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Finances of Urban Local Bodies in India

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Preface

The study “Finances of Urban Local Bodies in India” has been carried out by the National Institute of Public Finance and Policy supported by the Ministry of Housing and Urban Affairs (MoHUA) under the MoHUA – NIPFP research programme.

The study uses the audited financial data of 3184 urban local bodies spread across 24 states in India. It analyses various sources of revenues of these ULBs - both revenue receipts and capital receipts, their ability to raise resources from own sources and dependence on transfers from higher tiers of government. It also examines the expenditures undertaken by them and the extent to which their own revenues are able to finance expenditures. The analysis would help policy-makers to design and formulate policies that are in sync with the broader economic objectives like sustainable economic growth, making cities liveable, etc.

The study team consists of Manish Gupta, Ankit Singh, and Divya Rudhra. The opinions and analyses here are those of the authors only. The members of the Governing Body of the National Institute of Public Finance and Policy are in no way responsible for these.

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Finances of Urban Local Bodies in India

1. Introduction

India is urbanizing at a rapid pace. It is projected that by 2035, 43.2 percent of the country's population would live in urban areas (Un-Habitat 2022).[1] This is likely to put additional pressure on the already stretched urban infrastructure. To meet the needs of the fast-growing urban population for affordable housing, integrated transport systems, basic infrastructure like water, electricity supply, schools and hospitals etc. and to address the gaps in service delivery, cities in India would have to substantially increase their spending.[2] The Covid-19 pandemic underscored the need for upgrading urban health infrastructure to improve our cities' resilience to such shocks. Cities/urban local bodies (ULBs) also need to be made resilient to climate change induced risks such as flooding, heat-waves, cyclones, rise in sea level etc. The financial health of ULBs, which are responsible for the provision of public services like water supply, sanitation, roads, local transportation, health, education, street lighting, public parks, fire services, etc. has a vital role to play in addressing these challenges.

It is in this context that the paper focusses on the finances of ULBs in India with the objective of understanding the various sources of revenues - both revenue receipts and capital receipts, their ability to raise resources from own sources and dependence on transfers from higher tiers of government. It also examines the expenditures undertaken by them and the extent to which their own revenues are able to finance expenditures. Such an analysis would help the policy-makers to design and formulate policies that are in sync with the broader economic objectives like sustainable economic growth, making cities liveable, etc.

Rest of the paper is organised follows: Section 2 presents the data sources, period of coverage of the study and the basis of selection of ULBs. Section 3 highlights the issues and challenges with using the audited financial statements of ULBs and the methodology adopted to put the financial data of ULBs into a comparable format. Section 4 presents a snapshot of key financial indicators of ULBs in India. This includes quantifying the size ULBs in the national GDP. Analysis of revenue receipts of ULBs are presented in Section 5, while section 6 analyses their revenue expenditure. Section 7 highlights the dependence of ULBs on transfers. Section 8 discusses the revenue balance position of the selected ULBs. The capital receipts and capital expenditures of the corporations are analysed in Sections 9 and 10 respectively. Section 11 summarises the findings of the paper.

[1] According to 2011 census, 31.1 percent of India's population live in urban areas.

[2] A recent report (Athar et al, 2023) estimates that India will need a capital investment of US dollar (USD) 840 billion (or Rs. 68.9 trillion; conversion rate 1USD = Rs.82; equivalent to 1.18 percent of the estimated GDP) in urban infrastructure and municipal services over the next 15 years till FY-2036. This translates to an average annual requirement of USD 56 billion (or Rs.4.59 trillion). In comparison, the average annual capital investment in Indian cities between 2011 and 2018 was around USD 10.6 billion (0.6 percent of GDP; or Rs.0.85 trillion). Thus, investment requirements are considerably higher than the current levels of capital expenditure.

2. Data sources, selection of ULBs and period of coverage

The study uses audited financial statements of individual urban local bodies (ULBs) consisting of income and expenditure statements, balance-sheet and their schedules. The data was made available by Ministry of Housing and Urban Affairs from the Cityfinance portal. For some of the MCs whose data was not available/partially available from the Ministry it was collected from individual MCs' websites. The analysis covers 3184 ULBs comprising 1593 Town Panchayats (TPs), 1385 Municipalities and 206 Municipal Corporations (MCs) spread across 24 states[3] (Table 1).

Table 1: Distribution of Selected ULBs across states – 2021-22

	State	Municipal Corporation	Municipality	Town Panchayat	Selected ULBs
1	Andhra Pradesh	17	75	26	118
2	Assam	3	18	10	31
3	Bihar	15	51	83	149
4	Chhattisgarh	13	29	83	125
5	Goa	-	7	-	7
6	Gujarat	6	95	-	101
7	Haryana	6	37	-	43
8	Himachal Pradesh	5	17	6	28
9	Jharkhand	9	18	13	40
10	Karnataka	10	52	189	251
11	Kerala	6	60	-	66
12	Madhya Pradesh	15	47	50	112
13	Maharashtra	24	229	135	388
14	Mizoram	1	0	0	1
15	Odisha	5	38	46	89
16	Punjab	11	76	46	133
17	Rajasthan	2	17	66	85
18	Sikkim	1	-	-	1
19	Tamil Nadu	15	111	438	564
20	Telangana	10	106	-	116
21	Tripura	1	4	3	8
22	Uttar Pradesh	16	157	374	547
23	Uttarakhand	8	34	23	65
24	West Bengal	7	107	2	116
	Total	**206**	**1,385**	**1,593**	**3,184**

Note: Does not include ULBs in 4 states - Arunachal Pradesh, Manipur, Meghalaya and Nagaland
Source: Authors' calculation *Cityfinance* data

The selection of ULBs was based on the availability of audited financial data comprising both income-expenditure statement and balance-sheet and their schedules for the year 2021-22.

[3] Audited financial statements of MCs in 4 states - Arunachal Pradesh, Goa, Manipur, and Sikkim were not available for 2021-22.

If for a ULB, either of these statements were not available or were incomplete or only summary statement was available, it was not included in the analysis. These 3184 ULBs together account for about 67 percent of (projected) urban population.

ULBs are not a homogenous group. They are group into three broad categories – Town Panchayats (TPs), Municipalities (Mun) and Municipal Corporations (MCs)[4]. TPs are the smallest category of ULBs. Out of the 1,593 TPs considered in the study, 1,580 had population less than 50,000, the average population being 17,267. Municipalities are bigger than TPs and of the 1,385 municipalities considered, 239 had population above 1 lakh. On average, the population of 1,385 municipalities in 2021-22 was 59,435. Of the 206 MCs considered, 37 were million-plus MCs while the remaining 169 were categorized as non-million plus cities. The average population of 206 MCs was 13,62,682.

To the best of our knowledge, it is the only study of its kind that uses information from the audited finance statements of such a large set of ULBs in India.

3. Issues with financial data of ULBs and methodology of the study

Reliable data on the finances of local bodies were not readily available. Finance Commissions (FCs) starting from the 11th FC have highlighted the lack of reliable financial data on panchayats and ULBs and the difficulty in realistically assessing the requirement of resources for carrying out the core functions. Finance Commissions – Eleventh, Twelfth, Thirteenth, Fourteenth and Fifteenth stressed on the need for proper accounts of local bodies and their audit.

To give a push for maintaining accounts and its audit by local bodies, the 15th FC recommended that for ULBs to be eligible for its local body grants they have to mandatorily prepare and make available online in public domain annual accounts of the previous year and audited accounts of the year before previous. Such audited accounts should include a) balance sheet; b) income and expenditure statement; c) cash flow statement; and d) schedules to balance sheet, income and expenditure statement and cash flow statement. This was one of the two entry conditions recommended by the Commission for availing of its local body grants. Following the recommendations of 15th FC, audited financial statements of most ULBs are now available in public domain.

From the examination of the audited financial statements of the ULBs it is observed that there is considerable variation in the quality of data provided by the ULBs. We find that the financial data maintained by ULBs are not in uniform format. While some states have adopted the National Municipal Accounting Manual (NMAM) and associated chart of accounts, others follow their own state-specific Municipal Accounting Manuals (SMAM) and the ULBs in these

[4] The names of the three categories of ULBs are not uniform across different states. For example, MCs are called Nagar Nigams in some of the states, TPs are also called Nagar Panchayts and so on. For simplicity, in this paper we have classified them into TPs, Mun, and MCs

states are supposed to maintain their accounts as per the chart of accounts prescribed in the state manuals. It was observed that within a state the ULBs maintained data in different formats. In some cases, for a ULB, the formats were not uniform across years and in a few cases, only the trial balance was available. Further, in several ULBs it was observed that the accounting entries did not have any codes.

In order to make the accounts of ULBs comparable, their audited financial statements had to be structured into a standardized and comparable format. This was done based on the chart of accounts in the NMAM. The NMAM provides a standardized codification structure for the accounting entries of incomes and expenditures of ULBs (Ministry of Urban Development, 2004). The accounting code is a numeric seven-digit code which is classified in the following way: First 3 digits represent the 'Major Head code', the next two digits (i.e., 4th and 5th digits) are for the 'Minor Head code', and the final two digits (i.e. 6th and 7th digits) are for the 'Detailed Head code'. The standardization was done up to the minor head level i.e., up to 5 digits level to ensure comparability across ULBs in the country.

