5.1. Theory of Municipal Finance

In the words of Henry Ford, "Money is an arm or a leg, you either use it or lose it". This apparently simple statement is quite meaningful, underlining the significance of finance. According to Ray G. Jones and Dean Dudley, the word finance directly originates from the Latin word "Finis". To Quote Husband and Dockery, "Basically, the corporation finance serves two important functions -- first, it is means of assembling the funds necessary to initiate any new business. Second, and perhaps more important is that it provides the basis for continuous operations".

The term local finance is used to designate that part of fiscal science which deals with the principles underlying the financial organization of local government. Local finance occupies a very insignificant position in national fiscal structure and hence remains neglected, even though it more important than state finance, from the local point of

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view, local finance, from its very inception, was subject to severe restrictions which suppressed its growth. Thus, as an institution can grow only when its purposes and objectives are well defined and utilized towards the same, the factor of starvation of funds are naturally constricting. As such, the phenomenon of local government institutions being utilized for different purposes/objectives at different times, even after independence, became the norm. It seems that governments are somewhat unsure of the role such institution should play in the new administrative set-up. 'The Montague Chelmsford Report' heralded a new chapter in the history of local finance. Under the Government of India Act, 1919, local authorities were vested with wider functions and greater responsibilities. For the first time, which incidently is till now the last, local finance was given an independent status. This position continued till the introduction of the Government of India Act, 1935, which again deprived the local bodies of their independent financial status. Under this Act the local bodies derive powers from the state legislations. This arrangement still continues.

Local finance has been a subject of

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enquiry, initially by the Local Finance Enquiry Committee in 1951, and subsequently by the Taxation Enquiry Commission in 1953. Both these expert bodies recommended measures to improve the financial position of local bodies. However, their recommendations have hardly and seldom been implemented by state governments. Clearly, local bodies have been neglected all these years and their aims and problems have been regarded most unfortunately as inferior to those of state or national government.

5.2 Problem of Local Finance

Local finance is comparatively as neglected a part of public finance as local administration is of politics and public administration, its 'lesser' importance being taken for granted. However, lately local government is receiving greater attention with the onset of democratic decentralization and the establishment of panchayti raj institutions. But even where interest in local government has grown, there has been no corresponding interest towards increasing local finance. Still there is a dire need for matching obligations and resources. Obviously, a fundamental prerequisite of delegation of functions cannot be accomplished without providing resources. Yet such

measures are so far conspicuous by their absence, such lack of correlation between obligation and resources so far being ascribed to the comparative inattention in the past. In India, in no state can it be claimed that a matching of obligation and resources has been consciously recognised and rigorously tackled, though some states like Tamil Nadu have definitely been more alive to the problem than others.

The financial resources of local bodies are much more restricted than federal and provincial governments/national government. Local bodies derive their power of taxation from the national legislature or the state government, having no independent say. Similarly, the borrowing capacity is also extremely restricted in comparison to federal and provincial governments as they are not allowed to raise loans from the open market. This restriction enables the higher authorities to exert control over their finance in order to prevent extravagance. So, as local bodies are mostly dependent on higher levels of government, grant-in-aid constitute the major source of revenue. The meagre revenue they collect from their own sources, like property tax is insufficient, their responsibilities being multifarious and their tax base

narrow, rigid and inflexible to growing needs. Very few municipalities collect substantial returns from their own areas of jurisdiction. Nevertheless, there is no denying the fact that excessive reliance on grants as a source of revenue dampens local efforts as the grants imply dependence and hence curtailment of autonomy.

53. MUNICIPAL REVENUE

1. Revenue Pattern Of Delhi Municipal Corporation

The municipal fund of Delhi Municipal Corporation consists of the following:
(a) All funds which immediately before the establishment of Municipal Corporation of Delhi were vested in the local authority.
(b) All money received by or on behalf of the municipal corporation.
(c) All proceeds of the disposal of property by municipal corporation.
(d) All rents accruing from any municipal property.
(e) All moneys raised by any municipal tax rate or cess.
(f) All fees collected and all fines levied under the rules, regulations and bye-laws.

(g) All moneys received by municipal corporation from the government or any other individual or association of individuals by way of grant or gift or deposit.

(h) All moneys received by municipal corporation in respect of operations of the Delhi Electric Supply Undertaking, Delhi Water Supply and Sewerage Disposal Undertaking, etc.

The income of the Delhi Municipal Corporation is divided under four headings: A,B,C,D.

A—forms grants which are received from the government in lieu of:

(1) Education;
(2) Civic Reception;
(3) Malaria Eradication;
(4) Miscellaneous.

This also includes grants for specific purposes and grants in lieu of loan and interest payable to the Government of India.
'B' forms the share of assigned taxes from the government. These include terminal tax, entertainment tax, motor vehicle tax and re-imbursement of expenditure on collection of terminal tax.

'C' consists of the following internal revenues:
(1) Municipal Taxes and Rates;
(2) Rents, Fees and Fines etc.

'D' Comprises Ways and Means Loans/Assistance.

Internal revenue has formed the major portion of the total income of the MCD for the last nine years. It was around 65.1% of the total income of the corporation from 1985-86 to 1992-93. The ratio of assigned taxes to the total income of the corporation is 22.6%, whereas the ratio of government grants to the total income has been only 12.3%. The data shows that the corporation's maximum income comes from internal revenues. These constitute:

A: Municipal Taxes and Rates which are further broken down into the following:

(i) General Tax from urban and rural areas.
(ii) Fire Tax.
(iii) Tax on vehicles and animals.
(iv) Theatre tax.
(v) Tax on advertisements.
(vi) Duty on transfer of property.
(vii) Tax on building applications.
(viii) Tax on consumption, sale and supply of electricity.
(ix) Education cess.

B. Rents, Fees and Fines are the next category, which can be further subdivided into the following:

(i) Fines for offences against law.
(ii) Process fees.
(iii) Education fees.
(iv) Fines from cattle ponds.
(v) Fee from hospitals.
(vi) Fee from vehicles-licences.
(vii) Tehabazari fees.
(viii) Rents of lands & buildings.
(ix) Fees for chabutras, projections etc.
(x) Fines for offences concerning buildings.
(xi) Licence fee for offensive trades.
(xii) Licence fee for articles of food and drinks.
(xiii) Licences for hawking carts.
(xiv) Rents of market and slaughter fees.
(xv) Receipts from removal of enhancements.
(xvi) Sale of compost.
(xvii) Special registration scheme,
(a) Non-hazardous factories.
(b) Shops & other establishments.
(c) Rickshaws.

C: The last comprises the following:

(i) Interest on investment.
(ii) Commercial ventures.
(iii) Development/ deficiency charges.
(iv) Re-imbursement of expenditure for the services rendered by the New Delhi Municipal Committee.
(v) Road restoration charges.
(vi) Recovery of audit and superintendence charges from sister undertakings.
(vii) Re-imbursement of cost of administrative charges from different schemes.
(ix) Other miscellaneous revenues.

Internal Revenue of Municipal Corporation Delhi is divided into eighteen different heads:-

Head I: General tax, Indirect Taxation and Miscellaneous revenue.
Head II: Education.
Head III: Public Health.
Head IV: Medical Relief.
Head V: Conservancy and Street Cleaning.
Head VI: Roads and Public Lighting.
Head VII: Buildings, Land Acquisition and Management.
Head VIII: Fire Brigade.
Head IX: Licensing, Removal of Encroachments, etc.
Head X: Gardens and Open Spaces.
Head XI: Market and Slaughter Houses.

Head XII: Re-imbursement of Cost of Administrative Charges for different Schemes.

Head XIII: Extraordinary Receipts.

Head XIV: Developmental Charges.

The other heads include grant-in-aid from the government, share of assigned taxes, internal revenues, ways and means loan/assistance.

There has been a gradual increase in the revenue of the Delhi Municipal Corporation from the year 1985-86 till the year 1991-92 as revealed by data in Table 5.1.

Table 5.1

Income of Delhi Municipal Corporation from 1985-86 to 1992-93 (including Suspense Account)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. in lakh</td>
<td>14114</td>
<td>18950</td>
<td>21980</td>
<td>23176</td>
<td>25417</td>
<td>30480</td>
<td>34232</td>
<td>33175</td>
</tr>
</tbody>
</table>

The corporation's income was Rs. 14114 lakh during 1985-86 and Rs. 34232 lakh during 1991-92. But compared to the previous year the income decreased in 1992-93. In the budget estimates of 1992-93, the gap between income and expenditure had been bridged through a provision of Rs. 3900 lakh from the ways and means advance from the government, through levy of new taxes during the year 1992-93. Similarly, an additional income of Rs. 1700 lakh was proposed through rationali-
CHART 5.a

REVENUE OF MCD (1985-86 TO 1992-93)

<table>
<thead>
<tr>
<th>Years</th>
<th>Revenue (In lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>1411.4</td>
</tr>
<tr>
<td>1986-87</td>
<td>2148</td>
</tr>
<tr>
<td>1987-88</td>
<td>2317.6</td>
</tr>
<tr>
<td>1988-89</td>
<td>2541.7</td>
</tr>
<tr>
<td>1989-90</td>
<td>3048</td>
</tr>
<tr>
<td>1990-91</td>
<td>3423.2</td>
</tr>
<tr>
<td>1991-92</td>
<td>3317.9</td>
</tr>
<tr>
<td>1992-93</td>
<td></td>
</tr>
</tbody>
</table>
zation in the rate of recovery from the tax on consumption, sale or supply of electricity. The income from these two sources was estimated at Rs. 5600 lakh. The total income estimated was Rs. 39341.60 lakh. The income estimated in the revised estimates was Rs. 33179.07 lakh. The details of income as per budget estimates and revised estimates of 1992-93 are shown in Table 5.2.

In the revised estimates of 1992-93 higher receipts of the following approximations were recorded: tax on motor vehicle Rs.11.09 lakh; tax on advertisement, Rs.100.00 lakh; duty on transfer of property, Rs.250.00 lakh; rent, fee and fines Rs.48.10 lakh; recovery of audit and superintendence charges from sister undertakings, Rs. 168.42 lakh; and Rs.350.00 lakh from development and efficiency charges.

(i) Grant-in-Aid from the Government

On account of unilateral cuts made by Delhi administration due to the alleged overpayment of grants in the previous years, a shortfall of Rs. 777.14 lakh has resulted.

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7. Budget Documents, MCD.

226
<table>
<thead>
<tr>
<th>Heads</th>
<th>1992-93 B.E.</th>
<th>1992-93 R.E.</th>
<th>Short fall (Rs. in Lakhs)</th>
<th>Excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Grants:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants for specific purposes</td>
<td>4530.91</td>
<td>3753.77</td>
<td>777.14</td>
<td>---</td>
</tr>
<tr>
<td>2. Assigned Taxes:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terminal Taxes</td>
<td>3326.34</td>
<td>2777.53</td>
<td>548.81</td>
<td>---</td>
</tr>
<tr>
<td>Collection</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td>430.00</td>
<td>322.47</td>
<td>107.53</td>
<td>---</td>
</tr>
<tr>
<td>Entertainment Tax</td>
<td>1508.12</td>
<td>1464.81</td>
<td>43.31</td>
<td>---</td>
</tr>
<tr>
<td>Motor Vehicle</td>
<td>1908.73</td>
<td>1919.82</td>
<td></td>
<td>11.09</td>
</tr>
<tr>
<td></td>
<td>4530.91</td>
<td>3753.77</td>
<td>777.14</td>
<td>---</td>
</tr>
<tr>
<td>Total</td>
<td>7173.19</td>
<td>6484.63</td>
<td>699.65</td>
<td>11.09</td>
</tr>
<tr>
<td>3. Internal Revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal Taxes</td>
<td>20411.75</td>
<td>19268.75</td>
<td>11.43.00</td>
<td>---</td>
</tr>
<tr>
<td>&amp; Rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Rents, Fee &amp; Fines.</td>
<td>954.90</td>
<td>1003.00</td>
<td></td>
<td>48.10</td>
</tr>
<tr>
<td>5. Others</td>
<td>2370.85</td>
<td>2668.92</td>
<td></td>
<td>298.07</td>
</tr>
<tr>
<td></td>
<td>23737.50</td>
<td>22940.67</td>
<td>1143.00</td>
<td>346.17</td>
</tr>
<tr>
<td>Total</td>
<td>23737.50</td>
<td>22940.67</td>
<td>1143.00</td>
<td>346.17</td>
</tr>
<tr>
<td>Ways &amp; Means</td>
<td>3900.00</td>
<td></td>
<td></td>
<td>3900.00</td>
</tr>
<tr>
<td>Grand Total</td>
<td>39341.60</td>
<td>33179.07</td>
<td>6519.79</td>
<td>357.26</td>
</tr>
</tbody>
</table>

(ii) Terminal Tax

The central government has abolished the levy of terminal tax from Delhi w.e.f. 30th Jan.93 through an ordinance. Thus the instalments which fell due on 1st Feb. 1993 onwards were not released. Therefore, there is a shortfall of Rs. 656.34 lakh from this source against the budgetary figures. Delhi administration has been requested to make arrangements for payment of the balance amount by way of lump-sum grant.

