Chapter — II

STRUCTURE AND FUNCTIONS OF URBAN GOVERNMENT IN INDIA
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Local self-Government is a very important institution in a democratic country like India. It is the institution that undertakes the solution to the local problems, according to local needs and temperament of the local people. Local bodies are an integral part of the three-tier system of government in India. At the apex is national or central Government functioning within the national borders. The second tier comprises the constituent units which are provincial governments. The third and bottom tier consists of local Governments which are created by the central and state Government.

Local self-Government is a purely semi-autonomous body. It is not always possible for the central Government or the provincial Government to look after all local problems. Local needs can be tackled by local people or their representatives. The local government’s jurisdiction is limited to definite area and population, but it is also independent in many respects. It has no legislative powers. Its powers to raise finances are restricted, because of their limited operations. They are affiliated to the local bodies under circumstances, the state Government can suspend or dissolve local Government.

In India local government is widely known as local self-Government. This term organized when the country was under British administration and did not enjoy any sovereign power either at the central or at the provincial level. When a decision was taken by the British Government to associate Indians in administering local affairs, it means a self-Government for the people. But today the self-Government has lost its significance as the country enjoys self-Government both at the central level and state level. In fact in Indian constitution the term was used in local Government.

LOCAL GOVERNMENT DURING PRE-INDEPENDENCE:

The urban Government had existed ancient period in India. In fact that local self-Government was in existence in some form in ancient India. These institutions were existed during the Ramayana, Mahabharata period. The most important and reliable source of
tracing the threads of local bodies in ancient India is the Rig Veda. Manu described as “Superintendent of all affairs elevated in the rank formidable, resembling a planet among the stars”. “Purapati” was the superintendent; he was the president of the city board”\(^2\).

The excavations made at Mohenjo-Daro and Harappa reveal that the Indus valley civilization was an urban civilization. The city of Mohenjo-Daro was divided into various wards. There was a watch and ward system for quarters of the city. As the city was a great center of trade and commerce, public houses were provided systematic constructions of houses, absence of encroachments upon main streets indicate the existence and working of efficient municipal authority. Then existed careful town-planning adequate water supply and efficient drainage system testify to an advance state of Indus valley civilization.\(^3\)

During Mouryan period Meghasthenese in this “Indica” mentions that “The government was capital city conducted by a municipal board consisting of 30 members who were divided into 6 committees of which the first committee fixed the wages and enforced wage laws of the artisans. The second committee looked after the accommodation and other comforts of foreigners. The third committee attended to the registration of birth and deaths-vital statistics. The fourth committee supervised trade and commerce. The fifth committee paid attention to manufacture and safe of commodities. The taxes were levied on the basis of the value of the commodity.

During the Gupta period (300-600 AD) each city was administered by a council consisted of number of non officials. The city council was presided over by a major appointed by the Governor of the province. The village council maintained security in the villages, settled disputes, collected revenues and organized public utility works.

During the Chola period (870-1215AD) the remarkable feature was the village administration. The village administrative work was carried out by the committees looked after general and miscellaneous affairs and also taken care of the maintenance of roads and irrigation works and also forests and waste lands.\(^4\)
In the Mughal period also there existed local government. The administration of a town vested in an officer called Kotwal. He performed many municipal functions besides exercising supreme authority in all magisterial, police and fiscal matters.

The Local Government institutions started diminishing with the appearance of the East India Company on the scene of Indian subcontinent and later with the onslaught of British administration. The present structure and form were given under the British rule in India. Which was in existence was retained by the British. Neither the style of village self-government that prevailed in earlier times, nor the method of town government responsible to the electorate, that was evolved in the west planted in India by the British Government.

"Local self-Government in India, in the sense of a representative organization, responsible to a body of electors, enjoying wide powers of administration, and taxation and functioning both as a school for training in responsibility and as a vital link in the chain of organisms that make up the government of the country, is a British creation. The ancient village communities were constituted on narrow basis of hereditary privilege or caste, closely restricted in the scope of their duties such as collection of revenue and protection of life and property were their main functions and were neither conscious instruments of political education nor important parts of administration."

