N-11012/04/2026-FC/9218403
Government of India
Ministry of Housing and Urban Affairs
(Finance Commission Cell)
*****

Sankalp Bhawan, (GPOA-II)
KG Marg, New Delhi
Dated: 10 August, 2026

To

The Principal Secretary/Secretary
Urban Development Department/Local Self Government
All State Governments.
(As per the list attached)

Subject: Operational Guidelines for implementation of 16th Finance Commission recommendations on ULBs -reg.

Madam/Sir,

16th Finance Commission (16th FC) has given its recommendations for Urban Local Bodies (ULBs) grant for the award period of 2026-27 to 2030-31. A copy of Operational Guidelines for ULBs issued by the Department of Expenditure, Ministry of Finance vide dated 30.07.2026 is enclosed for ready reference and necessary action.

2. Department of Urban Development(DoUD) is the nodal Department under the Ministry of Housing and Urban Affairs (MoHUA) for processing of grant proposal initiated by State Governments as per the Operational Guidelines and for making recommendation to the Department of the Expenditure, Ministry of Finance for release of such grant.

3. In order to obtain the requisite information and necessary documents from States/ULBs to process and recommend the 16 th FC grants, the digital platform i.e City Finance Portal (http://www.cityfinance.in) will continue to be used similar to the one used during 15th FC period. States/ULBs may continue to use their existing User IDs and Passwords as done during the 15th FC period, to log into the portal for the intended purpose in the current 16th FC period. Necessary changes in the portal for incorporating the specific requirements mentioned in the Operational Guidelines will be made live in due course.

Enclosure: As above

Yours faithfully,

10/08/2026
(Sunil Kumar)
Deputy Secretary to the Govt. of India

Copy to:

The Joint Director (FCD),
Department of Expenditure,
Ministry of Finance,
Room No. 10012, Ground Floor,
Kartavya Bhawan – 01,
New Delhi-110001.

F.No. 6(2)/FCD/2026-31
Ministry Of Finance
Department Of Expenditure
Finance Commission Division

Room No. 10012, D-Wing,
Ground Floor, Kartavya Bhawan-I,
New Delhi-110001.
Dated:- 30-07-2026.

To

The Chief Secretary,
(All State Governments)

Subject: **Operational Guidelines for "Urban Local Body Grants" Recommended by the 16th Finance Commission for its Award Period from 2026-27 to 2030-31**

Sir,

The recommendation of the Sixteenth Finance Commission (FC-16) for the award period 2026-27 to 2030-31, inter-alia, include release of grant-in-aid to State Governments for Urban Local Bodies.

2. The Union Government vide 'Explanatory Memorandum as to the Action Taken on the Recommendations made by FC-16 in its Report for the award period 2026-27 to 2030-31 has inter-alia accepted the recommendations contained in Chapter 10 of its report (Volume I and Volume II) titled 'Local Body Grants'.

3. In this regard, the undersigned is directed to forward herewith a copy of the guidelines for release and utilisation of Grants recommended by FC-16 for Urban Local Bodies for information and further necessary action.

Encl.: as above

Yours Faithfully,

30/07/2026

(Mahesh Kumar)
Joint Director to the Government of India

Copy to:-

(i) The Secretary, Ministry of Housing and Urban Affairs, Sankalp Bhawan, Kasturba Gandhi Marg, New Delhi-110001

Operational Guidelines for "Urban Local Body Grants" recommended by the 16th Finance Commission for its award period from 2026-27 to 2030-31

Introduction

1. 16th Finance Commission (FC-16) underscored that urbanisation is a catalyst for economic development. In its Final Report, FC-16 has inter alia recommended a total amount of Rs. 3,56,257 crore for Urban Local Body (ULB) Grants for the award period 2026-27 to 2030-31, including Rs. 56,100 crore for a Special Infrastructure Component and Rs. 10,000 crore for Urbanisation Premium Component. FC-16 in Volume-II of its Report has also provided year-wise and State-wise allocation under different components of ULB grant.

2. The Union Government vide 'Explanatory Memorandum' as to the Recommendations made by the FC-16 for the award period from 2026-27 to 2030-31 has inter-alia accepted the recommendations contained in Chapter 10 of its report titled 'Local Body Grants'. The details of ULB grants recommended by FC-16 are as follows:

(Rs. in crore)

Year/ Component	2026-27	2027-28	2028-29	2029-30	2030-31	Total (2026-31)
Basic	37,272	41,372	45,923	50,975	59,583	2,32,125
ULB Performance component	0	6,161	6,839	7,591	8,425	29,016
State Performance Component	0	6,161	6,839	7,591	8,425	29,016
Special Infrastructure Component	6,000	12,525	12,525	12,525	12,525	56,100
Urbanisation Premium	2,000	2,000	2,000	2,000	2,000	10,000
Total	**45,272**	**68,219**	**74,126**	**80,682**	**87,958**	**3,56,257**

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3. Grants recommended

3.1 Urban Local Body -Basic and Performance Component

FC-16 has subdivided the ULB grant into Basic and Performance components in 80:20 ratio. Details of State-wise Basic and Performance grants are given in Annexure-I

3.1.1 **Basic Component:** FC-16 has recommended Rs. 2,32,125 crore for Basic ULB grant. Basic grant is further divided into 50 per cent for the tied component and the remaining 50 per cent as the untied component.

(i) **Untied Grant:** In order to address locally identified needs as envisaged in 18 subjects as enumerated in the Twelfth Schedule of the Indian Constitution, FC-16 has recommended a total amount of Rs. 116,062.50 crore (50% of the basic component) as an untied grant, except for salaries or other establishment-related expenditure.

(ii) **Tied Grant:** FC-16 has recommended Rs. 116,062.50 crore (50% of the basic component) towards Sanitation and Solid Waste Management and/or Water Management. Within the tied component, full flexibility is available to ULBs to address their needs in these areas, including O&M expenditure.

