

A Comparative Study of Financial Health of Municipal Corporations in Rajasthan

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Abstract

This paper intends to compare the financial health of the two municipal corporations of Rajasthan. For the said purpose, the sample of Jaipur and Jodhpur municipal corporation have been taken into consideration and their revenue, expenditures and surplus/deficit have been taken as core variables and intra and inter corporation comparison have been made by making the use of hypotheses. The relevant hypotheses developed have been tested using ANOVA and t-test respectively. It has been found that there is no significant difference in revenue, expenditures and surplus/deficit of both the municipal corporations when compared to themselves over the period and among each other. It has been suggested to control on expenditures and make the best use of resources to generate revenue so that surplus can be maintained in each year of operations.

Keywords: Municipal Corporation, Revenue, Expenditures, Surplus, Deficit, Local Government

Introduction

According to Duane Lockard, local governments are public institutions with authority to decide and administer more public policy within relatively small territories, which are subdivisions of regional or national governments. In a pyramid of government institutions, local government occupies the bottom range, while national government occupies the top position, and intermediate government occupies the middle position. Unlike most of the world, India has three levels of government: central, state, and local.

The powers under Panchayati Raj System have been detailed under of 3rd Amendment while the 74th Amendment of the Article 243 p passed in 1992 for Urban Local Government aimed at improving services and duties of municipalities while encouraging them both administratively and financially. It enables popular participation in planning management, ensures reservation to women and SC/ST, timely and fair conduct of elections, hence added IX, IX A and 12th schedule. Part IX A ranges from 243 p to 243 ZG including many subjects like composition and elections of municipalities, reservation, duration, powers, taxation,

responsibilities of municipalities, finance commission, planning committee, etc.

The 44th Amendment that entered into force on June 1, 1993 states the 18 functions of ULBS that are either obligatory or discretionary in character such as urban planning, water and electricity supply, public amenities, sanitation, vaccination, registration of births- deaths, promotion of educational and cultural fields.

Municipal Corporation also termed as “Nagar Nigam” has population greater than 1 million and revenue range greater than 2 crores. It is divided into two parts deliberative and executive, the former of which frames the policies and debated on the performance of executive while the executive has the municipal commissioner its head carrying out the duties along with other officers. Mayor is the ceremonial head of corporation. Municipal Corporation is required to deal with urbanization, local governance, reports of nation's commissions, financial management, land planning, etc. Major income of municipal corporations flows from tax revenue and rest from non-tax that includes fees, fines and grants received from government. The challenges that it has to face are its undefined role, outdated organizational structure, erosion of functional domain, weak executive system and inadequate resource base. After independence, Rajasthan Town Municipalities Act was declared in 1951 by revoking the princely states municipal laws. Subsequently, Kasaba aiming for a uniformed and common law after the integration of 222 princely states was revoked and replaced by Rajasthan Municipalities Act, 1959. Later, 43 rules were incorporated there by state Government. The first Municipality was founded in Abu in 1865. There are a total of 171 ULBS in Rajasthan at present including 7 Municipal Corporations, 34 Municipal Councils and 150 Municipal Boards.

The slow fading of Municipal domain from the intrusion of special purpose authorities and government agencies, curtailment in resource base, Octroi abolishment, and reluctance by state government in the matters of local autonomy display gloomy prospects for local government. At the national level, planning commission has set up a task force to enhance management capabilities of local government. Hence, its future lies in the hands of political will.

Review of Literature

Du Boys, Padovani and Orelli (2014) It appears that the era of "Network Governance" is characterized by the overlapping and linking of both public and private sector organizations in order to provide local services. The interweaving fiscal rules by central government and differentiated effects of local economy through international accounting standards is commendable but cannot be the sole basis as risks and practices vary in nature. In France, the sudden rise in financial autonomy has rendered self-financing and cash flow the main assets of financial health analysis. Liquidity risks are very little analyzed as they are based on balanced sheets which are quite reliable. Italy suffers from the financial problem of cash solvency that led to a new reform aimed at strengthening the local governments accounting system. Legal boundaries of local governments may have restricted their analysis in past which resulted in incomplete contingency model of financial health assessment. The level of autonomy that is inclusive of financial autonomy, default procedures, external control, Goo's financial health successful level of external providers in terms of probability of insolvency and pressure from political.

