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सचिव  
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Secretary



भारत सरकार  
शहरी विकास मंत्रालय  
निर्माण भवन, नई दिल्ली-110011  
Government of India  
Ministry of Urban Development  
Nirman Bhawan, New Delhi-110011



DO No. N-11025/63/2015-LSG

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शहरी विकास  
SPROD POST

You are aware that as per the recommendations of 14<sup>th</sup> Finance Commission, Government has decided to provide grants worth Rs. 87,143 crore for urban local bodies out of the central divisible pool of funds for the period 2015-20. The Basic Grants consist of 80% of this amount while the remaining 20% is linked to performance conditions which relate to regular audit of accounts, increase in own revenues sources of ULBs and their service level improvements.

2. This represents nearly a four fold increase over the grants provided under 13<sup>th</sup> Finance Commission. Ministry of Finance has mandated Ministry of Urban Development to examine and recommend the claims for performance grants as received from States. You would agree that the performance grants should be leveraged to encourage ULBs to undertake reform measures which result in improvement of their financial health and service delivery to citizens.

3. With this objective in view and as per the above mandate, a scheme detailing the criteria and procedure for releasing performance grants to various ULBs has been formulated by the Ministry (copy enclosed). This will be applicable for the remaining period of 14<sup>th</sup> Finance Commission (2017-2020). The scheme was discussed with the States in a National Workshop on 28.3.2017 and has been finalized after taking on board the inputs received during the consultation. The performance criteria and their milestones have been evolved keeping in mind the recommendations of 14<sup>th</sup> Finance Commission and the emphasis of the Government on implementing transformational urban reforms. The scheme prescribes performance and evaluation criteria along with milestones to be achieved for each year. It also provides a uniform framework for performance and evaluation of 14<sup>th</sup> Finance Conditions in order to be eligible for the performance grant.

4. The ULBs are required to self-evaluate and submit their claims for performance grants to the State Government by 30<sup>th</sup> September of each year. State Governments are expected to examine and verify the claims and submit a consolidated claim for performance grants by 30<sup>th</sup> October of each year to the

Ministry of Urban Development. MoUD, in turn, will do a quick evaluation & verification including third party verification by random sample process before recommending for release to Ministry of Finance.

5. As per the scheme, ULBs achieving a score of 60 (50, in case of special category states) and above will be eligible for the performance grant within a State. In case no ULB is able to qualify for the performance grant, the State will not be eligible to receive the 20% performance grant from Central Government for that particular year.

6. I would request you to kindly ask the State Urban Development Department to disseminate the scheme to all ULBs for implementation. You may also consider holding a State level workshop of all ULBs in order to take stock of the current position with respect to the identified reforms and prepare a strategy for them to target and qualify for the performance grants for the next three years.

Yours sincerely,



(Rajiv Gauba)

Encl.: As above

**To**

**CHIEF SECRETARIES OF ALL STATES**

**Ministry of Urban Development  
Govt. of India**

**Scheme of Disbursal of Performance Grant to ULBs for 2017-18 to 2019-20**

**1. Background**

The 14th Finance Commission stipulates that a detailed procedure for the disbursal of the Performance Grant to urban local bodies (ULBs) would have to be designed by the State Government concerned, subject to certain eligibility criteria. FFC stipulates that Rs.87,143 Cr are to be devolved towards ULBs over a five-year period 2015-2020. 80% of this amount forms the Basic Grant and 20% of the amount is the Performance Grant. These funds are only to be devolved for basic services and O&M by ULBs.

**Performance Grant**

The Performance Grant is designed to serve the purpose of ensuring reliable audited accounts and data of receipts and expenditure and improvement in own revenues. It will enable initiation of action at the grassroots level for compilation of data so that all stakeholders have access to reliable information for decision making and at the same time, enhance accountability of the local self-government institutions to the public.

To be eligible, the ULB will have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which it seeks to claim the performance grant. It will also have to show an increase in own revenues over the preceding year, as reflected in these audited accounts. In addition, it must publish the service level benchmarks relating to basic urban services each year for the period of the award and make it publically available. The service level benchmarks of the Ministry of Urban Development may be used for this purpose. The improvement in revenues will be determined based on the audited accounts and on no other basis. For computing the increase in own revenues in a particular year, the proceeds from, stamp duty, octroi and entry tax must be excluded. In case some amount of the performance grant remains after disbursement to the eligible ULBs, the undisbursed amount should be distributed on an equitable basis among all the eligible ULBs that had fulfilled the conditions for getting the performance grant. The performance grant for ULBs will be divided into tier-wise shares and distributed across each tier, subject to fulfillment of three conditions mentioned in para 2, using the formula given by the respective SFCs. In case the SFC formula is not available, the share of each of the three tiers should be distributed on the basis of population (2011 Census) and area of the ULBs in the ratio of 90:10.

