

An Analytical Study of Financial Growth and Development of MCGM: A Modular Approach

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Abstract:

This paper presents the analytical study of financial standpoint of Municipal Corporation of Greater Mumbai, popularly known as MCGM. MCGM enjoys the status of being the largest functional local body as compared to other municipal corporations operating in the state of Maharashtra. The researches carried out earlier related to analyzing the working of local bodies were mainly devoted to functional and operational aspects of municipal local bodies. A very few among those have superficially touched the financial viabilities and autonomic aspects of local bodies. But, there is dearth of studies directed to analyze the financial success and development and growth related modular approach for local body like MCGM. This study is a small attempt in this direction and diagnoses not only the financial viability of local bodies like MCGM, but analytically tries to reach to the pitfalls prevailing in the overall financial management. For arriving at the conclusions, analytical tools like regression analysis and test of significance using one way ANOVA were employed. Results showed that there were wide disparities in the financial function of the MCGM and that a fair and justified investment pattern of the revenue surplus and enhancing the revenue income is needed. The envisaged study has suggested financial growth models for urban local bodies and for the overall financial development of the MCGM.

Keywords: Autonomy, Disparity, Financial function, Growth, Municipal Corporation

1 INTRODUCTION:

With rapid increase in population, the non-metropolitan cities are turning into metropolitan status by merging the Municipalities into Municipal Corporations. But the roles of municipal authorities in the cities have not been able to cope up with municipal services to its city dwellers due to lack of monetary resources. Without municipal finance, the Municipal Corporation will become meaningless. Thus, many Groups and Authorities have been arranged from time to time by the governments for improving the monetary situation of the civic federations.

In this context, the present study focuses mainly on the largest urban local body operating in the state of Maharashtra known as MCGM. Entire metropolitan region of the Mumbai is ruled over by

MCGM for all kinds of civic amenities and facilities to be provided within the entire region confined under MCGM.

1.1 RATIONALE FOR SELECTING THE TOPIC:

Municipal Corporations of Maharashtra in idioms of receipts and expenses on income and capital accounts for an era of ten years in direct to identify the contributing factors for the sound monetary position and where they are lacking in direct to get better overall monetary performance of the Municipal Corporations. The analysis of monetary position can be used as an effective mechanism to provide a better insight of monetary performance of the Municipal Corporation of Greater Mumbai which may be beneficial in evaluating how efficiently Municipal Corporation has been working under its jurisdiction. [1]

Monetary Statements play a very vital role to comprehend the monetary status of a community. They assist one to define and know about finance related issues of a community eg. What is the source of income for the community money, how it is expended and would it be possible to allot some of the resources to support the community Management plan etc. [2]

1.2 RESEARCH OBJECTIVES:

1. To study the outlay trend of urban local bodies in Maharashtra with special reference to MCGM.
2. To assess the ability of resource utilization with respect to the level of municipal services provided by MCGM.
3. To ascertain the challenges faced by MCGM in raising municipal finance and to suggest appropriate measures to overcome them.

2. LITERATURE REVIEW:

In a study conducted in 2014 by Sandeep Thakur on Urban finances of municipal corporation where total revenue and total expenditure were analyzed. The study was conducted based on the budget documents of the Corporation. The study found that tax-revenue are the major contributors in the total revenue of the corporation. Revenue receipts contribute more than 80% of the total receipts of the corporations, similarly own income are found to be around 80% of the revenue receipts during the study period. Researcher further observed that property tax was a major source of income and share of revenue expenditure and capital expenditure to total expenditure has ranged between 57-66% and 34-43% respectively. The researcher also observed that major portion of non tax revenue was from building permission fee, building betterment charges, impact fee and building development charges. The per capita state transfer has increased due to change in rate of assigned revenue [3].

In the study conducted in the year 2011 by Simanti Bandyopadhyay, an analytical design was used to analyze the finances and revenues earned by the then locally governed bodies of Jharkhand and West Bengal for five years from 2002-2003 to 2006-2007. The author found that (1) West Bengal was comparatively better position than Jharkhand in financial performance. (2) Revenue expenditure was greater in urban local bodies of West Bengal than Jharkhand. (3) Share of self generated revenue to total revenue was very less in urban local bodies of Jharkhand than West Bengal. (4) Urban local bodies of Jharkhand incurred a major chunk of the capital expenditure due to newly formed state than West Bengal. (5) Property tax and non-tax revenue were higher in West

Bengal than the Jharkhand [4].

