CHAPTER II

FINANCIAL ADMINISTRATION OF MUNICIPAL COUNCILS - THEORETICAL REVIEW
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2.1 Finance Function:

Finance is one of the basic foundation or backbone of any economic activity. Normally, this term is used in the context of business activities. Efficient management of any business activity is closely linked with the efficient management of its finances.

Finance Function is defined as "the procurement of funds and their effective utilisation."^1

Business finance is "that business activity which is concerned with the acquisition and conservation of capital funds in meeting financial needs and overall objectives of a business enterprise."^2.

Business finance can also be defined as "the activity concerned with planning, raising, controlling and administering of the funds used in the business."^3

2.2 Financial Management

Financial Management is "the managerial activity which is concerned with the planning and controlling of the firm's financial resources."^4

In other words, it means that the entire gamut of managerial activities is linked with and directed to the management of finance—both its sources and uses—of the organisation.
According to Soloman, "Financial Management is concerned with the efficient use of an important economic resource, namely, capital funds."

According to Phillippatus "Financial Management is concerned with the managerial decisions that result in the acquisition and financing of long-term and short-term credits for the firm. As such, it deals with the situations that require selection of specific assets or combination of assets, the selection of specific liability or combination of liabilities, as well as the problem of size and growth of an enterprise. The analysis of these decisions is based on the expected inflows and outflows of funds and their effects upon managerial objectives."

Thus, financial management ensures proper and efficient management of funds. The objective of the financial management is to balance the risks, costs and control considerations vis-a-vis the procurement of funds and to achieve the optimum utilisation of funds.

S.C. Kuchhal has classified the overall finance function into two groups -

a) Executive Function - requiring administrative skill in planning and execution, and

b) Incidental Function - requiring attention to the day-to-day routine work to implement the financial decisions taken at executive level.
Executive Finance Functions are -
1. Establishing asset-management policies;
2. Determining the allocation of net profits;
3. Estimating and controlling cash flows and requirements.
4. Deciding upon needs and sources of new outside financing;
5. Carrying out negotiations for new outside financing; and
6. Checking upon the financial performance.

The Incidental Finance Functions are -
1. Supervision of cash receipts and disbursements and the safeguarding of cash balances;
2. Custody and safeguarding of securities, insurance policies and other valuable papers;
3. Taking care of the mechanical details of financing; and
4. Record keeping and reporting.

2.3 Objective of Financial Management

Profit Maximisation vs Wealth Maximisation

The traditional approach of profit maximisation does not hold good in any organisation. The thrust has been shifted to the wealth maximisation. Prof. Soloman has advocated the theory of wealth maximisation on the following grounds:

1. The distinction between profits and profitability envisages that the profitability maximisation in the sense of using resources to yield economic values higher than the
joint values of inputs required is a useful goal. The goal of profitability achieved in terms of greater outputs than input values involves proper consideration; therefore, wealth maximisation is the goal of financial management.

2. Profit maximisation does not provide for building up of reserves to meet any future contingency.

3. Higher profits are associated with greater risks.

4. Profit-maximisation has the limitations of competition and margin constraints.

5. Profit-maximisation objective fails to consider the interest of the Government, employees and the consumers. Thus, the social considerations are absent.

Thus, wealth maximisation is a wider term in a sense that the ultimate beneficiaries are rewarded in the long run with higher Earning-Price Ratio.

2.4 Private Finance vs. Public Finance.

Most of the Finance and Financial Management theories revolve only around private organisation i.e. private financial management which involves finances of individuals, firms or companies. On the other hand, it has not yet encompassed the Public Finance fully, which involves finance of the Government or the State or the Local Authorities. Public Finance is the study of principles underlying the spending and raising of funds by the State or Local Authorities.
2.5 Municipal Finance:

Municipal Finance is the study of the management of the financial aspects of a local authority which is the result of devolution or decentralisation of State functions with a view to -

i) introduce some of the devolution of responsibility and of the administration functions; and

ii) to introduce decentralisation of local functions which can best be managed under local supervision.

