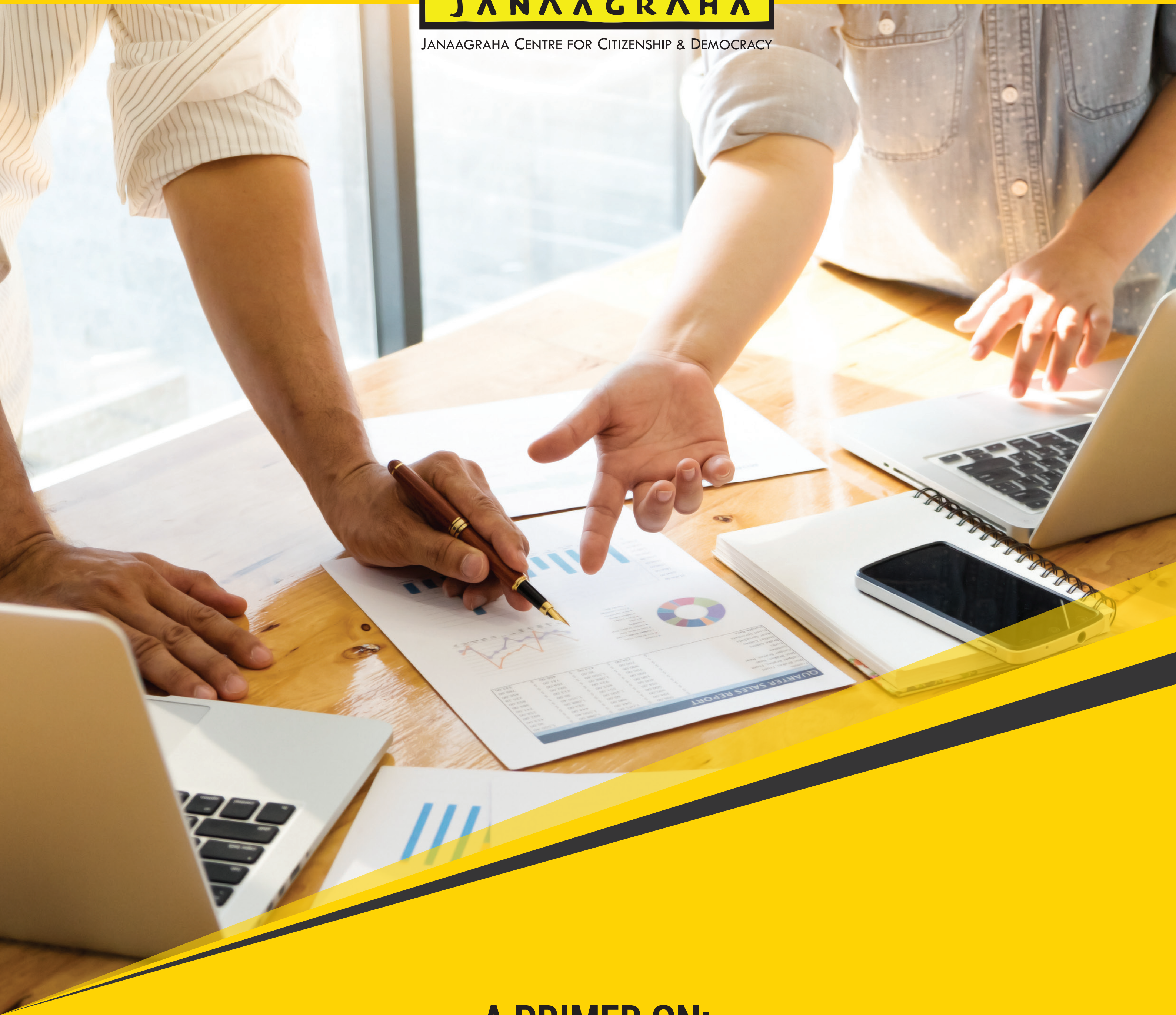

A PRIMER ON:
MEDIUM-TERM FISCAL PLAN (MTFP) FOR MUNICIPALITIES

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Medium-term fiscal plan

Medium-term Budget Framework (MTBF in short) is one of the many tools that enable better public financial management. Others include Fiscal Responsibility and Budget Management (FRBM) laws, outcome-based budgeting, accrual-based accounting, fiscal risk reporting, public investment management, risk-based audit and so on. A MTBF results in the production of a Medium-Term Fiscal Plan or MTFP. A MTFP basically is a financial plan of an entity (in this case a municipality) for a timeframe exceeding one year (say 4 years). It sets out the projected revenues, the projected expenditure, and key fiscal indicators of the municipality over the medium-term. In contrast, the Annual Budget covers one year only.

