CHAPTER III
EXPENDITURE PATTERN OF MUNICIPALITIES IN ANDHRA PRADESH

In recent years the Municipal expenditures have been increasing rapidly due to urbanisation, growing size of Municipal areas and density of population, increasing cost of the provision of public services and the ever increasing public demand for Municipal services. The size and composition of Municipal expenditure on revenue and capital accounts have undergone rapid changes during the last thirty years, posing several challenges to the Municipal authorities. From this perspective, an attempt is made in the present chapter to examine the expenditure pattern of Municipalities in Andhra Pradesh.

NATURE OF MUNICIPAL EXPENDITURE

In comparison with Central and State Governmental expenditures, the Municipalities have not received the same attention of fiscal economists. The Municipal expenditure is largely different from expenditures of Union and State Governments in several respects. The forces determining the Union and State expenditure and Municipal expenditure are mostly different. The several explanations of the growth of
public expenditure of modern governments such as Wagner's Law and Peacock-Wisemen's hypothesis, though not invalidated, are not entirely relevant to municipal expenditures.

The urban social structure, the living conditions and the associated demands of public services change much more rapidly than in the rural communities. There have been several theoretical explanations of the size and nature of local expenditure in terms of Musgrave and Samuelson model or Tiebout model, all these models admit that urban public expenditure is more positively welfare oriented than that of others. The welfare oriented services provided by the Municipalities assume a new significance in welfare maximisation. The local functions really amount to 'reconstruction of the national life'. Emphasis on local expenditure for this reason is more pronounced and it has become a matter of policy. All the true national development has its ultimate impact on the provision of local services.

In view of the service orientation, most of the Municipal resources are exhausted for maintenance and service promotion activity. Therefore, the Standard Classification of budget into developmental and non-developmental items is not applicable to Municipalities. Further, much of the municipal services are in the nature of public goods and
cannot be apportioned to individual citizens. Most of the activities are community based and are not individual based. Municipal expenditure is very tangible and verifiable. In view of the limited benefit area, most of the services are felt and the civic consciousness is more active and vigilant in urban government.

Another distinctive feature of Municipal expenditure is quid pro quo element that underlines most of its transactions. Taxes and levies are immediately checked up for their corresponding benefits. The highly localised character of Municipal outlays with few spillovers gives the maximum returns or benefit to the local people. Because of this close correspondence between tax burden and expenditure benefits, the Municipal levies are less burdensome. Much of Municipal expenditures is current, repetitive and to some extent constant over a period of time. For instance expenditure on illumination, water supply, education are continuous, whereas some of the expenditures incurred by the Central and State Governments are discontinuous and non-repetitive. This feature has an impact on the budget frame of the Municipalities.

Another distinctive feature of Municipal expenditure is that it is largely controlled and determined by the State Governments. Local Self-Government is a subject
assigned to the States under the constitutional, division and as such the Municipalities are the creations of the State Governments. The creator, namely, the State Government by virtue of its control exercises enormous influence over the size, composition, direction of Municipal expenditures. Though the Municipal Governments are supposed to be autonomous, in actual practice their autonomy is very thin. They have to obtain the prior permission of State Governments for incurring any new item of expenditure. The expenditures financed by State Government grants are subject to a good deal of control. Thus, Municipalities unlike the Central and State Governments, have a very limited control over expenditure determination.

CLASSIFICATION OF MUNICIPAL EXPENDITURE

Municipal expenditure does not fit into the standard budgetary classification of the Central and State Governments, in view of the special nature of the functions that the municipalities are assigned. Functionally, it should be clarified as ordinary expenditure correspondence to the revenue expenditure of the State Governments and constitutes expenditure on all consumption items such as salaries, dearness allowances, maintenance, subsidies, interest payments and working expenses. Capital expenditure on the other hand,
includes expenditure on asset formation such as investment in water works, buildings, street lights and in other enterprises. The distinction between ordinary and capital expenditure is sometimes not strictly followed in the Municipal budgets. For example certain items of expenditure are treated as ordinary expenditure in some years and as capital expenditure in certain other years. For example, expenditure on sewage farm is treated as ordinary expenditure in some years, while in some other years it is treated as capital expenditure. All loan financed projects, even if they do not add to the asset, are treated as capital items. Therefore, the distinction between ordinary and capital expenditure is not strictly followed. Since 1967-68, all the Central and State Government expenditures in India are classified as plan and non-plan it is very vital for understanding the sector flow of plan and non-plan funds.

