CHAPTER 2

Review of Literature

There is not much literature available on the resources assigned to and the performance of the functions of the local bodies and the ULBs in particular. With the enactment of the 74th Amendment to the Constitution, federal structure in India got a third tier and the process of decentralization got more broad-based and the intergovernmental relations acquired new and important dimensions. However this is still in the formative stages and the potential of ULBs has not been fully realized.

As the studies of fiscal behaviour of ULBs in India and particularly in Punjab are few and far between, an attempt has been in the present study to fill this gap to some extent by undertaking an analysis of ULBs in Punjab in both the pre and the post – 74th Constitutional Amendment era. A number of studies are available which deal with different aspects of local public finance in a federal economic framework. In this chapter an attempt has been made to review some of the studies in the post-independence period. After independence, the Central Government set up a number of commissions and committees to look into the finances of ULBs and recommend measures to augment the resource of these bodies. Some of these studies are as follows.
Local Finance Enquiry Committee\textsuperscript{1} (1951): In 1949, the Central Government set up “The Local Finance Enquiry Committee” to report on ways and means of improving the financial resources of ULBs. The Committee suggested that in order to ensure finances to ULBs, a convention may be established by which the net proceeds of tax revenue should be made available exclusively to local authority. The list of taxes exclusively recommended for ULBs included: terminal taxes on goods or passengers carried by Railway, sea or air; taxes on lands and buildings; taxes on mineral rights subject to any limitations imposed by parliament by law relating to mineral development; taxes on entry of goods into a local area for consumption, use or sale thereon; taxes on the consumption or sale of electricity; taxes on advertisement other than advertisement published in the newspaper; taxes on goods and passengers carried by road or on inland waterways; taxes on vehicles, other than those mechanically propelled; taxes on animals and boats: tolls; taxes on professions, trade, callings, and employment; capitation taxes, and taxes on entertainment including amusement.

Taxation Enquiry Commission\textsuperscript{2} (1953-54): In 1953-54, the Taxation Enquiry Commission submitted its reports. It pointed out that the growth of municipal revenue was inadequate in relation to the growth of expenditure on important civic services. It recommended a list of ten taxes but the transfer of these taxes was left to the discretion of State
Governments. These taxes included; taxes on land and buildings; taxes on the entry and goods into the area of local authority for consumption use or sale therein, popularly known as octroi; taxes on vehicles other than mechanically propelled; taxes on animals and boats; taxes on professions, trade, callings and employment; taxes on advertisement other than advertisement in the newspapers; taxes on goods and passengers carried by road or inland waterways; and tolls.

Committee of Ministers on the Augmentation of Financial Resources of Urban Local Bodies\(^3\) (1963): In 1963, Central Council of Local Self-Government prepared a report on the “Augmentation of Financial Resources of Urban Local Bodies”. The Committee, popularly known as Zakaria Committee, was of the view that our local government has not been very effective because of the weak financial administration of our local authorities. They have often failed to meet their objectives and maintain the financial soundness. The Committee suggested that all schemes pertaining to urban development should be brought together and executed in a coordinated manner. For property tax, a ‘Central Valuation Department’ should be set up in each State and the tax should be freed from the restrictive influence of Rent Control Act. The definition the lands and buildings should be suitably modified on lines of practice prevailing in England. Octroi in its present form should be gradually replaced either by a turnover tax or surcharge on sales tax or by some other method which

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should be free from the evils of octroi system. Licensing system should be made more efficient and comprehensive. The ULBs should be encouraged to take up remunerative activities which would create permanent assets yielding perennial non-tax income. Each State should have a grants-in-aid code embodying certain well defined principles. There should be a basic general purpose grant for each local body in addition to specific grant for particular items and services.

**Rural-Urban Relationship Committee**

In 1963 Ministry of Health and Family Planning, Government of India set up, “The Rural-Urban Relationship Committee” which submitted its report in 1966. The committee suggested a system of local government capable of responding to the process of interaction and interdependence between the town and its adjoining villages. The Committee gave a criterion for the classification of urban local bodies. Besides fulfilling for conditions laid down by the Census Report, 1961, the lowest grade must provide potable water supply, street lighting, pucca surface drains, surfaced roads and streets, sanitation, conservancy and arrangement for the disposal of town refuse and prevention of epidemics. The Committee recommended the principle regarding the extension of municipal boundaries. The Committee was of the view that one of the main weaknesses of municipal government in India has been the absence of a well organized and effective system of personnel administration. It can be improved by establishing a permanent cadre of
officials recruited on merit and having security of tenure and opportunity for advancement through well graded and adequate scales of pay and a fair system of promotion. The Committee defined State-local relationship and was of the view that the State and Union governments must play a positive role to strengthen the municipal administration so that it may perform its tasks efficiently and effectively.

**Badhe** (1973): Badhe reported that property tax has not been able to acquire importance in the municipal finance in the state of Maharashtra. Although the property tax contributed between 20 and 30 percent of the tax revenue in Maharashtra, yet per capita tax collection from property tax including service taxes was Rs. 35 in Bombay, Rs. 15 in Madras, Rs. 9.50 in Nagpur, Rs. 8 in Delhi and Rs. 5 in Hyderabad in 1964-65. For all the municipal councils including corporations in Maharashtra, it was only Rs. 13 in 1969-70. With the passage of time the importance of this tax has not tended to increase. A Maharashtra, the state government prescribes there rates which vary between 15 and 22 percent of the rateable value. He has pointed out mainly limitation for low yield of property tax and has also suggested various measures for improving revenue through property tax.

