

Monitoring Systems for Municipal Finance and Service Delivery in Urban Local Bodies Suggestions for the Fourteenth Central Finance Commission of India

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Monitoring Systems for Municipal Finance and Service Delivery in Urban Local Bodies

A note prepared for the Fourteenth Finance Commission

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Background

The Terms of Reference (ToRs) for the Fourteenth Finance Commission (FCC) have three provisions that relate directly or indirectly to local bodies. These are:

1. *“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” (p. 1).*
2. *“the need for insulating the pricing of public utility services like drinking water, irrigation, power and public transport from policy fluctuations through statutory provisions” (p. 2).*
3. *“The Commission may review... linking outlays to outputs and outcomes ... and make appropriate recommendations thereon” (p. 3).*

This note is to suggest to the FCC to make a recommendation for mandatory online annual monitoring of municipal finance and service outcomes for basic services such as water supply, sanitation and wastewater, and solid waste management for urban local bodies (ULBs).

We make this recommendation because all State Finance Commissions (SFCs) and the Central Finance Commissions (CFCs) have relied on incomplete and often unverified information from ULBs to make estimates of the resource gaps. Our concern is that if we do not have proper estimates of the resources of ULBs, how are we going to make any recommendations on augmenting resources? It is for this reason that the previous three CFCs have made recommendation of ad hoc amounts and the SFCs have emulated these ‘traditions’. The FCC has an opportunity to change this by mandating that state governments institute a system of monitoring ULB finances.

On service level outcomes, it is necessary to monitor the level of essential services related to water supply, sanitation and solid wastes. At present, the estimates of resource gaps are made on the basis of ‘normative’ per capita standards (often using the inflation adjusted Zachariah committee norms derived in 1964).¹ The framework of monitoring service levels that is currently used at ULB and state

¹ Although the HPEC (2011) attempted to derive a different set of norms, it has used norms that are not very realistic (100% sewerage coverage, very high specification of roads, etc). If the HPEC had detailed information on service levels and associated expenditure by ULBs for these services, more realistic estimates would have been generated.

government levels is the 'Service Level Benchmarks (SLB)' framework of the Ministry of Urban Development (MoUD), Government of India.

The implementation of such systems by state governments will help provide a sound basis for the work of SFCs, as well as help assess pricing and cost recovery for these basic services. It will also make it possible to link outlays to outcomes. In the past, CFCs have made recommendations for data improvements by ULBs. However, these have not always yielded adequate results. However, some emerging practices from a few states provide 'good practice' examples. Based on these and with appropriate incentives, the situation can be improved greatly. It will require an active role to be played by both state and urban local governments.

Current situation on information for urban local services and municipal finance

Regular availability of consolidated data and information regarding municipal finance and basic services in general has been very poor. This has meant that most SFCs have had to spend enormous time and effort in collection of municipal finance information. This information is often 'unverified' and of poor quality. The SFCs also do not have adequate time to process this meaningfully. This makes it difficult for the CFCs to respond to the main legislative provision of "suggesting 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". Similarly, with respect to the second aspect in the ToRs listed above regarding pricing of services, it becomes difficult to assess the extent of cost recovery in the important urban basic services related to water supply, sanitation and solid waste management.

The issues related to data availability have been recognised by most Finance Commissions. The Eleventh Finance Commission noted that *"third area of our concern relates to non-availability of data on the finances of the local bodies. There is no mechanism for collection of data on the revenue and expenditure of the various tiers/levels of the rural/urban local bodies at a centralised place where it could be compiled, processed and made available for use. In the absence of any reliable financial/budgetary data, no realistic assessment of the needs of the panchayats and municipalities for basic civic and developmental functions can be made nor can any information be generated on the flow of funds to the local bodies for the implementation of various schemes for economic development and social justice"* (para 8.21).

The Twelfth Finance Commission noted that *"The compilation of disaggregated data in the formats suggested by C&AG in a time series is the need of the hour for the SFCs to be able to assess the income and expenditure requirements of the local bodies. Both the EFC as well as this Commission were hampered by the absence of credible data"* (para 8.35). The Twelfth Finance Commission also made a recommendation in this regard. It advocated that *"PRIs and ULBs should, out of the grants allocated, give high priority to expenditure on creation of data base and maintenance of accounts through the use of modern technology and management systems, wherever possible. Some of the modern methods like GIS (Geographic Information Systems) for mapping of properties in urban areas and computerization for switching over to a modern system of financial management would go a long way in creating strong local governments, fulfilling the spirit of the 73rd and 74th Constitutional amendments"* (para 8.40). However, this did not yield significant results due the lack of a clear

framework for implementation of a state-wide monitoring system, as well as lack of any incentives for the state and local governments to undertake such data improvements.

