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Municipal Finances: Greater Visakhapatnam Municipal Corporation and Vizianagaram Municipality: An Analysis

By B. Lakshmi Bhavani and E. Nagabhushan Rao*

Municipal finance in India has been the crucial point of the survival of municipal government. Before independence, municipal government could not secure the required funds even though Ripon insisted upon independent and adequate sources of revenue. After independence, due to industrialisation and urbanization, it could not cope up with the rising demands of urban population for better civic services. Further, as a result of the avowed policy of the nation towards a socialistic pattern of society built upon a welfare state ideology, the financial inadequacy is much more keenly felt.

The municipal revenues may be classified into tax sources, non-tax sources, revenue from remunerative enterprises and grants-in-aid. Among these, tax sources such as property tax, entertainment tax, profession tax, advertisement tax and so on occupy prime place in the revenues of a corporation as the yield from this source is around 60% of the total revenue. The non-tax sources such as school fees, licence fees, and for a variety of trades, ordinary and dangerous, building licence fees, and charges under administrative services constitute not less than 15% of the total revenue whereas the

revenue from remunerative enterprises such as markets, shopping complexes, rest houses and so on constitute another 15% of the total municipal revenue. The recurring and non-recurring grants would constitute around 10%. In this context, it may be noted that the revenue under these varied categories differs from

The analysis reveals that there is a glaring difference between the municipalities in terms of growth in revenues, as well as the quantity and quality of services rendered to the public. The growth of GVMC is very much significant for the reasons best known, like partly explained by industrial development and partly due to its locational advantage and horizontal expansion when compared to VM although both of them are 150 years old in their status. However, they have rated equally in terms of gap in collection of revenues as against its demand for, except with respect to water charges. The reasons may be attributed to insufficient manpower and expansion of jurisdiction beyond maneuverability.

corporation to corporation on the basis of several factors such as location, potentialities and leadership. For instance, the revenue under non-tax and remarkably increased during the last twenty years, unparalleled in the revenue system of the municipal corporations of similar populations in India.

The mismatch between the municipal revenue and the expenditure is the basic problem of municipal bodies in India. The real issue is not the budgetary balancing of the income and expenditure but the increasing demands over the limited revenue. The problem also gets intensified due to steady increase on account of the establishment costs. The municipal bodies have to depend on the external sources like grants and loans to meet the demands of increasing urban population. The precarious position of the municipal bodies is explained in the following expenditure trend analysis of the municipalities in Andhra Pradesh.

It may be argued that States could reduce the vertical fiscal imbalance by assigning a few buoyant revenues to the PFRs and ULBs. But, the limited financial space open to the States and the perceived low organizational and administrative capacity of the PFRs and ULBs has prevented the States from exercising this option. The dependence on fiscal transfers, particularly conditional and purpose specific ones, is reducing the autonomy of the PFRs and ULBs to allocate resources according to their own priorities. It is critical to enable and empower the local governments to generate and enhance their own source revenue. In order to make this happen, a mechanism of untied transfer of funds to the local governments is essential for enhancing their fiscal and functional autonomy.

Table-1 presents the state wise trend in the share of fiscal transfers

* Dr. B. Lakshmi Bhavani, Faculty and Prof. Nagabhushan Rao, Professor (P&T), both are from Dept. of Economics, Andhra University, Visakhapatnam.

