

Impact of Pay Revision on Expenditure of Urban Local Bodies in Thanjavur Region

*Dr. P. Tamizhselvan **R. Swaminathan

Abstract

In India, an increasing trend towards urbanisation has been recorded from the very beginning of this present century. Pay revision influences the financial expenses of various sectors. Urban local bodies (ULB) have struggled to meet out the expenses and hence the pay revision makes more burdens to them. There is a need to study to how pay revision impacts financials of ULBs. The present study is a secondary data research collected from the ULBs of Thanjavur region from 2004-2014. The study used comparative analysis by ANOVA technique.

Introduction

In India, an increasing trend towards urbanisation has been recorded from the very beginning of this present century. The census data on the rural-urban composition reveal a continuous rise in the rate of urbanisation in India and more particularly during the second half of the present 21st century. This creates more challenges to local bodies such as waste management, sanitation, maintenance of basic infrastructure and water supply. Basic infrastructure facilities need to be created to provide services to the citizens. Lack of funds to create the infrastructure in the absence of proper resources is of major concern.

For strengthening the finances of urban local governments, two positive features were provided in the 73rd and 74th Amendments to the Constitution:

- (a) Provision for the constitution of State Finance Commissions (SFCs) every five years
- (b) Central Finance Commission (CFC) to suggest measures needed to augment

the consolidated fund of the states to supplement the resources of municipalities devolved on the basis of the respective SFC recommendations.

However, the progress in the implementation of SFC recommendations in several states has not been very encouraging. The CFC has also grappled in making recommendations of resource transfer

* Associate Professor, Tamilnadu Institute of Urban Studies, Training & Research centre, Coimbatore, Tamilnadu, fm@tnius.org.

** Assistant project officer, Municipal Administration Department, Thanjavur, Tamilnadu, madhu.tnj@gmail.com

to local governments in states. However, in the absence of authentic data, successive CFCs have made recommendations for the transfers of funds for local bodies on ad hoc basis.

Local Self-Government Institutions or Local Bodies directly influence the welfare of the people by providing civic, social and economic infrastructure services and facilities in urban areas. over a period of time, the functions and responsibilities of LBs have increased considerably without commensurate enhancement of their resource base. There is a need to study to estimate and evaluate how tax collection has influence the financial performance of ULBs and to analyze how to tap their resources to fulfill the financial needs. The present study is a secondary data research collected from various ULBs of Thanjavur region from 2004-2014.

The gross fiscal deficit of state governments increased substantially as a result of the implementation of the recommendations of the Pay Commission for central government employees. If the salaries of the employees of state governments, state financial and aided educational institutions, local bodies and state-owned enterprises expense will increase by Rs 20,000-30,000 crore a year (Bajaj, 1999). Sarma & Sarma (2002) provided the past fiscal trends in India, analyzed the fiscal situation and found the project the likely alternative scenarios for the possible corrective measures and sustainable development.

There is a need to study to how pay revision impacts financials of ULBs. The present study is a secondary data research collected from the ULBs of Thanjavur region from 2004-2014. The study used comparative analysis by ANOVA technique.

Research questions

The present study attempts to answer the following questions as objective

- Is the pay revision having influence on expenditure of ULBs?
- If so, how much and how to meet out?

Literature review

Previous Municipal finance studies i) analyze the finances of municipalities to determine whether the finances have improved or not; (ii) examine the specific aspects of municipal finances,; (iii) estimate the level of under-spending; and (iv) analyze the reports of the Central Finance Commissions, and the State Finance Commissions. In our study, a broad literature is given under financial conditions of ULBs and revenue sharing.

Mathur and Thakur (2004) examined the fiscal performance of municipalities and assessed the load on state finances on account of the implementation of the State Finance Commission recommendations. The study further found that the expenditure levels on services provided by municipalities across states were low. Another finding of the study was that per capita expenditure-

revenue gap declined over the period of 1997-98 to 2001-02. Also Bagchi (2001) analyses the nitty-gritty of alternative/unconventional modes of financing urban infrastructure. Rao (2013) analyzed the property tax system in India, examines the reasons for its low revenue productivity, reviews the recent reform initiatives and identifies further reform areas. The most important reason for the low collections is the poor coverage of the tax and its low collection efficiency. Poor coverage is due to (i) wide ranging exemptions; (ii) poor information system and lack of up-to date registry of land and properties by municipal bodies; (iii) existence of vacant properties. Exemptions vary from state to state and from one municipal body to another, but there are some common exemptions. Kelly (2000) provided an analytical framework for designing an effective property tax reform strategy and general conceptual model of property tax revenues, identifying four critical ratios that ultimately determine the effectiveness of any property tax system namely, the coverage ratio, the valuation ratio, the tax ratio, and the collection ratio.

