

LOCAL FINANCE IN ASSAM

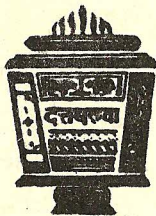
Dr. U. N. Bardoloi
Gauhati University.

DUTTA BARUAH & COMPANY
Gauhati : Assam

F236
751

LOCAL FINANCE IN ASSAM

Dr. U. N. Bardoloi
Gauhati University



DUTTA BARUAH & COMPANY
Gauhati : Assam

Gen

Published by :
M. N. Dutta Baruah, M.A.
Dutta Baruah & Co.
Gauhati, Assam.

336.54162
BARJ2

Distributors :
United Publishers
Panbazar, Gauhati-781001



PANBAZAR MAIN ROAD, GAUHATI-781001 • PHONE 6381

Price Rs. 35/-

Local Finance in Assam
First Edition, 1972

WBHU Library
Acc. No. 53492
Acc. by [initials]
Class by [initials]
Sub. Heading by...
Cata. by...
Transcribed by...

Printed by :
R. R. Basak
Sreekantha Press
Calcutta-9

PREFACE

Local Government Institutions occupy an important place in the national administrative set up. Besides the performance of traditional civic functions, they are expected to play an increasingly greater role in the reconstruction and development of the nation. This is possible only when the resources at their disposal are adequate. This is the crux of the problem in local finance.

Local Government is a comparatively neglected subject and even in the academic field, nobody except Dr. V. V. Rao, Professor of Political Science has shown any interest in these institutions. His monumental work, *A Hundred Years of Local Self Government in Assam*, is in fact, the main source of inspiration to me to take up Local Finance for investigation. In the present work, an attempt has been made to trace the recent trend in local finance and all its inter-related problems. Though the analysis is mainly based on the latest available data, historical background of the subject has also been taken into consideration to trace its growth and development.

The work is entirely based on original sources. Records and reports available in the State Assembly Library, Shillong; Record Office, Civil Secretariat, Government of Assam, Shillong; Office of the Commissioners of the Divisions; and in some municipal and panchayat offices were consulted. Besides these sources the writer discussed the problem of local finance with the Executive Officers, Gauhati and Shillong Municipal Boards, the Examiner of Local Accounts, Assam and some Chairmen of municipal boards and panchayats.

The present work is divided into twelve chapters. In the first chapter a brief description of the local government authorities, that existed and are existing in the State, and a brief outline of their functions and finance are discussed.

In the second chapter the functions of the local authorities have been discussed in detail; the present standard of performance, and the future trend have been analysed.

In the third chapter, the expenditures of the local authorities, their growth and development and their distribution over various services have been discussed.

Sources of income of the local bodies are discussed in the fourth chapter. In this chapter the various sources of income, their composition, growth and development are included. Tax on property is the main source of income of the local authorities.

In the fifth chapter property taxation in its various forms, valuation, assessment, collection have been discussed.

Minor taxes, licence fees, rents and revenue from property constitute a very insignificant source of revenue of the local bodies in Assam. These are discussed in chapters VI and VII.

Grants-in-aid constitute the second major source of income of the local authorities in the State. Grants are given for a variety of purposes. Grants-in-aid form the subject matter of Chapter VII of the work.

In Chapter IX, problems connected with local borrowing and in the next chapter additional sources of revenue of these authorities are discussed.

Financial administration is an integral part of local finance and in Chapter XI, it has been discussed in detail. This chapter has again been sub-divided into five parts—as, (a) Budget (b) Assessment and collection (c) Expenditure control (d) Accounts; and (e) Audit.

In the last chapter there is a brief summary of our observations and suggestions.

I am indebted to many for the completion of this work. I am thankful to the Librarians, Gauhati University Library, State Assembly Library, Shillong; and the Record Keeper, Civil Secretariat, Shillong for their help in procuring books, journals, records, reports and proceedings while working on the thesis. I am also thankful to the Secretary, Ministry of Health, and the Secretary, Planning Commission, Government of India for their readiness in making available reports and proceedings of various Commissions and Committees. My thanks are due also to Dr. H. J. Taylor, ex-Vice-Chancellor of the Gauhati University and Dr. L. Norton M.D. Chief Medical Officer, Baptist Mission Hospital, Gauhati for their help in procuring some valuable books and journals from England and the U.S.A. But my greatest debt is to Dr. V. V. Rao, Professor of Political Science, Gauhati, University, who has kindly supervised my work from the state to finish. His advice, suggestions and critical comments have been of immense help in understanding many problems of local finance. I am also indebted to Shri M. N. Dutta Baruah of Sreeguru Press for taking keen interest in the work and for seeing the book through the Press.

