Fifteenth Finance Commission Report for the year 2020-21 - Empowering urban local governments?

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The Fifteenth Finance Commission's (XV-FC) 'interim report' for the year 2020-21 was made available in public domain on 1st February 2020. Despite being an interim report, for the urban local governments, it makes important and significant departures from the previous Central Finance Commissions. This note aims to highlight these and provide some suggestions for consideration in the final report.

Increased Allocations to Local Governments and to ULBs

From the perspective of urban local governments, it is heartening to note the acknowledgement by the XV-FC that, "…. given the projection of 38 per cent urbanisation in India by 2025 and further acceleration of this trend with economic growth, the changing sectoral composition of gross domestic product (GDP) and rural-urban migration, we believe the share of urban local bodies in Finance Commission grants to local bodies should be gradually increased to 40 per cent over the medium term" (p. 47).

We are also pleased to note that XV-FC has stepped up allocations for local governments to 4.3% of the divisible pool, as against 3.5% recommended by the XIV-FC for 2019-20, and 2.5% recommended by the XIII-FC.[2] The XIII-FC had also acknowledged the need for providing local bodies with a predictable, buoyant source of revenue. It is good to see the XV-FC taking a similar stand. We do hope that in its final report this will be stepped up to 5% of the divisible pool.

This is needed, as intergovernmental transfers to ULBs in India are much lower than the international experience pointed out by Ahluwalia et.al. (2019)[3], in a report that the XV-FC had commissioned. "In comparison with 2.1 per cent of GDP in Denmark, 6.0 per cent Norway, 7.8 per cent in Italy, and 9.9 per cent in United Kingdom, such transfers account for a meagre 0.45 per cent of GDP in India". (p.11)[4] Of this small amount, more than two thirds is through state government transfers, which is not always reliable and often tied to various centrally sponsored schemes (CSS). Thus, an increase in XV-FC grants will go a long way in strengthening ULB finances.

It may be useful for XV-FC to review the experience of federal countries such as Brazil, where municipalities receive significant transfers called Municipalities' Participation Fund, which are 23.5% of the income taxes and industrialized products taxes (Mehta and Mehta, 2015).[5] Also, in the

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[1] The authors acknowledge support of Ms Dhwani Sheth for this paper.

[2] For XIV and XV-FC see XV-FC report p. 48, for XIII-FC see its report – Table 10.4, p. 174.

[3] Ahluwalia I, Mohanty P., Mathur O, Roy D., Khare A. and Mangla S. (2019), "State of Municipal Finances in India: A report prepared for the Fifteenth Finance Commission", ICRIER.

[4] Mohanty, P.K (2016), 'Financing Cities in India: Municipal Reforms, Fiscal Accountability and Urban Infrastructure', Sage Publications, cited in Ahluwalia et.al. (2019) "State of municipal finances in India: A study prepared for fifteenth finance commission of India" ICRIER. New Delhi.

[5] Mehta Meera and Dinesh Mehta (2015), 14th Finance Commission: A trust-based approach towards local governments," Ideas for India, 27th April 2015. (available at Link))

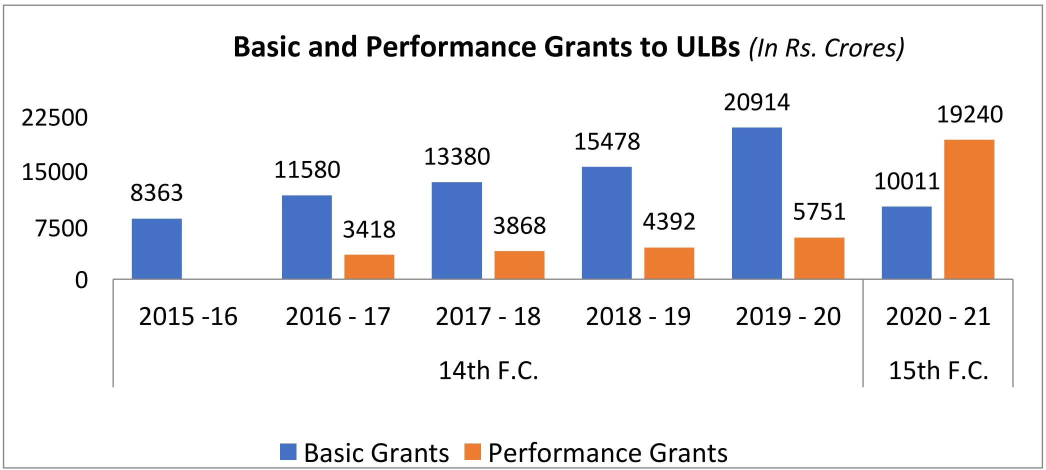
Philippines, the Local Government Code of 1991 mandates that 40% of internal revenue collections of the third preceding fiscal year be transferred to Local Government Units (Diokno-Sicat, 2019).[6]