(iii) Entertainment Tax

In budget estimates 1992-93 there was a provision of Rs. 1508.12 lakh. It has been revised to Rs. 1464.81 lakh by Delhi administration in their revised budget proposals. A sum of Rs. 100 lakh has been recovered from this source for restoration of cut made from New Delhi Municipal Committee share in March 1992 towards the payment of electricity tax by Delhi administration.

(iv) Tax on consumption, Sale or Supply of Electricity

A provision of Rs. 3500 lakh was made in budget estimate 1992-93 presuming that the notification of rationalized rates of this tax will be effective from April, 1992 but it was actually made
applicable from July, 1992.

(V) Ways and Means Advance/Assistance

Budget estimates 1992-93 were balanced by providing a sum of Rs. 4800 lakh as ways and means assistance from the government or levy of new taxes. In view of non-clearance of various proposals of Delhi Municipal Corporation for raising additional revenues, a proposal for ways and means assistance of Rs. 100 crore was mooted to the government of India but since there was no progress in the matter so this amount has been deleted from the revised estimates of 1992-93.

2. Revenue Pattern of Shimla Municipal Corporation

The income of Shimla Municipal Corporation is covered under the following heads.

Head I: General Department
Head II: Education.
Head III: Medical Services
Head IV: Water Supply.
Head V: Public Health.
Head VI: Veterinary.
Head VII: Municipal Works.
Head VIII: Grant-in-aid, Deposits, Stock and Store etc.

Revenue of Shimla Municipal Corporation has been on a gradual increase over the last 9 years except for the years 1987-88 and 1990-91 as shown in Table 5.3.
Table No. 5.3

Income of Shimla Municipal Corporation, from 1985-86 to 1993-94 (including Suspense Account)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. in Lakh</td>
<td>297.37</td>
<td>368.34</td>
<td>287.59</td>
<td>420.95</td>
<td>504.21</td>
<td>374.30</td>
<td>506.59</td>
<td>514.78</td>
<td>677.27</td>
</tr>
</tbody>
</table>

Source: Budget Accounts, Shimla Municipal Corporation.

The total income of the Corporation, which is the ordinary income plus suspense account (deposits, stock, and store, and grant-in-aid) was Rs. 297.37 lakh in 1985-86, Rs. 368.34 lakh in 1986-87, Rs. 287.59 lakh in 1987-88, Rs. 420.95 lakh in 1988-89, Rs. 504.21 lakh in 1989-90, Rs. 274.30 lakh in 1990-91, Rs. 506.59 lakh in 1991-92, Rs. 588.50 lakh in 1992-93. It can be seen from the chart 5.b that though the total income of the Shimla Municipal Corporation has increased overall, nevertheless it has varied alternately. During the first three consecutive years, at first, it was low, in the following year it was high. Subsequently, it was high again. This is the basic pattern of the last 9 years. The reason for decreased income in 1987-88 can be...
CHART 5.b
INCOME OF MCS (1985-86 TO 1993-94)

YEAR

INCOME (in lakhs)
297 368 420 504 374 606 614 677.7
attributed to the income from the suspense account (Head VIII) having substantially decrease during this period. The grant-in-aid given to the corporation every year by the state government amounts to Rs. 40 lakh and the total income from this Head, i.e. Head VIII, was just Rs. 53.71 lakh, out of which Rs. 40 lakh forming the major part. Thus the deposits and advances given to the corporation for various works amounted only to Rs. 13.71 lakh, Decline in income during 1990-91 is also due to the same reason, the total income being Rs. 374.30 lakh. In comparison the preceding year's income was a higher, Rs. 504.21 lakh. Head VIII, which consists of deposits, advances and grants-in-aid amounted to Rs.103.11 lakh during this time span. The income of the preceding year was Rs. 213.87 lakh. Thus there has been decrease in the income through suspense account to the tune of Rs. 110.76. The General Department: which constitutes Head I includes income from taxes, such as (a) taxes on land and buildings, octroi grant, entry tax, animal tax, vehicle licence fee, copying fee, licence fee (trade); (b) Interest on unearmarked investments, misc- unclassified receipts; (c) Rent of lands and buildings, forest income, tehbazari; (d) misc-cattle pond. Head II; Education: Prior to 1976, the corporation had a
### Income of Shiala Municipal Corporation during 1992--93

<table>
<thead>
<tr>
<th>Head Account</th>
<th>Budget Estimate</th>
<th>Revised Estimate</th>
<th>Shortfall Excess</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rs. in lakhs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. General Deptt./ Administration</td>
<td>390.43</td>
<td>324.26</td>
<td>66.17</td>
</tr>
<tr>
<td>2. Education</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>3. Medical Non-operative</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>4. Public Health</td>
<td>38.91</td>
<td>41.03</td>
<td>---</td>
</tr>
<tr>
<td>5. Water Supply</td>
<td>75.20</td>
<td>81.20</td>
<td>---</td>
</tr>
<tr>
<td>6. Veterinary Non-operative</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>7. Municipal Works (R&amp;B)</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>8. Deposits-advances and Grant-in-aid stock &amp; store</td>
<td>192.83</td>
<td>140.00</td>
<td>52.83</td>
</tr>
<tr>
<td></td>
<td>694.54</td>
<td>588.49</td>
<td>116.17</td>
</tr>
</tbody>
</table>

Table 5.4 a

### Income of Shiala Municipal Corporation during 1993--94

<table>
<thead>
<tr>
<th>Head Account</th>
<th>Actuals of 1993-94</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General Deptt.</td>
<td>323.58</td>
</tr>
<tr>
<td>2. Education</td>
<td>117</td>
</tr>
<tr>
<td>3. Medical Non-operative</td>
<td>non-operative</td>
</tr>
<tr>
<td>4. Public Health</td>
<td>40.05</td>
</tr>
<tr>
<td>5. Water Supply</td>
<td>120.60</td>
</tr>
<tr>
<td>6. Veterinary Non-operative</td>
<td>non-operative</td>
</tr>
<tr>
<td>7. Municipal works (R&amp;B)</td>
<td></td>
</tr>
<tr>
<td>8. Deposits-advances and Grant-in-aid stock &amp; store</td>
<td>192.83</td>
</tr>
</tbody>
</table>

| Total                               | 617.24             |
number of schools and colleges under its charge. However, since then they have been placed under state government's jurisdiction. Presently, the corporation has two reading rooms. The income from these is very meagre, amounting to mere Rs. 12000 in 1992-93. Head III; This covers medical services, presently yielding little revenue, as the municipal corporation has hardly any dispensaries or hospitals under its charge. Head IV; Water Supply: The income from this source includes water tax, sale of water, book recovery, metre rent, misc-metering charges etc., dak-bungalow income. The total income estimated from this source was Rs. 75.20 lakh in 1992-93 while the revised estimate was Rs. 83.20 lakh, with an excess of Rs. 8.0 lakh as shown in table 5.4. In the actuals of 1993-94, income from this source was Rs. 120.60 lakh as shown in table 5.4 a. Head V; Public Health: This head includes income from contribution toward the pay of C.P.W.D. staff, laboratory fees, vital statistics, sanitation tax, RCC-public latrines, market rent, slaughter house fee, licence fee (food) etc. The budget estimates for this head in 1992-93 were Rs. 38.91 lakh. In the revised estimate of the same year it increased to Rs. 41.03 lakh, with an excess of Rs. 2.12 lakh.
Since the Municipal Corporation has to incur expenditure on the construction of roads and buildings, Head VII, too, does not provide the corporation any income. Head VIII; The income from stock and store, grant-in-aid from the government and advances during 1992-93 was Rs. 140.00 lakh, there being a shortfall of Rs. 50.00 lakh as the estimated income in the same year was Rs. 190.00 lakh. The deposits and advances include the whole amount deposited by the government or various other parties for construction of roads or buildings or any other works to be undertaken by the municipal corporation.

5.4. Comparison of the Income of and Shimla Municipal Corporation

The income of the corporation or organisation depends upon sources at its disposal. The Delhi Municipal Corporation accrues its income from eighteen different heads whereas Shimla Municipal Corporation derives its income from eight different heads. Both the corporation get their maximum income from the general department which constitute revenue from municipal taxes and rates, rents, fee and fines in Delhi Municipal Corporation and the taxes levied by the corporation and income from forest in Shimla Municipal Corporation. The income of Delhi Municipal Corporation shows a continually increasing trend over the period under review whereas in Shimla Municipal Corporation, though the income is on a continuous increase but with
a few fluctuations during 1987-88 and 1990-91. The second main source of income of Delhi Municipal Corporation is from assigned taxes whereas in Shimla Municipal Corporation, it is deposits, advances and grant-in-aid forming one third of the total income.

The population estimate for the Inter Census period is made using simple growth rate for the period 1981-91 which in case of Shimla works out to be 4.47 percent per year and for Delhi 4.6 percent per year. The estimated population figures are given in the table 5.5.

Table No. 5.5

<table>
<thead>
<tr>
<th>Year</th>
<th>M.C.D. (in lakh)</th>
<th>M.C.S. (in thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>70.94</td>
<td>78.68</td>
</tr>
<tr>
<td>1987</td>
<td>73.60</td>
<td>83.38</td>
</tr>
<tr>
<td>1988</td>
<td>76.25</td>
<td>88.08</td>
</tr>
<tr>
<td>1989</td>
<td>78.90</td>
<td>92.78</td>
</tr>
<tr>
<td>1990</td>
<td>81.56</td>
<td>97.48</td>
</tr>
<tr>
<td>1991</td>
<td>84.19</td>
<td>102.18</td>
</tr>
<tr>
<td>1992</td>
<td>88.06</td>
<td>106.88</td>
</tr>
</tbody>
</table>

Per capita Revenue in both the corporation is on increase. In terms of Index, in Delhi, it almost doubles (90%) in a period of 8 years but in case of Shimla the growth of revenue per capita is not uniform as in Delhi and overall increase in span of 8 years is almost 25 percent.

In actual terms the Per Capita Revenue in case of Delhi ranges between Rs. 199 to Rs. 389 per capita per year whereas in Shimla Municipal Corporation
Per Capita Revenue Income of Delhi and Shimla Municipal Corporations

Per Capita Revenue Income of MCD & MCS, 1985-86 to 1992-93
it is between Rs. 326 to Rs. 518 per capita per year as shown in table 5.6. This is due to the fact that the relative share of grants in the total revenue is higher (20-25 percent) in case of Shimla and about (5-10 percent) in case of Delhi.

Table No. 5.6.

Per Capita Revenue Income of Delhi and Shimla Municipal Corporation.

<table>
<thead>
<tr>
<th></th>
<th>M.C.D. (in Rs.)</th>
<th>M.C.S. (in Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actuals (Rs.)</td>
<td>Index (Rs.)</td>
</tr>
<tr>
<td>1985-86</td>
<td>199 (100)</td>
<td>378 (100)</td>
</tr>
<tr>
<td>1986-87</td>
<td>257 (129)</td>
<td>442 (117)</td>
</tr>
<tr>
<td>1987-88</td>
<td>199 (145)</td>
<td>326 (86)</td>
</tr>
<tr>
<td>1988-89</td>
<td>294 (148)</td>
<td>454 (120)</td>
</tr>
<tr>
<td>1989-90</td>
<td>312 (157)</td>
<td>518 (137)</td>
</tr>
<tr>
<td>1990-91</td>
<td>362 (182)</td>
<td>366 (97)</td>
</tr>
<tr>
<td>1991-92</td>
<td>389 (195)</td>
<td>474 (125)</td>
</tr>
<tr>
<td>1992-93</td>
<td>361 (181)</td>
<td>461 (121)</td>
</tr>
</tbody>
</table>

Source: Computed from MCD and MCS budgets.

The actual per capita revenue as well as Indices are given in graph hereunder. Another possible factor for higher per capita revenue in case of Shimla and lower in case of Delhi could be attributed to the population which in case of Delhi is about 80 times that of Shimla.

A comparative analysis of the revenue sources of the two corporations under review reveals that the Municipal Corporation of Delhi has a fairly large number of elastic sources of revenue in comparison to the Municipal Corporations Shimla. Thus it is better equipped to provide funds for performance of its func-
tions. It also has much wider powers of taxation than that of the Municipal Corporations of Shimla. The revenue of both corporations have continuously been rising throughout the period under review. The increase in revenue of the Municipal Corporations of Delhi has however, been more constant, the same of the Municipal Corporations of Shimla varying greatly.

5.5. Municipal Expenditure

Public expenditure plays an important role in a government's economic activities, irrespective of the level of development. However, the nature of public expenditure changes in the course of development, depending upon changing needs. The growing share of governmental activity is bound to increase to the level of public expenditure, both relatively and absolutely.\(^1\)

There are three reasons for ever growing public expenditure: growth of population, emergence of strong local opinion and emergence of world opinion.\(^2\)

1. Expenditure Pattern of Delhi Municipal Corporations

During the last 9 years, there has been a constant increase in the expenditure of the


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Municipal Corporation of Delhi. In 1985-86 the expenditure was Rs. 14671 lakh, this doubling in 1990-91 to approximately Rs. 30565 lakh. In 1992-93 it further increased to Rs. 35838 lakh as shown in the table 5.7.

