities, depending on the budgetary position of the state governments
and the initiative displayed by the municipalities in this regard, coupled with lobby pressure. Madhya Pradesh and Gujarat have adopted elaborate patterns of capital grants for the municipal authorities, elsewhere these are restricted to a few critical areas of development. The pattern of Madhya Pradesh, being most elaborate, is indicated below:

<table>
<thead>
<tr>
<th>Type of Grant</th>
<th>Municipal corporations</th>
<th>Municipal Size-classes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Less than 10,000</td>
</tr>
<tr>
<td>1. Water supply and/or drainage scheme</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>2. Dwelling houses for 30% municipal staff, office buildings etc.</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>3. Public Works, roads, drains, pavings, footpaths, latrines, urinals etc.</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>4. Equipment for sanitation, public works, fire fighting etc.</td>
<td>30%</td>
<td>35%</td>
</tr>
</tbody>
</table>

The situation in this regard has been summed up thus:

It is fair to conclude that capital grants to the municipalities are not linked with national planning, and municipal development has not moved beyond undertaking isolated projects. Without integration of municipal and State (Contd.)
planning, it is not possible to ensure necessary development finance to the municipal institutions, nor can there be any coordinated local development of any significance magnitude.69

**Plan assistance**

With regard to development or plan assistance, in Gujarat there are two types of schemes: (a) implementation of development plans, and (b) water supply and drainage schemes. The pattern is as follows:

(a) **Development Plans**: (i) Gross cost of works and/or land acquisition:

<table>
<thead>
<tr>
<th>Grant</th>
<th>Loan</th>
<th>Municipal Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>33(\frac{1}{3})%</td>
<td>66%</td>
<td>A</td>
</tr>
<tr>
<td>50%</td>
<td>50%</td>
<td>B &amp; C</td>
</tr>
</tbody>
</table>

(ii) Balance cost of development plans to be met through financial assistance by way of loan to the municipalities.

(b) **Water supply and drainage schemes**: The quantum of grants for water supply and drainage schemes approved by the Government are to be as follows:

<table>
<thead>
<tr>
<th>Water supply</th>
<th>Drainage</th>
<th>Municipal Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>35%</td>
<td>A</td>
</tr>
<tr>
<td>30%</td>
<td>45%</td>
<td>B</td>
</tr>
<tr>
<td>35%</td>
<td>55%</td>
<td>C</td>
</tr>
</tbody>
</table>

The percentage charges are to be levied at 10\% of cost and the municipalities are required to deposit only their share of the cost.

69. Ibid.
The weakness of this type of open ended formula without any concrete exercise regarding the total draft on the plan finance of the concerned state for municipal development is obvious. Moreover, the revenue implications of any development project needs to be taken into account in quantifying assistance for gaps in municipal plan and non-plan budgets. A system of development assistance to the municipal authorities presupposes an effective integration between the municipal sector and the state plans, similar to the finalization of the state plans and the commitment of central assistance for the same. Such integration is not only not being attempted, the very idea seems to be alien to the existing system of state-level planning. Nevertheless, the idea has been expressed thus:

Given an integrated system of municipal and state planning, one can visualize a two-tier capital grants system: schemes having overall state priorities might be entitled to patterned grants, while block grants could be given to the municipal authorities to finance their own plans. Since the state governments are also providers of loan funds for municipal development a block grant-loan package may be offered to the municipal bodies on an agreed, say, 3:1, basis for financing plan projects in the municipal sector.

A similar formula for block central assistance exists for financing the state plans at the national level. A block plan assistance to the municipal sector

70. Ibid.
at the beginning of a plan period would obviate the need to policing the diversion of plan assistance in schematic and project terms; moreover, this would bring in the distinction, for plan assistance purposes, between the state-sponsored and the municipal sectors of development within the municipal plan budgets. Presently, the purely municipal development sector is not recognized for plan assistance purposes.

**Size of fiscal transfer**

One could compare the size of fiscal transfer to the state governments and the municipal authorities in terms of their budgetary resources, as attempted in Table - 23.

<table>
<thead>
<tr>
<th>Year</th>
<th>Transfer to the States</th>
<th>Transfer to the Municipal Authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shared Taxes</td>
<td>Grants</td>
</tr>
<tr>
<td>1970-71</td>
<td>22.4</td>
<td>16.8</td>
</tr>
<tr>
<td>1976-77</td>
<td>18.6</td>
<td>16.6</td>
</tr>
</tbody>
</table>


While the proportion of fiscal transfer has been reduced in recent years, compared to the domestic revenues of the states and the municipal authorities, the disparities in
the size of transfer between the two levels of government is glaring. This strengthens the plea for institutionalization of the mechanism of state-municipal fiscal relations, on the pattern existing at the federal-state level.

State Control of Municipal Finance

Borrowing

No municipal authority can borrow without an explicit sanction of its state government when the loan amount is below ₹ 500,000 or the repayment period is within 30 years; beyond these limits local borrowing needs central approval in terms of the provisions under the Local Authorities Loans Act, 1914 (a central legislation). The borrowing powers of the premier corporations of Bombay, Calcutta and Madras are, however, defined in their respective governing legislations which indicate the upper limits of public borrowing expressed either as a percentage of the total ARV within their jurisdictions or as a definite monetary limit. Effectively, however, with the exception of a few corporations, other municipal authorities may borrow only from the state governments. When the corporations borrow from the open market, they have to satisfy the

state and central governments and also the Central Bank (Reserve Bank of India) as to the needs and purposes of such borrowing. The securities issued by the corporations of Bombay, Calcutta and Madras are deemed to be "trustee securities" under the Indian Trust Act, 1932 (a central Act). In cases of emergency, the municipal authorities sometimes borrow from commercial banks or approach the state government for ways and means advance. The central government does not directly lend to the municipal authorities, although central funds are routed through the states for undertaking specific municipal projects.

In terms of the provisions of the Local Authorities Loans Act, 1914, the municipal authorities may incur loans for municipal works, relief operations, prevention of epidemics and repayment of previous loans. The loan must be spent within the municipal jurisdiction and may not ordinarily exceed ₹ 500,000 when raised in the open market or ₹ 2.5 million when provided by the state government. The period of repayment is usually 30 years, but in the case of a corporation it varies from 30 to 60 years.

