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DECOMPOSING REVENUE SOURCES OF MUNICIPALITIES

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ABSTRACT

Purpose: *The study intends to examine the sources of ULBs' revenue. It highlights various revenue sources available to municipalities in India, including funds recommended by Five Year Plans and Finance Commissions*
Methodology: *This study was primarily based on various Central Finance Commissions' Reports and Five-Year Plan documents.*
Results: *Fund transfers, including central transfers and state transfers, are the main sources of funds for ULBs in India. Funds allocated for ULBs has been increasing in the Five-Year Plans since the beginning. These transfers have seen an increasing trend over the years, reflecting the realization of the importance of strengthening municipal governance and infrastructure.*
KEY WORDS: *Municipal Finance, Fund Transfers for Urban Local Bodies.*

INTRODUCTION

Having good sources of revenue can provide a broad sense of financial security and stability to urban local bodies. Adequate revenues are required for funding basic urban services and essential social overheads that ranges from education and healthcare to sanitation and waste management. Likewise, long-lasting and adequate sources of revenue are very important for municipal governments to stay financially healthy and to keep fiscal balance or to bring down fiscal deficit. Therefore, to achieve good and sustainable municipal finance is the urban authority's efforts to keep the city moving forward.

Certainly, municipal finance involves the collection of revenues through different channels, such as taxes and non-taxes including user charges, fees, fines, grants and inter-governmental fund transfers, and the allocation of these resources to meet the diverse needs of the residents. For an operational and accountable fiscal future, urban local bodies need to create a strong base of financial sources. In order to fulfil their mandate in a fiscally responsible manner, local governments in developing countries must have significant sources of own tax revenues and non-tax revenues collected from user charges and fees. Adequacy of own revenues is the key to a city's improved ability to deliver necessary goods and services and to better accountability of local officials to their constituents (Martinez-Vazquez, 2015).

For every municipal government, adequate revenues is also the key to improve ability to deliver necessary goods and services to its residents, as well as to get better accountability of authorities to their wards or constituents. Ironically, one of the most common financial features of municipalities in India is lack of adequate revenues. This has resulted in a vicious circle of problems that aggravates existing municipal economic situations, such as insufficient investments in infrastructure, poor quality of services, lack of willingness of citizens to pay taxes and other user charges, poor state of municipal finances and so on. And this vicious circle needs to be broken by addressing the factors responsible for fiscal gap in cities (Mohanty, 2016).

Municipal corporations or urban local bodies around the globe generate revenue from various sources to provide funding for the growing demands of urban development and various municipal services. These sources typically include:

1. Property Taxes: Property taxes are the primary sources of revenue for municipal corporations and are levied on residential, commercial, and industrial properties based on their annual rental value or the area of the property.
2. User Charges or Fees: Municipal corporations collect fees for various services such as water supply, sanitation, solid waste management, and other municipal services. Municipal government also generated income through the issuance of licenses for businesses, trade activities, and various permits.
3. Fines: Fines and penalties for violating municipal regulations also contribute to the municipal revenue stream.
4. Grants and Aids: Municipal corporations receive grants and aids from the central and state governments for specific projects and programs such as, infrastructure development, urban renewal and the implementation of various schemes to promote the quality of life in urban areas.
5. Advertisement/Hoarding Taxes: Municipal corporations levy taxes on advertisements displayed in public places and on hoardings.
6. Leasing of Properties: Revenue is generated through the

leasing of municipal properties, such as community halls, markets, parking lots, and other commercial spaces.
7. Development Charges: Municipal corporations collect development charges from property developers for approving building plans and for allowing construction activities within the city limits.
8. Special Assessments: In some cases, municipal corporations impose special assessments on property owners for specific improvements or infrastructure projects in their localities.