Bandyopadhyay (2014) attempted to shed light on significant plights in control with municipal finances in India. The hypotheses highlight the issues dealt by urban local bodies regarding the inadequate mechanism of decentralization of functions and finances. It also analyses the measures that have been offered in literature to deal with these challenges. Octroi's distortionary nature led its abolition which has now created an issue of its compensation. The twelfth five-year plan proposes that charges on the additional Floor Space Index and the land-use conversions should be at least half of the original land value of the area. A good performance in municipal resource utilization and management can herald significant changes in the city's competitiveness. The main principals of competitiveness a city reside in the performance in revenue generation and expenditure management, according to the Council for Western Metropolitan Region of India (CMRI).

Nemec and Spacek (2020) in their Covid-19 crisis research tends to eat limelight on epidemiologic and macro lend aspects. As a general overview of the crisis-affected municipal budgets in Czech and Slovakia, this article provides a brief overview of their state. Until June 2020, national governments are required to release resolutions and restrictive regulations. As a result of their handling of the Ebola pandemic, the Czech and Slovak governments have been praised. However, the council of Europe has lukewarmly criticized their response at the local level, due to the "difficult financial situation in some local authorities". The ever positively accelerated expenditures, losses in revenues and inadequate central response have weakened the capacity of Czech and Slovakia municipalities to carry out their responsibilities. But in Czech, the government during Covid -19 crisis approved expenditures and amends that did not have a direct connection to pandemic which sure raises questions.

Lucianelli, Fazzari, and Cavalieri, (2020) explained that the global financial crisis is attributed to be the prime reason for the plights of European countries at both national and local level. With recent upgrades in financial budgeting, the importance of measuring financial sustainability, implementing strategies to avoid distress, and representing expected results has been emphasized. As a result of analyzing the income statements and final balance sheets of some municipalities from 2013 to 2017, this paper analyzes their financial situation. It recommends Ad Hoc legislation as a way to retain financial sustainability during crisis. The data is sourced from official documents and interviews were conducted with public accounting experts. There has been an introduction of a new concept of competence, which has been incorporated into the statement of financial reporting. There has been a reduction in the amount of debt in extraordinary management and ordinary management, according to balance sheets. In light of new accounting standards, we are guided to assess liabilities based on actual debts, rather than future revenues and nonexistent commitments.

Research Gap

On the basis of the review of literature, it has been observed that no study has been undertaken related to the fund management of the municipal corporation of the Rajasthan

considering its all revenues and expenditures. Also, no study has been undertaken for the considered period and considered variables. Thus, in order to fill in the research gap, the study entitled "A Comparative Study of Financial Health of Municipal Corporations in Rajasthan" has been intended to be carried out to analyze the various sources of revenues of the municipal corporation of Jaipur and Jodhpur and make a relevant comparison among the two corporations.

Methodology

Objectives:

- To analyze various sources of revenue of selected municipal corporations.
- To analyze various expenditures of selected municipal corporations.
- To analyze surplus or deficit of selected municipal corporations.
- To examine financial trends of the municipal corporations.
- To compare the financial information of selected municipal corporations over the years and among each other.

Hypotheses

Intra-Corporation Comparison

H01: In terms of revenue, there has been no significant change in selected municipal corporations over the years.

H02: Across the years, there is no significant difference in expenditures for selected municipal corporations.

H03: In terms of surplus/deficit, there is no significant difference across selected municipal corporations over time.

Inter-Corporation Comparison

H01: Among selected municipal corporations, there is no significant difference in revenue.

