



ABSTRACT

Fifth State Finance Commission Grant – Pooled Fund for deficit Rural Local Bodies – Sanction of Rs.515,93,99,000/- for the year 2017-18 - Release of Rs.257,96,99,500/- as first instalment - Guidelines for utilization of Pooled Fund for deficit Rural Local Bodies by the Director of Rural Development and Panchayat Raj and the District Collectors – Sanction – Orders - Issued.

Rural Development and Panchayat Raj (PR-1) Department

G.O. (Ms.) No.94

Dated: 23.08.2017

Read:

1. G.O. No. 84, Finance (Finance Commission –IV) Department, Dated: 31.03.2017.
2. From the Director of Rural Development and Panchayat Raj letter No.21521/2017/PRI 2.2, dated 25.05.2017.

ORDER:

Read above based on
In the Government order read above, as per the recommendations of Fifth State Finance Commission, Government have decided to continue the devolution of 10% of the net State's Own Tax Revenue (SOTR) to Rural Local Bodies from 2017-18 to 2021-22 and the vertical sharing ratio for devolution of State Finance Commission Grant to rural and urban local bodies shall be in the ratio of 56:44. The Government have also ordered to apportion the devolution grant to the Rural Local Bodies among the Village Panchayats, Panchayat Unions and District Panchayats in the vertical sharing ratio of 55:37:8. The horizontal distribution of the State Finance Commission devolution to Rural Local Bodies within respective tier should be done on the basis of the following formula:

a)	Total population (2011 Census)	60%
b)	SC/ST population	15%
c)	Area	15%
d)	Per capita consumption expenditure distance	10%

The Per capita consumption expenditure distance data given by Fifth State Finance Commission for each Rural Local Bodies will be adopted.

2. The Director of Rural Development and Panchayat Raj in the letter read above has stated that the Commission has observed that one of the main issues to be addressed in the financial position of Rural Local bodies is horizontal equity. State Finance Commission devolution has been the main source of financing for Rural Local Bodies in the last two decades. 20 years of devolution based on a variety of formulae have left many Panchayat Unions and Village Panchayats in surplus while some still suffer with chronic deficits. Funds provided to the Rural Local Bodies are intended to be expended fully on implementation of works and services intended for the people residing in the Local Bodies. Accumulating large sums as surpluses is neither desirable nor prudent and should not be encouraged. The issue of chronic deficits in some Rural Local Bodies also needs to be specifically addressed.

Hence the Commission recommended that 10 percent of the overall devolution intended for Rural Local Bodies be credited into a Pooled Fund for Deficit Rural Local Bodies and distributed to deficit Panchayats as given below.

- i) Out of the fund earmarked, 40% of the amount available in this Fund, i.e. 4% of the overall Devolution intended for Rural Local Bodies, shall be disbursed in the first three years of the award period by the Director of Rural Development and Panchayat Raj, only amongst those Panchayat Unions and Village Panchayats which have been in deficit for atleast 3 of the last 5 years. The list of such 127 Panchayat Unions and 3921 Village Panchayats shall be provided separately to Director of Rural Development and Panchayat Raj. The distribution amongst these deficit Rural Local Bodies shall follow the vertical and horizontal distribution formulae indicated for Panchayat Unions and Village Panchayats.

After the first three years of the Award Period, the list of deficit Rural Local Bodies shall be updated on the basis of the accounts for the subsequent years and the distribution shall be done amongst those Rural Local Bodies which are still found to be deficit. In case there are no deficit Rural Local Bodies at that state, the funds available in the Pooled Fund or if the total funds available in the Pooled Fund exceed 100 percent of the basic devolution including the minimum lump sum grant of the deficit Rural Local Bodies, then such excess funds should be transferred to the Capital Grant Fund.