The distinction between Private Finance and Municipal Finance can be brought out as under:

<table>
<thead>
<tr>
<th>Private Finance</th>
<th>Municipal Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Objectives of Profits and immediate gains.</td>
<td>Objective of providing and civic services at the minimum cost, absence of profit motive. long term achievement is social goal.</td>
</tr>
<tr>
<td>2. Debt raising is not desirable</td>
<td>Debt raising is desirable for carrying out productive works.</td>
</tr>
<tr>
<td>3. Expenditure is controlled by income.</td>
<td>Expenditure determines the income.</td>
</tr>
<tr>
<td>4. Centralised Control or family managed organisation.</td>
<td>Collective Administration - legislative body decides the policy and executive branch puts the policy into execution</td>
</tr>
<tr>
<td>5. Private ownership and the individual has the earning motive.</td>
<td>State ownership and earning is received from the public.</td>
</tr>
<tr>
<td>Private Finance</td>
<td>Municipal Finance</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>6. Lack of transparency in Administration.</td>
<td>Transparency in administration</td>
</tr>
<tr>
<td>7. Budgetary System is absent.</td>
<td>Budgetary System is the foundation of Municipal Finance.</td>
</tr>
<tr>
<td>8. Competitive environment.</td>
<td>Absence of competition, enjoys monopoly in major areas.</td>
</tr>
</tbody>
</table>

2.6 Financial Administration in Municipal Council

The terms 'Financial Management' and 'Financial Administration' have been interchangeably used in the context of Public Accounting. Of late, International Authors like Felix A. Nigro, Sir A.N. Hart, A.H. Marshall and Leonard D. White have used the term Financial Administration to represent the management functions dealing with revenue and expenditure aspects of the governmental administration. Thus, the term 'Financial Administration' consists of all those operations directed towards the object of making the funds available for the governmental activities and to ensure the lawful, optimum efficient and effective utilisation of these funds.

According to Felix A. Nigro: "The components of financial administration are budgeting, accounting, auditing, purchase and supply management, tax administration, and treasury management. Financial Administration also includes fiscal policy and the government's role with respect to economic stabilisation." 9
According to Sir A.N. Hart, "Financial Administration involves the study of the following operations:

i) Budget preparation.
ii) Obtaining the approval on the budget estimate by the legislature i.e. getting the budget passed.
iii) Execution of the Budget.
iv) Management of the Treasury
v) Rendition of accounts and its audit
vi) Retrenchment for economy." 10

A.H. Marshall has included the following activities in the scope of 'Financial Administration' -

"i) tendering financial advice to members of the governing body;
ii) to supply adequate financial information to the management and
iii) to keep routine checks and controls to ensure purity in administration." 11

According to Leonard D. White, "Fiscal management includes those operations designed to make funds available to officials and to ensure their lawful and efficient use." 12

Thus "financial administration includes as its principal subdivisions, budget making, formal act of appropriation followed by the executive supervision of expenditures or budget execution, the control of the accounting and reporting system; treasury management and revenue collection; and audit." 13
Financial administration and allied activities are an aid to the democratic process and effective management. It is not to be considered as an end itself but as an inseparable part of general and economic administration. The main objectives of financial administration may be summarily stated as under:

i) to devise a machinery ensuring that financial functions and responsibilities are clearly defined;

ii) to ensure that all financial commitments of policy making authorities are properly discharged and the financial discipline is strictly obeyed.

iii) that the financial programme is properly phased and related to works chart;

iv) that expenditures have the sanction, approval and payment orders;

v) that all receipts are duly and diligently taken note of source by source; and

vi) that the assets and the financial interests of the institution are zealously safeguarded.

