

# Financial Management of Municipal Bodies

*January 2025*

## How are cities in India governed?

- There are 4,800+ Urban Local Governments (ULGs) in India, largely governed through a 'one size fits all' approach
  - Top 90 ULGs constitute > 40% of the total population.
  - c. 4,500 ULGs have population < 100 k.
  - > 90% of urban population lives within 60 km of c. 500 lakh-plus ULGs.
- ULGs largely controlled by state governments, not autonomous self-governments
  - 74<sup>th</sup> Constitutional Amendment Act (CAA) not implemented in spirit by states.
  - ULGs have full autonomy only over 4-5 functions listed in Constitution.
  - Do not have any role in economic growth and job creation, equity and inclusion or environment, very limited role in land, urban planning, housing, and transport.
- Severe spatial and functional fragmentation
  - State and city parastatals (reporting to state depts) handle housing, planning, large infra development, public transport, water and sewerage, traffic management, public safety, power, besides public health and education.
  - No metropolitan governance model.
- No city strategy or plan.
- Principal systemic challenges include planning, decentralisation and participation, and state capacities including municipal finance, municipal staffing and performance management, and digitalisation.

# There are three dimensions to municipal finance in India, each with distinct outcomes

## Fiscal Sustainability

(Adequacy and availability of funds for infrastructure and service delivery)

- There are **adequate funds (transfers, revenues, borrowings)** with ULGs.
- **Transfers** are **formula-based, predictable, and timely**.

## Fiscal Efficiency

(Optimal utilisation of funds)

- **Budgets are comprehensive** and formulated with a **focus on outcomes and outputs (i.e., infra and services)**.
- **Salaries are paid on time; goods and services are procured** when planned, at **appropriate quality and price**, and **payments are done on time**.
- **Actual spending** reflects **budgeted priorities**.
- **Fund flows, expenditure, and outputs** can be **tracked in real time**.

## Fiscal Accountability

(Public disclosure and expenditure accountability)

- Outlays are linked to citizen outcomes.
- **Financial reports are comprehensive, timely**, allow for comparison between actual spending and budget decisions, and are **publicly-available in a citizen-friendly format**.

# Financial Sustainability: Our ULGs are severely under-resourced, relative to global benchmarks and their own needs

1

Dependence on grants is high, especially in cities with population below 1 million (57% reliance on grants).<sup>1</sup>

**Total ULG revenues are significantly lower compared to international standards.**

2

**Investment in cities is low;** 72% of urban infrastructure is financed by union and state governments.<sup>2</sup>



## Total ULG revenue as % of GDP

**India: ~ 1%**<sup>3</sup>

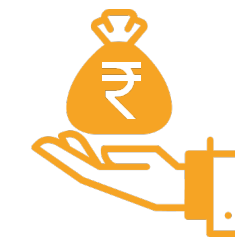
South Africa: 6%<sup>3</sup>

Brazil: 7.4%<sup>3</sup>



**INR 61.4 lakh cr.  
or 1.2% of GDP p.a.**

Required investment for 2021-36<sup>4</sup>.



**Total ULG  
revenue per annum:  
INR 1.7 lakh cr<sup>2</sup>.**



**INR 7,884** (at 2020 prices)

Required per capita p.a.  
infra investment.



**INR 2,701** (at 2020 prices)

Actual per capita p.a.  
infra investment. (2017-18)<sup>4</sup>.