**Bharava** (1973): Bharava has reported that municipalities in Rajasthan impose both octroi and house tax along with other taxes. Usually lower class of municipalities has lower per capita tax income, the growth
rate in revenue is very slow and uneven and it would not be possible for the municipalities to provide essential services.

Harris\(^7\) (1974): Harris traces the history of development of local (city) government in America and tells that local government expenditure is increasing continuously and at every turn of event (war, depression, development etc.) city governments were compelled to spend more. He also enumerates factors like initiation of development programme by federal government for which matching grants were required by the city government, growth of population, introduction of welfare schemes, rise in price level, migration of population from rural areas to urban areas, etc. responsible for the increase in expenditure by city governments. He tells that in 1974 local governments in America were spending $ 420 per capita, $ 336 in 1964 and $ 272 per capital in 1954. He also enlists the heads of expenditure like education, highways and streets, public welfare, health, hospitals, police, fire, local parks and recreation, sanitation and sewerage, housing and community development, air transportation and terminals, general control, interest on debt, etc. and which expenditure is called general and then water supply, electric insurance and trust and employee setting fees. As regards sources of revenue, about 63.9 percent of general revenue on source was mobilized through property tax. However, percentage of revenue contributed by property tax varied from state to state. For example, it was as low as 22.70 percent in Alabama, 26.00 percent in Columbia, 85.5
percent in Massachusetts and 88.8 percent in Vermont. About property tax he says that although most of the local government raised the funds they spent, they did so for most part by an annual tax on the estimated capital value of the property, mainly land and buildings, machinery and the inventories of business. Some miscellaneous revenue sources including charges for certain services supplemented property taxation. Further, burdens in importation areas are now frequently over 3 percent a year on full current market value of all real property. In some places, such as New York City, the burden is still greater, over 4 percent on such real estate. It is interesting to note that like underdeveloped countries, the tax administration is poor, particularly the assessment of value. About this criticism, he say that the merits of the tax are greater than American usually concede, especially when compared with equally realistic recognition of the good and bad qualities other revenue sources. For improvement he suggests that burden should rest pre-dominantly on land values and the tax rate on man-made capital should fall to one-third or so of the rates on land value.

**Harris (1975):** Harris in his study was of the view that a unilateral solution to the financial problems of local government is not possible, and that a solution must be a component of an integral progress of reforms and revision of the structure, functions and finances of local government. At the local authority level it is suggested that the general rate tax be revised so that it becomes for owners of land used for non-income earning purposes a flat
amount tax, although in larger urban centres the tax may vary among defined residential zones according to the quality of the social amenities available to these zones. For owners of land used for commercial and industrial purposes, the tax should reflect more the value of land in use, and taxes based on developed site values would be more appropriate than tax based on underdeveloped capital values. Further, owners of land used for business purposes should pay a fee based on the kind of use of the land and the economic extent of its use. Finally, local authorities should levy a tax on motor vehicle owners, the tax representing a proposition of the registration fees levied by the state government, and collected on behalf of the local authorities by the state government.

Singh⁹ (1979): Singh has conducted a study of five large municipalities in Bihar so as to examine the pattern of weak financial position, tax administration, etc. and has reported that almost in all the municipalities, percentage of revenue from own sources has declined over time and that of external sources has increased. Municipalities in Bihar have evolved a tax structure which is dominated by property tax and do not impose octroi. In Bihar, municipalities also impose water tax, latrine tax, tax on professions, trade and callings and employment, tax on vehicles etc. however, he points out that the average collection of taxes does not usually exceed 60 percent and in some case the municipalities failed to collect even 40 percent of their tax.
NCAER\textsuperscript{10} (1980): In 1980, NCAER conducted the study titled “A Study of the Resources of Municipal Bodies” at the instance of the Ministry of Works and Housing, Government of India. A purposive sample of 51 municipal bodies was selected for the study. The study pointed out that municipal bodies are short of funds, given the existing urban population and the level of services expected of them. Municipal bodies are created and given powers by the State governments. There is no constitutional provision for these bodies. The basic remedy lies in a suitable amendment of the Constitution to define the function and financial jurisdiction of these bodies. Octroi and property tax are the main contributors to municipal tax revenue. Several experts bodies have been criticizing octroi, describing it as obnoxious, vexatious and regressive. Octroi is an elastic source of revenue and States are against its outright abolition. The study was of the view that the octroi should be abolished in small municipalities and be confined to towns with populations exceeding two lakhs, where its levy should be rationalized and streamlined to minimize regressiveness and corruption that usually go with act. For the valuation of property tax, State level valuation agency should be created, with statutory powers to take up quinquennial revaluation of properties in various municipalities in rotation. Necessary amendments should be made in legal provisions so that additional property tax liability is passed on to the tenants, who are the principle beneficiaries of the services rendered by municipal bodies. Distribution of additional
revenue among municipal bodies can at best be decided at State level, because of the disparities in the existing framework among States in also within States. The function of grants-in-aid, especially of general purpose grant, should be only marginal to remedy the inequalities among municipal bodies in their capacity to utilize the available resources.

