Chapter - 4
FINANCES OF URBAN LOCAL GOVERNMENT

The significance of finance is too obvious to need any elaboration as no organisation can exist, much less achieve its objectives without at least a minimum of finances. That is why Kautilya, the great India Philosopher, remarked “all undertakings depend upon finance, hence foremost attention should be paid to the treasury.¹ Every administrative act has its financial implications, either creating a charge or making a contribution to treasury. The importance of finance is so great in administration that Uyod George is said to have once remarked that “government is finance”.² In fact, finance constitutes the backbone, the life and blood of government, it provides fuel to the administrative machinery. Sound fiscal policy is therefore of crucial importance to the government whether central, state or local. Imprudent financial management not only brings discredit to the government but also alienates it from the people and may endanger it very existence. Felix A. Nigro has rightly observed:

“Finance administration is of great importance today because of the tremendous increase in the amount of money expended for government services. Every government does requires money. It is utterly essential

that sound principles and techniques of financial administration be employed.\textsuperscript{3}

The Economic Survey 1991-92 has rightly stated:

"The financial sector is the centre of economic activity, its health affects the entire economy, municipal government are directly linked with the availability and utilization of financial resources.\textsuperscript{4}\"

Financial administration is the act and science of planning, organizing, implementing and evaluating the financial resources to ensure their best use for the achievement of the objectives, goals and targets of municipal programmes. Emphasizing the importance of finance, Thavraj says:

Finance is the lifeblood of all monetized socio-economic formations ranging from simple nuclear families to complex national and international organizations. Financial administration relates to the system which generates, regulates and distributes the monetary resources needed for the subsistence and growth of organisation. In this respect, financial administration is similar to the circulatory system in complex living organism.\textsuperscript{5}

The Reserve Bank of India in its bulletin has rightly stressed the importance of local Government finances as follows:

"With the increasing industrialization and urbanization under the impetus of development and planning, the local authorities from a growing part of the expanding public sector, with powers to raise and spend considerable amounts of public funds for development purpose. Local authorities form an important segment of public sector in India. The contribution of the local bodies to income in general and capital formation is of considerable significance, in view of their large number and the area and population they cover."

In India the functions and finances of urban local governments are provided in the acts passed by the state legislatures. Any mismatch or discrepancy between the two is likely to create condition of chaos. Ursula K. Hicks says in this regard:

"If local bodies are to play any significant part in economic or social development, they must clearly have access to adequate finances."

Urban-Local Government finances has in the past, received little attention from the union or the state governments. Even the social scientists and the students of public finance had paid lesser attention

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6 Reserve Bank of India, (Bombay, RBI, 1962), Chapter on local government Finances.
and importance to the problems of finances of urban local
governments or the panchayati raj. We find that “Local finances is
comparatively neglected part of public finance, just as local
administration is a comparatively neglected part of politics and public
administration.” The finances of urban local bodies must match with
the functions that are required by the Acts or statutes to be performed
by them. The main problem in local finance is to ensure the
purposeful matching of obligations with resources providing at the
same time for the fulfillment of national priorities on the one hand and
for a measure of local initiative on the other.

The responsibilities of local bodies have tremendously increased
as a result of the rapid increase in urbanization and adoption of
welfare state as the ultimate goal of our polity. In any multilevel
pattern of government the effectiveness with which the local units
would operate, is determined to a large extent on how their finances
are organized in relation to their functional and responsibilities.9 Local
government finance, thus assumes great importance. Local bodies in
order to be able to discharge their obligations in respect of
development and improvement of their respective areas, provision of
civic amenities and welfare services require adequate financial

9 S.K. Sharma and V.N. Chawla (Ed.), “Municipal Administration in India – some
reflections” (Jalandhar), 1975, p. 175.
resources commensurate with the tasks assigned to them. But unfortunately urban local government in our country are proverbially deficient in Financial resources. As far back as in 1925, the Indian taxation enquiry committee had noted that the finances of local bodies were inadequate for the services they were required to perform. The municipal acts set out an impressive list of obligatory and discretionary functions entrusted to the local authorities. And besides these legally allocated functions, their responsibilities have been growing in the wake of rapid urbanization exercising continuing and mounting pressure on the civic facilities and amenities. But it is regrettable that the importance of these obligations with adequate resources has never been sufficiently recognized. Since independence, this aspect has been enquired into by numerous central and state commissions and committees but their recommendations have not been matched with adequate follow-up action towards implementation. The decentralisation movement of the post-independence period has not radically adhered to financial conditions of urban local government and they continue to suffer from paucity of resources and the gap between their finances and desired level of services in continuously widening.

10 Report of the Committee on “Budgetary Reform in Municipal Administration”, (Government of India, Ministry of Works and Housing, New Delhi, 1974) p. 22.
The constitution of the Indian Republic is federal in character. It provides for three levels of government, central, state and local. For having a planned development it is imperative to have a unified operation of a fiscal policy. It is possible if there is an effective planning machinery at national, state and local levels. This is particularly important in a developing country like ours, which had adopted the socialistic pattern of economy. In India, the planning commission at the national level has been functioning quite effectively. At the state levels no effective and whole time planning machinery has been established. Neither there has existed a machinery of planning at the base level. As far as the urban-local governments are concerned, they have been executing development plans largely on the basis of their annual budgets. If the urban local governments operates on the basis of five year plans of development in a larger context of regional and national planning, it will contribute to a planned utilization of resources and as a result of which the local finances are bound to make a profound impact on the life of the local people.

The basic problem with the Indian local system of government and administration today is “economic chaos” and “financial bankruptcy”. All the economic difficulties of urban local governments in India may be attributed to the following:-
a) Physical and economic deterioration of the core cities – slums have sprung up.

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

c) Decentralized planning can not work properly when the communities are physically inter-dependent. Transportation, water supply and sewage disposal are three public services in which physical interdependence is particularly important.

C.M. Tiebout says in is concluding remarks that “Local government represents a sector where the allocation of public goods (as a rejection of the references of the population) need not take a back seat to the private sector.”\textsuperscript{12}

Prof. M.A. Muttalib with Mohd. Akbar Ali Khan had in their attempt to write a “theory of local finances stated:-

“A number of factors contribute to the structural construction of local finance, pattern of local polity, size and level of local units, local functions and government control”, and “the local revenue is primarily based on distribution of functions between state government and local government for the performance of obligatory functions local resources are identified. In order to ensure

that priority is given to such functions.
Obligatory budgetary provision is made for
them."¹³

Mr. V.K. Venkataraman suggested that local functions and
local finances be put in order. The Union Government should itself
evince interest in their matter – it should part with a portion of
resources so that they can be exclusively earmarked for the orderly
functioning of local bodies based on properly settled scheme of
planned needs and resources.