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Table-1

Share of Fiscal Transfers to Local Governments (Major Head 3004) in Total Revenue of State Governments (per cent)

States (a)	1985-87 (b)	1990-91(c)	1995-96(d)	2000-01 (e)	2004-05(f)	2006-07(g)	(g) - (f)(h)
Andhra Pradesh	1.24	0.90	0.79	0.84	0.79	0.53	-0.16
Assam	0.50	0.45	0.30	0.16	0.13	0.10	-0.04
Bihar	0.27	0.25	0.03	0.02	0.03	0.02	-0.01
Chhattisgarh	Na	Na	Na	2.50	3.48	3.00	-0.48
Gujarat	0.69	0.66	0.47	0.32	0.71	0.38	-0.33
Haryana	0.00	0.52	0.18	0.23	0.83	2.00	1.18
Himachal Pradesh	0.37	0.25	0.23	0.66	0.06	0.05	-0.02
Jammu & Kashmir	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Jharkhand	Na	na	Na	Na	Na	0.03	Na
Karnataka	2.63	2.52	1.35	3.58	3.00	4.26	1.26
Kerala	0.13	1.33	1.38	0.63	-0.02	9.98	10.01
Madhya Pradesh	2.03	2.66	3.06	3.86	4.84	4.99	0.34
Maharashtra	0.88	0.37	0.28	2.34	2.06	1.48	-0.58
Orissa	0.49	0.83	0.33	2.16	1.22	1.86	0.65
Punjab	0.77	1.42	1.23	0.95	0.54	0.88	0.34
Rajasthan	0.55	0.33	0.24	0.14	0.01	0.00	-0.01
Tamil Nadu	2.57	2.12	2.00	5.34	6.89	6.30	-0.59
Uttar Pradesh	0.65	1.28	1.80	4.39	4.74	4.80	0.06
Uttarakhand	Na	Na	Na	4.44	3.45	2.86	-0.59
West Bengal	3.43	3.07	2.51	1.51	1.27	1.27	0.00

Source: (basic data), Office of the Comptroller and Auditor General of India and CMIE.

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Impact of Various Revenue Sources on Total Receipts in the GVMC and VM:

Independent Variable	Regression			Regression		
	Co-eff	Beta	t-value	Co-eff	Beta	t-value
Taxes (X1)	0.853	0.671	1.374	0.168	0.160	1.415
Water Taxes including donation (X2)	0.040	0.023	0.108	0.097	0.092	1.110
Other non Taxes Receipts (X3)	0.959	0.06	2.692**	0.137	0.151	2.099*
Assigned Taxes (X4)	0.397	0.356	1.268	0.198	0.137	1.718
Non-Plan Grants (X5)	0.714	0.348	3.153**	0.535	0.508	4.016**
Plan Grants (X6)	0.160	0.367	2.685**	0.024	0.093	1.098
Constant	3.487			0.892		
R ²	0.979			0.981		
Adjusted R ²	0.983			0.987		
F	61.586			69.181		

* Significant at 5 level

** Significant at 1 level

Table-5

Impact of Various Assigned Duties and Fees on Total Assigned Revenue in the GVMC and VM:

Independent Variable	Regression			Regression		
	Co-eff	Beta	t-value	Co-eff	Beta	t-value
Entertainment tax (X1)	0.1670	0.0647	1.3707	0.2566	0.1336	3.8039**
Surcharge on stamp duty donation (X2)	0.5923	0.7367	10.2230**	0.3746	0.6318	16.8410**
Profession tax compensation (X3)	0.1582	0.2522	3.2423**	0.3713	0.6246	16.1747**
Motor vehicle tax compensation (X4)	0.0159	0.0203	0.3071	0.0444	0.1110	2.8177**
Property tax compensation (X5)						
Govt. Building	0.1224	0.0976	2.1203*	0.0185	0.0321	0.8502
Total assigned revenue	1.1864			1.2483		
R ²	0.98035781			0.99033602		
Adjusted R ²	0.98649600			0.99376744		
F	160.71			287.94		

* Significant at 0.05 level

** Significant at 0.01 level

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and 2005-06 the percentage collection was 13.85 percent and 14.19 percent. During the year 2008-09 the percentage collection was 21.60 percent.

Thus, the collection of taxes and selective heads in GVMC and Vizianagaram Municipality reveals that there are collection gaps and under various heads except water supply donations in GVMC.

