CHAPTER – 1
INTRODUCTION

This chapter presents the meaning, definition and role of urban local governments. Theory and importance of local government finances and types of urban local governments also form a part of this chapter. This chapter also presents problems of urban local government. It also presents a detailed history of urban local governments in India.

The municipal corporation in India, like the Country Borough in England, is the highest form of municipal government. It was established for the administration of civic affairs of largest cities in the country. The first municipal corporation in modern India was set up in the former Presidency town of Madras in 1688. This was followed by Municipal Corporations of Calcutta in 1876 and Bombay in 1888. Lord Ripon (1880-84), the Viceroy of India introduced an element of popular representation in the Municipal Corporation and is known as “father of Local Self-government in India” for his pioneering work in this direction. There is an opinion that reforms introduced by Lord Ripon continue to have its traces in the existing local self governments (Shailendra Sharma, no date., http://pratham.org/images/SHAILENDRA_SHARMA_-_Role_of_Municipal_Corporation_in_Education.pdf, Retrieved on 4-2-2012).

The number of corporations in India rose rapidly in the post-independence period. These have been established by laws passed by the state legislatures except the Delhi Municipal Corporation, which was established by an Act of the union Parliament.

Municipal corporation is the highest form of urban local government. The municipal corporation as an institution is more respectable and enjoys a greater measure of autonomy than other forms of local government. It enjoys comparatively more powers and autonomy in day today administration. Unlike rural-local government, urban local government in India is not hierarchical.
1.1. Meaning:

A municipality is usually an urban administrative division having corporate status and usually powers of self-government or jurisdiction. The term *municipality* is also used to mean the governing body of a municipality “municipality” Merriam Webster, no date., http://www.merriam-webster.com/dictionary/municipality?show=0&t=1310881057. Retrieved on 21-06-2013.

A municipality is a general-purpose administrative subdivision, as opposed to a special-purpose district. The term is derived from French "municipalité" and Latin "municipalis" ("municipality definition", no date., http://www.yourdictionary.com/municipality. Retrieved on 12-02-213).

The English word "Municipality" derives from the Latin social contract "Municipium", meaning duty holders, referring to the Latin communities that supplied Rome with troops in exchange for their own incorporation into the Roman state (granting Roman citizenship to the inhabitants) while permitting the communities to retain their own local governments (a limited autonomy).

The term "municipality" is a generic term, and can describe any political jurisdiction from a sovereign state, such as the Principality of Monaco, or a small village, such as West Hampton Dunes, New York, “municipality”, no date., http://en.wikipedia.org/wiki/Municipality. Retrieved on 21-08-2012.

The term “Municipal Corporation” has been defined by number of scholars. According to American Encyclopedia “A Municipal Corporation is a legal institution formed by the sovereign power creating a popular community of prescribed area into a body politic and corporate with a corporate name and continuous succession and for the purpose and with authority of subordinate self government for improvement and administration of the affairs of the area. In more concrete terms, a municipal corporation is a body politic, created by the incorporation of the people of a prescribed locality and invested with subordinate powers of legislation, for the purpose of assisting in the civil government of the state and regulating and
administering its local and internal affairs” (Encyclopedia of Social Sciences, 1935: 86).

In the words of W.B. Munro “A Municipal Corporation is a subordinate political body established by the authority of law, its existence evidenced, by general or special character with a corporate name, with defined limits and population and with delegated powers of local government. It is created by law and depends for its existence as well as its powers upon the state or nation” (Pardeep Sachdeva, 2011:93)

According to the Encyclopedia of Social Sciences, “Municipal corporations are purely political institutions created by the legislative power without the necessary consent of the people. As organs or agencies of state, they are endowed with government powers, but these rights, privileges and powers are conferred upon as trustees of the public welfare and are subject to the legislative powers of the state within the limits of the constitutions, within the sphere assured to them by their charters. However, they are independent corporate entities” (Encyclopedia of Social Sciences, 1935:86).

1.2. Definition and Importance of Local Government:

Alongside local government other concepts such as decentralization or local autonomy have received currency. To put it in simple way, decentralization signifies divestment and devolution of certain responsibilities and political decision-making from one authority to another. In the urban context, it refers to establishment of local representative government endowed with administrative and financial powers to deliver mandated services to its citizens. In various literatures, local governments are interchangeably referred to as ‘local authorities,’ ‘councils’ and ‘municipalities.’ The concept of local government varies from country to country in terms of its characteristics relating mainly to decentralization of decision-making process and the powers of local taxation (John K. Sellate, October, 2006, http://repozitorij.uni-lj.si/Dokument.php?id=11526, Retrieved on 14-06-2012.

To sum up, local government is the basis of the democracy. The latter cannot be conceived without it or the whole democratic structure would risk collapse without
it. On the other hand the existence of local government would not be fully possible expect within the frame work of a democratic regime.

According to an author “Local government is essentially a method of getting various things done for the benefit of the community. It is a practical business. If we view local government from this point of view we are more likely to see its real nature than if we think of it as a school of democracy” (Venkatarao. V, 1965:7).

Lord Bryce in his famous work on Modern Democracies has laid down that “the school of democracy and the best guarantee for its success is the practice of local self government” (Lord Bryce, 1971:150). Underlying the importance of local government in free democratic India, Jawaharlal Nehru said “Local Self-Government is and must be basis of any true system of democracy” (Pardeep Sachdeva, 2011:9). Robson also opined that democracy on the national scale can function in a healthy manner only it is supported and nourished by democratic local government (as quoted by Hoshiar Singh, 2004:8).

Local government can be said to “encourage citizenship or democracy and to promote ‘political education’ in its widest sense. It does this by involving large number of people in the political decision making process. While people may find the affairs of a modern state too large and complex to understand, they will perhaps more easily and naturally participate with their neighbors in helping to manage local community affairs” (Tony Byrne, 1990:7).

