Chapter V

FINANCIAL PROBLEMS

They constitute the sinews of body politic. Finances are a big problem of every institution. Contemporary state claims to be a welfare state. It looks after education, controls employment, provides social security, insures public health and brings about reform of communication, etc. Local services like local road building, sanitation, primary education, water supply and public health are provided by the local bodies. The maintenance of the required standards in facilitating such local services to the people depends upon many factors, chief among them being suitable well regulated finance and trained technical staff. The financial provision for the local bodies is highly inadequate everywhere in India. Dr. Gyan Chand once said that, "the problem of local finance which dominates all the rest is the problem of finding money for national reconstruction which has in such large measure to be carried out through the agencies of local authorities and with their enthusiastic cooperation."¹

¹ Civic Affairs (Kanpur), August 1972, Vol. 20, No. 1, p. 23
The principle of local finance is the same as that of national finance. Dr. Hugh Dalton, the noted economist observes, "in particular, there is no fundamental distinction between the public finance of central and local authorities."\(^1\) Another eminent economist, Professor Canon does not see much difference between national and local finance. He points out, "The word local is related in character. From the point of an empire, the tax of a country is local and from the point of view of a country the tax of a provincial govt. can be termed local. So the difference between local and national is one of degree only."\(^2\) The principles involved more or less are the same.

Municipal Finance as a sub-field of public finance has not received the attention it deserved. Since independence a number of committees and commissions like Local Finance Enquiry Committee, Rural Urban Relationship Committee and Taxation Enquiry Commission, have been set up to study the problems of municipal finance, and came invariable to this conclusion that the Municipal Finances are in pitiable shape and adequate steps should be taken to increase their resources. The main sources of income depends upon taxes and duties imposed under the statutory provisions of the Act. There is a suitable share in the proceeds of certain taxes with the State.

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Government and also in the form of grant-in-aid for general and special purposes. If the local bodies are left suffering from starvation, the welfare activities would be still-born or will get emasculated in course of their working. Finances are the life blood of every administrative activity, without the adequate supply of money, the progress of development will be slow and no proper development will be possible.

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 vehicles or boats
4. Tax on buildings
5. Tax on animals
6. Tax on domestic servants
7. Octroi
8. Terminal Tax in areas excluding that are in which octroi was levied
9. Tax on trades and callings professions
10. Tax on private markets

The Government of India Act 1935, did not include any local list of taxes, and so, with the inauguration of this Act in 1937, the local government deprived of the special position in regard to taxation.

The question of increasing the finances of local bodies has been thoroughly examined by the Local Finance Enquiry Committee 1951 and the Taxation Enquiry Commission 1954. The
Taxation Enquiry Commission's suggestions that the following taxes and duties be reserved exclusively for the local bodies¹ should be accepted by the State Governments:

(a) Taxes on lands and buildings
(b) Taxes on animals and goats
(c) Octroi
(d) Taxes on vehicles other than mechanically propelled vehicles
(e) Taxes on professions, trades, callings and employment
(f) Taxes on advertisements except newspapers

It was further recommended that the local bodies be permitted to impose theatre or show tax generally known as entertainment tax and duty on transfer of property to be collected by the State Government along with the stamp duty for the local bodies.

The States are almost sovereign units and are authorised by the constitution to set up local bodies within their jurisdiction. They are also empowered to allocate them definite sources of revenues. There are two types of financial resources at the discretion of municipal bodies:

A. Tax revenues
B. Non-tax revenues

A. Tax revenues comprises the following:

1. a consolidated property tax.
2. a tax on trades, callings and professions

3. an octroi
4. a tax on goods and consumptions
5. A tax on advertisements other than advertisements published in the newspapers.

B. Non-tax revenues are as follows:

1. Grant-in-aid received from state governments.
2. Rent from municipal properties utilities and undertakings, licence and different fees and fines.

The powers of taxation of the local bodies are obtained from the respective laws under which they are established. The municipal corporations are empowered to realise compulsory taxes. They can raise the rates within statutory limits whenever they are prescribed, but within assigned jurisdiction. Their power to levy the tax is final and is not submitted to the approval of the State Government.