Many researchers have also indicated difficulties in meaningful analysis of local finances and service delivery due to non-availability of systematic data. For example, in an earlier study the researchers observed that, “the study would have been more complete if the outcomes in terms of finances of the cities could be related to the levels of service delivery. Unfortunately, none of the ULBs have a systematic record on the levels of services provided. In the absence of data on the levels of services for each ULB, we cannot use the physical norms to assess the conditions but have to rely entirely on financial norms” (Bandopadhyay and Rao 2009, p. 33).

The Thirteenth Finance Commission noted that *“There are significant discontinuities in data relating to revenue and expenditure of local bodies submitted by State Governments to FC-XI, FC-XII, and to this Commission. These discrepancies detract from the credibility of the data. Unfortunately, successive Finance Commissions, including our own, have been unable to independently verify the data provided on local bodies. The need to put in place a system where financial and performance data of local bodies can be audited and confirmed credibly cannot be overemphasized”* (para 10.93).

It also triggered a system of assessing delivery of urban basic services (water supply, sanitation, SWM and SWD), by including it as one of the conditions for state governments to avail the performance-based grants for disbursing to ULBs. In response to this incentive, several state governments have been able to provide basic information about the service levels in various ULBs in their states as shown in Annexure 1. While this is the first effort by many states, and the quality of information needs improvement, it has for the first time helped to set up a system of data collection and analysis in several states. The MoUD has also sought the services of independent agencies to support this activity. Based on a Memorandum of Understanding (MoU) with the MoUD, CEPT University has put this information on an online platform that enables easy analysis of this information (see www.pas.org.in).

The state-wide SLB system has been implemented in Gujarat and Maharashtra across all ULBs for the last five years with the support of the CEPT University and its local partners, the All India Institute of Local Self Government (AIILSG) in Maharashtra, and Urban Management Centre (UMC) in Gujarat, under the PAS Programme. Annexure 3 gives brief details of the various efforts under PAS – not just data collection but monitoring by state and national governments with dashboards, and tools for performance information for ULBs using this information. This entire system has been developed using the latest information technology (IT) and is available on an integrated platform. It can be adapted easily for use by other states as has been initiated already by Chhattisgarh and planned for Madhya Pradesh and Goa based on requests from respective state governments. A separate module for Municipal Finance has been added which is also being operationalised this year. In Maharashtra, more detailed benchmarking is being set up to incorporate citizen services, environmental conditions, municipal governance and finance.

Under this Programme, data reliability is also being assessed regularly for all the key indicators. Some ‘good practice’ examples among both the larger Municipal Corporations and smaller municipalities have been identified. Based on these, support is being provided to ULBs to improve

data quality and to develop an information system improvement plan (ISIP). In both states, ULB level systems are being developed to link with the city's e-governance systems. While Maharashtra's experience suggests that many cities have developed these systems themselves and show high levels of reliability in their information. In Gujarat links are also being established with private firms that provide such IT services to ULBs.

A framework for implementation of a state-wide monitoring system

To take forward the ToR related to "linking outlays to outcomes", a clear framework is needed to ensure the needed information. Rao and Bird (2011) provide a framework for this with respect to accountability of public services, highlighting the importance of information and a well managed monitoring system. They highlight that for decentralisation to work, a central evaluation and monitoring system is essential.

"Although improved accountability may be the key to improved public-sector performance, improved information is the key to accountability... The systematic collection, analysis, and reporting of information that can be used to verify compliance with goals and to assist future decisions is critical to successful urban development... Such information is essential to informed local participation through the political process and to the monitoring of local activity by the central agencies responsible for supervising and (sometimes) financing such activity. Unless the relevant local "publics" are aware of what is done, how well it is done, how much it cost, and who paid for it, no local constituency for effective government can be created. Similarly, unless higher-level agencies can monitor and evaluate local performance, there can be no assurance that functions of national importance will be adequately performed once they have been decentralized.

