# Chapter 6

## CONCLUDING OBSERVATIONS

The study notes that local bodies in India, urban and rural, are yet to be put prominently on the public finance map of the country, which is needed to facilitate inclusive economic growth and equitable development.

The size of the municipal fiscal sector in India is very small compared to that in many developed and developing countries and in relation to the public services that the urban local bodies are mandated to deliver. The total municipal revenue in India account for about 0.75 per cent of the country's GDP as against a figure of 4.5 per cent for Poland, 5 per cent for Brazil and 6 per cent for South Africa. In terms of both revenue and expenditure the urban local bodies account for little above 2 per cent of the combined revenue and expenditure of Central Government, State Governments and ULBs. This is in contrast to the situation obtaining in advanced countries, where local bodies normally account for 20-35 per cent of the total government expenditure and the principle of 'subsidiarity' is regarded as a cornerstone of fiscal federalism. Recent data on municipal finances reveal that the total revenue of ULBs is growing at a lower rate compared to the growth of combined Central and State Government revenues. This is reflecting in a further decline in the existing marginal presence of local public finance in the overall fiscal structure of India.

The backlog, current and growth needs of infrastructure in cities and towns far exceed the resources at the disposal of ULBs. The additional requirement of funds by ULBs to meet the challenges of urbanisation, congestion, service deficiency and environmental degradation and to discharge redistributive functions like poverty alleviation and slum development as envisaged in the Constitution (74$^{th}$ Amendment) Act, is huge. Vertical imbalance, fiscal dependency, borrowing constraints and inefficiency in municipal management are affecting the functioning of urban local bodies. They need to be addressed in a holistic manner through comprehensive reforms.

## 6.1 Major Findings of the Study

Some key findings from the study are as follow:

i) There is mismatch between functions and finances of ULBs, which primarily explains the vertical imbalance. Out of 18 functions to be performed by the municipal bodies in India less than half have a corresponding financing source. The 12$^{th}$ Schedule in the Constitution 74$^{th}$ Amendment Act also envisages that functions like 'safeguarding the interests of weaker sections of society, including the handicapped and the mentally retarded', 'slum improvement and upgradation' and 'urban poverty alleviation' belong to the legitimate functional domain of urban local bodies. However, there are no commensurate resources with these institutions to discharge these functions. Thus, vertical imbalance is constitutionally in-built and correction to the same needs to be achieved through reforms in the structure of fiscal federalism, including revenue assignment and inter-governmental transfers through the Central and State Finance Commissions. There is a need for function-finance mapping to ensure that each function to be performed by the ULBs is backed by a corresponding financing source. The revenue instruments assigned to a tier of government should match, as far as possible, the expenditure requirements to induce fiscal responsibility.

ii) The international experience shows that the range of resources available to urban local bodies in federal countries such as United States, Canada, Brazil, China, *etc.*, is very broad compared to that in India. 'Own' taxes and user charges of ULBs in India is grossly inadequate to meet the expenditure needs of ULBs. Inability of States to assign a buoyant tax to

ULBs in the place of Octroi has seriously affected municipal fiscal autonomy. Besides, elaborate State Government controls on the municipal authority to levy taxes and user charges, set rates, grant exemptions, borrow funds *etc.* and on the design, quantum and timing of inter-governmental transfers are constraining ability of the ULBs in mobilising resources.

iii) The patterns of urban public finance in India are based on the model of Anglo-Saxon countries like United Kingdom and Australia, which have an elaborate system of inter-governmental transfers. In addition to 'own' and 'shared' revenues, grants-in-aid received from the concerned State Governments constitute a major resource of ULBs. However, the fiscal position of the States themselves has been weak with high level of deficits and outstanding liabilities. Hence, the State Governments have not been in a position to provide sufficient funds to their ULBs as per the recommendations of the SFCs. Further, most of them are committed to reducing fiscal deficit, as per their newly enacted Fiscal Responsibility and Budget Management Acts. While there is a need for empowering ULBs with 'own' taxes and non-taxes, the inter-governmental transfer system, especially transfers from States to ULBs, need restructuring. The present system in States is *ad hoc*, with very little incentive to ULBs to prompt efforts for bridging the fiscal gap and rendering performance. Transfers often bail out the incompetent and the irresponsible.

