CHAPTER I
LOCAL AUTONOMY AND LOCAL FINANCE: AN OVERVIEW

The subject of the present research is a study of Nashik Municipal Finance. It would be useful here to analyse the theory of local finance. This will provide a backdrop to an understanding of the working of Nashik Municipal Finance and problems before it.

1.1 DEFINITION AND MEANING OF LOCAL GOVERNMENT

"Local Self Government is an integral and inalienable part of a democratic government. It completes the three-tier system of a country's federal government structure, that is, sovereign national government, quasi-sovereign state governments and infra-sovereign local governments, all three working as partners in the great enterprise of securing a decent level of existance for all the nation's citizens". (1)

It is very essential to discuss the meaning of local self-government. The term "Local Self Government"

means the government by freely elected local bodies which are endowed with power, discretion and responsibility to be exercised and discharged by them, without control over their decision by any other higher authority. Their actions are, however, subject to supremacy of national/state government. In India, local government is in the State list of powers in the constitution.

The two terms are used in this reference viz. "Local Government" and "Local Self Government". Local government means "power to determine and execute measures within a definite area but not over the whole state". Local self government means that "local institution should be possessed with the freedom to decide and act".

The characteristics of local government and local self government are deconcentration and decentralisation respectively. In deconcentration, the functions have been devolved on the administration on the spot rather than from centre, but still administered through officials appointed by and responsible to the Centre. Decentralisation represents local government in an area where the

(2) Shrivastava OM Prie Municipal Government and Administration in India Chugh Publications, Delhi, 1980 Chpt.I, P.7
authority to decide are devolved on a council of locally elected persons acting on their own discretion with officials they themselves appoint and discipline. Thus it is clear that local self government puts emphasis on the freedom of a locality while local government is more related to the administration of a locality.

The term "Local Government" and not local self government is used in Entry 5, List II of the Seventh Schedule of the Indian Constitution. However in India, both the terms are used interchangeably.

Local government can also be described as that form of government under which the people of a locality possess a certain responsibility and discretion in the administration of local public affairs, and in the raising of required finance to meet their expenses.\(^{(3)}\)

1.2 THE IMPORTANCE OF LOCAL GOVERNMENT

The problem of local finance and its relation to national finance are of universal concern to many countries of the World. In most of the countries, the development of strong local government has been an essential part of the growth of the modern state. In a

welfare state, the local bodies and the state and central government must work as Partners in the great enterprise of securing a decent level of existence for all the citizens. While making a theoretical analysis with illustration from British experience, Professor Mrs. Hicks stated, "To a very great extent, the success of our Five Year Plans would depend upon our ability to secure and enjoy local co-operation in the matters of local welfare". The same is true for the success of our five years plans.

Increasing economic attention is being paid to the matter of local finance for two major reasons. The first is that the financial activities of the local bodies are increasingly significant to the behaviour of aggregate demand in an economy. The second is that the principal functions of the local bodies are of crucial importance both to the maintenance of the living standards and provisions of the strategic instruments for economic growth.

Local self government or the decentralisation of the administration of certain functions to local areas such as villages, districts and cities is now recognised to

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be of great importance. Certain needs are peculiarly local in character, for example, the construction and maintenance of roads, the provision of water and electric supply, sanitation, the provision of primary education etc. These functions can be better, more fully and more efficiently performed by local bodies. The delegation of such functions to local bodies also relieves the government of a large amount of administrative work which cannot be adequately performed from a distance.

Local services have become indispensable in a modern society. The activities of local government affect the people more directly and intimately. In fact, they touch the life of individual citizens at an increasing number of points. Therefore, efficient performance of local services, will undoubtedly increase general productive capacity of the citizens in general and thus enable them to play their role more appropriately, in the wider sphere of national development. The local authorities supervise, direct and control our lives, awake and asleep, at work and play, they provide for all citizens a common minimum health, education, welfare services and beauty environment.

Local self government is also a good training


ground in the art of democratic self government and administration and awakens the civic consciousness of the people.

Local self government can render valuable help in the successful implementation of schemes and projects of a local nature. It provides an opportunity to citizens to have free, intelligent and active participation in the governance of their local area, thereby enhancing their creative interest, enthusiasm and local patriotism. Thus local government contributes to the strengthening of democratic institutions. Democracy at the top will not be a success unless it is built on the foundation from below.

