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Trends in the Finances of Municipal Corporations in India

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Preface

The study "Trends in the Finances of Municipal Corporations 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 examines the state of finances of Municipal Corporations (MCs) in India analysing the audited financial statements of 166 MCs across 22 states over three years 2019-20 to 2021-22. The key financial indicators analysed by the study include own revenues of MCs, dependence on transfers from higher tiers of government, extent to which their expenditures are met from own revenues, capital receipts, among others. The findings of the study would help policy makers to design and formulate policies that are in sync with the objective of building vibrant cities which are the growth engines of new India.

The study team consists of Manish Gupta, Aakash Gupta, and Neeti Gupta. 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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Trends in the Finances of Municipal Corporations in India[1]

1. Introduction

India is urbanizing at a rapid pace. By 2035, 43.2 percent of the country's population is projected to live in urban areas (Un-Habitat 2022).[2] Such rapid growth in urban population is likely to put additional pressure on the already stretched urban infrastructure and services of Indian cities. 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.[3] 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. in their jurisdictions has a vital role to play in addressing these challenges.

It is in this context that the paper focusses on the finances of the Municipal Corporations (MCs) in India with the objective of understanding the various sources of revenues - both revenue and capital receipts, their ability to raise resources from own sources and dependence on higher tiers of government. It also examines the expenditures undertaken by the MCs and whether their spending is adequate vis-à-vis their revenues and how are these funded. 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.

The rest of the paper is organised as follows: Section 2 discusses the data sources, highlights data challenges, methodology adopted to put the financial data of the corporations in a comparable format, selection of corporations and the period of coverage of the study. Section 3 presents sources of revenues of the ULBs in India. Analysis of revenue receipts of MCs is presented in Section 4, while that of revenue expenditure is presented in Section 5. Section 6 discusses the revenue balance position of the selected MCs. The capital receipts and capital expenditures of the corporations are analysed in Sections 7 and 8 respectively. Section 9

[1] The authors thank Somya Agarwal, Ankit Singh and Divya Rudhra for excellent research assistance.

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

[3] 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.

summarises the findings of the paper and provides policy prescription for the government as also the 16th Finance Commission (FC).

2. Data sources and challenges, methodology, selection of MCs and period of coverage

The study uses audited financial statements of individual corporations consisting of income and expenditure statements, balance-sheet and their schedules. The data was collected from the cityfinance portal of Ministry of Housing and Urban Affairs and from individual MCs' websites.

Reliable data on the finances of local bodies were not readily available. Finance Commissions starting from the 11th FC have highlighted the lack of reliable financial data on panchayats and urban local bodies (ULBs) and the difficulty in realistically assessing the requirement of resources for carrying out the core functions. They stressed on the need for proper accounts of local bodies and their audit. The 11th FC recommended grants to states for compilation of accounts and creation of a database on local body finances. The 12th FC emphasising on the need for building local body database and maintenance of accounts recommended that states earmark funds out of its share of local body grants for this purpose. Maintenance of accounts of local bodies and entrusting technical guidance and supervision over audit to the Comptroller General of India (C&AG) were among the conditions that states had to fulfil for drawing the performance grants recommended by the 13th FC. Availability of reliable data on local bodies' receipt and expenditure through audited accounts was one of the criteria recommended by the 14th FC to access its performance grants.[4] 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.

It is observed that the financial data maintained by ULBs are not in uniform format. While some states have adopted the National Municipal Accounting Manual (NMAM), others follow their own state-specific Municipal Accounting Manuals (SMAM) and the ULBs in these states are to maintain their accounts as per the chart of accounts prescribed in these manuals. It was observed that even within a state the ULBs maintained data in different formats. In some cases, for a ULB, we found the formats were not uniform across years and in a few cases, only

[4] One of the eligibility conditions for availing performance grant by ULB was to "submit audited annual accounts that relate to a year not earlier than two years preceding the year in which it seeks to claim the performance grant" (Ministry of Finance, 2014; pp. 123)

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 encountered several challenges. As mentioned earlier the financial data of ULBs are not maintained in uniform format. For the 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 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.

The analysis covers 166 Municipal Corporations (MCs) out of a total of 246 and spans the three-year period 2019-20 to 2021-22. To the best of our knowledge, it is the only study of its kind that uses information from the audited finance statements of a large set of MCs.

The selection of MCs was based on the availability of audited financial data comprising both Income-Expenditure statement and Balance-Sheet and their schedules in each of the three years 2019-20 to 2021-22. If for a corporation, either of these statements were not available or were incomplete in any one of the years under consideration, they were not included in the analysis[5]. The 166 corporations that form part of the analysis are same across the three years 2019-20 to 2021-22. They account for about 32 percent of the India's urban population[6] and are spread across 22 states[7] (Fig-1).

