

XV Finance Commission Report for 2020-21

Chapter 5- Empowering Local Bodies: *A Summary*

The [report](#) published by the XV Finance Commission in November 2019 includes recommendations for the period 2020-2021. The Commission's term has been extended to cover financial years 2021-2022 to 2025-2026, and their final report is due in October 2020.

The [Explanatory Memorandum](#) on the action taken on recommendations made by the Commission indicate that recommendations on grants to local bodies for 2020-21 have been accepted by the Government of India.

10 February 2020

Highlights

- Substantive increase in grants to Urban Local Bodies (ULBs) to c. Rs 30,000 cr, an increase of 29% from grants in 2019-20.
- Special focus on metropolitan governance through 100% performance linked grants (Rs 9,229 cr) for 50 million+ Urban Agglomerations (UAs) tied to air quality, water and sanitation. These 50 UAs comprise 264 ULBs and 40% of urban population.
- For the other 3,771 ULBs, grants of Rs 20,021 cr with 50% untied and the remaining 50% tied specifically to drinking water and solid waste management.
- To be eligible for ANY grant from 2021-2022, ULBs to meet two entry level conditions – (i) notifying floor or minimum rates of property tax and thereafter show improvement in revenue AND (ii) timely submission of audited accounts.
- MoHUA to create a national online platform for publication of ULB accounts and CAG to lead the efforts to build an integrated accounting system to facilitate integrated view of ULB accounts with state accounts, leveraging the IFMIS/PFMS.

Grants to local bodies : 2020-2021

Rs cr

Particulars	XV FC 2020-21	XIV FC 2019-20
Share of divisible pool* for local bodies	4.31%	3.54%
Allocation to Local bodies	90,000	87,352
Rural Urban Share	67.5 : 32.5	70 : 30
Grants to ULBs	29,250	22,665

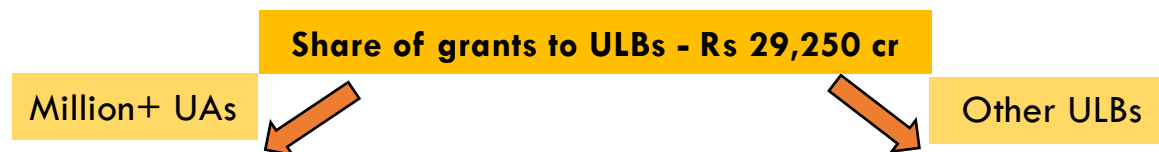
Source: XV FC report

*Divisible pool is Gross Tax revenues of the Union Govt, and includes Corporation Tax, Income Tax, Customs, Union Excise Duties, Service Tax/GST and Other Taxes. Under Article 270 of the Constitution, surcharge on taxes and cess should not form part of the divisible pool

- The XV FC has recommended a gradual increase of urban share from 32.5 % of grants to local bodies to 40 % by the end of the XV FC period
- The distribution of grants between local bodies within a state (called *inter se* distribution) will be based on population and area in the ratio of 90:10, unchanged from the XIV FC period.

Grants to local bodies : 2020-2021

An Urban Agglomeration is an urban spread constituting a statutory town with minimum population of 20,000 and its adjoining outgrowths, or two or more physically contiguous towns.



# UAs/ULBs	50 UAs (264 ULBs)		3,771 ULBs	
% of Urban Population	40%		60%	
Amount allocated	Rs 9,229 cr		Rs 20,021 cr	
Nature of grant	100% tied		50% tied, 50% untied	
Details of tied component	(i) Improving ambient air quality	(ii) Improving water and solid waste management	(i) Drinking water	(ii) Solid waste management
Amount allocated	Rs 4,400 cr	Rs 4,829 cr	Rs 5,005 cr	Rs 5,005 cr
Nodal agency	Ministry of Environment, Forests & Climate Change	Ministry of Housing & Urban Affairs	State Government	State Government
Performance Conditions	50% to be disbursed upfront for air quality improvement measures. Balance 50% to be disbursed in Jan 2021 against YoY performance-based outcomes	No performance conditions for 2020-2021 but to be spent exclusively for improving water and solid waste management	No performance conditions. Amount allocated in addition to funds from relevant centrally sponsored schemes. If ULB has fully saturated need of one category, it can utilize funds for other category.	

Notes on grants to ULBs

I. Million+ UAs

Improving ambient air quality

- The Ministry of Environment, Forest & Climate Change (MoEFCC) must publish benchmarks by April 2020
- Basis of allocation of 2nd tranche is as follows

YoY improvement in air quality in Jan 2021 (%)	% of allocation
> 5	100
4-5	80
3-4	60
2-3	40
1-2	20
< 1	0

Source: XV FC report

- In case of non-achievement of targets, 50% of unallocated funds to be distributed to top performers based on criteria prescribed in the table below, while remaining 50% to be distributed to other cities in consultation with State Governments, in proportion to their population.