3.1.2 **Performance Component:** FC-16 has recommended Rs. 58,032 crore as the total Performance component of the ULB grant which is divided into two equal halves of Rs. 29,016 crore each i.e. i) ULB Performance component; ii) State Performance component. Both the ULB and State performance components will commence from the Second year of the award period i.e. 2027-28. The entire performance component grant will be untied in nature.

3.2 **Urbanization Premium Component**: FC-16 has recommended a one-time grant as an incentive for the merger of peri-urban villages into an adjoining larger ULB with an existing population of not less than one lakh. Total quantum of Rs.10,000 crore has been recommended as urbanisation premium component for the complete award period.

3.3 **Special Infrastructure Component:** A special Infrastructure Component has been recommended for the ULBs in the selected cities with an outlay of Rs. 56,100 crore to facilitate decisive intervention in comprehensive wastewater management in urban growth centres.

4. Distribution of ULB Grants.

4.1 State-wise Inter-se allocation of ULB grants

For allocation of the Basic plus Performance grant components among the States, FC-16 has assigned a weight of 90 per cent to the 2026 urban population and a 10 per cent weight to an index based on Own Source Revenue (OSR). Details of State-wise Inter-se share are given in Annexure II.

4.2 Allocation of ULB grant within the State

FC-16 has recommended that, within each State, the distribution of grants to duly constituted ULBs may be undertaken as per the latest accepted recommendations of the respective State Finance Commission (SFC). In the absence of SFC recommendations, 90 per cent of the State Grant should be allocated according to the ULB's share in the sum of population of all ULBs and 10 per cent according to the OSR-based criteria as mentioned in Para 4.1.

5. Treatment of Exempted Areas

To address the needs equitably, FC-16 has treated the areas outside the purview of Part IX-A of the Constitution at par with local bodies in other areas. The concerned State Government will make allocations for these areas at par with the FC-16 recommendations with respect to the local bodies. The State Government shall allot the year-wise grants to these areas out of the total ULB grants due to a State in a year/award period of five years at the beginning of the award period i.e. in 2026-27 itself, and intimate the same to the Department of Expenditure, Ministry of Finance and Ministry of Housing and Urban Affairs (M/o H&UA). Accordingly, all the conditions stipulated, whichever is/are applicable, for the release of grants under these guidelines shall be applied to areas outside the purview of Part IX-A of the Constitution.

6. Conditions for release of ULB grant

6.1 Entry Level Conditions for the release of ULB Grants

In order to be eligible for receiving ULB grants recommended by the FC-16, States/ULBs have to meet the following entry-level conditions:

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6.1.1 Duly constituted ULB in place as required in Part IX-A of the Constitution i.e. where elections have been held and an elected body is in place.

6.1.2 In the fiscal year T (year for which the grant is recommended), there must be publicly available online provisional accounts of all ULBs of the State for the fiscal year T-1 and audited accounts for the fiscal year T-2. In cases where only a proportion of ULBs meet this condition, the grants will be released to the State in proportion to the ULBs that fulfill this condition. The audited accounts of ULBs should at least include the Balance Sheet, Income and Expenditure Statement, and Cash Flow Statement, with the necessary schedules.

6.1.3 All States shall comply with the Constitutional provision of forming the SFC on the expiry of five years from the formation of the previous SFC. The Action Taken Report (ATR) must be tabled in the State Legislature within 6 months of submission of the SFC report.

6.2 **ULB Performance Component:** To become eligible for a performance Component, for year T, ULB will raise in year T-1, a minimum 1.05 times of its Own Source Revenue (OSR) in year T-2 or 5 per cent per annum compounded growth applied over OSR of 2025-26, whichever is lower. For calculating OSR under the qualifying criteria for the release of ULB performance component, it is provided that Interest receipts, assigned revenues, borrowings/loans, or any other transfers from State or Union Governments will not form part of OSR.

6.3 **State Performance Component:** For the year T, the State will transfer from its own resources in year T-1, grants to ULBs amounting to at least 20 per cent or more of the basic grant recommended by FC-16 for the year T-1. Revenues assigned and shared statutorily with the ULBs by the state will be included in these transfers for ascertaining the quantum of the transfers for the purposes of this condition. However, Finance Commission Grants, Centrally Sponsored Scheme Transfers, externally aided funds, or pass-through transfers from Union Government shall be excluded.

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7 **Treatment of Undisbursed Performance Grant:** If any of the conditions for eligibility of the performance grant have not been fulfilled by State/ULB, the undisbursed portion of the Performance Grants will be disbursed according to the following methodology:

(i) The undisbursed portion of the ULB performance component, due to non-fulfilment of conditionalities by ULBs, will be distributed to the performing ULBs of the same State.

(ii) Undisbursed portion of the State performance component due to the failure of a State to fulfill the conditionality will be distributed among the performing States according to State-level inter se criteria prescribed by FC-16.

(iii) The distribution of the undisbursed performance component of the grants, among the States and among the ULBs within a State, as the case may be, would follow the formulas as recommended by FC-16 for the distribution of ULB grants.

It is provided that in the case of the undisbursed portion of ULB/ State performance grants, the maximum amount per ULB/ State will not exceed the annual allocation of the respective year of the basic grant recommended by FC-16 to that ULB/State.

A summary of eligibility conditions and timelines for release of the grant is provided in Annexure-III.

8 Release of ULB Grant:

8.1 Basic Grants will be released by the Department of Expenditure, Ministry of Finance, in two equal instalments each year. On recommendation of M/o H&UA, the first installment will be released in June and the second in October, upon receipt of the Grant Transfer Certificate of the previous installment and fulfillment of the stipulated conditions.

