GOVERNMENT OF INDIA
MINISTRY OF HOUSING AND URBAN AFFAIRS
RAJYA SABHA
STARRED QUESTION NO. 8
ANSWERED ON 20/07/2026

MUNICIPAL FINANCES AND THEIR SUSTAINABILITY

***8. SHRI G.C. CHANDRASHEKHAR:**

Will the Minister of *Housing and Urban Affairs* be pleased to state:

(a) whether Government has assessed the financial sustainability of Urban Local Bodies after the Fifteenth Finance Commission period;
(b) the number of cities with investment-grade municipal finances; and
(c) reforms proposed to improve municipal revenue mobilisation?

ANSWER

THE MINISTER OF HOUSING AND URBAN AFFAIRS

(SHRI MANOHAR LAL)

(a) to (c): A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (A) TO (C) IN RESPECT OF RAJYA SABHA STARRED QUESTION NO. 8 FOR REPLY ON 20.07.2026 REGARDING MUNICIPAL FINANCES AND THEIR SUSTAINABILITY ASKED BY SHRI G.C. CHANDRASHEKHAR.

(a) to (c): As per entry 5 of List II - State List of the Seventh Schedule of the Constitution of India, Local Government, that is to say, the constitution and powers of municipal corporations, improvement trusts, districts boards, mining settlement authorities and other local authorities for the purpose of local self-government or village administration, is a state subject.

Financial sustainability refers to the ability of an Urban Local Body (ULB) to generate adequate and predictable financial resources to meet its current obligations while maintaining sufficient fiscal capacity to invest in future urban infrastructure without compromising service delivery or financial stability. The financial sustainability of ULB depends on their ability to mobilize own source revenues, manage expenditure efficiently, maintain financial accountability and access sustainable source of capital financing. Financial sustainability of ULBs is generally assessed based on their share of own-source revenue (OSR) in total revenues, their dependence on Union and State Government grants, the extent of fiscal decentralisation which includes taxation powers assigned by State Governments, and control over existing revenue streams.

The Ministry of Housing and Urban Affairs (MoHUA) compiles financial information relating to ULBs on a continuous basis through the audited accounts furnished by States and ULBs, primarily for the purpose of release and monitoring of Finance Commission grants. A preliminary analysis of the available audited financial statements of 2285 ULBs for FY 2022-23 in standardized machine readable format is as under:

Population Category of ULBs	OSR as % of Total Revenue (FY 2022–23)	% of OSR to Total Revenue Expenditure	Dependence on External Fiscal Transfer
All cities (average)	53%*	68%	Between low and High
Million-plus Cities	62%	80%	Low
ULBs with Population 1 lakh–1 million	42%	50%	Moderate
ULBs with Population Below 1 lakh	27%	33%	High

*Remaining 47% of total revenue comprises as under -

Grants – 35%
Assigned Revenue – 9%
Other Revenue – 3%

It is evident that there exists considerable variation in financial capacities of ULBs across population categories. The smaller ULBs exhibit greater dependence on external fiscal transfer.

This finding has been corroborated in the report of the Reserve Bank of India (RBI) on Municipal Finances, 2024, which observed that the own revenue sources are not adequate for meeting the revenue expenditure of most of the municipal bodies, thereby affecting their functional and financial autonomy. Municipal revenues are disproportionately concentrated in the larger ULBs.

The award period of the Fifteenth Finance Commission concluded on 31 March 2026. Government of India supported States and ULBs through performance-linked reforms aimed at improving financial management, transparency, revenue mobilisation and accountability, with the intent of enhancing ULBs financial sustainability.

