Foundation for Responsive Governance

Assessing the Legal Framework for Municipal Fiscal Autonomy in India

September 2026

Assessing the Legal Framework for Municipal Fiscal Autonomy in India

Authors: Pritika Malhotra | Avani Kapur

How to Cite: Malhotra, P., & Kapur, A. (2026).
Assessing the legal framework for municipal fiscal autonomy in India.
Foundation for Responsive Governance.

The authors are grateful to Navya Singh for research assistance.

Table of Contents

Table of Contents 03

Introduction 04

Context 05

- Fiscal Autonomy is becoming increasingly important 06
- Municipal finances remain weak and highly uneven 07
- Fiscal Devolution has remained partial and uneven 07

Methodology 09

- Selection of states 09
- Development of indicator framework 09
- Legislative analysis 10
- Limitations 10

Analysis across themes 11

- Budget Autonomy 12
  - What we measured 12
  - Key Findings 14
  - Larger vs. smaller ULGs 15
- Borrowing Autonomy 15
  - What we measured 16
  - Key findings 16
  - Larger vs. smaller ULGs 19
- Asset/ Fund management autonomy 19
  - What we measured 20
  - Key findings 20
  - Larger vs. smaller ULGs 22
- Revenue Autonomy 23
  - What we measured 23
  - Key Findings 23
  - Larger vs. smaller ULGs 26

Other limitations on municipal fiscal autonomy 27

Conclusion and Recommendations 28

Endnotes 31

Annexure 1: List of statutes analysed 34

Annexure 2: Mandatory and discretionary taxes that can be levied across states 35

Introduction

India's municipal governments or urban local governments (ULGs) are entering a more demanding fiscal environment. Rapid urbanisation is increasing the pressure on them to provide services, maintain and expand infrastructure, and respond to complex urban needs. Additionally, the Sixteenth Finance Commission (XVI FC) has placed greater emphasis on municipal fiscal capacity by linking aspects of inter-governmental transfers and performance grants to ULG's own source revenue (OSR) generation. The ability of municipalities to mobilise and manage their own resources has therefore become even more consequential.

Municipal fiscal performance is commonly attributed to factors such as institutional capacity, administrative efficiency, revenue collection effort, political will, and the strength of the local tax base. All these factors matter, but they operate within a more fundamental constraint - the authority municipalities are legally permitted to exercise. A municipal government may have the administrative capacity or political willingness to raise revenues, borrow, manage assets or reallocate resources, but its ability to do so ultimately depends on whether state law gives it that power, and on the conditions attached to its exercise.

This distinction is important because the 74th Constitutional Amendment recognised municipalities as institutions of self-government but left states considerable discretion over the extent and form of functional and financial devolution. As a result, the financial powers available to ULGs can vary significantly across states and, in some cases, across different types of municipalities within the same state.

Legal authority is therefore not, by itself, sufficient to ensure strong municipal finances. But it is a necessary part of the institutional architecture within which fiscal capacity can develop. Understanding the powers conferred on municipalities — and the approvals, limits and safeguards governing those powers — is important for assessing the space available to ULGs to manage their finances and respond to local priorities.

This report therefore seeks to answer a central question: what financial decisions are municipalities legally empowered to take, and under what conditions? It does this by analysing municipal legislations across 9 states i.e. Bihar, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, and Uttar Pradesh and assessing both the extent of fiscal discretion provided to municipalities and the conditions, approvals, safeguards and forms of oversight attached to the exercise of that discretion.

The analysis is undertaken at two levels:

Inter-state: how statutory frameworks differ across states

Intra-state: whether different types of ULGs within a state particularly larger and smaller ULGs are provided different degrees of fiscal autonomy.

The analysis does not begin with the assumption that discretion is always better than state oversight. State-level approvals, conditions and safeguards can serve important purposes, including protecting public resources, maintaining fiscal discipline and strengthening accountability. The relevant question is therefore not simply whether municipalities are autonomous, but what decisions they are empowered to take, under what conditions, and where control continues to rest with the state. By identifying both statutory constraints and examples of greater fiscal discretion, the report seeks to make visible an often under-examined dimension of municipal finance: the legal architecture within which fiscal performance takes place. In doing so, it provides an evidence base for considering reforms that can strengthen the fiscal foundations of urban governance while retaining appropriate safeguards and accountability.

The remainder of the report is organised as follows. The next section explains why fiscal autonomy has become more important for ULGs, why municipal fiscal empowerment has remained incomplete, and why examining the legal framework governing municipal finance fills an important gap in the existing discourse. This is followed by the methodology, indicator framework and study's limitations. The legislative analysis then examines autonomy across four themes- budget, borrowing, asset/ fund management and revenue autonomy. The report concludes with recommendations for reform.

Context

The Constitution recognises three types of ULGs i.e. municipal corporations in large urban areas, municipal councils in smaller urban areas, and nagar panchayats in areas transitioning from rural to urban.[1] Their responsibilities and functions are specified in state municipal legislations, which also confer powers relating to revenue mobilisation, financial decision making, borrowing, and management of municipal assets.

Revenue from different sources is credited to a ULG's municipal fund. Broadly, municipal revenue comprises:[2]

Own source revenue (OSR): comprises tax revenue such as property tax, non-tax revenue such as user charges and fees for services rendered, and rents and income from municipal assets collected by the ULG within its jurisdiction.

Inter-governmental transfers: includes grants recommended by the Union and State Finance Commission recommendations as well as funds received for the implementation of union/ state schemes. Depending on their design, these may be tied to particular purposes or provide municipalities greater flexibility in their use

Assigned revenue: comprises revenue collected by the state but assigned, either wholly or in part, to the municipalities. Some states may also compensate ULGs for loss of income.

ULGs may also finance expenditure through borrowing, including loans from governments and financial institutions and, where permitted, municipal bonds.

Fiscal autonomy refers to the extent to which municipalities have control over these resources and the financial decisions associated with them. It therefore depends not only on the quantum of resources available, but also on the degree of discretion municipalities have over raising, managing and using them.

Fiscal Autonomy is becoming increasingly important

Two developments have made municipal fiscal capacity particularly important: India's continuing urban transition and the increasing emphasis placed by Finance Commissions on municipal own revenues.

Firstly, India is in the midst of a rapid urban transformation. By 2047, around half of India's population is expected to live in urban areas.[3] As cities grow, ULGs will face increasing pressure to provide and maintain water supply, sanitation, drainage, roads, transport and other urban infrastructure and services.

These pressures are already visible. Significant gaps remain in access to basic urban services. In 2018, only 57% urban households had access to tap/ piped water within their premises; 22% relied on open drainage; and 8% had no drainage facility at all.[4] As cities have expanded outward, there is additional pressure on infrastructure and transport systems resulting in increased reliance on private vehicles, congestion, and air pollution.[5] At the same time, public expenditure on urban development has remained limited. As per the FY 2020-21 budget estimates, only 3.2% of total expenditure went to revenue expenditure on urban development, and just 0.6% to capital expenditure.[6] Addressing these gaps requires ULGs to mobilise and manage substantially greater financial resources.

Secondly, Finance Commissions are increasingly linked to municipal revenue performance. The Fifteenth FC (XV FC) introduced conditions relating to property tax for accessing ULG grants, including a notification of minimum property tax rates and improvements in property tax collections for grant release.[7] As a result, the number of states qualifying for XV FC grants declined from 22 in FY 2023-24 to 16 in FY 2024-25, with smaller ULGs particularly affected.[8]

The XVI FC has extended this further, linking both the level and annual growth of OSR to grant allocation and eligibility.[9] For the allocation of ULG grants across states, 90 per cent of the weight is based on projected urban population and 10 per cent on an OSR-based criterion. Within states, in the absence of State Finance Commission recommendations, a similar 90:10 formula applies for allocation across ULGs.

A portion of the grant is also linked directly to improvements in municipal OSR. From FY 2027-28 onwards, ULGs qualify for the performance component if their OSR in the preceding year is at least 1.05 times the previous year's level, or meets a 5% compounded annual growth over the FY 2025-26 baseline, whichever is lower. Undisbursed performance grants are redistributed among qualifying ULGs within the same state.

ULGs are therefore now being asked to strengthen their own revenues at the same time as the expenditure demands placed on them are increasing.

Municipal finances remain weak and highly uneven

This increased emphasis on revenue mobilisation comes from a relatively weak municipal fiscal base. Across ULGs, own revenues remain insufficient to meet expenditure requirements, while dependence on transfers from Union and state governments remains high.

Indian ULGs rank among the weakest internationally in terms of fiscal autonomy, and capacity to deliver the infrastructure and services that urbanisation demands.[10] They are not generating enough OSR to meet their expenditure requirements and remain heavily reliant on transfers from the state/ union government.[11] On average, 56% revenue comes from union/ state transfers, with OSR comprising only 32%; and, municipalities face a 42% resource-expenditure gap.[12]

Revenue generation is also highly concentrated. The XVI FC found that between FY 2019-20 and FY 2023-24, larger municipal corporations accounted for 80% of the total OSR generated by ULGs, with the municipal councils and nagar panchayats accounting for a much smaller share of 16% and 4%, respectively.[13] Another study across 16 ULGs found that OSR's share in total ULG revenue declines with the city size: from 51-62% in cities having a population above 1 crore, to 31-39% in cities with a population below 10 lakhs.[14] There is also significant inter-state disparity in OSR collection with ULGs in Maharashtra and Gujarat generating higher OSR per capita, than those in states like Bihar.

