



JANAGRAHA

Working Draft

Municipal Finance Blueprint 2.0

A Report Submitted to XVI Finance Commission

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About Janaagraha Centre for Citizenship and Democracy

Janaagraha is a Bengaluru-based not-for-profit institution working to transform the quality of life in India's cities and towns. It defines quality of life as comprising quality of infrastructure and services, and quality of citizenship. To achieve its mission, Janaagraha works with councillors and citizens to catalyse active citizenship in city neighbourhoods, and with governments to institute reforms to city-systems. Janaagraha has worked extensively on urban policy and governance reforms for over two decades including on JnNURM, and with the XIII, XIV, and XV Finance Commissions, the Comptroller and Auditor General of India, NITI Aayog/Planning Commission, the Ministry of Housing and Urban Affairs (MoHUA), as well as the state governments of Odisha, Uttar Pradesh, Tamil Nadu, Rajasthan, Karnataka, and Assam.

Find out more at www.janaagraha.org.

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Chapter 1 : How much money do cities need?

Mapping the urban financing requirement

Overview

This chapter addresses the critical issue of quantification of urban investment needs in India. It emphasises the absence of a systematic approach to mapping financial requirements due to incomprehensive mapping of functional responsibilities, service delivery gaps, and unit costs. Without such mapping, cities struggle to justify adequate funding or plan effectively for the future. The chapter explores two fundamental questions: (i) why cities need money, and (ii) how much money they need, underscoring the necessity of robust financial mapping for informed decision-making and sustainable urban development.

1.1 Why cities need money?

Urbanisation in India is accelerating and reshaping the country's demographic and economic landscape. With over 800 million people now living in cities, the scale of India's spatial transformation is unprecedented¹. A 2019 technical report by the Ministry of Health and Family Welfare (MoHFW) estimated that the urban population reached 34.5% in 2021, and the UN's World Urbanisation Prospects projects this share to rise to 41% by 2031. Urbanisation today extends well beyond traditional metropolitan centres to encompass a growing network of medium and small cities that are expanding rapidly along transport corridors and peri-urban zones, creating new demands for infrastructure and services across a geographically dispersed urban system.

Rapid urbanisation has made India's cities the driving force of the country's economic transformation. As India pursues its ambition of becoming a \$5 trillion economy, the performance and resilience of its urban centers will be indispensable to this trajectory. This economic significance is underpinned by the scale and speed of India's urban demographic shift. The urban population is expanding rapidly. With just over one-third of the national population, major metropolitan regions such as Mumbai, Bengaluru, Chennai, Kolkata and Hyderabad anchor the national economy and compete globally in services and innovation. These cities contribute disproportionately to national GDP, often generating 1.5 to 2 times more economic output relative to their population share². Beyond the metros, regional hubs such as Pune, Ahmedabad, Surat, Kochi, and Visakhapatnam are emerging as important engines of growth, fueled by expanding infrastructure, investment in industrial corridors, and accumulation of human capital. The economic vitality of these urban centres translates directly into revenue generation, employment creation, and improved living standards—not just for urban residents, but for the entire nation through fiscal transfers and economic spillovers.

Meeting the needs of this rapidly growing urban population requires significant and sustained public investment, and the primary responsibility for delivering essential urban services lies with Urban Local Governments (ULGs). As recognised by the 74th Constitutional Amendment Act, 1992, ULGs are assigned 18 functions under the Twelfth Schedule (Refer annexure 1.2 for list of 18 functions) including water supply, sanitation, solid waste management, drainage, local roads, street lighting, public health, and primary education. These institutions are not just administrative entities; they are frontline agents of welfare, inclusion, and urban development. Directly responsible for the daily lived experience of hundreds of millions of citizens. The effectiveness with which ULGs discharge these functions determines whether cities become engines of opportunity or sites of deprivation—

¹ United Nations, Department of Economic and Social Affairs, Population Division (2015). World Urbanisation Prospects: The 2014 Revision.

² Singh, M. K., Sidharth, R., & Shah, A. (2025, January 29). CityGST: Direct city financing [Report, forthcoming].

whether they offer clean water and reliable transport, or force residents to navigate broken infrastructure and inadequate services.

Yet despite these extensive mandates, India's cities face enormous gaps in infrastructure and service delivery. For instance, according to MoHUA Handbook of Urban Statistics 2019, only about 70% households have access to piped water supply, with significant variations across cities and stark disparities between planned developments and informal settlements. Sanitation infrastructure remains inadequate, with large portions of urban wastewater discharged untreated, contributing to pollution of rivers and water bodies. Urban transport infrastructure has not kept pace with the rapid expansion of cities, resulting in severe congestion, long commute times, and heavy reliance on private vehicles that exacerbate air pollution. Cities like Bengaluru and Kolkata rank amongst the slowest cities globally for commutes³. Frequent floods and waterlogging in cities each monsoon due to inadequate drainage also cost cities; in 2015, Chennai floods caused \$3 billion in damages⁴.

These deficits are not merely inconveniences—they impose real costs in terms of health outcomes, lost productivity, environmental degradation, and diminished quality of life. Moreover, infrastructure gaps disproportionately affect the urban poor and marginalised communities, who often live in informal settlements with minimal access to basic services, perpetuating cycles of poverty and exclusion.

Fulfilling the constitutional responsibilities of ULGs at the scale and quality demanded by India's urban transformation requires substantial and predictable funding. Without adequate financial resources, the ability of cities to act as engines of inclusive growth and providers of essential public goods remains severely constrained. Understanding how much money India's cities need, and how these resources can be mobilised and deployed effectively, is therefore not just a fiscal question—it is fundamental to India's development trajectory, economic competitiveness, and the wellbeing of its urban citizens.

1.2 How much money do cities need?

For cities to effectively plan and allocate resources, they require reliable, up-to-date estimates of the investments needed to meet the burgeoning urban infrastructure and service delivery demands. However, a significant and persistent gap exists due to the absence of comprehensive, current, credible, and disaggregated data on urban investment requirements, that capture the scale, complexity, and diversity of urban needs in contemporary India.

In the past, several prominent studies have sought to quantify the investment required to meet India's urban infrastructure and service delivery needs. However, the application of their estimates to current context may not be prudent. The most prominent and widely discussed is the comprehensive study done by the High Powered Expert Committee (HPEC) in 2011⁵. It was a pioneering effort that employed a bottom-up estimation approach. It used standard Service Level Benchmarks (SLBs) and a Per Capita Investment Cost (PCIC) model, drawing on Detailed Project Reports (DPRs) from over 100 urban projects from Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and World Bank projects. The report covered eight core sectors - water supply, sewerage, solid waste management, urban roads, stormwater drains, street lighting, mass urban transport, and traffic management systems and projected a capital investment requirement of ₹71.62 lakh crore for 2006-2031 at 2009 prices (Refer annexure 1.3 for methodology and detailed estimate figures of the study). While the

³ TomTom. (2023). Traffic Index Report: Global City Rankings. Retrieved from <https://www.tomtom.com>

⁴ C. Bandyopadhyay, M.K. Bindal, and M. Manna, Chennai Floods 2015 (New Delhi: National Institute of Disaster Management, Ministry of Home Affairs, 2021).

⁵ High Powered Expert Committee (HPEC). (2011). *Report on Indian urban infrastructure and services*. Ministry of Urban Development, Government of India.

report was a landmark effort to estimate India’s urban infrastructure investment needs, it has limitations that constrain its relevance today. The estimates relied on outdated, project-specific data from JNNURM DPRs, offering limited coverage, particularly for medium and small cities. The use of uniform service standards like 24x7 water supply and 100 percent sewage coverage ignored variations in local context, capacity, and urban form. Crucially, important sectors such as health, land, air quality, civic amenities, public spaces, urban flood, etc were excluded altogether, limiting the comprehensiveness of the investment projections. Moreover, this estimate can’t be used in recent times as it relies on 2009 prices, and it assumes uniform service delivery targets across all cities.

Most recently, the World Bank’s 2022⁶ report, *Financing India’s Urban Infrastructure Needs*, estimated a capital investment requirement of ₹61.4 lakh crore (\$ 840 billion) by 2036. This investment would represent approximately 1.18% of the estimated GDP, ₹9,030 (\$ 108) per capita per year during this period, aimed at bridging the gaps in service delivery and infrastructure in the face of rapid urbanization. Basic municipal services (including water supply, sewerage, municipal solid waste management, storm water drainage, urban roads, and streetlighting) account for over half of these investment needs, totaling almost ₹39.15 lakh crore (\$ 450 billion) (Refer annexure 1.4 for methodology and detailed estimate figures of the study). The methodology builds on the HPEC framework, adjusting per capita investment cost norms to 2020 prices and using updated urban population forecasts from the National Commission on Population. The report includes water supply, sewerage, municipal SWM, storm water drainage, urban roads, streetlighting and urban transport but excludes slum rehabilitation and public housing and O&M costs, significantly underestimating true financial needs. Its assumptions around metro expansion (2,500 km) and BRT networks are ambitious and based on uniform unit costs, without adjustments for regional variances in land, procurement, or service capacity. Like earlier efforts, it has idealistic assumption that all cities should or can achieve the same standard, which does not consider the practical constraints, especially for small cities.

Similarly, study conducted by McKinsey Global Institute (2010)⁷ estimated ₹100 Lakh Crore (\$1.2 trillion) in urban capital expenditure over a 20-year period (up to 2030), an increase from actual investment of ₹765 per capita (\$17- at 2008 prices) in 2010 to an estimated ₹6,030 per capita (\$134- at 2008 prices) per year over the period 2010 to 2030 (Refer annexure 1.5 for methodology and detailed estimate figures of the study). While the report presents aggregate infrastructure requirements, it lacks to provide a differentiated investment approach based on city size and population density. Moreover, key sectors such as health, and public spaces are not considered.

Table 1.1: Summary of Major Investment Estimation Studies for Urban Infrastructure in India

Study	Investment Estimated	Time Period	Key Aspects
HPEC (2011)	₹71.62 lakh crore	2006-2031	<ul style="list-style-type: none"> Based on JNNURM Detailed Project Reports Covers 8 core sectors Estimates at 2009 prices Applies uniform service standards (e.g., 24x7 water, 100% sewerage coverage) Includes O&M estimates of ₹10.03 lakh crore Excludes health, land, and public spaces Limited representation of small and medium cities

⁶ World Bank. (2022). *Financing India’s urban infrastructure needs: A cities compass for a programmatic approach*.

⁷ McKinsey Global Institute. (2010). *India’s urban awakening: Building inclusive cities, sustaining economic growth*. McKinsey & Company.

World Bank (2022)	₹61.4 lakh crore (\$840 bn)	Up to 2036	<ul style="list-style-type: none"> • Builds on HPEC methodology and framework • Adjusted for inflation, population growth, and price norms as per 2020 • Includes water supply, sewerage, solid waste management, drainage, roads, streetlighting, and urban transport (metro, BRT, buses) • Excludes housing, slum rehabilitation, health, air quality, civic amenities and education • Excludes O&M/lifecycle costs • Assumes uniform service standards across cities
McKinsey Global Institute (2010)	₹100 lakh crore (\$1.2 trillion)	Up to 2030	<ul style="list-style-type: none"> • Combines macroeconomic model with sectoral analysis • Includes housing and health sectors • Benchmarks Indian cities against global city infrastructure norms • Proposes uniform infrastructure solutions • Limited differentiation by city size or density

Source: High Powered Expert Committee (HPEC). (2011). Report on Indian urban infrastructure and services. Ministry of Urban Development, Government of India; World Bank. (2022). Financing India's urban infrastructure needs: A cities compass for a programmatic approach, McKinsey Global Institute. (2010); India's urban awakening: Building inclusive cities, sustaining economic growth. McKinsey & Company

Together, these studies mark critical milestones in understanding the scale of India's urban investment challenge. Yet, their shared limitations such as outdated or static assumptions, lack of project lifecycle costing, and limited integration of informal settlements, smaller towns, and cross-sectoral needs like housing and health suggest a need for a more adaptive, context-sensitive, and dynamic framework for estimating urban infrastructure investment needs. These estimates are increasingly inadequate for multiple reasons:

1. **One-size-fits-all estimation ignores urban diversity:** India's urban landscape has changed dramatically since 2011. A review of registered ULGs on CityFinance platform (as on 31-06-2025) indicates that 1,057 new ULGs with a population of approximately 26 million have been formed since Census 2011. The rise of metropolitan regions and the blurring of rural-urban boundaries have added significant complexity to infrastructure and service delivery. Yet, past estimation methodologies applied uniform assumptions across vastly different urban geographies and governance capacities. This one-size-fits-all approach overlooks the distinct needs of metros, medium-sized towns, and smaller municipalities. As a result, the estimates are too generic to guide city-level planning or support targeted, responsive investment decisions.
2. **Contemporary urban priorities are not reflected:** ULGs today need to factor in a wider array of contemporary developments like public health epidemics, disaster management, digital governance, and climate adaptation, many of which were not factored into earlier investment models.
3. **Estimates based on narrow project data:** Due to limited data availability, the estimates were primarily drawn from DPRs prepared under the JNNURM. However, these DPRs reflect only specific projects and do not provide a comprehensive view of the overall infrastructure requirements of cities. As a result, the estimates fall short of capturing the full scale and diversity of urban infrastructure needs.

At the state and union levels, this absence of harmonized and regularly updated investment data impedes coherent policy formulation and resource allocation. Without a shared, robust baseline, urban infrastructure financing remains reactive and scheme-driven, characterized by short-term funding cycles that fail to address long-term urban transformation priorities. This disconnect undermines efforts to build integrated, future-ready cities and limits the effectiveness of national programs.

1.2.1 Why Don't We Have Better Estimates?

A credible estimation of required infrastructure investment is a critical first step in designing effective fiscal devolution and urban planning frameworks. However, all past attempts by McKinsey, HPEC, and World Bank reports were standalone exercises rather than part of an institutionalised, regularly updated system. More fundamentally, they were all constrained by a shared, deeply rooted challenge: the absence of reliable, granular, and standardised data across cities. Both the HPEC and World Bank explicitly acknowledged this data vacuum, which remains unresolved to this day.

This absence of reliable estimates is not a methodological oversight, it is a symptom of deeper structural constraints in how Indian cities plan, prioritise, and finance infrastructure. These constraints persist across every stage of the service delivery lifecycle from data collection and diagnostics to planning, costing, and investment decision-making, many of which were identified by the HPEC over a decade ago and reaffirmed by the World Bank in 2022.

1. **Outdated and narrow benchmarking frameworks:** The Ministry of Urban Development's Service Level Benchmarking Handbook (2008) was introduced to institutionalize the monitoring of municipal services, enable comparisons across cities, and encourage performance improvements. However, both its scope and implementation has remained limited, significantly constraining its impact.

Currently, SLBs focus primarily on just four core services of water supply, sanitation, solid waste management, and stormwater drainage. This narrow focus excludes several critical areas such as road connectivity, urban planning, affordable housing, and transport infrastructure, which are among the 18 functions listed in the Twelfth Schedule of the Constitution. Moreover, SLBs do not account for variations across regions or city types, thereby limiting their relevance for diverse urban contexts. Without a comprehensive and dynamic set of service-level indicators, city-level benchmarking remains fragmented and inadequate for informing a holistic urban infrastructure agenda. As a result, SLBs fall short of enabling data-driven planning, prioritization, and accountability in municipal service delivery.

2. **No Standardised Cost Norms:** Most Indian cities lack standardised unit cost norms for core urban infrastructure, such as cost per kilometer of road, per water connection, or per public toilet. This absence severely limits their ability to prepare realistic and comparable investment estimates.

Both the HPEC (2011) and the World Bank (2022) highlighted this as a critical gap. The HPEC had to extrapolate from a limited set of Detailed Project Reports due to the absence of a national cost database, while the World Bank noted that most ULGs still depend on outdated departmental rates and lack access to credible cost data. Compounding this challenge is the absence of project-level data, ULGs often do not systematically record or maintain detailed project cost, or outcome information.

This leads to inconsistent budgeting, frequent cost overruns, and weak planning. The absence of a shared cost repository also hampers efforts to design performance-based grants, assess infrastructure gaps, or attract private investment, as flagged in both the reports.

- Poor Quality of Data and Lack of Digital Systems:** A key reason for the absence of reliable investment estimates in urban infrastructure is the poor quality and lack of digitisation of data. Many ULGs continue to rely on manual, paper-based records, with no systematic or standardised mechanisms for data collection, storage, or reporting. As a result, crucial information on infrastructure assets, service coverage, and project expenditures is neither digitised, recorded, nor consistently maintained.

The HPEC (2011) highlighted that this dependence on fragmented and outdated records leads to error-prone datasets that hinder realistic planning or costing. The World Bank (2022) similarly underscored the weakness of digital infrastructure and reporting systems in Indian cities, limiting the generation of real-time, actionable data for investment planning and monitoring. The McKinsey Global Institute (2010) also observed that the absence of robust, digitised databases and monitoring mechanisms severely constrains the ability to assess infrastructure gaps, compare performance across cities, and model future investment needs with accuracy.

- Absence of comprehensive and integrated baseline service data:** Most ULGs operate without credible and comprehensive baseline data on service coverage, quality, or equity undermining their ability to assess needs, plan investments, or track progress effectively. Data that should ideally be collated from multiple sources including administrative records, citizen surveys, geospatial mapping, and service delivery audits, which is either unavailable, outdated, or maintained in fragmented silos.

The HPEC (2011) recognized this as a fundamental constraint, noting that ULGs typically lack reliable data on informal settlements and underserved populations, leading to systematic underreporting of service gaps. Owing to poor availability of city-level data, HPEC had to extrapolate information for smaller cities and rely heavily on a limited set of Detailed Project Reports, weakening the credibility of its bottom-up estimates. Over a decade later, the World Bank (2022) reaffirmed this gap, highlighting that the absence of service delivery diagnostics and integrated data systems continues to obstruct effective and equitable investment planning. Where data does exist, it is often outdated, inconsistent across time periods, and collected in non-standard formats, making it difficult to compare performance or allocate resources efficiently. The absence of a unified, multi-source data framework thus remains a major barrier to evidence-based urban decision-making.

- Faulty and inconsistent SLB reporting:** The SLB dataset, while offering a snapshot of city-level service delivery, is undermined by widespread inconsistencies, incomplete reporting, and gaps in data quality, which severely limit its reliability for assessing performance or making meaningful comparisons across cities. Analysis of key parameters such as water supply coverage, Non-Revenue Water (NRW), and wastewater network coverage across 82 cities indicates significant inconsistencies and gaps in reported data⁸:

- Erratic growth and unrealistic actuals:** Despite regular SLB reporting, many ULGs present figures that diverge sharply from actual service conditions. Missing or nil values distort

⁸ For this exercise, only 4 out of 28 SLB parameters have been considered, as these 4 parameters are linked to MPC Grants. The analysis is based on data self-reported by 82 ULGs with populations above 500K on the www.cityfinance.in, covering Actuals for FY 2023-24, Targets for FY 2023-24, and Targets for FY 2024-25 for the 4 SLBs.

year-on-year trends, resulting in extreme or implausible growth rates. For instance, Durgapur Municipal Corporation reports a -100% growth in water supply coverage due to missing actuals, while Greater Chennai, Dhanbad, and Bhiwandi show drastic negative growth between -14% and -59%, reflecting reporting errors rather than real declines in service delivery. Across 82 cities analyzed, all report either nil or negative growth in water supply coverage, and 39% fail to meet their own targets, remaining below benchmark levels.

Moreover, Many ULGs set targets below national benchmarks, particularly for non-revenue water (NRW) and wastewater coverage, undermining the validity of performance assessments. Even when cities adopt ambitious targets, actual achievement remains weak, 86.58% of cities are below the benchmark for water supply coverage, and only 18.33% of those aiming to meet it succeed. Smaller and medium ULGs consistently lag in both target-setting and achievement. Due to these inconsistencies and missing data, SLB figures cannot be reliably used to assess city-level performance or track progress toward benchmarks, leading to a significant gap between reported outcomes and ground realities.

- (ii) **Lack of Validation and Third-Party Review:** SLB data submitted by ULGs is neither validated nor independently audited, and there is no structured mechanism for review or reconciliation with actual service delivery conditions. As a result, discrepancies across agencies remain unaddressed, and data quality varies widely between cities. Due to the absence of third-party verification or audit, SLB data lacks credibility and comparability, preventing it from serving as a sound basis for evaluating service delivery performance or informing reform priorities.
- (iii) **Unreliable Data Undermines Decision-Making:** SLB data cannot be reliably used to assess city performance or track progress toward targets and benchmarks, as it often diverges from ground realities and lacks third-party validation. With no institutional link to incentives, funding, or accountability mechanisms, SLB reporting remains a procedural exercise rather than an evidence-based management tool. This disconnect between reported figures and actual service delivery limits policymakers' ability to make informed decisions or implement effective reforms, weakening the SLB framework's purpose as a driver of transparency and accountability.

Box 1.1: Service Delivery and SLB Mismatches in Karnataka's ULGs (FY 2021-22)⁹

An analysis of service delivery levels across Karnataka's ULGs for FY 2021-22 reveals wide disparities in performance and persistent gaps in meeting Service Level Benchmarks (SLBs) prescribed by the Ministry of Housing and Urban Affairs (MoHUA). The assessment, covering solid waste management (SWM), water supply, and sewerage and sanitation, highlights that while larger cities are nearing benchmark targets, smaller ULGs continue to lag behind significantly.

1. **Solid Waste Management:** Household-level collection coverage remains the strongest performing area, with 76% of ULGs achieving more than 90% coverage. Municipal corporations reported near-universal collection (100%), followed by City Municipal Councils (92%) and Town Municipal Councils (90%). However, Town Panchayats lagged, with only 51% achieving similar coverage.

A critical gap persists in managing bulk waste generators, where most ULGs lack mechanisms for segregation, tracking, or monitoring. This shortfall is partly structural the current 28 SLBs under MoHUA do not include indicators for bulk waste management, leading to limited performance oversight in this area.

2. **Water Supply:** The SLB prescribes 100% household coverage and a supply of 135 litres per capita per day (lpcd). In practice, however, 65% of ULGs reported less than 90% coverage, and 40% supplied below 100 lpcd. Larger corporations performed relatively better, with 90% achieving over 70% coverage and half reporting supply above 135 lpcd. Smaller ULGs fared poorly, about 40% of Town Panchayats reported less than 50% household coverage, and 58% supplied under 100 lpcd pointing to both infrastructure and operational bottlenecks.
3. **Sewerage and Sanitation:** Sewerage systems represent the weakest link in urban service delivery. Despite a 100% household coverage benchmark, 68% of ULGs (212 of 311) reported zero network coverage in FY 2021-22. The deficits are more severe in smaller jurisdictions: 42% of City Municipal Councils, 68% of Town Municipal Councils, and 89% of Town Panchayats reported no sewerage coverage.

Field surveys in Annigeri (TMC), Kundgol (TP), and Yadgir (CMC) confirmed the absence of underground sewerage networks and treatment facilities. Wastewater reuse targeted at 20% remains negligible; 42% of ULGs with systems reported no reuse, and another 31% reported less than 20%. Only half of the corporations achieved the reuse benchmark, while nearly all smaller ULGs (77% of TPs and 100% of NACs) reported none.

Service delivery in Karnataka's ULGs reveals a persistent mismatch between reported coverage and actual service quality. While administrative data suggests high performance in solid waste management and water supply, field assessments highlight gaps in infrastructure, continuity, and functionality. Performance is strongly size-dependent, with corporations closer to SLB targets, while smaller ULGs, particularly Town Panchayats and Notified Area Committees fall short.

6. **No assessment of infrastructure required to fill the gap:** Several cities lack a shelf of projects that would cater to addressing the service delivery and infrastructure gaps. There is no statutory or institutional mandate across most Indian states requiring ULGs to prepare Capital Investment Plans (CIPs) or City Action Plans (CAPs). These instruments are critical for systematically identifying infrastructure gaps, projecting future needs, and developing financing strategies. Yet, in their absence, urban investment decisions remain largely ad hoc and scheme driven.

Instead of infrastructure priorities being determined by city-level planning, it is predominantly shaped by top-down allocations through centrally sponsored schemes such as AMRUT, Swachh Bharat Mission (SBM), Jal Jeevan Mission (JJM), and PMAY-Urban. While these schemes address specific sectoral objectives, they rarely are able to address the context-specific needs of individual cities. This is called out by World Bank (2022) as resulting in misaligned priorities, underinvestment in critical sectors like drainage, urban transport, and digital infrastructure, and poor continuity in long-term urban development.

The report further highlights that less than 5% of ULGs in India systematically link infrastructure investment plans to medium-term fiscal frameworks or spatial development plans. In the absence of statutory requirements and planning discipline, most cities do not embed infrastructure decisions within a broader urban vision, weakening the overall coherence, efficiency, and sustainability of public investment.

7. **Fragmented Institutional Roles and Limited Data Integration:** Urban services in many Indian cities are managed by a range of agencies beyond municipal governments, including state-level parastatals and special purpose vehicles. Key functions like water supply, sewerage, and public transport are often overseen by these separate entities, which independently collect and manage data using different formats, definitions, and protocols, and often not required to share data in the public or with the ULG.

This fragmentation creates siloed data environments with poor interoperability, making it difficult to consolidate information for comprehensive urban planning. For example, one agency may track household water connections, while another manages bulk supply or billing with little coordination between them.

As a result, city decision-makers lack access to integrated, comprehensive datasets capturing service delivery across sectors and geographies. This fragmentation hampers coordinated planning, investment prioritization, and effective urban policy-making, as highlighted in the World Bank (2022) report.

- 8. Limited Technical and Human Resource Capacity in ULGs:** Persistent capacity constraints remain one of the most critical barriers to effective urban governance and data-driven planning in Indian cities. This is particularly acute in emerging and small cities, which often lack the financial resources, skilled personnel, and technical infrastructure required to manage even basic service-level data systems.

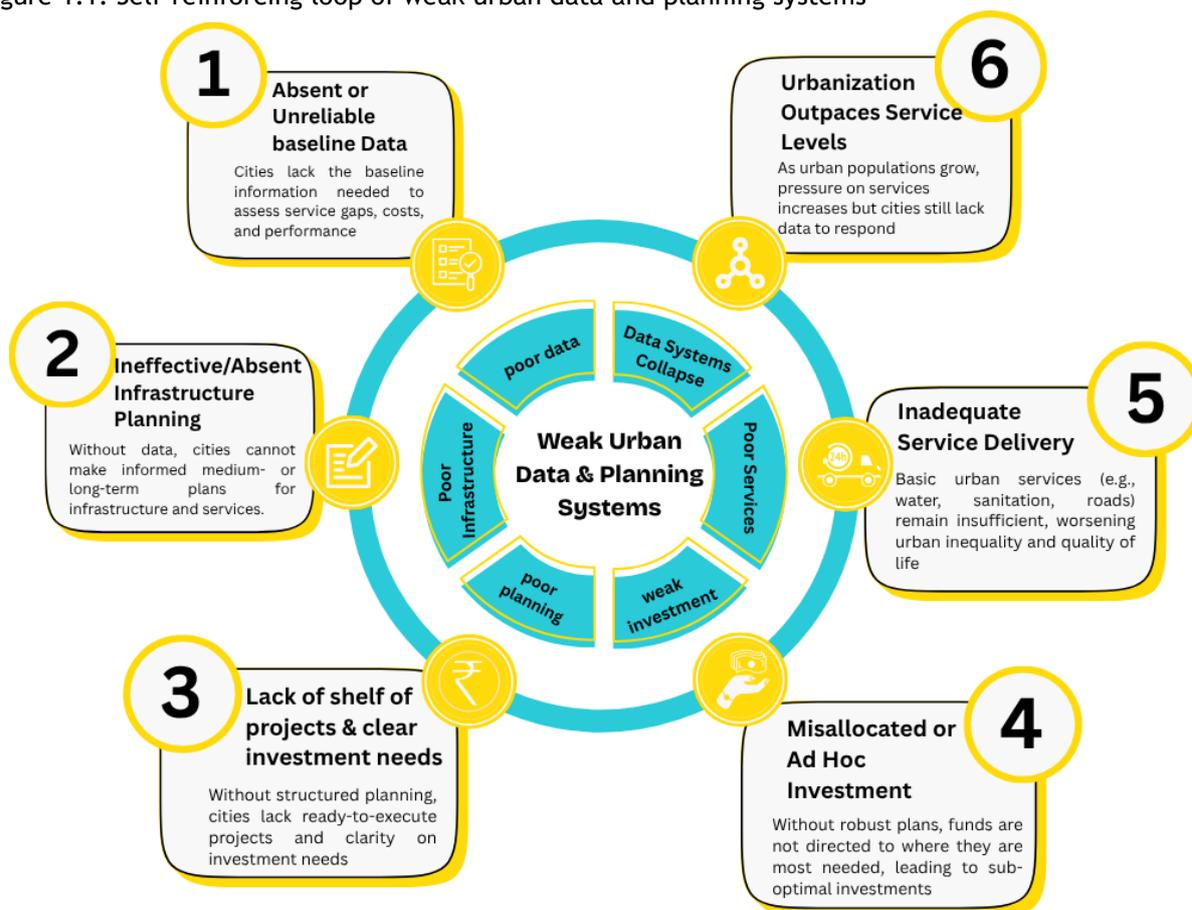
Most dedicated planning or IT departments are either absent or inadequately staffed; overburdened staff are often required to multitask without proper training in GIS, MIS, or data analytics. The HPEC report identifies this as a major barrier to implementing investment planning. Even where digital platforms exist, there is often a disconnect between system design and on-ground user capacity resulting in inconsistent data entry, outdated records, and gaps in quality assurance. Without skilled personnel or institutional support, cities struggle to maintain reliable data systems weakening planning, budgeting, and service delivery.

- 9. Weak Incentives to Collect and Disclose Service Level Data:** ULGs in India face little institutional or financial pressure to systematically collect and report service-level data. Most states lack statutory mandates or performance-linked incentives motivating municipalities to maintain updated data on services like water, sanitation, roads, and waste management. Without clear benefits such as increased grants or autonomy, cities deprioritize investment in data systems. While centrally sponsored schemes like AMRUT 2.0 and Smart Cities Mission include some performance components, these are limited in scope, cover only select cities, and focus more on outputs than ongoing data monitoring. State-level monitoring systems remain weak, with poor data consolidation, making data collection a low priority amid operational pressures.

As mentioned in the HPEC report (2011), political risk and weak accountability deter many ULGs from publicly disclosing service data due to fear of backlash over service deficits, treating data as a liability rather than a governance tool. This results in under-reporting, selective disclosure, and inflated coverage figures. The absence of independent audits and citizen oversight further erodes data credibility, undermining trust and hindering urban planning.

This leads to the vicious cycle where without reliable data, cities cannot plan effectively; without planning, investments cannot be targeted; and without investment, service delivery remains inadequate, trailing behind the pace of urbanization.

Figure 1.1: Self-reinforcing loop of weak urban data and planning systems



Source: Janaagraha's analysis

1.3 Recommendations for the estimation and institutionalisation of municipal infrastructure investment needs

A credible estimate of India's urban infrastructure investment requirement must be built on consistent metrics, reliable data, and a bottom-up planning approach. This section presents the key components of a framework needed to strengthen and institutionalise the estimation process—linking service delivery performance, project pipelines, and costing systems to derive the total quantum of investment required at city, state, and national levels.

1. Strengthen and Expand the Service Level Benchmark (SLB) Framework

A robust SLB framework forms the foundation for investment estimation.

- (i) **Develop a Robust SLB Calculation Process:** Establish a standardised method that integrates digitised administrative data, demographic data, financial and asset data, citizen surveys, third-party audited data, etc. to ensure accuracy and credibility.
- (ii) **Develop National Guidelines for SLB Gap Estimation:** MoHUA should issue a standard methodology, tools, and templates for assessing gaps between current service levels and benchmark standards across sectors.
- (iii) **Expand SLB Coverage:** Include a broader set of municipal functions under the Twelfth Schedule, ensuring that investment needs across the full urban service spectrum are captured.

- (iv) **Introduce Differentiated SLBs:** Define realistic, context-sensitive benchmarks that reflect city size, regional diversity, and resource availability.
- (v) **Regular Review:** Conduct a full revision every ten years, with interim updates to align with technological change and policy priorities.

2. Improve Data Systems and Reporting Quality

Accurate, comparable data are essential for credible investment estimation.

- (i) **Adopt Standardised Data Protocols:** Establish common definitions, indicators, and reporting formats for all ULGs.
- (ii) **Enable Data-Driven Assessment:** Promote digital tools such as GIS, mobile-based data collection, and dashboards to capture service-level data in real time.
- (iii) **Ensure Data Reliability and Comparability:** Build interoperable databases at the city and state levels to enable consistent national aggregation and benchmarking.

3. Translate Service Gaps into Investment-Ready Projects

To ensure investments respond directly to needs, identified service gaps must be linked to specific infrastructure interventions.

- (i) **Develop City-Level Project Inventories:** Each city should prepare a shelf of projects addressing its SLB gaps, with per-unit cost estimates attached to each intervention.
- (ii) **Integrate into Capital Investment Planning:**
 - Large cities should prepare detailed **Capital Investment Plans (CIPs)**.
 - Smaller towns may rely on simplified **City Action Plans (CAPs)** with indicative costing models.
- (iii) **Establish a Continuous Project Pipeline:** Maintain a list of vetted, priority projects that can be readily financed and implemented.

4. Standardise Costing and Investment Estimation

Standardised costing enhances the credibility and comparability of investment estimates across geographies.

- (i) **Create a National Cost Benchmark Database:** MoHUA should compile and periodically update per-unit cost benchmarks for major urban infrastructure components.
- (ii) **Allow for Local Calibration:** States may adjust benchmarks to reflect regional cost variations (e.g., terrain, material, labor).
- (iii) **Institutionalize Structured Aggregation Protocols:** Ensure that city-level costed projects can be systematically aggregated upward through a uniform methodology.

5. Build Bottom-Up Aggregation for State and National Investment Estimation

Urban infrastructure investment estimation must follow a bottom-up approach, ensuring that the total quantum reflects actual, ground-level needs.

- (i) **Aggregate City-Level Data:** States should consolidate the project inventories and investment estimates of their ULGs to produce state-level investment profiles.
- (ii) **Develop Composite State SLB Profiles:** Use aggregated data to identify regional and city size disparities and establish realistic state-level service targets.
- (iii) **Estimate the State Quantum of Investment:** Combine the costed project data from all ULGs to derive the total investment required for the state.
- (iv) **Feed into National Investment Estimation:** MoHUA can then aggregate state-level estimates to derive a credible national estimate of urban infrastructure investment needs, enabling macro-level planning and financing prioritization.

A robust estimation framework requires an **enabling ecosystem of institutions, skills, and governance mechanisms** to function effectively and sustainably. This enabling component underpins the 5 components discussed above, ensuring that the investment estimation framework is not a one-time exercise but a continuous, institutionalized process embedded in India's urban governance and financing architecture. To operationalize this, the following system-level actions are essential, as they establish the institutional, technical, and governance mechanisms required for cities and states to adopt, implement, and sustain the investment estimation framework over time:

- (i) **Clarify Institutional Roles and Accountability:** Define clear responsibilities for MoHUA, state governments, and ULGs in data collection, SLB monitoring, costing, and aggregation. Establish dedicated Urban Data and Investment Cells at the state level to provide technical and analytical support.
- (ii) **Strengthen Capacity and Knowledge Systems:** Invest in continuous training for ULB officials on data management, SLB application, and investment planning. Promote peer learning and the sharing of best practices across cities and states.
- (iii) **Integrate with Financing and Policy Frameworks:** Link investment estimation outputs with national and state financing strategies, including budget allocations, PPPs, municipal bonds, and climate funds, to translate estimates into implementable pipelines.
- (iv) **Ensure Data Governance and Interoperability:** Adopt common data standards, verification protocols, and interoperable digital systems to enable transparent and reliable data flows across levels of government.
- (v) **Institutionalize Monitoring and Feedback:** Create mechanisms for annual reporting on urban infrastructure investment and service-level outcomes, ensuring that insights from implementation feed back into SLB refinement and cost benchmarking.

Chapter 2 : How much money do cities have?

Overview

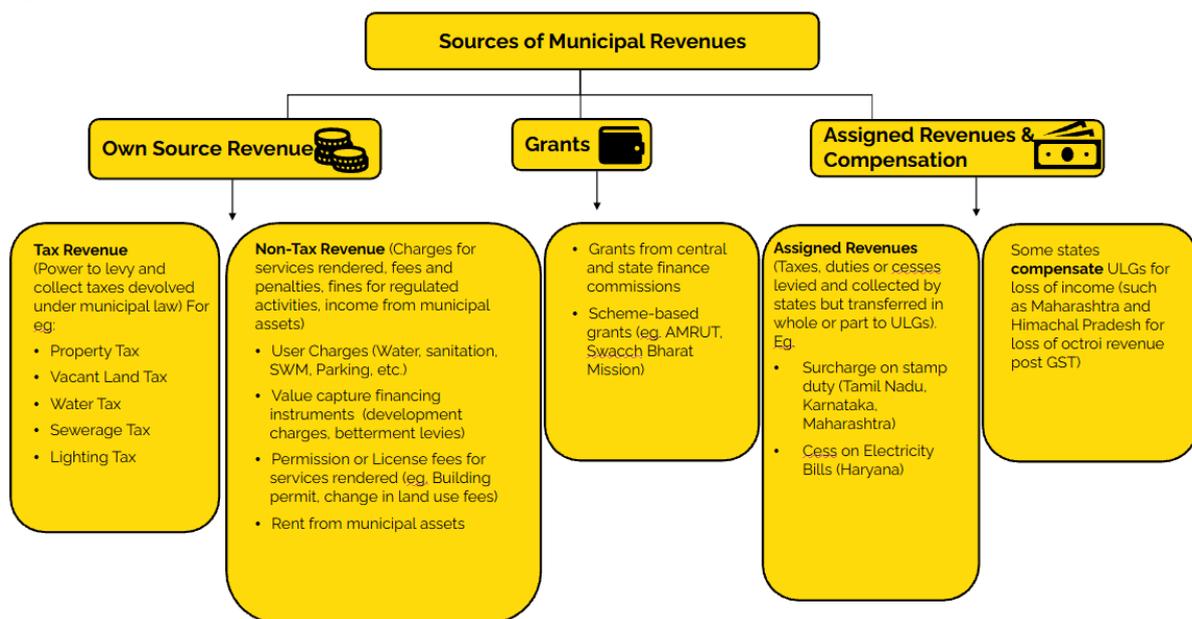
In the previous chapter, we outlined the need for an institutional mechanism for ensuring accurate estimates of cities’ investment needs. Notwithstanding the lack of holistic, bottom-up estimates of investment needs, basis publicly available data, it is well established that our cities’ investment needs far outweigh availability of municipal funds (i.e. municipal revenues and borrowings).

This chapter puts forth our assessment of systemic roadblocks and solutions for augmenting all sources of municipal funds, viz. grants, assigned revenues, own revenues, and borrowings. Our assessment is based on an evaluation of the current landscape in municipal finances using ULG-level audited financial statements for 2019-20 to 2022-23 sourced from www.cityfinance.in, Government of India’s national repository on municipal finances, and our on-ground work on ULGs’ revenue systems across various states of India.

2.1 What constitutes municipal revenues?

Municipal revenues refers to all the income sources available to ULGs’ and includes grants, own source revenues, assigned revenues and compensation. Grants refers to all budgetary transfers from union and state governments through Union and State Finance Commissions devolutions, union and state government schemes for urban development.

Figure 2.1: Sources of Municipal Revenues



Source: Janaagraha’s analysis

Own source revenues (‘OSR’) are revenue sources that ULGs have the legal power to levy, bill and collect under municipal acts and constitute both tax and non-tax revenues. OSR can be further categorised into taxes (property tax, vacant land tax, water tax, sewerage or drainage tax, lighting tax, etc.), user charges for civic amenities (like water charges, solid waste management charges, parking fees), rental income from municipal lands and buildings, value capture financing instruments like development charges and betterment levies, permission/license fees and fines for various activities governed by ULGs. Assigned revenues and compensation has 2 components: i) assigned revenues - which includes those taxes, cesses or duties that are levied and collected by the state

government and of which, either all or a portion of the proceeds are transferred to the ULGs (eg. surcharge on stamp duty, motor vehicle tax in some states), and ii) compensation - which involves transfer of funds from state government to ULGs to compensate for loss of income (eg. States like Maharashtra and Himachal Pradesh compensate cities for the income loss due to abolition of octroi post-GST) (refer Figure 2.1).

In comparison, municipal funds pertain to the total capital at the ULGs' disposal and includes both municipal revenues and borrowings. Borrowings - which primarily includes term loans sourced from various financial institutions and municipal bonds (including green bonds) - are an important funding tool for ULGs to enable financing of large-scale, long-term infrastructure projects in case of short-term budgetary shortfalls from revenue sources. But considering the debt implications, ULGs need to utilise borrowing instruments prudently to ensure overall fiscal sustainability.

2.2 How fiscally independent are India's cities?

While the 74th Constitutional Amendment recommended devolution of a set of 18 functions by the state governments to ULGs (covered in Chapter 1), it made no comparable recommendations with respect to devolution of revenue sources and left it entirely to state governments. Article 243X entrusted state governments to either i) authorise powers to municipalities to levy, collect and appropriate such taxes, duties, tolls and fees; or ii) assign a share of state government's taxes, duties, tolls and fees as the state government may prescribe by law.

Subsequently, most state governments limited ULGs tax and fees levying powers mainly to property tax, vacant land tax, advertisement tax, octroi, entry tax, user charges for services rendered by ULGs (eg. water charges in states where ULG provides piped water, solid waste management charges, parking fees), fees and fines for activities regulated by ULGs (eg. building permit fees, regularisation fines, etc.).

But, even though some taxes, charges and fees were devolved to local governments, most state governments chose to retain the power to set, revise and approve tax rates and tax methodologies further limiting the extent of fiscal decentralisation to local governments. For instance, in case of property tax, most municipal acts set the floor and ceiling tax rates, the methodology for computing the taxable value itself and the property categories that are exempt from taxation. As a result, if the state governments are not inclined to adopt better tax valuation methodologies (such as charging property tax as a percentage of guidance values/circle rates to ensure that properties' valuation is more reflective of market values), ULGs are left with limited avenues to increase their tax revenues. Similarly, if the state government provides size-based exemption (eg. Rajasthan exempts all residential properties below 2,700 sqft and all commercial properties below 900 sqft,⁹ Mumbai Municipal Corporation Act exempts all residential properties below 500 sqft¹⁰), or exempts certain property categories (for-profit making educational institutions and hospitals), the ULGs begin with a depressed tax base which limits their revenue mobilisation potential.

