

N-11025/63/2015-LSG-I  
Government of India  
Ministry of Urban Development

Nirman Bhawan, New Delhi,  
Dated : 27<sup>th</sup> May, 2016

To

The Principal Secretary/ Secretary,  
Urban Development Department,  
All State Governments.

**Subject : Proper Utilisation of 14<sup>th</sup> Finance Commission grants for delivery of basic services after proper planning. reg.**

Sir/ Madam,

The undersigned is directed to refer to the guidelines for implementation of recommendations of 14<sup>th</sup> Finance Commission issued by Ministry of Finance on 08<sup>th</sup> October, 2015 with regard to grants for local bodies.

2. The guidelines mandate that expenditure by municipalities is to be incurred only after proper plans are prepared and that the expenditure should go towards supporting and strengthening their primary functions to deliver basic services. (para 4 and para 7 of the guidelines).

3. State Governments are advised to prepare service level improvements plans on the lines of AMRUT guidelines for all ULBs of the State with regard to basic services of water and sanitation. This would give a clear picture as regarding the current status of service level in respect of sanitation, water supply, sewerage and drainage. Once the service level improvements plans (SLIPs) are prepared, it is suggested that proper utilisation of these grants for improvement of basic services may be taken up in sectors like :-

- a) Using the grants as the ULB share to achieve open defecation free status for the ULBs under Swachh Bharat Mission
- b) Using the grants to provide for ULBs share for Government of India's scheme of Swachh Bharat Mission and Atal Mission for Rejuvenation and Urban Transformation (AMRUT) in the areas of sanitation, solid waste management and drinking water supply.

4. The flexibility of usage of SFC funds lies with the municipalities. However, this must be viewed in the light of preparation of proper plans which leads towards supporting and strengthening the delivery of basic services.

5. A detailed Advisory on the issue is enclosed with the request that appropriate action in this regard may be taken by the State Government under intimation to this Ministry.

Yours faithfully,

  
(Sunil Kumar Pal)

Under Secretary to the Govt. of India  
Tel: 23061072

**Ministry of Urban Development**  
**Advisory to the State Governments for**  
**Proper Utilization of 14 Finance Commission Grants**

**Background**

1. Census 2011 has brought out the fact that within 20-25 years, another 30 crore people will get added to Indian towns and cities.
2. Our Cities need to work on several areas to manage this rapidly growing urbanization. Perhaps the most important one being Inclusive cities, Urban governance, Resource mobilization, Planning, Providing Basic Urban Infrastructure and Capacity building.
3. The Fourteenth Finance Commission (FFC) submitted its Report on December 15, 2014 and the Government of India accepted its recommendations in respect of the Local Bodies. The Ministry of Finance has subsequently issued 'Guidelines for Release and Utilization of Grant recommended by the FFC for Urban Local Bodies (Local Bodies Grant)' on October 8, 2015.
4. The FFC has recommended Grant-in-aid to duly constituted Municipalities (ULBs) in two parts, namely - (i) **a Basic Grant** and (ii) **a Performance Grant**.
5. In case of Municipalities (ULBs), the division between Basic and Performance Grant will be 80:20 basis. The FFC has recommended a Basic and Performance Grant of Rs. 69,715.03 crore and Rs. 17,428.76 crore respectively for the period 2015-20.
6. As per the Guidelines issued by the Ministry of Finance, upto 10% of the allocation to Municipality can be spent on the cost of technical and administrative support toward O&M and capital expenditure. These needs to be used judiciously and the expenditure should be incurred only by the ULB concerned.
7. This is a Draft Advisory to the State Governments for taking steps towards proper utilization of 14 Finance Commission grants (Basic as well as performance) as per national priorities.

8. The State Governments are required to issue guidelines for disbursement of the Performance Grant separately. These should cover the mechanism of selection and disbursement of performance grant among eligible ULBs within a state from the year 2016-17 onwards.

### **Essential Features for utilizing the Finance Commission Grants:**

#### **A) Utilisation for Basic services:**

9. The Grants are intended to be used to support and strengthen the delivery of basic civic services including water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street-lighting, burial and cremation grounds and any other basic service within the functions assigned to them under relevant legislations.<sup>1</sup>
10. It is emphasized that no expenditure will be incurred out of the FFC grants except on basic services.

#### **B) Not to be used without Proper Plans:**

11. The purpose of the Basic and Performance Grant recommended by the FFC is for planning and delivering of basic services smoothly and effectively.
12. The State Governments must ask municipal bodies to prepare proper action plans for the utilization of FFC grants in accordance with the relevant State laws, rules, regulations, processes and procedures.
13. The State Governments should develop state-specific, time bound action plans to address the issues highlighted by the FFC.