iv) The study highlights deficiencies in the conventional method for assessing municipal finances in terms of analysis of revenue and expenditures of municipalities. ULBs are required to generate revenue surplus due to statutory requirements. Overall resource gaps of ULBs, as seen from municipal budgets, are not very large. However, the spending by all the municipal bodies is lower than that required for providing a minimum level of civic amenities. A comparison of per capita spending on core services by metropolitan municipal corporations in terms of the Zakaria Committee norms indicates that the level of under-spending on an average works out to be about 76 percent. Thus, the assessment of municipal finances in "normative terms", besides the "standard approach" of revenue or fiscal balance is very essential.

v) Under-spending in civic services is evidently linked to certain *exogenous* and *endogenous* factors. Exogenous factors include: delegation of revenue powers (decentralization) and dependency of ULB for resources on upper tier of government (dependency ratio). Endogenous factors include: revenue (tax) administration, cost recovery and quality of expenditure.

vi) ULBs have low outstanding debt and debt sustainability parameters such as interest coverage and debt coverage ratios suggest that these bodies have considerable scope for debt financing of their expenditure needs.

vii) The projected investment requirement of funds for urban infrastructure in the country is estimated at about Rs. 63,000 crore per annum for the next ten year period. This does not include the needs for redistributive functions like urban poverty alleviation. The figure constitutes about 2.2 per cent of the country's GDP and is at present nearly 3 times the revenue of all ULBs together. Assuming a status quo in the federal fiscal relationships in the country, municipal bodies can at best be able to raise upto about Rs.27, 285 crore per annum or about 1.0 per cent of the country's GDP in 2004-05. Within this, the resources available for asset creation after meeting current expenditure would at best be of the order of Rs 17,736 core, implying an annual shortfall of at least Rs 10,000 crore (2004-05 prices) even for providing core urban services.

## 6.2 Municipal Finance Reforms

The study suggests that to start with, the issues of lack of clarity, consistency and predictability in expenditure assignment and revenue assignment should be addressed. In particular, the system of taxes, user charges, inter-governmental transfers and borrowings in respect of ULBs need to be reviewed for their adequacy and suitability to match the expenditure needs. Resources are required to be aligned with expenditures so that the delivery of services most required by citizens can take place effectively. Reforms need to focus on the basic issues of fiscal federalism, namely, revenue assignment must be clear and revenue assignment must correspond to expenditure assignment. There is also a need to address the issues of service delivery management as in the ultimate analysis outlays will have to translate into outcomes valued by the public.

The study finds that ULBs, which have better delegation of revenue powers and less dependency on upper tiers of Government, perform well in terms of provision of core services or lower under-spending. Thus, the restructuring of revenue powers to ULBs needs to be given top priority by State Governments, if urban services are to be improved. Simultaneously, the quality of expenditure by ULBs needs to be enhanced with a rationalization of the work force and reduction in spending on establishment and administration. There is considerable scope for the ULBs to recourse to borrowed funds for improving civic infrastructure as their current level of indebtedness is perceived to be low. Thus, several ULBs would be in a position to access the capital market if borrowing constraints are eased and tax-free bonds are facilitated. However, strong revenue reforms, covering both general revenues and user charge revenues, are a pre-condition for accessing market funds. There is a significant scope to raise the user charges which are abysmally low across the States.

The study suggests some measures for improving the municipal finances in India as follows:

*Expenditure Assignment*

The Constitution (74$^{th}$ Amendment) Act 1992 identifies 18 functions in the 12$^{th}$ Schedule as belonging to the legitimate domain of urban local bodies. A study of amendments to municipal acts by the State Governments following the 74$^{th}$ Amendment reveals that there is inadequate clarity regarding the assignment of functions to ULBs. Some municipal acts mention of functions 'as may be assigned from time to time' by the concerned State Governments. In the absence of activity mapping and clarity regarding the levels at which component of functions such as policy-making, planning, formulation of programmes and projects, implementation, monitoring, quality assurance, assessment and evaluation are to be performed in connection with the delivery of particular public services, overlap between the functional domains of ULBs, State and Central Governments will continue. Functions of various tiers of government needs to be clear and without any ambiguity.

