Fiscal Decentralization and Urban Local Finance in India : A Case Study of Haryana

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Abstract

The present paper analyzed the changing contour of Indian federalism after the historical constitutional amendments in 1992 related to Panchayati Raj and urban local bodies. The urban local finance in Haryana, particularly after the historical 74th Constitutional Amendment Act, 1992 has added a new dimension to the fiscal decentralization and fiscal federalism in this country. This analysis was based upon secondary data collected for the period of 10 years (2004-2014) from various sources on income and expenditure of urban local government in Haryana.

Keywords: **Centre Finance Commission, expenditure, fiscal federalism, grant-in-aid, State Finance Commission, tax and non tax revenue, urban local bodies**

JEL Classification : H720, H770, R510

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The term 'fiscal federalism' was first introduced by the German born American economist Richard Musgrave in 1959. Garran (1995) defined federation as a form of government in which sovereignty or political power is divided between the central and local governments, so that each of them within its own sphere is independent of the other. Fiscal federalism deals with the fiscal financial relations among different layers of a government. Federalism provides a thread by which various regions having diverse characteristics can be knitted together into a beautiful and well-designed fabric of federal nation. Thus, federation is a bouquet of entities, all diverse, but brought together and tied by a string of constitution. Federal form of government stands for decentralization of authority for the reasons of economy, administrative convenience, and efficiency.

The history of fiscal federalism in Modern India goes back to the Government of India Act, 1919. This was the first attempt of the government where separation of revenue head of federal and the provinces were made. Thereafter, second attempt was made in the year 1935 when Govt. of India act, 1935 was enacted. This act was the one of the largest acts enacted in the history of British government. This act had 321 sections and 10 schedules. Financial powers were given in the VII scheduled of the Act which contained three separate lists (a) Federal legislative list, (b) Provincial legislative list, and (c) concurrent list. The powers and functions of the federal and provincial governments were demarked in this act.

The Government of India (GOI) Act, 1935 was repealed by the constituent assembly and the new constitution of India was adopted on January 26, 1950 in which the federal form of government was adopted. Indian Federalism was formerly evolved as a two-tier structure where center was at the top and states were lying in the periphery with a clear-cut demarcation of revenue and expenditure in the seventh schedule of the constitution. Functions of national importance are placed in the Central list and those of regional importance are kept in State list. Functions

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that require cooperative solution are kept in Concurrent list. However, residual powers have been to the central government. To strengthen fiscal federalism, under article 280 President of India is required to constitute a Finance Commission after every 5 years to review and improve the fiscal health of the consolidated fund of the states.

Fiscal federalism is an important component of decentralization. Decentralization may be defined as the empowerment of local people through local government (Oonmen, 2006). Decentralization increases efficiency of the lower levels of Government in providing various local services. An increase in decentralization is expected to delegate more powers to local government authorities and augment their capacity to mobilize resources. Fiscal decentralization is a basic requirement for effective and functional decentralization. Fiscal decentralization, therefore, is the fiscal empowerment of local government by devolving taxation and spending powers to rectify mismatches in resources and responsibilities. Decentralization increases economic and administrative efficiency in delivering local services. Powers and functions should be distributed among different level of government on the principle of comparative advantages. Kerala is the only state in India where functions and taxation powers are demarcated between state and the local bodies (Ghosh, 2010). According to James (1999) four crucial conditions are required for the success of democratic decentralization (a) devolution of sufficient powers within political system, (b) adequate financial resources to accomplish functions, (c) administrative capacity to accomplish assigned functions, (d) ensure accountability of elected politicians to citizens and bureaucracy to the elected politicians.

The local bodies in India existed both in rural and urban areas even before 1992 but they were not functioning as an independent unit of self-government. Before 1992 it was the responsibility of states governments to strengthen local bodies by enabling them with certain power and functions so that they can function independently. However, till 1992 nothing concrete was done by any of the state governments for the development of local bodies. Without constitutional status local bodies in all states became paralyzed. Local bodies were functioning under the clutches of the caste ridden feudal system with concentration of power in the hands of few landlords (Singh & Kumar, 2012).

After independence central government had appointed various committees e.g. Balwant Roy Mehta committee, K. Santham Committee, and L.M. Singhvi Committee to review functioning of local bodies. The then Prime Minister Shri Rajiv Gandhi introduced the 64th Constitutional Amendment Bill in 1989 which was passed by Lok Sabha, but failed to get the assent of Rajya Sabha. Later, with comprehensive amendments, the Panchayati Raj Bill of 1989 was again introduced in the form of 73rd constitution Amendment Bill, 1992 during the Prime Ministership of P. V. Narasimha Rao and this time it was passed by both the Houses of Parliament. Thus, a third tier was added to our federal structure.