According to M. Cole and G. Boyne (1995), local governments are the democratically-elected bodies whose jurisdiction is of a local (rather than regional or national) scale, backed by power to levy local taxes by which to exercise genuine discretion over service provision. However, the general conception of local government is one of a locally elected democratic statutory organization below the level of the state, province or region, providing public sector services to the populace with in the areas of its jurisdiction. Thus, local-self governments in urban areas may be taken to mean democratically elected local authorities, municipal councils or municipal corporations depending upon a common usage in a particular country, which have the power of taxation and the primary responsibilities of public service delivery under the constitution or domestic legislation (Bailey, 1999: 2-3).
1.3. **Role of Local Government:**

According to Bailey (1999:359) the local government performs the following important roles in a democratic set up: (i) Pluralism- the existence of local government prevents over concentration of political power and avoids a tendency towards centralized autocracy; (ii) Participation- the existence of local government encourages the active involvement of the citizens in democratic self- governance; and (iii) Public Choice- local governments provide services tailored to the varying needs of different localities. Local needs and preferences should be locally defined. Local government enables better match of policies with local conditions and preferences.

Urban local bodies (ULBs)/municipalities play an important role in the planning and development of urban areas. However, most studies undertaken to assess the functioning of municipalities in India point out that the performance of municipalities in the discharge of their duties has continued to deteriorate over time. It is noted that municipalities in India are confronted with a number of problems, such as inefficiency in the conduct of business, ineffective participation by the weaker sections of the population in local governance, weak financial condition, lack of transparency in the planning and implementation of projects, etc., which affect their performance adversely (Mathur, M.P. 2007:3).

1.4. **Theory and Importance of Local Government Finances:**

Local government finances would involve financial decentralization and devolution of the finances. Local government is usually a democratically elected government, capable of providing the services efficiently and effectively than higher levels of government. Transfer of responsibility for the management and provision of public services to local government would entail re-arrangement of the balance of power between the state and local government. Real decentralization would be achieved when control over the resources necessary to deliver the services is also devolved to local governments. Experience shows that national governments have often delegated important social functions to local governments without sufficient resources to actually perform them. Local governments are made to depend on the

The following are some principles of local government financing for public service delivery: (i) Local governments should finance as much of their responsibilities as possible through local own-source revenue (taxes and user charges), rates, bases’ and administration which are truly under their control; (ii) Transfer system should be clear, transparent and predictable meaning that it should be based as much as possible on formulae, and should not change radically from year to year, and not be subject to political bargaining; and (iii) Transfer systems should overcome vertical and horizontal imbalances. For vertically balanced inter-governmental finance systems should provide sufficient funding for functions assigned to local governments. Every mandate at local level is funded and local governments with differing competencies should be eligible for differing levels of grants. Horizontal imbalances in the local government system should also be corrected by means of various forms of inter-governmental transfers. The main potential advantages of fiscal decentralization are stated to be improved local efficiency, greater local policy discretion, enabling local innovation, more targeted use of local resources, and enhancing local democracy and accountability. The potential disadvantages, on the other hand, include: (i) different sources of funding at the local level can increase complexity and loss of transparency; (ii) equity costs; (iii) difficulties in achieving central government policy goals; and (iv) potential for economic distortions caused by variation in taxes and rates across jurisdictions. (Peteri, 2005).

The significance of finance is too obvious to need any elaboration as no organization can exist, and achieve its objectives without finances. That is why Kautilya, the great Indian Philosopher, remarked “all undertakings depend upon finance, hence foremost attention should be paid to the treasury” (Kautilya, 1956: 65). Every administrative act has its financial implications, either creating a charge or making a contribution to treasury. The importance of finance is so great in administration that Lloyd George is said to have once remarked that “government is finance” (Sharma, M.P. 1978:449). In fact, finance constitutes the backbone, the life
and blood of government; it provides fuel to the administrative machinery. Sound fiscal policy is therefore of crucial importance to the government, whether central, state or local. Imprudent financial management not only brings discredit to the government but also alienates it from the people and may endanger its very existence. A half a century old remark made by Felix A. Nigro is still relevant. He said, “Finance administration is of great importance today because of the tremendous increase in the amount of money expended for government services. Every government does require money. It is utterly essential that sound principles and techniques of financial administration be employed” (Felix A, Nigro, 1951: 312). The Economic Survey 1991-92 has rightly stated that, “The financial sector is the centre of economic activity, its health affects the entire economy, municipal government is directly linked with the availability and utilization of financial resources” (Indian Economic Survey, 1991-92:25).

Financial administration is the art and science of planning, organizing, implementing and evaluating the financial resources to ensure their best use for the achievement of the objectives, goals and targets of municipal programmes. Emphasizing the importance of finance, Thavraj said, “Finance is the lifeblood of all monetized socioeconomic formations ranging from simple nuclear families to complex national and international organizations. Financial administration relates to the system which generates, regulates and distributes the monetary resources needed for the subsistence and growth of organization. In this respect, financial administration is similar to the circulatory system in complex living organism” (Thavraj, M.J.K. 1978: 1).

The Reserve Bank of India in its bulletin has rightly stressed the importance of local government finances. According to it, “With the increasing industrialization and urbanization under the impetus of development and planning, the local authorities form a growing part of the expanding public sector, with powers to raise and spend considerable amounts of public funds for development purpose. Local authorities form an important segment of public sector in India. The contribution of the local bodies to income in general and capital formation is of considerable significance, in view of their large number and the area and population they cover” (Reserve Bank of India,1962). Ursula K. Hicks emphasized similarly by saying, “If local bodies are to play any significant part in economic or social development, they must clearly have access to adequate finances” (Hicks U. K, 1966:276).
Sharma R.D. argues that the local government finance has in the past received little attention from the union or the State Governments. According to him even the social scientists and the students of public finance had paid lesser attention and importance to the problems of finances of municipal governments or the Panchayathi Raj. He approvingly quotes Venkata Raman the former governor of Reserve Bank of India who said that, “local finance is comparatively neglected part of public finance, just as local administration is a comparatively neglected part of politics and public administration” (Sharma, R.D.1995: 134). It is a general notion, that municipal autonomy without financial independence is a farce. The Central problem in local finance is to ensure the purposeful matching of obligations with resources providing at the same time for the fulfillment of national priorities on the one hand and for a measure of local initiative on the other. The activities and services of local importance include health, education, water supply, sanitation and other amenities provided to the citizens of urban areas in order to improve their standard of living (Hicks, 1966: 276).