Table 5.7
(Rs. In Lakh)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>14671</td>
<td>18399</td>
<td>21488</td>
<td>24320</td>
<td>26397</td>
<td>30565</td>
<td>34238</td>
<td>35838</td>
</tr>
</tbody>
</table>

The rise in expenditure over the last nine years reflects a corresponding rise in the income of the corporation. However, this actually reflects the rising level of inflation -- it being in real terms not true indicator of the ground reality. At times, expenditure outstrips revenue. Sometimes the reverse is true. A year-wise examination illustrates this phenomenon. In 1986-87 income was greater than expenditure, the difference being Rs. 11. In 1987-88 the income was Rs. 21480 lakh, the expenditure being Rs. 8 more. In 1988-89 the expenditure was Rs. 24,320 lakh and the income was Rs. 23176 lakh, the shortfall being Rs. 1144. In 1989-90 the income was Rs. 27617 lakh, whereas the expenditure was Rs. 26397 lakh, the income was less than the expenditure, the difference being Rs. 85 and Rs. 6.
CHART 5.c
EXPENDITURE OF MCD (1985-86 TO 1992-93)

<table>
<thead>
<tr>
<th>Years</th>
<th>Expenditure (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>14671</td>
</tr>
<tr>
<td>1986-87</td>
<td>19339</td>
</tr>
<tr>
<td>1987-88</td>
<td>21498</td>
</tr>
<tr>
<td>1988-89</td>
<td>24320</td>
</tr>
<tr>
<td>1989-90</td>
<td>26387</td>
</tr>
<tr>
<td>1990-91</td>
<td>30565</td>
</tr>
<tr>
<td>1991-92</td>
<td>34288</td>
</tr>
<tr>
<td>1992-93</td>
<td>35838</td>
</tr>
</tbody>
</table>
respectively. In 1992-93 the income was Rs. 33179 lakh and the expenditure was Rs. 35838 lakh.

The budget estimate of the expenditure of 1992-93 were Rs. 39355.57 lakh whereas the revised estimates were Rs. 35838.27 lakh, the variation being Rs. 3517.30 lakh. The table 5.8 shows the budget estimate and revised estimate, saving and excess during 1992-93. The expenditure estimated for the year 1992-93 was Rs. 1645.44 lakh. During this year there was a saving of Rs. 80.57 lakh as the revised estimate of 1992-93 was Rs. 1564.87 lakh. A saving of Rs. 3.79 lakh and Rs. 1.10 lakh resulted from education and libraries respectively. However, expenditure on public health and medical relief resulted in an excess of Rs. 36.90 and 70.14 lakh respectively. This shows that expenditure greater than the budget estimates was incurred on these heads. The chief areas of this greater expenditure were the following: conservancy, street cleaning; buildings, land acquisition and management; fire brigade; reserve for unforeseen charges; and development charges and has resulted in saving of Rs. 30.90 lakh, Rs. 68.30 lakh, Rs. 20.15 lakh, Rs. 1.55 lakh, Rs. 49.89 lakh during the same year. Though there has been saving but saving from these heads is very little as compared to the saving from roads and public lighting and miscellaneous which amounted to Rs. 477.07
lakh and Rs. 3144.58 lakh thus resulting in the net saving of Rs. 3877.90 lakh (surplus).

Table 5.8

Budget and Revised Estimates during 1992-93, MCD

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rs. in Lakhs)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. General Supervision, collection of revenue etc.</td>
<td>1645.44</td>
<td>1564.87</td>
<td>80.57</td>
<td>----</td>
</tr>
<tr>
<td>2. Education</td>
<td>9776.64</td>
<td>9772.85</td>
<td>3.79</td>
<td>----</td>
</tr>
<tr>
<td>3. Libraries</td>
<td>34.25</td>
<td>33.15</td>
<td>1.10</td>
<td>----</td>
</tr>
<tr>
<td>4. Public Health</td>
<td>1163.08</td>
<td>1221.98</td>
<td>----</td>
<td>36.90</td>
</tr>
<tr>
<td>5. Medical Relief</td>
<td>4387.53</td>
<td>4457.67</td>
<td>----</td>
<td>70.14</td>
</tr>
<tr>
<td>6. Conservancy, Street cleansing</td>
<td>6937.20</td>
<td>6909.30</td>
<td>30.90</td>
<td>----</td>
</tr>
<tr>
<td>7. Scavenging, Drains and sewers</td>
<td>813.57</td>
<td>890.07</td>
<td>----</td>
<td>76.50</td>
</tr>
<tr>
<td>8. Roads &amp; Public Lighting</td>
<td>4527.23</td>
<td>4050.16</td>
<td>477.07</td>
<td>----</td>
</tr>
<tr>
<td>9. Building, Land acquisition and management</td>
<td>761.91</td>
<td>693.61</td>
<td>68.30</td>
<td>----</td>
</tr>
<tr>
<td>10. fire Brigade</td>
<td>629.00</td>
<td>608.85</td>
<td>20.15</td>
<td>----</td>
</tr>
<tr>
<td>11. Licensing, Removal of encroachment etc.</td>
<td>83.14</td>
<td>89.35</td>
<td>----</td>
<td>6.21</td>
</tr>
<tr>
<td>12. Garden &amp; open spaces.</td>
<td>1733.58</td>
<td>1900.38</td>
<td>----</td>
<td>166.80</td>
</tr>
<tr>
<td>13. Markets &amp; slaughter houses.</td>
<td>76.25</td>
<td>80.30</td>
<td>----</td>
<td>4.05</td>
</tr>
<tr>
<td>14. Misc.</td>
<td>6318.20</td>
<td>3173.62</td>
<td>3144.58</td>
<td>----</td>
</tr>
<tr>
<td>15. Reserve for unforeseen charges</td>
<td>1.55</td>
<td>----</td>
<td>1.55</td>
<td>----</td>
</tr>
<tr>
<td>16. Developmental charges</td>
<td>44.500</td>
<td>395.11</td>
<td>49.89</td>
<td>----</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39355.57</strong></td>
<td><strong>3583 8.27</strong></td>
<td><strong>3877.90</strong></td>
<td><strong>360.60</strong></td>
</tr>
</tbody>
</table>

2. Expenditure of Shimla Municipal Corporation

The expenditure of Shimla Municipal Corporation is generally classified into such categories as General Administration, Education, Medical, Public...
Health, Water Supply, Veterinary, Municipal Works (R & B), and Unforeseen Calamities, etc.. The table 5.9 reveals

Table 5.9

Grand Total Expenditure of Shiala Municipal Corporation from
1985-86 To 1993-94 (Including Suspense Account)

(Rs. in Lakh)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>261.65</td>
<td>320.75</td>
<td>407.08</td>
<td>412.39</td>
<td>501.08</td>
<td>399.75</td>
<td>494.22</td>
<td>583.98</td>
<td>643.03</td>
</tr>
</tbody>
</table>

that the total expenditure of the corporation has varied over the years, it having largely increased over the last 9 years, except for 1990-91 and 1991-92. In 1985-86 and 1986-87, it was Rs. 262 lakh and Rs. 321 lakh respectively. During 1987-88 and 1988-89, the variation was little, the expenditure being almost the same, i.e. Rs. 407 lakh and Rs. 412 lakh respectively. In 1989-90 expenditure spurted to Rs. 501 lakh. However, during the following year there was a downfall, i.e. Rs. 399.75 lakh (1990-91). Since 1991-92 and 1992-93, it has been on the rise, figures being Rs. 494 lakh and Rs. 583 lakh respectively.

The expenditure of the general department includes establishment (general), law
CHART 5.d

EXPENDITURE OF MCS (1986-87 TO 1993-94)

YEARS

Re. in Lakhs


262 321 407 412 501 484 483 643
charges, election expenses, audit fee, contingency, miscellaneous unclassified charges, establishment tax (contingency), establishment (estate), original works repairs, establishment forests, ponds establishment and miscellaneous. The expenditure of this department during 1992-93 was Rs. 87.15 against the budget estimates of Rs. 109.15 lakh, the shortfall being Rs. 22 lakh as shown in table 5.8 and 5.8a. The expenditure incurred on education was Rs. 25000 in 1992-93, as per the budget estimates, there being neither a shortfall nor an excess. The expenditure on public health includes the amount spent on establishment health direction, establishment vaccination, establishment conservancy (removal), original works and repairs, establishment disposal, drainage, market, slaughter house, public analyst, cremation and burial papers, miscellaneous C.P.W.D and contingencies etc. In 1992-93 the expenditure on this Head was Rs. 207.62 lakh against the revised estimates of Rs. 183.30 lakh. Thus there was a shortfall of Rs. 24.32 lakh.

Public health and sanitation have been recognized as the primary responsibility of the local municipal bodies. However, an efficient supply of water is inconducive to public health safeguards. The expenditure on water supply includes establishment
Table 5.10

<table>
<thead>
<tr>
<th>Heads</th>
<th>B.E. 1992-93</th>
<th>R.E. 1992-93</th>
<th>Short (Rs. in Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General Deptt.</td>
<td>109.15</td>
<td>87.15</td>
<td>22.00</td>
</tr>
<tr>
<td>2. Education (establishment Library Contingencies)</td>
<td>00.25</td>
<td>25</td>
<td>---</td>
</tr>
<tr>
<td>3. Medical Non-operative</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>4. Public Health</td>
<td>207.62</td>
<td>183.30</td>
<td>24.32</td>
</tr>
<tr>
<td>5. Water Supply</td>
<td>84.28</td>
<td>76.68</td>
<td>7.60</td>
</tr>
<tr>
<td>6. Veterinary Non-operative</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>7. Municipal Works</td>
<td>64.85</td>
<td>60.60</td>
<td>4.25</td>
</tr>
<tr>
<td>8. Reserve for unforseen</td>
<td>10.00</td>
<td>6.00</td>
<td>4.00</td>
</tr>
<tr>
<td>9. Suspense Account</td>
<td>200.00</td>
<td>170.00</td>
<td>30.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>676.15</strong></td>
<td><strong>538.98</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 5.10 a

Actuals of Expenditure of 1993-94, MCS (Rs. in lakhs.)

<table>
<thead>
<tr>
<th>Head of Account</th>
<th>Actuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General</td>
<td>92.03</td>
</tr>
<tr>
<td>2. Education</td>
<td>.13</td>
</tr>
<tr>
<td>3. Medical Non-operative</td>
<td>188.70</td>
</tr>
<tr>
<td>4. Public Health</td>
<td>73.07</td>
</tr>
<tr>
<td>5. Water Supply</td>
<td>Non-operative</td>
</tr>
<tr>
<td>6. Veterinary Non-operative</td>
<td>76.00</td>
</tr>
<tr>
<td>7. Municipal works</td>
<td>4.23</td>
</tr>
<tr>
<td>8. Reserve for unforseen</td>
<td>203.89</td>
</tr>
<tr>
<td>9. Suspense Account</td>
<td></td>
</tr>
</tbody>
</table>
direction, meter reading, cost of sand, repairs, establishment machine oil, fuel, electrical energy, purchase of water storage, replacement/repair/ renewal of pipes and hydrants/meters. The expenditure incurred on this head during 1992-93 was Rs. 76.68 lakh against the budget estimates of Rs. 84.28 lakh, the shortfall being Rs. 7.60 lakh. Similarly the expenditure on municipal works was Rs. 60.60 lakh against the budget estimate of Rs. 64.85 lakh. The shortfall was Rs. 4.25 lakh. Head III is reserved for unforeseen events like natural calamities. The amount spent towards such during 1992-93 was Rs. 6 lakh against the budget estimate of Rs. 10.00 lakh. The suspense account of 1992-93 was Rs. 170.00 lakh against the budget estimate of Rs. 200 lakh. The total expenditure of the corporation amounted to Rs. 583.98 lakh (revised estimate) in 1992-93 against the budget estimate of Rs. 676.15 lakh.

Overall it can be seen that despite an increase in the corporation's income, the revenue expenditure also rose, except in 1990-91 and 1991-92, when it was Rs. 399.75 lakh and Rs. 494.22 lakh respectively. In comparison, in 1989-90 it was Rs. 501.08 lakh. The reason for decrease in expenditure during 1990-91 lies in Head VIII and Head IX, these respectively being the reserve for unforeseen events and the suspense account. These expenditures were Rs. 4.98
lakh and Rs. 68.8 lakh. In 1989-90 it was Rs. 7.03 lakh and 202 lakh respectively.