The 73rd constitutional amendment Act, 1992, came into force w.e.f. April 24, 1993, and immediately after this the 74th amendment Act relating to municipalities was passed by the Parliament and the act came into force from June 1, 1993. These two amendments in the constitution were of historic importance and marked a watershed in the history of modern India. After seventy-third and seventh-fourth amendment, Indian federal structure was constitutionally transformed into a three-tier structure. Two types of local bodies were created in the third tier, viz. Rural Local Bodies (RLB) or Panchayati Raj Institution (PRI) and Urban Local bodies (ULB) or Municipalities. These local bodies were further divided into three layers of administration.

Review of Literature

Oommen (2006) stated that the fiscal decentralization in India was routed through local government but local bodies had been struggling for functional autonomy. His analysis found that in many states fiscal transfers were made to the local government through various schemes of the state government. A study on urban decentralization was conducted by Bagchi and Chattopadhyay (2004). They found that decentralization in urban areas was a result of rapid urbanization of big cities. These cities became the hub of industrial and economic activities which attracted foreign direct investment (FDI) as well as other small portfolio investors. Devolution of fiscal power to lower governments aggravated regional disparity and delegation of unlimited borrowing powers to the local governments could lead to excessive debt burden on the national government. The study conducted by Behar (1999) on centre and state financial relations found that decentralization meant devolving powers and authority to the local government institutions but in the case of local government these were limited to development and financial functions, whereas, most of the regulatory functions like revenue and resource generation were vested in the state government.

Another study conducted by Pal (2012) found that because of large number of local services including public safety and convenience, education and medical, streets, public health services, water supply, veterinary services, and municipal work, expenditure increased continuously and showed rising trends. The study conducted by Pethe and Lalvani (2006) found that apart from inherent structural bottlenecks like limited autonomy regarding taxation, small buoyancy of non - tax tax revenue, and the unpredictable nature of funds transfer from the state, the problem of ULBs was further aggravated by the stipulation in the municipal act that ULB must balance their budgets. Ghosh (2010) examined two judgments of the apex court regarding encroachments in the functional domain of the local bodies and found that the judiciary also had found nothing unconstitutional in case of MPLAD scheme and Arkavathy layout cases. In these cases, the states governments had taken a firm stand that constitution had not given exclusive financial powers to local bodies and also reiterated that the role of local government was not greater than the agents of the state government in delivery of local public goods**.** Singh (1974) found that Municipal finance was based on tax revenues which contributed 82% of total municipal income.

Mohanty and Mishra (2017) concluded that revenue expenditure was pro-cyclical in the long run whereas capital expenditure was pro-cyclical in the short run. At the state, level primary revenue expenditure was more pro-cyclical. Therefore, states should identify wasteful expenditure to control cyclical effect in the economy. Bagchi (2001) found that ULB depended on state government and state government depended on central government for finance. Therefore, to relieve the higher government from excessive financial burden, an alternative method or unconventional method like capital market funds had to be introduced for financing ULB. Bandyopadhyay (2008) recommended that for effective decentralization, the Ministry of Panchayati Raj Institutions (MOPRI) needs to put constant pressure on the state government to prepare and implement activity mapping in the three tiers of the local bodies.

Dash and Rath ((2016) evaluated the fiscal performance of North-Eastern (NE) States of India and found that fiscal performance of NE states was better than other general category states because of high share of Grants in total state income. At the same time debt as a percent of GSDP (gross state domestic product) of NE States was increasing whereas debt of general category states was decreasing. Therefore, NE states should take initiatives to increase their own revenue receipt.

Urban Local Bodies in Haryana

Municipal bodies are classified on the basis of size of population living in a particular municipal area defined by the state government. A municipal area which is also known as transitional area between rural to urban having population up to 50,000 is denoted Municipal Committee whereas smaller urban areas having population more than 50,000 but less than 5,00,000 are designated as Municipal Councils. The larger urban municipal area where total population is more than 5,00,000 is constituted as a Municipal Corporation. At present 10 Municipal Corporations, 18 Municipal Councils and 52 Municipal Committees are functioning in Haryana.

Functions of Municipalities

Under section 243 W of the 74th Constitutional Amendment Act (CAA) powers and functions of municipalities are defined in the constitution of India. In compliance with 74th CAA, the government of Haryana enacted the Haryana Municipal Corporation Act, 1994 and the Haryana Municipal (amendment) Act (HMA), 1994. Under section 66-A of HMA 1994 Act, 18 obligatory functions are entrusted to the municipal councils and committees. However, state government has overriding power to transfer or withdraw any of the functions given in this section on the basis of its discretion.

Similarly, under section 42 of the Haryana Municipal Corporation Act, 1994, a list of 18 broad functions are mentioned whereas and under section 43 of this act there is an additional list of 22 obligatory functions which can be levied by the municipal corporation as per requirement. Moreover, there is another list of 24 discretionary functions under section 44 of the act.

