CHAPTER - 1

Introduction

The existence of vertical fiscal imbalance between the State and the local governments as well as horizontal fiscal imbalance among the local governments has been recognized as a major problem in the management of finances in a federal set-up. The revenues mobilized by lower-tier governments from their own sources are not adequate to provide local services at desirable level – qualitative or quantitative. The inadequacy of revenue generation for the provision of civic services at the local level calls for an external support in providing such services. The higher-tier government intervenes in the budgetary decisions of the lower-tier government through the provision of intergovernmental fiscal transfers – revenue sharing in assigned taxes and /or grants-in-aid to support specific public provisions. The primary aim of such transfers is to reduce the vertical as well as horizontal imbalances. The conditions associated with such transfers influence the behaviour of local bodies in exploring their own sources of revenue to a fuller extent and in budgetary allocations of the total expenditures into various functional heads. Moreover, the transfers which a local body receives may depend on the tax-effort of local bodies. The response of local bodies to State transfers determines in conjunction with other factors, the level of specific local services. It is the subject matter of the present study to analyse the fiscal behaviour of the lower-tier
governments, particularly municipalities or urban local bodies (ULBs) in the State of Punjab.

The 74th Constitutional Amendment and the Urban Local Bodies

With the enactment of 74th Amendment to the Constitution the federal structure in India got a third tier and the process of decentralisation got more broad-based and intergovernmental relations acquired a new and important dimension. A three-tier polity now seems a reality with the adoption of Constitution (Seventy-fourth Amendment) Act, 1992, which brings municipalities or ULBs as the third-layer government in the existing federal structure of India. The ULBs can now derive their very existence from the Constitution itself. They are expected to have additional devolution of functions, planning responsibilities, new system of fiscal transfers and empowerment of the women and weaker sections of the society. The Amendment is supposed to provide the much needed institutional capabilities to the otherwise fragile system of urban government in dealing with the impulses of urbanization and urban growth (Jha, 1993).

In order to comprehend the efficacy of the Constitutional Amendment (CA) in taking care of the ills of ULBs, one can have a look at the important provisions of the CA in terms of (i) structure (ii) composition (iii) powers and functions (iv) finances and (v) planning.
Through the amendment, the Constitution of India now provides for constituting of three types of institutions of urban self-government instead of the earlier five. These are: (a) Nagar Panchayats, which are to be constituted in areas which are in transition from rural to urban. This has been conceived to properly channelize the growth impulses in such settlements as also to bring some sort of order in their growth and service conditions; (b) Municipal Councils in smaller urban settlements; and (c) Municipal Corporations in larger urban areas. However, which areas are to be called “transitional”, “smaller” and “larger” urban areas, has been left to the discretion of the State Governments. Although no criteria have been laid down, yet the relevant yardsticks are population, income and other relevant considerations. A Nagar Panchayat is constituted in a transitional area with a population of 10,000 to 20,000, a Municipal Council in a town with a population of 20,001 to 3 lacs and a Municipal Corporation in a city of more than 3 lacs population.

As regards composition, the municipal authorities are to be constituted of (i) elected representatives to be elected from the different electoral wards; (ii) Members of the House of People (Lok Sabha) and the Legislative Assembly of the State representing constituencies which are wholly or partly under municipal area; (iii) Members of the Council of the States (Rajya Sabha) and the Legislative Council of the States who are registered as electors within the municipal area; (iv) Chairpersons of
Committees of the municipal authorities and (v) persons having special knowledge or experience in municipal administration. Empowerment of weaker sections of the society and women happens to be one of the substantial provisions of the CA. It has made the provisions for the representation of weaker sections of the society including women on pro rata basis in the proposed composition of the councils. Another very important provision of the CA pertains to the municipal authorities’ right to exist. It gives a term of five years to the municipalities and if they have to be dissolved, they must be given opportunities of being heard. Even if they have to be dissolved because of any irregularity, fresh elections are to be held within a period of six months. This will henceforth prevent the prolonged supersession for years together. By restoring the democratic process at the level of the cutting edge, this is expected to go a long way in making the municipal authorities vibrant institutions of local self-government.

The CA envisages devolving to the municipal authorities, functions relating to preparation of plans for economic development and social justice as well as for implementation of various development schemes. It has appended a new Twelfth Schedule to the Constitution of India, which lists out functions to be performed by them. It lists out, in all, 18 functions, many of which have traditionally been local functions although some of them are unconventional and even ambitious in nature, for the municipal authorities.
Urban planning, Regulation of land-use and construction of buildings, Roads and bridges, Water supply, Urban forestry, Safeguarding the interests of weaker sections of the society, Protection of environment and promotion of ecological aspects, Slum improvement, Urban poverty alleviation, etc, form part of the Twelfth Schedule. Devolving such responsibilities on municipal bodies, that have traditionally been responsible for only conservancy, street lighting and providing other basic amenities, is indeed a bold step. Thus, with the enactment of CA, perhaps an era of constituting specific purpose authorities by withdrawing such functions from the municipal arena will come to an end. It also gives an impression that henceforth the gradual State encroachment on municipal functional domain will stop altogether as these have been specified in the new Schedule of functions.