Local authority is generally a product of Central or Provincial (State) legislation. In countries like U.K. and U.S.A., a strong central government has evolved through the strengthening of small governmental units. As for India, confining our attention to the period of British rule, we find that the process here has been reverse. The Indian Municipalities have very little of local tradition to stand by or to be proud of, whatever existed was of a negative character. The restricted freedom has bred a tendency among local authorities to look often to superior government for aid and advice and made them amenable to State control and supervision.

(8) Dr. Gyanchand, Local Finance in India. Ch. pt.I, P.9
1.3 THE MAIN INSTITUTIONS OF LOCAL GOVERNMENT IN INDIA

The main institutions of Local Government in India at present are Village Panchayats, Zilla Parishads, Municipalities and Municipal Corporations.

Village Panchayats

Village Panchayats have been and are being formed in most states. The jurisdiction of a panchayat is generally one village, though, sometimes there may be one panchayat for a group of small villages. Great stress has been laid down in the plans, specially in the Third Plan, on the role of panchayats as an instrument for the implementation of rural development programmes. The functions entrusted to panchayats are, at least on paper, very numerous and include, civil and economic - in some cases even judicial activities. Thus, smaller disputes may be disposed of by panchayats in some states; village roads, primary schools, village dispensaries etc. are to be managed by them everywhere; water-supply, both for drinking and irrigation may be remitted to their care; and finally even productive and economic activities such as farming, marketing, storage of agricultural crops etc. may be entrusted to their care under the regulations of several States. In actual fact, however, the functions hitherto discharged by Panchayats are much more limited than this impressive list would indicate. In a large
number of cases, a village panchayat performs barely two or three functions. The Taxation Enquiry Commission (1953-54) was of the view that instead of the large number of functions now assigned to panchayats, they should be given a few well-chosen and clearly defined duties. The Indian Planning Commission, however, envisages a large number of functions to be performed by panchayats. Indeed, in some States, the range of activities of village panchayats does not in practice extend beyond the construction of panchayat ghars, chawadies, construction and maintenance of wells for drinking water, roads and drains and a few minor duties of a casual nature, such as the registration of births and deaths.

District Bodies

In most states (like Uttar Pradesh, Maharashtra and others), former District Local Boards have been replaced by Zilla Parishads with wider powers. Zilla Parishads are also assigned a large number of functions such as construction and maintenance of district roads, the planting and preservation of trees, the provision and protection of water supply for residents, cattle and irrigation, the establishment and maintenance of the hospitals, dispensaries, veterinary hospitals, markets, parks, primary schools and libraries, provision of sanitation and prevention of disease etc.
Municipalities

The municipalities are a form of local government meant essentially for cities which are not big enough to have a Corporation. A city must have a certain minimum population to qualify for a Municipal Council or Municipality. In Maharashtra State, this limit is 15,000. The Municipalities are established through an Act of the State Legislature.

Municipality is one of the branches of local government. The Maharashtra Municipalities Act, 1965, defines municipal area as "any local area declared or deemed to be declared, a municipal area under this Act". This Act also defines council as a "municipal council constituted or deemed to be constituted under this Act for a municipal area". (9)

Every Municipal Area is classified by the State Government as 'A' Class, 'B' Class or 'C' Class on the basis of population thereof as specified below: (10)

(a) One with a population of more than 75,000 shall be 'A' class municipal area;
(b) One with a population more than 30,000 but not more than 75,000 shall be 'B' class municipal area;

(10) Maharashtra Municipalities Act 1965. Published by the Director, Government Printing, Stationery Publications, Maharashtra State, Bombay-400 004, P.6
(c) One with a population of 30,000 or less shall be 'C' class municipal area.

The main functions of municipalities are: the construction and maintenance of roads, lighting, watering, cleaning of streets, water supply, maintenance of hospitals, dispensaries and veterinary hospitals, sanitation and drainage works, vaccination, provision of primary education, maintenance of parks and gardens, regulation of offensive trade etc. These functions are performed subject to the control of the State Government.

Municipal Corporations

The city must be large enough to be elevated to the status of a Municipal Corporation. Normally, Corporations are established only for cities having a population of 5 lakhs or more. But such decisions are generally made at the political level and rarely on merits.