Municipality

It is further analysed the determinants taxes and grants of the GVMC and VM with the help of regression model (Multiple Regression).

Y = a + b₁X₁ + b₂X₂ + b₃X₃ + b₄X₄ + b₅X₅ + b₆X₆ + u

Where Y = Total Receipts

X₁ = Taxes

X₂ = Water Taxes Including Donation

X₃ = Other Non-taxes

X₄ = Assigned Taxes

X₅ = Non-Plan Grants

X₆ = Plan Grants

U = Error term

a = Intercept and b₁, b₂, b₃, b₄, b₅ and b₆ are the Co-efficient of the independent variables.

In the previous analysis that is the growth of Revenue Receipts and Grants show significant increase during 1994-95 and 2008-09 in GVMC and VM. However we further attempted to know which source of revenue influence in total revenue receipts of GVMC and VM. Here in the regression model we use total receipts (Y) as dependent variable and other variables (X₁ to X₆) as independent variables in this model. The results are presented in the Table-4.

The regression results presented in the Table-4, show that some variables that is other Non Taxes x3, x5 Non Plan Grants, x6 Plan Grants

significantly influence the total revenue receipts of the GVMC. The other revenue sources like Taxes, Water Taxes including donation, Assigned Taxes, are lagging behind in increasing in the total revenue receipts. This indicates that collection of taxes, by GVMC authority are not effective which is already identified as the gap between demand and collection.

In VM Non Plan Grants (x5) and (x6) other Non Taxes Receipts showed significant influence on total receipts of VM. The remaining tax revenue sources did not show significant influence but also contributing to increase the total tax revenue. Here also municipal authority in Vizianagaram are not effective in collecting imposed taxes which showed big gap between the demand and tax.

Impact of Various Assigned Duties and Fees: Generally assigned revenues mainly depend upon the development of trade and commerce and growth of employment within the city. Here Assigned Revenue includes Entertainment tax (x1), Surcharge on Stamp Duty Donation (x2), Profession Tax Compensation (x3), Motor Vehicle Tax Compensation (x4), and property tax compensation government building (x5). It is revealed from the Table-5 that profession tax compensation (x3), surcharge on stamp duty donation (x2) and property tax compensation on government building (x5) more significant than the remaining assigned revenues in increase in the total assigned revenue in GVMC. In Vizianagaram except property tax compensation of government building (x5) on the remaining assigned revenue items significantly influence the total assigned revenues.

Y = a + b₁X₁ + b₂X₂ + b₃X₃ + b₄X₄ + b₅X₅ + b₆X₆

Y = Total Assigned Revenue

X₁ = Entertainment Tax

X₂ = Surcharge on Stamp Duty Donation

X₃ = Profession Tax Compensation

X₄ = Motor Vehicle Tax Compensation

X₅ = Property Tax Compensation

govt. building

a = Intercept and b₁, b₂, b₃, b₄, b₅ and b₆ are the co-efficient of the independent Variables.

Conclusion

The analysis reveals that there is a glaring difference between the municipalities in terms of growth in revenues, as well as the quantity and quality of services rendered to the public. The growth of GVMC is very much significant for the reasons best known, like partly explained by industrial development and partly due to its locational advantage and horizontal expansion when compared to VM although both of them are 150 years old in their status.

However, they have rated equally in terms of gap in collection of revenues as against its demand for, except with respect to water charges. The reasons may be attributed to insufficient manpower and expansion of jurisdiction beyond maneuverability. It also found that there is a surplus ordinary revenue in both GVMC and VM which is greater than one as per the cost benefit analysis calculation, while it is contrary in the case of capital investment. Based on this analysis, it may be suggested that the qualitative services, effective supervision and implementation of revenue recovery measures, developmental activities could be possible only when the size of the municipality is within the threshold level. The researcher endorses the view that "small is beautiful", which demands the policy makers not to increase the jurisdiction of the existing municipalities beyond certain reasonable level. □

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