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**Thirteenth Finance Commission on
Urban Governance and Service
Delivery: Some Neglected
Recommendations**

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THE PRESIDENT of India under Article 280 of the Constitution has recently constituted the 14th Finance Commission with wide terms of references including the one related to urban governance and municipalities. At this time, it may worth recalling the fate of a few recommendations made by the 13th Finance Commission (hereinafter 'the Commission') under sub-clause 280(3) (bb) & (c) for the period 2010-15 related to urban governance. These recommendations include those made in the Chapter on Local Bodies of the Report of the Commission. However, recommendations to operate the grants including incentive grants for general performance under nine conditions for municipalities have been excluded in this article as these recommendations have been seriously viewed by the Union and states. Besides, the Commission made far reaching recommendations to improve urban governance and strengthen municipality of all levels. Some of the concerns emanated from these recommendations and an advisory to states on these points is as follows:

1. In some states development authorities do not share revenue with municipalities at all. Other states mandated statutory transfer of funds from these authorities to municipalities. Still others have administrative arrangements aimed at this. One of the reform measures mandated under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is 'assigning or associating elected municipalities with city planning functions and transferring all special delivery civic services in urban areas to municipalities over specified period'. Ideally, development authorities should be dissolved and their functions need to be taken over by the statutory bodies including municipalities in whose jurisdiction they operate.
2. The substantial increase in the volume of transfers to local bodies envisaged by the Commission requires that state governments strengthen their audit framework. While the C&AG could provide technical guidance and supervision, the major portion of the work will have to be undertaken by the local fund audit department.

Written by Administrator

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Hence, all state governments need to strengthen their local fund audit departments appropriately through both capacity building as well as augmentation of personnel.

3. Many out of the 62 cantonments in the country are now located within city boundaries. It is necessary that the development plans made for the city incorporate the civilian portions of the cantonment areas as well. The development plans for the civilian areas within the cantonment areas (excluding the areas under the active control of the forces) need to be brought before the district planning committees. This would also enable integration of services like water supply and schemes like JNNURM from the other areas into the cantonment areas.
4. The states may allocate a portion of their share of the general basic grant and general performance grant to the special areas covered by the fifth and sixth schedule in proportion to the population of these areas. This will also promote uniformity of approach across all states in the country in the matter of devolution to local bodies. This allocation will be in addition to the special area basic grant and special area performance grant recommended by the Commission in Para 10.148 of the Report.
5. A portion of the grants provided by the respective Commissions to the municipalities need to be spent on revamping of the fire services within their respective jurisdictions. These municipalities could provide financial support to the State Fire Services Department towards this objective. In this process, they could draw upon the expertise of state agencies and the National Disaster Management Agency, as required.
6. There is no substitute for municipalities raising their own tax and non-tax revenues and for state governments augmenting their tax assignment and transfers to them. Municipalities must be encouraged to fully exploit those taxation powers which have been assigned to them by their respective state governments. They should be in a position, not only to fully exploit sources like property tax and profession tax, but also to recover at least maintenance costs for services like water supply, solid waste management and sewerage. Besides, non-tax revenue also requires special attention. Where construction of a road has led to tangible commercial benefits, a suitable user charge could be considered.
7. Given the rapid growth in urban population and the need to improve urban infrastructure, municipalities need to look for market-based financing to provide additional funds for infrastructure investments. Since 1998, municipalities in states have raised funds through both taxable and tax-free municipal

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bonds to the tune of Rs. 1200 crore. Several of these municipal bonds have been issued without state government guarantees. In recent years, the Tamil Nadu Urban Development Fund and the Greater Bengaluru Water Supply and Sewerage Project have raised funds through the pooled financing arrangements, which allows municipalities to pool their resources and jointly access the capital market. Although the municipal bond market has been limited so far, more and more municipalities are expected, in future, to be able to access market-based financing for urban infrastructure, using the pooled finance model. However, proper accounting and audit mechanisms and adequate transparency would be critical for the success of the municipal bond issues. Hence, the emphasis need to be on the quality of accounting and auditing processes as well as data on all aspects of the functioning of municipalities.

8. The state government may provide, gradually, a specified level of service for each of the indicators for the four service sectors of water supply, sewerage, storm water drainage and solid waste management, as mentioned in the Handbook or Service level Benchmark, published by the Ministry of Urban Development, for all local bodies both urban and rural beyond, municipal corporations and municipalities. Such a commitment is to be achieved through a consultative process with the local bodies.
9. State governments could consider gradually putting in place the ombudsman system to cover all local body functionaries including gram panchayats, block panchayats and nagar panchayats.
10. There is a feeling that while natural resources are extracted from resource rich areas, the local population does not benefit from the exploitation of these resources. Hence, state governments need to share a portion of their income from royalties with those local bodies from whose jurisdiction such income originates.

Adoption of these recommendations of the Commission will go a long way to ensure sustainable, orderly and integrated development of urban areas in the State. The state government could initiate concrete actions in this regard to improve the service delivery and the life of the citizens in the State before the 14th Finance Commission start to have a fresh look and reiterate.

Reference

Thirteenth Finance Commission (2009) Volume I: Report and Volume II Annexes.