2.7 Parameters of Efficient Financial Administration

The financial administration of the Municipal Council shared ensure that adequate funds are available to enable it to discharge efficiently its obligatory duties and discretionary functions as laid down in the statute and also to ensure their lawful and effective use.
The financial administration of a Municipal Council ensures the smooth process by which the Council raises and spends the money on its objects within the framework of the legislation. It is the backbone of the income and expenditure of the Council.

2.8 Maximum Social Welfare

The principal objective of any Municipal Council is to increase the social welfare of the inhabitants of city i.e. maximum social welfare. Municipal Taxation would decrease the individual welfare since he has to part away his money. On the other hand, when the money raised is spent on the municipal services, there is an addition to the social welfare. The main parameter of the efficient financial administration of a council would be rendered maximum 'net increase' to the social welfare. The greatest good of the greatest number should be the ultimate goal.

A rupee collected by way of municipal taxes should yield more utility in Municipal Treasury than in individual's pocket.

2.9 Sound System of Municipal Taxation

The efficient financial administration of a Municipal Council should ensure the sound foundation of local taxation i.e. receipts from local taxation should provide for adequate and basic revenue necessary for discharging the obligatory

Although it is a fact that hardly in any country the whole system of taxation has been logically and fundamentally based on the principles or cannons of taxation, yet it can be hardly denied that the financial administration of the Municipal Council should ensure the sound system of Municipal Taxation be based on the following parameters of taxation:

2.9.1. Canons or Maxims of Taxation of Adam Smith

(i) Equality or Equity: The subjects of every state ought to contribute towards the support of the Government as early as possible in proportion to revenue which they respectively enjoy under the protection of the State.

The equity could be achieved in different ways as under:

a) Cost of Service: An individual should be asked to pay the Council a tax equal in amount to the cost incurred by the Council in rendering the service to him or her. However, it can be argued that the Municipal Services being such that the major cost is in the name of 'overhead expenses'. It cannot be properly allocated and even precise cost of the service rendered to an individual cannot be determined. This theory, therefore falls more heavily on the poor and is considered unjust. However, in respect of specific
levies like development charges, water tax and provision of amenities like parking place, gardens, swimming pools, etc. equity principle can be adopted as the basis of taxation.

b) **Benefit Theory**: It lays down that the tax charged from an individual should be proportionate to the benefit or cost of service enjoyed by him. The total cost incurred by the Municipal Council should be distributed among the tax payers in proportion to the benefits. However, the value of benefits enjoyed by the individuals cannot be determined particularly as regards medical facilities, education, public lighting roads etc. Municipal Taxes, in general, are justified only on the basis of common benefits.

c) **Ability Theory**: The tax is to be levied only to put as much as burden on each shoulder, as it would bear. All should suffer to proportion to their respective abilities:

i) **Subjective or psychological approach** - Each one is expected to make equal sacrifice for the common benefit. Sacrifice is a psychological phenomenon. The practical application of this subjective approach is beset with difficulties.

ii) **Objective measures of ability** - It is measured with reference to certain concrete evidence e.g.
property, income, expenditure etc. which can be real, personal or intangible.

(ii) **Certainty** : The Municipal Tax must be a sum certainty and not arbitrary. It should be unambiguous and clear. Tax evasion should be avoided. If the tax is unclear and ambiguous, people would avoid or evade the same.

(iii) **Convenience** : The Municipal Tax should be levied at the time or in the manner in which it is more likely to be convenient to the taxpayer to pay. It should not unnecessarily hamper the daily routine of life or trade.

(iv) **Economy** : The Municipal Tax must be economical in its levy. It should not act harshly. A tax which taxes the least and the least number of persons is comparatively a good tax.

2.9.2 **Other Principles**

(v) **Elasticity** : The tax should be as elastic as possible so that its incidence can be easily increased or decreased according to the change in circumstances.

(vi) **Diffusion** i.e. it should differ the burden equitably among all the social classes.