In all the functions related to the any of the municipalities, the state government has overriding power under section 67 of the HMA, 1973 to take away any of the functions from the municipalities if it is satisfied that municipalities are incompetent/unwilling to perform functions related to maintenance or construction, water supply, and road etc. The water supply and sewerage disposal are the core functions of the ULB but the function of water supply was taken from the all Municipalities in 1993 except Municipal Corporation, Faridabad and handed over to the Public Health engineering department Haryana. This is direct encroachment of the functions allotted to the ULB in the 74th constitutional amendment (4th State Finance commission Haryana Report, pp 159).

The 4th State Finance Commission (SFC) of Haryana observed that out of 18 mandatory functions given under section 243W of 74th CAA, only 12 functions were transferred to the municipalities by the state government; remaining six functions i.e. preparation of plans for economic development and social functioning, urban planning including town planning, urban forestry, protection of environment and ecology, water supply for domestic, industrial and commercial purpose. Safeguarding the interest of weaker section of society including handicapped and mentally retarded, promotion of cultural education and aesthetic aspects are yet to be transferred to ULBs.

Objectives of the Study

- To examine the trends of revenue and expenditures of municipalities and assess their fiscal position.
- Examine and identify major constraints that can influence the overall performance of ULB.

Methodology and Data Collection

This study is based on secondary data. The required data is collected from various reports of State Finance Commission and Directorate of Urban Local Bodies, Haryana. The present study utilizes the time series data from 2004-2005 to 2013-2014 on Tax Revenue, Non Tax Revenue, and Expenditure of Urban Local Bodies in Haryana. In the present study Compound Annual Growth Rate (CAGR) tool is used to calculate growth rate.

- **Tools and Techniques Used :** Simple percentage, multiplication.

(1) Annual Compound Growth Rate : The annual compound growth rates for different variables were computed by fitting the power function to the figures of revenue and expenditure of local bodies in Haryana for the period of 2003-2004 to 2013-2014. The ordinary least square method was used to fit the power function of the following form. It was done using Microsoft Excel.

$Y=Y_0(1+r)^t$
Y_0=A, $(1+r) = B$
$Y = Ab^t$

It was converted into log linear function with the help of logarithmic trends :

Log Y = Log $A + t \log B$
Y = revenue/expenditure
t = time variable

$y = a + bt$
Log $Y = y$
Log $A = a$
Log $B = b$
a is intercept/constant
b is regression coefficient

Annual compound growth rules (ACGRs) were calculated by using the formula :
b =Log $(1+r)$
Take antilog
antilog $b = (1+r)$
r = antilog b -1
r is annual compound growth rate.

Analysis and Results

(1) Taxation Powers of the ULB : Municipal Councils and Municipal committee are empowered to impose two categories of taxes namely obligatory taxes and discretionary taxes under Haryana Municipal Act, 1973. Section 69 of the act provides details of the various obligatory taxes which shall be levied by the ULB whereas section 70 of the act provides details of the discretionary taxes that may be imposed by the municipalities as per their requirement/discretion. In a similar manner, Municipal Corporations also have powers to raise revenue from tax and non tax sources. The Section 87 and 88 of the Haryana Municipal Corporation Act, 1994, provides details of obligatory & discretionary taxes/charges which may be levied by the Municipal Corporations. It is pertinent to mention here that all the taxes levied by the municipalities are subject to prior approval of the government. Presently, municipalities in Haryana are levying House tax, Driving License tax, Motor tax, Fire tax, Entertainment tax, Additional Stamp duty, and Electricity tax. In addition to tax sources, Municipalities also raise revenue from non-tax sources, that is, development charges, The Bazari, license fee, fee and fine, rent, interest receipt, and miscellaneous (sale of assets) etc.

The Property tax was the main source income for ULB but it was abolished by the state government w.e.f. April 1, 2008 on residential buildings and later it was reintroduced vides its notification SO.47S.O.47/H.A.24/1973/S.84/2012 dated June 21, 2012. Taxes like Property tax and Fire tax are the only taxes collected by the Municipality itself, whereas driving license tax, Motor tax, Electricity duty, and Entertainment taxes are collected by the concerned administrative departments at the rates notified by the state government from time to time. The amount is remitted to the concerned ULB.

Apart from these taxes, there are some other taxes like Local Area Development Tax (LADT), Stamp duty, Excise duty, and HVAT are levied and collected by the state government and the proceedings are shared with the ULBs as per the recommendations of the SFC. However, these taxes are not enumerated as sources of revenue of the ULB.

The Octroi was one of the important sources of income for ULB but it was abolished by the state government w.e.f. Nov 1, 1999. It was a major jolt to municipal finance. However, to compensate the revenue loss from Octroi, the state government introduced the LADT in 2000 but the Hon'ble Punjab and Haryana High courts had declared LADT as unconstitutional in 2008.

