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**STANDING COMMITTEE ON
URBAN DEVELOPMENT
(2004-2005)**

FOURTEENTH LOK SABHA

MINISTRY OF URBAN DEVELOPMENT

**IMPLEMENTATION OF PART IX-A OF
THE CONSTITUTION**

*[Action Taken by the Government on the Recommendations
contained in the Third Report of the Standing Committee
on Urban Development (Fourteenth Lok Sabha)]*

TENTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

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URBAN DEVELOPMENT
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OF THE CONSTITUTION

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on Urban Development (Fourteenth Lok Sabha)]*

Presented to Lok Sabha on 2.8.2005

Laid in Rajya Sabha on 2.8.2005



LOK SABHA SECRETARIAT
NEW DELHI

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COMPOSITION OF THE STANDING COMMITTEE ON
URBAN DEVELOPMENT (2004-2005)

Mohd. Salim — *Chairman*

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3. Shri Avtar Singh Bhadana
4. Shri Surendra Prakash Goyal
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*Nominated *w.e.f.* 27 October 2004.

Rajya Sabha

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SECRETARIAT

- | | | |
|-------------------------|---|-----------------------------|
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| 4. Shrimati Neera Singh | — | <i>Under Secretary</i> |

**Nominated *w.e.f.* 24 March 2005.

INTRODUCTION

I, the Chairman of the Standing Committee on Urban Development (2004-2005) having been authorised by the Committee to submit the Report on their behalf, present the Tenth Report on Action Taken by the Government on the recommendations contained in the Third Report of the Standing Committee on Urban Development (2004-2005) on 'Implementation of Part IX-A of the Constitution'.

2. The Third Report was presented to Lok Sabha on 7th December, 2004. The replies of the Government to all the recommendations contained in the Report were received on 27th June, 2005.

3. The replies of the Government were examined and the Report was considered and adopted by the Committee at their sitting held on 28 July, 2005.

4. An analysis of the action taken by the Government on the recommendations contained in the Third Report of the Committee (2004-2005) is given in *Appendix V*.

NEW DELHI;
29 July, 2005

7 Sravana, 1927 (Saka)

MOHD. SALIM
Chairman,
Standing Committee on Urban Development.

CHAPTER I

REPORT

This Report of the Committee on Urban Development (2004-2005) deals with the action taken by the Government on the recommendations contained in their Third Report on 'Implementation of Part IX-A of the constitution which was presented to Lok Sabha on 7th December, 2004.

2. Action taken notes have been received from the Government in respect of all the 26 recommendations which have been categorised as follows.

- (i) Recommendations which have been accepted by the Government:

Para Nos. 2.23, 2.24, 2.25, 3.8, 3.10, 3.11, 3.12, 3.19, 3.20, 3.21, 3.22, 3.31, 3.32, 3.36, 4.8, 4.9, 4.10, 4.11, 4.12, 5.3, 5.4, 6.2, and 7.4

- (ii) Recommendations which the Committee do not desire to pursue in view of Government's replies:

Para No.3.9

- (iii) Recommendations in respect of which replies of the Government have not been accepted by the Committee:

Para No. 2.21 and 2.22

- (iv) Recommendations in respect of which final replies of the Government are still awaited:

Para No. Nil

3. The Committee will now deal with action taken by the Government on some of these recommendations in the succeeding paragraphs.

A. Implementation of the provisions of Part IX-A of the Constitution

Recommendations (Para Nos. 2.21 and 2.22)

4. The Committee had recommended as under:

"The Committee definitely regard the Constitutional (74th Amendment) Act, 1992 as a path-breaking piece of legislation by

which Constitution of India has been amended to incorporate a separate Chapter on Urban Local Bodies (ULB) by emphasizing the deserved significance of local self-governance in line with the democratic set-up of the country. The 74th CAA has redefined the role, power, function and finances of “Municipalities” or ULBs across the country. The Committee, therefore, are of the firm view that with the complete and proper implementation of the provisions under Article 243P to 243ZG of Part IX A of the Constitution, better control and effective working of the Urban Local Bodies in passing on the economic benefits and suitable urban infrastructure to the people at large, would be achieved. The Committee also recommend that innovative and good governance methods be adopted by Urban Local Bodies with proper information and training inputs, data base, as required, for improving the living conditions and quality of life of urban residents in the country”.

(Recommendation Para No. 2.21)

5. The Government in their reply have stated as under:

“The Ministry has been taking up the issue of implementation of Article 243P to 243ZG of Part IX A of the Constitution with the States on a continuous basis. As a result different provisions of Part IX A have been implemented by the States which include elections to urban local bodies (except Jharkhand and Pondicherry) for a fixed term of five years, devolution of functional and financial powers, reservation of seats for SC/ST and women, setting up of State Finance Commission etc. However, certain states like Andhra Pradesh, Gujarat, Jharkhand, Nagaland, Punjab, Tripura, Uttar Pradesh, Uttaranchal & Pondicherry are lagging behind in setting up of District Planning Committees (DPCs) for which the Ministry of Urban Development has been pursuing. It is, however, submitted that the subject of DPC has since been transferred to the Ministry of Panchayati Raj and the recommendation of the Committee has been forwarded to them for further follow up. Out of the 15 States having Metropolitan cities with a population of 10 lakh or more, Metropolitan Planning Committees (MPCs) have been constituted in two States namely West Bengal and Maharashtra. Similarly, Ward Committees (WCs) have been set up in 9 States/UTs, as per the details placed at Annexure-I.

In order that governance in urban local bodies be improved further and these bodies become more responsive, accountable and transparent, the Ministry is proposing to launch a Mission Mode Project on e-Governance in Municipalities. The main objective of

the e-Governance initiative is application of electronic means to improve efficiency and effectiveness of urban local bodies in the interaction between local government and its citizens as well as other interested groups.

This Ministry in coordination with the C&AG is pursuing reforms in the field of Municipal Accounting System for which a National Municipal Accounts Manual (NMAM) has already been circulated to the State Governments to help them to develop State specific municipal accounting manual.

Ministry of Urban Development has also circulated Model Municipal Law (MML), which intends to assist urban local bodies in the areas of accounting reforms, resource mobilization, levy of users charges, entry of private sector partnership etc.

This Ministry proposes for launching National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) in which, *inter-alia*, the following reforms at the level of ULBs/States are being proposed to be made mandatory to qualify for availing Central assistance:—

1. Adoption of modern, accrual-based double entry system of accounting in urban local bodies
2. Reform of property tax with GIS, so that it becomes major source of revenue for urban local bodies
3. Levy of reasonable user charges by urban local bodies with the objective that full cost of operation and maintenance is collected within next five years
4. Implementation of decentralization measures as envisaged in 74th Constitution Amendment Act
5. Introduction of independent regulators for urban services
6. Assigning and associating elected urban local bodies as with “City Planning function”

The above initiatives of Ministry of Urban Development are expected to enable ULBs to perform their assigned duties and responsibilities in a more effective and efficient manner to improve the living conditions and quality of life of urban residents.

6. The Committee had recommended as under:

“The Committee note that the 74th CAA aims at a Constitutional guarantee to safeguard the interest of Urban Local Bodies (ULBs)

to enable them to function as effective, democratic and self-governing institutions at grass root level. The Committee strongly emphasize that suitable steps be taken to ensure the following:—

- regularity in elections under the supervision of the State Election Commission;
- a clear tenure of five years for the elected body;
- protection for the elected body against arbitrary dissolution;
- Constitution of Ward Committees for greater proximity to the citizens;
- mandate to State Legislature to endow the ULBs with such powers and authority as may be necessary to enable them to function as institution of self-Government;
- the functions enumerated in Twelfth Schedule are effectively transferred to the Urban Local Bodies;
- the constitution of State Finance Commission (SFCs) to review municipal finances and make recommendations regarding distribution of the proceeds of State-level taxes between the State Governments and the Urban Local Bodies criteria for grants-in-aid, measures needed to improve the financial position of the Urban Local Bodies and compliance of the recommendations of the State Finance Commissions; and
- urgent formation of District Planning Committees (DPCs) and Metropolitan Planning Committees (MPCs) for integrated as well as coordinated planning for urban and rural areas”.

(Recommendation Para No2.22)

7. The Government in their reply have stated as under:

“The Ministry agrees with the above observations of the Committee. The Ministry has been impressing upon the States to fully implement the provisions of the Constitution (74th Amendment) Act. The latest position with regard to the above observations is as under:—

- I. Elections of the urban local bodies have been held in all States and UTs except Jharkhand and Pondicherry. The Government of Jharkhand and UT of Pondicherry have been

requested to conduct the elections of municipalities without further delay.

- II. Article 243 U already provides for fixed terms of five years for Municipalities and the States have made relevant provisions in their municipal laws.
- III. A provision already exists in the Constitution to give a municipality a reasonable opportunity of being heard before its dissolution.
- IV. Ward Committees have been constituted in various States where municipalities with population over 3 lakh exist. A Statement showing position in this regard is placed at Annexure-I.
- V. As per Article 243W of the Constitution, it is for the Legislature of State to devolve such powers and responsibilities upon municipalities as necessary to enable them to function as effective units of Local Self Government including those listed in the Twelfth Schedule. A Statement showing the status of devolution of functions listed in the Twelfth Schedule of Constitution upon municipalities in various States is placed at Annexure-II.
- VI. State Finance Commissions (SFCs) have been set up by all the States (Annexure-III). In four States/UTs namely Kerala, Uttar Pradesh, Haryana & NCT of Delhi, third Finance Commissions have also been set up. The Ministry is in constant touch with the State Governments to ensure that the recommendations of the SFCs are implemented expeditiously. Gist of the recommendation of the SFCs and action taken thereon, already annexed to the main report of the Committee as Annexure-VIII (pages 96-111 of the report)
- VII. For early setting up of DPCs and MPCs, the Government of India is pursuing the matter with the concerned State Governments. Chief Secretaries have been requested vide letter No. G-20011/1/2004-UCD dated 21.4.2005 to take suitable action in this regard. It is submitted that the subject of DPC has since been allocated to the Ministry of Panchayati Raj. Further follow-up action on DPC will be taken by them”.

8. The Committee note from the reply of the Ministry that certain states like Andhra Pradesh, Gujarat, Jharkhand, Nagaland,

Punjab, Tripura, Uttar Pradesh, Uttarakhand & Pondicherry are lagging behind in setting up of District Planning Committees (DPCs) for which the Ministry of Urban Development has been pursuing. However, the subject of DPC has since been transferred to the Ministry of Panchayati Raj and the recommendation of the Committee has been forwarded to them by the Ministry of Urban Development for further follow up. The Committee express their deep concern over the slackness on the part of a number of States who had failed to constitute District Planning Committees (DPCs) despite the fact that almost a decade has elapsed since the enactment of the Constitution (74th Amendment) Act. The Committee, therefore, firmly recommend that the Ministry of Urban Development in coordination with Ministry of Panchayati Raj should urge the defaulting States/ Uts to take expedient steps to constitute the DPCs. The Committee are also concerned to note that even the Metropolitan Planning Committees (MPCs) have not been constituted in most of the States. Out of 15 States only 2 States namely West Bengal and Maharashtra have constituted the MPCs. The Committee are, therefore, of the opinion that the spirit of the Constitution (74th Amendment) Act has not been adhered to in many States. The Committee are of the firm view that till decentralization becomes effective both in terms of functions and resources, the aims and objectives behind the enactment of the Constitution (74th Amendment) Act will not be realized.

