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Expenditure in Greater Visakhapatnam Municipal Corporation – An Analysis

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Municipal governments in India are vested with a welfare principle and hence the new functions have been assigned to ULBs, which included environmental protection, town planning, urban poverty alleviation, welfare of weaker sections, supply of safe drinking water, preventive health care like immunization against epidemics as well as curative primary health facilities, garbage removal, construction of rain water drains, market centers through the state legislature and other administrative orders. They are however, constrained in discharging their assigned functions due to a limited resource base. The low per capita receipts of municipal governments do not enable them to meet the minimum standards of services. On the whole, the status of municipal finance in India suggests that the present revenues are insufficient to meet the growing expenditure needs of urban areas. Improved financial management is required to increase efficiency in revenue collection and expenditure control.

The present level of municipal expenditure are far below the norms suggested by the Zakaria Committee in May 1963. According to National Institutional Public Finance and Policy (NIPFP) study (2000), of the 249 sample municipalities, only 10 municipalities met the expenditure

norms established by the Zakaria Committee. For the municipal governments to reach these recommended expenditure norms, their revenue receipts will have to increase significantly. At present, the same situation has been reflected through various studies on urban economy.

It is revealed from the analysis that Visakhapatnam Municipality grown to the status of GVMC. It is mainly because of the industrial growth and fast expansion of industrial business establishments and also various education institutions, hotels etc. Huge investments are made in the city by various industries from all over India. As a result the GVMC is functions increased particularly in developing infrastructure including water supply and sanitary services. It is revealed from the data between 1994-1995 to 2008-2009 the expenditure recorded are increase to 16.50 percent in GVMC.

Municipal governments are legally required to have a balanced budget. The municipal expenditures are thus conditioned by the level of resources available. In the states where the municipal receipts are very low, the municipal expenditures are also low. As a result it has a significant impact on the quality and

nature of services provided by the municipality. Often, the repairs and maintenance services are considered as poor and there by, the expenditure on capital works are postponed.

Local government should provide public services to those who need or want them. This means that, under an equitable structure, administrative exclusion of potential beneficiaries is to be avoided. As labour and enterprise mobility increases beneficiaries will have a broader range of locational choices. Experience in North American cities shows that municipalities that do not meet demands of residents and enterprises eventually decline as consumer and companies move to cities. As purchasing power grows in urban areas, more residents will have the capacity and willingness to pay for benefits that they derive from responsive local governments.

Urban centres in India depict a grim picture with regard to availability of basic services like safe drinking water, sewerage/ sanitation, solid waste disposal and primary education, primary health. Accordingly survey by NIPFP (National Institute of Public Finance and Policy) shows that in a sizeable number of urban centres, the availability of water is even less than 100 liters per capita per day, as only 2.7 percent of sample municipalities have reported to supply over 100 liters of water per capita per day (NIPFP2004). Approximately 28 percent of the municipalities provided less than 50 liters per capita per day, which is less than half of the norms

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Table-1

Total Revenue & Expenditure in the GVMC (Rs. In Crores)

Year	Total Revenue	Total Expenditure	Surplus / Deficit	Gap Surplus / Deficit (%)
2004-05	197.11	214.45	-17.34	-8.08
2005-06	233.20	255.96	-22.76	-8.89
2006-07	293.69	298.10	-4.40	-1.48
2007-08	583.98	451.24	13.27	29.41
2008-09	685.53	737.36	-51.82	-7.09

Source: Account Section in the GVMC.

*Taxes, Non Taxes and Assigned Revenue including Plan and Non-Plan grants.

Table-2

Expenditure Break up in GVMC (Triennial) (Rs. In Crores)

Items	1994-95 to 1996-97	1997-98 to 1999-2000	2000-01 to 2002-03	2003-04 to 2005-06	2006-07 to 2008-09
Non Teaching Staff Pay & Allowance & Pensionary Benefits	1262.60	2002.04	2931.09	3855.1	4948.09
Teaching Staff Pay & Allowance	346.97	447.44	560.41	719.10	532.60
Road	649.27	780.10	1146.03	1157.32	4724.03
Drains& Culverts	228.22	323.82	312.01	122.52	708.13
Buildings	20.14	50.98	76.66	192.04	1189.52
Public Health& Sanitation	214.22	399.74	639.84	1223.67	2172.57
Water Supply	1013.13	1477.57	1862.66	7069.57	14132.42
Lighting	278.01	554.19	732.48	1004.07	2016.69
Remunerative Enterprise	172.89	430.06	296.69	464.15	528.43
Loans	115.80	207.69	267.98	119.37	816.07
Contribution	0.00	0.00	0.00	0.00	342.75
Town Planning	17.28	0.47	19.96	144.95	129.44
Acquisition Of Lands & Buildings	6.51	24.33	52.59	60.80	50.09
Management	74.82	194.77	347.28	446.74	1063.45
Law Charges	7.86	6.67	10.41	22.97	19.51
Other Expenditure	963.96	1079.29	419.14	5157.93	17422.61
Total	5370.13	7979.20	9675.88	21749.35	50795.36

Source: Account Section in the GVMC.