# Financial Sustainability: Municipal revenues are estimated to be around 0.86 % of GDP\* in FY 2020-21

## Total Municipal Income<sup>1</sup>

INR 1,71,471 cr\*  
(0.86 % of GDP)

## Total Municipal Own Revenues

INR 85,777 cr\*

## Capital Expenditure

INR 1,10,063 cr\*

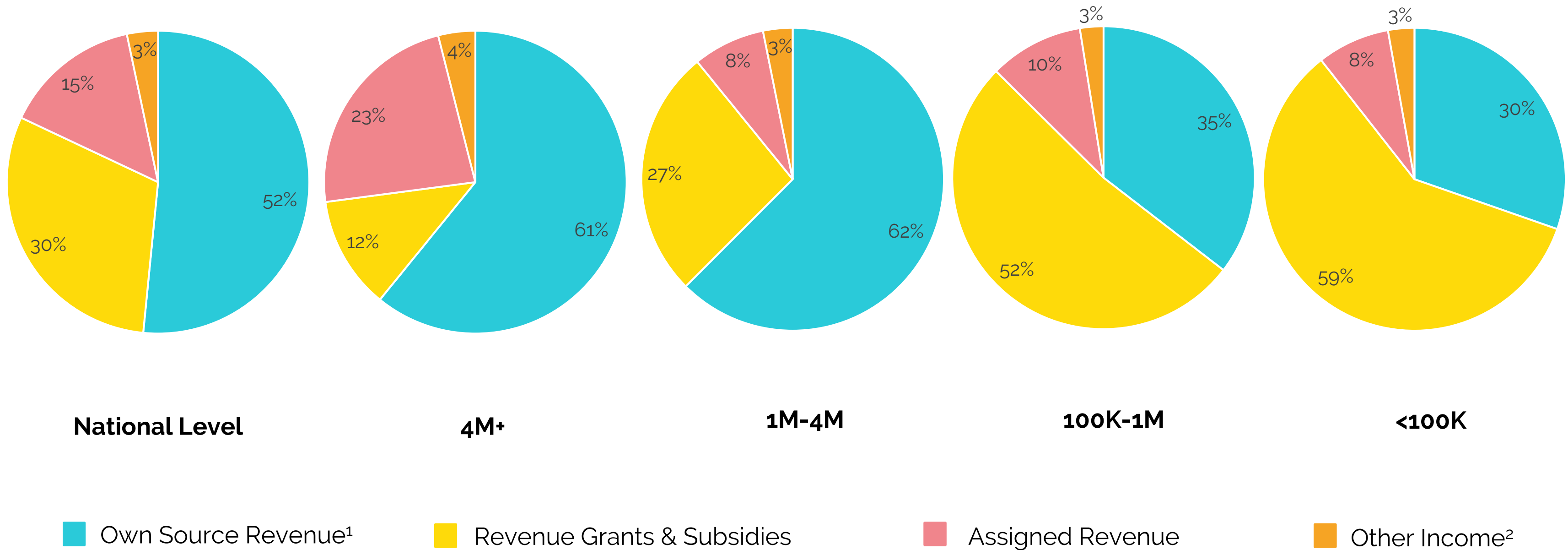
Popn. Category	No. of ULGs	Popn %	Per capita OSR (INR)	Total OSR (Cr)	% share in Total OSR	Per Capita Income (INR)	Total Income (Cr)	% Share of Total Income
4M+	8	17%	6,925	40,053	47%	11,377	65,806	38%
1M-4M	37	17%	4,162	23,241	27%	6,659	37,188	22%
100K-1M	428	31%	1,146	11,957	14%	3,235	33,752	20%
<100K	4380	35%	913	<sup>5</sup> 10,526	12%	3,013	34,724	20%

- 45 '1 M+' popn. cities with around 34% of urban popn. generate 74% of total own source revenues.
- Per capita own source revenue of 8 '4 M'+ pop. cities is around 7.6 times more than that of <100k popn cities.
- Total balance sheet size for 2,646 ULGs is INR 7,04,101 cr. (1M+ cities = INR 4,66,038 cr and < 1M cities = INR 2,38,063 cr)\*\*.