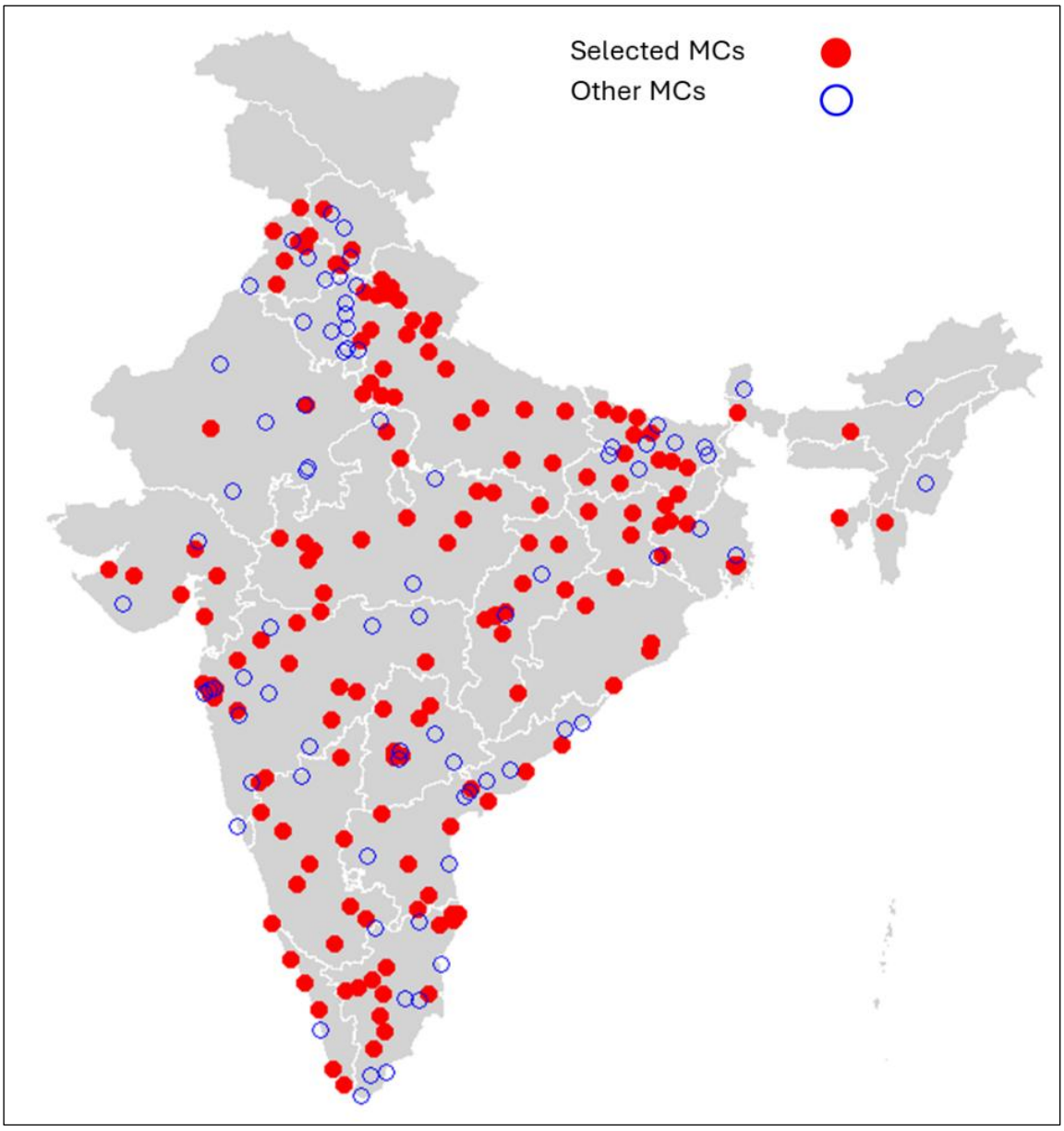
[5] 80 corporations were dropped.

[6] Urban population projections by Ministry of Health and Family Welfare (2019) were used for the three years. Population of individual MCs were also projected based on this report.

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

Of the selected MCs, 121 have a population of less than 1 million and form the non-million category (NMC) with 91 of them having population below 5-lakh. The remaining 45 MCs that have population greater than 1 million comprises the million plus category (MPC) (Table 1). In aggregate, the larger MCs (i.e., MPC corporations) account for about 70 percent of the population of the selected MCs, while the share of smaller MCs (i.e., NMC corporations) is around 30 percent.

Fig 1: Geographical Spread of 166 MCs



Source: Authors' derivation

Table 1: Distribution of Municipal Corporations by population category

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

Note: Number of MCs with population less than 5 lakh fell from 91 in 2019-20 to 88 in 2021-22. As population of MCs in the category "< 5 lakh" crosses the threshold, it moves to the next population category. This is also true for MCs in other population categories. This explains the variation in number of MCs in different population categories in the three years under consideration.
Source: Authors' calculation

3. Sources of Revenues of Municipal Corporations

The resource envelope of a corporation/ULB comprises:

a) ***Revenues from own sources*:** This includes own-tax and own non-tax revenues.

b) ***Transfers from state and central government***: It consists of revenue grants from the state and central government[8], devolution and grants recommended by the State Finance Commission (SFC); local body grants of the Central Finance Commission (CFC), and assigned revenues[9] and compensations received[10] from the state government.

These constitute revenue receipts of MCs.

MCs 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. MCs also receive funds through various schemes of the state government which are used for capital expenditure. These constitute capital receipts of MCs.

Furthermore, MCs borrow funds to finance infrastructure. MCs 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 MCs.

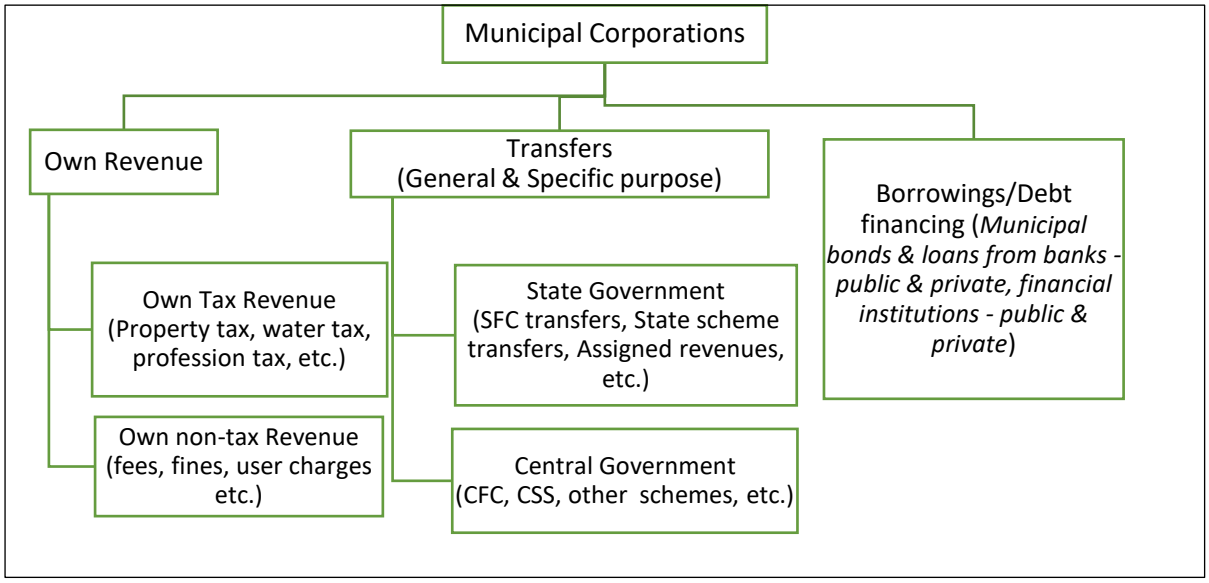
[8] Part of the specific purpose grants from central and state government that is spent for meeting the current and recurrent expenditure (i.e., revenue expenditure) are shown as revenue grants under the head revenue receipts, while the remaining amount forms part of the capital receipt of MCs and is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