Devolving of functions without devolution of sources of revenue does not carry any meaning. In fact, the decline in institutional capability of ULBs is largely due to their weak fiscal capabilities. In the area of municipal finance, an important step taken by CA is the mandatory constitution of Finance Commission by the State governments once in every five years. The Finance Commission is to make recommendations regarding principles to govern sharing of the state taxes, duties, tolls and the fees between the State Government and the ULBs as well as its distribution among the ULBs. The Finance Commission is also to suggest the principles for the determination
of taxes, duties, tolls and fees to be assigned to them and the grants-in-aid to be given to the ULBs out of the Consolidated Fund of the State. It has also the mandate to suggest ways and means of improving the financial position of the ULBs. In Punjab, so far three Finance Commissions have been constituted. The First Finance Commission was constituted in 1994, the Second in 1999 and the Third in 2004.

The CA also provides for setting up of District Planning Committees to consolidate the plans prepared by the municipalities and panchayats within the district and to prepare a draft development plan for the district as a whole. The municipalities are to be represented on it. The draft development plan has to be prepared with respect to the matters of common interest between the panchayats and municipalities including spatial planning, sharing of water and other physical and natural resources, integrated development of infrastructure and environmental protection. Similarly, Metropolitan Planning Committees are to be set up in the metropolitan areas on which the municipal authorities are to be represented.

Thus, CA is a milestone development in the history of independent India. With the incorporation of wide ranging provisions relating to electoral process, finances and planning mechanism, this Amendment aims at transforming the ULBs into strong and viable units of “self-government” and brings them into the mainstream of country’s socio-economic
development. Besides according constitutional status to the ULBs, the CA envisages mobilization of resources as the primary responsibility of the ULBs in order to bring fiscal health to municipal finance and to achieve the constitutional objective of financial autonomy.

**Urban Local Bodies in Punjab: A Historical Perspective**

Although existed during the Medieval and Mughal periods, the local self-government in urban areas in its present form is the legacy of the British rule. The evolution of local government in Punjab dates back to the 1840s, after Punjab came under the British rule. As in the rest of the country, the local government in Punjab was completely under bureaucratic control at that time. The administration of local services and other local affairs was entrusted to the district administration. Later on, a process of gradual decentralization was initiated by the British government in the year 1860 when the first law relating to the ULBs in Punjab was passed, followed by another law in the year 1873. These laws marked the beginning of municipal governments with partially elected ULBs endowed with a few specified functions and powers.

In the year 1907, as a sequel to the recommendations of the Royal Commission, there was further decentralization and transfer of powers in favour of the ULBs. The functions and powers of the ULBs were considerably enhanced by the passage of The Punjab Municipal Act, 1911.
The Government of India Act, 1919 embodied the spirit of the recommendations of the Royal Commission. This Act introduced “diarchy” or dual system, under which the control of some of the matters was retained by the Governor and the Executive Council while that of others was transferred to the popularly elected Provincial Legislature, making the municipal government a transferred subject. The Government of India Act, 1935, which substituted diarchy by provincial autonomy, replaced the Act of 1919 and the ULBs were placed under the jurisdiction of the Provincial Government.

Another landmark in the development of the local government was the introduction of Montague Reforms. These reforms introduced major changes in the functioning of municipal governments to make them an integral part of the overall administrative machinery of the country. The reforms included amendments to the existing legislations to provide for more decentralisation by extending franchise to the municipal electorates and by reducing the control exercised by the State government in municipal affairs. However, the Deputy Commissioner exercised control over these bodies as a representative of the State government.

Even after independence, there was no significant improvement in the status of the ULBs in respect of their functional or financial jurisdiction or in the grant of greater autonomy to them. The local government, under the
Constitution of India, was made a State subject without any constitutional provision for either the responsibilities or the resources for the ULBs.

The Punjab Municipal Act, 1911 has continued to be in force, till today, with minor modifications, in Punjab. The authority and the financial powers of ULBs have remained subject to varying State controls. There is no provision in the Punjab Municipal Act, 1911 entitling the ULBs to any statutory grants or State funds. Three municipal corporations, for the cities of Amritsar, Ludhiana and Jalandhar, were set up under the Punjab Municipal Corporation Act, 1976. However, there was no substantial difference with respect to the autonomy exercised by these corporations, as compared to that of the municipal committees. In spite of provisions for setting up elected bodies for the municipal bodies for the municipal committees and the corporations, these bodies have been kept in supersession. The municipal corporations, though set up in 1976, did not have elected bodies until the year 1991. The municipal committees too were kept superseded for a period of more than thirteen years until elections were held in the year 1992.

Because of the constraints on their financial powers and the absence of systematic principles for the devolution of funds from the State, the ULBs have always been suffering from financial inadequacies in relation to their expenditure obligations. Rapid urbanization has exerted tremendous
pressure on the municipal services. This has affected, in many cases, the level and quality of municipal services, such as water supply, street lighting, sewerage, sanitation and road maintenance.