Borrowing levels across ULGs are also low, comprising only 2-3% of total revenue.[15]

The combined effect of low OSR, limited borrowing, and dependence on transfers restricts municipal investment in essential infrastructure such as water supply, drainage, roads, and public services. A significant proportion of available resources is instead absorbed by salaries, pensions, and other recurring expenditure, leaving relatively little fiscal space for capital investment.[16]

Fiscal Devolution has remained partial and uneven

The 74th amendment to the Constitution established a framework for devolution of authority and finances to ULGs, however, despite this, fiscal devolution has remained incomplete and uneven across states. The reasons for this are twofold: (1) states had discretion to decide what the financial powers of municipalities would be and often chose to limit these powers and (2) even where broad statutory powers were given by the state, municipalities may lack the capacity to exercise them effectively.

Firstly, because the Constitution left states with the discretion to devolve revenue and financial powers to ULGs the extent of actual devolution varies.[17] In many states, municipalities continue to operate with a narrow tax base, since states retain the power to appropriate taxes.[18] The introduction of taxes like GST further eroded municipal revenue by subsuming consumption-based local taxes such as octroi, without compensating ULGs for the loss.[19] Even where taxes have been devolved, states typically retain the power to set, revise, and

approve rates, and to exempt persons or properties from payment, limiting actual fiscal decentralisation.[20] As a result, municipalities often possess legal authority that is qualified rather than fully autonomous

Secondly, even when statutory provisions exist, they have not been implemented well or may be ineffective in practice.[21] For instance, incomplete and inaccurate property records, low coverage, undervaluation and weak collection efficiency have contributed to poor property tax collection across ULGs.[22] Administrative capacity, political will to exercise authority and the strength of the underlying tax base further constrain financial powers. These factors help explain why larger cities, with stronger administrative capacity and more buoyant tax bases, generally outperform smaller municipalities.[23]

Box 1: The 74th amendment to the Constitution

Until the 1990s ULGs had limited autonomy and were institutionally weak. They could not function independently. Elections were irregular and controlled by the state. States also controlled functional and financial domains by controlling planning, decided what functions would be delegated, had control over revenue and in general retained governance powers. ULGs primarily operated like administrative extensions of the state, with limited functional and fiscal autonomy, rather than independent units of self-government.

The 74th Amendment to the Constitution changed this, by formally recognising municipalities as institutions of self-government in urban areas (Part IX-A). Further, it mandated regular elections, detailed how ULGs would be constituted, and recommended devolution of functions listed in the Twelfth Schedule (Articles 243-R, 243-U, 243-W).

To make ULGs financially independent, states could authorise them to levy taxes/ duties/ tolls/ fees, assign revenue and provide grants in aid (Article 243-X). Every state was also directed to constitute a state finance commission (SFC) to recommend distribution of revenues with ULGs within a state (Article 243-Y). The intent behind the amendment was to provide ULGs with functional and financial autonomy to discharge functions for effective devolution.

The distinction between these two sets of constraints is central to this report. Much of the existing discourse on municipal finance focuses on implementation challenges. While these are important, they become relevant only if municipalities possess the legal authority to exercise fiscal powers in the first place.

Methodology

This report analyses the legal framework governing fiscal powers of ULGs to understand the degree of discretion provided to municipal governments by states, as well as the common conditions and safeguards attached to the exercise of these powers. The analysis is based on a review of state municipal legislations, which are the primary statutory framework governing fiscal powers of ULGs.

Selection of states

The report covers nine states i.e. Bihar, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, and Uttar Pradesh, selected to ensure variation across multiple dimensions, including geographic region, population size, and levels of urbanisation. This allows for meaningful comparison across diverse contexts and the identification of broader patterns in legislative design.

The state is the primary unit of comparison because municipal powers are primarily determined through state level legislation. However, the analysis also compares different types of ULGs within each state to examine whether municipal corporations are provided greater fiscal discretion than Municipal Councils and Nagar Panchayats.

Municipal governance in these nine states is governed either through a single consolidated statute or through separate legislation for different types of ULGs. Three of the states (Bihar, Kerala, and Rajasthan) have a single consolidated statute while the remaining states have separate statutes for municipal corporations and the smaller municipalities (municipal councils and nagar panchayats). In total, 15 statutes were reviewed.

Development of indicator framework

Indicators were developed through a two-stage process.

First, the literature on municipal finance, fiscal federalism, and urban decentralisation in India was reviewed to identify the main dimensions through which municipal fiscal autonomy could be assessed.

Second, the selected municipal statutes were reviewed to identify financial powers and statutory provisions that appeared consistently across jurisdictions and could be compared. Indicators were retained only where they were both conceptually relevant to fiscal autonomy and comparable across states.

The final framework comprises four thematic dimensions of fiscal autonomy (budget autonomy, borrowing autonomy, asset and fund management autonomy, and revenue autonomy), encompassing a total of 23 indicators.

The framework is intended to capture the range of financial decisions over which state legislation provides municipal direction. It does not assume that each indicator is of equal practical importance or that greater discretion on every indicator necessarily represents a preferable institutional arrangement. Rather, it provides a common basis for examining which powers are granted, how far they extend, and what conditions, or safeguards govern this exercise.

Legislative analysis

Each statute was reviewed against the 23 indicators. For every indicator, the relevant statutory provision was coded as "Yes" where the power was clearly conferred, "No" where it was clearly absent, and "Partly" where the power was qualified, conditional, or only partially available. Where the legislation was silent on a particular issue, no coding was assigned. The coding was supplemented by qualitative analysis to capture differences in nature, scope and wording. This helped distinguish between different forms of state oversight, such as prior approvals, financial thresholds, borrowing limits, earmarking requirements, and other conditions on the exercise of municipal powers.

Pertinently, analysis was limited to studying the primary municipal legislation enacted in a state. Municipal rules and regulations, as well as city specific statutes applicable to larger municipal corporations like Mumbai/ Bengaluru were excluded from the scope of the report. **Annexure 1** lists the statutes that were analysed for the purposes of the present report.

Limitations

The analysis has three key limitations:

- **Availability of updated legislation:** The availability and accessibility of municipal statutes vary across states. The up-to-date version of the municipal Act, with amendments incorporated, was not available for all states. Wherever possible, the most recent, publicly available version of the legislation was reviewed.

- The report examines the **legal framework rather than actual implementation.** It does not assess how provisions are operating in practice or the extent to which the powers available with municipalities are being exercised. Consequently, the findings should be interpreted as an assessment of de jure rather than de facto fiscal autonomy. Moreover, it does not test out the relationship between de jure autonomy and observed revenue performance.

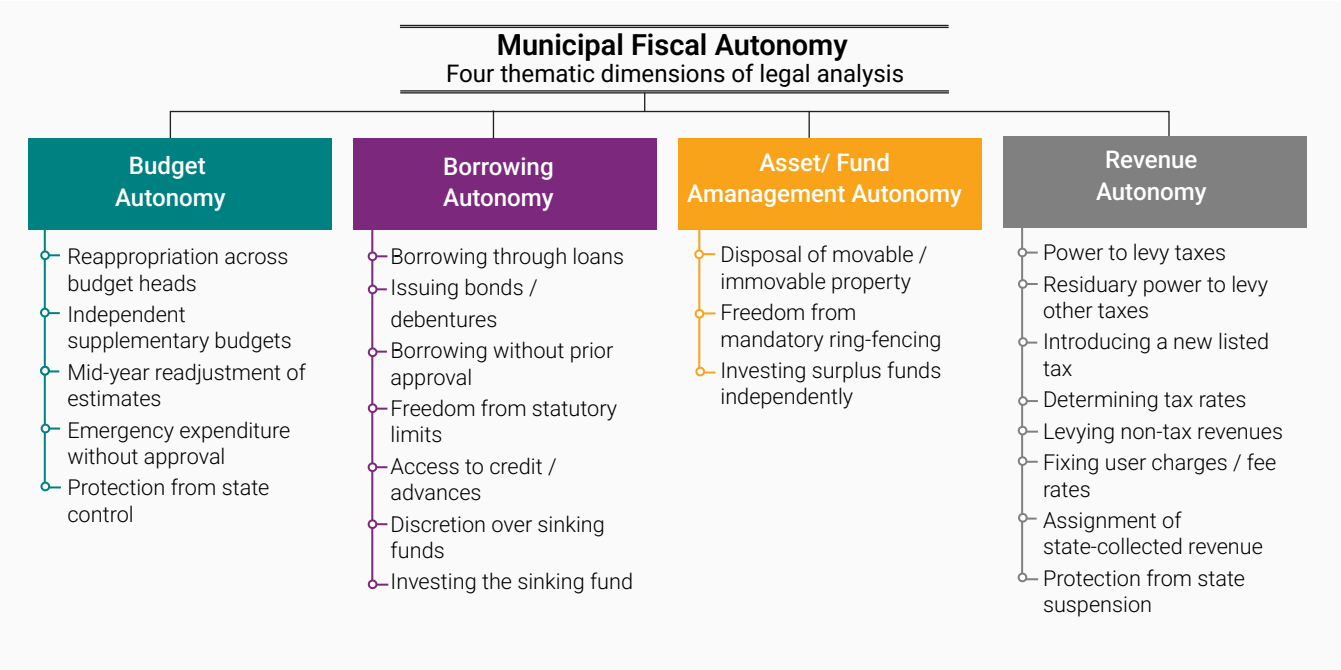
- The report focuses **exclusively on state municipal legislation.** It does not analyse administrative practices, executive orders, or financial rules, which also may influence fiscal autonomy.

