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**ABSTRACT**

Second State Finance Commission's Recommendations- Reserve, Equalisation and Incentive Funds to Urban Local Bodies - Sharing of funds between the Municipal Corporations, Municipalities and Third Grade Municipalities - Revised guidelines to be followed - Ordered - Financial sanction for the year 2006-2007 - Orders - Issued.

**MUNICIPAL ADMINISTRATION AND WATER SUPPLY (MA.II) DEPARTMENT.**

G.O.(4D)NO.2

DATED:27.3.2007

READ:

1. G.O.Ms.No.284, Finance (FC-IV) Department, dated 12.8.2002.
2. G.O.(4D) No.5, Municipal Administration and Water Supply (MA.II) Department, dated 29.3.2004.
3. G.O.(4D)No.8, Municipal Administration and Water Supply (MA.II) Department, dated 17.9.2004.
4. G.O.(4D) No.3, Municipal Administration and Water Supply (MA.II) Department, dated 20.3.2006.
5. G.O.(4D) No.445, Municipal Administration and Water Supply (MA.II) Department, dated 6.11.2006.
6. From the Commissioner of Municipal Administration, Letter Roc.No.24960/2006/LA3, dated 22.1.2007.

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**ORDER:-**

In the G.O. fifth read above, orders were issued for the release of funds under State Finance Commission devolution to the Urban Local Bodies for the months from October 2006 to March 2007 on monthly basis as follows:-

- |      |                            |                            |
|------|----------------------------|----------------------------|
| I.   | Municipal Corporations     | - Rs.170854 Thousands p.m. |
| II.  | Municipalities             | - Rs.187388 Thousands p.m. |
| III. | Third Grade Municipalities | - Rs.38240 Thousands p.m.  |

Sanction was also accorded to release the difference amount as per the Revised Budget Estimate 2006-2007 along with October 2006 as follows:

- |      |                            |                  |
|------|----------------------------|------------------|
| i)   | Corporations               | - Rs.155774574/- |
| ii)  | Municipalities             | - Rs.170848284/- |
| iii) | Third Grade Municipalities | - Rs. 34865574/- |

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2. The Commissioner of Municipal Administration has stated that the Government in the Government Order second read above had prescribed guidelines for the utilisation of Reserve, Equalisation and Incentive Fund for the year 2003-2004 and the same guidelines were followed for the release of funds for the year 2004-2005 also. Government have issued revised guidelines in the G.O. fourth read above for the utilisation of Reserve, Equalisation and Incentive Fund for the year 2005-2006.

3. Taking into account the present priority of requirements of Municipalities, he has suggested some modifications in the existing guidelines so as to distribute the 13% component of State Finance Commission Devolution to the Municipalities/Municipal Corporations on a need structured and equitable basis.

4. The Government have carefully examined the need based requirements of Municipalities/Municipal Corporations proposed by Commissioner of Municipal Administration in his letter 6<sup>th</sup> read above and the existing guidelines for the utilization of Reserve, Equalisation and Incentive Fund are revised for the year 2006-07, the last year of the award period of Second State Finance Commission as follows:

**A. The Reserve Fund(2%) shall consist of -**

**i) District Collector's Development Fund(1%)**

This fund shall be distributed to District Collectors(except Chennai) as was being done for the previous years and for the purpose for which it was originally sanctioned.

**ii) Rain Water Harvesting, Water Supply Augmentation and Maintenance of Assets & Disaster Management (1%).**

The Reserve Fund earmarked for Rain Water Harvesting, Water Supply Augmentation, Maintenance of Assets and Disaster Management shall be apportioned based on the number of Urban Local Bodies and the Commissioner of Municipal Administration shall distribute the funds to the needy Urban Local Bodies except Chennai Corporation.

The fund shall be utilized for desilting tanks, ponds, ooranies and kuttais and deepening of existing wells belonging to Urban Local Bodies and for Disaster Management.

