

**GOVERNMENT OF KERALA**

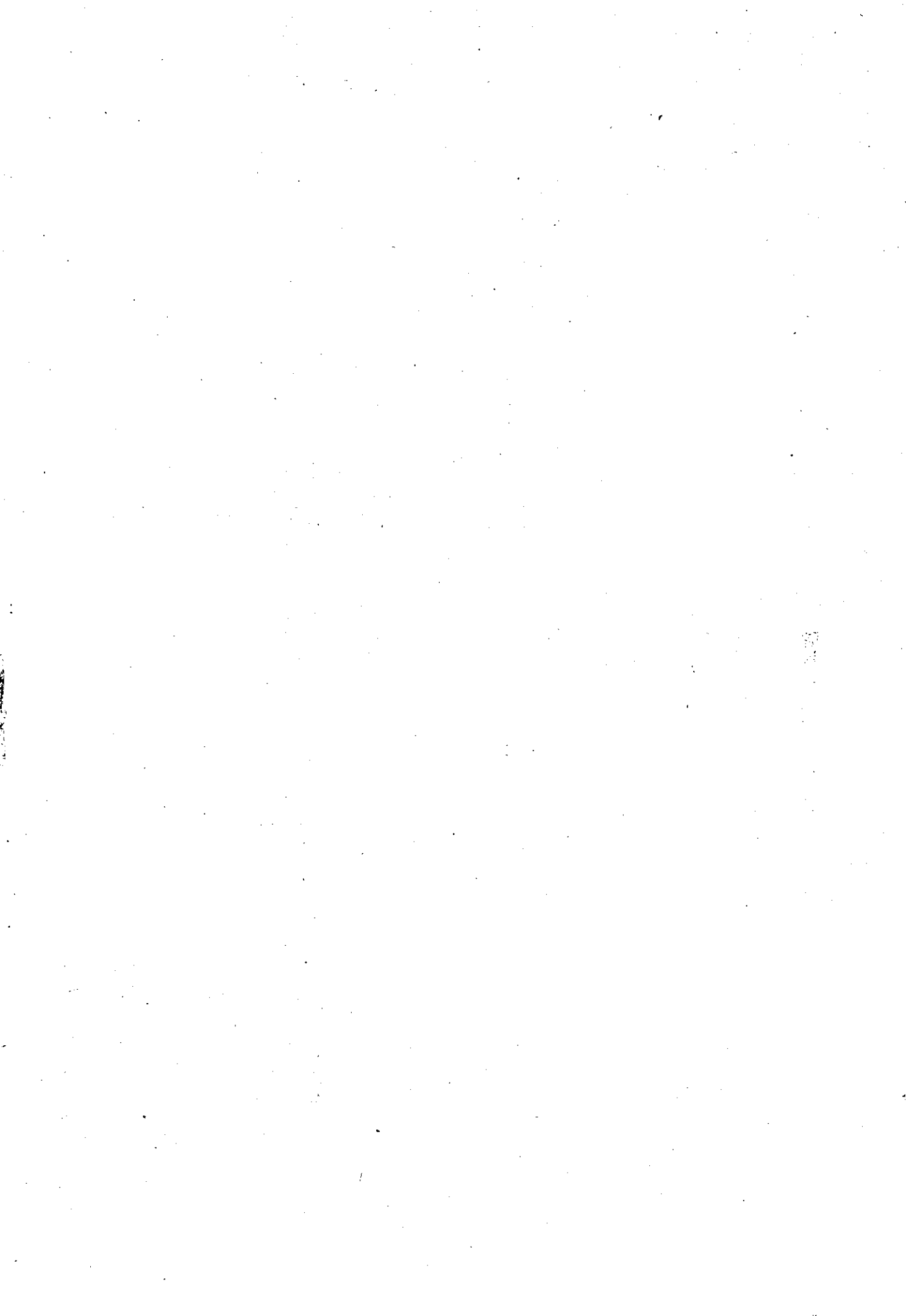
**AN ECONOMIC CLASSIFICATION  
OF THE BUDGETS OF  
MUNICIPALITIES & CITY  
CORPORATIONS IN KERALA  
(1980-81 AND 1981-82)**

**DEPARTMENT OF  
ECONOMICS AND STATISTICS  
TRIVANDRUM  
1988**



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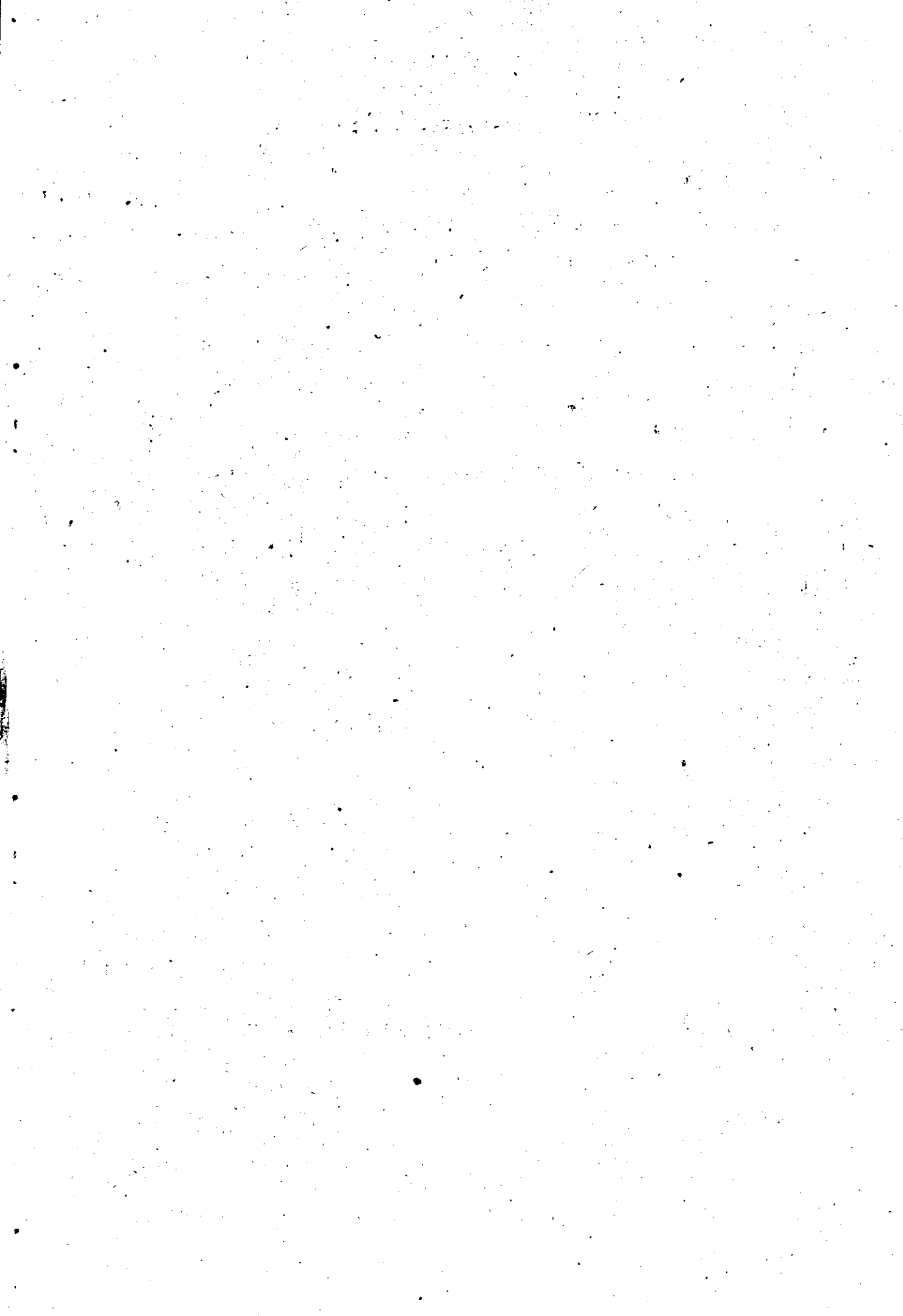
P R E F A C E

This report on the "Economic classification of the budget of the Local bodies (URBAN)," is an attempt to recast the local body's budgets into meaningful economic categories, which enables to understand the general effect of the local body's transactions on the economy. Classification presented in this report relates to the years 1980-81 and 1981-82.

