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An Empirical Study on Financial Performance of Corporations of Gujarat State

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Abstract: Local Government institutions are not new to India and have come down to us from the ancient times. Kautilya and other authorities refer to these institutions and Vedas, Particularly the Rig Veda, reveals that the ancient Hindus led a corporate life. In India a Municipal corporation is a local government body that administers a city of population 3, 00,000 or more. Thus, researcher has taken secondary data (Annual Reports-Budgets) of 6 (six) Corporations of Gujarat State for the study and the data analyzed through one way ANOVA.

Keywords: Municipal Corporations, Financial Performance, Budgets, ANOVA

I. INTRODUCTION

The three tier structure of the Indian Government i.e. Union, State & Local Self Government is the scenario of the Indian constitution. Local Self Government performs or renders many services under the direct control of state government. They (local bodies) possess autonomy within its limited sphere, raise revenue through local taxation & spend its income on local services. The researcher has taken the prime body of the local self government viz. Municipal Corporation. However, the number of municipal corporations in India has rapidly increased in recent years. Countries 27% of the total population are living in urban area & in recent it increasing very fast.

People are moving very fast from rural area to urban area. Their demand, awareness is increasing day by day. The Municipal Corporations render many services for the development of the urban area. Thus, researcher has taken a step to know the accounting practices of the municipal corporations of Gujarat state. The researcher will try to show the whole picture of the municipal corporation, its accounting practice, preparation of budgets, etc.

II. PROBLEM OF THE STUDY

"An Empirical Study on Financial Performance of Corporations of Gujarat State" is based on following problems.

- Financial flows are limited in all Municipal Corporations.
- All Corporations having traditional financial instruments in light of development functions.
- Last few years show that revenue income from revenue income Instruments are increasing very slowly.

III. AIMS AND OBJECTIVES OF THE STUDY

1. To know the Government system of accounting.
2. To know the fund management or capital income.
3. To know the expenses trends. i.e. of revenue and capital
4. To know the taxation and other aspects.

5. To evaluate the various schemes.
6. To evaluate the revenue pattern.
7. To document the record keeping / accounting practices.

IV. SIGNIFICANCE OF THE STUDY

Countries 27% of the total population are living in urban area and in recent it increasing very fast. Also in those urban areas more than 65% are living in Municipal regions. Therefore, Municipal Corporations can render many important responsibilities, duties and functions. Therefore, this subject or study can be selected. Gujarat State's Corporations are having weak economic conditions but they render large and important services. They also render their voluntary functions against deficit or loss. It renders different types of services for better living, clean environment, and safe life for their local public.

V. SCOPE OF THE STUDY

The study covers Gujarat State. In it there are 7 Municipal Corporations viz. Rajkot, Jamnagar, Bhavnagar, Ahmedabad, Baroda and Surat. In that Junagadh has been introduced in recent one year, therefore, Junagadh Corporation is not taken for the study. For this study Last 10 years (1996-97 to 2005-06) Annual published reports and budgets are collected.

VI. REVIEW OF THE EXISTING LITERATURE

In this area there are many researches having noticeable works. All these researches have mentioned lights about urban local government. These researches in short are as under:

1. Minocha A. C, in his thesis "Finances of urban local bodies in M.P. - A c a s e s t u d y o f Bh o p al , Ma h a k o s h ala a n d Vindhyapradesh Regions" explain how the municipalities render: their functions with limited financial instruments. For that he has taken 11 municipalities of about regions.
2. Jay Bhagwan, in his thesis ""Municipal Finances in the metropolitan cities of India" explains that how Delhi Municipal Corporation makes remarkable contribution to come out from their financial problems. In it 21 years finance administration can be analysed and for that he compared it with Calcutta, Mumbai and Madras Corporation.
3. Gangadhar Zha, in his thesis "Local Finance in Metropolitan Ci t ies" ' clears out the financial problems of Delhi Municipal Corporation. For that he has taken the period (1960-61 to 1982-83 t of 2 1 years. For analysis he has used the time series method.
4. Dr. P. C. Joshi , in hi s the si s "Finances of Muni cipal Corporation in the Gujarat State - A Case Study" explains the financial structure of Gujarat State Municipal Corporations. For that he compared Surat Municipal Corporation with Ahmedabad 'Municipal Corporation and Baroda Municipal Corporation. In it he explained more on income and less on expenditure or avoids expenditure.
5. K. N. Parekh, in his thesis "Determinants of Municipal expenditure in Gujarat" studies the local expenditures some factors that creates expenditure. For that he studied 52 Municipalities and 4 Municipal Corporations. In this study he used regression analysis.
6. Dr. Jagdish Andhariya, in his thesis studies the Baroda and Bhavnagar Municipal Corporation's comparative study of financial position.
7. R. A. Joshi, in his thesis "A comparative study of Public Expenditure and Income of Municipal Corporations in Saurashtra Region" studied the two Corporations i.e. Rajkot Municipal Corporation and Jamnagar Municipal Corporation of Saurashtra Region. He has taken the period of reference as Year 1997-98. For expenditure how income sources can be developed and taxation rates increases are explained.
8. Lakhi J. Odedara, in her thesis "A study of tax structure and social services of Municipal Corporations of Saurashtra Region" explains the economic and social flows and changes in it of Rajkot, Jamnagar and Bhavnagar Corporations.