The following taxes to be imposed under Section 172 of the U.P. Nagar Mahapalika Adhiniyam 1959 by the Corporations:

1. For the purposes of this Act and subject to the provisions thereof and of Article 285 of the Constitution of India:
   a. property taxes;
   b. a tax on vehicles other than mechanically propelled vehicles, and other conveyances plying for hire or kept within the city or on boats moored therein;
   c. a tax on animals used for riding, driving, draught or burden, when kept within the city.
2. In addition to the taxes specified in sub-section (1) the Mahapalika may for the purposes of this Act and subject to the provisions thereof impose any of the following taxes, namely:

(a) a tax on trades, callings and professions and holding of public or private appointments.
(b) an octroi on goods or animals brought within the city for consumption, use or sale therein.
(c) a tax on goods exported from or imported into the city in which an octroi was in force at the commencement of the constitution of India.
(d) a toll on vehicles and other conveyances and animals and laden coolies entering the city.
(e) a tax on dogs kept within the city.
(f) a betterment tax.
(g) a tax on deeds of transfer of immovable property situated within the city.
(h) a tax on advertisements not being advertisements published in newspapers.
(i) a theatre tax.
(j) any other tax which the state legislature has the power under the constitution of India to impose in the State, provided that octroi on goods under clause (b) and a tax under clause (c) shall not be levied at the same time.

3. The Mahapalika taxes shall be assessed and levied in accordance with the provision of this Act and the rules and bye-laws framed thereunder.

4. Nothing in this section shall authorise the imposition of any tax which the State Legislature has no power to impose.
in the State under the constitution of India.

Municipal corporations are functioning in U.P. since February 1, 1960, after the enactment of the U.P. Nagar Mahapalika Adhiniyam, 1959. The purpose of setting up of these corporations was to inject vigour by improving their financial resources. One of the purpose was that they could provide better facilities to the people. Provisions were also made in the Act for the enlargement of the financial powers of these corporations. However, the experience of the working of these five Municipal Corporations has given satisfaction to nobody as it has not improved the living standard of the masses. Despite the increase in taxation powers, the civic amenities have not shown any sign of improvement. The citizens are not enthusiastic about the achievements of these corporations and about the civic future under them.\(^1\) The financial position of these municipal corporations is so poor that, "Kanpur could not make the payment of salaries for eight months. Lucknow corporation had been declared bankrupt by the government. Allahabad and Agra are facing financial crises. Varanasi corporation is going hand to mouth."\(^2\) The State Government has felt to order these five municipal corporations to dismiss all their employees which were employed after February 1, 1960.\(^3\)

\(^1\) Civic Affairs (Kanpur), April, 1963, Vol.10, No. 9, p.3.
\(^2\) Northern India Patrika (Allahabad), August 20, 1965
\(^3\) Aaj (Hindi, Varanasi), December 23, 1965
It is time, that the financial position of Municipal Corporations in U.P. is thoroughly examined and to suggest some remedies. In present we should be concerned with an analysis of the finances of these five corporations during 1959-60 to 1964-65.

TABLE 1

Trend of Income and Expenditure of Municipal Corporations in U.P.

<table>
<thead>
<tr>
<th>Year</th>
<th>Normal income</th>
<th>Total income</th>
<th>Normal expenditure</th>
<th>Total disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rs. in Lakh)</td>
<td>(Rs. in Lakh)</td>
<td>(Rs. in Lakh)</td>
<td>(Rs. in Lakh)</td>
</tr>
<tr>
<td>1959-60</td>
<td>607.08 (100)</td>
<td>868.08 (100)</td>
<td>737.94 (100)</td>
<td>885.51 (100)</td>
</tr>
<tr>
<td>1960-61</td>
<td>727.38 (120)</td>
<td>1015.13 (117)</td>
<td>774.35 (105)</td>
<td>942.46 (106)</td>
</tr>
<tr>
<td>1961-62</td>
<td>747.69 (123)</td>
<td>1015.18 (117)</td>
<td>815.73 (111)</td>
<td>981.79 (111)</td>
</tr>
<tr>
<td>1962-63</td>
<td>810.27 (133)</td>
<td>1059.72 (122)</td>
<td>1019.31 (138)</td>
<td>1225.35 (138)</td>
</tr>
<tr>
<td>1963-64</td>
<td>821.00 (135)</td>
<td>1074.26 (124)</td>
<td>938.66 (127)</td>
<td>1121.42 (127)</td>
</tr>
<tr>
<td>1964-65</td>
<td>981.19* (162)</td>
<td>1405.33* (162)</td>
<td>1262.73* (171)</td>
<td>1458.43* (165)</td>
</tr>
</tbody>
</table>

Sources: Annual Administration Report of the Corporations for respective years (Figures in brackets show the indices).