The extent of fiscal decentralisation and fiscal autonomy - represented by the contribution of own revenues to municipal revenues - further reduced with the introduction of Goods and Service Tax (GST) in July 2017. Even though GST brought in several benefits to the economy, businesses and consumers alike, it is a well-established fact that it further shrunk local governments' fiscal autonomy

⁹ <https://www.rajmunicipal.com/static/public/act/UD%20Tax%20Calculation%20and%20Rules-converted.pdf>

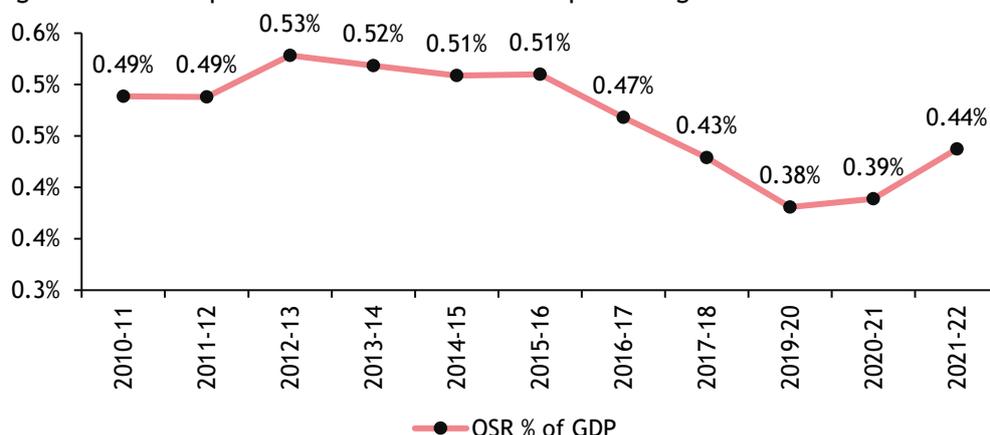
¹⁰ Refer Section 140 (1A): Notwithstanding anything contained in this section or any other provisions of the Act, from the 1st January 2022, the Corporation shall not levy any tax component of property tax specified in subsection (1) of section 139A, on the residential buildings or residential tenements, having carpet area of 46.45 sq. meter (500 sq. feet) or less. https://www.indiacode.nic.in/bitstream/123456789/16119/1/the_mumbai_municipal_corporation_act.pdf

due to the subsumption of key duties and taxes such as octroi, entry tax, advertisement tax and entertainment tax.

Figure 2.2 highlights the that own source revenues declined from 0.49% of GDP in 2010-11 to 0.44% of GDP in 2022-23 indicating a substantial decline in fiscal autonomy and low buoyancy of municipal revenues over the previous decade.

In addition, even in terms of assignment of a share of state revenues to ULGs or compensation for loss of income, state governments have taken limited action, with assigned revenues and compensation contributing only 7% of municipal revenues at the national level (Figure 2.3). Some state governments (like Maharashtra, Himachal Pradesh) have instituted GST compensation mechanisms to compensate for the estimated loss due to subsumption of octroi under GST. But, based on publicly available information, no state government has assigned a share of state GST revenues to ULGs. Further, while some states like Karnataka, Maharashtra, and Tamil Nadu levy an additional surcharge on stamp duty (on behalf of ULGs), the revenue proceeds are miniscule in comparison to the states' stamp duty collections. In addition, in states like Odisha, assigned revenue transfers are subject to ULGs meeting various compliance conditions - which impacts both the visibility and quantum of funds.

Figure 2.2: Municipal own source revenues as a percentage of GDP



Source: ICRIER Report on State of Municipal Finances for 2010-11 to 2017-18, National level figures for 4,824 ULGs basis extrapolation of Audited Financial Statements for 2,904 ULGs for 2019-20, 2,971 ULGs for 2020-21, and 3,803 ULGs for 2021-22, from www.cityfinance.in

Table 2.1: Trends in municipal, state and centre's revenue receipts, 2019-20 to 2021-22

Year	Municipal Revenues as a % of GDP	Centre's Revenue receipts as a % of GDP	States Revenue receipts as a % of GDP	Centre's revenue receipts as a % of total government revenue receipts	States Revenue receipts as a % of total government revenue receipts	Municipal Revenues as % of total government revenue receipts	Municipal revenues as % of state and municipal revenue receipts
2019-20	0.77%	8.4%	13.3%	37.4%	59.2%	3.4%	5.4%
2020-21	0.80%	8.2%	13.0%	37.3%	59.1%	3.6%	5.8%
2021-22	0.79%	9.2%	13.7%	38.9%	57.8%	3.3%	5.5%

Source: National level figures for 4,824 ULGs extrapolated basis audited financial statements for 2,904 ULGs for 2019-20, 2,971 ULGs for 2020-21, and 3,803 ULGs for 2021-22 sourced from cityfinance.in

Municipal revenues as a percentage of GDP in India when compared to other developing countries' also reflects weak fiscal decentralisation to ULGs in India. Municipal revenues as a percentage of GDP ranged between 0.77% to 0.80% of GDP over 2019-20 to 2021-22. In contrast, in Brazil and South Africa, municipal revenues as a percentage of GDP stood at 10.35% in 2023 and 7.83% in 2023-24 respectively.¹¹ Further, municipal revenues' contribution to the total government revenue receipts (i.e. union, states and municipal) continued to be abysmally low and ranged between 3.3% to 3.6% over 2019-20 to 2021-22. However, in countries like Brazil and South Africa, which have successfully devolved more functions and finances to their ULGs, municipal revenues contributed 21% in 2023 and 22% in 2023-24 of the total government revenue receipts respectively, and an even larger share of state government revenue receipts.

As a result, urban local governments' continue to function as 'urban local bodies' instead of independent, statutory governments and their reliance on grants to fund their expenditures is not solely a result of inefficiencies or limited staff capacities, but also of the unrealised promise of fiscal decentralisation.

Recommendation: State governments should enhance allocation under assigned revenues by introducing assignment-based sharing of key state tax revenues like stamp duty, motor vehicle tax, and state GST share to urban local governments.

Box 2.1: Need to redesign GST architecture to foster city government-led economic growth

The introduction of GST in July 2017 ushered in long-awaited reforms for rationalising indirect taxation in India and significantly improved ease of doing business. But even though GST subsumed multiple taxes levied by the union, state, and municipal governments, the current GST architecture only divides its revenue proceeds between union and state governments. Specifically with respect to urban local governments revenue raising powers, GST subsumed key own revenue sources like octroi, advertisement tax and entertainment tax, which had significant negative impacts on local governments own revenues across all states.

Some state governments like Maharashtra and Himachal Pradesh have instituted mechanisms to compensate ULGs for their estimated revenue loss due to GST. But to ensure fiscal decentralisation in its truest form, there is a need to relook at the GST architecture itself to ensure that local governments' - which make substantial investments in civic infrastructure that fosters greater economic growth - get an adequate, direct share from GST revenues themselves.

In addition to ensuring adequacy of own revenues for local governments, redesigning GST to ensure state, centre and local GST shares would also align local governments' incentives to fostering economic growth (and more consumption) and enable ease of doing business in cities as they would directly benefit through higher own revenues.

GST was a landmark reform that was fructified after 10+ years, therefore, even though local GST share is the long-term pathway to municipal finance reform in India, there needs to be a short-term roadmap for improving municipal revenues. Therefore, in the short-term, State Finance Commissions and state governments across the country should assign a fixed percentage share of state GST's share generated within the ULG to the ULG itself as an 'assigned revenue' to start cultivating the right incentives for city governments to invest in city's economic growth.

2.3 How do different types of cities mobilise municipal revenues and borrowings?

Now that we have addressed the need for enhancing fiscal decentralisation to improve ULGs' fiscal position, let us closely examine how India's ULGs currently mobilise revenues and borrowings. We analyse data from audited financial statements of 3,800+ ULGs (out of 4,800 ULGs in India) sourced

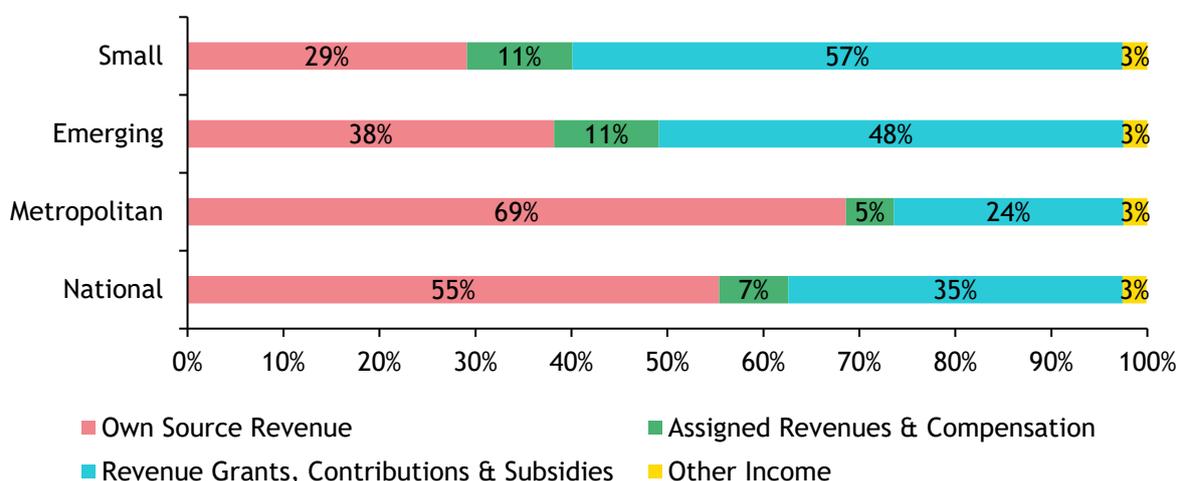
¹¹ Municipal revenue for South Africa taken from data released by the National Treasury while GDP is as per data maintained by the World Bank. For Brazil, data has been taken from general government finance statistics released by the National Treasury.

from www.cityfinance.in, India's official platform for standardised, timely, and credible financial data on ULGs, conceptualized by Janaagraha and launched by MoHUA in May 2020 to enable benchmarking, comparison, and peer learning across cities. At the national level, remarkably, own source revenues contributed 55% of municipal revenues, whereas, revenue grants, contributions and subsidies, and assigned revenues contributed 35% and 7% respectively. While this national level picture may let us misleadingly conclude that ULGs have become substantially self-reliant, it is useful to evaluate revenue mobilisation across different city typologies.

Given India's diverse urban landscape and varying city characteristics, India's ULGs can be split into 3 typologies basis their size and economic characteristics - metropolitan (1 million plus), emerging (100k to 1 million) and small (less than 100k). Each of these 3 ULG typologies roughly contribute one-third of India's urban population and have substantially different revenue generation potential. Metropolitan cities generally possess better quality infrastructure and service delivery standards, greater economic impulse to raise own revenues, and better staff capacities. Whereas, emerging ULGs (100k to 1 million) are typically mid-tier, growing centres and regional hubs for economic growth that are expected to support the next phase of India's economic growth. In contrast, small cities (less than 100k) are typically smaller towns experiencing fast-paced urbanisation without the required economic base, infrastructure, and staff capacities to sustain the same.

As a result, metropolitan cities have higher potential for mobilising own source revenues and municipal borrowings. However, emerging and small cities will require substantial grants from union and state governments to create the requisite infrastructure and provide civic amenities to citizens. The same is demonstrated when we evaluate municipal revenue composition across these 3 city typologies. In 2021-22, metropolitan cities mobilised 69% of their revenues through own sources, with grants, and assigned revenues contributing only 24% and 5% respectively. In contrast, emerging and small cities were able to mobilise only 38% and 29% of their revenues through own sources, and relied heavily on grants which contributed 48% and 57% to their revenues respectively.

Figure 2.3: National and city typology-wise municipal revenue composition, 2021-22



Source: Analysis of audited and provisional financial statements by ULGs from cityfinance.in

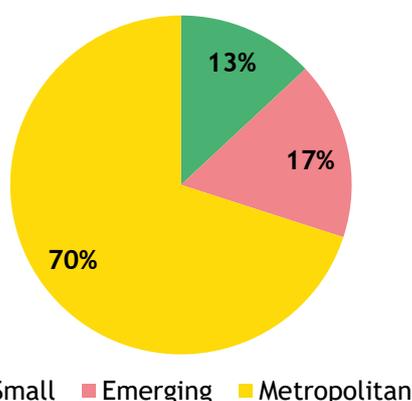
With respect to borrowings, outstanding aggregate municipal debt stood at INR 25,399 crore¹² in 2021-22 for 3,804 ULGs (for which data was available), and contributed an additional 12% capital over municipal revenues. But the scale of municipal borrowings remains modest, amounting to just 0.11%

¹² Data for 2021-22 as per audited financial statements of 3,804 ULGs from cityfinance.in, out of which, 1,355 ULGs have reported outstanding debt.

of GDP in 2021-22¹³. This is well below 1% of GDP in Turkey and South Africa, and 1.6% of GDP in Brazil and Columbia¹⁴.

The extent of debt mobilization also varies significantly across city typologies. 84% metropolitan cities (36 of 43 cities) had debt on their books as of 2021-22 and contributed 70% to the total outstanding debt across ULGs. In comparison, only 42% emerging cities and 26% small cities had outstanding debt in the same year. Metropolitan cities are generally more amenable to leverage borrowings, benefiting from legacy advantages such as better-quality infrastructure, stronger service delivery systems, greater economic dynamism to mobilize own resources, and better institutional capacities. Despite these inherent advantages, their current debt exposure is lower than their potential. Further, considering the constrained fiscal space across all city typologies, even emerging and small cities would benefit from mobilising additional debt, albeit at a smaller scale, to support financing of urban infrastructure projects. But realising ULGs’ debt potential will require concerted efforts from union and state governments to 1) incentivise metropolitan ULGs to undertake prudential debt exposure; and 2) strengthen the institutional capacities of emerging and small cities to create an enabling environment for them to access debt financing more effectively.

Figure 2.4: City typology-wise municipal borrowings composition, 2021-22



Source: Analysis of audited and provisional financial statements by ULGs from cityfinance.in

Going forward, metropolitan ULGs can be expected to leverage their economic base, improved infrastructure and service delivery standards and better staff capacities to further enhance their own source revenues, mobilise debt-based financing and further reduce their reliance on grants. However, considering the constrained fiscal and technical capacities of small and emerging cities, union and state governments should disproportionately allocate more grants to them while also improving the design of centre and state sponsored schemes with a focus on emerging and small cities for meeting citizens’ aspirations. Considering these differential pathways for resource mobilisation across different city typologies, the following sections closely examine the challenges and solutions for augmenting the key municipal fund sources - grants, own source revenues, municipal borrowings.

2.4 How predictable and empowering are grants to cities?

The preceding sections showed that India’s cities have highly unequal capacities to raise own revenues. These fiscal asymmetries are partially mitigated through intergovernmental transfers or grants. Grants are therefore not merely supplementary, they are the primary mechanism through

¹³ Based on annual financial statements (2021-22) available on cityfinance.in. Data for 2021-22 as per audited financial statements of 3,804 ULGs from cityfinance.in, out of which, 1,355 ULGs have reported outstanding borrowings to the tune of INR 25,399 crore. India’s nominal GDP for the same year was INR 235.97 lakh crore.

¹⁴ World Bank (2025). Unlocking Subnational Finance. Overcoming Barriers to Finance for Municipalities in Low- and Middle-Income Countries.

which India's fiscal architecture attempts to correct the structural imbalance between functions and finances.

India's fiscal federalism is organised across three tiers: Union, States, and Local Governments. Transfers and revenue-sharing arrangements between tiers of government are a critical feature of public finance.

The 74th Amendment left the assignment of ULG's revenue sources at the discretion of state governments. Article 243X empowers state legislatures to authorise municipalities to levy taxes, duties, tolls, and fees, and to assign specific tax revenues to municipalities. State acts further define ULG powers, including revenue sources, and autonomy in taxation and expenditure priorities, hence it is assumed that states bear the obligation to bridge the gap between what ULGs can raise and what they require to perform their functions. One such institutional mechanism is provided for by Article 243Y, which requires State Finance Commissions (SFCs) to recommend principles for the distribution of state revenues between the state and their local governments, as well as for determining the grants-in aid to municipalities.

Although 'local government' is a State subject, the Union continues to play a critical role in municipal finance through fiscal transfers under Articles 280(3)(bb) and 280(3) (c). These provisions mandate the Union Finance Commission to recommend measures to augment the resources of municipalities by supplementing State funds. Together with Article 282, which authorises discretionary Union grants for public purposes, these form the foundation of India's multi-tiered system of fiscal transfers to ULGs.

In this form, ULGs in India receive transfers/grants from union and state – both constitutional and discretionary – each differing in predictability, flexibility and design. Broadly, these can be classified into five channels:

1. Union Finance Commission (UFC) Grants

These are constitutionally mandated transfers under Articles 280(3) (c) of the Constitution, forming the core fiscal devolution from the union to local governments. The UFC recommends the share of union revenues to be allocated to local governments every five years, with grants typically categorised as basic (untied and tied), performance-based and special/additional grants. Because allocations are formula-driven and based on objective criteria such as population, area, and fiscal effort, these transfers are predictable and stable. However, procedural delays in fund release can limit their timeliness. In terms of flexibility, while the untied portion provides autonomy to ULGs, tied grants are directed towards specific sectors such as water supply and sanitation.

2. Centrally Sponsored Schemes (CSS)

Centrally Sponsored Schemes such as AMRUT, Swachh Bharat Mission (SBM-Urban), and the Smart Cities Mission represent a major source of union funding for urban infrastructure and service delivery. These schemes derive their legal authority from Article 282, which allows the union government to make grants for any public purpose, even in areas outside its legislative competence. CSS are discretionary and scheme-based, implemented through specific guidelines and co-financing arrangements with States. Their purpose is to implement national priorities in a uniform manner across cities, leading to low flexibility. Predictability depends on annual budgetary allocations and compliance with scheme conditions.

3. State Finance Commission (SFC) Grants

Transfers recommended by State Finance Commissions are provided under Article 243Y, which mandates each State to constitute an SFC every five years to recommend principles for sharing State revenues with local governments. In theory, SFC transfers are constitutional and formula-driven, with

a reasonable degree of predictability and flexibility, as they often include untied components and shared revenues. In practice, however, SFCs are frequently delayed or their recommendations partially implemented, making the transfers irregular and less effective than intended.

4. State Government Schemes and Ad hoc Grants

In addition to SFC transfers, states provide ULGs with grants and funding under State-specific urban schemes, reflecting their own development priorities and fiscal capacity. These may support infrastructure, housing, sanitation, or municipal reforms. The constitutional and legal basis for such schemes lies in Articles 162, 243W, and 282, as well as State List entries (5, 6, 12, 13, and 17) of the Seventh Schedule, which empower States to legislate and execute urban functions. These transfers are executive and discretionary, determined by departmental policies and annual budgets rather than by any constitutional or statutory formula leading to low predictability. Flexibility of end use is very subjective to the schemes and state.

5. Other Sources of Grants

ULGs may also receive funds from supplementary sources such as the **Member of Parliament Local Area Development Scheme (MPLADS)**, **Member of Legislative Assembly Local Area Development Schemes (MLALADS)**, and the **District Mineral Funds (DMF)**. MPLADS and MLALADS are executive schemes established under Article 282, allowing legislators to recommend small-scale works in their constituencies. The DMF, by contrast, is a statutory fund established under Section 9B of the Mines and Minerals (Development and Regulation) Act, 1957, to benefit mining-affected areas. These sources are typically ad hoc and fragmented, operating outside the formal intergovernmental transfer framework. Their predictability is very low, as they depend on political discretion or specific sectoral circumstances, though they offer relatively higher flexibility for small-scale local works.

Together, these transfers account for roughly one-third of municipal revenues nationally, but their contribution varies sharply across city typologies: grants constitute about 24% of revenues in metropolitan cities, 48% in emerging cities, and 57% in small ULGs. This uneven reliance reveals how incomplete fiscal devolution has left most cities dependent on higher-tier transfers to maintain even basic service delivery. Consequently, predictable and formula-based grants from the Union and State Finance Commissions serve as fiscal lifelines, ensuring minimum standards of service delivery across all tiers.

2.4.1 How have fiscal transfers to cities evolved?

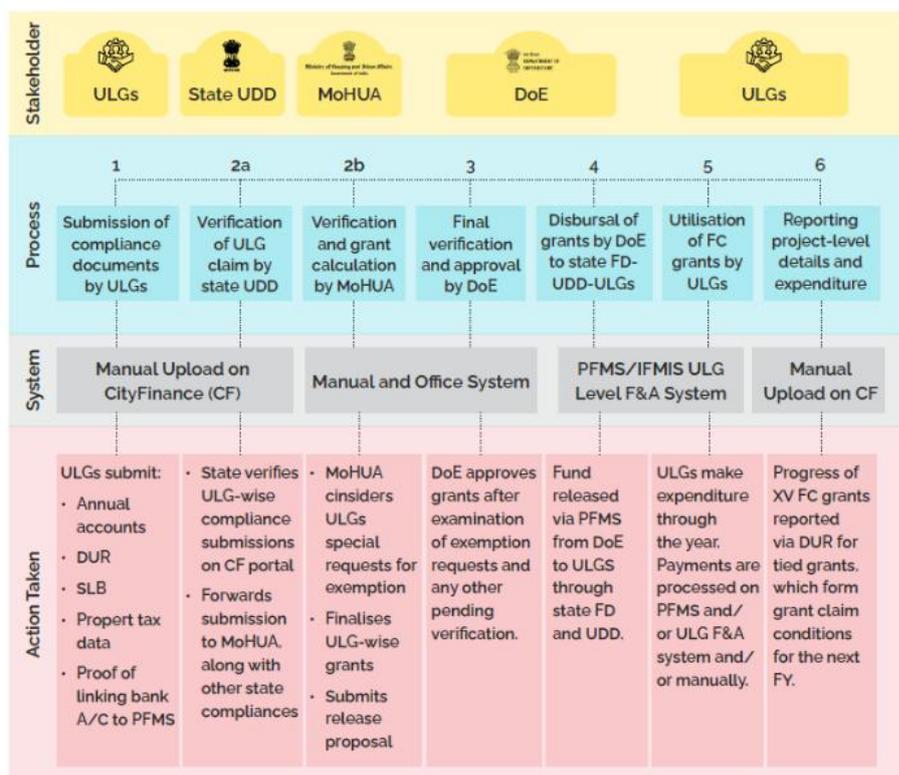
Over the past three decades, India's intergovernmental transfer system has undergone a profound transformation. At the Union level, following the 74th CAA, successive Union Finance Commissions gradually began addressing the fiscal needs of ULGs. The X Finance Commission (1995-2000) made the first allocation of ₹1,000 crore—largely ad hoc and routed through states. By the XV Finance Commission (2021-26), total allocations to ULGs had reached ₹1.55 lakh crore, equivalent to 1.5% of the divisible pool, marking a historic shift in the scale of local fiscal devolution.

Beyond scale, the architecture of grants has also evolved in design. Early Commissions offered untied, general-purpose grants that allowed cities wide spending discretion. Later Commissions gradually introduced performance-based and tied components to encourage fiscal discipline and sector-specific outcomes.

The XV Finance Commission represented a decisive break in this trajectory. It restructured grants around two principles: (i) linking compliance directly to disbursement, and (ii) differentiating grants for Million-Plus Cities (MPCs) and Non-Million-Plus Cities (NMPCs). MPCs received 100% performance-based grants tied to air-quality improvement, water supply, and sanitation outcomes; NMPCs received a mix of 60% tied and 40% untied grants. While this framework advanced accountability, it also narrowed ULGs' fiscal discretion.

The XV FC period also witnessed digital institutionalisation of grant management. The CityFinance platform was adopted as a digital interface for compliance verification and workflow management, enabling data-driven approval of grant claims. The use of the Public Financial Management System (PFMS) further strengthened digital release and payment processing, allowing real-time tracking of grant releases and utilisation across States. Together, these reforms marked a significant step toward institutionalising predictable and traceable fiscal transfers to ULGs.

Figure 2.5: XV FC grant administration process mapping stakeholders and digital systems



Source: Janaagraha’s analysis

The XV FC grant process comprises six steps outlined in Figure 2.5 and described below:

Figure 2.6: Stages of institutional cycles of SFC



Source: Janaagraha’s analysis

At the state level, SFCs play a constitutionally mandated role in institutionalising a rule-based, transparent, and periodic transfer system for ULGs. In practice, however, their functioning remains one of the weakest links in India’s fiscal federalism. Unlike the UFC, which has gained prominence and influence in India’s fiscal federalism, SFCs struggle with consistency in constitution, reporting, and acceptance of recommendations across states. The institutional lifecycle of SFCs consists of three

key stages: (i) Formation of SFCs, (ii) Operation of SFCs, and (iii) Response of State Governments to SFC recommendations, each stage characterised by recurring challenges.

2.4.2 What limits the effectiveness of grants?

Despite increased outlays and digital reforms, four persistent design and implementation weaknesses continue to undermine the effectiveness of fiscal grants.

1. Declining local autonomy through tied transfers

Over time, grant architecture has evolved from largely untied allocations to more targeted and sectoral. While this shift was intended to align local spending with national and state priorities, it has significantly eroded the fiscal autonomy of ULGs. Despite constitutionally guaranteed entitlements, ULGs today exercise limited discretion over the funds they receive. As a result, cities may have resources on paper but lack the flexibility to deploy them in line with their most pressing needs, reducing their spending efficiency.

At union level, Finance Commission grants to ULGs initially began as largely unconditional, allowing ULGs to use funds based on local needs, barring a few stipulations. The X FC provided 100% untied grants, intended for the development of essential local services. The XI FC introduced additional/special grants to address the lack of reliable financial and budgetary data for local governments, whereas XII FC continued the practice of fully untied transfers. A key shift occurred with the XIII FC, which introduced performance-based grants (35%), linked to compliance with nine reform criteria. These performance grants, while untied in usage, were conditional on states and ULGs meeting procedural and institutional reform requirements. The XIV FC retained 20% performance-based grants.

The XV Finance Commission introduced two turning points in this trajectory. First, it linked compliance directly to grant disbursement through mandatory eligibility conditions, making procedural and institutional reforms a prerequisite for accessing even basic grants. Second, it differentiated the grant structure by classifying ULGs into Million-Plus Cities (MPCs) and Non-Million-Plus Cities (NMPCs), acknowledging their varied urban contexts.

Nearly 73% of total XV FC grants were tied to centrally defined sectors, significantly narrowing the fiscal discretion of ULGs. While this alignment with national priorities was intentional, it sharply reduced ULG discretion in addressing local needs. This shift raises important questions about local autonomy, and whether stringent funding structures sufficiently accommodate city-specific development needs. Critics argue that such a high proportion of tied funding could undermine the ability of ULGs to set their own spending priorities, effectively reducing them to implementing agencies for centrally determined priorities⁵.

Analysis of DURs from 2,056 NMPCs on CityFinance shows that tied grant utilisation remained modest at 49%⁶ between 2020-21 and 2023-24. In states like Telangana and Maharashtra, untied grants showed a higher utilisation of 77% and 60% respectively. While the tied grants utilisation remained at 54% for Telangana and 41% for Maharashtra. It is evident in the utilisation data of tied and untied grants (utilisation of untied grants is at least 20% higher than that of tied grants) that untied grants offer ULGs the flexibility to align expenditures with local priorities and reduce utilisation hurdles.

This pattern extends beyond UFC grants. At state level, SFC transfers and State-specific schemes have also become increasingly tied to purpose. In Karnataka, between FY 2020-21 and FY 2024-25, over 90.7% of SFC grants were tied to committed expenditures such as salaries, electricity charges, and debt servicing—leaving little room for developmental or capital spending. The remaining 9.2%⁷ “untied” grants were also narrowly restricted to capital assets and welfare schemes for Scheduled Castes and Tribes. Similar trends are observed across several States, where SFC grants are not only

delayed or under-implemented but are also designed as earmarked funds, undermining the spirit of fiscal devolution.

Beyond SFCs, Centrally Sponsored Schemes (CSS) and State Sector Schemes (SSS) further compound this rigidity, as they operate through detailed guidelines that prescribe spending categories, procurement processes, and performance milestones. With multiple layers of tied funding, the overall fiscal envelope available to ULGs for autonomous decision-making has steadily narrowed.

Recommendations to ensure expenditure efficiency through local autonomy

- A. UFC should design 100% grants as untied, without mandating end-use. This will empower ULGs to allocate funds according to local priorities.
 - a. Promote the preparation of annual action plans and Capital Investment Plans (CIPs) to improve project selection, while requiring public disclosure of expenditure and projects to strengthen accountability.
 - b. To ensure balanced investment, a spending cap could be introduced, limiting no more than 50% of FC grant utilisation in a single sector over five years.
- B. Given its criticality, ULGs should receive, at least, 50% of the total pool of SFC funds as untied grants. ULGs should have full autonomy over expenditure of untied grants.
- C. Improve flexibility in the use of SFC grants through provisions to converge SFC untied grants with other grants and schemes.

2. Unpredictable and delayed disbursements

Despite a constitutional framework for fiscal devolution, both union and state transfers to ULGs suffer from limited clarity on how much is devolved, when it is released, and under what conditions. The processes meant to ensure predictable, rule-based transfers often remain opaque, irregular, and poorly disclosed. As a result, ULGs operate with little certainty over the timing or quantum of funds, constraining their ability to plan and spend effectively. This unpredictability undermines the intent of the 74th Amendment to enable fiscally empowered and accountable local governments.

Despite digital advancements, delays in fund release remain a persistent concern. On average, ULGs—both Million-Plus Cities (MPCs) and Non-Million-Plus Cities (NMPCs)—received their grants 11.6 months after the start of the financial year. In FY 2023-24 and FY 2024-25, most ULGs received their first instalment only in February-March, when disbursements should ideally occur by June. The state Urban Development Department typically waits for the majority of ULGs to submit their compliance documents before making a formal grant release request to MoHUA. This results in severe delays for proactive ULGs that complete compliance early in the year. Such delays compress the expenditure window, disrupt annual planning cycles, and weaken fiscal predictability for ULGs.

The challenges underlying these delays stem from a combination of structural, procedural, and technological factors. Structurally the verification process remains largely manual, self-reported, and paper-based, even where digital systems exist. For instance, the Grant Transfer Certificate (GTC) is manually prepared by the state rather than generated from PFMS. While certain documents can be machine-generated and directly uploaded through interoperable exchange protocols, information is typically entered or uploaded manually even where digital systems make automation feasible. During the XV FC period, ULGs manually entered details relating to their property tax on CityFinance platform, even in states where digital systems could have automatically fetched Demand and Control Book (DCB) registers and related documents. This reliance on manual processes causes three major issues:

- i. Delays in verification and grant approval due to repetitive back-and-forth between States and ULGs.
- ii. High error rates and data inconsistencies (e.g., incorrect property tax entries or incomplete financial disclosures).

- iii. Significant administrative burden on both ULGs and State Urban Development Departments (UDDs), diverting limited staff time from core municipal functions.

Additionally, existing systems do not provide a comprehensive, real-time view of the status of grant approval, release, utilisation, and physical progress, limiting predictability, accountability, and informed decision making.

While these challenges reflect unpredictability in the UFC grant cycle, a parallel source of unpredictability arises at the State level through SFC transfers. SFCs vary widely in methodology and quality. A review of SFC reports shows that many States adopt inconsistent or opaque formulae for determining the share of State revenues to be devolved. Some, such as Himachal Pradesh (4th and 5th SFCs) and Tripura (3rd SFC), did not specify any devolution formula at all, relying instead on ad hoc “gap-filling” approaches. Karnataka SFCs have shown deviation between the devolution recommended by SFCs and actual transfers made, undermining predictability. This variance contradicts the true essence of the constitutional provision, which is to devolve the “net proceeds of the taxes, duties, tolls and fees leviable by the State,” which has not been consistently followed across states. This inconsistency undermines the spirit of Article 243Y, which envisages predictable, rule-based sharing of State revenues with local governments.

Together, these operational and structural gaps limit the predictability of fiscal flows to ULGs, compress expenditure windows, and weaken annual planning. The next generation of fiscal grants must focus not just on how much is devolved, but how it is designed and delivered. The grant management should ensure predictability through synchronised and rule-based devolution at union and state level.

Recommendations to improve predictability through improved systems and rule-based devolution

For UFCs

- A. Timeliness of UFC grants can be improved significantly by establishing a mechanism for rolling, automated transfers from the union to ULGs within 10 business days from the date of approval by the DoE. Shift from batch-based disbursements (based on submissions by states after most ULGs in the state qualify) to a continuous release model that rewards early compliance and improves fund flow predictability for ULGs.
- B. MoHUA & DoE to develop and adopt an end-to-end paperless digitalised grant administration system by building on the existing system on CityFinance. The digital grant administration system should have the following functionalities:
 - a. **Simpler compliance and verification processes that eliminates duplication:** (i) Automatic submission of compliances (Audited financial statements, Budgets, Service Level Indicators, Revenues, expenditure) through APIs from source systems such as PFMS, IFMS, Municipal Finance Systems; In case information is not available in source systems, provide a simple interface for ULGs to upload submissions. (ii) Documents submitted through APIs from trusted systems can be fast-tracked based on system checks, without any manual verification. In the case of manual, there should be clear SOPs on ‘who’ should verify the document (for e.g. state or MoHUA) and ‘what’ should be verified, along with a specification of time period for verification. (iii) All other processes such as ‘calculation of ULG-wise grant allocation’ and processing of grant claims (by MOHUA and DOE) should be system enabled.
 - b. **Streamlined processes of grant release:** (i) Improvements to CityFinance and PFMS to allow ULGs to track status of grant verification and release of funds in real-time. (ii) At union and state level, generation of sanction order and payment instruction through PFMS or state IFMS;
 - c. **Real-time observability (or trackability) through:** (i) Establishment of policies that support interoperable systems, open APIs and other related system design principles critical to improve grant administration; and (ii) corresponding system improvements to facilitate machine to machine exchange of relevant information, based on pre-

determined data standards. This will be aimed at establishing a 'single source of truth' and eliminating multiple sources for the same information.

For SFCs

- A. The state government's formula for the divisible pool should be consistent with the provisions prescribed in the Constitution (i.e., in Article 243I (i) & 243Y (i)).
- B. The scope of non-core ToRs must be broadened to include:
 - Key emerging trends in local government finance and governance (for instance, devolution of functions and finances to parastatals and local governments)
 - Development challenges that constrain effective service delivery to citizens
- C. The state government should establish a mechanism for predictable transfers to the ULGs by publishing a supplement with state budget on grants and transfers under various budget heads to ULGs as part of the state budget. This would ensure transparency in devolution, enable ULGs to track actual transfers, and enhance accountability of state governments in honouring SFC recommendations. This would also provide clarity on scheme-based or ad-hoc allocations.
- D. The state may strengthen its digital systems to enable **end-to-end paperless grant administration**, integrating with **State IFMS, PFMS, and municipal financial systems**. Key features should include:
 - a. Auto-verification of financial and performance data through API integration.
 - b. Online workflows for claiming and approving grants.
 - c. Full traceability of expenditures, including details of projects, sectors, and contractors.
 - d. Public dashboards tracking allocation, release, and utilisation of grants to ensure transparency.
- E. All stages of grant lifecycle from recommendation to utilisation should be **publicly disclosed** on a state platform. This includes:
 - a. Grant allocations, compliance status, release, and expenditure.
 - b. Progress on projects funded through SFC grants, including physical and financial details, status, and photographs.

3. Lack of traceability and public disclosure across the grant lifecycle

Current reporting mechanisms fail to provide real-time visibility into the quality and outcomes of public expenditure. ULGs continue to face systemic barriers in tracking and disclosing the flow and use of funds across the grant lifecycle.

At the ULG level, the absence of standardised parameters for capturing expenditure and output data prevents a comprehensive understanding of how funds are utilised. While PFMS enables digital disbursement, it does not provide project- or sector-wise expenditure insights. Few States have integrated systems to track both financial and physical progress, and even where such systems exist, weak interoperability leads to fragmented visibility.

Further, utilisation reporting through Detailed Utilisation Reports (DURs) remains largely self-reported and manually entered on cityfinance.in platform, resulting in duplicated effort, low data reliability, and incomplete coverage since DURs capture only tied grants.

Compounding this, there is no mandate for the public disclosure of compliance, expenditure, and performance data. The absence of such transparency limits external accountability and makes it difficult for citizens and oversight bodies to assess whether Finance Commission grants have translated into tangible urban service improvements.

Recommendations to strengthen digital systems for efficient grant management

- A. **Streamlining processes of grant expenditure:** At ULG level, process all payments relating to FC grants through PFMS (or ULGs' F&A systems with interoperability) and ensure capture of key financial and project level information at the time of payment processing.
- B. **Ensuring transparency and public disclosure:** Mandate complete public disclosure of information across the grant lifecycle, on a dashboard on CityFinance or similar state level platforms to enable accountability and performance-based dialogue. This will include disclosure of (i) status of grant from recommendation to utilisation - to include grant, allocation, status of compliance, grant released, expenditure occurred; and (ii) list of completed and ongoing projects and/or works, including status of completion and other attributes as necessary.

4. Institutional and structural weaknesses of SFCs

The ineffectiveness of SFCs has been a long-standing institutional challenge. Irregular constitution, delayed reporting, weak follow-up mechanisms, and inconsistent acceptance of recommendations have rendered the SFC process largely ineffective. The absence of statutory timelines, inadequate institutional capacity, and poor data transparency have further weakened their credibility as instruments of predictable and rule-based fiscal devolution.

Out of the recently constituted SFCs, only seven⁸ have constituted their 7th SFCs as mandated, eight⁹ of them constituted their 6th SFC, while ten¹⁰ of them constituted their 5th SFC, 4th SFC, 3rd or 2nd SFCs. The majority should have constituted their 6th SFC by now, but delays in notification and report submission are endemic. These delays arise from the absence of statutory timelines, inadequate secretariat capacity, and weak monitoring of compliance. UFCs are mandated under Article 280 to recommend measures to augment municipal finances, based on SFC recommendations. However, inconsistency in the constitution and reporting of SFCs, and in the implementation of their recommendations, has severely undermined this process.

Successive Union Finance Commissions have attempted to strengthen SFCs. The XI FC recommended synchronising SFC and UFC cycles and publishing Action Taken Reports (ATRs). The XII FC emphasised institutional continuity through permanent SFC cells, standardised report formats, and timely constitution, while the XIV FC reiterated the need for stronger institutional support and timely submission of reports with ATRs.

Building on these efforts, the XV FC further incentivised SFC formation by linking grant eligibility to the existence of SFCs, prompting twelve states to constitute them. However, comprehensive data on notification, constitution, reports, and ATRs for many states remains unavailable in the public domain. Nine of them have either submitted final/interim reports recently or are preparing to submit final reports as they were SFCs constituted before April'24. Four of them have not constituted a recent SFC.

Even where constituted, acceptance of SFC recommendations varies by state and subject, often misaligned with state priorities. Many states either delay or fail to table Action Taken Reports (ATRs), with some taking up to three years. Where ATRs are produced, variations in format and content limit comparability. Timelines and formats for ATR submission are not specified in the Constitution or state statutes, leading to delays of 1-3 years or more. Moreover, the absence of dedicated SFC cells within state finance departments means there is no institutional mechanism for follow-up, monitoring, or ensuring continuity between successive commissions.

To address these weaknesses, targeted interventions are required at both the state and union levels. At the State level, reforms must uphold the principles of fiscal decentralisation by ensuring timely, predictable, and flexible transfers that empower local governments. At the union level, there is a

need for stronger incentives and closer scrutiny to ensure the regular constitution and effective functioning of SFCs.

Recommendations to institutionalise effective and accountable State Finance Commissions

- A. SFC Reform Toolkit: The first transformation lever focuses on developing a comprehensive toolkit that can help guide the efficient functioning and decision-making of the SFC. The toolkit may contain the following:
 - i. Model Terms of Reference for SFCs
 - ii. Designation Organization Chart outlining roles and responsibilities
 - iii. Model Study ToRs for fiscal and institutional assessments
 - iv. Recommended Fiscal Devolution Methodology
 - v. Template for Action Taken Reports (ATRs)

- B. MoHUA's CityFinance platform to host the digital repository (Digital Public Good) of SFC data at a national level
 - i. A centralized platform storing SFC ToRs, member details, timelines, reports, ATRs, studies, and key parameters such as percentage devolution, rural-urban share, types of grants recommended, amounts, and formulas used for devolution. This repository can simplify adherence to best practices and standard procedures.
 - ii. A web portal can serve as this knowledge management system, offering transparent access to SFC information, reports, and performance data. In addition, it can act as a platform for experience sharing, dissemination of best practices, and lessons learned among SFCs. The portal can be complemented by establishing a network of SFC experts and practitioners to facilitate knowledge exchange and peer support.

- C. Continue linking SFC constitution and XVI FC grant eligibility: The requirement for timely constitution of SFCs should be retained as a grant condition under the XVI Finance Commission to institutionalise this practice among States.
 - a. The UFC grants can require beneficiary states (Finance department) to table an Annual Report on the floor of their respective legislative assemblies. This ATR, presented every year along with the state's budget session, should comprehensively capture the status of implementation across all State Finance Commission recommendations.

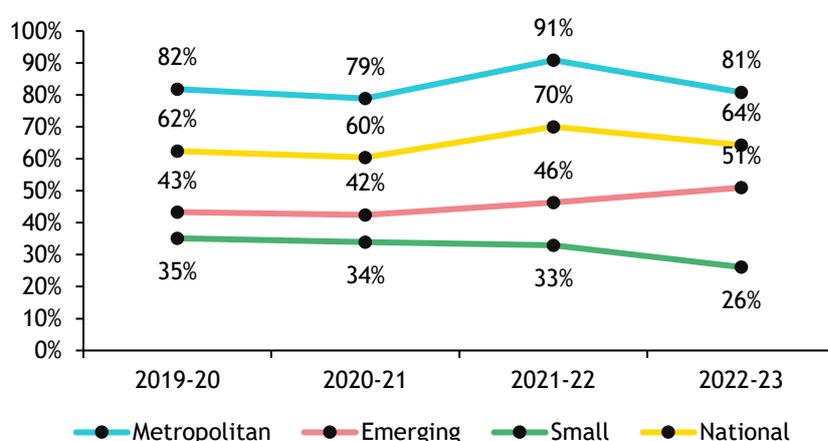
- D. Research institutes, such as NIPFP/IIPA should be commissioned to prepare an annual report on implementation of SFC recommendations to improve accountability and oversight, the Union Finance Commission can introduce a condition linking grant allocations to the preparation of an Annual Report (ATR) by beneficiary states. To further enhance SFC effectiveness, state-wise reports on SFC implementation should be published annually to track and evaluate progress:
 - a. The ATR should be tabled annually in the state legislature alongside the budget session.
 - b. It should comprehensively capture the status of implementation of all SFC recommendations.
 - c. The state's proposed budget should reflect the upcoming fiscal year's devolution plan and grants-in-aid to local bodies, based on a multi-year roadmap aligned with the SFC award period.

In sum, while grants remain a critical source of municipal revenue, their effectiveness is limited by design rigidities, procedural delays, and weak institutional frameworks at both union and state levels. Strengthening the predictability and flexibility of these transfers is therefore necessary but not sufficient for cities to achieve fiscal sustainability, they must also enhance their own revenue capacities and reduce dependence on external grants. The next section examines how ULGs can augment their own-source revenues to strengthen their fiscal base.

