

Financial Analysis of Tirunelveli City Municipal Corporation

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ABSTRACT

The main function of municipal corporations is to provide various services to the public such as Water&sewerage facilities, Drainage facilities, Education facilities, and Hospital facilities . To provide these services Municipal corporations should pool the resources in the form of revenues to meet out necessary Expenditures. Therefore this article throws light on the Snapshot of Tirunelveli City Municipal Corporation's financial analysis. Important revenueand expenditure ratios are used for thorough analysis. Simple regression has been used as statistical tool.

Key words: Revenues, Expenditure.

Introduction:

Local Government is an autonomous local body which is free from interferences by the Governement in certain matters but for survival and success it has to depend upon the government.

Local Government is defined as "authority to determine and execute measures within a restricted area inside and smaller than the Whole state"- Encyclopaedia Britannica.

In the words of B.K.Gokhale, Local Governemnt is "the Government of a specified locality by the local people through the representatives elected by them"

Above definitions exhibit the fact that the Local Government is partly autonomous and deals with matters of particular locality.

Features of Local Government:

Both Urban and Rural local government has similar features such as:

- It is a territorial, non-sovereign community.
- It has a right to regulate its own affairs.
- It can act independently on its own and
- It allows the local community to participate in its own affairs.

Role of Local Government:

As local government has to act for the welfare of the public and for development of the nation, it has certain roles:

- Democratic role: As democracy is possible only when there is public participation, Local Government provides the number of opportunities to the public to take part in its functions.
- Educative role: Local Government is a best educator and also an effective method of public education in public affairs.
- Civic role: Local Government provides civic amenities to the mass.
- Managerial role: As procedures and methods of Local Government are simple, it can easily manage its matters.
- Administrative role: According to the changing conditions and environment Local Government can easily alter its rules and regulations.
- Subordinate role: As Local Government is the agent of both State and Central Governments, it carries out the developmental programmes and projects provided to it.

Municipal corporation: It is created in order to provide conveniences for the community. It has to fulfil the necessities of the public. Municipal corporation is assigned with two types of functions that is legislative and administrative functions delegated by the State Government. The main functions are :

Obligatory Functions: These include supply of water supply, construction and maintenance of water works, Electricity, Road transport service, construction and maintenance of public streets, Removal & disposal of filth & rubbish, Lighting, watering and cleaning of public streets and public places, construction, maintenance and cleaning of drains & drainage work of public latrines & urinals, Registration of Births and Deaths, Maintenance of fire brigades, provision of primary and Nursery Education.

Discretionary Functions: These include Construction of public parks, gardens, libraries, theatres, Public housing, conducting census and surveys, Undertaking community development programmes, Conducting Industrial and commercial activities.

Municipal Finance:

Finance is the most important for any government. Without finance no administration can be carried on. Municipal corporations are provided with some sources of revenues which include:

- Own revenues including both tax revenues and Non-tax revenues.
- Grants, assigned fees, Devolution fund by the State and Central Governments.
- Loans and other receipts including lapsed deposits, fines, fees, rent on tools & plants etc.

Expenditures :

Municipal expenditures are classified as Revenue and Capital Expenditures.

- Revenue expenses includes Establishment, Administrative, operating & maintenance and Interest on Loans
- Capital expenditures include Expenses for Capital formation and Expenses on principal repayment.

Statement of the problem:

As Municipal Corporation has to render services to the society, there has been inequality in Tax revenue and Non-tax revenues. Sources of revenues are inadequate to meet out the expenditures of municipal corporations. There has been strict provisions in the tax implications by the Government. Therefore this study is undertaken to study the financial analysis of the Tirunelveli

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City Municipal Corporation using ratios. For this purpose the ratios are classified as Revenue ratios, Expenditure ratio, and Budget solvency ratios.

Objectives of the Study:

- To evaluate the financial analysis of of the Tirunelveli City Municipal Corporation using ratios.
- To analyse the influence of revenue ratio and expenditure ratio on operating ratio using simple regression.

Hypotheses:

1. H_0 : Tax revenue ratio does not significantly influences the operating ratio of Tirunelveli City Municipal corporation.
2. H_0 : Total Expenditure ratio does not significantly influences the operating ratio of Tirunelveli City Municipal corporation

Methodology:

. For the purpose of evaluating the financial analysis of the corporation the collection of the data is based on secondary sources. The researcher referred mainly the Audited financial statements of the corporation. Reviews are based on articles, magazines and the annual report of the corporation. Financial tool in the form of ratios and statistical tool, simple regression are used as yardsticks for analysis.

