

CHAPTER 7

PRINCIPLES FOR DISTRIBUTION OF ALLOCATION MADE BY THE TENTH FINANCE COMMISSION

5.7.1. The Tenth Finance Commission (TFC) has, in the light of 73rd and 74th Constitutional Amendments, recommended ad hoc grants for augmenting the resources of Urban and Rural local bodies. The TFC followed two different principles while making the recommendations for the period 1995 to 2000, one for distribution to Rural bodies and the other for distribution to Urban bodies. The principles are given below:

- (1) Rs.100 per capita of rural population as per 1971 census for Rural local bodies;
- (2) For Urban local bodies, the assistance has been on the basis of inter se ratio of the slum population derived from the urban population figures as per 1971 census.

5.7.2. Accordingly, allocations have been made by the TFC to various States, and the allocations for Tamil Nadu are as follows:

Table 5.33 Allocations of Tenth Finance Commission (Rupees in Crores)

	1995-96	1996-97	1997-98	1998-99	1999-00	Total
Rural	—	71.83	71.83	71.84	71.84	287.31
Urban	—	28.88	28.88	28.88	28.88	115.52
Total	—	100.71	100.71	100.72	100.72	402.83

5.7.3. The following stipulations have been made by the TFC for utilisation of the above ad hoc grants:

- (1) It should be an additionality over and above the amounts flowing to the local bodies from the State Government.
- (2) The State should draw suitable schemes with detailed guidelines for utilisation of the above grants.
- (3) The local bodies should provide suitable matching contributions by raising resources.
- (4) The grant is not intended for expenditure on salaries and wages.

5.7.4. The Government of India, while accepting the recommendation of the TFC, laid down the following conditions:

- i) The grants would be treated as part of the plan fund of the State Government earmarked to be transferred to the local bodies.
- ii) Proper mechanism should be evolved to ensure that these grants are properly and fully utilised by the State only for which they are meant within a given time frame-work.

5.7.5. Based on the stipulations of the TFC and conditions laid down by the Government of India indicated above, the following issues came up for discussion before a Committee appointed by the Government of India for suggesting guidelines and proper mechanism for utilisation of the local body grants recommended by the TFC. The meeting of the Committee was held in New Delhi on 24th June 1996 and was chaired by the Joint Secretary, FCD, New Delhi. The following decisions were taken on the issues as indicated hereunder:

- 1) It was decided that except for the stipulations made by the TFC and Government of India, no other guidelines will be provided by Government of India to the States. However, the Ministries of Urban Affairs and Employment and Rural Affairs and Employment, Government of India can suggest the schemes which should or should not be taken up out of these grants. It will be left to the States to issue guidelines taking into account the recommendation of the SFC particularly with regard to inter se distribution among various categories of urban and rural local bodies.
- 2) If the State so decides, it can route these funds through State level financial intermediaries in the pattern of Municipal Urban Development Funds or through infrastructure finance corporations as is being done in Tamil Nadu, Karnataka and Andhra Pradesh. This approach is being adopted by World Bank for accessing their funds for development of urban infrastructure. These financial intermediaries can provide technical assistance, examine the feasibility of projects and even prepare FOPs on a suitable mix of remunerative, user charge based and non-remunerative social service oriented schemes, in securing loans and in preparing recovery schedules. They can work as a facilitator and leverage for these funds by availing institutional finance at reasonably low rates of interest from HUDCO, LIC, HDFC, ICICI and Banks.

- 3) As to the question whether these ad hoc grants are capital in nature for creation of assets or they could be utilised for operation and maintenance, it was felt by the Committee that keeping in mind the nature of Finance Commission reports which are generally meant for operation and maintenance, it could be left to the States concerned to utilise it either for creation of assets or for the operation and maintenance. To the extent the Government of India has laid down the condition that they will form part of the State Plan, the utilisation of these grants for salary and wages as component of new schemes cannot be ruled out.
- 4) The capabilities of the local bodies, particularly the rural ones, to contribute matching grant for accessing these funds as stipulated by the TFC was very much in doubt. In as much as this was a pre-condition of the TFC and accepted by the Government of India, it was felt that the States could decide the proportion of the matching contribution and also whether it can be raised only from well-off local bodies, the remainder being paid by the State Government. The matter was left to the best wisdom of the State as to how much contribution should be paid and by which categories of local bodies and whether the State or the local bodies should pay themselves.

5.7.6. The above decisions clearly indicate the flexibility in the manner of utilisation of the grants either for capital budget or for improving the maintenance of assets for better utilisation in the local bodies. These allocations will have to be matched by the local bodies and it is an additionality to the funds provided by the State to the various local bodies.

5.7.7. The Government of Tamil Nadu requested for the suggestions of the SFC for distribution of funds allocated for 1996-97. The SFC indicated that the principles of distribution will be indicated in its report for the period covering from 1997-1998 to 1999-2000 and that for the year 1996-97, the Government may consider keeping the allocation as a corpus fund for improvement of capital assets or may distribute it to the various local bodies on the basis of the existing principles of distribution, adopted by the Government.

5.7.8. In the light of these earlier background the SFC has now to suggest the principles for distribution of this allocation for the next four years commencing from 1997-98. SFC has already indicated the principles in 'Resource Allocation Mechanism' for increasing the levels of O & M to a normative level as proposed by the SFC.

5.7.9. The amount needed for O & M for the years 1997-98 to 2001-02 for the core services has also been worked out and the gap to be filled in has also been arrived at. A detailed discussion relating to this could be seen in Chapter 6 of this part.

5.7.10. Inasmuch as the maintenance aspects of core civic services have been taken care of and a corresponding devolution from the State funds has been recommended, SFC considers that this allocation made by the TFC can be earmarked for upgrading the level of services of capital nature.

5.7.11. This amount can be kept as a corpus and to be matched by the State. The Local Bodies will hold shares, over this market borrowing could be done for **Capital Fund**. The local bodies could access the funds through a matching contribution as required by the TFC.

5.7.12. The matching contribution from local bodies can be emphasised in the case of urban local bodies, since the capabilities of the Rural local bodies to make a matching contribution will be very much in doubt.

5.7.13. It has to be remembered that during the implementation of Community Development (C.D.) Schemes, contribution from the public or from the Rural local body, namely, Panchayat Union was a condition precedent for the allocations under the schemes dealt with there under. A similar contribution can be prescribed to be paid by Panchayat Unions but not by Village Panchayats.

5.7.14. Since the Panchayat Unions are taking up the development programmes spread over the Village Panchayat areas, it is but reasonable to expect them to contribute the matching assistance needed. Further, the maintenance of civic services has been entirely devolved upon the VPs, and the PUs are mostly required to attend to development programmes. A system of contribution with reference to the category of the Panchayat Union was in existence, the category being an indicator for the financial capability of the respective Panchayat Union.

5.7.15. Since the re-classification of Panchayat Unions is also recommended by the SFC for financial assistance, the matching contribution based on the category can be insisted upon the higher the category higher the matching and the lower the category lower the matching contribution.

5.7.16. In the case of urban local bodies, assistance can be matched compulsorily by their contribution. The contribution can be as indicated below depending on the grades.

Ranges of Contribution

MCS	-	25%	-	50%
MPs	-	20%	-	30%
TPs	-	15%	-	25%

5.7.16. Contribution from PUs adopted during CD schemes and the contribution now suggested are as follows:

PU's Category	PU contribution during CD	Now proposed %
I	60	25
II	50	25
III	40	15
IV	30	15
V	15	10
VI	5	5

The details can however be worked out by the Government.