Source: CityFinance, \*Pan-India Performance metrics (extrapolated from audited accounts of 2646 ULGs for 2020-21.), \*\*balance sheet of 2,646 ULGs for 2020-21, \*This data is representative of: 7 ULGs out of 8 (88%) for 4M+, 28 ULGs out of 37 (76%) for 1M-4M, 34 ULGs out of 46 (74%) for 500K-1M, 276 ULGs out of 382 (72%) for 100K-500K, 2,301 ULGs out of 4380 (53%) for <100K

1 Total municipal income is based on income & expenditure statements. 2 Capex is derived from difference in gross block and capital work in progress between 2 years from balance

# Financial Sustainability: More than 50% of revenue of below 1M population cities comes from revenue grants



- Grants comprise 50% or more of the revenue mix for below 1M cities.
- Below 100k cities fare worse with ~60% of their total revenue coming from grants.

1. Own source revenue includes tax revenue, rental income, fees and user charges, sale and hire charges, and other incomes.

2. Other income includes income from investment and interest income.

Source: CityFinance, based on AFS data of 2646 cities for the year 2020-21

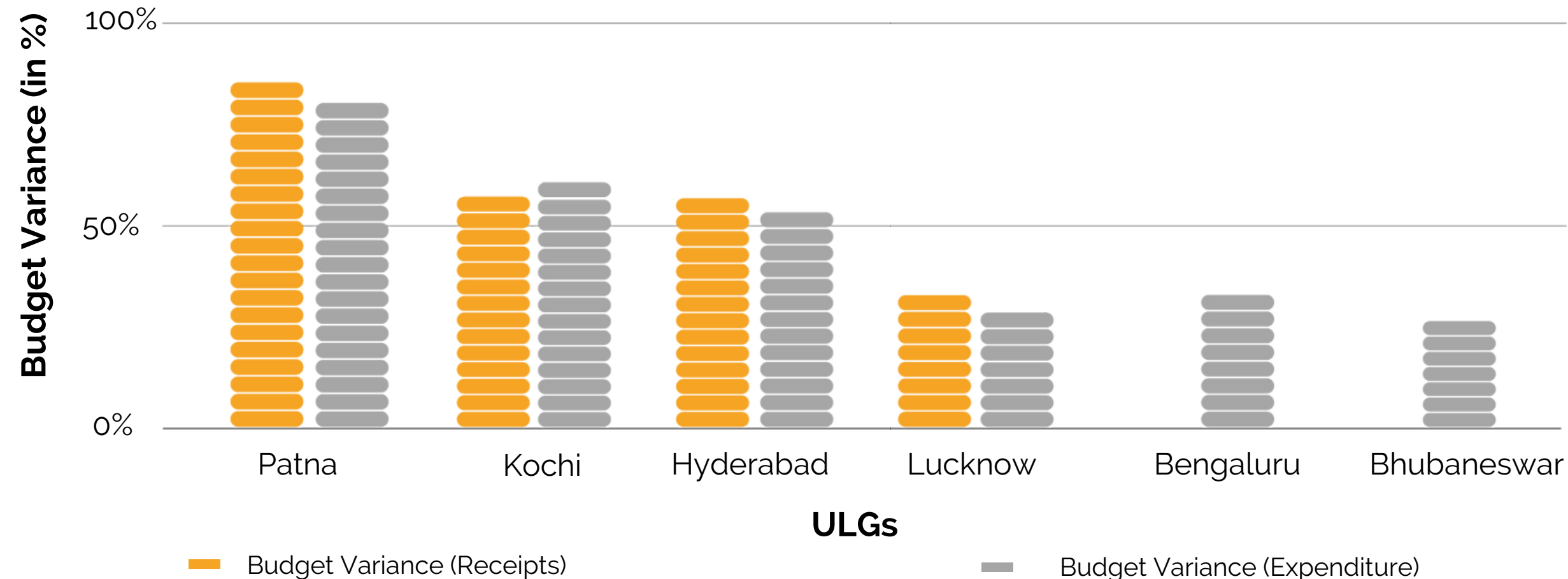
## Financial Efficiency: Unrealistic budgets with huge variance due to ad-hoc expenditure planning and limited involvement of line departments

1

Poor budget management: Municipal budgets are unrealistic and incremental in nature with **budget variance in the range of 23-82%**; budget not used actively for expenditure management.