In India the revenue base of municipal bodies can be broadly categorized into Tax revenues, non-tax revenues, Assigned (shared) revenue, Grants-in-aid, Loans and Other receipts. RBI (2007) broadly categorized the revenue base of municipal corporations as follows:
1. Tax revenue: Tax revenue includes property tax, vacant land tax, octroi, tax on animals, taxes on carriages and carts, advertisement tax.
2. Non-tax revenue: Non-tax revenue comprises municipal fees, sale and hire charges, user charges, lease amounts.
3. Other receipts: Other receipts are such as sundry receipts, lapsed deposits, fees, fines and forfeitures, Law charges costs recovered, rent on tools and plants, miscellaneous sales.
4. Assigned (shared) revenue: Assigned or shared revenue include profession tax, surcharge on stamp duty, entertainment tax, motor vehicles tax.
5. Grants-in-aid: Grants-in-aid are of two types, such as -
(a) Plan grants made available by way of planned transfers from the upper tier of Government under various projects, programmes and schemes, and
(b) Non-plan grants made available so as to compensate against the loss of income and some specific transfers.
6. Borrowings: Borrowings are loans undertaken by the local authorities for capital works etc., mainly from financial institutions, like, Life Insurance Corporation of India, State and Central Governments, banks and municipal bonds in select cases

OBJECTIVES

1. To examine the sources of revenue for ULBs especially the report of FYPs and the recommendations of Finance Commission at the state level as well.
2. To assess policy recommendations for the ULBs in various Five-Year Plans and Central Finance Commissions

LITERATURE REVIEW

The literature on municipal finance encompasses a wide range of topics, including municipal budgeting, revenue generation, expenditure management, financial structure, fiscal sustainability, intergovernmental fiscal relations, and fiscal policies for urban development. Long time back, during the 4th Five Year Plan Bhardwaj discusses the causes of backwardness of municipal bodies In India. He expresses his dissatisfaction in the following words. The way in which the people have dealt with the local bodies in India does not bring credit to the smooth functioning of municipal administration (Bhardwaj,1970). The financial structure of Urban Local Bodies (ULBs) in India primarily consists of tax and non-tax sources of revenue. The differences in the tax jurisdiction, the degree of control exercised by the State Government in terms of the fixation of tax base, rates, exemptions etc. has a direct impact on the finances of municipalities (Mathur, 2001). Mathur (2006) finds that the finances of municipalities in India are in a grossly unsatisfactory state. The spending levels of municipalities are about 130 per cent lower compared with norms and standards. Oommen (2006) analyses the trends in fiscal decentralisation in India focusing on the 15 non-special category states, based on the data given in the report of the Twelfth Finance Commission. He found out that total expenditure of local government as a proportion of the combined expenditure of Union, States and Local Governments declined from 6.4 per cent in 1998-99 to 5.1 per cent in 2002-03.

Municipal corporations and municipalities raise their own resources from a variety of sources, as provided for in the respective municipal laws. Besides, ULBs receive grants from the State. Property tax on land and buildings is the most important source of income of most urban local bodies (Makandar, 2015). The government at the centre has dismissed the planning commission and replaced it with NITI Aayog, a body for strategic thinking. The closure of planning commission enhances the role of Central Finance Commissions and the State Finance Commissions as the municipal funding body. Focus needs to be laid on strengthening of the organisational as well as financial position of the local bodies. (Singh et al, 2015).

FIVE YEAR PLANS AND MUNICIPAL FINANCE

The Government of India, as envisaged by the Constitution, has been making allocations to local bodies through various Five-Year Plans and Finance Commissions. This section provides a brief overview of such allocations through Five Year Plans (FYPs). Central and State Finance Commissions' grants will be discussed in the next section. Essentially, FYPs and the reports of Finance Commissions are centralized national economic agenda for a span of five years. The First FYP was introduced in 1951. Each plan period has addressed specific challenges and priorities related to urbanization and municipal governance. After a cabinet resolution was passed to wind up the Planning Commission, the central government established National Institution for Transforming India (NITI Aayog) in 2014. Therefore, the Twelfth FYP (2012-2017) was the last plan period for India's planning process.

The emphasis in the First FYP (1951-56) was on setting up Town Planning Departments in states to coordinate urban planning activities. The plan recognized the need for urban housing and included provisions for low-cost housing schemes. According to Singh et.al (2015), the First FYP made a lump-sum provision of Rs 15 crore for local development works, so as to draw local initiative and resources. This was done with an expectation that the municipalities, district and taluka boards and other local bodies would prepare schemes, for which financial assistance would be allocated from this lump-sum provision.

The Second FYP (1956-1961) recognized that Local Bodies had inadequate finances and stressed the importance of urban planning and proposed the establishment of development authorities in cities. Provisions were made for urban development through slum clearance and housing programs. Also the Second Plan provided for the creation of town and country planning laws and initiated planning institutions, after which rigid Master Plans for a number of cities were developed.

