CHAPTER - IV

THE NASHIK MUNICIPALITY : BUDGET AND ACCOUNTS

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CHAPTER IV

THE NASHIK MUNICIPALITY: BUDGET AND ACCOUNTS

This chapter covers the period 1966-67 to 1980-81 when there was Nashik municipality.

4.1 THE ADMINISTRATIVE SET-UP

Before studying the finances of Nashik municipality, it is necessary to know the administrative arrangements prescribed by law because in any economic unit, whether government or industry or any other resource consuming unit, a wise and efficient scheme of resource management or administration is a pre-requisite of achieving the maximum results. It is in this sense that a sound system of financial management and administrative techniques are considered as important as revenue-raising and expenditure functions. As these functions become innumerable, the complexity in the management process appears. Unless the flow of functions, initiative and accountability etc. at each level are predetermined and widely understood, any system of government fails to achieve its objectives. Responsible government without proper accountability and productivity in resource use cannot but end in a fiasco. Therefore, financial administration in municipalities has to be given its due consideration in some detail.
Even at a local level, there is a clear division of functions and responsibilities between the administrative machinery and the political wing.

The Municipal authorities for municipal area are:

(a) the Council
(b) the President
(c) the Standing Committee
(d) the Subjects Committees
(e) the Chief Officer

**Municipal Council**

The entire municipal government vests in the council. The municipal council also vests in the council. The council is the supreme body in relation to any of the other authorities mentioned above. All the decisions of the council are in the form of resolutions. The State Government has the power to rescind any of the resolutions passed by the council. The council is elected for a period of five years. This period can be extended in exceptional cases by a period of one year.

**The President**

Every municipal council has a President and a Vice-President. President is directly elected by the
citizens whose names are included in the municipal voter's list. Any person qualified to be elected as a Councillor is qualified to be elected as the President. Vice-President is appointed by President. The term of office of the President is for five years.

The Standing Committee

One of the most important committees of the municipal council is the standing committee. Standing committee consists of 9 members of which 6 are ex-officio members and 3 members are elected by the councillors. The President is the Chairman of Standing Committee. Similarly 5 Chairmans of 5 Subject Committees are also the members of the Standing Committee.

There is a limitation to the powers of financial sanctions of the standing committee and subjects committees of the different municipal councils as follows:

<table>
<thead>
<tr>
<th>Class of Council</th>
<th>Standing Committee</th>
<th>Subjects Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Rs. 1,00,000</td>
<td>Rs. 20,000</td>
</tr>
<tr>
<td>B</td>
<td>50,000</td>
<td>10,000</td>
</tr>
<tr>
<td>C</td>
<td>20,000</td>
<td>4,000</td>
</tr>
</tbody>
</table>

Subject Committees

All subjects committees are subordinate to the standing committee in addition to council. The standing
committee is the subordinate to the council. The subject committee has to report its decision to the standing committee for information. The standing committee reports all its decisions including that of subject committees to the council for information. In case of conflict between the directions of the council to subjects committee and directions of standing committee to that subjects committee, the directions of the council prevails. In deliberative wing of municipal authority come municipal council, president, standing committee and subjects committees.

The subjects committees are -

i) Public Works Committee
ii) Education Committee
iii) Sanitation, Medical and Public Health Committee
iv) Water Supply and Drainage Committee
v) Planning and Development Committee

**Chief Officer**

In executive wing, the important segment is the Chief Officer. It is made obligatory on every municipal council to appoint a Chief Officer. The municipal council may, with the sanction of the Director of Municipal Administration appoint a Municipal Engineer, a Water Works Engineer, a Municipal Health Officer and any other officer.
There are two facets to the municipal financial administration -

1. the internal set-up
2. the external or state control

The responsibility for the determination of policy and supervision of its execution is centered within the municipality itself. This particular feature of decision-making and execution of works programme has some practical consequences in internal administration. Division of duties between the council and the Chief Officer and his staff become blurred and overlap. The sense of corporate responsibility is dormant, and the council distrusts its own committees. Finally, impartial and detached criticism is not forthcoming from within. However, all the short-comings of the internal organisation are not due to this feature alone. Over the long years, a sense of adjustment between the council and committee work and the Chief Officer has emerged and has provided a realistic frame to the municipal council so as to what could really be done and all internal criticisms becomes self-examined.

