Chapter - II

Review of Literature

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2. Review of Literature

The various legislations, resolutions and commission reports before and after independence have exerted their influence on the growth and development of the Urban Local Government in India. Most of these legislations and commissions were expected to identify the problems associated with the development and working of urban local institutions and make suggestions and recommendations to ameliorate them. This chapter, firstly, reviews these legislations, commission reports and government resolutions. It is followed by a review of some important studies carried out by scholars in the field of municipal finance.

2.1 The Pre-Independence Period:

i) Lord Mayor's Resolution 1870:

This resolution provided for a measure of decentralisation from the Central Government to the provinces and supported the idea of involvement of more Indians in the municipal government. The resolution encouraged the principle of election to achieve the self-government. The resolution said, "local interest, supervision and care are necessary to success in the management of funds devoted to education, medical relief and public works. The operation of resolution in its full meaning and integrity will afford opportunities for the development of self-government, for strengthening municipal institutions and for the association of natives and Europeans to a greater extent than before in the administration of local affairs. The central grants to the provinces were much less than the actual expenditure. They were, therefore, required to meet the balance by local taxation."1 Various municipal laws were passed in keeping with this resolution which heralded

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the inception of the local finance in India. However, the principle of election was introduced in a few places only and most of the members continued to be the nominated ones. As a result the government could practically exercise any degree of control over the municipalities.

ii) Lord Ripon’s Resolution (1882):

This resolution is regarded as an important milestone in the development of Local Government in India. The resolution tried to satisfy the urge of the people for self-government and envisaged local bodies as important means for political education. It recommended the formation of local self-government institutions, and reduction in the number of nominated members. It also advocated decentralisation in financial matters and elections as a means for setting up local bodies. The resolution favoured the exercise of control from without and not from within. The recommendations of lord Ripon were accepted by various governments in the provinces. This rejuvenated the local self-government in India and increased the number of elected members and presidents of municipal bodies.

iii) Royal Commission on Decentralisation 1907:

The Royal Commission on Decentralisation was set-up to review the financial and administrative relations of the Government of India and the provincial governments and subordinate authorities.

The Commission studied the subject of local self government in its entirety and located its failure to (i) Excessive administrative control. (ii) Lack of resources (iii) Lack of education and training (iv) Dearth of capable and talented persons (v) and lack of control of local bodies over services.

In order to empower and democratise the local bodies, the commission recommended that the chairmen and the members of the municipality should be elected and the power of taxation and control of budget should be given to the

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municipalities. It also advocated appointment of Health Officers along with the Executive Officers.

iv) Government of India Resolution 1918:

The growth of the independence movement in India was causing great anxiety to the British Government. It coincided with the start of the First World War for which the British Government wanted to secure the support of the people of India. It, therefore, announced that it would seek increasing participation of Indians in all branches of the administration and make efforts towards development of self-governing institutions as part of realisation of responsible government. The Government of India Resolution on 16th May 1918 recommended that the majority of the members of the municipal boards should consist of elected members. It also advocated the replacement of official chairmen by non-official chairmen. It also recommended freedom to the municipal boards to raise local taxes within the limits fixed by statute. They were free to allocate the revenue to the subjects of their choice. The outside control was limited to the suspension of the incompetent boards. The government approval was required for senior official appointments. The minorities were to be represented through nomination, rather than by separate electorates.

v) Government of India Act 1919:

The dyarchical system of government was introduced by the Government of India Act, 1919. The local self-government department was to be looked after by a minister responsible to the local legislature. The Act specified a schedule of taxes which could be imposed only by or for the local bodies. The powers and independence of the local bodies was increased through passage of Municipal Acts. The nominated element was reduced and the non-official presidents and vice-presidents were encouraged.

These measures increased the democratic element in the Municipalities at "Finances of Nagpur Municipal Corporation"
the cost of deterioration in administration and efficiency. Many municipal bodies had to be abolished on the charges of inefficiency and corrupt practices. It was felt that the district government was reduced to the role of an onlooker as the administration of the municipalities deteriorated. The government could use its disciplinary powers only when the local bodies were in utter chaos. A major reason for the failure of these institutions was the hybrid framework within which they had to function. Another reason was the lack of experience in the municipal members and inadequate training for the municipal staff.

vi) Government of India Act 1935:

The municipal government in India received an impetus with the provision of Provisional Autonomy under the Government of India Act 1935. The Act set aside the system of dyarchy and sought to introduce democratic government in the provinces. The responsibility for Local Government was entrusted to the provinces. But, the local bodies were not given any powers of taxation under this Act. The Act specified the taxes which could be levied by the provincial governments while omitting their mention for the local bodies. This put the local bodies at a disadvantage as the provincial governments had used the proceeds of taxes earlier reserved for the municipal bodies. All provincial governments enacted laws which led to the democratisation of the local bodies. The municipal bodies were expected to be revitalised with the installation of democratically elected ministries. However, the progress of these institutions was stalled due to the outbreak of the Second World War. All the ministries in the congress ruled provinces resigned. The other ministries that continued to function, had to divert their energies to the activities related to defence. This was a set-back to the development and growth of the municipal institutions. As a result, there was no significant movement towards the reforms in the municipal government.

2.2 The Five Year Plans:

India gained independence from British Rule on 15th August, 1947. The "Finances of Nagpur Municipal Corporation"
Article 40 of the Constitution directed the State to empower the panchayats as viable units of self-government. But it does not articulate a similar provision for urban local bodies. The only mention of the urban self-government is found in two entries, Entry 5 of List II of Seventh schedule (the state list) and Entry 20 of the list III (Concurrent List). Thus, the Constitution provided a dominant role to the states in the development and growth of the Urban local bodies. The role envisaged for the Central Government was of an advisory and supportive nature.

