CHAPTER - I

FINANCIAL MANAGEMENT OF MAHARASHTRA STATE ROAD TRANSPORT CORPORATION (MSRTC) FROM 1983-84 TO 1986-87.

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1.1 Introduction:

Transport sector in India is controlled by both public and private enterprise. There are different modes of transport. The diversity of ownership and control is confined only to the different modes of transport. Railways and civil aviation in India are completely owned and operated by the Government, whereas road transport falls under public as well as private sector. Roads are constructed by the Government and road transport operation is mainly in the private sector. As regards passenger road transport, about 40% is in the nationalized sector and the rest is in the private sector.

Transport, inspite of its two-fold role of creating time and space utilities in the economic development of the country, has not been given adequate importance by the researchers in the past. Very little attention has been given by the Universities and other academic institutions to research in the transport sector in general and its economic and public administration fields in particular. The reason for this may be attributed to the fact that transport is not included as the subject of specialization and priority like agriculture, industry, international trade, etc.

It is only very recently that in the Arts Faculties of few universities, namely Bombay, Punjab, Delhi, etc., facilities for specialization in the economics of transport have been provided for doing undergraduate and post-graduate research and hence, transport research in the fields of economics and public administration, published or unpublished, cannot be compared with other subjects, e.g. agriculture, industry, international trade, banking and finance, etc.

1.2 Origin and Development of Passenger Road Transport in India:

"From times immemorial, man has trodden tracks of travelling on his own foot in search of food, water and shelter. The paths on which men and their families trodden became the original paths, which can be described as the beginning of our present roads. Later on, the man discovered the use of animals like, bulls, horses and used them for transport of himself, his family and his belongings.

The invention of wheel had revolutionized the concept of Road Transport and speedy and comfortable travel become possible with the vehicle fitted with wheels."[1]

Since then, the use of bullock-cart, animals, i.e. horse, donkey and camel, were the only means for carrying the goods, men and their families from one place to another throughout the whole country till the invention of railway and motor vehicles.

In 1853, the British Government brought the railway to India. The first railway journey started between Byculla (Bombay) to Thana and back. This was a foundation stone of railway in India. Later on, it has spread all over India step by step. During the First World War, it has woven the network of railways for carrying army personnel and their supply of various ammunition, food and other articles of need.

Development of Motor Transport in the first half of the 20th Century:

"As compared to other countries, mechanical road transport in India is of recent growth, the first motor vehicle being imported in 1898."[2]

About seventy years ago, throughout India, there were 4000 motor cars owned by wealthy class of people. After 1920, motor transport received stimulus in India.

"During the period of the First World War, a large number of motor vehicles were imported in India for defence purposes. After the termination of War, surplus vehicles were purchased by the Indians who were desirous of investing their money in new Industries. The condition of roads in those days was far from satisfactory and the introduction of heavy vehicles traffic worsened the still aggravating conditions of roads. On the recommendations of Jaykar Committee, the Government created a Road Development Fund."[3]

After 1920, there was a keen competition between railways and motor transport, and Indian railways were sustaining heavy losses, i.e. about Rs.2.0 crores annually. To remove the competition between railways and motor transport, the Government of India appointed two committees for suggestions on this competition, viz. Mitchel-Kirkness Committee (1932) and the Wedgewood Committee (1936-37). Both the Committees studied the problems of rail and road competition and their findings are given below:

1) The road system as prevalent then had a number of defects because of bad patches, gaps and lack of means of fording. The

condition of the trunk roads was far from satisfactory, being damaged by bullock cart traffic;

2) 50% of the bus owners were single vehicle owners, 20% owned two buses and rest owned more than two buses. They neither gave any facility to the travelling public nor they could foster cooperating efforts at the co-ordination of road transport industry;

3) There was no third party insurance by the operators;

4) Rates and fares differed widely, depending upon the competition between operators themselves as also among the operators and the railways. A large number of seats were allowed free-of-charge for relatives of bus owners, friends and government officials;

5) There was almost complete absence of time schedule in the running of buses;

6) The losses due to competition with motor transport constrained the railway authorities to demand imposition of regulation on motor transport.[4]

Both the Committees recommended that the Motor Transport Industry needed to be regulated on the following matters:

1) Creation of a Central Advisory Board of Communication. Consequently, a Transport Authority Advisory Council was formed in 1935, consisting of the Communications Ministers of various Provinces.