Analysis across themes

As discussed in the methodology, the report analyses fifteen statutes across nine states. The statutes are broadly similar in structure and address a common set of topics:

- the constitution, classification, governance, and composition of municipalities
- municipal functions and service delivery responsibilities
- procedures governing the conduct of business in a municipality
- supervisory and regulatory powers of the state government
- Financial management, including municipal funds, budgeting, accounting, borrowing, contracting and municipal property
- municipal taxation and other sources of revenue
- powers relating to delivery of specific services like water supply, drainage, and waste management
- miscellaneous procedural and administrative provisions

The scope of this report is confined to provisions impacting fiscal autonomy, grouped into four thematic dimensions: budget autonomy, borrowing autonomy, asset autonomy, and revenue autonomy. Together, these themes help evaluate whether municipalities have meaningful authority over financial decisions that shape their capacity, including the preparation and execution of budgets, mobilisation of revenue, borrowing of funds, and management of assets.



Each theme follows a common analytical approach. We begin by identifying the principal statutory pattern that emerges across states, followed by a comparative analysis of the relevant indicators and key differences in legislative design. Particular attention is paid to how statutory approaches vary across states and whether larger municipal corporations are granted greater fiscal autonomy than municipal councils and nagar panchayats within the same state. The analysis also examines the conditions and safeguards attached to the exercise of municipal powers, rather than treating greater discretion as preferable to state oversight. Each chapter concludes by drawing together the broader implications of these statutory differences for municipal fiscal autonomy.

Budget Autonomy

Budget autonomy reflects the extent to which municipalities can make, modify and implement financial decisions during the financial year. While every municipality prepares an annual budget, the degree of autonomy they possess depends on whether they can respond to changing circumstances by reallocating expenditure, revising estimates or meeting unforeseen expenditure needs, and on the conditions attached to the exercise of these powers.

What we measured

Budget autonomy was assessed through five indicators:

- **Reappropriation:** whether a ULG can transfer funds from one budget head to another, without altering the overall size of the budget. Reappropriation provides operational flexibility by allowing municipalities to redirect unspent funds to areas where expenditure needs arise.
- **Supplementary budgets:** whether additional budgetary allocations can be independently prepared and approved during the year in response to unforeseen requirements.
- **Mid-year readjustments:** whether municipalities can revise estimates of income and expenditure where actual revenues of expenditures differ from those anticipated at the beginning of the financial year.
- **Emergency expenditure:** whether immediate expenditure during emergencies like floods/ disease outbreaks/ unforeseen events can be undertaken without prior state approval.
- **State control:** the circumstances in which the state government can intervene in municipal budgetary decisions, including through approval, modification, suspension or assumption of control.

Table 1: Analysis of budget autonomy indicators across states

State	ULG Type	Can independently reappropriate funds across budget heads?	Can independently prepare and approve supplementary budgets?	Can independently readjust income and expenditure estimates?	an incur expenditure beyond budget in exceptional circumstances without prior state approval?	Is the budget protected from state control?
Bihar	All ULGs	Yes	Yes	-	Yes	Partly
Gujarat	Nagar Panchayat/ Municipal Council	Yes	Yes	Yes	No	-
Gujarat	Municipal Corporation	Yes	Yes	Yes	Yes	-
Karnataka	Town Panchayat/ Municipal Council	Yes	Yes	Partly	Yes	No
Karnataka	Municipal Corporation	Yes	Yes	Yes	Yes	No
Kerala	All ULGs	-	Yes	-	Yes	-
Madhya Pradesh	Nagar Panchayat/ Municipal Council	Yes	Yes	Yes	-	Partly
Madhya Pradesh	Municipal Corporation	Yes	Yes	Yes	Yes	Partly
Maharashtra	Nagar Panchayat/ Municipal Council	Yes	Yes	-	Yes	No
Maharashtra	Municipal Corporations except Bombay	Yes	Yes	Yes	Yes	-
Odisha	Municipalities	-	Yes	-	No	No
Odisha	Municipal Corporation	Yes	Yes	Yes	Yes	No
Rajasthan	All ULGs	Yes	Yes	-	Yes	No
Uttar Pradesh	Nagar Panchayat/ Municipal Council	-	Yes	-	No	No
Uttar Pradesh	Municipal Corporation	Yes	Yes	-	No	Partly

Note: "-" indicates the statute is silent on that aspect.

Key Findings

Across the nine states, municipalities generally have considerable discretion over **routine budget management,** but less flexibility where decisions involve revising the budget or incurring expenditure outside it.

The strongest autonomy is seen in relation to **supplementary budgets and reappropriation.** All nine states permit municipalities to prepare and approve **supplementary budgets** without requiring state approval. Six states also clearly extend **reappropriation** powers to every type of ULG.

The position is less clear for mid-year **readjustment of income and expenditure estimates.** Gujarat and Madhya Pradesh explicitly allow every type of ULG to revise these estimates. In Bihar, Kerala, Rajasthan and Uttar Pradesh, however, the legislation is silent, creating uncertainty over whether municipalities can formally adjust their financial plans during the year.

Even where budgetary powers are available, states sometimes attach conditions to their exercise. Bihar, for instance, requires a prior recommendation from a committee of elected councillors before reappropriation.[24] Karnataka, Madhya Pradesh, Maharashtra, and Odisha link certain budget revisions to the maintenance of prescribed minimum cash balances. These conditions serve as safeguards against financial over-extension, but also limit the ability to adapt to changing circumstances.

Emergency expenditure is more closely regulated across states. Municipal corporations possess explicit emergency expenditure powers in 8 of the 9 states, but equivalent powers are available to smaller ULGs in only 5 states. Uttar Pradesh takes the narrowest approach, with no provision allowing any type of ULG to incur expenditure beyond the approved budget even in exceptional circumstances.

The circumstances in which emergency expenditure is permitted also vary. Statutes commonly refer to natural disasters, disease outbreaks, public hazards, urgent contractor payments, court-ordered compensation, urgent work required in public interest and for refunding taxes collected by error.[25] Kerala and Maharashtra provide broader powers. While Kerala permits expenditure beyond budget estimates in all *"unavoidable emergent circumstances",* without defining that term,[26] Maharashtra provides similarly broad powers to smaller municipalities.[27]

State oversight also varies substantially across states. Karnataka, Odisha, and Rajasthan states confer relatively broad powers on the state government to suspend, modify, or assume control of municipal budgets. Bihar and Madhya Pradesh adopt a narrower approach by limiting intervention to specified situations, such as municipal indebtedness or the receipt of state subventions.[28] In the remaining states, the extent of state control either varies by type of ULG or remains uncertain because the legislation is silent.

Larger vs. smaller ULGs

A consistent pattern across states is that municipal corporations generally have greater discretion than the smaller municipal councils/ nagar panchayats. This difference arises both from the range of powers conferred and from the conditions governing their exercise.

In some states, corporations have powers that are either unavailable to or uncertain for smaller ULGs. Odisha and Uttar Pradesh, for example, expressly provide reappropriation powers to corporations but remain silent regarding smaller municipalities. Gujarat and Odisha, similarly, give emergency expenditure powers only to corporations.

Differences also arise where the same power is available to both types. Gujarat,[29] Maharashtra,[30] and Karnataka,[31] impose monetary caps for additional restrictions on reappropriation by smaller ULGs that do not apply to larger municipal corporations.[32] In Karnataka, municipal councils require state approval for certain readjustments of income and expenditure estimates, while municipal corporations do not.

State intervention in municipal budgets also tends to be greater for smaller ULGs. In Uttar Pradesh, the state government may revise the budgets of smaller ULGs, while intervention in the budgets of municipal corporations is linked to indebtedness.[33] Maharashtra similarly allows for state intervention in the budgets of municipal councils and nagar panchayats under specified conditions but does not confer equivalent powers in relation to municipal corporations.[34]

Overall, the legislation provides municipal governments with relatively greater discretion over routine budget management than over mid-year adjustments and exceptional expenditure. The extent of this flexibility is also uneven across types of ULGs. Municipal corporations generally have greater statutory discretion than smaller ULGs. State oversight remains an important feature of the framework, but its scope and intensity vary considerably across states.

