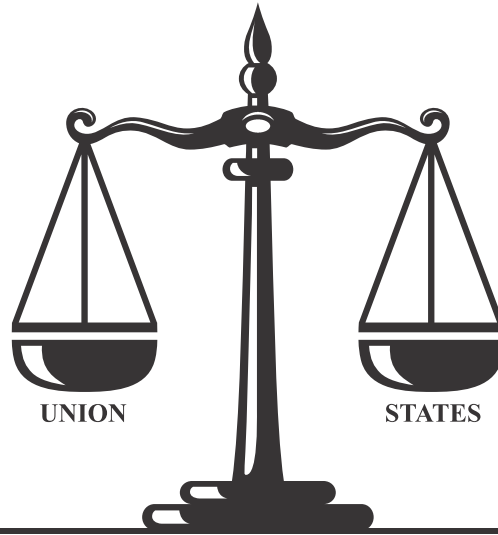




FINANCE COMMISSION IN COVID TIMES
Report For 2021-26



XV FINANCE COMMISSION

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Chapter 7

Empowering Local Governments

In our Report for the Year 2020-21, we had recommended total grants of Rs. 90,000 crore to local governments in the ratio of 67.5:32.5 between rural and urban local bodies. Now, for the five-year period 2021-26, we recommend grants of Rs. 4,36,361 crore for local governments.

In view of the fast pace of urbanisation and future needs of the cities to act as engines of growth, and in continuation with the principles followed in the report for the year 2020-21, the ratio of inter se distribution of the grants recommended for rural and urban local bodies gradually moves from 67.5:32.5 in 2020-21 to 65:35 in 2025-26, which is the final year of our award period. For the inter se distribution of grants amongst the States, the weightage is 90 per cent on population and 10 per cent on area.

Out of the total grants earmarked for panchayati raj institutions, 60 per cent is earmarked for national priorities like drinking water supply and rainwater harvesting and sanitation, while 40 per cent is untied and is to be utilised at the discretion of the panchayati raj institutions for improving basic services.

The Commission adopted a differentiated approach in the allocation of grants to urban local bodies. Given the importance of metropolitan areas, fifty Million-Plus cities are provided with a Challenge Fund of Rs. 38,196 crore over the five-year award period. Almost one-third of this fund is for achieving ambient air quality based on identified parameters, while the remaining two-thirds is for meeting service level benchmarks on drinking water supply, rainwater harvesting and water recycling, solid waste management and sanitation.

Out of the total grant of Rs. 82,859 crore recommended for cities with less than a million population, 40 per cent of the grants is untied while 60 per cent is tied to the national priorities of drinking water, rainwater harvesting, solid waste management and sanitation.

For all local governments, both urban and rural, web-based availability of annual accounts for the previous year and audited accounts for the year before previous is an entry level qualification for grants. For urban local bodies, an additional entry level condition for receiving grants is the notification of minimum floor rates of property taxes by the relevant State followed by consistent improvement in the collection of property taxes in tandem with the growth rate of State's own gross state domestic product.

In view of the challenges of the current pandemic, out of the total grants for local governments, Rs. 70,051 crore is earmarked for the improvement of health services.

We have recommended Rs. 8,000 crore to States as grants for incubation of new cities and Rs. 450 crore for facilitating shared municipal services. The Ministry of Housing and Urban Affairs, in consultation with the States, will draw up appropriate modalities for the administration of both these grants.

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7.1 Para 4 of the terms of reference (ToR) mandates the Commission to recommend “the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State based on the recommendations made by the Finance Commission of the State.” In addition, para 7 mandates the Commission to consider proposing measurable performance-based incentives for States, at the appropriate level of government for “(vii) 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” and “(ix) progress made in sanitation, solid waste management and bringing in behavioural change to end open defecation.”

The Evolution of Local Self-Government

7.2 Panchayats have been the fulcrum of local self-government since ancient times, exercising both executive and judicial powers over village-level issues ranging from land distribution and tax collection to disputes. However, they were not part of the formal government structure. The framers of the Constitution recognised the need to empower panchayats for the development of rural areas and Article 40 of the Directive Principles of State Policy specified that “The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.” Since what are described in popular parlance as the urban local bodies and rural local bodies constitute local self-government in the Constitutional sense, the chapter's title is “Empowering Local Government.”

7.3 The conceptualisation of the local self-government system post-Independence was done through the reports of four important committees: Balwant Rai Mehta Committee (Committee on Panchayati Raj Institutions, 1957), Asoka Mehta Committee (1977-1978), G.V.K. Rao Committee (Committee On Administrative Arrangements for Rural Development and Poverty Alleviation Programmes, 1985) and L.M. Singhvi Committee (1986). However, it was not until 1992, with the enactment of the Seventy-Third and Seventy-Fourth Amendments to the Constitution, that these institutions were formalised in the governance system. The year 1993 was epoch-making in decentralised governance in India with the emergence of a clear third tier in both rural and urban areas. This also broadened the role of the Finance Commission through the insertion of the sub-clauses (bb) and (c) to Clause (3) of Article 280 of the Constitution, wherein Article 280(3)(bb) refers to the measures needed to augment the Consolidated Fund of a State to supplement the resources of the panchayats in the State on the basis of the recommendations made by the Finance Commission of the State. Similarly, Article 280(3)(c) refers to the measures needed to augment the Consolidated Fund of a State to supplement the resources of the municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. According to the Ministry of Panchayati Raj (MoPR), since then, approximately 3.1 million representatives are regularly elected to about 0.26 million rural local bodies all over the

country. Providing basic services at the grassroots level makes them the primary interface between citizens and the government.

7.4 Like rural local bodies, urban local bodies also have a long history. The Municipal Corporation in Chennai (then known as Madras) was set up in 1687, and the Municipal Corporations of Kolkata (then Calcutta) and Mumbai (erstwhile Bombay) followed in 1726. There are around 206 Municipal Corporations and 1,683 municipalities and 2,411 Nagar Panchayats.^{1,2}

Approach of Previous Finance Commissions

Terms of Reference

7.5 Subsequent to the Seventy-Third and Seventy-Fourth Amendments, so far four Finance Commissions – FC-XI to FC-XIV – have given their recommendations for local bodies. The ToR was the same for all the Commissions. Each, accordingly, deliberated on the critical issues related to the effective functioning of the local governments and made suitable recommendations.

7.6 Since the FC-X was constituted in 1992, a year before the Amendments came into force, its ToR did not specify considering grants for the local bodies. However, it still recommended grants, which were equivalent to 1.38 per cent of the divisible pool, to the rural local bodies and urban local bodies in order to enable them to discharge the new role assigned to them during its award period.

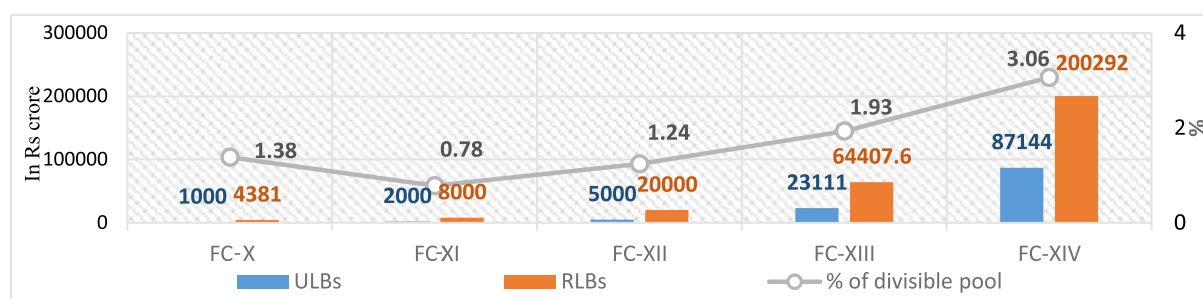
Quantum of Flows

7.7 Grants recommended by successive Finance Commissions in absolute terms have been growing (Figure 7.1). For example, at Rs 2,87,436 crore, the combined grants for rural and urban local bodies recommended by the FC-XIV were three times the Rs. 87,519 crore recommended by the FC-XIII. Except for the FC-XIII, all the previous Commissions recommended such grants in absolute terms and not as a proportion of the divisible pool. If we express these grants as a proportion of the divisible pool, except for the FC-XI, the share of local governments has increased from one Commission to the next to reach 3.06 per cent under the FC-XIV. *We, in our Report for the Year 2020-21*, recommended a total grant of Rs. 90,000 crore for the year 2020-21, which was equivalent to 4.31 per cent of the divisible pool estimated by the Commission for that year.

¹ Nagar Panchayats also include town municipal councils, small town committees, town councils, notified area committees

² This information is compiled from the topic notes provided by the State Governments to us

Figure 7.1: Grants to Local Governments by Various Commissions



Note: RLBs – rural local bodies; ULBs – urban local bodies

7.8 The actual amounts disbursed, however, have fallen short of the amounts recommended by the Commissions (Table 7.1). The shortfall has fluctuated between 5 per cent and 18 per cent for the rural local bodies and between 10 per cent and 18 per cent for urban local bodies. The shortfalls – which were the highest for rural local bodies under the FC-X and for urban local bodies under the FC-XIII – were because of failure of the local governments to meet the conditionalities attached to the performance grants by the Commissions. Sometimes the concerned Union ministries had also added to these conditionalities.

Table 7.1: Grants Recommended Versus Actual Releases

(Rs. crore)

Grants	Rural Local Bodies			Urban Local Bodies		
	Recommended	Released	% Released	Recommended	Released	% Released
FC-X	4381	3576	81.6	1000	834	83.4
FC-XI	8000	6602	82.5	2000	1752	87.6
FC-XII	20000	18927	94.6	5000	4470	89.4
FC-XIII	64408	58257	90.7	23111	18980	82.1
FC-XIV	200292	179491	89.6	87144	74259	85.2

Note: FC-XIV: amount released till 2019-20 RE. For FC-XIII: allocation recommended was based on actual divisible pool realised. Grants proposed by FC-XIII were dynamic in nature: a) The basic grant was equivalent to 1.50 per cent of the previous year's divisible pool; b) the performance grant – effective from 2011-12 – was 0.50 per cent for 2011-12 and 1 per cent thereafter, up to 2014-15; c) grants-in-aid for local bodies in a year was based on a proportion of the divisible pool of the previous year's revised estimates; and d) Rs. 1,357 crore was allocated as special areas grant. The allocation recommended to rural local bodies also included Rs. 1,357 crore allocated to the special areas

Basis of Horizontal Distribution

7.9 Different Commissions followed distinct criteria while recommending resources to the States for local governments. While population and geographical area were common to all the

previous five Commissions, both equity and efficiency criteria like distance from highest per capita income, index of deprivation, index of decentralisation and revenue effort varied across Commissions (Table 7.2).

**Table 7.2: Criteria for Distribution of Grants to States
for Local Governments by Finance Commissions**

(in per cent)

	FC-X	FC-XI	FC-XII	FC-XIII		FC-XIV	FC-XV
				RLB	ULB		
Population	100	40	40	50		90	90
(Census)	1971	1971	2001	2001		2011	2011
Geographical area	-	10	10	10		10	10
Distance from highest per capita income	-	20	20	10	20	-	-
Index of decentralisation	-	20	-	15		-	-
Index of deprivation			10	-		-	-
Revenue effort	-	10	20	-		-	-
Proportion of scheduled castes/ scheduled tribes in population	-	-	-	10	0	-	-
FC local body grants utilisation index	-	-	-	5		-	-

Basic and Performance Grants

7.10 The FC-X stipulated that State Governments should prepare suitable schemes and issue detailed guidelines for the utilisation of grants. The local governments were required to raise matching contributions for this purpose. No grant amount was to be used for expenditure on salaries and wages.

7.11 The FC-XI made it clear that the first charge on the grants should be maintenance of accounts and audit, followed by the development of a financial database. The remaining amounts were to be utilised for maintenance of core services like provision of primary education, primary health care, safe drinking water, street lighting and sanitation, maintenance of cremation and burial grounds, public conveniences and other common property. These grants were untied, barring the stipulation prohibiting the payment of salaries and wages.

7.12 The FC-XII recommended that panchayats should use the grants to improve service delivery relating to water supply and sanitation. The rural and urban local bodies were also expected to give high priority to expenditure for the creation of databases on their finances and maintenance of accounts through the use of modern technology and management systems.

7.13 The FC-XIII stipulated six conditions for rural local bodies and nine conditions for urban

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local bodies to access the performance grant. All these conditions had to be met in each of the award years. A special area grant was provided for the areas excluded from Part IX and IX-A of the Constitution. This grant had two components – a special area basic grant and a special area performance grant. Four conditions had to be met to avail of the latter. In case States were unable to draw their performance grant, the amount not drawn was to be redistributed in a specified manner.

7.14 The FC-XIV recommended grants in two parts – an unconditional basic grant and a conditional performance grant. For duly constituted gram panchayats, the ratio between the unconditional basic grant and conditional performance grant was 90:10 and for municipalities the ratio was 80:20. The basic grant was intended to be used to improve the status of specified basic civic services. The performance grant was based on revenue improvement, with the criteria (including the quantum of incentive to be given) left to be determined by State Governments. In order to be eligible for performance grants, the local governments would have to show an increase in own source of revenue and also submit audited annual accounts. Municipalities, in addition, had to publish the service level benchmarks relating to basic urban services each year. In addition, the MoPR stipulated some more conditions for availing of performance grants like completion of the Gram Panchayat Development Plan, display of sector-wise expenditure in a dashboard and assignment of scores to Gram Panchayats based on (a) percentage increase in the quantum of own source revenue, (b) open defecation free (ODF) status of Gram Panchayats and (c) level of immunisation in Gram Panchayats.

7.15 Unlike the FC-XIV, our report for 2020-21 provided grants to all the three tiers of panchayats as well as to areas under the Fifth and Sixth Schedules of the Constitution and Cantonment Boards in urban areas. Fifty per cent of the grants to rural local bodies were tied to (a) sanitation and maintenance of ODF status and (b) supply of drinking water and rainwater harvesting. As the grants were stipulated only for one year, no performance conditions were imposed for their release. For the Million-Plus cities, that is cities or urban agglomerations with population more than a million, in 2020-21, the total grant of Rs. 9,229 crore was fully tied (Rs. 4,400 crore for the improvement of ambient air quality and Rs. 4,829 crore for the improvement of conservation, supply and management of water and efficient solid waste management). This grant was to be released in two equal instalments, and the release of the second instalment with respect to ambient air quality in the second half of 2020-21 was conditional on improvement in air quality. The first instalment was to be used for steps relevant for measurement as well as improvement of services. Going forward, a roadmap clearly indicated that such performance criteria would determine the release of the relevant grants in the 2021-22 to 2025-26 period. For urban local bodies in towns other than Million-Plus cities, 50 per cent of the grants were tied to (a) drinking water (including rainwater harvesting and recycling) and (b) solid waste management. In our report for 2020-21, we paid particular attention to the long-standing issue of non-availability of accounts, including audited accounts, in the public domain on a timely basis.

Accounts and Audit

7.16 For any part of the government using tax-payers' money, availability of accounts (including audited accounts) in the public domain on a timely basis is a primary requirement for good governance. In the absence of such information, previous Finance Commissions have also highlighted the difficulties in realistically assessing the requirement of resources by rural and urban local bodies for carrying out their core functions and for development expenditure. Various Commissions, starting from the Eleventh, have highlighted this issue, but there has been inadequate progress on this front. To bring an end to this long-standing vexed issue, we had clearly stated, in our report for 2020-21, that availability of accounts (unaudited) for the previous year and audited accounts for the period preceding the previous year in the public domain online would be an entry-level condition for qualifying for any grant.

7.17 There are two major problems with the accounts of local governments in India: (a) the lack of timely accounts, including audited accounts, on a timely basis and (b) the classification of their accounts to make them amenable to consolidation with Union and State Governments' accounts. The FC-XI recommended that the Comptroller and Auditor General (CAG) should be entrusted with the responsibility of exercising control and supervision over the maintenance of accounts and audit of all tiers of rural and urban local bodies, and that its audit report should be placed before a committee of the State legislature.

7.18 The FC-XII recommended that the compilation of disaggregated data in the formats suggested by the CAG is necessary for State Finance Commissions to be able to assess the income and expenditure requirements of the local governments. Priority should be given to the creation of a database and maintenance of accounts through the use of modern technology and management systems.

7.19 The FC-XIII recommended that while the CAG should provide technical guidance and supervision, a major portion of the actual auditing would have to be undertaken by the local fund audit departments. Hence, all State Governments should strengthen their local fund audit departments appropriately through both capacity building of existing manpower as well as augmentation of personnel.

7.20 The FC-XIV recommended that accounts prepared by the local governments should distinctly capture income from own taxes, assigned taxes, grants from the State, Finance Commission grants and grants for any agency functions assigned by the Union and State Governments. In addition, it also recommended that technical guidance and support arrangements by the CAG should be continued and States should facilitate local bodies to compile accounts and have them audited in time.

7.21 In our report for 2020-21, we recommended timely availability of accounts, both before and after audit, of individual local governments online in the public domain from 2021-22 as the entry level conditions for both rural and urban local bodies to qualify for its recommended grants.

Treatment of Excluded Areas

7.22 Under Article 243M of the Constitution, the Seventy-Third and Seventy-Fourth Amendments do not apply to the Fifth and Sixth Schedule areas (areas where the States have not enacted laws for establishing duly-elected panchayats and municipalities). After the enactment of the Panchayats (Extension to Schedule Areas) Act (PESA), 1996, the areas that remain excluded are given in Table 7.3.

Table 7.3: Areas where Provisions of Parts IX and IX-A of the Constitution Do Not Apply

State/Area within a State	Provisions under which exempt
Meghalaya	Exempt under Article 243M and covered by Sixth Schedule, except selected areas of Shillong Municipal Areas
Mizoram	Exempt under Article 243M, with two administrative districts Lawngtai and Saiha covered by Sixth Schedule
Assam: Bodoland, North Cachar and Karbi Anglong districts	Covered by Sixth Schedule
Tripura	Only Tripura tribal district is covered by Sixth Schedule
Nagaland	Exempt under Article 243M and not covered by Sixth Schedule
Manipur: Hill areas for which District Councils exist	Exempt under Article 243M and not covered by Sixth Schedule
West Bengal: The hill areas of the district of Darjeeling, covered by the Darjeeling Gorkha Hill Council	Exempt under Articles 243M (3) /243ZC (2) of the Constitution and not covered by Sixth Schedule

7.23 The FC-X mandated that grants would be distributed to even those States which are not required to have panchayats in order to supplement the resources of similar local level representative bodies. However, the FC-XI stipulated that its award for Excluded Areas should be made available to the respective States only after the enactment of relevant legislative measures for the extension of the provisions of the Seventy-Third and Seventy-Fourth Amendments to such areas.

7.24 The FC-XII did not indicate separate grants for normal and excluded areas and left it to the States to distribute the grants between them, after noting that a bill for amending the Sixth Schedule in order to extend certain provisions of the Seventy-Third and Seventy-Fourth Amendments to these excluded areas was then under consideration in the Ministry of Home Affairs.

7.25 While the FC-XIII recommended grants of Rs. 1,357 crore for the Excluded Areas after considering Parts IX and IX-A, Articles 244, 280 and 275 of the Constitution, the FC-XIV did not recommend grants to these areas.

7.26 While the FC-XIV recommended no grants to the Excluded Areas, we, in our report for 2020-21, recommended grants for such areas falling within a State, based on population and area in the ratio of 90:10.

Status and Effectiveness of State Finance Commissions

7.27 According to the Constitution (Articles 243-I(1) to 243-I(4)), SFCs are, at the State level, what the Finance Commission is at the level of the Union. As originally envisaged, Finance Commissions are to make recommendations on measures to augment the Consolidated Fund of a State to supplement the resources of local governments on the basis of recommendations made by SFCs.

7.28 Article 243-I of the Constitution requires SFCs to be appointed at the 'expiration of every fifth year'. The intention of this clause appears to be that all State Government transfers to local governments should be governed by the mandate of a current SFC. The mandate given to an SFC should thus be applicable only for a period of five years and should not be extended. In practice, this has not happened. Finance Commissions have not got the benefit of recommendations of SFCs, as most State Governments did not constitute them in time and did not give due importance to strengthening this critical constitutional mechanism. Even now, only fifteen States have set up the fifth or the sixth SFCs. Several States have still not moved beyond the second or third SFC. The current Commission too faces a similar challenge in suggesting measures based on the recommendations of SFCs. Table 7.4 shows the current status of SFCs in the States.

Table 7.4: Status of Constitution of SFCs

State	Last SFC Constituted
Assam, Bihar, Punjab, Rajasthan	VI
Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Maharashtra, Odisha, Sikkim, Tamil Nadu, Tripura, Uttarakhand and Uttar Pradesh	V
Andhra Pradesh, Karnataka and West Bengal	IV
Chhattisgarh, Goa, Gujarat, Jharkhand and Manipur	III
Arunachal Pradesh, Mizoram	II
erstwhile Jammu and Kashmir, Telangana	I

Source: MoPR inputs submitted to FC-XV

7.29 SFCs face significant challenges in the form of poor administrative support, inadequate resources for their smooth functioning and the delayed placement of action taken reports (ATR)

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before State legislatures. According to a study by the National Institute of Public Finance and Policy (NIPFP), commissioned by us, the average delay in SFCs submitting their report has been about sixteen months.

