CHAPTER - IX
LOCAL FINANCE

Introduction

Local finance forms an integral part of the State finances. Local governments draw sustenance from the State government and supplement its efforts in achieving the Socio-economic objectives.

Local governments apart from being a ground for imparting training in democracy, are eminently suited to provide civic amenities in the manner in which local people want them. The building up of social overheads is also speeded up when local governments assume responsibility. In a planned economy, plan formulation and implementation can be made more realistic and effective by local involvement. The Balvantray Mehta Committee laid stress on the role of local bodies in development planning. And now it has become clear that local bodies can be engines of economic development.

Local bodies are required to perform certain obligatory duties and also provide certain facilities to the public residing in local areas. In principle they are required to collect taxes and other revenues from residents towards the obligatory duties and facilities and are expected to be self-supporting to the extent possible.

1 Government of India, Report of the Team for the study of Community Projects and National Extension Service, 1957
The development of local finance has been in the direction of centralisation of revenue and decentralisation of expenditure. This indeed brings out the central problem of local finance in proper perspective. The fundamental problem is how to provide money necessary to meet the cost of services carried out without imposing intolerable burden upon rate-payers and without the local authorities being unduly dependent upon assistance from the national exchequer. It is also the problem of purposeful matching of obligation and resources. The crux of the problem is that of finance.

Theory of Local Finance

Traditionally the principles of taxation of Local and Central Government are treated separately. Seligman observes that the chief home of revenue based on ability principle is the Central governmental jurisdiction and that based on benefit principle is the local jurisdiction. Prof. Misra suggests that in national finance a great weight should be given to ability principle and in local finance a greater weight should be given to benefit principle.


The benefit or cost of services principle seems to be more suitable for local units for the following reasons.6

1) Benefit taxes are based on property value which is easily derivable.
2) They are strictly local so that there is no clash of jurisdiction.
3) Tax accounting is simpler. And
4) Tax administration is economical.

Further, cost-benefit considerations are more appropriate, in local finance as local government by constitution and design is a community service unit over a specified area.

A specific advantage of the benefit principle taxes is that they do not exaggerate the resource differentials as every locality has a material tax base and thus can balance its revenue and expenditure. Besides, every expenditure will have a corresponding revenue bounce and the degree of resistance to taxation is less under ability assessment.

However, the benefit principle is not free from deficiencies. Benefit tax is relatively rigid and inelastic. It has a tendency to become regressive beyond a point on small property owners. The tax burden may be increasing with increasing benefit but it is possible that the taxable capacity may not increase in the same proportion of the benefit received.

Thus it is clear that a variety of considerations are to be balanced while arriving at a working principle of local finance. Therefore, it may be possible to suggest that a sound local tax system should consist taxes that are localised, simple to administer and quid pro quo in nature.

Local bodies have mainly evolved in two ways: through
1) administrative devolution of authority and functions and
2) statutory functional decentralisation.

The fiscal implications of these two approaches are different. In the first, the local government being an administrative agency of the State government the functions and resources of the local authorities should match. This may be treated as correspondence theory. In the other, resources are divorced and treated separately. The function-resource imbalance of local governments are met by the State government assistance schemes which may be treated as theory of separation.

The function-resource correspondence assumes higher theoretical importance once we accept local government as an integral part of multi-tier governmental system. It is in tune with the concept of self-government and decentralisation. The theory also becomes democratically relevant and fiscally convincing.
The Indian Constitutional Position

In India local governments have no constitutional validity as they are all creations of State legislation. This has created new problems in regard to devising of an adequate and satisfactory system of local taxation, and local finance. Further, certain modifications introduced in the Constitution of India with regard to local finance have weakened the local governments. As local governments do not have their constitutional sphere of taxation they must look to State government for decentralisation of tax powers.

State-Local Relations

There are no norms regulating the State-Local relations unlike the case of Centre-State relations. It also explains the difference in State-Local relations from State to State in a federation.

The local bodies must be allowed to manage local services and the civic community's non-economic functions, principally with the resources they themselves can raise. Strengthening the State-Local relations may have a salutory effect in relieving the pressure excessively operating at the State level. It should be wholly welcome to allow the State Municipal Act

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to work out the details of the relationship to mutual advantage and prevent State administrative interference on local governance. State-Local relations conceived not in terms of political power but transfer of service functions impinging on the day-to-day life of local community would be more relevant and enduring.

**Structure of Local Bodies in Karnataka**

Local bodies in the state consist of urban local bodies such as Municipal Corporations, City and Town Municipalities and Notified Areas, and rural bodies such as Taluk Development Boards and Town and Village Panchayats.