8.2 The performance grant will be released in single installments i.e (i) the State Performance Grant in the month of June and its undisbursed portion in the month of October, (ii) ULB Performance Grant in the month of October and its undisbursed portion in the month of December.

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9 Limitations on the utilisation of ULB grants

9.1 ULB should not spend more than 20 per cent of the untied allocation on the construction and maintenance of roads (including but not limited to all types of paved surfaces such as bituminous/black-topped/asphalt, cement concrete/concrete, interlocking concrete block pavements, gravel, mud and so on).

9.2 Untied grants should not be used for the payment of salaries or other establishment-related expenditure. However, the expenditure on engagement of professional services, as empanelled by the CAG of India, for auditing and accounting functions in respect of ULBs may be borne from the Untied component of the FC-16 grants.

10 Resolution for specific activities

10.1 FC-16 has recommended that the ULBs pass resolutions for specific activities to be undertaken under both tied and untied grants. ULBs may prepare City Action Plans (CAPs), which include identifying sector-wise priorities based on service level gaps and local needs, and translate these into outcome-based deliverables.

10.2 ULB will be deemed to be eligible if it complies with the condition of publishing 28 Service Level Benchmarks (SLBs), as prescribed by the Ministry of Housing and Urban Affairs (M/o H&UA) in the public domain. M/o H&UA will assess these SLBs/performance indicators before making recommendations for the release of grants. However, in the case of a newly formed ULB, the condition of publication of SLBs will be applicable from the next Financial Year.

10.3 FC-16 has recommended that to enhance the credibility of the self-reported figures for SLBs by ULBs/cities, M/o H&UA may, in collaboration with State Governments, ULBs and CAG, introduce a certain degree of authentication/verification mechanism to verify these self-reported figures.

10.4 FC-16 has recommended that the States should develop a citizen friendly GIS based property tax IT system for efficient enumeration, assessment and collection of property tax.

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11 Urbanisation Premium Component

11.1 Introduction

11.1.1 The Urbanisation Premium Component is intended to incentivise the merger of peri-urban villages into adjoining ULBs by supporting the additional expenditure required for the provision of urban infrastructure and services in the merged areas.

11.1.2 For this purpose, FC-16 has recommended a total allocation of Rs. 10,000 crore under the "Urbanisation Premium" component for the award period 2026–27 to 2030–31. It is to be disbursed as a one-time eligibility amount of Rs 2,000 per person, which shall be calculated over the population (based on Census 2011 population) of the new area being incorporated in the ULB.

11.1.3 FC-16 has recommended that the total amount of Rs. 10,000 crore be divided over the period of five years as under:

(Rs. in crore)

Grant component	2026–27	2027–28	2028–29	2029–30	2030–31	Total (2026-31)
Urbanisation Premium	2,000	2,000	2,000	2,000	2,000	**10,000**

11.2 Process for claiming Urbanisation Premium Grant

11.2.1 Transition Policy and Identification of Eligible Areas

The State Government, in consultation with the State Nodal Departments, will identify the peri-urban villages adjoining larger ULBs with an existing population of not less than one lakh and shall establish a clear transition policy to ensure the timely and rule-based identification of areas attaining urban characteristics. This policy should include a well-defined and time-bound mechanism and a phased approach for their transition to urban administrative units. The State may utilise the transition period for the establishment of appropriate urban administrative capacities and mechanisms for urban planning, provision of urban services and infrastructure to citizens,

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and seamless transfer of records and information to the new administration. The components of the Transition Policy could be:

i) Detailed procedure for identification, assessment and notification of transitional areas.

ii) Identification of transitional settlements among qualifying settlements after every Census and at a regular interval not exceeding 3 years, with the stipulation of covering at least one-third of qualifying settlements for transition.

iii) Detailed Transition Plan (with approximately 3-year horizon) for:

(a) Impact assessment on finances, manpower, service delivery and infrastructure.

(b) Financial and institutional support to raise citizen service delivery and infrastructure standards up to certain minimum pre-defined levels.

(c) Phased levy of taxes such as property tax and user charges.

(d) Implications on master plan and land use conversion regulations.

(e) Institutional continuity with respect to office, assets, records and staff.

(f) Public consultations and citizen communication.

iv) Roles and responsibilities among State Government departments/agencies, district administration, erstwhile RLB and the newly created ULB, along with an appropriate grievance redressal mechanism.

11.2.2 Based on the Transition policy, the State Government will issue a notification for the merger of peri-urban areas into ULB.

11.2.3 Consequent to the notification of the merger, the State government will forward a proposal to the M/o H&UA seeking the Urbanisation Premium grant. The proposal for Urbanization Premium Component should include Notification of the Rural to Urban Transition Policy (including the Transition Plan), merger notification specifying the peri-urban area being incorporated into the ULB with a brief justification confirming that the merger is in accordance with the State's Transition Policy.

11.2.4 M/oH&UA will determine the eligibility and quantum of grant to be provided to the State. Further, based on the fulfilment of criteria as laid down by FC-16 and stipulated conditions, M/o H&UA will recommend the release of the Urbanisation Premium grant to the Department of Expenditure, Ministry of Finance.

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11.3 Conditions for release of the Urbanisation Premium Grant

In addition to the entry-level conditions, viz., duly elected local bodies, availability of accounts, and constitution of the State Finance Commission (as mentioned in para-6.1), the formulation of a Rural-to-Urban Transition Policy will be a precondition for claiming an Urbanisation Premium grant. Upon receipt of recommendation from the M/o H&UA and fulfilment of the stipulated conditions, the Department of Expenditure, Ministry of Finance, will release the Urbanisation Premium grant to the eligible States, which should further be transferred to the concerned ULB

11.4 Utilisation of the Urbanisation Premium Grant

The Urbanisation Premium grant shall be utilised by the ULB for upgradation of basic infrastructure in the newly included areas or the upgradation of capacity for the provision of civic services. The utilisation of the grant shall be in accordance with the approved Transition Plan. The State Government is required to submit a Grant Transfer Certificate (GTC) as per Annexure-V. The grants should not be used for the payment of salaries or other establishment-related expenditure.