During the research, it is observed by the Kuninori Nakagawa (2016) that due the mergers in the period of 1950s the differences in the size of municipality was removed and it was further observed in the study that law created in 1953 for promotion of mergers of municipalities had a great impact on the change of the size distribution of municipalities [5].

3. RESEARCH METHODOLOGY

3.1 Statement of Hypothesis: “There is disparity in revenue generation by MCGM from various sources of income”.

3.2 Data Collection:

For the purpose of this research, the data has been collected through secondary sources. In order to analyze the revenue and expenditures of municipal corporations, the financial data has been collected from sources like relative reference books, Journals, Publications of Government of India, State Government & Annual Financial Statements of MCGM through its website.

Financial Statements are analyzed to conclude about what funds the corporation is having and how they are being used to meet the requirements of the people. Also observations are made regarding if there is a surplus or a deficit that is being carried from year to year and how there is a change in it.

4. DATA ANALYSIS:

The effective performance of municipal functions requires an efficient system of finance. Several committees and commissions have been appointed time and again by the appropriate government to strengthen the financial resources of the municipal bodies. An attempt has been made in this chapter to recapitulate the salient features of the study and to derive out the valid conclusions which are discussed from the previous analysis.

To test the hypothesis “There is disparity in revenue generation by MCGM from various sources of income”, one-way ANOVA test is applied taking Total revenue income as dependent variable and sub-heads of revenue income as fixed factors.

The ANOVA table on the next page gives the F-value in the sixth column and sig. value i.e. p-value in seventh column. P-value so obtained is compared with alpha value of 0.05. Whenever p-value exceeds the significant value 0.05 the association is said to be not significant and when the p-value does not overtake the alpha value the association of source of income with revenue income is said to be significant. In the table it is found that, the sig. value i.e. p-value obtained in case of all the sources of income except ‘Fees plus user charges’ and ‘Sale plus hire charges’ is found to be not exceeding the alpha value of 0.05 to be analytically placed as ($p < 0.05$). Hence, its association is observed to be significant in that case.

In case of Fees plus user charges and Sale plus hire charges the sig. value i.e. p-value exceeds alpha value of 0.05, numerically to be denoted by ($P > 0.05$), the association is said to be not significant.

Since, all the sources of income are not showing significant association, the hypothesis i.e. “There is disparity in revenue generation by MCGM from various sources of income” is **accepted**.

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Tax Revenue	Between Groups	3293336092849963000000.000	10	3293336092849963000000.000	6.591	0.030
	Within Groups	.000	0	.		
	Total	3293336092849963000000.000	10			
Assigned Revenues & Compensation	Between Groups	358209551903679740.000	10	35820955190367976.000	10.256	0.011
	Within Groups	.000	0	.		
	Total	358209551903679740.000	10			
Rental Income From Municipal Properties	Between Groups	239080554562291488.000	10	23908055456229148.000	11.630	0.008
	Within Groups	.000	0	.		
	Total	239080554562291488.000	10			
Fees & user Charges	Between Groups	6236299568639764000000.000	10	6236299568639764000000.000	216.480	0.000
	Within Groups	.000	0	.		
	Total	6236299568639764000000.000	10			
Sale & Hire Charges	Between Groups	71027813985223328.000	10	7102781398522333.000	1.455	0.259
	Within Groups	.000	0	.		
	Total	71027813985223328.000	10			
Revenue from Grant, Contribution & Subsidies	Between Groups	3216295842790216600000.000	10	321629584279021700000.000	2.522	0.147
	Within Groups	.000	0	.		
	Total	3216295842790216600000.000	10			
Income from Investments	Between Groups	83010245848523420000.000	10	83010245848523428000.000	13.390	0.005
	Within Groups	.000	0	.		
	Total	83010245848523420000.000	10			
Interest Earned	Between Groups	2830467871323070000.000	10	283046787132307008.000	49.197	0.000
	Within Groups	.000	0	.		
	Total	2830467871323070000.000	10			
Other Income	Between Groups	1708250235721240800000.000	10	1708250235721240700000.000	112.484	0.000
	Within Groups	.000	0	.		
	Total	1708250235721240800000.000	10			

