
Management Case

describes a situation faced, a decision or action taken by an individual manager or by an organization at the strategic, functional or operational levels.

Nagar Panchayat Hospital (A)

M S Sriram, Divya Jairath, and Prashant Sinha

The case is targeted to discuss the importance of accounting information in decision making process. While this information is available in standardized formats in corporates, the local self-government accounting is quite different.

In trying to look at the desirability of detailed accounting information and accounting treatment of notional expenses such as depreciation, one generally tends to ignore the form of organization, its source of finances, and the objectives of information dissemination. The case tries to highlight and sensitize the discussants to accounting concepts as applied to local self-governments.

Readers are invited to send their responses on the case to *Vikalpa* office.

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"I think my hospital has been earning surpluses every year. But the panchayat insists that they have been subsidizing the hospital to a great extent. I would really like to find out whether this hospital has been making any surplus at all. I know for sure that we earned surpluses at least in the past two years. However, I would like to support my arguments with figures." Dr Balchandani, the Resident Medical Officer (RMO) of the Nagar Panchayat Hospital told us when we met him for a briefing on the project that we had undertaken with the hospital. Soon after joining the hospital in 1985, Dr Balchandani had realized that it was not good to rely on the subsidy provided by the panchayat and that the hospital had to generate revenues so that it could be self-sustaining in the long run.

The Township

Vallabh Vidyanagar is a small university township situated six km west of Anand, in the state of Gujarat. The township had a total population of around 50,000 (including a floating population of around 20,000 students). Because of rapid industrial development in the surrounding areas, the population dependent on the township had been steadily increasing. The township did not have well developed medical facilities. Even though there were a few private medical practitioners who charged in the range of Rs 25 to Rs 50 per consultation, a large segment of industrial workers residing in the slums around the township could not afford the luxury of seeking medical support from them. The public health care facilities in the township were being provided by the panchayat hospital. Most of the poorer dwellers were solely dependent upon the panchayat hospital. The panchayat hospital was open to patients from all income categories. An exploratory survey had indicated that around 40 per cent of the patients coming to the panchayat hospital had an income of less than Rs 28,000 per annum (the cut-off amount for getting pink coloured ration cards which ensured a greater amount of food subsidy), while the rest earned more.

The Panchayat

The Vallabh Vidyanagar panchayat was a local self-government body where the members were democratically elected. The panchayat was responsible

for local administration and had undertaken several welfare activities. It collected taxes on buildings, land and other cess, provided facilities such as street light, water, drainage, was responsible for registration of births and deaths in the area, and also for general upkeep of the town. The Nagar Panchayat Hospital was a part of the panchayat and the panchayat members took decisions on all the activities including the hospital.

Objectives of the Nagar Panchayat Hospital

The objectives of the hospital were:

- * to provide domiciliary medical support to the inhabitants of the township, including the slum dwellers around the town
- * to provide immunization services under the maternal and child health programme
- * to undertake preventive programmes for checking outbursts of epidemic.

With these objectives, the hospital focused on providing quality health care at an affordable cost to the citizens. The main services provided by the hospital towards these objectives were:

- * Medical support through an out-patient-department (OPD) which functioned six days a week. The OPD operated both in the mornings and in the evenings.
- * Ophthalmological services provided once a week by an honorary ophthalmologist.
- * Gynaecological services provided once a week by an honorary obstetrician. The doctor also attended emergency cases. In addition, the hospital had a 10-bed ward which was used for maternity patients.
- * Immunization and family planning services provided free of cost. Immunization was provided both at the ante-natal and neo-natal stages. Free surgery for tubectomy and vasectomy was provided.
- * A dispensing unit which made available the common medicines needed by the patients.

The hospital was equipped with instruments necessary for examination and diagnosis of patients. It had a pathological laboratory, a dressing room, an Electro Cardiogram, a ward with 10 beds, an ambulance, and a death service van. It had a telephone for referral of cases that could not be handled locally. A working arrangement existed with the Pramukh Swami Hospital, Karamsad, 6 km away. The hospital provided its ambulance at subsidized rates for cases to be transferred to the Pramukh Swami Hospital on an emergency basis.