Finances are very important for every government – Central, State or local. Finance and administration is mutually complementary. Sound administration depends on sound finance and sound finance depends upon sound administration. Financial administration relates to a system, which generates, regulates and distributes monetary resources needed for the sustenance and growth of organizations. In this respect financial administration is similar to “circulatory system” in complex living organism. As proper functioning of different organs depends upon the effective operation of circulatory system, similarly all the limbs of organization are “lifeless” without finance (Harpreet Kaur, 1992).

The responsibilities of local bodies have tremendously increased as a result of the rapid increase in urbanization and adoption of welfare state as the ultimate goal of our polity. In any multilevel pattern of government the effectiveness with which the local units would operate, is determined to a large extent on how their finances are organized in relation to their functions and responsibilities (Sharma S.K. and V.N. Chawla, 1975: 175). Local government finance, thus assumes great importance. Local bodies in order to be able to discharge their obligations in respect of development and
improvement of their respective areas, provision of civic amenities and welfare services require adequate financial resources commensurate with the tasks assigned to them. But many observers felt that urban local government in our country is deficient in financial resources. As far back as in 1925, the Indian taxation enquiry committee had noted that the finances of local bodies were inadequate for the services they were required to perform. The municipal acts set out an impressive list of obligatory and discretionary functions entrusted to the local authorities. Besides these legally allocated functions, their responsibilities had been growing in the wake of rapid urbanization exercise continuing and mounting pressure on the civic facilities and amenities. But it is the importance of these obligations with adequate resources had never been sufficiently recognized (Report of the Committee on Budgetary Reform in Municipal Administration, 1974: 22).

Since independence, this aspect has been enquired into by numerous central and state commissions and committees but their recommendations have not been matched with adequate follow-up action towards implementation. The decentralization movement of the post-independence period has not radically adhered to financial conditions of urban local government and they continue to suffer from paucity of resources and the gap between their finances and desired level of services is continuously widening (Thawraj M.J.K., 1978:1).

The basic problem with the Indian local system of government and administration today is inadequacy of financial resources. The economic difficulties of urban local governments in India may be attributed to the following:-

i. Physical and economic deterioration of the core cities – slums have sprung up.

ii. Suburbs with rapidly rising population have run into financial problems. Their tax resources are small in relation to needs and demands of the urban communities.

iii. Decentralized planning cannot work properly when the communities are physically inter-dependent. Transportation, water supply and sewage disposal are three public services in which physical interdependence is particularly important (Harpreet Kaur, 1992).
The theory of municipal finance establishes a stable equilibrium between functions and finances. The basic problem of municipal finance remains as to how to match the obligations with resources. It is a problem as to how to maintain a standard of local governmental services for the welfare of the people with scarce local resources.

Local finance in a developing economy gives rise to a number of important problems which have a vital bearing on the role of fiscal policy as an instrument of economic growth and social justice. History shows that our local government system has not been very effective, largely for the reasons of weak financial administration. At a time when there is a shift towards democratic decentralization, the proper administration of local finance becomes all the more important. While analyzing the financial administration of an organization, it focuses attention on various principles and practices relating to the proper and efficient administration of finance on one hand and on the other hand it relates to machinery meant for collection, preservation and utilization of finances. Local government can work smoothly when the resources at its disposal are adequate and they are effectively and efficiently utilized. As far as finances of Municipal Corporation are concerned, it is a self-financing body. However, state government sanctions grants – in – aid to corporation for developmental programmes. Finance involves budgeting process, accounting system, sources of revenue, expenditure head and audit system etc. Besides, there should be effective and efficient control over finance, so that money, which is meant for developmental functions, is not misused. It is necessary for any institution to have some sources of revenue because revenue is the first essential of government. No administration can be carried on without it (Om Prie Srivastava, 1980). Municipal corporations in India have also been provided with some sources of revenue, but the sources of finances are not self-sufficient. The tasks before the municipal corporations in India are tremendous and the powers and resources at their disposal to fulfill those tasks are meager. They act as the agents of State Government for the purposes of levying and collecting taxes and enjoy little freedom in the sphere of exploring the new financial resources. Municipal corporations depend upon the State Government for loans and grants-in-aid. It is true that municipal corporations do not exploit their financial resources allotted to them. State Government also encroaches upon the sphere of municipal corporation finances, and the sharing of proceeds of taxes collected from the local people has always been a subject of discontent.
Local government bears the responsibility of providing the local services to their residents. These services are financed with the help of local taxes. In India, the distribution of functional responsibilities and revenue sources between federating units, i.e., central and state is made as per the constitutional provisions. The state transfers some of its powers to local units to render public services to their residents. This distribution has been made in such a way that elastic sources of revenue have gone to central and state governments, and few resources are felt with local grants. At the same time functions of the local governments have increased. This leads to the serious problem of imbalance between their expenditure and revenue. Among local governments the positions of urban local governments has especially become worse because of rapid urbanization and industrialization. The local urban governments are supposed to provide more and more services to their residents while, on the contrary, the state governments impose limits on local governments to raise the revenue resources, viz., restriction on property tax rates, and restriction on the raising of debts (Mehta L.R., and V.P. Bharadwaj, 1983: 72).

The relevance of local public finance also emanates from another critically important factor, i.e., increase in poverty in cities and towns which is accompanying urbanization – a phenomenon that is described as urbanization of rural poverty. Urban poverty alleviation and slum development are regarded as legitimate functions of urban local bodies according to the 74th Amendment Act. However, neither the Urban Local Bodies have any well-defined “own” sources of finance to address urban poverty nor do they have recourse to a system of adequate and predictable inter-governmental transfers to undertake poverty alleviation.

Theoretically, the three main functions of the public sector are: stabilization, redistribution and allocation. With growing number of urban poor, the redistribution function, in addition to allocation, is emerging as a critical issue for Urban India. This needs to be addressed through the public finance system – Central, State and Local. Although the theory of public finance suggests that redistribution issues are best tackled by higher levels of government through the provisioning of inter-governmental transfers, there is no appropriate model of inter-governmental finance for local bodies in India to tackle the colossal problem of urban poverty. The 12th Schedule envisages that functions like ‘Safeguarding the Interests of Weaker Sections
of Society, including the handicapped and the mentally retarded’, ‘slum improvement and up gradation’ and ‘urban poverty alleviation’ belong to the legitimate functional domain of urban local bodies (The Constitution of India, The Twelfth Schedule, Article 243W). However, there are no commensurate resources with these institutions to discharge these functions effectively. This represents a case of expenditure assignment without a corresponding revenue assignment (Mohanthy P.K., 2007:6).