(2) Trends of Tax Revenue and Non Tax Revenue of ULB in Haryana : The ULBs in Haryana received revenue collected from various tax and non tax sources. The Tax Revenue Sources (TRS) are divided into parts i.e. own taxes revenue and shared tax revenue. The shared taxes are the taxes which are levied and collected by the state government but the proceeds are shared with the local bodies on the recommendations of the SFC. Moreover, ULBsalso generate revenue from various non tax sources which such as development charges, TehBazari, license fee, fee and fine, rent, interest receipt and other miscellaneous sale of assets. The data on tax and non tax sources of revenue has been compiled in Tables 1 and 2.

Table 1. Tax Revenue of ULB (in Crore)

Year	Own taxes							Shared taxes					
	House Tax	Fire Tax	Driving License tax	Motor Tax	Electricity tax	Entertainment Tax	Total	LADT	Addl. Stamp duty	Excise Rev.	Sur. On VAT	Total	Grand Total
2004-2005	44.94	5.68	3.96	3.96	4.25	7.98	**70.77**	39.50	42.16	6.7		88.36	**159.13**
2005-2006	41.77	4.00	5.51	4.54	6.59	8.78	**71.19**	115.8	56.75	6.25		178.8	**249.99**
2006-2007	42.56	3.62	1.53	5.53	8.28	0.15	**61.67**	129.64	37.72	8.2		175.56	**237.23**
2007-2008	43.43	3.99	1.35	5.55	7.83	0.05	**62.2**	157.27	69.35	9		235.62	**297.82**
2008-2009	33.98	3.10	1.82	6.10	7.19	0.08	**52.27**		297.91	9.9		307.81	**360.08**
2009-2010	23.95	3.29	2.33	5.10	8.97	0.06	**43.7**		228.64	10.90		239.54	**283.24**
2010-2011	66.00	4.71	5.38	7.78	20.38	0.06	**104.31**		364.85	43.15	248	656	**760.31**
2011-2012	117.32	17.68	5.37	23.03	16.75	0.07	**180.22**		533.3	40.65	550.39	1124.34	**1304.5**
2012-2013	207.20	7.26	2.30	13.23	19.61	7.72	**257.32**	1.79	451.55	46.38	198.75	698.47	**955.79**
2013-2014	335.27	16.52	4.84	13.63	19.23	.17	**389.66**	.38	426.89	36.09	238.19	701.55	**1091.2**
CAGR	**24%**	**14%**	**4%**	**17%**	**18%**	**-21%**	**26%**		**38%**	**29%**			**26%**

Source: Various Reports of State Finance Commission (SFC), Haryana

Table 2. Non-Tax Revenue of ULB (in Crore)

Year	Devp. Charge	TehBazari	License Fee	Fee and Fine	Rent	Interest Receipt	Misc.(sale of assets etc.)	Total
2004-2005	14.12	2.15	1.13	1.74	15.43	2.05	18.30	54.92
2005-2006	24.58	2.64	1.18	1.42	15.71	1.41	21.73	68.67
2006-2007	38.21	2.88	1.13	2.09	17.86	3.04	31.83	97.04
2007-2008	30.87	2.91	1.09	1.57	15.30	6.56	25.48	83.78
2008-2009	32.15	3.00	1.46	2.14	21.76	7.23	35.86	103.6
2009-2010	53.39	6.29	2.84	2.72	21.21	10.15	208.88	305.48
2010-2011	25.58	43.33	11.42	3.58	25.70	20.18	104.43	234.22
2011-2012	69.18	64.24	14.14	8.01	39.17	47.82	167.02	409.58
2012-2013	74.15	5.18	16.60	29.28	30.11	66.57	51.33	273.22
2013-2014	58.31	4.26	18.39	9.97	37.82	78.97	138.36	346.08
CAGR	**15%**	**24%**	**47%**	**32%**	**12%**	**60%**	**26%**	**26%**

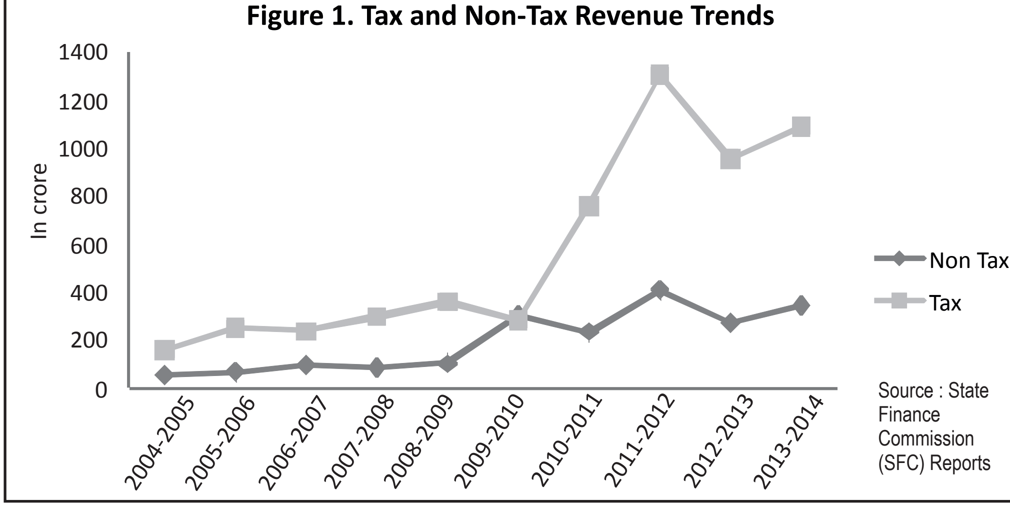
Source: State Finance Commission (SFC) Reports