12 Special Infrastructure Component:

FC-16 has recommended a Special Infrastructure Component **(SIC)** for the ULBs in the selected Cities with a total outlay of Rs 56,100 crore to facilitate decisive intervention in comprehensive wastewater management.

12.1 Modalities of Special Infrastructure Component:

12.1.1 SIC is intended to support the development of an integrated wastewater management system for the ULBs in the selected cities with population of less than 40 lakh but more than 10 lakh, as per the 2011 Census, limited to two per State. List of cities selected for the SIC grant is given in Annexure-IV.

12.1.2 Amount recommended for SIC will be used to finance projects up to Rs. 5,000 crore in cities with a population of 15 lakh or more and up to Rs. 3500 crore in cities with a population less than 15 lakh.

12.1.3 The Union Government will contribute 60 per cent of the total project cost, and the remaining 40% cost will be contributed by the State Government and the concerned ULB from its own resources. State and ULB will mutually decide the sharing of funds in the remaining 40% of the project cost. Finance Commission recommended ULB grants shall not be used as State/ULB contribution towards the aforesaid 40% share.

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12.2 **Processing and Appraisal of the SIC Proposals:**

12.2.1 In the first year of the award period, the ULB (which intends to seek a grant) is required to conduct a detailed study on the kind of interventions required for comprehensive wastewater management within the allocated amount. ULBs are also required to prepare a Detailed Project Report (DPR) with year-wise milestones and financial outlay.

12.2.2 The comprehensive wastewater management system projects may include the following indicative areas:

a. Upgradation of the existing drainage network, including the separation of stormwater and underground drainage systems.
b. Extension of the wastewater network to the uncovered areas.
c. Identification of problem areas related to wastewater and taking up area-specific works.
d. Restoration of natural drainage pathways and development of green infrastructure essential for wastewater management.
e. Reduction of non-revenue water.
f. Development of monitoring systems and systems to ensure the free flow of wastewater.

12.2.3 The concernd ULB will submit its proposal to the State Government, which includes the requisite interventions as envisaged in Para 12.2.2. The State Government shall constitute a State Level Technical Committee (SLTC) under the Chairmanship of the Secretary, Urban Development, which may include members from the State nodal department and technical experts. SLTC will assess the feasibility of the project and will be primarily responsible for:

a) Technical feasibility, including validation of engineering designs, modelling, and scientific methodology;
b) reasonableness of cost estimates as per the extant principles and rules;
c) Avoidance of duplication with ongoing Central/State schemes/ Projects;
d) Implementation timelines and phasing;
e) Convergence with relevant programmes;
f) Ensuring that there will be no parking of funds;
g) Ensuring that routine establishment expenditures, such as salaries and office expenditure, are not included in the proposal.

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12.2.4 The consolidated project/DPR, as appraised by the SLTC, will be placed before the State High Powered Steering Committee (SHPSC) chaired by the Chief Secretary of the State. The SHPSC shall appraise and approve the SIC project(s) taking into account financial viability, technical feasibility, implementation timelines, convergence and avoidance of duplication etc.

12.2.5 After approval of the DPR by the SHPSC, the proposal will be submitted to the Apex/ Appraisal Committee (herein after referred as Committee) of the Central Government for seeking funding under the SIC grant. State Government shall ensure that the proposal is complete in all respects and is in accordance with the prescribed norms under these Guidelines.

12.2.6 The Committee will be constituted by M/o H&UA under the chairmanship of the Secretary, M/o H&UA. The Committee may include officers from administrative Ministries/Departments of the Central Government, and domain experts, etc.

12.2.7 The Committee, based on the financial and technical appraisal submitted by the State Government, if found fit, approve or reject the project of the State Government for funding from the SIC. While considering approval of the project, the committee will also take into account the capacity of the ULB concerned to conceive the large projects and overlapping of project with ongoing schemes.

12.2.8 After the approval of the Committee, a tripartite Memorandum of Understanding (MoU) will be signed between the M/o H&UA, the State Government and the ULB concerned. The MoU should have the project details such as technical requirements for comprehensive wastewater management, financial outlays, Union–State–ULB fund-sharing pattern, phasing of expenditure, institutional responsibilities, and the milestone-based fund release framework, etc.

12.2.9 Projects taken up from the SIC must have verifiable and measurable outcomes. M/o H&UA, in consultation with the State Government, shall develop an outcome framework to ensure greater accountability for the allocation and utilisation of resources. M/o H&UA, States and ULBs shall align themselves to the roles and responsibilities as per the MoU.

12.2.10 Union share under the SIC will be released after the signing of the MoU for the first milestone. Upon achievement of the milestones in the project, the next instalment(s) will be released to the State Government. State Government shall transfer its share, along with the Union share, within 10 days of receipt of the Union share in the SIC project, as per established procedure.

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12.2.11 Upon receipt of the Union and State share in the ULB, the State Government shall ensure that the ULB contributes its share in the project.

12.2.12 The physical and financial milestones to be achieved to become eligible for the release of the grant are as follows:

Milestone/ Instalments	**Percentage of Union Grant to be released**	**Financial progress**	**Physical progress**
First	20% of the Union Share	Signing of the tripartite MoU	-
Second	40% of the Union Share	Subject to Utilisation of 75% of the total amount released (State + Centre +ULB Share)	10% Work completion
Third	20% of the Union Share		50% Work completion
Fourth/Last	20% of the Union Share		100% Work Completion

12.2.13 Projects to be undertaken from the SIC grant during the award period of the FC-16 i.e. from 2026-27 to 2030-31 shall be sanctioned in such a manner that these can be completed within the award period of the Commission. No spill-over of the funds approved will be allowed under the component. Spill-over, if any, beyond the FC-16 period will be funded by the State Government from its own resources.