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<sup>1</sup> Ministry of Finance: Department of Expenditure No. 13(32)FFC/ FCD/2015-16: Issue of Guidelines for the implementation of recommendation of **Fourteenth** Finance Commission with regard to Local Bodies grant, para 7.

### **C) Monitoring:**

14. The States to constitute a High Level Monitoring Committee headed by the Chief Secretary and including the Finance Secretary and other concerned departmental Secretaries to monitor and carry out concurrent evaluation of the ULBs receiving the grants to ensure that funds are utilized for the purpose recommended by the FFC.
15. The State Government should take appropriate against ULBs if any irregularity in the utilisation of these fund are noticed or pointed out. Appropriate third party audit mechanism may be put in place for this.

Bsesd on the above mandate of 14<sup>th</sup> Finance Commission, following advisory is issued to all State governmnets:

#### **(i) Preparation of Individual ULB level Plans for proper utilisation of 14<sup>th</sup> F.C. grants:**

16. To upgrade the quality of life in Indian cities, and to promote inclusive growth, a major thrust is necessary for proper planning towards sustainable development of physical infrastructure in cities, along with development of required technical and management capacity for promoting holistic growth with improved governance.
17. The three main priority sectors for Basic Services in Urban areas are:
  - i. Universal access to Toilets (Household/Community/Public)
  - ii. Clean Drinking Water with Universal Coverage
  - iii. Solid and Liquid Waste Management ( Collection, Transfer and Treatment)
18. The plans of ULBs must reflect these priorities and a well defined roadmap to achieve desired benchmarks in each of the priority sector.
19. Priority may be given for utilising the 14<sup>th</sup> F.C. Grants by a ULB towards the following purposes needs to be ensured:
  - i. Extending additional grants to beneficiaries over and above the central and state support under Swachh Bharat Mission where ever required.

- ii. Additional Grants for Public and Community Toilets.
- iii. ULB share for projects for Water Supply, Solid waste and Liquid waste management.
- iv. For smooth operation and efficient maintenance of the above facilities.

20. ULBs can use the AMRUT Guidelines to prepare a service level improvement plan using the techniques of Gap assessment, Planning, Convergence, Prioritisation etc. A summary of the process is given in **annexure I** of this advisory.

**ACTION POINT:**

State Governments are advised to issue instructions to all ULBs to prepare plans for proper utilisation of 14<sup>th</sup> F.C. grants for the period 2016-2020 in a time bound manner. The plans so prepared must be consolidated and analysed at the state level to ensure the proper utilisation of funds. The plans so prepared must be put up in public domain through the ULB website. State governments to take steps towards capacity building of ULBs for making these plans. Capacity building funds under various centrally sponsored schemes (Swachh Bharat Mission, AMRUT, CBUD etc.) may be utilised for this purpose.

**(ii) Monitoring By State Governments:**

- 21. The states to constitute a High Level Monitoring Committee headed by the Chief Secretary and including the Finance Secretary and other concerned departmental secretaries to monitor and carry out concurrent evaluation of the Urban Local bodies receiving the grants and to ensure that the funds are utilised for the purpose recommended by the FFC.<sup>2</sup>
- 22. State Government is expected to send an annual report to MoUD giving details of funds received, transferred, utilized for each ULB with respect to Basic and Performance Grants. The report should also include improvement in service level indicators.

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<sup>2</sup> Ministry of Finance: Department of Expenditure No. 13(32)FFC/ FCD/2015-16: Issue of Guidelines for the implementation of recommendation of **Fourteenth** Finance Commission with regard to Local Bodies grant: Para 24.

**ACTION POINT:**

State Governments to immediately constitute the above mentioned committee and review the performance for the grants released in 2015-16. A report regarding the same to be sent to ministry of Urban Development by end of first quarter of 2016-17, that is by 30<sup>th</sup> June. Corrective action for non-utilisation or mis-utilisation of 14<sup>th</sup> F.C. grants by any ULB must be delt with exemplary action.

**Procedural and Other Matters regarding utilisation of 14<sup>th</sup> F.C. Grants :  
Release Mechanisms at The Union and State Level**

23. The grants shall be released by the Union Government to State Government in two instalments, in June and October every fiscal year. While 50 per cent of the Basic Grant for a particular year will be released to the State Governments as the first instalment of the year, the remaining Basic Grant and the full Performance Grant for the year is to be released as the second instalment for the year. However, the Performance Grant will be released from 2016-17 onwards as recommended by the FFC.
24. Every State Government should release the Grants to the ULBs within fifteen days of it being credited to their account by the Union government. There should not be any deductions at source from the grants due to the ULBs. In case of delay, the State Government must release the instalment along with interest at the Bank rate of Reserve Bank of India paid from its own funds and a certification to this effect will be reflected in the Utilization Certificate (UC) to be furnished by the State Government.
25. Release of second and subsequent instalments of grants (both Basic & Performance) will be subject to receipt of UC for the previous instalment in the prescribed format given in MoF guidelines and compliance to the stipulated guidelines.