The urban local bodies were expected to play an instrumental role in the implementation of the national policy and increase the scope of their functions. However, due to the lack of constitutional status and proper delineation of their powers, functions and resources, they failed to fulfil their promise. The attention of the policy-makers and government was occupied by the rural government. As a result, there was only a minor tinkering with the structure and functions of urban local bodies.

For the first time the Planning Commission mentioned the Urban Local Government in the Third Five Year Plan. It said, "The general direction of the policy should be to encourage self-governing bodies and to assist them in assuming responsibilities for as large a portion of the administrative and social services as possible."

From time to time, the Planning Commission has been expressing its despair at being a silent onlooker of the ineffective role played by urban local bodies and lack of any solution for it. In the First Five Year Plan it had expressed its displeasure at the State Governments and the local bodies not being empowered to control use of land and construction of buildings. It further says that they have not even utilised whatever powers they have to check this unhealthy growth.

The Second Five Year Plan laments the failure of the municipal administration to deal with the problem related to planning in urban areas. It underlines the need for proper powers, resources and trained staff if urban

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development is to take place in the right direction. 7

In the Third Five Year Plan, the weaknesses of the municipal system have been pointed out. It expressed concern over the fact that most municipalities are not able to perform the functions like housing expansion and improvement of living conditions, that are important from development point of view. 8

The Fourth Five Year Plan refers to the recommendations made by the Rural Urban Relationship committee and the Local Self Government Ministers’ Council on Augmentation of Financial Resources and wishes that the State Governments will take all the necessary steps to augment the resources of local bodies. 9

The Planning Commission continued to take a dismal view of Urban Local Government in the seventh plan also. The Seventh Plan expressed its displeasure over undeveloped or eroded tax systems and inadequacy of capital funds for development. It also observed that level of services provided by the municipal bodies has deteriorated over the years. It further stated that many municipal bodies had become moribund or had been abolished and their administration was being run badly. 10

2.3 Committees and commissions set up by the Central Government:

The Central Government has been setting-up various committees/commissions to look into the problems of the Local Government and to make suggestions for improvements. These committees and commissions have been very instrumental in the progress achieved in the sphere of Urban Local Government. Some of the committees/commissions are discussed in this section.

(i) The Local Finance Enquiry Committee (1949-51):

In the light of the fact that finance has been the most pressing problem of the Local Government, the recommendations of the Local Finance Enquiry Committee assume added significance. The Commission pleads for a separate
tax-zone for the Local Government away from the encroachment by the State or Central Government. The committee sought to revive certain taxes that had been placed for the use of Local Government between the period falling between the Government of India Act 1919 and Government of India Act 1935. The committee observed. "In order to give the local bodies definite sources of revenue, it is suggested that a convention may be established by which net proceeds from the following sources of revenue shall be exclusively available for the local authorities."¹¹ The following taxes were specified by it for this purpose.

1. Terminal taxes on goods and passengers transported by railways, sea or air.
2. Taxes imposed on lands and buildings.
3. Taxes on grant of mineral rights subject to constraints laid down by Parliament for mineral development.
4. Taxes imposed on consumption or sale of electricity.
5. Taxes levied on commodities and travellers transported by road or inland waterways.
6. Taxes on advertisement with the exception of advertisements published in newspapers.
7. Goods entering into a local area for use, consumption or sale therein to be subject to tax.
8. Tolls.
9. Taxes on occupations, employment and trade.
10. Taxes on vehicles other than those operated mechanically.
11. Taxes on boats and animals.
12. Entertainment and amusement tax.
13. Capitation taxes.

The Local Finance Enquiry committee also resent the fact that many functions were being transferred from the local bodies. These included public health, education and communications. The Commission was of the view that the

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wholesale transfer of functions was a step in the wrong direction and is to be avoided. The desperate financial position of the local bodies should not be made an excuse for non-observation of criteria for demarcation of functions between State Governments and local bodies.

ii) The Taxation Enquiry Commission (1953-54):

The Taxation Enquiry Commission was formed soon after the Local Enquiry Committee, considered the question of the tax-base of the Local Government. The Commission found that the municipal revenue was inadequate to meet the growing expenditure requirements for the provision of important civic services. This state of affairs led the Commission to be in sympathy with provisions of the Scheduled Taxes Rules incorporated in the Government of India Act 1919, which separated certain taxes for the exclusive use by the Local Government. Thus, the Taxation Enquiry Commission suggested the following taxes for local bodies while at the same time making it clear that the State Governments were at liberty to transfer any such taxes as it deemed appropriate to the local bodies.

1. Taxes on commodities entering the area of a local authority for consumption or sale, known as Octroi.
2. Taxes on vehicles other than those operated mechanically.
3. Taxes on occupations, employment and trade.
4. Taxes on boats and animals.
5. Tolls.
6. Taxes on advertisements with the exception of advertisements published in newspapers.
7. Property Taxes.
8. Taxes on commodities and travellers transported by road or on inland waterways.
9. Taxes on theatres and shows.

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10. Taxes on lands and buildings.