(vii) **Production** i.e. it should diffuse the burden equitably among all the social classes.
(viii) Economy in Collection: The cost of collection of the tax should be the minimum. There should be a clear minimum proportion between the cost of collection of a tax and its total yield.

(ix) Variety or Diversity in Taxation: A number of taxpayers should be selected for taxation so that any fall in the revenue derived from such sources might be made good from a surplus in others.

(x) Simplicity i.e. the tax system should be simple, plain and intelligible to the common understanding.

The efficient financial administration should ensure that compulsory revenues are essential for the due maintenance of the Council and hence, the Municipal Taxes must conform to the basic principles of taxation.

The Maharashtra Municipal Council Act, 1965 and Rules framed thereunder have laid down the maximum and minimum levels of taxes and levies to be imposed by the Councils. The levy should be in uniformity with the civic services rendered. Moreover, they should be proportionate to the advantages received by the citizens.

The Municipal Councils have been devised to satisfy the needs which devolution of authority has been deemed expedient and the power of taxation is a concession strictly limited by terms of the grant of power.
The Municipal Councils in Maharashtra are in dire financial strains due to limitations in levying local taxes. The inelasticity of local taxes coupled with the continued growth of expenditure on local governance has naturally led to promote a search for additional methods of obtaining local revenues, which would strengthen the local authorities and make them less dependent upon Government grants. Limited resources certainly have impeded the efficiency of services such as maintenance and improvement of roads, drainage, sewerage, water supply, street lighting, provision of public parks, recreational facilities, schools and hospitals, etc.

The efficiency of financial administration lies in the search for additional and alternative methods of raising local revenues to set up the projects which are self-financing and to reduce the overhead costs since it is difficult to levy fresh taxes or enhance the rates of existing taxes.

According to Shri M.R. Mehta, "Our local government system has not been very effective mainly because of the weak financial administration of our local authorities. particularly, the manner in which they have often failed to meet their obligations and not having taken care to maintain the soundness which is so essential to any financial structure. Discrimination in the assessment of taxes and inefficiency in their collection, complete disregard to budgetary principles;
diversion of government grants for specific purposes; corruption and embezzlement, are unfortunately common features of several local bodies. Any attempt to augment their financial resources, will therefore, be criticised unless they show definite improvement in their functioning and are freed from the evils of corruption, laxity and mismanagement.  

Therefore, the efficiency of the financial administration of Municipal Council would be judged on the parameters of its ability to meet the cost of local governance within the resources at its own disposal as well as to innovate the new sources finance.

2.11 Integration of Legislative and Executive Powers

The financial administration in Municipal Councils is radically different from that of the upper level Governments. This has resulted into far-reaching implications for the Municipal System. At the upper levels of the Government, the financial administration subserves the needs of financial control in the legislative, executive and audit fields. No such explicit requirement is discernible at the Municipal Council level. This is due to the following inherent reasons:

a) the integration of legislative and executive powers in the Municipal Council makes it difficult for its executive committee to function as an inquisitorial body as well, and
CHART NO. 1

GOVERNMENT

UNITARY

PROVINCIAL

DISTRICT

LOCAL GOVERNMENT (LOCAL AUTHORITY)

URBAN

CORPORATION

MUNICIPAL COUNCILS

RURAL GOVERNMENT

DISTRICT BOARD (ZILLA PARISHAD)

TALUKA BOARD (PANCHAYAT SAMITI)

VILLAGE COUNCIL (GRAM PANCHAYAT)

MULTI-LEVEL

FEDERAL

STATE GOVERNMENT

DISTRICT

LOCAL GOVERNMENT (LOCAL AUTHORITY)

URBAN

URBAN

CORPORATIONS

MUNICIPAL COUNCILS

RURAL GOVERNMENT

DISTRICT BOARD (ZILLA PARISHAD)

TALUKA BOARD (PANCHAYAT SAMITI)