Borrowing Autonomy

Borrowing autonomy refers to the extent to which municipalities can independently raise and manage debt including through loans, bonds and other forms of credit. Borrowing can expand the resources available to ULGs for infrastructure and other long-term investments, particularly where own revenues are insufficient. At the same time, municipal debt can create fiscal risks if borrowing exceeds repayment capacity. The relevant question is therefore not simply whether municipalities can borrow, but **what forms of borrowing are permitted, for what purposes, and under what conditions and safeguards.**

What we measured

Borrowing autonomy was assessed using seven indicators:

- **Borrowing power:** whether ULGs are authorised to raise debt through loans.
- **Bonds/ debentures:** whether ULGs can raise debt by issuing bonds or debentures.
- **State approval:** whether borrowing can be undertaken without prior state sanction.
- **Statutory limits:** whether legislation restricts the purpose for which borrowing may be undertaken, the amount that may be borrowed, or the period within which debts must be repaid.
- **Credit and advances:** whether ULG can access credit or advances as an alternative source of finance.
- **Sinking funds:**[35] whether legislation gives ULGs discretion to establish sinking funds. Investment of sinking funds: the extent to which ULGs can independently determine how sinking fund balances are invested.

Some control over borrowing is a legitimate safeguard since unchecked municipal debt can pose real risks to fiscal sustainability.[36] The analysis therefore does not assume that fewer restrictions necessarily imply a better framework. Rather, it examines the nature and extent of borrowing powers available to municipalities and the conditions governing their exercise.

Key Findings

Across, the power to borrow is widely recognised, but is subject to considerably greater statutory control than routine budgetary powers. Most states expressly allow all types of ULGs **to take loans, with** Gujarat being the only exception. The authority to issue **bonds and debentures,** however, is more uneven. Only 4 states i.e. Bihar, Kerala, Maharashtra and Uttar Pradesh categorically authorise all types of ULG to issue them. In Gujarat, Karnataka, Madhya Pradesh, and Odisha, this power is expressly provided to Municipal corporations, while the legislation governing smaller ULGs is silent. Rajasthan's statute is silent on the issuance of bonds or debentures for every type of ULG.

There are also differences in how states recognise municipal bonds within their legislative frameworks. Only two states i.e. Bihar and Odisha recognise municipal bonds separately from debentures and permit their use for urban infrastructure projects.[37] Kerala goes further by expressly providing revenue bonds backed by project-specific revenue streams, subject to escrow arrangements.[38]

Table 2: Analysis of borrowing autonomy indicators across states

State	ULG Type	Can the ULG borrow through loans?	Can the ULG issue bonds/ debentures?	Can the ULG borrow without prior state approval?	Is the ULG free from statutory limits on borrowing?	Can the ULG access credit/ advances?	Is establishing a sinking fund left to ULG discretion?	Can the ULG independently invest the sinking fund?
Bihar	All ULGs	Yes	Yes	Partly	No	Yes	No	No
Gujarat	Nagar Panchayat/ Municipal Council	No	N/A	N/A	N/A	N/A	N/A	N/A
Gujarat	Municipal Corporation	Yes	Yes	No	No	Yes	No	No
Karnataka	Town Panchayat/ Municipal Council	Yes	-	No	-	-	-	-
Karnataka	Municipal Corporation	Yes	Yes	No	No	-	Partly	No
Kerala	All ULGs	Yes	Yes	No	No	-	Partly	No
Madhya Pradesh	Nagar Panchayat/ Municipal Council	Yes	-	No	-	-	-	-
Madhya Pradesh	Municipal Corporation	Yes	Yes	No	No	Yes	No	No
Maharashtra	Nagar Panchayat/ Municipal Council	Yes	Yes	No	No	-	No	No
Maharashtra	Municipal Corporations except Bombay	Yes	Yes	No	No	-	No	Yes
Odisha	Municipalities	Yes	-	-	-	-	No	-
Odisha	Municipal Corporation	Yes	Yes	Partly	No	Yes	No	No
Rajasthan	All ULGs	Yes	-	Partly	No	Yes	No	No
Uttar Pradesh	Nagar Panchayat/ Municipal Council	Yes	Yes	No	-	-	-	-
Uttar Pradesh	Municipal Corporation	Yes	Yes	No	No	-	No	No

Note: "-" indicates the statute is silent on that aspect. N/A indicates that the question does not arise because the ULG has no borrowing power at all.

State oversight of borrowing takes different forms. In 5 of 9 states i.e. in Karnataka, Kerala, Madhya Pradesh, Maharashtra, and Uttar Pradesh, ULGs must take **prior state approval** before issuing a loan or a bond. Bihar and Rajasthan, instead have a Comprehensive Debt Limitation Policy (CDLP) which prescribes borrowing limits, repayment periods, and interest rates in advance and additional state approval is required only if the limits are being crossed.[39] Odisha follows a similar approach for municipal corporations but the statute is silent on the approval requirement for the smaller municipalities.[40]

All states also impose **statutory limits on borrowing** although the nature of these restrictions varies. Borrowing is generally confined to specific purposes, including infrastructure construction, land acquisition, debt repayment, and other capital expenditure.[41] Use of borrowed funds for purposes outside those specified — including, in some cases, salaries or other recurring expenditure — is restricted unless state approval is obtained.

Some states narrow borrowing powers further by linking them to the nature of the expenditure being financed. Municipal Corporations in Gujarat, Madhya Pradesh, Maharashtra and Uttar Pradesh (and councils in the case of Maharashtra) can only borrow for permanent work if the cost is spread over several years.[42] Kerala expressly permits borrowing for town improvement and public utility schemes in addition to the other commonly recognised purposes.[43]

Repayment periods are also prescribed in several states. Gujarat, Karnataka, and Maharashtra permit repayment periods of up to 60 years for municipal corporations, while Kerala applies a similar maximum across ULG types.[44] Madhya Pradesh limits the repayment period for corporations to 50 years and Uttar Pradesh to 30 years. Karnataka additionally places a limit on the annual debt-servicing burden of ULGs, while Madhya Pradesh caps total outstanding debt.[45]

Access to **credit and advances** is also limited and often less clearly provided for. Bihar and Rajasthan statutes allow all types of ULGs to access such finance while Gujarat, Madhya Pradesh and Odisha provide this power to municipal corporations. In other states the statutes are silent on this function. Bihar, Rajasthan, and Odisha, also allow bank credit to be obtained against a sanctioned borrowing by mortgaging municipal property as security for repayment, subject to state approval.[46]

Sinking funds are another common safeguard. They are mandatory for all types of ULGs in 4 of the 9 states i.e. in Bihar, Maharashtra, Odisha and Rajasthan. In Gujarat, Karnataka, Madhya Pradesh, and Uttar Pradesh, explicit requirements apply primarily to municipal corporations, while the position for smaller ULGs is unclear. Further in Karnataka (for corporations) and Kerala sinking funds are specifically linked to the issuance of debentures.[47]

Municipal discretion over the investment of sinking funds, however, is generally limited. Even when investment is allowed it is restricted to government securities, or other state-approved instruments.[48] Gujarat and Maharashtra additionally prescribe timelines within which sinking fund contributions must be invested.[49] These restrictions reduce municipal discretion over investment, but are designed to protect funds earmarked for future debt repayment.

Larger vs. smaller ULGs

The distinction between municipal corporations and smaller ULGs is particularly pronounced in relation to borrowing. Corporations generally have access to a wider range of borrowing instruments, can raise debt for broader purposes, and have more clearly defined statutory frameworks.

The ability to issue bonds and debentures is one prominent example. In Gujarat, Karnataka, Madhya Pradesh and Odisha, this power is expressly provided to corporations while the legislation governing smaller municipalities is silent.

Differences also arise in the purposes for which borrowing is permitted. In Karnataka, for example, smaller ULGs can only borrow for permanent works and land acquisition, whereas larger corporations can borrow for debt refinancing and a wider range of statutory purposes.[50]

Overall, municipal legislation recognises borrowing as an important source of finance but subjects it to substantially stronger controls than routine budgetary decision-making. Restrictions on purpose, repayment periods, debt levels, state approval and the management of sinking funds are common across states, reflecting the fiscal risks associated with municipal borrowing. Within this regulated framework, municipal corporations generally enjoy broader and more clearly defined borrowing powers than municipal councils and nagar panchayats.

Asset/ Fund management autonomy

Asset and fund management autonomy refers to the extent to which municipalities can independently manage public assets and financial resources. Municipal property can provide an important source of non-tax revenue through sale, lease or other forms of use, while surplus funds can generate additional income through investment. This is particularly important given that rental income from municipal properties has been low, pointing to either untapped potential for asset monetisation or statutory restrictions limiting municipal governments' ability to act.[51] The extent to which municipal governments can independently manage their resources therefore has an important bearing on their fiscal autonomy. At the same time, these decisions involve public assets and resources and therefore often carry statutory safeguards. This section focuses on the extent of municipal discretion over these resources and the conditions attached to their use.

What we measured

Asset and fund management autonomy was assessed through three indicators:

- **Disposal of property:** whether municipalities can independently sell, lease, transfer, or dispose of movable and immovable property.
- **Ring-fencing[52] of revenue:** whether legislation requires particular revenues to be used only for specified purposes.
- **Investment of surplus funds:** whether municipal governments can invest surplus funds without prior state approval to generate additional income.