Organizational Set-up

The hospital was managed by a Health Committee of the panchayat. The day-to-day operations were managed by the RMO, who was accountable to the Health Committee. Apart from the RMO, the hospital had an additional staff of eight members. The laboratory

technician performed the necessary tests in the lab. The compounder was largely responsible for dispensing medicines, collecting registration and consultation fee, and maintaining accounts of the hospital. Apart from helping the RMO, the nurses helped the obstetrician in maternity cases and in undertaking tubectomy operations. They also doubled-up to attend to the counter to register new patients during the OPD consultation time. These people were assisted by support staff consisting of a driver and other staff for cleaning, maintenance, and general upkeep.

While the RMO was responsible for running the hospital, he could not take any policy decisions. For instance, any proposal to increase the registration fee or to reduce the period of validity of a registration would have to be approved by the elected members of the panchayat. In discussing such issues, the panchayat would have to consider the economics of the hospital as well as the concerns of the welfare of the citizens at large.

Revenue Generation Aspects

While the hospital generated revenue on its own, its overall expenses were being met from the general budget of the panchayat. The hospital charged a registration fee of Rs 2.00 per patient. The registration was valid for three months after which the patients had to register afresh. The hospital also collected a consultation fee of Rs 3.00 per patient. This fee could be waived at the discretion of the RMO. The RMO would waive this fee if he felt that the patient could not afford it. For specialized services of the obstetrician and the ophthalmologist, a fee of Rs 15 and Rs 5 respectively was charged per consultation. A separate fee was charged for laboratory tests, dressing, and for the services of the ambulance and the death service van.

In addition to the fees, the hospital received donations from patients and public at large. The donations came in three forms:

- * There were two boxes in the hospital where people could voluntarily drop donations.
- * The RMO used his personal goodwill to generate some money in case of need.
- * The panchayat collected fines from people who violated the panchayat norms. These fines were recorded in the panchayat accounts under the head "hospital donations."

According to Dr Balchandani, the major source of income to the hospital was donations. But the inflow of donations did not have any particular pattern. The annual inflow from donations ranged anywhere between a few thousands to above Rs two lakh.

An activity where the hospital could earn comfortable margins was in dispensing medicines. Dr Balchandani used his contacts to get most of the widely used and

widely prescribed drugs at as low a price as possible and dispensed them at market price in the hospital. His estimate was that the hospital had a 20 per cent margin in this business.

Accounting Procedures Adopted by the Panchayat

In order to understand the economics of the hospital better, we sought further details. To examine whether the hospital was making sufficient surpluses or not, we needed the income and expenditure statement of the hospital. When we looked for data, we were given to understand that the accounts pertaining to the hospital were maintained by the panchayat, as it does with all the departments. The hospital, we were told, was after all a part of the panchayat.

On examining the panchayat records, we found that during the past years, the panchayat maintained around 35 registers, which recorded all payments and receipts. We classified the accounts into the following broad divisions:

1. The hospital division had both inflow of cash as well as expenses. This division had a net deficit in general, unless income from donations were generous in a particular year. The cash received was acknowledged with a receipt, issued by the hospital. The amount collected by the hospital would be paid into the panchayat cash counter the next morning. The panchayat also maintained a ledger called "Income from OPD." This ledger recorded receipts of the hospital for charges levied on consultation, dressing, maternity services, ward charges, and from the sale of medicines.

In case of medicines, the hospital maintained a stock register where details of medicines purchased were recorded. Issues of medicines were recorded against each prescription, but there was no consolidation of these entries. When a particular medicine went out of stock and was purchased again, the issue of old stocks was recorded as a single entry and the account closed, to be opened again with the new stocks. The only way one could arrive at the value of the medicines in stock was to physically count the stocks and ascribe an appropriate value. For purchases of medicines, the hospital did not make cash payments. All payments were made by the accountant of the panchayat by a cheque after it was certified by the doctor and another person in the panchayat. In the case of the ambulance and the death service van, the hospital maintained a log book which was an all-inclusive record of distance travelled, fuel consumed, and details of service charges. The service charges received were paid into the cash counter of the panchayat. These incomes were recorded under an exclusive head by the panchayat.

