GOVERNMENT OF UTTARAKHAND · URBAN DEVELOPMENT DIRECTORATE

Enhancing the Financial Position of Urban Local Bodies

Why strong municipal finances now decide what your city can build — and what UDD is putting in place to help

Workshop with Urban Local Bodies · 5 October 2026

THE BIG PICTURE

Urban finance has shifted — from grants to the market

Until now

- Cities ran largely on grants — Finance Commission, State transfers, AMRUT, SBM
- Own revenue optional; weak accounts tolerated
- Infrastructure limited to what grants could buy
- No borrowing, no rating, no market access

From now

- Central funds are capped and reform-linked — cities must raise most of the money themselves
- Grants released only to ULBs that publish audited accounts (FC-XVI)
- Big projects need bonds, bank loans and PPP — which need a credit rating
- Finance is now a precondition for infrastructure, not a by-product

A ULB's financial health now directly determines how much it can invest in its citizens.

FC-XVI: your grant now depends on your books

The 16th Finance Commission (2026–31) ties urban grants to three entry conditions and a performance test. The grant comes to the State only in proportion to the ULBs that comply — so each non-compliant ULB reduces everyone's share.

1

Publish accounts online

Provisional accounts (last year) and audited accounts (year before) — in the public domain

2

State Finance Commission

Timely constitution of the SFC (a State-level condition)

3

Grow own revenue

20% of the grant is performance-linked — needs ≥ 5% annual growth in own-source revenue

What this means for you: a ULB that cannot show audited accounts or grow its revenue loses both its entry to the grant and its performance share. Madhya Pradesh forfeited a large part of its urban grant under FC-XV for exactly this reason.

DRIVER 2 — THE PRIME EXAMPLE

The Urban Challenge Fund: 25 paisa from Delhi, 75 you raise

UCF (guidelines April 2026) is ₹1 lakh crore of central money meant to unlock ₹4 lakh crore of investment — but it is market-linked, not a grant. For every rupee of project cost:

25%

Central assistance

from the UCF

50%

Market finance

municipal bonds, bank loans, PPP — needs a credit rating

25%

Own / State share

from own-source revenue and State funds

Uttarakhand's share — and the catch

The State's indicative UCF project size is about **₹3,000 crore, of which only ₹750 crore (25%) is central assistance.** The remaining ~₹2,250 crore must be raised by our ULBs through borrowing and own resources. A city that is not credit-ready simply cannot draw its share — the money goes to States that are ready.

THE HONEST MIRROR

Where our ULBs stand today

Nil

ULBs with a credit rating — so none can borrow from the market yet

2–5 yrs

Typical backlog of unaudited annual accounts in many ULBs

Low

Own-source revenue — property tax under-assessed, user charges below cost

Not valued

Municipal land, shops and assets not recorded or valued on a balance sheet

None of this is about intent or systems — UPYOG and GIS are already in place. The missing piece is dedicated financial capacity at the ULB level. That is what UDD's plan supplies.

The goal of this session: move every ULB from grant-dependent to credit-ready.

WHAT IT TAKES

Three things every ULB now needs

1. Audited accounts

Accrual-based, NMAM-compliant books, closed on time and published online

Why it matters: Unlocks FC-XVI grant; the base for everything else

2. Growing own revenue

Property tax base widened, user charges rationalised, arrears recovered

Why it matters: Meets the 5% OSR test; funds the 25% own share

3. Creditworthiness & rating

A valued asset base, a healthy balance sheet, and a credit rating

Why it matters: Opens bonds, bank loans and the 50% market share for UCF

UDD'S PLAN

What the Directorate is putting in place

1

Municipal Financial Advisors

Professional teams, one per district cluster, to help your ULB prepare accounts, budgets, valuations and a credit rating

Under SPFM Project

2

UPYOG Finance & Accounting module

A single State system for accrual, NMAM-compliant accounts — with online publication built in

Live on UPYOG

3

State Revolving Fund (UCGIF)

A credit-guarantee and infrastructure fund so even small ULBs can access affordable market finance

Design study proposed

4

Capacity building

Training and handholding so ULB staff run the systems and sustain the reforms

Continuous

I

INSTRUMENT I

Municipal Financial Advisors

Professional advisory teams, one per district cluster, that build each ULB's own financial capacity — under the SPFM Project.

A finance team that trains yours — not one that replaces it

Firms are empanelled as Municipal Financial Advisors (MFAs) and assigned district clusters. The model is deliberately advisory and capacity-building: ULB staff keep doing the day-to-day work, with the MFA enabling, reviewing and leading the specialist tasks.