B. Parallel Bodies

Recommendation (Para No. 3.12)

9. The Committee had recommended as below:

“The Committee are perturbed to note that with the presence of various other governmental and non-governmental bodies there is considerable encroachment upon the functional domain of the ‘Municipalities’. The Committee also note that such bodies are not accountable to ‘Municipalities’, although such agencies deal with even basic municipal functions like water supply, sewerage and capital works etc. The Committee have been informed by an expert that in certain cases, the capital works are executed by a Specialised Agency and their loan liability is passed on to the Municipalities. The Committee can not approve of this kind of practice. The Committee, therefore strongly recommend that the functional domain of the ‘Municipalities’ must be exclusive and clearly demarcated to check any kind of encroachment and confusion. If due to special and technical reasons other bodies are required, the

Committee recommend that such bodies should be made accountable and answerable to the Municipalities”.

10. The Committee have replaced as below:

“The Ministry agrees with the observation of the Committee on encroachment upon the functional domain of the municipalities by various other Governmental and non-governmental bodies. The recommendation of the Committee has been brought to the notice of all States concerned. In order that all civic functions of ULBs being performed by other agencies are transferred to them, in the proposed National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT), it would be obligatory upon States to undertake to transfer over a period of five years all specialised agencies that deliver civic services in urban areas to ULBs and create accountability platforms for all urban civic services providers in transition”.

11. The Committee appreciate that in the proposed National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT), it would be obligatory upon States to undertake to transfer over a period of five years all specialised agencies that deliver civic services in urban areas to ULBs and create accountability platforms for all urban civic service providers in transition. The Committee hope that the proposed NURM and UIDSSMT would be able to eliminate the encroachment upon the functional domain of Municipalities by the parallel bodies and that all special agencies currently involved in delivering urban civil services would be brought under the supervisions of municipalities, thus creating a uniform accountability platform.

C. Financial Position of Municipalities

Recommendations (Para Nos. 3.19 and 3.21)

12. The Committee had recommended as below:

“The Committee express their deep anguish to note that most of the Municipalities etc., which are statutorily responsible for provisioning and maintenance of basic infrastructure and services in cities and towns are under fiscal stress. They are given to understand that many of the Municipalities have not been able to carry out their assigned civic functions and pay salaries and wages

to their employees, although, the financial conditions of bigger municipal corporations had not been as bad as of smaller municipalities. The Committee recommend that the Ministry of Urban Development should coordinate and persuade the concerned State Governments/ UTs to take the necessary corrective measures on their part by adopting suitable taxation methods, accounting standards etc. to enable the Municipalities to generate their own funds. The Committee desire that the Ministry of Urban Development should persuade the State Governments to link their development plans with resources mobilization plans and credit enhancement mechanisms keeping in view the long-term perspective and aims of the institutions of urban local self government. The Committee recommend that cost recovery procedures and revenue collection methods of such bodies should be strengthened in a scientific and prudent manner. As regards the action taken on the suggestions of the 'Task Force' as constituted by the Ministry, the Committee would like to be apprised about the latest position in the matter".

(Recommendation Para No.3.19)

13. The Government have replied as below:

"In order to bring much needed reforms in taxation method of municipalities, this Ministry has circulated Guidelines for Property Tax Reforms in March, 1998 to exploit the potential of property tax, the major source of income for ULBs, for strengthening their revenue base. Many States like Assam, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Karnataka, Madhya Pradesh, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh, West Bengal, Chandigarh, Delhi and Pondicherry have introduced/are introducing Unit area based system of property tax valuation. At present, there is a proposal to launch a new scheme namely National Urban Information System (NUIS) in order to help ULBs in planning and management of urban settlement based on updated and scientific database as a decision support system, employing modern planning method using GIS technology. It will help in creation of database of properties for better enforcement of property tax. In the first phase, 137 towns/cities are proposed to be covered under NUIS.

Similarly for proper maintenance of accounts and the audit of ULBs, the Ministry has prepared a National Municipal Accounts Manual in cooperation with the office of Comptroller & Auditor General of India (C&AG). This manual has been circulated to all

States in January, 2005 to help the States formulate their State-specific municipal accounting manuals. Accounting principles mentioned in the Manual are primarily focussed on the concept of accrual basis of accounting.

This initiative is expected not only to enhance the capacities of ULBs in municipal accounting leading to increased transparency and accountability in the utilization of public funds but also help urban local bodies to play their roles more effectively and ensure better service-delivery. As per information available, the States excepting Assam, Meghalaya and Nagaland have taken necessary initiatives for adoption of the provisions of the Manual to reform the municipal accounting in ULBs.

Regarding cost recovery procedures and revenue collection methods, the Model Municipal Law (MML) circulated by this Ministry to all States in 2003 *inter-alia* envisages a provision to empower ULBs to levy users charges for cost recovery of various services. To fix the users charges, a provision has also been made in the MML for setting up State Level Regulatory Authority. As per information available, States/UTs namely Andhra Pradesh, Arunachal Pradesh, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, J&K, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttaranchal, A&N Islands, Chandigarh & Delhi have initiated necessary action to adopt the provisions of MML.

Besides, under the proposed National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UDISSMT), it is being made mandatory for ULBs and State Governments to undertake, *inter-alia*, the following reforms to qualify for Central assistance:

1. Adoption of modern, accrual-based double entry system of accounting in urban local bodies.
2. Reform of property tax with GIS, so that it becomes major source of revenue for urban local bodies.
3. Levy of reasonable user charges by urban local bodies with the objective that full cost of operation and maintenance is collected within next five years.
4. Implementation of decentralization measures as envisaged in 74th Constitution Amendment Act.
5. Introduction of independent regulators for urban services.

The above initiatives of Ministry of Urban Development are expected to enable ULBs to strengthen the cost recovery procedures and revenue collection methods in a scientific and prudent manner and enhance their credit worthiness to access the Institutional finances.

The Mission strategy of the proposed NURM envisages that every identified city would prepare planned urban prospective framework for a period of 20-25 years indicating policies, programmes and strategies of meeting fund requirement. This provision of the proposed NURM would ensure linking development plan of the city with resource mobilization of ULBs.

Regarding the present position of the Task Force constituted by the Ministry, it is submitted that the Task Force has have held 3 meetings with the State representatives and is at present in the process of finalization of its recommendations”.

14. The Committee had recommended as below:

“The Committee note that the Tenth Finance Commission recommended for a provision of Rs.1000 Crore to enable the Urban Local Bodies to meet their primary obligations. It also desired that Local Bodies should provide suitable matching contribution by raising resources. The Committee further note that the Eleventh Finance Commission had emphasized the need for meeting the revenue mobilizations by the local bodies themselves. It suggested for suitable reforms in property/house tax system and the need for replacing octroi/entry tax with a suitable tax and also revising the rate structure of user charges on a regular basis. The Eleventh Finance Commission has recommended for devolution of Rs.2000 Crore to Urban Local Bodies for 5 year period from 2000 to 2005. While the Committee are happy to note that financial provision by way of devolution of Rs.2000 crore to Urban Local Bodies has been made by Eleventh Finance Commission, but the Municipalities/Urban Local Bodies are still unable to perform well due to lack of funds. The Committee desire to know why the resource crunch still exists inspite of the recommendation of devolution of a considerable amount by the Eleventh Finance Commission. The Committee recommend that the Union Government should impress upon the State Governments to bring up proper reforms of Municipal taxes, including property tax system so that Urban Local Bodies could generate sufficient resources to finance the maintenance of civic services. The Committee also recommend that loopholes in collection of

Municipal taxes, leakage/diversion of funds etc. are plugged and action is taken against any misuse of funds”.

(Recommendation Para No. 3.21)

15. The Government have replied as below:

“As regards resource crunch existing in the municipal bodies inspite of recommendations of devolution of grants by 11th Finance Commission, it is submitted that this Ministry had requested the 11th Finance Commission to devolve Rs. 18,500 crore to municipalities during 2000-2005 to fill up the revenue gap for operation and maintenance of core civic services. Against this requirement, the 11th Finance Commission had devolved Rs. 2000 crore only for urban local bodies leaving a huge gap of Rs. 16,500 crore.

Similarly, before the 12th Finance Commission, the Ministry had projected resource gap to the tune of Rs. 76,896 crore during 2005-2010 for operation and maintenance of various civic services of ULBs and had requested the 12th Finance Commission to devolve the necessary funds of Rs. 76,896 crore so that deficiency/shortfall in municipal resources in urban areas could be remedied. In its recommendation, the 12th Finance Commission is able to devolve only Rs. 5000 crore against the requirement of Rs. 76,896 crore. In order that the financial position of ULBs improve to some extent, the Ministry have already launched certain initiatives which include Property Tax Reform Guidelines (1998), Model Municipal Law (2003) and National Municipal Accounts Manual (NMAM) (2005). These initiatives of the Ministry are expected to help State Governments to bring needed reforms in the urban governance and help local bodies to devolve sufficient resources to finance the maintenance of civic services.

Besides, the State Finance Commissions also look into the financial position of urban local bodies and recommend various measures for improving the financial health of ULBs. In order to improve financial position of ULBs, it is being made mandatory for ULBs in the proposed National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) to levy reasonable user charges with the objective that full cost of operation and maintenance is collected within the next five years. Introduction of independent regulators for urban services is also being made mandatory in the above two proposed schemes.

Property tax reforms, creation of database of all properties under the proposed NUIS shall help in plugging the loopholes in property tax, which is the major source of revenue for ULBs. NMAM shall help local bodies in preparation of transparent financial records, more efficient use of funds and detect leakage/diversion of funds etc”.

16. The Committee note with optimism that in order to bring much needed reforms in taxation method of municipalities, the Ministry of Urban Development has circulated Guidelines for Property Tax Reforms in March, 1998 to exploit the potentials of property tax, the major source of income for Municipalities for strengthening their revenue base, and many States have introduced/ are introducing unit area based system of property tax valuation. For proper maintenance of accounts and the audit of Municipalities, the Ministry has prepared a National Municipal Accounts Manual in cooperation with the office of Comptroller & Auditor General of India(C & AG) and the manual has been circulated to all States in January, 2005 to help the States formulate their State-specific municipal accounting manuals.

17. The Committee also note that regarding cost recovery procedures and revenue collection methods, the Model Municipal Law (MML) circulated by the Ministry of Urban Development to all States in 2003 *inter-alia* envisages a provision to empower Municipalities to levy user charges for cost recovery of various services. Fiscal stress precludes the Municipalities from discharging their assigned functions effectively resulting in inconvenience to the public. As such, this is a primary area which needs to be addressed seriously. While the Ministry has drawn an ambitious programme, its feasibility and practicability should also be taken into account. The Committee, therefore, desire that the Ministry of Urban Development should develop some effective mechanism to monitor the implementation and progress of the above new initiatives taken to strengthen the financial position of Municipalities. The Committee are of the view that by merely drawing the plans on paper would not serve the desired purpose. The fundamental need is also to strengthen the functional as well financial position of the Municipalities which should be result oriented.

