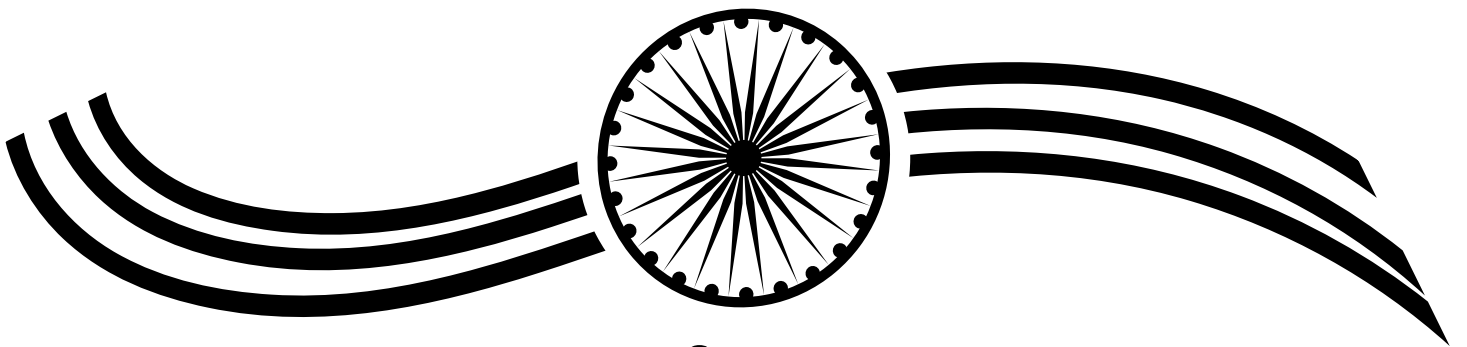
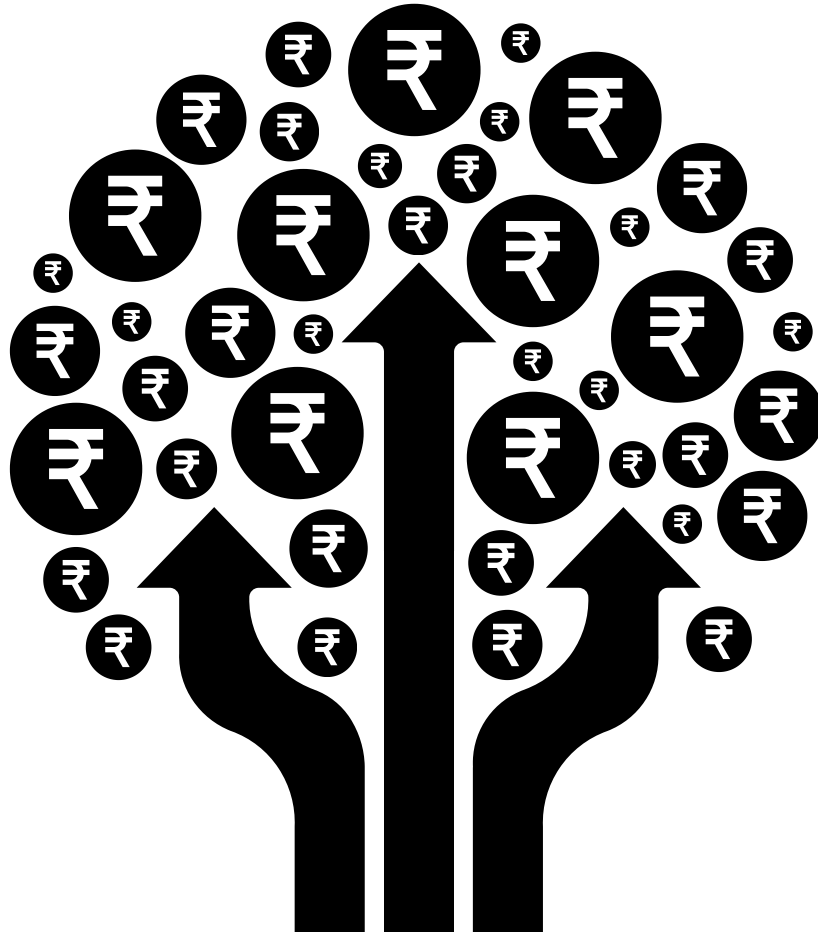




SIXTEENTH FINANCE COMMISSION



Report for 2026-31
Volume I - Main Report

10.1 Following Articles 280(3)(bb) and 280(3)(c) of the Constitution, the ToR of the present Commission direct it to recommend “the measures needed to augment the Consolidated Fund of a State to supplement the resources of the panchayats and municipalities in the State on the basis of the recommendations made by the Finance Commission of the State”.

10.2 The provisions for measures to expand the resources of the rural and urban local bodies (RLBs and ULBs) themselves flow from the 73rd and 74th Amendments to the Constitution, brought into force in 1993. The two amendments provide the framework for the devolution of authority and finances to RLBs and ULBs, respectively. They specify the functions and fiscal powers that the State legislatures may devolve to the panchayats and municipalities. These two amendments also incorporate provisions for regular local body elections. However, full devolution of governance and financial powers to the local bodies by the State Governments, as envisaged in the Constitutional amendments, still remains a work in progress.

10.3 Successive Finance Commissions (FCs) have interpreted the phrase ‘measures needed to augment’ resources of the States as recommendations of grants-in-aid from the Consolidated Fund of India and suggestions to expand the volume of the local bodies’ own fiscal resources. Since local bodies fall under the State List of the Constitution, the grants from the Union are expected to supplement, not substitute, the resources transferred by the States on the recommendations of the State Finance Commissions (SFCs).

10.4 Reports of the SFCs have lacked uniformity in the approach adopted, periods covered and the quality of data and analyses. Time periods of appointments of SFCs by different States have also differed markedly. As a result, the past FCs have been unable to base their

recommendations on the SFC reports. This Commission too has faced these difficulties and has been unable to base its recommendations on the reports of SFCs.

Past Finance Commissions: A Review

10.5 Consequent to the 73rd and 74th Amendments to the Constitution, the Tenth Finance Commission (FC-10, 1995-2000) provided for an ad-hoc grant of ₹100 per capita for the rural population based on the 1971 census and an ad-hoc grant of ₹1,000 crore for municipalities to meet their primary obligations. The Eleventh Finance Commission (FC-11, 2000-05) provided a grant of ₹8,000 crore for the panchayats and ₹2,000 crores for the municipalities for its five-year award period. The Twelfth Finance Commission (FC-12, 2005-10) recommended a total grant of ₹25,000 crore which was divided between the panchayats and ULBs in the ratio of 80:20. The Thirteenth Finance Commission (FC-13, 2010-15) felt that the local bodies should also benefit from the buoyancy of Union taxes and recommended that the local bodies be transferred a percentage of the divisible pool of taxes (over and above the share of the States) after converting this share to grant-in-aid. The grants for the local bodies were equivalent to 1.93 per cent of the divisible pool for 2010-15. The grants were segmented into 26.82 per cent urban share and 73.18 per cent rural share based on their respective populations as per the 2001 census. The Fourteenth Finance Commission (FC-14, 2015-20) recommended grants amounting to ₹2,87,436 crore for its award period. The grants recommended for panchayats were ₹2,00,292 crore and those for municipalities amounted to ₹87,143 crore.

10.6 The Fifteenth Finance Commission (FC-15, 2020-26) provided for a total of ₹4,36,361 crore in grants for local bodies in its second report covering the years 2021-26. Against the backdrop of COVID-19, FC-15 had a provision of ₹70,051 crore specifically for the primary health sector in local bodies. It had also kept aside ₹8,000 crore for the incubation of new cities and ₹450 crore for shared municipal services. The balance of ₹3,57,860 crore was divided into ₹2,36,805 crore for RLBs and ₹1,21,055 crore for ULBs.

10.7 The ULB grants were further divided between Million-Plus Cities (MPCs) and Non-Million-Plus Cities (NMPCs). Expressed as a percentage of the divisible pool, the total grant of ₹4,36,361 crore by FC-15 amounted to 3.2 per cent. Leaving out the special grants like those for health and incubation of new cities, the grant of ₹3,57,860 crore for RLBs and ULBs was 2.6 per cent of the divisible pool.

10.8 The quantum of funds allocated for Local Bodies (LB) has steadily increased from approximately 1.4 per cent of the divisible pool during FC-10 to 3.2 per cent during FC-15. Successive FCs have also recommended an increase in the urban share within the overall local body grants due to the increasing share of the urban population. It has increased from 20 per cent each year under FC-11 to 35 per cent in the last year of the FC-15 award period, 2025-26.

10.9 Figure 10.1 shows the local body grants during the award periods of previous FCs in rupees, and as a percentage of the divisible pool. In parallel, Table 10.1 shows the actual releases.

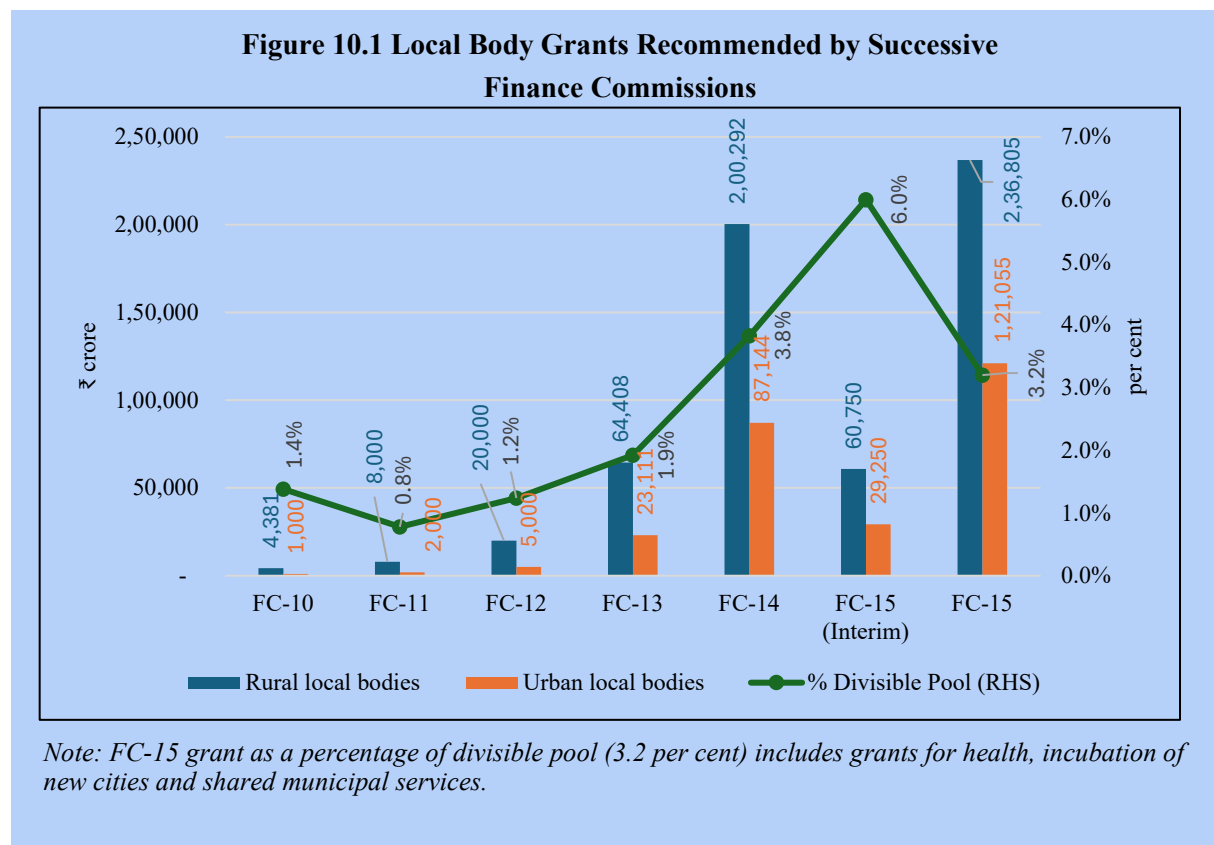


Table 10.1 Previous FCs Grants Recommended versus Actual Releases (₹ crore)

	RLBs			ULBs		
	Recommended	Released	Released (per cent)	Recommended	Released	Released (per cent)
FC-10	4,381	3,576	81.6	1,000	834	83.4
FC-11	8,000	6,602	82.5	2,000	1,752	87.6
FC-12	20,000	18,927	94.6	5,000	4,470	89.4
FC-13	64,408	58,257	90.5	23,111	18,980	82.1
FC-14	2,00,292	1,79,491	89.6	87,144	74,259	85.2
FC-15	2,36,805	1,75,182	74.0	1,21,055	75,718	62.6

Source: FC-15 report and data received from the Department of Expenditure for FC-15 period (up to July 2025)

Criteria for Horizontal Distribution of Local Body Grants

10.10 While population and area have been uniformly used by all five commissions since the beginning of local body grants to calculate inter se distribution, the use of other criteria, such as per capita Gross State Domestic Product (GSDP) distance, index of deprivation, index of decentralisation and revenue effort, has varied across them. *Table 10.2* details various criteria used by different commissions. Note that the last two FCs have chosen to rely solely on population and area.

Table 10.2 Criteria and Weights (percentage) for Distribution of Grants for Local Bodies by Finance Commissions

Criteria	FC-10	FC-11	FC-12	FC-13		FC-14	FC-15
				RLB	ULB		
Population	100	40	40	50		90	90
<i>Census</i>	<i>1971</i>	<i>1971</i>	<i>2001</i>	<i>2001</i>		<i>2011</i>	<i>2011</i>
Geographical Area	-	10	10	10		10	10
Per capita GSDP Distance	-	20	20	10	20	-	-
Index of Decentralization/ Devolution	-	20	-	15		-	-
Index of Deprivation	-	-	10	-		-	-
Revenue Effort	-	10	20	-		-	-
Proportion of SCs / STs in Population	-	-	-	10	-	-	-
FC Local Body Grants Utilization Index	-	-	-	5		-	-

Conditionalities and Reforms Linked with Grants

10.11 FCs have linked the release of FC grants, either in full or in part, to certain performance requirements and/or tied them to particular usage, to push reforms in accounting, transparency and core functions. FC-10 advised States to design schemes and provide guidelines for grants,

required local bodies to contribute matching funds and prohibited the use of grants for salaries. FC-11 prioritised audit and financial databases, recommending that any grant funds be allocated to the provision of essential services such as health, education, water, sanitation and public transportation, while maintaining salary ban. FC-12 emphasised the need for improvement in service delivery in water and sanitation and modernisation of financial systems. It tied 50 per cent of the urban grant to the collection, segregation and transportation of waste materials.

10.12 FC-13 introduced performance grants, requiring States to submit detailed budget supplements for Panchayati Raj Institutions (PRIs), implement audit systems, establish ombudsmen, ensure electronic fund transfers within five to ten days, legislate SFC members' qualifications and empower the local bodies to collect property tax. FC-14 proposed a 90:10 split between basic and performance grants for RLBs and an 80:20 split for ULBs, with performance linked to own-source revenue improvement and audited account submissions.

10.13 FC-15 allocated 60 per cent as tied grants and 40 per cent as untied grants. The tied grant was further divided equally (30 per cent each) between (i) drinking water and rainwater harvesting and (ii) provision of sanitation and solid waste management.