The Municipalities receive plan loans and grants from State Governments. But paradoxically the Municipal budgets follow no such classification. Municipal expenditures on both revenue and capital sides are of three types: a) expenditure on public goods such as roads, street lighting, health and sanitation, b) expenditure on public goods such as primary education, medical care, old age homes, conservancy etc, c) expenditure on commercial and industrial
activities such as transport, water supply, electricity, etc. The Three-fold classification is not mutually exclusive and there are some items like water supply which can be considered as public good.

A two-fold classification is attempted by certain writers as: investment oriented capital goods as in the case of water supply, drainage, roads etc., and ordinary budgetary expenditure on public health, sanitation, street lighting and conservancy, but expenditure on drainage and water supply cannot be strictly classified as capital goods. Similarly a part of the expenditure on street lighting and public health may be considered as investment in capital goods. Yet another classification suggested is based on the purpose of Municipal expenditure namely, preservative expenditure, preventive expenditure, promotional expenditure and environmental and conservative expenditure. Preservative expenditure includes expenditure on water supply, drainage, street lighting and public safety, preventive expenditure comprises expenditure on public health and sanitation, etc., on the other hand, promotional expenditure includes expenditure on industries, transport, housing etc. But even this classification does not fit into Municipal expenditures.
The classification of functional expenditure are obligatory or mandatory expenditure, such as expenditure on management, public health, public safety, street lighting, public water supply, etc., and the optional or non-mandatory expenditure such as expenditure on non-elementary education, public libraries, playgrounds, entertainment, old age homes, water supply to private households etc. Though this classification follows the statutory division of Municipal functions, it is very difficult to obtain data in respect of each function performed by the Municipality. Therefore, in the following analysis a simple functional examination has been carried out without reference to whether the function is obligatory or discretionary, while doing so expenditure on revenue and capital accounts is clubbed together in view of the fact this distinction is very artificial and not strictly followed.

OBJECTIVES OF MUNICIPAL EXPENDITURE

The Municipal Act of Andhra Pradesh specifies the 12 purposes for which the Municipal resources may be applied. These purposes are expressively declared either as obligatory or discretionary. Expenditures necessary for and conducive to safety, health, convenience or education for inhabitants
or to provide amenities to the Municipalities and everything incidental to the administration are treated as obligatory. The detail objects of expenditure connected with public health, public safety, education and amenities. Certain items of educational expenditure and expenditure on public libraries, infrastructure for sports and games, entertainments, town planning are classified as optional items of expenditure.

When certain items of expenditure are classified as obligatory, it imposes a permanent burden on the Municipality in the sense that they call for massive amount of resources under the impact of rapidly increasing urban population. The point to be noted here is that while the obligatory functions are listed by the Act of 1965, there is paradoxically no commensurate resource provision for financing the obligatory expenditure. This has naturally led the Municipalities to depend excessively on the States for funding support, which in turn has eroded the fiscal autonomy of the Municipal bodies.

DEVELOPMENT AND NON-DEVELOPMENT EXPENDITURE

Revenue expenditure has been divided under eighteen heads in the budget of the Municipalities. These 18

We have regrouped these heads into seven main heads on the basis of the practice followed by the Central Statistical Organisation. The seven main heads are: (1) General Administration and Collection Revenue, (2) Public Health, (3) Public Safety and Conveniences, (4) Education, (5) Public Works, (6) Repayments of Loans, and (7) Miscellaneous. The capital expenditure of the Municipalities is divided into the first-five main heads.