[9] 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.

[10] 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.

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

Fig 2: Sources of Revenues of Municipal Corporations in India



4. Revenue Receipts of MCs

Total revenue receipts aggregated across MCs with more than 1 million population (i.e., larger MCs) is much larger than that of MCs with less than 1 million population (i.e., smaller MCs) taken together as evident from Table 2. Smaller MCs in aggregate account for about one-quarter of total revenue receipts of larger MCs.

Table 2: Components of Revenue Receipts (Rs. crore)

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

Source: Authors' calculation

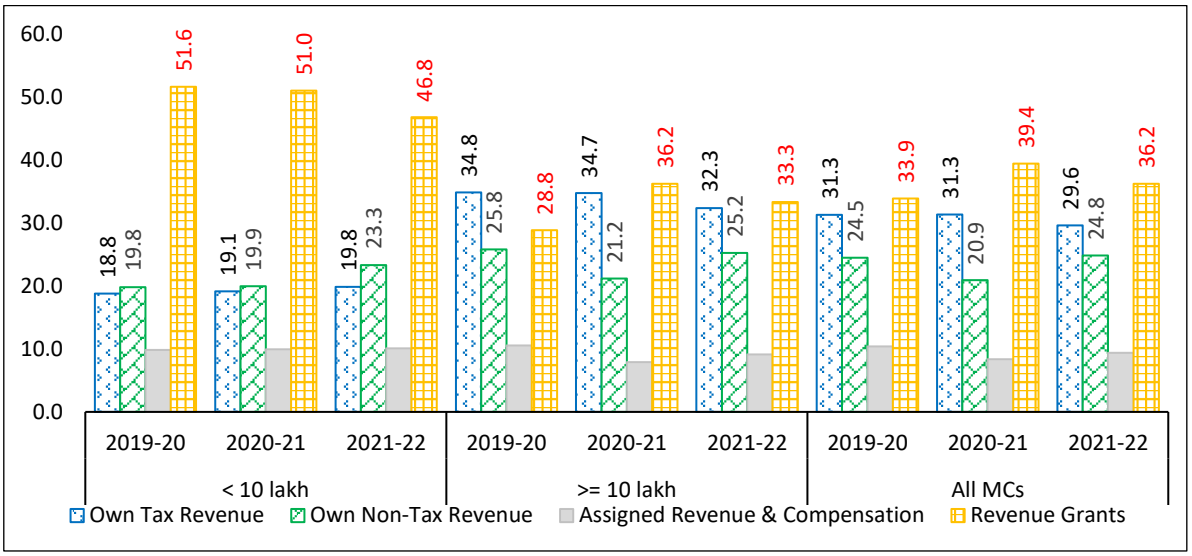
The combined revenue receipts of all MCs[11] increased from Rs. 58,295 crore in 2019-20 to Rs. 67,219 crore in 2021-22 growing at a compound annual growth rate (CAGR) of 7.4 percent per annum. In comparison the national GDP grew at a CAGR of 8.4 percent during this

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

period.[12] Expressed as a percentage of the national GDP, revenue receipts aggregated across 166 MCs account for a paltry 0.28-0.30 percent.

For the non-million category MCs, revenue grants are the largest category of revenue source accounting for about 47-52 percent of their total revenue receipts (Fig-3). If one were to include assigned revenues[13], transfers (i.e., revenue grants + assigned revenues) from state and central government would account for about 57-61 percent of their total revenue receipts. The share of own tax and own non-tax revenues is much lower at 19-20 percent and 20-23 percent respectively. Further it is observed that for smaller MCs, revenues from own non-tax are higher than those from own-tax. However, in case of larger MCs own-tax revenue is the dominant source accounting for about 32-35 percent of their total revenue receipts followed by revenue grants (29-36 percent) and non-tax revenues (21-26 percent). Thus, for larger Corporations, own revenues account for about 56-61 percent of their revenue receipts.

Fig 3: Components of Revenue Receipts (%)



Source: Authors' calculation

While the smaller MCs depend more on transfers from the state and central government, for the larger MCs own revenues are the dominant source of revenue receipts. Aggregating across 166 MCs it is observed that own revenues account for about 52-56 percent of the total revenues, while the share of transfers (including assigned revenues and compensation) is around 44-48 percent.

[12] Revenue receipts of all-MCs increased by 1.7 and 14.9 percent in 2020-21 and 2021-22 respectively. The modest growth in 2020-21 could be on account of the pandemic. The national GDP fell by -1.2 percent in 2020-21 due to the Covid-19 pandemic. It increased by 19 percent in 2021-22.

[13] The share of assigned revenues is around 10 percent for smaller MCs.

4.1. 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 a large variety of taxes have been devolved to the ULBs. However, from the available data it is observed that only a few of these taxes are levied by the MCs.

