

**The Nature and Dimension of  
The Urban Fiscal Crisis**

Research Study Series

Number 18

(Prepared for the National Commission on Urbanisation)

**National Institute of Urban Affairs  
New Delhi**

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## PREFACE

This study which we have titled as THE NATURE AND DIMENSION OF THE URBAN FISCAL CRISIS analyses the changes that have occurred in the state of municipal finances between 1979-80, the base year of the NIUA's earlier study on the "Financial Resources of Urban Local Bodies in India, and the Level of Services Provided", and 1983-84. Undertaken at the instance of the National Commission on Urbanisation, almost the entire analysis in this study is directed to seeking response to just one question : did the state of municipal finances improve or deteriorate during the period 1979-80 and 1983-84? In responding to this question, we have evidently looked at the pace of growth of municipal revenues in relation to municipal expenditures, in order to find out if the fiscal crisis of the municipalities - as indeed it turns out to be so, was due to falling incomes or rising expenditure, or a combination of both. We have examined here the changes in the pattern and structure of municipal finances to see as to which components of incomes and expenditure showed greater resilience and sensitivity, and where, that is, on which components should future attention be directed to for dealing with the fiscal crisis. We have extended the analysis to normative levels by suggesting, among others, the rates at which the municipal incomes will need to be pushed in the coming years so that the gap between the expected incomes and what will be required to maintain services at absolute minimum levels does not widen further.

The results of the study are disturbing. Even though it is not conventional to use the limited space of PREFACE to summarise what the study brings out, there are two features which are so overwhelming

that they need to be brought out here itself. Firstly, there is the unmistakable fact of further deterioration in the state of municipal finances. This study shows that municipal incomes rose during 1979-80 and 1983-84 marginally, by a mere 9.7 per cent in comparison with 56.2 percent increase in municipal expenditures. The surpluses, that is, incomes in excess of expenditure, which the urban local bodies enjoyed in the base year of the study virtually disappeared, though a semblance of a nominal surplus was still maintained, at least in the aggregate. What perhaps is most disconcerting was the decline that took place in the real per capita income of municipalities between 1979-80 and 1983-84; whatever increase took place was effectively neutralised by population increase and inflation. Worst affected were the relatively smaller municipalities which registered a fall in their incomes, and at the same time did not have possess any leverage by which they could step up their levels of expenditure, and thereby maintain the services.

Secondly, no noteworthy changes took place in the pattern and composition of municipal incomes and expenditure during the reference period of the study. Property taxes and octroi levies continued to form the main sources of revenues. Notwithstanding the decision looming large to do away with octroi levies, octroi's position in the hierarchy of revenue structure remained undisturbed. The dependence of municipalities on grants from States in 1983-84 stayed more or less at the level of the base year of the study. Many of them have accumulated large debts. In Gujarat, e.g. the outstanding liabilities of the state's 58 municipalities and corporations stood at Rs. 188.2

million (1983-84) which formed 8.2 per cent of the total municipal revenues in that year. The only ray of hope in the otherwise dismal state of municipal finances was provided by an appreciable increase (54.9 per cent) in the share of non-tax sources of revenues, which included proceeds from the sale of various types of services and facilities.

That municipalities are sick, or on way of becoming so is one overall impression that emerges from the analysis of their financial data. On the face of it, as stated above, there is only one redeeming feature in the entire spectrum of municipal finances : the increasing awareness of the urban local bodies to the potentials of non-tax sources of revenues. As of today, there is a total dysjunction between the cost of producing a service or facility and the price at which it is sold. However, whether merely matching the cost and price of various services will restore for municipalities a degree of financial viability appears doubtful. The state of municipal finances is such that it calls for a major reappraisal of the intergovernmental financial relationships, including that of the outmoded forms and systems of fixing tax rates and levies of various sorts. More innovative devices by which their incomes can be linked to increasing economic activity and incomes merit systematic examination and consideration.

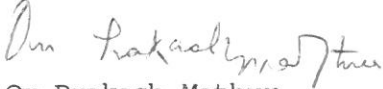
A word about octroi may be added here. This study shows that octroi yields anywhere between 23-46 per cent of the total revenues depending on the size of municipalities. That its abolition will

cripple the already crippled municipalities unless they can be provided with an alternative tax which is as flexible and liquid as octroi can not be disputed. At the same time, it has been argued that the benefits that would accrue from the abolition of octroi outweigh the benefits that the economy derives from its retention. Indeed, if it is so, it would seem worth while to examine ways how such benefits can be transferred or rechanneled to the municipalities, or atleast used to stem the deterioration in their financial base.

This study has been prepared by Dr. M.P. Mathur and Mr. K.K. Pandey, senior members of the Institute's research faculty under the overall direction of the Director. Assisted by a group of research analysts, they had the onerous task of reading the municipal budgets, of tallying them, and, of course, analysing them. I would like to place on record my appreciation for their persistence and patience that they showed in preparing this study.

We are grateful to the National Commission on Urbanisation, and especially Mr. Naresh Narad, Member-Secretary of the Commission for entrusting this study to us, and to also periodically discuss the parameters of the study. If the analysis contained in the study can be of some help to the NCU in formulating its recommendations for strengthening the municipal finances, we would consider our efforts repaid in full.

September 1987

  
Om Prakash Mathur  
Director

National Institute of Urban Affairs

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## I INTRODUCTION

### 1. The Scope of the Study

Much has been written in recent years about the state of municipal  
1) finances in India. The gist of the writings which include, among others, the contributions to the annual conferences of the State Ministers of Local-Self Governments is that the corporations, municipalities and other forms of urban local bodies are in a financial mess, that their capacity to generate resources has remained stagnant, if not registered a decline, and that they are unable to efficiently utilise whatever resources they have at their command. It is contended that as a consequence, the municipalities - this term will be used in this report generically for all forms of urban local bodies, are not in a position to maintain and manage the various services and facilities they are statutorily responsible for. Short of saying that the municipalities are sick, almost every available expression has been used to suggest that they have today a crisis unmatched in scale that any time in the past.

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1) See, in particular: Report of the Committee of Ministers on the Augmentation of Financial Resources of Urban Local Bodies (1963); National Institute of Urban Affairs, A Study of the Financial Resources of Urban Local Bodies in India, and the Level of Services Provided (1983); Planning Commission, Task Forces on Housing and Urban Development, II. Financing of Urban Development (1983); and N.R. Rao, Municipal Finance in India, (1986).

2. In 1963 when the Committee of Ministers, known as the Zakaria Committee, presented its seminal study on the augmentation of financial resources, it estimated that the urban local bodies will require resources amounting to about Rs. 990 million annually in order to maintain services such as water supply, drainage etc. at absolute minimum levels. Minimum levels were defined in terms of expenditure norms; thus, for instance, the Committee indicated that major cities will require an annual expenditure of Rs. 43.50 per capita (1960-61 prices) to maintain services at absolute minimum levels. For smaller cities, this figure was placed at Rs. 21.07 per capita.

3. The National Institute of Urban Affairs (NIUA)'s study of the financial resources of urban local bodies (1983) approached the problem of assessing the gap between resources and desirable levels of expenditure from a number of angles, including by employing the same method as had been done by the Zakaria Committee. According to the Zakaria Committee method, the requirements of resources worked out to Rs. 8,330 million annually. If the same arithmetic is extended to the present year, the annual requirements for maintenance of services will well cross the figure of Rs. 12,000 million!

4. A more important feature of the NIUA's 1983 study which was directly concerned with the financial capacity of the urban local bodies was an analysis of the income and expenditure pattern of the municipalities. The study showed, paradoxically enough, that municipalities had in the aggregate a revenue surplus (incomes in excess of expenditure) rather than, as many had come to believe, a deficit in their budgets. The study showed that in 1979-80, the total ordinary income of all municipalities combined was approximately Rs.

8,507 million. As against this, the ordinary expenditure was approximately Rs. 7,566 million, yielding a surplus of Rs. 941 million. Even when the deficit of approximately Rs. 400 million on capital account was taken into consideration, the municipalities<sup>2)</sup> still showed an overall surplus of Rs. 540 million.

5. The present study which has been titled as "The Nature and Dimension of the Urban Fiscal Crisis" updates the income-expenditure estimates of the NIUA's earlier study to the year 1983-84. The scope of analysis of the present study, however, is somewhat larger, with focus on four questions:

- What is the present (1983-84) position with regard to the gap between income and expenditure of the municipalities? Has the position of the gap changed since 1979-80, the base year of the NIUA's earlier study?;
- Does the position of the gap differ with the sizes of urban local bodies? Or, is it uniform with larger and smaller municipalities alike?
- Has there been a change in the financial structure of the urban local bodies between 1979-80 and 1983-84? What has been the nature and direction of the change?
- What is the degree of elasticity of the various components of incomes? Are there some components of income that are more elastic than others? Likewise, what has been the behavior of the different components of expenditure?

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2) For details, see: Table 1, Part 1 (vols. 1 & 2), NIUA, ibid (1983).

6. These questions have been examined in this study with a view to understand as to what underlies the present fiscal crisis in the municipalities. Are the causes of the crisis endogenous, that is, local and to be found within the municipalities, or outside of them? This study has identified a few actions which could result in improvements in the financial viability of the urban local bodies. Certain "grey areas" in terms of gaps in information have also been identified in this study report.

## 2. Sample and Methodology

7. The NIUA's earlier study was based on the income-expenditure data of 1,533 municipalities, obtained by canvassing a somewhat detailed questionnaire. The reference year of data was 1979-80. For the present study, the NIUA has relied on the budgets of 210 municipalities of various sizes for data on incomes and expenditure. The reference year for the present study is 1983-84. The final selection of the 210 municipalities has been made on the basis of the following considerations:

- data in the budgets should be complete and authenticated;
- comparable data should be available for 1979-80;
- selected municipalities should be of various sizes; and that
- these should be representative of the major states.

8. The distribution of the finally selected urban local bodies by population size-groups is given in Table 1.

Table 1 DISTRIBUTION OF SAMPLED URBAN LOCAL BODIES  
BY POPULATION SIZE GROUPS\*

Population Size Groups	Number	Per cent of total
+ 1 million	7	3.3
100,000 - 1 million	46	21.9
50,000 - 100,000	43	20.5
20,000 - 50,000	67	31.9
-20,000	47	22.4
Total	210	100.0

9. Population estimates for 1980 (corresponding to 1979-80 income-expenditure data) and 1984 (corresponding to 1983-84) have been made by employing straight-line projection methods and annexed to this report (Annex A). The 1983-84 income-expenditure data have been adjusted to 1979-80 prices so as to eliminate the effect of inflation.

10. The report has three sections besides the introduction. The first section analyses the gap between the incomes and expenditures in the aggregate as well as by different population size groups. It also shows the resource gap, that is, the gap between the incomes and desirable levels of expenditure for sampled municipalities by using the Zakaria Committee norms. In the second section, we have examined the changes in the structure of incomes and expenditure. Elasticities of the various income-expenditure components have also been examined in this section. Suggestions on the future course of action and identification of "grey areas" are contained in the third section of the report.

\* The sample of 210 municipalities is weighted in favour of larger municipalities.

## II. INCOME-EXPENDITURE DIFFERENTIALS REASSESSED

11. As a preface to this section on the income-expenditure differentials, it seems useful to refer to two already known facts. The first refers to the functions and powers of the urban local bodies. Urban local bodies are the creatures of states, and the states, therefore, lay down their functions and resource-raising powers in the municipal Acts. There is no uniformity in their functions, but as the functions are few and limited, the differences are not wide. The municipal functions are classified into two groups in all the states, namely, (1) obligatory; and (2) discretionary. In a technical sense, they have a ring of being compulsory and non-compulsory, though the laws have given protection to municipalities from being sued on this account.<sup>3</sup> The obligatory functions include basic civic functions such as provision of water supply, street lighting, street cleaning, night soil disposal, drainage, cremation and burial facilities, vaccination, registration of births and deaths, fire protection etc. Construction of parks, maintenance of roads, primary education, establishment of markets etc. are some of the discretionary functions.

12. Similar to the laying down of functions, the states municipal Acts specify the resource raising powers of urban local bodies which fall, by and large, under four categories:

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3 The Karnataka Municipal Act lists 18 items under obligatory, 3 items under special and 35 items under discretionary functions. In Assam, the functions and powers entrusted to the municipal boards are of three kinds - mandatory, permissive, and agency. The agency services refer to such functions which the municipalities are asked by the Government to perform from time to time on its behalf.

