PTIONS FOR CLOSING THE REVENUE GAP OF MUNICIPALITIES 2000/01 TO 2004/05

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FEBRUARY, 2000

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A Prefatory Note

The study, ***Options for Closing the Revenue Gap of Municipalities: 2001/01 to 2004/05***, is the first formal attempt to respond to Article 280(3)(c) of the Constitution of India that requires the Finance Commission to make recommendations on the 'measures needed to augment the Consolidated Fund of a State to supplement the resources of the municipalities in the State on the basis of the recommendations made by the Finance Commission of the State'. Pursuant to this Article and the consequential provisions in the Ministry of Finance Notification of July 3, 1998, this study has estimated the supplementary financial requirements of municipalities for the period 2000/01 to 2004/05, using different norms, standards and criteria. The reports of the first Finance Commission of States have been examined with a view to determining if their recommendations can be extended to estimate the financial requirements of municipalities for the period in question. An attempt is also made to provide estimates of investment requirements in respect of such services as water supply, sewerage and drainage, roads, and street lighting for population that is expected to be added to the urban areas over the period 2000/01 to 2004/05. Considering the fact that these provisions may not directly contribute to the effective implementation of the Constitution (seventy–fourth) Amendment Act, 1992, a special Fund has been recommended to serve as an incentive to States and municipalities for undertaking such reforms as would enable municipalities to achieve greater financial viability and sustainability. Taking note of the severe data constraints, a separate dedicated allocation is also suggested for creating institutional arrangements that would enable collection and maintenance of municipal finance and services data on a regular basis. The study has underlined the need to examine afresh the issue of norms/standards for municipal services. The relevance of the Zakaria Committee norms/standards, evolved in 1963 and used since then, now appears questionable.

This study has thrown up two major points for consideration of the Finance Commission. The first point relates to the relevance of the revenue gap approach itself. Although this study has applied the revenue gap approach to estimating the financial requirements of municipalities, the very fact that municipalities are severely constrained in terms of what they can do and what resources they can mobilise, reduces the usefulness of the approach. The statutory condition that municipalities must balance their revenue account budget and even maintain a surplus, further blunts the relevance of the revenue gap approach.

A second point relates to the usefulness of the reports of the Finance Commission of States, for assessing the financial requirements of Municipalities. Ideally, the recommendation of the Finance Commission of States should relate to the same period for which the Central Finance Commission is expected to give its recommendations, and be available at the time of its constitution. However, this kind of co–terminability is unlikely to emerge under the existing set–up. An appropriate recommendation in this respect is crucial for bringing about coordination between the Central Finance Commission and the Finance Commission of States.

For the National Institute of Public Finance and Policy (NIPFP) to have undertaken this study has been an extremely engaging exercise. NIPFP would like to place on record its deep appreciation to the Finance Commission for entrusting this study, and to its members, in particular, Dr A. Bagchi and Shri N.C. Jain, and the Member–Secretary, Shri T.N. Srivatsava for their support, critical comments and suggestions. Thanks are equally due to Dr. D.K. Srivastava, Principal Consultant to the Finance Commission for his substantive contribution to the preparation of the study. NIPFP is grateful to Shri S. Vijaraghavan, Shri Sudhir Krishna, Dr. K. M. Thomas, and Shri B. Nayak for facilitating this study.

NIPFP would like to express its gratitude to its partner institutions namely: Centre for Research in Rural and Industrial Development (CRRID), Chandigarh; Institute of Local Government and Urban Studies (ILGUS), Calcutta; Human Settlement Management Institute (HSMI), New Delhi, All India Institute of Local Self Government (AIILSG), Mumbai; National Centre for Human Settlement and Environment (NCHSE), Bhopal; and National Institute of Urban Affairs (NIUA), New Delhi, who carried out the field work, organised the data, and prepared the first draft of State reports on the finances of municipalities. Without their participation, this report would not have been possible.

At NIPFP, a team led by Professor Om Prakash Mathur, and consisting of Pratishta

Sengupta, Anik Bhaduri, Sandeep Thakur and Kankana Mukhopadhyay, took responsibility for the study. They consolidated the results of the survey of municipalities, reorganised the data, estimated the financial requirements of municipalities, and prepared the final report of the study. Ms. Usha Mathur word processed the report.

We do hope that the Finance Commission would find this pioneering effort useful.

Ashok Lahiri
Director

February 2000

1 *Introduction*
Scope, General Context and Approach

The Scope

This study entitled, **Options for Closing the Revenue Gap of Municipalities: 2000/01 to 2004/05** responds directly to provision 3(d) of the Notification No 406 published on 3rd July, 1998, in the Gazette of India, requiring the Eleventh Finance Commission (EFC) to make recommendations as to the "measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities ----". This provision requires that such measures should be based on "the recommendations made by the Finance Commission of the State"; where the State Finance Commissions (SFCs) have not been constituted, or where they have not submitted their report, the EFC is required to "make its own assessment about the manner and extent of augmentation of the Consolidated Fund of the State to supplement the resources of the Panchayats and Municipalities ----". In making such an assessment, the EFC is to take into account—

→ the provisions required to be made for the emoluments and terminal benefits of the employees of local bodies including those of teachers;

→ the existing powers of the Municipalities to raise financial resources including those by way of raising additional taxes by the municipalities; and

→ the powers, authority and responsibility transferred to Municipalities under Article 243 W of the Constitution read with Schedule Twelve.

This study attempts to address the above-stated mandate, broadly following the procedures laid down by the EFC in the terms of reference—to quote:

> In addressing the tasks enjoined on the EFC by the TOR pertaining to the Municipalities, it is necessary to have an idea of the functions and responsibilities of the Municipalities which have been assigned to different tiers of Municipalities in pursuance of the 74th Constitutional Amendment Act or otherwise. Once needs are assessed, the next step would be to make an

assessment of their revenue resources that can be tapped by them under law or under the powers delegated to them. The difference between needs and internal availability of resources would provide an idea of their revenue gap, requiring transfer of resources.

The study also takes note of the wider concerns as expressed in the terms of reference– to quote:

> In order that the transfer scheme which EFC may eventually formulate is based on the principles of equity and efficiency, it is imperative that the assessment of the revenue gap of the States should include an assessment of the revenue gap of the Municipalities also. Unless these assessments are made on some realistic norms, inequity and arbitrariness may not be ruled out. But assessing the revenue requirements of the Municipalities on a normative basis across the country, taking into account the variations in local conditions, presents a formidable task. Even though a beginning has been made, the principles that may be evolved by the EFC will lay the foundation for the system of transfer to the Municipalities for the future Finance Commissions as well. To assist the Commission in this task, it is necessary to institute studies which will help to set up realistic norms of functions, expenditure and revenue effort in order that the system of devolution to the Municipalities from higher level governments is devised in a way that promotes the objectives of the 74th Constitutional Amendment Act within the constraints of resources of government at different levels. The studies will also suggest the quantum of devolution that will be needed to meet the revenue gap and thus the likely burden on the State budgets after taking into account transfer of additional functions and tax/revenue heads to the Municipalities.

The terms of reference of the study further suggests that the recommendations should be based on a study of a representative sample of Municipalities across the States, and the practices obtaining in them which can be held up as **best practices** models. While making recommendations/suggestions on the points listed, the reports of the State Finance Commissions will be taken into account and given due consideration.

This study, responding to these concerns and procedures, examines the recommendations of the Finance Commission of States, with the object of assessing therefrom the revenue gap of municipalities and projecting their financial requirements for the period 2000/01 to 2004/05. In this regard, it looks at the extent to which the recommendations of the SFCs provide an **adequate** basis for estimating the revenue gap of the municipalities. This exercise relates to fourteen (14) States, namely: Andhra Pradesh, Assam, Himachal Pradesh, Kerala, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal.[1] It is followed by an independent assessment of the financial requirements of Municipalities and the supplementary resources that they may require over the period 2000/01 to 2004/05.. It is based on a survey of 249 municipalities, randomly selected from different States and different population size categories. The sampled municipalities constitute 24.70 per cent of the country's total urban population (1991). The distribution of sampled municipalities by State and population size is in Table 1.[2]

Table 1: Distribution of Sampled Municipalities

State	Number in size classes of						
	Over 800,000	**300,000 to 800,000**	**100,000 to 300,000**	**50,000 to 100,000**	**20,000 to 50,000**	**Under 20,000**	**Total**
Andhra Pradesh	1	2	2	3	10	–	18
Assam	–	–	1	1	3	1	6
Bihar	1	–	3	3	2	–	9
Gujarat	–	1	2	3	5	4	15
Haryana	–	1	2	2	2	2	9
Karnataka	–	–	3	3	8	4	18
Kerala	–	1	3	2	5	1	12
Madhya Pradesh	1	–	2	3	7	9	22
Maharashtra	1	3	2	4	10	5	25
Orissa	–	–	2	1	3	3	9
Punjab	–	1	1	3	2	3	10
Rajasthan	1	–	2	3	7	4	17
Tamil Nadu	1	–	4	6	7	2	20
Uttar Pradesh	2	2	4	6	14	14	42
West Bengal	1	–	4	2	4	2	13
Himachal Pradesh	–	–	–	1	–	–	1
Manipur	–	–	1	–	–	–	1
Meghalaya	–	–	1	–	–	–	1
Tripura	–	–	1	–	–	–	1
Total	**9**	**11**	**40**	**46**	**89**	**54**	**249**

1 The major states whose reports are either unavailable or not in public domain are Bihar, Gujarat, and Haryana.

2 The term municipality embraces, for purposes of this study, all census and statutory towns, cities, and urban agglomerations. Of the originally selected sample of 261 municipalities, 13 municipalities, i.e., 10 in Bihar, 2 in Gujarat and 1 in Madhya Pradesh did not furnish any information. The sample of municipalities in Maharashtra was increased from 24 to 25.

The field survey of municipalities was conducted by six institutions, namely: All India Institute of Local Self–Government (Gujarat and Maharashtra); Centre for Research in Rural and Industrial Development (Haryana, Himachal Pradesh and Punjab); Human Settlements Management Institute (Andhra Pradesh, Bihar and Uttar Pradesh); Institute of Local Government and Urban Studies (West Bengal, Manipur, Tripura, and Meghalaya); National Centre for Human Settlements and Environment (Madhya Pradesh and Orissa); and National Institute of Urban Affairs (Assam, Karnataka, Kerala, Rajasthan, and Tamil Nadu). The survey was based on a questionnaire that was discussed and finalised in a meeting of the Working Group on Municipalities that had been set up by the EFC vide Order No. 4 (13)/EFC/98–Tech dated the 19th August, 1998. The National Institute of Public Finance and Policy (NIPFP) designed the study, formulated the survey design, data formats, tabulation scheme, and structure of first stage analysis, and has prepared this report.

The survey of municipalities has, in the main. released data on (a) existing level of municipal services, (b) revenue account expenditure, (c) revenue account receipts, (d) transfers on revenue account, and (e) staff position, for two reference years, i.e., 1992/93 and 1997/98. However, as has been the case with the earlier surveys on the finances of municipalities including those conducted for the Ninth Finance Commission and the Eighth Finance Commission, and those carried out by the first Finance Commission of States. in the case of this survey too, the municipal finance and related data on services have turned out to be weak, often inconsistent, and sometimes difficult to reconcile. No improvement in the quality of municipal finance data is observed, notwithstanding the recommendations of the first Finance Commission of States.[3] While specific weaknesses in the survey data will be appropriately

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[3] The Andhra Pradesh Finance Commission has observed that "lack of data was one of the problems faced by the Finance Commission." The latest year for which administrative report of the municipalities in Andhra Pradesh is available is that of 1967/68.

The Madhya Pradesh Finance Commission, in its report on municipalities, has noted that not only is there an absence of data relating to urban local bodies, the urban local bodies are "not in a position to make available the required data due to lack of financial resources and technical competence" (pp 79). The Rajasthan Finance Commission has reported that there is presently no mechanism for consolidating the municipal data at any level (pp 7).

The Assam Finance Commission has expressed the view that "massive efforts will be required on the part of the Municipalities and the Panchayats in order to make the establishment of local finance data base a reality." The Commission has recommended that initial funding and technical expertise for the purpose of establishing a local finance data base be provided through a plan scheme of the State (pp 8). The Punjab Finance Commission has recommended the need to create a standardized data base for the Municipalities and Panchayati Raj institutions and ensure that this information moves upwards to the State government on a regular basis (pp 160-161).

Source: Reports of the Finance Commission of States.

referred to in the text, the main drawbacks relate to the unavailability of data on such crucial aspects as (a) the size of outstanding liabilities, (b) estimate of municipal expenditure which is absorbed by the State governments, e.g., salary of staff deputed to municipalities, and (c) financial adjustments that are made by State governments in respect of amounts owed by the municipalities. A proper understanding of the finances of municipalities is also impeded on account of the inability to adequately decompose the revenue expenditure and revenue receipts data, and absence of regularity in their finances. For instance, in several municipalities of Rajasthan, the non–availability of a break–up of expenditure has rendered it impossible to estimate the share and behaviour of expenditure on wages and salaries, and operation and maintenance in total municipal expenditure. Similarly, irregularity is observed in the finance accounts of such municipalities as Mehnar (Bihar) which has reported non–payment of salaries to municipal staff since 1996/97, and as Dera Bassi (Punjab) which has reported a large accretion to its per capita revenue receipts, from Rs. 337.0 to Rs. 2,425.2 over the period 1992/93 and 1997/98, making it difficult to use **'past trends'** for undertaking any projection exercises.

In addition, serious gaps are noted in information on (a) existing level of services, and (b) the changes that have, in effect, taken place in the functions of municipalities following the Constitution (seventy–fourth) Amendment Act, 1992.[4] There exists no mechanism at any spatial level for the collation and maintenance of information on the level of services that are provided by municipalities. As a result, data on services are, at best, an approximation of the situation in the field. Similarly, there is no information on functions listed in Schedule twelve that have, in fact, been devolved on municipalities. As would be shown later, these constitute a major constraint in estimating the financial needs of municipalities.

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4 The changes that have taken place in the functions of municipalities, following the Constitution (seventy-fourth) Amendment Act, 1992 are shown in Annex Tables. However, these are statutory changes, and it is not clear if these have been assigned to, or devolved on, municipalities.

The General Context

To what extent should the Consolidated Fund of the States be augmented in order to be able to supplement the resources of municipalities forms the core of the study. This mandate of the EFC implies that the resources that the municipalities are able to tap under the law or under the powers delegated to them (referred to in the TOR as internal availability of resources) are inadequate in relation to the "needs", and, therefore, the resources of municipalities should be supplemented. This framework of the study as expounded by the EFC needs to be pursued in a general context within which the municipalities operate in the country. Several observations concerning the general context are in order:

1. Municipalities in India which have a long history—the first municipal corporation was formed in Madras in 1687[5], are characterised by extreme diversity. First: the population size of municipalities differs. Cities with 12–13 million persons and towns with less than 10,000 persons have one or the other form of municipal government. In 1991, there were 23 urban settlements with a population of over one million, and another 277 settlements which had a population ranging between 100,000 and one million. The other end was represented by 937 settlements which had a population of less than 10,000 persons. Second: urban settlements in India have a complex set of civic status. Thus, it is common for urban settlements to have a status of a corporation, cantonment, census town, estate town, municipality, municipal board, notified area committee, nagar panchayat, panchayat township, town committee, urban agglomeration and the like[6]. No specific criterion is laid down for assigning a particular civic status to an urban local body. A likely implication of this feature is that the functions may differ between a local body with the civic status of an estate town and another which may be a panchayat township, or a municipality or a corporation. Third: cities and towns have grown

5 Notwithstanding the constitution of a municipal corporation in Madras in 1687, municipal administration is said to have begun in the country with the passing of the Regulating Act of 1773 and the Charter Act of 1793. Lord Mayo's resolution of 1870 brought in a measure of self-government at the local level. But it is Lord Ripon' resolution of 1882 that laid the foundation of local and municipal self government in India.

6 The Census of India, 1991 lists out as many as 38 kinds of civic status being carried by urban local bodies in India. See. Paper 2 of 1991: Provisional Population Totals (P-170). A fuller implementation of the Constitution (seventy-fourth) Amendment Act, 1992 will result in three grades of urban local bodies, namely, corporation, municipality, and nagar panchayat.

at highly variable rates over the decades—some having experienced a growth rate of over 7 per cent annually and others registering a annual growth of less than 1 per cent. During the last census decade, 856 settlements acquired the urban status for the first time; at the same time, 93 settlements lost their urban status. In the aggregate, larger settlements have shown a tendency to register a somewhat higher population growth compared to smaller settlements although the differential when growth rates are computed on the common towns/cities methodology is not significant. Population size and growth are the single most important factor in determining the financial requirements of municipalities, underlining the necessity of using the most recent population estimates, instead of the 1971 population base as happens to be the case in the dispensation of plan and other funds. Moreover, unlike in the case of Panchayats which are showing signs of declining numbers, the number of municipalities is increasing and poised to increase at a faster rate in the coming years.[7]

Table 2: Population Growth in Urban Settlements

Population size categories	Number of cities/towns (1991)	Population (in million) (1991)	Decadal growth %	
			1981/91	1981/91 £
> 100,000	300	139.7	46.87	34.49
50,000–100,000	345	23.6	28.14	31.60
20,000–50,000	947	28.7	25.30	29.57
10,000–20,000	1,167	17.0	10.72	28.41
5,000–10,000	740	5.6	–1.22	30.02
< 5,000	197	0.7	–21.70	43.88
Total	**3,696***	**215.3***	**36.09**	**32.81**

£ Decadal growth of cities/towns common in 1981 and 1991.

* Excluding Jammu and Kashmir where the 1991 Census was not held.

ii. In the allocation of functions between the Union and the States, the subject of local government (including the municipal government) falls within the State list, meaning that all matters concerning local government are to be determined by the State governments. The Constitution (seventy–fourth) Amendment Act, 1992, while laying down the procedure for the

[7] The size distribution of villages in India is such that it is likely to lead to large scale upgradation of villages in the >5,000 population size category. See, Provisional Population Totals: Rural - Urban Distribution. Paper 2 of 1991. Census of India 1991.

constitution of municipalities and providing for certain "safeguards" against their arbitrary suspension or dissolution, has not changed the structure of fiscal federalism in the country. The legislature of a State continues to enjoy, under the Constitution, absolute powers to endow the municipalities with such authority as it considers necessary "to enable them to function as institutions of self-government and such law may contain provision for the devolution of powers and responsibilities upon municipalities, subject to such conditions as may be specified therein." Accordingly, the State governments have, out of the powers and responsibilities enumerated in the State list (Seventh Schedule), assigned certain functions and duties to municipalities. Typically, these have consisted of public health and sanitation (6), communications, i.e., roads, bridges, etc., not specified in List I (13), water subject to provisions of Entry 56 of List I (17); markets and fairs (28), libraries, museums and other similar institutions controlled and financed by the State (12), and burial, cremation grounds (10).[8] The main services[9] with which the municipalities are associated with and which are generally, though not uniformly, performed by them, are water supply, sewerage and drainage, conservancy and sanitation, street lighting, and municipal roads.[10] In addition, the municipalities are vested with a large number of regulatory functions. The key point is that these functions are neither absolute nor discrete; there is a built-in concurrency between the functional domain of the State governments and municipalities.[11] In the field, the functional

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8 Figures in parenthesis relate to the number of the entry in the Constitution.