The Taxation Enquiry Commission also made certain suggestions regarding
the nature of government support to the local bodies. The Commission recognised
the vital role of State Governments in the development of local institutions. It is the
duty of the State Government to ensure the efficiency in these Local Government
institutions as well as making them a part of the developmental process. However,
the Commission cautioned against the excessive government control over the local
bodies. The commission was of the view that such a level of control will destroy
these institutions.¹³

The Commission also made certain observations about the basis of
assessment of Property Tax. The basis of Property Tax assessment is either the
annual rental value or the capital value of property. The Local Governments in
India generally follow the annual rental value as the basis for taxation. The
Commission was of the view that the fixation of the rental value of buildings in
towns and cities is simpler than the computation of the capital value of these
structures. Moreover, the capital values of properties are subject to considerable
fluctuations relative to the rental values. The tax imposed on the actual or reasonable
rent is a levy on the actual or potential income from the property and is a more just
and fair method of taxation than one based on capital value.¹⁴

An important lacuna of the Property Tax is the widespread practice of under
assessment of the rental value of the property. Part of the problem are the petty
officials entrusted to assess the tax are prone to corruption. Though a provision
exists for appeal against the assessment to the elected council, any benefits gained
from careful assessment are lost at the stage of appeal. This has led the Commission
to underline the need for fair assessment, which implies three requirements, the
first one being an independent agency for assessing the property values. The
officers manning the agency should be specially trained for effective discharge of
their duties of technical nature. The third is that revisions or appellate functions

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should not be vested in municipal councillors.\textsuperscript{15}

On Octroi, the Commission pointed out that it was not possible to phase out the tax as a form of local taxation. The Commission was of the view that except on a long-term perspective, it would not be possible to abolish octroi. Unless an alternative was developed, such a move would create adverse situation for the municipal corporations. However, it was not possible to conceive of alternative sources of revenue in the immediate future.\textsuperscript{16}

iii) Committee on the Augmentation of Financial Resources of Urban Local Bodies (1963):

The work of the Committee On the Augmentation of Financial Resources of Urban-Local Bodies belongs to the same area as covered by the Local Finance Enquiry Committee (1951) and Taxation Enquiry commission (1953). One of the persistent problems of Local Government in India has been the insufficiency of the financial resources assigned to them by the State Governments. Even more serious is the problem of the unwillingness of the local bodies to establish taxes even in the field earmarked for it. The committee urged the Urban Local Governments to show energy and enthusiasm to levy the taxes assigned to them and take up remunerative activities leading to the creation of permanent assets yielding perennial income. The Commission also urged the State Governments to set-up a statutory urban development board in each state to acquire land and property and to look into most aspects of town development. The Commission was of the view that such a board would be better able to exploit the opportunities offered by the capital market. Such on institution would also be better placed to access long-term funds from credit-lending institutions as the credit worthiness of the board can be assessed without applying the standards applicable to individual local bodies. It will also be able to provide certain services to local bodies in regard to projects for which the loans have been sought. It can also advise on various technical and

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legal matters. The board can also borrow from the foreign exchange market and better provide for fluctuations in the foreign exchange rate than the individual local bodies.\textsuperscript{17} The Commission was also in favour of centralised assessment of properties for obtaining a uniformly high standard of assessment throughout the state. A highly trained and professional staff using standard methods and procedures should be employed for this purpose. Accordingly, the Commission recommended setting-up a central valuation department in each state to assess the properties in different municipalities. This will enable the municipalities to get the services of highly trained professionals which otherwise would not be possible. Such a valuation department can undertake reassessment of urban properties at regular intervals and the problem of under-assessment can be removed to a great extent.\textsuperscript{18}

Regarding Octroi, the Committee observed that the tax cannot be abolished outright unless alternative sources of taxation are found. However, the Committee expressed itself in favour of a gradual replacement of Octroi by a turnover tax or by a surcharge on sales tax or by some other method, which would cover the same area of taxation as Octroi, but would be free from the evils of the octroi system.\textsuperscript{19}

Entertainment tax is levied on programmes and facilities for betting and gambling. Generally, entertainments for the religious, charitable and educational purpose as also for the progress of industry, agriculture and public health are exempted. This tax is levied and collected by the State Government and is reimbursed to the concerned municipal body wholly or partly. The Committee on the Augmentation of Financial Resources of Urban Local Bodies had suggested that the entire proceeds from this tax should be earmarked for the local bodies as the tax has a local base and can be best administered by a local body with a certain degree of autonomy.

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iv) The Rural-Urban Relationship Committee (1963):

A very comprehensive enquiry into the Urban Government set-up was conducted by the Rural-Urban Relationship Committee, set-up in 1963. The Committee was first set-up in order to define the relationship between the urban and rural governments. The rural and urban areas were treated as a distinct entities, which is evident in fractured and isolated Local Government structures. Such a pattern of governance overlooks the biological, economic, social and cultural impulses in human beings which find fulfilment through continual interactions between them. The Urban Government, as structured presently cannot facilitate such interactions in a fruitful manner. So, the Committee suggested that a rational system of Local Government should be evolved, which is capable of responding to the process of interaction and interdependence between the town and adjoining rural areas. To achieve this aim, the Committee recommended the concept of area management.