**Study Group on Resources of Urban Local Bodies and Municipal Corporations**11 (1982): In December 1980, the Ministry of Works and Housing, Government of India set up a Study Group on ‘Resources of Urban Local Bodies and Municipal Corporations’. The Study Group submitted its reports in December 1982. The group emphasized the urgent need to build up resources of the local bodies to a level to where it would be possible for a municipal body to provide and maintain the basic civic services at the minimum desired level through its own revenue. There is need for clear earmarking of resources for the local bodies. Statutory obligation should be introduced in the Constitution of India for the State Governments to set up Municipal Finance Commission every five year on the lines of the Central Finance Commission to deal with the provision of financial resources to the ULBs. Such a provision should be made by an amendment to Article 280. The tax base of the municipalities should be enlarged, tax collection machinery overhauled and collection procedure simplified. The ULBs should have access to institutional finance and market borrowings to the
extent of their capability for debt servicing through surpluses from annual reserve.

NIUA\textsuperscript{12} (1983): evaluated the financial condition and the level of services of ULBs in India by considering 1533 ULBs spread across 22 States and 5 Union Territories for the year 1979-80. In analyzing the financial condition of the ULBs, their income and expenditure were taken into account. The income and expenditure again included those from the ordinary account and the capital account. In calculating the ordinary income, receipts on account of non-recurring grants, loans, other items of extraordinary sources like deposits, advances etc. were excluded. Similarly, in computing ordinary expenditure, outlay on capital works and other extraordinary items were excluded. The entire capital income and capital expenditure were separately exhibited. The study found that taxes alone contributed 65 per cent of the ordinary income in 1979-80, whereas non-tax revenue yielded 10 per cent of the total ordinary income. A sharp increase was noticed in the ordinary grants in 1979-80. The grant which was Rs. 78 crore in 1974-75 rose to Rs. 210 crore in 1979-80. The average per capita ordinary income of the local bodies rose from Rs. 54 in 1974-75 to Rs. 75 in 1979-80. An analysis of taxes revealed that tax income came mainly from octroi (40 per cent), House/ Property Tax (25 per cent) and Water supply (11 per cent). These three items alone accounted for 76 per cent of the total tax income and the several other items yielded only 24 per cent to the total tax income.
revenue. The per capita tax revenue rose to Rs. 49 in 1979-80 compared to Rs. 38 in 1974-75. The non-tax revenue consisted of Rents and Prices, Fees and Fines and Betterment levy. Out of these, the first two items yielded nearly 58 per cent of the total non-tax revenues. The ordinary grants which were Rs. 78 crore in 1974-75 went up to Rs. 210 crore in 1979-80, thus recording an increase of nearly 169 per cent. Coming to the ordinary expenditure, it accounted for nearly Rs. 757 crore as against the total expenditure of Rs. 1002 crore in 1979-80. An analyses of ordinary expenditure showed that Public Health accounted for 21 per cent, Public Works 15 per cent, Water Supply/Drainage 14 per cent, General Administration 12 per cent, Education 10 per cent, Street Lighting and Fire Brigade 7 per cent and the balance 12 per cent went to the rest of the items.

The per capita ordinary expenditure rose to Rs. 67 in 1979-80 from Rs. 53 in 1974-75. The capital account consisted of capital income and capital expenditure. The capital income rose to Rs. 206 crore in 1979-80 from Rs. 105 crore in 1974-75, thus recording an increase of nearly 97 per cent. The capital income accounted for nearly 19.5 per cent of the total income in 1979-80. It came mainly from loans which accounted for nearly 34 per cent of the capital income. Deposits accounted for 18 per cent, advances 13 per cent, non-recurring grants 11 per cent and transfers for revenue accounted nearly 8 per cent. The average per capita income in 1979-80 was Rs. 18 as against Rs. 13 in 1974-75. Coming to the capital expenditure, is rose to Rs.
246 crore in 1979-80 from Rs. 112 crore in 1974-75, thus recording an increase of nearly 120 per cent. In 1979-80, the capital expenditure accounted for nearly 25 per cent of the total expenditure. The total amount of expenditure and the proportionate share of the expenditure to capital expenditure on various services were: Water Supply 29 per cent, Roads 18 per cent, Public Health 7 per cent, Drainage 5 per cent, Sewerage 5 per cent and rest of the items 36 per cent. The average per capita capital expenditure rose from Rs. 14 in 1974-75 to Rs. 22 in 1979-80. The capital expenditure had been more than capital income in 1979-80 and the percentage variation in capital expenditure was more than the capital income. This led to a deficit balance of nearly Rs. 39 crore in the capital account in 1979-80. As regards transfers from government to the ULBs, the study revealed that in 1979-80, the total transfers to the ULBs by the State Governments had been of the order of 27 per cent as against 20 per cent in 1974-75. The grants alone accounted for 87 per cent to the total transfers and out of that the recurring grants alone accounted for nearly 79 per cent and accounted for Rs. 210 crore. When dealing with the ordinary grants, it was brought out that the share towards assignment of taxes accounted for only 26 per cent amounting to Rs. 54 crore only. Thus, the balance of nearly Rs. 156 crore in the recurring grants had been towards other grants to meet the expenses of the ULBs. This clearly showed the dependency of the ULBs on the State Governments for their day-to-day management of the local bodies.
Datta\textsuperscript{13} (1984): discusses a national perspective of municipal finances in India by covering their sources of financing and also responsibilities to discharge. An inter-State comparison is made on the basis of provisions made in various States’ statutes while constitutional provisions are kept in mind as national guidelines. But no empirical attempt has been made to quantify the inter-State variations at local level on an all-India basis.