Views of Stakeholders

Union Government

7.30 The Commission held meetings with various Union Ministries to understand the requirement of funds during its award period. The MoPR and Ministry of Housing and Urban Affairs (MoHUA) are the nodal ministries dealing with rural local bodies and urban local bodies respectively and have advocated comprehensive schemes and quantum of grants that should flow to both. These are summarised below.

Ministry of Panchayati Raj

7.31 The MoPR submitted its revised memorandum to us after we submitted the report for 2020-21. The Ministry suggested that grants to the panchayati raj institutions for the award period of 2021-26 should be raised to Rs. 10 lakh crore. It also suggested that for the initial four years, that is 2021-22 to 2024-25, this grant may be kept as 50 per cent untied for ensuring basic services and 50 per cent tied to drinking water supply and sanitation. In the fifth year, 2025-26, the tied component of the grant may be reduced to 25 per cent and the untied may be increased to 75 per cent, taking into account the progressive saturation that is expected to be achieved in drinking water supply and sanitation. Out of the untied grants, the panchayati raj institutions may be allowed to carry out the basic services through either outsourcing or contract engagements. They may also utilise the grants for various revenue/recurring expenditures such as operation, maintenance, wage payments, internet and telephone expenses, fuel expenses, rentals and contingency expenditure during calamities.

7.32 The Ministry sought an additional grant of Rs. 12,000 crore for the five-year period to enable Gram Panchayats without an office building to construct one in a time-bound manner. It also requested grants for the construction of multi-purpose community halls/centres in all Gram Panchayats, in order to provide a critical rural infrastructure for the holistic development of rural areas and for community-based organisations such as women self-help groups. The MoPR also highlighted the critical role played by the panchayati raj institutions by leveraging community capacities (Box.7.1).

Box 7.1: Partnerships, Convergence and Community Cadre

Representatives of panchayati raj institutions across the country have been very active in controlling the spread of the Covid-19 pandemic. They have collaborated closely with various stakeholders, self-help groups (SHGs), frontline health workers – auxiliary nurse midwife (ANM), accredited social health activists (ASHA) and anganwadi personnel – to roll out several initiatives such as didi/community kitchens set up under the Mid-Day Meal programme/POSHAN Abhiyan. They also took the responsibility of equipping the SHGs to run community kitchens and supplied food grains through the public distribution system. The panchayati raj institutions, operating as the third tier at the grass root level, highlighted the necessity and benefits of developing and tapping community capacities in times of crisis and creating a strong social cadre.

Ministry of Housing and Urban Affairs

7.33 The MoHUA also submitted a revised memorandum, after the release of our report for 2020-21, highlighting the following issues:

- i. The mandatory condition of growth of property tax in tandem with the growth of gross state domestic product (GSDP) in order to qualify for grants, made by us in the report for 2020-21, may be removed as there is no correlation between the two. Instead, it should be mandatory for urban local bodies to notify a road map for increasing collection of property taxes and user charges to cover operations and maintenance cost.
- ii. The MoHUA must be made the nodal ministry with respect to grants for Million-Plus cities to take steps to check air pollution, like use of mechanical sweeping machines, promotion of non-motorised transport (pedestrian and cycle), paving the side flanks of the road with facility for water percolation, etc. The Ministry of Environment, Forests and Climate Change (MoEF&CC) may be given a separate grant for installation of systems to monitor air quality.
- iii. Separate grants may be allocated to urban local bodies for public health infrastructure and primary health care clinics in informal settlements and low-income neighbourhoods.
- iv. An active municipal borrowing market must be created through the cityfinance portal, which serves as a national framework of standardised, timely and credible financial information on cities. It facilitates benchmarking, comparison and peer learning between cities on a range of financial indicators.³
- v. A substantial increase in grants is needed for bridging the resource gap of municipalities, which is anticipated at Rs. 12.27 lakh crore over the period 2021-22 to 2025-26.
- vi. Devolution to municipalities may be increased by at least four times (Rs. 3,48,575 crore), as compared to the FC-XIV award.

³ <https://cityfinance.in/home>

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vii. The MoHUA and the Controller General of Accounts (CGA) should develop an account maintenance system, National Municipal Accounting Manual (NMAM), which will be integrated with the Public Financial Management System (PFMS). For this, the Ministry suggested a total fund requirement of Rs. 213 crore (Rs. 193 crore to State Governments and Rs. 20 crore to the MoHUA).

viii. The Ministry sought Rs. 450 crore for building service centres shared by municipal clusters.

ix. The Ministry was of the view that instead of a model property tax legislation, what is required is a toolkit consisting of (a) best practices across States/cities in each stage of the property tax lifecycle; and (b) model statutory provisions that can be incorporated within existing property tax rules to strengthen administration. It informed us that a consultative group of urban development ministers from six States (Gujarat, Odisha, Tamil Nadu, Punjab, Tripura and Uttar Pradesh), constituted to pursue our recommendations on property tax, has reviewed the municipal legislations of all twenty-eight states and identified the best practices in laws, procedures and on-ground activities.

Ministry of Jal Shakti

7.34 The Department of Drinking Water and Sanitation (DDW&S) in the Ministry of Jal Shakti proposed that 25 per cent of the basic grant for local governments should be earmarked for creating and maintaining drinking water and sanitation infrastructure. Parameters such as achievement and sustenance of ODF status, increase in solid and liquid waste management infrastructure and improvements in access to safe drinking water infrastructure should be set to make the local governments eligible for performance grants.

7.35 The DDW&S is closely working with the MoPR and the Department of Expenditure, Ministry of Finance, on implementing our recommendations, in the report for 2020-21, on tied grants related to water supply and sanitation. Both the MoPR and the DDW&S issued a joint advisory to all States on the broad framework to be followed in respect of these grants. It was proposed that 50 per cent of Finance Commission grants to panchayati raj institutions for water supply and sanitation shall be placed at the disposal of the DDW&S and funds would be channelised through it for better implementation of programmes and proper utilisation of grants. This would help in achieving the goal of the Jal Jeevan Mission to provide assured potable water to every household in adequate quantity and of prescribed quality on a long-term basis. Gram Panchayats should have five-year perspective plans in the form of village action plans indicating quantifiable targets for this purpose.

Ministry of Environment, Forests and Climate Change

7.36 Confident about the systems already created under the National Clean Air Programme

(NCAP), the MoEF&CC had sought funds for air quality improvement in Million-Plus cities from 2020-21 onwards, based on the reductions in the average annual concentrations of both PM₁₀ and PM_{2.5}. Accordingly, we had recommended grants for 2020-21 and also laid out a roadmap as advised by the Ministry. However, in its revised memorandum, the MoEF&CC favoured a different approach and recommended evaluation of performance grants based on improvement by States on four parameters: (a) strengthening of the institutional framework for monitoring air quality; (b) source-wise cause analysis for air pollution; (c) progress on action plans and compliance of statutory guidelines; and (d) quantification of air quality improvement. The relative weights assigned to these factors shift over the award period, with more emphasis on institution and capacity building in the initial years and on outcomes in the later years.

Other Ministries

7.37 The Ministry of Finance emphasised the importance of setting up of SFCs and suggested that the timely submission of SFC reports may be made a mandatory condition for the transfer of local body grants to States. It also proposed that States be encouraged to transfer more sources of revenue, like registration fees, to local governments.

7.38 The Ministry of Women and Child Development stressed the need to link the performance grants for rural local bodies to indicators relating to women and children. This may include earmarking at least 30 per cent of the total Gram Panchayat budget towards women-centric programmes, encouraging the mandatory establishment of Mahila Sabhas in every State, collection of gender-disaggregated data and regularisation of ASHA workers.

7.39 The Ministry of Tribal Affairs proposed that Excluded Areas should be considered for grants while making recommendations for panchayati raj institutions.

7.40 The Directorate General of Defence Estates, Ministry of Defence, proposed the inclusion of cantonments under the grants for urban local bodies, citing their similarity with municipalities. It sought a grant of Rs. 1,035 crore for sixty two cantonments across seventeen States and two Union Territories (Delhi and Jammu & Kashmir) for our award period. The Department also stressed the dire need of resources for Cantonment Boards owing to their limited taxation capacity and revenue loss on account of taxes being subsumed into GST.

State Governments

7.41 In their memoranda to the Commission, most of the States demanded that we significantly increase support to local governments. Some States also suggested that local governments may be given a share of the divisible tax pool over and above the State's share (as FC-XIII had partially done), so that they get the benefit of buoyancy in the Union's tax revenues.

7.42 Almost all the State Governments urged that grants be provided for all the three tiers of

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rural local bodies instead of only Gram Panchayats. Some States, wherever relevant, urged that grants should be provided to the Excluded Areas, as the Constitutional amendment Bill regarding the recognition of village councils is still pending with the Union Government.

7.43 The States had differentiated views on the weightage allotted to parameters for inter se distribution between the States. While some States suggested continuation of the existing parameters of population and area, others suggested the use of indicators of urbanisation rate, transfers of funds, functions and functionaries (3Fs) to local governments, devolution index and so on.

7.44 States like Tamil Nadu and West Bengal suggested that performance-based grants should be linked to (a) green and non-conventional energy initiatives by local governments and (b) digitisation of the provision of various services, assessment (including of property tax) and audit at the grass root level.

7.45 Assam and Kerala advocated the use of the urbanisation rate of States as a parameter for the inter se distribution of grants between rural local bodies and urban local bodies in lieu of the national average rate of urbanisation as applied for the grants for 2020-21. Manipur proposed that we should consider extending local governments grants to Autonomous District Council (ADCs) areas that do not fall under Sixth Schedule Areas in the State but are excluded under Part IX and Part IX-A of the Constitution.

Representatives of Local Governments

7.46 We held detailed consultations with elected representatives of local governments of each tier as well as the ADCs during our visits to the States. Important suggestions received were in the three categories: decentralisation issues, operational issues and issues on utilisation of Finance Commission grants.

Decentralisation Issues

- i. In almost every State, representatives of rural local bodies unanimously sought distribution of grants among all the three tiers, because all of them are part of the panchayat system within the Constitution. This would increase the effectiveness of rural local bodies in public service delivery (such as rural connectivity, education, health, drinking water, sanitation) by pooling of human and other resources and skills.
- ii. Effective delegation of funds, functions and functionaries is still pending in some States, despite transfer of all twenty-nine subjects to the rural local bodies.
- iii. Appropriate measures should be taken to ensure that for the release of grants, no additional conditions, other than those indicated by us, are imposed on local governments by the Union or the State Governments.

Operational Issues

- i. The ceiling of annual professions tax should be raised from the current Rs. 2,500.
- ii. Local governments should be permitted to levy tax on the properties of the Union and State Governments.
- iii. Grants should be provided to the Sixth Schedule areas and other Excluded Areas.

Issues on Utilisation Of Finance Commission Grants

- i. Grants should not be rigidly confined to a few specific sectors and local governments should have the flexibility to use these in sectors they consider as priority ones.
- ii. Finance Commissions should support the establishment of a GIS-based property tax system for all local governments with the objective of strengthening their revenues.
- iii. Funds should be earmarked for the creation of databases at the level of local governments, while providing them the flexibility to hire or outsource specialised manpower for this.
- iv. Limited manpower, lack of technical support, high cost of construction in hilly areas and inadequate resources were the main problems of local governments.
- v. Municipalities should be provided more resources to create and expand civic amenities. The need for resources has increased manifold because of the severe strain on the existing infrastructure as a result of the increase in floating population and tourists. There is also a need to provide basic urban infrastructure to meet the needs of the growing urban population due to intra- and inter-State migration.
- vi. Performance grants are highly commendable as they incentivise and reward better performance, but backward areas face considerable challenges in meeting the performance conditions.

Studies Commissioned by FC-XV

7.47 We commissioned thirteen studies to analyse various issues related to local governments. These can be grouped under four heads:

- i. **Analysis of overall trends of FC-XIV flows:** “Devolution of Union Finance Commission Grants to Panchayats” and “Analysis of Fund Flows to Rural Local Bodies” by the Centre for Policy Research (CPR) and “Design of Inter-Governmental Fiscal Transfers in India to Rural Local Governments” by the Indian Institute of Public Administration (IIPA).
- ii. **Review and analysis of functioning of SFCs across States:** “Overview of State Finance Commission Reports” by NIPFP.

iii. **The dynamics of the growing urban sector and measures to address the associated challenges:** “Status of Municipal Finance in India” and “Finances of Municipal Corporations in Metropolitan Cities of India” by the Indian Council for Research on International Economic Relations (ICRIER); “A Municipal Finance Blueprint in India” by Janagraha; “Urban Infrastructure and Resilience” and “The Potential of Urbanisation to accelerate post-COVID Economic recovery” by the Indian Institute for Human Settlements (IIHS); and “Property Taxation in India” by the World Bank.

iv. **Analysis of the impact of rising air pollution on urban areas of India: study on “Air Pollution: Enabling Outcome Linked Clean Air Financing”** undertaken by World Resource Institute (WRI), “Targeting Improved Urban Air Quality Outcomes Through Performance Grants” by the World Bank and “Current State and Sources of Air Pollution and Solutions” by The Nature Conservancy.

All the studies are available on the website of the Finance Commission.⁴

7.48 One of the important findings was that the tendency to impose conditionalities has given rise to the temptation by both the Union and State Governments to interfere, in the name of convergence, in the powers of the panchayats to select schemes. It was highlighted that the challenge for the Commission would be to avoid the pitfalls of earlier Commissions and to see how to continue providing largely untied grants to local governments, while ensuring a modicum of expenditure responsibility and accountability. The Commission needs to examine the context in which conditionalities are imposed and whether they set out perverse incentives and are open to subversion.

Immediate Challenges

7.49 The studies also highlighted the key challenges that are being faced by urban areas and how addressing them is the key to enabling them to emerge as growth engines.

Property Taxes

7.50 The report by the World Bank highlighted the fact that India compares unfavourably with Organisation for Economic Co-operation and Development (OECD) as well as BRICS countries such as Brazil and South Africa in terms of revenues from the urban immovable property tax.⁵ In 2016, while the average collection from property taxes as a proportion of gross domestic product (GDP) was about 1.1 per cent in the OECD group, it was only about 0.2 per cent in India. In countries such as Canada, the United Kingdom and the United States, property tax collections form the bedrock of local governments' revenues and are about 3 per cent of their

⁴<https://fincomindia.nic.in/ShowContentOne.aspx?id=27&Section=1>

⁵ BRICS is an abbreviation for Brazil, Russia, India, China, and South Africa.

respective GDPs. Several factors lead to low property tax revenue in India: undervaluation, incomplete registers, policy inadequacy and ineffective administration. Another big challenge for property tax administration is the lack of accurate property tax records with the urban local bodies. Some of the best practices from States that can serve as a role model for other States to boost property taxation revenue are listed in Box 7.2.

Box 7.2: Best Practices in Property Taxation in States

Karnataka: AASTHI project for GIS-based property tax system

- a. Property tax valuation was changed from annual rental value assessment to a capital value method.
- b. The Revenue Departments of all the urban local bodies were computerised and a GIS-based property tax information system put in place.
- c. Field surveys using digitised ward maps with individual properties and unique property ID were conducted in over 1.5 million properties.
- d. Cadastral-level GIS maps were generated for over 200,000 square km, covering over 3.8 million properties in the State.

Reform Result

- a. 1.2 million previously unassessed properties (42 per cent of the total) were brought into the tax net.
- b. Revenue increase by 30–40 per cent.
- c. Dramatic decline in citizens' complaints of calculation errors owing to the online calculations.
- d. Automation resulting in real-time data on collection of property tax by the urban local body.

Ranchi: Optimisation of Tax Collection

In 2014, the Ranchi Nagar Nigam entered into an agreement with a private agency for providing managed services for collection of tax and other charges from properties within the jurisdiction of the urban local body through a competitive bid process.

- a. Property tax demand notice was generated in real time using hand-held devices linked with the back office and banking records along with door-to-door collection through cash/cheque/demand draft from the assesseees.
- b. An online helpline, chat, SMS, and telephonic services were set up for grievance redressal.

Reform Result

Property tax collection in Ranchi Nagar Nigam since outsourcing

Within three years, there was a four-fold increase in property tax collection in Ranchi from Rs. 9 crore in 2014 to Rs. 43 crore in 2017.

Financial Year	2014	2015	2016	2017
No. of tax collectors deployed by the agency	110	110	110	110
No. of properties	96,000	100,000	103,000	160,000
Growth in assessment base	2%	4%	3%	55%
No. of properties per collector	873	909	936	1,455

Source: Ranchi Nagar Nigam.

Pune Municipal Corporation (PMC): Reforms in assessment, billing, and collection project

- a) In 2013, the introduction of a GIS-based system for city mapping and creation of unique IDs for all properties led to the creation of a digital property database. This increased the assessed properties by 18 per cent.
- b) Self-assessment has been made mandatory every year. Penalties are in place for non-submission, withholding of information and submission of false information.
- c) Pune Municipal Corporation moved to a capital value-based system which considers the increasing value of properties for property tax assessment, making it a more progressive and buoyant tax system.

The resultant increase in property tax collection in PMC was 29 per cent in 2011–12. Property tax revenue has doubled from 2013–14, reaching Rs. 1,158 crore in 2016–17.

Source: World Bank Report on Property Taxation to the Commission

7.51 The study by Janagraha analysed the property tax life cycle consisting of five stages: enumeration (counting of properties), valuation (assigning values to properties for the purpose of taxation), assessment (assessing the property tax payable by each property), billing and collection. It was highlighted that though all the States have Municipal Acts, property tax forms a small section in all of them. There is significant variation in Municipal Acts across States (summary of the Acts of all twenty-eight States is at Annex 7.1) with regard to enumeration, valuation, assessment, billing and collection.

Outcome Based Incentives for Metropolitan Cities

7.52 Air pollution has become a critical challenge in metropolitan cities in recent times. Measuring and assessing clean air achievements is not always a straightforward exercise, particularly in the Indian context of limited monitoring of air quality within and outside cities. In its study, the WRI highlighted issues pertaining to the measurement and monitoring of air pollution. First, most of the cities in question must have sufficient monitors in place to meet basic standards for PM₁₀, PM_{2.5}, ozone, NO_x or other criteria pollutants regulated under India's Prevention and Control of Air Pollution Act, 1981. Second, the degree of control that a city or State has over air pollution varies. City air quality depends not only on the city's actions, but also on climate, weather as well as emissions that originate outside the cities. The ability of cities to control their “own emissions” (emissions within the territorial boundaries) also varies. Air pollution is caused by transportation, construction and road dust, household energy use (biomass burning, emissions from diesel generators), industrial emissions, industrial energy use and improperly managed solid waste, among others. The relative contribution of each of these sources varies across cities. Some of these can be influenced by actions within a city, others are more dependent on State or national policies beyond the control of the cities. In short, effort and achievement are not always tightly correlated.

7.53 Monitoring networks for quantifying improvements in air quality should be based on at least meeting Central Pollution Control Board (CPCB) guidelines for maintenance of monitors and reporting of data, cities should be encouraged to use high quality scientific data beyond that produced by the pollution control board networks and air quality achievements should be assessed across long-running averages of air quality to avoid being influenced by seasonal variations or particular episodes beyond a city's control.

7.54 The World Bank, in its discussion with us, highlighted that air pollution is not a localised phenomenon. The effect of pollution may be felt in cities and towns far away from the source. Thus, there is a need to create an effective and sustained institutional mechanism for inter-State and inter-city coordination, in addition to multi-sectoral synchronisation. A large number of Million-Plus cities do not meet the standards for pollutants (particulate matter). This not only affects people's health but also hinders trade, investment and various economic activities in these cities.

7.55 Strengthening, on an ongoing basis, the knowledge of sources of pollution and emissions and expanding the ambient air quality monitoring network in cities and across States to get consistent year-on-year data of particulate matter is imperative.

Nine Guiding Principles

7.56 We have arrived at our recommendations after duly considering all inputs received from the extensive consultations with the State Governments, representatives of local governments, Union Ministries and reports commissioned for this purpose. The nine guiding principles that run as a common theme across all our recommendations for the local governments are:

- i. Relevant ToR and the Constitutional provisions.
- ii. Pre-requisite of timely online availability in the public domain of both the accounts of the previous year and audited accounts of the year before the previous year for availing of grants for both rural and urban local bodies.
- iii. Pre-requisite of notifying minimum floor on property tax rates by States in order to increase the buoyancy of revenue of urban local bodies.
- iv. Inclusive and uniform approach for all three tiers within rural local bodies, Excluded Areas and cantonment areas.
- v. Inter se rural and urban share of devolution in the context of the evolving urban complexities and challenges.
- vi. Differential needs of urban habitations, including the special needs of emerging large urban areas as “agglomeration economies”.
- vii. Air pollution in Million-Plus urban agglomerations.
- viii. Focus on national priorities related to (a) strengthening of primary health care and

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creation of diagnostics infrastructure for management of disease and epidemics at the local level; (b) solid waste management; (c) provisioning for drinking water and sanitation; and (d) promoting and incentivising water recycling, rejuvenation and rainwater harvesting.

ix. Importance of generation of internal resources like revenues from property taxation and tax on professions.