Key Findings

Across states, municipal discretion is **most limited in relation to the disposal of property and use of earmarked revenues, while greater flexibility is generally available for the investment of surplus funds.**

Municipalities have relatively limited discretion over the disposal of municipal property. Rajasthan is the only state where every type of ULG can independently dispose of movable and immovable property. However, there too the power is subject to conditions. For example, where municipal land is disposed of for township or group-housing projects, 20% of the housing units must be reserved for economically weaker sections and low-income groups at concessional rates.[53]

Other states use a combination of prior approvals, financial thresholds and procedural requirements to regulate disposal. Bihar requires prior state approval for all ULGs, while Kerala allows disposal only for providing public facilities, and that too with prior state approval.[54] Karnataka and Madhya Pradesh prescribe financial thresholds above which additional approval is required. Procedural safeguards are also common. For instance, large corporations in Odisha and Karnataka can only dispose of movable property through a public auction.[55] Even when independent disposal is permitted, transactions must occur at market value. Gujarat and Maharashtra, for instance, allow below-market transfers/ leases only with state approval, for specified public-interest transferees such as Scheduled Castes, Scheduled Tribes, or public charitable trusts.[56]

Municipal discretion is also limited through mandatory ring-fencing. Eight of 9 states specify some form of earmarking, while Madhya Pradesh does not specifically provide for it in the legislation reviewed, resulting in ambiguity over whether ULGs are free to determine the use of revenue.

In most states, the legislation earmarks revenue from specific services (water supply, schools, fire services, sanitation) or dedicated taxes (water tax, latrine tax, pilgrim tax) to those same purposes. Some state legislations impose additional earmarking requirements. Gujarat requires 25% of the surplus generated by municipal transport undertaking to go to an

Table 3: Analysis of asset autonomy indicators across states

State	ULG Type	Can the ULG independently dispose of movable/ immovable property?	Is the ULG free from mandatory ring-fencing of specific revenue?	Can the ULG invest surplus funds without prior state approval?
Bihar	All ULGs	No	No	Yes
Gujarat	Nagar Panchayat/ Municipal Council	Partly	No	Yes
Gujarat	Municipal Corporation	Yes	No	Yes
Karnataka	Town Panchayat/ Municipal Council	Partly	No	No
Karnataka	Municipal Corporation	Partly	No	No
Kerala	All ULGs	No	No	-
Madhya Pradesh	Nagar Panchayat/ Municipal Council	Partly	Yes	No
Madhya Pradesh	Municipal Corporation	Partly	Yes	Yes
Maharashtra	Nagar Panchayat/ Municipal Council	Partly	No	Yes
Maharashtra	Municipal Corporations except Bombay	Yes	No	Yes
Odisha	Municipalities	No	No	Yes
Odisha	Municipal Corporation	Yes	No	Yes
Rajasthan	All ULGs	Yes	No	Yes
Uttar Pradesh	Nagar Panchayat/ Municipal Council	No	No	No
Uttar Pradesh	Municipal Corporation	Partly	No	No

employee welfare fund;[57] Karnataka channels corporation's urban transport cess collections into a dedicated Urban Transport Fund;[58] Kerala mandates that 2% of municipal revenue receipts go to a Poverty Alleviation Fund;[59] and Rajasthan and Uttar Pradesh require dedicated funds for basic services in slum areas.[60] Bihar, takes a somewhat different approach. While the statute doesn't identify the revenue that is ring-fenced it instead empowers the state government to ring-fence any municipal revenue.[61]

Compared with property disposal and ringfencing, municipal governments enjoy greater flexibility in **investing surplus funds.** Every type of ULG can do so in Bihar, Gujarat, Maharashtra, Odisha, and Rajasthan. Karnataka and Uttar Pradesh, however, do not permit investments without prior state approval. Kerala's statute is silent on this aspect. Even where investment is permitted, the range of permissible investments is tightly restricted to government securities or other state-approved instruments.

Larger vs. smaller ULGs

Differences between corporations and smaller ULGs is sharpest when it comes to **property disposal and investment of surplus funds**. In Gujarat, Maharashtra, Odisha, and Uttar Pradesh, corporations generally have greater statutory powers to dispose of property than those given to smaller ULGs. Gujarat, for instance, sets a ₹1 lakh value threshold above which smaller ULGs require state approval for immovable property disposal, while its corporations face no such threshold, and only require approval if transferring or leasing property below market value.[62] Maharashtra allows smaller ULGs to independently dispose of only movable property, while corporations have broader powers.

Karnataka is an exception to this pattern where the larger corporation faces greater restrictions. There, smaller ULGs require prior approval only when disposing immovable property in excess of ₹25,000 in value, whereas larger corporations require state approval for all immovable property disposal.[63]

There is not much distinction within a state when it comes to investment of surplus funds with most states extending similar powers to both smaller ULGs and corporations. Madhya Pradesh, however, permits municipal corporations to invest surplus funds independently but requires smaller ULGs to take prior state approval before investing.

Ring-fencing of revenue, however, does not display the same corporation–smaller ULG divide. Mandatory earmarking provisions apply across ULGs irrespective of their size, suggesting that states regard restrictions on the use of municipal revenues as a required fiscal safeguard.

Overall, municipalities have **uneven discretion over the management of their assets and funds.** Statutory controls are strongest around disposal of public property and the use of earmarked revenues, while investment of surplus funds is comparatively more flexible, although the permissible instruments remain tightly regulated. Municipal corporations generally have greater discretion over the management of municipal assets and surplus funds than smaller ULGs, although the pattern varies by state and by type of financial decision.

Revenue Autonomy

Revenue autonomy refers to the extent to which municipalities can independently raise and manage their own revenues. The ability to generate revenue is an important part of municipal fiscal autonomy because it can reduce reliance on Union and state transfers. This involves more than simply having the statutory power to levy a tax or charge. It also depends on whether municipalities can decide which revenue instruments to use, when to introduce them, the rates at which they are levied, and the extent to which the state can subsequently intervene in those decisions.

What we measured

Revenue autonomy was assessed through eight indicators:

- **Taxation power:** whether municipal governments have been given statutory authority to levy taxes.
- **Residuary powers:** whether the municipal governments can levy taxes beyond those specifically listed in the statute.
- **Independent introduction of listed taxes:** whether a ULG can introduce a tax already listed in the statute without prior state approval.
- **Tax-rate autonomy:** whether municipal governments can determine tax rates independently, or whether statutory ceilings/ state approval apply.
- **Non-tax revenue power:** whether municipal governments have the statutory authority to levy user charges, licence fees, rents, and other non-tax revenues.
- **User charge/ fee autonomy:** whether municipal governments may independently fix the rates for user charges and fees.
- **Assigned revenue:** whether the statute assigns ULGs with a share of state-collected revenue.
- **Protection from state suspension:** whether state governments can suspend the levy of municipal taxes or override taxation decisions.

Key Findings

Across states, municipalities have **broad formal authority to raise revenue, but considerably less discretion over how those powers are exercised.**

Every state authorises municipalities to **levy taxes,** and most distinguish between mandatory taxes, which municipalities are required to impose, and discretionary taxes, which they may choose to levy. Gujarat and Odisha adopt a different approach for smaller municipalities by making all taxes discretionary. The composition of the municipal tax base itself also varies considerably across states. See **Annexure 2** for more details.

Table 4: Analysis of revenue autonomy indicators across states

State	ULG Type	Power to levy taxes?	Residuary power to levy other taxes?	Can introduce a new listed tax independently?	Can determine tax rates without state approval?	Power to levy non-tax revenues without state approval?	Can fix user charges/ fee rates without state approval?	Does the Act assign state collected revenue?	Is the ULG protected from state suspensions?
Bihar	All ULGs	Yes	Yes	Yes	No	Yes	No	Yes	No
Gujarat	Nagar Panchayat/ Municipal Council	Yes	Yes	No	No	Yes	No	Yes	No
Gujarat	Municipal Corporation	Yes	Yes	Partly	No	Yes	Yes	Yes	Yes
Karnataka	Town Panchayat/ Municipal Council	Yes	No	Yes	Yes	Partly	Partly	Yes	No
Karnataka	Municipal Corporation	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Kerala	All ULGs	Yes	No	Yes	Yes	Yes	Yes	Yes	Partly
Madhya Pradesh	Nagar Panchayat/ Municipal Council	Yes	Yes	No	No	Yes	No	Yes	No
Madhya Pradesh	Municipal Corporation	Yes	Yes	Yes	Yes	Yes	Partly	Yes	No
Maharashtra	Nagar Panchayat/ Municipal Council	Yes	Yes	Partly	Partly	Partly	No	Yes	No
Maharashtra	Municipal Corporations except Bombay	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Odisha	Municipalities	Yes	No	Partly	Partly	Yes	Yes	No	No
Odisha	Municipal Corporation	Yes	Yes	Yes	Partly	Yes	Yes	No	No
Rajasthan	All ULGs	Yes	Yes	Yes	Partly	Yes	Yes	No	No
Uttar Pradesh	Nagar Panchayat/ Municipal Council	Yes	No	No	No	No	Partly	Yes	No
Uttar Pradesh	Municipal Corporation	Yes	No	No	No	Yes	Partly	Yes	No

Residuary taxation powers i.e. the ability to levy taxes beyond those specifically listed also differ. Municipalities in 3 states, i.e. Karnataka, Kerala, and Uttar Pradesh cannot levy taxes beyond those specifically authorised in legislation. In Odisha, this additional residuary power is available only to larger ULGs i.e. municipal corporations but not to smaller ones.

