

Evaluation of Budget Analysis of Kumbakonam Municipality

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Abstract:

The financial structure of Urban Local Bodies in India is mainly comprises of tax and non-tax revenues as major source of revenues and these local bodies also receive grants-in aid and other concessions from the Government. The expenditure of the municipalities are classified as establishment expenditures, administration expenditures, operating, repairs & maintenance expenditures finance expenses and depreciation. Therefore this study is focussed on the evaluation of budget analysis of Kumbakonam Municipality using trend analysis using actual and estimated values. For further study Chi-square test is used.

Key words: Urban Local Bodies, Source of revenues, Grants-in aid.

Introduction

Financial Management is used in each and every organisation, whether it is trading or non-trading organisation. Finance is needed to promote or establish business, acquire fixed assets, make investigations such as market survey, develop product, keep men and machine at work It is necessary as it guides in

- Financial planning and successful promotion of an enterprise,
- In acquisition of funds at a minimum cost,
- In efficient usage and allocation of funds,
- In taking sound financial decisions and
- In promoting and mobilising individual and corporate savings.

Urban Local Government(ULG):

It refers to the governance of an urban area by the people through their elected representatives. The jurisdiction is limited to a specific area which is demarcated by the State Government.

During the period of British rule, the institutions of local government is originated in India. The first municipal corporation in India was set up in 1687 at Madras. In 1726, the municipal corporations were set up in Bombay and Calcutta. Under the provincial autonomy scheme introduced by the Government of India Act of 1935, local self government was declared a provincial subject.

74th Amendment Act has added in Part IX –A to the constitution of India. It is named as “Municipalities” and consists of provisions from articles 243-P to 243 G. This act aims at revitalising and strengthening the urban governments for the purpose of adopting the municipalities.

Municipal Finance:

Every municipality has to levy, collect taxes, duties, tolls and fees. They can get the grants-in aid out of the funds of the State. Finance commission for every five years review the financial position of the municipalities. Municipality is established for the administration of the towns and smaller cities. It has three authorities namely Council, the Standing committees, and the Chief executive officer. The State Finance Commission will make recommendations on the following:

- ✚ Amount of taxes levied by both the Central and State Governments,
- ✚ To fix the taxes, fees and rates to be used by the local bodies, and
- ✚ To recommend the steps for improving the financial condition of the Local Government

Sources of Revenues:

The sources of revenues of the municipalities are tax revenues, assigned revenues, grants and contributions, service charges and loans.

Expenditure:

Total expenditure includes establishment expenditure, operating, repairs & maintenance expenditure, Administration expenditure, programme expenses, finance expenses and depreciation.

Audit of Accounts:

Accounts are maintained in the way of funds separately as Revenue & capital Fund, Water Supply & Drainage Fund, and Elementary Education Fund. Accounts are to be audited properly.

Review of Literature:

Om Prie Srivastava's in her research 'Municipal Government and Administration in India' explains the various kinds of state control and suggests remedial measures that need to be taken. She has felt that government should reorient its attitude in regard to municipal corporations, providing constructive guidance and adequate assistance to them, as an active partner in the common cause of city administration.

Sujatha Srinivasan in her article titled “Financial Disclosure in Local Government||- A Comparative study” attempted on the financial reporting and disclosure practices in the public sector across the

world. She analysed the accounting and financial reporting reforms that have taken place in the public sector of certain of European and Asian countries. This article also examines the significant reforms being introduced in the public accounting system in India. The findings of the study shows that countries like United States, United Kingdom, Canada, Australia and New Zealand have comparatively better and more transparent disclosure practices. Further the study reveals that Indian government has taken number of steps to introduce transparency into local operations as e-governance, accrual accounting model financial statements etc.

Research Gap:

Studies about the evaluation of financial condition of Municipalities are rare particularly Kumbakonam Municipality. And most of the studies were dealt with either working of Urban Local Government, Administration of Urban Local Bodies or General performance of the Municipalities and no studies are related to Kumbakonam Municipality. Therefore the present study deals with Kumbakonam Municipality and its budget analysis.