Conditionality for Accounts and Audit

10.14 Successive FCs have made important recommendations to improve local body financial management, especially with respect to preparation, availability and audit of local body accounts, recognising it as a critical reform agenda. FC-11 suggested that the Comptroller and Auditor General (CAG) of India be given oversight of the maintenance and auditing of local body accounts, with audit reports to be reviewed by dedicated committees of State legislatures. FC-12 emphasised the need for disaggregated financial data in formats prescribed by the CAG and called for modernised systems and databases for efficient account management. FC-13 proposed the continuation of Technical Guidance and Supervision of Local Fund Audit Departments (LFADs) by the CAG while also suggesting measures for strengthening LFADs. FC-14 stressed the importance of clearly distinguishing various revenue sources-such as own revenues, assigned taxes, State grants, Finance Commission transfers and funds for agency functions-in local body accounts. It supported the continuation of CAG's technical role and urged timely auditing and compilation of accounts. Further, it stipulated that eligibility for performance grants for both Gram Panchayats and ULBs would be contingent upon the submission of audited annual accounts pertaining to a fiscal year not earlier than two years preceding the year in which the local body sought to claim the grant.

10.15 Building on the recommendations of predecessor Commissions, FC-15 mandated the timely availability of accounts, both provisional (for fiscal year T-1) and audited (for fiscal year T-2), of individual local bodies online in the public domain as an entry-level condition for the

local body grants in year T. These conditions have resulted in a significant improvement in the preparation and availability of financial accounts for both ULBs and RLBs, giving a fillip to transparency and facilitating more informed decision-making.

Exempted Areas

10.16 According to the Constitution (Articles 243M and 243ZC), the 73rd and the 74th Amendments do not apply to the Fifth and Sixth Schedule areas where the States have not enacted laws for the establishment of duly elected panchayats and municipalities. Post-enactment of the Panchayats Extension to Schedule Areas Act (PESA), 1996, the areas that remain exempted are given in *Table 10.3*.

Table 10.3 Areas Not Covered Under the Provisions of Parts IX/ IX-A

State/ Area Within a State	Provisions Under Which Exempt
Meghalaya	Exempt under Article 243 M(1) and 243 ZC(1) and covered by Sixth Schedule as per Article 244(2), except selected areas of Shillong municipal Areas
Mizoram	Exempt under Articles 243 M(1) and 243 ZC(1), with two administrative districts Lawngtlai and Siaha covered by Sixth Schedule as per Article 244(2)
Assam: Bodoland, Dima Hasao and Karbi Anglong districts	Exempted under Articles 243 M(1) and 243 ZC(1) and Covered by Sixth Schedule as per Article 244(2)
Tripura	Tripura Tribal Areas are exempted under Articles 243 M(1) and 243 ZC(1) and covered by Sixth Schedule as per Article 244(2)
Nagaland	Exempt under Article 243 M(2)(a) and not covered by the Sixth Schedule
Manipur: Hill areas for which district councils exist	Exempt under Article 243 M(2)(b) and not covered by the Sixth Schedule
West Bengal: Hill areas of the district of Darjeeling, covered by the Darjeeling Gorkha Hill Council	Exempt under Articles 243M (3)(a) /243ZC (2) of the Constitution and not covered by Sixth Schedule

10.17 FC-10 recommended allocating grants to all States, including those not constitutionally required to establish PRIs. This was aimed at ensuring that, even in the absence of formal panchayats, local-level representative bodies in such States receive financial support. FC-11 introduced conditionalities, stipulating that grants to Exempted Areas would be released only

after the respective States enacted legislation to extend the 73rd and 74th Constitutional Amendments. FC-12 took a more lenient approach by not distinguishing between Exempted and Covered areas; instead, it entrusted States with the responsibility of distributing the grants, considering ongoing efforts to amend the Sixth Schedule. FC-13 explicitly allocated ₹1,357 crore for these areas, guided by Constitutional provisions such as Parts IX and IX-A and Articles 244, 275 and 280. In contrast, FC-14 made no allocation for these areas, marking a shift from earlier practice. FC-15, however, reintroduced grants for Exempted Areas based on the logic followed by FC-13.

State Finance Commissions

10.18 Articles 243-I and 243-Y of the Constitution mandate setting up SFCs at the State level for the eligibility of the transfer of resources from the State to the local bodies. Successive FCs have also recognised the potential role of SFCs in promoting fiscal decentralisation upto local governments. They specifically highlighted the need for timely constitution, adequate resources and prompt action on the recommendations of SFCs.

10.19 FC-11 urged the SFCs to provide a detailed analysis of the resources of State and local governments and measures for improvement of local governments' financial standing. FC-12 recommended that the SFCs identify issues requiring action by the Union Government. Both FC-12 and FC-13 recommended that SFCs undertake a normative assessment of revenues and expenditures of the local bodies. FC-13 also recommended the creation of a common template for SFC reports.

10.20 FC-14 emphasised the need for strengthening the SFCs. FC-15 recommended that each State appoint the SFC promptly and ensure that its recommendations are acted upon. Additionally, an explanatory memorandum should be laid before the State legislature on or before March 2024 to facilitate the availing of grants.

Stakeholder Consultations

10.21 The Commission held extensive consultations with various stakeholders on the issue relating to the transfer of resources to local bodies. Apart from formal representations of Union and State Governments, the Commission separately interacted with representatives of various local bodies during each of our visits to the States and also visited several Gram Panchayats (GPs) and a few ULBs during these visits.

Views of the Union Government

10.22 The Union Government recommended inter se sharing of local body grants to States on the basis of population with 50 per cent weight, area with 15 per cent weight and States' net transfer of funds to local bodies with 35 per cent weight. It has further recommended that the State-wise allocation of local body grants be split into a rural-urban component based on the 2011 Census, to account for varying rates of urbanisation across the States.

10.23 The Union Government emphasised that the core funding requirements of the local bodies should be addressed by State Governments in line with the intent of the 73rd and 74th Constitutional Amendments. Effective devolution of functions listed in the Eleventh and Twelfth schedules was essential for empowering local bodies as the Constitutionally mandated third tier of governance and also for making Union grants for local bodies more effective.

10.24 It advocated a shift in approach for grants from the Consolidated Fund of India to 'measures' needed to augment the Consolidated Fund of States by emphasising two enablers. The first enabler could be ensuring measurement of efforts through modifications in accounts of States and local body accounting classification, and the second enabler could be assignment of functions to local bodies in accordance with the Eleventh and Twelfth schedules of the Constitution.

10.25 It also suggested that transfer of resources to local bodies should be linked with their financial performance in areas such as cost recovery for services. The role of the Union grants may shift to supplementing the SFC-recommended resources for local bodies. It was underscored that the transfer of revenue sources to local bodies builds their accountability towards providing quality citizen services.

10.26 Further, empowerment of local bodies to levy and collect property tax, betterment levy, urban planning fee including value capture charges and parking fee and purpose based cess such as cess on stamp duty, cess on motor vehicle tax, establishment of a functional GIS-based property tax system to increase the buoyancy of property tax collections, adoption of modern building bye-laws, implementation of transit oriented development and incentivisation of their inter-local body distribution based on performance in levy and collection of user charges were also discussed.

10.27 It was also suggested that at least fifty per cent of the local body grants should be allocated to capital expenditure with the goal of improving expenditure quality and promoting fiscal prudence.

Ministry of Panchayati Raj

10.28 Ministry of Panchayati Raj (MoPR) emphasised digitisation of the revenue collection mechanism and generation of own sources of revenue (OSR). MoPR also suggested a list of projects, including the construction and upgradation of panchayat bhawans and digital infrastructure upgradation of around 2 lakh Gram Panchayats, for which earmarked grants could be given to the RLBs. It further recommended including the maintenance of assets created under Jal Jeevan Mission (JJM) and Swachh Bharat Mission-Gramin (SBM-G) among the uses of the grants.

Ministry of Housing and Urban Affairs

10.29 Ministry of Housing and Urban Affairs (MoHUA) suggested a phased increase in the share of ULBs within the total local body grants from thirty-five per cent in 2025-26 to forty per cent in 2030-31, alongside earmarking funds for Rurban/Peri-Urban areas and augmenting urban local body capacity in crucial domains like accounting, engineering and urban planning. It emphasised the need to augment the OSR of ULBs and innovative mechanisms such as transit-oriented development and value capture financing. It suggested that the conversion of census towns to statutory towns should be incentivised to promote planned urbanisation.

10.30 It suggested bringing uniformity in accounting standards and informed of its initiatives towards harmonised municipal accounting as per the recommendations of FC-15, including development of an ERP solution with a finance module integrated with Public Financial Management System (PFMS). It also informed of the exercise for mapping of the existing Chart of Accounts (CoAs) of ULBS with the CoA of the Union Government and requested funds for these initiatives.

Ministry of Jal Shakti

10.31 The Ministry requested resources for Operation and Maintenance (O&M) pertaining to drinking water and sanitation assets created under the schemes Jal Jeevan Mission and Swachh Bharat Mission (Gramin). In addition, it recommended providing tied and untied grants based on the FC-15 model, classifying 40 per cent of the total grants as untied and 60 per cent as tied for Water, Sanitation and Hygiene (WASH). The Ministry recommended dividing the tied grant equally between water and sanitation. The Ministry also proposed performance grants tied to the recovery of O&M charges with respect to drinking water supply and to promote specific behavioural and functionality-based outcomes with respect to sanitation.

Other Ministries

10.32 Ministry of Environment, Forest and Climate Change proposed continuation of air quality grant for 42 MPCs and inclusion of three more MPCs (Kannur, Kochi and Kollam), which were excluded under the FC-15 period. Further, the Ministry proposed the inclusion of 51 cities with a population of 5-10 lakh for air quality grants. The Ministry of New and Renewable Energy recommended a ₹50,000 crore grant for local bodies to solarise government loads, common lighting, water supply and government assets ensuring sustained asset operations.

Views of the State Governments

10.33 In the State Governments' memoranda, Gujarat, Karnataka, Madhya Pradesh and Uttarakhand have recommended allocating rural-urban grants in the ratio of 60:40 due to rapid urbanisation, whereas Andhra Pradesh, Bihar, Kerala and Telangana have recommended grants to rural and urban, as per their proportion to their respective population of the State. Tamil Nadu

stated that the urban population receives less per capita grant than rural areas, which is inadequate given the rapid pace of urbanisation.

10.34 The States had varied views on the weights assigned to parameters for the inter se distribution of local body grants. While some States recommended continuation of the existing parameters of population and area, others suggested additionally using the index of decentralisation, the index of deprivation, income distance, forest cover, SC/ST population and the contribution of agricultural and allied sectors to GSDP.

10.35 Almost all the State Governments expressed their views on grant-related conditionalities in their State memoranda. States like Chhattisgarh, Mizoram, Sikkim, West Bengal and so on, advocated for either no tied grants, or a larger share of untied grants as compared to 40 per cent under FC-15. States also mentioned difficulty regarding meeting the condition that the rise in property tax be at the same rate as nominal GSDP. Several States also suggested the removal of the ₹2,500 ceiling on the levy of professional tax.

10.36 Karnataka urged to remove conditions such as the constitution of the SFC and audit of accounts of local bodies. Other States like Jharkhand, Manipur, etc sought relaxation in conditionalities to be minimum or no conditionalities. Kerala and Maharashtra suggested that no additional conditionalities beyond those levied by the FC should be imposed.

10.37 Uttar Pradesh recommended flexible funds under which half of the grants may be allocated to unique local priorities and the remaining half supports broader national or State policy goals. Rajasthan also suggested to relax the conditions for tied grants to allow panchayats with greater flexibility in allocation of funds for local priorities.

10.38 Tamil Nadu suggested disbursal of funds at a higher frequency, quarterly or monthly, whereas Haryana has recommended grants to be disbursed in a single instalment each year. States like Gujarat and Madhya Pradesh urged streamlining fund release to optimise utilisation.

10.39 Several States like Assam recommended financial assistance through a one-time grant to help aid infrastructure development and provide basic service delivery for newly formed ULBs in the State. Some States were of the view that FC should permit meeting expenses on salary payment out of its grants.

10.40 Bihar, Haryana, Himachal Pradesh, Nagaland, Punjab, Tamil Nadu and Tripura suggested grants for undertaking urban infrastructure projects for basic services such as sewerage treatment, public transport, green spaces, affordable housing, storm water disposal system, disaster relief and mitigation and capacity building. Odisha suggested a special grant to promote the structured development of peri-urban areas and Meghalaya recommended a dedicated infrastructure grant to address the high cost of delivering services in difficult terrain.

10.41 Arunachal Pradesh, Meghalaya and Sikkim proposed that 10 per cent of the LB grants be earmarked for the Northeastern States and made an explicit recommendation that Autonomous District Councils (ADCs) be eligible for the FC grant.

Representatives of Local Bodies

10.42 During its State visits, the Commission engaged in detailed interactions with elected representatives from RLBs and ULBs at all tiers, including those from the ADCs. The key suggestions emerging from these discussions are summarised below:

- (i) In almost every State, representatives of local bodies sought either an increase in untied grants, or a relaxation or omission of the bifurcation between tied and untied grants, to allow greater flexibility in expenditure by local bodies as per their respective priorities.
- (ii) It was further suggested that the existing system of devolving funds to all three tiers of PRIs – Gram Panchayats, Panchayat Samitis and District Panchayats – be continued to ensure comprehensive rural development.
- (iii) Additionally, it was proposed that the criteria for grant distribution be based not solely on population, but also on factors such as the States' geographical location, resource endowments and economic conditions.
- (iv) Representatives of ULBs in several States requested infrastructure development funds for priority sectors, including the improvement of roads, drains, sanitation, solid and liquid waste management, stormwater drainage, street lighting, desilting of drains, capacity building, digitisation, urban mobility, technical support and the development of renewable energy sources such as solar and wind power. They further requested grants for social themes, encompassing child and women development, education and health and family welfare, in consonance with the achievement of Sustainable Development Goals (SDGs).
- (v) Similarly, representatives of RLBs sought financial support for safe drinking water, sanitation (including Solid Waste Management), lighting and infrastructure development, alongside capacity building and staffing.
- (vi) Local bodies also advocated for a more efficient and timely grant disbursal. It was further suggested that the grants be released in a single instalment annually.

Studies Commissioned

10.43 The Commission had undertaken the following studies to analyse various issues related to local bodies.

- (i) Recommendations of the latest State Finance Commissions across States in India through the Indian Institute of Public Administration (IIPA).

- (ii) Principles of Devolution to Urban Local Bodies through Janaagraha Centre for Citizenship & Democracy.
- (iii) Draft Municipal Reform Blueprint through Janaagraha Centre for Citizenship & Democracy.
- (iv) Identification and Financing of Urbanisation in India through the Indian Institute for Human Settlements (IIHS).
- (v) Incentivising the Transition of Census Towns to Statutory Towns through the World Bank.
- (vi) Comprehensive Review of Panchayat Finances and Measures to Augment their Revenues through the Institute of Rural Management Anand (IRMA).
- (vii) Status and Impact of Finance Commission Grants to Rural Local Bodies through the Institute of Economic Growth (IEG).