VILLAGE COUNCIL (GRAM PANCHAYAT)
b) the separation of executive powers and functions in municipal governance cannot accommodate the existence of an independent finance officer responsible only to the Municipal Council or its executive committee. This levels the system of external audit as the only meaningful instrument of controlling the Municipal Expenditure. 16

2.12 Parameters of Regulating Municipal Expenditure

The overriding principle of Maximum Social Benefit must be observed in regulating the Municipal Expenditure. The expenditure is justified only if it contributes to the social welfare of the masses. The end-results would depend upon the character and cooperation of the people. The finances must be utilised economically i.e. optimum utilisation of the scarce resources to the best advantage of the community. The expenditure being spent must have been properly sanctioned prior to its disbursement or else there would be more proper check on such expenditure. The expenditure should be kept as elastic or flexible as possible in a sense that it could be reduced in difficult times of financial stringency. In other words, it can be increased when funds are available and decreased when funds are scarce. Sound financial administration should ensure proper budgeting, keeping of proper accounts and timely audit of these accounts. The Municipal Expenditure should be spent in such a manner that it exercises a wholesome effect and influence on production.
as well as consumption. Production should be stimulated. Power to work and will to work should be strengthened. It also affects willingness to work and save by spending on education, public health, low cost housing and such other amenities provided to the people.\textsuperscript{17}

2.13 Budgets

The budgetary procedure has been laid down by the Act and the Rules framed thereunder, involving the Chief Officer preparing the Budget for submission to the Standing Committee which finalises the budget for consideration and sanction by the Council. The normal tendency in most of the Municipal Councils, is to present the budget with a minimum balance as prescribed under the Act or Rules increasing or inflecting the income items unrealistically, which has an ultimate effect of actual receipts subsequently lagging behind the expenditure, based on inflated budget estimates thereby creating financial difficulties.\textsuperscript{18}

2.14 Accounting System

The Municipal Councils in Maharashtra are required to maintain the accounts in accordance with the provisions of the Maharashtra Municipal Council Act, 1965 and in the form and manner as laid down in the Maharashtra Municipal Account Code, 1971 which has been framed under the Act. The system of Municipal Accounting reflects the day-to-day financial transactions, the receipts of revenues, the payment of expenses,
CHART NO. 2

THE COUNCIL

EXECUTIVE WING

CHIEF OFFICER

DEPARTMENTAL HEADS

MUNICIPAL ENGINEER

WATER WORKS ENGINEER

MUNICIPAL HEALTH OFFICER

MUNICIPAL FIRE OFFICER

ASSESSOR AND COLLECTOR OF TAXES

SERVICED BY THE MUNICIPAL OFFICERS

MUNICIPAL SCHOOL BOARD

ADMINISTRATIVE OFFICER (MUNICIPAL EDUCATION OFFICER)

MUNICIPAL AUDITOR

MUNICIPAL CHIEF AUDITOR

CERATIVE WING

PRESIDENT

PUBLIC UTILITY COMMITTEE

LIQUID WORKS COMMITTEE

CATION COMMITTEE

TRATION, MEDICAL AND PUBLIC LH COMMITTEE

ER SUPPLY AND DRAINAGE

NING AND DEVELOPMENT Imittee

EN AND CHILD WELFARE

SET UP OF THE JALGAON MUNICIPAL COUNCIL
changes in the budget, custody of funds, stores transactions etc. However, the Municipal Account Code does not envisage maintenance of the General Ledger and Control Accounts like Double Entry Accounting System. Moreover, the Budget classification and Non-disclosure of Borrowing position in the Budget needs to be reviewed and changed immediately. The Loan Repayment and Interest on Loans are shown under the head 'miscellaneous Expenditure', which is quite illogical and against the basic principles of accounting. Moreover, there is practice of preparation and presentation of the Balance Sheet showing the assets and liabilities of the Municipal Council.

In the absence of the requirement of preparation of the Balance Sheet of the Councils it is quite difficult though not impossible, to devise the financial parameters on the basis of Accounting Ratios based on the Balance Sheet.