1.5. **Sources of Income for Urban Local Government:**

Urban Local governments in most of the states have been empowered to derive their income from several sources such as taxes, fees, fines and penalties and remunerative enterprises. Apart from these, local bodies also depend upon grants and contributions, loans and some miscellaneous sources. There is tradition to classify the sources of finances into four categories viz.

1. Tax revenue.
2. Non-tax revenue
3. Grants and Contributions

1.6. **Types of Local Governments:** there are many types of local governments so a few lines about them.

1.6.a). **Municipal Corporation:**

It is the top and highest of urban local government. The municipal corporation as an institution is more respectable and enjoys a greater measure of autonomy than other forms of local government. A municipal corporation is set up under a special statute passed by the State Legislature. Except in the case of Delhi, where the power to set up a municipal corporation lies with the Union Parliament. Cities like Mumbai, Chennai, Delhi, Kolkata, Patna, Hyderabad, Ahmadabad, Bangalore, Kanpur and others have a corporation form of urban government.

1.6.b). **Composition:**

Municipal Corporation members are called Councilors. They are elected on the basis of universal adult suffrage. The Councilors and Aldermen exercise deliberative functions. The executive functions are performed by a Commissioner who is appointed by the State Government and enjoys an independent statutory authority. He is an official executive. But every corporation has a political executive known as a
Mayor. The Mayor is assisted by a Deputy Mayor. The Mayor and the Deputy Mayor are elected for a period of one year but they may be re-elected by the members of the corporation. The Mayor presides over the meetings of the corporation and guides the deliberations.

1.7. Mandatory and Obligatory Function Under 74th Constitutional Amendment:

The functions of a Municipal Corporation may be studied under two broad heads:

1.7.a). Compulsory Functions:

- Supply of wholesome water.
- Construction and maintenance of water-works.
- Supply of electricity.
- Maintenance of road transport services.
- Construction, maintenance, naming and numbering of public places.
- Lighting, watering and cleaning of public streets and other public places.
- Removal and disposal of filth and garbage.
- Construction, maintenance, and cleaning of drains and drainage works and of public latrines, urinals, etc.
- Removal of dangerous buildings and obstructions in or upon streets and other public places.
- Establishment and maintenance of hospitals, maternity and child welfare centres.
- Measures for prevention and checking of contagious diseases through vaccination and inoculation, etc.
- Registration of births and deaths.
- Regulation of moratoriums, graveyards and cremation grounds, and also provision of places for disposal of the dead.
- Maintenance of fire-brigades.
- Provision of primary education.
- Publication of annual reports and returns on administration of the corporation.
- Control and regulation of eating places and eatables.
1.7.b) **Optional Functions:**

- Construction of public parks, gardens, libraries, museums, theatres, adheres and stadiums.
- Public housing.
- Planting of trees on road sides and elsewhere.
- Provision of relief to destitute and disabled persons.
- Destruction or detention of stray dogs, pigs and other animals causing nuisance.
- Playing of music for people.
- Civic reception of VIPs.
- Registration of marriages.
- Survey of buildings and lands.
- Organization and management of fairs and exhibitions (Dream Dare Win, 2010: 13-14).

1.8. **Sources of Income:** A municipal corporations sources of income may be broadly grouped into two:

**a) Non-tax Revenue:** The non-tax revenue includes fees and fines, grants and contributions from the government. Among its extraordinary sources may be listed loans, deposits, receipts on capital account, grants for capital works, etc.

**b) Tax Revenue:** The major proportion of income of corporations flows from taxes. It ranges from anything between two-fifths and three-fourths of total income. A corporation generally has the power to levy the following taxes:

- Property tax
- Tax on vehicles and animals
- Theatre tax
- Tax on advertisements (other than newspapers)
- Profession tax
- Education tax
- Tax on consumption and sale of electricity
- Betterment tax on increase in urban land values caused by the execution of any development or improvement work.

Tax on deeds of transfer of immovable property is collected by the State Government and the amount collected within the area under the jurisdiction of a corporation is transferred to it (Dream Dare Win, 2010: 13-15).

1.9. **Urbanization and Economic Growth:**

With faster and more integrated economic growth, urbanization is gaining momentum in the developing countries; nearly half of the world today is urban. In India, urbanization has been somewhat slow. The country’s urban population grew from 26 million in 1901 to 285 million in 2001, with the share of population in cities and towns steadily rising from 10.8 per cent in 1901 to 27.8 per cent in 2001. The number of metropolitan cities went up from 1 in 1901 to 35 in 2001. The percentage of urban population living in these million plus cities increased from 5.84 in 1901 to 38.60 over the same period (Mohanty, P.K., B.M. Misra, Rajan Goyal, P.D. Jeromi, 2007:7). Presently, India is at the rapid urbanization and the extent of urbanization is accelerating at a rapid pace. Census data 2011 reveals that about 31 percent (377 million) of Indian population live in urban areas. The share of persons living in urban areas rose by 3.35 per cent in the decade 2001 to 2011 as against only 2.10 per cent in the decade 1991 to 2001. In the coming years, the intensity of India’s urbanization will be immense. The process of urbanization in India is mostly characterized by dramatic increase in the number of large cities. In 1951, there were only five metropolitan cities (with population of over 1 million), i.e., Kolkata, Mumbai, Chennai, Hyderabad, and Delhi. Their number increased to 12 in 1981, 35 in 2001 and 53 in 2011 and is further expected to be about 68 in 2030. Urbanization in India has become an irreversible process, and an important determinant of national economic growth and poverty reduction. Urbanization and growth are in fact two-way linked. While urbanization is an inevitable outcome of the faster rates of growth, it is also a process that leads to growth. It is quite evident from the urbanization pattern in India that the rate of development is clearly related to the rate of urbanization. Generally, states with higher gross state domestic product (GSDP) have higher levels
of urban population. In the coming decades, the urban sector will play a more critical role in the structural transformation of the Indian economy and in sustaining the high rates of economic growth.