It is hoped that the contents of this report will be useful to planners and administrators and others interested in the subject. This is the first attempt of its kind and suggestions for improvement are solicited. This report was prepared by the Budget section of the State Income Division of this Directorate.

Trivandrum,  
27--5--1988.

K. DALAKRISHNAN NAIR  
DIRECTOR OF  
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## I. Introduction

Municipalities and Corporations, in the democratic set up of the Government, play an important role in the development of the urban areas. Governments' policy of decentralisation of power enhanced the responsibility of Municipalities and City Corporations. Large amount of funds are being spent on various activities in the urban areas of the state. Hence it has become necessary to study the impact of such large amount of spending on various activities.

Budgets of the local bodies give us detailed information about their revenue and expenditure and their financial transactions, for a given year, of the departments functioning under their control. However the figures given in the budget do not indicate clearly the economic significance of the various items of expenditure and revenue. So also it do not give information separately regarding the amount of revenue spent on capital expenditure. Hence the budget documents of these local bodies, do not give clear idea of the capital formation, savings, current receipt, expenditure etc. It is therefore necessary to reclassify and regroup such accounts into meaningful categories for understanding the actual economic impact of the budgetary transactions of these local bodies. Such an attempt of the budget of the local bodies for the years 1980-81 and 81-82 is done in the following pages.

The budgets are collected from all the 43 Municipalities and 3 Corporations and compiled for preparing Economic Classification of the state as a whole.

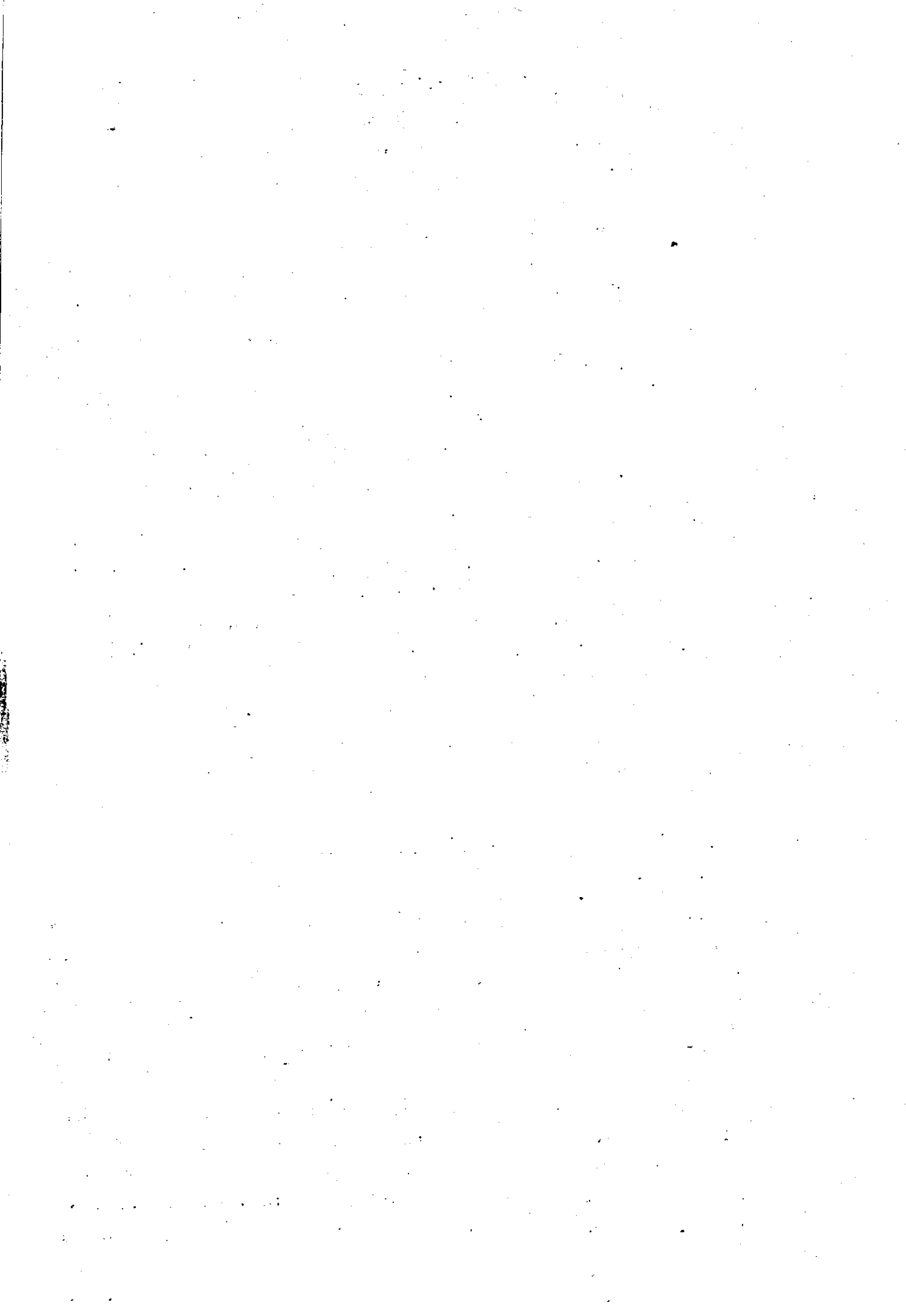
## II. Economic classification of the Local Bodies Budgetary Transactions

The framework of the economic classification scheme, presented here is based on the delineation of local bodies transactions in a set of two accounts. The derivation and rationale of each of these accounts are briefly explained in the following pages.

Account I :- Income and outlay Account of the Municipalities and Corporations.

This account deals with the current revenue and expenditure of the all the municipalities & corporations in the state. The major part of the current expenditure of the municipalities and corporations consists of the final outlays of the municipalities & corporations. On current account, which represent current consumption.

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The final outlays are made up of purchase of goods and services and wages and salaries payments. Besides final outlays municipalities & corporations make transfer payments i.e. interests, grants, subsidies, scholarships etc. to the rest of the economy, which are added indirectly to the disposable income of the community. To meet these current expenditure, municipalities and corporations appropriate a part of the income of the community through a variety of taxes, fees, miscellaneous receipts etc., occurring in the course of administration. In addition, municipalities & corporations have an investment income from property and entrepreneurship, and also receives revenue grants, contributions and recoveries from the state government and other bodies. The excess of current receipt over current expenditure denotes the savings of the municipalities & corporations available for capital formation. Some of the items included in this account are explained below.

A. Revenue:

i. Income from property and entrepreneurship

This item records the income receivable by the municipalities and corporations from the departmental commercial undertakings if any and rent, interest and dividends accruing to them from the ownership of buildings or financial assets.