She referred the time period of 1997-98 to 2001-02 and with this also explains the taxation structure of above Corporations.

9. P.K. Chaubey, Professor of Economics, IIPA, New Delhi, in his article, "ULBs in India : Focused on transfer of Functions & Funds" made more emphasis on transfer of revenue surplus to any revenue deficit local body. Again he had taken the data of different states ULBs & analysed that compare to municipal Revenue Expenditure (MRE) Municipal Revenue Receipts (MRR) are more or less. The difference he had given as if, MRE- MRR = MRD (Municipal Revenue Deficit) & if, MRR – MRE = MRS (Municipal Revenue Surplus).
10. Gangadhar Jha, Consultant, IPE Pvt. Ltd., New Delhi, in his paper, "Municipal Financial Resource Mobilization: Status, concerns & Issue" analysed fiscal capacity on the basis of available municipal revenue structure & trend in own revenue. Further he discussed, policy issues for revenue enhancement from tax & non tax sources giving tools of revenue generation.

VII. Universe of the Study

The universe of the study consists of all municipal corporations of the Gujarat state. Since the establishment of Junagadh Municipal Corporation is a recent story. Just conversion from municipality into Municipal Corporation from last 2 years and the researcher has taken the data for analysis of last 10 years. So the study has been c carried out on the basis of remaining six municipal corporations.

VIII. Hypothesis

Ho: There is no significant difference in Total Revenue Income of the sampled units during the period of study.

Ho: There is no significant difference in Total Revenue Expense of the sampled units during the period of study.

Ho: There is no significant difference in Total Capital Income of the sampled units during the period of study.

Ho: There is no significant difference in Total Capital Expense of the sampled units during the period of study.

IX. Research Design

Data Collection

There are two types of data collections i.e. (1) Primary data collection and (2) Secondary data collection. The study covers the published annual report and budgets of sampled units of last 10 years (i.e.1996-97 to 2005-06). Therefore, study covers secondary sources of data. It is supported by various published journals, magazines, literatures of the corporations. No primary data has been collected.

Sampling

In Gujarat State there are seven municipal corporations are existing. Out of seven, six municipal corporations are taken for the study.

Period of study

The present study is made from the year 1996-97 to 2005-06. i.e. of 10 years.

Tools and Techniques of the study

The researcher has used the tools according to the need and type of the study. Municipal Corporations different magazines, budgets, annual diaries, etc are used for the purpose. As six municipal corporations (sampled units) are taken for the analysis, and as an accounting practice they prepare annual budgets. So, budgets of 10 years are taken for the analysis. Generally budgets divided into 4 classifications, i.e. revenue expenses, revenue incomes, capital expenses, and capital incomes. For the analysis, 25 heads of revenue incomes, 25 heads of revenue expenses, 15 heads of capital expenses and 6 heads of capital incomes are taken and it can be analyzed through ANOVA (one way).

X. Total Revenue Incomes

As Municipal Corporations of the Gujarat State are mainly preparing budgets & divide all budgets into main 4 classification i.e. revenue incomes, Capital Incomes, Capital Expenditures & Revenue Expenditures. This chapter deals with the main revenue source of municipal corporations i.e. revenue incomes, revenue incomes comprising of the operating incomes which are of recurring items, majority of revenue incomes of the six corporations are same, just minor differences as pew r the development of the city, population of the city etc. All the six municipal corporations prepare their budgets mostly in similar format, having minor differences, like certain corporation shows as, revenue from old water connection, revenue from new water connection etc.

Following are the overall list of the revenue incomes which are generated by the municipal corporations; generally they are classified as, tax revenue, non-tax revenue & other miscellaneous revenue incomes.