Lily\textsuperscript{14} (1984): in her study “Municipal Finance in Punjab, 1967-68 to 1979-80” examined in detail the finances of municipal bodies of Punjab. For the determinants of revenue and expenditure, she has used multiple regression as analytical technique. With a view to study the responsiveness of municipal taxes to changes in urban income, she has estimated tax elasticity and buoyancy with the help of ‘Divisia Index’ by using proxy tax basis. She has also calculated tax efforts of the municipal bodies of Punjab and compared it with the tax efforts of municipal bodies of 13 other States of India for the year 1975-76. The study found taxes as the main source of revenue, with octroi and property tax emerging as the main taxes. The contribution of other taxes to total tax revenue is insignificant. The result of tax elasticity and buoyancy show that municipal taxes are responsive to changes in urban incomes. Elasticity and buoyancy coefficients of different taxes are greater than one, indicating one per cent change in urban income increases income from municipal taxes more than proportionately. As
regards tax efforts, the result show in terms of per capita tax revenue and tax income ratio, tax efforts of municipal in terms of per capita tax revenue and tax income ratio, tax efforts of municipal bodies of Punjab are satisfactory. Tax-income ratios have shown a rising trend. To take into account other capacity factors (other than income) tax effort has been calculated with the help of regression model taking urban income, urban population and working population as explanatory variables. Effort ratio in case of Punjab has been low in this case. Punjab ranked 9th when compared with aggregate tax efforts of fourteen states for the year 1975-76.

**Vaidya and Basu** (1986): They have reviewed the revenue base of three cities of Tamil Nadu and have reported that two most important sources of revenue in urban local bodies are property tax and profession tax. They have pointed out difficulties in the administration of property tax and have also suggested measures for improvement.

**NIUA** (1987): analyzed the income-expenditure data of 210 ULBs of various sizes for the year 1983-84. Undertaken at the instance of the National Commission on urbanization, almost the entire analysis of the study was directed to seeking response to just one question: did the state of municipal finances improve or deteriorate during the period 1979-80 to 1983-84? In responding to this question, the study looked at the pace of growth of municipal revenues in relation to municipal expenditures, in order
to find out whether the fiscal crisis of the municipalities (as indeed it turned out to be so) was due to falling income or rising expenditures, or a combination of both. The study examined the changes in the pattern and structure of municipal finance to see as to which components of income and expenditure showed greater resilience and sensitivity, and where, i.e., on which components should future attention be directed to for dealing with the fiscal crisis. The results of the study were disturbing. Two features which were so overwhelming needed to be discussed. Firstly, there was the unmistakable fact of further deterioration in state of municipal finances. The study showed that municipal incomes rose during 1979-80 and 1983-84 marginally, by a mere 9.7 per cent in comparison with 56.2 per cent increase in municipal expenditures. The surpluses, i.e., incomes in excess of expenditure, which the ULBs enjoyed in the base year of the study virtually, disappeared, though a semblance of the nominal surplus was still maintained, at least in the aggregate. However, the most disconcerting was decline in real per capita income of the municipalities between 1979-80 and 1983-84. In 1979-80, the per capita ordinary incomes of the sampled municipalities was assessed at Rs. 128. In 1983-84, it declined to Rs. 125. Thus, whatever increase took place was effectively neutralized by population increase and inflation. Worst affected were the relatively smaller municipalities which registered a fall in their incomes, and at the same time did not possess any leverage by which they could step up their level of
expenditure, and thereby maintain the services. Secondly, no noteworthy change took place in the pattern and composition of municipal income and expenditure during the reference period of the study. Property taxes and octroi levies continued to from the main sources of revenues. Notwithstanding the decision looming large to do away with octroi levies’ position in the hierarchy of revenue structure remained undisturbed. The study showed that octroi yielded anywhere between 23-46 per cent of the total revenues depending upon the size of municipalities. That its abolition would cripple the already crippled municipalities unless they could be provided with an alternative tax which was as flexible and liquid as octroi was. At the same time, it was argued that the benefits that would accrue from the abolition of octroi outweighed the benefits that the economy derived from its retention. Indeed, if it was so, it would seem worthwhile to examine ways how such benefits could be transferred or rechanneled to the municipalities, or at least use to stem the deterioration in their financial base. The dependence of municipalities on grants from States in 1983-84 remained more or less at the level of the base year of the study. However, the only ray of hope in the otherwise dismal state of municipal fiancé was provided by an appreciable increase (54.9 per cent) in the share of non-tax sources of revenues, which included proceeds from the sale of various types of services and facilities.
NIUA¹⁷ (1989): conducted a study of 157 ULBs all over the country for the Ninth Finance Commission. The main objective of the study was to analyze the exiting level of core municipal services in the front line urban centres, and suggest the additional financial requirements that the ULBs would need in the course of five years i.e. 1990-95, in order to upgrade the services to levels proposed by the various committees and agencies. Besides working out the financial requirements for upgrading urban services, the study also examined the problems associated with ULBs in maintaining civic services and facilities and the steps proposed to overcome these problems. The results of the study showed that the existing level of services in physical as well as in financial terms were extremely low, particularly in the case of water supply and sanitation services. As regards the sources of revenue, municipal tax continued to be the principal sources, constituting 54 per cent of the total revenues. The financial transfers from the State governments contributed little to strengthening of the maintenance of municipal services and no financial mechanism had been introduced at the level of the Central government to augment these services. The study found that the additional or incremental financial requirements of ULBs were large. On basis of the Zakaria Committee norms, an annual additional investment of roughly Rs. 5363 million would have to be made in the sampled ULBs to upgrade their service levels. The needs of all the ULBs, which were roughly 1870 in number, would evidently be much larger. This
was estimated to be approximately Rs. 26,814 million over a period of five years, corresponding to the period 1990-95, in order to be able to operate and maintain the core services at levels proposed by the Zakaria Committee. The study concluded that the quantum of additional financial needs for upgrading the services was substantial, and this would require massive efforts at various levels, including at the levels of ULBs, State governments, the Planning Commission and Ninth Finance Commission.

