



ABSTRACT

14th Central Finance Commission Award – Basic Grants to the Urban Local Bodies - For the period from 2015-16 to 2019-20 – Guidelines for utilization of Basic Grants – Approval - Orders – Issued.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY (MA2) DEPARTMENT

G.O.(Ms)No.108

Dated 24.7.2015

திருவள்ளூர் ஆண்டு 2046

மன்மத வருடம், ஆடி 8

Read:

1. G.O.(Ms)No.194, Finance (FC IV) Department, Dated 10.6.2013.
 2. Relevant extracts of Chapter IX (Local Government) of the 14th Central Finance Commission's Report.
 3. From the Director of Municipal Administration, D.O. Lr. No. 12735/2015/P1, Dated 18.5.2015.
 4. From the Managing Director, Chennai Metropolitan Water Supply and Sewerage Board, D.O.Lr.No.CMWSSB/Fin/Budget/ 020903 /2015, Dated 16.7.2015.
 5. From the Commissioner, Corporation of Chennai, Letter No.FAC.No.L&G-2/2124/2015, Dated 20.7.2015.
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ORDER:

The 14th Finance Commission has submitted its report to the Hon'ble President of India and the recommendations of the commission have been accepted by the Government of India and communicated to the State Governments. The award period of 14th Finance Commission is from the year 2015-16 to 2019-2020.

2. The 14th Finance Commission in its report among others, has recommended General Basic Grants to the Local Bodies as below: -

(i) Distribution of grants to the States using 2011 population data with a weight of 90 percent and area with a weight of 10 percent. The grant to each State will be divided into two – grants to duly constituted gram Panchayats and a Municipalities on the basis of Urban and Rural population. (Para-9.64)

(ii) Grants in two parts – a Basic grant and Performance grant for duly constituted gram Panchayats and Municipalities, in the case of gram Panchayats, 90 percent of the grant will be the Basic grant and 10 percent will be the Performance grant. In case of Municipalities, the division between Basic and Performance grant will be on a 80:20 basis. (Para-9.70)

(iii) The Basic grant for Urban Local Bodies will be divided into tier wise shares and distributed across each tier, namely the Municipal Corporations, the Municipalities (the tier II Urban Local Bodies) and the Nagar Panchayats (the tier III Local Bodies) using the formula given by the respective State Finance Commissions. The State Governments should apply the distribution formula of the most recent State Finance Commission, whose recommendations have been accepted. (Para-9.72)

(iv) The grants recommended by us shall be released in two instalments each year in June and October. We recommend that 50 per cent of the basic grant for the year be released to the State as the first instalment of the year. (Para-9.81)

3. The Director of Municipal Administration has stated that as per the recommendations of 14th Central Finance Commission in para 9.70, the Corporations, Municipalities and Town Panchayats of the State will be allocated Basic Grant and Performance Grant during the award period from 2015-2020 as follows:-

(Rs. in crore)

| Year | Basic Grant | Performance Grant |
|--------------|--------------------|--------------------------|
| 2015-16 | 790.04 | --- |
| 2016-17 | 1093.95 | 322.87 |
| 2017-18 | 1263.96 | 365.37 |
| 2018-19 | 1462.18 | 414.92 |
| 2019-20 | 1975.71 | 543.31 |
| Total | 6585.85 | 1646.46 |

4. The 4th State Finance Commission had recommended that the vertical sharing ratio between the tiers of Urban Local Bodies shall be 40:29:31 for Municipal Corporations, Municipalities and Town Panchayats, respectively. The Government had accepted this recommendation, with a modification that the vertical sharing ratio between the tiers of Urban Local Bodies shall be 40:31:29 for Municipal Corporations, Municipalities and Town Panchayats, respectively and issued orders in Government Order first read above.

5. Accordingly, the Corporations, Municipalities and Town Panchayats will be receiving Basic Grant under the award of the 14th Central Finance Commission, for the years from 2015-16 to 2019-2020, as follows:-

(Rs. in crore)

| Year | Allocation | Corporations including Chennai | Municipalities | Town Panchayats |
|--------------|----------------|--------------------------------|----------------|-----------------|
| | | (40%) | (31%) | (29%) |
| 2015-16 | 790.04 | 316.02 | 244.91 | 229.11 |
| 2016-17 | 1093.95 | 437.58 | 339.12 | 317.25 |
| 2017-18 | 1263.96 | 505.58 | 391.83 | 366.55 |
| 2018-19 | 1462.18 | 584.87 | 453.28 | 424.03 |
| 2019-20 | 1975.71 | 790.28 | 612.47 | 572.96 |
| Total | 6585.84 | 2634.33 | 2041.61 | 1909.90 |