The post-independence period witnessed very little in the name of reforms. The dismal scenario of the urban areas, resulting from the deterioration of the municipal services, rapid growth of slums in the cities and towns, uncontrolled pollution and inadequacy of the municipal resources to meet this situation, did provoke thought and generated some debate, but resulted in only limited reforms. Various Committees were set up to look into the issue of the urban public finances. Some of the important Committees were: The Local Finance Enquiry Committee, 1951; Taxation Enquiry Commission, 1955; Rural Urban Relations Committee, 1963; The Committee on Augmentation of Resources of Local Bodies (Zakaria Committee), 1963; The 7th and subsequent Finance Commissions; The Planning Commission’s Task Force on Housing, 1983 and National Commission on Urbanisation, 1988. In Punjab, a Taxation Enquiry and Resource Committee was set up in 1971, to look into the finances of the local bodies, which made various recommendations. However, no radical transformation in the role or status of the ULBs was evident.
Structure and Composition of Urban Local Bodies in Punjab

The municipal government in Punjab, before the enactment of 74th Amendment to the Constitution, comprised three types of ULBs, namely the Municipal Corporations for three larger urban areas of Ludhiana, Jalandhar and Amritsar, 92 Municipal Committees of class I, class II and class III status for the smaller urban areas and 31 Notified Area Committees for the transitional areas. While the Municipal Corporations and Municipal Committees were by and large representative bodies, the Notified Area Committees were nominated bodies in respect of a specified area.

Under the provisions of The Punjab Municipal Corporation Act, 1976, the government could, by notification, declare a municipal area to be a city, provided it had a population exceeding 3 lacs and income of more than Rs. 2 crores, and constitute a corporation charged with the Municipal Government of the city.

There was no laid down criteria for constituting a municipality under The Punjab Municipal Act, 1911. The State Government could under Section 4 of The Punjab Municipal Act, 1911, after notifying a proposal to that effect and after considering the objection to the said notification, proposing any area to be a municipality under the Act, declare any local area to be a municipality of class I, class II or class III status. Again, no criteria have been laid in the Act regarding the basis on which a municipality is to be
classified into class I, class II or class III. However, the Department of Local Government is acting on the executive instructions based on the population and the income of a municipality for determining as to which class of municipality is to be constituted for a particular area.

As far as the Notified Area Committees are concerned, under the provisions of Section 241 of The Punjab Municipal Act, 1911, an area to be declared a Notified Area, should not be a purely agricultural village. It should have a town or a bazaar. In other words, the local area should have already acquired some features of an urban settlement before it is notified for the purpose of constituting a Notified Area Committee. The Notified Area is, therefore, not a municipal area in the strict sense of the term. However, a municipal fund may be expended for that area and the government may also make certain provisions of The Punjab Municipal Act, 1911 applicable to that area, including imposition of taxes leviable in the ULBs.

Since independence, municipal government in India underwent a very few structural changes and remained neglected, leading to its institutional marginalization. With the onset of liberalized political culture at the Centre by the end of 1980s, attempts were made to confer constitutional status on municipal government in India. This resulted in the passage of the 74th Constitutional Amendment Act, 1992.
The 74th Constitutional Amendment is a milestone development in the history of independent India. With the incorporation of wide ranging provisions dealing with the electoral processes, finances and planning mechanisms, the Amendment aims at transforming the ULBs into strong and viable units of “Local Self Government”, bringing them into the mainstream of the country’s socio-economic development. The Amendment accorded constitutional status to the ULBs. In addition, the 74th Amendment provided for some degree of institutional uniformity, reservation of electoral seats for weaker sections and women, a desired municipal functional list, creation of planning committees in the districts and metropolitan area, and appointment of State Election Commission and State Financial Commission on the models of their central counterparts. Besides according constitutional status to the ULBs, the 74th Amendment envisages mobilization of resources as the prime responsibility of the ULBs in order to bring fiscal health to municipal finance and to achieve the constitutional objective of financial autonomy.

The 74th Amendment has added a new 12th Schedule to the Constitution, which lists out 18 functional areas for possible devolution to the ULBs. Among these areas are some new functions such as slum improvement, cultural promotion, urban poverty alleviation, environmental protection, etc.

The 74th Amendment required the States to constitute ULBs in three categories: (a) Nagar Panchayats or town councils for transitional urban areas, (b) Municipal Councils for smaller urban areas, and (c) Municipal
Corporations for larger urban areas. As far as the constitution of different urban areas into larger urban area, a smaller urban area or a transitional area, no definite criteria have been laid down in the new legislation also. The matter has been largely left to the State governments, which may, having regard to the population of the area, the density of the population thereon, revenue generated for local administration, the percentage of employment in non-agricultural activities, economic importance or such other factors, as it may deem fit, specify an area to be a large urban area, a smaller urban area and a transitional urban area. Accordingly, the State governments may constitute a Municipal Corporation for a larger urban area, a Municipal Council of class I, class II and class III status for smaller urban areas and a Nagar Panchayat for a transitional area. Ordinarily, a Nagar Panchayat is created with a population size of 5000-20,000. A Municipal Council is generally constituted with a population of 20,001-3,00,000 and a Municipal Corporation is created for a population of over 3,00,000.