CONTENTS

		Page
Chapter I.	Introduction	... 1—13
Chapter II.	Function of Local Bodies	... 14—55
Chapter III.	Expenditure of Local Bodies	... 56—81
Chapter IV.	Income	... 83—112
Chapter V.	Tax on property	... 113—144
Chapter VI.	Minor Taxes and Licence Fees	... 145—155
Chapter VII.	Rents and Revenue from property & Undertakings	... 156—178
Chapter VIII.	Grant-in-Aid and Assigned Revenue	... 179—200
Chapter IX.	Local Borrowing	... 201—219
Chapter X.	Additional Resources	... 220—239
Chapter XI.	Financial Administration	... 240—276
Chapter XII.	Conclusions	... 277—291
	Bibliography	... (i)—(vii)

CHAPTER I

INTRODUCTION

Local Finance is concerned with the fiscal activities of the local authorities. It deals with local taxation and local expenditures on local objects. "The term local finance is also used to designate that part of fiscal science which deals with the principles underlying the financial organisation of local government."¹ In the Indian national fiscal structure, local finance is not a distinct entity and forms only a part of State finance. It is in essence an extension of state financial activities devolved on the local authorities for limited purposes. It is designed to promote local objectives and therefore fails, very often, to conform to broad national policies.

The relation between local functions and local finance is inseparably intertwined. They are concomitant to each other and in fact one exists for the other. Local functions cannot be performed without finance and without functions the need for finance does not arise. Local finance is significant only in this context and not as an instrument of a social policy. It is in this context also, the problem of local finance arises as the maintenance of equilibrium between needs and means is a prerequisite of the local government institutions. They must confine their activities within the limits of available resources as they are not allowed to resort to deficit financing. And this presents a challenge to the local bodies as their usefulness depends on their ability to adapt themselves to meet new demands generated by new economic and social upsurge.

Local finance is to some extent based on the principle of benefit. There is an element of quid-pro-quo between the tax payer and the public authority although it is not definitely ascertainable. As there is a direct nexus between the tax payer and the governmental organisation, the tax payers know broadly the purposes for which they are called upon to pay taxes. Local government services have a direct and immediate bearing on the welfare and convenience of the

1. *Encyclopaedia of the Social Sciences*, vol.—ix—x. p. 568.

inhabitants. A temporary withdrawal of services provided either by the Central or the State Government will have only an indirect and delayed effect on the tax payers, whereas a temporary withdrawal of local services will have immediate and direct repercussions on the inhabitants. In this very limited sense local finance, as the conveyor of local services, is more important than Union or State finances.

Local finance occupies a very insignificant position in the national fiscal structure and hence remains neglected even though it is more important than State Finance from the local point of view. Local activities can develop and grow only when the necessary conditions for its growth are provided. Local finance from its very inception, was subject to severe restrictions which suppressed its growth. Further an institution can grow only when the purposes and objectives are well defined and utilised for those purposes. But Local government institutions were utilised for achieving different objectives in different times, and even after independence the Governments are not very much sure of the role, these institutions should play in the new administrative set up. Unity of objective and singleness in purpose are conspicuously absent in policies followed by the Government in so far as the local bodies are concerned and the history of these institutions bears enough testimony.