Third FYP (1961-1966) comprehended the importance of municipal services and focused on improving urban amenities and services, including water supply, sanitation, and drainage. It aimed to enhance the financial capacity of ULBs through local taxation and revenue generation mechanisms. The Third FYP provided financial assistance for housing for low income groups, improvements in habitable areas, improvements in structure and organization of financial resources for local bodies.

The Fourth FYP (1969-74) aimed to strengthen municipal administration and governance by promoting citizen participation and decentralization of powers. It emphasized the need for better urban infrastructure, including transportation, roads, and solid waste management. The Fourth FYP provided Rs 45 crore planned to be raised by local bodies for urban planning and development. In the Fifth Plan (1974-79) continued the focus on urban infrastructure development, with increased allocations for urban services and amenities. It emphasized the role of ULBs in urban poverty alleviation and social welfare programs. A lump sum Rs 10.27 crore was allocated to local bodies for improving urban sanitation and water supply; Market Borrowings of Rs 3,030 crore was also encouraged by the Planning Commission.

The Sixth FYP (1980-85) was implemented with an objective of rapid industrialization. Rs 1.60 crore allotted for policy formulation and research on urban development, to financially strengthen local bodies. The Sixth Plan required Managerial efficiency of local bodies; financial assistance to local bodies; tax incentives; Rs. 1.60 crore allotted for policy formulation and research on urban development, to financially strengthen local bodies.

Singh et.al (2015) states that Seventh Plan demanded horizontal coordination at local governance level, Taxes recognized as main source of own revenues; recognition of physical and financial targets. The Eight Plan aimed to promote sustainable urban development through initiatives such as urban renewal and revitalization programs. It emphasized the importance of public-private partnerships (PPPs) in urban infrastructure development. During the Eight FYP (1992-97), the Constitutional amendments were passed in the Parliament popularly known as the 73rd and 74th Amendments. It recognized that Local Bodies needed regulatory as well as financial legislation and resources.

The Ninth Plan (1997-02) aimed at increasing tax revenues, enhancing Autonomy and Power to Local Bodies. This plan focused on improving governance and financial management systems in ULBs. It aimed to enhance service delivery and infrastructure provision in urban areas, with a focus on basic amenities for the urban poor. The Tenth FYP (2002-07) recognized that Centre to State transfers were the main sources of finance. The plan aimed to promote urban reforms, including decentralization of powers, strengthening of local governance institutions, and capacity building for ULBs. It emphasized the need for sustainable urban development and integrated urban planning approaches. Some features of the Tenth Plan was gap in managerial skills and expertise in Municipalities, Transparency of systems, levying of user charges, increasing non-tax revenues and cost control.

Eleventh FYP (2007-12) sought municipalities to be made financially sustainable through Municipal Finance Improvement Program; recognized that there was a gap between revenues and financial requirements of Rs. 76,896 crore. Twelfth Five Year Plan (2012-17) Proposed to set up an urban regulator at State level and increased implementation of information technology at ULB Level.

Definitely, Twelfth to Fourteenth Plans (2012-2022) underscored the significance of creating smart and sustainable cities. They emphasized the need for holistic urban planning, improved service delivery, and the use of technology to enhance the efficiency of urban local governments in addressing the growing challenges of urbanization. Through these Five-Year Plans, India has continually strived to address the complex needs of urban areas, fostering the development of effective governance structures and institutions at the local level. The emphasis on urban development and local governance in these plans has contributed to the evolution of urban local governments, enabling them to play a more proactive role in the sustainable development of urban areas and the overall improvement of the quality of life for urban residents.

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Table 1: Five Year Plans and Select Measures for Urban Local Bodies in India