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Table-3

Total Ordinary Income and Expenditure in the GVMC (Triennial Average) (in Crores.)

Items	1994-95 to 1996-97	1997-98 to 99-2000	2000-01 to 2002-03	2003-04 to 2005-06	2006-07 to 2008-09
Total Ordinary Income	47.81	76.88	117.80	155.51	248.90
Total Ordinary Expenditure	33.42	51.43	79.09	99.19	156.69
Surplus/Deficit	14.39	25.45	38.81	56.32	90.21

Table-4

Total Capital Income and Capital Expenditure in GVMC (Triennial Average) (in Crores.)

Items	1994-95 to 1996-97	1997-98 to 99-2000	2000-01 to 2002-03	2003-04 to 2005-06	2006-07 to 2008-09
Capital Income	12.75	46.80	20.36	70.80	271.16
Capital Expenditure	29.17	47.42	130.82	124.16	2021.23
Surplus/Deficit	-16.42	-0.62	-110.46	-53.36	-1750.06

Table-5

Total Income and Expenditure in the GVMC (Triennial Average) (in Crores.)

Items	1994-95 to 1996-97	1997-98 to 99-2000	2000-01 to 2002-03	2003-04 to 2005-06	2006-07 to 2008-09
Total Income	60.56	123.69	138.27	226.11	345.87
Total Expenditure	62.60	98.85	209.91	223.35	2109.92
Surplus/Deficit	-2.04	24.84	-71.64	2.76	-1764.05

Source: Accounts Section in the GVMC.

Table-6

Compound Growth Rate of Total Ordinary & Capital Expenditure in the GVMC
(Between 1994-95 to 2008-09&2001-02 to 2008-09)

Periods	Ordinary Expenditure	Capital Expenditure	Total Expenditure
GVMC			
1994-95 to 2008-09	13.38** (20.11)	23.23** (5.09)	20.75** (5.89)
2001-02 to 2008-09	11.39** (5.53)	40.43* (2.41)	33.58** (2.46)

*significant at 0.01 level.

**significant at 0.05 level.

Figures in the parenthesis are T- values.

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recommended by the Zakaria Committee for towns less than 20,000 population. In case of sanitation, although nearly 50 percent of the urban population is covered with sanitation services, only 28 percent of the urban households are connected to the public sewerage system. The position with respect to the collection and disposal of garbage is worse. The coverage is low as nearly 30-40 percent of garbage is left on the city streets uncollected daily (IRI 2001). There is, thus, a major deficiency in the provision of urban infrastructure and services but also inequitable distribution of the services despite major efforts in the past.

The aforesaid services have been put to further strain as a result of an increase in economic and industrial activities in the country following the liberalization and globalization measures introduced in the early 1990s, as a large proportion of new investments are needed in towns and cities. Consequently, infrastructure bottlenecks are emerging as the greatest challenge affecting urban productivity and quality of life-the implications are grave in view of the fact that more than 60 percent of the gross national domestic product is from urban centres. Any attempt to rectify the situation at the local level heightening the most municipal bodies in the country which are already under considerable financial strain to cope up with the operation and maintenance requirements of the existing services. While the responsibility to meet the growing demand to augment existing services is increasing rapidly as there is no commensurate increase in their revenue base.

Any attempt to deal with the situation calls for a systematic review of norms and standards for provision, operation and maintenance of municipal services, as suggested by different committees and expert

groups. In this context an analysis is made with respect to the GVMC in regard to the nature of expenditure on the basic infrastructure facilities.

Total Revenue and Expenditure in the GVMC

In this respect, the expenditure data on various items during 1994-95 and 2008-09. The data was collected on expenditure related to municipal Teaching and Non teaching staff Salaries, Revenues, Expenditure, Non-Teaching Staff Pay & Allowance, Roads, Drains & Culverts, Buildings, Public Health & Sanitation, Water Supply, Lighting, Loans and Others.