Apart from these restrictions, the state governments fix interest rates and timing of municipal borrowing, including the terms and conditions. The final approval is accorded only after consultation with the Reserve Bank.
of India and, sometimes also, with the central finance ministry. The Reserve Bank of India settles the timing of all public borrowing in the country and usually these are not made more than once a year. The interest charged by the state governments is usually the bank rate plus 1% guarantee charge on government loans. In case of market borrowing with state guarantee, the Reserve Bank of India does not permit payment of an interest rate higher than on ordinary government borrowing. All other terms and conditions of municipal borrowing are either prescribed by law or settled by the concerned state government.

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Taxation

State control over municipal taxation takes place in two ways: (i) control over imposition of a new tax, and (ii) approval of tax rates.

(i) **Imposition of a new tax**: When the governing municipal legislation does not mention a particular state tax for exploitation by the municipal authorities, they may approach the state government for permission to do so. When a municipal authority wishes to impose a tax already permissible under law, there are three types of procedures to be followed: firstly, a tax may be imposed by a resolution of the municipal council; secondly, publication

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of a notice regarding the imposition of the tax and inviting public objections is necessary and, thirdly, a reference along with objections and replies is to be forwarded to the state government for final sanction.

(ii) Approval of tax rate: State control over municipal taxation is governed by detailed provisions of law or rules made thereunder. Apart from fixation of maximum and minimum rates under statute, some municipal legislations prescribe procedures for abolition or alteration of a tax. In a few corporations, the sanction is essential before an existing municipal tax is abolished; while in Tamil Nadu, Kerala and Andhra Pradesh the municipalities must inform the state government regarding such abolition. In Madhya Pradesh, a reduction in municipal tax rate has to be notified in the gazette. All indebted municipalities need state government permission to abolish or reduce a municipal tax.

Budget and expenditure

Usually corporations are competent to sanction their own budgets; in U.P., however, when a corporation is in debt, it requires state approval of its budget. In a number of states, municipal budgets need state sanction. For an indebted municipality, however, such sanction is mandatory. State budgetary approval is for a global sum for all services and taxation proposals contained in the municipal budget. Such approval means administrative sanction to formalise the budget proposals.

State control over municipal expenditure,
on the other hand, is quite extensive and rigid. In a few states, even the corporations have to approach the state governments for sanctioning of estimates. In certain states, the municipalities enjoy higher expenditure powers than are accorded to the corporations in some other states. Table-23 summarizes the position.

Audit and inspection

Municipal external audit being a state responsibility the state governments have their own local audit sections under finance departments, known as the Examiner of Local Fund Accounts. There are, however, two exceptions to this: in West Bengal and Bihar local audit is conducted by the Comptroller and Auditor-General of India (through the respective Accountants-General) on behalf of the states; the municipal corporations of Maharashtra, Gujarat and Karnataka functioning under the Bombay City Corporation and the Bombay Provincial Municipal Corporations Acts have their own auditors responsible to the council and independent of the municipal commissioners. Apart from these exceptions, all external annual audit is conducted through the state-appointed examiners of local accounts. Regarding the

73. India (Ministry of Works and Housing), Report of Committee on Budgetary Reform in Municipal Administration, New Delhi, June, 1974, p. 83.

### Table - 24
Extent of State Control Over Municipal Expenditure

<table>
<thead>
<tr>
<th>State</th>
<th>Corporations</th>
<th>Municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expenditure Limit beyond which State approval is needed</td>
<td></td>
</tr>
<tr>
<td>1. Tamil Nadu</td>
<td>Exceeding ₹ 500,000</td>
<td>Exceeding ₹ 8,000</td>
</tr>
<tr>
<td>2. West Bengal</td>
<td>₹25,000 to ₹60,000 by the Divisional Commissioner</td>
<td>₹60,000 by the State Government</td>
</tr>
<tr>
<td>3. U.P.</td>
<td>All road schemes financed out of road grant need sanction of District Magistrates</td>
<td></td>
</tr>
<tr>
<td>4. Karnataka</td>
<td>₹ 200,000</td>
<td>Exceeding ₹20,000</td>
</tr>
<tr>
<td>5. Kerala</td>
<td>₹ 100,000</td>
<td>₹50,000</td>
</tr>
<tr>
<td>6. Andhra Pradesh</td>
<td>₹ 50,000</td>
<td>₹15,000 having a Grade II engineer, ₹ 25,000 and more having a Grade I Engineer</td>
</tr>
<tr>
<td>7. Himachal Pradesh</td>
<td>₹ 20,000</td>
<td>N.A.</td>
</tr>
<tr>
<td>8. Bihar</td>
<td>For all loan or grant aided schemes</td>
<td>Exceeding ₹10,000</td>
</tr>
<tr>
<td>9. Maharashtra</td>
<td>Expenditure for primary education</td>
<td>₹ 10,000 for A &amp; B classes</td>
</tr>
<tr>
<td>10. Gujarat</td>
<td>Nil</td>
<td>₹ 5,000 for class ₹1,00,000</td>
</tr>
<tr>
<td>11. Haryana</td>
<td>₹ 25,000 need technical sanction and ₹ 50,000 and more need administrative sanction</td>
<td></td>
</tr>
<tr>
<td>12. Orissa</td>
<td>₹ 20,000</td>
<td></td>
</tr>
<tr>
<td>13. Punjab</td>
<td>Exceeding ₹ 50,000 for technical sanction and ₹ 1,00,000 and over need administrative sanction.</td>
<td>Exceeding ₹ 5,000</td>
</tr>
<tr>
<td>14. Rajasthan</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>
Duality in the audit set-up in the municipal authorities (external or internal) an expert committee commented in the following vein:

... audit by a remote authority will no doubt be more independent, but at the same time it will be less appreciative of the difficulties faced by local bodies and the tenor of audit objections will, therefore, tend to be more negative than in the present system where the Auditor is part of the local set-up. 75

All the municipal legislations provide for special audit and inspection powers of the state governments over municipal expenditure. These powers are backed by powers of supervision and direction, default powers, emergency powers and so on. By and large the states' supervisory and control powers are meaningful only when these are backed by a proper support system and improvements in the quality of municipal personnel.