* Includes the budgeted amount of Kanpur Corporation.
Overall Position of the Corporations

During the period under study, the Municipal Corporations in U.P. increased their income as well as the expenditure. The rise in the expenditure was more than the income. During 1959-60 - 1964-65, there was an increase of about 62% in their normal income and total income, the rise in their normal expenditure and total disbursement was of the order of 71% and 65% respectively. This resulted in an overall deficit in all the years under revision except 1960-61 and 1961-62.

**TABLE 2**

Overall position of Municipal Corporations in U.P.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total income</th>
<th>Total disbursement</th>
<th>Deficit (-) or Surplus (+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959-60</td>
<td>685.51</td>
<td>868.08</td>
<td>(-) 17.43</td>
</tr>
<tr>
<td>1960-61</td>
<td>942.46</td>
<td>1015.13</td>
<td>(+) 72.67</td>
</tr>
<tr>
<td>1961-62</td>
<td>981.71</td>
<td>1015.16</td>
<td>(+) 33.47</td>
</tr>
<tr>
<td>1962-63</td>
<td>1224.35</td>
<td>1059.72</td>
<td>(-) 164.63</td>
</tr>
<tr>
<td>1963-64</td>
<td>1121.42</td>
<td>1074.26</td>
<td>(-) 47.16</td>
</tr>
<tr>
<td>1964-65</td>
<td>1458.43</td>
<td>1405.33</td>
<td>(-) 53.10</td>
</tr>
</tbody>
</table>


1 'Normal income' excludes the income under the head 'extraordinary and debt' (such as deposits, advances, loan, etc.) The normal income are receipts under the head 'extraordinary and debt' are collectively called total income.

2 'Normal Expenditure' includes the expenditure under the head 'Extraordinary and debt' (such as repayment of loans, advances, deposits, etc.), Normal expenditure and the expenditure under the head 'Extraordinary and debt' are collectively called total disbursements.
An interesting feature of the finances of these corporations is that their expenditure per head of population is more than the per capita income.

### TABLE 3

Incidence of Tax, Income and Expenditure Per head of population

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Incidence of tax</td>
<td>13.55</td>
<td>14.12</td>
<td>15.41</td>
<td>15.83</td>
<td>18.00</td>
<td>20.19</td>
</tr>
<tr>
<td>(b) Incidence of income</td>
<td>40.89</td>
<td>37.13</td>
<td>36.54</td>
<td>40.45</td>
<td>40.95</td>
<td>50.57</td>
</tr>
<tr>
<td>(c) Expenditure per head</td>
<td>58.40</td>
<td>37.52</td>
<td>37.75</td>
<td>52.65</td>
<td>39.88</td>
<td>73.90</td>
</tr>
</tbody>
</table>

2 **Allahabad**

| (a) Incidence of tax | 13.75 | 11.63 | 12.16 | 13.57 | 13.59 | 14.29 |
| (b) Incidence of income | 26.76 | 20.09 | 21.04 | 24.46 | 23.28 | 27.28 |
| (c) Expenditure per head | 19.29 | 25.55 | 23.91 | 31.50 | 32.00 | 37.37 |

3 **Varanasi**

| (a) Incidence of tax | 15.05 | 9.69 | 10.65 | 12.03 | 12.63 | 13.23 |
| (b) Incidence of income | 20.84 | 18.79 | 16.72 | 18.55 | 20.25 | 23.50 |
| (c) Expenditure per head | 27.81 | 16.89 | 16.98 | 20.55 | 24.89 | 25.47 |

(Contd.)
4 **Area**
(a) Incidence of tax 10.98 10.50 10.71 11.44 11.70 12.28
(b) Incidence of income 18.07 18.27 20.62 21.59 21.17 25.67
(c) Expenditure per head 18.85 19.63 22.79 24.19 27.75 25.69

5 **Lucknow**
(a) Incidence of tax 12.86 10.55 11.80 12.58 13.75 14.69
(b) Incidence of income 26.33 22.39 26.10 26.15 26.74 30.36
(c) Expenditure per head 28.81 26.71 31.92 34.65 32.24 35.09

Source: Ibid.

