Chapter II
General Trends in Municipal Finances and Administration in India and in the Bombay State

2.1: Municipalities in India:

Our municipalities were originally set up by the British rulers on the English model. These councils were however imposed from above instead of being created to answer the demands of local populace for local self government. It was Lord Ripon who laid the foundations of genuine local self government in India as a means of popular education. It must, however be noted that elections were not known to the local community and hence these were viewed with distrust. The Royal Commission on Decentralisation, 1909 probed into the causes of the indifferent health of the local self government institutions in India and traced them to paucity of funds and an inadequate share in the management of services which were, till then, theirs only in name. Under dyarchy which was ushered by the Govt. of India Act, 1919, local self government became a transferred subject in the Provinces to be handled by the popularly elected ministers. During the world economic depression the local authorities ran into an economic frost, with slack administration of municipalities there entered the inevitable corruption. The Indian Statutory Commission, 1930 favoured the Central of Provincial government over local bodies which, according to them, had become a by-word for inefficiency. No doubt, British policy was increasingly cautious and economy had

1. Hugh Tinker observes that even in England much of the mechanism of modern English local government was evolved in the 1880s. - Foundations of L.t.d. in India, Pakistan and Burma, 1954, London. P-42.
always been the over-riding principle of the alien ruler in general and in local administration in particular. The Government of India Act, 1935 ushered provincial autonomy which laid bare a very rigid distribution of finances between the federal government and the provinces, totally ignoring the claims of local bodies. The local bodies were entrusted entirely to the care of the provinces which found their own finances under severe strain. Anyway it was futile to delegate wide powers to local governments unless adequate machinery for their proper discharge was also provided at the same time.

2.2: The Role of Municipalities after Independence

It was rather strange that a century of experience should not have improved the working of municipal bodies in India. There was surely something wrong with the entire mechanism, be it political, economical or administrative in nature. That they must continue forever under the tutelage of state governments as incorrigible weaklings was a sure sign of a deep-seated malady.

Even after independence the municipalities find themselves in the unenviable position of a dutiful daughter-in-law in the proverbial old joint Hindu family. This may well

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2. "Despite of its long tradition, all is not well with Indian local government and particularly with its finances". -Mrs. U.Z.Nicks - *Development from Below*, 1961, Oxford. P-186
sound like an anachronism. Apart from fulsome praise showered on the ideals of local self government from official and unofficial quarters, little heed is over paid to their crying needs of adequate independent revenue sources, which are the first requirements of a corporate authority worth the name.

While the revenues of the Union and State Governments have increased, are increasing and will continue to increase, Local self government continues to be the sick-men of India. Barring very few exceptions like the Bombay Municipal Corporation, where a responsive and responsible local self government has flourished since long, the picture in general is that of stagnation, causing grave concern regarding the future of local self government in this country.

2.3: Development of Municipal Taxation:

A sound system of local finance should, as a rule, rest on a sound foundation of local taxation. The Govt. of India Act, 1919, introduced the separation of local finance and kept apart some taxes for exclusive utilisation by local bodies. But under the Govt. of India Act, 1935, put back these

1. It is a sad reflection that in official publications, Govt. of India should lament that, "it is a matter of regret and concern that urban local bodies have failed to meet the aspirations of the populations which they have been established to serve," "Introduction to L.S.G. administration in the States of India, Revised, 1962. Govt. of India, Ministry of Health. The physician must cure the patient and not simply complain against the disease.

tax-resources on the state's list and left the local authorities under the tutelage of the states.

The Taxation Enquiry Commission, 1953-54 recommended the following tax-resources from the states' list (as sanctioned by the constitution) for being reserved for the sole use of and by the local authorities:

1. Tax on land and buildings.
2. Octroi
3. Tax on vehicles other than those mechanically propelled
4. Tax on animals and boats
5. Tax on professions, trades, callings and employments
6. Tax on advertisements other than those published in the newspapers
7. Theatre tax or show tax
8. Duty on transfer of property
9. Tax on goods and passengers carried by road or inland waterways
10. Tolls in respect of new bridges on which expenditure has been incurred by the local body concerned.

The Commission, then, merely added its pious hope that the state Governments would be free to transfer from their list any other tax to the local bodies, as and when desired.

The above recommendations echoed the powers of local taxation prevailing under Dyarchy with the difference that the commission did not insist on effecting a separation of local finance and putting it on a statutory basis, but depended unduly on the charitable attitude by the state Govts. The Union Government largely approved the above measures and

passed them on to the states for implementation. The states indulged in dilatory tactics, thereby showing their extreme reluctance to part with any of their taxation powers.

2.4: Central, State and Local Revenues:

It was rather unfortunate that local authorities in India (except perhaps a few corporations) failed to increase their incomes over the last two decades. Municipal finance did not display the same buoyancy as that evinced by the national and state budgets. Indeed local authorities were handicapped by their limited tax-resources. Table 2.1 throws some light on this issue.

Table 2.1:

<table>
<thead>
<tr>
<th>Year</th>
<th>Central &amp; State Govts Revenue (combined)</th>
<th>Year</th>
<th>1938-39</th>
<th>1953-54</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Local Govt. Revenue excluding Panchayats</td>
<td></td>
<td>35.03</td>
<td>627.77</td>
</tr>
<tr>
<td></td>
<td>Central Govt. Revenue</td>
<td></td>
<td>32.90</td>
<td>394.34</td>
</tr>
</tbody>
</table>

Increase (Net): 425.3% 147.7% 375.6%


In comparing levels of governmental revenues there arises the difficulty of sorting out the states and areas of undivided India, which have since been incorporated in the Indian Union. Even the picture presented by the Taxation Enquiry Commission, 1953-54, does not presume to include all the data in respect of the Provinces and local bodies. The
Local Finance Enquiry Commission,\(^1\) 1951, calculated the revenues of local bodies, excluding the village authorities, in 1946-47 to be about Rs. 46.24 crores. Nevertheless Table 2.1 indicates the large disparity in the pace of development of incomes of the different layers of governments in India ever since World War II. A similar tendency was discernible in the case of municipalities, in the Bombay state and in India as a whole. This is indicated in Table 2.2.

Table 2.2:


<table>
<thead>
<tr>
<th>Year</th>
<th>Bombay State</th>
<th>Indian Union</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NO. of</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mun. Exp. In.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Current)</td>
<td></td>
</tr>
<tr>
<td>1938-39</td>
<td>129</td>
<td>2.03</td>
</tr>
<tr>
<td></td>
<td>2.04</td>
<td></td>
</tr>
<tr>
<td>1946-47</td>
<td>440</td>
<td>55.92</td>
</tr>
<tr>
<td></td>
<td>56.81</td>
<td></td>
</tr>
<tr>
<td>1954-55</td>
<td>217</td>
<td>7.36</td>
</tr>
<tr>
<td></td>
<td>7.87</td>
<td></td>
</tr>
<tr>
<td>1954-55</td>
<td>839</td>
<td>124.26</td>
</tr>
<tr>
<td></td>
<td>125.79</td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>237.6%</td>
<td>285.7%</td>
</tr>
<tr>
<td>(net)</td>
<td></td>
<td>122.2%</td>
</tr>
<tr>
<td></td>
<td>121.4%</td>
<td></td>
</tr>
</tbody>
</table>


It would appear that public expenditure by local authorities in an under-developed country forms a relatively low percentage of the national income. In 1955, municipalities in the Indian union spent slightly more than one percent of the national income. In the U.K. Local governmental expenditure was 10 per-cent of the GNP in 1938 and it declined to 3.2

percent in 1955.\(^1\) Further, as compared with the total combined governmental expenditure in the U.K., local government spent 33.5 percent in 1938 and 25 percent in 1955. In India, the corresponding percentages would be about 20 in 1939 and 12 in 1952, excluding the expenditure of Panchayats. In the sphere of local administration, resources are often found to be in inverse relation to the needs.\(^2\) The price-index (base-1939) shot up to 458 in April 1951 and inflationary pressures continued unabated. In real terms, therefore, municipal services (indeed, all governmental services) must have become much costlier to maintain.