Need of the study:

In the present economic conditions, it is not possible for the central and State Governments to solve the problems of the general public. It is only the local government that guides the state government to give importance to the welfare of the society and helps to solve their problems. In the case of major cities, Municipal corporations have to look after the welfare of the society. Hence, the present study is made to attempt on the evaluation of budget analysis of Kumbakonam Municipality.

Objectives of the study:

- To evaluate the budget analysis of the Kumbakonam Municipality.
- To assess the findings and give suggestions.

Hypotheses:

H₀1: There is no significant variation in the tax revenue of the municipality during the study period.

H₀2: There is no significant variation in the total revenue of the municipality during the study period.

H₀3: There is no significant variation in the total expenditure of the municipality during the study period.

Tools used:

For easy analysis linear trend and Chi-square is used. Chi-square is used to find out the significant variation in tax revenues, total revenue and total expenditure during the study period.

Methodology:

The present study is completely relied upon secondary data.

Results and Discussions:

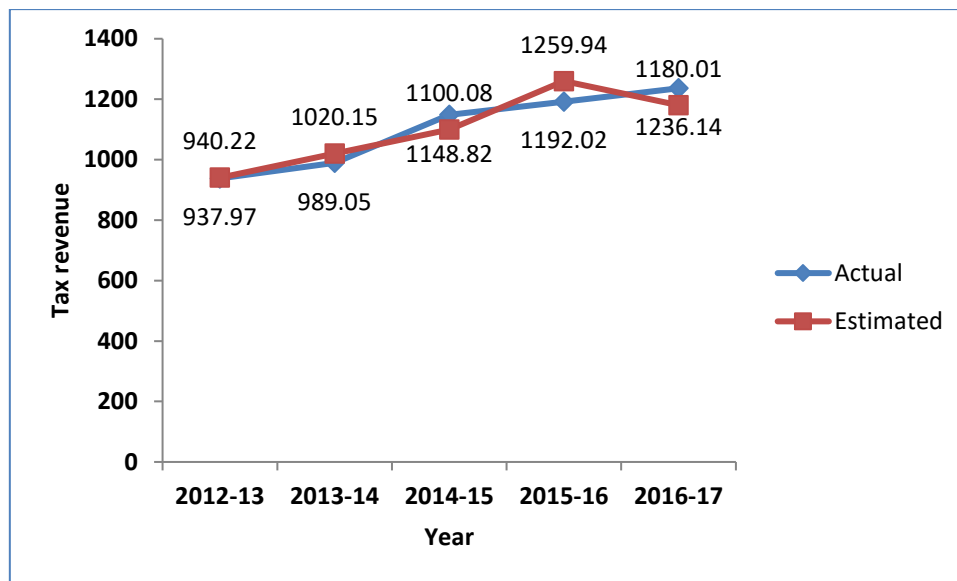
The following table clearly exhibits the Trend in tax revenue of the Kumbakonam Municipality. Chi-square test is used to find out whether there is significant variation in the tax revenue of the Municipality during the study period.

Table. A-1
Trend in tax revenue.

Year	Actual tax revenue (Rs.in lakhs)	Estimated tax revenue (Rs.in lakhs)	Increase/decrease (Rs.in lakhs)
2012-13	937.97	940.22	-2.25
2013-14	989.05	1020.15	-31.10
2014-15	1148.82	1100.08	48.74
2015-16	1192.02	1259.94	-67.92
2016-17	1236.14	1180.01	56.13
Mean	1100.08		
Chi-Square Value	9.44		

Source: Financial report of Kumbakonam Municipality.

Figure.A-1 Trend in tax revenue.



Source: Financial report of Kumbakonam Municipality.