5.6. Comparison of Expenditure of Delhi and Shimla Municipal Corporation

The Delhi Municipal Corporation being the second largest corporation in Asia, has to perform a vast variety of functions. As a result of the widening of scope as well as the expansion of the municipal services, and increase in municipal area development, the corporation incurs a great expenditure in discharging its functions smoothly. Since the function or the duties performed are multifarious and these functions are increasing day by day, the expenditure is in thousand lakhs of rupees. Conversely, the expenditure of the Shimla Municipal Corporation runs in hundred lakhs of rupees, approximately equivalent to only one department of the Municipal Corporation of Delhi. It has been observed that the expenditure of the two corporations has been on gradual increase, since the last nine years. Examined Headwise, Delhi Municipal Corporation spends the maximum amount on education (thousand lakhs of rupees) whereas Shimla Municipal Corporation spends the least (thousand of rupees)—in comparison to other Heads. The Shimla Municipal Corporation's expenditure on education is on a constant decrease rather it incurs maximum expenditure on the general department. The expenditure of Shimla Municipal
Corporation is divided under 9 Heads whereas in Delhi Municipal Corporation it is divided into 18 heads which shows that Municipal Corporation Delhi spends more than double the amount spend by Shimla Municipal Corporation on various activities. Head III of the expenditure in Shimla Municipal Corporation, constituting medical relief, is non-operative, whereas expenditure of the same of Delhi Municipal Corporation i.e. Head VI runs into thousand lakhs of rupees.

Water supply within the vicinity of the town is an important function of a municipal corporation. It forms Head V of expenditure of Shimla Municipal Corporation. In Delhi Municipal Corporation Head II (water supply) -- is non-operative as there is a separate undertaking for water supply and sewage disposal with in the corporation called Delhi Water Supply and Sewage Disposal Undertaking. It is an autonomous body which has its own budget procedures, i.e. its budget is separate from that of the corporation. Since Delhi is the national capital and is in a continual state of expansion, it has become essential for of Delhi Municipal Corporation to supply water to every nook and corner of th territory, it was for that purpose alone, Delhi Water supply and Sewage Disposal Undertaking was established, as a wing of the corporation.
Compared to the expenditure of Shimla Municipal Corporation, the expenditure of Delhi Municipal Corporation shows a gradual increase over the period under review while in the former case, the expenditure shows an increase but with fluctuations as in years 1990-91 and 1992-93 it has shown decrease. In Delhi Municipal Corporation, it has almost doubled from 14671 lakh in 1985-86 to 30565 lakh in 1990-91 whereas in Shimla Municipal Corporation though the trend being similar the expenditure doubled itself from 262 lakh in 1965-86 to 501 lakh in 1989-90. The reason for this can be attributed to the ever increasing population and the services to be provided to the growing population by the Municipal Corporations at ever increasing costs.

The per capita expenditure in both the corporations is on increase, it being more gradual in Delhi Municipal Corporation. In terms of index of per capita expenditure in Delhi, the increase is 80 percent whereas in Shimla Municipal Corporation it is 50 percent. In actual terms, the per capita expenditure in Delhi Municipal Corporation ranges between Rs. 207-390 per capita per year and the Shimla Municipal Corporation, it ranges between Rs. 332-523 per capita per year. The figures in the following table indicate per capita expenditure of MCD and MCS.
Table No.5.11 Per Capita Expenditure of Delhi and Shimla Municipal Corporation.

<table>
<thead>
<tr>
<th>Year</th>
<th>M.C.D. Actuals (Rs.)</th>
<th>Index</th>
<th>M.C.S. Actuals (Rs.)</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>207</td>
<td>(100)</td>
<td>332</td>
<td>(100)</td>
</tr>
<tr>
<td>1986-87</td>
<td>257</td>
<td>(124)</td>
<td>385</td>
<td>(115)</td>
</tr>
<tr>
<td>1987-88</td>
<td>281</td>
<td>(135)</td>
<td>464</td>
<td>(140)</td>
</tr>
<tr>
<td>1988-89</td>
<td>308</td>
<td>(148)</td>
<td>444</td>
<td>(134)</td>
</tr>
<tr>
<td>1989-90</td>
<td>323</td>
<td>(156)</td>
<td>514</td>
<td>(155)</td>
</tr>
<tr>
<td>1990-91</td>
<td>363</td>
<td>(175)</td>
<td>391</td>
<td>(118)</td>
</tr>
<tr>
<td>1991-92</td>
<td>389</td>
<td>(188)</td>
<td>463</td>
<td>(139)</td>
</tr>
<tr>
<td>1992-93</td>
<td>390</td>
<td>(183)</td>
<td>523</td>
<td>(158)</td>
</tr>
</tbody>
</table>

This variation can be partly explained by the fact that Shimla has higher cost of living which is the result of many complex factors such as its topography, agro-climatic conditions, extreme winters, long rainy season etc. and the services have to be maintained at much higher cost than in Delhi.

After having studied the trends in the expenditure of Delhi Municipal Corporation and Shimla Municipal Corporation, it can be concluded that the revenue expenditure of the former has been on a constant increase at much faster rate than the latter. This is due to fast increase population and cost of providing multifarious services to its inhabitants.

5.7. Tax Revenues

(i) Theory of Taxation

Government revenue is in large measure determined by its expenditure. In the past, when governmental activity was confined mainly to the provision of basic services like law and order, the scope of government expenditure was narrow and its
Municipal Corporations

Per Capita Expenditure of MCD & MCS, 1985-86 to 1992-93

- Delhi
- Shimla
revenue requirements small. Today, democratic governments play a more positive role and accept responsibility for a complex of activities ranging from performance of traditional police functions to active participation, in different degrees and in diverse ways in the social and economic life of community --- a conscious effort to promote, in the words of the Charter of the United Nations, "Social progress and better standards of life in larger freedom". While governments have several sources to draw from taxation has been and continues to be the most prominent method of financing public sector expenditure, so much so that the revenue function of taxation has long been widely regarded as its primary purpose. In addition to its revenue function, taxation has come increasingly to serve the general social and economic policy objectives of government. With the growth of the concept of social welfare, the tax structure was charged, for the first time in 1909 (in the United Kingdom), with fulfilling an equity objective. More recently, there has been an increasing importance assigned to taxation as a means of accelerating the rate of capital formation and promoting conditions for rapid economic growth. Most taxes have

3 main characteristics :


(1) they are compulsory; (2) they are levied for the support of politically organised economy; and (3) they are paid without regard to the benefit received.

Taxation, according to benefit as a slogan, has an interesting history. In eighteenth century France, when public expenditures were made largely with regard for the benefit of the tax exempt and the clergy, it epitomised a protest against obvious injustice. It was then a forward looking doctrine, defining a prominent goal of liberal reform. Later on it served those opposing the movement towards the taxation of individuals differently according to their circumstances. Thus it became and is a significant element in a reactionary social philosophy, constructed from the gratuitous implications of laissez-faire economics. The slogan had little more than an emotive content, representing an ill-defined protest against obvious injustice without defining a real basis for apportionment. Where the government distributes goods and services which may be bought and sold in an open market, pricing according to cost is feasible. Where expenditure is made for the purpose of general welfare, the benefit principle leads nowhere at all. On the other hand, one cannot deny the importance of benefit considerations for modern fiscal problem.

As a first step, if increased local as well as state expenditures are to be met primarily from increased state revenues, it is necessary to rationalize the formulae for state aid to local governments. If the state has effectively equalized or made uniform the levels at which local property is assessed, it can than compare the tax efforts of local governments in terms of their tax ratio.

Taxation usually has other effects besides making the tax payer poorer. Commodity taxation raises the price of a taxed commodity and reduces its demand, thereby adversely affecting its production. A tax on one commodity may increase the demand for some other commodity. The central problem of the theory of taxation is to devise a scheme to raise the required revenue with least sacrifice of the people and least injury to the economy as a whole. No tax is wholly good since none can take account of all relevant consideration. Inequity of one tax should be balanced by the equity of an other tax and the tax system as a whole achieves equity between different tax payers. Since a tax is defined as a contribution which the state raises from its citizens for meeting its revenue requirements

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and which it is under no obligation to return to the person who pays it, except through public expenditure which confers benefits which are not related to the burden imposed by this contribution. In light of this definition, it can be said that the taxes should be raised in such a manner that the aggregate sacrifice is the least. This leads to progressive taxation and implies that taxes should be levied in accordance with the ability to pay. In India, with a weak tradition of local governments in many of the towns, local authorities have proved very dilatory in increasing their own taxes as required for development. The distribution of wealth and income, the nature of the economy, the integration of national and local finances, as well as consideration of convenience, etc., all point to the centralization of the tax system.

A suggestion has been made in recent years for the levy of local income tax, the Scandinavia and Uganda are the examples being quoted. In Scandinavian countries a local income tax has been operative along with a central income tax for decades with remarkable success. The complexity of


administration and the need for adherence to the principles of equity and uniformity in income taxation are all militating factors against a local income tax in developed countries. In developing countries a universal personal income tax may be a new phenomenon requiring slow and gentle introduction. In India it is not at all likely that local income tax will be levied, for a number of reasons. Firstly, the constitution will have to be amended. Moreover, the central income tax is shared between the centre and the states. The chances of enlarging the portfolio of local taxes are thus limited indeed. The exploitation of existing local taxes therefore assumes major importance in our general problem of matching resources and obligations. In fact, in the consideration, one of the primary assumptions should be that the taxes locally levied are fully collected. With respect to the same, steps should be taken to have appropriate rates of local taxes levied so that the properties are properly valued and that whatever is levied is collected without delay.

The dynamic role of a tax policy consists in its preventing the increment in output from being consumed by deliberatively ploughing back an


increasing proportion of it into the pool of investible resources of the public sector. This means that marginal rate of taxation must rise along with the growth in aggregate output -- to mobilize an increasingly large proportion of the additional output. It is in this way that a process of continuous and sustained economic development can be achieved in developing countries. In order to assume the objective of ploughing back the increment in output, the underdevelop countries have to develop a tax structure which should have a large element of built-in-flexibility.

(ii) Characteristics of a Good Tax Structure

According to report of a committee chaired by J.E. Meade, a good tax system should be:

1. Horizontally equitable, i.e., should treat like with like;

2. Efficient and compatible with the country's international position. It should also be coherent, single and straightforward.

In a democratic society one of the most important aspects of the tax system is that the taxing authorities should be accountable to the electorate at large, and this can be so only if the tax system is such that the men and women in the street can

---

comprehend clearly the nature of the taxpayer's liability.

Resources of the French local authorities are characterised mainly by their heavy reliance on central authorities, the withering away of certain revenues of typically local nature despite local protests, the harsh pressures of additional centimes and local taxes on the local tax payers to a degree surpassing that of state taxes, the strict limitations on any appeal to certain resources, the approval required and the obvious inequalities between the local authorities due to the application of superimposed rules with no regard to local conditions. The pendulum has occasionally swung slightly towards local autonomy but such single moves do not indicate a genuine drift to liberating local units in this respect as more than one source of revenue (local) has vanished or has been reduced, for instance: octroi, local or the municipal taxes suffered the same ruthless blows in being substituted by a certain fraction of state tax.

In federal countries there is a problem of coordination in tax of the federal authority and constituent units. A knotty problem of


federal finance is that division of tax powers based on efficiency considerations and requirements of the states, as the elastic and productive source of tax revenue falls in the sphere of the union government. It is serious lucuna of the Indian tax policy that it has not integrated itself with the price policy, income policy and other policies of the government. The result has been that the favourable effects of the tax policy are nullified by the haphazard working of some other policies. Though the tax policy has tried to achieve social justice in society, the rapidly rising prices have unfavourably altered such efforts in India.

The taxes under the legislative jurisdiction of the union can be grouped under four categories: taxes which are levied and collected by the union government, the revenue therefrom being retained by it, i.e., the corporation tax, import and export duties, taxes on capital (other than agricultural land); taxes which are levied and collected by the union with the revenue being shared with the states, i.e., taxes on income and union duties of excise; taxes which are collected and levied by the union and the entire revenue is disturbed amongst the states, i.e. succession or estate duties (except agricultural land), terminal

taxes; duties which are levied by the union with the revenue being collected and retained by the states, i.e. stamp duties mentioned in the union list.

Although no taxes are constitutionally reserved for local authorities, the states may assign any of the taxes on the state list, either in whole or in part, to local bodies. Such delegation enable state government to exercise degree of supervision and control over the affairs local bodies. The taxes traditionally assigned are property taxes, octroi, terminal taxes, taxes on professions, taxes on vehicles, animals and entertainment and duties, etc.

(iii) Theory of Local Government Taxation

Indian cities suffer from a lack of financial resources and high costs of rendering municipal services. The increase in revenue is utterly inadequate when compared with increase in area, population and functions, and the cost of augumenting the urban infra structures. In financial matters, towns and cities have to lean heavily upon the state government for succour. The sources of taxation available to the local bodies are extremely limited and


they are gradually shrinking rather expanding. This impoverished state of finances of most of the local bodies is a severe handicap in discharging responsibilities on the one hand, and in maintaining local autonomy, on the other. Taxes, shared taxes, non-tax revenues and loans are the major sources of finance for local bodies. The scope of taxation is somewhat larger in the case of municipal corporations. Taxes levied by the Shimla Municipal Corporation constitute taxes on lands and buildings, entry tax, animal tax, vehicle tax, show tax, sanitation tax, water tax, establishment tax etc. In Delhi Municipal Corporation the share of assigned taxes from the government constitute (i) terminal tax (ii) entertainment tax (iii) tax on motor vehicles (iv) reimbursement of expenditure on collection of terminal tax. The internal revenue consists of : (i) general tax from urban and rural areas (2) fire tax (3) tax on vehicles and animals (4) milch tax and dog tax (5) theatre tax (6) tax on advertisement (7) duty on transfer of property (8) tax on consumption sale and supply of electricity (10) education cess etc.