The central and state governments could wield better control over their comparatively elastic resources while local authorities lagged behind. The postwar reconstruction programmes served to encourage economic activity till it was finally geared up under the Five Year Plans. At the national and even state levels, public expenditure could not be treated as a mere matter of defraying the expenses of government, as it has now been accepted as an instrument of fiscal policy.\(^3\) This aspect was not true of local government expenditure in India owing to its limited scope. The economic base of a municipality rests upon certain long-term determinants, e.g., the degree of urbanisation and industrialisation, growth of commerce and trade, the number and skill

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of the working classes, and the variety, richness and exploitation of natural resources. These factors do not however produce their impact on an unplanned society as sharply as they do in the developed communities. 1

2.5 Density of Population

Municipal expenditures and the efficiency of local services are often associated with the density of population.2 This is more true of conservancy, drainage and fire-fighting services, than of roads because in the short run, per capita mileage to be maintained decreases.3 In peace-time, however, when there would be no shortages, per capita costs of government will be positively related to density of population. Table 2.3 depicts the trends of population growth area and the density in all the towns under study, over the period under review. Surat stands out with incredibly high density. As the municipal district was extended, the density fell in some cases, e.g., Poona, but not at Ahmedabad, and Sholapur.

The industrial towns are then faced with slums, epidemics, squalor and road-widening problems. The needs of an industrial community differ from those of residential areas.4 Cities play varying economic roles and they are the nerve-centres through which life of a modern nation pulsates.

1. According to W.K. Hicks, development of civic amenities is an important indication of the wealth of locality. - Public Finance, 1948, London. P-28, Foot-note


4. Ibid. P-29.
Table 2.3:
Municipal Area, Population and Density:
1938-39 - 1954-55

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>sq. miles</td>
<td>(000s)</td>
<td>sq. miles</td>
<td>(000s)</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>20.25</td>
<td>353</td>
<td>18,913</td>
<td>32.00</td>
</tr>
<tr>
<td>Poona</td>
<td>7.65</td>
<td>153</td>
<td>21,307</td>
<td>51.49</td>
</tr>
<tr>
<td>Surat</td>
<td>3.15</td>
<td>99</td>
<td>31,426</td>
<td>3.15</td>
</tr>
<tr>
<td>Sholapur</td>
<td>8.59</td>
<td>136</td>
<td>15,332</td>
<td>8.94</td>
</tr>
<tr>
<td>Nasik</td>
<td>7.25</td>
<td>46</td>
<td>7,310</td>
<td>11.13</td>
</tr>
<tr>
<td>Hubli</td>
<td>3.11</td>
<td>23</td>
<td>26,633</td>
<td>6.85</td>
</tr>
<tr>
<td>Dharwar</td>
<td>4.73</td>
<td>41</td>
<td>8,652</td>
<td>4.75</td>
</tr>
<tr>
<td>Satara City</td>
<td>1.13</td>
<td>24</td>
<td>21,228</td>
<td>1.13</td>
</tr>
</tbody>
</table>

(continued on next page)

2.6: Trends of Population Growth:
Table 2.4 indicates percentage growth of municipal population during the inter-census decennial periods over three decades (1931-61).

During 1931-41, the four major municipalities registered a larger growth, but in the next decade, except at Poona and Nasik, all the rest showed less than 40 p.c. rise. While Poona

1. The material pertaining to the eight municipalities was obtained from their respective records, such as Annual Adm. Reports, Budgets, Audit Remarks, Staff Schedules, Tax Schedules etc. of the period from 1939 to 1951. It is therefore unnecessary to repeat the same sources under each such table hereafter in this monograph.
### Table 2.4

Growth of Population, as per Census-1931, 1941, 1951, 1961
(Population= 000s)

<table>
<thead>
<tr>
<th>Municipality</th>
<th>1931</th>
<th>1941</th>
<th>1951</th>
<th>1961</th>
<th>Increase (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1931-41 1941-51 1951-61</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>333</td>
<td>582</td>
<td>788</td>
<td>1150</td>
<td>54 33 45</td>
</tr>
<tr>
<td>Poona</td>
<td>163</td>
<td>257</td>
<td>481</td>
<td>598</td>
<td>37 27 24</td>
</tr>
<tr>
<td>Surat</td>
<td>98</td>
<td>171</td>
<td>223</td>
<td>288</td>
<td>72 30 29</td>
</tr>
<tr>
<td>Kolhapur</td>
<td>136</td>
<td>204</td>
<td>266</td>
<td>333</td>
<td>50 30 24</td>
</tr>
<tr>
<td>Nasik</td>
<td>46</td>
<td>52</td>
<td>97</td>
<td>131</td>
<td>13 23 35</td>
</tr>
<tr>
<td>Hubli</td>
<td>33</td>
<td>93</td>
<td>130</td>
<td>171</td>
<td>15 35 31</td>
</tr>
<tr>
<td>Dharwar</td>
<td>41</td>
<td>48</td>
<td>67</td>
<td>77</td>
<td>17 39 14</td>
</tr>
<tr>
<td>Sarata City</td>
<td>24</td>
<td>31</td>
<td>39</td>
<td>na.</td>
<td>29 25</td>
</tr>
<tr>
<td>Mun. in Bombay</td>
<td>4104</td>
<td>4930</td>
<td>5207</td>
<td></td>
<td>18 6</td>
</tr>
<tr>
<td>State</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Including population of Poona suburban municipality.

Sources:
1. Annual Admin. Reports of respective Municipalities and those of Mun. in the Bombay state.
2. Statistical Abstracts of India.
3. India (Year) Book- Govt. of India- P-16

Extended its area extensively, the pilgrim centre of Nasik began attracting industry and trade and also extended its jurisdiction. The 1961 census however showed a slower population-growth, except perhaps at Ahmedabad.

2.7: The Conspectus of Conurbation.

The basic problem of reaching the optimum in the administration of local services involves consideration of the area of application, rate of urbanisation, and the growing
costs of each service. "Strictly financial problems are
aggravated by the small-size of many local government areas."
Changes in local boundaries are often effected by political
rather than by economic considerations. Cost must always be
a limiting factor in any economy, though however it must be
agreed that there can be no absolute measure of costs. Wealthy suburbs escape very largely from the burden of welfare
costs; local bodies have a right to protect themselves. They
can annex the suburbs and charge full costs on services -
rendered and broaden the property tax-base. Local govern-
ment services are not differently affected by the law of
increasing returns than business undertakings. Ahmedabad
had to face such problems and finally merged the peri-urban
areas inhabited by mill-magnates.

Local authorities differ enormously in at least two
respects; level of income and the rate of income growth per
head and the size of administrative area and population.
There is wide divergence in income growth between Ahmedabad
and Sana City. The Poona Corporation has a burdensome vast
area of 51.43 sq.miles as against its old municipal area of
7.65 sq.miles. The "urban explosion" is a matter of serious

2. Fogarty M - The Reform of Local Govt. Finance in England
 & Wales, 1946, London. P-13
3. West Midland Group Study - Local Govt. & Central Control,
 1936, London. P-70
4. Groves R.H.(Ed) - View Points on Public Finance, 1950,
  New York. P-97
6. Prest A.F. - Public Finance in Theory & Practice,
  1953, London. P-386
headache to local bodies, in as much as the population becomes a dead weight on the local exchequer. The urban population in India recorded by Census of 1931 and 1951 was 12.1 and 17.3 percent, respectively. 1951 census recorded 73 cities with more than one lakh of population which increased to 109 as per 1961 census. Industrial cities often attract larger population e.g. Bangalore had 4.3 lakhs of population in 1941 which increased to 8.0 lakhs in 1951, i.e. a net increase of 77.7 percent. In the same decade, Nasik, a pilgrim centre and Poona, a centre of education, recorded 86 and 87 percent net rise in population, though they could not be treated as industrial centres. Poona however has since been attracting several good few industries.

2.8: Overlapping Nature of Taxation;

In this country there is considerable overlapping of different taxes levied by the central, state and local governments. The Taxation Enquiry Commission, (1953-54) recognized the fact that if this were not rectified, the tax system would not play its proper role in the new order envisaged by the directive principles of state policy embodied in the constitution. 3 When all taxes work themselves out, they necessarily become personal and must finally meet and mingle in the sea of prices, as all streams must. And prices always usher in their income effects and substitution effects.

1. Source- India (Year Book)- Govt. of India. P-24
In this connection, all commodity taxes including octroi, sales tax, customs and excise at all the three levels of government together put a heavy incidence on the consumer. The ad valorem basis of levy of octroi even in respect of edible oils and coarse cloth is essentially regressive.