In matters relating to financial administration, the internal machinery is charged with the following functions :
1) Formation of municipal budget
2) Maintenance of municipal accounts
3) Tax administration and collection
4) Works management and disbursement

The state government's participation in municipal fiscal management is three-fold:
1) Budget approval and sanction
2) Audit of accounts
3) Expenditure sanction

4.2 **ADMINISTRATIVE PROBLEMS FACED BY NASHIK MUNICIPALITY WERE AS FOLLOWS:**

The problems associated with Nashik Municipal Financial Administration has to be viewed from two aspects, one relating to the internal financial management of municipal authority and the other, concerning the pattern of external control of Nashik Municipal Finances by the State Government and the State local financial relationship.

In Nashik municipality, Deliberative Wing and Executive Wing are separated from each other. Deliberative Wing has executive powers but it is not made responsible for executive functions. The Deliberative Wing (particularly the standing committee) acts as
both execute and its critic. On the other hand the
Executive Wing has no executive powers but it has
responsibility of carrying out executive function.
Not only this, the anxiety of the elected members to
exercise executive powers finds expression in open
hostility towards the appointed officials. This
sometimes gives the impression that the elected
members are in permanent opposition to appointed
civil servants.

Besides the defective management frame-work of
municipality which has adverse and far-reaching
implications on the internal financial management of
Nashik municipal authority, there are some other
problems also.

Financial system of Nashik municipality has not
been very effective mainly because of weak financial
administration, particularly the manner in which it
has failed to meet its 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 for budgetary principles,
diversion of government grants for specific purposes,
corruption and malpractices were unfortunately the
main features of Nashik municipality. It is very essential that its functioning must be freed from the evils of corruption, laxity and mis-management.

The main administrative problems are discussed as follows:

1) **Limited Freedom**

The Nashik municipality was transformed into Corporation in November 1982. As the Chief of the Corporation is appointed by the Government (he is called as Administrator), the Nashik municipal corporation has totally lost its autonomous status.

The Nashik municipality does not have any freedom even with regard to creating the employment opportunities. Many times the permission is not given by the Government. Municipality has to inform employment exchange and social welfare department regarding the vacancies.

When the list of names is received from them, the appointments are made in front of officials. All this leads to wastage of time. Secondly the local people loose the opportunity to get an employment in local administration. The outside people are appointed who are not familiar with local conditions and are not
in a position to understand the local problems in a proper perspective. This results in poor performance of municipality in its functioning and the objectives remain to be realised.

2) **Unnecessary Expenditure**

In case of any work to be undertaken which costs more than ₹10,000/-, municipality has to publish tender notice in newspapers. Minimum advertisement charges are ₹1,000/-. Thus ₹1,000/- are to be spent even on expenditure of ₹10,000/-, which is uneconomical. Taking into account the value of money and rising prices, the limit of sanction must be increased to avoid such unnecessary expenditure.

3) **Delays**

When we call local self government as an autonomous institution working at local level, we expect that they would have ability to take decisions quickly and effectively. But in case of Nashik municipality, it is not realised. It has to take prior permission from different government departments in decision-making. This results in unnecessary delays. For example, if the estimated cost of the construction is above ₹20000/-, municipality has to take permission of City Development Corporation. The construction of roads and drainages is
the basic requirement of citizens. But such works are delayed because of the need to observe these formalities. Quick decision-making is necessary as such works are very essential.

4) **Inferior quality of staff**

The wage-rates offered for the municipal posts are so low that it becomes very difficult to get adequately qualified persons. Fresh graduates are appointed, who do not possess any work experience. This reduces the quality of public works such as construction, water supply, sanitation etc.

5) **Inferior Quality of Services**

It is the normal practice of the municipality to accept the tender quoting minimum price. But there is one possible disadvantage i.e. the quality of material may be very poor. Thus even if it is possible to get the material of a good quality, municipality cannot avail itself of the same. The use of inferior quality material ultimately results in loss on account of inferior quality of the construction.

6) **Corrupt Practices**

This is the usual feature of the municipality. The corruption is possible in each and every department.
This must be the result of the lack of efficient supervision and administration.

7) The State Government's Control

Constitutionally speaking, municipalities are the creatures of the state government. The entry in the state list of constitution which is relevant for the purpose of establishing local bodies in entry-5 of schedule VII authorising the state government to organise the types of local government. Broadly speaking, the nature of control exercised by the state government can be classified into four types such as executive, judicial, legislative and financial.

The most powerful source of state control over the municipal councils is the finance. Municipalities are largely dependent on the various grants-in-aid from state government. They also require permission to impose and vary the rates of taxes. It has also to depend exclusively on the state government for obtaining loans. Government exercises control over the finances of municipalities through local fund audit department. Government may approve or disapprove the budget. Besides, the permission of the government is necessary for employing any staff. At times, the government can order a municipality even to reduce its staff. Thus financial control is most complete.
4.3 MUNICIPAL BUDGET

The Maharashtra Municipalities Act, 1965, prescribes the manner in which the budget is to be prepared by the municipalities as well as the rules regarding maintenance of municipal accounts, publication of accounts and audit of accounts.