DEVELOPMENT EXPENDITURE

Development expenditure includes expenditure on public health, public works, education, safety and conveniences and the part of miscellaneous revenue expenditure which is concerned with developmental and social services. Such as grants to educational institutions, libraries,
expenditure on maintaining swimming pools, night shelter etc. Non-developmental expenditure includes general administration and collection of revenue, repayment of loans and apart of miscellaneous revenue expenditure which is related to pensions, provident funds and gratuity to employees, employee's welfare, terminal tax collection costs, expenditure on Municipal press and reserve for unforeseen charges.

1. Public Health

The functions connected with public health are not only the most numerous but fundamentally important as well. It is the duty of Local Government to provide adequate health services to its people. Activities falling under this head constitute preventive and curative aspects of one and the same function, namely, maintenance of the health of the members of the community. Preventive measures are undertaken with a view to protecting the inhabitants from illness and disease. Curative measures on the other hand, involve treatment of those who fall ill.

The public health services absorb a large part of development expenditure. The expenditure is incurred on over health services: (a) Medical Relief, (b) Measures for preventing and controlling Diseases, (c) Sanitation, and (d) Water supply.
Medical Relief: Generally the District headquarters hospitals in every State have been taken over by the State and it is only some of the subdivision towns that Municipalities manage hospitals or dispensaries of their own. Paucity of funds has make these Municipal councils depend on Government grant for the running of medical institutions. Expenditure on medical relief is incurred to cure people of the diseases from which they suffer. The expenditure is incurred on both revenue and capital accounts.

Measures for preventing and controlling diseases: Local Governments undertake certain responsibilities to prevent and control diseases, particularly communicable ones. Vaccinations, inoculations and measures for checking food adulteration are important steps in this direction.

Sanitation: Maintenance of sanitation is the primary duty of any Municipality. Proper sanitation is one of the preventive methods for checking the spread of various diseases. Improved sanitary conditions contribute a lot towards general efficiency, and keep the cities and towns fit for human habitation. There are varied aspects of sanitation, namely drainage, conservancy, scavenging, provision of public latrines and urinals.
Water Supply: An abundant water supply is necessary for good health and the provision of safe adequate water supply is a basic requirement. The supply of pure and wholesome water to its citizens is an important function of urban Local Governments in India.

2. Education

Primary education is another obligatory function of the Municipal councils. Municipal councils were associated with primary education, when the despatch of 1859 directed the levy of a local rate of defray the cost of maintaining schools. But, as it was not obligatory on them to incur such expenditure the Municipal councils of this period made very small contribution towards primary education.

The Hartog Committee, which was appointed to report on this delegation of authority to local bodies, wrote, "There is ample evidence that the local bodies are very inexperienced in the difficult work of educational administration, that they are often reluctant to consult officers and that, in consequence there is much that is wasteful and ineffective in the present system".

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3. Public Works

The expenditure on public works has been analysed under three major heads, namely (a) Roads, (b) slum clearance and improvement schemes, and (c) Building and Land Acquisition and Management.

Roads: The expenditure on the development of roads is good investment because it brings people together and assists commercial and economic activities. Roads are said to be the arteries of a city, a country as the smooth flow of life largely depends upon them.

Slum Clearance and improvement Schemes: Slums are the localities generally characterised by congestion, inadequate housing, unhealthy environment and a total absence of civic amenities. These places are the breeding ground for various social services, economic ills and dreadful diseases. They put a "premium on crime, misery, squalor and diseases".

Under the slum clearance and improvement schemes, essential services are provided to the dwellers of the slum areas. In case the existing areas cannot absorb all the population already living there or if minimum standards of sanitation and other services cannot be provided tenements...
are constructed so that the dwellers may be shifted to these tenements where basic amenities are provided and made available to slum dwellers where they can construct their own houses.