**2. Detailed Procedure:**

The second year for Performance Grant disbursal is FY2017-18 and this scheme is applicable for three financial years i.e. 2017-18, 2018-19 and 2019-20. The three conditions given by 14<sup>th</sup> FC for Performance Grant are:

- 1) Each ULB will have to submit audited accounts that relate to year not earlier than two years preceding the year in which a ULB seeks to claim the performance grant,

- 2) Each ULB will have to show an increase in its own revenues over the preceding year as reflected in the audited accounts. For computing the increase in own revenues in a particular year, the proceeds from octroi and entry tax must be excluded from own revenues, and
- 3) Each ULB must measure and publish the Service Level Bench Marks relating to basic urban services each year for the period of the award and make it publically available.  
Condition no.1 above (relating to audit of accounts) will be mandatory and an essential condition in order to make any eligible for the Performance Grant for any particular year.

The three Eligibility Criteria are described in detail below together: -

- A. Audit of Annual Accounts:** The Municipality will have to submit audited accounts that relate to year not earlier than two years preceding the year in which the Municipality seeks to claim the performance grant. Total score with respect to fulfilling of this condition will be 10 as per the scoring pattern given in Annex 2.
- B. Increase in Own Revenue Sources:** The Municipality will have to show an increase in its own revenues over the preceding year as reflected in the audited accounts.
  - (1) The ULBs which are able to recover more than 70% of its revenue expenditure (which is a sum of operation and maintenance costs as well as costs of establishment & salaries) from its own revenue receipts will get a maximum score of 20 as per the scoring pattern given in Annex 2. Own revenue receipts consist of taxes and non-taxes levied and collected by the ULBs. Own revenue receipts of ULBs should not include grants and transfers from higher governments including state and central transfers. Own revenue receipts also will not include receipts from Octroi, Entry tax and Stamp duty etc.
  - (2) Upto a maximum score of 20 will be given to the ULBs for achieving the benchmark of 40% (for AMRUT Cities) /20% (for all other cities) and above of ULBs total expenditure going towards assets creation and capital expenditure. The scoring details are provided in Annex 2. For this purpose, funds from all types of grants, schemes, programs and devolutions can be considered in income of the ULBs.
- C. Publishing of Service Level Benchmarks (SLBs):** The Municipality must measure and publish the Service Level Bench Marks relating to basic urban services each year for the period of the award and make it publically available (ULB's website and other means).
  - (1) Upto a maximum of 15 score will be given for service level criteria of coverage of water supply by the ULB as per the scoring pattern given in Annex 2.
  - (2) Upto a maximum of 15 score will be given for achieving a reduction in non-revenue water as per the scoring pattern given in Annex 2.
  - (3) (Upto a maximum of 10 score will be given for ensuring 24X7 water supply to all public and community toilets in the city as per the scoring pattern given in Annex 2.
  - (4) Upto a maximum of 10 score will be given for ensuring 50% and above scientifically processing of waste in the city as per scoring pattern given in Annex 2.

3. It shall be the duty of each ULB to self-evaluate and submit its claim for Performance Grant to the State Government not later than 30th September of each year for which the Performance Grant is being claimed in the prescribed Format given in Annex 2. The State governments are expected to send their consolidated report and claim of performance grant after evaluation of performance of ULBs and due verification as per the format given in Annex 1, not later than 30th October of each year to MOUD. An indicative list of approaches to evaluate and verify the claims of ULBs by the State Governments are given in Annex 3.
4. ULBs getting a score of 60 and above will be eligible for the Performance Grant and the ULBs getting a score of less than 60 will not be eligible for the Performance Grant. In case of ULBs of North Eastern and three hill states of J & K, Himachal and Uttarakhand, a score of 50 and above will make them eligible for the Performance Grant.
5. In case no ULB in a particular State gets qualified for the Performance Grant, the respective State will not be eligible for receiving of Performance Grant from the Central Government for that particular year.
6. Performance Grant will be disbursed to the State, which submits its claim with necessary details after examination, by MOUD and recommendation to Ministry of Finance for release of performance grant. MOUD shall recommend grants for the eligible States by 15th November of each year to MOF, following which MOF will release the performance grant amount due to the respective States.
7. The State Government shall distribute the performance grants amongst the eligible ULBs in the following manner:
  - I. In the first round, to disburse the Performance Grant only among the eligible ULBs based on the prescribed formula.
  - II. In the second round, the remaining undisbursed amount (of ineligible ULBs) to be further disbursed among the same set of eligible ULBs as an additionally using the norms of 14thFC.
8. No expenditure will be incurred out of the 14th CFC grants except on basic 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. The 14th CFC has not distinguished between O&M and capital expenditure within the components of basic services.