Even where a **tax is expressly listed** in legislation, municipalities do not necessarily have discretion to introduce it independently. Uttar Pradesh does not permit any type of ULG to introduce listed taxes independently. In 4 other states i.e. Gujarat, Madhya Pradesh, Maharashtra, and Odisha, the procedure for introduction of a listed tax is more onerous for smaller ULGs. This means that having a tax listed in legislation does not necessarily mean that a municipality can decide independently whether to introduce it.

Tax-rate autonomy is subject to similar constraints. Most statutes prescribe statutory bands or maximum rates within which municipalities may operate, or require state approval before revised rates become effective. Only 2 states namely Karnataka and Kerala allow every type of ULG to fix tax rates without state approval although statutory provisions may still prescribe how individual taxes are structured. Kerala's legislation has particularly detailed provisions regulating individual taxes.

A similar pattern is observed for **non-tax revenues.** Municipalities across most states can levy fees, user charges and other non-tax revenues, but they have less discretion over the rates charged. Only 3 states i.e. Kerala, Odisha and Rajasthan, allow every type of ULG to fix user charges/ fees without state approval. In Bihar[64] and Maharashtra state approval is compulsory. Elsewhere, autonomy varies by ULG type and charge. In some states, charges must be first prescribed through bye-laws or regulations, which then require state approval before taking effect, creating an additional layer of oversight.

Assigned revenue provides an additional source of municipal finance. Seven out of nine states assign municipalities a share of state-collected revenue, most commonly as a surcharge on stamp duty. Odisha and Rajasthan are the only two states that do not assign any state collected revenue to ULGs. Kerala goes beyond by expressly authorising the assignment of any additional taxes/ duties/ tolls/ fees, even beyond what is statutorily permitted.[65]

In most states, however, legislation provides relatively little detail on the timing or mechanism through which these revenues are transferred. Madhya Pradesh and Maharashtra are exceptions, where the statutes clearly state that assigned stamp duty will be transferred to the ULG annually in the form of a consolidated grant.

State oversight can also continue after a municipality has imposed a tax. The **power to suspend taxes** lies with state governments in 6 of 9 states, for every type of ULG. Such powers generally allow states to exempt/ suspend the levy of any municipal tax considered unfair or contrary to public interest. Kerala takes a different approach: the state cannot suspend a tax outright but can exempt specified persons or classes of persons from paying it. Gujarat and Maharashtra do not contain specific tax-suspension provisions but give the state broader powers to suspend or rescind municipal resolutions, which may extend to taxation decisions.

Statutory exemptions can also affect the municipal revenue base. Some laws exempt particular properties, persons or activities from municipal taxation. In Bihar, for instance, certain units in slum areas are exempt from paying property tax and election-related advertisements have been exempted from advertisement tax.[66] In certain states these exemptions are accompanied by compensation provisions. Gujarat, for instance, requires the state to compensate municipal councils for 80% of the tax value lost to exemptions on government buildings,[67] and Maharashtra requires similar reimbursement for exemptions from mandatory taxes.[68] However, in both cases, the state itself determines the assessment methodology and amounts payable.

Larger vs. smaller ULGs

As in the preceding sections, municipal corporations generally have greater statutory autonomy than municipal councils and nagar panchayats. The distinction lies less in whether municipalities possess basic revenue-raising powers and more in the conditions attached to their exercise:

Autonomy to introduce a listed tax: In Gujarat, Madhya Pradesh and Odisha, corporations have greater freedom to introduce a new listed tax as compared to the smaller ULGs in the state. In Gujarat, for instance, smaller ULGs need state approval before imposing any listed tax, while larger corporations only require approval before levying a new discretionary tax.[69] In Maharashtra the position is reversed: councils need state approval when introducing discretionary taxes, while corporations need approval prior to introducing any listed tax.

Autonomy over tax rates: Madhya Pradesh's corporations can determine their own rates but the smaller ULGs cannot.

Protection from state tax suspension: In both Gujarat and Maharashtra larger municipal corporations are protected from state exemption or suspension of taxes, while the smaller ULGs are not.

Overall, state legislation gives municipalities broad authority to raise their own revenues but retains substantial control over how that authority is exercised. Constraints are particularly evident in the introduction of taxes, determination of tax and user-charge rates, and the state's ability to intervene in municipal taxation decisions. Differences between municipal corporations and smaller ULGs arise primarily in the degree of discretion attached to these powers, with smaller municipalities generally operating under more conditions and greater state oversight.

Other limitations on municipal fiscal autonomy

The preceding sections analysed municipal fiscal autonomy through the financial powers conferred by state legislations. These powers help establish what municipalities can do under the law. However, two additional dimensions, which are outside the indicator framework used in this report, also affect the extent to which ULGs can exercise meaningful fiscal discretion.

Firstly, fiscal autonomy is closely linked to functional devolution. Although the Twelfth Schedule to the Constitution identified a range of municipal functions that can be devolved to ULGs, the extent of actual devolution remains uneven. Urban planning, in particular, continues to be performed in many states by the state government or parastatal agencies rather than ULGs.

This has direct fiscal implications. Where municipalities do not exercise particular functions, they may also lack access to revenue instruments associated with them. In the case of urban planning, these can include betterment levies and development charges.[70] Consequently, the legal authority to generate municipal revenue depends not only on the fiscal provisions contained in municipal legislation but also on the extent to which substantive municipal functions have been devolved.

Secondly, fiscal autonomy is also shaped by where financial decision-making authority sits within the municipality. Several state legislations vest important financial powers in the Municipal Commissioner, who is typically a state-appointed officer, rather than in the elected municipal council or its committees. This institutional design reduces the control of elected representatives over municipal financial decision-making. For example, in Gujarat, the municipal commissioner of a corporation is authorised to dispose of movable property without requiring approval from the elected body. Similarly, the municipal corporation laws in Karnataka and Maharashtra empower the Commissioner to determine certain categories of municipal fees independently.

Hence, the degree of financial autonomy of municipal governments depends not only on whether a power is devolved to the municipality but is also dependent on how decision-making authority is distributed within the ULG. Where significant financial powers are vested in state-appointed officials rather than elected representatives, meaningful fiscal autonomy is reduced.

Conclusion and Recommendations

The analysis shows that across the nine states studied, although municipal governments are institutions of self-government, states retain substantial oversight over the exercise of their financial powers. This oversight takes several forms, including prior approvals, statutory ceilings, procedural safeguards, and powers to intervene. As a result, municipalities may have formal authority to undertake a financial function but have limited discretion over how and when they can exercise it.

The degree of autonomy also differs by type of financial decision. Municipalities generally have greater flexibility over routine budget management, while borrowing and management of public assets are subject to stronger safeguards. In relation to revenue, municipalities typically possess the formal authority to levy taxes and charges, but states retain considerable influence over the introduction of taxes, determination of rates and, in some cases, continuation of the levy.

A second consistent finding is the difference between types of ULGs. Municipal corporations generally have broader statutory powers than municipal councils and nagar panchayats. In several instances, powers expressly available to corporations are narrower, conditional or simply not addressed in the legislation governing smaller municipalities. ULGs therefore do not operate from the same statutory starting point.

These findings suggest that strengthening municipal fiscal autonomy does not require the removal of state oversight. Borrowing limits, safeguards for public assets and other forms of supervision can serve legitimate purposes. The reform question is instead where state oversight is necessary, how it should be structured, and where municipalities can be given greater discretion within clearly defined rules.

Against this background, the report proposes the following recommendations.

1. Review and strengthen the statutory revenue base available to municipalities: The most effective way to strengthen fiscal autonomy is to expand the range of revenue instruments available to ULGs. States should periodically review the taxes and non-tax instruments available to municipalities to assess whether they remain adequate for evolving urban responsibilities. Where appropriate, additional revenue instruments and sources of assigned revenue could be devolved to ULGs.

The treatment of state-mandated exemptions should also be clearer. Where state decisions reduce revenues from taxes otherwise available to municipalities, legislation should provide transparent principles for determining whether and how the resulting revenue loss is compensated.

2. Replace unnecessary case-by-case approvals with clear statutory safeguards: Many municipal financial powers are subject to prior state approval. While such approval may be justified for decisions carrying significant fiscal risk, requiring it for routine decisions can reduce flexibility and create administrative delays.

States should therefore review these requirements to distinguish approvals that are necessary for fiscal stability and accountability from those that may duplicate administrative processes. Wherever possible, case-by-case approvals should be replaced with objective statutory limits, financial thresholds, or borrowing frameworks within which municipalities can exercise independent discretion. The Comprehensive Debt Limitation Policy provided for under the municipal laws of Bihar and Rajasthan offer an example of this approach.

Similarly, broad state powers to suspend, modify, or assume control over municipal budgets and taxation decisions should be confined to clearly defined and exceptional circumstances.

3. Provide municipalities greater operational flexibility: Municipalities should have clear statutory authority to respond to changing financial circumstances during the year. Particular attention is required where legislation is currently silent or where powers differ across types of ULGs, including in relation to reappropriation, mid-year readjustments, emergency expenditure and investment of surplus funds.