Absence of SFC recommendations

7.57 The lack of effectiveness of SFCs has already been discussed in detail. Previous Finance Commissions had to make recommendations without the benefit of recommendations of SFCs and they, therefore, developed their own criteria and conditionalities for transferring grants. Thus, despite a Constitutional mandate that recommendations of the SFCs shall be the basis for Finance Commissions to consider the measures to augment the Consolidated Fund of States, this could not be followed. As we have pointed out in para 7.28 and as Table 7.4 clearly revealed, there is no improvement in the situation. It would have been open to us to take into account the failure of State Governments to constitute SFCs in a timely manner or that of the SFCs to give their recommendations and deny grants for local governments in such States. However, we have eschewed this option, keeping in view the genuine requirements of the third tier institutions and the service they provide to the people. At the same time, we note this with dismay and expect all those States which need to discharge the given Constitutional responsibilities to ensure that the SFCs are constituted and their recommendations are implemented in a timely manner both in letter and spirit.

7.58 Accordingly, we recommend that all States which have not done so, must constitute SFCs, act upon their recommendations and lay the explanatory memorandum as to the action taken thereon before the State legislature on or before March 2024. After March 2024, no grants should be released to a State that has not complied with the Constitutional provisions in respect of the SFC and these conditions. The MoPR will certify the compliance of all Constitutional provisions by a State in this respect before the release of their share of grants for 2024-25 and 2025-26.

Grants to Local Governments

7.59 Grants to local governments are discussed in six parts: (a) total envelope of grants for local governments, (b) grants for rural local bodies, (c) grants for urban local bodies, (d) grants for health to be channelised through local governments, (e) performance-based grants to the urban sector for the incubation of new cities and (f) grants for shared municipal services.

Total Grants for Local Governments

7.60 We recommend total grants for duly constituted local governments that add up to Rs. 4,36,361 crore for the period 2021-26. We favour a fixed amount rather than a proportion of the divisible pool of taxes to ensure greater predictability of the quantum and timing of fund flow.

7.61 Of these total grants, Rs. 8,000 crore is performance-based grants for incubation of new cities and Rs. 450 crore is for shared municipal services. These grants are detailed in paras 7.148 to 7.154. In view of the current pandemic, the Commission has decided to provide grants of Rs. 70,051 crore to strengthen and plug the critical gaps in the health care system at the primary health care level. The details are at paras 7.136 to 7.147. Table 7.5 details the distribution of the remaining Rs. 3,57,860 crore out of the total grants of Rs. 4,36,361 crore recommended for local governments. The ratio of inter se distribution between rural local bodies and urban local bodies is different for each year; it gradually moves from 67:33 in 2021-22 to 65:35 by the end of the award period.

Table 7.5: Grants to Local Governments

(Rs. crore)

Grants	2021-22	2022-23	2023-24	2024-25	2025-26	Total
1. Total grants for rural and urban local bodies	80207	82613	85091	89997	90003	427911
(a) Grants for primary health sector	13192	13192	13851	14544	15272	70051
(b) Other grants to be disbursed among the local bodies excluding (a) above	67015	69421	71240	75453	74731	357860
Inter-se distribution of grants at (b) above between RLB and ULB	67: 33	67: 33	66: 34	66: 34	65: 35	-
(i) Grants for RLBs	44901	46513	47018	49800	48573	236805
(ii) Grants for ULBs	22114	22908	24222	25653	26158	121055
2. Grants for incubation of new cities		2000	2000	2000	2000	8000
3. Grants for shared municipal services	90	90	90	90	90	450
Grand Total (1+2+3)	80297	84703	87181	92087	92093	436361

Grants for Rural Local Bodies

7.62 A total of Rs. 2,36,805 crore is recommended for duly constituted rural local bodies for the period 2021-26. Inter se distribution amongst the States is with a weight of 90 per cent on population and 10 per cent on the area of the States. The detailed methodology is in Annex 7.2. The share of each State is detailed in Annex 7.3. The quantum of grants for rural local bodies and urban local bodies from the total allocation of grants in each State is based on the ratio 67:33 for the first two years of 2021-22 and 2022-23, 66:34 in the next two years of 2023-24 and 2024-25 and 65:35 in the last year of the award, namely 2025-26. The details are in Annex 7.4.

All Tiers Covered

7.63 **Similar to what we had done in our report for 2020-21, we recommend that for the five-year award period (2021-22 to 2025-26) grants should go to all the three tiers of panchayati raj institutions.** This is also in line with the suggestion made by almost all elected representatives of panchayats and State Governments. The three tiers are parts of one system and are interlinked through backward and forward linkages. Availability of funds to all three tiers would improve functional coordination among them and facilitate the creation of assets across smaller jurisdictions, thereby increasing project viability in such areas.

Excluded Areas Covered

7.64 The approach of the previous Finance Commissions to the allocation of grants to the Fifth Schedule and Sixth Schedule areas and Excluded Areas has already been discussed earlier. With the passage of the Panchayats (Extension to the Scheduled Areas) Act (PESA), 1996, the provisions of Part IX of the Constitution relating to the panchayats have been extended to the Fifth Schedule areas. The tribal areas included in the Sixth Schedule still remain outside its purview. According to the Ministry of Home Affairs, in February 2019, a draft Constitutional Amendment Bill for Article 280 to extend financial resources and administrative powers to the Sixth Schedule Autonomous Councils was introduced in the Rajya Sabha. In the light of the Constitutional provisions and the ToR, we intensively deliberated upon the issue and decided to follow the path advocated by the FC-XIII.

7.65 The Finance Commission is required to recommend measures to augment the Consolidated Fund of a State to supplement the resources of panchayats and municipalities on the basis of the recommendations made by the relevant SFC. The ToR of this Commission do not include the provisos to Article 275(1) relating to grants to the Sixth Schedule areas. Thus, grants-in-aid meant for panchayats given to the Consolidated Funds of States cannot be expected to be apportioned to the Excluded Areas and the Sixth Schedule areas, as these areas are excluded from the ambit of the recommendations of the SFCs.

7.66 However, this Commission finds no reason to depart from the course of action followed by the previous Commissions who also had similar ToRs. The argument then used was to earmark grants for such Excluded Areas under Article 275, notwithstanding the specific exclusion in the ToR. Accordingly, taking into account the per capita grants that are considered due to every resident in India and in order to promote uniformity of approach across all States in the matter of devolution to local governments, **we recommend that grants shall be distributed to even those areas which are not required to have panchayats (Fifth and Sixth Schedule areas and Excluded Areas) in order to augment the resources available for providing basic services by their respective local level bodies.**

Basis of Intra-Tier Distribution

7.67 **All the tiers in the panchayats – village, block and district – shall receive the grants.** The inter se distribution among all the tiers should be done by the State Governments on the basis of the accepted recommendations of the latest SFC and in conformity with the following bands of (a) not less than 70 per cent and not more than 85 per cent for Gram Panchayats, (b) not less than 10 per cent and not more than 25 per cent for Block Panchayats and (c) not less than 5 per cent and not more than 15 per cent for Zilla Panchayats, subject to the shares adding up to 100 per cent. In States, which have a two-tier system with only village and district panchayats, the allocation will be in the bands of not less than 70 per cent and not more than 85 per cent for village panchayats and not less than 15 per cent and not more than 30 per cent for district panchayats. In the event of SFC recommendations not being available, the inter se distribution within the tiers should be decided by the State Government within the bands indicated above. Once the State-level grants are earmarked for each tier, the intra-tier distribution among the relevant entities across the State should be on the basis of population and area in the ratio of 90:10 or as per the accepted recommendations of the latest SFC.

Table 7.6: Range for Distribution of Funds to the Three Tiers

Range for distribution	Gram Panchayat	Block Panchayat	District Panchayat
Minimum	70%	10%	5%
Maximum	85%	25%	15%

Note: Subject to the percentages adding up to 100

7.68 In respect of allotment of grants for Excluded Areas in a State exempted from the purview of Part IX and Part IX-A of the Constitution, the concerned State shall make allocations on the basis of population and area in the ratio of 90:10. The concerned State Government should allot these grants for each year at the beginning of the financial year and intimate the same to the ministries of Home Affairs and Finance.

*Accounts and Audit***Integration of the Financial Management Systems**

7.69 In our report for 2020-21, we reiterated that timely availability of audited accounts – separately at the local body level and jointly at the State and all-India level – continues to be a problem despite the emphasis laid by previous Commissions. We consider the availability of accounts online, both before and after audit, of all three levels of government a critical reform agenda. In our report for 2020-21, we recommended that the upgraded PRIAsoft software needs

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to be integrated with the Integrated Financial Management Information System (IFMIS) of the State Governments (wherever it exists) and the Public Financial Management System (PFMS) of the CGA in the Union Government in order to generate online accounts by each rural local body, enable online auditing of such accounts and their consolidation at the State and all-India levels.

7.70 To achieve this objective, the report for 2020-21 suggested a two-stage process. First, the integration of the PRIASoft and NMAM systems with the State-level IFMIS and, subsequently, with PFMS to achieve complete integration. It recommended that in 2020-21, under the guidance of the CAG, the concerned ministries and CGA shall develop, on a trial basis, an integrated account maintenance system as stated above for the States before 31 March 2021, ready for full roll-out from 1 April 2021.

7.71 As a follow up on this recommendation, we interacted with all the stakeholders, namely, CAG, CGA, MoPR and MoHUA. It is worth mentioning that MoPR has taken prompt and significant steps in this regard as summarised in Box: 7.3.

Box 7.3: Initiatives by MoPR for Auditing and Integration of Accounts

- For creating an Integrated Accounts Maintenance System, the MoPR constituted, on 12 February 2020, a technical committee for harmonisation of heads of accounts comprising representatives of the CAG, CGA, National Informatics Centre and the National Institute of Rural Development and Panchayati Raj.
- On 15 April 2020, the MoPR initiated a programme called Audit-Online for facilitating financial audit of accounts of the panchayats by auditors (either state Accountant General or local fund auditors). The application not only facilitates the auditing of accounts but also for maintaining audit records that have been carried out. A draft Audit Manual has also been prepared by MoPR and shared with the States.
- A roadmap has been laid for the States to complete the exercise in a time-bound manner, especially (a) closure of account books for the year 2019-20 in PRIASoft; (b) registration of auditors on Audit-Online; (c) preparation of an audit plan; (d) completion of training of officials involved in audit; and (d) completion of the entire exercise of online audit of panchayat accounts.

Entry-level Condition for Availing the Grants

7.72 As earlier mentioned, auditing of accounts and their availability online continues to be a pending problem. A new trend, however, is evolving with a few States experimenting by involving external agents like chartered accountants for audit and certification of accounts (Table 7.7). This is an encouraging practice and more efforts in this direction are required across all State Governments.

Table 7.7: States Using Chartered Accountants for Auditing of Accounts

States	Status
Chhattisgarh	Preparation of annual account and audit of the urban local bodies are entrusted to chartered accountant firms and are placed before the general body of each urban local body for perusal.
Madhya Pradesh	Accounts are prepared and certified by the chartered accountants of local governments.
Rajasthan	Department of Local Fund Audit (DLFA) and chartered accountants certify the accounts of urban local bodies.
Sikkim	The DLFA audits the accounts of the local governments and submits a consolidated report to the Sikkim Legislative Assembly. Chartered accountants appointed by the State Government certify the accounts on a year to year basis.

Source: Compiled from inputs received from CAG

7.73 Over the last decade, there has been progress in digitising financial transactions, for example, through PFMS for the Union Government, and IFMIS for the States. However, the usability of all the data is restricted by its generation and collection by different government agencies and departments across all tiers of government in separate and disparate databases primarily for their own purposes. Data is difficult to link, compare and analyse across government entities due to lack of common data standards. A metadata catalogue or common data dictionary is not operational. Ambiguities in definition and discretionary classifications impede meaningful comparison and/or consolidation across levels and entities. For example, the current six-tier accounting classification is not standardised at levels below minor heads across the Union and the State Governments. As there is no standardisation of what is a programme and what is a scheme, minor head and scheme heads are used interchangeably. There are instances where substantive amounts, as much as 25 per cent of total expenditure, are booked under an omnibus minor head called '800-Other Expenditure', obscuring financial reporting. It is well-nigh impossible to get an integrated view of how much the general government (that is Union, States and local governments) or the government at the State level (State Government and the local governments in a State) or even all the local governments in a State are spending on health or education or salaries and wages, or generating in terms of tax revenues.

7.74 While the country has made considerable progress in moving from a manual system of accounts to a digital system, the full benefits of such a move have not been reaped because of a lack of business process re-engineering. Digitisation is much more than putting in numbers in a computer that would have been manually recorded on a piece of paper otherwise. If transactions, like payments, are done in electronic mode, all the necessary details – the purpose, to whom, from where, when and how much – can be captured right at the time of data entry. Once the details of

how a transaction is to be electronically entered has been specified by a rigorous data standard for all levels of government and these standards are followed, generating accounts data on a consistent and uniform basis for all rural or urban local bodies, or integrating the accounts of the local governments with that of the relevant State Governments would be a fairly simple exercise under an IT-led financial reporting framework. We strongly recommend the specification and adoption of a uniform data standard for digital recording of all government transactions at the earliest. We recognise that States are at different stages of evolution with respect to digitisation of accounts with respect to local governments, and some States have more sophisticated systems than others. During the transition period, for these relevant States, we do not suggest regression to lower levels of sophistication with the capture of fewer characteristics of the underlying accounts data but only on the timely online availability, in the public domain, of both the accounts of the previous year and audited accounts of the year before previous according to formats worked out appropriately by the Union, State and local governments.

7.75 With the help of modern digital infrastructure, a receipt or expenditure can have the necessary characterisation at the input stage itself. This will enable appropriate processing of data to produce the various required reports. Online entry of receipts of expenditure in real term basis generate unaudited accounts monthly and yearly and thus the unaudited accounts are automatically available at the end of the financial year.

7.76 Since auditing is necessary to ascertain the transparency and accountability of public funds and this has remained an unfinished task so far, **we recommend the online availability of both provisional accounts of the previous year and audited accounts of the year before previous as entry level condition to avail of the grants.**

7.77 Given the pandemic and the complexities involved in the task for auditing of accounts, in the first and second year of the award period (2021-22 and 2022-23), States need to ensure that at least 25 per cent of the rural local bodies have both their provisional accounts for the previous year and audited accounts for the year before the previous available online in the public domain in order for them to avail of the full grants in 2021-22 and 2022-23. From the third year (2023-24) onwards, States will receive total grants due to the rural local bodies having both provisional accounts of the previous year and audited accounts for the year before previous and making these available online. For example, if for a particular State only 35 per cent of rural local bodies have both provisional accounts for the year 2022-23 and audited accounts for the year 2021-22 and these are available online in 2023-24, then in 2023-24, the State will receive total amount due to these 35 per cent of the rural local bodies for the year 2023-24.

Grants for the Year (t) for a particular State (X)⁶ = Grants due to the rural local bodies in State (X) that prepared provisional accounts for the previous year (t-1) and audited accounts for the year before the previous (t-2), and these accounts are available online in the public domain in year (t).

⁶ This condition is applicable from 2023-24 onwards

7.78 Provisional annual accounts of a particular year shall be available online in real time basis by 15 May of every subsequent year. To illustrate; the online provisional annual accounts for the year 2020-21 shall be available by 15 May 2021.

Table 7.8: Eligibility Criteria for Rural Local Bodies to Avail Grants

2021-22 and 2022-23
In the first and second year of the award period (2021-22 and 2022-23), States need to ensure that at least 25 per cent of the rural local bodies have both their provisional accounts for the previous year and audited accounts for the year before the previous available online in the public domain in order for them to avail of the full grants in that year.
2023-24, 2024-25 and 2025-26
From the third year (2023-24) onwards, States will receive total grants due to the rural local bodies having both provisional accounts of the previous year and audited accounts for the year before previous and making these available online. For example, if for a particular State only 35 per cent of rural local bodies have both provisional accounts for the year 2022-23 and audited accounts for the year 2021-22 and these are available online in 2023-24, then in 2023-24, the State will receive total amount due to these 35 per cent of rural local bodies for the year 2023-24.

Basic Grants and Tied Grants for National Priorities

7.79 The flagship scheme of Swachh Bharat Mission (SBM) of the Union Government has played a central role in bringing about behavioural change in both the urban and rural areas and has resulted in people maintaining healthy sanitation practices. This mission has a direct link with SDG 6 of clean water and sanitation. Under the SBM (Grameen), over 5.6 lakh villages and 616 districts have been declared as ODF as on 31 March 2019.

7.80 While there has been significant progress in achieving ODF, large parts of rural India continue to face shortage of drinking water facilities. Of the total ODF certified villages, only 41.53 per cent habitations have been provided with piped water supply schemes, as of 31 March 2019. The 112 aspirational districts have piped water supply in only 24.4 per cent habitations against the national average of 44.4 per cent habitations. Only 18 per cent of the rural population could access potable drinking water through piped water supply and only 17 per cent of rural households were provided household piped water connections. The Union Government has proposed a combined approach to water and sanitation through convergence between the National Rural Drinking Water Programme (NRDWP) and the SBM-G. Villages which have been verified as ODF are given priority for piped water schemes under the NRDWP.

7.81 The DDW&S has drawn our attention to the fact that a revalidation exercise conducted on the current status of the piped water coverage found that only around 3.04 crore households or 16 per cent of the total 19.01 crore rural households have tap water connections, and 15.96 crore (84 per cent) households still remain without a functional household tap connection. For all existing tap connections to be made functional, there needs to be a plan for long-term and reliable availability and supply of water. To ensure this, the Union Government has launched a Jal Jeevan Mission with a total outlay of Rs. 3.60 lakh crore, out of which the Union's share is Rs. 2.08 lakh crore.

7.82 As waste generation increases, even in rural areas, it is important for States to provide guidelines and to set up basic infrastructure for its management. Regional collection facilities can be developed where rural household waste, particularly human excreta and faecal sludge, is temporarily stored until sufficiently large volumes accumulate for further processing.

7.83 The solid waste management sector in India is in urgent need of support. While substantial progress has been achieved in the provision of sanitation services in the past decade, much remains to be done to improve solid waste management. The inadequate management of human excreta and faecal sludge in India has significant environmental and human health impact. There is urgent need to intervene to support local governments to provide this essential and basic service to their citizens. This should take the form of incremental solutions, building on the existing systems and on the knowledge and experiences of countries that have managed to transform their sectors.

7.84 We recognise that the country's achievements on the sanitation front need to be sustained and strengthened at all levels. For this, all the three levels of government will have to join hands in the spirit of cooperative federalism. Local governments form a crucial link for implementation and execution of such schemes. In view of the above and to supplement resources of local governments to meet the broader objective of fulfilling national priorities, we recommend the following:

- i. 40 per cent of the total grants to be disbursed to rural local bodies shall be untied and can be used by them for felt needs under the twenty-nine subjects enshrined in the Eleventh Schedule, except for salaries and other establishment costs. The expenditure required for auditing of accounts by external agencies approved by the State Government, however, may be borne from this grant.**
- ii. 30 per cent of the total grants to be disbursed to rural local bodies shall be earmarked for drinking water, rainwater harvesting and water recycling.**
- iii. 30 per cent of the total grants to be disbursed to rural local bodies shall be earmarked for sanitation and maintenance of ODF status, and this should include management and treatment of household waste, and human excreta and faecal sludge management in particular.**

7.85 The year-wise allocations recommended for this purpose are given in Table 7.9. However, if any local body has fully saturated the needs of one category and does not require funds for that purpose, it can utilise the funds for the other category. For example, if a local body saturates its requirement for drinking water, it can utilise the funds for ODF and vice-versa. The respective village assembly/Gram Sabha shall certify this and it will be duly confirmed by the supervising authority of the panchayats or the State Government. The State-wise and year-wise allocations for tied and untied (drinking water and sanitation) grants recommended for the five-year award period are at Annex. 7.4.

Table 7.9: Detailed Year-Wise Grants for Rural Local Bodies

(Rs. Crore)

Grants	2021-22	2022-23	2023-24	2024-25	2025-26	Total Grants
Total Grants	44901	46513	47018	49800	48573	236805
Untied (40%)	17961	18605	18806	19920	19429	94721
Tied (60%)	26940	27908	28212	29880	29144	142084
(a) drinking water, rain water harvesting and water recycling	13470	13954	14106	14940	14572	71042
(b) sanitation and maintenance of ODF status	13470	13954	14106	14940	14572	71042

Urbanisation: Engine of Growth

7.86 India is urbanising rapidly. According to Census 2011, at 377.1 million, India's urban population was 31 per cent of the total, up from 286 million (28 per cent) in 2001 (Table 7.10). However, an agglomeration index developed by the World Bank put the share of India's population living in areas with "urban-like" features at 55.3 per cent in 2010.

Table 7.10: Urbanisation Trends

Year	Population in Millions	Level of Urbanisation (%)
1961	78.9	17.96
1971	109.1	19.90
1981	159.5	23.40
1991	217.6	25.71
2001	286.1	27.81
2011	377.1	31.16

The extent of urbanisation is said to be understated in official data because of hidden urbanisation on the peripheries of major cities.

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7.87 It is argued that India's economic growth momentum cannot be sustained if urbanisation is not actively facilitated. Cities will have to become the engines of the country's growth and development. In general, there is a pattern suggesting that States with a higher share of urban state domestic product have witnessed higher growth in per capita income and lower incidence of poverty. All this tends to support the position that urbanisation, economic growth and poverty reduction are related.