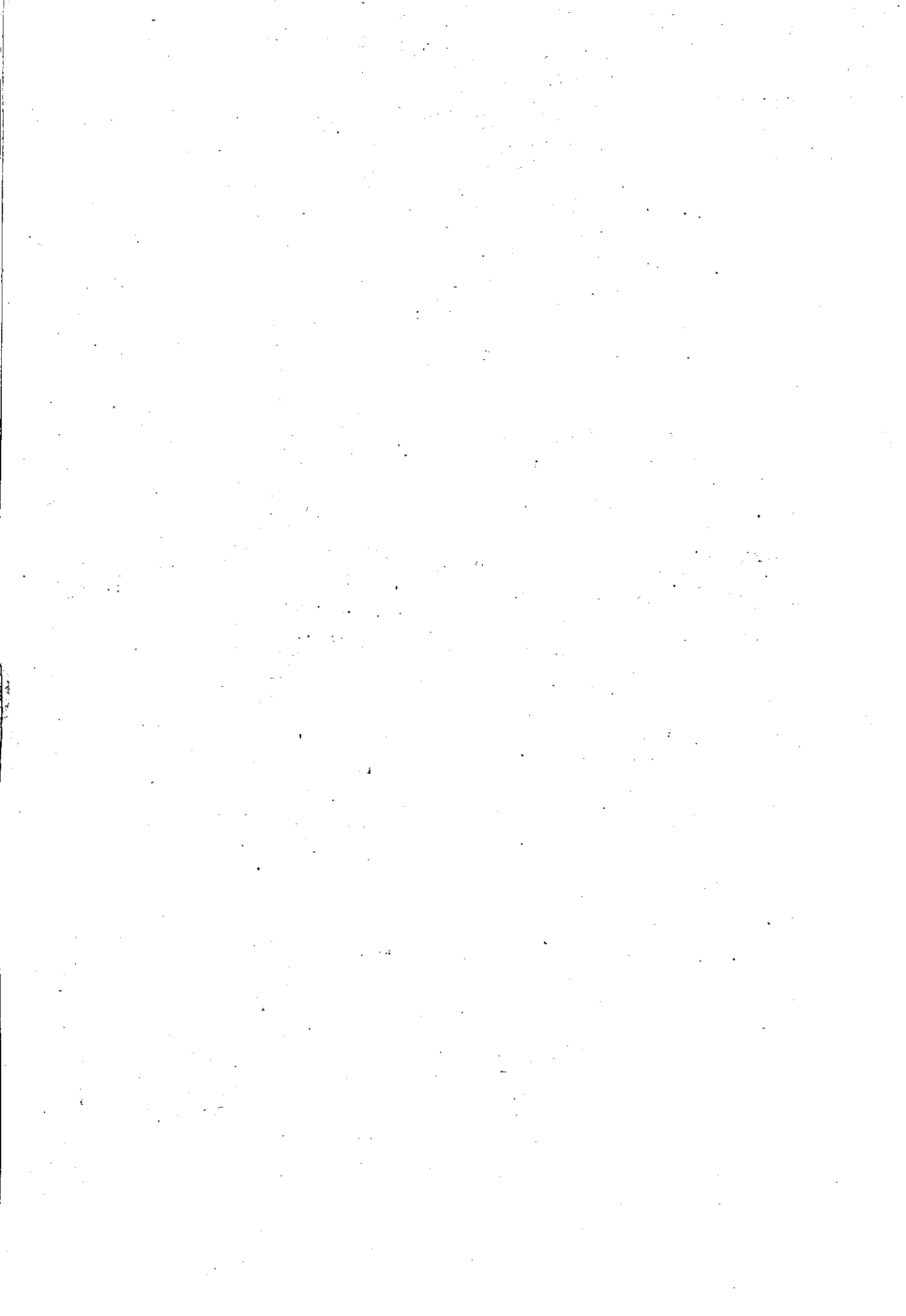
ii. Direct taxes:

The revenue is classified into direct and indirect taxes. Direct taxes are levied by public authorities at regular intervals on income from employment, property, capital gains etc. Taxes falling under this category of the municipalities & corporations are profession and trade tax, servants' tax, taxes on houses and land etc.

iii. Indirect taxes:

Taxes on goods and services that are chargeable to business expenses and taxes on the possession or use of goods and services by households are treated as indirect taxes. The main categories in the budgets of municipalities & corporations are Octroi, terminal tax, taxes on vehicles and animals, fees for vehicle licenses, dangerous and offensive trade license fees, license fee for job porters, tolls on vehicles and animals, local rates, administrative tax, miscellaneous other taxes and duties.

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iv. Miscellaneous Receipts

These receipts are in the nature of fees, fines and forfeitures etc.

v. Revenue grants, contributions etc.

These are current receipts accruing from the state government and various boards & committees.

B. Expenditure

i. Compensation to employees:-

These include pay of officers, pay of establishment allowances and honoraria (other than travelling and daily allowances) wages and salaries also include the pensions actually paid to government employees. Wages paid to casual labourers have also been taken as wages and salaries.

ii. Commodities and Services:-

This item includes all expenditure under contingency such as office supplies, rent, rates and taxes, fuel and light, printing and stationary, travelling expenses, telephones and telegraphic charges and other items for current operations less sales by municipalities & corporations of goods and services to enterprises and households. All expenditure on current repairs and maintenance is included here.

iii. Interest:-

Interest comprises interest on debt and other obligations.

iv. Current transfer payments:-

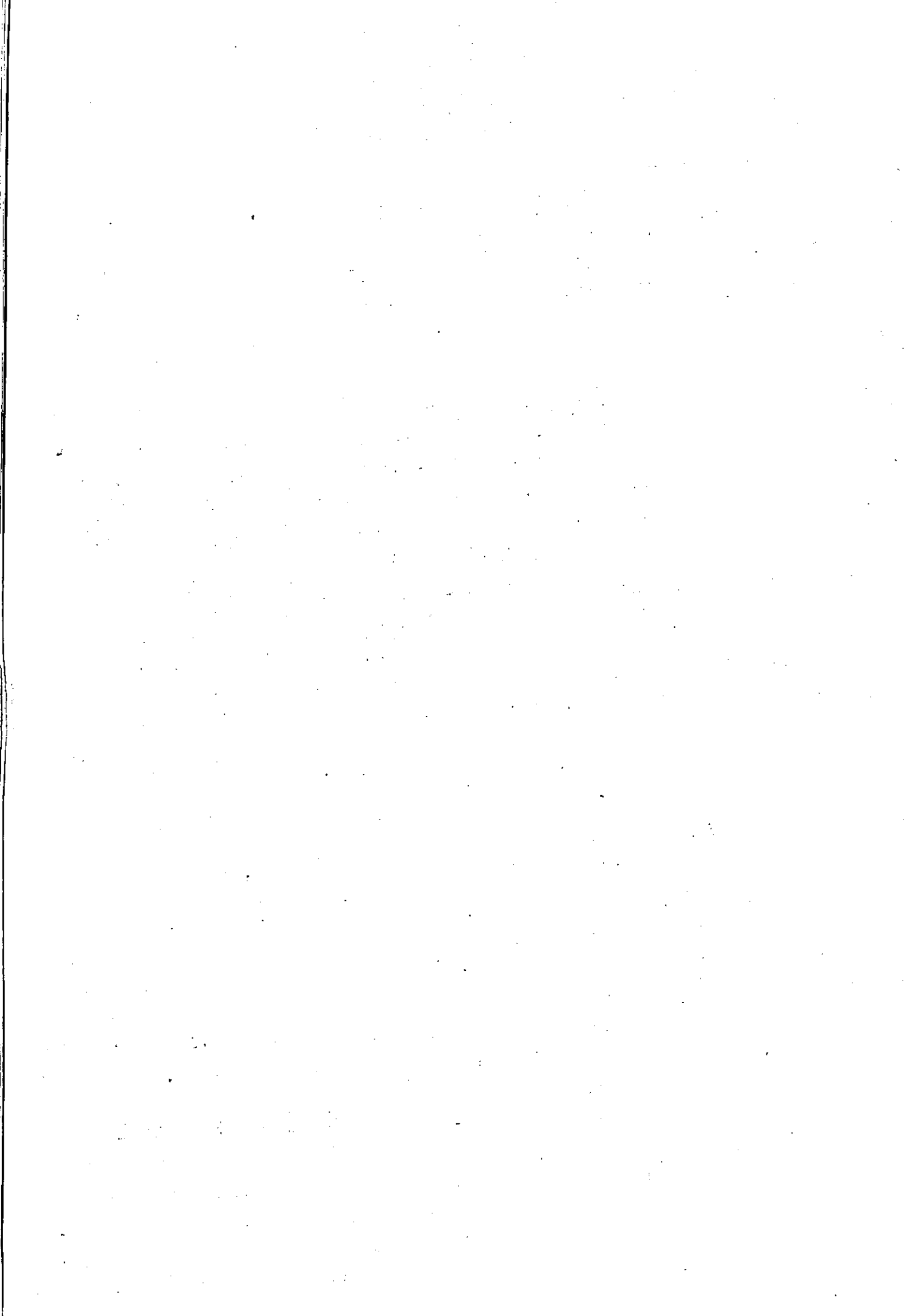
Current transfer payments include grants and other transfers like scholarships, stipends etc.

v. Savings on current account:-

These represent excess of receipts over expenditure under the current account of the municipalities & corporations.