The Commissioner of Municipal Administration shall identify the nature of rain water harvesting work / Disaster Management works to be taken up in the Urban Local Bodies and accord sanction for the same.

**B. Equalisation Fund:**

For the past 3 years this fund had been divided into two components viz., Election Fund and Urban Development Fund. For the current year this fund shall



be divided into two components viz., Road Development Project Fund and Urban Development Fund.

For the past three years, a portion of the Equalisation Fund had been earmarked as the Election Fund to meet the Election expenses of the Local body elections in 2006. Now, these elections are over and the next Local Body Elections are due to be held in the year 2011 only. Hence, earmarking of funds for the Local Body Elections 2011 under the Equalisation Fund from the financial year 2008-2009 will be sufficient. The Hon'ble Minister for Rural Development & Local Administration has announced on the floor of the Assembly that the earthen narrow lanes and earthen roads of 2000 Kms. in Urban Local Bodies will be converted into cement roads and B.T. roads respectively in the next four years. In order to achieve this object, funds from various sources are to be mobilized. Therefore, 50% of the Equalisation Fund shall be earmarked for the conversion of earthen lane and earthen roads into cement and B.T. roads respectively.

The following guidelines are prescribed for Road Development Project Fund:

(i) **Road Development Project Fund:-**

50% of Equalisation Fund shall be earmarked for the conversion of earthen lane and earthen roads into cement lane and B.T. roads respectively.

The apportioning of the Road Development Project Fund shall be based on the requirement of local bodies and the Commissioner of Municipal Administration shall distribute the funds to the needy Urban Local Bodies in all Districts except Chennai Corporation.

The Commissioner of Municipal Administration shall identify the earthen lanes / Earthen roads to be taken up in the Municipalities / Municipal Corporations and accord sanction for the same.

i) **Urban Development Fund:**

Previously, after allocation to the Election Fund, from out of the balance Equalisation Fund, 75% was allocated for Urban Development Fund for UGD Schemes and the balance 25% was distributed as follows:

- 12.5% for Urban Local Bodies with low population densities and geographical disadvantages.
- 12.5% for Urban Local Bodies with a low per capita tax base.

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The Commissioner of Municipal Administration observed that by adopting these criteria, the same Municipal Corporations used to receive this fund every year previously due to their low population density, geographical disadvantages and their low per capita tax base and hence, proposed to modify the guidelines in respect of Municipal Corporations so as to use the fund for taking up innovative and gap filling type of schemes. Hence the following revised guidelines are issued for Urban Development Fund:

Municipal Corporations - Urban Development Fund:

The remaining Equalisation Fund (i.e. Urban Development Fund) available for Municipal Corporations shall be distributed as follows:

50% for Capital Grants for UGD Schemes, where the schemes are under pipeline.

50% for creation of Theme Parks, development of bus stands and desilting / modernizing canals running through the respective cities, irrespective of their ownership, by the Municipal Corporations (i.e. PWD Channels / Tanks etc.) .

Municipalities & Grade III Municipalities:

50% for Capital Grants for UGD Schemes for financially weaker Municipalities.

25% for Municipalities / Grade III Municipalities with low population density & geographical disadvantages.

25% for Municipalities / Grade III Municipalities with low per capita tax base.

**B. Incentive Fund:**

The fund shall be apportioned to Grade III Municipalities, Municipalities and all Municipal Corporations in the same ratio as is being done for sharing State Finance Commission devolution.

The following formula shall be adopted for the distribution of fund:

- 50% shall be allocated for road works including storm water drainage.
- 25% shall be allocated as incentive for Property Tax Collection to Municipalities and all Municipal Corporations which achieve 85% current collection and 60% of arrear collection with a minimum of 10% increase over the previous year.
- 25% shall be allocated for achieving prompt debt repayment.



