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Overview

The demand for high-quality public services in urban areas is growing rapidly with a rising urban population. Yet municipal corporations (MCs) in India invested with this responsibility generate limited revenues and rely heavily on the upper tiers of the government for their funding needs, limiting their operational flexibility. State-specific strategies to strengthen MC finances through local taxation reforms, better enforcement, augmenting institutional capacity and transparent financial management are crucial for resilient municipal finances and effective urban development.

I.1 With rapid growth in urbanisation, the demand for high-quality reliable public services in cities is expanding fast and these requirements can be expected to pick up pace in the coming years. The financial health of Municipal Corporations (MCs), which are responsible for the provision of public services relating to areas like water supply, sanitation, roads, local transportation, health, education, registration of births and deaths, street lighting, public parks and fire services in their jurisdictions have a vital role to play in effective urban management, urban development and upgradation of urban infrastructure.

I.2 Tracking municipal finances – their revenues; expenditures; and financing patterns - is critical for a holistic assessment of general government finances in the country. An analysis of municipal finances is also important for policymakers to design and coordinate suitable policies and to ensure that municipal spending aligns with broader macroeconomic objectives such as sustainable economic growth. In its report released in November 2020, the Fifteenth

Finance Commission had mandated the timely release of unaudited and audited financial statements by Urban Local Bodies (ULBs) as an eligibility condition for them to qualify for receipt of any grant.¹

I.3 Against this backdrop, this Report builds upon the insights gleaned from the inaugural *Report on Municipal Finances* in 2022. This Report expands data coverage to 232 MCs from 201 MCs covered in the 2022 Report and provides data for 2019-20 (Accounts) to 2023-24 (BE), capturing key fiscal indicators and trends across MCs in all the States. The analysis in the Report has been strengthened by undertaking a primary survey of MCs on their property tax revenue systems, which yield a sizeable part of the revenues of the MCs. The data in this Report are collected in accordance with the standardised format based on the National Municipal Accounts Manual (NMAM, 2004).

I.4 Compared to advanced economies and other comparable emerging market economies, Indian MCs generate much lower revenues

¹ The Fifteenth Finance Commission (FC-XV) stated that Urban Local Bodies must mandatorily prepare and make available accounts (unaudited) for the previous year and audited accounts for the period preceding the previous year in the public domain online. This would be an entry-level condition for qualifying for any grant. (FC-XV, vol: 1, Chapter 7, paragraph 7.16, page:175)

and consequently, spend fewer resources as a percentage of GDP. The MCs have underdeveloped own-source revenue streams, including both tax and non-tax revenues. MCs that rely more on their own revenues enjoy greater financial autonomy and stability, allowing them to strategically plan and implement urban development projects without relying heavily on unpredictable grants from the upper government tiers. By augmenting their own-source revenues, MCs can ensure more stable and sustained revenues, which in turn enables efficacious service delivery and urban infrastructure development. State-specific strategies are necessary to strengthen the finances of MCs through local taxation reforms, better enforcement of tax laws, and innovative non-tax revenue sources. For instance, property tax revenues can be boosted by digitising land records using Geographic Information System (GIS) mapping to maintain accurate and up-to-date records; introducing digital including QR code-based payment methods; organising recovery camps; shifting to effective property valuation methods; adopting a cost-reflective pricing approach and refining billing and collection mechanisms. Additionally, there is a pressing need to build institutional capacity through training and technical assistance in financial management, ensuring that MCs use these economic tools effectively and transparently.

1.5 At present, the MCs remain heavily reliant on Central and State governments for their funding needs through revenue transfers. Timely and adequate revenue assignment from the upper tiers of the government is essential. In this regard, a State-level rule-based system of

compensation and transfers, including the regular setting up of State Finance Commissions (SFCs) assumes importance. The constitution of SFCs by State governments, however, remains *ad hoc* with significantly delayed submission of reports, inadequate implementation of recommendations, lack of coordination with other government agencies and limited financial resources.

1.6 Municipal bonds provide an additional source for financing urban infrastructure projects, especially given the congenial financial markets. Furthermore, the introduction of green bonds by some MCs signals a commitment to sustainable development and climate resilience.

1.7 Chapter II of this Report presents the analysis of municipal finances in India and highlights opportunities and challenges therein. It examines municipal receipts during 2019-20 to 2023-24 (BE), focusing on own tax revenue, non-tax revenue, and transfers. It also analyses municipal expenditure, municipal borrowings and municipal bond financing.

1.8 Chapter III discusses own revenue streams of the MCs in India, including on the basis of a primary survey of 53 MCs on property taxes. This Chapter also discusses the importance of other tax and non-tax revenues for the MCs.

1.9 Chapter IV concludes by outlining the way forward for strengthening municipal finances, emphasising the need for fiscal autonomy, governance reforms, and innovative financing mechanisms to meet the growing demands of urbanisation in India. Data on fiscal indicators of MCs across India are provided in the appendices.