- Tax Sources - Tax on properties, tax on services, cesses, tax on trades and professions, tax on entry of goods and passengers (Octroi, terminal and toll), etc.;
- Non-tax Sources - incomes from municipal investments, rents from public properties, prices for services rendered, fees and licenses, etc.;
- Grants from the State Governments - in lieu of taxes, and for administration and municipal service improvement and specific - purpose grants; and
- Borrowings - from State Governments and others, including market borrowings as in the case of some corporations.

13. There is not much variation between states in the matter of tax powers entrusted to municipal bodies. But significant variation exists in their application, and in terms of rates, structure and exemptions. The absence of octroi in some states is one such example. Property tax rates vary significantly between states. However, in all cases, states have the final jurisdiction in all matters relating to municipal administration, including the exercise of financial powers allotted to them. Thus, for instance:

- the states lay down the tax rates and procedures either in the municipal acts or in the bye-laws framed for the purpose;
- they prescribe the maximum/minimum rates for certain taxes;
- they do not empower the municipalities to revise the tax rates; and
- they restrict their borrowings.



14. The second point which follows from the above refers to their budgetary powers and responsibilities. Under several state statutes, municipalities are barred from preparing and presenting "deficit budgets". For example, section 286(3) (d) of the Karnataka Municipalities Act, 1964, states that the municipal council shall "allow for a balance at the end of the said year of not less than such sums as may be required to meet the establishment charges for a period of 3 months". This means that the budget must provide for a surplus such that establishment charges can be met for the 12 months of the current financial year and three months of the next financial year. Section 91 of the Maharashtra Municipalities Act, 1965, requires every municipal council to build up a "salary reserve fund, and to credit to it an amount equal to one month's salary of all its employees every year"<sup>4)</sup>. Identical provisions exist in the statutes of other states. A surplus balance at the end of the year in the budget of a municipality is, therefore, illusory as it is maintained to satisfy the statutory obligations, rather than representing a genuine surplus of incomes over expenditure.

15. Given these overall parameters within which the urban local bodies exercise their powers and perform their functions, it is not surprising that the NIUA's earlier study revealed a surplus of Rs. 941 million on revenue account. What is interesting is that this surplus was 11.1 per cent of the total ordinary incomes of the surveyed urban local bodies, or roughly equal to one month's incomes!<sup>5)</sup>

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4) For similar provisions in other states, see, NIUA's 1983 study.

5) It needs to be noted that not all municipalities showed a revenue surplus. A very large number municipal bodies have deficit budgets.

16. As stated earlier, this study compares the position of the gap for two reference years, namely, 1979-80 and 1983-84, primarily to find out whether there has been any change in the gap, for better or for worse. Tables 2 and 3 provide the relevant data on income-expenditure - table 2 on unadjusted (current) prices, and table 3 on prices adjusted (constant) to 1979-80 levels.

Table: 2 ORDINARY INCOMES AND EXPENDITURE AT CURRENT PRICES  
(in million Rs.)

Component	1979-80	1983-84	Percent Variation
Incomes	5,222.9	8,767.4	+ 67.9
Expenditure	3,568.5	8,526.9	+138.9
Income-Expenditure differential	+1,654.4	+240.5	-
Percent to incomes	31.7	2.7	-

Table 3: ORDINARY INCOMES AND EXPENDITURE AT CONSTANT PRICES  
(in million Rs.)

Component	1979-80	1983-84	Percent Variation
Incomes	5,222.9	5,731.8	+ 9.7
Expenditure	3,568.5	5,574.6	+ 56.2
Income-Expenditure differential	+1,654.4	+157.2	-
Percent to incomes	31.7	2.7	-

17. Two features stand out from an examination of the above tables. First: surplus on revenue account continues to be an important feature of the municipal budgets. However, this surplus has declined sharply between 1979-80 and 1983-84. In 1979-80, it was 31.7 percent of the total ordinary incomes, adequate to cover about three months of expenditure of the next financial year. By 1983-84, it had declined

to a bare 2.7 per cent, not sufficient to meet the statutory obligations of even one month of salaries and related expenditures. Second: while both incomes and expenditure registered significant increases during the reference period, the growth rate of incomes was much lower in comparison with that of expenditure. Table 3, for instance, shows that expenditures at constant prices rose by approximately 56 per cent during the four year period; as against this, the growth rate of incomes was 9.7 per cent, or just about 2.0-2.2 percent compound per annum. At constant prices, the increase in incomes during 1979-80 - 1983-84 was insignificant. It is also indicative of the fact that the municipalities made no special efforts during this period to either step up collection rate of taxes and other revenues or alter the structure of taxes, levies etc so as to improve their revenue base.

18. Does the position of the gap change with city-size? Do the municipal bodies of larger cities have higher or lower surpluses than those of smaller cities? Tables 4 and 5 provide the necessary details.

Table 4: ORDINARY INCOMES AND EXPENDITURE BY CITY SIZE AT CONSTANT PRICES

(in million Rs.)

City size	Ordinary Income			Ordinary Expenditure		
	1979-80	1983-84	% variation	1979-80	1983-84	% variation
+ 1 million	3957.4	4278.8	8.1	2543.2	4116.8	61.9
100,000 - 1 million	946.8	1098.5	16.0	763.3	1093.6	43.3
50,000 - 100,000	185.1	208.2	12.5	145.5	215.3	48.0
20,000 - 50,000	104.2	114.0	9.4	89.5	115.4	28.8
- 20,000	29.2	32.1	10.0	26.7	33.4	25.5
Total	5222.9	5731.8	9.7	3568.5	5574.6	56.2

Table 5: SURPLUS/DEFICIT BY CITY SIZE, AT CONSTANT PRICES

(in million Rs.)

City Size	Surplus +/Deficit -			
	1979-80	Percent of ordinary income	1983-84	Percent of ordinary income
+ 1 million	1,414.2	35.7	162.0	3.8
100,000 - 1 million	183.5	19.4	4.9	0.4
50,000 - 100,000	39.6	21.4	- 7.1	3.4
20,000 - 50,000	14.7	14.1	- 1.4	1.2
- 20,000	2.5	8.6	- 1.3	4.0

19. Several points can be distilled out of an examination of the above two tables. Firstly, it is evident that the surplus on revenue account, i.e., the excess of incomes over expenditure, declined for all sizes of urban local bodies during the reference period. What is more, the surpluses enjoyed earlier by the relatively smaller urban local bodies, that is, those having populations of less than 100,000 were turned into deficits in the financial year 1983-84. Secondly, while the comparatively larger urban local bodies continued to have surpluses in the revenue account of their budgets these were reduced to insignificant amounts in 1983-84 in comparison with the base year. For instance, in 1979-80 the budgetary surpluses of corporations and larger cities (1 million + population) formed 35.7 per cent of the total ordinary incomes; in 1983-84, the same had declined to less than 4 per cent. For urban local bodies having populations ranging between 100,000 - 1 million, the surpluses declined from 19.4 per cent in 1979-80 to 0.4 per cent in 1983-84.

20. The set of data contained in the above tables further shows that the decline in the surpluses between 1979-80 and 1983-84 was due to two simultaneously operating forces. On the one hand, the growth rate of ordinary incomes at constant prices, (during 1979-80 and 1983-84) was tardy; it was a bare 8.1 per cent for metropolises, or less than 2 per cent per year. For urban local bodies in other size groups, the growth rate ranged between 9.4 per cent to 16 per cent which was substantially less than the rate of population growth during this period. As against this, the rate of increase in the ordinary expenditure was extraordinarily high for all sizes of urban local bodies. During the four years (1979-80 to 1983-84), the level of expenditure in the metropolitan cities increased by 61.9 per cent. In other sizes of urban local bodies too, expenditures increased significantly, between 25 per cent to 48.0 per cent. These two forces resulted in eroding the revenue base of the urban local bodies of all sizes.

21. Data on per capita incomes and expenditure at constant prices which take into account the combined effect of population increase and inflation are even more revealing. Given in Table 6, the data show that the per capita ordinary incomes declined between 1979-80 and 1983-84. In the aggregate, the per capita ordinary income in 1979-80 was Rs. 128; in 1983-84, it declined to Rs. 125. Evidently, the population growth and inflation that took place during the four year period neutralised whatever increase had taken place in the incomes of urban local bodies. Table 6 further shows that the per capita incomes declined consistently for all sizes of urban local bodies, except those which had populations ranging between 100,000- 1 million who

managed to somehow maintain the per capita incomes at the 1979-80 levels. As against the decline in incomes, the per capita expenditures rose dramatically during this period. For instance, the aggregate per capita expenditure which was Rs. 87.4 in 1979-80 increased to Rs. 121.6 in 1983-84, registering a growth of nearly 40 per cent which is high by any standard. Among the various sizes of urban local bodies, the metropolitan cities registered the highest rate of increase, it being 45 per cent in a short span of four years.

Table 6: PER CAPITA ORDINARY INCOMES AND EXPENDITURES BY CITY SIZE

(In Rs.)

City Size	Income		Expenditure	
	1979-80	1983-84	1979-80	1983-84
+ 1 million	166.5	162.8	107.0	156.6
100,000 - 1 million	83.0	83.2	66.9	82.8
50 - 100,000	65.2	64.4	51.3	66.6
20 - 50,000	48.6	47.1	41.8	47.7
- 20,000	46.0	44.6	42.0	46.4
Total	128.0	125.0	87.4	121.6

22. When this analysis is further extended, it is noted that the financial base of particularly the smaller urban local bodies has become even more fragile than before. As shown in Table 6, the per capita incomes for these local bodies declined during the period. The per capita expenditure which directly contributes to the improvement

increase, indicating at most a status quo in the level and quality of services at 1979-80 levels.

23. It is worth noting that only 27 per cent of the total sampled urban local bodies (57 in number) improved their per capita income status during 1979-80 and 1983-84. Per capita incomes declined in 28.6 per cent (60) of them, while the balance, that is 44 per cent (93) barely maintained their 1979-80 income levels. Table 7 may be seen for data in this regard.

Table 7: SHIFT IN PER CAPITA INCOMES BETWEEN 1979-80 AND 1983-84, AT CONSTANT PRICES

Class Size	Shift to Lower (Declined)	No Shift	Shift to Higher	Total No. of Local Bodies
+ 1 million	1 (1.66)	5 (5.37)	1 (1.75)	7
100,000 - 1 million	13 (21.66)	18 (19.35)	15 (26.31)	46
50 - 100,000	12 (20.00)	19 (20.43)	12 (21.05)	43
20 - 50,000	21 (35.00)	30 (30.25)	16 (28.07)	67
- 20,000	13 (21.66)	21 (22.58)	13 (22.81)	47
Total	60 (100.00)	93 (100.00)	57 (100.00)	210

24. As mentioned earlier, the Zakaria Committee had examined in 1963 the entire question of the level of services and the financial implications for maintaining them at absolute minimum levels. The Committee had recommended in this regard expenditure norms for

different classes of urban local bodies. The NIUA's 1983 study upgraded those norms to 1979-80 price level, and applied them to assess the resource gap, i.e. the gap between the incomes and expenditure that would be required by the urban local bodies to maintain the services at absolute minimum levels. This gap was assessed at Rs. 8,330 million annually for the entire universe of 1,533 municipalities and other forms of urban local bodies. <sup>6)</sup>

25. This resource gap has been reassessed for 1979-80 and 1983-84 for the sampled urban local bodies, by using the same methodology and adjusted expenditure norms, and shown in Table 8 below. <sup>7)</sup>

Table 8: ESTIMATED RESOURCE GAP IN SAMPLED URBAN LOCAL BODIES FOR 1979-80 AND 1983-84

(In million Rs.)

City Size	Resource Gap		
	1979-80	1983-84	Percent Variation (+)
+ 1 million	1,030.6	1,294.3	25.5
100,000 - 1 million	852.7	1,076.6	26.2
50 - 100,000	170.8	197.4	15.5
20 - 50,000	129.5	152.2	17.5
- 20,000	32.5	36.4	12.0
Total	2,216.1	2,756.9	24.4

6) It included depreciation as well.

7) Resource gap 1979-80 equal to (Revenue Income at 1979-80 price minus per capita expenditure norms multiplied by 1980 estimated population for each urban local body). For 1983-84, population estimates for 1984 have been used. Incomes are at 1979-80 prices. Annex B gives the resource gap for each urban local body.