The techniques of supervision and control, as exercised in the states have been handed down from the British days. Some of them are indirect and less rigorous such as giving directions, calling for information and reports, review of local action, conditional grants-in-aid, etc; others are more drastic and take the form of annulment of local decisions, prior approval of local actions, action in default, suspension and removal of elected members and dissolution and supersession of the Council. The latter types of control are negative and their frequent exercise has adverse effect, undermining the confidence of the people in the system of local government. By and large, the techniques of supervision and control in India - especially in the urban areas - have remained rather static, unimaginative and negative. 76

75. India, Report of Committee on Bidaltery Reform in Municipal Administration, op cit., p. 104.

Machinery for Municipal Supervision

Secretariat Organization

Following the British system, Indian local government is under the charge of a major functional department at the state level, usually this is public health. However, there has been some changes in this conception. The first major change since Independence is the bifurcation between secretariat responsibilities for rural and urban local government; the exceptions being Tamil Nadu and Gujarat where one secretariat department is concerned with both. The second major change has been ushered by Maharashtra where all the major urban development functions including municipal administration, have been sought to be covered by one omnibus department, much like the British department of the environment. Since this is also the central model, the majority of the states are attempting to do this. The third pattern was originally followed in West Bengal with a single department of local self-government and later of municipal affairs. In a few states, like Karnataka, this is combined with other disparate aspects of state administration, like labour, where the emphasis is to combine "minor" subjects together to make a single viable department without any attempt at inter-dependent relationships.
With the transformation of the state local government departments into urban development departments, the house-keeping role of the state governments vis-a-vis municipal authorities has declined. Quite often the urban development wing of the state department adopts an anti-municipal government stance, due to its direct resumption of urban development responsibilities. In case this continues, it might be desirable to locate the States' house-keeping responsibilities for municipal government to its home department, analogous to the central supervision of States in India and at the local level follows the US practice. Such a shift might also be necessary to ward off the motley relationships of the state functional departments with local government which run counter to the general philosophy of state-municipal relations?

One choice seems to be to follow the lead of Maharashtra and attempt unification of the important functional responsibilities for urban development, including municipal administration. Here the problem is that it is impossible to do this since the concept of urban development touches almost all the aspects of state administration. Important urban functions like transport, roads, education, medical services etc. would be left out. It is also not advisable to separate the preventive and the curative aspects of health administration. New functions like pollution control would probably be administered separately under a state department of environment, as in the centre. Therefore, such a move would make a unwieldy department and unification of urban responsibilities would always be

77. Abhijit Datta, "Municipal Administration in the Coming Decades", op. cit.
elusive. The other choice could be to revert back to the original West Bengal model of a single department in charge of both rural and urban local government, without any functional mix-up, as in Gujarat and Tamil Nadu. This would have the advantage of concentrating on the house-keeping role for local government and would be an extension of the home responsibilities of the government (department of the interior). In India, with the existence of field administration having supervisory responsibilities over local government in the district, such a state secretariat department may be more effective and functionally neutral.

**Directorates of municipal administration**

The earlier pattern of supervisory organ at the state level was through an inspectorate of the state department attached to the field administration (Tamil Nadu, West Bengal and Bihar). With the bifurcation of rural and urban local government supervision, the states have adopted a more direct responsibility in this regard through the creation of directorates, under the supervisory department. It may be emphasized that the ambit of supervision of the state directorates includes only the municipalities and not the corporations. By now 12 of the states in India have directorates of municipal administration, although in 6 of these the directorates are really part of the departmental set-up, the state director being concurrently a secretariat officer.
Again, the manner in which the directorates exercise supervision and control differs a great deal, in some states there are regional directors appointed to deal with field supervision, in others the district administration machinery is being used for the purpose, in still others the state-level director does the field supervision as well. The situation is summarized in Table-25. Obviously, the third pattern is the least effective. The case for establishing state-level directorates, with effective regional inspecting staff, was first mooted by the Rural-Urban Relationship Committee to "guide and advise local authorities in the solution of their current and future problems and advocate their cause with the relevant departments", having specialized sections on personnel, central valuation, planning and finance, and general supervision, with an inspectorate at the field level, having one inspector for a division or a group of districts. However, the actual working of the directorates have belied the original hope of these organs working as the spokesmen of municipal authorities to the relevant departments for several reasons: (a) the status of the directorate being a subordinate organ of a state

78. Report of the Rural-Urban Relationship Committee, op. cit., p. 120.
<table>
<thead>
<tr>
<th>States</th>
<th>Municipal Directorate</th>
<th>Pattern of Control</th>
<th>Field Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>Yes</td>
<td>Direct</td>
<td>Yes</td>
</tr>
<tr>
<td>Assam</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Gujarat</td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Haryana</td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Kerala</td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Maharashtra</td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Punjab</td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Rajasthan</td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Utter Pradesh</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>West Bengal</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Bihar</td>
<td>No</td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Karnataka</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orissa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meghalaya</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meghaland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manipur</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tripura</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sikkim</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*With concurrent secretariat responsibilities.*
department, in practice it is difficult to negotiate with other concerned departments directly by the directorates (active directorates in some states, like, Tamil Nadu and Kerala, have prodded the mother department to do the negotiating role), (b) since the directorate is an agency of the government, important constitutional, regulatory and punitive powers could not be delegated to it, resulting in their ineffectiveness, and (c) the directorates have not so far been equipped with specialized sections, except for municipal personnel where unification of municipal personnel system has taken place. Without such centralization of personnel function, entailing recruitment-promotion-discipline-punishment of municipal staff, the state directorates have not justified separate organizations, away from the secretariat departments.

Functional supervision

Apart from the general supervision and control exercised by the state house-keeping departments (local government, finance, personnel etc.), there are important functional supervision over municipal authorities meted out by the various state municipal departments and directorates on education, health, roads, water supply and sanitation, social welfare and so on. It is possible

that the approach of the functional departments might be at variance with that of the states' house-keeping departments. Generally, the functional departments are prone to use the municipal authorities as their agents, sometimes this is attempted through specific grants, but often through detailed scheme scrutiny and technical sanction, earmarking of municipal funds for functional purposes, and even creation of functional boards within municipal authorities. In a four-state study of state-municipal functional relations it was found that the general tenor of state-municipal relations was substantially different from what the functional departments were attempting to do through the municipal authorities. It is possible that even within a state there would be variations in the relationship pattern among the functional departments and also between the supervisory department on the one hand and the functional departments on the other. The aberrations of the functional departments' attitudes and practices could be corrected somewhat if:

(a) the local government department is powerful within the state government (which it is not), or
(b) the municipal authorities could assert their autonomy vis-a-vis the

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81. Ibid.
state functional interference (which rarely takes place due to their institutional weakness). The result is a web of control around and through the municipal system, much of it being exercised without regard to an overall design or consistency in state-municipal relations.
5. MUNICIPAL FINANCIAL MANAGEMENT

Prevalent Practices

Budgetary Procedure

Following the practice of the central and state governments, the municipal budgetary system has been geared to subserve the twin considerations of financial accountability and control of expenditure.