A day book was maintained at the laboratory where receipts for pathological services were recorded. The amount collected at the laboratory was also handed over to the panchayat. The panchayat recorded these amounts under the head—"Income from Laboratory."

Other cash donations and fines in the form of donations extracted by the panchayat were recorded under a separate head—"Hospital Donations." The equipment bought out of the donations and the donations in kind were recorded in a "Dead Stock" register. The Dead Stock register was maintained by the hospital. However, no statement of assets was prepared at the end of the year and, therefore, a comprehensive list of assets was not readily available. On the expense side, the hospital incurred salaries and paid honorarium to the visiting specialists. These expenses were recorded under separate heads. The expenses incurred on family planning programmes and camps were also recorded under a separate head in the hospital accounts. There were also repairs and maintenance expenses incurred by the panchayat related to the hospital.

2. The gutter division of the panchayat had inflow of cash as well as expenses. Even this division showed a net deficit as the amount collected by tax and levies was not sufficient to cover the expenses identifiable to this division. The panchayat guest house had a nominal income which was insufficient to cover its maintenance costs.
3. The sanitary, street light, and road repair sections were expense centres, with some nominal income. The *balvatika* and *shamshan* were pure expense centres.
4. The octroi division made significant surpluses. Apart from this, there were pure income heads of the panchayat like land tax, professional tax, and miscellaneous income.

At the end of each year, the only set of accounts presented by the panchayat was a consolidated Receipts and Payments account (Exhibit 1). The panchayat did not charge depreciation on the assets. It also did not show any liabilities, except for one long-term loan which was received by the panchayat for some developmental activities. The loan was recorded in a register. Whenever a new asset was bought, it would be recorded as a payment and a concurrent entry would be made in the Dead Stock register. If, at a later date, the asset was scrapped or sold, a similar entry would be made in the Cash Receipts register for the money received and the asset would be written off the Dead Stock register. For instance, in the years 1989-90 and 1992-93, the panchayat bought a new ambulance, the cost of which can be found in the payments side in Exhibit 1. When they sold one of

the vehicles in 1992-93, the proceeds were recorded as cash receipts.

Till the year 1994-95, while separate heads for hospital accounts existed, all cash went into the cash account of the panchayat. In 1994-95, the panchayat decided to have a separate account for the hospital. Accordingly, a new bank account was opened to maintain this distinction.

An Analysis of the Accounting Procedures

The classified Receipts and Payments account is given in Exhibit 1. When we went back to Dr Balchandani and presented our understanding of the prevailing accounting system in the panchayat, he said; "Well, this is how our accounts are maintained. Given this data, could you tell me what our position is? In fact, I would be interested to know if it is only the hospital division which is being subsidized by the panchayat or there are any others." He also wanted to know whether there were any divisions making a surplus each year.

Given the classifications, we made some calculations to find out the amount of deficit that was to be made good by the hospital. Since the inflow of donations varied widely, we thought it relevant to look into the accounts ignoring the donations. Moreover, nobody was sure whether these donations were "capital" or "revenue" in nature.

The broad head of OPD fees and medicines had to be divided into two parts. The data available in this regard were the number of new registrations each year. The records for the last two years revealed that the number of patients paying new registration fee averaged around 12,000 a year. The inflow of consulting fee was not very significant and was estimated at around Rs 8,000 each year. The rest of the inflows came from the sale of medicines.

We found that the driver on the rolls of the hospital was in charge of both the ambulance and the death service van and got a consolidated salary of Rs 800 per month.

With these available figures, we made calculations to find out whether dispensing medicines was profitable. To our surprise, we found that the activity either nearly broke even or made a marginal loss. When this was brought to the attention of Dr Balchandani, he said that the hospital usually gave free medicines to the employees of the panchayat and their families. There were 130 employees in the panchayat. However, there was no record of the amount of medicines dispensed to them. Dr Balchandani said that it was fair to assume that the 20 per cent mark up would have offset the cost of free medicines to the employees.

