A Deep Dive into the Finances of Municipal Corporations in India

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The finances of 166 municipal corporations across 22 states for 2019–20 to 2021–22 are analysed. While data availability has improved, comparability issues remain. Indicators examined include own revenue, dependence on intergovernmental transfers, coverage of expenditure from own revenues, and capital receipts. MCs are heterogeneous: smaller MCs rely heavily on transfers, whereas larger MCs primarily depend on own revenues. On average, own revenues finance 51%–56% of revenue expenditure, with property tax as the main levy. High transfer dependence discourages local revenue mobilisation, underscoring the need for policy frameworks to strengthen MCs and build vibrant urban growth centres.

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India is urbanising rapidly. By 2035, 43.2% of the population is projected to live in urban areas (Un-Habitat 2022).[1] Such growth will place additional pressure on already-strained urban infrastructure and services. Meeting the needs of a fast-growing urban population—affordable housing, integrated transport, basic services, such as water and electricity, schools, hospitals, and improved service delivery—will require substantial increases in their spending.[2] The COVID-19 pandemic underscored the urgency of upgrading urban health infrastructure, while climate change risks, such as flooding, heatwaves, cyclones, and sea-level rise, demand enhanced resilience. The financial health of urban local bodies (ULBs), which provide core municipal services, is therefore critical.

In this context, the paper examines the finances of municipal corporations (MCs) in India, with the objective of analysing their revenue and capital receipts, capacity to mobilise own resources, and dependence on higher tiers of government. It also assesses MC expenditures, the adequacy of spending relative to revenues, and the means of financing these outlays. Such analysis can inform policy design in alignment with broader goals, including sustainable economic growth and enhancing urban liveability.

Data Sources, Methodology, Selection of Municipal Corporations, and Period of Coverage

The paper uses audited financial statements of individual corporations, comprising income and expenditure statements, balance sheets, and accompanying schedules. Data were sourced from the Ministry of Housing and Urban Affairs City Finance Portal and the websites of individual MCs.

Reliable data on the finances of local bodies have not been readily available. The finance commissions, beginning with the Eleventh Finance Commission, have highlighted the lack of reliable financial data on panchayats and ULBs, and the difficulties in realistically assessing resource requirements for core functions. They emphasised the need for proper accounting and audit of local bodies. The Eleventh Finance Commission recommended grants to states for compiling accounts and creating a database on local body finances. The Twelfth Finance Commission reiterated this need and recommended that states allocate funds from their share of local body grants for these purposes.

The maintenance of accounts of local bodies and the entrustment of technical guidance and audit supervision to the Comptroller and Auditor General of India (C&AG) were among the conditions that states had to fulfil to access the performance grants recommended by the Thirteenth Finance Commission. The Fourteenth Finance Commission, in turn, stipulated the availability of reliable data on receipts and expenditures of local bodies through audited accounts as a prerequisite for performance grants.[3] To strengthen the maintenance and audit of accounts by local bodies, the Fifteenth Finance Commission recommended that ULBs, in order to be eligible for local body grants, should mandatorily prepare and place in the public domain their annual accounts of the previous year and audited accounts for the year before the previous one. The audited accounts were required to include: (i) balance sheet; (ii) income and expenditure statement; (iii) cash flow statement; and (iv) schedules to the balance sheet, income and expenditure statement, and cash flow statement. This was one of the two entry conditions prescribed by the commission for availing local body grants. Following these recommendations, the audited financial statements of most ULBs are now available in the public domain.

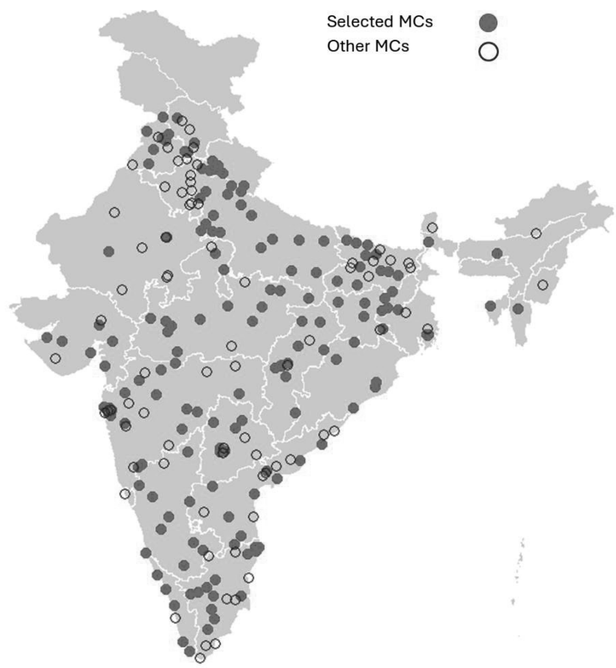
It is evident that the financial data maintained by ULBs lack uniformity in format. While some states have adopted the National Municipal Accounting Manual (NMAM), others follow their own State Municipal Accounting Manuals (SMAM), which require ULBs to maintain accounts in accordance with the prescribed chart of accounts. However, even within a state, ULBs often maintain data in differing formats. In certain cases, the formats used by the same ULB varied across years, and in a few instances, only the trial balance was available. Further, in several ULBs, accounting entries were found to be recorded without codes. To ensure comparability of accounts across ULBs, their audited financial statements were structured into a standardised format based on the chart of accounts prescribed in the NMAM. The NMAM provides a uniform codification system for recording income and expenditure (Ministry of Urban Development 2004). This system uses a seven-digit numeric code, in which the first three digits denote the major head, the fourth and fifth digits represent the minor head, and the sixth and seventh digits correspond to the detailed head. For the purpose of standardisation, codification was carried out up to the minor head (five digits), thereby facilitating comparability across ULBs nationally.

