

Model Municipal Finance Code

Storyline...

The client is a Bangalore based Non-Profit Organization working actively in the area of municipal finance under its advocacy and reforms wing. The client approached MaGC to develop a model set of accounts, budget and audit rules that would serve as a template for States in India implementing municipal finance reforms.

MaGC developed a **Model Municipal Finance Code (MMFC)** which is a compilation of basic principles governing municipal financial management in the country.

Once upon a time...

There had always been the need for an overarching framework at the national level in India for municipal financial management based on principles of good governance, fiscal prudence, accountability, and transparency. The existing guidance framework for municipal accounting was State specific and did not focus on an integrated municipal financial management system.

Moving on...

Before commencing the task of developing a fresh set of principles, it was important to understand the existing landscape. The MaGC team began with a comparative analysis of the existing guidance framework governing municipal financial management of ten Indian States. The comparative analysis covered (i) provisions of relevant Acts; (ii) Rules governing municipal accounting, budgeting, and financial management; and (iii) municipal accounting and budgeting manuals. The analysis focused on the following themes: fiscal prudence and transparency, system of accounting, system of budgeting, preparation and presentation of financial statements, financial reporting, audit, performance reporting, and transparency and public disclosure of financial information. A desk research of similar frameworks in other countries was also conducted.

The study findings were discussed with the client. Out of these discussions, the structure for the MMFC emerged and the team set about developing the Code. The

document went through multiple rounds of refinement. The final MMFC includes the following sections: (1) Preliminaries; (2) Fiscal Management; (3) Financial Reporting; (4) Municipal Funds; (5) Accounting and Controls; (6) Budgeting; and (7) Audit. Under each Section, the MMFC discusses the main principles, followed by detailed provisions elaborating the main principles. In total, the Code includes thirty two main principles and two hundred and fifty two detailed provisions governing municipal finance and follows the principle of 'Apply or Explain'. The Code covers concepts such as debt-sustainability of ULBs, credit rating, public disclosure, fiscal risk management, outcome budgeting and so on.

The state of Rajasthan was selected as a pilot for demonstrating the application of the Code. The Rajasthan Municipal Act and Finance and Accounts Rules were analysed and inputs for bringing them in line with the principles and provisions of MMFC were provided.

Finally...

MMFC was a first-of-its-kind attempt at bringing out a set of principles to govern municipal finance at the national level. The highlight of the MMFC is that it is not a rigid set of rules to be complied with; each State can decide on the extent of application and progressively move towards full application. The Code is expected to enable State Governments in India to modify their existing guidance frameworks and implement good practices in accounting, budgeting, audit, and overall fiscal management in the municipal sector. The Rajasthan pilot gave other states a proof of concept for emulating.