Table 1 shows the data on tax revenue accrued to the municipalities in Haryana from the period 2004-2005 to 2013-2014. Total revenue from tax sources are divided into two parts i.e. own tax revenue and shared tax revenue. House tax/property tax is the main own tax source of income for the municipalities which contribute maximum revenue to the municipal exchequer. In 2004-2005, collection from house tax was 44.94 crore which constitutes 63.5% of the total own tax sources. In 2007- 08, this percentage goes up to 69.82% and in the year 2012-2013 and 2013-2014 it become 80.52% and 86.04%, respectively. The data indicates that the income from House tax is consistently rising and consistently making highest contribution among all own tax sources of municipalities. Recovery from house tax reduced in 2009-2010 due to abolition of House tax on residential buildings w.e.f. April 1, 2008. It again shows improvement in 2011-2012 because it was re-imposed w.e.f. June 21, 2012 with enhanced rate. The tax on consumption of electricity was imposed by the government on July 1, 1992 and ULB got share at the rate of 1 paisa per unit and this rate was further increased to 5 paisa per unit w.e.f. May 16, 2000 to strengthen municipal revenue. The CAGR of House tax and Electricity tax are calculated as 24% and 18% respectively. Entertainment tax is the only tax which is showing negative CAGR i.e. -21% which is because of the substantial decrease in tax rate by the government and abolition of show tax w.e.f. July 1, 2001.

The contribution of share taxes plays a very significant role in municipal finance. In 2004-2005, the total contribution from the additional stamp duty was ₹ 42.16 crore which was ₹ 47.71% of the total received under the shareable tax sources. In 2008-2009 and 2009-2010 it contributed 96.78% and 95.44% of the total contribution made from the state taxes. The data indicates that share from ASD (Additional Stamp Duty) is very significant and consistent. The CAGR of ASD and Excise duty is 38% and 29% respectively.

Table 2 shows the trends of Non-Tax Revenue Sources (NTRS) of the ULB in Haryana. Development charges and sale of assets are the major source of non-tax revenue for municipalities. Both of these non-tax revenue sources contribute an average of 42 crore and 80 crore respectively. In 2004-2005 revenue from development charges was collected 14.12 crore which was 25% of the total NTRS of the ULB. In 2006-2007 it became 38.21 crore which was equivalent to 36% of the total NTRS. Rent and interest receipt contributed an average of 24 crore per annum. Contribution of license fee and fine is only 6 to 7 crore annually. Moreover, the CAGR of License fee and interest receipts are calculated as 47% and 60%, respectively. Whereas development charges show very sluggish annual growth rate i.e. 15% and 12%. Overall CAGR of all non-tax revenue is only 26%. Similarly, revenue from sale of assets was ₹ 18.30 crore in 2004-2005 which is 33 % of the total NTRS. The revenue from this source was increased to 68% in 2009-2010 but the percentage goes went down in 2013-2014 to 39%. The revenue from sale of asset is not a sustainable source of the income for ULB. Significantly high share of this source in the total NTRS represent weak financial health of the ULB.

Figure 1. Tax and Non-Tax Revenue Trends



Source : State Finance Commission (SFC) Reports

Table 3. Percentage of Tax and Non-Tax Revenue to Total Revenue

Year	Tax Revenue percentage	Non Tax Revenue percentage
2004-2005	74.34	25.66
2005-2006	78.45	21.55
2006-2007	70.97	29.03
2007-2008	78.05	21.95
2008-2009	77.66	22.34
2009-2010	48.11	51.89
2010-2011	76.45	23.55
2011-2012	76.1	23.9
2012-2013	77.77	22.23
2013-2014	75.92	24.08

Source: State Finance Commission (SFC) reports

In Figure 1, the Trends of tax and non tax revenue are shown. The Tax Revenue trends are rising whereas Non Tax trends are moving on at a constant rate. In the year 2009-10 the collection of revenue from tax and Non-Tax are almost same it is because of abolition of LADT in 2008. After 2009-10 revenue from tax sources shows a steep rise in trends whereas because of negative growth of income from TehBazari, Rent, and sale of assets in 2012-2013 overall revenue from non-tax resources comes down. Overall CAGR of non tax revenue is 26%. The CAGR of other NTRS like interest receipt, sale of assets, license fee & TehBazari are 60%, 26%, and 47%, respectively. The CAGR of both revenue sources, that is, TRS & NTRS are calculated almost same 26% growth but after 2009-2010, TRS indicates a steep rise in collection, whereas NTRC are moving constantly.