During the standardization of accounts of ULBs, we faced several challenges. As mentioned earlier the financial data of ULBs are not maintained in uniform format. For ULBs whose financial statements were not in accordance with the NMAM format, we mapped the available data to the NMAM format and standardised it to the extent possible up to the minor head level (i.e., up to 5 digits level) to ensure comparability across ULBs in the country. Similarly, for those ULBs where only trial balance was available or where the accounting codes were not given, the entries were arranged as per the NMAM format. Further, in several ULBs incorrect classification of entries was observed (i.e., entries that did not conform to the chart of accounts as per NMAM/SMAM) at the minor head level. These entries were reclassified as per NMAM format. Some of the ULBs only provided summary statements of Income-expenditure and balance sheet. Such ULBs were dropped and not considered. While standardisation of financial statements enabled comparison of ULBs across the country, it runs the risk of losing out on state-specific granularities/peculiarities.

4. Snapshot of key financial indicators of ULBs

In 2021-22, the total revenue receipts (TRR) of 3,184 ULBs comprising own tax revenue (OTR), own non-tax revenue (ONTR) and transfers from central and state governments was around Rs. 1,58,133 crores. It accounted for just 0.67 percent of the national GDP (Table 2). Own tax revenue accounted for about 0.15 percent of GDP, own non-tax revenue 0.24 percent and transfers 0.28 percent. The share of property tax which is the most important of all the taxes that are collected by the ULBs was a mere 0.09 percent of GDP. The share of revenue expenditure consisting of all current and recurrent expenditures, aggregated across all ULBs was around 0.66 percent of GDP.

Table 2: Key financial indicators of ULBs in India – 2021-22

		Town Panchayat	Municipality	Municipal Corporation	All-ULBs	All-ULBs (% of GDP)
1	Number of ULBs	1,593	1,385	206	3,184	--
2	Total Revenue Receipt (Rs. Crore)	8,758	23,617	1,25,758	1,58,133	0.67
3	Own Tax Revenue (Rs. Crore)	722	3,834	30,767	35,323	0.15
	- Property Tax (Rs. Crore)	567	2,944	17,307	20,817	0.09
4	Own non-tax Revenue (Rs. Crore)	1,505	4,926	50,088	56,519	0.24
5	Transfers (Rs. Crore)	6,530	14,858	44,902	66,290	0.28
6	Revenue Expenditure (Rs. Crore)	10,054	27,076	1,18,166	1,55,295	0.66

Source: Authors' calculation using *Cityfinance* data

Extrapolating revenue and expenditure on a pro rata basis for all ULBs (4689 ULBs excluding cantonment boards; 2,559 TPs, 1,880 Municipalities and 250 MCs), it is observed that the share of total revenue receipts in GDP would be around 0.84 percent and that of revenue expenditure 0.83 percent. In other words, the revenue receipts and revenue expenditure, aggregated across all ULBs, each account for less than 1 percent of GDP.

Let us now examine the growth in revenues and expenditure of ULBs over a three-year period from 2019-20 to 2021-22. For this we consider only those ULBs for which audited financial data comprising income-expenditure statement, balance sheet and their schedules are available for each of the three years. The number of ULBs for which such information is available for each of the three years is 1,989. It consists of 165 MCs, 898 Municipalities and 926 TPs.

We find that between 2019-20 and 2021-22, property tax aggregated across 1989 ULBs grew by about 4.3 percent (Table 3a). High property tax growth in TPs (7.3 percent) and Municipalities (10 percent) was offset by low growth in MCs (3.4 percent) as can be seen from Table 3b. This explains the moderate rate of growth of property tax aggregated across all ULBs. In comparison, the GSDP aggregated across all states grew at an average annual growth rate of 9.5 percent in the last 5 years (i.e., between 2017-18 to 2021-22). The 15th Finance Commission had recommended that ULBs meeting the condition that their property tax revenue grows in tandem with the average growth rate of the State's own GSDP in the most recent five years will be eligible for local body grant for ULBs recommended by the Commission. While this condition of the Commission was to be applicable from 2023-24 onwards, our analysis reveals that, on average, growth in property tax revenues aggregated across 1989 ULBs is much lower than states' GSDP growth.

The covid year 2020-21 saw a decline in transfers, own non-tax revenues and total revenue receipts aggregated across TPs. MCs as a group experienced a sharp decline in their own non-tax revenues. Sharp decline in own tax revenue along with modest increase own tax revenue resulted in a fall in their own revenue receipts. Aggregating across all ULBs, we see a decline in own revenues and own non-tax revenues in 2020-21 (Table 3a).

Table 3a: Growth in revenues and expenditure of ULBs between 2019-20 and 2021-22

All ULBs	Y-o-Y growth (%)		CAGR (%) 2021-22 over 2019-20
	2020-21	2021-22	
Total Revenue Receipt	2.64	12.09	*7.26*
Own Revenue Receipt	-3.02	17.50	*6.75*
Own Tax Revenue	3.05	7.80	*5.40*
- Property Tax	1.16	7.50	*4.28*
Own Non-tax Revenue	-10.04	30.35	*8.29*
Transfers	8.62	7.00	*7.81*
Revenue Expenditure	6.47	11.00	*8.72*

Table 3b: Growth in revenues and expenditure of Town Panchayats, Municipalities and Municipal Corporations during 2019-20 & 2021-22

	Town Panchayat			Municipality			Municipal Corporation		
	Y-o-Y growth (%)		CAGR (%) 2021-22 over 2019-20	Y-o-Y growth (%)		CAGR (%) 2021-22 over 2019-20	Y-o-Y growth (%)		CAGR (%) 2021-22 over 2019-20
	2020-21	2021-22		2020-21	2021-22		2020-21	2021-22	
Total Revenue Receipt	-8.31	10.19	0.51	4.83	9.39	7.09	2.90	12.92	7.79
Own Revenue Receipt	0.62	9.51	*4.97*	2.77	16.63	*9.48*	-4.14	17.99	*6.35*
Own Tax Revenue	6.09	7.92	7.00	4.85	13.90	9.28	2.74	6.96	4.83
- Property Tax	6.33	8.22	7.27	5.85	14.24	9.96	0.37	6.48	3.38
Own Non-tax Revenue	-1.77	10.27	4.07	1.08	18.93	9.64	-12.90	34.55	8.26
Transfers	-12.12	10.52	-1.45	6.05	5.24	5.64	12.05	7.29	9.64
Revenue Expenditure	2.15	9.08	5.56	7.42	9.41	8.41	6.58	11.62	9.07

Note: This table is prepared using financial data of 1989 ULBs - 165 MCs, 898 Municipalities and 926 TPs.
Source: Authors' calculation using *Cityfinance* data

5. Revenues of ULBs

Revenue sources of ULBs consists of

a) ***Own revenues*****:** It includes revenues from own-tax and own non-tax sources.

b) ***Transfers from state and central government***: It consists of revenue grants from state and central government[5], devolution and grants recommended by State Finance

[5] Part of the specific purpose grants from central and state government that is spent for meeting the current and recurrent expenditure (i.e., revenue expenditure) are shown as revenue grants under the head revenue receipts, while the remaining amount forms part of the capital receipt of ULBs and is spent towards capital expenditure.

Commissions (SFC); local body grants of Central Finance Commission (CFC), and assigned revenues[6] and compensations received[7] from the state government.

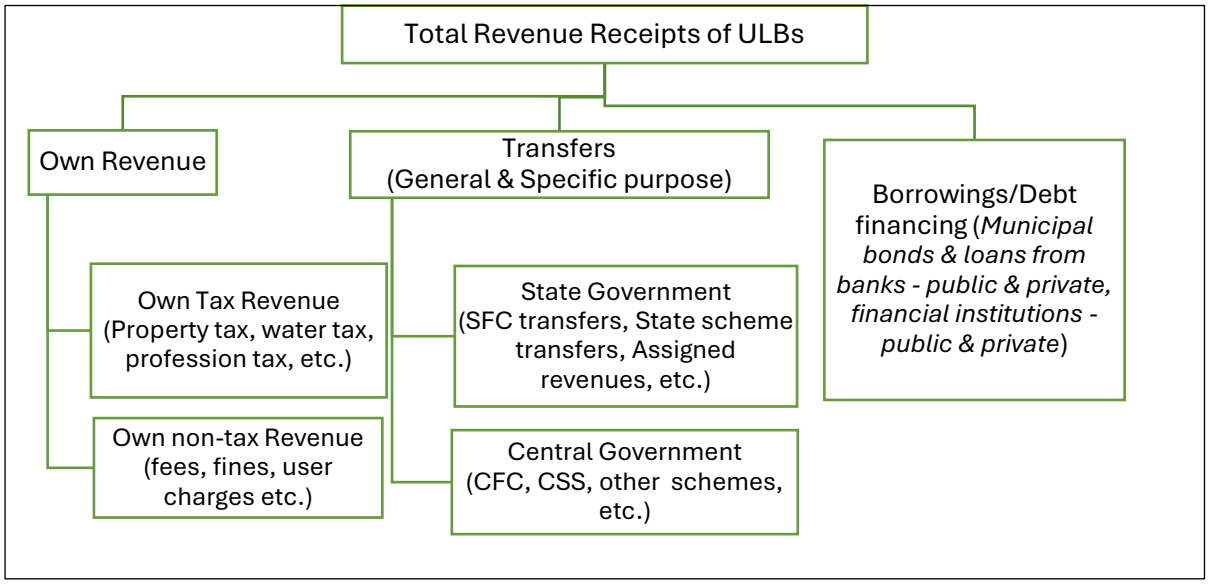
These together constitute revenue receipts of ULBs.

