Municipal Reforms in Rajasthan

Municipal Finance Workshop
26 November 2018
Two principal questions

1. **How can the city or ULB raise adequate funds** to build and maintain infrastructure and services? (Financial self-sufficiency)

2. **How do we know the city or ULB is spending the funds properly** to meet citizen outcomes? (Financial accountability)

**Financial Accountability is also key for investor confidence in ULBs, impacting their Financial Self-sufficiency**
1. **Institutional Design (Financial self-sufficiency and financial accountability)**
   - No integrated view of city’s finances, No integrated treasury management

2. **Fiscal decentralization (Financial self-sufficiency)**
   - Few eligible revenue streams
   - No control over tax rates and capital/base values
   - Low threshold for expenditure limits
   - Limited powers over debt and investments

3. **Fiscal Responsibility and Budget Management (Financial accountability)**
   - No Medium-Term Fiscal Plans
   - Poor quality of budgeting, sometimes not presented on time
   - Absence of citizen participation in budgeting
   - Backlog in audit/preparation of annual accounts, no uniform accounting standards
   - Weak internal control environment, no robust internal audit function
   - Poor collection efficiencies

4. **Transparency and Accountability (Financial accountability)**
   - Poorly drafted laws and policies,
   - No penalties for non-compliance; no redressal mechanism

5. **Institutional Capacities (Financial self-sufficiency)**
   - Staffing, both quality and quantity
   - Information systems
Partnership with the Government of Rajasthan

- Janaagraha entered into a MoU with the DLB, Government of Rajasthan on May 11, 2015 to carry out Accounting and Auditing reforms to

  - Produce Audited Annual Financial Statements on timely basis and publish them as Annual Reports along with Management Discussion and Analysis in a phased manner in all one lakh-plus cities
  
  - Ensure phased clearance of backlog in Annual Accounts across all ULBs up to financial year ending 2014-15 as per a timetable defined by LSG-Rajasthan.

![Diagram of Phase 1: 2015 to 2017](image)
Progress on Municipal Finance reforms: Rajasthan

- From Zero Audit reports in ULBs over **170 out of 188** ULBs have completed and published Audit Reports online
- **Model Guidelines for Accounting and Auditing Reforms** on recommended process for empanelment of CAs by ULBs published
- Model Annual Report for Udaipur Nagar Nigam published as a template for all ULBs
- **Best performing ULBs felicitated by UD Minister** at an Awards event in August 2017

**Phase 2:**
- Municipal Finance Blueprint and Model Medium Term Fiscal Plan
- Revenue Enhancement through Balance Sheet Management and Optimizing return on assets and improving collection efficiencies
- Over 170 ULBs have published audit reports which have been uploaded on the central website of LSG and can be accessed by anyone at the following link: [http://lsg.urban.rajasthan.gov.in/content/raj/udh/lsg-jaipur/en/reports/audit-reports-.html](http://lsg.urban.rajasthan.gov.in/content/raj/udh/lsg-jaipur/en/reports/audit-reports-.html)

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<td>ULBs submitted Audited Annual A/Cs</td>
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<td>Remaining ULBs</td>
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<td>Total ULBs</td>
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<td>188</td>
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- Suggested key amendments to the Rajasthan Municipal Statutory Framework governing finance and accounts have been submitted to the DLB and is currently under consideration with the Director, Law
Rajasthan: Status of Completion of Audit
At an Awards event held on 22 August in Jaipur the UD Minister felicitated the best performing ULBs under the following categories:

1. Early completion of Audit of Annual Accounts
2. Growth in Own Revenues
3. Own Revenues to Total Revenues
4. Current Ratio
Phase II of Municipal Finance Reforms

- MoU for Phase II of Municipal Finance Reforms approved till 2021
- Tender for empanelment of CAs for 2017-18 and 2018-19 was floated on 12 September 2017
- The financial bid for the tender for empanelment of CA for 2017-18 & 2018-19 was opened on 5 December 2017
Challenges

**Basis of Accounting**: Books of Accounts are generally maintained on cash basis of accounting instead of double entry accrual basis of accounting system

**Fixed Assets Register (FAR)**: ULBs in most cases are not maintaining proper records of fixed assets showing full particulars of assets with due physical records and/or proper valuation records

**Shortage of Staff**: Most ULB’s are understaffed especially in the Revenue And Accounts departments leading to very poor revenue collections and preparation and maintenance of book of accounts and audit respectively
**Cityfinance.in** will serve as a national database of city finances that is credible and timely, and combines financial and operational performance information such as income, expenditure, assets, liabilities, budgets vs actuals, progress of tenders and civic works and Service Level Benchmarks.

- It will also ensure a nationally standardised and comparable framework is available, in terms of both accounting standards (both measurement and disclosures).

- In the first phase will cover the key financial and operational information for the 500 AMRUT cities.

- It will create a data ecosystem for private sector participants in urban infrastructure by providing temporal and comparative data on ULBs and help investor confidence and hence improve penetration of PPPs and Municipal Bonds.

- Janaagraha plans to implement the portal for Rajasthan ULBs in the next 3-6 months.
The Missing Pieces

Cityfinance.in creates a pathway to all of these solutions:

- Fiscal Decentralisation
- Financial Self-sufficiency
- Financial Accountability for Financial Position and Performance
- Transparency and Citizen Participation
- Open Civic Data and Participatory Budgeting
Thank you