"An important underpinning and accompaniment of any successful program to strengthen urban local bodies must therefore be, perhaps paradoxically, an improvement in national evaluation capacity. Decentralization and improved central evaluation and assessment of local activities are not substitutes—they are complements." (Rao and Bird 2011, p.14)

Thus, it is critical to build strong capacity among the national and state governments to evaluate and monitor service delivery in order "to link the outlays to outcomes" as per the FFC ToRs. Such national and state level capacities will help to improve both data and service delivery at local level.

In their book on 'Reinventing Government', Osborne and Gaebler (1993) also highlight the importance of measurement of service delivery outcomes. They highlight that: "If you don't measure results, you can't tell success from failure; if you can't see success, you can't reward it; if you can't reward success, you are probably rewarding failure, if you can't see success, you can't learn from it; if you can't recognize failure, you can't correct it; and if you can demonstrate results, you can win public support".

The system of online monitoring of municipal services, finance and a system of benchmarking set up under the SLB framework in Gujarat and Maharashtra provide an operational system to achieve the national and state evaluation and monitoring capacity advocated by Rao and Bird (2011). The

systems developed in these two states demonstrate the possibility of achieving this important objective. The system is now being taken up in other states such as Chhattisgarh and Madhya Pradesh. While the online system protocol is already available, it will need to be adapted and customised for each state. Equally importantly, efforts will be needed to strengthen ULB level information systems to ensure indicator reliability. Efforts will also be needed to build state capacity for monitoring, and ULB capacity for their own internal monitoring of service targets.

Suggestions for the consideration of the FFC

We suggest to the FFC to make a recommendation for a mandatory state-wide web-based monitoring system for ULBs to capture details of (a) service outcomes for basic services such as water supply, sanitation and wastewater, solid waste management and storm water drainage; and (b) municipal finance. Implementation of such state-wide systems across all ULBs by state governments will help provide a sound basis for the work of SFCs in the future as well as help assess pricing and cost recovery for these basic services. It will also make it possible to link outlays to outcomes as per the FCC ToRs. This will require an active role to be played by both state and urban local governments.

This will help to keep momentum and opportunity gained due to the Thirteenth FC. Without such a mandate and support, the fledgling state-wide monitoring systems set up for the first time in India may not survive. Given the advances in IT and easier access to computing services, it is possible to adapt and customise this system to each state's situation. The PAS system for enhancing and implementing SLB has been tested and used for over five years. It is already being adapted for use in other states.

We would suggest that the FFC provides specific funds to enable state governments to establish an online system for regular monitoring of municipal finance and service delivery outcomes through a SLB system. The state government should establish a SLB Cell to manage such a system. This could be housed in an existing government agency or by recruiting a state-level reputed academic institution. The SFCs will be facilitated to use this information. The FFC should also make it mandatory for state governments to have a well-functioning online system of monitoring of municipal finance. Ideally, the information on municipal finance and service level outcomes (for example, SLB) should be on the same platform. This will enable linking the inputs (finances) to the outcomes (service levels), at ULB level. The SFCs and state governments can use this information system for allocation of funds and plan for investments in an 'informed' manner.

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Annexure 1: Reporting on SLB conditions for various states

States	No. of cities in SLB Gazette information		
	2011	2012	2013
Andhra Pradesh	124		*
Bihar	42		
Chhattisgarh	43	43	43
Gujarat	164	167	166
Haryana		71	74
Himachal Pradesh	48	26	
Jharkhand		38	
Karnataka	52	52	
Kerala	65	65	65
Madhya Pradesh	110	110	
Maharashtra	247	252	252
Meghalaya		6	
Mizoram		4**	4**
Odisha	103	40	
Punjab			132
Rajasthan	184		*
Tripura	1	1	
Uttar Pradesh	205	207	207
West Bengal	87	125	127
Total cities/States	1,475/14	1,207/15	1,070/11

* The state governments of Andhra Pradesh and Rajasthan submitted only the average service levels for the state and sample city information for a few cities.

** State government of Mizoram submitted only the Gazetted average service level of four ULBs.

Source: Ministry of Urban Development, based on gazette information submitted by various state governments. Most data was in hard copies and was converted to electronic version by the CEPT University under an MoU with the MoUD.

