Although local authorities may borrow money for capital expenditure, it is not a normal source of revenue to a local body, like taxes and fees, trading revenues and grants-in-aid. In other words, local authorities are under no legal obligation to borrow but in practice most of them find it expedient to borrow. By far the most important purpose for which local bodies borrow money is for financing Capital works such as water-works, sewage disposal systems, office-buildings, town hall and auditorium. These works require substantial amounts which a municipal board cannot find. These works are essential to provide the minimum necessities of the common man. Therefore, loans are necessary for the development of towns.

Borrowing by local bodies is regulated by Local Authorities Loans Act, 1914, and the rules made thereunder. This Act empowered the local authorities to borrow on the security of its funds and for the purpose of carrying out any work which the local body is legally competent to carry out.
• At present the local authorities can borrow either from Government or from private agencies. The term of loans in both the cases is restricted to 30 years. In the case of loans contracted from the Government the minimum rate of interest was 4 per cent per annum. The State Government grants loans for the improvement of water supply, construction of Sweepers' barracks, purchase of conservancy trucks, improvement of roads and drains and improvement of markets. Generally, loans taken for the construction of water supply should be redeemed within 30 years at 4 per cent interest and for other purposes within 20 years at the rate of 4½ per cent of interest.

Though the local bodies are empowered to borrow from non-Government agencies, no local body in Assam and Meghalaya, except Shillong, has till now borrowed from non-Government agencies. In 1947-48 Shillong Municipal Board obtained a loan of Rs.50,757 from non-Government agencies. It is also the lone Municipality in this part of India which has ever floated a loan in the open market or obtained loans from non-Government agencies.¹

Shillong Municipality has been raising loans for different purposes. The largest loan has been obtained

¹ Bardoloi, U.N. - Local Finance In Assam, 1972, PP. 202-203.
for water supply, conservancy and market. The Board has been sanctioned a loan of Rs. 30,000 by the Government in 1935, to reopen the old Laban water intake.  

In 1956, the Municipality resolved to move the State Government; under Government of India’s National Water Supply and Sanitation (Loan) Scheme, for a loan of Rs. 29,04,440 for water supply and Rs. 1,63,440 for Housing of Sweepers. But the Government took nine years to decide the issue and that, too, after increasing the rate of interest from 4 per cent to 4½ per cent and limiting the total amount to Rs. 25.55 lakhs. Again in 1967, the Board moved the Government for urgent loan of one lakh for the purchase of two tank wagons for the supply of water in the scarcity areas. The Municipality took a loan of Rs. 1,90,000 for the improvement of water supply from the Government.

In 1953, Shillong Municipality moved for a loan of three lakhs from Government for the improvement of conservancy service. In February, 1965, the Board was intimated by the Chairman that the Chief Minister had prom-

3. P.S.M., 16.7.56 and 31.8.56.
5. P.S.M., 16.3.67.
6. P.S.M., 31.5.72.
7. P.S.M., 21.2.53.
A loan of Rs.50,000 for the purchase of a conservancy truck. In March 1973, the Chief Executive Officer informed the Chairman that a proposal for a long term loan from the L.I.C. for Rs.5 lakhs for the remodelling of the Laitumkhra Market was under consideration.

It is clear from the above that the State Government is the only source from which the Municipality can obtain loans. It can obtain loans from other sources with the previous permission of the Government. There are obvious reasons why the boards should not be permitted to raise loans in the open market. The local authorities, out of ignorance may contract debts indiscriminately, a numerical majority without any sense of responsibility may burden the property holders with a load of debt, or the local authorities may compete injuriously with the State and Central Government by offering a higher rate of interest. The restrictions imposed on the local authorities in this matter are not in any way peculiar. Even in England specific sanction must be obtained in almost every case from the appropriate authority before a loan is floated.

8. P.S.M., 26.2.65.
Repayments of loans are of three kinds; the instalment method, the annuity method, and the sinking fund method.

**Instalment Method.**

Under this system repayment is made in equal instalments during the period of redemption along with interest on the decreasing balance. This system is convenient if the Board's financial condition is sound and is in a position to pay higher amounts in the earlier years of repayment.

**Annuity Method.**

By annuity method loan is repaid in equal instalments consisting of the principal and interest during the period of loan. In other words, the amount of principal and interest payable each year remains constant throughout the entire period of the loan.

**Sinking Fund Method.**

Sinking funds are funds specially created for the purpose of making systematic provision for the repayment of debt. Under this method the entire amount of loan contracted by a local body is paid at one time out of the accumulations in the fund consisting of yearly contributions determined by the Government. The payment includes both capital and interest.
Shillong Municipality had adopted the instalment system as well as the Sinking Fund System. Sinking Fund method was adopted successfully as the Municipal Staff was efficient and they could maintain the records properly. Under the existing rules, the accumulations in the Sinking Fund should be invested in Government Securities.

In the U.S.A. some states provide for a review of the proposed local indebtedness in excess of five thousand dollars by the State Board of Tax Commissioners upon request by ten or more taxpayers. The decision of the commission is final.\(^\text{10}\) Therefore, taxpayers in the U.S.A. have a vital control over local indebtedness. But at Shillong there is no such power in the hands of poor taxpayers. For example; in 1930, the Shillong Ratepayers' Association objected* the proposal of the Shillong Municipality for a loan of Rs.75,000 from Government. The Association considered that the proposed loan would impose a heavy burden on the ratepayers for many years and therefore the Association requested the Government to postpone the matter. But the Government unceremoniously turned down the petition.\(^\text{11}\)

\(^{10}\) Maddox, R.W. and others - State and Local Government, 1965, P.396.