Appropriate financial conditions and safeguards such as financial thresholds, minimum balances or reporting requirements can be retained without requiring routine municipal decisions to pass through additional layers of approval. The objective should be to ensure that routine decisions can be taken without unnecessary procedural delays.

4. Review differential fiscal powers to smaller municipalities: One of the clearest findings of this report is the difference between the statutory powers available to municipal corporations and those available to municipal councils and nagar panchayats. While larger cities often possess greater administrative capacity, this alone does not justify differences in legal authority. Rapid urbanisation will increasingly occur in smaller and transitional urban areas. These municipalities will be expected to provide urban infrastructure and services while simultaneously strengthening their own revenues. States should therefore review legislative distinctions between types of ULGs and extend to smaller municipalities flexibility that they may require to carry out their additional responsibilities. Where differences are retained, the legislation should clearly set out the rationale and conditions governing those differences.

5.Enable more effective asset management: Municipal property can provide an important source of non-tax revenue, but its management also requires safeguards to protect public assets. States should review the statutory framework governing leasing, transfer and disposal of municipal property, particularly outdated financial thresholds and approval requirements. Greater discretion can be combined with transparent valuation rules, competitive disposal processes and clearly specified circumstances in which below-market transfers are permitted.

States should also periodically review mandatory ring-fencing of municipal revenue to ensure that it continues to serve public purposes without unnecessarily constraining municipalities from responding to evolving local priorities.

6. Strengthen municipal access to borrowing: Borrowing currently constitutes only a small proportion of municipal revenue, and access to bonds, debentures, and alternative credit instruments remains concentrated among larger municipal corporations. States should

establish enabling borrowing frameworks that specify permissible purposes, debt and repayment limits, approval requirements and safeguards in advance. Within these parameters, municipalities could be given greater certainty over their ability to access appropriate long-term finance.

Where smaller ULGs are excluded from particular borrowing instruments, states should review whether this continues to be justified and whether access can be enabled within proportionate fiscal safeguards.

7. Align fiscal devolution with functional and institutional devolution: Fiscal autonomy is closely linked to functional autonomy. States should accelerate the devolution of municipal functions, particularly urban planning and related activities, so that municipalities are also empowered to utilise the revenue instruments associated with those functions.

States should also review the internal allocation of financial powers within municipalities. The statutory allocation of powers between elected bodies, committees and state-appointed officials should provide an appropriate balance between administrative responsibility, democratic oversight and accountability. Important financial decisions should remain with elected persons rather than being concentrated in state-appointed officials, subject to clear oversight mechanisms, while routine financial administration remains with empowered officials.

8. Develop a model legislative framework for fiscal autonomy: There is considerable variation in how states structure municipal finance powers. The Union Government, in consultation with states, could therefore develop a model legislative framework setting out recommended principles and statutory provisions relating to these powers.

Such a framework need not prescribe a uniform model or be mandatory. States should retain the flexibility to adapt provisions to their own institutional and fiscal contexts. Its purpose would instead be to identify good statutory practices, reduce avoidable ambiguity and provide a reference point for ensuring that municipalities have a clear baseline of financial authority together with appropriate safeguards.

Endnotes

[1]The Constitution of India, Article 243Q.
[2]Compendium of Performance Audits on the Implementation of the 74th Constitutional Amendment Act, 1992: Landscape across India, Comptroller and Auditor General of India (2024) available at url; Report on Municipal Finances: Own Sources of Revenue Generation in Municipal Corporations Opportunities and Challenges, Reserve Bank of India (November 2024) available at url; Janaagraha Centre for Citizenship and Democracy. (2025). Municipal Finance Blueprint 2.0, available at url.
[3]3rd Report, Demand for Grants 25-26 of the Ministry of Housing and Urban Affairs (12 March 2025) available at url.
[4]Handbook of Urban Statistics (2022) NIUA, available at url.
[5]Janaagraha Centre for Citizenship and Democracy. (2025). Municipal Finance Blueprint 2.0, available at url.
[6]Handbook of Urban Statistics (2022) NIUA, available at url.
[7]Fifteenth Finance Commission, Report for 2021-26, Volume 1- Main Report, available at url.
[8]Sixteenth Finance Commission, Report for 2026-31, Volume 1-Main Report, available at url.
[9]Ibid.
[10]State of Municipal Finances in India: A Study prepared for the Fifteenth Finance Commission, ICRIER (March 2019) available at url.
[11]Report on Municipal Finances: Own sources of revenue generation in municipal corporations: opportunities and challenges, RBI (2024) available at url.
[12]Compendium of Performance Audits on the Implementation of the 74th Constitutional Amendment Act, 1992: Landscape across India, Comptroller and Auditor General of India (2024) available at url.
[13]Sixteenth Finance Commission, Report for 2026-31, Volume 1-Main Report, available at url.
[14]Dubey, M., Bazaz, A.,Ghoge, K., Sami, N., Raveendran, S. M., Anand, S., Nagpal, S., Gulabani, H., Bhatikar, T. (2025). Report to the XVI Finance Commission on The Identification and Financing of Urbanisation in India, available at url.
[15]State of Municipal Finances in India, ICRIER (2019) available at url.
[16]Ibid.
[17]The Constitution of India, Article 243-X.
[18]Gangadhar Jha, "Impact of the 74th constitution amendment: an approach for strengthening urban local self-governments," (2024) available at url.
[19]State of Municipal Finances in India, ICRIER (2019) available at url.
[20]Janaagraha Centre for Citizenship and Democracy. (2025). Municipal Finance Blueprint 2.0. Available at url; State of Municipal Finances in India, ICRIER (2019) available at url.
[21]State of Municipal Finances in India: A Study prepared for the Fifteenth Finance Commission, ICRIER (March 2019) available at url.
[22]Sixteenth Finance Commission, Report for 2026-31, Volume 1-Main Report, available at url.
[23]Dubey, M., Bazaz, A.,Ghoge, K., Sami, N., Raveendran, S. M., Anand, S., Nagpal, S., Gulabani, H., Bhatikar, T. (2025). Report to the XVI Finance Commission on The Identification and Financing of Urbanisation in India, available at url.
[24]Bihar Municipal Act, 2007, S. 85.
[25]Bihar Municipal Act, 2007, S. 75; Gujarat Provincial Municipal Corporations Act, 1949, S. 86; Karnataka Municipalities Act, 1964, S. 286; Karnataka Municipal Corporations Act, 1976, Schedule IX, Part I, Rule 6; Madhya Pradesh Municipal Corporation Act, 1956, S. 94; The Maharashtra Municipal Corporations Act, 1949, S. 86; The Orissa Municipal Corporation Act, 2003, S. 155; Rajasthan Municipalities Act, 2009, S. 81.
[26]The Kerala Municipality Act, 1994, S. 293.
[27]The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 101. Bihar Municipal Act, 2007, S. 85.
[28]Madhya Pradesh Municipalities Act, 1961, S. 116; Madhya Pradesh Municipal Corporation Act, 1956, S. 98; Bihar Municipal Act, 2007, S. 84.
[29]Gujarat Municipalities Act, 1963, S. 76.

[30]The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 101.

[31]Karnataka Municipalities Act, 1964, S. 287.

[32]In Gujarat, the statutory limit for reappropriation by smaller ULGs is ₹5,000, while in Karnataka it is ₹500. Further, in Gujarat, smaller ULGs are restricted from reappropriating funds between different major expenditure heads.

[33]The Uttar Pradesh Municipalities Act, 1916, S. 102; The Uttar Pradesh Municipal Corporation Act, 1959, S. 146.

[34]The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 101.

[35]A sinking fund is a reserve created to meet debt repayment obligations. Mandatory sinking funds can strengthen creditworthiness by ensuring that resources are set aside for repayment.

[36]From Policy to Performance: Analysing India's Subnational Fiscal Rules for the 16th Finance Commission of India (September 2025) The World Bank, available at url.

[37]Bihar Municipal Act, 2007, Ss. 120-125; The Orissa Municipal Corporation Act, 2003, Ss. 185-190.

[38]The Kerala Municipality Act, 1994, S. 299.

[39]Bihar Municipal Act, 2007, Ss. 106- 107; Rajasthan Municipalities Act, 2009, Ss. 141-142.

[40]The Orissa Municipal Corporation Act, 2003, S. 164.

[41]Bihar Municipal Act, 2007, S. 107; The Orissa Municipal Corporation Act, 2003, S. 165; Rajasthan Municipalities Act, 2009, S. 142; Madhya Pradesh Municipal Corporation Act, 1956, S. 102; Gujarat Provincial Municipal Corporations Act, 1949, S. 109; The Uttar Pradesh Municipal Corporation Act, 1959, S. 154; The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 90C; The Maharashtra Municipal Corporations Act, 1949, S. 109.

[42]Gujarat Provincial Municipal Corporations Act, 1949, S. 109; Madhya Pradesh Municipal Corporation Act, 1956, S. 102; The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 90C; The Maharashtra Municipal Corporations Act, 1949, S. 109; The Uttar Pradesh Municipal Corporation Act, 1959, S. 154.