In the earlier period the local institutions were utilised as an instrument to relieve pressure on the Imperial Treasury. Though municipal boards were created, endowed with taxing powers and charged with making, repairing, cleaning, lighting, watering roads, drains or tanks, and the prevention of nuisance, several towns in India became dens of dirt and diseases²; to which the Royal Army Sanitation Commission drew pointed attention in 1863. In the middle period of the nineteenth century, the financial position of the Imperial Government was very acute which was made worse by the Sepoy Mutiny. Mr. Wilson who came to India to suggest measures to rehabilitate Imperial finance recommended that "a greater share of taxes should be collected provincially or locally, and correspondingly greater duties assumed by the provinces and towns"³. In Bengal the local bodies were created for the sole purpose of collecting funds to

2. P. J. Thomas. *The Growth of Federal Finance in India.* p. 186.

3. U. K. Hicks. *Development from Below.* p. 49.

support the local police, and municipal institutions with substantial tax rights were offered to any town that would pay for the police under Lord Lawrence's Resolution of 1864.⁴ Trevelyan also conceived the local self government institutions for the same purpose. According to him "it is impossible that all wants of this great continent according to the continually rising standard of public requirements can be provided out of imperial revenue. Local agency and local resources, which are as multifarious as they are inexhaustible, must be increasingly drawn upon; and the imperial expenditures must be gradually confined to such objects as are of common interest to the whole India. . . . It is time that the people of this country should cease to be helplessly dependent upon the government, and should learn, by the example and aid of their English fellow subjects, to raise and spend their own money, in maintaining the roads, improving the sanitary state of the town, assisting education and promoting every other subject, of local interest."⁵ Thus the gradual devolution of duties, functions and resources in the early period was largely due to financial difficulties, and even the liberal policies followed by Lawrence and Lord Mayo were actuated by economic considerations. Thus "till 1870, the chief motive for raising local taxation and for setting up local committees was the relief to the imperial treasury."⁶

Lord Ripon visualised local self government institutions as an instrument of giving political training to the people of the country. His realistic resolution which was regarded as the "Magna Carta" of local self government in India,⁷ put more emphasis on political education rather than on administrative efficiency as the primary function of local government.⁸ He envisaged a general network of local authorities throughout the country, in both urban and rural areas. His scheme contemplated the setting up of rural boards similar to urban boards with a non-official majority. He also contemplated the introduction of elective principle wherever possible. He was

4. Ibid.

5. Financial Statement—7th April, 1864.

6. P. J. Thomas. *The Growth of Federal Finance in India.* p. 189.

7. M. P. Sarma, *Local Self Government Finance in Uttar Pradesh.* p. 7.

8. Resolution of Local Self Government, May, 1862, Para.—5.

convinced of the necessity of transferring financial powers to the local authorities.⁹ But his plan was never looked with favour by the provincial Governors and at the District Officers' level, the reception was almost entirely hostile; here paternalism was still dominant. Indeed at the rural level the plan was never really put into effect.¹⁰ "In practice few administrators were prepared to put political education above efficiency, and they were not encouraged in the path of reform by the succeeding Viceroy:..... Under Curzon's efficient but highly centralised government, officials especially in branches of the central department were finding a new interest in the development of communication and other public works. These were indeed of very great economic importance to the country, but they did not come in contact with local government."¹¹ Thus, "the history of the development of local government institutions in India from the time of the Mutiny unfolds itself, very broadly, as a see-saw struggle between the forms of centralisation on grounds of efficiency and economy and repeated attempts at decentralisation or devolution on grounds partly of still further economy (by transferring more financial responsibilities on to lower layer govt.) partly of a genuine belief in the benefits of local control."¹²

The Montague Chelmsford Report heralded a new chapter in the history of local finance under the Government of India Act, 1919. Local Self Government was a transferred subject, and local authorities were vested with wider functions and greater responsibilities. For the first time, which incidently happens to be the last, local finance was given an independent status. The Act contained a schedule of taxes, which could be levied by or for the local bodies. But this new arrangement was looked with suspicion and regarded as a prelude to bankruptcy.¹³ This position continued till the introduction of the Government of India Act, 1935, which again deprived the local bodies their independent financial status. Under this Act the local bodies would derive their powers from the provincial legislation. This arrangement still continues.