- ii) 40% of the Pooled Fund for deficit Rural Local Bodies, should be allocated with 20% retained by the Director of Rural Development and Panchayat Raj and 20% distributed amongst District Collectors based on the horizontal District Panchayat wise share. These funds shall be utilized by the Director of Rural Development and Panchayat Raj / District Collectors to provide grants to those Village Panchayats and Panchayat Unions who have special problems which cannot be addressed under any of the existing transfer mechanisms or schemes.

- iii) TWAD provides a basic service as an agent of Rural Local Bodies / Urban Local Bodies. It also incurs a huge deficit in the maintenance of Combined Water Supply Schemes. 20% of the Pooled fund for deficit Rural Local Bodies i.e. 2% of the Rural Local Body devolution grant shall be provided to TWAD to meet the deficit on Combined Water Supply Schemes in addition to the water charges levied and collected from Rural Local Bodies.

3. The Director of Rural Development and Panchayat Raj has stated that a sum of Rs. 515,93,99,000/- have been allocated in the Budget Estimate for the year 2017-18 and requested the Government to issue orders authorizing the Director of Rural Development and Panchayat Raj to draw and disburse the Pooled Fund of Rs.515,93,99,000/- for the year 2017-18 in two instalments.

The breakup details are furnished below:

Category	Amount (in Rs.)
40% for Deficit Rural Local Bodies	206,37,59,600
20% vested with Director of Rural Development & Panchayat Raj	103,18,79,800
20% vested with District Collector	103,18,79,800
20% for TWAD to meet deficit on Combined Water Supply Schemes	103,18,79,800
Total	515,93,99,000

4. The Director of Rural Development and Panchayat Raj has therefore requested the Government to issue orders on the following based on the recommendation of 5th State Finance Commission.

- i. To distribute Rs.206,37,59,600/- for the deficit 127 Panchayat Unions and 3921 Village Panchayats. The deficit Rural Local Bodies data given by State Finance Commission will be adopted for the first three years of the award period and consequently the directions as per the recommendations issued would be adopted to.
- ii. To retain an amount of Rs.103,18,79,800/- by the Director of Rural Development and Panchayat Raj and to utilize the same to provide grants to those Village Panchayats and Panchayat Unions who have special problems which cannot be addressed under any of the existing transfer mechanisms or schemes.

- iii. To Distribute an amount of Rs.103,18,79,800/- to District Collectors based on the horizontal District Panchayat wise share to provide grants to those Village Panchayats and Panchayat Unions for addressing special problems which cannot be addressed under any of the existing schemes.
- iv. To Release a total amount of Rs.103,18,79,800/- to TWAD on quarterly basis to meet the deficit on Combined Water Supply Schemes in addition to the water charges levied and collected from Rural Local Bodies.
- v. To release an amount of Rs.257,96,99,500 as first installment under Pooled fund for deficit Rural Local Bodies for the year 2017-18 and to authorize the Director of Rural Development and Panchayat Raj to draw and disburse the same under the four components, detailed above. ✓

5. The Government after careful examination of the proposal of the Director of Rural Development and Panchayat Raj have decided to accept the same and accord sanction for Rs.515,93,99,000/- for the year 2017-18 in two instalments and release a sum of Rs.257,96,99,500/- (Rupees Two Hundred and Fifty Seven Crore Ninety Six Lakh Ninety Nine Thousand and Five Hundred Only) as 1st instalment of Pooled Fund for Deficit Rural Local Bodies under Fifth State Finance Commission Grant. ✓

6. Out of the above release the Director of Rural Development and Panchayat Raj is directed to settle an amount of Rs.216.09 crore which was due to TANGEDCO directly on behalf of Village Panchayats as one time settlement based on the following mechanism: ✓

- (a) Rs.74.85 crore from 40% component meant for Deficit Rural Local Bodies.
- (b) Rs.70.62 crore from 20% component vested with Director of Rural Development and Panchayat Raj.
- (c) Rs.70.62 crore from 20% component to be distributed to District Collector.