In Punjab, the major units of urban local governments are municipal committees. The 74th Amendment changed the name from Municipal Committees to Municipal Councils. The Municipal councils are constituted and administered under The Punjab Municipal Act, 1911. For establishing Municipal Corporations in bigger towns, The Punjab Municipal Corporation Act, 1976 was enacted. The Punjab Municipal Act, 1911 and The Punjab Municipal Corporation Act, 1976 were amended in the year 1994 through
The Punjab Municipal (Amendment) Act, 1994 and The Punjab Municipal Corporation (Amendment) Act, 1994 respectively to bring these Acts in conformity with the provisions of the 74th Constitutional Amendment Act, 1992. As per powers conferred under the 74th Constitutional Amendment, the State government has classified the ULBs into four categories, namely Class I, Class II, Class III and Nagar Panchayats. Although no specific criteria have been laid down in the Act, yet the main yardsticks are income, population and other relevant considerations. The classification of ULBs on the basis of population is as follows:

**Municipal Corporations** : Population over 3 lacs

**Class I Municipal Councils** : Population between 1-3 lacs

**Class II Municipal Councils** : Population between 50,001-1 lac

**Class III Municipal Councils** : Population between 20,001-50,000

**Nagar Panchayats** : Population less than 20,000

For administrative purposes, the State of Punjab has been divided into five regions; viz. Amritsar, Jalandhar, Ludhiana, Patiala and Ferozepur as far as the ULBs are concerned. At present, there are 133 ULBs in Punjab. Their break-up is as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Corporations</td>
<td>05</td>
</tr>
<tr>
<td>Municipal Councils (Class I)</td>
<td>24</td>
</tr>
</tbody>
</table>
Municipal Councils (Class II) : 42
Municipal Councils (Class III) : 30
Nagar Panchayats : 32
Total : 133

Prior to 10-04-2003, there were only four Municipal Corporations in Punjab, viz., Amritsar, Jalandhar, Ludhiana and Patiala. But with effect from 10-04-2003, Bathinda has become the fifth Municipal Corporation of the State.

Functions of ULBs in Punjab

The ULBs in Punjab perform a dual role of a local government and a service organization. As local government, the ULBs perform regulatory functions like enforcement of building by-laws, registration of births and deaths, controlling noxious trades and industries, regulating markets and slaughter houses, etc. As service organization, the ULBs have been endowed with certain essential civic functions like provision of water supply, sewerage and drainage, sanitation and solid waste management, street lighting, construction, repair and maintenance of roads and streets etc.

The constitution and functioning of the Municipal Corporations in the State is governed by The Punjab Municipal Corporation Act, 1976. Sections 43, 44 and 45 of the said Act have laid down a clearly legislated set of...
general powers including obligatory and discretionary functions of the municipal corporations. Although The Punjab Municipal Corporation Act, 1976 does distinguish between the obligatory and discretionary functions, yet no such distinction is made in The Punjab Municipal Act, 1911, which governs the Municipal Councils and Nagar Panchayats in the State. The Punjab Municipal Act, 1911 does not even contain a defined list of municipal functions. It only provides a list of “expenditure items” from the Municipal Funds, which indirectly indicate several duties to be performed by the municipalities. These include:

- The construction, maintenance, improvements, cleansing and repair of all public streets, bridges, town-halls, embankments, drains, privies, latrines, urinals, tanks and water courses and the preparation of compost manure;

- The watering and lighting of such streets or any of them;

- The construction, establishment and maintenance of schools, hospitals and dispensaries, and other institutions for the promotion of education or for the benefit of public health, and of rest houses, sarais, poor houses, markets, encamping grounds, ponds and other works of public utility, and the control and administration of public institutions of any of these descriptions;
• Grants-in-aid to schools, hospitals, dispensaries, poor houses, leper asylums and other educational or charitable institutions;

• The training of teachers and the establishment of scholarships;

• The giving of relief and the establishment and maintenance of relief works in time of famine or scarcity;

• The supply, storage and prevention of pollution of water for the use of men or animals;

• The planting and preservation of trees, and the establishment and maintenance of public parks and gardens;

• The taking of census, the registration of births, marriages and deaths, public vaccination and any sanitary measure;

• The holding of fairs and any industrial exhibition;

• The preparation and maintenance of a record of rights in immovable property; and

• All acts and things, which are likely to promote the safety, health, welfare or convenience of the inhabitants or expenditure whereon may be declared by the Committee, with the sanction of the State Government to be appropriate charge on the Municipal Fund.

The above list is, thus, at best only a general description of the various items of expenditure on which Municipal Funds can be expended. It does
not in any way specify the inter-se priorities to be given to various duties of
the Municipal Committees. This is left to the State Government, which may
make rules with respect to the priority to be given to the several duties of a
Municipality under this Act.