ULBs also receive specific purpose transfers from the union government which include centrally sponsored schemes (CSS) like AMRUT, Smart Cities Mission, Swachh Bharat Mission-Urban, National Urban Livelihood Mission, etc. These funds are spent towards creation of physical infrastructure. ULBs also receive funds through various schemes of the state government which are used for capital expenditure. These constitute capital receipts of ULBs.

Furthermore, ULBs borrow funds to finance infrastructure. ULBs in India also are accessing capital markets for meeting their infrastructure financing needs by issuing municipal bonds. Funds raised through such borrowings form part of capital receipts of ULBs.

The sources of revenues of ULBs - both revenue and capital receipts in India are summarised in Fig-1.

Fig 1: Sources of Revenues of Urban Local Bodies in India



Examining the various components of revenue receipts of ULBs in India, we observe that transfers from central and state government is the most important source of revenues of TPs and Municipalities accounting for about 75 percent and 63 percent of their total revenues respectively as evident from Fig-2. However, for MCs, it is their own revenues comprising own

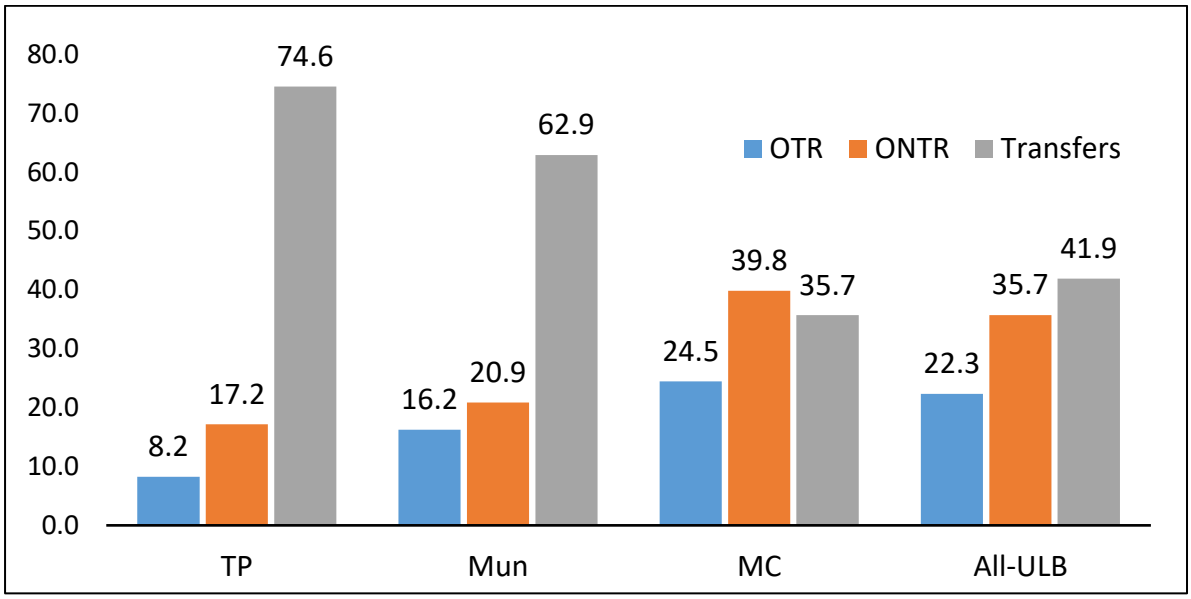
[6] Assigned revenues include revenues from (a) taxes levied and collected by the state government which is passed on to local bodies after deducting collection charges, and (b) collection of taxes or fees taken over by the government from local bodies for administrative purposes like entertainment tax, profession tax etc. In other words, taxes belonging to local domain that are levied and collected by the state government either in the interest of better collection or for some historical reasons, and the net proceeds of such taxes are wholly/partly assigned to local bodies, under the head "assigned revenues". These may vary from state to state.

[7] These include compensation received by the local bodies for the loss of income on account of abolition/removal of certain local revenue sources like octroi compensation, profession tax compensation etc.

tax and own not tax revenues which is dominant source (64 percent) in 2021-22. For all-ULBs, the transfers account for 42 percent of total revenues, share of own revenues is 58 percent.

Examining the different components of revenues of ULBs in per capita terms we see that MCs collect much higher own revenues as compared to the TPs and Municipalities (Table 4). The average per capita own tax collection of MCs is 8 times higher than that of TPs and 4.5 times higher than the Municipalities. Per capital own non-tax revenues are about 6 times that of TPs and Municipalities. Not only MCs' per capita own revenues higher, they also receive higher per capita transfers as evident from Table 4.

Fig-2: Components of Total Revenue of ULBs (%) - 2021-22



Source: Authors' calculation

Table 4: Components of Total Revenue Receipt (per capita; Rs.)

	TP	Mun	MC	All-ULB
1. Own tax revenue	216.8	376.1	1696.9	1115.8
2. Own non-tax revenue	451.9	483.2	2762.6	1785.4
3. Own revenue receipt (1+2)	668.7	859.3	4459.5	2901.2
4. Transfers	1960.3	1457.6	2476.5	2094.1
5. Total revenue receipt (3+4)	2629.0	2316.8	6936.0	4995.3

Source: Authors' calculation

Distribution of grants viz., Central Finance Commission grants and State Finance Commission grants etc. among different categories of ULBs are mainly based on population and area. This benefits MCs which also have higher avenues of raising resources. There is, therefore, a need to revisit the design as also the distribution of such grants/transfers across different categories of ULBs.

5.1. Own Revenues of ULBs

It is observed that own non-tax revenues (ONTR) are higher than own tax revenues (OTR) across different categories of ULBs (Table 5). Its share in own revenues varying between 56-68 percent. On average, ONTR accounts for about 61.5 percent of own revenues of all ULBs.

Table 5: Components of Own Revenues of ULBs: 2021-22

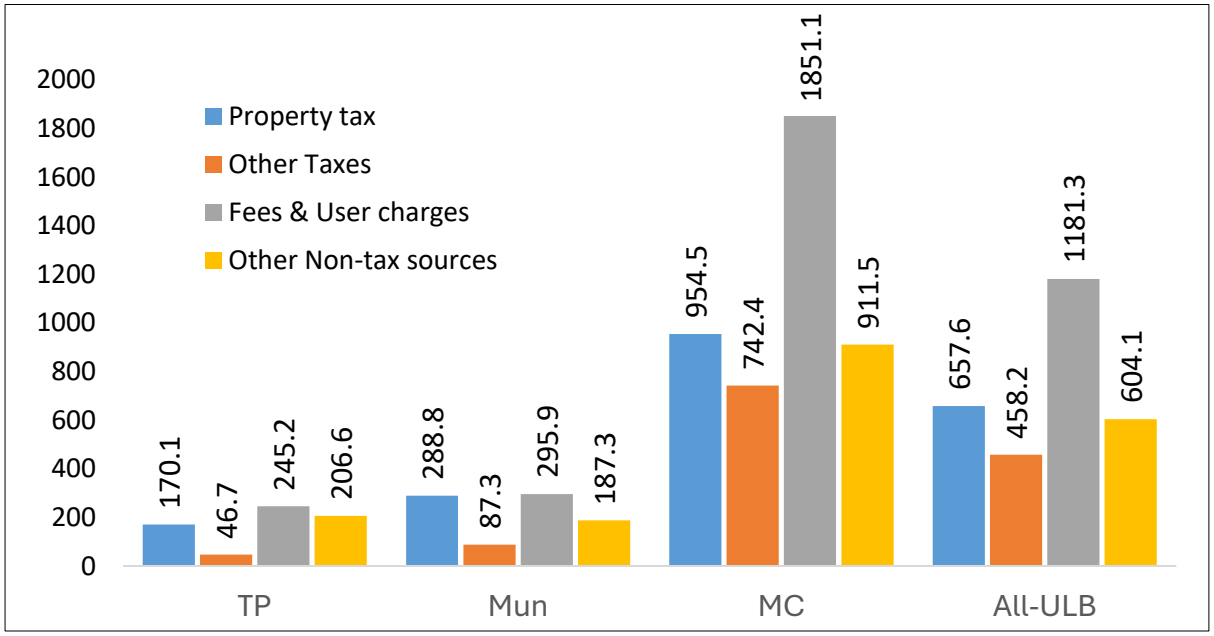
	Tax Revenue (OTR)	Own non-tax Revenue (ONTR)	Own Revenue Receipt (ORR)	Share of ONTR in ORR
		(Rs. Crore)		(%)
Town Panchayat	722.2	1505.3	2227.5	67.6
Municipality	3833.5	4925.6	8759.2	56.2
Municipal Corporation	30767.3	50088.3	80855.6	61.9
All ULBs	35323.1	56519.2	91842.3	61.5

Source: Authors' calculation

Examining the various constituents of own revenues of ULBs, it is observed that fees & user charges as a group is the largest source of own revenues across different categories of ULBs followed by property tax as evident from Fig-3. Fees & user charges account for about 66 percent of own non-tax revenues of all-ULBs (Fig-4). Its share is 67 percent in MCs, 61 percent in Municipalities and 54 percent in TPs.