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**Annexure 1**  
**14th Finance Commission Performance Grant**  
**(To be sent by State to MoUD)**

**Name of State:**

**Number of total duly constituted ULBs:**

**Part 1:**

List of ULBs Shortlisted by each State which are eligible for Performance Grant

S. No.	Name of ULB	Scores of three Conditions			Total Score 100
		Condition 1 Completion of Audited Annual Accounts	Condition 2 Increase in Own Revenue Sources	Condition 3 Publishing of Service level Benchmarks	
		10	40	50	
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					
Onwards					

**Part 2: Undertaking from the State Government**

It is confirmed that the following ULBs ..... (Names) from the State of .....(Name) have fully achieved the conditions predetermined for receiving the Performance Grant from 14 FC.

I hereby confirm that I have verified the information and it is true and correct. The Names of the ULBs have been approved in the High Powered State Committee meeting held on .....

(Principal Secretary/ Secretary (UD)  
State Government of \_\_\_\_\_

**Annexure 2**  
**14th Finance Commission Performance Grant**  
**Claim Form of ULBs to State Government**  
**(To be sent by ULBs to the State)**

Name of the ULB: \_\_\_\_\_

Date of last election held and due date: \_\_\_\_\_

Name of the State: \_\_\_\_\_

Conditions for Disbursal of Performance Grant

**Part 1: Audit of Annual Accounts (Maximum marks 10)**

Achievement Range	Yes	No
Published audited accounts on ULB Website	10	0

**Part 2: Increase in Own Revenue Sources**

**(A): Covering establishment and O & M from own income (Maximum marks 20)**

Achievement Range	More than 70%	Between 60% to 70%	Between 50% to 60%	Less than 50%
Marks	20	15	10	0
ULB able to recover costs related to revenue expenditure which is O&M costs as well as establishment & salaries from its own revenue funds excluding octroi, entry tax and stamp duty etc.				

**(B): Capital expenditure as a percentage of total expenditure (Maximum marks 20)**

**For 500 AMRUT Cities**

Achievement Range	More than 40%	Between 30% to 40%	Between 20% to 30%	Less than 20%
Marks	20	15	10	0
Ratio of Capital expenditure to Total expenditure including all devolutions/schemes etc.				

**For all other Cities**

Achievement Range	More than 20%	Between 15% to 20%	Between 10% to 15%	Less than 10%
Marks	20	15	10	0
Ratio of Capital expenditure to Total expenditure including all devolutions/schemes etc.				

**Part 3: Publishing of Service Level Benchmarks (SLBs)****A) Water supply:****1) Coverage (Maximum Marks 15)**

Achievement Range	Between 90% to 100%	Between 80% to 90%	Between 70% to 80%	Less than 70%
Marks	15	10	5	0
Water Coverage Ratio				

**2) Reduction in NRW (Maximum Marks 15)**

Achievement Range	Less than 20%	Between 20% to 30%	Between 30% to 40%	Above 40%
Marks	15	10	5	0
ULB achieving benchmark of Non-Revenue Water (NRW)				

**3) Coverage of Water Supply for Public/Community Toilets (Maximum Marks 10)**

Achievement Range	100% PT/CT Covered	Less than 100%
Marks	10	0
ULB providing water connection to Public and Community Toilets		

**B) Solid Waste Management:****Coverage (Maximum marks 10)**

Achievement Range	More than 50%	Between 20% to 50%	Less than 20%
Marks	10	5	0
% of waste being processed scientifically			

It is confirmed that I have verified the information presented in this form, which is true and correct to the best of my knowledge.

(Municipal Commissioner / Head of the ULB, Parastatal)

### **Annexure-3**

**Indicative list of steps which may be taken by the States Government to verify and evaluate the claims of ULBs:**

- 1. Third party evaluation.**
- 2. Random verification by official teams**
- 3. Other type of audits (Chartered accountants)**
- 4. Cross verification with other reports like credit rating etc.**
- 5. Cross checking at State level with figures of devolutions and schemes grants**