We, however, did not have a clear picture on the exact amount of money spent on medicines. The purchase

of medicines included purchase of chemicals and other inputs for the laboratory. Instinctively, we clubbed the income from dispensing medicines and the lab income and checked with the total expense and found that these activities, clubbed together, were having a net surplus for the past two years.

Since opening and closing inventory figures were not available, we assumed that taking a five-year average of purchase and sale should smoothen the possible fluctuations. However, we realized that there were several assumptions to be made before we could make any policy recommendations to the hospital. Firstly, on the accounting front, we felt that the following questions needed to be tackled:

- * Should we notionally account for the free medicines given to the employees of the panchayat in arriving at the financial results of the hospital division and, if so, what should be the amount that should be charged to the panchayat?
- * Is there any loss of information content by adopting "cash" accounting against "accrual" accounting, particularly since we thought that the hospital needed to plough back more money to buy equipment that may be necessary as time passed?
- * Should we spend time in gathering the split between the laboratory and the medicine accounts for the purposes of precision?
- * Would it be worthwhile to suggest that the hospital drop activities which were not earning surpluses and, if so, on the basis of what accounting information?
- * Would increasing the fees make the accounts of the hospital better and, if so, by how much should the fee be increased to break-even?
- * Are concepts like depreciation relevant in an organization run by the panchayat which is not in the business of "business" but is in the business of "service" (after all, the question of depreciation was being raised regarding the hospital and roads which were also built by the panchayat)?

We wanted to give comprehensive recommendations on the strategy to be followed by the hospital to make it independent of the panchayat budget. At the same time, we wanted to streamline the accounting aspects, so that a review of these recommendations could be undertaken constantly and the hospital could use the accounting information for decision-making in future. While we were thinking on the above aspects, Dr Balchandani reminded us that we had to work out a strategy for the hospital which was essentially meant for providing service rather than making profits and suggestions had to be made keeping a sense of equity in mind. He also suggested to us that the panchayat might not agree to any changes that may result in a public outcry as the members are also conscious of being responsive to their constituency.

**Exhibit 1: Vallabh Vidyanagar Nagar Panchayat
Classified Receipts and Payments**

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Receipts							
Dispensary Accounts							
Fees OPD and Medicines	102467	155915	162099	169697	173260	184797	292512
Sale of Ambulance	0	0	0	0	0	107622	0
Donations	54162	19800	24666	222033	48691	7120	217191
Ambulance Fees	4289	1152	2985	6855	10244	12260	7785
Laboratory Fees	10948	15346	21151	17797	25463	43776	47822
Death Service Fees	0	0	0	1990	2280	3775	13105
Total Receipts (Dispensary)	171866	192213	210901	418371	259938	359349	578415
Drainage Division (Gutter)							
Drainage (Gutter) Tax	233700	358320	438775	557350	474800	771482	613052
Gutter Tank Loan Fees	0	0	0	0	0	0	1401
Gutter Construction Fees	46010	30825	16250	19500	16500	24750	11750
Gutter Connection Fees	10203	6102	2601	5954	2154	3555	2151
Compost	0	0	0	2600	0	0	950
General Sanitary Cess	27082	32132	46489	49592	45227	157389	109795
Total Receipts (Drainage)	316995	427379	504115	634996	538681	957176	739099
Receipts from Taxes and Levies							
Octroi	68198	507727	484906	539666	456375	627511	973489
House Tax	590299	445386	721705	724170	1117237	850475	920985
Non-agricultural Land Tax	0	0	0	0	0	10710	0
Land Tax	0	0	0	0	0	0	8463
Penalty	0	0	0	0	0	0	43049
Profession Tax	270	275	395	420	3710	1870	2790
Profession Tax (Shops)	0	0	0	0	0	0	3325
Tender Fee	950	2025	1200	2025	0	0	0
Birth/Death Registration Fee	0	0	0	0	230	390	208
Total Receipts (Taxes and Levies)	659717	955413	1208206	1266281	1577552	1490956	1952309
Receipts from Investments							
Interest on Fixed Deposits	0	0	84689	33941	55152	8227	44903
Bank Interest	5672	27120	0	0	0	726	0
District Scheme Interest	0	17650	7389	10586	11862	0	0
Dividends	36	36	0	50	36	36	27
Total Receipts (Investments)	5708	44806	92078	44576	67050	8989	44930

Exhibit 1 Contd.