18. The Committee note that the Ministry of Urban Development has launched certain initiatives to help State Governments to bring the much needed reforms in the urban governance and help local bodies to develop sufficient resources to finance the maintenance of

civil services. The Committee also note that the State Finance Commissions also look into the financial position of Municipalities and recommend various measures for improving the financial health of Municipalities. The Committee are of the opinion that finances of Municipalities need strengthening through working of the State Finance Commissions awards, rationalization and improvement of the property taxation system, proper financial management and transparency in functioning so that Municipalities would be able to meet their primary obligations in an effective manner. Accordingly, the necessary steps in this direction should be initiated by the Ministry and the Committee should be kept informed.

D. State Finance Commissions

Recommendations (Para Nos. 3.31 and 3.32)

19. The Committee had recommended as below:

“The Committee note that the State Finance Commissions are required to be set up under Article 243-I of the Constitution. There was delay in Constitution of First SFC in Goa, Pondicherry and Jharkhand and Second SFC is yet to be constituted in Pondicherry. Keeping in view the gist of recommendations of the various SFCs and the action taken thereon as Annexed (Annexure VIII) to the Report, the Committee observe that most of the recommendations made by the various State Finance Commissions have been accepted by the respective State Governments. The Committee desire that the State Governments should take expeditious measures to ensure that all recommendations of the respective State Finance Commissions are implemented through relevant administrative, legislative and financial measures within a given time frame. The Committee also recommend that the Union Government should pursue with the respective State Governments/UTs which are lagging behind in the setting up of the SFCs within the prescribed time-limit and give their recommendations/observations to the Governor of the State so as to facilitate better fiscal management by the Urban Local Bodies. Since the administration of UTs. is directly under the Union Government an example could be set up in regard to the role of the State Finance Commissions by accepting in recommendations regarding the concerned UTs”.

(Recommendation Para No. 3.31)

20. The Government have replied as below:—

“The Ministry agrees with the views of the Committee. All the State Governments have set up SFCs as per Article 243-I (*Annexure-III*).

In the case of Pondicherry, the first Finance Commission was constituted for a three year tenure on 10.03.1997. Its 1st and 2nd reports were approved and implemented by the Government. The remaining 3rd to 6th reports of the first Finance Commission are under examination with the UT Administration. The Second Pondicherry Finance Commission has been constituted on 05.01.2004 and is functioning. The first report of the Second SFC is being examined by the UT Administration for implementation.

With respect to other UTs, Third Finance Commission for Delhi and Chandigarh has been constituted in October, 2004. Ministry of Home Affairs who is the nodal agency for Union Territories, has been requested to ensure implementation of SFCs recommendations in respect of Union Territories. In order that the recommendations made by the SFC are acted upon in a time bound manner, the Ministry is pursuing the case with the respective State Governments and will continue to take all conceivable steps to ensure that recommendations of SFCs are implemented by the State Governments”.

21. The Committee had recommended as below:—

“The Committee note Article 243Y accords the primary responsibility to oversee the financial position of the Municipalities to State Finance Commission with a view to make recommendations to the Governor of the State relating to the principles which should govern (i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them and the allocation between the Municipalities at all levels of their respective shares of such proceeds; (ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Municipalities; and the grants-in-aid to the Municipalities from the Consolidated Fund of the State. The SFCs then give their suggestions and the measures needed to improve the financial position of the Municipalities and report to the Governor of the State. In this regard, the Committee recommend that appropriate steps should be taken up by the Union Government to impress upon the State Governments to implement all recommendations of the respective State Finance Commission within a given time-frame and in the case of Union Territories, Government of India should take necessary steps in this regard.

(Recommendation Para No. 3.32)

22. The Government have replied as below:—

“This Ministry agrees with the views of the Committee. The Ministry is continuously pursuing the matter of implementation of Part IXA of the Constitution, including implementation of the recommendations of the State Finance Commission. As per the feedback received from the States, State Finance Commissions’ recommendations are being implemented by them in varying degrees. Gist of the recommendation of the SFCs and action taken thereon, already annexed to the main report of the Committee as Annexure-VIII (pages 96-111 of the report). The recommendation of Commission has been forwarded to the M/o Home Affairs for implementation of SFCs recommendations in UTs”.

23. The Committee note that the third round of State Finance Commissions (SFCs) are in place in some States and in order that the recommendations made by the SFCs are acted upon in a time bound manner, the Ministry of Urban Development is pursuing with the respective State Governments to ensure that recommendations of SFCs are implemented by them. The Committee are of the opinion that the objective of the system of SFCs would be fulfilled only if an adequate level of resource transfers to Municipalities take place. The Committee, therefore, recommend that specific attention be drawn of the States/UTs by the Union Government in this regard.

CHAPTER II

RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Para No. 2.23)

The Committee also find that all States except Jharkhand and Union Territory of Pondicherry conducted initial elections to Municipal bodies. Also Urban Local Bodies do not exist in Arunachal Pradesh, Mizoram, Sikkim, Lakshadweep and Dadra & Nagar Haveli. The Committee, therefore, recommend that the Union Government hold municipal elections in the Union Territory of Pondicherry at the earliest. The Committee further urge Arunachal Pradesh, Mizoram, Sikkim, Lakshadweep and Dadra & Nagar Haveli for early setting up of Urban Local Bodies so that the system of self-governing institutions at grassroots level could be established without any delay and the development schemes/Programmes are implemented effectively.

Reply of the Government

Regarding holding of elections in the UT of Pondicherry, the Government of Pondicherry has intimated that the State Election Commission is taking steps to conduct elections of municipalities and Electorate Rolls have been updated. The Government of Jharkhand and UT of Pondicherry have been requested *vide* letter No. N-11025/23/2005-UCD dated 31.5.2005 to conduct the elections of municipalities without further delay. This recommendation has also been communicated to the Ministry of Home Affairs, which is the nodal Ministry for Union Territories for further action, *vide* OM dated 19.5.2005.

For setting up of urban local bodies in States/UTs where no such body exist, the concerned States/UTs *i.e.* Arunachal Pradesh, Mizoram, Sikkim, Lakshadweep and Dadra & Nagar Haveli, have been requested *vide* letter No. N-11025/27/2005-UCD dated 10.6.2005, to constitute urban local bodies without further delay. Arunachal Pradesh has constituted a Committee under Chairmanship of their Minister (UD) to go into details of drafting municipal laws in line with the Model Municipal Laws. The Government of Sikkim is also drafting a new municipal laws and they have expressed hope to constitute ULBs early next year.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 2.24)

The Committee note that the responsibility of implementation of all matters relating to Municipalities has been entrusted to the Ministry of Urban Development and the Ministry has been in constant touch with the State Governments in the task of implementation of Part IX-A of the Constitution. Also Meetings/Conferences with Ministers/Secretaries-in-Charge of local self-Government to States/UTs and elected representatives of Urban Local Bodies have been held from time to time to impress upon them the need for proper implementation of Part IX-A. While the Committee are quite convinced that co-ordinative efforts are being made by the Ministry of Urban Development for the implementation of Part IX-A of the Constitution the Committee feel that the mandatory as well as recommendatory provisions of Part IX-A of the Constitution are not being properly implemented by the respective State Government/UTs. The Committee, therefore, recommend that Union Government should make a comprehensive study of the existing situation and ensure that mandatory as well as recommendatory provisions of Part IX-A are followed by the State Governments/UTs in letter and spirit. Since UTs are under its direct administrative control, an example in local self-governance to be followed by others can be set up in UTs by the Government of India.

Reply of the Government

As recommended by the Committee, a study on the status of implementation of the 74th CAA in States/UTs has been awarded by this Ministry to the Indian Institute of Public Administration, National Institute of Urban Affairs and Regional Centres for Urban and Environmental Studies on zonal basis. The reports of these Institutes/Centres except NIUA have been submitted to the Ministry. NIUA has submitted the draft report (containing information on 14 States/UTs) in November 2004. The NIUA is now in the process of detailed discussions with the concerned State-level official. After NIUA submits its report, the action point requiring urgent attention of the State Governments would be identified and matter will be taken up with them for remedial action. Meanwhile, under the proposed National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT), it is being made mandatory for the State Government to implement certain urban reforms including implementation of decentralization measures as envisaged in the Constitution (74th Amendment) Act to qualify for availing Central assistance. This will encourage States to implement the Constitution (74th Amendment) Act expeditiously.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 2.25)

The Committee are informed that a 'Task Force' consisting of representatives of States and the Ministry of Urban Development has been constituted to look into devolution of function into specific operational and activity related responsibilities of Urban Local Bodies and suggest administrative and managerial measures to bring into operation the administrative decentralization and rationalization of delivery mechanism and implementation of urban development programmes by Municipalities/Urban Local Bodies. In this regard, the Committee recommend that a high level body, or 'Review Committee' at the Central level may be constituted so as to review the proper and timely implementation of the norms and conditions laid down in Part IX-A and the Twelfth Schedule of the Constitution relating to Urban Local Bodies.

Reply of the Government

The Task Force constituted by the Ministry on devolution of powers and functions upon municipalities is yet to finalize its recommendations as necessary input from the member States have not been received in time. The Task Force is in the process of finalization of its recommendations.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 3.8)

The Committee note that the Constitutional (74th Amendment) Act seeks to devolve functional and financial powers to Urban Local Bodies. Article 243W requires the State Legislatures to make law to endow the Municipalities with such powers and authority, as may be necessary to enable them to function as institutions of self-governance, particularly, with respect of preparation of plans for economic development and social justice, and perform functions and implement all Schemes as are entrusted to them including matters listed in the Twelfth Schedule of the Constitution. Similarly, as per Article 243X, it has been left to the Legislature of the State to specify by law the matters relating to imposition of taxes. The Committee would like to emphasize that measures must be taken by the Union Government so as to ensure that the stipulated functions, powers and finances actually devolve on the Urban Local Bodies. The Committee find that any mismatch between functions and finances of the ULBs, may slacken the growth of Urban Local Bodies and optimum utilization of the

available resources and infrastructure for the various urban developmental schemes. The Committee, therefore recommend that the Ministry of Urban Development should draw upon the suggestions of the expert bodies like National Institute of Urban Affairs by maintaining proper data base and utilization of the state-of-the-art technologies. The Committee also recommend that Community Based Information System formulated by National Institution of Urban Affairs be made available to the Municipalities etc. for better resource management and planning.

Reply of the Government

The Ministry agrees with the observations/findings of the Committee. However, as Local Government is a State subject as per Entry 5 of the State list of the Constitution, it falls entirely within the domain of State Government to devolve requisite functional and financial powers upon municipalities to enable them to function as an Institution of Local Self Government. Following the provisions of the Constitution (74th Amendment) Act States have devolved functional and financial powers upon municipalities in varying degrees. Under the proposed National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT), it is being made mandatory for the State Government to implement certain urban reforms including implementation of decentralization measures as envisaged in the Constitution (74th Amendment) Act to qualify for availing assistance for infrastructure projects.