7.88 Many States like Gujarat, Kerala, Maharashtra and Tamil Nadu have, in their memoranda to us, also emphasised the need for greater financing of the urban sector. Many Indian cities are growing through a process of peripheral expansion, with smaller municipalities and large villages surrounding the core city becoming part of the large metropolitan area. *World Urbanization Prospects 2018* has indicated that India's urbanisation will be around 37-38 per cent in 2025 and the urban sector will start overtaking the rural sector from 2045-46 onwards.

7.89 There is a need to act immediately to prepare the urban areas to meet these future challenges and to promote them as engines of economic growth and investment hubs. Accordingly, we recommend that total grants to local governments should be gradually restructured and apportioned between rural and urban local bodies in the ratio of 65:35 by the end of our award period.

Urban Agglomerations-centric Approach

7.90 Out of the total urban population of 377 million (Census 2011), 61 per cent (229 million) live in 475 urban agglomerations that include urban local bodies, census towns and outgrowths. However, till now, urban agglomerations find no place in the urban governance paradigm and is only a census term. Instead, urban agglomerations should be the demographic basis of metropolitan governance in India. According to Census 2011, urban agglomerations with more than a million people contained almost 40 per cent of the total urban population (Table 7.11).

Table 7.11: Urban Agglomerates Distribution (Census 2011)

Classification	Total Population in millions	Per cent share of urban population
Urban agglomerations greater than 1 million	149.5	39.7
Urban agglomerations less than 1 million	80.6	21.4
Not an urban agglomeration	146.9	39.0
Total urban population	377.1	100.0

Source: Census 2011

7.91 In view of the country's differentiated urbanisation pattern, we consider it important to accord differential treatment to the urban agglomerations with more than one million population

relative to other urban areas in the distribution of urban local body grants. Accordingly, urban areas are grouped into two broad categories for recommending grants to urban local bodies: (a) **Category-I cities:** urban agglomerations/cities with more than one million population and (b) **Category-II cities:** other than million-plus cities.

7.92 For the Million-Plus cities, ambient air quality and national priorities for urban drinking water, water harvesting and recycling and sanitation are found to be more critical. For smaller cities and towns with comparatively lesser own sources of revenue, a certain proportion of untied grants from the Finance Commission continues to be an important source of finance apart from a certain amount of tied grants to give a boost to the national priorities like urban drinking water, water harvesting and recycling and sanitation.

Grants to Urban Local Bodies

7.93 **To cater to the growing urbanisation needs, a total of Rs. 1,21,055 crore is recommended for urban local bodies for the period 2021-26. Inter se distribution among States is with a weightage of 90 per cent on population and 10 per cent on area. The detailed methodology for apportionment of funds for urban local bodies is in Annex 7.2. The share of each State is detailed in Annex 7.3.** The quantum of grants based on the rural and urban share described at Table 7.5 is detailed in Annex 7.4.

7.94 As regards the grants earmarked for primary health care, the urban local bodies shall be actively involved in the components of urban health infrastructure to be built by the Ministry of Health and Family Welfare in close coordination with State Governments.

Two Entry Level Conditions for Availing Grants

7.95 **As in the case of the rural local bodies, in order to be eligible for grants, the urban local bodies too have to mandatorily prepare and make available online in the public domain annual accounts of the previous year and the duly audited accounts of the year before previous.** Such audited accounts should include the minimum of a) balance sheet; b) income and expenditure statement; c) cash flow statement; and d) schedules to balance sheet, income and expenditure statement and cash flow statement.

7.96 Given the pandemic and the complexities involved in the task for auditing of accounts, in the first and second year of the award period (2021-22 and 2022-23), States need to ensure that at least 25 per cent of the urban local bodies have both their provisional accounts for the previous year and audited accounts for the year before the previous available online in the public domain in order for them to avail of the full grants in that year. From the third year (2023-24) onwards, States will receive total grants due to the urban local bodies having both provisional accounts of the previous year and audited accounts for the year before previous and making these available online. For example, if for a particular State only 35 per cent of urban local bodies have both

provisional accounts for the year 2022-23 and audited accounts for the year 2021-22 and these are available online in 2023-24, then in 2023-24, the State will receive total amount due to these 35 per cent of urban local bodies for the year 2023-24. Provisional annual accounts of a particular year shall be available online in real time basis by 15 May of every subsequent year. To illustrate, the online provisional annual accounts for the year 2020-21 shall be available by 15 May 2021.

Grants for the Year (t) for a particular State (X)⁷ = Grants due to the urban local bodies in State (X) that prepared provisional accounts for the previous year (t-1) and audited accounts for the year before the previous (t-2), and these accounts are available online in the public domain in year (t).

7.97 As indicated in paras 7.50 and 7.51, property taxes are among the most important revenue sources for local governments across the world. It is progressive and, to a large extent, satisfies the 'user pays' principle. The MoHUA has correctly pointed out that property taxes have, regrettably, grown much slower than GDP. This is in spite of the fact that, over the medium term, the value of the properties in most urban centres has grown faster than GDP. This only strengthens the argument for focussing sharply on mobilising more property taxes. Furthermore, as most of the taxes at the local body level have been subsumed under the GST, property taxes can help increase revenue buoyancies at the third tier. Our specific observations and recommendations on property tax are contained in our report for 2020-21 at para 5.2 (xxi):

“The importance of mobilisation of own revenues by self-governing local bodies cannot be overemphasised. It leads to better ownership and accountability. Internationally, property tax is one of the most effective instruments for revenue mobilisation by local bodies. For historic reasons as well as because of vested interests, property tax yields remain negligible in India. We recommend that to qualify for any grants for urban local bodies in 2021-22, States will have to appropriately notify floor rates⁸ and thereafter show consistent improvement in collection in tandem with the growth rate of State's own GSDP.”

7.98 This condition in the report for 2020-21 shall continue to be applicable as an entry level condition for all the urban local bodies for availing the grants. Further, this condition is over and above the requirement of timely online availability in the public domain of both unaudited accounts for the previous year and audited annual accounts for the year before previous. In a democratic system, proximity of the elected representative to the tax payer often reduces the willingness to mobilise revenues. Moreover, somewhat curiously, some States have ceilings on property tax rates in urban areas, which militates against the entire principle of decentralisation and devolution of finances and functions to local governments. Instead, the provision of a statutory floor to the property tax rate will help promote the buoyancy of such tax revenues and facilitate the mobilisation of revenues by local governments.

7.99 The conditions mentioned above, have a two-fold implication. First, a State can avail of

⁷This condition is applicable from 2023-24 onwards

⁸The minimum floor rate shall have different slab-wise property tax rates for different types of properties; and differential rates for commercial, residential and industrial properties.

the grant only if it notifies the floor rates of property tax by suitably amending the relevant State Municipal and Municipal Corporation Acts. However, this condition is a one-time phenomenon. Once the State has done that, the other condition related to the year-wise consistent improvement in collection in tandem with the simple average growth rate of the State's own GSDP in the most recent five years will also apply. The five-year average has been taken *to avoid any anomaly arising from cyclical or one-off fluctuation in GSDP*. Hence, setting the minimum floor rate is the pre-condition for a State availing of the urban local body grants, but *once this pre-condition is satisfied, the State will receive such total grants based on the urban local bodies meeting the condition of their property tax revenues in the previous year growing in tandem with the average growth rate of the State's own GSDP in the most recent five years*.

7.100 The Housing Price Index, for example RESIDEX by the National Housing Bank, available for many cities in India shows that residential property prices tend to move up as a State develops. There are cities that are exceptions, but given the wide gap between what is actually collected as property taxes and the potential that can be mobilised, the rate of growth of GSDP in the preceding five years provides a good and convenient proxy to measure how far the cities are catching up with their potential property tax revenue during the five years of our award.

7.101 In view of the current pandemic, **we recommend the provision of a one-year window for notifying the floor rates of property tax; this will trigger in two stages from 2022-23. In the first stage, States are expected to notify the floor rates and operationalise the arrangements in 2021-22. The condition of notifying the floor rates of property tax will apply for eligibility of grants from 2022-23. Once the floor is notified, the condition of growth in property tax collection being at least as much as the simple average growth rate of the State's own GSDP in the most recent five years will be measured and taken into account from 2023-24 onwards.**

7.102 For example, if State X has duly notified a floor to the property tax rates in 2021-22, it becomes eligible for getting the entire urban local body grants in 2022-23. But for 2023-24 and onwards it has to meet the second condition of improvement in property tax collection in tandem with the growth rate of the State's own GSDP as well. The growth rate to be achieved in property tax revenue in a particular year will be taken as the simple average of GSDP growth available for the most recent five years. To illustrate, to qualify under this conditionality in 2023-24, the average GSDP growth rate for the period 2017-18 to 2021-22 (provisional or final, whichever is available at the beginning of the year) will be used for calculating the growth in property taxes that has to be achieved in 2022-23. The State will become eligible for grants in 2023-24 only if the urban local bodies have met the condition of actual collections of property tax in tandem with the State's own GSDP growth. If, in 2023-24, only 25 per cent of the urban local bodies have met the second condition of consistent improvement in collection in tandem with the growth rate of State's own GSDP, then the State will receive the total amount due to these 25 per cent urban local bodies in 2023-24. If, in 2024-25, 35 per cent of the urban local bodies have met the condition of consistent improvement in collection in tandem with the growth rate of State's own GSDP, the

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State will then receive the cumulative amount due to these 35 per cent of the entitled urban local body grants in 2024-25. However, it may be noted that the State will receive no grant in any of the years, if it has not notified the minimum floor rate. Thus, a State notifying minimum floor is only a necessary condition (and not a sufficient condition) for availing the grants. Once this pre-condition is satisfied the State will receive only the total grants due to those urban local bodies that meet the condition on growth rate of property tax revenue.

Table 7.12: Eligibility Criteria for Urban Local Bodies To Avail Grants

2021-22 and 2022-23
<p>In the first year of the award period, that is 2021-22, a State needs to ensure online availability of at least 25 per cent of both unaudited urban local body accounts for the previous year and audited accounts for the year before the previous to avail the full grants in that year. States are also expected to notify the floor rates of property tax and operationalise the relevant arrangements in 2021-22.</p> <p>The condition of notifying the floor rates of property tax will apply for eligibility of grants from 2022-23 along with which a State needs to ensure online availability of at least 25 per cent of both unaudited urban local body accounts for the previous year and audited accounts for the year before the previous to avail the full grants in that year.</p>

2023-24, 2024-25 and 2025-26		
State has notified minimum floor rate of property tax rate by 2022-23	<i>Urban local body has met the condition of consistent improvement in collection in tandem with the growth rate of State's own GSDP</i>	<i>Urban local body has not met the condition of consistent improvement in collection in tandem with the growth rate of State's own GSDP</i>
<i>Unaudited annual accounts of the previous year and audited online accounts for year before previous available.</i>	Can avail the grants	Cannot avail the grants
<i>Unaudited annual accounts of the previous year and/or audited online accounts for year before previous not available</i>	Cannot avail the grants	Cannot avail the grants

7.103 Moreover, for increasing the buoyancy of property taxes, laws relating to enumeration, assessment, valuation and billing play an important role in the revenues mobilised. There is a need to follow best practices in this regard and codify them in a Model Property Tax Act. This should continue to be a reform agenda in the medium term and State Governments need to pursue this in cooperation with the Union government.

*Category-wise Quantum of Grants***Million-Plus Cities Challenge Fund**

7.104 In our classification of urban centres, Category I cities consist of fifty urban centres with million plus population – the Million-Plus cities. These fifty, in turn, consist of forty-four urban agglomerations (excluding Delhi, Chandigarh and Srinagar) and six cities which the Census 2011 does not classify as urban agglomerations (Jaipur, Visakhapatnam, Ludhiana, Faridabad, Vasai-Virar City and Kota). The forty-four urban agglomerations encompass sixty-seven cities with a population between 100,000 to less than one million and 1,048 towns with a population of less than 100,000.

7.105 **For these Category-I cities, during its five-year award period, we recommend grants to the tune of Rs. 38,196 crore in the form of a Million-Plus cities Challenge Fund (MCF). This amount is linked to the performance of these cities in improving their air quality and meeting the service level benchmarks for urban drinking water supply, sanitation and solid waste management.**

7.106 Almost a third of the total MCF of each city is earmarked for achieving ambient air quality. The balance two thirds of the city-wise MCF is earmarked for achieving service level benchmarks for drinking water (including rainwater harvesting and recycling) and solid waste management. Detailed State-wise and city-wise grants are in Annex 7.6.

Table 7.13: MCF for Million-Plus Agglomerations /Cities

	(Rs. crore)					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total Grants
Total Grants	6978	7227	7643	8093	8255	38196
Ambient air quality	2217	2299	2431	2571	2621	12139
Service level benchmarks	4761	4928	5212	5522	5634	26057

7.107 For the Million-Plus cities/urban agglomerations, the recommended city-wise distribution of grants for the period 2021-26 is on population basis. In the case of urban agglomerations which contain more than one Million-Plus city, the concerned State Government, in consultation with all such entities within the urban agglomeration, shall entrust one urban local body as the nodal entity to receive the grants. This nodal entity will also have the responsibility of achieving the performance indicators for the entire urban agglomeration.

Ease of Breathing

7.108 As indicated in paras 7.52 to 7.55, absence of a metropolitan paradigm has resulted not only in fragmented governance, service delivery and lack of accountability, but also in an inability of such cities to realise agglomeration economies. Since the contemporary challenges

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of economic growth with environmental sustainability and equitable access to opportunities and services can be satisfactorily met only at the agglomeration level, we treat the urban agglomerations with more than a million population as a single unit for monitoring of performance indicators.

7.109 Ambient air quality is critical not only for the health and well-being of those living in the Million-Plus cities but also for attracting investment. A city with great 'ease of doing business' is unlikely to attract investments if the ambient air quality makes breathing both hazardous to health and difficult. Particulate matter has been identified as one of the most critical environmental risks globally and poor air quality has been associated with morbidity and mortality due to respiratory, cardiovascular and cerebrovascular diseases.

7.110 Data generated by the National Air Monitoring Programme (NAMP) reveal that particulate matters (PM₁₀ and PM_{2.5}) are exceeding the permissible levels at many locations, particularly in urban areas. Air pollution is a complex issue because of the variety of sources - industries, automobiles, generator sets, domestic fuel burning, road side dusts and construction activities, to name a few. Aware of the complexities involved and given the paucity of funds, we have considered air quality monitoring as well as its use as a performance metric only for Million-Plus cities.

MCF Administrative Mechanism

Ambient air quality

7.111 For monitoring ambient air quality and disbursing grants to Million-Plus cities, the MoEF&CC shall act as a nodal ministry. In consultation with the respective State Governments, the Ministry shall develop city-wise and year-wise targets on ambient air quality, based on measurable indicators and outcomes. These will be made available in the public domain. The MoEF&CC shall evaluate the improvement in average annual concentrations of PM₁₀ and PM_{2.5}. The report for 2020-21 made very specific recommendations for evaluation of air quality at para 5.3 (xiii) and Annex.5.3, based on the Ministry's written proposal that for 2021-22, the average annual value of 2021 (as calculated in January 2022) over average annual value of 2019 (as calculated in January 2020) will be taken. The same procedure should be adopted for calculations in subsequent years. However, as stated in para 7.36, *regrettably the MoEF&CC changed its position regarding its capacity to implement the parameters that it had proposed for the report for 2020-21. The Ministry, in its revised memorandum, submitted a different approach by recommending evaluation of performance grants based on improvement of the State on four parameters: They are: (a) strengthening of institutional framework; (b) source-wise cause analysis for air pollution; (c) progress on action plans and compliance of statutory guidelines; and (d) quantification of improvement in air quality. The relative weights assigned to these factors shift across the years with more emphasis on institution and capacity building in the first year to outcomes in the later years.*

7.112 Open waste burning on the streets, activities of small informal industries (for example, rice popping using burning tires), spontaneous combustion in landfills are significant, but overlooked, sources of pollution. Waste decomposition and poorly managed composting also affect air quality by releasing toxic gases as well as methane into the atmosphere. We are also of the view that ending open waste burning, proper solid waste management and composting at landfill sites can play significant role in air quality management. **Hence, we recommend that both informal burning as well as spontaneous combustion at landfills should be monitored carefully.** This could include:

- a) Monitoring of open waste burning and chemical traces from waste burning at landfill sites as well as the development of an app to allow reporting by citizens by sending pictures.
- b) Process-tracing of waste management in each city to identify where the breakdown in waste management occurs.

7.113 We also took feedback from other experts from the World Bank and WRI about our recommendations in the report for 2020-21. It appears that only persistent efforts lead to a reduction in the complex problem of poor air quality. Furthermore, the improvement in ambient air quality observed in 2020-21 may simply be the outcome of the lockdowns triggered by the Covid pandemic. In view of this, we recommend that a preparatory period of one year be provided to put in place the necessary equipment and procedures to move towards the desired objective of clean air in the medium term. Hence, in the year 2021-22, as suggested by MoEF&CC, **the relative weightages for assessment of city performance on air quality may be based on four parameters: (a) strengthening of the pollution monitoring mechanism; (b) source-wise cause analysis for air pollution; (c) progress on action plans and compliance of statutory guidelines; and (d) quantification of air quality improvement with the weights as prescribed in the Table 7.14.**

7.114 As explained in Annex 7.8, quantification of improvement in air quality has two parts, namely, reduction in particulate matter (PM_{9.5}) and increase in the number of good days according to improvement in the air quality index (AQI). Management of open waste burning and combustion at landfill sites should constitute an integral part of the air quality improvement index, with suitable weights arrived at on the basis of source-wise cause analysis for air pollution in specific urban agglomerations. We are also of the view that economic use of the landfills should be encouraged by allowing private sector involvement in these efforts to ensure the availability of sufficient and reliable financing. After 2021-22, for all the remaining four years of the award period, the entire weightage will be on the fourth parameter of quantification of improvement in air quality.

7.115 While the MoEF&CC shall handhold and monitor the urban local bodies in these efforts, the MoHUA shall take initiative in implementing parameters (b) , (c) and also management of open waste burning and combustion at landfill sites by the concerned urban local bodies, once the

MoEF&CC, as technical adviser, agrees to the source-wise analysis for air pollution and year-wise action plans from 2021-22 to 2025-26. Details are in Annex 7.8.

Table 7.14: Relative Weightage for City Performance Assessment*

Parameter	2021-22	2022-23	2023-24	2024-25	2025-26
Strengthening of pollution monitoring mechanism	10	-	-	-	-
Source-wise cause analysis for air pollution	10	-	-	-	-
Progress on action plans and compliance of statutory guidelines.	10	-	-	-	-
Quantification of air quality improvement	70	100	100	100	100
Total	100	100	100	100	100

* Details at Annex 7.8 A and 7.8 B

Air quality monitoring mechanism

7.116 The MoHUA may actively assist cities in reducing the sources of air pollution and improving air quality, as some of its programmes like the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), which has a component relating to development of electric transport, already deal with this. For the final monitoring of the outcome of air pollution reduction, the MoEF&CC shall recommend the release of MCF to the Million-Plus cities and the Ministry of Finance will release the funds directly to the State Government, with an intimation to the State Government, MoHUA and the MoEF&CC. These grants, based on performance, will be released as a single instalment during a year, which is to be decided by the MoEF&CC after consultation with the MoHUA and State Governments.

7.117 Each State Government and urban agglomeration shall sign a memorandum of understanding (MoU) with the MoEF&CC for a year-wise action plan, agreed outcomes to be achieved and quantum of funds to be released. Such action plan shall contain the city-wise details of sources of air pollution and the proposed measures to be taken by them such as deployment of sweeping machines, promotion of non-motorised transport (pedestrian and cycle), and paving the side flanks of the road with facility for water percolation. While the MOEF&CC shall closely involve the State Pollution Control Boards through NCAP grants for strengthening the air quality monitoring infrastructure, it shall build the infrastructure capacities of the Million-Plus cities in controlling air pollution.

7.118 In case of non-achievement of the highest improvement slab by cities, the balance fund would be utilised as follows: 50 per cent of the undisbursed amount will be distributed to the performing cities in a manner that top performers (>10 per cent improvement) get 20 per cent of the amount, second best performers (8-10 per cent improvement) get 17.5 per cent and third best performers (6-8 per cent improvement) get 12.5 per cent.

7.119 The MoEF&CC has also evidentially shown that ambient air quality is not a major problem in eight urban agglomerations with population of over a million on the south-western sea coast , namely, Kannur, Kochi, Kollam, Kozhikode, Malappuram, Thiruvananthapuram and Thrissur in Kerala and Coimbatore in Tamil Nadu. These cities are way below the NAMP threshold for breaching of pollution thresholds by particulate matter. The total grants allocated to these eight cities will, therefore, be linked to their performance in service level benchmarks on solid waste management-star rating, drinking water, water recycling and rainwater harvesting.

Service level benchmarks for drinking water supply, sanitation and solid waste management

7.120 Urbanisation directly contributes to waste generation, and unscientific waste handling causes health hazards and degradation of the urban environment. The definition of municipal solid waste includes refuse from households, non-hazardous solid waste discarded by industrial, commercial and institutional establishments, market waste, yard waste and street sweepings which are collected by the municipal authorities for disposal.