**LOCAL GOVERNMENTS DURING THE BRITISH PERIOD**

Broadly local Government may be divided into four periods. First period is from 1687-1881. Second period is from 1882-1991. Third period is from 1920-1937. Fourth period is from 1938-1947.

The word municipality is derived from Latin word "Municipium munus" which means a duty or privilege and capere to take the main functions of municipalities was to perform certain services to Romans on the lines of Roman Municipium the English people established "Municipal Boroughs". During the first period in 1687, for the first time of Municipal Corporation was setup in madras city. It was modeled on 'Municipal Boroughs'.
The corporation consisted of a mayor, alderman, and burgesses who were empowered to levy taxes for constructing different edifices for the convenience of inhabitants in the city and for the payments of salaries of the municipal personnel including a school master. The municipal corporation was set up because the East India Company believed that the people would willingly pay “Five shillings for the public good being taxed by themselves, than expense raised by our despotically power”.

In 1726 the municipal corporation was replaced by mayor’s court. This was more a judicial body than an administrative one. Local government was evolved in India in the year 1793 on statutory basis. Municipal administrations were established in three presidency towns of Madras, Calcutta and Bombay. These municipal authorities were empowered to levy taxes on houses and lands to provide for Scavenging, police and maintenance of roads.

The municipal administration was extended to the district towns in Bengal in 1842. As the setting up of municipality was on entirely voluntary basis. The policy of decentralization was adopted in the year 1870. In that year came into existence lord Mayo’s resolution. In the year 1870 a historical decision was taken by lord Mayo’s government by transferring powers to provincial government ‘one of the most conspicuous part of the resolution was that it laid stress on the development of local – self-Government, so that they should render services like roads, education and medical relief.

During the first period (1687-1881) the municipal committee system was tried for discharging the municipal functions, the growth of municipalities during this period was like mushrooms which can be judged form the fact that even small places having a population of 800 were granted to municipalities. In this period so many legislative enactments were taken for setting up the municipal institutions in every town of India. By the end of the first period the numbers of institutions of Municipal Government in different provinces were as follows:
TABLE: 2.1
CONSTITUTIONS OF MUNICIPAL BOARDS BY THE END OF 1881

<table>
<thead>
<tr>
<th>Name of the province nominated</th>
<th>Total number of the Municipalities</th>
<th>Number of the members who partly or fully Elected</th>
<th>Number of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bengal</td>
<td>138</td>
<td>2</td>
<td>135</td>
</tr>
<tr>
<td>Bombay</td>
<td>162</td>
<td>10</td>
<td>152</td>
</tr>
<tr>
<td>Madras</td>
<td>47</td>
<td>12</td>
<td>35</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>107</td>
<td>75</td>
<td>32</td>
</tr>
<tr>
<td>Punjab</td>
<td>197</td>
<td>5</td>
<td>192</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>61</td>
<td>61</td>
<td>--</td>
</tr>
</tbody>
</table>


The local finance Enquiry Committee (1949) observes that "Local self Government as a conscious process of administrative devolution and political education dates from the financial reforms of lord Mayo’s Government. Taxation Enquiry commission (1953) pointed that “there, was however, no comparable development of local self government in rural areas up to the year 1871. When Lord Mayo introduced his scheme for decentralization of administration. The scheme had a stimulating effect on the development of the local self – Government institutions in rural areas”.6

The taxation enquiry commission further observations that” it was implicit in the decentralization as then conceived that the emphasis was on the local rather than on the self – Government aspect of Local self-government”.7

The main feature of the period (1687-1881) had run like this. Local government in India was introduced to serve the British interests rather then promote self- governing bodies in the country institutions were dominated by the country. Local government institutions were dominated by the British and thus most of the Indian population remained deprived of participation in their functioning. Imperial finances got a relief through the establishment of Local --Government. Election as the basis of membership of local body was not introduced except in the central provinces .As last as in 1881 four out of every five municipalities had totally nominated bodies.
During the first period, the local government had acquired almost wholly non-Indian chapter. Hence from the Indian standpoint of view it was neither Local nor self Governments political consciousness gradually spread among Indians. This gave rise to new urges and aspirations. Lord Ripon who succeeded Lord Mayo as the Governor General of India was responsible to make local self-Government in India.