POWER OF TAXATION OF LOCAL GOVERNMENT

Urban Local governments in India do not have the inherent
power of taxation. The constitution of India does not specify any taxes
for the exclusive use of urban local government. However, this was not
always the position. During the period 1921-37 the local government
was endowed with a separate tax-zone. The Government of India Act,
1919 which came into force in 1921 contained a local list comprising
the following taxes:-

1. Toll
2. Tax on land and land values
3. Tax on buildings
4. Tax on vehicles and boats
5. Tax on menials and domestic servants
6. Tax on animals.

Sterling, New Delhi, 1982, pp. 180-203.
7. Octroi
8. Terminal tax
9. Tax on trade, professions and callings
10. Tax on private markets
11. Tax imposed in return for services rendered, such as (a) Water rate (b) lighting rate (c) drainage rate (d) fees for use of markets and (e) other public conveniences.

The Government of India Act, 1935 did not include any local list of taxes and so. With the inauguration of the Act in 1937 the local government got deprived of the special position in regard to taxation. Nor does the present constitution enumerate, as it has done in the case of both the central and state governments, taxes reserved for use of or by the local government only.

The Local Finance Enquiry Committee 1951 recommended a list of thirteen taxes for the exclusive utilization by or for local government. Out of these thirteen taxes one at present figures in the union list and the remaining twelve are in the state list of subjects. The committee, however, did not think it necessary to recommend inclusion of this list in the constitution but favoured instead a convention to grow and govern state action. The thirteen taxes recommended by the Committee were as under:

1. Terminal tax on goods or passengers carried by railway, sea or air.
2. Tax on lands and buildings.
3. Tax on mineral rights.
4. Tax on the entry of goods into a local area for consumption, use or sale therein.
5. Tax on consumption or sale of electricity.
6. Tax on advertisements other than advertisements published in the newspapers.
7. Tax on good and passengers carried by road or on inland waterways.
8. Tax on vehicles.
9. Tax on animals and boats.
10. Tolls.
11. Tax on professions, trades, callings and employment.
12. Capitation tax.
13. Tax on entertainments.

The Taxation Enquiry Commission (1953-54) had also addressed itself to the question of what specific taxes be devolved on local government and of the manner of assurance to the latter so that those earmarked for it may remain immune from any encroachment by the state government. It had recommended a list of ten taxes to be reserved for a local government, adding, however, that “the recommendations should not be construed as precluding transfer of other taxes to any local body, wherever appropriate, if the state
governments consider such a source desirable.” The recommended taxes were;

1. Tax on lands and buildings.
2. Octroi
3. Tax on Vehicles other than those mechanically propelled.
4. Tax on animals and boats.
5. Tax on professions, trades, callings and employment.
6. Theatre tax.
7. Tax on advertisements other than those published in newspapers.
8. Duty on transfer of property.
10. Tax on foods and passengers carried by road or inland waterways.

The alternative of the constitution continuing a local list of taxes on the pattern of the union and state lists do not find favour with the commission. The commission, on the other hand, choose to appear to the states to observe a gentleman’s agreement not to poach upon the above enumerated tax zone. It said, while we do not consider that a constitutional amendment is called for, we very strongly recommend to the state governments that the taxes which we indicate should be allowed to be developed only by the local bodies or for them, and that, where the state governments are at present exploiting any of these

taxes for appropriation to state revenues, they should gradually withdraw from the field, and meanwhile allot the proceeds from the taxes to the local bodies concerned.

The demand for a separate list of local taxes to be enshrined in the constitution may not succeed in fulfilling all the hopes and expectations of its protagonists. Taxes that are placed at the disposal of a urban local government must be elastic in nature to cope with its functions which are continuously on the increases. It may, thus, seem that a mere incorporation in the constitution of a separate list of local taxes does not offer solution to the desperate financial position in which the local government in India today find themselves.

It would thus appear that the procedure required to be observed by urban local governments is generally complicated, time consuming and dilatory. The procedure should be easy to understand, simple to observe and conducive to swift action by a local government. With this object in mind the Rural-Urban Relationship Committee made the following recommendations:

1. Municipal Taxes should be classified into compulsory and optional.

2. Taxes on land and buildings, vehicles other than those covered by the motor vehicles Act and on professions, trades and callings should be compulsory.

3. The law should prescribe minimum rates for compulsory taxes.
4. Municipal councils should have the power to alter rates of compulsory taxes (subject to the minimum prescribed) and optional taxes (subject to such limits as may be laid down) but in case of reduction in the current rate of any tax, the prior approval of the state government should be necessary.

5. The state government should have the power to direct a municipal council to impose on optional tax at such rate as it may prescribe and such direction shall have the same force as a resolution passed by the municipal council.

SOURCES OF INCOME OF URBAN LOCAL GOVERNMENT

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

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

According to the study by the National Institute of Urban Affairs, Income from taxes constitute about two third of the revenue

15 R. Sheshadri, ‘Financing Urban Development in India’ Centre for urban studies, Indian Institute of Public Administration, New Delhi, 1990, p. 63-64.
accounts of the municipalities and over one half of the total income from all the sources. In Punjab and Haryana, the revenue from taxes constitute approximately 80% of the total local bodies income from all sources.

I  TAX REVENUE OF URBAN LOCAL GOVERNMENT

A variety of taxes are levied by the urban local government in different states. The most common taxes are property tax/house tax, profession tax, vehicle tax, Octroi, tolls, technical tax, tax on animals, entertainment tax, tax on transfer of property and tax on advertisements. There has always been a controversy regarding the overlapping of the taxes by the state government and the local government. Following some encroachment by the state government into the field of taxation, the need of reserving certain taxes for the local bodies is obvious. This requires specific provision for the purpose of local government legislation.

Article 243W and 243X of the constitution of India impose a duty upon the state legislature to endow the municipalities with such powers and functions in the form of taxation, fee etc. to enable them to perform their functions. Though the constitution does not prescribe the kinds of tax, duties or fees to be levied by the urban local government, however it can be available from the reading of statutory provisions in the Punjab Municipal Act, 1911.\textsuperscript{16} In view of

\textsuperscript{16} Section 61 & 62 of the Punjab Municipal Act, 1911 and Section 90 of Punjab Municipal Corporation Act, 1956.
the statutory provisions, the urban local governments may impose in the whole or any part of the municipality or corporation any of the taxes which shall be subject to any general or special orders which the state government may make in this behalf and subject to the rules, any municipality or corporation may, from time to time for the purposes of the Acts, and in the manner directed by the Acts may provide. However, the urban local government shall not impose any tax without the previous sanction of the state government when: -

(i) it consists of members less than three-fourth of whom have been elected or

(ii) its cash balances have at any time within the three months preceding the date of the passing of the resolution imposing the tax, fallen below Rs. 20,000/- or one-tenth of the income accrued in the previous financial year which ever amount shall be less.

With the above provision in mind we now discuss the revenue of the urban local governments from tax sources as follows.