Hose Tax, Cleaning Tax, Theatre Tax, Fire Tax, Toll Tax, Vehicle Tax, Water Tax, Open Plot Tax, Sludge (Dirty Water Tax), Street Light Tax, Animal Tax, Drainage Tax, Octroi, Drainage Charges, Shop & Establishment Connection, Shop Registration Fee, License Fee, Garden & Zoo Income, Slaughter Income, Public Hall Rent, etc.

Following table shows the figures relating to Total Revenue Income of the sampled units during the period of study.

Table No. 1 Total Revenue Income
(RS. In Lakhs)

Years	AMC	SMC	VMC	RMC	BMC	JMC
1996-97	38720.13	26307	14736	7984.3	3577.6	3149
1997-98	42073.32	28426	15328	9525.84	3631.4	3721.2
1998-99	47499.74	31286	17707	10154.58	4132.8	4302.9
1999-2000	56611.8	37691	19793	10653.3	4589.1	4620.3
2000-01	56258.44	40036	21263	9897.23	5131.6	5037.3
2001-02	56184.53	41542	20258	9792.99	4578.5	4763.3
2002-03	61564.15	49403	23794	12622.27	4885.3	5242.8
2003-04	69067.54	52977	24468	12133.55	5547	5298.7
2004-05	80708.53	62042	28870	13761.71	6593.6	6401.1
2005-06	90237.88	67347	30375	14574.68	7353.6	7443.2

Source: Compiled from Secondary Data –Budgets

Ho : There is no significant difference in Total Revenue income of sampled units during the period of study.

Therefore, Ho : r1 = r2 = r3 = r4 = r5 = r6

Table No. 2 ANOVA

Source of Variation	SS	df	MS	F	P value	F crit
Between Groups	2.569E+10	5	5.14E+09	62.0436775	3.7E-21	2.38607
Within Groups	4.472E+09	54	82821811			
Total	3.017E+10	59				

Fc > Ft

62.04 > 2.38

So, Null hypothesis rejected at 5 % level of significance. Hence, hypothesis is rejected; it means that there is significant difference in Total Revenue Income of the sampled units during the period of study.

XI. TOTAL REVENUE EXPENSES

Revenue expenses is the second main Classification of the Budgets prepared by the municipal Corporations Revenue expenses Comprising of the operating expenses which all recurring items, like payment of salary to the staff, Municipal Commissioner expenses, expenses for water, drainage, electricity, street lights etc. Thus revenue generated by the Corporations are utilized for the development, improvement & modernizing the particular city under the jurisdiction area. All corporations have shown revenue expenses under the same heads having minor differences.

Following are the overall list of the revenue expenses, which have incurred by the Municipal Corporations during the period of study. Generally in Budgets majority all corporations have shown under particular head. Like Family planning & Welfare Centers, Corporations committees, Secretary Office, Municipal Commissioners Office, Audit Department, Account & Finance Department, EDP. Department,

Estate & City Improvement Department etc. Following table shows, the figures relating to total revenue expenses of the sampled units during the period of study.

Table No. 3 Total Revenue Expenditure

(Rs. In Lakhs)

Years	AMC	SMC	VMC	RMC	BMC	JMC
1996-97	32194.92	17478.14	11984.37	5832.4	3043.57	2825.69
1997-98	36137.7	19250.85	12782.26	7615.07	3645.47	3029.39
1998-99	41891.45	23625.82	17076.97	8314.28	3768.89	3932.09
1999-2000	51829.86	28235.7	19607.98	10379.45	4516.3	4719.21
2000-01	56119.92	29353.75	20278.49	9549.48	4770.58	4345.37
2001-02	55954.16	29977.22	20501.63	9650.5	4570.34	4858.09
2002-03	58190.11	30516.43	22923.3	12068.08	4576.28	5095.25
2003-04	56264.5	32702.8	23569.12	11712.06	5337.23	4700.33
2004-05	60557.94	34579.64	24428.99	13580.63	6223.64	5144.1
2005-06	62860.26	37832.01	25336.83	13767.59	5893.16	7422.11

Source: Compiled from Secondary Data –Budgets

Ho: There is no significant difference in total revenue expenses of the sampled units during the period of study.