9. P. J. Thomas. Op. cit. p. 233.

10. U. K. Hicks. op. cit. pp. 51-52.

11. Ibid pp. 52-53.

12. Ibid, p-48.

13. U. K. Hicks—op. cit. p. 48.

After independence, local self government institutions received a new impetus for development, especially in the rural sector, and there had been a gradual enlargement of functions and responsibilities of these local bodies. But unfortunately, there was no enlargement of financial resources *pari passu*, and "the taxes which the local bodies levied after the coming into force of the Government of India Act, 1935 were more or less the same as in the days of Lord Ripon."¹⁴

The local bodies do not enjoy wide discretion even in matters connected with their taxation powers given to them under the statutes. In many cases, imposition of new taxes or reduction of the rate of the existing taxes are subject to a prior approval of the State Government, who also retain power to direct local bodies to impose taxes in public interest. Further the gradual enlargement of grants-in-aid, widens the scope of State Government's control and supervision over local budgets and expenditures.

Article 40 of the Indian Constitution lays down that "the State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self government," and in pursuance of this directives, panchayats have been constituted in rural areas all over the country. The panchayats have been conceived, both as a process of democratic decentralisation and as an engine of economic development. But the State Government has not, as yet, shown its preparedness either to devolve real powers on panchayats or to utilise them for the execution of schemes for economic development to the extent desirable. Further, it retains enough powers of control over panchayats which very often seem to annihilate the objective of democratic decentralisation.

Local finance, therefore, did not get any opportunity and scope to develop during the pre-independence period. Even after independence, it is not free from neglect and indifference as the State Government has not as yet been able to devise a rational policy indicating the manner in which the local initiative, local enterprise, and local resources can be harnessed to accelerate the pace of development in the local areas.

14. *Report, Local Finance Enquiry Committee, 1951, p. 36.*

Local finance was taken up for enquiry, first by the Local Finance Enquiry Committee in 1951, and then by the Taxation Enquiry Commission in 1953. Both these expert bodies recommended measures to improve the financial positions of the local bodies. But the recommendations made by these bodies have hardly been implemented by the State Government. Recently the Committee of Ministers constituted by the Central Council of Local Self Government, and the Study Team on Panchayatiraj Finance have taken up again the problem of local finance of the urban and the rural local bodies respectively for investigation. These two committees have considered local finance in the context of development planning, and have suggested measures to augment the resources of these bodies. It is quite premature to predict, at this stage, the fate of the recommendations made by these two committees, as the future knows only how far their efforts will bear fruit. It is fairly clear, however, from the above that "the local bodies have suffered from neglect over all these years and their aims and problems, unfortunately, have been regarded as inferior to those of State or National Government."¹⁵

Local Self Government Institutions in Assam comprise the Town Committees and Municipal Boards in the urban areas, and Panchayats in the rural areas. There are three tiers of Panchayats, the Gaon Panchayat at the village level, the Anchalik Panchayat at the block level, and the Mahkuma Parisad at the Sub-divisional level. Before the introduction of the present system of Panchayats there were Local Boards in the rural areas constituted at the Sub-divisional level. Experimental Panchayats, called Village Authorities were also introduced under the provision of the Assam Local Self Government Act, 1915 with a view to introduce and develop self government in rural areas. These village authorities were charged with functions such as the construction and maintenance of village roads and communication system, village sanitation services, water supply provisions and village health services.

But they did not enjoy any taxation power and their main source of income was the village development fund comprising contributions from the State Government and other sources. These

15. *Report of the Committee of Ministers, (Augmentation of Financial Resources of Urban Local Bodies)*, 1963. Vol. I p. 16.

village authorities represented the Government's halfhearted measures to introduce local self government in the rural areas and they languished due to want of proper care and nourishment.