The process of standardising the accounts of ULBs posed several challenges. As noted earlier, financial data were not maintained in a uniform format. For ULBs whose financial statements did not conform to the NMAM structure, the available data were mapped and standardised up to the minor head level five digits) to ensure comparability across the country. In cases where only the trial balance was available, or where accounting codes were missing, entries were rearranged in accordance with the NMAM format. Instances of incorrect classification of entries—those not conforming to the chart of accounts prescribed under NMAM/SMAM—were also observed and reclassified accordingly. Some ULBs provided only summary statements of income-expenditure and balance sheets; these were excluded from the analysis. While such standardisation facilitates comparison across ULBs, it inevitably risks overlooking state-specific features and granularities.

The analysis covers 166 MCs out of a total of 246, spanning the three-year period from 2019–20 to 2021–22. To the best of our knowledge, this is the first study to use audited financial statements of such a large set of MCs.

The selection of MCs was based on the availability of audited financial data comprising both income-expenditure statement and the balance sheet, along with their schedules for each of the three years from 2019–20 to 2021–22. Corporations for which either of these statements was unavailable or incomplete in any one of the years were excluded from the analysis.[4] The 166 corporations that form part of the analysis are the same across the three years, 2019–20 to 2021–22. They account for about 32% of India's urban population[5] and are spread across 22 states (Figure 1).[6]

Figure 1: Geographical Spread of 166 Municipal Corporations



The map is only for representational purposes and does not, in any way, indicate the national boundaries.
Source: Authors' derivation.

Of the 166 MCs included in the analysis, 121 have a population of less than one million and constitute the non-million category (NMC), of which 91 have populations below 5,00,000. The remaining 45 MCs, each with a population exceeding one million plus category (MPC) (Table 1). In aggregate, the MPC corporations

Table 1: Distribution of Municipal Corporations by Population Category

Population Category	MCs in India	MCs Considered (Common across 3 Years)		
		2019–20	2020–21	2021–22
< 5 lakh	141	91	90	88
5 lakh <= & < 10 lakh	46	31	31	33
10 lakh <= & < 25 lakh	46	35	36	36
>= 25 lakh	13	9	9	9
Total	246	166	166	166

The number of MCs with population below five lakh declined from 91 in 2019–20 to 88 in 2021–22. As the population of an MC crosses the threshold for a category, it shifts to the next category. This reclassification is applicable across all population categories and explains the variation in the number of MCs across categories during the three years under review.
Source: Authors' calculation.

account for about 70% of the population covered by the selected MCs, while the NMC corporations account for the remaining 30%.

Sources of Revenues of Municipal Corporations

The resource envelope of a corporation/ULB comprises:

(i) Revenues from own sources: This includes own-tax and own non-tax revenues.

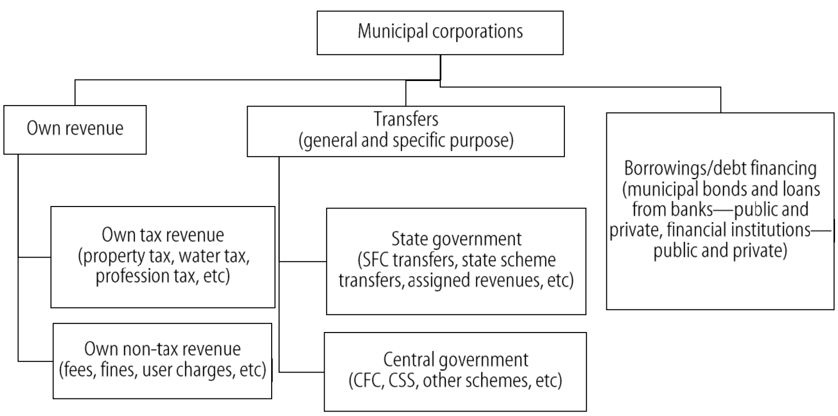
(ii) Transfers from state and central governments: These consist of revenue grants from state and central governments,[7] devolution and grants recommended by the state finance commissions (SFCs), local body grants of the central finance commissions (CFCs), as well as assigned revenues[8] and compensations received[9] from state governments.

These constitute revenue receipts of MCs. MCs also receive specific-purpose transfers from the union government through centrally sponsored schemes (CSSs) such as Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Smart Cities Mission, Swachh Bharat Mission-Urban, and the National Urban Livelihood Mission. These transfers are largely directed towards the creation of physical infrastructure. In addition, MCs receive funds from various state government schemes, which are primarily utilised for capital expenditure. Together, these transfers constitute the capital receipts of MCs.

Furthermore, MCs borrow funds to finance infrastructure. In recent years, some MCs have also accessed capital markets by issuing municipal bonds to meet their infrastructure financing requirements. The funds raised through such borrowings form part of the capital receipts of MCs.

The sources of revenues—both revenue and capital receipts of MCs/ULBs in India are summarised in Figure 2.

Figure 2: Sources of Revenues of Municipal Corporations in India



Revenue Receipts of Municipal Corporations

The aggregate revenue receipts of MCs with populations exceeding one million are considerably higher than those of MCs with a population below one million, as evident from Table 2. In aggregate, the revenue receipts of smaller MCs constitute about one-fourth of those of the larger MCs.