Therefore Ho: r1 = r2 = r3 = r4 = r5 = r6

Table No. 4 ANOVA

Source of Variation	**SS**	**df**	**MS**	**F**	**P value**	**F crit**
Between Groups	1.611E+10	5	3.22E+09	103.7379	2E-26	2.386066
Within Groups	1.677E+09	54	31063525			
Total	1.779E+10	59				

$$Fc > Ft$$

$$103.73 > 2.38$$

So, hypothesis is rejected at 5% level of significance. Hence, hypothesis is rejected; it means that there is significant difference in total revenue expenses of the sampled units during the period of study.

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XII. Total Capital Income

Capital Incomes comprises incomes which are not from operating cycle & which are non -recurring in nature. Generally all corporations have shown capital incomes under the same head capital Incomes, Ahmedabad Municipal Corporation has given the head developmental works instead of capital incomes, but the same nature of incomes are shown there. Generally these incomes are shown under particular heads by the municipal corporation in their budgets. Capital Incomes are, Grants for general, Grants for Roads, water supply, drainage, stores water etc., Grants, loan for health, solid waste management, Grants & loans for awas -yojana, Land & Property selling, MLA, Member of Parliament, GMFB, GSDMA, ONGC etc.

Table No. 5 Total Capital Incomes

(Rs. In Lakhs)

Years	AMC	SMC	VMC	RMC	BMC	JMC
1996-97	7692.33	721.78	351.67	1065.63	46.42	266.29
1997-98	19098.3	1330.06	255.89	1724.76	221.11	485.31
1998-99	9150.04	1896.06	1899.51	1775.72	64.97	966.83
1999-2000	11771.1	9654.3	2982.06	3511.98	316.84	1161.23
2000-01	15596	7840.75	3112.19	603.99	74.62	1273.87
2001-02	24169.8	5657.13	2853.87	497.46	60	615.34
2002-03	7579.76	1696.19	3024.26	967.1	19.18	2157.03
2003-04	32011.5	5374.97	2018.58	2760.57	234.85	567.28
2004-05	33807.7	4669.1	3887.73	5787.97	249.19	1654.78
2005-06	32470.7	7854.87	4359.41	3991.79	78.82	2938.05

Source: Compiled from Secondary Data –Budgets

Ho: There is no significant difference in total capital income of the sampled units during the period of study.

Therefore Ho: r1 = r2 = r3 = r4 = r5 =r6

Table No. 6 ANOVA

Source of Variation	SS	df	MS	F	P value	F crit
Between Groups	2574577444	5	514915489	24.08691	1.18E—12	2.386066
Within Groups	1154379576	54	21377399.6			
Total	3728957020	59				

Fc > Ft

24.08 > 2.38

So, Null hypothesis rejected at 5% level of significant. Hence, hypothesis is rejected; it means that there is significant difference in total capital incomes of the sampled units during the period of study.

XIII. Total Capital Expenses

Capital expenses are another important head for the preparation of the Budgets, Capital Expenses comprising of investing, non-routine type of expenses. For example, purchase of computers, contraction of bridges, purchase of water supplying instruments, equipments etc. so the corporations make the expenses for providing facilities to the citizens. All sampled units have shown the head capital expenses of some have shown expenses of similar nature under developments works. For the solution of complication, researcher has taken consistent data, which incurred during the period of study. Following are the overall list of the capital expenses, which have incurred, like Purchase of Computer, Purchase of plant, machineries, Air Conditioners, Air Coolers etc., Purchase of Furniture, Truck, Tanker, Tempo Etc.

Mobile Toilet Van, Ambulance, stray, Construction of roads, Supply of water, giving drainage lines to different areas, Construction of markets, officers, health centers, schools etc.

Table No. 7 Total Capital Expense

(Rs. In Lakhs)

Years	AMC	SMC	VMC	RMC	BMC	JMC
1996-97	7243.79	14929.7	417.83	1507.35	397.57	642.17
1997-98	6533.69	11209.7	1087.03	1720.31	517.27	922.19
1998-99	8109.74	13889.6	1899.52	1784.45	533.52	1437.7
1999-2000	19106.2	20269.9	2982.06	3513.62	433.59	1939.7
2000-01	13614.8	20739.3	3237.89	603.15	236.25	1215.18
2001-02	16996.2	15927.4	769.43	498.06	252.61	1231.5
2002-03	13761.6	16640.5	2781.8	689.56	336.37	2249.91
2003-04	24339.2	17270.1	2155.54	4017.43	380.53	795.52
2004-05	19028.2	17386.7	2707.51	3616.47	613.28	1708.97
2005-06	18199.1	32562.8	4169.26	6338.17	648.24	2677.72

Source: Compiled from Secondary Data –Budgets

Ho: There is no significant difference in Total Capital Expenses of the sampled units during the period of study.