Hence, it is crucial that India’s urban sector and the cities provide quality infrastructure and services at affordable costs. This would be essential to give a competitive edge to the economic activities that these cities host to achieve faster and more inclusive growth and to stimulate economic efficiencies while simultaneously providing more employment opportunities (Harun R Khan, 2013, Financing Strategies for Urban Infrastructure: Trends and Challenges, http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=824, Retrieved on 26-01-2014).


1.10. Urban Problems and Pressure on Urban Finances:

Although urbanization brings about development in the social, economic and cultural spheres of life it disturbs ecological systems. Rapid and uncontrolled growth of urban agglomerations generates a series of negative environmental and social effects, like lack of infrastructure and basic services, housing problems, congestion, health problems, etc., (Sudhakara Reddy, B. Indian Development Report, 2002:129). Increasing pressure of population particularly concentration of urban population in larger cities and metros and escalating per capita cost of providing urban services account for deterioration of infrastructure services and amenities. The worst sufferers are the poor, whose access to the basic services like drinking water, sanitation, education and basic health services is shrinking (Pardeep Sahni, E. Vayunandan, 1995:1-13 and Inderjeet Singh Sodhi, 2004:21).
The speed with which the urban population is rising has created difficulties for urban governments. The failure of the urban governments to meet the aspirations of the people can be attributed to unprecedented increase in population, inadequate finances, inefficient personnel management, rampant corruption, political interference, indifferent attitude of bureaucrats, excessive state of government control, establishment of multitude of special purpose agencies, absence of political will, lack of able and inspiring leadership etc., these points need to be categorized as administrative, political or cultural or financial. The main problem of urbanization in India is that there is no interdependence between the process of urbanization and social development (Pardeep Sahni and Vayunandan. E, 1995: 2-3). Of all these problems the inadequacy of finances is a serious one.

1.11. Problems of Urban Local Governments:

- **Lack of Finance:** No plan can ever be successful if adequate finances are not available. Municipal Corporation has very limited sources of revenue. They get grants from State or Central Government.

- **Interference by Centre and State:** The local bodies are dependent on the Central and State grants-in-aid. Financial help gives clear authority to the Central or State Government to interfere in the affairs of local self-government. Thus, the local bodies lose independence and tend to become inefficient.

- **Too much Political Pressure on Local Bodies:** If the local bodies belong to the ruling party, they are dictated by the party. If they do not, they are not allowed to function effectively (Dream Dare Win, 2010:18).

1.12. Origin and Growth of Municipal Government in India:

The modern municipal government in urban units is essentially a creation and legacy of British rule. It was imported in to India by Britishers from their own land. However, the origin of local self-government had very deep roots in ancient India. On the basis of historical records, excavations and archaeological investigations, it is believed that some form of local self-government did exist in the remote past. The Vedas and the writings of Manu, Kautilya and others, and also the records of some
travelers like Magasthnese refer to the existence of local government (Mookerji R.K, 1919:14-16).

The Ramayana and the Mahabharata also point to the existence of several forms of local self-government such as Paura (guild), Nigama, Pauga and Gana, performing various administrative and legislative functions and raising levies from different sources. Local government continued during the succeeding period of Hindu rule in the form of town committees, which were known as ‘Goshthis’ and ‘Mahajan Samitees’. The representative character of these samitees was respected by the rulers. These Mahajans sometimes delegated their functions to their representatives or to Panchakulas (committees of five) who used to collect revenue on behalf of the state. In addition to Panchkulas, ‘Talara’, an officer of the state, supervised local administration and policing with the help of the elected representatives. In the Mauryan period followed by the Gupta era and subsequently in the medieval period, the system of local self-government continued to be more or less the same. However, the system of local self-government was quite different in the Mughal period. The Mughals were fond of building new cities and maintaining them. Those cities were, by and large, centers of trade and industry. Surat, Patna and Ahmedabad, for example, happened to be provincial capitals and offered a rich market. The City Kotwal, appointed by the Emperor, was the key-centre of municipal administration. He was responsible for maintenance of inventory of houses, roads, levy and collection of local taxes, tolls, transit duties etc. The markets were controlled by him. He kept a check on weights and measures and a vigil on the local prices. These are basically municipal functions, which were performed by him in addition to his foremost duty of maintaining law and order (“History of Urban Local Bodies” Regional Centre for Urban Environmental Studies, no date., www.rcueslucknow.org/.../Compendium%20of%20Urban%20Data%20, Retrieved on 24-11-2013).

Britishers introduced the existing form of urban government. The East India Company found itself landed suddenly with liability to rule over vast tracts of land. The company, at the same time, got concerned also with the health and conveniences of its servants. The basic necessities of a healthy and safe living, i.e. sanitation, light and roads were almost absent. The Britishers thought it proper to transplant some sort
of municipal institutions in areas where the servants of the company and other Europeans had settled. Madras was the first city to have a local government established under a charter, dated December 30, 1687, issued by the Company (Tinkar, H., 1954:25-26). The Municipal Corporation, which came into existence on September 29, 1688, consisted of a Mayor, 12 Alderman and 60 to 120 Burgesses. The company declared in the charter that it wanted to encourage people of all nations and all sects of religion residing within the limits of the corporation and that the Alderman should be from among the heads and chiefs of all respective castes. The Burgesses were also to be both from Europeans and Indians. The Mayor ship was confined to the Englishmen. The Mayor and three Aldermen formed a court of Record, known as the Mayor’s Court. They acted as Justices of Peace. The Madras Corporation was given powers to raise money by taxing the inhabitants. Thus, a beginning was made in the direction of establishment of municipal government in India.

The next step was the establishment of Mayor’s Court in all the presidency towns, i.e. Madras, Calcutta and Bombay, by King George-I through a charter issued to the Company on 24th September 1726. The charter introduced uniformity of approach to all the three towns. The charter also provided for the constitution of a corporation in each presidency town, appointment of a Mayor and nine Aldermen. The charter of 1687 created a corporation and a Mayor’s court in Madras, while the charter of 1726 created similar organization in all the three presidency towns. However, under the new charter their functions were largely judicial. With the renewal of Charter of the East India Company by the British Parliament in 1793, a new attempt was made to establish municipal organizations in the presidency towns. It empowered the Governor General-in-Council to appoint Justices of Peace from among the servants of East India Company and other British inhabitants for the Mayor’s Courts. The Justices, beside judicial duties, were required to provide for scavenging, police, and repair of streets, etc. They were also authorized to assess households for payment of rates. In 1801 town duties were imposed in the towns of Bengal for the purpose of improving public resources. This amounted to use of local resources for filling the imperial coffers. The indirect tax in the shape of town duties was condemned by Charles Trevelyan in his ‘Report on Town Duties’ in 1833. Between 1813 and 1816 different regulations were made to set-up committee in large cities to collect taxes on houses and lands for the provision of a town choukidar. Act
XVI of 1837 authorized to committee to use the savings from House Tax for cleansing and repairing of towns (Appa Rao, T, 2000:10-11).