The main objective is to ensure that funds raised and moneys are spent by the executive departments in accordance with rules and regulations and within the limits of sanction and authorisations by the legislature/council. Budget preparation is usually the occasion for determining the levels of taxation and rates and the ceilings on expenditure. With this object in view the structure is so framed and the procedures are so evolved that the system ensures that the spending is within the ceiling laid down and is in accordance with the manner intended.82

(i) Budgetary structure: Municipal budget format and heads of accounts vary from state to state; similarly there are variations between the corporations and the municipalities within a single state. The budget format is laid down in the governing legislation or in the rules made thereunder. Sometimes, this is left to

82. India, Report of Committee on Budgetary Reform in Municipal Administration, op. cit., pp. 33-9.
be determined by the municipal authorities (usually the corporations) themselves. Within the municipal budgets, there is no strict separation between revenue and capital items; usually there is a 'head' called, extra-ordinary items which cover most of the capital transactions. Conceptually, the municipal budget is a single document combining current and extra-ordinary items. There are, however, a number of special funds (e.g. roads) or, in some cases, separate budgets for specific municipal functions (e.g., education) or enterprise activities (e.g., water supply and sanitation, transport, electricity etc.). There is no doubt that these separate fund accounts distort rational budgetary allocations, while separate budgeting for particular activities takes the idea of fund accounting to its logical extreme and thereby restricts the operation of the general municipal fund.

(ii) Budget cycle: Municipal authorities follow the government financial year starting in April and ending in March of the following calendar year. In the corporations the budget cycle starts with the heads of departments submitting their estimates to the commissioner (through the municipal accounts officer), the commissioner in turn integrates these estimates and submits his
proposals to the standing committee of the council, the standing committee modifies the commissioner's budget and submits it to the corporation, the corporation finally approves it, with or without modifications. The corporation's budget is then sent to the state government for information and, in some cases, for ultimate sanction. The time cycle of the corporation budgets is indicated in Table-26.

Table - 26

<table>
<thead>
<tr>
<th>Month</th>
<th>Heads of Depts. to the Commissioner</th>
<th>Commissioner to the Standing Committee</th>
<th>Standing Committee to the Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>September</td>
<td>Baroda, Poona</td>
<td>Hyderabad, Indore, Sholapur</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>Hyderabad, Indore, Sholapur</td>
<td>Ahmedabad, Bangalore, Hyderabad, Bombay</td>
<td>Indore, Bombay</td>
</tr>
<tr>
<td>November</td>
<td>Ahmedabad, Bangalore, Hyderabad, Bombay</td>
<td>Simla, Hubli-Dharwar, Allahabad</td>
<td>Ahmedabad, Baroda, Simla, Hubli-Dharwar, Poona, Sholapur, Kanpur.</td>
</tr>
<tr>
<td>December</td>
<td>Simla, Hubli-Dharwar, Allahabad</td>
<td>Ahmedabad, Baroda, Simla, Hubli-Dharwar, Poona, Sholapur, Kanpur.</td>
<td>Hyderabad, Baroda, Simla, Hubli-Dharwar, Poona, Sholapur, Kanpur.</td>
</tr>
<tr>
<td>January</td>
<td>Chandernagore</td>
<td>Patna, Bangalore, Ahmedabad, Allahabad, Simla, Indore, Bombay, Poona, Kanpur.</td>
<td>Chandernagore</td>
</tr>
<tr>
<td>February</td>
<td>Patna, Bangalore, Ahmedabad, Allahabad, Simla, Indore, Bombay, Poona, Kanpur.</td>
<td>Patna, Bangalore, Hubli-Dharwar, Allahabad, Chandernagore.</td>
<td>Chandernagore</td>
</tr>
<tr>
<td>March</td>
<td></td>
<td></td>
<td>Sholapur.</td>
</tr>
</tbody>
</table>
It will thus be seen that October and November are the popular months for the heads of the departments to submit their proposals to the commissioner, the commissioner usually sends his budget to the standing committee around December and the standing committee submits its proposals to the corporation in January or February. After the budget is finally passed by the corporation, it is sent to the state government in February or March, for information and, where necessary, for sanction.

The budgetary cycle in the municipalities follows the general pattern in the corporations - the departmental heads frame their proposals and submit these to the executive officer or chairman, the executive officer/chairman then compiles these in a proper form and sends to the council for approval either directly or through the standing committee if there is one, after the council approves the budget it is sent to the state government through the state's field administration (and the director of municipal administration) for final sanction.

As for the time limit prescribed for the various stages, generally the budget proposals are initiated in the months of October and November and after the council's approval, the budget is sent to the state government by the end of February or mid-March for sanction. In a number of states there are no firm dates for
There is perhaps a case for reducing the total period of budget preparation and finalization within a period of 3-4 months, ending in February-March each year.

(iii) Budgetary content: During the stage of initial budget estimates the figures are worked out on the basis of actuals of past few, say 3, years along with the estimate for the current year (revised budget: 9 months' actual and 3 months' estimates). The departmental tendency is to be conservative in anticipating income. The second stage consists of scrutiny of the estimates by the chief accountant or the chief finance officer about the correctness of the figures and also the general economic trend, including prospects of income from specific sources. The municipal executive budget, as prepared in this fashion, is then submitted to the standing committee in the case of the corporation or the council in the case of the municipalities. It is at this stage that substantial changes occur in the municipal budgets in the form of an increase in income estimates, followed by a corresponding increase in municipal outlay.