In India, the central government and most state governments are, by statute[1], required to prepare and place a MTFP before the Parliament/Legislature. In Karnataka, Section 3 of the Karnataka Local Fund Authorities Fiscal Responsibility Act, 2003 (KLFAR)[2] requires every local fund authority to prepare and approve a MTFP. See Annex 1 for the complete set of provisions covering the MTFP. While the Central and State Governments have been regularly preparing MTFPs for the past few years, it has, hitherto, not been attempted at the local level.

Medium-term fiscal planning – Need and advantages

Presently, the annual budget is the only forward-looking fiscal document produced by municipalities. The legal requirement to produce, the preparation process, and the look and feel of an annual budget are largely uniform across states and are well-understood. It provides an essential element of fiscal responsibility, namely, budgetary control. Municipal infrastructure and service delivery must be visualised over the long-term, planned over the medium-term, and implemented through annual action plans. For medium-term planning to be effective, it must be supplemented by corresponding medium-term financial planning. With a restricted timeframe of one year, the annual budget does not enable the municipal administration to estimate its financing requirements over the medium-term. The MTFP primarily tries to address this gap.

It offers significant advantages over traditional annual budgeting. A few benefits of medium-term financial planning are outlined below.

» It improves the overall efficiency of public expenditure. It enables Programs[3] and Projects[4] to be conceptualised over the medium to long-term, keeping in view the long-term development plan of the urban area[5];
» Citizens are in a better position to participate in the planning process and understand the intentions of the municipality over the long-term, thereby improving its credibility;
» A mechanism for expenditure prioritization out of available resources ensures that existing commitments are discharged before setting aside money for new project proposals thus promoting fiscal sustainability;
» Predictability of funding for programs and projects across multiple years by outlining a fiscal roadmap;
» Helps prevent short-termism[6] and year-end expenditure rush[7];
» Fiscal indicators (that are part of the MTFP process) help impose and monitor fiscal responsibility;

1. *The Fiscal Responsibility and Budget Management Act, 2003 requires the Central Government to place a Medium-term Fiscal Policy Statement and a Medium-term Expenditure Framework Statement before both Houses of Parliament. Similarly, Similarly, the Karnataka Fiscal Responsibility Act, 2002 requires the State Government to lay before both Houses of Legislature a Medium-Term Fiscal Plan along with the annual budget.*
2. *Though the KLFAR mandates a MTFP, it has not been implemented until now. Rules prescribing the format for a MTFP are also not in place.*
3. *The work "program" has been used to refer to a set of initiatives undertaken by the municipality in discharge of its functions.*
4. *The word "project" refers to an infrastructure development project, a maintenance project, a welfare scheme, or any set of activities with a defined output undertaken by the municipality.*
5. *As outlined in the City/Regional Development Plan or Master Plan or similar plan.*
6. *The tendency to divert financial resources to short-term compulsions at the cost of longer-term demands.*
7. *The rush to utilize budget allocations to prevent them from lapsing at the financial year end.*

- Helps smoothen cash flows over the medium-term by providing space to make fiscal adjustments year on year;
- Tighter integration with development planning on one hand and the annual budget on the other and avoidance of incrementalism and ad-hoc budgeting[8];
- Introduces the rigour of arriving at a consensus on a balance between scarce resources and proposed spending in a manner that does not jeopardise financial sustainability of the municipality.

The international experience with MTFP

MTBFs[9] are in use in advanced economies for quite some time now. Most MTBF models were adopted in the last two decades.