The Act of 1842 was the first formal measure for organizing municipal institutions. It allowed any town to constitute a municipal town committee, if two-thirds of the householders put up a written demand for the purpose. The Town Committee was authorized to levy tax on the householders and undertake sanitary service. Because of the provision for direct taxation the Act could not become popular. Only one town in Bengal made use of the Act, but the inhabitants brought the legal proceedings, won damages. The Act was introduced in two towns at the request of European residents, first in Mysore in 1842, followed by National in 1845. But, it did not succeed in either place. The elective element was introduced in a restricted sense in Bombay under the Act XI of 1845 and in Calcutta under Act XVI of 1847. In Bombay a board of conservancy was established which to have five members was elected by the justices of Peace. Calcutta was provided with a Board of Seven Commissioners for the improvement of the city, with four elected members. However, the said elective principle suffered a set-back in 1856. Act No. XIV and XXV prescribed for the three presidency towns a uniform system of administration and defined functions of civic administration. A body corporate consisting of three nominated salaried commissioners was set up in each of the three towns. All the municipal functions were concentrated in their hands (Nigam, S.R., 1978: 170-171).

A Royal Army Sanitation Commission was appointed by the Government in 1863 to report on the condition of the health of the Army in India. Most of the towns were dirty and insanitary. The Commission recommended measures for better sanitary arrangements to be implemented immediately. Within a few year of publication of its report and in the wake of Lord Lawrence’s resolutions of 1864, Acts were passed for extension of municipal administration in different provinces. For example, Punjab Municipalities Act, 1867, Madras Town Improvement Act was passed in 1865, the N.W.P. (North-West Provinces) Municipalities Legislation was enacted in 1868 and Bengal had two Acts, No.III in 1864 and No.VI in 1868. The N.W.P. (North-West Provinces) Act contained a provision for the election of the President if so directed by the provincial government. Then in 1870 came the Lord Mayo’s resolution, which said: “But beyond all this, there is a greater and wider object in view. Local interest, supervision and care are necessary to succeed in the management of funds devoted to
Education, Sanitation, Medical Charity, and Local Public Works. The operation of this resolution, in its meaning and integrity, will afford opportunities for the development of self-government, for strengthening Municipal Institutions, and for the association of natives and Europeans, to a greater extent than heretofore, in the administration of affairs” (Resolution of Government of India, 1882). The objective of Ripon’s policy was two-fold. On the firstly hand the resolution provided that adequate resources which are local in nature and are suited for local control should be provided to local bodies. In the secondly place the resolution aimed at real self-government. He also wanted the local governments to suggest as to what measures, legislative or otherwise, are necessary to ensure more local self government. According to Lord Ripon, Local Self-Government was “an instrument of political and popular education” (Mahaeswari, S.R., 1971:17).

Another important reform sought to be made by Ripon was in the composition of local boards, whether rural or urban. He felt that they must have a large preponderance of non-official members, and in no case the official members should exceed one third of the whole. He commented that or the non-official members must be led to feel that real responsibilities to discharge. Having this end in view he suggested that, wherever practicable, a non-official should be made chairman of the Board. He went to the extent that where the District Magistrate continues to be chairman; he must not have, in that capacity, the right to vote in the proceedings. Thus Lord Ripon turned the tables in favor of the elective principle and he is acclaimed as ‘Father of Local Self Government in India’ (Ali Ashraf, 2006:328).

The first outcome of the new resolution was making of legislations to enable local governments to give effect to the general scheme. In Madras, a committee was appointed by the government in 1882, to report on the then existing local self-government and to suggest the needed reforms. Incorporating many of the recommendations made by the committee the District Municipalities Act IV of 1884 was passed. One of the important provisions was related to the election of $3/4$ of the number of municipal commissioners by rate-payers. In Bombay, the Act of 1884 prescribed the election of at least one-half of the commissioners as a general rule both in ‘city’ and ‘town’ municipalities. It also fixed one-quarter of the total as a limit on the number of government officers. Similarly, Bengal Act No.III of 1884 also provided for election of two-third municipal commissioners by the rate-payers. The
Chairman was to be elected by the commissioners in a majority of municipalities and the Vice-Chairman in all of them. The number of official members was also reduced to one-quarter. In North-West Provinces and Oudh a new law was enacted in 1883 (Act XV), which enabled election of three-fourth of the members by the rate-payers and of the Chairman and Vice-Chairman by the municipal committee. However, the provincial government reserved the right to appoint the chairman in any municipality. Punjab, through Act XIII of 1884, gave powers to municipal committees to elect their own presidents and vice-presidents, subject to government’s approval. The elective elements in a municipality could be introduced at the pleasure of the provincial government. However, it did assure that after the introduction of the elective principle into a municipality, the step could not be retraced unless and until a majority of the electors moved an application for it or until it was considered against public interest. Assam and Central Provinces adopted no new legislation. They continued to follow the provisions of Bengal Act V of 1872 and Act of 1873 respectively.

A review of the working of various legislations passed by the provincial government after Ripon’s resolution was made by the Government of India in 1896. Two resolutions were adopted by Lord Elgin’s government, one in October, 1896 in respect of municipal bodies and the other for local boards in August, 1897. They showed an improvement in the working of local bodies so far as their finances and especially the expenditure were concerned. The general conclusion was “that much useful work was done by them and that they had made substantial progress in the work of administration” (Memoranda submitted to the Indian Statutory Commission by the Govt. of India, 1930: 1064).