Municipal Corporations in the state are established under the Karnataka Municipal Corporation Act 1976 and Municipalities and Notified Areas under the Karnataka Municipalities Act 1964. The Panchayat Raj structure which came into being in the state under the Karnataka Taluk Board and Village Panchayat Act 1959 has a three tier structure – the District Development Council at the district level, Taluk Development Board at the taluk level and Village Panchayat at the level of a village or a group of villages depending upon the population.

At present there are 6 Municipal Corporations, 233 Municipalities, 175 Taluk Development Boards and more than 8000 Panchayats in the State.
Functions of Local Bodies in Karnataka

Local bodies are expected to perform duties and functions of local importance covering a wide range of activities. The functions of local bodies fall into two categories: obligatory functions and discretionary functions. Obligatory functions of Municipalities in Karnataka are enumerated under section 87 of the Karnataka State Municipal Act 1964. The more important obligatory functions are water supply, sanitation, drainage, public health, roads and street lighting, etc. The discretionary functions are set forth in section 91 of the Act. They include provision and maintenance of parks and markets, education and preventive health measures. Karnataka Panchayats and Local Boards Act of 1959 lists the functions of rural local bodies. The functions of the local bodies are numerous and comprehensive.

Given the functions it is the mode of financing them that would determine the pattern of local finance. Then it is possible to classify the functions of local bodies into the following three categories.

A) Functions that are financed entirely from Local resources

B) Functions that are financed on a matching basis, the State government meeting a part of the expenditure

C) Functions that are fully financed by the State government.
Grants Vs. Devolution

Then the pertinent question that arises is whether financing should be done by a general purpose grants or devolution. Devolution of resources has a built-in elasticity and should better secure the desired elbow-room in local finance. But the devolution runs somewhat counter to the principle of equalisation of service standards. Therefore, it is possible to suggest devolution from the one point of view but grants from another. The Local Finance Enquiry Committee preferred devolution but the Taxation Enquiry Commission preferred grants.

Sources of Revenue

Resources of local bodies are classified into internal and external. Internal resources consist of taxes and non-taxes. Tax revenue comprises of octroi, property tax, profession tax, tax on carts, carriages and animals, shop tax, advertisement tax etc. Non-tax revenue consists of fees raised in markets and slaughter houses, water charges, licence fees, penalties, etc.

The external sources of revenue are assigned revenues and financial transfers. Assigned revenues comprise a share in entertainment tax and surcharge on the transfers of movable property, compensation payment made by the State government in lieu of the levy on motor vehicles. Financial transfers include grants-in-aid by the State government and loans.
Besides these the State law may permit some other tax heads also to be exploited by the local bodies. The revenue raising powers are more expansive and more productive as we go up the Village Panchayats.

It is often pointed out resources of local bodies are limited and the internal resources are becoming less and less important in their financial structure. The nature of the economy, the integration of national and local finances as well as considerations of convenience all point to the centralisation of the tax system. Therefore it is possible to argue that there is no fertile field of taxation which remains untapped and can be handed over to local bodies for exploitation. It has been well said that the financial responsibilities of local authorities must hence forward be more and more exclusively related to spending public money rather than raising and spending it.  

The Revenue Powers of Local Bodies in Karnataka

In Karnataka under the Karnataka Village Panchayats and Local Boards Act, 1959 the Panchayats are given the following revenue heads.

a) Tax upon buildings and upon lands which are not subject to payment of agricultural assessment within the limits of the village

b) Tax on professions, trades, callings and employment

c) Tax on fairs, festivals and entertainments

d) Tax on vehicles other than motor vehicles

e) Fee on bus stands, markets and cart stands

f) Fee for supply of water from water works vesting in the Panchayats

g) Annual grants from the Government of an amount equal to 30 per cent of land revenue collection of the village

h) The Government shall also assign to the Panchayats in the state an amount equal to 5 per cent of the land revenue collection of the State

At present 30 per cent of the land revenue collected in Panchayat area is handed over to that Panchayat another 10 per cent is given to it for specific development purpose. The remaining 60 per cent goes to Taluk Board which will in turn use a part of that money for providing matching grants to Panchayat works.

The Karnataka Taxation Review Committee has recommended generous financial transfers to Panchayats and the Janata Government has promised to hand over the entire land revenue collected in Panchayat area to Panchayats only. This may have implications on the resources of Taluk Boards. Further, abolition of land revenue would adversely affect the resources of rural local bodies as well as the State revenues.
Taluk Boards have no important tax sources of their own. However, they were levying a duty on transfer of property in the shape of additional stamp duty and a tax not exceeding 25 paise per animal brought for sale in the markets established in any area within the jurisdiction of the Taluk Development Board with the specific sanction of the State government. A 50 per cent share in the land revenue collected in the Taluk is allotted to them. In addition to the share in land revenue of the Taluk the Government may assign another 10 per cent to the Taluk Development Board for specific purpose or purposes.