6. The Managing Director, Chennai Metropolitan Water Supply and Sewerage Board in his proposal fourth read above, has stated that, the entire services of providing water supply and disposal of sewerage are vested with Chennai Metropolitan Water Supply and Sewerage Board and the present allocation of devolution under State Finance Commission award at 10% out of Chennai Corporation's share, to the Chennai Metropolitan Water Supply and Sewerage Board is insufficient, as the total outstanding loan liabilities of the Board as on 31.3.2015 is Rs.1220.23 crores. Further, with increased area of operation and increased demand for Water supply, the Chennai Metropolitan Water Supply and Sewerage Board is taking up various schemes to augment water supply. The Board has taken up water supply and sewerage projects at a total cost of Rs.4247.00 crore in the added areas of the Chennai City.

7. The Managing Director, Chennai Metropolitan Water Supply and Sewerage Board has further stated that the Government is apportioning the funds under the Chennai Mega City Development Mission equally between the Corporation of Chennai and the Chennai Metropolitan Water Supply and Sewerage Board at 50%. The Managing Director, Chennai Metropolitan Water Supply and Sewerage Board on the same analogy has requested the Government to consider allocation of 50% of the devolution of funds under the 14th Central Finance award to the Chennai Metropolitan Water Supply and Sewerage Board, out of Chennai Corporation's share.

8. The Commissioner, Corporation of Chennai in his letter fifth read above, citing the financial burden of Corporation on various account, such as, the need for provision of basic amenities to the extended areas of the Chennai City on par with Chennai Corporation at a cost of thousands of crores of rupees; manifold increase in the expenditure on Operation and Maintenance; steep increase in the expenditure on establishment due to the implementation of 6th Pay Commission recommendations; debt servicing etc., is of the view that, at the most, the existing sharing pattern of State Finance Commission devolution grants between

Corporation of Chennai and Chennai Metropolitan Water Supply and Sewerage Board in the ratio of 90:10 may be extended to Central Finance Commission grants as well.

9. The Government after careful consideration of the recommendation of the 14th Central Finance Commission that the measures including the grants to the Local Bodies should go towards supporting and strengthening the basic delivery services like Water Supply, Sanitation including Septage Management and the views of the Managing Director, Chennai Metropolitan Water Supply and Sewerage Board, the Commissioner, Corporation of Chennai, has decided to allocate 10% to the Chennai Metropolitan Water Supply and Sewerage Board from out of the Chennai Corporation's share of devolution under the 14th Central Finance Commission award, and orders accordingly.

10. The Government after careful examination accept and approve the guidelines for utilization of General Basic Grants by Urban Local Bodies under the award of the 14th Finance Commission, furnished by the Director of Municipal Administration, as annexed to this order.

11. This orders issues with the concurrence of the Finance Department U.O.No.41881/Fin(FC II)/2015, Dated 24.7.2015.

(BY ORDER OF THE GOVERNOR)

**K. PHANINDRA REDDY
PRINCIPAL SECRETARY TO GOVERNMENT**

To

The Director of Municipal Administration, Chennai-5.
The Director of Town Panchayats, Chennai-108.
The Commissioner, Corporation of Chennai, Chennai -3.
The Managing Director,
Chennai Metropolitan Water Supply and Sewerage Board, Chennai-2.
The Managing Director,
Tamil Nadu Water Supply and Drainage Board, Chennai-5.

Copy to:

The Prl. Private Secretary to the Principal Secretary to Government,
Municipal Administration and Water Supply Department, Chennai-9.
The Finance (FC1/FC2/MA&WS) Department, Chennai-9.
The Municipal Administration and Water Supply (OP2/TP2/Bud/MW) Department,
Chennai-9.

/FORWARDED BY ORDER/

SECTION OFFICER

**Annexure to G.O(MS) No.108, Municipal Administration and Water Supply
(MA2)Department, Dated 24.7.2015.**

**Guidelines for the utilization of 14th Central Finance Commission Grants by
the Urban Local Bodies**

The 14th Central Finance Commission has observed in Para No. 9.55 and 9.56 of its report that the Ministry of Urban Development pointed out that basic services in Urban areas need to meet the National level bench marks set by it. The need for supporting these services has been brought out in most of the State Finance Commission reports as well as in consultations with the Chairpersons of State Finance Commissions.