The wheel taxes and tolls at local level and the Motor Vehicle Taxes at the higher level also act in a similar way. Taxes on vehicles meant for public hire are bound to be shifted to the consumers although the Govt. lay down the tariff of rates.

There is also considerable over-lapping of property taxes. e.g., Municipal Property (or house) tax, or tax on open plots and land, the Urban Immovable Property tax at the State level and the Estate Duty (though Estate Duty is not a recurring tax) at the central level. Though their repercussions may vary by degrees but the property owner falls under the axe all the same. overlapping tax jurisdictions ultimately compete for the same tax base and the local authority being the weaker government has to suffer the most. For instance, the Rent Restrictions imposed on local properties in urban areas served to freeze house-rents, which in turn stifled rateable values and so worked as a damper on local improvement programmes. Political resistance

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1. "An increased use of commodity taxes by a wider coverage and higher rates can ... help to restrain consumption demand." P-62

2. "To what extent overlapping of taxes ... is permitted depends on the policy of individual states. Up to the present, however, municipal self Govt. has been only slightly developed, so that problems in this direction have not yet become acute." Mrs. U.K. Hicks-Public Finance Survey of India, 1951, New York. P-69.
is usually greater against higher local taxation, if the Central and State tax-rates are already pitched unduly high, making use of extra levies e.g. gift-tax. Such an indifferent fiscal arrangement indirectly leaves less scope for local taxation and compels the local bodies to expect more grants, from the superior governments.

2.9. Rates and Taxes:

Powers of municipal taxation are conferred by legal enactments, e.g. The Bombay Municipal Boroughs Act, 1925; the Bombay District Municipalities Act, 1901 and the Bombay Provincial Municipal Corporations Act, 1949—all these were in force in the Bombay State. Usually the taxes which the municipal bodies can levy are specified unambiguously in these Acts. A few State Governments in India have even fixed the minima and maxima of tax-rates. Occasionally they induce or compel the municipalities to step up the rates of various taxes when the authorities are reluctant to raise the tax-rates. Moreover, certain taxes e.g. wheel tax, tells, theatre tax etc., would, if encouraged, come into conflict with similar state taxes.

1. The T.E. Commission, 1953-54, was of the opinion that the minima in a few appropriate cases (e.g. property tax...) and the maxima in almost all cases, should be prescribed by the State Govts. and then the local bodies left to modify the rates as and when suitable.—Vol. III, Para 16. P-363.

2. H. Tinkerv observed, "That direct taxation in India was never imposed without resistance was too true in the local field". Foundations of L.S.G. in India, Pakistan & Burma, Imphal 1954, London. P-74.
Public antipathy to the payment of taxes in widespread and many local authorities, if left alone, would hesitate to levy rates sufficiently heavy to provide the necessary funds for an adequate standard of local service. Under these circumstances, when the government desired the execution of a new social policy, "it had perforce to coerce and bribe the local authorities to do their share,"¹ as for instance, in primary education in the Bombay state since 1947.

According to Hugh Tinker,² shopkeepers and merchants living in cramped houses ... often paid very much less than might be expected from them both in respect of their capacity to pay and of the special benefits they derived from municipal services. Further, evasion of their obligations was assisted by their predominance on municipal boards so that assessment of their properties and enforcement of collections therein was often mitigated in their favour.

2.10: Taxes on Land and Buildings:

The property or the house tax is supposed to be the most convenient form of local impost. It is easily collected; it can be tolerably proportional to the income from property; and it does not touch those persons who are unconnected with the city or district.

In many countries in the west, the tax on real estate

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is supposed to be shoot-anchor of municipal revenue.\textsuperscript{1}

In India the property (or house) tax plays only a secondary role in municipalities which depend more on octroi and terminal taxes for a much larger proportion of income. In a sense, the inelasticity of property taxes compel the local authorities to embrace the vexatious types of indirect taxation.

The property tax is an optional levy in the Bombay state except some of the corporations (e.g. Bombay, Poona, Ahmedabad) and a few municipalities where it is is compulsory.\textsuperscript{2}

It is levied under section 73 of the Bombay Municipal Boroughs Act, 1923 in municipal Boroughs.

According to the Local Finance Enquiry Committee the rates of house tax in many municipalities in the Bombay State were far lower than those in municipalities of corresponding size in Madras.\textsuperscript{3} There are however no maximum and minimum

\begin{enumerate}
\item Mrs. U.K. Hicks points out four merits of property taxes:
  \begin{enumerate}
  \item the tax base is unequivocally localised;
  \item the revenue is relatively stable, irrespective of the precise base of valuation used;
  \item these taxes are eminently suitable as a balancing factor in local budgets; and
  \item these are less regressive in incidence than octroi or market levies.
  \end{enumerate}
\end{enumerate}

- Development from Below, 1961, Oxford. P-295

\begin{enumerate}
\item T.S. Committee Report 1933-54, Vol. I. P-31
  The Committee observed that "even in its limited form, the tax is not fully exploited in India".
\end{enumerate}

rates prescribed by this Act. At the Corporation of Ahmedabad and Poona, the Bombay Provincial Municipal Corporations Act, 1949, lays down the minimum rate of the general tax at 12 percent on domestic premises and permits higher rates on business premises but not more than 50 percent of ordinary rates. Similarly, exemptions of places of public worship and public charity are allowed for purposes of the general tax. But the Bombay Municipal Boroughs Act, 1925, does not specify any exemptions at all.

Municipalities in the Bombay State levy the house tax on the basis of annual letting value. In Surat, however, this tax is levied on the basis of capital value. The expert committees like the Bombay Local Self Government Committee (1939) and the Taxation Enquiry Commission (1953-54) opined that this tax should be fully developed as the backbone of municipal finance. The criterion appears to be that ownership of a house or other immovable property in the urban areas is a fairly good index of the tax-paying capacity. Besides, the owner benefits largely from local expenditure on sanitation, conservancy, roads and street-lighting, and so on. The corporations levy the general tax in place of the tax on lands and buildings.

The property taxes include besides house-tax, betterment tax, tax on transference of (immovable) property and cess.

3. A tax on transference of immovable property was also favoured by the Bombay L.S.G. Committee, 1939, for the exclusive use of local bodies, vide Para 52 of their report.
on lands. The municipalities sometimes levy a tax on open or vacant land.

As regards the urban Immovable Property tax started by the Bombay State Government in 1940 at Poona and Ahmedabad, the Taxation Enquiry Commission urged the state government to vacate this tax-resource in favour of the respective urban bodies.

The Betterment tax is a levy on the "unearned income" (or surplus), by way of an increase in the land values as a result of town planning and other improvement schemes undertaken by the local authority. The owner of the property enjoys this windfall which he gets without any exertion on his own part.

Service Taxes:

Service taxes usually take two forms, viz. the general rate and the special rate, in order that while those who get a benefit must pay for it, more or less on the analogy of the market price; others who cannot afford to pay specific charges, will nevertheless avail of the public services and the local authority will meet the cost out of the general rate usually levied on property basis. Obviously these rates are levied only in areas where the service is in fact rendered and recovered only after the concerned service has begun. Since the general rate is linked up with the property tax, the question arises whether exemptions from service tax also should be granted on those properties which are exempted from

1. Cess on lands was levied by the Dist. Local Boards.

The Govt. of Punjab had also started to levy this tax.
the property tax. The Taxation Enquiry Commission recommended that service taxes should be payable even on such properties.¹

The usual policy in respect of such public services is that they should be run on basis of self sufficiency.² In 1892 the Govt. of Bombay ordered that special sanitary service should be self sufficient at all the municipalities. But it should be noted that this principle is fraught with great risk if applied to poorer authorities in respect of public health services. Indeed it would be cruel to think of applying it to education. Some of the slum-dwellers require more services in the nature of water-supply and sanitation, but it would be unfair to impose upon them a proportionately heavy burden, following the cost of service principle. Hence the Local Finance Enquiry Committee observed that where special service rates exist they should yield as large a proportion of the cost as possible though it is impossible to expect them to pay for the cost in full.³ There can be no comparison with market mechanism, where profit element crops up. Such public utility services as the railways, the Posts & Telegraphs and even the B.E.S.T. under Bombay City Corporation are known to be contributing to the general revenues. Public health services are not trading services and per se cannot hold out relief to the general taxpayers.