A few studies that have attempted to estimate the levels of municipal under spending such as Mathur et. al. 2002., and Mohanty et. al. 2007. Recently TamilSelvan, P. and Swaminathan, R (2018) and Swaminathan et al (2018) have studied the financial performance and tax collection performance on the Thanjavur region ULBs. No studies have done with pay revision influence. This study is to compare before and after pay revision, the financials of ULBs.

The (alternative) hypotheses of the present study are:

H1: Pay revision influences the expenditure of revenue fund, water supply fund, education fund, total expenditure, property tax demand current and coverage of ratio of property tax to total expenditure

Research methods

A descriptive study based on secondary data and primary is conducted. The methods and materials used for this thesis are given in this section:

- 3.1 Study unit: Urban local bodies are considered as sampling unit of data collection. Respective municipal commissioners are approached for the real time of various parameters.
- 3.2 Sources of data: The study focus ULBs in Thanjavur Region of municipal administration department comprising seven districts in Eastern Tamilnadu, India. For the same areas, the Tamilnadu government Electricity board called Tamilnadu Generation and Distribution Corporation Ltd (TANGEDCO) are approached and respected assisted executive engineer/additional divisional engineers supplied the relevant data through respective municipal commissioners.
- 3.3 Method of data collection: Both a schedule based primary data collection and secondary data sets from the official records. An empirical study for answering the research hypotheses carried out. Both primary and secondary data sets were collected and cross checked with other resources such as internet.

- 3.4 Study period: A period of 2004-05 to 2013-14 is selected for the study because of the data collection period of this doctoral research ended 2015. Further previous decade (till 2004) study is already carried out and seems outdated. Census of India data is for 2001 and 2011 period (since Indian government accounts 10 year once) and utilized for the matching of the data.
- 3.5 Sampling design: A time series data for period 2004-05 to 2013-14 is selected from the ULBs of all seven districts as given below.
- 3.7 Measurements used: Income and Expenditure details of all heads of account, Property tax Demand and collection details, Municipal and EB assessments, Exemption details for tax, Populations sizes. These data were fully utilized for the analysis. Further, some more details such as households, areas and various smaller breakups of accounts collected and however used only for cross checking for the validity of the study variables.
- 3.8. Statistical Tools applied: ANOVA test, Percentage analysis.
- 3.9. Software packages used: Analysis was performed through SPSS 17.0.

Data analysis

Table 1 : Fund wise total revenue expenditure before and after pay revision

		Mean (Rs.in lakh)	Std. Deviation
Revenue Fund	Before	546.51	561.06
	After	1034.20	946.22
	Total	790.36	813.41
Water supply	Before	118.07	155.10
	After	225.75	692.47
	Total	171.91	503.35
Total Expenditure	Before	652.60	662.77
	After	1246.42	1424.05
	Total	949.51	1147.03
Property Tax Demand Current	Before	150.88	149.87
	After	226.85	214.94
	Total	188.87	188.68
Coverage of Total Expenditure	Before	24.12	13.86
	After	19.09	7.52
	Total	21.61	11.40

From the above table it can be inferred that the mean revenue fund expenditure before pay revision was Rs.546.51 lakh and after pay revision it is increased to Rs. 1034.20 lakh. The average water supply and drainage fund before pay revision was Rs.118.07 lakh and after pay revision it is increased to Rs.225.75 lakh.

The average of total expenditure before pay revision was Rs.652.60 lakh and after pay revision it increased to Rs.1246.42 lakh. The average of property tax demand current before pay revision was Rs.150.88 lakh and after pay revision it is increased to Rs.226.85 lakh.

The average coverage ratio of property tax to total expenditure before pay revision was 24.12 percent and after pay revision it is decreased to 14.09 percent though there hike in property tax demand. Pay revision has an influence on expenditure of revenue fund, water supply and draining fund, total expenditure, property tax demand, coverage of property tax to total expenditure.

Table 2 : ANOVA Table for the difference in the expenditure before and after pay revision

		Sum of Squares	df	Mean Square	F	Sig.	Significance (*) / Not significant (NS)
Revenue Fund	Between Groups	11300000.00	1.00	11300000.00	18.67	0.00	*
	Within Groups	113800000.00	188.00	605056.57			
Water supply	Between Groups	550768.13	1.00	550768.13	2.19	0.14	NS
	Within Groups	47340000.00	188.00	251783.88			
Total Expenditure	Between Groups	16750000.00	1.00	16750000.00	13.58	0.00	*
	Within Groups	231900000.00	188.00	1233588.22			
Property Tax Demand Current	Between Groups	274137.37	1.00	274137.37	7.99	0.01	*
	Within Groups	6454174.41	188.00	34330.72			
Coverage of Total Expenditure %	Between Groups	1202.30	1.00	1202.30	9.67	0.00	*
	Within Groups	23364.00	188.00	124.28			

From the above table it can be inferred that pay revision influences revenue fund expenditure since the p value = 0.000 and F= 18.67. The significance value p= 0.141 and F value = 2.187 shows that pay revision does not influence water supply fund. The pay revision significantly influences the total expenditure which can be observed with a p value = 0.000 and F value = 13.578. Pay revision also influences property tax demand current and coverage of total expenditure which can be seen with a p value = 0.005 and 0.002 respectively (the F value shows 7.98 and 9.67 respectively).