Most important event in the second period is Lord Ripon's resolution passed in the year 1882. The main thrust of his famous resolution which may be called "Magna Carta" of local bodies was to make local bodies as an effective instrument to social and political education. The Local bodies were to be endowed with adequate financial resources to carry out their functions.

The next important step in the development of the Local bodies was the report of the Royal Commission on decentralization in 1907-08. This commission wanted the village to be the basic units of local government Municipalities were to be given the necessary authority the taxes and to prepare their budgets. The government of India passed a resolution in the year 1915 on the basis of the recommendations of the decentralization committee. It pointed that "the smallness and inelasticity of local revenue and difficulty of diverse further forms of taxations", as one of the factors which was considered to be main obstacle in the way development of local self Government comprehensively.

The resolution of 11th may 1918 passed by the Government of India headed by Lord Chelmsford opened a new chapter in the development process of local self institutions in British India. The Resolution runs as under "the object of local self Government is to train people in the management of their own local affairs. Political education of this sort must take presents over all considerations of departmental efficiency. The local should be as much representative as possible of the people whose affaires they are called on to administer; that their authority in the matters entrusted to them should be real and not presumptary and that should not be subject to unnecessary control but should learn by making mistakes and profiting by them".
The reforms of 1919 made the local self Governments transferred subjects by including a number of taxes in the act of 1919.

During the third period local bodies under the act of 1935 derived their powers from the provincial legislature. The Government of India act, 1935 assigned the state governments the obligation of making the local bodies strengthen and efficient. However, with democratization of local Governments, their occurred gradual decline in the efficiency in the administration of local affairs. Nevertheless, the significant development during this period was progressive democratization of local governments with larger responsibilities and functions.

During the fourth deficiencies and drawbacks became more conspicuous into local governing bodies to make them correct institutions for conducting local affairs. The central provinces set up an enquiry committee 1951 the changes had proved rather unfavorable for local authorities and state governments have in certain cases utilized what were formerly recognized to be purely local taxes for their own purposes. The municipalities became increasingly dependent on grants in aid from the state Government which brought them strict control of the government.

However, the position remained up to 1947 as an effective measure was adopted to improve the local bodies.

During the fourth period (1937-47) the local government in India ceased to be a mere experimental station of self Government; it became, indeed, the constituent part of self government for the country as a whole. During this period provinces launched investigations into local governing bodies with a view to making them at institutions for conducting local affairs.

The independence of the country in 1947 ushered in a new period in the history of local government in India, with the termination of alien rule there was self-government at all levels-central, provincial and local. The local government started functioning in the atmosphere of Indian independence.
LOCAL GOVERNMENTS AFTER INDEPENDENCE PERIOD:

Many experiments were made after independence in regard to the composition, powers and functions of the local governments. The Governments of India made a lot of attempts to improve the financial conditions of local bodies by appointing several committees and commissions from the beginning of the independence. The federation of all India local authorities was constituted in the year 1964 under the presidency of Sir Gulam Hussain Haidayatulla. After independence Smt. Vijay Laxmi Pandit took the charge for the federation. The attention on the development of local bodies got priority over the first five year plan. It was formulated and came into existence in the year 1952 to boost up the economic development of the country.

In 1948 a conference of state minister of a local government was convened with a view to sort out the problems relating to local bodies. The local self government minister's council was constituted under the article 263 of the constitution of India in September 1954 to sort out the problems relating to local bodies.