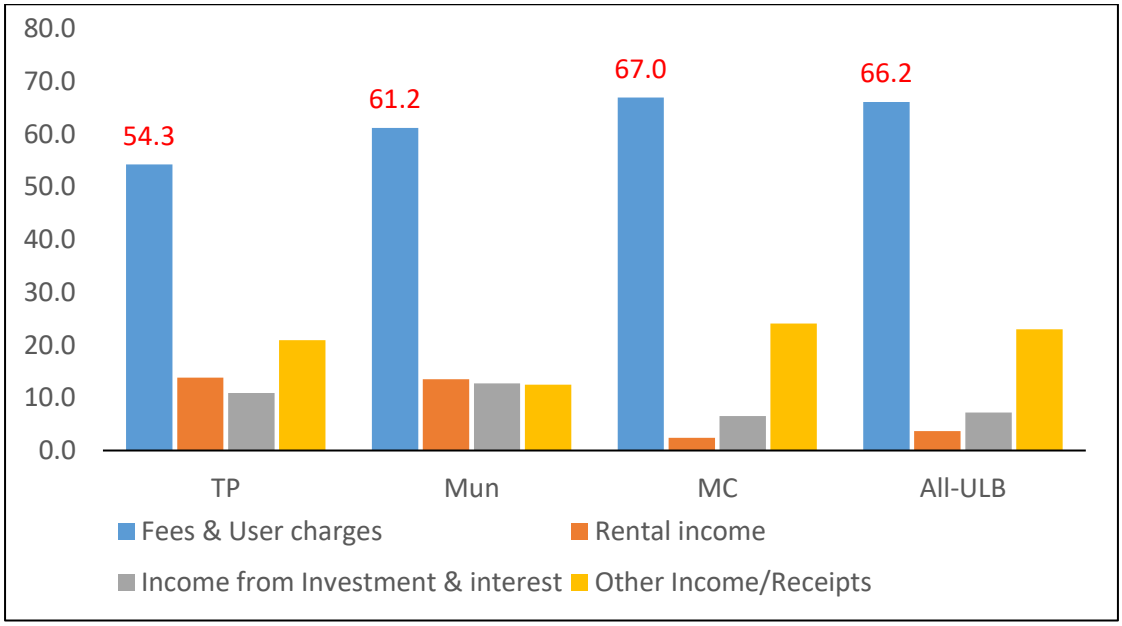
Given that own non-taxes in general and fees & user charges in particular are an important source of own revenues of ULBs, efforts should be made to augment revenues from this source.

Fig-3: Components of Own Revenues of ULBs (per capita; Rs.) - 2021-22



Source: Authors' calculation

Fig-4: Components of Own Non-tax Revenue (%) - 2021-22



Source: Authors' calculation

There exists considerable potential for raising revenues from non-tax sources. By designing policies for revenue augmentation and through adequate pricing of various services provided by local bodies and improving their collection efficiencies, ULBs can generate higher revenues. To begin with, the target should be for meeting the cost of provision of services through collection of appropriate fees & user charges.

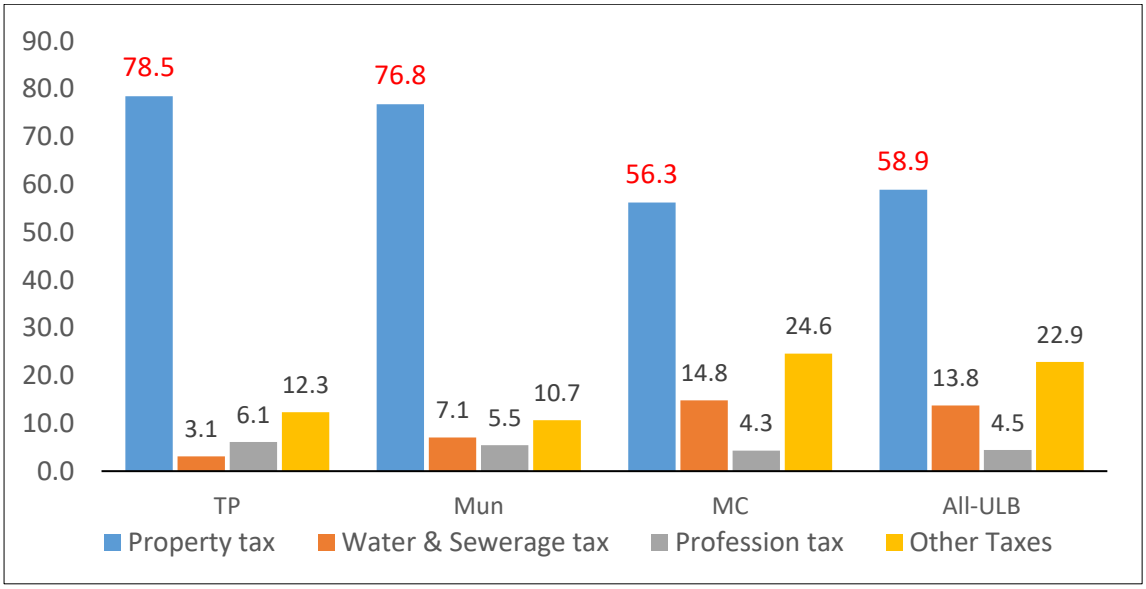
5.2. Own Tax Revenue

The 73rd and 74th amendments to the Constitution which institutionalised the structure of local governance in India left the issue of revenue sources of local bodies entirely to the state governments. Article 243X of the Constitution entrusts State governments the power to authorise ULBs to levy and collect suitable taxes. On examination of the municipal acts of different states we observe that ULBs has been empowered to levy a number of taxes. However, from the available dataset we find that only a few of these taxes are levied by them.

Of the different taxes levied by ULBs in India, property tax is the most important source accounting for about 59 percent of their own-tax revenue (Fig-5). Some of the other taxes levied by ULBs, as observed from their audited financial statements are water & sewerage tax, professions tax[8], conservancy tax, education tax, vehicle tax, advertisement tax, entertainment tax etc.

[8] Professions tax is not levied by ULBs in all the states. Presently professions tax is levied by 21 state governments in India while only in a handful of states such as Kerala, Tamil Nadu and Gujarat the ULBs are authorised to impose and collect it. In some of the states, state governments share a portion of the proceeds of professions tax with the ULBs. Thus, ULBs in some states report it as part of their own tax revenue, in others it forms part of their assigned revenues, and in the third set of states it is does not form part of revenues of ULBs.

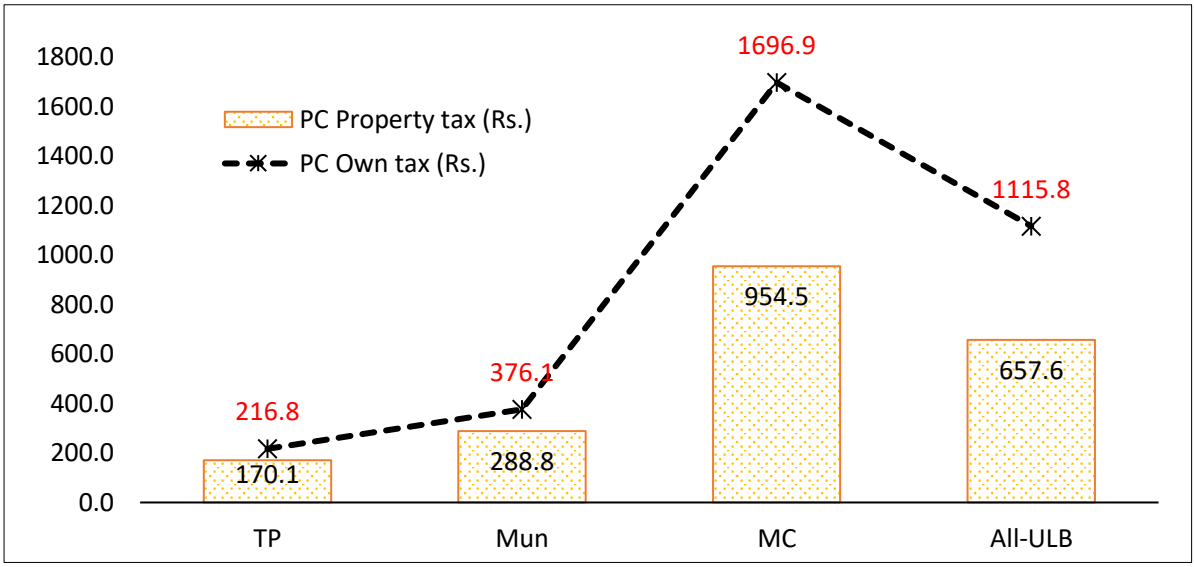
Fig 5: Components of Own Tax Revenue (%) - 2021-22



Source: Authors' calculation

Property tax account for more than 75 percent of own tax revenue in case of TPs and Municipalities. However, in MCs, its share on own tax revenue is around 56 percent (Fig-5). In other words, 46 percent of own tax revenue of Municipal Corporations is from taxes other than property tax. this mean that Municipal Corporations collect more taxes than other ULBs both in terms of number of taxes as also revenues from them.