7.121 Waste generation rates are increasing, but with low recycling rates and treatment capacity as well as insufficient number of sanitary landfills, waste is mostly disposed of in dumpsites or burnt openly. To overcome this problem, *the first priority is to address the most basic and pressing issues of stopping dumping and providing collection and environmentally-sound disposal services to all citizens.* Landfilling has been practised for many years, has passed stringent environmental tests and is an established disposal method in environmentally cautious economies. It is currently the most financially accessible and environmentally acceptable solution for waste disposal in India. *A second priority is to introduce alternative methods of waste management in order to reduce waste disposal requirements.* Material recovery/recycling and other advanced treatments such as waste-to-energy should be pursued in parallel, depending on local conditions. In metro regions with large volumes of waste generation, for example, land availability and transport make landfill options expensive. In such cases, a mix of technologies including landfilling and more advanced solutions should be considered. *A third priority is closure and rehabilitation of old dumpsites, to reduce exposure and risk to human health and the environment. Closure and capping of existing dumpsites, in compliance with environmental regulations, is an urgent and critical need.* Local governments should also plan for long-term monitoring and management of these environmentally compromised sites and, depending on site characteristics and costs, land remediation/reclamation potential must be explored for future uses, including potential solid waste management disposal and treatment facilities.

7.122 The MoHUA, in its submission to the Commission, proposed that at least 50 per cent of buildings – newly-constructed residential buildings with plot size of 100 sq. meter or above, and all other buildings such as institutional, commercial, office premises, public buildings – in urban local bodies should have rain water harvesting structures. The Ministry also proposed minimising non-revenue water comprising (a) consumption which is authorised but not billed,

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such as public stand posts; (b) apparent losses such as illegal water connections, water theft and metering inaccuracies; and (c) real losses which are leakages in the transmission and distribution networks. For ensuring good quality of water, at least 60 per cent of public water bodies in the urban local body should have water quality of 'D' and above in line with the water quality criteria prescribed by the CPCB in June 2019 in its report on *Indicative Guidelines for Restoration of Water Bodies*.

7.123 We are of the view that solid waste management, quality water supply, water conservation, water recycling and rejuvenation are all significant national priorities and critical for the long-term sustainable development of cities. Thus, we recommend that the MoHUA shall act as a nodal ministry for determining the urban agglomeration eligible to get MCF funds for drinking water (including rainwater harvesting and recycling), sanitation and solid waste management criteria under service level benchmarks. The Ministry shall evaluate the performance in service level benchmark indicators of solid waste management (attainment of star ratings), water quality and water conservation methods. Detailed performance criteria are at Annex 7.9.

7.124 As we already stated in the report for 2020-21, these performance grants related to service level benchmarks will be disbursed from the first year of the award period, that is 2021-22 onwards, as the States and these cities have been given adequate time and notice for putting in place a scheme and mechanism for implementation. In case of non-attainment of these benchmarks by a urban agglomeration, the MoHUA, in consultation with the State Government, shall distribute the unallocated grants amongst other non-Million-Plus cities in proportion to their population.

7.125 Each State Government and urban agglomeration shall sign a MoU with the MoHUA for year-wise action plans, agreed outcomes to be achieved and quantum of funds to be released, and make them available in the public domain. The performance of each urban agglomeration for each service level benchmark for the year will be placed in the public domain, including online, in a manner that is easily accessible to the citizens living within it. These grants based on performance will be released as a single instalment during a year, which is to be decided by the MoHUA after consultation with the State Government. On the recommendation of the MoHUA, the Ministry of Finance will release the funds directly to the State Government, with an intimation to it and the MoHUA.

Conditionalities for release of performance grants

7.126 As detailed in para 7.113 and 7.114, we recommend that, as advised by MoEF&CC, the relative weightages for assessment of city performance on air quality may be based on four parameters, namely, (a) strengthening of pollution monitoring mechanism, (b) source-wise cause analysis for air pollution, (c) progress on action plans and compliance of statutory guidelines, and

(d) quantification of air quality improvement. While MoEF&CC shall handhold and monitor the urban local bodies in these, the MoHUA shall take initiative in implementing (b) and (c) by the concerned urban local bodies, once the MoEF&CC, as technical adviser, agrees to the source-wise analysis for air pollution and year-wise action plans from 2021-22 to 2025-26. The details are in Annex 7.8. Hence, it is expected that all the stakeholders are ready for compliance of these conditions from 2021-22.

7.127 Similarly, steps outlined by us in the report for 2020-21 on measuring and publishing solid waste management-related service level benchmarks for basic services shall be followed. Since the stakeholders involved have been advised a year ahead and are expected to be ready for evaluation from 2021-22 onwards, the performance grants will be disbursed from the first year of our five-year award period, that is, 2021-22 onwards. Detailed criteria for performance grants enclosed for Category I cities is given at Annex 7.9. However, though the performance criteria are revolving around only a few service level benchmarks, it would be extremely important to ensure that publication and monitoring of all the service level benchmarks continues. This will facilitate transparency and accountability in service delivery and sustainability of the entire service level benchmarks initiative, which is now of almost fifteen years' vintage. Hence, we recommend that all the service-level benchmarks should be published on www.cityfinance.in along with the audited annual accounts.

Grants for Other Than Million-Plus Cities/ Towns

7.128 **The other than Million-Plus cities/towns shall also get the grants as per population. We recommend a basic grant of Rs. 82,859 crore for a period of five years for these cities.** State-wise details are at Annex 7.5.

Table 7.15: Grants for Non-Million-Plus Cities/Category-II Cities/Towns

(Rs. Crore)

In Rs. Crores	2021-22	2022-23	2023-24	2024-25	2025-26	Total Grants
Total Grants	15136	15681	16579	17560	17903	82859
<i>Untied (40%)</i>	<i>6054</i>	<i>6273</i>	<i>6631</i>	<i>7024</i>	<i>7161</i>	<i>33143</i>
<i>Tied (60%)</i>	<i>9082</i>	<i>9408</i>	<i>9948</i>	<i>10536</i>	<i>10742</i>	<i>49716</i>
<i>(a) sanitation (including solid waste and waste water management) and solid waste management and attainment of star ratings as developed by the MoHUA</i>	<i>4541</i>	<i>4704</i>	<i>4974</i>	<i>5268</i>	<i>5371</i>	<i>24858</i>
<i>(b) drinking water, rainwater harvesting and water recycling</i>	<i>4541</i>	<i>4704</i>	<i>4974</i>	<i>5268</i>	<i>5371</i>	<i>24858</i>

7.129 Some cities and towns may be part of some urban agglomeration, but they will still receive the grants under this component, as the MCF is an additionality in these cases. These cities have to fulfil the two entry level conditions indicated earlier for availing the grants – making both provisional and audited annual accounts available online in the public domain and the State notifying minimum floor rates for property tax and the property taxes growing in tandem with the GSDP growth rates. (details at paras 7.95 to 7.99, 7.101 and 7.102).

7.130 Of the basic grants recommended to other than Million-Plus cities, 40 per cent is untied and can be used by the urban local bodies for felt needs under the eighteen subjects enshrined in the Twelfth Schedule, except for salaries and other establishment costs.

7.131 An overview of the national priorities has already been given earlier. Further, in order to supplement the resources needed to fulfil these priorities, **we are of the view that the remaining 60 per cent of the grants should be tied to supporting and strengthening the delivery of basic services.** Thirty per cent of the total grants to be disbursed to urban local bodies shall be earmarked for sanitation and solid waste management and attainment of star ratings as developed by the MoHUA. This should include management and treatment of household waste, in particular human excreta and faecal sludge, in line with the principles highlighted in para 7.121 and movement towards more innovative and environment-friendly ways to tackle this problem. To improve the current situation, urban local bodies require technical assistance to: (a) move towards professionalising their delivery of solid waste management services and economic use of land filling, either public, private or jointly managed; (b) develop and implement strategic multi-year investment plans that address their local infrastructure and maintenance needs according to their waste generation trends; (c) mobilise resources to fund capital investments and cost-recovery mechanisms that will ensure the sustainability of operations and maintenance plans; and (d) set up monitoring systems to oversee compliance and maintain adequate standards of service provision. Adequate financing is essential to run any type of waste management system and hence private sector involvement in these efforts is recommended to ensure the availability of sufficient and reliable financing. In addition, 30 per cent of the total grants to be disbursed to urban local bodies shall be earmarked for drinking water, rainwater harvesting and water recycling. However, if any urban local body has fully saturated the needs of one category and there is no requirement of funds for that purpose, it can utilise the funds for the other category. Such saturation will also be certified by the respective urban local body and duly confirmed by the supervising authority of municipalities in the State Government. We also recommend that no further conditions or directions other than those already indicated by us should be imposed either by the Union or the State Governments, or any authority, for releasing the funds.

7.132 Intra-city distribution of these grants shall be on the basis of recommendations of the latest SFC. In case the SFC recommendation is not available for distribution within a particular category, allocations should be based on population and area in the ratio of 90:10. The States should also make allotment of grants on population basis for the Cantonment Boards within their territories.

Cantonment Boards

7.133 Cantonments are pioneering urban formations in India. According to Census 2011, there are sixty-two cantonments boards in the country, spread across seventeen States and two Union Territories (the National Capital Territory of Delhi and Jammu and Kashmir). The population living in cantonments accounts for around 0.56 per cent of the total urban population of the country.

Table 7.16: Features of Cantonment Boards and Municipalities

MUNICIPALITY		CANTONMENT BOARD	
Constitutional Provision	Salient Feature	Cantonments Act, 2006	Salient Feature
Article 243 U	Duration of municipality is five years.	Section 14	Duration of elected members of a Board is five years
Article 243 W	Powers, authority and responsibilities of municipality (as per Twelfth Schedule)	Various sections of Cantonments Act, 2006	All functions given in the Twelfth Schedule are assigned to the Cantonment Board.
Article 243 Z	Audit of accounts as per law framed by the State	Cantonment Account Code, 1924	Audit of Cantonment Board is done by Controller General Defence Accounts. CAG also carries out audit of deficit Boards
Article 243ZA	Elections to municipalities are conducted by the State Election Commission	Cantonment Electoral Rules, 2007	Electoral rolls are revised every year by the Cantonment Board and elections are conducted by the Union Government

7.134 The composition and nature of a Cantonment Board is similar to that of a municipality, and this makes it qualify as the local government of cantonment areas. Many State Governments (Karnataka, Madhya Pradesh, Jharkhand, Telangana etc.) have already started sharing their revenue proceeds or allocation of SFC grants with these Boards. However, other States keep these areas outside of their allocations. The FC-XIII was the first Commission to include recommendations for the Cantonment Boards stating that “*the development plans for civilian areas within the cantonment areas (excluding areas under the active control of the forces) should be brought before the district planning committees.*” From the proposal of the Directorate General of Defence Estates, Ministry of Defence, it was learnt that Cantonment Boards are increasingly facing challenges of low revenue base, particularly in view of the taxes being subsumed under GST, low potential for property tax revenue as large areas in the cantonment are under the armed forces and commercial usage of property is quite limited. Cantonment Boards fall under the purview of Entry 3 in the Union List. **However, because of their similarity with municipalities, we are of the view that the State Governments, while deciding the share of**

basic grants among urban local bodies in non-Million-Plus cities, should allot grants on population basis for the Cantonment Boards falling within their territory. However, conditions applicable to other urban local bodies will also apply to the Cantonment Boards. A State-wise list of Boards along with the population is at Annex 7.7. The responsibility for making suitable arrangements on these lines for the Cantonment Boards falling within Union Territories lies with the Union Government.

Timely Release of Grants

7.135 **The grants recommended by us for rural local bodies and non-Million-Plus cities shall be released in two equal instalments each year in June and October, after ascertaining the entry level benchmarks and other requirements recommended by us. The States shall transfer grants-in-aid to the local governments within ten working days of having received them from the Union Government. Any delay beyond ten working days will require the State Governments to release the same with interest as per the effective rate of interest on market borrowings/State Development Loans (SDLs) for the previous year.**

Grants for Health to be Channelised through Local Governments

7.136 The Covid-19 pandemic has brought the limitations of India's health infrastructure to the fore. Apart from the tragic loss of life, the heavy and sudden burden of the pandemic has tended to overwhelm the health care system in almost all countries and result in a shortage of doctor and paramedics, hospital beds, intensive care units (ICUs) and quarantine facilities. We had initiated discussions on health-related issues by constituting a High-Level Group on Health Sector and based on intensive consultations with different stakeholders made observations on its proposed course of action in our Report for 2020-21. The vulnerabilities exposed by the pandemic, reinforced the need to review the earlier strategy and approach. Accordingly, consultations were held with the Ministry of Health and Family Welfare (MoHFW), State Governments, eminent health experts, and expert bodies including the World Bank. The States have an overwhelming share of 70 per cent of the total health related public expenditure, with the balance 30 per cent with the Union. Expenditure on primary health care accounts for a very large share of this expenditure and this, as our consultations brought out, is an area that requires to be strengthened within a short period. We recognise that in the efforts to achieve the ideal of universal health, rural and urban local bodies can play a key role in the delivery of primary health care services especially at the “cutting-edge” level. Strengthening the local governments in terms of resources, health infrastructure and capacity building can enable them to play a catalytic role in health care delivery, including in crisis times.

7.137 We have carefully analysed Articles 243 G and 243 W of the Constitution that deal with the powers, authority and responsibilities of panchayats and municipalities and also entrust them

with the implementation of schemes for economic development and social justice, including those in relation to the matters listed in the Eleventh and Twelfth Schedules. Health and sanitation, including hospitals, primary health centres and dispensaries and family welfare are listed at serial numbers 23 and 24 of the Eleventh Schedule for panchayats, and public health, sanitation conservancy and solid waste management at serial number 6 of the Twelfth Schedule for municipalities.

7.138 Many State Governments have not been proactive in transferring the functions, functionaries and funds to the local governments, as stipulated in the Constitution. The current pandemic has highlighted the critical role of panchayats and their potential to mobilise the community in managing local quarantines for the returning migrant workers, arranging cooked food and water for them and supporting the frontline health workers at the primary health care level. Kerala has established itself as an example where local governments and the staff of public health institutions effectively deliver healthcare at the local level in a collaborative framework (Box 7.4).

Box 7.4: Kerala Reforms for Effective Delivery of Healthcare Services

One major reform implemented in Kerala in 1996 was the transfer of 35-40 per cent of the State Government's development budget to local governments. This transfer was unconditional and was accompanied by training and granting of autonomy to local governments to develop and implement expenditure plans based on local needs and priorities. As part of the move towards decentralisation, sub centres and primary health centres (PHCs) in rural areas were brought under the overall supervision and control of gram panchayats, putting in place mechanisms for greater community involvement. Community health centres (CHCs) and taluk hospitals were under the purview of block panchayats. District hospitals and the management of State-sponsored and Centrally sponsored schemes (CSS) at the district level came under district panchayats. Similarly, CHCs and taluk hospitals in urban areas were transferred to municipalities and Municipal Corporations. While the total number of posts at sub-centres and PHCs remained under State Government control, appointment of temporary staff to offset vacancies came under the purview of Gram Panchayats. Staff working in local governments are State Government staff and the number of positions and transfers are determined at the State level. Local body members such as ward members who head the Village Health, Sanitation, and Nutrition Committees (VHNCs) are actively engaged in convergent action under the National Health Mission (NHM), which has the multipurpose health workers as convenors and ASHA and anganwadi workers as members. This structure has helped the government to engage more closely with the community, respond to local needs, catering to critical gaps like purchase of medicines and hiring of additional workforce as well as to invest in disease prevention activities. This has resulted in increased utilisation of PHCs and sub centres, particularly in villages with strong governance.

7.139 Taking a cue from the Kerala model, we considered this to be an opportune time to involve the third tier in the health sector and extend additional resources to it to strengthen the primary health system at the grass root level. We believe that the involvement of local

governments would also make the health system accountable to the people. We also sought an assessment of existing gaps in the health care delivery system in both rural and urban areas from the Union Government. We also analysed the existing interventions through different programmes, including the CSS of National Health Mission and Aysuhman Bharat. Based on our assessment, we have decided to provide a part of the grants earmarked for the third tier for support to primary healthcare. We have identified interventions that will directly lead to strengthening the primary health infrastructure and facilities in both rural and urban areas. The components identified along with the amount earmarked year-wise are given in Table 7.17. **Thus, a sum of Rs. 70,051 crore out of the grants for local governments have been earmarked for the health sector at the rural and urban local body levels over the award period of five years.**

Table 7.17: Sector-wise Break Up of Health Grants

(Rs. crore)

Total Health Grants	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Support for diagnostic infrastructure to the primary healthcare facilities	3478	3478	3653	3835	4028	18472
<i>Sub centres</i>	1457	1457	1530	1607	1687	7738
<i>PHCs</i>	1627	1627	1708	1793	1884	8639
<i>Urban PHCs</i>	394	394	415	435	457	2095
Block level public health units	994	994	1044	1096	1151	5279
<i>Urban health and wellness centres (HWCs)</i>	4525	4525	4751	4989	5238	24028
<i>Building-less Sub centres, PHCs, CHCs</i>	1350	1350	1417	1488	1562	7167
<i>Conversion of rural PHCs and sub centres into health and wellness centre</i>	2845	2845	2986	3136	3293	15105
Total Health Grants	13192	13192	13851	14544	15272	70051

Support for diagnostic infrastructure to the primary healthcare facilities

7.140 We intend to give support for diagnostic infrastructure in sub centres, PHCs and urban PHCs under the vision of comprehensive primary health care. Diagnostic services are critical for the delivery of health services, and these grants are intended to fully equip the primary health care facilities so that they can provide some necessary diagnostic services (Annex 7.10 A-I, A-II and A-III).

Block level public health units

7.141 Block public health units (BPHU) would integrate the functions of service delivery,

public health action, strengthened laboratory services for disease surveillance, diagnosis and public health and serve as the hub for health-related reporting.

7.142 The BPHUs will also improve decentralised planning and the preparation of block plans that feed into district plans. In addition, they will improve accountability for health outcomes. Given that the block health facility is co-terminus with the Block Panchayat /Panchayat Samiti/Taluka Panchayat, this has the potential to facilitate convergence with the panchayati raj institutions and the child development project officer of the Integrated Child Development Scheme (ICDS) programme. We propose to provide support to BPHUs in all the States (Annex 7.10 B).

Urban Health and Wellness Centres

7.143 A paradigm shift in urban primary health care is envisaged, based on the learning from the management of the Covid-19 pandemic, which has affected urban areas disproportionately. As part of this shift, universal comprehensive primary health care is planned to be provided through urban Ayushman Bharat-Health and Wellness Centres (AB-HWCs) and polyclinics. Such urban HWCs would enable decentralised delivery of primary health care to smaller populations, thereby increasing the reach to cover the vulnerable and marginalised. It is envisaged that the urban HWCs would create a mechanism for representatives of the Medical Administrative Staff and Resident Welfare Associations to disseminate information on public health issues at least once a month.

7.144 We propose to provide support for setting up urban HWCs in close collaboration with urban local bodies (Annex 7.10 C).

Building-less Sub centres, PHCs, CHCs

7.145 An assessment of infrastructure gaps in rural PHCs/Sub centres based on *Rural Health Statistics, 2019*, shows that 885 PHCs and 33,886 Sub centres do not have the necessary infrastructure to meet the targets of the National Health Policy, 2017. The Commission proposes to provide support for necessary infrastructure for 27,581 HWCs at the sub centre level and 681 HWCs at the primary health centre level in rural areas in close collaboration with rural local bodies (Annex 7.10 D).

Conversion of Rural PHCs and Sub Centres into Health and Wellness Centre

7.146 The Union Government has envisaged the creation of 1,50,000 HWCs by transforming existing sub centres and PHCs as the basic pillar of Ayushman Bharat to deliver comprehensive primary health care. We propose to provide support for necessary infrastructure for the conversion of rural PHCs and sub centres into HWCs so that they are equipped and staffed by an appropriately trained primary health care team, comprising of multi-purpose workers (male and

female) and ASHAs and led by a mid-level health provider. PHCs linked to a cluster of HWCs would serve as the first point of referral for many disease conditions (Annex 7.10 E).

7.147 Involving panchayati raj institutions as supervising agencies in these primary health care institutions would strengthen the overall primary health care system. Hence, we recommend year-wise State-wise fund allocation spread over five years for this purpose (Annex 7.10). A Committee headed by the Secretary, MoHFW, and comprising Principal Secretaries of Health of all States should be set up to draw a time line of deliverables and outcomes for each of the five years along with a definite mechanism for flow and utilisation of these grants. This mechanism needs to be in place by April 2021 for the first instalment of funds to start flowing by July 2021. Similarly at the State level, a committee under the Chief Secretary and comprising officials of the State departments of Health, Panchayat Raj and Urban Affairs and select representatives from all three tiers of rural and urban local bodies should be in place by April 2021 and with plans ready for implementation by July 2021. A similar committee also needs to be constituted at the district level under the District Collector/Deputy Commissioner. Thereafter, subsequent steps should be taken at both the Union and State levels in line with plans agreed upon in the respective Committees. We expect that the persons charged with this responsibility at each level of the Union and State Governments will ensure strict adherence to timelines and outcomes as set out in the agreed policy. We also recommend that representatives of the urban local bodies and all three levels of panchayati raj institutions should be involved by entrusting them, in a phased manner, with the responsibility of supervising and managing the delivery of health services. **We also recommend that no conditions or directions other than those indicated in this paragraph should be imposed either by the Union or the State Governments, or any authority, for releasing the grants for health.**

Competition-based Grants for Incubation of New Cities

7.148 The Covid-19 pandemic has brought into sharp focus the well-known problem of inadequacy of appropriate housing and infrastructure facilities in urban areas. Given the trend in urbanisation, the country needs both rejuvenation of old cities as well as the setting up of new cities. The challenge of setting up infrastructure, such as laying of roads, water and sewer lines and provision of sites for schools and colleges and parks in greenfield cities can be less daunting than the problem of setting up such facilities in old established cities. On the other hand, establishment of greenfield cities runs into the problem of land acquisition and rehabilitation. Paradoxically, these problems are more pronounced in States that, because of their higher density of population, need such new cities more than sparsely populated States. Given these complexities, it is better to start on a pilot basis and, hence, **we recommend a performance-based challenge fund of Rs. 8,000 crore to States for incubation of new cities.** The amount available for each proposed new city is Rs. 1,000 crore and a State can have only one new city under the proposed scheme. Thus, a maximum of eight States can avail this grant for eight new cities over the award period of the Commission.