9 The functional domain of municipalities is highly varied and complex, consisting of such subjects and tasks as public administration and establishment which, in the case of larger municipalities, is broken into departments of public administration, office of the Secretary, audit, computer, establishment, backward classes, vigilance, tax and legal; public security; public education; building and land tax; refunds and rewards; food samples; epidemics: births and deaths; gardens; markets and slaughter house; and a host of others.

10 Provision of water supply and sewerage in several states has either been taken over by State governments (Rajasthan) or transferred to parastatal agencies. It is also a shared responsibility in several States.

11 Municipalities have no inherent powers but instead obtain their jurisdiction from a series of miscellaneous sources. An important court decision, known as Dillon's rule in respect of municipal jurisdiction is widely accepted in most countries. The rule reads as under—"It is a general and undisputed proposition of law that a municipal corporation possesses and can exercise the following powers, and no others: First, those granted in express words: second, those necessarily or fairly implied in or incident to the powers expressly granted; third, those essential to the declared objects and purposes of the corporation—not simply convenient, but indispensable." See. J. F. Dillion. Commentaries on the Law of Municipal Corporation. Little, Brown & Co. Boston, 1911.

domain varies considerably between municipalities of different States, and often even within the same State. The functional domain of municipalities has also witnessed periodic shifts and changes, on account of the withdrawal of functions from municipalities, (e.g., water supply), or entrusting them with such responsibilities as poverty alleviation. These features, as would be seen later, have a direct impact on the volume and structure of municipal finances.

iii. The Constitution of India does not devolve any resource raising powers to municipalities which are also determined and regulated by the State governments. The State Municipal Acts specify the taxes that the municipalities can levy and collect; like in the case of functional responsibilities, the State governments, out of the tax powers listed in the Seventh schedule, devolve certain tax powers to municipalities, which historically have included taxes on lands and buildings (49), taxes on the entry of goods into a local area for consumption, use or sale therein (52); taxes on advertisements other than advertisements published in the newspapers (55); taxes on animals and boats (58), tolls (59), taxes on professions, trades, callings, and employments (60), and taxes on entertainment (62). Significant inter–State variations are witnessed here.[12] Taxes on the entry of goods (octroi) which are among the most buoyant and elastic of the local taxes, are currently levied in six States, namely Gujarat, Haryana, Maharashtra, Manipur, Orissa, and Punjab. The inclusion or exclusion of this tax has an overwhelmingly large impact on the revenue base of municipalities. Similarly, there are inter–state differences in respect of taxes on entertainment, and taxes on professions, trades, callings, and employment. The differences in the tax jurisdiction, the degree of control exercised by the State governments in terms of the fixation of tax base, tax rates, and tax exemptions, and the efficiency with which the taxes are administered and enforced, exercise a direct dent on the revenue base of municipalities.[13]

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[12] Not all the taxes in the municipal domain are levied by them. Several municipalities in Rajasthan do not levy property taxes. The Punjab Government has recently abolished the levy of property taxes on properties for domestic use. In Manipur (Imphal), property tax is levied in only two wards of the municipality.

[13] Defining a local tax is a controversial issue. As Richard Bird notes: A local tax might be one which is (a) assessed by local governments, (b) applied at rates determined by local governments, and (c) collected by local governments. Unless local governments have some autonomy in choosing the tax rates, it is difficult to see how they can be accountable or be expected to undertake any steps for meeting the revenue gap. See Richard Bird, 1998, "Designing State-Local Fiscal Transfers for Uttar Pradesh", mimeo.

Looked at in a totally, municipalities in India would seem to fall into three groups, with each group presenting a different order of financial requirements:

- → those which have a comparatively larger functional and an equally larger fiscal domain. Gujarat and Maharashtra are examples of this typology;
- → those which have a larger fiscal domain but a narrower functional jurisdiction. Rajasthan and Manipur are a typical example of this group; and
- → those that have a comparatively larger functional jurisdiction, but a narrower fiscal base.

iv. Unlike the provisions in the Constitution which specifies the taxes that are to be divided between the Union and the States, e.g., Chapter I of Part XII, and the grants that may be extended to the States under Article 275 of the Constitution, no such provision regarding the division of tax revenues between the State governments and municipalities or about the grants exists in the State Municipal Acts. Nor do the Municipal Acts specify as to when and under what circumstances should the States make transfers and what should be the nature of those transfers. There are peripheral references in a few statutes, examples of which are provided below:

The Bombay Municipal Corporation Act, for instance, makes the following provision:

> The State government may, under appropriation duly made in this behalf, make a grant to each Corporation every year of such amount as it may, from time to time, determine, having regard to the proceeds of the land revenue and non–agricultural assessment levied and collected under the Maharashtra Land Revenue Code, 1966 and the entertainment duties-levied and collected under the Bombay Entertainments Duty Act, 1923, be it in the area within the jurisdiction of the Corporation. The grant shall be made in such manner and shall be subject to such terms and conditions, as the State government may, from time to time, determine.

The Kerala Municipalities Act, 1960 lays down that:

> The Government may contribute to the Municipal Fund by way of a grant such sums as may be fixed by the Government with due regard to the recommendation of the Finance Commission and to the needs of development and the cost of municipal administration and services as the Government may deem fit (283).

On account of the absence of provisions in respect of the taxes, duties, and fees that should be shared between the States and municipalities and the purpose and manner in which grant–in–aid should be made to them, the role of transfers in the finances of municipalities has remained highly tentative. The Constitution (seventy–fourth) Amendment Act, 1992, while recognising the crucial role of transfers, also makes no specific provision in this respect, leaving the matter to be considered by the Finance Commission of States, and eventually determined by the State legislatures. As a result, no regularity is observed in the flow of funds from the State governments to municipalities.

v. A fifth point which directly impinges on estimating the revenue gap of municipalities relates to a provision in the State Municipal Acts, which requires the municipalities to balance their budget and to even maintain a cash balance at the end of a financial year. The Orissa Municipal Act, for instance, lays down that the State government has powers to prescribe a minimum closing balance to be maintained by a municipality (112). The West Bengal Municipal Act, 1993 provides that the budget estimate of a municipality for a year shall be presented before the Board at a meeting specially convened for the purpose, provided that no deficit shall be shown in the budget estimate so prepared (82). In Punjab, the municipal corporations are required to maintain a "cash balance" of not less than Rs. 1 lakh, or such higher sum as may be determined (8). The Uttar Pradesh Municipalities Act provides for maintaining a "minimum closing balance" as the State government may prescribe.

Such a provision suggests that there may, in fact, be no deficit at the end of a financial year, raising the question as to how, under such circumstances, the revenue gap of municipalities could be assessed or supplementary financial requirements determined. A surplus or a balanced budget does not automatically suggest the need for resources. In sum, the finances of municipalities have to be understood in the context of (a) diversity in the demographic and socioeconomic profile of municipalities, (b) asymmetry in their functional and fiscal jurisdiction, (c) absence of appropriate statutory provisions regarding the transfer of funds from the State governments to municipalities, and (d) provisions requiring the municipalities to balance their budgets and/or maintenance of cash surpluses.

The Approach

The approach to estimating the revenue gap of municipalities and their supplementary resource requirements, as pointed out earlier, consists of two parts: (a) revenue gap as assessed by the Finance Commission of States and their recommendations for meeting the gap, and (b) an independent assessment of the gap, based on a survey of sampled municipalities. Accordingly, the reports of the SFCs are examined in this study. Later, using the survey results, an assessment of the revenue gap and supplementary requirements of municipalities is attempted in a number of complementary ways. The fundamental postulate that underlines the assessment is that the level of expenditure is representative of the level of service, even if there may not exist a close statistical correspondence between the level of expenditure and level of service across municipalities.[14] These are:

i. Assessment of the current level of per capita revenue gap (the difference between revenue expenditure and own account revenue receipts) and projection thereof for the period 2000/01 to 2004/05. Own account revenue receipts are adjusted to neutralise the effect of inefficiencies in tax administration and enforcement. No adjustment is carried out on the expenditure side for want of any information on the nature of inefficiencies e.g., overstaffing, salary structure and the like.

ii. Assessment of the current level of State government transfers to municipalities and projection thereof for the period 2000/01 to 2004/05. Transfers, i.e., the difference between total revenue receipts and own account revenue receipts are assumed to represent a gap between what the municipalities raise and what their total receipts are. The primary objective here is to maintain at least the existing level of transfers.

iii. Assessment of the current level of deficit or underspending in per capita revenue expenditure by using the State average spending levels, and projection thereof for the period 2000/01 to 2004/05.

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[14] A statistical correspondence may not exist as on the cost side, there are historical costs, and on the services side, services are added on to the existing systems.

iv. Assessment of the current level of deficit in per capita revenue expenditure on five services, namely: water supply, sewerage and drainage, conservancy and sanitation, municipal roads, and street lighting, using the State averages, and projection thereof for the period 2000/01 to 2004/05.

v. Assessment of the current level of expenditure deficit in respect of water supply, sewerage, sewage disposal and storm water drainage, roads, and street lighting, using the Zakaria Committee norms[15], and projection thereof for the period under reference. The Zakaria Committee (1963) established physical norms for water supply, sewerage, and storm water drainage, and roads, and expenditure norms for these and several other services including street lighting, horticulture operations, medical and health services, education and general municipal administration. For purposes of this study, the expenditure norms established by the Zakaria Committee for water supply, sewerage and sewage disposal, roads, and street lighting are used for assessing the expenditure deficit. The 1960/61 norms and these norms adjusted at 1997/98 prices are shown in Table 3.

Table 3: The Zakaria Committee Norms

City size	Per capita operation & maintenance expenditure (Rs.)			
	All services*		Core services	
	1960/61	1997/98	1960/61	1997/98
>20 lakh	43.50	698.89	28.50	457.89
5–20 lakh	39.03	627.07	27.15	436.20
1–5 lakh	33.40	536.62	24.90	400.05
50,000–1 lakh	27.62	443.75	21.59	346.87
20,000–50,000	24.27	389.93	19.61	315.06
<20,000	21.07	338.52	18.72	300.76

Note: * Details of services are provided elsewhere in the report.

Source: Table 7(b.36) and Table VIII(117) of the Zakaria Committee report for 1960/61 norms. The price index (consumer, urban non–manual) is given in annex tables.

15 The report entitled, Augmentation of Financial Resources of Urban Local Bodies, known as the Zakaria Committee norms, developed physical and expenditure norms in respect of a number of municipal services by size of cities.

The calculation of deficit in respect of total revenue expenditure as well as expenditure on core services is made by using the following equation:

$$ED=\sum_{i=1}^{q}(z-y_i)n_i/n \qquad n=\sum_{i=1}^{q}n_i; i=1......q$$

Where ED is the deficit per capita; z refers to the State per capita average expenditure; y_i (i=1......q)is the average per capita expenditure of those municipalities whose expenditure is below the State average; n_i (i=1......q) refers to the population of those municipalities whose expenditure is below the State average; and n is the total population of those municipalities whose expenditure is below the State average.

In addition to estimating the financial requirements on revenue account, an attempt is made here to also provide an estimate of investment requirement[16] in respect of water supply, sewerage and sanitation, solid waste disposal, roads, and street lighting, using the investment norms (Tables 5) established by the Planning Commission. These estimates relate to the **incremental** urban population in major States, during the period 2000/01 to 2004/05 and do not relate to the unmet demand.

Table 4: Per Capita Investment Norms as Established by the Planning Commission

Services	1980		1997/98	
	Low	High	Low	High
Water supply				
Surface system	245	350	1066.74	1523.91
Ground system	200	300	870.80	1306.21
Sewerage/sanitation				
Water borne system	350	500	1523.91	2177.02
Septic tank	200	225	870.80	979.66
Pit latrines	120	150	522.48	653.10
Solid waste disposal	25	40	108.85	174.16
Roads	200	300	870.80	1306.21
Street lighting	60	60	261.24	261.24

Note: All India Consumer Price Index for non-manual urban employees (Base 1984/85=100) is used as inflator

Source: Planning Commission, Government of India (1983), Task Force on Housing & Urban Development (Vol. II), Financing of Urban Development, New Delhi. India Database, Vol. I (1990) by H. L. Chandhok and The Policy Group.

16 Planning Commission, Task Forces on Housing and Urban Development: Financing of Urban Development. New Delhi. 1983. The Task Forces did not indicate any physical norms of services.

These approaches would suggest a level of transfer that would be necessary for the municipalities to (a) maintain expenditure at the 1997/98 level, (b) raise the level of aggregate expenditure to at least the level of State average, and (c) raise the expenditure on such services, as water supply, sewerage and drainage, conservancy and sanitation, municipal roads, and street lighting. These approaches do not in any way contribute to the implementation of the Constitution (seventy–fourth) Amendment Act, 1992. The terms of reference of the study imply that the supplementary resources should accelerate the process of implementation of the 74th Constitutional Amendment. This study has addressed this issue by recommending a separate Fund, aimed at strengthening the finances of municipal institutions. Also recommended is a separate grant–in–aid for improving the municipal finance data base and system without which the Finance Commission of States and Central Finance Commission will find it difficult to realistically estimate the financial requirements of municipalities. These are elaborated in the final section of this study.

Methods of Analysis

Several assumptions have guided the exercise of estimating the revenue gap and supplementary financial requirements of municipalities:

i. Trend growth rates as observed over the period 1992/93 and 1997/98 are used for projecting the revenue gap and supplementary requirements of municipalities. It has been calculated by using the following formula:

$$Y_t=Y_o(1+r)^t \quad \Rightarrow \quad r = \exp\,[1/t\ln(Y_t/Y_o)]-1$$

where r = rate of growth
Y_t = current period value at time t
Y_o = base period value at time o

ii. Population estimates of sampled municipalities for 1992/93 and 1997/98 are made by applying the annual average growth rates as observed for different size categories. These growth rates are derived by using the decadal population growth 1981–1991 for *all* municipalities in different size categories, and applied to the 1991 population of the sampled municipalities. Urban population estimates for 2000/01 and later years are drawn from the Census of India publication entitled, Population Projection for India and State 1996/2016 (1996).

Table 5: Growth Rates used for Population Projections

Size class	Annual growth rate (%)	Decadal growth rate (%)
>800,000	2.38	26.54
300,000–800,000	2.94	33.55
100,000–300,000	2.66	30.05
50,000–100,000	2.78	31.60
20,000–50,000	2.62	29.57
<20,000	2.60	29.32

iii. The Gross Domestic Product of States (GSDP) for the year 1997/98 are quick estimates.

iv. Adjustment for tax inefficiency is carried out by an upward revision of own revenue receipts at an annual growth rate of 2.5 per cent, beginning 2000/01. For those States which are extremely poor in terms of their tax effort, a further upward revision of 2.5 per cent has been made to the own revenue receipts.

v. Although there are cost differentials in providing services between cities and towns, no adjustments are made for such differentials.

vi. All projections of financial requirements are at 1997/98 prices.

The report of this study is laid out in three sections, besides the Introduction. Section 2 analyses the recommendations of the Finance Commission of States. In section 3, the results of the survey of municipalities are presented. The supplementary financial requirements of municipalities are presented in the final section of the study. Annex Volume of the report contains raw data of the sampled municipalities.

2 *Extending the Recommendations of the Finance Commission of States into the Future*

The Mandate

The Constitution (seventy–fourth) Amendment Act, 1992 is perhaps the most important development to have taken place in the country that is aimed at strengthening of municipalities and municipal governments. While maintaining that local government (including the municipal government) will continue to be a State subject, the Constitution has laid down the procedures as to how municipalities might be constituted, and how these might be safeguarded against arbitrary suspension and dissolution. While further maintaining that the legislature of a State will continue to have the authority to determine their powers, responsibilities, and tax jurisdiction, the Constitution has made it mandatory upon State governments to constitute, once every five years, a Finance Commission, with the object of assessing the financial position of municipalities, and setting forth the principles for determining as to which taxes and other revenue sources should be devolved or assigned to municipalities, which of them should be shared between the State and municipalities, and what system of grants–in–aid should be in place for them. These provisions imply a close connection between the functions and fiscal powers, suggesting that a change in one would call for a change in another.

The task of the Finance Commission of States, as laid down in Article 243 Y of the Constitution of India, is to "review the financial position of the Municipalities" and make recommendations as to:

i. the principles that should govern—

  (a) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them under this part and the allocation between the Municipalities at all levels of their respective shares of such proceeds;

(b) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Municipalities; and

(c) the grants–in–aid to the Municipalities from the Consolidated Fund of the State.

ii. the measures needed to improve the financial position of the Municipalities; and

iii. any other matter that may be referred to in the interests of sound finance of the Municipalities.

This study, as pointed out earlier, examines the recommendations of the Finance Commission of fourteen (14) States, with focus on two questions: to what extent can the recommendations of the Finance Commission be used to assess the revenue gap of municipalities? What implications does such a gap have for the State's financial resources?

Three general observations on the reports of the SFCs are in order at the very outset:

i. The Finance Commission of States, in terms of their Constitutional mandate, are expected to set forth the principles of revenue/tax assignment, revenue–sharing, and grants–in–aid to municipalities. Principles of revenue assignment would ordinarily mean that taxes and other revenue bases that are leviable on immobile objects or those which have no or little inter–jurisdictional impacts, i.e., no exporting of tax burdens, should be within the domain of municipal governments. Principles in respect of transfers would generally be in terms of the expected outcomes and objectives, i.e., whether the objective of transfers is to close the vertical gap or the horizontal gap, or to bring about greater efficiency in service delivery.[17] The Finance Commission of States, however, have not attempted to lay down the principles; instead, they have preferred to assess the financial position of municipalities and suggest measures for the augmentation of their resources.

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17 Such principles can not be set in a vacuum. In order to be set, these require a clear statement of the functions and responsibilities of this level of government.

ii. A number of the Finance Commissions have dealt with tasks other those that are specified in the Constitution (seventy–fourth) Amendment Act, 1992. Thus, the Finance Commissions of Karnataka and Uttar Pradesh estimated not only the non–plan financial requirements of municipalities but also the plan requirements. The Government of Assam laid down that the Finance Commission should make an assessment of the "actual debt position" of each local body, and suggest suitable measures for addressing the issue of debts. The Karnataka Finance Commission was entrusted with the task of making a detailed analysis of the repayment of loans and advances extended by the Government to local bodies, and recommend measures for repayment of loans, and their adjustment against future devolution of resources. The Government of Manipur asked the Finance Commission to develop specific norms in respect of (a) collection of tax and non–tax revenues, (b) performance of services, including standards and unit cost of services, and (c) expenditure on establishment. It further laid down that the Finance Commission should specify the desirable patterns, principles and procedures of development/plan assistance to the municipalities. In different ways, these have influenced the overall magnitude of financial requirements of municipalities.

iii. The period for which the recommendations of SFCs relate to, differs in several instances. The Orissa Finance Commission has made recommendations for a period of seven years, broken into (a) 1998/99 and 1999/2000; and (b) 2000/01 to 2004/05, coinciding interestingly with the period for which the Eleventh Finance Commission is required to make recommendations. The Tamil Nadu Finance Commission has made recommendations for five years, beginning with 1997/98 and ending in 2001/02. The recommendations of the Rajasthan Finance Commission relate to the period 1995/96 to 1999/2000.