(iv) Local Taxes State by State

In Madras, local authorities derive income mainly from property taxes, tax on vehicles, advertisement tax, tax on companies and surcharge on stamp duties. The highest income is from property tax viz. 21.06%. In Bombay, the most important tax for the local bodies, particularly the municipalities is the property tax under the head miscellaneous and land cess: 37.8%. In West Bengal, property tax is 47.1% and miscellaneous, 20.4% of the total revenue. No income is derived from octroi an important source of income from U.P., M.P. and Punjab. In U.P., octroi is the highest contributor, 25.2% of total ordinary income. Incomes under the property tax, local fund cess and miscellaneous are evenly distributed at 10.5%, 13.4% and 11.4% of total ordinary income respectively. Income from the local fund cess is the largest in the case of Bihar viz. 24.66% of total ordinary income. In Orissa, the total income from taxes is 24.12% of total ordinary income of local authorities.

According to article 243 X of the 74th Amendment Act, 1992 on municipalities, the state legislature may by law, authorize a municipality to levy, collect and appropriate such taxes, duties, tolls

and fees and assign to a municipality.

The existing provisions of section 89 and 90 of HPMC Act, 1979, regarding levy and collection of taxes, duties, tolls and fees etc., need minor amendments. It is suggested that the existing procedure of imposing tax on land and building in form of ground and house tax under section 89 be constituted with "general tax at 15% of rateable value" as per section 90 and existing sanitation tax at the rate of 3% be renamed as "scavenging tax". It is also suggested that for imposition and collection of taxes, duties, tolls, fees etc, prior sanction of government be not required as is the case in Municipal Corporation Delhi. Further Municipal Corporation Shimla should be allowed to levy sewerage and entry tax for which specific provisions be incorporated under section 89 of HPMC Act, 1979.

In America, local government depends mainly upon revenue from property taxes. In Canada, provincial real property taxation concentrates in areas in which there is no municipal taxation. The property taxes of provincial governments are not as productive as those of municipal governments. In the


29. Letter no. LSG.I-A(3) 2/91 Dated 6-6-93 from Secretary LSG to Government of Himachal Pradesh.
federal republic of Germany, the municipalities get 14 percent of the revenue from wages and assessed income tax. The remaining 86 percent of revenue from this head is equally shared between federal and the state governments. In turn the municipalities pass on 20 percent of the proceeds of the state governments. In U.S.A., the municipal income tax appears to offer a possible solution to many such financial difficulties.

In addition to taxation, a number of non-tax revenue sources also contribute to the public revenue base in a country. Some important sources of non-tax-revenue are administrative receipts, fees and fines and surpluses of government fiscal monoplies and public sector are superior to taxation in several respects. They have the least distinctive effects on properties to save and work. Lesser reliance on taxation reduces the problems of tax administration and there is a greater certainty of revenue because of chances of evasion are remote.


1. Taxes levied by Delhi Municipal Corporation

The Delhi Municipal Corporation levies following taxes :-
(a) Property tax,
(b) a tax on vehicles and animals,
(c) a theatre tax,
(d) a tax on advertisements other than those published in Newspapers,
(e) a duty on transfer of Property, and
(f) a tax on buildings payable alongwith the application for sanction of building plan.

In addition to above mentioned taxes the corporation may levy any of the following taxes namely;
(a) an education cess,
(b) a local rate on land revenues,
(c) a tax on professioners, trades, callings and employments.
(d) a tax on the consumption (sale or supply of electricity).
(e) a betterment tax on increase in urban land values caused by the execution of any development or improvement work,
(f) a tax on boats,
(g) tolls.
CHART 5.e

ASSIGNED TAXES, MCD (1985-86 TO 1992-93)

<table>
<thead>
<tr>
<th>Years</th>
<th>Rs. in lakhs (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985-86</td>
<td>3772</td>
</tr>
<tr>
<td>1986-87</td>
<td>4206</td>
</tr>
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<td>1987-88</td>
<td>5146</td>
</tr>
<tr>
<td>1988-89</td>
<td>5297</td>
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<tr>
<td>1989-90</td>
<td>5423</td>
</tr>
<tr>
<td>1990-91</td>
<td>6019</td>
</tr>
<tr>
<td>1991-92</td>
<td>6454</td>
</tr>
<tr>
<td>1992-93</td>
<td>8777</td>
</tr>
</tbody>
</table>
## Table 5.12

**Income from Taxes. WCD**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Headwise details</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(Rs. in lacs)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Terminal Tax</td>
<td>32.08</td>
<td>32.26.34</td>
</tr>
<tr>
<td>2. Entertainment Tax</td>
<td>2266.03</td>
<td>1508.12</td>
</tr>
<tr>
<td>3. Tax on Motor Vehicles</td>
<td>2819.83</td>
<td>1908.73</td>
</tr>
</tbody>
</table>
| 4. Reimbursement of Expenditure on collection of terminal tax. | 482.94            | 430.00                    | 322.47           |**
| **Total 'B'** | 8777.10               | 7173.19                   | 6484.53          |

## C. Internal Revenue

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General Tax from urban &amp; Rural Areas</td>
<td>13717.03</td>
<td>14600.00</td>
<td>14600.00</td>
</tr>
<tr>
<td>2. Fire Tax</td>
<td>76.26</td>
<td>50.00</td>
<td>50.00</td>
</tr>
<tr>
<td>3. Tax on Vehicles &amp; Animals</td>
<td>2.11</td>
<td>2.40</td>
<td>2.40</td>
</tr>
<tr>
<td>4. Milk Tax &amp; dog Tax</td>
<td>0.77</td>
<td>2.35</td>
<td>2.35</td>
</tr>
<tr>
<td>5. Theatre Tax</td>
<td>14.00</td>
<td>12.00</td>
<td>14.00</td>
</tr>
<tr>
<td>6. Tax on Advertisements</td>
<td>531.25</td>
<td>450.00</td>
<td>550.00</td>
</tr>
<tr>
<td>7. Duty on transfer of property Applications</td>
<td>1615.41</td>
<td>1750.00</td>
<td>2000.00</td>
</tr>
<tr>
<td>8. Tax on Building Applications</td>
<td>22.60</td>
<td>20.00</td>
<td>25.00</td>
</tr>
<tr>
<td>9. Tax on consumption sale of supply of electricity</td>
<td>1711.00</td>
<td>3500.00</td>
<td>20000.00</td>
</tr>
<tr>
<td>10. Education Cess</td>
<td>23.81</td>
<td>25.00</td>
<td>25.00</td>
</tr>
<tr>
<td><strong>Total (a) 1991-92</strong></td>
<td>17714.25</td>
<td>20411.75</td>
<td>19268.75</td>
</tr>
</tbody>
</table>
Table 5.12 shows the income from taxes during 1991-92 and 1992-93. It can be concluded that from the share of assigned taxes from the government, terminal tax has contributed the maximum to the income of the corporation. It was Rs. 3208 lakh in 1991-92 but declined in 1992-93 to Rs. 2777 lakh. It is the tax levied on all the goods, earned by railways or by road into the union territory of Delhi from any place outside thereof under Section 178 of DMC Act, 1957. Terminal tax is an indirect tax, quite a kin to octroi in the other states, it is one of the productive sources of revenue. The difference between the terminal tax and octroi is that terminal tax is imposed irrespective of the purpose of import while octroi is imposed in respect of such goods which are to be used or sold within the local area. Terminal tax in Delhi can prove to be more productive if it is assessed on the basis of rates, rather than on the basis of weight of the articles.

The next in the series is entertainment tax, which is levied on the basis of the price charged for admission to any place of entertainment. This tax is collected by the government and the net proceeds are allocated to the three local bodies in the union territory on the basis of collection from their respective areas. The entertainment tax
contributed to Rs.2266 lakh in 1991-92, and, like the terminal tax, it showed a decline in this period, contributing Rs. 1484 lakhs to the total share of assigned taxes from the government. The next is motor vehicle tax, which is also as road tax. The table shows the same trend as in the case of terminal or entertainment tax. Receipts from the motor vehicle tax have decreased from Rs.2819 lakh in 1991-92 to Rs. 1920 lakh in 1992-93. Theatre tax, fire tax, tax on animals and vehicles, tax on building applications, and education cess constitute very little to the total tax revenue.

General tax from urban and rural area has contributed second most to the total tax revenue during the year 1991-92 and 1992-93. Advertisement tax is levied by MCD on the advertisements other than those published in newspapers. It is charged on hoardings, posters, advertisements on vehicles, cinema slides and advertisements on walls. The revenue from this tax was Rs.531 lakhs in 1991-92 with a fractional increase of Rs.550 lakhs in 1992-93.

(i) Duty on Transfer of Property

"The levy of duty on the transfer of property is obligatory for MCD under section 113 of DMC Act, 1957. It is levied as surcharge on the stamp duty imposed under the India Stamp Act, 1899, in force in the union
territory of Delhi; on the transfer of immovable properties situated in the area under the jurisdiction of the corporation. Tax on consumption, sale or supply of electricity is levied by Delhi Municipal Corporation on the sale and consumption of electricity within the area of jurisdiction of Delhi Municipal Corporation and also on the supply of electricity to New Delhi Municipal Committee and Cantonment Board. The duty on transfer of property make a substantial contribution to the revenue of the state government. During the years 1991-92 and 1992-93 both of these have contributed the most to the total tax revenue of the corporation, the difference between the two being slight.

At present, the Delhi Municipal Corporation has stopped collecting terminal tax following the promulgation of an ordinance by the President clearing the ground for abolition of octroi. Under the ordinance promulgated, which is known as Delhi Municipal Corporation (amendment) Ordinance, 1993, the heading "Terminal Taxes", coming under Section 178 and Section 178-183 (both inclusive) of Delhi Municipal Corporation Act, 1957, has been omitted. These sections relate to terminal tax on goods carried by railway, road in the offering for quite some time, will straight way

lead to a net loss of Rs. 40.50 crore to Delhi Municipal Corporation. It is likely to seriously affect the financial position of Delhi Municipal Corporation, which is already in the red. To compensate for this shortfall of Rs. 40 crore, many proposals are under the consideration of the corporation. One of these is leying a surcharge on sales tax, to be paid by the trader at the time of paying the sales tax.

Though some of the states like Assam, Bihar, Kerela, Tamil Nadu and West Bengal had no tradition of levying octroi and some other states are considering its abolition by replacing it with a surcharge on sales tax or turnover tax, as alternative sources of revenue are hard to find. That is why it has not been possible to abolish this tax inspite of recommendations of a number of committees and commissions. The sarkaria committee recommended imposition of terminal tax in preference to octroi but this terminal tax has also been abolished in Delhi. The report of the Commision of Enquiry into the finances of Municipal Corporation Delhi and NDMC, April, 1971 states that without a share of terminal tax collections, the income of these bodies from indirect taxes would be very meagre and it would be very difficult to bridge the gap.

between the income and expenditure which at present is fairly wide.

The chart 5.6 shows the increasing trend of the share of assigned taxes from the government during the last nine years. Except for the year 1991-92, the increase has been marginal, however in 1991-92, was marked by a significant increase in the assigned taxes.

2. Taxes Imposed by Shimla Municipal Corporation

Shimla Municipal Corporation levies following taxes.

(1) taxes on lands and buildings
(2) a duty on transfer of immovable property
(3) Such other tax as directed by the state government.

Subject to the prior approval of the state government, the corporation may levy following taxes:–

(1) a tax on profession, trades, callings and employments,
(2) a tax on vehicles other than Motor Vehicles and Animals,
(3) a tax on increase in urban land values caused by the execution of any development or improvement work.
(4) show tax
(5) a tax on consumption of electricity

Table 5.13 reveals that Shimla Municipal Corporation gets its maximum income through taxes on lands and buildings. This consists of water tax, fire tax and general tax. It was Rs. 131 lakh in 1991-92 but decreased to Rs. 121 lakh in 1991-93. Animal tax and the vehicle tax have contributed very little to the total tax revenue of the corporation. The amount runs only in hundreds. The income from the sanitation tax has been found to be quite substantial as it constitutes the second major tax of the corporation. It was Rs. 23 lakh in 1991-92 but increased to Rs. 29 lakh in 1992-93. The income from the water tax was Rs. 29 thousand in 1991-92. This decreased to Rs. 20 thousand in 1992-93.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. General Deptt.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Taxes on lands buildings</td>
<td>13060876 (130.60)</td>
<td>14300000 (143)</td>
<td>832276 (88.32)</td>
<td>12100000 (121)</td>
</tr>
<tr>
<td>(2) Entry Tax</td>
<td>----</td>
<td>5500000 (55)</td>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td>(3) Animal Tax</td>
<td>799</td>
<td>1000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Vehicle Tax</td>
<td>81</td>
<td>400</td>
<td>69</td>
<td>300</td>
</tr>
<tr>
<td>(5) Show Tax</td>
<td>17880 (.18)</td>
<td>51000 (.51)</td>
<td>24500 (.24)</td>
<td>51000 (.51)</td>
</tr>
<tr>
<td>II. Public Health.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) sanitation Tax</td>
<td>2339616 (23.99)</td>
<td>2680000 (26.80)</td>
<td>1849530 (18.49)</td>
<td>2880000 (28.20)</td>
</tr>
<tr>
<td>II. Water Supply</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Water Tax</td>
<td>29467 (.29)</td>
<td>20000 (.20)</td>
<td>16804 (.16)</td>
<td>20000 (.20)</td>
</tr>
<tr>
<td>Establishment Tax</td>
<td>937431 (9.37)</td>
<td>11000000 (11.00)</td>
<td>674187 (6.74)</td>
<td>1000000 (10.00)</td>
</tr>
<tr>
<td>Total</td>
<td>16316150 (163.86)</td>
<td>23652400 (236.52)</td>
<td>11398221 (113.98)</td>
<td>16072300 (160.72)</td>
</tr>
</tbody>
</table>

Note: figures in Parentheses denote Rs. in Lakh.
Chart 5.f shows the increase in the major taxes imposed by the Shimla Municipal Corporation during the period under review. The increase has been gradual throughout the years, except for the year 1990-91 when the increase was marginal in comparison to the previous years. The reason for this increase is not the power given to the corporation by the state or central government, but rather the constant increase in population due to migration from rural areas along with an increase in the variety of civic services provided.