Municipal Corporations have wider functions and larger powers than municipalities. They also have greater freedom from the control of State Governments in the sanction of the municipal works and in formulating their budgets. They have more powers of taxation than Municipalities.
1.4 THE FUNCTIONS AND DUTIES OF LOCAL GOVERNMENT

Local services have become most indispensable in modern society. Local self government occupies and must occupy a very important place in a modern democratic country's political and economic life. It follows that sound system of local finance is essential. At the same time it should be remembered that the successful working of local bodies does not depend on finances alone. An equally great obstacle for the majority of local bodies is inefficient administration. The functions of local bodies should be enlarged very gradually so that they may cope up with them effectively. In the beginning there should be only a few well defined functions. There should be trained staff.

The division of functions among various layers of government has often depended more upon expediency, tradition and historical considerations than upon the strict adherence to the scientific principles of the defederalism. The local governments are generally assigned such functions as are primarily local character. There must be sufficient elasticity in the scheme of division of functions. Whatever division it is, it should be clear and non-doubtful to minimise the inter-governmental disputes.
There is no uniformity about the pattern of division of functions, adopted in different countries. This is due to different historical, political and social considerations. In England, local bodies manage police services, while in India, these services are administered by the State governments. The constitution of town in Germany never contained precisely definite duties, and the local body could enjoy all such jurisdiction as is not specifically forbidden by law or allotted to some other authority. (11)

Most of the Acts constituting local bodies in India were passed during the British rule, and most of these British-Indian Acts influenced similar legislations in the princely states in the country. Therefore, municipalisation in India has been followed by the British practice of assigning to the local bodies only such functions as have been defined in their respective enactments. These functions broadly include as we have seen earlier primary education, health and sanitation, water supply, conservancy, medical relief, public works, child welfare, public libraries, play grounds etc. In general, "the matters assigned to local bodies should be those, in which local separation of interest is most marked, local knowledge most important, the need of uniformity and system least evident and the co-operation

of private and government agencies likely to sell the most". (12)

In course of time the scope of local finance has considerably widened. Local finance involves the transfer of command over resources from private hands to a local authority and their subsequent uses. While performing the functions assigned to them local bodies have to deal with the problems pertaining to the optimum allocation of resources, redistribution of income, economic stability at a higher level of employment and rapid economic development and growth. Some of these have been only recently recognised.

Allocation of Resources

Allocation problem refers to provision and financing of social and merit wants. Social wants are met by services which are consumed by all, though the level of consumption may differ from one person to another. Since people cannot be excluded from the benefits of these services (for example street lighting, cleaning etc.), left to themselves individuals will not voluntarily pay for them. (13) This is referred to as the problem of free riders which means

(12) Sidwick, "Elements of Politics", P.83
that everybody would like to have the benefit of good without sharing the cost of its supply.\(^{(14)}\)

Merit wants are those wants which are considered so meritorious that their satisfaction is provided through public budget, over and above what is provided through the market.\(^{(15)}\) Examples are, health services, housing, education, transport etc. The fundamental object of local self government is the satisfaction of merit and social wants. At the local level local finance must, therefore, provide for these wants. The primary purpose of public finance is support of goods and services, which for one reason or another, will not be provided in adequate quantity and quality in the absence of governmental action.

Redistribution

Redistribution of income is important to reduce inequalities of income. By taxing the well-to-do class according to their taxable capacity, the local government can collect its revenue and then spend it on services beneficial to the community at large so as to bring about a reduction in disparities in income distribution.

Stabilisation

This problem does not come within the scope of local finance. This is so because a local authority does not

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possess the money-creating powers ultimately necessary to control and support the functional finance.

**Economic development**

Local finance deals with the economic development aspect of Public Finance quite intimately. It provides the foundation investment, by formation of human capital and physical capital. Health services, educational facilities, social security schemes and housing help in the formation of human capital. Roads, markets, water supply, transport etc. make up the physical capital. Moreover, local finance sparks enthusiasm among local people, to undertake developmental activities.

1.5 **THE SOURCES OF LOCAL FINANCE (WITH MAIN EMPHASIS ON MUNICIPAL FINANCE)**

As the subject of the thesis centers around the finances of municipality, it is worthwhile to see the financial resources reserved for the municipalities in India.

