FINANCES AND MANAGEMENT CAPABILITIES OF URBAN LOCAL BODIES IN INDIA

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(with the assistance of Gautam Naresh)

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Foreword

The National Institute of Public Finance and Policy is an autonomous non-profit organisation whose major functions are to carry out research, undertake consultancy work and impart training in public economics.

The study on `Finances and Management Capabilities of Urban Local Bodies in India' was entrusted to the Institute by the Planning Commission. The main aim of the study has been to analyse the major sources of tax and non-tax revenues of urban local bodies in India and suggest measures for reform to improve the finances of local bodies. An attempt has also been made to analyse issues relating to cost recovery mechanism in municipal services. Inter alia, the study highlights the management capabilities of urban local bodies in terms of their financial resources and administrative procedures.

The study is largely based on the data collected from 16 municipal corporations/municipalities, classified into three categories according to population size. It is hoped that the findings of the study will help to focus attention on the problem of urban local bodies, and explore ways in which they can be tackled.

The study was conducted by Devendra B. Gupta in collaboration with Shyam Nath and Brijesh C. Purohit.

The Institute is grateful to the Planning Commission for sponsoring the study.

The Governing Body of the Institute is not responsible for the views expressed in this report; that responsibility belongs primarily to the authors.

A. Bagchi
Director

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Devendra B. Gupta

Contents

I. INTRODUCTION AND FRAMEWORK OF THE STUDY

1. Genesis of the Study

India is experiencing rapid urbanisation, and this is likely to be further accelerated in the years to come. If the present trend in the growth of urban population continues, we expect by the close of the 20th Century, about one third of India's population to be living in areas classified as urban. In this context, it is important that we plan for providing at least basic civic services, which even today are far below the minimum levels in most towns. This dismal situation in regard to civic services is largely due to the adverse financial position of most urban local bodies. This is further aggravated by undue growth in public expenditure due to rising costs and increased demand for civic services without corresponding increases in municipal revenues. This has in many cases resulted in increasing dependence of local bodies on subventions from respective State governments even for maintaining existing level of services.

As is well known, property tax, which constitutes a major source of revenue of most urban local bodies, has not performed well. Amongst several reasons advanced for this poor performance, mention is often made of the existing rent control laws. However, there is increasing realisation that considerable scope exists for improving the capabilities of urban local bodies for financial management. In this context, it is suggested that even large urban local bodies do not keep their accounts properly causing severe handicap in assessing properly their financial position. Moreover, information system so essential for fiscal

enforcement and financial planning is rather weak in most urban local bodies. Besides, assessing departments usually lack trained personnel and other related infrastructure.

2. Terms of Reference

To study some of the questions raised above, the Planning Commission commissioned two studies - one to the National Institute of Public Finance and Policy covering the local taxation part, and the other to the Indian Institute of Public Administration relating to financial administration. The NIPFP component of the study is concerned with the following aspects:

i. Composition, structure and growth of tax and non-tax revenues of selected local bodies.

ii. scope of rationalisation of existing local taxes such as property tax, octroi, scavenging tax, fire tax, etc., as well as administration of local taxes resulting in higher yield from the existing measures.

iii. The existing system of rates and fees charged for providing various facilities by the local bodies and the scope for rationalisation including imposition of the differential fees to meet part of the operating expenses.

3. Selection of Sample

To carry out the study, a sample of following 16 urban local bodies were selected, seven `A´ Class type with a population of over 100,000, six `B´ Class with population between 50,000 and 100,000, and three `C´-Class with population of upto 50,000.

It is seen that as many as 13 States are represented in the sample. Another salient feature of the sample cities/towns is their high population growth rates (last columns of the table). A serious lacunae, however, is the absence of a hill town in the study. Indeed attempts were made to study Aizwal (Mizoram) and Gangtok (Sikkim), but they were abandoned as it was discovered that in these towns no municipal bodies functioned. Further, in view of the fact that a number of large metropolitan cities have already been studied extensively, it was felt that no useful purpose would be served to include them in the present study. Apart from addition of Ranchi, this sample frame is common with the IIPA component of the study.

The study is essentially based on the data collected from 16 sample municipalities through a personally canvassed questionnaire. The analysis has been further supplemented by personal dialogues with various functionaries of the sample urban local bodies as well as officials concerned with local self government in some of the State capitals of sample municipalities.

4. Chapter Scheme

The chapter scheme of the report is as follows. Chapter two is concerned with the analysis of trends in revenues and expenditures of urban local bodies in the sample. Chapter three discusses administrative organisation and rate structure of two major local taxes, namely, property tax and octroi. Tax reform issues constitute chapter four. Cost recovery aspects of municipal services with particular reference to water supply have been examined in chapter five. The final chapter presents conclusions and recommendations.

Selected Towns and Cities with Population-Size and Growth-Rate

Groups/Towns and Cities	State	Mun. Corpn. (MC) Municipality (M)	Population 1981 (000)	Annual Compound Growth: 1971-81 (%)
Group A				
1. Aurangabad	Maharashtra	(MC)	316	9.1
2. Bhopal	Madhya Pradesh	(MC)	672	7.5
3. Guwahati	Assam	(MC)	550	40.5
4. Kharagpur	West Bengal	(M)	153	14.8
5. Pimpri-Chinchwad	Maharashtra	(MC)	221	16.4
6. Surat	Gujarat	(MC)	776	6.4
7. Ranchi	Bihar	(MC)	487	17.7
Group B				
1. Jharsuguda	Orissa	(M)	55	12.1
2. Nalgonda	Andhra Pradesh	(M)	63	8.9
3. Pali	Rajasthan	(M)	91	8.2
4. Rae Bareli	Uttar Pradesh	(M)	90	13.3
5. Saharsa	Bihar	(M)	57	14.7
6. Sirsa	Haryana	(M)	89	8.2
Group C				
1. Bheemunipatanam	Andhra Pradesh	(M)	35	14.4
2. Mapusa	Goa	(M)	26	30.0
3. Punalur	Kerala	(M)	43	20.0

II. TRENDS IN MUNICIPAL FINANCES

1. Introduction

This chapter discusses the pattern of municipal finances in India. An overview of the financial condition of local bodies is presented here with the help of municipal budget analysis.

In order to provide basic urban services, the local bodies derive their financial resources from the following sources.

- Tax revenues
- Non-tax revenues
- Shared taxes
- Grant-in-aid from State government

The availability of finances from each of these sources (both aggregate and per capita) has a great significance in determining the financial strength and management capabilities of a local government. In the following sections, this subject is discussed in detail.

2. Major Trends in Local Finances (From 1960-61 - 1980-81) (Based on NIUA Data)

The four major features of Indian local finances during 1960-61 to 1980-81 can be stated as:

(i) Growing dependence of local bodies on grants-in-aid from State governments. The share of grants-in-aid in the total ordinary revenues of the local bodies has increased from 15 per cent to 25 per cent (See Table 2.1).

(ii) The share of tax revenues in the total municipal revenues has gone up from 61 per cent to 65 per cent, and that of non-tax revenues has fallen from 24 per cent to 10 per cent (See Table 2.2).

(iii) Among all the municipal taxes, property tax and octroi are the two most important taxes. Except a few States, the share of property tax in the total tax revenues exceeded 50 per cent (See Table 2.3). The share of octroi (in octroi States) was more than 60 per cent of the total tax revenues in the following six States (See Table 2.4):

- Gujarat
- Haryana
- Himachal Pradesh
- Jammu & Kashmir
- Punjab
- Rajasthan

The share of octroi was less than 30 per cent in

- Madhya Pradesh
- Delhi
- Goa
- Pondicherry

(iv) The low per capita expenditure (an average of less than Rs 100 per annum) of the local bodies has generally resulted in the low level of municipal services, leaving the few exceptions of Gujarat, Maharashtra and Delhi (See Table 2.5). Per capita

availability of basic municipal services was found to be higher in the octroi States when compared to the non-octroi States (See Table 2.6).

3. Pattern of Municipal Finances (1980-1988): NIPFP Sample Survey

From 1981 to 1984 and 1984 to 1987, it is observed from the NIPFP sample that the per capita total revenues of Class A municipalities were higher than either those of Class B or Class C municipalities. However, C-Class municipalities on the average indicated higher per capita revenues than B-Class municipalities.

It is interesting to note that, despite low per capita urban income of Class C municipalities in comparison to Class B municipalities (Table 2.7), the per capita revenues of Class C municipalities have been higher. The reasons for this could be: low rate of urbanisation together with out-migration to larger towns/cities. For example, out of the three C-Class sample municipalities, two, namely, Mapusa and Bheemunipatnam had the lowest population growth rates amongst all the sample local bodies during 1971-1981 (Table 2.7).

Revenue and Expenditure Composition

a. Composition of revenues. The tax revenues dominate in the total ordinary income of Class A and Class B municipalities. During 1984-1987, the share of tax revenues in total ordinary income was 67.4 per cent for Class A, 46.4 per cent for Class B and a low of 21.3 per cent in Class C municipalities. Further, the share of tax revenues in total ordinary incomes has indicated a rising trend during 1981-1984 and 1984-1987, except in C-Class municipalities where this has fallen (See Table 2.8).

The proportion of grants-in-aid for A and B Class municipalities has declined during 1984-1987; in the case of Class A municipalities, it has fallen to 11.14 per cent from 16.78 per cent, and in the case of Class B municipalities, it has fallen to 22.62 per cent from 27.5 per cent. This is in contrast to Class C municipalities where the share of grants-in-aid in the total revenues has risen to 45 per cent. These facts clearly demonstrate greater dependence of smaller local bodies on grants-in-aid. In other words, both A and B Class municipalities have been able to reduce their dependence on grants-in-aid. Further with the growth of local revenues, the relative share of income from shared taxes has fallen. This is reflected in all the three categories of local bodies (A, B and C). The declining percentage of shared taxes in the aggregate revenues is reported in Table 2.8.

After 1980 local bodies have put greater efforts to augment revenues from the non-tax revenue sources with the result that the proportion of non-tax revenues has increased in the total municipal revenues of Class A and B municipalities (from 6.1 per cent to 7.8 per cent in A Class and 21.6 per cent to 23.8 per cent in B Class). However, Class C municipalities are an exception; their non-tax revenues have in fact shown a slight decline from 29.87 per cent to 28.72 per cent (See Table 2.8).

There are certain exceptions to the results drawn with the help of municipal class averages. For example in Bhopal which is a Class A municipal body, own-tax revenues amounted to only 25 per cent of the aggregate revenues. Grants-in-aid to Bhopal Municipal Corporation from the State government formed as much as 71 per cent of the total ordinary revenues. A possible reason for

such high proportion of grants-in-aid in the total revenues in Bhopal and some other local bodies may be due to the accounting practice of merging shared taxes and grants-in-aid into one accounting head. It is also interesting to note that some small municipalities follow accounting practices which do not distinguish between tax and non-tax revenues. This is the case with Mapusa, a Class C municipality, where non-tax revenues comprised as high as 45 per cent of the total ordinary revenues during 1984-1987.

In octroi States, octroi is a major source of tax revenue. During 1984-1987, a higher and growing dependence on octroi has been witnessed in both Class A and Class B municipalities of octroi States (See Table 2.9).

Octroi has grown at a high rate in most of A and B group of municipalities. The reasons for such high rates of growth of octroi are:

(i) Change in the base of octroi levy from specific to ad-valorem

(ii) Rapid urbanisation resulting in the high growth of trading activities

During 1984-1987, the octroi formed 65 per cent of the total tax revenues and 54 per cent of the total ordinary income of Class A municipalities and 80 per cent of the total tax revenues and 42 per cent of the total ordinary income of Class B municipalities. So far as Class C sample municipalities are concerned, they all belong to non-octroi States.

The property tax is the second most important source of revenue of local bodies in octroi States. In Class C sample municipalities where the octroi is not levied, the property tax formed 74 per cent of the total tax revenue and 15 per cent of the total ordinary revenues during 1984-1987 (See Table 2.9).

Absence of octroi in some municipalities has also caused increased augmentation of tax revenues other than property tax. As a result, the share of miscellaneous taxes (i.e., taxes other than octroi and property tax) in the total tax revenues has been comparatively high. In Class C local bodies, for example, where octroi is not levied, the miscellaneous taxes formed 26 per cent of the total tax revenues and 5.32 per cent of the total revenues. In Class A and Class B local bodies where octroi is levied, the miscellaneous taxes constituted 20 per cent of the total tax revenues and 16.7 per cent of the total revenues for Class A municipalities. In the case of Class B municipalities, the miscellaneous taxes formed 8 per cent of the total tax revenues and 4.17 per cent of the total ordinary income during 1984-1987.

It will be evident from Chapter 3, that State control of municipal taxation has severe constrained growth of municipal revenues particularly that of the property tax. Apart from fixing minimum and maximum rates under the statute, some municipal legislations prescribe procedures for abolition or alteration of a tax. The main intention behind these measures is to deter municipal governments from reducing tax rates/abolishing a tax altogether so as to tilt interjurisdictional rate differentials in their favour. However, over time, it has developed into a

practice that whenever any changes in the rates or fees or taxes are required they have to satisfy the condition of prior approval from the State government.

b. Composition of Expenditure. The highest percentage of expenditure is incurred on the miscellaneous head of expenditure by majority of the sample municipalities, particularly Class A and B municipalities (See Table 2.10). The reasons for the "miscellaneous" being the major expenditure head are:

(i) There are non-uniform accounting practices which influence the amount of expenditure shown under this head. Many local bodies do not make a distinction between revenue and capital heads of accounts, as a result some capital account heads get mixed up with the ordinary revenue account heads. This inseparability between the revenue and capital accounts causes inflated size of miscellaneous expenditures.

(ii) A major component of miscellaneous expenditures is refunds in respect of several accounting heads which include: (a) rebates on octroi or property tax, (b) house connection charges, (c) election deposits/earnest money, (d) provident fund etc.

(iii) A good number of sub-heads such as maintenance expenditure on various services including - water supply, water tanks, repair of wells and repair of vehicles, expenditure on functions like town planning, relief works and integrated development programmes and the suspense amount are classified as miscellaneous, resulting in a relatively prominent position of miscellaneous expenditures.

After miscellaneous, the second highest per capita expenditure is incurred on `public health and sanitation´.

During 1984-1987, Class C municipalities incurred 34 per cent of their total ordinary expenditure on public health followed by Class A municipalities (22.55 per cent) and Class B municipalities (15.05 per cent). Local bodies get grants-in-aid for public health from their respective State governments on per capita basis. Thus growth in population has generally resulted in higher amounts spent on this head.

Class C municipalities are found to be incurring higher per capita expenditures on education and health. One of the possible reasons for higher municipal involvement in these services may be an absence of private alternatives and other State sponsored schemes in these municipalities.

Growth of Major Revenue Categories and Expenditure Heads

Per capita revenues of Class A municipalities had the highest compound annual growth rate of 10.37 per cent, and the lowest, 4.28 per cent for Class C municipalities over the period of 7 years from 1980 to 1987 (See Table 2.11). By comparing the growth rates of aggregate revenues and expenditures, it is observed that the aggregate expenditure has grown faster than the aggregate revenues (See Tables 2.11 and 2.12).

There are certain municipalities which are facing negative growth rate in revenues. These sample municipalities are:

Class A - Rae Bareli
Class B - Nalgonda
Class C - Punalur

Rae Bareli and Nalgonda have witnessed declining growth rates in non-tax revenues and grants-in-aid and Punalur in property tax and `other taxes´.

Growth of non-tax revenues has been highest and that of tax revenues has been lowest in the case of Class C municipalities. The cause of this phenomenon seems to be the lack of adequate tax effort and skilled staff in these municipalities.

In Class A municipalities, the revenues from octroi have grown at a rate of 13.49 per cent annually. In Class B municipalities, the collection from octroi and property tax have not been satisfactory, reportedly due to problems connected with corruption and other leakages. The collection from miscellaneous taxes has consequently been high which grew at a rate of 12.49 per cent per annum.

Class C municipalities are putting in greater efforts to augment revenues from property tax source since octroi is not levied in these sample municipalities.

The changing needs of the urban population are reflected in the rapid growth of expenditure, particularly in Class A municipal bodies. Local bodies in Class A include:

- industrial towns and cities
- large trading and service centres
- tourist centres and State capitals

Bhopal, Pimpri-Chinchwad, Surat and Aurangabad are some of the Class A cities with the above characteristics. In such places, the size of the floating or immigrant population is increasing. This puts a heavy pressure on the existing infrastructure and demand for services. In fact, a strong general administrative machinery with expertise in urban management is needed for the management of A Class cities. The growth rate of expenditure on general administration and safety and convenience is the highest for Class A local bodies. Not only that the rate of growth of expenditure on public health and sanitation is 19.57 per cent per annum in Class A local bodies, but the highest amount is also spent under this head.

Local bodies get grants-in-aid from the State governments to finance expenditures on the following heads.

- Public health
- Education
- Public works

In Class B municipal bodies, expenditures on education, public works and miscellaneous have grown relatively faster than in Class A and Class C municipalities.

In Class C municipalities, the expenditure on general administration is on the higher side. However, tax collection is poor in these municipalities (See Tables 2.9 and 2.10).

4. Significance of Inter-Class Variations

The discussion of composition and growth of various revenue categories and expenditure heads in A, B and C-Class municipal bodies portrays considerable inter-class variations. These differences can be ascribed to group differences among the sample localities or they may simply be due to sampling fluctuations. Further, within a class, differences among localities could be attributed either to locality specific factors or to time trend.

In order to test whether the differences in the pattern of finances across different groups and within each group of sample local bodies are statistically significant, an analysis of variance has been attempted. Both revenue and expenditure sides have been analysed by concentrating on their aggregates and major items of each side. In doing so, while "between group" variances have been tested by means of a one way ANOVA, the isolation of "within group" variations in terms of locality specific influence and time influence has been done using the two-way ANOVA technique. The results of these exercises are set out in Tables 2.13, 2.14 and 2.15).

Most F ratios computed in one-way ANOVA are statistically significant on the revenue side (including per capita aggregate revenue and major revenue categories, namely, tax revenue, non-tax revenue, grants, shared tax and other major taxes such as octroi, property tax and miscellaneous taxes). This suggests that group differences among A, B and C Classes of sample local bodies as indicated in the earlier sections are also statistically significant.

A two-way ANOVA shows that in the case of Class A bodies, the role of municipality specific factors, namely, socio-economic characteristics and influence of time, have been statistically significant in explaining "within group" variations relating to some of the major revenue items already mentioned above. This conclusion holds true for Class B local bodies in respect of per capita aggregate revenue and octroi.

However for Class A bodies, locality factor is statistically significant for only three items, namely, per capita revenue, grants and miscellaneous taxes. For Class B bodies, this result is applicable to two revenue items, viz., property tax and non-tax revenues.

Unlike A and B Class local bodies, neither locality specific factors nor time influence seem to be statistically significant for C-Class local bodies in explaining "within group" variations for most of the revenue items. However, both locality specific and time factors are important in the case of non-tax revenues.

Considering the expenditure side, we note that one way ANOVA depicts "between group" variations as statistically significant for all the heads, except the aggregate expenditure. Also in conformity with the results of two way ANOVA pertaining to revenue side, generally the influence of locality specific factors is statistically well marked for all the major expenditure heads in Class A local bodies. Further, in A Class local bodies, a simultaneous influence of time factor is observed in two expenditure heads, namely, public health and public education.

The case of Class B local bodies indicates a different set of results pertaining to expenditure side. Only for three heads, namely, general administration, public health and miscellaneous expenditures, the municipality specific influence is statistically significant. Out of these, for the last head, namely, miscellaneous expenditure, the simultaneous influence of time is also observed in explaining "within group" variations.

The results of a two way ANOVA pertaining to revenue side of Class C local bodies confirm only one of the two influences, namely, municipality specific influence and time influence only for a few expenditure heads in explaining "within group" variations. For instance, for public health and miscellaneous expenditure, the locality specific influence is dominant, whereas for public education, time is the only statistically significant factor. The simultaneous influence of both local and time factors is indicated for public works in explaining "within group" variations.

Thus the limited ANOVA undertaken in the preceding paragraphs confirms validity of some of the conclusions drawn on the basis of group averages. Thus inter-class variations in level and composition of revenues and expenditures seem to be significant.

5. Impact of Inflation on Level of Local Budgetary Activities

From the description of growth rates in the preceding sections, it seems that there has been a considerable growth in the level of local budgetary activities. However, a consideration of these growth rates in real terms would indicate that a large part of this growth has been the result of inflationary pressures.

In some of the sample local bodies such as Bhopal, Pimpri-Chinchwad (A Class), Kharagpur and Sirsa (B Class), the growth of their total revenues in real terms has been negative (Table 2.16). While in five of the sample bodies, namely, Guwahati, Ranchi, Surat, Jharsuguda and Bheemunipatnam, the growth rate in real terms has been positive, a comparison of real growth rate with nominal growth rate would indicate that the former constituted in the range of 25 to 42 per cent of the latter. The corresponding figure for Aurangabad and Saharsa is 60 per cent. This general feature of declining growth rates of municipal revenues in real terms would get reflected in the purchasing power of the local bodies which in turn would adversely influence the real aggregate expenditures of concerned local bodies.

A brief glance at the growth rates of nominal and real aggregate local expenditures reveals the adverse impact of inflation. For instance, in line with their aggregate revenues, the per capita aggregate expenditures in Bhopal Pimpri-Chinchwad (both A Class localities) and Kharagpur (B Class locality) have witnessed negative growth rates (Table 2.17). Similarly, there are local bodies like Saharsa (Class B) and Punalur (Class C) in which, the growth rates of aggregate municipal expenditures in real terms are found to be negative. However, some of the sample local bodies, namely, Guwahati, Surat, Jharsuguda and Bheemunipatnam have experienced positive growth rates, which, however, have constituted 15 to 33 per cent of the annual expenditure growth in nominal terms.

It is apparent from the analysis of real growth rates that inflation has exerted adverse influence on the overall finances of all the sample municipalities. A major consequence of all this has been the lowering of real per capita availability of

municipal revenues and expenditures accompanied by a declining quality of local services. The impact of inflation, however, is not uniform over all the classes of local bodies; indeed the incidence of inflation is found to be highest in C-Class municipalities which are also characterised by smaller size of aggregate budgets.

6. Tax Effort Analysis

An analysis of the inter-class pattern of revenues and expenditures demonstrates that the revenue performance of A Class local bodies is better than those of B and C Class municipalities. However it is an established fact that expenditure needs of all local bodies have remained largely unmet, despite the flow of grants from the State governments. It is contended that local revenue mobilisation policies lack political will and management capability. It may be instructive, therefore, to empirically examine as to what extent do the local bodies exploit their tax potential. This exercise would also bring out whether constraints on local revenue mobilisation efforts vary from one class of locality to another. In this section, a tax effort analysis is undertaken with the help of available information pertaining to the sample local bodies.

Tax effort of any governmental unit represents its willingness to tax the people. Actually the tax ratio, defined as the relationship between actual amount of tax collection and some measure of taxable capacity (commonly income) is the starting point towards any measurement of tax effort. Following the regression approach, a regression is performed on tax ratio using tax capacity factors as explanatory variables. The difference

between the actual tax ratio and the one estimated on the basis of this regression is taken as an unexplained variance representing tax effort.

In our specification, tax revenue to city domestic product has been used as the dependent variable. Among the capacity factors, we have included per capita urban income, per capita property tax and urban density as explanatory variables. Both linear and log-linear functional forms have been estimated. Generally, log-linear specifications have performed better. However, in some cases, on the basis of statistical criteria, linear specification is preferred. The results are presented in Tables 2.18A, 2.18B and 2.18C). Tax effort indices, obtained as a ratio of actual to potential tax are presented in Table 2.18C. A value of index greater than unity would indicate higher than the average performance of the local bodies considered here. Similarly, a value of index less than unity would suggest less than the average performance. It should be borne In mind that indices obtaining a value greater than unity do not indicate more than full exploitation of the tax potential.

It is apparent from the results that the tax effort indices indicate poor exploitation of the tax potential in A Class and C Class localities. In Class A municipalities, the tax effort indices assumed values greater than one in only one out of 4 years. In C Class local bodies, the same is true for two years. These results thus suggest that our sample localities belonging to A and C categories could improve their financial performance only to some extent by utilising the untapped tax potential. The situation could have been improved, for instance, through better tax administration and adoption of various measures aimed at improving tax compliance.

In contrast to A and C Class municipalities, the B Class local bodies seemed to have fared better in exploiting their tax potential.

7. Conclusion

The results indicate that local revenue efforts are constrained by lack of willingness to tap the local tax potential. Important factors appear to be the domain of administrative constraints and fear of public resentment. Problems relating to tax administration are well known and deserve adequate attention. The relevant issues which have direct bearing on local revenue performance pertain to tax base determination, rate structure and machinery to implement the tax statutes and collect taxes which constitute the subject matter of the next chapter.

TABLE 2.1

Percentage Composition of Revenue Sources

(As Percentage to Total Revenue)

Year	Municipal Own-Sources			Other Sources	
	Tax	Non-tax	Total	Grants	Total
1960-61	60.90	23.90	84.80	15.20	100.00
1976-77	58.43	19.19	77.62	22.38	100.00
1979-80	65.00	10.00	75.00	25.00	100.00

Sources: For 1960-61 Zakaria Committee Report.

For 1976-77 Finance Commission Report, 1978.

For 1979-80 NIUA Study, 1983.

TABLE 2.2

Municipal Tax and Non-Tax Revenue

(Rs in lakh)

States	Own-Tax Revenue		Own-Non-Tax Revenue		% of NTR in OTR	
	1976-77	1979-80	1976-77	1979-80	1976-77	1979-80
Andhra Pradesh	1465	2686.92	2109	464.34	144.96	17.28
Assam	212	133.00	315	43.39	148.58	32.47
Bihar	523	364.02	7	75.07	1.35	20.62
Gujarat	3507	6025.23	1130	574.72	32.22	9.54
Haryana	909	871.42	243	166.53	26.73	19.12
Himachal Pradesh	135	168.39	40	26.43	29.62	15.70
Jammu & Kashmir	243	179.46	11	29.18	4.52	16.26
Karnataka	2033	1372.71	1164	451.43	57.25	32.87
Kerala	653	1228.49	252	294.93	38.60	24.00
Madhya Pradesh	2087	925.94	622	370.12	29.80	39.97
Maharashtra	12497	22585.99	7111	1647.14	56.90	7.30
Manipur	28	0.21	7	0.48	25.00	228.57
Meghalaya	18	18.28	1	1.79	5.55	9.74
Nagaland	3	-	-	-	-	-
Orissa	366	314.00	237	89.06	70.53	28.36
Punjab	1140	1377.71	107	123.63	9.38	8.97
Rajasthan	1550	1992.29	682	3193.93	44.00	160.31
Sikkim	1	-	1	-	-	-
Tamil Nadu	N.A.	4062.33	N.A.	928.39	N.A.	22.84
Uttar Pradesh	2877	3467.41	1441	648.19	50.08	18.69
West Bengal	2048	2528.01	461	617.21	22.51	24.41
Goa	-	47.17	-	35.67	-	78.97
Tripura	13	-	-	-	-	-
TOTAL	32278	50354.60	15941	9781.63	49.39	19.43

Sources: (a) 1976-77 Finance Commission Report, 1978.

(b) 1979-80 NIUA Studies.

TABLE 2.3

Property Tax Revenue

(Rs in 000)

States	PT Revenue (1979-80)	% in Tax Revenue	% in Total Ordinary Income
Andhra Pradesh	76,062	28.31	14.21
Assam	6,452	38.28	16.68
Bihar	12,546	34.46	17.12
Gujarat	1 47509	29.49	18.47
Haryana	12,909	14.81	11.76
Himachal Pradesh	1,876	11.14	8.66
Jammu & Kashmir	0	-	-
Karnataka	66 781	48.65	16.47
Kerala	48,757	39.81	27.82
Madhya Pradesh	21,051	22.73	5.82
Maharashtra	4,25,881	18.85	14.22
Meghalaya	493	26.97	19.95
Orissa	3,884	11.39	5.33
Punjab	17,630	13.18	11.76
Rajasthan	7,969	4.00	3.28
Tamil Nadu	1,17,418	28.90	16.99
Uttar Pradesh	55,182	15.91	10.32
West Bengal	1,77,528	70.22	28.08
Goa	2,377	50.38	17.77
Delhi	2,07,253	39.00	23.07
Pondicherry	525	52.00	45.38
All-India) Average)	14,10,087	25.00	13.90

Source : Derived from NIUA Data, 1983.

TABLE 2.4

Municipal Octroi Income

(Rs in lakh)

States	1974-75	1979-80
Gujrat	179.40	401.90
	(60.6)	(66.7)
Haryana	312.60	604.20
	(70.0)	(69.3)
Himachal Pradesh	48.90	108.50
	(58.7)	(64.4)
Jammu & Kashmir	35.00	172.00
	(99.3)	(95.9)
Karnataka	516.70	-
	(40.5)	
Madhya Pradesh	1097.70	198.24
	(77.1)	(21.4)
Maharashtra	4673.50	10839.40
	(40.8)	(48.0)
Orissa	91 80	174.45
	(44.4)	(51.2)
Punjab	374.40	953.40
	(71.0)	(71.3)
Rajasthan	695.70	1797.60
	(88.3)	(90.4)
Uttar Pradesh	983.60	1996.60
	(52.1)	(57.6)
Delhi	891.30	1461.70
	(38.2)	(27.4)
Goa	3 30	9.50
	(26.3)	(20.1)
Pondicherry	2.10	2.70
	(32.7)	(26.8)

Note: Figures in Brackets Indicate Percentage to Tax Income.

Source: NIUA Data.

TABLE 2.5

Per Capita Municipal Expenditure (1979-80)

(In rupees)

States	Administration	Public Health	Public Works	Lighting	Water and Drainage	Education	Recreation	Miscellaneous	Total
Andhra Pradesh	6.6	12.8	13.1	2.4	7.2	8.4	0.5	3.0	54.0
Assam	4.4	4.5	3.0	1.8	2.9	0.1	0.0	3.2	19.9
Bihar	2.8	6.2	2.2	0.7	2.7	0.0	0.1	1.9	16.6
Gujarat	18.5	23.6	8.2	4.4	12.8	19.4	1.3	31.2	119.4
Haryana	13.7	16.8	5.3	3.7	12.0	0.2	0.3	9.7	61.7
Himachal Pradesh	24.1	29.1	12.0	4.5	18.1	0.5	0.7	5.0	94.0
Jammu & Kashmir	8.1	11.9	23.9	1.2	0.4	0.0	0.0	0.0	45.5
Karnataka	3.2	3.1	1.8	1.0	1.8	0.1	0.3	23.3	34.6
Kerala	7.5	9.0	6.7	3.7	2.6	0.3	0.1	7.0	36.9
Madhya Pradesh	8.5	10.6	9.0	2.0	7.6	1.3	0.4	4.6	44.0
Maharashtra	11.8	30.4	25.3	7.2	26.2	9.9	2.1	18.5	131.4
Meghalaya	0.3	3.4	0.5	1.0	10.1	0.0	0.0	1.4	16.7
Orissa	7.1	9.1	8.5	3.0	3.8	6.3	0.3	15.8	53.9
Punjab	13.8	14.0	8.6	4.1	8.1	0.3	0.4	6.0	55.3
Rajasthan	9.2	13.7	3.0	2.2	0.8	0.2	0.4	1.4	30.9
Sikkim	20.3	12.9	43.4	0.0	29.1	0.0	0.7	0.0	106.4
Tamil Nadu	5.8	12.2	6.7	3.2	4.1	7.9	0.9	8.6	49.4
Uttar Pradesh	5.8	16.0	7.4	2.1	5.0	0.8	0.3	4.3	41.7
West Bengal	4.5	7.6	7.5	1.6	16.5	3.5	0.2	13.1	54.5
Delhi	5.8	8.6	15.1	36.4	3.8	33.6	2.8	53.7	159.8
Goa	11.6	7.5	7.8	3.6	0.7	0.1	0.2	9.9	41.4
Pondicherry	15.1	0.0	11.9	4.0	1.0	0.0	0.0	3.1	35.1
All-India	14.3	13.3	10.0	9.3	7.8	6.5	4.9	0.8	66.8

Source: NIUA Studies.

TABLE 2.6

Level of Municipal Services in Octroi, Non-Octroi and Entry Tax States (1979-80)

State	Water Supply		Drainage		Road length (kms per 10,000 persons)	Health Institutions (Per 10,000 Persons)			Education Facilities								
	Per Capita (Ltrs)	Percentage of supply to demand	Under ground drainage (sq. kms per 1,000 persons)	Open drainage (sq. kms per 1,000 persons)		No. of Institutions	No. of Doctors	No. of Beds	Number of Educational Institutes (Per 10,000 Persons)			Total Number of Students (Per School)			Number of Teachers (Per 1000 Students)		
									I	II	III	I	II	III	I	II	III
Octroi States																	
Gujarat	83	59	0.08	0.16	0.7	1.5	2.4	15.0	0.2	0.0	0.0	363	585	184	44	29	42
Haryana	49	41	0.23	0.20	0.8	7.4	7.0	19.0	0.0	0.0	0.0	409	743	545	24	25	39
Jammu & Kashmir	107	71	0.14	0.10	0.1	8.0	0.0	0.0	0.0	0.0	0.0	0	0	0	0	0	0
Maharashtra	73	59	0.08	0.25	0.5	1.1	1.2	4.0	1.1	0.2	0.0	340	580	411	24	31	58
Orissa	94	71	0.24	0.34	0.3	0.2	0.4	1.7	0.1	0.0	0.0	177	261	347	24	33	63
Punjab	66	58	0.18	0.25	0.7	3.1	4.0	N.A.	1.5	1.3	0.3	251	523	398	24	31	46
Rajasthan	53	38	0.04	0.38	0.7	0.9	2.7	2.0	0.3	0.2	0.0	168	414	335	43	43	52
Uttar Pradesh	72	56	0.16	0.17	0.9	2.6	4.0	6.0	1.4	0.7	0.2	286	631	842	29	32	47
West Bengal	58	41	0.04	0.30	0.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Delhi (UT)	205	111	0.01	0.00	2.3	0.4	1.3	2.0	0.0	0.0	0.0	103	376	0	41	376	0
Non-Octroi States																	
Andhra Pradesh	107	76	0.06	0.22	0.9	0.1	2.9	11.5	1.6	0.6	0.2	281	622	662	26	29	30
Assam	21	16	0.13	0.21	0.5	1.0	2.9	17.0	4.0	1.4	0.5	85	390	870	43	41	41
Bihar	36	26	0.06	0.18	0.5	0.1	0.3	3.5	0.3	0.2	0.0	107	0.2	1837	238	22	31
Kerala	81	61	1.04	0.31	1.2	2.1	5.0	44.0	1.3	1.1	0.3	541	83	499	15	24	55
Nagaland	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Sikkim	-	-	-	0.20	0.4	0.0	0.0	0.0	0.3	0.0	0.0	250	0	0	30	0	0
Tamil Nadu	106	77	0.16	0.23	0.7	1.4	3.1	14.7	1.2	0.9	0.3	444	800	313	31	41	60
Tripura	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manipur	12	10	-	0.34	0.5	2.7	8.0	34.0	6.5	6.8	1.2	13	357	336	50	40	53
Meghalaya	60	35	-	0.09	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Entry Tax States																	
Karnataka	50	40	0.08	0.25	0.9	1.8	2.0	12.0	1.7	1.2	0.2	116	266	305	27	33	38
Madhya Pradesh	86	69	0.21	0.22	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Notes: I represents primary schools.
II represents secondary schools.
III represents other educational institutions.

Source: National Institute of Urban Affairs (1983), A Study of the Finance Resources of Urban Local Bodies of India and the Level of Services Provided, Part II, New Delhi.