The functional domain of the ULBs has assumed a special
cconstitutional significance after the passing of the Constitutional 74th
Amendment Act, 1992. The existing legislation does not devolve clearly
defined duties and responsibilities on the ULBs, as the issue of financial
devolution is interlinked with the functional domain of the ULBs, a set of
obligatory and discretionary duties of the Municipalities should be laid
down.

As mentioned earlier, the 74th Constitutional Amendment has added a
new 12th schedule to the Constitution, which lists out 18 functions to be
devolved on the ULBs. This has led the State Government to redraft the
municipal legislation, for which policy decisions on various issues are being
taken. Notwithstanding the existing legislation on the functional domain of
the ULBs, the functional domain of the ULBs in Punjab suffers from lack of
clarity. It also lacks stability, as over time the functional responsibilities of
the ULBs have either been modified, diluted or taken over by the State
Agencies. In fact, there has been a tendency towards the reversal of some of
the responsibilities of the bodies. This fact was also observed by the Task
Force Report\textsuperscript{2} of the Planning Commission of Government of India. The report found that the role of ULBs in urban management had been “undermined over the years without a serious consideration of the implications of this nor of the alternatives”. Moreover, “even the obligatory functions of these bodies have been taken away in many cases and assigned to State-level autonomous bodies”. As a result, the municipalities have almost been reduced to a position of irrelevance in the wake of the growth and strength of the development authorities and special purpose agencies. In Punjab, the State Government has taken over a number of functions, such as education, health, food administration, regulation of weights and measures, which have been the domain of the municipalities. Even in the performance of the functions, which are strictly the functional domain of the municipalities, such as water supply and sewerage, there is parallel participation of the State through parastatal agencies such as the Punjab Water Supply and Sewerage Board. Similarly, the Punjab Urban Planning and Development Authority certainly undermines the status of the municipalities in the matter of urban planning. It is, therefore, imperative that the ULBs be allotted exclusive functions and not concurrent functions. The concurrent nature of municipal responsibilities would only make the ULBs half-hearted and dependent participants in discharging what should be their exclusive responsibilities. It is sometimes argued that the parastastals help to provide a high degree of expertise to the municipalities which,
otherwise, are not equipped to undertake the tasks requiring expertise and technical capabilities. To the extent that these agencies provide consultancy to the ULBs, without endangering or deterring from their primacy as elected representative bodies, such parastatal agencies, may be serving a useful purpose. However, the various provisions of the Acts governing these parastatal agencies, particularly those relating to the Punjab Urban Planning and Development Authority, create an apprehension that such agencies, which are purely bureaucratic in character, would come to acquire a position of supremacy over the genuinely representative institutions of local self-government. The First Punjab Finance Commission was of the opinion that the parastatal agencies should, in no way, be allowed to acquire a status, which overshadows the functional domain and the authority of the local government institutions, as this would be directly in contravention to the spirit of the 74th Constitutional Amendment. The Task Force Report after a long discussion of the pros and cons of the utility of these agencies v/s municipalities concludes that “development authorities and State-level utility bodies are not a priori necessary for executing functions assigned to the municipalities”.

The 74th Constitutional Amendment confers a constitutional status on the ULBs and the 12th Schedule of the Constitution of India illustrates the functions which may be performed by the municipalities. The devolution of functions on the ULBs was carefully studied by the First and Second Punjab
Finance Commissions. While studying this issue, they gave due consideration to the following facts:

- Existing functions and the financial resources of the ULBs.
- The intention of the 74th Constitutional Amendment with regard to making the municipalities effective institutions of local self-government.
- Practice followed in other States; and
- Views of the elected representatives of the municipalities, intellectuals and the public men.

After careful deliberations, the Commissions have categorized the functions of the municipalities as the obligatory functions, agency functions and discretionary functions. The obligatory functions are those which relate to the core civic services, which a municipality must provide to the urban population at a minimum desirable level. The discretionary functions are those which a municipality may decide to undertake, considering its financial resources and organizational capacity. And, the agency functions are those functions which may be performed on behalf of the higher level of the government, if so desired, on full sponsorship of costs, including manpower costs. The Commissions also decided that in estimating the financial requirements of the municipalities, only the essential/obligatory...
functions of these bodies be taken into account. The Commissions recommended the devolution of following functions on the municipalities:

**Obligatory/Essential Functions**

- Regulation of land-use and construction of buildings.
- Construction, repair and maintenance of roads, streets and bridges.
- Water supply for domestic, industrial and commercial purposes.
- Public health, sanitation, conservancy and solid waste management.
- Fire services.
- Urban forestry and maintenance of public parks, gardens, green belts, etc.
- Improvement and upgradation of urban slums.
- Protection of environment and promotion of ecological aspects.
- Upkeep and maintenance of cremation and burial grounds.
- Maintenance of cattle ponds and prevention of cruelty to animals.
- Vital statistics including registration of births and deaths.
- Construction and maintenance of the parking lots, bus stands and public conveniences.
- Regulation of slaughter houses and tanneries.
• Urban renewal and town planning schemes.

• Provision of street lighting.