This Ministry takes the help of National Institute of Urban Affairs (NIUA) from time to time for getting various inputs for formulation of schemes/policies for urban development. With regard to maintaining of proper data base and utilization of the state-of-the-art technologies, it is submitted that for creation of data base relating to finances of local bodies, the 11th Finance Commission allocated Rs. 200 crore. The C&AG in accordance with the recommendations of the Eleventh Finance Commission, has formulated standard formats for data base on finances of urban local bodies and circulated to all States in August, 2003. This matter is being regularly pursued by the Office of C&AG with the State Governments who are responsible for data collection, input uploading, transmission and maintenance of the data base. Five States (Bihar, Gujarat, Himachal Pradesh, Rajasthan & Tamil Nadu) have generally agreed in principle to adopt the formats for ULBs with changes to suit their requirements. Office of C&AG has further informed that regular discussions/correspondences with other States

by the Field Accountants General to generally adopt the formats are continuing. Suggestions by the State Governments for changes in the formats are promptly considered and view points of C&AG conveyed to the States with the request to adopt the formats. In this endeavour, the services of NIUA would be utilised in optimum manner.

The Twelfth Finance Commission (TFC) in its report has mentioned that high priority should be accorded to creation of database and maintenance of accounts at the grassroot level. Though TFC has not made any specific allocation for the above purpose, it has left it to the States to assess the requirement of each local body and earmark funds accordingly out of the total allocation recommended by the Commission.

The Community Based Information System developed by the NIUA is available on NIUA's website www.niua.org. for information/guidance of the users e.g. municipalities etc.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 3.10)

The Committee also note that the State Governments specify the taxes that the Municipalities could levy and collect which are largely taken from the State List in the 7th Schedule of the Constitution of India. Since no distinctive tax domain has been specified for the Municipalities, the State Municipal Laws are non-uniform in respect of municipal taxes. The Committee, therefore, recommend that the Union Government should emphasise on the States/UTs for clear-cut tax domain for Municipalities in all the State Governments UTs so as to ensure more methodical and proper fiscal management by Municipal bodies.

Reply of the Government

Since local Government is a State subject, no tax domain has been prescribed by the Constitution (74th Amendment) Act. As per Article 243X it has been left to the legislature of the State to specify, by law, the matter relating to imposition of tax by municipalities, assignment of taxes, duties, tolls etc. collected by the State to municipalities and providing grant-in-aid to municipalities.

In order that municipalities have a clear-cut tax domain, necessary provisions have been made in the Model Municipal Law circulated by the Ministry of Urban Development to all States/UTs in October 2003.

The Ministry is pursuing with the States to implement various provisions of Model Municipal Law. As per information available State *viz.* Andhra Pradesh, Arunachal Pradesh, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, J&K, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttaranchal, A&N Islands, Chandigarh & Delhi have initiated necessary action in the matter.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 3.11)

The Committee note that the Ministry had invited proposals from the Regional Centres for Urban and Environmental Studies (RCUES) to conduct detailed study on devolution of funds, functions and deployment of functionaries to Municipalities. A 'Task Force' consisting of representatives of States and the Ministry has been constituted to look into the devolution of functions into specific operational and activity related responsibilities of Urban Local Bodies and suggest administrative and managerial measures. The Committee would like that an in depth study is made on the suggestions/recommendations of RCUES by a High level Governmental Committee or a Review Committee, and suitable procedural amendments/modifications, if required, be advised to the State Governments for effective functioning of the Urban Local Bodies and ensure good governance and adequate financial resources for the Municipalities.

Reply of the Government

After the finalisation of report of Task Force and completion of study by RCUES/NIUA, their suggestions/recommendations shall be analysed by the Ministry and suitable modifications/amendments shall be suggested to States for effective functioning of ULBs.

As regards in depth study of suggestions/recommendations of the outcome of above Study/Task Force by a High level Governmental Committee or a 'Review Committee', the Ministry may consider the issue, at a later stage, if required.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 3.12)

The Committee are perturbed to note that with the presence of various other governmental and non-governmental bodies there is

considerable encroachment upon the functional domain of the 'Municipalities'. The Committee also note that such bodies are not accountable to 'Municipalities', although such agencies deal with even basic municipal functions like water supply, sewerage and capital works etc. The Committee have been informed by an expert that in certain cases, the capital works are executed by a Specialised Agency and their loan liability is passed on to the Municipalities. The Committee can not approve of this kind of practice. The Committee, therefore strongly recommend that the functional domain of the 'Municipalities' must be exclusive and clearly demarcated to check any kind of encroachment and confusion. If due to special and technical reasons other bodies are required, the Committee recommend that such bodies should be made accountable and answerable to the Municipalities.

Reply of the Government

The Ministry agrees with the observation of the Committee on encroachment upon the functional domain of the municipalities by various other Governmental and non-governmental bodies. The recommendation of the Committee has been brought to the notice of all States concerned. In order that all civic functions of ULBs being performed by other agencies are transferred to them, in the proposed National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT), it would be obligatory upon States to undertake to transfer over a period of five years all specialised agencies that deliver civic services in urban areas to ULBs and create accountability platforms for all urban civic services providers in transition.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Comments of the Committee

(Please *see* Para No. 11 of Chapter I of the Report)

Recommendation (Para No. 3.19)

The Committee express their deep anguish to note that most of the Municipalities etc., which are statutorily responsible for provisioning and maintenance of basic infrastructure and services in cities and towns are under fiscal stress. They are given to understand that many of the Municipalities have not been able to carry out their assigned civic functions and pay salaries and wages to their employees, although,

the financial conditions of bigger municipal corporations had not been as bad as of smaller municipalities. The Committee recommend that the Ministry of Urban Development should coordinate and persuade the concerned State Governments/ UTs to take the necessary corrective measures on their part by adopting suitable taxation methods, accounting standards etc. to enable the Municipalities to generate their own funds. The Committee desire that the Ministry of Urban Development should persuade the State Governments to link their development plans with resources mobilization plans and credit enhancement mechanisms keeping in view the long-term perspective and aims of the institutions of urban local self government. The Committee recommend that cost recovery procedures and revenue collection methods of such bodies should be strengthened in a scientific and prudent manner. As regards the action taken on the suggestions of the 'Task Force' as constituted by the Ministry, the Committee would like to be apprised about the latest position in the matter.

Reply of the Government

In order to bring much needed reforms in taxation method of municipalities, this Ministry has circulated Guidelines for Property Tax Reforms in March, 1998 to exploit the potential of property tax, the major source of income for ULBs, for strengthening their revenue base. Many States like Assam, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Karnataka, Madhya Pradesh, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh, West Bengal, Chandigarh, Delhi and Pondicherry have introduced/are introducing Unit area based system of property tax valuation. At present, there is a proposal to launch a new scheme namely National Urban Information System (NUIS) in order to help ULBs in planning and management of urban settlement based on updated and scientific database as a decision support system, employing modern planning method using GIS technology. It will help in creation of database of properties for better enforcement of property tax. In the first phase, 137 towns/cities are proposed to be covered under NUIS.

Similarly for proper maintenance of accounts and the audit of ULBs, the Ministry has prepared a National Municipal Accounts Manual in cooperation with the office of Comptroller & Auditor General of India (C&AG). This manual has been circulated to all States in January, 2005 to help the States formulate their State-specific municipal accounting manuals. Accounting principles mentioned in the Manual are primarily focussed on the concept of accrual basis of accounting.

This initiative is expected not only to enhance the capacities of ULBs in municipal accounting leading to increased transparency and accountability in the utilization of public funds but also help urban local bodies to play their roles more effectively and ensure better service-delivery. As per information available, the States excepting Assam, Meghalaya and Nagaland have taken necessary initiatives for adoption of the provisions of the Manual to reform the municipal accounting in ULBs.

Regarding cost recovery procedures and revenue collection methods, the Model Municipal Law (MML) circulated by this Ministry to all States in 2003 *inter-alia* envisages a provision to empower ULBs to levy users charges for cost recovery of various services. To fix the users charges, a provision has also been made in the MML for setting up State Level Regulatory Authority. As per information available, States/UTs namely Andhra Pradesh, Arunachal Pradesh, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, J&K, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttaranchal, A&N Islands, Chandigarh & Delhi have initiated necessary action to adopt the provisions of MML.

Besides, under the proposed National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UDISSMT), it is being made mandatory for ULBs and State Governments to undertake, *inter-alia*, the following reforms to qualify for Central assistance:

1. Adoption of modern, accrual-based double entry system of accounting in urban local bodies.
2. Reform of property tax with GIS, so that it becomes major source of revenue for urban local bodies.
3. Levy of reasonable user charges by urban local bodies with the objective that full cost of operation and maintenance is collected within next five years.
4. Implementation of decentralization measures as envisaged in 74th Constitution Amendment Act.
5. Introduction of independent regulators for urban services.

The above initiatives of Ministry of Urban Development are expected to enable ULBs to strengthen the cost recovery procedures and revenue collection methods in a scientific and prudent manner and enhance their credit worthiness to access the Institutional finances.

The Mission strategy of the proposed NURM envisages that every identified city would prepare planned urban prospective framework for a period of 20-25 years indicating policies, programmes and strategies of meeting fund requirement. This provision of the proposed NURM would ensure linking development plan of the city with resource mobilization of ULBs.

Regarding the present position of the Task Force constituted by the Ministry, it is submitted that the Task Force has have held 3 meetings with the State representatives and is at present in the process of finalization of its recommendations.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Comments of the Committee

(Please see Para No. 16 & 17 of Chapter I of the Report)

Recommendation (Para No. 3.20)

The Committee note that the Eleventh Finance Commission (EFC) has suggested for developing a data base on the finances of the Panchayats and Municipalities at the District, State and Central Government level. It has further suggested that Director, Local Fund Audit or the authority prescribed for conducting the audit of accounts of the local bodies may be assigned responsibility for this task. The Chief Secretary of the State may do the State level coordination and monitoring and the Comptroller and Auditor General of India do the same at the Central level. The Committee are of the firm view that this would ensure greater accountability in matters relating to municipal management and transparency in their functioning. The Committee recommend that proper and timely follow-up action should be taken up by the Ministry of Urban Development for updating and maintenance of the 'Data Base' of the finances of the Municipalities as the planning exercise needs continuous 'Data Base' analysis. The Committee also recommend that a computer generated data base and information system be developed at various levels which would provide support to planners in development planning.

Reply of the Government

In accordance with the recommendations of the Eleventh Finance Commission, standard formats for data base on finances of urban local bodies were prepared by the Office of the Comptroller & Auditor General (C&AG) of India and circulated to all States in August, 2003.

The matter is being regularly pursued by the Office of C&AG with the State Governments who are responsible for data collection, input uploading, transmission and maintenance of the database. Five States (Bihar, Gujarat, Himachal Pradesh, Rajasthan & Tamil Nadu) have generally agreed in principle to adopt the formats for ULBs with changes to suit their requirements. Office of C&AG has further informed that regular discussions/correspondences with other States by the Field Accountants General to adopt the formats are being held continuously. Suggestions by the State Governments for changes in the formats are promptly considered and view points of C&AG conveyed to the States with the request to adopt the formats. Regarding computer generated database and information system, under the proposed National Urban Information System (NUIS) comprehensive GIS database and urban management tools would be developed which will support master plan preparation and urban management.