The principal issue for examination in this study is: do the recommendations of the Finance Commission of States provide an adequate basis for estimating the revenue gap of municipalities? In addressing this issue, the procedure laid down by the Eleventh Finance Commission is relevant to refer. The Eleventh Finance Commission in the TOR of the study suggests that—

→ the "needs" of municipalities based on their functions and responsibilities assigned to them in pursuance of the 74th Constitutional Amendment Act or otherwise should be assessed;

revenue resources of municipalities based on what they can tap under the law or the powers delegated to them should be assessed; and

the difference between the two should be used to estimate the revenue gap, requiring transfer of resources.

Expenditure Assessment

Assessment of expenditure is primarily a function of two factors: (a) a profile of expenditure responsibilities, and (b) standards and norms at which those responsibilities are to be met. An examination of the reports of the SFCs shows that—

The Finance Commission of States have taken the reported aggregate expenditure of municipalities as representative of their needs, which is then extrapolated to the years 1996/97 to 2000/01 (or to the years for which recommendations are made), at assumed growth rates or trend growth rates for arriving at the financial requirements of municipalities. The choice of aggregate expenditure to represent the needs is explained by the fact that there existed no clarity in respect of the functions and responsibilities that had been assigned to municipalities, following the Constitution (seventy–fourth) Amendment Act, 1992.[18]

ii. A part of the "needs", involving a set of basic/core services is separately assessed and projected by a number of Finance Commissions. Thus, the Karnataka Finance Commission fixed norms of such services as water supply, garbage collection and disposal, municipal roads, and street lighting, and estimated as to what it would cost to provide services at predetermined levels. In fixing the norms, the Karnataka Finance Commission considered the Zakaria Committee norms as unrealistic, and replaced them with what it called a set of more realistic and achievable norms. The Orissa Finance Commission separately estimated the requirements for upgrading the level of such services as roads, street lighting, solid waste management, and storm water drains. The Rajasthan Finance Commission estimated the financial requirements of municipalities in respect of roads, street lighting, drains, and solid

[18] For the Finance Commission of States to formulate recommendations in the absence of any clarity in respect of the functions and responsibilities, particularly those that are enumerated in the Constitutional amendment is one of the most disappointing features of their work.

waste disposal, by using the Zakaria Committee and the Planning Commission norms. To these were added the arrears in respect of pension and provident fund. The Tamil Nadu Finance Commission identified water supply, roads, street lighting, sewerage and sanitation, storm water drains, and solid waste management as core services, and estimated the total cost involved in their provision. These estimates were used in determining the level of transfers from the State governments. Thus, much reliance was placed by the Finance Commissions on the norms earlier established by the Zakaria Committee and the Planning Commission rather than on developing fresh norms.

Assessment of Resources

Assessment of resources is a process that involves consideration of at least the following variables—

(a) tax jurisdiction, tax base, rates of taxation, exemptions and rebates, and an assumption with respect to tax efficiency, or more simply, ratio of tax collected to tax assessed;

(b) non–tax jurisdiction, i.e., charges for services sold, fees, duties and tolls levied by municipalities; and

(c) level of revenue account transfers from the higher levels of government comprising shared revenues and grants–in–aid.

The Finance Commission of States have assessed the resources of municipalities on the basis of the existing revenue raising powers enjoyed by them, and used them for making projections for the reference period. No important change in their revenue raising powers is proposed by the SFCs excepting with respect to taxes on entertainment and profession taxes. The Punjab Finance Commission has recommended that profession tax should be levied and collected by municipalities; the Finance Commission of Tamil Nadu and West Bengal have advanced the view that taxes on entertainment are local taxes and should, therefore, fall within the jurisdiction of municipal governments. In addition, the Tamil Nadu Finance Commission has given detailed recommendations in respect of local taxes such as property tax, profession tax, vehicle tax, tax on animals and carriages, vacant land tax, and pilgrim tax. The Uttar Pradesh Finance Commission has made recommendations in respect of property taxes. However, no estimates of yields that may accrue as a result of the reform of individual taxes and non–tax sources of revenues are made by the Finance Commission of States.[19]

Creation of a Distributional Pool

Devolution of resources to municipalities involving revenue sharing and grants–in–aid constitutes an important part of the recommendations of the Finance Commission of States. These recommendations have taken several forms, of which the creation of a distributional pool of State's resources and transferring a part of the pool to municipalities is the most important of them. In the pre–amendment period, transfers to municipalities were effected by sharing some of the State–level taxes with the municipalities and extending different forms of grants–in–aid to them. No system of a *distributional pool* existed earlier. Creation of a distributional pool of State–level resources for purposes of making transfers to municipalities (and Panchayats) forms an extremely important recommendation of the Finance Commission of States.

What does the distributional pool consist of? The position of the Finance Commission of States varies, as may be seen below:

[19] The Assam Finance Commission has noted that past trends in respect of municipal revenue receipts and expenditure can not be taken as the basis for future projections. According to the Assam Finance Commission, the local bodies have neither a requisite base nor the means to determine the revenue gap.

Box 1: Composition of Distributional Pool of State's Resources

- ❑ Tax revenue (Assam).
- ❑ Net proceeds of State's taxes (Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal).
- ❑ Tax and non–tax revenue excluding revenues from land tax, surcharge on duty on property transfers, grants extended to municipalities from motor vehicle tax, and the like (Kerala).
- ❑ Tax and non–tax revenue (Andhra Pradesh and Madhya Pradesh).
- ❑ Non–loan gross revenue receipts (Karnataka).

Source: Reports of the Finance Commission of States.

The Orissa Finance Commission, instead of earmarking a share of State's resources for municipalities, has suggested a specific amount to be transferred to municipalities. The Punjab Finance Commission has recommended continuation of the present system of sharing of individual taxes between the State government and municipalities. It has, however, specified what the share of municipalities should be in the State–level taxes.

The following Box gives the recommended share of municipalities in the State resources and State–level taxes.

Box 2: Recommended Share of Municipalities in State's Resources

Andhra Pradesh	❑	39.24% of state tax and non–tax revenue to all local bodies.
Assam	❑	2% of *State tax for local bodies*, both rural and urban. (The share of urban local bodies has not been specified).
Himachal Pradesh	❑	An amount equal to Rs. 12.2 crore as grants in lieu of octroi for 1996/97, to rise to Rs. 17.9 crore in 2000/01 and CSS grants to accrue to municipalities.
Karnataka	❑	5.4% of the *total non–loan gross own revenue receipts* for meeting the plan and non–plan requirements.
Kerala	❑	1% of State revenues (excluding from certain sources) be transferred to local bodies as non–statutory non–plan grants distributed between the rural and urban local bodies in proportion to their population.
Madhya Pradesh	❑	8.67% of the *tax and non–tax revenues* of State government.
Maharashtra	❑	25% to 100% of entertainment taxes collected from municipalities of different grades, 25% of vehicle tax and 10% of profession tax are recommended shares for local bodies.
Manipur	❑	Maintenance grant equal to Rs. 88.3 lakh to accrue to municipalities in 1996/97, which varies in subsequent years.
Orissa	❑	Rs. 179.5 crores is the projected transfer (grant) to urban local bodies between 1998/99 and 2004/05. (The deficit of Rs. 1,378 crores between the estimated income and expenditure and an additional requirement of Rs. 381.48 crore for improvement of core civic services should be met by the Eleventh Finance Commission).
Punjab	❑	20% of the net proceed for five taxes namely, stamp duty, motor vehicle tax, electricity duty, entertainment tax, and cinematograph shows should be transferred to municipalities, and the projected gap of Rs. 322 crore should be met by the Central Finance Commission.
Rajasthan	❑	21.8% the *net proceeds of State taxes* should be devolved on the local bodies; the division of these proceeds between rural and urban should be in the ratio of 3.4:1.
Tamil Nadu	❑	8% of the *State's net tax revenue* should be devolved on to the local bodies in 1997/98; this percentage should gradually increase in successive years to 9%, 10%, 11% and reaching 12% in 2001/02. The division of this amount between rural and urban should be on the basis of population as in the last Census.
Uttar Pradesh	❑	7% of the *net proceeds of State's total tax* revenue should be transferred to urban local bodies.
West Bengal	❑	16% of the *net proceeds of all taxes* collected by the State should be transferred to local bodies. Such funds should be released to the Districts. These proceeds should be divided between urban and rural based on population.

Source: Reports of the Finance Commission of States.

Creation of a distributional pool and sharing it with the municipalities is often accompanied by other transfers. The Andhra Pradesh Finance Commission and several other SFCs have made recommendations in this behalf. The recommendations of the Andhra Pradesh Finance Commission is summarised in the following box. The Madhya Pradesh Finance Commission has proposed that in addition to the transfer of 8.67 per cent of the tax and non–tax revenues, the State government should continue to transfer to municipalities, a special grant–in–aid in lieu of the abolition of passenger tax, and payment of fees etc, payable to them under the different Acts.

Box 3: Transfers to Municipalities: Andhra Pradesh

- ❑ An amount of Rs. 8 crore to each of the municipal corporation of Hyderabad, Visakhapatnam, and Vijaywada and an amount of Rs. 5 crore to each of the remaining municipal corporations recommended to be given as block grants.
- ❑ Ten per cent of the receipts from betting taxes recommended for the Hyderabad Municipal Corporation.
- ❑ An amount of Rs. 20 crore to be allocated as motor vehicle compensation to municipalities.
- ❑ An amount of Rs. 50,000 may be sanctioned as and when a gram panchayat is converted into a municipality.
- ❑ Whenever a new municipal corporation is constituted, a special grant of Rs. 25 lakh may be sanctioned to the corporation.

Source: State Finance Commission Andhra Pradesh

Two observations may be made on these recommendations:

i. The overall impact of the recommendation of the SFCs on the budget of the States is not possible to ascertain on account of the difficulties in aggregating the recommended percentage shares with absolute amounts of grants–in–aid. For instance, the recommendations as given in Box 3 are not possible to be combined with the share of 39.24 per cent of State tax and non–tax revenue that the Andhra Pradesh Finance Commission has suggested for local bodies.

ii. There is far less clarity in respect of the purpose that is proposed to be served by such transfers. Are these transfers meant to close the gap on revenue account, or do these represent the base year transfers, with some adjustments?

Meeting the Gap

In what manner should the gap between what the municipalities need and what they raise be met? The Finance Commission of States has pointed out that the transfers, irrespective of what the recommended shares are, will be inadequate for meeting the requirements of municipalities. For meeting the post–transfer gap, the Kerala Finance Commission has proposed that the Central government should evolve suitable centrally sponsored schemes with the aim of transferring annually to local bodies a minimum of 5 per cent of Central revenues. The Orissa Finance Commission has recommended that unless "massive external assistance is provided to local bodies they will be unable to discharge their assigned functions. Only the Central government can supplement the income of the local bodies by meeting a lion's share of total requirements for the years to come". The Punjab Finance Commission has stated that the "deficit" should receive the attention of the Central Finance Commission, adding that" it is mandatory in clause 3 and sub–clause (bb) and (c) of Article 280 of the Constitution that the Central Finance Commission should augment the resources of the State government". The Rajasthan Finance Commission has made a series of proposals which are designed to enhance resource mobilisation and consequently to close the gap. These proposals are summarised in Box 4.

Box 4: Proposals for Resource Mobilisation: Rajasthan

- Octroi collection should be privatized.
- Agencies, such as Rajasthan State Electricity Board (RSEB) and Public Health Engineering Department (PHED) should pay octroi on goods brought into the city.
- Municipalities should be compensated for any exemption granted by the State government for payment of octroi.
- Since property tax is not levied on State government properties, the Finance Commission has suggested that a lump sum assistance in lieu of property tax be given to the urban local bodies.
- The urban local bodies should impose discretionary taxes and increase their contribution from the present level (0.5%) to 1 per cent of the total revenues.
- The Urban Improvement Trust should pay 15% of the proceeds from the sale of land to the municipalities.

Source: State Finance Commission: Rajasthan

In sum, the adequacy of the recommendations of the SFCs for projecting the financial requirements of municipalities appears questionable on several grounds: (a) lack of clarity about the functional responsibilities of municipalities, (b) absence of information on the norms and standards used in estimating the financial requirements, (c) difficulty in assessing the magnitude of resource transfers to municipalities, and (d) inability to be able to assess the impact of SFCs recommendations on the finances of State governments. An important implication of this conclusion is to introduce a common methodological framework for the SFCs to address their Constitutional mandata. Without such a common framework, it is unlikely if the Central Finance Commissions would ever be able to use the recommendations of SFCs in estimating the financial requirements of municipalities (and Panchayats).[20]

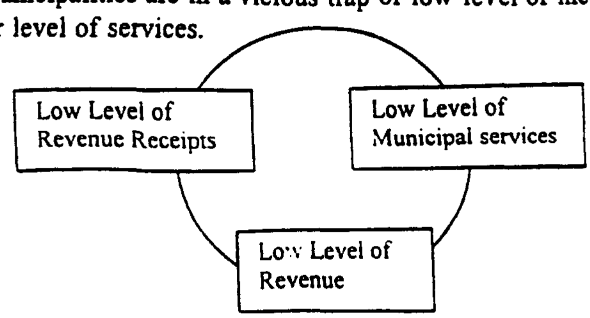
[20] The problem of time disjunction between the Central Finance Commission and the Finance Commission of States is a serious issue and should receive the attention of the Central Finance Commission. If left unattended, the Finance Commission of States will become irrelevant over time.

3 *The Revenue Gap of Municipalities: The Survey Results*

Introduction

This section presents the estimates of the revenue gap of municipalities, as assessed from a survey conducted in 249 municipalities of different population sizes and different geographical placements. Estimates of the revenue gap are presented for two time periods— i.e., 1992/93 representing the pre–Constitution (seventy–fourth) Amendment Act, 1992 period, and the 1997/98. The 1997/98 estimates are assumed to reflect the changes brought about by the Constitution (seventy–fourth) Amendment Act,. 1992 in the schedule of functions of municipalities as well as the powers to raise resources. Revenue gap is defined as the difference between the revenue account expenditure and revenue account own receipts of municipalities. This gap which is the actual gap is subsequently adjusted to the assumed normative levels. A revenue gap or a surplus may be large or small depending on what expenditure responsibilities are assigned to municipalities, and what resource raising powers do they possess. A low–level, or zero revenue gap may not necessarily suggest that a municipality is efficient, since it could well portray a poor quality of service, low incomes, and low level of municipal expenditure.[21] Nor does a large gap connotes inefficiencies in the functioning of a municipality. A crucial factor in the exercise is the level of service at which the revenue gap is assessed. It is in this context that an attempt is made in this section to discuss the finances of municipalities. It begins with a brief account of the level of services with focus on the extent of service shortages in the sampled municipalities. It is followed by a discussion on the pattern of municipal expenditure, focusing on where the resources are spent, how much, and the rate of growth of municipal spending over time. The analysis also deals with the degree of flexibility a municipality may have in reprioritising the pattern of expenditure. An analysis of the revenue account income of municipalities follows. A

[21] A large number of municipalities are in a vicious trap of low level of income, low level of expenditure, and poor level of services.



separate subsection on wages and salaries is added in view of its importance to the finances of municipalities. Lastly, this section dwells on the size of the revenue gap of municipalities, and the role of transfers in meeting the gap.

Two observations may be made at the outset of this section. First: as pointed out earlier, there exists no system in the country for the collection and maintenance of information on municipal service levels. The Census of India in its decennial operations collects, through the household surveys, data on two services, namely water supply and sanitation. The municipal governments find it difficult to collect, maintain and update records of the level of services on account of the indivisibilities involved in many of the municipal services and multi–year lumpy investments that are made in augmenting the services. The service levels are thus ascertained through sample surveys, held periodically by research institutions. Sample size of such surveys is rarely adequate to capture the diversity that characterises the municipalities in India. The estimates of service levels provided in this study should, therefore, be taken as no more than approximations.

Second: municipalities in India do not maintain finance accounts in any standardised format. The format and accounting classification of expenditure and incomes differs between States, and often even within States, particularly those which have undergone jurisdictional shifts and reorganisation. In Andhra Pradesh (Nellore), revenue account expenditure is classified into eight main heads (first digit), namely, general account; lighting account; elementary education account; water supply and drainage account; town planning fund account, account for remunerative enterprises; endowment account; and conservancy fund account. In Rajasthan (Udaipur), ordinary expenditure is classified into the following heads: general administration; tax collection; public health and convenience; public safety; cattle pounds; gardens; public works; and other revenue expenditure. In Maharashtra, expenditure is classified into six main heads, namely, general administration and collection charges; public safety; public health and convenience; public instruction; contributions; and miscellaneous. Similarly, the classification of receipts on revenue account differs between States. The municipalities in Gujarat maintain a five–fold classification of revenue receipts, comprising municipal rates and taxes; special act income; property and non–tax revenue; grant and contributions, and miscellaneous. In Kerala, the major heads of revenue receipts include municipal taxes and rates; realisation under special acts; revenue derived from municipal properties, municipal fees; government grants and contributions; and miscellaneous revenue. Municipalities in other States follow a different classification of accounts. For purposes of this survey, attempt has been made to group information in such a manner that it is able to contribute directly to the objectives of the study, namely, to estimate the revenue gap of municipalities in the aggregate, as also the gap in spending on such important services as water supply; sewerage and sewage disposal; conservancy and sanitation; municipal roads; and street lighting.

Municipal Service Levels

The levels of municipal services in the country are extremely low. According to the survey whose results are summarised in Table 6, only 21.7 per cent of municipalities were supplying over 100 ltrs of water per capita/day. Twenty eight per cent of the municipalities provided less than 50 ltrs per capita/day which was less than half of the norms recommended by the Zakaria Committee for towns of less than 20,000 persons. Even these estimates are overstated on account of inclusion therein of water lost in transmission and distribution and water used for non–domestic purposes.[22]

The position in respect of sewerage and other sewage disposal facilities is highly disconcerting, with nearly one–fifth of municipalities reporting absence of any municipal involvement in the provision of this service. In 55 per cent of the municipalities, the length of sewer/drains per sq.km. of area was reported to be less than 5 kms. The level of other services like roads and street lighting is equally unsatisfactory, as may be noted in the table.

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22 For estimation of service levels, the following calculations are made: (1) total water supply released divided by total population of the municipality; (2) length of sewers/drains divided by the total area of the municipality; (3) total garbage/solid waste divided by total population of the municipality; (4) length of municipal roads divided by total area of the municipality; and (5) number of street lights divided by the total area of the municipality.

Table 6: Levels of Municipal Services

	Number of municipalities		Percentage of municipalities	
	1992/93	1997/98	1992/93	1997/98
A: Water Supply				
Per capita water supply released (lpcd)				
No information	62	59	24.90	23.69
0 to 25	31	24	12.45	9.64
25 to 50	40	47	16.06	18.88
50 to 75	32	36	12.85	14.46
75 to 100	37	29	14.86	11.65
100 and above	47	54	18.88	21.69
B: Sewage Disposal				
Length of Sewer/Drains (Km/sq.km)				
No information	57	52	22.89	20.88
0 to 5	145	137	58.23	55.02
5 to 10	27	34	10.84	13.65
10 to 15	9	12	3.61	4.82
15 and above	11	14	4.42	5.62
C: Solid Waste				
Per capita solid waste collected (gm.)				
No information	18	17	7.23	6.83
0 to 100	52	34	20.88	13.65
100 to 200	92	71	36.95	28.51
200 to 300	30	58	12.05	23.29
300 to 400	27	20	10.84	8.03
400 and above	30	49	12.05	19.68
D: Roads				
Road Length km/sq.km				
No information	8	7	3.21	2.81
0 to 5	180	170	72.29	68.27
5 to 10	46	49	18.47	19.68
10 to 15	11	12	4.42	4.82
15 and above	4	11	1.61	4.42
E: Street Lights				
Number of street lights per sq.km.				
No information	17	16	6.83	6.43
0 to 100	109	92	43.78	36.95
100 to 200	69	71	27.71	28.51
200 to 300	36	40	14.46	16.06
300 to 400	11	19	4.42	7.63
400 and above	7	11	2.81	4.42

Note: No information also includes the number of municipalities which do not supply a particular service

Source: Survey of Municipalities.