2

**Lack of long-term or medium-term perspective:** Only 2 states' municipal acts, Assam and Karnataka provide for medium-term fiscal plans, but implementation is weak.



Data Source: Budget documents of ULGs (201522)

# Financial Efficiency: Significant gaps in legal framework for budgeting

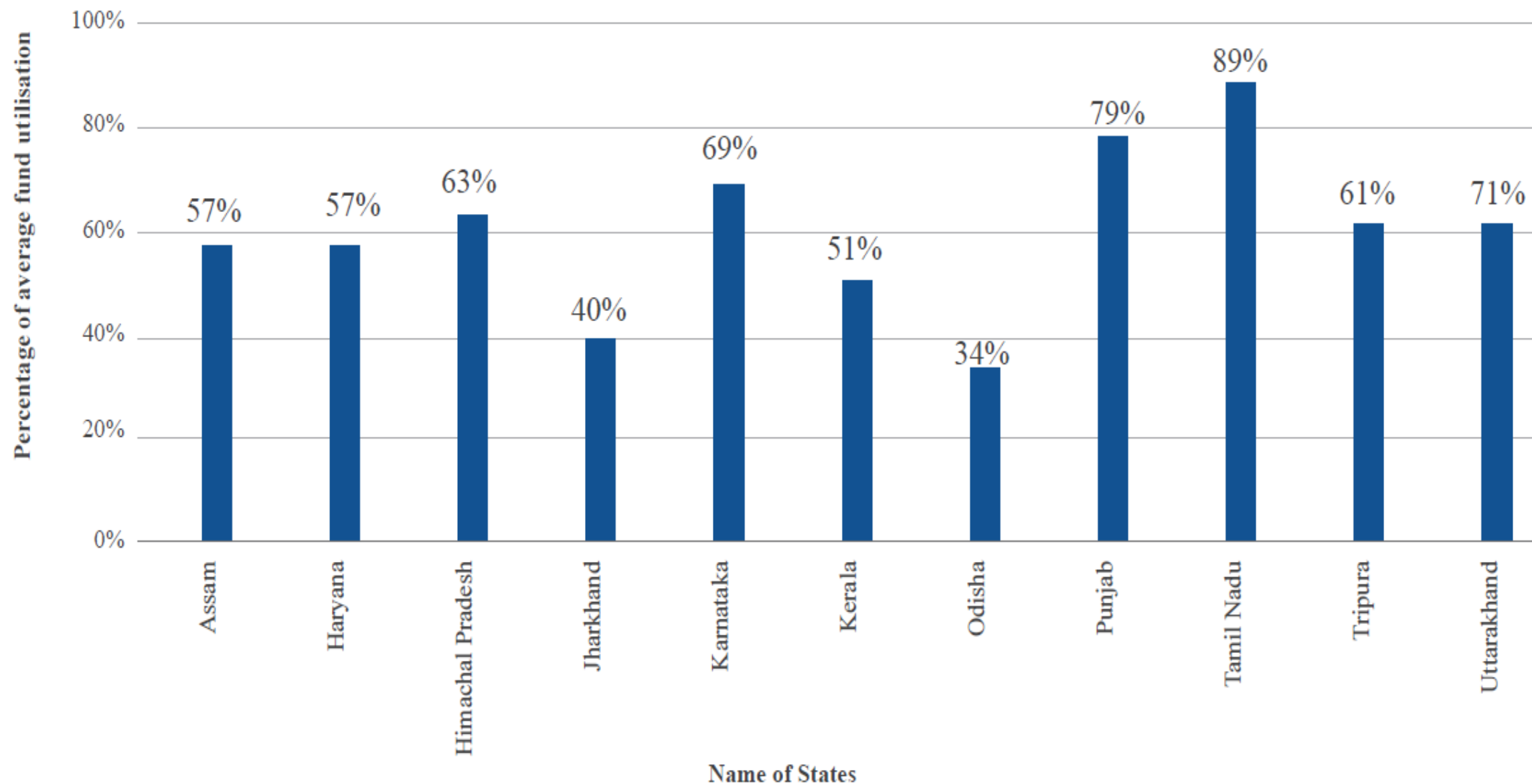
Budgeting Provisions	AP	AS	BR	CG	GA	GJ	HR	HP	JK	JH	KA	KL	MP	MH	MN	ML	MZ	NL	DL	OR	PB	RJ	SK	TN	TR	UP	WB	
<b>Budget Strategy &amp; Planning</b>																												
Long term/mid-term fiscal planning	N	Y	N	N	N	N	N	N	N	N	Y	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Systems of budgeting	CB	CB	CB	N	N	N	N	N	N	N	CB	AB	N	N	N	N	N	N	N	CB	N	CB	N	N	N	AB	N	
<b>Budget Preparation &amp; Approval</b>																												
Budget calendar prescribed	Y	N	Y	N	N	N	Y	N	Y	N	N	N	Y	Y	N	N	N	N	N	Y	N	N	N	Y	N	N	N	
State Government power over the Municipal Budgets	Y	N	Y	Y	Y	N	Y	Y	N	Y	N	N	Y	N	N	N	N	Y	N	Y	Y	Y	Y	Y	N	N	N	
Scope for public to offer suggestions	N	N	Y	N	N	Y	N	N	N	N	Y	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	
<b>Budget Execution</b>																												
Budget Utilization Review	Y	Y	Y	N	N	N	N	N	N	N	Y	N	Y	N	N	N	N	N	N	Y	N	Y	N	Y	N	N	N	
Frequency of Budget Utilization review	N	N	Q	N	N	N	N	N	Q	N	MO	N	Q	N	N	N	N	N	N	MO	N	Q	N	SA	N	N	N	
Provisions for Budgetary Control	N	N	Y	N	Y	N	N	N	Y	N	Y	Y	Y	Y	N	N	N	N	N	Y	N	Y	N	Y	N	N	Y	