This unrealistic enhancement is generally motivated by two factors, namely, (a) to sanction more expenditure against the increased income estimates; and (b) to avoid increasing rates of taxes or levying new taxes, which they apprehend,
might annoy the electorate. Against these increases, schemes/projects in which councillors are interested are generally sanctioned. This results in a seemingly balanced budget at the beginning of the year, ending into a deficit at the close of the financial year.83

(iv) Budget classification: Municipal budgets are classified in terms of the legislative requirements into Major and Minor Heads, Primary Units etc. Expenditure on establishments, contingencies and debt charges are shown separately in the line-item type of service-wise budgeting. Establishment expenditure is based on the strength of the establishment as per the approved Establishment Schedule and other particulars regarding emoluments. Contingency expenditure is based on the actuals of the past 3 years, the current budget and factors, such as, increases in quantity and price. Sometimes, there is an attempt to show large capital works under a separate capital works budget; in such a case, the minor capital works would be included in revenue new works. In some corporations (e.g. Bombay, Delhi) there is a practice of making special provision for works in the various electoral constituencies; this is commonly known as 'constituency fund' and is spent at the instance and discretion of the concerned elected councillor.

83. Ibid.
The councillors defend this practice on the ground of meeting unforeseen expenditure of an urgent nature, although it might sometimes lead to undue inequality in the levels of improvements in different areas.

Suspense accounts in municipal budgets contain immediate budget heads or block entries relating to common services to the executive departments, like, central stores, printing press, laundry, vehicle depots, etc. These entries are cleared off when the final allocation is made. However, in the works departments there is a practice of delayed readjustments of suspense allocations leading to: (a) excess over approved budgetary provision, (b) instability in the ways and means situation, and (c) unrealistic estimates for the following year.

Under law municipal budgets are to show a minimum positive cash balance at the end of the year. Due to unrealistic budgeting, quite often the budget runs into deficit and this is met by drawing on opening balances, or raising temporary ways and means advance from the state government. Sometimes this practice of indirect deficit financing is resorted to deliberately with the hope of being ultimately bailed out by the state government.

84. Ibid.
85. Ibid.
(v) **Performance budgeting**: At the centre and state-levels efforts are being made for installation of a system of performance budget; as a first step towards this objective the accounting classification has been modified in terms of a functional classification. At the municipal level a crude functional categorization does exist, with varying degrees of detail; but they are not classified with the objectives of performance budgeting. In fact the features of a line-item type of budgeting predominate within broad functional categorization. What is really needed is to extend the accounting heads of the centre and the states to be extended to the municipal level as well, with detailing of subheads, so that the same classification structure extends to all the levels of government. Apart from such classification, efforts are needed for output measurement and unit cost estimation of various municipal services, as well as identification of costs and responsibility centres. This is as much necessity at the municipal, as at other levels of government.

(vi) **Decentralization of budget**: There are a number of municipal functions, especially in the corporations, which are decentralized and entrusted to the various wards. For instance, in Bombay out of 14 major functions of the corporation, as many as 8 are decentralized
and the ward officers are fully responsible for them. The ward budgets are, however, prepared by the departmental ward functionaries separately and consolidated department-wise. The consolidation of all the departmental proposals for works executed at the ward level are not consolidated at that level; this leads to an absence of monitoring of progress of work and development in the ward and some degree of decentralization of municipal budgeting, on the expenditure side, is thus called for.

Expenditure control

Due to the special features of the municipal executive system, the system of internal control of municipal expenditure is markedly different from the system derived from a parliamentary-cum-cabinet system of governments at the centre and the states:

At the upper tiers of government, the system of financial administration is designed to subserve the needs of financial control - in the legislative, executive and audit fields. No such explicit requirement is discernible at the municipal level. The reasons seem to be two: (a) the integration of legislative and executive powers in the municipal council makes it difficult for its executive committee to function as an inquisitorial body as well, and (b) the separation of executive powers and functions in municipal government cannot accommodate the existence of an independent finance officer responsible only to the municipal council or its executive committee. These two distinctive features of municipal government - the first adopted from the English practice of local government, while

86. Ibid.
the second being a product of indigenous colonial past - militate against the adoption of the familiar tools of legislative or executive control of public expenditure in the municipal sphere. This leaves the system of external audit by the state government as the only meaningful instrument of controlling municipal expenditure. 87

Along with external audit, one could also add the extensive state control over sanctioning of municipal expenditure referred to earlier (Table - 24).

**Accounting system**

Municipal accounting and budget formats are neither simple, nor easily comprehensible, sometimes providing inadequate information and at other times a surfeit of information. Both these situations are not geared to a proper system of management information. Moreover, both these are inadequate for proper monitoring of various municipal activities. There is, therefore, a need for the municipal budget and accounts to be: (a) simple and comprehensible, and (b) effective tools of management.

The other aspects of municipal accounting concern the accounting of municipal enterprises and relating the municipal accounting system to the needs of management.

Following the practice in government accounting, the system evolved for maintaining municipal accounts in India pays scant attention to the peculiar needs of those municipal activities which are either fee-financed, or financed through the levy of specific taxes. Many of these services are in the nature of 'private goods', where their consumption is tied with the payment of service charges. It is necessary, in this situation, to have

detailed accounting o: not only their operating cost, but also marginal cost. Unfortunately, the various municipal accounts code, or manuals do not go into the details of this type of calculation at all...

It is much easier to relate municipal accounting to the needs of municipal management for the simple reason that accounting is an internal responsibility of the municipal organisation. In the case of the state and central governments, the executive is somewhat isolated from the accounting processes as the entire public accounting is done by the Comptroller and Auditor General. However, the tradition of regarding accounting as a mere recording device exists at all the levels of government. Municipal accounting, in this respect, has a good deal in common with commercial concerns and there is no reason why advantage should not be taken of this situation. 38

Financial powers

The distribution of financial powers within the municipal authorities differs markedly between the system operating within the corporations on the one hand, and the municipalities on the other. Within the corporations the executive authority is distributed among: (a) the corporation, (b) the standing committee, and (c) the commissioner. The financial powers are divided among these authorities, although the extent of such powers varies. In the municipalities there are four authorities vested with financial powers: (a) the council, (b) the chairman, (c) the executive/standing committee, and (d) the executive officer. However, very few states have provided for a mandatory executive/standing committee; also where the municipal chairman is also the chief municipal executive,

38. Ibid.
the executive officer does not formally enjoy statutory financial powers but exercises these to the extent delegated to him.

The formal system of laying down specific limits of financial powers to a hierarchy of executive levels, which includes both elected members and appointed officials, creates mutual distrust and antagonism. Also, municipal legislations do not provide adequate provisions for delegation of financial powers, especially across the elected-appointed lines, resulting in compartmentalization in decision-making. Where this is possible, delegation takes place within the appointed hierarchy; even here not all the financial powers could be so delegated to appropriate departmental responsibility centres. These difficulties have resulted due to the somewhat confused state of the system of municipal executive in the country.