Countries have been experimenting with different models of MTBF. What follows is that there is no 'one size fits all'. Each jurisdiction must develop the MTBF model that best suits it. There are some design considerations that need to be factored while implementing MTBF.

a. **Indicative or Binding MTFP:**
In Indicative MTFPs, allocations for expenditure (called Expenditure Ceilings) are not mandatory. They act as a guide for annual budget preparation and execution. Binding MTFPs, however, have the same authority as the annual budget – the allocations cannot be exceeded. Most countries first adopt Indicative MTFPs and progressively move to Binding MTFPs.

b. **Level of detail:**
Expenditure caps can be set at an aggregate level meaning for the municipality as a whole, or at the level of each function, i.e. caps for Health, Education, Roads, Street-lighting and so on, or at a detailed program/ project level. Different countries have adopted different models in their attempt to strike a balance between flexibility and control.

South Africa:
South Africa follows a local Medium-Term Revenue and Expenditure Framework since 2008 under which revenue and expenditure are projected for a three-year period. The detailed provisions are contained in the Municipal Finance Management Act and Municipal Budget and Reporting Regulations. Detailed requirements cover municipalities as well as municipal entities[10].

Korea:
The Local Finance Act mandates the local government to preparea Medium-Term Local Government Finance Plan each year covering a period of five years. These plans are consolidated and a comprehensive medium-term local finance plan is prepared each year by the concerned ministry. Though not directly related to MTFP, Korea has instituted a Local Financial Analysis and Diagnosis process wherein all local governments are subjected to a diagnosis based on key fiscal indicators. Corrective measures are taken in the case of underperforming local governments.

8. *Incrementalism is the tendency to provide allocations in the budget as a percentage above the previous budget. Ad-hoc budgeting is the tendency to provide budget allocations out of political or other compulsions without adequate consideration to citizen needs and/or development plans of the municipality.*
9. *A MTBF collectively refers to all the rules, systems, and procedures that are involved in the preparation of a fiscal plan spanning over several years. A MTFP is the primary output of the MTBF.*
10. *separate entities under the control of the municipality such as Public Private Partnerships*

The MTFP process overview

The process of producing an MTFP essentially involves striking a balance between limited resources on one hand and competing expenditure demands on the other. The need to maintain fiscal sustainability is an overarching requirement that influences this balancing act. Inherent in the MTFP process is a process of expenditure prioritization amongst the municipality's current commitments and future plans. Key Steps in the medium-term fiscal planning process and the questions that each step seeks to answer are shown below. Annex 2 contains detailed guidelines for the MTFP process.

Step 1 **Fix fiscal indicator targets**	Where do we stand on key fiscal indicators and how do we want them to move going forward over the MTFP period?
Step 2 **Revenue projections**	Considering policy changes, revenue mobilisation measures and fiscal devolutions from state and central governments, what would be our revenue from different sources in the MTFP period?
Step 3 **Determination of fiscal space**	Fiscal space is the money left after providing for all committed expenses, settling dues, and providing for exigencies. What are we left with for development expenditure?
Step 4 **Allocatiions for ongoing and new programs/ projects**	Allocations are worked out considering development plans and citizen needs. How much are we going to spend on different programs from out of the fiscal space?
Step 5 **The balancing act**	Multiple iterations of the MTFP are produced tweaking the revenue and expenditure projections within the constraints of the fiscal indicator targets. What are the avaialble revenue enhancement and/or expenditure cut avenues?
Step 6 **Formalize**	A consensus is worked out and the resulting MTFP is placed before the Council for approval. Is the MTFP good to be approved?

Key inputs:

A prerequisite to the MTFP process is the City Development Plan or a Master Plan that lays out the vision and plan for the city for the long-term. Proposals prepared under different central and state government schemes are also important inputs. In addition to this, information on past five years' trend of the fiscal indicators is useful. Reports on service delivery gap assessments, infrastructure gap assessments, citizen surveys, would be valuable inputs. Guidelines of various schemes of the Central and State government would be essential.

Step 1: Fix fiscal indicator[11] targets

In this step, based on past performance and future aspirations, the targets for various fiscal indicators of the municipality for the MTFP period are set. For instance, a municipality may set a target that its own revenue as a percentage of total revenue should increase from the present 14% to 20% over the MTFP period. Similarly, it may set a target to bring down its operating expenses to total expenditure ratio from 60% to 40%.