The Twelfth Finance Commission (TFC) in its report has mentioned that high priority should be accorded to creation of database and maintenance of accounts at the grassroot level. Though TFC has not made any specific allocation for the above purpose, it has left it to the States to assess the requirement of each local body and earmark funds accordingly out of the total allocation recommended by the Commission.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 3.21)

The Committee note that the Tenth Finance Commission recommended for a provision of Rs. 1000 crore to enable the Urban Local Bodies to meet their primary obligations. It also desired that Local Bodies should provide suitable matching contribution by raising resources. The Committee further note that the Eleventh Finance Commission had emphasized the need for meeting the revenue mobilizations by the local bodies themselves. It suggested for suitable reforms in property/house tax system and the need for replacing octroi/entry tax with a suitable tax and also revising the rate structure of user charges on a regular basis. The Eleventh Finance Commission has recommended for devolution of Rs. 2000 crore to Urban Local Bodies for 5 year period from 2000 to 2005. While the Committee are happy to note that financial provision by way of devolution of Rs. 2000 crore to Urban Local Bodies has been made by Eleventh Finance Commission, but the Municipalities/Urban Local Bodies are still unable to perform well due to lack of funds. The Committee

desire to know why the resource crunch still exists inspite of the recommendation of devolution of a considerable amount by the Eleventh Finance Commission. The Committee recommend that the Union Government should impress upon the State Governments to bring up proper reforms of Municipal taxes, including property tax system so that Urban Local Bodies could generate sufficient resources to finance the maintenance of civic services. The Committee also recommend that loopholes in collection of Municipal taxes, leakage/diversion of funds etc. are plugged and action is taken against any misuse of funds.

Reply of the Government

As regards resource crunch existing in the municipal bodies inspite of recommendations of devolution of grants by 11th Finance Commission, it is submitted that this Ministry had requested the 11th Finance Commission to devolve Rs. 18,500 crore to municipalities during 2000-2005 to fill up the revenue gap for operation and maintenance of core civic services. Against this requirement, the 11th Finance Commission had devolved Rs. 2000 crore only for urban local bodies leaving a huge gap of Rs. 16,500 crore.

Similarly, before the 12th Finance Commission, the Ministry had projected resource gap to the tune of Rs. 76,896 crore during 2005-2010 for operation and maintenance of various civic services of ULBs and had requested the 12th Finance Commission to devolve the necessary funds of Rs. 76,896 crore so that deficiency/shortfall in municipal resources in urban areas could be remedied. In its recommendation, the 12th Finance Commission is able to devolve only Rs. 5000 crore against the requirement of Rs. 76,896 crore. In order that the financial position of ULBs improve to some extent, the Ministry have already launched certain initiatives which include Property Tax Reform Guidelines (1998), Model Municipal Law (2003) and National Municipal Accounts Manual (NMAM) (2005). These initiatives of the Ministry are expected to help State Governments to bring needed reforms in the urban governance and help local bodies to devolve sufficient resources to finance the maintenance of civic services.

Besides, the State Finance Commissions also look into the financial position of urban local bodies and recommend various measures for improving the financial health of ULBs. In order to improve financial position of ULBs, it is being made mandatory for ULBs in the proposed National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) to

levy reasonable user charges with the objective that full cost of operation and maintenance is collected within the next five years. Introduction of independent regulators for urban services is also being made mandatory in the above two proposed schemes.

Property tax reforms, creation of database of all properties under the proposed NUIS shall help in plugging the loopholes in property tax, which is the major source of revenue for ULBs. NMAM shall help local bodies in preparation of transparent financial records, more efficient use of funds and detect leakage/diversion of funds etc.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Comments of the Committee

(Please see Para No. 18 of Chapter I of the Report)

Recommendation (Para No. 3.22)

The Committee note with optimism the various reform initiatives taken by the Union Government to strengthen the capacity of Urban Local Bodies to perform their assigned functions in an effective manner. The Committee should be kept informed that the achievements made out of the reform agenda and the steps taken by the States in streamlining the functioning of Urban Local Bodies in pursuance thereof.

Reply of the Government

In order to strengthen urban local bodies both in terms of financial and administrative matter, the Ministry of Urban Development have taken various reform initiative which include the following:

1. Property Tax Reform:

Property tax which are one of the most important tax revenue for ULBs have not been exploited fully due to various reasons such as high rate of tax, unscientific manner of assessment etc. To help ULBs to reform the property tax system, the Ministry has circulated Property Tax Reform Guidelines to all States/UTs in 1998. Based on the Guidelines, the Property Tax Reforms have been taken or under consideration in Assam, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Karnataka, Madhya Pradesh, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh, West Bengal, Chandigarh, Delhi and Pondicherry.

2. Model Municipal Law

Ministry of Urban Development has prepared a **Model Municipal Law** (MML), which intends to assist urban local bodies in the areas of accounting reforms, resource mobilization, levy of users charges and entry of private sector partnership. The Model Municipal Law, *inter alia*, aims at simplification of municipal by-laws, provides for enhanced borrowing, entry of private sector in urban infrastructure and services and authorising concessionaire to penalize users for non-payment of tariffs. This initiative is expected not only to enhance the capacity of urban local bodies to leverage public funds for development of urban sector but will also help in creating an environment in which urban local bodies can play their role more effectively and ensure better service delivery.

The MML was circulated to all States on October 13, 2003. To impress upon the States about the provisions of MML, a National Workshop was held in Delhi in November, 2003. To sensitize the States further to incorporate the provisions of MML in their municipal laws, four Regional Workshops were conducted by the Ministry at Jaipur, Kolkata, Hyderabad & Pune in Sept'04, Nov'04, Feb'05 and April'05, respectively.

As a follow-up, States/UTs, namely Andhra Pradesh, Arunachal Pradesh, Chhattisgarh, Goa, Gujarat, Himachal Pradesh, J&K, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttaranchal, A&N Islands, Chandigarh & Delhi have initiated necessary action to adopt the provisions of MML.

3. Municipal Accounting Reforms

The 11th Finance Commission had devolved upon the Comptroller & Auditor General (C&AG) of India the responsibility for exercising control and supervision over the proper maintenance of accounts and the auditing of all urban local bodies (ULBs). Accordingly, a Task Force was set up by the C&AG of India to prescribe the budget and accounting formats for ULBs with proper codification and classification of budget and account heads. The Task Force after having considered the matter in its entirety and in consultation with this Ministry finalized its report. This report recommends for introduction of double entry accounting system, implementation of improved accounting policies and use of model budgeting and accounting formats by ULBs. The report was circulated to all States for implementation in April, 2003.

To impress upon the States the benefits of double entry accounting system and other features of the Task Force Report, a National Workshop on Municipal Accounting Reforms was organized in September, 2003. In that Workshop, it was decided that a National Municipal Accounts Manual (NMAM) would be prepared and circulated to all States/UTs to help them prepare their State-specific Municipal Accounts Manual.

Ministry of Urban Development in cooperation with the Office of C&AG of India has prepared NMAM and circulated to all States in January, 2005. Amongst others, the NMAM provides for common accounts manual for Municipal Corporations and Councils, segregation of operating and/or recurring items from non-recurring items, financial statements to throw up issues for policy formulation, etc.

Another National Workshop was also organized in Delhi in February, 2005 to discuss the features of NMAM and impress upon the States to draft their State-specific Municipal Accounts Manual for adoption the double entry accounting system by the ULBs. As a follow-up, almost all the States except Assam, Meghalaya and Nagaland have initiated action for adoption of the provisions of NMAM.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 3.31)

The Committee note that the State Finance Commissions are required to be set up under Article 243-I of the Constitution. There was delay in Constitution of First SFC in Goa, Pondicherry and Jharkhand and Second SFC is yet to be constituted in Pondicherry. Keeping in view the gist of recommendations of the various SFCs and the action taken thereon as Annexed (Annexure VIII) to the Report, the Committee observe that most of the recommendations made by the various State Finance Commissions have been accepted by the respective State Governments. The Committee desire that the State Governments should take expeditious measures to ensure that all recommendations of the respective State Finance Commissions are implemented through relevant administrative, legislative and financial measures within a given time frame. The Committee also recommend that the Union Government should pursue with the respective State Governments/UTs which are lagging behind in the setting up of the SFCs within the prescribed time limit and give their recommendations/ observations to the Governor of the State so as to facilitate better

fiscal management by the Urban Local Bodies. Since the administration of UTs is directly under the Union Government an example could be set up in regard to the role of the State Finance Commissions by accepting in recommendations regarding the concerned UTs.

Reply of the Government

The Ministry agrees with the views of the Committee. All the State Governments have set up SFCs as per Article 243-I (Annexure-III). In the case of Pondicherry, the first Finance Commission was constituted for a three year tenure on 10.03.1997. Its 1st and 2nd reports were approved and implemented by the Government. The remaining 3rd to 6th reports of the first Finance Commission are under examination with the UT Administration. The Second Pondicherry Finance Commission has been constituted on 05.01.2004 and is functioning. The first report of the Second SFC is being examined by the UT Administration for implementation.

With respect to other UTs, third Finance Commission for Delhi and Chandigarh has been constituted in October, 2004. Ministry of Home Affairs who is the nodal agency for Union Territories, has been requested to ensure implementation of SFCs recommendations in respect of Union Territories. In order that the recommendations made by the SFC are acted upon in a time bound manner, the Ministry is pursuing the case with the respective State Governments and will continue to take all conceivable steps to ensure that recommendations of SFCs are implemented by the State Governments.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Comments of the Committee

(Please see Para No. 23 of Chapter I of the Report)

Recommendation (Para No. 3.32)

The Committee note Article 243Y accords the primary responsibility to oversee the financial position of the Municipalities to State Finance Commission with a view to make recommendations to the Governor of the State relating to the principles which should govern (i) the distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them and the allocation between the Municipalities at all levels of their respective shares of such proceeds;

(ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Municipalities; and the grants-in-aid to the Municipalities from the Consolidated Fund of the State. The SFCs then give their suggestions and the measures needed to improve the financial position of the Municipalities and report to the Governor of the State. In this regard, the Committee recommend that appropriate steps should be taken up by the Union Government to impress upon the State Governments to implement all recommendations of the respective State Finance Commission within a given time frame and in the case of Union Territories, Government of India should take necessary steps in this regard.

Reply of the Government

This Ministry agrees with the views of the Committee. The Ministry is continuously pursuing the matter of implementation of Part IXA of the Constitution, including implementation of the recommendations of the State Finance Commission. As per the feedback received from the States, State Finance Commissions' recommendations are being implemented by them in varying degrees. Gist of the recommendation of the SFCs and action taken thereon, already annexed to the main report of the Committee as Annexure-VIII (pages 96-111 of the report). The recommendation of Commission has been forwarded to the M/o Home Affairs for implementation of SFCs recommendations in UTs.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Comments of the Committee

(Please see Para No. 23 of Chapter I of the Report)

Recommendation (Para No. 3.36)

The Committee note that the Eleventh Finance Commission have made certain suggestions for proper upkeep of accounts of Municipalities and their audit. The Committee desire that State Government should be persuaded to bring needed reforms in the existing Municipal Accounting System of Urban Local Bodies as suggested by the Eleventh Finance Commission. The Committee further desire that Municipal accounting system should be overhauled and made transparent with a view to ensure acceptance by lending agencies and financial market so that Urban Local Bodies could have proper access to debt funds to Finance and maintain the civic amenities which are suffering due to lack of funds.