Exhibit 1**Other Receipts**

Receipts from Wood Auction	9177	15261	16817	28481	47411	9501	21202
Contractor's Income Tax Retained	0	0	0	0	0	0	208
Miscellaneous Income	5876	1795	10754	11761	13868	11707	32539
Food Loan Refund	0	0	0	0	0	18000	25000
Loan on Fixed Deposit	0	100000	100000	150000	0	0	0
Voluntary Deposits	0	0	180	0	1500	1920	32125
Hand Pump Grant	7787	832155	0	6650	1425601	847730	17008
Land Revenue Grant	0	0	4592	5373	5551	0	0
Small Savings Grant	345152	0	432334	580428	0	0	0
GI Sheet Loan Refund	12800	3200	18000	8200	23700	0	33000
EMD for Tender	41500	37550	39500	56000	0	0	35000
Pump Loan	0	0	0	0	0	150000	0
Surcharge	0	332	316	636	0	0	0
Advance Refunded	0	250	3000	4800	0	0	0
Audit Recovery	100	0	0	0	493	0	0
Total Receipts (Other Items)	422392	990543	625493	852329	1518124	1038858	196082

Receipts from Other Divisions

Street Light Tax	94165	52780	88685	140200	77715	93520	209630
Road Repair Charges	0	1501	2000	2486	800	900	1200
Guest House Fee	5822	3012	1022	533	3596	3598	4309
Water Tank Fee	13401	6400	13660	17414	32045	32261	55425
True Copy Fee	36	51	22	28	29	43	66
Total Receipts (Other Divisions)	113424	63744	105389	160661	114185	130682	270630

Total Receipts of the Panchayat	1690101	2674097	2746181	3377214	4075530	3986011	3781465
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Payments**Dispensary Accounts**

Hospital Staff Salary	100625	107597	126789	127970	143965	156095	178681
Purchase of Medicines	58590	80651	112794	133703	145189	192175	270988
Expense on Family Planning	0	400	2200	0	800	1125	13038
Sundry Expenses	45180	37777	20230	29927	18634	41309	58903
Expenses on Ambulance & Death Service Van	4877	981	4257	4829	7698	1583	8348
Purchase of Ambulance	0	0	133057	0	0	217989	0
Repair & Maintenance of Vehicles	0	59520	963	64172	0	0	69066
Honorarium to Obstretician	1425	0	0	6675	11481	11900	9200
Diesel for Hospital Vehicles	5793	5392	6200	8766	12931	16228	15000
Total Payments (Dispensary)	216491	292318	406490	376042	340698	638405	623224

Exhibit 1 Contd.

Exhibit 1

Drainage Division (Gutter)

Gutter Staff Salary	101027	49815	80248	89942	120866	120616	143807
Sanitary Staff Salary	150291	158186	224983	246029	278182	315230	347082
Electricity Expenses	169521	286112	303062	277462	342774	424533	466118
Expenses on Gutter Scheme	151789	130898	246149	113854	626625	411489	136976
Other Expenses-Sanitary	12395	21989	14601	16548	19201	19317	31455
Total Payments (Drainage Division)	585023	646999	869044	743835	1387648	1291184	1125438

Street Light Payments

Electricity	108584	169702	175587	218269	187188	227879	302103
Maintenance	51071	53948	0	0	90471	79150	153062
Staff Salary	8264	0	14427	16932	14065	15261	18245
Sundry Expenses	0	0	76548	65904	0	1180	0
Total Payments (Street Lights)	167919	223650	266561	301105	291724	323470	473410

