



**Ministry of Housing
and Urban Affairs**
Government of India



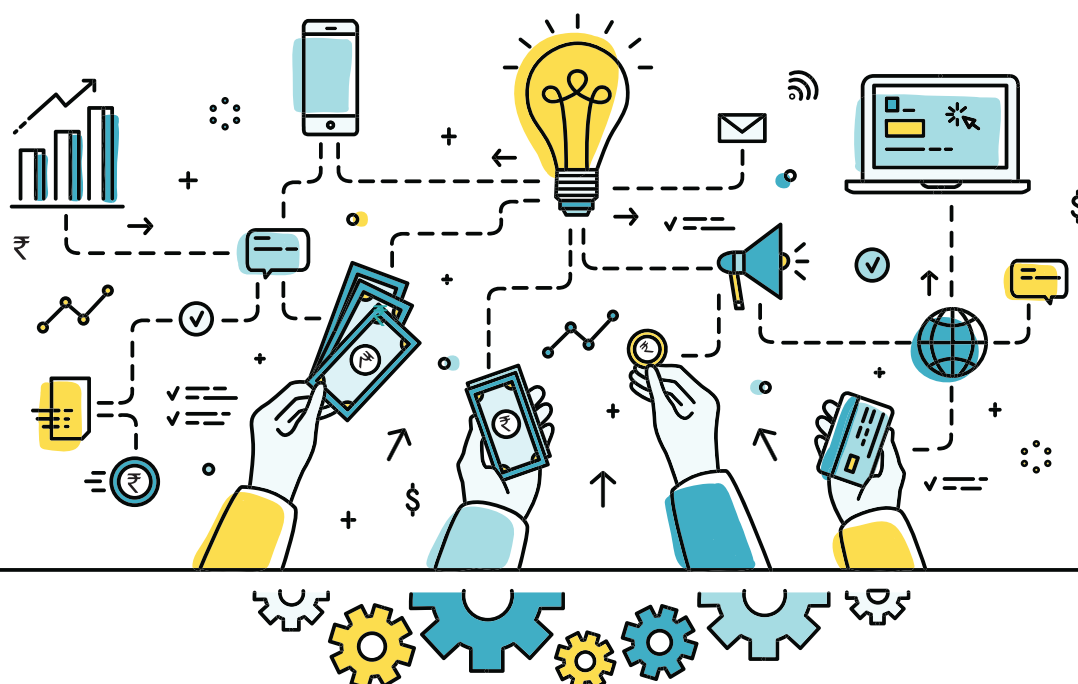
FOURTEENTH FINANCE COMMISSION

PERFORMANCE GRANT SCHEME
2017-2020

TOOL KIT

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1 INTRODUCTION

1.1. BACKGROUND

The Fourteenth Finance Commission (14FC) stipulates that a detailed procedure for the disbursement of the Performance Grant to urban local bodies (ULBs) would have to be designed, subject to certain eligibility criteria. Under the 14FC, an amount of ₹87,143 crore are to be devolved towards the ULBs over a time period of five years, from 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 purposes by ULBs.

Keeping in view the objective of leveraging Performance Grant to encourage ULBs to undertake reform measures, which result in the improvement of financial health and service delivery to the citizens, the scheme for the disbursement of Performance Grant was revised recently by the Ministry of Urban Development (MoUD). The revised Performance Grant scheme will be applicable for the remaining period of the 14FC (2017-18 to 2019-20). The evolved scheme has been designed keeping in mind the recommendations of the 14th Finance Commission and the emphasis of the Government on implementing transformational urban reforms.

The Tool Kit has been formulated to highlight the performance and evaluation criteria along with the milestones to be achieved for each year. This document will act as a reference manual for ULBs to claim the Performance Grant for the years 2017-18, 2018-19 and 2019-20.



1.2. THE TRANSFORMATIVE URBAN REFORMS

The Performance Grant has been designed to serve the purpose of ensuring reliable audited accounts, 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. The mandatory conditions under the 14FC have been evolved to introduce certain sub-criteria to achieve the envisioned transformation in a more efficient way. A detailed procedure for ULBs to access Performance Grant is highlighted in this Tool Kit.