Conferences organised on Local Bodies

10.44 As a part of extensive consultation, the Commission organised the following conferences on local bodies:

- (i) Finance Commission's Conclave – Devolution to Development in collaboration with the Ministry of Panchayati Raj.
- (ii) National Conference of Mayors and Chairpersons on Strengthening Urban Local Government in India, in collaboration with Janaagraha Centre for Citizenship & Democracy.
- (iii) Conference on Urban Finances with the Asian Development Bank.

10.45 The outcomes from these studies and conferences have informed and enhanced our understanding of the local bodies and their financing. Additional information on the above studies and conferences is provided in Chapter 1 and the related Annexures.

Issues, Analysis and Approach

10.46 We recognise that expanding urbanisation is critical to raising the living standards in both urban and rural areas. Workers who migrate to urban areas do so in response to superior economic opportunities that help them raise their own as well as their extended families' living standards. In addition, such migration increases land per worker in rural areas, thereby boosting average worker productivity in these areas. With 46 per cent of its workers still in agriculture, very little land is available on a per-worker basis. Almost half of the land holdings in India are smaller than half a hectare, with their average size being a little less than a quarter hectare.

10.47 From the overall productivity standpoint, with 46 per cent of the workforce and only 17.8 per cent value added (at current prices) in agriculture in 2023-24, average value added per worker in industry and services combined is 3.9 times that in agriculture. Therefore, the movement of workers out of rural into urban areas, which is strongly correlated to the movement out of agriculture into industry and services, holds considerable potential to raise the overall value added per worker.

10.48 Considering this important role of urbanization in contributing to both rural and urban incomes, in our recommendations for ULB grants, we have paid explicit attention to an improvement in urban infrastructure of mid-size cities so that they are better prepared to respond to the rising demands of urbanization. Additionally, we have recognised that there is a pressing need for a good rural-to-urban transition framework to facilitate smooth and timely incorporation of peri-urban areas, administered as rural areas, into existing adjoining ULBs.

10.49 Our approach has also been guided by the need to continue the focus on the areas of water management and solid waste management. We acknowledge that large-scale assets have been created at the ground level relating to these priority areas and in the absence of proper operation and maintenance support, they may remain underutilised or even deteriorate.

10.50 We have paid special emphasis on the need for local bodies to generate their own resources. Currently, the own resources generated by the vast majority of local bodies, both rural and urban, are minuscule. They remain heavily, if not entirely, dependent on the Union and State Governments to carry out their mandate. The FC-15 had incorporated a mechanism to incentivize ULBs to increase their own-source revenues by linking release of the grant to growth in property-tax revenue. We have taken forward this incentivisation effort.

10.51 Successive FCs have stated that the primary responsibility for the provision of fiscal resources for RLBs and ULBs rests with the State Governments. In this respect, the role of SFCs is extremely important and in our recommendations, we have ensured that States constitute the SFCs and regularly act on their recommendations. To underscore the responsibility of States to transfer resources to local bodies, we have also linked a part of our grant to some matching funds from them.

10.52 The Commission considers that transparency and accountability are of paramount importance for the effective functioning of local bodies. This has been a constant area of focus, even for previous FCs. We find that significant progress has been made on this front, but much remains to be done to ensure the timely availability of accurate accounts and their audits.

Thrust on Urbanisation

10.53 Urbanisation is a catalyst for economic development. Cities concentrate resources, including physical and human capital, infrastructure and civil amenities, thereby fostering consumption, innovation and employment opportunities.

10.54 The Census of India classifies the population of a census town as urban. It defines a census town as any contiguous land area with (i) a population of 5,000 or more, (ii) a population density of 400 persons per square km or more and (iii) 75 per cent or more of the male population engaged in non-agricultural occupations. However, a large number of census towns do not have an urban administration; that is, they are not statutory towns.

10.55 In this Commission's view, timely and rule-based identification of urban areas, coupled with proper planning and adequate financing, are crucial for imparting impetus to India's urbanisation while concurrently enhancing the productivity and liveability of its cities. Ideally, each State should establish a clear transition policy to ensure the timely and rule-based identification of areas attaining urban characteristics. This policy should include a well-defined and time-bound mechanism and a phased approach for their transition to urban administrative units. The transition period should be utilised to establish appropriate urban administrative capacities and mechanisms for urban planning, the provision of urban services and infrastructure to citizens and the seamless transfer of records and information to the new administration. In essence, such policies should be aimed at raising the resources, infrastructure, services and political and administrative capacities to urban levels. In *Box 10.1*, we describe the Rural Urban Transition Policy of Odisha, notified on 27 June 2023, as a starting point for States interested in putting such a policy in place.

Box 10.1: Odisha's Rural Urban Transition Policy

Odisha has adopted a systematic and forward-thinking approach to urbanization in peri-urban areas through its Rural Urban Transition policy (June 2023). This policy establishes a clear roadmap for the transition of these areas into Urban Local Bodies by proactively endeavouring to provide urban-level services and infrastructure even before formal urban recognition. This vision is supported by budgetary allocations and dedicated handholding to bolster local political and bureaucratic capabilities. Employing a hub-and-spoke governance model led by a high-level steering committee and the State Urban Development Agency as the hub and District Urban Development Agencies and Development Authorities as the spokes, the policy creates a robust administrative mechanism. This mechanism also ensures citizen engagement and representation from local body representatives of the concerned ULBs and RLBs, alongside the expertise of urban planners, urban designers, development economists, infrastructure experts and IT specialists. The policy outlines specific factors for the selection and ranking of areas for transition, including population, density, contiguity with existing municipalities, revenue mobilization potential, land structure, employment structure, economic importance and details concerning mobility/transport and infrastructure. It envisions targeted interventions in urban planning and design, enhancing urban governance capacities and resources, establishing political representation aligned with urban norms, developing essential infrastructure and institutions and creating effective systems for revenue mobilization. This policy underscores the critical importance of a planned and phased transition as the foundation for systematic urbanization, aiming to prevent the numerous problems associated with haphazard and unrecognised urban growth.

Resource Mobilisation by Local Bodies

10.56 The importance of own sources of revenues cannot be overemphasised. Among RLBs, OSR is collected by Gram Panchayats in most States. Bihar and Uttar Pradesh are among the exceptions, with OSR in these States collected by District Panchayats. Block Panchayats are typically the least empowered to generate OSR in most States. *Annexure 10.1* contains the figures for OSR generated by all three tiers of RLBs in the States for the period 2019-20 to 2023-24.

10.57 Panchayats across India face significant challenges in mobilising their own revenue, resulting in a heavy reliance on grants, which often constitute over 90 per cent of their revenues. And it is quite evident that these grants come with usage restrictions, limiting panchayat autonomy. The Report of the Expert Committee of MoPR on OSR of RLBs highlights that OSR of these bodies covers merely 6-8 per cent of their total expenditure.

10.58 Despite being legally empowered to collect various taxes and fees, many panchayats fail to tap into these revenue streams due to a lack of clear statutory or administrative provisions, capacity constraints and weak enforcement mechanisms. On the margin, the grants have also worked as a disincentive to mobilise OSR.

10.59 The ongoing implementation of the SVAMITVA (Survey of Villages Abadi and Mapping with Improvised Technology in Village Areas) Scheme, launched in April, 2020, promises to lay a robust foundation for the growth of property taxes in rural areas, ultimately leading to enhanced OSR generation and improved financial self-sufficiency for RLBs. This scheme identifies the owners of rural properties, which is an important and necessary step towards property tax collection.

10.60 As per the RBI report on Municipal Finances, 2024, it has been 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.

10.61 The OSR figures of ULBs for all the States for the period 2019-20 to 2023-24, as collected by the Sixteenth Finance Commission (FC-16) from the States through the cityfinance portal, are provided in *Annexure 10.2*. Our analysis¹ shows that municipal corporations, which account for 50 per cent of the total ULB population as per Census 2011, account for 80 per cent of the total ULB OSR. In contrast, municipalities and town panchayats, which account for 36 per cent and 14 per cent of the ULB population as per the 2011 Census, collect only 16 per cent and 4 per cent of ULBs' OSR, respectively. Among the States, the ULBs of Maharashtra and

¹ Based on the data provided by States on cityfinance portal

Gujarat lead in the generation of OSR per capita in 2023-24, while States like Bihar, Jharkhand, Manipur and Meghalaya lag.

10.62 According to the analysis by Janaagraha², OSR contributes 51 per cent of total municipal revenues for all categories of ULBs in India. As expected, the share of OSR in the total revenues declines as the size of the ULB declines. For ULBs with a population larger than 40 lakh, OSR accounts for 61 per cent of total revenues. For ULBs with a population between 5 lakh and 40 lakh, this proportion declines to 55 per cent and for those with a population of less than 5 lakh, to just 32 per cent.

10.63 The heavy dependence of local bodies on Union and State Governments for revenues undermines the independence of these bodies as well as their accountability for service delivery to the local population. Partially motivated by these considerations, the FC-13 and FC-15 recommended the enhancement of OSR through improved collection of property/ house tax. FC-13 also suggested payment of service charges on Union and State Government properties and sharing of mining royalties with local bodies.

10.64 Out of all the tax sources available to local bodies, property tax offers the greatest revenue potential. However, it remains underutilised by both ULBs and RLBs. Therefore, successive FCs have recommended measures to increase property tax collection by these bodies. FC-15, in particular, made notification of minimum property tax rates (for 2022-23) and specified growth in property tax (from 2023-24 onwards) as entry-level conditions for availing ULB grants.

10.65 However, the potential of property tax remains unrealised. An analysis conducted by Janaagraha³, covering 3,895 ULBs representing 81 per cent of the total ULBs, reveals that against a total property tax demand of ₹69,937 crore in 2022-23, only ₹36,662 crore was collected. While the property tax collections have increased, growth rate has narrowed, indicating saturation and difficulty in meeting property tax growth condition in the later years of the award period of FC-15. According to the data provided by MoHUA as of March 2025, the number of State claims for FC grants went down from 22 States in 2023-24 to 16 States in 2024-25 due to the mandatory condition of the property tax growth. The overwhelming majority of the ULBs that could not meet this condition of FC-15 belong to the category of cities with less than 1 lakh population.

10.66 Janaagraha's analysis⁴ on property tax's contribution in the total OSR of ULBs for 2021-22 shows that while it is more than 60 per cent in Bihar, Karnataka and UP, it remains less than 10 per cent in Rajasthan. There are additional large variations within each State across

² As per the study conducted by Janaagraha for the Commission wherein annual financial statements of 2,646 cities for 2020-21 on cityfinance portal were analysed.

³ self-reported property tax data available on cityfinance.in as on 01 April 2024

⁴ Janaagraha's analysis of audited statements of 3,322 ULBs covering 23 States available on cityfinance portal

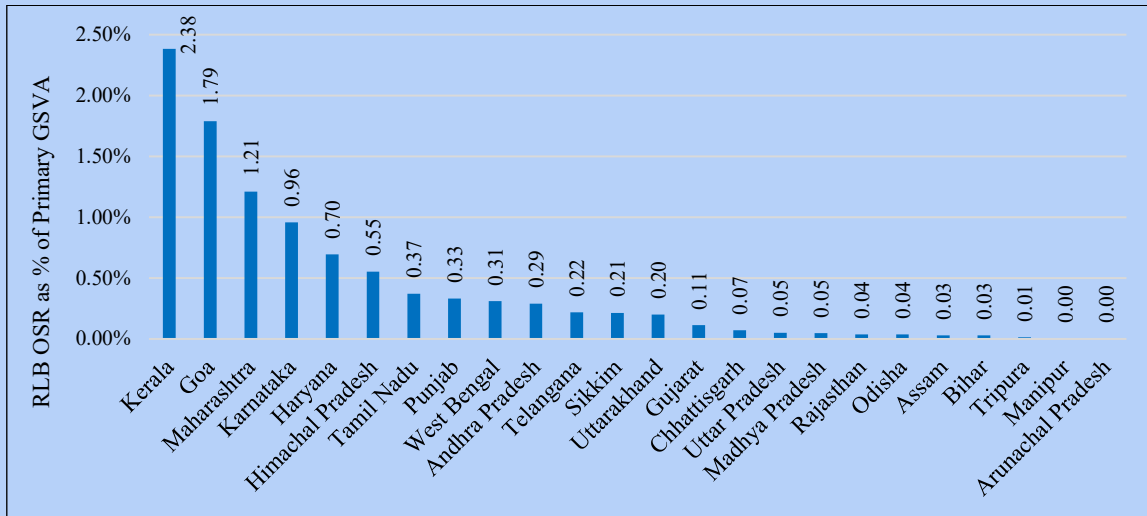
ULBs. Incomplete and inaccurate property records, low coverage, undervaluation of properties and suboptimal collection efficiency are some of the reasons for low collection.

10.67 There is an urgent need to take steps to augment property taxes in the country to strengthen local body finances. States need to take the following steps for the enhancement of property tax collections:

- (i) Enactment of appropriate rules and regulations for efficient levy and collection of property tax.
- (ii) Adoption of a GIS-based digital property tax register and linking with GIS-based master plan of the cities will ensure automatic updating of the property tax register whenever the master plan is revised. The register hence will reflect accurate current land use enabling upward revision of property tax.
- (iii) Mandating periodic enumeration and regular updating of property tax in line with the increase in guidance value in State acts and rules.
- (iv) An online self-assessment mechanism with a system for raising demand/sending reminders and a process for random scrutiny of self-assessment forms in urban areas.
- (v) Utilizing unique property IDs for the creation and maintenance of property databases facilitates efficient property tax billing and collections. This property database may be appropriately linked with other databases, like water, sewerage, electricity, trade license and building permissions for automatic verification of property attributes and assessment records

10.68 *Figure 10.2* shows the OSR generated by all three tiers of RLBs seen as a percentage of primary sector Gross State Value Added (GSVA) across States in 2023-24. While the overall levels are low, there is significant variation across States. The ratio of OSR to primary sector GSVA ranges from 2.38 per cent in Kerala to nil in the North-Eastern State of Arunachal Pradesh and only 0.03 per cent in Bihar. Similarly, *Figure 10.3* depicts OSR generated by ULBs as a percentage of non-primary sector GSVA across States in 2023-24. It can be seen that the percentage varies from 1.40 per cent in Maharashtra to 0.02 per cent in Manipur and Meghalaya. This disparity is indicative of the diverse degrees of devolution of powers for resource generation, the differences in the statutory landscape and administrative capacities and other related factors.