Table 1: XIV and XV FC grants to ULBs *(in Rs Crores)*

Type of Grant	14th F.C.					15th F.C.
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1
Basic Grants	8363	11580	13380	15478	20914	10011
Performance Grants		3418	3868	4392	5751	19240
Total	8363	14998	17247	19870	26665	29250
Per capita allocation in Rs	**234**	**420**	**483**	**556**	**746**	**818**

Sources: Based on Reports of the 14th Finance Commissions (p. 464 - 465, Annex 9.1*) and 15th Finance Commissions (p.52). Population is for 2011 as per the Census of India. Note: The per capita incomes are calculated by authors*

Fig. 1 Finance Commission Grants for Local Governments



Sources: Based on Reports of the 14th Finance Commissions (p. 464 - 465, Annex 9.1*) and 15th Finance Commissions (p.52).*

The total grants recommended by the XV-FC for urban local bodies for 2020-21 are Rs. 29,250 crore against Rs. 26,665 crore recommended for 2019-20 by the XIV-FC. These increases are welcome and in the right direction. The XV-FC has made a very good beginning with this interim report, and we look forward to further increases for ULBs in the final report. We, however, hope that this shift towards higher proportion of tied grants to ULBs is reconsidered in the final report.

Need for Compensation for Municipal Revenue Losses Due to GST

It is widely accepted that cities in India contribute to nearly two-thirds of GDP. For example, a recent Ministry of Housing and Urban Affairs (MOUHA) papers suggests that “Urban areas contributed between 52.6% and 64.89% of national output in 2011-12” (MoHUA, 2019).[7] However, cities do not benefit from their economic vibrancy as all the buoyant local taxes such as the octroi, entry tax, and local body tax have been abolished. The most recent shock has come through the imposition of Goods and Services Tax (GST). For example, see ORF (2018), where it is estimated that, “In compliance with the new GST regime, the Municipal Corporation of Greater Mumbai (MCGM) has

[6] Diokno-Sicat (2019), Intergovernmental Fiscal Transfers in Philippine Decentralization, Philippine Institute for Development Studies, presentation available at link

[7] MoHUA (2019), “ Consultation paper on City GDP Measurement Framework, Ministry of Housing and Urban Affairs, available at Link

had to abolish octroi, which on average had contributed almost 35 percent of its annual total revenue).[8]

Expert advice on this issue was provided by the ICRIER team in its report Ahluwalia et.al. (2019). It states that, “Municipal finances have been the worst hit by this structural reform”. It further suggests, “in order to maintain fiscal "balance" across the three levels of government, the combined revenues from GST ought to have been shared among all the three levels of government. Instead, the sharing has been half and half between centre and states and in the process the independent power of local governments to raise their own sources of revenue has been appropriated by the centre and states. GST has subsumed local taxes such as octroi including accounts-based octroi in the form of local body tax, entry tax and advertisement tax.” (p.11). To address these issues, the Urban Development Ministry has also “asked for a specific share of revenues from the GST for ULBs ”.[9]

Ahluwalia et.al. (2019) suggest that “the long-term solution to correct for the structural fiscal" imbalance" which has crept into the system following the GST-related Constitutional amendments in 2016, is for the Constitution to be amended again to provide sharing of the revenues from GST among all three levels of government. However, until that happens, the role of transfers from state government and the central government becomes very important. “The 15th Finance Commission will have to play a historic role in addressing the municipal finance challenge posed by the GST regime” (pp.4-5). We hope that in the final report, the XV-FC pays specific attention to this.