A Taluk Board is a supervisory body over the Panchayats and responsible for execution of certain programmes and schemes through NSS Block.

The Municipal tax powers are specified under section 94 of the Karnataka Municipalities Act of 1964. The Municipalities may levy the following taxes.

1) A tax on buildings or lands situated within the Municipalities

2) An octroi on goods specified in Schedule II entering the Municipal limits for consumption, use or sale therein

3) A toll on vehicles, specified in Schedule III entering the said, Municipality, but not liable to taxation under clause (iv)

4) A tax on all or any vehicle (other than motor vehicles boats or animal specified in Schedule-IV used for riding, draught or burden kept within the said Municipality for use)

5) A tax on dogs kept within the Municipality
vi) A special sanitary cess upon private latrines, premise or compounds cleansed by Municipal agency, after notice given as hereinafter required

vii) A general sanitary cess for the construction, maintenance or both construction and maintenance of public latrines and for removal and disposal of refuse

viii) A water rate or water rates for water supplied by the Municipality which may be imposed in the form of tax assessed on buildings and lands, or in any other form, including and that of charges for such supply, fixed in such mode or modes as shall be best adopted to the varying circumstances of any class of cases or of any individual case

ix) A lighting tax

x) A tax on professions, trades, callings and employments

xi) A tax on shops and other places where a business or profession is carried on for purposes of profit, payable by the person or persons engaged in business or profession

Provided that where the Municipal Council elects to levy a tax under this clause, the person or persons paying the tax shall not be called upon to pay tax under clause(X) in respect of the business or profession carried on in the shop or place.

xii) A duty on transfers of immovable property in the shop or place

xiii) A tax on advertisements (other than advertisement published in newspapers) erected, exhibited, fixed or retained upon or over any land, building, wall, holding-frame, posted in any vehicle or displayed to public view in any manner whatsoever visible from a public street or public place (including any advertisement exhibited by means of cinematograph).

However, these taxes may not be leviable without the prior sanction of the State government and the rates of levy are not
to exceed those specified in the Schedules in the Act. Some of
the taxes listed above are not levied or are withdrawn or the
rates are minimal. Many Municipalities do not levy water rates
or water tax on the plea that they do not supply tap water.
Licence fee on shops and vendors is seldom levied or discontinued
in view of the professional tax levied by the State government.

Revenue Structure of Urban Local Bodies

Revenues of Municipalities and Corporations in the state
consists of tax revenue including the share in State taxes,
on-tax revenue and grants from the State government.

Tax Revenue

The tax revenue is mainly derived from property tax and
share in entertainment tax, profession tax and motor vehicles
tax. Two most important sources of tax revenue till April 1979
were octroi and property tax tax together accounting for nearly
80 per cent of the tax revenue.

Octroi

Octroi is considered as a traditional source of local
revenue. It is a tax levied on goods which enter local areas
for consumption, sale or use. Despite its excellent revenue
potential it has long been a controversial tax. Its regressive
nature, scope for tax evasion, corruption, cumbersome procedure
of its administration, immobilisation of vehicles at check points and adverse cascading effects made it a nuisance tax and prompted several Committees to recommend its abolition.

The question of abolition of octroi in Karnataka was examined by the Mysore Taxation and Resources Enquiry Committee, by a Study Group appointed by the Government of Karnataka, and by the Municipal Finance Enquiry Committee. Octroi earned the approbrium of every Committee which examined it and proved to be an impediment and an anachronism in the days of fast moving transport. The Indirect Taxation Enquiry Committee going all out for the abolition of octroi observed: "While we have discussed various alternatives to octroi our main emphasis is on getting it abolished rather than any particular alternative to replace it."

Government of Karnataka took a bold step in abolishing octroi from April, 1979 and replacing it with a terminal tax. Presenting the Budget for 1979-80 the Finance Minister said that octroi receipts for the previous year were estimated at Rs.20 crores and to compensate the local bodies for this loss in their revenue the Government would have to go in for additional taxation and it was only fair that the burden was borne by the trade and transport sectors.

Announcing the abolition of octroi the Minister recalled that the Centre had given a firm indication that sizable financial assistance would be given to Karnataka if the Government decided to abolish octroi.

Reacting to the Budget proposals of 1979-80 Mr. V.S. Krishna Iyer pointed out that the Bangalore City Corporation collected a revenue of Rs. 12 crores from Octroi out of the total revenue of Rs. 18 crores and urged the Government to fully compensate the loss of revenue to the Corporation.