² The State Govt. appointed a departmental committee under the chairmanship of Mr. Pradhan. It recommended that local services like water supply and conservancy should be financially self supporting.
There is an intimate link between the properties of a town and the local health conditions because neglect of properties and environment in general gives rise to insanitation; this, in turn, creates slums which breed squalor. Value of land is so much increased by improvement of social conditions that it forms the most suitable source for ever-increasing taxation, which is justified by the numerous needs of an urban society. The opening of a new street or removal of insanitary buildings would greatly increase the utility or even the selling price of adjacent properties. Hence property taxes should play an special part in the development process, and the local body should frame and enforce its building-bye-laws in right earnest. In India, property taxation is confined to moveable property and that, too, not in toto. In the U.K., however, even machinery is rateable for property tax as well as all types of real estate. While the impost is levied on the occupiers of property in the U.K., it is primarily levied on the owners of buildings and land in India, where it is feared that it would be expensive and inconvenient to collect the property tax from the occupiers.

1. According to Mrs. U.K. Hicks, property taxes are "particularly appropriate in urban and peri-urban conditions, which by all precedent, will be focal growing points as development proceeds." Development from Below, 1931, Oxford. P-236

2. Mrs. U.K. Hicks points out that in the towns of developing countries, there is more likely to be a seller's market than a buyer's market, so that the effective incidence is more likely to be on buyers or occupiers than on sellers or landlords whichever way the tax is formally assessed, either on basis of rental value or of capital value. Development from Below, 1931, Oxford. P-349.
Progression in property tax is a comparatively recent feature, replacing the old-fashioned property rates based on graded scales. Modern rating law is based on the recognition of the duty of modern society to the poor and the unfortunate. Thus proper rating constitutes the foundation of municipal finance. At the same time, "one of the most hotly debated questions of the present time is that of the fairness of rating assessment."

Under the Bombay Municipal Boroughs Act, 1925, the basis of assessment is not specified but is left to be determined by each municipality. Under section 78(2) of this Act, where annual letting value is used as the basis of property tax, a sum equal to 10 percent of the said value is deducted in lieu of allowance for repairs. There was, however, no separate provision in this Act regarding the basis of assessment of open lands to property tax. This explains why many municipalities neglected to levy adequate taxes on open plots of land.

2.11: Rateable Value and Capital Value:

Under section 73 of the Bombay Municipal Boroughs Act, 1925, annual letting value is defined as the annual rent for which any building or land, exclusive of furniture or machinery, might reasonably be expected to let from year to year. The Local Finance Enquiry Committee, 1951 favoured the well-tried basis of annual rental value as against capital value. The Committee however allowed those municipalities

which had adopted capital value and had no cause for complaint, to continue the use of the same. The Taxation Enquiry Commission 1953-54 recommended that wherever properties were ordinarily let or where annual "reasonable rent" could not be estimated, a percentage of not less than 5 percent of the estimated cost of construction of the building at the time of assessment (less a reasonable deduction on account of depreciation) plus the estimated value of the site, might be taken as the annual rental value.

In India, various deviations in methods of assessment of property taxes and service charges thereon are employed according to the "user" principle (industrial, non-industrial, non-agricultural, residential etc.) quite a few municipalities employ a combination of both the types of value-basis, viz., annual rateable value and capital value, in the levy of tax on vacant plots etc.

It is generally believed that the ownership of buildings and lands is an index of tax-bearing capacity in urban communities, but this is not universally true because many aristocratic but impoverished families may live in large buildings which are mere relics of vanished prosperity. The trader often remains content with the humble dwelling in which he was born. Mrs. H.K. Hicks rightly observes that the Indian townsmen "have not a good tradition of tax-paying, particularly the local..."
Though property tax is accepted on all hands as the sheet anchor of municipal finance, there yet appears to remain an inadequate realisation regarding the dynamic role of the tax on realty, not merely as an income-earner but also as a check upon unauthorized or uneconomic use of land and a watchdog on defaulters.

Urban land is not a static entity but a changing one; mostly it is an expanding frontier. Basically land is a limited resource. Under the heavy pressure of rapid urbanization and increasing demand for land and buildings in metropolitan areas, the need for determining the most appropriate land-use crops up. For, once an improper land-use is made, it gets petrified and proves difficult to change subsequently. The mobility of land in urban areas, as between its different uses, is too low during short periods. This underlines the great need for vigilance through building permits and the enforcement of bye-laws of construction. The optimum social use of land does not come about automatically. This indeed depends upon an extremely vital social decision, which requires great business acumen and foresight. No doubt the best choice would strengthen the economic base, make physical environment comfortable and foster social values. But how to get at it is the crux of the matter. A master-plan can certainly help in many ways. The place and areas of town development will indicate the trends in land values so that the unearned increment can be taxed in proper time by means of a betterment

levy, discrimination in property taxation can be an important weapon to fight against reckless speculation in urban land. Real estate management has developed into a profession; but it would be unsafe to leave the realtors free to determine the land-use. Social control of land use is an imperative of the modern age. The huge back-log of urban housing only helps to intensify the pressure on urban land. The growth of urban population at an alarming rate of more than 2 per cent is a phenomenon over which effective control is perhaps not possible.

In a sense, the depth and breadth of property taxation defy all rigid demarcations; in the final analysis it is limited by the wealth and character of townsfolk. Grounds for exemption from property taxes are largely a myth and, as such, they should be sparingly accepted. Periodical valuation and assessment of all properties is vital to the well-being of the local authority. Whatever be the grounds at the state level for the continuation of the rent restriction Acts, local authorities are at least entitled to a compensation against the diminutions of their earnings from the income tax, as would be befitting equal partners in the governance of the country. Besides, the Urban Diminuible Property Tax levied by the Bombay State is a clear encroachment on local tax-resources; it should be vacated forthwith.

2.13 Octroi and the Terminal Tax:

Chief among the indirect taxes, and a modern eraze with most of the municipalities in the Bombay State is the octroi. Being a direct descendant of "moturfa", a Mahratta tax, it
Games to be stabilised in those areas where formerly the Mohratta power held sway. Thus no octroi is being levied by municipalities in Andhra, Assam, Bihar, Madras and West Bengal states. The octroi is levied on the articles imported for consumption, use or sale into a town or city.

Though it is pronounced as "vexations levy," octroi enjoys the tacit sanction of the state and union governments. Even the Taxation Enquiry Commission thought it was impossible to conceive of an alternate source of local taxation which would give Rs.11 crores odd of revenue (as in 1933; today, it must be much more), which octroi provided.

The Taxation Enquiry Commission however pointed out two possible remedies; viz-

(1) conversion of octroi, in the distant future into a terminal tax, which should be operated over a regional unit and through the agency of the combined transport system of road, rail etc, which, in turn, should be well-organized and coordinated; or

(2) conversion of octroi into a surcharge on sales tax, in the long run.

The element of "refunds" in octroi is one of the chief drawbacks because it hampers trade unduly, but it is the inevitable concomitant of octroi. Refunds were in some

1. It hampers through trade, "boiling up economic isolation which is one of the biggest obstacles to development ... in India"- Mrs. U.K. Hicks-Development From Below, 1951, Oxford, P-294


cases responsible for litigation because of tax percent deductions by the municipalities.

It must not however be thought that octroi fetches expanding revenues invariably. In the context of an underdeveloped country where the level of consumption and expenditure is very low, the scope for indirect taxes, must also be comparatively limited.

2.14: Wheel Tax and Tolls:

The purpose of levying the wheel tax and the tolls is to collect revenue so as to spend it on the construction and maintenance of roads. Thus these are levies on road-users. The income however forms a very low percentage proportion to total municipal income, ranging between 1 percent and 3 percent, at most of the municipalities. The state government levies a parallel impost, the motor vehicles tax for a similar purpose, and shares a small fraction of its receipts with the municipalities wherever tolls were abolished.

The government of Bombay ordered that the entire receipts from the wheel tax and road tolls should be expended on roads by the municipalities. Government also ordered the opening of a special Road Fund to which the balance, if any, remaining out of this income was to be credited.

The wheel tax is a levy on all those vehicles and animals which are used within the municipal area, either for

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1. See XX.XXX.XXX signifying The Supreme Court of India held such deductions of octroi refunds affected by Poona Corporation ultra vires, in a ruling on 5-5-1964; saying that the Bombay Govt. Mun. Corporations Act, 1949, conferred no such powers to the Corporation.