2.15 Audit

Audit of the Municipal Accounts is conducted by the Chief Auditor, Local Fund Accounts of the State Government. The main objective is to ensure that all financial transactions are conducted according to the Rules or Accounts Code that all receipts are duly credited to the proper accounts and that no expenditure has been paid without proper authorisation. However, the External Audit is conducted belatedly i.e. after 2-3 years thus defeating the scope of audit
itself. There is no system of cost audit, management audit, propriety audit (i.e. all the expenditures are made according to the principles of propriety, justifiability, faithfulness, economy and wisdom), or continuous or concurrent audit. There should be a full-fledged and efficient Internal Audit Department to provide for an effective tool of financial control.

2.16 Constitutional Provisions of Municipal Finance

With the passage of the Constitution (Seventy-Fourth Amendment) Act, 1992, Part 'IXA' has been introduced in the Constitution of India exclusively for 'the Municipalities'. Articles from 243 P to 243 ZG and the new 'Twelfth Schedule' provides for the following provisions:

PART IXA

'THE MUNICIPALITIES'

243 P Definitions
243 Q Constitution of Municipalities
243 R & Composition of Municipalities
243 S
243 T Reservation of Seats
243 V & Disqualification for membership
243 W
243 X Power to impose taxes by and Funds of, the Municipalities.
243 Y Finance Commission
243 Z Audit of Accounts of Municipalities.
243 ZA Elections to the Municipalities.
Accordingly, the State of Maharashtra has passed the Maharashtra Municipal Council (Amendment) Act, 1994 to ensure that the basic constitutional framework is following in the state and the Municipalities are in a position to function effectively as democratic units of self-government.

The Governor of Maharashtra by a Notification has specified all the existing Corporation areas as the larger Urban Areas, all the existing Municipal Council Areas as governed by the Maharashtra Municipal Councils Act, 1965 as the smaller Urban Areas and the transitional areas which are in transaction from rural to urban areas are to be governed by Nagar Panchayat.

Article 12

Constitution has recognized the local authorities as an essential part of the National Government.
Article 12 of the Constitution clearly lays down that in the Part IV of the Constitution which deals with the Directive Principles of State Policy, the term "The State" includes the Government and Parliament of India and the Government and the Legislature of each of the States and of local or other authorities within the territory of India or under the control of the Government of India.

2.16.2 Seventh Schedule

The subject of Local Government figures under Entry No. 5 of List II of the Seventh Schedule of the Constitution as under:

"Local Government, that is to say, the Constitution and powers of Municipal Corporations, Improvement Trusts, District Boards, Mining Settlement Authorities and other Local Authorities for the purpose of Local Self-Government of Village Administration".

As such, all units of local government are the creations of the State Governments and possess those powers and functions which are specifically delegated to them by the Acts passed by the State Legislature. The duties and powers vary with the nature and size of the local government unit. All Municipal Councils are subject to the control by State Governments through the Urban Development Department. This Department has powers of making regulations; obtaining information, inspection, sanctioning taxation and loans,
approving budgets of indebted municipalities, auditing accounts, establishing qualifications and salaries of staff, sanctioning high appointments and hearing appeals against punishment, suspension of local resolutions where they are likely to affect peace and order, action in default, appeals in specified matters from citizens aggrieved by Municipal decisions and deciding the disputes between the Municipalities.

2.16.3 Local Taxes

The Constitution has divided the public revenues of the country only into two parts: One for the Union and the other for the State. It has permitted the State Authorities to allot any resources at their discretion to local bodies, out of the State share of public revenues. The recommended matters have been included in the newly inserted 'Twelfth Schedule'. There is no express provision in the Constitution making it obligatory for the states to hand over any particular source of income to local bodies. Theoretically, the Municipal Councils can be permitted to levy any of the taxes which a State Government is empowered to levy under the Constitution. However, this has not been permitted for obvious reasons.