To compensate for the octroi revenue a 10 per cent surcharge of sales tax is levied in the State. In respect of sugar, textile and tobacco a terminal tax is imposed as no sales tax is levied on them.

**Property Tax : Tax on Buildings and Lands**

After the abolition of octroi property tax is the most important source of Municipal revenue in the state. Section 94 (b) (i) of the Karnataka Municipalities Act 1964, enabled the levy of a tax on buildings and lands situated within the Municipal area. As per section 108 of Karnataka Municipal Corporation Act 1976, Corporation by resolution determines that

11 Deccan Herald, Bangalore, March 20, 1979
property tax shall be levied on all buildings and lands within the City Corporation area except those exempted specifically.

Property provides a convenient base at the local level for the variety of services rendered. However, the choice of basis for property tax has been a subject of controversy. Property tax can either be levied on the rateable value of the property or on its capital value. Both the Mysore Taxation and Resources Enquiry Committee and the Municipal Finance Enquiry Committee have favoured the rateable value as the basis. 12

As per the provisions of the Karnataka Municipal Corporation Act and the Karnataka Municipalities Act the tax is levied at flat rates on the basis of rateable value of the property. The Municipal Corporations are expected to levy the tax at the rate of not less than 25 per cent of the rateable value while the rates specified for Municipalities are not less than 20 per cent and not more than 25 per cent of the rateable value.

The scope for subjective element in the assessment of rateable value of property seems to have caused considerable drain in municipal revenues. Under valuation of property for tax purposes is the order of the day. Both the Mysore Taxation and Resources Enquiry Committee and the Municipal Finance Enquiry Committee have urged the need for a central valuation agency with

a corps of professional valuers to ensure uniform standards
and objectivity in valuation. But the recommendation has not
been taken seriously and as a result under assessment of
rateable value continues to plague the municipal finances in
the State.

Property tax at a flat rate as it exists now makes it
inequitable and less productive. An element of progressiveness
can be introduced by proposing different tax rates. The tax
rates worked out by Ahmedabad and Baroda Corporations may be
taken as models of progressive taxation of property. In
Karnataka such a system of property taxation may be tried at
least in Corporations and Municipalities to begin with.

Sharing of Taxes collected by the State

Entertainment tax and profession tax fall under this category.
Though the local bodies are empowered to levy these taxes, their
powers have been taken over by the State government.

Entertainment Tax

Entertainment tax is collected by the State government
but 90 per cent of the tax collection is made over to local
bodies in whose jurisdiction the shows are conducted. In these
days of growing entertainment this source has proved to be
quite elastic.

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Profession Tax

Several Committees\textsuperscript{14} commended this tax to local bodies on the grounds of revenue potential and equity. The Mysore Taxation and Resources Enquiry Committee described it as a crude income tax and an anachronism in the days of progressive income tax and recommended that the tax be abolished.\textsuperscript{15} The Municipal Finance Enquiry Committee also endorsed its abolition.\textsuperscript{16}

Before the imposition of this levy by the State Government in 1976 a few Municipalities tried this tax but not with much success. At the time of taking over by the State government the total collection amounted to about Rs. 6 lakhs only. Upto 1980 this tax has not been shared with the local bodies. Though a budget provision is made for the purpose so far no rules for allocating these funds have yet been made.

Allocation of Motor Vehicles Tax Collections

Principally Motor Vehicles tax is not a local tax. But the local bodies were empowered to levy a toll on motor vehicles

\begin{flushleft}
\textsuperscript{14} Local Finance Enquiry Committee, Taxation Enquiry Commission, Committee on Augmentation of Financial Resources
\textsuperscript{16} Government of Karnataka, Report of the Municipal Finance Enquiry Committee, 1975, P 156
\end{flushleft}
entering the jurisdiction of local areas. This power of the local bodies was delegated with the assurance that the loss of revenue on this account will be compensated. But the share determined in 1964 has not been revised. From 1975-76 a budget provision of Rs. 15 lakhs is made every year for allocation despite a large increase in motor vehicles tax receipt and repeated requests by the local bodies to increase the allocation. Allocation made varies from a paltry sum of Rs. 5 in the case of small Municipalities to Rs. 4.57 lakhs in the case of Bangalore City Corporation which spends crores of rupees every year on maintenance and development of roads.

Other Taxes:

Other taxes include advertisement tax, shop tax, water tax, tax on vehicles other than motor vehicles, etc.

Advertisement tax is levied only in Corporation areas. A person who displays any advertisement for public view has to pay the tax. The rates charged are subject to minimum and maximum laid down by the Government.

Shop tax is levied on shops and other places of business as per rules. For the purpose of fixing the tax rates the shops are graded.