7.149 Determining the viability of building a proposed new city is a challenging proposition. The success of a new city depends on progress in areas such as land acquisition, having a masterplan, obtaining the necessary regulatory approvals, establishing secure source of water, gas and power supply, telecommunication, road, rail and air connectivity, solid and liquid waste management systems, securing the necessary finances for building the new city and establishing a revenue model for the urban local body to ensure its financial viability. Thus, the MoHUA will need to set up an expert committee, which will include independent domain experts and representatives from State Governments, to specify the minimum eligibility conditions to compete for the award. This committee will also have to work out the bidding parameters by which the top eight among the qualifying applicants will be selected. Since the proposed model is in the nature of viability gap funding, the bid parameter will need to be related to the cost in terms of our award per 100,000 residents in the proposed city (or some similar criterion), and calibrated in a manner that the funds are utilised - with commensurate performance and desired outcomes - within the award period, that is, before March 2026.

7.150 One area of concern in this context is the downside risk of delays in implementation of the project, including its abandonment mid-stream. To protect against this risk, the expert committee will have to schedule the release of tranches of the Finance Commission award to a new city in step with the completion of various stages of the project, according to a pre-agreed schedule. Providing a level playing field to all States in competing for the award for incubation of new cities, laying down rules of the competition process and complete transparency in the selection of the winners will be critical for the success of the pilot project.

7.151 We recommend that:

- (i) the MoHUA set up an expert committee, which will include some independent domain experts and representatives of State Governments, to specify, by 31 January 2022, the minimum eligibility conditions for competing for the award and how the funds will be released to the winners;
- (ii) the expert committee should (a) by 31 March 2022, specify the bid parameter for evaluating competing proposals by States, make it publicly available and call for bids from States by 30 September 2022; (b) announce the winners by 31 December 2022; and (c) recommend the release of the first tranche of the grant by 31 March 2023, and indicate how progress of the project should be evaluated vis-à-vis specified benchmarks for release of subsequent tranche(s).

Shared Municipal Services - Grants for National Data Centre

7.152 There is an urgent need to create an enabling ecosystem for States and urban local bodies to enhance own revenues, access municipal borrowings and implement shared municipal services. An institutionalised mechanism needs to be established to make municipalities “market worthy”, with active participation of the financial services sector. The institutional arrangement

needs to be undertaken for implementation of various reforms at the urban local body level like publishing of documents, creating model PPP contracts, modernising municipal budgeting, evolving a national municipal borrowing framework including provisions equivalent to the Fiscal Responsibility and Budget Management Act for urban local bodies.

7.153 Municipal Shared Services Centres are intended to handle the following kinds of services: (a) issue of birth/death certificate, trade license, grievance redressal and other certificates/approvals/collections to citizens by using a model similar to the passport seva kendras; (b) function as a centralised processing centres for accounting, vendor payments, payroll processing etc., like the centre for income tax refunds; (c) doorstep/field services such as collections, maintenance and other last-mile field-level municipal services for which field staff can be optimised across municipalities and shared among a cluster of smaller urban local bodies.

7.154 The MoHUA will need to undertake both ecosystem-building as well as hand-holding for implementation of the Municipal Shared Services Centres. **We recommend a grant of Rs. 450 crore for this.**

Tax on Professions

Rationalising Professions Tax

7.155 The power of the State Legislature to impose a professions tax is derived from the Seventh Schedule, which states that no one shall be required to pay more than Rs. 2,500 by way of professions tax to any State or any local authority within that State. The initial tax limit of Rs. 50 per annum per person, which was raised to Rs. 250 per annum in 1950 and subsequently to Rs. 2,500 per annum in 1988 by the Constitution (Sixtieth Amendment) Act, 1988. At present, a majority of the States are levying professions tax. In some States, the levy is generally applicable to all persons engaged in any employment or in any profession whereas in the others it is only for enumerated professions. In some States, the tax is levied and collected by the State, but in others, municipal bodies also levy and collect the tax under a State legislation.

7.156 The FC-XI and subsequent Commissions recommended enhancement of the ceiling of Rs. 2,500, with FC-XIV recommending that the limit may be increased to Rs. 12,000. Further, while the FC-XI and FC-XIII recommended that this ceiling be changed through a parliamentary legislation, the FC-XIV suggested it be done through a Constitutional amendment. It further recommended that the amendment may also vest the power to impose limits on Parliament, with the caveat that the limits should adhere to the Finance Commission's recommendations and the Union Government should prescribe a uniform limit for all States. **Since the ceiling for professions tax has not been revised for the last three decades, it is time that the relevant amendment to the Constitution is carried out on a priority basis.** This area is explored in detail in the Chapter 5 on Resource Mobilisation.

Summary of Recommendations

i. The total size of the grant to local governments should be Rs. 4,36,361 crore for the period 2021-26. We favour a fixed amount rather than a proportion of the divisible pool of taxes to ensure greater predictability of the quantum and timing of fund flow.

(para 7.60)

ii. Of these total grants, Rs. 8,000 crore is performance-based grants for incubation of new cities and Rs. 450 crore is for shared municipal services. A sum of Rs. 2,36,805 crore is earmarked for rural local bodies, Rs. 1,21,055 crore for urban local bodies and Rs. 70,051 crore for health grants through local governments.

(para 7.61, 7.62 and 7.93)

iii. For inter se distribution among States for rural and urban local bodies, weightage of 90 per cent should be given to population and 10 per cent to the area of the State. The grant to each State is detailed at Annex 7.4.

(para 7.62 and 7.93)

iv. We recommend that all States which have not done so, must constitute SFCs, act upon their recommendations and lay the explanatory memorandum as to the action taken thereon before the State legislature on or before March 2024. After March 2024, no grants should be released to a State that has not complied with the Constitutional provisions in respect of the SFC and these conditions. The MoPR will certify the compliance of all Constitutional provisions by a State in this respect before the release of their share of grants for 2024-25 and 2025-26.

(para 7.58)

v. The entry level condition for rural and urban local bodies availing any grants due to them is having both provisional and audited accounts online in the public domain. States will receive grants for those rural and urban local bodies that have their provisional accounts for the previous year and audited accounts for the year before the previous, available online.

(para 7.76 to 7.78, 7.95 and 7.96)

vi. For urban local bodies, apart from the entry level condition of having both provisional and audited accounts online in the public domain, after 2021-22, fixation of minimum floor for property tax rates by the relevant State followed by consistent improvement in the collection of property taxes in tandem with the growth rate of State's own GSDP will be an additional mandatory pre-condition.

(para 7.95 to 7.99, 7.101 and 7.102)

vii. To supplement the resources needed to fulfil national priorities, 60 per cent of the grants to rural local bodies should be tied to supporting and strengthening the delivery of two categories of basic services: (a) sanitation and maintenance of ODF status; and (b) drinking water, rain water harvesting and water recycling.

(para 7.84 and 7.85)

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viii. Urban local bodies have been categorised into two groups, based on population, and different norms have been used for flow of grants to each, based on their specific needs and aspirations. For cities with million plus population (Million-Plus cities), 100 per cent of the grants are performance-linked through the Million-Plus Cities Challenge Fund (MCF). Basic grants are proposed only for cities/towns having a population of less than a million.

(para 7.104, 7.105 and 7.128)

ix. Category I cities (urban agglomerations with a population of more than one million) will be treated as a single unit for monitoring of performance indicators of ambient air quality and service level benchmarks. One-third of the total MCF of each city is earmarked for achieving ambient air quality. The balance two-third of the city-wise MCF is earmarked for achieving service level benchmarks for drinking water (including rainwater harvesting and recycling) and solid waste management. For drinking water (including rainwater harvesting and recycling) and sanitation and solid waste management criteria under service level benchmarks, the MoHUA shall act as the nodal ministry for determining the eligible urban local bodies.

(para 7.111 to 7.127)

x. Sixty per cent of the basic grants for urban local bodies in non-Million-Plus cities should be tied to supporting and strengthening the delivery of: (a) sanitation and solid waste management and attainment of star ratings as developed by the MoHUA; and (b) drinking water, rain water harvesting and water recycling.

(para 7.130 and 7.131)

xi. We recommend that for the five-year award period (2021-22 to 2025-26) grants should go to all the three tiers of panchayati raj institutions. Since no resident of India should be denied a share of the local body grants, these should be distributed to even those areas which are not required to have panchayats (Fifth and Sixth Schedule areas and Excluded Areas) for augmenting their resources to provide basic services by similar local level bodies.

(para 7.63 to 7.68)

xii. State Governments, while deciding the share of basic grant among various urban local bodies in cities other than Million-Plus cities, shall make allotment of grants (only under basic grants) on a per capita basis for the Cantonment Boards falling within the State.

(para 7.133 and 7.134)

xiii. The grants recommended by us for rural local bodies and non-Million-Plus cities shall be released in two equal instalments each year in June and October after ascertaining the entry level benchmarks and other requirements recommended by us. The States shall transfer grants-in-aid to the local bodies within ten working days of having received them from the Union Government. Any delay beyond ten working days will require the State Governments to release the same with interest as per the effective rate of interest on market borrowings/State Development Loans for the previous year.

(para 7.135)

Chapter 7 : Empowering Local Governments

xiv. Since health grants are meant for addressing the gaps in primary health infrastructure, the allocations would not be on a per capita basis for States or for local governments. Based on the MoHFW proposal, the recommended year-wise State-wise fund allocation for this purpose is provided at Annex 7.10. The MoHFW shall closely coordinate with respective State Governments and work out a mechanism for flow and utilisation of these health grants and also involve panchayati raj institutions at all three levels by entrusting them with the responsibility to supervise and manage the delivery of health services in a phased manner. No conditions or directions other than those indicated in para 7.147 should be imposed either by the Union or the State Governments, or any authority, for releasing the grants for health.

(para 7.136 to 7.147)

xv. A sum of Rs. 8,000 crore is recommended to States as grants for incubation of new cities and Rs. 450 crore for facilitating shared municipal services.

(para 7.148 to 7.154)

xvi. Since the ceiling for professions tax has not been revised for the last three decades, it is time that the relevant amendment to the Constitution is carried out on a priority basis.

(para 7.155 and 7.156)

Summary of Property Tax Provisions as per State Acts

Criteria	No. of State Acts that have a relevant provision	Names of the States
Enumeration of Properties: Creation and maintenance of property registers		
Periodic revision of property registers	19	1. Andhra Pradesh (only Municipal Corporations) 2. Chattisgarh 3. Goa 4. Gujarat 5. Haryana (only Municipal Corporations) 6. Himachal Pradesh 7. Jammu and Kashmir 8. Karnataka (only Municipal Corporations) 9. Kerala 10. Madhya Pradesh 11. Odisha 12. Tamil Nadu (only Municipalities) 13. Uttar Pradesh 14. Uttarakhand 15. West Bengal 16. Meghalaya 17. Sikkim 18. Nagaland 19. Manipur
Valuation		
Follow the Capital Value method of valuation	2	1. Karnataka (all urban local bodies, except Bengaluru) 2. Nagaland
Follow Unit Area Value method of valuation	9	1. Gujarat 2. Himachal Pradesh 3. Jammu and Kashmir 4. Kerala, 5. Delhi 6. Odisha 7. Mizoram 8. Tripura 9. Sikkim
Follow Annual Rental Value method of valuation	12	1. Andhra Pradesh 2. Bihar 3. Chhattisgarh 4. Goa 5. Haryana 6. Jharkhand 7. Madhya Pradesh 8. Tamil Nadu 9. Uttar Pradesh 10. Uttarakhand 11. Assam (Guwahati Municipal Corporation Act) 12. Meghalaya
Flat Rate system of valuation	1	1. Punjab
Provide multiple options for valuation methodology	4	1. Maharashtra (Capital Value or Annual Rental Value) 2. Rajasthan (Unit Area based method or by any other method) 3. Telangana (Capital Value or Annual Rental Value or Any such method as prescribed) 4. West Bengal (Annual Rental Value or Capital Value where Annual Rental Value cannot be estimated)

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Criteria	No. of State Acts that have a relevant provision	Names of the States
State Acts where valuation methodology is unclear or not mentioned	2	1. Manipur (unclear) 2. Arunachal Pradesh (not mentioned)
Act defines a floor rate of property tax	13	1. Andhra Pradesh (only Municipal Corporations) 2. Bihar 3. Chattisgarh 4. Gujarat (only Municipal Corporations) 5. Haryana 6. Himachal Pradesh 7. Karnataka 8. Kerala 9. Madhya Pradesh 10. Odisha 11. Tamil Nadu (only Chennai) 12. Uttar Pradesh (only Municipal Corporations) 13. Uttarakhand (only Municipal Corporations)
Periodic revision of tax rates	3	1. Jharkhand 2. Karnataka 3. Kerala
Property Tax Boards/Municipal Valuation Committees		
Presence of a property tax board	17	1. Andhra Pradesh (only Municipalities) 2. Bihar, 3. Jammu and Kashmir 4. Jharkhand 5. Karnataka (only Municipal Corporations) 6. Maharashtra (only Municipal Corporations) 7. Delhi 8. Odisha 9. Tamil Nadu 10. Telangana 11. West Bengal 12. Meghalaya 13. Mizoram 14. Tripura 15. Sikkim 16. Nagaland 17. Manipur
Functions of the Property Tax Board are laid out in the State Act	16	Except Telangana, mentioned in all states where a property tax board exists
Assessment of property tax		
Provision for self-assessment	16	1. Bihar 2. Punjab 3. Chattisgarh 4. Haryana 5. Jammu and Kashmir 6. Jharkhand 7. Karnataka (only Municipalities) 8. Madhya Pradesh 9. Delhi 10. Odisha 11. Telangana 12. Uttar Pradesh 13. Uttarakhand 14. West Bengal 15. Mizoram 16. Sikkim
Process for auditing of assessment (either self-assessment or made by the Municipality/ Municipal Corporation)	1	1. Goa (only in Municipalities)

Criteria	No. of State Acts that have a relevant provision	Names of the States
Penalty provisions for late submission of self-assessments	11	1. Bihar 2. Punjab 3. Chattisgarh 4. Haryana 5. Jammu and Kashmir 6. Jharkhand 7. Madhya Pradesh (only Municipalities) 8. Delhi 9. Telangana 10. Uttar Pradesh (only Municipal Corporations) 11. Uttarakhand (only Municipal Corporations)
Provision to calculate property tax potential of exempted properties for assessing the revenue foregone	0	
Billing and Collection		
Provision for public disclosure of property tax collection data or data on defaulters	0	
Penalty provision for non or late payment	19	1. Punjab 2. Gujarat (only Municipal Corporations) 3. Haryana (only Municipal Corporations) 4. Himachal Pradesh (only Municipal Corporations) 5. Karnataka 6. Madhya Pradesh (only Municipalities) 7. Delhi 8. Odisha 9. Tamil Nadu (only Chennai Municipal Corporation) 10. Telangana 11. Uttar Pradesh (only Municipal Corporations) 12. Uttarakhand (only Municipal Corporations) 13. West Bengal 14. Meghalaya 15. Guwahati Municipal Corporation 16. Arunachal Pradesh 17. Mizoram 18. Tripura 19. Nagaland

Source: Study done by Janagraha

Detailed Methodology for arriving at the State Wise Grants

Per year grant for every year of the award period in Rs. crore												
	2021-22		2022-23		2023-24		2024-25		2025-26		Total grants	
STEP-1	67015		69421		71240		75453		74731		357860	
STEP-2	Share of RLB and ULB											
	2021-22		2022-23		2023-24		2024-25		2025-26		Total grants	
	(RLB:ULB 67:33)		(RLB:ULB 67:33)		(RLB:ULB 66:34)		(RLB:ULB 66:34)		(RLB:ULB 65:35)			
	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB
	44901	22114	46513	22908	47018	24222	49800	25653	48573	26158	236805	121055
STEP-3	Inter se share of all States based on 90 per cent weightage to population and 10 per cent to area											
STEP-4	Grants to each State for RLB and ULB each year is derived based on the share arrived at STEP 3											
STEP-5	ULB grants within each State is further divided between Million-Plus and other than Million-Plus cities based on their respective population.											

ILLUSTRATION – Uttar Pradesh

Per year grant for every year of the award period in Rs. crore												
	2021-22		2022-23		2023-24		2024-25		2025-26		Total grants	
STEP-1	67015		69421		71240		75453		74731		357860	
STEP-2	Share of RLB and ULB											
	2021-22		2022-23		2023-24		2024-25		2025-26		Total grants	
	(RLB:ULB 67:33)		(RLB:ULB 67:33)		(RLB:ULB 66:34)		(RLB:ULB 66:34)		(RLB:ULB 65:35)			
	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB
	44901	22114	46513	22908	47018	24222	49800	25653	48573	26158	236805	121055
STEP-3	Inter se share of all States based on 90 per cent weightage to population and 10 per cent to area Uttar Pradesh Share – 16.052											
STEP-4	Grants to each State for RLB and ULB each year is derived based on the share arrived at STEP 3											
	2021-22		2022-23		2023-24		2024-25		2025-26		Total grants	
	(RLB:ULB 67:33)		(RLB:ULB 67:33)		(RLB:ULB 66:34)		(RLB:ULB 66:34)		(RLB:ULB 65:35)			
	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB	RLB	ULB
	7208	3550	7466	3677	7547	3888	7994	4118	7797	4199	38012	19432

STEP-5 ULB grants within each State is further divided between Million-Plus and other than Million-Plus cities based on their respective population.