Need for Greater Focus on Cities with Less Than 1 lakh Population

For the first time, a Central Finance Commission has recognised distinct needs of small and large cities. It says, “For differential treatment of cities, we have divided the urban local bodies into two categories: a) fifty Million-Plus urban agglomerations/cities, excluding Delhi and Srinagar, and b) all other cities and towns with less than one million population. Within a State, the grants recommended across these two categories is on the basis of population. Thus, for urban local bodies, in 2020-21, we recommend Rs. 9,229 crores for the Million-Plus cities and Rs. 20,021 crores for the others” (p. 49).

In per capita terms, the allocation for ULBs at Rs 818 (Table 1) is significantly more than the average Rs 746 that the XIVFC had provided for the year 2019-20. It is also heartening to note that for the year 2020-21 the per capita allocations for cities other than million plus cities is higher than for the million plus cities. The small towns in India have a dire need for this untied grant, as they receive very little from the Centrally Sponsored Schemes (CSS). The AMRUT programme covers 500 cities above 1 lakh population and SMART cities programme covers around 100 cities. As a result, a bulk of the CSS funding goes to cities above 1 lakh population. The cities below 1 lakh population fall off the radar of both central and state governments, except for the Swachh Bharat Mission (SBM). The fiscal capacity of these small cities is relatively poor and hence their dependence on grants is very high. Thus, while the recognition by the XV-FC that the cities other than million plus cities need more financial support is welcome, within the category B cities, it would have been good to focus more directly on cities with population of less than 1 lakh population.

[8] ORF (2018), “ The Impact of GST on Municipal Finances in India: A Case Study of Mumbai”, by Sayli Mankikar ORF Issue Brief No. 255, September 2018, Observer Research Foundation, Mumbai.

[9] Economic Times (2020), Urban Development Ministry wants revenue share from GST pie” accessed on March 12, 2020 at Link

Table 2: Per capita grant distribution by city size

	Total no of ULBs covered	Population 2011 *(millions)*	Grant allocated *(Rs crore)*	Per capita grant *(Rs)*
Category A Cities: Fifty Million-Plus urban agglomerations/cities, excluding Delhi and Srinagar	50 UAs*	142	9,229	**650**
Category B Cities: All other cities and towns with less than one million population	3,900	200	20,021	**1001**

Sources and notes: Based on the XVth FC Report and Population as per the Census of India 2011 excludes ULBs of J&K, Delhi state and all UTs as per Census 2011. Per capita grant is calculated by authors
**50 UAs included 262 statutory ULBs (including 22 cantonment boards), 644 Census Towns and 240 Outgrowths.*

Table 3 shows that nearly half of the population of non-million plus cities resides in cities with less than 1 lakh population which have not received any funding for basic services such as water supply and for safely managed sanitation from any of the CSSs by MOUHA over the last 7 years. We hope that the XV-FC in its final report will consider this and provide higher per capita grants to ULBs below 1 lakh population – especially with a focus on safe management of sanitation, as we discuss below.

Table 3 – Breakup of category B cities

Category B	Total no of ULBs covered	Population 2011 *(millions)*
More than 1 lakh population	422	103 *(51.4%)*
Less than I lakh population	3,478	97 *(48.6%)*
Total	**3,900**	**200**

Source: Analysis based on information from Census of India 2011.