In 1963 a committee consisting of the ministers for local self government from different states was constituted, which is generally known as Rafiq Zakaria committee in name of chairman. Apart from it, several provincial governments like Karnataka, Andhra Pradesh, Maharashtra etc. have appointed and commission and committee to suggest the improvement in the financial structure of local bodies.

It would be quite interesting to know the views of the planning commission expressed in seven five year plan. "The tax and expenditure policies discussed so far relate to central and state governments. Reliable figures of revenue and expenditure relating to the local authorities are not available on a comprehensive basis. What ever data that are available and from the studies of selected municipal bodies conducted by various agencies, it can be stated that the finances of urban local bodies are in a sorry state and these bodies are unable to provide even the basic municipal services which are obligatory for them to provide let alone undertake the schemes of assistance by the state government and there is
a need to give the local authorities greater access to institutional finance, the major part of the resource needed for their functioning would have to be raised by themselves. But the tax system of most of the local bodies are poorly structured and poorly enforced. A major effect would have to be undertaken to improve the productivity and equity of local tax system and also to train the staff of the local authorities in methods of sound financial management.\textsuperscript{8}

Finally, in five year plans, an important place has been given to the development of the institutions of local self government. However, there is much to be done even now.

**Municipal structure**

The structure and composition of the municipalities vary widely. There is generally no accepted set of criteria with reference to urban agglomerations resulting in wide differences of definitions and structures between states. The Constitutional Amendment Act sought to bring some uniformity in the constitution of the municipal bodies by classifying them as follows:

- *Nagar Panchayat*, to be constituted in rural-urban transition areas. These have been conceived to properly channelize the growth impulses in such settlements and also to bring some sort of order in their growth and provision of service;
- Municipal Councils for smaller urban areas;
- Municipal Corporations for larger urban areas.

Urban local government is not hierarchical. However, the Municipal Corporation, as an institution, enjoys a greater measure of autonomy than other forms of local government. It enjoys the power of dealing directly with the state government whereas the municipalities have no direct access to the state government and are answerable to the District Collector and Divisional Commissioner. Municipalities and Corporations have deliberative and executive wings. In general, deliberative wings of Municipal Corporations comprise the Corporation Council, the Standing Committee and the Mayor, whereas the executive wings comprise the Municipal Commissioner, the Deputy/Assistant Municipal Commissioner, the Municipal Engineer and subordinate administrative staff.
Deliberative wing

This is the General Body of the Municipal Corporation, comprising of elected members (councilors). Councilors are people's representatives and thus articulate the wishes of the population. The council is elected for a term varying between three and five years. The new Constitutional Amendment Act provides that every Municipal Corporation and every Municipal Council shall have the following two categories of councilors:

➤ Directly elected councilors;
➤ Nominated councilors.

The number of elected councilors is to vary according to the size of the population of the territorial area of the Municipal Corporation or the Municipal Council concerned. Nominated councilors are to be nominated by the elected councilors of the Municipal Corporations/Councils concerned. The nominated councilors shall be persons having special knowledge or experience in municipal administration.

Mayor

The Mayor in the Municipal Corporation is a representative elected by the councilors from amongst themselves for a term of one year, which is renewable. The Mayor exercises administrative control over the secretariat of the corporation. Furthermore, some statutes specifically empower him, in case of an emergency, to direct the execution or stoppage of any work or any act. The Mayor in India is bereft of any executive authority. The indirect election of the Mayor combined with his short one-year tenure makes him more a figurehead than an active functionary.

Calcutta model

The Mayor-in-Council form of city governance grew out of local government idealism with a view to making city government really local self-governing fully responsible and accountable to the people. It can better be described as Cabinet government that replicates the political system as it operates at the state and central levels. It supports union
or integration with a cabinet in the form of the Mayor-in-Council drawn from the Corporation or Council and accountable and responsible to it. The system therefore provides the much-needed plural, political leadership, coordination of policy and administration and a clear focus of responsibility.