It is clear from Table 3 that the municipal finance in Haryana has a narrow base. It is heavily biased towards revenue sources from tax. Non- tax resources are not properly exploited. In 2004-2005 revenue collected from TRS constitute 74.34% whereas NTRS contributed only 25.66% of the total revenue collection. In 2005-2006, it further rose to 78.45% on the other collection from NTRS reduced to 21.55%. If we look at the entire period from 2004-2005 to 2013-2014, we would find that in all the years except 2009-2010 proportions of TRS is significantly higher than that of NTRS. The percentage of TRS and NTRS collection in 2009-2010 are 48.11% and 51.89%, respectively. This happened because of steep rise in the collection of revenue from sale of assets of municipality. On the other hand collection of House Tax decreased because of the abolition of House tax on residential buildings in 2008. Moreover, LADT was also rolled back by the government on March 14, 2008 on the direction of the Hon'ble Punjab and Haryana High court. It was levied from May 05, 2000 as a compensatory after abolition of Octroi w.e.f. November 01, 1999. The tax buoyancy of NTRS is always wider than that of TRS because of its wider coverage area but in case of ULB Haryana its contribution is very less. Lower revenue collection indicates that the non-tax revenue potentials of the municipalities are not fully exploited.

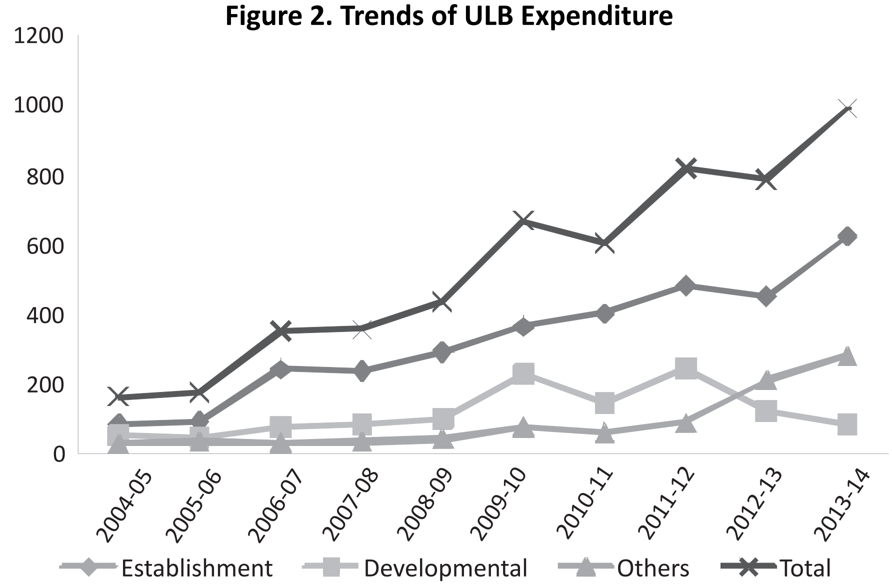
(3) Expenditure of Urban Local Bodies : Table 4 shows the major components of expenditure of the municipalities in Haryana. Data shows that expenditure on establishment constitutes major chunk of total municipal expenditure. While studying the trends of expenditure, it came to our notice that expenditure on establishment is increasing at a very fast rate. In 2004-2005, expenditure on establishment was 84.1 crore which constitutes 51% of total expenditure. In 2008-2009, it became 292.58 crore and the proportion reached 67%. Thereafter, in the year 2013-2014 it again doubled and become 622.83 crore which constitutes 63% of total municipal expenditure. The CAGR of the expenditure on establishment, development, and others expenditures are calculated as 23%, 12% and 28%, respectively. Overall growth of total expenditure is 22%. The data shows

Table 4. Expenditure of Urban Local Bodies (ULB) (in crore)

Year	Establishment	Developmental	Others	Total	% of Estb.Exp.
2004-2005	84.1	51.3	28.04	163.44	51
2005-2006	93.71	47.57	34.53	175.81	53
2006-2007	242.17	75.44	32.44	350.05	69
2007-2008	237.43	83.93	34.24	355.6	67
2008-2009	292.58	101.33	42.26	436.17	67
2009-2010	364.47	226.76	75.9	667.13	54
2010-2011	401.61	143.77	59.16	604.54	66
2011-2012	483.29	243.68	89.25	816.22	59
2012-2013	451.35	122.88	210.2	784.43	57
2013-2014	622.83	84.38	280.15	987.36	63
CAGR	**23%**	**12%**	**28%**	**22%**	

Source: State Finance commission (SFC) reports

Figure 2. Trends of ULB Expenditure



Source: State Finance commission (SFC) reports

that major part of municipal revenue is being spent on paying wages and salaries to employees. Figure 2 reflects upward rising trends of expenditure on establishment. Since 2004-2005 expenditure on establishment is constantly rising. However, other components of expenditure like developmental expenditure are showing constant trends. Trends are also exploring that after 2011-2012 expenditure on development starts declining and 'others' start rising. Moreover, expenditure other than establishment and development are not showing any significant rising trends.