Table.A.1, shows that the actual tax revenue of the Kumbakonam Municipality is increased from Rs.937.97 lakhs in the year 2012-13 to Rs.1,236.14 lakhs in the year 2016-17. But the estimated tax revenue has exhibited an increasing trend from Rs.940.22 lakhs in 2012-13 to Rs.1259.94 lakhs in the year 2015-16, whereas in the last year it has reduced to Rs.1180.01 lakhs . When estimated tax revenues and actual tax revenues are compared, there has been decrease in the tax revenue in the year 2012-13 at Rs.2.25 lakhs but in the year but in the last year actual tax revenue is increased by

evaluation of budget analysis of kumbakonam municipality

Rs.56.13 lakhs as maximum tax revenues collected by the Municipality in this year. The average tax revenue collected by the Municipality is Rs.1100.08 lakhs. Since chi-square analysis shows that the calculated value of 9.44 is less than the critical value(9.49) at 5% level of significance, the null hypothesis is accepted. There is no significant variation in the tax revenue of the Municipality during the study period.

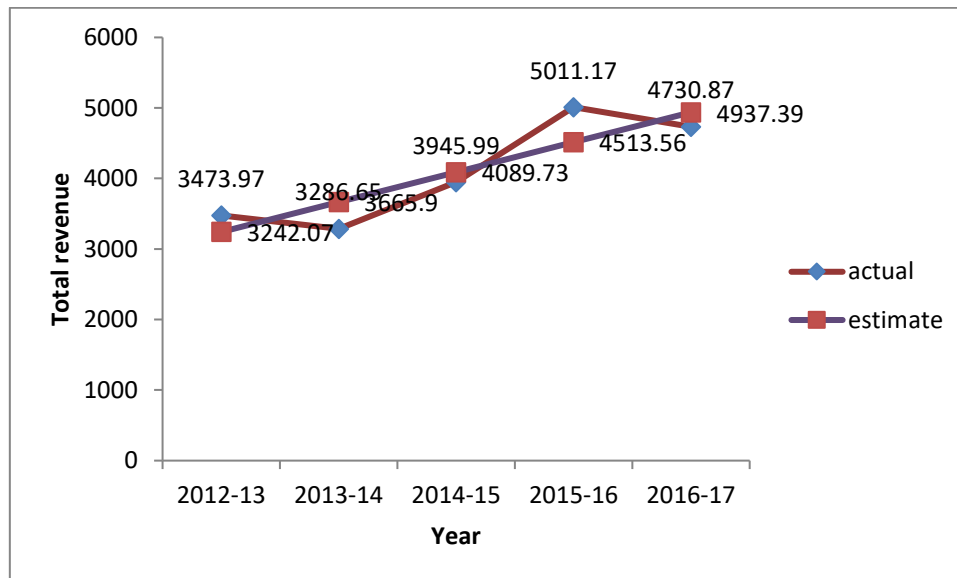
The figure A-1 shows that the trend line of estimated value reached the peak point of Rs1259.94 lakhs in the year 2015-16, higher than the actual tax revenue.

Table. A-2 Trend in total revenue.

Year	Actual total revenue (Rs.in lakhs)	Estimated total revenue (Rs.in lakhs)	Increase/decrease (Rs.in lakhs)
2012-13	3473.97	3242.07	231.90
2013-14	3286.65	3665.90	-379.25
2014-15	3945.99	4089.73	-143.74
2015-16	5011.17	4513.56	497.61
2016-17	4730.87	4937.39	-206.52
Mean	4089.73		
Chi-Square Value	124.37		

Source: Financial report of Kumbakonam Municipality.

Figure.A-2 Trend in total revenue of the Municipality



It is found from table.A-2, the actual total revenue has reduced from Rs.3473.97 lakhs to Rs.4730.87 lakhs in the year 2016-17, the estimated total revenue has shown an increasing trend of Rs.3242.07 lakhs in the year 2012-13 to Rs.4937.39 lakhs in the year 2016-17, but when actual revenue is considered it has shown fluctuations throughout the study period. The total revenue has increased in the year 2016-17 at Rs.5011.17 lakhs and when both actual and estimated total revenue is compared there has been heavy rise in the total revenue in the year 2015-16 by Rs.497.61 lakhs and the average

total revenue collected by the Municipality is Rs.4089.73 lakhs. This is due to heavy non-tax revenue received by the Municipality. Since chi-square analysis shows that the calculated value of 124.37 is more than the critical value (9.49) at 5% level of significance, the null hypothesis is rejected and alternate hypothesis is accepted. That is there is significant variation in the total revenue of the Municipality during the study period.