(i) **House Tax/Property Tax**

The tax on land and buildings which is known as ‘house tax’ or ‘property tax’ in most of the states constitutes an important source of urban local government’s tax revenue. The present yield of this tax is 20-25% of the tax revenue. In Punjab, the contribution of House tax to
the total income from all source is 8% and to the tax revenue approximately 13\%.^{17}

The expression ‘property tax’ implies a tax on property. Traditionally, it is a tax on immovable and tangible property. It excludes such movable properties as furniture, fixtures, machinery, equipment etc. and such rights as licenses to run a hotel, shop in a cinema theatre. Under the Punjab Municipal Act, it is a tax payable by the owner of buildings and land not exceeding 15\% of the annual rental value. The question regarding the validity of “Annual Value” as under Punjab Municipal Act, 1911 amended in 1994 came under consideration in the case titled *Model Town Residents Association v. State of Punjab*^{18} in the Hon’ble Punjab and Haryana High Court which held that though section 3 (1)(a) and 3(1)(b) of the Punjab Municipal Act, 1911 cannot be declared ultra-vires to the legislative power of the state but nonetheless, this section gives unguided power to the municipalities to adopt any two modes for determination of market value of property. As no guideline has been laid down by the legislature for adopting particular mode to determine market value of property, Section 3(1) (b) is arbitrary and hence unconstitutional. It was further directed to refund the excess tax, if recovered. While holding section 3 (1)(a) and 3(1)(b) unconstitutional their Lordships placed heavy reliance on the Supreme Court authority cited as *Devan*

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18 RLR 2002 (4) 249 Punjab & Haryana High Court.
Daulat Rai Kapoor v. New Delhi Municipality.\textsuperscript{19} The relevant observation relied made in the above decision which has also been relied in the Model Town Residents Association case [Supra]\textsuperscript{20} is extracted below:

“According to the definition occurring in section 3(1)(b) of the Punjab Municipal Act, (3 of 1911) annual value of a building would be the gross annual rent at which the building may reasonable be expected to let from year to year. It is obvious from this definition that unlike the English Law where the value of occupation by tenant is a criterion for finding annual value of the building for rating purposes, here it is the value of the property to the owner which is taken as the standard for making assessment of annual value. The criterion is the rent realizable by the landlord and not the value of the holding in the hands of the tenant. The rent which the landlord might realize if the building were let out is made the basis for fixing the annual value of the building. What the landlord might reasonably expect to get from a hypothetical tenant, if the building were let from year to year affords the statutory yards stick for determining the annual value, these would ordinarily be in a free market close approximates between the actual rent

\textsuperscript{19} AIR 1980 SC 541.
\textsuperscript{20} RLR 2002 (4) 249 Punjab & Haryana High Court.
received by the landlord and the rent which he might reasonably expect to receive from hypothetical tenant. But where the rent of the building is subject to rent control legislation, their approximation may and after does get displaced.”

Though the procedure to levy any tax by the municipality is laid down in section 62, however in certain case the state government may itself levy such a tax as provided under section 62-A. In this regard it has been laid down by the High Court in ruling reported as Krishna Kumar Senan v. State of Punjab, that if tax is imposed under section 62-A under the directions of the state government notice is not required to be given to the public. It is clear from the reading of section 62-A of the Punjab Municipal Act, 1911 that a notification by government may direct a municipal committee to levy house tax. In such circumstances, it was held that notice to house owners is not required. Municipal Committee is not under obligation to invite objections for assessment of the House Tax. In Krishna Kumar's Case (Supra) it was held as under:-

“In case of failure of a municipal committee to impose tax on its residents under section 61 of the Act, it is entirely in the discretion of the state government, on the facts and circumstances of the case, to take action under section 62-A (1) if it deems necessary to do so. Its judgment of the situation necessitating the taking of that action is

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21 1972 PLR 149.
binding and conclusive not only on a municipal committee but also on those rendered liable to pay the tax proposed to be imposed. There is no doubt that if a tax is to be imposed by the Municipality under Section 61 of the Act, the procedure pertaining to the issue of notices and inviting of objections from those who are liable to pay tax, has to be gone through. By virtue of the portion and as if the proposal was sanctioned in accordance with the procedure contained in section 62 of subsection 3 of section 62-A of the Act, there has been dispensed with the necessity of complying with the procedure devised by section 62 of the Act. The procedure is meant for a municipal committee and not for the state government. When the later exercise its power for imposition of a tax by notification issued under sub section (3) 62-A of the Act."

In another case titled Municipal Committee, Umar Tanda v. D.C. Hoshiarpur, question arose regarding imposition of building tax/house tax on cinema houses by the municipality. It was laid down in the above case by their lordships that Municipal Committee is empowered to impose House tax subject to the limit not exceeding 15% of the annual value of the building. It was further held that unless there is subjective material before the appellate authority on the basis of which tax was imposed and the levy is found excessive, it cannot reduce the tax imposed by the committee. No discrimination

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22 1996 (2) RRR (53) (Punjab & Haryana).
can be alleged on the ground that any other neighbouring municipal committee has imposed lesser rate of tax. Further the court observed that no material is placed before the authorities or the court to show on what basis the committee was required to impose tax equal to the tax imposed in adjoining Municipalities. No equality of status and capacity of Cinema houses established as such no challenge on the ground of discrimination can be made.

The jurisdiction of the Municipal Committee extends only to properties which lies within its area. Taxes which are leviable under the Municipal Act can be collected even if the area is located in an urban estate. In Municipal Committee Bathinda v. Director, Local Government, Punjab,\textsuperscript{23} it was held that in case notification has been issued under section 8 (1) of the Punjab urban Estate Development and Regulation Act, 1964, Then the provisions of the municipal Act would not apply. However, where no such notification has been issued then the house tax can be levied in an urban estate as well.

The Rural-Urban Relationship Committee lent its support to the need for a central valuation agency to secure fair assessment. It recommended\textsuperscript{24}: -

1. A Chief valuation officer should be appointed in the directorate of local bodies. He should lay down principles for assessing the annual values and supervise and control the valuation officers.

\textsuperscript{23} 1986 RRR 259 (Punjab & Haryana)
2. Full-time valuation offices should be appointed for cities with a population of five lakhs or more. For groups of smaller cities and towns, valuation officers should be appointed according to the volume of work.

3. The assessment list should be prepared by the valuation officer and published for objections, if any. After examining objections, the valuation officer should finalize the list.

4. An appeal against the assessment made by the valuation officer should be made to the chief valuation officer.

5. An appeal against the decision of the Chief valuation officer should lie to the district judge.

The solution to the most of the problems can be found and some problems may be solved if there is improvement in the performance of collection of the tax.

(ii) Professional Tax

In addition to property tax there is second source of urban local government's income i.e. professional tax. This is levied on persons according to occupation, in order to obtain revenue from those who do not pay the property tax but who should also bear their just burden of local expenses. Professional tax is levied on trades, Professions and Callings and may be termed as local income tax. It is elastic as it automatically increases with increase in income and population.