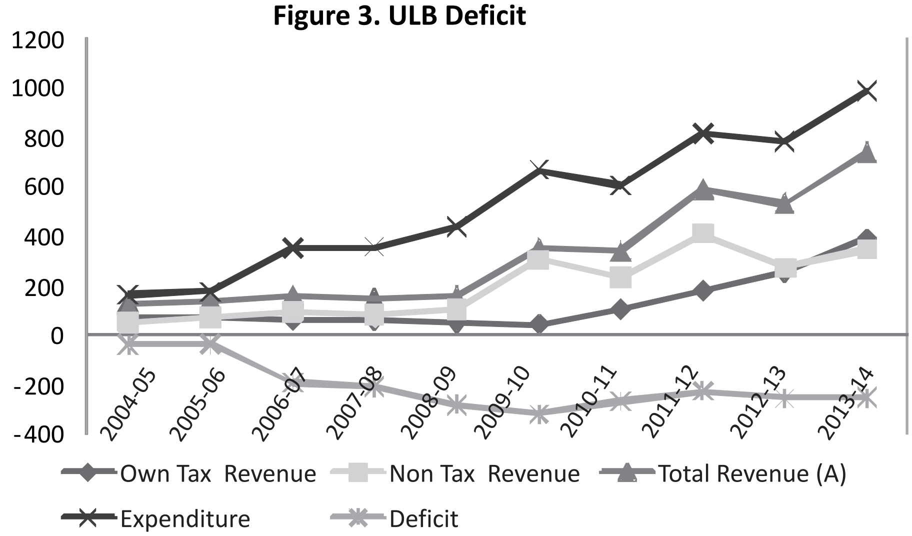
(4) Income and Expenditure : A comparison of income and expenditure of ULB has been done on the basis of the data compiled in Table 5. The data on Tax and Non Tax has been complied for analysis of fiscal deficit of ULB, whereas total expenditure is taken from Table 4.

Table 5. Deficit of ULB (in crore)

Year	Own Tax Revenue	Non Tax Revenue	Total Revenue (A)	Expenditure (B)	Deficit=A-B
2004-2005	70.77	54.92	125.69	163.45	-37.76
2005-2006	71.19	68.67	139.86	175.81	-35.95
2006-2007	61.67	97.04	158.71	350.05	-191.34
2007-2008	62.2	83.78	145.98	355.6	-209.62
2008-2009	52.27	103.6	155.87	436.17	-280.3
2009-2010	43.7	305.48	349.18	667.13	-317.95
2010-2011	104.31	234.22	338.53	604.54	-266.01
2011-2012	180.22	409.58	589.8	816.22	-226.42
2012-2013	257.32	273.22	530.54	784.43	-253.89
2013-2014	389.66	346.08	735.74	987.36	-251.62
CAGR	21%	26%	24%	22%	

Source: State Finance commission (SFC) Reports

Figure 3. ULB Deficit



Source: State Finance Commission Reports

In Table 5, we can see data on TRS and NTRS. In 2004-2005 revenue from own tax sources collected was ₹ 125.69 crore, whereas expenditure was ₹ 163.45 crore which represent a deficit of ₹ 37.76 crore. In 2007 - 2008, the deficit goes up and reaches ₹ 209.62 crore and in 2009-2010. Thereafter, it touches the highest point, that is, ₹ 317.95 crore in the 2009-2010. In 2013-2014, total deficit calculated is ₹ 251.62 crore. From the data, it is apparently clear that TRS and NTRS are not adequately exploited by the ULB. With regard to financial matters state government is enjoying full autonomy and discretion whereas local bodies are surviving on the pity of the state government in Haryana. However, additional revenue requirements are met by providing share in the tax levying by the State government.

Figure 3 depicts the trends of own tax, non tax revenues and expenditure trends. Overall expenditure is showing rising trend whereas total revenue trend line is lower which indicates deficit from 2004 -2005 to 2013 - 2014. Deficit in 2009-2010 is maximum, which reflects that local bodies have not sufficient resources to meet their expenditure requirements.