2. G.R.C. No. 1242 (3) dated 14-8-1929.

3. G.C. No. 6883 dated 7-6-1921 (Bombay Govt. Gazette).
private use or for public hire.

This levy was first introduced under the Town Improvement Act, 1871. But the receipts either from wheel tax or from tolls were seldom found to be adequate from the point of view of the needs of municipal roads.

Tolls are levied for the use of roads and bridges and are collected at the city outposts, from the owners of vehicles and animals, entering the city limits.

Tolls were however not levied by many municipalities in the Northern Division of the Bombay Province.¹

The Government of Bombay abolished tolls on motor vehicles passing as through traffic along Provincial roads lying within municipal limits, as per M.V. Act, 1936 and promised a grant in lieu of tolls as a compensation. But it has become a standing grievance with municipalities that while Govt. took away on of the promising sources of revenue of local authorities, it paid only meagre grants to be credited to this special Road Fund. The Bombay L.S.G. Committee (1939) opined that such grants should be proportionate to the actual increase in the provincial revenue from this source.²

2.15: Grant-in-aid to Local Authorities:

In India local self government was developed after the British model and the system of grant-in-aid was naturally adopted more or less on similar lines.³ Even during the dyarchy it was recognised as potentially a powerful

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¹ Ahmedabad abolished its tolls in 1920.
² L.S.G. Com. Bombay (1939) Report, Para
³ Local Finance Enq. Com. Report, 1951, Para 607, P-824
instrument of ministerial control over the local authorities in the different provinces. The grants system was not however developed systematically under a national code of state assistance. The State government treated grant-in-aid only as a carrot-and-stick method to induce local bodies to carry out reforms in the desired direction. In India, the specific and the block grants appear to be in use, though the amounts distributed to local authorities can hardly be considered adequate.

In the Bombay state, the statutory grants largely comprised specific grants, whereas non-statutory grants were partly on percentage basis and unit basis and partly specific in character. The uncertain character of non-statutory grants compelled the state local bodies to depend on the sweet will and pleasure of state governments. Government grants fall into three broad categories - (a) general purposes grants, (b) educational grants and (c) medical grants.

The Taxation Enquiry Commission, 1953-54, opined that grants-in-aid were to be preferred as a better method of financing local bodies, as against the system of assigned

2. Mrs. D.K. Hicks says, “Grants at all levels of local government will doubtless expand in India, as, on the one hand, the states get more interested in the development of local government, and on the other, the Union Government evolves additional means of channelling local grants through the states”.

The Commission studied the problem from the state angle and were naturally keenly aware of the limited resources of most of the states. They however laid down certain principles of grants-in-aid, distinguishing between basic and specific grants. These may briefly be stated as follows:

1. There should be a basic "general purposes" grant for all local bodies except the bigger municipalities and corporations.

2. Local bodies eligible for such basic grant should be classified according to area, population, resources etc., and the grant itself related to those factors.

3. The basic grant should ensure that the local body will have a fairly adequate finance.

4. The basic grant should be assured over a reasonable number of years.

5. There should be, in addition, specific grants (annual and other) for particular services, laying down certain conditions e.g. level of efficiency and exploitation of its own resources by the local body.

While the above principles are sound, in theory, they find no smooth-sailing in actual practice, and the state governments have failed to implement them in respect of municipalities.

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1. Ibid., Vol. III, Para 21. P-356
3. Under the Maharashtra Jilla Parishads & Panchayat Samitis Act, 1961, the State Govt. offered generous grants to Jilla Parishads, under various categories, e.g. Equalisation Grant (Sec.181), Purposive Grants (Sec.182), Incentive Grants (Sec.185), Block Grants (Sec.188) & so on.
Changes in Grants Policy

The state assistance underwent certain changes since the beginning of the period under review. The educational grant was modified by the first popular ministry in 1938 and again after the passing of the Bombay Primary Education Act, 1947.

Grants on account of dearness allowance and various welfare schemes were initiated after independence. The "General Purposes" grants were initiated equal to 75 percent of non-agricultural assessment and 15 percent of land revenue (excluding non-agricultural assessment) collected within the respective municipal areas. Occasional subsidies on account of projects like water-supply, drainage etc. were generally given under the "general purposes" grants to the various municipalities.

The grants towards the dearness allowance payable to the local staff happens to be a non-statutory grant because it was hoped that the rise in prices would stop and these could be terminated. Today, however, the inflationary pressures are seriously increasing.

Grants towards the dearness allowance vary as between municipalities and corporations, from 50 to 25 percent of total expenditure. The total amount of such grants was quantitatively even more important than the educational grant and both these items together constituted about 1/8th of the total government assistance. The education grants were equal to 30 p.c. of approved expenditure on primary...
education in municipalities, except the major ones at Surat and Sholapur which got only 33\(\frac{1}{3}\)\% while those of Ahmedabad and Poona got only 25\%.

Of late the policy of combining loans with grants-in-aid has found considerable favour with municipalities. In 1959, the Planning Commission's working group on social welfare had set up a sub-group to study the welfare aspects of municipalities in 73 cities which had a total population of over a lakh, as per the 1951 census. The Central government agreed to sanction 25\% subsidy and, in addition, some loans provided the state government and the local body concerned bore a part of the burden on account of the local improvement development schemes. This however benefited only the rich municipalities. In the III 5-Year Plan, the centre agreed to pay only to six major cities (which included Ahmedabad and Bombay) 37\% subsidy, 37\% loans, provided 25\% of the cost was borne by the state government, thus relieving the corporations of considerable financial strain.

2.16: Constitutional Background of Municipalities in the Bombay State:

The following municipal acts were in force in the Bombay state during the period under review:

(1) The City of Bombay Municipal Act, 1886
(2) The Bombay District Municipal Act, 1901
(3) The Bombay Municipal Boroughs Act, 1925

Among the other related pieces of legislation we may note:
(1) The Local Authorities Loans Act, 1914 of the Central Government and
(2) The Bombay Primary Education Act, 1947 of the State Government.

In 1939 the municipalities in the Bombay state were already set free from the yoke of the nominated elements. The Bombay District Municipalities & Municipal Boroughs (Amendment) Act of 1938 abolished nominations. But the separate electoral system with reserved seats on communal basis was still there. In 1950, the Bombay Local Authorities Adult Franchise & Removal of Reservation of Seats Act however did away with it and introduced the Joint Electorates.

Under the Bombay District Municipalities & Municipal Boroughs (Amendment) Act of 1954, the tenure of municipal councils was extended from 3 to 4 years. Recently it was further revised to 5 years, on par with the national election to the Parliament.

Table 2.5 shows the number of councillors at each of the corporation and municipality, in 1939 and in 1955.

<table>
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<th>Municipality/Corporation</th>
<th>No. of seats in the council</th>
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<td>Poona</td>
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<td>Sholapur</td>
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<td>Nasik</td>
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<td>Satara City</td>
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Table 2.5 Councillors at the Municipalities (except Corporations) under study
36

(Source: Annual Admin. Reports of municipalities mentioned in Table 2.5)

Only Sholapur and Poona escaped supersession by State Govt.

2.12: Municipal Expenditures

The municipal functions often dictate the pattern and magnitude of the total outlay subject however to the financial health of the local authority and the urgency of the services as voiced by the citizen body through their elected representatives. Table 2.6 indicates the development of total municipal expenditure at the eight municipalities.

The actual expenditures over the period of sixteen years at the eight municipalities show net increase mostly in money terms but not in real terms. During the war time the trends of growth were sluggish, for obvious reasons. After the war, there was some recovery but the real improvement followed after 1947. At Ahmedabad, there was a distinct rise in expenditure in 1948-49 owing to the expenditure on the city bus transport service, which was later separated and hence we find a drop in 1950-51.

The corporation of Ahmedabad and Poona show an increase in expenditures after 1950 thanks to the superior status and powers conferred on them. Among the other municipalities, we can distinguish three pairs from the viewpoint of the size of outlay-viz., Surat and Sholapur, Nasik and Hubli and Pharwar and Sataara City.

The net percentage increase is very impressive only in the case of Nasik, which has exerted a good deal in this direction. Next in order stands Poona. It is curious that Surat, Sholapur, Hubli and Sataara City fall in one category
showing a percentage of road about 300, inspite of the first three being industrial towns. The case of Vihar stands out with the lowest p.c. increase, much less than even the average registered by the municipalities in the Bombay state as a whole.