Reply of the Government

The 11th Finance Commission had devolved upon the Comptroller & Auditor General (C&AG) of India the responsibility for exercising control and supervision over the proper maintenance of accounts and the auditing of all Urban Local Bodies (ULBs). Accordingly, a Task Force was set up by the C&AG of India to prescribe the budget and accounting formats for ULBs with proper codification and classification of budget and account heads. The Task Force after having considered the matter in its entirety and in consultation with this Ministry finalized its report. This report recommends for introduction of double entry accounting system, implementation of improved accounting policies and use of model budgeting and accounting formats by ULBs. The report was circulated to all States for implementation in April, 2003.

To impress upon the States the benefits of double entry accounting system and other features of the Task Force Report, a National Workshop on Municipal Accounting Reforms was organized in September, 2003. In that Workshop, it was decided that a National Municipal Accounts Manual (NMAM) would be prepared and circulated to all States/UTs to help them prepare their State-specific Municipal Accounts Manual.

Ministry of Urban Development in cooperation with the Office of C&AG of India has prepared NMAM and circulated to all States in January, 2005. Amongst others, the NMAM provides for common accounts manual for Municipal Corporations and Councils, segregation of operating and/or recurring items from non-recurring items, financial statements to throw up issues for policy formulation, etc.

Another National Workshop was also organized in Delhi in February, 2005 to discuss the features of NMAM and impress upon the States to draft their State-specific Municipal Accounts Manual for adoption the double entry accounting system by the ULBs. As a follow-up, almost all the States except Assam, Meghalaya and Nagaland have initiated action for adoption of the provisions of NMAM.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 4.8)

The Committee note that almost a decade has elapsed since the enactment of the Constitution (74th Amendment) Act with effect from

1.6.1993, however, a number of States are yet to constitute District Planning Committees although this is a mandatory provision under article 243ZD of the Constitution. In the circumstances, the Committee are distressed over the fact that the constitutional obligation to constitute the DPCs in the defaulting States has not been fulfilled. The Committee, therefore, strongly recommend that the Central Government should urge such States, where DPC has not yet been constituted yet, to form their respective DPCs within a specified time frame. If necessary, suitable provisions in this regard should be incorporated in the Constitution by bringing up the required amendment to the Constitution. The Committee would like to be apprised about the position in this regard. In case of UTs, the Government of India should ensure immediate constitution of DPCs in all UTs.

Reply of the Government

It is submitted that the subject of DPC has since been allocated to Ministry of Panchayati Raj. The above recommendation of the Committee has been forwarded to the Ministry of Panchayati Raj for taking further necessary action.

As per information available, the DPCs have not been set up in the States of Andhra Pradesh, Gujarat, Jharkhand, Nagaland, Punjab, Tripura and Uttar Pradesh, Uttaranchal & Pondicherry. These States have been requested at the level of Chief Secretaries to constitute these mandatory Committees at the earliest *vide* letter No. G-20011/1/2004-UCD, dated 21.4.2005.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 4.9)

The Committee note that in order to assist the State Governments to implement the provision of constitution of DPCs, the Ministry has drafted the guidelines and issued the same to all State Governments. These guidelines prescribe for composition and function of District Planning Committees, integration of the plans prepared by the Panchayats and Municipalities at the District level. The Committee desire that the Union Government should persuade the State Government to scrupulously implement the guidelines. The Committee also desire that Government should also provide for association and involvement of the NGOs, professionals, experts in the DPCs. The

Committee further urge the Union Government to make adequate provisions by amending Article 243 ZD to secure the participation of MPs and MLAs in DPCs.

Reply of the Government

As the subject of District Planning Committee (DPC) has been allocated to the Ministry of Panchayati Raj, the above recommendation of the Committee has been forwarded to the Ministry of Panchayati Raj. The issue raised above will now required to be look into by Ministry of Panchayati Raj.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 4.10)

The Committee are informed that in some of the States, DPCs are being chaired by Ministers in the State Governments. The Committee fear that this may not be in consonance with the true aim and spirit of the decentralization of responsibilities under the Constitution of India.

Reply of the Government

As already mentioned, the subject of District Planning Committee (DPC) has been allocated to the Ministry of Panchayati Raj. Therefore, the above suggestion made by the Committee is required to be looked into by the Ministry of Panchayati Raj.

However, Article 243 ZD(2) (d) leave it to the State Legislature to make provisions with respect to the manner in which the Chairperson of the DPC shall be chosen. In view of this, there is no bar if a Minister becomes the Chairman of the DPC provided such provision exists in the relevant State Law.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 4.11)

The Committee note that article 243 ZD (3) stipulates that every District Planning Committee (DPC) shall draft development plans and also one of the main functions of the District Planning Committee is

in regard to formulation of the District Development Plans and allocation of resources to local bodies for implementation of the local level projects in urban areas. The Committee have been given to understand that under the framework of the Constitution, the District Development Plans, Metropolitan Plans would lead to formulation of the State Plans. The Committee are distressed to find that in the absence of the DPC in certain States, the Planning Process would lose the intending meaning behind it. The Committee recommend that concerted and earnest action should be initiated by the Union Government to urge upon the States/UTs to formulate District Development plans so as to benefit the people at large.

Reply of the Government

As already mentioned, the subject of District Planning Committee (DPC) has been allocated to the Ministry of Panchayati Raj. The recommendations of the Committee have been forwarded to the Ministry of Panchayati Raj for further action.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 4.12)

The Committee note that as per article 243 ZD(3), draft development plans of DPC should take into consideration, (i) the matters of common interest between the Panchayats and the Municipalities including spatial planning, sharing of water and other, physical and natural resources, the integrated development of infrastructure and environmental conservation, (ii) the extent and type of available resources whether financial or otherwise; and (iii) consult such institution and organization as the Governor may, by order, specify. Keeping in view the main aims and objectives of this said proviso of Part IX A of Constitution, the Committee desire that the planning process be completed with a positive perspective and by taking into account of the following:-

- (i) each level of plan must include measures for infrastructure development and environment conservation;
- (ii) these development plans must be flexible to provide for the ever-growing and ever-expanding city boundaries and provide quality life to its inhabitants;

- (iii) People's participation in formulation of perspective plans be ensured through the elected bodies;
- (iv) given the paucity of resources, proper measures are taken to utilize strategic methods in selected urban areas as 'Core' development plans; and
- (v) cost recovery methods of Urban Local Bodies are strengthened. The Committee would like to be apprised about the steps taken in the matter.

Reply of the Government

As already stated, the subject of DPC has since been allocated to Ministry of Panchayati Raj.

As regards city planning process, the Mission Strategy of the proposed NURM provides that every identified city will prepare a urban perspective framework for a period of 20-25 years (with 5 yearly updates) indicating policies, programmes and strategies of meeting fund requirements. This perspective plan would be followed by preparation of development plans, integrating land use with services, urban transport and environment management for every 5 years plan period. The plan so prepared by the city should be in consonance with the District Development Plan as envisaged under the Constitution (74th Amendment) Act. Further association of ULBs in city planning process and passage of community participation law to institutionalise citizen partnerships are mandatory reforms under proposed NURM.

Regarding cost recovery method, it is informed that it would be a mandatory reform to be undertaken by the ULBs under proposed NURM and UIDSSMT to levy reasonable user charges with the objective that full cost of operation and maintenance is collected within next five years. Introduction of independent regulators for urban services which will be one of the mandatory reforms under the above two new schemes will help strengthen cost recovery method of ULBs.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 5.3)

The Committee note that there are 35 urban agglomerations with population of more than one million in the country and for these

areas, the Metropolitan Planning Committee (MPC) is a constitutional requirement under article 243 ZE of the Constitution. The Committee are dismayed to note that only State Government of Maharashtra have made an Act for constitution of MPCs for Mumbai, Pune and Nagpur till date but other States are lagging behind. The Committee take serious note of it and feel that this amounts to serious infringement of mandatory constitutional provisions. The Committee urge upon the Union Government to ensure that in all remaining Urban agglomerations with population of more than one million MPCs are constituted within a stipulated time period. The Committee further urge the Union Government to make adequate provisions by amending Article 243 ZE to secure the participation of MPs and MLAs in MPCs.

Reply of the Government

As per information available, MPC has been set up in West Bengal and the Government of Maharashtra have enacted the Maharashtra Metropolitan Planning Committee (Constitution & Functions) (Continuance of Provisions) Act, 1999. Delhi is exempted from setting up of MPC. The six States (Andhra Pradesh, Gujarat, Haryana, Karnataka, Punjab and Tamil Nadu) have informed that the matter is under their consideration. The Ministry is taking up the matter with the State Governments at the level of Chief Minister for implementation of all provisions of the 74th CAA including setting up of MPC without further delay.

Regarding amendment to Article 243 ZE to secure participation of M.P.s and M.L.A.s in MPCs, it is submitted that a provision already exists in Article 243-R. The State legislature may, by law, provide for the representation of MPs and MLAs in a municipality. Since the composition of MPCs is left to be decided by the State legislature, there is no bar for the State legislature to provide for representation of M.P.s and M.L.A.s in the MPCs. In view of this, no amendment is considered necessary as recommended above.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 5.4)

The Committee note that one of the main aims of the MPC is to formulate the Metropolitan Development Plans and to help the Planning process so as to provide the various urban services to the urban

population. The Committee are, however, perturbed to find that the due cognizance has not been given to the planning aspect of the ULBs/ Municipalities in most of the States/UTs in the country. The Committee recommend that proper attention must be given towards the formulation of development plans at district, metropolitan and State levels so as to ensure local self-governance be an effective instrument of economic and infrastructural growth in the urban areas.

Reply of the Government

The Ministry does not deal with the subject of formulation of plan at the State level. This Ministry deals with the subject of local Self Government in urban area *i.e.* ULBs. The Constitution (74th Amendment) Act envisage preparation of District Development Plan by the District Planning Committee and Metropolitan Development Plan by the Metropolitan Planning Committee. This Ministry has been impressing upon the States for constitution of DPCs and MPCs.

It may be mentioned here that the subject of DPC has since been allocated to the Ministry of Panchayati Raj. The above recommendation has been forwarded to the State Governments *vide* letter No. N-11025/48/2004-UCD dated 17.12.2004 for appropriate action.

To give impetus to the planning process at the city level, it is envisaged under the proposed NURM, every identified city will prepare a urban perspective framework for a period of 20-25 years (with 5 yearly updates) indicating policies, programmes and strategies of meeting fund requirements. This perspective plan would be followed by preparation of development plans, integrating land use with services, urban transport and environment management for every 5 years plan period.