Moreover, since it is a personal tax, it assures quick and easy payment.²⁶

Professional tax is a levy on the incomes earned while entering in a profession or trade or business etc. The constitution of India, under Article 276 makes provision to facilitate the levy of this tax by the local bodies. The article imposes a limit of rupees 250.00 per annum which has since been raised to Rs. 2500/- per annum in 1988 by the constitution (sixteenth 16th Amendment). People think that “profession” tax and the central income tax need to be merged. It is recognized that “the profession” tax is a type of income tax.²⁷ The logical solution to this problem is to impose a supplemental levy on the income tax to be distributed among the urban local bodies on the basis of origin.²⁸

Professional tax is another important tax for the local bodies. It is a tax on person practicing any profession or art or carrying on any trade or calling in the municipality. As per explanation to section 61(1)(b) under the Punjab Municipal Act, 1911. It is clear that a person in the service of government shall be deemed to be practicing a profession within this sub clause. Income from profession tax is quite insignificant in Punjab and Haryana. As per an estimate it is only 0.5% of the total tax revenue of a municipality in both the states.²⁹

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²⁶ Gyan Chand, “Local Finances in India” (Allahabad), 1947, p. 130.
²⁷ Abhijit Datta, “Municipal Finance in India”, p. 60.
²⁸ Abhijit Datta, “Financing Municipal Services”, p. 60.
In the case of *Walaiti Ram v. Municipal Committee Ropar*, a question arose as to whether person in private employment are liable to pay profession tax. It was held that the words, “trade, profession, calling or employment” used in notification dated 15.10.1948, issued under section 61 of the Punjab Municipal Act, 1911 enabling Municipal Committee Ropar to levy professional tax do not seem to be used in a mutually exclusive - sense. These words overlap one another and appear to have been used by way of abundant caution, in order to make these provisions broad based and comprehensive. None of these words have any technical meaning and even if they had any definite significance, the object of putting them altogether is to ensure that no category of person is being eliminated. It was further held that there is no difference between private and public employment so far as the imposition of professional tax is concerned. Private persons definitely came within the taxing provisions contained in section 61 of the Punjab Municipal Act.

In the *Mercantile Benefit Corporation v. The Mardenapalle Municipality*, it was laid down that the definition of the word ‘person’ is wide enough to include a partnership firm as defined in section 4 of the Partnership Act. Therefore, the expression ‘person’ though not defined in the AP Municipalities Act as occurring in section 96 of the Act, comes within the purview of the ‘partnership

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30 AIR 1960 Punjab, 669.
firm' and as such partnership firms are liable to be assessed to profession tax under section 96. A similar finding regarding partnership firm were arrived by the Punjab and Haryana High Court in the case of Municipal Committee, Cherato v. Munshi Ram.32

All entities by law as capable of being parties to legal relationships can be brought within the ambit of the expression person. Such persons may be natural person like human beings and also artificial entities which are a creature of law. In consequence with above, the Kerala High Court in Kerala State Electricity Board v. State of Kerala, held that the Electricity Board is clearly a person capable of possessing right, being subjected to duties, capable of holding and disposing off properties, entering into contracts and to form legal relationship.

In the case of Wailati Ram v. M.C. Ropar,33 the Division Bench of the Punjab and Haryana High Court returned the findings that the servants of private companies come within the scope of taxing provisions contained in section 61 of the Punjab Municipal Act, 1911.

Thus in order to be authorized levy of profession tax under clause (b) of section 61 (1) two conditions must be satisfied: -

1) It must be a tax on ‘person’ and

2) Such person must be practicing any profession, art or carrying on any trade or calling in the Municipality

32 1965, PLR 184.
33 1960 PLR 816.
(iii) Terminal Tax

It is another indirect tax. It may be defined as a tax imposed on the incoming goods for consumption within the municipality or corporation. However, there is no system of refund when goods are sent out of cities as is the case with Octroi. It may be collected through the agency of Railways on a commission basis.

This is the tax payable by the owner, on all or any vehicles (other than motor vehicles), animals used for riding, draught or burden, and dogs, when such vehicles, animals used as aforesaid, and dogs are kept within the local areas. Terminal Tax is covered by Entry 56, List II, schedule seventh of the constitutions of India and as such a terminal tax on goods or animals imported into or exported is similar in its incidence and is payable on goods on their journey ending within the municipal limits or commencing there from and not where the goods were in transit through the municipal limits.34

The terminal tax was lawfully imposed by the Delhi Municipal corporation in 1916 in the first instance and it was continued by the Government of India Act, 1935, and the consequential amendment of subsection (2) of section 61 of the Municipal Act, 1911.35

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area do not attract either terminal tax or toll. The word ‘import’ used in the by laws cannot be literally construed to mean mere entry of goods within the Octroi limit without anything more. It has been held by the courts that the levy of transit pass fee on trucks carrying goods and merely passing through the cantonment area without any destiny in the area cannot be sustained.\(^\text{36}\) In \textit{Municipal Corporation Delhi v. Manmohan Tuli} \(^\text{37}\) the Delhi High Court reiterated the view of the supreme court and held that mere fact that the goods were unloaded and re-loaded did not mean that they were carried into the municipal area for immediate export. The goods were merely on transit through the municipal limits and they have their terminus else where.

In \textit{Brij Lal v. State} \(^\text{38}\) the levy of terminal tax was challenged on the ground that it is not imposed by other states. It was held that the fact that the same tax is not imposed by other states would not make the levy invalid.

(iv) Entertainment Tax

Entertainment tax is levied on programmes and luxuries including betting and gambling.\(^\text{39}\) Generally entertainments for charitable, religious and educational purpose as also for advancement of agriculture, industry and public health are exempted. The tax is determined, imposed and collected by the state governments and after


\(^{37}\) AIR 1979 Delhi 144.

\(^{38}\) AIR 1986 SC 1085.

\(^{39}\) Entries 33, 34 and 62 of state list, seventh schedule, the constitution of India.
the close of each year, it is reimbursed to the Municipal/Corporation bodies concerned in whole or part. The committee on Augmentation of Financial Resources of Urban local bodies had suggested that entire proceeds from this tax which at present go to the state exchequer, should be earmarked for the local bodies as it has a local basis and can also be best administered by a local authority with a certain degree of autonomy.40

(v) Advertisement Tax

Urban local governments are empowered to levy tax an advertisements other than those published in the newspapers with the prior sanction of the state government. Any person who displays an advertisement on any land, building, post of structure or in any vehicles playing within municipal or corporation area, or by means of cinematograph, has to pay this tax. However, any advertisement relating to public meetings or election to parliament or state legislature or the corporation is exempted from such tax. The state government can also direct an urban local body to levy this tax.