Water tax in the form of water rate or water rates is levied by the municipal bodies. However, no minimum or maximum rates have been prescribed.
Urban local bodies are also empowered to levy a toll on vehicles other than motor vehicles entering the municipal areas at specified rates.

**Non-tax Revenue**

Non-tax revenue of urban local bodies constitute only a small portion of their total revenues. Important items of non-tax revenue are licence and other fees, rent and lease amounts, and incomes derived from trading activities.

Municipalities and Corporations charge licence fees on the use of premises for specified purposes. A licence fee does not exceed Rs. 500 per annum. Fees are also collected from markets.

Other non-tax revenue includes incomes from sale proceeds of properties, compost and materials, interest on investment and profits from commercial enterprises run by the local bodies.

**Grants from Government**

Grants are given to local bodies to discharge some of their functions as resources at their disposal to meet the growing expenditure are inadequate. Certain grants are also given to take up certain programmes of national importance and to tone up administration in local bodies. Besides the State Government, the Central Government may also provide grants to local bodies for such purposes like slum clearance, underground drainage, welfare of Scheduled Castes and Tribes, etc.
Grants to local bodies are mostly non-statutory grants and are usually conditional and specific. Unconditional grants to local bodies are thought to be inadvisable. But it is possible that when the tasks before the local bodies are stupendous a system of specific grants may result in lopsided development. It may also cause hardship to citizens in meeting their portion of the share for a grant paid on condition that the ratepayer pays normally an equivalent sum does not put money into ratepayers' pockets for the payment of their share.17

Though the system of grants-in-aid to local bodies prevailed in the state for long there are no set principles governing the distribution of grants. Generally grants formed an agreed proportion of the expenditure over a specified project or service. But it is not uncommon for the realised grants to be much less than the promised grants. Notwithstanding these lacunae, grants are the trump cards balancing factors in any satisfactory system of local finance.18

In Karnataka grants are given to local bodies for specified purposes as well as for compensating the loss of revenue by the abolition of octroi. The urban local bodies in the state receive the following grants.

18 K. Venkatraman, Local Finance in Perspective, Asia Publishing House, Bombay 1965, P 40
1) Development Grants
2) Dearness Allowance Grants
3) Octroi Compensation Grants

**Development Grants**

The system of giving development grants on an ad hoc basis to the local bodies has been introduced from 1978-79. City Corporations are generally excluded from the purview of these grants as their financial position is thought to be better compared to Municipalities. This scheme appears to have been introduced provisionally pending finalisation of the motor vehicles tax compensation scheme. The grants are earmarked strictly for development works like water supply, roads, etc. A sum of Rs. 200 lakhs is provided every year average availability per Municipality being about Rs. 75,000/-.

Distribution of these grants is done taking into account the population and their requirements. The provision is wholly inadequate compared with the demands for funds from local bodies for their development activities.19

**Dearness Allowance Grants**

This is another scheme of grants-in-aid to the Municipal bodies to meet partially their increasing expenditure on account of extending the increases in D.A. instalments to Municipal

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employees. The Municipal employees are now on par with the State government employees in respect of grant of D.A. Increases. The Orders that are issued by the State government on D.A. increases its employees have been made applicable to the municipal employees also by means of a standing order.

Octroi Compensation Grants

It is an important scheme of grants devised to compensate the loss by the abolition of Octroi in 1979. During 1978-79 octroi collections in the State amounted to Rs. 23.60 crores, about 45 per cent of total revenues of the Municipal bodies. As octroi was the principal source of revenue to Municipalities and Corporations it was necessary to make good the loss when octroi was abolished. The State government therefore decided to compensate the loss of octroi revenue by a scheme of octroi compensation grants.

The Main features of the Scheme are:

a) Local bodies in the State which were levying Octroi upto 1979-80 are being compensated in full by an amount equal to the gross octroi receipts for the last year of levy.

b) The grants are released to the local bodies in quarterly instalments and a growth rate of 5 per cent is allowed for 1981-82. The State government has agreed to allow a growth rate of 10 per cent from 1982-83.
An amount of Rs. 23.60 crores was granted to the Municipalities and Corporations by way of Octroi compensation grants in 1979-80 and in 1980-81.

Expenditure of Urban Local Bodies

Functions of urban local bodies are comprehensive and involve large expenditure. But the expenditure of these bodies is restricted to their income receipts. It is this fiscal constraint that generally prevents many local bodies from providing for their residents adequate civil services.