26. The table shows that the resource gap for the sampled local bodies increased from Rs. 2,216 million in 1979-80 to Rs. 2,756.9 million in 1983-84. What it in effect shows is that the ordinary incomes during the reference period of the study did not increase fast enough to reduce the gap between the incomes and the levels of expenditure required to maintain the services at absolute minimum levels. It also suggests that the gap will continue to rise if the rate of growth in incomes is not stepped up, or alternatively if the expenditure norms are not brought down to levels lower than what they presently are. The table indicates that if the incomes of the municipalities increase at the same rates as these did during 1979-80 and 1983-84, then the resource gap will increase at roughly 5-5.5 per cent per annum in the following years.

27. The overall conclusion that emerges from this analysis of income-expenditure data of 210 urban local bodies is that there has been a further deterioration in the state of their finances during 1979-80 and 1983-84. It is reflected particularly in the following:

- (a) tardy growth in the ordinary incomes of urban local bodies not only in the aggregate but across the different classes and sizes;
- (b) an extraordinarily high rate of increase in their ordinary expenditures, thus, wiping out much of the surpluses that were enjoyed earlier by the urban local bodies;
- (c) the surpluses which formed in 1979-80, 31.7 per cent of the ordinary incomes declined to a bare 2.7 per cent in 1983-84, confirming widely-held fears that the urban local bodies divert

capital funds for maintenance of services.

- (d) the per capita ordinary incomes registered a decline in real terms during the reference period.
- (e) the state of finances of particularly the smaller urban local bodies is in shambles. Their incomes declined in per capita terms; at the same time, they were unable to raise their per capita expenditures indicating that the quality of services at most remained at the 1979-80 levels, if not registering further deterioration.
- (f) the resource gap, that is the difference between the ordinary incomes and the level of expenditure required to maintain services at absolute minimum levels further increased. If the rate of increase in ordinary incomes continue to be the same as it was during 1979-80 and 1983-84, the resource gap will grow at roughly 5 to 5.5 per cent per annum.
- (g) the number of urban local bodies whose per capita incomes either declined or remained at 1979-80 levels is higher than those whose income status improved during 1979-80 and 1983-84, signalling that the financial crisis is engulfing every year a larger number of municipalities.

III SHIFTS IN THE STRUCTURE OF MUNICIPAL FINANCES

28. What changes took place in the structure of municipal finances during the reference period of this study forms the subject-matter of this section. This section also examines the effects and implications of the changes on the overall financial viability of the urban local bodies. The section is divided into two parts; in the first part, we have analysed the changes in the composition of municipal incomes, while the second part of the section is devoted to an examination of the shifts in municipal expenditures.

A. MUNICIPAL INCOMES

29. The following chart showing the main components of income of the urban local bodies serves as a useful starting point for this section.

Chart A: MAIN SOURCES OF INCOMES

Components of Income	Sub-Components
Income from taxes	A. Tax on property and services: house tax; water tax; lighting tax; drainage and conservancy tax; etc. B. Tax on entry of goods: octroi; terminal tax; toll tax; etc. C. Other taxes: tax on professions, trades & callings; advertisement fee; tax on boats; pilgrims; entertainment tax; educational cess; animal and vehicle tax; etc.
Non-Tax Components	Fee; fines; rents and prices; betterment levy etc, and proceeds from the sale of services
Grants and Contributions	General purpose grant for the maintenance of services and establishment cost and grants in lieu of assignment of taxes
Miscellaneous	Any other sources of income excluding above.

30. In addition to the above, it also needs to be restated that the states specify the rates of various taxes, fees etc., and do not permit the urban local bodies to change the rates and schedule of taxes etc. In this sense, the urban local bodies are unable to exercise their own assessment of the local economy for the improvement and strengthening of their revenue base. This is evident from the following analysis of the structure of municipal incomes. Table 9 gives the revenues from various sources for 1979-80 and 1983-84.

Table 9: COMPOSITION OF THE INCOME BASE AT CONSTANT PRICES 1979-80 AND 1983-84 (in million Rs.)

Composition	Income				Percent variation
	1979-80	% to total	1983-84	% to total	
Tax sources	3,595.8	68.8	4,148.2	72.4	15.4
Non tax sources	376.0	7.2	582.5	10.2	54.9
Grants and contributions	842.2	16.1	879.3	15.3	4.4
Miscellaneous	408.7	7.8	121.7	2.1	-70.2
Total	5,222.9	100.0	5,731.8	100.0	9.7

31. A number of important features can be noted from the above table. Firstly, the revenues from tax sources continued to maintain their overwhelming position in the overall revenue structure of the urban local bodies with contributions from other sources being comparatively insignificant. In fact, there was further strengthening of the tax sources of revenues during the period of this study. As shown in the

table, the share of tax revenues increased from 68.8 per cent in 1979-80 to 72.4 per cent in 1983-84. Grants and contributions from states though a shade less in 1983-84 (15.3 per cent) compared to 1979-80 (16.1 per cent), continued to be the second most important source of revenue for the urban local bodies. Non-tax sources with a share of 10.2 per cent in the total revenues constituted the third major source. What is important is that the relative position of the various revenue components remained unchanged during 1979-80 and 1983-84.

32. Secondly, while the basic composition of the revenues remained unchanged, incomes from non-tax sources increased by 54.9 per cent during the reference period of the study. At constant prices, it constituted an extremely significant increase, reflecting a growing awareness among the municipalities towards enlargement of their revenue base on the one hand, and thinning down of dependence on the more traditional source of incomes, on the other. It represents, in a sense, the only positive development at the municipal levels as far as their revenue structure is concerned. As the table shows, other changes in the revenue structure of urban local bodies were marginal and of little significance.

33. When one analyses the shifts in the structure of municipal incomes by population size of municipalities the picture that emerges differs sharply from what is given above. Table 10 below contains data in this behalf.

Table 10: INCOME STRUCTURE BY CITY SIZE AT CONSTANT PRICES

(% share to total income)

Class Size	Tax Income		Non-Tax		Grants		Miscellaneous	
	1979-80	1983-84	1979-80	1983-84	1979-80	1983-84	1979-80	1983-84
+ 1 million	73.4	74.7	7.0	10.9	12.1	13.3	7.5	1.1
100,000 - 1 million	54.8	70.2	7.0	7.4	28.9	19.2	9.3	3.2
50,000-100,000	54.9	53.0	8.8	7.5	26.7	26.1	9.6	13.4
20,000-50,000	51.2	49.6	11.0	12.5	31.1	30.9	6.6	7.0
-20,000	58.6	48.7	12.6	13.3	24.7	29.5	4.1	8.5
Total	68.8	72.4	7.2	10.2	16.1	15.3	7.8	2.1

34. It is obvious from the table that the relative importance of the various sources of incomes varies with the size of the urban local bodies. The share of incomes from tax sources, for instance, is higher in larger-sized municipalities and corporations and lower in smaller local bodies. The table shows that the share of tax incomes declined between 1979-80 and 1983-84 - from 54.9 to 53.0 per cent in the case of 50-100,000 population - sized urban local bodies; from 51.2 to 49.6 per cent for 20-50,000 population - sized local bodies, and from 58.7 to 48.7 per cent in the case of urban local bodies having less than 20,000 population. Conversely, incomes from tax sources in the case of corporations and larger municipalities which were substantial to begin with further increased during the study period. Similarly, the share of incomes from non-tax sources rose appreciably in larger municipal bodies and corporations, and only marginally in smaller urban local bodies, indicating that it is only the larger municipalities which have begun to take advantage of the non-tax sources. Relatively smaller municipalities are still to

recognise their potentials.

35. Yet another feature that stands out from the above table is the high degree of dependence of particularly the smaller urban local bodies on the grants and contributions from the states. In percentage terms, it ranged between 26.1 percent for urban local bodies in population range of 50-100,000, and 30.9 per cent for those which had populations falling within a range of 20-50,000. By any standards, these represent a very high degree of financial dependence.

36. It is equally revealing to analyse the changes in the structure of incomes in per capita terms. These are shown in Table 11 on next page: It was shown earlier that the per capita municipal incomes at constant prices declined during the reference period of the study - from Rs.128 in 1979-80 to Rs.125 in 1983-84. This feature was observed for all sizes of urban local bodies, except those which had populations ranging between 100,000 and 1 million. In their case, the municipal incomes showed a notional increase of 0.2 per cent during a four-year period.

37. Component-wise per capita incomes given in the above table suggests that the decline was essentially due to a dramatic fall in incomes from "miscellaneous" sources. In 1979-80, miscellaneous sources yielded on a per capita basis an income of Rs.10.1; in 1983-84, it fell to only Rs.2.6. More important than this feature, are however, the figures on the per capita incomes from tax sources. As may be seen from the table, these registered a decline across all sizes of urban local bodies except, as stated above, for those having

Table 11: COMPONENT WISE PER CAPITA INCOMES AT CONSTANT PRICES  
(in Rs.)

Class Size	Tax		Non-Tax		Grants		Miscellaneous	
	1979-80	1983-84	1979-80	1983-84	1979-80	1983-84	1979-80	1983-84
+ 1 million	122.2	121.5	11.7	17.8	20.2	21.7	22.0	1.8
100,000 - 1 million	45.4	58.4	5.8	6.2	7.7	2.7	24.1	15.9
50,000 - 100,000	35.8	34.1	5.7	4.8	17.4	16.8	6.3	8.7
20,000 - 50,000	24.9	23.4	5.4	5.9	15.1	14.5	3.2	3.3
- 20,000	26.9	21.7	5.8	5.9	11.4	13.2	1.9	3.8
Total	88.1	90.5	9.2	12.7	20.6	19.2	10.1	2.6



population ranging between 100,000-1 million. In per capita terms, non-tax revenues displayed buoyancy, increasing consistently for all sizes of urban local bodies except for those which had population varying between 50-100,000.

38. What explains the declining role of the tax incomes in the overall tax structure of the urban local bodies? Was it due to the stagnancy in certain sources of tax revenues? In Table 12, we have given the share of the principal sources of tax incomes by size groups of urban local bodies for 1979-80 and 1983-84.

Table 12: COMPOSITION OF TAX INCOMES

Class Size	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
+ 1 million	21.2	34.5	29.5	33.8	22.8	6.3
100,000 - 1 million	10.4	9.7	33.8	46.0	10.6	14.5
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

39. Property taxes and octroi levies are the mainstay of the revenue base of the urban local bodies in India. Together they account for anywhere between 60-70 per cent of the total revenues. Incomes from

other tax sources form a small proportion of the total incomes.

40. The most important tax available with the urban local bodies is the octroi tax. Despite the fact that it is viewed as an "inherently bad tax" and that a decision in principle to abolish it seems to have been taken, its overall position in the tax structure of urban local bodies remains dominant and undisturbed. In fact, the percentage of incomes accruing from octroi increased from 30 per cent in 1979-80 to 35.6 per cent in 1983-84, allaying all notions that municipalities are gradually moving away from their reliance on this tax to other substitute taxes. It continues to be the single most important source of revenue for all sizes of urban local bodies. In urban local bodies which have populations ranging between 100,000 to 1 million, its share in the total incomes was 46 per cent in 1983-84!

41. In 1983-84, property tax yielded in the aggregate 28.2 per cent of the incomes of sampled municipalities. Between 1979-80 and 1983-84, its share increased dramatically, from 18.4 to 28.2 per cent. Property taxes are particularly important for + 1 million cities. As the table shows, the metropolitan cities rely to the extent of a little over one-third of the total ordinary incomes on property taxes. It is also indicative of the construction activity in larger cities as compared to the smaller ones.

42. It is significant to note that property tax as a source is not significant for relatively smaller local bodies. Surveys indicated three reasons for the relative insignificance of property tax as a source of revenue:

- (a) the inability of the smaller local bodies to undertake periodic valuation of properties;
- (b) gross inefficiencies in the collection of taxes; and
- (c) their inability to use the prescribed limits of tax rates.

43. Inability to fully utilise the property taxes as the main source of revenues is not only the characteristic of smaller local bodies, but of larger ones as well. In all size groups of urban local bodies, revenues from property taxes on a per capita basis declined during 1979-80 and 1983-84. Table 13 may be seen in this regard:

Table 13: PER CAPITA INCOMES FROM PROPERTY TAXES

Class Size	Per capita incomes (Rs.)	
	1979-80	1983-84
+1 million	35	28
100,000 - 1 million	9	7
50,000 - 100,000	6	7
20,000 - 50,000	3	3
- 20,000	3	3
Total	23	19

44. The foregoing analysis shows that -

- (a) Incomes from non-tax sources increased appreciably during the reference period, indicating an increasing awareness of the urban local bodies to these sources. This is particularly so with larger municipalities and corporations who seem to be in the process of widening their revenue base widening their revenue

base by greater use of non-tax sources of revenues.