TABLE 2.7

Population of the Localities and Population Growth Rates

Localities/years	Averages over the period 1980-81	1984-85	1986-87	Growth rate 1971-81	Rank according to growth rate All classes	Within class
CLASS-'A'						
Aurangabad	277149 (4007.31)	357615 (5702.00)	406226 (6504.00)	0.0658024	7	4
Bhopal	655653 (2167.24)	818931 (3490.55)	915238 (4148.00)	0.05716616	11	5
Guwahati	150844 (4385.48)	163821 (6336.72)	170722 (6947.00)	0.020846772	16	7
Pimpri-Chinchwad	212189 (4007.31)	313106 (5702.00)	380344 (6504.00)	0.102153435	2	1
Rae Bareli	86615 (2895.72)	121152 (4684.69)	143284 (5622.00)	0.087511387	4	2
Ranchi	476538 (3069.63)	618092 (4763.06)	703931 (5780.00)	0.067182485	6	3
Surat	761144 (3468.45)	922963 (5557.38)	1016349 (6643.00)	0.04937166	13	6
Average VI	(3428.73)	(5176.63)	(6021.1429)	0.0637		
CLASS-'B'						
Jharsuguda	53066 (3081.68)	72987 (4058.35)	85598 (4655.00)	0.082948105	5	2
Kharagpur	147135 (3295.65)	182500 (4791.87)	203252 (5480.00)	0.0553217	12	6
Nalgonda	60828 (2625.69)	78392 (4170.48)	88993 (4948.00)	0.06547162	8	3
Pali	89275 (2357.52)	113872 (3737.51)	128606 (4421.00)	0.06272704	9	4
Saharsa	55441 (3069.63)	79729 (4763.06)	95611 (5770.00)	0.095081787	3	1
Sirsa	86863 (4289.91)	110491 (6748.84)	124616 (8189.00)	0.061996459	10	5
Average VI	(3120.01)	(4711.68)	(5578.84)	0.0705		
GROUP-'C'						
Bheemunipatnam	34022 (2625.69)	40191 (4170.48)	43684 (4948.00)	0.042538918	14	2
Mapusa	26399 (1126.48)	29318 (1816.90)	30897 (2074.60)	0.02657602	15	3
Punalur	41017 (3820.46)	65099 (5791.14)	82013 (6698.00)	0.122415985	01	1
Average VI	(2524.21)	(3926.17)	(4573.54)	0.0638		

Note: Figures in the parentheses denote per capita urban income

TABLE 2.8

(Rupees)

Municipality/Corporation	Per capita average tax revenue for		Per capita average non-tax revenue for		Per capita average share in state taxes for		Per capita average grants for		Per capita average total revenue for	
	1981-84	1984-87	1981-84	1984-87	1981-84	1984-87	1981-84	1984-87	1981-84	1984-87
CLASS-'A'										
Aurangabad	86 (66)	188 (67)	13 (10)	28 (10)	- -	- -	31 (24)	66 (24)	131	278
Bhopal	14 (28)	18 (29)	3 (5)	3 (5)	- -	- -	42 (71)	46 (71)	59	65
Guwahati	102 (41)	178 (48)	11 (4)	10 (3)	117 (45)	145 (40)	25 (10)	30 (8)	256	363
Pimpri-Chinchwad	522 (84)	618 (79)	72 (12)	120 (15)	0.24 (0.03)	0.18 (0.02)	29 (5)	47 (6)	823	786
Rae Bareli	335 (66)	391 (88)	7 (1)	6 (1)	- -	- -	166 (33)	46 (10)	508	442
Ranchi*	6 (86)	4 (20)	0.6 (9)	11 (55)	1 (14)	1 (5)	5 (71)	8 (40)	7	20
Surat	170 (78)	301 (83)	18 (6)	21 (6)	- -	- -	34 (16)	41 (11)	218	362
Group average	177 (63.21)	242 (67.46)	17 (8.07)	28 (7.88)	39 (13.83)	49 (13.64)	47 (16.78)	48 (11.14)		
CLASS-'B'										
Jharsaguda	28 (67)	38 (78)	3 (7)	3 (5)	- -	- -	13 (30)	15 (27)	44	56
Kharagpur	22 (60)	24 (67)	3 (7)	4 (11)	- -	- -	10 (30)	25 (69)	45	36
Nalgonda	13 (18)	14 (19)	9 (12)	13 (17)	10 (28)	15 (58)	48 (43)	32	73	75
Pali	84 (62)	106 (58)	48 (36)	99 (47)	- -	- -	3 (2)	5 (2)	135	210
Saharsa	3 (37)	2.5 (12.5)	0.87 (0.87)	0.11 (0.55)	0.84 (10)	0.62 (3)	4 (50)	17 (85)	8	20
Sirsa	46 (78)	47 (67)	0.50 (0.85)	0.44 (0.63)	5 (0)	2 (3)	7 (12)	21 (30)	59	70
Group average	21 (41.17)	30 (46.42)	11 (21.56)	20 (23.88)	5 (9.88)	6 (7.14)	14 (27.54)	18 (22.62)		
GROUP-'C'										
Bheemunipatnam	17 (53)	20 (30)	2 (6)	2 (4)	- -	- -	14 (44)	38 (58)	32	52
Punalur	23 (36)	18 (28)	10 (16)	12 (18)	6 (9)	5 (7)	25 (48)	31 (46)	63	67
Rapusa	16 (12)	21 (14)	58 (47)	68 (45)	- -	- -	48 (38)	64 (42)	124	152
Group average	18 (26.82)	20 (21.28)	23 (20.87)	27 (28.72)	6 (7.88)	5 (5.31)	29 (37.67)	42 (44.68)		

Notes: '-' : denotes non-availability of data.

Figures in the parentheses are percentages to per capita average revenue for each LB separately (row-wise).

* : Ranchi figures are as supplied by the Corporation and appear to be rather low. However in the absence of any other source, we have employed the official data. However this is unlikely to distort the relative ranking of Class A bodies vis-a-vis other Classes.

TABLE 2.8

Revenue Major Items: Three Yearly and Group Averages and Percentage to Total Revenue

(Rupees)

Municipality/Corporation	Average per capita Property tax for		1 as % of own tax revenue	2 as % of own tax revenue	Average per capita octroi for		5 as % of own tax revenue	6 as % of own tax revenue	Average per capita other taxes* for		9 as % of own tax revenue	10 as % of own tax revenue	Average per capita total revenue for	
	1991-94	1994-97			1991-94	1994-97			1991-94	1994-97			1991-94	1994-97
CLASS-'A'														
Aurangabad	20 (22)	54 (19)	34	28	55 (42)	127 (46)	84	68	3 (2)	5 (2)	3	3	131	278
Bhopal	11 (19)	12 (18)	78	75	3 (5)	4 (6)	21	25	9.44 (9.75)	9.75 (11)	3	5	59	65
Guwahati	79 (31)	122 (34)	75	68	-	-			26 (10)	56 (15)	25	31	259	363
Pimpri-Chinchwad	49 (8)	43 (6)	8	7	465 (75)	566 (72)	89	91	8 (1)	10 (1)	1	2	623	786
Rae Bareli	11 (2)	12 (3)	3	3	26 (5)	35 (8)	8	9	298 (58)	344 (78)	89	88	508[c]	442[d]
Ranchi	6[a] (86)	4[b] (20)	100	100	-				0.83[a1] (8.42)	0.01[b1] (0.95)	8.85	0.25	7[c]	204
Surat	48 (22)	63 (17)	28	30	120 (55)	234 (65)	71	78	2 (1)	2 (0.86)	1	0.86	218	362
Group average of Class-B	33 (11.78)	44 (12.26)	15.35	14.81	134 (47.85)	183 (53.76)	62.33	64.88	48 (17.14)	68 (16.71)	22.33	28.28		
CLASS-'B'														
Jharsuguda	2 (5)	2 (4)	7	5	26 (59)	36 (64)	83	92	0.88 (0.20)	0.05 (0.88)	0.32	0.12	44	56
Kharagpur	16 (36)	5 (14)	59	21	10 (22)	10 (28)	37	41	1 (2)	1 (1)	4	4	45	36
Nalgonda	7[f] (18)	6 (8)	54	43	-	-	-	-	5[h] (7)	8 (11)	38	57	73	75
Pali	3 (2)	4 (2)	4	4	91 (68)	102 (48)	96	86	-	-				
Saharsa	2.64 (44)	1 (5)	88	48	-	-			0.17 (3)	1.39 (7)	5.7	55	136	218
Sirsa	11 (18)	13 (18)	24	27	28 (48)	26 (38)	61	55	7 (12)	7 (10)	15	15	6	20
Group average Class-B	7 (13.72)	5 (5.85)	18.11	11.5	29 (56.86)	35 (41.67)	75.83	88.46	2.65 (5.28)	3.5 (4.17)	6.85	8.84	59	70
CLASS-'C'														
Bheemavaipatnam	12 (38)	12 (23)	70	68	-	-	-	-	4 (13)	7 (13)	23	35	32	52
Kapusa	13 (12)	11 (12.5)	94	80	-	-	-	-	10 (16)	8 (12)	43	42	63	67
Poanlur	15 (12)	19 (12.5)	84	88	-	-	-	-	1 (0.81)	1 (0.66)	6	5	124	152
Group average Class-C	15 (16.88)	14 (14.89)	72.23	73.7	-	-	-	-	5 (6.48)	5 (5.32)	27.8	26.31	73	88

Notes: (a), (a1), data available only for 1991-92
(b), (b1), data not available for 1994-95
(f), (g), (h), (i), data not available for 1991-92
(c) only Jenra figure available for 1992-93, 1993-94
(d) only grants figure available for 1994-95
* Other taxes include minor taxes as tree cess, fare tax, hawkers' tax, animal and vehicle tax, etc.
Figures in parentheses are percentage to per capita average revenue.

TABLE 2.10

Expenditure Major Items: Three Yearly and Group Average and Percentage to Total Revenue Expenditure

(Rs per capita)

Municipality/ Corporation	Average per capita general administration revenue collection for		Average per capita expenditure on personal health for		Average per capita expenditure on safety and convenience	
	1981-84 (A)	1984-87 (A_1)	1981-84 (B)	1984-87 (B_1)	1981-84 (C)	1984-87 (C_1)
CLASS-'A'						
Aurangabad	12 (10)	20 (8)	4 (3)	9 (3)	48 (41)	81 (31)
Bhopal	15 (15)	15 (13)	17 (16)	21 (18)	23 (22)	20 (17)
Guwahati	29 (15)	61 (21)	91 (46)	140 (47)	4 (2)	7 (2)
Pimpri-Chinchwad	9 (8)	39 (22)	87 (41)	88 (49)	5 (2)	8 (4)
Rae Bareli	8 (3)	2 (3)	1 (1.5)	1 (1)	4 (6)	6 (8)
Ranchi	- -	- -	- -	- -	- -	- -
Surat	31 (14)	42 (12)	17 (8)	21 (8)	6 (3)	7 (2.5)
Group average	18 (18.80)	30 (14.52)	36 (23.84)	46.6 (22.55)	15 (9.93)	21.5 (10.16)
CLASS-'B'						
Jharsuguda	7 (15)	11 (19)	4 (8)	4 (7)	8 (17)	8 (14)
Kharagpur	4 (4)	4 (5)	34 (35)	9 (11)	- -	- -
Malgoada	2 (4)	4 (7)	1 (2)	2 (3)	9 (17)	19 (33)
Pali	14 (13)	6 (3)	22 (20)	38 (19)	4 (4)	8 (4)
Saharsa	1 (4)	2 (9)	3 (13)	3 (14)	3 (13)	- -
Sirsa	16 (23)	10 (13)	24 (34)	28 (23)	7 (18)	7 (6)
Group average	7 (10.66)	7 (7.53)	15.67 (22.34)	14 (15.95)	6 (9.14)	10.5 (11.29)
GROUP-'C'						
Sheemanipatnam	40 (59)	16 (23)	- -	- -	16 (24)	14 (23)
Panalur	9 (29)	9 (24)	8 (26)	3 (8)	4 (13)	5 (13)
Mapusa	23 (17)	30 (21)	42 (30)	56 (38)	8 (6)	11 (8)
Group average	24 (26)	18 (21)	25 (27)	29.5 (34.10)	9 (9.68)	10 (11.56)

TABLE 2.10 (Contd.)

(Rupees)

Municipality/	Average per capita expenditure on education for		Average per capita expenditure on public works for		Average per capita expenditure on other items for		Average per capita total revenue expenditure for	
	1981-84 (D)	1984-87 (D_1)	1981-84 (E)	1984-87 (E_1)	1981-84 (F)	1984-87 (E_1)	1981-84	1984-87
†								
CLASS-'A'								
Auraagabad	15 (13)	22 (8)	5 (4)	11 (4)	35 (38)	121 (46)	117	264
Bhopal	- -	- -	0.76 (8.74)	0.82 (8.68)	48 (47)	63 (53)	103	128
Guuahati	0.66 (0.33)	2 (0.68)	48 (24)	53 (18)	28 (10)	38 (10)	198	295
Pimpri-Chinchuad	108 (51)	32 (18)	0.92 (0.44)	2 (1)	2 (1)	12 (7)	211	188
Rae Bareli	9.49 (0.74)	- -	25 (38)	38 (51)	27 (41)	28 (36)	66	77
Surat	37 (17)	44 (16)	24 (11)	29 (10)	79 (37)	111 (40)	216	278
Group average	32 (21.19)	25 (12.11)	17 (11.26)	22.5 (10.89)	35 (23.18)	61 (29.5)	151	206.6
CLASS-'B'								
Jharsuguda	3 (6)	6 (11)	9 (19)	9 (16)	8 (17)	11 (19)	48	57
Kharagpur	- -	- -	11 (11)	12 (15)	43 (44)	48 (60)	97	80
Malgonda	- -	- -	- -	- -	43 (80)	33 (58)	54	57
Pali	8.31 (0.28)	8.42 (8.21)	- -	- -	71 (63)	146 (73)	112	201
Saharsa	- -	- -	3 (13)	0.23 (1)	14 (61)	17 (77)	23	22
Sirsa	8.34 (8.49)	8.38 (8.31)	7 (10)	11 (9)	12 (17)	54 (44)	78	123
Group average	1 (1.52)	2 (2.15)	5 (7.61)	8 (8.68)	32 (48.73)	51.5 (55.38)	67.34	90.80
GROUP-'C'								
Bheemunipatnam	12 (18)	18 (26)	- -	- -	8.34 (0.58)	8.27 (8.71)	68	70
Punalur	8.46 (1)	8.24 (8.63)	3 (18)	5 (13)	8.81 (3)	8.81 (2)	31	38
Rapusa	2 (1)	2 (1)	53 (38)	33 (23)	4 (3)	7 (5)	139	146
Group average	5 (5.38)	7 (8)	28 (30)	19 (22)	2 (2.15)	3 (3.5)	79	85

Notes: Figures in the parentheses denote perceatage to total reveaue expenditure.

† Data for Ranchi was not provided.

TABLE 2.11

Percentage Average Annual Growth Rates of Revenue Items

Municipal bodies/ items	Per capita property tax	Per capita octroi	Per capita others	Per capita tax revenue	Per capita share in State taxes	Per capita non-tax revenue	Per capita grants	Per capita total revenue
CLASS-'A'								
Aurangabad	25.95	37.97	17.57	33.32	-	34.42	19.18	26.98
(1981-86)	(5.07)	(5.56)	(3.97)	(5.02)	-	(6.96)	(1.90)	(9.87)
Bhopal	6.20	8.81	(a)	7.08	-	1.84	3.84	4.57
(1981-88)	(1.79)	(1.29)	-	(2.34)	-	(0.36)	(2.13)	(2.77)
Gauhati	17.07	-	7.46	20.33	7.26	3.11	33.36	-
(1980-86)	(0.84)	-	(0.93)	(7.52)	(4.27)	(0.02)	(2.26)	-
Pimpri-Chiachwad	2.84	6.637	12.75	6.14	7.52	20.88	8.83	8.02
(1980-86)	(0.83)	(3.84)	(3.18)	(7.99)	(0.76)	(5.70)	(2.63)	(9.41)
Rae Bareli	8.21	8.79	2.53	3.29	-	-0.96	-20.07	-3.38
(1986-87)	(2.97)	(4.78)	(0.71)	(1.06)	-	(-0.36)	(-4.03)	(-0.95)
Surat	10.43	10.76	12.03	12.29	-	13.34	6.13	13.68
(1980-87)	(6.45)	(12.41)	(4.48)	(13.32)	-	(12.11)	(3.51)	(7.38)
Group average of Class'A'	11.75	13.49	16.46	13.74	7.39	11.86	7.50	10.37
CLASS-'B'								
Jharsuguda	16.43	12.07	-	13.26	-	0.34	8.42	11.12
(1980-87)	(2.51)	(3.63)	-	(3.03)	-	(-0.20)	(1.01)	(4.17)
Kharagpur	-0.03	10.00	-	6.33	-	0.96	-	2.92
(1986-87)	(-0.003)	(2.33)	-	(0.77)	-	(0.27)	-	(0.39)
Nalgonda	5.81	-	11.34	6.76	16.24	-4.44	-11.56	-4.10
(1982-87)	(6.33)	-	(2.95)	(1.02)	(0.72)	(-0.33)	(-9.48)	(-0.49)
Pali	0.12	12.01	-	2.53	-	5.88	10.05	3.20
(1980-86)	(0.48)	(6.34)	-	(6.58)	-	(4.52)	(2.10)	(7.11)
Saharsa	-	-	23.11	10.63	-	-	59.07	37.96
(1989-87)	-	-	(1.73)	(3.42)	-	-	(4.24)	(2.72)
Sirsa	18.14	-8.58	3.04	2.18	-17.51	-2.89	29.92	-
(1980-87)	(2.65)	(-0.49)	(1.63)	(3.10)	(-2.45)	(-1.93)	(3.28)	-
Group average of Class'B'	5.41	8.75	12.49	8.45	-0.42	-0.01	19.18	10.24
CLASS-'C'								
Bheemunipatnam	0.35	-	-2.48	0.77	-	27.85	10.48	9.50
(1980-87)	(0.13)	-	(-0.17)	(0.21)	-	(4.28)	(2.72)	(3.27)
Punalur	-0.95	-	-23.92	-17.95	-	6.46	6.31	-5.89
(1980-87)	(-0.25)	-	(-2.59)	(-2.69)	-	(2.93)	(0.43)	(-0.90)
Rapusa	18.03	-	4.93	10.98	-	8.25	8.25	9.14
(1980-88)	(4.16)	-	(1.00)	(4.24)	-	(3.29)	(2.22)	(11.63)
Group average of Class'C'	5.81	-	-7.16	-0.07	-	14.19	10.99	4.28

Note: Figures in the parentheses deaote 't' ratios.

TABLE 2.12

Percentage Average Annual Growth Rates of Expenditure Items

Municipal bodies/ Items	Per capita general adm. and revenue collection	Per capita Public health	Per capita safety and convenience	Per capita education	Per capita public works	Per capita miscella-neous	Per capita ordinary expendi-ture	Per capita revenue expendi-ture
CLASS-'A'								
Aurangabad	28.38	32.25	24.88	15.63	38.83	31.73	24.68	24.66
(1981-88)	(8.84)	(7.75)	(8.98)	(5.84)	(4.87)	(1.37)	(3.93)	(3.93)
Bhopal	-1.33	11.16	-2.38	-	-	8.88	5.85	5.85
(1986-86)	(-8.68)	(5.19)	(-2.36)	-	-	(1.84)	(2.38)	(2.38)
Guwahati	28.32	15.28	15.62	13.18	6.85	22.88	15.13	14.16
(1988-86)	(6.79)	(18.21)	(3.38)	(2.88)	(1.38)	(4.48)	(18.19)	(11.82)
Pimpri-Chinchwad	24.28	25.76	11.15	-12.44	2.51	-	3.49	5.49
(1988-88)	(1.48)	(2.88)	(8.98)	(-8.82)	(8.47)	-	(8.49)	(8.88)
Rae Bareli	1.46	-	8.38	-	16.18	-5.87	2.87	-8.88
(1988-87)	(8.63)	-	(4.24)	-	(3.38)	(-6.66)	(8.52)	(-8.83)
Surat	13.85	12.78	17.22	18.86	4.32	28.13	14.24	13.88
(1988-84)	(6.18)	(24.43)	(4.88)	(8.88)	(1.41)	(8.35)	(8.58)	(8.78)
Group average of Class-A	13.81	19.57	12.42	8.81	16.32	15.71	11.24	18.52
CLASS-'B'								
Jharsaguda	16.94	-6.47	17.74	18.83	32.88	12.88	15.62	18.77
(1888-84)	(2.85)	(-1.81)	(2.56)	(1.77)	(1.77)	(2.89)	(4.18)	(3.23)
Kharagpur	5.57	28.23	-	-	8.44	8.98	4.44	4.64
(1988-87)	(4.88)	(8.53)	-	-	(1.97)	(2.35)	(8.88)	(8.47)
Malgonda	84.85	14.87	14.16	-	-7.87	-	1.63	16.64
(1982-87)	(1.49)	(1.87)	(1.98)	-	(-6.39)	-	(8.11)	(8.82)
Pali	-15.32	36.86	12.83	-	-	23.31	18.86	18.25
(1888-86)	(-8.88)	(1.28)	(1.38)	-	-	(3.71)	(4.18)	(4.98)
Saharsa	9.56	28.68	-	-	-	4.23	8.79	1.88
(1988-87)	(1.93)	(2.38)	-	-	-	(8.71)	(8.15)	(8.28)
Sirsa	1.68	-1.55	1.61	25.88	31.76	54.85	18.77	18.68
(1888-87)	(1.82)	(-8.44)	(1.17)	(1.18)	(3.88)	(3.78)	*5.83)	(5.32)
Group average Class-B	6.15	13.97	11.59	22.78	16.33	28.89	9.89	13.87
CLASS-'C'								
Bheemunipatnam	11.87	-	6.56	14.88	-	-8.57	18.44	18.44
(1988-88)	(1.84)	-	(8.94)	(8.58)	-	(-8.86)	(2.51)	(2.51)
Hapsua	12.22	12.87	8.25	18.85	-9.18	18.27	188.99	7.88
(1988-88)	(11.13)	(9.61)	(4.56)	(14.12)	(-1.28)	(8.86)	(3.92)	(2.94)
Punalur	2.52	8.91	-3.85	-8.89	3.28	3.41	2.85	7.14
(1888-87)	(1.49)	(8.58)	(-8.68)	(-8.58)	(8.38)	(1.63)	(1.43)	(4.87)
Group average Class-C	8.87	6.79	3.98	6.45	-2.85	7.32	37.83	8.22

Note : Figures in the parentheses denote 't' ratios.

TABLE 2.13

One Way ANOVA for Between the Municipalities Type

Revenue Side		Expenditure Side	
Item	F-Values (D.F.)	Item	F-Values (D.F.)
PC Property Tax	18.548 (2.24)	PC General Administration and Revenue Collection	14.875 (2.23)
PC Octroi	20.194 (2.23)	PC Public Health	10.397 (2.23)
PC Misc. Tax	28.905 (2.24)	PC Safety and Convenience	3.735 (2.23)
PC Total Tax Revenue	21.650 (2.24)	PC Education	11.419 (2.23)
PC Non-Tax Revenue	32.607 (2.24)	PC Public Works	7.326 (2.23)
PC Shared Taxes	11.571 (2.24)	PC Misc. Expenditure	3.678 (2.23)
PC Grants	8.420 (2.24)	PC Revenue Expenditure	0.613 (2.23)
PC Total Revenue	9.360 (2.24)		

Notes : D.F. = Degrees of Freedom
P.C = Per Capita

TABLE 2.14

F Ratios for Two Way ANOVA

	Item	Class A		Class B		Class C	
		Between the localities D.F.	Within the locality over time D.F.	Between the localities D.F.	Within the locality over time D.F.	Between the localities D.F.	Within the locality over time D.F.
(i)	Per capita property tax	26.28 (6,5)	4.63 (5,6)	3.68 (6,5)	2.05 (5,6)	0.64 (6,2)	2.42 (2,6)
(ii)	Per capita octroi	151.54 (6,4)	9.44 (4,6)	61.46 (6,4)	3.61 (4,6)	N.C. (Non-octroi States)	N.C.
(iii)	Per capita other taxes	101.24 (6,5)	1.87 (5,6)	N.C.	N.C.	0.67 (6,2)	2.76 (2.6)
(iv)	Per capita total tax revenue	131.73 (6,5)	13.61 (6,5)	0.36 (6,5)	0.28 (5,6)	0.46 (6,2)	2.22 (2,6)
(v)	Per capita shared taxes	32.66 (6,1)	6.00 (1,6)	1.6 (6,2)	2.11 (2,6)	N.A.	N.A.
(vi)	Per capita non-tax revenue	30.4 (6,6)	2.60 (6,6)	17.40 (6,4)	2.33 (4,6)	70.00 (6,2)	3.34 (2,6)
(vii)	Per capita grants	4.95 (6,6)	0.60 (6,6)	1.80 (6,5)	2.30 (5,6)	2.98 (6,2)	2.60 (2,6)
(viii)	Per capita total revenue	6.40 (6,6)	0.40 (6,6)	6.05 (6,5)	1.26 (5,6	2.16 (6,2)	1.00 (2,6)

Note:Figures in the brackets indicate the degrees of freedom.

TABLE 2.15

F Ratios of Two Way ANOVA

	Item	Class A		Class B		Class C	
		Between local bodies D.F.	Within the local body over time D.F.	Between local bodies D.F.	Within the local body over time D.F.	Between local bodies D.F.	Within the local body over time D.F.
(i)	Per capita general administration and revenue collection	1.33 (5,6)	3.78 (6,5)	9.48 (6,5)	0.67 (5,6)	2.44 (6,2)	2.73 (2,6)
(ii)	Per capita expenditure on public health and medical	38.24 (6,5)	2.60 (5,6)	3.53 (6,5)	0.31 (5,6)	12.53 (6,1)	5.51 (1,6)
(iii)	Per capita expenditure on safety and convenience	12.30 (6,5)	1.12 (5,6)	0.75 (6,3)	1.51 (3,6)	1.83 (6,2)	2.37 (2,6)
(iv)	Per capita expenditure on education	3.61 (6,3)	7.87 (3,6)	1.20 (6,1)	5.28 (1,6)	2.73 (6,1)	6.36 (1,6)
(v)	Per capita expenditure on public works	24.85 (6,5)	1.32 (5,6)	1.53 (6,3)	3.25 (3,6)	6.57 (6,1)	6.52 (1,6)
(vi)	Per capita expenditure on miscellaneous	2.81 (6,5)	1.42 (5,6)	12.40 (6,4)	4.23 (4,6)	11.48 (6,2)	3.06 (2,6)
(vii)	Per capita expenditure on aggregate revenue	2.52 (6,5)	0.84 (5,6)	11.33 (6,5)	2.07 (5,6)	15.13 (6,2)	2.96 (2,6)

Note:Figures in the brackets indicate the degrees of freedom.

TABLE 2.16

Compound Growth Rate of Municipal Income
(1980-86)

Nominal		Real		(2/1)X100
(1)		(2)		(3)
AUR	28.979	RAUR	18.453	63.66
BHOP	2.4547	RBHOP	-5.5326	N. C.
GUW	13.753	RGUW	4.1984	30.54
PIMCH	8.0089	RPIMCH	-1.2034	N. C.
RAEB	-3.2824	RRAEB	-10.415	N. C.
RAN	18.107	RRAN	6.7578	37.33
SUR	16.804	RSUR	6.9829	41.55
JHAR	13.837	RJHAR	4.235	30.56
KGP	2.0803	RKGP	-5.3793	N. C.
NAL	-0.75714	RNAL	-8.2323	N. C.
PALI	17.388	RPALI	8.7062	50.09
SAH	43.355	RSAH	29.579	68.22
SIRS	6.2435	RSIRS	-1.3726	N. C.
BHEEM	11.831	RBHEEM	2.9926	25.27
PUNE	-8.1926	RPUNE	-16.085	N. C.

Notes: 1. AUR = AURANGABAD, BHOP = BHOPAL, GUW = GUWAHATI
PIMCH = PIMPRI-CHINCHWAD, RAEB = RAE BARELI
RAN = RANCHI, SUR = SURAT, JHAR = JHARSUGUDA
KGP = KHARAGPUR, NAL = NALGONDA, PALI = PALI
SAH = SAHARSA, SIRS = SIRSA AND BHEEM = BHEEMUNIPATNAM

2. N. C. = Not computed because of negative nominal or real growth rates.

TABLE 2.17

Compound Growth Rate of Per Capita Revenue Expenditure (1980-86)

Nominal		Real		(2/1)X100
(1)		(2)		(3)
AUR	24.667	RAUR	14.492	58.73
BHOP	5.8553	RBHOP	-2.6286	N. C.
GUW	14.173	RGUW	4.5826	32.32
PIMCH	5.5398	RPIMCH	-3.462	N. C.
RAEB	-0.46579	RRAEB	-7.4174	N. C.
SUR	13.026	ESUR	2.7909	21.41
JHAR	14.95	RJHAR	4.9556	33.18
KGP	3.9775	RKGP	-3.6207	N. C.
NAL	16.73	RNAL	7.9378	47.46
PALI	18.291	RPALI	9.5426	52.27
SAH	-3.0595	RSAH	-12.375	N. C.
SIRS	15.073	RSIRS	6.8243	45.26
BHEEM	10.437	RBHEEM	1.5874	15.23
PUNE	7.4431	RPUNE	-1.7937	N. C.

Notes: 1. AUR = AURANGABAD, BHOP = BHOPAL, GUW = GUWAHATI
PIMCH = PIMPRI-CHINCHWAD, RAEB = RAE BARELI
RAN = RANCHI, SUR = SURAT, JHAR = JHARSUGUDA
KGP = KHARAGPUR, NAL = NALGONDA, PALI = PALI
SAH = SAHARSA, SIRS = SIRSA AND BHEEM = BHEEMUNIPATNAM

2. N. C. = Not computed because of negative nominal or real growth rates.

TABLE 2.10A

Regression Results for Tax Effort: Dependent Variable: Tax Revenue/GNP

Locality	Constant	Per capita urban income	Per capita property tax	Urban density	R^2	$\bar{R}^2$	F	DW	DF
CLASS-'A'									
Aurangabad	-0.0190 (-.990)	3.2116 (1.106)	-	-1758.7 (-.709)	0.8850	0.8003	11.54	1.73	3
Bhopal	-0.0317 (-.9931)	-.6107 (-1.8181)	-	1178.6 (0.819)	0.407	0.1117	1.377	2.550	4
Gauhati	-2.0383 (-2.496)	-0.0300 (-1.627)	-	2362.7 (2.564)	0.7725	0.0507	0.70	2.30	4
Pimpri-Chinchwad	0.7739 (0.328)	-10.4662 (-0.434)	-	1232.11 (0.519)	0.2230	-0.1655	0.574	1.84	4
Rae Bareli	0.0850 (1.363)	-7.0573 (-1.315)	-	4647.9 (1.060)	0.6040	0.4407	3.53	2.5	5
Ranchi	-0.0530 (-0.870)	-0.2526 (-1.384)	-	525.61 (1.310)	0.5410	0.0030	1.10	1.67	2
Surat	-1.0534 (-3.310)	-2.9455 (-3.050)	-	2426.1 (3.602)	0.0412	0.0110	32.002	2.56	4
CLASS-'B'									
Jharsuguda	0.0557 (0.876)	-0.2632 (-0.550)	-	1250.7 (0.895)	0.3022	0.0231	1.06	1.70	5
Kharagpur	-0.00352 (-0.0144)	-0.3124 (-0.337)	-	963.20 (1.009)	0.0376	-0.3474	0.000	2.23	5
Nalgonda	0.1074 (5.063)	0.5449 (0.003)	-	-400.00 (-4.060)	0.0460	0.7434	0.24	1.07	3
Pali	0.3003 (7.171)	0.3261 (2.390)	-	-104.50 (-3.970)	0.7003	0.0000	7.079	2.17	4
Saharsa	-0.2306 (-1.330)	-0.1144 (-2.391)	-	310.20 (2.015)	0.0578	0.6425	3.90	1.0	2
Sirsa	0.1208 (3.214)	-0.0093 (-1.000)	-	17.2795 (0.600)	0.0504	0.0417	57.57	2.012	5
GROUP-'C'									
Dheemnipatnam	-0.1060 (-2.998)	-0.6021 (-5.524)	-	2221.1 (4.720)	0.0324	0.0422	10.34	2.11	3
Pusalur	0.0303 (1.050)	-1.3235 (-0.755)	-	1995.7 (0.475)	0.435	0.209	1.024	1.021	5
Rapusa	-2.3666 (-0.571)	-46.3472 (-0.360)	-	1747.1 (0.775)	0.0047	0.5443	3.001	2.41	3

Note: Figures in the parentheses denote 't' ratios.

TABLE 2.18B

Regression Results for Tax Effort: Dependent Variable Log $\left(\frac{\text{Tax Revenue}}{\text{GDP}}\right)$

Locality	Constant	Log per capita urban income	Log per capita urban property tax	Log urban density	R^2	$\bar{R}^2$	F	DW	DF
CLASS-'A'									
Aurangabad	-	-	-	-	-	-	-	-	-
Bhopal	32.2050 (4.277)	-2.5954 (-4.9541)	0.8887 (10.393)	3.3265 (3.274)	-0.9852	0.9783	66.44	2.17	3
Guwahati	23.949 (2.44)	-1.1952 (-5.218)	1.0114 (7.74)	2.1222 (1.306)	0.9896	0.9783	95.40	2.03	3
Pimpri-Chinchwad	-	-	-	-	-	-	-	-	-
Rae Bareli	0.8850 (1.563)	-7.0573 (-1.315)	-	46447.8 (1.068)	0.6048	0.4467	3.03	2.5	5
Ranchi	-0.0538 (-0.975)	-0.2526 (-1.384)	-	525.61 (1.319)	0.5419	0.0830	1.18	1.67	2
Surat	41.137 (5.316)	-2.4210 (-4.413)	0.3111 (1.719)	6.1937 (4.343)	0.9811	0.9622	51.05	2.44	3
CLASS-'B'									
Jharsuguda	-	-	-	-	-	-	-	-	-
Kharagpur	-	-	-	-	-	-	-	-	-
Nalgonda	0.1074 (5.063)	0.5449 (4.003)	-	-489.00 (-4.060)	0.8460	0.7434	8.24	1.87	3
Pali	-6.4993 (-37.030)	0.4423 (20.250)	-0.88425 (-0.393)	-0.7674 (-25.711)	0.9992	0.9949	235.71	1.88	1
Saharsa	62.2319 (6.623)	-7.9317 (-6.203)	0.5961 (0.329)	8.2179 (6.388)	0.9879	0.9273	16.31	2.76	1
Sirsa									
GROUP-'C'									
Bheemunipatnam	-0.1660 (-2.883)	-0.6821 (-5.524)	-	2221.1 (4.720)	0.9324	0.8422	18.34	2.11	3
Panalur	-	-	-	-	-	-	-	-	-
Rapusa	10.0759 (5.259)	-1.0831 (-16.124)	0.9805 (40.926)	0.2640 (1.040)	0.9953	0 9971	790.03	2.41	4

Note: Figures in parentheses denote 't' ratios.

