



Still no recognition of the third tier

Bottom Line: In the FC-15 proposals, the goal of fiscally empowering local governments to deliver territorial equity is still far away.

The third tier

1. The primary task of the Union Finance Commission is to rectify the vertical and horizontal imbalances in resources and expenditure responsibilities between the Union and States, which after the 73rd and 74th Constitutional Amendments includes the third tier of local governments.
2. This Commission is the fifth after the incorporation of Part IX and Part IX-A to the Constitution which mandates the Union Finance Commission to supplement the resources of panchayats and municipalities on the basis of the recommendations of the State Finance Commission (another institution created by the Amendments).
3. Now, nearly 2.5 lakh local governments and over 3.4 million elected representatives to form the real democratic base of the Indian federal polity.

Higher vertical devolution

1. For one, the vertical devolution recommended to local governments is raised remarkably high. From a measly share of 0.78% of the divisible pool with an absolute sum of ₹10,000 crores by the Eleventh Commission, the Fifteenth Finance Commission raised it to 4.23% with a reasonably estimated amount of ₹4,36,361 crore.
2. Compared with the Fourteenth Finance Commission there is a 52% increase in the vertical share.
3. All the Commissions since the Eleventh Commission have tied specific items of expenditure to local grants and the Fifteenth Finance Commission has raised this share to 60% and linked them to drinking water, rainwater harvesting, sanitation and other national priorities in the spirit of cooperative federalism.

The performance-based grant

1. However, it reduced the performance-based grant to just ₹8,000 crore — and that too for building new cities, leaving out the Panchayati Raj Institutions (PRIs) altogether.



2. The performance-linked grants thoughtfully introduced by the Thirteenth Finance Commission earmarked 35% of local grants specifying six conditions for panchayats and nine for urban local governments and covered a wide range of reforms: from the establishment of an independent ombudsman to notifying standards for service sectors such as drinking water and solid waste management.
3. The Fourteenth Finance Commission, however, cut the performance grant share to 10% for gram panchayats and 20% to municipalities with the conditionality that all local governments will have to show improvements in their **own-source revenue**.
4. Municipalities are additionally required to publish service level benchmarks for basic services. The transformative potential in designing performance-linked conditionalities for improving the quality of decentralised governance in the context of indifferent states is missed.

Entry-level criterion

1. An important recommendation of the Fifteenth Finance Commission is the entry-level criterion to avail the union local grant (except health grant) by local governments (strictly speaking, it is performance-linked).
2. For panchayats, the condition is the online submission of annual accounts for the previous year and audited accounts for the year before.
3. For urban local governments, two more conditions are specified: after 2021-22, fixation of the minimum floor for property tax rates by the relevant State followed by consistent improvement in the collection of property taxes in tandem with the State's own Gross State Domestic Product.
4. It is not clear why gram panchayats (especially the affluent and semi-urban categories) are left out from this.
5. Although Finance Commissions, from the Eleventh to the Fourteenth, have recommended measures to standardise the accounting system and update the auditing of accounts, the progress made has been halting.
6. Therefore, the entry-level criteria of the Fifteenth Finance Commission are timely.



Minimum Basic Services and Third Tier

1. Articles 243G, 243W and 243ZD read along with the functional decentralisation of basic services like drinking water, public health care, etc., mandated in the Eleventh and Twelfth schedules demand better public services and delivery of 'economic development and social justice' at the local level.
2. While the grants to the primary health centres must be acknowledged as a great gesture, a good opportunity to ensure comparable minimum public services to every citizen irrespective of her choice of residential location has not been taken forward in an integrated manner.

Equalisation principle

1. It may be relevant to recall that the Alma-Ata declaration of the World Health Organization (1978) outlined an integrated, local government-centric approach with a simultaneous focus on access to water, sanitation, shelter and the like.
2. The Fifteenth Finance Commission claims that it seeks to achieve the "desirable objective of evenly balancing the union and the states". It is not clear why there is no recognition of the third tier in this balancing act.
3. That the tasks of the Union Finance Commission were broadened as part of the decentralisation reforms (280(3) (bb) and (c)) is a firm recognition of the organic link of public finance with the development process at all tiers of government.
4. Although the Fifteenth Finance Commission stresses the need to implement the equalisation principle, it is virtually silent when it comes to the local governments.

Incentivizing Tax efforts:

It is equally important to note that in the criteria used by the Fifteenth Finance Commission for determining the distribution of grant to States for local governments, it employed population (2011 Census) with 90% and area 10% weightage the same criteria followed by the Fourteenth Finance Commission. While this ensures continuity, equity and efficiency criteria are sidelined. Equity



is the foundational rationale of a federation. Abandoning tax effort criterion incentivises dependency, inefficiency and non-accountability.

In sum, if decentralisation is meant to empower local people, the primary task is to fiscally empower local governments to deliver territorial equity. We are far from this goal.

A step that enhances cooperative federalism

The story so far

1. On January 17, 2017, the Lieutenant Governor of Delhi wrote to the Speaker of the Legislative Assembly of Delhi stating that the President of India had considered the Delhi Netaji Subhas University of Technology Bill, 2015 and directed that it be returned to the Legislative Assembly of Delhi.
2. One of the reasons stated for the return was the inconsistent definition of the term “Government.” In June 2015, when the Legislative Assembly of Delhi had passed the Delhi Netaji Subhas University of Technology Bill and sent it for the President’s assent, it had defined the term “Government” as the “Government of the National Capital Territory of Delhi.”
3. After the Bill was returned, the Delhi Assembly sent a modified version of the Bill for the President’s assent where the definition of “government” was described as: “Lieutenant Governor of NCT Delhi appointed by the President.”

Formalises the definition

1. Last week, both Houses of Parliament voted overwhelmingly in favour of the amendments to the Government of the National Capital Territory (NCT) of Delhi Act.
2. The aim of the amendments was to clear such ambiguities in the roles of various stakeholders and provide a constructive rule-based framework for stakeholders within the Government of Delhi to work in tandem with the Union Government.
3. One of the changes made was to bring consistency in the definition of the term “Government”. In this instance, the government was only formalising the definition of a term that the Delhi Assembly itself had already accepted.



4. This rule-based framework is especially important given that Delhi is also India's national capital and the symbolism that comes with being the seat of the sovereign power.

A legislative right

1. It becomes important to ensure there is complete synchronisation between the Union Government and the Government of NCT Delhi and that there is no encroachment in legislative matters.
2. In the case of the Government of NCT Delhi, it has no legislative competence in matters pertaining to the police, public order, and land.
3. The risk of incremental encroachments on these subjects in the legislative proposals under consideration of the Delhi Legislative Assembly can have severe ramifications for Delhi.
4. The national capital hosts the country's legislature, the seat of the Union Government, the judiciary, diplomatic missions, and other institutions of national importance.
5. It deserves smooth functioning and cannot be subject to misadventures arising from the ambiguities in the roles and responsibilities of its stakeholders.

A functioning relationship

In no manner do these amendments dilute or affect the powers of the Delhi Legislative Assembly. Various court judgments have also observed the ambiguities and lack of clarity. The people of Delhi deserve a functioning government, and the amendments made aid in creating such an environment.