The figure A-2 shows that the trend line of actual value reached the peak point of Rs.5011.17 lakhs in the year 2015-16, higher than the estimated tax revenue.

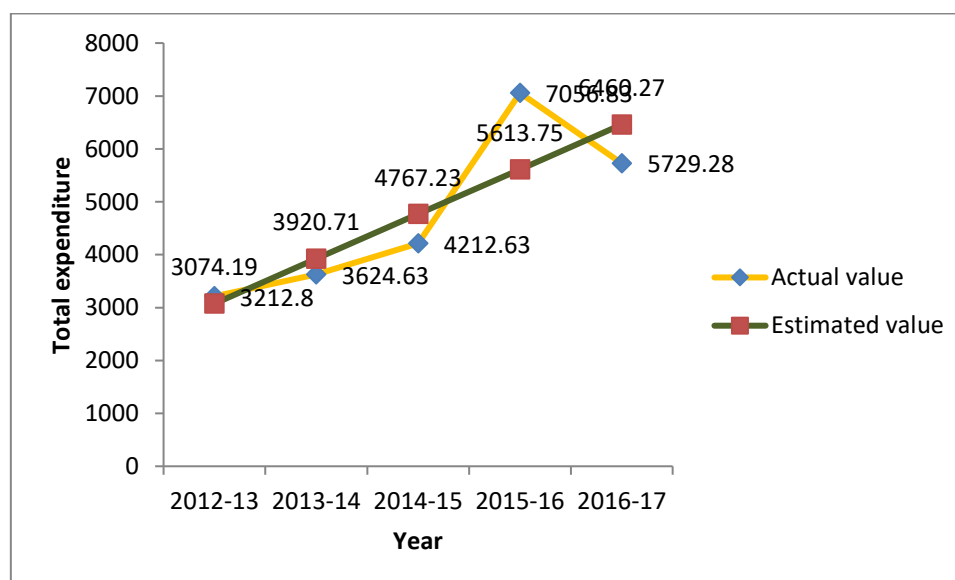
Table. A-3 Trend in total expenditure.

Year	Actual total expenditure (Rs.in lakhs)	Estimated expenditure (Rs.in lakhs)	total	Increase/decrease (Rs.in lakhs)
2012-13	3212.80	3074.19		138.61
2013-14	3624.63	3920.71		-296.08
2014-15	4212.63	4767.23		-554.60
2015-16	7056.83	5613.75		1443.08
2016-17	5729.28	6460.27		-730.99
Mean	4767.23			
Chi-Square Value	546.80			

Source: Financial report of Kumbakonam Municipality.

Figure.A-3

Trend in total expenditure.



It is clear from table A.3, the actual total expenditure of the Kumbakonam Municipality is higher than the estimated total expenditure in the year 2015-16 at Rs.7056.83 lakhs compared to estimated total expenditure of Rs.5613.75 lakhs and when actual total expenditure and estimated total expenditure is compared, the actual expenditure has increased by Rs. 1443.08 lakhs in the year

2015-16, it is due to heavy operating, repairs and maintenance expenses met by the municipality in that year. The average total expenditure is shown at Rs.4767.23 lakhs.

Since chi-square analysis shows that the calculated value of 546.80 is more than the critical value (9.49) at 5% level of significance, the null hypothesis is rejected and alternate hypothesis is accepted. That is there is significant variation in the total expenditure of the Municipality during the study period.