Buildings and Land Acquisition and Management: The expenditure on Buildings and Land Acquisition and Management are shown under two heads: (1) Buildings, and (2) Land Acquisition and Management. The expenditure on buildings includes the expenditure on the building department of the Municipality. The department draws plans for the construction and maintenance of Municipal buildings, prepares estimates, invites tenders, and supervises the execution of these plans. Various sections of the department such as planning, architecture, town planning, construction and maintenance get buildings constructed and maintained for the various departments of the Municipality.

4. Public Safety and Convenience

Municipal Governments carry out many activities for the safety and convenience of the people. The main activities carried out under this head are, provision of gardens and parks, street lighting and fire protection services. The other activities are, regulating and controlling markets, slaughter-houses and factories so that these should not cause
inconvenience to the people. The expenditure under this head is incurred on both capital and revenue accounts.

Gardens and Parks: "Life in the city even at its best occurs under trying circumstances - noise, dirt, traffic and congestion. Green space and open areas are disappearing constantly as more and more people congregate in the city".

"Generally speaking a home under deteriorating human environment in urban areas has lost much of its important utility as a place for rest and relaxation. It has developed upon the Municipal authorities to make the town livable". The provision of spacious parks and blooming gardens thus becomes the responsibility of the local government.

Public Lighting: Public lighting is an important aid to civic life. The main object of public lighting is to ensure the safe use of roads by vehicular and pedestrian traffic during the hours of darkness. However, this is only one of the many advantages to be gained others included protection of property from criminals and the lighting up of recreational places such as parks and gardens. The public lighting service is often criticised by the public through the press. The general complaints are non-replacement of burnt out lamps and non-switching on-off lights. These result in inconvenience to the people. Also, quite often we come across reports
of lamps remaining switched on during the day time which results in wastage of valuable energy.

Fire Protection Services: Fire risks in urban areas have undoubtedly increased over the years. Fire prevention and protection measures are, therefore, becoming increasingly important among the various civic services provided for public safety.

The expanding trade and industrial activities and spreading congestion owing to the rise in population, enhance the possibilities of fire. The number of skyscrapers, which are more exposed to the risk of fire, is fast increasing. The use of electricity is going up astronomically and this also increases the risk of fires.

5. Miscellaneous

A large number of social services provided by the Municipalities, which individually involve small funds, have been grouped under this head. Besides, the expenditure on small development works is also included under this head. The social service includes promotion of the activities cultural and sports, construction and maintenance of swimming pools, stadiums, community halls, reading rooms, providing old age pensions to the poor, maintaining night shelter homes
for pavement dwellers, constructing and maintaining tourist camps, etc., The Municipality also gives Grants-In-Aid to the voluntary organisations providing such services. These services have been included in the list of discretionary functions of the council.

NON-DEVELOPMENTAL EXPENDITURE

The important heads of expenditure included under non-development services, are: Administrative Services, Cost of Collection of Taxes, etc.

Administrative Services: The efficient working of any organisation requires certain administrative services for carrying out its administration. The large number of large-sized administration departments such as General Administration, Accounts, Audit, Vigilance, Organisation and Methods, Secretary’s office, etc. Besides, being an elected body, it has to incur an expenditure on allowances and facilities to the elected members and on the meeting of the council and its committees.

The expenditure under the head is mainly on revenue account only in the earlier years was a small amount of capital expenditure incurred to construct some office
buildings. The main factors responsible for the rise in expenditure on administrative services are, increase of personnel owing to expending and increasing activities of the Municipality, and rising salaries of the staff. The employees of the Municipality get salaries and allowances on the pattern of Central Government employees.

Cost of Collections of Taxes: The Municipality collects two types of taxes one is taxes levied by itself, and the other is terminal tax. The cost of collection of terminal tax is reimbursed by the Central Government to the Municipality. This reduces the net allocatable fund. As the Municipalities share has been about 92 per cent of this allocatable fund. It has to bear, indirectly the major part of the cost of collection of terminal tax.