What the MFA does

- Trains & mentors ULB accounts and revenue staff
- Supplies methodology, templates, checklists, SOPs, Finance Manual
- Reviews, corrects and certifies ULB outputs; coordinates audit
- Directly leads valuation, OSR strategy, creditworthiness and rating

What the MFA does NOT do

- Maintain the ULB's day-to-day books or do data entry
- Replace ULB accounts staff — routine work stays with the ULB on UPYOG
- Run a large fixed team in every cluster regardless of size

Why this matters: the capability — and the FC-XVI compliance — stays with the ULB after the contract ends.

13 district clusters, team scaled to ULB count

Cluster size	Districts	Lead	Assoc.	Team
20 ULBs	Udham Singh Nagar	1	3	**4**
14 ULBs	Haridwar	1	2	**3**
11 ULBs	Chamoli, Tehri	1	2	**3**
7 ULBs	Dehradun, Pauri, Nainital	1	1	**2**
6 ULBs	Uttarkashi, Rudraprayag, Pithoragarh	1	1	**2**
3–5 ULBs	Almora, Champawat, Bageshwar	1	0	**1**

28 field professionals in all — 13 Cluster Leads + 15 Associates. The four smallest hill districts run on a single advisor.

28 field **+ 5** HQ

UDD HQ Monitoring PMU

- PMU Lead (senior CA)
- 2 specialists — accounting & audit; revenue & credit
- 2 analysts — MIS/UPYOG; monitoring

Procured under SPFM via QCBS — specialist pool (valuation, rating, revenue) shared across clusters on call.

Getting the fundamentals right

WP-1 Accounts & financial statements

Opening balance sheet; accrual, NMAM-compliant books; clear the audit backlog; get accounts audited and published online

WP-2 Budgeting & medium-term fiscal plan

Realistic annual budget; rolling 3-year fiscal plan; budget-vs-actual monitoring; grant-utilisation planning

WP-3 Asset register & valuation

Physically verify and geo-tag all assets; fair valuation of land, buildings and infrastructure; asset-monetisation plan

WP-4 Own-source revenue enhancement

Reconcile GIS survey with tax demand; widen base; rationalise charges; recover arrears; e-collection — a Revenue Action Plan per ULB

Building creditworthiness and making it last

WP-5 Creditworthiness & credit rating

Financial-health diagnostic; obtain a credit rating from a SEBI-registered agency; credit-enhancement roadmap; bankable project pipeline

WP-6 Statutory compliance & reporting

FC-XVI, AMRUT 2.0, SFC, PFMS returns on time; compliance calendar; inputs for the State's grant claims and SPFM indicators

WP-7 Capacity building & handholding

Classroom + on-the-job training; SOPs and Finance Manual in Hindi; progressive handover so ULB staff run the systems

WP-8 MIS, data & coordination

UPYOG as the single system of record; monthly cluster dashboards to UDD; coordination with audit, GIS and other consultants

A 36-month path, with milestones you can hold us to

1	T + 2 mo	Inception & ULB-wise diagnostic
2	T + 8 mo	Opening balance sheet for every ULB
3	T + 12 mo	Backlog accounts cleared; asset registers & valuation; Revenue Action Plan
4	T + 18 mo	Credit rating for all Nagar Nigams; Finance Manual & SOPs
5	T + 30 mo	Ratings / credit-enhancement roadmaps for Nagar Palikas
6	T + 36 mo	Handover — ULB staff certified to run the systems independently

What your ULB gets, and how we measure it

What your ULB gets

- An audited opening balance sheet and current annual accounts
- A geo-tagged, valued asset register
- A higher, measurable own-source revenue
- A credit rating and a pipeline of bankable projects
- Trained staff who can sustain all of the above

₹22–28 cr over 3 years

Funded under SPFM — not from your ULB budget

Key targets (by Year 3)

- 100% of ULBs with audited accounts published online
- 100% of Nagar Nigams credit-rated
- OSR growth well above the 5% FC-XVI bar

II

INSTRUMENT II

UPYOG Finance & Accounting Module

One State platform for accrual, NMAM-compliant municipal accounts — with FC-XVI online publication built in.

From cash-book registers to a live double-entry system

UPYOG's Municipal Finance & Accounting module replaces fragmented, offline cash books with a single, State-wide accrual accounting system in the National Municipal Accounts Manual (NMAM) format — the same for every ULB.

Today in most ULBs

Cash / hybrid basis; offline registers; accounts closed late; no standard format; audit backlog of years

With UPYOG F&A

Accrual, double-entry, NMAM codes; live ledgers; statements at a click; same format State-wide; audit-ready

NMAM accrual accounting is the foundation the Financial Advisors, the credit rating and FC-XVI compliance all stand on.