Step 2: Revenue projections

The next step is to project revenue over the MTFP period. This would involve estimating cash inflows from various source (own as well as external) keeping in view past trends, proposed policy changes, pronouncements of Central and State governments, and other factors. This step will lead to understanding of the overall resource envelope available to the municipality.

Step 3: Determination of fiscal space

Fiscal space is the amount available for spending on programs and projects of the municipality after providing for its committed expenditure. It is arrived at by reducing all committed expenses from the available resources worked out in Step 2. Committed expenses include expenditure on salaries, pension, operating expenses, and debt servicing. Amount required for discharging pending bills and a reasonable provision for unforeseen expenses must also be set aside before calculating the fiscal space.

Step 4: Allocations for ongoing and new programs/projects

From out of the fiscal space available, money is first set aside for allocations towards ongoing programs of each department. From the remaining amount, allocations are earmarked for new programs and projects. Information for this primarily flows from all spending departments of the municipality.

Step 5: The balancing act

Needless to say, the requirements of ongoing and new programs together would exceed the resources available. This would entail the department heads working closely with the Finance department in prioritizing programs and projects so as to prune the expenditure proposals in line with the available resources. At this stage, avenues for increasing inflows are explored including upward revision of taxes and fees, leveraging central and state schemes, additional borrowing and so on. A factor influencing the balancing act is the need to adhere to fiscal indicator targets set by the municipality for itself.

Step 6: Formalize

The revised MTFP is placed before the ultimate governing body for approval. Suggestions received are incorporated and the final MTFP is placed for approval. The MTFP becomes effective from the date approved by the Council.

11. A set of ratios that indicate the state of financial health of a municipality.

Linkages with the annual budget

The MTFP process and annual budgeting are closely linked. The MTFP is a projection of the annual budget over the four-year term. The budget of the first year of the MTFP period must be the same as the first year of the MTFP. In subsequent years, during the annual budget preparation exercise, adherence to the MTFP must be reviewed. Deviations must be explained. A limited revision of the MTFP must also be carried out where the deviations are significant so that the MTFP continues to remain relevant in subsequent years.

MTFP presentation

Unlike the annual budget, which is presented by municipal function or department, for the MTFP, a typical city finance manager's view is ideal. In other words, the MTFP must indicate, on its face, how the available financial resources (called the Resource Envelope) have been allocated towards committed expenses, existing programs, and new programs. Such presentation facilitates subsequent discussions on resource mobilization and/or expenditure rationalisation. The MTFP must also show the position of the key fiscal indicators. This enables one to see how a change in any line item of revenue or expenditure in the MTFP affects the financial position of the municipality. A blank template of a MTFP is given in Annex 3.

Challenges in preparing MTFP

Preparing a MTFP is a complex exercise involving all departments of the municipality. The preparation exercise must follow a time-bound process coinciding with the annual budget calendar. Effective medium-term fiscal planning presupposes a mature annual budgeting process. This may not be the case in many municipalities. Municipal officers must possess the ability to work out the cost of program and project proposals reasonably accurately. Program and Project conceptualization as well as the subsequent prioritization exercise require building consensus amongst multiple stakeholder groups which include elected representatives and citizens.

In order to overcome the challenges and produce a realistic MTFP, it is essential that the process has ownership right from the top, i.e. the Mayor or Chairman from the elected representatives' side and the Commissioner from the administration side. It is also important to give sufficient time so that required consultations and consensus building can happen properly. It is advisable to start the process around September or October of the preceding year to the MTFP period. It is also important to review the MTFP during each annual budgeting cycle so that course corrections can be made in legitimate cases.

Implementation

In Karnataka, for the MTFP exercise to be implemented and stabilize, following would be the key activities:

- Undertaking pilots in three sample municipalities;
- Developing a detailed MTFP manual and training material using the experience of the pilots;
- Undertaking sensitization and training programmes across the state for municipal officers as well as elected representatives on MTFP;
- Full scale rollout.

Annex 1

Provisions of the Karnataka Local Fund Authorities Fiscal Responsibility Act, 2003 relating to MTFP

Section 3

(1). There shall be prepared in each financial year a Medium-Term Fiscal Plan along with the annual budget in respect of every local fund authority and shall be submitted for approval of the concerned authority.