- 8 out of 27 states have mentioned system of budgeting, from which 6 states prescribe cash-based budgeting, only 2 prescribe accrual-based.
- 11 out of 27 states have a provision for budgetary control.
- 8 out of 27 states have a provision for budget utilisation review.
- Only Bihar, Karnataka, Haryana, and Tamil Nadu have legal provisions for feedback or inputs from citizens on ULG budgets.

Sources: Author's analysis) (A- Annually, Q-Quarterly, MO-Monthly, SA-Semiannually. CB- Cash basis, AB- Accrual basis)

## Financial Efficiency: Weak expenditure and cash management in ULGs

### Only 61% fund utilisation across 11 states

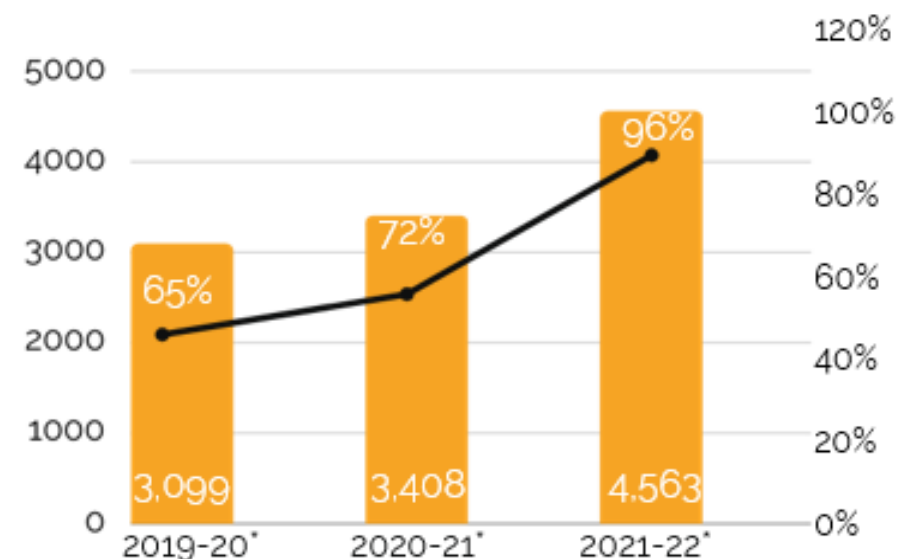


- **Absence of budgetary control and review:**
  1. **Ad-hoc spending** in excess of budget allocations, resulting in overspending or high unpaid dues.
- **Poor absorptive capacity in ULGs :**
  1. Poor capacity to create shelf of projects and DPRs.
  2. Inefficient/outdated approval processes, contract or vendor management.
- **Fragmented Financial Systems** with different fiscal pipelines (PFMS, IFIMS, ERP) and multiple bank/treasury accounts create a lack of unified financial oversight.

# Financial Accountability: ULGs have made significant progress in producing audited accounts but many reforms still pending

- For the first time, audited financial statements of most ULGs are available on CityFinance.in due to the eligibility conditions introduced by XV FC

*% and No. of ULGs Publishing Audited Accounts*



- However, ULGs are still transitioning to accrual-based accounting with even transitioned ULGs using a mix of cash and accrual accounting
- 22 states have adopted Municipal Accounting Manual, while the adoption status for four states could not be confirmed. Meanwhile, states like Haryana and Gujarat are in the process of customising NMAM for ULGs in their states; transition under progress in state such as Assam, UK, UP, HR.

## Persistent Challenges

- Absence of overall municipal finance framework** many states do not have municipal finance (accounting/ budgeting) rules; and NMAM lacks clear policies on financial governance aspects like budgeting, delegation of powers, and budgetary control and accounting standards.
- Outdated provisions of NMAM** that do not allow aligning of ULG accounts with state and central accounts' six-level classification structure; cost based accounting and does not meet all the reporting requirements.
- No mandate for single set of accounts** as state Acts do not mandate electronic records, forcing ULGs to maintain parallel systems, adding to staff workload.
- Absence of standardised Financial Statements (FS) in digital formats** as ULGs produce FS in scanned PDF formats even if base system is digital.

\*Audited accounts of FY19-20, FY20-21 and FY21-22 have been uploaded by ULGs on cityfinance.in in compliance with XV-FC grants.

# The Blueprint

## Fiscal Sustainability

(Adequacy and availability of funds for infrastructure and service delivery)

- Devolve **revenue streams/powers** to ULGs, implement **formula-based timely transfers**.
- Reform **basis of tax/user charge assessment**, maximise collection efficiency.
- Optimise return on assets, give ULGs **greater powers over land**.
- Catalyse **municipal borrowings**, develop shelf of projects.

## Fiscal Efficiency

(Optimal utilisation of funds)

- **Capital Investment Plan** (Action plans/shelf of projects).
- **Digital grant management** system.
- Streamlined expenditure processes, SoPs, **delegation of approval and spending**.

## Fiscal Accountability

(Public disclosure and expenditure accountability)

- **Model Municipal Finance Code**, NMAM 2.0.
- **Machine-readable financial reports**, public disclosure.
- Streamlined **audit framework**.
- **Internal audits**.

**Institutional capacities: Digital PFM framework, Municipal Shared Service Centres, Competency-based HR Management**

## How can legislators contribute?

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- Municipal Acts and Rules (including Town and Country Planning Acts)
- CAG audit reports
- State budgets
- Budgets and audited annual accounts of ULGs and parastatals (see [www.cityfinance.in](http://www.cityfinance.in))
- State Finance Commission reports
- Union Finance Commission reports
- Master Plans



*Thank you!*