Of the different taxes levied by MCs in India, property tax is the most important source accounting for about 69-71 percent of their own-tax revenue (Table 3). Some of the other taxes levied by MCs, as observed from their audited financial statements are water tax, sewerage tax, professions tax[14], conservancy tax, education tax, vehicle tax, advertisement tax, entertainment tax etc.

Table 3: Own Tax and Non-tax Revenues of MCs (Rs. Crore)

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

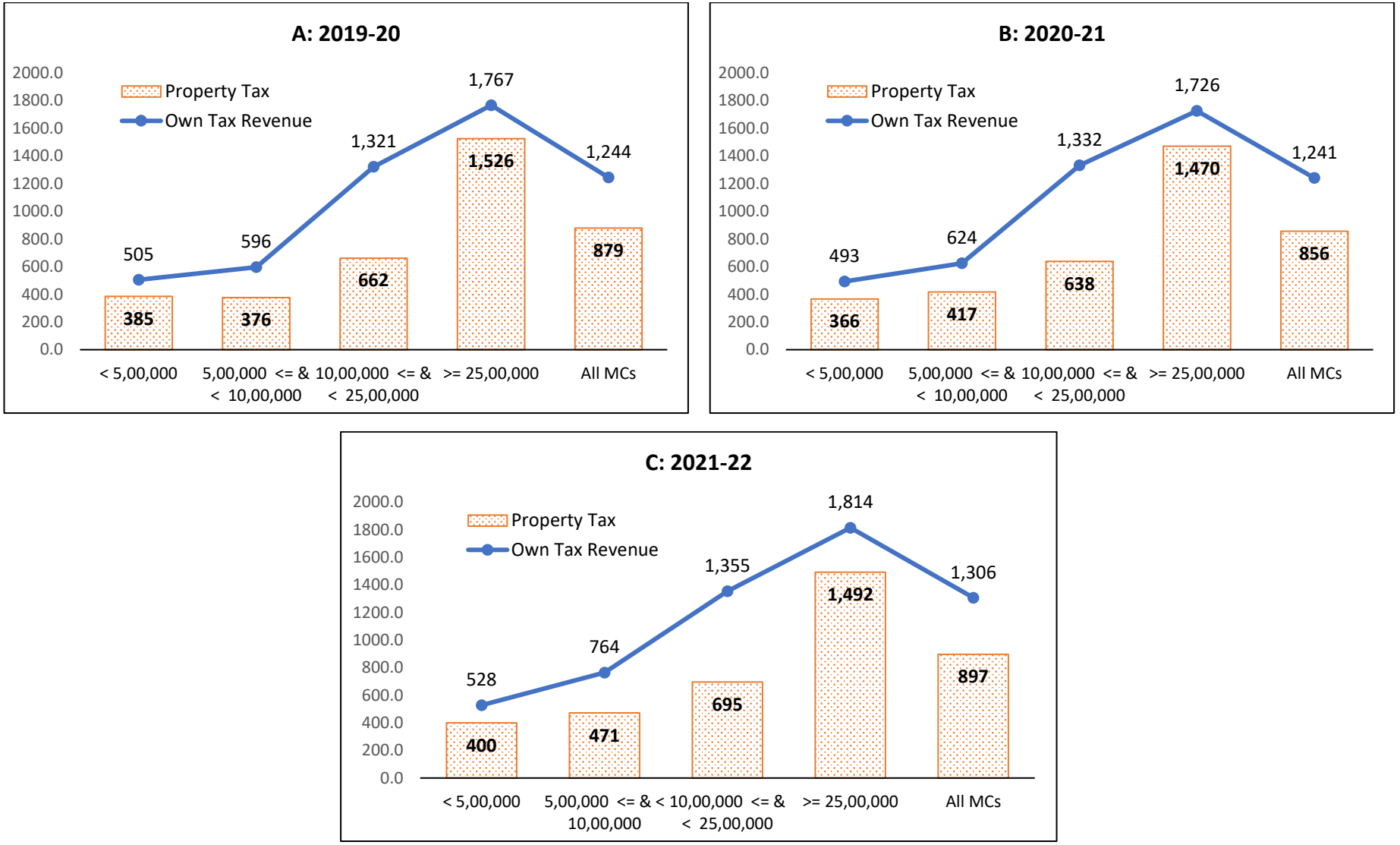
Source: Authors' calculation

Collection of own-taxes as also property taxes is much higher for larger MCs. Own-tax and property tax revenues of smaller MCs in aggregate account for about 14-17 percent of the own-tax and property tax revenues of larger MCs. Expressing own-tax and property tax revenues in per capita terms, it is observed that the revenues from these taxes increases with the size of the MC[15] (Fig-4). In other words, per capita own-tax and property tax collections are higher for relatively larger MCs.

[14] 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.

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

Fig 4: Per capita own-tax and property tax revenues of MCs (Rs.)



Source: Authors' calculation

4.2. Own Non-Tax Revenue

Another important source of revenue of MCs is income from own non-tax sources comprising fees, fines, user charges, rental income, hire and sale charges, income from investments and interest etc. On average, own non-tax revenues account for about 21-25 percent of total revenues of MCs. For smaller MCs, its share in total revenues outweighs that of own-taxes (Fig-3). MCs in India generate 64-72 percent of their non-tax revenues from fees & user charges (Table 3). Non-tax revenues show a dip in 2020-21. This could be on account of the covid pandemic.

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 user charges.

5. Revenue Expenditure of MCs

All current and recurrent expenditures are classified as revenue expenditure. It is observed that revenue expenditure aggregated across 166 MCs increased from Rs. 58,073 crore in 2019-20 to Rs. 68,270 crore in 2021-22 growing at a CAGR of 8.4 percent per annum similar to the rate of growth of the national GDP during this period (Table 4). Expressed as a percentage of GDP, the share of revenue expenditure was 0.29-0.31 percent.