TABLE 2.18C

Tax Effort Indices for Selected Sample Local Bodies

	1980	1982	1984	1986
Aurangabad	-	-	-	-
Bhopal	1.008	0.994	1.008	0.999
Guwahati	0.986	1.019	1.007	0.965
Pimpri-Chinchwad				
Rae Bareli	0.966	0.908	0.73	1.218
Ranchi	1.109	0.692	1.56	-
Surat	0.992	1.026	0.95	1.006
Jharsuguda	-	-	-	-
Kharagpur	-	-	-	-
Nalgonda	-	1.066	0.877	1.072
Pali	1.004	1.000	1.003	0.997
Saharsa	1.007	0.995	1.01	1.004
Sirsa				
Bheemumipatnam	1.018	1.088	1.02	0.933
Punalur	-	-	-	-
Mapusa	0.759	1.013	0.995	-

Source: Estimated

Chart II.1

Percapita Real & Nominal Urban Income

Andhra Pradesh, Assam, Bihar

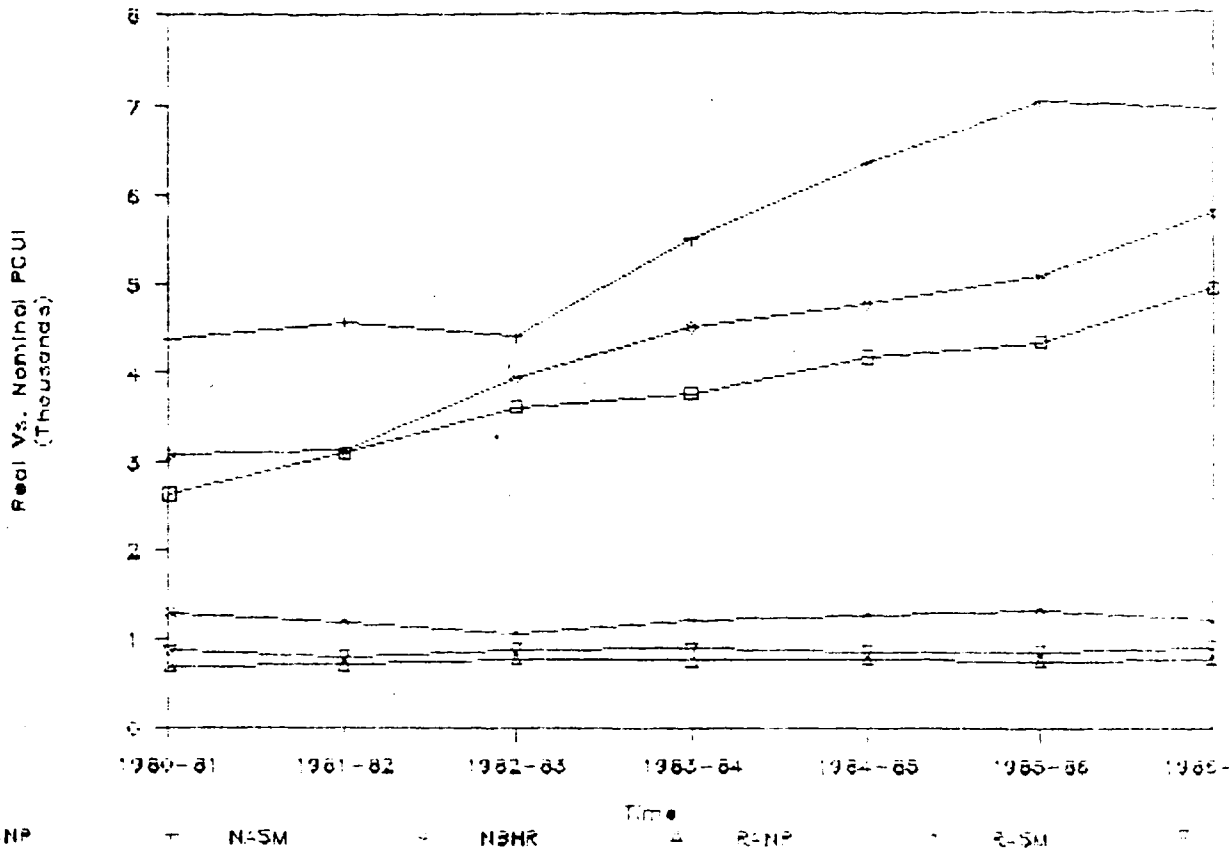


Chart II.2

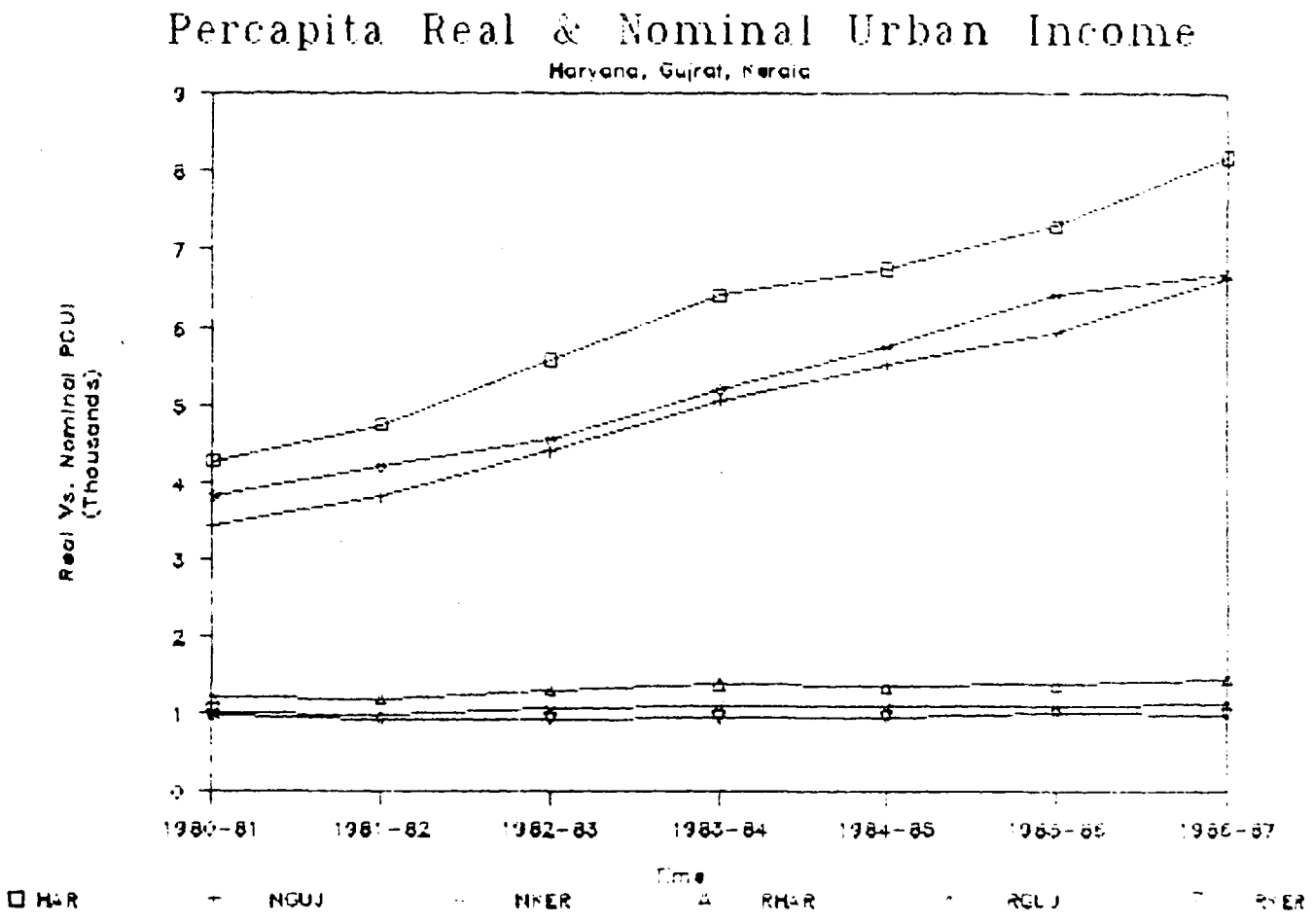

Percapita Real & Nominal Urban Income
Haryana, Gujrat, Kerala
Real Vs. Nominal PCUI (Thousands)
9
8
7
6
5
4
3
2
1
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
Time
HAR
NGUJ
NKER
RHAR
RGUJ
RKER

Chart II.3

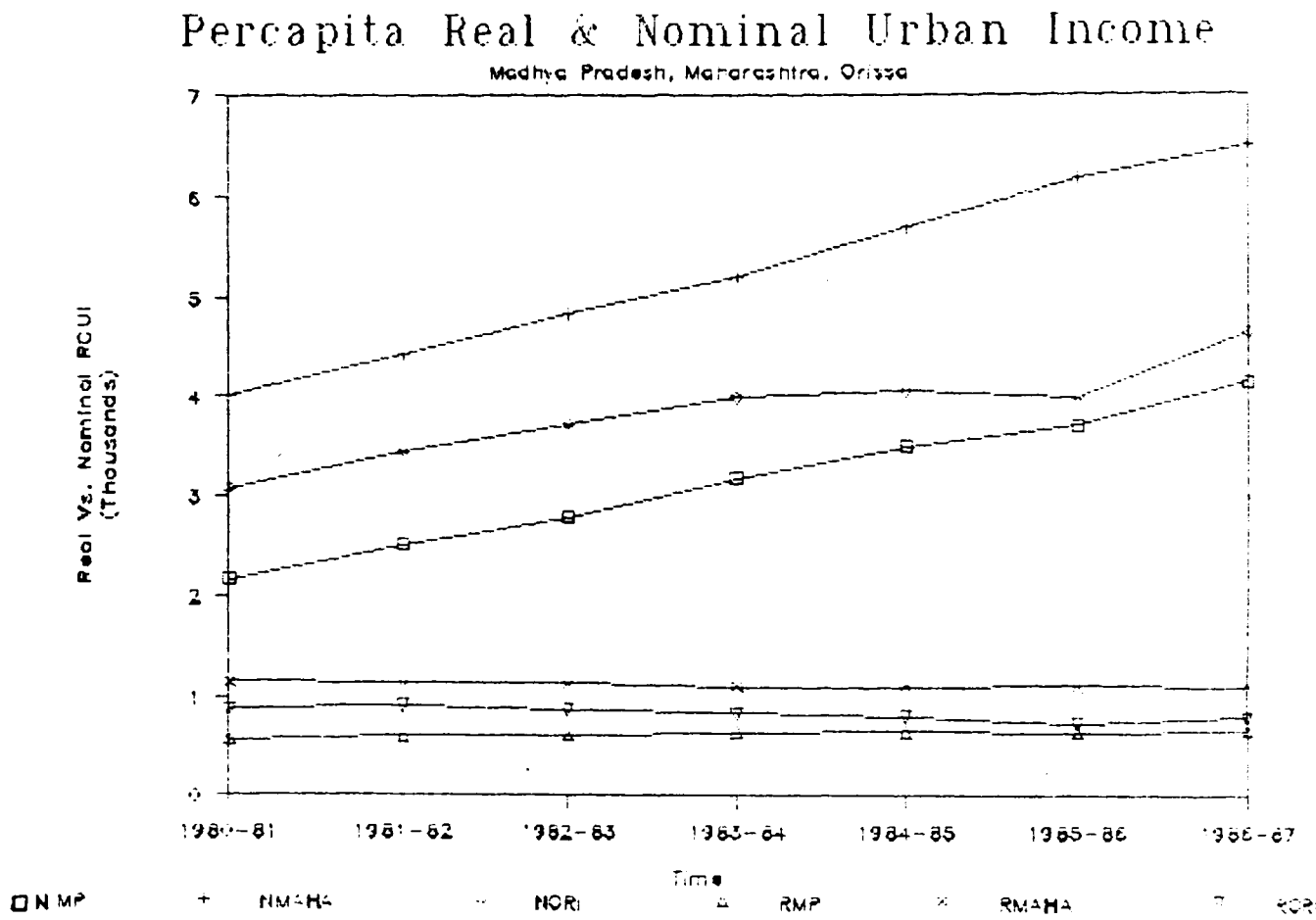

Percapita Real & Nominal Urban Income
Madhya Pradesh, Maharashtra, Orissa
Real Vs. Nominal RCUI (Thousands)
7
6
5
4
3
2
1
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
Time
NMP
NMAHA
NORI
RMP
RMAHA
ROR

Chart II.4

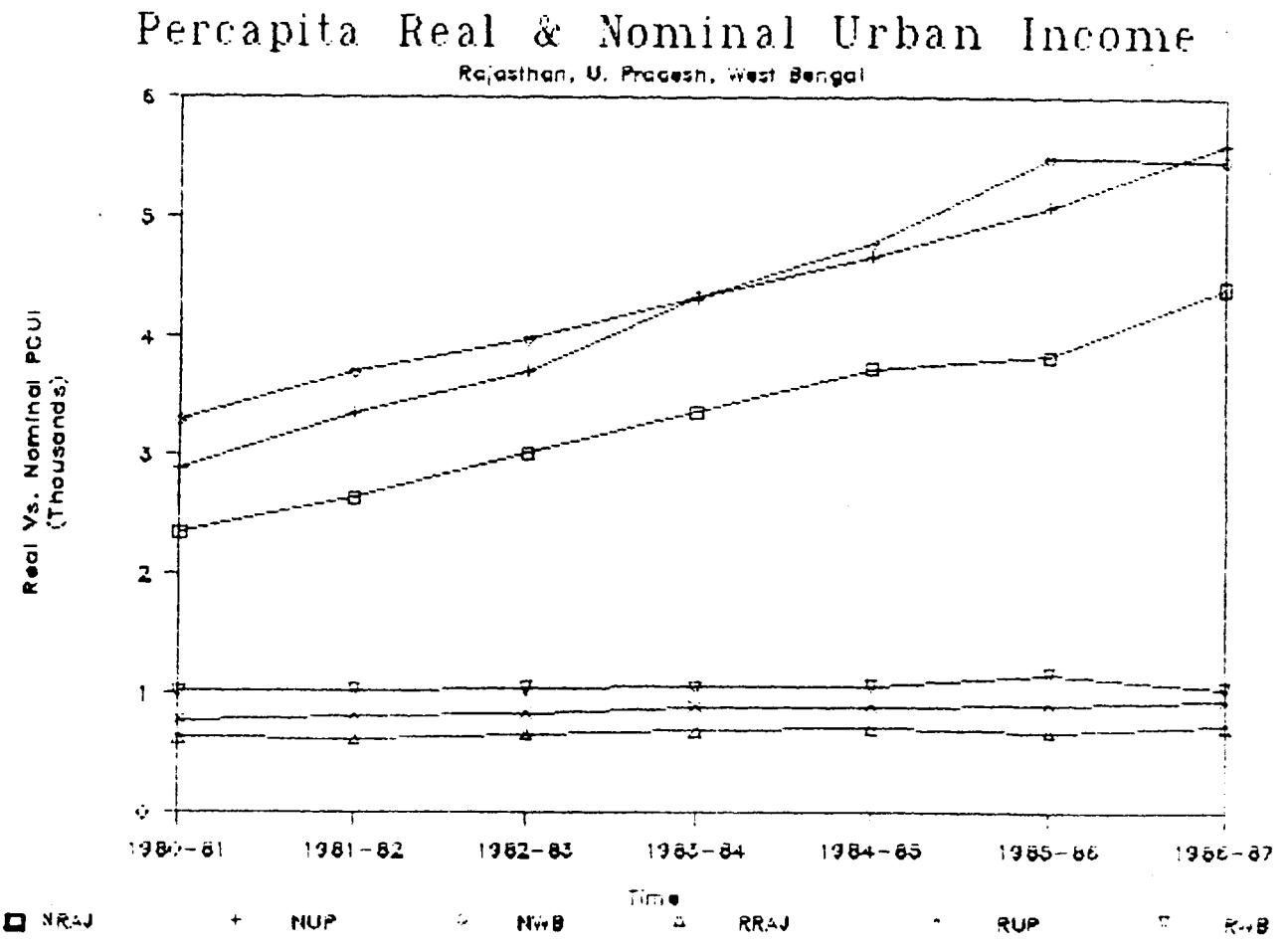

Percapita Real & Nominal Urban Income
Rajasthan, U. Pradesh, West Bengal
Real Vs. Nominal PCUI (Thousands)
6
5
4
3
2
1
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
Time
NRAJ
NUP
NWB
RRAJ
RUP
RWB

Chart II.5

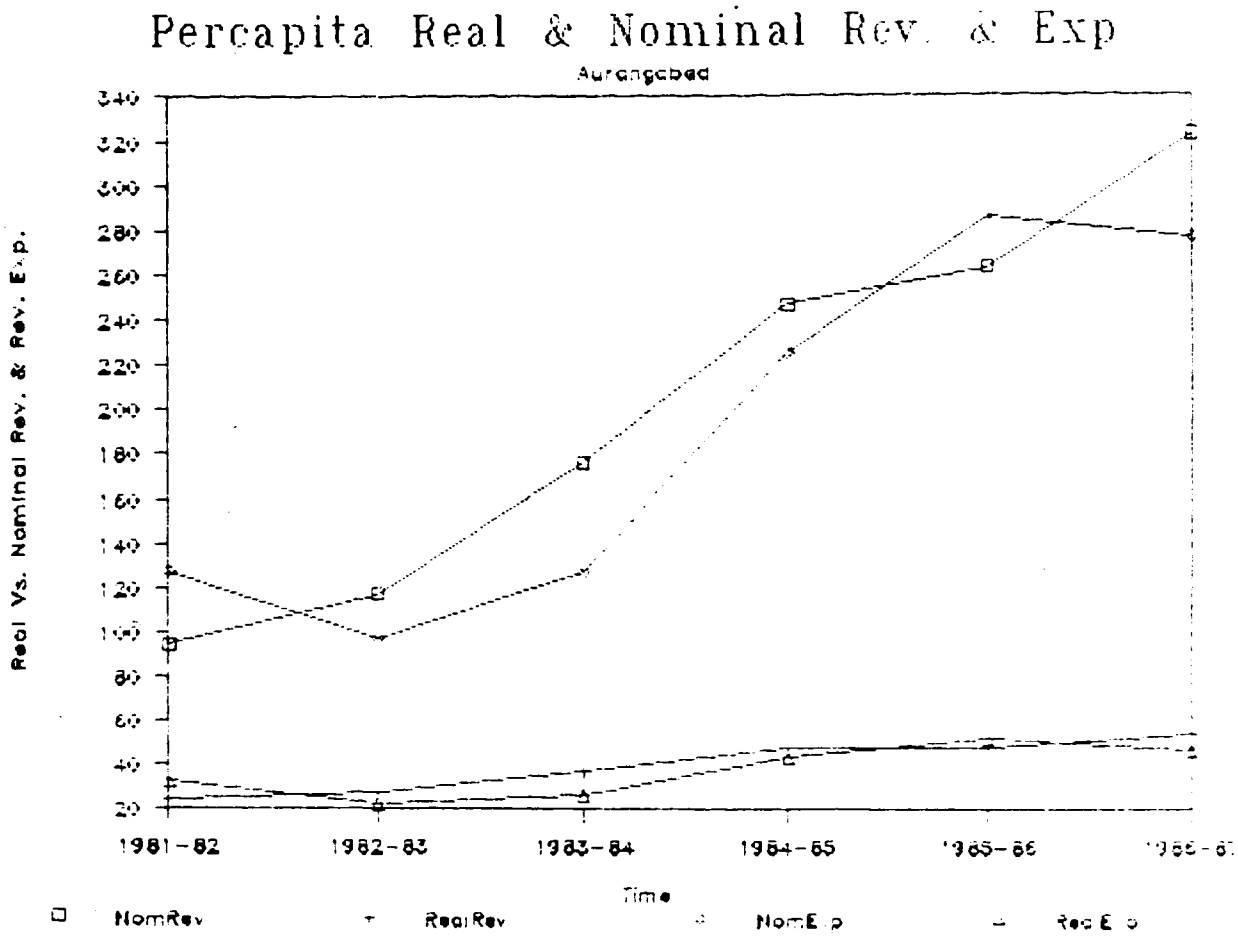

Percapita Real & Nominal Rev. & Exp
Aurangabad
Real Vs. Nominal Rev. & Rev. Exp.
340
320
300
280
260
240
220
200
180
160
140
120
100
80
60
40
20
1981-82
1982-83
1983-84
1984-85
1985-86
Time
NomRev
RealRev
NomExp
RealExp

Chart II.6

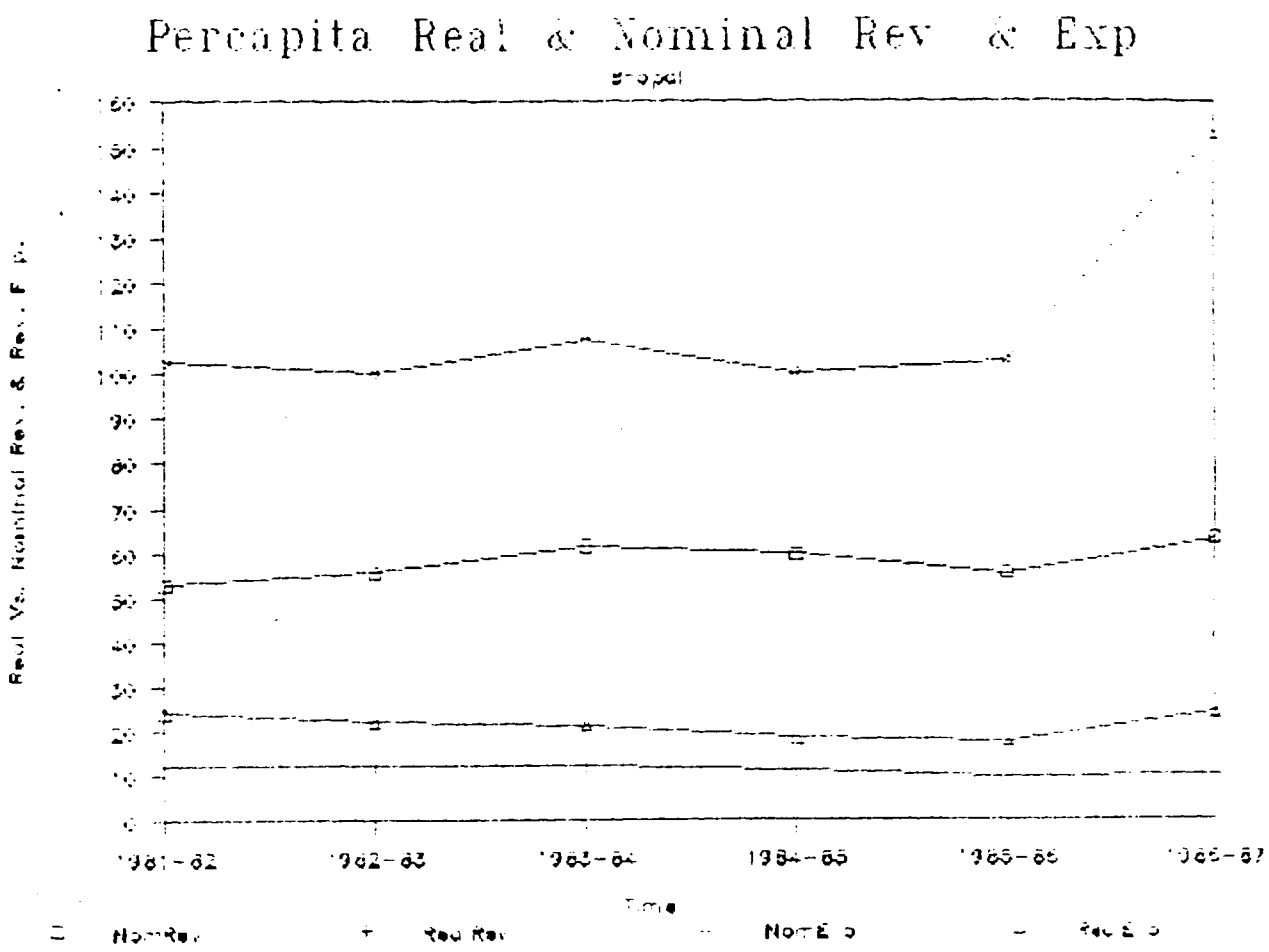

Percapita Real & Nominal Rev & Exp
Real Vs. Nominal Rev. & Rev. E p.
1981-82
1982-83
1984-85
1985-86
Time

Chart II.7

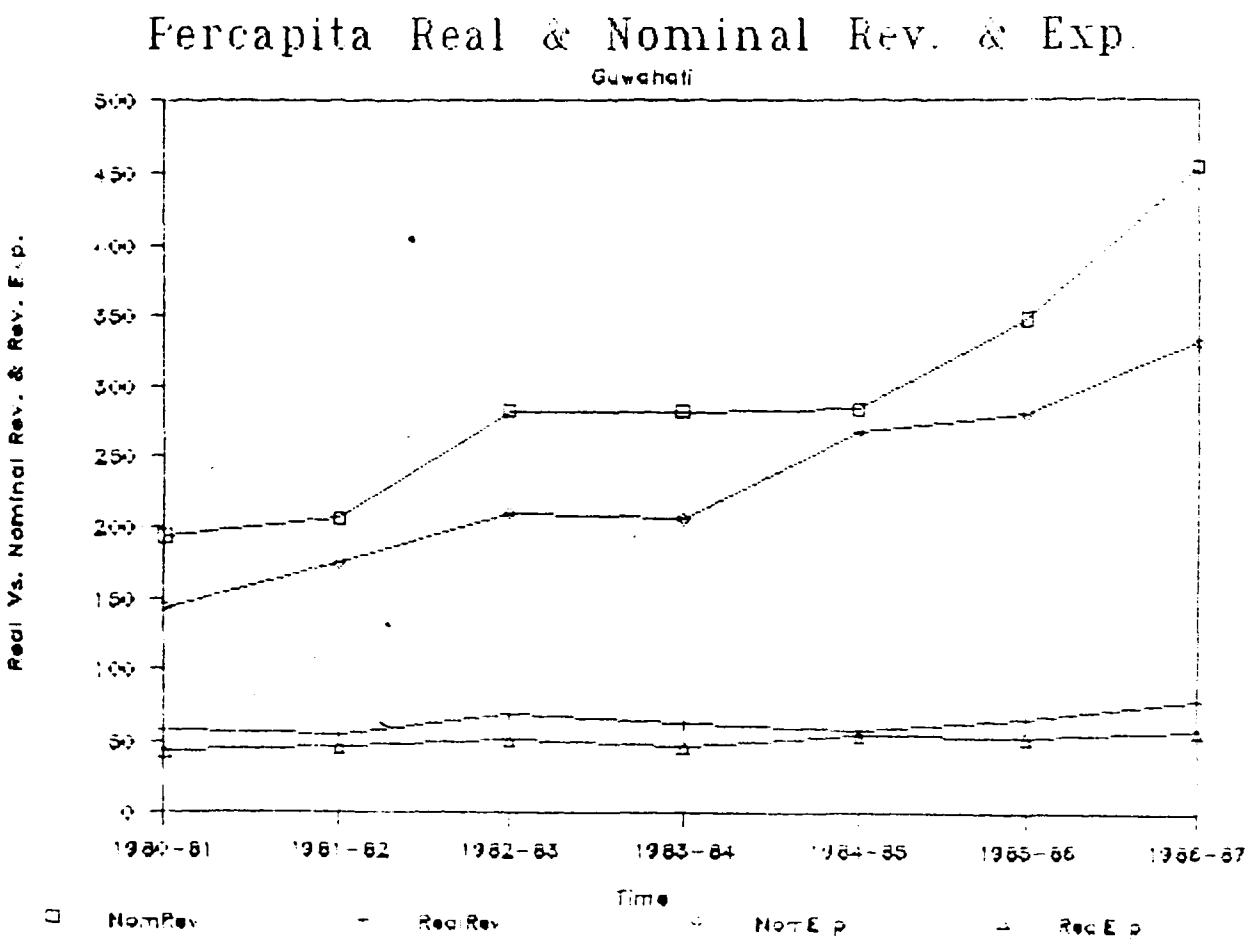

Percapita Real & Nominal Rev. & Exp.
Guwahati
Real Vs. Nominal Rev. & Rev. Exp.
500
450
400
350
300
250
200
150
100
50
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
Time
NomRev
RealRev
NomExp
RealExp

Chart II.8

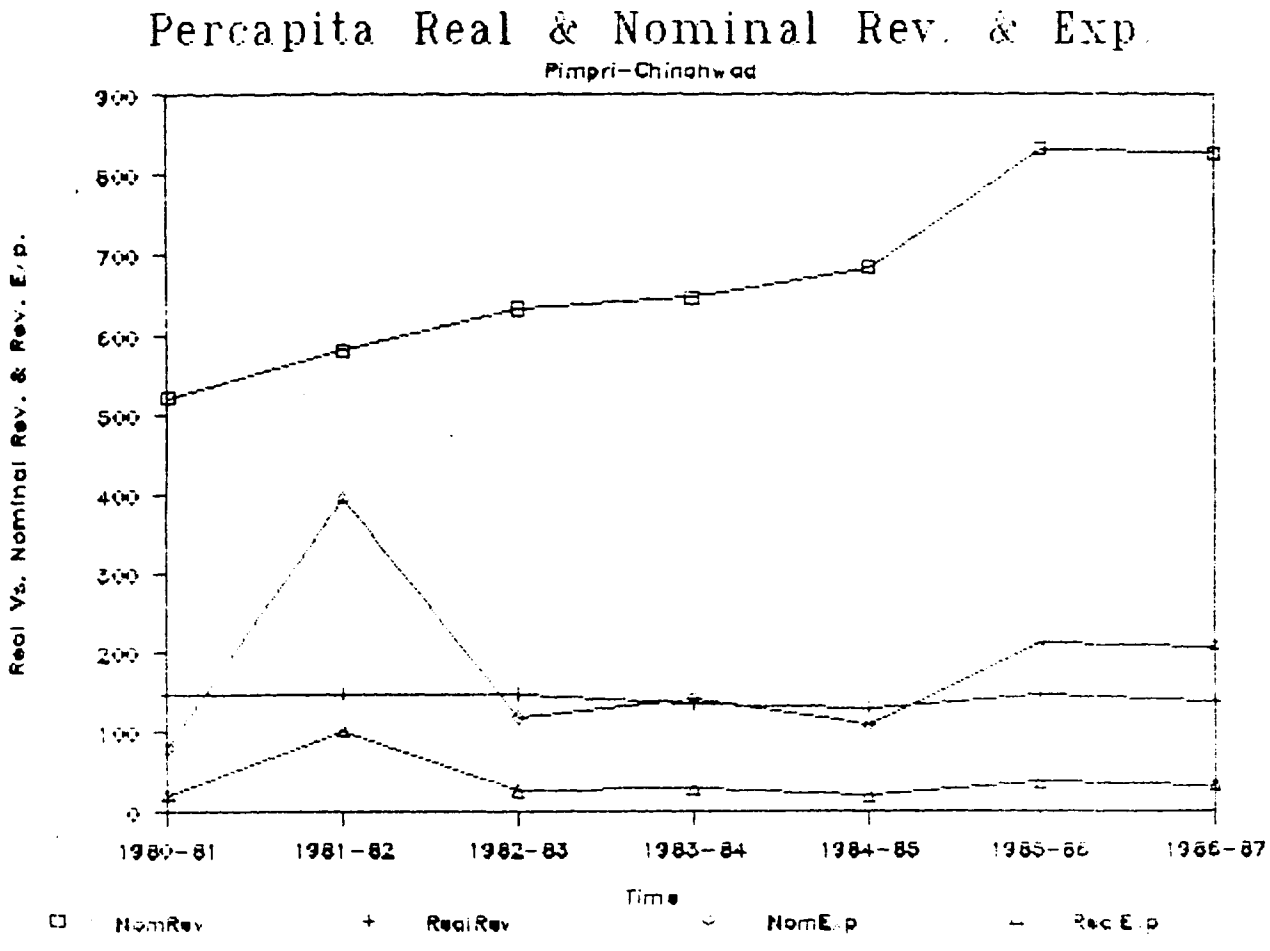

Percapita Real & Nominal Rev. & Exp.
Pimpri-Chinchwad
Real Vs. Nominal Rev. & Rev. E/p.
900
800
700
600
500
400
300
200
100
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
Time
NomRev
RealRev
NomExp
RecExp

Chart II.9

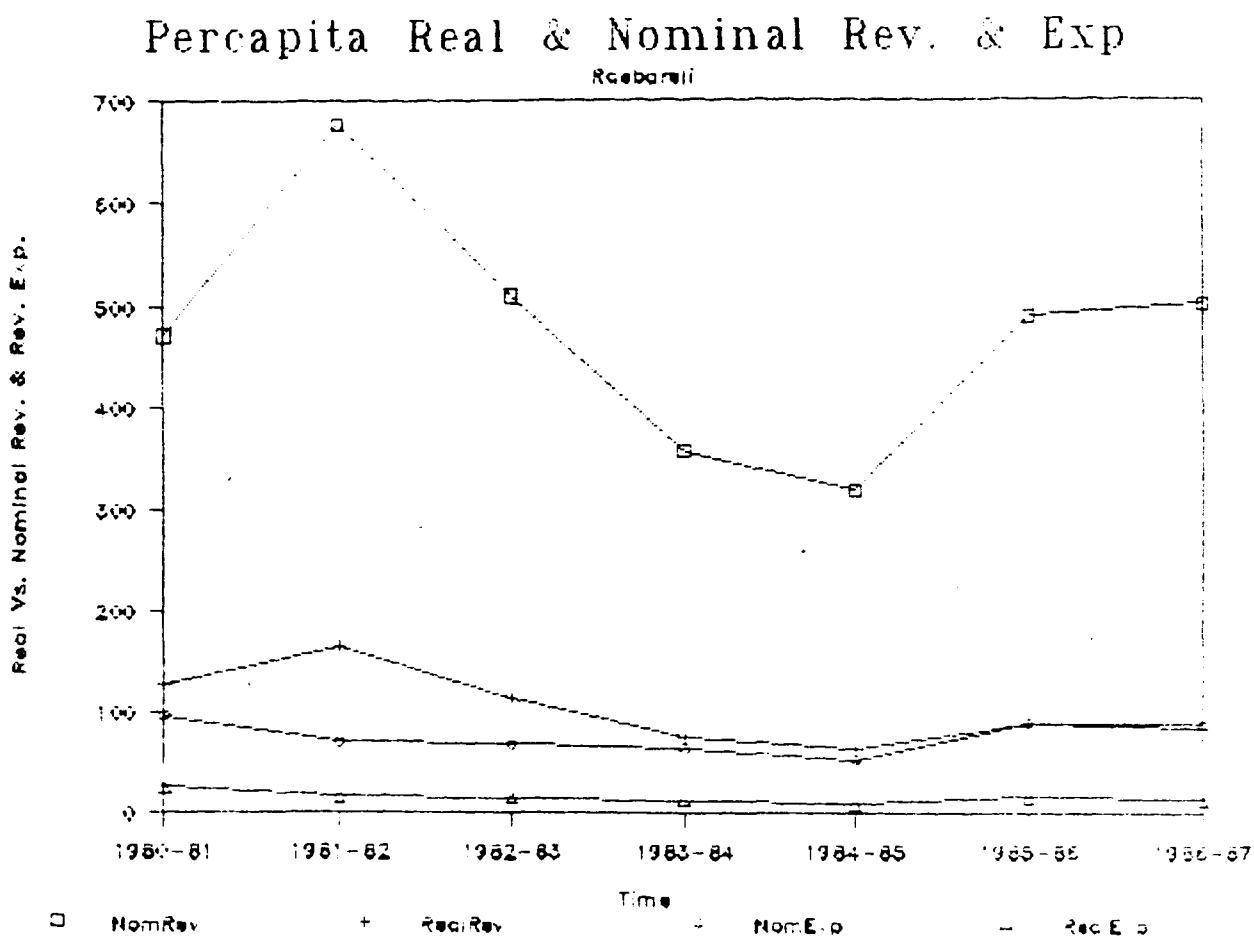

Percapita Real & Nominal Rev. & Exp
Raebareli
Real Vs. Nominal Rev. & Rev. Exp.
700
600
500
400
300
200
100
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
Time
NomRev
RealRev
NomExp
RealExp

Chart II.16

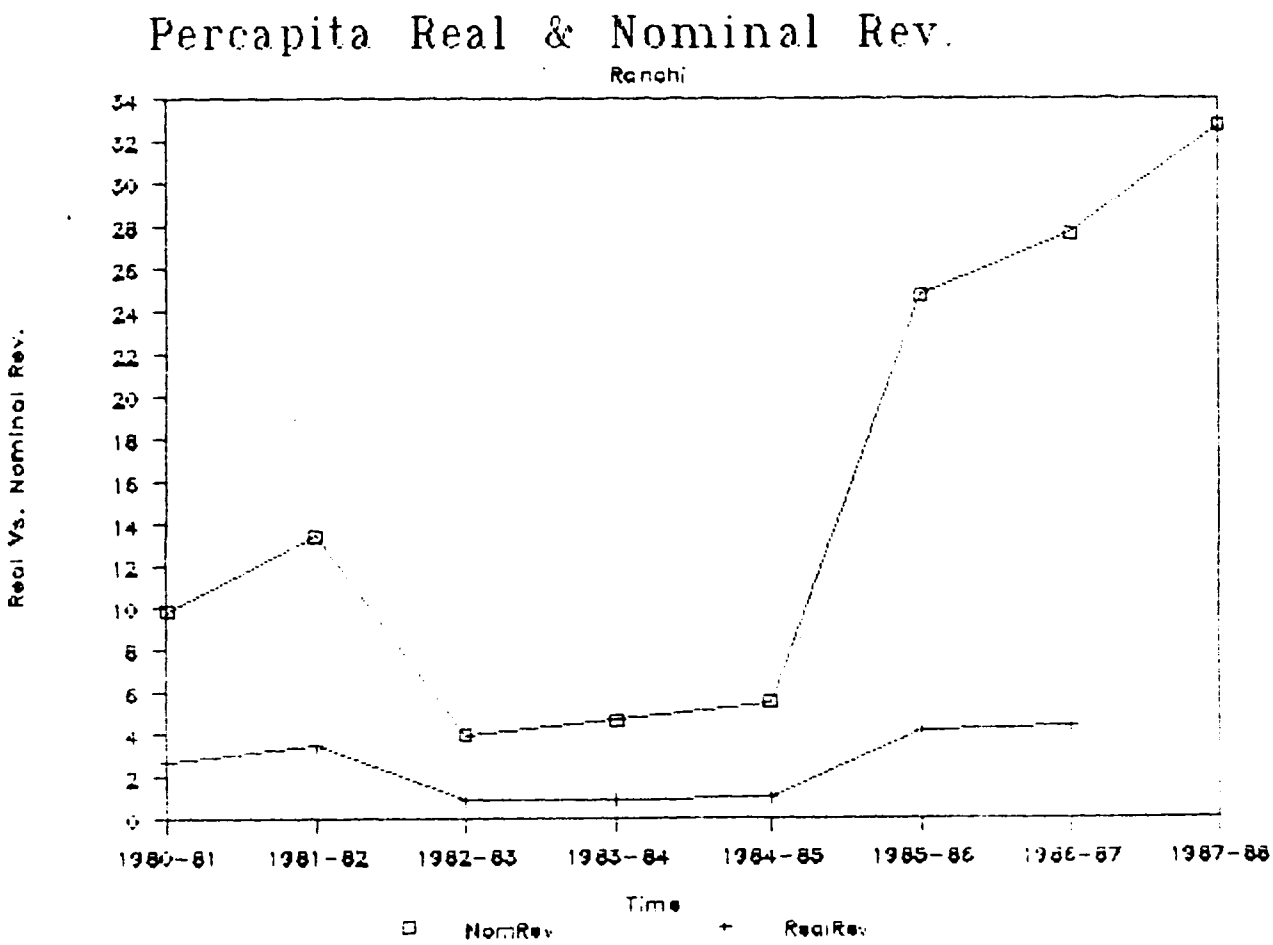

Percapita Real & Nominal Rev.
Ranchi
Real Vs. Nominal Rev.
34
32
30
28
26
24
22
20
18
16
14
12
10
8
6
4
2
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
Time
NomRev
RealRev