Octroi Division

Staff Salary	0	52603	77263	80736	126827	130267	151714
Sundry Expenses	0	36497	12614	7301	11761	11001	18868
Refund of Octroi	0	0	2195	1705	537	44	639
Total Payments (Octroi)	0	89100	92072	89742	139126	141312	171221

Road Maintenance Division

Road Construction	182972	472450	1020767	337235	1830650	1595204	357455
Road Repairs	5579	971	27191	96	11840	2799	45151
Total Payments (Roads)	188551	473421	1047958	337331	1842490	1598003	402606

Payments-Office

Office Staff Salary	37927	44307	52478	52665	61211	67746	76878
Provident Fund	4315	6454	8110	8249	8695	9717	13872
Insurance Scheme	1944	2423	1874	6296	0	7124	2279
Travel Allowance	1670	2491	837	2274	810	1179	1974
Education Expenses	0	0	0	0	28366	4562	5141
Bonus	15412	21319	22784	33735	35806	52558	62083
Profession Tax Paid	0	0	0	0	3265	1560	6265
Entertainment	6486	3315	903	6254	3600	4608	3635
Sundry Expenses	13884	17503	23920	29961	20735	44613	61947
Advance Given	0	0	3000	4800	0	0	0
Stamp Duty	0	0	0	0	0	3434	0
Postal Expenses	0	0	0	2400	2020	1800	2400
Bank Commission	571	156	257	532	579	1076	592
Legal Fees	3000	6700	0	0	0	0	0
Office Expenses	0	0	105667	0	10790	0	0
Total Payments-Office	85208	104669	219830	147165	175876	199978	237065

Exhibit 1 Contd.

Exhibit 1

Payments of Other Divisions							
Balavatika Staff Salary	4299	8282	15531	13920	14902	16558	19734
Shamshan (Crematorium) Staff Salary	0	0	0	0	4306	4326	0
Balavatika Sundry Payments	560	6115	0	3752	5365	3388	0
Crematorium-Sundry Payments	10000	0	0	24307	4654	151	0
Guest House-Sundry Payments	511	1697	13381	4452	17524	3303	7898
Electricity for New Park	8374	7571	0	4876	9483	9161	14163
Electricity-New Bore	0	0	0	2466	0	0	5117
Tractor Expenses	15357	14987	140017	13358	16049	24675	14209
Diesel for Tractor	7679	7147	8219	11620	17141	21512	20139
Water Tanker Expenses	1260	2940	2320	0	7828	4740	500
Water Stand Expenses	0	0	600	0	0	1260	0
Payments for Petrol	6077	3318	453	3638	3020	4237	1277
Payments for Oil	0	6985	1931	4728	5830	5592	5299
Interest on Loans	25000	0	0	0	0	0	0
Miscellaneous Expenses	7582	60765	174579	1243	4309	13957	4761
Incentive for Small Savings	1908	16986	14387	11623	175	11988	0
Other Expenses	0	10240	0	4036	0	0	0
Total Payments-Other Divisions	88607	147033	371417	104018	110588	124848	93096

Other Payments

Foodgrain Loan Repaid	0	0	0	0	0	18000	25326
New Bore	0	500	38054	0	3144	38859	0
New Handpump	0	0	0	0	0	0	16600
Disease Control Spray	0	4424	9345	39800	64988	40313	22305
Repayment of Pump Loan	0	0	0	0	0	0	115150
Loan for GI Sheet	16000	0	26400	0	24000	0	33000
Security Deposit	42500	0	0	38500	18600	0	45000
EMD Refunded	0	39600	0	0	0	0	0
District Development Fund	0	5718	0	3000	3000	0	2000
Repayment of FD Loan	0	0	44650	157639	0	0	0
Tax Deducted Paid	0	0	9600	0	0	89319	0
Grant to Villages	0	0	0	0	56980	0	126690
Domestic Gas Line	0	0	0	10000	0	0	0
Total Other Payments	58500	50242	128049	248939	170712	186491	386071
Total Payments of the Panchayat	1390298	2027431	3401420	2348177	4458861	4503691	3512132