- (b) Notwithstanding the growing share of the non-tax sources, the incomes from tax sources continue to be the most important source of income. In 1979-80, its share was 68.8 per cent; in 1983-84, it had increased to 72.4 per cent. At the same time, it is important to note that the overall importance of the tax sources declines with the size of the urban local bodies.
- (c) The dependence of smaller local bodies on grants and contributions from the states is overwhelming. The share of grants in their incomes ranged between 26.1 per cent and 30.9 per cent in 1983-84. Between 1979-80 and 1983-84, the dependence showed a marginal decline.
- (d) Octroi as a single source of income remains dominant in the urban economy. A little over one-third of the total incomes are derived from octroi. It is evident that if it is abolished, it will cripple the financial viability of the urban local bodies.
- (e) Property tax is an extremely important source of revenue. However, it is only the metropolises which have made attempts to revalue properties and make better use of this as a source of revenue. Smaller municipal bodies have not been able to use this source effectively, either because of local pressures which do not permit them to undertake property valuations or even raise the tax rates to the permissible limits, or due to total indifference to their own state of municipal revenues.

45. The facts given above indicate an utter lack of concern on the part of the urban local bodies and state governments to the entire question of municipal revenues. The 4-year period witnessed a fall in the overall revenues across almost all size-groups of urban local bodies. Tax revenues showed no buoyancy at all. Property taxes which are often used as a measure of growth declined on a per capita basis. It is important to point out in this connection that 180 out of 210 surveyed local bodies either remained within the same per capita tax income bracket, and moved into the lower income bracket during this period. Even in the case of non-tax revenues, only 24 urban local bodies (11.42 per cent) moved to higher per capita tax income bracket; others either moved to lower or stayed within the same per capita income brackets. Details of the upward or downward movement of the urban local bodies are shown in Tables annexed with this report.

B. PATTERN OF MUNICIPAL EXPENDITURE: MAJOR SHIFTS

46. Comparable to chart A in the preceding section which showed the main components of incomes, Chart B below gives the broad categories of municipal expenditures.

Chart B: MAIN COMPONENTS OF EXPENDITURE

Components of expenditure	Sub-components	Items
A. Establishment	1. General administration	- Administration - Collection of revenues - Other miscellaneous expenditure
B. Operations	1. Public Safety	- Street lighting - Fire fighting etc.
	2. Public Health	- Water Supply - Sewerage, drainage, scavenging and street cleaning & public conveniences
	3. Public Works	- Roads, streets and sub-ways
	4. Public Instruction	- Education, libraries & reading rooms
	5. Recreation	- Parks, playground, stadia etc.
	6. Miscellaneous expenditure	

47. Ordinary expenditures include the financial spending by urban local bodies on the delivery and maintenance of urban services and, of course, on general administration. These are divided broadly under two main categories, namely: (i) establishment, and (ii) operations. While the establishment covers the expenditure on administration, the 'operations' include expenditure on the maintenance of various services such as public safety, public instruction, public health, public works, recreation etc.

48. It is important to point out at the very outset that expenditure on 'establishment' is a relatively small proportion of the total expenditure of urban local bodies. In 1979-80, it was a bare 11.4 per cent; the balance was devoted to the maintenance of the various services. In per capita terms, the expenditure on establishment was Rs.10; it was assessed to be Rs. 77.4 on operations.

49. Within the general area of operations, 'public health' which includes expenditure on water supply, sewerage, drainage, scavenging, and public conveniences accounted for the highest expenditure. In 1979-80, it was placed at Rs. 20.9 per capita, or 23.9 per cent of the total. It was followed by public works which accounted for 17.3 per cent of the total expenditure.

50. The extent and nature of the changes in the pattern of municipal expenditure during 1979-80 and 1983-84 are analysed below. Table 14 and 15 give the relevant data.

Table 14: CHANGES IN THE PATTERN OF EXPENDITURE AT CONSTANT PRICES

Component	Expenditure (Rs,Million)			Per capita	
	1979-80	1983-84	% change	1979-80	1983-84
Establishment	408.7	834.6	104.2	10.0	18.2
Public Health	852.5	2,081.9	144.2	20.9	45.4
Public Works	614.5	650.1	5.8	15.1	14.2
Public Safety	256.1	248.9	-2.8	6.3	5.4
Public Instruction	414.9	804.0	93.8	10.2	17.5
Recreation	66.2	72.8	9.9	1.6	1.6
Miscellaneous	955.6	882.3	-7.6		
Total	3,568.5	5,574.6	56.2	87.4	121.6

51. Three changes in the pattern of expenditure are discernible from the above table -

- (a) an extraordinarily large increase in the expenditure on establishment. During the period under reference, the increase in the establishment costs was 104.2 per cent - almost 24 - 24.5 per cent per annum. Also, the share of establishment costs in the total increased from 11.4 per cent in 1979-80 to almost 15 per cent in 1983-84. In per capita terms too, expenditure on establishment increased from Rs.10 to Rs.18.2 during this period.
- (b) an equally perceptible increase in the expenditure on "public health" and "public instruction" - what the data show is that public health and public instruction together accounted for over 40 per



cent of the total expenditure of urban local bodies. It is to be noted that expenditure on public health includes maintenance expenditure on water supply, scavenging, drainage etc. which increases in direct proportion to population. It is, therefore, not surprising that maintenance expenditure on public health rose at such a high rate during the four-year period. Expenditure on public instruction which is dependent on the grants from the states, also showed a perceptible increase during this period.

- (c) stagnation in the maintenance expenditure on public works, public safety and recreation - in per capita terms, there was a virtual stay on the expenditure on these components, which would mean, on the face of it deterioration in the availability of these services.

52. It was shown earlier that the overall ordinary expenditure of the urban local bodies rose during the period of the study by 56.2 per cent, or about 12 - 12.5 per cent annually. What was important was that the rate of increase in expenditure bore close relationship with the size group of the local bodies. Larger the size of the local body, higher was the increase in expenditure which meant both the capacity of the larger metropolises to incur expenditure, as well as the compulsive nature of the expenditure on, for instance, the provision of basic services and facilities for the growing number of slum areas and squatter colonies. However, when one examines the pattern of increase, that is, whether this overall increase is due to the increase in expenditure on "establishment", or on "operations" then the picture that one obtains is that the establishment costs rose during the period by 104.2 per cent in the aggregate as compared to a

50 per cent increase in the operations. The increase in the establishment costs in the larger cities, i.e. both the metropolises and those which had populations ranging between 100,000 and 1 million was significantly higher than the rates in other, smaller sizes of urban local bodies. Table 15 gives the relevant data.

Table 15: PERCENTAGE VARIATION IN ESTABLISHMENTS COSTS BY MAJOR GROUPS AT CONSTANT PRICES

City Size	Per cent variation between 1979-80 to 1983-84		
	Establishment	Operations	Aggregate
+ 1 million	144.2	84.6	61.9
100,000 - 1 million	72.8	36.6	43.3
50,000 - 100,000	31.6	48.1	48.0
20,000 - 50,000	15.0	32.4	28.8
- 20,000	15.4	28.7	25.5
Total	104.2	50.0	56.2

A city-size analysis of expenditure on operations is contained in Table 16.

Table 16: PER CAPITA EXPENDITURE ON MAINTENANCE OF VARIOUS SERVICES  
AT CONSTANT PRICES 1979-80 AND 1983-84

Components	Metropolitan		Class I		Class II		Class III		Class IV		All	
	1979-80	1983-84	1979-80	1983-84	1979-80	1983-84	1979-80	1983-84	1979-80	1983-84	1979-80	1983-84
Public Health	24.3	60.9	17.3	26.3	14.6	24.3	12.5	18.4	13.8	15.4	20.9	45.4
Public Works	18.9	13.9	10.4	15.4	8.2	14.8	8.0	10.8	9.1	11.2	15.1	14.2
Public Safety	8.9	7.1	2.7	3.3	2.4	3.1	2.2	2.9	2.0	3.5	6.3	5.4
Public Instruction	13.4	25.6	6.7	7.9	4.7	6.2	2.9	3.1	0.3	0.6	10.2	17.5
Recreation	2.6	2.3	0.3	0.8	0.1	0.3	0.6	0.4	0.5	0.2	1.6	1.6
<b>Total</b>	<b>97.9</b>	<b>136.5</b>	<b>54.7</b>	<b>64.6</b>	<b>41.7</b>	<b>55.5</b>	<b>33.2</b>	<b>38.9</b>	<b>30.4</b>	<b>34.6</b>	<b>77.4</b>	<b>103.4</b>

53. The city size analysis follows the overall pattern of higher per capita expenditure on the operations and maintenance of public health and public instruction components. Two variations, however, need to be noted. Firstly, in the metropolitan cities, the sharp increase in the expenditure on public health and public instruction was accompanied by a decline in the per capita expenditure on other components such as public works, public safety and recreation. Such is not the case with other sizes of urban local bodies. In fact, all components excepting 'recreation' registered increases in per capita expenditure during the reference period. Secondly, the per capita expenditure on operations is consistently lower in smaller municipalities in comparison with the larger ones. In smaller municipalities, the expenditure per capita in 1983-84 was a bare Rs.34.6; even the increase during the four year period was insignificant. On the other hand, the metropolises and other larger urban local bodies (100,000 - 1 million) registered appreciable increases in their expenditures.

54. The data on expenditure also shows that a much larger number of urban local bodies shifted to higher per capita ranges. Almost 39 per cent (80 out of 210 municipalities) moved to higher per capita expenditure bracket, while 29 of them (13.8 per cent) moved into lower expenditure brackets.

55. In sum, the analysis shows that -

- Expenditure in the aggregate increased at an extraordinarily high pace during the study period;

- Expenditure on establishment rose by almost twice the rate of expenditure on operations and maintenance of services. In per capita terms, establishment expenditure increased from Rs.10 in 1979-80 to Rs. 18.2 in 1983-84 - an increase of over 80 per cent. As compared to this, the expenditure per capita on operations increased by 33.9 per cent during the 4 year period. Also, in proportionate terms, expenditure on establishment which was 11.4 per cent in 1979-80 increased to 15 per cent during the financial year 1983-84.
  
- Public health as a sector is the most important component of expenditure with the urban local bodies. Expenditure on public health registered a steep rise during the reference period. The only other component on which expenditure increased was public instruction. Expenditure on other components either declined or rose insignificantly.

#### IV THE NATURE AND DIMENSION OF THE FISCAL CRISIS CONCLUSIONS AND AREAS OF POSSIBLE ACTION

56. The one unmistakable conclusion that emerges from the analysis of income-expenditure data of 210 municipalities is that the state of municipal finances deteriorated during the period 1979-84 and 1983-84. The resource base of these municipalities which was fragile to begin with further weakened. Furthermore, while the deterioration and weakening of the resource base was widespread, cutting across the different population sizes of local bodies, worst affected were the relatively smaller local bodies. Several facts would corroborate the above conclusion, and even at the cost of repetition, it is useful to briefly recapitulate them here.

- (1) As shown earlier, the surpluses, that is, the municipal revenues in excess of expenditure, which the urban local bodies had enjoyed in the base year of the study, virtually disappeared within a matter of four years. The surpluses constituted 31.7 per cent of the total municipal incomes in 1979-80; in 1983-84, these had dropped to a mere 2.7 per cent, strongly indicating that the municipalities failed to maintain even the statutory surpluses which they are expected to under the provisions of the various state municipal legislations.<sup>8</sup> The position in the case of smaller municipalities was even more dismal as their surpluses turned into deficits - a 7.1 per cent deficit in case of

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<sup>8</sup> Expenditures in excess of incomes is not a new phenomenon even though the municipal legislations do not provide for such deficits. Thus, the NIUA's earlier study had shown 68 out of the sample of 210 urban local bodies having deficit budgets in 1979-84. This number increased to 109 in 1983-84. Furthermore, deficit budgets were not confined to smaller urban local bodies alone; for their size distribution, see Table Annex-7.

municipalities in the population range of 50-100,000; of 1.4 per cent for those which had populations varying between 20-50,000, and 1.3 per cent for those having populations of less than 20,000. These facts would tend to confirm the oft-repeated claim that the municipalities often divert capital funds or withhold payments in order to meet their recurring financial obligations.