**Fiscal Planning and Programming**

Long-term fiscal planning and programming does not exist in any municipal authority in India, the reasons being: (a) there is no on-going system of corporate planning of which fiscal planning and programming could be regarded as an essential adjunct, and (b) the state plan assistance flowing into the municipal sector is not related to the finalization of either an aggregative sector plan, or separate corporate plans for each municipal authority.
Since the available current surplus with the municipal authorities is marginal, their entire planning initiative rests on the prospects of receiving plan assistance from the state-level. Therefore, any meaningful system of municipal fiscal planning and programming must also be located at the state-level. Perhaps only the major municipal corporations may find it worthwhile to attempt long-term fiscal planning and programming, provided their development plans are linked with the state planning process, especially to indicate the volume of state fiscal transfer needed to effectuate the plans.

There seems to be some degree of confusion regarding the appropriateness of introducing capital budgeting in the municipal context. An expert committee sought to compile information on present practices in municipal capital budgeting and ended up with a long list of capital projects being executed by the municipal authorities. From this base, the committee made the recommendation for introducing separate capital budgets of the American municipal variety, without considering the differences in the institutional milieu and the existence of a system of national planning and financing, covering all development efforts under public auspices. Also,

89. India, Report of Committee on Budgetary Reform in Municipal Administration, op. cit., Ch. 7.
municipal capital budgeting may not be quite relevant as the concept of net-worth is not important in government as in private undertaking.

Successful Financial Management Practices

We report here two cases of successful municipal financial management practices - one from the premier municipal corporation of Bombay, and the other from the municipalities in the state of Tamil Nadu.

Case of Bombay Corporation

Among the successful financial management practices adopted by a municipal authority mention should be made of Bombay corporation, well-known for its innovative approach to management. Some of the recent practices introduced in Bombay in the area of financial management are listed below:

(i) Watch over revenue income and expenditure:
The municipal commissioner keeps a watch over the corporation's revenue earnings and outgoings through a system of monthly and quarterly returns.

These returns are designed to record all budget grants and variations therein on account of plus and minus, transfers as well as additional grants and the final amended grants. Any adverse variation from the trend has to be explained. A senior officer of the Internal Audit is in charge of this arrangement. The system is such that any excess of expenditure over the grant could be immediately checked. This regular monitoring is being utilised for financial control for taking corrective steps in case of a
fall in revenues or excess in expenditure and diverting savings timely for proper utilization.

(ii) **Management of investment portfolios:** Bombay corporation has a system of investment of their revenue surpluses, bank deposits and government securities with varying periods of maturity, weekly, monthly, etc. so that the corporation optimises its returns from revenue surpluses and, at the same time, ensures optimum cash flow.

(iii) **Improvement in water supply finance:** Bombay corporation has rationalised its water charges to make water supply self-paying to the extent possible. Also it is attempting to levy betterment charges in areas where new supply lines have been laid to cover part of the capital cost on water supply and sewerage.

(iv) **Computer-based information system:** Bombay corporation is attempting to create a computer-based information system for physical planning purposes as an offshoot of the data on property tax. Water tax and charges, and the pay-roll of the water supply staff are in the machine readable form. Attempts are being made to develop computerised 'integrated data bases' in four


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examiner of local fund accounts act in concert to achieve audit clearance without much loss of time.

(ii) Separate accounting for remunerative schemes: Municipalities in Tamil Nadu maintain separate accounts for all remunerative projects and schemes in order that these are specially monitored from the point of view of their viability and contribution to the general municipal revenues.

(iii) Enforcement of audit surcharge: All municipal legislations contain elaborate audit surcharge provisions, following the medieval English practice; but, these have not been operational because these are mainly directed against the aberrations of the elected councillors. Since in Tamil Nadu the municipal executive powers have been squarely laid on the municipal commissioner (chief executive officer), the surcharge provisions are also operative on him. Even the pension claims of the municipal officials are not admitted until all outstanding audit objections, including surcharges, are cleared. This method has also given rise to certain circumventing practices, like, pegging down the current property tax demand through non-updating of property valuation, or allowing tax disputes to be sub-judice.
6. MUNICIPAL PROVISION OF PUBLIC SERVICES

New Area Development

Scope of municipal action

Municipal authorities in India are usually constituted on the basis of compact built-up areas; therefore, the scope of municipal action in new area development is limited as the newly developing areas fall beyond the municipal jurisdiction. Municipal legislations in Karnataka and Andhra Pradesh empower the municipal authorities to exercise development control over the fringe areas up to a two-mile limit. In J.P., the municipal corporations also enjoy this power. However, the trend in India is either to constitute special planning and development authorities for fringe development through the improvement trusts or regulatory powers vested in a prescribed authority (usually, the district officer). When such areas is already developed, there is usually a pressure on the state government to extend municipal jurisdiction and thereby availing the municipal facilities in the developed fringes.
The existing municipal bodies are not properly equipped for the tasks of planning and development because their jurisdiction is limited and they cannot plan for areas beyond the municipal limits. The extra-territorial jurisdiction allowed to them in certain Municipal Acts does not work satisfactorily and often involves a conflict of jurisdiction between different local bodies. The Municipal Boards are also handicapped on account of their limited resources and lack of technical personnel so necessary for overall planning and execution of development plans.

Manner of municipal response

Municipalities are not keen to have their boundaries extended to include a slum fringe; however, if the fringe consists of industries the usual attitude of the municipalities would be to have the fringe incorporated within their areas, while the industries (both private and public) would like to remain outside, partly to avoid paying more taxes and partly for the fear that the privatization of civic facilities already provided by such industries for their employees might be watered down in the event of municipalization. Such considerations would also be dominant in the case of middle or upper-income residential suburban development outside the municipal areas. Here the tendency would be to form a separate municipal authority, if possible, so that the residents may enjoy higher levels of civic services.