The budget has been evolved as a document which records anticipated receipts and payments for a given period of time. Its use as an instrument for ensuring accountability of the executive to the elected body under a democratic form of Government has also been a heritage of the past.

The budget is treated as an instrument for planning an effective use of funds for achieving the objects of the local government.

The budget also serves another purpose, that is, as an instrument of economic and social policies to express and implement the preferences and priorities of local government.

The manner in which a budget is arranged reflects to a large extent the thinking of the budget administrators. Its classification brings out the main purpose it is required to serve.
A) **FORMULATION OF MUNICIPAL BUDGET** (1)

Each year, before the 31st day of December, the Chief Officer prepares, under the directions of the President, the annual budget containing:

i) a statement showing the income and expenditure of the council for the previous financial year;

ii) a statement showing the income and expenditure of the council from the 1st day of April to the 30th day of November of the financial year then current and an estimate of the income and expenditure for the remaining portion of the current year;

iii) an estimate of the income and expenditure of the council during the ensuing financial year and estimate of the closing balance in the municipal fund of the current year;

iv) proposals for any change in the taxes, fees or other charges to be levied for the ensuing year.

The Standing Committee considers the estimates and the proposals of the Chief Officer and submits them to the council with such recommendations as it may deem fit to make before the 31st day of January.

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(1) The Maharashtra Municipalities Act, 1965
Government of Maharashtra Law and Judiciary Department, 1974
Chapter VIII, Section 101, P.58.
The council considers the estimates prepared by the Chief Officer and the recommendations of standing committee, if any, and adopts the budget estimates with or without modifications not later than the 28th day of February.

No budget is approved by the council unless provision is made therein -

(a) for the payment as they fall due of all sums and instalments of principal and interest for which the council may be liable under the act or any other law for the time being in force;

(b) for the payment of contributions to the special funds constituted under the Act such as salary, reserve fund and water supply reserve fund;

(c) for the salaries and allowances of the officers and servants working under the council;

(d) for a minimum cash balances at the end of the year of such amount as may be prescribed by rules by the state government.

The budget so sanctioned may be varied or altered by the council, from time to time, as circumstances may render desirable.
B) MUNICIPAL ACCOUNTS

1. Accounts of the receipts and disbursement of every council are to be kept in accordance with the rules contained in the municipal account code prescribed by the state government and be placed before the council in the prescribed manner.

2. After the end of the each financial year the Chief Officer arranges to get prepared and if so required by Section 104, get audited by the Municipal Auditor the accounts of the council for the year and must place audited accounts before the council not later than the 30th day of June of the following year.

3. An abstract of the annual accounts as passed by the council showing the receipts and disbursement of the municipal fund under each head of receipt and disbursement, the charges for establishment, the balance, if any, of the fund remaining unspent, and such other information as may be required by the state government must be forwarded by the council to the director, not later than the 31st day of July of the next financial year.

C) PUBLICATION OF ACCOUNTS

The quarterly and annual accounts, receipts and disbursements and the budget when sanctioned, must be

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open to inspection by any adult inhabitant in the municipal area. A note to that effect that a statement of such accounts and the budget are so kept for inspection is published in the local newspapers.

D) **AUDIT OF ACCOUNTS**

The provisions of the Bombay Local Fund Audit Act, 1930, shall apply to the audit of accounts of every council, subject to the modification that the powers conferred and the duties imposed by that Act on the Commission may in regard to such audit be exercised and performed also by the Director. Director is the person appointed by the State Government to be the Director of Municipal Administration under Maharashtra Municipalities Act, 1965.

4.4 **NASHIK MUNICIPAL BUDGETING: EXISTING PRACTICE**

A) **REVENUE BUDGET**

Normally there are four methods of preparing municipal budget viz. Line-item budgeting, performance budgeting, programme budgeting, zero-base budgeting. But almost in all municipalities only line-item budgeting is done.

**Line-item Budgeting**

The budgeting technique followed by municipalities and municipal corporations is the line-item budgeting.

It serves the purpose of financial accountability and ensuring legality and regularity of expenditure. The budget has been used primarily to keep expenditure in check. It is employed for central control over input such as salaries, wages, travel expenses, materials and supplies, machinery and equipment, tools and plant etc. It is also called conventional budgeting.