Chart II.11

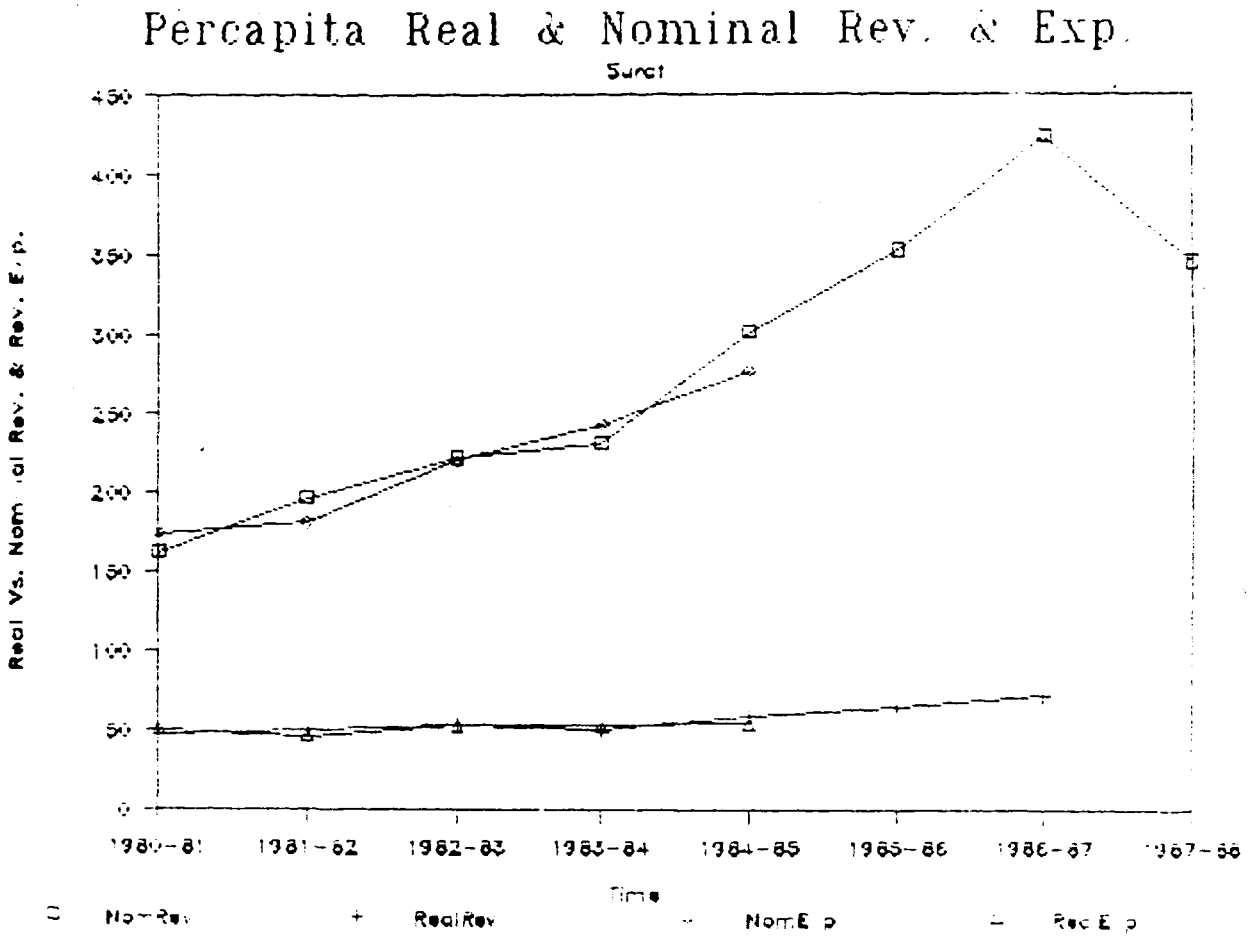

Percapita Real & Nominal Rev. & Exp.
Surat
Real Vs. Nominal Rev. & Rev. E.p.
450
400
350
300
250
200
150
100
50
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
Time
NoRev
RealRev
NomExp
RecExp

Chart II.12

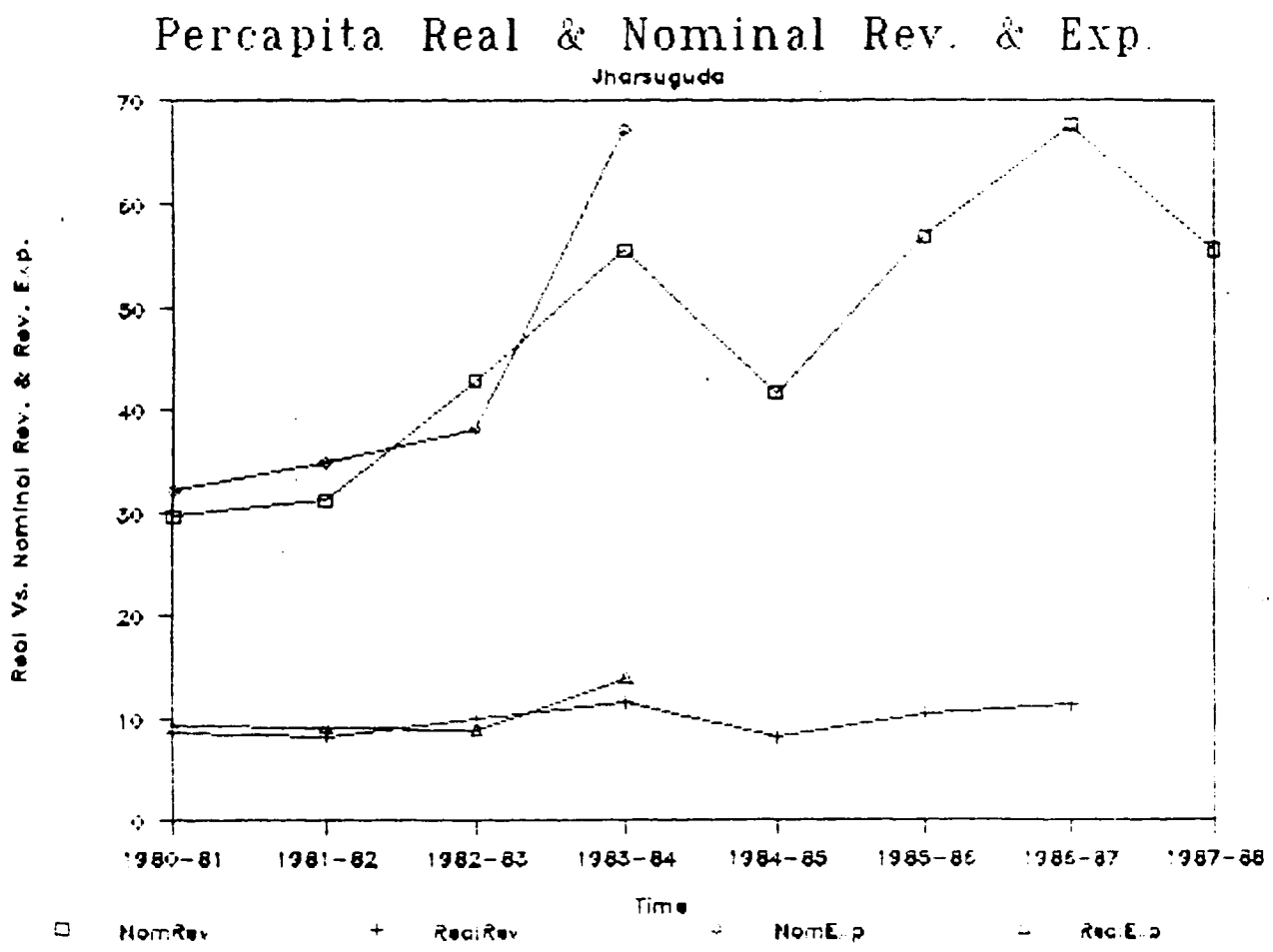

Percapita Real & Nominal Rev. & Exp.
Jharsuguda
Real Vs. Nominal Rev. & Rev. Exp.
70
60
50
40
30
20
10
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
Time
NomRev
RealRev
NomExp
RealExp

Chart II.1.3

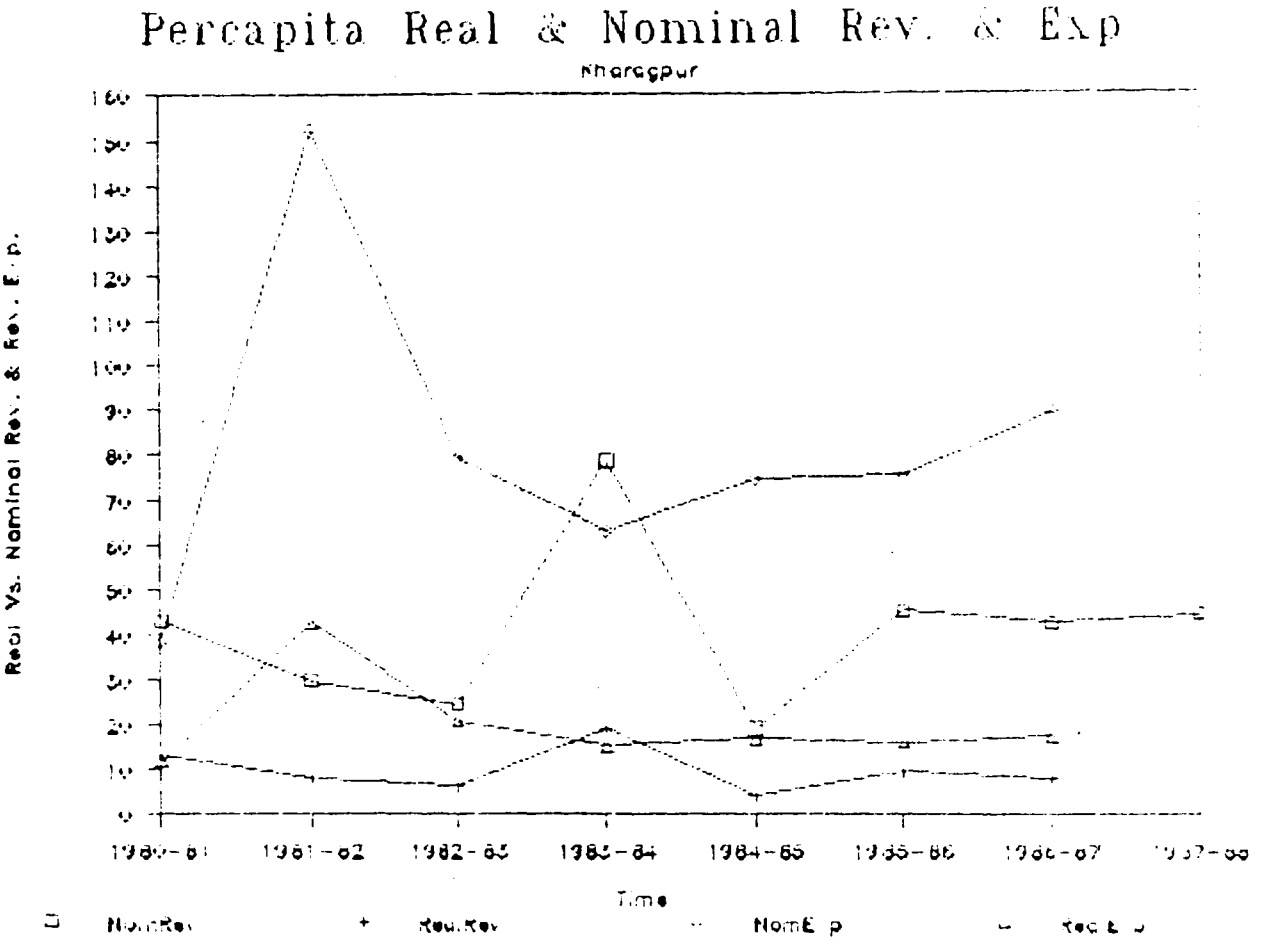

Percapita Real & Nominal Rev. & Exp
Kharagpur
Real Vs. Nominal Rev. & Rev. E.p.
Time
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
NomRev
RealRev
NomExp
RealExp

Chart II.14

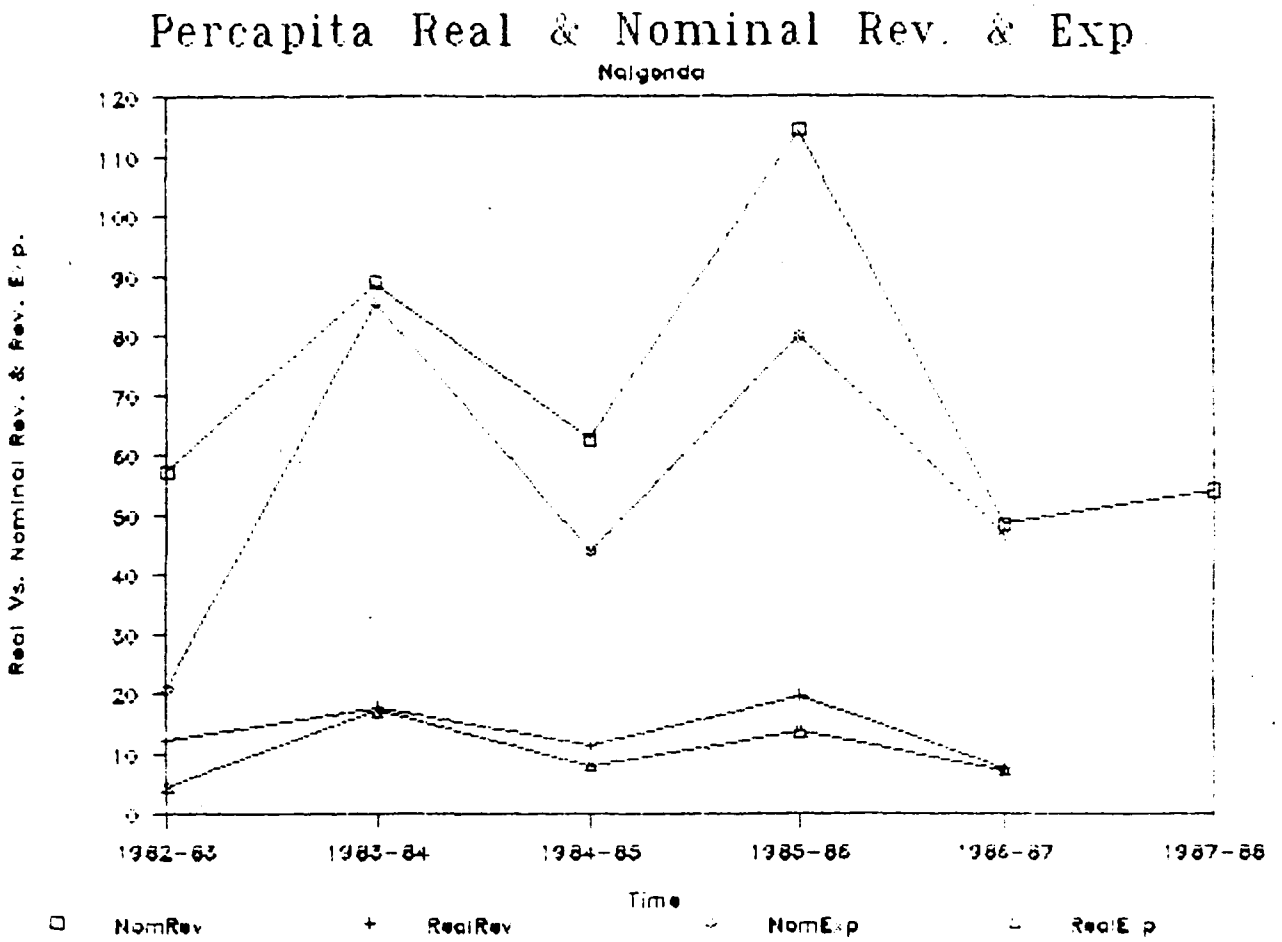

Percapita Real & Nominal Rev. & Exp
Nalgonda
Real Vs. Nominal Rev. & Rev. E.p.
120
110
100
90
80
70
60
50
40
30
20
10
0
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
Time
NomRev
RealRev
NomExp
RealExp

Chart II.15

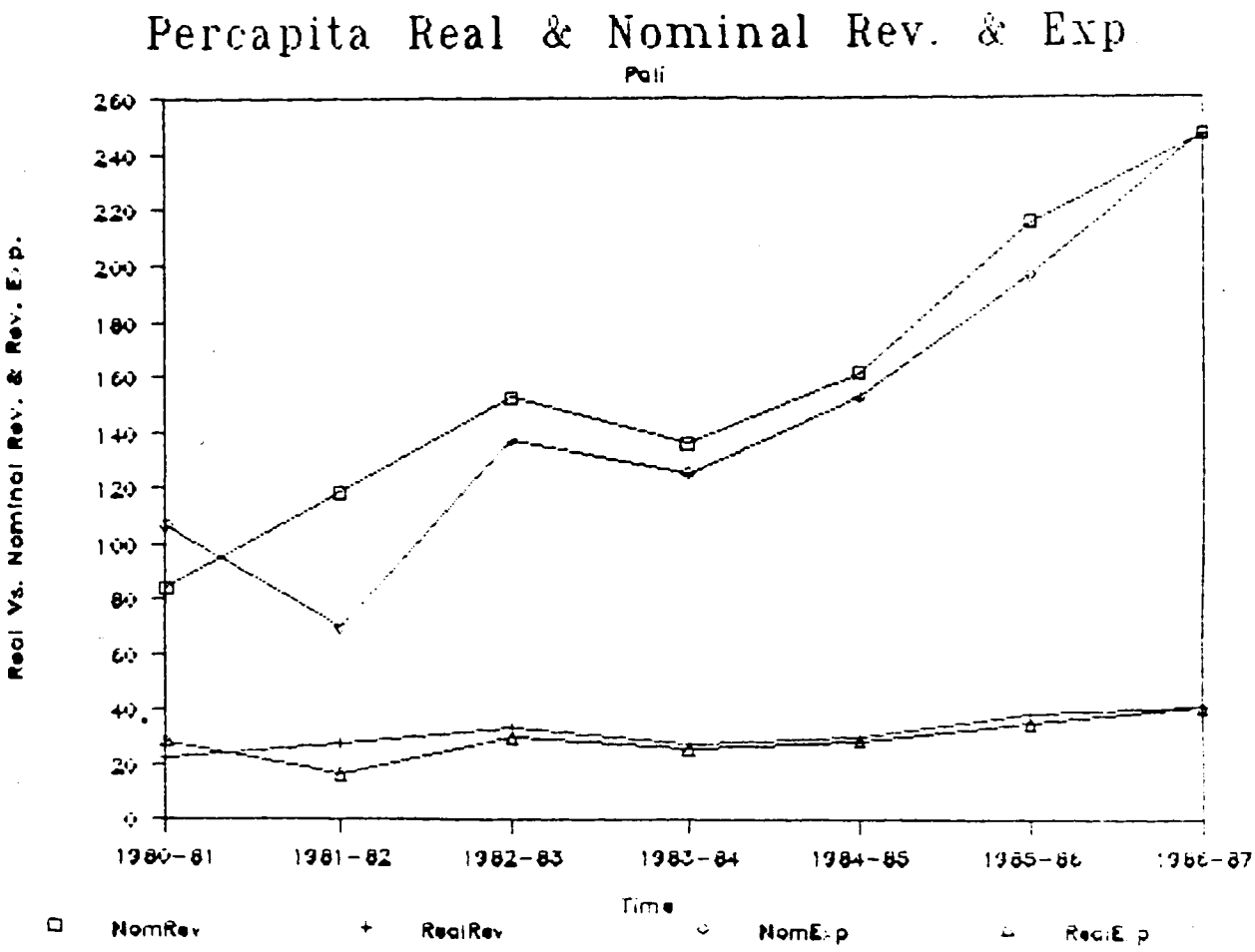

Percapita Real & Nominal Rev. & Exp
Pali
Real Vs. Nominal Rev. & Rev. E.p.
260
240
220
200
180
160
140
120
100
80
60
40
20
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
Time
NomRev
RealRev
NomExp
RealExp

Chart II.16

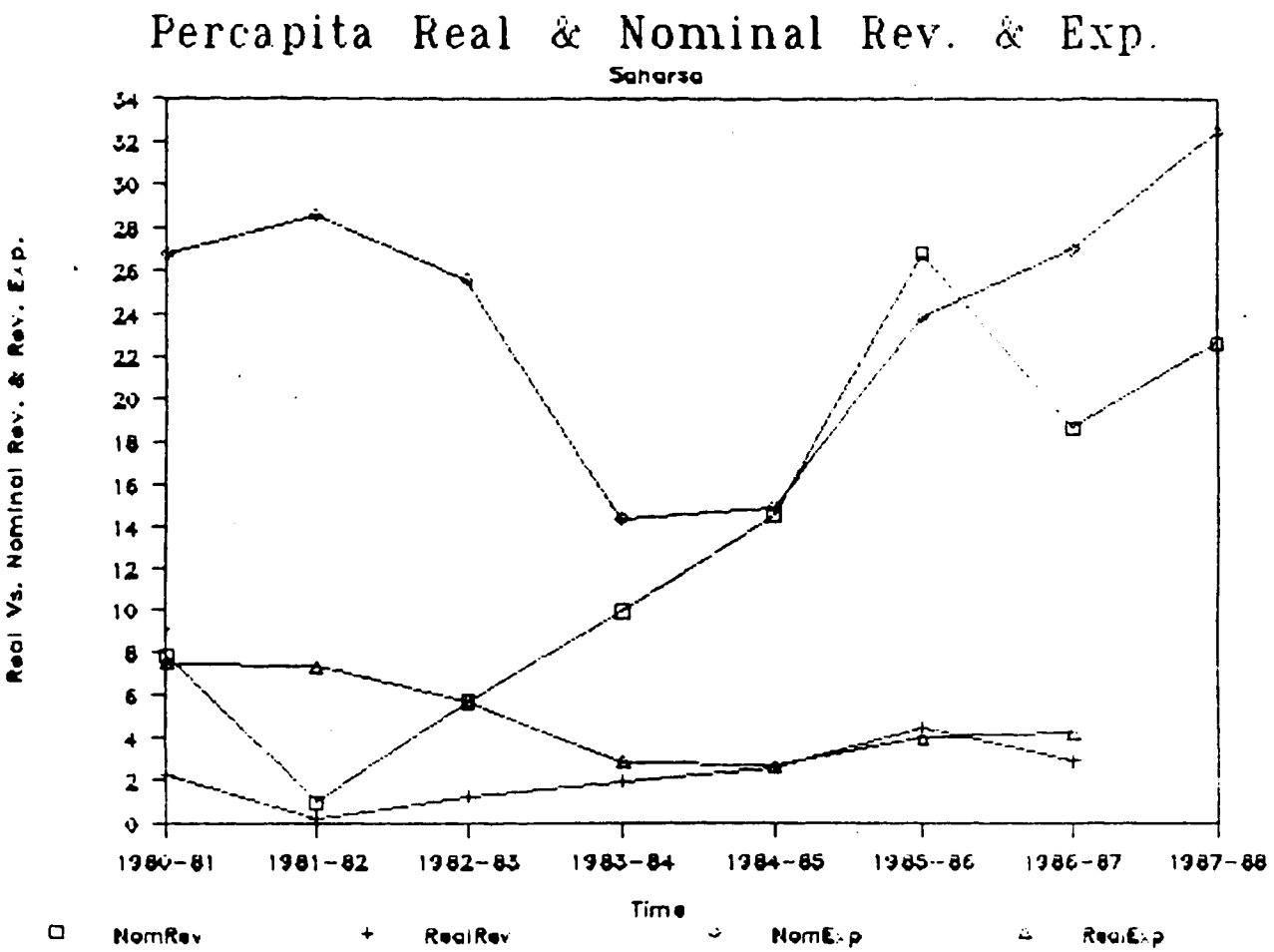

Percapita Real & Nominal Rev. & Exp.
Saharsa
Real Vs. Nominal Rev. & Rev. Exp.
54
52
50
48
46
44
42
40
38
36
34
32
30
28
26
24
22
20
18
16
14
12
10
8
6
4
2
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
Time
NomRev
RealRev
NomExp
RealExp

Chart II.17

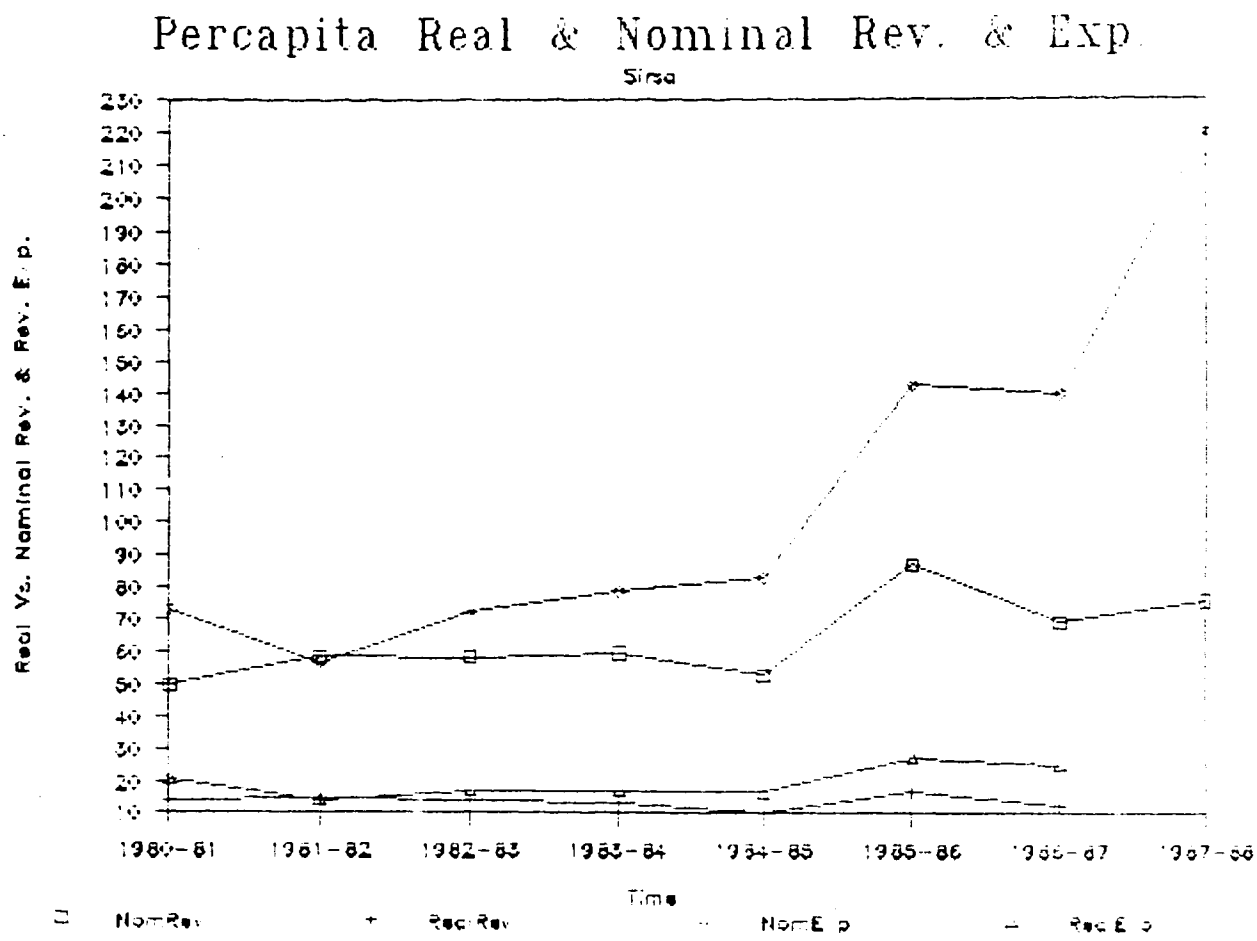
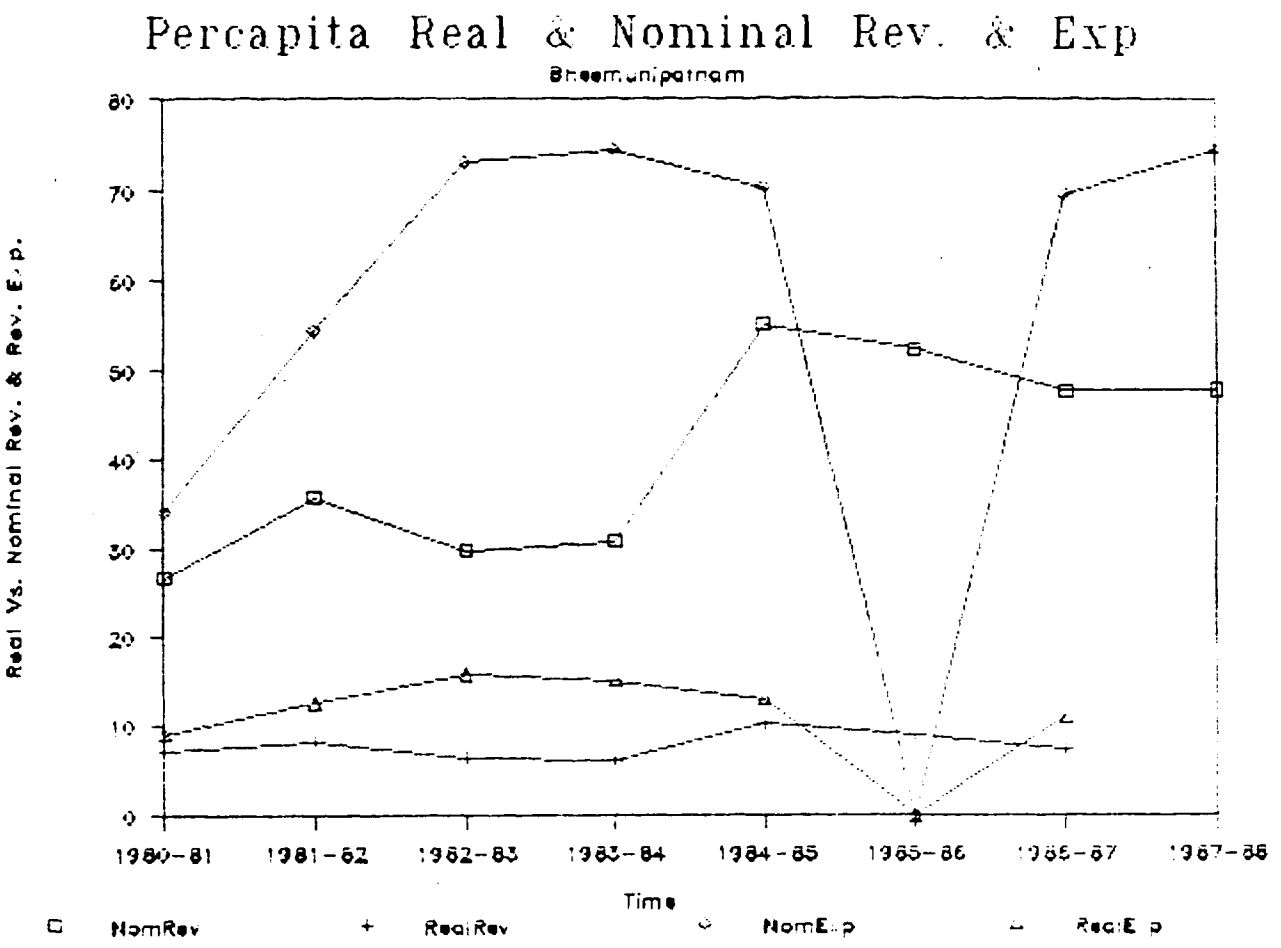

Percapita Real & Nominal Rev. & Exp
Sirsa
Real Vs. Nominal Rev. & Rev. E.p.
230
220
210
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
Time
Nom Rev
Real Rev
Nom E.p
Real E.p

Chart II.18



N.B - Data not available for 1985-86.

Chart II.19

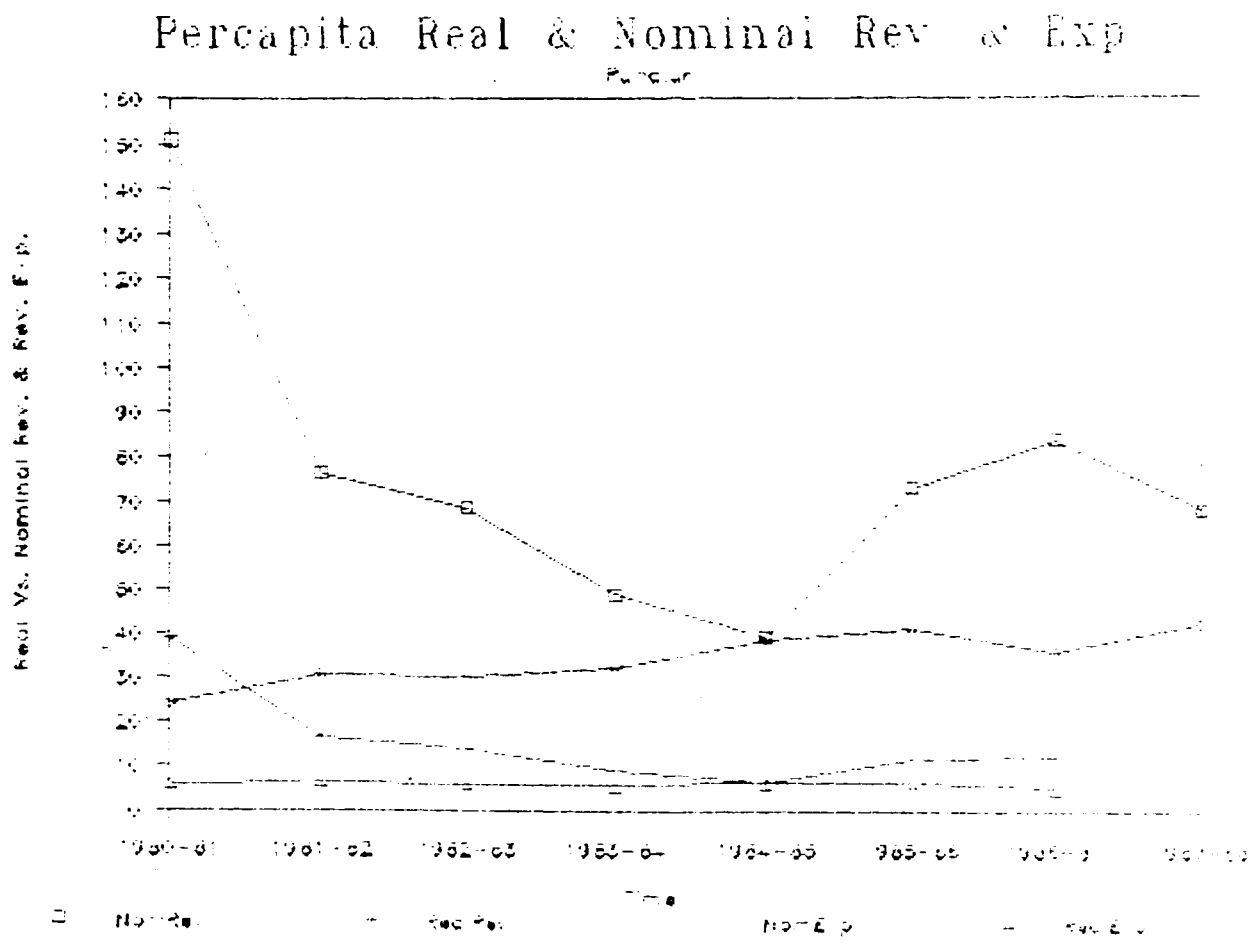
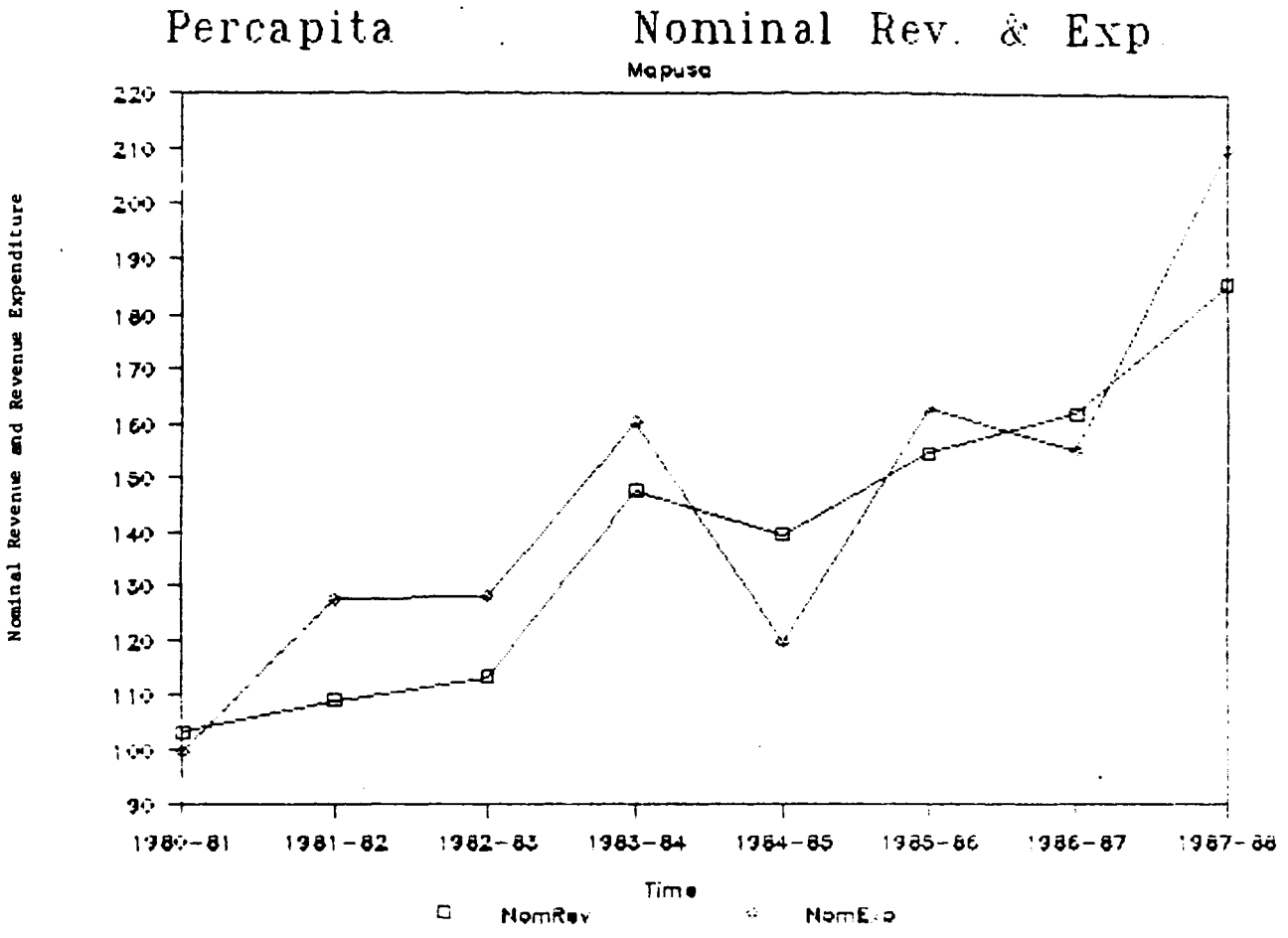

Percapita Real & Nominal Rev & Exp
Real Vs. Nominal Rev. & Rev. E.p.
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88

Chart II.20


Percapita Nominal Rev. & Exp
Mapusa
Nominal Revenue and Revenue Expenditure
220
210
200
190
180
170
160
150
140
130
120
110
100
90
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
Time
NomRev
NomExp

III. TAX ADMINISTRATION IN URBAN LOCAL BODIES

1. Introduction

The role of an efficient local tax administration is quite crucial in reflecting upon the management capabilities of local bodies. There are, for instance, at least two possible ways to discern such influence of tax administration on local government management capabilities: a) a satisfactory tax administration may help in exploiting own resources of local bodies to an extent permitted by their potential which may minimise their unnecessary financial dependence on the State governments and b) a better financial Status followed by improved performance of local resources which would have significant bearing on the maintenance of reasonable standard of local services. Nevertheless, as noted in the earlier chapter, generally in `A´ and `C´ Classes of the sample localities, the actual exploitation of these resources has fallen short of average performance. Bearing in mind this fact of low potential utilisation as well as keeping in view the above mentioned significance of an efficient tax administration, it would be quite instructive for policy purposes to study this aspect in detail.