Account II :- Capital Finance Account of the municipalities and corporations

This account is concerned with the total capital outlay representing physical assets formation by the municipalities & corporations. Savings transferred from current account and capital grants received by the Municipalities and Corporations constitute the source of finance. The different items included in the account are discussed here under.



i. Gross fixed capital formation

Gross capital formation represents the gross value of goods which are added to the domestic capital stock of the nation. It comprises both expenditure on the acquisition of fixed assets and the value of physical change in stocks. The gross fixed capital formation has been classified into buildings and other construction and machinery and equipment.

ii. Buildings and other construction

Capital formation under buildings include all expenditure on new construction and major alterations to residential and non-residential buildings including the value of the change in work in progress. Other construction includes mostly expenditure on construction of roads and bridges and works on power and irrigation projects, flood control, forest clearance, land reclamation, water supply and sanitation.

iii. Machinery and equipments

This item include expenditure incurred on the purchase of various equipments such as buses, jeeps, trucks, tractors for road haulage, power generating machinery, agricultural machinery and implements office furniture, machinery and equipment and instruments used by professional men.

iv. Change in stocks:-

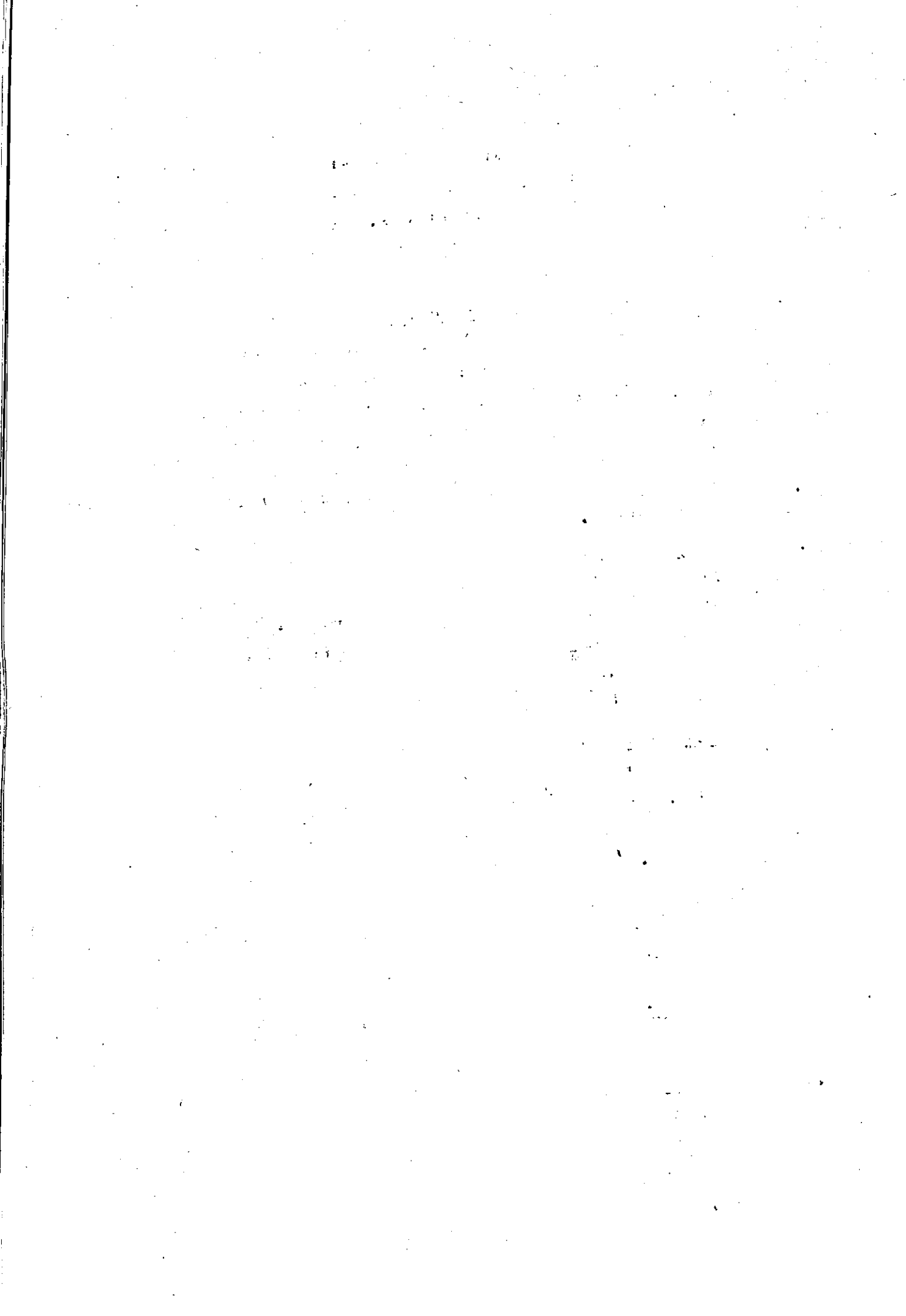
Changes in stocks represent the value of the physical change in raw materials, work in progress (other than the work in progress in buildings which are included in fixed capital formation) and in the stockpiles.

v. Capital transfers:-

Capital transfers cover grants to finance the construction of buildings, purchase of machinery and equipment and for public works, Water supply and sewage disposal schemes etc. Capital transfers are intended to assist capital formation in other sectors of the economy.

vi. Receipt on Capital Account:

This part deals with the financing of the capital formation and the sources for the same are savings on current account and capital grants and contributions from state government and other institutions.



ECONOMIC CLASSIFICATION.

Account I - Income and Outlay Account of the Municipalities and Corporations  
(Rs. '000)

| Items  | R E C E I P T S. |       |         |              |         |        |         |       |
|--|------------------|-------|---------|--------------|---------|--------|---------|-------|
|  | Municipalities   |       |         | Corporations |         |        | Total   |       |
|  | 1980-81          | 81-82 | 1980-81 | 81-82        | 1980-81 | 81-82  | 1980-81 | 81-82 |
|  | 2                | 3     | 4       | 5            | 6       | 7      |         |       |
| 1. Income from entrepreneurship and property | 23483            | 28532 | 4908    | 8676         | 28391   | 37208  |         |       |
| 1.1. Profit                                  | 6720             | 9266  | 32      | 160          | 6752    | 9426   |         |       |
| 1.2. Income from property                    | 16763            | 19266 | 4876    | 8516         | 21639   | 27782  |         |       |
| 2. Total tax Revenue                         | 80266            | 88234 | 43333   | 62592        | 123599  | 150826 |         |       |
| 2.1. Direct tax                              | 42761            | 45922 | 13021   | 16740        | 55782   | 62662  |         |       |
| a) Profession & trade tax                    | 5572             | 4712  | 841     | 1383         | 6413    | 6095   |         |       |
| b) Property tax                              | 26640            | 32113 | 12180   | 15357        | 38820   | 47470  |         |       |
| c) Other direct tax                          | 10549            | 3097  | ..      | ..           | 10549   | 9097   |         |       |
| 2.2. Indirect taxes                          | 37505            | 42312 | 30312   | 45852        | 67817   | 88164  |         |       |
| a) Entertainment tax                         | 22590            | 23312 | 9125    | 15621        | 31715   | 39533  |         |       |
| b) Taxes on advertisement                    | 526              | 750   | 156     | 359          | 682     | 1109   |         |       |
| c) Show tax                                  | 338              | 369   | 93      | 157          | 431     | 526    |         |       |
| d) Surcharge on taxes levied                 | 167              | 222   | 5474    | 9372         | 5641    | 9594   |         |       |
| e) Taxes on vehicles and animals.            | 88               | 58    | 3879    | 2967         | 3967    | 3025   |         |       |
| f) Duty on transfer of properties            | 12692            | 15810 | 8996    | 13437        | 21688   | 29307  |         |       |