The Sixteenth Finance Commission submitted its report on 17th November 2025 and Government of India (GoI) has laid the Explanatory Memorandum as to the actions taken on the recommendations of the Commission on 1st February 2026. A brief analysis of OSR of ULBs across different population threshold as per the 16th FC report is as under:

Population Category of ULBs	Above 40 lakh	5 lakh – 40 lakh	Below 5 lakh	National (Average)
Own Source Revenue (OSR) as % of Total Revenue	61%	55%	32%	51%

Own-Source Revenues as percentage of total revenue by ULB Category-wise:

ULBs Category	Own-Source Revenues as share of total revenue	Additional Observation
Municipal Corporations	80%	Municipal Corporations account for nearly 50% of the total urban population
Municipalities	16%	OSR is significantly lower than Municipal Corporations
Town Panchayats	4%	OSR is Lowest contribution to total municipal own-source revenues

These findings indicate significant disparities in fiscal capacity across population and categories of ULBs.

The Commission also observed that property tax continues to be the principal source of municipal own revenue. However, the potential of property tax remains unrealised. This is primarily attributed to incomplete and inaccurate property records, low coverage, undervaluation of properties and suboptimal collection efficiency.

As regards the number of cities with investment grade municipal finances, the credit rating work for 468 cities was completed, of which 162 cities received investible grade rating (lGR) i.e. rating BBB(-) and above. Under AMRUT/ AMRUT 2.0 Reforms, there is provision of incentive as under:

Scheme/Category	Eligibility	Incentive Rate	Maximum Incentive per ULB
Municipal Bonds	ULBs issuing Municipal Bonds for the 1st time	₹13 crore for every ₹100 crore worth of bonds issued	₹26 crore
Green Bonds	ULBs issuing Green Bonds after the 1st time Municipal Bond issuance	₹10 crore for every ₹100 crore worth of Green Bonds issued	₹20 crore

A provision has been made in the union budget 2026-27 with respect to providing an incentive of ₹100 crore on single bond issuance of more than ₹1000 crore.

There are various reforms undertaken to improve municipal revenue mobilization and bring financial accountability. Creating an online Asset Management portal is one of the key ingredients of the National Monetisation Pipeline (NMP). Creation of Digital Asset register, in this context, is an important reform undertaken by MoHUA. In addition to the GIS based asset mapping done under Special Assistance to States for Capital Investment (SASCI) Scheme, ULBs are regularly encouraged to create digital asset register on any of the existing digital platforms such as bespoke Enterprise Resource Planning (ERP) applications, Urban Platform for deliverY of Online Governance (UPYOG) and Geographic Information System (GIS) based Government Land Information System (GLIS), amongst other. An online municipal asset register on the GIS enabled Government Land Information System portal (GLIS-ULB) has been created by MoHUA. As on 1st July 2026, more than 300 ULBs spread across 19 States have already mapped nearly 15,000 of their Land and Building assets. Besides, the Urban Challenge Fund (UCF) scheme, launched by MoHUA recently, is an attempt to bring about a paradigm shift in the municipal finance ecosystem in the country, by encouraging the ULBs to operate in a challenge cum reform mode. In order to provide financing support to smaller ULBs i.e. cities with less than one lakh population and all cities/ULBs of North Eastern and Hilly States/UTs, Credit Repayment Guarantee Sub-Scheme (CRGSS) has been created under UCF.

Some of the key reforms to improve municipal revenue mobilization as recommended by the Sixteenth Finance Commission are as follows:-

i. States to develop a citizen friendly GIS based property tax system for efficient enumeration, assessment and collection of property tax.
ii. Urban Local Bodies to increase its OSR in year T-1, minimum 1.05 times its OSR in year T-2 or 5 per cent per annum compounded growth applied over OSR of 2025-26, whichever is lower, to become eligible for the performance component of grants.
iii. Make annual financial statements publicly available online, in the fiscal year T, provisional accounts of all ULBs of the State for the fiscal year T-1 and audited accounts for the fiscal year T-2.

iv. All States adhere to the Constitutional mandate of constituting a State Finance Commission (SFC) upon the expiry of five years from the constitution of the previous SFC. Further, the Action Taken Report on the SFC's recommendations to be laid before the State Legislature within six months of the submission of the SFC report.

v. From the second year onwards, release of the State Performance Component of ULB grants be contingent on the State transferring, in the previous year, grants from its own resources (including statutorily assigned and shared revenues) to local bodies amounting to at least 20% of the basic Finance Commission grant recommended for that year.

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