During the period 1959-60 to 1964-65, the expenditure has increased faster than income from the per capita point of view.

**TABLE 4**

Increase in per capita income and expenditure

<table>
<thead>
<tr>
<th>Years</th>
<th>1959-60</th>
<th>1964-65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita income</td>
<td>28.39</td>
<td>33.79</td>
</tr>
<tr>
<td>Per capita expenditure</td>
<td>34.51</td>
<td>43.49</td>
</tr>
</tbody>
</table>

Source: Ibid.

The income per capita recorded a increase of 19.02% the expenditure increased by 26.02%. In fact, the expenditure per head has been higher than the per capita income of these
corporations both individually and in the aggregate during practically all these years.

The increase in expenditure has increased the debt burden of these corporations during the recent past. When the government appointed administrator to take over them in July, 1953, the Agra and Kanpur municipalities were not all in debt, while the total loan taken by the rest three municipalities (Allahabad, Lucknow and Varanasi) was only Rs. 55.62 lakhs. On the other hand, against this position, we find that the total indebtedness of these corporations had increased to Rs. 12 crores and 41 lakhs in 1959-60 and by that time all the corporations had become heavily in debt. However, there was a decline in the total indebtedness of these corporations in 1960-61 and 1961-62, compared to that in 1959-60, these point out that their debt burden has increased considerably during 1962-63 to 1964-65. This shows chaotic financed position in which these corporations find themselves at present.¹

Analyses of the finances of these corporations, first in relation to their expenditure and then in regard to income

### Income

The main source of income of these Municipal Corporations are house tax, water tax and terminal tax or octroi. The

TABLE 5  
Total Loan Position of the Corporations in U.P.  

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kanpur</td>
<td>-</td>
<td>10.23</td>
<td>478.64</td>
<td>445.76</td>
<td>n.a.</td>
</tr>
<tr>
<td>Allahabad</td>
<td>34.64</td>
<td>141.10</td>
<td>118.71</td>
<td>112.32</td>
<td>n.a.</td>
</tr>
<tr>
<td>Varanasi</td>
<td>4.76</td>
<td>167.44</td>
<td>187.79</td>
<td>183.03</td>
<td>n.a.</td>
</tr>
<tr>
<td>Agra</td>
<td>-</td>
<td>100.27</td>
<td>151.30</td>
<td>148.46</td>
<td>n.a.</td>
</tr>
<tr>
<td>Lucknow</td>
<td>16.21</td>
<td>243.99</td>
<td>304.50</td>
<td>292.97</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55.61</strong></td>
<td><strong>663.03</strong></td>
<td><strong>1240.94</strong></td>
<td><strong>1181.64</strong></td>
<td><strong>1121.64</strong></td>
</tr>
</tbody>
</table>

Source:  
(1) *Civic Affairs* (Kanpur), April 1960, p.90.  
(2) The Working of Municipal Corporation in U.P., Background Papers, Inst. of Public Administration, Lucknow University, Lucknow, p.93.
Municipal Corporations are also empowered to levy four new taxes, i.e., betterment tax, advertisement tax, theatre tax and the tax on transfer of deeds of property, none of them could draw forth a suitable amount from these sources. While Allahabad and Lucknow municipal corporations did not tap any of new sources, Kanpur, Varanasi and Agra corporations could earn only a little amount and that too only from the transfer deeds of property. Thus, the new taxation powers of the Municipal Corporations have not been made use of by these municipal corporations.