A Profile of Municipal Expenditure

For purposes of this study, expenditure is grouped under three heads, namely (a) wages and salaries; (b) operations and maintenance; and (c) interest and debt payments. In addition, expenditure for the five core services namely, water supply, sewerage and drainage, conservancy and sanitation, municipal roads, and street lighting is separately organised and presented in this section. Further, an attempt is also made to determine municipal priorities by organising expenditure into the following heads: general administration (general administration: collection of taxes and fees; others); public health (water supply; sewerage and drainage; conservancy and sanitation; maintenance of child welfare, maternity units and hospitals); public works (municipal roads, public safety, and municipal assets); public instruction (primary education, others); public conveniences (parks and playgrounds, cremation grounds and others); development and planning (slum improvement, poverty alleviation, and others); and regulatory functions.

The survey of municipalities was designed to address three sets of basic questions:

→ What is the current level of municipal expenditure on revenue account?

→ What is the structure of municipal expenditure?

→ What is the degree of discretion with the municipalities in altering the pattern of expenditure?

The results of the survey show that—

i. The per capita level of municipal spending in India is estimated at Rs. 747.02 (1997/98); reckoned on this basis, the total municipal spending in India in 1997/98 was approximately Rs. 19,542 crore, or 10.2 per cent of the total revenue expenditure of all States combined.[23]

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[23] Urban population in 1997/98 was estimated at 261.5 million. It includes population of all cities and towns including those falling within the Union Territories. See Registrar General, India, 1996. Population Projections for India and States. Revenue expenditure figures are taken from the Reserve Bank of India Bulletin, February 1999 (Table 4). It includes the revenue expenditure of the National Capital Territory of Delhi but not of other Union Territories.

It includes the revenue expenditure of Mumbai Municipal Corporation which accounts for about 13 per cent of the total municipal expenditure in the country. In general too, the average per capita municipal expenditure is overwhelmingly impacted by the expenditure of large municipalities with over one–million population which when excluded, depresses the level of per capita municipal spending by nearly 50 per cent, or to Rs. 372.15.

Table 7: Municipal Expenditure on Revenue Account

States	Per capita expenditure All municipalities (Rs.)		Annual growth rate (%)	Per capita expenditure excluding million plus cities (Rs.)		Annual growth rate (%)
	1992/93	1997/98		1992/93	1997/98	
Andhra Pradesh	146.96	318.38	16.72	205.92	469.29	17.91
Assam	49.75	81.77	10.45	49.75	81.77	10.45
Bihar	80.73	104.29	5.26	80.73	104.29	5.26
Gujarat	328.12	438.21	5.96	328.12	438.21	5.96
Haryana	364.96	598.22	10.39	364.96	598.22	10.39
Karnataka	203.90	321.05	9.50	203.90	321.04	9.50
Kerala	152.50	228.38	8.41	152.50	228.38	8.41
Madhya Pradesh	169.62	322.74	13.73	183.22	250.23	6.43
Maharashtra	889.98	1750.50	14.49	502.79	822.98	10.36
Orissa	205.22	248.29	3.88	205.22	248.29	3.88
Punjab	269.09	542.81	15.07	269.09	542.81	15.07
Rajasthan	248.77	497.24	14.86	156.88	430.83	22.39
Tamil Nadu	172.84	331.46	13.91	172.84	331.46	13.91
Uttar Pradesh	169.22	223.23	5.70	147.95	209.88	7.24
West Bengal	440.88	522.83	3.47	88.99	156.85	12.00
Himachal Pradesh	452.44	1112.85	19.72	452.44	1112.85	19.72
Manipur	49.42	101.42	15.46	49.42	101.42	15.46
Meghalaya	223.64	272.10	4.00	223.64	272.10	4.00
Tripura	81.09	255.90	25.84	81.09	255.90	25.84
Total	**416.51**	**747.02**	**12.39**	**219.96**	**372.15**	**11.09**

ii. This overall position masks the very large inter–State differences that exist in the level of municipal expenditure. The lowest per capita revenue expenditure is recorded for municipalities in Assam where it was placed at about Rs. 50 in 1992/93 and Rs. 82 in 1997/98, followed by municipalities in Bihar. The average per capita municipal expenditure in Bihar, according to the survey, was Rs. 104.3 in 1997/98, which was just about 14 per cent of the all–India average. The municipalities in Bihar suffer not only from a low level of expenditure, but also from lack of growth in expenditure which during the period 1992/93 to 1997/98 registered an annual growth of 5.3 per cent. The other extreme is represented by the municipalities in Maharashtra whose per capita average expenditure was estimated Rs. 1,750.5 in 1997/98, having risen from Rs. 889.9 in 1992/93, at roughly 14.5 per cent annually. Such variations are observed for municipalities falling within the State also; in fact, the coefficient of variation in respect of per capita expenditure of municipalities is high and significant. Annex Table 8 may be seen for coefficient figures.

iii. Inter–State differences in the levels of municipal spending have risen over the period 1992/93 and 1997/98. The expenditure of municipalities in such States as Bihar, Gujarat, Orissa, Uttar Pradesh and West Bengal during this period, rose at rates that did not cover even the inflation rate, suggesting that in real terms, the per capita expenditure of municipalities in these States may, in fact, have declined. Municipal expenditure in other States rose at an annual growth rate of over 10 per cent, posting in real terms an increase of 3–4 per cent annually.

iv. Municipal expenditure is split into three main components: wages and salaries; operations and maintenance; and interest payments. Wages and salaries constitute 60 per cent of the aggregate municipal expenditure, and are consistently the most important component of expenditure among all surveyed States, with the possible exception of Karnataka where it was estimated to be about 21 per cent of the total expenditure.[24] In such States as Bihar, Uttar Pradesh and West Bengal , wages and salaries consume 77 per cent, 69 per cent and 71 per cent of the total revenue expenditure respectively. Not only is the expenditure on wages and salaries high, it has also risen at a faster rate over the period 1992/93–1997/98—15 per cent annually—compared to the expenditure on the other expenditure components, namely, operations and maintenance, and interest payments. While admitting that many of the municipal services (e.g., garbage disposal, street cleaning and the like) are labour intensive, and may, therefore, explain a high wage component, there is no denying of the fact that with this level of committed expenditure, the discretion of municipalities in altering the pattern of

[24] The possibility that operations and maintenance expenditure may include a part of wages and salaries can not be discounted.

revenue expenditure is minimal. This discretion is grossly constrained in the case of roughly 11 per cent of the municipalities where wages and salaries account for over 80 per cent of the total expenditure. In only about 18 per cent of the municipalities, expenditure on wages and salaries is less than 40 per cent of the total revenue expenditure. Expenditure on operations and maintenance of municipal services forms one–fifth of the total municipal expenditure. With the exception of Kerala and Maharashtra, expenditure on interest and debt payments is low among municipalities. Use of debt instruments for financing infrastructure and services is limited among municipalities.

Table 8: Composition of Revenue Expenditure (%) 1997/98

States	Composition of revenue expenditure (%) All Municipalities			
	Wages and salaries	**Operation and maintenance**	**Interest and debt**	**Others**
Andhra Pradesh	49.21	49.60	0.24	0.95
Assam	42.43	54.14	1.90	1.53
Bihar	77.21	21.13	1.03	0.63
Gujarat	53.20	30.02	6.30	10.48
Haryana	48.76	44.49	0.00	6.75
Karnataka	20.93	78.11	0.48	0.48
Kerala	55.04	34.57	5.19	5.20
Madhya Pradesh	51.01	37.67	0.61	10.71
Maharashtra	61.50	13.29	9.89	15.31
Orissa	38.30	21.61	0.00	40.09
Punjab	52.46	28.68	4.27	14.59
Rajasthan	–	–	–	–
Tamil Nadu	49.13	47.49	2.53	0.86
Uttar Pradesh	69.18	29.62	0.00	1.20
West Bengal	71.09	18.52	1.01	9.38
Himachal Pradesh	46.98	52.32	0.00	0.71
Manipur	70.69	8.73	0.00	20.58
Meghalaya	52.28	30.37	0.00	17.35
Tripura	56.64	1.15	2.26	39.95
Total	**60.32**	**20.00**	**7.17**	**12.51**

Note: – Data not available.

v. An important aspect of municipal expenditure relates to the expenditure on core services, viz, water supply, sewerage and drainage, conservancy and sanitation, municipal roads, and street lighting.[25] The level of spending on these services is crucial for maintaining a minimum quality of life in the urban areas. The survey shows that in 1997/98, municipalities spent on a per capita basis, Rs. 435.81 on these services; in 1992/93, the level of expenditure was Rs. 261.85.

Table 9: Per Capita Revenue Expenditure on Core Services (Rs.)

States	Water supply		Sewerage & drainage		Conservancy & sanitation		Municipal roads		Street lighting	
	1992/93	1997/98	1992/93	1997/98	1992/93	1997/98	1992/93	1997/98	1992/93	1997/98
Andhra Pradesh	25.20	50.52	12.05	55.12	45.57	63.37	21.49	102.53	6.37	13.19
Assam	3.01	2.98	3.86	7.46	7.56	12.60	11.25	24.17	2.03	2.49
Bihar	4.50	4.32	26.69	40.45	32.60	39.85	4.33	2.93	2.34	1.29
Gujarat	61.00	60.40	44.85	44.28	58.38	119.37	34.41	52.23	9.43	29.76
Haryana	64.61	191.84	34.80	89.99	58.10	108.56	99.62	57.77	22.73	30.74
Karnataka	31.05	62.56	19.99	42.91	36.46	74.19	36.48	46.46	14.63	25.92
Kerala	1.30	2.84	4.42	8.98	26.68	66.14	37.42	46.49	8.47	8.37
Madhya Pradesh	30.62	79.44	21.88	31.92	40.69	37.10	20.73	27.19	7.49	13.16
Maharashtra	117.69	230.00	84.92	155.58	115.23	195.87	79.75	117.35	33.84	43.08
Orissa	4.16	9.66	26.79	42.58	48.61	67.91	11.13	16.29	7.09	13.08
Punjab	42.43	95.38	53.13	109.70	70.43	118.44	27.75	48.67	15.61	23.35
Rajasthan	–	–	91.55	165.07	–	–	7.80	12.28	2.45	5.40
Tamil Nadu	33.09	45.92	5.06	13.39	60.33	111.86	19.65	56.13	5.45	23.25
Uttar Pradesh	13.97	16.48	4.99	5.41	76.37	112.10	27.91	34.64	6.48	9.52
West Bengal	92.19	60.01	33.12	41.58	82.16	119.48	41.53	63.71	17.85	13.72
Himachal Pradesh	78.44	89.57	19.24	36.67	149.09	251.76	71.44	304.90	0.85	15.62
Manipur	–	0.03	–	–	15.46	27.05	9.01	16.38	–	–
Meghalaya	36.84	46.57	20.90	16.66	47.59	55.98	39.92	47.32	10.18	23.03
Tripura	1.84	0.01	–	–	–	–	1.24	2.13	0.51	4.99
Total	**73.79**	**125.77**	**50.96**	**93.21**	**76.56**	**123.36**	**43.25**	**70.19**	**17.29**	**23.28**

Note: – Data not available

The number of municipalities which are able to achieve the recommended levels of spending on these services is few. This survey shows that of the 249 surveyed municipalities,

25 Not all municipalities provide these services. The municipalities in Kerala and Rajasthan, for instance, are not responsible for water supply provision. In Manipur, street lighting is maintained by the State government. A number of municipalities have aggregated the expenditure on conservancy and sanitation with that of sewerage and drainage.

only 10 municipalities met the expenditure norms established by the Zakaria Committee. As will be seen later in this section, most municipalities in India suffer from a low level of expenditure on core services. The number of municipalities fulfilling the Zakaria Committee norm is shown below:

Table 10: Number of Municipalities Meeting the Zakaria Committee Norm for Revenue Account Expenditure on Services

Population range	Number of municipalities meeting the norms
>20 lakh	1
500,000 – 20 lakh	1
100,000 – 500,000	1
50,000 – 100,000	3
20,000 – 50,000	1
<20,000	3

The level of expenditure on core services represented 58 per cent of the total municipal expenditure in 1997/98. Compared with 1992/93 when this percentage was 65 per cent, expenditure on these services has declined. The growth rate of expenditure on core services over the period 1992/93 and 1997/98 has been lower than that observed for the total municipal expenditure.

vi. Maintenance of public health comprising water supply, sewerage and drainage, conservancy and sanitation, maintenance of child welfare, maternity units and hospitals is the single most important activity of municipalities, accounting for nearly 45 per cent of their total revenue expenditure. What is more, it is uniformly the most important activity across States, followed by public works and general administration, each accounting for 10–12 per cent of municipal expenditure. The level of expenditure on general administration varies across States—high in Assam (24.2%), Bihar (24.5%), Karnataka (23.8%), Kerala (25.2%), and Madhya Pradesh (35.9%), and low in Maharashtra (7.25%), and Haryana (8.15%).

Three conclusions emerge: (a) the overall spending level of municipalities is low; (b) the spending level of municipalities on basic or core services is far below the norms established by the Zakaria Committee; and (c) with nearly 60 per cent of expenditure on wages and salaries, municipalities have little flexibility in resetting their expenditure priorities.

Municipal Income on Revenue Account

Municipal income on revenue account consists of (a) internally generated resources, and (b) resources that are externally provided, i.e., the transfers that accrue to municipalities in the form of either the shared revenues, or grants, or both. The internally–generated resources are further classified into tax revenues and non–tax revenues. The analysis of municipal revenue income focuses on three sets of questions:

- → What is the level of municipal revenue income?
- → What are the sources of municipal income?
- → What has been its growth behaviour?

i. The per capita revenue receipts of municipalities in 1997/98 was estimated at Rs. 821.5. In 1992/93, it was placed at about Rs. 446.3. This estimate is inclusive of the income of municipalities with over one–million population which has a large weight in the income profile of municipalities. The per capita revenue receipts drops down to Rs. 421 with the exclusion of the income of these municipalities. Of the total revenue receipts, internally–generated revenues formed in the aggregate, 82 per cent in 1997/98. On this basis, the total resources generated by all municipalities in the country would amount to Rs.17,785 crore in 1997/98, or 16.38 per cent of the own resources of all States.[26] The share of internally–generated resources in the total municipal income and as a proportion of State's own resources has risen marginally over the period 1992/93 and 1997/98.

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[26] Estimates of revenue receipts of States are taken from Table 3 in the Reserve Bank of India Bulletin, February, 1999. Own resources of States comprise revenue from State's taxes and State's own non-tax revenue.

Table 11: Municipal Income on Revenue Account

States	Per capita revenue receipts (All municipalities) (Rs.) 1992/93	1997/98	Annual growth rate (%)	Per capita revenue receipts excluding million plus cities (Rs.) 1992/93	1997/98	Annual growth rate (%)
Andhra Pradesh	246.52	410.47	10.73	235.50	380.53	10.07
Assam	46.10	79.78	11.59	46.10	79.78	11.59
Bihar	42.70	113.11	21.51	42.70	113.11	21.51
Gujarat	381.99	707.45	13.12	381.99	707.45	13.12
Haryana	378.90	531.21	6.99	378.90	531.21	6.99
Karnataka	199.69	381.61	13.83	199.69	381.61	13.83
Kerala	154.40	275.46	12.27	154.40	275.46	12.27
Madhya Pradesh	179.89	300.88	10.83	171.14	240.95	7.08
Maharashtra	960.51	1917.20	14.82	599.42	1119.04	13.30
Orissa	193.08	231.51	3.70	193.08	231.51	3.70
Punjab	258.63	499.03	14.05	258.63	499.03	14.05
Rajasthan	273.96	479.35	11.84	182.90	386.51	16.14
Tamil Nadu	215.86	424.37	14.48	215.86	424.37	14.48
Uttar Pradesh	169.33	225.02	5.85	142.60	198.64	6.85
West Bengal	396.83	568.40	7.45	110.74	201.84	12.75
Himachal Pradesh	540.27	1554.46	23.54	540.27	1554.46	23.54
Manipur	62.29	107.09	11.45	62.29	107.09	11.45
Meghalaya	221.98	268.88	3.91	221.98	268.88	3.91
Tripura	38.94	101.38	21.09	38.94	101.38	21.09
Total	**446.25**	**821.46**	**21.98**	**238.45**	**421.67**	**12.08**

ii. Inter–State differences in the per capita own incomes of municipalities present a familiar pattern. Municipalities in the relatively low income States such as Bihar, Madhya Pradesh, Orissa and Uttar Pradesh have consistently low levels of incomes; municipalities in the other States maintain a comparatively higher level of income. Per capita incomes are uniformly high in octroi–levying States with the exception of Orissa where even the octroi income makes little difference to the revenue income of municipalities.

iii. Internally generated resources are a significant component of the total revenue receipts of municipalities, being 82.8 per cent in 1997/98. This is particularly so in the octroi levying States such as Gujarat (87.5%), Haryana (80.51%), Maharashtra (95.4%), Punjab (89 %), Rajasthan (89.8%) and Manipur (98.3%). Despite the benefit nature of municipal services where several of the services are chargeable on cost considerations, municipalities rely on tax instruments for mobilising resources.

iv. The yields from the non–tax component consisting of charges for services and different kinds of fees and duties are about one–fourth of the total revenues. Although still low and even lower in non–metropolitan municipalities— Gujarat (7.7%), Uttar Pradesh (5.9%), Andhra Pradesh (14.8%) and Bihar (15.9%) — the non–tax component appears to have begun to respond to the market conditions.