**Mathur**\(^{18}\) (1990): Mathur makes suggestions to improve the revenue source of municipal bodies and prospect of property tax as a source of municipal revenue. He suggested that the rate structure of property tax should be revised periodically in tune with urban and economic development of the local area. The restrictive influence of rent control legislation on property tax valuation may be removed with a view to levy the tax on the basis of economic and prevailing rent in the market. To widen the base of the property tax, the properties of central and other governmental agencies may also be tax accordingly and huge amount of arrears, which are either locked up in the court disputes or remained uncollected for one reason or the other, should be recovered. He further suggests widening of non-tax income sources by expending revenue generating financially viable public activities.
Datta19 (1991): According the Datta, available evidence municipal finances suggest a fast deteriorating fiscal crisis arising out of: (a) reduction in municipal revenue surplus due to a tardy growth of income and a steep rise in expenditures, (b) stagnation of the smaller municipal authorities in terms of activities to respond to increased population, (c) shifts in the composition of municipal revenue budgets by way of a moderate increase in non-tax revenues and a substantial increase in establishment expenditure, and (d) location of high revenue-growth municipal authorities in the high-income states. He argues that a qualitative improvement in municipal finances would require major structural adjustment to improve municipal fiscal capacity, rather than management reforms aimed at securing budgetary balance. He suggests that by raising the annual limits of the 'profession' tax under the Constitution, there is an opportunity to mobilize local revenue through the imposition of a local-land income tax (LLIT) to cover all exempted incomes above a specified limit.

Ghuman and Jindal20 (1991): in their study examined the role of municipal finances in providing urban amenities to the residents. It was based on the case study of Mandi Gidderbaha, a small town in Faridkot district of Punjab. The study was based on secondary data which were collected from the annual budgets of the municipality. The period of the study ranged from 1975-76 to 1987-88. The study showed that the sources of revenue of municipal committee Gidderbaha came from (a) tax revenue,
There were two types of taxes – direct and indirect. The most important direct taxes were house tax and show tax. Octroi, entertainment tax and advertisement tax were important components of indirect taxes. In direct taxes, house tax alone constituted more than 80 per cent of the total direct tax revenue while show tax’s contribution to total direct tax revenue was marginal. The percentage share of direct tax revenue in total tax revenue varied between 4.89 to 15.42, which showed direct tax revenue, as a source of revenue, was much less significant than indirect taxes. Octroi emerged as the single most important component of indirect tax revenue throughout the period under study. Its share in indirect tax revenue had always been higher than 98 per cent. It meant that the other two components viz. entertainment tax and advertisement tax, along with other miscellaneous components, had accounted for less than 2 per cent of the total indirect tax revenue. The share of indirect tax revenue in total tax revenue had been between 84.58 per cent and 95.11 per cent. Thus indirect taxes emerged as major source of income of the municipal committee Gidderbaha. As regards the expenditure of municipal committee Gidderbaha, it could be divided into three main heads: establishment, contingencies and development expenditure. Expenditure on establishment varied from 24.37 per cent to 62.98 per cent of the total expenditure. The expenditure on contingencies varied between 6.20 per cent and 14.01 per cent and while expenditure of development varied between

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24.86 per cent and 66.30 per cent. Expenditure on development was of special interest to the study because it was only this part of total municipal expenditure which was directly devoted to public amenities. A break-up of development expenditure of Mandi Gidderbaha showed that the municipality spent on various items such as water supply, sewerage schemes, construction of roads, construction of drains, construction of shops and bus stand, street light, repayment of loans etc. The study found that various public amenities provided by the municipality were not up to the mark mainly due to paucity of funds which were available for development needs. This was clear from per capita income and per capita development expenditure. Per capita income was Rs. 89.19 during 1980-81 which went up to Rs. 172.41 during 1987-88. On the other hand, per capita development expenditure was 82.96 in 1980-81 and rose to 86.96 in 1987-88. The meagre development expenditure of Rs. 86.96 per capita during 1987-88 at current prices seemed to be insufficient for improving the ever deteriorating public amenities in the Mandi. Clearly the paucity of funds available for development works was mainly due to small per capita income of the municipality. It was very difficult to maintain the existing developmental services and provide the additional services and amenities with such a meager amount. The study, therefore, suggested that the municipal committee Gidderbaha should try to diversify the sources of its revenue and also to mobilize additional resources. However, octroi should not be
abolished until there were alternative sources of revenues of the municipalities or the State Governments were willing to compensate the loss. The State Government should also supplement the resources of the municipality through loans and grants so that additional amenities be provided to the public and the existing amenities could be maintained well. There must not be any mis-utilization of the public money. There was an immediate need to augment per capita development expenditure. The institutions of municipality needed to be further strengthened in order to provide urban amenities to the public.