Profile of Tirunelveli City Municipal Corporation(TCMC);

Tirunelveli is also called as 'Nellai' is situated in the outskirts of the city of Adichanallur. It is an ancient city having some archaeological excavations. It is the second capital of Pandya kings. In the year(900-1200)it had been important city of Vijayanagar empire. According to 2001 census it has a population of 4,11,831.

General Administration of TCMC:

It was constituted as Municipality in the year 1864 and on 1.6.94 it was reconstituted as Tirunelveli City Municipal Corporation. Area limit are Tirunelveli, Palayamkottai, Melapalayam, and 15 village panchayats.

Committees: Accounts standing committee, Taxation Finance committee, Education, Public health, Town planning, Works committee, and Ward committees,

Accounts Department activities: Preparation and submission of annual accounts are their main activities. Usually Municipal corporations maintain their accounts on accrual basis and three funds are divided in order to prepare the accounts. They are General Revenue Fund(GRF). Water supply & Drainage Fund(WS&DF) and Elementary Education Fund(EEF).

Review of Literature:

It helps to understand the past trend that has been made in the research work. This study helps the researcher to know the area in which the research is to be concentrated. Therefore the following reviews are taken from articles and thesis.

KusumLataKedia in his research work "A Study of Municipal Finance of Varanasi Division" had stated that only in the year 1978-79, the contribution of property tax was 10.40%. For this purpose the researcher had taken 1951-52 to 1978-79 as his study period.

Dr. N.M Makandar in his article titled "Financial performance of selected city municipal corporations in Karnataka" examined the changes in revenues and Expenditures of three municipalities and

analysed the growth rate of total income and total expenses. He had used growth rate as his measure for analysis.

“ Modelling Local Government Financial conditions in Indonesia” by IrwanTaufiq Ritonga-2014 stressed that financial condition of Local Government has also been affected by demand and supply framework framed by municipalities.

Results and Discussions:

For the purpose of evaluating the financial analysis of Tirunelveli City Municipal Corporation the ratios have been classified as Tax revenue to total Income Ratio, Non-Tax revenue to Total Income Ratio, Operating Ratio and Surplus/Deficit Ratios.

$$\text{Tax Revenue to Total Revenue Ratio} = \frac{\text{Tax Revenue}}{\text{Total Revenue}} \times 100$$

Table: 1-A
Tax Revenue ratio

Year	Tax revenue (Rs.in crores)	Total revenue (Rs.in crores)	Ratio (%)
2012-13	25.63	94.05	27.25
2013-14	29.77	131.83	22.58
2014-15	30.36	124.68	24.35
2015-16	32.29	145.03	22.26
2016-17	33.34	157.23	21.20

Source: Audited Annual Accounts of Thirunelveli City Muni.Corpn.

Table.1-A clearly shows that the tax revenue ratio of this Municipal Corporation is fluctuated throughout the study period. It is at 27.25% in the year 2012-13 and finally reduced in the year 2016-17 at 21.20%.

Non-Tax revenue to Total Income Ratio:

This ratio denotes the proportion of Non –tax revenue in total revenue. Non-Tax revenue includes Service charges collected by this fund, Devolution fund, Grants and contributions received from the Government, Interest on Investments etc. A high ratio is considered as good.

$$\text{Non-Tax Revenue to Total Revenue Ratio} = \frac{\text{Non-Tax Revenue}}{\text{Total Revenue}} \times 100$$

Table:1-B
Non-Tax Revenue to Total Revenue Ratio

Year	Non-tax revenue (Rs.in crores)	Total Revenue (Rs.in crores)	Ratio (%)
2012-13	68.42	94.05	72.75
2013-14	102.06	131.83	77.42
2014-15	94.32	124.68	75.65
2015-16	112.74	145.03	77.74
2016-17	123.89	157.23	78.80

Source: Audited Annual Accounts of Thirunelveli City Muni.Corpn.

It is understood from table.1-B, the Non-tax revenue ratio is at 72.75% in the year 2012-13 and reduced to 75.65% in 2014-15 and from 2015-16 it has exhibited an increasing trend due to increase in the non-tax revenue.