2.5 How can cities augment their own source revenues?

As outlined in Section 2.1 above, own source revenues comprise all the taxes, user charges and fees that have been devolved by state governments to ULGs by law. Due to a combination of limited types of revenue streams being devolved by state governments to ULGs as well as systemic gaps and challenges faced by ULGs in administering these own revenue streams, at the national level, ULGs could not even fully meet their revenue expenses through their own source revenues and the own revenue to revenue expenditure ratio ranged between 60% to 70% over 2019-20 to 2022-23. City typology wise analysis reveals stark variations - with metropolitan ULGs faring substantially better and being able to cover 79% to 91% of their revenue expenses through own source revenues, emerging ULGs being able to cover around 42% to 51% and small ULGs covering less than one-third of their revenue expenses over the same period (Figure 2.7).

Figure 2.7: Trends in own revenue to revenue expenditure at national and city typology level, 2019-20 to 2022-23



Source: ULGs audited financial statements sourced from cityfinance.in

Box 2.2: Does the degree of urbanization influence own revenue mobilisation?

To study the impact of urbanisation on own revenue mobilisation across metropolitan, emerging and small cities, it is useful to bifurcate Indian states into 4 typologies basis the share of urban population and overall population size: more urbanised large states, more urbanised small states, less urbanised large states, less urbanised small states.¹⁵

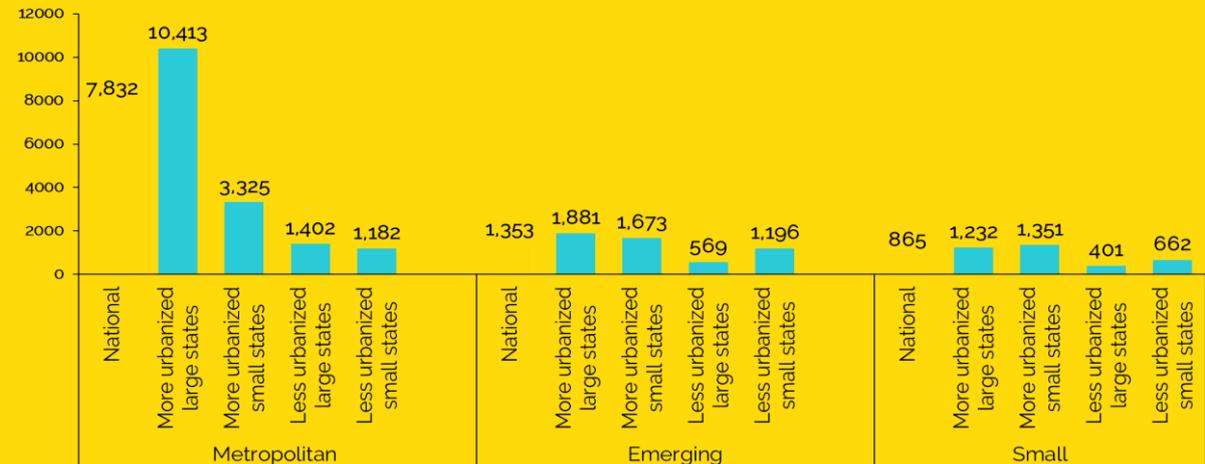
Metropolitan ULGs in more urbanized large states and small states, on an average, recorded higher own source revenue per capita than those in less urbanized large and small states. However, partly, due to the metropolitan ULGs in Maharashtra (Mumbai, Pune, Pimpri Chinchwad, Mira Bhayandar, Thane etc.), metropolitan ULGs in more urbanized large states' own revenues was close to 3 times that of metropolitan ULGs in more urbanized small states and 10 times that of ULGs from less urbanized states.

¹⁵ Four state typologies basis population and urbanization as per Census 2011):

1. More urbanised large states ($\geq 30\%$ urban, > 35 million population): Maharashtra, West Bengal, Tamil Nadu, Karnataka, Gujarat, Telangana, Andhra Pradesh
2. Less urbanised large states ($< 30\%$ urban, > 35 million population): Uttar Pradesh, Bihar, Madhya Pradesh, Rajasthan, Odisha
3. More urbanised small states and UTs ($\geq 30\%$ urban, < 35 million population): Kerala, Punjab, Haryana, Uttarakhand, Goa, Mizoram
4. Less urbanised small states and UTs ($< 30\%$ urban, < 35 million population): Jharkhand, Assam, Chhattisgarh, Himachal Pradesh, Tripura, Meghalaya, Sikkim

In case of own revenues per capita, while the difference is less stark, emerging and small cities from more urbanized large and small states had, on an average, higher own revenues compared to less urbanized large and small states. These patterns indicate a positive correlation between levels of urbanization and cities' own revenue mobilization, and indicate that less urban cities will continue to require more support for undertaking both capex and operating expenses - due to lower own revenue generation potential.

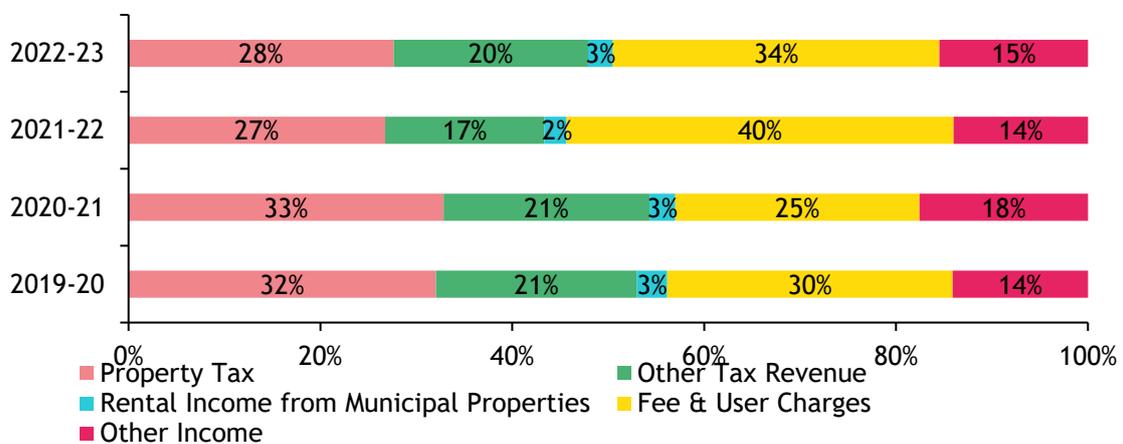
Figure 2.8: Own source revenue per capita at national and city typology levels, 2021-22



Source: Analysis of ULG level audited financial statements from cityfinance.in

Therefore, there is an urgent need to identify pathways for own revenue augmentation. To this end, it is essential to understand the composition of own revenues at the national level and across city typologies to identify where state governments and ULGs' intervention would be most effective. Based on www.cityfinance.in, property tax continued to be the single largest contributor to own source revenues and contributed 27% to 32% of own source revenues across 2019-20 to 2022-23. Other tax revenues - which primarily comprises water tax, sewerage or drainage tax, profession tax (in 3 states - Gujarat, Kerala and Tamil Nadu), toll tax and lighting tax - together contributed 17% to 21% over the same period. Fees and user charges - which comprises user charges like water charges, parking fees, and fees like development charges, building permit fees, fines for regularisation of buildings - made the second largest contribution and their share ranged between 25% in 2020-21 to 40% in 2021-22 (Figure 2.9).

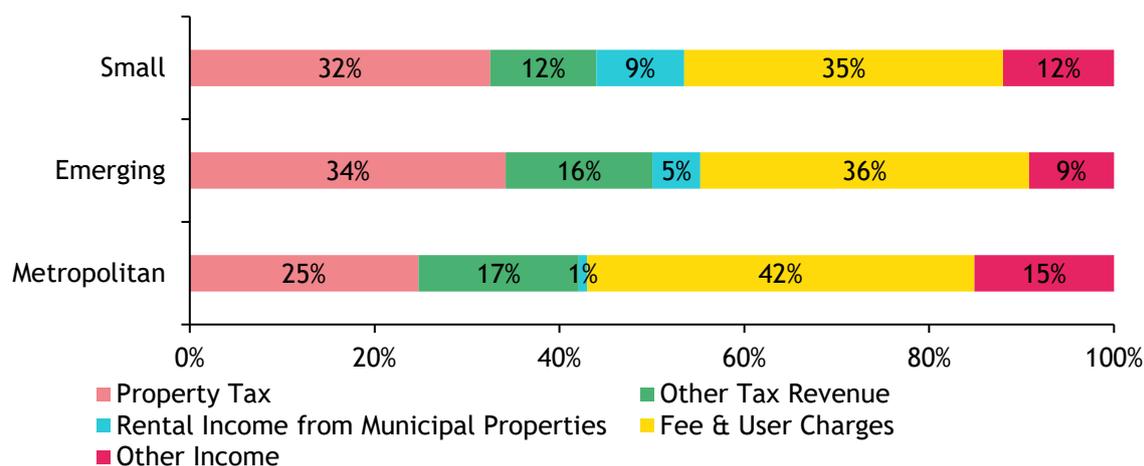
Figure 2.9: Own source revenue composition at the national level, 2019-20 to 2022-23



Source: Analysis of audited and provisional financial statements by ULGs from cityfinance.in

Rental income from municipal properties - which involves leasing out municipal lands and buildings such as commercial shopping complexes, community halls, vacant lands for events, etc. - contributed a miniscule 2% to 3% over the period indicating either untapped potential for asset monetisation or limited scope for asset monetisation due to limited ownership of municipal assets. Other income includes income from sale and hire charges and other miscellaneous income sources such as deposits forfeited, lapsed deposits from contractors and suppliers, excess provisions written back against taxes and charges.

Figure 2.10: Own source revenue composition for different city typologies, 2021-22



Source: Analysis of audited financial statement by ULGs from cityfinance.in

City-typology wise revenue composition reveals interesting insights with property tax and fees and user charges continuing to be the top 2 contributors across metropolitan, emerging and small cities (Figure 2.10). But two key insights emerge - in case of small and emerging cities, property tax, and fees and user charges roughly contribute one-third each to own revenues, whereas, in case of metropolitan cities, fees and user charges contributes a much larger share (42%) than property tax. Secondly, rental income from municipal properties contributes a substantial share (9%) in small ULGs' revenues, whereas, metropolitan cities only collect 1% of their own revenues from the same source.

Clearly, property tax, fees and user charges hold the key to further augmenting own revenues. Within fees and user charges, two revenue streams deserve special focus - water charges and land value capture financing instruments. With respect to levy of water charges - despite significant capital investments in urban water infrastructure over the last decade - most ULGs continue to significantly under-price these services and are unable to recover even operational costs due to a combination of political populism and weak citizens' awareness about the cost of service delivery. Second, land value capture financing instruments continue to be underutilized due to significant regulatory and governance barriers, and weak institutional capacities.

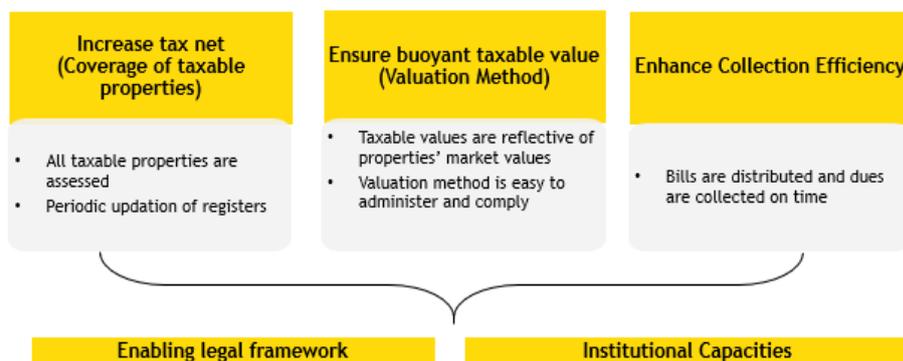
In addition, even though rental income from municipal properties (or 'assets') contributes a miniscule 2% to 3% of municipal revenues nationally, considering its potential - especially in metropolitan cities which may own significant municipal lands and buildings - warrants a closer look. Accordingly, the following sub-sections identify systemic challenges and pathways for augmenting property tax, water charges, land value capture financing instruments and income from municipal assets to enhance ULGs own revenue sources as well as improve overall outcomes for local governance.

2.5.1 Optimising property tax revenues

What levers can ULGs pull for augmenting property tax?

State governments and ULGs can deploy three key levers to augment property tax revenues. First, ULGs need to ensure that **their tax net is complete and accurate** by mapping and recording all properties within municipal limits in their tax registers and undertaking periodic updation of records. Secondly, they need to adopt a **buoyant and transparent valuation methodology** that accurately reflects properties' market value, is easy to administer and comply with, and is equitable. Lastly, they need to establish efficient **billing and collection mechanisms** and ensure that all properties in their tax register receive bills on time and subsequently ensure that tax dues are collected fully and on time (Figure 2.11).

Figure 2.11: Levers to Augment Property Tax Collections



Source: Janaagraha's analysis

The effectiveness of these three levers rests on two cross-cutting enablers. First, an **enabling legal framework** that ensures that ULGs are mandated to conduct periodic surveys to update their registers, adopt buoyant valuation methods, limit tax exemptions and enforce penalties against tax defaulters to improve tax compliance. Second, strong institutional capacities- including adequate staffing, robust training, and the use of digital technology—are necessary to operationalise the three levers. Without these enablers, even the most well-designed reforms will fail to get realised.

How can ULGs expand their tax net?

For ULGs to fully leverage property tax's potential, they need to create and periodically update their tax registers by mapping all properties (lands and buildings) within municipal limits. On ground, all properties are often not recorded in tax registers due to a combination of lack of periodic surveys to map properties and poor enforcement by ULGs to incentivise honest and timely declarations by all property owners for property tax levy.

Over the last 2 decades, many states and ULGs have leveraged GIS data to create comprehensive digital property tax records and expand their tax net. Union government schemes like AMRUT 2.0 and the Scheme for Special Assistance to States for Capital Investment 2023-24 also incentivised states and ULGs to adopt GIS-based mapping for property tax. The core proposition for GIS-based tax registers is using satellite or drone based imagery to identify unassessed and under-assessed properties and expand the tax net.

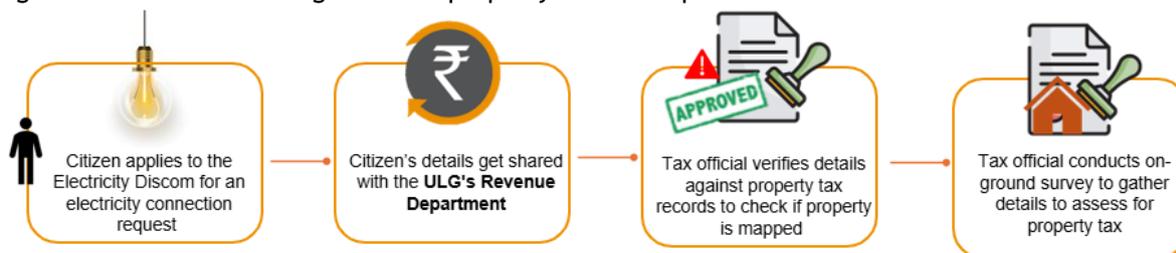
However, there are several institutional challenges that are currently limiting the effectiveness of GIS mapping for property registers. First, GIS mapping exercises are often undertaken as one-off efforts at boosting tax demand rather than as periodic interventions (at least every 5 years) to ensure regular updation of tax registers. Second, the absence of standard operating procedures (SOPs) for ground-truthing and verification at the ULG level often lead to data quality and veracity issues and

increase manual effort. Third, currently most ULGs do not invest in creating institutional arrangements or data transfer mechanisms to ensure a smooth transfer of knowledge and data from the agencies to ULGs staff - which results in either extended reliance on the agencies or suboptimal utilisation by city officials of the GIS-based systems.. Finally, GIS databases are rarely integrated with other municipal records such as building plan approvals, electricity utility connections, or trade licenses, which limits their usefulness in sustaining a dynamic property register.

To unlock its full potential, at least in the case of metropolitan ULGs and larger emerging ULGs, GIS-based property surveys must be institutionalised as a periodic exercise, at least every 5 years, to ensure data comprehensiveness and relevance. Second, before undertaking GIS-based exercises, states and ULGs should establish standard operating procedures for ground-truthing and verification to ensure accuracy and consistency of data. Third, instead of a perpetual reliance on external vendors, state governments and ULGs need to create in-house capacity for maintaining and updating GIS-based registers and set up institutional mechanisms for ensuring knowledge transfer. Above all, instead of adopting GIS just as a tool for property tax, states and ULGs should leverage it for ensuring accuracy across all municipal records (property tax, building plan approvals, and occupancy certificates, water and sewerage connections).

While GIS mapping remains a valuable tool for enhancing the tax net, due to its time and cost intensive nature and a city’s constantly changing property profile, it is not the most effective tool to ensure comprehensive tax registers. Establishing database integration or automated data sharing of property tax records with other state and municipal departments - such as the Inspector General of Registration (property sale records), electricity distribution companies (connection records), and town planning departments (building permissions and occupancy certificates) can provide ULGs with more targeted information about new properties/connections which could be leveraged to enhance property tax net. Automated data sharing implies that whenever a citizen applies for a service (for example, an electricity connection), the ULG gets an alert with the citizens' details and its tax assessor then conducts an on-ground assessment to ensure that the property is mapped in its tax register.

Figure 2.12: Database integration for property tax net expansion



Source: Janaagraha’s analysis

A few states, including Andhra Pradesh, Assam, Telangana and Karnataka, (refer box 2.2 & 2.3) have already taken steps in this direction by integrating property tax records with different state and municipal records ranging from building permissions, property ownership records, and electricity connections. These initiatives signal a growing movement towards database integration, though the progress is uneven across the country. Beyond revenue mobilisation, integration also directly benefits citizens by reducing bureaucratic hurdles. Currently, fragmented systems force property owners to approach multiple departments for linked services. For example, after registering a property with the Inspector General of Registration Department (property sale records), citizens must separately approach the ULG’s Revenue Department for mutation (or NAME TRANSFER) IN MUNICIPAL TAX RECORDS. Likewise, to obtain electricity or water connections, citizens are often required to secure separate No-Objection Certificates (NOCs) from ULGs Revenue department, leading to duplication of processes, delays, and opportunities for rent-seeking.

Recommendation: Establish automated database integration across state and municipal departments to enable enhancements in property tax net

State Governments across India should institutionalize automated workflows for seamless data sharing between property tax records and state databases such as the Inspector General of Registration, electricity distribution companies (DISCOMs), water and sewerage utilities, as well as municipal databases like building permissions, occupancy certificates, and trade licenses. Establishing such integrated systems will help identify unassessed and under-assessed properties, minimize information silos, and significantly expand the property tax net.

Box 2.2: Linkage of Registration Department’s property records with property tax records in Telangana

Prior to establishing automated data sharing, the state Stamp and Registration Department registered properties’ sale without checking if the owner had a property tax ID (‘PTID’). And in case of properties with a PTID , there were no automated processes within Stamp and Registration Department to check if the owner’s details matched the property tax records and for any outstanding dues.

To address these challenges, in 2021-22, the state linked the Stamp and Registration Department records with ULGs’ property tax records as follows:

1. For property registry with PTID, the IT system digitally matches PTID details and conducts auto-mutation or automatic name transfer in tax records basis registry details.
2. For property registry without PTID, i.e. for properties potentially outside the property tax net, post property registry the Stamp and Registration Department’s IT system automatically generates a provisional property tax ID which is communicated to both the ULG and the citizen. The ULG officials then undertake on-ground assessment to verify and confirm property details (refer Figure 2.14)

Figure 2.13: Process of property registry in case properties have property tax ID

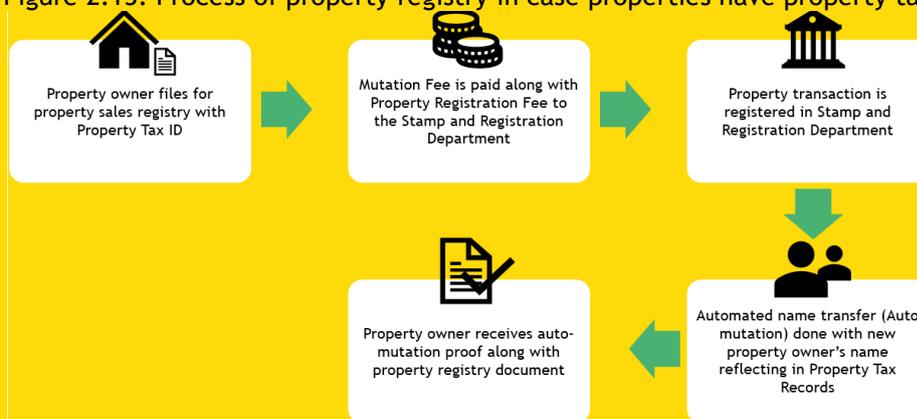
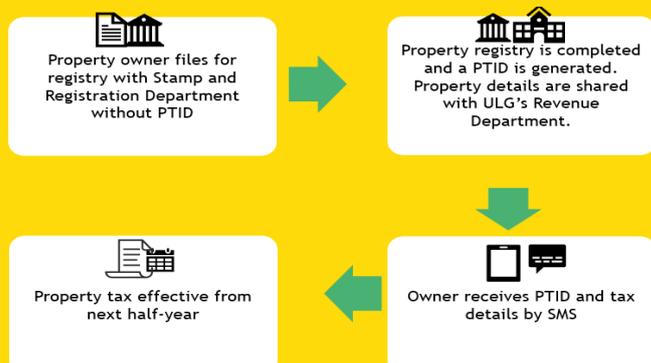


Figure 2.14: Process of property registry in case properties do not have property tax ID



Source: Janaagraha’s analysis

How can states and ULGs improve tax valuation to enhance buoyancy and improve system efficiencies?

A ULG's chosen valuation method should be buoyant and equitable, simple to administer, and it should reduce subjectivity and discretion of ULG officials and be easy for taxpayers to comply with. To ensure that property taxes are buoyant sources of revenues, the valuations used should reflect the actual (market) value of the property. Currently, states and ULGs are using three valuation methodologies i.e. Annual Rental Value (ARV), Unit Area Value (UAV) and Capital Value (CV) with multiple variations.

The Annual Rental Value (ARV) method is currently followed by ULGs in at least eight states, including Madhya Pradesh, Tamil Nadu, and Uttar Pradesh. Under this method, the annual taxable value of properties is based on their estimated rental yield. However, this method faces several issues. First, municipal Acts and Rules rarely offer clear guidance on how ULGs should determine rental values. Further, since most states do not maintain a registry of rental agreements, ULGs lack access to a credible market database to estimate accurate rental yields. As a result, officials either conduct small-scale surveys, rely on informal enquiries to real estate agencies or perusal of available agreements to assess rental yield. This leads to increased administrative burden, introduces discretion and due to paucity of robust data, results in underestimation of rental values.

The Unit Area Value (UAV) method is followed by states like Gujarat, Kerala and ULGs like Bengaluru and Delhi. Under UAV, a property's taxable annual value reflects its expected returns which are assumed to be a factor of the property's location, guidance value, usage and other criteria. Typically, under UAV, ULGs divide municipal areas into different zones by considering various factors and then define different per unit area values for buildings in these different zones. For instance, BBMP uses guidance values published by the Stamp and Registration Department to demarcate 6 zones. In contrast, Delhi Municipal Corporation categorises its municipal area into 8 zones basis factors including guidance value, physical and social infrastructure, economic status of colonies, etc. Due to no direct formulaic linkage of UAV with guidance values, adoption of several multiplicative factors (occupancy type, usage type, etc.), and infrequent revision in unit area values by ULGs, UAV also depresses ULG's tax base.

Compared to ARV and UAV, the capital value (CV) method is a superior method since the property's annual value is perceived to the guidance value notified by the State Stamp and Registration Department. Guidance values—also known as *circle rates*, or *stamp duty ready reckoner rates*—are the minimum property values prescribed by the State Stamp and Registration Department for registry of property sales for levy of stamp duties. Guidance values tend to be more representative of properties' market values than ARV or UAV as they are revised more frequently by the concerned State Departments. Linking property tax computation to guidance values is considered a better approach because it: i) ensures a broader tax base for ULGs; ii) Improves administrative ease and reduces subjectivity in decision-making; iii) Enhances transparency and understanding for taxpayers.

But even CV method can be less buoyant if property tax valuation is not revised in line with changes in guidance values, or too many multiplicative factors (e.g. occupancy type, construction type) are introduced into the tax calculation. To fully realise the potential of CV method, states should adopt it with minimal multiplicative factors and ensure regular updation aligned with guidance value revisions. While ULGs in Karnataka and the Brihanmumbai Municipal Corporation have followed the CV method for decades, Andhra Pradesh, Jharkhand, and Telangana have transitioned to it over the past 5 years.

Under the Atmanirbhar Bharat Abhiyan, Union Government had incentivised states to transition to the capital value method by allowing additional borrowing over and above the net borrowing ceiling

(NBC) over state's GSDP. As a result of this push, as of 2025, 7 states (Andhra Pradesh, Assam, Goa, Jharkhand, Karnataka, Rajasthan, Telangana) have transitioned to the CV method. In addition, Madhya Pradesh and Chhattisgarh - while following the ARV method, have linked rate of property tax revisions to increase in guidance value.

Table 2.2 outlines how property tax computations under the 3 valuation methods impact tax liabilities. For the purpose of this simulation exercise, we assume similar property characteristics across the 3 cities, i.e. residential, 1000 sqft single-storey buildings in posh localities. Hyderabad - where deemed rental values to compute property tax have not been revised since 2003 - is able to collect only INR 5,130 as property tax. Similarly, the case property in Delhi (which follows UAV method) - where UAV rates for different localities have also not been revised for more than a decade - would have a tax liability of INR 7,023. In contrast, the case property in Mumbai - which follows the CV method - is potentially 10 times higher than in Delhi and Hyderabad. This example highlight why the CV method, with periodic revisions in line with guidance values increase, is superior at ensuring buoyant and sustainable property tax collections.

Table 2.2: Simulation of property tax due under different valuation methods

Valuation method	Mumbai	Hyderabad	Delhi
	Capital Value (CV)	Annual Rental Value (ARV)	Unit Area Value (UAV)
Area of city	Ward A, Zone 1, Subzone 001 (Area in South Mumbai)	Banjara Hills	Vasant Vihar
Annual value	Stamp duty reckoner rate X Carpet area X building type X age factor X usage factor X floor factor ¹⁹ = INR97,05,535	(Plinth area X monthly rent per sq. ft.) X 12 = (1000 X 1.5) X 12 = 1,500 X 12 = INR 18,000	Unit area value per sq. mt. X built-up area of property X age factor X use factor X structure factor X occupancy factor = 630 X 92.9 X 1 X 1 X 1 X 1 = INR 58,527
Taxable annual value	INR 74,248	Annual value of land + (Annual value of building - rebate for age of the building) = 9,000 + (9,000 - 10% of building value) = 9,000 + 8,100 = INR 17,100	INR 58,527
Property tax rates	0.765%	30%	12%
Property tax due	Tax rate X taxable annual value = 97,05,535 X 0.765% = INR 74,248	Tax rate X taxable annual value = 17100 X 30% = INR 5,130	Tax rate X taxable annual value = 58,527 X 12% = INR 7,023
Assumptions	<ul style="list-style-type: none"> Year of construction is assumed to be after 1985 Building Construction type is RCC Carpet area assumed to be 75% of built-up area 	<ul style="list-style-type: none"> Type of construction is RCC ordinary building Apportioned ARV between building and land at 50% each Age of building is 8 years 	Year of construction is assumed to be after 2000

Note: All 3 computations are for a single floor self-occupied 1000 sq. ft. residential building in prime locations

Recommendation 2: States and ULGs should adopt capital value method for levying property tax (where property tax is levied at a set percentage of guidance value/circle rate) to ensure properties' taxable values are more representative of their market values

State Governments should legally mandate all ULGs to adopt the capital value method (where property tax is levied at a set percentage of properties' guidance value as notified by Stamp and Registration Department). In addition, state governments should also provide necessary policy and administrative support (process design, formula and tax rate selection, IT system, SOPs) to ULGs to ensure smooth implementation.

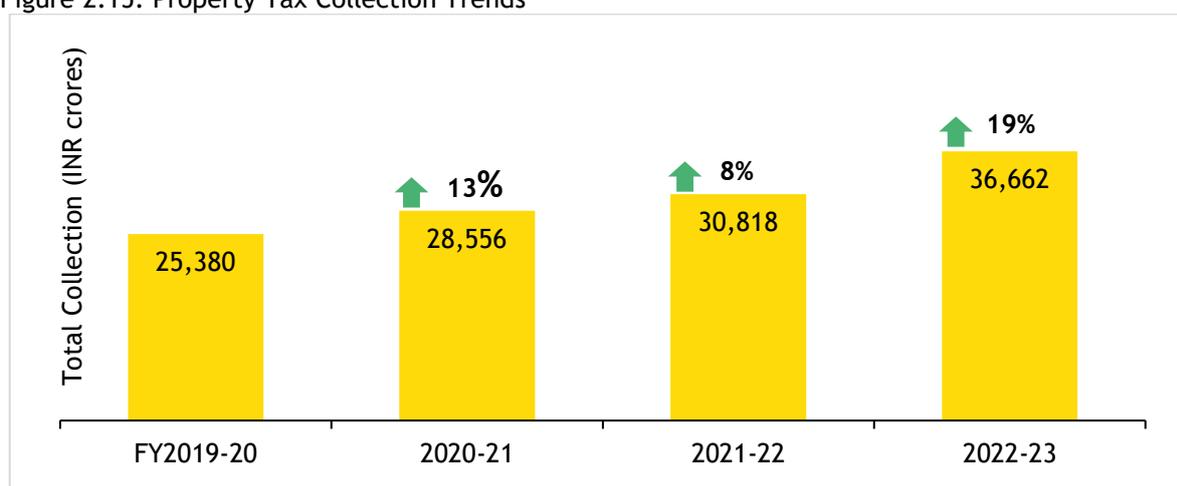
To ensure both buy-in from the political leadership and citizenry, the implementation process should be smartly designed to stagger tax increases over longer transition period (say 5 years) and avoid steep one-time tax hikes. For instance, Andhra Pradesh's Municipal Acts introduced annual caps to tax hikes during their transition to CV to phase out the tax increase over several years - in the first year, the tax increase per assessee was capped at 15% over the ARV based tax. In subsequent years, the 15% cap applied until the existing tax under CV met the potential tax under CV.

Further, to enhance trust and acceptability among taxpayers, ULGs should engage with citizens and relevant associations (businesses, RWAs, etc.) about the rationale for higher taxes and the potential benefits via improvements in civic amenities. Structured engagement through ward-level consultations, public hearings, and disclosure of tax use can help foster trust and acceptance.

How can ULGs bring in efficiencies in tax billing and collection to augment revenues?

As a result of the growing emphasis and recognition across all tiers of governments to enhance property tax revenue, national property tax collections grew by a remarkable 44% between 2019-20 to 2022-23 and stood at INR 36,662 crore in 2022-23. The XV Finance Commission provided a further fillip to property tax revenues by, inter alia, introducing a mandatory grant condition for ULGs (effective for grant period from 2023-24 to 2025-26) to demonstrate annual growth in property tax collections was commensurate to the growth in their state's gross state domestic product (GSDP) over the preceding five years.

Figure 2.15: Property Tax Collection Trends



Source: Janaagraha's analysis of self-reported data by 3,895 ULGs on cityfinance.in

Despite this growth in collections, national collection efficiency - proportion of total tax dues that ULGs collect every year - has continued to be in the range of 50%-56% over 2019-20 to 2022-23. In other words, ULGs, on an average, are only able to collect a little over half of their tax dues.

States and ULGs have adopted several measures to improve property tax collections. These can broadly be categorised into **(A) digital interventions** and **(B) interventions to address staff capacity gaps**.

A. Digital Interventions

Over the past 2 decades, several states - including Andhra Pradesh, Assam, Chattisgarh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Punjab, Odisha, Tamil Nadu and Telangana - have launched centralised IT platforms to, inter alia, digitise property tax registers, create mechanisms for digital billing and online payments through various payment methods. These initiatives have substantially improved the ease of tax administration and citizens' accessibility to their tax records.

However, several functionalities within these IT systems - that are low-cost, high-impact interventions - have either not been developed or remain underutilised. For instance, while some platforms have created digital modules for sending automated payment reminders through SMS, email, or WhatsApp, several ULGs are unable to utilise these facilities due to the absence of updated contact details for all taxpayers, leading to continued reliance on door-to-door bill distribution by tax collectors. Similarly, most of these centralised IT platforms either have not developed comprehensive MIS dashboards to track ward-wise or zone-wise collection performance or the created dashboards are too rudimentary to enable data-driven decision making for improving tax collections.

The extent to which these digital tools are utilised also varies widely across ULG typologies. Metropolitan ULGs such as Chennai, Delhi, Mumbai, Hyderabad, and Pune have been able to leverage digital technologies - such as WhatsApp chatbots, mobile applications, and Bharat Bill Payment System (BBPS) - for improving ease of tax compliance. As a result, In 2022-23, metropolitan ULGs collected one-third of their property tax collections through digital means, compared to less than 20 percent in small and emerging ULGs.. To bridge this gap between metropolitan, emerging and small ULGs, there is a need to adopt a two-pronged approach:

- (i) **Optimizing digital tools for billing and collection:** Deploy mobile point-of-sale (MPOS) devices at collection centres and equip field collection staff with digital payment tools to facilitate instant bill generation and on-the-spot payments through UPI, mobile wallets, debit and credit cards. Digital billing through SMS, and email should be activated to send timely reminders to citizens. Additionally, MIS dashboards on collection performance should be created and incorporated in decision-making.
- (ii) **Public awareness and engagement:** Conduct Information, Education, and Communication (IEC) campaigns to increase buy-in among citizens' for tax payments and also increase awareness about payment timelines, available digital payment options, and benefits of timely payment to improve tax compliance and reduce pending dues.

While considerable progress has been made on leveraging digital technologies for enhancing collections, the more fundamental challenge lies in addressing other institutional capacity gaps. Persistent shortages of manpower, coupled with the lack of trained staff for specialised functions, continue to constrain tax collection performance across most ULGs.

B. Addressing Staff Capacity Gaps

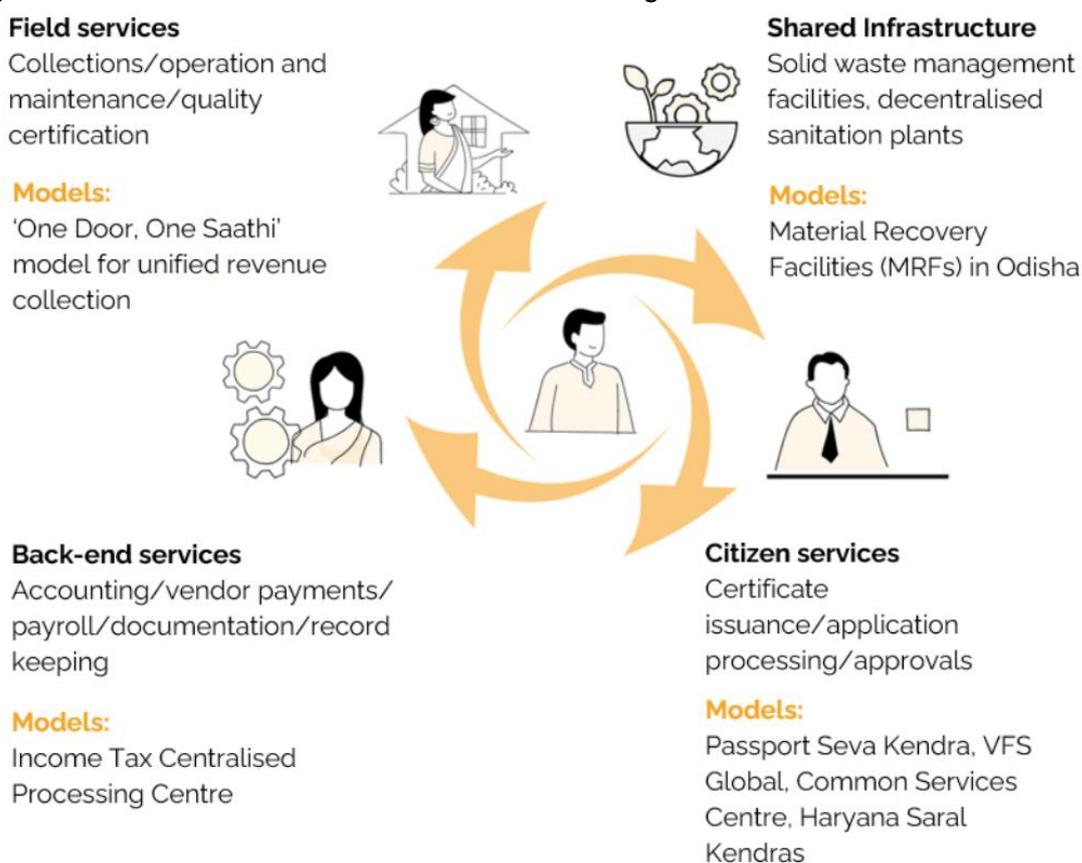
A significant bottleneck in property tax collection is the shortage of human resources across field level collection roles and technically skilled staff (lawyers) for addressing and fast-tracking legal cases to resolution. While exact estimates of the staffing gap in these positions isn't available, the CAG's Performance Audit of the 74th Constitutional Amendment across states estimates 37 percent staffing gap, on an average, across various ULG positions in India - indicating that ULGs are facing significant capacity constraints.

States and ULGs have attempted to resolve the field tax collection staffing deficit by adopting different types of solutions. Jharkhand's Urban Development Department, for instance, has outsourced assessment and field collections for property tax, water charges, trade license across all ULGs to different third-party agencies, wherein the procurement and monitoring of these agencies' performance is managed by a state level PMU. Odisha has adopted a Unified Revenue Collection (URC)

or “One Door, One Sathi” model wherein women Self-Help Group members (SHGs) have been roped in for collecting multiple revenue streams including property tax and water charges to supplement field collection efforts of ULG staff and increase system efficiencies by bringing in synergies across different departments (refer Box 2.3). States like Assam and Karnataka have also initiated engagements with SHG members for water charges and property tax respectively.

But with respect to the limited availability of skilled legal personnel at the ULG level, as on date, no concerted efforts have been taken across 8 states surveyed by Janaagraha. The absence of in-house legal capacity limits ULGs’ ability to manage revenue collection related disputes, often resulting in prolonged litigation and revenue losses. Common legal disputes include issues with property tax assessment, appeals by different associations and citizens groups against tax rate hikes or property revaluations, and appeals against ULGs enforcement actions to improve tax recovery (eg. temporary sealing of commercial properties). In the absence of dedicated in-house legal personnel (especially in small and emerging ULGs), ULGs are unable to represent their cases effectively, leading to delays and unfavourable outcomes.

Figure 2.16: Shared Service Models across different categories of services



Source: Janaagraha’s analysis

To overcome these constraints, there is an urgent need to enhance operational efficiencies by adopting shared services models - which have been largely successful across the private sector and union government - at the municipal level. Recognising the potential of municipal shared services, the XV Finance Commission also incentivised the establishment of Municipal Shared Services Centres (MSSC) through performance-linked grants to states for institutionalising shared services. The benefits of shared services is not just beneficial for revenue augmentation but can help enhance efficiencies in expenditure management as well. Shared municipal services can take multiple forms:

- (i) **Within a ULG:** Personnel can be shared across departments or parastatals for tasks like bill distribution, property tax and user charges collection, etc.
- (ii) **Across a cluster of ULG:** Neighbouring ULGs can jointly access a shared pool of legal professionals to manage all types of legal disputes (spanning revenue and expenditure functions). Specifically,

with respect to revenue optimisation, such regional legal support units can facilitate faster case resolution, leading to unlocking pending revenues.

(iii) **At the state level:** Back-end services that do not require a physical presence-such as IT, MIS, and data analytics-can be centralised and shared across multiple ULGs.

Recommendation - State governments should adopt different shared service models for addressing staff capacity constraints across ULGs (such as unified revenue collection for addressing staff shortages in field tax collection, regional-level legal cells for improving litigation outcomes, etc.)

State governments should explore and adopt shared service models that address both immediate staffing gaps and long-term capacity-building needs. This should include centralised legal support systems at the state or regional level for managing municipal revenue disputes, providing access to legal expertise, and ensuring consistent representation in courts and faster case resolution-particularly within small ULGs with limited legal capacity. Additionally, states should explore unified revenue collection models, such as Odisha's Unified Revenue Collection (URC) initiative, to optimise existing staff and enable integrated collection of multiple revenue streams including property tax and user charges.

Box 2.3: Unified Revenue Collection Pilot in Puri, Odisha to boost collection efficiency through shared services model¹⁶

Before the unified revenue collection (URC) pilot, property tax was being collected by Puri Municipality's 16 tax collectors while water charges were being collected by the 34 Jal Saathis who were women self-help group members. This was an inefficient system because two different people (One tax collector and one Jal Saathi) were visiting the same household for collecting property tax, water and sewerage charges respectively. The unified revenue collection (URC) pilot aimed to enable a system where the Jal Saathis, equipped with MPoS devices, could collect both property tax and water charges to address the staffing gap w.r.t. property tax, enhance system efficiencies through sharing of human resources, and increase collections. To encourage wider participation, Jal Sathis received 2% of the collected current dues and 3% collected arrear dues as incentives.

Within the first year of the URC pilot, Puri Municipality was able to collect 75% of its property tax dues in 2022-23, a remarkable 23 percentage points increase in its collection efficiency from 2021-22. The Jal Saathis demonstrated significant prowess in water & sewerage charges collection, amassing Rs. 482 lakh in 2022-23 and increasing collection efficiency by over 40 percentage points. In aggregate, the URC project garnered a total of Rs. 952 lakhs, with Jal Saathis contributing 47% of the overall collections.

2.5.2 Improving cost recovery from water supply services

Over the past decade, India has invested significantly in establishing water supply and sanitation networks across cities and towns under the XV Finance Commission and flagship union government programmes like Atal Mission for Rejuvenation and Urban Transformation (AMRUT 1.0 and 2.0) and the Smart Cities Mission, While these investments are the foundational stones for improving service delivery, ULGs need to ensure overall fiscal sustainability of these services so they are able to generate long-term benefits from these investments. Ensuring fiscal sustainability of these services requires a threefold approach:

1. Optimising revenues through effective pricing and efficient collection of water charges
2. Creating alternate income streams and reducing long-term expenses by adopting a circular economy approach, such as using treated wastewater for industrial or agricultural uses

¹⁶ Janaagraha's work with the Urban Development Department of Odisha

3. Reducing operating costs by leveraging technology and improving asset maintenance (such as SCADA systems to detect pipe leakages, using smart meters and district metered areas to reduce non-revenue water).

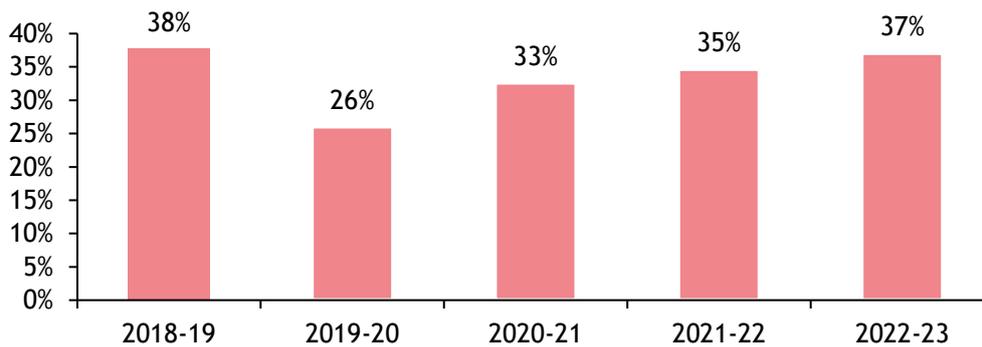
Considering that the chapter focuses on revenue mobilisation, the following paras focus on outlining how ULGs can adopt approaches 1 and 2.