• Sewerage and surface drainage.

• Measures for preventing and checking the spread of diseases.

• Reclamation of unhealthy localities, removal of noxious vegetation and abatement of nuisances.

• Regulation of offensive and dangerous trades.

• Removal of encroachments and dangerous buildings.

**Discretionary Functions**

• Library services.

• Civic receptions.

• Relief to destitute and disabled persons.

• Promotion of sports and games, construction and maintenance of stadia.

• Construction and maintenance of community centres, rest houses, houses for the poor, children houses, etc.

• Maintenance of art galleries, museums, botanical gardens and zoological parks.

• Establishment and maintenance of hospitals and dispensaries.
• Promotion of education including cultural and physical education in schools and colleges.

Agency Functions

• Safeguarding the interests of weaker sections of the society, including the handicapped and the mentally retarded.

• Urban poverty alleviation.

• Promotion of cultural, educational and aesthetic aspects.

Urbanization and Demand for Civic Services in Punjab

Urbanization may be broadly defined as the societal process that creates the dynamic system that we call a city. It is a complex process in which the population of a country is transformed from its rural and geographically well-spread nature to an urban and highly concentrated one. From being individualistic in character, the society begins to depend more and more on public services apart from becoming more interdependent amongst themselves. This process is self-augmentative in character. As the city governments provide better and more efficient services, they attract more people within their folds creating additional demand on urban services. Many a time, beyond a certain peak, the quality of urban services ultimately begins to decline due to such continued additional pressures. A direct impact
of urbanization is a growth in local public expenditure due to rise in demand for local public goods in quantity and quality.

As far as urbanization in Punjab is concerned, according to 2001 Census, the total population of the State of Punjab in 2001 was 2.4289 crore against the population of 2.0282 crore in 1991 Census, giving a decennial growth rate of 19.76 percent for the decade 1991-2001. The urban areas of the State have witnessed much faster growth of population during this decade as compared to rural areas. The rural population, on the other hand, increased from 1.4289 crore in 1991 to 1.6044 crore in 2001, giving a decennial growth rate of 12.28 percent during this period. In fact, Punjab is in the midst of urban transition. The trends in urbanization can be indicated by the degree of urbanization, which is defined as the ratio of urban population to total population. In the beginning of the twentieth century, the degree of urbanization of the then pre-partition united Punjab was only 12.46 per cent. At present, the degree of urbanization in Punjab is 33.95 per cent, which is much higher than the degree of urbanization of 27.78 per cent for the country as a whole. Punjab is now the fifth major urbanised State of India after Tamil Nadu (43.86 percent), Maharashtra (42.40 percent), Gujarat (37.35 percent) and Karnataka (33.98 percent). Today, one out of every three persons in Punjab is urban by residence. Table 1.1 presents the trends in urbanization in Punjab.
The table shows that the degree of urbanization in Punjab is expected to increase to about 45 per cent by the year 2021. The table also clearly shows that the compound annual growth rate (CAGR) of the urban population is higher than that of the total population.

The growing urbanization has led to high population density in urban areas. A number of towns/urban agglomerations have come up during the decade 1991-2001 and the gap between towns has narrowed down due to growth of new towns and expansion of municipal limits. The fast growth rate of urbanization is attributable to natural growth, extension of municipal
limits and migration from rural to urban areas and influx of people from other states in search of employment opportunities as well as for better health and educational facilities. This trend is likely to continue in the years to come.

Not only there is rapid urbanization in the State, but also there is a tendency for the urban population to congregate in the bigger cities and towns. According to 2001 Census, 41.92 per cent of the total urban population of the State is living in four corporation cities, viz., Ludhiana, Amritsar, Jalandhar and Patiala and 58.08 per cent of the total population is living in 14 cities and towns with a population of one lac and above. On the other hand, there are 70 municipal towns with population less than 20,000.

The provision of basic services has not kept pace with urbanisation. This has given rise to a host of problems such as air and water pollution, traffic congestion, mushrooming of slums, deterioration in civic services, etc.

A district-wise analysis of urbanization in Punjab shows that there is a wide variation in the distribution of urban population. This is shown in Table 1.2.
Table 1.2: District-Wise Degree of Urbanization in Punjab: 2001