Prior to the constitution of Local Boards on legal basis, there were local committees to administer local functions and to control local funds. In 1850 there were ferry funds in every district. These funds were utilised for the construction of roads and bridges and were administered by committees. In 1860, the Amalgamated District Board Funds were created by merging the net income from ferries of the district. The surplus income from impounded cattle was also transferred to this Fund. Afterwards, the Khasmahal Fund was merged with this fund. Besides this there were general funds for the construction and maintenance of railway feeder roads and roads connecting the district roads. In 1871 the Bengal Road Cess Act was introduced in Assam and road committees were formed in the five plains Districts. In 1874, four separate funds, namely, the District Reserve Fund, The District Road Fund, The District Primary School Fund and The Miscellaneous Improvement Fund were created by abolishing the Government Estates Improvement Fund. But the existence of four separate funds with separate accounts caused inconveniences and as such the District Improvement Fund was established in 1875 with separate subordinate funds. These funds were administered by separate committees such as the District Improvement Committee, the District Road Committee, the Charitable Dispensaries Committee and the District School Committee. These committees were however abolished after the issue of the Local Rates Regulation in 1879 and only one committee was established in each district in 1880. In pursuance of the famous Resolution of Lord Ripon, these district committees were abolished in 1882, and in its place, subdivisional boards were introduced in Assam. These subdivisional boards were constituted by Executive Orders and as such had no legal basis. In 1915, the Assam Local Self Government Act was passed and the Local Boards were placed on a legal footing.

The Local Boards were charged with the maintenance of all roads within their jurisdiction, provision and maintenance of staging bungalows, and dispensaries, supervision of village sanitation, vaccination, etc. They were in charge of primary education, subject to the general control of the Education Department and were empowered

to make grants-in-aid to schools of higher grade. The State Government placed at their disposal the rate which was levied under the Assam Local Rates Regulation, 1879 and the surplus income from pounds and ferries. They were empowered to levy toll, tax and licence duty on carts and animals. But the main source of income of these boards constituted mainly of grant-in-aid given by the State Government.

Assam used to have panchayats under the Assam Panchayat Act 1948. The present three tier system of Panchayats have been introduced under the Panchayat Act 1959. At present there are 2570 Gaon Panchayats, 120 Anchalik Panchayats and 16 Mahkuma Panchayats which cover the entire rural areas in the Assam plains districts. The average population of a Gaon Panchayat is 2659.

The Gaon Panchayat may provide such services as health, education, village defence, agriculture, preservation of forest, breeding and protection of cattle, management of community lands, grazing lands, and other community property, maintenance of minor irrigation works, spread of education upto Middle English or Middle Vernacular standards, watch and ward of the village, welfare of backward classes and protection of crops from pests and wild animals. The Anchalik panchayat may undertake all developmental works, within its jurisdiction excepting those functions specifically assigned to Gaon Panchayats. It may also provide medical relief, including establishment and maintenance of hospitals and dispensaries, construction and maintenance of minor irrigation works (which concern more than one Gaon Sabha), spread of education above the M.E. standard, development of agriculture and horticulture, soil conservation, land reclamation, improvement of cattle, etc. It is also responsible for execution of all developmental works. It has power to approve the budgets of panchayats and the supervision of their work. The Mahkuma Parishad has the power to approve the budgets of the Anchalik Panchayats and supervise their works. They advise the government on the distribution and allocation of funds to the Anchalik Panchayats and in drawing up of district plans.

Contributions from the state government are available to the Gaon and Anchalik Panchayats. The Gaon Panchayat receives a share of land revenue at the rate of thirty three paise per capita and local rate collected from the areas at the rate of twenty five paise

per capita of population. The Anchalik Panchayat gets a contribution from the share of land revenue at the rate of seventeen paise per capita of population. The statute provides for a matching grant on every rupee of house tax collected by the Gaon Panchayat. They receive the revenue realised from hats, bazars and pounds situated within their jurisdiction. Besides these, they are empowered to levy taxes, licence duties and fees, etc. At present no panchayat has levied any tax and its income consists only of grants from government and revenue receipts from the hats and bazars.

The constitution, powers and functions of the urban local bodies are governed by the Assam Municipal Act, 1956. There are, according to 1961 Census, 17 Municipal Boards with 5.33 lakhs population, 27 Town Committees with 2.01 lakhs of population, and one cantonment with 0.11 lakh of population in Assam. Besides these, there are 16 urban areas not having any form of urban local Government with 1.76 lakh population within their jurisdiction. According to the new classification of towns, there are one Class I town, 2 Class II, 8 Class III, 8 Class IV and 9 Class VI towns in Assam. The urban population of the state is 9.2 lakhs constituting 7.7 per cent of the total population of the State. The urban areas cover 116 square miles and the density of population on the average is 7870 per square mile. According to 1951 census there were only 24 urban local bodies, of which 14 were Municipal Boards and the rest 10 were Town Committees. There were only 4,39,886 persons within the jurisdiction of these urban bodies. Assam thus witnessed an increase of urban local bodies as well as urban population during the period 1951-1961. Over the past decade the rural population of the State has increased by 30 per cent and the urban population by 123 percent.