2.5.2.1 Optimising revenues through effective pricing and efficient collection of water charges

Are cities able to recover their O&M costs?

While capital investments are funded through grants, ULGs are expected to fund the operation and maintenance (O&M) costs through own revenues. So, in principle, water tariff setting should reflect the full operational cost of service delivery and should be revised periodically to reflect any escalations in O&M costs. But in reality, there is significant under-pricing of water services, with most ULGs continuing to levy flat tariffs instead of linking tariffs to water consumption. On an average, around 70% connections in metropolitan ULGs had not been metered as of 2021-22¹⁷. Similarly, basis on-ground surveys, even capital cities like Guwahati, Bhubhaneswar and Ranchi - have not undertaken universal metering of water connections and continue to levy flat tariffs for different user categories.

Figure 2.17: National level data on recovery of O&M costs through water charges collection, 2018-19 to 2022-23



Source: Analysis of self-reported data by 2,984 ULGs on cityfinance.in

Why are tariff revisions difficult to implement?

The reluctance to revise water tariffs in ULGs stems from a combination of factors. First, tariff-setting is deeply shaped by political sensitivity. Water is widely regarded as a human right, which makes any proposal for tariff hikes highly unpopular. Political leadership often prefer to keep tariffs low to avoid short-term backlash, particularly during election cycles. While this benefits consumers in the short-term, it structurally undermines utilities by depriving ULGs of the resources needed for regular maintenance, service quality improvements and network expansion. In addition, political resistance to tariff reform is often reinforced by citizen perceptions - which are a factor of them having limited awareness of service costs. Most citizens have little understanding of what it actually takes to deliver safe drinking water in our cities and towns - whether its the energy required for pumping water, treatment and storing costs, or the human resources involved in maintenance. In the absence of such awareness, tariff revisions appear arbitrary and unjustified, fuelling public opposition and making it politically risky to rationalise pricing. ULGs therefore need to adopt a transparent approach to cost disclosure, regularly publishing the per-unit cost of supply and comparing it with revenues collected. Presenting this information in simple, accessible formats, such as in consumer

¹⁷ Based on self-reported Service Level Benchmark data on cityfinance.in

bills can help build trust and reframe tariffs as a necessary investment in reliable and continuous services rather than an imposed financial burden.

Secondly, lack of a legal mandate for periodic tariff revisions also disempowers ULGs from taking even necessary actions. A 2023 Janaagraha study found that 13 of 17 states do not mandate periodic tariff revisions in their municipal Acts and Rules. Only six states - Assam, Andhra Pradesh, Jharkhand, Madhya Pradesh, Maharashtra, and Rajasthan - have set in place legal frameworks that explicitly link tariff setting to O&M cost recovery. In the remaining states, tariff determination is mainly ad-hoc, tied to property values or not clearly defined, resulting in either little scope for systematic, cost-based pricing or the State Governments decreeing revisions through irregular Government Orders or Circular Instructions.

Finally, the absence of a uniform definition of O&M costs across states and even ULGs within the same state as well as lack of functional, service-linked accounting further complicates tariff setting. This inconsistency makes it difficult to design tariffs that reflect actual costs and prevents accurate measurement of cost recovery levels across ULGs.

Recommendation: ULGs should publish O&M costs in annual budgets and financial statements, and establish formulaic linkage between O&M costs and tariffs

States should formulate comprehensive Water Supply Rules, inter alia, outlining the methodology for tariff setting and computing O&M costs and mandating periodic revision of water tariffs to ensure at least 70%-80% recovery of O&M costs. Additionally, to ensure periodic tracking, these Rules must mandate declaration of O&M costs in the annual budgets and financial statements.

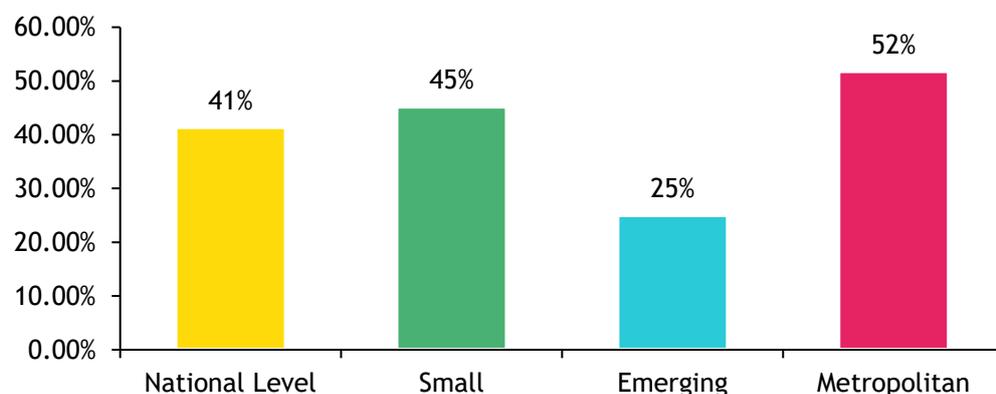
Recommendation: State Finance Commissions should incentivise O&M cost recovery through performance-based grants

ULGs should be incentivised to achieve higher levels of O&M cost recovery through performance based grants under State Finance Commission (SFC). SFCs may set a benchmark of 70%-80% recovery of O&M costs, with ULGs meeting this criteria being eligible for availing performance-based transfers.

Why do cities struggle to collect water charges?

While under-pricing limits revenue potential, low collection efficiency further constrains cost recovery. Even with tariffs set well below actual service costs, ULGs struggle to collect the limited demand they generate. Average national collection efficiency stood at 41% in 2022-23 (cityfinance.in). Across ULG classes, metropolitan ULGs achieved the highest collection efficiency at 52% followed by small cities at 45%, while emerging cities recorded lowest collection efficiency at just 25%, indicating weakness in enforcement, billing systems and low payment compliance.

Figure 2.18: Water charges collection efficiency, 2022-23



Source: Analysis of self-reported data by 2984 ULGs on cityfinance.in

Willingness to pay is shaped not just by household capacity but also by perceptions of service reliability. The overarching weakness of India's urban water systems is intermittent supply- no major city provides 24x7 piped water. Instead, water is rationed for a few hours a day, creating dissatisfaction and weakening compliance. Households, in turn, are forced to adopt coping strategies such as storage tanks, and drilling private borewells, which increases costs, exposes them to risks of contamination, and reinforces the perception of municipal services being unreliable.

At the same time, how users perceive the value of their payments plays a crucial role in determining compliance. Even when services improve, weak communication about the actual cost of delivering water often prevents households from recognising the link between user charges and service quality. In the absence of transparent cost information, citizens tend to view water bills as arbitrary levies rather than contributions to sustaining reliable service delivery. Strengthening this connection between cost, payment, and service quality is therefore essential for improving collection efficiency and building public trust in municipal water systems.

Recommendation: Enhance Transparency through Disclosure of Cost of Supply

ULGs should improve transparency with respect to fund utilisations, including cost of service delivery by publishing cost of supply statements in an easy-to-understand format as part of their budgets and consumer bills. These should disclose the unit cost of water supply, the current tariff level, and the gap between revenue and costs (if any). Clear communication of this kind will not only enhance transparency but also build public acceptance of tariff reforms by framing them as necessary for reliable and continuous service delivery.

2.5.2.2 Monetising Treated Wastewater: what, why and how?

Ensuring sustainable urban water management requires cities to not only recover costs from conventional user charges but also explore alternate revenue streams that align with principles of circular economy. Water brought into the urban system must be treated and reused to minimize wastage, reduce dependence on freshwater sources, and generate additional income to support service operations. With increasing water stress and rising costs of extraction and treatment, treating wastewater as a resource rather than waste offers both environmental and financial dividends for ULGs.

At present, only a handful of ULGs have demonstrated the potential of wastewater reuse as a viable economic activity. These early examples, however, provide important lessons and proof of concept for scaling such initiatives across states.

Bellari City Corporation, Karnataka offers a compelling example of how wastewater reuse can be mainstreamed into local government revenue systems. The corporation has successfully implemented wastewater reuse for both industrial and non-potable municipal applications. Treated water is supplied to industries for use in cooling kilns, power generation, and pellet plants, thereby curbing dependence on freshwater sources. Additionally, the water is utilized for municipal purposes such as street washing and gardening. Since August 2022, Bellari has been selling treated wastewater at INR 6.10 per kilolitre (KL), generating a steady revenue stream. Even at a lower rate of INR 4.71 per KL in 2021-22, the city earned INR 52.56 lakh, which was reinvested into the operation and maintenance of its underground drainage (UGD) network and sewage treatment plants (STPs).

Other cities have demonstrated similar successes. A CPHEEO (2021) study of 54 million-plus cities noted that Nagpur Municipal Corporation, Maharashtra generated approximately INR 15 crore annually by supplying 123.5 million litres per day (MLD) of treated wastewater from the Bhandewadi STP to thermal power plants. Similarly, Surat Municipal Corporation has achieved one of the most successful wastewater reuse programmes in the country, earning over ₹233 crore between 2014 and 2021 through industrial sales of treated wastewater. The city has also demonstrated tariff rationalisation over time, revising industrial reuse tariffs from INR 18.20 per KL in 2014 to INR 28.58 per KL in 2021.

Even for cities with smaller industrial bases, non-potable applications can provide meaningful revenues. Indore Municipal Corporation, for example, generated INR 89.4 lakh in 2020-21 through the sale of treated water for garden irrigation, street cleaning, and construction purposes.

Recommendation: Integrate Wastewater Reuse into ULGs Revenue Strategies

Metropolitan ULGs should develop Wastewater Reuse Plans as part of their annual budgets and City Sanitation Plans. These plans should:

- Identify potential end-users (industrial, commercial, and municipal) and feasible reuse applications
- Specify tariff structures that ensure substantial O&M cost recovery for treatment and conveyance
- Encourage long-term supply contracts with bulk consumers to provide revenue predictability
- Ring-fence revenues from treated wastewater sales for reinvestment in O&M of water treatment and underground drainage (UGD) systems

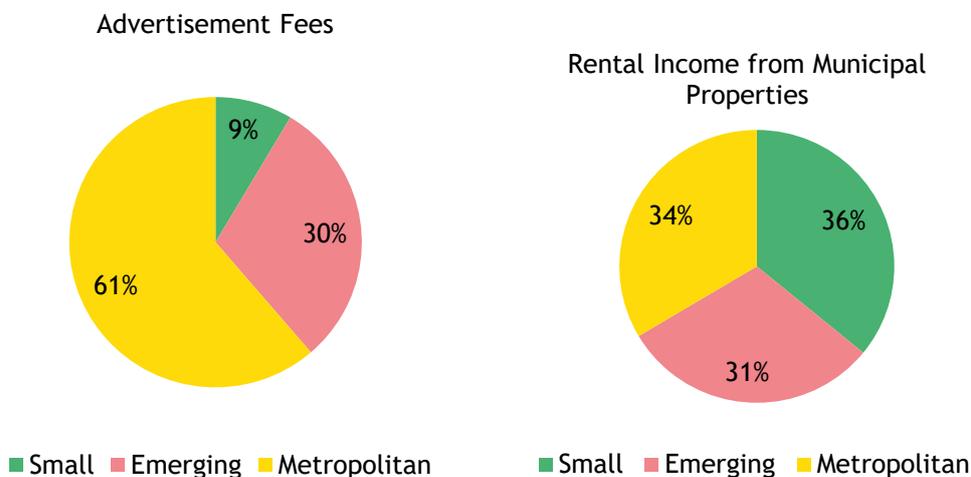
Adopting such plans can enable ULGs to transform wastewater management from a cost centre into a self-sustaining, revenue-generating function, reinforcing both fiscal and environmental sustainability.

2.5.3 Optimising municipal asset utilisation

ULGs across India own substantial assets ranging from vacant lands, municipal buildings such as commercial complexes, shops, community halls, etc. These assets, if managed effectively, can become a significant and predictable source of municipal revenue.

Despite this, most cities are unable to fully tap into this potential. In 2021-22, rental income and advertisement revenues together contributed less than 3% of own source revenues. Within this, advertisement revenues were highly concentrated: metropolitan cities accounted for 61% of collections, emerging cities 30%, and small cities just 9%. Rental income, though more evenly distributed, revealed stark disparities: 43 metropolitan cities generated as much revenue as the combined collections of 367 emerging and 3,394 smaller ULGs. These patterns underline two critical issues. First, asset monetisation potential is decisively concentrated in metropolitan areas. Second, across all city typologies, municipal lands, buildings, and potential advertisement sites remain underutilised despite significant latent potential.

Figure 2.19: Percentage share of advertisement fees and rental income from municipal properties across city typologies, 2021-22



Source: Analysis of self-reported data by 3,803 ULGs on cityfinance.in

How can ULGs build reliable asset records?

The primary constraint is the absence of reliable asset inventories. Several ULGs do not maintain such records, and where they do exist, they are prepared largely to meet statutory budget requirements. Entries are simply carried forward year after year without fresh surveys, leaving them outdated and inaccurate. These records also lack critical details such as location, size, current usage or economic potential, making them ineffective for decision-making. The absence of accurate and credible data severely undermines asset management, leading to encroachment, misallocation, and an inability to identify under-utilised land parcels and vacant buildings.

Recommendation: Metropolitan ULGs should build comprehensive digital asset Inventory of all municipal assets (lands, buildings, advertisement sites) and onboard specialized agencies for managing municipal assets to bring in private sector efficiencies

State governments should mandate the creation of comprehensive digital inventories of municipal assets - including lands, buildings, and potential advertisement sites - mapped with geo coordinates across all metropolitan ULGs. These inventories should not only record existing assets but also identify revenue-generating opportunities by leasing out spaces for advertisements such as high-visibility junctions, bus shelters, and flyover pillars. The inventory must be updated regularly with assets' estimated market values. This will enable ULGs to make informed decisions about their assets, set fair prices based on estimated market values, and systematically generate revenue from underutilized properties.

Beyond poor records, ULGs lack a structured approach to asset monetisation. The problem is especially acute for advertisement assets: most ULGs have not undertaken comprehensive mapping of high-potential sites such as prominent road junctions, flyover pillars, or municipal buildings. Unlocking greater value from municipal lands and buildings will also require involving external specialised agencies with expertise in real estate and asset management. Given the severe staff capacity constraints faced by ULGs, including Corporations, systematic monetisation will depend on onboarding such agencies through contractual arrangements to identify, value, and redevelop properties. Successful models exist: for instance, New Delhi Municipal Council (NDMC) auctioned four acres of the Moti Bagh estate, generating INR 300 crore to finance redevelopment into flats,

bungalows, and EWS units, while creating sustained revenue streams from property tax, stamp duty, GST, and lease rentals.

How do weak legal frameworks constrain asset monetization?

A deeper fundamental challenge is the absence of a robust legal framework governing municipal asset management. Some states such as Madhya Pradesh, Maharashtra, Tamil Nadu have enacted some provisions, elsewhere ULGs operate in a regulatory vacuum, without clear enforcement powers, and results in the absence of standardised norms for asset valuation, and lease management.

Valuation practices in most ULGs are not aligned with market prices. Advertisement rights for municipal assets are often applied uniformly across a city, ignoring variations in footfall, land values, or site visibility, which leads to consistent underpricing. Rental properties face similar distortions. Leases are rarely re-auctioned, with tenants allowed to renew at marginally higher rates (5-10% over original rents) even as market values rise many times over. This has locked ULGs into undervalued contracts and encouraged widespread subletting, allowing tenants to capture revenue differentials that should rightly accrue to ULGs.

Recommendation: Establish a robust legal framework for asset monetization

To address this, states must establish a comprehensive legal framework for valuation, leasing, and monetisation of municipal assets. For rental properties, rules should mandate minimum rents linked to notified guidance values and require periodic re-auctioning of shops and complexes after fixed lease terms (e.g., 10-12 years). A Right of First Refusal may be provided to safeguard sitting tenants, allowing them to retain properties if they match or marginally exceed the winning bid. For advertisement assets, states should standardise permit regulations, ensure municipal spaces are priced as a percentage of benchmark values, and empower ULGs to remove unauthorised hoardings and levy penalties.

Together, these measures would enable ULGs to systematically monetise their assets, align revenues with market conditions, and unlock a major underutilised source of income.

2.5.4 Leveraging land value capture to connect urban planning and finance

Land Value Capture Financing (LVCF) is frequently presented as a mechanism to augment ULGs' own source revenues and help bridge the urban infrastructure financing gap. At its core, however, LVCF is not merely a revenue mobilisation tool; it is the financial personification of a core principle of urban planning: that public action creates public value.

When a government invests in a new metro line, or revises a master plan to permit higher density, it directly generates a financial windfall for private landowners. The principle, therefore, is to reclaim a portion of this publicly created value to fund the infrastructure and services that make cities more liveable. This approach forms a critical link between the outcomes of strategic planning and the long-term fiscal health of ULGs.¹⁸

Why are current VCF instruments underutilized in India?

While instruments to capture land value, such as development charges, betterment levies, and land pooling exist in various state statutes, their implementation remains fragmented, largely ineffective, with consistently low yields. These tools are thus marginal to the fiscal health of most ULGs. The potential of VCF is constrained by three foundational challenges that prevent its effective application.

¹⁸ World Bank (2015). Financing Transit-Oriented Development with Land Values: Adapting Land Value Capture in Developing Countries. Washington, DC.

First, the legal and institutional landscape is ambiguous. Urban development functions are often split between ULGs and parastatal agencies, meaning the ULG frequently has no direct control over the projects creating value. Underpinning this institutional divide are the states Town and Country Planning (TCP) acts, which create a patchwork of outdated or missing regulations.¹⁹ Reviews from both NITI Aayog (2022) and the Ministry of Housing and Urban Affairs (2017) confirm this legislative gap, noting that only a handful of states explicitly empower ULGs to operationalize a full suite of VCF tools. The result is a divergence in practice. While states like Gujarat and Maharashtra have provisions for betterment levies and premium Floor Space Index (FSI), implementation often rests with parastatal development authorities rather than ULGs directly. In other states, such as Uttar Pradesh and Bihar, the planning acts are either silent on complex instruments such as Transferable Development Rights (TDR), land pooling and premium FSI, or reserve their use for state bodies.²⁰ A 2022 NITI Aayog workshop revealed the scale of this policy gap, finding that fewer than one-third of states and UTs had up-to-date, operational provisions for tools like land pooling or premium FSI. This institutional fragmentation is a recurring theme: even where a ULG has statutory authority on paper, control over major projects is often held by special-purpose vehicles and state-level agencies, restricting the ULG's actual ability to capture value.

Second, ULGs are hampered by a chronic data and valuation gap. The accurate measurement of value accretion is nearly impossible without comprehensive and updated records. This requires both digitised land records, typically managed by state revenue departments to define ownership and boundaries, and property tax records, which are municipal-level datasets describing the built structures. Critically, these records must be integrated into GIS-based master plans. Unlike their use in property tax administration wherein GIS help identify unassessed and underassessed properties, GIS's function in VCF is far more strategic. For value capture, GIS master plans serve as dynamic spatial databases that allow for the overlay of multiple data layers, such as infrastructure alignments, land use, and property ownership, to precisely map the market impact of a new project. This allows for differentiated charges based on proximity or project benefit, increasing both the fairness and the legal defensibility of any VCF instrument. Without the institutional capacity for this kind of transparent, market-based valuation, assessing a project's impact remains an exercise in approximation, leaving it vulnerable to legal challenge.²¹

Finally, any attempt to implement these tools often runs into strong political and public resistance. Without a clear and transparent link between the charges levied and the benefits provided, these instruments would be perceived as an arbitrary tax. This perception makes elected leaders hesitant to enforce them, especially when the underlying data is weak.²²

What would a differentiated, plan-led approach look like?

To be effective, VCF cannot be a blunt, one-size-fits-all instrument. It must function as a targeted, supplementary revenue source with linkages to strategic urban planning. The value created by Transit-Oriented Development (TOD) policies or by permitting mixed-use development in high-growth corridors presents a clear and justifiable opportunity for value capture. A differentiated approach is necessary. Larger, more institutionally capable metropolitan ULGs could be incentivised to pilot advanced instruments like Tax Increment Financing (TIF) in designated zones. Meanwhile, small and emerging ULGs could focus on strengthening existing tools like development charges, ensuring they are transparently linked to the cost of providing local infrastructure.²³

For example, property value uplifts near transit stations provide further context for VCF's potential. A study on Bengaluru's Metro shows that residential property values within 500 meters of stations

¹⁹ NITI Aayog & GIZ (2022). Land Value Capture - Towards Planning and Financing Urban Infrastructure.

²⁰ Based on review of Annexure 1, MoHUA Value Capture Finance Policy Framework (2017), pp.44-48.

²¹ Asian Development Bank (2023). Developing Digital Land Inventories for Infrastructure Finance

²² Mahendra, A., et al. (2020). Urban Land Value Capture in São Paulo, Addis Ababa, and Hyderabad: Differing Interpretations, Equity Impacts, and Enabling Conditions. Lincoln Institute of Land Policy.

²³ World Resources Institute (2021). Synergizing Land Value Capture and Transit-Oriented Development.

increased by up to 25% compared to the city average, demonstrating TOD-linked value creation that ULGs can tap for revenue generation²⁴.

This approach ensures the financing tool is not an administrative afterthought but a core part of the planning process, designed to fund and shape sustainable urban growth.

Can VCF be a dividend of foundational municipal reform?

The central challenge, therefore, lies not in designing new financial tools, but in the weakness of the governance systems on which they depend. A strategic shift in perspective is required. Effective VCF should not be viewed as a starting point for reform, but rather as the dividend that mature planning and governance systems produce. The priority for states and ULGs should be to undertake the foundational work required to make these complex instruments viable, focusing on three key reforms:

- **Build Strategic Public Land Inventories:** While states like Madhya Pradesh and Assam have begun creating inventories, systemic gaps such as incomplete database integration and outdated land mapping persist. Therefore, the goal must be to move beyond digitization towards comprehensive GIS tagged inventories that function as strategic assets, so as to allow ULGs to identify underutilized parcels and unlock their economic value for public projects.
- **Establish Market Based Valuation Capacity:** ULGs need the capacity for transparent, market-based valuation. This is an essential precursor to measuring value accretion accurately and ensuring any resulting charge is both fair and legally defensible.
- **Integrating Planning and Finance:** The institutional divide between planning authorities (often parastatals) and ULGs' Finance departments is a critical bottleneck. Bridging this requires clear state level policies that embed financial analysis into the planning process and ensure a portion of any value created is ringfenced for the ULG.

Only when these building blocks are firmly in place can Land Value Capture move from a suboptimal stream to a viable component of municipal finance in India.

2.6 How can we catalyse municipal borrowings for urban infrastructure development

ULGs in India primarily access debt financing through two channels: term loans and bonds. Term loans - sourced mainly from state-level financial institutions, scheduled commercial banks (SCBs), development finance institutions such as HUDCO, IIFCL and NaBFID, and multilateral development banks (MDBs) - accounted for more than 90 percent of total outstanding municipal borrowings in 2021-22. In contrast, municipal bonds²⁵—including green bonds—made up less than 10 percent of outstanding borrowings in the same year.

Given the scale of urban infrastructure investments requirements, there is a growing need for ULGs to mobilise debt financing mechanisms to bridge the investment gap. Metropolitan cities are generally more amenable to undertake borrowings, benefiting from legacy advantages such as better-quality infrastructure, stronger service delivery systems, greater economic impulse to mobilize own resources, and higher institutional capacities.

In the last decade, the union and state governments along with SEBI, have introduced several measures to catalyse municipal borrowings across ULGs. Some key interventions include the

²⁴ Ballal, T., & Tripathi, S. (2024). How Bengaluru's Metro Affects Residential Property Values. Curtin University Repository

²⁵ From 1997-2025, a total of 55 municipal bonds were issued, raising INR 5,408 crore (as of August, 2025), by 22 city governments, two state governments (Tamil Nadu and Maharashtra), and three water supply and sewerage boards (Chennai, Nagpur, and Hyderabad). Post-2017, following the introduction of SEBI Issue and Listing of Municipal Debt Securities (ILMDS) Regulations, 2015 and incentives by Government of India, 17 city governments across Gujarat, Maharashtra, Madhya Pradesh, Uttar Pradesh, Telangana, Tamil Nadu and Andhra Pradesh, along with one state-level entity in Tamil Nadu, collectively mobilized INR 3,439 crore through 24 bond issuances.

introduction of a regulatory framework for municipal bond issuances by SEBI through SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2015; monetary incentives by the union government to eligible ULGs for municipal bonds and green bonds under AMRUT and AMRUT 2.0²⁶, establishment of the Urban Infrastructure Development Fund (UIDF) under National Housing Bank to provide low-interest loans to tier 2 and tier 3 cities for infrastructure projects, and most recently, the announcement of the Urban Challenge Fund by Government of India²⁷, under which ULGs that are able to mobilise at least 50% of the project cost through market-based financing would be eligible for grant funding against those projects.

At the state level, support has primarily focused on providing credit enhancement for municipal bonds to notch up municipal bonds' credit ratings. For instance, Uttar Pradesh's Infrastructure Development Fund (IDF) provided partial credit enhancement to municipal bond issuances of five ULGs through upfront cash collateral and coverage for shortfalls in interest and principal repayments. Similarly, Tamil Nadu, through its state-level entity, Tamil Nadu Urban Infrastructure Finance Services Limited (TNUIFSL), extended cash collateral support for Chennai's bond issuance.

These efforts have contributed to 17 ULGs issuing municipal bonds (including green bonds) to mobilise INR 3,439 crore over 2017-2025. Further, at an aggregate level, based on cityfinance.in, only 1,355 of 3,804 ULGs (36%) had outstanding debt of INR 25,399 crore in 2021-22, contributing an additional 12% of capital over municipal revenues. But despite these advancements, municipal borrowings in India stood at a modest 0.11% of GDP, much smaller than countries such as Brazil, Columbia, Turkey and South Africa.

CEPT's creditworthiness assessment framework states that ULGs' borrowing capacity can be estimated at 2.5 times²⁸ of their operating surplus²⁹. If we evaluate metropolitan ULGs borrowing capacity based on 2021-22 audited financial statements for available ULGs, 34 metropolitan ULGs collectively had the potential to mobilize INR 87,820 crore of debt, with Mumbai's debt carrying capacity alone at INR 40,932 crore. In contrast, these ULGs had an outstanding debt of only INR 17,854 crore in 2021-22 - highlighting substantial potential for Indian cities to scale up debt financing.

But despite this potential, ULGs are unable to scale up borrowings due to systemic challenges. The following section examines these challenges and outlines potential solutions to catalyse municipal borrowings:

What would it take for cities to unlock borrowings?

- 1. Accessing borrowings inherently requires cities to have a robust revenue foundation and be financially sustainable.** Municipal debt, in principle, is an instrument to ensure availability of capital for funding infrastructure projects in case of short-term budgetary shortfalls. It is neither a panacea for fixing cities' municipal finances nor does it result in 'new money' being unlocked for cities, as the debt needs to be repaid back to investors in due course. Previous sections have highlighted the challenges and potential solutions for raising own revenues (including property tax and water charges). But it's important to reiterate that scaling municipal debt, first and foremost, requires that ULGs have reliable and robust own revenue base to ensure timely debt

²⁶ As on 27th March, 2025, incentives worth INR 331.83 crore were released to 16 entities for raising INR 4,984 crore through municipal bonds. Under AMRUT 2.0, ULGs are eligible for monetary incentives of up to INR 26 crore for every INR 200 crore bond issuance. In case the second bond issuance is a green bond, ULGs are also eligible for a further incentive of INR 20 crore for every INR 200 crore issuance. From 2025-26 onwards, AMRUT 2.0 is also incentivising pooled bond issuances (which covers multiple cities projects in one bond issuance) and for every INR 500 crore of issuance, eligible entities can receive up to INR 65 crore for general infrastructure projects and INR 90 crore for renewable energy or energy efficiency projects.

²⁷ The Urban Challenge Fund (UCF) - announced in Union Budget 2025-26 - is proposed to be established for a five-year period starting 2025-26 with an initial corpus of INR 10,000 crore. Central grants will finance up to 25% of project costs, provided that at least 50% of the cost is mobilised through market-based financing such as municipal bonds, bank loans, or PPPs.

²⁸ Centre for Water and Sanitation (CWAS). CEPT University (2024). Creditworthiness Assessment—An Approach for Indian Cities.

²⁹ Operating surplus represents the remaining funds after accounting for revenue expenditure (without interest and depreciation) against revenue receipts.

repayment. There is an acute under-pricing of urban infrastructure and services across all sectors, especially water supply, sanitation, solid waste management services, and most ULGs are unable to recover even their operational costs. Several factors are hampering effective pricing for urban services - lack of devolution of tariff-setting powers by states to ULGs, limited political buy-in from state and municipal elected representatives for increasing water tariffs, lack of citizen awareness about the cost of service delivery, and poor overall accountability of urban local governments with respect to urban spending. Fixing some of these core issues and improved cost recovery would be critical to ensure that ULGs are able to scale up borrowings.

Recommendation: States and ULGs should undertake targeted interventions to improve own revenue mobilisation (especially pricing for infrastructure and services) to enhance ULGs creditworthiness, improve debt servicing capacity and ensure long-term sustainability of debt financing.

2. **There is a need to set up institutional mechanisms for providing credit enhancement support for municipal bond issuances to enhance investor appetite and interest and consequently, reduce the cost of borrowing for ULGs.** Credit enhancement mechanisms, such as funds providing cash collaterals or guarantee structures that cover pre-defined losses in case of default, reduce investors' risk (by ensuring timely payment even in case of default) and consequently, increase investor appetite and reduce the borrowing cost for ULGs. While some states, like Uttar Pradesh and Tamil Nadu, have recently provided credit enhancement support as mentioned above, such support is largely absent across other states or at the union level.

Recommendation: At the state level, Urban Infrastructure Development and Finance Corporations (UIDFCs) should be empowered to provide structured credit enhancement solutions, such as cash collateral or partial guarantees, to increase investor appetite by reducing their investment risk and reducing the cost of municipal borrowings for ULGs. In addition, development finance institutions (like NaBFID) should also be encouraged to set up dedicated funds for providing credit enhancement support to ULGs exploring municipal bond issuance.

3. **State governments need to support ULGs (especially metropolitan and larger emerging ULGs) in creating Capital Investment Plans, which includes a shelf of bankable, viz. revenue-generating projects to enhance ULGs' market readiness.** Most ULGs (including metropolitan and large emerging ULGs) continue to rely on grant-based funding to undertake capital expenditure for infrastructure projects due to a combination of lack of alternative funding and limited incentives to explore debt financing. As a result, the type and scale of infrastructure projects has intrinsically become linked to size of grant funding instead of a robust assessment of service delivery gaps and citizens' needs. Beyond a few metropolitan ULGs, most have not conducted comprehensive needs assessment of infrastructure requirements basis service delivery standards, nor have they created robust pipelines of potential infrastructure projects.
4. **Moreover, due to lack of specialised staff dealing with project development and financing as well as vacancies across ULGs engineering and finance departments, most ULGs are currently technically ill-equipped to handle the various facets of development of 'big ticket' infrastructure projects.** In recent years, several metropolitan cities have also struggled to fully spend their budgeted capital expenditure³⁰. To ensure that ULGs are able to create the requisite urban infrastructure, there is a need to bridge the technical capacity constraints w.r.t. project development - ranging from identifying economically viable projects, conducting technical and financial appraisal of projects, preparation of project documents (like Detailed Project Reports,

³⁰ 10 sample large cities were able to spend only two-thirds of their cumulative capital budget over 2017-18 to 2019-20 with cities like Jaipur, Vadodara, Chennai and Hyderabad spending only between one-third and one-half of their respective capital budgets over this period (According to World Bank (2022) 'Financing India's urban infrastructure needs: Constraints to commercial financing and prospects for policy action')

Request for Proposals to hire contractors, concession agreements in case of PPP projects), ensuring projects' financial closure through convergence of funds across schemes, own source revenues, borrowings - by offering dedicated technical support to ULGs.

Recommendation:

- (i) ULGs, particularly metropolitan and larger emerging cities, should be mandated to prepare multi-year capital investment plans (CIPs) as strategic development and infrastructure investment roadmaps. These plans should be grounded in comprehensive needs assessments based on service delivery levels, developed with civic participation, and translated into a pipeline of bankable, revenue generating projects.
- (ii) To operationalize the above, state governments should set up technical advisory support cells to equip ULGs with technical capacities and manpower to undertake CIP formulation, improve project structuring, procurement and implementation.

5. **The longtail of 4,000+ small ULGs lack staff capacities and economies of scale to mobilize debt financing on their own and will require dedicated state support to reduce the cost of borrowing and reduce administrative burden.** Nearly 15 states³¹ have set up Urban Infrastructure Development and Finance Corporations (UIDFCs) for improving project development and financing³² of urban infrastructure projects. In some states like Jharkhand (JUIDCO), Madhya Pradesh (MPUDCL), Rajasthan (RUDSICO), UIDFCs have enabled centralized management of project identification, preparation and execution which has helped improve the pace of project preparation and execution. However, they have not adequately prioritised building ULGs' capacities with respect to project preparation and implementation, nor have they been able to mobilise commercial finance for ULGs projects.

Recommendation: State governments should reinvigorate UIDFCs into professionally managed entities with functional autonomy and ensure that their mandate include both project development and mobilisation of commercial finance for urban infrastructure projects. UIDFCs should enable creation of shelf of investible projects across ULGs, develop financing models that match the typologies of sectors and projects (water supply, sanitation, roads, etc) with sources of municipal funds (own source revenues, grants, borrowings), and mobilise borrowings for projects that are more amenable to debt financing.

Catalytic Reforms for Transforming Municipal Finances

To unlock the next generation of municipal finance reforms, a focused set of interventions is required that can strengthen revenue foundations, enhance fiscal discipline, and build investment readiness of the ULGs. We identify 10 catalytic reform areas that can trigger a virtuous cycle of transformation in municipal public financial management over the 16th Finance Commission period:

1. **Institutionalising automated database integration** across state and municipal departments (such as stamp duty registration, utilities, and building permissions) to ensure a complete, accurate, and continuously updated property tax register-thereby expanding the tax base and strengthening revenue buoyancy.

³¹ Andhra Pradesh, Bihar, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttarakhand and West Bengal. ADB (2022): Final Report on Strategic Institutional Framework and Investment Plan in Urban Sector in the State of Assam.

³² Most of the 15 UIDFCs provide financial assistance to cities by on-lending funds mobilized on their behalf.

2. **Adopting the Capital Value (CV) method** of property taxation across all ULGs, linking taxable value to guidance or circle rates, to ensure that property valuations reflect market realities, improve transparency, and enhance tax buoyancy.
3. **Establishing shared municipal service models** such as unified revenue collection and regional legal support cells-to address staff capacity constraints, reduce duplication of effort, and improve collection efficiency across property tax and user charges.
4. **Instituting tariff rationalisation through cost disclosure** by mandating ULGs to publish operation and maintenance (O&M) costs in their annual budgets and to establish a **formulaic link between O&M cost and user tariff**, ensuring transparency and progressive movement towards full cost recovery.
5. **Creating digital asset inventories** of all municipal lands, buildings, and advertisement sites with geo-tagged information and market valuations to enable transparent asset management, leasing, and monetisation, unlocking new sources of non-tax revenue.
6. **Strengthening the legal framework for municipal asset management and monetisation** by linking rents and lease values to guidance rates, mandating periodic re-auctioning of municipal properties, and empowering ULGs to act against unauthorised occupation or advertisement. This will ensure predictable, market-aligned, and transparent revenue generation from public assets.
7. Reinvigorate **Urban Infrastructure Development and Finance Corporations (UIDFCs)** by equipping them with skilled manpower to prepare capital investment plans that lead to a ready pipeline of bankable projects, and to support Urban Local Governments (ULGs) through credit enhancement mechanisms as well as by strengthening their technical capacities for project development and debt mobilization.
8. **Ensuring transparency and public disclosure:** Mandate complete public disclosure of information across the grant lifecycle, on a dashboard on CityFinance or similar state level platforms to enable accountability and performance-based dialogue. This will include disclosure of (i) status of grant from recommendation to utilisation - to include grant, allocation, status of compliance, grant released, expenditure occurred; and (ii) list of completed and ongoing projects and/or works, including status of completion and other attributes as necessary.
9. **MoHUA & DoE to develop and adopt an end-to-end paperless digitalised grant administration system** by building on the existing system on CityFinance.
 - a. **Simpler compliance and verification processes that eliminates duplication:** (i) Automatic submission of compliances (Audited financial statements, Budgets, Service Level Indicators, Revenues, expenditure) through APIs from source systems such as PFMS, IFMS, Municipal Finance Systems; In case information is not available in source systems, provide a simple interface for ULGs to upload submissions. (ii) Documents submitted through APIs from trusted systems can be fast-tracked based on system checks, without any manual verification. In the case of manual, there should be clear SOPs on 'who' should verify the document (for e.g. state or MoHUA) and 'what' should be verified, along with a specification of time period for verification. (iii) All other processes such as 'calculation of ULG-wise grant allocation' and processing of grant claims (by MOHUA and DOE) should be system enabled.
 - b. **Streamlined processes of grant release:** (i) Improvements to CityFinance and PFMS to allow ULGs to track status of grant verification and release of funds in real-time. (ii) At

union and state level, generation of sanction order and payment instruction through PFMS or state IFMS;

- c. **Real-time observability (or trackability) through:** (i) Establishment of policies that support interoperable systems, open APIs and other related system design principles critical to improve grant administration; and (ii) corresponding system improvements to facilitate machine to machine exchange of relevant information, based on pre-determined data standards. This will be aimed at establishing a 'single source of truth' and eliminating multiple sources for the same information.

10. **UFC should design 100% grants as untied, without mandating end-use.** This will empower ULGs to allocate funds according to local priorities.

- a. Promote the preparation of annual action plans and Capital Investment Plans (CIPs) to improve project selection, while requiring public disclosure of expenditure and projects to strengthen accountability.
- b. To ensure balanced investment, a spending cap could be introduced, limiting no more than 50% of FC grant utilisation in a single sector over five years.

Chapter 3 : How do cities spend their money?

Managing Expenditure Effectively

Overview

Indian cities face mounting financial pressures, with infrastructure and service demands far outpacing the financial capacities of ULGs. The previous chapter analyzed the adequacy and composition of ULG revenues and recommended reforms for augmenting resource availability with ULGs. This chapter shifts its focus to the other side of the financial equation by answering three broad questions: (i) what do cities spend on? (ii) how effectively do cities spend? and (iii) how do cities measure and demonstrate financial accountability

This chapter breaks down the expenditure composition of cities and diagnoses the root causes behind challenges faced in expenditure by the ULGs. It unpacks challenges across budgeting and expenditure processes and discusses institutional shortcomings that underpin Public Finance Management (PFM) systems. Additionally, it also explores the state of financial accountability in ULGs covering accounting, auditing, and oversight mechanisms. Each key section in the chapter ends with actionable reform recommendations.

3.1 What do cities spend on and how much?

ULGs in India are constitutionally assigned 18 functions under the Twelfth Schedule (refer annexure 3.1), ranging from water supply and sanitation to urban planning and public health, that directly shape the quality of life in cities. However, since ‘local government’ is a state subject, state governments determine which functions are devolved and which are retained by state agencies.

In most cities, ULGs do not have full control over critical urban services. Key sectors such as water supply, sewerage, housing, and transport are often managed by parastatal agencies or government departments that report directly to the state, with little oversight by ULGs. For example, in Hyderabad, water services are handled by the Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB), not the Greater Hyderabad Municipal Corporation (GHMC). Similarly, urban planning in Delhi and Bengaluru rests with state-level development authorities, limiting the role of municipal governments. Hence, our cities witness a complex web of service providers, including ULGs, state departments, and parastatal agencies. In 18 states, an average of 17 out of 18 functions³³, listed in the Twelfth Schedule, have been devolved to ULGs by law, however the absence of a clear division of responsibilities has led to overlapping mandates, institutional fragmentation, and weakened local accountability.

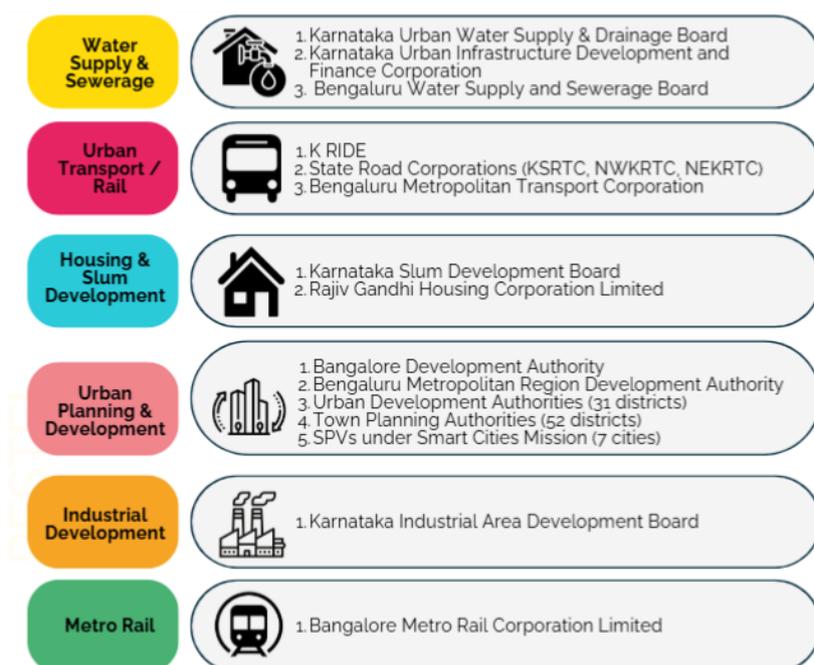
Yet, this pattern is not unique to a few large cities. An assessment of devolution of functions by state governments and budget allocation of state urban development departments showcases how widespread and systemic this fragmentation has become in India’s urban governance.

3.1.1. State-Level Illustrations: Karnataka and Odisha

In Karnataka, the institutional landscape for urban service delivery is particularly dense. At least thirteen parastatal agencies are actively involved in various urban sectors. These include seven state-level parastatals and five Bengaluru-specific entities. Moreover, there are thirty-one Urban Development Authorities (UDAs), fifty-two Town Planning Authorities (TPAs), and seven Special Purpose Vehicles (SPVs) created for the implementation of the Smart Cities Mission. These agencies are spread across different departments, although a majority are supervised by the Urban Development Department (UDD) (Refer Annexure 3.1 for list of parastatals functioning in urban areas in Karnataka).

³³ Comptroller and Auditor General (CAG). (2024). Compendium of Performance Audits on the Implementation of the 74th Constitutional Amendment Act, 1992: Landscape across India Volume I.