The funds will be released to TANGEDCO on behalf of the Village Panchayats based on the dues which are pending on the date of settlement. This amount should not be adjusted by TANGEDCO against additional security deposit (or) belated payment surcharge (or) for any other purpose. This amount should be utilized only for settling the arrears of electricity consumption charges pending beyond 60 days. ✓

7. Further, the Director of Rural Development and Panchayat Raj is authorized to draw and disburse the balance amount of Rs.41.88 crore out of the amount sanctioned in para 5 above in conformity with the guidelines annexed to this order. He is also requested to furnish necessary utilization certificate towards the ✓

utilization of funds sanctioned in para 5 above at the appropriate form to Government promptly.

8. The Government also approve the guidelines for the utilization of funds released under Pooled Fund for Deficit Rural Local Bodies under Fifth State Finance Commission which is annexed to this order.

9. The expenditure sanctioned in para 5 above shall be debited under the following head of account:-

3604-00-Compensation and Assignments to Local Bodies and Panchayat Raj Institutions – 200 – Other Miscellaneous Compensations and Assignments – State's Expenditure – BQ Pooled Fund Deficit - Rural Local Bodies – 09 Grants in Aid – 02-Grants for Creation of Capital Assets (DPC 3604-00-200-BQ-0927)

10. This order issues with the concurrence of Finance Department vide its U.O.41789/RD/17, dated 21.08.2017.

(By Order of the Governor)

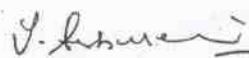
HANS RAJ VERMA,
Additional Chief Secretary to Government.

To
The Director of Rural Development and Panchayat Raj,
Chennai – 15.
All District Collectors,
All District Treasury Officers.
The Director of Treasuries and Accounts, Chennai–35.
The Director of Local Fund Audit, Chennai -35.
The Pay and Account Officer (South) Chennai 35

Copy to:

The Special Personal Assistant to Hon'ble Minister, (MA & RD, Impn. Spl. Prog.),
Chennai-9
The Principal Private Secretary to Additional Chief Secretary to
Government, Rural Development and Panchayat Raj
Department, Chennai-9
The Finance (RD/FC.II/W&M.I) BG.I/BG.II) Department, Chennai -9
Rural Development and Panchayat Raj (B&C/OP II/ SGS-II / SGS-III)
Department, Chennai-9
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// Forwarded by Order //


Section Officer.


24/8/17.

Annexure to G.O.(Ms) No.94, Rural Development and Panchayat Raj
(PR.1) Department, dated 23.08.2017.

Guidelines for Pooled Fund for Deficit Rural Local Bodies

State Finance Commission devolution, Central Finance Commission grants, Assigned / Pooled Assigned Revenue, Own tax revenue and non-tax revenue are the main sources of revenue of rural local bodies. Among these, State Finance Commission Devolution is the single largest source of funding for Rural Local Bodies accounting for 59% of the total for the six year period from 2010-11 to 2015-16. Along with Central Finance Commission grants and Assigned Revenues and Other sources, the external sources account for 88% of the receipts of the Rural Local Bodies, while their own sources of tax and non-tax revenue accounted for only 12%. Two decades of devolution based on a variety of formulae have left many Panchayat Unions and Village Panchayats in surplus while some still suffer from chronic deficits. Funds provided to the Rural Local Bodies are intended to be expended fully on implementation of works and services intended for the people residing in the Local Bodies.

The issue of chronic deficits in some Rural Local Bodies needs to be specifically addressed. For instance, it was pointed out that there are certain Panchayats where the pumping of water for drinking water purposes has to be from great depths due to circumstances beyond their control and they are unable to meet the electricity charges for such pumping. To address this, the Commission recommended that 10 per cent of the overall devolution intended for Rural Local Bodies be credited into a Pooled Fund for Deficit Rural Local Bodies and distributed among the deficit Panchayat Unions and Village Panchayats and also to provide grants to those Village Panchayats and Panchayat Unions who have special problems which cannot be addressed under any of the existing transfer mechanisms or schemes.