2.16.4 Article 276:

Article 276 of the Constitution empowers the State Government to levy and collect taxes on professions, trades,
CHART NO. 3
THE ADMINISTRATIVE SET-UP OF
JALGAON MUNICIPAL COUNCIL
MUNICIPAL CHIEF OFFICER

MUNICIPAL
ENGINEER

WATER
WORKS
ENGINEER

HEALTH
OFFICER

CHIEF
ACCOUNTANCE

ASSESSOR
AND
COLLECTOR
OF TAXES

EDUCATION
OFFICER

FIRE
OFFICER

OFFICE
SUPERINTANT
OF OCTROI

STAND
ENGINEER

TOWN
PLANNING

STORES
OFFICER
callings and employment through the local authority not exceeding Rs.2,500/-. This is collected by the State Government. The present maximum amount of tax is Rs. 960/- per person per annum. It is subsequently appropriated through grant-in-aid.

2.16.5 Article 285:

The property of the Union shall be exempt from all taxes imposed by the State or by any authority within the State, except so far as the Parliament may by law, otherwise provides. However, if such properties of the Union were taxed before the commencement of the Constitution by any authority, the same can go on taxing them until the Parliament otherwise provides.19

2.17 Costing Parameters of Efficient Financial Administration

Municipal Councils are largely responsible for production and equitable distribution of urban public services amongst all the people residing within their city limits. They are required to provide these services at reasonable costs so as to maximise the social benefits to the urban dwellers i.e. maximum satisfaction at minimum cost. Therefore, it is imperative to know -

a) what are the minimum civic needs of the people; and

b) how much should they cost at a point of time in the given circumstances.
It is only after the firm grasp of these ideas, that would enable the Council to co-relate purposefully the cost and benefits of public services, model tax-structure, pricing policy of the public goods and mobilisation of revenue resources.

The Committee of Ministers appointed by the Council of Local Self-Government (Augmentation of Financial Resources of Urban Local Bodies, 1960) had prescribed certain standard costs for selected services of different areas in the country. These estimates are out-dated since the factor prices have sizably appreciated during the last 30 years and therefore an attempt has been made for assessing the basic minimum services and their respective standard per capita cost for the Jalgaon City.

To comprehend the process of public expenditure and its ultimate impact on the socio-economic welfare of the city, it is imperative to know the unit cost of each and every urban public service. It is true that most of the Municipal activities are aimed at building of social infrastructures and as such, precise quantification of the impact of such expenditure on the community as a whole is a difficult task.

Moreover, urban public services are commonly consumed by the public at large and as such, it is impossible to quantify their effect on urban life.
However, the best parameter would be to assess the minimum basic need of various public goods and services and also their related costs. While evolving the standard costs of civic services one has to take into account:

a) geographical situation
b) area and topography
c) population and its density
d) type and level of services
e) living standard of people
f) demand consumption pattern
g) industrial and commercial activities, and
h) resources of urban local authorities.

In analysing the financial conditions of the Municipal Council, only revenue income on the receipts side and revenue expenditure on disbursement side have been considered. In calculating revenue income, the receipts on account of non-recurring grants, loans and other terms of extra ordinary sources like deposits, advances etc. have been excluded. Similarly, in computing revenue expenditure outlay on capital works and other extraordinary expenditure have been excluded.

To analyse and compare the costs incurred on various services in urban area and identifying the existing and the desired gap, the standard norms of (TCPO) the Committee of Minister appointed by the Council of Local Self-Government (Augmentation of Financial Resources of Urban Local Bodies
1960\textsuperscript{15} have been updated buying appropriate price indices. The standard norms developed at the prices existing in 1957-58 have been brought up to the prices of 1971-72, 1976-77, 1981-82, 1985-86, 1991-92 and 1995-96 so as to adjust the rise in general price level.