Since the local government is non sovereign, its power of taxation is not direct, i.e., derived from the constitution itself. It is empowered to levy only such taxes as have been approved by the state government, thus exercising discretion either to add or subtract from the list of taxes that have at a given moment been transferred to the local government.

The tax administration of local bodies in India is not satisfactory. Generally, the properties are underassessed and there is widespread failure of tax collection. The financial stringency that affects urban local government at present is mainly
due to laxity in tax collection. A majority of urban local bodies fail to collect even 50 percent of their tax demands. The unsatisfactory collection of taxes is mainly the result of poor services standards of localities, this creating a resistance to taxes. This may be due to interference on the part of municipal councilors, statutory restrictions or lack of civic consciousness on the part of taxpayers. The tax structure of the Shimla Municipal Corporation is quite similar to the one exampled above.

5.8. A Comparative Study of Tax Structure of Shimla and Delhi Municipal Corporations

Shimla Municipal Corporation imposes four major taxes. They are: (1) tax on lands and buildings; (2) show tax; (3) water tax and (4) sanitation tax. In Delhi Municipal Corporation, there are three major taxes from which the corporation obtains maximum revenue. They are, in descending order: (1) terminal tax (2) entertainment tax (3) motor vehicle tax. (terminal tax has been abolished in both in Shimla as well as Delhi Municipal Corporation). Entertainment tax has been one of the major sources of revenue for Delhi Municipal Corporation. Show tax is the major source in Shimla Municipal Corporation. This difference is due to Delhi Municipal Corporation having a large number of centres of entertainment and amusement.

Table No. 5.14
Per Capita Taxes of Delhi and Shimla Municipal Corporations.

<table>
<thead>
<tr>
<th></th>
<th>M.C.D Actuals (in Rs.)</th>
<th>M.C.S Actuals (in Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Index</td>
<td>Index</td>
</tr>
<tr>
<td>1985-86</td>
<td>53 (100)</td>
<td>67 (100)</td>
</tr>
<tr>
<td>1986-87</td>
<td>57 (107)</td>
<td>84 (125)</td>
</tr>
<tr>
<td>1987-88</td>
<td>67 (126)</td>
<td>111 (165)</td>
</tr>
<tr>
<td>1988-89</td>
<td>67 (126)</td>
<td>107 (159)</td>
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<tr>
<td>1989-90</td>
<td>66 (124)</td>
<td>126 (187)</td>
</tr>
<tr>
<td>1990-91</td>
<td>71 (133)</td>
<td>116 (172)</td>
</tr>
<tr>
<td>1991-92</td>
<td>99 (186)</td>
<td>152 (225)</td>
</tr>
<tr>
<td>1992-93</td>
<td>70 (131)</td>
<td>101 (149)</td>
</tr>
</tbody>
</table>

Source: Computed from MCD and MCS budget.
Per Capita Taxes of MCD & MCS, 1985-86 to 1992-93
Conversely, Shimla Municipal Corporation largely lacks the same.

The remainder of the taxes of Shimla Municipal Corporation, are minor taxes, contributing very little to the total tax revenue (only in hundreds of rupees). Minor taxes in Delhi Municipal Corporation still contribute a great deal to its total tax revenue. This large difference in the tax structure of both the corporations can be attributed to the varying population levels and the areas of jurisdiction. In both respects, Shimla is much smaller than Delhi -- the national capital.

Lower tax revenue of Shimla Municipal Corporation is also due the powers given to it by the state government. In the case of Delhi Municipal Corporation, the central government has given a wide range of taxation powers to the former. Comparatively, the taxation power given to Shimla Municipal Corporation, by the state government are far less. Thus corporation has sent proposals to the state government for imposition of certain taxes like terminal tax and other taxes, but disconcertingly the state government has not approved such proposals, proposals which should be a right. Octroi, a traditional source of revenue, has also been abolished by the state government. It instead provides grants (octroi grant)
in lieu of octroi itself.

Thus it can be concluded that the tax structure of Shimla Municipal Corporation is quite unsound in comparison to that of Delhi Municipal Corporation. Overall we can see that the income from the tax revenue has been on a continuous increase in both the corporations during the last nine years.

5.9. MUNICIPAL BORROWINGS

The expenditure incurred by the municipalities can be divided into two main categories: (1) expenditure met from the revenue of the year; (2) expenditure met from the borrowed funds, with respect to the latter, expenditure on projects entails a heavy initial cost. Public works like roads, drainage, water supply, sewerage etc. involve a heavy initial expenditure. Borrowing is usually resorted to where capital expenditure is involved. In the absence of loans, the municipalities have to meet such expenditure either from state government grants or form their current revenue. Obviously, it is not generally possible for municipalities to take up such projects from their current revenue. Thus, for the development of such projects, the municipalities have to resort to public borrowings.

Municipalities in India are not free to borrow. Borrowing powers are controlled and
regulated by state government, such controls and regulations being necessary to safeguard against the abuse of public credit by local bodies. One of the problems associated with local bodies borrowings is the rate of interest and this rate is determined by the concerned government from time to time. A high rate of interest discourages the municipalities from borrowing and this curbs their developmental work. The Rural-Urban Relationship Committee in its report, has also suggested that state governments should include the requirement of urban local bodies in deciding the quantum of loans to be raised from the open market.

Since 1915 no local authority, except the municipal board was legally permitted to borrow money from any source. Borrowing of money was subject to both executive and legislative restrictions. In 1914 the central government passed the local Authorities loan Act which defined and regulated the powers to borrow but this piece of legislation is not being followed properly as local authorities are controlled by the acts passed by the state legislatures.

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With respect to the borrowings of the Shimla Municipal Corporation, this body used to avail of loans from the life Insurance Corporation and the State Government Prior to 1983. Earlier, when the pumping stations were under the Corporation, it had to resort to loans for lifting of water, the expenditure being huge. But since the pumping stations were shifted to Irrigation and Public Health, the liability of loans ended.

Local bodies require a substantial amount of capital to finance their development works: water supply, drainage, markets, roads, commercial undertakings, etc. They largely depend on government loans under plan schemes to do this. Under Section 3 of Local Authorities Loan Act 1914, they are allowed to borrow money either from the state government or from non-governmental sources, permission of the concerned state government being required for the latter. The exceptions to this rule are Bombay, Calcutta, Madras. The sources of local bodies meeting their loan requirements are largely limited. So, in the large measure, they have to depend exclusively upon state governments for loans.

The analysis of the chart

5.\(g\) reveals that the Delhi Municipal Corporation was not granted any loan from the government from 1985-89. However, in 1989-92 the corporation was granted loan of Rs. 1800 lakh and Rs. 1274 lakh respectively. Since its constitution the corporation has taken up many developmental programmes with the help of borrowed funds. It has resorted to borrowings for: (1) slum clearance and improvement schemes; and (2) construction of roads and buildings. In 1959, a loan of Rs. 105 lakh was raised from the public. As a rule corporation receives all loans from the central government.

In the actuals of 1991-92 and budget estimates 1992-93, the gap between income and expenditure was bridged through a provision of Rs. 1274 lakh and 3900 lakh respectively from the ways and means advance from the government and through levy of new taxes. The budget estimates of 1992-93 were balanced by providing a sum of Rs. 4800 lakh as ways and means assistance from the government. In view of non-clearance of various proposals of Delhi Municipal Corporation for raising additional revenues, a proposal for ways and means assistance of Rs. 100 crore was mooted to the government of India but there has been no progress in this matter so far. This amount therefore has been deleted from the revised estimates of 1992-93.

The Delhi Municipal Corporation provides that no loan shall be raised
without previous publication of application for the sanction under Local Authorities Loans Act, 1914, and the rules made thereunder. The amount of loan, the rate of interest and the terms including the date of floatation, the time, method of repayment and the like shall be subject to the approval of the central government.

Table 5.15
Ways And Means Loans/Assistance To Delhi Municipal Corporation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1274.00</td>
<td>3900.00</td>
<td>-----</td>
</tr>
</tbody>
</table>

Further, the act provides that no portion of any sum of money borrowed for any of the purposes referred to in clause (C) of subsection (1) shall be applied for the payment of salaries and allowances to any municipal officers or other municipal employees. The time for the repayment of any money borrowed under section 185 shall in no case exceed 60 years.

The fiscal measure of public borrowing for resource mobilization is of recent origin. With the exception of small station commercial republics, in the German trading cities in the middle ages, the general political and economic prerequisites for development of an effective system of public borrowing were almost wholly lacking upto the end of the 18th century. Hume and Adam Smith condemned it and were of the view that it is the cause of nation's ruin. Grover maintains, "Public borrowing is a relatively modern development: It did not appear as regular and important feature until the later part of the 18th century. The keynesian revolution brought a change in the role of public borrowing. Keynes held the view that increase in public debt through the multiplier effect would raise the national income. Keynes linked public borrowing with deficit financing. Now a days public borrowing is applied in the development process of underdeveloped countries in a greater perspective. It is used not only for meeting huge and wasteful war expenditure or for recovering the deficiencies of effective demand, but also as an instrument of fiscal policy for mobilizing savings for development purposes and also as an effective instrument of monetary policy."

5J0. GRANT-IN-AID

(i) Theory of Local Grants

If the local bodies are to discharge their obligations, it becomes imperative for the state governments to augment their resources through grants-in-aid. Even to maintain a minimum standard of efficiency, grants-in-aid for local bodies are essential. This argument acquires a special meaning if we bear in mind the fact that many state governments in India have transferred to themselves what one would regard as legitimate sources of revenue for local bodies, such as entertainment tax, property tax, profession tax, vehicle tax. Grants-in-aid are thus a necessary instrument to bridge the gap between fiscal capacity and need in the case of local bodies. In absence of grants-in-aid, the local bodies may not take much initiative to provide these services.

The Zarkaria committee also strongly recommended substantial general purpose and specific grants. The principle that grant-in-aid should form one of the important sources of revenue of local authorities has been accepted all over the world.

It has been estimated that in the U.K., grants contributed about 42 percent of total local revenue. Grants-in-aid can be used to encourage economic development, but some economists believe that grants bring instability and make municipal bodies dependent. Also, revenue without responsibility can be demoralizing and may result in ineffective utilization of revenue sources available to them. The Local Finance Enquiry Committee, 1951, observed that, whenever possible, local bodies should be assigned sources of revenue in preference of grants. Where it is not possible to meet full requirements of local bodies from assigned revenue, grants should be given as a last resort. The Seventh Finance Commission in its report in 1979 suggested that grant-in-aid element should, as far as possible, be a residual item. Grant-in-aid may be made as corrective, intended to narrow, as far as possible, disparities in the availability of various administrative and social services between the developed and less developed state.

K.N. Baisya in his "Financial Administration In India," is of the opinion that grants-in-aid are an important link between the country's administration and local administration.


Grants are useful means by which the state government can maintain efficiency of the local authority. The system of grants-in-aid exist not only in India but in other countries like England and France as well. In a country like India, which is wedded to socialism, grants-in-aid for equalizing services in rich and poor areas has much significance. When an act is passed by the state legislature for establishment of a local government unit, care is taken to ensure that the income of the local body from various sources would be less than expenditure. As a result, local bodies are made dependent on a higher authority for financial assistance. This makes room for state control over local authority. Reform here is considered desirable as when more and more functions have to be delegated to local bodies, effective performance and success and failure of the same is vital for the people. It is thus imperative that the grant system be reoriented. It may not entirely justify the trust the government places in them. But sooner or later, the position is likely to stabilize itself. Grants are also a powerful means of equalization. A scheme of matching is rather pointless if it does not provide for an equal rate of minimum development. There is of course no fixed and final

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system of grants. With changing values and priorities, the grant system has also to change. Henson and Perloff rightly look upon it as means of inter-governmental co-operation. Co-ordination, mutual respect and understanding and a high degree of co-ordination are necessary to make the grant-in-aid system successful. Intergovernmental grants to local government do not constitute a uniform body of transfers. They form a complex system of general grants and of specific grants that are tied to specific services. As the basic law restricts the role of federation to non-administrative functions, all the grants to local government are administered by the states, even if the funds were originally provided by the federal governments.