Expenditure of Municipalities and Corporations are classified under the following heads

i) General Expenditure
ii) Capital Expenditure
iii) Extraordinary expenditure and debt
iv) Expenditure on commercial enterprises

Urban local bodies incur most of their expenditure on roads, water supply, sanitation and public health services. Growing population and increasing emigration to cities and towns have added to the expenditure burden of urban local bodies. Inadequacy of finances partly due to steep rise in the cost of civic services have even led to deterioration of a few civic services. Generally civic services are higher in cities than in towns.
Analysis of Finances of Urban Local Bodies (1970-71 to 1974-75)

An analysis of finances of Municipalities and Corporations between 1970-71 and 1974-75 is attempted here. Generally major sources of income of Municipalities and Corporations are (1) octroi (2) taxes on houses and lands (3) lighting, water and conservancy rates (4) receipts from markets and slaughter houses and (5) grants from Government.

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(Figures in the brackets indicate percentage to total.)

The total income of Municipalities and Corporations showed an increasing trend during the period 1970-71 to 1974-75. The total income of Municipalities rose from Rs. 15.77 crores in 1970-71 to Rs. 24.82 crores in 1974-75 showing an increase of 57.4 per cent.

Table 9.2

Income of Corporations (Source-wise)

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(Figures in brackets indicate percentage to total)

The total income of the Corporations rose from Rs.12.41 crores in 1970-71 to Rs.20.95 crores in 1974-75. The percentage increase in income during the period works out 68.2.

Table - 9.3

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</table>

Source: Brochure on Statistics of Local Bodies in Karnataka 1974-75, Bureau of Economics and Statistics Bangalore, 1977

Per capita income of both Municipalities and Corporations increased during the period. While the per capita income of Municipalities increased only marginally from Rs. 47.00 in 1970-71 to Rs.49.56 in 1974-75 that of Corporations went up significantly from Rs. 85.28 to Rs.103.56 during the same period. Accordingly, the per capita income of Municipalities and Corporations put together showed a moderate increase from Rs.58.58 in 1970-71 to Rs.65.09 in 1974-75.

Income from municipal rates and taxes which contributed 42 per cent of the total income in 1974-75 increased from Rs.6.2 crores in 1970-71 to Rs.10.43 crores in 1974-75. However there has been a significant increase of 40.6 per cent in the income from rates and taxes between 1972-73 and 1974-75.
Similarly, income from municipal rates and taxes constitute the most significant part of total income of corporations which accounted for 55 per cent of the total income in 1974-75. Income from municipal rates and taxes increased from Rs. 5.9 crores in 1970-71 to Rs. 11.55 crores in 1974-75, registering nearly 100 per cent increase.

Table 9.4

Tax Revenue of Municipalities and Corporations

(Rs., in lakhs)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Octroi</td>
<td>627.66</td>
<td>733.69</td>
<td>806.09</td>
<td>949.26</td>
<td>1151.38</td>
</tr>
<tr>
<td></td>
<td>(51.9)</td>
<td>(54.5)</td>
<td>(53.7)</td>
<td>(55.1)</td>
<td>(52.4)</td>
</tr>
<tr>
<td>Taxes in houses</td>
<td>304.43</td>
<td>347.62</td>
<td>407.11</td>
<td>451.77</td>
<td>499.16</td>
</tr>
<tr>
<td>&amp; Lands</td>
<td>(25.2)</td>
<td>(25.8)</td>
<td>(27.1)</td>
<td>(26.2)</td>
<td>(22.7)</td>
</tr>
<tr>
<td>Lighting, Water &amp; conservancy rates</td>
<td>90.83</td>
<td>99.44</td>
<td>107.89</td>
<td>127.46</td>
<td>166.73</td>
</tr>
<tr>
<td></td>
<td>(7.5)</td>
<td>(7.4)</td>
<td>(7.2)</td>
<td>(7.4)</td>
<td>(7.6)</td>
</tr>
<tr>
<td>Taxes on Profession and Trade</td>
<td>14.70</td>
<td>19.11</td>
<td>13.59</td>
<td>14.96</td>
<td>15.54</td>
</tr>
<tr>
<td></td>
<td>(1.2)</td>
<td>(1.4)</td>
<td>(0.9)</td>
<td>(0.9)</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Tax on animals and vehicles</td>
<td>3.96</td>
<td>4.38</td>
<td>3.39</td>
<td>48.86</td>
<td>4.10</td>
</tr>
<tr>
<td></td>
<td>(0.3)</td>
<td>(0.3)</td>
<td>(0.3)</td>
<td>(0.3)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Taxes on Road &amp; Ferries</td>
<td>9.13</td>
<td>9.38</td>
<td>9.18</td>
<td>10.37</td>
<td>12.68</td>
</tr>
<tr>
<td></td>
<td>(0.7)</td>
<td>(0.7)</td>
<td>(0.6)</td>
<td>(0.6)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Other Rates &amp; Taxes</td>
<td>159.05</td>
<td>133.19</td>
<td>153.75</td>
<td>164.59</td>
<td>347.88</td>
</tr>
<tr>
<td></td>
<td>(13.8)</td>
<td>(9.9)</td>
<td>(10.2)</td>
<td>(9.6)</td>
<td>(15.8)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1209.76</td>
<td>1346.81</td>
<td>1501.54</td>
<td>1723.29</td>
<td>2197.49</td>
</tr>
</tbody>
</table>