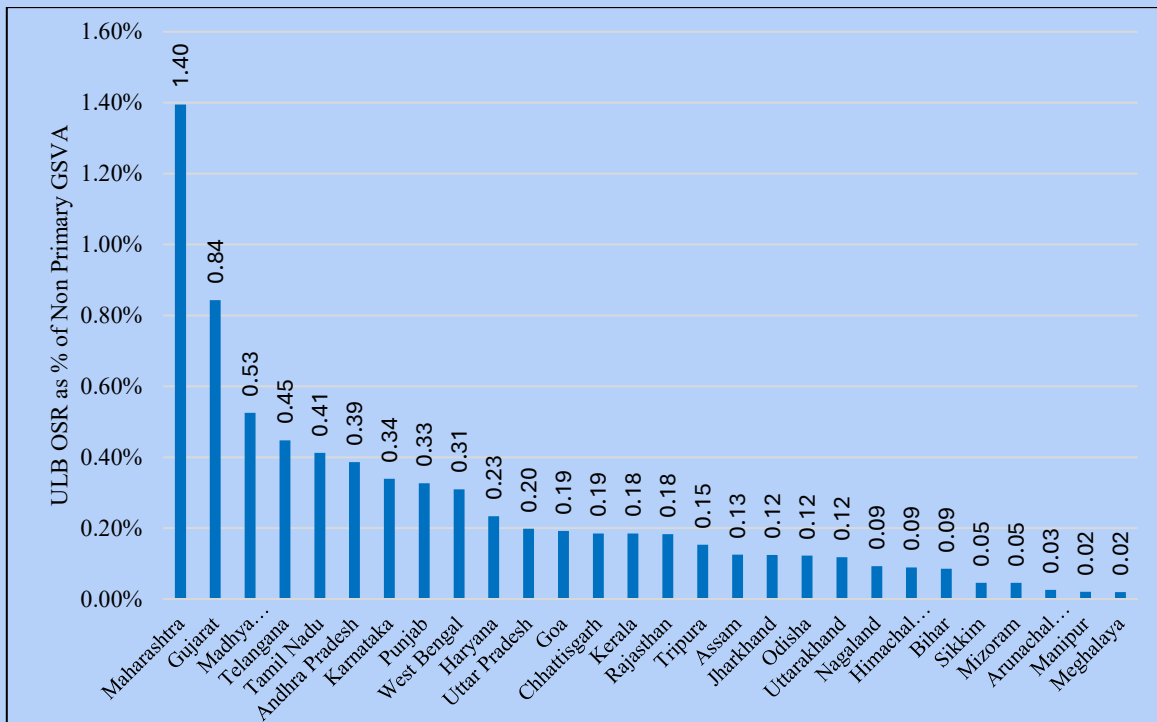
Figure 10.2 OSR of RLBs (percentage of Primary Sector GSVAs, 2023-24)



Source: OSR data based on information provided by States on FC-16 portal, GSVAs 2023-24 data provided by MoSPI.

Note: Jharkhand, Mizoram and Nagaland reported NA and Meghalaya provided only ADCs OSR which have been excluded from the RLBs OSR.

Figure 10.3 OSR of ULBs (percentage of Non-Primary Sector GSVAs, 2023-24)



Source: OSR data based on information provided by ULBs on the cityfinance.in portal for FC -16 as on 28 August 2025 for 4,621 ULBs, GSVAs 2023-24 data provided by MoSPI.

Accounts and Audit

10.69 The National Municipal Accounting Manual (NMAM), formulated in 2004, represented the first significant and concerted effort to introduce a uniform structure to the accounting practices of ULBs across the country. However, due to the absence of statutory backing, its adoption has been inconsistent and incomplete, both across different States and within individual States. Consequently, some States and larger ULBs continue to adhere to their own distinct accounting systems, often employing non-comparable accounting heads.

10.70 Based on the accounting data reported by the States for 97 per cent of ULBs through the cityfinance portal, 66 per cent follow accrual accounting, 21 per cent cash accounting and 13 per cent mixed cash-accrual accounting. There exist significant State-wise differences as well. For instance, around 98 per cent of ULBs in Andhra Pradesh, Tamil Nadu and Telangana adhere to accrual accounting in comparison to only 7 per cent in Goa and Punjab and 6 per cent in Nagaland. Such variation makes the examination, audit and a meaningful inter-State comparison extremely difficult.

10.71 An effort is currently underway at MoHUA to develop an Enterprise Resource Planning (ERP) solution for ULBs. It aims to facilitate the entry of financial transactions and the preparation of accounts in a manner integrated with the PFMS. MoHUA is also currently engaged in an effort to map the existing CoAs of ULBs with the CoA of the Union Government. The Union Government has also announced an Urban Data platform for improved governance. The Commission recommends extending the digital platform's capabilities to support ULBs in preparing accounts and financial reports.

10.72 In contrast to ULBs, RLBs have made excellent progress in providing the accounts data through the adoption of the e-Gram Swaraj platform. This web-based portal serves as a unified system facilitating planning, progress reporting and work-based accounting for over 2.5 lakh RLBs across the nation.

10.73 RLBs uniformly adhere to the cash-based Model Accounting System (MAS). This system offers a simplified accounting framework tailored to the needs of all three tiers of the PRIs. The accounting structure captures the fund flows under numerous schemes and its CoAs align with that of the Union and State Governments.

10.74 In this context, we support the continuation and strengthening of the arrangements for Technical Guidance and Supervision by the CAG. State Governments should augment the capabilities of their Local Fund Audit Departments (LFADs) by investing in skill development and addressing manpower shortages.

Data Sources

10.75 For RLBs, we procured data from States via specific formats on our dedicated portal. We also leveraged relevant data provided by MoPR, including information available on the e-GramSwaraj portal. For ULBs, data was collected by the Commission through the cityfinance portal and also provided by the MoHUA. Owing to the concerted efforts of Union Ministries and the conditionalities stipulated by previous FCs, the availability of local body data has

significantly improved over the years. The primary challenge is now shifting from the availability to the reliability and consistency of data across various platforms.

10.76 Although availability of financial data is largely there, the reliability and consistency issues impeded our analysis of data as well. Multiple rounds of efforts were required to obtain data free of obvious errors. Nevertheless, some data quality issues persisted until the very end. This experience has led us to conclude that there is an urgent need to address issues related to the quality and reliability of financial data relating to local bodies.

State Finance Commissions and Transfers by States

10.77 Successive FCs have encountered challenges in effectively utilizing the SFC reports for formulating recommendations concerning local bodies. After FC-15 made the constitution of SFCs and submission of their reports a precondition for the disbursal of local body grants, there has been a significant improvement on this score. However, most of the other issues highlighted by previous FCs have persisted. *Table 10.4* shows the status of the constitution of SFCs in various States⁵ as of May 2025.

Table 10.4 Status of Constitution of SFCs

Name of States	Last SFC Constituted
Assam, Himachal Pradesh and Kerala	VII
Bihar, Haryana, Maharashtra, Odisha, Punjab, Rajasthan, Sikkim, Tamil Nadu, Uttar Pradesh, Uttarakhand and West Bengal	VI
Andhra Pradesh, Jharkhand, Karnataka, Madhya Pradesh and Tripura	V
Chhattisgarh, Gujarat, Manipur and Nagaland	IV
Arunachal Pradesh, Goa	III
Mizoram, Telangana	II

Source: Data compiled by the Indian Institute of Public Administration and information collected from the States (as on May 2025)

10.78 Due to accounting-related limitations, the Commission was unable to make a precise assessment of State transfers to local bodies beyond the transfers under centrally sponsored schemes (CSS) and FC funds from the Finance Accounts of the States. Consistent with the Constitution, States must shoulder the responsibility of assessing the resource requirements of local bodies and make necessary transfers. The role of the grants from the Consolidated Fund of India, based on the recommendation of the FC, should be only supplementary. States should transparently report all transfers, including those from the Consolidated Fund of India on the recommendation of the Finance Commission, transfers under CSS, SFC grants and other grants from the State Government, separately for ULBs and RLBs in their budgets. These transfers,

⁵ Meghalaya has yet to constitute SFC, though it has notified The Meghalaya State Finance Commission Act, 2012 and The Meghalaya State Finance Commission Rules, 2013

with all their components, should also be reported in Appendix III of the State Finance Accounts. The Commission believes that financial reporting should adhere to standardised formats to ensure consistency and comparability across all local bodies, thereby enabling the future integration of data from the Union Government, State Governments and local bodies. States may expand their Integrated Financial Management Systems (IFMS) to incorporate a separate module that integrates information from multiple sources, which would facilitate the generation of fiscal outturns for both ULBs and RLBs in each State.

10.79 The data provided by the Accountant Generals of the States for 2022-23 indicates that States such as Haryana and Maharashtra transferred significant State funds to ULBs, whereas States like Andhra Pradesh, Nagaland and West Bengal have lagged in making the transfers. Karnataka and Kerala lead in transferring State funds to RLBs, whereas Andhra Pradesh, Assam and West Bengal lag.

10.80 There are two more issues related to SFCs deserving attention. First, it has been suggested that FC should play a gap-filling role, based on the expenditure requirements of local bodies and revenues from their own sources and grants from the States assessed by the SFCs. Such an approach runs the risk of making the States and the local bodies complacent in their revenue-raising efforts. A better alternative is to link the FC grants to States' own grants to local bodies and revenue efforts by the local bodies themselves.

10.81 Second, in Articles 280(3)(bb) and 280(3)(c), the Constitution directs the FC to make its recommendations on RLBs and ULBs 'on the basis of the recommendations made by the Finance Commission of the State.' However, as successive commissions have noted and this Commission has also experienced, serious obstacles remain in the way of meaningfully basing our recommendations on those provided by SFCs. As we do not anticipate these obstacles going away anytime in the foreseeable future, in conformity with FC-11, we recommend that the above-quoted expression be dropped from the relevant articles through a Constitutional amendment. We also recommend that NITI Aayog may study the functioning of SFCs across States and may publish a compendium of the good practices of the SFCs for the reference of all the States.

Grants for Local Bodies

10.82 In determining grants for local bodies, we have been guided by the history of RLB and ULB grants, trends in their utilisation, likely population growth of rural and urban areas and the fiscal resources available with the Union Government.

10.83 We recommend that grants for RLBs be classified into basic and performance components and those for ULBs into basic, performance, urban infrastructure and urbanisation premium components.

10.84 We recommend a total allocation of ₹7,91,493 crore as grants for duly constituted RLBs and ULBs for our award period spanning from 2026-27 to 2030-31. Out of this amount, we allocate ₹56,100 crore for a special infrastructure component and ₹10,000 crore for urbanisation premium, which we take up later. The remaining amount is allocated to RLBs and ULBs in

60:40 ratio, considering the projected urbanisation level of 40.73 per cent⁶ by 2031, coupled with the elevated cost of service delivery in urban areas. Each of the rural and urban component is sub-divided into basic and performance components in 80:20 ratio. *Table 10.5* shows the aggregate rural and aggregate urban grants over the five years of the Commission's award period. The performance components of both RLB and ULB grants are further divided into two equal halves, labelled RLB/ ULB performance component and State performance component. The RLB performance component begins in the third year of the award period for RLBs and the ULB performance component begins in the second year for ULBs. State performance component begins in the second year for both RLBs and ULBs.

Table 10.5 Local Body Grants of FC-16 (₹ crore)

Year	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Rural	55,909	71,300	92,166	1,02,303	1,13,558	4,35,236
<i>Basic</i>	55,909	62,059	68,885	76,462	84,873	3,48,188
<i>RLB Performance Component</i>	0	0	13,023	14,455	16,046	43,524
<i>State Performance Component</i>	0	9,241	10,258	11,386	12,639	43,524
Urban	45,272	68,219	74,126	80,682	87,958	3,56,257
<i>Basic</i>	37,272	41,372	45,923	50,975	59,583	2,32,125
<i>ULB Performance Component</i>	0	6,161	6,839	7,591	8,425	29,016
<i>State Performance Component</i>	0	6,161	6,839	7,591	8,425	29,016
<i>Special Infrastructure Component</i>	6,000	12,525	12,525	12,525	12,525	56,100
<i>Urbanisation Premium</i>	2,000	2,000	2,000	2,000	2,000	10,000
Total	1,01,181	1,39,519	1,66,292	1,82,985	2,01,516	7,91,493

Allocation of the RLB Grant to States and Further Down

10.85 We next consider the inter se distribution of the RLB component of the grant. Once this is done, the grant allocated to a specific State must be allocated among the three levels of the PRIs: Gram Panchayat, Block Panchayat and District Panchayat. The final allocation is to individual Gram Panchayats, Block Panchayats and District Panchayats within the three levels of PRIs.

⁶ World Urbanisation Prospects 2018 by Department of Economic and Social Affairs, United Nations.

10.86 For State-level inter se allocation, we assign a 90 per cent weight to the projected rural population for 2026⁷ and 10 per cent to the total area of the State. The State wise inter se shares are in *Annexure 10.3*.

10.87 Within each State, the distribution of grants to duly constituted RLBs of all tiers may be undertaken as per the latest accepted recommendations of the respective SFC. In the absence of the SFC recommendations, the tier-wise distribution to RLBs may be in conformity with the percentages recommended in *Table 10.6*. The high share of Gram Panchayats has been allocated keeping in view their greater role and responsibilities with respect to the delivery of civic services.

Table 10.6 Inter-tier RLB Grant Sharing Within a State

Number of Tiers	GP	BP	DP
Three	80 per cent	10 per cent	10 per cent
Two	90 per cent	-	10 per cent
One	100 per cent	-	-

10.88 Within a particular tier of RLB, the distribution may be as per the latest accepted SFC recommendations or, in the absence of SFC recommendations, based on population and area in the ratio 90:10. The basic grant accrues during all five years of the award period, the RLB performance grant accrues from the third to the fifth year and the State performance grant from the second to the fifth year. State-wise shares and volumes of basic and performance components, divided in the ratio of 80:20, are given in *Annexures 10.5, 10.6 and 10.8* respectively. As explained later, conditionalities apply to the performance components of the grant.

Allocation of the ULB Grant to States and Further Down

10.89 In case of ULB grant, we first considered the State-level inter se allocation of the basic and performance components of the grant. We will return to the allocation of the Special Infrastructure and Urbanization Premium grants later. For the allocation of the basic plus performance components among the States, we assign a weight of 90 per cent to the 2026 urban population and a 10 per cent weight to an index based on own-source revenue (OSR). For the latter, we first calculate the ratio of the sum of OSRs across all ULBs within each State for the latest available 3 years, 2021-22 to 2023-24,⁸ to the sum of GSVAs from secondary and tertiary sectors for the same three years⁹. We then set the share of a State within the 10 per cent of the total ULB grant equal to its population weighted by this ratio divided by the sum of the

⁷ Population Projections for India and States 2011-2036, July 2020, as per Report of the Technical Group on Population Projections of Ministry of Health and Family Welfare.

⁸ Data provided by the urban local bodies to FC-16 on cityfinance portal

⁹ Provided by MoSPI

populations of all States weighted by the corresponding OSR-to-GSVA ratio. The State wise inter se shares are in *Annexure 10.4* and the specific year-wise grants, quantum of basic and performance components for each State are detailed in *Annexures 10.5, 10.7 and 10.9* respectively. The basic component accrues all five years of the award period and the performance component from the second to the fifth year.

10.90 Within each State, the distribution of grants to duly constituted ULBs may be undertaken as per the latest accepted recommendations of the respective SFC. In the absence of SFC recommendations, 90 per cent of the State grant should be allocated according to the ULB's share in the sum of population of all ULBs and 10 per cent according to the OSR-based criterion, as explicated above.

Treatment of Exempted Areas

10.91 With reference to areas outside the purview of Part IX and Part IX-A of the Constitution, we recognise the developmental aspirations and essential service delivery needs of the significant population living in these regions. To address these needs equitably, we recommend treating these areas on par with local bodies in other areas. This is in keeping with the tradition set by FC-13 and FC-15. We recommend that the concerned State Governments make allocations for these areas on par with our recommendations with respect to the local bodies.