FYP	Year	Plan Allocations or Recommendations for Urban Local Bodies
First	1951-56	The focus was on setting up basic infrastructure in urban areas. Funds were allocated for projects such as housing, water supply, sanitation, and roads, which were implemented by ULBs with support from the central and state governments. Rs. 15 crore : Lump-sum provision for local development works for local bodies.
Second	1956-61	Continued emphasis on urban infrastructure development. Allocations were made for initiatives to improve living conditions in urban areas, including slum clearance and housing programs. Recognized that Local Bodies had inadequate finances.
Third	1961-66	Further investments in urban infrastructure and services. Funds were allocated for projects aimed at improving water supply, sanitation, drainage, and transportation systems in urban areas
Fourth	1969-74	The plan aimed to strengthen municipal administration and governance by promoting citizen participation and decentralization of powers. Rs 45 crore planned to be raised by local bodies for urban planning and development.
Fifth	1974-79	This plan continued the focus on urban infrastructure development and emphasized the role of ULBs in urban poverty alleviation and social welfare programs. Rs 10.27 crore allocated to local bodies for improving urban sanitation and water supply.
Sixth	1980-85	The plan aimed to improve urban governance and management through capacity building initiatives for ULBs. It focused on strengthening urban infrastructure and services, particularly in smaller towns and cities. Rs. 1.60 crore allotted for policy formulation and research on urban development.
Seventh	1985-90	This plan emphasized the need for integrated urban development strategies and comprehensive urban planning. It included provisions for urban environmental management and pollution control measures.
Eighth	1992-97	73rd and 74th Amendments were passed. This plan aimed to promote sustainable urban development through initiatives such as urban renewal and revitalization programs. It emphasized the importance of public-private partnerships (PPPs) in urban infrastructure development.
Ninth	1997-02	This plan focused on improving urban governance and financial management systems in ULBs. It aimed to enhance service delivery and infrastructure provision in urban areas, with a focus on basic amenities for the urban poor
Tenth	2002-07	The plan aimed to promote urban reforms, including decentralization of powers, strengthening of local governance institutions, and capacity building for ULBs. It emphasized the need for sustainable urban development and integrated urban planning approaches.
Eleventh	2007-12	Municipalities sought to be made financially sustainable through Municipal Finance Improvement Program; recognized that there was a gap between revenues and financial requirements of Rs. 76,896 crores.
Twelfth	2012-17	Launched AMRUT aimed at providing basic urban infrastructure and services to improve the quality of life in cities. Introduced Swachh Bharat Mission (Urban) aimed at achieving cleanliness and sanitation in urban areas. Proposal to set up an urban regulator at State level.

Source: Various FYPs Documents, Government of India

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CENTRAL FINANCE COMMISSIONS AND MUNICIPAL FINANCE

The central government constitutes Central Finance Commissions (CFCs) to give recommendations on the distribution of tax revenue between the Union and the States, and among the States themselves for a period of five years. Thus, ULBs in India are getting grants from the Central Government as well as from the State Governments, mainly based on the recommendations of CFCs and State Finance Commissions (SFCs). These recommendations are essential for ensuring the fiscal stability and autonomy of local bodies. The Commission also plays a vital role in the distribution of central taxes among the local governments, including municipalities. Besides, the Finance Commission suggests measures for the appropriate sharing of funds between the central and local governments, thereby influencing the financial stability and capabilities of urban local bodies in the country.

Before the enactment of the 74th Constitution Amendment Acts (CAA), the Central Government has not involved in any transfer of resources to the ULBs in India. Article 280(3) (c) of the Constitution mandated the Finance Commission to recommend measures to augment the consolidated fund of a state to supplement the resources of panchayats and municipalities based on the recommendations of the respective SFCs. This also includes augmenting the resources of panchayat and municipalities. After the enactment of the 73rd and 74th CAAs, the Centre has constituted six rounds of Finance Commissions, such as, tenth, eleventh, twelfth, thirteenth, fourteenth and fifteenth Finance Commissions. Until the amendments, local governments were under the State Governments' direct control in an *ultra vires* fashion, without legislative provisions (Singh et.al 2015)

After the 74th CAA, the Tenth Finance Commission provided ad-hoc grants to ULBs with central revenues. This is the first time when any CFC has given a serious attempt to meet the requirements of the ULBs and to improve performance, accountability, and credibility of local bodies. These amendments attempted to include important functions like devolution of financial and administrative responsibilities, to the third tier of governance, therefore, making path for fiscal 'federalism' (Singh et.al 2015). Thus, subsequent Finance Commissions allocated the grants for urban local bodies on the basis of the inter-state ratio of slum population or other specific criteria to the states. The CFC's allocations of funds for ULBs have shown the efforts of central government to take concrete steps towards fiscal decentralization.