Usually the jurisdiction of a new municipal corporation contains large tracts of rural areas and the state government might force the corporation to develop such contiguous rural areas, along with the built-up core. In some cases, there is a special development grant for this purpose; invariably, the tax rates are lower in such undeveloped areas compared to the level obtaining within the city. Where improvement trusts or development authorities are responsible for fringe area development, their subsequent transfer to the municipal authorities becomes a matter of dispute as the municipal authorities do not want to take over the ongoing maintenance responsibilities for newly developed areas where the immediate rateable income may not be very high. Similarly, there is a reluctance on the part of the existing municipal corporations to have their boundaries extended inspite of substantial expansion taking place all around the core city. 94

Intervention in private development

The means available to the municipal authorities to intervene in private development are limited to their powers of building regulation and, where these are endowed with planning powers, through development control. These are obviously negative regulatory powers and are not

adequate to promote private development of industry
and commerce. The power to grant tax rebates or
concessions rests in the state governments, who frequently
use these to attract industries within the state and
grant tax holiday and rebates of utility charges which
include municipal taxation and utilities as well.

Municipalities may, however, attract private
development in a limited way through the development of
markets, shopping centres, bus stands and the like.
One has to admit that the major powers to intervene in
private industrial development lie in the hands of the
central and state governments and not with the municipal
authorities.

Collaboration in municipal services

Instances of continuing collaboration between
the municipal authorities and the private sector in
providing joint services would be rare. Sometimes a
municipal facility may be leased out to a private party
through auction, e.g., ferry service, shopping space,
cinema halls and recreation centres etc. Also, banks may
be entrusted with the function of tax collection for the
municipal authorities on a commission basis.

Instances of inter-municipal cooperation in
managing joint services would include the provision of
area-wide utility services by a municipal corporation to
the adjoining municipalities, maintaining a common
octroi check-post for a number of municipalities, running
joint ambulance and ferry services, etc.
Development costs of undeveloped areas

When the undeveloped areas are within a municipality, the assumption is that the development costs are to be borne by the municipal authority itself. However, there are two exceptions to this: (i) the costs of development of areas under the improvement trusts or development authorities are met through auctioning of developed salable plots to the high-income groups and commercial interests and subsidizing other plots for the lower-income groups and institutional needs, and (ii) during the initial years, the municipal authority may receive a development grant from the state government for this purpose.

Development of the Old City

The municipal authorities are generally responsible for developing the old city areas. However, the older improvement trusts in the major cities were initially created to decongest the old city areas through widening of roads and undertaking urban renewal schemes to a limited extent. Such improvements have been rather limited particularly due to land acquisition difficulties and the high cost of compensation payable to the existing property owners. The municipal authorities have not

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95. For an evaluation of the work of the improvement trusts in Indian cities, see, Abhijit Jatia and Sripaditya Chakravarty, Organizing Metropolitan Development, op.cit.
...orted to undertake large-scale urban renewal in the old city areas primarily because of the high costs involved.

Unlike in the newer areas, within the core city the municipal authorities welcome the functioning of the improvement trusts and taking over the completed projects for subsequent maintenance, mainly due to the high cost of land acquisition for urban renewal and the increase in rateable value of such areas. Municipal corporations having such improvement functions (e.g. in Bombay) have done limited amounts of urban renewal activities in the old city; however, as in other cities, where these are undertaken by the improvement trusts and development authorities, the extent of such development has been rather limited and the progress has been slow.

The costs of urban renewal in the core city areas are met through sale of improved land - mainly to business interests - and imposition of betterment levy on the adjoining property owners benefitting from increases in land values. The income from betterment levy has been too meagre to constitute a major source of development finance. By and large, conversion of use from residential to business purposes has been the major resultant of urban renewal in the old city areas.
The desirability of preparing municipal development plans has been discussed in India from time to time, following the exhortation of the Planning Commission in this regard in the early sixties.

It was proposed during the Third Plan period that as many towns and cities as possible and, at any rate, those with a population of one lakh (100,000) or more, should come into the scheme of planning in an organic way, each city mobilising its own resources and helping to create the conditions for better life for its citizens. It was in pursuance of this policy that the Planning Commission addressed a letter to the state governments in August, 1962, to get the municipalities and corporations to draw up their Five Year Plan embracing all such programmes of water supply and sanitation, housing and slum clearance, educational, medical and health facilities as well as development of communications and other urban utilities. These city development plans were to be coordinated with the state plans forming their integral part. The response to this request of the Planning Commission was, however, far from encouraging and it was found that even at the stage of formation of the Fourth Five Year Plan most of the states had not been able to get the urban local bodies to draw up their programmes and resource plans and tie them up with the state plans.96

Since the situation in this regard remains much the same as of now, it might be useful to identify some of the unstated policy gaps in this regard.

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96. Indian Institute of Public Administration, Five Year Municipal Development Plans, IIPA, New Delhi, 1963, p. 20
(i) self-financing concept: From the beginning it has been emphasized that the municipal authorities must find their own resources to fund their development plans; this is done on the assumption that these plans could be self-financing by using land as a resource for development. What is not stated is that either in the national or in the state plans the allocation for urban development being marginal (around 2% of the national plan), non-plan resources must be tapped to finance city development plans. The municipal authorities are advised to fall back on funding sources outside the plan parameters, such as, profits through land speculation under municipal auspices. This is dependent on the supply of and demand for urban land. Simultaneously, this also conditions the nature and size of municipal development plans.

(ii) Capital improvements programme: The methodology of preparation of the city development plans as prepared by the TCPO was to serve as a model for preparation of the municipal development plans as well. This methodology was prepared for area development purposes and not for corporate planning within the municipal authorities. Moreover, the city development plans represent

the financial outlays for selected capital improvement schemes and are not easily reconcilable with the prevalent methods of plan outlays in the central and state budgets. Unless these capital development programmes are included in the plan budgets of the state, their realisation would depend on the surplus available out of urban land speculation under public aegis.

(iii) Integration with the state plans: From the beginning, the Planning Commission has been insisting that the municipal development plans must be integrated with the state plans; unfortunately, the modalities of such integration have not been worked out in operational terms, either by the Planning Commission or by the TCFO. Since this would entail higher resource commitments on the part of the states for urban development, such integration of state and municipal plans has not taken place. Instead, the municipal development plans are conceived in very different terms than the national and state planning system. What is implied is that there ought to be functional integration of the state and municipal planning, but the fiscal needs for the latter component are to be met primarily from non-plan sources.