Table 12: Composition of Municipal Revenues (%) (1997/98)

States	Composition of revenues (%)					
	Own resource	Tax receipts	Non–tax receipts	Shared revenue	Grants	Others
Andhra Pradesh	51.17	36.37	14.80	33.56	13.03	2.25
Assam	59.08	23.24	35.84	0.00	23.37	17.55
Bihar	52.77	36.86	15.91	2.99	40.31	3.93
Gujarat	87.45	79.74	7.71	0.18	11.10	1.27
Haryana	80.51	42.80	37.71	13.44	3.95	2.09
Karnataka	43.18	18.12	25.06	5.67	43.62	7.53
Kerala	70.32	44.69	25.63	20.65	4.74	4.29
Madhya Pradesh	47.34	22.61	24.73	11.88	39.90	0.88
Maharashtra	95.40	65.44	29.96	0.53	3.84	0.23
Orissa	67.12	46.92	20.20	0.93	28.59	3.36
Punjab	89.02	69.60	19.42	6.14	3.81	1.03
Rajasthan	89.80	62.90	26.90	0.17	9.30	0.74
Tamil Nadu	44.34	21.21	23.13	21.93	29.49	4.24
Uttar Pradesh	19.44	13.50	5.95	0.36	79.14	1.06
West Bengal	59.33	36.51	22.82	5.05	30.53	5.10
Himachal Pradesh	25.86	15.27	10.59	0.00	72.04	2.09
Manipur	98.29	90.42	7.87	0.20	0.15	1.35
Meghalaya	46.27	37.66	8.62	0.00	40.09	13.63
Tripura	42.92	27.31	15.61	0.00	33.74	23.34
Total	**82.78**	**56.40**	**26.38**	**4.05**	**11.99**	**1.19**

v. Own resources consist of receipts from two main taxes i.e., property taxes and octroi, and non–tax sources of revenue. Taxes on property are the most common and stable source of revenue for municipalities in the country, exceptions being a few municipalities in

Rajasthan which do not levy property taxes.[27] Despite its universality and obvious simplicity, yields from property taxes in India have continued to be extremely low. A 1990/91 estimate placed the total yield from property taxes at Rs. 1,425 crore or 26 per cent of the total tax revenue of municipalities.[28] According to this survey (1997/98), the estimated yield from property taxes amounts to approximately Rs. 2,764 crore which is 15.5 per cent of the total tax income of municipalities, and 12.9 per cent of total municipal revenues. Over the period 1990/91 to 1997/98, yield from property taxes has shown an increase of approximately 75 per cent or about 6 per cent annually, which bears no relation to the massive increase that has taken place in the property values. Studies on property taxes show that in the aggregate, only about 40–60 per cent of the potential of this tax is realised, and taxes on property continue to be plagued by problems of assessment, valuation, exemption policies, and limits imposed on rents of properties under the rent control acts. The municipalities stand grossly deprived of what would, from an economic standpoint, seem to be the most important source of revenue.

Table 13: Property Tax in Municipal Revenues

States	% of property taxes in municipal revenues		Per capita property tax (Rs.)	
	1992/93	1997/98	1992/93	1997/98
Andhra Pradesh	35.27	34.54	86.94	141.79
Assam	20.65	14.72	9.52	11.75
Bihar	28.10	26.11	12.00	29.53
Gujarat	20.21	23.46	77.19	165.97
Haryana	11.72	11.41	44.41	60.60
Karnataka	18.62	15.10	37.17	57.62
Kerala	27.47	22.78	42.41	62.74
Madhya Pradesh	12.69	9.85	22.82	29.64
Maharashtra	8.68	7.65	83.34	146.64
Orissa	1.06	1.10	2.05	2.54
Punjab	7.67	5.14	19.83	25.66
Rajasthan	4.96	6.28	13.58	30.10
Tamil Nadu	39.99	20.84	86.32	88.43
Uttar Pradesh	12.78	12.14	21.65	27.33
West Bengal	33.39	36.30	132.50	206.30
Himachal Pradesh	38.66	15.27	208.89	237.41
Manipur	0.35	2.08	0.22	2.23
Meghalaya	16.85	19.00	37.41	51.09
Tripura	42.54	27.31	16.57	27.69
Total	**14.74**	**12.87**	**65.79**	**105.68**

27 The Government of Punjab has recently abolished the levy of taxes on domestic properties. In Imphal (Manipur), property taxes are levied in only two wards of the city.

28 See, Om Prakash Mathur, "Property Tax Policy and Local Governance", in P. Shome (Ed.). 1996. Fiscal Policy, Public Policy and Governance, NIPFP, New Delhi.

vi. Transfers from the State government to municipalities constitute the balance of the municipal revenues on revenue account. Taking the form of either the shared revenues, or grant–in–aid, or both, transfers have historically played an important role in not only meeting the revenue gap but also enabling the municipalities to balance their budget, and even post a surplus on revenue account. Transfers have enabled the municipalities to continue to maintain services, or as has often been said, *making the cities and towns function*. Transfers have been used extensively to meeting the sectoral objectives, and to contributing towards the reduction of horizontal imbalances. Barring those transfers that are of a statutory nature (e.g. extended in fulfilment of the requirements of such statutes as the Maharashtra Land Revenue core 1966, or the Bombay Entertainments Duty Act, 1923) transfers, irrespective of the form that they take, are seen as *entitlements*, and a legitimate component of municipal revenues.

The role of transfers in the finance of municipalities is given in table below. It shows that in the aggregate, transfers constitute about 17 per cent of the total municipal revenue receipts. This proportion, however, is very high in the case of Andhra Pradesh (48%), Assam (40%), Bihar (47%), Karnataka (57%), Madhya Pradesh (52%), Tamil Nadu (56%), and Uttar Pradesh (80%). High shares of transfers are a significant feature of particularly the non–octroi States such as those mentioned here. The role of transfers in municipalities that have access to octroi is far less important.

These proportions are understated to the extent the State governments directly absorb a part of the expenditure of municipalities, e.g., the salaries of their staff and contribution to their provident fund, pension and other retirement benefits for which separate data are not available. The trends in respect of transfers show no regularity or relationship with such key indicators as the vertical or horizontal imbalance.

Table 14: The Role of Transfers, 1997/98

States	Per capita transfers (Rs.)	Transfers as a % of municipal revenues
Andhra Pradesh	200.43	48.83
Assam	32.65	40.92
Bihar	53.42	47.23
Gujarat	88.75	12.55
Haryana	103.53	19.49
Karnataka	216.85	56.82
Kerala	81.76	29.68
Madhya Pradesh	158.45	52.66
Maharashtra	88.18	4.60
Orissa	76.11	32.88
Punjab	54.81	10.98
Rajasthan	48.89	10.20
Tamil Nadu	236.20	55.66
Uttar Pradesh	181.26	80.56
West Bengal	231.18	40.67
Himachal Pradesh	1152.43	74.14
Manipur	1.83	1.71
Meghalaya	144.46	53.73
Tripura	57.87	57.08
Total	**141.48**	**17.22**

Municipal Staff

Discussions have taken place, from time to time, on the unabated growth of local bodies in the country, with the underlying suggestion that municipalities are overstaffed, and a greater part of the municipal resources are absorbed by wages and salaries. No countrywide surveys have been conducted to estimate the total number of municipal staff, or about their cost, nor are there any staff norms and standards for the different services that the municipalities deliver or the various functions that they perform. Given this, it is no surprise that the number of staff on a per unit basis varies significantly between municipalities of different States.

According to the survey, the average municipal staff per 1,000 population is 7.04 persons (1997/98). Like in the case of other aspects of municipal functioning, here too, large scale variation is noted in the number of municipal staff per 1,000 population. Municipal staff on a per unit basis is significantly higher in Haryana (7.28), Maharashtra (11.87), and West Bengal (7.97). Higher staff average in these States can be explained, at least in part, by their larger fiscal jurisdiction (octroi), as also a larger functional domain. These is a positive correlation between municipal staff and the level of services.[29]

Table 15: Municipal Staff

States	Staff per 1,000 population		Annual growth rate (%)
	1992/93	1997/98	
Andhra Pradesh	4.31	3.41	-2.32
Assam	2.17	1.91	-1.27
Bihar	3.53	1.03	-11.59
Gujarat	6.53	5.85	-1.08
Haryana	7.41	7.28	-0.18
Karnataka	2.92	2.72	-0.69
Kerala	2.56	2.28	-1.17
Madhya Pradesh	4.28	4.65	0.84
Maharashtra	12.53	11.87	-0.55
Orissa	7.24	6.62	-0.90
Punjab	5.81	5.25	-1.00
Rajasthan	5.21	5.00	-0.42
Tamil Nadu	4.06	3.79	-0.69
Uttar Pradesh	4.62	3.86	-1.79
West Bengal	8.97	7.97	-1.18
Himachal Pradesh	15.62	15.66	0.03
Manipur	2.08	1.85	-1.19
Meghalaya	5.48	4.46	-2.03
Tripura	0.87	4.33	17.36
Total	**7.75**	**7.04**	**-0.96**

29 **Correlation between the physical level of services and number of staff is as under:**

Water supply	0.95
Conservancy and sanitation	0.98
Municipal roads	0.65
Street lighting	0.65

Wages and salaries, as stated earlier, account for over 60 per cent of the total municipal expenditure. The amount of wages and salaries exceed the own account revenue receipts in the case of several States, including Bihar, Madhya Pradesh, Uttar Pradesh, West Bengal and smaller States of Tripura, Meghalaya and Himachal Pradesh. Over the period 1992/93 and 1997/98, per staff wages and salaries have risen significantly from a monthly average of Rs. 2,745 in 1992/93 to Rs. 5,419 in 1997/98. The maintenance of approximately 18.4 lakh employees (worked out on the basis of country–wide average of 7.04 persons/1,000 population),with an average monthly salary of Rs. 5,419 at 1997/98 is one fact that will need to be kept in the forefront of any recommendation on the finance of municipalities.

Revenue Gap

Estimating the revenue gap, i.e., the difference between the total revenue account expenditure and own resources on a common or comparable basis is an extremely complex exercise. It would imply working with a uniform functional and fiscal jurisdiction, while, in fact, there are large scale differences in them. Moreover, even when a function or a revenue raising authority may rest with a municipality, it may choose not to exercise it or exercise it with modification. Property tax is a typical example of a tax instrument which several municipalities have opted not to exercise. Given this, an attempt is made here to estimate, for each State, the actual gap on revenue account, and to complement it with estimates of other forms of deficit that have a crucial bearing on the revenue gap and supplementary financial requirements of municipalities.

The actual revenue gap of municipalities on a per capita basis is estimated to be Rs.65.36 in 1997/98, which is 1.55 per cent of the State's total own resources, or 0.15 per cent of the Gross Domestic Product of States (GSDP). Over the period 1992/93 to 1997/98, per capita revenue gap has remained unchanged in nominal prices. Revenue gap is high in several States: Andhra Pradesh (Rs. 108.34); Haryana (Rs. 170.55); Karnataka (Rs. 156.28); Madhya Pradesh (Rs. 180.31); Punjab (Rs. 98.58), Tamil Nadu (Rs. 143.28), Uttar Pradesh (Rs. 179.47), and West Bengal (Rs. 185.61). Smaller States with the exception of Manipur also have high levels of revenue gap which are either met by transfers or left uncovered.[30] On the other hand, the municipalities in Gujarat and Maharashtra have posted, in the aggregate, *surplus* on revenue account, meaning that their own revenue receipts are higher than the total revenue expenditure[31]. In fact, the revenue account deficit in the aggregate is low, principally on account of the surpluses in these two States.

Table 16: Revenue Gap of Municipalities

States	Per capita revenue gap (Rs.)		Annual growth rate %
	1992/93	1997/98	
Andhra Pradesh	44.06	108.34	19.72
Assam	19.34	34.63	12.36
Bihar	53.19	44.61	-3.46
Gujarat	-11.59	-180.49	73.18
Haryana	18.80	170.55	55.42
Karnataka	109.62	156.28	7.35
Kerala	31.56	34.67	1.90
Madhya Pradesh	85.44	180.31	16.11
Maharashtra	-14.17	-78.53	40.84
Orissa	78.90	92.90	3.32
Punjab	50.74	98.58	14.21
Rajasthan	10.64	66.78	44.39
Tamil Nadu	42.72	143.28	27.38
Uttar Pradesh	132.42	179.47	6.27
West Bengal	258.45	185.61	-6.41
Total	**65.23**	**65.36**	**0.04**

Given that the above represents the actual revenue gap, then, a total sum of Rs. 1,709 crore at 1997/98 prices will be needed annually for closing the gap. For a projected urban population of 283.7 million in 2000/01, the requirements of municipalities for meeting the gap

30 This aggregate position obscures the fact that of the 249 municipalities, 134 have shown a surplus on revenue account (revenue receipts being in excess of revenue expenditure). However, the surplus is either statutory or illusory as the municipalities suffer from very low level of services.

31 It may be noted that transfers consisting of grants-in-aid and shared revenues accrue to municipalities in Gujarat and Maharashtra, notwithstanding the fact that their own resources are able to cover their expenditure.

would be Rs. 1,854 crore at 1997/98 prices. No funding will be needed for Gujarat and Maharashtra, which have surpluses on revenue account; the requirements of municipalities in these States that are in deficit can be met by inter-municipal transfers and adjustments.

This manner of calculating the revenue gap suffers from several deficiencies:

i. The actual gap worked out in this manner does not take into account the fact that there is gross *underspending* at the level of municipalities. On an average, as shown earlier, municipalities spend Rs. 2.04 per capita per day. In several States (Assam, Bihar, Orissa and Uttar Pradesh), the level of spending per capita/day is less than Rs. 0.70, which, when considered in the context of the myriad responsibilities that they are required to meet, would by any norm or standard seem to be a gross underspending.

ii. The actual revenue gap does not take into account the low level of spending on the core services, such as water supply, sewerage and drainage, conservancy and sanitation, municipal roads and street lighting. Expenditure on conservancy and sanitation which is one of the most important functions of municipalities is just about Rs. 12 per capita annually in Assam, Rs. 40 in Bihar, Rs. 37 in Madhya Pradesh, and Rs. 60 in Tamil Nadu. Annual expenditure on roads ranges between a low of Rs. 24.17 in Assam[32], Rs. 16.29 in Orissa, Rs.12.28 in Rajasthan, and a high of Rs. 117.35 in Maharashtra. The prevalence of large deficits on services understates the revenue gap which would be significantly higher, if the service levels were to be anywhere close to the minimum norms.

The degree of underspending—or spending deficit both overall and in services—is estimated by using the equation given section 1 of this study. Figures are shown below. Per capita deficit in spending is high for Maharashtra and Punjab, and low for Assam, Bihar, Orissa and Uttar Pradesh. For the services too, the same pattern is observed.

32 In Bihar, it was Rs. 2.95 only.

Table 17: Spending Deficits, 1997/98

States	Per capita spending deficit (Rs.), 1997/98					
	Total	Water supply	Sewerage & drainage	Conservancy & sanitation	Municipal roads	Street lighting
Andhra Pradesh	101.68	24.63	16.23	7.10	77.12	7.84
Assam	9.55	2.13	4.19	2.65	11.91	1.93
Bihar	46.83	3.64	32.90	22.89	0.80	0.37
Gujarat	158.65	17.06	24.50	61.09	2.22	15.16
Haryana	185.72	79.12	72.80	20.89	15.72	19.83
Karnataka	129.01	41.57	34.02	57.54	27.28	17.65
Kerala	114.14	2.65	2.18	21.94	34.59	2.01
Madhya Pradesh	153.93	53.6	14.72	18.98	7.00	2.62
Maharashtra	927.51	128.44	129.62	87.20	84.43	22.37
Orissa	96.42	5.26	34.26	30.93	5.68	7.64
Punjab	159.68	40.40	89.27	36.77	12.66	6.93
Rajasthan	185.15	–	77.49	–	7.63	1.12
Tamil Nadu	42.50	20.47	8.26	19.29	18.49	12.21
Uttar Pradesh	75.48	9.42	4.49	49.75	15.03	6.82
West Bengal	365.98	51.53	31.20	76.82	44.32	7.49

Note: – Expenditure appears to be shown under sewerage and drainage.

This survey has provided important insights into the finances of municipalities. For instance—

i. The level of municipal spending in relation to the tasks assigned to municipalities is extremely low. It works out to Rs. 2.04 per capita/day. In some municipalities, it works out to be as low as Rs. 0.22 per capita/day.

ii. The level of municipal spending on core services is severely deficient compared to the norms established by the Zakaria Committee. It is significant that compared to even the State averages, 40 per cent of urban population in Andhra Pradesh, 27 per cent in Bihar, 70 per cent in Rajasthan, 78 per cent in Assam and 77 per cent in Karnataka were assessed to be deficient in respect of water supply. Much larger proportions of population are deficient in respect of other core services such as sewerage and drainage and street lighting as may be seen in the following table.

Table 18: Percentage of Population whose Expenditure on Core Services is below the State average, 1997/98

States	Percentage of population				
	Water supply	Sewerage & drainage	Conservancy & sanitation	Municipal roads	Street lighting
Andhra Pradesh	40.49	62.28	80.77	25.02	31.07
Assam	78.27	55.34	85.94	54.28	63.72
Bihar	27.37	23.64	21.07	95.09	45.45
Gujarat	75.37	28.11	41.43	38.24	56.82
Haryana	42.27	36.45	32.53	72.74	34.48
Karnataka	77.01	55.74	61.05	71.78	77.01
Kerala	34.30	94.27	62.88	44.21	71.73
Madhya Pradesh	30.52	74.21	70.46	83.43	76.76
Maharashtra	13.96	11.58	16.62	18.61	13.92
Orissa	25.08	42.39	57.14	75.25	44.00
Punjab	27.21	30.33	26.41	86.27	73.96
Rajasthan	70.65	36.68	70.65	32.49	85.50
Tamil Nadu	46.70	41.79	67.34	80.24	44.40
Uttar Pradesh	42.02	91.43	33.72	31.48	29.72
West Bengal	17.59	11.03	18.11	18.11	16.43

iii. While in the aggregate, own revenue receipts are shown to be able to meet 91 per cent of the total revenue expenditure, the reality is far more disturbing. The financial dependence of municipalities on the State budget is significant, exceeding in several States, 50 per cent of the total expenditure of municipalities. Own resources of municipalities are not able to meet even the wages and salaries of employees in at least six States. Own resources are severely constrained on account of the absence of autonomy and poor tax administration.

iv. Transfers play an extremely important role in meeting the vertical gap of municipalities, even in those States where municipalities have a surplus on revenue account. But to suggest that transfers are able to eliminate the vertical gap is not substantiated by the experience of such States as Haryana, Punjab, Madhya Pradesh and Orissa.

4 *Options for Closing the Revenue Gap of Municipalities 2000/01 to 2004/05*

The Option

The issue of the supplementary financial requirements of municipalities can be approached in several complementary ways.[33] These are:

to maintain at least the 1997/98 level of transfers to municipalities. The level of transfers in 1997/98 ranged between a low of 0.67 per cent to 8.9 per cent of the State's own resources on revenue account, and between 0.05 per cent and 0.56 per cent of the Gross Domestic Product of the concerned State;

to meet at least the 1997/98 level of revenue gap of municipalities. The revenue gap formed in 1997/98 anywhere between 0.59 per cent to 7.45 per cent of State's own resources in 1997/98;

to enhance the level of spending of deficient municipalities, to the level of State's average municipal spending at 1997/98 level;

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[33] In principle, there are at least four ways in which any revenue-expenditure gap might be closed.

→ Revenue could be increased at the municipal level. It has always been found to be difficult on account of local resistance.

→ Municipal expenditures could be reduced. While always popular, and perhaps sometimes necessary, this approach has been found to be infeasible.

→ Expenditure functions could be transferred up to the level who have access to more revenues- it may be unwise if the basic structure of the system is correct.

→ Finally, some revenues could be transferred to municipal governments. In the end, in every country, it is this alternative that almost always prevails.

to enhance the level of spending for the purpose of upgrading the spending levels of deficient municipalities on core services, to the 1997/98 level of State's average municipal spending on core services; and

to enhance the level of spending on core services to levels recommended by the Zakaria Committee.