*Revenue Assignment*

Inadequate assignment of tax and non-tax resources including inter-governmental transfers[18], incomplete delegation of revenue-raising powers, inappropriate user charges, inefficiency in tax administration and under-exploitation of assigned revenues are some major factors that have contributed to the resource crunch of ULBs. The ULBs must be made an integral part of revenue mobilization in as much as they share responsibilities. Studies recommend a combination of benefit taxes, user fees, development charges and borrowings for long gestation capital works as appropriate for meeting civic expenditures. User charges should be based on the marginal cost of additional units of services from the infrastructure and development charges on the marginal cost of extending infrastructure to new developments, levied on a development-by-development basis.

*Alternative to Octroi*

Assigning an alternative in the place of Octroi to ULBs is a critical reform, which is pending since long. The Twelfth Finance

[18] It has not been possible to address the whole lot of issues raised in the literature relating to inter-governmental transfers which is beyond the scope of this study.

Commission has recommended that a tax, preferably linked to the consumption characteristic of good and hence also buoyant, would be a suitable alternative to Octroi. The search for a substitute for Octroi may perhaps end with a reasonable formulae-based share for the ULBs in the Value Added Tax.

*Municipal Finance List*

A national consensus needs to evolve on a 'municipal finance schedule' for assignment to the ULBs to match the list of functions included in the $12^{th}$ Schedule. The context is critical and given the patterns of urban public finance prevailing in States, property tax including vacant land tax and taxation of Central and State Government properties (or service charges in lieu thereof), professional tax, entertainment tax, advertisement tax, business licensing fee or tax, motor vehicle tax or a share from the same, planning permission fee, development impact fee, betterment levy, a surcharge on stamp duty on registration deeds or a share from it and a proportion of the Value Added Tax may be considered as part of the scheme of revenue assignment to ULBs. State Governments need to provide freedom to ULBs in matters relating tax base, tax rate and exemptions. Restrictions, if any, may be only by stipulation of ceilings or maximum rates of levy.

*Matching Revenues and Expenditure*

The Bahl-Linn (1992) principles of local public finance provide useful guidance for matching local revenue sources with the expenditures needed. They provide directions for determining the types of local public services that could be best financed out of revenues from particular user charges, benefit taxes, generic taxes, administrative fees and borrowings. There is a need for drawing a map showing broad correspondence between expenditure responsibilities to be discharged by ULBs and the most appropriate ways to finance them.

*Raising Local Revenue Efforts*

While the huge resource gaps of the ULBs require major structural reforms that take time, there are no two opinions that ULBs should exploit the revenue sources already assigned to them more effectively. There is a particular need for focusing on maximization of revenues from property taxes, user charges and the use of urban land as a resource. 'Users pay', 'beneficiaries pay' and 'polluters pay' are the cornerstones of local public finance as suggested by theory as well as practice. They must be fully made use of through scientific ways of identifying tax base.

Capital value taxation is recognized as a desirable way to enhance the yield from property taxes. However, the process to move to such a system is bound to be slow given the view that tax-payers in cities in India are 'property-rich', but 'cash-poor'. Moreover, most ULBs do not have a cadre of trained assessors to evaluate property values and update them regularly. Experiences of cities like Hyderabad and Bangalore suggest that area-based property tax systems, linked to self-assessment schemes, have considerable scope for enhancing property tax revenue. Vacant land tax, which remains one of the most under-exploited taxes in India at the local level, can be a major source of ULB revenues, with a low rate of tax levied on capital value of land based on benchmark values for registration. Reforms in administration of property tax, including assessment, valuation and record-keeping are also called for.

*Linking Services with User Charges*

Property tax is collected under various Municipal Acts with components such as water tax, drainage tax, lighting tax, conservancy tax and general tax. It is desirable that services like water supply, which can be measured and for which beneficiaries can be identified without incurring a huge cost, are financed through user charges. Linking of services to earmarked user charges and benefit taxes introduces a surrogate market in the provision of the local public goods concerned. Moreover, there is a visible trend in the developed countries towards more effective utilisation of user charges and benefit taxes by local governments due to citizens' preference for them over general taxes. ULBs in India need to be enabled to levy user charges for individual services with the goal of full cost recovery. Benefit taxes should be levied when the levy of user charges is not possible.