(Figures in the Brackets indicate percentage to total)

Source: Derived from Brochure on Statistics of Local Bodies in Karnataka, 1974-75, Bureau of Economics and Statistics, Bangalore, 1977
A study of tax revenue of Municipalities and Corporations shows that octroi was the most important source of tax revenue contributing more than half. Income from octroi increased from Rs. 6.28 crores in 1970-71 to Rs.11.5 crores in 1974-75. It formed 51.9 per cent of the tax revenue in 1970-71 and 52.4 per cent in 1974-75.

Taxes from houses and lands was the next important item of tax revenue. This source accounted for about one fourth of the tax revenue. Income from it increased from Rs. 3.04 crores in 1970-71 to Rs.5 crores in 1974-75. The other significant items of tax revenue are lighting, water and conservancy rates. They contributed about 7.5 per cent of the tax revenue.
Table - 9.5

Expenditure of Municipalities (source-wise)

(Rs. in lakhs)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Expenditure</td>
<td>764.69</td>
<td>833.67</td>
<td>924.92</td>
<td>1051.68</td>
<td>1118.63</td>
</tr>
<tr>
<td></td>
<td>(48.4)</td>
<td>(45.5)</td>
<td>(47.9)</td>
<td>(52.2)</td>
<td>(45.1)</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>227.08</td>
<td>235.65</td>
<td>249.68</td>
<td>126.95</td>
<td>273.84</td>
</tr>
<tr>
<td></td>
<td>(14.4)</td>
<td>(12.9)</td>
<td>(12.9)</td>
<td>(6.3)</td>
<td>(11.0)</td>
</tr>
<tr>
<td>Extraordinary Expenditure</td>
<td>223.11</td>
<td>368.52</td>
<td>378.67</td>
<td>379.73</td>
<td>570.29</td>
</tr>
<tr>
<td>Expenditure &amp; Debt</td>
<td>(14.1)</td>
<td>(20.1)</td>
<td>(19.6)</td>
<td>(18.9)</td>
<td>(23.0)</td>
</tr>
<tr>
<td>Expenditure on Commercial</td>
<td>30.54</td>
<td>37.22</td>
<td>21.89</td>
<td>15.98</td>
<td>33.55</td>
</tr>
<tr>
<td>Enterprises</td>
<td>(1.9)</td>
<td>(2.0)</td>
<td>(1.1)</td>
<td>(0.8)</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>335.32</td>
<td>358.43</td>
<td>354.36</td>
<td>439.99</td>
<td>486.10</td>
</tr>
<tr>
<td></td>
<td>(21.2)</td>
<td>(19.6)</td>
<td>(18.4)</td>
<td>(21.8)</td>
<td>(19.6)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1580.75</td>
<td>1833.48</td>
<td>1929.53</td>
<td>2482.38</td>
<td></td>
</tr>
</tbody>
</table>

(Figures in the brackets indicate to percentage to total)


Expenditure of both Municipalities and Corporations also showed an increasing trend. Expenditure of Municipalities increased from Rs. 15.8 crores in 1970-71 to Rs. 24.8 crores in 1974-75 and that of Corporations went up from Rs. 12.4 crores to 20.9 crores during the same period.
<table>
<thead>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Expenditure</td>
<td>740.35</td>
<td>755.17</td>
<td>849.52</td>
<td>1020.52</td>
<td>1170.75</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>71.26</td>
<td>110.30</td>
<td>76.11</td>
<td>111.03</td>
<td>149.19</td>
</tr>
<tr>
<td>Extraordinary Exp. &amp; Debt</td>
<td>95.84</td>
<td>352.01</td>
<td>126.87</td>
<td>96.60</td>
<td>352.62</td>
</tr>
<tr>
<td>Exp. on Com. Enterprises</td>
<td>10.45</td>
<td>12.60</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>323.38</td>
<td>286.86</td>
<td>411.08</td>
<td>460.12</td>
<td>421.98</td>
</tr>
</tbody>
</table>

Total: 1241.28 1516.94 1463.58 1688.28 2094.54

(Figures in the brackets indicate percentage of total)


