8.16th Finance Commission - Polity

Local bodies expect from the 16th Finance Commission. The 16th Finance Commission is tasked with rectifying the fiscal weakness of local governments caused by inadequate devolution from States and ad-hoc Union grants. It is expected to recommend buoyant, predictable resources—potentially linking grants to the divisible pool—to empower Panchayats and Municipalities as effective institutions of self-governance.

Introduction

The 16th Finance Commission (FC), constituted under Article 280 of the Constitution, has submitted its report to the President. While its primary mandate is to determine the financial sharing between the Centre and States, a critical aspect of its Terms of Reference (ToR) is to strengthen the fiscal foundations of India's third tier of governance—Panchayats and Municipalities. The report is expected to address the chronic "fiscal asymmetry" plaguing local governance.

2. Core Mandates of the Finance Commission

The Finance Commission has two primary constitutional duties regarding tax devolution

Vertical Devolution - Deciding the share of the Net Proceeds of Union Taxes that must be transferred to the States (currently 41% under the 15th FC).

Horizontal Distribution - Determining the formula (based on population, area, income distance, etc.) to distribute these resources among the various States.

3. Constitutional Provisions for Local Governments

Beyond the Centre-State split, the FC has a specific mandate for local bodies under Article 280(3)

Article 280(3)(bb) - Recommend measures to augment the Consolidated Fund of a State to supplement the resources of Panchayats.

Article 280(3)(c) - Recommend measures to augment the Consolidated Fund of a State to supplement the resources of Municipalities.

Objective - To ensure these bodies have funds commensurate with their responsibilities (drinking water, sanitation, roads, etc.).

4. The Structural Crisis - "Funds vs. Functions" Mismatch

Despite the 73rd and 74th Constitutional Amendments (1992), local bodies remain fiscally handicapped.

Dependence on States - The Constitution allows States to decide which powers to devolve. This has led to wide variations—some States empower local bodies, while others keep them dependent.

Lack of Distinct Tax List - unlike the Union (List I) and States (List II), there is no exclusive "Local List" of taxation powers.

11th Schedule (Panchayats) - Contains 29 functional items (e.g., agriculture, rural housing).

12th Schedule (Municipalities) - Contains 18 functional items (e.g., urban planning, fire services).

Reality - These lists are merely *illustrative*. States often assign the functions (work) without assigning the finances (funds) or functionaries (staff).

Result - Local bodies act merely as "implementing agencies" for State/Union schemes rather than self-governing units.

5. Failure of State Finance Commissions (SFCs)

The primary responsibility for local resource allocation lies with the SFCs, not the Union FC.

Constitutional Mandate - States must constitute an SFC every 5 years (Article 243-I and 243-Y) to determine tax sharing between the State and its local bodies.

Implementation Gap - Many States delay constituting SFCs. Even when reports are submitted (over 100 so far), recommendations are rarely implemented in spirit.

Consequence - Due to this failure, the Union Finance Commission (UFC) has to step in to fill the gap through direct central grants.

6. Evolution of Union Finance Commission Grants (13th to 15th)

The approach of the UFC towards local bodies has fluctuated, creating policy uncertainty.

Feature	13th Finance Commission	14th & 15th Finance Commissions
Quantum of Funds	**Percentage Share -** Linked grants to the "Divisible Pool" of taxes. *(Benefits - Inflation-proof, rose with tax buoyancy).*	**Lump Sum Grants -** Reverted to fixed amounts. *(Drawback - Static, does not grow automatically with economy).*
Grant Structure	**Two Components -** General Basic Grant. 2. Performance Grant.	**Two Components -** Basic Grant (Unconditional). 2. Tied/Performance Grant.
Conditionality	**6 Conitions -** Most States failed to meet them, leading to lapsed funds.	**Changing Goalposts -** **14th FC -** Focus on audited accounts.

Feature	13th Finance Commission	14th & 15th Finance Commissions
		15th FC - Added conditions like notifying property tax floor rates and online availability of accounts.
Impact	High benchmarks led to poor utilization.	Constant changes in conditions prevented long-term institutional reform.

7. Key Expectations from the 16th Finance Commission

To revive local governance, the 16th FC is expected to recommend a paradigm shift -

Scientific Assessment - Instead of ad-hoc grants, it should calculate the actual resource requirements for the 2.7 lakh panchayats and 5,000 municipalities.

Restoring Buoyancy - Experts argue for returning to the 13th FC model of linking grants to a percentage of the divisible pool, ensuring funds grow as the national economy grows.

Continuity in Reform - Performance conditions should be consistent and achievable (e.g., timely auditing of accounts) rather than constantly changing.

Empowerment - The ultimate goal is to transform local bodies from "dependents" into robust institutions of economic development and social justice.

8. Conclusion

The 16th Finance Commission faces the challenge of fixing a "broken chain" of fiscal federalism. By ensuring predictable, buoyant, and adequate resources, the Commission can breathe life into the constitutional promise of local self-government, ensuring that the village pradhan and municipal councillor have the power to solve local problems effectively.

Source - https - //www.thehindu.com/news/national/what-can-local-bodies-expect-from-the-16th-finance-commission-explained/article70296119.ece