A general idea about the structure of tax organisation in our sample localities is considered to be important for three reasons: i) to know precisely how the tax system works, ii) what are the strong or weak points of the system that could be held responsible for an efficient or deficient tax administration and iii) what are the possible avenues for reform of tax administration.

Our discussion on tax organisation is, however, confined to two major local taxes, namely, property tax and octroi, because of their substantial significance in the revenue budgets of almost all of our sample localities. Further as a number of minor taxes, including fire tax, sanitation tax, scavenging tax, sewerage tax, and water tax, happen to be based on ratable value of property and hence have a common tax machinery (as that of property tax), a separate discussion on tax organisation with respect to these taxes is not thought to be necessary.

This chapter discusses the main components of tax administration with reference to our sample municipalities. In the following sections, property tax and octroi are discussed with respect to the following aspects: organisational structure and staff strength, determination of tax base and valuation procedures of rate structure and collection and arrears.

2. Property tax

a. Organisational Structure and Staffing Strength. The common organisational framework of property tax could be schematised as a five fold functional hierarchy which include authorities at the levels of: 1) assessment (or valuation) 2) validation 3) appeal for valuation 4) amendment and 5) appeal against revision (Chart III.1). The locality specific variations, in the respective State Acts pertaining to municipalities or municipal corporations, and applicable to our sample localities as well are quite considerable. In most of the States, to which our sample localities belong, the involvement of elected representatives is noticeable at one or more stages of property tax administration. For instance, in the States of Haryana, Uttar Pradesh, West Bengal, Assam and Rajasthan, the municipal acts

assign the role of elected representatives either directly (i.e. by council) or indirectly (i.e., appointment of authority by the council) at the level of property valuation (Tables 3.1 and 3.1A). A similar kind of involvement at the stage of validation process is observed in the sample States of Assam, Haryana, Gujarat, West Bengal, Uttar Pradesh, Madhya Pradesh, Bihar and Rajasthan (Table 3.2). Except Bihar, the role of elected council is also evident in the task of amendment of valuation (Tables 3.3, 3.3A and 3.3B). In fact, there are only three of our sample States, namely, Andhra Pradesh, Orissa and Kerala, where the municipal acts do not prescribe any involvement of elected body in the property tax administration. Nevertheless the main point, that needs to be stressed, is that the property tax is uniquely distinguished from the other local taxes with respect to its administrative organisation which marks a fusion of elected body and appointed personnel at its various stages.

Given the organisational structure of tax administration, the staff strength of the tax department has a crucial role to ensure its smooth functioning. For this purpose, detailed information with respect to sanctioned as well as actual staff in the particular department could have been extremely useful. However in the absence of this information, one may take total staff strength as a proxy for the availability of staff in the tax departments. The plausibility of such an assumption arises from the fact that in most of the local bodies, provisions and practices of interdepartmental transfers within the local body's organisation exist.

The information on sanctioned and in position staff in the sample localities is presented in Table 3.4. In at least four local bodies, namely, Guwahati and Surat (both A Class) and

Kharagpur and Sirsa (both B Class), there was a shortfall of actual staff with reference to the sanctioned capacity. At the same time, however, three sample local bodies have staff strength in excess of the sanctioned. These include two A Class localities, namely, Rae Bareli, and Ranchi, and a B Class locality, Pali.

This phenomenon can be attributed to the ad hocism in recruitments as except in a few places, there is no agency for overseeing the municipal staff recruitment at either the local or at the State level (Table 3.4). Further the tendency towards ad hoc recruitment gets accentuated by the presence of a nominated body in a number of local bodies in place of an elected body primarily because of postponement of elections of local bodies for unduly longer durations. This was the case, for instance, in Uttar Pradesh, where till recently, for almost 17 years elections for urban and rural local bodies were not held. Like-wise at Pali, in Rajasthan these elections took place after a lapse of 13 years in 1987. Similarly in Assam, too, these elections have not been held since 1970-71 (Table 3.4A). In this context, it is also pertinent to note that in some of our sample local bodies, like Rae Bareli, the overstaffing on account of ad hoc appointments for the purpose of tax collection machinery has been caused due to tremendous difficulties in getting sanction for recruitment of additional permanent staff.

Another indication of staff strength as an indicator of administrative efficiency can be analysed from the amount of work load each staff has to bear. From the available information pertaining to our sample and some other localities as well, it can be noticed that the work load like in terms of properties assessed per officer varies from one locality to another (Table 3.5). In many sample localities including Surat, Pali and Sirsa

work load is much higher than those in metropolises like Bombay and Calcutta. However, there are sample local bodies like Bhopal, which are on the other extreme in comparison to aforesaid metropolises. Possibly the adverse impact of such a relatively high work load is reflected in a very low percentage of collection in relation to demand raised for property taxes. The collection in our sample localities for instance, varies from 16 per cent in Jharsuguda to 55 per cent in Bhopal (Table 3.8).

b. Determination of Tax Base and Valuation Procedures. Given the organisational framework of tax administration, there are certain features common to all the sample localities and most of the local bodies that could be cited with respect to valuation procedures involved in the determination of tax base. Considering, for instance, the case of property tax, one could make some general observations. In most of the local bodies annual letting value of the property is considered as the base on which the property tax is levied. The term annual letting value (or rental value) in fact, implies the gross annual rent at which the property might at the time of assessment be reasonably expected to let from year to year.

In order to assess the reasonable letting value or the tax base, properties are classified into the following categories (a) rented properties (b) owner occupied properties (c) Central Government properties (d) State government properties and (e) properties belonging to charitable, educational and religious institutions. In most of the States, property tax Acts exempt the last two categories of properties for tax purposes. In some States, however, like Gujarat and Maharashtra, compensation is paid in lieu of property tax loss caused on account of exemption

of State government owned buildings so far as Central Government buildings are concerned they are assessed only for the payment of service charges.

The major distinction for the purpose of property tax assessment rests in the form of rented and owner-occupied properties. Generally the actual rent is considered to represent annual letting value for the rented properties. If the information on the actual rent paid is found to be unreliable, a comparison with similar properties is made to determine the value of reasonable rent. In the case of owner occupied buildings, the letting value is determined by using capital value method. The cost of construction of building at the time of construction or assessment and the market value of land is taken as the capital value of the land and building. A certain percentage (ranging between 6 to 10 per cent) of this capital value considered as the gross annual rental forms the basis of assessment of property tax. Depending upon the availability of information pertaining to actual rentals or otherwise, a similar combination of these methods is used to determine annual letting value for the public buildings including hospitals, schools, libraries, colleges, etc.

There are two ways in which the State government Acts directly or indirectly influence the property tax base. The most common involvement of the State Government Act in property valuation is through the Rent Control Act (RCA) which is in operation in almost all States. The assessment of premises falling under this Act is made on the basis of the criteria laid down by the rent control authority in the individual State. The basic criteria, namely, gross rental value method or capital value method remain also under the RCA. But the general emphasis on a reasonable or fair rent under this Act has usually been a

depressing factor in the determination of property tax base not only with respect to properties governed by this Act alone but also with respect to other properties (See Bombay Rent Act, Nath, 1984). The existence of RCA also contributes to disparities in the assessed value of rent controlled as apposed to non-rent controlled properties.

Another way in which State Government's influence creeps into the assessment procedure takes the form of appointment of a central valuation authority. In the case of West Bengal, for instance, in the absence of appropriate assessment staff at the local bodies (except for the municipal corporations of Calcutta and Howrah), the State government has created an independent authority known as Central Valuation Board (CVB) which is having its own staff to undertake assessment of properties in each of the local bodies. Similar practice exists in Assam also. In many other States, State government deputes their officers in the municipal offices to undertake the work of assessment.

c. **Rate Structure**. Rate structure of taxes in the municipal bodies is guided by the respective State Acts. Generally, a range or interval is specified by these Acts which sets the upper and lower limits to taxation of a particular type. The significance of rate structure of major local taxes hardly needs any mention. As widely accepted, a reasonable rate structure could go a long way in raising adequate financial resources through greater compliance and collection. In the case of our sample localities there are two points of additional interest. First, the rates differ across size or groups. Secondly, in case of property tax, another dimension would be to observe whether the rate is on the higher side in non-octroi localities compared to octroi levying local bodies.

It is evident that State control of municipal taxation has severely constrained growth of municipal revenues particularly that of the property tax. Apart from fixing minimum and maximum rates under the statute, some municipal legislations prescribe procedures for abolition or alteration of a tax. The main intention behind these measures is to deter municipal governments from reducing tax rates/abolishing a tax altogether so as to tilt inter-jurisdictional rate differentials in their favour. However, over time, a convention has been evolved according to which if any changes in the rates or fees or taxes are required, they have to have the prior approval of the respective State governments.

The rate structure of property taxes pertaining to our sample localities is presented in Table 3.6. As would be observed, all the local bodies do not levy all taxes which generally fall under the major head of property taxes. It would be meaningful thus to compare our sample local bodies either in terms of rates relating to general property tax or with respect to consolidated property tax rates. In the case of former (i.e., general tax), the available information reveals three types of rate structure. Progressive rate structure is common among some of the A and B Class of localities. Prevalence of such progressive rates could, in fact, be observed in Bhopal, Raebareli and Surat (among A Class localities) as well as in Kharagpur and Pali (both B Class localities). In these localities, slabs of annual rental value and thus the rates of general tax vary across the classes as well as within the same class.

In another system of rates being followed in many sample localities including Guwahati (A Class locality), Nalgonda (B Class locality) and Bheemunipatnam (C Class locality), a

distinction is made between residential and commercial properties with the rates being higher for the latter category. But this system does not prescribe any kind of graduation or progression in rates.

A more simplified rate structure takes the form of a consolidated general tax for all types of properties. Examples of this system include Aurangabad, Pimpri-Chinchwad, Ranchi (all A Class local bodies), Jharsuguda, Saharsa, Sirsa (all B Class local bodies) and Punalur (C Class local body). Consolidated rates of general tax commonly appear to be higher in A Class localities when compared to other classes. Even the comparison of consolidated property tax rates indicate an identical situation.

A distinction in terms of regrouping by octroi and non-octroi categories, however, does not bring out any clear cut differences in consolidated property tax rates. In many octroi localities, for instance, rates are quite high. On the other hand, in non-octroi localities where one would expect higher rates of property tax there are quite a few sample units like Guwahati, Saharsa, and Punalur which have consolidated property tax rates (or the marginal rate on the highest slab of ARV) lower than the rates prevailing in octroi levying local bodies (Table 3.7).

d. Tax Collections and Arrears. Efficiency of any tax administration gets reflected in smooth collections, relatively less number of disputes, low arrears, speedy disposal of appeals and pending cases. These, among others, are closely linked to organisational structure, valuation procedures, rate structure, appellate procedures and measures or deterrents against non-compliance. In this section, we attempt to recapitulate some of the observations made in the earlier sections along with the

information obtained on the basis of our discussions with the officials of sample localities to establish the causal links between administrative efficiency and other various factors as outlined above.

As presented in Table 3.8, it is apparent that arrears as a percentage of demand has been quite high in all the sample localities. This is true for all taxes taken together as well as individual major tax like property tax and group of taxes other than property tax. However, since property tax constitutes the bulk of total tax revenues, the possible reasons for such high arrears could be traced by focussing on the views of the property tax administration itself. The other major tax namely octroi, wherever leviable, does not have the problem of arrears owing to its basis of levy system.

Discussions with the local officials in this regard have brought out several points worth noting. It is the general opinion that the existing assessment system of properties based on rental value has certain shortcomings. This method, in certain cases, in fact, instead of being scientific is more of a subjective nature. Especially, wherever rental value is imputed on the basis of historical costs, the assessment of new properties is definitely on a higher side on account of inflated land values and costs of construction. Due to this in-built bias against the new properties, the property tax demand raised on such assessment values generally lead to disagreement and litigation from the tax payers. Consequently, number of pending court cases and arrears continue to rise with the increasing number of new properties coming up in a municipal jurisdiction. Further, the procedural formalities of the case settlement also delays the payment of dues. Even after the settlement sometimes dues are phased out in

easy instalments for recoveries resulting into a prolonged continuance of dues as arrears. The psychological influence of this kind of assessment procedure is also reflected in a generally held notion by tax payers of relatively large sums that if the property tax case is taken to the Appellate Authority, some relief of tax liability would be generally possible on one pretext or another.

Besides the inappropriate assessment procedure, the arrears have also tended to grow because of laxity on the part of tax collector or lack of staff strength of tax collectors. In the case of one sample locality, namely, Sirsa, it could be observed that recovery of outstanding tax demand is entrusted to recovery staff of land revenue department of the Haryana State Government. The latter is already loaded with their departmental recovery operations and thus are hardly able to attend to the local body's work satisfactorily. At times, political environment caused on the eve of elections for the Lok Sabha or assembly or council adds up to such laxity.

Even the statutory provisions relating to periodic revision of assessment of properties have been kept pending on account of political resentment. This has been the case in at least some of the sample local bodies such as Aurangabad, Bhopal, Ranchi, Jharsuguda, Pali and Saharsa (Table 3.9). In fact the revisions took place as far back as in 1960-61 and 1970-71 respectively in Ranchi and Saharsa. The upshot of the pending revisions of assessment of properties is sometimes reflected in property tax rates. Finding revisions to be difficult, some local bodies have deliberately adhered to frequent revision in rates.

This kind of rate escalation in place of revision of property assessments is detrimental to tax payers' psyche and adds up to resentment, litigation and arrears.

Notwithstanding the delayed collections on account of litigations, the cases of non-compliance prevalent amongst many local bodies are no less distressing as they represent in effect an absence or ineffectiveness of deterrent provisions. In some sample local bodies for instance, Raebareli and Sirsa, there is no penal provision against non-compliance. The existing deterrents in other municipalities include measures like interest payments on dues, water disconnection, issue of warrants and take over of property. In Surat Municipal Corporation, for instance, there is a provision of penal interest rate at the rate of 15 per cent per annum as a deterrent measure against non-compliance. However, public resistance against this measure has rendered it ineffective. A similar penalty provision in Pali Municipal Council has remained ineffective. The result is that the policy in such cases has been to provide some rebate to the defaulters on arrear payments. Interestingly, another indigenous administrative strategy being pursued by some of the sample local bodies in this regard consists of an out-of-court settlement procedure. A similar procedure involving, however, a judge of High Court or Session Court, called as Lok Adalat, is being followed in Surat Municipal Corporation.

Some of the other measures like issue of warrants or attachment of property. though seem to be promising, however, have failed to produce desirable results for reasons similar to noted above. Many local bodies in our sample have also attempted publicity measures to enhance civic awareness towards local tax payments. The amounts of expenditure on such publicity works have

ranged between Rs. 1000 per annum in some of the sample localities like Saharsa to Rs one lakh per annum in a large municipal corporation like Surat (Table 3.10). Generally, the administrators of the local bodies resorting to the publicity measure seem to view this as a successful step in avoiding non-compliance.

3. Octroi

a. Coverage and Collection Machinery. In the case of octroi, the basis of levy is either gross value or weight or number of goods that enter into a local jurisdiction for sale, consumption or use. In most of our sample localities, generally an admixture of these bases is used. Interestingly, because of historical reasons in some sample localities, for instance, Pali, we find that items like electronic goods, for which a value basis may be more suitable for local revenue purposes, the existing system instead has a basis such as weight.

The tax is collected at the checkposts located at the borders of a locality. Assessment of the tax is done on the basis of documents being carried along with the vehicles. A notable feature of the assessment mechanism is that it basically rests on trust and involves no checking of amounts at a later stage. Due to checkpost based collection, there is, however, no problem of tax arrears.

Given a fairly wide coverage of octroi, almost all goods that enter into a local area attract the tax. However, the respective Municipal Acts in various States which govern the octroi levy have stated its coverage either by specifying the goods that fall under the octroi Act or list out the commodities

that are exempt from this levy. In most of the States, nevertheless the latter method of defining the coverage i.e., listing the exempted commodities is being followed.

Unlike property tax, administrative organisation of octroi is less complicated and does not bring in any involvement of elected body at any stage (Chart III.2). Generally speaking a common organisational framework of octroi administration has a functional hierarchy at three places which include border checkpost, internal checkpost and head office. The border checkpost is headed by a personnel of the rank of a deputy superintendent and the working staff consisting of an inspector, a clerk and a few other core staff. The internal checkpost primarily meant for disputed cases is supervised by an assistant superintendent who is supported by clerks and other core staff. Both the internal and border checkposts are administratively controlled by a head office which come under the supervision of a superintendent.

b. **Variants of Octroi**. There are two main variants of octroi which differ with respect to their assessment procedures. They are terminal tax and entry tax. The latter tax has also developed differently in different States which have adopted it in lieu of the octroi. None of our sample localities, however, happens to levy terminal tax. At present, the same is being levied only in some of the Union Territories, namely, Delhi, Pondicherry and Andaman & Nicobar Islands. The two States which have so far adopted entry tax include Madhya Pradesh and Karnataka. The entry tax is a State government levy being collected by the State and devolved among the local bodies.

The taxable purchase value in the hands of importers constitutes the base of entry tax. This is arrived at by adding to the actual purchase price, excise duty/or additional excise duty, cost of transportation, packing, forwarding and handling charges, commission, insurance and the like. Thus the estimated market value becomes the tax base. However, for goods that have been acquired but not purchased, before deciding upon the actual tax liability, deductions are made for the value of goods purchased or received from outside the local area but subsequently sent outside the local area (but not by sale), provided these goods are transported out of the State within six months from the date of entry of goods.

The entry tax is payable only by the first dealer liable to pay sales tax who effects the entry of any goods into a local area. No entry tax is payable if the entry of any goods into a local area is effected by a dealer not liable to pay sales tax or any other person. All sales tax dealers whose turnover exceeds some stipulated limits as importers, manufacturers and other categories of dealers are covered under the Entry Tax Acts. The system of penalty, appeal, refund etc., of this tax resembles the sales tax procedures, and the State sales tax department is the administering agency.

c. **Rate Structure**. In case of octroi/terminal tax, the basis of levy is either gross value or weight or number of goods that enter into a local jurisdiction. As a result, both specific as well as ad valorem rates are prevalent. Historically, in most of the local bodies octroi rates have been specific (i.e., rate per unit of goods) or weight specific. However, growing financial requirements have led to gradual adoption of ad valorem rates in which value of goods forms the basis. At present, in most of the

local bodies a combination of specific and ad valorem rates can be observed. The relative domination of each of these rates varies from one locality to another. There are, however, few exceptions where, for instance in Bombay, all the rates are ad valorem. A wide variation in rates of octroi is a feature noticeable across the States, and across municipalities as well as corporations within a State.

The rate structure of the major octroi variant, namely, entry tax also differs across the two entry tax States. In Madhya Pradesh, the entry tax, which varies from 0.5 to 7.75 per cent, is collected only at the first entry. Unlike Madhya Pradesh, the entry tax being multi-point in nature has been fixed at 2 per cent in Karnataka.

TABLE 3.1

Preparation of Valuation/Assessment List

	Authority assigned	States
1.	Council* is entrusted with the task	Haryana, and Uttar Pradesh
2.	Assessors appointed by the council	West Bengal, Assam and Rajasthan
3.	Assessor/valuation officers appointed by the State Governments	Orissa** and Andhra Pradesh
4.	Executive officer***	Bihar, Madhya Pradesh, Gujarat, Maharashtra, Punjab and Kerala

Notes: * The term council is used in some States while in other States it may be called Municipal Board or Committee, or Commissioners at a meeting.

** In Orissa till the valuation officer is appointed, the task is assigned to the executive officer.

*** Municipal executive officer is known as Commissioner in Tamil Nadu, Kerala, Rajasthan, as Secretary in Andhra Pradesh and Himachal Pradesh, as Chief Officer in Maharashtra and Gujarat, Chief Municipal Officer in Madhya Pradesh.

Source: Respective Municipal Acts.

TABLE 3.1A

Municipal Acts Governing

Sl. No.	Municipal Act	Local Body
1.	Andhra Pradesh Municipalities Act, 1965	Bheemunipatnam & Nalgonda
2.	Bihar and Orissa Municipalities Act, 1922	Saharsa
3.	Haryana Municipalities Act, 1973	Sirsa
4.	Kerala Municipalities Act, 1960	Punalur
5.	Rajasthan Municipalities Act, 1959	Pali
6.	Orissa Municipal Act, 1950	Jharsuguda
7.	Bengal Municipal Act 1932	Kharagpur
8.	Guwahati Municipality Corporation Act, 1969	Guwahati
9.	Madhya Pradesh Municipal Corporation Act, 1969	Bhopal
10.	Bombay Provincial Municipal Corporation Act, 1949	Aurangabad, Pimpri-Chinchwad and Surat
11.	Uttar Pradesh Nagar Mahapalika Adhiniyam	Rae Bareli

Source: Respective Municipal Acts.

TABLE 3.2

Validation Process of Valuation/Assessment

Activity/authority assigned to	States
1. Public Notice to be Given by:	
a. Municipal council	Assam and Haryana
b. Chairman of the council	West Bengal
c. Executive officer	Bihar Madhya Pradesh, Maharashtra, Gujarat, Kerala and Uttar Pradesh
d. Valuation officer/ assessor	Andhra Pradesh, Rajasthan and Orissa
2. Objections to be made to:	
a. Municipal council	Assam and Haryana
b. Executive committee of the council	Gujarat
c. Chairman of the council	West Bengal
d. Executive officer	Bihar Madhya Pradesh, Maharashtra, Kerala, Orissa and Uttar Pradesh
e. Valuation officer/ assessor	Andhra Pradesh and Rajasthan
3. Objections to be heard by:	
a. Municipal council (generally delegated)	Assam, Haryana, Uttar Pradesh, Madhya Pradesh and Rajasthan
b. Special committee	Bihar, West Bengal and Gujarat
c. Valuation officer/ assessor	Andhra Pradesh, Maharashtra and Orissa and Kerala
d. Executive officer	Tamil Nadu and Kerala
e. Revising authority	Karnataka

Source: Respective Municipal Acts.

TABLE 3.3

Appeal Against Revising Authority

	Revising authority	Appellate authority	States
a.	Council or its committee whose decision is final	-	Assam, Bihar and West Bengal
b.	Council or its committee or special committee	a. District Magistrate/ Collector/Deputy Commissioner	Haryana, Uttar Pradesh and Rajasthan
		b. Civil Judge	Madhya Pradesh
		c. Judicial Magistrate	Maharashtra and Gujarat
c.	Executive officer	Council/special officer appointed by State government for this purpose	Kerala
d.	Valuation officer	a. Appellate Commissioner (appointed by the State government) in consultation with Chairman of the Council	Andhra Pradesh
		b. District Magistrate	Orissa

Source: Respective Municipal Acts.

TABLE 3.3A

Grant of Remissions

	Authority assigned	States
1.	Council (may delegate also)	Haryana, Rajasthan, Madhya Pradesh, West Bengal and Maharashtra
2.	Executive committee of the council	Gujarat
3.	Executive officer	Uttar Pradesh Bihar Andhra Pradesh, and Kerala

Source: Respective Municipal Acts.

TABLE 3.3B

Authority to Amend the Assessment List

	Authority vests in	States
1.	Municipal council	Haryana, Uttar Pradesh, Rajasthan, West Bengal and Assam
2.	Special committee or the executive committee of the council	Gujarat
3.	Executive officer	Bihar, Orissa, Andhra Pradesh, Kerala and Maharashtra

Source: Respective Municipal Acts.

TABLE 3.4

Staffing Pattern and their Cost in Selected Urban Local Bodies in India

Class/Local Body	Staff Strength				Number of Employees					Total Wages including MC (in Rs.)
	Sanctioned	In Postition	Recruitment through	System of deputation	Super-visory	Non-Supervisory	Technical	Non-Technical	Total	1988
Class A										
1 Aurangabad	-	-	-	-	-	-	-	-	-	-
2 Bhopal	1358	N.A.	PSC	Yes	-	-	-	-	-	-
3 Guwahati	1109	922	MSSC	Yes	-	-	31	17	48	-
4 Pimpri-Chinchwad	NA	2987	-	-	-	-	-	-	-	-
5 Rae Bareli	267	539	DC	No	12	527	81	446	1066	-
6 Ranchi	1201	1243	-	-	-	-	-	-	-	-
7 Surat	10379	8107	SSC,KC/DC	No	428	9951	2381	7998	10379	-
Class B										
8 Jharsuguda	172	172	PSC	Yes	13	159	4	169	-	-
9 Kharagpur	515	469	EMP EX	No	1	45	4	419	469	-
10 Malgonda	-	-	-	-	-	-	-	-	-	-
11 Pali	751	751	PSC,EB$	Yes	12	132	607	-	751$$	13255000$$$
12 Saharsa	81	87	DC	No	-	-	-	-	-	41000
13 Sirsa	61	60	SSB	Yes (For CEO and MC)	-	-	-	-	-	-
Class C										
14 Bheemunipatnam	95	93	MSSC	No	7	86	-	-	93	-
15 Rapusa	-	-	-	-	-	-	-	-	-	-
16 Punalur	92	92	PSC	No	-	-	6	-	-	-

Source: Respective Municipal Offices.

MSSC Municipal Service Selection Commission
DC Direct Recruitment
EMP EX Applications are Called Through Employment Exchange
OC Open Competition Through Advertisement
PSC Public Service Commission
SSC Staff Selection Committee
KC Khadi Committee
EB Elected Board
SSB Service Selection Board
$ Only in Property Tax Department
$$ Of Which 384 Sweepers
$$$ Relate to Year 1989-90

T. No. 7.3A

Status of Local Bodies (Elected Vs. Non-elected)

Class/Local Bodies	Appellate Authority	Whether the Local Body is Elected Yes/No	Last Elections Held
	14	15	16
Class A			
1 Aurangabad	-	-	-
2 Bhopal	District Court (No Internal)	Yes	1984 (Due in 1989)
3 Guwahati	MC and SAC	Yes	1978-79
4 Pimpri-Chinchwad	-	Yes	-
5 Rae Bareli	DLB	Yes	1988
6 Ranchi	ELA	Yes	1986
7 Surat	Commission	Yes	1987 January (Due in 1992)
Class B			
8 Jharsuguda	Council/ADM	Yes	1984
9 Kharagpur	-	Yes	-
10 Nalgonda	-	-	-
11 Pali	Elected Board	Yes	1987, January (After 1974)
12 Saharsa	MB	Yes	1986
13 Sirsa	DC for PT	Yes	1987, October
Class C			
14 Sheemunipatnam	-	-	-
15 Mapusa	-	-	-
16 Punalur	Govt. of Kerala	Yes	1987

Notes: SAC = Standing Appellate Committee
ELA = Examiner Local Accounts
DLB = Directorate Local Bodies, Lucknow
MC = Municipal Commissioner
MB = Municipal Board, Government of Bihar
DC = Deputy Commissioner of the District on behalf of Commissioner and Secretary, Government of Haryana
ADM = Additional District Magistrate

Source: Respective Municipal Offices.

TABLE 3.5

Corporation	Number of Properties	Number of Officers	Number of Staff	Properties per Officer (for Assessment)	Properties per Staff (for Assessment)
Sample:					
1 Bhopal*	30000	16	175	1875	16
2 Pimpri-Chinchwad	N.A.	1	221	-	-
3 Jharsuguda	-	-	-	-	-
4 Surat	74564	4	179	93841	2272
5 Pali	13814	3	5	4605	2763
6 Sirsa	16500	1	5	16500	3300
Others:					
1 Delhi	500000	47	793	10638	630
2 Ahmedabad*	684665	65	N.A.	10533	-
3 Khandwa*	8072	8	49	1009	165
4 Calcutta	132000	43	725	3070	182
5 Bombay	214000	75	1745	2853	123

Note: * Figures Relate to Sanctioned Strength.

Sources: 1. For Calcutta and Bombay, Sharma M.P. "Collection of Property Taxes : A Case Study of Delhi" Nagarlok XVI. 2. 45-60.

2. For Others, the Respective Municipal Corporations.

TABLE 3.6

Property Tax Rates in Selected Urban Local Bodies in India

Local Body	Basis of Levy	Rate of General Tax/Slab		Fire Tax	Water Tax	Scavanging Tax	Lighting Tax	Conservancy Tax	Tree Cess	Latrine Tax	Remarks		Total Rate
Class A													
1 Aurangabad	Actual ARV	22%		0.75	3% (No Connection)#	3%	-		0.5%	-			26.25%
2 Bhopal	Annual Value	0-1800	NL										
		1801-6000	6%										
		6001-12000	8.33%	NL	NL	NL	Rs. 10	Rs. 10 Per Building	NL				Rate in Slab +Rs. 30
		12001-18000	10%					-					
		18001-24000	15%					-					
		240001-Above	20%					-					
3 Guwahati	-	Commercial	15%		Water Pipe 10%	1%		-		Service 3.5% in Case of			17.5% to 28.5%
	-	Residential	10%		No Pipe 7.5%			-		Factories Sanitary 2.5%			
4 Pimpri-Chinchwad	ARV	22%		0.5		2.5%		-		The Drainage Tax Varies			25%
5 Rae Bareli	ARV	0-1000	10%	5%	10%			-		From 8 to 10%			20% to 25%
		1001-Above						-					
6 Ranchi	-	N.A.	12.5%		If Hydrants	5%		-			Without Temporary Connection the Water Tax is only		
					<300 Yards-12.5%			-					
					>300 Yards-7.5%			-			7.5% on 27.5 to 32.5%		
7 Surat	0-300	NO											
	301-5000	12%	NL	NL	NL	NL	NL	6%	NL	NL	Conservancy Tax Min.Rs 2 on		
	5001-7500	15%									Non-Residential Bldgs:Where		
	4501-10000	20%		-							1-20 Workers		6%
											21-50 Workers		12%
											51 or More Workeers		18%
Class B													
8 Jharsuguda	ARV	(House Tax) 5%	NL	NL	Water Charges	NL	2.5%	NL	NL	2.5% without Septic Tank 75% Rebate on Septic Tank			10%
9 Kharagpur	ARV	0-100	Nil										
		101-200	10%										
		201-500	18%										As per Slab
		501-2000	25%										10% to 40%
		2001-10000	30%										
		10001-25000	35%										25% to 33%
		25000 and Above	40%										
10 Nalgonda	ARV	25% Residential 33% Commercial									Consolidated		
11 Pali	ARV & CC	600-1200	6.5%							NL	-		-
		1200-	6.5%										
		For Pump < than Rs 1 Lakh											
12 Saharsa	CC/ARV	9% Without Septic Tank	NL	NL	NL	Most 5% Most 2.5%	1% ARV	NL			Most 5% Most 2.5%	Health and Education Cess @ 50% of House Tax	15% 13.5%
13 Sirsa	ARV	12.5%	-	-	-	-	-	-	-	-			12.5%
Class C													
14 Bheemunipatnaa	ARV	24.96%	Residential									Consolidated	24.96%
		32.12%	Commercial										32.12%
15 Rapusa	-												
16 Punalur	ARV	7%	-	2%	3%	2%	-	-	-	-		-	14%

Notes: Water Tax is Levied on Properties Without Water Connections
Otherwise Water Rate Mostly Using Flat Rate Systea is Charged.

Source: Respective Municipal Offices.

TABLE 3.7

Consolidated Property Tax (Maximum Marginal Rates)

	(Per Cent)
Octroi States	
Aurangabad	26.25
Pimpri-Chinchwad	25.00
Rae Bareli	20.75
Jharsuguda	10.00
Pali	07.50
Surat	30.00
Non-Octroi States	
Bhopal	20.00
Guwahati	10.15
Ranchi	27.50- 32.00
Kharagpur	40.00
Nalgonda	25.33
Saharsa	15.00
Bheemunipatnam	25.32
Punalur	14.00

Source: Respective Municipal Offices.

TABLE 3.3

Break up of Demand and Collection

(Rs. Lakhs)

		Demand			Collection		
		A	C	Total	A	C	Total**
1	Bhopal* (1988-89)	64	96	160	-	-	75 (55)
2	Saharsa (1988-89)	-	-	-	-	5-7%	(20-25)
3	Surat (1987-88)	1695	1153	2849	374	550	924 (32.43)
4	Rai Bareli (1988-89)	21.78	23.09	44.87	-	17.48	(38.95)
5	Jharsuguda (1983-84)	2.84	1.46	4.3	-	0.69	(16.05)
6	Bheemunipatnam (1988-89)	3.63	7.66	11.29	2.79	3.84	(34.01)
7	Punalur (1987-88)	18.46	12.76	31.22	6.01	10.91	(34.95)

Notes: * - Information Relating to 25 out of 56 wards.

** - Figures in the parentheses in the last column denote collection as percentage of total Demand.

A = Arrear
C = Current

Source: Respective Municipal Offices.

TABLE I.9

Position of Reassessment of Properties in Selected Urban Local Bodies

Class/Local Bodies	Statutory Provision	Revision Pending	Previous Revision	Next due Revision
		Yes/No		
Class A				
1 Aurangabad	4 Years	Yes	1981-82	1989-90
2 Bhopal*	5 Years	Yes	1984-85	1989-90
3 Guwahati	5 Years	-	-	-
4 Pimpri-Chinchwad	4 Years	No	-	1993-94
5 Rae Bareli	5 Years	No	-	1991
6 Ranchi	5 Years	Yes	1960-61	1990-91
7 Surat	4 Years	No	1987-88	1991-92
Class B				
8 Jharsuguda	5 Years	Yes	1984	1989
9 Kharagpur	5 Years	No	-	-
10 Nalgonda	5 Years	-	-	-
11 Pali	3 Years	Yes	1984	1987
12 Saharsa	5 Years	Yes	1970-71	1990-91
13 Sirsa	5 Years	No	1982	1988-89
Class C				
14 Bheemunipatnam	5 Years	-	-	-
15 Mapusa	-	-	-	-
16 Punalur	5 Years	-	1987-88 (Second half)	1992

Note: * Property Tax Till 1976 was with the State Government.

Source: Respective Municipal Offices.

TABLE 3.10

Class/Local Bodies	Any Expenditure Incurred on Publicity Work for Collection of Dues			Penalties and Other Deterrent Measures Adopted for Non-Compliance	Whether these Measures have been Adequately Used	If not Used what are the Reasons
	Yes/No	If Yes Approximate Amount in Rs Thousands	Has it been Beneficial			
	1	2	3	4	5	6
Class A						
1 Aurangabad	-	-	-	-	-	-
2 Bhopal	N.A.	-	-	Attachment of Properties Penalty upto 15% of Tax Amount	Yes	N.A.
3 Guwahati	Yes	10-20%# P.A.	Yes	Issue of Warrants, Take Over of Property No Provision of Interest and Dues	-	-
4 Pimpri-Chinchwad	-	-	-	-	-	-
5 Rae Bareli	Yes	5	Yes	No Provision for Penalty & Other Deterents Only Self-Motivation	-	-
6 Ranchi	Yes	-	Yes	-	Yes	-
7 Surat	Yes	100 P.A.	Yes	Notice, Warrant, Public Auction, Individual Auction 18% Interest	Yes	-
Class B						
8 Jharsuguda	Yes	15 P.A.	Yes	Yes, Attachment of Properties etc. no Penal Interest by M. Council but Court Collects @12% from Defaulters which is Non-Transferable	-	-
9 Kharagpur	No	-	-	Penalty as Per Act	Yes	-
10 Nalgonda		-	-		-	-
11 Pali	Yes	4.5 P.A.	Yes	Demand Notice, Attachment of Property	Yes -	Political Interference
12 Saharsa	Yes	1 P.A.	Yes	Yes some Provisions like Attachment of Property		
13 Sirsa	Yes	5 P.A.	Yes	No Penalty only Rebate of 20% For 10 Days Permitted	Yes to Some Extent	-
Class C						
14 Bheemunipatnam	-	-	-	-	Yes	-
15 Mapusa	-	-	-	-	Yes	-
16 Punalur	Yes	5	Yes	As Per Act		

Notes: P.A. = Per Annum

\# = Approximate percentage of expenditures of total collection costs incurred on publicity.