In this approach, the whole area was to be considered as one unit for administrative purposes and rural and urban areas in it should be considered as the integral parts of the area for the purpose of overall planning and for the implementation of the developmental projects. This will foster political and emotional integration and remove the barrier between the urban and the rural dwellers and pave the way for the evolution of an organic community. The existing devices to secure integration were of mechanical nature, accentuating the differences by focussing attention on distinguishing factors. The more organic and humane methods of administration could help build integrated units. The Committee was aware of the difficulties in introducing the new system of administration or delineating areas for the purpose. So, the Committee recommended that the districts should act as units for overall planning covering entire rural and urban areas. The formulation of an overall plan for the district as a whole would help integration and dilute the differences in approach considerably. This will lead to a new system of

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developmental administration which would eradicate the distinction between rural and urban areas in regard to quality and treatment.20

The Rural Urban Relationship Committee also expressed itself in favour of formation of state wide cadres for certain categories of officers. The Committee considered the issue of whether the state cadres should include subordinate along with senior level positions. The Committee came to the conclusion that posts of executive officers/municipal commissioners/secretaries/revenue officers and accounts officers from the administrative side and those of municipal engineers, town planning officers and health officers from the technical side should be filled from the state cadres. After the experience of how these services function has been gained, the question of separate state cadres for technical services can be examined.21

In more specific terms, it recommended the formation of following services.
i) Administrative services for the appointment of Municipal Commissioners and assistant municipal commissioners, executive officers, secretaries, revenue and accounts officers.

ii) Engineering service for looking after municipal public health, water supply and town planning.

iii) Medical and Health Service.

iv) Education Service for education officers, superintendents of education and heads of higher secondary schools and colleges.

The Rural-Urban Relationship committee has also commented on the weak position of the executive officer.

The Committee felt that the chairman has a big say in the promotion and control of subordinate officials. The Committee expressed itself in favour of the complete control by the executive officer over the staff and substantial freedom in dealing with executive matters. However, the Committee refrained from recommending separation of deliberative and executive functions as happens in

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corporation. The Committee was in favour of legal provision to grant full power to
the executive officer in the matter of appointment, supervision, control and dismissal
of the subordinate staff and the chairman's role will be confined only to hearing of
appeals against orders of punishment passed by the executive officer. The
Committee was aware that the relationship between the chairman and executive
officer is a matter of delicate adjustment and harmonious working. The executive
officer must accept the leadership of the chairman and the chairman should give
full scope to the executive officer to work with freedom. The Committee, thus refused
to consider division of executive functions between the chairman and the executive
officer other than control of the staff. The two important functionaries, i.e. the chairman
and executive officer must be guided by a spirit of co-operation and accommodation.
The successful functioning of the municipal council can be ensured in this manner.

The Rural Urban Relationship Committee supported the need for a central
valuation agency to secure fair assessment. It recommended:

1. That a chief valuation officer should be appointed in the directorate of local bodies.
   He should supervise and control the valuation officers and lay down the
   principles of assessing the annual values.

2. Appointment of valuation officers be made for the cities with a population of
   more than five lakhs or more. For groups of smaller cities and towns, the valuation
   officers should be appointed on the basis of volume of work.

3. The valuation officer should prepare and publish the assessment list for
   objections. The valuation officer should finalise the list after examining objections.

4. The chief valuation officer should hear the appeal against assessment made by
   the valuation officer.

5. The appeal against the decision of the chief valuation officer should be heard by
   the district judge.

The Rural Urban Relationship Committee was unhappy with Octroi as a
form of local taxation. The Committee was not in favour of its total abolition, but at

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the same time suggested that no local body which does not have Octroi as a source of revenue, should be allowed to levy it in the future and that there should be a greater emphasis on raising revenues for civic purposes from property and other direct taxes. The Committee expressed itself in favour of Octroi and its successor, the terminal tax being done away with as forms of local taxation. The Committee was of the opinion that the approach made so far towards abolition of Octroi was not adequate. There is a lack of effort to consider the problem in the larger context of national resources. Committees' recommendation for the formation of a Municipal Finance Commission would go a long way to integrate the municipal finance with that of the Union and State Governments. It felt that the loss of revenue suffered due to the abolition of Octroi should not fall exclusively on the municipal bodies, but shared equally between the State Government, Central Governments and the local bodies. The Committee was of the view that Octroi was a major obstacle in the flow of goods and thus was a major factor retarding the growth of commercial and the industrial activities. Hence, it recommended the abolition of Octroi and the terminal taxes.

v) The Committee on the Training of Municipal Employees (1963):

The Committee on the Training of Municipal Employees underlined the importance of imparting the adequate training to the municipal employees and towards the furtherance of this goal recommended the setting up of training institute at the central as well as the state level which the state training institutes would be unable to provide due to lack of resources in technical personnel and equivalent. It would also co-ordinate the programmes for training the municipal employees throughout the country and help to achieve the necessary uniformity in the programmes run by different state institutes. The Commission expressed the view that one of the major responsibilities of the central institute would be to prescribe the standards of training and research and itself serve as a model in this respect.

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The Central Government accordingly accepted the recommendation and set up in 1966, the Centre for Training and Research in Municipal Administration and shortly thereafter regional centres at Bombay, Lucknow, Hyderabad and Calcutta.

vi) The Committee on Service Conditions of Municipal Employees (1965-1968):

The Urban Government in India dramatically proves that bureaucratic procedures and mindset can hamper the progress of urban local bodies. Inefficiency is rampant among the municipal staff. Historically, the Local Governments have exercised the right to appoint its personnel and determine their service conditions. Moreover, these employees are not transferable to another Local Government. This system is known as "separate personnel system" and has given rise to numerous ills in Local Government. This led to calls for the municipal recruitment to be centralised in the hands of the State Government. The Central Council of Local Self-Government set-up the Committee on the Service Conditions of Municipal Employees to examine the question of improvement in service conditions of municipal employees. In its report the Committee came out in favour of constitution of state wide cadres of municipal employees.26 The Committee expressed the view that in the initial stages, the State Governments may rely on unified cadres for various categories of services in the light of situation occurring in each state, while the ultimate objective should be integration of municipal services with corresponding categories of state services to ensure that personnel seeking employment in municipal service possess desired competence and prestige, enjoying appropriate conditions of service.27

vii) National Commission on Urbanisation (1988):