**Division Criteria of Basic and Performance Grants among ULBs**

26. The FFC has recommended Basic and Performance Grant to ULBs with the purpose of providing a measure of unconditional support for delivering basic services. At each State Government level, this Grant will be divided into tier wise shares and

distributed across each tier, namely the Municipal Corporations, Municipalities and Nagar Panchayats, by using the formula given by the respective State Finance Commissions (SFCs).

27. In case the SFCs formula is not available in respect of the ULBs, the share of each of the three tiers will be determined on the basis of population of 2011 with a weight of 90 per cent for population and a weight of 10 per cent for area, and then distributed among the entities in each tier in proportion to the population of 2011 and area in the ratio of 90:10.

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**STEPS TO PREPARE A PLAN FOR IMPROVING BASIC SERVICES IN A ULB****I. Preparation of Service Level Improvement Plans (SLIPs)**

The primary purpose is to cover all households with Toilets (Individual or Community) for achieving open defecation status followed by Water supply and Waste Treatment and Management (Solid and Liquid). For this the Service Level Improvement Plan (SLIP), has to be prepared by each ULB.

**II. Assess the service level gap:**

To build on the available data, information and plans on coverage of Toilets, water supply Solid waste management and sewerage with the States/ULBs. If we take the zone as the basic unit to assess existing levels of coverage of Toilets, water supply and Waste (Solid and Sewerage), the number of households in the zone having these facilities/connections and those not having will be taken from the Census (2011) or the baseline survey done by the ULB. The zone-wise gaps will be added to arrive at the service level gap in households without toilets, water supply and Waste (Solid and Sewerage) in the ULB.

**III. Planning to Bridge the gap:**

Once the gap between the existing number of households having Toilets, Water and Waste (Solid and sewerage/septage) management facility/connections vs. the total number of households is computed, plans will need be prepared to bridge the gap by using resources available to the ULB.. All households in a



zone must be covered and this exercise should be done separately for Toilets, Water supply and Waste (Solid and Sewerage).

**IV. Examine alternatives and Converge Resources:**

The ULBs will have to examine alternatives available to them. For example, one State/ULB may require addressing gaps in distribution. Another State/ULB may require a common grid connecting many localities to a distant water source. In sewerage, some States/ULBs may choose a mix of centralised and decentralised systems. A State/ULB with high urban densities may choose centralised network based systems. Moreover, considering the cost of sewerage network systems, some ULBs may opt for efficient septage management systems.

Similarly, to achieve the goal of open defecation free city, various approaches and alternatives must be explored as mandated and supported under the Swachh Bharat mission.

For this various state and centrally sponsored schemes may be dovetailed with the funds available to ULB as own revenues and 14<sup>th</sup> F.C. grants.

Therefore, a one-size-fits-all approach will not work and alternatives should be generated in order to do more with fewer resources and do it in a way that the benefits reach the people in the form of taps and toilets.

**V. Estimate the cost:**

The cost (both capital and O&M) of each project will be prepared based on line (or abstract) estimates. An important output will be the total requirement of funds for achieving universal coverage for

Toilets, Water supply and Waste (Solid and Sewerage (Master Plans) for each ULB and the full State.

**VI. Prioritize:**

The grants due under 14<sup>th</sup> F.C. devolution are predetermined for five years. If resources are available to achieve universal coverage in one year, then the ULB may take it up. However, if sufficient resources are not available to achieve universal coverage in the ULB and the achievement has to be implemented in several years, the ULB will prioritize the zones to be taken up in the first, second, third, fourth and fifth year of the Mission. Universal coverage should ideally start with Individual and Public/Community Toilets, Water-supply followed by sewerage and other basic services. Depending on availability of funds, once Open Defecation Status is achieved, universal coverage of water supply and sewerage can also be done together. After universal coverage is achieved, the ULBs may decide on the next priority – a ULB may decide to construct storm water drains or fund urban transport depending on whether the local priority is to reduce frequent flooding or reduce vehicle-induced pollution. All in all, universal coverage of Toilets, Water Supply and Sanitation (Solid as well as Liquid Waste) is a National Priority and these must be the primary objectives to be achieved by the ULBs.

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