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|   | 1 | 2      | 3      | 4     | 5     | 6      | 7      |
|---|---|--------|--------|-------|-------|--------|--------|
| g) License fees on D & O trade          |   | 1104   | 1191   | 721   | 1008  | 1825   | 2199   |
| h) Other taxes                          |   | ..     | ..     | 1868  | 2871  | 1868   | 2871   |
| 3. Fees and miscellaneous receipts      |   | 5854   | 5225   | 1404  | 1982  | 7258   | 7207   |
| 4. Revenue grants from other Government |   | 18534  | 23039  | 7008  | 8754  | 25542  | 31793  |
| Total Revenue                           |   | 128137 | 145030 | 56653 | 82004 | 184790 | 227034 |

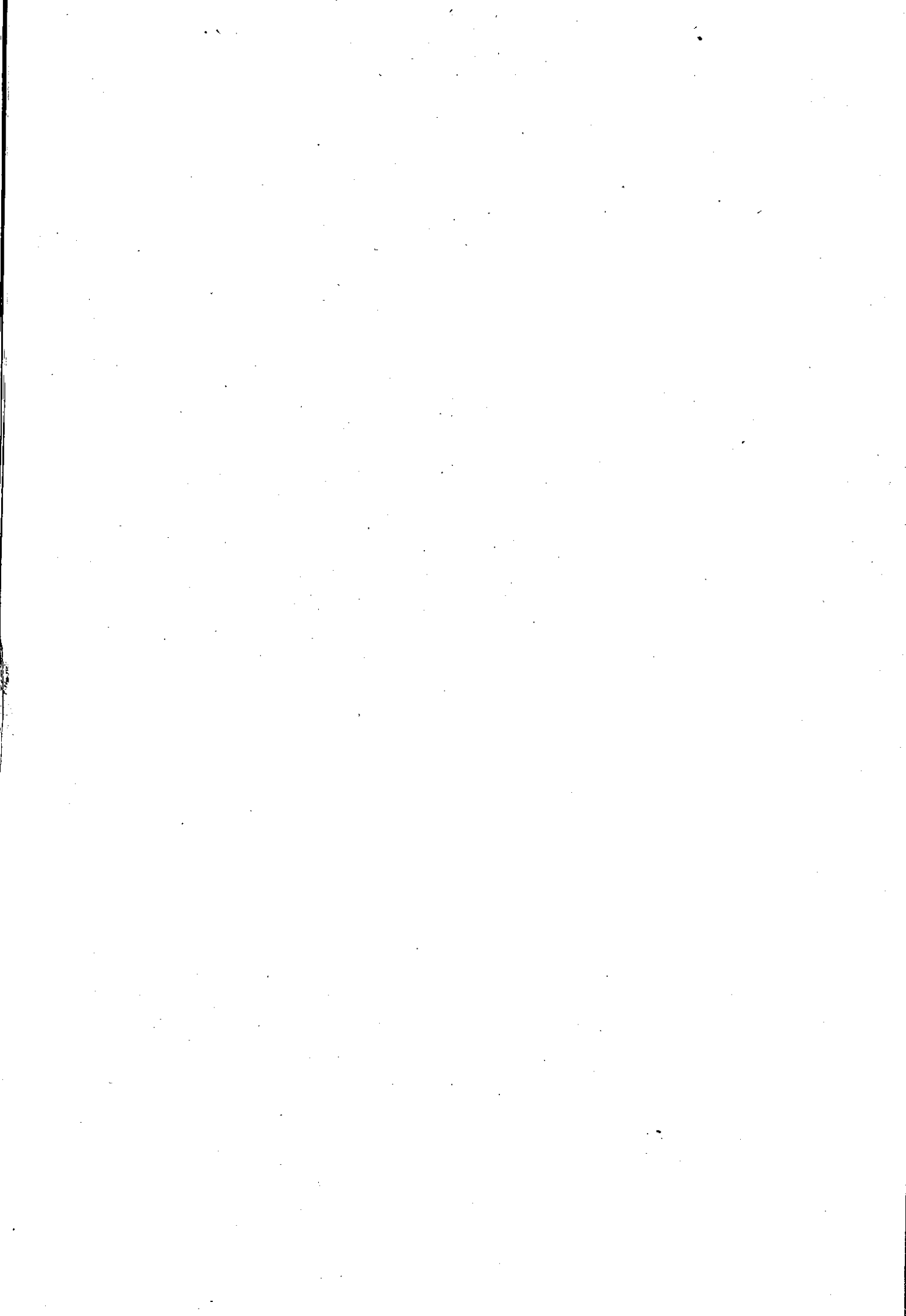


ECONOMIC CLASSIFICATION

Account I - Income and Outlay Account of the Municipalities & Corporations (Rs. '000)