Committees

Various Statutory and Non-Statutory Committees that are set up by the council do most of the work of the corporation. A Statutory Committee is set up by the statute which constitutes the Corporation, such as executive committee, standing committee, planning committee, health committee and education committee. Non-Statutory Committees include transport committee, women and child welfare committee etc. The number and composition of the committees vary from state to state. The most important committee, both regarding power and range of functions allotted is the Standing Committee of the Corporation. It acts as the steering committee exercising executive, supervisory, financial and personnel power. The Standing Committee consists of elected members varying between seven and sixteen through a system of proportional representation of councilors.

Executive wing

The Municipal Commissioner is the chief Executive Officer and head of the executive wing of the Municipal Corporation. All executive powers are vested in the Municipal Commissioner. Although the Municipal Corporation is the legislative body laying down policies for civic governance of the city, it is the Commissioner who is responsible for execution of the policies. The Commissioner is appointed for a fixed term that is mentioned in the respective state's statutes. However, his tenure in a corporation may get either extended or reduced. The Commissioner's powers are classified into two broad categories: those listed in the statute creating the corporation and those delegated by the Corporation or the Standing Committee.
Municipal Councils

A municipality is a politic and corporate body constituted by the incorporation of the inhabitants of a city or town. Normally, Municipal Councils cover smaller areas than the Municipal Corporations. The municipal acts of the states govern the Municipal Councils. The State Government can, by notification, propose an area, except a military cantonment, to be a municipality, define its territorial limits and make alterations in them. The Municipal Council, President, the Committees and the Executive/Chief Officer constitute the main components of the structure of municipal government. The Municipal Council makes laws that are called by-laws within the framework of the municipal act for the civic governance of the city or town. Generally, there is a provision for reservation of seats for scheduled castes and for women. The size of every Municipal Council varies from state to state; the municipal acts prescribe both the maximum and the minimum number of councilors.

The tenure of the Municipal Council varies from three to five years. The council elects, from among the councilors, a President whose term may be co-terminus with that of the council. In certain states Presidents are elected directly by the citizens. In a number of states the term of the President varies from one to three years and is not co-terminus with that of the council. The President occupies an important position in the municipal administration and enjoys considerable authority and power both in the deliberative and executive organs of the municipality. He convenes and presides over the meetings of the council and gives his rulings on all controversial matters. He also holds the power to take disciplinary action against offending councilors and can suspend or adjourn any meeting in case of pandemonium. The President not only guides the deliberation of the council but also executes its decision as its chief Executive Officer. He is aware of day-to-day administration and he is supposed to convey to the council the working of the administrative machine. He is also the chief spokesman and the link person with the government. The President enjoys power and exalted position but his power depends on the support of the majority. There is provision in the municipal act for setting up of committees to assist the parent body to perform its tasks. The Standing Committee is the most important of all committees. The powers and functions of the Municipal Council Committees are the same as those of the Municipal Corporation. The elected President being dependent on the council, the Chief
Executive Officers face a lot of pressure and influences in exercising their executive authority. In most states the state government appoints the Executive Officer. In some states the council makes the appointment, but his or her independence has been confirmed by making it difficult his removal from office - generally by a three-fourth-majority vote.

Cantonment board

Cantonments are predominantly military-occupied areas along with a sizeable civil population that necessitates the municipalization of its administration. The Cantonments are centrally administered areas, placed under the direct administrative control of the Ministry of Defence and the Central Government in contrast to other forms of local government, which are under the control of state government. The Cantonment Board is a special form of urban government, constituted under the Cantonments Act (1924). However, certain changes have been made with the Amendment of 1953. Cantonments are generally classified into:

- Class I cantonments in which the civil population exceeds 10,000;
- Class II cantonments in which the civil population is between 2,500 and 10,000;
- Class III in which the civil population is less than 2,500.