The National Commission on Urbanisation was formed to make a wide-
ranging and in-depth study of various aspects of the urbanisation process and issues arising from it, concerning planning and development in urban areas, structure, functions, powers and status of the Urban Local Government institutions. It was also supposed to study how these urban local bodies were managed with respect to their personnel, finances and state supervision and control; the role of special purpose agencies and related matters. Moreover, it was expected to suggest strategies for policy formulation and implementation to meet the growing challenge of urbanisation by suggesting amendments to the Constitution, enacting the proper legislations, providing for the appropriate infrastructure and implementing reforms to streamline the structure and processes to facilitate planned development of urban areas and the provision of necessary amenities to enable the citizens to lead healthy and fruitful lives.

Various institutes helped the Commission in this enormous task. These include National Institute of Urban Affairs (New Delhi), The Institute of Economic Growth, The National Institute of Human Settlements (Bhopal), officers of the Ministry of Urban Development, of State Governments and of Union Territories, various study teams and working groups. The Commission also sought the help from various experts in the field and interacted with eminent citizens and social organisations on various issues and secured deep knowledge of the problems of urbanisation at the grass-root level through field visits.

The Commission has made important recommendations with regard to various aspects of urbanisation and the management of urban local bodies to ensure proper working of these institutions. These recommendations are as follows.

1) Aspects of Urbanisation:

The Commission had pointed out urban centres that had economic potential and demanded development with priority. These centres include National Priority Cities, State Priority Cities, Spatial Priority Urbanisation Regions and towns serving the rural areas. The Commission expressed its support for full thrust towards

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development of identified growth centres. The urbanisation process should lead to
the development of the agriculture and increased opportunities for employment.
The urban situation should be stabilised by taking effective population control
measures.

2) Water Supply and Waste Disposal:

The Commission was of the opinion that an integrated view of water-
management should be adopted. The Commission advised to adopt an immediate
objective to provide 70 litres of water per capita per day in urban settlements on an
equitable basis. Another recommendation included an additional provision of Rs
1000 Crores for the maintenance of the existing water systems to be disbursed to
the local bodies. The Commission also favoured waste-water recycling for non-
domestic Purposes. The Commission also recommended differential tariff on water
use with sharply high rates on consumption of water in excess of 100 litres per
capita per day. Measures should be enacted to restrict water use from private
sources so as to maintain the water table. Greater efficiency should be achieved in
collection, composting and use as energy source of solid waste. Wherever possible,
the service should be handed over to private agencies.

3) Efficient Land use:

The demand for land had been rising disproportionately in the urban areas.
The supply of land in urban areas is of topmost priority. The Commission
recommended setting up Settlement Survey of India at the National level and a
Directorate of Urban Land at the state level. At the level of the city, there should be
an Urban Land Manager, working under the district collector. Changes should be
made in the urban land tenure system to ensure the security of tenure. The
requirement of land for housing the poor should be estimated and provided for
accordingly. Unauthorised settlements should be regularised wherever possible

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but land important from social and public point of view should be protected and squatters from ecologically sensitive land should be relocated. The government must ensure equitable access to land. To increase the supply, the Commission recommended a drastic amendment to Urban Land (Ceiling and Regulation) Act 1976 supplemented by tax measures to encourage proper use of the vacant land. The Commission also recommended the amendment to the Land Acquisition Act to eliminate delay and ensure proper and timely compensation to the affected persons.

4) Proper Management of Energy Demand:

The energy use must be optimised by anticipating the energy demand and taking appropriate action to meet them. The activity location should be influenced through proper planning and pricing for energy. Reduction in the energy need of the transport sector can be achieved through proper land use planning. Construction of energy-efficient buildings should be encouraged by modification in development control rules and building bye-laws. Equity and efficiency should be achieved through an integrated pricing and supply policy, covering all fuels.

5) Poverty Removal:

To remove the urban poverty, the Commission recommended the training to four lac urban youth in skills for which there is a demand. Credit support programmes should be used to encourage self-employment to the urban poor. The urban self-employed urban poor should be provided with production and market support. The city planning should be geared to provide sites for the employment generation programmes. The urban local bodies should be supported in their efforts to create special employment facilities like worksheds for manufactures. The creation of urban assets like land development, water-supply and drainage system should be encouraged in order to provide wage employment to the urban poor.

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The consumption requirements of the urban poor should be met through the public distribution system. The strategy of the community development should be adopted to improve the living conditions of the urban poor. An Urban Community Agency should be established at the national level.

6) Development of Urban Transport:

The Commission recommended an integration of the land use and transportation planning to increase the city efficiency. The personal form of transportation should be discouraged and mass transportation encouraged. The Commission was in favour of allowing different types of multipurpose vehicles in order to reduce the use of road space by private transport. The Commission also expressed the view that short-term practical solutions should be adopted instead of long-term plans emphasising capital-intensive techniques. The job of managing the transport at the city level should be entrusted under a single authority.