Conventional budgeting does not inter-relate financial outlays with physical targets and achievements. It proves to be deficient as a tool of management and as an instrument for evaluating the performance. It emphasises the objects of expenditure without highlighting the purpose to be accomplished. (5)

At present budgeting is used only as a tool of management of cash instead of management of resources. The chief purpose of budgeting is to ensure a continuous availability of resources for the activities to be carried on throughout the budget period.

On the other hand, the administrator of operating unit confines himself only with the activities of the unit assuming that this will yield the intended outputs and taking for granted the availability of inputs.

(5) Joshi R.D. "Certain Issues in Municipal Financial Management And Municipal Budgeting" All India Institute of Local Self-Government Baroda Paper 1, P.12
So there is a lack of co-ordination between the budgeting unit and the operating unit.

If we go through the budget documents prepared by Nashik municipal body, we will notice that it fails to reflect real financial position. Municipal budget comprises of information of the budget draft year and the current year as well as the information regarding the performance in past three years. But actual performance is never evaluated in the light of planned performance. Why there was deviation from planned performance? Whether municipal body has taken any remedial measures? Whether municipal body has forecasted figures for draft year in the light of past performance? In fact such kind of analytical exercise is never undertaken. Municipal budget document does not contain even a balance sheet and other related financial statements. In Nashik municipal budget document one does not find information regarding mounting current debts, deteriorating financial position, recovery performance and outstanding balance. The pattern of receipt and expenditure may change over the year, but such trends are not explained in budget documents. It is also noticed that the final accounts of Nashik municipal body lag behind by two to three years. It means that the actual data presented in the budget are
taken on adhoc basis and are not the real one. Due to all these facts and other deficiencies, one can say that Nashik municipal budget fails to reflect the real financial position.

As per theory of Conventional or Line-item budgeting, it is a tool of controlling. But the peculiar procedure followed by Nashik municipal body while formulating the budget has made it ineffective. The procedure of municipal budgeting is as follows:

The practice of inflating revenue estimate to match the estimates of expenditure is a vicious practice and is not peculiar to any particular municipal body, but a common practice.

The hidden effect of this practice is that the departments get more budgetary sanctions, and they try to spend as much as they can, in order to show better performance and for this department resort to advances, so that their financial expenditure can speed up. They concentrate on the financial expenditure (quantity) only, and not on the physical performance (quality), and cost consciousness or availability of adequate finance, whether they have succeeded in yielding the intended output or physical performance, is never audited and never questioned.
In fact all the major operating departments must consult and get sanction from Chief Accountant, but in Nashik municipal body, while making commitments or placing orders Chief Accountant is neither informed nor consulted. As there is sufficient budget grant, neither accounts or audit department can curb expenditure of operating departments.

As per the financial rules if there is sufficient budget grant available with operating departments, they can place orders. So actual expenditure is incurred in accordance with the inflated expenditure figures, but actual revenue falls much short of the inflated revenue forecast, so the result is deficit, which the Nashik municipal body finances by non-payment of education cess and under dues and public dues like octroi refund etc. So ultimately current debts go on mounting.

The practice of inflating expenditure side to satisfy different pressure groups and then inflating revenue side to match the expenditure side that is followed by executive and deliberative wing make Nashik municipal budget unrealistic.

If we compare estimates of executive wing, standing committee and general board with actual receipts of expenditure, we will notice that sometimes
all estimates are unrealistic much higher than actual receipts. The estimates of general board appear more unrealistic than the estimates of the standing committee and in turn are more unrealistic than those of executives. There is another strange and undesirable phenomenon that the actual income always falls short of income estimated even in the revised budget; not only this, but it falls short by a greater margin compared to that experienced with reference to the estimates of standing committee and general board.

In fact the revised budget is based on actual figures of the earlier six months, so the income estimated in the revised budget should be realistic.

Thus the executive wing, instead of taking steps to wipe out the inflation caused by the deliberative wing rather resorts to more inflationary practices and the result is obvious - unrealistic revised budget estimates.

In brief, following are the observations regarding current budgeting technique -

(1) Planning and budgeting are not corelated with each other. Budgeting fails to reflect planning.
(2) Resource allocation made in previous years are taken for granted. Estimates of the next year are prepared by an incremental approach.

(3) Budgeting decisions are taken assuming that the same activities are to be carried out in the current year as in the previous year, without giving for any justification for their continuation.

(4) A real budget decision is needed only when current activities are to be stepped up, or new projects are proposed. In other cases, the budgeting decision is neglected.

(5) The budget approvals are largely subject to political pressure, status of the officer etc. (internal politics).