Class I and Class II Cantonment Boards consist of the Military Officer commanding the station (or his nominees), a first class Magistrate nominated by the District Magistrate, a health officer; an executive engineer; four military officers nominated by the Commanding Officer and seven people's representatives elected by the people. Class III Cantonment Boards consist of the Officer commanding the station, one nominated military officer and one elected member. In a Cantonment Board the role of the elected representative is restricted to a great extent. Generally, the Officer Commanding the station acts as the President of the Board if he is a member of the Cantonment Board. In every Board in which there is more than one elected member there is a Vice-President elected by the elected members from among themselves. The functions of the Cantonment Board are very much like the functions of a municipality. The functions entrusted to the Board are both obligatory and discretionary. The income of the Cantonment Board is derived both from tax and non-tax revenues.
### Table 2.2

<table>
<thead>
<tr>
<th>State</th>
<th>Municipal corporation</th>
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<td>Jammu &amp; Kashmir</td>
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<td>112</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td>96</td>
<td>1494</td>
<td>2092</td>
<td>3682</td>
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</table>


(-) = data not available
Local Government Functions

Local Bodies are expected to have a profound impact on the performance of the economy of the country by utilizing local resources and tapping human potentialities to the fullest. In the present context of Indian economy, with massive urban growth and the economic liberalization, heavy responsibility is placed on urban local bodies. They are responsible for the improvement of the efficiency of programmes and services, to mobilize local resources and to provide coherent planning and delivery of the services at the local level. All municipal acts in India provide for functions, duties and responsibilities to be carried out by the municipal government. These are divided in two categories obligatory or discretionary.

Obligatory functions

- Supply of pure and wholesome water;
- Construction and maintenance of public streets;
- Lighting and watering public streets;
- Cleansing public streets, places and sewers;
- Regulation of offensive, dangerous or obnoxious trades and callings or practices;
- Maintenance or support of public hospitals;
- Establishment and maintenance of primary schools
- Registration of births and deaths;
- Removing obstructions and protections in public streets, bridges and other places;
- Naming streets and numbering houses.
Discretionary functions

- Laying out of areas;
- Securing or removing dangerous buildings or places;
- Construction and maintenance of public parks, gardens, libraries, museums, rest houses, leper homes, orphanages and rescue homes for women, etc.;
- Planting and maintenance of roadside and other trees;
- Housing for low income groups;
- Making a survey;
- Organizing public receptions, public exhibitions, public entertainment, etc.;
- Provision of transport facilities with the municipality;
- Promotion of welfare of municipal employees;
- Providing music for the people;

Thus, local governments are required to provide for services irrespective of their administrative capacity to do so and have to face unexpected new terms of their own as a consequence of new sets of standards. In pursuing decentralization objectives, it is important to ensure that existing municipal structures are updated to undertake added responsibilities. Where, the administrative functions of State Government for development of urban infrastructure are transferred to the local level, it will become necessary to examine whether local government is capable of handling such responsibilities. If such capacity does not exist or is inadequate, it needs to be created or strengthened.

**Taxes Livable under the Constitution**

<table>
<thead>
<tr>
<th>Government of India</th>
<th>State Governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax, wealth tax, corporate tax, customs duties and excise tax</td>
<td>State excise, professional tax, sales tax, entertainment tax and land revenue tax</td>
</tr>
<tr>
<td>Urban Local Bodies(as permitted under state acts)</td>
<td>Tax on land &amp; buildings, taxes on vehicles, entry tax on goods (Octroi) for use consumption and sale, theatre/show tax and tax on advertisements other than in newspapers</td>
</tr>
</tbody>
</table>
Local Government Finances

Municipal bodies (corporations and councils) are prescribed to perform a vast array of functions (obligatory and discretionary) for which adequate financial resources should be available. However, there is no separate list of taxes exclusively for municipal bodies. Many Commissions like the Local Finance Inquiry Committee (1951) and Taxation Inquiry Commission (1953-1954) have been set up from time to time to look into the issue of municipal finance. However, municipal finance was left to the discretion of the respective state governments to specify by law matters relating to imposition of taxes.