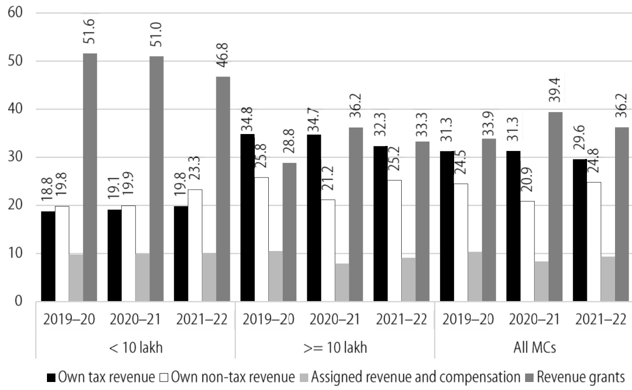
The combined revenue receipts of all MCs[10] increased from ₹58,295 crore in 2019–20 to ₹67,219 crore in 2021–22, recording a compound annual growth rate (CAGR) of 7.4%. In comparison, the national gross domestic product (GDP) grew at a CAGR of 8.4% over the same period.[11] Revenue receipts of the 166 MCs, when expressed as a percentage of national GDP, amounted to only 0.28%–0.30%

Table 2: Components of Revenue Receipts (₹ crore)

Population Category --->	<10 Lakh			>=10 Lakh		
	2019–20	2020–21	2021–22	2019–20	2020–21	2021–22
Revenue receipt	12,921.1	12,800.3	14,644.8	45,374.3	46,398.3	52,573.9
Own tax revenue	2,424.6	2,449.5	2,904.4	15,808.5	16,104.1	16,996.5
Own non-tax revenue	2,558.9	2,550.2	3,412.5	11,705.7	9,816.6	13,262.7
Assigned revenue and compensation	1,269.6	1,274.1	1,481.3	4,776.3	3,679.8	4,807.6
Revenue grants	6,668.1	6,526.5	6,846.7	13,083.8	16,797.9	17,507.2

Source: Authors' calculation.

Figure 3: Components of Revenue Receipts (%)



Source: Authors' calculation.

For non-million-plus MCs, revenue grants constitute the largest source of income, accounting for about 47%–52% of total revenue receipts (Figure 3). When assigned revenues[12] are included, transfers from the state and union governments (that is, revenue grants plus assigned revenues) contribute nearly 57%–61% of their total revenue. By contrast, the share of own tax and own non-tax revenues is considerably lower at 19%–20% and 20%–23%, respectively. Notably, in smaller MCs, own non-tax revenues exceed own tax collections. In larger MCs, however, own tax revenue is the dominant source, contributing about 32%–35% of total receipts, followed by revenue grants (29%–36%) and non-tax revenues (21%–26%). Thus, in larger corporations, own revenues overall account for about 56%–61% of their revenue receipts.

While smaller MCs depend predominantly on transfers from the state and union governments, larger MCs rely more on their own revenues as their principal source of income. Aggregated across all 166 MCs, own revenues account for about 52%–56% of the total receipts, while transfers, including assigned revenues and compensation, contribute around 44%–48%.

Own tax revenue: The 73rd and 74th constitutional amendments, which institutionalised the structure of local governance in India, left the determination of revenue sources for local bodies to the state governments. Article 243X of the Constitution empowers state governments to authorise ULBs to levy and collect suitable taxes. An examination of state municipal acts shows that a wide range of taxes has been devolved to the ULBs; however, available data indicate that only a limited number of these are actually levied by MCs.

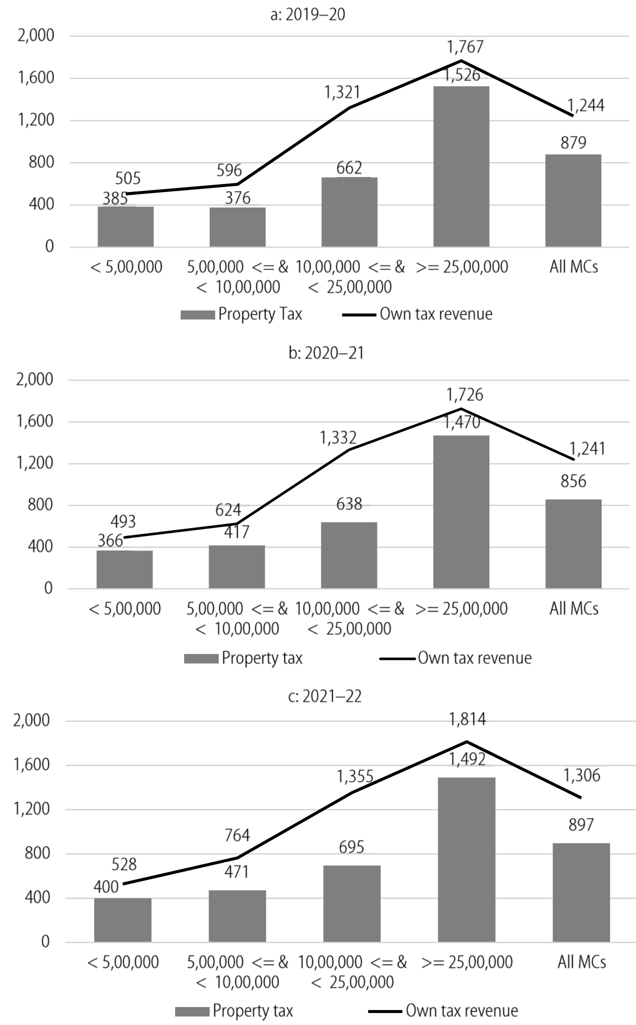
Of the various taxes levied by MCs in India, the property tax is the most significant, accounting for about 69%–71% of their own tax revenue (Table 3). Other taxes levied by MCs, as evident from audited financial statements, include water tax, sewerage tax, professions tax,[13] conservancy tax, education tax, vehicle tax, advertisement tax, and entertainment tax.