<table>
<thead>
<tr>
<th>Name of the District</th>
<th>Total Population</th>
<th>Urban Population</th>
<th>Degree of Urbanization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ludhiana</td>
<td>30,30,352</td>
<td>16,90,786</td>
<td>55.79</td>
</tr>
<tr>
<td>Jalandhar</td>
<td>19,53,508</td>
<td>9,26,973</td>
<td>47.45</td>
</tr>
<tr>
<td>Amritsar</td>
<td>30,74,207</td>
<td>12,29,561</td>
<td>40.00</td>
</tr>
<tr>
<td>Patiala</td>
<td>18,39,056</td>
<td>6,43,333</td>
<td>34.98</td>
</tr>
<tr>
<td>Faridkot</td>
<td>5,52,466</td>
<td>1,87,242</td>
<td>33.89</td>
</tr>
<tr>
<td>Kapurthala</td>
<td>7,52,287</td>
<td>2,45,139</td>
<td>32.59</td>
</tr>
<tr>
<td>Rupnagar</td>
<td>11,10,000</td>
<td>3,60,338</td>
<td>32.46</td>
</tr>
<tr>
<td>Bathinda</td>
<td>11,81,236</td>
<td>3,51,789</td>
<td>29.78</td>
</tr>
<tr>
<td>Sangrur</td>
<td>19,98,464</td>
<td>5,84,820</td>
<td>29.26</td>
</tr>
<tr>
<td>Fatehgarh Sahib</td>
<td>5,39,751</td>
<td>1,51,569</td>
<td>28.08</td>
</tr>
<tr>
<td>Ferozepur</td>
<td>17,44,753</td>
<td>4,50,399</td>
<td>25.81</td>
</tr>
<tr>
<td>Muktsar</td>
<td>7,76,702</td>
<td>1,98,195</td>
<td>25.52</td>
</tr>
<tr>
<td>Gurdaspur</td>
<td>20,96,889</td>
<td>5,33,820</td>
<td>25.46</td>
</tr>
<tr>
<td>Mansa</td>
<td>6,88,630</td>
<td>1,42,382</td>
<td>20.68</td>
</tr>
<tr>
<td>Moga</td>
<td>8,86,313</td>
<td>1,77,631</td>
<td>20.04</td>
</tr>
<tr>
<td>Hoshiarpur</td>
<td>14,78,045</td>
<td>2,90,644</td>
<td>19.66</td>
</tr>
<tr>
<td>Nawanshahar</td>
<td>5,86,637</td>
<td>80,945</td>
<td>13.80</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,42,89,296</strong></td>
<td><strong>82,45,566</strong></td>
<td><strong>33.95</strong></td>
</tr>
</tbody>
</table>


As is clear from the table, Ludhiana is the most urbanised district in the State, whereas Nawanshahar with only 13.80 per cent of its population living in urban areas is the least urbanised district.
Sources of Revenues of Urban Local Bodies

In order to carry out their functions, the ULBs need adequate finances. They depend upon both internal and external sources for their revenues.

**Internal Sources of Revenue:** Internal sources include both tax and non-tax sources. As regards tax sources, there is some uniformity among States about levying of certain taxes, though the resource base of the ULBs is not only narrow but also restricted. There is a range of major local taxes which may be levied by the ULBs in the respective States as per their Municipal Acts. These include octroi, house/property tax, water tax, lighting, drainage and conservancy, taxes on animals and vehicles, professional tax, tax on trade and calling, entertainment tax, advertisement tax, tax on education, toll tax, boat tax, market fee, fee for registration of cattle and vehicles, betterment levy, tax on domestic menial servants, stamp duty on sale of property, tax on timber, fire fighting etc. However, octroi, property taxes (including service taxes) and taxes on animals and vehicles are prominent taxes common to almost all the States. Non-tax sources include user charges such as water and sewerage charges, fees, fines, toll, rents and income from municipal properties and investment (commercial ventures), etc.
**External Sources of Revenue:** Since own sources of raising revenues are not generally sufficient to provide the local public goods and services at desirable levels, the arrangement of external sources has been provided for. This source of revenue is by way of inter-governmental fiscal transfers and borrowings.

(1) **Inter-governmental Fiscal Transfers:** These transfers flow to the ULBs from their respective State governments or from the central government via their respective State governments in the form of revenue-sharing in assigned taxes as well as grants-in-aid.

(a) **Revenue from assigned shared taxes:** The ULBs receive a share in the net proceeds of certain assigned taxes which are basically of local nature. These taxes are administered by the State governments. Depending upon the particular tax, the State government decides whether it is to be wholly or partly devolved amongst the ULBs. In general, motor vehicles tax, entry tax, terminal tax, entertainment tax, theatre tax, property registration fees, receipts from fines in breach of municipal laws are such taxes and levies which are shared by the ULBs. Some States do levy special surcharges on major taxes the accrual of which are assigned to the ULBs.

(b) **Grants-in-aid:** The State governments provide grants-in-aid to the ULBs to release their financial constraints. The purpose of these grants may be to support non-Plan ordinary expenditure and also to finance capital
expenditure and recurring expenditure of Plan schemes. Grants-in-aid may be both general purpose and specific purpose grants. General purpose grants are income supplements given to basically needy smaller ULBs with relatively lower income potential. The specific purpose grants are tied with certain functions or projects. These may be recurring or non-recurring in nature. Recurring grants are usually based on the unit cost principle. Education and health are such functions which have strong externality effects and which may, therefore, be supported by this type of grant.

(2) Borrowings: Apart from capital grants, these ULBs finance developmental activities by raising funds through loans, if they find their own sources of revenue insufficient to finance capital expenditures, which is invariably the case. Since these bodies are barred to raise loans from any financial institution or market, they can get them only from the State governments. In certain cases, the Central government or other financial agencies like LIC, HUDCO, World Bank, etc. may lend money but on the guarantee of their respective State governments.