(6) Budgets are prepared only in financial terms and not in physical terms and efforts are made to ensure that the actual utilisation does not exceed what has been budgeted for, which is, of course, not result-oriented. But in actual practice expenditure in real terms tends to exceed income and budget provisions.

(7) Accounts are kept to ensure accountability and legality of expenditure and not to serve as a tool of decision-making.
So existing view that budgeting involves preparation of estimates, collection and custody of funds, disbursement and control of expenditure and recording all the transactions, the legality and regularity of which are duly verified by an independent audit.

(8) Desirable budgeting involves four phases -
   1) Planning budgeting
   2) Implementation
   3) Expenditure-results (output)
   4) Evaluation

There is absence of evaluation as there is no cost consciousness, no performance appraisal in physical terms, no monitoring, no evaluation and no reporting. And absence of this leads to poor planning and budgeting. Present budgeting system lacks the evaluating phase, reporting system and efficiency audit.

B) CAPITAL BUDGET

Municipal bodies have been entrusted with many essential services, required to be provided to the public. It is impossible for municipal bodies to provide for different services to the ever increasing population from its limited revenue, as their resources are meagre and inelastic. They have to resort to capital
improvement programmes, financed by open market loans, Bank term loans, institutional loans (i.e. from HUDCO, LIC, World Bank etc.) government loans, non-recurring grants etc. Capital budgetting deals with following questions:

(1) How much money is going to be needed for capital expenditure in the coming plan period?

(2) How much money is going to be available in total for such proposed investment?

(3) How are the available funds going to be assigned to the projects under consideration?

Capital budgetting provides valuable information regarding funds requirement and enables a financial executive to plan in advance to secure additional funds. Capital budgetting is a must because if the capital requirements are not calculated and each project not chosen independently as when need arises, the projects will not be taken up in the order of their desirability. Different departments of local body will work at cross purposes and integrated development will be difficult. It helps top management to maintain closer liation with the plans and operating targets of divisions and departments.

A capital budgetting is a planning instrument
in a sense, it adjusts demand for funds, and selects and assigns priorities to projects within the framework of the objectives and targets of local development.

At present Nashik municipal body do not follow detailed and scientific capital budgeting process on the basis of model capital budget process. Capital budgeting involves planning the availability of resources and controlling allocation of resources and actual expenditure on various items. It comprises (a) selection of projects, (b) evaluation of project, (c) capital rationing, (d) size of capital.

Now-a-days computers can be used for capital budgeting and project analysis to ensure well-planned urban development.

Urban development in most of the cases totally depends on municipal capital budgeting and its execution. Every municipal body must develop a model which will be suitable to its own peculiar financial position, socio-economic conditions in which it is working, interacting.

**MAJOR SHORTCOMINGS OF EXISTING NASHIK MUNICIPAL CAPITAL BUDGETING**

1. There is an adhoc approach towards capital budgeting. It is unrealistic because one can note
that actual capital receipts fall short by more than 30% of the planned expenditure. It is the direct result of inflationary capital budgeting followed by municipal bodies.

2. As actual capital receipts amount much less than the estimated one, municipal body faces stringency of finance. Ultimately the capital works are selected in an unplanned manner and many times priority works remain untouched or incomplete.

3. As the estimates of capital receipts and expenditure are highly unrealistic, municipal bodies cannot forecast the desired level of services.

4. Capital budgeting must be inter-related with physical targets to be achieved. It must focus on the ends to be served. But in actual practice Nashik municipal capital budget is just a record of financial transactions that have taken place and it does not take into account cost of the transaction and physical performance.

5. An attempt is not made to raise capital through remunerative projects and then where such attempt is made such projects incur losses due to financial mismanagement or because of faulty selection of project by Nashik municipal body.
6. Nashik municipal budgeting lacks long term perspective planning. It is prepared on short term (annual) basis. The need for various services over long term is not assessed and capital expenditure proposals are not phased out accordingly. Municipal bodies should resort to five years planning.

7. Many times Nashik municipal authorities utilise capital receipt to solve day to day financing problems, and therefore capital expenditure amounts to much less than capital receipts.

The development of the city depends on capital works done by municipal authorities, and therefore, it is high time that Nashik municipal body goes for scientific, systematic and sophisticated capital budget; otherwise urban development will be hampered and quality of urban life will deteriorate.

It is on the basis of the study of present budgeting system followed by Nashik municipality, the budgetary performance of Nashik municipality on revenue and expenditure side is analysed in the forthcoming chapters viz. Chapter V, VI, VII.