It must be borne in mind that when a local authority constructs its budget, it has an eye on the total outlay on all services and on its income from taxation etc. If any department incurs additional rate-borne expenditure, it will have to be balanced by forced economies elsewhere. A case worth mentioning is the education outlay in the municipalities at the instance of the Bombay State Government, since 1945. Development of primary education could only be possible through a deliberate or casual neglect of a wide range of activities, e.g. public health, funds being given on a limited scale.


This same view is reflected in the remarks of Mrs. M. E. Hicks, "... There is a not inconceivable danger of an over-concentration on primary education". - Development From Below, 1961, Oxford. P-261.
|------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|

Table 2.61
Local authorities differ in size, population, wealth, geographical and climatic conditions. The municipalities in the Bombay State are no exceptions to this. But the character of the various local services being fairly alike in each of them, we may classify the expenditures under the major categories and study their percentage ratios to the total net expenditures, (e.g. excluding the extra-ordinary and debt items). Tables 2.7 and 2.8 throw light on this issue, regarding the major heads of expenditure.

Local authorities in England and Wales, according to J.J. Clarke,\(^1\) spend about 35 per cent on education, 16 per cent on housing and planning, 15 per cent on public health services and water supply, 7 per cent on highways, and 6 per cent on administration and miscellaneous items of expenditure, of their total gross expenditure. On the Indian scene, however we find a different picture.

The major charge on the local budget is on account of the public health and convenience department. Next in order of magnitude stands the public instruction. Costs of establishment and collection of rates and taxes amounted to about one-tenth on an average of the total expenditure before World War II and to about one-seventh in 1955. The "miscellaneous" items of expenditure have, however, been showing a tendency to include more and more unclassified expenditures (even dearness allowances in some cases), so that they show wide fluctuations. Expenditure-ratio of general administration and

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collection showed a rising tendency over the period under review.

Education is a nation building service and every civilised community has to take care that future generations do not go without the three R's. In fact, we should expect much more than mere primary instruction. In the U.K., secondary education is provided free through the agency of local authorities. A comparison of the percentage expenditures at the eight municipalities in 1939 and 1935 reveals sluggish tendencies. Nasik and Ahmedabad appeared to have partially neglected this important function since their percentage expenditures have fallen by half, though however in 1938-39 Ahmedabad had spent Rs.10 lakhs on school buildings alone.

Public health and conveniences services too have a national significance and accordingly these claim the lion's share of the total municipal expenditure. In 1939, all except Ahmedabad and Satara City spent more than half of their total expenditure on these items. In 1955, however Surat Sholapur and Nasik kept up their outlays on health services, while Hubli showed a slight decline. The position of Satara City appears to be substandard, which speaks much of its meagre resources.

Expenditure on general administration and on collection of taxes and rates shows a general increase in 1955, with the two exceptions of Hubli and Satara City. The highest percentage is recorded by Dharwar, probably owing to its disproportionately high costs of collection of taxes (both direct and indirect) and also the tardy administration in general.
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Expenditures (1959-65 and 1959-66)

Table 2.81
It would seem rather hazardous to compare the percentages of expenditure shown under the "miscellaneous" category, since the items widely differ from one another under different authorities.

For facilitating a detailed inquiry into a given socio-economic field, there can be hardly any substitute for a proper system of accounting as well as record-keeping. Since these require to be handled by trained statisticians and accountants, the smaller local authorities may consider such staff as a costly luxury. So the haphazard classification of accounts is perpetuated. Besides this, there is also the need for the local authorities to cooperate willingly by furnishing the necessary material for investigation.

2.19: Growth of Municipal Income:

The normal procedure of budgeting envisages the estimated expenditure to be met by the revenues and this principle presumes that the revenues are flexible. We are however faced with extremely limited resources at the disposal of local authorities everywhere. The time-honoured relation between the expenditure and revenue sides of the budget is hardly to be found in actual practice.

1. "Experience has proved that local authorities cannot be depended upon voluntarily to make available documents and records". J.S. Harris- British Govt. Inspection (London, 1966). P-186

2. "The financial responsibilities of local authorities must henceforward be more and more exclusively related to spending public money rather than to raising it and spending it". A West Midland Group Study- Local Govt. 
A budget represents a plan of action, worked out in considerable detail for ensuring stable local services. As a focal point of the financial procedure of public authorities, it is rather a complex instrument; nevertheless it goes to the roots of financial administration. According to A.H. Marshall, the budget should set standards of efficiency for each part of the administration and provide means of gauging the extent of their achievement.1

During the war period the municipal income had almost stagnated but it recovered later on, showing rapid growth after the country's independence. In general, it is the Corporation of Ahmedabad and Poona which stand higher up in the scale from the size of the income. Bharatpur and entara City are the sluggards with anaemic finances.

The net percentage increase in income over the entire period of sixteen years is conspicuous at Poona and Nasik, with more than 500 p.c. Next in order stands Shalapur with 400 p.c. Ahmedabad and Hubli and Surat put up roundabout 300 p.c. even when these are centres of thriving trade. But then a trading community perhaps displays more conservatism in organisational matters than in their individual enterprise. A city can enlarge its tax-base and improve its tax-income by promoting industrial development. But this again is no royal road to more revenue.2

We may now look into municipal income in current account at the eight municipalities over the period under review.


Table 2.9 shows this position as well as the municipal income under the Bombay State as whole. Upto the end of World War II, the income levels showed sluggish tendencies. In the latter half of the period, there was a very rapid growth, and more remarkably under the two corporations. In 1931-32, we find a sudden drop at Ahmedabad owing to the separation of the Municipal Bus Transport Accounts, from the General Municipal Accounts. There were also large outstanding arrears since 1930 from mill authorities. Since 1952, the income side was put on a better footing by the corporation. Poona and Nasik put up a good show by improving their incomes and Sholapur followed suit at some distance. The others were more or less on par with the increase registered by all the municipalities under the Bombay State as a whole.
2.20: Break-down of Municipal Income:

Table 2.10 and 2.11 show the aggregates and the percentages respectively of the municipal income (excluding extraordinary and debt items) under major heads of account at the eight municipalities:

Rates and taxes: Taxation happens to be the major plank of municipal income as it fetched about 70 percent of total income at most of the municipalities, at the beginning of the period. In 1954-55 the position had not altered much, though Nasik and Satara City were collecting near-about 60 percent of their total income from taxation. Indeed the major municipalities of Ahmedabad, Surat and Poona showed considerable percentage increase. The two corporations enjoy superior taxation powers, Surat however relies more, as we shall see later, on indirect taxes, viz. octroi than on direct taxation, i.e. on properties.

The sluggish tendencies evinced by Satara City, Nasik and Hubli could be adduced to the law of diminishing returns from property taxes in general.

Revenue from municipal property and powers, apart from taxation:

This income-head accounts, on an average, for about ten percent of the total ordinary income, though it shows large fluctuations. While Poona, Nasik, Sholapur and Hubli collect more than ten percent of total income, Bharvar and

1. According to the Study Group of Royal Institute of Public Administration, percentage ratio of tax revenue to total municipal revenues in 1932-33 was 56 in the U.S., 66 in Norway, 62 in Sweden, 61 in Canada, 60 in Australia, 45 in West Germany and 39 in the U.K. -*New Sources of Local Revenues*, 1956, London. P-42.
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<th>5.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>75.5</td>
<td>30.0</td>
<td>17.2</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
</tr>
<tr>
<td>Hamlet</td>
<td>66.5</td>
<td>70.0</td>
<td>17.2</td>
<td>29.6</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
</tr>
<tr>
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<td>70.0</td>
<td>17.2</td>
<td>29.6</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
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<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
</tr>
<tr>
<td>Apart</td>
<td>70.0</td>
<td>66.5</td>
<td>17.2</td>
<td>29.6</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
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<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
</tr>
<tr>
<td>Sweet</td>
<td>70.0</td>
<td>66.5</td>
<td>17.2</td>
<td>29.6</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
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<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
</tr>
<tr>
<td>Estate</td>
<td>70.0</td>
<td>66.5</td>
<td>17.2</td>
<td>29.6</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
</tr>
<tr>
<td>Average</td>
<td>77.5</td>
<td>81.4</td>
<td>18.6</td>
<td>32.9</td>
<td>29.6</td>
<td>21.6</td>
<td>32.9</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
<td>26.4</td>
<td>21.6</td>
<td>29.6</td>
<td>20.0</td>
</tr>
</tbody>
</table>

**Footnotes:**

1. Income from capital gains and losses, before the FEDERAL income.
2. Budget of Income from Netto Income, Property.
Surat collects much less; Satara City however has maintained its income at a little less than ten percent. Among the two corporations, Ahmedabad appears to have geared up its machinery in this direction and shown some improvement.