12.2.14 The Cities/ ULBs should enhance their capabilities for future operations and maintenance expenditure of the assets created under the scheme from their own sources of revenue.

12.3 Conditions for release of the SIC grant

ULB shall fullfill all the entry-level conditions, viz., duly elected local bodies, availability of accounts, and constitution of the State Finance Commission (as mentioned in para-6.1), along with the signing of MoU before applying for grant from the Central Government.

13 Unspent balance of previous Finance Commissions

13.1 To avoid parking of funds, while forwarding the request for release of the 1st installment of ULB grants 2026-27, the State Government(s) shall ensure that there is no unspent balance available of the 14th Finance Commission or previous successive Commissions pending with the ULBs.

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13.2 With regard to the unspent funds of the 15th Finance Commission (FC-15) available with ULBs, from the financial year 2028-29 onwards (i.e. 3rd year of the award period), the M/o H&UA is advised not to recommend the release of grants to those local bodies who have unspent balance of the FC-15 exceeding 10% of the installment under consideration for release. Further, from the 4th year of the award period of FC-16, grants should be recommended to only those local bodies having no unspent balance of the 15th Finance Commission.

13.3 ULBs may utilise the unspent balance as per the extant guidelines of the respective Finance Commission(s).

14 Accounting and Audit

14.1 All ULBs will follow the National Municipal Accounts Manual (NMAM) and maintain accounts as per extant procedure. M/o H&UA shall ensure that all the financial transactions (both receipts and expenditures) are properly captured through an IT platform. The existing arrangements for Technical guidance and Supervision by the CAG should be continued.

14.2 In the spirit of the recommendations of the FC-16, the accounts of ULBs should reflect Receipts and Expenditures from all streams, including Finance Commission grants, Central Sector Schemes, Centrally sponsored Schemes and OSR of the concerned ULBs for meeting the conditionality of "availability of Accounts". In order to ensure the timely preparation of financial accounts and to enable end-to-end accounting of transactions, the M/o H&UA will take all necessary actions, including the development of a dedicated IT platform or the upgradation of the existing system.

14.3 Before recommending the release of grants to the Department of Expenditure, MoH&UA shall closely monitor the quality of audit certification. Accordingly, special attention will be accorded to modified audit opinions (adverse or disclaimer opinions) reported in the Audit reports of the ULBs.

14.4 For the sake of compatibility and operational convenience, the State Government/Urban Local Bodies shall have to ensure that all ULBs will maintain an interest-bearing bank account in any Scheduled Commercial Bank for FC-16 grant, linked with PFMS and maintain records for every transaction for the full award period.

15 **Transfer of grant to Urban Local Bodies:** State Government (State Finance Department), on receipt of grant from the Department of Expenditure, Ministry of Finance, Government of India, shall transfer the same to the Urban Local Bodies concerned within ten working days. Any delay beyond 10 working days will require the State Governments to release the grant with interest for the period of delay as per the average effective rate of interest on market borrowings/State Development Loans (SDLs) for the previous year.

16 **Grant Transfer Certificate:-** In order to maintain fiscal discipline in the transfer of funds to the ULBs/State, grant transfer certificate is a pre-requisite to release grants to the Urban Local Bodies. States need to furnish a Grant Transfer Certificate for the last installment received from the Union government in the format as prescribed at Annexure-V along with the claim of the subsequent installment to the M/o H&UA and the Department or Expenditure, Ministry of Finance.

17 **Utilization Report:-**

17.1 States will certify in the Grant Transfer Certificate, along with the claim for the 2nd instalment of a year, that ULBs have utilised at least 50% of the grants released during the previous year for both tied and untied grants respectively. ULBs will furnish annually a utilization report along with the claim for the 1st installment/installment of the next year. The States will submit utilization Reports to the nodal ministry (M/oH&UA) clearly indicating the items on which expenditure has been incurred in consonance with the stipulated targets and achievements, as per Annexure-VI.

17.2 To ensure proper utilization and effective monitoring of FC-16 grants, all assets/structures created from the FC-16 grant should be geo-tagged / geo-fenced. This would enable location-based identification, real-time monitoring and improved transparency.

17.3 A digital verification protocol may be developed and prescribed by M/o H&UA for determining compliance with the conditions of FC-16 in respect of own source revenue or expenditure from tied and untied grants.

17.4 Information as reported by State Government for the purpose of assessing compliance with the prescribed conditions under these Guidelines, shall be subject to truing-up based on the actual/final figures, as reflected in the audited annual accounts of the Urban Local Body or verified through such records and sources as may be prescribed by the Central Government or the State Government.



18 Integration of FC-16 recommended Local bodies grants with PFMS

PFMS is interfaced with the treasury system of all States. States share the details of expenditure incurred against Government of India releases for various schemes and grants by mapping their receipt and expenditure heads with GoI schemes. In consonance with these guidelines, State Governments shall integrate their systems with PFMS, which will enable the data exchange of expenditures and receipts of the ULB grants recommended by FC-16. The information submitted by the state regarding grant transfers will be validated by M/o H&UA from PFMS before sending recommendation to DoE for the release of funds.

19 State-wise Allocation of ULBs Grant for the award period:- State-wise and year-wise allocation of ULB grants, including for SIC, is provided in Annexure 10.7 to 10.11 (Vol.-II) of the FC-16 Final Report, which is reproduced at Annexure-I, II and IV.