Expenditure incurred under the sub-head General Expenditure constitutes the largest portion of the total expenditure of both Municipalities and Corporations. The expenditure incurred under this head is on the increase and this is mainly due to increasing expenditure incurred on the items like public lighting and water supply, drainage, conservancy and sanitation and hospitals and dispensaries.
Table - 9.7

Per Capita Expenditure of Municipalities & Corporations

(Rupees)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipalities &amp; Corporations</td>
<td>58.67</td>
<td>48.55</td>
<td>48.10</td>
<td>52.48</td>
<td>65.09</td>
</tr>
<tr>
<td>Municipalities</td>
<td>47.12</td>
<td>37.58</td>
<td>38.34</td>
<td>40.03</td>
<td>49.56</td>
</tr>
</tbody>
</table>

Source: Brochure on Statistics of Local Bodies in Karnataka, 1974-75, Bureau of Economics and Statistics Bangalore, 1977

Per capita expenditure of Municipalities shows a small increase from Rs.47.12 in 1970-71 to Rs.49.56 in 1974-75. Per capita expenditure of Municipalities and Corporations together increased from Rs.58.67 to Rs.65.09 during the same period. But if of the increase in price index during the period is taken into consideration it is clear that the per capita expenditure of both Municipalities, and Municipalities and Corporations together shows a decline indicating a deterioration in some of the civic services rendered by the urban local bodies.

Major Issues of Local Finances

The crux of the problem of local finance is inadequacy of resources to meet the needs of civic services and local development. Observing that the concept of self-government is absent in the state the Municipal Finance Enquiry Committee urged the Central and State Governments to look into the problems of local finance with a view to help the local bodies with additional finance. In a similar vein the Karnataka Taxation
Review Committee observed that the experience of local self-government in Karnataka, as in many other states, had been disappointing.20

The problem of matching needs and resources at the local level may be tackled mainly on two fronts: by (1) maximum efforts to mobilise resources (2) ensuring proper utilisation of resources.

Resource Mobilisation

Resource mobilisation efforts of local bodies may have to concentrate on reforms of local taxation, rationalisation and systematisation of grants scheme and proper debt management.

Reforms of Local Taxation

Now, that the octroi is abolished and the Government is making good the loss, the local bodies should fully concentrate on maximising revenues from property taxation. It is pointed out that a number of local bodies have not tapped this potential fully. Therefore tax rates on houses and land may be revised. But the real effort in this direction should come from putting an end to undervaluation of rateable value of property for tax purposes. As suggested already an expert central valuation agency may be entrusted with this responsibility. Besides, low recovery and mounting arrears of property tax which continue to plague the local finances should be effectively tackled.

20 Ibid, P 9
It is true that the profession tax potential was not fully exploited by the local bodies. Now that the State government has taken over this essentially local tax, net collections of the tax in their respective areas should legitimately accrue to the respective local bodies.

Share of urban local bodies in motor vehicles tax should be rationally determined. It should have a bearing on the expenditure incurred by these bodies on development and maintenance of roads for motor vehicles. It should also be commensurate with the increase in tax return.

Grants

Grants from the Government go a long way in augmenting local resources. The main drawback of this system of resource transfer is that no simple and satisfactory grants-in-aid code is evolved as yet. It is necessary that the grants system is comprehensively thought out both in relation to overall needs as well as inter-governmental relationship.

Equalisation of basic civic services should constitute the principle aim of policy of grants to local bodies. The Taxation Enquiry Commission suggested that grants should be paid on the scrutiny of needs and resources. It may be suggested that population, standard of civic services and resources position among others should govern the grants.
Borrowings

Though local bodies can borrow to meet their capital expenditure their powers to borrow are limited. Again, they have mainly to depend on the State government as market loans and bank loans have been minimal. Local Authorities Loan Act 1914, and Local Authorities Loans Rules 1923, which are comprehensive may be adopted with suitable modifications as suggested by the Municipal Finance Enquiry Committee.21

Local bodies have been facing difficulty in the repayment of loans raised by them. It may be necessary to write off a part of the loans to relieve the local bodies of the burden of repayment.

Proper Utilisation of Resources

Resources of local bodies are limited and they are not likely to be adequate easily. Hence making best use of the available resources by channelling them into proper fields of expenditure is very important. Financial discipline of the local bodies needs to be strengthened. Overall financial administration also should be toned up. Budgeting and auditing have a key role to play in ensuring proper utilisation of resources.

CONCLUSION

Local bodies in the state are in a poor shape. In their poor financial health the functional and financial decentralisation seems to have been lost. As the local bodies have by and large failed to tap the local resources they have become more of a liability on the State government and this has an obvious adverse impact on the finances of the State.