Figure 3.1: Number of parastatals functioning in urban areas in Karnataka



Source: CAG & Information published by parastatals

Although Karnataka’s state legislation has devolved 17 out of 18 functions to ULGs (excluding fire service), municipal governments have full jurisdiction over only 3 of them. For the remaining 14 functions, there are significant overlaps with parastatal agencies and other state-level implementing bodies. Field studies confirm that ULGs remain dependent on parastatals for delivering large-scale infrastructure such as water supply networks, underground drainage systems, and for carrying out other critical tasks like slum improvement, land use regulation, and master planning. Furthermore, the governance structures of these parastatals do not include any elected municipal representatives, effectively excluding ULGs from key decision-making processes regarding city infrastructure.

The significance of parastatals in Karnataka is also evident in budget allocations. Between FY 2020-21 and FY 2023-24, both parastatals and ULGs accounted for approximately 40% each of the UDD budget. However, allocations to parastatals witnessed a higher annual growth rate of approximately 9%, between FY 2020-21 and FY 2023-24 compared to just 2% for ULGs. The share of parastatal allocations fluctuated between 38% and 43%, while allocations to ULGs remained consistent around 40%. Refer Annexure 3.2 for the trends in Karnataka UDD Budget Allocations to Parastatals and ULGs.

Odisha presents a somewhat different, though no less fragmented, picture. Eleven parastatal agencies are directly involved in urban service delivery, including four at the state level and seven that are city specific. Refer Annexure 3.3 for the list of parastatals in Urban Sector in Odisha. Beyond these, twenty-two other state-level parastatals operate in sectors that intersect with urban development. These agencies, though less numerous than in Karnataka, control a substantial portion of public spending on urban services.

Figure 3.2: Number of parastatals functioning in urban areas in Odisha



Source: CAG & Information published by parastatals

Parastatals play an important role in the implementation of state Schemes and Centrally Sponsored Schemes (CSS). Under CSS, parastatals received 33% of the funds, compared to 16% allocated to ULGs. In some cases, grants to ULGs are diverted through ULGs to parastatals for infrastructure development.

It is clear that parastatals are central to urban service delivery and infrastructure development in India. They also command substantial financial resources, yet the financial footprint of parastatals remains largely unmapped due to weak disclosure norms, fragmented reporting practices, and limited integration with municipal financial systems.

- 1. Parastatal spending is not publically disclosed, resulting in limited visibility into investment flows:** Parastatals do not publish budgets, financial progress, or project outcomes. As a result, it is difficult to track how much they spend, in which locations, and what outcomes their investments achieve.
- 2. No city-wise breakdown of spending:** state-level spending agencies and parastatals rarely provide expenditure data disaggregated by city, limiting visibility into actual investment patterns across urban areas.
- 3. Multiple and inconsistent reporting formats:** Parastatals use reporting formats that differ significantly from ULGs' budget and accounting structures, and these formats vary across agencies. This makes comparison, aggregation, and analysis of their financial information challenging.
- 4. Limited accountability and weak oversight mechanisms:** Parastatals are not accountable to ULGs even when using ULG funds. Their reporting lines remain with state departments, resulting in weak coordination and fragmented decision-making at the city level.

As parastatals continue to perform civic functions, they should be held accountable to the ULGs they operate in, through Service Level Agreements (SLAs). Regular reporting and public disclosure of parastatal activities and finances, including annual and performance audits, should be mandated to ensure accountability and quality outcomes.

As there is no comprehensive, city-level expenditure data available from state government departments and parastatals, their spending cannot be used to understand the composition of urban expenditure. In this context, ULG expenditure becomes the only consistent and reliable source for analysing how resources are allocated and spent at the city level.

3.1.2. National level expenditure analysis of ULGs

We now turn to local government level to analyse expenditure trends, while substantial information is available on ULG finances through publicly available audited financial statements on www.cityfinance.in, there are some limitations. The National Municipal Accounts Manual (NMAM), introduced in 2004 to standardize accounting practices, remains largely based on administrative classification. Expenditures are recorded under administrative heads such as salaries, repairs, and operations, rather than being mapped to services like water supply, sanitation, housing, or roads. As a result, it is nearly impossible to determine how much a city spends on specific services. For instance, there is no way to isolate total spending on sanitation or street lighting from general expenditure accounts.

Further compounding this issue, even though some ULG budgets provide functional and sectoral data, budget formats also vary widely across ULGs, making it difficult to compare or aggregate data. Due to this classification and tracking challenges, municipal expenditure analysis remains restricted to broad cost-based categories namely, revenue expenditure (e.g. salaries, maintenance) and capital expenditure (e.g. infrastructure creation) with little insight into what services or outputs those expenditures support. Further, project-wise expenditure tracking is rare. Only a few municipalities have internal systems to monitor projects, and these are often limited to only engineering departments and works departments and often not shared with accounts departments. There is no public disclosure of projects, timelines, deliverables, or outcomes, severely restricting transparency and citizen oversight.

We have analysed aggregated³⁴ data for 4,824 ULGs from FY 2019-20 to FY 2022-23, sourced from audited Annual Financial Statements (AFS) available on the CityFinance platform. Since this assessment relies on AFS data, only revenue expenditure has been examined. Capital expenditure reported in AFS often requires extrapolation or consolidation at an aggregate level and does not reliably capture the full extent or sectoral composition of capital outlays typically presented in some municipal budgets. As a result, AFS data does not provide a sufficiently accurate or comparable basis for detailed, disaggregated analysis of capital spending and hence the focus of our analyses is on understanding ULGs' priorities on recurring costs.

Revenue Expenditure: Revenue expenditure, as defined under the NMAM, refers to the recurring and operational costs incurred by ULGs in the course of delivering municipal services. It includes establishment costs, which cover salaries, wages, pensions, and other personnel-related costs for municipal staff such as sanitation workers, engineers, and others. Operations and Maintenance (O&M) expenses relate to the routine upkeep of infrastructure and services, including roads, water supply systems, sanitation networks, and public facilities.

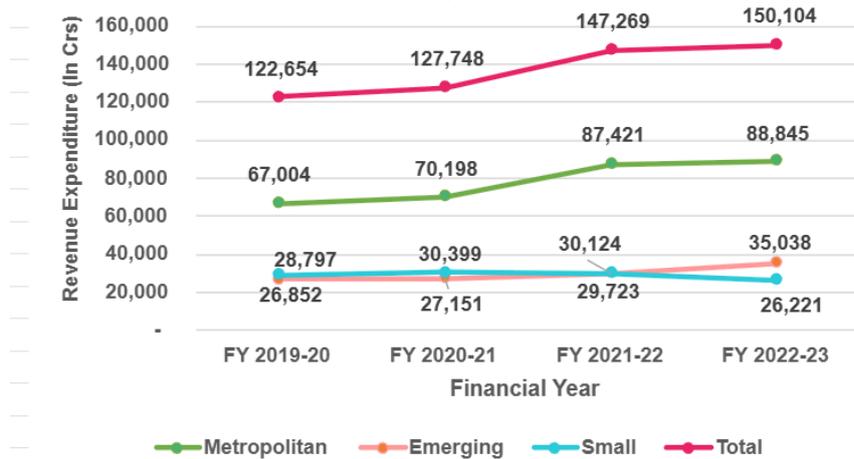
Other components include administrative expenses (office operations and governance), programme expenses (one-time targeted schemes or citizen facing initiatives), revenue grants, contributions, and subsidies (expenditure linked to fiscal transfers from the Union or State), and interest and finance charges (payments for servicing debt).

Overall, revenue expenditure has shown steady growth over the past four financial years, recording a compounded annual growth rate (CAGR) of 7%. Between FY 2019-20 and FY 2022-23, revenue expenditure increased from ₹1,22,654 crore to ₹1,50,104 crore.

A. Revenue Expenditure: Uneven Growth and Skewed Spending Priorities: Over the past four years, revenue expenditure has risen sharply in Metropolitan and Emerging Cities, growing at around 10% annually. In contrast, Small cities have recorded a decline of 3% in their revenue expenditure.

³⁴ Aggregated Data for missing Cities was extrapolated using a two-step Per Capita Scaling approach—first at the City typology (population category) level and subsequently at the State level. Per-capita values were derived from Cities with available data within each group and applied to the populations of missing Cities, ensuring consistent and complete datasets across all years for analysis.

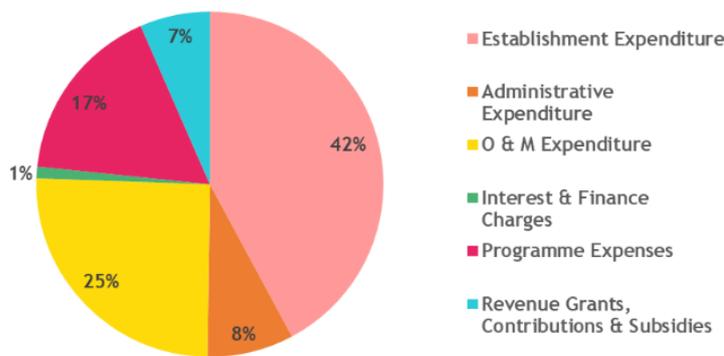
Figure 3.3: Year-wise Trend of Revenue Expenditure



Source: National level figures for 4,824 ULGs extrapolated basis audited financial statements for 2,904 ULGs for 2019-20, 2,971 ULGs for 2020-21, and 3,803 ULGs for 2021-22 sourced from cityfinance.in

Based on data available at an aggregate level, the composition of revenue expenditure shows that a significant portion of ULG spending is concentrated in establishment expenditure about 42% in FY 2021-22. O&M accounts for approximately 25%, while administrative expenses represent around 8% of total spending. This distribution highlights the need for disaggregated data for a deeper analysis into what an optimal expenditure composition might look like across different city contexts, service mandates, and governance models. Specifically, understanding the underlying drivers of establishment and O&M components - such as staffing norms and the extent of devolution of functions can help clarify how expenditure patterns align with urban service delivery frameworks.

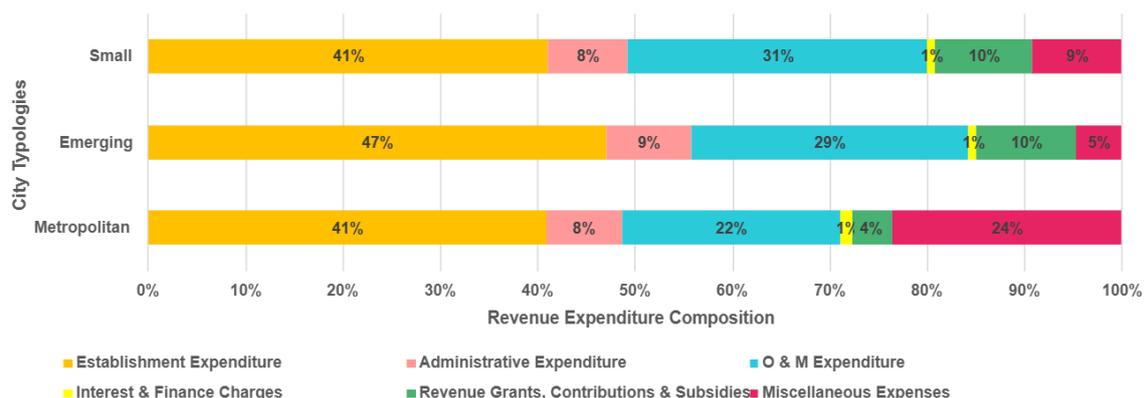
Figure 3.4: Composition of Revenue Expenditure for FY 2021-22



Source: National level figures for 4,824 ULGs extrapolated basis audited financial statements for 2,904 ULGs for 2019-20, 2,971 ULGs for 2020-21, and 3,803 ULGs for 2021-22 sourced from cityfinance.in

Across all three city typologies, establishment and O&M together account for over 60% of total revenue expenditure—ranging from 63% in Metropolitan Cities to 76% in Emerging Cities. The remaining expenditure is distributed across administrative costs, interest and finance charges, revenue grants and subsidies, and miscellaneous expenses. These patterns further underscore the need to analyse how expenditure composition aligns with service-delivery responsibilities, staffing structures, and the quality of financial reporting. A more detailed breakdown of these revenue-expenditure components will also help reveal the underlying story embedded in the city-level data.

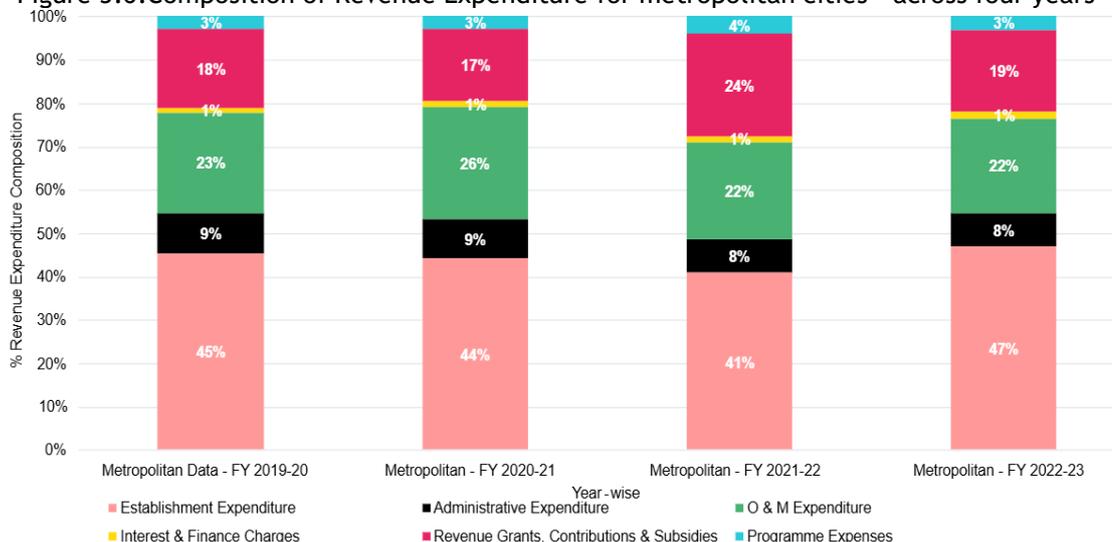
Figure 3.5: Composition of Revenue Expenditure as per City typology



Source: National level figures for 4,824 ULGs extrapolated basis audited financial statements for 2,904 ULGs for 2019-20, 2,971 ULGs for 2020-21, and 3,803 ULGs for 2021-22 sourced from cityfinance.in

- (i) **Metropolitan cities.** Between FY 2019-20 and FY 2022-23, metropolitan cities consistently allocated over 40% of their revenue expenditure to establishment costs, peaking at 47% in FY 2022-23. O&M ranged from 22% to 26%, reflecting a commitment to infrastructure upkeep, while interest and finance charges remained stagnant at around 1%, indicating minimal debt servicing obligations. Administrative expenses held steady at 8-9%, and programme expenses stayed marginal at 3-4%. Revenue grants, contributions, and subsidies fluctuated between 17% and 24%, peaking in FY 2021-22 likely due to pandemic-related fiscal support before declining to 19% in FY 2022-23. The consistently high share of establishment and O&M costs warrants closer examination to understand how staffing and service mandates shape fiscal space.

Figure 3.6: Composition of Revenue Expenditure for metropolitan cities - across four years

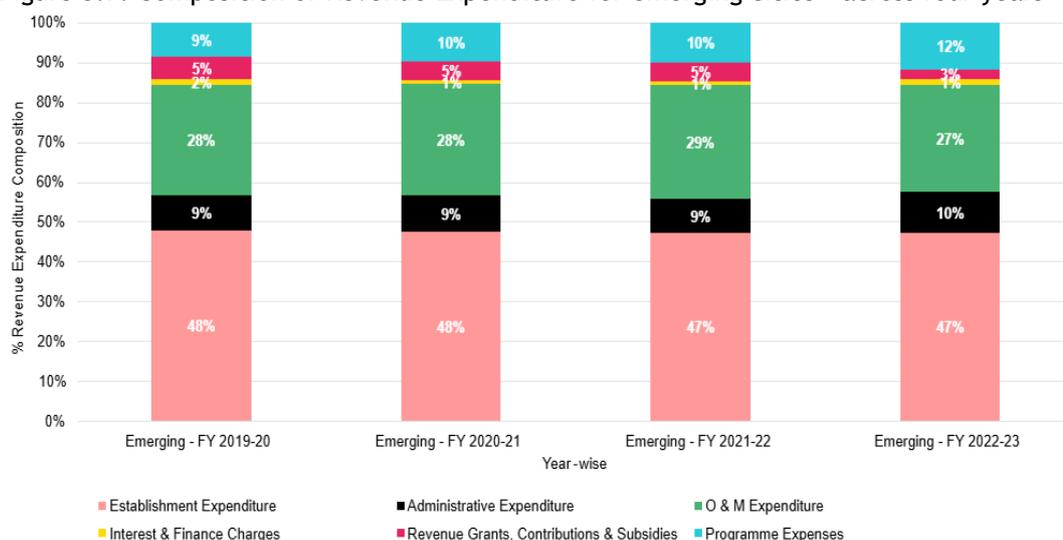


Source: National level figures for 4,824 ULGs extrapolated basis audited financial statements for 2,904 ULGs for 2019-20, 2,971 ULGs for 2020-21, and 3,803 ULGs for 2021-22 sourced from cityfinance.in

- (ii) **Emerging Cities** Between FY 2019-20 and FY 2022-23, emerging cities consistently allocated nearly half of their revenue expenditure to establishment costs (47-48%), which may reflect staffing intensity or service delivery responsibilities that require further disaggregation. Administrative expenses showed a rise slightly at 9-10%, while interest and finance charges held at 2%, indicating low debt servicing obligations. Revenue grants, contributions, and subsidies declined from 5% in FY 2019-20 to 3% in FY 2022-23, while programme expenses increased from 9% to 12% over the same period. This composition

highlights a narrowing focus on grant-based expenditure with potential room for borrowing but more importantly a call for a deeper analysis into the drivers of personnel-related expenditure.

Figure 3.7: Composition of Revenue Expenditure for emerging cities - across four years



Source: National level figures for 4,824 ULGs extrapolated basis audited financial statements for 2,904 ULGs for 2019-20, 2,971 ULGs for 2020-21, and 3,803 ULGs for 2021-22 sourced from cityfinance.in

- (iii) **Small cities:** From FY 2019-20 to FY 2022-23, small cities exhibited a shift in fiscal priorities marked by rising share of fixed costs, as establishment expenditure rose from 41% to 48%. Administrative expenses remained stable at 8-9%, indicating consistent governance-related overheads. Operations and maintenance spending increased significantly from 25% to 36%. In contrast, programme expenses declined from 13% to 4%, revenue grants, contributions, and subsidies also fell from 11% to 4%, pointing to diminished grant related expenses, while interest and finance charges stayed minimal at 0-1%, reflecting low reliance on borrowing. This evolving expenditure mix merits deeper examination to evaluate the extent to which resource allocation is aligned with core service-delivery priorities, institutional mandates, and the broader considerations of fiscal flexibility and sustainability.

Figure 3.8: Composition of Revenue Expenditure for small cities - across four years



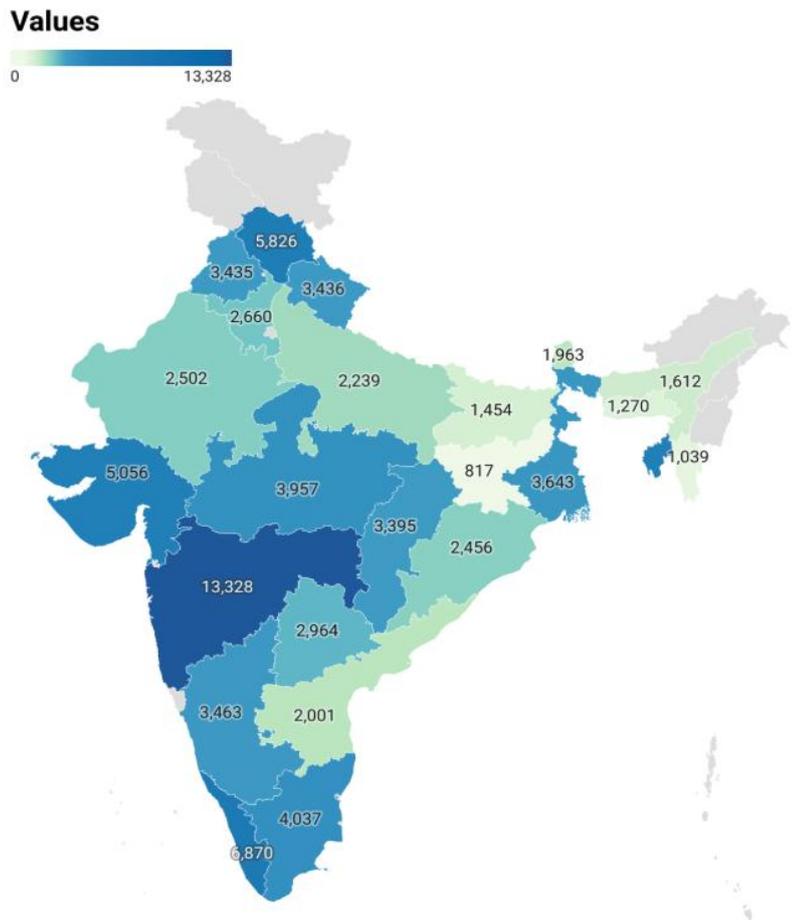
Source: National level figures for 4,824 ULGs extrapolated basis audited financial statements for 2,904 ULGs for 2019-20, 2,971 ULGs for 2020-21, and 3,803 ULGs for 2021-22 sourced from cityfinance.in

B. Per Capita Revenue Expenditure Across States: Large Divergences Reflect Uneven Urban Service Delivery. Per capita revenue expenditure varies sharply across Indian states, underscoring significant inequality in the scale and quality of municipal services.

- (i) Maharashtra reports the highest figure at ₹13,328, driven by its strong fiscal base and the extensive functions handled by its municipal bodies. It's state average is notably influenced by mega corporations such as Brihanmumbai (₹15,142) and Pune (₹13,034), which together push the state's per capita figure above ₹14,000. Kerala ranks second at ₹6,870 and is the only other state to exceed ₹6,000 per capita. states like Himachal Pradesh (₹5,826), Tripura (₹5,257), and Gujarat (₹5,056) also report relatively higher operational spending, but in contrast, Jharkhand (₹817), Chhattisgarh (₹1,050), and Bihar (₹1,102) spend far less per capita.

This wide divergence in spending levels highlights the need to explore whether persistent structural inequities are linked to differences in decentralization, institutional capacity, or governance models across states.

Figure 3.9: State-wise Revenue Expenditure Per Capita



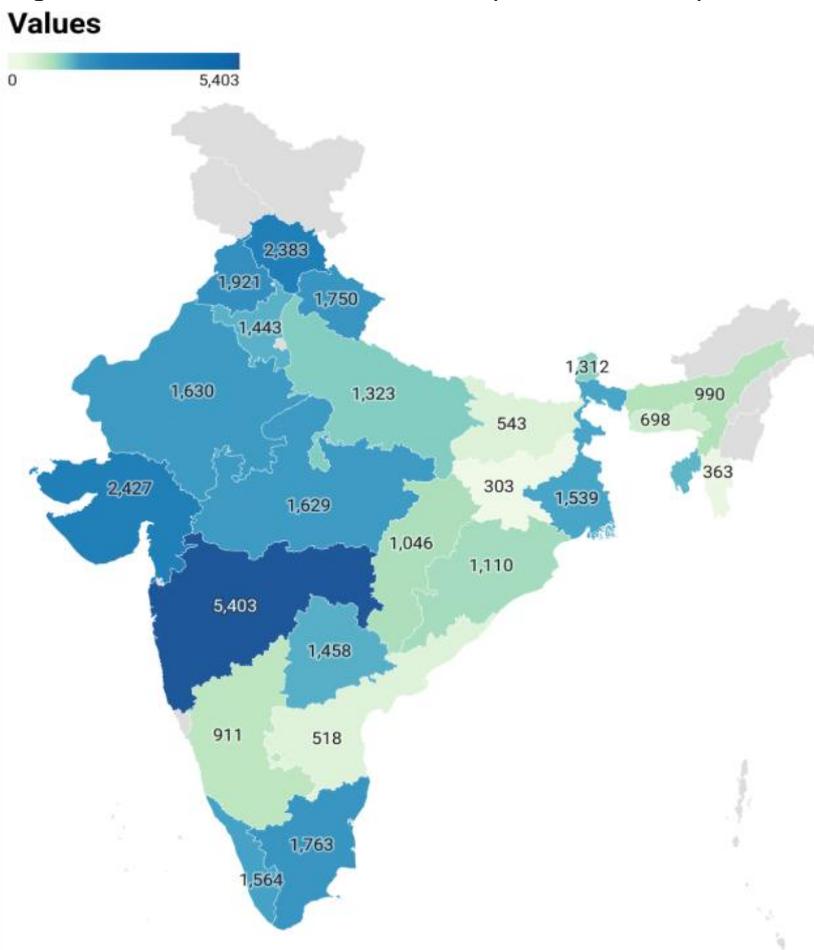
Source: National level figures for 4,824 ULGs extrapolated basis audited financial statements for 2,904 ULGs for 2019-20, 2,971 ULGs for 2020-21, and 3,803 ULGs for 2021-22 sourced from cityfinance.in

- (ii) Following the broader analysis of revenue expenditure patterns across states, it is equally important to disaggregate this spending; particularly the share allocated to establishment costs. As one of the largest and least flexible components of municipal expenditure, per capita establishment expenditure offers a valuable lens into the administrative architecture, staffing intensity, and functional mandates of urban local bodies, revealing how these dimensions vary across governance models and fiscal contexts.

Per capita establishment expenditure varies significantly across states, reflecting underlying differences in municipal governance models, administrative scales, and cost structures. Only 8 out of 26 states exceed the national average, suggesting that a few large, urbanized states are skewing the mean upward. Maharashtra leads with ₹5,403, driven by high-spending corporations like Brihanmumbai, which alone reports ₹10,758 per capita. States such as Gujarat (₹2,427) and Himachal Pradesh (₹2,383) also report elevated figures. In contrast, Kerala, Tamil Nadu, Madhya Pradesh, Telangana, Uttar Pradesh, West Bengal, and Rajasthan fall within the ₹1,000-₹2,000 range, pointing to relatively leaner cost structure, possibly shaped by greater reliance on contract personnel or tighter staffing norms.

At the lower end, Jharkhand (₹303), Chhattisgarh (₹343), Mizoram (₹343), and Andhra Pradesh (₹518) suggest minimal municipal staffing or stronger dependence on state departments for service delivery. These variations in establishment expenditure bring into focus the differing governance models across states and warrant closer investigation into how institutional design and fiscal mandates shape municipal capacity and cost efficiency.

Figure 3.10: State-wise Establishment Expenditure Per Capita



Source: National level figures for 4,824 ULGs extrapolated basis audited financial statements for 2,904 ULGs for 2019-20, 2,971 ULGs for 2020-21, and 3,803 ULGs for 2021-22 sourced from cityfinance.in

While understanding how much cities spend and how that spending is distributed is critical, it is only part of the picture. Equally important is assessing how effectively these expenditures are aligned with priorities and citizen outcomes.

3.2 How effectively do cities spend?

Effective spending in a city means using money in a way that delivers the greatest possible value for citizens. It is not just about how much a city spends, but whether those funds are directed towards the right priorities, backed by realistic plans, and implemented efficiently on the ground. When spending is effective, projects are well-selected, budgets are predictable, funds are released on time, and departments are able to complete works without delays or cost overruns. Most importantly, every rupee spent should translate into tangible improvements—better roads, cleaner neighbourhoods, reliable basic services, and stronger service delivery that improves the overall quality of life for citizens³⁵.

To assess how effectively ULGs spend, it is important to understand the systemic constraints that shape their planning and budgeting processes. Effective spending depends on whether cities prioritise the right projects, link plans to budgets, allocate resources predictably, spend funds in a timely and efficient manner, and translate expenditure into improved service delivery outcomes. It also requires robust processes for project preparation, appraisal, fund release, expenditure tracking, and monitoring of financial and physical progress. In reality, these conditions are often not met. ULGs often lack structured project pipelines, have weak links between plans and investments, and operate within fragmented legal frameworks. These challenges, along with staffing shortages and weak institutional processes, result in ad-hoc budgeting and underutilization of funds. Some critical challenges and issues in municipal spending are outlined below.

1. ULGs lack a systematic framework for project planning and a shelf of projects

A critical gap in urban public financial management in India lies in the absence of a systematic and institutionalized framework for project identification and prioritization. Cities rarely conduct detailed field-level assessments of infrastructure and service delivery gaps across sectors. There is no formal process to gather granular data from wards or service departments to systematically identify needs, evaluate demand, or prioritize investments.

Most ULGs do not maintain a shelf of projects or a medium-to-long-term project pipeline that reflects the city's development needs or service delivery priorities. This absence of structured project development is compounded by the limitations of existing planning instruments. Master plans, which are supposed to guide spatial and infrastructure development, are often outdated, narrowly focused on land use planning and poorly integrated with investment planning or the financial realities of ULGs. Without reliable planning frameworks to anchor project selection, budgeting tends to be reactive and ad hoc rather than strategic.

Moreover, municipal budgeting in India generally lacks a multi-year or medium-term perspective. Budgets are prepared on an annual basis with little continuity or linkage to prior investments or future plans. This limits the ability of cities to sequence investments, manage financial risks, or align projects with funding availability over time.

The inadequate needs assessment, weak planning integration, and short-term budgeting lead to fragmented investments, delays in execution, and a chronic mismatch between infrastructure creation and actual urban service delivery needs.

2. There is no comprehensive, national legal framework for municipal budgeting

Municipal acts, rules, and budget manuals guide the budgeting process, including formats, timelines, and approval mechanisms. However, the availability and quality of provisions for budgeting across these legal and regulatory instruments are neither comprehensive nor consistent across states. Budget formats also vary widely, with some ULGs using NMAM's administrative classification and others attempting functional formats, often inconsistently even within the same state. A review of municipal acts, finance rules and manuals across 29 states sheds light on the inconsistencies in budgeting provisions.

³⁵ Andrews, M., Cangiano, M., Cole, N., de Renzio, P., Krause, P., & Seligmann, R. (2014). This is PFM. Harvard Kennedy School and Overseas Development Institute; World Bank. (2016). Public Financial Management: Overview. World Bank Group.

Table 3.1: Review of 28 state's Municipal Acts, Accounting and Budgeting Manuals

Budget Provisions	AP	AR	AS	BR	CG	GA	GJ	HR	HP	JH	KA	KL	MP	MH	MN	ML	MZ	NL	OR	PB	RJ	SK	TN	TG	TR	UP	UK	WB
Budget Strategy & Planning																												
Budget manual/ Budgeting provisions in accounting	Y	N	Y	N	N	N	N	N	N	Y	Y	N	Y	Y	N	N	N	N	Y	Y	N	N	Y	Y	N	Y	Y	N
Budget system	Y	N	Y	Y	N	N	N	N	N	Y	Y	N	N	N	N	N	N	N	Y	N	N	N	N	Y	N	Y	Y	N
Long term/mid term fiscal planning	N	N	Y	N	N	N	N	N	N	Y	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Participatory Budgeting	N	N	N	Y	N	N	N	Y	N	N	Y	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	N	N
Budget Preparation & Approval																												
Budget calendar prescribed	Y	N	N	Y	N	N	N	Y	N	N	N	N	Y	Y	N	N	N	N	Y	N	N	N	Y	N	N	N	N	N
Outcome Budget	N	N	N	Y	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
State Government power over the Municipal Budgets	Y	Y	N	Y	Y	Y	N	Y	Y	Y	N	N	Y	N	N	N	N	N	Y	Y	Y	Y	Y	Y	Y	N	N	N
Budget Execution																												
Requirement for public disclosure	Y	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	N	N	N	N	Y	Y	N	N	Y	Y	N	Y	Y	Y
Budget Utilization Review	Y	Y	Y	Y	N	N	N	N	N	Y	N	Y	N	N	N	N	N	N	Y	N	Y	N	Y	N	N	N	N	N
Frequency of Budget Utilization review	N	N	N	Q	N	N	N	N	N	MC	N	Q	N	N	N	N	N	N	MC	N	Q	N	SA	N	N	N	N	N
Provisions for Budgetary Control	N	Y	N	Y	N	Y	N	N	N	Y	Y	Y	Y	N	N	N	N	N	Y	N	Y	N	Y	Y	N	N	N	Y
Performance Reporting prescribed	Y	N	N	Y	Y	Y	N	N	N	Y	N	Y	Y	N	N	N	N	N	N	Y	N	Y	N	N	N	N	N	N

Source: Janaagraha's analysis, Y- Yes, N- No, A- Annually, Q-Quarterly, MO-Monthly, SA-Semiannually

- **Budgeting manual:** Only 12 states have a municipal budget manual.
- **Budget system:** 9 states have prescribed the system of budgeting (cash or accrual).
- **Timelines for preparation of budgets:** Only 7 states have prescribed a budget calendar in their municipal acts, ensuring that the budgeting process follows a structured timeline to meet the objective of budgets.
- **State government oversight:** In 16 states, the state government is the final approving authority for municipal budgets. While state oversight can ensure alignment with broader state objectives, it often limits the autonomy of ULGs, hindering local decision-making and responsiveness to community needs.
- **Budgetary control:** 12 states have provisions for budgetary controls in their municipal acts.
- **Outcome Budgeting:** Bihar is the only state with a legal provision for outcome budgeting
- **Performance Reporting:** 9 states have provisions for annual performance reporting, which allows municipalities to assess whether they have met the financial and service delivery goals outlined in their budgets

3. Public participation in budgeting is missing. Moreover, budget documents are not available in public domain for easy access to citizens and elected representatives

Citizen participation in ULG budgets is essential for inclusive and effective allocation of resources across services and neighbourhoods. Three core components enable meaningful participation: (1) formal platforms for citizen participation like ward committees, area sabhas, community organizations, citizens (2) institutionalize processes for citizen participation during the budget process, and (3) access to actionable and granular data to inform decision-making by ward committees, area sabhas, community organizations and citizens.

However, there are significant gaps in platforms, processes, and availability of data.

- (i) Among 15 states, only 9 have constituted ward committees in at least one ULG³⁶ (Refer Annexure 3.5 for the number of cities with active ward committees in states). Even where

³⁶ Comptroller and Auditor General (CAG). (2024). Compendium of Performance Audits on the Implementation of the 74th Constitutional Amendment Act, 1992: Landscape across India Volume I. The Compendium is based on reports of 18 States.

- mandated, implementation remains uneven; for example, in Himachal Pradesh, ward committees exist only in Shimla.
- (ii) Only Bihar, Karnataka, Haryana, and Tamil Nadu have legal provisions allowing citizen feedback on municipal budgets.

While the 15th Finance Commission’s conditions have improved access to audited accounts, approved annual budgets largely remain unavailable in the public domain. Although 19 of 28 states have legal provisions for public disclosure of budgets, compliance is weak. According to Praja Foundation’s Financial Empowerment of City Governments report, only 16 of 43 large cities published complete budget documents between 2017-18 and 2023-24. This limits citizens’ ability to understand city spending priorities or compare planned budgets against actual expenditures. Encouragingly, over 12,551 municipal budgets for 2,885 ULGs from FY 2020-21 to 2025-26 are now available on the CityFinance platform as per 3rd November, 2025.

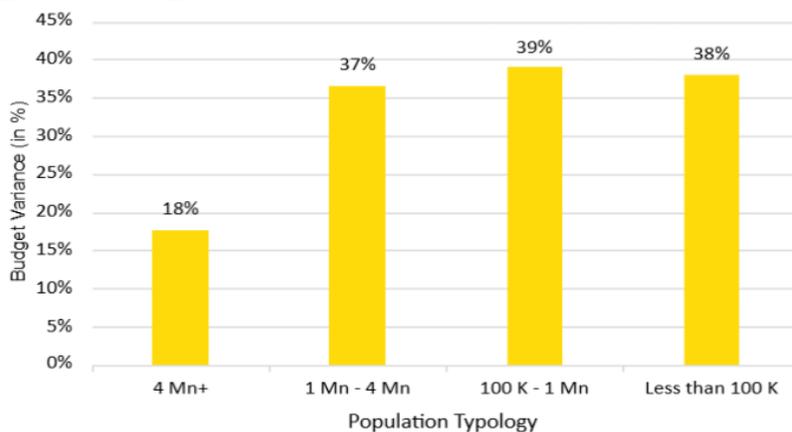
However, critical details on service-wise or ward-level allocations and projects, which are vital for residents and elected representatives, are often missing. Hence, along with ensuring public disclosure of approved budgets, ULGs must also provide more granular and accessible service-level and ward-level data. This would significantly improve transparency, local accountability and foster stronger citizen engagement.

4. There is a disconnect between budgets and actual expenditure due to weak budgetary control leading to high variances

In most ULGs, budgets are treated as a procedural formality rather than a tool for financial planning and control. Field interactions with ULG officials in states like Uttar Pradesh, Odisha, and Assam reveal that contracts are frequently issued, and payments made without verifying budget allocations or available balances. Expenditure often deviates significantly from approved budgets, resulting in over-expenditure in some areas or accumulation of unpaid dues.

Data from CityFinance platform for 1596 ULGs over FY 2019-20, 2020-21 & 2021-22 shows that the average budget variance ranges from 18 to 38 percent across ULGs of different population typologies, indicating low credibility of budgeting process and widespread weak expenditure management.

Figure 3.11: Budget variance varies across cities in India



Source: CityFinance.in (Average budget variance of receipts of 3 years- 2019-20, 2020-21 & 2021-22 of 1596 cities (representing 4 (57%) cities from 4Mn+ category, 23 (64%) cities 1Mn-4Mn, 172 (46%) cities 100k-1Mn, 1397 (33%) cities less than 100k))

This problem stems largely from how municipal budgets are prepared. Unlike at the national and state levels, where line departments play a central role in budget formulation linked to service delivery outcomes, municipal budgets are typically prepared by finance or accounts officers with minimal input from operational departments. This leads to unrealistic budgeting, often driven by ad hoc planning and the absence of robust institutional processes. In many cases, project sanctioning is limited to administrative sanction (by the Commissioner, Council, or state government) and technical

sanction (by the Engineering Department), without a corresponding budget sanction to verify fund availability. For instance, in Madhya Pradesh, Municipal Corporations can approve projects administratively for amounts up to INR 20 Cr, while Municipal Councils and Nagar Parishads operate with much smaller limits, INR 5 Cr and INR 2.5 Cr respectively.

These approvals often proceed without confirming whether the funds are actually available in the budget. Similarly, in Tamil Nadu, Chennai Municipal Corporation can grant administrative approval for projects up to INR 10 Cr, but technical and administrative sanctions do not always ensure that the corresponding budget has been sanctioned or allocated. This practice is common across many states, where administrative and technical sanctions are frequently issued independently of budgetary clearance, creating a gap between approved projects and actual fund availability, often resulting in delays, cost overruns, or incomplete works. (Refer Annexure 3.6 for administrative sanction of 16 states)

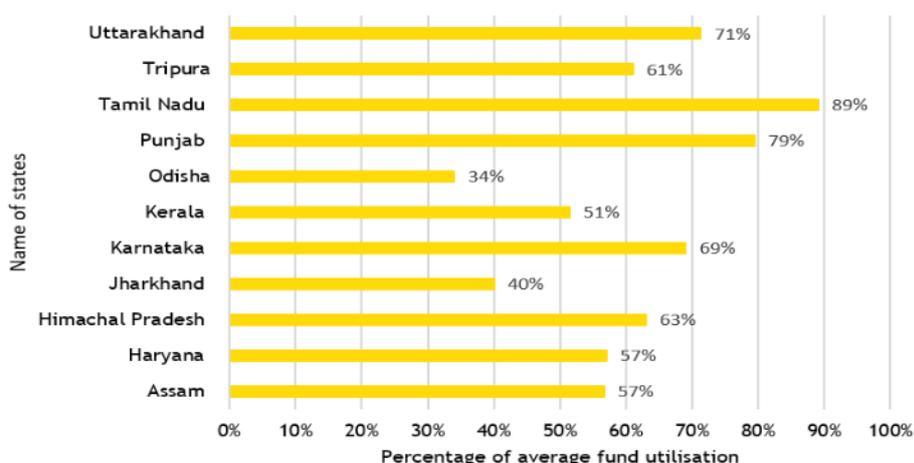
Budget variance is particularly severe in smaller cities. ULGs with populations under 1 lakh report an average variance of 38 percent, compared to just 18 percent in cities with over 4 million people. This reflects weaker financial planning capacity and control mechanisms in smaller municipalities, which often lack the systems and skilled personnel available to larger cities.

However, some ULGs demonstrate better practices that improve fiscal discipline. ULGs in states like Karnataka and Telangana have stronger financial systems with online finance and accounts modules that integrate budget controls. Budgets are uploaded after approval, and work orders are generated with direct reference to the budget. Payment vouchers are processed online, which helps prevent overspending. Any expenditure beyond the approved budget requires a supplementary or revised budget or formal approval from the elected council. Individual ULGs have also adopted specific controls: Mandideep Municipality (Madhya Pradesh) requires accounts verification before administrative sanction, and for the Greater Hyderabad Municipal Corporation, budget enforcement acts as a strict control mechanism, ensuring that no expenditure exceeds the amount approved in the budget.

5. Poor absorptive capacity in ULGs leads to partial utilization of allocations within the year

Allocations to ULGs have steadily increased over the years through funding from Ministry of Housing & Urban Affairs (MoHUA) and Finance Commissions, with ULGs' share of total grants-in-aid to local governments rising from approximately 19% under the X Finance Commission (1995-2000) to around 36% under the XV Finance Commission (2021-2026). However, many ULGs exhibit chronic underspending. On average, ULGs in 11 states have utilized only 61 percent of allocated funds, potentially compromising the quality of municipal service delivery.

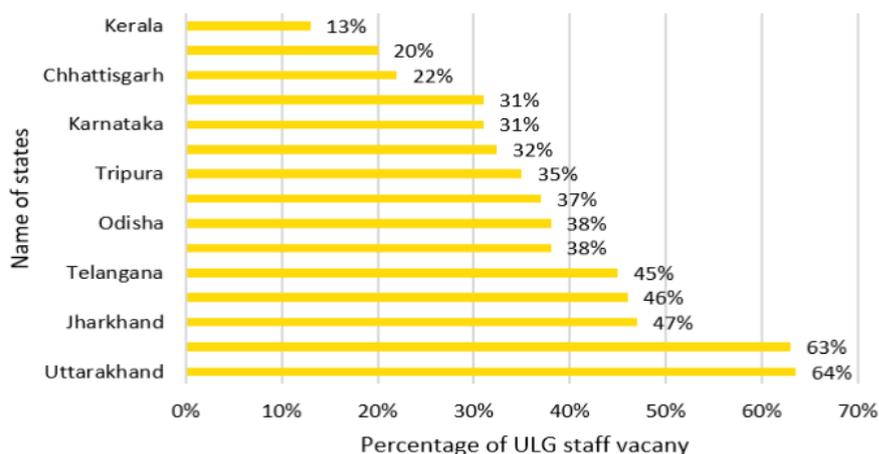
Figure 3.12: Average fund utilisation of ULGs across 11 states



Source: Janaagraha's analysis of CAG performance audit reports on the implementation of the 74th CAA

This underspending can be attributed to several interrelated constraints. First, staffing shortages remain a critical issue across ULGs due to limited sanctioned positions, outdated Cadre and Recruitment (C&R) rules, and persistently high vacancy rates. According to the Comptroller and Auditor General’s (CAG) Compendium of Performance Audits on the Implementation of the 74th Constitutional Amendment Act, 1992, ULGs face an average vacancy rate of 37 percent against sanctioned posts. Data from selected cities indicate that key departments such as revenue and finance, especially at Grade A and B levels, are severely understaffed.