After the NURM is approved and implemented, it is expected that the process of formulation of development plans for the cities would receive immediate attention of the State Governments as it would be a pre-requisite for the ULBs to avail Central assistance under the NURM.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 6.2)

The Committee note that to supplement the efforts of the State Government and to provide needed training facilities to elected

members of Municipalities, the Ministry provides financial assistance to certain training institutions. The Ministry has initiated a plan to train women elected councillors of all municipalities and the Ministry will provide 50 per cent of the total expenditure on training of elected women councillors. The Committee are of the firm view that potentiality of all the elected members of the Municipalities could be enhanced by giving proper training. The Committee, therefore, desire that concerted effects are made to provide for training by utilization of latest training methods and computerization network for capacity building of all the elected members of Municipalities.

Reply of the Government

As stated in the above recommendation, the Ministry has a scheme to train all elected women Councillors of urban local bodies for which financial assistance is being provided to the State Governments on 50:50 basis. So far Rs.158.65 lakh has been released to the 17 States/UTs for imparting training to 15,354 elected women councillors. While sanctioning the grants to the State Governments, efforts will be made to ensure that training is provided to the women elected Councillors by utilizing latest training methods. The above recommendation has already been brought to the notice of all States/UTs *vide* letter No. N-11025/48/2004-UCD dated 17.12.2004. Besides, four Regional Centres for Urban and Environmental Studies (Mumbai, Hyderabad, Lucknow and IIPA, Delhi) and National Institute of Urban Affairs also imparts training programmes to various elected and official functionaries of ULBs. There is a network of training institutions available under USAID FIRE-D Project which is also engaged in providing various training programmes to ULBs' functionaries.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Recommendation (Para No. 7.4)

The Committee note that article 243 T(3) of the Constitution recognizes the role of women in local self-governance and the functioning of the Municipalities. In this regard, the Committee are of the firm view that the women participation in 'Municipalities' being a mandatory provision under the constitution, the Union Government should issue guidelines to encourage and promote effective participation of women in the deliberations and decision making process of Municipalities.

Reply of the Government

To ensure that the elected women Councillors take effective participation in the deliberation and decision making process of municipalities, the Ministry has already undertaken a plan to provide necessary financial assistance to State Governments on 50:50 basis for providing training to them. So far, 17 States have availed of the benefit of the scheme. With the remaining State Governments, the Ministry is in touch to ensure that they also avail of the benefits of the scheme. The training being provided under the above plan to elected women councillor will enable them to take active part in the deliberation and decision making process of local bodies.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

CHAPTER III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (Paragraph No. 3.9)

Regarding, the formulation of development plans the Committee note that a three tier planning structure comprising of Municipal level/ District level, Metropolitan level and State level is envisaged in 74th CAA. Under this frame work, the Municipalities would prepare plans for their area which would be consolidated at the District level in the form of a District Development Plan. These District Development Plans would lead to formulation of the State level plans. In this regard, the Committee desire that comprehensive and coordinative efforts be made by the Central Government to impress upon the States and required UTs to formulate their development plans in time.

Reply of the Government

The Ministry does not deal with the subject of formulation of plan at the State level. This Ministry deals with the subject of local Self Government in urban area *i.e.* ULBs. The Constitution (74th Amendment) Act envisage preparation of District Development Plan by the District Planning Committee and Metropolitan Development Plan by the Metropolitan Planning Committee. This Ministry has been impressing upon the States for constitution of DPCs and MPCs.

It may be mentioned here that the subject of DPC has since been allocated to the Ministry of Panchayati Raj. The above recommendation has been forwarded to the State Governments *vide* letter No. N-11025/48/2004-UCD dated 17.12.2004 for appropriate action.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

CHAPTER IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Paragraph No.2.21)

The Committee definitely regard the Constitutional (74th Amendment) Act, 1992 as a path-breaking piece of legislation by which Constitution of India has been amended to incorporate a separate Chapter on Urban Local Bodies (ULB) by emphasizing the deserved significance of local self-governance in line with the democratic set-up of the country. The 74th CAA has redefined the role, power, function and finances of “Municipalities” or ULBs across the country. The Committee, therefore, are of the firm view that with the complete and proper implementation of the provisions under Article 243P to 243ZG of Part IX A of the Constitution, better control and effective working of the Urban Local Bodies in passing on the economic benefits and suitable urban infrastructure to the people at large, would be achieved. The Committee also recommend that innovative and good governance methods be adopted by Urban Local Bodies with proper information and training inputs, data base, as required, for improving the living conditions and quality of life of urban residents in the country.

Reply of the Government

The Ministry has been taking up the issue of implementation of Article 243P to 243ZG of Part IX A of the Constitution with the States on a continuous basis. As a result different provisions of Part IX A have been implemented by the States which include elections to urban local bodies (except Jharkhand and Pondicherry) for a fixed term of five years, devolution of functional and financial powers, reservation of seats for SC/ST and women, setting up of State Finance Commission etc. However, certain States like Andhra Pradesh, Gujarat, Jharkhand, Nagaland, Punjab, Tripura, Uttar Pradesh, Uttaranchal & Pondicherry are lagging behind in setting up of District Planning Committees (DPCs) for which the Ministry of Urban Development has been pursuing. It is, however, submitted that the subject of DPC has since been transferred to the Ministry of Panchayati Raj and the recommendation of the Committee has been forwarded to them for further follow up. Out of the 15 States having Metropolitan cities with a population of

10 lakh or more, Metropolitan Planning Committees (MPCs) have been constituted in two States namely West Bengal and Maharashtra. Similarly, Ward Committees (WCs) have been set up in 9 States/UTs, as per the details placed at Annexure-I.

In order that governance in urban local bodies be improved further and these bodies become more responsive, accountable and transparent, the Ministry is proposing to launch a Mission Mode Project on e-Governance in Municipalities. The main objective of the e-Governance initiative is application of electronic means to improve efficiency and effectiveness of urban local bodies in the interaction between local government and its citizens as well as other interested groups.

This Ministry in coordination with the C&AG is pursuing reforms in the field of Municipal Accounting System for which a National Municipal Accounts Manual (NMAM) has already been circulated to the State Governments to help them to develop State specific municipal accounting manual.

Ministry of Urban Development has also circulated Model Municipal Law (MML), which intends to assist urban local bodies in the areas of accounting reforms, resource mobilization, levy of users charges, entry of private sector partnership etc.

This Ministry proposes for launching National Urban Renewal Mission (NURM) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) in which, *inter-alia*, the following reforms at the level of ULBs/States are being proposed to be made mandatory to qualify for availing Central assistance:—

1. Adoption of modern, accrual-based double entry system of accounting in urban local bodies.
2. Reform of property tax with GIS, so that it becomes major source of revenue for urban local bodies.
3. Levy of reasonable user charges by urban local bodies with the objective that full cost of operation and maintenance is collected within next five years.
4. Implementation of decentralization measures as envisaged in 74th Constitution Amendment Act.
5. Introduction of independent regulators for urban services.
6. Assigning and associating elected urban local bodies as with “City Planning function”.

The above initiatives of Ministry of Urban Development are expected to enable ULBs to perform their assigned duties and responsibilities in a more effective and efficient manner to improve the living conditions and quality of life of urban residents.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated: 24.6.2005]

Comments of the Committee

(Please see Para No. 8 of Chapter I of the Report)

Recommendation (Paragraph No. 2.22)

The Committee note that the 74th CAA aims at a Constitutional guarantee to safeguard the interest of Urban Local Bodies (ULBs) to enable them to function as effective, democratic and self-governing institutions at grass root level. The Committee strongly emphasize that suitable steps be taken to ensure the following:—

- regularity in elections under the supervision of the State Election Commission;
- a clear tenure of five years for the elected body;
- protection for the elected body against arbitrary dissolution;
- Constitution of Ward Committees for greater proximity to the citizens;
- mandate to State Legislature to endow the ULBs with such powers and authority as may be necessary to enable them to function as institution of self-Government;
- the functions enumerated in Twelfth Schedule are effectively transferred to the Urban Local Bodies;
- the constitution of State Finance Commission (SFCs) to review municipal finances and make recommendations regarding distribution of the proceeds of State-level taxes between the State Governments and the Urban Local Bodies criteria for grants-in-aid, measures needed to improve the financial position of the Urban Local Bodies and compliance of the recommendations of the State Finance Commissions; and
- urgent formation of District Planning Committees (DPCs) and Metropolitan Planning Committees (MPCs) for integrated as well as coordinated planning for urban and rural areas.

Reply of the Government

The Ministry agrees with the above observations of the Committee. The Ministry has been impressing upon the States to fully implement the provisions of the Constitution (74th Amendment) Act. The latest position with regard to the above observations is as under:—

- I. Elections of the urban local bodies have been held in all States and UTs except Jharkhand and Pondicherry. The Government of Jharkhand and UT of Pondicherry have been requested to conduct the elections of municipalities without further delay.
- II. Article 243U already provides for fixed terms of five years for Municipalities and the States have made relevant provisions in their municipal laws.
- III. A provision already exists in the Constitution to give a municipality a reasonable opportunity of being heard before its dissolution.
- IV. Ward Committees have been constituted in various States where municipalities with population over 3 lakh exist. A Statement showing position in this regard is placed at Annexure-I.
- V. As per Article 243W of the Constitution, it is for the Legislature of State to devolve such powers and responsibilities upon municipalities as necessary to enable them to function as effective units of Local Self Government including those listed in the Twelfth Schedule. A Statement showing the status of devolution of functions listed in the Twelfth Schedule of Constitution upon municipalities in various States is placed at Annexure-II.
- VI. State Finance Commissions (SFCs) have been set up by all the States (Annexure-III). In four States/UTs namely Kerala, Uttar Pradesh, Haryana & NCT of Delhi, third Finance Commissions have also been set up. The Ministry is in constant touch with the State Governments to ensure that the recommendations of the SFCs are implemented expeditiously. Gist of the recommendation of the SFCs and action taken thereon, already annexed to the main report of the Committee as Annexure-VIII (pages 96-111 of the report)
- VII. For early setting up of DPCs and MPCs, the Government of India is pursuing the matter with the concerned State

Governments. Chief Secretaries have been requested *vide* letter No. G-20011/1/2004-UCD dated 21.4.2005 to take suitable action in this regard. It is submitted that the subject of DPC has since been allocated to the Ministry of Panchayati Raj. Further follow-up action on DPC will be taken by them.