The collection of own taxes, particularly property tax, is significantly higher in larger MCs. In aggregate, the own tax and property tax revenues of smaller MCs amount to only about 14%–17% of those of larger MCs. When expressed in per capita terms, these revenues increase with the population size of the MC (Figure 4). In other words, per capita collections from own tax and property tax are substantially higher in relatively larger MCs.

Own non-tax revenue: Another important source of revenue for MCs is own non-tax income, which includes fees, fines, user charges, rental income, hire and sale charges, income from investments, and interest. On average, non-tax revenues contribute about 21%–25% of the total revenues of MCs. For smaller MCs, their share in total revenues exceeds that of own taxes (Figure 3). Across all MCs, fees and user charges account for 64%–72% of non-tax revenues (Table 3). Non-tax revenues recorded a decline in 2020–21, possibly due to the impact of the COVID-19 pandemic.

There is considerable potential for mobilising additional revenues from non-tax sources. ULBs can increase collections by adopting policies aimed at revenue augmentation, rational pricing of services, and improving collection efficiency. As a first step, appropriate user charges should, at the very least, be designed to meet the cost of service provision.

Figure 4: Per Capita Own Tax and Property Tax Revenues of Municipal Corporations (₹)



Source: Authors' calculation.

Table 3: Own Tax and Non-tax Revenues of Municipal Corporations (₹ crore)

Population Category ----->	2019–20			2020–21			2021–22		
	All MCs	<10 Lakh	>=10 Lakh	All MCs	<10 Lakh	>=10 Lakh	All MCs	<10 Lakh	>=10 Lakh
Own tax revenue (OTR)	18,233	2,425	15,809	18,554	2,450	16,104	19,901	2,904	16,997
of which,									
Property tax	12,886	1,683	11,204	12,802	1,723	11,080	13,668	1,959	11,709
Share in OTR (%)	70.7	69.4	70.9	69.0	70.3	68.8	68.7	67.5	68.9
Own non-tax revenue (ONTR)	14,265	2,559	11,706	12,367	2,550	9,817	16,675	3,413	13,263
of which,									
Fees and user charges	8,982	1,468	7,513	7,667	1,455	6,213	11,673	2,184	9,489
Share in ONTR (%)	63.0	57.4	64.2	62.0	57.0	63.3	70.0	64.0	71.5

Source: Authors' calculation.

Revenue Expenditure of Municipal Corporations

All current and recurrent expenditures are classified as revenue expenditure. For the 166 MCs, aggregate revenue expenditure rose from ₹58,073 crore in 2019–20 to ₹68,270 crore in 2021–22, recording a CAGR of 8.4% comparable to the growth of national GDP during this period (Table 4, p 44). As a share of GDP, revenue expenditure amounted to only 0.29%–0.31%.

An examination of the components of revenue expenditure shows that establishment expenditure—including wages, salaries, pensions, and other retirement benefits—accounts for about 35%–37% of the total, followed by operation and maintenance (O&M) expenditure (24%–25%) and depreciation (18%–20%) (Table 5, p 44). Together, these three components constitute 76%–81% of the revenue expenditure of MCs. The composition of revenue expenditure is broadly similar across million-plus and non-million MCs. However, both total and per capita expenditure are considerable in larger MCs, as evident from Table 4.[14]

An analysis of establishment expenditure reveals that salaries, wages, and bonuses constitute the largest share, followed by pensions and other terminal benefits. The share of salaries and wages is higher in smaller MCs, whereas pensions and other terminal benefits account for a greater proportion

Table 4: Revenue Expenditure of Municipal Corporations

Population Category -->	All MCs	<10 lakh	>=10 lakh
Revenue expenditure (₹ crore)			
2019–20	58,073.4	13,228.3	44,845.2
2020–21	60,508.2	13,489.8	47,018.4
2021–22	68,270.5	15,180.6	53,089.9
Per capita revenue expenditure (₹)			
2019–20	3,962.1	2,992.4	4,381.0
2020–21	4,047.3	3,059.1	4,460.7
2021–22	4,481.8	3,376.5	4,944.6

Source: Authors' calculation.

Table 5: Components of Revenue Expenditure—166 Municipal Corporations (%)

	2019–20	2020–21	2021–22
Establishment expenses	36.8	35.0	36.0
Administrative expenses	6.0	7.5	7.1
Operations and maintenance	24.0	23.8	24.8
Interest and finance charges	1.6	2.4	1.5
Programme expenses	4.3	4.6	4.2
Revenue grants contribution and subsidies	4.4	5.9	5.7
Provisions and write-off	1.6	2.0	1.4
Miscellaneous expense	1.0	1.2	0.7
Depreciation	20.3	17.6	18.6

Source: Authors' calculation.

in larger MCs (Table 6). Within O&M expenditure, the major component is repairs and maintenance, which accounts for about 40%–46% of total O&M expenditure, followed by power and fuel (20%–25%) and other O&M expenses[15] (25%–29%). Together, these three components constitute more than 90% of the O&M expenditure of MCs.

On average, the own revenues of MCs account for about 51%–56% of their revenue expenditure, indicating considerable dependence on transfers. The dependence is significantly higher for smaller MCs, whose own revenues constitute only 37%–42% of their revenue expenditures. In contrast, for million-plus corporations, the corresponding share is 55%–61%.