Conditionalities for Availing Grants

Entry Level Conditions

10.92 Consistent with the Constitution, we recommend three eligibility conditions that must be fulfilled before any local body grant is awarded. First, there should be a duly constituted body in place as required in Part IX and Part IX-A of the Constitution.

10.93 Second, there must be publicly available online, in the fiscal year T, provisional accounts of all RLBs and ULBs of the State for the fiscal year T-1 and audited accounts for the fiscal year T-2. Since this condition is being continued from FC-15, it will be applicable from the very first year of the award period. In cases where only a fraction of the local bodies meets this condition, grants should be disbursed to the State in proportion to the local bodies that meet this condition, with the condition applied separately to RLBs and ULBs. The audited accounts of ULBs should, at least, include the Balance sheet, Income and Expenditure statement, Cash Flow statement with the necessary schedules.

10.94 The third eligibility condition relates to the formation of the SFC. FC-15 had made the constitution of SFCs and the laying of an explanatory memorandum before the State legislature by 31 March 2024 a mandatory condition for States to avail local body grants for the fiscal years 2024-25 and 2025-26. This condition demonstrably exerted a significant positive influence on the constitution of SFCs by various States and the subsequent laying of their reports and the corresponding Action Taken Reports (ATRs) in the respective State legislatures. *Annexure 10.12* shows the list of States that formed their SFCs after the recommendations of FC-15.

10.95 Acknowledging the notable progress achieved by States in constituting SFCs and laying their ATRs in the State legislatures, we are inclined to continue with the conditionality established by the FC-15, albeit with certain modifications aimed at fostering the institutionalisation of timely SFC constitution within the States' administrative frameworks. Therefore, we recommend that all States comply with the Constitutional provision of forming the SFC on the expiry of five years from the formation of the previous SFC. The ATR must be tabled in the State legislature within 6 months of submission of the SFC report.

The Conditionality for Local Body Performance Component

10.96 The ULB and RLB grant has been divided into basic (80 per cent) and performance (20 per cent) components, with the latter divided into two equal halves: RLB/ULB performance component and State performance component. The basic component may be made available to the States upon fulfilment of the three entry-level (eligibility) conditions as explained in preceding paras. However, for each of the performance component, we recommend a qualifying condition.

10.97 Gram Panchayats have the necessary powers of taxation and levying user charges, with many of them already raising significant amounts in OSR. Therefore, to receive the RLB performance component of the RLB grant in fiscal year T, we recommend that Gram Panchayats raise, in year T-1, minimum 1.025 times its OSR in year T-2 or 2.5 per cent per annum compounded growth applied over OSR of 2025-26, whichever is lower, subject to a minimum amount of ₹1200 per household per annum. We have calculated the amount of ₹1,200 per household per annum based on user charges for services such as drinking water, sewerage and solid waste management, which are currently being collected in various States. The recommendation does not imply that the Gram Panchayats collect ₹1200 from each household annually, but rather that the total OSR from all streams, including rental income, income from assets, user charges and so on, should cumulatively equal or exceed ₹1200 per household per year.

10.98 For Block Panchayats, we recommend that they qualify for the RLB performance component of the RLB grant if 75 per cent of Gram Panchayats within their jurisdiction qualify for it. For District Panchayats, we recommend that to qualify for the grant in year T, District Panchayats raise, in year T-1, minimum 1.025 times its OSR in year T-2 or 2.5 per cent per annum compounded growth applied over OSR of 2025-26, whichever is lower.

10.99 For a ULB to qualify for the ULB performance component grant in year T, we recommend it raise 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. Based on the ULB OSR data reported by all States (*Annexure 10.2*), this growth constitutes a reasonable target.

The Conditionality for State Performance Component

10.100 Our data analysis shows that there is significant heterogeneity in transfers of resources to local bodies by the States. While some States are making substantial transfers to local bodies,

others provide at best limited funding to them. We have emphasised above that the primary responsibility of making adequate financial resources available to local bodies rests with the States. Transfers from Union, based on the recommendations of FCs, are meant to only supplement the State consolidated funds. Therefore, we recommend that the release of State performance components of the RLB and ULB grants in year T be contingent upon the State transferring from its own resources, in the year T-1, grants to local bodies amounting to 20 per cent or more of the basic FC grant recommended by us for the year T-1, starting from the second year. Revenues assigned and shared statutorily with the local bodies by the State would be included in these transfers for ascertaining the quantum of the transfers for the purposes of this condition.

In the Event of a Failure to Fulfil the Conditionality

10.101 If any of the conditionality discussed in this section goes unfulfilled, the undisbursed portion of a State's local body performance grants would be disbursed according to the following methodology:

- (i) The undisbursed portion of LBs failing to fulfil the conditionality in the case of the LB performance component grant of a State will be distributed to the performing LBs of the same State.
- (ii) Undisbursed portion of the State performance component due to the failure of a State to fulfil the conditionality would be distributed among the performing States according to the above-mentioned State-level inter se criteria. In turn, each recipient State will add the amount to its State performance component of the grant.
- (iii) The distribution of the undisbursed performance component of the grants, among the States and among the local bodies within a State, as the case may be, would follow the formulas spelled out above for the distribution of local body grants.

10.102 It is emphasised that this entire process would be conducted separately for RLBs and ULBs. The entry level conditions and performance conditions, along with their year of applicability, are presented in *Annexure 10.10*. The entry level conditions are mainly intended to sustain reforms initiated by previous FCs, whereas the performance conditions are directed towards bolstering the financial self-sufficiency of the local bodies and ensuring that States discharge their Constitutional duties.

10.103 To ensure that local bodies function as effective institutions of local self-governance, achieve fiscal autonomy and meet the aspirations of their citizens, Capacity building of the functionaries of the local bodies and the staff of local bodies is necessary. Creating a robust Learning Management System will go a long way in providing continuous learning opportunities and effectively strengthening the capacity of local bodies. This system could serve as a centralised platform for targeted training materials aimed at addressing the unique needs of local bodies. Such a system could also provide tailored content based on regional and State-specific needs and share national and international best practices. By collaborating with

State Governments and local bodies, the content can be customised to reflect the challenges and priorities of each area, ensuring that training is both relevant and practical. MoHUA and MoPR can work towards conceptualising and rolling out such a system so that the functionaries in the local bodies are geared up to meet the present-day challenges.

Tied and Untied Components

10.104 The flagship CSS schemes of the Swachh Bharat Mission (SBM), Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and the Jal Jeevan Mission (JJM) have demonstrably generated a substantial impact on the ground across the nation within the critical national priority areas of Drinking Water and Sanitation. These initiatives have not only established significant infrastructure but have also fostered widespread awareness and facilitated notable behavioural changes. This progress, coupled with sustained funding from governmental sources, including FC-15 tied component, has yielded lasting positive outcomes in these priority sectors by 2025.

10.105 The proactive measures under the JJM have resulted in over 81 per cent of the more than 19 crore rural households being connected with tap water. Under AMRUT, water treatment plants with a cumulative capacity of 4,649 million litres per day and sewage treatment capacity of 4,429 million litres per day, along with 1.49 crore sewer connections, have been established. Similarly, under SBM-Urban, alongside the construction of nearly 64 lakh Individual Household Latrines, waste collection has witnessed a remarkable 97 per cent increase between 2014-15 and 2024-25, now encompassing 93,600 wards nationwide, while waste processing has surged from 18 per cent of waste generated in 2014-15 to 78 per cent in 2024-25. Building upon the significant success in toilet construction and promoting behavioural change towards sanitation under SBM-Gramin, the current focus has shifted towards creation of ODF plus villages. This entails not only sustaining the ODF status but also establishing comprehensive arrangements for Solid and Liquid Waste Management, ensuring visual cleanliness within the villages. As reported by the Ministry of Jal Shakti, over 3.99 lakh villages out of India's more than 6.5 lakh villages have been declared as ODF model villages. This unequivocally supports the conclusion that sustained governmental efforts, in conjunction with active citizen engagement, have created a massive on-ground impact in these national priority areas.

10.106 This collective progress underscores India's commitment in enhancing the quality of life for its citizens and demonstrates its dedication to achieve Sustainable Development Goal 6 on Clean Water and Sanitation, while also advancing towards a climate-resilient future. The Commission also observed that the utilization of tied funds recommended by the FC-15 has been higher in the area of Sanitation and Solid Waste Management compared to Drinking Water Supply for both RLBs and ULBs. This may reflect greater progress of Union and State schemes in Sanitation and Solid Waste Management on the one hand and greater scope for the effective utilization of funds in Drinking Water on the other.

10.107 Therefore, we recommend tying 50 per cent of the basic component and leaving the remaining 50 per cent of the basic component and the entire performance component untied. The tied component should be directed towards ‘Sanitation and Solid Waste Management’ and/or ‘Water Management’. Within the tied component, full flexibility should be available to local bodies to address their needs, including O&M expenditures for the above tied items.

10.108 The untied component of the local body grants would be 50 per cent of the basic component which is 80 per cent of the total LB grants (40 per cent) and 100 per cent of the performance component which is 20 per cent of the total LB grants (20 per cent), subject to fulfilment of both the performance conditions, adding up to a total of 60 per cent of the basic plus performance grants. A significantly enhanced percentage of untied funds over the previous FC would empower local bodies to address locally identified needs and the flexibility inherent in their utilisation would lead to higher rates of both disbursal and utilisation. During consultations, representatives of Local Governments from various States have repeatedly underscored the importance of increasing the proportion of untied funds to effectively address locally felt needs.

10.109 We also recommend that no local body should be allowed to spend more than 20 per cent of the untied allocation on the construction and maintenance of roads¹⁰. Moreover, the untied grants should not be used for the payment of salaries or other establishment-related expenditure. The Gram Sabha would pass resolutions for specific activities to be undertaken under both tied and untied grants by a Gram Panchayat and similar resolutions would be needed at the level of Block Panchayat and District Panchayats as well. Likewise, activities under the tied and untied grants in urban areas should be undertaken based on the resolutions passed by the concerned ULBs.

10.110 We also recommend that the practice of publishing Service Level Benchmarks (SLBs), mandated for MPCs by the FC-15, may be continued and extended to all ULBs. To enhance the credibility of the self-reported figures for SLBs by cities and establish a reliable database of service data that can be effectively leveraged for decision-making, planning and initiatives aimed at improving the levels of services provided to citizens by the ULBs, a certain degree of authentication, perhaps in the form of a third party assessment or audit, may be introduced into the system to verify these self-reported figures. MoHUA may collaborate with State Governments, ULBs and CAG in developing such a verification mechanism.

10.111 We extensively reviewed the compliance of conditions recommended by the previous Commission by the States and the subsequent release of grants. We observe that, in general, the North Eastern States face difficulties in complying with the conditions on time and, consequently, in claiming the grants. Therefore, we recommend that, once the operational guidelines are issued, MoPR and MoHUA should organize regional workshops to familiarize States with the current Commission’s recommendations, the operational guidelines, the

¹⁰ including but not limited to all types of paved surfaces such as bituminous/black-topped/asphalt, cement concrete/concrete, interlocking concrete block pavements, gravel, mud and so on.

modalities to be followed for compliance and the process of claiming grants, with special focus on the North Eastern States. The concerned ministries should, as far as possible, actively support and handhold the North Eastern States throughout this process.

Urbanisation Premium

10.112 In our earlier discussion in this chapter, we have emphasised the importance of urbanisation in general and the rural-to-urban transition in particular. We have also argued in favour of a formal rural-to-urban transition policy. However, as peripheral areas are merged into the adjacent municipalities as a part of implementing such a policy, the existing ULB itself faces a transition problem. It must immediately begin working on the provision of infrastructure and services to the newly incorporated area at the same level as those in the existing areas of the municipality. Yet, it takes a while to complete the formalities necessary to begin raising tax revenue from this area. The only way to speedily complete the transition for the municipality is to divert resources from existing municipal areas to the newly incorporated area.

10.113 To tide over this initial challenge, we recommend a one-time grant as an incentive for the merger of peri-urban villages into an adjoining larger ULB with an existing population of not less than one lakh. We have assessed the total quantum of urbanisation premium to be ₹10,000 crore for the complete award period, to be disbursed as a one-time eligibility amount of ₹2,000 per person, calculated over the population (based on Census 2011 population) of the new area being incorporated in the ULB. These grants should be made available to States to support the establishment of essential administrative structures and provide certain citizen services in the peri-urban areas transitioning from rural to urban status through mergers with an existing ULB. The final beneficiary of the grant should be the relevant municipal body, which may use it for the upgradation of basic infrastructure in the newly included areas or the upgradation of capacity for the provision of civic services in them.

10.114 Previously, we have highlighted the importance of a transparent standing rural-to-urban transition policy. We recommend the formulation of such a Transition Policy as a precondition for claiming the urbanisation premium grant. Some of the components of the Rural to Urban Transition Policy of the State could be:

- (i) Identification of transitional settlements among qualifying settlements after every Census and at a regular interval not exceeding 3 years, with the stipulation of covering at least one-third of qualifying settlements for transition.
- (ii) Detailed procedure for identification, assessment and notification of transitional areas.
- (iii) Detailed Transition plan (with approximately 3-year horizon) for:
 - (a) Impact assessment on finances, manpower, service delivery and infrastructure.
 - (b) Financial and institutional support to raise the citizen service delivery and infrastructure standards up to certain minimum pre-defined levels.

- (c) Phased levy of taxes such as property tax and user charges
 - (d) Implications on master plan and land use conversion regulations.
 - (e) Institutional continuity with respect to office, assets, records and staff.
 - (f) Public consultations and citizen communication.
- (iv) Roles and responsibilities among State Government departments/agencies, district administration, erstwhile RLB and the newly created ULB, along with an appropriate grievance redressal mechanism.

Infrastructure Upgradation in Urban Growth Centres

10.115 In previous paras, the Commission has underscored the importance of urbanization for economic growth. The urban population of India has grown more than four times in the last fifty years. This kind of rapid urbanisation requires urgent upgradation of urban infrastructure in Indian cities. In the past, the migrating population has flocked in disproportionately large numbers to the large cities with populations of 4 million or more. Considering this fact, there is a need to invest in the upgradation of cities with populations of less than 4 million. Such an upgradation will create more centres of growth in the country, thereby lightening the burden on the cities with populations of 4 million or more. It will also enhance the living standards while keeping the cost of living low. Industry may also find locating in these areas attractive due to the lower wages it will have to pay in the medium size cities than in larger cities.

10.116 One of the major challenges that these cities face is the presence of obsolete, poorly maintained and inadequate drainage systems, coupled with apathy towards natural drainage paths, which leads to poor wastewater management. While this is adversely impacting quality of life in these cities due to poor sanitation levels, it is also causing avoidable damage to other infrastructure, such as roads and clean drinking water supply systems. With the impact of climate change clearly visible, cities are experiencing high-intensity rainfall events with erratic frequency, leading to flooding events that the existing drainage systems are unable to handle. This is not only causing inconvenience to the urban population but also has a negative economic impact due to disruption in economic activities. Cities need to have a drainage master plan, invest in and maintain their drainage systems. An illustrative example of comprehensive interventions achieving a decisive impact in wastewater management through the judicious leveraging of diverse funding sources is exemplified by Indore City, as detailed in *Box 10.2*.