1.3. THE WEIGHTAGE

The weightage given for the transformative reforms for each year (2017-18, 2018-19 and 2019-20) is as given below:

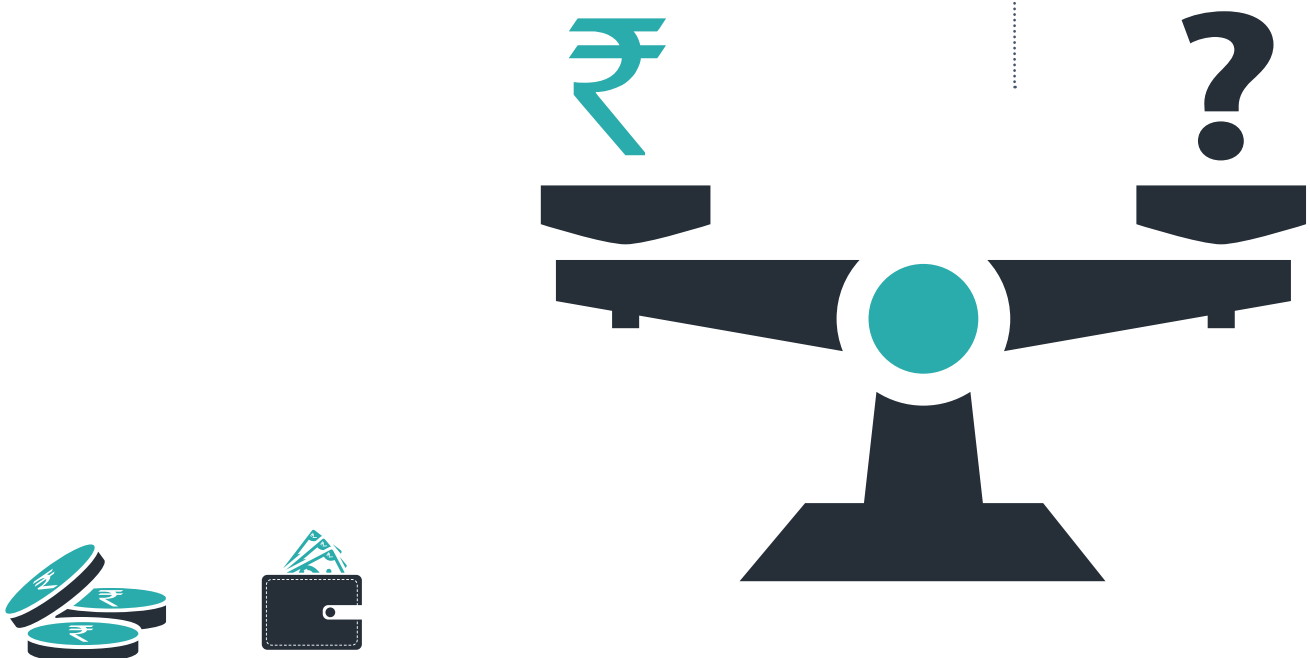
S.N.	Reform	Weightage
1	Audit of Annual Accounts	10
2	Increase in Own Revenue Sources	40
2.1	Covering Establishment and O&M Costs from Own Income	20
2.2	Capital Expenditure as a %age of Total Expenditure	20
3	Publishing of Service Level Benchmarks	50
3.1	Water Supply Coverage Ratio	15
3.2	Reduction in Non-Revenue Water	15
3.3	Coverage of Water Supply for Public/Community Toilets	10
3.4	Scientific Disposal of Solid Waste	10
Total (1+ 2 + 3)		100

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 States and three hill States of J & K, Himachal and Uttarakhand, a score of 50 and above will make them eligible for the Performance Grant.



1.4. TIMELINES: WHEN TO DO IT?

1. Each ULB must self-evaluate and submit its claim for Performance Grant to the State Government not later than 30th September of each year in the prescribed format as given in Annexure 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 Annexure 1, not later than 30th October of each year to MoUD. In addition to Annexure 1, the State Governments are also expected to send their Utilization Certificate of Performance Grant as per the Annexure 4. An indicative list of approaches to evaluate and verify the claims of ULBs by the State Governments are given in Annexure 3.
2. Performance Grant shall be disbursed to the State, which submits its claim with necessary details after examination, by MoUD. MoUD shall recommend grants for the eligible States by 15th November of each year to Ministry of Finance (MOF), following which MOF will release the funds of Performance Grant.