The 73rd and 74th Constitutional Amendments mandated the state (Governor) to constitute a State Finance Commission every five year to review the financial position of the municipalities and make recommendations, and the recommendations shall be laid before the Legislature of the State. The recommendations by SFCs were supposed to be the base on which the succeeding CFCs have to make further recommendations to augment local government finances. But, most of the state governments did not constitute the SFCs in time and did not give due importance to strengthening this critical constitutional mechanism. Therefore, the Tenth Finance Commission could not consider the recommendations of SFCs, as these reports were not available at such time.

In spite of such circumstances, the Tenth Finance Commission did indeed make an ad-hoc provision of grants amounting to Rs 1,000 crores for municipalities as grant-in-aid. This provision was made for the award period spanning from 1996 to 2000. These grants were intended to bolster the financial capacities of municipalities and support them in undertaking essential developmental activities and improving service delivery at the grassroots level. Actually, the Tenth Finance Commission did not have a Terms of Reference for local bodies but, with the enactment of the Constitutional Amendment it has additional responsibility apart from its terms of reference to give awards as grants-in-aid for panchayats and municipalities (Mohanty 2016). Rural and urban local bodies were given responsibility to discharge the new role assigned to them under the 73th and 74th Constitutional Amendment during its award period.

The per capita transfer of resources to Mizoram under the recommendations of the Tenth Finance Commission is the highest among the States. The total devolution recommended by the Commission to Mizoram for the period 1995-2000 is Rs. 1,802.01 crore (Rs. 1398.37 crore by way of tax-shares and Rs. 403.64 crore by way of grants-in-aid) representing a step-up of 76.5 percent over the recommendations of the Ninth Finance Commission for the preceding five-year period 1990 - 1995. Apart from the revenue gap grants of Rs. 331.19 crore, the other grants include Rs. 3.32 crore for improvement of local (rural and urban) administration. (Mizoram Budget Speech 1996-97)

The Eleventh Finance Commission had a clear mandate, its terms of reference required to make it obligatory to consider the recommendations about the augmentation of consolidated funds of state in enhancing resources of municipalities. After considering suggestions given by Ministry of Urban Development and others states, it unanimously was felt that provision of basic civic services requires great attention (NIUA, 2011). However, the Commission arrived at arbitrary conclusions as the relevant State Finance Commission reports were not available. It recommended an ad hoc grant of Rs 2,000 crore for municipalities for the award period 2000-05.

The Twelfth Finance Commission's mandate was to recommend the measures needed to augment the Consolidate Fund of a State to supplement the resources of the Panchayats and the Municipalities in the State based on the recommendations made by the Finance Commission of the State. The Commission has recommended a sum of Rs. 25,000 crore for the period 2005-10 as grants-in-aid to increase the consolidated fund of the States to supplement the resources of the municipalities and the

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panchayats. This is equivalent to 1.24 per cent of the shareable tax revenue and 0.9 per cent of gross revenue receipts of the Centre as estimated by the Commission during the period 2005-10.

As per the recommendation of the Twelfth Finance Commission, a grant of Rs. 5,000 crore for the urban local bodies may be given to the States for the period 2005-10 with *inter-se* distribution. The Commission set criteria for the *inter-se* allocation of this grant amongst States based on factors and weights assigned by the Commission such as, population, geographical area, distance from highest per capita and revenue effort (with respect to own revenue and GSDP). One important feature of this recommendation was that the Commission stressed the importance of public private partnership to enhance municipal service delivery of solid waste management services in the urban areas. The Commission has urged that state may require municipalities of towns of over 100000 population as per 2001 census to prepare comprehensive scheme including composting and waste to energy programmes to be undertaken in the private sector for appropriate funding from the goals recommended by the Commission, it has suggested earmarking of at least 50 per cent of grant for this purpose. Besides, the Twelfth Finance Commission has further felt it to be imperative that high priority need to be assigned to creation of database and maintenance of accounts at the grass root levels

The Thirteenth Finance Commission, which operated during the period 2010-2015, was tasked with recommending measures to augment the Consolidated Fund of a State in order to supplement the financial resources of Panchayats and Municipalities within the state. These recommendations were based on the suggestions made by the respective State Finance Commission. On the basis of this term of reference the Commission has recommended two categories of grants to local bodies namely, (1) General Basic Grant and (2) General Performance Grant. The general basic grant was intended to provide a basic level of financial support to Panchayats and Municipalities for carrying out their day-to-day functions and providing essential services to citizens. This grant aimed to ensure that local bodies had adequate resources to meet their basic operational expenses and fulfil their statutory obligations. The Thirteenth Finance Commission also recommended a general performance grant for local bodies based on certain performance criteria, which include indicators related to service delivery, fiscal management, governance reforms, and other parameters aimed at improving the effectiveness and efficiency of local governance. The performance grant served as an incentive for local bodies to improve their performance and governance outcomes.