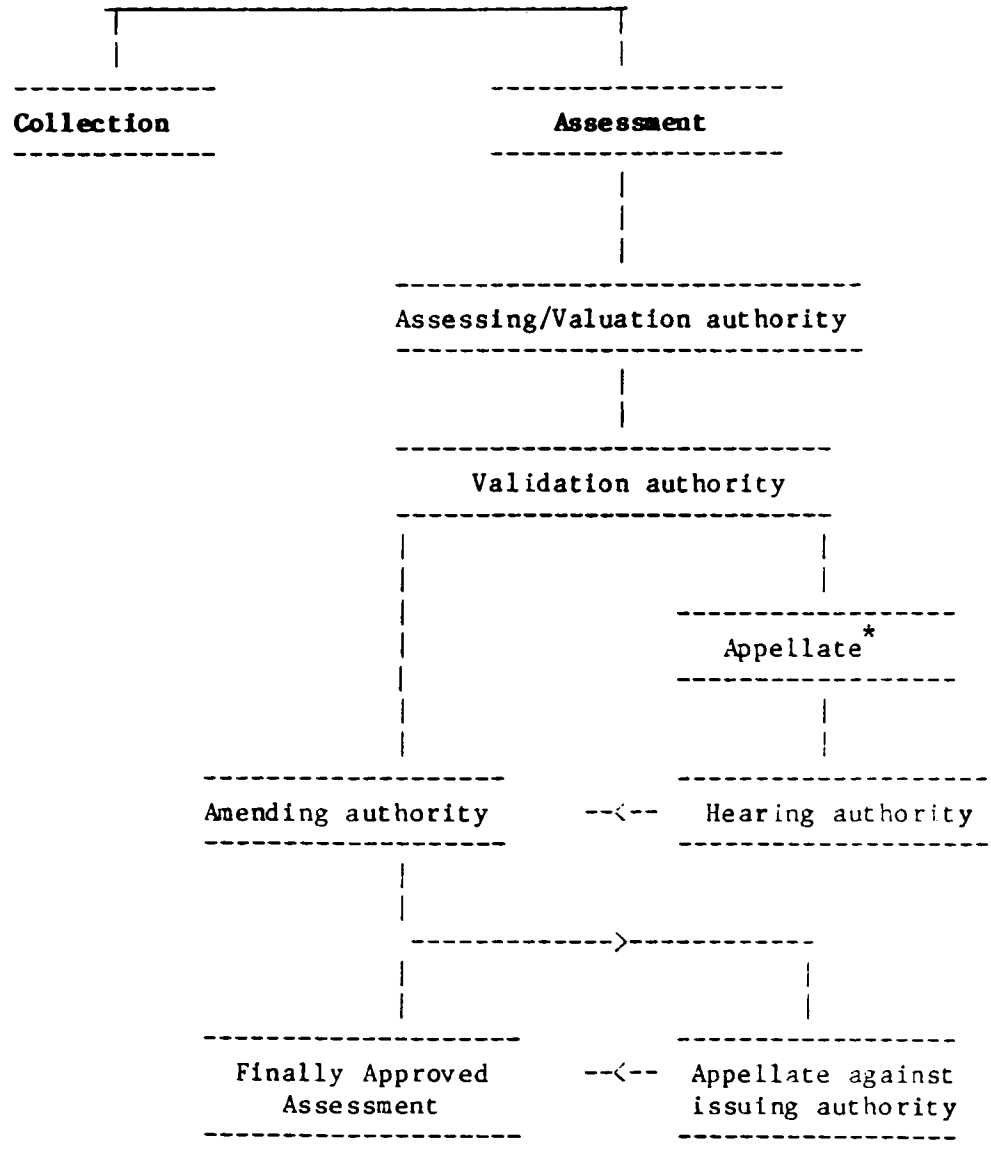
TABLE 3.10 (Contd.)

	Does the Existing Legal Frame have Enough Teeth to Implement Better Compliance		Percentage of Cases Relating to Non-Compliance	Any Other Remark
	Yes/No	If no What are the Obstacles		
	1	2	3	4
Class A				
1 Aurangabad	-	-	-	1) 2 to 3 thousand Cases of Property Taxes Where Attachment of Properties was done
2 Bhopal	-	-	-	2) Over 2 Crores involved in PT Litigations
3 Guwahati	-	-	-	-
4 Pimpri-Chinchwad	-	-	-	-
5 Rae Bareli	No	-	60%	-
6 Ranchi	-	-	-	-
7 Surat	-	-	-	-
Class B				
8 Jharsuguda	No, because of Political Interference		Low	1) An Amount of Rs 7 Lakh Involved in Court Cases of PT 2) No Impact of Rent Control because of Rate Fixing
9 Kharagpur	Yes.	-	A Few	-
10 Nalgonda	-	-	-	- -
11 Pali	-	-	-	- -
12 Saharsa	Yes	Legal Provisions and Lack of Staff	75%	
13 Sirsa	Yes	There is no Legal Framework	2000 or More Cases	
Class C				
14 Bheemunipatnam	-	-	-	- -
15 Mapusa	-	-	-	- -
16 Punalur	Yes	Legal Framework is Enough	.1%	

Source: Respective Municipal Offices.

CHART III.1

Organisational Framework of Property Tax Assessment

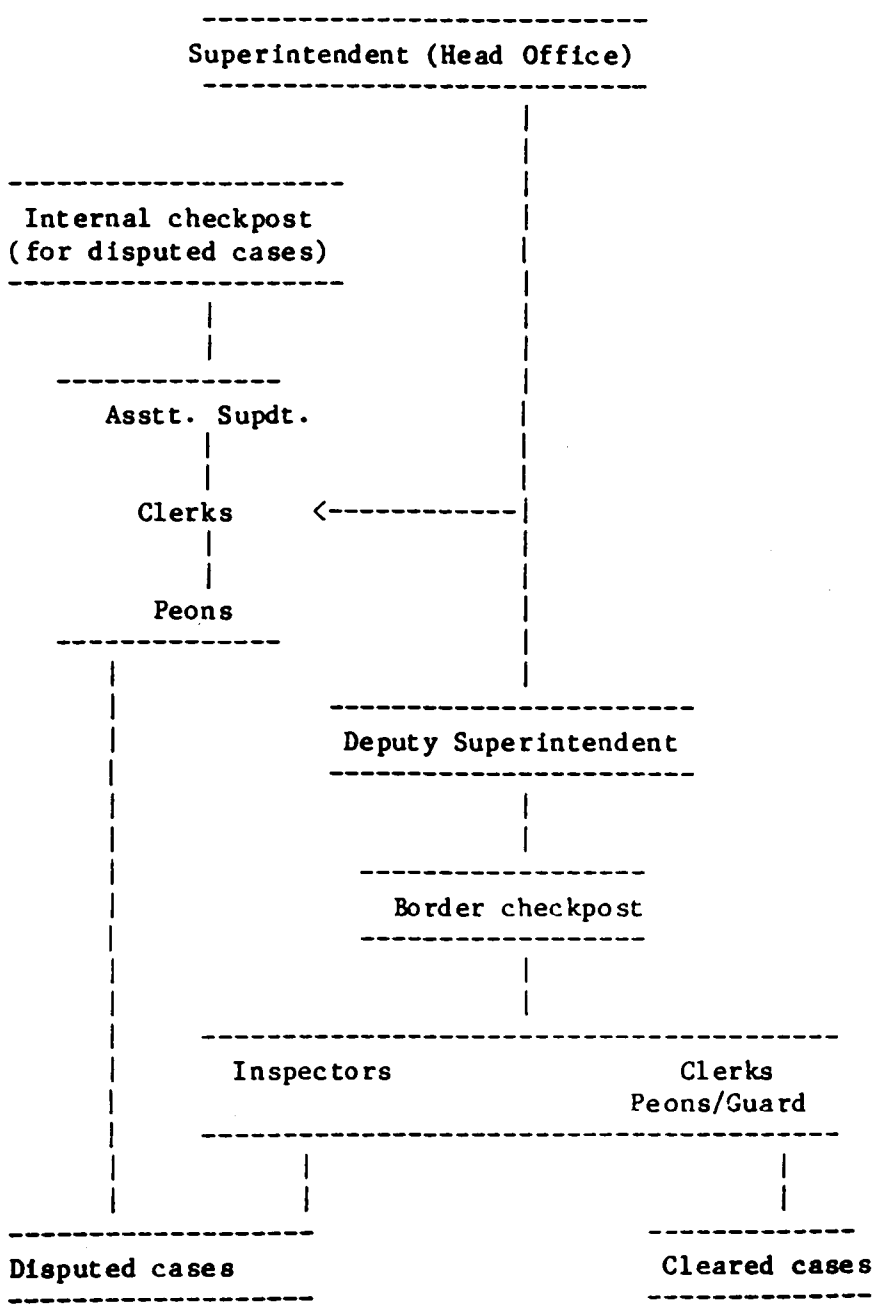


Note: * Internal or External (i.e., Court of Law).

Source: Respective Municipal Offices.

CHART III.2

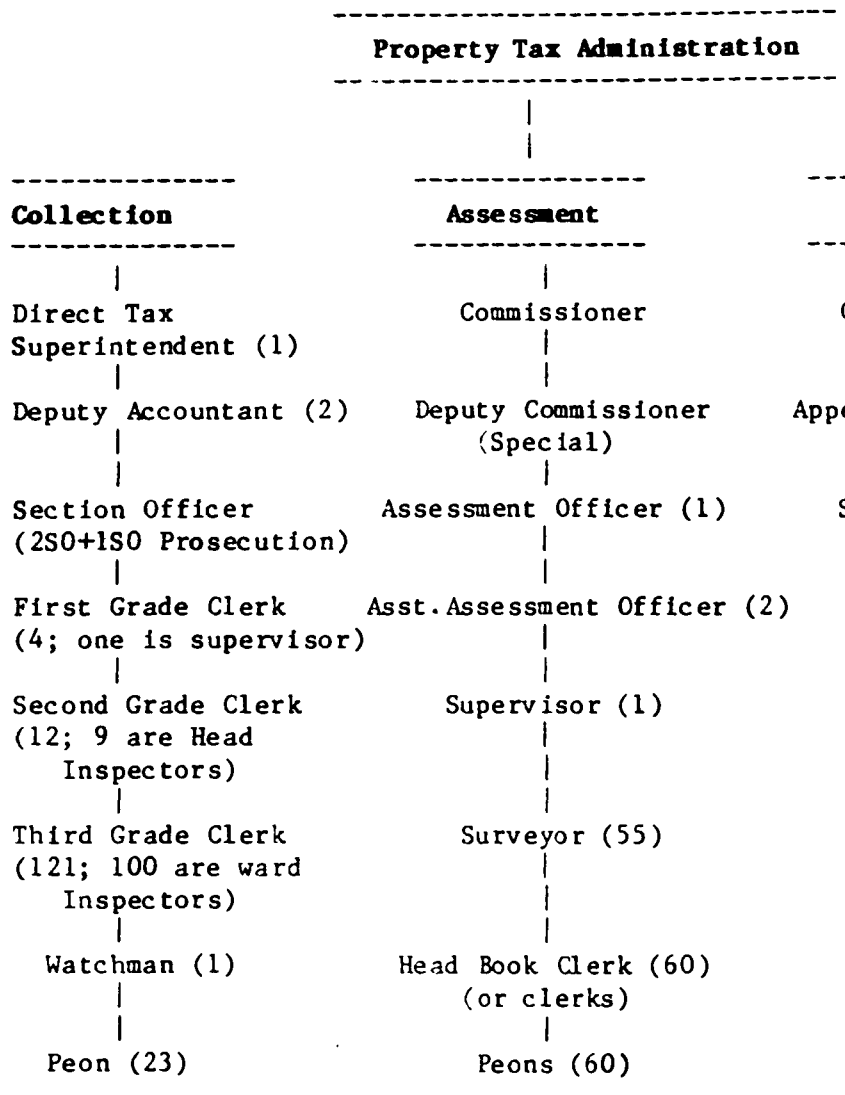
Organisational Structure of Tax Machinery for Octroi



Source: Respective Municipal Offices.

CHART III.3

Property Tax Administration: Surat Municipal Council



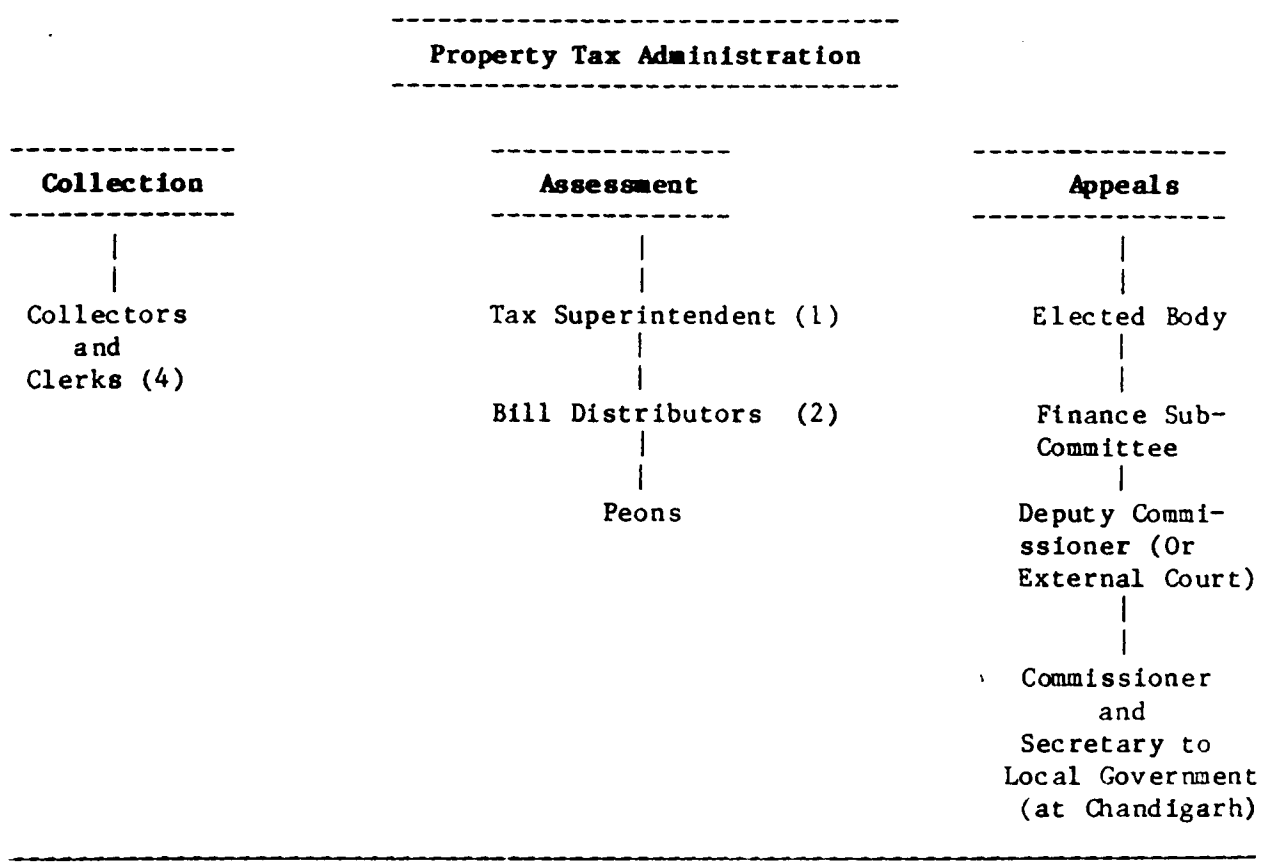
Note:* All the staff mentioned under `Appeals' is also included under the "Assessment" head.

Figures in the parentheses denote number of employees in the respective categories.

Source: Respective Municipal Offices.

CHART III.4

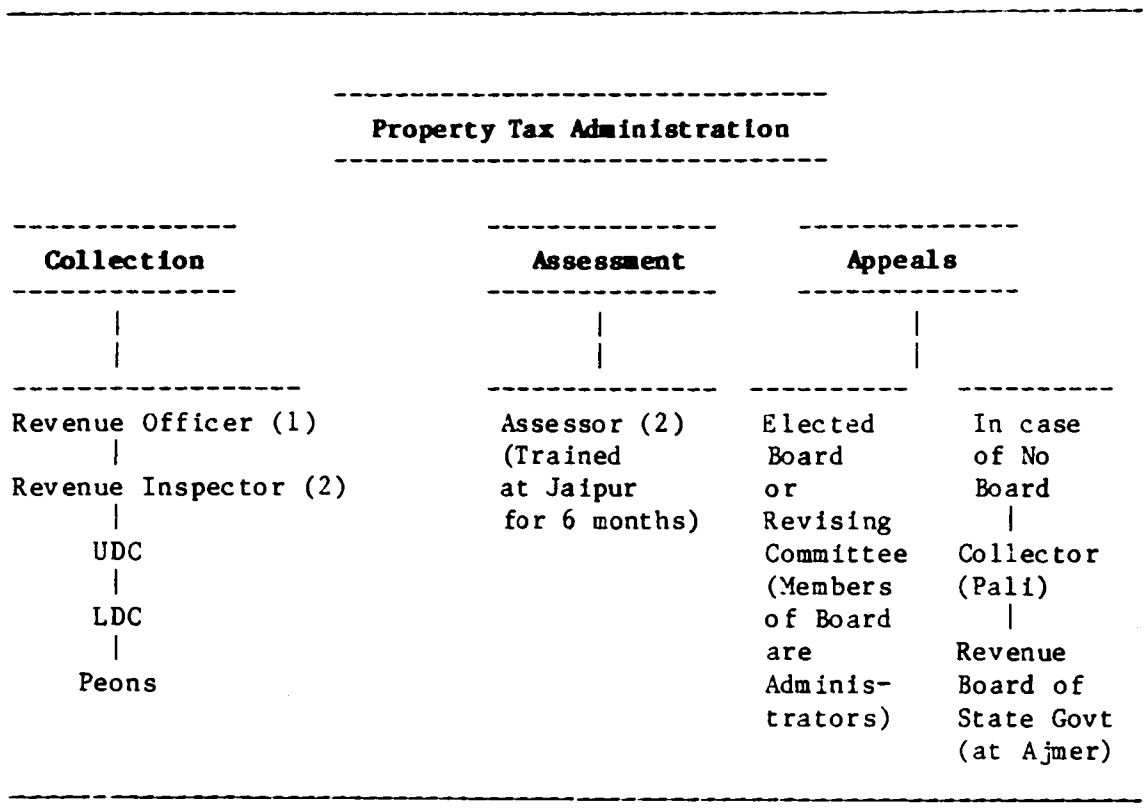
Property Tax Administration : Sirsa Municipal Council



Source: Respective Municipal Offices.

CHART III.5

Property Tax Administration : Pali Municipal Council



Source: Respective Municipal Offices.

IV. APPROACH TO LOCAL TAX REFORM

1. Basic Issues

Urban local bodies perform a wide range of functions to improve the quality of urban life. These functions generally comprise basic health and education, water supply and sewerage, sanitation, street lighting, fire protection, public markets and sometimes public transport. They also share some of the responsibilities with the State governments like land development for business and residences, capital works in respect of water supply and sewage disposal and fire protection. The concentration of population, business and industry and government establishments in and around urban centers has increased the demand for these services. The nature of demand for these services however, differs from one class of service user to another. Residents of a locality put direct demand on these services. Business and industry, besides creating direct demand also add indirectly to municipal responsibilities. That is, they impose demand on local authority services as not only part of production process (for example, refuse collection fire, water and sewerage links, roads) but also on account of the non-residents they bring into the locality as workers and customers who may also additionally require local services such as public transport, parks, libraries, and health care.

While discharging these responsibilities, local governments are faced with certain constraints, particularly those relating to their budgets and management capabilities. The budget constraint comprises tax and non-tax revenues, user charges

and State grants. The management capabilities consist of administrative machinery and its strength, problems of tax implementation and recovery of taxes and charges. The maintenance and expansion of various local services would greatly depend on the level of local budget which, in turn, would depend on the performance of the major components of budget constraint, namely, taxes and user charges and grants-in-aid. It is conjectured that external funds such as grants contribute to uncertainty in local fiscal decision making, thereby adversely affecting the level of local services. In other words, local governments' own resources possess greater predictability and therefore are likely to raise the level of local service output more for given sums. This, however, does not mean that grants always exert adverse impact on the expansion of local services. In fact, grants add to local resources and a rational grants policy, by enhancing the predictability of grant sums, may indeed contribute to higher service levels.

Two points need consideration here. First, if the elements of budget constraints are taken as instruments of cost recovery, both taxes and grants are equally important. Grants are supposed to represent the local share in State revenues which legitimately belong to the local authorities for providing services to both residents and non-residents. They are, however, constitutionally competent to levy taxes only on residents. The non-residents, however, fall outside the municipal tax jurisdictions and therefore no tax can be charged from them directly. Given the level of grants, local taxes fees and charges taken together should meet the balance of the local revenue requirements necessary to maintain and expand the local authority

services for resident and non-resident population, industry and business. Secondly, identification of different categories of service consumers is crucial.

Consumers of urban public services, as already indicated, can be classified into resident population, non-resident population, business and industry, and government establishments. Different consumer categories require separate treatment as the nature of their demand for various services may be different. What is essential is that the mechanism for tax and charges would have to be appropriately devised in consonance with their demand response to local services. Local authorities cannot, however, recover taxes and charges from the visiting non-residents. This suggests the need to lay the responsibility on industry business and government establishments to contribute at least a small amount on behalf of these visiting non-residents. If one assumes that intergovernmental fiscal transfers in the form of taxes and grants are to take care of such local revenue requirements only partly, additional local taxation on business and industry would assume special significance in an attempt to maintain a requisite flow of resources to local bodies.

2. Major Revenue Categories

Local revenue assignments render property tax and octroi (where it is levied) as the two most important revenue sources. Property tax is a tax on a property located in the municipal jurisdiction. It is assessed on the basis of valuation of a property. This tax is important for at least three reasons. First, it has been the mainstay of urban local finances. Secondly, benefits due to the existence and operation of local bodies get reflected in the value of properties located in the municipal

jurisdictions, and thirdly, most of the civic services are property based. Therefore, economic reasoning and administrative expediency would suggest that a large part of the local revenue need should be met from this tax.

Octroi is another important tax which falls on local business. Not all local bodies, however, are allowed to levy octroi. It is a tax on entry of goods into an urban local area for consumption, use or sale. The rationale underlying this tax is to collect a portion of the return on local business conducted by an outside trader. According to an NIUA study (1987), octroi constituted about 35.6 per cent of aggregate local tax revenue in 1983-84 when compared to property tax which constituted only 28.2 per cent (Table 4.1). Another important feature of local tax structure is that, except in one million plus cities, octroi has dominated the revenue scene. Octroi, however, did not exist at all in quite a few States, for instance, Tamil Nadu, Kerala, Bihar, Assam, and Andhra Pradesh (excepted Telegana region). It was abolished in Madhya Pradesh and Karnataka. There is a considerable pressure from the Central government and the traders for the abolition of this tax in other States. While U.P. has recently abolished octroi, there is a move in Maharashtra, Gujarat and Rajasthan for its abolition. Despite these attempts, octroi has been treated as an indispensable levy by those urban local bodies which have not been able to identify a better alternative.

Apart from general property tax and such business taxes as octroi, there are certain other taxes which are directly connected with services. These are taxes on conservancy and drainage, sanitation and scavenging, street lighting, water and fire protection. An educational or health cess would also fall in this category. As these services are generally in the nature of

merit goods, charges take the form of a tax. In fact, except water supply, it may not be possible to identify specific consumers. Even in the case of water supply, supplies through public standposts are supposed to cater to the needs of citizens of a locality in general. Thus except for water supply, a case can be made to adopt a general service tax. This tax can be visualised either as a complement to general property tax or as an independent charge based on some measure of benefit. As regards the charges for fire protection services, these are undertaken in a locality by the State government under the Central-State fire control policy.

3. Need for Reform

The next important issue concerns the capability of property tax and octroi in tapping all the relevant categories of service consumers within the municipal jurisdiction. We also examine as to whether the municipal services have responded adequately to the local needs Property tax can tap resident population, business and industry as well as non-residents provided business and Industry are taken to represent potential gainers from the visiting population. Octroi, on the other hand, is an important, though primitive, tax handle to tap a portion of local business proceeds which is dependent on out-of-locality supplies. Despite the fact that these taxes are capable to tap all categories of consumers of local authority services, their revenue performance has however not kept pace with the fast growing demand for municipal services. A recent study by NIUA has clearly demonstrated that growth of municipal revenues has fallen short of desirable expenditures resulting in considerable resource gaps in most States (Table 4.2).

Further, there is a widespread notion that business and industry have not contributed their legitimate share to local taxes. Inadequate taxation of business and industry by local authorities has no economic rationale. It may be argued here that there is a strong case for non-local taxation of business and industry because their taxation entails repercussions which transcend municipal jurisdictions. Lot of strength for this line of reasoning can be obtained from the recent move in Great Britain to transfer the power of taxing business and industry from municipalities to the Central government with an arrangement to pass on a part of the total revenue collected to the former in proportion of their adult population. This arrangement, however, is likely to jeopardise local fiscal fabric by increasing local government dependence on the Central government. In the interest of local fiscal autonomy, therefore, it may be considered desirable to have some form of local business taxes which may constitute the local tax system itself.

In the light of the preceding discussion, the crux of the issue is to devise ways and means to raise additional resources at the local level so as to reduce the extent of gap between ordinary revenues and desirable expenditures. The objective of the next few sections is to formulate basic issues and suggest possible lines of reform with a view to expand the municipal revenue base. It is proposed to take up for discussion property tax and octroi in this chapter.

4. Property Tax Reform

Property tax may be taken to consist of general property tax and service charges. The former is like a local tax on property income whereas the latter can be used to recover the costs of services for which direct consumption tags are not available. In this section, reforms issues relating to general property tax are discussed.

For a given tax rate and administrative efficiency, property tax yield will depend on the growth of administratively assessed ratable values. However, sluggish growth and disparities have characterised property tax base administration. The major factors responsible for sluggish growth of ratable values and assessments are the following:

i) Actual rent figures are distorted and even these are frozen in the absence of periodic revaluation of properties.

ii) There seems to be leniency in assessment of non-residential properties and discretionary assessments due to availability of more than one assessment method, viz., rental method and actual cost and building method.

iii) Legal obstacles seem to be formidable. Rent control laws are detrimental to the growth of rateable values. Further, delay in disposal of pending assessments and appeal cases within the department and in the courts of law have obstructed the growth of tax base.

iv) The formula used to calculate rent in the case of owner occupied properties is a source of stagnant assessment values. Since the historical cost is taken into account and a stipulated rate of return is applied to it, assessed values get frozen.

v) The base adopted as well as administrative practices are found to be defective. These differ from one State to another. Tax rates also vary across the States, and amongst different localities within the same State. There are certain localities where rates are high. This induces evasion and inhibits investment in housing development and renewal, resulting in lower potential tax base.

vi) Tax treatment of government properties and properties belonging to non-profit institutions including educational institutions is arbitrary and not based on sound theoretical basis. This has the consequence of a lower tax base.

vii) No clear cut conceptual distinction is made between the general property tax and service taxes. The latter are generally linked to ratable value which are not revised periodically. Consequently adversely affecting the growth in service taxes which too use ratable value as an index of service use.

The major objectives of property tax reform can now be stated as under:

i) assessed rateable value should keep pace with market trends in land prices, cost of construction and rents.

ii) horizontal equity among the rate payers should be ensured.

iii) service charges should be charged on scientific basis.

iv) rates should be moderate.

a. Revitalisation of Tax Base. It is contended that capital value method of assessments can impart elasticity in the assessed values of properties more than the annual value method

because market trends are reflected more in sales price of properties than in their rental values. Market trends are not adequately reflected in current rental value mainly because of the contractual nature of rent. Rent is fixed for a period of time and is also administered through rent control. Collusion between tenants and landlords along with the system of lump sum payments (pagree or salami as it is often called) may render actual rent receipts an inappropriate document as a proof of market valuation of properties.

These limitations of contractual rent do not however prove that capital value method is a superior device as would be clear from the following discussion. In the absence of a developed real estate market, it is extremely difficult to obtain reliable information on sales prices of transacted properties and what are available with the Registration Office are usually underreported property values to save on taxes on property transactions. Secondly, if capital value is fixed by using land and building method, lack of information and distorted figures on land values and cost of construction may not always allow true market trends to be properly reflected. Thirdly, rent controls, by prescribing lower rate of return on capital and without any provision for its periodic revision, may constrain the growth of assessed values. Lastly, similar structures coming up at different points of time would be valued differently, following the land and building method. This is because land price and cost of construction differentials would grow over time as between old and newly constructed properties. Even if it is assumed that the extent of underreporting is common to both the methods, similar structures constructed at different points of time when thrown into the rental market to earn rents may not differ significantly in their annual rentals. This would show that capital value

method may be more deficient than the annual rental value method in producing similar assessments for similar properties [(for detailed discussion see NIPFP (1981 and 1984)].

The remedy may thus lay in modifying the current rental value method itself. A modified form of rental method as against the capital value method should be preferred because the administration has since long been affiliated with this method and accumulated as a bye-product of administration of property tax based on rent a lot of rental information in the official files. Thus standardisation of assessments based on rental information coupled with an escalation clause to link it with inflation may constitute a reform package to deliver better results.

(i) Integration of municipal legislation with rent control laws. Thus the reform measures relating to determination of reasonable rental value can now be grouped under two broad categories: measures to mitigate legal constraints and steps to improve assessment procedures and practices. Keeping in view the problems of property valuation vis-a-vis the rent control laws, rents for property tax purposes can be generated in one of the following ways:

i) by defining rents purely in terms of the provisions of municipal legislation, and

ii) by defining standard rents strictly in accordance with the provisions of rent control laws.

As long as rent control provisions exist adoption of the first method would continue to be problematic. There is thus a need to integrate two legislations. Rent control, being a State

legislation and covering various other aspects of tenant and landlord relationship, is supposed to be a more comprehensive document than the municipal legislation. It may therefore be preferable to allow fixation of rent according to the provisions of the rent control laws, with the necessary proviso that municipal assessments should be guided by the rent control provisions. Even if it is difficult to modify the rent control laws, these should form the basis of rental value determination.

(ii) **Standardisation proposals.** Now that standard rents are taken as property tax base, there is a need to control ad hoc assessments by different municipal bodies in a State. One of the solutions much talked about in the literature is standardisation of property tax base. Standardisation proposals have taken three different forms: (For details See NIPFP 1981, 189-245).

a. Area based standardisation: ORG (1979) and Ramakrishna (1980) have suggested to move away from rental value and relate property tax to plinth area. In addition, surcharges or 'extras' may be added according to location, type of construction, nature of use and age of building. Each of these would be divided into a few categories and a tax value would be attached to each category.

b. Standardisation of property value: Rental value per unit of area may be fixed. This would involve setting up of a State Level Valuation Board which would not only undertake a systematic valuation of properties in all the municipal areas of a State but would also develop norms for valuation in the process.

c. Per head fixed tax amounts: British poll tax under which property tax is fixed per adult population; local inhabitant tax in Japanese municipalities which fix per capita rate depending on population size of municipali-

ties; and Development levy (poll tax) charges in Dare-e-Salaam as a fixed sum rising with income grades (For details under (iii) see Paddison, 1988 (pp. 190-204). This is very much like the Indian profession tax which is levied in some of the States either at the local level or at the State level.

The third approach does not offer a system in which tax liability Is in any way related to the use of property. Thus for property-related standardisation exercise, one would consider one of the first two alternatives. It should be recognised, however, that if area-based norms are helpful in achieving the objective of fairness in taxation, it is preferable to do so in terms of rental value per unit of area rather than tax payable per unit of area. Because in the latter method, the determination of basic rates itself would be arbitrary as it would not be related to any ability to pay parameter. In this background, standardisation of property values should constitute the basic strategy.

(iii) Periodic revaluation of properties. The next requirement of property tax reform is to introduce an escalation clause so that elasticity can be imparted in the property tax base. Keeping in view the fact that property valuation may be a stupendous task even if it is done at an interval, standardised rates per unit of area may be put to an inflation indexation. These may be revised upwards by half or one-third of the percentage point increase in the consumer price index number (CPIN) every five years.

b. Creation of State Level Valuation Boards. In order to implement the provisions of rent control legislations and standardisation measures, there is clearly a need to systematically develop rental data and norms for valuation of

buildings. This necessitates the setting up a valuation agency which would be entrusted with the task of collecting data on rents, land values and cost of construction on a regular basis and processing them in order to develop standardized rents, land values and construction costs, per unit of covered area for different types of properties. The proposed valuation agency would be statutory with the authority to call for return from each property owner, through the municipal bodies, containing full details regarding the holdings. It may also be empowered to visit the premises, with the help of municipal bodies, to collect necessary data in cases of non-compliance and where data seems to be wrongly reported.

In order to make the most effective use of information available with different agencies, the proposed board should be required to have close links with the building departments of the local bodies, valuation cell of the income tax department and the concerned local development authority. Since valuation of property is required to be made for other purposes also such as levy of wealth tax, estate duty and stamp duty such coordination is not only essential but would also be very useful however necessitate amending the Central laws relating to income tax and wealth tax to facilitate this coordination.

Once the standardized value of rents, land values and construction costs are developed by the proposed valuation agency, this information should be published. It should be emphasised here that while developing the data on rents, land values and construction costs, the valuation agency would have to follow strictly the provisions of rent legislations. It should be made obligatory on the part of the rent controller also to use this data while fixing the standard rent. As regards actual assessment

of properties, however, it should be undertaken by the municipal personnel only. But in view of our earlier observation that the assessing personnel are inadequately trained, we suggest that a suitable programme of training in matters of valuation of properties and administration of the tax be drawn up for such personnel.

c. Proper Policy on Leniency and Exemptions

(i) Assessment of vacant land. Lenient treatment to vacant land in assessment has caused erosion in property tax base. Taxation of vacant land calls for reform on two counts: (i) proper valuation of land at current market prices and (ii) selection of reasonable rate of returns.With the creation of State level valuation agency, hopefully it would be possible to determine the land values more accurately. Selection of reasonable rate of return should be guided by return on alternative investments such as fixed deposits, units, debentures of reputed private limited companies, etc. Adoption of a comparable rate of return, however, should take place after a reasonable period of time, say after 5 years, from the date of purchase of land to allow construction on it during that period. One may consider a rate of 5 per cent during first five years. After five years, however, a higher rate, say 15 per cent, may be adopted in order to encourage more efficient land use and also discourage speculation in land. If such a measure encourages building activity on vacant land, it would increase the base of the property tax automatically.

(ii) Exemptions. Almost all local bodies prescribe an exemption limit. These exemptions make inroads into standardised valuation of properties and inhibit the growth of rateable value. In the absence of information on valuation-wise classification of

properties, it is extremely difficult to estimate the loss of rateable value on account of blanket exemption. The National Commission on Urbanisation (NCU, 1988), however, estimated this to be anything between 25 and 33 per cent of the properties located in a city. Similarly, squatter colonies also fall outside the purview of the tax because of the low rateable value. Besides, local bodies are reluctant to tax a settlement whose legality they do not recognize. Further, all government buildings and properties are exempt from property tax. The extent of loss of property tax revenue on this account could indeed be sizeable in capital cities where government buildings constitute a sizeable proportion of the total building stock. For instance in Bhopal city nearly 25 per cent of the buildings belong to the State government. Similarly, properties belonging to religious, charitable and educational institutions are also exempt from property tax. Thus, to quote the NCU, not more than one-third of the properties in a city are subjected to property tax in the process.

Thus exclusion of various kinds of properties adversely affect the aggregate rateable values. Also rent control, absence of periodic reassessment of properties and lenient treatment accorded to self occupied properties have significantly contributed to the loss of municipal revenues. Tamil Nadu, for instance prohibited revaluation of properties by executive order for over 15 years. The impact of rent control is felt considerably in big cities where proportion of tenant population is not only high but also grows over time. NCU in its interim report had estimated that, if rent control laws were suitably modified, Bombay Municipal Corporation would get an additional amount of Rs 50 crore from property tax alone and the Ahmedabad Municipal Corporation would double its property tax receipts. Like-wise, Calcutta Corporation could double its tax base by

relaxing rent controls (Nath, 1984). The adverse impact of self occupancy relief on property tax revenues may be greater in smaller local bodies which probably have higher proportion of owner occupants.