Lord Curzon, who succeeded Lord Elgin in 1899 as Viceroy, was a believer in high standards of efficiency. He believed that Indians did not possess the necessary ability to be entrusted with any considerable measure of self-government. His viceroyalty is known for excessive centralization. Viscount Morley, who was the Secretary of State for India during 1905-10, got worried at this trend of over centralization. At his instance a Royal Commission on Decentralization was appointed on September 12, 1907 to enquire into the financial and administrative relations between the Government of India and the various provincial governments and between provincial governments and the local bodies. The Commission was
expected to suggest if through decentralization those relations could be simplified and improved and if the executive power could be brought closer to local conditions. The Commission, among other things, recommended that the municipal chairman should usually be an elected non-official and a municipal council should ordinarily contain a substantial elective majority (Report of the Royal Commission on Decentralization in India, 1909: 281-282).

The Commission was in favour of having a tripartite system for larger cities on the pattern of Bombay model, i.e. an elected chairman, a nominated executive responsible for administration and a Standing Committee. For large cities, with a population of 1, 00,000 or more the Commission felt that the form of municipal government should provide for full time executive officers. Some of the other recommendations made by the Royal Commission were:

i. Municipalities should be relieved of any charges they may now have to incur in respect of police, veterinary work etc.

ii. Municipalities should have full liberty to impose or alter taxation within the limits laid down by the municipal laws.

iii. Where an Act does not prescribe a maximum rate, the sanction of an outside authority should be required to increase taxation and to exempt any person or class of persons from municipal taxation and to exempt any person or class of persons from municipal taxation.

iv. Municipalities should have a free hand in regard to their budgets, including reappropriation. However, they should maintain minimum standing balance.

v. Municipalities shall have freedom to allot any percentage of their revenues to the services of their choice and

vi. Municipal councils should be able to delegate any of their administrative functions to Committees, which may include persons not on the council

(“History of Urban Local Bodies” Regional Centre for Urban Environmental Studies, no date.,

The recommendations of the Decentralization Commission were circulated to the provincial governments. Some progress was made on the lines of these proposals. The number of non-official chairmen gradually increased. Municipal Commissioners were appointed in Ahmedabad and Surat in 1915. In the wake of Swaraj and Swadeshi movement came Morley-Minto Reforms in 1909. The local bodies were made electoral colleges for certain seats in the provincial legislatures. The political parties organized themselves at local levels and started participating in local elections. However, the resources of local bodies were poor. The provincial governments also depended on the Centre, because it was the latter which controlled the resources. Under such conditions the desired development of local government institutions could not take place.

The United Provinces Municipalities Act of 1916 (which replaced the Act of 1900) is a landmark in the development of city governments in U.P. It incorporated recommendations of the Royal Commission on Decentralization and the Resolution of Government of India, 1915. From the political point of view the importance lies in the removal of guidance and control exercised by the official chairman. The Act provided for delegation of powers and functions to committees and officers of the Board. It also introduced the post of executive officers as the head of the permanent staff. However, the Chairman was the executive head, empowered for appointing and dismissing municipal staff and laying down the terms of their service.

The joint report on Indian Constitution Reforms (popularly known as Montague-Chelmsford Report, 1918) realized the importance of extension of franchise at the local level. It felt that this would help in arousing citizen’s interest in elections and in the functioning of local bodies and provide an outlet for the energies of the Indian politicians. The Government of India adopted a resolution on 16th May 1918 as a corollary to the Montague-Chelmsford Report. At this stage roughly one-third of the chairman of municipalities in India were nominated officials, another one-third were elected officials and the remaining one-third formed elected non-officials. With the installation of responsible governments under diarchal system in various provinces under the Act of 1919, the local self-government was transferred to ministers responsible to new provincial legislatures. The ministers and the legislative councils displayed keen enthusiasm on clothing local bodies with more powers, freeing them
from official control and making them responsible to a substantially enlarged electorate. This generated enhanced activity in the local institutions. Municipal elections were keenly contested. And in wake of the recommended reforms came the spate of municipal legislations in different provinces by repealing or amending the old Acts. A new Act of Municipalities had already come into force in Uttar Pradesh. in 1916. The Punjab Act of 1911 was amended in 1921 to increase the powers and independence of municipal councils, and also to lower the franchise. The Municipal Law in Bihar and Orissa (combined) was enacted in 1922. Earlier the Bengal Municipal Act of 1884 was in force in those two provinces. The new Act incorporated the spirit of various reforms discussed in the preceding paragraphs. Central Provinces and Assam also followed the suit. Fresh legislations were passed in three Presidencies. In Madras, the Municipal Act of 1919 and District Municipalities Act of 1920 gave powers to the Councils to elect their own chairman and frame their own budgets. The external control was reduced to minimum. All the rare payers, including women, were given right to vote and to seek election. In Bombay city franchise was extended under the Act of 1922. It also removed the sex qualification for election as councilor, and gave greater power to the Municipal Corporation. Another Act passed in 1925 made the city municipalities, with a population exceeding one lakh wholly elective. In other municipalities the strength of elected members was raised to 4/5th of the total membership. Women were given right to vote and stand for election. A special provision for the representation of depressed classes was also made.

The Indian Statutory Commission (popularly known as Simon Commission) was appointed by the British Crown in 1927 to examine the working of responsible government introduced under the Act of 1919 and to suggest steps to improve the system. The Commission observed that “In every province, while a few local bodies have discharged their responsibilities with undoubted success and others have been equally conspicuous failures, the bulk lies between these extremes” (Report of the First State Finance Commission Government of Andhra Pradesh, 1997:27).

The Commission favored appointment of professional administrators, to be left free in the details of administration, powers of punishment and correction, more by advice and encouragement, to the provincial governments, as was the case in Great Britain. It felt that the appointments to various positions in the municipalities were based on considerations other than merit. The chairman had too much power over the staff. Communal and caste considerations came into play both in municipal politics.
and municipal administration. All these factors were responsible for impairing the efficiency of local bodies. New reforms were introduced under the Government of India Act 1935. A restricted form of provincial autonomy was granted. The distinction between the reserved and transferred subjects was withdrawn. Popular governments were installed in different provinces. Indians, having now been given powers, concerned themselves with the re-organization of local self-government. Many provincial governments appointed committees to re-organize the local-government. The Government of United Provinces appointed a committee under the presidency of Mr. A.G. Kher in 1938 to examine the structure and working of the existing law and machinery relating to local self-government and to recommend suitable organizational set-ups armed with adequate powers and resources. One of the major recommendations of the committee was that those municipalities which had a population of 1½ lakhs or above and their annual income exceeded Rs. 15 Lakhs per annum, should be declared as Corporations. Their powers and privileges were to be defined by the state government (Report of the Local Self-Government, 1938:3). The popular governments resigned in 1939 as a protest against the British Government’s dragging India into war without her consent. Therefore, the recommendations made by these committees could not see the light of the day until after independence.