(vi) Toll Tax

The state legislature can by virtue of entry 59 in list II of seventh schedule of the constitution levy tolls. The word ‘tolls’ has a variety of meaning and commonest of them is where a committee or a local authority prescribes a levy for vehicles and animals passing over

road, ferries and bridges etc, within the control of that authority.\textsuperscript{41} It has been held is the case, of Maheswari Singh v. State of Bihar\textsuperscript{42} that the expression 'tolls' means a levy for the purpose of providing funds for the maintenance of roads and bridges and repayment of loan. Further in Hindustan Vanaspati Manufacturing Co. Ltd. v. Municipal Board,\textsuperscript{43} it has been ruled that usually the consideration for levying the toll is some amenity, service, benefit or advantage which the person entitled to the toll undertakes to provide for the public in general or the persons liable to pay the tolls. It has been aptly remarked by the Hon’ble Punjab and Haryana High Court in the case titled T.S. Shergill and others v. State of Punjab\textsuperscript{44} that the persons made liable for such a toll, which is a sort of a tax, derives some benefit from the use of the same, and in the case before us, the committee in its return has made an averment that it is providing sanitation facilities, cleaning of roads, public water, carved out spaces for parking of trucks which are engaged in the transport of goods.

In Municipal Board Mainpuri v. Kanhaiya Lal \textsuperscript{45} the Hon’ble Supreme Court ruled that the word “entering” clearly indicates that the conveyances to be liable to the toll must enter the municipality from places outside it. A vehicle which is already in the limits of the

\textsuperscript{41} P. Ramanatha Aiyer’s law Lexicon, 2001, p. 1900.
\textsuperscript{42} AIR 1961 Patna 462, 463.
\textsuperscript{43} AIR 1962 All. 25, 40.
\textsuperscript{44} 1973 PLR 232 (P&H)
\textsuperscript{45} AIR 1960 SC 184.
municipality, when it plies for, hire does not enter the municipal limits. So, too, the words “bring within the limits Manipuri Municipality” in rule 1 of the Rules framed by Manipuri municipality under section 153 emphasize the idea that a laden vehicle cannot be brought within the municipality until the toll due has been paid. One cannot bring within the Municipality a vehicle which is already in the Municipality. It is well-known, impossible to hold that a vehicle is brought within the limits of the Municipality when it is brought from one part of the Municipality to another part.

In the case titled Jubilee Highway Transport Private Ltd., Pathankot v. State of Punjab\(^4\) the High Court upheld the imposition of toll by municipal committee on private motor vehicles entering its limits.

(vii) Sanitation Tax

Keeping in view section 61(2) of the 1911 Act, the municipal committee can levy any tax, which the state legislature has the power to impose in the state under the constitution but with the previous sanction of the state government. Since the state legislature has the power to impose tax in the state regarding sanitation,\(^5\) the municipal committee can also impose the same ipso facto but with the previous sanction of the state government. As such, where the state legislature can impose tax under any of the legislative heads mentioned in list II

\(^4\) AIR 1964 P&H 506.

\(^5\) Entry 6 read with entry 66 list II of Seventh schedule.
and it can also levy fees in respect of any of matters in this list, therefore, the municipal committee can also levy tax or fee on any of the legislative heads mentioned in list II after getting previous sanction from the state government in consonance with sub clause (2) of section 61 of the 1911 Act.

Now coming to the nature of tax, in Bashir Ahmed Khan v. State of U.P., the Hon’ble Court has held that the term sanitation has a wide connotation and is confined not only to the interior of the building but takes into its ambit the conditions obtaining in the surrounding buildings and places. The Hon’ble Supreme Court of India ruled in the case of Raza Buland Sugar Mills v. Municipal Board that where water tax is imposed it is necessary that water must be made available to the public by something above the ground. Relying upon the above Supreme Court’s ruling the High Court in the case of Sundram v. Madras Corporation, held that where water arrangement has not been made then the committee may not be able to impose and justify the tax.

(viii) Tehbazari

In one’s own word tehbazari may be defined as the rent/charges received by the municipality/corporation for the use of public land. The law Lexicon, 2001 defines tehbazari as the ground rent of a stall

48 1973 AWR 620.
49 AIR 1965 SC 895.
50 1969 (2) MLJ 216.
51 See Section 173 and 176 of Punjab Municipal Act, 1911.
in the market. It was held by the Allahabad High Court in the case titled *State transport corporation v. Town Area Attara, Banda*, that where the transport buses stopping to use and occupy roadside parties belonging to municipality or managed by town Area or Board, the levy of Tehbazari was valid. The Municipal Board can levy a fee on the operators of the buses for parking their buses on the road belonging to the former like any other owner. Again in *Municipal Council, Bhopal v. Sindhi Sahiti Multi Purpose Transport cooperative Society Ltd.*, the Supreme Court held that if the municipality provides for a bus stand without compelling anybody to use it, the fee can be charged on the bus operators using it. It was also observed that nobody has a fundamental right to use a land belonging to another without the person paying for it if necessary. The power of the local bodies, therefore, to levy tehbazari on the transporters, for use and occupation of the land belonging to them or entrusted to their management cannot be disputed.

(ix) Additional Excise Duty

Additional excise duty on liquor which is imported within the municipal limits, is levied and collected by the state and subsequently disbursed to the municipalities on the basis of consumption of liquor in their respective areas. As per the Shakkar Committee Report, the income for Additional Excise duty in Punjab is nearly Rs. 100 crores

52 AIR 1973 SC 2420.
per year which forms a substantial portion of this income to municipalities. However, it is a matter of regret that the municipal councils do not receive their share in lieu of additional excise on liquor from the state government regularly in time, thus starving them of the necessary funds.

(x) Other Sources of Tax

Apart from the above described major sources of tax revenue other taxes which are levied by urban local government includes: .

a) Tax on Animals
b) Servant tax
c) Tax on transfer of property
d) Tax for sanctioning building plans
e) Show tax
f) Sanitary tax
g) Water tax
h) Education tax
i) Tax on pilgrimage
j) Tax on lotteries

However, revenue from above taxes is not significant as such they are not being discussed in greater detail.

53 Shakkar Committee was appointed by the Govt. of Punjab in the year 2002 to give recommendations regarding rationalization of municipal taxes in Punjab.
54 All the taxes trace their origin from the power derived from section 61 of the Punjab Municipal Act, 1911.
55 In VP theatre, Kurali v. State of Punjab, 1990 (2) RRR 539, the High Court has upheld the validity of imposition of show tax on video parlous exhibiting cinema film.
The First Finance Commission of Punjab was of the opinion that although it was true that there were constraints on Municipal taxation by way of state controls, it was also true that the municipalities have been unwilling to utilize fully the tax instrumentalities at their disposal. The Municipal Corporations have not levied even the obligatory tax such as Development tax on the increasing urban land values caused by execution of development works. There has also been a failure to realize the full potential of other taxes also.

II NON-TAX REVENUES OF URBAN LOCAL GOVERNMENTS

A further source of urban local governments income comes from non-tax revenues. These are mainly derived from fees levied in markets, bus stands, cart stands, slaughter houses, and rents from Municipal property such as land and buildings (especially shopping centers) income from public utilities and interest on investments. Apart from taxes and rates there are some sources of revenue such as fines, fees, penalties, rents and income from other minor sources. Income from all these sources is generally not substantial. In Punjab nearly 16% of the income is derived from non tax sources of revenues.\textsuperscript{56} This source further includes income from water supply/sewage fees, interest on investments, fees, fines and charges in relation to performance of statutory and regulatory functions.