2. Improvements in the quality of basic services are likely to lead to an increase in the willingness of citizens to pay for the services. The 14th Central Finance Commission is of the view that the measures including the grants to the Local Bodies should go towards supporting and strengthening the delivery of basic services – Water Supply, Sanitation including Septage Management, Sewerage, Storm Water Drain and Solid Waste Management, Street Lights, Roads and Footpath, Parks, Playgrounds, Burial and Cremation Grounds. Therefore, the Local Bodies should be required to spend the grants only on the basic services within the functions assigned to them under relevant legislations.

3. Based on the above observations and recommendations of the 14th Central Finance Commission and considering the requirements of Urban Local Bodies in the State, the following guidelines are prescribed for the utilisation of the 14th Central Finance Commission recommendation grants, by the urban local bodies.

(i) Water Supply and Under Ground Sewerage Schemes

The Urban Local Bodies in recent years have taken up a number of new water supply and sewerage projects. Water Supply projects are under implementation with financial assistance of agencies such as the World Bank, Japan International Cooperation Agency (JICA), Kreditanstalt fur Wiederaufbau (KfW) and schemes such as Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT), Urban Infrastructure Governance (UIG) and Integrated Urban Development Mission (IUDM) in 4 Corporations and 84 Municipalities, at an estimated cost of Rs.2864.09 crore. Water supply projects are under execution in Town Panchayats also. Similarly, 15 new Under Ground Sewerage Schemes at an estimated cost of Rs.1167.83 crore are to be taken up for execution. The Urban Local Bodies have to supplement the grants and loans under various schemes by making their own contribution from out of their general fund for the implementation of these major schemes. Since, the scope for allocation of sufficient share from the general fund of the Urban Local Bodies is less, the **funds allocated by the 14th Finance Commission can be utilized by the Urban Local Bodies in augmenting the core municipal services of water supply and sewerage facilities.**

(ii) Electricity charges payable by the Urban Local Bodies to Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO)

The Urban Local Bodies utilise electricity for providing core municipal activities, such as Water Supply, Sewerage treatment, Street lighting etc.,. The annual electricity expenses of Urban Local Bodies is about Rs.215.00 crore. In

addition, the Urban Local Bodies need to pay the outstanding arrear amount of about Rs.215.00 crore to the Tamil Nadu Generation and Distribution Corporation, which is being insisted upon by the said Corporation. Urban Local Bodies may therefore utilize the 14th Finance Commission grants to pay Electricity bills.

(iii) Water Charges payable by ULBs

The Urban Local Bodies get bulk water supply from the Combined Water Supply Schemes operated by the Tamil Nadu Water Supply and Drainage Board and Chennai Metropolitan Water Supply and Sewerage Board. Currently the Tamil Nadu Water Supply and Drainage Board is supplying water to the Urban Local Bodies at an average rate of Rs.4.50 per kilo litre. Demand of the annual water charges payable by the Urban Local Bodies to the Tamil Nadu Water Supply and Drainage Board and Chennai Metropolitan Water Supply and Sewerage Board is as below:

(Rs.in Crore)

| Organisation | Corporations and Municipalities | Town Panchayats |
|---------------------|--|------------------------|
| TWAD Board | 60.00 | 30.00 |
| CMWSSB | 5.25 | 1.13 |
| Total | 65.25 | 31.13 |

Hence, Urban Local Bodies may make payment for the bulk water supply. Regular payment by the Urban Local Bodies will enable these agencies to ensure proper maintenance and upkeep resulting in improved service delivery to the citizens.

(iv) Municipal Solid Waste Management

The Solid Waste generated in the Corporations, Municipalities and Town Panchayats of the State is about 15273 Tons per Day, of which about 80% is collected and transported to the Dumpsites. Scientific processing and disposal is done only in certain ULBs, i.e. Full scale treatment and disposal in 10 Urban Local Bodies and partial treatment and disposal in 212 Urban Local Bodies. Thus huge investments are required for providing scientific treatment and disposal facilities. Based on the guidelines of the Swachh Bharat Mission, it is estimated that an amount of Rs.5237.61 crore is required for solid waste management.

Though, the State Government is providing financial assistance to the Urban Local Bodies for implementing Solid Waste Management projects through Integrated Urban Development Mission and Solid Waste Management fund, external aid/ Government of India funding, the Urban Local Bodies are not in a position to make their financial contribution in implementing the Solid Waste Management Projects.