(2). The Medium-Term Fiscal Plan shall set forth a four-year rolling target for the fiscal indicators with specification of underlying assumptions.

(3). In particular and without prejudice to the provisions contained in sub-section (2), the Medium-Term Fiscal Plan shall include an assessment of sustainability relating to:

a. the balance between revenue receipts and revenue expenditures; and
b. the use of capital receipts including borrowings for generating productive assets.

(4). The Medium-Term Fiscal Plan shall, inter alia, contain -

a. the medium-term fiscal objectives of the local fund authority;
b. the mission, objectives and goals of the local fund authority;
c. an evaluation of the performance of the fiscal indicators in the previous year vis-à-vis the targets set out earlier, and the likely performance in the current year as per revised estimates;
d. a statement on recent trends and future prospects for growth and development affecting fiscal position of the local fund authority;
e. the strategic priorities of the local fund authority in the fiscal area for the ensuing financial year;
f. the policies of the local fund authority for the ensuing financial year relating to expenditure, borrowings and other liabilities, lending and investments and all such activities which have potential budgetary implications and the key fiscal measures and targets pertaining to each of these;
g. an evaluation as to how the current policies of the local fund authority are in conformity with the financial management principles set out in Section 4 and the fiscal objectives set out in the Medium-Term Fiscal Plan;
h. a clear linkage of the physical and financial targets;
i. the key performance areas and corresponding performance indicators in as much quantitative detail as possible.

(5). The Medium-Term Fiscal Plan shall be the source document for the preparation of the annual budget and shall address the prime needs of the citizens as relevant to the specific local fund authority such as water supply, construction of road, education, public health, solid waste management and the like.

(6). The Medium-Term Fiscal Plan shall have a functional focus and provide for backend modalities such as Fund Based Accounting System (FBAS), computerisation and a realistic and transparent budgeting process.

(7). The Medium-Term Fiscal Plan shall be in such form as may be prescribed.

Annex 2

Guidelines for preparing the MTFP

The MTFP process is all about preparing a medium-term financial plan that strikes a balance between expenditure demands on the one hand and scarce resources on the other, in a fiscally sustainable manner. The MTFP preparation process can be broadly broken down into six steps. These guidelines are intended to guide a municipality that attempts to prepare a MTFP through the six steps.

Step 1: Set fiscal indicator targets

Fiscal indicators point to the financial health of the municipality. While there are a number of indicators, each pointing to a specific aspect of fiscal health, certain key indicators are relevant for inclusion in the MTFP. These key fiscal indicators along with their targets establish the boundaries within which the revenue and expenditure projections must be made for the MTFP period.

In this step, the Finance Head and the Municipal Commissioner discuss on the target value for each key fiscal indicator over the MTFP period. Certain key fiscal indicators and suggestions for setting targets are shown in the table.

	Indicator	Commentary	Pointers for target setting[12]
1	Own Revenue to Total Revenue (%)	Higher the better - A lower proportion indicates that the municipality is reliant on external sources to fund its development plans, thereby reducing autonomy in allocations.	Must increase over time
2	Operating Expenses to Own Revenue (%)	Lower the better – A higher ratio means that less of own revenues are available for development expenditure. More than 100% indicates that the municipality relies on external sources even to fund its operating expenses.	Must decrease over time
3	Committed Expenses to Total Expenditure (%)	Lower the better–A higher ratio means that committed expenditure takes up a major chunk of total spending thus leaving less money for development spending.	Must decrease over time
4	Debt-servicing to Own Revenue (%)	Lower the better–A higher ratio indicates that more of own revenues are utilized towards repayment of loans. A ratio more than 100% means that the municipality is not able to meet its debt servicing out of its own revenue, severely constraining fiscal space.	Must decrease over time
5	Debt-servicing to Total Expenditure (%)	Lower the better–A higher ratio indicates less scope for further borrowing.	Must decrease over time

12. While these are general pointers in an ideal scenario, in practice, the desired level must be worked out keeping specific circumstances in perspective.