Table 6: Components of Establishment and O&M Expenses—Smaller vs Larger Municipal Corporations (%)

Population Category --->	2019–20		2020–21		2021–22	
	<10 Lakh	>=10 Lakh	<10 Lakh	>=10 Lakh	<10 Lakh	>=10 Lakh
Components of establishment expenses						
Salaries, wages, benefits and allowances, bonus	82.3	77.4	81.0	74.4	81.6	73.8
Pension and other terminal benefits	16.2	21.0	16.7	23.2	16.5	24.0
Other establishment expenses	1.5	1.7	2.3	2.4	1.9	2.2
Components of O&M expenses						
Power and fuel	24.2	20.3	23.8	20.5	25.0	21.6
Bulk purchases and consumption of stores	9.3	7.7	8.9	6.5	8.4	5.9
Repairs and maintenance	39.8	45.5	42.8	46.4	40.3	43.3
Other O&M expenses	26.7	26.5	24.6	26.6	26.3	29.3

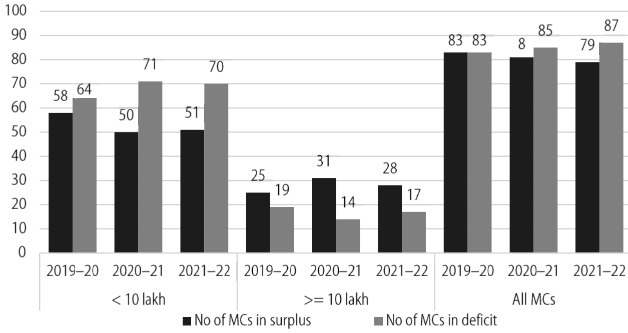
Source: Authors' calculation.

Revenue Surplus/Deficit

An examination of the audited financial statements of 166 MCs shows that more than half operate in deficit, that is, their revenue expenditure exceeds revenue receipt (Figure 5). In 2019–20, the number of MCs in deficit was equal to those in surplus. Among smaller MCs, deficits are more prevalent than surpluses, whereas the reverse holds true for larger MCs.

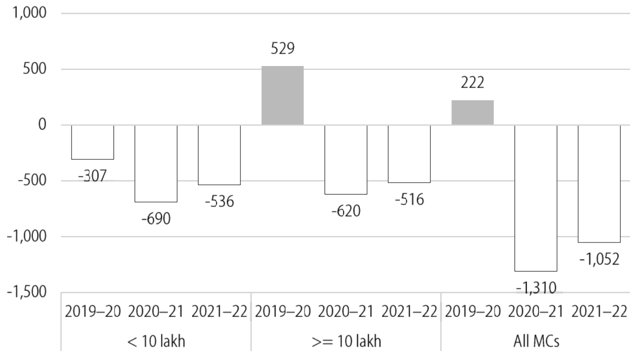
Smaller MCs, in aggregate, recorded a revenue account deficit of ₹307 crore in 2019–20, which widened to ₹690 crore

Figure 5: Number of Municipal Corporations in Deficit/Surplus



Source: Authors' calculation.

Figure 6: Revenue Surplus (+)/Deficit (-) (₹ crore)



Source: Authors' calculation.

in 2020–21 before moderating to ₹536 crore in 2021–22 (Figure 6). These trends are consistent with the number of MCs reporting deficits during the same period (Figure 5). Larger MCs, by contrast, registered an aggregate surplus of ₹529 crore in 2019–20, which turned into a deficit of ₹620 crore in 2020–21. This occurred despite an increase in the number of million-plus MCs reporting surpluses that year (Figure 5). In 2021–22, the deficit narrowed, even as more larger MCs reported deficits.

With the revenue surpluses of larger MCs outweighing the deficits of smaller MCs in 2019–20, the 166 MCs in aggregate recorded a revenue account surplus. This shifted to a deficit in 2020–21, the pandemic year, when both categories of MCs reported aggregate deficits.. In 2021–22, the overall revenue deficit moderated to ₹1,052 crore (Figure 6).

Capital Receipts of Municipal Corporations

As discussed earlier, the capital receipts of MCs in India consist primarily of specific-purpose transfers from the union and state governments, which are earmarked for capital expenditure. MCs also receive project-specific grants from government agencies. In addition, they borrow from the union and state governments, government agencies, multilateral institutions such as the World Bank and Asian Development Bank, as well as from banks and other financial institutions, to finance infrastructure investments. In recent years, some MCs have also accessed capital markets by issuing municipal bonds. Together, these flows constitute the capital receipts of MCs.

An examination of the audited financial statements of MCs shows that between 2019–20 and 2021–22, capital receipts aggregated across 166 MCs grew at a CAGR of 8.8%. The growth was markedly higher for larger MCs at 11%, compared to only 5% for smaller MCs. Expressed as a share of GDP, capital receipts amounted to just 0.28%–0.33% (Table 7).

Table 7: Capital Receipt and Expenditure Aggregated across 166 Municipal Corporations (₹ crore)

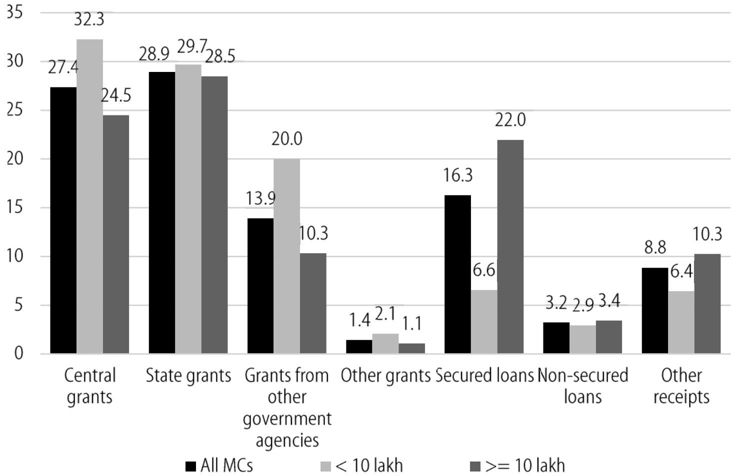
	2019–20	2020–21	2021–22
Capital receipts	56,662	64,565	67,014
% of GDP	0.28	0.33	0.28
Capital expenditure	1,38,227	1,29,861	1,36,222
% of GDP	0.69	0.65	0.58
GDP	2,00,74,856	1,98,29,927	2,35,97,399

Source: Authors' calculation; GDP from MoSPI.