4.1 FINDINGS:

From the findings came out of research it is clear that Municipal Corporation of Greater Mumbai has to take several measures to improve the budgetary system. The expenditure incurred on capital nature, which create assets in the city. The following are the capital expenditure of MCGM namely, road, storm water drain, bridges, street light, building, solid waste management, park and play ground, education, health, Industrial estates, power laundry, markets, tools and plants, land improvement and member of council-ward improvement works and special development fund. The part II heads of these expenditure are Public Health Expenditure, Medical relief and education, Measures to control Environment, etc.

The findings of growth of expenditure in Municipal Corporation of Greater Mumbai reveal the following facts. General revenue expenditure constitutes more than 650 per cent, drinking water supply source more than 20 per cent and primary education department source more than 5 per cent with respect to total revenue expenditure generation in Municipal Corporation of Greater Mumbai. The growth of revenue expenditure incurred through primary education source ranks first order, drinking water source the second and general source the last.

In general revenue expenditure incurred has shown a positive trend during the period 2008-2009 to 2017-2018 in Municipal Corporation of Greater Mumbai. Continuous and steady increase in general revenue expenditure incurred is an indicator of good performance of Municipal Corporation of Greater Mumbai.

The findings of growth of expenditure pattern in Municipal Corporation of Greater Mumbai reveal the following facts. Out of the total expenditure incurred in Municipal Corporation of Greater Mumbai, expenditure incurred in the form of wages and salaries ranks the first position, administrative expenditure the second, other expenditure the third, plan expenditure the fourth and expenditure in the form of provision of pension the last. In general the increase in of expenditure incurred in the form of provision of pension records first position, growth of administrative expenditure the second, increase in of other expenditure the third, increase in plan expenditure the fourth and increase in expenditure incurred in the form of wages and salaries the last during the period 2008-09 to 2017-18.

5. CONCLUSIONS:

Analysis of the financial performance of the Municipal Corporation of Greater Mumbai along with Thane Municipal Corporation, Navi Mumbai Municipal Corporation, Pune Municipal corporation, Latur Municipal Corporation and Aurangabad Municipal Corporation shows that there exist wide discrepancies in financial position in terms of generating revenues as well as revenue allocation. There exists disparity in receipts on revenue and capital accounts due to difference in revenue raising capacity and difference in priority of the state governments with regard to the share of revenue.

6. RECOMMENDATION:

Based on the above findings a revenue growth model is suggested with percentage of contribution from each source of revenue is suggested.