Annexure 2: Indicators for measuring service delivery under the MoUD SLB Framework

		Water supply	Unit
1	Access and coverage	Coverage of water supply connections	%
2	Service levels and quality	Per capita availability of water at consumer end	Lpcd
3		Continuity of water supply	Hr/day
4		Quality of water supplied	%
5	Financial sustainability	Cost recovery (O&M) in water supply services	%
6	Efficiency in service operation	Extent of non-revenue water	%
7		Efficiency in redressal of customer complaints	%
8		Extent of metering of water connections	%
9		Efficiency in collection of water supply related charges	%
10	Equity*	Coverage of water supply connections in slums	%

		Wastewater	Unit
1	Access and coverage	Coverage of toilets	%
2		Coverage of wastewater network services	%
3	Service levels and quality	Collection efficiency of sewerage network	%
4		Adequacy of wastewater treatment capacity	%
5	Financial Sustainability	Extent of cost recovery (O&M) in wastewater management	%
6	Efficiency in Service Operation	Quality of wastewater treatment	%
7		Extent of reuse and recycling of wastewater	%
8		Efficiency in redressal of customer complaints	%
9		Efficiency in collection of sewerage charges	%
10	Equity*	Coverage of individual toilets in slums	%
11		Coverage of wastewater network services in slums	%

		Storm water drainage	Unit
1	Access and coverage	Coverage of storm water drainage network	%
2	Service levels and quality	Incidence of water logging/flooding	Number

		Solid waste management (SWM)	Unit
1	Access and coverage	Household level coverage of SWM services	%
2	Service levels and quality	Efficiency of collection of municipal solid waste	%
3		Extent of segregation of municipal solid waste	%
4		Extent of municipal solid waste recovered	%
5	Financial sustainability	Extent of cost recovery (O&M) in SWM services	%
6	Efficiency in service operation	Extent of scientific disposal of municipal solid waste	%
7		Efficiency in redressal of customer complaints	%
8		Efficiency in collection of SWM related user charges	%
9	Equity*	Household level coverage of SWM services in slums	%

* Additional indicators on equity have been included under the PAS Programme.

Source: Based on MoUD (2008).

Annexure 3: Performance Assessment Systems (PAS) Programme, India

The Performance Assessment System (PAS) is an action research programme, initiated by the CEPT University, Ahmedabad, with funding from the Bill and Melinda Gates Foundation. Since 2009, PAS has supported development of tools, methods and processes for *performance assessment* and *improvement* in delivery of urban water and sanitation services. The PAS programme works with all levels of government: national, state and local. The performance indicators developed under the programme are aligned with the Government of India's framework. It includes indicators related to access and coverage, equity, service levels and quality, efficiency and financial sustainability of service provision.

Since 2009, the PAS online performance assessment system has been implemented in the states of Gujarat and Maharashtra covering more than 400 cities. Information for five years is now available on the web portal www.pas.org.in. The portal is also home to other resources including reports, papers and presentations developed under the project.

The PAS system is now mainstreamed in the state government through state-level SLB cells. Other states in India have also begun to implement this system. At the state level the information is being used to monitor ULB performance, to assess investment requirements and for benchmarking. At the ULB level, it helps in setting targets and improvement planning. The PAS programme has developed *performance improvement tools* to assist urban local governments in planning, target setting and tariff determination.

In recent years, the PAS programme has focused its work on *urban sanitation*. It has developed indicators for measuring on-site sanitation, developed a framework for financially sustainable city-wide sanitation planning considering the full value chain, and supported cities in implementing city sanitation plans that focus on making cities fully sanitised and open defecation free (ODF). In support of these efforts, the PAS team is working with various agencies at the national level and with the private sector on developing innovative sanitation financing mechanisms.