EXPENDITURE

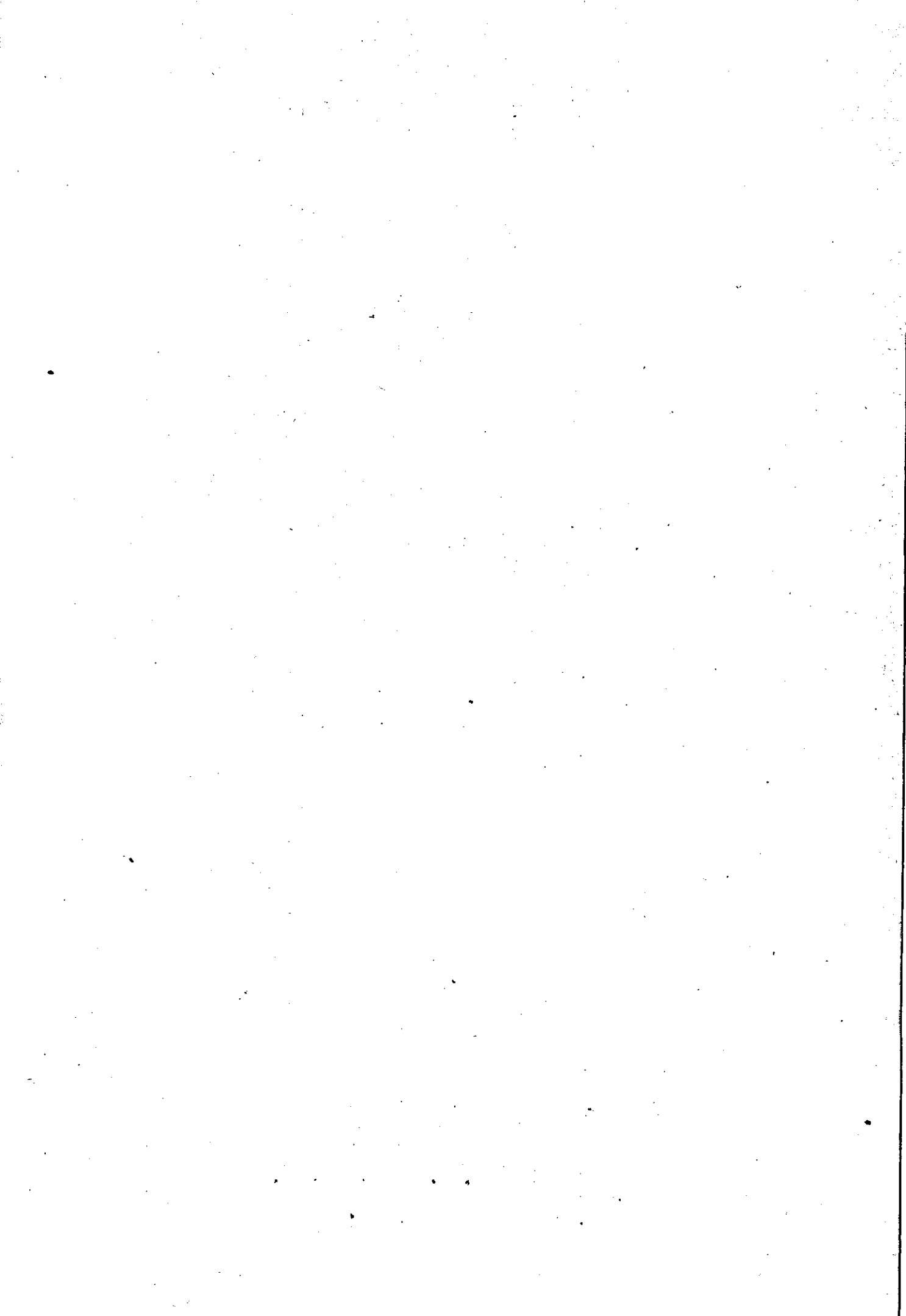
| Items   | Municipalities |        | Corporations |       | Total  |        |
|---|----------------|--------|--------------|-------|--------|--------|
|   | 1980-81        | 81-82  | 1980-81      | 81-82 |        |        |
| 1   | 2              | 3      | 4            | 5     | 6      | 7      |
| 1. Total Consumption expenditure              | 61673          | 79261  | 40612        | 69999 | 102285 | 149260 |
| 1.1. Compensation of employees                | 39159          | 45397  | 36877        | 41790 | 76036  | 87187  |
| 1.2. Net purchase of commodities and services | 22514          | 33364  | 3735         | 28209 | 26249  | 62073  |
| a) Purchase                                   | 26258          | 26584  | 33735        | 45749 | 59993  | 72333  |
| b) Maintenance                                | 1677           | 13842  | 6844         | 9164  | 8521   | 23006  |
| c) Less sales                                 | 5421           | 6562   | 36844        | 26704 | 42265  | 33266  |
| 2. Interest paid                              | 3813           | 4535   | 2333         | 1096  | 6146   | 5631   |
| 3. Subsidies                                  | ..             | ..     | ..           | ..    | ..     | ..     |
| 4. Current transfer                           | 3630           | 2743   | 386          | 301   | 4016   | 3044   |
| 5. Total current expenditure                  | 69116          | 86539  | 43331        | 71396 | 112447 | 157935 |
| 6. Surplus savings of current account         | 59021          | 58491  | 13322        | 10608 | 72343  | 69099  |
| 7. Total expenditure $\pm$ Total receipts     | 128137         | 145030 | 56653        | 82004 | 184790 | 227034 |



ECONOMIC CLASSIFICATION.

Account II - Capital Finance account of the Municipalities and Corporations  
Accounts (Rs. '000)

| Items                              | Municipalities Corporation Total |         |         |       |         |       |       |
|------------------------------------|----------------------------------|---------|---------|-------|---------|-------|-------|
|                                    | 1980-81                          | 1981-82 | 1980-81 | 81-82 | 1980-81 | 81-82 | 81-82 |
| 1                                  | 2                                | 3       | 4       | 5     | 6       | 7     |       |
| <u>I. EXPENDITURE.</u>             |                                  |         |         |       |         |       |       |
| 1. Capital Outlay                  | 55357                            | 63721   | 17144   | 18964 | 72501   | 82685 |       |
| 2. Net purchase of physical assets | 2517                             | 3794    | 737     | 466   | 3254    | 4260  |       |
| 3. Change in stock                 | ..                               | ..      | 1410    | 2008  | 1410    | 2008  |       |
| 4. Capital transfers               | 225                              | 754     | 406     | 500   | 631     | 1254  |       |
| TOTAL:                             | 58099                            | 68269   | 19697   | 21938 | 77796   | 90207 |       |
| <u>II. RECEIPTS:</u>               |                                  |         |         |       |         |       |       |
| 1. Surplus on current account      | 59021                            | 58491   | 13322   | 10608 | 72343   | 69099 |       |
| 2. Net borrowing                   | - 922                            | 9778    | 6375    | 11330 | 5453    | 21108 |       |
| TOTAL RECEIPTS:                    | 58099                            | 68269   | 19697   | 21938 | 77796   | 90207 |       |



MAJOR FINDINGS.

The system of accounts presented in this study analyses the various operation of the budget of municipalities and city corporations. The major findings emerging from this study are given below:-

1. The total expenditure of the municipalities and city corporations in the State is estimated at Rs. 2623 lakhs in 1981-82 compared to Rs. 2072 lakhs in 1980-81.
2. Final outlay is the major component of the total expenditure of the municipalities and city corporations accounting for about 85 and 90 percent in 1980-81 and 1981-82 respectively. The final outlay of all the municipalities and corporations is increased from Rs. 1762 lakhs in 1980-81 to Rs. 2340 lakhs in 1981-82.
3. The consumption expenditure accounted for about 49% of the total expenditure in 1980-81 and 57% in 1981-82,
4. Transfer payments decreased from Rs. 108 lakhs in 1980-81 to Rs. 99 lakhs in 1981-82,
5. Transfer payments accounts for about 5% and 4% of the total expenditure of the municipalities and city corporations in 1980-81 and 1981-82 respectively.
6. Financial investment and loans amounting to Rs. 202 lakhs in 1980-81 and Rs. 184 lakhs in 1981-82 contributed about 10% and 9% of the total expenditure in respective years.

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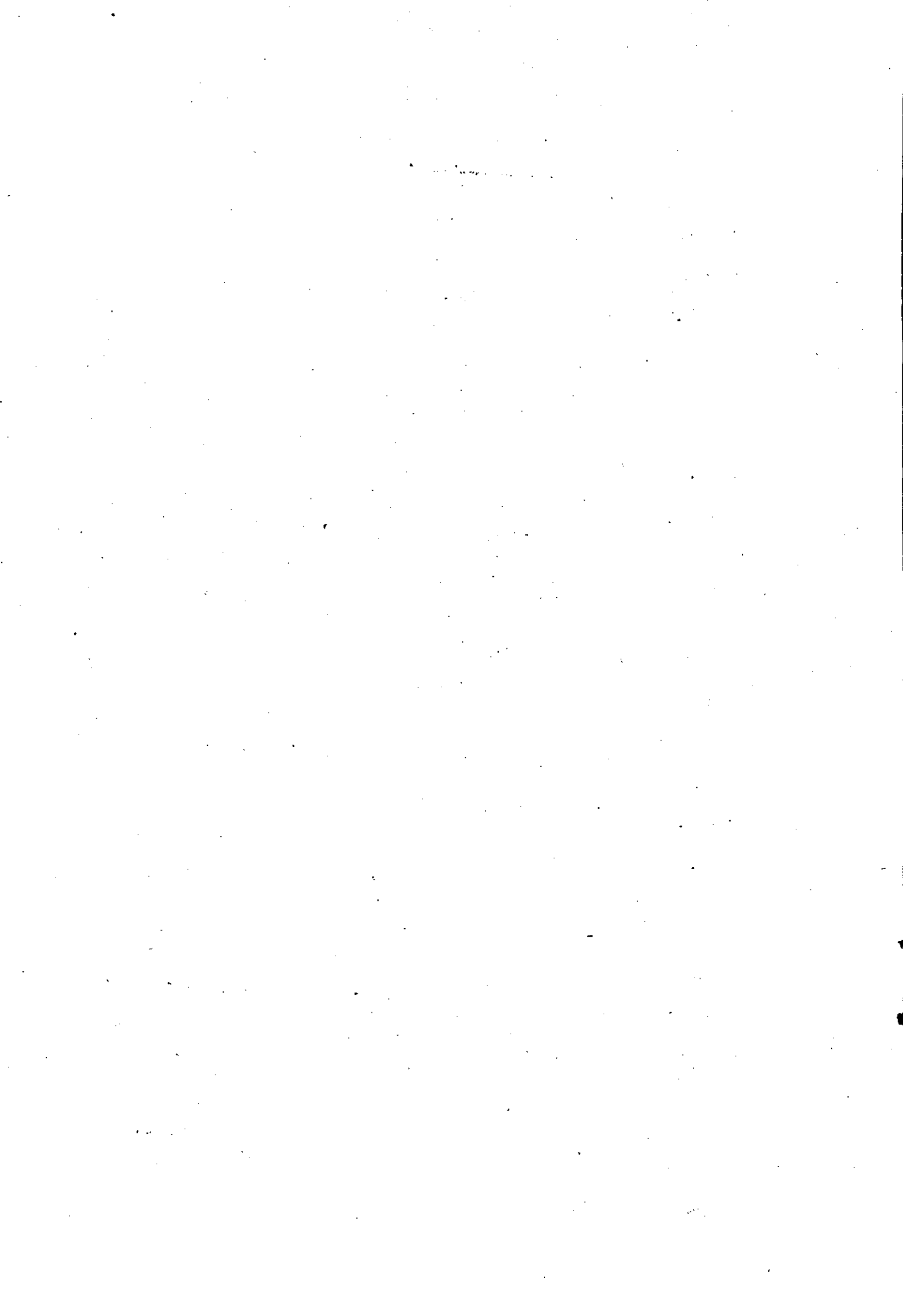