Besides receiving lower resources from the CSSs, smaller cities also have less possibilities of raising own resources, particularly from property taxes, as land and property values in these cities are much lower. This is also reflected by the fact that per capita property tax of cities below One Lakh population is one- fourth of the per capita property tax in cities above One Lakh population levels in larger cities.[10]

The Missing Focus on FSSM for Safely Managed Sanitation

In a major departure from the previous two FCs that provided 80% of ULB grants as untied grants[11], the XV FC has made all the grants to the million cities as conditional, and 50% of the grants to other cities as conditional. This is to some extent in line with the terms of reference for XV FC as pertaining to local governments, which reads, "Provision of grants in aid to local bodies for basic services, including quality human resources, and implementation of performance grant system in improving delivery of services." (p. 3).[12]

[10] Based on the analysis by authors using municipal finance information in Ahluwalia et. al. (2019).
[11] Both XIII and XIV FC provided 80% of the grants as untied grants and 20% as performance grant to those ULBs that fulfilled certain conditions.
[12] XV FC TORs accessed on March 15 2020, at https://fincomindia.nic.in/writereaddata/html_en_files/fincom15/TermsofReference_XVFC.pdf

In this context, it is good to know that the XV FC has tied most of the ULB grants for the Category B cities to improvement in basic services such as drinking water, solid waste management and water conservation. However, it has missed out an important component of sanitation, particularly Faecal Sludge and Septage Management (FSSM). This is essential to ensure safely managed sanitation in all cities to meet the Sustainable Development Goals (SDGs) to which the Government of India is a signatory. MOUD's 2017 'National Policy for FSSM' also recognized this explicitly.[13]

It is well known that of the 4000+ statutory cities in India, less than 10 percent of them have sewerage system. More than 45% of urban households are estimated to depend on on-site sanitation systems – toilets connected to septic tanks, pits etc.[14] For safely managed sanitation, these cities will require implementation of citywide FSSM plans for citywide services for regular desludging of septic tanks and treatment of the faecal sludge and septage. While the XV FC has included improvement of ambient air quality and drinking water and solid waste management in its conditionality, it has completely disregarded this important aspect of FSSM, particularly for smaller cities.

For other than the million plus cities, the allocation of Rs. 20,021 crores allocations is divided in two equal parts - 50 per cent basic grants and 50 per cent grants tied to: a) drinking water (including rainwater harvesting and recycling), and b) solid waste management. This is certainly within the frame work of 'basic services' provided by ULBs. While this focus on services is welcome, two issues need attention. First, over past few years, all ULBs in India have received funding for SWM under the SBM (Urban) Mission, and there has been good overall progress. In fact, only one third of mission allocated funds for SWM under SBM (Urban) has been released so far.[15] In addition, the funds for SBM (Urban) in the 2019-20 have remained unutilized by 50%.[16] Secondly, and more importantly, the XV FC has completely ignored the need for sanitation (FSSM and waste treatment). As we discussed above, this is particularly essential for the smaller cities with less than 1 lakh population to achieve safely managed sanitation. This is also needed to achieve the SDG 6.2 to which India is a signatory.

The National Faecal Sludge and Septage Management (NFSSM) Alliance[17] had also submitted a memorandum to the XV-FC and had made a presentation to the members of the XV-FC to earmark funds for FSSM in ULBs. We strongly feel that the XV FC should include waste water and faecal sludge treatment as a conditionality for the performance grants. These are essential to ensure sustainability of excellent efforts under the SBM (Urban) as well as achieve universal access to Safely Managed Sanitation.

Focus on Urban Agglomerations and Cantonment Boards

There are also two other notable aspects of XV-FC's decision for grant allocations to ULBs. One, the XV-FC uses urban agglomerations for allocations for cities with more than 1 million population. The

[13] MOUD (2017), "National Policy on FSSM", accessed on March 15 2020 at http://amrut.gov.in/upload/newsrelease/5a5dc55188eb0FSSM_Policy_Report_23Feb.pdf

[14] MOUD (2017) Ibid., p.5

[15] Ministry of Housing and Urban Affairs, Swachh Bharat Mission (Urban) - Financial Progress. Retrieved March 12, 2020, from Swachch Bharat Mission Urban website on http://swachhbharaturban.gov.in/writereaddata/financial_progress.pdf?id=2py2yj3k54qouzag

[16] Based on analysis of information from Union budget 2020-21.

[17] The National Faecal Sludge and Septage Management (NFSSM) Alliance comprises numerous national and international organizations across the country working on innovative sanitation solutions for India. The NFSSM Alliance works in close collaboration with the Ministry of Housing and Urban Affairs.