Table 4: Revenue Expenditure of MCs

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

Source: Authors' calculation

Examining the different components of revenue expenditure, it is observed that establishment expenditure consisting of wages, salaries, pension and other retirement benefits account for about 35-37 percent of the revenue expenditure of MCs followed by operation and maintenance (O&M) expenditure (24-25 percent) and depreciation (18-20 percent) (Table 5). These three components together account for 76-81 percent of the total revenue expenditure of MCs. Furthermore, the shares of different components of revenue expenditure show little variation between the two categories of MCs – million-plus and non-

million. However, both total and per capita expenditure of larger MCs is considerably higher than that of smaller MCs as evident from Table 4.[16]

Table 5: Components of Revenue Expenditure (%) – 166 MCs

	2019-20	2020-21	2021-22
Establishment Expenses	36.8	35.0	36.0
Administrative Expenses	6.0	7.5	7.1
Operations & Maintenance	24.0	23.8	24.8
Interest & Finance Charges	1.6	2.4	1.5
Programme Expenses	4.3	4.6	4.2
Revenue Grants Contribution & Subsidies	4.4	5.9	5.7
Provisions and write-off	1.6	2.0	1.4
Miscellaneous Expense	1.0	1.2	0.7
Depreciation	20.3	17.6	18.6

Source: Authors' calculation

Further, from the examination of shares of different components of establishment expenditure it is observed that salary, wages, bonus etc. account for most of it followed by expenditures on pensions and other terminal benefits. Interestingly, share of salaries & wages is higher in case of smaller MCs while that of pensions and other terminal benefits is higher for the larger MCs (Table 6). It is observed that the main components of O&M expenditure are repairs & maintenance accounting for about 40-46 percent of O&M expenditure followed by expenditure on power and fuel (20-25 percent) and other O&M expenses[17] (25-29 percent). These three account for more than 90 percent of total O&M expenditure of MCs.

On average, own-revenues of MCs account for about 51-56 percent of their revenue expenditure, implying considerable dependence on transfers. The dependence is much higher for smaller MCs with own revenues accounting for about 37-42 percent of their revenue expenditures. The corresponding number for the million-plus corporations is 55-61 percent.

[16] Data reported on the expenditure side of Income-Expenditure statement should be read with a certain degree of caution on account of variations observed in the way it is being recorded/reported across different states or across ULBs within a state. While some ULBs report expenditures out of the grants in schedule 260 (Revenue grants, contributions and subsidies), others report this expenditure under the specific head where the money was actually spent namely, establishment expenses, O&M expenditure, etc. So, even though the financial disclosures are not incorrect, such non-standardised reporting makes comparative analysis somewhat difficult.

[17] The category 'Other O&M expenses' include expenditure on cleaning, sanitation and conservancy, construction, testing and inspection, water supply etc. Additionally, any other O&M expenditure that cannot be classified under any of the subheads of the overall category of O&M expenditure are included in the 'Other O&M expenses' category.

Table 6: Components of Establishment and O&M expenses (%) – Smaller Vs Larger MCs

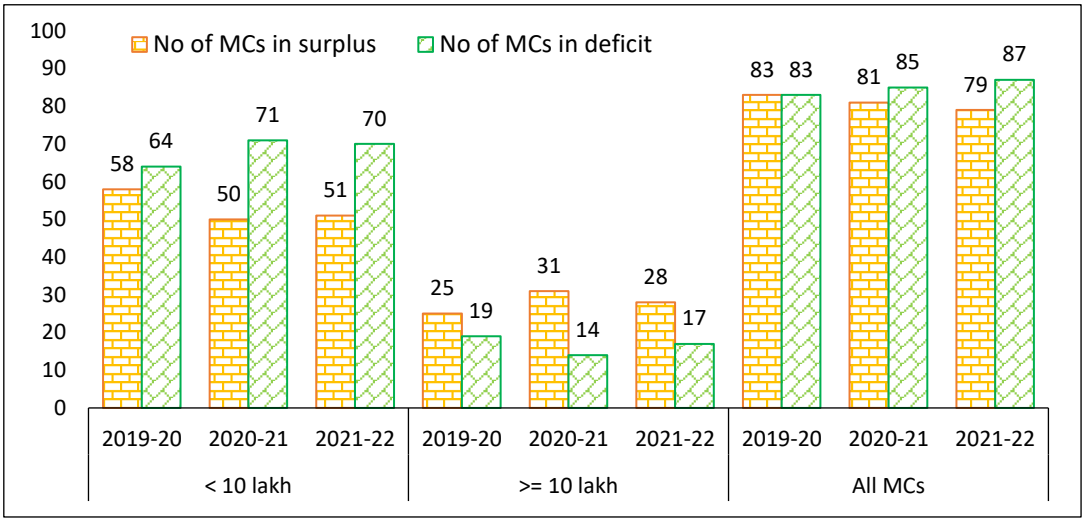
Population Category ----->	2019-20		2020-21		2021-22	
	<10 lakh	>=10 lakh	<10 lakh	>=10 lakh	<10 lakh	>=10 lakh
Components of Establishment Expenses						
Salaries, Wages, Benefits & allowances, Bonus	82.3	77.4	81.0	74.4	81.6	73.8
Pension and other terminal benefits	16.2	21.0	16.7	23.2	16.5	24.0
Other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

Source: Authors' calculation

6. Revenue Surplus/Deficit

From the examination of the audited financial statements of 166 MCs it is observed that more than one-half of them are in deficit i.e., their revenue expenditure exceeds revenue receipt (Fig-5). In 2019-20 the number of MCs that were in deficit was equal to the number that were in surplus. While the number of smaller MCs in deficit exceeded those in surplus; the opposite is the case for the larger MCs.