TABLE 6

Percentage of tax on transfer deeds of property to total tax revenue.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kanpur</td>
<td>2.96</td>
<td>1.00</td>
<td>1.70</td>
<td>0.30</td>
<td>-</td>
<td>1.27</td>
</tr>
<tr>
<td>Allahabad</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Varanasi</td>
<td>1.17</td>
<td>1.22</td>
<td>1.26</td>
<td>1.77</td>
<td>1.33</td>
<td>1.67</td>
</tr>
<tr>
<td>Agra</td>
<td>-</td>
<td>2.79</td>
<td>1.27</td>
<td>1.39</td>
<td>1.62</td>
<td>1.39</td>
</tr>
<tr>
<td>Lucknow</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Civic Affairs, op.cit., p.9.

Octroi and terminal tax which have an important place in local taxation, have failed in increase a suitable amount to the incomes of these Municipal Corporations during the past years. However, the consumption of goods increase
within these cities must have gone up with the increase in population and standard of living. This is caused mainly to the looseness in the administrative machinery.

The income from property which is another important source after octroi and terminal tax has not gone up appreciably as all the five KAVAL towns are old. A large number of the owners and occupiers are paying two decades back through the expenditure of the municipal corporations in maintaining their areas have gone up several times. There are so many factors which hinder the growth of income from this source. Firstly, the basis of valuation does not fully reflect the increase in the market value of urban lands. Secondly, so long as rents are controlled, local bodies in India cannot possibly expect to derive the benefit which only a free market for rent can give them and are bound to lose a suitable amount of income. For example, "the Calcutta Municipal Corporation, it has been estimated, loses over Rs. 25 lakhs a year because of rent control. The loss should be much greater in Bombay where the control is much rigid."1 As no figure with regard to the loss of KAVAL towns corporations due to this act is available, nothing definite about it can be said. However, it can be said that they also lose fairly high amount every year. Thirdly, the Municipal Corporations in U.P. are empowered to levy property tax from 15 to 25% of

1 Civic Affairs (Kanpur), November 1964, Vol. 12, No. 4, p. 7.
the annual rental value of the properties. But not a single of them has increased the rate up to 25 per cent because the members are afraid of losing their popularity. As Dr. Minocha rightly observes, "the local bodies have not exploited their existing powers of taxation. To some extent, this is because the low paying capacity of the people. But a part from this factor, the elected representatives do not want to incur the displeasure of the electorate and politically a greater exploitation of tax powers is regarded as hazardous venture." Finally, the tax on land and building imposed by the state government has greatly reduced the scope for the municipal taxation. It seems illogical for the state government to levy this tax when the municipal bodies are already levying it.

A big disadvantage from which these corporations suffer is that the under new constitution all the sources of public income are divided between the state and central governments and the local bodies have not been given any separate source. Thus, they have to depend on them by the state governments and their financial position has been made dependent on the financial position of state as such. This has made the financial position of the municipal corporations in the economically backward states deplorable. Thus, for instance, although it is felt

### Table 7

**Percentage of Property Tax, Octroi or Terminal Tax to Total Tax Revenue**

<table>
<thead>
<tr>
<th>Year</th>
<th>Property tax</th>
<th>Octroi or terminal tax</th>
<th>Other Taxes</th>
<th>Total tax revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959-60</td>
<td>130.79 (47.03)</td>
<td>138.60 (49.09)</td>
<td>12.94 (4.58)</td>
<td>282.34</td>
</tr>
<tr>
<td>1960-61</td>
<td>146.44 (43.61)</td>
<td>175.46 (52.26)</td>
<td>13.87 (4.13)</td>
<td>235.77</td>
</tr>
<tr>
<td>1961-62</td>
<td>153.70 (42.39)</td>
<td>189.52 (52.27)</td>
<td>19.33 (5.34)</td>
<td>362.55</td>
</tr>
<tr>
<td>1962-63</td>
<td>157.29 (40.48)</td>
<td>206.06 (53.04)</td>
<td>25.18 (6.48)</td>
<td>388.53</td>
</tr>
<tr>
<td>1963-64</td>
<td>171.14 (40.94)</td>
<td>222.38 (53.32)</td>
<td>23.97 (5.74)</td>
<td>1417.99</td>
</tr>
<tr>
<td>1964-65</td>
<td>157.06 (34.83)</td>
<td>236.62 (52.48)</td>
<td>57.21 (12.69)</td>
<td>450.89</td>
</tr>
</tbody>
</table>

*Source: *Civic Affairs*, op. cit., p. 70.*

(Figures in brackets show the percentage).
that the state government in U.P. should share with the municipal apart of the revenue derived by it from the enter-
tainment tax, electricity duty, etc., the U.P. Government has flatly refused to accept any such suggestions pleading its own financial difficulties. Not only that, it has now started imposing such taxes as were reserved since long for the municipal bodies.