Golandaz\textsuperscript{21} (1991): Golandaz conducted a study of 26 municipalities across the state of Gujarat for the year 1986-1987. Of these 26 municipalities, 5 were class A, 12 were class B and 9 were class C. According to him, like octroi, property tax is a major source of municipal tax income in Gujarat. Income from property tax varies from 1 percent to 84 percent. Golandaz finds that base for such consolidated property tax is not same in different municipalities. Some of the municipalities levy property tax and general service taxes separately, whereas some levy consolidated property tax, including property tax, general water tax and general sanitary cess. In other words, there is no uniformity regarding property tax in Gujarat. Not only the composition of property tax but also the rate structure as applied in the municipalities in Gujarat that varies substantially from one municipal body to another. The rates of the property tax/ consolidated tax
range from 6 percent to 10 percent of the annual rental value. Based on the survey of the municipalities in Gujarat and review of property tax structure, Golandaz came out with valuable suggestions. These include uniform consolidated tax collection base, valuation of properties every three years, fixation of minimum and maximum tax rates, good staffing pattern, simplification of office procedure, training of municipal staff and a prudent public relation system for successful tax collection.

Iyer\textsuperscript{22}, (1991): Iyer stresses the need for the establishment of a composite local government structure through which the delegation of powers and functions to different units can be made in a rational and complimentary manner. Project Nagar Panchayat can become an integral part of natural reconstruction only if it is conceived as mobilization of human and material resources. The 65\textsuperscript{th} Amendment Bill provides for financial sufficiency of municipal bodies. The idea of a Finance Commission and allocation of resources as contemplated in the Bill has great potential. According to him, the concept of accountability by municipal bodies through periodic reports which will be discussed with in the municipality by various groups of social activists and state legislatures may add a new dimension to the resource base of the units of local self-government.
Kaur, Jasjeet (1991): in her study “Municipal Finance at Two Levels: A case study of Ferozepur city & Mandi Guru Har Sahai” examined the finances of these two municipalities from 1980-81 to 1989-90. The main objective was to study the sources of income and heads of expenditure of these two municipalities and compare and contrast their performance in fulfilment of their civic obligations, and suggest policy measures regarding optimum use of resources as well as additional mobilization of resources. The study used simple statistical tools such as percentage and index numbers. The study found that tax revenue is the major source of municipal revenue contributing almost one half of the total municipal revenue. Octroi as indirect tax and house tax as direct tax emerged as the main sources of revenue of the municipalities, while the contribution of other taxes such as advertisement tax, show tax, entertainment tax, water tax etc. was very little. Grants and loans were the other sources of revenue for the municipalities. The study concluded that the sources of revenue of the municipalities, in general, are deficient to meet the cost of services, which they render to the public. To augment resources of the municipalities, the study has suggested broadening the tax base and expanding the non-tax resources. At the same time, the State government should sanction liberal grants to the municipalities.

Mathur, (1991): According to Mathur, municipalities have not been able to cope with the problems confronted, primarily due to paucity of
financial resources. Therefore, ways and means to augment municipal finances should be explored and accorded high priority for promoting orderly urban development. He suggests various measures for augmenting municipal finances through privatization and public co-operation in housing and human settlements development. However, in order to highlight the significance of these measures and to exchange political experiences in implementing innovative projects, case studies should be prepared and widely disseminated.

Mathur, (1991): Mathur argues that municipal bodies in India suffer from resource constraint. The gap between the existing municipal income and expenditures requirements worked out by the different methods underlies the financial constraints of the municipal bodies and explains why the civic bodies are not able to provide at levels expected of them. These shortcomings are mainly due to shortage of funds, though some of the deficiencies can be traced to indifference or inefficiency of the executive and other service personnel engaged in carrying out civic functions. He, therefore, underscores the need to balance the gap by matching of the obligations of municipal bodies with the resource available with them. According to him, this gap can be bridged successfully by:

(i) Effective utilization of existing resources

(ii) Re-structuring the transfer of funds mechanism; and
(iii) Identification of new funding channels

Besides the above resources mobilization efforts for attaining minimum standard of services to narrow down or bridge the gap between needs and existing resources, what is more important is that municipal bodies should economise on their administrative spending and train their officers adequately in order to enrich their knowledge and equip them with the latest techniques in different fields of urban management.

Mohanty, \(26\) (1991): According to Mohanty, property tax, along with octroi, constitutes the mainstay of municipal revenues. In his study, Mohanty has examined the property tax administration in Orissa and has suggested measures for its reform. Mohanty suggests two major remedial measures for reforming the property tax. His first suggestion is to levy a land tax and also a building tax both on the basis of area measurement. A second suggestion is that in addition to land and plinth area, other factors like location, type of construction, nature of use and age must be compounded into standardized formula.

