

Expenditure Patterns of Municipalities in Andhra Pradesh State

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Abstract

The fast pace of urbanization in India has created a massive demand for civic services and infrastructure which is provided by Urban Local Bodies (ULBs). The size of municipal governments in the country is very small and total expenditure are a mere 1.2 - 1.4 percent of GDP. An analysis of expenditure through averages and provide insights to the nature and quality of municipal expenditure in Andhra Pradesh State for the span 2019-20 to 2023-24. The findings show The average annual expenditure incurred by all the Municipalities worked out to be Rs. 117319 lakhs and Rs. 1431 lakh per Municipality. The expenditure on operation and maintenance accounted for a major share in revenue expenditure ranging from 70 percent to 74 percent during the period 2019-20 and 2022- 23 and drastically declined in the year 2023-24. The expenditure on operation and maintenance as share in revenue expenditure in Municipalities is high in comparison with Municipal Corporations. It is interesting to note that the expenditure on pay and allowances drastically jumped from Rs. 2303 lakhs in 2019-20 to Rs. 34008 lakhs in 2023-24. Its share in total revenue expenditure increased from 3.65 percent to 46.5 percent during the period under review. The share of revenue expenditure in total expenditure declined from 72 percent to 54 percent, while the share of capital expenditure increased from 28 percent to 46 percent during the period under review which is a welcoming feature.

Keywords: Capital, Expenditure, Municipalities

Introduction

India's urban population is projected to be around 40 percent as per the Economic Survey 2023-24 and will create a huge demand for urban civic services and infrastructure that has to be provided by the urban local bodies (ULBs) which are also recognized as the third tier of government under the 74th Constitutional Amendment Act (Nagarpalika Act), 1992. Currently, there are 4852 urban local bodies (ULBs) in India. (localbodydata.com). Provision of services would lead to increased expenditure demands and in turn require an enhancement in revenues to match the expenditure needs. The Reserve Bank of India (2024) has identified concerns on the revenue raising ability - inefficiency in tax collection and low user charges. The channel of using external borrowings to fund projects faces constraints as municipal corporations are required to obtain approvals from the State government. Hence there is a significant reliance on grants from the central and state governments. This limits the financial autonomy of the municipal corporations and their ability to implement infrastructure projects as inadequate revenues converts to lower spending. Consequently, the size of municipal governments is negligible and the total expenditures of municipal corporations have ranged between are between 1.2-1.4 percent of GDP over the period 2019-20 to 2022-23 (Reserve Bank of India, 2024). Section II

summarizes the findings from literature and the theoretical backdrop discussed in Section III. Sections IV, V and VI present the methodology, results and conclusions respectively.

Review of literature

The collective concerns highlighted in the literature on municipal finances in India revolved around the inadequacy of own revenues, substantial variation between own revenues and expenditure requirements and the consequent adverse impact on service delivery, the necessity to improve property tax collections, along with higher allocation of funds to urban local bodies, especially given the loss of revenue from the implementation of GST.

Mohanty et al. (2007) and Nallithaga (2009) were among the first studies that analyzed the fiscal performance and the delivery of municipal services in the country. Mohanty et al. (2007) observed low municipal revenues resulted in very low expenditures levels (lower than the minimum required) for adequate provision of civic services and resulted in creation of a revenue surplus during 2000-04 and the contradiction was a consequence of the statutory obligations that mandated a municipal corporation to spend from resources available, given the constraints imposed by State governments on raising debt. Nallathiga (2009) highlighted the impact of low revenues on delivery of municipal services and the substantial variations in revenue performance could be attributed to inefficiencies in property tax collection due to weak assessment methods and administrative inefficiencies. Mohanty et al. (2007) recommended access to external borrowings to improve expenditure levels; Nallithaga (2009) underscored the dependence on grants from central and State governments.

Theoretical Context and Research Objectives

The paradigm of fiscal federalism propounded by Musgrave (1959) advocated the division of functions and financial relations between different levels of government. In this framework, the focus of the union government would be on macroeconomic stability and income distribution whereas sub-national (State) governments were better suited to the allocation of resources and the provision of local public services. Local governments can ensure an efficient provisioning of public goods and service delivery as they understand local preferences (Tiebout, 1956; Buchanan, 1960; Oates, 1969). Huo et al. (2018) ascribe the creation of clusters of fiscal performance to endogenous growth and agglomeration theory.

The research objective is to understand and analyze the expenditure performance of municipal corporations through the lens of two ratios which reflect the nature and quality of expenditure, namely, ratio of capital expenditure to total expenditure and revenue expenditure to capital expenditure Higher the capital to total expenditure ratio implies higher developmental expenditure and a greater focus on asset creation whereas higher the ratio of revenue to capital expenditure implies greater expenditure incurred on current consumption vis-à-vis asset creation.

Methodology

The present study is based on secondary data which is available from the government offices in Andhra Pradesh state. The present study is covers five years statistical data, i.e. from 2019-20 to 2023-24 financial years.