When the base of the property tax is revitalised on the pattern suggested above, its responsiveness to market trends is likely to increase. Further, with the increase in prices, the tax base would automatically expand. As a result, the tax burden on each class of property owners would rise. It would happen particularly in respect of those properties whose owners have not thrown open their structures for earning rents or profits in the market. Thus there may be a case for granting relief to such taxpayers, namely, owner occupants of residential properties. Similarly, 'circuit breakers' can be designed taxpayers in the low income groups, pensioners, widows and retired persons who live in their own houses. Relief may be given in the form of rebate on rateable value, say, to the extent of 25 to 30 per cent, so that changes in the rate structure do not disturb the extent of relative relief provided. Exemption of charitable, educational and religious properties should be discontinued once their involvement in income earning activities is established. Finally, exemptions should be given only on the administrative grounds and not under any extraneous consideration.

Exemption of government properties from a general property tax seems to be justified, as their taxation would amount to simple inter-account transfers between governments. However, collection of general property taxes from government properties can be advocated on the following grounds: (i) this would decrease local government's dependence on State government grants; (ii) this would reduce the degree of uncertainty in local government

expenditure decisions emanating from sporadic nature of grants; (iii) users of Central and State government services should pay for the use of municipal facilities. It may not, however, be advisable to fix rates for government properties which are applicable to private properties. A consolidated service charge thus should include besides service charges, an element of general property tax.

d. Measures to Improve Tax Administration

(i) Filing of property return. Under the proposed system, data on rents, land values and cost of construction per unit of covered area for different localities are expected to be developed by the proposed State Level Central Valuation Board. The assessment department would be entrusted with the task of obtaining detailed information about covered area, number of floors, nature of occupancy, use, age of the building etc. To begin with, information on these items may be collected through a system of property returns field every year by property owners to the assessment department on the pattern of income tax returns. It should be made statutory for every property owner to file the return on his own with a copy of it to the State Level Valuation Board.

The entries in the property return may require verification before the actual work of assessment begins. Verification of the details given in the property return can be done by sample checks. A sample of say 5 per cent of the total properties may be taken up for thorough scrutiny every year. If sample checks reveal that the rate-payers are generally engaged in distorting facts, more rigorous checks can be carried out under the supervision of senior assessment officers. Once the task of

development of rental data is entrusted to the State Level Valuation Board, the assessment staff would probably have more time and resources to verify effectively the information furnished by the taxpayers.

In order to streamline the various aspects of property tax administration, the importance of computerising data need not be emphasised. In the proposed system, the rateable values would be subject to revision by some fixed percentage of the price index every 5 years. When the data is stored in the computer, not only the work of assessment but also reassessment of properties can possibly be done more efficiently both in terms of costs and time. Improvement in the record keeping practices in the assessment department can also be effected with computerisation.

It may be emphasised here that facts on which valuations have to be based are covered area, use, age and locality, all of which are amenable to physical verification. These steps would reduce the element of subjectivity on the part of the assessment officers and would at the same time reduce the extent of disparities in assessment. Since under the proposed system assessment of properties is based on norms supplied by the State Level Valuation Board, the problem of underassessment of properties is expected to be scaled down considerably.

(ii) **Reform of appellate procedures**. Under the existing arrangement, there are internal and external arrangements for objections and appeals. Objections can be raised within the municipal body against proposed assessments, an exercise undertaken annually. Such objections are generally heard by the assessor or principal investigator who is one of the middle level or senior level officer of the assessment department. Next level

where objections can be heard is the Commissioner or a Committee appointed by the State Government. The Committee consists of the Commissioner, a State representative and a judicial representative. These objections take the form of appeals which get formalised when objections are channeled to the court of law.

Since expeditious disposal of objections and appeals would enhance revenue collections, it is necessary to minimise the number of cases going to the courts. To achieve this objective, internal appellate procedure needs to be streamlined. It may be worthwhile to have a two-tier internal appellate procedure. At the first stage, there should be a committee of appeals headed by an assistant commissioner (appeals). Other members of the committee could be experts in property valuation and legal matters. In large cities, a chartered accountant may also be associated. The second tier should comprise an appellate tribunal headed by the commissioner along with all the members of the committee of appeals and a State representative. State representative may be drawn from the State Level Valuation Board with expertise in valuation.

The decision of the appellate tribunal will be final on points of facts. On points of law, however, order of tribunal may be challenged in the District Court. It may be made explicit that no suits or writ petitions can be filed in the civil courts. What is essential to note is that only high value property owners have taken resort to filing civil suits or writ petition. One of the probable reasons could be to forestall any move of the assessment department to collect the tax, enabling the owners to save the amount of interest on the tax demand. As in the income tax, therefore, it may be necessary in the property tax also to have a system of charging interest for the period starting

from the original date of tax payment and when the final payment is made. If, however, a part of the tax demand has been deposited in accordance with the instructions of the court, interest would be chargeable only on the balance.

(iii) Strengthening collection machinery. Once the assessment administration has been streamlined, the next important step is to strengthen the collection machinery. Mounting arrears constrain the growth of revenue collections. Thus if the sources of generating tax demand and tax collection are streamlined, followed by vigorous collection campaign, the growth of property tax revenue would probably be much higher. A vigorous enforcement campaign including the use of legal remedies may be the effective means of obtaining buoyancy in the tax. In some of the localities, the legal remedies to collect the tax may have no meaning. Saharsa municipality in Bihar for instance, witnesses large scale default In payment of taxes. In some other municipalities even the State and Central Governments have joined the private sector in causing tax arrears to pile.

Since strict enforcement is in all probability likely to be resisted, it must be accompanied by a two-pronged informational campaign. The first stage of the campaign should concentrate on the elected and administrative officials who should be made to appreciate as to the implications of lagging property tax collections for the city's financial problems. The second stage should take the campaign to the taxpayers with a view to demonstrate to them the impact of continued resistance to compliance with the tax on civic services. Thus greater emphasis should be accorded to improving taxpayers perception' as well as to foster better understanding between the taxpayer and tax administration (for a vivid treatment of this aspect of tax

administration, see Owens, 1988). These measures would have the effect of reducing the extent of popular resistance to the implementation of legal remedies and would contribute significantly to any programme aimed at enhancing compliance with the property tax policies.

In the absence of requisite voluntary compliance, use of penalty, attachment of rent and property should constitute the extreme remedies. Regular publication of names of tax delinquents in local newspapers may also help compliance. As a rule of the thumb normal tax collection rate should not be less than 75-80 of the total tax demand.

e. **Rationalisation of Rate Structure**. In practice, property tax systems are characterised by different rate schedules, namely, flat rates, progressive rates, both for general property tax and service charges and a combination of both. There are two vital issues which relate to the level of tax rate and the choice between a flat rate or a progressive rate. In the proposed system, it will be seen that the rent control provides a basis for the municipal valuation and standardised rents would be indexed to inflation to capture the market trends. Now when assessments are done properly and revisions of assessments are also carried out regularly, the rate of tax should be much lower to keep the burdens within moderate limits. Further, as service charges are proposed to be designed independently, a progressive rate may be favoured on the assumption that higher the property value, higher would be the income from property.

The rationale for a progressive rate schedule is based on the ability of the landlord to pay the tax, although the entire tax burden is not always borne by them (for a discussion of

theoretical and empirical issues on who bears property tax burden, see NIPFP, 1981, NIPFP, 1984, Nath, 1987). While the incidence may be borne by the landlords in the case of owner occupied properties, in the case of rented properties and properties under commercial use, there is however a strong possibility of shifting of the tax to the tenants in the form of higher rents and to the consumers of products of the firm using the taxed premises in the latter case. It may be quite likely that a good part of this tax is passed on to the tenants even if rent control exists (see Nath, 1984).

Progressive rents based on ability to pay principle can be applied only to the category of owner occupants of residential properties. In the case of rented residential properties, it may not be possible to distribute the tax burden according to the ability to pay of the landlords. If the tenants of the residential properties are not found to be richer than the landlords, with possibility of tax shifting, progressive rates may be inequitable. As regards incidence of property tax on commercial properties it may be taken to be regressive.

The preceding discussion shows that except in the case of owner occupied properties, it is not quite clear whether application of progressive rates will promote equity. Even owner occupants of residential properties cannot be subjected to progressive rates because shelter is an essential need and its ownership should be promoted. Thus a moderate rate is justified on the grounds of both equity and efficiency. In other words, moderate rates would be less inequitable and would exert less dampening impact on housing investment. As a general rule, rates should not be more than 15-20 per cent of the rateable value as there are other taxes such as income tax, wealth tax, etc. which

also fall on the same property, thereby adversely affecting the rate of return on housing investment. Even a tax rate of 20 per cent can be recommended only for big cities where appreciation of real estate value is much higher. In general, rates can be designed between 10 and 20 per cent of the ratable value. Since it is contended that high value properties are relatively undervalued, progressive rates can be justified to counter the dampening impact of undervaluation on property tax yields.

5. Octroi : Constraints and Alternatives

Various committees and individual researchers have repeatedly recommended abolition of octroi. The debate is mainly seized of the issues of hindrance to free flow of trade, rampant corruption at the checkposts, high costs of collection and wastage in terms of time and fuel loss. Although there may be scope for improvement of octroi so as to reduce evasion as well as inconvenience to the taxpayers, it is almost universally considered to be an undesirable levy. Attempts to remove the shortcomings of octroi and administration may be a futile exercise as some of them are built in the system.

An analysis of resource allocation, equity and administrative aspects of octroi would bring out its basic limitations. It distorts resource allocation and trade flows. It is probably a regressive tax. Despite these shortcomings, this tax has continued to be levied in nearly ten States. Reasons for reluctance to remove it are obvious. Octroi provides ready source of revenue to most municipalities in the absence of which they would be hard put to meet their immediate and growing expenditure needs.

Thus any attempt to rationalise octroi would involve two alternative exercises. In the first exercise, attempts may be made to rationalise the assessment mechanism and rate structure of octroi with a view to minimise its adverse effects on resource allocation, equity and administration. In the other exercise, an attempt can be made to replace this tax by another tax which will yield an equal amount of revenue to the local bodies. These alternatives are discussed here.

a. **Streamlining Administration.** Octroi, being a checkpost based levy has built-in-device to create hindrance to free flow of trade and commerce. In an attempt to reduce the extent of hindrance and associated corruption, administration at the checkposts needs to be streamlined. Surprise checks by senior officials may be used as an instrument to reduce the extent of delay and corruption at the checkpost. A second measure which pertains to improving assessment administration would be to devise ways to introduce a system of post-collection checking of accounts. This may require registration of dealers for the purposes of octroi. Since octroi administration does not have any administrative machinery beyond the checkposts, help of sales tax department would be necessary. To have an integrated approach, sales tax registration numbers can be used also as octroi registration numbers. This measure would, however, cover only bigger dealers. Movements of goods by non-registered dealers and through other informal sources would have to be tackled by the octroi administration at the checkpost itself.

In order to further improve the productivity of octroi, it is desirable to convert specific duties into ad valorem levies. The advantages of specific duty is its simplicity and dispensation with the valuation of goods. Specific duty may still be retained

for low value goods. However for high value goods such as electronic goods and watches, a switch over from specific to ad valorem duty would raise additional resources by increasing responsiveness of octroi to price inflation. The system of ad valorem rates, besides adding to productivity of the tax, would minimise the degree of discretionary assessments and associated corruption. Thus, blanket switch over from specific to ad valorem rates may not be advisable. In order to impart elasticity an upward revision of specific rates linked with inflation may be preferred to any blanket switchover.

b. Alternatives. However, given the inevitable exit of octroi, despite lingering protests, attempts should be made to replace it by another tax which should satisfy the following conditions:

i) the new levy should be account and return based.

ii) it should be revenue neutral.

iii) its regresivity should not be more than that of octroi.

iv) it should ensure free flow of interjurisdictional trade commerce.

v) it should be a local level levy.

In the tax literature, various alternatives have been discussed (see TEC 1953-54, ITEC, 1978, Task Force 1983, Nath 1987, Nath and Sen 1989). Three taxes, namely, entry tax, business property tax and surcharge/additional sales tax have attracted most attention of the fiscal analysts. A brief account of these

alternatives and their administrative and revenue implications which would be instructive for policy purposes has been attempted here.

(i) **Entry tax as a substitute**. Entry tax is a tax on entry of goods into a local area for consumption, use or sale. Viewed thus, it is similar to octroi. However, entry tax is different from octroi in the following respects. First, it is not collected at the checkpost. It is payable by sales tax dealers by furnishing returns as to how much of their purchases are from outside the local area. Thus entry tax is less costly to administer. Secondly, it has been conceived as an *ad valorem* tax as against octroi which is a combination of specific and *ad valorem* levies. Thirdly, entry tax is a State-level levy where as octroi is a local levy. The entry tax revenue, however, is treated as local revenue because it is passed on to local bodies as a compensation for the loss of octroi revenue. Thus entry tax is a revenue substitute of octroi only in the form of a compensatory grant. Finally, it is restrictive in application as only the selected commodities transacted by registered dealers alone are subjected to entry tax. The commodities covered by entry tax are generally those which either fall outside the sales tax legislation namely, goods covered under additional excise duties in lieu of sales tax, which are subject to tax rate limitation under the category of declared goods. Despite recent attempts to increase the number of goods taxable under entry tax legislation, the commodity coverage continues to be restricted. Besides fewer commodities taxable under entry tax, the exemption limits for the registration of sales tax dealers also exclude a portion of the transactions of even taxable goods.

The above comparison between octroi and entry tax indicates that entry tax is a form of tax supplement to sales tax which falls only on imports into a locality. Entry tax has replaced octroi in Madhya Pradesh and Karnataka. Task Force (1983) and Kasbekar Committee (1987) recommended this tax as a substitute for octroi. However, entry tax has its own shortcomings. It is not only discriminatory between local and non-local goods but also within the non-local goods between goods of mass consumption and intermediate products on the one hand and on the other all other goods. This renders entry tax more distortionary in nature than the octroi. This discriminatory treatment may thwart the goal of uniformity in taxation of mass consumption goods and lenient treatment of intermediate products. Further, levy of this tax may adversely affect the interjurisdictional trade and commerce.

Entry tax is designed and administered at the State level. However, the local bodies are compensated to the extent of estimated loss of octroi revenue. Given the fact that there is a tendency in taxes to stick where they are collected, any State level tax cannot be a perfect revenue substitute even if it is revenue neutral, as it adversely affects the liquidity position of local bodies. Studies have shown that revenue neutrality of the entry taxes in Madhya Pradesh and Karnataka is less than complete; entry tax collections may not have constituted more than 50 or 60 per cent of the octroi collectible in any case (See Nath and Purohit, 1989, 56-79).

The reason for entry tax being not revenue neutral lies in that State governments have constrained its coverage. Thus, entry tax may become revenue neutral if its coverage is expanded. One may argue here that why not use sales tax in the form of a

surcharge or additional levy when entry is also a supplement to sales tax. More appropriately, a municipal sales tax may be piggy-backed on the State sales tax. Indeed on efficiency grounds, a surcharge on sales tax would be better than an entry tax which discriminates against non-local goods more particularly mass consumption goods and intermediate products. One of the advantages of municipal surcharge under the sales tax system may be that it would not fall on goods subject to rate limitation, namely, declared goods and additional excise duty items. Further, unlike entry tax which falls mainly on these goods, municipal surcharge on sales tax would not interfere with the objective of uniformity of tax rates in respect of certain category of goods. But like entry tax, sales tax too is a non-local levy and therefore cannot be taken for granted as a revenue device capable of alleviating the local fiscal distress in the absence of octroi. However, with earmarking of this surcharge as a municipal revenue source, and transferring local shares on a quarterly basis may partially resolve the problem of day to day liquidity.

(ii) **Search for a local tax**. In the light of the limitations of the taxes likely to be employed as a substitute for octroi, i.e., surcharge/additional sales tax and entry tax, the significance of a local levy emerges very clearly. In an attempt to identify local bases that can be tapped, it may be highly instructive to discuss local taxes in selected foreign countries that can in the absence of octroi constitute an alternative package to strengthen the urban local finances. The important ones are local sales tax, local business tax and business property tax. The local sales tax is a tax on sales in a local jurisdiction. It is basically a local counterpart of State level

sales tax. In the U.S., this tax is levied by many of the municipalities, and in 1983 it constituted about 20 per cent of the local government revenues (Hyman, 1987, 21).

The local business tax is a tax on the business turnover in a local area. There are two important models of local business tax - the West German model and the Philippine model. The West German model is more varied and complex. It consists of the local profits tax and the local capital tax. For the local profits tax, assessment of taxable income is roughly identical to that for the Federal corporation tax. The local profits tax is deductible from the Federal corporation tax base. The local capital tax is based on the same definition as the Federal wealth tax, including the value of long-term debt but excluding taxable buildings. Hence, the tax base is solely plant and machinery. This tax is also deductible both from the local profits tax base and the Federal corporation tax base. Both the components of the local business tax in West Germany yield fairly large sums, contributing 12.6 per cent in 1984 (Bennett and Krebs, 1987, 28).

In the Philippine model, the local business licence tax is an amalgam of three types of business tax or licence fee. The major form of business tax is a gross receipts tax with the tax rate varying according to the type of business and total sales. The second form is an annual fixed amount levied without regard to the volume of sales, resembling a licence fee paid for the privilege of doing business in the local area. The third Is an amusement tax imposed as a flat percentage rate on admissions to the places of entertainment. The first component, that is, gross receipts tax, is the largest revenue raiser for the city and

municipal governments. Taking the three components together, in many jurisdictions they have surpassed even the local property tax (Bahl and Schroeder, 1983, 82-89).

The business property tax, the third important form of local tax on business is of the British type in the form of rates on non-domestic property. It has two components: tax on land and buildings and tax on plant and machinery fixed to the buildings, deemed to be part of the structure. The tax base is the net annual value in rental or lease income which a property can command. Actual rent evidence is used for valuation of a large proportion of the non-domestic sector. However, in the case of hotels, restaurants, etc., net annual value is derived on a `profit basis´ and in the case of plant and machinery, town halls, fire stations, and public institutions, railways and the like, net annual value is calculated on a `contractor´s basis´. The non-domestic rates contributed around 17 per cent to the UK local authority finances in 1984-85 (Bennett and Krebs, 1987, 26).

With the introduction of poll tax in Great Britain this year, local business poundage (local non-domestic rate) will be replaced by a nationally uniform rate poundage called Uniform Business Tax (UBT). Since a national system will not be possible until a revaluation of all non-domestic properties has taken place in England, Scotland and Wales, initially the rate poundage in Scotland will be nationalised and indexed to the rate of inflation (See Martlew and Bailey, 1986, 75-91, and Bennett, 1988, 150-171 for details). It is also proposed that the proceeds of the non-domestic rates will be distributed between local authorities according to their adult resident population. In addition, local authorities will be left with the discretion to levy an additional local tax at 5 per cent of national UBT rate.

The various forms of local business taxes which may offer quite attractive alternatives to octroi thus are local sales tax, local profits tax, local capital tax, business licence tax and business property tax. Except the business property tax, all the taxes discussed here are not plausible alternatives in the Indian context for one simple reason that these entail overlapping tax powers across the taxing jurisdictions. Adoption of other taxes would amount to allowing more than one taxing authority to tap the same tax base. The local profit tax would tax corporate profits, taxable under the Central corporation income tax; the local capital tax would tax wealth taxable under the Central wealth tax and the local sales tax would tax sales turnover of dealers taxable under the State sales tax. The business licence fee is a combination of sales tax, profession tax, and entertainment tax which are already a part of the fiscal armoury of the State governments. Besides the problem of tax overlapping and resulting State-local tax competition, the municipal administration may not be equipped with the requisite capability to handle these tax bases independently. Eventually, a situation may arise when the local administration may have to depend on the Central/State government administration to determine even the tax base. These bottlenecks may leave business property tax as the single tax item which can fulfill all the conditions postulated above.

(iii) Business property tax. Business property tax (BPT) can be designed as an appendix to the general property tax. A few of the property tax systems do provide for separate and higher taxation of business properties. These take the form of either higher tax rates or higher rentals for the business properties. However, the existing treatment does not adequately tax the

rapidly growing number and value of business properties and market places. Available estimates for Delhi Municipal Corporation would show that the rateable value of commercial properties constituted not more than 20-25 per cent of the total rateable values during 1975-78 (See Nath and Schroeder, 1984, 33-44). Due to lack of information on business properties for different towns and cities, potential of BPT cannot be estimated. But estimates using data for private markets in Calcutta have shown that with a very low tax at the rate of Rs 1.25 per sq. ft., tax collections may exceed Rs 1 crore annually for the Calcutta Corporation (NIPFP, 1981, 257-60). This result may hold for a bunch of well defined private markets. The results of another sample survey covering both residential and commercial properties in the New Delhi Municipal Committee area indicated that tax base determination of commercial properties was not significantly different from that of residential properties, at least in half of the total number of properties surveyed (NIPFP, 1984, 86-89). With the help of assessment ratio (assessed value divided by estimated marked value), the same survey further substantiated this result for the old Delhi Municipal Corporation area. The assessment ratios of commercial properties with assessment value of Rs 1 lakh or more hardly exceeded 30 per cent, whereas it ranged between 50 per cent and 90 per cent for residential properties (NIPFP, 1984, 83-85).

Business property in an urban area for tax purposes may be defined to include properties used for industry, trade and commerce, entertainment and profession. Premises used for these purposes may be classified into identifiable categories and BPT be fixed per square foot of the covered area under such premises or as per cent of the taxable value of property. Differential taxes per unit of area may be adopted for business properties located in different parts of a municipal area in order to capture variations

in the business potential To impart elasticity, business property taxes per unit of area, moderately fixed initially, may be positively linked to inflation. Tax per sq. ft. of area may be revised upwards every 2/3 years by a fraction of the wholesale or consumer price index number. Alternatively, taxable value of properties can be standardised per unit of area and later linked to inflation.

For the success of BPT, State rent control legislations, which do not exempt business premises should exclude them while prescribing rent regulation rules. The constraining impact of rent laws however, may not be relevant if BPT is determined per unit of area instead of rent. One of the great advantages of BPT with different rates for business located in different parts of a locality is that it can generate resource reallocation resulting in rational use of urban land and built up space. The efficiency of such a tax measure would be maximum in very large cities facing acute land and built up space scarcity.

The final question is as to whether BPT would be able to meet such a huge revenue demand if it replaces octroi, the most buoyant and single largest revenue head. According to the calculation made by Kasbekar Committee (1987) for the city of Bombay, a rate of Rs 5 per square foot for industrial and commercial properties would be able to wipe out the loss of octroi worth Rs 230 crore. With more accurate data, rates can be designed more precisely. If this can be true for Bombay where loss of octroi revenue should be maximum for an urban area, BPT may constitute such a revenue strategy for other municipal jurisdictions as well. Further, a proper evaluation of BPT may prove it to be superior to entry tax and other sales tax supplements in terms of resource allocation and equity effects.

Intervention of this tax over a large canvass of municipal jurisdictions with minimum inter-jurisdictional rate differentiation may make it less distortionary.

To sum up, there is no need to emphasise that elimination of octroi is inevitable. This, however, necessitates efforts to locate alternative tax packages. BPT which satisfies the local levy requirement, emerges as a strong revenue substitute. If, however, skeptism obstructs fiscal experimentation and policy makers do not subscribe to the idea of exclusive dependence on property related taxes, a diversified system of taxes would have to be designed. In that event, a package consisting of BPT and municipal surcharge on sales tax may be considered to meet the local revenue requirement in the absence of octroi. Only a package consisting of BPT and entry tax can be considered as the best alternative.

TABLE 4.1

Composition of Local Tax Revenue

Class State	Property Tax		Octroi		Others	
	1979-80 % share in total income	1983-84 % share in total income	1979-80 % share in total income	1983-84 % share in total income	1979-80 % share in total income	1983-84 % share in total income
+ One Million	21.2	34.5	29.5	33.8	22.8	6.3
100,000 - One million	10 4	9.7	33.8	46.0	10.6	14.4
50 000 - 100,000	8.0	10.0	24.4	26.6	22.4	16.4
20 000 - 50,000	6.7	6.8	25.8	23.4	18.7	19.5
- 20 000	4.9	5 5	31.8	24.7	21.9	18.5
TOTAL	18.4	28.2	30.0	35.6	20.5	8.6

Source: National Institute of Urban Affairs (1987, 24).

TABLE 4.2

Estimated Resource Gap at 1986-87 Prices Using Zakaria Committee Norms

State	Amount (Rs Lakh)	Per Cent to Revenue Income
Gujarat	376	41.00
Haryana	973	77.33
Maharashtra	737	39.04
Orissa	608	57.79
Punjab	1135	78.82
Rajasthan	3881	159.73
Uttar Pradesh	8442	158.20
Andhra Pradesh	3518	70.79
Assam	1068	1741.81
Bihar	1172	946.50
Kerala	2936	224.77
Tamil Nadu	3004	122.12
Karnataka	3124	84.07
Madhya Pradesh	1345	99.96

Source: NIUA (1989), X1 to X8.

V. COST RECOVERY IN MUNICIPAL SERVICES

1. Introduction

In the preceding chapter, the discussion was focused on the basic issues and the lines on which the local tax reforms can be contemplated. The two major taxes, namely, general property tax and octroi were discussed. These taxes are employed to raise local revenues to finance local services for which identification of direct beneficiaries is almost impossible. The services in this category are general administration, public health and sanitation, street lighting, road maintenance and public work. However, there are certain urban public services for which it is generally possible to identify direct or indirect beneficiaries. The first category of such services includes certification of building plans, registration of birth and deaths, issuing of licenses to trade and industries, and regulation of markets and slaughter houses. Some of the common charges for these municipal services are registration fee, fair tax, animal tax, market tax, toll tax, carriage tax, advertisement tax and pilgrims tax. In this category one can also include commercial activities of urban local bodies. For instance, some of the local governments invest in the construction of commercial space and charge rent to recover the costs from the vendors. All these charges and rents taken together constitute non-tax revenues of the local bodies.

The second category of services includes water supply, garbage disposal, drainage and sewage disposal facilities. For this category of services, although direct and indirect beneficiaries can be identified, adequate charging may be

constrained because of the lack of appropriate consumption tags that may be used to allocate service costs to the users. Water tax and water charges along with sewerage, drainage and scavenging taxes are commonly employed taxes and charges for this category of services.

Non-tax revenues normally do not constitute more than 5-10 per cent of the local governments' ordinary revenues. Property tax, octroi (where it is levied) and grants constitute most of the local revenues. Taxes on conservancy and drainage, sanitation and scavenging, lighting, fire, water, etc., are either amalgamated with general property tax (as in Calcutta in the form of a consolidated rate) or are shown independently but are collected along with general property tax on the basis of ratable value of a property and hence collection from these taxes constitute property tax revenue. Water charges, however, are treated separately, depending on the system of water supply in a particular locality and the structure of State-local relations in development and maintenance of water supply systems.

The objective of this chapter is two fold. First it provides a brief discussion of the additional scope for fees and rents in municipal budgets. Then we take up the problems and prospects of charging for water and water related services, such as drainage and sewerage.

2. Fees and Rents

Fees are charged generally on a flat rate basis. They lack responsiveness to the growth of local economy and increases in municipal expenditures because of their fixed nature. For this reason, fees cannot develop as an important source of local

revenue. Nevertheless, some increases in the amounts charged as fee are necessary because of inflation and consequent rises in salaries of local administrative staff engaged in providing these services.

Among the other non-tax revenue, rents from commercial properties developed and maintained by the local governments may constitute an important source. In most of the cases, rents have not been revised upwards for a long time. It would be desirable to develop rents on commercial properties as an important local revenue source. In one of the sample municipalities, namely, Punalur in Kerala, for instance, fees, fines and rents have constituted more than the property tax revenues (Table 5.1). It is worth mentioning here that the revenue from local government enterprises has acquired a pivotal role in the municipal finances of Philippines (See, Greytak and Diokno, 1983, 140-87).

Lessons can be drawn from such experiences in designing policies towards local government commercial enterprises. The success of this kind of means, however, would depend on the State government support to the credit financing of remunerative projects relating to development of market places within the municipal jurisdictions. State governments may consider the possibility of earmarking a portion of the State government's capital funds for this purpose. Given the buoyant conditions in the business sector, following rapid urbanisation and income growth, such projects can earn sizeable amount of incomes, if commercial spaces are auctioned and market rents charged for them.

3. Financing of Water Supply and Sewerage Systems

a. Water Supply and Sewage Disposal Systems. For the provision of water supply, and sewage and solid waste disposal services, developmental and maintenance responsibilities have been separated and assigned to different agencies (Chart V.1). The major part of local expenditures on these services is undertaken by the State government departments of public health and engineering (PHED), urban development and local self government. It is done on behalf of the local bodies who are supposed to repay the loan component of these projects to the State government. In some of the States like Karnataka, Maharashtra, Kerala, Punjab and Utter Pradesh, State level water supply and sewerage boards have been set up and entrusted with the responsibilities of developmental activities in respect of these services. Besides governmental network, several public sector undertakings and large private industries have their own water supply and sewerage projects consisting of both developmental and maintenance activities in their own townships. Examples of such townships are Rourkela, Bhilai, Jamshedpur and Bokaro.

In some of the metropolitan cities such as Delhi, Bombay and Ahmedabad, capital projects for water supply, drainage and sewerage services are designed and implemented by the municipal corporations. The cities of Bangalore, Madras and Hyderabad, however, have their own metropolitan water and sewerage boards both for development and maintenance functions. In West Bengal, an entirely different system is in operation. In selected towns and cities both local bodies and urban development authorities coordinate their activities to provide these services. For instance, within the Calcutta Metropolitan area, Calcutta Metropolitan Development Authority (CMDA), Calcutta Metropolitan

Water and Sanitation Authority and Calcutta Improvement Trust undertake capital projects besides the Corporation of Calcutta, PWD, waterways department and some others. Most of the local bodies are assisted by CMDA and other State government departments in discharging these functions.

In some of the cities like Kanpur, Lucknow, Pune and Nagpur, capital expenditures are undertaken by the State level water Boards especially created for this purpose. PHED, however, is responsible for capital works in some other cities like Jaipur and Hyderabad (till the water and sewerage board come into being).

The responsibilities in respect of maintenance of capital assets and provision of water supply and sewage disposal facilities and cost recovery is generally with the local bodies. In cases where local bodies are financially and organisationally weak, the State governments take up the maintenance and sometimes distribution responsibilities either for a short or a long period. During this period, the local bodies are supposed to collect charges and remit them to the State government or State agency. In many cases, such remittances are, however, not made. In the cities of Bangalore and Madras however, metropolitan level boards do the maintenance, supply the water and collect the charges.

b. Financing of Expenditures. The existing system of financing capital expenditures for water supply and sewerage facilities consists of surpluses from municipal current accounts, grants and loans from the State governments and loans from the LIC and HUDCO. The loans are generally taken in the name of municipalities/corporations, but the entire amount is transferred to the State PHED or the State level board which is responsible for undertaking capital projects on their behalf. The repayment

of loans, however, is the responsibility of the local governments. It is a different matter that municipal governments have not as yet developed a culture of loan repayment. Besides, the major municipal corporations can also resort to market borrowings subject to approvals of the State government, Central government and the RBI. Some of the major metropolitan governments also receive funds from international agencies such as the World Bank under the arrangement of externally aided projects. Local governments get external component of the project cost in the proportion of 70 per cent loan and 30 per cent grant. Further, capital funds flow to the municipal bodies in the form of centrally sponsored projects/schemes and also for the State sponsored projects. The above description shows that the responsibility of financing of municipal capital projects is with the State governments. Central government plays its role through Centrally sponsored schemes/projects and by providing lump sum transfers for urban infrastructural development in metropolitan cities on a selective basis.

The financing of operational and maintenance expenditures, however, generally remain within the domain of urban local bodies along with the responsibility of charging for water supply and drainage and sewerage facilities. There are some one-time collections namely, connection fees and installation charges for water supply. While a part of the general property tax can also be taken to indirectly represent user charges for these services, water and sewage taxes are used for direct charging for these facilities. Sewerage tax, in the absence of any consumption tag, like other taxes such as scavenging/ sanitation tax, conservancy tax and lighting tax, is charged on

the basis of ratable value of a property (a practice for more common) or where water is supplied through the meter it is collected along with the water charges.

The charges for water consumption have either been based on the ratable value of the property, or on approximate consumption of water measured through the number of taps (sometimes with ferrule size), or else on actual water consumption as recorded in the water meters. As regards water supply, water charges are collected either at a flat rate or through progressive rates. The number of slabs for progressive rates, however, vary from one town to another. Finally, water and sewerage charges for non-domestic consumers, whether dependent on ratable value or on the quantum of water consumed (the latter is more common), are much higher when compared to those applicable to domestic consumers.

Thus the collection mechanism of these charges have taken three principal forms:

(i) charges or taxes are collected and retained by the municipal authority. This system is applicable in those localities where both maintenance of capital assets and distribution of water is with the local bodies.

(ii) charges are collected by the local bodies but the proceeds are transferred to the State level agency which assumes of both maintenance and distribution liabilities. In a few cases, however, transfer of collected amount does not take place.

(iii) Charges are collected and retained by the State level agency with the help of their town level officers.

The above documentation shows that the charging systems for water supply and sewerage facilities vary considerably from one State to another, and sometimes even within a State. Similarly, the system of cost recovery varies quite significantly from one State to another. In almost all cases, the earnings from water supply and sewerage operations form only a fraction of the operation and maintenance expenses which in turn adversely affects the maintenance and expansion of these facilities. These issues are taken up for discussion in the following sections.

4. Cost Recovery

Policies relating to pricing and cost recovery of the local services would depend on the quality and nature of services being provided. Water supply and sewerage services are considered to be so meritorious that their provision through the budgetary process is considered necessary. These services confer collective benefits on the community in the form of environmental improvement and sound public health which are in addition to direct benefits to households and other categories of users, namely, commercial and industrial enterprises, charitable and educational institutions and government establishments. Thus while designing charging mechanism for these services, the bare necessity of these services and the nature of different categories of consumers should be taken into consideration.

Before discussing our approach to charging for these services, it would be necessary to describe the computation of the amount of recoverable costs and the existing methods employed by State and local governments to recover these costs. Depending on the availability of data, the analysis has been carried out considering mainly the water supply. However, while designing a

charging mechanism, the services considered are water supply, sewerage and drainage, solid waste disposal, sanitation and garbage disposal.

a. Recoverable Cost of Water Supply. Cost of water supply can be visualised both as economic and financial costs. Economic costs refer to the incremental costs to the community of satisfying marginal demands (for conceptual issues in public utility pricing, see McLure, 1977 and Saunders, et.al., 1977). Computation of incremental costs would require knowledge of direct and indirect costs. These would add to the cost which is equivalent to the foregone social product which the withdrawn resources from the system would have generated, also known as opportunity cost of producing an additional unit of water. Financial costs, on the other hand, is basically an accounting term. It includes expenditures over execution of capital projects, maintenance of capital assets and supply of water. In other words, it includes all of their operating costs and costs of servicing debt associated with their capital expenditures (historical financial obligations). Recent developments in inflation accounting have led to include current cost depreciation as well as opportunity costs of public sector capital (`economic' financial obligation).

Determination of economic cost of water supply enterprises is a fairly complex task. It requires knowledge of interrelationships between water sector and rest of the economy. Cost determination based on economic considerations, however, are more important when an attempt is made to allocate resources between competing uses. While framing a charging mechanism, besides allocative efficiency, other considerations such as equity and financial adequacy in accounting sense become more relevant.

Now in regard to the question of what costs should constitute recoverable costs, the distinction between capital and `operation and maintenance' expenditures is useful. It has been noticed earlier that barring a few metropolitan cities, capital expenditures on water and sewerage projects are undertaken by the State government departments/agencies/boards. Consequently, the municipal responsibility in respect of capital funds is restricted to servicing of debt, particularly its interest component. Further, it has been argued in the literature that capital investment in infrastructure or assets do not have any opportunity cost because once these are incurred they are `sunk' costs. These costs need not be recovered. It has also been argued that creation of capital assets in any part of the economy is an addition to national social capital and hence should be financed by non-local funds. Even if capital expenditures are the financial responsibility of State/Central governments, consumers of water and sewerage services are supposed to pay for all the expenses including capital expenses incurred on these services (for an excellent treatment of infrastructural requirements (capital costs) for basic urban services, namely, water supply, sanitation, drainage and the like, see Task Force, 1983, 18-52). Moreover, capital cost recovery would have to be spread over the entire life of the capital assets which, on reasonable assumption, is generally 20 to 25 years. Two options are available. First, repayment of principal and interest may be spread over 20 to 25 years and cost recovery is made to the extent of annual liability arising out of the annual cost of servicing the debt, and secondly, capital investment on water supply and sewerage projects may be treated as a component of aggregate investment in the economy which should be financed through general taxation and not by user charges.

These considerations apart, generally speaking, cost recovery in municipal services has been visualised with respect to operation and maintenance expenditures (OME). This consists of expenses on establishment, consumables mainly chemicals for purification and energy for pumping water (Table 5.2). OME have gone up due to general price inflation. However, not all OME is recoverable. It was indicated at the outset that the nature of services being provided should guide the charging rule. Since the benefits of these services transcends municipal jurisdictions, the visiting population is also served. Further, the benefits also spill over to other community services such as public health and environmental protection. These considerations would show that the entire OME cannot be recovered from the resident population of a locality. A part of the OME should therefore be financed through inter-government fiscal transfers, namely, grants and share in the non-local taxes such as sales tax. A lesson which one may draw from this discussion is that if service consumers have already paid for these services in the form of some other levies and if it is obligatory that a part of the OME stands to be financed through grants, any preoccupation with full cost recovery, namely, recouping the full OME from the residential population, is unwarranted.