1. Fees

The term fee is generally defined to be a charge for special service rendered to individuals by some government or semi-government agency. The amount of fee levied is to bear some relationship with the expense incurred by such agency in rendering a service, though costs are uniform and no account is taken of the varying abilities of different recipients to pay. These are undoubtedly some of the general characteristics, but as there may be various kinds of fees, it is not possible to formulate a definition that would be applicable to all the cases.\(^57\) The distinction between a tax and fee lies primarily in the fact that a tax is levied as a part of common burden, while a fee is for payment of a specific benefit or privilege, although the special advantage is secondary to the primary motive of regulation in public interest.

In the landmark judgment of City Corporation of Calicut v. The Thaclambalath Sadasivan\(^58\) which in turn has placed reliance on an earlier judgment in Amar Nath Om Parkash Aggarwal v. State of Punjab,\(^59\) their lordships held that:

"It is thus well settled by numerous recent decisions of this court that the traditional concept of quid pro quo in a fee is undergoing a transformation and that though the fee

\(^{57}\) Commissioner, HRE Madras v. Lakshmindra Tirtha Swamiar, AIR 1954, SC 282.
\(^{58}\) AIR 1985 SC 756.
\(^{59}\) AIR 1985 SC 218."
must have relation to the services rendered, or the advantage conferred, such relation may be enough. It is not necessary to establish that those who pay the fee must receive direct benefit of the service rendered for which the fee is being paid. If one who is liable to pay receives general benefit from the authority levying the fee the element of service required for collecting the fee is satisfied. It is not necessary that the person liable to pay must receive some special benefit or advantage for payment of the fee.”

Applying the ratio of these decisions, it has been held by the Hon'ble court that it is incontrovertible that the municipality which is rendering numerous services to the persons within its area of operation and therefore, the levy of license fee as fee by it is fully justified. The municipal committee is competent to levy the following fees.\textsuperscript{60}

(i) Fee for copies of register, documents maps etc.
(ii) Fee for notice of demand for payment of a tax.
(iii) Tehbazari fee
(iv) Fee for license for dangerous or offensive trades.
(v) Fee for license of the diverse of the vehicles of animal kept or plying for hire.
(vi) License fee in respect of total and lodging houses
(vii) Fee for licensing of potters, animals etc.

\textsuperscript{60} J.L. Jain & A.S. Matta p. 201 and Sahib Singh & Surinder Singh “Development and Local Administration, 2001, p. 326.
(viii) Fee for licensing of premises and person engaged in sale, preparation or exposure for sale of specified articles of food and drink.

(ix) Fee for registration of dogs.

(x) Fee for use of premises of slaughter of animals.

(xi) Fee for disposal of dead animals.

(xii) Fee for wasting and bathing animals.

(xiii) Fee for detention of stray dogs.

(xiv) Cattle pound fee

(xv) Fee for letting of fire works

(xvi) Fee for supply of copies of bye-laws.

(xvii) Medical Fee

(xviii) Fee from educational institution

Out of all the above fee enumerated, substantiated revenue is derived from license fee for motor vehicles, for sale of spirits and drugs etc. and fee from educational institutions.

2. Rents

Apart from fees, a substantial portion of the municipal fund is earned by way of rents received from Municipal property. This may include rents from land and buildings, marriage places, dak bungalows, rest house, serais etc. It has been noticed that both in Punjab and Haryana income from this source has increased substantially over the year.\textsuperscript{61}

\textsuperscript{61} Section 56 of Punjab Municipal Act, 1911.
3. **Sale Of Property**

The municipality may also appropriate the proceeds out of sale of its movable and immovable properties which can be sold with the prior sanction of the state Government.62

4. **Income from Investments**

Under section 55 of Punjab Municipal Act, 1911, a committee may with previous sanction of the Deputy Commissioner invest any portion of its municipal funds in securities of the central government or invest it in such other securities or place it in such a manner as the State Government may approve in this behalf and vary such investments and place for others of like nature section 55 (2) further provides that the income resulting from such securities and placements and the proceed of the sale of the same shall be credited to the municipal fund.

5. **Fines and Penalties**

Urban local governments have been authorized under the statutes to claim fine and penalties in respect of matters under its control. For e.g. under section 107 of the Punjab Municipal Act, 1911, the committee can levy fine for buying or burning corpses in unauthorized places. Similarly, section 110 authorizes committee to charge fine for letting the dog create nuisance in public. The

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62 Section 56 of Punjab Municipal Act, 1911.
municipality also have the power to levy fine and penalties within their area for setting substandard food and drinks. Fines have also been specified under the Act, 1911, for soliciting alms, for keeping a brothel and for the illegal encroachments.63

III GRANT-IN-AID

Grant-in-aid form an important constituent of urban local governments finance. A payment made from the treasury of the state government to a local authority for the purpose of assisting that authority in carrying out a part or all of its activities is known as Grant-in-aid. Grant-in-aid can be defined as “Money payments furnished by a higher to a lower level of government to be used for specific purposes and subject to conditions spelled out in law or administrative regulations.”64 Grants are the most important sources of revenue in most of the developing countries like India because national governments absorb the prime sources of public revenue and are therefore, obliged to assist local units.

In any discussion of finance of urban-local governments, the role of Government grants and contributions assume considerable importance. In a federation, fiscal relation between the federal government and the government of constituent units are constitutionally determined. In India the fiscal relations between the

63 Section 150,151,152,153 and Section 172 of Punjab Municipal Act, 1911.
state and the urban local governments had been almost wholly or informal lines till 1992. According to 74th Constitutional Amendment Act, 1992, the urban local bodies have been granted a constitutional status. It has been envisaged for creating state Finance Commission on the lines of Finance Commission at the national level.

A clear trend has emerged even since independence that the role of grant-in-aid in the total ordinary income of the urban local bodies has increased rapidly. The committee Augmentation of Financial Resources of Urban Local bodies noted that there was hardly any correlation between the size of a urban local body and the amount of grants received. Urban local bodies in almost all the states depends upon grants. The First Finance Commission of Punjab has observed that there are no criteria for the devolution of grants, indicating the absence of predictable grants policy.65

Urban local governments in almost all the states depend upon grants. These grants are divided into the main categories: -

(1) General Purpose Grants

These grants are primarily intended to substantially bridge the gap between the needs and resources of the urban local bodies. The only condition laid down in the rules for its eligibility is that urban local body should have imposed taxes prescribed by the local laws and

taken all necessary steps for their realization. The scale of grants is fixed as follows:

1. **Municipal corporation**
   - Rs. 0.50 per head

2. **Municipalities having population Above 50,000**
   - Rs. 0.75 per head

3. **Municipalities having Population between 20,000-50,000**
   - Rs. 1.00 per head

4. **Municipalities with population between 10,000-20,000**
   - Rs. 1.25 per head

5. **Municipalities with population below 10,000**
   - Rs. 1.50 per head

(2) **Specific Purpose Grants**

These grants are tied to the provision of certain services or performance of certain tasks. Such services rendered by local bodies may fall under the obligation of state government also or they are national in character. These grants are generally provided for implementation of development plans, for water supply and drainage, for housing, public works, roads, drains, passing footpaths, latrines, urinals, etc. for maintenance of dispensaries and hospitals, schools, etc. for purchase of necessary equipment, etc., maintenance of fire fighting service, and so on.