The most significant cause of the low income of Indian local bodies is the general poverty of the country. The annual national per capita income in England has been computed of Rs. 1,092; in U.S.A., Rs. 2,053; in Canada, Rs. 1,268; in France Rs. 636; in Japan Rs. 271, while in India only Rs. 125. The national wealth per head of population in England some years ago was Rs. 6,371; in U.S.A. Rs. 9,356; in Canada, Rs. 8,023; in France Rs. 4,581, in Japan Rs. 2038 and in India only Rs. 441. This means that India is 10 to 20 times poorer as compared with the prosperous countries of the west.\(^1\) The wealth and income of Indian people increase as a result of economic and industrial development of the country, her taxable capacity is bound to remain low.

Another cause responsible for the poverty of Indian Local bodies has been the ill-distribution of resources. In England, the local bodies incur about 33 per cent of the total national expenditure, in U.S.A. about 54 per cent, while in India only 20%.

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1 M.P. Sharma, "Local Self Government in India", Kitab Mahal (Allahabad), 1967, p.175-76.
2 Ibid.
The municipal corporation of Bombay has the highest per capita income of Rs. 30.24 followed by the municipal corporation of Ahmadabad and Delhi, Rs. 35.97 and 34.91 respectively. The corporation of Trivandrum has the lowest per capita income, only Rs. 7.83.¹

**Expenditure**

The increase in expenditure of these corporations may be classified partly to the enlargement of their territorial jurisdiction and partly increased population. Special requirements of town planning, slum clearance, housing, water supply, health, drainage, sewerage, etc., have strained their financial resources further. The general increase in price and the incidental increase in the cost of living index have also been forcing the corporations to pay out more for wages, salaries and supplies, plants and equipments. Besides these, lack of proper control over their expenditure, inordinate extravagance on the part of municipal officials, undesirable expenditure over and above what is provided in the budget, etc., are some other factors which are responsible for the increase in the expenditure.

However, this reflects the increasing burden of public health and public works. The share of these two items alone

¹ R.L. Khanna, "Municipal Government and Administration in India", Mohindra Capital Publishers (Chandigarh), 1967, p.57
in the budgets of local bodies has increased from Rs. 25 crores in 1955-56 to Rs. 63.3 crores in 1960-61 and still further to Rs. 80.6 crores in 1961-62. In fact, the expenditure of the city corporations on public health and conveyance more than doubled between 1955-56 and 1960-61 and their outlay on public works increased by 700 per cent during this period.

An item which may figure more and more in the future is debt charges which absorbed as much as Rs. 8.1 crores in 1961-62 as against Rs. 7.0 crores in the last year. The outstanding debt of Corporations and Municipalities is increasing year by year and in the period 1955-56 to 1960-61, the city corporations increased their indebtedness by 78 per cent the parallel rise in the case of municipalities being 73 per cent. "At the end of March 1961, the combined debt of municipalities and corporations stood at Rs. 132.2 crores, a rise of Rs. 57.8 crores over the debt position at the end of March 1956."

It appears from Table 8, the variations in the proportion of total expenditure on revenue and capital head have been confined within a narrow range. In view of the rapidly mounting indebtedness, however, the capital expenditure should have improved its share considerably. It is not able that capital expenditure in all years under study has been much less than the loans incurred in those years. Thus, the

1 Civic Affairs (Kanpur), February 1963, Vol. 10, p.25.
Municipal Corporations in U.P., have used a part of their loans to finance the increase in their revenue expenditure which condition has to be viewed with concern. Normally, loans should be contracted to finance capital expenditure only.