Besides, the Thirteenth Finance Commission proposed measures to augment the resources of Panchayats and Municipalities within each state. These measures could include grants-in-aid, fiscal transfers, or other financial mechanisms aimed at empowering local self-government bodies and enhancing their ability to deliver essential services and undertake developmental activities at the grassroots level. The grant-in-aid recommended for municipalities for 2010-15 amounted to Rs 23,111 crore, which is four times of the recommended amount by the Twelfth Finance Commission.

Further, the state governments would be eligible to draw down its share of 'General Performance Grant' only if they comply with the conditions laid down by the Commission. The quantum of transfers to municipalities through all central channels, including the Central Finance Commission, Planning Commission and Government of India’s ministries, translate to 0.10 per cent of GDP in 2012-13. And with the implementation of the recommendations of the Fourteenth Finance Commission for municipalities, the central transfers-GDP ratio may go up to 0.15 per cent per annum (Mohanty, 2016).

The Fourteenth Finance Commission, which operated during the period 2015-2020, was, *inter-alia*, mandated to recommend measures needed to augment the Consolidated Funds of the state to supplement the resources of the Panchayat and Municipalities based on the recommendations of the respective State Finance Commissions. Some key recommendations of the Fourteenth Finance Commission for urban local bodies include - an increase in share of central taxes, allocation of untied grants, introduction of performance grants, recommendation of grants for basic services such as water supply, sanitation, solid waste management, and urban infrastructure development and emphasis on capacity building for ULBs to enhance their administrative and technical capabilities.

The Commission has recommended Grant-in-aid to duly constituted Panchayats (Rural Local Bodies) and Municipalities (Urban Local Bodies) in two parts, namely - (a) Basic Grant, and (b) Performance Grant. In case of Municipalities, 80 per cent of the Grant will be the Basic Grant and 20 per cent will be the Performance Grant. The 14th Finance Commission has recommended a Basic Grant of Rs 69,715.03 crore for the Municipalities for the period 2015-20. While recommending a quantum jump in the share of states in the divisible pool of central taxes from 32 per cent to 42 per cent, the Commission recommended Rs 2,87,436 crore as grant-in-aid for local bodies. The FFC has worked out the size of the grant to be Rs. 87,144 crore to municipalities is. The Grant-in-aid recommended is fixed for the Award period of 2015-20. Overall, the recommendations of the Fourteenth Finance Commission aimed to empower ULBs and strengthen decentralized governance in urban areas.

The four Finance Commissions, prior to the Fifteenth Finance Commission, that is Eleventh Finance Commission, Twelfth Finance Commission, Thirteenth Finance Commission and Fourteenth Finance Commission used population and area as the criteria to reflect need for resources. The Fifteenth Finance Commission has recommended distribution of grants to states using population data (Census 2011) with a weight of 90 per cent and area with a weight of 10 per cent. Based on the urban and rural population (as per Census 2011) of the respective state, the grant to each state will be divided into a grant to the duly constituted gram panchayats and a grant to the duly constituted municipalities. Oommen (2015), however, mentions that, population being given such undue weightage is iniquitous. Also, that omission of other relevant criteria can just assist in temporary deferral of democratic decentralisation.

The Fifteenth Finance Commission (FFC) formulated the patterns and criteria for funding Urban Local Bodies (ULBs) in India. To cater to the growing urbanization needs and to achieve sustainable urban development, the Commission has, inter-alia, recommended Rs 1,21,055 crore for ULBs and urban agglomerations/cities for the period 2021-2026, which reflects the Commission's recognition of the importance of addressing the needs of rapidly urbanizing areas and improving urban infrastructure and services. The Commission also stated that 61 per cent of the urban population lives in urban agglomerations which include Urban Local Bodies, census towns and outgrowths, thus the Fifteenth Finance Commission has given differential treatment to the urban agglomerations with more than one million population in distribution of urban local bodies' grants.