An analysis of the components of capital receipts shows that, on average, grants from the union and state governments and government agencies account for about 70% of total capital receipts. Dependence on such grants is much higher for smaller MCs at 82%, compared to 63% for larger MCs (Figure 7). For larger MCs, secured loans constitute an important source, accounting for about 22% of capital receipts, as against 6.6% in smaller MCs. Other receipts—including deposits received, deposits for works, and proceeds from the sale of fixed asset—contribute, on average, about 9% of capital receipts across all MCs.

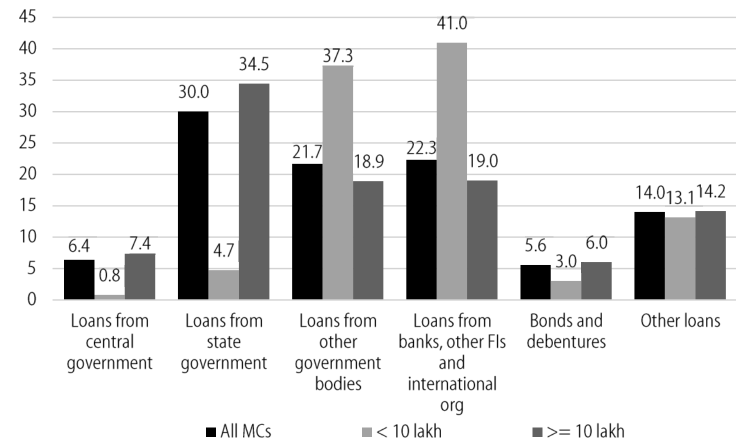
Secured loans are borrowings obtained against the security of municipal assets, which may include municipal revenues, properties, or a letter of comfort/guarantee from the state government. For larger MCs, loans from the central and state governments, together with borrowings from government agencies, account for 61% of their secured loans. In contrast, for smaller MCs, the major sources are loans from banks, financial institutions, international organisations, and specialised government agencies, such as HUDCO, TNUIFSL, and MUDF, which together constitute about 78% of their secured loans (Figure 8).

Figure 7: Components of Capital Receipts of Municipal Corporations—Average Share during 2019–20 to 2021–22 (%)



Source: Authors' calculation.

Figure 8: Components of Secured Loans—Average Share during 2019–20 to 2021–22 (%)



Source: Authors' calculation.

In many MCs, the financial statements did not provide a categorisation of secured loans by components. For such MCs, the entire amount of secured loans was reported under the head "other loans." This explains the relatively high share of "other loans" (around 13%–14%) in both categories of MCs.

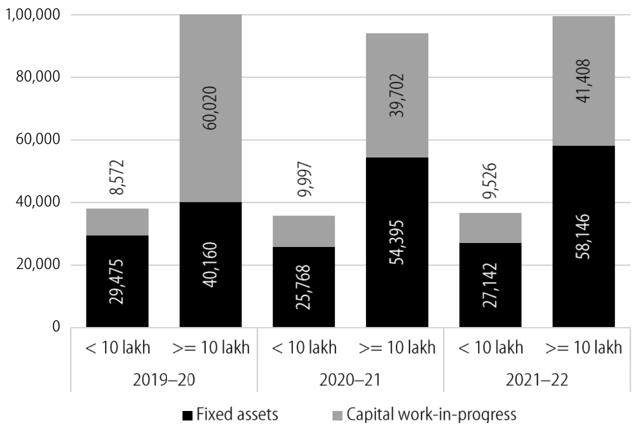
MCs also mobilise resources from capital markets through the issue of bonds and debentures, but the amounts raised are negligible compared to their total secured loans. During 2019–20 and 2021–22, larger MCs issued bonds and debentures worth ₹1,029.8 crore, which accounted for about 6% of their total secured loans in the period, while smaller MCs issued bonds and debentures amounting to ₹138 crore. There remains considerable scope for resource mobilisation through municipal bonds in India. Despite several government initiatives between 2017 and May 2025, only 17 MCs—through 23 issuances—have raised ₹3,358.9 crore. A possible reason for this limited uptake is the generally low credit ratings of MCs.[16]

Capital Expenditure of Municipal Corporations

Capital expenditure of MCs refers to spending on the creation of fixed assets. These include tangible assets such as land, buildings, roads, water supply systems, sewerage systems, vehicles, and equipment that are owned, constructed, or acquired by the ULB. Expenditure on capital projects completed or commissioned during a financial year is classified as fixed assets, while spending on projects that remain incomplete or are under construction at the end is classified as capital work-in-progress, which also forms part of capital expenditure. Expressed as a percentage of GDP, aggregate capital expenditure across 166 MCs accounted for about 0.58%–0.69% (Table 7). In addition to specific purpose transfers and grants from government and borrowed funds, MCs also utilise their own resources (that is, from their municipal or general fund) to finance their capital expenditure. This partly explains why capital expenditure numbers are considerably higher than those for capital receipts. Moreover, most MCs do not report separately the use of own funds for capital expenditure.[17]