The Revenue and expenditure made for the years from 2004-05 to 2008-09 have been presented in the Table-1 GVMC. It is very much significant to note that there is about 29.41 percent surplus income in the financial year 2007-08 only, while the deficit has been reduced to 1.48 percent in the financial year 2008-09. The reason for the result might be attributed to the formation of Greater Visakhapatnam during December 2005.

Expenditure Break up in GVMC

In this section sector wise expenditure during 1994-95 to 1998-97, 1997-98 to 1999-2000, 2000-01 to 2002-03, 2003-04 to 2005-06 and 2006-07 to 2008-09, for every three years has been presented in the Table-2. It can be seen from the table that the expenditure has increased in many fold, between initial and end period, in particular the expenditure on Non Teaching Staff Pay & Allowance & pensioner benefits was increased by about 392 percent during this period. The expenditure on roads was increased about 727.56 percent, on water supply increased by 1304.92 percent. On the whole the total expenditure has been increased to Rs.50765.36 crores in absolute terms which is about 545.85 percent during the period. However, there is a many fold

increase in expenditure on various sectors due to the expansion of jurisdiction (GVMC) and inflation rate.

Total Ordinary Income and Expenditure in the GVMC

It is further analysed that the total ordinary income from various sources and total ordinary expenditure between initial and end period in GVMC is presented in the Table - 3(a) and Graph - 3(a). The total ordinary income (excluding capital income) was increased by 19.21 percent in the end period as compared to initial period and total ordinary expenditure (excluding capital expenditure) was increased by 21.08 percent. Thus, there is a surplus income which is about 15.95 percent in end period in comparison to initial period.

Total Capital Income and Capital Expenditure in the GVMC

The capital income and capital expenditure between initial and end period was also examined. The items under different heads like city engineering, city lighting, city projects, city planning, education, parks, Leisure and amenities, public health, water supply, deposit and advances, refunds (payable and recoveries under capital income and capital expenditure presented in the Table-3. In the initial period the expenditure is about 128.76 percent higher than its capital income. In the end period the expenditure has further increased to 645.38 percent than capital income. Thus, it indicates the steep rise in both income and expenditure when compared to initial period due to the expansion of jurisdiction as result upgradation of GVMC status.

Total Income and Expenditure in GVMC

The total income (ordinary and capital income) and total expenditure (ordinary and capital expenditure) between initial and end period has been presented in the Table-4. In

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Table-7 - Shifts in the Expenditure Pattern in the GVMC (%)

Items	1994-95 to 1996-97	1997-98 to 1999-2000	2000-01 to 2002-03	2003-04 to 2005-06	2006-07 to 2008-09
Non Teaching Staff Pay & Allowance & Pensionary Benefits	23.51	25.09	30.30	17.73	9.74
Teaching Staff Pay & Allowance	6.46	5.61	5.79	3.31	1.05
Road	12.06	9.78	11.84	5.32	9.30
Drains& Culverts	5.00	4.68	3.22	0.56	1.40
Buildings	0.38	0.64	0.79	0.88	2.34
Public Health& Sanitation	3.99	5.01	6.61	5.63	4.28
Water Supply	18.87	18.82	19.25	32.50	27.82
Lighting	6.18	6.84	7.57	4.82	3.97
Remunerative Enterprise	3.22	5.38	3.07	2.13	1.04
Loans	2.16	2.60	2.77	0.55	1.61
Contribution	0.00	0.00	0.00	0.00	0.67
Town Planning	0.32	0.01	0.22	0.67	0.25
Acquisition Of Lands & Buildings	0.10	0.30	0.54	0.39	0.10
Management	1.39	2.44	3.59	2.08	2.08
Law Charges	0.15	0.08	0.11	0.06	0.03
Other Expenditure	17.94	13.53	4.33	23.72	34.30
Total	100.00	100.00	100.00	100.00	100.00

Source: Account Section in the GVMC.

Table-8 - Impact of Total Expenditure in the GVMC

Independent Variable	Regression Visakhapatnam		
	Co-eff	Beta	t-value
Non teaching staff Pay & allowance Pensionary Benefits (X1)	0.244	0.148	2.252*
Teaching staff Pay & allowance (X2)	0.215	0.093	1.179
Roads (X3)	0.133	0.145	5.865**
Drains & culverts (X4)	0.035	0.038	3.941**
Buildings (X5)	0.018	0.037	1.975
Public Health & Sanitation (X6)	0.033	0.040	1.204
Water supply (X7)	0.400	0.551	13.668**
Lighting (X8)	0.043	0.040	0.937
Constant	1.005		
R ²	0.999		
Adjusted R ²	0.999		
F	2648.80		

*significant at 0.01 level. **significant at 0.05 level.