ORDINARY AND CAPITAL EXPENDITURE

Municipal bodies have come to be regarded as service agencies rather than as fullfledged Local Governments. Most of their functions are in the nature of service delivery. Hence most of its expenditure is on the maintenance and promotion of service activity such as education, water supply, sanitation and public health, lighting etc. Expenditure on maintenance is classified as ordinary
expenditure in view of the consumption nature of it. While capital expenditure represents additional investment and repayment of loans. Very often certain items of maintenance expenditure are classified as capital expenditure if they are financed by loans, sometimes, expenditure which is in the nature of maintenance is classified as capital expenditure.

Determinants of Municipal Expenditure: What determinants of Municipal expenditure has been an interesting issue in the literature on public expenditure. Right from the early fifties, several theoretical explorations have been made in this area during the last three decades. Inspite of the voluminous research in this area, the economic and social factors which influence expenditure have not been clearly identified. To quote Buchanan, "... who decides, and on what basis, which goods and services are to be publicly supplied? who decides, and on what basis, how much of each good and service to provide? who decides, and on what basis, how costs are to be shared among members of the community? who decides, finally, on who is to decide", are issue which have not been satisfactorily answered so far. Yet the determinant analysis has been useful to understand casual factors influencing the level and composition of different public expenditures and of public services. Even at the Municipal level, there is no generally accepted theory of determination of urban Local Government expenditures. Several attempts,
however, have been made to identify statistically the determinants of Municipal expenditures and services.

CONCLUSION

Municipal expenditure differs from the expenditure of the State and Union Governments in several aspects. The Municipal expenditure is more transparent and verifiable. There exists a close correspondence between tax burden and expenditure benefits. A large percentage of Municipal expenditure is current and recurring in nature. Moreover, the Municipal expenditure is largely controlled and its direction determined by the State Government. The distinction between revenue and capital items is not strictly based on the nature of expenditure. The difference between plan and non-plan classification is not followed at all at the Municipal level. The expenditure is divided into obligatory and optional items on the basis of the functions. Expenditure on health, education, general administration, lighting and roads are treated as obligatory, while expenditure on public libraries, town planning, parks and entertainment are classified as optional. Ordinary and capital expenditure on both obligatory and optional items had grown rapidly during the reference period. But there were significant variations during the study period. The disparities are more pronounced in the case of
capital expenditure. Expenditure on different functional categories also reveal wide variations indicating inter-Municipality differences in priorities and service levels. However, expenditure on administration is very high in every Municipality in Andhra Pradesh. No consistent trend could be discerned in respect of capital expenditure.

Grants, non-agricultural population and resident population turned out to be the principal determinants of expenditure on water works. Expenditure on education is responsive only to own tax revenue, grants and non-agricultural population cause variations in ordinary expenditure. Capital expenditure is responsive to grants (which includes capital grants) and resident population. Total expenditure on the other hand is influenced by own tax revenue, grants and resident population. Resident population and non-agricultural population represent the demand from public services.

The own tax revenue has a stimulative impact on expenditure on education, ordinary expenditure and total expenditure. While the expenditure on education is stimulated less than proportionately, ordinary and total expenditures are stimulated more than proportionately. The matching requirements of the most of the transfers from the State
explain the greater than proportional stimulative impact on Municipal expenditure.

Grants exercises a stimulative impact on expenditure on water works, ordinary expenditures, capital expenditure and total expenditure. While the impact on expenditure on water works and ordinary expenditure is less than proportional. The influence on capital expenditure and total expenditure is more than proportional. The matching requirements of grants explain the positive stimulative impact on grants. The proportion of non-agricultural population is significant only in the case of expenditure on water works and ordinary expenditure. The resident population is significant in the case of both capital and total expenditures. In other words, the demographic characteristics of the population have very high significant influence on expenditures.
References