Fig 6: Per capita tax revenue of ULBs - 2021-22 (Rs.)



Source: Authors' calculation

Collection of own-taxes as also property taxes is much higher for MCs as compared to Municipalities and TPs. Own-tax and property tax revenues of smaller ULBs (i.e., TPs and Municipalities) in aggregate accounted for about 15 and 20 percent of the own-tax and property tax revenues of MCs in 2021-22. Expressing own-tax and property tax revenues in

per capita terms, it is observed that the revenues from these taxes is the highest for MCs followed by Municipalities and it is the least among the three categories of ULBs for TPs (Fig-6). Further, from the examination of scatter plots of per capita property tax revenue and per capita own tax revenue and population of ULBs, it is observed that per capita own-tax revenue and property tax revenue increased with the size of the MC[9] (Fig-7a, b). In other words, per capita own-tax and property tax collections are higher for relatively larger ULBs.

Fig 7a: Scatter of per capita property tax collection over Population of ULBs

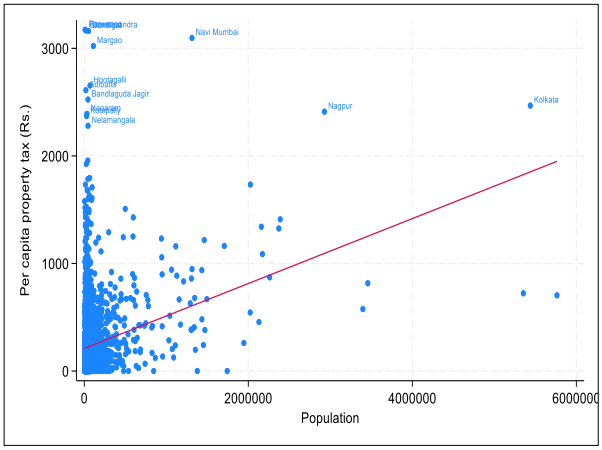
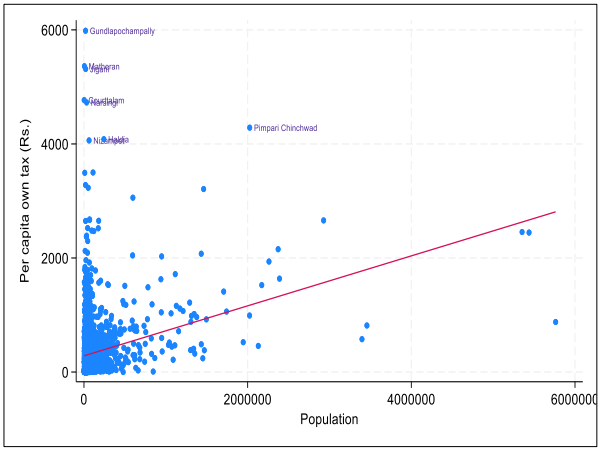


Fig 7b: Scatter of per capita own tax collection over Population of ULBs



Source: Authors' calculation

6. Revenue Expenditure of ULBs

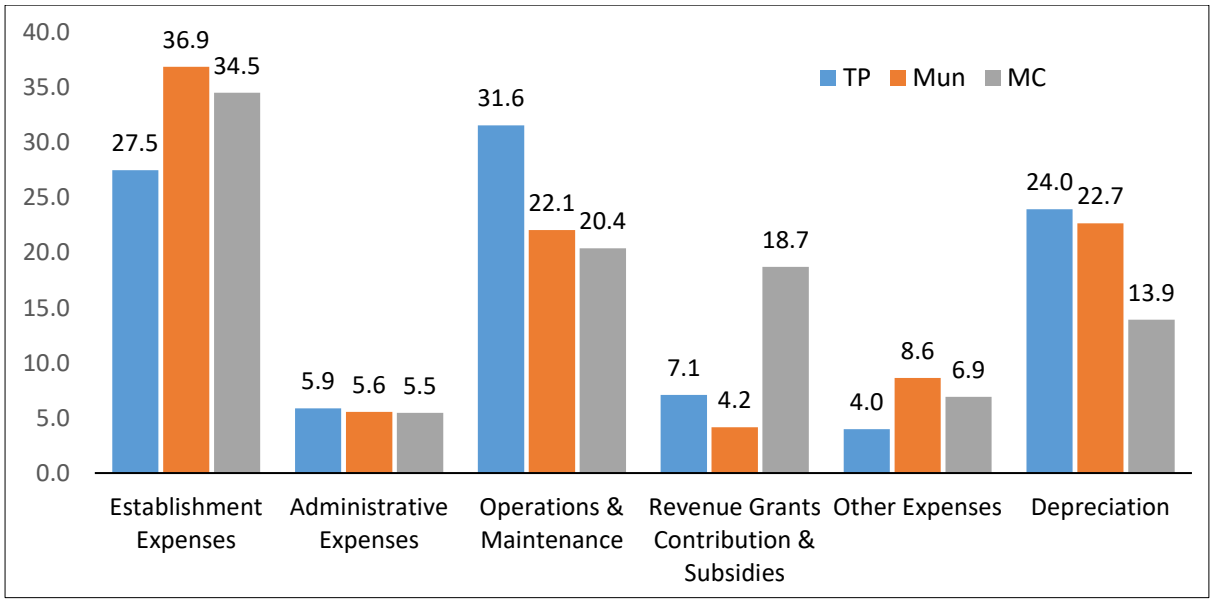
All current and recurrent expenditures are classified as revenue expenditure. It is observed that revenue expenditure aggregated across 3184 ULBs in 2021-22 stood at Rs. 1,55,295 crore. Expressed as a percentage of GDP, the share of revenue expenditure was 0.66 percent.

Examining the different components of revenue expenditure, it is observed that on average, establishment expenditure consisting of wages, salaries, pension and other retirement benefits and Operation and maintenance (O&M) expenditure account for about 55-60 percent of revenue expenditure of ULBs (Fig-8). We find that on average 73 percent of establishment expenditure is towards salaries and wages while the share of pensions and other terminal benefits is around 26 percent. Furthermore, the share of pensions in establishment expenditure is the highest in MCs at 30 percent, 17 percent in case of Municipalities and only 4 percent in TPs. One possible reason for low share of pensions in TPs could be that these were earlier census/statutory towns or part of rural local body and were in recent past made a ULB/TP. What is also interesting to note that out of the 3184 ULBs, 18 percent MCs (37 out of 206), 28 percent municipalities (383 out of 1385) and 50 percent of TPs (803 out of 1593) reported zero pension. Either such financial data was not properly reported or were misclassified and reported in some other budget head. This could also explain low share of

[9] Here by the size of MC we mean population size.

pensions in TPs. As regards O&M expenditure of ULBs, most of it is towards expenditure on power and fuel and repairs and maintenance.

Fig-8: Components of Revenue Expenditure by ULB categories - 2021-22 (%)



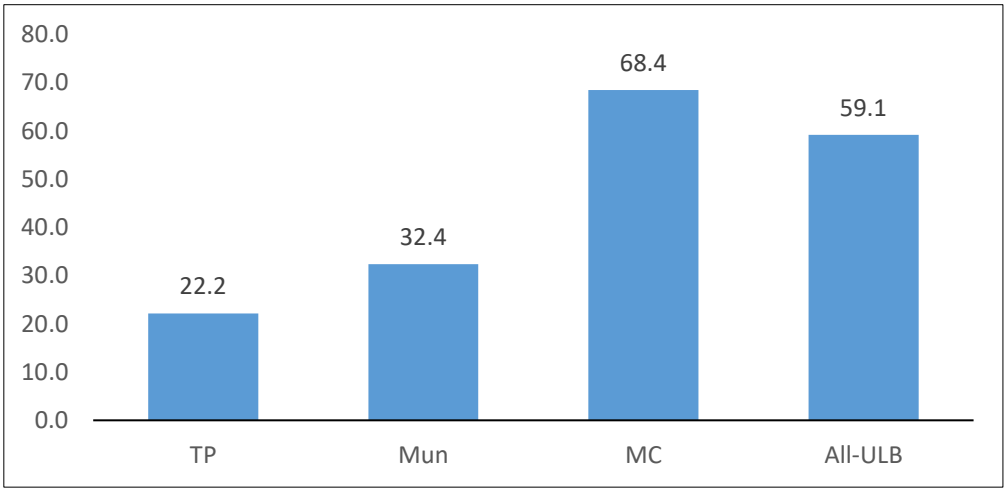
Source: Authors' calculation

The other large component of revenue expenditure is depreciation. It accounted for about 14-24 percent of the revenue expenditure of different category of ULBs.