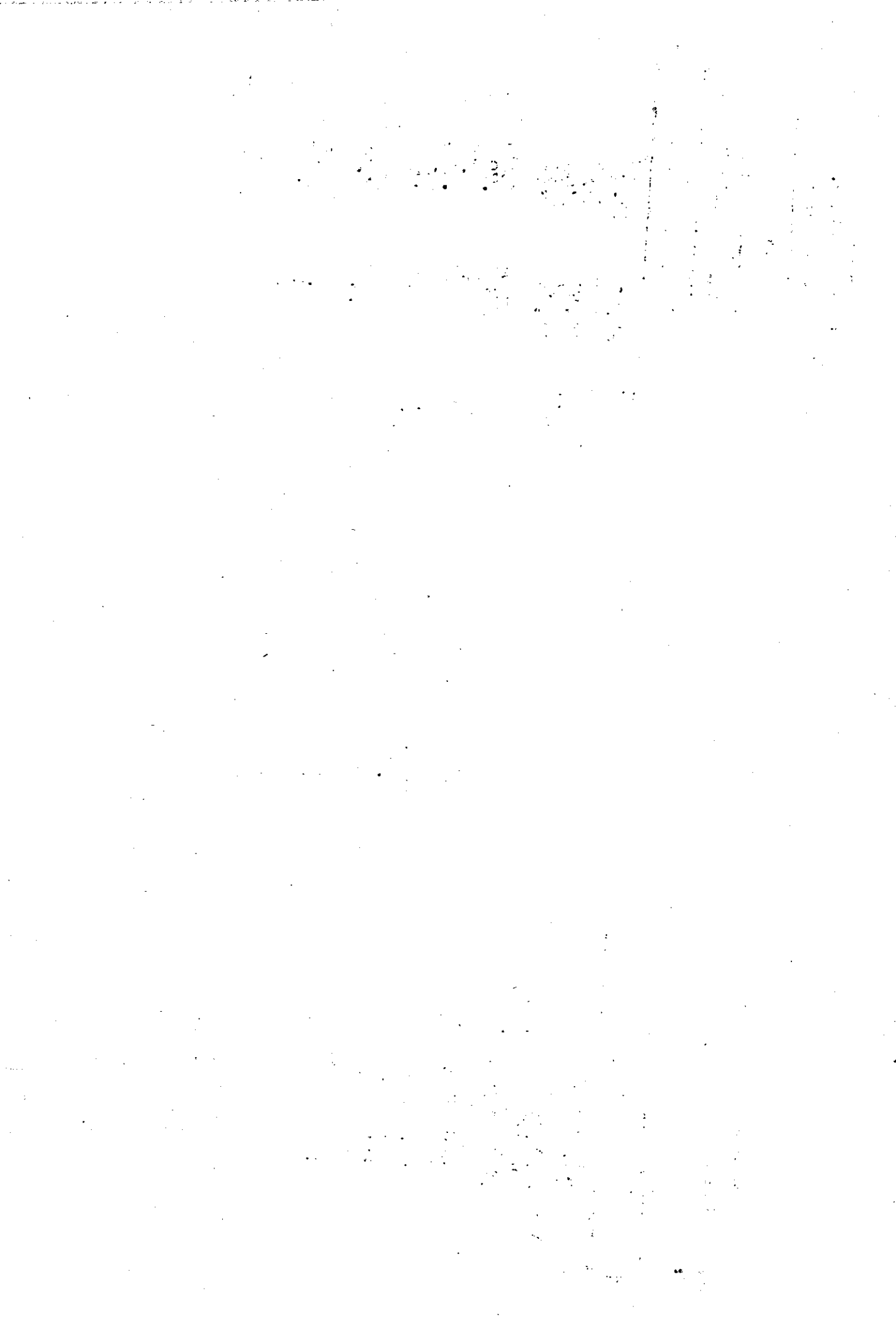
TABLE - 1

Total expenditure of the Municipalities and Corporations (% '000) Accounts.

| Items   | Municipalities |        | Corporations |        |         | Total  |
|---|----------------|--------|--------------|--------|---------|--------|
|   | 1980-81        | 81-82  | 1980-81      | 81-82  | 1980-81 | 81-82  |
| 1   | 2              | 3      | 4            | 5      | 6       | 7      |
| 1. Final outlay   | 117030         | 142982 | 59166        | 90971  | 176196  | 233953 |
| a) Consumption expenditure                                    | 61673          | 79261  | 40612        | 69999  | 102285  | 149260 |
| b) Gross capital formation                                    | 55357          | 63721  | 18554        | 20972  | 73911   | 84693  |
| 2. Transfer payments to the rest of the economy               | 7668           | 8032   | 3125         | 1897   | 10793   | 9929   |
| a) Current transfer   | 7443           | 7278   | 2719         | 1397   | 10162   | 8675   |
| b) Capital transfer   | 225            | 754    | 406          | 500    | 631     | 1254   |
| 3. Financial investment and loans to the rest of the economy. | 5344           | 5657   | 14836        | 12739  | 20180   | 18396  |
| TOTAL:  | 130042         | 156671 | 77127        | 105607 | 207169  | 262278 |







Gross Capital Formation

Municipality's and Corporation's contribution to gross capital formation i.e. investment in building, machinery, construction and for acquisition of stock is estimated at Rs.739/ lakhs in 1980-81. It has increased to Rs.847 lakhs in 1981-82. This item amounted to 36% in 1980-81. However in 1981-82 it has decreased to 32%.