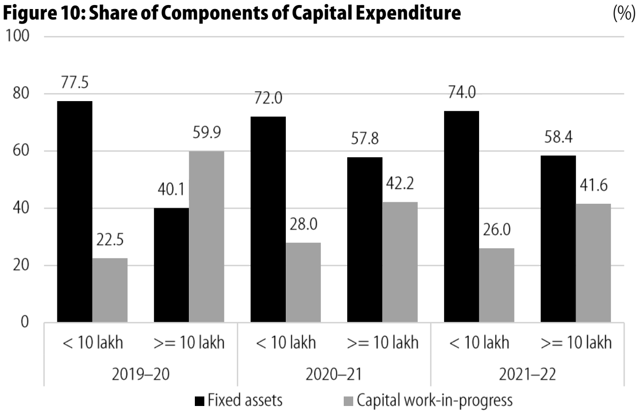
Capital expenditure is considerably higher in larger corporations (Figure 9, p 46), as is the share of capital work-in-progress in total capital expenditure compared to smaller

Figure 9: Composition of Capital Expenditure (₹ crore)



Source: Authors' calculation.

Figure 10: Share of Components of Capital Expenditure (%)



Source: Authors' calculation.

MCs (Figure 10). One possible reason for the higher share of capital work-in progress in larger MCs is that million-plus corporations typically undertake large projects spread over multiple years. In contrast, the projects implemented by smaller MCs are often of a size that allows completion within a single financial year, which may explain their relatively higher share of fixed assets.

Classifying components of fixed assets into broad categories—land (that is, land acquired during the year or improvement such as development and land filling), buildings, roads and bridges, sewerage, drainage, water works (constructed or completed during the year), and a residual category of "other fixed assets"—shows that a large share of capital expenditure on fixed assets by MCs is directed towards roads and bridges, and sewerage, drainage and waterworks. These account for 45%–51% of fixed assets expenditure in smaller MCs and 57%–65%in larger MCs (Table 8).[18]

Table 8: Components of Fixed Assets (%)

Population Category ----->	2019–20		2020–21		2021–22	
	<10 Lakh	>=10 Lakh	<10 Lakh	>=10 Lakh	<10 Lakh	>=10 Lakh
Land	16.6	18.2	19.5	7.2	18.9	6.3
Buildings	14.0	11.5	17.6	12.6	16.3	10.3
Roads and bridges	22.5	39.3	26.7	35.7	27.6	44.1
Sewerage, drainage and waterwork	22.2	20.7	23.0	21.6	23.2	21.2
Other fixed assets	24.6	10.3	13.2	22.9	14.0	18.2

Other fixed assets' include public lighting, plant and machinery, vehicles office and other equipment acquired/installed during the financial year and assets under disposal.
Source: Authors' calculation.

Conclusions

The recommendations of the Fifteenth Finance Commission on publishing both audited and unaudited financial statements of local bodies in the public domain paved the way for their availability. However, considerable differences were observed across ULBs as these statements did not follow a uniform reporting format. Variations in both reporting practices and the quality of financial statements rendered them incomparable across ULBs. To ensure their usability for governments, policymakers, and researchers, it is essential that a standard reporting format be adopted.

To ensure the continued availability of ULB financial statements, the Sixteenth Finance Commission should, as the Fifteenth Finance Commission had done, make their publication in the public domain an entry condition for accessing local body grants. Further, the commission should recommend uniform reporting formats for ULBs and incentivise state governments to ensure compliance. From a policy perspective, it is important to have clarity on the functions performed by ULBs and MCs across states and the expenditure incurred on them. The current chart of accounts followed by ULBs does not allow such analysis, whereas the NMAM provides for function-wise codification. The central government, through its urban sector schemes and the finance commission, should encourage state governments and ULBs to adopt a function-wise financial reporting system. This would facilitate comparative analysis of expenditures on specific services and the revenues from related charges, where applicable.

Our analysis indicates that MCs are not a homogeneous category. While smaller MCs depend more on transfers, larger MCs rely predominantly on their own revenues. Although state municipal acts empower MCs and other ULBs to levy a variety of taxes, very few are actually imposed, with property tax being the most significant. Both own tax revenue and property tax collection are higher for larger MCs. Expressed in per capita terms, own tax and property tax revenues rise with the size of the corporation, that is, per capita revenues are significantly higher in larger MCs than in smaller ones. Strengthening property tax administration—through GIS-based mapping of properties, regular assessment, periodic revision of rates, effective enforcement, and efficient administrative systems—would enable MCs and ULBs to unlock substantial untapped revenue potential.

Another important source of income for MCs is own non-tax revenue from fees, fines, user charges, and rental income. Revenues from these sources are comparable in magnitude to property taxes. By ensuring appropriate pricing of services provided by local bodies and improving collection efficiency, ULBs can augment non-tax revenues. As a starting point, the objective should be to recover at least the cost of service provision through user charges.

Although the shares of different components of revenue expenditure do not vary significantly between larger and smaller MCs, both total and per capita expenditure are considerably higher in larger MCs. Establishment costs, O&M expenditure, and depreciation together account for more than three-fourths of their revenue expenditure.

More than half of the selected MCs reported revenue deficits, with revenue expenditure exceeding revenue receipts. On average, the own revenues of smaller MCs financed only 37%–42% of their revenue expenditure, indicating heavy dependence on transfers. For larger MCs, the corresponding share was higher at 55%–61%. Efforts should, therefore, be made to increase revenues from both own tax and own non-tax sources. Strengthening both tax and non-tax revenue sources is therefore essential, as higher own revenues increase fiscal autonomy, ensure financial stability, and provide greater flexibility in meeting local needs.