7) Improvement in Housing:

The Commission recommended that emphasis of the Housing policy should be on supply of serviced land, low cost shelters, slum upgradation and improvement and sustaining the current housing stock. The state must help the development of housing and supply the basic inputs for the purpose. The entire cross-section of the society should benefit from the sites and services programme. The programme should also be used for generating employment while providing for housing. The housing programme should improve access to finance, development of infrastructure and improvement in facilities available for the community. Public agencies should make a transition from the role of providers to that of facilitators. The Commission also recommended the amendment of the Rent Acts so as to give the tenancy protection to the poor and to the existing tenancies and to allow for revision of rents annually to reflect increases in the cost of living.

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8) Integrated Development through Spatial Planning:

Intersectoral-co-ordination must be achieved through spatial planning process. The Committee recommended Spatial planning at the national, state and district level. The Commission recommended that the government should adopt the threefold development planning process with Master Directive Plan for the whole city and Execution Plan and Action Area Plans as programmes with due consideration to sectors like employment, housing, transport and the essential urban infrastructure.

9) Financial Resources:

The Commission recommended increased allocation for urbanisation. The Commission also expressed its view that State Finance Commissions should be formed by making a constitutional provision. There should be an improvement in the tax-base of the local bodies. It also recommended the setting-up of National Housing Bank, Urban Infrastructure Development Bank, a Metropolitan Cities Development Bank and an Urban Small Business Development Bank.

10) Management of Urbanisation:

The Urban Development Ministry should play a nodal role and should have divisions looking after urbanisation and urban poverty alleviation. The Commission recommended setting up of National Urbanisation Council and State Urbanisation Council in each State. Councils will have the role of formulating policies related to urbanisation. To encourage citizens' participation, an Indian Council for Citizens' Action should be formed with counterparts at the state and the city level. There should be a two tiered municipal administration for cities with more than 5 Lacs population. There should be a proper codification of the division of functions between deliberative and executive wings of local bodies. The management of city services should be codified and accountability of each functionary must be specified. The supersession of the local bodies should be resorted to exceptionally

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with elections being held within a specified period in the case of superseded authority.

2.4 State-Level Committees:

The approach towards municipal reforms at the state level has focussed on questions of grants-in-aid to urban bodies, matters related to staff and control and supervision over Local Government. The grants in aid given by the State Governments are ad-hoc and discretionary in nature, depending largely on the funds that could be spared by them. To ensure a continuous and regular flow of grants to the Local Government and to bring in simpler procedure, larger grants and minimising delay, a codification of grants-in-aid is required.28

To get the qualified personnel for Urban Government, various committees have recommended the provincialisation of the local civil service. The Committee for Unification of the Acts relating to Municipalities in Maharashtra State observed, "In order to overcome the difficulty experienced by the municipalities in getting suitably qualified persons to work as their principal officers, the Committee makes following recommendations so far as Class I and Class II cadre posts under municipalities are concerned. (i) There should be a common cadre for Class I and Class II officers of all municipalities. (ii) The recruitment to the common cadre should be made through a municipal services commission to be constituted for the purpose. (iii) The appointments to the common cadre shall be made by the government on the recommendations of the Municipal Services Commission. The transfer of officers in the cadre shall be made by the government. It shall also be open to any municipality to ask for the transfer of any officer in the cadre working under it with whose work it is not satisfied. (iv) Government should prescirbe uniform conditions of service, etc. for the common cadre."29

On the issue of state supervision and control of local bodies, various committees were in favour of an educative spirit in the system of state control and supervision. The Local Government (Urban) Enquiry Committee, set up by Punjab

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correctly wrote, "Little has been done to amend the (Municipal) Act of 1911, which prescribes various checks and balances. The account code and the rules have been so designed as to leave little initiative. The dependence on authorities is so complete that even for small works and schemes approval of prescribed authority has to be obtained. The (municipal) committees are still groaning under the yoke of official control. The government control without the means and capacity to afford timely guidance and assistance has left the municipal institutions to shift for themselves and to be hauled up for punishment whenever they make mistakes. There have been municipal institutions which have been under supersession without government having taken any steps to hold elections and to restore the democratic working of these institutions for years together. Thus supersession of an incompetent body replaceable through fresh elections has meant the supersession of the peoples right of self-governance."

The State Government must alter such negative stance and, instead, must nurture co-operative and supportive attitude to Local Government. This has been expressed by several committees on Local Government appointed by State Governments.

2.5 The Central & State Finance Commissions:

i) The Central Finance Commissions:

The terms of reference of the Tenth Finance Commission included for the first time the additional responsibility to consider the recommendations regarding the urban local bodies while recommending the transfer of central funds to the states. However, the timing of the constitution of the Tenth CFC and first generation of the SFCS could not match. As a result the Tenth CFC could not incorporate the recommendations in the first generation of the State Finance Commission, which resulted in arbitrary nature of the recommendations of the tenth CFC. The Tenth Finance Commission recommended Rs. 1000 crores for municipalities to be distributed amongst the states. The criteria for distribution was the interstate

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distribution of the slum population based on 1971 census. The Local bodies were required to raise "suitable" matching contribution for the purpose. The amount was not to be spent on the salaries and wages.

The terms of reference of the Eleventh Finance Commission required it to make recommendations to augment the Consolidated Fund of the states to supplement the resources of local bodies based on the recommendations of the State Finance Commissions. In case the State Finance Commission Reports were not available, the EFC was asked to make its own assessment. The EFC recommended an ad hoc annual grant of Rs. 400 Crore for municipalities. The first charge on this were activities such as maintenance of accounts, development of database and audit. The criteria for the distribution of grant was based on the following factors.
1. Population 40%.
2. Geographical area 10%.
3. Index of decentralisation 20%.
4. Distance from Per Capita Income 20%.
5. Revenue Effort 10%.