Figure 3.13: Average vacancy rate against sanctioned posts for 8 states



Source: Janaagraha’s analysis of CAG performance audit reports on the implementation of the 74th CAA

These staffing challenges are compounded by limited institutional autonomy. Only 6 out of 16 states have granted sufficient autonomy over staffing and recruitment, most ULGs must seek state government approval to create or fill positions. While 11 of 15 states have notified Municipal Cadre and Recruitment Rules, these frameworks frequently lack clear guidelines on function-specific staffing needs. Establishing well-defined roles and responsibilities for each position along with corresponding skills and qualifications would enhance transparency and help reduce functional overlaps across posts.

Beyond human resources, ULGs face significant restrictions on financial decision-making that directly impede their ability to execute projects. In 16 out of 17 states reviewed, ULGs are required to obtain administrative approvals from state authorities such as District Municipal Authorities, Development Commissioners, or directly from the state Government for even basic infrastructure works.

Municipal Corporations in states like Madhya Pradesh, Tamil Nadu, Karnataka, and Andhra Pradesh must seek state Government approvals for projects exceeding INR 1.0 - 5.0 Cr. Municipal Councils in states such as Tamil Nadu, Chhattisgarh, and Karnataka face similar restrictions, with approvals required for works above INR 0.7 - 2.5 Cr. The constraints are even tighter for Town Panchayats and Nagar Panchayats, where projects above INR 0.15 - 1.0 Cr typically require approval from state-level authorities, as seen in Tamil Nadu, Karnataka, Madhya Pradesh, and Chhattisgarh. These approvals are triggered at relatively low financial thresholds, severely limiting the operational autonomy of ULGs and contributing to delays in project execution.

Table 3.2: Thresholds for state government approvals by ULG type in selected states

ULG Type	Typical State Government Approval Thresholds (INR)	States
Municipal Corporations	Starts as low as INR 1.0 - 5.0 Cr	Madhya Pradesh, Tamil Nadu, Karnataka, Andhra Pradesh
Municipal Councils	Often require State Government/Directorate of Municipal	Tamil Nadu, Chhattisgarh, Karnataka

	Administrative approval above INR 0.7 - 2.5 Cr	
Town Panchayats/Nagar Panchayats	State Government/State-level approvals often required above INR 0.15 - 1.0 Cr	Tamil Nadu, Karnataka, Madhya Pradesh, Chhattisgarh

Source: Janaagraha's analysis of financial rules, GOs, acts and notices of 16 states for which data was available

Box 3.1: Assam's Creation of Dedicated Municipal Cadres for Administrative, Financial, and Technical Governance³⁷

Objective

ULGs in Assam historically suffered from inadequate human resource capacity. Most municipalities lacked full-time executive officers, forcing elected chairpersons to shoulder administrative responsibilities. State-appointed officers often managed ULGs while concurrently holding multiple roles, limiting their effectiveness. Except for the engineering cadre governed by the Guwahati Municipal Corporation Engineering Service Rules, 2004, no formal cadre system existed. Municipalities largely relied on one or two accountants under the general administration system, with no dedicated financial or administrative staffing structures.

To address these issues, the Government of Assam aimed to:

1. Ensure effective human resource management across ULGs;
2. Define clear job roles and responsibilities;
3. Establish systems for recruitment, promotion, and career progression;
4. Enhance the quality and reliability of service delivery.

What Was Done

1. **Three Dedicated Cadres Created:** Separate cadres established for Urban Administrative, Urban Engineering, and Urban Finance Services to promote specialization and accountability.
2. **Formal Cadre Governance:** Extended formal service rules to non-engineering roles, bringing parity across technical and administrative staff.
3. **Standardized HR Systems:** Introduced merit-cum-seniority-based promotions, Annual Confidential Reports-based appraisals, and a framework to regularize existing staff.
4. **Training and Capacity Building:** Addressed ad hoc training by moving towards structured, institutional capacity building.
5. **Streamlined Transfers:** Enabled inter-ULG transfers by unifying the cadre system, improving deployment flexibility.
6. **Legal and Institutional Reform:** The Assam Municipal Employees (Provincialisation) Bill, 2025 brought all pre-2013 municipal employees under the state payroll. This reform ensured job security, equal pay, and reduced the financial burden on ULGs by transferring salary responsibilities to the state.

How It Was Implemented

1. **Cadre Strength and Rules:** Defined through formal rules and overseen by the High Court; Chief Justice retained flexibility to revise or hold posts in abeyance.
2. **Recruitment System Institutionalized:** A transparent, merit-based recruitment process with test and interview-based selection; lists published in official media and used across the judiciary.

What Was the Impact

1. **Job Security & Equal Pay:** Standardized salaries and career stability for municipal employees.
2. **Financial Relief for ULGs:** Salaries shifted to the state, easing municipal budgets.

³⁷ Janaagraha's analysis based on field visits

3. **Clearer Roles & Accountability:** Dedicated cadres improved functional clarity and institutional performance
4. **Better HR Management:** Recruitment, promotion, and cadre reviews became more structured and merit-driven.
5. **Improved Governance Capacity:** Professionalized staffing laid the foundation for more effective urban service delivery.

6. **Lack of unified view of finances due to different fiscal pipelines (PFMS, IFMS, ERP system of ULGs) and use of multiple bank accounts/ treasury accounts for keeping funds**

ULGs receive funds from multiple sources including their own revenues, state schemes, central schemes, and Finance Commission grants, as highlighted in the previous chapter. However, they lack visibility into both the quantum and timing of these receipts. Funds are routed through various systems such as the Public Financial Management System (PFMS), Integrated Financial Management System (IFMS), and into multiple bank or Personal Ledger (PL) accounts, often with separate accounts for each scheme.

Even for a single revenue stream like property tax, collections may be split across different accounts depending on the mode of payment such as cash, online, or M-POS machines. These further fragment the financial ecosystem. Further, ULGs operate a large number of bank accounts, many of which serve overlapping or legacy functions. For instance, Municipal Corporations such as Chennai, Bhubaneswar, and Bhopal manage over 120 bank accounts each. Smaller ULGs like Peddaamberpet (Telangana), Mandideep (Madhya Pradesh), and Hindol (Odisha) maintain more than 20 accounts. In many cases, even defunct scheme accounts remain open due to the absence of formal closure instructions from state authorities.

The existence of multiple funding channels and bank accounts limits the ability to view overall resources clearly, hindering effective cash management, and ability to plan and prioritise expenditures.

Table 3.3: Number of bank accounts maintained by 12 ULGs across states

ULG Name	State	Tentative number of bank accounts
PeddaAmberpet Municipality	Telangana	26
Chennai Municipal Corporation	Tamil Nadu	180
Poonamallee Municipality	Tamil Nadu	22
Parwanoo Municipal Council	Himachal Pradesh	14
Shimla Municipal Corporation	Himachal Pradesh	24
Bhopal Municipal Corporation	Madhya Pradesh	125
Mandideep Municipality	Madhya Pradesh	20-25
Bhubaneshwar Municipal Corporation	Odisha	120
Hindol notified Area Council	Odisha	36-37
Mysuru Municipal Corporation	Karnataka	80

Hassan Municipal Council	Karnataka	47
Alur Town Panchayat	Karnataka	24

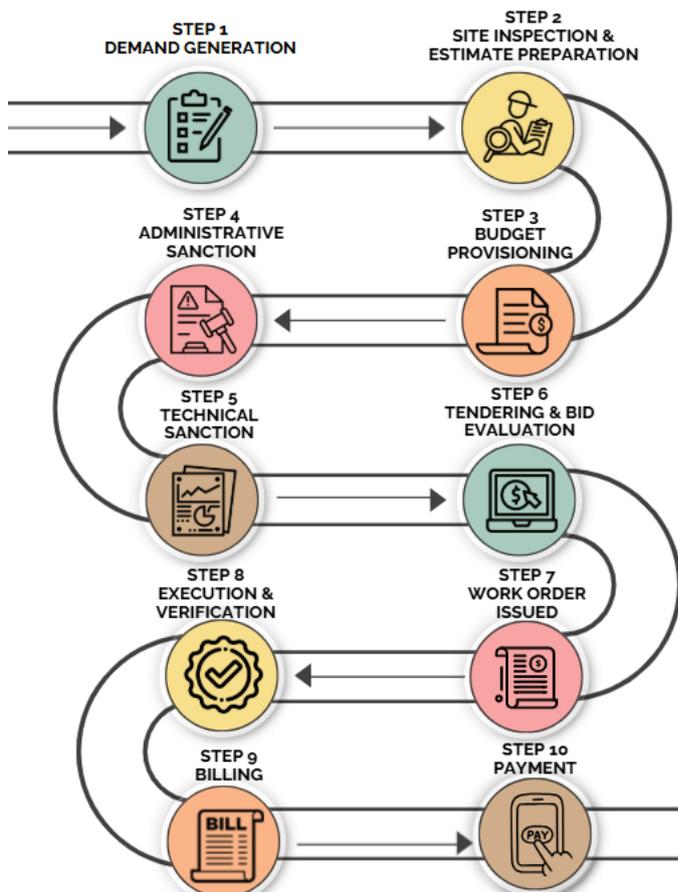
Source: Janaagraha’s analysis based on field visits

Further compounding this issue is the lack of predictability in fund flows from state urban development and finance departments. ULGs often do not receive timely or reliable projections of their expected financial allocations. This uncertainty limits their ability to plan, budget, and utilise funds efficiently, leading to fragmented service delivery and underutilisation of available resources.

7. Use of project tracking tools or works management systems is at nascent stages, leading to administrative burden on field staff and lack of project monitoring

Access to project information across the project lifecycle as mentioned below is critical for effective monitoring, timely interventions, and resolution of bottlenecks (refer to annexure 3.8 for detailed works cycle). However, in many ULGs, project tracking remains largely manual, with essential details on ongoing or completed works confined to engineering or service departments.

Figure 3.14: Step-by-step workflow of the project lifecycle



Source: Janaagraha’s analysis based on field visits

There is significant variation in the systems used across states and cities. States like Karnataka and Tamil Nadu have implemented centralized works management systems that consolidate project data, enable ULGs to generate work orders, and track payment status efficiently. These platforms also allow for state-level tracking and oversight, improving transparency and accountability. In contrast, several cities operate with basic Excel-based trackers at the local level. Cities such as Shamshabad

(Telangana), Mandideep (Madhya Pradesh), and Ghaziabad (Uttar Pradesh) maintain spreadsheets with details like tender information, project costs, vendor names, and timelines. While these tools provide some visibility, they are limited in scope and often depend on manual data entry

Establishing project tracking systems, whether manual or digital, within ULGs and state Urban Development Departments (UDDs) can significantly strengthen monitoring of outlays to outputs.. Digitizing the entire works lifecycle, from planning to completion, can reduce the administrative burden on field staff and enhance contract and project management. It also enables the Creation of a digital asset register, ensuring that every new asset is documented with complete and traceable project details.

Box 3.2: Karnataka's State-wide Municipal e-Governance through Karnataka Municipal Data Society (KMDS)³⁸

Objective

The Government of Karnataka established the Karnataka Municipal Data Society (KMDS) in 2007-08 under the Directorate of Municipal Administration (DMA) to strengthen ULGs through a unified, tech-enabled governance framework. The aim was to modernize municipal administration, enhance service delivery, and promote financial sustainability through e-governance.

The key goals were to:

1. Implement an integrated municipal e-governance platform;
2. Improve property tax assessment through GIS-based mapping;
3. Adopt a modern web-based accounting system;
4. Digitize birth and death registration;
5. Enable an online Public Grievance Redressal (PGR) mechanism;
6. Create a map-linked property database for jurisdictional clarity;
7. Foster citizen engagement through transparency and access to services;
8. Ensure availability of accurate data for planning and decision-making.

What Was Done

1. **Customization of Municipal Software Platform:** Karnataka adopted a tailored version of eGov Financials, developed by eGov Foundation until 2012-13. KMDS took over software maintenance and enhancement thereafter, establishing an in-house IT team and posting programmers for knowledge transfer.
2. **Institutional Support and Implementation:** Implementation Consultant (IPE Global) supported drafting manuals, accounting rules, training materials, and testing. Field Level Consultants (FLCs) helped ULGs prepare Opening Balance Sheets (OBS), train staff, and migrate legacy data from Tally.
3. **State-wide Capacity Building:** Over 5,000 municipal staff were trained by KMDS and the state Institute of Urban Development (SIUD). Master trainers from ULGs supported peer learning. All new municipal accountants underwent mandatory on-the-job training.
4. **Digital Audit Framework:** Since 2013-14, all ULG financial statements have been generated through the system. Chartered Accountant firms conduct audits on these records, followed by statutory audits by Karnataka state Audit and Accounts Department (KSAAD).

How It Was Implemented

1. **Technology Transfer:** KMDS took ownership of the software platform, with eight programmers deputed to eGov Foundation for seamless transition.
2. **Manuals and Rules:** Accounting rules and user manuals were prepared to standardize processes across ULGs.

³⁸ Janaagraha's analysis based on field visits

3. **Training Infrastructure:** A network of trainers and peer learning models supported large-scale rollout and sustained usage.
4. **Gradual Data Migration:** Tally-based systems were used temporarily until migration to the new platform was completed.
5. **Integration Across Functions:** Modules were deployed for property tax, accounting, birth/death registration, PGR, and asset management.

What Was the Impact

1. **Digital Governance at Scale:** KMDS enabled centralized, tech-driven urban governance, integrating financial and administrative functions across ULGs.
2. **Revenue Mobilization:** GIS surveys identified **1.2 million unassessed properties**, resulting in a 30-40% increase in property tax revenues.
3. **Improved Service Delivery:** Digitized birth and death registrations improved turnaround time and increased user fee collection. The online PGR system resolved 98% of nearly 3.9 lakh complaints within 10 months.
4. **Financial Transparency:** Adoption of fund-based, double-entry accounting improved accuracy, auditability, and public trust.
5. **Citizen Access and Engagement:** All ULGs launched websites to improve access to services and communicate with residents.

Institutional Sustainability: KMDS operates on a self-sustaining model with in-house technical expertise and professional management. Karnataka's e-governance model is nationally recognized as a benchmark for municipal reform

3.3 Reforms for improving effectiveness of spending

Improving expenditure management requires a clear, well-structured, and digital-first approach, through the key stages of planning, budgeting and execution.

1. Develop a Model Budgeting Manual and Policy

Amendment in municipal acts, rules and manuals to strengthen the policy landscape with minimum standards for budget process, formats, budget codes and standardized budget calendar to ensure consistency, comparability, and clarity in budget formulation, execution, and reporting, leading to better allocation efficiency.

2. Institutionalise City Annual Plans (CAP) and Capital Investment Plans (CIP)

Mandating municipalities to prepare City Annual Plans (CAPs) and maintain a shelf of projects based on bottom-up identification of infrastructure and service delivery gaps. Larger municipalities should adopt a multi-year financial planning framework to ensure realistic budgeting over a medium-term horizon of 3 to 5 years. Additionally, Capital Investment Plans (CIPs) may be mandatory for all ULGs with populations above 500,000, positioning them as strategic multi-year financial plans.

3. Promote participatory and outcome-based budgeting

Engage citizens, elected representatives, and civil society organizations systematically in the budget planning and review stages. Institutionalising structured stakeholder engagement through public consultations, ward sabhas, and citizen forums in budget planning and review can yield better budgets. Regular consultations can help ensure that municipal budgets align with the needs and priorities of the community, leading to more inclusive and effective budgeting practices.

Further, larger cities should be encouraged to adopt outcome-based budgeting practices that link financial allocations to measurable results. This approach promotes a shift in focus from inputs and expenditures to performance and impact.

4. Implement a digital system for budgeting linked to Accounting & Finance (A&F)

Introducing an integrated digital platform for budgeting that connects directly with accounting and financial management systems. This digital linkage can streamline budget planning and execution, enable real-time tracking, and improve coordination between budgetary allocations and actual expenditures.

5. Update C&R rules for on-boarding required staff for managing finances

C&R rules of ULGs need to be comprehensively updated, particularly in respect of revenue and finance functions. Normative standards need to be established for each role in revenue and finance functions. Skills and competencies need to be defined in contemporary terms. Performance measures need to be laid down at organisation, department and individual levels. Workforce requirements in ULGs need to be reviewed at periodic intervals based on the growth of the city and the ULG through a medium-term workforce plan.

6. Create Municipal Shared Service Centres (MSSC)

MSSC involves the sharing of resources - people, infrastructure, and systems across multiple departments or government entities to efficiently deliver services that ULGs currently perform. For instance, the Creation of Financial Shared Service Centre (FSSC) for all ULGs in a state can address the shortage of skilled personnel for finance and accounting functions by centralizing tasks like bank reconciliation, book-keeping, grant management, payroll, and vendor payments. These tasks are often standardized allowing ULGs to share accounting staff across different ULGs. This model streamlines operations and ensures that ULGs have access to skilled support without the need for large, individual finance staff.

7. Strengthen UIDFCs for technical support in project preparation

State governments should establish dedicated Project Preparation Cells within existing Urban Infrastructure Development Finance Corporations (UIDFCs) or within Directorates of Municipal Administration (DMAs). These units would support ULGs in identifying priority projects, preparing detailed project reports (DPRs), conducting technical appraisals, and improving overall project readiness. This institutional support is essential for enhancing the quality and viability of urban infrastructure projects.

8. Introduce integrated Procurement and Works Management Systems

An integrated system for procurement and works management should be developed and rolled out by states. This system should include well-defined workflows, automated tracking of work progress, and clear delegation protocols. Such integration would enhance transparency, reduce delays, and strengthen accountability in project execution and contract management.

9. Streamline expenditure processes, SoPs, delegation of approval and spending as per the current context and developing frameworks and guidelines on how to spend across different services.

10. Enforce end-to-end digital grant management systems

States should implement real-time digital platforms for managing grants, enabling tracking from entitlement to expenditure and physical outputs. These systems should be based on machine-driven processes for filing compliance reports, auto-verifying submissions, calculating entitlements, directly

releasing funds to ULGs, and tracking projects using platforms such as PFMS, IFMS, CityFinance, and GIS-based tools. The 16th Finance Commission grants can serve as a pilot use case to institutionalize this end-to-end digital grant management approach.

11. Mandate public disclosure of municipal budgets

Require ULGs to publicly disclose their budgets in simpler and standardized formats for citizens and elected representative enabling improved transparency and accountability. This allows citizens to understand how municipal funds are allocated and used, fostering greater trust and enabling public scrutiny. It also helps the senior union/state administrators with more informed oversight so as to provide required support at the ULG level.

Improving urban services starts with improving how cities spend. Effective expenditure management is not just about spending more; it is about spending wisely. When cities plan, allocate, and monitor their funds strategically, they can maximise impact and deliver better outcomes for their residents. Structured reforms, digital tools, and a strong focus on results can help municipalities transform public spending into real, measurable improvements in infrastructure, services, and citizen well-being. These changes go beyond technical enhancements and are fundamental to strengthening transparency, accountability, and trust in urban governance.

Box 3.2: Assam's City Action Plans through Doh Shaheer Ek Rupayan³⁹

Objective

The Government of Assam institutionalized City Action Plans (CAPs) as part of its broader urban governance reform agenda. The aim was to strengthen city-level planning, improve service delivery, and enhance accountability through structured, participatory, and locally tailored planning.

Key goals included:

- Embed bottom-up, citizen-driven planning into municipal governance;
- Identify and address local urban challenges across infrastructure and service delivery;
- Promote Cross-departmental convergence and resource alignment;
- Institutionalize participatory planning processes anchored in City Action Plans;
- Strengthen capacity and financial sustainability of ULGs;
- Improve transparency, inclusivity, and accountability in urban decision-making;
- Provide a replicable model for other states to adopt in urban governance.

What Was Done

- Launched **Doh Shaheer Ek Rupayan (Ten Cities, One Vision)** across ten ULGs outside Assam's capital region, focusing on improving urban quality of life.
- Integrated **City Action Plans** as the operational framework for city-level development.
- Focused on seven core service and infrastructure components:
 - Solid waste management
 - Safe drinking water
 - Public infrastructure
 - Blue-green infrastructure
 - Traffic management
 - Street lighting
 - Urban planning
- Strengthened enabling levers for CAPs:
 - Human resource rationalization
 - Digital and online service delivery
 - Financial strengthening of ULGs

³⁹ Janaagraha's analysis based on field visits and engagement with the state government of Assam.

How It Was Implemented

- **Institutional Design:** Constituted **Municipal Planning Committees (MPCs)** chaired by the District Commissioner, with the Municipality Chairperson as Vice-Chair. Members included line department representatives, parastatal agencies, elected council members, and Self-Help Groups (SHGs). Thematic Sub-Committees handled specialized project formulation.
- **Participatory Planning Process:**
 - Formal launch of CAPs via MPC meetings.
 - City-level consultations involving SHGs and stakeholders to gather ward-level inputs.
 - SHGs trained under NRLM, leveraging rural GPDP experience, facilitated ward-level planning.
 - Ward-level Citizen Assemblies held for deliberation and feedback.
 - Consolidation and refinement of ward plans by MPCs and Thematic Sub-Committees.
 - Final CAPs approved in the third MPC meeting and endorsed by Municipal Councils.
- **Integration and Convergence:**
 - Ensured coordination across schemes and departments.
 - Embedded gender-sensitive and inclusive planning by leveraging SHG participation.

What Was the Impact

- **Enhanced Citizen Participation:** Citizens and SHGs actively shaped municipal interventions through participatory planning.
- **Improved Accountability and Transparency:** CAPs provided deliberated, publicly endorsed, and fundable urban plans.
- **Strengthened Institutional Capacity:** MPCs and Thematic Sub-Committees professionalized planning and improved Cross-departmental coordination.
- **Replicable Governance Model:** Demonstrated a scalable, citizen-driven framework for participatory urban planning for other states.

Convergence of Schemes: CAPs bridged gaps between multiple programs, ensuring place-based, people-centric, and actionable interventions.

3.4 How do cities measure and demonstrate financial accountability?

Effective expenditure management is only the first step towards ensuring that public resources translate into tangible outcomes. However, spending efficiently is not enough; what ultimately matters is whether spending decisions are transparent, reported accurately, and subjected to oversight. Equally important is the ability to measure how funds have actually been spent through systematic accounting, financial reporting, and performance reviews that link expenditures to outputs and outcomes. This is where financial accountability becomes critical, tying expenditure to performance and citizen trust. The section below focuses on accountability within ULGs including financial controls, reporting, and oversight as well as intergovernmental accountability.

1. Absence of a comprehensive municipal finance legal framework

India lacks a unified municipal finance framework that provides clear, consistent, and enforceable guidance across ULGs. The current system is fragmented across 88 municipal laws of 35 states and UTs, resulting in inconsistent accounting practices, delayed reporting, weak audit systems, and limited citizen-friendly financial disclosure.

A. **Gaps in municipal laws:** A review of municipal legal frameworks across 28 states' municipal acts highlights significant inconsistencies and gaps:

- (i) Only 9 states mandate annual performance reporting.
- (ii) Half (14) the states do not mandate deadlines for preparing annual accounts, leading to delays in financial reporting. The efficient and effective management of finances of ULGs depends on their ability to create and adhere to structured accounting practices that help record revenues, expenditures, and assets.
- (iii) Only 20 states have mandated an accrual-based accounting system⁴⁰, while the remaining 8 states do not specify an accounting framework for ULGs.
- (iv) The audit process timeline is specified in only 13 states, leaving 14 states without regular financial reviews or incentives for audits. While external audits are common, only 12 states mandate internal audits by ULGs, with Assam and Maharashtra setting deadlines. However, none specify provisions for action on findings.

Overall, the absence of a coherent national municipal finance framework has created fragmented systems of accounting and audit, delayed reporting cycles, and inconsistent enforcement across states.

B. **Structural limitations of the NMAM:** Although NMAM was a significant reform in 2004 and has since been adopted by 23 states, it remains limited in scope and outdated relative to modern public financial management requirements.

- (i) Lack of holistic financial management guidance: NMAM does not outline principles for budgeting, delegation of powers, internal controls, procurement, or cash and debt management—elements necessary for a comprehensive Municipal Finance Framework.
- (ii) Transition focused on format, not quality: Over the past two decades, reforms have focused more on “shifting to accrual accounting” than on improving the quality of accounting practices. As a result, financial statements in many ULGs still lack completeness, timeliness, and comparability, limiting their usefulness for decision-making and oversight.
- (iii) NMAM's one-size-fits-all approach: NMAM requires the same level of reporting detail from small municipalities with budgets of around ₹1 crore and from large, corporation-like ULBs with budgets exceeding ₹50,000 crore.
- (iv) Absence of standards for service-based costing: NMAM does not mandate service-level costing. This limits the ability of ULGs to link expenditures to service delivery outcomes or benchmark costs across cities.

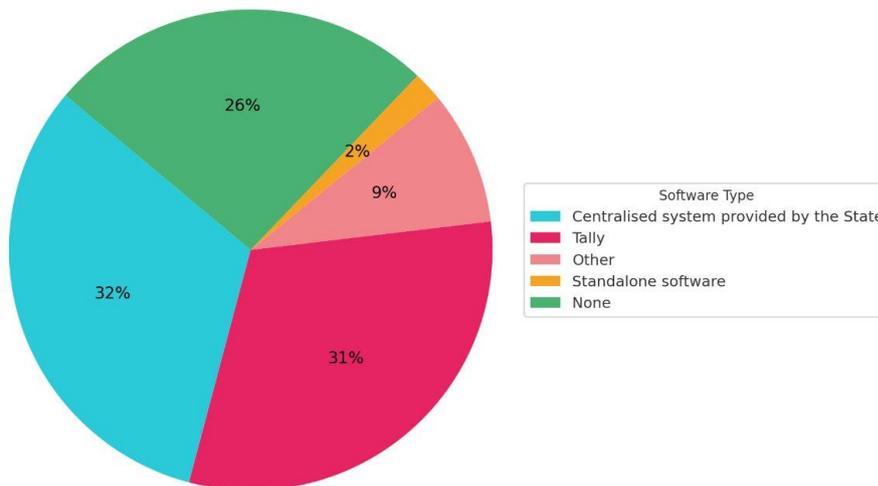
2. Lack of real-time, digital and meaningful financial data and project level data for decision-making and transparency

- (i) **Limited availability of timely and comprehensive financial data:** Financial transparency remains weak, with audited accounts often delayed by up to two years. Financial data is fragmented across PFMS, IFMS, CityFinance, and state platforms that do not communicate with one another and fail to integrate into a unified municipal finance database. Transaction-level data is rarely public, and unlike rural systems such as NREGASoft and eGramSwaraj, most ULGs do not provide citizen-facing dashboards for tracking expenditures or service delivery.

⁴⁰ Accrual-based accounting is considered more effective than cash-based accounting in ensuring completeness and correctness of the information provided by financial reports.

- (ii) **Fragmented or absent project information:** Project data covering costs, contractors, timelines, completion status, and other real-time project-level details is often stored in departmental silos, maintained manually, or not maintained at all, especially in smaller ULGs. Although some states like Telangana and Karnataka have centralized project-tracking systems, the data is seldom made public. The absence of accessible ward- and city-level project information, along with the lack of real-time transaction and project-level data.
- (iii) **Low digitization and lack of machine-readable formats:** Digitization of municipal finance is uneven across states. Many ULGs publish scanned PDF statements that are not machine-readable, limiting large-scale analysis. The absence of standardized digital formats such as XML or XBRL restricts real-time monitoring and comparability for state governments and national agencies. Weak legal mandates for electronic record-keeping force ULGs to maintain both manual and digital records, increasing workload and reducing reliability. Nearly 26% of ULGs still rely entirely on physical books, constraining audits, budget preparation, and transaction-level analysis.

Figure 3.14: Type of software used by ULGs across 29 states & UT



Source: Cityfinance.in

These gaps severely limit transparency, evidence-based decision-making, and fiscal oversight, weakening the ability of governments to plan, monitor, and deliver services effectively. The absence of reliable, real-time, and accessible financial and project data also undermines public trust and restricts citizens' ability to hold ULGs accountable.

3. Fragmented and ineffective audit systems leading to inefficiencies in oversight

ULGs are subjected to various forms of audits, such as compliance, statutory, internal, performance, and financial statement audits, conducted by different authorities - internal auditors, the Department of Local Fund Audit (DLFA), third-party auditors for specific schemes, and the Comptroller and Auditor General (CAG). However, there is no comprehensive municipal audit framework across states specifying the type, purpose, or frequency of these audits. These fragmented audits operate in silos, lack coordination, and fail to create an integrated control environment.

Severe capacity constraints further weaken the audit process. Many ULGs rely on Chartered Accountants hired on contract, who may not be trained in accrual accounting or NMAM standards, limiting the audit to basic numerical validation rather than substantive scrutiny of financial systems. The DLFA, often understaffed and under-resourced, struggles to meet statutory timelines and may not audit financial statements at all. Consequently, audit reports are often delayed by three to seven

years, particularly for smaller ULGs. This erodes their value as instruments of real-time fiscal oversight, performance monitoring, or course correction.

Unlike Panchayati Raj Institutions that use AuditOnline, municipalities lack a digital audit platform, leading to inefficiencies, duplication of effort, and delays in both audit completion and financial reporting. Lastly, the absence of mandatory follow-up mechanisms in most state laws further dilutes the impact of audits, as identified gaps are rarely acted upon.

3.5 Reforms for strengthening financial accountability

Strengthening financial accountability in ULGs requires moving beyond compliance to build transparent, data-driven, and outcome-oriented financial systems. It demands accurate, comparable accounts that inform decisions, track performance, and build citizen trust through modernized accounting, stronger audits, and better coordination with parastatal agencies.

1. Revise the NMAM to create a comprehensive municipal finance framework

NMAM should be updated to reflect statutory changes, the evolving needs of city administrators, and digital advancements. This will enable ULGs to publish timely, credible, and standardized audited accounts, shifting from accounting-focused systems to governance-oriented financial management for resource allocation, performance monitoring, and data-driven decision-making. It benefits ULGs, states, citizens, lenders, investors, and credit rating agencies. For successful implementation, states must adopt updated policy, technology frameworks, and processes for municipal financial management. The XVI Finance Commission could incentivize digitalization by earmarking a portion of urban grants from the proposed Decentralisation & Capacities Grant to support system upgrades, adoption of new platforms, and capacity building for municipal finance officers.

The revised NMAM (or NMAM 2.0) should be based on the following principles:

- (i) Reorient NMAM as a framework for municipal financial management and service delivery that shifts from accounting alone to governance-oriented financial systems that enable resource allocation, performance reviews and comparison and data-driven decision making by city leaders.
- (ii) Enable stakeholder-oriented accounting and reporting system that generates quality, timely financial & service delivery data in granular formats with cost data (cost accounting), functional mapping and place-based parameters (at the level of street, neighbourhood, ward, zone, city) linking expenditure to service outcomes.
- (iii) Adopt a differentiated approach in accounting/ record keeping as well as digitization for swift implementation at scale, as per the different capacities and contexts of ULGs, and their digital maturity.
- (iv) Design a natively digital and dynamic system: Capture transactions digitally at the point of occurrence such that accounting is automated based on data from digital transaction systems and ULGs have a single digital source of machine-readable accounting information. The system is based on data standards and interoperability to allow exchange of information across systems (IFMS, PFMS/SNA Sparsh, other municipal systems)
- (v) Ensure minimum disruption to current practices: Make no significant change in chart of accounts to ease implementation. However, provide for GST and other developments.

2. Streamline audits to strengthen accountability

State audit departments face backlogs, staff shortages, and limited accrual accounting expertise, often leading ULGs to undergo duplicate audits by CA firms and state auditors. To improve accountability, states can:

- (i) Appoint CA firms as primary auditors under government guidance, avoiding duplication.

- (ii) Retain state auditors but outsource tasks to CA firms, with rotation every three years to prevent collusion.
- (iii) Clearly define financial and statutory auditor roles to eliminate overlap.

Additionally, mandate audit of budgeted vs. actuals to strengthen budget execution. Moreover, automation through digital systems can make audits faster and cost-effective, while Institute of Chartered Accountants of India (ICAI) standards and careful selection of experienced CA firms enhance accountability. These measures streamline audits, reduce workload, and strengthen oversight.

Chapter 4 : Cities and Public Accountability: Why and How India’s Urban Future Needs a Reset?

Overview

This chapter focuses on -

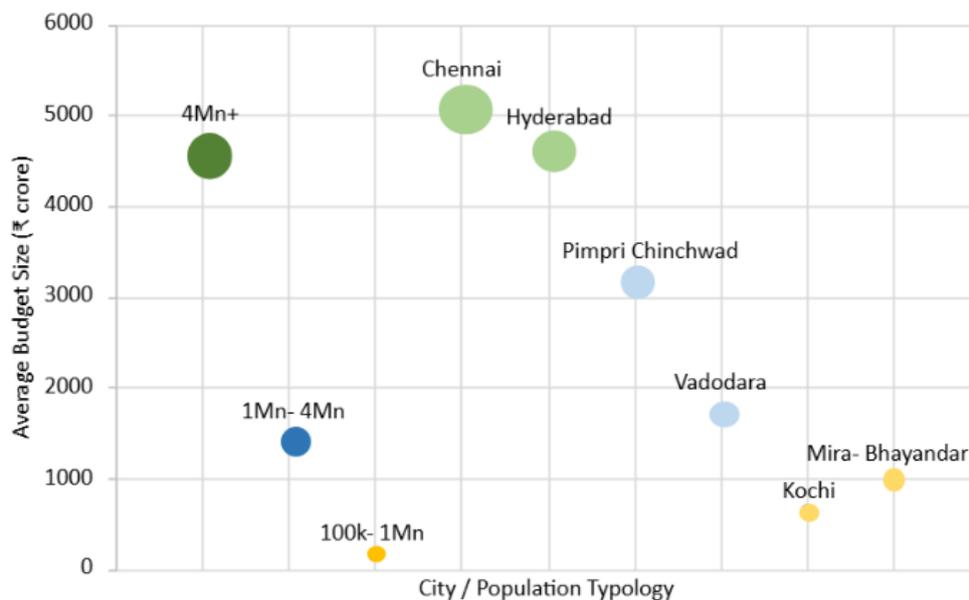
1. **Understanding accountability:** conceptualising what it means for urban governance
2. **Diagnosing the problem:** identifying why accountability in cities remains weak, despite constitutional guarantees and decades of reform.
3. **Charting the path forward:** outlining catalytic reforms and principles essential to building an accountability architecture for urban India

This discussion focuses exclusively on the **public (external)** accountability of ULGs to citizens – not internal bureaucratic or intergovernmental accountability. The goal is to provide a persuasive call to action, not a step-by-step roadmap, and to build consensus among policymakers, media, and civil society around the urgent need for accountable cities.

4.1 What is Accountability in Public Governance, and Why Does It Matter?

Cities in India today manage budgets of staggering proportions. Collectively, all municipal corporations are responsible for around INR 3,9 lakh crore in annual public spending⁴¹ and with addition of municipalities, this is likely to go up to at least INR 5 lakh crore.

Figure 4.1: Average budget sizes and population-based typologies, 2018-19 to 2021-22



Source: CityFinance.in

On average, metropolitan cities with populations above 4 million have an average budget size exceeding ₹4,573 crore, while those with populations between 1-4 million manage around ₹1,416

⁴¹ Reserve Bank of India. (2024, November). Report on municipal finances. Reserve Bank of India.

crore, and medium-sized cities with 100,000-1 million residents handle budgets averaging ₹155.8 crore⁴². Illustrated in Figure 4.1.

These amounts rival the budgets of entire states or small nations. For instance, Moldova, a country in Eastern Europe, had a government budget of approximately ₹4,100 crore⁴³ in 2021. Bhutan’s budget size was approximately ₹1,538 crore⁴⁴. Yet, if one asks a citizen, in urban India, whether their roads are well-lit and pot-hole free, or their streets are garbage free, the response is often a weary shake of the head.

At the union and state levels, there is at least a basic predictability and reliability of service provision under their domain. Citizens generally trust the state to maintain national security, monetary stability, or large-scale infrastructure such as railways and highways. States, too, have made measurable progress in human development outcomes over the last few decades. But at the city level, this confidence collapses. A look at the ‘cities’ section of a set of daily newspapers bears testimony to this. Captured in figure 4.2.

Figure 4.1: Media coverage highlighting persistent challenges in urban service delivery and governance

School bus in Bengaluru tilts after wheels get stuck in pothole on Balagere–Panathur Road	
No excuse for bad roads in city like Mumbai: HC; favours Rs 6 lakh payout for pothole deaths	Road collapse near Railway metro station highlights city's aging infrastructure
Why it is so difficult to walk in Indian cities	'Lack of walkability, footpaths not just an infrastructure problem but a public health issue'
Indian cities have a drainage problem	
Urban flooding loss to touch \$5 billion by 2030 in Indian cities: Report	India's smart cities can't handle monsoons. We are building flood traps
What's behind the drying taps in urban India?	Which Indian city will run out of water first?
How India moves: Itanagar's twin city Naharlagun is facing unprecedented challenges in urban management, infrastructure capacity, and land use	'No big issues': Govt plays down Gurgaon's civic woes as city battles water, waste, and chaos; nothing major, Khattar tells Lok Sabha
	Gridlocked: Tackling India's Traffic Congestion Crisis
	India's urban crisis demands urgent and coordinated city governance

The challenge lies not in the amount of funds available but in the effectiveness of expenditure and accountability over its use. Therefore, a couple of pertinent questions arise: ‘what services are achieved from the use of funds’, ‘how do we ensure accountability of public finances in cities?’ and ‘why is this discussion important?’

Cities are where accountability is most critical, since it is the level of government that citizens encounter most directly in their everyday lives. Local administrations decide on civic issues that determine a citizen’s immediate quality of life. Cities are, therefore, where local democracy gets strengthened; where the compact between citizens and administration is forged. A strong compact at this level, where citizens feel they can question, receive explanations, and see results, ultimately

⁴² Janaagraha’s analysis based on data from www.cityfinance.in for the average budget size in FY 2021-22 across 1,596 cities, representing 5 (57%) cities in the 4 million+ category, 23 (64%) cities in the 1-4 million category, 172 (46%) cities in the 100,000-1 million category, and 1,397 (33%) cities in the less than 100,000 category.

⁴³ Infotag Moldova. (2021). Moldova government budget for 2021.

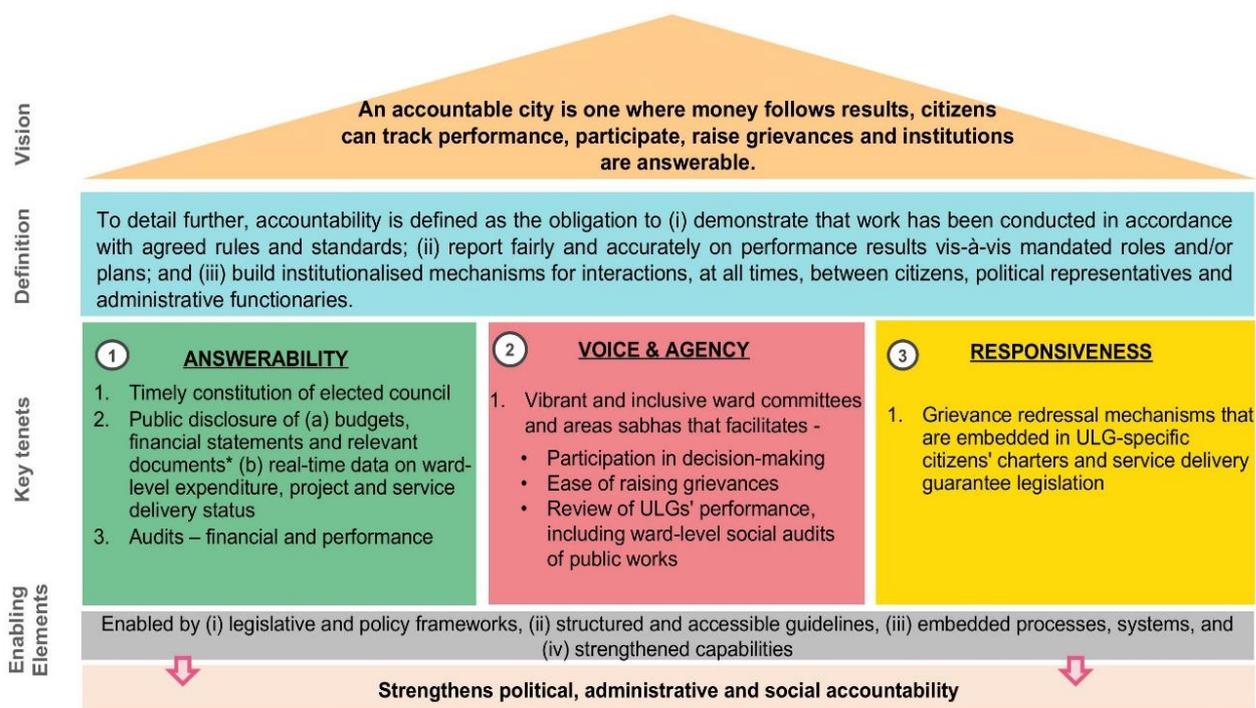
⁴⁴ Ministry of Finance, Royal Government of Bhutan. (2021). Budget Report FY 2021-22.

strengthens the larger social contract between citizens and the State. Conversely, weak accountability at the city level erodes trust not just in municipal institutions but in government as a whole. Furthermore, India has witnessed rapid urbanisation in the last two decades. Cities being engines of economic growth, there is immense power that can be unlocked by building citizens' trust in ULGs.

An accountable city is one where money follows results, citizens can track performance, and institutions are answerable⁴⁵. Accountability is not an abstract governance principle. It is the difference between a pothole fixed in a week or persisting for a year; between equitable access to water through the year or the poorest paying the highest premium on water.

To help frame the discussion in this chapter, Figure 4.3 presents an idea of 'accountability for our cities'. By building on existing frameworks in literature⁴⁶, it outlines an operating definition and three key tenets of accountability. Further, it is hoped that this conceptual framework can guide cities and related decision makers to think through where they stand and how they can strengthen different pillars of accountability in their city.

Figure 4.2: A vision for public accountability in India's cities



*Includes bye-laws, staffing details, audit reports, and all documents mandated in the RTI Act.

Source: Janaagraha's analysis based on literature⁴⁷

In this context, the following section discusses an important question: 'Why is public accountability in India's cities fractured?'

⁴⁵ Literature offers various definitions of accountability. For the purpose of this chapter, a simple operating definition is adopted that encapsulates the essence of discussions captured in existing literature. Key literature referred to include: Development Monitoring & Evaluation Office, NITI Aayog. (2022, April 22). Thematic Report - Accountability & Transparency in Governance; Asian Development Bank. (2021, October 25). Accountability mechanisms for inclusive city-level public services in Asia; Dewachter, S. (2018). Beyond the short versus long accountability route: A refined analytical grid. World Development; Whitworth, E. (2022, November 19). The importance of accountability in government: A history.