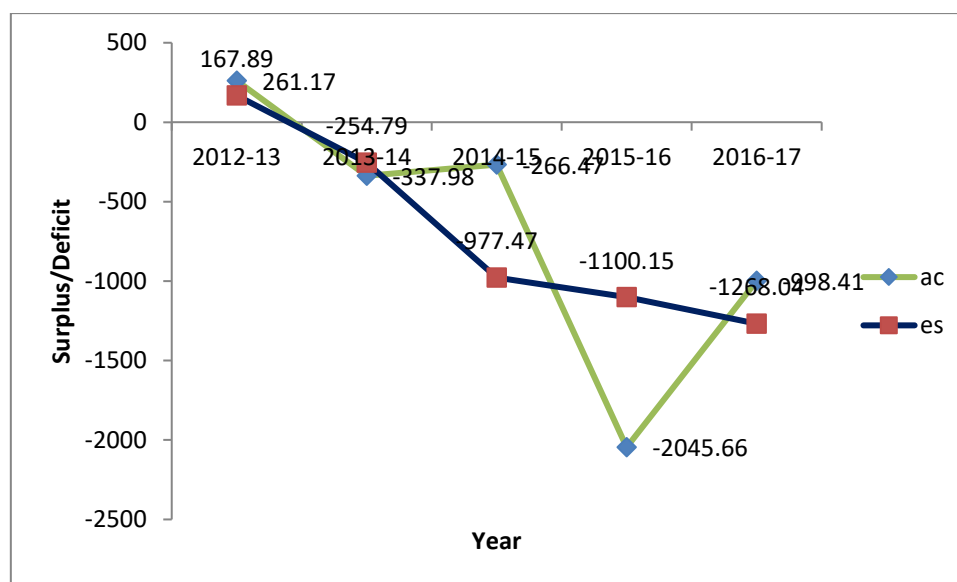
The figure A-3 shows that the trend line of actual value reached the peak point of Rs.5011.17 lakhs in the year 2015-16, higher than the estimated tax revenue

Table. A-4 Trend in surplus/deficit.

Year	Actual surplus/deficit (Rs.in lakhs)	Estimated surplus/deficit (Rs.in lakhs)	Increase/decrease (Rs.in lakhs)
2012-13	261.17	167.89	93.28
2013-14	-337.98	-254.79	83.19
2014-15	-266.47	-677.47	-411.00
2015-16	-2045.66	-1100.15	945.51
2016-17	-998.41	-1268.04	-269.63
Mean	-677.47		

Source: Financial report of Kumbakonam Municipality.

Figure.A-4 Trend in surplus/Deficit



It is clear from table A.4, the actual surplus of the Kumbakonam Municipality is higher than the estimated surplus in the year 2012-13 at Rs.261.17 lakhs compared to estimated surplus of Rs.167.89 lakhs and actual surplus is increased by Rs.93.28 lakhs in the same year. But in the remaining years the Kumbakonam Municipality has faced the problem of deficit especially in the year 2015-16, where the actual deficit is shown at Rs.2045.66 lakhs and it has increased by Rs.945.51 lakhs compared to the estimated deficit of Rs.1100.15 lakhs. This is due to the total expenses met by the Municipality in the same year. The average deficit is shown at Rs.677.47 lakhs.

The figure A-4 shows that the trend line of actual deficit is reached the peak point of Rs.2045.66 lakhs in the year 2015-16, higher than the estimated deficit.

Findings, Suggestions and Conclusion:

When Budget analysis of Kumbakonam Municipality is evaluated ,

- It is found that on comparing both actual and estimated total revenue there has been heavy rise in the total revenue in the year 2015-16 by Rs.497.61 lakhs and the average total revenue collected by the Municipality is Rs.4089.73 lakhs. This is due to heavy non-tax revenue received by the Municipality and chi-square test shows that there is significant variation in the actual and estimated total revenue throughout the study period.
- In the case of total expenditure when actual total expenditure and estimated total expenditure is compared, the actual expenditure has increased by Rs. 1443.08 lakhs in the year 2015-16, it is due to heavy operating, repairs and maintenance expenses met by the municipality in that year and in the case of chi-square test there is significant variation in the actual and estimated total expenditures throughout the study period.
- When surplus or deficit is considered, except in the year 2012-13, there has been only deficit condition for the municipality, especially in the year 2015-16, it has exhibited a maximum deficit of Rs.2045.66 lakhs compared to estimated deficit of Rs.1100.15 lakhs.

Hence, it is suggested that proper policies and procedures should be followed by the Municipality to collect the revenues especially tax revenues in addition to getting grants and concessions from the Government. Further to compensate the deficit condition it should increase both tax and non-tax revenues.

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