Registrar General of Census says, “An urban agglomeration is a continuous urban spread constituting a town and its adjoining outgrowths (OGs), or two or more physically contiguous towns together with or without outgrowths of such towns.”[18] Urban Agglomerations are not statutory towns, but represent a statistical construct. As shown in Table 2, the 50 Urban Agglomerations with population of more than one million, identified by XV-FC, actually contain 262 ULBs, 644 census towns and many outgrowths[19]. The XV-FC has suggested that in such cases, “the concerned State Government, in consultation with all such entities within the urban agglomeration, shall entrust one urban local body as a nodal entity to receive the grants” (p. 49). So if the grant is going to one nodal ULB, as suggested by XV-FC, will this nodal ULB make efforts to achieve the improvements in ambient air quality, water supply and solid waste management for all the ULBs, census towns and outgrowths in the agglomeration? It is not clear as to how the allocated funds will be shared among the ULBs in each urban agglomeration.

Second, the XV FC has also recommended that state governments make allocation for Cantonment Boards. It has suggested “the States should also make allotment of grants on population basis for the Cantonment Boards within their territories” (p. 49). The Cantonment Boards, which are notified under the Cantonments Act, 2006, are not created by the State Governments but by the Ministry of Defence. The Station Commander of the Cantonment is the ex-officio President of the Board and an officer of the Indian Defence Estates Service (IDES) or Defence Estates Organisation is the Chief Executive Officer. These Cantonment Boards report neither to the State governments, nor to the ULBs where they are located. It is not clear as to why the states should fund these Cantonment Boards, which already receive funds from Ministry of Defence.

Need to Incentivise States to Improve Performance of State Finance Commissions (SFCs)

Article 243I of the Indian Constitution prescribes that “the Governor of a State shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission”. State governments were required to devolve resources to local bodies based on the recommendations of State Finance Commissions.

However, the experience has not been good and only 13 states have constituted their 5th State Finance Commissions (SFC). A recent report from the NIPFP shows that SFCs have been hampered by inadequate data as well as lack of staff and even places to operate. It highlights that many states have not appointed the SFCs in time and have not provided adequate support. Thus, most SFC reports have seen significant delays.[20]

A Report of the Select Committee on The Constitution (One Hundred & Twenty Second Amendment) Bill, 2014[21], also found that “…. that State Finance Commissions (SFC) in some of the States are either non-existent or even when their recommendations exist were not accepted by the respective State Governments….” (p.17). For example, most of the recommendations of the 5th SFC of Kerala

[18] Census of India 2011, Provisional Population Totals: Urban Agglomerations and Cities

[19] An Out Growth (OG) is a viable unit such as a village or a hamlet or an enumeration block …….which have come up near a statutory town outside its statutory limits but within the revenue limits of a village or villages contiguous to the town

[20] Chakraborty, Gupta and Singh (2018), “Overview of State Finance Commission Reports”, National Institute of Public Finance and Policy, New Delhi.

[21] Parliament of India Rajya Sabha. (2014). “Report of the Select Committee on the Constitution (one hundred and twenty second amendment) Bill, 2014”, Presented to the Rajya Sabha on 22nd July, 2015, Rajya Sabha Secretariat, New Delhi

and 4th SFC of Maharashtra were rejected by their state governments.[22] Often, the information about the SFCs is not readily available. For this, Mehta and Mehta (2010) had also pointed out almost a decade ago "there is also no mechanism at the national or state levels to monitor SFC recommendations and their implementation" (p.21).[23]

Strong and well functioning SFCs with adequate support are essential to ensure good quality of fiscal decentralisation envisaged in the 74th CAA. The XV-FC may want to consider providing some incentives to those states that constitute SFCs regularly, and provide a more predictable devolution of resources to local governments. It is worth highlighting that access to such regular and adequate funding when linked to an institutional mechanism such as a Municipal Development Fund, can become a basis for strengthening ULBs, and inculcate a culture of borrowing and help even small ULBs build a credit history.[24]

Strengthening the Trust Based Approach for ULBs

The 14th FC had recognised the need to trust and respect local bodies as institutions of local self-governments. This was in sharp contrast to the treatment often meted out by state governments to local bodies.[25] In many states, local governments have limited administrative and fiscal powers. State Governments often cite lack of capacity of local governments as the main reason to further curtail their fiscal powers. Some states have also taken away the powers to fix property taxes and user charges from ULBs.