Discussion and Conclusion

The 73rd and 74th constitutional amendment in 1992 was a landmark decision in the direction of democratic decentralization of the Indian federal structure. In conformity with the 74th CAA, the Haryana government notified the Haryana Municipal Corporation Act, 1994 and amended the Haryana Municipal Act, 1973. Under section 66-A of the Haryana Municipal Act, 1994, a comprehensive list of 18 functions are given and under section 69 and 70 details of obligatory and discretionary taxes are given. However, the state government has full-fledged control over all financial matters. Apart from financial power, state government is also empowered under section 67 to take over the management of such functions which are purely in local domain. All such provisions given in the act should immediately be abolished for effective decentralization of power up to local bodies. Similar results were also found in the study of Abhey and Mala (2016).

The data given in Table 5 shows that the ULB do not have sufficient financial resources to meet its requirements. Property tax and Fire tax are the only taxes which are collected by the ULB itself. Property tax has high potential to generate revenue for the ULB but because of excessive state control ULBs have not been able to utilize its full capacity. Moreover, the share of non-tax revenue is also very low in comparison to that of tax revenue. The data also reveals that non tax sources are not fully exploited by the ULB because of the interference and control of the state government even in deciding the rates of fee, fines, charges etc. Therefore, it is suggested that there should be a complete demarcation of tax and non tax sources of the state government and ULB (Fourth SFC Report, 2014, p. 335).

Table 4 indicates that major chunk of municipal funds are spent on employee salary (Establishment). In terms of Haryana municipal Services (Recruitment & Service conditions) Rules, 1882, the state government appoints administrators, executive officers, municipal engineers, Assistant Town planners, Junior Engineers, Superintendents, Accountants, Chief Sanitary Inspectors, and Fire station officers. These appointing authorities also exercise full administrative control over these officials without owning financial responsibility like salary, wage, funds etc. The salary and other expenses of these officials are paid out of the municipal exchequer. The state government should provide 100% Grant in Aid (GIA) to the ULB against salary of employees appointed by the state government and Director of local bodies of Haryana.

An MOU was signed by the state government with Ministry of Panchayati Raj, Government of India on Aug 22, 2005 vide which state government has to prepare activity mapping to delegated functions to the PRI. In February 2006, an activity mapping chart was released by the Chief Minister of Haryana in the presence of the Union Minister for Panchayati Raj in which ten different departments covering 10 functions listed in the Eleventh Schedule namely, Food and supply, social justice and empowerment, public health, education, animal husbandry, agriculture, health, women and child development, irrigation, and forest were assigned to the local bodies. In this regard an NGO (PRIA) conducted a study to track the progress of 'Activity Mapping' in Haryana and found that activity mapping is not being implemented at ground level. Large numbers of respondents were not aware about the delegation of power to them under activity mapping. The study concludes that the letter issued by the government is a dead letter and is limited to a paper (Rao, 2011). The 4th SFC also observed that "delegation orders remained on paper due to lack of political will, apathy of bureaucracy, incapacity of elected representative of local bodies". The task of empowerment of ULB cannot be completed without implementing activity mapping in its true letter and spirit.

The dependency of lower government on the upper tiers of Government arises primarily because of vertical mismatches between functions and finance but greater dependency on the upper tier adversely affects the functioning of local governments. As compared to the functions, financial position of the ULB is too weak. The state government is supreme in all financial matters as per the enabling provisions of the municipal acts. Municipalities receive GIA from the State and Central government in the form of various plan and non plan schemes. The ULBs don't play any role in planning or proposition of the scheme going to be implemented in their jurisdiction by the State or Central government. This is direct encroachment of the State and Central government in local functions which shatter the objective of decentralization and principle of fiscal federalism as envisioned at the time of 73rd and 74th CAA. The study conducted by Oommen (2006) and Ghosh (2010) also arrived at similar conclusions.

Research and Policy Implications

The historic 74th constitutional amendment was passed by the Parliament in 1992 to strengthen the democratic decentralization of power upto the grass root level. Now more than two decades have gone by but the local bodies are still in the clutches of the states government in terms of finance. The existing municipal laws provide states an upper hand in deciding all financial matters related with municipal finance. Hence, without making amendments in the existing municipal laws, the objective of making local bodies as self-government cannot be achieved. A clear cut demarcation of functions and taxation powers should be made to define jurisdiction of state and ULB. The functions assigned to the Municipal Corporation, Municipal Council & Municipal Committee are overlapping. The overlap should be removed by a way of preparing activity mapping of each department allocated to ULBs.

Limitations of the Study and Scope for Further Research

Major limitations of this study is that it is limited to the time period 2004-2005 to 2013-2014. It is because of non-availability of authentic data on ULB. The data is compiled by the department concerned only on the direction of SFC. Hence, SFC is the only authentic source of data on local bodies. There is an ample scope for the researcher in present study if latest data is added to it. The government is Haryana did not accept the fourth SFC report. Hence, the devolution of the grant-in-aid and share of the ULB is based on the previous pattern. A comparative analysis of municipal finance of Haryana can be done with other states.

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