Population in million		
Million-Plus Cities Population	Other than Million-Plus	Total population
14.03 (A)	32.1(B)	46.1(C)

Uttar Pradesh	Grants in Rs. crore					Total
	2021-22	2022-23	2023-24	2024-25	2025-26	
Total ULB Grants(D)	3550	3677	3888	4118	4199	19432
Million-Plus #	1080	1119	1183	1253	1278	5913
Other than Million plus##	2470	2558	2705	2865	2921	13519

#A/C*D

B/C*D

Share of States based on Population and Area

States	Population 2011 (in million)	Area ('000 sq km)	Population share	Area share	State-wise share (RLB)	State-wise share (ULB)
Andhra Pradesh	49.58	162.92	4.21	5.33	4.32	4.32
Arunachal Pradesh	1.38	83.74	0.12	2.74	0.38	0.38
Assam	31.21	78.44	2.65	2.57	2.64	2.64
Bihar	104.10	94.16	8.84	3.08	8.26	8.26
Chhattisgarh	25.55	135.19	2.17	4.43	2.39	2.39
Goa	1.46	3.70	0.12	0.12	0.12	0.12
Gujarat	60.44	196.24	5.13	6.43	5.26	5.26
Haryana	25.35	44.21	2.15	1.45	2.08	2.08
Himachal Pradesh	6.86	55.67	0.58	1.82	0.71	0.71
Jharkhand	32.99	79.72	2.80	2.61	2.78	2.78
Karnataka	61.10	191.79	5.19	6.28	5.29	5.29
Kerala	33.41	38.85	2.84	1.27	2.68	2.68
Madhya Pradesh	72.63	308.25	6.16	10.09	6.56	6.56
Maharashtra	112.37	307.71	9.54	10.07	9.59	9.59
Manipur	2.86	22.33	0.24	0.73	0.29	0.29
Meghalaya	2.97	22.43	0.25	0.73	0.30	0.30
Mizoram	1.10	21.08	0.09	0.69	0.15	0.15
Nagaland	1.98	16.58	0.17	0.54	0.21	0.21
Odisha	41.97	155.71	3.56	5.10	3.72	3.72
Punjab	27.74	50.36	2.35	1.66	2.29	2.29
Rajasthan	68.55	342.24	5.82	11.21	6.36	6.36
Sikkim	0.61	7.10	0.05	0.23	0.07	0.07
Tamil Nadu	72.15	130.06	6.12	4.26	5.94	5.94
Telangana	35.00	112.12	2.97	3.67	3.04	3.04
Tripura	3.67	10.49	0.31	0.34	0.31	0.31
Uttar Pradesh	199.81	240.93	16.96	7.89	16.05	16.05
Uttarakhand	10.09	53.48	0.86	1.75	0.95	0.95
West Bengal	91.28	88.75	7.75	2.91	7.26	7.26
All States	1178.19	3054.27	100.00	100.00	100.00	100.00

Annex 7.4
(para 7.62, 7.93)

Year-Wise Grants to Rural and Urban Local Bodies

States	2021-22		2022-23		2023-24		2024-25		2025-26		Total		
	(RLB:ULB 67:33)		(RLB:ULB 67:33)		(RLB:ULB 66:34)		(RLB:ULB 66:34)		(RLB:ULB 65:35)				
	Grants RLB	Grants ULB	Grants RLB	Grants ULB	Grants RLB	Grants ULB	Grants RLB	Grants ULB	Grants RLB	Grants ULB		Total RLB	Total ULB
Andhra Pradesh	1939	956	2010	990	2031	1046	1109	2152	1109	2099	1130	10231	5231
Arunachal Pradesh	170	84	177	87	179	92	189	97	185	99	99	900	459
Assam	1186	584	1228	605	1241	640	1315	677	1283	691	6253	3197	
Bihar	3709	1827	3842	1892	3884	2001	4114	2119	4012	2160	19561	9999	
Chhattisgarh	1075	530	1114	549	1125	580	1192	614	1163	627	5669	2900	
Goa	55	27	57	28	58	30	62	32	61	32	293	149	
Gujarat	2362	1163	2446	1205	2473	1274	2619	1349	2555	1376	12455	6367	
Haryana	935	461	968	477	979	504	1036	534	1011	544	4929	2520	
Himachal Pradesh	317	156	329	162	332	171	352	181	343	185	1673	855	
Jharkhand	1249	615	1293	637	1307	674	1385	713	1351	728	6585	3367	
Karnataka	2377	1171	2463	1213	2490	1282	2637	1358	2572	1385	12539	6409	
Kerala	1203	592	1246	613	1260	649	1334	687	1301	701	6344	3242	
Madhya Pradesh	2944	1450	3050	1502	3083	1588	3265	1682	3185	1716	15527	7938	
Maharashtra	4307	2121	4461	2197	4510	2323	4776	2461	4659	2509	22713	11611	
Manipur	131	64	135	67	137	71	145	75	142	76	690	353	
Meghalaya	135	66	140	69	141	73	149	77	146	78	711	363	
Mizoram	69	34	71	35	72	37	76	39	74	40	362	185	
Nagaland	92	45	96	47	97	50	102	53	99	54	486	249	
Odisha	1669	822	1728	851	1747	900	1851	953	1805	972	8800	4498	
Punjab	1026	505	1062	523	1074	553	1138	586	1110	597	5410	2764	
Rajasthan	2854	1406	2957	1456	2989	1540	3166	1631	3087	1663	15053	7696	
Sikkim	31	15	33	16	33	17	35	18	33	18	165	84	
Tamil Nadu	2666	1313	2761	1360	2791	1438	2957	1523	2884	1553	14059	7187	
Telangana	1365	672	1415	697	1430	737	1514	780	1477	796	7201	3682	
Tripura	141	70	147	72	148	76	157	81	153	82	746	381	
Uttar Pradesh	7208	3550	7466	3677	7547	3888	7994	4118	7797	4199	38012	19432	
Uttarakhand	425	209	440	217	445	229	471	243	458	247	2239	1145	
West Bengal	3261	1606	3378	1664	3415	1759	3617	1863	3528	1900	17199	8792	
All States	44901	22114	46513	22908	47018	24222	49800	25653	48573	26158	236805	121055	

Annex 7.5
(para 7.128)

Year Wise Grants to Urban Local Bodies

States	Category I					Category II (Other than Million Plus cities)					Total	
	2021-22	2022-23	2023-24	2024-25	2025-26	Total Grants	2021-22	2022-23	2023-24	2024-25		2025-26
Andhra Pradesh	204	211	223	237	241	1116	752	779	823	872	889	4115
Arunachal Pradesh	0	0	0	0	0	0	84	87	92	97	99	459
Assam	0	0	0	0	0	0	584	605	640	677	691	3197
Bihar	309	320	338	358	365	1690	1518	1572	1663	1761	1795	8309
Chhattisgarh	163	169	178	189	193	892	367	380	402	425	434	2008
Goa	0	0	0	0	0	0	27	28	30	32	32	149
Gujarat	612	634	671	710	724	3351	551	571	603	639	652	3016
Haryana	74	76	81	85	87	403	387	401	423	449	457	2117
Himachal Pradesh	0	0	0	0	0	0	156	162	171	181	185	855
Jharkhand	241	249	264	279	285	1318	374	388	410	434	443	2049
Karnataka	421	436	461	488	498	2304	750	777	821	870	887	4105
Kerala	256	265	281	297	303	1402	336	348	368	390	398	1840
Madhya Pradesh	452	468	495	524	535	2474	998	1034	1093	1158	1181	5464
Maharashtra	1199	1242	1313	1391	1418	6563	922	955	1010	1070	1091	5048
Manipur	0	0	0	0	0	0	64	67	71	75	76	353
Meghalaya	0	0	0	0	0	0	66	69	73	77	78	363
Mizoram	0	0	0	0	0	0	34	35	37	39	40	185
Nagaland	0	0	0	0	0	0	45	47	50	53	54	249
Odisha	0	0	0	0	0	0	822	851	900	953	972	4498
Punjab	135	140	148	157	160	740	370	383	405	429	437	2024
Rajasthan	425	440	466	493	503	2327	981	1016	1074	1138	1160	5369
Sikkim	0	0	0	0	0	0	15	16	17	18	18	84
Tamil Nadu	420	435	460	487	497	2299	893	925	978	1036	1056	4888
Telangana	354	367	388	411	419	1939	318	330	349	369	377	1743
Tripura	0	0	0	0	0	0	70	72	76	81	82	381
Uttar Pradesh	1080	1119	1183	1253	1278	5913	2470	2558	2705	2865	2921	13519
Uttarakhand	0	0	0	0	0	0	209	217	229	243	247	1145
West Bengal	633	656	693	734	749	3465	973	1008	1066	1129	1151	5327
All States	6978	7227	7643	8093	8255	38196	15136	15681	16579	17560	17903	82859

Grants to Million Plus Urban Agglomeration

States/U.A.	Population (in Mlns)	Total Grant (in Cr)	SWM and Sanitation	2021-22	2022-23	2023-24	2024-25	2025-26	Air Quality ¹	2021-22	2022-23	2023-24	2024-25	2025-26
Andhra Pradesh	3.21	1116	745	136	141	149	158	161	371	68	70	74	79	80
Vijayawada U.A.	1.48	514	344	63	65	69	73	74	170	31	32	34	36	37
Visakhapatnam	1.73	602	401	73	76	80	85	87	201	37	38	40	43	43
Bihar	2.05	1690	1126	206	213	225	239	243	564	103	107	113	119	122
Patna U.A.	2.05	1690	1126	206	213	225	239	243	564	103	107	113	119	122
Chhattisgarh	2.18	892	595	109	113	118	126	129	297	54	56	60	63	64
Durg Bhilai Nagar U.A.	1.06	433	289	53	55	57	61	63	144	26	27	29	31	31
Raipur U.A.	1.12	459	306	56	58	61	65	66	153	28	29	31	32	33
Gujarat	14.16	3351	2235	408	422	448	474	483	1116	204	212	223	236	241
Ahmadabad U.A.	6.36	1504	1003	183	189	201	213	217	501	92	95	100	106	108
Rajkot U.A.	1.39	329	219	40	42	44	46	47	110	20	21	22	23	24
Surat U.A.	4.59	1087	725	132	137	145	154	157	362	66	69	72	77	78
Vadodara U.A.	1.82	431	288	53	54	58	61	62	143	26	27	29	30	31
Haryana	1.41	403	269	49	51	54	57	58	134	25	25	27	28	29
Faridabad	1.41	403	269	49	51	54	57	58	134	25	25	27	28	29
Jharkhand	3.67	1318	879	161	166	176	186	190	439	80	83	88	93	95
Dhanbad U.A.	1.2	432	289	53	54	58	61	63	143	26	27	29	30	31
Jamshedpur U.A.	1.34	481	321	59	61	64	68	69	160	29	30	32	34	35

¹According to the MoEF&CC, ambient air quality is not a major problem in eight urban agglomerations with a Million-Plus population, namely, Kamur, Kochi, Kollam, Kozhikode, Malappuram, Thiruvananthapuram, and Thrissur in Kerala and Coimbatore in Tamil Nadu. With these cities way below the NAMP threshold for breaching pollution by particulate matter, their total grants will be linked to service-level benchmarks on solid waste management-star rating, drinking water, water recycling and rainwater harvesting.

Grants to Million Plus Urban Agglomeration

States/U.A.	Population (in MIns)	Total Grant (in Cr)	SWM and Sanitation	2021-22	2022-23	2023-24	2024-25	2025-26	Air Quality ¹	2021-22	2022-23	2023-24	2024-25	2025-26
Ranchi U.A.	1.13	405	269	49	51	54	57	58	136	25	26	27	29	29
Karnataka	8.52	2304	1536	281	291	307	325	332	768	140	145	154	163	166
Bruhat Bangalore U.A.	8.52	2304	1536	281	291	307	325	332	768	140	145	154	163	166
Madhya Pradesh	6.43	2474	1649	301	311	330	350	357	825	151	157	165	174	178
Bhopal U.A.	1.89	726	485	88	91	97	103	106	241	44	46	48	51	52
Gwalior U.A.	1.1	425	283	52	53	57	60	61	142	26	27	28	30	31
Indore U.A.	2.17	835	556	102	105	111	118	120	279	51	53	56	59	60
Jabalpur U.A.	1.27	488	325	59	62	65	69	70	163	30	31	33	34	35
Maharashtra	29.92	6563	4375	799	827	875	928	946	2188	400	415	438	463	472
Aurangabad U.A.	1.19	262	175	32	33	35	37	38	87	16	17	17	18	19
Greater Mumbai U.A.	18.39	4031	2687	490	508	537	571	581	1344	246	254	269	285	290
Nagpur U.A.	2.5	548	365	67	69	73	77	79	183	33	35	37	39	39
Nashik U.A.	1.56	343	228	42	43	46	48	49	115	21	22	23	24	25
Pune U.A.	5.06	1110	740	135	140	148	157	160	370	68	70	74	78	80
Vasai-Virar City	1.22	269	180	33	34	36	38	39	89	16	17	18	19	19
Punjab	2.8	740	492	90	93	98	105	106	248	45	47	50	52	54
Amritsar U.A.	1.18	312	207	38	39	41	44	45	105	19	20	21	22	23
Ludhiana	1.62	428	285	52	54	57	61	61	143	26	27	29	30	31
Rajasthan	5.19	2327	1553	284	294	311	328	336	774	141	146	155	165	167
Jodhpur U.A.	1.14	510	340	62	64	68	72	74	170	31	32	34	36	37
Jaipur	3.05	1368	913	167	173	183	193	197	455	83	86	91	97	98
Kota	1	449	300	55	57	60	63	65	149	27	28	30	32	32
Tamil Nadu	13.27	2299	1655	303	313	331	350	358	644	117	122	129	137	139
Chennai U.A.	8.65	1497	997	183	189	199	211	215	500	91	95	100	106	108
Coimbatore U.A.	2.13	369	369	67	70	74	78	80						
Madurai U.A.	1.47	254	170	31	32	34	36	37	84	15	16	17	18	18
Tiruchirappalli U.A.	1.02	179	119	22	22	24	25	26	60	11	11	12	13	13

Annex 7.6 (contd.)
(Para 7.106)**Grants to Million Plus Urban Agglomeration**

States/U.A.	Population (in MIns)	Total Grant (in Cr)	SWM and Sanitation	2021-22	2022-23	2023-24	2024-25	2025-26	Air Quality ¹	2021-22	2022-23	2023-24	2024-25	2025-26
Telangana	7.68	1939	1293	236	245	259	274	279	646	118	122	129	137	140
Hyderabad U.A.	7.68	1939	1293	236	245	259	274	279	646	118	122	129	137	140
Uttar Pradesh	14.03	5913	3943	720	746	788	836	853	1970	360	373	395	417	425
Agra U.A.	1.76	742	495	90	94	99	105	107	247	45	47	50	52	53
Allahabad U.A.	1.21	510	340	62	64	68	72	74	170	31	32	34	36	37
Ghaziabad U.A.	2.38	1002	668	122	126	134	142	144	334	61	63	67	71	72
Kanpur U.A.	2.92	1233	822	150	156	164	174	178	411	75	78	82	87	89
Lucknow U.A.	2.9	1223	815	149	154	162	173	177	408	75	77	82	86	88
Meerut U.A.	1.42	599	400	73	76	80	85	86	199	36	38	40	42	43
Varanasi U.A.	1.43	604	403	74	76	81	85	87	201	37	38	40	43	43
West Bengal	15.3	3465	2310	422	437	462	489	500	1155	211	219	231	245	249
Asansol U.A.	1.24	283	189	34	36	38	40	41	94	17	18	19	20	20
Kolkata U.A.	14.06	3182	2121	388	401	424	449	459	1061	194	201	212	225	229
Kerala	12.14	1402	1402	256	265	281	297	303						
Kannur U.A.	1.64	189	189	35	36	38	39	41						
Kochi U.A.	2.12	245	245	45	46	49	52	53						
Kollam U.A.	1.11	128	128	23	24	26	27	28						
Kozhikode U.A.	2.03	235	235	43	44	47	50	51						
Malappuram U.A.	1.7	196	196	36	37	39	42	42						
Thiruvananthapuram U.A.	1.68	194	194	35	37	39	41	42						
Thrissur U.A.	1.86	215	215	39	41	43	46	46						
Total	141.9	38196	26057	4761	4928	5212	5522	5634	12139	2217	2299	2431	2571	2621

State Wise Cantonment Boards

Sl. No.	Name of State	Name of Cantonment	Population figure as per census 2011
1	Bihar	Danapur	28149
2	Gujarat	Ahmedabad	14345
3	Haryana	Ambala	55370
4	Himachal Pradesh	Bakloh	1805
		Dagshai	2904
		Dalhousie	3549
		Jutogh	2062
		Kasauli	3885
		Khasyol	12028
		Subathu	3685
5	Jharkhand	Ramgarh	88781
6	Karnataka	Belgaum	19411
7	Kerala	Cannanore	4798
8	Madhya Pradesh	Jabalpur	72257
		Mhow	69281
		Morar	48464
		Pachmarhi	12062
		Saugor	32475
9	Maharashtra	Ahmednagar	28986
		Aurangabad	18051
		Dehu Road	48961
		Deolali	54027
		Kamptee	12457
		Kirkee	70399
		Pune	71831
10	Meghalaya	Shillong	11919
11	Punjab	Amritsar	10410
		Ferozepur	53199
		Jalandhar	47845
12	Rajasthan	Ajmer	3530
		Nasirabad	50804
13	Tamilnadu	St Thomas Mount	43795
		Wellington	19462
14	Telangana	Secunderabad	217910
15	Uttar Pradesh	Agra	53137
		Allahabad	39684
		Babina	27852
		Bareilly	30005
		Faizabad	12391
		Fatehgarh	14786
		Jhansi	28343
		Kanpur	108534
		Lucknow	63003
		Mathura	25603
		Meerut	93684
		Shahjahanpur	18116
		Varanasi	14119

Sl. No.	Name of State	Name of Cantonment	Population figure as per census 2011
16	Uttarakhand	Almora	2231
		Chakrata	5117
		Clement town	22577
		Dehradun	52716
		Landour	3543
		Lansdowne	5667
		Nainital	1398
		Ranikhet	18886
		Roorkee	14356
17	West Bengal	Barrackpore	17322
		Jalapahar	1711
		Lebong	1397
TOTAL			1915075

Framework for Monitoring Air Quality Parameters and Funding

- A. Strengthening of pollution monitoring mechanism
- B. Source-wise cause analysis for air pollution
- C. Progress on action plans and compliance of statutory guidelines
- D. Quantification of air quality Improvement

Note: Elements of activities for the above parameters are Annex 7.8A.

Table: 1 Relative Weightage for City Performance Assessment

Parameter	2021-22	2022-23	2023-24	2024-25	2025-26
Strengthening of pollution monitoring mechanism	10	-	-	-	-
Source-wise cause analysis for air pollution	10	-	-	-	-
Progress on action plans and compliance of statutory guidelines.	10	-	-	-	-
Quantification of air quality Improvement	70	100	100	100	100
Total	100	100	100	100	100

Table 2: Fund Allocation to Cities (Performance based)

Score of the city	Fund allocation in subsequent years (%) 2021-2022 onwards
80-100	100
60-80	75
50-60	50
40-50	25
Below 40	NIL

Elements of Air Quality Management

A. Strengthening of pollution monitoring mechanism

- i. Operationalisation of Air Quality Monitoring (AQM) Cell.
- ii. IT-enabled air quality data management system.
- iii. Coordination Committee reviews including progress and review of city action plans, including public grievance redressal portal, emergency response and awareness programme.

B. Source-wise cause analysis for air pollution

- i. Air quality profiling to identify suitable locations for air quality monitoring stations including hotspot.
- ii. Source apportionment study and establishment of a robust emission inventory and tracking system
- iii. Development of IT based emission inventory system.

C. Progress on action plans and compliance of statutory guidelines

- i. Implementation and updation of Action Plans.
- ii. Monitoring of PUC for vehicles.
- iii. Infrastructure planning and set up of (CAAQMS/ Manual AQMs).

D. Quantification and evaluation of air quality improvements

- i. Reduction in air pollution levels (particulate matter) (Details at Annex 7.8 B).
- ii. Frequency of exceedance in AQI levels (Annex 7.8 B).

Mandatory activities/conditions:

- i. Third party evaluation by reputed institutes identified by MoEF&CC.
- ii. Dedicated link on ULBs website and reporting of physical and financial progress, data and other aspect in public domain.
- iii. Data dissemination to public.

Elements of Air Quality Management

Parameters for assessing the Composite Performance factor for 'D'

I. Particulate Matter

1. Based on international practice 98 percentile value may be considered to represent the basic characteristics of air quality of a city and any reduction in such value defines improvement.
2. Percentage reduction observed in 98 percentile value of maximum PM concentration (PM_{98}) observed on all normal days of the year would be graded as following:

Table A

S.No	Reduction (%) range in (PM_{98})	Improvement
1	15 and above	High
2	< 15	Low

3. Normal days to be defined by each city in consultation with meteorological department based on statistical analysis of critical Meteorological parameters for each season

II. AQI Levels

1. The number of days exceeding AQI (Moderate-200) out of total number of normal days monitored per year would be graded as under:
2. Good days - AQI < 200;

Table B

S.No	Increase in Good Days (%)	Improvement
1	15 and above	High
2	< 15	Low

Monitoring of AQI should include the following with suitable weights arrived at on the basis of source-wise cause analysis for air pollution in specific urban agglomerations:

3. Monitoring of open waste burning and chemical traces from waste burning at landfill sites as well as the development of an app to allow reporting by citizens by sending pictures.
4. Process-tracing of waste management in each city to identify where the breakdown in waste management occurs.

Elements of Air Quality Management

Composite Performance factor for D

S.No	Reduction in (%) range in (PM ₁₀) (From Table A)	Increase in good days (%) (From Table B)	Performance factor
1	High	High	100
2	Low	High	75
3	High	Low	50
4	Low	Low	25

Service Level Benchmarks
Water Supply
Households covered with piped water supply
Water supplied in litre per capita per day
Reduction in non-revenue water
Water Conservation Measures
Rainwater harvesting
Reuse/ recycling of water
Rejuvenation of water bodies
Solid Waste Management and Sustaining outcomes of Swachh Bharat Mission
Garbage free star rating of the cities
Coverage of water supply for public/community toilet

Star Rating of Cities²

Garbage free star rating certification for cities is done for 1,3,5 and 7 star only. Cities are required to fill all data on the online MIS and city profile, which is then used for all verification including ODF/ODF +/ODF + + certifications, and Swachh Survekshan. The cities are mandated to self-declare against any of the stars based on certain given parameters and marking procedure. Upon getting a formal request from the State mission directorate, a third party certification is carried out by an agency engaged by MoHUA for this purpose. On receipt of the formal request, the first level of evaluation comprises a desktop assessment of the city's claims, along with the supporting documents. A time window is given before rejecting any document/data given in support of a city's claim and the physical verification of city's claim is done on sample basis. All photos of physical verification with geo tagging are uploaded on the portal. Only after the desktop assessment is cleared, does the third party agency go for direct observation and field validation to the city, and conducts randomly sampled checks for every parameter, complemented by feedback from citizens, before certifying a city as a particular star.

There are some mandatory pre-conditions for declaring city a particular star:

- 1-Star: Valid ODF certified

²Inputs from Ministry of Housing and Urban Affairs

- 3-Star: Valid ODF+ certified (that is cleanliness and sustainability of community and public toilets to be ensured)
- 5-Star: Valid ODF++ certified (that is, cleanliness and sustainability of community and public toilets, along with safe containment, processing and disposal of faecal sludge and septage to be ensured)
- 7-Star: Valid ODF-SS certified

All the above ODF certifications are again based on rigorous protocols developed by MoHUA to cover all aspects of sanitation in a holistic manner, and certified after verification through independent third party.

The detailed scoring matrix against various components/indicators are shown in the table below. Under each component the marking is done against level 1,2,3 and 4 based on the compliance level under various parameters and a suitable weightage is assigned to work out overall marking by a city. The total marks for mandatory, essential and desirable is 1000, 1000 and 500 respectively. A suitable weightage is given against each component/indicator. The mark scored against a particular component under a certain level of compliance will be suitably weighted and the qualification of city under mandatory, essential and desirable will be judged as mentioned in the table. The indicators for each of the above are given below.