H02: Municipal corporations with similar expenditures do not differ significantly from one another.

H03: The surplus/deficit of selected municipal corporations is not significantly different. Sample and Data Collection.

The sample of Jaipur and Jodhpur municipal corporation has been taken consideration for the purpose of the study. For attaining the objectives of the study, data related to

various sources of revenues and expenditure of both Jaipur and Jodhpur Municipal Corporation were collected from financial year 2012-13 to 2019-20.

Tools and Techniques

The aforesaid intra-corporation comparison has been done through ANOVA while the inter-corporation has been done through t-test analysis.

Analysis and Discussion

Analysis of Revenue

Figure 1 shows the butterfly chart of total revenue of both Jaipur and Jodhpur municipal corporations. Left and right wings show revenues of Jaipur and Jodhpur municipal corporation respectively.

Figure 1: Butterfly Chart of Total Revenue



Table 1: Results of t-Test and ANOVA for Total Revenue

Inter-MC Comparison using t-Test: Total Revenue					
Mean Difference	Std. Error Difference	t-statistic	p-value		
37377.16625	2092.86807	17.859	0.00		
Intra-MC Comparison using ANOVA: Total Revenue					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	178582029.559	7	25511718.508	.036	1.000
Within Groups	5654913616.101	8	706864202.013		
Total	5833495645.660	15			

It is found that the calculated value of t for Inter-MC comparison is found to be 17.859 with a p value of 0.00. Therefore, the null hypothesis is rejected at 5% level of significance, and it can be concluded that both MCs have significant differences in revenue. To determine if revenue differed significantly throughout the years, hypothesis testing was conducted. This intra-MC comparison was done using ANOVA. Results show that the calculated value

of F is 0.36 with a p value of 1.00. Therefore, p value of 1.00 is accepted. The results indicate that revenue between years is not significantly different.

Table 1 shows results of ANOVA for both of the MCs for both Inter-firm and Intra-firm comparison.

Analysis of Expenditure

Figure 2 shows the butterfly chart of total expenditures of both Jaipur and Jodhpur municipal corporations. Left and right wings show expenditure of Jaipur and Jodhpur Municipal Corporation respectively.

Figure 2: Butterfly Chart of Total Expenditure

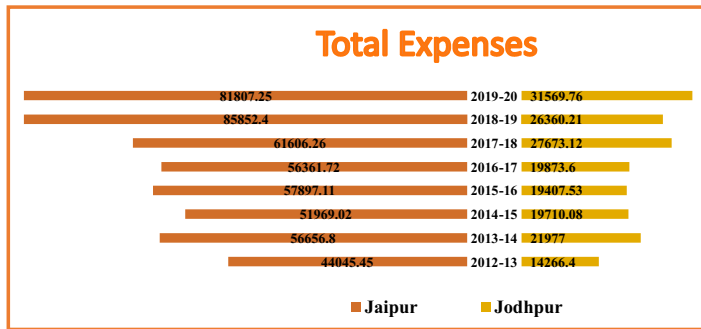


Figure 2 shows that there is huge difference in expenditure also for both of the MCs. The lowest expenditure of the

Jaipur MC is 44045.45 Lakhs in the year 2012-13 and highest is 85852.4 Lakhs in the year 2018-19. Expenditure of Jaipur MC have shown high rising trend over the years. On the contrary, expenditure of Jodhpur MC is comparatively lower. Lowest expenditure of the MC is in the year 2012-13 i.e. ₹14266.4 Lakhs and highest in 2019-20 i.e. ₹31569.76 Lakhs. Slow rising trend has been observed in expenditure of Jodhpur MC.

Table 2 shows the results of inter-MC comparison and intra-MC comparison using t-Test and ANOVA respectively.