Patkar, \(27\) (1991): According to Patkar, to frame and implement and investment policy which ensures not only equitable civic services but prove cost effective too, is a real challenge. The allocation of financial resources to simultaneously meet these objectives is an exercise requiring combination of subjective judgement and analytical tools. In his study, Patkar, after defining
the concepts of equity, effectiveness and efficiency in the context of municipal services, outlines three models, each with varied stress on these aspects. According to him, resource allocation for public services on the bases of efficiency and effectiveness criteria alone is not tenable in practice, equity considerations will always play a vital part in such decision making. Patkar also presented and approach employed in formulating a regional investment plan for the Bombay Metropolitan Region to show how the needed balance could be attempted in practice.

Raj²⁸ (1991): Raj considers the municipal finance crises as a part of city management impasse. If adequate power are not given, the municipalities ought to relinquish their role as if they are the only one to meet the city needs. If a situation exists where the higher level governments are not willing to shed powers, then the municipalities should ask for a change in legal status and become a company under Companies Act or be a statutory Authority or become a municipal level service company.

Rao²⁹, (1991): Rao has highlighted some crucial aspects pertaining to mobilization and utilization of municipal resources in India. According to him, municipal bodies have been in a state of financial sickness for long. Rao has undertaken the study of four municipal bodies in Andhra Pradesh, namely Vijayawada, Bhimavaram, Srikakulam and Anakapalle which have undertaken sanitation projects through the channel of resource mobilization.
by way of borrowings. For increasing the municipal resources base, apart from various tax and non-tax methods, Rao has suggested borrowing from institutional funding agencies, viz., World Bank, HUDCO, etc. He also feels that with some modifications, the 65th Amendment Bill could certainly infuse new blood into the emaciated municipal bodies.

**Sharma, (1991):** Sharma in his study argues that in order to make municipal governments able to fulfil their requirements for capital expenditure, a substantial mobilization of fiscal and manpower resources at the municipal level is a must, otherwise the pace of generation and adoption of capital projects will remain unchanged. In addition to the domestic revenues, the loan finance becomes most natural source for large scale capital funding. For mobilisation of fiscal and manpower resources, Sharma suggested a three-pronged strategy: (i) Mobilization of domestic resources; (ii) Rationalization of inter-governmental fiscal transfers; and (iii) Skill orientation of municipal personnel.

**Vaidya31 (1991):** According to Vaidya, property tax is one of the most important sources of revenue for urban local bodies in India. However, there has been a very increasing evidence over recent years that property tax has not been a buoyant source of revenue. This calls for reforms in the property tax system. Property tax systems in India are very complex, legal and procedural issues. With rising demand for urban services, there is no
choice but to raise more local resources. Therefore, a major reform in the property tax system is long overdue. However, without major amendments in Rent Control Act, not much change can be implemented. Rent Control Act should be so amended that property markets can function more efficiently. Along with these changes, establishment of a more objective method of assessment is needed. Therefore, based on the study of the system of evaluation of property in Delhi and Madras, Vaidya has suggested area based approach for the assessment of property rather than annual rental value approach.

**First Punjab Finance Commission** (1995): The First Punjab Finance Commission was constituted on 22nd April, 1994. The Commission examined in detail the financial position of the ULBs in Punjab for a period from 1989-90 to 1993-94. It identified the problems which are confronting them in mobilizing and generating sufficient resources and suggested a set of principles which when put into effect would significantly improve their financial position. In addition, the Commission proposed a set of administrative reforms and measures which in its view must accompany the principles if the benefits of its recommendations are to be fully achieved. The recommendations of the Commission pertaining to the period from 1996-97 to 2000-01 include devolution of functions to ULBs, reduction in the expenditure on establishment, increasing the domain of user charges, restructuring of octroi and property tax, increase in operation and
maintenance (O &M) expenses on water supply and sewerage schemes, imposition of tax on professions, trades, calling and employment, tax on advertisements and hoardings, revision of non-tax rates, reduction of State control on the tax powers of the municipalities and flexibility to ULBs in the fixation of tax rates. The Commission also recommended streamlining of audit of accounts and strengthening of data information system of the ULBs.

Kumar and Aggarwal (1997): In their study “Norms to Increase Rent of Municipal Property in Punjab”, sought to suggest norms to increase rent in respect of properties of the municipalities in Punjab so as to mobilize resources for them. They surveyed 10 municipalities across the State, which included all three municipal corporations, viz. Amritsar, Jalandhar and Ludhiana and seven municipal councils, namely Ahmedgarh, Banga, Derabassi, Fatehgarh Churian, Moga, Kharar, and Patiala. A representative sample of 150 respondents was taken which included tenants, officials, advocates and property dealers. The study suggested, inter alia, proper execution of agreement between the tenants and the ULBs, rationalization of increase of rent of municipal properties and selling of low rent-yielding municipal properties to the tenants at concessional rates to raise revenue for the ULBs.