2) It is recommended that the railways should be protected against unfair competition from road transport.

3) Types of weight and conditions of the buses carrying passengers.

4) Repair and maintenance of roads by the government authorities.

5) Unfair competition among the operators and with the railways.

6) Fixation of minimum and maximum fares.

7) Speed limits.[5]

Further steps were taken by announcing the Industrial Policy of Government of India in 1948, i.e. 'Mixed Economy'.

Mixed Economy:

Mixed Economy is a type of economic system, wherein both the extremes of capitalism and communism are avoided. The economy steers a middle course, by dividing the economy of the country into two sectors, namely public sector and private sector. In the public sector, the public authorities, i.e. Central Government or State Government, undertake the control.

The Motor Vehicles Act was passed in 1939 and in 1943. The Motor Vehicles Act was passed for controlling the road traffic. In each State, a State Transport Authority was to be created to control the road traffic, i.e. to control the loads and number of passengers carried by buses and carriers, to limit the speed, to fix the hours of work for a bus or a truck, etc., in the private sector.

After June 1943, all motor vehicles were to be insured compulsorily for third party risks. The Act was a very important piece of legislation and has duly been called 'Highway Code' for India.

In 1948, the Government of India had passed Road Transport Corporations Act, which was widely amended in 1950. The efforts were made to entrust the responsibility of road transport to State and minimize the competition with railways, which were under the jurisdiction of the Central Government.

Under this Act, States were to set up Road Transport Corporations and an All-India Co-ordination Board was alsq to be set up. The Rail-Road Transport Re-organization Committee, under the chairmanship of Mr.Masani, had examined the problems of Rail-Road competition and had made the following recommendations:

1) In each State, there should be separate Transport Department and Transport Advisory Council;
2) Inter-State Road Transport should be encouraged;
3) Between 1949-50 and 1957-58, average tax on each vehicle had increased from Rs.1,115 to 2,100, i.e. it had almost doubled. This burden should be reduced;
4) The notion that the development of railways should be discarded.

1.3 Importance of Passenger Road Transport:

<u>Transport</u>:

Transportation on this earth consists of three types, namely,

1) Surface transport - a) by road,
   b) by rail;
2) Water transport, i.e. navigation;
3) Air transport.

In the primitive stage of mankind, transport was done on the heads of human beings. Later on, it was being done with the aid of animals, i.e. bullock carts, buffaloes and donkeys. India is basically a country of villages, the villages are still without the improved means of transportation and as such, the efforts have been made to achieve the targets of road transport.

The modes of mass transporation are mainly two, viz. by rail and road.

1) In respect of railways, long term huge investments has to be made for the construction of coaches, wagons and for upkeeping of railway tracks and signalling system, etc.

2) Railways has got certain limitations as it cannot reach very easily in the interior parts of the country. Road transport is the only transport which can be easily adopted by the developing countries due to the following reasons:

   1. Less capital expenditure as compared to railways;
   2. Routes are flexible and convenient;
   3. It is supplementary to other modes of transport;
   4. Road transport provides maximum amount of employment opportunities in view of its investment as compared to other modes of transport;
   5. "So far as relatively short distances are concerned, road transport tends to be quicker than railways, on account of the delay caused".[6]

Due to the above reasons, considerable improvements have been made in the road transport in India.

1.4 Anarchy in the Field of Passenger Transport Necessitated the Nationalization of Passenger Road Transport:

There were many agencies of private operators in the field of passenger road transport. These agencies were doing unhealthy competition among themselves in respect of fares.

Sometimes, passengers were dragged from one bus to another without considering the comfort of the passengers.

There was no limit on the number of passengers to be carried in a bus. There was no guarantee of bus reaching its destination in time, as there often were breakdown on the way. Buses were halted at the residences of prominent persons or Government officials.

In view of the above anarchy, the Government was forced to make enactment in this behalf by passing Road Transport Corporations Act.

In 1948, the Government of India had passed the Road Transport Corporations Act, which was widely amended in 1950. The efforts were made to entrust the responsibility of road transport to a State and minimize the competition with railways, which were under the jurisdiction of the Central Government.

Road Transport Corporations Act is explained in detail in the next part of this Chapter.

1.5 Benefits of Nationalized Passenger Road Transport:

Road transport is being governed by: (1) Private Sector, and (2) Government Sector.