Table 2: Results of t-Test and ANOVA for Expenditure

Inter-MC Comparison using t-Test: Total Expenditure					
Mean Difference	Std. Error Difference	t-statistic	p-value		
39419.78875	5473.50829	7.202	0.00		
Intra-MC Comparison using ANOVA: Total Revenue					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1314632241.948	7	187804605.993	.228	.967
Within Groups	6578767144.666	8	822345893.083		
Total	7893399386.614	15			

According to the results, the calculated t-statistic value for inter-MC comparison is 7.202 with a p value of 0.00. Therefore, the null hypothesis is rejected at 5% level of significance. Since there is significant difference between both MCs in expenditures, we conclude that there are significant differences between them. Additionally, it was found that the calculated value of F was 0.228 with a p value of 0.967 when comparing intra-MCs. In conclusion, at 5% level of significance, the null hypothesis is accepted and there is no significant difference between expenditures for different years.

Analysis of Surplus

Figure 3 shows the line chart of surplus over the years of both of the MC.

Figure 3: Line Chart of Surplus

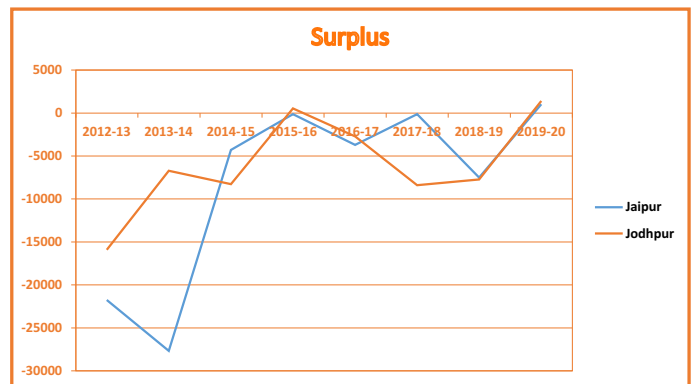


Figure 3 reveals that both of the MCs incurred huge deficit before 2015-16. But since beginning, this deficit continued to decline. Major decrease in deficit has been observed from 2013-14 to 2014-15. After 2015-16 no specific trend was observed for both of the MCs. Only in 2015-16 and 2019-20, both MCs showed surplus. For remaining years, both MCs are showing deficit.

Table 3 shows the results of t-test and ANOVA for inter-MC and Intra-MC comparison respectively.

Table 2: Results of t-Test and ANOVA for Expenditure

Inter-MC Comparison using t-Test: Surplus					
Mean Difference	Std. Error Difference	t-statistic	p-value		
-2042.53250	4300.23957	-0.475	0.642		
Intra-MC Comparison using ANOVA: Surplus					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	772362653.538	7	110337521.934	3.154	.065
Within Groups	279880484.358	8	34985060.545		
Total	1052243137.896	15			

It is found that the calculated value of t for inter-MC comparison is found to be -0.475 with a p value of 0.642. The null hypothesis has therefore been accepted at 5% level of significance, and it is concluded that there is no significant difference between surpluses and deficits of the two MCs. Then hypothesis testing was done to find out whether surplus of all the years is significantly different. This intra-MC comparison was done using ANOVA. As a result, the calculated value of F is 3.154 with a p value of 0.065. In conclusion, the null hypothesis is accepted, and there is no significant difference between surplus and deficit over different time periods.

Conclusion

The future of the nation lies in the development of cities and in this context urban areas require resources in abundance where the availability of the same is constraint. There is a great deal of disharmony amongst high requirement of resources and scarcity of such resources. The situation of Jodhpur and Jaipur municipal corporation is not much appreciable as there is a volatility in the trend of income over the years and increasing trend of expenditure in both the municipal corporations. In order to address the current situation of these corporations, it is integral to bring out the new schemes in the wake of shaping the 74th Constitutional Amendment. There is also a requirement of having a strong political will and if grand tax rationalization improves, it can prove beneficial for improving organizations at both municipal corporations. Moreover, it is also important that funding and grants received from center should reach the states directly in order to ensure smooth functioning of the municipal corporations of the state.

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