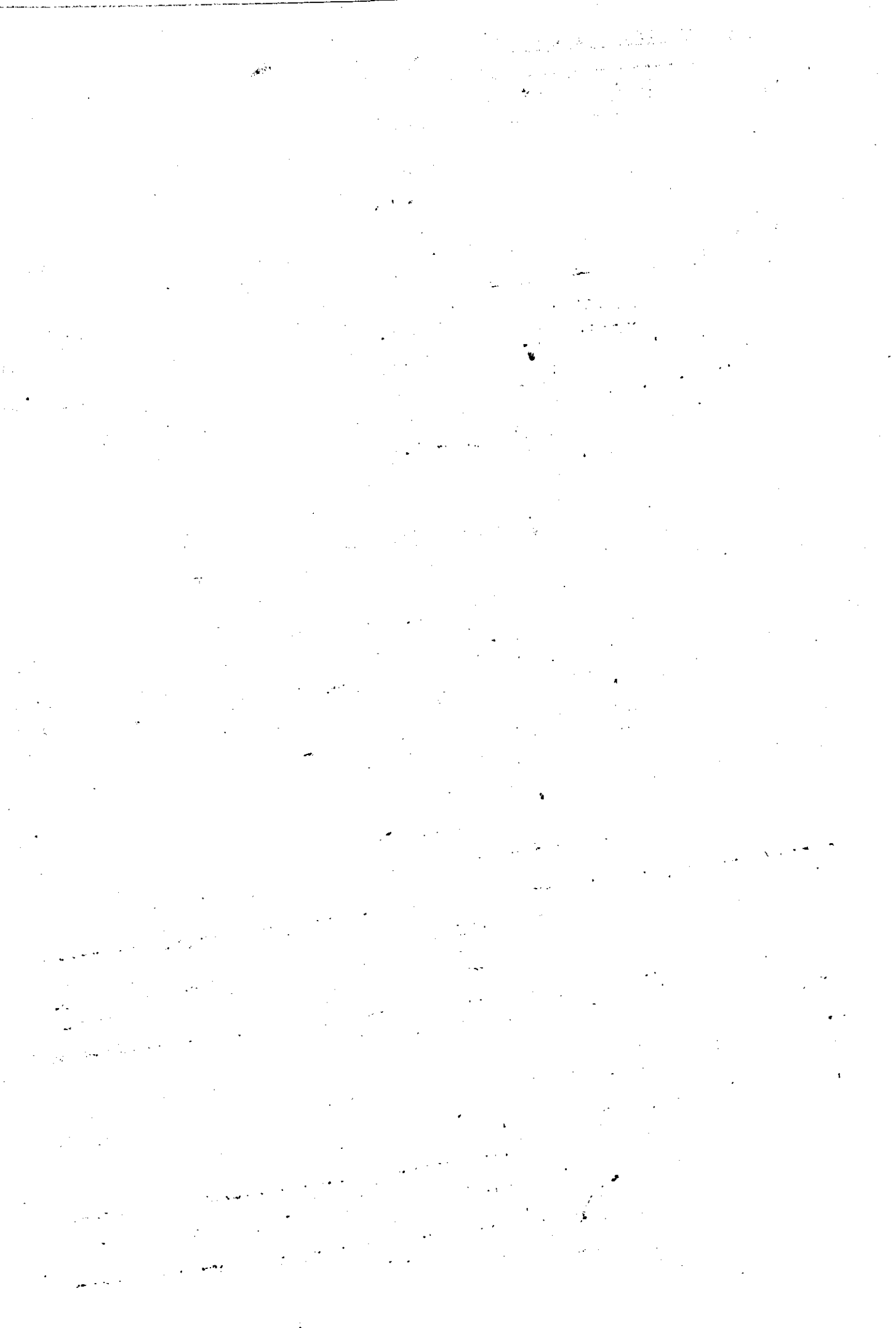
The components of capital formation.

The components of capital formation given in Table 3 shows that major share of municipalities and corporations expenditure accounted for construction. In 1980-81 expenditure on construction accounted for about Rs.381/lakhs which was increased to Rs.431 lakhs in 1981-82. Expenditure on machinery and equipment have also been increased from Rs.344 lakhs in 1980-81 to Rs.396 lakhs in 1981-82.

Table No.3

Components of capital formation(Rs.'000)

| Items                          | Municipalities |       | Corporations |       | Total   |       |
|--------------------------------|----------------|-------|--------------|-------|---------|-------|
|                                | 1980-81        | 81-82 | 1980-81      | 81-82 | 1980-81 | 81-82 |
| 1. Construction                | 26876          | 33587 | 11195        | 9498  | 38071   | 43085 |
| 2. Machinery & other equipment | 28481          | 30134 | 5949         | 9466  | 34429   | 39600 |
| 3. Change in stock             | -              | -     | 1410         | 2008  | 1410    | 2008  |
|                                | 55357          | 63721 | 18554        | 20972 | 73910   | 84693 |



Savings of Municipalities and Corporations:

Gross savings of the municipalities and corporations comprise of savings on current account of administration (i.e. surplus of current receipt over current expenditure) and depreciation provision.

Gross savings for the year under review are given in the following table:-

Table 4.

Gross savings of the Municipalities & Corporation (Rs. '000)

| Items                                 | Municipalities        |       | Corporations |       | Total |       |
|---------------------------------------|-----------------------|-------|--------------|-------|-------|-------|
|                                       | 1980-81               | 81-82 | 80-81        | 81-82 | 80-81 | 81-82 |
|                                       | <u>Gross savings:</u> |       |              |       |       |       |
| Savings of the current administration | 59021                 | 58491 | 13322        | 10608 | 72343 | 69099 |
| Provision for depreciation            | ..                    | ..    | ..           | ..    | ..    | ..    |
| TOTAL:                                | 59021                 | 58491 | 13322        | 10608 | 72343 | 69099 |

Savings of the municipalities and corporations for the years 1980-81 and 1981-82 are shown in the above table. It shows a decreasing trend for both corporation and municipalities. Total savings of the municipalities and corporations in 1980-81 was Rs.723 lakhs. It decreased to Rs.691 lakhs in 1981-82.

Current receipts:

The economic implication of the expenditure incurred by the municipalities and corporations depends to a great extent on the source from which it is financed. Hence it is proper to examine it in detail. The current receipt of the municipalities

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and corporations are furnished under significant economic heads in table No.5.

Total current receipts have been showing an upward trend during the period under reference. The receipts of the municipalities and corporations have been increased to Rs.2270 lakhs in 1981-82 from Rs.1848 lakhs in 1980-81, showing an increase of 22.84 over the period.

TABLE- 5.

Current Receipt (Rs.'000)

| Items                                      | Municipalities      |               | Corporations |              | Total         |               |
|--|---------------------|---------------|--------------|--------------|---------------|---------------|
|  | 1980-81             | 81-82         | 80-81        | 81-82        | 80-81         | 81-82         |
|  | <u>Tax receipt:</u> | 80266         | 88234        | 43333        | 62592         | 123599        |
| Income from property and entrepreneurship: | 23483               | 28532         | 4908         | 8676         | 28391         | 37208         |
| Fees and miscellaneous receipt             | 5854                | 5225          | 1404         | 1982         | 7258          | 7207          |
| Revenue grants from Government of India    | 18534               | 23039         | 7008         | 8754         | 25542         | 31793         |
| <b>Total current receipt</b>               | <b>128137</b>       | <b>145030</b> | <b>56653</b> | <b>82004</b> | <b>184790</b> | <b>227034</b> |

Tax receipts which alone contributed about 67% of the total receipt accounted for the highest proportion of total income of the municipalities and corporations.

Current outgoing:

The current outgoing is shown in Table No.6.

The current outgoings have increased from Rs.1125 lakhs in 1980-81 to Rs.1579 lakhs in 1981-82. It can be seen from the table that consumption expenditure exceeds transfer payments in both the years. Consumption expenditure accounted for about 91% and 94% of the total outgoing in 1980-81 and 1981-82 respectively.

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TABLE - 6a

Current outgoing of the Municipalities & Corporations (Rs.'000)

| Sl. No. | Items                   | Municipalities |         |       |       |        |        | Total |
|---------|-------------------------|----------------|---------|-------|-------|--------|--------|-------|
|         |                         | 1980-81        | 1981-82 | 80-81 | 81-82 | 80-81  | 81-82  |       |
| 1       | 2                       | 3              | 4       | 5     | 6     | 7      | 8      |       |
| 1       | Consumption expenditure | 61673          | 79261   | 40612 | 69999 | 102285 | 149260 |       |
| 2       | Transfer payments       | 7443           | 7278    | 2719  | 1397  | 10162  | 8675   |       |
|         | Total                   | 69116          | 86539   | 43331 | 71396 | 112447 | 157935 |       |



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