The Terms of Reference for the Twelfth Finance Commission were the same as that of the Eleventh Finance Commission. The Twelfth Finance Commission recommended a grant of Rs. 5000 Crore for the period 2005-2010 to augment the Consolidated Fund of states to supplement the resources of municipalities.

The following criteria were used by the Twelfth Finance Commission for distribution of grant amount to the states.
1. Population 40%
2. Revenue Effort 20%
3. Geographical Area 10%
4. Index of Deprivation 10%
5. Distance from highest PCI 20%

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The Commission suggested that 50 percent of the grants provided to each State should be provided for collection, segregation and transportation of solid waste.

ii) The State Finance Commissions:

The Article 243 (I) of the Constitution (Seventy Fourth) Amendment, empowers the State Finance Commissions to review the finances of the Municipalities and make recommendations to the governor of the State on following matters

i) The distribution of taxes, duties, tolls and fees between the State Government and the Municipalities, levied by the state and allocation of such proceeds between Municipalities at all levels.

ii) Assignment of taxes, duties, tolls and fees to the Municipalities.

iii) Determination of grants-in-aid to Municipalities from the Consolidated Fund of the state.

iv) The measures needed to improve the finances of Municipality.

However, various State Governments failed to implement the State Finance Commission recommendations due to the financial burden it would have imposed.

The Twelfth Finance Commission has made certain recommendations with regard to SFCS.

i) A normative approach should be followed by the State Finance Commissions with regard to the assessment of revenues and expenditure.

ii) The recommendation of the SFC'S may be accepted without alterations.

iii) The SFC'S should have the members of expertise and competence.

iv) Disaggregated time series data on finances of local bodies should be compiled by the states.

v) The time period of the SFCs and the CFC should be synchronised.

2.6 Studies in Municipal Finance:

Various studies have been carried out by eminent experts in the field of

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municipal finance and administration. Some of these have been reviewed below.

The Expert Group on the commercialisation of Infrastructure recommended the participation of the private sector in the infrastructure development. It stressed the requirement of tapping the capital market including the issuance of municipal bonds. The Committee also projected investment requirements in urban infrastructure.

The National Institute of Public Finance and Policy studied 293 municipalities in India spread over seven states, namely, Andhra Pradesh, Gujarat, Assam, Kerala, Maharashtra, Punjab and West Bengal. The study underlined the problems of vertical and horizontal imbalance and underutilisation of existing resources by municipalities, high costs of administration and tax collection and the arbitrary system of fiscal transfers from State Governments to ULB's as common features of municipal finance system in the country.

Bagchi (2001) has analysed the innovative methods of financing the urban infrastructure. The author has given public private partnership as an alternative to the traditional methods of financing. However, currently, this approach emphasises attracting capital rather than improvement in efficiency and effectiveness of delivery of services. The main drawback of the PPP model is the lack of customer approach and under emphasis on technical and commercial aspects of infrastructure. The author further points out that with the octroi being on the verge of being abolished, the State Governments must devolve some major tax sources to municipalities which can show buoyancy with economic growth in cities. The author has also drawn attention to nonrealisation of the potential of property tax. The reason for it is traced to the linking of property tax based on the annual rental value with the rent control law. According to the author, accessing capital market funds required financial, structural, institutional and administrative changes. These should take the form of (i) transformation of the urban governance system with limited control by the state. (ii) Changes in the capital market structure. (iii) Placing certain buoyant
sources of revenue in the hands of the Local Government. (iv) Cost recovery of services to make infrastructure projects financially viable.

Pethe and Ghodke (2002) have examined the status of Indian infrastructure, including urban infrastructure and argued for accessing capital market in view of severe resource constraints. The paper argued for new financial instruments like "Municipal Bonds" to finance urban infrastructure. The authors emphasised the need for the an efficient secondary market for debt instruments.

Bagchi and Chattopadhyay (2004) have studied the impact of decentralisation on financing urban basic services. The study finds that domestic institutional funds and external assistance is attracted towards developed states and larger cities. The study further concludes that imposition of strict financial discipline on State Governments by the Reserve Bank of India and emphasis on cost recovery would further result in further concentration of funds in developed states or regions.

Mathur and Thakur (2004) studied the fiscal performance of municipalities and assessed the impact on state finances due to the implementation of the State Finance Commission recommendations. The study found that the municipal revenues were only 3.07 per cent of publicly raised resources. The study further found that the Zakaria Committee norms were not being met by the municipalities across states as far as the expenditure levels on services were concerned. The study also found that the per capita expenditure-revenue gap declined over the period 1997-98 to 2001-02.

Oommen (2005) has provided a critique of the approach and recommendations of Twelfth Finance Commission in regard to rural and urban local bodies. The author found that during 2002-03, the total tax revenues and expenditures of local bodies as a percentage of the combined taxes and expenditure of Union, states and local bodies was only 1.6 percent and 4.7 percent, indicating marginal presence of local finance in the fiscal structure of India. The

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author reveals that the Tenth Finance Commission failed to follow the principle of horizontal equity while allocating grants-in-aids to states. The author suggested that the Reserve Bank of India should develop a reliable database of finances of local bodies.

Pethe and Lalvani (2006) drew attention to the significance of subnational governments in accessing the financial markets in general and debt market in particular. The paper finds that the ULBs are greatly restricted with respect to both tax and non-tax sources of revenue as the taxation powers are not devolved. The revenue growth of the ULBs has been limited by inherent structural obstacles like limited powers of taxation, small amount of non-tax revenues and unpredictable flow of funds from the state.