Fig 5: Number of MCs in Deficit/Surplus



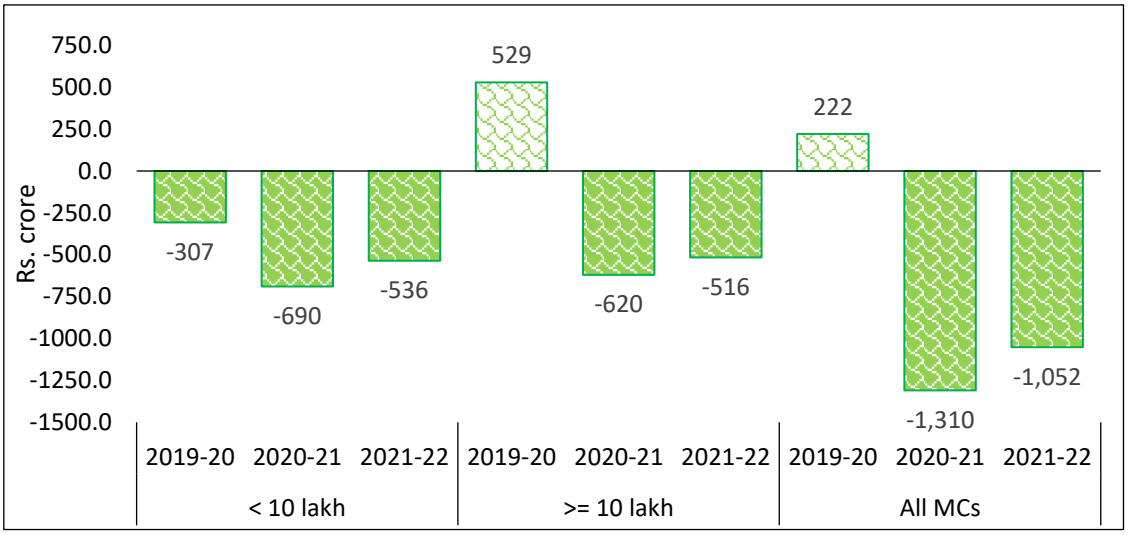
Source: Authors' calculation

It is observed that the smaller MCs in aggregate have a deficit in their revenue account to the tune of Rs. 307 crore in 2019-20 which increased to Rs. 690 crore in 2020-21. In 2021-22, the deficit declined to Rs. 536 crore (Fig-6). This is in sync with the number of MCs reporting deficit during these years (Fig-5). The larger MCs, on the other hand, had a surplus of Rs. 529 crore in aggregate in 2019-20 which turned into deficit of Rs. 620 crore in 2020-21. This is despite the fact that the number of million-plus MCs reporting surplus increased in 2020-21 (Fig-5).

In 2021-22, the deficit moderated despite the increase in the number of larger MCs reporting deficit.

With revenue surplus of larger MCs outweighing that of smaller MCs in 2019-20, the selected 166 MCs in aggregate had a surplus in the revenue account which turned into deficit in the pandemic year 2020-21 (both categories of MCs had deficit in aggregate in 2020-21). In 2021-22, the aggregate revenue deficit moderated to Rs. 1052 crore (Fig-6).

Fig 6: Revenue Surplus (+)/Deficit (-)



Source: Authors' calculation

7. Capital Receipts of Municipal Corporations

As discussed, capital receipts of MCs in India comprise specific purpose transfers from the union and state governments which are used for capital expenditure. They also receive grants from various government and non-government agencies for undertaking specific projects. Additionally, MCs 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. MCs in India are also accessing capital markets for meeting their infrastructure financing needs by issuing municipal bonds. All these constitute capital receipts of MCs.

From the examination of audited financial statements of MCs, we find that between 2019-20 and 2021-22 capital receipts aggregated across 166 MCs grew at a CAGR of 8.8 percent with capital receipts of larger MCs growing at a much higher CAGR of 11 percent. The corresponding CAGR for the smaller MCs is 5 percent. Expressed as percentage of GDP, capital receipts accounted for only 0.28-0.33 percent. (Table 7).

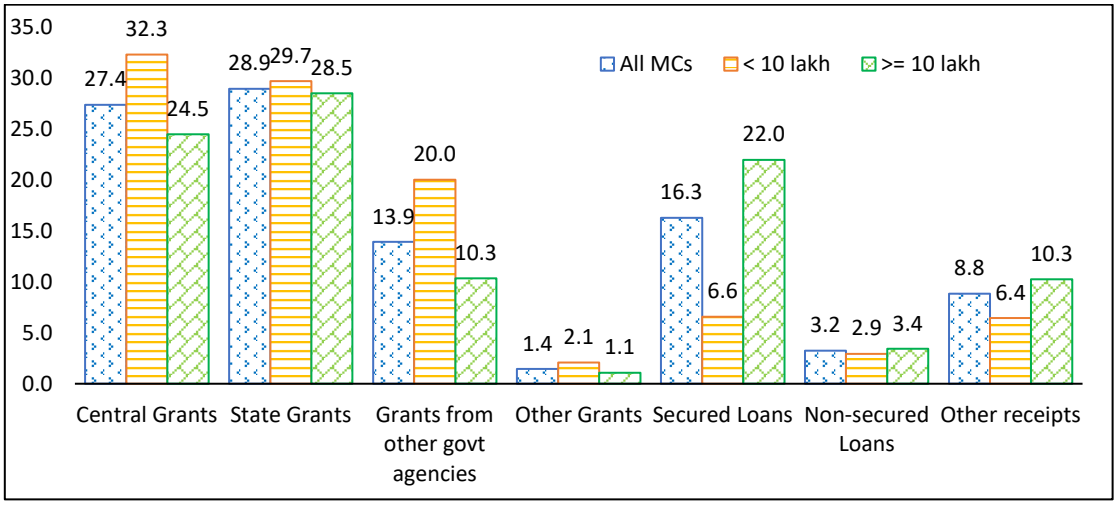
Table 7: Capital Receipt and Expenditure aggregated across 166 MCs (Rs. crore)

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

Source: Authors' calculation; GDP from MoSPI

From the examination of different components of capital receipts, it is observed that on average grants from central and state government and government agencies account for about 70 percent of their capital receipts. The dependence on such grants is much higher for smaller MCs at 82 percent as compared to 63 percent in case of the larger MCs (Fig-7). Further, for larger MCs, secured loans are an important constituent of capital receipts accounting for about 22 percent of their capital receipts (6.6 percent in case of smaller MCs). Other receipts comprising deposits received, deposits-works, sale of fixed asset etc., on average, account for about 9 percent of capital receipts of all-MCs.