	Indicator	Commentary	Pointers for target setting[12]
6	Fiscal Space (Overall) – Balance revenues after knocking off committed expenditure to Total Receipts	Higher the better – A higher fiscal space indicates that the municipality has resources for city development	Must increase over time
7	Surplus/(Deficit) to Total Revenue (%)	Must not be too low – A low ratio indicates poor ability to manage unforeseen events requiring emergency spending. Too high a ratio indicates an inefficient planning process where the municipality is not able to spend the money towards discharging its functions.	Ideal level must be worked out on case to case basis
8	Cash Balance to Monthly Operating Expenses (times)	Must not be too low – A low ratio indicates that the cash on hand is inadequate to cover operating expenses beyond few months.	Ideal level must be worked out on case to case basis

Primary inputs for Step 1

- Statutory requirements, if any. For example, a requirement that the MTFP cannot show a deficit in any year;
- Past performance of the municipality on key fiscal indicators. For example, a municipality might have a high debt position resulting in a high proportion of debt servicing to total expenditure;
- Benchmarks amongst peer municipalities. For example, a municipality might have a poor position of own revenues to total revenues compared to similar-sized municipalities in the state.

Step 2: Prepare revenue projections

This step involves the departments primarily responsible for revenue generation, be it tax revenue or non-tax, working closely with the Finance department. In addition to own revenues, estimates must be made of expected finance commission grants as well as grants under state and central government schemes. Revenue projections give a picture of the total resource pool available at the disposal of the municipality[13] and provide the basis for further steps of estimating expenditure, determining fiscal space, and making allocations for ongoing and new programs.

Primary inputs for Step 2

- Past trends in growth of tax and non-tax revenues;
- Anticipated increases in tax rates, revision of fees, and user charges;
- Potential new sources of revenue and the municipality's plans to tap on the same;
- Special recovery drives, incentive schemes, if any planned to recover revenue arrears;
- Finance Commission recommendations;
- Existing/upcoming government schemes and expected inflows under them.

13. Called the Resource Envelope

Step 3: Determine fiscal space

Fiscal space is the amount left after meeting all committed or unavoidable expenditure of the municipality. This is the amount available for spending on various planned Programs or Projects of the municipality. To begin with, an estimate of the moneys required to meet committed expenditure is worked out by the Finance department. Committed expenditure includes expenditure towards salaries and pensions and regular administrative expenditure. In other words, these expenses are required to keep the municipality in operation. It also includes repayment obligations (principal and interest) towards loans, bonds, and other forms of borrowing (existing and proposed). At this stage,to arrive at a proper estimate of committed expenditure, the Finance department must make an estimate of any new borrowings the municipality plans to raise in the MTFP period.

Another important line item to be estimated is the provision for unforeseen expenditure. It could be worked out as a percentage of total revenue or on any other reasonable basis. The MTFP essentially being a cash flow statement, if the amount of pending bills outstanding is significant at the time of estimation, it is important to estimate the outflow towards payment of such bills in the MTFP period.

As can be seen, with each step of the MTFP preparation process, different sections of the MTFP template are progressively filled.

Primary inputs for Step 3

- Payroll and pension data;
- Anticipated recruitments as well as retirements during the MTFP period;
- Anticipated pay revisions;
- Past trends in administrative expenses and present rate of inflation;
- Repayment schedules for existing debt;
- Available borrowing avenues;
- Interest rate trends;
- Pending bills position immediately preceding the 1[14] year MTFP.

Step 4: Allocation to ongoing and new programs/projects/schemes

Having worked out the fiscal space in Step 3, the amount available for spending on programs and projects becomes clear. The Municipal Commissioner, with help from the Finance department, works out the maximum spending allocation (called expenditure ceiling) for each department such that the total of all departmental allocations is within the resources available computed in Step 3. These maximum spending allocations (called Expenditure Ceilings) are communicated to the line departments by him.

In Step 4, the focus shifts from the Finance department to the line departments of the municipality. Each line department is required to come up with spending proposals over the MTFP period. Such proposals must be in line with the department's overall allocation and must cover:

a. Proposed spending on ongoing programs/projects/schemes, and
b. Proposed spending under new programs/projects/schemes that it proposes to take up.