4. The Commissioner of Municipal Administration has requested the Government to release the 13% Reserve, Equalisation and Incentive Fund for the year 2006-2007 i.e. Rs.82,94,23,770/- towards Municipal Corporations, Municipalities and Grade III Municipalities.

5. Sanction is accorded for the release of 13% Reserve(2%), Equalisation(6%) and Incentive Fund(5%) of State Finance Commission devolution for the year 2006-2007 as follows:

I.	Municipal Corporations	- Rs.35,74,19,400/-
II.	Municipalities	- Rs.39,20,08,370/-
III.	Third Grade Municipalities	- Rs. 7,99,96,000/-
TOTAL		- <u>Rs.82,94,23,770/-</u>

(Rupees Eighty two crores ninety four lakhs twenty three thousand seven hundred and seventy only)

(Rs. in Lakhs)

<u>RESERVE FUND (2%)</u>	1276.0366	
Collectors Development Fund 50%		638.0183
Rain Water Harvesting 50%		638.0183
<u>EQUALISATION FUND (6%)</u>	3828.1097	
Grade III Municipalities(6.9383%)		369.2133
Municipalities( 34%)		1809.2689
Corporations (31%)		1649.6275
<u>INCENTIVE FUND (5%)</u>	3190.0914	
Grade III Municipalities(6.9383%)		307.6777
Municipalities( 34%)		1507.7241
Corporations (31%)		1374.6896
<b>TOTAL</b>		<u>Rs.82,94,23,770/-</u>

6. The Commissioner of Municipal Administration is authorised to draw and disburse the amount sanctioned in para 5 above to Municipal Corporations / Municipalities / Grade III Municipalities respectively.

7. The amount sanctioned in para 5 above shall be debited to the following heads of account:

Municipal Corporations: (Rs.35,74,19,400/-)

3604-00-Compensation and assignments to Local Bodies and Panchayat Raj Institutions – 191-Assistance to Municipal Corporations – I-Non-Plan-AA.Grants to Municipal Corporations as per the recommendations of State Finance Commission controlled by Commissioner of Municipal Administration 09.Grants-in-aid-02 – Grants for Capital Expenditure. (DP Code: 3604 00 191 AA 0921).

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Municipalities: (Rs. 39,20,08,370/-)

3604-00-Compensation and assignments to Local Bodies and Panchayat Raj Institutions – 192-Assistance to Municipalities, Municipal Councils – I-Non-Plan AA. Grants to Municipalities as per the recommendations of State Finance Commission controlled by Commissioner of Municipal Administration 09.Grants-in-aid-02 – Grants for Capital Expenditure. (DPC Code: 3604 00 192 AA 0929).

Grade III Municipalities: (Rs. 7,99,96,000/-)

3604-00-Compensation and assignments to Local Bodies and Panchayat Raj Institutions – 192-Assistance to Municipalities, Municipal Councils – I-Non-Plan AB. Grants as per the recommendations of State Finance Commission to III Grade Municipalities controlled by Commissioner of Municipal Administration - 09.Grants-in-aid-02 – Grants for Capital Expenditure. (DPC Code: 3604 00 192 AB 0927).

8. This order issues with the concurrence of Finance Department vide its U.O.No. 19482/MAWS/2007 Dated: 26.3.2007.

(BY ORDER OF THE GOVERNOR)

K. DEENABANDU,  
SECRETARY TO GOVERNMENT.

To /  
The Commissioner of Municipal Administration, Chennai-5.  
The Pay and Accounts Officer (East), Chennai-5. (2 copies)  
The Accountant General, Chennai-18.  
The Accountant General, Chennai-35.

Copy to:  
The Finance (MAWS) / FC(IV) / W & M ) Department, Chennai-9.  
The Municipal Administration and Water Supply(OP.II) Department, Chennai-9.  
The Commissioner, Corporation of Chennai, Chennai-3.

/Forwarded by Order/

  
27/3/07  
SECTION OFFICER

  
27/3/07