The Government, in accordance with the recommendation of the Fifth State Finance Commission vide G.O.No.84, Finance (Finance Commission-IV) Department, Dated: 31.03.2017 has ordered the establishment of Pooled Fund for Deficit Rural Local Bodies by apportioning 10% of the aggregate devolution intended for Rural Local Bodies. Out of this fund, 40% shall be disbursed only amongst those Panchayat Unions and Village Panchayats which have been in deficit for atleast 3 of the last 5 years. 20% shall be retained by the Director of Rural Development and Panchayat Raj and another 20% distributed amongst District Collectors based on the horizontal District Panchayat wise share to provide grants to those Village Panchayats and Panchayat Unions who have special problems. TWAD provides a basic service as an agent of Rural Local Bodies / Urban Local Bodies. 20% of the Pooled fund for deficit Rural Local Bodies shall be provided to TWAD to meet the deficit on Combined Water Supply Schemes in addition to the water charges levied and collected from Rural Local Bodies.

1. Allocation of 40% Pooled Fund to Deficit Rural Local Bodies to Panchayat Unions and Village Panchayats:

The Government, has ordered that 40 per cent of the amounts of the Pooled Fund for Rural Local Bodies, shall be disbursed in the first three years of the award period by the Director of Rural Development and Panchayat Raj only amongst those Panchayat Unions and Village Panchayats which have been in deficit for atleast 3 of the last 5 years. The list of such 127 Panchayat Unions and 3921 Village Panchayats provided by the Fifth State Finance Commission will be adopted for the first three years of the award period i.e from 2017-18 to 2019-20. After the first three years of the award period, the list of deficit Rural Local Bodies will be updated by Director of Rural Development and Panchayat Raj on the basis of the accounts for the subsequent years and the distribution may be done amongst those Rural Local Bodies which are still found to be deficit. In case there are no deficit Rural Local Bodies at that stage, the funds available in the Pooled Fund or if the total funds available in the Pooled Fund exceed 100 percent of the basic devolution including the minimum lump sum grant of the deficit Rural Local Bodies, then such excess funds will be transferred to the Capital Grant Fund.

The distribution amongst these deficit Rural Local Bodies will follow the vertical and horizontal distribution formulae indicated for Panchayat Unions and Village Panchayats. The State Finance Commission has recommended that the distribution amongst the deficit Rural Local Bodies will follow the vertical and horizontal distribution formulae indicated for Panchayat Unions and Village Panchayats. But, District Panchayats are not entitled to receive the Pooled Fund for Deficit Rural Local Bodies. As per fifth State Finance Commission recommendation the vertical sharing ratio 8:37:55 is adopted among the three tiers of Rural Local Bodies for District Panchayats, Panchayat Unions and Village Panchayats. Since there is no allocation for District Panchayats under Pooled Fund for Deficit Rural Local Bodies, the vertical sharing pattern of 40:60 will be adopted for Panchayat Unions and Village Panchayats respectively under this component.

The Director of Rural Development and Panchayat Raj will allocate the funds among the deficit Panchayat Unions and the Village Panchayats based on the following horizontal formula

a)	Total population (2011 Census)	60%
b)	SC/ST population	15%
c)	Area	15%
d)	Per capita consumption expenditure distance	10%

Fund Release:

1. The Director of Rural Development and Panchayat Raj will release the grant for each Village Panchayat and Panchayat Union to the District Collectors as per this guideline.
2. The Government or Director of Rural Development and Panchayat Raj may allocate or give directions to allocate fund to any specific type of project or take up any specific work or category of work on priority.
3. While releasing the fund to the Village Panchayats, the District Collector shall arrive at the average demand for 6 months towards Current Consumption Charges for TANGEDCO and water charges to TWAD. He shall arrive at the balance due after taking into account the amount from the State Finance Commission Minimum Grant and the 14th Central Finance Commission Grant. This quantum should be released to Account 2 of the Village Panchayat concerned. The Balance fund should be released to Account Number No.1 of the Village Panchayat.
4. The District Collector should release the amount to the Panchayat Union General Fund (LF I Account) in respect of deficit Panchayat Unions.