As MCs remain dependent on grants from central and state governments and agencies for their capital receipts, reliance on other sources to finance infrastructure needs has been limited. In recent years, however, some larger MCs have issued municipal bonds, encouraged by central government incentives. The size of such issuances has typically been restricted to the maximum incentive-linked threshold of ₹200 crore. Between 2017 and May 2025, 17 MCs, through 23 issuances, raised only ₹3,358.9 crore, with issue sizes ranging from ₹50 crore to ₹244 crore. This accounts for only a small fraction of the resources required to meet current and future infrastructure needs. The credit quality of MCs and ULBs is critical for the development of the municipal bond market: only 21 of the 166 MCs had credit ratings of "A-" or above. The inability or unwillingness to mobilise own revenues and the continued dependence on transfers further constrain the emergence of a vibrant municipal bond market in the country.

With rapid urbanisation and rising demand for improved services, cities and ULBs need to enhance revenues through property tax reforms, rationalisation of user charges, and a more efficient collection mechanism. Expenditure rationalisation—through process improvements, efficient spending, curbing wasteful expenditure, and digitalisation—can further release resources. Standardising financial statements and improving transparency in financial disclosures would also help attract private investment and enable MCs to access funds through instruments such as municipal bonds.

NOTES

1 According to 2011 Census, 31.1% of India's population lives in urban areas.

2 Athar et al (2022) estimate that India will require $840 billion (₹68.9 trillion; $1 = ₹82), or 1.18% of projected GDP, in capital investment for urban infrastructure and municipal services over FY 2022–36—an average of $56 billion (₹4.59 trillion) annually. In contrast, between 2011 and 2018, average annual investment was $10.6 billion (₹0.85 trillion; 0.6% of GDP), indicating the step gap between needs and current spending.

3 One of the specific eligibility conditions for ULB was the submission of audited annual accounts that related to a year not earlier than two years preceding the year in which the performance grant was claimed (Ministry of Finance 2014: 123)

4 In all, 80 corporations were dropped, leaving 166 MCs that form the consistent sample across the three years.

5 These corporations account for about 32% of India's urban population, based on urban population projections of the Ministry of Health and Family Welfare (2019) for the three years. Population of individual MCs were also projected based on this report.

6 Meghalaya and Nagaland do not have any MC. Audited financial statements of MCs in Arunachal Pradesh, Goa, Manipur, and Sikkim were not available for 2019–20, 2020–21 and 2021–22.

7 A part of the specific-purpose grants from central and state governments is treated as revenue grants under revenue receipts, as these are used to meet current and recurrent expenditure. The remaining amount is classified as capital receipts and is deployed towards capital expenditure (that is, revenue expenditure) are shown as revenue grants under the head revenue receipts, while the remaining amount forms part of the capital receipt of MCs and is spent towards capital expenditure.

8 Assigned revenues comprise: (a) taxes levied and collected by the state government but passed on to local bodies after deducting collection charges, and (b) taxes or fees originally levied by local bodies but taken over by local bodies but taken over by the state government for administrative reasons, such as entertainment tax and profession tax. In other words, taxes that belong to the local domain but are collected by the state government—either for reasons of efficiency or due to historical arrangements—are treated as "assigned revenues" with their net proceeds wholly or partly transferred to local bodies. The extent of such assignments varies across states.

9 These include compensation received by local bodies for the loss of income a rising from the abolition or withdrawal of certain local revenue sources, such as octroi compensation, profession tax compensation, etc.

10 In the paper all-MCs refer to the 166 MCs. All-MCs and 166 MCs have been interchangeably used.

11 Revenue receipts of all-MCs grew by 1.7% in 2020–21 and 14.9% in 2021–22. The modest growth in 2020–21 reflects the impact of the COVID-19 pandemic, when national GDP contracted by 1.2%. In 2021–22, GDP registered a sharp increase of 19%.

12 The share of assigned revenues is around 10% for smaller MCs.

13 Professions tax is not levied by ULBs in all states. At present, it is imposed by 21 state governments, while only a few states—such as Kerala, Tamil Nadu, and Gujarat—authorise ULBs to levy and collect it. In some states, the state government shares a portion of profession tax proceeds with ULBs. Consequently, ULBs report it differently across states: as own tax revenue in some, as assigned revenue in others, and in certain states, it does not form part of ULB revenues at all.

14 Expenditure data reported in the income-expenditure statements need to be interpreted with caution due to variations in reporting practices across states and among ULBs within a state. While some ULBs record expenditure out of grants under Schedule 260 (revenue grants, contributions and subsidies), others report it under the specific heads where the funds were utilised, such as establishment expenses, O&M expenditure, etc. Although these disclosures are not incorrect, the absence of standardised reporting formats makes comparative analysis difficult.

15 The category "other O&M expenses" includes expenditure on cleaning, sanitation and conservancy, construction, testing and inspection, and water supply. It also covers any other O&M expenditure that cannot be classified under the specific subheads of O&M.

16 Of the 43 MCs under municipal performance criteria (MPC) and 100 MCs under non-MPC (NMC) that were credit rated, 82 (38 in MPC and 44 in NMC) received investment grade ratings (BBB- and above). Only 21 MCs achieved ratings of A- and above, of which 19 were in MPC and 2 in NMC.

17 Most MCs report capital expenditure from receipts aggregated across different sources. Indore MC is among the few that separately report capital expenditure financed from their own municipal fund.

18 In the absence of detailed data, a similar classification for capital work-in-progress was not possible.

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