**TABLE 8**

Share of revenue and Capital Expenditure in total disbursements

<table>
<thead>
<tr>
<th>Years</th>
<th>Revenue Expenditure</th>
<th>Capital Expenditure</th>
<th>Total Disbursement</th>
<th>Total loan taken during year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1959-60</td>
<td>801.37 (92.32)</td>
<td>66.71 (7.68)</td>
<td>868.08 (100)</td>
<td>163.94</td>
</tr>
<tr>
<td>1960-61</td>
<td>960.27 (94.60)</td>
<td>54.86 (5.40)</td>
<td>1015.13 (100)</td>
<td>188.35</td>
</tr>
<tr>
<td>1961-62</td>
<td>965.98 (95.15)</td>
<td>49.20 (4.85)</td>
<td>1015.18 (100)</td>
<td>171.15</td>
</tr>
<tr>
<td>1962-63</td>
<td>964.96 (91.06)</td>
<td>94.76 (8.94)</td>
<td>1059.72 (100)</td>
<td>114.91</td>
</tr>
<tr>
<td>1963-64</td>
<td>987.08 (91.88)</td>
<td>87.18 (8.12)</td>
<td>1075.26 (100)</td>
<td>99.77</td>
</tr>
<tr>
<td>1964-65</td>
<td>1299.10 (92.44)</td>
<td>106.23 (7.56)</td>
<td>1405.33 (100)</td>
<td>263.78</td>
</tr>
</tbody>
</table>

Source: *Civic Affairs*, op.cit., p. 9.

(Figures in brackets show the percentage).

**Grants-in-Aid**

The percentage of grants-in-aid varies from state to state. In all urban local bodies in India grants estimated for 14.5% of
their ordinary income. The main purposes of grants are as follows:

1. Ad hoc non-recurring grants to meet a part of the capital cost of water supply and drainage schemes, slum clearance, housing, etc.

2. For the maintenance of primary schools where the state government themselves have not assumed responsibility for this service.

3. Towards payments of dearness allowances to staff.

4. To meet part of the cost incurred on secondary schools, medical institutions, maternity and child welfare centres and public measures such as anti-malaria and anti-filaria operations.

5. Towards the pay of certain officers such as health officer and engineers, etc.

6. General purposes in a few states to support municipal finance generally.

State grants-in-aid to municipal bodies did not change much during the period from 1950-51 to 1960-61. It was stated in the report of the committee of Ministers constituted by the Central Council of the Local Self Government that although the state governments were receiving larger grants-in-aid from the Union Government than what they used to get about a decade back, 'they in turn have not passed on this to the
desired extent.\textsuperscript{1} State grants to local authorities in India have been discretionary in character and dependent on the exigencies of state financial conditions. The state governments themselves have mostly been in violent and they have been looking for more central assistance to cope their financial difficulties. A recent committee has even recommended the constitution of a Municipal Finance Commission in every state well before the appointment of the quinquennial Finance Commission by the President of India. The Municipal Finance Commission, according to this committee, would, "examine the financial requirements of local bodies for meeting their financial obligations for water supply, sanitation, health and other obligatory services and expenditure on schemes of planning and development forming part of the States Five-Year Plan but meant to be executed by the local bodies."\textsuperscript{2}

It was also recommended by the committee constituted by the Central Council of Local Self-government that, "at least 25 per cent of the proceeds of the motor vehicle tax should be earmarked for local bodies."\textsuperscript{3}

Like other recommendations, this also has fallen on deaf ears. Incidentally, central plan funds have been made available via the state governments to the bodies for their water supply.

\textsuperscript{1} Augmentation of Financial Resources of Urban Local Bodies, Report of the Committee of Ministers, Govt. of India, 1965, p. 151.
\textsuperscript{3} Ibid., p. 55.
and sewerage projects and limited housing schemes such as those for sweeper's housing, preparation of city master plans and urban community development.¹

Municipal Corporations very often complain about the inadequacy of grants in relation to needs and strict conditions regarding their receipts. The money as grant neither represented the relative state interest in the various services administered by municipal bodies nor reflecting balancing of need for the various services in relation to the state and local funds available for financing the grants given are "based on no understandable principle and generally they are not based on needs."² The same observation can be made with regard to the loans granted to the corporations in the State. In addition, they have not been able to find out their clear limitations.

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² Local Finance Enquiry Committee Report, 1951