YoY improvement in air quality in Jan 2021 (%)	% of allocation of unallocated funds
Cities with improvement > 5	40
Cities with improvement 4-5	35
Cities with improvement 3-4	25

Source: XV FC report

- Eight million+ UAs in Kerala and Tamil Nadu, where air quality is not a problem owing to geographical reasons, can use 100% of the grants on water and solid waste management.

Notes on grants to ULBs

Million+ UAs (contd.)

Improving water and solid waste management

Improvement to be measured by the following service level benchmarks

Water supply

1. Households covered with piped water supply
2. Water supplied in litre per capita per day
3. Reduction in non-revenue water

Water conservation methods

1. Rainwater harvesting
2. Reuse/ recycling of water
3. Rejuvenation of water bodies

Solid Waste Management

1. Garbage free star rating of the cities
2. Coverage of water supply for public/community toilet

- For the purpose of star ratings, ULBs are mandated to self declare against parameters and marking procedures prescribed by MoHUA.

II. Other cities

- The *inter se* distribution of funds within the state should be on the basis of recommendations of the latest SFC.
- In case the SFC recommendation is not available, allocations should be based on population and area in the ratio of 90:10.
- Funds shall be distributed in 2 tranches, one in June and the other in October.
- States should also make allotment of grants on population basis for Cantonment Boards

Looking beyond 2020-2021

For ULBs to be eligible for ANY grants from 2021-2022, following entry level conditions to be met

- (i) states will have to appropriately notify floor rates and thereafter show consistent improvement in collection in tandem with the growth rate of State's own GSDP
- (ii) Timely submission of audited accounts

On submission of audited accounts, the XV FC recommends the following –

- (i) All ULB transactions to be recorded online on a real time basis so as to enable producing various reports
- (ii) ULBs to integrate their existing system on the basis of National Municipal Accounts Manual with IFMIS/PFMS to facilitate an integrated view ULB accounts with state accounts; CAG to lead this effort.
- (iii) MoHUA to create a national online platform for publication of ULB accounts

State and ULB-wise allocation

Rs in crores

States	Million+ UAs	Other ULBs	Total
Uttar Pradesh	1,428	3,267	4,695
Maharashtra	1,586	1,220	2,806
Bihar	408	2,008	2,416
West Bengal	838	1,286	2,124
Madhya Pradesh	598	1,320	1,918
Rajasthan	562	1,297	1,859
Tamil Nadu	556	1,181	1,737
Karnataka	558	991	1,549
Gujarat	810	728	1,538
Andhra Pradesh	270	994	1,264
Odisha	-	1,087	1,087
Telangana	468	421	889

Rs in crores

States	Million+ UAs	Other ULBs	Total
Jharkhand	318	495	813
Kerala	339	445	784
Assam	-	772	772
Chhattisgarh	214	486	700
Punjab	180	488	668
Haryana	96	513	609
Uttarakhand	-	278	278
Himachal Pradesh	-	207	207
Arunachal Pradesh	-	111	111
Tripura	-	92	92
Meghalaya	-	88	88
Manipur	-	85	85

Rs in crores

States	Million+ UAs	Other ULBs	Total
Nagaland	-	60	60
Mizoram	-	45	45
Goa	-	36	36
Sikkim	-	20	20
Total	9,229	20,021	29,250

Source: XV FC report

Immediate action items for Ministries & State Govts.

MoEF&CC

1. Develop city-wise year-wise targets on ambient air quality by April 2020 in consultation with State Govts.
2. Monitor and evaluate improvement in air quality, recommend disbursement of grants to million+ UAs

MoHUA

1. Develop city-wise year-wise targets on water and solid waste management for 2020-2025 in consultation with State Govts
2. Build a national online platform to publish ULB accounts on a common platform
3. Work with CAG to develop an integrated account maintenance system to facilitate an integrated view of ULB accounts with state accounts, to be rolled out by 1-April-2021

State Governments

1. Identify one ULB in the UA as a nodal entity to receive grants for disbursement among other ULBs in the UA
2. Draw up detailed project plans for meeting targets on improving ambient air quality, water and solid waste management
3. Notify property tax floor rates and thereafter work with ULBs to show consistent improvement in collection in tandem with the growth rate of State's own GSDP
4. Work with MoHUA/CAG in building an integrated account maintenance system referred to above
5. Strengthen the LFAD/State Audit Departments or empanel Chartered Accountants to ensure timely submission of audited annual accounts at the ULB level to be eligible to ANY grant amount from 2021-2022

Thank you!