The logical consequence of division of functions is the division of resources. The division of resources between different layers of government ought to be positively co-related with the division of functions.

Due to the British rule in India for number of years, Indian Municipalities in general have been modelled
on the British local authorities. They unlike those in the other European countries and the U.S.A. do not share in provincial or state revenues except for motor vehicle taxes, nor do they levy taxes on objects marked for state taxation. The Indian Municipalities have wider powers of taxation than the Municipalities in U.K. It is true that even then they are in financial difficulties, this is because of general poverty of Indian masses.

The Indian constitution divides the public revenues of the country into two parts only, one for Union government and the other for State governments, and it permits the State authorities to allot any resources at their discretion to Local Bodies out of the State share of public revenues. There is no provision in the constitution making it obligatory for the States to hand over any particular source of income to local bodies. Theoretically, the local bodies can be permitted to levy any of the taxes which a State government is empowered to levy under the constitution. This, however, has not been, and for obvious reasons, cannot be permitted. (16) Even in their own limited sphere, they do not enjoy complete discretion and power to exploit their allotted resources. Not only the form and the final permission for each levy but even

the rates of local taxation have been determined by the State government. Mostly, the maximum and minimum rates of local taxes are laid down by the State government. If the Central and the State governments are allowed to enjoy full discretion and complete authority to formulate tax policy within their allotted jurisdiction, there seems to be no reason for not extending the same privilege to the local governments also, if all these three are supposed to work as a part and parcel of one governmental system, working for the attainment of maximum welfare of all.

The sources of finance for municipal bodies may be stated as follows:

I) Revenue from Taxation -
   a) Taxes levied and collected by Local Bodies themselves, or by other bodies as their agents;
   b) Taxes levied by the Local Bodies and collected by the State Government.

II) Assignment of shares of taxes levied and collected by State Government.

III) Revenue from non-tax sources under the control of Local Bodies.

IV) Grant-in-aid from State Government.

V) Borrowings in open markets and from State governments.
Revenue from Local Taxes

A sound system of Local Finance depends on the solid foundation of local taxation. The receipts from the taxes levied by the Local Bodies should provide all the basic revenue for local finance. This alone can prevent Local Bodies from depending too much on State government. Keeping this in view, the Taxation Enquiry Commission has urged the following six heads of taxes to be reserved for exclusive utilisation by Local Bodies (17) i.e. municipal bodies.

1. Taxes on land and buildings;
2. Octroi;
3. Taxes on vehicles other than those mechanically propelled;
4. Taxes on animals and boats;
5. Taxes on professionals, trade, calling and employment;
6. Taxes on advertisement other than those published in newspapers.

It may be recalled that the Government of India Act of 1919 (Scheduled Taxes Rules) provided for the following taxes to be exclusively utilised by or for the municipal bodies:

1. Tolls
2. Property Tax
3. Tax on vehicles and boats

4. Tax on animals
5. Octroi
6. Tax on menials and domestic servants
7. Terminal Tax
8. Tax on trades, professions and callings
9. Tax on private markets
10. Tax imposed in return for the services rendered such as water-supply rates, lighting rate, drainage tax etc.

Subsequently with the declaration of provincial autonomy under the Government of India Act of 1935, the Scheduled Taxes Rules were repealed and the above taxes were included in the Provincial List without any indication that the taxes in question were reserved for local authorities. The position is continued in the new constitution except that one or two items belonging to local bodies in the List (ii) of the Act of 1935, are now in Union List. All other items are even now in the State List.

Characteristics of Municipal Taxation
1. The only objective is revenue raising.
2. Municipal Tax effect is very little and the impact is inconsiderable.
3. A local tax is easily resisted or avoided.
4. Much of municipal taxation is direct and hence cannot wholly be shifted; Examples are - the property tax and the tax of advertisement.
5. Municipal taxation is confined to local wealth only. This limits the revenue potential of the municipal bodies.

6. Municipal taxation is regressive. The main example is an octroi.

**Non-tax Revenue for Local Bodies**

The non-tax revenue is the revenue obtained by the sources other than tax. It broadly covers items such as licence fees and fines, revenue derived from local property and utility services etc. The share of non-tax revenue is negligible in total revenue and the revenue from licence fees and fines is insignificant.