Municipal Revenues are basically of the following types:

- Tax revenue;
- Non-tax revenue;
- Grants-in-aid;
- Borrowings or loans.
LOCAL URBAN FINANCIAL SET-UP

Budget

Income
  - Capital
  - Revenue

Expenditure
  - Capital
  - Revenue

Capital income

Grants
  - Unconditional
  - Conditional

Loans
- International agencies, e.g., World Bank, ADB
- Government
- Private sector firms e.g., insurance co., Housing and Urban Development Corporation

Transfers from revenue account
  - Matching
  - Non matching
LOCAL URBAN NON-TAX SOURCES

- Fees
  - Regulatory
  - For specific service
- Rents
  - Subsidized
  - Market rent
  - Cross subsidized rent
- Trading activities
  - With monopoly
  - Without monopoly
- Grants-in-aid
  - Revenue grants
    - Purpose
    - Specific general purpose
    - Recurring
    - Ad-hoc or lump-sum
  - Capital grants
    - Matching
    - Full for project
Tax revenue

Major taxes levied by urban local government are the following:

- Tax on property including service levy for water supply, conservancy, drainage, lighting and garbage disposal;
- Tax on entry of goods into a local area for consumption use of sale therein, popularly known as octroi;
- Tax on Professions;
- Tax on vehicles (other than motor vehicles).

The scope of taxation of Municipal Corporations is broader; they are generally empowered to impose or increase taxes within the limits laid down in the State Acts.

Property tax

Generally property tax is the largest single source of revenue for municipal bodies in the states where there is no provision for octroi. Property tax is levied on buildings and lands. Its basis of taxation is the annual rental value or market rent. A municipal body can impose, suspend, reduce or abolish the tax or partly/wholly exempt any person or class of persons of any such tax on any property or description of property by a resolution passed at a special meeting and confirmed by the state government.

Octroi

It is the tax levied on entry of goods into a local area for consumption or sale therein. Octroi is the most traditional tax and a major source of local revenue. It accounts for about 60 to 80 per cent of total revenue of the urban local bodies where it is imposed. In the states of Rajasthan, Gujarat and Maharashtra for example, this tax is the major source of revenue. However, due to scathing criticism from many front states such as Andhra Pradesh, Assam, Bihar, Karnataka, Kerala, Madhya Pradesh, Nagaland, Sikkim, Tamil Nadu, Tripura, Himachal Pradesh, Manipur and Meghalaya have abolished octroi. The state of Gujarat has taken a policy decision to abolish octroi and introduce an entry tax.
Non-tax revenue

Every Municipal Act has provisions, for issuance of licenses. Likewise, every local authority is empowered to charge and collect fees both regulatory (for license issued) and for services provided. There is a vital difference between tax and fee: tax is a compulsory levy, while a fee is a charge made in return for a benefit allowed or conferred. When the service is extensively used and it takes on the character and form of a public utility, then the fee charged is called a user charge or user fee. Normally a user fee is to be charged for public utilities, parking, entry fees for playground, swimming pools etc.

Grants-in-aid

An important element of municipal finance is grants-in-aid. There are two types of grants: a general purpose grant (GPG) and a specific purpose grant (SPG). The GPGs are intended to augment the revenue of the local bodies for discharging their normal functions. The SPGs are used for specific requirements, e.g. the increase of wage bills due to inflation, education grants, public health, road maintenance etc. Grants are ad-hoc and discretionary in nature.

Borrowings and loans

Municipal bodies can borrow from the state government and other agencies when they cannot afford to meet their expenditures with their existing revenues. The borrowing power of a local government is regulated under Local Authorities Loans Act (1914). This act provides that Municipal Corporations can borrow for development activities and for payment of debt charges. Local bodies are permitted to borrow for the following activities:

- Construction of municipal works;
- Provision of relief and the establishment or maintenance of relief work in times of scarcity or famine;
- Prevention of the outbreak of any dangerous epidemic disease;
- Acquisition of land;
- Repayment of outstanding loans.
References:

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2. Huge tinker, the foundation of local Government in India, Pakistan and Burma.
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