Many State governments have also not worked out a regular and predictable system of sharing state resources such as the GST, stamp duty etc. with ULBs. Also, while the fiscal powers of ULBs have been curtailed, the grants to ULBs are often ad-hoc and unpredictable.

In the spirit of the trust-based approach, the previous FC had allocated 80% of basic grants to ULBs as unconditional (to be spent on basic services) and only the remaining 20%, labelled as performance grant, was subject to conditions. However, the XV-FC has put the entire grant to all ULBs as conditional. It says that, "to qualify for any grants for urban local bodies in 2021-22, 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" (p. 53). Further, instead of putting the onus of raising "own source of revenue" to the ULBs, (which was the condition for 20% of performance grants of XIV FC), the XV FC has shifted this to the state governments. This may only further curtail the autonomy of urban local governments.

The XV-FC points out that "internationally, property tax is one of the most effective instruments for revenue mobilisation by local bodies", but, "for historic reasons as well as because of vested interests, property tax yields remain negligible in India". However, it should be recognized that this is often also due to the state governments' attitudes to ULBs' fiscal powers. In most states, ULBs have

[22] Chakraborty P., Gupta M. and Singh R. (2018), "Overview of State Finance Commission Reports", National Institute of Public Finance and Policy, New Delhi.
[23] Mehta and Mehta (2010), "A Glass Half Full? Urban Development (1990s to 2010)", Economic and Political Weekly, XLV:28, July.
[24] At a recent Round Table on Municipal Strengthening held by the NFSSM Alliance, the previous Managing Director of the Tamil Nadu Urban Development Fund, pointed out that the TUBDF success was clearly linked to a good system of regular and predictable transfers by the State Government to ULBs. Similar experience was also found in Brazil.
[25] Mehta and Mehta (2015), "14th Finance Commission: A trust-based approach towards local governments," Ideas for India, 27th April 2015. (available at https://www.ideasforindia.in/topics/governance/14th-finance-commission-a-trust-based-approach-towards-local-governments.html)

to seek permission of the state governments to raise property tax rates and other tariffs. Some states such as Rajasthan and Punjab had even attempted to abolish property tax. So rather than entrusting the state governments to fix floor rates of property tax, the XV-FC could suggest a minimum increase in property tax revenue to be eligible for the performance grant in subsequent year. In states where such powers are vested in the ULBs (e.g. the BPMC Act in Maharashtra and Gujarat), the suggested provision will take away these powers from ULBs and assign them to the state governments. These are also the States that have relatively better fiscal performance as per the recent data reported in the ICRIER report by Ahluwalia et. al. (2019).

Further, for property tax, the XV-FC suggests that "to qualify for any grants for urban local bodies in 2021-22, 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." From available information from the information the PAS portal, we attempted to see the number of ULBs that would meet such a condition. Table 4 below shows that in the four states for which we have the information, only about 34% to 46% of ULBs would qualify for any XV-FC grant. This is a very harsh condition. We suggest that XV-FC can go back to the XIV-FC condition of showing increase in own revenues to be eligible for XV-FC grant. This should provide sufficient incentive to ULBs to mobilise their own funds.

Table 4: Statewise estimates of ULBs that quality for XV-FC requirement of annual increase in property taxes, 2017-18 to 2018-19

State	No of ULB	Property tax collection growth rate			% ULBs eligible for 15th FC grant as per new recommendation
		< State's GSDP growth rate	> State's GSDP growth rate	No data	
Chhatisgarh	167	109	57	1	34%
Gujarat	170	88	78	4	46%
Maharashtra	393	230	139	24	35%
Telangana	75	33	34	8	45%

Source: Based on data reported for the PAS-SLB portal in 4 states.