⁴⁶ Development Monitoring & Evaluation Office, NITI Aayog. (2022, April 22). Thematic Report - Accountability & Transparency in Governance; Asian Development Bank. (2021, October 25); Beyond the short versus long accountability route: A refined analytical grid. World Development

⁴⁷ BID. The three pillars - answerability, voice and responsiveness - are based on NITI Ayog's thematic report cited earlier.

4.2 What is not working?

A. India's cities today have limited agency and autonomy

Limited agency and autonomy in India's cities manifests in three critical ways, combining to paralyse accountability to citizens: (i) irregular municipal elections that deny citizens their right to choose local representatives, thereby weakening political accountability; (ii) the proliferation of multiple state agencies operating within city limits, leaving ULGs with limited agency; lastly, (iii) states continue to hold the purse and personnel strings of city governments, despite the passing of 32 years after the 74th Constitutional Amendment. This persistent hesitation to decentralise is distinctive to India—unlike other rapidly growing economies of the Global North and South⁴⁸—and it poses a serious risk to the country's urban future and development trajectory. These three foundational challenges are discussed below.

1. Democracy Deferred: weak political accountability in ULGs

Political accountability is rooted in democratic governance. It involves accountability of elected representatives to parliaments (or an equivalent institution) and the public at large. At the Union and state level, this is visible through regular elections and institutionalised parliamentary/legislative proceedings. MPs and MLAs are also seen 'being answerable' (when an untoward incident occurs), at media briefings and so on. Further, there are organisations such as the PRS that aim to both support Parliamentarians, as well as create transparency and discourse around legislative action.

By providing for regular elections and ward committees, the 74th Constitutional Amendment envisioned that similar mechanisms will be instituted at the third tier of government, specifically in ULGs. But current reality falls well short of this vision. Across 17 states, 61% of ULGs faced election delays, with delays averaging approximately 22 months⁴⁹. In Delhi, the delay was 7 months; it was much higher in some other ULGs- 24 months in Gurugram and 55 months in Bengaluru⁵⁰. Out of a total of 2,625 ULGs across 17 states, only about 1,025 ULGs currently have elected municipal councils. This means that nearly 1,600 ULGs, accounting for over 60 percent, are functioning without elected city governments, indicating a serious gap in local democratic representation and governance⁵¹.

Consequently, a core link to local democracy is broken. Today, in large cities, state-level politicians are seen responding to service delivery failures or deficiencies, whereas, in other major cities across the world, local leaders take accountability. To illustrate, Figure 4.4 contrasts headlines from cities in India with cities in other countries.

Figure 4.3: Media coverage on political leaders' engagement with urban governance issues

Indian cities	Other metropolitan cities
Maharashtra's Deputy CM Inspects Pothole Repairs on Thane's Ghodbunder Road	London mayor to 'explore' building on green belt
Karnataka Dy CM claims swift action taken to repair potholes in Bengaluru	Mayor Lays out Ambitious Agenda to Make New York City Best Place to Raise a Family

⁴⁸ Mexico City gained substantial functional autonomy through the 2016 constitutional reform, which elevated it to a federative entity with powers comparable to Mexican states, allowing it to draft its own constitution, manages key sectors such as urban planning, transport, health, education, and environment. Similarly, Kisumu, Kenya, under the 2010 constitutional devolution framework, functions as a county government with authority over urban services including water, sanitation, and infrastructure planning.

⁴⁹ Janaagraha Centre for Citizenship and Democracy. (2025, August 06), Delays in Urban Local Government Elections in India: Analysis and Reform Pathways.

⁵⁰ As per Article 243U of the 74th CAA, ULG elections must be conducted before the expiry of 5 years from the first meeting of the existing body, or within 6 months if the body is prematurely dissolved.

⁵¹ BID-43

This is a critical difference in how Indian cities are governed. It highlights the sheer ineffectiveness of the current system, wherein union and state level political leaders are involved in responding to civic issues that are best handled at the local level. It goes against a key premise for decentralisation - functions of governance should be assigned to the lowest appropriate level of government that can perform them effectively.

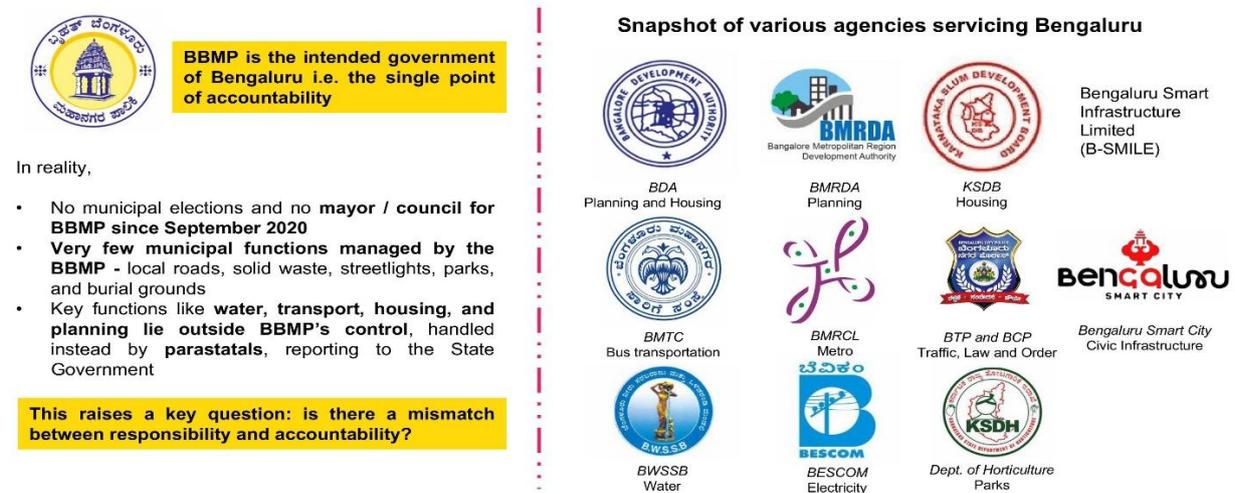
2. Municipal Marginalisation: Accountability without agency

Although the 74th Constitutional Amendment Act (1992) envisioned ULGs as the third tier of government, empowered to plan and manage local development, this vision has not translated into practice. Core urban functions such as water supply, sewerage, housing, and transport remain under the control of state departments and parastatal agencies that report upward to state governments rather than outward to citizens.

The multiplicity of agencies (often all involved in provision of a service) has reduced goal and role clarity for ULGs as well as citizens. Urban governance structures are fraught by a misalignment between authority and responsibility, where no single institution can be held answerable for service outcomes. A drainage problem, for instance, might involve the ULG bring responsible for maintenance of the asset, a parastatal for creation of capital, and a state department for funding, yet none takes full ownership for resolving citizen grievances or ensuring long-term solutions. Often, ULGs might be held accountable when they may have limited control over making all decisions in relation to the service.

The role of city governments, therefore, is not carved out in a way wherein different agencies (operating in a city) are accountable to the elected council. In such a scenario, responsiveness to provision of basic services falls between institutional cracks. Figure 4.5 illustrates this for one city, Bengaluru.

Figure 4.4: Government chaos: A city governed by too many master



Voice of a practitioner

“From experience, the real fault line of public accountability lies in the messy overlap of ULGs, line departments, and parastatals. Departments chase their own schemes with the swagger of centrally sponsored funds, parastatals pile on with projects decided at the state level, and ULGs—stripped of authority—are left powerless. The result is a governance hellscape where accountability simply evaporates”.

3. State holds the ‘purse’ and ‘personnel’ strings

Even when a city is primarily responsible for the provision of a service (for instance, roads, drains, solid waste management, burial grounds, streetlights), there are two critical fronts where their agency is limited - purse (or finances) and people.

- (i) **Purse** - ULG's infrastructure projects are primarily financed by schemes and grants from the union and state. A large share of schemes and grants are already earmarked to specific sectors, due to which ULGs respond as implementing agencies for schemes, rather than the third tier of government. For instance, SBM is tied to sanitation and solid waste management, PMAY is tied to housing and so on.

Schemes such as Smart Cities Mission are implemented through separate Special Purpose Vehicles (SPVs) creating alternative governance structures and further depriving ULGs of their agency to plan and execute developmental works. As a result, ULGs' have barely developed the capabilities to plan for a comprehensive pool of finances in a way that responds to their service delivery needs.

- (ii) **People** - An equally critical issue contributing to severe gaps in public accountability is how municipal staff are recruited and structured. The latest analysis by CAG indicates that in 16 states⁵², where data was available, ULGs have limited or no powers over recruitment. Typically, a ULG is comprised of staff recruited through different means with varying degrees of responsibility and incentives to effectively deliver public services. This includes:
- a. A majority of staff that are recruited by state governments. They feel a sense of responsibility and accountability to the state government and not the ULGs' political leaders.
 - b. Several posts that are filled through deputation. I.e., when staff from a state Government department are deputed to a ULG. This affects the accountability of such personnel, as ULGs have no direct administrative control over them. For instance, In Rajasthan, 97 officers from different departments of the state Government were posted on deputation in the Jaipur Municipal Corporation⁵³
 - c. Some staff that are recruited as contractual staff by the ULG. Since they barely have any incentives (in terms of promotion or regular increments) and limited social protection, they feel limited responsibility to meet their roles. Similarly, a vast majority of casual staff, in the lower ranks, are also completely disincentivised.
 - d. This maze of staffing structure raises a question - how can such a system ever deliver public accountability?

B. Limited initiatives and innovation in the urban sector

Despite these structural constraints (discussed above), accountability and trust-building in cities can still be a priority. All it needs is an innovative mindset which has escaped the urban sector so far. India's growth in governance reforms has happened through such scarcity and such constraints. But the urban sector remains a laggard in making leaps on all three tenets of accountability - voice, answerability and responsiveness. Some of these gaps are discussed below:

1. Citizens without a voice

Ward committees⁵⁴ envisioned as a platform for citizens to meaningfully participate in decision making - the equivalent of gram sabhas in rural areas - remain largely non-functional across India. Where they have been well-functioning, they have been critical to building a vision for the city and improving municipal performance. For instance, in Thiruvananthapuram, ward committees were central to ensuring sanitation services are upgraded in deprived areas. In Pune, through the "*Your Pune Your Budget*" initiative, active ward committees have influenced budgets to reflect community

⁵² Comptroller and Auditor General (CAG). (2024). Compendium of Performance Audits on the Implementation of the 74th Constitutional Amendment Act, 1992: Landscape across India Volume I.

⁵³ BID

⁵⁴ Ward Committees are institutional forums for citizen participation in urban governance, comprising elected councillor(s) and representatives from resident associations or civil society, as defined by State laws. Their authority stems from Article 243S of 74th CAA, which mandates such committees in municipalities with over three lakh population. (Source: Janaagraha, My City My Responsibility - A Handbook for Active Citizenship, 2024)

priorities and ensured higher project completion rates (88% vs. 65%) and greater public satisfaction⁵⁵. Annexure 4.1 captures a few cases studies of Indian cities showcasing active and empowered ward committees.

However, such success stories are limited. Despite clear constitutional provisions and legal mandates, there has been slow movement in the formation of ward committees in ULGs. Out of 15 assessed states, only 9 have constituted ward committees in at least some of their ULGs⁵⁶. Across states, wide variations are observed. Minimum compliance was observed in seven states at least - in Chhattisgarh (1 out of 27 test-checked ULGs), Himachal Pradesh (1 out of 14), Karnataka (1 out of 11), Madhya Pradesh (2 out of 33), Tripura (6 out of 11), Jharkhand (3 out of 10), and Telangana (3 out of 17). Kerala has constituted ward committees across ULGs, though the exact numbers were not reported, while Maharashtra demonstrates full coverage with committees in all 8 test-checked ULGs⁵⁷.

Similarly, social audits⁵⁸, another powerful tool that has embedded citizen's voices in rural, is yet to find a home in urban. What began as a participatory tool under Mahatma Gandhi National Rural Employment Guarantee Act, 2005 (MGNREGA) has today grown into a nationally institutionalised accountability mechanism, backed by dedicated social audit units at the state level (in a significant number of states), and endorsed by the Union Ministry of Rural Development and the CAG.

This institutionalisation has empowered rural citizens to directly review public works, verify expenditures, and question officials in open forums, turning beneficiaries into auditors and making local governance more transparent, responsive, and answerable to the people it serves. Its journey and impact are captured in Box 4.1 (section 4.3). In stark contrast, in the urban sector, there are limited examples of initiatives that have traversed, beyond the scheme, to positively impact accountability at large.

2. Minimum Answerability in Urban Governance

Public disclosure is the first, and most critical, step in an elected government's answerability to its citizens. It signals to citizens that the government intends to build trust and open itself to discourse. However, systemic transparency remains a fundamental missing pillar in urban governance. Figure 4.6 below captures the gravity (and specifics) of the roadblocks.

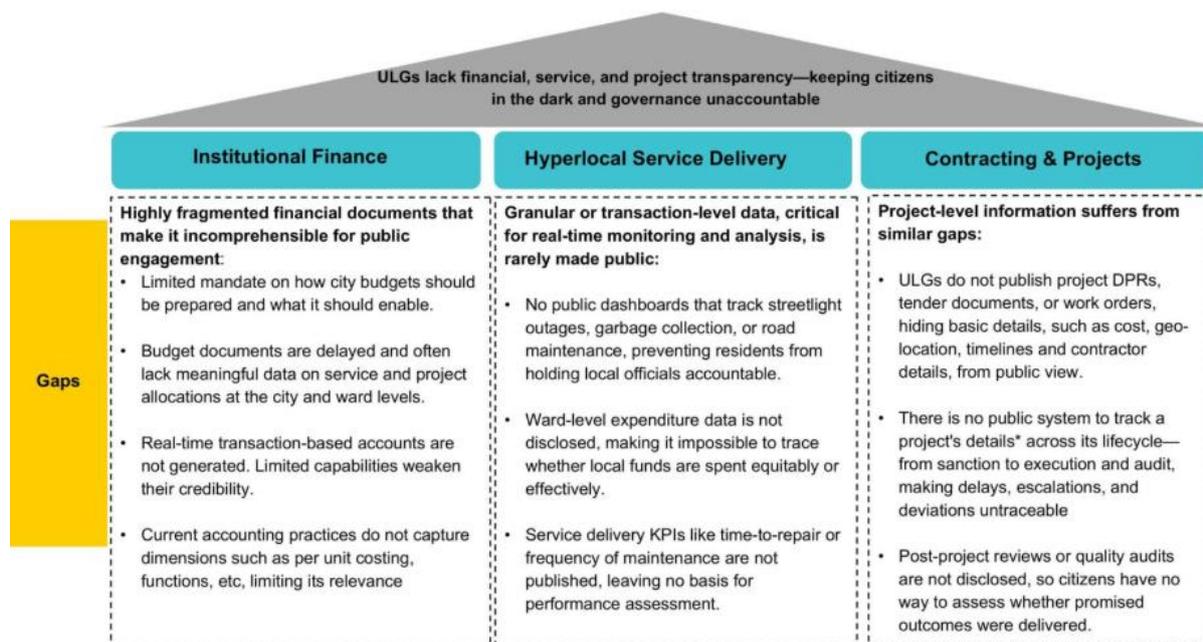
⁵⁵ Menon, S. (2014, March 2). *Participatory budgeting in Pune: A critical review*. Vikalp Sangam.

⁵⁶ Comptroller and Auditor General (CAG). (2024). *Compendium of Performance Audits on the Implementation of the 74th Constitutional Amendment Act, 1992: Landscape across India Volume I*. (The assessment covered 15 states – Andhra Pradesh, Chhattisgarh, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Telangana, Tripura, and Uttarakhand)

⁵⁷ BID

⁵⁸ Social audits are participatory processes where citizens review public programmes and expenditures to enhance transparency and accountability, often involving community meetings, beneficiary feedback, and public disclosure of findings. (Source: Ministry of Rural Development. (2017). *Framework for Implementation of Social Audit under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)*.)

Figure 4.5: Gaps in urban accountability



Source: Janaagraha's analysis⁵⁹

Another key component of answerability is audits. Audit often appears to be a technical tool that mandates third-party oversight on financial and performance compliance. But in many instances, audits have enabled policy and public action. One such instance is captured in Annexure 4.2.

Statutory audits, financial and performance, are intended to build citizens' trust in a city government's ability to manage public finances responsibly – a cornerstone of accountable urban governance. Yet, municipal audits in India face several systemic challenges. A comprehensive framework defining the type, frequency, and scope of audits across states is missing, leading to multiple, overlapping reviews by different agencies with little coordination. Follow-up action on audit findings is rarely mandated, allowing fiscal and performance gaps to persist. Capability constraints within both ULGs and state audit bodies further weaken audit quality – with limited expertise and acute staff shortages reducing audits to mere validation of figures rather than assessment of underlying systems and processes. The absence of digital audit platforms, unlike in rural governance, further impedes efficiency, timeliness, and consistency. Collectively, these gaps render municipal audits fragmented, delayed, and ineffectual as instruments assuring integrity or public confidence in city governance.

3. Limited responsiveness

In a city, whether it's a streetlight that stops working, an uncollected garbage pile, or a burst water pipe, these are problems that demand quick and reliable resolution. Yet, few ULGs view grievance redressal as one of its critical functions.

⁵⁹ Some data points exemplify the implications of a fragmented financial governance structure: (i) there are 88 Municipal Laws across 35 states & UTs, with varying provisions for budgeting, accounting, auditing and reporting. (ii) Of 27 states reviewed, 22 states have adopted a municipal accounting manual, only 9 states have a separate budgeting manual. (iii) Where they exist, there appears to be a lack of coherence between the acts, rules and manuals, reducing clarity for ULGs. (iv) Nearly half of the states, 13, do not mandate deadlines for preparing annual accounts, leading to delays in financial reporting (vi) While 18 states mandate public disclosure, few provide structured guidelines on 'how to'. The lack of provision for appropriation of accounts results in limited scrutiny on promises v/s service delivery. Inadequate clarity in the legal framework, combined with limited ULG capabilities means that budgets and accounts are not fully inter-linked, making it challenging to compare promises with actual spend; the lack of standards means that both budgets and accounts (but especially budgets) are in non-standard formats, making it unfit for comparison across cities.

In many cities, grievance redressal starts and ends with building an application or a dashboard for complaint registration. Everything after that remains a blackbox. Comprehensive elements of grievance redressal - legal mandates, workflows, escalation pathways and clearly defined roles and responsibilities - are largely missing. Citizens rarely know whether a complaint was acted upon, closed, or ignored as there are no obligations for public disclosure and no mandated timelines for response. Cities such as Jaipur⁶⁰, Surat⁶¹, Vishakapatnam⁶² and Chennai⁶³ have made efforts in this direction but these remain isolated examples rather than a systemic norm.

At the state level, urban development departments (UDD) are yet to institutionalise structured grievance redressal frameworks for ULGs. Therefore, in the lack of such initiatives, ULG-level efforts remain localised, with limited uptake of good practices to ULGs across the state.

Further, where states have adopted Citizen's Charters and enacted public service delivery guarantee Acts and even grievance redressal acts (for instance, Bihar), these reforms have not translated to comprehensively cover all services provided by ULGs. For instance, in Karnataka, the public service delivery act recognises ULGs as public authorities. But it leaves it to the mandate of the ULG to issue a notification outlining the services that are guaranteed. An examination of such notifications, issued by individual ULGs, revealed that only a few select services are included in the notification⁶⁴. Further, the list of services tends to vary from one ULG to another, defeating the principles of consistency and comprehensiveness.

In sum, the picture that emerges is one of ULGs caught in a cycle of limited agency, high structural dependency on higher tiers, weak transparency and incomplete citizen engagement, all resulting in limited accountability.

At the same time, it would be inaccurate to conclude that the landscape is bleak. Figure 4.7 traces reforms, since the 1990s, that have moved the needle in a positive direction. Specifically, in urban, initiatives such as Cityfinance have marked a monumental shift in public disclosure. For the first time, it provides a comparable overview of 'how much a city is spending' for as many as 9,062 audit financial statements of 4,332 ULGs available in India. Annexure 4.4 outlines progress made on public disclosure through CityFinance.in. This is largely a result of a persistent focus on ensuring that cities do the absolute minimum to be accountable to citizens and related stakeholders.

But the overall pace and nature of change has been woefully inadequate. Many initiatives pursued at the state government level have not percolated to the third tier of Government. Similarly, many initiatives that have made headway in rural have also not diffused to urban. Lastly, where accountability reforms were targeted towards ULGs, such as in the case of JNNURM, it has not led to a lasting impact beyond the duration of the scheme⁶⁵.

⁶⁰ Times of India. (2025, May 8). JMC-H sets grievance monitoring right, resolves 90% issues in April. The Times of India.

⁶¹ Patel, J., Patel, D., Swani, S., Yerramilli, S., & Dore, P. (2021, March). Responsive public grievance redressal system for efficient public service delivery: Learnings from Surat (Urban Caselet Series No. 8). Tata Trusts.

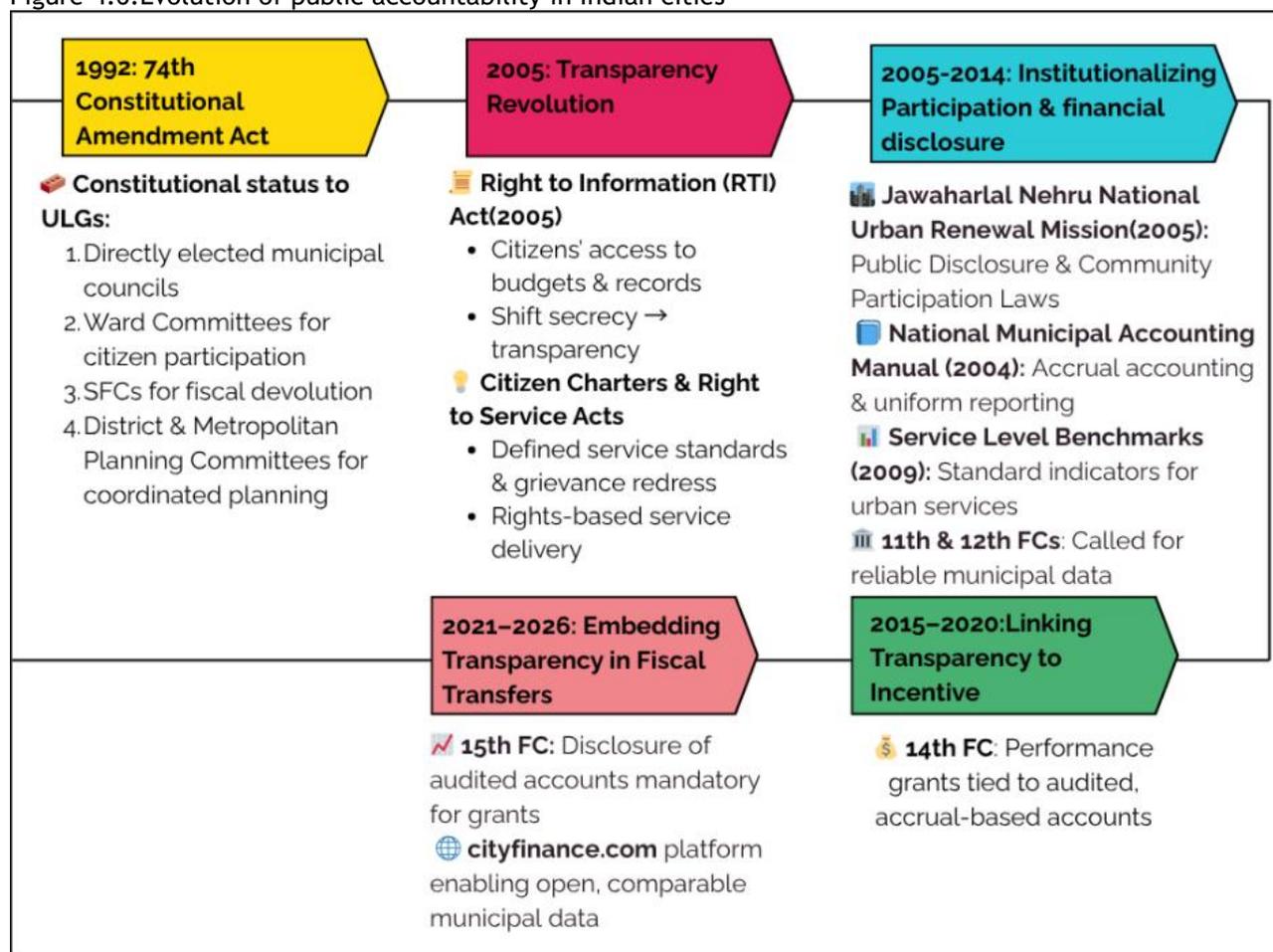
⁶² Times of India. (2024, July 22). Public grievance redressal system (PGRS) programme in Visakhapatnam. The Times of India

⁶³ Greater Chennai Corporation. (n.d.). Public Grievance and Redressal System (PGRS): Complaint registration and status tracking.

⁶⁴ Mysuru City Corporation. (2021, February 18). Sakala notification dated 18 02 2021 (English)

⁶⁵ The Mission sought to operationalize public participation and disclosure at the city level. States were required to enact the Public Disclosure Law (PDL) and the Community Participation Law (CPL). But progress on both fronts has remained lacklustre.

Figure 4.6: Evolution of public accountability in Indian cities



Source: Janaagraha's analysis

4.3 How do we catalyse public accountability?

The preceding discussion invites reflection on the 'why' and 'what' of a reform agenda for urban accountability. This section aims to initiate that conversation. It outlines a vision for six catalytic pathways that could shape how accountability is understood and practised in India's cities. Resting on the three tenets identified in Figure 4.3, it is intended that the pathways outlined below set in motion a virtuous cycle of change. A normative frame for each is succinctly laid out.

While this section does not provide a detailed roadmap for each pathway, it throws light on enabling factors essential for systemic reform. Finally, recognising that accountability is never one-dimensional, the section concludes with reflections on how citizens can play a more active role in demanding and sustaining it.

4.3.1 Catalytic pathways - a reform agenda for strengthened public accountability

1. Timely council elections that can empower over 4,900 leaders in urban India to shape the city's vision [Answerability]

Empowered city leaders⁶⁶ serve as a single point of accountability. They are at the helm of affairs, including management of all agencies operating within a city's limit. To this end, councilors should have:

⁶⁶ Refers to the Mayor, President, or equivalent head of the ULG, depending on the institutional typology of the local.

- (i) Clear functional and financial powers over local planning, budgeting and monitoring, to exercise their mandate effectively.
- (ii) Exposure to structured programs that equip them with skills in urban governance, budgeting, planning, management of city affairs, including citizen engagement.

2. Greater voice to citizens through ward committees and social audits [Voice]

Through ward committees and area sabhas, citizens play an active role in shaping the cities' public spaces, infrastructure and other services. Cities adopt successful mechanisms such as social audits to further engage citizens in the process of city-building. Collectively, they provide a platform for citizens to deliberate on local projects, prioritize budget allocations, and raise service delivery concerns.

- (i) Ward Committees and Area Sabhas should be formally constituted and made functional in every city, as mandated under the 74th Constitutional Amendment.
 - Ward Committees should meet at least once every quarter, with advance circulation of agendas, open attendance for all citizens, and minutes publicly recorded and shared online.
 - Area Sabhas should be convened at least once a year in every ward.
- (ii) Standing Committees within municipal councils should hold public consultations before finalizing budgets, service delivery policies, or major infrastructure projects
- (iii) ULGs to actively empower citizens' voice by embedding participatory budgets and social audits.

3. Absolute transparency through pro-active public disclosure [Answerability]⁶⁷

Public disclosure aimed at creating an informed public discourse and generating trust in the city government's functioning. The following elements should come together to provide comprehensive view of a city's finances and performance:

- (i) Publish budgets and annual financial statements of ULGs and all state agencies operating in a city, in standardised, machine-readable formats⁶⁸.
- (ii) Establish an open works portal that will provide real-time, project-level information across the entire lifecycle of civic works, including its budget and expenditure. This will reflect data on public works at a street, ward and city level,
- (iii) Develop public dashboards (online and offline) displaying performance metrics across:
 - All municipal services (e.g. water supply, waste management, road maintenance),
 - Turn-around time for service provision (e.g. time to provide licenses) and
 - Grievance redressal (e.g. time to repair).

4. Municipal budgets that tell the story of a city's priorities [Answerability]

Municipal budgets should go beyond being an incremental, input-focused exercise. It should reflect the combined priorities of the diverse people of a city, in a way that enables comparison with actual service provision by the end of the financial year.

- (i) Publish municipal budgets in open, machine-readable formats.
- (ii) Indicate ward-wise works proposed, with geographical codes, in the budget.
- (iii) Link allocations to outcomes (e.g., "₹500 crore for water supply → 24x7 coverage in 60 wards").
- (iv) Report quarterly progress on expenditure and outcomes.
- (v) Explain deviations between budgets and actual spending through publicly disclosed justification reports.

5. Robust financial accountability [Answerability]

Financial accountability should go beyond 'accounting reforms' as an end of its own. It should entail a municipal financial management framework that builds a common understanding for citizens of

⁶⁷ Annexure 4.4 discusses global case studies of voice and answerability strengthening local governance.

⁶⁸ This will be in addition to the publication of all documents mandated by the Right to Information Act.

‘how much money is available’, ‘how much money got spent’, and ‘what got done with the money?’.

- (i) Improve standards of ULGs’ financial accounts to be on par with corporate accounting norms: credible, timely, and reported on uniform parameters to enable peer comparison.
- (ii) Implement a robust municipal financial management framework, at the state level, that:
 - Reflects the cost-of-service delivery, spend across functions and other relevant attributes in a ULG
 - Factors for differential capacities and requirements of different typologies of cities.
- (iii) Ensure timely, independent audits of municipal accounts to uphold integrity and oversight.

6. Develop ward offices as a one-stop centre [Responsiveness]

Ward offices become a node for citizens to interface with city government on all services provided within a city’s boundaries. They will be an immediate point of contact and helpline for all groups, including migrants and urban poor accessing social welfare entitlements. Ward offices should:

- (i) Serve as the node for immediate point of contact on all services, enquiries and grievance redressal. This is especially essential as cities expand and the distance between city government and citizen increases.
- (ii) Regularly update and publish a citizen’s charter that comprehensively covers all services provided by a ULG, with service delivery standards, timelines, officials responsible, contact details and redressal mechanisms in case of non-responsiveness
- (iii) Serve as local platforms for ward committee and area sabha meetings, participatory planning exercises, and public consultations.

4.3.2 Enabling factors essential for success

Public accountability in cities is, ultimately, about strengthening local democracy. It is a complex, non-linear reform process that reconciles competing interests and incentives. The idea of “public interest” itself is not singular – it is shaped by the diverse voices, needs, and priorities of citizens who often stand at different vantage points. Strengthening accountability requires creating systems that can balance these varied interests, while ensuring that every citizen has the means to question, participate, and seek redress.

This section outlines three factors essential for building these systems. Also captured in figure 4.8. Together, they create the foundation for reforms to move from intent to impact. While two of these factors are common to most governance reforms, what distinguishes accountability reform is the indispensable role of civil society in sustaining efforts over time.

1. Policy frameworks and legal mandates that embed public accountability tools in the DNA of urban governance.

- (i) *The National Municipal Accounting Framework 2.0, for instance, has immense potential to enable cities to produce a reliable set of accounts that capture information on a standard & comparable set of metrics. With robust design and implementation, it can go a long way in bridging the gap between ‘citizens’ right to know’ and ‘status quo of municipal finances being shrouded in incomprehensible formats and non citizen-friendly jargons’.*

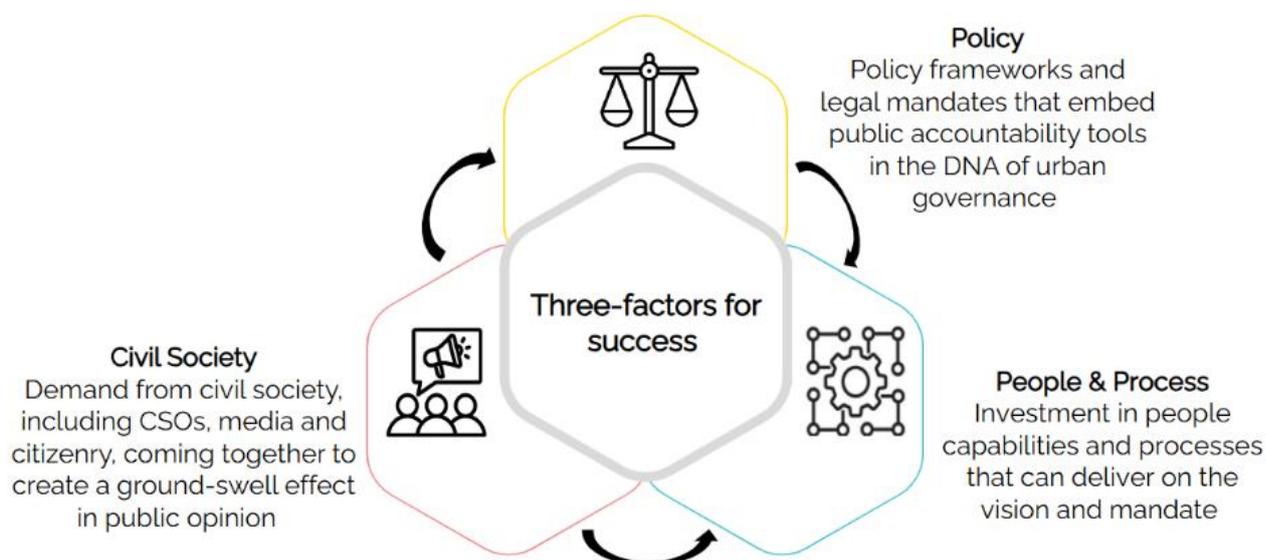
2. Investment in personnel capabilities and processes that can deliver on the vision and mandate.

- (i) *In many states, a professional cadre of social auditors have helped to sustain accountability interventions across rural India. Discussed in Box 4.1 below.*
- (ii) *New York is a city known for embedding detailed guidelines into its City Charter. This has ensured that mandates for accountability, such as annual performance reporting vis-*

a-vis budgets, submission of certified monthly and annual reports, among others, transcend electoral cycles.

3. **Demand from civil society, including CSOs, media and citizenry**, coming together to create a ground-swell effect in public opinion.
 - (i) *Ward samiti balagas in city corporations of Karnataka is an exemplar of citizen-led networks mobilising public opinion to improve the quality of service delivery.*
 - (ii) *Similarly, media can harness data and information, in public domain, to build a powerful movement for ‘autonomous cities’. There is ample (untapped) scope here. Media should be central to utilising municipal level data, for instance municipal finance data on cityfinance.in, to ask questions on ‘where money is coming’, ‘where money is going’ and ‘what was achieved with the money’. Further, vernacular media should bring together councillors, civil society, state-level politicians and administration in engaging conversations on re-building accountability in our cities. Such efforts can set in motion a virtuous cycle.*

Figure 4.7: Enabling factors for success



Source: Janaagraha’s analysis

To further illustrate, the case study in box 4.1 discusses how these factors have come together to embed social audits in rural India. This case study is chosen for a couple of reasons: (i) the nature of change has been relatively well-documented; (ii) social audits has influenced the institutionalisation of other accountability mechanisms as well, such as public disclosure, thereby creating a network of catalytic pathways. This makes it a rare and interesting case.

Box 4.1: Social audits in rural India: a catalytic reform that has grown from citizen oversight to a systemic accountability mechanism

Social audits is a powerful example of stakeholders coming together - civil society organisations, media, citizenry and government(s) - to not only ensure its success as an accountability mechanism, but also demonstrate its positive impact on the quality of service delivery.

This is exemplified through various documented impact stories:

1. **Improved wage payments under MGNREGA**
 - a. Social audits in Andhra Pradesh and Jharkhand consistently revealed widespread wage delays, fake job cards, and manipulation of muster rolls.

- b. **Impact:** Led to mandatory electronic Fund Management Systems (e-FMS) in MGNREGA (2012-13), ensuring direct transfer of wages to workers' accounts.
 - c. The MoRD cited social audit findings as evidence while designing the national wage-payment architecture.
 - d. This led to a reduction in average wage delay in states with active audits like AP.
2. **Proactive Disclosure & Public Data Platforms**
- a. Social audits repeatedly pointed out the lack of publicly accessible information (muster rolls, worksite details, payments).
 - b. **Impact:** MORD launched the NREGASoft MIS and public data dashboards to make real-time data on assets, expenditures, and wages public. The NREGASoft portal itself cites "social audit and transparency requirements" as the core rationale for digitisation.
 - c. Transparency-by-design became a **national policy principle**. It is now embedded in other rural schemes (PMAY-G, NRLM). EGramSwaraj is another example of this.
3. **Linkages to Grievance Redressal Mechanisms (GRM)**
- a. Social audits documented citizens' inability to get responses to complaints – especially regarding payment and worksite conditions.
 - b. **Impact:** Several states (Odisha, Rajasthan, AP) linked GRM dashboards with social audit units to ensure follow-up on complaints.
4. **Empowerment and Behavioural Change in Bureaucracy**
- a. Studies⁶⁹ point that regular audits improved frontline staff performance through "anticipatory accountability."
 - b. Routine social audits altered the incentive environment: local officials became more careful with record-keeping and communication.
 - c. Departments began integrating audit preparedness as part of regular monitoring.
 - d. **Impact:** Gradual cultural shift toward procedural diligence and responsiveness – particularly in AP, Telangana, and Odisha.

How did different actors come together to enable this change?

Role of the civil society - the journey of social audits in India began not within government programmes, but through the persistent efforts of civil society and citizen activists. In the mid-1990s, grassroots movements such as the Mazdoor Kisan Shakti Sangathan (MKSS) in Rajasthan pioneered the practice of public hearings (*jan sunwais*) to expose inefficiencies in local public works.

By displaying muster rolls and project records on village walls, they revealed widespread leakages in rural development schemes. Over the years, confrontation and deliberations between citizens and the state laid the foundations for re-defining accountability as a public right.

The momentum generated by such campaigns, amplified by media coverage and citizen mobilisation, created pressure for systemic reform. An early outcome was the Right to Information Act - it established transparency as a legal entitlement rather than administrative generosity. Similar principles of open disclosure and citizen verification directly informed the design of social audits later institutionalised under MGNREGA.

Throughout the late 1990s and early 2000s, networks of civil society organisations, journalists, and citizen groups worked alongside reform-minded bureaucrats to formalise social audits within national policy. Media reportage from Rajasthan, Andhra Pradesh, and Bihar helped spotlight their success, giving legitimacy to the model and paving the way for its inclusion in Section 17 of the MGNREGA Act (2005).

⁶⁹ Pande, S. (2018). Strengthening accountability through collective action: Peasant movements, right to information, and struggles for social justice in India. Accountability Research Center Working Paper Series, 4. American University. & Aiyar, Y., & Mehrotra, S. (2015). Improving the effectiveness of public service delivery in India through grievance redress mechanisms. Accountability Initiative, Centre for Policy Research.

At the Union level, sustained efforts since 2005 have anchored social audits within the accountability architecture:

1. **In 2005:** Section 17 of MGNREGA mandated independent social audits of all the projects, under the scheme, by a third party. These audits are required to be participatory, including all village members to ensure public accountability.
2. **In 2010:** CAG of India established a task group on social audits. The group concluded that social audits strengthen and add depth to the CAG's audits. It recommended mainstreaming social audit concepts into the Indian Audit and Accounts Department's processes, viewing them as a technique to broaden the audit scope, rather than a separate type of audit.
3. **In 2015:** To ensure independence, the CAG and Ministry of Rural Development laid down minimum quality norms and standards for social audits. They also developed a national training curriculum for social audit facilitators.
4. **Since 2015,** there has been further progress in institutionalising social audits:
 - With a standardized framework and CAG oversight, government departments are more accountable for acting on the findings of social audit reports
 - The CAG provides technical guidance and capacity building to state-level auditors and Social Audit Units, helping to propagate good practices across the country.
 - Stronger synergy between CAG's formal audits and social audits allows the CAG to focus on systemic issues at a macro level, while still having robust grassroots-level information.

These efforts were compounded by the actions of state governments. Measures taken by a few states are discussed below:

1. **Andhra Pradesh -**
 - a. Established the Society for Social Audit, Accountability and Transparency (SSAAT) in 2009, becoming the first state to institutionalise social audits. Line departments entered into MoUs with SSAAT to conduct audits.
 - b. In 2012, statutory recognition was given to social audits, making departmental response to audit findings mandatory.
 - c. SSAAT developed a structured three-tier social audit cadre to professionalise the process. Many of SSAAT's leadership and staff were drawn from CSOs, which helped lend credibility and independence to the audit process.
 - d. Through dedicated facilitators and structured village-level hearings, the state achieved nearly 100% Gram Panchayat coverage, leading to the detection and recovery of misused funds and strengthened administrative responsiveness⁷⁰.

The initial success in AP resulted in institutional spin-offs. It led other states to seek capacity-building models. 27 states now have functioning **Social Audit Units**; several draw from AP's SSAAT model. This has led to a professionalised cadre of social auditors, enabling sustained accountability interventions across rural India.

2. **In Odisha,** the state has comprehensive social audit guidelines and formats in English and Odia for various schemes. Audits are guided by prescribed checklists and followed by public hearings. Audit findings are compiled into reports submitted to the Block and Collector levels, with summary reports shared with the state government for follow-up action⁷¹.

These are a few instances but several states such as Meghalaya, Rajasthan, Telangana, Jharkhand, with leadership from the MORD, have taken **measures that have shifted social audits from being a compliance tool to a design principle** – embedding citizen oversight into scheme architecture itself.

This is not to say that the reform journey for social audits has been perfect (or it is a panacea), but it demonstrates the power of co-creation. It also illustrates the need for governments, at

⁷⁰ Centre for Social Audit, NIRDPR (2021). Status of Social Audits in India

⁷¹ Odisha Society for Social Audit, Accountability & Transparency. (2023). *Social audit guidelines and formats*.

various levels, to invest in policy, personnel, and process reforms if such innovations need to be sustained.

4.3.3 *What can a citizen do to hold their city accountable?*

This final section seeks to complete the accountability loop by bringing citizens back to the centre of the conversation. It recognises that every resident – as a taxpayer, voter, and service user – has the power to influence a city’s discourse and demand fairness in everyday governance. Real change begins when citizens see accountability not as an act of protest, but as a shared responsibility for the cities they call home. **The following reflections highlight simple, practical ways in which citizens can exercise this responsibility.**

Step 1: Start Small – Be Aware and Informed

1. **Locate your city government’s office** and find out which ward your home falls under.
2. **Know your local representatives**, identify your councillor, MLA, ward officer, and their office locations.
3. **Check if your city has an elected mayor, an active municipal council or standing committees** and if not, find out why (e.g., term expired, elections pending).
4. Look up your **city’s latest budget and annual reports** to understand spending priorities and ongoing projects.
5. Follow your city’s official social media pages, websites, or mobile apps for updates on civic services, notices, and meetings.