*Inter-Governmental Transfers*

India being a three-tier federal system, inter-governmental fiscal transfers are bound to remain an integral mechanism for solving the problems of vertical imbalance in the assignment of responsibilities and fiscal powers between the Centre, State and local bodies. These transfers could be an effective tool to correct such vertical imbalance, reduce the inequalities amongst ULBs due to a variety of factors including fiscal power, cost disabilities, revenue effort, *etc.* and promote public spending in desired sectors like water supply, education, health *etc.* In addition to the factors of vertical balance, equalization principle and externalities, administrative justification in terms of economies of scale in tax collection at the Central or State level also stands as argument in favour of inter-governmental transfers to local bodies.

The design of inter-governmental transfers from State Governments must be based on the principles of objectivity, transparency and predictability. The following criteria are advocated: (a) the transfers must imply a hard budget constraint for the municipalities and there should be no soft options at the margin; (b) the quantum and frequency of transfers must be predictable; (c) they must be transparent through explicit and identifiable entries in government budgets; (d) they must be pre-determined rather than open-ended and (e) they must have in-built incentives for promoting local resource mobilisation and effective public service delivery. A simple distributive formula that gives due weights to needs, rights to minimum basic services, incentives to performance and inter-jurisdictional equity may be designed.

*Easing Borrowing Restrictions*

The study reveals that metropolitan municipal corporations in the country have favourable debt sustainability indicators, measured in terms of ratio of debt payments to revenue receipts, interest coverage ratio and debt coverage ratio. Therefore, they have potential for utilizing the debt wisely, discretely and prudently for the purpose of capital formation. A critical issue to be addressed in the context of debt-financing as a key instrument of municipal finance is that practically all Municipal Acts in the country impose restrictions on the power of Municipalities to borrow funds. Examples are: Section 86 of Karnataka Municipalities Act, 1964 as amended by Act No. 24 of 1995; Section 154 of Karnataka Municipal Corporation Act, 1976 as amended by Act No. 25 of 1995; Section 154 of the Uttar Pradesh Municipal Corporations Act 1959 as amended by U.P. Act No.12 of 1994; Section 185 of Delhi Municipal Corporation Act 1957; Section 149 of Hyderabad Municipal Corporation Act 1955 and Section 142 of Madras City Municipal Corporation Act 1919.

All these laws make the previous sanction of the State Government (Central Government in the case of Delhi) mandatory before any borrowing is resorted to by an ULB. While stipulating that such borrowings would be on the basis of security of all or any of the taxes, duties, fees and dues authorised under municipal and other laws, the State Governments prescribe conditions regarding security, rate of interest, repayment of principal and interest, date of floatation and time schedule for loan repayment. They also specify the purposes for which borrowing can be resorted to. These generally include: (a) construction of permanent works, (b) acquisition of lands and buildings, (c) paying off any debt due to government and (d) repaying loan previously raised under municipal and other laws.

It is suggested that borrowing restrictions on ULBs may be relaxed and guided by pre-specified principles and not by case to case examination at the State level.

*Financing Urban Infrastructure*

Some key options for financing urban infrastructure include: i) specialized banks for municipal lending, ii) municipal bond markets and iii) specialized municipal funds (*e.g.* Tamil Nadu Urban Development Fund). Bank lending model is used in Western Europe while the municipal bond model is adopted in North America. For accessing capital market funds, the municipalities need certain financial, structural, institutional and administrative changes. These include i) availability of buoyant sources of revenue at their disposal, ii) transformation of the urban governance system with limited control by State Governments, iii) changes in the capital market structure, iv) recovery of cost of services and v) escrowing mechanisms to make the urban infrastructure projects commercially viable. In particular, efforts need to be made to broaden and deepen the market for Municipal Bonds in the country, by promoting tax-free and taxable bonds as in USA. For strengthening issuance of municipal bonds, measures such as bond insurance facility and listing of bonds on domestic stock exchanges are required.

Strengthening the creditworthiness of ULBs requires that they be given autonomous authority to set realistic tax-rates and user-charges for the basic services provided by them and also for pursuing right-sizing of staff.

*Developing Public-Private Partnerships*

While a crucial role exists for the private sector to participate in urban infrastructure, the intervention of the state and public policy and the format for such partnerships must be carefully designed. It is also imperative to safeguard the ecological and equity interests of the society and enforce accountability of both public and private actors. The ULBs, especially the smaller ones, have limited capacity to develop public-private partnerships and need to be assisted by specialized state agencies.