Thus, while the XV FC has labelled its chapter 5 as "empowering the local governments", we hope that the Final Report of the XV-FC will identify more measures to support empowerment of the ULBs.

Continue and Strengthen Ongoing Monitoring of Delivery of Urban Services

The XV FC has put considerable emphasis on setting up monitoring systems for ULBs. However, this focuses entirely only on monitoring financial management and making audit reports of ULBs publicly available. While this is welcome, there is also a need to strengthen monitoring of service delivery outcomes of ULBs. The XV FC does suggest use of "Service Level Benchmarks" for the award of this grant. However, it does not refer to the need to set up monitoring systems for Service Level Benchmarks (SLB) and their regular publishing in public domain, that the XIII-FC and XIV- FCs had made a condition for the performance grants.

These Service Level Benchmarks, promoted by the erstwhile Ministry of Urban Development in 2009, are being used by ULBs across India with support of their State Governments. The incentives provided by the previous FCs have been instrumental in their widespread use by ULBs and publication in the State Gazettes. These are a set of nearly 30 indicators capturing aspects such as service coverage, equity, efficiency and cost recovery. ULBs were required to provide in the public domain about their annual service level performance and targets. A number of states also use an online system[26] developed to capture this information easily for each ULB, and it is now planned to be used across all Smart Cities with support from MOUHA. We do hope that the XV-FC will restore this conditionality, just as the previous two FCs had done. This is also in line with the overall emphasis on monitoring placed by the XV FC. Such regular monitoring of service delivery outcomes along with ULB finances will also provide a good set of data for the SFCs in future.

Conclusion

In their efforts to "empower local governments", the XV-FC has made more funds available to ULBs, but bulk of these are as tied grants. Making two-thirds of the grants to ULBs as tied grant is quite in contrast with the approach of previous CFCs, and it goes against the spirit of "empowering" local governments.

The XV-FC also makes a significant departure by recognising the distinct needs of million plus cities. We have pointed out that the XV-FC needs to further distinguish between cities of 1 -10 lakhs and cities smaller than 1 lakh. The cities of 1-10 lakhs already benefit from various CSSs. It is the other 3,900 smaller cities (cities below 1 lakh) that need more financial assistance as they have benefited far less from the Government of India funding through various CSSs over the last decade.

By restricting the tied grants to aspects of air quality improvements, water and solid waste management, the XV-FC has missed out on the important dimension of sanitation – particularly FSSM that is so important in small cities to ensure ODF sustainability and achieve safely managed sanitation by 2030 to meet India's commitment to the Sustainable Development Goals, particularly for SDG 6.2. We hope that in its final report, the XV FC will include sanitation – particularly FSSM for cities other than million plus cities.

The XV-FC was required to recommend implementation of performance grant system in improving delivery of services cities. The Service Level Benchmarks, as outlined by the erstwhile Ministry of Urban Development in 2009, were recommended by both XIII-FC and XIV-FC, with their public reporting as a necessary condition. We hope that XV-FC will reintroduce the 'original' Service Level Benchmark framework and recommend its regular monitoring and reporting as one of the conditions for availing performance grants. This will also enable ULBs to use the already functioning online PAS[27] platform for such monitoring.

The XV-FC has made important recommendations regarding enhancing grant-in-aid to ULBs, and has introduced some new areas, such as air quality improvements, recognising distinct needs of large cities and a focus on water supply services. We do hope that observations made in this note will be given due consideration in its final report.

Suggested citation:
Meera Mehta, Dinesh Mehta and Dhruv Bhavsar (2020), "Fifteenth Finance Commission Report for the year 2020-21 - Empowering urban local governments?", CWAS, CEPT University March 2020

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[26] The online system is referred as Performance Assessment System (PAS). It is being currently used in the states of Maharashtra, Gujarat, Chhattisgarh, Telangana and Jharkhand. Results can be viewed at www.pas.org.in .
[27] www.pas.org.in is a portal developed by CEPT University's Centre for Water and Sanitation and is currently

used by 5 states with over 900+ cities for many years.