Independence brought a new kind of activity in every sphere of public life. It opened a new chapter in the history of local government in India. The Constitution of India has allotted the local self-government to the state list of functions. Since Independence important legislations for reshaping of local self-government have been passed in many states of India. The constitutions of local bodies were democratized by the introduction of adult suffrage and the abolition of communal representation. In July 1953, the Uttar Pradesh Government took a decision to set-up Municipal Corporations in five big cities of Kanpur, Agra, Varanasi, Allahabad and Lucknow, popularly known as KAVAL Towns. As a result, the state of Uttar Pradesh adopted a new Act for Municipal Corporations in 1959 (Sharma, V.N., 1960:1).

The National Government appointed a committee in 1948 known as the Local Finance Inquiry Committee, to report on ways and means for improving the financial resources of local bodies. The report came in 1951. The taxation Enquiry Commission set up in 1953, was also baffled with this problem.
The other significant committees and commissions appointed were:
1. The committee on the training of Municipal Employees, 1963;
2. The Rural Urban Relationship Committee, 1963-1966; and

The Centre Council of Local Self-Government constituted by the Central Government, has also played a significant role in bringing on reforms. The Rural-Urban Relationship Committee devoted itself to both functional and financial aspects and was largely microscopic in its approach. One more report came from another committee of the council on the service conditions of municipal employees. Then in 1985, the Central Government appointed the National Commission on Urbanization, which gave its report in 1988. This was the first commission to study and give suggestions on all aspects of urban management (Government of India (1988)). Apart from the contributions made by the Central Government, committees were appointed in different states in order to improve the municipal organizations and administration there under. Municipal legislations have been suitably adapted from time to time keeping this end in view. Major structural changes had not taken place except where municipal corporations had been established, until 1992, when the Constitution 74th Amendment Act was passed.

The Constitution (74th Amendment) Act, 1992 was a landmark initiative to strengthen local self-government in cities and towns. It was built upon the premise that all ‘power’ in a democracy rightfully belongs to ‘the people’. It prescribes that the elected municipal representatives must have a decisive role in the planning, provision and delivery of civic infrastructure and services. The Act stipulates that if the state government dissolves a Municipality, election to the same must be held within a period of six months. Moreover, the Act entrusted the conduct of municipal elections to statutory State Election Commission, rather than to executive authorities. The mandate of the Municipalities to undertake the tasks of planning for ‘economic development and social justice’ and implement city/town development plans. This role much larger than what is traditionally perceived of them as the providers of ‘services’. The Act envisages three types of Municipalities: Municipal Corporations for large cities, Municipal Councils for smaller cities and towns, and Nagar Panchayats for areas in transition from ‘rural’ to ‘urban’. Accordingly, the state governments have re-categorized different areas by notifying the criteria for classification of municipal bodies. To ensure that the Municipalities are sensitive
enough to the problems of weaker sections and women, the 74th Amendment provides for reservations for scheduled Castes (SCs), Scheduled Tribes (STs) and women in municipal councils. The seats reserved for SCs and STs were to be in proportion to their share in population of the respective cities/towns. A minimum of 33 1/3 per cent of per seats are reserved for women. Reservation is intended to provide a voice to those who were neglected in the past. The following are the other important aspects of the Act:

i. The constitution of Wards Committees for a group of wards is mandatorily prescribed for cities with more than 3 lakhs population, who no bar for the constitution of such Committees in cities/towns with lesser population, with a view to taking municipal governance closer to the people.

ii. An illustrative list legitimate municipal function is provided in the 12th Schedule for guiding the state government in the assigning of responsibilities to the Urban Local Bodies (ULBs).

iii. The constitution of District and Metropolitan Planning Committees (DPCs and MPCs) for the preparation of the District and Metropolitan Development Plans is mandatory. At least four-fifth of the members of a District Planning Committee should be the elected representatives of the concerned Municipalities and Panchayats. Similarly, at least two-third of the members of a Metropolitan Planning Committee must be the elected municipal councilors and chairpersons of Panchayats. The representatives from urban and rural local bodies in these Committees are to be in proportion of urban to rural population in the respective jurisdictions.

iv. The state governments are required to specify the sources of municipal finance “by law”. It is mandatory for them to constitute State Finance Commission once in every five years which would recommend the devolution of taxes, charges, fees tolls, duties, shared revenues and inter governmental transfers to the Municipalities. Under the amended Article 280 of the Constitution, it is mandatory on the part of the Central Finance Commission to recommend devolution of Central resources to supplement the State Consolidated funds with a view to implementing the recommendations of the State Finance Commissions.
The Constitution (74th Amendment) Act envisages a ‘systemic change’ in municipal governance in the country; it prescribes an institutional framework for the efficient delivery of urban services. This framework consists of a number of statutory institutions, which include:

i. Municipalities to function as “institutions of self-government” – prepare “plans for economic development and social justice”, perform functions and implement schemes as may be entrusted to them by the state governments, including those related to the Twelfth Schedule {Article 243W(a)};

ii. Wards Committees and other Committees to carry out the responsibilities conferred upon them, including those in relation to the Twelfth Schedule {Article 243W(b)};

iii. State Election Commission to superintend, direct and control the preparation of electoral rolls and conduct all elections to the rural and urban local bodies {Article 243K(1)}; (The 74th Amendment Act, Government of India, 1992).

The provisions of 74th Constitutional Amendment Act, 1992, functions of finances of urban government, State finance commissions and its role, recommendations of the Twelfth Finance Commission restructuring public finances, reforms suggested by Thirteenth Finance Commission for urban local bodies. Recommendations of various committees on methods of improving local finances will be discussed in the next chapter. It also presents the municipal government sources of revenue, recommendations of the State Finance Commissions in Andhra Pradesh will be discussed in the next chapter.

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