Expenditure of municipalities in Andhra Pradesh state

Expenditure of Municipalities: A cursory glance of the table 8.14 reveals that the total expenditure of

Municipalities declined by 3.5 percent in 2020-21. Later constantly increased by 58 percent and 10.5 percent in 2021-22 and 2022-23 respectively. The average annual expenditure incurred by all the Municipalities worked out to be Rs. 117319 lakhs and Rs. 1431 lakh per Municipality. The expenditure on operation and maintenance accounted for a major share in revenue expenditure ranging from 70 percent to 74 percent during the period 2019-20 and 2022- 23 and drastically declined in the year 2023-24. The expenditure on operation and maintenance as share in revenue expenditure in Municipalities is high in comparison with Municipal Corporations. It is interesting to note that the expenditure on pay and allowances drastically jumped from Rs. 2303 lakhs in 2019-20 to Rs. 34008 lakhs in 2023-24. Its share in total revenue expenditure increased from 3.65 percent to 46.5 percent during the period under review. The share of revenue expenditure in total expenditure declined from 72 percent to 54 percent, while the share of capital expenditure increased from 28 percent to 46 percent during the period under review which is a welcoming feature.

Table 1 expenditure of AP municipalities (Rs. In Lakhs)

Expenditures	2019-20	2020-21	2021-22	2022-23	2023-24	Average
Pay and Allowances (Non-Teaching staff)	2303 (3.65)	280 (0.46)	4614 (5.48)	8228 (8.80)	34008 (46.54)	9887 (13.21)
AGR	-	-87.84	1547.86	78.33	313.32	463
Pensionary Benefits	478 (0.76)	0 (0.00)	27 (0.03)	41 (0.04)	16 (0.02)	112.4 (0.15)
AGR	-	-100.00	-	51.85	-60.98	-36.37
Operation & Maintenance	46841 (74.20)	50520 (83.46)	66096 (78.56)	65809 (70.41)	26402 (36.13)	51134 (68.30)
AGR	-	7.85	30.83	-0.43	-59.88	-5.41
Loan Repayment (Interest)	28 (0.04)	221 (0.37)	746 (0.89)	2275 (2.43)	1153 (1.58)	885 (1.18)
AGR	-	689.29	237.56	204.96	-49.32	270.62
Other Expenditure	134810 (21.35)	9508 (15.71)	12646 (15.03)	17117 (18.31)	11495 (15.73)	12849 (17.16)
AGR	-	-29.47	33.00	35.36	-32.84	1.51
Total Revenue Expenditure	63132 (72.10)	60529 (71.64)	84130 (63.15)	93470 (63.51)	73075 (54.48)	74867 (63.81)
AGR	-	-4.12	38.99	11.10	-21.82	6.04
Total Capital Expenditure	24426 (27.90)	23960 (28.36)	49103 (36.85)	53704 (36.49)	61067 (45.52)	42452 (36.19)
AGR	-	-1.91	104.94	9.37	13.71	31.53
Total Expenditure	87558	84489	133233	147174	134142	117319
AGR	-	-3.51	57.69	10.46	-8.85	13.95

Source: Govt. of Andhra Pradesh, Directorate of Municipal Administration Note: Figures in parenthesis indicate percentage shares

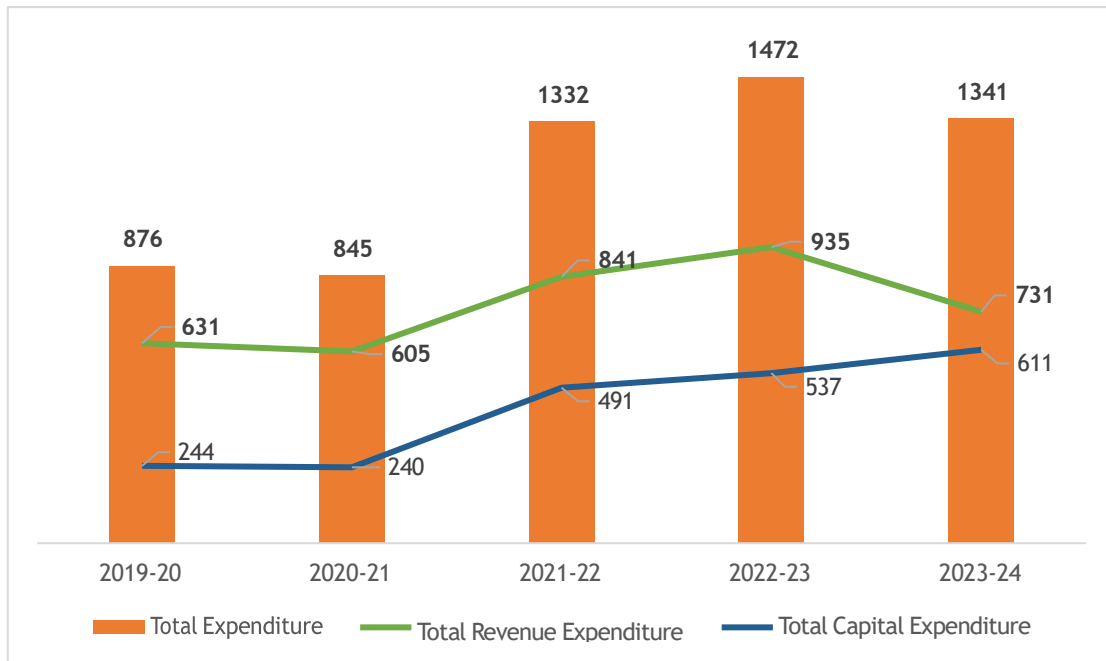


Table 2 per capita tax and non tax revenue in Municipalities (in Rs)