Therefore Ho: r1 = r2 = r3 = r4 = r5 = r6

Table No. 8 ANOVA

Source of Variation	SS	df	MS	F	P value	F crit
Between Groups	2981160743	5	596232149	103.7379	1.09E-18	2.386066
Within Groups	669542119	54	12398928.1			
Total	3650702862	59				

Fc > Ft

48.08 > 2.38

So, Null hypothesis rejected at 5% level of significance. Hence, hypothesis is rejected it means that there is significant difference in Total Capital Expenses of the sampled units during the period of study.

XIV. SUGGESTIONS

As researcher has mentioned findings as above that include suggestions also, besides those suggestions some considerable suggestions were derived they are as below. From the entire study, some findings have inferred out Researcher has tried to present them. Analytical study has been carried out by the researcher of the sampled units during the period of study. There are some suggestions derived from the doing the analytical study of the four classifications of budgets.

1. Municipal Corporation Should Follow uniform accounting practices.
2. They should adopt Accrual Based Accounting system, instead of cash Basis.
3. Double Entry System of book-keeping gives more accurate results compare to single entry, so they should go for double entry system of book keeping.
4. Municipal Corporation should have some definite base for the classification of expenses & incomes while preparing budgets.
5. While analysis of the date, it was found that, BMC was not having structural format for the classification of revenue incomes expenses, capital incomes & expenses. They should use structured format for the preparation of budgets.
6. After preparation of budgets, there should be some external authority for controlling & monitoring of budgets.
7. Accounting standard issued by the ICAI for local bodies that should be accepted & implemented while preparing reports.

8. Accounting has not been considered as an important function & there is no statutory or legal requirement or compulsion to improve the accounting system, this is to be kept in mind necessary actions to be taken.
9. Municipal Corporation receives various types of specific purpose capital grants, which need to be treated at the initial stage as a liability & not as revenue.
10. Generally, the municipal body may be focused on the development of infrastructure without detailing the economic feasibility or the rate of return, this point should be considered.
11. The main findings from the prepared budgets, that there were very less matching of revenues generated & expenses incurred after the budgeted period over. So, before preparing budgets, more analytical follow-up, efforts should be required to maintain & new technique for preparing budgets like ABC, ZBB, etc. to be implemented.

XV. Limitations of the Study

1. The researcher has taken data of Gujarat State only.
2. There are many approaches to the measurement of the performance. There is no uniformity among experts.
3. A physical constraint of an individual researcher has obviously remarks some limitations in the assembling of the data due to vast panorama of Municipal Corporation.
4. The study is based on secondary data derived from annual published reports & budgets its quality depends on quality of such data.
5. It should be noted that conclusion & suggestions viewed here are based on data collected by the researcher.
6. The present study based on accounting practices & it has its own limitation that applies to this study also.

XVI. Conclusion

As from the analysis of budgets prepared by the Municipal Corporations of Gujarat state, it concluded that they should follow & maintain uniform accounting practices, more efforts, controlling measures, efficiency & transparency while preparing budgets, They should prepare uniform formats of budgets & uniform classification of different heads of revenues & Capitals. The researcher had analyzed the financial performance of Municipal Corporation of Gujarat State but there is more research work yet to be done. The field is open for further research like,

1. The researcher had analyzed MCs. of Gujarat state only; any other state can also be taken for future researches.
2. Comparison between any of the prominent institute of Local Self- Government can also be taken.

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Abbreviations

ABC - Activity Based Costing

ADB - Asian Development Bank

AIILSG - All India Institute of Local self Government

AMC - Ahmedabad Municipal Corporation

BMC - Bhavnagar Municipal Corporation

EDP - Electronic Data Processing

EWS - Economical Weaker Section

GACL - Gujarat Alkalies & Chemicals Ltd.

GMFB - Gujarat Municipal Finance Board

GSDMA - Gujarat State Disaster Management Authority

GSFC - Gujarat State Fertilisers & Chemicals Ltd.

HUDCO - Housing & Urban Development Corporation

JMC - Jamnagar Municipal Corporation

RMC - Rajkot Municipal Corporation

SMC - Surat Municipal Corporation

SWM - Solid Waste Management

TP Scheme - Town Planning Scheme

ULBs - Urban Local Bodies

VAMBAY - Valmiki Ambedkar Awas Yojana

VMC - Vadodara (Baroda) Municipal Corporation

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