(3) **Statutory and Compensatory Grants**

These grants are given under various enactments to the local bodies as compensation on account of loss of any revenue on taking over a tax by state government from local government.
GRANTS FROM CENTRAL GOVERNMENT

The grants provided by the state governments are generally found inadequate. It has been maintained that when the state governments themselves are facing financial crisis it will be unrealistic to expect them to provide more financial assistance to local governments. As far as the central government is concerned, it has not been making any grants on continuous basis to urban local bodies. This indifferent attitude should not be allowed to continue for long. Central Government will have to be persuaded to shoulder the responsibility of financial assisting urban local governments on a regular and rational basis as its counterparts have started doing in many developed countries. In almost all developed countries, central governments have come to the rescue of urban local governments, particularly in the wake of their fiscal crisis originating from global inflation. But this has not happened in developing countries mainly because of the central government's pre-occupation with rural development through national plans. This is very much true of India. The submission of some state governments to the Ninth Finance Commission and subsequent commission thereafter for taking into account the urban local governments financial requirements for providing certain essential public services has gone on deaf ears.
Thus, the need in the present hour is that the central and state government should understand their constitutional duties and offer full hearted support to the urban local bodies so as to enable them to emerge as bodies of self-government.

IV  LOANS AND BORROWINGS

Loans form another source of ‘income’ to the urban local government. Borrowing by the urban local government is subject to both statutory and administrative restrictions. These restraints have been imposed lest the financial position of the local government becomes perilous as a result of reckless borrowing. Municipal bodies are obliged to borrow from state government and other agencies to meet emergencies and for capital expenditure which they cannot afford out of their revenues.66

With the increase in urbanization and industrialization, urban local governments require more and more funds to equip the cities with up-to-date facilities. A number of capital projects such as installation of water works, development of residential estates, auditoriums, a town hall, etc., development of adequate sewerage and drainage system, and like are generally undertaken by the urban local bodies for the benefit of coming generations. Normally, the urban local bodies are unable to meet the huge expenditure required to undertake these projects out of their routine income. Hence, loans are required to meet the development needs of the town.

Urban local bodies may raise loans in the open market but mostly they borrow from the state government. The period of loans are contemplated by the All India Act, 1914 and the rules framed there under, is to be not more than 30 years. In case of longer period, sanction of the Government of India is required. In Punjab and Haryana, the borrowing powers of the local bodies are regulated by the Punjab Local Authorities Loans Act, 1922 and rules made there under. In Punjab the contribution of loans to the total income of the municipalities during the past few years range between 0.5 percent to 5 percent while in Haryana it varies between 5 to 10 percent.67

REVIEW OF FINANCIAL POSITION

After studying the various constitutional and statutory provisions governing the finances of the urban local governments it is disheartening to note that in spite of high deals envisaged under the constitution and the state enactments, the urban local bodies in India suffer severely on the revenue side of their balance sheets while at the same time they are expected to play a vital role in the urban development process. Rather they find it increasingly difficult to meet even the cost of civil services out of their own resources. In December 2001, when Octroi was abolished in the state of Punjab, the urban local bodies came to a virtual threat of extinction as they were not even in a position to pay the salaries to its staff. Though with the

courts coming to rescue and restoring octroi in Punjab the local bodies were still cash starved.68

REASONS FOR POOR FINANCIAL POSITION OF URBAN LOCAL BODIES

In a study by the National Institute of urban Affairs. The major reasons for poor financial resources of the urban local bodies are discussed below69

(i) Faulty System of Devolution of Funds

Local bodies in India have a double disadvantage in the matter of access to funds for capital investment for upgrading the infrastructure. Being creature of states, they are outside the purview of statuary devolution of funds and therefore, are wholly dependent in the matter of grants upon the discretion of the state governments. In the matters of sharing the funds available for investment through the five-year-plans, most urban local bodies are once again outside, the preview of the plans. Whatever funds are made available to the local bodies for capital investment are restricted to what each state government is prepared to dole out from its own plan allocations under various heads.70

(ii) Complicated Taxation Procedures

The procedures as regards to the introduction of a new tax or amendments in the existing taxes is very cumbersome. No separate

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70 R. Sheshadri, "Financing urban development" 1986 p. 69.
list of taxes is provided in the constitution for the urban local bodies. The imposition of taxes or change in their rates etc., requires the approval of state government. The state government may or may not sanction the same. Moreover, if the rates are fixed for once they cannot be altered during the year.

(iii) Unbalanced Distribution of Resources

The major sources of revenue assigned to the urban local bodies in India are generally insufficient. A number of taxes are inelastic whereas the activities of the urban local bodies are ever increasing so are cost. Taxes like octroi, terminal tax, property tax or house tax, which are the major sources of revenue, are quite inelastic. Revenue from these taxes does not increase as much as the financial needs of the urban local governments. Besides, the state governments have been continuously encroaching upon the resources of urban local governments in one way or the other. In Punjab, for example, octroi has always been the biggest source of income to local bodies and it is this source that the government has been hitting time and again. The biggest blow came when the government ordered exemption of food-grains and other food articles from the octroi duty.

(iv) Poverty and Urbanization

General poverty of the nation is also one of the important factors towards the sorry State of finance of urban local bodies. The per capita income of an average individual is much low as compared
to that of a number of developed countries. Therefore, the capacity of the people to pay taxes is bound to be low. Even out of this low capacity, the union and state governments exploit the most leaving too little for the urban local government. At the same time the pressure on urban local government is continuously increasing with rapid urbanization. The fast growing urban population makes cost of municipal or corporation services still higher for the local bodies

(v) Political Reluctance to Impose Taxes

At the local level, political leaders are very near to their voters. Voters have organized themselves into “pressure groups”. Consequently, political leaders hesitate to antagonize the voters by levying tax on them. This is the reason for the failure of urban local bodies to revise or restructure certain taxes.

This factor is responsible equally for the poor recovery of the arrears. As has already been discussed, the politicians do not want to displease the influential defaulters of the locality. So the urban local bodies suffer heavy financial losses at the cost of the political gains to the councilors.

(vi) Weak Administration

As has been noted by the National institute of urban Affairs, the urban local bodies in India suffer financial losses due to weak financial administration. The administrative machinery responsible for the collection of taxes is mostly ineffective. In this regard, it is worth
mentioning that the staff is not properly trained and lacks sufficient morale to work effectively. There is no motivation with them for the speedy recovery of taxes/arrears. The low paid staff easily falls to the lure of bribe.