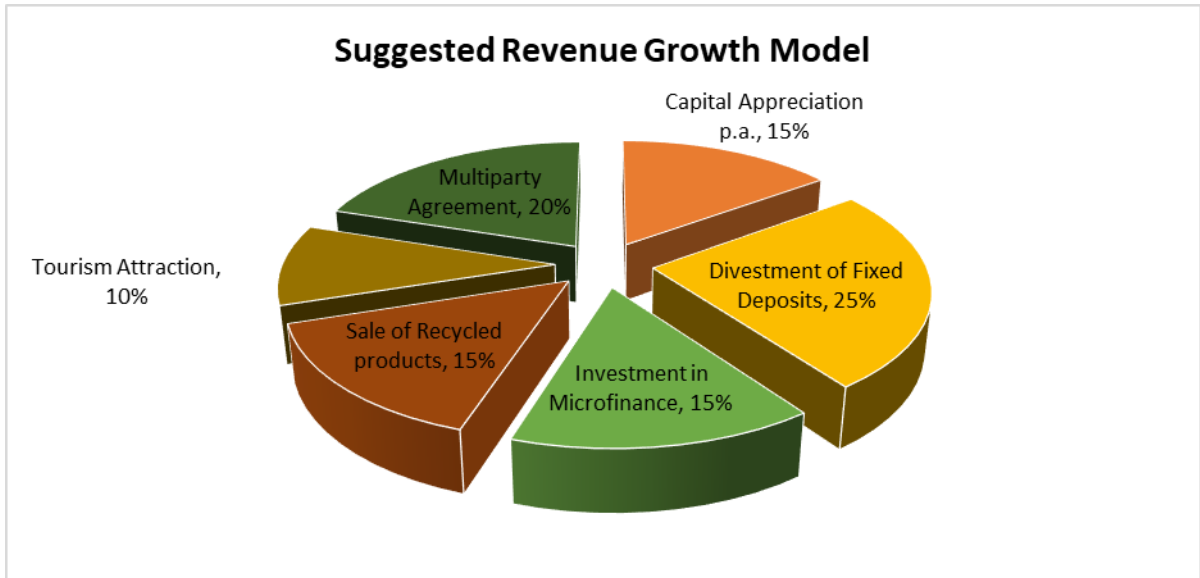


Fig. 1 Suggested Revenue Growth Model

The model shows that if above suggestions are implemented Capital appreciation in capital investment would contribute around 15% to the total growth in revenue of MCGM. , divestment of fixed deposits into projects like Amusement parks, Public recreations facilities, etc. is expected to contribute 25% of total growth in revenue income of MCGM, creation of tourism attraction activities would contribute 10% in the total revenue growth of MCGM, sale of recycled products made out of solid waste would generate 15% revenue to MCGM, microfinance investment are expected to contribute 15% in the growth of revenue income to MCGM and remaining 20% income are expected to be generated out of multiparty agreements.

Growth Model for ULBs in General:

Considering the image which municipal corporations carry due to the attitude of its employees, corruptions involved in operations, and non-private work culture municipal corporations are facing lots of difficulties in obtaining finance for themselves. Due to this, majority of the municipal corporations are running into losses. Therefore, an amendment is expected in Municipal Corporation Act in terms financing of municipal corporation, hence, following growth model of ULBs is suggested:

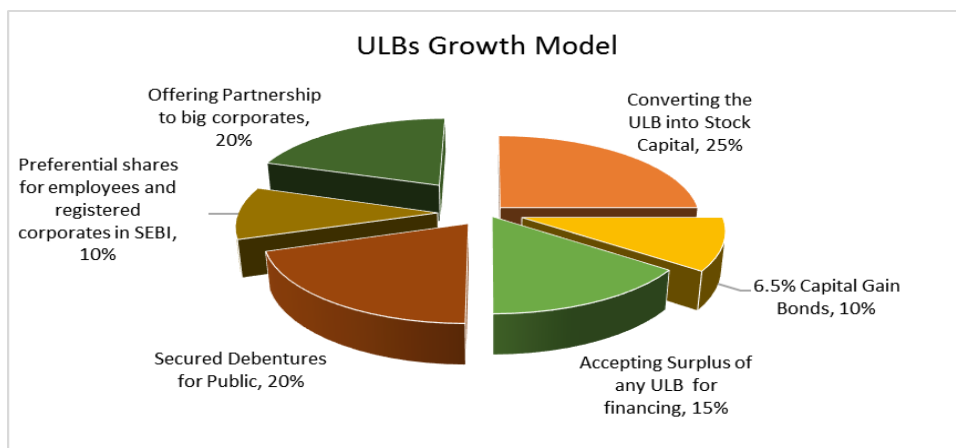


Fig. 5.2 ULBs Growth Model

Under this model, it is suggested to allow ULBs to get the finances by issue of stock capital to public and the share of such finance should be restricted to 25% of the additional funds required to meet deficit financing. Another option which ULBs should have permission to issue 6.5% Capital Gain Bonds to finance 10% of additional funds required for deficit financing.

ULBs should also be allowed to issue Debentures to public since, debentures are comparatively less costlier source of finance as its interest is tax deductible expenditure, therefore ULBs should be allowed to issue debentures to public.

Another source of finance that is preferred is issue of Preference Shares to its employees at a discounted rate so that funds can be generated from employees and also a feeling of participation of employees in management activities would be generated, this will motivate the employees to work hard for the benefit of the corporation.

It is also suggested to offer partnership to big corporates by inviting them in governing body, sharing profits with them as well as administration participation to be promoted to their investment

Another model which is suggested is that ULBs should be allowed to accept surplus funds from any other ULBs. This will help both the investor as well as the borrower corporation by creating more revenue.

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