Table 19: Revenue Gap of Municipalities and Transfers to Municipalities as a % of Gross Domestic Product of States (GSDP) and State's Own Revenue Receipts

States	As a % of GSDP		As a % State's own revenue receipts	
	Revenue gap	Transfers	Revenue	Transfers
	1997/98	1997/98	1997/98	1997/98
Andhra Pradesh	0.26	0.48	2.53	4.68
Assam	0.05	0.05	0.77	0.73
Bihar	0.11	0.13	1.41	1.69
Gujarat	–0.35	0.17	–3.58	1.76
Haryana	0.23	0.14	1.83	1.11
Karnataka	0.39	0.54	3.21	4.55
Kerala	0.07	0.17	0.59	1.38
Madhya Pradesh	0.49	0.43	5.17	4.54
Maharashtra	–0.16	0.17	–1.61	1.81
Orissa	0.18	0.15	2.29	1.88
Punjab	0.14	0.08	1.21	0.67
Rajasthan	0.16	0.12	1.59	1.16
Tamil Nadu	0.35	0.58	3.09	5.09
Uttar Pradesh	0.47	0.48	7.45	7.52
West Bengal	0.45	0.56	7.16	8.92
Total	**0.15**	**0.31**	**1.55**	**3.33**

The Projected Financial Requirements of Municipalities: 2000/01 to 2004/04

Option 1: *To maintain the 1997/98 level of transfers–* Transfers are the difference between the total revenue receipts of municipalities and total own revenue receipts. On a per capita basis, transfers were assessed at Rs. 141.48 in 1997/98 and Rs. 94.87 in 1992/93. These are projected at trend growth rates, observed over the period 1992/93 and 1997/98. An adjustment is made to the *total own revenue receipts,* i.e., enhance it at an annual rate of 2.5 per cent, beginning with 2000/01. This upward adjustment is carried out to allow for inefficiencies in revenue generation. For five States, namely, Assam, Bihar, Madhya Pradesh, Orissa, and Uttar Pradesh where the revenue raising effort is extremely low, a further upward adjustment of 2.5 per cent annually is made to the *own revenues.* The expenditure component of municipalities, partly because of the non–availability of norms and partly because over 60 per cent of the total expenditure is directed to meeting the wages and salaries has been left untouched. Thus, there are three estimates of the level of transfers, given in the following table.

(a) The 1997/98 level of transfers projected to the years from 2000/01 to 2004/05. The annual requirements of municipalities on the basis of this norm would range between Rs. 5,048 crore and Rs. 8,189 crore over the period in question.

(b) With an annual adjustment of own resources at the rate of 2.5 per cent, the annual financial requirement of municipalities would be between Rs. 4, 603 crore and Rs. 7, 375 crore.

(c) With an additional adjustment of 2.5 per cent to the own resources of those States whose revenue effort is abysmally low, the annual requirement of municipalities would range between Rs. 4,582 crore and Rs. 7,339 crore.

Table 20: Projected Level of Transfers to Municipalities (Rs. crore)

States	Projected level of transfer (1)					Projected level of transfer to municipalities with 2.5 % of annual enhancement of own revenue receipts (2)					Projected level of transfer to municipalities with (a) 2.5% annual enhancement of own revenue receipts, and (b) a further 2.5% annual enhancement of own revenue receipts in respect of States marked with asterisk (3)				
	2000/01	2001/02	2002/03	2003/04	2004/05	2000/01	2001/02	2002/03	2003/04	2004/05	2000/01	2001/02	2002/03	2003/04	2004/05
Andhra Pradesh	537.40	575.38	611.10	644.32	673.26	518.98	553.60	585.38	613.96	637.40	518.98	553.60	585.38	613.96	637.40
Assam*	15.76	18.44	21.55	25.20	29.49	15.27	17.90	20.95	24.53	28.74	14.78	17.36	20.34	23.85	27.98
Bihar*	161.24	209.49	271.23	350.37	451.61	157.70	205.22	266.07	344.16	444.13	154.16	200.94	260.92	337.95	436.65
Gujarat	247.62	293.03	346.07	408.63	482.29	207.68	246.92	292.91	347.33	411.60	207.68	246.92	292.91	347.33	411.60
Haryana	89.14	104.98	122.66	142.77	165.70	82.59	97.96	115.17	134.76	157.11	82.59	97.96	115.17	134.76	157.11
Karnataka	585.97	690.01	811.87	955.55	1124.94	575.82	678.42	798.62	940.42	1107.63	575.82	678.42	798.62	940.42	1107.63
Kerala	131.51	157.54	188.02	224.21	267.18	125.16	150.39	179.97	215.15	256.97	125.16	150.39	179.97	215.15	256.97
Madhya Pradesh*	453.05	517.46	590.91	674.74	770.37	442.73	505.63	577.33	659.17	752.52	432.42	493.79	563.76	643.60	734.66
Maharashtra	426.46	465.62	504.65	544.35	583.55	158.73	151.35	136.46	112.31	75.92	158.73	151.35	136.46	112.31	75.92
Orissa*	48.69	51.52	54.46	57.60	60.96	46.08	48.71	51.45	54.36	57.47	43.48	45.91	48.44	51.13	53.98
Punjab	44.76	45.75	45.65	44.39	41.50	32.08	30.86	28.21	23.92	17.44	32.08	30.86	28.21	23.92	17.44
Rajasthan	76.22	81.45	86.40	91.05	95.12	55.51	57.47	58.66	58.93	57.91	55.51	57.47	58.66	58.93	57.91
Tamil Nadu	908.04	1092.14	1308.68	1565.29	1868.91	894.78	1077.64	1292.84	1547.97	1849.97	894.78	1077.64	1292.84	1547.97	1849.97
Uttar Pradesh*	833.20	920.21	1014.80	1118.12	1230.87	828.57	915.23	1009.46	1112.39	1224.73	823.94	910.25	1004.12	1106.66	1218.58
West Bengal	488.82	471.19	442.43	400.64	342.80	461.44	439.73	406.29	359.10	295.03	461.44	439.73	406.29	359.10	295.03
Total	**5047.89**	**5694.22**	**6420.48**	**7247.25**	**8188.55**	**4603.12**	**5177.01**	**5819.79**	**6548.47**	**7374.56**	**4581.54**	**5152.58**	**5792.10**	**6517.04**	**7338.84**

Note: Mandi Govindgarh is not included in Punjab.

Option 2: *To meet the 1997/98 level of revenue gap–* Revenue gap is the difference between the total revenue expenditure of municipalities and total own revenue receipts. For its estimation, the total revenue expenditure and total own receipts are projected at trend growth rates. Here also, the own revenue receipts are adjusted as above, yielding three estimates of the revenue gap for which provision in the State budget may be needed.

Table 21: Projected Financial Requirement for Meeting the Revenue Gap (Rs. crore)

States	Projected financial requirements for meeting the revenue gap (1)					Projected financial requirements for meeting the revenue gap with 2.5% annual enhancement of own revenue receipts (2)					Projected financial requirements for meeting the revenue gap with (a) 2.5% revenue enhancement of own revenue receipts, and (b) a further 2.5% annual enhancement of own revenue receipts in respect of states marked with asterisks (3)				
	2000/01	2001/02	2002/03	2003/04	2004/05	2000/01	2001/02	2002/03	2003/04	2004/05	2000/01	2001/02	2002/03	2003/04	2004/05
Andhra Pradesh	420.65	513.87	626.24	762.91	928.92	402.23	492.08	600.53	732.55	893.06	402.23	462.08	600.53	732.55	893.06
Assam*	15.53	17.78	20.33	23.29	26.71	15.05	17.23	19.72	22.61	25.95	14.56	16.69	19.12	21.94	25.20
Bihar*	39.83	26.51	8.54	–15.14	–45.86	36.28	22.23	3.39	–21.35	–53.34	32.74	17.96	–1.77	–27.56	–60.82
Gujarat	–658.25	–825.23	–1022.02	–1255.14	–1530.47	–698.19	–871.34	–1075.18	–1316.44	–1601.1	–698.19	–871.34	–1075.18	–1316.44	–1601.16
Haryana	172.38	211.43	256.39	308.85	370.18	165.83	204.42	248.90	300.84	361.59	165.83	204.42	248.90	300.84	361.59
Karnataka	336.97	367.52	400.15	435.39	473.32	326.82	355.92	386.91	420.26	456.01	326.82	355.92	386.91	420.26	456.01
Kerala	33.67	33.59	32.96	31.78	29.90	27.32	26.43	24.92	22.72	19.68	27.32	26.43	24.92	22.72	19.68
Madhya Pradesh*	590.60	704.90	840.62	1001.84	1193.18	580.28	693.06	827.04	986.27	1175.33	569.97	681.22	813.47	970.70	1157.47
Maharashtra	–631.05	–807.00	–1022.66	–1290.08	–1621.00	–898.78	–1121.28	–1390.85	–1722.13	–2128.6	–898.78	–1121.2	–1390.85	–1722.13	–2128.62
Orissa*	60.67	64.65	68.85	73.36	78.22	58.06	61.85	65.84	70.12	74.73	55.46	59.04	62.82	66.88	71.25
Punjab	109.39	127.27	147.57	171.49	199.65	96.71	112.38	130.13	151.02	175.58	96.71	112.38	130.13	151.02	175.58
Rajasthan	187.97	241.53	307.62	389.49	490.56	167.27	217.56	279.88	357.37	453.35	167.27	217.56	279.88	357.37	453.35
Tamil Nadu	576.44	700.34	846.22	1019.12	1223.68	563.17	685.84	830.38	1001.81	1204.73	563.17	685.84	830.38	1001.81	1204.73
Uttar Pradesh*	820.66	904.79	996.11	1095.66	1204.12	816.03	899.82	990.76	1089.93	1197.98	811.40	894.84	985.42	1084.20	1191.84
West Bengal	205.77	109.46	–7.75	–149.32	–319.50	178.40	78.00	–43.89	–190.86	–367.27	178.40	78.00	–43.89	–190.86	–367.27
Total	**2281.24**	**2391.40**	**2499.17**	**2603.51**	**2701.61**	**1836.46**	**1874.20**	**1898.48**	**1904.72**	**1887.62**	**1814.88**	**1849.76**	**1870.79**	**1873.30**	**1851.90**

* Mandi Govindgarh is excluded from the calculations.

Option 3: *To enhance the level of spending of deficient municipalities*– The expenditure deficit as assessed in 1997/98 has been projected to the years 2000/01 to 2004/05 by multiplying the base year deficit with the estimated deficient population for the reference years. Meeting the expenditure deficit for municipalities whose per capita revenue expenditure is below the State average expenditure would mean a supplementary provision of Rs. 1,781 crore in the year 2000/01, which will increase to Rs. 1,946 crore in the year 2004/05. The following table gives the estimates of the supplementary financial requirements.

Table 22: Projected Financial Requirements for Enhancing the Revenue Expenditure of Deficit Municipalities to State–level Average (1997/98 prices)

States	Projected financial requirements (Rs. crore)				
	2000/01	**2001/02**	**2002/03**	**2003/04**	**2004/05**
Andhra Pradesh	167.90	172.15	176.20	180.40	184.70
Assam	2.29	2.34	2.39	2.44	2.50
Bihar	23.83	24.62	25.42	26.24	27.08
Gujarat	90.54	92.72	94.81	96.98	99.20
Haryana	45.90	47.06	48.18	49.41	50.75
Karnataka	166.74	170.40	174.06	177.92	181.97
Kerala	45.18	46.30	47.37	48.54	49.80
Madhya Pradesh	91.01	93.99	97.04	100.19	103.43
Maharashtra	713.32	727.27	740.06	754.26	769.73
Orissa	22.49	23.20	23.92	24.68	25.48
Punjab	41.30	42.09	42.76	43.53	44.41
Rajasthan	69.73	71.72	73.71	75.81	78.01
Tamil Nadu	64.96	65.95	66.92	67.96	69.06
Uttar Pradesh	87.16	90.50	93.84	97.22	100.66
West Bengal	148.89	151.31	153.71	156.26	158.94
Total	**1781.23**	**1821.62**	**1860.39**	**1901.85**	**1945.72**

Option 4: *To enhance the level of spending of deficient municipalities on core services*– The expenditure deficit on account of the core services as observed in 1997/98 has been projected to the years 2000/01 to 2004/05, by multiplying the base year deficits with the estimated deficient population for the relevant years. It has been done separately for each of the core service and then aggregated. It represents the financial requirements of those municipalities which are deficient in operations and maintenance expenditure on core services.

The following table gives the requirements of municipalities for enhancing the level of expenditure on core services, to the level of the State's average municipal expenditure on these services.[34]

Table 23: Projected Financial Requirements for Deficient Municipalities for Upgradation of Core Services (1997/98 prices)

States	Projected financial requirements (Rs. crore)				
	2000/01	2001/02	2002/03	2003/04	2004/05
Andhra Pradesh	108.70	111.45	114.08	116.79	119.58
Assam	4.44	4.53	4.63	4.73	4.85
Bihar	21.69	22.41	23.14	23.88	24.65
Gujarat	116.86	119.67	122.37	125.16	128.03
Haryana	45.93	47.10	48.22	49.45	50.79
Karnataka	210.19	214.80	219.42	224.29	229.39
Kerala	33.15	33.97	34.76	35.62	36.54
Madhya Pradesh	102.22	105.57	109.00	112.53	116.17
Maharashtra	254.22	259.19	263.75	268.82	274.33
Orissa	24.38	25.15	25.94	26.76	27.63
Punjab	47.59	48.50	49.27	50.16	51.17
Rajasthan	42.98	44.21	45.43	46.73	48.09
Tamil Nadu	104.53	106.13	107.69	109.36	111.13
Uttar Pradesh	120.56	125.17	129.79	134.48	139.23
West Bengal	80.14	81.44	82.73	84.11	85.54
Total	**1317.58**	**1349.31**	**1380.20**	**1412.86**	**1447.11**

Option 5: *To enhance the level of spending on core services, using the Zakaria Committee norms as benchmarks.* The Zakaria Committee norms for four services, namely, water supply, sewerage, sewage disposal and storm water drainage, municipal roads, and street lighting are given in Table 3. No norms exist for conservancy and sanitation which is an expenditure–intensive responsibility of municipalities.

[34] For the reason that the percentage of population deficient in core services differs from the percentage of population that is deficient in overall average expenditure, the projected financial requirements for upgradation of services are higher than the projected requirements for enhancing the revenue expenditure of deficient municipalities.

The Zakaria Committee norms vary according to size category of cities/towns. For the reason that the size of sample of this study is not large enough to allow estimation of requirements in each size category for each State, only the aggregate financial requirements are worked out. The method of estimation follows the equation given in section 1, except that the State averages which were used as benchmarks have been substituted by the Zakaria Committee norms. Other steps involved in the estimation are as under:

Estimation of urban population deficient in core services as per the Zakaria Committee norm by using the ratio of deficient population to the population of sample cities/towns.

Per capita deficit for each service is multiplied by the total deficient population for the years 2000/01 to 2004/05 to arrive at the financial requirements, separately for each service.

Aggregation of the financial requirements.

The estimated financial requirements for operation and maintenance of the four services, aforementioned are given in the following table. These estimates assume that the city–size distribution of urban population as obtained in 1991 Census, will continue over the years 2000/01 to 2004/05.

Table 24: Financial Requirements for Deficient Municipalities for Upgradation of Core Services/Zakaria Committee Norm, at 1997/98 prices

Years	Financial requirements (Rs. crore)				
	Water supply	Sewerage	Roads	Street lights	Total
2000/2001	1432.87	2317.00	206.17	607.82	4563.86
2001/2002	1470.87	2378.45	211.64	623.94	4684.89
2002/2003	1509.25	2440.51	217.16	640.22	4807.15
2003/2004	1549.27	2505.23	222.92	657.20	4934.62
2004/2005	1590.74	2572.29	228.89	674.79	5066.72

The adoption of the Zakaria Committee norms would mean an annual provision varying between Rs. 4,564 and Rs. 5,067 crore.[35]

Investment Requirements

Investment requirements for such services as water supply, sewerage and sanitation services, solid waste disposal, municipal roads and street lighting are generally expressed in terms of investments needed to create X unit of capacity. Thus, it is common to find estimates of investment needed to add 100 kms of roads, or 1,000 street lights, or 200 kms of sewer/drain lines. These estimates are drawn from projects which are then appropriately adjusted for increase in material cost, technology changes, and the like. The Planning Commission norms are, however, expressed in per capita terms.[36]

A second point worth noting is that the investment norms are highly sensitive to technologies. Thus, the investment requirement for a surface system of water supply is different form the ground water system. A similar situation would exist for a water borne system versus a septic tank sanitation, or a pit latrine sanitation. Norms established by the Planning Commission account for such variations.

Investment norms as given in Table 25 relate to urban population expected to be added during the years 2000/01 to 2004/05. The incremental population in year 2000/01 is equal to the difference between the estimated population of year 2001 *and* the estimated population in year 2002.

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35 The Zakaria Committee norms were developed in 1963. The technological developments that have taken place since then have dramatically reduced the validity of these norms. The issue of norms — both physical and financial — needs to be examined afresh.

36 The Task forces on Housing and Urban Development have noted that there are serious gaps in the methodology employed by them in developing these norms.