10.117 Therefore, we recommend that a Special Infrastructure Component for selected ULBs be tied to the development of a comprehensive wastewater management system in cities with populations less than 40 lakh but more than 10 lakh, as per the 2011 Census, limited to two per State. We provide the list of these cities in *Annexure 10.11*. This amount is to be used to finance projects worth up to ₹5,000 crore in cities with a population of 15 lakh or more and up to ₹3,500 crore in cities with a population of less than 15 lakh, wherein the share of the Union Government would be 60 per cent of the project cost and the remaining cost would be contributed by the

State Government and the concerned ULB. The aggregate amount under this component would amount to ₹56,100 crore.

Box 10.2 Swachha Indore

Indore has consistently topped the Swachh Survekshan rankings for seven consecutive years, achieving recognition as India's first Water Plus city and a 7-Star rated city. Prior to this, Indore, like numerous other Indian urban centres, contended with significant challenges, including extensive garbage accumulation, presence of stray cattle, insufficient waste management infrastructure, nearly a century of accumulated legacy waste, widespread discharge of untreated sewage into rivers and *nallahs* and sub-optimally managed secondary storage bins. The remarkable transformation from this State to its current position at the forefront of cleanliness rankings was realised through a comprehensive set of actions, fundamentally centred upon *Jan Bhagidari*, or citizen participation.

Efficient liquid waste management was achieved through comprehensive interception of household and grey water sewage outfalls into rivers and stormwater drains, coupled with the establishment of a robust sewerage network. The city expanded the access to Sanitation services through increase in community toilets, standalone urinals, individual household latrines, etc. A comprehensive sewerage network consisting of 3 centralised and 7 decentralised co-treatment Sewage Treatment Plants (STPs) was constructed to adequately handle the wastewater generated in the city. Initiatives also included cleaning of Saraswati river as well as 200+ km of *nallahs* while also reclaiming *nallahs* as community spaces. The treated water was reused and 100+ km of piped network was created to carry treated water from STPs.

These achievements were facilitated by leveraging funds from schemes such as Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Smart Cities Mission, alongside the utilisation of OSR. Furthermore, the city deployed innovative financing mechanisms, including the issuance of green bonds and trading in carbon credits.

These actions were further complemented by initiatives fostering behavioural change, primarily through comprehensive awareness campaigns, community-based programmes and active engagement with Non-Governmental Organisations (NGOs). The confluence of these diverse initiatives and concerted funding efforts has yielded a decisive impact within the city of Indore.

10.118 These projects should lead to the development of a comprehensive wastewater management system and can be undertaken in the following indicative areas:

- (i) Upgradation of the existing drainage network, including the separation of stormwater and underground drainage systems.
- (ii) Extension of network to the uncovered areas.
- (iii) Identification of problem areas and taking up area-specific works.
- (iv) Restoration of natural drainage pathways and development of green infrastructure essential for wastewater management.
- (v) Reduction of non-revenue water.

- (vi) Development of monitoring systems and systems to ensure the free flow of wastewater.

10.119 In the first year of the award period, the selected ULBs would be required to conduct a detailed study on the kind of interventions required for comprehensive wastewater management within the allocated amount. The ULBs would be required to prepare detailed project reports with year-wise milestones and financial outlays. The tripartite MoU would be signed between the MoHUA, the State Government and the ULB. MoU should have project details, year-wise milestones and financial outlays. Grants should be released after the signing of the MoU for the first milestone and upon achieving the project milestones for the next milestone.

10.120 In addition to capital expenditure on creating infrastructure assets under this grant, the concerned ULB may ensure the necessary awareness initiatives, wherever applicable. The cities should enhance their capabilities to bear the future operation and maintenance expenditure of the assets created under the scheme from their own sources of revenue.

Timely Release of Grants

10.121 We recommend that the local body grants shall continue to be released in a minimum of two equal instalments each year, consistent with the existing practice and subject to the fulfilment of the conditions stipulated by the Commission.

10.122 The basic component can be released on fulfilment of the entry-level conditions, some of which are not relevant every year, such as the conduct of elections for the constitution of local bodies or the formation of the SFC and the submission of ATR on their reports. For the performance component, the State should provide the details of achievement on both of the performance parameters. The Union Government should ensure that where a set of local bodies within the State meet the conditions, the grants due to them are released without waiting for the rest. The release of the urbanisation premium component should be claimed by the State when mergers, as explained earlier, are notified. The release of the special infrastructure component should be made separately for each city upon achieving milestones as outlined in the MoU.

10.123 Furthermore, it is recommended that State Governments ensure the transfer of these grants-in-aid to their respective local bodies within ten working days of their receipt from the Union Government. Any delay in this transfer beyond the stipulated ten working days shall obligate the State Governments to release the funds along with interest, calculated at the effective rate of interest applicable to market borrowings/State Development Loans for the preceding financial year.

10.124 We recommend that no further conditions, other than those explicitly indicated in this chapter, should be imposed either by the Union Government or the State Governments for the release of local body grants to the ULBs and RLBs.

Summary of Recommendations

- (i) We recommend that the States should develop a citizen friendly GIS based property tax IT system for efficient enumeration, assessment and collection of property tax.
(paragraph 10.67)
- (ii) We recommend extending the Urban Data platform's capabilities to support ULBs in preparing accounts and financial reports.
(paragraph 10.71)
- (iii) The existing arrangements for Technical Guidance and Supervision by the CAG should be continued and strengthened to improve the quality of audit and accounts of local bodies in the States. State Governments should augment the capabilities of their Local Fund Audit Departments (LFADs) by investing in skill development and addressing manpower shortages.
(paragraph 10.74)
- (iv) The States should transparently report all transfers to local bodies, including those from the Consolidated Fund of India on the recommendation of the Finance Commission, transfers under centrally sponsored schemes, State Finance Commission grants and other grants from the State Government, separately for ULBs and RLBs in their budgets. These transfers, with all their components, should also be reported in Appendix III of the State Finance Accounts.
(paragraph 10.78)
- (v) In Articles 280(3)(bb) and 280(3)(c), the Constitution directs the FC to make its recommendations on RLBs and ULBs 'on the basis of the recommendations made by the Finance Commission of the States.' We recommend that the above-quoted expression be dropped from the relevant articles through a Constitutional amendment.
(paragraph 10.81)
- (vi) We recommend that NITI Aayog may study the functioning of SFCs across States and may publish a compendium of the good practices of the SFCs for the reference of all the States.
(paragraph 10.81)
- (vii) We recommend that the grants for RLBs be classified into basic and performance components and the grants for ULBs be classified into basic, performance, urban infrastructure and urbanisation premium components. The aggregate national grant allocation for basic and performance components, put together has been divided in the ratio of 60:40 between RLBs and ULBs. Inter se, the division between basic and performance components is recommended in the ratio of 80:20 for both RLBs and ULBs.
(paragraphs 10.83 and 10.84)

- (viii) A total allocation of ₹7,91,493 crore as grants recommended for duly constituted RLBs and ULBs for our award period spanning from 2026-27 to 2030-31.
(paragraph 10.84)
- (ix) For RLBs, inter-State distribution is based on a 90:10 ratio of projected rural population (2026) and area, respectively. For ULBs, the States' share has been determined by a 90:10 ratio of projected urban population (2026) and the OSR of ULBs, respectively.
(paragraphs 10.86 and 10.89)
- (x) Within each State, the distribution of grants to duly constituted RLBs of all tiers and to duly constituted ULBs may be undertaken as per the latest accepted recommendations of the respective SFCs. In the absence of the SFC's recommendations, the tier wise distribution to RLBs may be in conformity with the prescribed percentages. Within a tier of RLB, the distribution may be as per the latest accepted SFC recommendations or in the absence of SFC recommendations based on population and area in the ratio 90:10. For ULBs, the distribution may be as per the latest accepted SFCs recommendations or in the absence of SFC's recommendations, based on urban population and OSR of ULBs in the 90:10 ratio.
(paragraphs 10.87, 10.88 and 10.90)
- (xi) The concerned State Government shall make allocations for exempted areas on par with the Commission's recommendations with respect to local bodies.
(paragraph 10.91)
- (xii) There should be a duly constituted body in place as required in Part IX and Part IX-A of the Constitution to claim local body grants. This would be the first entry level condition.
(paragraph 10.92)
- (xiii) Online availability in public domain in year T of audited accounts for all ULBs and RLBs of a State for the T-2 fiscal year and provisional accounts for the T-1 year would be the second entry-level condition to avail local body grants for the year T.
(paragraph 10.93)
- (xiv) All States must comply with the Constitutional provisions pertaining to the regular constitution of SFCs due as per the Constitutional provision, that is, on expiry of five years of constitution of previous SFC and ensure laying of ATRs in the State legislature within 6 months of submission of the SFC report as a prerequisite to claim their local body grant. This would be the third entry level condition to claim local body grants from the first year of the award period, that is from 2026-27.
(paragraph 10.95)

- (xv) The ULB and RLB grant has been divided into basic (80 per cent) and performance (20 per cent) components, with the latter divided into two equal halves: RLB/ULB performance component and State performance component. The basic component may be made available to the States upon fulfilment of the three entry-level (eligibility) conditions.

(paragraph 10.96)

- (xvi) For Gram Panchayats to receive the RLB performance component of the RLB grant in fiscal year T, we recommend that Gram Panchayats raise, in year T-1, minimum 1.025 times its OSR in year T-2 or 2.5 per cent per annum compounded growth applied over OSR of 2025-26, whichever is lower, subject to a minimum amount of ₹1200 per household per annum. This will be applicable from the third year of the award period, that is, 2028-29 onwards.

(paragraph 10.97)

- (xvii) For Block Panchayats, we recommend that they qualify for the RLB performance component of the RLB grant if 75 per cent of Gram Panchayats within their jurisdiction qualify for it. For District Panchayats, we recommend that to qualify for the grant in year T, District Panchayats raise, in year T-1, minimum 1.025 times its OSR in year T-2 or 2.5 per cent per annum compounded growth applied over OSR of 2025-26, whichever is lower. Both of these will be applicable from the third year of the award period, that is, 2028-29 onwards.

(paragraph 10.98)

- (xviii) For ULBs to qualify for the ULB performance component grant in year T, we recommend it raise 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. This will be applicable from the second year of the award period, that is, 2027-28 onwards.

(paragraph 10.99)

- (xix) We recommend that the release of State performance components of the RLB and ULB grants in year T be contingent upon the State transferring from its own resources, in the year T-1, grants to local bodies amounting to 20 per cent or more of the basic FC grant recommended by us for the year T-1, starting from the second year.

(paragraph 10.100)

- (xx) If any of the performance conditionalities goes unfulfilled, the undisbursed portion of a State's local body performance grants would be disbursed according to the prescribed methodology.

(paragraph 10.101)

(xxi) Ministry of Housing and Urban Affairs and Ministry of Panchayati Raj can work towards conceptualising and rolling out a Learning Management System for the functionaries and staff of local bodies so that the functionaries in the local bodies are geared up to meet the present-day challenges.

(paragraph 10.103)

(xxii) 50 per cent of the basic component should be tied and the remaining 50 per cent of the basic component and the entire performance components should remain untied. The tied component should be directed towards 'Sanitation and Solid Waste Management' and/or 'Water Management'.

(paragraph 10.107)

(xxiii) We recommend that no local body should be allowed to spend more than 20 per cent of the untied allocation on the construction and maintenance of roads. Moreover, the untied grants should not be used for the payment of salaries or other establishment-related expenditure.

(paragraph 10.109)

(xxiv) The practice of publishing Service Level Benchmarks should be continued and extended to all ULBs along with introduction of a third-party assessment or audit mechanism in the system to enhance the reliability of the self-reported figures.

(paragraph 10.110)

(xxv) MoPR and MoHUA should organize regional workshops to familiarize States with the Commission's recommendations, the operational guidelines, the modalities to be followed for compliance and the process of claiming grants, with special focus on the North-Eastern States.

(paragraph 10.111)

(xxvi) The total quantum of urbanisation premium, for incentivising rural to urban transitions, to be ₹10,000 crore for the complete award period with a fixed per capita one-time eligibility amount to be ₹2,000 per person (based on Census 2011 population). The release of urbanisation premium component should be claimed by the State on mergers of peri-urban villages into adjoining larger ULB with existing population not less than One lakh and formulation of an appropriate Rural to Urban transition policy.

(paragraphs 10.113 and 10.114)

(xxvii) A Special Infrastructure Component for selected ULBs with the outlay of ₹56,100 crore to facilitate decisive intervention in comprehensive wastewater management in urban growth centres.

(paragraph 10.117)

(xxviii) The local body grants shall continue to be released in minimum two equal instalments each year, consistent with the existing practice and subject to the fulfilment of the conditions stipulated by the Commission.

(paragraph 10.121)

(xxix) The Union Government should ensure that where a set of local bodies within the State meet the conditions, the grants due to them are released without waiting for the rest.

(paragraph 10.122)

(xxx) State Governments should ensure the transfer of the grants-in-aid to their respective local bodies within ten working days of their receipt from the Union Government. Any delay in this transfer beyond the stipulated ten working days shall obligate the State Governments to release the funds along with interest, calculated at the effective rate of interest applicable to market borrowings/State Development Loans for the preceding financial year.

(paragraph 10.123)

(xxxi) No further conditions, other than those explicitly indicated in this chapter, should be imposed either by the Union Government or the State Governments for the release of local body grants to the ULBs and RLBs.

(paragraph 10.124)

□□□

Annexure 10.1

Details of OSR Generated by RLBs (₹ crore)

State	2019-20	2020-21	2021-22	2022-23	2023-24
Andhra Pradesh	1,536.75	1,413.05	1,385.19	1,712.05	1,315.01
Arunachal Pradesh	0.00	0.00	0.00	0.00	0.00
Assam	42.08	81.03	35.95	42.22	44.79
Bihar	53.50	53.50	53.11	52.45	55.39
Chhattisgarh	71.86	50.49	58.32	78.01	89.46
Goa	53.18	52.24	67.91	85.26	96.60
Gujarat	348.61	325.38	363.87	347.90	435.70
Haryana	480.43	353.36	634.04	691.67	1,104.85
Himachal Pradesh	124.66	154.94	141.27	163.71	157.18
Karnataka	1,891.00	2,106.08	3,156.80	2,415.74	2,792.42
Kerala	816.71	821.43	1,674.10	1,831.82	2,330.09
Madhya Pradesh	160.47	132.69	182.50	148.68	233.78
Maharashtra	3,906.52	3,416.93	4,146.94	4,311.55	4,744.93
Manipur	0.39	0.51	0.24	0.18	0.08
Odisha	65.60	55.41	52.60	63.92	74.00
Punjab	511.30	531.93	522.26	539.89	559.01
Rajasthan	99.54	109.50	120.44	132.49	145.74
Sikkim	5.75	5.03	5.86	6.86	7.10
Tamil Nadu	855.74	1,152.64	1,396.31	1,520.67	1,195.81
Telangana	487.19	481.09	546.52	521.65	514.91
Tripura	3.12	4.25	3.47	4.15	4.63
Uttar Pradesh	176.67	229.08	243.26	276.00	294.91
Uttarakhand	41.63	37.96	151.15	57.96	56.17
West Bengal	1,503.68	987.12	1,138.06	1,104.68	1,029.48
Total	13,236.37	12,555.64	16,080.17	16,109.50	17,282.01

Source: Data provided by the States on FC-16 portal (as on 31 August 2025)

Note: Jharkhand, Mizoram and Nagaland reported NA and Meghalaya provided only ADCs OSR which have been excluded from the RLBs OSR.