Operating Ratio:

This ratio refers to the operating efficiency of the concern. Ratio more than 1 is considered as satisfactory as total income is sufficient to meet out the expenditures.

$$\text{Operating Ratio} = \frac{\text{Total Revenue}}{\text{Total Expenditures}}$$

Table:1-C
Operating Ratio

Year	Total Revenue (Rs.in crores)	Total Expenditure (Rs.in crores)	Operating ratio(in times)
2012-13	94.05	104.20	0.90
2013-14	131.83	132.60	0.99
2014-15	124.68	162.53	0.77
2015-16	145.03	174.66	0.83
2016-17	157.23	159.98	0.98

Source: Audited Annual Accounts of Thirunelveli City Muni.Corpn.

Table 1-C discloses the fact that the operating ratio of TCMC is not good as the ratio is less than 1 throughout the study period. But from the year 20014-15 it has been in upward trend. This is because

of the increase in both tax and non-tax revenues in the year 2016-17 and reduction in the expenditure in the last year.

Table.1-D
Total Expenditure Ratio.

Year	Total Expenditure (Rs.in crores)	Total Revenue (Rs.in crores)	Ratio (%)
2012-13	104.20	94.05	110.79
2013-14	132.60	131.83	100.58
2014-15	162.53	124.68	130.36
2015-16	174.66	145.03	120.43
2016-17	159.98	157.23	101.75

Source: Audited Annual Accounts of Thirunelveli City Muni.Corpn.

From table.1-D, it is understood that the total expenditure ratio has also shown fluctuations throughout the study period. It is exhibited at 110.79% in the year 2012-13 and raised to 130.36% in the year 2014-15, and finally reduced to 101.75% in the year 2016-17 due to increase in both tax revenue and non-tax revenues.

Simple Regression Analysis:

To find out whether tax revenue ratio influences the operating ratio of the TCMC simple regression is applied. For this Operating ratio is taken as dependent variable and tax revenue ratio as independent variable as operating ratio helps the corporation to find out whether there is surplus or deficit and also it shows the performance of the corporation.

Hypothesis:

H_0 : Tax revenue ratio does not significantly influences the operating ratio of Tirunelveli City Municipal corporation.

H_1 : Tax revenue ratio significantly influences the operating ratio of TirunelveliCitMunicipal corporation.

Table.1-E
Regression of Tax revenue ratio on Operating ratio

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	0.322	0.103	-0.195	0.10390	
ANOVA					
Model	Sum of Squares	Df	Mean Square	F	Sig

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Regression	0.004	1	0.004	0.346	0.598
Residual	0.032	3	0.011		
Total	0.036	4			

Source: SPSS Package

Table 1-E shows that as p- value is greater at 5% level of significance the hypothesis is accepted. That is tax revenue ratio does not significantly influences the operating ratio of TCMC.

Hypothesis:

H_0 : Non-Tax revenue ratio does not significantly influences the operating ratio of Tirunelveli City Municipal corporation.

H_1 : Non-Tax revenue ratio significantly influences the operating ratio of TirunelveliCity Municipal corporation.

Table.1-F
Regression of Non-tax revenue ratio on Operating ratio
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	0.244	0.060	-0.254	0.10640	
ANOVA					
Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	0.002	1	0.002	0.190	0.692
Residual	0.034	3	0.011		
Total	0.036	4			

Source: SPSS Package

Table 1-F shows that as p- value is greater at 5% level of significance the hypothesis is accepted. That is non-tax revenue ratio does not significantly influences the operating ratio of TCMC.

Findings, Suggestions and Conclusion:

When financial analysis of TCMC is evaluated, it is found that throughout the study period there has been deficit situation in the Corporation as the operating ratio is less than 1. This is due to heavy expenses met out in the first three years. But in the last two years of the study period the ratio has shown an increasing trend. This indirectly points out that in the fourth coming years the Corporation

will show surplus. When simple regression is calculated both tax revenue ratio and non-tax revenue ratio do not significantly influences the operating ratio of TCMC..

Suggestion:

It is therefore suggested that TCMC must follow certain policies to collect the taxes from various sources. More Grants and concessions can be provided by the Government so as to increase the rate of operating ratio..

Conclusion:

To conclude the financial analysis of TCMC is not bad. To meet out the expenditures the resources available are very slender. In order to raise the revenues, sharing of taxes must be in equal proportion to functions assigned. Allocation of funds should also be in tune with National or State plans.If the Government provides certain powers and along with certain grants and concessions this municipal corporation will render efficient services and there will be development in the corporation.

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