The urban local bodies are charged with obligatory and discretionary functions. They are mainly concerned with the provision of water-supply, removal of sewage and rubbish and maintenance of sanitary services, provision of public latrines, maintenance of drainage system, maintenance of roads and communication system within their areas, maintenance of public health and safety measures including maternity and child welfare centre, recreation and playgrounds, provision of burial and burning grounds, compost making, vaccination, registration of births and deaths, etc. They are empower-

ed to levy a tax on holdings, water tax, lighting tax, latrine and a drainage tax to be assessed on the annual value of holdings. Besides these they can impose also a tax on private markets, tolls, betterment tax and duty on transfer of property. The urban local bodies receive annually a considerable sum as grants-in-aid from the State Government for a variety of purposes. All the local authorities in the State can borrow either from the State Government or from the public. But local borrowing is strictly regulated by the State Government.

While it is obligatory on the part of the local bodies to allot certain sums for certain items of expenditures, they enjoy sufficient freedom in the preparation of their budgets. They are required under the provision of the Acts and the rules made thereunder to maintain a certain percentage of their income as working balance and as closing balance. During the year 1950-51 the total income, excluding opening balances of all the urban bodies was Rs. 27,23,187 and total expenditure was Rs. 27,76,699 which left them with a deficit of Rs. 53,512 which was met from the opening balance, which stood at Rs. 8,46,489. Of the total income of Rs. 27,23,187, Rs. 3,08,409 was grant-in-aid. The average income and expenditure of the urban local bodies during 1950-51 was of Rs. 1,32,038 and Rs. 1,20,726 respectively. The average per capita income in the same year was Rs. 7-7-7 only.¹⁶ According to the Committee of Ministers the total income and expenditure of the urban bodies in 1960-61 was Rs. 74.09 lakhs and Rs. 52.90 lakhs respectively, which left them with a surplus of Rs. 21.19 lakhs. The average income of a Municipal Board was Rs. 3.80 lakhs while the average expenditure was Rs. 2.80 lakhs. In the case of Town Committees the average income and expenditures were Rs. 0.35 lakhs and Rs. 0.20 lakhs respectively. During the same year the urban bodies had a per capita income of Rs. 9.94 per annum. Over the past decade the income of the urban local bodies has risen by an annual rate of 21.9 per cent while the expenditure has increased by 13.5 per cent only.¹⁷ Of the total income of 1960-61, Grants-in-aid from the State Government constitute 25.25 lakhs representing 34.1 percent of the total tax revenue of the urban bodies.

16. Figures collected from the *Annual Report—Municipal, Assam 1950-51*.

17. *Report of the Committee of Ministers (Augmentation of Financial Resources of Urban Local Bodies) 1963, Vol.—II, pp. 59-62.*

As stated earlier, the local bodies are to follow the principle of sound finance and therefore must confine their expenditure within the limits of available resources. This becomes a difficult task. Local expenditures are tending to increase beyond proportions due to inflation, high cost of materials and bigger salary bills. But local income, though increasing during the recent years cannot maintain the same rate of increase indefinitely due to the fact that the sources of local income are extremely limited. Local taxes are to satisfy certain condition such as, that, (1) they must have a local base and (2) they must be simple for local administration. Except the property tax, there is hardly any tax which satisfies these conditions and which may bring in a dependable revenue. Since the property tax is very much inelastic and very slow in following the trend of the general price level, the incomes of the local bodies tend to lag behind their actual requirements. The surplus income in 1960-61 represents the minimum closing balance requirements and thus it does not indicate a satisfactory financial position of the local bodies.