Utilization of the Fund

- This fund shall be used by the respective local bodies to address their specific needs, which they were not able to meet from their regular sources of income and grants.

20% of Pooled Fund for Deficit Rural Local Bodies Vested with Director of Rural Development and Panchayat Raj

The Government have ordered that 20% of the Pooled Fund for Rural Local Bodies will be retained by Director of Rural Development and Panchayat Raj and will be utilized by the Director of Rural Development and Panchayat Raj to provide grants to those Village Panchayats and Panchayat Unions who have special problems which cannot be addressed under any of the existing transfer mechanisms or schemes.

Director of Rural Development and Panchayat Raj will provide grants to Village Panchayat / Panchayat Unions to take up specific works to address special problems which cannot be addressed under any of the existing transfer mechanisms or schemes as given below.

1. Based on the approval of the Director of Rural Development and Panchayat Raj, the District Collectors will accord Administrative sanction for works based on detailed estimates.
2. The Grant may be used to settle the dues of deficit Panchayats towards electricity consumption charges to TANGEDCO and water charges to TWAD on priority
3. The works taken up under this component of Pooled Fund for Deficit Rural Local Bodies will be entrusted to District Collectors for implementation who shall execute these works through the Project Director, District Rural Development

Agency, Block Development Officer (Block Panchayat) or the Village Panchayat concerned as deemed fit.

4. The works will be executed through tender as per Transparency in Tender Act, 1998 and Rules 2000 and the procedures prescribed in G.O.Ms.No.203, Rural Development and Panchayat Raj Department dt.20.12.2007.
5. No work shall be entrusted to line departments such as Public Works Department, Highways, Agriculture Engineering, TWAD, etc. for execution. However installation of street light works can be entrusted to Tamil Nadu Electricity Board.
6. The grant will be released to the respective Rural Local Body through the District Collector after the sanction of works. The Collectors should submit the Utilisation Certificate to Director of Rural Development and Panchayat Raj on completion of work promptly.
7. A separate Saving Bank Account should be maintained in the Nationalized Bank by the Director of Rural Development and Panchayat Raj for this scheme at State Level.
8. Project Director, District Rural Development Agency and the Assistant Director Panchayat will be responsible for monitoring the Projects executed under this scheme. Payment should be made after verification and certification by Executive Engineer (RD) and the concerned Assistant Executive Engineers (RD). State Quality Monitors will inspect the works during various stages of execution.

III. 20% of Pooled Fund for Deficit Rural Local Bodies vested with the District Collectors.

The Government have ordered that 20% of the Pooled Fund for Deficit Rural Local Bodies distributed amongst District Collectors based on the horizontal District Panchayat wise share. The Director of Rural Development and Panchayat Raj, will allocate the pooled fund for deficit Rural Local Bodies to the districts based on the horizontal District Panchayat wise sharing formula given below

a)	Total population (2011 Census)	60%
b)	SC/ST population	15%
c)	Area	15%
d)	Per capita consumption expenditure distance	10%

Pooled Fund for Deficit Rural Local Bodies shall be utilized by the District Collectors to provide grants to those Village Panchayats and Panchayat Unions who have special problems which cannot be addressed under any of the existing transfer mechanisms or schemes. District Collectors will identify the deficit Village

Panchayats and Panchayat Unions who have special problems which cannot be addressed under any of the existing transfer mechanisms or schemes and sanction this grant to take up specific works to address those problems as per the conditions given below