Step 2: Act on Issues – Report and Follow Up

1. **Observe your surroundings**, note uncollected garbage, potholes, poor lighting, water leaks, or unsafe public spaces
2. Find out your city government’s website and your city’s **grievance redressal system**.
3. **Report civic problems** using official grievance redressal apps, helplines, or web portals.
4. Keep a record of complaint numbers and follow up until the issue is resolved. If there are no official grievance redressal mechanisms in your ULG, explore other channels such as social media, or writing in to the local newspaper.

Step 3: Participate in Local Governance – Build a Community Voice

1. **Check whether ward committees are functioning in your city** – find out if meetings are being held regularly and whether minutes or action reports are publicly available.
2. **Attend ward committee or area sabha meetings** regularly to raise concerns, suggest improvements, and track progress on pending works.
3. If not, **join or form a local citizen group** such as a Residents’ Welfare Association (RWA), youth club, or women’s collective to represent your neighbourhood’s voice.
4. **Invite your councillor or ward officer** to attend these meetings and co-develop solutions for common problems.
5. Proposing local projects such as streetlights, roads, or drainage improvements, and monitor their implementation

Step 4: Demand Transparency and Accountability – Keep Your City Open and Answerable

1. Advocate for regular, functional ward committees and area sabhas where they do not exist.
2. **Demand updates on projects and expenditures** proposed in municipal budgets – ask your councillor or ward office for status reports on works announced for your area.
3. Request **ward-wise budget allocation data** from the municipal website, or ward office to understand how funds are distributed and spent.
4. **Push for public display of information**, insist that ongoing works, costs, contractors, and expected completion dates be displayed on-site and online.
5. **Conduct simple citizen audits**, inspect roads, drains, parks, or public toilets, note their condition, and share findings at the next ward committee meeting

6. **Push for participatory budgeting**, demand that citizens be involved in identifying and prioritising local works, and request that selected proposals and expenditures be made public.
7. **Ask councillors to hold periodic ward budget briefings** to explain expenditure patterns and project progress.
8. Collaborate with civic groups or NGOs to create **citizen report cards or ward-level scorecards** comparing service delivery performance.

Annexure

Annexure 1.1: Approach and Methodology of the report

This report adopts a comprehensive and integrated methodology that combines quantitative analysis with qualitative insights to generate practical, context-specific, and evidence-backed recommendations for strengthening financial governance in India's ULGs. The research approach draws on fieldwork, institutional experience, expert consultations, and extensive data analysis.

The study involved financial data analysis, field observations, institutional and legal assessments, and comparative practice reviews. These were supported by sustained engagement with key stakeholders across states and ULGs, including Directorates of Municipal Administration, State Urban Development Departments, municipal commissioners, accountants, line department officials, and elected representatives. A core objective was to understand how ULGs function in practice, how they mobilize and utilize funds, deliver services, and execute core Public Financial Management (PFM) functions within complex institutional arrangements.

Fieldwork was carried out in four states: Telangana, Madhya Pradesh, Himachal Pradesh, and Tamil Nadu. It covered 11 ULGs across municipal corporations, municipalities, and town councils. These visits provided invaluable first-hand insights into operational constraints, administrative practices, and data systems and helped validate findings derived from secondary research. The study also draws on long-standing institutional experience from engagements in Assam, Karnataka, Odisha, and Uttar Pradesh, which offered a deeper understanding of implementation challenges, capacity gaps, and state-ULG interdependencies.

The fieldwork was complemented by rigorous quantitative analysis of municipal financial data sourced from CityFinance.in. To place these findings within the broader governance and regulatory context, the study undertook a comprehensive review of the legal and institutional frameworks governing municipal finance across 28 states, covering municipal acts, financial rules, budget manuals, and accounting manuals. This mapping was further enriched through secondary literature on national and international PFM practices, including budgeting, accounting, expenditure management, auditing, intergovernmental fiscal systems, and urban governance reforms

Sl. No.	ULG	State
1	Shamshabad Municipality	Telangana
2	Pedda Amberpet Town Panchayat	Telangana
3	Greater Hyderabad Municipal Corporation	Telangana
4	Greater Chennai Corporation	Tamil Nadu
5	Poonamallee Municipality	Tamil Nadu
6	Bhopal Municipal Corporation	Madhya Pradesh
7	Madhusudangarh Town Panchayat	Madhya Pradesh
8	Mandideep Municipal Council	Madhya Pradesh
9	Shimla Municipal Corporation	Himachal Pradesh
10	Kandaghat Town Panchayat	Himachal Pradesh
11	Parwanoo Municipal Council	Himachal Pradesh

Annexure 1.2: 18 functions assigned to ULGs as per the 12th Schedule of the Indian Constitution

(added by the 74th Constitutional Amendment Act, 1992):

S. No.	Function
1	Urban planning including town planning
2	Regulation of land use and construction of buildings
3	Planning for economic and social development
4	Roads and bridges
5	Water supply for domestic, industrial and commercial purposes
6	Public health, sanitation conservancy and solid waste management
7	Fire services
8	Urban forestry, protection of the environment and promotion of ecological aspects
9	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded
10	Slum improvement and upgradation
11	Urban poverty alleviation
12	Provision of urban amenities and facilities such as parks, gardens and playgrounds
13	Promotion of cultural, educational and aesthetic aspects
14	Burials and burial grounds; cremations, cremation grounds and electric crematoriums
15	Cattle pounds; prevention of cruelty to animals
16	Vital statistics including registration of births and deaths
17	Public amenities including street lighting, parking lots, bus stops and public conveniences
18	Regulation of slaughterhouses and tanneries

Annexure 1.3: Methodology and investment estimates in India's Urban Awakening: Building Inclusive Cities, Sustaining Economic Growth, McKinsey, 2010

The report by the McKinsey Global Institute (MGI), released in 2010, estimates the infrastructure investment required to manage India's urbanization through 2030.

- a. Approach and Methodology:

MGI employed a 21-month-long, multi-layered research strategy that combined macroeconomic modeling with sectoral analysis and stakeholder consultations.

 1. Estimated urban investment requirements using nine satellite models for each of the core services (water, sewage, stormwater drains, transportation, space requirement, affordable housing, education and health care), linked to overall econometric model (at the national, state and district levels) projections on population and income at the city level. - applied a top-down approach in building this model to build a board macroeconomic context.
 2. Defined target service delivery levels using existing government data and created board guidelines where no benchmark existed
 3. Built funding estimates using standard cost benchmarks of JNNURM Detailed Project Reports (DPRs),
 4. It benchmarked Indian cities against six global cities: Johannesburg, London, New York, Shanghai, Singapore, and others, to draw lessons for governance, planning, and infrastructure delivery.
- b. Sectors Covered:
 1. Mass Urban Transit
 2. Affordable Housing
 3. Urban Roads
 4. Water Supply
 5. Sewerage
 6. Stormwater Drains
 7. Solid Waste Management
- c. Capital Investment Requirements (2010-2030):
 1. Total estimated requirement: \$1.2 trillion (₹53.1 lakh crore, 2008 prices)
 2. Per capita capital requirement: \$134 per annum (8x increase over current levels)
 3. O&M expenditure: \$1 trillion additionally required

Annexure 1.4: Methodology and investment estimates in High Powered Expert Committee, 2009

The HPEC report estimated urban infrastructure investment needs in India over a 25-years (2006-2031). Commissioned in the wake of JNNURM, it builds on previous efforts like the Zakaria Committee Report (1963) and the India Infrastructure Report (1996). The HPEC's key contribution lies in providing a bottom-up estimation methodology that covers eight core infrastructure sectors across different classes of cities.

a. Approach

The report aims to estimate both capital investment and operations & maintenance (O&M) expenditures required to meet desired service levels in urban India. Its methodology distinguishes itself from earlier approaches in several ways:

1. Granularity: Estimates are based on city class sizes (Class I A to Class IV+).
2. Demand-driven: Relies on actual project data from JNNURM, reflecting local government priorities.
3. Use of SSLBs: Incorporates Standard Service Level Benchmarks issued by the Government of India for urban services.
4. Component-level costing: Breaks down infrastructure sectors into granular components and uses per capita investment cost (PCIC) models.
5. Population projections: Adopts a modified UN urban population projection model adjusted for Indian city classes.

d. Methodology

1. Per Capita Investment Cost (PCIC) approach for each component and city class.
2. Uses project data from over 100 water supply and nearly 50 sewerage DPRs from JNNURM and World Bank projects.
3. Applies city-specific PCICs to projected population cohorts for accuracy
4. Includes clear estimation of backlog, upgradation, and expansion needs.

e. Sectors Covered

1. Water Supply
2. Sewerage
3. Solid Waste Management
4. Urban Roads
5. Storm Water Drains
6. Street Lighting
7. Mass Urban Transport
8. Urban Traffic Management Systems

f. Capital Investment Requirements (2006-2031)

Total estimated requirement: ₹71,620 billion (₹71.62 lakh crore) at 2009 prices

- Dominant sector estimates:
 1. Urban Roads: 68%
 2. Mass Transit: 15%
 3. Water Supply: 7%
 4. Sewerage: 4%
- Operations and Maintenance Costs
 1. Total O&M requirement: ₹10,030 billion
 2. Highest O&M shares were found in Roads, Solid Waste, and Transit systems.

Annexure 1.5: Methodology and investment estimates in Financing India's urban infrastructure needs, World Banks, 2022

The report aimed to examine the scale of urban infrastructure financing needs in India over the coming decade and assess the country's readiness to attract commercial financing.

a. Approach and Methodology

The estimate of USD 840 billion in urban infrastructure investment needs by 2036 is based on a methodology that builds on the framework used in the High-Powered Expert Committee (HPEC) report from 2011. The methodology includes the following key elements:

1. **Sector Coverage:** The estimate includes urban transport (primarily mass transit/metro rail), core urban services such as water supply, sewerage, municipal solid waste management, stormwater drainage, urban roads, streetlighting, and social/community infrastructure. It excludes housing and slum upgrading.
2. **Population Projections:** The estimate uses updated urban population projections from the National Commission on Population's 2019 report, which forecasts urban population growth till 2036.
3. **Per Capita Investment Cost:** For basic services like water, sewerage, MSW, and roads, the PCIC norms from the HPEC report were inflation-adjusted to 2020 prices and applied to the projected urban population.
4. **Specific Assumptions for Urban Transport:**
 - i. **Metro Rail:** 2,500 km of metro rail investment is considered for the 15-year period, factoring in ongoing and planned projects. The cost per km is benchmarked at INR 650 crore based on recent metro rail projects.
 - ii. **Bus Services:** A norm of 600 buses per million population is applied, with a cost of INR 1 crore per bus. Additionally, 1,000 km of Bus Rapid Transit System network is included at INR 200 crore per km.
 - iii. **Traffic Support and Allied Investment:** Assumed at 10% of overall urban transport investment.
5. **Inflation Adjustment:** Previous estimates from HPEC (2011) and McKinsey Global Institute (2010) were adjusted to 2020 prices for better comparison.
6. **Exchange Rate:** The estimate is calculated at INR 61.4 lakh crore, equivalent to USD 841 billion, using an exchange rate of USD 1 = INR 73

b. Sectoral coverage and estimates

Basic Municipal Services:

- a. Water supply
- b. Sewerage
- c. Municipal solid waste management
- d. Storm water drainage
- e. Urban roads
- f. Streetlighting

Urban Transport:

- a. Mass transit (primarily metro rail)
- b. Bus Rapid Transit System
- c. Bus services
- d. Terminals and parking
- e. Roads and bridges

Annexure 3.1: Parastatals functioning in urban areas in Karnataka

S. No.	Parastatal	Department	Functions
State level parastatals			
1.	Karnataka Urban Water Supply and Drainage Board (KUWS&DB)	UDD	<ul style="list-style-type: none"> • Construction of water works for bulk water supply • Capacity Creation and augmentation of Water Supply Schemes (WSS) and Under Ground Drainage (UGD) schemes in all ULGs, except BBMP • Operation & Maintenance (O&M) of the WSS and UGD projects in some ULGs on the directions of the state government
2.	Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC)	UDD	<ul style="list-style-type: none"> • Prepare, formulate and implement projects, schemes and programmes relating to urban infrastructure development • Provide technical and financial consultancy • Construction of water works and their O&M in some ULGs
3.	K RIDE	UDD	<ul style="list-style-type: none"> • Boost rail infrastructure projects in the state • Execution of the Bengaluru Suburban Rail Project (BSRP) and two large doubling projects • Enrich rural-urban connectivity • Synergise multiple modes of public transport
4.	State Road Corporations (KSRTC, NWKRTC, NEKRTC)	Transport	<ul style="list-style-type: none"> • Providing quality transport service to the travelling public in the state and cities
5.	Karnataka Slum Development Board (KSDB)	Housing	<ul style="list-style-type: none"> • Responsible for slum improvement/clearance/rehabilitation of slum dwellers
6.	Rajiv Gandhi Housing Corporation Limited (RGHCL)	Housing	<ul style="list-style-type: none"> • Provide housing to the socially and economically weaker sections • Implementation of Central and state Housing Schemes
7.	Karnataka Industrial Area Development Board	Industries and Commerce	<ul style="list-style-type: none"> • Promoting rapid and orderly establishment and development of industries • Providing industrial infrastructural facilities and other amenities in industrial areas in
City-based parastatals			
8.	Bengaluru Water Supply and Sewerage Board (BWSSB)	UDD	<ul style="list-style-type: none"> • Responsible for water supply and sewage disposal within the jurisdiction of BBMP
9.	Bangalore Metro Rail Corporation Limited (BMRCL)	UDD	<ul style="list-style-type: none"> • Implementation and operation of Bengaluru Metro Rail Project
10.	Bengaluru Metropolitan Transport Corporation (BMTCL)	Transport	<ul style="list-style-type: none"> • Provide safe, clean and affordable public bus transport in Bengaluru • Serves surrounding urban, sub-urban and rural areas

11.	Bangalore Development Authority (BDA)	UDD	<ul style="list-style-type: none"> • Preparation of Comprehensive Development Plan for Bengaluru metropolitan region • Development of infrastructure • Provision of development-related sites and services • Address housing needs of underprivileged citizens
12.	Bengaluru Metropolitan Region Development Authority (BMRDA)	UDD	<ul style="list-style-type: none"> • Planning and supervising the development of the areas within the Bangalore Metropolitan Region (BMR) • Raising finances for development projects or schemes • Coordinating the activities of BBMP, parastatals and other bodies connected with development activities in the BMR
13.	Urban Development Authorities (31 in number for each district)	UDD	<ul style="list-style-type: none"> • Planning, promoting and securing the development of urban areas in the district • Execution of construction, engineering and other operations necessary for development
14.	Town Planning Authorities (52 in number)	UDD	<ul style="list-style-type: none"> • Preparation of master plans • Land use zoning and preparation of zoning regulations • Providing technical assistance to various government departments/local bodies for orderly urban development
15.	SPVs Created under the Smart Cities Mission (7 in number)	UDD	<ul style="list-style-type: none"> • Execution of the Smart City Proposal under the guidance of the state government • Mobilise resources • Incorporation of joint ventures and enter into Public-Private Partnerships with Indian or foreign firms

Source: CAG & Information published by parastatals

Annexure 3.2 Trends in Karnataka UDD Budget Allocations to Parastatals and ULGs

S.N	Particulars	FY 2020-21		FY 2021-22		FY 2022-23		FY 2023-24		FY 2024-25	
		INR Cr	% of UDD budget								
1.	Total UDD Budget	15,973.33	-	14,237.60	-	14,398.95	-	15,701.69	-	14,922.27	-
2.	Allocations to parastatals	6,204.98	38.85%	5,428.74	38.13%	5,812.32	40.37%	6,735.09	42.89%	3,490.50	23.39%
2.1	Allocation to Bengaluru city-based parastatals	4,187.37	26.21%	3,018.74	21.20%	3,062.32	21.27%	3,535.00	22.51%	2,087.00	13.99%
2.2	Allocation to State-level parastatals	1,617.61	10.13%	2,010.00	14.12%	1,750.00	12.15%	2,050.00	13.06%	1,200.00	8.04%
2.3	Allocations to State-level parastatals under Smart Cities Mission	400.00	2.50%	400.00	2.81%	1,000.00	6.94%	1,150.09	7.32%	203.50	1.36%
3.	Allocation to ULGs	6,149.86	38.50%	5,706.46	40.08%	5,845.54	40.60%	6,259.75	39.87%	6,479.08	43.42%
3.1	SFC Grants Allocation to ULGs	4,600.86	28.80%	4,535.46	31.86%	4,632.54	32.17%	4,977.75	31.70%	4,985.54	33.41%
3.2	CFC Grants Allocation to ULGs	1,549.00	9.70%	1,171.00	8.22%	1,213.00	8.42%	1,282.00	8.16%	1,493.54	10.01%
4.	Allocation to State or district-level implementing authorities* under State and central schemes ⁵	1,298.28	8.13%	585.00	4.11%	587.76	4.08%	1,708.76	10.88%	1,672.77	11.21%
5.	Total Allocation to parastatals, ULGs and other implementing authorities (2 + 3 + 4)	13,653.12	85.47%	11,720.20	82.32%	12,245.62	85.05%	14,703.60	93.64%	11,642.35	78.02%

Source: Janaagraha's analysis based on UDD budget from 2020-21 to 2025-26

Annexure 3.3: Parastatals in Urban Sector in Odisha

S. No.	Institution Name	Type	Function
1	Bhubaneswar Smart City Ltd (BSCL)	City	Executes Smart City projects
2	Rourkela Smart City Ltd (RSCL)	City	Executes Smart City projects
3	Bhubaneswar Development Authority (BDA)	City	Urban planning and infrastructure
4	Cuttack Development Authority (CDA)	City	Urban planning and infrastructure
5	Berhampur Development Authority	City	Urban planning and infrastructure
6	State Urban Development Agency (SUDA)	State	Implements urban poverty and infra schemes
7	Water Corporation of Odisha (WATCO)	State	Manages urban water supply and sewerage
8	Odisha State Road Transport Corp. (OSRTC)	State	Operates state-level public bus services
9	Odisha Water Supply and Sewerage Board (OWSSB)	State	Designs water and sewerage systems
10	Capital Region Urban Transport (CRUT)	City	Manages bus transport in Bhubaneswar-Cuttack
11	Bhubaneswar Metro Rail Corp. Ltd (BMRCL)	City	Implements metro rail project

Source: CAG & Information published by parastatals

Annexure 3.4: Trend in allocation for Odisha parastatals 2018-19 till 2025-26

Trend for HUDD budget

Trend in total HUDD budget from 2018-19 (A) till 2025-26 (BE)								
#	2018-19 (A)	2019-20 (A)	2020-21 (A)	2021-22 (A)	2022-23 (A)	2023-24 (A)	2024-25 (RE)	2025-26 (BE)
Parastatals	816	1037	397	617	1520	1320	2474	1532
ULG	2101	2752	2278	2508	2465	3743	4184	4347
unknown	785	627	779	996	1588	1271	1704	2139
ULG (15th FC Tied)	0	0	544	493	511	508	572	583
DBT	310	290	269	408	402	393	616	683
Total	4012	4707	4267	5023	6485	7235	9551	9285

Percentage share

#	2018-19 (A)	2019-20 (A)	2020-21 (A)	2021-22 (A)	2022-23 (A)	2023-24 (A)	2024-25 (RE)	2025-26 (BE)	Average
Parastatals	20%	22%	9%	12%	23%	18%	26%	17%	19%
ULG	52%	58%	53%	50%	38%	52%	44%	47%	49%
unknown	20%	13%	18%	20%	24%	18%	18%	23%	19%
ULG (15th FC Tied)	0%	0%	13%	10%	8%	7%	6%	6%	6%
DBT	8%	6%	6%	8%	6%	5%	6%	7%	7%

Trends for state schemes (Tagging done for approx. 61% of state scheme budget)

#	2018-19 (A)	2019-20 (A)	2020-21 (A)	2021-22 (A)	2022-23 (A)	2023-24 (A)	2024-25 (RE)	2025-26 (BE)	Avg
Parastatals	22%	23%	27%	37%	34%	24%	37%	15%	27%
ULG	30%	52%	32%	23%	22%	46%	28%	39%	34%
unknown	48%	25%	41%	40%	44%	31%	35%	47%	39%

Trends for CSS (Tagging done for approx. 82% of CSS budget)

#	2018-19 (A)	2019-20 (A)	2020-21 (A)	2021-22 (A)	2022-23 (A)	2023-24 (A)	2024-25 (RE)	2025-26 (BE)	Avg
Parastatals	55%	50%	5%	1%	41%	38%	34%	39%	33%
ULG	5%	12%	4%	26%	2%	17%	36%	26%	16%
unknown	3%	17%	41%	34%	28%	10%	4%	5%	18%
DBT	36%	21%	50%	39%	28%	34%	27%	30%	33%

Source: Janaagraha's analysis based on HUDD budget from 2018-19 to 2025-26

Annexure 3.5: Number of cities with active ward committees in states

S.No.	Name of the State	Number of cities constituted
1	Andhra Pradesh	0
2	Chhattisgarh	1
3	Haryana	0
4	Himachal Pradesh	1
5	Jharkhand	3
6	Karnataka	1
7	Kerala	Yes - All (Number not specified)
8	Madhya Pradesh	2
9	Maharashtra	8
10	Odisha	0
11	Punjab	0
12	Rajasthan	0
13	Telangana	3
14	Tripura	6
15	Uttarakhand	0

Source: Comptroller and Auditor General (CAG). (2024). Compendium of Performance Audits on the Implementation of the 74th Constitutional Amendment Act, 1992: Landscape across India Volume I.

Annexure 3.6: Administrative sanction of 16 states

S.N	Name of the State	Type of ULG	Municipal Commissioner / Executive Officer	Mayor	Standing/subject committee	Council	Corporation	State Government (SG)
1	MP	Municipal Corporation	<= INR 500 lakh for towns of population >5 lakh and <= INR 100 lakh for towns of population <=5 lakh	> INR 500 lakh <= INR 1000 lakh for towns with a population >5 lakh and <= INR 100 lakh for towns <=5 lakh	> INR 1000 lakh <= INR 2000 lakh for towns with a population > 5 lakh and > INR 500 lakh <= INR 1000 lakh for towns with a population <= 5 lakh	N.A.	> INR 2000 lakh for towns with a population > 5 lakh and > INR 100 lakh for towns with population <= 5 lakh	N.A.
		Municipal Council	<= INR 5 lakh	> INR 5 lakh <= INR 10 lakh	> INR 10 lakh <= INR 40 lakh	> INR 40 lakh <= INR 500 lakh	N.A.	DMA- > INR 500 lakh <= INR 3000 lakh SG- > INR 3000 lakh
		Nagar Parishad	<= INR 2 lakh	> INR 2 lakh <= INR 5 lakh	> INR 5 lakh <= INR 20 lakh	> INR 20 lakh <= INR 250 lakh	N.A.	DMA- > INR 250 lakh <= INR 3000 lakh
2	TN	Chennai Municipal Corporation	> INR 10 lakh <= INR 500 lakh	> INR 300 lakh <= INR 400 lakh	> INR 400 lakh <= INR 500 lakh	> INR 500 lakh <= INR 1000 lakh	N.A.	> INR 1000 lakh
		Other Municipal Corporations	<= INR 100 lakh	> INR 30 lakh <= INR 50 lakh	> INR 10 lakh and <= INR 20 lakh	> INR 50 lakh <= INR 100 lakh	N.A.	DMA- > INR 100 lakh and <= INR 1000 lakh, SG- > INR 1000 lakh
		Municipal Council	N.A.	N.A.	N.A.	> INR 25 lakh <= INR 70 lakh	N.A.	Regional Director- <= INR 100 lakh, DMA- > INR 100 lakh <= INR 1000 lakh, SG- > INR 1000 lakh
		Town Panchayat	N.A.	N.A.	N.A.	<= INR 15 lakh	N.A.	Astt. Director of Town Panchayat-

								<= INR 30 lakh, DC- <= INR 50 lakh, Director-<= INR 500 lakh, SG- > INR 500 lakh
3	Maharashtra	Class A (Population > <= INR 50,000 1 lakh)	<= INR 50,000	N.A.	SC- > INR 1 lakh < INR 5 lakh, SJ- > INR 50,000 and <= INR 1 lakh	> INR 5 lakh	N.A.	N.A.
		Class B (Population > 40,000 <= 1 lakh)	<= INR 10,000	N.A.	SC- > INR 50,000 < INR 2.5 lakh, SJ- > INR 20,000 and < INR 50,000	> INR 2.5 lakh	N.A.	N.A.
		Class C (Population <= 40,000)	<= INR 10,000	N.A.	SC- > INR 20,000 <= INR 1 lakh, SJ- > INR 10,000 and <= INR 20,000	> INR 1 lakh	N.A.	N.A.
4	U.P.	Municipal Corporation	<= INR 10 lakh	<= INR 15 lakh	SC- <= INR 20 lakh	N.A.	> INR 20 lakh <= INR 30 lakh	> INR 30 lakh
		Municipal Councils and Town Panchayats	<= INR 40 lakh	N.A.	N.A.	N.A.	N.A.	N.A.
5	Odisha	Municipal Corporation	<= INR 5 lakh	> INR 5 lakh	N.A.	N.A.	N.A.	N.A.
6	Andhra Pradesh	Municipal Corporation	<= INR 10 lakh	N.A.	SC- > INR 10 lakh <= INR 50 lakh	N.A.	> INR 50 lakh <= INR 200 lakh	> INR 200 lakh
7	Chhattisgarh	Municipal Corporation	<= INR 10 lakh if population is >= 3 lakh, <= INR 2 lakh if population < 3 lakh	> INR 10 lakh <= INR 25 lakh if population is >= 3 lakh, > INR 2 lakh <= INR 10 lakh if population < 3 lakh	> INR 25 lakh <= INR 100 lakh if population is >= 3 lakh, > INR 10 lakh <= INR 25 lakh if population < 3 lakh	N.A.	> INR 100 lakh if population >= 3 lakh, > INR 25 lakh if population < 3 lakh	N.A.
		Municipal Council	<= INR 50,000	N.A.	<= INR 5 lakh	<= INR 100 lakh	N.A.	DMA- <= INR 200 lakh
		Nagar Panchayat	<= INR 25,000	N.A.	<= INR 2 lakh	<= INR 25 lakh	N.A.	DMA- <= INR 200 lakh
8	Goa	Municipal Council						

		Class A (Population > 50,000)	N.A.	N.A.	SC- INR 10 lakh, SJ- INR 2 lakh	N.A.	N.A.	N.A.
		Class B (Population > 10,000 <= 50,000)	N.A.	N.A.	SC- INR 6 lakh, SJ- INR 1.2 lakh	N.A.	N.A.	N.A.
		Class C (Population <= 10,000)	N.A.	N.A.	SC- INR 4 lakh, SJ- INR 80,000	N.A.	N.A.	N.A.
9	Jharkhand	Municipal Corporation	<= INR 20 lakh	N.A.	> INR 25 lakh <= INR 50 lakh	N.A.	> INR 50 lakh	N.A.
		Municipal Council	<= INR 10 lakh	N.A.	> INR 10 lakh <= INR 25 lakh	N.A.	> INR 25 lakh	N.A.
		Nagar Panchayat	<= INR 5 lakh	N.A.	> INR 5 lakh <= INR 10 lakh	N.A.	> INR 10 lakh	N.A.
10	Kerala	Municipal Corporation	N.A.	N.A.	SC- <= INR 1 lakh	> INR 1 lakh	N.A.	N.A.
		Municipal Council	N.A.	N.A.	<= INR 50,000	> INR 50,000	N.A.	N.A.
11	Sikkim	Town Panchayat	N.A.	N.A.	<= INR 25,000	> INR 25,000	N.A.	N.A.
		Municipal Corporation	<= INR 25 lakh	N.A.	> INR 5 lakh <= INR 100 lakh	N.A.	N.A.	> INR 100 lakh
12	Himachal Pradesh	All						DMA- > INR 5 lakh <= INR 100 lakh, SeCretary- > INR 100 lakh
13	Haryana	All	< INR 100 lakh	N.A.	N.A.	INR 100 lakh <= INR 250 lakh	N.A.	Director, ULG- > INR 250 lakh < INR 300 lakh, SG- >= INR 300 lakh
14	Uttarakhand	All	<= INR 10 lakh	> INR 10 lakh <= INR 12 lakh	> INR 12 lakh <= INR 25 lakh	> INR 25 lakh	N.A.	N.A.
15	Punjab	All	INR 1 lakh	N.A.	N.A.	N.A.	N.A.	N.A.
16	Karnataka	Municipal Corporation	<= INR 50 lakh	N.A.	> INR 50 lakh <= INR 100 lakh	> INR 100 lakh <= INR 200 lakh	N.A.	DC- > INR 200 lakh <= INR 500 lakh, DMA- > INR 500 lakh < INR 1000 lakh, SG- >= 1000 Lakh

		City Municipal Council Grade-1	<= INR 15 lakh	N.A.	> INR 15 lakh <= INR 30 lakh	> INR 30 lakh <= INR 100 lakh	N.A.	DC- >INR 100 lakh <= INR 500 lakh, DMA- > INR 500 lakh < INR 1000 lakh, SG- >= INR 1000 lakh
		City Municipal Council Grade-2	<= INR 10 lakh	N.A.	> INR 10 lakh <= INR 20 lakh	> INR 20 lakh <= INR 50 lakh	N.A.	DC- >INR 50 lakh <= INR 500 lakh, DMA- > INR 500 lakh < INR 1000 lakh, SG- >= INR 1000 lakh
		Town Municipal Council	<= INR 5 lakh	N.A.	> INR 5 lakh <= INR 15 lakh	> INR 15 lakh <= INR 30 lakh	N.A.	DC- > INR 30 lakh <= INR 500 lakh, DMA- > INR 500 lakh < INR 1000 lakh, SC- >= INR 1000 lakh
		Town Panchayat	<= INR 2 lakh	N.A.	> INR 2 lakh <= INR 10 lakh	> INR 10 lakh <= INR 15 lakh	N.A.	DC- > INR 15 lakh <= INR 500 lakh, DMA- > INR 500 lakh < INR 1000 lakh, >= INR 1000 lakh

Source: Janaagraha's analysis of financial rules, GOs, acts and notices of 16 states for which data was available

Annexure 3.7: States limited power over ULGs staffing recruitment

S.N.	Name of the State	ULGs powers over recruitment	ULGs powers to initiate disciplinary action and promote staff
1	Andhra Pradesh	No	No
2	Assam	Limited	data not specified
3	Chhattisgarh	No	No
4	Haryana	No	No
5	Himachal Pradesh	No	No
6	Karnataka	No	No
7	Kerala	Limited	Limited
8	Madhya Pradesh	No	No
9	Maharashtra	Limited	data not specified
10	Manipur	Limited	Limited
11	Odisha	No	No
12	Punjab	No	No
13	Rajasthan	No	data not specified
14	Telangana	No	No
15	Tripura	Limited	Limited
16	Uttarakhand	Limited	data not specified

Source: Comptroller and Auditor General (CAG). (2024). Compendium of Performance Audits on the Implementation of the 74th Constitutional Amendment Act, 1992: Landscape across India Volume I.

Annexure 3.8: Works Cycle of Mandideep Municipality (Madhya Pradesh)

Step 1: Demand Generation

1. Councillors submit formal requests (letterheads/letters) to the Chairperson/Commissioner/CMO for development works.
2. Citizens raise issues directly before municipal officials; these may be recorded and forwarded to the Engineering wing or councillors.

Step 2: Site Inspection & Estimate Preparation

1. The Engineer (typically AE/EE) verifies if the site is within municipal jurisdiction.
2. A detailed estimate is prepared considering:
 - Site dimensions (length, width, depth).
 - Road category (highway, colony/local road, etc.).
 - Traffic volume and vehicle mix (trucks, two-wheelers, etc.).

Step 3: Budget Provisioning

1. File goes to Accounts Section for budget availability/allocation.
2. Smaller works (generally under CMO's delegated limits): Administrative Approval first, then budget provisioning. Larger works the budget provisioning is done first, then Administrative Approval.

Step 4: Administrative Sanction

1. Based on the value of the estimate Created administrative sanction is passed based on financial power
 - CMO: up to ₹5 lakh.
 - President: up to ₹10 lakh.
 - PIC (President-in-Council): up to ₹40 lakh.
 - Parishad (Municipal Council/Full Council): up to ₹5 Cr.
 - Above ₹5 Cr: State-level committee involving Director and CE(s).
 - For projects > ₹5 Cr, a meeting of Councillors (with CMO and President) is held to review/confirm tender rates and sanctioned amount.
2. After Administrative Sanction, the file moves for Technical Sanction.

Step 5: Technical Sanction

1. Based on the value of the estimate Created administrative sanction is passed based on technical power
 - AE: up to ₹2 lakh.
 - EE (Division level): ₹2 lakh - ₹3 Cr.
 - SE: ₹3 Cr - ₹5 Cr.

- DMA: > ₹5 Cr.

Step 6: Tendering & Bid Evaluation

1. Post-Technical Sanction, tenders are invited via newspapers and the M.P. Tenders portal, where the tender windows are 15 days (smaller works) or 30 days (larger works).
2. The technical bidding take place, and whichever parties qualify, they are called for financial bidding. After financial bid, tender committees are formed, consisting of government officials such as the CMO, Assistant Engineer and Sub-Engineer (for works under Rs. 3 Cr). For works up to Rs. 5 Crs, the tender committee also include the Executive Engineers.

Step 7: Work Order Issued

1. Selected bidder receives Letter of Acceptance/Interest.
2. Contractor submits Performance Guarantee and signs the agreement.
3. Municipality issues Work Order, authorizing commencement.

Step 8: Execution & Verification

1. DE (Deputy Engineer) conducts periodic inspections.
2. Measurements and work details are recorded in the MB (Measurement Book).
3. After DE signs the MB, it is forwarded to the Accounts Section.

Step 9: Billing

1. Contractor raises Running Bills (for part completion) or a Final Bill (on full completion).
2. Accounts Section verifies the MB against the bill and processes it per financial rules.

Step 10: Payment

1. Payments are made online via RTGS (no cheque system).
2. No physical documents are required by the bank; processing is done through authorized net-banking workflows.

Source: Janaagraha's analysis based on field visits

Annexure 4.1: Cases from Indian cities show how active and empowered ward committees

- **Thiruvananthapuram (Kerala) - Ward Committees in Slum Upgrading & Sanitation⁷²:** In a ward with a large slum cluster, the committee mapped sanitation gaps and prioritised households without latrines for inclusion in municipal plans. Collaborative meetings with councillors, engineers, and NGOs led to faster latrine construction, better waste-bin coverage, and enhanced citizen satisfaction. By having access to local data and decision-making authority, the committee directly improved last-mile service delivery and responsiveness of the sanitation department.
- **Pune (Maharashtra) - Ward Committees and Participatory Budgeting⁷³:** Through the “*Your Pune Your Budget*” initiative, committees gathered citizen proposals for small infrastructure projects, filtered feasible ones, and monitored implementation. Wards with active committees achieved higher project completion rates (88% vs. 65%) and greater public satisfaction. The direct link between ward-level consultations and budget allocation strengthened fiscal accountability and ensured that spending reflected community priorities.
- **Bengaluru (Karnataka) - Ward Committees as Accountability Platforms⁷⁴:** Under the *Community Participation Law*, regular ward meetings enabled residents to raise issues on waste management, road repairs, and lake rejuvenation. Active committees, supported by informed councillors, improved budget transparency and responsiveness from municipal departments. Embedding ward meetings within the legal framework institutionalised citizen oversight and made routine governance processes more open and accountable.
- **Mysuru (Karnataka) - Ward Committees for Sanitation Planning⁷⁵:** Committees engaged resident welfare associations in micro-level sanitation and waste management planning, working with the Mysuru City Corporation to address gaps quickly. This collaboration between citizens and officials enabled faster grievance redressal and more effective coordination of field staff, showing how ward committees can make service delivery both responsive and participatory.
- **Delhi - Ward Committees and the Bhagidari Model⁷⁶:** Under the *Bhagidari* citizen partnership initiative, ward committees held structured dialogues between residents and officials to co-create local plans. These participatory processes led to tangible improvements in street lighting, drainage, and cleanliness, especially in South Delhi zones. When given a consistent platform for engagement, ward committees helped strengthen civic infrastructure and build trust between citizens and municipal authorities.
- **Pimpri Chinchwad (Maharashtra) - Participatory Budgeting through Digital Platforms⁷⁷:** the Participatory Budgeting initiative launched in 2023, enabled residents to propose

⁷² Bhattacharya, R. (2023). Ward Committees as “Invited Space”: A Literature Review of Ward Committees in Urban India. Institute for Social and Economic Change (ISEC).

⁷³ Singh, S. (2019). The Community Participation Law in Urban India: Status of the Community Participation Law. CIVIC Bangalore.

⁷⁴ Bhattacharya, R. (2023). Ward Committees as “Invited Space”: A Literature Review of Ward Committees in Urban India. Institute for Social and Economic Change (ISEC)

⁷⁵ BID

⁷⁶ IBID

⁷⁷ Pimpri Chinchwad Municipal Corporation (2024). Participatory Budgeting Initiative.

development projects up to ₹10 lakh across sectors such as roads, sewage, water, and health via the Smart Sarathi app, QR codes, and the PCMC website. For FY 2025-26, the city received over 2,284 citizen proposals, resulting in an allocation of ₹94.86 crore towards citizen-prioritised projects. By leveraging technology, PCMC demonstrated how digital tools can make participatory budgeting more inclusive, transparent, and responsive to local priorities.

Annexure 4.2 Audits enabling change in governance

A performance audit conducted by the CAG between 2013 and 2018 assessed how effectively Bengaluru managed its storm water drains (SWDs). The audit reviewed records from multiple civic agencies and partnered with ISRO to use geospatial technology for analyzing land use changes and their impact on drainage and groundwater recharge.

What was wrong:

- The audit revealed that responsibilities for urban infrastructure were fragmented across agencies. The BBMP managed drains, the BDA handled city planning, and the BWSSB oversaw water and sewerage systems. This lack of coordination led to inefficiencies and weak accountability.
- Major discrepancies were found between the Revised Master Plan (BDA) and the Drainage Master Plan (BBMP), resulting in unreliable data for urban planning. Additionally, storm water drains were widely encroached upon, not just by private entities but also by government departments and public utilities.

What was done:

- To build an evidence-based assessment, the audit team used satellite imagery and geospatial analysis with ISRO's support
- Combined with joint physical inspections and cross-verification of datasets from multiple agencies to detect encroachments and identify data inconsistencies.

The audit helped initiate systemic reforms and demonstrated the need for a unified infrastructure database and pushed for clearer division of responsibilities among civic bodies. It led to the identification and removal of encroachments, including those by public agencies. Importantly, it set a precedent for using geospatial technology in future audits and urban planning.

Annexure 4.3: Progress made on public disclosure and transparency

Till 2020, India's cities lacked standardized financial data. This opacity disincentivized private investment and led to inefficient and non-transparent fiscal transfers across government tiers.

CityFinance.in—an initiative led by **Janaagraha** in partnership with the **MoHUA, State Urban Development Departments**, and the **Department of Expenditure**—has transformed this landscape. The platform serves as a **national framework for standardized, timely, and credible municipal financial information**, and is the **official portal for managing XV FC grants** for over 4,800 ULGs.

Through continuous data tracking, open accessibility, and performance benchmarking, CityFinance.in has institutionalized fiscal transparency in Indian cities.

Key Impact Highlights:

- **4,200+ ULBs (90%+)** now publish audited accounts on CityFinance.in—many for the first time.
- **₹1.08 lakh crore** in 15th FC grants administered for SWM, water, and sanitation; **₹66,000+ crore** released in the first four years (>75% of allocation).
- **11,000+ municipal budgets** consolidated from **2,500+ ULGs**, including FY 2025-26 data.
- **1,500+ ULGs** ranked on financial health and performance.
- **148 cities** publish credit ratings; **50 municipal bond issuances** tracked.
- **1,037 cities** disclose Service Level Benchmark (SLB) performance publicly.

CityFinance.in demonstrates how **digital public infrastructure** can strengthen **accountability, fiscal efficiency, and trust** in urban governance through open financial data.

Annexure 4.4: The power of participation and transparency in local governments

1. **Barcelona:** Barcelona tackled growing urban congestion, pollution, and citizen disengagement by decentralising governance and embedding transparency into city planning. Barcelona **decentralised planning to 36 local governments and empowered citizens through the digital platform Decidim**, enabling them to propose and vote on policies. It also introduced Superblocks—**groups of city blocks closed to through-traffic and redesigned with community input** to prioritise walking, cycling, and public space^{78, 79}. As a result, traffic, air pollution and noise levels dropped in pilot areas. **Over 40,000 residents have participated in city planning, with 70% of new policies** originating from citizens—making Barcelona a global model for people-powered urban transformation⁸⁰.
2. **Porto Alegre:** In the late 1980s, Porto Alegre faced severe urban inequality, lack of basic infrastructure in poor neighborhoods, and widespread public distrust in government spending. In 1989, the city pioneered Participatory Budgeting (PB) to **institutionalize transparency by opening up the budget process to direct citizen input**. Residents participated in public assemblies to deliberate, prioritise, and vote on municipal spending—ensuring that decisions were made in full public view and aligned with community needs^{81, 82}. This radical transparency transformed governance: budget allocations to health and education rose from 13% to over 40%, **access to sanitation reached 98%, and own-source revenues increased by 269%** between 1988 and 2004, as citizens’ trust in government—and willingness to pay taxes—grew⁸³.
3. **Seoul:** Seoul faced growing mistrust and inefficiencies in public service delivery during its urban expansion. In response, the Seoul Metropolitan Government launched the Seoul Open Data Plaza, **mandating proactive disclosure of data across sectors such as transportation, health, budgets, and infrastructure**. It also **linked open data metrics to internal government performance reviews—creating institutional incentives for transparency**. Furthermore, platforms like mVoting and Oasis enabled citizens to directly participate in urban decision-making and policy suggestions^{84, 85}. These measures enhanced real-time governance capacity and citizen trust. By 2020, Seoul had published **over 5,800 datasets and enabled hundreds of civic tech startups to innovate using public data**. It was named a UN Public Service Award winner for participatory governance and is now ranked among the top global cities for smart governance and data openness⁸⁶.

⁷⁸ Organisation internationale de la démocratie participative (OIDP). (2018). *The experience of decidim.barcelona* (doc 551).

⁷⁹ Cities Forum. (2021, May 31). *Superblock (Superilla) Barcelona – a city redefined*

⁸⁰ Smith, A. (2018, May 18). *Barcelona is leading the fight-back against smart city surveillance*. WIRED.

⁸¹ Local Government Association. (2016, December 12). *Participatory budgeting in Brazilian town distributes \$160 m of public money to where needed: Case study - Porto Alegre, Brazil*.

⁸² World Bank. (2003). *Brazil: Toward a more inclusive and effective participatory budgeting* (Publication No. CA9F0984-5AD0-5435-AD75-828ABAF06D4D). World Bank.

⁸³ Participedia. (n.d.). *Participatory budgeting in Porto Alegre 1989-present* (Case No. 5524).

⁸⁴ United Nations Development Programme. (2023, March). *Open [government] data policies and practices: Select country cases - Astana 2022*

⁸⁵ Wired. (2017, September 6). *How Seoul is reinventing itself as a techno-utopia*

⁸⁶ Seoul Metropolitan Government. (n.d.). *Seoul open data white paper*



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