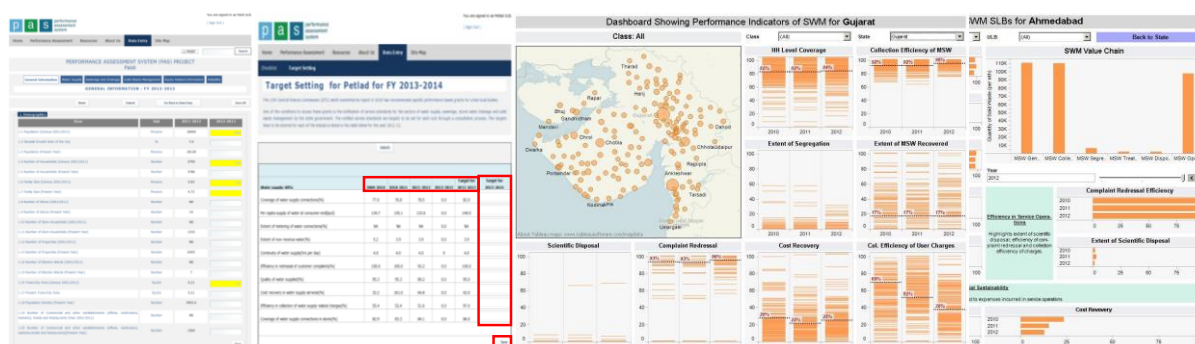


Figure 1: Screenshots of the PAS web portal and city level dashboard

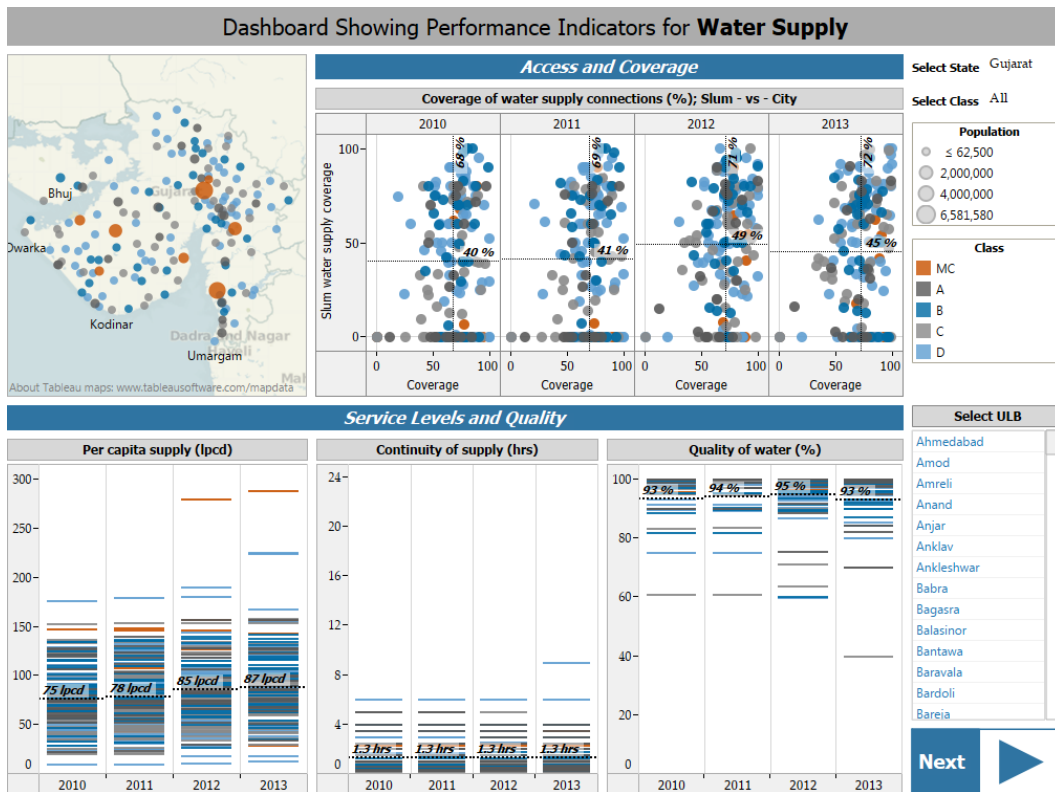


Figure 2: State level dashboard

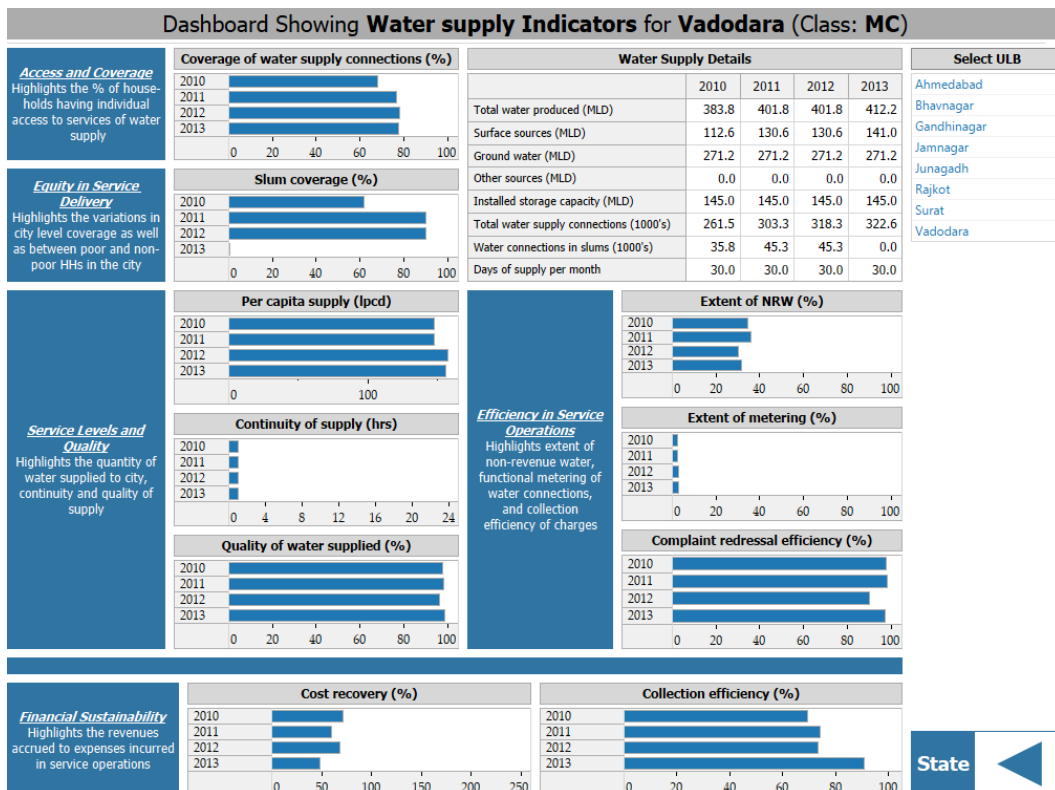


Figure 3: City level dashboard

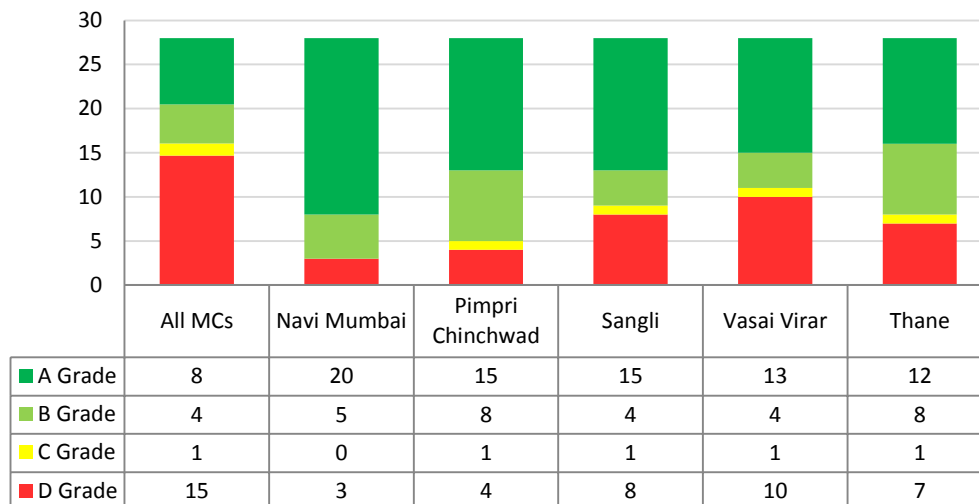


Figure 4: Reliability grades of MCs with good information systems in Maharashtra

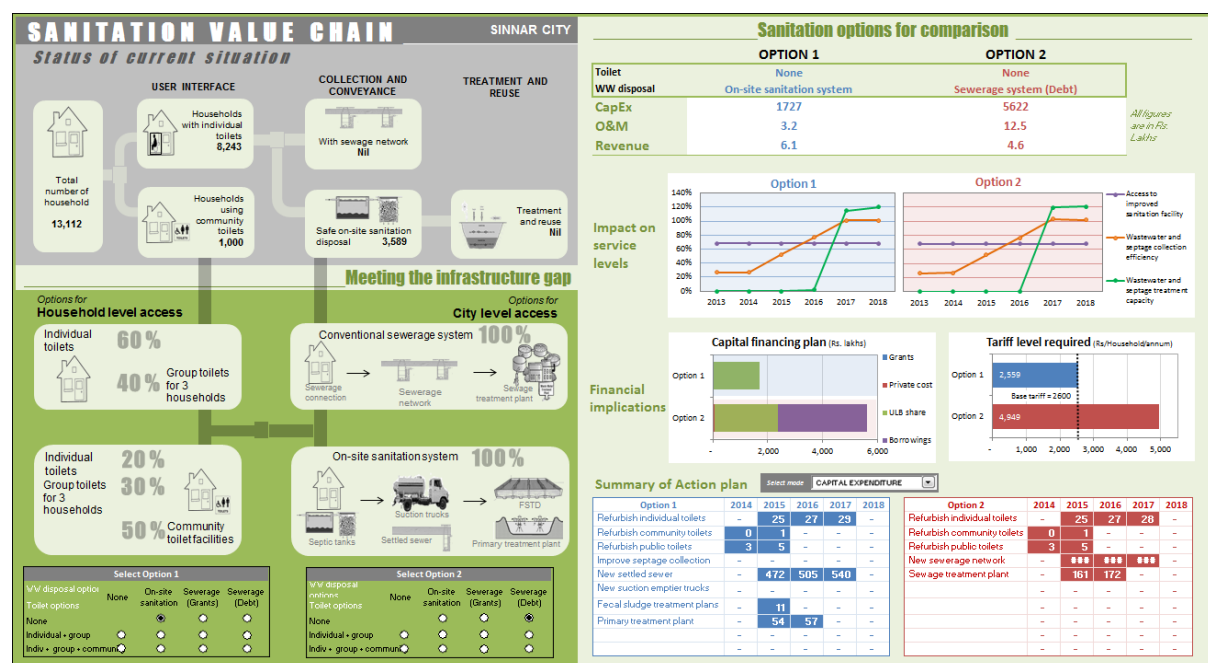
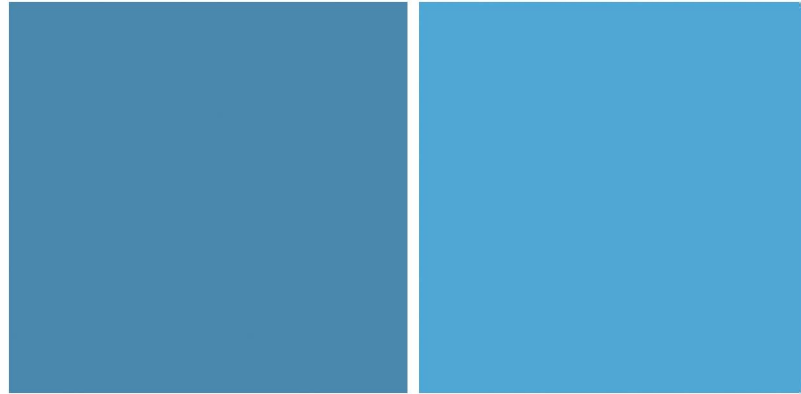


Figure 5: Dashboard comparing two of the 11 options to make a city sanitised



The Performance Assessment System (PAS) Project

The Performance Assessment System – (PAS) is an action research programme, initiated by the CEPT University, Ahmedabad, with funding from the Bill and Melinda Gates Foundation. Since 2009, PAS has supported development of tools, methods and processes for performance assessment and improvement in delivery of urban water and sanitation services. It works with all levels of government: national, state and local. Since 2009, the PAS online performance assessment system has been implemented in many states of India. The PAS portal (www.pas.org.in) has information of over 1800 cities.

In recent years PAS programme has focused its work on urban sanitation. It has developed indicators for measuring on-site sanitation, developed framework for citywide sanitation planning considering the full value chain, and supported cities in implementing city sanitation plans that focus on making cities open defecation free (ODF). In support of these efforts, PAS team is working with various agencies on developing innovative sanitation financing mechanisms.