20 Convergence: The FC-16 in Chapter 10 of its Report for the period 2026-27 to 2030-31 has inter-alia recommended grants for supporting and strengthening the delivery of basic services, which are national priorities like Sanitation and Solid Waste Management and Water Management, etc. The Government of India has also launched some schemes aimed at similar outcomes like Atal Mission for Rejuvenation & Urban Transformation (AMRUT), Swachh Bharat Mission (SBM), and National Urban Livelihood Mission (NULM) etc. In order to sustain the achievements made in these schemes, all three levels of Government need to join hands in the spirit of Cooperative Federalism. Therefore, urban local bodies may utilise grant components in convergence with any other scheme aided by the Union Government with similar outcomes and jurisdiction with the ultimate aim to cover the maximum population.

However, 16th Finance Commission grants should not be used as a State/ULB share towards any particular scheme, including SIC.

21 Role of the Ministry of Housing and Urban Affairs

(i) FC-16, in its recommendations relating to ULBs under Chapter 10, has envisaged an enhanced role for the M/o H&UA in strengthening fiscal sustainability, transparency and service delivery standards of ULBs.

(ii) Accordingly, M/o H&UA shall operationalise & maintain a robust and standardised framework for collection, validation and dissemination of

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financial and performance data of ULBs through designated digital platforms. The Ministry shall ensure uniformity in municipal accounting practices, timely reporting of Own Source Revenues, property tax collections, user charges, grants received, and audited financial statements.

(iii) M/o H&UA may extend the Urban Data platform's capabilities to support ULBs in preparing accounts and financial reports.

(iv) The Ministry shall evaluate performance against prescribed Service Level Benchmarks in respect of core urban services, including water supply, sanitation, sewerage and solid waste management. It shall facilitate institutional strengthening and capacity building of ULBs to achieve measurable improvements in service delivery outcomes.

(v) M/o H&UA may work towards conceptualising and rolling out a Learning Management System for the functionaries and staff of ULBs. Further, M/o H&UA shall act in coordination with State Governments to ensure timely release, proper utilisation and reporting of grants devolved to ULBs. It shall monitor utilisation of grants, compliance with statutory requirements, including the constitution and functioning of State Finance Commissions and submission of audited accounts.

22 Role of the Department of Expenditure, Ministry of Finance

Upon receipt of recommendations from the Nodal Ministry i.e. M/oH&UA, the Department of Expenditure (FCD), Ministry of Finance shall release the due installment of grants to the States concerned, subject to fulfillment of all the conditions as stipulated in the guidelines above.

23 Procurement of Goods and Services

All procurements required for implementing the approved projects shall be made by the State Government/local bodies in accordance with the latest General Financial Rules (GFR) to achieve greater accountability and transparency. All procurement of goods and/or services must be made based on competitive bidding.

24 Power to Relax :- Notwithstanding whatsoever has been mentioned above, the Department of Expenditure reserves the right to amend/relax any of the conditions/pre-conditions as may be deemed fit to cover any unforeseen event or in case of any exigencies or for any other reason.

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30/7/2026

Annexure-I

ULB Basic and Performance Components

Rs. in Crore

State	2026-27		2027-28		2028-29		2029-30		2030-31		Total 2026-31		Grand Total (Basic + Perf) [2026-31]
	Basic	Perf.	Basic	Perf.	Basic	Perf.	Basic	Perf.	Basic	Perf.	Basic	Perf.	
Andhra Pradesh	1,562	0	1,734	516	1,924	573	2,136	636	2,371	706	9,727	2,431	**12,158**
Arunachal Pradesh	30	0	33	10	37	11	41	12	45	14	186	47	**233**
Assam	417	0	463	138	514	154	571	170	633	189	2,598	651	**3,249**
Bihar	1,178	0	1,307	390	1,451	432	1,611	480	1,788	532	7,335	1,834	**9,169**
Chhattisgarh	641	0	711	212	790	235	877	261	973	290	3,992	998	**4,990**
Goa	93	0	103	31	115	34	128	38	142	42	581	145	**726**
Gujarat	3,053	0	3,388	1,010	3,761	1,120	4,175	1,243	4,634	1,380	19,011	4,753	**23,764**
Haryana	1,006	0	1,117	333	1,240	369	1,376	410	1,528	455	6,267	1,567	**7,834**
Himachal Pradesh	56	0	63	18	68	21	76	23	85	25	348	87	**435**
Jharkhand	783	0	869	258	964	288	1,070	319	1,188	354	4,874	1,219	**6,093**
Karnataka	2,374	0	2,635	785	2,926	871	3,247	967	3,604	1,074	14,786	3,697	**18,483**
Kerala	2,143	0	2,379	708	2,641	786	2,931	873	3,253	969	13,347	3,336	**16,683**
Madhya Pradesh	2,057	0	2,284	680	2,535	755	2,814	838	3,123	930	12,813	3,203	**16,016**
Maharashtra	6,012	0	6,673	1,988	7,408	2,206	8,222	2,449	9,127	2,718	37,442	9,361	**46,803**
Manipur	78	0	87	26	96	29	107	32	119	35	487	122	**609**
Meghalaya	49	0	54	16	59	18	66	20	74	21	302	75	**377**
Mizoram	49	0	54	16	59	18	66	20	74	21	302	75	**377**
Nagaland	86	0	95	28	106	31	117	35	130	39	534	133	**667**
Odisha	652	0	724	216	804	239	892	266	990	295	4,062	1,016	**5,078**
Punjab	1,006	0	1,117	333	1,240	369	1,376	410	1,528	455	6,267	1,567	**7,834**
Rajasthan	1,629	0	1,808	538	2,007	598	2,228	663	2,473	736	10,145	2,535	**12,680**
Sikkim	26	0	29	9	32	10	36	10	39	12	162	41	**203**
Tamil Nadu	3,220	0	3,574	1,065	3,967	1,182	4,404	1,312	4,889	1,456	20,054	5,015	**25,069**
Telangana	1,483	0	1,647	490	1,828	544	2,029	604	2,252	671	9,239	2,309	**11,548**
Tripura	130	0	145	43	161	48	179	53	198	59	813	203	**1,016**
Uttar Pradesh	4,309	0	4,783	1,424	5,309	1,581	5,893	1,755	6,541	1,948	26,835	6,708	**33,543**
Uttarakhand	321	0	356	106	395	118	438	131	487	145	1,997	500	**2,497**
West Bengal	2,829	0	3,140	935	3,486	1,038	3,869	1,152	4,295	1,279	17,619	4,404	**22,023**
Total	**37,272**	**0**	**41,372**	**12,322**	**45,923**	**13,678**	**50,975**	**15,182**	**56,583**	**16,850**	**2,32,125**	**58,032**	**2,90,157**