The Fifteenth Finance Commission has divided the Urban Local Bodies into two categories: (a) Million-Plus urban agglomerations/cities (excluding Delhi and Srinagar), and (b) all other cities and towns with less than one million population (Non-Million Plus cities). The Commission has recommended separate grants for them. Out of the total grants recommended by the Commission for Non-Million Plus cities, 40 per cent is basic (untied) grant and the remaining 60 per cent is tied grant. Basic grants (untied) are utilised for location-specific felt needs, except for payment of salary and incurring other establishment expenditure. On the other hand, tied grants for the Non-Million Plus cities are released for supporting and strengthening the delivery of basic services.

The following Table 2 shows the increasing trend in central transfers recommended by Finance Commissions for ULBs, which reflects the growing recognition of the importance of urban development and governance in India's overall development agenda.

Table 2: Grants recommended for ULBs under Finance Commissions

Finance Commission	***Award Period***	***Grants for ULBs***
10th Finance Commission	1995-2000	Rs. 1,000 crore
11th Finance Commission	2000-2005	Rs. 2,000 crore
12th Finance Commission	2005-2010	Rs. 5,000 crore
13th Finance Commission	2010-2015	Rs. 23,111 crore
14th Finance Commission	2015-2020	Rs 87,144 crore
15th Finance Commission	2020-2025	Rs 1,21,055 crore

Source: 10th, 11th, 12th, 13th, 14th and 15th Finance Commissions' Reports

Also, the funds allocated by Fifteenth Finance Commission to Non-Million-Plus Cities and towns consist of two equal parts: (i) 50 per cent of the allocated amount is Basic Grant (untied) and (ii) 50 per cent of the allocated amount is Tied Grant. Out of the total tied grant, 50 per cent is earmarked for 'Sanitation Solid Waste Management' and attainment of star ratings as developed by the Ministry of Housing & Urban Affairs (MOH&UA). The remaining 50 per cent is tied to 'Drinking water, rainwater harvesting and water recycling'. The tied grants are meant to ensure availability of additional funds to urban local bodies over and above the funds allocated by the Centre and the State for sanitation and drinking water under various Centrally Sponsored Schemes and provide quality services to citizens.

In the following Table 3, the distribution of grants to state and the criteria used by the four Finance Commissions, prior to the Fifteenth Finance Commission, that is Eleventh Finance Commission, Twelfth Finance Commission, Thirteenth Finance Commission and Fourteenth Finance Commission are shown.

Before the Fifteenth Finance Commission, population and area are used as the criteria to reflect need for resources. Oommen (2015), however, mentions that, population being given such undue weightage is iniquitous. Also, that omission of other relevant criteria can just assist in temporary deferral of democratic decentralisation.

We can see from the Table 3 that the criteria and weights (Percentage) adopted by the last four CFCs and the Fifteenth Finance Commission introduced new criteria such as, Forest &

Ecology and demographic performance with weightage of 10 percentage and 12 percentage respectively. The Fifteenth Finance Commission has recommended distribution of grants to states using population data (Census 2011) with a weight of 90 per cent and area with a weight of 10 per cent. Based on the urban and rural population (as per Census 2011) of the respective state, the grant to each state will be divided into a grant to the duly constituted gram panchayats and a grant to the duly constituted municipalities.

Table 3: Distribution of Grants to states for Urban Local Bodies: Criteria and Weights (Percentage) Adopted by Finance Commissions of India

Finance Commission	11th	12th	13th	14th	15th
Population	40	40	50	90	15
Geographical area	10	10	10	10	15
Distance from highest per capita income	20	20	20	0	45
Index of decentralization	20				
Index of devolution			15		
Index of deprivation		10			
Revenue effort /Tax & Fiscal effort	10	20			2.5
CFC ULB grant utilization index			5		
Forest & Ecology					10
Demographic performance					12

Source : Various CFC Reports (11th, 12th, 13th, 14th and 15th Finance Commissions' Reports)

We can see from the Table 3 that the criteria and weights (Percentage) adopted by the last four CFCs and the Fifteenth Finance Commission introduced new criteria such as, Forest & Ecology and demographic performance with weightage of 10 percentage and 12 percentage respectively. The Fifteenth Finance Commission has recommended distribution of grants to states using population data (Census 2011) with a weight of 90 per cent and area with a weight of 10 per cent. Based on the urban and rural population (as per Census 2011) of the respective state, the grant to each state will be divided into a grant to the duly constituted gram panchayats and a grant to the duly constituted municipalities

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