Gautam, Naresh (1998): in his study “Financing of Local Government in India” attempted to examine the finances of ULBs. The
analysis of the fiscal behaviour includes performance at macro-level (national) through cross-sectional data (1975-76) and at the micro-level through time series data from the Municipal Corporation of Delhi from 1970-71 to 1989-90. He has applied econometric methods to study municipal finance. According to the study, fiscal decisions are the outcome of a complex behaviour arising out of an interaction among bureaucrats, ruling political party (whenever in power) and the interest groups. Therefore the study combined the elements of bureaucracy, median voter solution and utility maximization approach. The results show that bureaucracy has no direct impact on the growth of the level of aggregate expenditure. The political parties do take into account the local ‘needs’ and their design has a positive relationship with the level of expenditure. In addition all the revenue variables also have a positive influence. However fiscal transfers do not have a simulative effect on expenditure. Own-source revenue has been hypothesized to have a relationship with tax rates, tax bases, economic activity, fiscal transfers, past levels of revenue, and also general price level. The results show that the non-matching conditional grants do influence positively the growth of own-source revenue. Shared taxes have a dampening effect. Past levels of revenue provide bench-mark for setting present level. Other factors like tax base also influence the level of revenue.

Sharma, 35 (1999): Sharma in her study examined the significance of property tax as a source of municipal revenue in Punjab. She examined the
present structure of property tax, its growth, performance in the assessment and collection of property tax, suitability of various methods for the imposition of property tax, the legal loopholes and their removal in the legal provision of property tax; and finally, its redistributive aspects, future revenue potential and other problems related with property tax. The study was based on secondary data from various government publications. The period of the study was from 1970-71 to 1994-95. She used quintet average so as to smooth the fluctuations if any and divided the whole timespan into five periods, namely 1971-75, 1976-80, 1981-85, 1985-90 and 1991-95. All the municipalities were divided into six categories on the basis of population. These categories were: A class municipalities with population of 1 lakh and above; B class municipalities with a population of 50,000 to 99,999; C class municipalities with a population of 20,000 to 49,999; D class municipalities with a population of 10,000 to 19,999; E class municipalities with a population of 5,000 to 9,999; and F class municipalities with a population below 5,000. The study concluded that there was an urgent need to strengthen the property tax. If the state government intended to abolish the octroi then sincere efforts to plug the loopholes in the existing administrations of the property tax were the prerequisites. Distinction between commercial and residential use of property would have to be made. Vacant plots must be taxed at progressive
rate. The number of exempted houses should be reduced and limited to the deserving categories only.

**Second Punjab Finance Commission**³⁶ (2002): The Second Punjab Finance Commission was set up in September 2000. An interim report relating to the devolution of resources from the State Government to the ULBs for relating to the devolution of resources from the State Government to the ULBs for the year 2001-02 was submitted on 31.01.2001. The final report submitted in February 2002 pertains to the period from 2002-03 to 2005-06. After reviewing the financial position of the ULBs in Punjab for a 5-year period from 1996-97 to 2000-01, the Commission made recommendations for restructuring of property tax, imposition of Professional Tax and Scavenging Tax, increase in recovery of operation and maintenance (O & M) expenses on water supply and sewerage schemes, improvements in tax administration and prevention of evasion of taxes in the ULBs to increase their own revenues. It also made certain recommendations including privatization of services in suitable cases for economy in expenditure.

**Third Punjab Finance Commission**³⁷ (2006): The Third Punjab Finance Commission reviewed the financial position of ULBs of Punjab for a five-year period from 2002-03 to 2006-07. The Commission observed that the ULBs in Punjab were just not doing enough to raise resource locally and
the State government was frequently a stumbling block in this area. The Commission made a number of recommendations to augment the resource of the ULBs which are as follows:

• The decision of the State government to compensate the ULBs from Punjab Municipal Fund for loss of income from octroi by legislation deprives the State of taxes that could used for improving municipal services. The apportionment plan also does not take into account the different rates of future growth of different ULBs. A consumption based tax should be levied in municipal areas which may be collected by the Excise and Taxation Department and transferred to the ULBs.

• Property tax is a significant source of income for ULBs with tremendous potential for growth. To realize its full potential, the assessment of property tax should be rationalized by the adoption of unit area method of assessment as is being increasingly done by various ULBs in Delhi and Bangalore to great advantage. Wholesale exemptions from this tax must also go as it deprived the ULBs of a valid source of income.

• User charges should be levied on a variety of services at affordable levels to increasingly recover the cost of operation, maintenance, billing and collection. The ULBs that levy such user charges should be given incentives proportional to the results achieved.
• The ULBs should also explore other non-tax sources through levy of additional fees and charges such as valorization charges, betterment fees and impact fees etc. to buttress their sources.

• All water connections should be metered. If this is not possible, higher rates may be levied on unmetered connections.

• The ULBs should have the authority to fix water/sewerage rates subject to a minimum to be fixed by the government.

• Profession tax should be levied it and collected for the ULBs by the Excise and Taxation Department.

• Reducing the flab and slack in ULBs can lead to significant increase in their resources. Measures suggested for economy in expenditure include reducing in expenditure on establishment through progressive outsourcing and privatization of services and improvement in billing and revenue recovery system.
Notes and References


33. Kumar, Vinod and Suresh K. Aggarwal (1997): ‘Norms to increase Rent of Municipal Property in Punjab’ Institute for Development and