Municipal property can broadly be divided into two categories:

a) Land and Buildings

b) Municipal Enterprise

Lands and Buildings cover dak-bungalows, market places, slaughter houses, dharmashalas, sarais, gardens, as well as open lands. Municipal enterprise covers water-supply, electric-supply, gas-supply, milk-supply, city-transportation, workshops etc.

The ownership of the property can be either active or passive. Passive ownership of properties does not perform productive function while active ownership leads to income out of the use of the same, resulting in supply of some good services, essential for satisfying some of
the most important needs of the citizens (18). The market places, slaughter houses are the examples of active ownership while garden is that of passive ownership.

Municipalities should ordinarily enter the field of commercial and industrial activities, primarily with the considerations of rendering most efficient and cheaper service to the citizens. Public utility services like supply of protected water, electricity, gas, milk and city transportation etc. have become some of the most important indispensable needs of city-life in modern times. If left to provide private profit-seeking hands, their plentiful supply on efficient as well as on economic lines becomes very doubtful and uncertain, and as such, the community as a whole is likely to be very much handicapped. Hence in order to ensure the most regular and well-distributed supply of such civic amenities on the most efficient and economic lines, the municipalities must undertake such undertakings. Besides ensuring a regular flow of services, these municipal activities also result in making sizeable additions to revenue, obviating the need to make sizeable additions to the tax burden. They also provide local employment to some extent. They help in reducing the cost of levying of citizens. All these services also serve as poles of attraction for the economic development of the area.

(18) Dr. Pande V.K., "Municipal Finance in Marathwada" Published by Shri V.K. Dhamankar, Registrar, Marathwada University, Aurangabad, 1963, Chapt. VII, P. 119
Unfortunately, the trend in the scope of municipal enterprise has been in the reverse direction in recent years. We witness a gradual take-over of the city transport, by the State Government, leaving water-supply as the sole item with municipal bodies.

Of course, it is equally true that the municipal bodies in India have also not shown any initiative nor the State Government has given any special encouragement to them for assuming newer responsibilities. In the absence of any substantial investment in the field of municipal enterprise in India, the most common form of investment has been in lands, buildings, dak-bungalows, markets, slaughter houses, gardens and water-works. Returns on some of these investments are calculated to enrich the social and cultural life of the community. But there are some other capital assets which could be used to yield surpluses to municipalities. It has been observed that the share of non-tax revenue in the total revenue of local bodies is either stagnant or declining.

**Grant-in-aid**

Grant-in-aid may be defined as a sum of money transmitted by a superior governmental authority to a lower-level governmental authority either out of its exchequer or from sources specially designed. The system
of grants-in-aid aims at supplementing the sources of
the local bodies, so as to enable them to perform their
functions satisfactorily. It is essentially in the nature
of a gift, with or without any conditions to be fulfilled
by the claimant.

The system of giving grants-in-aid to local
authorities to perform their functions, has developed
out of the necessity. As the Central and the State
Governments burden the local authorities with more and
more functions, they have a moral obligation to assist
them to carry out these functions. The principle that
the grants-in-aid should form one of the important
sources of revenue of local authorities, has been
accepted all over the world.

According to the Taxation Enquiry Commission, "The
additional revenue should be fully made available to local
bodies by way of grants-in-aid rather than by way of
assignment of a share in the receipts of taxes levied
by the Government, firstly revenue without responsibility
would be demoralising and secondly because grant-in-aid
can be determined on the basis of needs and be coupled
with the maintenance on desired standards". (19)

(quoted in the report of Zakaria Committee)
Ministry of Finance, Government of India,
Vol.III, P.362
Importance or Need of Grants-in-aid to Local Bodies

1. The inequalities of financial strength as well as of needs as between the different regions are more or less inevitable. This would ordinarily lead to wide disparities in the standards of social services and social conditions provided by municipalities in different regions. The reduction in such wide disparities is one of the basic objectives of the mechanism of grants-in-aid.

2. The grants-in-aid is an effective instrument for bridging the gap between fiscal capacity and fiscal needs of municipal bodies.

3. Grants-in-aid provide incentives to municipal bodies, to undertake the promotion of economic and industrial development work in their areas to provide approach roads, adequate water-supply, power, transportation and market facilities. Municipal bodies can also undertake special service programmes like child-welfare, family planning, maternity service etc.