(vii) Poor Matching Grants

In number of states, the state governments have started taking over the power to levy tax on certain items because of lack of political will at the local level. Whereas, in some other states, the governments have abolished certain taxes such as Octroi. In return, the state government has been paying compensatory grants to the concerned urban local bodies equivalent to the amount which they were collecting at the time of taking over these sources. This means that the compensatory grants themselves have become very meager over the time. In some cases, even the matching grants are not regular.

(viii) Spurt in Labour Costs

In addition to other financial troubles, urban local bodies in India have had to face spurt in the wage bills particularly during the last two decades. The reason for this is that civic services in India are still provided by labour intensive methods and increases in labour cost have significant effect on their total expenditure.

(ix) Ineffective Audit System

A systematic and effective audit of the accounts of urban local bodies is being neglected in most of the states. This is mainly due to
the accumulation of arrears. In many urban local bodies the final accounts have not been completed for several years and it is not known when these arrears will be set right. Therefore, the very purpose of audit is frustrated.

(x) Limited Borrowing Power

The attitude of governments is least sympathetic in regard to the borrowing powers of the urban local bodies. In India, government charges a high rate of interest on loans, while in countries like England and USA loans are granted to urban local bodies at a low rate of interest.

(xi) Absence of Productive Enterprises

Apart from other sources of finance, good amount can be earned through investment in certain enterprises or trading activities. Unfortunately, in India the urban local bodies are mostly reluctant to indulge in such enterprises. On the other hand, whatever the commercial or trading services are there, they are not properly or efficiently managed, thereby limiting the potential sources of income to the urban local bodies.

SUGGESTIONS FOR IMPROVEMENT

The sorry state of finances of urban local bodies in India needs to be improved substantially. In order to stabilize the basis of Indian democracy, it is essential that the finances of urban local bodies should be placed on a sound basis so that they may function more
efficiently. A number of suggestions have been made at various conferences and in committee's reports for the improvement in financial position of the urban local bodies. Prominent committees/commissions in this regard are: - Local Finance Enquiry Committee (1949-51), Taxation Enquiry Committee (1924-25), Local Government (Urban) Enquiry Committee (1957), Rural-Urban Relationship Committee (1963-66), Indian Taxation Enquiry Committee (1964), Dr. Zakaria Committee on Financial Resources (1965), the Minister's Committee on Augmentation of Financial Resources of urban local bodies, 1963 and so on. The main suggestions are: -

(i) Development of Indigenous Resources

For effective improvement in the financial sphere, it is imperative that urban local bodies should first develop their own resources, otherwise the whole idea of development of self-governing institutions at the local level is liable to remain a mere ideal. The prevalent reluctance of urban local bodies to introduce taxes has to be overcome. There should also be some compulsion in this regard. The Local Finance Enquiry Committee rightly recommended: "Local bodies which do not utilize their existing power of taxation can have no claim on the financial resources of the state. Where a local body is unwilling to impose tax at an adequate rate, the state government should have the right, in the first instance, to give friendly advice and if the local body fails to
carry it out, the state government should in the last resort, have
the power to impose or raise the taxes.” Hence it is submitted that
urban local bodies must take sincere efforts to recover legally valid
imposed taxes from the persons or enterprises who so ever he or
that may be.

ii) Rationalization of Tax Structure

The tax structure of the urban local bodies needs rationalization. More taxes particularly some productive taxes should be transferred to the urban local bodies. Some taxes, such as property tax should be made compulsory. Some indirect taxes may be abolished but at the same time tax system should be made elastic. There should be a clear demarcation so that there is no overlapping of jurisdiction between state and local bodies and no harassment of the tax payer.

iii) Simplification of Procedures

It is also important that the procedure to impose a new tax or
amend a tax rate should be made simple and efficient. However, there
should be a system of consultation with the affected groups/parties.
The prior approval of the state government should be made compulsory only in extraordinary cases.

iv) Emphasis on Non-Tax Revenue

Apart from taxes it is also important that urban local bodies should also expand sources of non-tax revenues. In this connection local licensing, local enterprises, local trading and housing may be
specially mentioned. Such activities are emphasized not only because of revenue but also because of their social advantage.

v) Liberal Government Grants

Grant-in-aid to urban local bodies should be provided on a rational basis. The need for rational and liberal grants grow because larger sums of money will have to be given by the state to urban local bodies in future in view of the growing trend towards centralization of revenues. Further, as the grants are given on year to year basis or on adhoc basis, the local urban bodies are not able to plan their activities properly. The urban local bodies should be given some idea in advance about the grant-in-aid likely to be made available to them over the next five years or over the plan period. The practice of sending grants when the financial year is running out should be avoided as it results in wasteful expenditure or non utilization of grants with the concerned financial year.

vi) Liberal Loans

The policy and procedure governing borrowings by the urban local bodies should be liberalized. At present there are too many statutory and administrative restrictions on the borrowing powers of the urban local bodies with the result that they are unable to raise enough loans to meet their financial requirements. The setting up of local finance corporation may go a long way in meeting the loans needs of the urban local bodies.
vii) Revitalization of Assessing and Collecting Machinery

As has been noted earlier, urban local bodies are deprived of a good amount of revenue because of laxity in assessment of taxes and their collection. In this regard it is very important that administrative machinery involved should be strengthened by adding to their strength more employees selected on merit basis, by imparting proper training, by providing handsome incentives to the employee and so on. Apart from this there should be strict check on the corrupt and defaulting employee.

viii) Recovery of Piled up Arrears

A renewed move should be started to recover the huge arrears. Special units may be created for this purpose keeping in view the overall economy. At the same time there should be emphasis on checking the further increase in arrears. Incentives may be offered for timely and regular payment of taxes and heavy fines may be imposed on the tax defaulters.

ix) Economic and Effective Use of Existing Resources

It has been noted that though there are meager resources of finance with the urban local bodies, these are being utilized in the most economical, efficient and effective manner. In this regard it is necessary that there should be clear priorities. Wastage of money should be checked. The basic needs should be fulfilled first and balance if any, should be put to productive channels.
x) **Performance Budgeting**

This technique seeks to correlate financial outlays with physical targets and achievements. By a rational structure in terms of functions, programmes and activities and through a meaningful analysis of the relative costs and benefit of competing and alternative proposals, it helps the management to achieve their objectives most prudently. In the field of urban local government, the potentiality for the application of this technique is enormous, provided some amount of discipline is created in them. Similarly, some other modern management techniques may also be introduced gradually.

xi) **Proper Accounting and Audit System**

A proper system of accounting and auditing facilities control over finances, provides clear picture of funds at a particular time and helps to pin-point the maladies in financial management. The audit objections should be carefully attended to. Moreover, the audit should be timely and strict.

It is hoped that with the implementation of fresh local legislations, the urban local bodies shall enjoy sufficient powers and resources. Also with the establishment of Finance Commission for local bodies a permanent watchdog has come into being which, it is hoped, will help to strengthen the deteriorating financial condition of
urban local bodies. An insight into the some of the suggestions given above shall also bear fruits for the realisation of the ideals envisaged under the constitutional 74th Amendment, Act 1992.