[43]The Kerala Municipality Act, 1994, S. 297.

[44]Gujarat Provincial Municipal Corporations Act, 1949, S. 109; Karnataka Municipal Corporations Act, 1976, S. 155; The Kerala Municipality Act, 1994, S. 298; The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 90C; The Maharashtra Municipal Corporations Act, 1949, S. 109; The Uttar Pradesh Municipal Corporation Act, 1959, S. 154; Madhya Pradesh Municipal Corporation Act, 1956, S. 102; The Uttar Pradesh Municipal Corporation Act, 1959, S. 154.

[45]Karnataka Municipal Corporations Act, 1976, S. 156; Madhya Pradesh Municipal Corporation Act, 1956, S. 104.

[46]Bihar Municipal Act, 2007, S. 108; The Orissa Municipal Corporation Act, 2003, S. 166; Rajasthan Municipalities Act, 2009, S. 143.

[47]Karnataka Municipal Corporations Act, 1976, S. 160; The Kerala Municipality Act, 1994, S. 303.

[48]Bihar Municipal Act, 2007, S. 113; The Orissa Municipal Corporation Act, 2003, S. 171; Rajasthan Municipalities Act, 2009, S. 148; Karnataka Municipal Corporations Act, 1976, S. 160.

[49]Gujarat Provincial Municipal Corporations Act, 1949, S. 113; The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 90F; The Maharashtra Municipal Corporations Act, 1949, S. 113.

[50]Karnataka Municipalities Act, 1964, S. 86; Karnataka Municipal Corporations Act, 1976, S. 154.

[51]Janaagraha Centre for Citizenship and Democracy. (2025). Municipal Finance Blueprint 2.0, available at url.

[52]Ring-fencing refers to statutory provisions that require revenues to be used exclusively for particular purposes.

[53]Rajasthan Municipalities Act, 2009, S. 73.

[54]The Kerala Municipality Act, 1994, S. 215.

[55]Karnataka Municipal Corporations Act, 1976, S. 176; The Orissa Municipal Corporation Act, 2003, S. 273.

[56]Gujarat Provincial Municipal Corporations Act, 1949, S. 79; The Maharashtra Municipal Corporations Act, 1949, S. 79.

[57]Gujarat Provincial Municipal Corporations Act, 1949, S. 360.

[58]Karnataka Municipal Corporations Act, 1976, S. 149A.

[59]The Kerala Municipality Act, 1994, S. 284.

[60]Rajasthan Municipalities Act, 2009, S. 89A; The Uttar Pradesh Municipalities Act, 1916, S. 114; The Uttar Pradesh Municipal Corporation Act, 1959, S. 139.

[61]Bihar Municipal Act, 2007, S. 79.

[62]Gujarat Municipalities Act, 1963, S. 65; Gujarat Provincial Municipal Corporations Act, 1949, S. 79.

[63]Karnataka Municipalities Act, 1964, S. 72; Karnataka Municipal Corporations Act, 1976, S. 176.

[64]Bihar retains state control over rates, by empowering the state government to establish an Advisory Board on Urban Service Charges to guide municipalities in determining appropriate user charges. Bihar Municipal Act, 2007, S. 128A.

[65]The Kerala Municipality Act, 1994, S. 280.

[66]Bihar Municipal Act, 2007, Ss. 127(11), 147(2).

[67]Gujarat Municipalities Act, 1963, S. 100

[68]The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 106.

[69]Gujarat Municipalities Act, 1963, Ss. 99, 101, 102; Gujarat Provincial Municipal Corporations Act, 1949, S. 149.

[70]State of Municipal Finances in India, ICRIER (2019) available at url.

Annexure 1: List of statutes analysed

Bihar Municipal Act, 2007
The Gujarat Municipalities Act, 1963 (as modified up to 31 October 2012)
The Gujarat Provincial Municipal Corporations Act, 1949 (as modified up to 30 November 2017)
Karnataka Municipal Corporations Act, 1976 (as modified up to 9 April 2026)
Karnataka Municipalities Act ,1964 (as modified up to 9 April 2026)
Kerala Municipality Act, 1994 (as modified up to 2021)
Madhya Pradesh Municipal Corporation Act, 1956 (as modified up to 25 January 2023)
Madhya Pradesh Municipalities Act, 1962 (as modified up to 25 January 2023)
The Maharashtra Municipal Corporations Act, 1949 (as modified up to 2 November 2021)
The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965 (as modified up to 4 April 2025)
Orissa Municipal Act, 1950
The Orissa Municipal Corporation Act, 2003
Rajasthan Municipalities Act, 2009 (as modified up to 5 October 2019)
The Uttar Pradesh Municipal Corporation Act, 1959
The Uttar Pradesh Municipalities Act, 1916

Annexure 2: Mandatory and discretionary taxes that can be levied across states

State	ULG Type	Mandatory Taxes	Optional Taxes
Bihar	All ULGs	Property tax, surcharge on transfers, tax on parking space deficit, water tax, fire tax, advertisement tax, surcharge on entertainment tax, surcharge on electricity consumption, congregation tax, pilgrim tax, tolls, communication tax.	
Gujarat	Nagar Panchayat/ Municipal Council		Property tax, vehicle tax, toll, dog tax, special sanitary cess, general sanitary cess, drainage tax, water tax, lighting tax, pilgrim tax, educational cess, tax on sale of cattle, professions tax, tax on mobile
Gujarat	Municipal Corporation	Property tax, vehicle tax, tax on mobile towers	Dog tax, entertainment tax, theatre tax, tolls
Karnataka	Town Panchayat/ Municipal Council	Urban transport cess	Property tax, additional stamp duty
Karnataka	Municipal Corporation	Property tax, additional stamp duty, urban transport cess	Infrastructure and solid waste management cess
Kerala	All ULGs	Property tax, advertisement tax	Profession tax, animal tax, show tax, timber tax, additional stamp duty, surcharge on other taxes, land conversion cess, service cess on sanitation/ water supply/ street light/ drainage.
Madhya Pradesh	Nagar Panchayat/ Municipal Council	Property tax, water tax, general sanitary cess, general lighting tax, general fire tax	Latrine/ conservancy tax, drainage tax, profession tax, pilgrim tax, tolls, advertisement tax, theatre tax
Madhya Pradesh	Municipal Corporation	Property tax, water tax, general sanitary cess, general lighting tax, general fire tax	Latrine/ conservancy tax, drainage tax, profession tax, pilgrim tax, tolls, advertisement tax, theatre tax
Maharashtra	Nagar Panchayat/ Municipal Council	Property tax (includes general tax, general water tax, lighting tax, general sanitary tax, special latrine tax, fire tax, environment tax, water benefit tax, sewerage benefit tax, street tax), theatre tax	Vehicle tax, dog tax, special sanitary tax, drainage tax, special water tax, pilgrim tax, special educational tax
Maharashtra	Municipal Corporations except Bombay	Property Tax (includes water tax, water benefit tax, sewerage tax, sewerage benefit tax, general tax, education cess, street tax), vehicle tax	Dog tax, theatre tax, tolls
Odisha	Nagar Panchayat/ Municipal Council		Property tax, latrine tax, water tax, lighting tax, drainage tax, tax on carriages, profession tax, toll tax
Odisha	Municipal Corporation	Property tax, tax on parking space deficit, water tax, fire tax, advertisement tax, surcharge on entertainment tax, surcharge on electricity consumption, congregation tax, tolls	
Rajasthan	All ULGs		Property tax, profession tax, tolls, tax on pollution control, advertisement tax, vehicle tax, tax on boats moored, lighting tax, congregation tax, pilgrims' tax, fire tax, tax on parking space deficit, surcharge on stamp duty
Uttar Pradesh	Nagar Panchayat/ Municipal Council	Property tax, water tax, drainage tax, conservancy tax	Tax on trades and callings, theatre tax, dog tax, scavenging tax, tax on property transfer deeds, vehicle tax
Uttar Pradesh	Municipal Corporation	Property tax, vehicle tax, helicopter tax, profession tax, tax on property transfer deeds, tax on vacant land	Tax on public/ private appointments, dog tax, theatre tax

About ResGov

The Foundation for Responsive Governance (ResGov) is a Section 8 not-for-profit working to strengthen the capabilities of government and communities to ensure public initiatives reach the most vulnerable.

Authors

Pritika Malhotra
Avani Kapur

Suggested Citation: Malhotra, P., & Kapur, A. (2026). Assessing the legal framework for municipal fiscal autonomy in India. Foundation for Responsive Governance.

We strengthen the capabilities of sub-national governments i.e. states, districts, cities and villages, so that public initiatives are planned, financed and delivered effectively.

Support our vision

Foundation for Responsive Governance (ResGov)

S-351 Panchsheel Park
New Delhi 110017

www.resgov.org

hello@resgov.org

@Res_Gov

www.linkedin.com/company/resgov

COPYRIGHT & DISCLAIMER: Assessing the legal framework for municipal fiscal autonomy in India.© 2026 by Foundation for Responsive Governance is licensed under CC BY-NCSA 4.0. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgment to the Foundation for Responsive Governance (ResGov). The opinions expressed herein are entirely those of the author(s)