Since the state and the local tax systems are on the whole regressive in character, while that of federal government is progressive, there is much to be said for raising funds by use of superior federal system, and it seems for raising funds by use of superior federal system, and it seems fairly clear that the effect of increased federal grants to the States and local governments has not been primarily to relieve pressure on their general fund budgets. This being the


case, the grants have tended to increase the pressures on local budgets by encouraging the undertaking of activities which would not otherwise have been undertaken.

The U.S. Advisory Commission on intergovernmental relations in its report (1980) on federal grants-in-aid recommended that there should be recongestion the federal grant system. The commission recommended a substantial reduction in the number of federal assistance programmes. Furthermore, as the grants necessitate an increase in federal taxation, the federal government imposes certain conditions to ensure that they are properly utilized. If the grants are unconditional, the states may not carry out which the federal government considers important from the national viewpoint. Similar is the case with the local governments. It has been suggested that in lieu of the centre rendering financial assistance to the states and the states in turn to the local bodies, a proportion of expenditure be reserved for all the approved schemes they should accept full responsibility for a specified number of such schemes up to an equivalent amount. Intergovernmental fiscal transfers


51. R.N. Bhargava, Opcit., p.207.
are necessary in a federation. Conditional grant-in-aid from central to the state governments, and from the state to the local governments, are needed to finance the external or spillover effects of locally run programmes. A properly designed conditional grant makes more efficient use of resources. But there is a danger in providing more unconditional revenue (by block grants) in that local budgeting may become careless through diminished responsibility. If an unconditional grant is sharply tipped towards the area with less development potential, there is danger of denying help to more promising areas. Thus the growth of national income may be hampered in a way that will ultimately be injurious to the whole economy. India has so far made little, if any, use of block grants in local finance. The Tax Enquiry Commission of 1948 concluded that no state has a grant-in-aid code that embodies simple and well defined principles. To quote, the grants are uncertain. It recommended that grants should be based on an examination of needs and resources.

A satisfactory local tax greatly facilitates the solution of the dilemma of local finance. But it can never provide a complete solution. In any


grant system, there are thus two major policy problems to solve. One concerned with the overall size of grants in relation to total local financial resources, the other with distribution of grants between the local authorities differently placed. The danger of very high grants is that they will lead to irresponsible spending. This is probably less true of an equalizing grant based on some objective measures of needs and available for general purposes, than of a specific percentage grant for a particular service. The latter may have the effect of seriously distorting local budgets. The national reaction of central government to the danger of irresponsible spending is to increase control as grants expand. Since this trends to destroy local autonomy, it should be avoided as far as possible.

The Madhya Pradesh government was the first to introduce in 1962 a fairly comprehensive general purpose grants system on per capita basis for municipalities. In 1965, the Gujarat government devised grants formula much like M.P. pattern, and the Kerala Government followed the suit next year.


Types of Grant-in-Aid

The Grant-in-Aid Code Committee for municipalities and municipal corporations, 1972, gave the following structure of grant-in-aid:

1. General purpose grants;
2. Specific purpose grants;
3. Statutory and compensatory grants.

General purpose grants are primarily intended to bridge the gap between needs and resources of local bodies.

Specific purpose grants are tied to the provision of certain services which may fall under the obligations of state government or they are of national character.

Statutory and compensatory grants are given to local bodies as a compensation for loss of any revenue of taking over a tax by state government from local government.

The system of grants to local bodies does not follow any fixed principles in India. Each state has its own system of allocating grants and there is hardly any uniformity regarding the basis on which they are given. Madhya Pradesh, Kerela, and

Gujarat have adopted, through rules or codes, a round system of grant-in-aid to urban local bodies. The need for formulation of rules or codes has been stressed from time to time to develop a sound system of administering grant-in-aid. The grant-in-aid system should be systematised and based on certain clear and definite principles.

An ideal system of government grant would take into account the local needs of an area, the financial means of local authority and the cost of providing necessary services in the area, but these factors vary in each case and are difficult to assess.

1. Grants in MCD

Table 5.16 reveals the actuals of 1991-92, budget estimates of 1992-93 in respect of the grant-in-aid received from the central government by Delhi Municipal Corporation. It can be seen that grants on education during the two years formed the major share. It was Rs. 3993 lakh during 1991-92 and Rs. 3754 lakh during 1992-93. The corporation did not receive any grant in respect of civic reception in these two years.


### Table No. 5.16

Grants Received by Delhi Municipal Corporation During the Year 1991-92 & 1992-93 (Rs. in lakh)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Education</td>
<td>3993.00</td>
<td>4530.91</td>
<td>3753.77</td>
</tr>
<tr>
<td>2. Civic (Reception)</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>3. Malaria Eradication</td>
<td>2.35</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>4. Miscellaneous</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3995.35</strong></td>
<td><strong>4530.91</strong></td>
<td><strong>3753.77</strong></td>
</tr>
</tbody>
</table>

Source: MCD budgets

Grant on malaria eradication was Rs. 2.35 lakh in 1991-92. In 1992-93 this grant was not provided. The corporation did not receive any grant for the specific purpose during the years 1991-92 and 1992-93. Table 5.17 shows the actuals (1991-92), budget estimates (1992-93), revised estimates (1992-93), of the grants received by Shimla Municipal Corporation.

### Table 5.17


<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Octroi Grant</td>
<td>73,38,000</td>
<td>80,00,000</td>
<td>80,00,000</td>
<td>88,05,600</td>
</tr>
<tr>
<td>2. Grant-in-aid</td>
<td>69,16,309</td>
<td>40,00,000</td>
<td>60,00,000</td>
<td>99,16,720</td>
</tr>
<tr>
<td>from government (income side).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Grant-in-aid (expenditure side).</td>
<td>58,83,582</td>
<td>60,00,000</td>
<td>70,00,000</td>
<td>66,35,041</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19237891</strong></td>
<td><strong>18000000</strong></td>
<td><strong>21000000</strong></td>
<td><strong>222,57,361</strong></td>
</tr>
</tbody>
</table>

(192.37) Lakh (180.00) Lakh (210.00) Lakh (222.57) Lakh

Source :- MCS Budget.
Chart 5.h shows the amount of grant-in-aid received by Delhi Municipal Corporation during various years, i.e., since 1985-86 to 1992-93.

The analysis of the chart reveals the following:

1. During the year 1985-86 there has been a decrease in the grant given by the central government to the municipal corporation as compared to the previous year.

2. A marginal increase has been noticed in the following two years (1986-87 and 1987-88), when the grant-in-aid contributed to 11.09 and 10.60 percent respectively of the total income of the corporation. During 1988-89 and 1989-90 grants show a further increase and have contributed 13.38 and 12.62 percent respectively to the total income. A major increase has been noticed in the grants during 1990-91 Rs. 4664 lakh. The previous year's grant was Rs. 34.86 lakhs. Thus the grant contributed 15.30 percent to the total revenue of the corporation.

3. Grant-in-aid has shown a decline in the succeeding years of 1991-92 and 1992-93. It was Rs. 3995 lakh during 1991-92 and contributed 12.12 percent to the total income. In 1992-93 it was Rs. 3754 lakh, thus contributing 11.31 percent to the total income of the corporation.
CHART 5.h

GRANTS GIVEN TO MCD (1985-86 TO 1992-93)

YEARS

Rs. in Lakhs (Thousands)

0.5 1 1.5 2 2.5 3 3.5 4 4.5 5


YEARS
After its inception in the year 1958, Delhi Municipal Corporation used to receive grants from the central government. These contributed about 20 to 25 percent to the total revenue. This practice continuously decreased till it fell to 12 to 13 percent of the total revenue in 1972-73. Since then it has remained approximately the same, the total income varying yearwise. Since its constitution corporation receives the maximum grants in lieu of expenditure incurred on education. The ratio of the government grants in regard to civic reception, malaria eradication and miscellaneous, to the total revenue forms a very small portion. Specific grants are given only for the specific function taken up by the corporation.

2. Grants in Shimla Municipal Corporation

Shimla Municipal Corporation receives grants-in-aid from Himachal Pradesh Government. The corporation receives two types of grants, the first being the octroi grant in lieu of the abolished octroi, the other being the general grant. Chart 5.i. illustrates the trends followed during the last 9 years, since 1985-86, in providing grants to the corporation. It has been observed that the grants show a decreasing trend till the year 1990-91 when it was the least (Rs. 5 lakhs) and contributed only 1.33 percent to the total
CHART 5.1
GRANTS GIVEN TO MCS (1986-87 TO 1992-93)

YEARS


NO. IN LIBRA

80
70
60
50
40
30
20
10
0

57
40
52
40
34
5
69
77

income of the corporation. But since then it has been on the increase, contributing 13.62 and 13.08 percent respectively to the total revenue (Rs. 69 and Rs. 77 lakh).

5.11 A Comparative Study of Grant-in-Aid System of Delhi & Shimla Municipal Corporations

The principle that grant-in-aid should form one of the important sources of the revenue of the local government has been accepted the world over. It's a channel by which the three of government join together in financing local services. Though the functions performed by the local bodies are of a local nature, they are of national importance as local development contributes to state development and state development in turn to national development. The national government gets these local functions discharged through local bodies which have assumed the responsibility of these services. It is in this sphere that central financial aid to local bodies plays an important role since the local government functions are becoming increasingly complex. In this context, grants from the government are essential to perform these functions efficiently.

To compare both corporations, the grants during the last nine years in Delhi Municipal Corporation have overall shown an increase except for 1991-92 and 1992-93 when there was a sudden decline. However, the average ratio of the government grants to
the total revenue has remained almost constant during the years under review. In Shimla Municipal Corporation, the grants have shown a constant decrease till 1990-91, followed by a major increase in 1991-92 and 1992-93. The conditions of the provision grants in both the Corporations is opposite to one another. Delhi Municipal Corporation gets grants in lieu of expenditure incurred on education by the corporation. This forms the major portion of the corporations' income. In Shimla Municipal Corporation, grants are not received in lieu of expenditure incurred on education. Instead octroi grant forms the major portion of such assistance rendered by the state government. With respect to Shimla Municipal Corporation, the criteria for grant-in-aid should be determined on the basis of population, revenue generation, historical importances and tourism. "Grants-in-aid should be kept under a separate account in some nationalized bank directly under the control of municipal corporation as it will avoid delay in payments which hamper developmental activities."

5.2 FINANCIAL PROBLEMS OF MUNICIPAL FINANCE

Urban development through the agency of municipal bodies involves undertaking of municipal capital works. But as is well known, our

60. 74th Constitutional Amendment Act, 1992.
municipal bodies are financially too weak to make both ends meet. They fail even to run their normal administration properly. Their financial resources are limited by statutory conditions and these are usually supplemented by tax sharing with state governments and grant-in-aid.

Local finance in developing economy gives rise to a number of important problems which have a vital bearing on the role of fiscal policy as an instrument of economic growth and social justice. As such, the problems of municipal finance are related to:

1. Few sources of revenue at the disposal of municipal bodies.
4. Problem of taxes, etc.

Municipalities in India suffer from a paucity of funds. As Henson and Perloff contend: "On the one hand, these bodies are under constant pressure to expand social services, and, on other hand, their tax powers are extremely limited. Municipalities are expected to do miracles whereas financial resources at their disposal are extremely meagre."

61. Mohit Bhattacharya, State Local Relations in Urban Development, Selected Papers on Municipal Government and Administration, IIPA, New Delhi, N.D.

Realizing the need for the stimulation for specific municipal services, specific purpose grants are offered to municipal bodies by most of the state governments. But the quantum of such grant is extremely low. There is no regularity and certainty about these grants which are essentially discretionary in nature. In fact, grant-in-aid to municipal bodies have never been systematised and codified in India. Neither are general purpose grants given in time. They should be provided at the appropriate time, i.e., at the commencement of the financial year or in the middle, so that the municipalities could easily utilise them for the purpose they have been sought for. Sometimes the grants are given at the end of financial year, thus resulting in the lapse of that amount.

The problem of procuring loans for municipal capital works is equally great. Although the municipal bodies are not legally debarred from open market borrowing, their credit worthiness stands in way of such borrowing. Owing to increased commitments, under the plans the borrowing of the union and state governments are given priority and the needs of municipal bodies are almost neglected. Often the state governments also do not favour municipal borrowing from the market which requires state sanction and guarantee. Since an indebted municipal body has to submit itself to various financial control by the state government the
municipal bodies too, do not feel encouraged to opt for loan funds for their development works.