7. Dependence on Transfers

It was observed that own revenues of ULBs could meet only 59.1 percent of their revenue expenditure. For TPs this ratio was 22.2 percent, for Municipalities it was 32.4 percent and for MCs 69 percent of their revenue expenditure was met from own resources (Fig-9).

Fig-9: Own Revenue Receipts as % of Revenue Expenditure



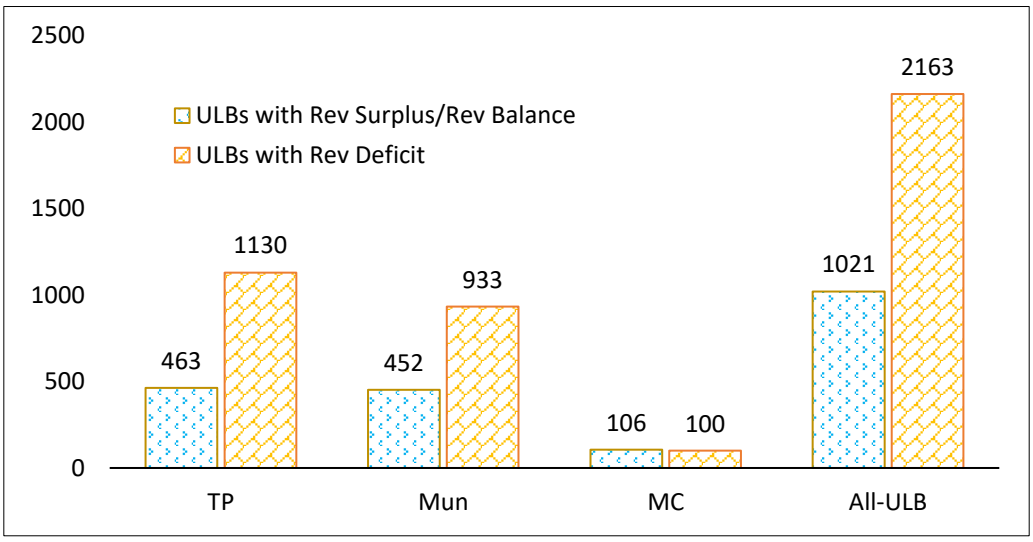
Source: Authors' calculation

Thus, we see that ULBs, in general, are dependent on transfers but the dependence is much higher for the smaller ULBs – TPs and Municipalities. As discussed earlier, the smaller ULBs also raise lower own revenues and receive lower transfers – both in per capita as also in total as compared to the MCs/larger ULBs. This is likely to adversely impact the quantum as also the quality of services provided by them.

8. Revenue Surplus/Deficit

From the examination of the audited financial statements of 3184 ULBs for the year 2021-22 it is observed that a greater number of TPs (1130 TPs or 71 percent) and Municipalities (933 municipalities or 67 percent) are in deficit as can be seen from Fig-10. An ULB has revenue deficit if its revenue expenditure exceeds its revenue receipt. However, in case of MCs, those reporting revenue surplus outnumber those with deficit (106 out of 206 MCs reported revenue surplus).

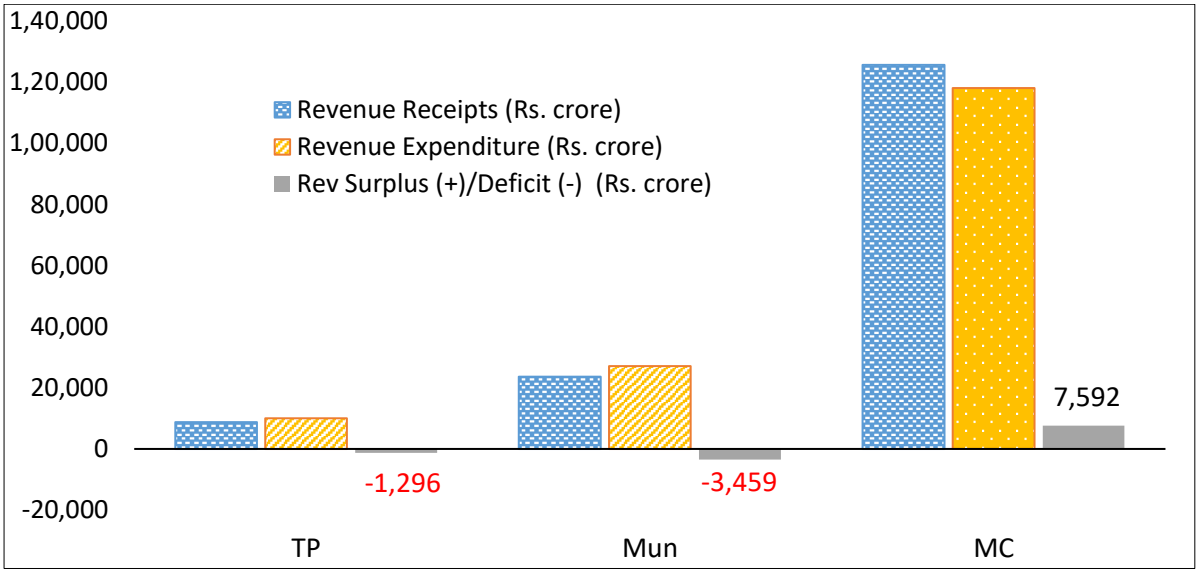
Fig-10: Number of ULBs with Revenue Surplus/Deficit - 2021-22



Source: Authors' calculation

In 2021-22, the TPs in aggregate had a deficit of Rs. 1.296 crore, while the Municipalities had a deficit of Rs. 3,459 crore (Fig-11). This is in sync with the number of TPs and Municiaplities reporting deficit (Fig-10). The MCs, on the other hand, in aggregate had a surplus of Rs. 7,592 crore. With revenue surplus of MCs outweighing that of TPs and Municipalities taken together, the selected 3184 ULBs in aggregate had a surplus in the revenue account to the tune of Rs. 2,837 crore. This is despite the fact that the number of ULBs reporting deficit (2,163 ULBs) is much larger than those reporting surplus (1,021 ULBs) as evident from Fig-10.

Fig-11: Revenue Deficit (-)/Surplus (+) (Rs. crore) - 2021-22

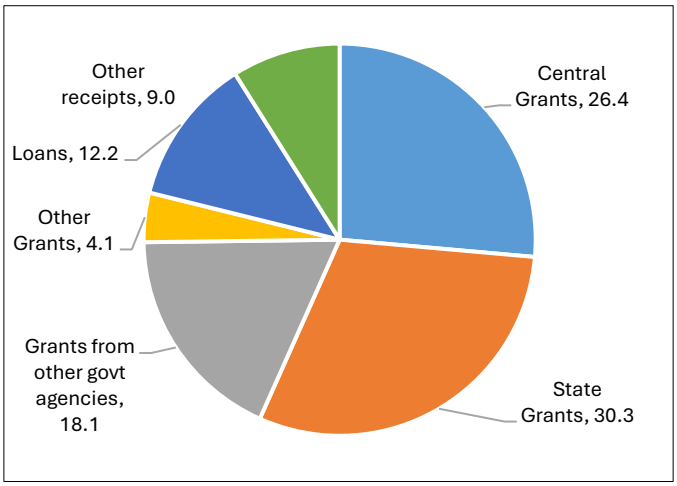


Source: Authors' calculation

9. Capital Receipts of ULBs

Capital receipts of ULBs comprise specific purpose transfers from the union and state governments which are used for capital expenditure (i.e., grants net of revenue expenditure component). They also receive grants from various government and non-government agencies for undertaking specific projects (for capital expenditure). Additionally, ULBs borrow from central and state governments, government agencies, multilateral agencies like World Bank, ADB etc., banks and other financial institutions for financing their infrastructure needs. ULBs (mostly MCs and some ULBs) in India are also accessing capital markets for meeting their infrastructure financing needs by issuing municipal bonds. All these constitute capital receipts of ULBs. Capital receipts also include deposits received, deposit works and sale of fixed assets.