Source: Volume-II of FC-16 Report.

Inter se Share of States in ULB Grants

State	Urban Population ('000)	Sum of Total Own Revenue of ULBs (crore)	Secondary + Tertiary GSVA (crore)	Sum of OSR/ Sum of GSVA	Product of OSR Ratio and Urban Population ('000)	Urban Population Share (90%)	Product OSR Ratio Share (10%)	Urban Inter se (%)
1	2	3	4	5=3/4	6=5*2	7	8	9=7+8
Andhra Pradesh	20,789	9,112	22,41,646	0.00406	84.40	3.84	0.3519	4.19
Arunachal Pradesh	426	22	69,227	0.00031	0.13	0.08	0.0005	0.08
Assam	5,902	973	8,10,839	0.00120	7.08	1.09	0.0295	1.12
Bihar	16,743	1,451	16,92,268	0.00086	14.40	3.10	0.0601	3.16
Chhattisgarh	8,871	1,950	9,38,597	0.00208	18.45	1.64	0.0769	1.72
Goa	1,274	420	2,12,398	0.00198	2.52	0.24	0.0105	0.25
Gujarat	37,629	28,895	36,74,151	0.00786	295.76	6.96	1.2333	8.19
Haryana	13,914	4,699	21,01,397	0.00224	31.17	2.57	0.1300	2.70
Himachal Pradesh	789	420	4,59,580	0.00091	0.72	0.15	0.0030	0.15
Jharkhand	11,043	1,062	8,88,133	0.00120	13.25	2.04	0.0553	2.10
Karnataka	31,906	19,260	55,04,895	0.00350	111.67	5.90	0.4656	6.37
Kerala	29,912	4,299	24,80,084	0.00173	51.75	5.53	0.2158	5.75
Madhya Pradesh	26,499	10,896	19,44,724	0.00560	148.39	4.90	0.6188	5.52
Maharashtra	64,254	1,32,509	83,49,127	0.01587	1,019.71	11.88	4.2521	16.13
Manipur	1,111	27	86,737	0.00031	0.34	0.21	0.0014	0.21
Meghalaya	720	21	97,432	0.00021	0.15	0.13	0.0006	0.13
Mizoram	714	28	67,478	0.00042	0.30	0.13	0.0013	0.13
Nagaland	1,175	80	76,465	0.00105	1.23	0.22	0.0051	0.23
Odisha	9,213	1,731	13,61,752	0.00127	11.70	1.70	0.0488	1.75
Punjab	13,547	4,771	13,95,528	0.00342	46.33	2.51	0.1932	2.70
Rajasthan	22,796	4,499	26,25,291	0.00171	38.98	4.21	0.1625	4.37
Sikkim	401	50	1,10,076	0.00045	0.18	0.07	0.0008	0.07
Tamil Nadu	42,908	21,407	53,89,198	0.00397	170.34	7.93	0.7103	8.64
Telangana	19,435	14,057	28,91,354	0.00486	94.45	3.59	0.3938	3.98
Tripura	1,850	174	1,05,194	0.00166	3.07	0.34	0.0128	0.35
Uttar Pradesh	59,858	8,917	45,73,548	0.00195	116.72	11.07	0.4867	11.56
Uttarakhand	4,529	739	7,15,777	0.00103	4.66	0.84	0.0194	0.86
West Bengal	38,570	9,389	32,82,245	0.00286	110.31	7.13	0.4600	7.59
Total	**4,86,778**	**2,81,858**	**5,41,45,139**	**0.07457**	**2,398.16**	**90.00**	**10.00**	**100.00**

Source: Volume-II of FC-16 Report.

Annexure-III

Summary of eligibility Criteria and timelines for availing grants

S.No	Grant Condition/timelines	2026-27	2027-28	2028-29	2029-30	2030-31
1	Submission of grant transfer certificate of previous instalment by State Government	✓	✓	✓	✓	✓
2	A duly constituted local body is in place	✓	✓	✓	✓	✓
3	Availability of online provisional accounts of all ULBs of the State for the previous year and audited accounts of the year before the previous year.	✓	✓	✓	✓	✓
4	Formation of the SFC on the expiry of five years from the formation of the previous SFC, and the ATR tabled in the State legislature within 6 months of submission of the SFC report.	✓	✓	✓	✓	✓
5	ULB accounts linked with PFMS for FC-16 grant transactions	✓	✓	✓	✓	✓
6	Detailed Utilization Report and project reporting by ULBs	✓	✓	✓	✓	✓
7	ULB Performance component (refer to Para 6.2 of the guidelines)	N.A	✓	✓	✓	✓
8	State Performance Grant(refer to Para 6.3 of the guidelines)	N.A	✓	✓	✓	✓
9	Publication of 28 Service Level Benchmarks (SLBs) by ULBs for claiming 1st instalment	✓	✓	✓	✓	✓
10	Release of the Untied and Tied grant	Month of June (1st install) and October (2nd install) of each F Y				
11	Release of State Performance Grant	Month of June (single instalment) of each FY (starting from year 2027-28)				
12	Release of the undisbursed State performance grant	Month of October (single instalment) of each FY (starting from year 2027-28)				
13	Release of ULB performance Grant	Month of October (single instalment) of each FY (starting from year 2027-28)				
14	Release of the undisbursed ULB performance grant	Month of December (single instalment) of each FY (starting from year 2027-28)				