Grants and Contributions:

A municipality which can afford to raise its own independent income enjoys greater amount of freedom in its internal administration. Though all municipalities receive grants for various purposes, the major one, e.g. corporations, received them from state government in reduced portions and hence they registered smaller ratios of grants income borne to their total current incomes. The smaller municipalities on the other hand, showed greater dependence on government grants; e.g. Satara City, Hubli and Bharvar.

"Miscellaneous" income was however of an uncertain nature and accounted for a very small portion of the total income over the period under review, except at Nasik in 1954-55, owing to the inclusion of refunds of amounts deposited by the municipality in respect of land acquisition schemes.

3.21 Municipal Budgeting:

Lack of appreciation of the importance of budget making would land a local authority perpetually in difficulties. Most of the municipalities under study appeared to have pursued the policy of balanced budgets. Table 3.12 shows average incomes and expenditure on revenue account over the period 1951-52 to 1954-55.
### Table 2.12:

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Income (average) 1951-52 to 1954-55 (Rs,000)</th>
<th>Expenditure (average) 1951-52 to 1954-55 (Rs,000)</th>
<th>Surplus (+) (average for 4 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ahmedabad</td>
<td>20,769</td>
<td>15,855</td>
<td>+4914</td>
</tr>
<tr>
<td>Poona</td>
<td>11,433</td>
<td>10,089</td>
<td>+1344</td>
</tr>
<tr>
<td>Surat</td>
<td>4,697</td>
<td>4,564</td>
<td>+133</td>
</tr>
<tr>
<td>Kolhapur</td>
<td>5,071</td>
<td>4,830</td>
<td>+341</td>
</tr>
<tr>
<td>Nasik</td>
<td>2,193</td>
<td>2,145</td>
<td>+50</td>
</tr>
<tr>
<td>Hubli</td>
<td>2,143</td>
<td>2,148</td>
<td>-3</td>
</tr>
<tr>
<td>Dharwar</td>
<td>828</td>
<td>799</td>
<td>+29</td>
</tr>
<tr>
<td>Satara City</td>
<td>532</td>
<td>543</td>
<td>-13</td>
</tr>
<tr>
<td>Mun. in Bombay</td>
<td>69,761</td>
<td>67,090</td>
<td>+8701</td>
</tr>
</tbody>
</table>

While the four major municipalities aimed at surplus budgets, Nasik and even Dharwar appeared to have keyed themselves up for a small surplus. The deficits at Satara City and Hubli indicate the inherent financial ill-health in the face of rising costs of local services.

The total size of a budget is of great relevance to the activities which a local authority can undertake efficiently. There is not merely a certain minimum outlay but even a certain maximum above which it would be difficult for a given authority to function efficiently.  

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authority to secure effective control of local expenditure. The State Government has instructed the Borough Municipalities to provide for a surplus of a minimum of Rs.20,000/-. It was indeed a touching irony that the smaller municipalities gasping for breath under the weight of inflationary pressures, should be ordered not merely to wipe out their deficits but to raise even more funds. In this context, the conditional grants system which demanded a certain minimum financial effort on the part of all the municipalities - without exception appeared to be rather a cruel mockery of state assistance.

2.22: Local expenditures matched against certain local revenues:

In local governments, a large share of revenues goes into a general fund which serves a variety of expenditures and hence it is impossible to segregate the sources of funds for many expenditures except in the most general way.1 The overall principle is that the local body is run on self-finance so far as it can. There are, however, items like water supply, conservancy and drainage and to some extent road-maintenance on which the proceeds from the corresponding tax-items like water tax, conservancy tax, wheel tax and tolls are earmarked for the clearly defined purposes. Table 2.13 throws light on this aspect of self-finance. The grants

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1. Again, there can be no exact segregation of the extent to which current levies or previous accumulated cash balances are used for capital outlays and debt service charges as well as for current operating expenditures. -Seymour Sacks & Ifinancing Costs in a Metropolitan Area, Hellmuth W.F. Jr.,1961, New York. Pp-51-52.
income largely comes from the state government, towards education and for general purposes, but it forms a smaller ratio to the total municipal (current) income in the case of the larger local bodies. Hence the share of the local services are to be financed out of general revenues comprising mainly the property tax and octroi.

Table 3.14 attempts to throw light on the magnitude of the burden of expenditure requiring to be met out of general revenues at the eight municipalities in 1954-55. However general be the picture indicated by the percentage ratios, it serves to pin-point the heavy strain on general revenues as a result of deficits in incomes from water-rates, sanitary rates, wheel tax and tolls. The former two services are stipulated to be self supporting while there is no such stipulation in the case of roads. Yet the broad category of public health and convenience loans heavily on general revenues, owing largely to the inability or unwillingness of municipalities to increase their corresponding service rates.

As regards the expenditures met from state grants, in general, not more than 50 percent is intended to be met from such grants. The "fines" are, however, regulatory and of penal in nature and hence do not yield sizeable income. Thus it is well to imagine the difficulties confronted by an average municipality in the face of additional responsibi-
<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 4.15**
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td>Separate City</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Premier</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>April</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
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<tr>
<td>March</td>
<td>20</td>
<td>20</td>
<td>20</td>
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<tr>
<td>May</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>June</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>July</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>August</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>September</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
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<tr>
<td>October</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
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<tr>
<td>November</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>December</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>
In the field of public finance, it is important to see who pays the tax finally, no matter whether it is collected from taxpayers directly or indirectly from sale of goods and services. Table 2.15 shows incidence of municipal income and taxation in India as a whole and the State of Bombay over selected years.

Table 2.15:
Incidence of Municipal Income and Taxation:

<table>
<thead>
<tr>
<th>Year</th>
<th>Municipalities in India as a whole</th>
<th>Municipalities in the State of Bombay</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income</td>
<td>Taxation</td>
</tr>
<tr>
<td></td>
<td>Es.</td>
<td>Rs.</td>
</tr>
<tr>
<td>1938-39</td>
<td>8.44</td>
<td>6.22</td>
</tr>
<tr>
<td>1946-47</td>
<td>11.49</td>
<td>7.91</td>
</tr>
<tr>
<td>1950-51</td>
<td>12.61</td>
<td>8.71</td>
</tr>
<tr>
<td>1954-55</td>
<td>16.33</td>
<td>11.25</td>
</tr>
</tbody>
</table>

Figures for 1938-39 relate to British (undivided) India.
(Source: Statistical Abstracts of India)

It is clear that the incidence of income and taxation nearly doubled at all levels, over the period of sixteen years.

1. Mrs. N. K. Hicks likens the theory of tax-incidence to the theory of the firm or industry in general economic analysis, while, according to her, the theory of Public Finance is related to the general economic theory of business activity. "Public Finance, 1948, London. P-119."
"strictly speaking", maintains Mrs. U.K. Hicks, "it is the size of the budget per head that matters most".1

A per capita analysis of income and expenditure may be rather crude and imprecise and yet it serves to reduce the data to common denominators and to indicate some, though rough, measures of the standards of local services on the basis of which costs of urban governments could be appraised. Table 2.16 shows per capita incomes and expenditures at the eight municipalities in 1938-39 and 1954-55.