1. The Problem of Taxes

Apart from the taxes assigned to the local authorities, a few taxes are shared by local authorities with state governments. As in some states, entertainment tax is levied and collected by the state government but the proceeds are distributed to the local authorities. Tax sharing creates the complicated problems of determining the principle on which proceeds are to be distributed among the local authorities and also of the percentage which should be retained by the state governments. Tax sharing ought to be resorted to only where other policy considerations prevail over the factors requiring assignment of taxing power to local bodies. With regard to distribution and sharing of taxes, the Finance Commission is constituted under article 243 I to review the financial position of municipalities and make recommendations (243 Y) to the Governor regarding the principles which should favour the distribution of net proceeds of taxes, duties, tolls and fees leviable by the state between the states and municipalities.


64. 74th Constitutional Amendment Act, 1992.
5.13. MEASURES FOR ENHANCEMENT OF MUNICIPAL REVENUES

In order to enhance the municipal revenues, it is essential that the municipal expenditure should be properly planned. This involves planned mobilization of resources at the municipal level, which includes setting targets for raising resources in the context of five year plans and working out plan of resources mobilization from each of the sources as well. These are taxes, fees, income from municipal property and income from miscellaneous sources.

1. Taxation

One of the important sources of municipal income is the property tax. Property taxes are levied on all buildings situated within the municipal area and consists of (1) general tax (2) water tax (3) fire tax (4) scavenging tax etc. The rate of this tax is one of the highest in India. In view of the fact that annual value of property is rising due to various reasons, the law usually provides that reassessment of tax should take place after every five years. In practice, however, this is not being acted upon by the municipalities, a fact which has resulted in loss of revenue of local bodies. Hence, for proper mobilization of resources it is necessary to have a
reassessment of property tax after every five years. The machinery for the collection of taxes should be modernized on the score of tax collection efficiency. The municipalities in northern and eastern India are particularly weak. The situation is much better in south India such as Andhra Pradesh, Tamil Nadu and Kerela. It is also reasonably satisfactory in western India, viz. Maharashtra and Gujarat. Apart from the improvements in staffing, better collection efficiency could be achieved through better supervision by the states. Thus an improvement in property tax evaluation automatically increases the prospects for revenue mobilization in respect of the family of property taxes. Since the property tax is the corner stone of the municipal income, there is scope for increased yield by the enforcement of greater strictness in allowing exemptions and remissions.

While the receipts from the taxation should provide the basic revenue of the municipalities, the state government should place a substantial portion of financial resources at their disposal by way of grants. Additional avenues of income should also be explored by the exploitation of certain

66 Abhijit Datta, Municipal Finances in India, IIPA, New Delhi, 1984, p. 56-57.
potential non-tax revenues. Non-tax revenues in the forms of fees, fines and rent from municipal lands, houses, dak bungalows, etc. will however constitute a small part of the income of urban authorities. They should be encouraged to take up an adequate number of public utility enterprises commonly recognised as legitimate objects of municipal trading, which besides increasing the usefulness of local bodies, will also make valuable contribution to their income. Planned physical outlay of towns will enable many municipalities to develop their own transportation and terminal system which will encourage trade activities and broaden the tax base. Mrs. U.K. Hicks has also suggested for localization of the base of local taxation. The burden of local tax should fall on the local people and property within the jurisdiction of local body so that it may not be evaded. This will not only enable local authorities to have effective control over their finances but will also ensure autonomy. Local tax should be reserved exclusively for local use.

The resource mobilization capacity of local bodies is limited when all the productive sources of income are taken over by the

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central and state government. The local bodies are left with few inelastic taxes. The scope of their non-tax revenue is also limited. It is appropriate, therefore that financial assistance on an expanding scale should come in the shape of grant-in-aid. Grants also serve the very important purpose of shifting the burden of equally rising costs from regressive local taxation to more progressive state and national taxes. But since the grant-in-aid to municipalities is not on rational basis, the practice of giving grants when the financial year is running out should be avoided as it results in non-utilization of grants within the financial year. So the grants should be provided well within time. Municipal bodies should try to exploit sources of non-tax revenues (municipal enterprises, trading, houses, etc.). Rules governing loans/ways-and-means assistance should be thoroughly examined and suitable modifications be made as the existing rules for borrowing money are unsatisfactory and municipalities are unable to borrow required money in time. The existing loan facilities from the government should be widened and rigidities of loan sanctions liberalised. The loan policy of the government should, also, not be vitiated by party politics and group pressures, but should reflect the financial needs of municipalities. The scope of raising

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loans on their own credit should be widened as the general credit standing of municipalities to borrow in open market is low.

Thus municipal resource mobilization prospects in India do not appear to be bright, mainly due to uncertainties surrounding its constitutional and political status. While the municipal governments are granted nominal autonomy, their effectiveness is limited due to uncertainties surrounding its constitutional and political status. While the municipal governments are granted nominal autonomy, there effectiveness is limited due to unprincipled supersession, erosion of functional domain, poaching of the tax field and uncertainties in transfer arrangements. The Situation could be improved if the municipal government is granted suitable constitutional protection.

The Delhi Municipal Corporation can hardly complain about the paucity of resources, though there is a great paucity of resources with the Shimla Municipal Corporation. The income of the former has grown at a rate much faster than any other metropolitan cities in the country despite its reluctance to fully exploit the resources authorised

under Delhi Municipal Corporation Act, 1957. But no amount of funds can be adequate unless expenditure is properly controlled and regulated. The Delhi Municipal Corporation has not fully realized its responsibilities in this respect. It is of utmost importance that budget estimates are drawn up with the greatest care and that the proposals for expenditure match the efforts to raise adequate resources.

The financial network interlinking centre and the local interests include at least three fundamental and shared aims—stabilization, distribution and allocation of resources. As dispensers of enormous amounts of public goods and services, local government also has a special interest in the distributive aims of the nation. Important discussions regarding resource allocation must be made locally so that local decision-makers have important effects on the future growth of our societies.

5.14. BUDGETARY SYSTEM OF DELHI AND SHIMLA MUNICIPAL CORPORATIONS

Following the practice of the


73. Ibid., p.20.

central and state governments, the municipal budgetary system has been geared to subserve the twin considerations of financial accountability and control of expenditure. The main objective is to ensure that funds are raised and money is spent by the executive departments in accordance with rules and regulations and within the limits of sanction and authorization by legislature or council.

(1) Budgetary Structure: Municipal budgets formats and heads of accounts vary from state to state. Within the municipal budgets, there is no strict separation between revenue and capital items. Usually there is a head called extraordinary items, which covers most of the capital transaction. Conceptually, municipal budget is single document combining current and extraordinary items. There are, however, a number of separate budgets for specific municipal functions.

(2) Budget Cycle: Municipal authorities follow the government financial year starting in April and ending in March of the following calendar year. The main instrument of municipal financial administration relates to the form of municipal budgets, accounting methods and audit procedure.

1. Budgeting in Shimla Municipal Corporation

(i) Municipal Budget: Unlike the state and central budgets, where the budgetary heads of accounts are prescribed by one single authority -- the Comptroller and Auditor General -- municipal budgets vary from state to state and from one type of authority to another. In some cases format is laid down in the government legislation or in the rules made thereunder, while in other cases these are left to be determined by the municipal authorities themselves.

Chapter II of Himachal Pradesh Municipal Corporation Act, 1979 provides for budgeting process in the following manner: Generally, the preparation of budget is initiated by accounts section under the supervision and control of the accounts officer. The accounts officer or the chief accountant issues a circular to different departments for submitting figures of expected income and expenditure during the financial year. These instructions are given during the month of September and the departments are required to submit their estimated income and expenditure figures by the first week of October. On submission of their figures to the accounts section, the

76. Abhijit Datta, Municipal and Urban India, Pauls Press, Delhi, 1988, p.23.
The progress of compilation starts, which involves cross examination of headwise expenditure and income. The compilation of budget is almost over by the month of February for approval by the government, and the government approves the budget by 31st March.

(ii) Municipal Accounts:

As the accounting is the internal responsibility of municipal organization, it is much easier to relate municipal accounting to the needs of state and central governments, the executive is somewhat isolated from accounting processes, as the entire public accounting is done by the Comptroller and Auditor General. However, the tradition of regarding accounts as a mere recording device exists at all the levels of government. Municipal accounting, in this respect, has a good deal in common with commercial concerns.

Methods and procedures of accounting contained in Chapter III of HPMC Act, 1979 are as follows: All the money received by the corporation as its income through realization of taxes or otherwise is first deposited with the cash branch against issuance of receipt under form 9-8. Every amount that has been

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received is brought in the books of accounts section. As regards expenditure, different forms are used for maintenance of the expenditure, though every expenditure appears in the cash book, yet Himachal Pradesh Municipal Accounts Code, 1975, Chapter III, Clause 20, provides for maintenance of form 9-3 for the purpose of classifying the income and expenditure in different heads.

Municipal accounting and budget formats are neither simple nor easily comprehensive, sometimes providing inadequate information and at other times a surfeit of formation. Both these situations are not geared to a proper system of management information. Moreover both these are inadequate for monitoring of various municipal activities.

Following the practice in government accounting, the system evolved for maintaining municipal accounts in India pays scant attention to the peculiar needs of those municipal activities which are either fee financed or financed through levy of specific taxes.

In the case of central and state governments the executive is somewhat isolated.

78. H.P. Municipal Accounts Code 1975, Chapter III.

79: Abhijit Datta, Municipal Finances in India, Frontier Press, Delhi, 1984, p.94.
from the accounting processes as the entire public accounting is done by the comptroller and auditor general. Municipal accounting in this respect has a good deal in common with commercial concerns.

(ii) Audit System

The third step in the budget cycle is budget execution for which the responsibility is divided between the executive and the auditor who examines the records. The council or the committee is involved if any reallocation of funds are to be made as in the case of Indian local authorities. The audit is primarily concerned with legality of local transaction and accuracy of accounts. Hence, the independence of audit-- while pre audit is an executive's responsibility, post audit is a legislative responsibility.

Clause 294 of The Himachal Pradesh Municipal Accounts Code, 1975, provides for the audit of the municipal accounts. The function of auditing in the municipal accounts is entrusted to the examiner of local fund accounts. In Himachal Pradesh the audit staff is deputed to the corporation for conducting the audit as per directions of the state government. Where

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81. H.P.Municipal Accounts Code 1975,
there is a system of post audit, the payments are made without the audit and in such cases timely audit is conducted as per instructions of local fund accounts examiner.

2. Budgeting in Delhi Municipal Corporation

Budgeting is the first link in the chain of an effective financial administration. Under section 109 of Delhi Municipal Corporation Act, 1957, the corporation has to adopt on or before 31st March every year the budget estimates for the ensuing year, that is the estimates of the income and expenditure to be received and incurred on the account of the corporation. The municipal commissioner is the chief budget making authority of the corporation. He prepares the estimates of expenditure and non-tax revenue of the corporation for the ensuing year and makes proposals regarding taxation and raising loans for balancing receipts and expenditure. He is required to submit his estimates and proposals to the standing committee by 10th December every year. The standing committee proceeds to discuss the proposals and estimates with a view to framing the budget. The commissioner then forwards printed copy of the budget framed by the standing committee to each member of the corporation. The general council of the corporation begins to consider the budget proposals not later than 25th January. In course of its deliberations, the general council is entitled to refer the budget back to
the standing committee for further consideration and, if that course is not followed, the budget may be adopted by the general council or without modifications. The budget adopted by the general council is final. 82

(i) Accounting Procedure:

A sound system of accounting serves as a tool of the executive in operating financial control and facilities at financial and legal accountability. Under Section 204 of Delhi Municipal Corporation Act, 1957, keeping accounts of all its receipts and expenditure is obligatory for the Delhi Municipal Corporation. The central government has framed exhaustive rules, known as the Maintenance of Account Regulations, 1959, for the guidance of the corporation. Under these regulations the chief accountant is responsible for the proper maintenance of all accounts and for their internal check. The accounts are maintained in the cash basis. Delhi Municipal Corporation has decentralized the accounting system so that the major accounting work is carried on in its different zones and departments. The zones and the departments have their accounts sections which work under the control of central accounts department headed


by the chief accountant. These zones and departments receive municipal dues and disburse money on account of their salary bills, works and contingent expenditure. The accounts section prepares the statements of these receipts and payments and sends them to central accounts department for compilation of consolidated accounts of the corporation.

(ii) Audit System:

Audit of the accounts of Delhi Municipal Corporation is conducted by the municipal chief auditor. For discharge of his functions, the chief auditor is assisted by a municipal chief auditor and the deputy chief auditor have been charged with the duty of conducting an independent probe into financial transactions of the corporation. He is expected to ensure that these transactions are carried on in accordance with law, financial rules and procedures. He is required to deliver to the standing committee, after commencement of each financial year, a report in the municipal accounts for the previous financial year. The standing committee causes the report to be laid before the general council of the corporation. The corporation may take such action in regard to any matter mentioned in the report as the council deems necessary.

85. Ibid., p. 207.
Thus on the behalf of the deliberative authorities constituted under the Act, the municipal chief auditor is expected to ensure that executive wings of the corporation and the undertakings act in accordance with the Law, financial rules and procedures as well as decisions and requirements of those bodies. The audit department is also expected to verify that financial rules and orders framed by the executive authorities satisfy the provisions of law and are also otherwise free from any deficiencies.