[Ministry of Urban Development, O.M. No. N-11025/48/2004-UCD,
Dated : 24.6.2005]

Comments of the Committee

(Please *see* Para No. 8 of Chapter I of the Report)

CHAPTER V

RECOMMENDATION IN RESPECT OF WHICH FINAL REPLIES
OF THE GOVERNMENT ARE STILL AWAITED

—Nil—

NEW DELHI;
29 July, 2005
7 Sravana, 1927 (Saka)

MOHD. SALIM
Chairman,
Standing Committee on Urban Development

APPENDIX I

STATUS REPORT RECEIVED FROM STATES/UTs REGARDING
SETTING UP OF WARDS COMMITTEES
(1.6.2005)

Sl.No.	Name of the State/UT	Position	Status of Wards Committees
1	2	3	4
1.	Andhra Pradesh	Yes	
2.	Arunachal Pradesh	NA	
3.	Assam	IA	
4.	Bihar	No	Provision has been made in the State Municipal Act. After making rules for constitution of Wards Committees, the same will be constituted.
5.	Chhattisgarh	Yes	Election to the Municipal Corporation of Raipur has recently been conducted and constitution of Wards Committees is under Process. After election to the Bhilai Municipal Corpn., Wards Committees would also be constituted there.
6.	Goa	NA	As no municipality with population more than 3 lakh exist.
7.	Gujarat	No	
8.	Haryana	No	Rules have not been framed so far.
9.	Himachal Pradesh	NA	No corresponding provisions have been made in municipal law.
10.	Jammu & Kashmir	NA	Not required. 74th CAA not applicable in the State.
11.	Jharkhand	NE	Elections are yet to be held.
12.	Karnataka	Yes	Constituted in Bangalore and Gulbarga Nagarpalikas. Action is being taken to constitute such committees for the remaining five Nagarpalikas of the State having more than 3 lakh population.

1	2	3	4
13.	Kerala	Yes	Wards Committees have been set up in each municipality having population more than one lakh.
14.	Madhya Pradesh	Yes	Wards Committees have been constituted in the municipalities having population of 3 lakhs and above.
15.	Maharashtra	Yes	
16.	Manipur	IA	
17.	Meghalaya	NA	
18.	Mizoram	NA	No ULB exist.
19.	Nagaland	NA	No ULB of population above 3 lakh.
20.	Orissa	No	Provisions have been made in the State Municipal Act for setting up of Wards Committees. However, the State Govt. has not mentioned whether any Wards Committee has been constituted.
21.	Punjab	No	
22.	Rajasthan	UC	The State Government is taking steps for setting up of Wards Committees in the State immediately.
23.	Sikkim	NA	No ULB exist.
24.	Tamil Nadu	Yes	Govt. orders have been issued for constitution of 10 Wards Committees in the Chennai Municipal Corporation and 4 Wards Committees each in Madurai, Coimbatore, Tiruchirapalli, Tirunelveli and Salem Municipal Corporations.
25.	Tripura	No	Earlier there was no municipality of population more than 3 lakh exist, so Wards Committees not constituted. Subsequently the area/population of Agartala Municipal Council has been extended. The State Govt. will take action to constitute wards Committees.

1	2	3	4
26.	Uttar Pradesh	No	
27.	Uttaranchal	No	
28.	West Bengal	Yes	Yes.
29.	A&N Islands	No	The population of municipal area of A&N Islands is only 1.5 lakh. Hence, no wards Committee is required to be set up.
30.	Chandigarh	No	
31.	Dadra & Nagar Haveli	NA	No ULB.
32.	Daman & Diu	NA	No ULB of population above 3 lakh.
33.	Delhi	Yes	Wards Committees have been constituted at zonal level. There are 12 zones in MCD covering all the 134 wards.
34.	Lakshadweep	NA	No ULB exist.
35.	Pondicherry	NE	Elections are yet to be held.
Ward Committees constituted (Yes)			— 9
Under Consideration (UC)			— 1
Not set up due to non-election (NE)			— 2
Not Constituted (No)			— 10
No ULB of population above 3 lakh (NA)			— 11
Information Awaited (IA)			— 2
			<hr/> 35 <hr/>

DEVOLUTION OF FUNCTIONAL POWERS ON URBAN LOCAL BODIES

[illegible]

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Chhattisgarh	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Goa	✓	✓	x	✓	x	x	x	✓	x	✓	x	✓	x	✓	✓	✓	✓	✓
Gujarat	x	x	✓	✓	✓	x	✓	x	x	✓	—	x	x	✓	✓	✓	x	✓
Haryana	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	—	—	—	—	—
Himachal Pradesh	✓	No	✓	✓	✓	✓	No	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Jammu and Kashmir	74th Constitution Amendment Act is not applicable to the State of Jammu & Kashmir.																	
Jharkhand	Election to the ULBs is yet to be held in the State. Devolution of function will be taken up after the completion of the elections.																	
Karnataka	x	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Kerala	✓	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Madhya Pradesh	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Maharashtra	x	x	✓	x	x	x	x	✓	x	✓	✓	x	x	x	✓	x	x	✓
Manipur	The State Govt. have informed that they have yet to issue/publish the Powers & Functions enumerated in the XIIIth schedule.																	
Meghalaya	The State Govt. have informed that the State has been exempted from purview of 74th Constitutional Amendment Act.																	
Mizoram	The State Govt. have informed that ULBs have not been constituted so far in Mizoram.																	

[illegible]

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
GNCT of Delhi																		
MCD	x	x	✓	✓	x	✓	x	x	✓	✓	x	✓	✓	✓	✓	✓	✓	✓
NDMC	x	x	✓	✓	✓	✓	x	x	✓	x	x	✓	✓	✓	✓	✓	✓	x
Pondicherry	The devolution of 18 functions enumerated in the schedule 12 of the Constitution is to be made after installation of Urban Local Bodies. However, devolution of these functions to desired levels is under examination of the Government.																	
Lakshadweep	There is no ULBs in the UT of Lakshadweep. The entire UT is treated as Rural.																	

(✓) = Functions devolved upon ULBs fully.

(x) = Functions not devolved upon ULBs.

(-) = Information not received in respect of these functions.

APPENDIX III

DETAILS OF STATE FINANCE COMMISSION

Name of State	Date of constitution of 1st SFC	Date of constitution of 2nd SFC	Date of constitution of 3rd SFC
1	2	3	4
*Andhra Pradesh	22.6.1994	8.12.1998	
Arunachal Pradesh	21.5.2003	Due in 2008	
*Assam	23.6.1996	Constituted in 2001	
*Bihar	23.4.1995	2.6.1999	
Chhattisgarh	22.8.2003	Due in 2008	
*Goa	22.4.1994	April, 1999	
*Gujarat	15.9.1994	April, 1999	
Haryana	31.5.1994	6.9.2000	31.5.2005
Himachal Pradesh	23.4.1994	25.5.1999	
Jammu & Kashmir	2001	Due in 2005	
Jharkhand	28.1.2004	Due in 2009	
*Karnataka	10.6.1994	23.6.1999	
Kerala	23.4.1994	23.6.1999	20.9.2004
Madhya Pradesh	17.6.1994	17.6.1999	
Maharashtra	23.4.1994	22.6.1999	
*Manipur	22.4.1994	3.1.2003	
*Meghalaya	Not applicable. 74th CAA is not applicable to the State under Article 243ZC.		
*Mizoram	No ULB		
Nagaland	Not applicable. The State Government have not constituted SFC.		

1	2	3	4
Orissa	21.11.1996 & re-constituted on 24.8.1998	5.6.2003	
Punjab	22.4.1994	21.9.2000	
*Rajasthan	23.4.1994	7.5.1999	
*Sikkim	22.7.1998	2003	
*Tamil Nadu	23.4.1994	1.12.1999	
*Tripura	23.4.1994	29.10.1999	
*Uttaranchal	31.3.2001	Due in 2006	
*Uttar Pradesh	22.10.1991	25.2.2000	
West Bengal	May, 1994	July, 2000	Constituted
A&N Islands	20.9.1995	28.8.2001	
Chandigarh	May, 1995	9.1.2001	Constituted
*Dadar & Nagar Haveli	8.9.1995	December, 2001	
*Daman & Diu	8.9.1995	December, 2001	
GNCT of Delhi	April, 1995	2001	October 2004
Pondicherry	12.3.1997	5.1.2004	
*Lakshadweep	8.9.1995	December, 2001	

*Sources: The list as on 1.4.2004 collected from M/o Rural Development.

(The State of Meghalaya and Mizoram have also informed that SFC not constituted as the 73rd CAA, 1992 under which the SFC is required to be set up, is not applicable to these States).

APPENDIX IV

COMMITTEE ON URBAN DEVELOPMENT (2004-2005)

MINUTES OF THE TWENTY FIRST SITTING OF THE COMMITTEE HELD ON THURSDAY, 28 JULY 2005

The Committee sat from 15.00 hrs. to 16.00 hrs. in Room No. '139'
Parliament House Annexe, New Delhi.

PRESENT

Mohd. Salim — *Chairman*

MEMBERS

Lok Sabha

2. Shri Avtar Singh Bhadana
3. Shri Surendra Prakash Goyal
4. Shri Amitava Nandy
5. Shri Sudhangshu Seal
6. Shri Suresh Ganpatrao Wagmare
7. Shri Baleshwar Yadav

Rajya Sabha

8. Shri B.K. Hariprasad
9. Shri Varinder Singh Bajwa
10. Shri Nandi Yellaiah
11. Shri Jayantilal Barot
12. Shri Laxminarayan Sharma
13. Shri Urkhao Gwra Brahma

SECRETARIAT

- | | | |
|-------------------------|---|-----------------------------|
| 1. Shri S.K. Sharma | — | <i>Additional Secretary</i> |
| 2. Shri K. Chakraborty | — | <i>Director</i> |
| 3. Smt. Neera Singh | — | <i>Under Secretary</i> |
| 4. Shri A.K. Srivastava | — | <i>Assistant Director</i> |

2. At the outset, the Chairman welcomed the members to the sitting of the Committee. The Committee first took up for consideration the draft report on the subject 'Swarna Jayanti Shahari Rozgar Yojana' (Ministry of Urban Employment and Poverty Alleviation). After deliberation, the Committee adopted the draft report with slight modifications.

3. The Committee then took up for consideration Memorandum No. 4 regarding draft Report on the action taken by the Government on the recommendations contained in the Third Report (Fourteenth Lok Sabha) of the Committee on 'Implementation of Part IX A of the Constitution' (Ministry of Urban Development). After deliberation the Committee adopted the draft report without any modifications.

4. The Committee then authorised the Chairman to finalise both the Reports on the basis of factual verification from the concerned Ministries and present the same to both the Houses of Parliament.

5. The Chairman, thereafter, thanked all the members of the Committee and the Officials of the Lok Sabha Secretariat attached to the Committee for their active cooperation and support extended by them during the tenure of the Committee (2004-2005).

The Committee then adjourned.

APPENDIX V

[Vide Para 4 of the Introduction]

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE THIRD REPORT OF THE STANDING COMMITTEE ON URBAN DEVELOPMENT (14th LOK SABHA)

I. Total number of recommendations	26
II. Recommendations that have been accepted by the Government Para Nos. 2.23, 2.24, 2.25, 3.8, 3.10, 3.11, 3.12, 3.19, 3.20, 3.21, 3.22, 3.31, 3.32, 3.36, 4.8, 4.9, 4.10, 4.11, 4.12, 5.3, 5.4, 6.2, and 7.4.	23
Percentage to Total recommendations	(88.46%)
III. Recommendations which the Committee do not desire to pursue in view of the Government's replies Para No. 3.9	01
Percentage to Total recommendations	(3.86%)
IV. Recommendations in respect of which replies of the Government have not been accepted by the Committee Para Nos. 2.21 and 2.22	02
Percentage to Total recommendations	(7.68%)
V. Recommendations in respect of which final replies of the Government are still awaited Para Nos. NIL	NIL
Percentage to Total recommendations	