In order to avoid all troubles and national losses that exist in private sector, it was decided by the Government to nationalize the road transport (passengers) for the benefit of a common man.

1) Transport is one of the most important industries sustaining and developing the national economy by reaching in every nook and corner of the underdeveloped country like India. This will enable

the masses of backward areas of the country to come in contact with the cities with their all types of handful resources for their welfare of which they were deprived for last many centuries. This is only possible if it is in the hands of the State Government. This is the only means for development of economy in rural areas.

2) The profit earned by the passenger transport services will be acquired by the Government and will be deposited in the State revenue.

3) The State-owned passenger transport services are expected to provide better and cheaper services in view of poor earning passengers as profit motive is consciously absent.

4) The resources of the country can be fully utilized where the passenger transport is nationalized.

5) In times of national emergency like floods, famines or defence from foreign attack, the nationalized passenger transport system becomes highly essential and useful. The quick movement will be possible if transport lines are State or Central-owned.

6) The nationalization would increase the size of operating units of passenger transport system and hence, the advantages of large scale production would be fully available.

7) Unified control by the State would lead to some economy in expenditure and would avoid certain duplication.

1.6 Enactments of Motor Vehicles Act and Road Transport Corporations Act in India:

Before taking up the subject, it is essential to know the various Acts passed by the Central Government and the State Government in this regard.

Motor Vehicles Act, 1939:

In 1939, Motor Vehicles Act was passed for regulating motor transport. The objects of the Act were:

1) To control and co-ordinate motor traffic throughout India;
2) Motor vehicle should be allowed to run under a permit system and for this purpose, regional transport authorities were to be constituted;
3) Motor vehicles should not be allowed to carry more passengers or load than prescribed by law;
4) All motor vehicles should ply at a fixed speed;
5) Motor vehicles should not run for more than 9 hours per day or more than 45 hours per week.

This Act is regarded as very important and a remarkable piece of legislation.[7]

Motor Vehicles (Amendment) Act, 1956:

1) The issue of temporary permits has been discontinued so far further nationalization may be facilitated;
2) While issuing new permits, preference will be given to old permit holders and transport co-operatives;
3) Permits will not be necessary for the trailers attached to motor cars, delivery and transport vehicles owned by motor manufacturers;
4) On the approval of the State Transport Authority, an inter-regional permit can be issued to a private carrier;
5) The limit of a laden weight of a medium vehicle has been raised from 14500 lbs to 18000 lbs.;
6) Compensation will be paid to the owners of vehicles in case their

permits can be cancelled or routes changed;

7) The period of permits has been fixed of five years;

8) The Inter-State Transport Commission will look after proper development, co-ordination and regulation of inter-State transport services.[8]

Inter-State Transport Commission, 1958:

The Motor Vehicles (Amendment) Act, 1956, provided for setting up of an Inter-State Transport Commission, which was later established on March 8, 1958. It performs the following functions:

1) To issue directions to the State Transport authority in regard to the grant and suspension or cancellation of permits for the vehicles plying on inter-State routes;

2) To chalk out programmes for the development, co-ordination and regulation of inter-State goods services;

3) To settle disputes that arise in connection with item(2) above.[9]

1.7 Selection of a Problem:

Maharashtra State Road Transport Corporation came into being in 1961 and has become a vital part of the public life of Maharashtra. This has made State Government to invest the greatest amount of State revenue in the interest of the public, whereby out of 7000 villages in the State, nearly 6500 villages have been connected with network of Maharashtra State Transport for essential transport facility.

For smooth working in the four regions of the Corporation, it has laid to establish nearly 30 divisions, 3 central workshops and several depots having 14,000 buses on the road. Approximately 90,000 employees are engaged in this huge organization.

This public utility organization is viewed and criticized in the public that State Transport runs into heavy losses inspite of its appreciable receipts.

This has motivated the researcher to investigate the pros and cons by studying the existing financial management of Maharashtra State Road Transport Corporation.

1.8 Aims and Objectives of Present Study:

The researcher has undertaken the study of financial management of Maharashtra State Road Transport Corporation (MSRTC) with the objectives that:

1) To study the financial pattern of the Corporation;
2) To know the sources and uses of funds of MSRTS during the period from 1983-84 to 1986-87;
3) To make an analytical study of the revenues of the Corporation during the period from 1983-84 to 1986-87;
4) To analyse and study the expenditure of MSRTC during the period from 1983-84 to 1986-87.