Solid Waste Management is one of the core civic functions of the Urban Local Bodies. In order to optimize cost and improve efficiency, some of the larger Urban Local Bodies have outsourced the primary collection and transportation. Now, the larger Urban Local Bodies are outsourcing the setting up of scientific land fill facilities to take care of the disposal of the waste as well. The annual expenditure

on account of the **outsourcing of the Solid Waste Management activities** in the Urban Local Bodies works out to about Rs.70 crore.

The 14th Finance Commission Grants can be utilized for **payment of Urban Local Body contribution in the implementation of Solid Waste Management projects or payment to the outsourcing agencies** by the Urban Local Bodies towards Solid Waste Management activities.

(v) Maintenance of Roads

Roads form the backbone of the Urban Infrastructure Development. This Government endeavors to provide motorable roads that are designed and built for the primary use for vehicular and pedestrian traffic. Roads are designed for an intended span of life and are laid based on Ministry of Road Transport and Highways (MORTH) specifications taking into consideration their cost effectiveness.

The Corporations (Except Chennai) and Municipalities are maintaining roads to a total length of 23349.93 km, of which 5148.536 km are cement concrete roads, 14827.951 km are black-topped roads, 1048.465 km are WBM roads, 2045.522 km are Earthen roads and 279.457 km are other roads like cut stone pavement, paver block etc.

The maintenance of roads, restoration and relaying the roads damaged due to implementation of water supply schemes, under-ground sewerage schemes and natural calamities is supported under various scheme such as Tamil Nadu Urban Road Infrastructure Project (TURIP), Integrated Urban Development Mission (IUDM) and EXRDEF.

The Municipalities and Corporations, other than Chennai are maintaining a total length of 1334.75 km of footpath and it has been decided to create an additional 463.84 km length of new footpath in coming years.

The Corporation of Chennai maintains 471 Bus Route Roads for a length of 387.39 km and 30790 Interior Roads for a length of 4930.09 km.

During the last 3 years, the Corporation of Chennai has completed the restoration of 235 Bus Route Roads for a length of 147.80 km at a cost of Rs.98.41 crore under the Tamil Nadu Urban Road Infrastructure Project (TURIP) and 138 Bus Route Roads for a length of 32 km at a cost of Rs.42.71 crore under Capital Funds of Corporation.

For the first time in the history of Corporation of Chennai, out of total number of about 30,790 interior roads for a length of about 4,930 km, the Corporation has taken up restoration of about 17,500 damaged roads at an estimated cost of Rs.2,575 crore.

The Town Panchayats in Tamil Nadu are maintaining various types of roads to a length of 18562.93 km. The funds allocated by the 14th Finance Commission can be utilized by the Urban Local Bodies for the renewal and laying of Roads and Footpaths.

(vi) Maintenance of parks, playfields, burial grounds / crematorium

After utilizing the 14th Finance Commission grant in the order of priority stated above, the balance fund if any may be utilized for maintenance of parks, playfields, burial grounds / crematorium.

4. Hence, it is felt that the funds of the 14th Finance Commission earmarked to the Urban Local Bodies can be utilized by the ULBs in the following order of priority. This will enable the Urban Local Bodies to spare and allocate their internal resources for taking up more development works in Urban Local Bodies.

| Sl.No/ Order of Priority | Details of Payment |
|---|--|
| 1. | Payment of Urban Local Body Contribution for ongoing Water Supply and Under Ground Sewerage Schemes implemented by Tamil Nadu Water Supply and Drainage Board, Chennai Metropolitan Water Supply and Sewerage Board and Urban Local Bodies, including distribution system improvement schemes. |
| 2. | Payment of Electricity Charges of the Urban Local Bodies. |
| 3. | Payment of Water Charges to Tamil Nadu Water Supply and Drainage Board and Chennai Metropolitan Water Supply and Sewerage Board. |
| 4. | Payment of Urban Local Body Contribution for implementation of Solid Waste Management Projects and Payments to the outsourced agencies by the Urban Local Bodies towards the Solid Waste Management activities. |
| 5. | Expenditure for laying and renewing Roads and Footpaths. |
| 6. | Maintenance of parks, playfields, burial ground / crematorium. |

5. The Urban Local Bodies are therefore directed to utilize the 14th Central Finance Commission grants in the order of priority as indicated in paragraph 4 above.

**K. PHANINDRA REDDY
PRINCIPAL SECRETARY TO GOVERNMENT**

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SECTION OFFICER