Municipal development projects

In the absence of a recognized system of preparation of municipal development plans, the municipal

authorities undertake project planning and scheme formulation for funding by the various state functional departments out of their plan provisions. These projects and schemes follow detailed technical guidelines provided by the state departments; sometimes the state technical departments prepare specific municipal project plans on agency basis and levy centage charges on the municipal authorities to cover the costs. The financing methods vary from project to project, depending on the state plan priorities. By and large, only major capital works are thus financed and several states have block assistance for this purpose in terms of the loan and grant components. Since these are isolated schemes, no assurance from the state to finance a total municipal development plan is made; also, the size of this type of assistance varies in terms of project size, functional prioritization of the state, the overall state’s resource position, and the bargaining power of the concerned municipal authority.

In Kerala, the state government took the initiative in promoting the Kerala Urban Development Finance Corporation (KUDFC), with the municipal and urban development authorities as share-holders. The municipal authorities are required to invest their revenue surplus in the KUDFC. The KUDFC is increasingly becoming one of the major
sources of capital finance for its constituent members in respect of remunerative projects.

However, this also builds-in a bias to prefer projects with obvious financial returns, rather than for social gain and very soon the saturation point is reached where such profit-oriented schemes could be financed on a term-loan basis. Also, the terms and conditions on which the funds of the finance corporation would be available to the municipal authorities are less favourable than those being obtained now from the state government. Recently, the KUDFC is attempting to finance a selected range of non-remunerative schemes along with the remunerated ones, with a somewhat lower rate of interest. The interest differential in these two types of schemes is somewhat narrow and the total amount of investments financed by the KUDFC is also small, around 75 million. Moreover, such institutions do not bring in any substantial additionality of finance from the point of view of the total available state resources. Therefore, the prospect of replication of such financial institutions in other states is doubtful. It might be better to rely on the existing method of loan-grant package of state plan assistance for financing municipal development schemes and projects. See, Report of the Maharashtra Municipal Finance Commission, op. cit., p. 47.
7. SUGGESTIONS FOR POLICY-ACTION AND BANK RESEARCH

Policy Action for Resource Mobilization and Civic Services

Potential areas of policy action to improve municipal resource mobilization and provision of adequate civic services and facilities normally should lie within the municipal system; however, this is not so where local government functions under state tutelage, as in India. Under Indian conditions any significant improvement within the municipal system has to be ushered externally by the state government and also, perhaps, by the central government. We have already indicated specific action areas to improve the boundaries of municipal decision-making in the fields of municipal functions, taxation, resource transfer and integration of municipal planning with the national planning system.

The net result of all these improvements should enable the municipal authorities to ultimately handle at least 10% of the total governmental revenue over the next decade; immediately a per capita annual revenue of around $90 (3,10)* is needed for an average-sized municipality to provide a minimum package of civic

* Exchange rate is US $ = 3 9 (approx.)
services and facilities. Barring a few major corporations and municipalities, even this target seems to be unattainable in the foreseeable future with the existing municipal revenue authority. What is needed, therefore, is a commitment on the part of the higher levels of governments to effectively decentralize fiscal powers and public functional capabilities at the local levels. Undoubtedly, the central government's role in strengthening municipal authorities is crucial in a centralized federation like India. Citizen-participation in local resource mobilization is another promising area for policy action, especially when the loyalties of the urban voter-client are sought to be activated and the municipal authorities are to be seen to be effective in the delivery of localized public services.

What we are saying has always been clear to the students of management: that organizations derive resources from the environment; internal streamlining of organizations at best might improve organizational capability to optimize resource raising, in addition to plug loopholes in resource generation and reduce wastes in expenditure. The potential contribution of municipal management in resource mobilization and thereby increasing the quantum of civic services, although
important, may not be crucial to make substantial difference. Our suggestion for a larger share of
IT to be routed through the local (or municipal) governments may thus be reiterated here; this is based
on the premise that unless local government is an important partner in the governmental system, reforms
in local (or municipal) finance would not be worth attempting. However, when we concentrate on the
potentials of municipal management improvement, we see two constraints: (i) in the form of almost
 endemic conflict between the elected and the appointed elements in the municipal corporations, and (ii) the
absence of any recognizable system of staffing that is coherent and geared to a common organizational objective.
The first defect arises from the defective constitution of the corporations; and without a radical restructuring
of the executive system it is not possible to solve the problem at its roots. The second problem arises due to
the imposition of a variety of personnel system within a single municipal authority, each segment being responsible
to different control points within and outside the organization. While the virtues of a separate personnel
system are conceded for the lower functionaries; at the higher levels there are deputationists, integrated and
unified system personnel and separate system staff of various gradations appointed by various levels of executive
authority. This makes the municipal organization look like an onion in terms of personnel system, each segment rotating on its own path, without integrating for a common purpose or motivation. Necessarily, this breeds internal jealousies and conflicts which, in the municipal corporations at any rate, sharpens the existing conflict at its executive level. Improvements in the municipal management, including its fiscal and financial components, is a function of municipal executive and personnel systems. It is here that major policy actions need to be directed for improving the internal organizational strength of the municipal authorities.

From the point of view of the organizational ethos, the municipal authorities have largely copied the bureaucratic practices of the state governments that are not always suited to their peculiar needs and circumstances. However, since the municipal authorities enjoy tax powers and discharge regulatory (police) functions, it is also not proper to equate them with public corporations, as management specialists would be tempted in doing. To the extent certain municipal enterprise functions could be conveniently hived off from the general activities of a municipal authority, it is possible to suggest adoption of commercial conventions in budgeting, pricing and accounting matters. However, one should, at the same time, consider the ultimate choice of
privatization of some of these activities when a municipal enterprise is autonomous only in form, but not so in operational matters, like, choosing its activity-mix, fixation of a realistic pricing schedule or management of its labour force. Many of the municipal utilities may thus be suitable candidates for municipal regulation rather than ownership.

Here we have refrained to suggest specific steps to deal with the constraints on municipal management, as the focus of the paper is a municipal finance. However, since finance is a sub-system of organization and management, it is important to be aware of the weaknesses of the larger system. It is, however, possible to influence the larger system through specific measures at the interface, such as, improvements in budgeting and financial control.

**Research Issues for the Bank**

As in the case of policy action, the major areas in which the Bank might fruitfully undertake research would be in the field of fiscal environment of municipal organization, covering: (a) taxation, (b) remunerative services, (c) state-municipal fiscal relations, and (d) public expenditure. A tentative

100. For a comprehensive bibliography see, R.N. Sharma and Devendra Kumar, *Municipal Government in India: An Inorganic Bibliography*, Delhi, New Delhi, 1991.