What the module actually does

NMAM chart of accounts

Function + account codes; standard across all ULBs

Double-entry vouchers

Receipt, payment, journal, contra — with approval workflow

Cash & bank book + reconciliation

Daily cash/bank position; automated bank reconciliation

Grants & UC tracking

Scheme-wise grant registers and utilisation certificates

Deposits, advances, loans

Registers for earnest money, advances and borrowings

Statutory deductions

TDS, GST and other deductions tracked and reported

Budgeting

Budget preparation and live budget-vs-actual monitoring

Financial statements

Balance sheet, I&E, R&P and cash-flow generated automatically

Role-based access and a full audit trail throughout — every entry is traceable.

The four statements — and FC-XVI compliance by default

1

Balance Sheet

Assets, liabilities and municipal fund at a point in time

2

Income & Expenditure

Revenue performance over the year (accrual)

3

Receipts & Payments

All cash in and out — the cash view

4

Cash Flow

Operating, investing and financing flows

FC-XVI compliance, built in

These statements are generated from the live ledgers and can be published directly to the public domain — **the exact FC-XVI entry condition (provisional accounts for last year, audited accounts for the year before).** The State dashboard shows UDD every ULB's closure status, budget execution and demand-collection in real time.

One source of truth across UPYOG

Accounting does not sit in isolation — it draws from and feeds the other UPYOG modules, so demand, collection and accounts always reconcile.

Property tax

Demand & collections post straight to income and DCB

User charges

Water, sewerage, SWM, trade licence — billed and accounted

Online collections

Payment gateway, UPI; receipts auto-reconciled

PFMS / treasury

Grant receipts and payments linked to the State system

Asset module

Fixed-asset register feeds the balance sheet

Citizen portal

Self-assessment, payments, grievances — one front door

Result: no parallel registers, no reconciliation disputes — one set of numbers that the auditor and the rating agency can both trust.

How we get there — and what your ULB must do

How it rolls out

- Financial Advisors configure the module for each ULB
- Legacy data and opening balances migrated in
- ULB staff trained; backlog accounts closed on the system
- Statements generated, audited and published
- UDD dashboard goes live for the cluster

What your ULB must do

- Do ALL accounting on UPYOG — no parallel offline books
- Assign accounts staff to work with the Advisor and get trained
- Open up records, bank details and GIS data for migration
- Approve and publish accounts and budget on time
- Keep it running after the Advisors hand over

III

INSTRUMENT III

UCGIF — the Revolving Fund Study

A proposed State credit-guarantee and pooled-finance fund, so even small ULBs can borrow affordably — design study under SPFM.

The market model leaves small ULBs out

UCF and the 25:50:25 model assume a ULB can raise bonds or bank loans for the 50% market share. For most of Uttarakhand's ULBs, that assumption does not hold:

No rating

Without a credit rating, lenders and bond markets will not touch them

Too small

Individual loan/bond sizes are too small to interest investors

High cost

Transaction, legal and issuance costs dwarf a small ULB's borrowing

Weak balance sheet

No valued assets or track record to offer as comfort

The fix is not to wait for each small ULB to become bankable alone — it is to aggregate them and enhance their credit. That is what UCGIF does.

A State fund with four financing windows

1

Credit Guarantee

Guarantees ULB loan repayment so banks lend at lower rates and longer tenure — alongside UCF's own credit-repayment guarantee

2

Pooled Finance

Bundles many small ULBs into a single, rated bond issue the market will buy — via a State Pooled Finance Entity

3

Bridge / Gap Finance

Funds the 25% own-share and early project costs until grants and loans arrive

4

Project Development

Funds DPRs, transaction advice and rating costs to build a bankable pipeline

Many small ULBs, one bond the market will buy

1	**State sets up an SPFE**	A State Pooled Finance Entity (Trust/SPV) — the issuer
2	**ULBs pool their projects**	Several ULBs' bankable projects bundled into one programme
3	**SPFE issues one bond**	A single, larger, rated (and possibly tax-free) issue to the market
4	**Proceeds on-lent to ULBs**	Each ULB draws its share; repays from its own revenues
5	**Credit enhancement**	A State-funded reserve + guarantee + revenue escrow de-risks investors

This is exactly how Tamil Nadu's Water & Sanitation Pooled Fund raised India's first pooled municipal bond for 13 small ULBs.

A rupee of State money, working many times over

It leverages, it doesn't just spend

- The corpus seeds guarantees and a reserve — it is not handed out as grant
- Each rupee of guarantee/reserve can unlock several rupees of lending
- Loan repayments flow back into the fund
- The recovered money finances the next set of ULB projects
- Over time the fund sustains itself — it revolves

The contrast

A grant is spent once and gone.

A revolving fund keeps working — the same State capital de-risks loan after loan, and the market, not the State budget, supplies the bulk of the money.