Table 25: Estimate of Investment Requirements in Selected Core Services (1997/98 prices) on the basis of Norm Established by the Planning Commission (Rs. crore)

States	A: Water Supply Surface System									
	Low estimates					High estimates				
	2000/01	01/02	02/03	03/04	04/05	2000/01	01/02	02/03	03/04	04/05
Andhra Pradesh	61.76	58.88	60.91	62.51	63.68	88.23	84.12	87.02	89.30	90.98
Assam	7.15	7.25	8.11	8.85	9.49	10.21	10.36	11.58	12.65	13.56
Bihar	53.34	53.23	54.83	56.11	57.28	76.20	76.04	78.33	80.16	81.83
Gujarat	46.30	44.38	45.98	47.15	48.32	66.14	63.39	65.68	67.36	69.03
Haryana	14.61	14.08	15.36	16.85	17.92	20.88	20.12	21.94	24.08	25.60
Karnataka	41.28	41.28	43.52	45.66	47.36	58.98	58.98	62.18	65.22	67.66
Kerala	26.03	25.18	27.31	29.44	31.68	37.18	35.96	39.01	42.06	45.26
Madhya Pradesh	73.71	75.63	77.98	80.22	81.93	105.30	108.05	111.40	114.60	117.04
Maharashtra	80.01	73.39	81.50	88.75	95.26	114.29	104.85	116.43	126.79	136.09
Orissa	20.05	20.27	21.33	22.51	23.47	28.65	28.95	30.48	32.15	33.53
Punjab	15.25	12.80	14.93	16.85	18.45	21.79	18.29	21.33	24.08	26.36
Rajasthan	41.07	40.96	43.42	45.44	47.26	58.67	58.52	62.02	64.92	67.51
Tamil Nadu	36.91	35.84	38.62	40.86	42.99	52.73	51.20	55.17	58.37	61.41
Uttar Pradesh	155.85	155.96	158.20	160.33	162.68	222.64	222.80	226.00	229.04	232.40
West Bengal	38.94	38.62	41.07	42.99	44.48	55.62	55.17	58.67	61.41	63.55
Himachal Pradesh	0.53	0.96	0.96	1.07	0.85	0.76	1.37	1.37	1.52	1.22
Manipur	3.09	3.84	4.05	4.05	4.16	4.42	5.49	5.79	5.79	5.94
Meghalaya	0.53	0.85	0.85	0.85	0.85	0.76	1.22	1.22	1.22	1.22
Tripura	1.28	2.03	1.92	2.03	2.03	1.83	2.90	2.74	2.90	2.90
Total	**717.70**	**705.44**	**740.85**	**772.53**	**800.16**	**1025.29**	**1007.76**	**1058.36**	**1103.62**	**1143.08**

B: Water Supply Ground System

States	Low estimates					High estimates				
	2000/01	01/02	02/03	03/04	04/05	2000/01	01/02	02/03	03/04	04/05
Andhra Pradesh	50.42	48.07	49.72	51.03	51.99	75.63	72.10	74.58	76.54	77.98
Assam	5.83	5.92	6.62	7.23	7.75	8.75	8.88	9.93	10.84	11.63
Bihar	43.54	43.45	44.76	45.80	46.76	65.31	65.18	67.14	68.71	70.14
Gujarat	37.79	36.23	37.53	38.49	39.45	56.69	54.34	56.30	57.73	59.17
Haryana	11.93	11.49	12.54	13.76	14.63	17.90	17.24	18.81	20.64	21.94
Karnataka	33.70	33.70	35.53	37.27	38.66	50.55	50.55	53.29	55.91	58.00
Kerala	21.25	20.55	22.29	24.03	25.86	31.87	30.83	33.44	36.05	38.79
Madhya Pradesh	60.17	61.74	63.66	65.48	66.88	90.26	92.61	95.48	98.23	100.32
Maharashtra	65.31	59.91	66.53	72.45	77.76	97.97	89.87	99.79	108.68	116.64
Orissa	16.37	16.55	17.42	18.37	19.16	24.56	24.82	26.12	27.56	28.74
Punjab	12.45	10.45	12.19	13.76	15.06	18.68	15.67	18.29	20.64	22.60
Rajasthan	33.53	33.44	35.44	37.10	38.58	50.29	50.16	53.16	55.64	57.87
Tamil Nadu	30.13	29.26	31.52	33.35	35.09	45.19	43.89	47.28	50.03	52.64
Uttar Pradesh	127.22	127.31	129.14	130.88	132.80	190.84	190.97	193.71	196.32	199.20
West Bengal	31.78	31.52	33.53	35.09	36.31	47.68	47.28	50.29	52.64	54.47
Himachal Pradesh	0.44	0.78	0.78	0.87	0.70	0.65	1.18	1.18	1.31	1.04
Manipur	2.53	3.13	3.31	3.31	3.40	3.79	4.70	4.96	4.96	5.09
Meghalaya	0.44	0.70	0.70	0.70	0.70	0.65	1.04	1:04	1.04	1.04
Tripura	1.04	1.65	1.57	1.65	1.65	1.57	2.48	2.35	2.48	2.48
Total	**585.87**	**575.86**	**604.77**	**630.63**	**653.19**	**878.82**	**863.80**	**907.16**	**945.96**	**979.79**

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C: Sewerage/Sanitation Water Borne System

States	Low estimates					High estimates				
	2000/01	01/02	02/03	03/04	04/05	2000/01	01/02	02/03	03/04	04/05
Andhra Pradesh	88.23	84.12	87.02	89.30	90.98	126.05	120.17	124.31	127.57	129.97
Assam	10.21	10.36	11.58	12.65	13.56	14.59	14.80	16.55	18.07	19.38
Bihar	76.20	76.04	78.33	80.16	81.83	108.85	108.63	111.90	114.51	116.91
Gujarat	66.14	63.39	65.68	67.36	69.03	94.48	90.56	93.83	96.22	98.62
Haryana	20.88	20.12	21.94	24.08	25.60	29.83	28.74	31.35	34.40	36.57
Karnataka	58.98	58.98	62.18	65.22	67.66	84.25	84.25	88.82	93.18	96.66
Kerala	37.18	35.96	39.01	42.06	45.26	53.12	51.38	55.73	60.09	64.66
Madhya Pradesh	105.30	108.05	111.40	114.60	117.04	150.43	154.35	159.14	163.71	167.20
Maharashtra	114.29	104.85	116.43	126.79	136.09	163.28	149.78	166.32	181.13	194.41
Orissa	28.65	28.95	30.48	32.15	33.53	40.93	41.36	43.54	45.94	47.89
Punjab	21.79	18.29	21.33	24.08	26.36	31.13	26.12	30.48	34.40	37.66
Rajasthan	58.67	58.52	62.02	64.92	67.51	83.82	83.60	88.60	92.74	96.44
Tamil Nadu	52.73	51.20	55.17	58.37	61.41	75.32	73.15	78.81	83.38	87.73
Uttar Pradesh	222.64	222.80	226.00	229.04	232.40	318.06	318.28	322.85	327.21	332.00
West Bengal	55.62	55.17	58.67	61.41	63.55	79.46	78.81	83.82	87.73	90.78
Himachal Pradesh	0.76	1.37	1.37	1.52	1.22	1.09	1.96	1.96	2.18	1.74
Manipur	4.42	5.49	5.79	5.79	5.94	6.31	7.84	8.27	8.27	8.49
Meghalaya	0.76	1.22	1.22	1.22	1.22	1.09	1.74	1.74	1.74	1.74
Tripura	1.83	2.90	2.74	2.90	2.90	2.61	4.14	3.92	4.14	4.14
Total	**1025.29**	**1007.76**	**1058.36**	**1103.62**	**1143.08**	**1464.70**	**1439.66**	**1511.94**	**1576.60**	**1632.98**

D: Sewerage/Sanitation Septic Tank

States	Low estimates					High estimates				
	2000/01	01/02	02/03	03/04	04/05	2000/01	01/02	02/03	03/04	04/05
Andhra Pradesh	50.42	48.07	49.72	51.03	51.99	56.72	54.08	55.94	57.41	58.49
Assam	5.83	5.92	6.62	7.23	7.75	6.56	6.66	7.45	8.13	8.72
Bihar	43.54	43.45	44.76	45.80	46.76	48.98	48.89	50.35	51.53	52.61
Gujarat	37.79	36.23	37.53	38.49	39.45	42.52	40.75	42.22	43.30	44.38
Haryana	11.93	11.49	12.54	13.76	14.63	13.42	12.93	14.11	15.48	16.46
Karnataka	33.70	33.70	35.53	37.27	38.66	37.91	37.91	39.97	41.93	43.50
Kerala	21.25	20.55	22.29	24.03	25.86	23.90	23.12	25.08	27.04	29.10
Madhya Pradesh	60.17	61.74	63.66	65.48	66.88	67.69	69.46	71.61	73.67	75.24
Maharashtra	65.31	59.91	66.53	72.45	77.76	73.47	67.40	74.85	81.51	87.48
Orissa	16.37	16.55	17.42	18.37	19.16	18.42	18.61	19.59	20.67	21.55
Punjab	12.45	10.45	12.19	13.76	15.06	14.01	11.76	13.72	15.48	16.95
Rajasthan	33.53	33.44	35.44	37.10	38.58	37.72	37.62	39.87	41.73	43.40
Tamil Nadu	30.13	29.26	31.52	33.35	35.09	33.90	32.92	35.46	37.52	39.48
Uttar Pradesh	127.22	127.31	129.14	130.88	132.80	143.13	143.23	145.28	147.24	149.40
West Bengal	31.78	31.52	33.53	35.09	36.31	35.76	35.46	37.72	39.48	40.85
Himachal Pradesh	0.44	0.78	0.78	0.87	0.70	0.49	0.88	0.88	0.98	0.78
Manipur	2.53	3.13	3.31	3.31	3.40	2.84	3.53	3.72	3.72	3.82
Meghalaya	0.44	0.70	0.70	0.70	0.70	0.49	0.78	0.78	0.78	0.78
Tripura	1.04	1.65	1.57	1.65	1.65	1.18	1.86	1.76	1.86	1.86
Total	**585.87**	**575.86**	**604.77**	**630.63**	**653.19**	**659.12**	**647.85**	**680.37**	**709.47**	**734.84**

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E: Sewerage/Sanitation Pit Latrine

States	Low estimates					High estimates				
	2000/01	01/02	02/03	03/04	04/05	2000/01	01/02	02/03	03/04	04/05
Andhra Pradesh	30.25	28.84	29.83	30.62	31.19	37.81	36.05	37.29	38.27	38.99
Assam	3.50	3.55	3.97	4.34	4.65	4.38	4.44	4.96	5.42	5.81
Bihar	26.12	26.07	26.86	27.48	28.06	32.66	32.59	33.57	34.35	35.07
Gujarat	22.68	21.74	22.52	23.09	23.67	28.34	27.17	28.15	28.87	29.59
Haryana	7.16	6.90	7.52	8.26	8.78	8.95	8.62	9.40	10.32	10.97
Karnataka	20.22	20.22	21.32	22.36	23.20	25.27	25.27	26.65	27.95	29.00
Kerala	12.75	12.33	13.38	14.42	15.52	15.94	15.41	16.72	18.03	19.40
Madhya Pradesh	36.10	37.04	38.19	39.29	40.13	45.13	46.30	47.74	49.11	50.16
Maharashtra	39.19	35.95	39.92	43.47	46.66	48.98	44.93	49.90	54.34	58.32
Orissa	9.82	9.93	10.45	11.02	11.49	12.28	12.41	13.06	13.78	14.37
Punjab	7.47	6.27	7.31	8.26	9.04	9.34	7.84	9.14	10.32	11.30
Rajasthan	20.12	20.06	21.26	22.26	23.15	25.14	25.08	26.58	27.82	28.93
Tamil Nadu	18.08	17.56	18.91	20.01	21.06	22.60	21.94	23.64	25.01	26.32
Uttar Pradesh	76.33	76.39	77.48	78.53	79.68	95.42	95.48	96.85	98.16	99.60
West Bengal	19.07	18.91	20.12	21.06	21.79	23.84	23.64	25.14	26.32	27.23
Himachal Pradesh	0.26	0.47	0.47	0.52	0.42	0.33	0.59	0.59	0.65	0.52
Manipur	1.52	1.88	1.99	1.99	2.04	1.89	2.35	2.48	2.48	2.55
Meghalaya	0.26	0.42	0.42	0.42	0.42	0.33	0.52	0.52	0.52	0.52
Tripura	0.63	0.99	0.94	0.99	0.99	0.78	1.24	1.18	1.24	1.24
Total	**351.52**	**345.52**	**362.86**	**378.38**	**391.91**	**439.41**	**431.90**	**453.58**	**472.98**	**489.89**

F: Solid Waste Disposal

States	Low estimates					High estimates				
	2000/01	01/02	02/03	03/04	04/05	2000/01	01/02	02/03	03/04	04/05
Andhra Pradesh	6.30	6.01	6.22	6.38	6.50	10.08	9.61	9.94	10.21	10.40
Assam	0.73	0.74	0.83	0.90	0.97	1.17	1.18	1.32	1.45	1.55
Bihar	5.44	5.43	5.59	5.73	5.85	8.71	8.69	8.95	9.16	9.35
Gujarat	4.72	4.53	4.69	4.81	4.93	7.56	7.25	7.51	7.70	7.89
Haryana	1.49	1.44	1.57	1.72	1.83	2.39	2.30	2.51	2.75	2.93
Karnataka	4.21	4.21	4.44	4.66	4.83	6.74	6.74	7.11	7.45	7.73
Kerala	2.66	2.57	2.79	3.00	3.23	4.25	4.11	4.46	4.81	5.17
Madhya Pradesh	7.52	7.72	7.96	8.19	8.36	12.03	12.35	12.73	13.10	13.38
Maharashtra	8.16	7.49	8.32	9.06	9.72	13.06	11.98	13.31	14.49	15.55
Orissa	2.05	2.07	2.18	2.30	2.39	3.27	3.31	3.48	3.67	3.83
Punjab	1.56	1.31	1.52	1.72	1.88	2.49	2.09	2.44	2.75	3.01
Rajasthan	4.19	4.18	4.43	4.64	4.82	6.71	6.69	7.09	7.42	7.72
Tamil Nadu	3.77	3.66	3.94	4.17	4.39	6.03	5.85	6.30	6.67	7.02
Uttar Pradesh	15.90	15.91	16.14	16.36	16.60	25.44	25.46	25.83	26.18	26.56
West Bengal	3.97	3.94	4.19	4.39	4.54	6.36	6.30	6.71	7.02	7.26
Himachal Pradesh	0.05	0.10	0.10	0.11	0.09	0.09	0.16	0.16	0.17	0.14
Manipur	0.32	0.39	0.41	0.41	0.42	0.51	0.63	0.66	0.66	0.68
Meghalaya	0.05	0.09	0.09	0.09	0.09	0.09	0.14	0.14	0.14	0.14
Tripura	0.13	0.21	0.20	0.21	0.21	0.21	0.33	0.31	0.33	0.33
Total	**73.23**	**71.98**	**75.60**	**78.83**	**81.65**	**117.17**	**115.17**	**120.95**	**126.13**	**130.64**

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G: Roads

States	Low estimates					High estimates				
	2000/01	01/02	02/03	03/04	04/05	2000/01	01/02	02/03	03/04	04/05
Andhra Pradesh	50.42	48.07	49.72	51.03	51.99	75.63	72.10	74.58	76.54	77.98
Assam	5.83	5.92	6.62	7.23	7.75	8.75	8.88	9.93	10.84	11.63
Bihar	43.54	43.45	44.76	45.80	46.76	65.31	65.18	67.14	68.71	70.14
Gujarat	37.79	36.23	37.53	38.49	39.45	56.69	54.34	56.30	57.73	59.17
Haryana	11.93	11.49	12.54	13.76	14.63	17.90	17.24	18.81	20.64	21.94
Karnataka	33.70	33.70	35.53	37.27	38.66	50.55	50.55	53.29	55.91	58.00
Kerala	21.25	20.55	22.29	24.03	25.86	31.87	30.83	33.44	36.05	38.79
Madhya Pradesh	60.17	61.74	63.66	65.48	66.88	90.26	92.61	95.48	98.23	100.32
Maharashtra	65.31	59.91	66.53	72.45	77.76	97.97	89.87	99.79	108.68	116.64
Orissa	16.37	16.55	17.42	18.37	19.16	24.56	24.82	26.12	27.56	28.74
Punjab	12.45	10.45	12.19	13.76	15.06	18.68	15.67	18.29	20.64	22.60
Rajasthan	33.53	33.44	35.44	37.10	38.58	50.29	50.16	53.16	55.64	57.87
Tamil Nadu	30.13	29.26	31.52	33.35	35.09	45.19	43.89	47.28	50.03	52.64
Uttar Pradesh	127.22	127.31	129.14	130.88	132.80	190.84	190.97	193.71	196.32	199.20
West Bengal	31.78	31.52	33.53	35.09	36.31	47.68	47.28	50.29	52.64	54.47
Himachal Pradesh	0.44	0.78	0.78	0.87	0.70	0.65	1.18	1.18	1.31	1.04
Manipur	2.53	3.13	3.31	3.31	3.40	3.79	4.70	4.96	4.96	5.09
Meghalaya	0.44	0.70	0.70	0.70	0.70	0.65	1.04	1.04	1.04	1.04
Tripura	1.04	1.65	1.57	1.65	1.65	1.57	2.48	2.35	2.48	2.48
Total	**585.87**	**575.86**	**604.77**	**630.63**	**653.19**	**878.82**	**863.80**	**907.16**	**945.96**	**979.79**

H: Street Lighting

States	Low estimates					High estimates				
	2000/01	01/02	02/03	03/04	04/05	2000/01	01/02	02/03	03/04	04/05
Andhra Pradesh	15.13	14.42	14.92	15.31	15.60	15.13	14.42	14.92	15.31	15.60
Assam	1.75	1.78	1.99	2.17	2.33	1.75	1.78	1.99	2.17	2.33
Bihar	13.06	13.04	13.43	13.74	14.03	13.06	13.04	13.43	13.74	14.03
Gujarat	11.34	10.87	11.26	11.55	11.83	11.34	10.87	11.26	11.55	11.83
Haryana	3.58	3.45	3.76	4.13	4.39	3.58	3.45	3.76	4.13	4.39
Karnataka	10.11	10.11	10.66	11.18	11.60	10.11	10.11	10.66	11.18	11.60
Kerala	6.37	6.17	6.69	7.21	7.76	6.37	6.17	6.69	7.21	7.76
Madhya Pradesh	18.05	18.52	19.10	19.65	20.06	18.05	18.52	19.10	19.65	20.06
Maharashtra	19.59	17.97	19.96	21.74	23.33	19.59	17.97	19.96	21.74	23.33
Orissa	4.91	4.96	5.22	5.51	5.75	4.91	4.96	5.22	5.51	5.75
Punjab	3.74	3.13	3.66	4.13	4.52	3.74	3.13	3.66	4.13	4.52
Rajasthan	10.06	10.03	10.63	11.13	11.57	10.06	10.03	10.63	11.13	11.57
Tamil Nadu	9.04	8.78	9.46	10.01	10.53	9.04	8.78	9.46	10.01	10.53
Uttar Pradesh	38.17	38.19	38.74	39.26	39.84	38.17	38.19	38.74	39.26	39.84
West Bengal	9.54	9.46	10.06	10.53	10.89	9.54	9.46	10.06	10.53	10.89
Himachal Pradesh	0.13	0.24	0.24	0.26	0.21	0.13	0.24	0.24	0.26	0.21
Manipur	0.76	0.94	0.99	0.99	1.02	0.76	0.94	0.99	0.99	1.02
Meghalaya	0.13	0.21	0.21	0.21	0.21	0.13	0.21	0.21	0.21	0.21
Tripura	0.31	0.50	0.47	0.50	0.50	0.31	0.50	0.47	0.50	0.50
Total	**175.76**	**172.76**	**181.43**	**189.19**	**195.96**	**175.76**	**172.76**	**181.43**	**189.19**	**195.96**

Supplementary Requirements for Accelerating the Constitution (seventy–fourth) Amendment Act, 1992

The options as discussed above represent the financial requirements of municipalities which have a direct bearing on the State budget. These do not, in any way, contribute to the objectives underlying the Constitution (seventy–fourth) Amendment Act, 1992. If one of the objectives of making transfers to municipalities is to accelerate the implementation of the Constitution (seventy–fourth) Amendment, as indeed is suggested in the terms of reference of the study, it is essential to create and set aside what may be called an Incentive Fund with appropriate ceilings for each State. While allocations will inevitably be linked to the overall availability of resources, an amount of less than Rs. 5,000 crore for the duration of the EFC's recommendations will be sub–optimal. Allocation of this Fund to States could be made contingent upon specific proposals for the strengthening of the finances of municipalities or on the basis of their fulfilling certain conditions. These may be:

devolving on municipalities functions listed in the 12th Schedule with staff, but for which adequate funds may not be available;

undertaking reform in property taxation, particularly preparation of cadastral records, or committing to revalue properties every three or four years, or delinking the annual rateable value from rent controls, or changing the system of assessing property values in a way that it reflects the market conditions;

improving local tax administration and enforcement;

assigning greater autonomy to municipalities in matters of fixing tax rates, and charges, and funds being asked to meet the temporary shortfalls in revenue generation;

standardisation and computerization of municipal financial records; and

professionalisation of municipal cadre.

A tentative breakup of the amount based on 1991 urban population as well as the projected urban population of States for the year 2000 is shown in the following table.