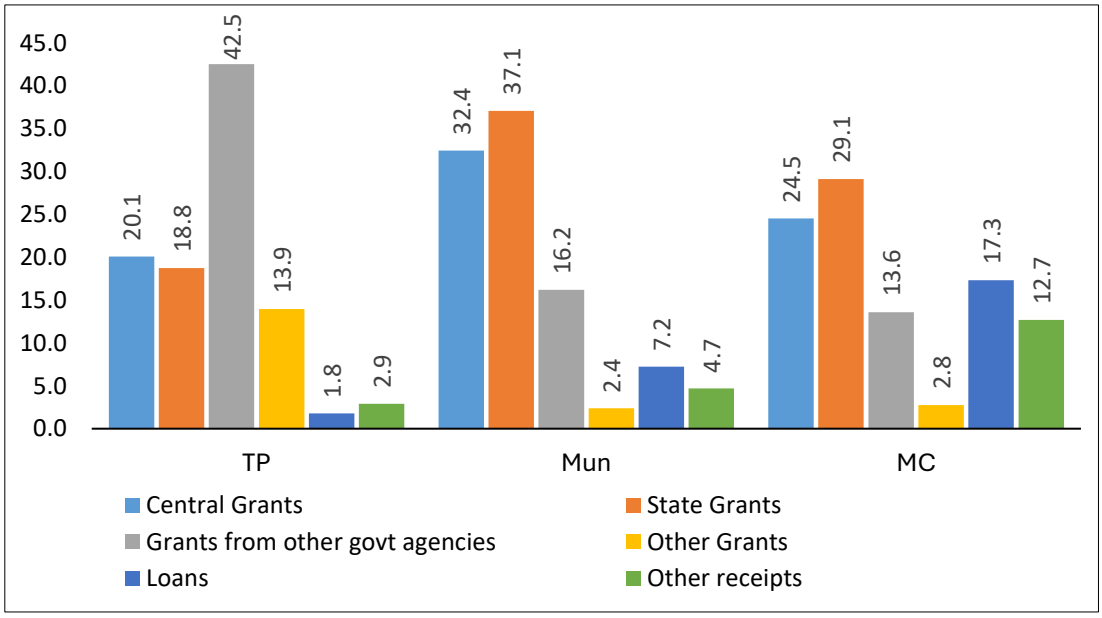
Fig-12: Components Capital Receipts 2021-22 (%)



Note: Other receipts include deposits received, deposits-works, sale of fixed asset etc.
Source: Authors' calculation

From the examination of the audited financial statements of ULBs for the year 2021-22, we find that capital receipts aggregated across 3184 ULBs stood at around Rs. 1,42,619 crore and accounted for about 0.60 percent of the national GDP. It is observed that grants from central and state governments are the predominant source of capital receipts of ULBs (Fig-12). However, for TPs grants from government agencies are more important followed by central and state grants (Fig-13).

Fig-13: Components Capital Receipts by ULB Category 2021-22 (%)



Note: Other receipts include deposits received, deposits-works, sale of fixed asset etc.
Source: Authors' calculation

Loans by ULBs includes loans from central and state governments, government agencies like HUDCO, TNUIFSL, MUDF, etc, banks and other financial institutions, international organizations and bonds and debentures. Loans accounted for about 17.3 percent of capital receipts of all ULBs (Fig-12). However, for MCs loans accounted for about 17.3 percent their capital receipts (Fig-13). A sizeable proportion (more than 80 percent) of these loans are secured loans.[10]

ULBs also raise resources from capital markets by issuing bonds and debentures but the quantum is minuscule compared to their secured loans. These exists considerable scope for raising resources by issuing municipal bonds by ULBs/MCs in India. Despite several initiatives by the government in the recent years between 2017 and November-2025, 18 MCs through 25 issuances have so far raised only Rs.3,584 crores.

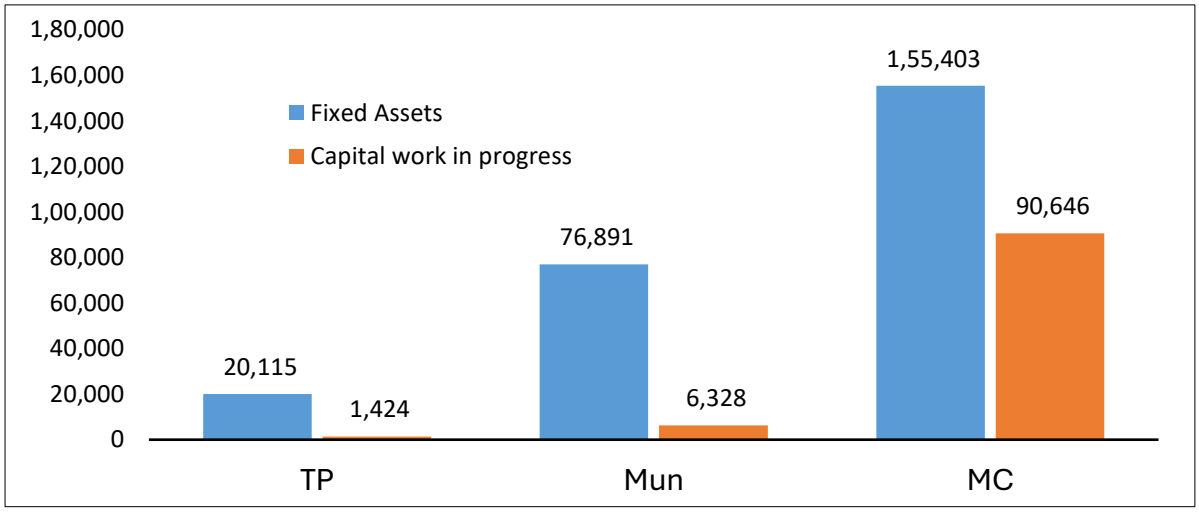
[10] Secured loans are loans received against the security of municipal assets. These assets could be municipal revenues, municipal properties, letter of comfort or guarantee by the state government.

10. Capital Expenditure of ULBs

Capital expenditure of ULBs include expenditure for creating fixed assets. These include tangible assets like land, buildings, roads, water supply systems, sewerage systems, vehicles, and equipment that are either owned, constructed, or acquired by the ULB. While expenditure incurred on capital projects that gets completed/commissions during a financial year are classified as fixed assets, those on capital projects that remain incomplete or are under construction at the end of a fiscal year are classified as capital work-in progress. Capital work-in progress also forms part of the capital expenditure. Expressed as percentage of the GDP, capital expenditure aggregated across 3184 ULBs accounted for about 1.5 percent. In addition to the specific purpose transfers/grants from central and state government and funds borrowed, ULBs also use their own resources (i.e., from their municipal or general fund) to finance their capital expenditure. This could explain the why capital expenditure numbers are considerably higher than those for capital receipts. We find that own funds used for capital expenditure are not reported separately by most ULBS.[11]

It is observed that capital expenditure is higher for larger ULBs – both fixed assets and capital work-in progress (Fig-14). It is observed that the share of fixed assets in capital expenditure is more than 90 percent for TPs and Municipalities while the share of capital work in progress is less than 10 percent (Fig-15). However, for MCs, capital works in progress accounts for about 37 percent of capital expenditure while the share of fixed assets is around 63 percent. One possible explanation for this could be that MCs typically undertake large projects spread over multiple years while projects implemented by smaller ULBs are often of a size that allows completion within a single financial year. However, this aspect needs to be explored/examined further.

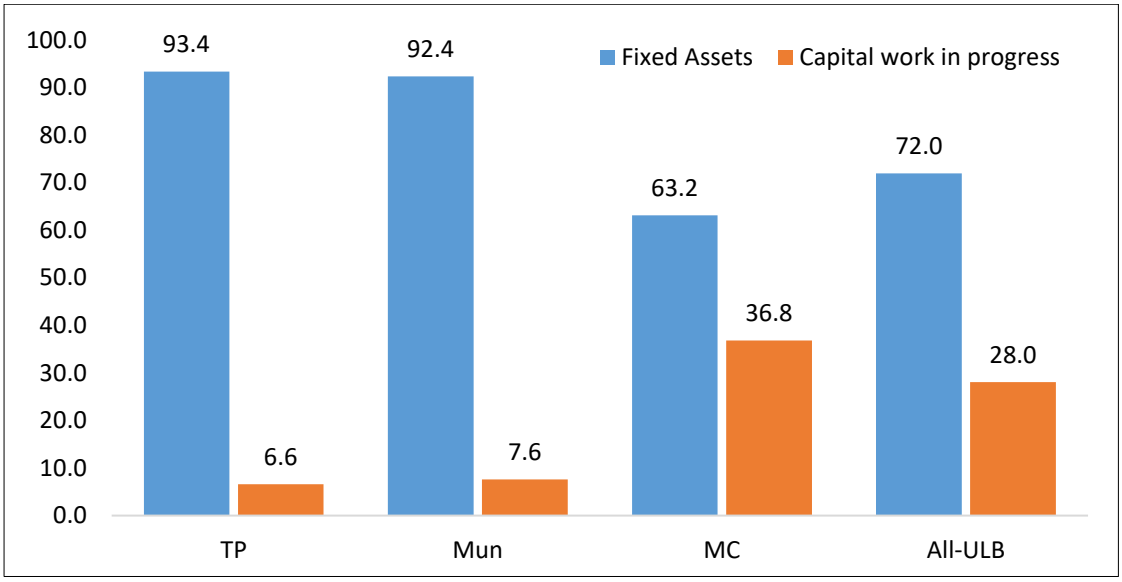
Fig-14: Capital Expenditure by ULB category – 2021-22 (Rs. Crore)



Source: Authors' calculation

[11] Most MCs report capital expenditure from receipts that are aggregated across different sources. Indore MC is one of the few MCs that report capital expenditure from their own municipal fund separately.