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This situation the total expenditure is higher than the total income of GVMC which is 3.36 percent in the initial period. The same was further increased to 510 percent over and above the income at the end period. Thereby, it is evident that the GVMC is unable to meet the demand for services to the beneficiaries, again due to widening of areas of Jurisdiction (GVMC).

Compound Growth Rate of Ordinary Expenditure & Capital Expenditure

Compound growth rates of Ordinary and capital expenditure have been calculated for the period 1994-95 to 2008-09 and 2001-02 to 2008-09 for GVMC. It is revealed from the Table-5 that the growth of ordinary expenditure and capital expenditure is recorded as 13.38 percent and 23.23 percent respectively during 1994-95 to 2008-09. While the compound growth was 11.39 percent during 2001-02 to 2008-09, which is lesser than the growth rate between 1994-95 to 2008-09. Where as the capital expenditure was increased at the rate of 40.43 percent during 2001-02 to 2008-09 which is higher than the period of 1994-95 to 2008-09.

Compound growth is also calculated by plugging ordinary expenditure and capital expenditure for the periods 1994-95 to 2008-09 and 2001-02 to 2008-09 in GVMC. In this situation, during the period of 1994-95 to 2008-09 the growth of total expenditure was increased at the rate of 20.75 while during the period 2001-02 to 2008-09 it is increased at the rate 33.58 percent which is higher during the period of 1994-95 to 2008-09.

Shifts in the Expenditure Pattern

As we can observe from the study of ULBs there is a fast deterioration in their revenues. This results in shifts in the expenditure pattern in ULBs. Table-6 presents the changes in the composition of expenditure in GVMC during the five periods of time 1994-95 to 1999-97, 1997-98 to

1999-2000, 2000-01 to 2002-03, 2003-04 to 2005-06 and 2006-07 to 2008-09. In GVMC there is a steep fall in the salaries component by about 20% similarly there is a decline in expenditure under the headings of drains, culverts, lighting system, town planning and loans. Thus the GVMC expenditure on basic services has been declined drastically and hence the quality of services has fallen.

Impact of Total Expenditure in the GVMC: The Regression Analysis

The expenditure data is further analysed by using Regression Model (Multiple Regression) in order to know the impact of total expenditure in GVMC.

$$Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + b_6 X_6 + b_7 X_7 + b_8 X_8 + b_9 X_9 + b_{10} X_{10}$$

Whereas

Y – Total Expenditure

X₁ – Non teaching staff Pay & allowance and Pensionary Benefits

X₂ – Teaching staff Pay & allowance

X₃ – Roads

X₄ – Drains & culverts

X₅ – Buildings

X₆ – Public Health & Sanitation

X₇ – Water supply

X₈ – Lighting

a – intercept and b₁, b₂, b₃, b₄, b₅, b₆, b₇, b₈, and b₉ are the co-efficient of the independent variables.

It is revealed from the Table-6 that from among various expenditure (independent variables) x₁ and x₆, the items like x₁, x₃, x₄ and x₇ are more significantly influencing on total expenditure than the other items.

Conclusion

It is revealed from the analysis that Visakhapatnam Municipality grown to the status of GVMC. It is mainly because of the industrial growth and fast expansion of industrial business establishments and also various education

institutions, hotels etc. Huge investments are made in the city by various industries from all over India. As a result the GVMC is functions increased particularly in developing infrastructure including water supply and sanitary services. It is revealed from the data between 1994-1995 to 2008-2009 the expenditure recorded are increase to 16.50 percent in GVMC. To conclude, the expenditure pattern before the upgrade of Visakhapatnam Municipality and Greater Status (GVMC) was within the budgetary balance and could able to render service to the public in a satisfactory mode.

But the situation has become beyond control in extending the qualitative services to the public in terms of both ordinary and capital expenditure on account of the upgrade of Visakhapatnam Municipality to Greater Visakhapatnam Municipal Corporation. The reason being that income cannot be raised all at once due to lack of sufficient administrative machinery, manpower etc.

It results in that there will be a big gap between income and expenditure and hence it becomes difficult to the GVMC render demanded services to the public as their number is increased due to expansion of jurisdiction. Hence, the policy makers while upgrading the municipalities, they have to take into consideration of the other parameters also to make it healthy.

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