Table 2.16:
Per Capita Municipal Incomes & Expenditures:

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Income (per capita)</th>
<th>Expenditure (per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ahmedabad</td>
<td>15.2</td>
<td>30.0</td>
</tr>
<tr>
<td>Poona</td>
<td>12.1</td>
<td>25.2</td>
</tr>
<tr>
<td>Surat</td>
<td>12.3</td>
<td>21.7</td>
</tr>
<tr>
<td>Sholapur</td>
<td>8.1</td>
<td>20.8</td>
</tr>
<tr>
<td>Nasik</td>
<td>8.4</td>
<td>24.6</td>
</tr>
<tr>
<td>Nadi</td>
<td>6.5</td>
<td>16.5</td>
</tr>
<tr>
<td>Bharwar</td>
<td>5.9</td>
<td>13.1</td>
</tr>
<tr>
<td>Satara City</td>
<td>7.0</td>
<td>14.9</td>
</tr>
<tr>
<td>Average for 8 Muns.</td>
<td>9.4</td>
<td>20.8</td>
</tr>
</tbody>
</table>

It is interesting to note that over the period 1938-39 to 1954-55, at most of the municipalities the per capita levels

of income also doubled, and at Nasik the same nearly tripled. On the expenditure side however, the per capita levels rose by less than double in all cases, including even Nasik. On the whole, local services suffered a set-back in real terms. Hubli, Shharwar and Satara City showed levels of income and expenditure far below the average for the eight authorities.

2.34: Municipal Expenditure per Capita:

A brief survey of expenditure per head of population may be undertaken at this stage. Municipal expenditure on revenue account showed quite a few tendencies worth noting, when the same was split up on per capita basis under the different service heads. Though public health and convenience as a major head of obligatory services commands one's share of expenditure, education, as a separate single item of service dominates the entire scheme of municipal expenditure. This is evident from Table 2.17. As we have already observed, this was achieved largely under pressure from the state departments. Hubli is found to spend the maximum and Satara City, which ranks last as regards its wealth and tax-capacity, spends nearly the same as Surat and even more than the well-to-do municipalities of Sholapur, Ahmedabad and Poona. It may well be argued that Satara City did so at the expense of other services like conservancy, drainage, and medical relief.

The "Miscellaneous" head of expenditure shows a growing tendency in the case of the two corporations, on account of their responsibilities under a variety of Acts, e.g., shops & establishments, prevention of Adulteration, Dangerous and
offensive trades. These municipalities maintain separate 
Encroachment and Licence departments and workshops. Besides 
these, contributions to various funds are included: e.g. 
sinking funds, depreciation funds, and drainage and water-
supply replacement funds, and so on. Ahmedabad also showed 
the charges of collection of the urban Immoveable Property 
tax on behalf of the State Government.

Nasik and Satara City however showed their expenditure 
on account of dearness allowance paid to their staff under 
the "Misc" head, though it should have been spread over the 
different service heads. Hubli and Poona included Provident 
Fund charges, which are usually shown under Administration.

Costs of service to private individuals and interest 
on loans are among the major common items shown under the 
"Misc" head by all the municipalities.

The combined expenditure on conservancy, both general 
and special as a single item, stands next to education at 
most of the municipalities. Poona however appears to spend 
more on general administration and collection, than on 
conservancy. Of the two branches, general conservancy claims 
a much larger share of expenditure with the lone exception 
of Surat, which finds it hard to manage the special conserv-
ancy service owing to the terrific density of population. 
Hubli appears to spend a deplorably low amount per capita 
as compared with even Pharwar and Sataara City. Under the item 
of general conservancy, Nasik spends the maximum, followed 
by Hubli and Ahmedabad. Indeed, the pilgrim centre of Nasik 
is expected to put in maximum effort to keep the town as clean 
as possible, a part of which is met from the pilgrim tax 
receipts every year.
## Table 6.27

| 2 | Shubert | 1.00 | 0.99 | 0.98 | 0.97 | 0.96 | 0.95 | 0.94 | 0.93 | 0.92 | 0.91 | 0.90 | 0.89 | 0.88 | 0.87 | 0.86 | 0.85 | 0.84 | 0.83 | 0.82 | 0.81 | 0.80 | 0.79 | 0.78 | 0.77 | 0.76 | 0.75 | 0.74 | 0.73 | 0.72 | 0.71 |
| 3 | Shubert | 1.00 | 0.99 | 0.98 | 0.97 | 0.96 | 0.95 | 0.94 | 0.93 | 0.92 | 0.91 | 0.90 | 0.89 | 0.88 | 0.87 | 0.86 | 0.85 | 0.84 | 0.83 | 0.82 | 0.81 | 0.80 | 0.79 | 0.78 | 0.77 | 0.76 | 0.75 | 0.74 | 0.73 | 0.72 | 0.71 |
| 4 | Shubert | 1.00 | 0.99 | 0.98 | 0.97 | 0.96 | 0.95 | 0.94 | 0.93 | 0.92 | 0.91 | 0.90 | 0.89 | 0.88 | 0.87 | 0.86 | 0.85 | 0.84 | 0.83 | 0.82 | 0.81 | 0.80 | 0.79 | 0.78 | 0.77 | 0.76 | 0.75 | 0.74 | 0.73 | 0.72 | 0.71 |
| 5 | Shubert | 1.00 | 0.99 | 0.98 | 0.97 | 0.96 | 0.95 | 0.94 | 0.93 | 0.92 | 0.91 | 0.90 | 0.89 | 0.88 | 0.87 | 0.86 | 0.85 | 0.84 | 0.83 | 0.82 | 0.81 | 0.80 | 0.79 | 0.78 | 0.77 | 0.76 | 0.75 | 0.74 | 0.73 | 0.72 | 0.71 |
| 6 | Shubert | 1.00 | 0.99 | 0.98 | 0.97 | 0.96 | 0.95 | 0.94 | 0.93 | 0.92 | 0.91 | 0.90 | 0.89 | 0.88 | 0.87 | 0.86 | 0.85 | 0.84 | 0.83 | 0.82 | 0.81 | 0.80 | 0.79 | 0.78 | 0.77 | 0.76 | 0.75 | 0.74 | 0.73 | 0.72 | 0.71 |
| 7 | Shubert | 1.00 | 0.99 | 0.98 | 0.97 | 0.96 | 0.95 | 0.94 | 0.93 | 0.92 | 0.91 | 0.90 | 0.89 | 0.88 | 0.87 | 0.86 | 0.85 | 0.84 | 0.83 | 0.82 | 0.81 | 0.80 | 0.79 | 0.78 | 0.77 | 0.76 | 0.75 | 0.74 | 0.73 | 0.72 | 0.71 |

**Note:** Table 6.27 represents the comparison of per capita expenditure on revenue account (1954-55).
Next in order stands the general administration and collection of rates and taxes. No doubt, the two corporations are found to spend more as compared with others. Though Sattara City appears to spend the lowest amount, we must remember that it showed the expenditure on account of dearness allowance paid to its staff under the "Misc" head. Nasik which follows suit regarding the D.A., however put up a relatively high level of per capita expenditure on general administration and collection.

On account of Hospitals and Dispensaries, epidemic charges and other items of medical relief, again the two corporations figure prominently, while Sattara City ranks the least. In this respect, it is the inherent capacity to spend that counts. Having spent a good deal on education, Sattara City had performed to ignore the needs of the health services.

Water-supply service claims per capita expenditure, in some respects next to medical relief, though perhaps, in some cases, e.g. Surat and Sholapur and Sattara City it exceeds the other, while at Nasik and Bharvar, it stands on par. Surat spends the maximum on water supply, followed at some distance by Poona and Sholapur. Though shortage of water is a common problem with all these municipalities not all of them put in same effort to provide an adequate level of service. While Hubli lags behind the rest, Bharvar and Nasik also suffer from inadequate funds. Sattara City however presents a peculiar case. Though its per capita level is not high, its per capita consumption of water, e.g. 19 gallons per day, is nearly double that of Bharvar and Hubli.
For capta expenditure on public works is comparable with that on water-supply, though Nasik shows a relatively higher level. Charvar shows it at a very low level. Those municipalities with new construction programmes on hand were likely to spend more, as compared with mere repairs and maintenance.

The items of drainage and public safety reveal in general very low per capita expenditures, Poona and Surat however showed greater awareness of drainage needs, while Charvar and Satara City almost ignored the same.

Public safety including fire-fighting and public lighting presents an interesting feature in that, with the lone exception of Surat, the per capita expenditure is nearly on par. This perhaps indicates the concentration of expenditure on establishment charges, in the absence of major differences in purchase of new material or undertaking fresh projects. The case of Surat is peculiar, with its high incidence of fire and floods. So it spends more on fire-service, almost double that of Kolapur. Surat has also a relatively larger road mileage, though its area in sq. miles is small. Thus the needs of public street-lighting have to be met by larger outlays, almost on par with those of Poona.