1.9 Scope of Study:

Financial management is the application of planning and control on the function of finance. An examination of this process reveals the significance of business finance and the role it plays in any public undertaking process. Financial planning is the act of deciding in advance the financial activities that are necessary to achieve its primary goal. It involves three fundamental steps, viz.

1) Determining both long and short term objectives;
2) Formulating, promulgating and implementing financial policies;
3) Developing procedures that render aid in the implementation of the policies.

Owing to the limits of traditional financial statements, need is felt for designing an additional financial statement which could provide information as a major financing and investing activities during the period. Such a statement is called 'statement of changes in financial position'. It summarises the from where funds have been obtained and the uses to which they have been applied. These statements are not intended to substitute for Profit and Loss Account or the Balance Sheet, but are prepared to show additional useful information not covered by the traditional statements.

For this purpose, the researcher is going to study the financial management of the Maharashtra State Road Transport Corporation (MSRTC) for the period from 1983-84 to 1986-87 and any other available reports in this regard with the objectives that sources and uses of funds, to analyse and examination of revenue.

1.10 Sources of Information and Methodology:

The researcher's study is dependent upon primary and secondary data, but to a large extent, secondary sources were used. The secondary data is made available from:

1) Published Administrative Reports for five years, i.e. from 1983-84 to 1986-87;
2) Annual Audited Accounts;

3) Library resources:

a) Books regarding the financial affairs of State Road Transport Undertakings published by Central Institute of Road Transport;

b) Journals and magazines on transport;

4) Theoretical concepts are cleared from various books regarding the subject.

Collection of primary data through discussions with the officers of the Maharashtra State Road Transport Corporation.

Case Study Method:

Case Study Method is selected for the purpose of research study. Because case study method is a study of life situation of the social unit. It is a portrage of business activities, but it is not necessary to study all operational aspects of a social unit or an institution. In this method, also more emphasis on the full analysis of a limited number of events or conditions and their interrelations is possible.

The researcher is studying the particular aspect, i.e. (Financial Management of MSRTC). Therefore, he emphasized on depth, detail and systematic study of the aspect of financial management concerning the MSRTC. Hence, case study method is selected.

The method is very popular because it consists of careful and complete observations and qualitative analysis of a social unit. Unit may be a person, a family or an institution.

According to H.Odum, "The case study method is a technique by which individual factor, whether it can be an institution or just an episode in the life of an individual or a group, is analysed in its relationship to any other in the group".[10]

According to P.V.Young, case study is "A comparative study of social unit, be that a person, a group, a social institute, a district or a community".[11]

For this purpose, the researcher has selected the case study method for the study of financial management of the MSRTC for the period from 1983-84 to 1986-87.

1.11 Plan of Work:

The entire study of the financial management of the MSRTC is divided into Five Chapters.

FIRST CHAPTER includes: (a) Introduction of passenger road transport, (b) Importance of road transport, (c) sources of information for the study, (d) research methodology adopted in the study, and (e) scope of study, etc.

SECOND CHAPTER pertains to the profile of the MSRTC.

THIRD CHAPTER deals with the concepts and definition of financial management and financial management of the MSERTC.

FOURTH CHAPTER contains (a) interpretation of data regarding the financial pattern of MSRTC, (b) collection of total revenue and expenditure of MSRTC, (c) sources and uses of funds, etc.

FIFTH CHAPTER closes with the summaries, conclusions and suggestions made in the course of the study.

1.12 Limitations of Study:

While conducting the study of the financial management of the MSRTC, the data used is of secondary nature, i.e. administrative reports published by the MSRTC which contain maximum information about the financial affairs and the statistical data alongwith all other activities of the MSRTC.

Maharashtra State Road Transport Corporation is a Government undertaking, mainly engaged in public utility services and for the betterment of the masses that reside in the remote areas of the State.

Almost all the financial statements including budget and annual accousnts are prepared by the Chief Accounts Officer-cum-Financial Advisor of the Corporation with the aid of all his assistants working in the regional and divisional offices.

On completion of accounts, these are placed before the Board of Directors for sanction and for further submission to the Government for approval. On receipt of the approval from the Government, these are widely published by the MSRTC. Till then, these accounts are secret documents.

Prepapring of financial accounts by the Chief Accounts Officer and obtaining final approval of the Government is a time consuming procedural factor, which has restricted the present study to the period from 1983-84 to 198-87.

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