4. The grants also help as a compensatory device for counter-cyclical objective.

Grants-in-aid are divided into two classes:

a) Recurring grants which are given to meet the deficiency in recurring expenditure of local bodies. They are given annually.
b) Non-recurring grants which are given for specific purposes to meet initial expenditure.

The Grants are generally made on -

i) Flat Basis

ii) Unit Basis

iii) Percentage Basis

iv) Discretionary Basis

Under the flat basis system a fixed sum is given to all local bodies qualified to receive a grant. Its greatest drawback is that it does not provide any reasonable basis for determining the amount of grants.

The unit basis system is one in which a grant is calculated according to each unit of service rendered by the local authority, such as, so many rupees per hospital, per school etc. This system also possesses the advantage of the flat basis system, but its main shortcoming is that it co-relates the amount of grants with the ability of local bodies to provide services. It may, thus lead to giving of larger amount of grants to local bodies which, on account of a higher level of prosperity of their inhabitants, are able to raise more revenues and provide more services in physical terms.

In the percentage basis system, grants consist of payment of subventions in a definite proportion to the
expenditure on a service or some item of it. This may encourage local bodies to devote more funds to such services as those on which matching grant is admissible to them.

Under discretionary basis, the amount of grants depend upon the discretion of the Government. This system is partial.

The most equitable basis for grants-in-aid appears to be the needs of different local bodies as reflected by the per capita incomes and the number of people living within their jurisdiction.

**Borrowing by Urban Local Bodies in India**

For developing municipal enterprise as well as for executing important public works and town planning schemes, municipalities have a resort to public borrowing. Municipal expenditure on these items is of such a nature, that the benefits of the same are available for a very long period in the future. Meeting heavy capital requirements wholly from the current revenue is neither desirable nor possible for the municipalities. Therefore, such projects are financed out of the loans.

Borrowing by urban local bodies in India are regulated by an All India Act, known as Local Authorities Loans Act, 1914. The borrowing powers of the municipal
corporations are defined in their respective Acts, according to which, they may borrow for certain purposes and within definite limits, with the previous sanction of the State Government.

According to the Section 3 of the 1914 Act, the purposes for which funds can be borrowed are:

1. the carrying out any works which a local body is legally authorised to carry out;

2. the giving of relief, and the establishment and maintenance of relief works in times of famine or scarcity;

3. the prevention of the outbreak or spread of any dangerous epidemic disease;

4. any measure which may be connected with or ancillary to any purpose specified in (2) or (3);

5. the repayment of money previously borrowed in accordance with law.

Local bodies can only borrow on the security of their funds. Their lands, buildings or any other movable or immovable property cannot be accepted as security.

When a local body desires to borrow, the first step is to pass a resolution for the purpose. Then an application has to be made to the State Government,
stating the purpose, the security, the time and method of repayment, the rate of interest, the period for which the loan is required and the existing debt position. The application is submitted through the usual channel, viz. The District Collector, to the State Government. After receiving the application, the State Government may institute an enquiry to ascertain the correctness of the facts stated in the application and the utility of the purpose for which the loan is required. After an expiry of one month from the date of publication, and after considering any objections, that may have been received, the Government may dispose of the application, finally. They may reject it or sanction it, or refer it to the Government of India if its sanction is beyond their competence.

If the loan is required from the Government, nothing more has to be done after sanction. If, however, the loan is proposed to be raised in the open market, it has to be duly floated after the sanction. A prospectus of the loan has to be issued setting forth the amount, the terms, the rate of interest and other particulars. The tenders are invited for subscribing to the loan at a premium, at par or at a discount. On a fixed date, the tenders are opened and accepted or rejected according to merits. Contract documents, known as bonds, debentures or stock are
prepared and issued to the creditors. Each bond or debenture is for a definite amount and conditions of the loan are printed on it.

Repayment of the Loan

There are two common methods of repayment of loan:

1) **Sinking Fund Method**

   According to this method, the whole amount of the principal is paid at the end of the loan period while interest is paid half yearly or yearly as stipulated in the terms. A certain amount is set apart by the local body every year and is invested in some form of approved securities. Interest accruing from this investment is also invested, so that the original amount grows at a compound rate of interest. The annual amount to be invested is determined by the period of maturity of the loan and is so fixed that the total amount invested during the period together with the amount of accrued interest from investments equals the amount which falls due at the maturity of the loan.