Not an experiment — India has done this before

PFDF (GoI, 2006)

The Pooled Finance Development Fund Scheme gives States credit-enhancement support and a Credit Rating Enhancement Fund to issue pooled, tax-free municipal bonds through State Pooled Finance Entities.

WSPF, Tamil Nadu

The Water & Sanitation Pooled Fund issued India's first pooled municipal bond — ₹30.41 crore in 2002–03 — for 13 small and medium ULBs that could never have borrowed alone.

KWSPF, Karnataka

Karnataka's pooled fund raised money for the Greater Bangalore water & sanitation programme (2005), on the same State-entity-plus-credit-enhancement structure.

UCGIF would be Uttarakhand's State Pooled Finance Entity — complementing UCF's own ₹5,000 crore Credit Repayment Guarantee Sub-Scheme, and tailored to our hill-State ULBs.

What the design study will settle

UCGIF is at concept stage. A study funded under SPFM will work out the design before any money is committed — so the structure is sound, ring-fenced and professionally run.

Corpus & capitalisation

How large, and funded from where — State, SPFM, grants, returns

Window design & pricing

Guarantee, pooled, bridge, project-development terms and fees

Leverage & risk framework

How far the corpus stretches; reserve ratios; default management

Legal form & SPFE set-up

Trust or company; registration as the State Pooled Finance Entity

Governance

Independent board, ring-fenced from the State budget, professional fund management

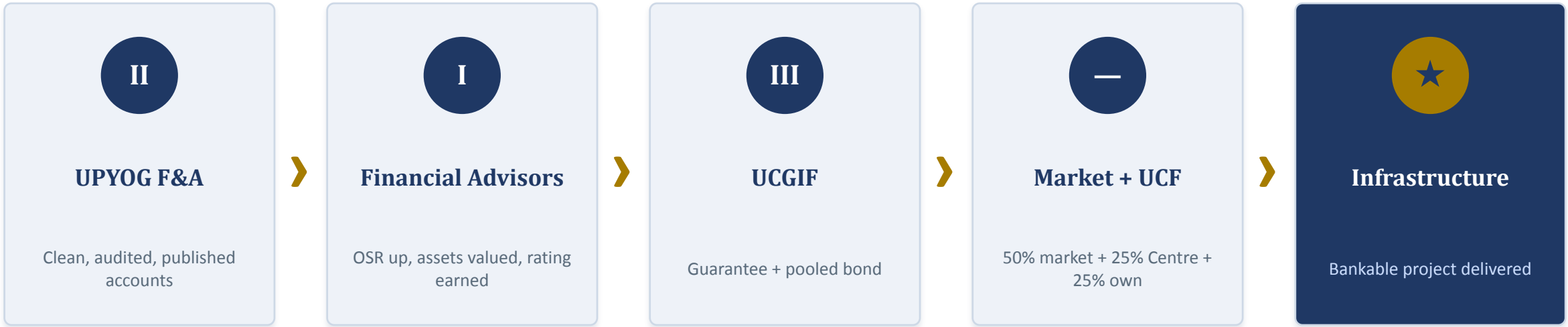
Pipeline & eligibility

Which ULBs and projects qualify, and how they are appraised

Monitored by UDD under SPFM — a standalone State proposal, examined on its own merits.

HOW THE THREE CONNECT

Each instrument hands off to the next



The people (I) build what the system (II) records, so the fund (III) can turn it into infrastructure.

WHAT WE ASK OF EACH ULB

Five things to start now

1

Assign a nodal officer

Name an EO/finance person and 1–2 accounts staff to work with the Financial Advisor

2

Go fully onto UPYOG

Do all accounting on the module; stop parallel registers; open up records and GIS data

3

Clear the audit backlog

Prioritise closing and getting pending annual accounts audited and published

4

Push own revenue

Reconcile the GIS survey with the tax demand; chase arrears; place revised charges before the board

5

Build a project pipeline

Identify 1–2 revenue-generating or bankable projects for UCF / market finance

IMMEDIATE NEXT STEPS

What happens after today

This month

UDD finalises the Financial Advisor clusters and the RFP; UPYOG onboarding support identified

Oct 2026

Nov–Dec

Advisors procured under SPFM; ULB nodal officers notified; audit calendar agreed with Local Fund Audit

Nov–Dec 2026

Jan–Mar

Advisor teams deploy to clusters; backlog accounts and opening balance sheets taken up

Q1 2027

2027–28

First ULBs rated; UCGIF design study; first UCF-ready project pipeline prepared

FY 2027–28

THE MESSAGE TO TAKE BACK

From grant-dependent to credit-ready

Publish your accounts. Grow your revenue. Earn a rating. The Directorate will supply the advisors, the system and the fund — the ULBs that move first will be the ones that build.

Urban Development Directorate, Government of Uttarakhand