1. The amount released to the Districts under Pooled Fund for Deficit Rural Local Bodies fund shall be kept in a separate bank account in the Assistant Director (Panchayats) Office and shall be operated by the District Collector.
2. This grant shall be used to take up works to address special problems in deficit Village Panchayats and Panchayat Unions which cannot be addressed under any of the existing schemes in rural areas.
3. The Grant may be used to settle the dues of deficit Panchayats towards electricity consumption charges to TANGEDCO and water charges to TWAD on priority.
4. The Government or Director of Rural Development and Panchayat Raj may allocate or give directions to allocate fund to any specific type of project or take up any specific work or category of work on priority.
5. Works that are not permitted under the Capital Grant Fund are also banned under this Grant. In addition individual beneficiary oriented works such as construction / repair of Group Houses which are specifically permitted under MLACDS are, however, not permitted to be taken up under Pooled Fund for Deficit Rural Local Bodies.
6. In order to give flexibility to the Collectors in the selection of works no minimum value is fixed for each work. However the Collectors should ensure that while sanctioning works they take up substantial works as far as possible and piece-meal works should be avoided. (e.g.) If a road work is sanctioned, the entire length of the damaged road should be taken up instead of taking up only a stretch of the damaged road.
7. The District Collectors should obtain detailed estimates and a certificate to the effect that sufficient land is available to execute the work from the Block Development Officer concerned before according administrative sanction.
8. The District Collectors shall entrust the execution of works to District Rural Development Agency, Block Development Officer (Block Panchayats) or Village Panchayat as deemed fit.
9. The works under Pooled Fund for Deficit Rural Local Bodies will be executed through tender as per Transparency in Tender Act, 1998 and Rules 2000 and the procedures prescribed in GO.Ms.No.203, Rural Development and Panchayat Raj Department dt.20.12.2007.
10. The works shall not be entrusted to line departments such as Public Works Department, Highways, Agriculture Engineering, TWAD, etc. for execution. However installation of street light works can be entrusted to Tamil Nadu Electricity Board.

11. The Collectors should submit the Utilisation Certificate to Director of Rural Development and Panchayat Raj after completion of the work promptly.

IV) Allocation of 20% of Pooled Fund for Deficit Rural Local Bodies to TWAD

The Tamil Nadu Water Supply and Drainage Board (TWAD) is a statutory body constituted by the Government of Tamil Nadu in 1971 under the TWAD Act, 1970 for providing protected water supply and sewerage facilities for the entire State except the Chennai Metropolitan Area. TWAD Board's activities include Operation and Maintenance of Combined Water Supply Scheme and other water supply schemes which are not handed over to local bodies. TWAD Board currently maintains 548 Combined Water Supply Scheme which supply drinking water to 5176 Village Panchayats.

The major sources of income for TWAD Board are centage and investigation charges claimed for the implementation of various schemes for local bodies and collection of bulk water charges from local bodies and other customers for the Water Supply schemes maintained by TWAD. The Commission has given a opinion that with the current Operation & Maintenance cost on Combined Water-Supply Scheme, the water charges collected from local bodies are simply not sufficient to maintain the schemes. It also incurs a huge deficit in the maintenance of Combined Water Supply Schemes.


The Government have ordered that 20% of the Pooled fund for deficit Rural Local Bodies i.e. 2% of the Rural Local Body devolution grant shall be provided to TWAD to meet the deficit on Combined Water Supply Schemes in addition to the water charges levied and collected from Rural Local Bodies.

Director of Rural Development and Panchayat Raj will release the fund in two installments to TWAD Board to meet the deficit in the maintenance of Combined Water Supply Schemes. TWAD Board should submit the utilization certificate in time for each installment to Directorate of Rural Development. TWAD will not make any further claim from State Finance Commission devolution grant or any other fund from Rural Local Bodies, towards commissioning of new projects or Operation & Maintenance cost on Combined Water Supply Scheme or the differences in water charges

The Secretary to Government, Rural Development and Panchayat Raj Department shall be authorized to modify any of the above provisions in consultation with Director of Rural Development and Panchayat Raj based on exigencies that may arise from time to time.

HANS RAJ VERMA,
Additional Chief Secretary to Government.

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Section Officer.


8/10/17