- (2) The decline in the state of municipal finances during the reference period of the study was due to the interaction of two simultaneously operating forces. On the one hand, the growth rate of municipal incomes was tardy, a mere 9.2 per cent in a four year span or an annual compound growth rate of anywhere between 2-2.2 per cent. As against this, the municipal expenditures registered an extraordinarily high increase of 56.2 per cent during 1979-80 and 1983-84, resulting in gross erosion of the financial base of the urban local bodies in India.
- (3) One of the most disconcerting features of the state of finances was an absolute decline in the per capita incomes of urban local bodies. Figures in this regard are revealing. In 1979-80, the per capita ordinary incomes of the sampled municipalities was assessed at Rs.128. In 1983-84, it declined to Rs.125. It is evident that the increase in population as well as inflation made heavy inroads into the revenue base of the urban local bodies during this period.
- (4) Yet another indicator of the dismal state of municipal finances was the absence of any appreciable change in the overall structure of the municipal incomes during the reference period of

the study. The relative positions of the various components of incomes were not only maintained but reinforced as far as the share of tax sources in the total was concerned. Also, the dependence of municipalities on State's grants and contributions continued to be almost as high (15.3 per cent in 1983-84) as it was in 1979-80 (16.1 per cent).

(5) As indicated earlier, worst-affected during 1979-80 and 1983-84 were the relatively smaller municipalities. The extent of the deterioration in the state of their finances can be visualised by the fact that even buoyant taxes like octroi, and also property taxes which are often used to measure growth, failed to make any impact on their incomes. Table 17 below is relevant in this regard.

Table 17: PER CAPITA INCOMES FROM PROPERTY AND OCTROI TAXES  
AT CONSTANT PRICES

(Rs.)

Size Class	Property taxes		Octroi	
	1979-80	1983-84	1979-80	1983-84
+ 1 Million	35.2	56.2	49.1	55.1
100,000 - 1 Million	8.6	8.1	28.0	38.2
50,000 - 100,000	5.2	6.4	15.9	17.1
20,000 - 50,000	3.2	3.2	12.6	11.0
- 20,000	2.3	2.5	14.6	11.0
Total	23.5	35.2	38.4	44.6



- (6) As against the lack of any appreciable change in the structure of incomes, the expenditure side of municipal finances experienced major shifts during the study period. For one thing, the expenditure on establishment increased by 104.2 per cent as against an overall increase of 56.2 per cent in the total expenditure of municipalities. Also, expenditure on establishment which was 11.45 per cent of the total in the base year of the study and ranked rather low in terms of expenditures on public health (23.9 per cent), public works (17.2 per cent), and public instruction (11.6 per cent), increased to 14.97 per cent in 1983-84, surpassing percentage expenditures on all components but one, that is, public health.
- (7) The figures on the levels of municipal expenditure per capita present yet another evidence on the poor state of municipal finances in India. On an average, an amount of Rs. 121 per capita was spent on establishment and maintenance of services. In smaller municipalities, this amount ranged between a high of Rs. 66.6 for those which had populations of 50-100,000, Rs. 47.7 for those having populations of 20-50,000, and Rs. 46.4 for those with populations of less than 20,000. What is important to note is that the smaller municipalities registered very marginal increases in the expenditure levels between 1979-80 and 1983-84. In this sense, smaller local bodies today present a dismal picture with their per capita incomes having declined, and their inability to step up in any appreciable manner the levels of their expenditure. One does not have to look for data outside of the municipal finances to explain the worn-out and depressed

state of the services and infrastructure, that they presently offer.

57. Two positive features of the state of municipal finances need to be underlined and noted. Firstly, the study showed an appreciable increase in the non-tax sources of revenues between 1979-80 and 1983-84. In terms of share, revenues from non-tax sources which include receipts from the sale of services and from what have come to be known as "remunerative projects", constituted in 1983-84, 10.2 per cent of the total as compared to 7.2 per cent in 1979-80. Also, revenues from these sources increased by 54.9 per cent during a four year period, an impressive increase considering the fact that the aggregate revenues increased by 9.7 per cent, and tax revenues by 15.4 per cent. Throughout the analysis, this is one development that indicates the increasing awareness on the part of municipalities to the "other sources of revenues" which they can mobilise to prop up their own finances.

58. A second feature of the state of municipal finances is that there were a large number of urban local bodies which achieved significantly higher rates of both incomes and expenditures during the reference period of the study, indicating that even within the rigid framework of resource-raising powers it was possible for them to achieve a high level of performance. Tables giving the aggregative as well as data of specific urban local bodies have been annexed. These show that 60 out of 210 municipalities moved into higher income brackets, while 80 out of 210 moved into higher expenditure brackets between the period 1979-80 and 1983-84. These also show very significantly that the top

ten municipalities which achieved higher growth rates and enjoyed consistently higher incomes and expenditure levels were located in the relatively high-income States of Gujarat, Maharashtra and Himachal Pradesh. Uttar Pradesh, on the other hand, had the largest number of municipalities among the bottom ten.

59. Notwithstanding a few bright spots, one can not fail to take note of the overall depressing and deteriorating state of municipal finances in India. Almost every set of data presented in this study indicate that the urban local bodies are in a financial mess, and are fast moving towards financial bankruptcy. They have accumulated in recent years massive liabilities and debts on various accounts - a fact which has thus far remained very obscure and outside of any study on municipal finances. The Gujarat Municipal Finance Board recently estimated that the outstanding liabilities of the State's 58 corporations and municipalities stood at Rs. 188.2 million (1983-84), which formed 8.6 per cent of the total municipal revenues in that year. In the case of municipalities alone, that is, excluding the corporations, liabilities accounted for 20.29 per cent of the revenues. In many cases, these were as high as 60-70 per cent as may be seen from the following table.

Table 18: OUTSTANDING LIABILITIES (GUJARAT)

Class	Liabilities (Rs. million)	Per cent of Municipal incomes
Corporations	86.32	5.11
A-Class Municipalities	10.76	8.32
B-Class Municipalities	68.48	28.13
C-Class Municipalities	22.60	17.51

All Classes	18.82	8.59
Bhavnagar	23.84	40.43
Surendranagar	11.76	69.29
Jetpur	8.55	75.35
Wadhavan	1.26	50.52

60. Yet another evidence of the decline in the state of municipal finances is available from the reports of the Task Forces on Housing and Urban Development<sup>9</sup>. According to the Task Forces, the municipal sector contributed in 1960-61, 8 per cent of the total resources generated by the public sector in India. In 1980-81, this share had shrunk to a mere 4.5 per cent. While these figures have not been updated, it appears unlikely that any appreciable change in the municipal sector's share of the public sector resources would have taken place, more so when the municipal resources have been showing at best a tardy rate of growth (2-2.2 per cent annually).

61. It is equally important to point out that it is only the share of corporations and municipalities in public sector resources which is in any way significant. The share of other, relatively smaller local bodies is small. According to the crude estimates, nearly 50 per cent of the total municipal sector resources are generated by corporations (urban local bodies having 1 million population), and another one-third by municipalities falling in the population range of 100,000 - 1 million. Only about 10 per cent of the municipal sector resources are generated by smaller local bodies even though they account for a

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9 Planning Commission, Task Forces on Housing and Urban Development, II. Financing of Urban Development, New Delhi, 1983.

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little over 70 per cent of the total number of urban local bodies in the country. Crude estimates in this regard, contained in the following table, only help to further reinforce the fragility of their revenue base.

Table 19: ESTIMATES OF RELATIVE SHARES OF DIFFERENT SIZES OF URBAN LOCAL BODIES IN MUNICIPAL SECTOR RESOURCES

Size Groups	Percent to Total	
	1979-80	1983-84
+ 1 million	47.9	50.5
100,000 - 1 million	29.7	31.0
50 - 100,000	10.4	9.0
20 - 50,000	8.6	6.4
< 20,000	3.4	3.1
	100.0	100.0

62. Evidently, the question arises as to what should be done to pull the urban local bodies out of the existing financial mess. Is there anything possible? Is there something that the urban local bodies can do within the existing institutional framework to improve their financial viability? Or, have we reached a cul-de-sac? Such questions are, however, not new; in fact, these have engaged in the past the attention of a very large number of commissions and committees (see, partial list at Annex), who have both written about the poor state of the municipal finances as well as about ways in which the financial decline of municipalities could be arrested. What has, therefore, been done in this report is to identify and

reinforce certain areas for action, and for further examination, without claiming that these are either new or that these have been tested for their feasibility.

63. It was stated earlier that property taxes and octroi levies constitute the bane of the revenue base of municipalities in India. Even though, as this study has shown, their per capita contributions declined during the reference period of the study, their primate positions in the resource hierarchy remain unaffected. It is obvious that no appreciable improvement in the resource base of the municipalities can be visualised by leaving these two sources of revenues out of consideration.

64. The key question is as to how reforms can be brought about in e.g., the structure of property taxes. Can anything be done to improve the collection rates of property taxes which today ranges between 30-50 per cent? Can anything be done to realistically assess the property values which stand grossly undervalued? A few leads emerge from this study, lowering of property tax rate being one of them. Experience in the country shows that higher tax rates lead to evasion, and other malpractices associated with evasion. It would seem relevant for the states to lower the tax rates, lay down "minimum" rates of taxes rather than "maximum" which are rarely used by the urban local bodies, and provide incentives for advance payment of property taxes. The municipal corporation of Delhi (MCD) has used this technique to prop up their revenues from property taxes. This approach can be further examined with respect to its replicability to other cities and relevance in a long range perspective. Indexing of property values to at least correspond with the inflation rate could

be one of the ways in which property values could be reassessed without being susceptible to local pressures. A very large number of properties including those owned by central and state governments, educational institutions, religious and charitable trusts, vacant properties and those whose values are less than a predetermined amount are outside of the property tax net. Can there be rethinking on this aspect?

65. A lot has been written about octroi, both for and against its imposition. The decision to abolish it evidently rests on the ground that the benefits that the economy would derive by its abolition are higher than what the economy would derive by its retention. The question is : who in the economy will stand to benefit by them? Can the benefits be channelled to the municipalities? Can ways be found to do so? Can ways be found to eliminate the undesirable features associated with the collection process so that it leaves no scope for manipulation? In a recent articles, A.S. Ahluwalia proposed setting up of "green channel" and "white channel" systems to eliminate some of the abuses that have come to be linked with the octroi tax collection. These are certainly some of the leads that need further probing and examination.

66. Yet another important lead falls within the domain of the non-tax sources of revenues. It was pointed out earlier in the report that the non-tax sources of revenues which include receipts from the sale of services and facilities have begun to assume importance in the local resource structure. During the reference period of the study, the revenues from non-tax sources in relation to total increased from

7.2 per cent to 10.2 percent. In per capita terms too, these showed promise in comparison with other components of incomes. Notwithstanding the increasing importance of non-tax sources, the fact remains that very little is known today about either the cost structure of any service or facility or about the manner in which its selling price is determined. Studies conducted by NIUA show that virtually no estimates are available as to what it costs to produce, say, 100,000 litres of water, or provide "scavenging" services in the city. Costs are fragmented, and charged to various accounts. Likewise, the collections by way of sale of a service are also made under various heads (water tax and charges being a typical example). In other words, no relationship seems to exist between the cost of a service and its price, with the result that the potentials of the non-tax sources remain untapped. It is extremely relevant that the prices of various services are so fixed as to at least recover the costs, both capital and recurring, in order to prop up the revenues of the urban local bodies?

67. Efficient management of the available financial resources would be an important element in any strategy for improving the municipal resource base. Several studies have referred to the mounting leakages and wastages of resources at municipal levels. A NIUA study on "Management of Urban Services" showed that almost 31-33 per cent of water either leak out from the system or remain unaccounted for. Almost the same percentage of solid wastes remain uncollected from the road sides and garbage depots. If these leakages and wastages are converted into money terms, the financial losses would run into extraordinarily high figures. Could something not be done to minimize



these losses, again in order to improve the finances of the urban local bodies?

68. A lot has already been written about the imbalance between the obligatory responsibilities of the urban local bodies and their powers to efficiently exercise those responsibilities. Resource-raising and resource-sharing powers that they currently enjoy are grossly inadequate to do any justice to the responsibilities that they have at present. It has often been argued that there are certain taxes such as entertainment tax, motor vehicles tax, stamp duty etc. which are localised and should fall within the net of the urban local bodies. What is important, however, is to identify sources which would increase the overall "pie", rather than merely transfer a revenue source from the state to the local bodies. Such a move will tend to adversely affect the level of states revenues, and may, in turn, result in reduction in the levels of grants etc. It is, therefore, important that the entire question of intergovernmental financial relations that have bearing on municipal revenue be re-assessed, without any prejudice to any level of government.

