

No. 13(32)FFC/ FCD/2015-16
Government of India
Ministry of Finance
Department of Expenditure
(Finance Commission Division)

11th Block, 5th Floor,
CGO Complex, Lodi Road,
New Delhi- 110003.
Dated, the 8th October, 2015

To

The Chief Secretary,
Government of
(All State Governments)

Subject: Issue of Guidelines for the implementation of recommendation of
Fourteenth Finance Commission (FC-XIV) with regard to Local Bodies
grant (RLB & ULB) – regarding.

Sir,

The recommendation of **Fourteenth** Finance Commission for the award
period 2015-20 include, inter-alia, release of grant-in-aid to State Governments for
Rural and Urban Local Bodies.

2. Kindly find enclosed herewith a copy of the guidelines for release and
utilization of Grants recommended by the **Fourteenth** Finance Commission (FC-XIV)
for Rural and Urban Local Bodies (Local Bodies grant) for information and further
necessary action. Guidelines are also available on this Ministry's website:
<http://www.finmin.nic.in/FFC/guidelines.asp>

Encl.: as above

Yours faithfully,



(Gopal Prasad)
Director (FCD)

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Copy to:-
Principal Secretary (Finance),
All State Governments.

Guidelines for Release and Utilization of Grant recommended by the Fourteenth Finance Commission (FFC) for Rural and Urban Local Bodies (Local Bodies Grant).

Introduction

1. The Fourteenth Finance Commission (FFC) was constituted by the President on January 2, 2013 to give recommendations on specified aspects of Centre- State fiscal relations during 2015-20. The Commission submitted its Report to the President on December 15, 2014.
2. The FFC was, inter-alia, mandated to recommend measures needed to augment the Consolidated Funds of the States to supplement the resources of the Panchayats and Municipalities based on the recommendations of the respective State Finance Commissions (SFCs).
3. As per the Constitutional provisions, the explanatory memorandum as to the action taken on the recommendations made by the FFC in its report submitted to the President was laid in the Parliament on February 24, 2015. The Government of India accepted the recommendations of the FFC in respect of the Local Bodies.

Grants recommended

4. The FFC has recommended assured transfers to the Local bodies for planning and delivering of basic services smoothly and effectively within the functions assigned to them under relevant legislations. It has taken a view that the measures recommended, including the grants to the local bodies, should go towards supporting and strengthening their primary functions to deliver basic services, as improvements in the quality of basic services are likely to lead to an increase in the willingness of citizens to pay for the services. Therefore, it is advised that all expenditure incurred by Panchayats and Municipalities on basic services within the functions devolved to them under the State laws may be incurred after proper plans are prepared by Panchayats and Municipalities, in accordance with the relevant rules, regulations, processes and procedures applicable in the State.



5. The FFC has worked out the total size of the grant to be Rs. 2,87,436 crore for the award period of 2015-20. Of this, grant recommended to Panchayats is Rs. 2,00,292.20 crore and to Municipalities is Rs. 87,143.80 crore. The Grant-in-aid recommended is fixed for the Award period. The year-wise and state-wise distribution is given in **Annex-I & II**.

Grant Components

6. The FFC has recommended Grant-in-aid to duly constituted Panchayats (Rural Local bodies) and Municipalities (Urban Local Bodies) in two parts, namely - (i) **a Basic grant** and (ii) **a Performance Grant**. In case of Gram panchayats, 90% of the Grant will be the Basic Grant and 10% will be the Performance Grant. In case of Municipalities, the division between Basic and Performance Grant will be on 80:20 basis. The shares of the States for these Grants are given in **Annex-I & II**.

***Note:** A duly constituted Panchayat or Municipality means a Panchayat or a Municipality as the case may be where elections have been held and an elected body is in place as provided in Part IX and IX A of the Constitution.*

Basic Grant

7. The FFC has recommended Basic Grant to the Local bodies with the purpose of providing a measure of unconditional support to the Gram Panchayats (GPs) and Municipalities for delivering basic services. The Grants provided 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. The FFC has not distinguished between O &M and capital expenditure within the components of basic services. However, it is advised that the cost of technical and administrative support towards O&M and capital expenditure should not exceed 10% of the allocation to a Gram Panchayat or Municipality under any circumstance and the expenditure can be incurred only by the local body concerned.

8. It is emphasized that no expenditure will be incurred out of the FFC grants except on basic services as provided in para 7 above.