2) **Annuity/Installment Method**

   According to this method, a portion of the principal and the interest is paid every year in equal instalments during the term of the loan. Every instalment consists of interest and capital but the capital element increases and the interest portion decreases, as the loans get progressively
repaid. In case of Government loans, this method is usually followed. The advantage of this method is that it is safer and does not offer an opportunity to the local bodies for misuse. If there is any default in the repayment, Government imposes penalty.

The expenditure and accounts of loan funds are subject to Government supervision and control. Government has a power to inspect the works financed through loans and the accounts thereof. The loan money cannot be spent for a purpose other than that for which it was meant. If there is an unspent balance of the loan money, the Government may require the balance to be repaid to them if it was Government loan. If the loan is from open market the Government may direct that the unspent balance should be used for the redemption of some other outstanding debt to the Government or for carrying out some other approved work.

Borrowing of Municipal Corporations

Under Section 3 of the Local Authorities Loans Act, Municipal Corporations are permitted to borrow money for certain specified purposes only and where the amount to be borrowed exceeds ₹25.00 Lakhs, the terms including the date of flotation require the approval of the Central Government.
An analysis of Municipal Corporations enactments indicates that there is uniformity in their borrowing powers. The salient features of the sections governing the borrowing operations are:

(a) Loans are or can be borrowed only for developmental activities and repayment of debt charges.

(b) The maximum period for which loans can be borrowed is sixty years as compared to thirty years in the case of Municipalities.

(c) The loans can be raised on the security of immovable property of the Municipal Corporation also.

1.6 STATE'S BUDGETARY CONTROL OVER MUNICIPAL BODIES

It is necessary for any institution to have some sources of revenue because revenue is the first essential of government. No administration can be carried on without it. Municipal bodies in India have also been provided with some sources of revenue, but the sources of finance are not self-sufficient. The Municipal bodies have to function under double-handicaps. On the other hand, fast growing population, rapid industrialisation, immigration of rural population and problems of urbanisation put heavy strains on them. On the other hand, restrictions on the functions which the Corporation perform, ceilings on the amount of permitted taxes and debts, restrictions on the sources of revenue and sanction of budget in special
cases, requirement of prior approval of State Government in the sphere of finances, are some of the forms of controls exercised by the State Government which may make their smooth functioning difficult.

The tasks before Municipal bodies in India are tremendous, and the powers and resources at their disposal to fulfill those tasks are meagre. As stated above, the local bodies do not find any separate place in the three lists of subjects enumerated in the Constitution of India. The financial crisis is large also because of reluctance of the elected members to impose local taxes and failure to collect taxes adequately. With the repeal of the Scheduled Taxes Rules by the Government of India Act, 1935, the financial position of urban bodies suffered a setback. With the advent of Independence, the status-quo was maintained. Even today the municipal corporations depend for financial aid upon the State Government.

The State Government may put (1) restrictions upon the resources from which municipal bodies may obtain their revenue and may interfere with the powers of taxation of municipal bodies; (2) municipal bodies also depend on the State Governments for loans and grants-in-aid, and by giving grants, the State Govt. exercises control over the activities of the municipal bodies; (3) the State Govt. may also approve or disapprove
their budgets in the case they are indebted to the Government, and it may direct special examination of their accounts by the auditors appointed by the State Government, (4) besides, the allocation of proceeds of taxes collected from local people as between the State Government and Municipal bodies, has also been a subject of discontentment. These are the important measures by which the State Governments control the finances of Municipal bodies.

1.7 THE PROBLEMS FACED BY THE LOCAL BODIES

The central problem of Local Finance is that of matching resources with responsibilities. The division of resources must have some connection with the test of elasticity as no scheme of division, however good, can be final for all times to come. The scheme of division must, therefore, incorporate provisions for such changes, when they become necessary for the normal working of different governments. The provision of appointment of Finance Commission after every five years, according to Indian Constitution, is recommendable in this respect. However the problems of local finance do not fall within the jurisdiction of the Finance Commission and therefore an additional constitutional provision on similar lines, to revise the financial position of the local bodies, from time to time will be very much appreciated. (20)

The most serious limitation of local finance is that, local authorities being the creation of the State, do not enjoy any inherent powers of taxation. As Bastable puts it, "their power of taxation is a concession strictly limited by the terms of grants". (21)

In other words, the lack of any provision in our constitution for a separate list of taxes which could be levied exclusively by and for the local bodies is the most important reason for the absence of any assured source of local revenue. They are almost at the mercy of the State Government in this respect.