Annexure 10.2

Details of OSR Generated by ULBs (₹ crore)

State	2019-20	2020-21	2021-22	2022-23	2023-24
Andhra Pradesh	2,177.11	2,400.62	2,637.20	3,227.58	3,247.26
Arunachal Pradesh	4.82	1.75	5.49	9.37	6.84
Assam	205.11	218.67	245.07	348.83	378.68
Bihar	347.75	351.56	416.75	480.62	553.49
Chhattisgarh	477.16	513.03	607.09	701.58	641.30
Goa	97.82	109.97	120.12	145.96	154.05
Gujarat	7,182.95	6,837.77	8,202.62	9,199.82	11,492.31
Haryana	1,045.01	1,061.04	1,415.29	1,443.10	1,841.08
Himachal Pradesh	129.42	123.89	123.56	146.18	150.42
Jharkhand	287.54	258.43	281.43	370.71	410.33
Karnataka	4,872.72	5,011.78	5,582.31	6,557.52	7,120.60
Kerala	1,101.30	1,086.76	1,202.61	1,401.76	1,694.99
Madhya Pradesh	2,940.22	3,020.48	3,434.11	3,650.58	3,811.49
Maharashtra	31,117.63	28,190.46	49,187.85	39,131.25	44,190.21
Manipur	11.11	12.62	10.45	9.43	6.67
Meghalaya	7.63	6.39	6.34	6.98	7.20
Mizoram	7.21	5.96	6.40	10.15	11.57
Nagaland	24.04	24.03	29.28	24.45	26.26
Odisha	373.31	445.19	500.84	628.76	601.67
Punjab	1,190.63	1,238.19	1,408.51	1,657.42	1,704.62
Rajasthan	717.45	728.34	1,131.42	1,575.39	1,792.44
Sikkim	14.24	11.05	13.29	17.78	18.64
Tamil Nadu	5,547.18	4,957.21	5,537.86	7,621.83	8,247.56
Telangana	3,563.40	3,784.63	4,151.41	4,988.69	4,916.95
Tripura	45.82	54.49	65.44	48.86	59.91
Uttar Pradesh	2,207.06	2,328.68	2,528.49	3,000.86	3,387.42
Uttarakhand	163.44	162.93	173.79	256.43	308.42
West Bengal	2,483.40	2,531.84	2,456.70	3,210.06	3,721.84
Total	68,342.48	65,477.75	91,481.73	89,871.94	1,00,504.21

Source: Data collected by FC-16 for ULBs on Cityfinance.in as on 28 August 2025 pertaining to 4,621 ULBs (96 per cent of total ULBs)

Inter se Share of States in RLB Grants

State	Area ('000 Sq. Km)	Area Share (10%)	Rural Population ('000)	Rural Population Share (90%)	Rural Inter se (%)
Andhra Pradesh	162.92	0.53	32,974	3.29	3.82
Arunachal Pradesh	83.74	0.27	1,185	0.12	0.39
Assam	78.44	0.26	30,987	3.09	3.35
Bihar	94.16	0.31	1,16,546	11.62	11.93
Chhattisgarh	135.19	0.44	22,516	2.24	2.68
Goa	3.70	0.01	329	0.03	0.04
Gujarat	196.24	0.64	36,906	3.68	4.32
Haryana	44.21	0.15	17,577	1.75	1.90
Himachal Pradesh	55.67	0.18	6,806	0.68	0.86
Jharkhand	79.72	0.26	30,178	3.01	3.27
Karnataka	191.79	0.63	37,253	3.71	4.34
Kerala	38.85	0.13	6,351	0.63	0.76
Madhya Pradesh	308.25	1.01	63,685	6.35	7.36
Maharashtra	307.71	1.01	65,537	6.53	7.54
Manipur	22.33	0.07	2,213	0.22	0.29
Meghalaya	22.43	0.07	2,734	0.27	0.34
Mizoram	21.08	0.07	563	0.06	0.13
Nagaland	16.58	0.05	1,128	0.11	0.16
Odisha	155.71	0.51	38,064	3.79	4.30
Punjab	50.36	0.17	17,861	1.78	1.95
Rajasthan	342.24	1.12	61,261	6.11	7.23
Sikkim	7.10	0.02	310	0.03	0.05
Tamil Nadu	130.06	0.43	34,701	3.46	3.89
Telangana	112.12	0.37	19,258	1.92	2.29
Tripura	10.49	0.03	2,427	0.24	0.27
Uttar Pradesh	240.93	0.79	1,84,063	18.34	19.13
Uttarakhand	53.48	0.18	7,526	0.75	0.93
West Bengal	88.75	0.29	62,144	6.19	6.48
Total	3,054.25	10.00	9,03,083	90.00	100.00

Source:

1. Rural population: Population projection 2026 (Oct) – Report of the Technical Group on Population Projections, MoHFW (2020)
2. Area: MoSPI

Annexure 10.4

Inter se Share of States in ULB Grants

State	1	2	3	4	5=3/4	6=5*2	7	8	9=7+8
State	Urban Population ('000)	Sum of Total Own Revenue of ULBs (crore)	Secondary + Tertiary GSA (crore)	Sum of OSR/ Sum of GSA	Product of OSR Ratio and Urban Population ('000)	Urban Population Share (90%)	Product OSR Ratio Share (10%)	Urban Inter se (%)	
Andhra Pradesh	20,789	9,112	22,41,646	0.00406	84.40	3.84	0.3519	4.19	
Arunachal Pradesh	426	22	69,227	0.00031	0.13	0.08	0.0005	0.08	
Assam	5,902	973	8,10,839	0.00120	7.08	1.09	0.0295	1.12	
Bihar	16,743	1,451	16,92,268	0.00086	14.40	3.10	0.0601	3.16	
Chhattisgarh	8,871	1,950	9,38,597	0.00208	18.45	1.64	0.0769	1.72	
Goa	1,274	420	2,12,398	0.00198	2.52	0.24	0.0105	0.25	
Gujarat	37,629	28,895	36,74,151	0.00786	295.76	6.96	1.2333	8.19	
Haryana	13,914	4,699	21,01,397	0.00224	31.17	2.57	0.1300	2.70	
Himachal Pradesh	789	420	4,59,580	0.00091	0.72	0.15	0.0030	0.15	
Jharkhand	11,043	1,062	8,88,133	0.00120	13.25	2.04	0.0553	2.10	
Karnataka	31,906	19,260	55,04,895	0.00350	111.67	5.90	0.4656	6.37	
Kerala	29,912	4,299	24,80,084	0.00173	51.75	5.53	0.2158	5.75	
Madhya Pradesh	26,499	10,896	19,44,724	0.00560	148.39	4.90	0.6188	5.52	
Maharashtra	64,254	1,32,509	83,49,127	0.01587	1,019.71	11.88	4.2521	16.13	
Manipur	1,111	27	86,737	0.00031	0.34	0.21	0.0014	0.21	
Meghalaya	720	21	97,432	0.00021	0.15	0.13	0.0006	0.13	
Mizoram	714	28	67,478	0.00042	0.30	0.13	0.0013	0.13	
Nagaland	1,175	80	76,465	0.00105	1.23	0.22	0.0051	0.23	
Odisha	9,213	1,731	13,61,752	0.00127	11.70	1.70	0.0488	1.75	
Punjab	13,547	4,771	13,95,528	0.00342	46.33	2.51	0.1932	2.70	
Rajasthan	22,796	4,499	26,25,291	0.00171	38.98	4.21	0.1625	4.37	
Sikkim	401	50	1,10,076	0.00045	0.18	0.07	0.0008	0.07	
Tamil Nadu	42,908	21,407	53,89,198	0.00397	170.34	7.93	0.7103	8.64	
Telangana	19,435	14,057	28,91,354	0.00486	94.45	3.59	0.3938	3.98	
Tripura	1,850	174	1,05,194	0.00166	3.07	0.34	0.0128	0.35	
Uttar Pradesh	59,858	8,917	45,73,548	0.00195	116.72	11.07	0.4867	11.56	
Uttarakhand	4,529	739	7,15,777	0.00103	4.66	0.84	0.0194	0.86	
West Bengal	38,570	9,389	32,82,245	0.00286	110.31	7.13	0.4600	7.59	
Total	4,86,778	2,81,858	5,41,45,139	0.07457	2,398.16	90.00	10.00	100.00	

Source: 1. Urban Population: Population Projection 2026 (Oct) – Report of the Technical Group on Population Projections, MoHFW (2020)

2. OSR Data: Data collected by FC-16 for ULBs on Cityfinance.in as on 28 August 2025 pertaining to 4,621 ULBs (96 per cent of total ULBs)

3. GSA Sector Wise Data: Comparable GSA estimates from MoSPI

Note: 1. Sum of Total Own Revenue of ULBs: 2021-22 to 2023-24

2. Secondary + Tertiary GSA: 2021-22 to 2023-24

Annexure 10.5

State-wise and Year-wise Local Body Grants (₹ crore)

State	2026-27		2027-28		2028-29		2029-30		2030-31		Total	
	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB
Andhra Pradesh	2,136	1,562	2,724	2,250	3,521	2,497	3,908	2,772	4,338	3,077	16,627	12,158
Arunachal Pradesh	218	30	278	43	360	48	399	53	443	59	1,698	233
Assam	1,873	417	2,388	601	3,088	668	3,427	741	3,804	822	14,580	3,249
Bihar	6,670	1,178	8,506	1,697	10,995	1,883	12,205	2,091	13,547	2,320	51,923	9,169
Chhattisgarh	1,498	641	1,911	923	2,470	1,025	2,742	1,138	3,043	1,263	11,664	4,990
Goa	22	93	29	134	37	149	41	166	45	184	174	726
Gujarat	2,415	3,053	3,080	4,398	3,982	4,881	4,419	5,418	4,906	6,014	18,802	23,764
Haryana	1,062	1,006	1,355	1,450	1,751	1,609	1,944	1,786	2,158	1,983	8,270	7,834
Himachal Pradesh	481	56	613	81	793	89	880	99	977	110	3,744	435
Jharkhand	1,828	783	2,331	1,127	3,014	1,252	3,345	1,389	3,713	1,542	14,231	6,093
Karnataka	2,427	2,374	3,094	3,420	4,000	3,797	4,440	4,214	4,928	4,678	18,889	18,483
Kerala	425	2,143	542	3,087	701	3,427	777	3,804	863	4,222	3,308	16,683
Madhya Pradesh	4,115	2,057	5,248	2,964	6,783	3,290	7,529	3,652	8,358	4,053	32,033	16,016
Maharashtra	4,216	6,012	5,376	8,661	6,949	9,614	7,714	10,671	8,562	11,845	32,817	46,803
Manipur	162	78	207	113	267	125	297	139	329	154	1,262	609
Meghalaya	190	49	242	70	313	77	348	86	386	95	1,479	377
Mizoram	73	49	93	70	120	77	133	86	148	95	567	377
Nagaland	90	86	114	123	147	137	164	152	182	169	697	667
Odisha	2,404	652	3,066	940	3,963	1,043	4,399	1,158	4,883	1,285	18,715	5,078
Punjab	1,090	1,006	1,390	1,450	1,797	1,609	1,995	1,786	2,214	1,983	8,486	7,834
Rajasthan	4,042	1,629	5,155	2,346	6,664	2,605	7,396	2,891	8,210	3,209	31,467	12,680
Sikkim	28	26	36	38	46	42	51	46	57	51	218	203
Tamil Nadu	2,175	3,220	2,773	4,639	3,585	5,149	3,980	5,716	4,417	6,345	16,930	25,069
Telangana	1,280	1,483	1,633	2,137	2,111	2,372	2,343	2,633	2,601	2,923	9,968	11,548
Tripura	151	130	193	188	249	209	276	232	307	257	1,176	1,016
Uttar Pradesh	10,695	4,309	13,640	6,207	17,631	6,890	19,571	7,648	21,724	8,489	83,261	33,543
Uttarakhand	520	321	663	462	857	513	951	569	1,056	632	4,047	2,497
West Bengal	3,623	2,829	4,620	4,075	5,972	4,524	6,629	5,021	7,359	5,574	28,203	22,023
Total	55,909	37,272	71,300	53,694	92,166	59,601	1,02,303	66,157	1,13,558	73,433	4,35,236	2,90,157

Annexure 10.6

RLB Basic and Performance Components (₹ crore)

State	2026-27		2027-28		2028-29		2029-30		2030-31		For Award Period (2026-27 till 2030-31)		
	Basic	Performance	Basic	Performance	Basic	Performance	Basic	Performance	Basic	Performance	Total Basic	Total Performance	Total Grants RLB
Andhra Pradesh	2,136	0	2,371	353	2,632	889	987	2,921	3,242	1,096	13,302	3,325	16,627
Arunachal Pradesh	218	0	242	36	269	91	101	298	331	112	1,358	340	1,698
Assam	1,873	0	2,078	310	2,308	780	866	2,561	2,843	961	11,663	2,917	14,580
Bihar	6,670	0	7,404	1,102	8,218	2,777	3,083	9,122	10,125	3,422	41,539	10,384	51,923
Chhattisgarh	1,498	0	1,663	248	1,846	624	693	2,049	2,275	768	9,331	2,333	11,664
Goa	22	0	25	4	28	9	10	31	34	11	140	34	174
Gujarat	2,415	0	2,681	399	2,976	1,006	1,116	3,303	3,667	1,239	15,042	3,760	18,802
Haryana	1,062	0	1,179	176	1,309	442	491	1,453	1,613	545	6,616	1,654	8,270
Himachal Pradesh	481	0	534	79	593	200	222	658	730	247	2,996	748	3,744
Jharkhand	1,828	0	2,029	302	2,253	761	845	2,500	2,775	938	11,385	2,846	14,231
Karnataka	2,427	0	2,693	401	2,990	1,010	1,122	3,318	3,683	1,245	15,111	3,778	18,889
Kerala	425	0	472	70	524	177	196	581	645	218	2,647	661	3,308
Madhya Pradesh	4,115	0	4,568	680	5,070	1,713	1,902	5,627	6,247	2,111	25,627	6,406	32,033
Maharashtra	4,216	0	4,679	697	5,194	1,755	1,948	5,766	6,399	2,163	26,254	6,563	32,817
Manipur	162	0	180	27	199	68	75	222	246	83	1,009	253	1,262
Meghalaya	190	0	211	31	234	79	88	260	288	98	1,183	296	1,479
Mizoram	73	0	81	12	90	30	34	99	110	38	453	114	567
Nagaland	90	0	99	15	110	37	42	122	136	46	557	140	697
Odisha	2,404	0	2,669	397	2,962	1,001	1,111	3,288	3,650	1,233	14,973	3,742	18,715
Punjab	1,090	0	1,210	180	1,343	454	504	1,491	1,655	559	6,789	1,697	8,486
Rajasthan	4,042	0	4,487	668	4,980	1,684	1,868	5,528	6,136	2,074	25,173	6,294	31,467
Sikkim	28	0	31	5	34	12	13	38	43	14	174	44	218
Tamil Nadu	2,175	0	2,414	359	2,679	906	1,005	2,975	3,301	1,116	13,544	3,386	16,930
Telangana	1,280	0	1,421	212	1,578	533	592	1,751	1,944	657	7,974	1,994	9,968
Tripura	151	0	168	25	186	63	70	206	230	77	941	235	1,176
Uttar Pradesh	10,695	0	11,872	1,768	13,177	4,454	4,943	14,628	16,236	5,488	66,608	16,653	83,261
Uttarakhand	520	0	577	86	640	217	240	711	789	267	3,237	810	4,047
West Bengal	3,623	0	4,021	599	4,463	1,509	1,674	4,955	5,500	1,859	22,562	5,641	28,203
Total	55,909	0	62,059	9,241	68,885	23,281	25,841	76,462	84,873	28,685	3,48,188	87,048	4,35,236