69. Any reform of municipal finances has to take note of the fact that the demand for municipal services will grow exponentially in the years to come. Trends indicate that the number of people who will not be able to pay economic prices of the various services will also increase, at least until the turn of the century. Unless the municipalities can begin to take a fresh look at the existing resource-raising powers, and begin a systematic search for non-conventional sources of revenues, the chances that they will survive the increasing financial pressures seem bleak.

## ANNEX A

## POPULATION ESTIMATES FOR SAMPLED URBAN CENTRES (IN ,000)

NAME	CENSUS POPULATION		ANNUAL COMPOUND GROWTH-RATE (%)	POPULATION ESTIMATES		
	1971	1981		1980	1984	
<b>METROPOLITAN</b>						
AHMEDABAD	MTC	1585.5	2059.7	2.7	2005.1	2227.9
BOMBAY	MTC	5970.6	8243.4	3.3	7973.2	9081.0
CALCUTTA	MC	3150.0	3191.6	0.1	3187.4	3204.2
DELHI	MC	3706.6	4884.2	2.8	4747.6	5305.7
KANPUR	MTC	1273.0	1531.3	1.9	1502.7	1618.6
MADRAS	MTC	2469.4	3276.6	2.9	3182.6	3566.8
PUNE	MTC	856.1	1203.3	3.5	1161.6	1332.7
<b>CLASS-I</b>						
ALIGARH	M	252.3	319.2	2.4	311.6	342.5
ALLEPPEY	M	160.1	169.9	0.6	168.9	173.0
ALWAR	M	100.4	145.7	3.8	140.2	162.9
BARANAGAR	M	136.8	170.3	2.2	166.5	181.9
BHARATPUR	M	69.9	105.2	4.2	100.8	118.9
BHARUCH	M	92.3	110.1	1.8	108.1	116.1
BHAVNAGAR	M	226.0	307.1	3.1	297.5	336.7
BULANDSHAHAR	M	59.5	103.4	5.7	97.5	122.0
CHANDERNAGORE	MC	75.2	101.9	3.1	98.8	111.6
DEHRADUN	M	162.6	211.8	2.7	206.1	229.3
FIROZABAD	M	134.9	202.8	4.2	194.4	229.2
GHAZIABAD	M	118.8	276.4	8.8	252.0	356.1
GORAKHPUR	M	230.9	289.2	2.3	282.6	309.4
HAPUR	M	73.2	103.4	3.5	99.8	114.7
HARIDWAR	M	77.9	114.4	3.9	109.9	128.4
HISSAR	M	89.4	137.3	4.4	131.3	156.2
HOWRAH	M	680.5	744.4	0.9	737.7	764.7
INDORE	M	543.4	829.3	4.3	793.5	941.4
JAGADHARI	M	35.1	160.4	16.4	134.1	253.0
JAMNAGAR	MC	214.0	277.6	2.6	270.3	300.1
JAUNPUR	M	76.0	104.9	3.3	101.5	115.5
JUNAGARH	M	95.9	118.6	2.1	116.1	126.4
KHARAGPUR	M	62.0	150.4	9.3	136.5	196.2
KOLHAPUR	M	259.1	340.6	2.8	331.2	369.7
KOTA	M	213.0	358.2	5.3	339.1	418.6
MEERUT	MC	271.0	417.2	4.4	398.8	474.9
MORADABAD	M	258.6	332.6	2.5	324.1	358.7
MUZAFFAR NAGAR	M	114.8	172.4	4.2	165.2	194.8
NABADWIP	M	94.2	109.1	1.5	107.5	114.0

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## POPULATION ESTIMATES FOR SAMPLED URBAN CENTRES (IN ,000)

NAME	CENSUS POPULATION		ANNUAL COMPOUND GROWTH-RATE (%)	POPULATION ESTIMATES	
	1971	1981		1980	1984
CLASS-I					
NADIAD M	108.3	142.6	2.8	138.6	154.9
NASIK ROAD M	70.0	262.4	14.1	225.3	390.1
PANIHATI M	148.3	205.7	3.3	198.9	226.9
PORBANDER M	96.9	115.1	1.7	113.1	121.2
RAJKOT MC	260.9	445.0	5.5	420.6	522.3
RAMPUR M	168.0	203.4	1.9	199.5	215.4
ROHTAK M	124.8	166.7	2.9	161.8	181.8
SAMBHAL	68.9	108.3	4.6	103.3	124.0
SERAMORE M	102.0	127.3	2.2	124.4	136.0
SHAJAHAN PUR M	135.5	185.6	3.2	179.7	204.0
SILIGURI M	97.5	154.3	4.7	147.1	177.1
SOLAPUR M.CRP	398.4	511.1	2.5	498.2	550.8
SURAT MC	471.5	776.5	5.1	736.8	901.9
THANE M	167.0	309.8	6.4	290.1	372.9
UJJAIN M	208.5	278.4	2.9	270.2	303.6
VARANASI MC	583.9	764.7	2.7	743.8	829.2
YAMUNA NAGAR M	72.6	109.3	4.2	104.7	123.6
CLASS-II					
AZAMGARH M	41.0	66.4	4.9	63.1	76.7
BALLIA M	47.1	61.3	2.7	59.7	66.3
BELA PRATAPGARH M	27.9	50.1	6.0	47.1	59.7
BHUJ M	52.2	69.6	2.9	67.6	75.9
BIDAR M	50.7	78.8	4.5	75.2	89.9
BIJNAUR M	43.3	56.6	2.7	55.1	61.3
BUDAUN M	72.0	92.5	2.5	90.2	99.7
CAMBAY M	62.1	68.7	1.0	68.0	70.8
CHAMPDANY M	58.6	76.1	2.6	74.1	82.3
CHANDAUSI M	53.4	66.4	2.2	64.9	70.9
DARJEELING M	42.9	57.6	3.0	55.9	62.9
DEWAS M	51.9	83.4	4.9	79.3	96.2
DHORAJI M	60.0	76.5	2.5	74.6	82.3
DHRANGADHRA M	40.8	51.2	2.3	50.0	54.8
DOHAD M	44.5	55.2	2.2	54.0	58.9
ETAH M	33.5	55.3	5.1	52.5	64.3
FATEH PUR M	54.6	85.0	4.5	81.2	97.1
GANDHIDHAM M	38.8	61.4	4.7	58.5	70.5
GARULIA M	43.6	57.0	2.7	55.5	61.8

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## POPULATION ESTIMATES FOR SAMPLED URBAN CENTRES (IN ,000)

NAME	CENSUS POPULATION		ANNUAL COMPOUND GROWTH-RATE (%)	POPULATION ESTIMATES	
	1971	1981		1980	1984
<b>CLASS-II</b>					
GODHRA M	66.4	85.7	2.6	83.5	92.5
GONDA M	53.2	70.7	2.9	68.7	77.0
HARDOI M	46.7	82.6	5.9	77.8	98.0
HOSPET M	65.2	90.5	3.3	87.5	99.9
JETPUR M	41.9	61.8	4.0	59.4	69.4
KALOL M	50.3	69.9	3.3	67.6	77.2
KARAD M	42.3	54.3	2.5	52.9	58.5
KASGANJ M	46.5	61.3	2.8	59.6	66.6
KASHIPUR M	16.7	52.0	12.0	45.7	73.1
LAKHIMPUR KHERI M	43.8	60.1	3.2	58.2	66.1
LALITPUR M	34.5	56.4	5.0	53.6	65.4
MAHUVA M	41.6	53.6	2.6	52.2	57.8
MAINPURI M	43.8	59.8	3.2	57.9	65.7
MEHSANA M	51.7	72.8	3.5	70.3	80.7
MIDNAPUR M	71.7	86.1	1.8	84.5	91.0
MODINAGAR M	43.5	77.2	5.9	72.6	91.7
MORVI M	61.2	73.3	1.8	72.0	77.4
NAVABGANJ M	35.3	51.9	3.9	49.9	58.3
NORTH DUM DUM M	63.9	96.9	4.3	92.8	109.8
PATAN M	64.6	79.1	2.0	77.5	84.1
SARDARNAGAR M	39.5	50.1	2.4	48.9	53.8
SHAMLI M	37.0	51.7	3.4	49.9	57.2
SURENDRANAGAR M	66.7	89.6	3.0	86.9	97.9
TRICHUR M	76.2	77.9	0.2	77.7	78.4
<b>CLASS-III</b>					
ALAND M	21.6	26.4	2.0	25.9	28.0
ALIPURDUAR M	36.8	45.3	2.1	44.3	48.2
ANKLESHWAR M	26.2	36.1	3.3	34.9	39.7
AONLA M	21.8	26.4	1.9	25.9	28.0
ATARAULI M	21.1	27.3	2.6	26.6	29.5
BALRAMPUR M	36.2	46.0	2.4	44.9	49.4
BARAUT M	31.3	46.3	4.0	44.5	52.1
BARBIL M	24.4	33.0	3.1	32.0	36.1
BARGARH M	22.9	35.4	4.5	33.8	40.3
BEEALPUR M	19.6	28.4	3.8	27.3	31.7
BHARTHANA M	13.7	24.4	5.9	23.0	29.0
BILIMORA M	31.4	43.7	3.4	42.2	48.3

CONTD.....

## POPULATION ESTIMATES FOR SAMPLED URBAN CENTRES (IN ,000)

NAME	CENSUS POPULATION		ANNUAL COMPOUND GROWTH-RATE (%)	POPULATION ESTIMATES	
	1971	1981		1980	1984
CLASS-III					
CHANDPUR M	28.2	41.5	3.9	39.9	46.6
CHARKHI DADRI M	13.8	27.3	7.1	25.4	33.5
CHOUWAR M	24.3	32.1	2.8	31.2	34.9
CONTAI M	26.9	35.7	2.9	34.7	38.9
DHAMPUR M	22.7	29.0	2.5	28.3	31.2
DHOLKA M	37.5	44.2	1.7	43.5	46.4
GANGOHI M	24.3	32.7	3.0	31.7	35.7
GOLAGOKARAN NATH M	21.2	30.3	3.6	29.2	33.7
HARDA M	28.5	37.6	2.8	36.5	40.9
HASANPUR M	22.1	29.8	3.0	28.9	32.6
JAHANGIRABAD M	21.6	29.2	3.1	28.3	32.0
KADI M	28.3	34.5	2.0	33.8	36.6
KAIRANA M	32.4	44.5	3.2	43.1	48.9
KALKA M	17.1	21.3	2.2	20.8	22.8
KALPEE M	21.3	29.1	3.2	28.2	32.0
KANDHALA M	20.1	25.5	2.4	24.9	27.4
KEERATPUR M	25.1	32.0	2.5	31.2	34.4
KENDRAPADA M	20.1	27.5	3.2	26.6	30.2
KHAIRABAD M	17.4	22.7	2.7	22.1	24.6
KHARDAH M	32.3	45.2	3.4	43.7	50.0
KHATAULI M	24.5	31.4	2.5	30.6	33.8
KODUNGALLUR M	25.6	28.3	1.0	28.0	29.2
KOSIKALAN M	19.1	24.1	2.4	23.5	25.8
LAHARPUR M	20.2	27.1	3.0	26.3	29.6
MAHABA M	29.7	38.8	2.7	37.7	42.0
MANGLAUR M	19.7	25.7	2.7	25.0	27.8
MANGROL M	27.8	36.9	2.9	35.8	40.2
MAO RANIPUR M	25.7	33.7	2.7	32.8	36.6
MAWANA M	24.9	37.6	4.2	36.0	42.5
MURAD NAGAR M	14.0	26.0	6.4	24.3	31.3
MUVATTUPUZHA M	22.1	25.3	1.4	25.0	26.3
NAHTAUR M	20.3	27.6	3.1	26.7	30.3
NARVANA M	21.3	29.2	3.2	28.3	32.1
PALITANA M	27.6	34.4	2.2	33.6	36.7
PANVEL M	26.6	37.0	3.4	35.8	40.9
PARLAKHEMEUDI M	26.9	32.3	1.8	31.7	34.1

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## POPULATION ESTIMATES FOR SAMPLED URBAN CENTRES (IN ,000)