S. No.	Per capita Revenue Class	Tax Revenue		Non Tax Revenue		Own Revenue Source	
		No	%	No	%	No	%
1	Less than 500	16	19.75	47	58.02	-	0
2	500 – 750	43	53.09	27	33.33	8	9.88
3	750 – 1000	15	18.52	5	6.17	17	20.99
4	1000 – 1250	5	6.17	1	1.23	26	32.10
5	1250 – 1500	1	1.23	-	-	21	25.93
6	More than 1500	1	1.23	1	1.23	9	11.11
7	Average	698		498		1196 (Kondapalli)	
8	Minimum	311 (Pedana MC)		164 (Kondapalli)		566	
9	Maximum	2706 (Nandyala)		1618 (Nandyala)		4988	
10	CV	0.44		0.43			

A bird’s eye of the table reveals that there are wide variations in Per capita tax revenue, and non tax revenue across Municipalities. Per capita tax revenue ranges from a minimum of Rs. 311/- in Pedana Municipality to Rs. 2706/- in Nandyala Municipality. The average per capita tax revenue is recorded as Rs. 698/-. Around 53% of MPs are in the class interval of Rs. 500 – 750/-.

With regard to per capita non tax revenue, more or less similar trend is noticed. The minimum non tax revenue is Rs. 164/- in Kondapalli MP and maximum of Rs. 1618/- is collected in Nandayal MP. Taking both per capita tax and non tax, around 10% of MPs are able to mobilise less than Rs. 750/-, while 11%

of the MPs could mobilise more than Rs. 1500/-. The per capita tax and non tax revenue of MPs is significantly less in comparison with MCs. Per capita own revenue is noticed to be least in Kondapalli MP (Rs. 566/-) and maximum in Nadayala with Rs. 4988/-.

Per Capita Revenue and Capital Expenditure of Municipalities

An analysis of per capita revenue and capital expenditure across the Municipalities indicate significant variations, the average per capita revenue expenditure and capital expenditure is estimated at Rs. 1326/- and Rs. 864/- respectively. The per capita revenue expenditure in Municipalities ranged between minimum of Rs. 433/- in Kondaplli MP and Maximum of Rs. 3403/- in Nandyala MP. The per capita capital expenditure is observed to be highest in palamaneru (Rs. 4999/-) and lowest in Kondapalli (Rs. 147/-). The data on frequency distribution of Municipalities by percapita revenue expenditure and percapita capital expenditure are shown in table 8.16, which indicates wide variations across the Municipalities. It is observed that around 21.5% of Municipalities spent less than Rs. 1000/- as per capita revenue expenditure, while 28% of MPs spent per capita revenue expenditure of more than Rs. 1500/-. With regard to per capita capital expenditure 74% MPs could spend less than Rs. 1000/-, while around 4% MPs could spend more than Rs. 2000/-. It can be concluded that the financial capacity of MPs to incur revenue as well as capital expenditure significantly varied across the Municipalities.

Table 3 frequency distribution of municipalities by per –capita revenue expenditure and capital expenditure (average per 2020-21 to 2023-24) (in Rs.)

S. No.	Per capita Expenditure Class	Per Capita Revenue Expenditure		Per Capita Capital Expenditure		Per Capita Total Expenditure	
		No	%	No	%	No	%
1	< 500	1	1.23	17	20.99	-	-
2	500 – 750	5	6.17	22	27.16	1	1.25
3	750 – 1000	11	13.58	21	25.93	-	-
4	1000 – 1250	21	25.92	12	14.81	3	3.70
5	1250 – 1500	20	24.69	4	4.94	4	4.94
6	1500 – 1750	9	11.11	1	1.23	9	11.11
7	1750 – 2000	11	13.58	1	1.23	19	23.46
8	> 2000	3	3.70	3	3.70	45	55.55
9	Average	1326		864		2189	
10	Minimum	433		147		580	
11	Maximum	3403		4999		6845	
12	CV	0.32		0.74		0.39	

Conclusions

The expenditure on operation and maintenance accounted for a major share in revenue expenditure ranging from 70 percent to 74 percent during the period 2019-20 and 2022- 23 and drastically declined in the year 2023-24. The expenditure on operation and maintenance as share in revenue expenditure in Municipalities is high in comparison with Municipal Corporations. It is interesting to note that the expenditure on pay and allowances drastically jumped from Rs. 2303 lakhs in 2019-20 to Rs. 34008

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