Fig-15: Components of Capital Expenditure (%) – 2021-22

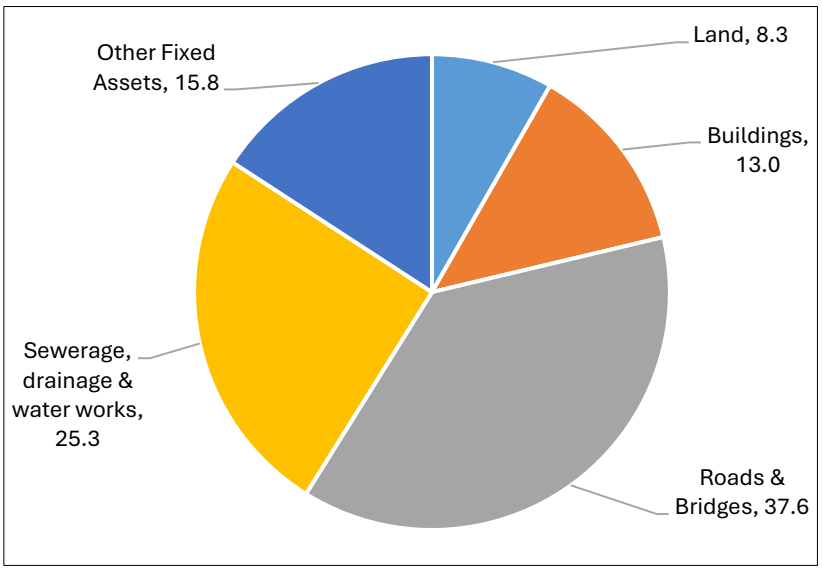


Source: Authors' calculation

Fixed assets include tangible assets such as land (i.e., land acquired during the year or improvement such as development & land filling), buildings, roads, water supply & sewerage systems, vehicles and equipment that are owned, constructed, or acquired by the ULB during the financial year.

Classifying components of fixed assets into broad categories, land, buildings, roads and bridges, sewerage, drainage, water works (all constructed and/or completed during the year) and a residual category 'other fixed assets' consisting of all other fixed assets we find that a large share (around 63 percent) of capital expenditure of ULBs under fixed assets is for roads and bridges and sewerage, drainage and waterworks (Fig-16).

Fig-16: Components of Fixed Assets (%) – 2021-22 (all-ULBs)



Source: Authors' calculation

Further, it is observed that for majority (more than 70 percent) of the ULBs, irrespective of the category to which they belong, the important heads/items of capital spending are roads & bridges, buildings, water works, plant & machinery, vehicles and sewerage & drainage (Table 6). Many of these fall under the core services that are provided by the ULBs.

Table 6: Number of ULBs with Capital Expenditure on Select Fixed Assets in 2021-22

	No. of ULBs	Land	Building	Roads & Bridges	Sewerage & Drainage	Water works	Public lighting	Plant & Machinery	Vehicles
TP	1593	807	1300	1375	1074	1233	696	1146	1087
(% of TPs)		*50.7*	*81.6*	*86.3*	*67.4*	*77.4*	*43.7*	*71.9*	*68.2*
Municipality	1385	883	1184	1205	1099	1070	849	1106	1083
(% of Mun)		*63.8*	*85.5*	*87.0*	*79.4*	*77.3*	*61.3*	*79.9*	*78.2*
MC	206	141	178	168	168	158	133	165	164
(% of MCs)		*68.4*	*86.4*	*81.6*	*81.6*	*76.7*	*64.6*	*80.1*	*79.6*
All ULBs	3184	1831	2662	2748	2341	2461	1678	2417	2334
(% of ULBs)		*57.5*	*83.6*	*86.3*	*73.5*	*77.3*	*52.7*	*75.9*	*73.3*

Source: Authors' calculation

11. Conclusion and Policy Recommendations

The recommendations of 15th FC of publishing in public domain both the audited and unaudited financial statements of local bodies paved the way for their availability. However, considerable differences were observed across ULBs as these statements did not adhere to any uniform reporting format. There were variations in the reporting as also in the quality of the financial statements which made them incomparable across ULBs. To ensure their usability by governments, policy makers and researchers etc. it is essential that these statements follow a uniform reporting format.

To ensure continued availability of ULB financial statements, the 16th FC should also make it an entry condition to access its local body grants as was done by the 15th FC. Further, it is important to incentivize ULBs and the state governments to ensure that ULBs adopt uniform reporting format. From a policy perspective it is important to know the various functions performed by ULBs/MCs across different states and the expenditure incurred for the same. The current chart of accounts followed by most ULBs does not allow for this. However, NMAM does provide function-wise codification. The central government through it various urban sector schemes should incentivize State governments and/or ULBs to ensure ULBs adopt function-wise financial reporting system. This would be helpful in the comparative analysis of expenditure incurred in the provision of different services and the income from user charges, if any, levied on those services.

Our analysis finds in 2021-22, revenue receipts of 3184 ULBs accounted for about 0.67 percent of GDP, share of revenue expenditure in GDP was 0.66 percent. Extrapolating revenues and expenditure on a pro rata basis for all ULBs (4689 ULBs; excludes cantonment boards), the share of revenue receipts in GDP would be around 0.84 percent and that of revenue expenditure would be around 0.83 percent of the national GDP and the share of property tax

would be a meagre 0.11 percent. Between 2019-20 and 2021-22, the growth in property tax aggregated across 1989 ULBs has been moderate at 4.3 percent, much lower than states' GSDP growth.

The study finds that transfers are the most important source of revenue for TPs and Municipalities, for MCs it is their own revenues. Further, expressing receipts of ULBs in per capita terms it is observed that MC not only raise more own revenues, they also receive higher transfers in per capita terms as compared to TPs and municipalities. Distribution of grants viz., Central Finance Commission grants and State Finance Commission grants etc. among different categories of ULBs are mainly based on population and area. This benefits MCs which also have higher avenues of raising resources. There is, therefore, a need to revisit the design as also the distribution of such grants/transfers across different categories of ULBs.

Examining the various constituents of own revenues of ULBs, it is observed that fees & user charges as a group is the largest source of own revenues across different categories of ULBs followed by property tax. There exists considerable potential for raising revenues from fees & user charges. By designing policies for revenue augmentation and through adequate pricing of various services provided by local bodies and improving their collection efficiencies, ULBs can generate higher revenues. To begin with, the target should be for meeting the cost of provision of services through collection of appropriate fees & user charges.

Although, the state municipal acts empower corporations/ULBs to levy a variety of taxes, not all taxes are levied by them with property tax being the most important. We find own-tax revenue as also property tax collection is higher for MCs as compared to Municipalities and TPs. By strengthening mechanism for collection of property tax, adopting GIS based mapping of properties and their regular assessment, periodic revision of rates, effective enforcement and efficient administrative systems, ULBs can unlock substantial untapped potential in property taxes.

More than two-thirds of the ULBs reported revenues deficit in 2021-22. It was further observed that own revenues of ULBs could meet only 59.1 percent of their revenue expenditure, implying dependence on transfers. However, the dependence is much higher for the smaller ULBs – TPs and Municipalities. Given that smaller ULBs raise lower own revenues and receive lower transfers – both in per capita as also in total as compared to the MCs/larger ULBs. This is likely to adversely impact the quantum as also the quality of services provided by them. Efforts should, therefore, be made to increase revenues from both own-tax and own non-tax sources. Higher own-revenues increase fiscal autonomy, provide financial stability and flexibility in catering to the needs of the population.

As ULBs are dependent on grants from central and state governments and government agencies for capital receipts, their reliance on other sources to finance their infrastructure needs is relatively less. Although, in recent years, on account of initiatives and incentives by the central government, some of the larger MCs have issued municipal bonds. The ticket size of such issuance has largely remained limited to the maximum amount of issuance for which

the incentive was applicable (Rs.200 crore). There exists considerable scope for raising resources by issuing municipal bonds in India. Between 2017 and Nov-2025, 18 MCs through 25 issuances have so far raised only Rs.3,584 crores with issuance size varying between Rs.50-244 crore. This constitutes a very small fraction of the resource requirement to fund infrastructure for current and future needs. The credit quality of MCs/ULBs is paramount in the development of municipal bond market with very few of them having investment grade ratings. Inability/unwillingness to raise own revenues and dependence on transfers inhibit development of a vibrant municipal bond market in the country.

With rapid urbanization and rising demand for high quality services, cities/ULBs should enhance their revenues through measures such as property tax reforms, rationalisation of user charges and better and efficient collection mechanism. Further, streamlining expenditures through process improvements, efficient spending, reduction of wasteful expenditure and digitalization can free up additional resources. Additionally, standardising financial statements along with increased transparency in financial disclosures would help attract private investments and also facilitate ULBs to access funds through sources like municipal bonds.

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