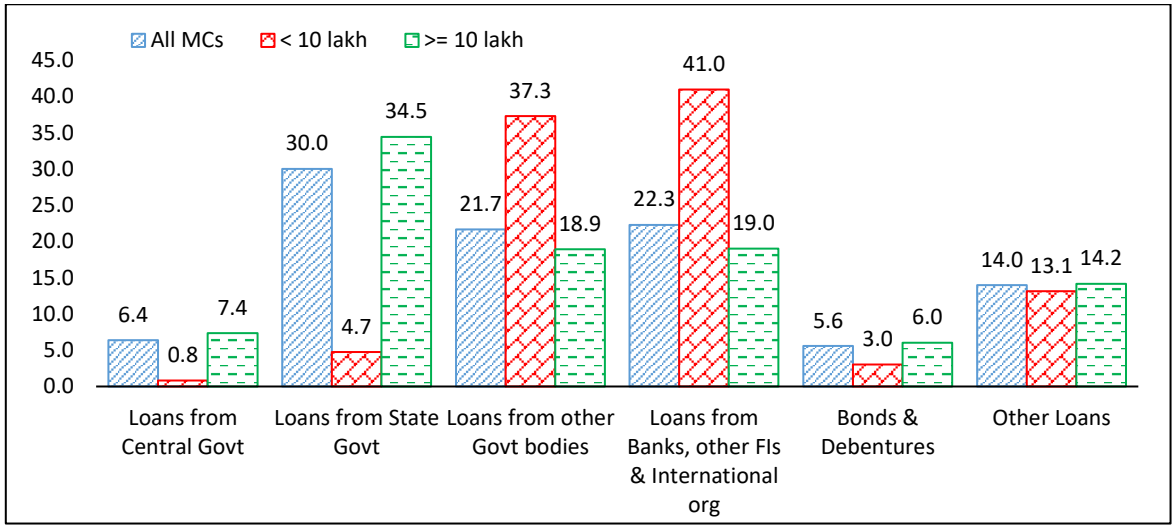
Fig 7: Components of Capital Receipts of MCs – Average share during 2019-20 to 2021-22 (%)



Source: Authors' calculation

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. For the larger MCs, loans from central and state governments and from various government agencies together account for about 61 percent of their secured loans. However, in case of smaller MCs the important components of secured loans are loans from banks, financial institutions and international organisations and loans from other government agencies like HUDCO, TNUIFSL, MUDF, etc. They together account for about 78 percent of their secured loans (Fig-8).

Fig 8: Components of Secured loans – Average share during 2019-20 to 2021-22 (%)



Source: Authors' calculation

In many MCs the categorisation of secured loans into different components was not available in the financial statements. For such MCs, the entire secured loan amount was reported under the head "other loans." This explains the high share of "other loans" (around 13-14 percent) for both categories of MCs.

Municipal corporations also raise resources from capital markets by issuing bonds and debentures, but the quantum is minuscule compared to their total secured loans. During 2019-20 and 2021-22, larger MCs have issued bonds and debentures amounting to Rs.1,029.8 crores which constitutes 6 percent of their total secured loans for the period, while smaller MCs have issued bonds and debenture amounting to Rs. 138 crore. There is considerable scope for raising resources by issuing municipal bonds by MCs in India. Despite several initiatives by the government in the recent years between 2017 and May-2025, only 17 MCs through 23 issuances have so far raised only Rs.3,358.9 crores. One of the possible reasons could be low credit-ratings of the MCs.[18]

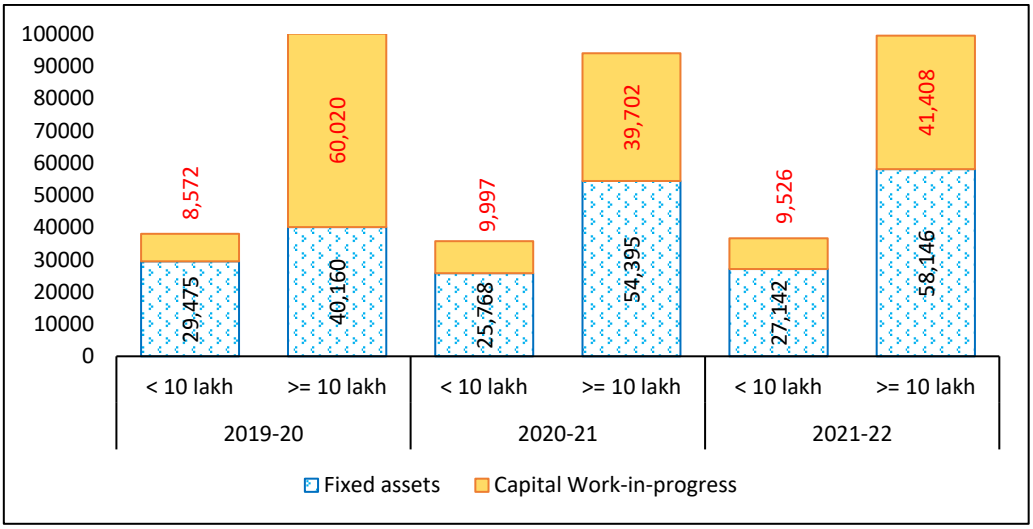
8. Capital Expenditure of MCs

Capital expenditure of MCs 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. Expenditure incurred on capital projects that gets completed/commissions during a financial year are classified as fixed assets. Expenditure on capital projects that remain incomplete or are under construction at the end of a fiscal year is classified as capital work-in progress also forms part of the capital expenditure. Expressed as percentage of the GDP, capital expenditure

[18] 43 MCs under MPC and 100 MCs under NMC got credit rated of which 82 MCs (38 in MPC and 44 in NMC) had investment grade ratings i.e., BBB- and above and only 21 had ratings of A- and above (19 in MPC and 2 in NMC).