Annexure 10.7

ULB Basic and Performance Components (₹ crore)

State	2026-27		2027-28		2028-29		2029-30		2030-31		For Award Period (2026-27 till 2030-31)	
	Basic	Performance	Basic	Performance	Basic	Performance	Basic	Performance	Basic	Performance	Total Basic Grant	Total Performance Grant
Andhra Pradesh	1,562	0	1,734	516	1,924	573	2,136	636	2,371	706	9,727	2,431
Arunchal Pradesh	30	0	33	10	37	11	41	12	45	14	186	47
Assam	417	0	463	138	514	154	571	170	633	189	2,598	651
Bihar	1,178	0	1,307	390	1,451	432	1,611	480	1,788	532	7,335	1,834
Chhattisgarh	641	0	711	212	790	235	877	261	973	290	3,992	998
Goa	93	0	103	31	115	34	128	38	142	42	581	145
Gujarat	3,053	0	3,388	1,010	3,761	1,120	4,175	1,243	4,634	1,380	19,011	4,753
Haryana	1,006	0	1,117	333	1,240	369	1,376	410	1,528	455	6,267	1,567
Himachal Pradesh	56	0	63	18	68	21	76	23	85	25	348	87
Jharkhand	783	0	869	258	964	288	1,070	319	1,188	354	4,874	1,219
Karnataka	2,374	0	2,635	785	2,926	871	3,247	967	3,604	1,074	14,786	3,697
Kerala	2,143	0	2,379	708	2,641	786	2,931	873	3,253	969	13,347	3,336
Madhya Pradesh	2,057	0	2,284	680	2,535	755	2,814	838	3,123	930	12,813	3,203
Maharashtra	6,012	0	6,673	1,988	7,408	2,206	8,222	2,449	9,127	2,718	37,442	9,361
Manipur	78	0	87	26	96	29	107	32	119	35	487	122
Meghalaya	49	0	54	16	59	18	66	20	74	21	302	75
Mizoram	49	0	54	16	59	18	66	20	74	21	302	75
Nagaland	86	0	95	28	106	31	117	35	130	39	534	133
Odisha	652	0	724	216	804	239	892	266	990	295	4,062	1,016
Punjab	1,006	0	1,117	333	1,240	369	1,376	410	1,528	455	6,267	1,567
Rajasthan	1,629	0	1,808	538	2,007	598	2,228	663	2,473	736	10,145	2,535
Sikkim	26	0	29	9	32	10	36	10	39	12	162	41
Tamil Nadu	3,220	0	3,574	1,065	3,967	1,182	4,404	1,312	4,889	1,456	20,054	5,015
Telangana	1,483	0	1,647	490	1,828	544	2,029	604	2,252	671	9,239	2,309
Tripura	130	0	145	43	161	48	179	53	198	59	813	203
Uttar Pradesh	4,309	0	4,783	1,424	5,309	1,581	5,893	1,755	6,541	1,948	26,835	6,708
Uttarakhand	321	0	356	106	395	118	438	131	487	145	1,997	500
West Bengal	2,829	0	3,140	935	3,486	1,038	3,869	1,152	4,295	1,279	17,619	4,404
Total	37,272	0	41,372	12,322	45,923	13,678	50,975	15,182	56,583	16,850	2,32,125	58,032
												2,90,157

Annexure 10.8

RLB Performance Components (₹ crore)

State	2026-27		2027-28		2028-29		2029-30		2030-31		For Award Period (2026-27 till 2030-31)	
	RLB	State	RLB	State	RLB	State	RLB	State	RLB	State	Total RLB	Total State
Andhra Pradesh	0	0	0	353.0	497.0	392.0	552.0	435.0	613.5	482.5	1,662.5	1,662.5
Arunachal Pradesh	0	0	0	36.0	51.0	40.0	57.0	44.0	62.0	50.0	170.0	170.0
Assam	0	0	0	310.0	436.0	344.0	485.0	381.0	537.5	423.5	1,458.5	1,458.5
Bihar	0	0	0	1,102.0	1,554.0	1,223.0	1,725.0	1,358.0	1,913.0	1,509.0	5,192.0	5,192.0
Chhattisgarh	0	0	0	248.0	349.0	275.0	388.0	305.0	429.5	338.5	1,166.5	1,166.5
Goa	0	0	0	4.0	5.0	4.0	6.0	4.0	6.0	5.0	17.0	17.0
Gujarat	0	0	0	399.0	563.0	443.0	624.0	492.0	693.0	546.0	1,880.0	1,880.0
Haryana	0	0	0	176.0	247.0	195.0	275.0	216.0	305.0	240.0	827.0	827.0
Himachal Pradesh	0	0	0	79.0	112.0	88.0	124.0	98.0	138.0	109.0	374.0	374.0
Jharkhand	0	0	0	302.0	426.0	335.0	473.0	372.0	524.0	414.0	1,423.0	1,423.0
Karnataka	0	0	0	401.0	565.0	445.0	627.0	495.0	697.0	548.0	1,889.0	1,889.0
Kerala	0	0	0	70.0	99.0	78.0	110.0	86.0	121.5	96.5	330.5	330.5
Madhya Pradesh	0	0	0	680.0	958.0	755.0	1,064.0	838.0	1,181.0	930.0	3,203.0	3,203.0
Maharashtra	0	0	0	697.0	982.0	773.0	1,090.0	858.0	1,209.5	953.5	3,281.5	3,281.5
Manipur	0	0	0	27.0	38.0	30.0	42.0	33.0	46.5	36.5	126.5	126.5
Meghalaya	0	0	0	31.0	44.0	35.0	49.0	39.0	55.0	43.0	148.0	148.0
Mizoram	0	0	0	12.0	17.0	13.0	19.0	15.0	21.0	17.0	57.0	57.0
Nagaland	0	0	0	15.0	21.0	16.0	23.0	19.0	26.0	20.0	70.0	70.0
Odisha	0	0	0	397.0	560.0	441.0	621.0	490.0	690.0	543.0	1,871.0	1,871.0
Punjab	0	0	0	180.0	254.0	200.0	282.0	222.0	312.5	246.5	848.5	848.5
Rajasthan	0	0	0	668.0	942.0	742.0	1,045.0	823.0	1,160.0	914.0	3,147.0	3,147.0
Sikkim	0	0	0	5.0	7.0	5.0	7.0	6.0	8.0	6.0	22.0	22.0
Tamil Nadu	0	0	0	359.0	507.0	399.0	562.0	443.0	624.0	492.0	1,693.0	1,693.0
Telangana	0	0	0	212.0	298.0	235.0	331.0	261.0	368.0	289.0	997.0	997.0
Tripura	0	0	0	25.0	35.0	28.0	39.0	31.0	43.5	33.5	117.5	117.5
Uttar Pradesh	0	0	0	1,768.0	2,491.0	1,963.0	2,765.0	2,178.0	3,070.5	2,417.5	8,326.5	8,326.5
Uttarakhand	0	0	0	86.0	121.0	96.0	134.0	106.0	150.0	117.0	405.0	405.0
West Bengal	0	0	0	599.0	844.0	665.0	936.0	738.0	1,040.5	818.5	2,820.5	2,820.5
Total	0	0	0	9,241.0	13,023.0	10,258.0	14,455.0	11,386.0	16,046.0	12,639.0	43,524.0	43,524.0

Annexure 10.9

ULB Performance Components (₹ crore)

State	2026-27		2027-28		2028-29		2029-30		2030-31		For Award Period (2026-27 till 2030-31)	
	ULB	State	ULB	State	ULB	State	ULB	State	ULB	State	Total ULB	Total State
Andhra Pradesh	0	0	258.0	258.0	286.5	286.5	318.0	318.0	353.0	353.0	1,215.5	1,215.5
Arunachal Pradesh	0	0	5.0	5.0	5.5	5.5	6.0	6.0	7.0	7.0	23.5	23.5
Assam	0	0	69.0	69.0	77.0	77.0	85.0	85.0	94.5	94.5	325.5	325.5
Bihar	0	0	195.0	195.0	216.0	216.0	240.0	240.0	266.0	266.0	917.0	917.0
Chhattisgarh	0	0	106.0	106.0	117.5	117.5	130.5	130.5	145.0	145.0	499.0	499.0
Goa	0	0	15.5	15.5	17.0	17.0	19.0	19.0	21.0	21.0	72.5	72.5
Gujarat	0	0	505.0	505.0	560.0	560.0	621.5	621.5	690.0	690.0	2,376.5	2,376.5
Haryana	0	0	166.5	166.5	184.5	184.5	205.0	205.0	227.5	227.5	783.5	783.5
Himachal Pradesh	0	0	9.0	9.0	10.5	10.5	11.5	11.5	12.5	12.5	43.5	43.5
Jharkhand	0	0	129.0	129.0	144.0	144.0	159.5	159.5	177.0	177.0	609.5	609.5
Karnataka	0	0	392.5	392.5	435.5	435.5	483.5	483.5	537.0	537.0	1,848.5	1,848.5
Kerala	0	0	354.0	354.0	393.0	393.0	436.5	436.5	484.5	484.5	1,668.0	1,668.0
Madhya Pradesh	0	0	340.0	340.0	377.5	377.5	419.0	419.0	465.0	465.0	1,601.5	1,601.5
Maharashtra	0	0	994.0	994.0	1,103.0	1,103.0	1,224.5	1,224.5	1,359.0	1,359.0	4,680.5	4,680.5
Manipur	0	0	13.0	13.0	14.5	14.5	16.0	16.0	17.5	17.5	61.0	61.0
Meghalaya	0	0	8.0	8.0	9.0	9.0	10.0	10.0	10.5	10.5	37.5	37.5
Mizoram	0	0	8.0	8.0	9.0	9.0	10.0	10.0	10.5	10.5	37.5	37.5
Nagaland	0	0	14.0	14.0	15.5	15.5	17.5	17.5	19.5	19.5	66.5	66.5
Odisha	0	0	108.0	108.0	119.5	119.5	133.0	133.0	147.5	147.5	508.0	508.0
Punjab	0	0	166.5	166.5	184.5	184.5	205.0	205.0	227.5	227.5	783.5	783.5
Rajasthan	0	0	269.0	269.0	299.0	299.0	331.5	331.5	368.0	368.0	1,267.5	1,267.5
Sikkim	0	0	4.5	4.5	5.0	5.0	5.0	5.0	6.0	6.0	20.5	20.5
Tamil Nadu	0	0	532.5	532.5	591.0	591.0	656.0	656.0	728.0	728.0	2,507.5	2,507.5
Telangana	0	0	245.0	245.0	272.0	272.0	302.0	302.0	335.5	335.5	1,154.5	1,154.5
Tripura	0	0	21.5	21.5	24.0	24.0	26.5	26.5	29.5	29.5	101.5	101.5
Uttar Pradesh	0	0	712.0	712.0	790.5	790.5	877.5	877.5	974.0	974.0	3,354.0	3,354.0
Uttarakhand	0	0	53.0	53.0	59.0	59.0	65.5	65.5	72.5	72.5	250.0	250.0
West Bengal	0	0	467.5	467.5	519.0	519.0	576.0	576.0	639.5	639.5	2,202.0	2,202.0
Total	0	0	6,161.0	6,161.0	6,839.0	6,839.0	7,591.0	7,591.0	8,425.0	8,425.0	29,016.0	29,016.0

Annexure 10.10

Conditions of Basic and Performance Grants

Entry Level Conditions	Applicable to	2026-27	2027-28	2028-29	2029-30	2030-31
Duly elected local bodies	State Government					
Online public availability of Audited Accounts of (T-2) th Financial year and Provisional accounts of (T-1) th Financial year to avail LB grants of T th year.	Local Bodies					
Constitution of SFCs, and laying of SFC report and its Action Taken Report (ATR) within six months of SFC report submission to State	State Government					
Performance Conditions	Applicable to	2026-27	2027-28	2028-29	2029-30	2030-31
The States would be required to transfer a matching grant of minimum 20 per cent of the Central Finance Commission's basic grants to Local Bodies	State Government					
Annual increase in OSR to be at least 5 per cent	Urban Local Bodies					
Increase in OSR by 2.5 per cent and exceeding the minimum OSR slab for GPs, 75 per cent GPs qualifying the performance criteria for BPs and an increase of 2.5 per cent for DPs	Rural Local Bodies					

Special Infrastructure Component: Eligible Cities

City	State	Population (Census 2011)
Pune	Maharashtra	31,24,458
Jaipur	Rajasthan	30,46,163
Lucknow	Uttar Pradesh	28,17,105
Kanpur	Uttar Pradesh	27,65,348
Nagpur	Maharashtra	24,05,665
Indore	Madhya Pradesh	19,64,086
Bhopal	Madhya Pradesh	17,98,218
Vishakhapatnam	Andhra Pradesh	17,28,128
Patna	Bihar	16,84,222
Vadodara	Gujarat	16,70,806
Ludhiana	Punjab	16,18,879
Faridabad	Haryana	14,14,050
Rajkot	Gujarat	12,86,678
Dhanbad	Jharkhand	11,62,472
Amritsar	Punjab	11,32,383
Howrah	West Bengal	10,77,075
Ranchi	Jharkhand	10,73,427
Coimbatore	Tamil Nadu	10,50,721
Vijayawada	Andhra Pradesh	10,34,358
Jodhpur	Rajasthan	10,33,756
Madurai	Tamil Nadu	10,17,865
Raipur	Chhattisgarh	10,10,433

Annexure 10.12

List of States Forming Their SFCs after Recommendations of the FC-15

State	SFC Constituted on
Andhra Pradesh (5th SFC)	March, 2023
Arunachal Pradesh (3rd SFC)	December, 2024
Assam (7th SFC)	July, 2024
Chhattisgarh (4th SFC)	July, 2021
Gujarat (4th SFC)	November, 2024
Himachal Pradesh (7th SFC)	March, 2024
Jharkhand (5th SFC)	January, 2024
Karnataka (5th SFC)	October, 2023
Kerala (7th SFC)	September, 2024
Maharashtra (6th SFC)	April, 2025
Mizoram (2nd SFC)	April, 2021
Nagaland (4th SFC)	October, 2024
Odisha (6th SFC)	January, 2025
Rajasthan (6th SFC)	April, 2021
Sikkim (6th SFC)	June, 2022
Telangana (2nd SFC)	February, 2024
Uttar Pradesh (6th SFC)	January, 2024
Uttarakhand (6th SFC)	January, 2025
West Bengal (6th SFC)	December, 2024

Source: Indian Institute of Public Administration compilation from various SFC reports (April 2025)