NAME	CENSUS POPULATION		ANNUAL COMPOUND GROWTH-RATE (%)	POPULATION ESTIMATES	
	1971	1981		1980	1984
<b>CLASS-III</b>					
PILKHUA M	24.0	37.7	4.6	36.0	43.2
PURANPUR M	14.5	22.6	4.5	21.6	25.8
RAJPIPLA M	25.8	29.2	1.2	28.8	30.3
RAMNAGAR M	17.5	24.5	3.4	23.7	27.1
RANIGANJ M	40.1	48.7	2.0	47.7	51.6
RISHIKESH M	11.2	29.1	10.0	26.2	38.8
SAWAIMADHOPUR M	21.1	28.1	2.9	27.3	30.6
SEOHARA M	22.8	30.1	2.8	29.3	32.7
SHAHABAD M	23.1	38.8	5.3	36.7	45.3
SHAHABAD M	33.4	42.6	2.5	41.6	45.8
SHIKOHABAD M	31.4	47.0	4.1	45.1	53.0
SHORAPUR M	21.1	25.4	1.9	24.9	26.9
SIKANDRA RAO M	17.1	21.6	2.4	21.1	23.2
SIKANDRABAD M	32.0	43.1	3.0	41.8	47.1
SIRONJ M	22.4	28.7	2.5	28.0	30.9
SULTANPUR M	32.3	48.7	4.2	46.7	55.1
TILHAR M	26.8	33.5	2.3	32.7	35.8
UJHANI M	22.1	29.4	2.9	28.5	32.0
VRINDAVAN M	29.5	36.8	2.2	36.0	39.3
<b>CLASS-IV</b>					
ACHHANERA M	12.2	15.2	2.2	14.9	16.2
AHERAURA M	11.3	14.3	2.4	14.0	15.3
ALIGANJ M	10.2	13.9	3.1	13.5	15.3
ANUPSHAHAR M	12.3	15.2	2.1	14.9	16.2
BACHHARAON M	12.4	17.7	3.6	17.1	19.7
BARWASAGAR M	10.0	14.6	3.9	14.0	16.4
BILARI M	11.6	15.8	3.1	15.3	17.3
CHIRGAON M	9.0	11.3	2.3	11.0	12.1
CHITGUPPA M	13.4	16.6	2.2	16.2	17.7
DADRI M	13.1	19.6	4.1	18.8	22.1
DUGADDA M	1.7	2.1	2.1	2.1	2.2
FARRUKH NAGAR M	5.5	6.3	1.4	6.2	6.6
FATEHPUR SIKRI M	14.0	17.9	2.5	17.5	19.3
GOPIGANJ M	7.1	10.3	3.8	9.9	11.5
JALALPUR M	14.4	19.3	3.0	18.7	21.1
KAKRALA M	14.5	19.3	2.9	18.7	21.0
KOTDWARA M	11.5	19.4	5.4	18.4	22.7

CONTD....

## POPULATION ESTIMATES FOR SAMPLED URBAN CENTRES (IN ,000)

NAME	CENSUS POPULATION		ANNUAL COMPOUND GROWTH-RATE (%)	POPULATION ESTIMATES	
	1971	1981		1980	1984
CLASS-IV					
KURSEONG M	16.4	18.0	0.9	17.8	18.5
MANDI M	15.7	18.7	1.8	18.4	19.7
MANTOWN M	22.1	30.9	3.4	29.8	34.2
MARAHERA M	11.5	12.1	0.5	12.0	12.3
MISRITNEMISHARANYA M	6.8	9.9	3.8	9.5	11.1
MUNGRA BADSHAHPUR M	9.4	12.2	2.6	11.9	13.2
NALAGARH M	3.7	5.6	4.2	5.4	6.3
NARENDRA NAGAR M	2.4	3.5	3.8	3.4	3.9
NILOKHERI M	9.8	11.6	1.7	11.4	12.2
NORANGPUR M	13.7	19.0	3.3	18.4	21.0
PALIAKALAN M	9.8	19.8	7.3	18.4	24.5
PAURI GARHWAL M	8.9	13.4	4.2	12.8	15.2
PIHANI M	13.5	16.3	1.9	16.0	17.2
PUNDRI M	9.1	11.8	2.6	11.5	12.8
SADHAURA M	9.0	10.1	1.2	10.0	10.5
SANDI M	11.6	14.9	2.5	14.5	16.1
SEONIMALWA M	12.1	15.8	2.7	15.4	17.1
SHAH GANJ M	11.5	15.0	2.7	14.6	16.2
SHAMSABAD M	9.9	14.9	4.2	14.3	16.8
SIRSA GANJ M	10.6	14.9	3.5	14.4	16.5
SOLAN M	10.1	13.1	2.6	12.8	14.2
SORON M	17.1	19.4	1.3	19.2	20.1
SRINAGAR M	5.6	9.2	5.1	8.7	10.7
SWAR M	9.8	14.9	4.3	14.3	16.9
TANAKPUR M	6.0	8.8	3.9	8.5	9.9
TEHARI M	5.5	12.2	8.3	11.2	15.5
THAKURDWARA M	11.1	16.5	4.0	15.8	18.6
UKLANA MANDI M	6.0	7.0	1.6	6.9	7.3
UTTARKASHI M	6.0	10.0	5.2	9.5	11.7
VIKAS NAGAR M	4.1	8.9	8.1	8.2	11.2

## ANNEX B

ESTIMATED RESOURCE GAP AS PER  
ZAKARIA COMMITTEE EXPENDITURE NORMS  
1979-80 AND 1983-1984 (AT 1979-80 PRICES)

URBAN CENTRE	RESOURCE GAP (IN ,000)	
	1979-80	1983-84
<b>METROPOLITAN</b>		
AHMEDABAD MTC	-	48841.9
BOMBAY MTC	-	-
CALCUTTA MC	304052.7	166184.4
DELHI MC	123272.1	366913.2
KANPUR MTC	162804.6	199083.9
MADRAS MTC	423484.1	486002.8
PUNE MTC	17062.4	27328.9
<b>CLASS-I</b>		
ALIGARH M	33824.7	39640.8
ALLEPPEY M	20164.5	22440.2
ALWAR M	15825.3	19040.3
BARANAGAR M	15826.7	22678.3
BHARATPUR M	11350.1	13225.1
BHARUCH M	3777.8	3469.0
BHAVNAGAR M	17352.0	2585.7
BULANDSHAHAR M	11405.2	13101.5
CHANDERNAGORE MC	6531.2	9544.8
DEHRADUN M	18228.6	23743.6
FIROZABAD M	23866.1	25820.2
GHAZIABAD M	25664.9	33879.2
GORAKHPUR M	32088.4	33396.9
HAPUR M	9616.6	12282.3
HARIDWAR M	5213.2	14314.2
HISSAR M	12982.3	12772.5
HOWRAH M	-	64501.3
INDORE M	55178.4	114486.4
JAGADHARI M	18839.6	33020.8
JAMNAGAR MC	21611.4	7586.7
JAUNPUR M	11498.2	10519.1
JUNAGARH M	5792.7	2634.2
KHARAGPUR M	15311.2	25888.5
KOLHAPUR M	-	-
KOTA M	28452.0	38996.7
MEERUT MC	34906.5	50801.9
MORADABAD M	37133.2	42761.5
MUZAFFAR NAGAR M	16328.1	19763.1
NABADWIP M	13077.5	14777.5

CONTD....



ESTIMATED RESOURCE GAP AS PER  
ZAKARIA COMMITTEE EXPENDITURE NORMS  
1979-80 AND 1983-1984 (AT 1979-80 PRICES)

URBAN CENTRE	RESOURCE	GAP (IN ,000)
	1979-80	1983-84
<b>CLASS-I</b>		
NADIAD M	3307.4	3729.4
NASIK ROAD M	22343.8	-
PANIHATI M	24947.2	26123.2
PORBANDER M	6312.0	4346.7
RAJKOT MC	22084.3	17872.6
RAMPUR M	24465.5	26029.5
ROHTAK M	17070.2	17144.6
SAMBHAL	13305.6	15995.9
SERAMORE M	10572.8	5813.1
SHAJAHAN PUR M	20211.6	19189.4
SILIGURI M	15619.6	20945.4
SOLAPUR M. CRP	25326.8	18916.3
SURAT MC	19172.8	28254.2
THANE M	-	-
UJJAIN M	19920.3	29552.5
VARANASI MC	79263.1	106306.0
YAMUNA NAGAR M	7009.8	8738.9
<b>CLASS-II</b>		
AZAMGARH M	4979.5	6157.5
BALLIA M	4346.9	5620.6
BELA PRATAPGARH M	3492.7	4345.5
BHUJ M	2993.1	2711.1
BIDAR M	6383.7	7273.1
BIJNAUR M	5062.2	4614.6
BUDAUN M	6939.7	8774.8
CAMBAY M	1818.3	1902.6
CHAMPDANY M	6135.4	6579.3
CHANDAUSI M	5440.4	6387.6
DARJEELING M	2825.1	4079.0
DEWAS M	6157.5	5050.1
DHORAJI M	4535.5	965.3
DHRANGADHRA M	3575.9	3596.6
DOHAD M	-	1221.3
ETAH M	3263.8	5106.5
FATEH PUR M	7728.7	9726.6
GANDHIDHAM M	3422.0	4009.4
GARULIA M	2608.1	4927.7

CONTD....

ESTIMATED RESOURCE GAP AS PER  
ZAKARIA COMMITTEE EXPENDITURE NORMS  
1979-80 AND 1983-1984 (AT 1979-80 PRICES)

URBAN CENTRE	RESOURCE GAP (IN ,000)	
	1979-80	1983-84
<b>CLASS-II</b>		
GODHRA M	798.0	3786.1
GONDA M	6491.6	7881.9
HARDOI M	8255.8	7046.4
HOSPET M	565.0	9711.0
JETPUR M	1912.8	-
KALOL M	1730.5	-
KARAD M	-	-
KASGANJ M	4709.1	4715.6
KASHIPUR M	2626.9	6383.8
LAKHIMPUR KHERI M	4730.5	3939.8
LALITPUR M	4692.1	4915.9
MAHUVA M	1465.3	963.8
MAINPURI M	5140.9	6360.3
MEHSANA M	3400.4	1570.7
MIDNAPUR M	5803.2	9248.4
MODINAGAR M	7038.3	9194.8
MORVI M	-	1433.5
NAVAEGANJ M	5772.0	6117.6
NORTH DUM DUM M	9592.2	11575.8
PATAN M	3516.8	-
SARDARNAGAR M	4589.2	4734.0
SHAMLI M	4371.8	1040.7
SURENDRANAGAR M	1968.7	-
TRICHUR M	-	3747.7
<b>CLASS-III</b>		
ALAND M	1295.5	2464.5
ALIPURDUAR M	3923.3	4168.0
ANKLESHWAR M	-	-
AONLA M	2088.2	1729.6
ATARAULI M	2105.9	2204.5
BALRAMPUR M	3364.7	3640.0
BARAUT M	2771.3	3581.7
BARBIL M	1955.8	2545.1
BARGARH M	1694.2	1619.1
BEEALPUR M	1584.0	1654.1
BHARTHANA M	1942.7	2572.9
BILIMORA M	-	-

CONTD....

ESTIMATED RESOURCE GAP AS PER  
ZAKARIA COMMITTEE EXPENDITURE NORMS  
1979-80 AND 1983-1984 (AT 1979-80 PRICES)

URBAN CENTRE	RESOURCE GAP (IN ,000)	
	1979-80	1983-84
CLASS-III		
CHANDPUR M	3060.6	3198.8
CHARKHI DADRI M	1208.9	1029.6
CHOUWAR M	1650.7	1055.8
CONTAI M	3014.2	3469.7
DHAMPUR M	1744.1	1898.1
DHOLKA M	2809.0	2938.8
GANGOH M	2080.5	3085.6
GOLAGOKARAN NATH M	2576.2	1691.6
HARDA M	894.9	1706.1
HASANPUR M	1968.8	2451.9
JAHANGIRABAD M	1974.8	2378.4
KADI M	1904.6	2337.7
KAIRANA M	3438.0	2844.9
KALKA M	1040.5	1561.0
KALPEE M	2311.8	2425.1
KANDHALA M	2143.8	2163.8
KEERATPUR M	2826.8	2674.0
KENDRAPADA M	1544.8	1402.3
KHAIRABAD M	1340.5	2091.0
KHARDAH M	2109.1	3568.1
KHATAULI M	2108.0	1827.5
KODUNGALLUR M	1674.6	2238.0
KOSIKALAN M	171.0	1220.8
LAHARPUR M	2635.2	2640.3
MAHABA M	3527.1	3252.1
MANGLAUR M	2239.8	2286.5
MANGROL M	2440.9	2634.7
MAO RANIPUR M	2365.8	3340.5
MAWANA M	2600.8	3136.8
MURAD NAGAR M	2304.3	2599.7
MUVAT'UPUZHA M	1395.2	1458.8
NAHTAUR M	2268.1	2367.4
NARVANA M	1556.3	1856.9
PALITANA M	1120.7	159.5
PANVEL M	-	-
PARLAKHEMEUDI M	1359.3	2366.0

CONTD....