Component/Condition		
MANDATORY		
WARD LEVEL	M1	Door to door collection
	M2	Segregation at ward level
	M3	Sweeping
	M4	Litter bins
	M5	Storage bins
CITY LEVEL	M6	Waste processing - wet waste
	M7	Waste processing capacity-wet waste
	M8	Waste Processing capacity- wet waste
	M9	Waste Processing capacity – dry waste
	M10	Grievance Redressal
ESSENTIAL		
WARD LEVEL	E1	Bulk waste generator
	E2	Penalty/spot fines
CITY LEVEL	E3	Segregation at city Level
	E4	User charges
	E5	Plastic ban
	E6	Construction and demolition (C&D) waste-collection
	E7	Scientific Landfill - availability & use
	E8	Scientific Landfill - waste disposed
	E9 (A)	No visible solid waste in water bodies and storm water drains
E9 (B)	Screening of nallahs	

Fifteenth Finance Commission

Component/Condition		
DESIRABLE		
WARD LEVEL	D1	Sustainability
CITY LEVEL	D2	On-site wet waste processing
	D3	C&D waste-Storage, segregation, processing, recycling
	D4	C&D waste-use of materials
	D5	Dumpsite remediation

Matrix- Star Rating Protocol for Garbage Free Cities				
Indicator	1 Star (***)	3 Star (***)	5 Star (***)	7 Star (***)
Mandatory	At least 40% score	At least 60% score	At least 85% score	At least 95% score
Essential	At least 30% score	At least 50% score	At least 80% score	At least 90% score
Desirable	-Not applicable	At least 30% score	At least 60% score	At least 80% score

Total Health Grants³

(Rs. crore)

State	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Andhra Pradesh	490	490	514	540	567	2601
Arunachal Pradesh	49	49	51	54	56	259
Assam	280	280	293	308	323	1484
Bihar	1133	1133	1190	1249	1312	6017
Chhattisgarh	339	339	356	373	392	1799
Goa	31	31	33	35	37	167
Gujarat	629	629	661	694	728	3341
Haryana	305	305	320	335	352	1617
Himachal Pradesh	98	98	103	108	114	521
Jharkhand	446	446	469	492	517	2370
Karnataka	552	552	579	608	638	2929
Kerala	559	559	587	616	647	2968
Madhya Pradesh	923	923	969	1018	1069	4902
Maharashtra	1331	1331	1397	1467	1541	7067
Manipur	44	44	46	49	51	234
Meghalaya	59	59	61	64	68	311
Mizoram	31	31	33	35	36	166
Nagaland	57	57	60	63	66	303
Odisha	462	462	485	510	535	2454
Punjab	401	401	421	443	465	2131
Rajasthan	833	833	875	918	964	4423
Sikkim	21	21	22	23	24	111
Tamil Nadu	806	806	846	889	933	4280
Telangana	419	419	441	463	486	2228
Tripura	85	85	90	94	99	453
Uttar Pradesh	1830	1830	1921	2017	2118	9716
Uttarakhand	150	150	158	165	174	797
West Bengal	829	829	870	914	960	4402
All States	13192	13192	13851	14544	15272	70051

³Totals may not tally due to rounding off

Support for diagnostic infrastructure to the primary healthcare facilities -Sub centres

(Rs. crore)

State	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Andhra Pradesh	54.76	54.76	57.50	60.37	63.39	290.78
Arunachal Pradesh	2.84	2.84	2.98	3.13	3.28	15.07
Assam	46.93	46.93	49.28	51.74	54.33	249.21
Bihar	157.11	157.11	164.96	173.21	182.02	834.41
Chhattisgarh	39.19	39.19	41.15	43.21	45.37	208.11
Goa	1.61	1.61	1.69	1.78	1.92	8.61
Gujarat	67.49	67.49	70.87	74.41	78.13	358.39
Haryana	25.48	25.48	26.75	28.09	29.49	135.29
Himachal Pradesh	15.38	15.38	16.15	16.80	17.81	81.52
Jharkhand	49.83	49.83	52.33	54.94	57.69	264.62
Karnataka	71.85	71.85	75.44	79.22	83.18	381.54
Kerala	39.61	39.61	41.60	43.68	45.86	210.36
Madhya Pradesh	102.61	102.61	107.74	113.13	118.78	544.87
Maharashtra	103.91	103.91	109.11	114.56	120.29	551.78
Manipur	3.95	3.95	4.15	4.36	4.58	20.99
Meghalaya	6.05	6.05	6.23	6.68	7.01	32.02
Mizoram	2.72	2.72	2.86	3.08	3.15	14.53
Nagaland	3.19	3.19	3.35	3.52	3.69	16.94
Odisha	61.72	61.72	64.81	68.05	71.45	327.75
Punjab	26.23	26.23	27.54	29.11	30.36	139.47
Rajasthan	100.45	100.45	105.47	110.75	116.28	533.40
Sikkim	1.30	1.30	1.36	1.43	1.50	6.89
Tamil Nadu	64.16	64.16	67.36	70.73	74.27	340.68
Telangana	34.93	34.93	36.68	38.51	40.44	185.49
Tripura	7.16	7.16	7.61	7.89	8.28	38.10
Uttar Pradesh	255.70	255.70	268.48	281.91	296.00	1357.79
Uttarakhand	13.60	13.60	14.28	14.99	15.74	72.21
West Bengal	97.39	97.39	102.26	107.37	112.74	517.15
All States	1457.15	1457.15	1529.99	1606.65	1687.03	7737.97

Support for diagnostic infrastructure to the primary healthcare facilities – PHCs

(Rs. crore)

State	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Andhra Pradesh	57.61	57.61	60.49	63.55	66.92	306.18
Arunachal Pradesh	6.96	6.96	7.31	7.68	8.06	36.97
Assam	50.65	50.65	53.18	55.84	58.56	268.88
Bihar	172.79	172.79	181.42	190.50	200.22	917.72
Chhattisgarh	41.06	41.06	43.11	45.22	47.53	217.98
Goa	1.17	1.17	1.23	1.29	1.39	6.25
Gujarat	71.88	71.88	75.48	79.25	83.21	381.70
Haryana	28.05	28.05	29.45	30.64	32.40	148.59
Himachal Pradesh	28.54	28.54	29.96	31.46	33.04	151.54
Jharkhand	52.55	52.55	55.17	57.93	60.83	279.03
Karnataka	103.58	103.58	108.76	114.20	119.91	550.03
Kerala	49.58	49.58	52.06	54.66	57.39	263.27
Madhya Pradesh	108.75	108.75	114.18	119.89	125.89	577.46
Maharashtra	111.96	111.96	117.56	123.44	129.61	594.53
Manipur	4.38	4.38	4.60	4.83	5.08	23.27
Meghalaya	6.04	6.04	6.34	6.46	6.99	31.87
Mizoram	2.87	2.87	3.02	3.22	3.22	15.20
Nagaland	6.14	6.14	6.44	6.76	7.10	32.58
Odisha	65.50	65.50	68.78	72.41	75.83	348.02
Punjab	28.88	28.88	30.32	31.84	33.51	153.43
Rajasthan	116.25	116.25	122.06	128.16	134.57	617.29
Sikkim	1.41	1.41	1.48	1.56	1.64	7.50
Tamil Nadu	69.25	69.25	72.71	76.35	80.17	367.73
Telangana	35.60	35.60	37.49	39.48	41.21	189.38
Tripura	5.26	5.26	5.63	5.80	6.09	28.04
Uttar Pradesh	281.53	281.53	295.61	310.39	325.91	1494.97
Uttarakhand	12.52	12.52	13.14	13.80	14.49	66.47
West Bengal	106.02	106.02	111.32	116.88	122.73	562.97
All States	1626.78	1626.78	1708.30	1793.49	1883.50	8638.85

Support for diagnostic infrastructure to the primary healthcare facilities – UPHCs

(Rs. crore)

State	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Andhra Pradesh	14.29	14.29	15.21	15.84	16.63	76.26
Arunachal Pradesh	3.07	3.07	3.30	3.38	3.55	16.37
Assam	12.66	12.66	13.30	13.96	14.66	67.24
Bihar	43.20	43.20	45.36	47.63	50.01	229.40
Chhattisgarh	10.23	10.23	10.74	11.27	11.84	54.31
Goa	0.24	0.24	0.26	0.27	0.28	1.29
Gujarat	17.63	17.63	18.51	19.44	20.41	93.62
Haryana	7.01	7.01	7.36	7.73	8.12	37.23
Himachal Pradesh	4.24	4.24	4.45	4.67	4.91	22.51
Jharkhand	13.10	13.10	13.75	14.44	15.16	69.55
Karnataka	16.02	16.02	16.82	17.66	18.55	85.07
Kerala	11.05	11.05	11.61	12.19	12.80	58.70
Madhya Pradesh	27.17	27.17	28.53	29.96	31.46	144.29
Maharashtra	27.96	27.96	29.35	30.82	32.36	148.45
Manipur	1.12	1.12	1.17	1.23	1.29	5.93
Meghalaya	1.51	1.51	1.59	1.67	1.75	8.03
Mizoram	0.44	0.44	0.46	0.48	0.51	2.33
Nagaland	1.02	1.02	1.08	1.13	1.19	5.44
Odisha	18.36	18.36	19.28	20.24	21.26	97.50
Punjab	7.21	7.21	7.57	7.95	8.35	38.29
Rajasthan	27.81	27.81	29.20	30.66	32.19	147.67
Sikkim	0.15	0.15	0.15	0.16	0.17	0.78
Tamil Nadu	18.75	18.75	19.69	20.67	21.70	99.56
Telangana	8.86	8.86	9.31	9.77	10.26	47.06
Tripura	1.27	1.27	1.33	1.40	1.47	6.74
Uttar Pradesh	70.37	70.37	73.89	77.58	81.46	373.67
Uttarakhand	3.26	3.26	3.42	3.60	3.78	17.32
West Bengal	26.49	26.49	27.82	29.21	30.67	140.68
All States	394.49	394.49	414.51	435.01	456.79	2095.29

Financial Requirement for establishing Block Level Public Health Units

(Rs crore)

State	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Andhra Pradesh	134.42	134.42	141.14	148.20	155.61	713.79
Arunachal Pradesh	22.94	22.94	24.09	25.29	26.56	121.82
Assam	5.31	5.31	5.58	5.86	6.15	28.21
Bihar	49.47	49.47	51.94	54.54	57.27	262.69
Chhattisgarh	13.56	13.56	14.24	14.95	15.70	72.01
Goa	2.41	2.41	2.53	2.66	2.79	12.80
Gujarat	50.31	50.31	52.82	55.46	58.24	267.14
Haryana	28.58	28.58	30.00	31.50	33.08	151.74
Himachal Pradesh	1.85	1.85	1.95	2.05	2.15	9.85
Jharkhand	24.44	24.44	25.66	26.95	28.29	129.78
Karnataka	38.23	38.23	40.15	42.15	44.26	203.02
Kerala	30.59	30.59	32.12	33.72	35.41	162.43
Madhya Pradesh	28.99	28.99	30.44	31.96	33.56	153.94
Maharashtra	70.83	70.83	74.37	78.09	82.00	376.12
Manipur	14.09	14.09	14.79	15.53	16.31	74.81
Meghalaya	9.25	9.25	9.72	10.20	10.71	49.13
Mizoram	5.23	5.23	5.49	5.77	6.06	27.78
Nagaland	14.89	14.89	15.63	16.42	17.24	79.07
Odisha	29.08	29.08	30.53	32.06	33.66	154.41
Punjab	30.18	30.18	31.69	33.28	34.94	160.27
Rajasthan	27.40	27.40	28.77	30.21	31.72	145.50
Sikkim	6.44	6.44	6.76	7.10	7.45	34.19
Tamil Nadu	77.47	77.47	81.35	85.42	89.69	411.40
Telangana	118.52	118.52	124.45	130.67	137.21	629.37
Tripura	11.67	11.67	12.26	12.87	13.51	61.98
Uttar Pradesh	76.53	76.53	80.36	84.37	88.59	406.38
Uttarakhand	2.22	2.22	2.33	2.44	2.57	11.78
West Bengal	69.22	69.22	72.69	76.32	80.14	367.59
All States	994.12	994.12	1043.85	1096.04	1150.87	5279.00

Grants for Urban Health and Wellness Centres (UHCs)

(Rs crore)

State	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Andhra Pradesh	102.88	102.88	108.02	113.48	119.17	546.43
Arunachal Pradesh	5.24	5.24	5.50	5.78	6.07	27.83
Assam	69.93	69.93	73.43	77.10	80.95	371.34
Bihar	185.43	185.43	194.71	204.44	214.66	984.67
Chhattisgarh	133.88	133.88	140.58	147.60	154.99	710.93
Goa	20.48	20.48	21.50	22.58	23.71	108.75
Gujarat	260.73	260.73	273.76	287.45	301.83	1384.50
Haryana	139.33	139.33	146.30	153.62	161.30	739.88
Himachal Pradesh	1.41	1.41	1.48	1.56	1.64	7.50
Jharkhand	119.21	119.21	125.17	131.42	138.00	633.01
Karnataka	122.93	122.93	129.08	135.54	142.31	652.79
Kerala	322.22	322.22	338.34	355.25	373.01	1711.04
Madhya Pradesh	427.83	427.83	449.22	471.68	495.27	2271.83
Maharashtra	774.13	774.13	812.84	853.48	896.16	4110.74
Manipur	9.83	9.83	10.32	10.84	11.38	52.20
Meghalaya	23.30	23.30	24.47	25.69	26.98	123.74
Mizoram	12.01	12.01	12.61	13.24	13.90	63.77
Nagaland	22.61	22.61	23.74	24.93	26.18	120.07
Odisha	89.19	89.19	93.65	98.34	103.25	473.62
Punjab	241.75	241.75	253.83	266.52	279.85	1283.70
Rajasthan	106.49	106.49	111.82	117.41	123.28	565.49
Sikkim	8.19	8.19	8.60	9.03	9.48	43.49
Tamil Nadu	356.48	356.48	374.30	393.01	412.67	1892.94
Telangana	133.60	133.60	140.28	147.29	154.66	709.43
Tripura	41.68	41.68	43.76	45.95	48.25	221.32
Uttar Pradesh	424.55	424.55	445.83	468.07	491.47	2254.47
Uttarakhand	81.57	81.57	85.65	89.93	94.42	433.14
West Bengal	287.92	287.92	302.31	317.43	333.30	1528.88
All States	4524.80	4524.80	4751.10	4988.66	5238.14	24027.50

Grants for Building-less Sub-centres, PHCs, CHCs

(Rs crore)

State	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Andhra Pradesh	1.17	1.17	1.23	1.29	1.36	6.22
Arunachal Pradesh	1.06	1.06	1.10	1.16	1.22	5.60
Assam	13.32	13.32	13.98	14.69	15.41	70.72
Bihar	329.29	329.29	345.6	363.00	381.10	1748.27
Chhattisgarh	10.75	10.75	11.28	11.85	12.45	57.08
Goa	1.54	1.54	1.61	1.70	1.78	8.18
Gujarat	1.17	1.17	1.24	1.29	1.36	6.23
Haryana	29.51	29.51	30.97	32.53	34.15	156.67
Himachal Pradesh	2.68	2.68	2.81	2.96	3.11	14.24
Jharkhand	118.54	118.54	124.41	130.67	137.19	629.35
Karnataka	10.06	10.06	10.56	11.09	11.64	53.41
Kerala	0.50	0.50	0.52	0.55	0.58	2.64
Madhya Pradesh	30.03	30.03	31.52	33.10	34.75	159.44
Maharashtra	50.07	50.07	52.55	55.21	57.96	265.87
Manipur	2.03	2.03	2.12	2.24	2.35	10.78
Meghalaya	3.21	3.21	3.37	3.54	3.72	17.06
Mizoram	0.56	0.56	0.58	0.61	0.64	2.95
Nagaland	1.03	1.03	1.08	1.13	1.19	5.46
Odisha	72.83	72.83	76.43	80.28	84.29	386.66
Punjab	20.26	20.26	21.26	22.33	23.45	107.57
Rajasthan	191.39	191.39	200.87	210.98	221.51	1016.14
Sikkim	0.53	0.53	0.55	0.58	0.60	2.79
Tamil Nadu	71.21	71.21	74.73	78.50	82.41	378.05
Telangana	2.81	2.81	2.96	3.11	3.26	14.95
Tripura	0.25	0.25	0.26	0.27	0.29	1.32
Uttar Pradesh	333.68	333.68	350.22	367.84	386.18	1771.59
Uttarakhand	1.43	1.43	1.49	1.57	1.65	7.57
West Bengal	49.04	49.04	51.46	54.05	56.75	260.33
All States	1349.95	1349.95	1416.76	1488.12	1562.35	7167.14

Conversion of Rural PHCs and Sub-centres (SC) into Health and Wellness CentreState-wise Assessed Deficiency⁴ for Conversion of Rural PHCs and SCs to HWCs

State	Sub centre PHCs		approx cost (SC to HWC)- Rs. 9.7 lakh	approx cost (PHC to HWC)- Rs. 5.6 lakh	Total cost
	In Nos		(Rs. crore)		
Andhra Pradesh	6825	0	661.66	0	661.66
Arunachal Pradesh	307	101	29.78	5.65	35.43
Assam	4015	698	389.46	39.08	428.54
Bihar	9865	1480	956.91	82.87	1039.78
Chhattisgarh	4555	657	441.85	36.75	478.61
Goa	219	0	21.24	0	21.24
Gujarat	8353	704	810.24	39.43	849.67
Haryana	2440	193	236.68	10.81	247.49
Himachal Pradesh	2089	566	202.63	31.7	234.33
Jharkhand	3644	203	353.47	11.38	364.85
Karnataka	9187	1995	891.14	111.73	1002.87
Kerala	5380	678	521.86	37.97	559.83
Madhya Pradesh	10226	1039	991.93	58.19	1050.12
Maharashtra	9729	1349	943.72	75.54	1019.26
Manipur	429	85	41.61	4.76	46.37
Meghalaya	445	110	43.17	6.15	49.32
Mizoram	370	57	35.89	3.19	39.08
Nagaland	377	124	36.57	6.93	43.50
Odisha	6595	461	639.72	25.81	665.53
Punjab	2511	79	243.57	4.42	247.99
Rajasthan	13382	1777	1298.05	99.52	1397.57
Sikkim	148	24	14.36	1.34	15.70
Tamil Nadu	7728	706	749.62	39.53	789.15
Telangana	4658	0	451.83	0	451.83
Tripura	932	82	90.40	4.59	94.99
Uttar Pradesh	20056	1990	1945.43	111.44	2056.87
Uttarakhand	1804	243	174.99	13.61	188.60
West Bengal	10195	640	988.92	35.83	1024.75
All States	146464	16041	14206.70	898.23	15104.93

⁴Rural Health Statistics 2018-19

Note : Approx cost for conversion of SC and PHC to HWC is derived from Ayushman Bharat: Comprehensive Primary Health Care through Health and Wellness Centres.

Financial requirement for Conversion of Rural PHCs and SCs into Health and Wellness Centre

(Rs crore)

State	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Andhra Pradesh	124.67	124.67	130.55	137.45	144.32	661.66
Arunachal Pradesh	6.67	6.67	7.01	7.36	7.72	35.43
Assam	80.70	80.70	84.74	88.98	93.42	428.54
Bihar	195.81	195.81	205.60	215.88	226.68	1039.78
Chhattisgarh	90.13	90.13	94.64	99.37	104.34	478.61
Goa	4.00	4.00	4.20	4.41	4.63	21.24
Gujarat	160.01	160.01	168.01	176.41	185.23	849.67
Haryana	46.61	46.61	48.94	51.38	53.95	247.49
Himachal Pradesh	44.13	44.13	46.34	48.65	51.08	234.33
Jharkhand	68.71	68.71	72.14	75.75	79.54	364.85
Karnataka	188.86	188.86	198.30	208.22	218.63	1002.87
Kerala	105.43	105.43	110.70	116.23	122.04	559.83
Madhya Pradesh	197.76	197.76	207.64	218.03	228.93	1050.12
Maharashtra	191.95	191.95	201.54	211.62	222.20	1019.26
Manipur	8.73	8.73	9.17	9.63	10.11	46.37
Meghalaya	9.29	9.29	9.75	10.24	10.75	49.32
Mizoram	7.36	7.36	7.73	8.11	8.52	39.08
Nagaland	8.19	8.19	8.60	9.03	9.49	43.50
Odisha	125.33	125.33	131.6	138.18	145.09	665.53
Punjab	46.70	46.70	49.04	51.49	54.06	247.99
Rajasthan	263.19	263.19	276.35	290.17	304.67	1397.57
Sikkim	2.96	2.96	3.10	3.26	3.42	15.70
Tamil Nadu	148.61	148.61	156.04	163.85	172.04	789.15
Telangana	85.09	85.09	89.34	93.81	98.50	451.83
Tripura	17.89	17.89	18.78	19.72	20.71	94.99
Uttar Pradesh	387.35	387.35	406.72	427.05	448.4	2056.87
Uttarakhand	35.52	35.52	37.29	39.16	41.11	188.60
West Bengal	192.98	192.98	202.63	212.76	223.40	1024.75
All States	2844.63	2844.63	2986.49	3136.20	3292.98	15104.93