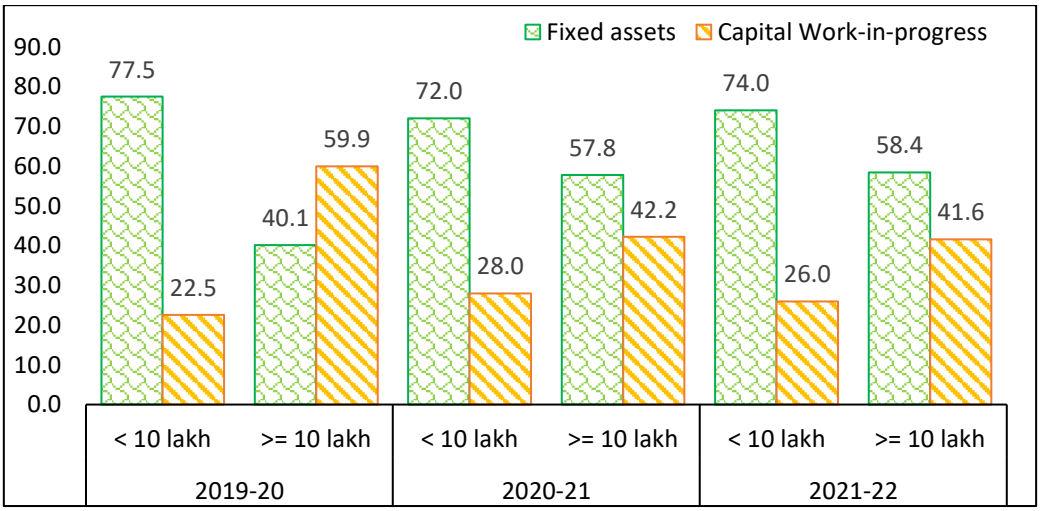
aggregated across 166 MCs accounted for about 0.58-0.69 percent (Table 7). In addition to the specific purpose transfers/grants from government and funds borrowed, MCs also use their own resources (i.e., from their municipal or general fund) to finance their capital expenditure. This could explain the why capital expenditure numbers are considerably higher than those for capital receipts. Moreover, own funds used for capital expenditure are not reported separately by most MCs.[19]

Fig 9: Composition of Capital Expenditure (Rs. Crore)



Source: Authors' calculation

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



Source: Authors' calculation

Capital expenditure is considerably higher in larger corporations (Fig-9) as also capital work-in-progress and its share in capital expenditure relative to the smaller MCs (Fig-10). One of the reasons for higher share of capital work-in progress in larger MCs could be that million plus MCs undertake large capital works spread across multiple years. However, in case of

[19] 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.

smaller MCs, the size of the projects may be such that they often get completed within the financial year. That could possibly explain the higher share of fixed assets for smaller MCs.

Further, classifying components of fixed assets into broad categories, land (i.e., land acquired during the year or improvement of land namely, its development and/or land-filling etc.), 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 of capital expenditure of MCs under fixed assets goes for roads and bridges, and sewerage, drainage and waterworks in both categories of MCs - 45-51 percent in smaller MCs and 57-65 percent in larger MCs (Table 8).[20]

Table 8: Components of Fixed assets (%)

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

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

9. Conclusion

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, the Commission should recommend uniform formats to be adopted by ULBs and incentivise state governments in ensuring compliance with its recommendations. 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 the ULBs does not allow for this. However, NMAM does provide function-wise codification. The central government through it various urban sector schemes and the FC should incentivise State governments and/or ULBs to ensure ULBs adopt function-wise financial reporting system. This would be helpful in the

[20] In the absence of detailed data similar classification for capital works-in progress was not possible.

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 that MCs are not a homogenous category. Smaller MCs depend more on transfers, for larger MCs own revenues are the dominant source of revenues. Although, the state municipal acts empower corporations/ULBs to levy a variety of taxes, very few 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 larger MCs. Expressing own-tax and property tax in per capita terms, it is observed that revenue from own-tax and property tax increases with the size of the MC i.e., per capita own-tax and per capita property tax revenue is higher for relatively larger MCs and vice versa. 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, MCs/ULBs can unlock substantial untapped potential in property taxes.

Another important source of income of MCs is own non-tax revenues from fees, fines, user charges, rental income etc. Revenues from non-tax sources are similar in magnitude as property tax. Through adequate pricing of various services provided by local bodies and improving their collection efficiencies, ULBs can augment non-tax revenues. To begin with, the target should be for meeting the cost of provision of services through collection of appropriate user charges.

Although there is not much of a difference in the shares of different components of revenue expenditure between larger and smaller MCs, both total and per capita expenditure is considerably higher for larger MCs. Establishment and O&M expenditure and deprecation account for more than three-fourths of the revenue expenditure of MCs.

More than one-half of the selected corporations were in deficit with revenue expenditure exceeding revenue receipts. On average, own-revenues of smaller MCs account for about 37-42 percent of their revenue expenditure, implying considerable dependence on transfers. The corresponding number for the larger corporations is 55-61 percent. 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 MCs 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 May-2025, 17 MCs through 23 issuances have so far raised only Rs.3,358.9 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: only 21 of the 166 MCs had credit ratings of 'A-' and above. Inability/unwillingness to raise own revenues and dependence on transfers inhibit development of a vibrant municipal bond market in the country.

With rapid urbanisation 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 digitalisation can free up additional resources. Additionally, standardising financial statements along with increased transparency in financial disclosures would help attract private investments and also facilitate MCs to access funds through sources like municipal bonds.

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