Table 26: Share of each State in the Proposed Incentive Fund

States	% share of each state in the total urban population of the country		Share of each State in the Incentive Fund (Rs. crore)	
	1991	2000	1991	2000
Andhra Pradesh	8.20	8.06	410.10	402.87
Assam	1.14	1.12	56.89	56.02
Bihar	5.23	5.26	261.74	263.13
Gujarat	6.52	6.35	326.10	317.59
Haryana	1.86	1.90	93.13	95.18
Himachal Pradesh	0.20	0.22	10.24	10.84
Karnataka	6.38	6.21	318.88	310.56
Kerala	3.53	3.49	176.73	174.40
Madhya Pradesh	7.07	7.45	353.35	372.42
Maharashtra	14.04	13.52	702.11	676.16
Orissa	1.95	2.09	97.44	104.42
Punjab	2.76	2.63	138.16	131.40
Rajasthan	4.62	4.75	231.15	237.74
Tamil Nadu	8.76	7.96	438.05	398.24
Uttar Pradesh	12.73	13.45	636.65	672.54
West Bengal	8.57	7.92	428.73	395.87
Manipur	0.23	0.31	11.65	15.60
Meghalaya	0.15	0.16	7.58	8.12
Tripura	0.19	0.23	9.65	11.40
Total	**94.17**	**93.09**	**4708.31**	**4654.51**

Note: A few States and Union Territories are not included in the calculations.

Grants–in–aid for Improving Municipal Finance Data System

The state of the municipal finance data system has long been discussed in the country. In recent years, the Finance Commission of States have pointed to the extremely poor data base, leading at least one Commission to specifically state that the expenditure and income of municipalities can not be projected on the basis of the existing data base. This study has also encountered severe data problems. A separate provision of Rs.100 crore is suggested as a grant–in–aid to municipalities for the revamping and upgradation of their finance data systems.

The Best Practices Model

An alternative way of assessing the supplementary financial requirements of municipalities is to use the Best Practices Model. Several municipalities among the sampled municipalities have been able to achieve high levels of internal revenue generation; others, focusing on property taxes, have increased yields from such taxes within a relatively short period. Yet others have been able to maintain a higher level of service at a lower unit cost. The issue is: can these be taken as Best Practices and used for estimating the supplementary financial requirements? With the overall availability of resources permit the Best Practices model to be adopted? In the absence of any information on the overall resource position, this study has, however not explored the feasibility of adopting this model and estimating its financial implications. At the same time, this study notes the recent initiatives of many State governments for improving the finances of municipalities. Two such initiatives are summarized below:

(i) Reform of the system of property taxation

The Government of Tamil Nadu, in the newly drafted Tamil Nadu Urban Local Bodies Bill, 1997, have proposed major reforms in the matter of assessment and collection of property taxes. Under the proposed reform, the Government shall prescribe the minimum and the maximum rates of:–

basic property tax for the building or land having regard to (a) the existing property tax, (b) value of the building and land, and (c) use of the building;

additional basic property tax for every building with reference to its location;

additional basic property tax for every building with reference to type of construction; and;

concessions with regard to the age of the building.

The basic property tax of any building shall relate to the carpet area of the building and its usage, where the carpet area shall not include the open veranda/open courtyard or any other open space which is not enclosed.

This manner of estimating property taxes makes a significant departure from the earlier practices of using the annual rateable values (worked out on the basis of rents, or expected rents, or site values) as the base for property taxation.[37]

(ii) **User charge and subsidies**

The Government of Maharashtra, in a fresh initiative to impart transparency in municipal functioning, has incorporated a clause in the proposed amendments to the Maharashtra Municipal Councils Act, 1965 and related Corporation Acts, which require the Commissioner (or as the case may be), to append to the budget a report indicating whether such services as water supply and disposal of sewage, scavenging, transporting and disposal of wastes, municipal transport, and street lightning are being provided in a subsidised manner, and, if so, the extent of the subsidy, the source from which the subsidy is met, and the sections or categories of the local population who are the beneficiaries of such subsidy. A service is being construed as being provided in a subsidised manner if its total cost, comprising the expenditure on operation and maintenance and adequate provision for depreciation of assets and for debt servicing, exceeds the income relatable to the rendering of the service.[38]

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[37] It is understood that the Bill is awaiting the assent of the President of India.

[38] See. Urban Development Department, Maharashtra Ordinance No. VII of 1994.

While these are important initiatives, their impact on the finances of municipalities is still to be assessed. Yet, the imperativeness of such initiatives, particularly reform of property taxation in improving the finances of municipalities can hardly be denied. Property taxation will continue to be the foundation of municipal finances; how the municipalities utilise property taxation will determine in large measure their ability to finance their activities.

The issue of the finances of municipalities is extremely complex not only because of local variations, but because of the constraints within which the municipalities are required to manage finances and deliver services. Their discretion to act is narrow and limited by the fact that the State governments enjoy powers to determine what municipalities should do, what resources they should have, what tax rates they should apply and in what manner they should use the resources. In a legal sense, municipalities are no more than subdivisions for the exercise of powers that belong to the States.[39] Under these circumstances, transfers hold the key to meeting the financial requirements of municipalities. In a sense, these are extended in lieu of the conditions that are imposed on them in the performance of their numerous tasks. The journey on the road to effective decentralisation as envisioned in the Constitution (seventy–fourth) Amendment Act, 1992 has just begun.[40]

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39 There is a long held view that municipalities have no inherent right of existence. With a single stroke, no matter how unwise the action may seem, the State legislatures can strip a municipality of all its powers and leave it with merely a name. Indicative of the legal attitude are such characterisations as "mere tenants at will of the legislature"; as only auxiliaries of the State", and as "merely a department of State." Even the provisions of the Constitution do not protect municipalities against the action of the State legislature.

40 See, Om Prakash Mathur, "Decentralisation in India: A Report card", National Institute of Public Finance and Policy, New Delhi, 1999.

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Annex Table. 1

Trend of Urbanisation in India

Census year	Number of urban agglomerations/ towns	Urban population (million)	Urban population as a % of total population	Decadal change in urban population(%)
1971*	2,590	109.11	19.91	–
1981*	3,378	159.46	23.34	46.14
1991*	3,768	217.18	25.72	36.19
1996£	–	254.40	27.23	–
2001£	–	291.24	28.77	–
2005£	–	323.44	30.03	–

Source: Statement 5/Census of India 1991 paper 2 of 1991.
* Includes the estimated figures for Jammu & Kashmir as no Census was held in that State.
£ Source: Census of India, 1991, Population Projections for India and States 1996/2016/ Table 15, Registrar General India, New Delhi, 1996.

Annex Table. 2

Size Distribution of Urban Agglomerations/Towns, 1991 with Population

Size class	Number of urban agglomerations/ towns	Urban population (million)	% share of urban population of each size class
Over 100,000	300	139.73	64.89
50,000–100,000	345	23.60	10.96
20,000–50,000	947	28.71	13.33
10,000–20,000	1,167	16.99	7.89
5,000–10,000	740	5.64	2.62
Under 5,000	197	0.66	0.31
All classes*	3,696	215.34	100.00

Source: Statement 11/Census of India, 1991 Paper 2 of 1991.

* Excludes Jammu & Kashmir where no census was held.

Annex Table. 3

Estimated Urban Population (in '000)

States	2000	2001	2002	2003	2004	2005
Andhra Pradesh	22,860	23,439	23,991	24,562	25,148	25,745
Assam	3179	3246	3314	3390	3473	3562
Bihar	14,931	15,431	15,930	16,444	16,970	17,507
Gujarat	18,021	18,455	18,871	19,302	19,744	20,197
Haryana	5401	5538	5670	5814	5972	6140
Karnataka	17,622	18,009	18,396	18,804	19,232	19,676
Kerala	9896	10140	10376	10632	10908	11205
Madhya Pradesh	21,132	21,823	22,532	23,263	24,015	24,783
Maharashtra	38,367	39,117	39,805	40,569	41,401	42,294
Orissa	5925	6113	6303	6503	6714	6934
Punjab	7456	7599	7719	7859	8017	8190
Rajasthan	13,490	13,875	14,259	14,666	15,092	15,535
Tamil Nadu	22,597	22,943	23,279	23,641	24,024	24,427
Uttar Pradesh	38,162	39,623	41,085	42,568	44,071	45,596
West Bengal	22,463	22,828	23,190	23,575	23,978	24,395
Himachal Pradesh	615	620	629	638	648	656
Manipur	885	914	950	988	1026	1065
Meghalaya	461	466	474	482	490	498
Tripura	647	659	678	696	715	734
Total	**264,110**	**270,838**	**277,451**	**284,396**	**291,638**	**299,139**

Source: Census of India,1991,Population Projections For India and States1996-2016, Registrar General India, New Delhi,1996.

Additional Functions of Municipalities as per the Twelfth Schedule

Twelfth Schedule (Article 243W)	States																	
	AP	AS	BI	GJ	HR	HP	KA	KE	MP	MH	MN	OR	PU	RJ	TN	TR	UP	WB
Urban planning including town planning	-	-	Y	Y	Y	Y	-	Y	Y	-	Y	Y	Y	Y	Y	Y	-	Y
Regulation of land use &construction of building	-	-	Y	Y	Y	Y	-	Y	Y	-	Y	-	Y	Y	Y	Y	-	-
Planning for economic & social development	-	-	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	-	Y
Roads & Bridges	-	-	Y	Y	Y	Y	-	Y	-	-	Y	-	Y	Y	-	Y	-	-
Water supply for domestic, industrial & commercial purposes	-	-	Y	Y	Y	Y	-	Y	-	-	Y	-	Y	Y	-	Y	Y	Y
Public health, sanitation conservancy &solid waste management	-	-	Y	Y	Y	Y	-	Y	-	-	Y	-	Y	Y	-	Y	-	-
Fire services	-	-	Y	Y	Y	Y	-	-	-	-	Y	-	Y	Y	Y	Y	-	Y
Urban forestry, protection of the environment & promotion of ecological aspects	-	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Safeguarding the interests of the weaker section of the society including handicapped & mentally retarded	-	-	Y	Y	Y	Y	-	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y
Slum improvement & up gradation	-	-	Y	Y	Y	Y	Y	Y	-	Y	Y	Y	Y	Y	Y	Y	Y	-
Urban Poverty alleviation	-	-	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	-
Provision of urban amenities & facilities such as parks, gardens, playgrounds	-	-	Y	Y	Y	Y	-	Y	-	-	Y	-	Y	Y	-	Y	Y	-
Promotion of cultural, educational & aesthetic aspects	-	-	Y	Y	Y	Y	Y	Y	-	-	Y	Y	Y	Y	Y	Y	Y	-
Burials & burial ground cremations, cremation grounds & crematoriums	-	-	Y	Y	Y	Y	-	Y	-	-	Y	-	Y	Y	-	Y	-	-
Cattle pounds & prevention of cruelty to animals	-	-	Y	Y	Y	Y	-	Y	-	Y	Y	-	Y	Y	Y	Y	Y	-
Vital statistics including registration of births & deaths	-	-	Y	Y	Y	Y	Y	Y	-	-	Y	Y	Y	Y	-	Y	-	-
Public amenities including street lighting, parking lots, bus stops & public conveniences	-	Y	Y	Y	Y	Y	-	Y	-	-	Y	-	Y	Y	-	Y	Y	-
18 Regulation of slaughter houses & tanneries	-	-	Y	Y	-	Y	Y	Y	-	Y	Y	-	Y	Y	Y	Y	Y	-

Note: Y = Yes.
- = Represents no addition.
No addition has been mentioned on functional aspects of Andhra Pradesh.

Sources: Law relating to Municipalities & Municipal Employees in Andhra Pradesh, Revised & enlarged by P.S.Narayana, 5th Edition, 1995, ALT Publications, Hyderabad.
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Annex Table. 5

Additional Functions of Municipal Corporations as per the Twelfth Schedule

	Twelfth Schedule (Article 243W)	States						
		GJ	HR	KA	MP	MH	PU	UP
1	Urban planning including town planning	Y	Y	-	Y	-	-	-
2	Regulation of land use & construction of building	Y	Y	-	Y	-	-	-
3	Planning for economic & social development	-	Y	-	Y	Y	-	-
4	Roads & Bridges	-	Y	-	-	-	-	-
5	Water supply for domestic, industrial & commercial purposes	-	Y	-	-	-	-	-
6	Public health, sanitation conservancy & solid waste management	Y	Y	-	-	-	-	Y
7	Fire services	-	Y	-	-	-	-	-
8	Urban forestry, protection of the environment & promotion of ecological aspects	Y	Y	Y	Y	Y	-	Y
9	Safeguarding the interests of the weaker section of the society including handicapped & mentally retarded	-	Y	-	Y	-	-	Y
10	Slum improvement & upgradation	-	Y	Y	-	Y	-	Y
11	Urban Poverty alleviation	-	Y	Y	Y	Y	-	Y
12	Provision of urban amenities & facilities such as parks, gardens, playgrounds	-	Y	-	-	-	-	Y
13	Promotion of cultural, educational & aesthetic aspects	Y	Y	Y	-	-	-	Y
14	Burials & burial ground, cremations, cremation grounds & crematoriums	-	Y	-	-	-	-	-
15	Cattle pounds & prevention of cruelty to animals	-	Y	-	-	Y	-	Y
16	Vital statistics including registration of births & deaths	-	Y	Y	-	-	-	Y
17	Public amenities including srteet lighting, parking lots, bus stops & public conveniences	-	Y	-	-	-	-	Y
18	Regulation of slaughter houses & tanneries	Y	Y	Y	-	Y	-	-

Note: Y = Yes.

- = Represents no addition.

Punjab MC though does not indicate any addition in particular, the last function of both the category of obligatory and discretionary still has kept the provision that any law/measure related to fulfillment of any other obligation to promote public health, safety, convenience and general welfare would be taken in to consideration.

Source: Gujarat Second Amendment Act,1993.

Haryana Municipal Corporation Ordinance, 1994.

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Annex Table. 6

All India Consumer Price Index for Urban Non–manual Employees

Year	1960/61 (Base year=100)	1984/85 (Base year=100)
1960/61	100	18.8
1980/81	369	69.36
1984/85	532	100
1997/98	–	302

Note: All India Consumer Price Index for urban non–manual Employees is used for the preparation of this index, adjusted to 1984/85 (Base year=100)

Source: India Database, Vol.I (1990) by H.L. Chandhok; Reserve Bank of India Bulletin, Janurary 2000, Vol. LIV, No. 1.

Annex Table. 7

State Revenue Receipts, Revenue Expenditure & Gross State Domestic Product (GSDP) (Rs. crore)

State	Revenue receipts	Revenue expenditure	GSDP (Q)
Andhra Pradesh	13,800.1	14,561.6	88,387
Assam	4,721.4	4,759.4	21,336
Bihar	10,313.3	11,876.1	55,552
Gujarat	10,921.0	11,559.0	86,609
Haryana	5,716.8	6,348.1	37,427
Karnataka	11,417.3	11,833.2	65,515
Kerala	7,629.0	9,203.9	43,433
Madhya Pradesh	11,472.8	12,228.9	70,832
Maharashtra	21,721.1	22,390.7	1,82,295
Orissa	5,046.7	5,823.1	27,065
Punjab	7,074.2	8,195.7	50,358
Rajasthan	8,713.8	9,209.7	52,481
Tamil Nadu	13,418.4	14,893.6	87,394
Uttar Pradesh	17,478.1	25,096.5	1,29,977
West Bengal	9,764.4	12,699.1	89,490
Himachal Pradesh	2,117.6	2,397.7	–
Manipur	906.9	814.1	–
Meghalaya	947.5	890.4	–
Tripura	1,130.3	1,124.8	2,118

Note: Q = Quick estimates.
– = Not available.

Source: Reserve Bank of India Buttetin, Feburary, 1999.
Directorates of Economics & Statistics of respective State Governments.

Standard Deviation and Coefficient of Variation in Respect of Municipal Revenue Receipts, Own Revenue Receipts and Revenue Expenditure

States	Standard Deviation (σ) and Coefficient of Variation (CV)					
	Revenue receipts		Own revenue receipts		Revenue expenditure	
	1992/93	1997/98	1992/93	1997/98	1992/93	1997/98
Andhra Pradesh						
σ	102.81	148.98	36.86	59.35	108.10	169.28
Mean	180.33	315.13	63.45	97.27	174.95	301.99
CV	57.01	47.27	58.09	61.01	61.79	56.06
Assam						
σ	36.20	29.37	25.70	18.65	33.18	29.85
Mean	53.16	82.97	36.48	50.76	58.14	92.62
CV	68.11	35.39	70.45	36.74	57.07	32.23
Bihar						
σ	19.78	44.00	20.16	33.40	23.62	39.45
Mean	42.42	68.85	15.99	30.16	59.84	66.58
CV	46.64	63.92	126.03	110.75	39.47	59.25
Gujarat						
σ	161.07	250.29	158.09	236.86	184.96	178.19
Mean	272.55	415.20	213.19	338.94	288.91	374.34
CV	59.10	60.28	74.16	69.88	64.02	47.60
Haryana						
σ	124.36	148.22	122.51	144.50	105.89	152.11
Mean	274.48	421.48	218.26	281.24	261.75	458.95
CV	45.31	35.17	56.13	51.38	40.45	33.14
Karnataka						
σ	84.00	159.59	42.25	91.76	78.28	150.36
Mean	130.21	260.12	62.57	96.90	124.74	202.69
CV	64.51	61.35	67.52	94.69	62.76	74.18
Kerala						
σ	111.14	191.36	106.34	167.35	167.63	260.46
Mean	158.55	264.72	122.38	194.15	166.51	241.16
CV	70.10	72.29	86.89	86.19	100.67	108.01
Madhya Pradesh						
σ	85.16	125.16	67.71	91.64	73.32	134.48
Mean	140.72	225.82	75.27	114.33	136.29	247.43
CV	60.52	55.42	89.95	80.16	53.80	54.35
Maharashtra						
σ	245.08	512.66	247.04	528.99	242.25	459.74
Mean	446.45	777.18	301.16	583.48	417.49	731.42
CV	54.90	65.96	82.03	90.66	58.02	62.86
Orissa						
σ	191.68	124.29	188.18	96.29	96.34	133.82
Mean	176.92	173.61	119.87	104.03	142.57	177.99
CV	108.34	71.59	156.98	92.56	67.58	75.19
Punjab						
σ	304.43	884.36	299.68	779.87	321.70	837.92
Mean	350.92	849.05	295.50	711.98	350.05	746.20
CV	86.75	104.16	101.41	109.54	91.90	112.29
Rajasthan						
σ	92.89	190.65	93.89	194.30	102.78	251.43
Mean	197.57	411.38	161.87	298.53	176.61	507.45
CV	47.02	46.34	58.00	65.09	58.20	49.55
Tamil Nadu						
σ	72.14	142.53	37.00	68.94	57.70	117.21
Mean	184.73	360.71	98.19	162.09	164.08	300.51
CV	39.05	39.51	37.68	42.53	35.17	39.00
Uttar Pradesh						
σ	59.89	107.73	42.14	64.10	60.42	109.58
Mean	117.37	163.63	33.43	52.93	133.73	193.61
CV	51.03	65.84	126.04	121.09	45.18	56.60
West Bengal						
σ	116.89	156.70	64.14	108.28	130.24	147.60
Mean	131.17	259.82	50.57	81.56	112.62	187.44
CV	89.11	60.31	126.83	132.75	115.64	78.75