14. For sake of simplicity, it can be assumed that annual expenditure during the MTFP period is paid off in the same year, i.e. there are no pending bills at the end of each year of the MTFP period.

Spending proposals are based on the line department's strategy to address citizen's needs and undertake development projects in line with the long-term development plans of the region/city/municipality.

It is a good practice to undertake a stakeholder consultation before embarking on Step 4. In any case, Step 4 involves a series of consultation amongst the line departments, the Finance department, the Municipal Commissioner, and the Council and its various committees. Each department consolidates its expenditure proposals and captures it in the MTFP format. It is important to show expenditure proposals separately under: tied grants, and untied grants and own sources. In order to arrive at accurate financial estimates of individual projects, the line department may seek the assistance of the Finance department.

As can be seen from the above discussion, it is important that spending proposals are first worked out for ongoing programs/projects/schemes before new spending proposals are considered. This ensures continuity of funding to activities already taken up and brings about financial discipline.

Filled in spending proposals in the MTFP format are sent by each line department to the Finance department.

Primary inputs for Step 4

- Past performance and spending efficiency of existing programs/projects/schemes;
- Regional and city level development plans called as City Development Plans; Regional/Area Development Plans, Master Plans and so on;
- Performance against service level benchmarks for each municipal function;
- Reports of past service delivery assessments, citizen surveys carried out, if any;
- Inputs from stakeholder consultations;
- Record of grievances received;
- Scheme guidelines of applicable Central and State government schemes;
- Terms of loan agreements and other agreements executed including concession arrangements under PPP.

Step 5: The balancing act

Spending proposals (in the MTFP format) received from line departments are verified and consolidated by the Finance department. The consolidated MTFP in its present form presents challenges of mismatches between estimated receipts and proposed expenditure as well as skewed fiscal indicator values. A series of discussions are held to fine tune the revenue and expenditure estimates such that the MTFP presents a realistic scenario. These discussions are held at various levels: Commissioner with all line departments, within each line department, and between line departments and Finance department. Discussions generally revolve around:

a. Mobilising additional own revenue sources,
b. Mobilising additional grants,
c. Dovetailing municipal projects with government schemes,
d. Additional borrowing on loans, bonds, and other instruments,
e. Reducing allocation for administrative expenditure,
f. Reducing/increasing allocations to ongoing programs,
g. Reducing/increasing allocations to new programs,
h. Phasing/Rephasing of program targets and corresponding expenditure over multiple years.

Needless to mention, more often than not, there is going to be a shortfall of resources when compared to spending plans. MTFP introduces the rigour of arriving at a consensus on a balance between resources and proposed spending in a manner that does not jeopardise financial sustainability of the municipality.

The MTFP is continually tweaked throughout the consultative process with each new version making it more and more realistic. Throughout the process, it will be the responsibility of the Finance department to ensure that the fiscal indicator targets are not breached. When a reasonably concrete MTFP is ready, the same is placed before the Council for its consideration. The municipality may also consider holding external stakeholder consultations on the MTFP at this stage. Inputs given by the Council and stakeholders are accommodated to the extent feasible. This sets the stage for final adoption of the MTFP.

Primary inputs for Step 5

- MTFP meetings amongst line departments and Commissioner/Finance department;
- Revenue enhancement studies;
- Good practices reports from other municipalities.

Step 6: Formalize the MTFP

For the MTFP to gain legitimacy, it needs to be formally adopted by the Council. The finalized MTFP is presented to the Council by the Municipal Commissioner. The Commissioner also appraises the Council on the consultative process followed, the trade-offs made, and the strategies adopted in the course of preparation of the MTFP. Learnings from the past MTFP period are also presented. The MTFP once approved by the Council, is given wide publicity.

MTFP Calendar

Preparation of a MTFP is a complex exercise undertaken once in four years. It requires the involvement of the entire municipal administration, the elected representatives, as well as external stakeholders. Producing a credible MTFP requires frequent consultations and consensus at different levels; it is important to allocate sufficient time for the same. Indicative timelines for major stages of the MTFP preparation are given below.