Table 3 : Average expenditure before and after pay revision Municipality wise

Municipality	Revenue Fund			Water supply expenditure			Elementary Education Fund		
	Before	After	Amount of increase & %	Before	After	Amount of increase & %	Before	After	Amount of increase & %
Thanjavur	1815.24	3604.05	2709.65	464.02	1915.19	1189.61	8.73	24.74	16.74
Kumbakonam	1117.07	2704.80	1910.94	173.01	398.27	285.64	9.63	19.41	14.52
Pudukottai	1298.67	2147.72	1723.20	425.49	487.67	456.58	18.25	21.09	19.67
Nagapattianm	849.40	1225.32	1037.36	93.44	118.76	106.10	20.50	27.12	23.81
Mayiladurai	713.40	1129.40	921.40	83.40	136.80	110.10	22.00	27.20	24.60
Pattukottai	466.86	985.07	725.97	100.17	148.75	124.46	4.05	5.77	4.91
Thuraiyur	250.68	615.71	433.20	65.37	64.48	64.92	1.63	5.30	3.46
Manarkudi	516.90	1058.45	787.68	70.23	98.14	84.18	7.43	8.22	7.82
Aranthagi	882.31	571.42	726.86	51.64	70.23	60.94	2.60	5.74	4.17
Manaparai	368.45	602.37	485.41	95.51	85.30	90.41	10.95	5.36	8.16
Thiruvarur	616.31	1002.63	809.47	109.16	118.73	113.95	11.84	11.64	11.74
Ariyalur	240.52	1255.43	747.98	398.30	442.79	420.54	0.00	0.00	0.00
Jayakondam	191.45	294.10	242.78	27.11	100.97	64.04	0.00	0.00	0.00
Kothanallur	154.61	289.57	222.09	14.25	21.67	17.96	0.00	0.00	0.00
Perambhalur	287.23	695.22	491.22	0.00	0.00	0.00	0.00	0.00	0.00
Sirkali	284.80	564.20	424.50	43.80	24.80	34.30	53.00	24.00	38.50
Thiruthurai poondi	183.85	293.44	238.65	23.07	30.87	26.97	0.00	0.00	0.00
Thuvakudi	219.00	325.01	272.00	0.00	0.00	0.00	0.00	0.00	0.00
Vedharanyam	126.93	285.94	206.43	5.43	25.92	15.68	0.00	0.00	0.00

In all the ULBs the mean expenditure is increased after pay revision, except (Aranthangi). In Aranthangi also, the situation will be same, unless a huge expenditure Rs.3124 lakh in 2005-06. In the remaining years the expenditure in normal.

Even though in Aranthangi, the coverage ratio of property tax to total expenditure pay revision it is not on a positive side. In Aranthangi the property tax is also normal, no augmentation of additional resources.

The increase is due to decrease in mean expenditure after pay revision 571.42 as against Rs.882.31 before pay revision. This is due to huge expenditure Rs. -3124 in 2005-06.

Coverage ratio of property tax to total expenditure after pay revision has been decreased considerably. Except Perambalur, Thuvakudi & Jayamkondam, the above 3 ULBs has shown good growth rate in their property tax when compared to others. Irrespective of grade the coverage ratio of property tax to total expenditure decreased after pay revision. In special and selection grade it is on higher side nearly 13 per cent & 6 percent respectively. In first grade is very moderate less than 1 percent. In second grade it is around 4 percent.

Table 4. Difference in coverage ratios of property tax to total expenditure before and after pay revision Municipality wise