It is not easy to draw a hard and fast line between the sphere of the Central and Local authorities. Some forms of expenditure are the matter of general importance to be left to the Central authorities, others are only of local importance to be left to local bodies. For example, expenditure on national defence is clearly national, while expenditure on providing services such as water-supply, drainage, street-lighting etc. are clearly local and capable of being handled more efficiently by local administration. There are some other forms of expenditure which may be regarded as both, national and local. For example, education, public

health services etc. The whole question is further complicated by the difference in the efficiency of different local distinct authorities and variations in the resources of different districts under the control of local bodies.

Mere finance is not the problem for the municipal bodies. There are several factors which lead to disparity between the available resources and the functions to be performed. It is stated that the inability of a municipal body to cope up with rising demands of the citizens is surely a result of socio-political economic factors such as rising population, political pressure, inefficient administration, general economic backwardness, creation of slums, increasing responsibilities etc. Thus the problem is not merely financial it has many facets and many dimensions. (22)

It is a matter of historical fact that over a long period of years, the cost of Local Government has continued to rise and the ability of local government to meet its cost within the resources at its disposal, has continued to diminish. The fundamental problem of local finance can be summed up as to how provide the money necessary to meet the cost of services carried out without imposing an intolerable burden upon the tax-payers and without the

(22) Dr. Palande P.S.
The Fiscal System and Problems of Municipal Corporations:
A case "Study of Finances of Pune Municipal Corporation"
August 1981, P. 6
local authorities becoming unduly dependent upon the assistance from the State Exchequer. (23)

Rapid industrialisation, accompanied by rapid urbanisation has created new problems and challenges, such as creation of slum areas, inadequacies in civic services etc. The great changes have occurred in the life of the citizens since industrialisation, causing more expectations from municipal body, thereby raising the municipal expenditure.

While, smaller urban bodies are called municipalities or municipal councils, the local government in bigger cities are called as Municipal Corporations. It is a general belief that the conversion of municipality into municipal Corporation leads to improved standard and quality of the civic services. The expectations of the people may rise.

Backwardness in all spheres has kept local authorities politically backward too, with the consequences that, they are not very power-conscious. Here it is necessary to refer to Prof. Bastable. He states, "Finance is not mere arithmetic, finance is a great policy. Without sound finance, no sound government is possible; without sound government no sound finance is possible." (24) Unfortunately neither finance nor the government is supposed to be sound in local self

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(23) Zakaria Committee's Report (1963)
(Report of the Committee of Ministers, constituted by the Central Council of Local Self Government Nov. 1963)

government sphere, much less so in underdeveloped and undeveloped countries. The poor finance backed up by poor service conditions fails to attract good heads to manage and administer the local bodies and the inefficient and incapable heads make a mess of everything including the finance. (25)

In this thesis, I have studied the case of Nashik Municipality. In Maharashtra State, there are in all 219 Municipalities and 11 Municipal Corporations, out of which Pune, Bombay, Nagpur and Aurangabad Municipal Corporations have been covered under different research works. Nashik Municipality has not been subject to any such discussion.

Nashik is one of the important cities in Maharashtra, which is on the path of development. Alongwith the development of the city, some problems have also been created which are to be handled mainly by Nashik municipality. So I thought it necessary to study the overall conditions prevailing in the city, the role and the functions performed by municipality, the sources

(25) Mishra B.S.
"Municipal Taxation in a Developing Economy"
New Heights, X/1024, Daryaganj, Delhi.
1971, P.14.
of revenue, the needs and the demand of the citizens, the problems faced by municipality etc.

Nashik Municipal Council came into existence in 1864. It was transformed into Corporation in 1982. In this thesis, I have tried to present the case of Nashik Municipality in a phased manner as follows:

(a) Historical Review of Nashik Municipality covering the period of 100 years, from 1864 to 1964.

(b) The Role of Nashik Municipality over the period of 15 years from 1966-67 to 1980-81.

(c) The role of Nashik Municipal Corporation during the period of 5 years from 1981-82 to 1985-86.