\(^{11}\) L.S.G.- A. June, 1931, No.121-169.
Excessive borrowing may lead to extravagant expenditure on the part of a local body. So there should be some restriction on the local bodies. The Shillong Municipality with an annual budget of about Rs. 20 lakhs is paying annually Rs. 20,000 for the liquidation of the loan. Sometimes the Government had written off substantial amounts of loan. 12

In conclusion, we may suggest that like the British local authorities, the Municipality may be permitted to borrow temporarily what it requires for a working balance pending the receipt of current revenue, by an overdraft from the bank. And such temporary borrowing should not be subject to Government sanction.

In England, local authorities obtain their loan requirements from the Public Works Loan Board, 13 a statutory body. Similarly there should be a Municipal Finance Corporation, with sufficient paid up capital for the purpose. The Union Housing Minister, while addressing the 16th meeting of the Central Council of Local Self-Government told that the Central Government was planning to set up a municipal finance corporation to provide


finances to local bodies.  

In her address to the 16th Central Council of Local Self Government, Prime Minister made certain observations on the current trend of urban growth in India. The observations deserve the serious attention of policy-makers at the State level. The Prime Minister deplored the "haphazard growth" of urban settlements which she ascribed to the absence of any urban policy.

We suggest the preparation of a Master Plan for urban development. The Government of India should implement the Master Plan within a reasonable time. Urban Planning should be linked with population policy. Without a firm population policy urban development will go to pieces.

Further, the Government of India may liberalise the formalities and strings attached to the L.I.C. and Bank loans to the municipal bodies. As mentioned earlier the Municipality should take up seriously with the L.I.C. authorities its loan application scheme for the development of Laitumkhra Market.

It will be a sound policy on the part of Shillong Municipality to finance ordinary capital works such as repair and maintenance of office buildings, market sheds, and roads out of the funds from current receipts. If the principle of 'cut your coat according to your cloth', is not adopted the Board will find sooner or later that a major portion of its tax revenue has to be expended to meet the redemption of debt obligations. The consequences will be unpalatable and the Municipality will have to cut down many of its essential heads of expenditure. Hence borrowing for ordinary purposes should be avoided under normal circumstances.

**Loans to the District Council.**

The Khasi Hills District Council had contracted only two loans in its 25 years of existence. Both these loans have been raised for improvement of markets.

In 1957-58, Government sanctioned a loan of Rs. 30,000 for the construction and development of Jowai and Laitlynkot markets. The loan is given on the following conditions:

1. The loan is granted on the security of the District Council Fund.

2. The loan will be for a period of 20 years and will bear interest at the rate of 4 per cent per annum.

(3) The loan along with the interest is repayable in 20 equal annual instalments, the first instalment being payable after one year from the date on which the loan is drawn.

(4) A utilisation certificate showing the loan utilised should be furnished to the Accountant General and to the Government.

(5) Progress Reports of the schemes in question should be submitted fortnightly to the Government from the date of taking up the works.

Although the loan was taken in 1957-58, the amount has not been utilised upto 1959-60. The first instalment of Rs.2,207.45 was paid in the year 1959-60. However, the entire amount was utilised in the early 1960's as follows:  

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>For construction of Jowai Market</td>
<td>Rs.20,000</td>
</tr>
<tr>
<td>For construction of Laitlynkot Market</td>
<td>Rs.10,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Rs.30,000</strong></td>
</tr>
</tbody>
</table>

Uptil now only three instalments have been paid. The Khasi Hills District Council has already written to the Jowai District Council (Jaintia Hills) for repayment of Rs.20,000, as that amount was spent entirely for the construction of Jowai market. The Jowai District

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19. Deputy Secretary, (Rev) interviewed on 11.7.1977.
Council was agreeable to repay in principle. So, the Khasi Hills District Council has almost repaid their portion of loan of Rs. 19,000. As regards the second loan - Government sanctioned a loan of Rs. 90,000 in March 1973, for improvement of markets in border areas. The repayment will be in 20 equal instalments and will bear interest at the rate of 7 per cent per annum. While contracting this loan the Executive Committee of the District Council has violated Rule 113 of the U.K.J.Hills District Fund Rules, Under this Rule, if the District Council decides, on the recommendations of the Member-in-charge of Financial Affairs to raise a loan in furtherance of a scheme initiated by the Council the resolution shall require the concurrence of at least two-third members of the Council. But no such approval was taken either before or after the drawal of the amount. On the other hand some Senior Officers of the Council told this writer that actually the Council moved the Government for a

20. Deputy Secretary, (Rev), interviewed on 11.7.1977.
21. Ibid.
23. Secretary to the District Council, P.H. Bathew, interviewed on 15.7.1977.
grant of Rs. 90,000 for development of border markets, but at the fag end of the financial year the amount was sanctioned by the Government as a loan instead of grants-in-aid. Hence there was practically no time left for procedural formality including approval of the District Council. We think that the above argument was not convincing - the Executive Committee should not commit such serious irregularities while contracting any loan in future.

The loan has been utilised for the improvement of following markets:

(1) Shella Bazar - Rs. 10,000
(2) Hat Katrang - Rs. 10,000
(3) Nongjri Bazar - Rs. 10,000
(4) Nalikata Bazar - Rs. 20,000
(5) Laitlynkot Bazar - Rs. 30,000
(6) Saitsohpen Bazar - Rs. 10,000

Total Rs. 90,000

Although the above loan was drawn more than 3 years back, not a single instalment has yet been paid even in July 1977.

Thus, the Council should follow a cautious policy while contracting loans in future as it is unable to repay the instalments out of its annual income.

24. Deputy Secretary, (Rev), Khasi Hills District Council, interviewed on 11.7.1977. 26
25. Office File No. DC/RF/XXVIII/15/74, P. 19
26. Ibid, also Deputy Secretary's Statement on 11.7.77.