**Standard cost of services for Jalgaon City**

<table>
<thead>
<tr>
<th>Types of Services</th>
<th>Per person cost of service for the city having population between 1,00,000 and 3,00,000.</th>
<th>1957-58</th>
<th>1976-77</th>
<th>1995-96</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Administration</td>
<td></td>
<td>3.00</td>
<td>12.00</td>
<td>45.00</td>
</tr>
<tr>
<td>Public Safety</td>
<td></td>
<td>2.80</td>
<td>11.20</td>
<td>42.00</td>
</tr>
<tr>
<td>Water Supply</td>
<td></td>
<td>9.80</td>
<td>39.20</td>
<td>147.00</td>
</tr>
<tr>
<td>Public Health</td>
<td></td>
<td>11.80</td>
<td>47.20</td>
<td>177.00</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td>4.00</td>
<td>16.00</td>
<td>60.00</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>2.00</td>
<td>8.00</td>
<td>30.00</td>
</tr>
<tr>
<td><strong>TOTAL RS....</strong></td>
<td></td>
<td>33.40</td>
<td>133.60</td>
<td>501.00</td>
</tr>
</tbody>
</table>

2.18 Performance Budgeting

The existing pattern of budgets only ensures legislative control and accountability, that is, with the object of ensuring that the funds are raised and the money is spent according to the sanctions of the Council. However, it
has to be ensured that the expected results are timely achieved. Therefore, the Study Group of the Administrative Reforms Commission has recommended introduction of the performance budgeting involving planning, programming, estimating and specifying the aims and objectives to be achieved and linking all these in proper form. In the present budgetary system, the main emphasis on financial and legal accountability but in the performance budgeting the emphasis is on the purposes, aims and objectives to be achieved by means of the activities proposed to be undertaken, indicating inter-alia the estimated cost and the period involved.

The technique of performance budgeting highlights the management consideration laying emphasis on accomplishments, scope and purpose of work to be done or services to be rendered. It aims to present the purposes and objectives for which funds are obtained, the cost of various programmes and the activities planning for achieving those objectives and quantitative data for measuring the work executed, services rendered or results accomplished under each programme and activity.

In Municipal Councils, the performance budgeting can be the parameters of the financial administration by establishing norms for the following factors:

i. Work-load factors,

ii. Productivity factors,
iii. Factor of services to be rendered or benefits to be accrued, and

iv. Time - schedule for work.

(i) Work-load factors and ratios relating to the manpower utilisation, labour turnover and efficiency ratios can be the parameters. Span of time for completion of the job, ratio of staff-time to overall work, number of cases handled, pending files and reasons thereof can be recorded for assessing propriety of expenditure on the administration with reference to the work-load.

(ii) The productivity factors are the indicators of input-output ratio, and it requires the standard cost per unit to be compared with the actual cost to analyse the variations. The examples can be cost per km of roads on the basis of rate-schedule prescribed for the district, requirement of materials for each km of road and utilisation of labour in terms of man-hours with reference to work-load and time-schedule within which the work is to be completed.

(iii) Factor relating to services to be rendered or benefits to be accrued can be applied in case of social benefits like primary education and hospitals. The performance ratios are established like number of students admitted, passed, cost of education per student, number
of patients, medical cost per patient, staffing pattern per patient, etc.

(iv) Time schedule fixation can be adopted for supervisory staff, security and safety staff, laboratory staff, etc.

The Performance Budgeting has to be accompanied with the Performance Audit i.e. appraisal of the performance of the Municipal Council on the basis of the propriety and efficiency audit i.e. to find out whether the expenditure has been incurred with wisdom, faithfulness and economy. The Performance Audit also includes assessment and appraisal of the actual performance against the promises, achievement of objectives and targets set in respect of different programmes, schemes and works and maintenance of the approved cost-work-time schedule envisaged in the Performance Budgets.
REFERENCES


8. Ibid. p.10


10. Sir A.N. Hart as quoted by Dr. Radhey Shyam Financial Administration p.3


13. Ibid. p.2