Lall and Deichman (2006) have found that while property tax reforms have been quite successful, the progress of reforms in respect of assessment and valuation are less obvious. The assessment of property taxes on the basis of property rental values is constrained by the rent control laws. On the basis of the study conducted of assessment systems in Bangalore and Pune, the authors found that the structural reforms that link tax assessments to market rental or capital values can significantly increase aggregate tax revenues. The authors also found that in Pune Municipal Corporation, the use of market values played a redistributive role by diminishing the burden of tax in areas with poor services and amenities. The capital value system is difficult to implement in the present Indian context, especially because the property records are not up-to-date and there is a shortage of trained assessors. The authors favoured other simpler and less costly reforms for the Local Government while the long-term objective should be the introduction of the true capital value system.

Rakesh Mohan (2007) has identified two kinds of financing needs for urban areas, namely, a) Financing for public goods and services and b) Financing for private goods and services. The public goods have to be financed through taxes
and private goods have to be paid for by a flow of user charges. The author has emphasised the importance of the Property Tax for financing public goods. Though property Tax is very difficult to implement, the introduction of information technology has made the maintainence of property registers, regular updation, etc., very easy in principle. Property Tax revenue can be used to finance urban infrastructure. On the other hand, most Private services can be financed through user charges. The Latin American experience has shown that it is feasible to improve services through user charges. It is argued that in principle, all activities should be charged for. However, the poorer sections unable to pay for these services should be subsidised. The bond financing can be availed provided there is a well-developed bond market. The creditworthiness of the urban local bodies needs to be improved for this purpose.

S. S. Kulkarni (2007)\(^{42}\) has concluded in his research work on Ulhasnagar Municipal Corporation that the UMC relies heavily on Octroi Collections for its revenue. This will make it difficult for the UMC to abolish Octroi and replace it with an alternate tax. There is excessive reliance on government grants and borrowings for the implementation of schemes and projects. The Study also underlines the need for the UMC to increase its capacity to raise own funds. In order to bring down developmental expenditure, the study suggests compensation in terms of F. S. I. to the landholders, improvement in terms of TDR etc. The study also brings out the need for privatisation for constructing gardens and playgrounds etc. It recommends adoption of scientific budgeting for efficient management of developmental projects. The delay should be avoided in the implementation of various schemes and projects and responsible officials subjected to penalty.

Shreekant Gupta and Indu Rayadurgam (2008)\(^{38}\) have underlined the need for fiscal devolution as well as increasing capacity of the Local Government to raise own resources. They argue that functional devolution to the Local Governments must be followed by financial devolution. The authors also dwell on

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the problem of mismatch between revenues and expenditure of the Local Government. It results in the Local Governments becoming dependent on the centre for revenue transfers. They point out that the total municipal revenues account for only 0.75 percent of the GDP. They go on to emphasise the three issues of inefficient tax administration, low cost recovery and poor quality of expenditure with regard to Urban local finance in India. The authors lament the untapped potential of Property Tax due to lack of comprehensive surveys and widespread under-valuation and evasion. The authors conclude that true democracy has not been established at the level of the urban Local Government. The Urban Governments should also make efforts to raise revenues through conventional and non-conventional sources. They must strive towards full cost recovery and levying user charges as also reduce their unproductive expenditure.

Mukul G. Asher and Deepa Vasudevan (2008)\textsuperscript{39} have argued the case for unconventional financing sources for Urban Local Governments. This would require the Urban Local Bodies to participate and operate in Public Private partnerships. This requires risk allocation and transparency between the partners. The governance structures will need to become more efficient and accountable. Each party to the PPP must bring resources of real economic value to the project or activity being undertaken jointly. These resources may be in the form of money, land, regulatory facilitation, technical expertise and management know-how. In the PPPs between the urban local bodies and private parties, the private party may perform tasks such as.

\begin{itemize}
  \item Rationalising municipal accounting and budgeting systems.
  \item Mapping cities for better property tax administration
  \item Maintaining parks
  \item Advising on solid waste management and rain harvesting.
\end{itemize}

The rapid urbanisation of India has made providing urban infrastructure an important national priority. This requires raising resources not only from conventional

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resources but the unconventional sources as well. Some of these unconventional sources are using municipal assets and land to finance infrastructure and services through lease and rental income, Floor Space Index Banks, Transferable Development Rights, Structured Debt Obligations, Innovative Taxation, Emission Credits and International networking.

Muttur Ranganathan Narayana (2008)\(^4\) has tried to make an economic analysis of the performance of the urban India during the globalisation period. This paper has commented upon the mandatory and optional reforms to be carried out at the State and the Local Body Level. The mandatory reforms include levy of user charges, introduction of e-governance and efficiency in collection of property taxes. State-level mandatory reforms include repeal or modifications to urban land ceiling and rent control acts. Optional reforms include earmarking at least 20-25 percent of developed land in all housing projects for economically weaker sections. Simplification of conversion of land from agricultural to non-agricultural uses and computerisation of the process of registration of land and property. The author has remarked that the most noted change in financing urban development during post globalisation period has been the encouragement to urban local bodies to supplement a part of the total expenditure through borrowings from the capital markets and institutional sources.

2.7 References


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10. The Seventh Five Year Plan, 1986-91, para 12.27.
21. Ibid, pp. 75-76.

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27. Ibid, p. 35.

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