[FY- Financial Year, NA- Not Applicable]

Annexure-IV

Special Infrastructure Component: Eligible Cities

Sl. No.	City	State	Population (Census 2011)
1	**Pune**	Maharashtra	31,24,458
2	**Jaipur**	Rajasthan	30,46,163
3	**Lucknow**	Uttar Pradesh	28,17,105
4	**Kanpur**	Uttar Pradesh	27,65,348
5	**Nagpur**	Maharashtra	24,05,665
6	**Indore**	Madhya Pradesh	19,64,086
7	**Bhopal**	Madhya Pradesh	17,98,218
8	**Vishakhapatnam**	Andhra Pradesh	17,28,128
9	**Patna**	Bihar	16,84,222
10	**Vadodara**	Gujarat	16,70,806
11	**Ludhiana**	Punjab	16,18,879
12	**Faridabad**	Haryana	14,14,050
13	**Rajkot**	Gujarat	12,86,678
14	**Dhanbad**	Jharkhand	11,62,472
15	**Amritsar**	Punjab	11,32,383
16	**Howrah**	West Bengal	10,77,075
17	**Ranchi**	Jharkhand	10,73,427
18	**Coimbatore**	Tamil Nadu	10,50,721
19	**Vijayawada**	Andhra Pradesh	10,34,358
20	**Jodhpur**	Rajasthan	10,33,756
21	**Madurai**	Tamil Nadu	10,17,865
22	**Raipur**	Chhattisgarh	10,10,433

Source: Volume-II of FC-16 Report.

GRANT TRANSFER CERTIFICATE FOR THE GRANT RECEIVED FOR URBAN LOCAL BODIES RECOMMENDED BY SIXTEENTH FINANCE COMMISSION DURING ITS AWARD PERIOD 2026-27- TO 2030-2031.

Name of State:-

1.	Total Number of ULBs in the State				Number of Duly elected ULBs in the State#		
2.	Details of Untied Grant/Tied Grant/ Urbanisation Premium grant/SIC grant received by the State:*	Year	Installment		Amount (Rs. In Lakh)	Date of receipt	
3.	Details of Untied Grant/ Tied grant Urbanisation Premium grant/SIC grant transferred by the State:*	Year	Installment	Amount (Rs. In lakh)	Date of Transfer	No. of days of delay	If delayed, amount of interest transferred (with rate of interest)
4.	Whether the State Finance Commission (SFC) Recommendations are available	Yes/ No	Grant Distributed as per SFC recommendation or as recommended by FC-16	Date of Submission of SFC Report	Date on which ATR has been tabled in the State Legislature	Period for which SFC Recommendations are applicable	
5.	Whether ULB accounts for 16th FC Grants linked to PFMS for all transactions					Yes/No	
6.	Unspent balance/funds available, if any, from 14th or previous Finance Commission (Amount in Lakh)##						
7.	Unspent balance/funds available, if any, from 15th Finance Commission (Amount in Lakh)##						
8.	Percentage of the previous year's ULB grant utilised so far			For Untied Grant		For Tied Grant	
9	Percentage of previous year's Tied Grant utilised so far			For Sanitation and Solid Waste Management		For Water Management	
10	Out of total, No. of ULBs that published their Service Level Benchmarks						

*Strike out whichever is not applicable.

#Signed list of ULBs with election status & allocation should be furnished with claim of 1st installment of each FY.

Signed list of ULBs have unspent balance should be furnished.

Certified that the grants have been utilized/ proposed to be utilized for the purpose for which these have been provided and if any deviation is observed, the same will be intimated.

Date:

Signature with seal of
Secretary (Nodal Department)

Countersigned:
Signature with seal of the Finance Secretary

Annexure-VI

Grant/ Detailed Utilisation Report for the Sixteenth Finance Commission Recommended Tied Grant Received During The Award Period 2026-2027 To 2030-2031

Name of State

Name of ULB-

S.No.	Item Description	Amount (Rs. in lakh)	No. of projects undertaken	Total project cost involved (Rs. in lakh)
1.	Unutilised tied grant balance of previous installment/ year		x	x
2.	Tied Grant received during the previous year [1st & 2nd installment taken together]		x	x
3.	Expenditure incurred during the previous year		x	x
4.	Closing Balance at the end of the year		x	x
5.	Component-wise utilisation of grant	x	x	x
	A. Water management (WM) such as	Total amount & % of tied grant utilised on WM [ ]		x
	i. Supply of drinking Water			
	ii. Rain water Harvesting			
	iii. Water Recycling			
	iv. Rejuvenation of water bodies			
	v. Other (please specify)			
	B. Solid waste management (SWM) such as	Total amount &% of tied grant utilised on SWM [ ]		x
	i. Sanitation			
	ii. Solid waste management			
	iii. Other (please specify)			

Project Details								
S. No	**Name of Project**	**Sector (Water Management/ Sanitation/SWM)**	**Is DPR prepared?**	**Total Project cost**	**% of FC grants in the total project cost**	**Expenditure incurred out of total FC Grant**	**% of Physical Comple-tion**	**Location [Geo-fencing & Geo-tagging of the project with Pictures]**

Certified that the above information has been extracted from the relevant Records being maintained in the ULB and is true to the best of my knowledge and belief.

Signature with seal of the commissioner or the appropriate Authority in the ULB