ESTIMATED RESOURCE GAP AS PER  
ZAKARIA COMMITTEE EXPENDITURE NORMS  
1979-80 AND 1983-1984 (AT 1979-80 PRICES)

URBAN CENTRE	RESOURCE GAP (IN ,000)	
	1979-80	1983-84
<b>CLASS-III</b>		
PILKHUA M	1409.6	3008.0
PURANPUR M	1578.2	1400.4
RAJPIPLA M	-	-
RAMNAGAR M	947.8	2198.0
RANIGANJ M	1861.7	3876.6
RISHIKESH M	404.1	1626.7
SAWAIMADHOPUR M	2251.3	1688.2
SEOHARA M	2603.0	2944.4
SHAHABAD M	3271.6	4242.8
SHAHABAD M	3616.9	3527.3
SHIKOHABAD M	2530.0	3921.1
SHORAPUR M	1907.0	2325.8
SIKANDRA RAO M	433.5	1283.6
SIKANDRABAD M	2966.3	2587.9
SIRONJ M	1048.8	2199.5
SULTANPUR M	2548.5	3802.5
TILHAR M	2789.6	2411.2
UJHANI M	969.7	1807.0
VRINDAVAN M	2281.6	1838.2
<b>CLASS-IV</b>		
ACHHANERA M	943.2	1087.4
AHERAURA M	1045.2	1066.6
ALIGANJ M	986.1	1078.4
ANUPSHAHAR M	1094.4	696.9
BACHHARAON M	1325.5	1627.9
BARWASAGAR M	792.4	1135.8
BILARI M	768.3	964.1
CHIRGAON M	797.7	581.0
CHITGUPPA M	1107.6	1428.7
DADRI M	255.9	1013.7
DUGADDA M	-	21.5
FARRUKH NAGAR M	334.6	327.2
FATEHPUR SIKRI M	155.3	973.0
GOPIGANJ M	626.6	476.7
JALALPUR M	1454.6	923.6
KAKRALA M	1417.8	1525.0
KOTDWARA M	772.3	649.6

CONTD....

ESTIMATED RESOURCE GAP AS PER  
ZAKARIA COMMITTEE EXPENDITURE NORMS  
1979-80 AND 1983-1984 (AT 1979-80 PRICES)

URBAN CENTRE	RESOURCE GAP (IN ,000)	
	1979-80	1983-84
<b>CLASS-IV</b>		
KURSEONG M	-	560.4
MANDI M	336.4	948.2
MANTOWN M	2972.6	2330.1
MARAHERA M	786.6	817.2
MISRITNEMISHARANYA M	487.5	442.8
MUNGRA BADSHAHPUR M	381.6	346.4
NALAGARH M	115.8	208.6
NARENDRA NAGAR M	130.0	128.1
NILOKHERI M	630.5	657.6
NORANGPUR M	787.3	1011.5
PALIAKALAN M	1498.2	1256.0
PAURI GARHWAL M	798.1	735.9
PIHANI M	1166.0	943.8
PUNDRI M	983.5	884.0
SADHAURA M	582.0	616.8
SANDI M	1022.6	970.8
SEONIMALWA M	851.7	906.4
SHAH GANJ M	353.1	288.2
SHAMSABAD M	528.9	948.7
SIRSA GANJ M	267.7	792.0
SOLAN M	-	-
SORON M	882.3	1499.4
SRINAGAR M	319.1	-
SWAR M	436.4	768.7
TANAKPUR M	-	60.1
TEHARI M	383.5	742.0
THAKURDWARA M	1001.4	1005.9
UKLANA MANDI M	148.9	179.5
UTTARKASHI M	445.3	256.7
VIKAS NAGAR M	370.0	606.3

## ANNEX C

ANALYSIS OF SHIFT IN PER CAPITA INCOME BETWEEN  
1979-80 AND 1983-84

Income components	Shifted to lower strata (Declined)	Static shift	Shifted to higher strata (Increase)	Total No. of local bodies
Tax Income	45 (21.42)	135 (64.28)	30 (14.30)	210 (100.00)
Non-Tax Income	13 (6.20)	173 (82.38)	24 (11.42)	210 (100.00)
Ordinary Grants	31 (14.76)	151 (71.90)	28 (13.33)	210 (100.00)
Average Shift	60 (28.57)	93 (44.29)	57 (27.14)	210 (100.00)

## ANNEX D

ANALYSIS OF SHIFT IN PER CAPITA EXPENDITURE  
BETWEEN 1979-80 AND 1983-84

Size Class	Shift to lower per capita range	Same per capita range	Shifted to higher per capita range	Total No. of local bodies
Metropolitan	-	4 (57.14)	3 (42.84)	7 (100.00)
Class I	7 (15.21)	22 (47.83)	17 (36.96)	46 (100.00)
Class II	5 (11.63)	17 (39.53)	21 (48.84)	43 (100.00)
Class III	9 (13.43)	36 (53.73)	22 (32.84)	67 (100.00)
Class IV	8 (17.02)	22 (46.81)	17 (36.17)	47 (100.00)
All	29 (13.81)	101 (48.09)	80 (38.10)	210 (100.00)

ANNEX E

A LIST OF COMMISSIONS AND COMMITTEES SET UP TO EXAMINE  
THE STATE OF MUNICIPAL FINANCES IN INDIA

The Royal Commission on Decentralisation,	1906
Indian Taxation Enquiry Committee,	1924
Local Finance Enquiry Committee,	1950
Taxation Enquiry Commission,	1953-54
Committee of Ministers on the Augmentation of financial Resources of Urban Local Bodies,	1963
Rural Urban Relationship Committee,	1966
The Municipal Finance Commission (Maharashtra),	1974
The Municipal Finance Commission,	1976
The Municipal Finance Enquiry Committee, Government of Tamil Nadu,	1980
Karnataka Taxation Review Committee, 1981, Part II, Report on Local Finances,	1983



## ANNEX F

TEN HIGHEST PER CAPITA INCOME MUNICIPAL BODIES:  
1979-80

MUNICIPAL BODIES		TOTAL INCOME (RS. IN '000)	PER CAPITA INCOME
BOMBAY	MTC	2005153.0	251.5
SOLAN	M	2594.0	203.4
HOWRAH	M	149374.0	202.5
DOHAD	M	10568.0	195.7
THANE	M	56502.0	194.8
AHMEDABAD	MTC	390119.0	194.6
DELHI	MC	788262.0	166.0
TRICHUR	M	12506.0	160.9
ANKLESHWAR	M	5501.4	157.5
PUNE	MTC	182738.0	157.3

TEN LOWEST PER CAPITA INCOME MUNICIPAL BODIES:  
1979-80

MUNICIPAL BODIES		TOTAL INCOME (RS. IN '000)	PER CAPITA INCOME
JALALPUR	M	287.0	15.3
BACHHARAON	M	261.0	15.3
MAHABA	M	512.0	13.6
MURAD NAGAR	M	300.0	12.3
PALIAKALAN	M	209.0	11.4
PUNDRI	M	85.0	7.4
MANTOWN	M	221.0	7.4
LAHARPUR	M	178.0	6.8
JAGADHARI	M	870.0	6.5
NAVABGANJ	M	311.0	6.2

CONTD.....

TEN HIGHEST PER CAPITA INCOME MUNICIPAL BODIES:  
1983-84

MUNICIPAL BODIES	TOTAL INCOME (RS. IN '000)	PER CAPITA INCOME
THANE M	136990.7	367.4
BOMBAY MTC	2319144.9	255.4
NASIK ROAD M	82716.6	212.1
SURENDRANAGAR M	16653.3	170.1
AHMEDABAD MTC	378914.5	170.1
KOLHAPUR M	59458.3	160.8
BILIMORA M	7683.5	159.2
KARAD M	9196.8	157.1
RAJPIPLA M	4718.2	155.7
SOLAN M	2155.2	152.2

TEN LOWEST PER CAPITA INCOME MUNICIPAL BODIES:  
1983-84

MUNICIPAL BODIES	TOTAL INCOME (RS. IN '000)	PER CAPITA INCOME
ALLEPPEY M	2984.2	17.3
NAVABGANJ M	990.3	17.0
SEOHARA M	556.2	17.0
NORTH DUM DUM M	1818.8	16.6
JAGADHARI M	4174.8	16.5
MAO RANIPUR M	570.8	15.6
KHARAGPUR M	2953.3	15.1
SHAHABAD M	607.7	13.4
CHITGUPPA M	217.6	12.3
BACHHARAON M	203.6	10.3

CONTD.....

TEN HIGHEST PER CAPITA EXPENDITURE MUNICIPAL BODIES:  
1979-80

MUNICIPAL BODIES	TOTAL EXPENDITURE (RS. IN '000)	PER CAPITA EXPENDITURE
VIKAS NAGAR M	1770.5	216.4
DUGADDA M	444.0	216.0
THANE M	47793.0	164.8
AHMEDABAD MTC	325602.0	162.4
BILIMORA M	6846.0	162.1
SURENDRANAGAR M	13701.0	157.6
KOLHAPUR M	51293.0	154.9
SURAT MC	111906.0	151.9
PANVEL M	5233.0	146.3
SOLAN M	1815.3	142.3

TEN LOWEST PER CAPITA EXPENDITURE MUNICIPAL BODIES:  
1979-80

MUNICIPAL BODIES	TOTAL EXPENDITURE (RS. IN '000)	PER CAPITA EXPENDITURE
SHAHABAD M	491.0	13.4
FARRUKH NAGAR M	74.0	11.9
ALIPURDUAR M	525.0	11.8
ALAND M	287.2	11.1
BACHHARAON M	177.0	10.4
CHITGUPPA M	149.0	9.2
PANIHATI M	1602.0	8.1
PUNDRI M	85.0	7.4
LAHARPUR M	159.0	6.0
NAVABGANJ M	224.0	4.5

CONTD.....

TEN HIGHEST PER CAPITA EXPENDITURE MUNICIPAL BODIES:  
1983-84

MUNICIPAL BODIES	TOTAL EXPENDITURE (RS. IN '000)	PER CAPITA EXPENDITURE
THANE M	134537.7	360.8
AHMEDABAD MTC	541585.1	243.1
BOMBAY MTC	1952312.0	215.0
KOLHAPUR M	64595.6	174.7
SURAT MC	152293.4	168.9
SOLAN M	2311.8	163.2
PATAN M	13602.0	161.8
ANKLESHWAR M	6066.6	152.6
DUGADDA M	330.0	147.5
PUNE MTC	196370.5	147.3

TEN LOWEST PER CAPITA EXPENDITURE MUNICIPAL BODIES:  
1983-84

MUNICIPAL BODIES	TOTAL EXPENDITURE (RS. IN '000)	PER CAPITA EXPENDITURE
ALLEPPEY M	3438.9	19.9
SAMBHAL	2246.8	18.1
SHAJAHAN PUR M	3625.5	17.8
CHITGUPPA M	291.8	16.5
MODINAGAR M	1442.4	15.7
JAGADHARI M	3801.0	15.0
LAHARPUR M	431.5	14.6
SARDARNAGAR M	776.9	14.4
NAVAEGANJ M	745.9	12.8
BACHHARAON M	187.2	9.5

\* At Constant Prices.

ANNEX G

NIUA'S PUBLICATIONS OF RELATED INTEREST

1. Financial Management Pattern of Local Bodies.

The study was sponsored by the Planning Commission, to evaluate the existing financial structure and level services in the selected urban local bodies in India. The study covered 34 urban centres for this purposes.
  2. 'Octroi' : A Case Study of Punjab (1982)

This study analysed the impact of Octroi and options available for its replacement. This was sponsored by the Government of Punjab.
  3. A Study of the Financial Resources of urban local bodies in India, and the Level of Services Provided (1983)

The Eighth Finance Commission and Ministry of Urban Development sponsored this study to make an assessment of the gap between municipal revenues and expenditure, taking into account various methods. The study covered over 70 per cent of the urban local bodies in India.
  4. Management of Urban Services (1986)

The study was financed by the International Development Research Centre (IDRC), Ottawa, Canada. This study has attempted to determine the management and organisational problems that the urban local bodies encounter in efficiently delivering the basic services. The study was carried out in nine Indian Cities of varying sizes, functions and geographical locations.
  5. Maintaining Gujarat's Municipal Services A Long Range Perspective (1987)

Sponsored by the Gujarat Municipal Finance Board, the study has made an assessment of the quantum of services that would be required by the urban local bodies of the state by the year 2001.
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