It is, however, extremely difficult to determine exclusive shares of direct user charges and intergovernmental fiscal transfers in the municipal cost recovery systems. It would be noticed that in most of the municipalities, cost recovery ratios (revenue receipts from the services as a proportion of OME on the services) have shown that recovery is not full (Table 5.3). The difference between revenue receipts and OME cannot, however, be assigned to be filled by the intergovernmental transfers or grants. In case of each service, grants can be postulated to have

an optimal level. Difference between OME and optimal grants becomes recoverable from the service consumers. In order to ascertain the extent of grant, a normative estimate of subsidy would have to be attempted. This is usually a difficult task. Therefore, discussion on cost recovery has been undertaken basically in terms of direct user charges.

b. **Existing Charging Systems**. There are three principal bases on which cost recovery methods for water rely (i) ratable value, (ii) number of taps (sometimes ferrule size also) and metered consumption (See Chart V.2). Where there are no meters (mostly in the case of domestic consumers), water tax is charged as a fixed percentage of the ratable value. Generally higher rates are prescribed for non-domestic (commercial and industrial) users (for pollution abatement taxes from such users, an aspect which is not of direct relevance to the present study, See Gupta, et.al., 1989). Equally common is the flat rate system per tap (sometimes backed by the aperture of the inflow or ferrule size). In both the bases, user charges are either flat rate levies or increasing block rates, rising with the quantity of consumption.

In principle, a flat rate system offends against allocative efficiency, though less so if an extra water-using appliances means an extra charge. Such systems, however, are simple to administer, easily understood by consumers, provide sure revenue for the utility and often require little maintenance. Revenue is also collected at a low cost. The charging based on property value has been defended on equity grounds as property value is considered as a satisfactory proxy measure of ability to pay. Evidence from a sample of 705 households, however, in the U.K. have shown that only 17 per cent of the variations in water consumption could be associated with variations in ratable value

(Frankham and Webbs, 1977). A-two part flat rate system made up of a standing charge and a ratable value element, could explain 31 per cent of the variation in consumption by ratable value changes (Jenking, 1973).

In the Indian context, while large scale disparities in the assessed values due to legal hurdles such as rent control laws and discretionary assessments exist, the charging based on rateable value cannot be considered as equitable. It has been shown earlier that new and old properties and rent controlled and exempt properties have paid significantly different amounts of water and sewerage charges for the same amount of services. Further, ratable value-linked charging base lacks elasticity due to infrequent revaluations. Charges based on metered supply of water has been found to be the most appropriate. It has taken the form of a fixed or a volumetric charge. In many municipal undertakings, a two-part charge structure, where first part is a meter rate and second is a single rate volumetric charge, is employed. However, meter-based charging is expensive and is amenable to tampering with consumption readings.

Besides these charges, there are connection fees, security deposits, donations and installation charges (For details, see Table 5.4).

c. **Rationalisation of Charges**. User charges have one great advantage that these can be fixed with respect to identifiable consumers on the basis of some consumption tags. For given consumption tags, charges should be fixed keeping in view efficiency, equity and administrative considerations. The service for which user charges are considered most appropriate is water supply. Since water is a scarce commodity and also a merit good,

to achieve allocative efficiency goal, its quantity as well as quality need to be controlled. Excess use of water and use of contaminated water should be discouraged. To achieve the first objective, progressive water rates may be considered desirable with higher rates for non-domestic consumers. To control the use of contaminated water which is likely to cause health hazard, it is necessary to charge very low rate from poor people who cannot arrange supply of potable water on their own. These measures would also be justified on equity grounds.

Higher and progressive water charges for non-domestic consumers, however, cannot be justified on equity grounds. In the case of business and industry, these charges constitute their cost of operation and in all likelihood these are shifted to consumers of the products traded or produced by the business and industry. On this premise, even a progressive user charge can be shown to be regressive. On administrative grounds, however, progressive charges for both domestic and non-domestic consumers can be justified because it would be easier to collect the charges from bigger consumers. The progressive water rates can be applied in respect of all the three bases commonly employed for fixing rates, namely, ratable value of a property, number of taps in a property and measured consumption of water by household, business and industry.

d. **Suggested Water Rate Changes**. Water rates vary drastically from one State to another and within a State from locality to locality. One of the major determinants of water rate is per unit cost of manufacturing water. In some localities, average charges for metered water supply are higher than the per unit cost of production, while in others, it is lower (Table 5.5). In the latter case, underpricing of water is quite evident and

charges stand for an upward revision to improve the pace of cost recovery. In the former case, overprincing of water from those who are on the charging rolls is evident. Further in both situations, some of the citizens may be exempted from paying any charges not only on egalitarian considerations but also because they cannot be charged in the absence of any identifiable consumption tags such as ratable value, water taps or metered water consumption. Moreover, cost recovery ratios have been found to vary between 10 per cent and 60 per cent which would justify an upward revision of water rates (Table 5.6).

Rate revision proposals can be arbitrary as it is extremely difficult to lay hands on optimal charges. However, given the existing charges, optimal incremental charges can be designed on the basis of justifiable level of deficit in water service budgets[1]. Results contained in Table 5.7 would show that optimal incremental charges for Bhopal, Rae Bareli and Pali respectively are Rs 0.13, 0.12 and 0.28 per one litre of water supplied (for regression results see Table 5.8). These incremental rates when superimposed on the existing water rates, would give the required extent of upward revision which is of the order of 25-30 per cent of the prevailing rates. These calculations are based on metered water consumption. However, as a rule of thumb, the estimated rate changes, i.e., 25 to 30 per cent can be applied even to non-metered supply of water where ratable value or number of taps are employed as consumption tags.

5. Charging for Other Services

a. Charging for Sewerage and Solid Waste Disposal. Water consumption tags may be used for these services also. Two options are there: A sewerage surcharge on water rate or a surcharge on

water charges/water tax bills can be tried. Where water consumption tags are not available and where labour intensive method of collection, removal and disposal of solid waste are employed, per head or per household flat charges can be instituted.

b. **Charging for Sanitation and Garbage Disposal**. Scavenging charges can be based on ratable value of a property or on per head of population.

6. Escalation Clause

Due to existence of legal hurdles such as rent control, charges based on ratable value may lack periodic revaluation. Similarly, flat rate per head levies may cause stagnation in the collections of charges. To circumvent such a situation, amount of charges determined once may be put to inflation indexation by a fraction of the CPIN every 2/3 years. One may consider an alternative mechanism for determining the standard rate for user charges under which rates may be allowed to rise with the growth of local government expenditure on these services. An escalation clause based on local expenditure growth as compared to one based on inflation factor would be inferior because it may result in extravagance in local expenditure. Local government expenditure inefficiency cannot be brought out clearly. Therefore, we consider the escalation based on CPIN a better approach to impart elasticity in the user charges. Further, coverage of rate payers should be increased. Those, who cannot be covered through a service consumption tag, should be asked to pay on per head basis.

The discussion in the preceding sections has concentrated basically on mobilisation of charges to raise the cost recovery rate. One major hurdle in the revision of charges is political interference. As in the case of property tax, it may be necessary to arouse consciousness among the citizens' about the significance of resources in maintaining and expanding the municipal services. With the increasing interest of citizens in the municipal finances, it may be possible to reduce the extent of political interference.

7. Other Considerations

Cost recovery which essentially underlines the principle of taxation according to benefits received provides a more promising way of improving local finances than taxation at a higher level. Local government imports are unlikely to meet much opposition if the proceeds are earmarked for providing some specific services. It is, therefore, necessary to explore all possible ways in which the costs of public service can be allocated to beneficiaries and charged for. Yet another alternative is to decentralise some of the functions of the local bodies and entrust them to elected representatives of smaller areas within a given municipality such as the wards. The responsibilities for providing and paying for services like (garbage collection, maintenance of street lights and roads) can perhaps be decentralized in this way and handed over to area or ward committees who in turn may appoint private agents to perform the functions paid for by the residents of the locality. Voluntary agencies may also be included to take the initiative in providing some of the basic civic facilities by pricing the services on a no-profit basis. The experience of Sulabh Sauchalaya in Bihar and extension of sewerage in Orangi or Karachi slums the potential of such initiation.

NOTE

1. Optimal incremental charge ($\hat{r}$) is defined as

$$\hat{r} = \frac{OEM - \hat{D}}{TP}$$

where OEM = Operational and maintenance expenditure, D = justifiable deficit in service budget and TP = total production of water. D is postulated to be a function of per unit cost of production and per capita tax and non-tax revenues of municipality. Optimal increment in user charges is estimated by regression technique. It is postulated that with higher per unit cost of production and lower per capita revenues, the justifiable deficit would be higher. The regression results are presented in Table 5.7.

TABLE 5.1

Revenue Structure of Punalur Minicipality

(Rs in thousand)

	Components	1987-88	%	1988-89	%
A	Tax Revenue	732.88	24.72	1106.04	22.74
	Profession Tax	83.70	2.82	161.71	3.32
	Entertainment Tax	491.67	16.59	752.63	15.47
B	Non-Tax Revenue				
	Fees, Fines and Rents	1050.00	35.42	1581.17	32.51
C	Duty on Transfer of Property	426.98	14.40	648.66	13.34
D	Grants	156.22	5.27	311.79	6.41
E	Others	22.85	0.77	302.29	6.21
	TOTAL	2964.29	100.00	4864.28	100.00

Source: Punalur Municipality

TABLE 5.2

Operation and Maintainance Expenditure on Water Supply

(Rs in thousand)

Corporation/Municipality	Establ-ishment	Chemicals	Power	Total	Miscel-laneous
Aurangabad	-	-	-	15173.00(1)	-
Bhopal	4248.24	756.48	3842.3	8847.02(1)	-
Guwahati	-	-	-	8700.00	-
Pimpri-Chinchwad	-	-	-	-	-
Ranchi	-	-	-	-	-
Rae Bareli*	910.00	60.00	547.00	1517.00	-
Surat**	21744.00	422.00	19589.00	41755.00	-
Jharsuguda*	567.00	100.00	741.00	2014.00	569.00
Kharagpur	-	-	-	-	-
Nalgonda	-	-	-	-	-
Pali	700.00	463.00	1565.00	2728.00(2)	-
Saharsa	-	-	-	-	-
Sirsa	-	-	-	1212.00(2)	-
Bheemunipatnam*	168.00	62.00	253.00	-	-
Punalur**	150.00	300.00	225.00	775.00	100.00

Notes: * 1988-89
** 1987-88
(1) For the year 1986-87
(2) For the year 1988-89

Source: Collected from respective agencies.

TABLE 5.3

Percentage of Cost Recovery in Water Supply

(Revenue Receipt as a Percentage of Operating Expenses)

Locality/Year	1983-84	1984-85	1985-86
Pali*	154.37	142.32	210.75
Bali	36.75	39.48	54.49
Sadri	53.49	47.55	58.30
Rani	3.74	59.72	60.98
Takhatgarh	68.38	26.41	65.06
Sumerpur	56.20	78.94	84.04

Note: * In Pali the cost recovery ratios exceed 100 because of inclusion of a part of amounts recovered on the account of capital expenses.

Source: PHED, Pali

Difference of Revenue Receipt and Operating Expenses

(Rs lakh)

Pali	9.08	8.98	29.06
Bali	-2.77	-1.87	-2.43
Sadri	-1.33	-1.93	-1.43
Rani	-28.05	-1.18	-1.51
Takhatgarh	-0.59	-3.12	-0.72
Sumerpur	1.94	-0.76	-0.75

TABLE 5.4

Water Rates

Municipality/Corporation	Category				
	Metered				Unmetered
	Domestic	Commercial	Industrial	Others	
Bhopal (Class A) (Effective from 1976 onwards)	Rs. 0.40 per '000 litres	Rs. 0.50 per '000 litres	Rs. 0.50 per '000 litres	Rs. 0.25 per '000 litres (Ran Water)	BY Ferrule Tap 1/2 " Rs. 4 per tap per month Tap 01 " Rs. 12.50 per tap per mo By type of House Economical size Rs. 8.00 per mont LIG Flat Rs. 12.00 per month MIG Flat Rs. 16.00 per month HIG Flat Rs. 20.00 per month
Surat (Class A)	Within City Limits				By Ferrule
	Rs. 0.50 per '000 litres	Rs. 2.00 per '000 litres			Within City Limits
	Outside City Limits				Domestic
	Rs. 3.00 per '000 litres	Rs. 7.00 per '000 litres			Tap 1/2 " Rs. 60.00 PHHO* Tap 3/4 " Rs. 126.00 PHHO* Tap 1 " Rs. 324.00 PHHO* Tap 3/2 " Rs. 648.00 PHHO*

Contd.

TABLE 5.4 (Contd.)

Municipality/Corporation	Category			
	Metered			Unmetered
	Domestic	Commercial	Industrial	Others	
Pali (Class B) (Effective from May 1987)	Rs. 1.00 per '000 litres (Upto 15,000 litres)	Rs. 2.00 per '000 litres (Upto 15,000 litres)	Rs. 4.00 per '000 litres (Upto 15,000 litres)		Flat rate Rs. 15.40 per month per connection
	Rs. 1.20 per '000 litres (between 15,000 to 50,000 litres)	Rs. 2.40 per '000 litres (between 15,000 to 50,000 litres)	Rs. 4.80 per '000 litres (between 15,000 to 50,000 litres)		
	Rs. 1.60 per '000 litres (between 50,000 & upto and above one lakh litres)	Rs. 2.70 per '000 litres (between 50,000 & upto and above one lakh litres)	Rs. 5.40 per '000 litres (between 50,000 & upto and above one lakh litres)		
		Rs. 3.60 per '000 litres (above one lakh litres)	Rs. 7.20 per '000 litres (above one lakh litres)		
Sirsa (Class B) (Effective from 1984)	Rs. 0.35 per '000 litres	Rs. 0.60 per '000 litres	Rs. 0.80 per '000 litres		Flat rate Rs. 12.00 per month (only for domestic purposes)
Rae Bareli	Rs. 1.00 per '000 litres	Rs. 1.50 per '000 litres	Rs. 1.50 per '000 litres		
	connection charges Rs. 2.00/- + 5 % of the total estimated cost.				

TABLE 5.4 (Contd.)

Municipality/Corporation	Category				
	Metered				Unmetered
	Domestic	Commercial	Industrial	Others	
Punalur	Rs. 1.00	Rs. 2.00	Rs. 2.00		
	Connection charges + 10% of the estimated cost.				
Jharsuguda	Rs. 3.20 per '000 gallon	Rs. 7.50 per '000 gallon	Rs. 6.00 per '000 gallon		
	1st Tap Rs. 7.50 2nd Tap Rs. 7.50 subsequent Rs. 5.00 Extra charges between Rs. 1.00 and Rs. 5.00				
Ranchi	Flat per tap				
Saharsa	Flat per tap				
Dheemunipatnam	Rs. 10.00 per month each tap	Rs. 15.00 for 1,000 gallon	Rs. 25.00 for 1,000 gallon		
	Security Rs. 75.00 + Rs. 10.00 application fee + 15 per cent of estimated cost.				
	Donation for Connection				
	Rs. 1,000		Rs. 2,500 - 6,000		

Note: * PHHU = Household Unit Per Month.

Source: Collected from respective municipalities and water agencies.

TABLE 5.5

Per Unit Cost and Water Charges for Water Supply

Corporation/Municipality	Per Unit Cost (of 1,000 litres) in Rs.	Average Charges Per '000 litres (in Rs.)			
		Domestic		Non-domestic	
		Minimum	Maximum	Minimum	Maximum
Aurangabad	-	-	-	-	-
Bhopal	0.343	0.40	-	0.50	-
Guwahati	0.45	-	-	-	-
Pimpri-Chinchwad	-	-	-	-	-
Ranchi	-	-	-	-	-
Rae Bareli	0.24	1.00	-	1.50	-
Surat	0.63	0.50	-	2.00	-
Jharsuguda	-	-	-	-	-
Kharagpur	-	-	-	-	-
Ralgoada	-	-	-	-	-
Pali	0.261	1	1.6	2.00 (C)* 4.00 (I)	3.60 (C) 7.2 (I)
Saharsa	1.00#	-	-	-	-
Sirsa	0.17	0.35	-	-	.60 (C) .80 (C)
Bheemunipatnam	2.04#	-	-	-	-
Punalur#	4.87	-	-	-	-

Notes: C = Commercial
I = Industrial
* = Including Amounts
# = '000 Gallon

Source: Computed on the basis of information collected from municipalities and water supplying agencies.

TABLE 5.6

Percentage of Recovery in Water Supply

(Revenue Receipt as a Per cent of Operating Expenses)

Locality/Year	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Aurangabad	-	-	44.23	57.79	40.39	37.38	48.73	50.69	-	66.16
Bhopal	40.82	29.15	35.78	29.14	28.36	22.11	34.75	40.35	-	-
Pali (2)	-	-	-	-	154.37	142.32	210.75	-	-	164.89
Rae Bareli	-	44.82	81.25	57.45	62.10	7.78	64.32	44.29	59.83	-
Surat	135.62	75.83	72.26	70.27	89.71	77.83	-	-	30.98	31.02
Sirsa	-	-	-	-	-	-	-	-	-	58.20 (1)
Per Cent of Recovery Conservancy/Scavanging/Drainage										
Aurangabad (Drainage)	-	-	5.96	63.52	32.63	148.87	63.91	53.22	-	-
Bhopal (Scavanging)	21.15	38.02	26.35	6.87	0.57	3.98	5.13	7.42	-	-
Surat (Conservancy)	31.86	35.12	39.32	36.22	42.39	41.94	-	-	-	-
Rae Bareli (Conservancy)	-	11.29	12.52	11.77	11.31	1.78	-	7.21	-	-
Per Cent Recovery in Scavanging/Fire Service										
Aurangabad (Drainage)	-	-	5.96	63.52	32.63	148.87	63.91	53.22	-	-
Bhopal (Scavanging)	21.15	38.02	26.35	6.87	8.57	3.98	5.13	7.42	-	-
Rae Bareli	-	-	-	-	-	-	-	-	9.12*	8.40*
									19.52	15.6
Bheemnaipatnam	-	-	-	-	-	-	-	-	1.17*	1.90*
									3.19	5.38

Notes: * Water tax + water charges
(1) Figures relate to 1989-90
(2) Figures for Pali exceed 100 because of inclusion of a part of amounts recovered on the amount of capital expenses

Source: Computed on the basis of information collected from municipalties and water supplying agencies.

TABLE 5.7

Optimnum Vs. Actual Subsidy and Suggested Rate Increases

(Rs '000)

Corporation/Municipality	Optimal subsidy	Actual Subsidy	Rate Increase
Bhopal (1985-86)	6715.85	6513.00	0.131
Rai Bareli (1987-88)	663.46	541.00	0.121
Pali (1986-89)	2318.00	2317.00	0.282

Source: Computed using the data collected from various water supply agencies.

TABLE 5.8

Regression Results : Dependent Variable Per Unit Deficit/Surplus

Municipal Bodies	Explanatory Variables							
	Constant	Per Unit Average Operating Cost	Per capita Own Tax and Non-tax revenue	R	R^2	DF	F-Statistics	DW
Bhopal	0.205 (1.821)	-1.2123 (-5.91)	0.0005 (0.20)	0.923	0.884	4	23.86	2.76
Rae Bareli	-0.067 (-0.584)	-0.7114 (-2.69)	0.0003 (1.37)	0.671	0.539	5	5.10	2.15
Pali	-0.605 (-30.715)	-3.1024 (-28.39)	0.0161 (36.46)	0.999	0.999	2	1643.08	2.18

Note: Figures in parentheses denote 't' ratios. Source: Estimated.

CHART V.1

	Name of Locality	Category with Regard to Water Supply				
		Produced by State/ Board and Supplied by Local Authority	Produced and Supplied by State Authority	Produced and Supplied by Local Authority	Charges	
					Water Tax	Other Charges
A-CLASS						
	Aurangabad	Yes	NA	Yes (P)	Yes	Yes
	Bhopal	Yes	NA	Yes (P)	Yes	Yes
	Gauhati	-	-	Yes	Yes	-
	Rae Bareli	Yes	NA	NA	Yes	-
	Naachi	Yes	NA	NA	Yes	-
	Surat	No	NO	Yes	Yes	Yes
	Pimpri-Chiachwad	NA	Yes	NA	NA	NA
B-CLASS						
	Jharsuguda	Yes	NA	NA	No	-
	Nalgoada	Yes	NA	NA	No	No
	Pali	Yes	NA	NA	No	Yes
	Saharsa	Yes	NA	NA	No	-
	Sirsa	Yes	NA	NA	No	No
	Kharagpur	NA	Yes	NA	Yes	NA
C-CLASS						
	Bheemunipatnam		NA	Yes	No	-
	Punalur	NA	Yes	NA	Yes	-

Notes: NA : Not Applicable
P : Partly

Source : Computed on the basis of interviews with the municipal staff.

CHART V.2

Corporation/Municipality	Residential			Non-Residential		
	Basis of charge					
	Rateable Value	No. or Size of Taps	Metered Connection			
	1	2	3	1+2	2+3	1+3
Aurangabad	✓	✓	✓	✓	✓	✓
Bhopal	X	✓	✓	X	✓	X
Guwahati	✓	-	✓	-	-	✓
Pimpri-Chinchwad	NA	-	-	-	-	-
Ranchi	✓	-	-	-	-	-
Rae Bareli	✓	-	✓	-	-	-
Surat	✓	✓	✓	✓	✓	✓
Jharsuguda	X	-	-	-	-	-
Kharagpur	✓	-	-	-	-	-
Nalgonda	X	-	-	-	-	-
Pali	X	✓	✓	X	✓	X
Saharsa	X	-	-	-	-	-
Sirsa	X	✓	✓	-	✓	-
Bheemunipatnam	X	-	-	-	-	-
Punalur	✓	-	-	-	-	-

Source: Based on the information collected from respective municipalities.

VI. CONCLUSIONS AND RECOMMENDATIONS

1. Introductory Remarks

With rapid urbanisation, local bodies in urban areas would be required to play gradually an increasing role in providing public services. A few services such as local administration, sanitation, garbage disposal and street lighting are provided by the local bodies independently. However, some others like water supply, drainage and sewerage, primary health and education and road maintenance are provided mostly with the financial assistance of State governments. This implies dependence of local services for their finances on local government's own revenues and intergovernmental fiscal transfers. The significance of intergovernmental flows to local bodies is further enhanced because India's federal set up confers on State governments the powers to control local budgets, and some of the State taxes as sales tax and motor vehicles tax have been found to be superior instruments of taxing local business and road use.

It is, however, unfortunate that there is no consistent policy on flow of funds from State governments to local bodies to finance these services. The results of the current study, which is based on a sample of 16 municipal corporations/municipalities, indicate that the contributions of the two instruments of intergovernmental fiscal transfers, namely, grants-in-aid and share in taxes have varied significantly across local government budgets. The proportion of share in State taxes has declined in

all the classes of sample localities. The same is true for grants-in-aid except in `C' class municipalities which have witnessed increasing dependence on grants.

In the absence of coordinated approach, most of the finances for urban public services are expected to be generated in the local sector. However, property tax and octroi, the two important own revenue sources, have severe limitations. The growth of property tax has been constrained due to administrative bottlenecks, political interference and legal hurdles. State government control on property tax policies is significant. As regards octroi, it is on its way out from the local fiscal scene and so far a perfect revenue substitute at the local level has not been discovered. At the same time, in a situation of uncertainty, possible innovations in octroi management have not been introduced.

These discussions indicate that urban local financial management is characterised by uncertainties in flow of funds both from own revenue sources and intergovernmental transfers. Further, inflationary conditions in the economy have restricted on one hand the spending capacity of local bodies in terms of meeting service targets in physical terms, and on the other hand increased taxpayers' resistance to pay taxes. Thus, standard of civic services judged by the level of per capita revenue expenditure has been found to have deteriorated over time. It is also evident that services which could be financed through user charges have depended on the property tax for cost recovery. In other words, urban local bodies do not seem to have attempted to put their cost recovery mechanism on a scientific basis. Although inter- class

variations in composition of local revenues and expenditures are found to be significant, the general conclusions however remain valid.

It is clear from our analysis that local revenue efforts are constrained by lack of willingness to tap the potential. Administrative and legal bottlenecks seem to be important factors that go to explain to a large extent, the lack of willingness to tax on the part of the urban local bodies. The bottlenecks that constrain assessment and collection procedures, are identifiable and deserve adequate attention of policy makers, economists and administrators.

The major objective of the present study can thus be restated as follows:

(i) to analyse the administrative organisation and structure of rates of major local taxes, namely, property tax including service taxes and octroi.

(ii) to suggest measures to increase productivity of these taxes by streamlining the adminstrative organisation and rationalising the tax structure of rates.

(iii) to examine ways and means to user charges so as to recover at least a part of operational expenses.

We now take up some important findings of the study along with their recommendations:

2. General Property Tax

Property tax should be taken as consisting of two components: General property tax and service charges. The former should be developed as a local tax on property income. The latter should be used as an instrument of cost recovery for local services which lack readymade consumption tags.

a. Revitalisation of Tax Base. Among the factors adversely affecting the growth of property tax base, i.e., rateable values, the major ones have been identified as (i) the constraining impact of rent control legislations, (ii) imperfections in the real estate and rental markets in the form of suppression of true rents, receipt of salami, payment of advances, etc., (iii) the lack of a clearly laid down assessment code or assessment norms which often leads to discretionary assessment and gives scope for undue leniency, and (iv) the lack of implementation of provisions relating to periodic reassessments. Of these, at present, the depressing effect of rent control laws, is probably the most important. But it is not to be assumed that once rent control is relaxed, rateable values would move closely with market trends. The other factors mentioned above would then acquire greater significance. Even as it is, it has been seen that disparities in the assessment of similar properties have been found to exist not only across localities but also within the same locality for which rent control legislation cannot be held responsible.

(i) Integration of municipal legislations with rent control. Since the general property tax is being construed as a local tax on property income, the remedy may lie in modifying the current rental value method itself. Keeping in view the imbalance between demand and supply of housing accommodation in urban areas,

it may not be possible to ignore the rent legislation altogether. It may, therefore, be preferable to allow fixation of rent according to the provisions of the rent control laws with the necessary proviso that municipal assessments should be guided by the rent control provisions.

(ii) **Standardisation of valuation**. In order to control desperate assessments, rateable values need to be standardised per unit of covered area. There is a strong case for setting up a State level valuation agency. The agency should be entrusted with the task of collecting data through a property return on rents, land values and cost of construction on a regular basis and processing them in order to develop standardised rents, land values and construction costs per unit of covered area for different types of properties. This task could greatly be simplified if it is made obligatory for the rate payers to file property returns on the pattern of personal income tax.

While developing the data on rents, land value and construction cost, the valuation agency would have to follow strictly the provisions of the rent legislations. It should be made obligatory on the part of the rent controller also to use these data while fixing the standard rent.

As regards actual assessment of properties, however, it should be undertaken by the municipal personnel only. But in view of our observation that the assessing personnel are inadequately trained, we suggest that a suitable programme of training in matters of valuation of properties and administration of the tax be drawn up for such personnel.

(iii) **Periodic revaluation of properties**. Keeping in-view the fact that property valuation may be difficult even when it is carried out at an interval, standardised rates per unit of area may be put to an inflation indexation. These may be revised upwards by half or one-third of the percentage point increase in the consumer price index number (OPIN) every five years.

b. Proper Policy on Leniency and Exemptions

(i) **Assessment of vacant land**. Taxation of vacant land calls for reform on two fronts (i) proper valuation of land at current market prices and (ii) selection of reasonable rates of return. Adoption of a comparable rate of return, however, should take place after a reasonable period of time from the date of purchase of land to allow construction on it during the period. One may consider a rate of 5 per cent during the first five years. After five years, however, a higher rate, say 15 per cent, may be adopted in order to encourage more efficient land use and also to discourage speculation in land.

(ii) **Exemptions**. There may be a case for granting relief to such taxpayers, namely, owner occupants of residential properties. This would act as a `circuit breaker´ for low income taxpayers, pensioners, widows and retired persons, who live in their own houses. Relief may be given in the form of rebate on rateable value, say, to the extent of 25 to 30 per cent, so that changes in the rate structure do not disturb the extent of relative relief provided. Exemptions to charitable, educational and religious institutions should be withdrawn if involvement in any income earning activity is discovered. Exemptions should be given only on the administrative grounds and not under any political pressure as a vote catching device. As regards

treatment of governmental properties, both Central and State, besides service charges, there is a case for a moderate general property tax rate.

c. **Appellate Procedure**. It may be worthwhile to have a two-tier internal appellate procedure, and appellate tribunal. The decision of the appellate tribunal will be final on point of facts. On points of law, however, the order of the tribunal may be challenged in the District Court. It may be made explicit that no suits or writ petitions can be filed in the civil courts.

d. **Strengthening of Collection Machinery**. A vigorous enforcement campaign including the use of legal remedies may be an effective means for obtaining buoyancy in the tax. As in income tax, therefore, it may be necessary in the case of property tax also to have a system of charging interest for the period starting from the original date due for tax payment and when the final payment is made when assessments are finalised after appeals. It must be accompanied by a two-pronged informational campaign, one covering the elected and administrative officials and the other to educate the taxpayers as to how the civic services can be affected by continued resistance to rate revisions and non-compliance with the tax.

e. **Rationalisation of Rate Structure**. When assessments are done properly and revisions of assessments are also carried out regularly, the rate of tax should be much lower to keep the burdens moderate. Further, as service charges are proposed to be designed independently, a progressive rate may be favoured on the assumption that the higher the property value, the higher would be

the income from property. A progressive rate structure can be justified further if the extent of undervaluation of properties is taken to increase with property value.

A moderate rate is justified on the grounds of both equity and efficiency. In other words, moderate rates would be less inequitable and would exert less dampening impact on housing investment. As a general rule, rates should not be more than 15-20 per cent of the rateable value as there are other taxes such as income tax, wealth tax, etc., which also fall on the same property and thereby affect the rate of return on housing investment. Even a tax rate of 20 per cent can be recommended only for large cities where appreciation of real estate value is generally high. In general, rates can be designed between 10 and 20 per cent of the ratable value.

3. Octroi

Any attempt to rationalise octroi may necessitate two alternative exercises. In the first exercise, attempts may be made to rationalise the assessment mechanism and rate structure of octroi with a view to minimise its adverse effects on resource allocation, equity and administration. In the other exercise, an attempt may be made to replace octroi by another tax which is able to yield an equal amount of revenue to local bodies.

a. Streamlining Octroi Administration. In the first approach, surprise checks by senior officials may be used as an instrument to reduce the extent of delay and corruption at the checkpost. A second measure, which pertains to improving assessment administration, would be to devise ways to introduce a system of post-collection checking of accounts. This may require

registration of dealers for the purposes of octroi. Since octroi administration does not have administrative machinery beyond the checkpost, help of sales tax department would be necessary. To have an integrated approach, sales tax registration numbers can be used also as octroi registration numbers. This measure would, however, cover only large dealers. Movements of goods by non-registered dealers and through other informal sources would have to be tackled by the octroi administration at the checkpost only.

In order to improve productivity of octroi, it may be desirable to convert specific duties into ad valorem levies. The advantages of specific duty is its simplicity and non-requirement of valuation of goods. Specific duty may still be retained for low value goods. However for high value goods such as electronic goods and watches, a switchover from specific to ad valorem duty would raise additional resources by increasing the responsiveness of octroi to price inflation.

b. Alternatives. Given the inevitable exit of octroi despite lingering protests, attempts should be made to replace it by another tax. Three taxes, namely, entry tax, business property tax and surcharge/additional sales tax have attracted the attention of fiscal analysts.

The reason why entry tax is not revenue neutral lies in that State governments have constrained its coverage. Thus, entry tax may become revenue neutral if its coverage is expanded. One may argue here that why not use sales tax in the form of a surcharge or additional levy when entry is also a supplement to sales tax. More appropriately, a municipal sales tax may be piggy-backed on the sales tax. Earmarking of this surcharge as a

municipal revenue source and transferring local shares on a quarterly basis may partially resolve the problem of day to day liquidity.

In order to impart certainty in local revenue, business property tax, being a local levy, may assume greater significance. This tax can be designed as an appendix to the general property tax. Business property in an urban area for tax purposes may be defined to include properties used for industry, trade and commerce, entertainment and profession. Premises used for these purposes may be classified into identifiable categories and BPT be fixed per square feet of the covered area under such premises or as per cent of the taxable value of property. Differential taxes per unit of area may be adopted for business properties located in different parts of a municipal area in order to capture variations in business potential.

To impart elasticity, BPT per unit of area, moderately fixed initially, may be positively linked to inflation. Tax per sq. ft. of area may be revised upwards say every 2/3 years by a fraction of the wholesale or consumer price index number. Alternatively, taxable value of properties can be standardised per unit of area and subsequently linked to inflation.

In case scepticism obstructs fiscal experimentation and State local policy makers do not subscribe to the very idea of exclusive dependence on property related taxes, a diversified system of tax alternatives would have to be designed. In that event, a package consisting of business property tax and municipal surcharge on the State sales tax may be considered to meet the local revenue requirement. A package consisting of BPT and entry tax can be considered only as the next alternative.

4. Fees and Charges

Some increases in the amount charged as fee are necessary because of inflation and the rise in salaries of local administrative staff engaged in providing these services. Among the other non-tax revenues, rents from commercial properties owned by the local governments may constitute an important source. The success of the latter source of revenue would, however, depend on the State government support to the credit financing of remunerative projects relating to the development of market places within the municipal jurisdictions. State governments may consider the possibility of assigning a part of the State government's capital funds for this purpose. Such projects can earn sizeable amount of revenues when commercial spaces are auctioned and market rents charged.

5. User Charges

The charging systems for water supply and sewerage facility vary considerably from one State to another and sometimes even within a State. Commonly employed bases for water charges are rateable value of a property inhabited by an user, metered water consumption and the number of taps in that property. The extent of direct recovery varies quite significantly from one locality to another and also for different services. In almost all cases, the earnings from water supply, sewerage and sanitation are only a fraction of the operation and maintenance expenses. Consequently adversely affecting the expansion of these facilities.

a. **Recoverable Cost**. On the grounds of simplicity, cost recovery in municipal services have been visualised only with respect to operation and maintenance expenditures (OEM). However, not all OEM become recoverable. In fact, the nature of services being provided should guide the charging rule. Since the benefits of these services transcends municipal jurisdictions, the visiting populations are also served. Further, the benefits of these services also spill over to other community services such as public health and environmental protection. These considerations would show that the entire OEM cannot be recovered from the resident population of a locality. A part of the OEM should therefore be financed through intergovernmental fiscal transfers, namely, grants and share in the non-local taxes such as sales tax. Any obsession with full cost recovery, i.e., recouping the full OEM from the residential population is thus unwarranted.

b. **Charges Structure for Water**. Excess use of water and use of contaminated water should be discouraged. To achieve the first objective, progressive water rates may be considered desirable with higher rates for non-domestic consumers. To control the use of contaminated water, which is likely to cause health hazard. it is necessary to charge very low rate from poor people who cannot arrange supply to potable water on their own. These measures would also be justified on equity grounds.

Higher progressive water charges for non-domestic consumers, however, cannot be justified on equity grounds. In the case of business and industry, these charges constitute their cost of operation and in all likelihood these are shifted to consumers of the products traded or produced by the business and industry. On administrative grounds, however, progressive charges for both

domestic and non-domestic payers can be justified because bigger the size of the consumer, easier it would be to collect the charges. The progressive water rates can be applied in respect of all the three bases commonly employed for fixing rates, namely, rateable value of a property, number of taps in a property and measured consumption of water by household, business and industry.

c. **Revising Charges**. Rate revision proposals can be arbitrary as it is extremely difficult to lay hands on optimal charges. However, given the existing charges, optimal incremental charges can be designed on the basis of justifiable level of deficit in water service budgets. Corporations using metered water consumption indicate the required extent of upward revision which is of the order 25 to 30 per cent of the prevailing rates.

One of the greatest hurdles in revision of charges is lack of public cooperation. As in the case of general property tax, it may be necesary to arouse consciousness among the citizens about the significance of user charges in maintaining and expanding the urban public services. With the increasing interest of citizens in municipal finances, it is quite possible to reduce the extent of taxpayers' resistance.

d. **Bases for User Charges**. Water consumption tags, namely, metered water consumption, number of taps and rateable value may be used for other services also. Take the case of sewerage services and solid waste disposal. A surcharge on water rate or a surcharge on water charges/water tax bills can be tried. Where water consumption tags are not available, for instance, where labour intensive method of collection, removal and disposal of solid waste are employed, per head or per household flat charges can be collected. Scavenging charges can be based on rateable

value of a property or fixed per head population. Those residents, who cannot be covered by any service consumption tags, should be asked to pay on per head basis.

When charges are based on rateable value, it may lack periodic revaluations and existence of legal hurdles such as rent control. Similarly use of any other tag, particularly per head basis, may cause stagnation in the collections of charges. To circumvent such a situation, amount of charges determined once may be put to inflation indexation by a fraction of the CPIN every 2/3 years.

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