*Addressing Poverty Alleviation*

The functions of urban poverty alleviation and slum development and upgradation are envisaged as legitimate municipal functions under the 12th Schedule of the Constitution, incorporated by the 74th Amendment Act, 1992. If these redistributive functions are to be discharged effectively by the urban local bodies, the sources of financing the same must be clearly spelt out. Unless the ULBs have 'assured' or 'predictable' sources of revenue for these functions, there is little likelihood that they will 'own' them. The municipalities need to be induced to adopt these functions on the assurance of funding from State and Central Governments, which have recourse to more buoyant resources.

*Expenditure Management and Disclosure*

Many ULBs are seen to incur wasteful expenditure and considerable savings can be achieved through the elimination of the same. This is particularly true of administrative and establishment expenditures. There is a need to review expenditure norms and rationalize them to realistic levels. Procurement reforms, institution of performance measurement and management system for service providers and regulators, enforcement of norms of transparency and accountability and implementation of the Right to Information Act, 2005 are bound to improve the quality of local government expenditures. Budgeting and accounting systems of urban local bodies need to be simplified; accrual-based accounting must be put in place following the National Municipal Accounting Manual. Municipal accounts may be disclosed to the public at regular intervals in simple and easily understandable formats to induce informed debate and enforce vigilance.

*Professionalisation of Management*

Professional management of urban local bodies is an important reform that is needed to improve civic service delivery in the country. Recruitment, career progression, performance management and incentive systems for municipal personnel need to be designed to warrant efficient performance and accountability in service delivery. Outsourcing of staff and functions may be considered based on cost-benefit analysis. Capacity building and training programmes, including change management need to be undertaken systematically and regularly. Diploma programmes in urban management may be undertaken in association with reputed management institutions to build a cadre of qualified municipal managers.

*Role of Central Finance Commission*

The 74th Constitution Amendment Act 2002 envisages a key role for the CFC in augmenting the State Consolidated Funds to assist State Governments in the implementation of SFC recommendations. A strong case is required to be made before the 13$^{th}$ Central Finance Commission for recommending wide-ranging measures to correct the problem of vertical imbalance in a holistic manner. The CFC may consider a "normative" approach for assessing the resource requirements of local bodies to decide the quantum of grants to them. This is necessary as the time lag between the submission of reports of SFCs, actions taken by State Governments on SFC recommendations and the constitution of CFCs is bound to continue.

Norms for sub-national expenditures may be evolved and depending on the normative estimates of expenditures to be incurred by State Governments and local bodies, a share in the central divisible pool of resources may be considered for the local bodies in lieu of *ad hoc* grants. As urban poverty issues are going to assume critical proportions, the CFC may consider revenue assignment for 'redistributive' functions such as urban poverty alleviation and slum development and linking such functions to a share in 'redistributive' taxes like personal income tax, corporation tax and service tax.

*Role of State Finance Commissions*

The SFCs may follow the suggestions made by the Twelfth Finance Commission regarding approach to be adopted to study the finances of local bodies, identifying problems and making recommendations. The SFCs, which need to have eminent experts with knowledge of local public finance or local administration as members, may make specific recommendations that are implementable. Definite time-frames for implementing the SFC recommendations by State Governments may also be fixed statutorily. SFCs may accord priority to 'measures' for improving municipal finances and financial management to address the fundamental factors leading to vertical imbalance rather than adopting a gap-filling approach.

*Promoting Fiscal Responsibility*

Key indicators of fiscal health of urban local bodies need to be designed from time to time to facilitate meaningful cross-municipal comparisons, benchmarking, drawing conclusions for measures to augment municipal revenues, cut unnecessary expenditures and enable the access to market funds. Appropriate fiscal responsibility legislations need to be considered by State Governments for the urban local bodies.

*Municipal Expenditure Norms*

The study has extensively used the Zakaria Committee norms (adjusted to study period) for working out the under-spending by urban local bodies and for projecting resource requirement for 10 years. In this context, it could be indicated that the Zakaria Committee norms, developed during the early 1960s, pertain to only five core services. Moreover, the costs of services may be subject to convexity due to technological changes and lack of natural advantages (*e.g.* on account of over-growth of cities). Therefore, there is a strong case for developing new benchmarks for estimating the costs of municipal services in India by constituting new groups and by undertaking more primary studies.