ULBs	Average Expenditure (lakhs)			Property Tax Demand			Coverage of Property Tax on Total Expenditure		
	Before	After	Total	Before	After	Total	Before	After	Total
Thanjavur	2088.01	5543.98	3816.00	498.49	726.39	612.44	27.34	15.03	21.19
Kumbakonam	1299.71	3122.48	2211.10	507.47	762.84	635.16	39.73	25.02	32.38
Pudukottai	1742.41	2656.48	2199.45	285.99	439.59	362.79	18.59	18.87	18.73
Nagapattianm	963.34	1371.20	1167.27	201.77	284.96	243.36	24.04	21.06	22.55
Mayiladurai	818.80	1293.40	1056.10	233.50	345.54	289.52	28.58	27.02	27.80
Pattukottai	571.08	1139.59	855.33	129.52	191.80	160.66	22.60	17.94	20.27
Thuraiyur	317.68	685.48	501.58	156.35	229.84	193.10	50.79	33.61	42.20
Manarkudi	594.56	1164.81	879.69	233.50	345.42	289.46	40.35	30.30	35.32
Aranthagi	936.55	647.39	791.97	73.80	117.41	95.60	16.56	18.15	17.36
Manaparai	474.91	693.03	583.97	72.76	111.37	92.07	16.00	16.21	16.10
Thiruvarur	737.31	1133.00	935.15	172.69	224.32	198.51	24.58	20.03	22.31
Ariyalur	240.52	1255.43	747.98	33.99	57.30	45.65	25.85	7.71	16.78
Jayakondam	218.56	395.06	306.81	23.95	45.84	34.89	11.30	11.70	11.50
Kothanallur	168.87	311.25	240.06	33.32	46.49	39.90	20.10	15.02	17.56
Perambalur	287.23	695.22	491.22	52.48	155.20	103.84	19.26	22.64	20.95
Sirkali	381.60	613.00	497.30	58.37	89.01	73.69	16.98	14.73	15.86
Thiruthurai poondi	206.92	324.31	265.61	59.58	62.31	60.95	28.95	19.49	24.22
Thuvakudi	219.00	325.01	272.00	13.61	35.59	24.60	6.48	15.67	11.07
Vedharanyam	132.36	311.86	222.11	25.68	39.00	32.34	20.28	12.57	16.43

Summary and conclusion

This study addresses the influence of nineteen ULBs under Thanjavur regions. From this study it is found that collecting property taxes work more effectively in India is a complex challenge. Overall, after the pay revision, the revenue fund expenditure as well as the total expenditure increases irrespective of the grade. The coverage ratio of property tax to total expenditure also decreases in all the ULBs except 3 ULBs i.e Jayamkondam/Thuvakudi & Perambalur, due to their property tax growth rate and collection performance and also to their expenditure growth. It is inferred that the mother ULBs are managing their show with other sources of income mainly on govt. grants at the cost of their own resources. Even though they have potential for property tax subsequently, it has not been tapped fully so far. Further, limitations of the study is given below and suggested for future research

1. The study is based on secondary data obtained from the published and unpublished official reports and as such its finding depends entirely on the accuracy of such data. It may be taken with questionnaire survey for fact findings.
2. Statistical test used in the study has got own limitations such as normality. More samples is the only useful for understanding the probability pattern.
3. Time period of the study may be extended to meet the current scenario.

References

- Bagchi, S. (2001). "Financing Capital Investments in Urban Infrastructure – Constraints in Accessing Capital Market by Urban Local Bodies", *Economic and Political Weekly*, January 27.
- Bajaj, J. L. (1999). Impact of pay revision on state governments' finances. *Economic and Political Weekly*, 1341-1351.
- Chattopadhyay, S. (2006). "Municipal Bond Market for Financial Urban Infrastructure", *Economic and Political Weekly*, June 30.
- Mathur, O.P. et al (2011). Indian Municipal finance matters:IMFR, National institute of public finance and policy, 1-319.
- Mathur, O. P., Thakur, D., Rajadhyaksha, N., & Bahl, R. (2009). Urban property tax potential in India. *New Delhi: National Institute of Public Finance and Policy*.
- Kelly, R. (2000). Designing a Property Tax Reform Strategy for Sub Saharan Africa: An Analytical Framework Applied to Kenya. *Public Budgeting & Finance*, 20(4), 36-51.
- Rao, M G (2001). *Fiscal decentralization in Indian federalism, Working Paper No.98. Institute of Social and Economic Change, Bangalore*.

- Mohanty, P. K., Misra, B. M., Goyal, R., & Jeromi, P. D. (2007). Municipal finance in India: An assessment. *DRG Study*, (26).
- Mathur, O. P. and Thakur, S. (2004). *India's Municipal Sector: A Study for the Twelfth Finance Commission*, National Institute of Public Finance and Policy, New Delhi.
- Sarma, E. A. S., & Sarma, J. V. M. (2002). *Financing government expenditure for sustainable development in India*.
- TamilSelvan, P. and Swaminathan, R (2018), An Income and Expenditure Comparative Study on Urban Local Bodies within Thanjavur District, *International Journal of Latest Research in Humanities and Social Science (IJLRHSS)*, Vol 01, Issue 06.
- Swaminathan, R. Tamizhselvan, P. & Sekkizhar, J. (2008), Property Tax collection Performance in Urban Local Bodies within Tanjavur Region, *Research Review International Journal of Multidisciplinary*, 03 , Issue-03, March-2018 28-34