Assam is one of the least urbanised States in India and the conditions of many towns are not better than that of the rural areas. The so called essential municipal services such as protected water supply, under ground drainage, good and well-paved roads are conspicuous by their absence. We have shown that the number of town committees are greater than municipal boards and in all (the town committee areas) the essential services are either non-existent or inadequate. Further, as the density of population in the urban areas, is disproportionately higher, higher than the all India average,* it creates problems of water supply, sanitation, housing traffic congestion, etc. for the urban local bodies. The condition of bigger towns like Gauhati and Shillong, which register a very high increase of urban population has become more acute than that of other towns. In these towns the problem is two-fold. First, they have to rearrange the supply of essential services and amenities not only to cope up with the existing demand, but also to meet the future demands. Secondly, they have to extend these services to the adjoining suburbs which are coming up as a consequence of high pressure of population within the town areas. According to the Committee of Minis-

* All India Urban Density is 5395 persons per square mile as against 7870 per square mile in Assam.

ters, an amount of Rs. 182 lakhs will be required to provide various municipal services of different standards of development for Assam.¹⁸ At the 1960-61 level of income, an additional amount of Rs. 108 lakhs will be required to bring up the standard of the municipal services to the prescribed level.

In the rural sector, the supply of protected water, the provision of health and medical services, roads and communications, etc. are worse than those of the urban areas. The rural sector was neglected during the British period. The provisions of these services present a gigantic problem. In the rural sector, it is not only a problem of providing the necessary services and amenities but also a problem of reorganising the entire rural economy. Unless this is done, local self-government in the rural areas has to fight a rearguard battle for its survival. The economic condition of the village people is distressing and they are not at present in a position to bear even a small burden of taxation. At present the per capita income of a Panchayat is less than one rupee and therefore they are not in a position to provide the barest minimum essential services. The future of the local bodies depends not only on their ability to provide services to the rural people, but on their ability to raise adequate resources to finance their activities. This they can hope to achieve only when the economic condition of the rural people improves.

There has been a general complaint that the local bodies are not willing to exploit all the sources of revenue made available to them; and even where they impose taxes, the rates are very low. Taxation is generally distasteful and no elected representative will like to incur the displeasure of the electorate if he can manage to avoid it. Further, a man can bear the burden of taxes imposed on him only when his income is sufficiently large so as to leave a surplus after meeting his unavoidable expenditures. Otherwise a mere imposition of a tax or the enhancement of the existing rate of taxation will result in large-scale tax evasion which is worse than non-imposition or a low rate of taxes. It is no doubt necessary that the local bodies should exploit all the available sources to augment their financial resources. But the raising of resources is a two-way

18. *Report Committee of Ministers (Augmentation of Financial Resources of Urban Local Bodies)* 1963. Vol. I, p. 54.

problem. It cannot be viewed from one angle only. While it is necessary that the local bodies should have adequate resources at their disposal, it is necessary also to see that local taxation does not impose an intolerable burden on the local tax-payers.

Local finance is an important branch of public finance and it can be utilised as an instrument to achieve social as well as economic objectives. Towns and cities are centres of cultural, social, economic and political activities and a well developed town with all the amenities for civilised existence reflects the achievements of the country in those fields. Towns, again serve as a model to the rural local agencies and provide inspiration to them to plan their activities, which a sound local finance renders implementation possible. It is with this end in view this subject is studied. The intention of the present writer is to focus attention to the present state of affairs, to the defects and deficiencies inherent in them. We are not pretending to assume the role of a judge or an adviser. We simply indicate the possible measures, which if implemented, may serve to disintricate local finance from the morass. Our approach to the problem is analytical and historical.

“The various aspects of local government finances are interwoven that they are not easy to segregate in different chapters without some repetition or cross references.”¹⁹ And we are not free from this unintentional but unavoidable occurrence. We are also, in course of our investigation, experiencing difficulty in collecting upto-date data and information relating to the financial activities of the local bodies in Assam. The State Government has not published annual reports since Independence. Therefore it is not physically possible to collect all the necessary information either by personal contact or by correspondence though an attempt was made in this direction. As a consequence the present work, does not reflect the present position of local finance in Assam.

Local Finance and local functions as we have already noted are inseparable and a discussion of local finance automatically leads to a discussion of local functions. We, shall discuss the functions of local authorities in the next chapter. In the subsequent chapters we shall discuss the various aspects of Local Finance including financial administration.

19. J. M. Drummond—Finance of Local Governmen—p. 62.