*Best Practices and Innovations*

There are many best practices and innovative experiments undertaken by urban local bodies and State Governments in India in areas such as local resource mobilization, expenditure management, capital budgeting, participatory planning *etc.* The same need to be documented and disseminated widely. A national network of resource centres on urban development, urban poverty alleviation and local public finance and a national bank on urban best practices and innovations by urban local bodies in the country and outside may also be developed.

*Municipal Finance Database*

One serious difficulty encountered while studying the municipal finances in India relates to the lack of a comprehensive and consistent database[18]. The entire discussion in Chapter 8 of the Twelfth Finance Commission's Report brings out the fact that despite several attempts, there is no source of reliable data on finances of all local bodies in India to estimate their resource gaps. The present study of budgets of the 35 metropolitan MCs in the country reveals the lack of uniformity in classification and reporting of data, which do not allow precise comparison on various parameters. There is an imperative need to develop a robust database on municipal finances and the same may be made public on a regular basis. With increasing urbanization, urban public finance is going to have important implications for state and national finances. Reserve Bank of India may consider to steer the building of such a national database on municipal finances. The formats indicated in Appendix 4, based on the National Municipal Accounting Manual may be adopted and e-enabled for developing an online municipal finance information system.

*Analytical Research Studies*

The local public finance literature in India does not present analytical studies like those brought out by OECD for the developed countries. This study has used measurable indicators relating to revenue balance, fiscal balance, expenditure performance, debt sustainability, dependency, decentralisation, cost recovery, revenue administration and quality of expenditure to make comparative assessment of finances of municipal corporations. There is a need for the regular conduct of similar studies for ULBs, state-wise and group-wise to draw benchmarks and pursue reforms scientifically.

## 6.3 Framework for Urban Policy

Jane Jacobs (1984) held the view that "Cities, not countries, are the constituent elements of a developing economy and have been so from the dawn of civilisation." This applies to India as well, with cities acting as the engines of national economic growth. Cities enable the clustering of complementary economic activities, capital and skill, entrepreneurial talent and innovation, and scale, scope and agglomeration economies. Cities raise labour productivity and create potential for sustainable economic growth and poverty alleviation. Urbanisation shifts people from low-productivity rural pursuits to high-productivity non-agricultural activities.

It is evident that as the India matures into a modern service sector-dominated developed economy owing to structural transformation, urbanisation will get a push. The positive correlation between income and migration is well-known in the research on rural-urban migration. It is most likely that as rural areas develop, they would eventually release population to cities. Secondly, the agricultural sector still employs about sixty per cent of the country's labour force, although its share in GDP is about eighteen per cent.

In contrast to the picture presented above, in developed countries like USA and UK only about 2-4 per cent of the population is engaged in agriculture. The process of rural-urban migration and in situ transformation of rural habitations into towns and cities cannot be stopped. Further, globalisation, information technology revolution, economic reforms and liberalisation are bound to speed up urbanisation. Cities are already the preferred destinations of domestic and foreign direct investment as well as business process outsourcing. Thus, it would be prudent to work out and pursue urban policy that promotes healthy and orderly urban growth while simultaneously addressing the negative effects accompanying urbanisation. This calls for a national urban policy.

It should be explicitly recognised that urbanisation is a natural consequence of economic development and cities contribute far more to national economic growth than their share in total population. They contribute significantly to the country's national income and exchequer. Urban policy needs to enable cities to contribute to national development through the effective provision of infrastructure and services. This, however, cannot be viewed in isolation from broader economic and social policies. These policies lead to unintended spatial consequences, which may sometimes be far more profound than those intended or envisaged originally. Much of urban policy, as Brian Berry observes, is actually:

*"...unconscious, partial, uncoordinated and negative. It is unconscious in the sense that those who effect it are largely unaware of its proportions and features. It is partial in the sense that a few of the points at which governments might act to manage urbanisation and affect its course are in fact utilised. It is*

*uncoordinated in that national planning tends to be economic and urban planning tends to be physical and the disjunction often produces competing policies. It is negative in that the ideological perspective of the planners leads them to try to divert, retard or stop urban growth and in particular to inhibit the expansion of metropolitan and primate cities..." [quoted in Mohan (1996)].*

In view of the above, the approach to urban development and management needs to take account of the likely impacts of multiple sectoral and spatial policies at Central, State and Local Government levels. Municipal finance reforms will have to be undertaken within the ambit of these policies and the structure of fiscal federalism in India. Therefore, the study has suggested measures which are not drastic and which can be implemented in the present Indian context.