	Key activity	Timeline	Primary Responsibility
1	Gather required inputs	Mid-June	Municipal Commissioner
2	Set fiscal indicator targets	End June	Head of Finance
3	Formal kickstart to the process	End June	Municipal Commissioner
4	Revenue projections	Mid July	Municipal Commissioner and Revenue line departments
5	Communicate allocations and seek spending proposals from line departments	End July	Municipal Commissioner
6	Submission of spending proposals in MTFP format	End August	Line departments
7	Consolidated MTFP first cut	Mid-September	Finance department
8	MTFP meetings	End October	Municipal Commissioner
9	Council and stakeholder consultations on MTFP	End November	Municipal Commissioner
10	Finalize MTFP	End December	Municipal Council

Annual MTFP updates

In order to ensure that the MTFP stays relevant throughout the four-year period, it needs to be reviewed and revised if necessary, during each annual budget cycle. In the run up to each annual budget, performance is reported against the MTFP. The impact of past performance on the upcoming annual budget is also discussed. Various performance levels can be grouped under three scenarios:

(A). Both physical targets (outcomes) and financial performance (revenue generation and spending) have achieved or bettered MTFP targets;

(B). Physical targets have not been achieved but financial performance is within MTFP targets;

(C). Physical targets have been achieved but financial performance has missed the MTFP target.

Scenario A would necessitate no changes to the MTFP. The annual budget would more or less reflect the revenue and expenditure estimates of the corresponding year of the MTFP. Scenario B would require an analysis of the root causes and initiation of corrective action for future years. In case of gross underperformance, it would require the MTFP figures of subsequent years to be revised in line with the corrective action proposed. Scenario C would also require a root cause analysis that may or may not result in revising the MTFP figures of subsequent years. In addition to revisions based on performance, the MTFP will have to undergo revision if there are significant changes in underlying circumstances. For example, discontinuation of a program/project/scheme, introduction of a new scheme from central/ state government, unexpected natural calamities and so on.

Annex 3

MTFP Template

Municipal Corporation/Municipality
Medium Term Fiscal Plan
20xx-xxto 20xx-xx
Part A–Receipts and Expenditure

(Rs in Lakhs)

	Particulars	20xx-xx	20xx-xx	20xx-xx	20xx-xx	
A	**Revenue**					
A1	Tax Revenues					
A2	Non-Tax Revenues					
A3	Grants					
A3.1	Tied Grants					
A3.2	Untied Grants					
A4	Others					
	Total for A					
B	**Borrowings**					
	Total Receipts					
C	**Expenditure**					
C1	Committed Expenditure					
C1.1	Operating Expenses					
C1.1.1	Salaries & Pension					
C1.1.2	Administrative Expenses					
	Total for C1.1					
C2	Debt-servicing					
C2.1	Interest on loans					
C2.2	Repayment of loans					
	Total for C2					
C3	Provision for Unforeseen Expenditure 5%					
C4	Discharge of Pending Bills					
	Total for C3 to C4					
	Total Committed Expenditure					
	Balance					
C5	Allocation for Projects/Programs/Schemes out of Tied Grants					
	Total for C5					
	Balance					
C6	Allocation for O&M expenses					

(Rs in Lakhs)

	Particulars	20xx-xx	20xx-xx	20xx-xx	20xx-xx	
C7	Allocation for ongoing Programs/Schemes (untied grants and own sources)					
	Total for C6 to C7					
	Balance					
C8	Allocation for New Capital Projects (Untied grants and own sources)					
C9	Allocation for new Programs/Schemes (Untied grants and own sources)					
	Total for C8 to C9					
	Total Expenditure					
	Surplus/(Deficit)					
D	Cash Balance					
D1	Balance at the beginning of the year					
D2	Balance at the end of the year					

Part B - Key Fiscal Indicators

Fiscal Indicators	Baseline	20xx-xx	20xx-xx	20xx-xx	20xx-xx
Own Revenue to Total Revenue					
Operating Expenses to Own Revenue					
Committed Expenditure to Total Expenditure					
Debt-servicing to Own Revenue					
Debt servicing to Total Expenditure					
Fiscal Space (Overall) – Balance revenues after knocking off committed expenditure to Total Receipts					
Surplus/(Deficit) to Total Revenue					
Cash Adequacy (number of months)					

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