Objectives of the Study

The basic purpose of the study is to analyse the financial position of the ULBs in the State of Punjab and to suggest remedial measures to augment financial resources of these bodies so as to make them viable and self-reliant units of local self-government as envisaged in the 74th
Amendment to the Constitution. Keeping this broad objective in view, the study purports to review the existing resource position of the ULBs in Punjab and to suggest remedial action as well as other sources of revenue including accessing capital market. The main objectives of the proposed study are as follows:

- To review the existing sources of revenue (both tax and non-tax) and expenditure pattern of ULBs.
- To examine the trends of revenue and expenditure of the ULBs.
- To identify the determinants of tax revenue and expenditure of the ULBs and to estimate the regression equations.
- To estimate the elasticity and buoyancy of individual taxes and total tax revenue of the ULBs with a view to examine the responsiveness of different categories of taxes to changes in State’s urban income.
- To calculate the tax efforts of ULBs of Punjab.
- To identify the potential sources of revenue for the ULBs with a view to augment their resources.

Scope of the Study

To put the objectives of the study in the right perspective, a representative sample of three ULBs was proposed to be selected – one each from the three tiers of municipalities in Punjab, namely the Municipal
Corporation, Ludhiana from Ludhiana district, the Municipal Council, Muktsar from Muktsar district and the Nagar Panchayat, Baghapurana from Moga district. However, due to data and other constraints, it was later decided to conduct an aggregate study of all the ULBs in the State of Punjab as the data at the aggregate level for all the ULBs of the State were available. The availability of data at the macro level has restricted the scope of the study to an aggregate level, i.e., the present study is an aggregate study of all the ULBs in Punjab and an attempt has been made to make the best possible use of the available data.

The time period of the study will cover both the pre and post-74th Constitutional Amendment period, i.e., from 1970-71 to 1990-91 (Period I) and from 1991-92 to 2005-06 (Period II).

**Data Sources and Methodology**

The study is based mostly on secondary data. The data are obtained mainly from Statistical Abstracts of Punjab and Directorate of Local Government, Punjab. Apart from these sources, the study has also drawn upon the Reports of the First, Second and Third Punjab Finance Commissions. Urban Finance, the quarterly newsletter, and other publications of the National Institute of Urban Affairs (NIUA), New Delhi, have also been consulted.
The data have been analyzed by applying various statistical
techniques. As the structure and pattern of municipal taxes and expenditures
have remained more or less the same in pre and post-74th amendment
periods, the review of finances of ULBs in Punjab has been undertaken only
for the post-amendment period, i.e., Period II (1991-92 to 2005-06) in order
to avoid repetition and multiplicity of tables. However, the tables relating to
pre-amendment period, i.e., Period I (1970-71 to 1990-91) are given in
Appendix-2. The growth rates of income and expenditure and their
components were calculated by using compound annual growth rate
(CAGR) formula. Explanatory variables for determination of revenue and
expenditure were identified on the basis of the principles of economic theory
and the existing empirical literature. The hypotheses advanced were
statistically tested for significance. Multiple regression analysis was used as
analytical technique for explaining variations in the dependent variables.
Step-wise regression was used in one or two instances, but, as the results
were not found to be significant, they were not reported. In order to test the
differences in the regression coefficients in the two time periods, the
technique of dummy variables was used. The dummy variable assumed the
values 0 in Period I (1970-71 to 1990-91) and 1 in Period II (1991-92 to
2005-06). Elasticity of tax revenue was measured by Divisia Index
Approach. At the local level, data on legal tax bases are not available, so
elasticity of tax revenue has been measured by using proxy tax bases. The
buoyancy of the tax revenue was estimated with respect to income variables by regression technique. The tax efforts of the ULBs were calculated by using regression analysis.

**Scheme of Presentation**

The study has been divided into 8 chapters. Chapter 1 contains introduction to the topic, the 74th Constitutional Amendment and the ULBs, a brief history of ULBs in Punjab, structure, composition and functions of ULBs in Punjab in pre and post-constitutional 74th Amendment period, objectives of the study, scope of the study, data sources and the methodology and the scheme of presentation. Chapter 2 contains the review of literature and is confined to the studies in the post-independence period. A few more studies were reviewed in Chapters 4, 5 and 6 also. In Chapter 3, a review of finances of the ULBs in Punjab has been undertaken. As the structure and pattern of municipal taxes and expenditure have remained more or less the same in pre and post-74th Amendment period, the review has been undertaken only for post-Amendment period. However, the tables relating to the pre-amendment period are given in Appendix-2. Chapter 4 is devoted to the study of the determinants of municipal tax revenue and expenditure. In Chapter 5 tax efforts of the ULBs in Punjab has been discussed. In Chapter 6 the elasticity and buoyancy of tax revenue of the ULBs has been worked out. In Chapter 7 various methods of augmenting the
resources of the ULBs in Punjab have been discussed in the light of the 74th Constitutional Amendment. Finally, in Chapter 8, the summary, conclusions and policy implications of the study are given.
Notes and References