2 CATEGORY A: AUDIT OF ANNUAL ACCOUNTS

2.1. HOW TO DO IT?

As per 14FC, each ULB is required to submit audited accounts that relate to a year not earlier than two years preceding the year in which a ULB seeks to claim the performance grant. In addition to this mandatory condition, the following activities are to be undertaken by individual ULBs for accessing the grant for the remaining three years i.e. 2017-18, 2018-19 and 2019-20.

- For Performance Grant of 2017-18, 2018-19 and 2019-20, audited accounts must be published on the ULB website for the years 2015-16, 2016-17 and 2017-18 respectively

For Performance Grant of 2017-18	Published audited accounts of 2015-16
For Performance Grant of 2018-19	Published audited accounts of 2016-17
For Performance Grant of 2019-20	Published audited accounts of 2017-18

- A maximum score of 10 will be allotted on the achievement of this condition as per the scoring pattern given in the table below

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

2.2. WHY TO DO SO?

There is a lack of reliable financial data on municipalities and thereby, a difficulty in realistically assessing the requirement of resources for carrying out core functions and development expenditure. There is a need for the improvement of accounts as, over a period of time, progressively larger funds would flow to the local bodies. Reliable data on the finances of local bodies needs to be made available in order to enable all stakeholders to make informed decisions. For this, the compilation of accounts and their audit assumes importance. Another common issue is that the local bodies need to be encouraged to generate own revenues and to improve the quality of basic services that they deliver.



3 CATEGORY B: INCREASE IN OWN REVENUE SOURCES



3.1. HOW TO DO IT?

As per 14FC, each ULB will have to show an increase in 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 stamp duty, octroi and entry tax must be excluded. For accessing the Performance Grant of 2017-18, ULBs are expected to show an increase in own revenue sources in their audited accounts of 2015-16 as compared to 2014-15. Similarly, for accessing the Performance Grant of 2018-19, ULBs are expected to show an increase in own revenue sources in their audited accounts of 2016-17 as compared to 2015-16 and for accessing the Performance Grant of 2019-20, the increase in own revenue sources in their audited accounts of 2017-18 as compared to 2016-17 respectively.

In addition to this mandatory condition, the activities mentioned below are to be undertaken by individual ULBs for accessing the grants for the remaining three years, i.e. 2017-18, 2018-19 and 2019-20. The supporting documents for the below-mentioned activities have to be as per the following assessment years:

For Performance Grant of 2017-18	Use 'Actuals' of 2016-17 (audited or unaudited)
For Performance Grant of 2018-19	Use 'Actuals' of 2017-18 (audited or unaudited)
For Performance Grant of 2019-20	Use 'Actuals' of 2018-19 (audited or unaudited)

A. Covering Establishment Cost and O&M Cost from own Income

The ULBs that recover more than 70% of its revenue expenditure (which is a sum of O&M costs as well as costs of establishment & salaries) from its own revenue receipts will get a maximum score of 20. The ULBs recovering less than 50% of its revenue expenditure from its own revenue will get a score of 0, as per the scoring pattern in the table below:

Achievement Range	More than 70%	Between 60% and 70%	Between 50% and 60%	Less than 50%
Marks	20	15	10	0
ULBs 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.				

Own revenue receipts consist of tax and non-tax receipts 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. Neither shall it comprise of receipts from Octroi, Entry tax and Stamp duty etc.

B. Capital Expenditure as a part of Total Expenditure

Up to a maximum score of 20 will be given to the ULBs for achieving a benchmark of 40% (for AMRUT Cities)/20% (for all other cities) and above of ULB's total expenditure going towards asset creation and capital expenditure. ULBs achieving a benchmark of less than 20% for AMRUT cities and less than 10% for all other cities, will receive a score of 0. The scoring details are provided in the table below. For the purpose of calculating capital expenditure as a part of total expenditure, funds from all types of grants, schemes, programs and devolutions can be considered as the income of ULB.



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.				

3.2. WHY TO DO SO?

Financial sustainability of ULBs is essential for the sustenance and growth of cities. The ability of a ULB to invest in improving its infrastructure and civic services has a significant impact on their revenue base. While a focus on governance and planning is geared to improve implementation of projects and schemes, the resource base of ULBs must be augmented to ensure that timely flow of funds is made available for proper implementation of such projects or schemes. Total revenue of the municipal sector accounts for about 0.75% of GDP of the country. ULBs have considerable scope to improve revenues from their own sources, by means of improving collection of property taxes and adopting innovative fiscal tools such as Value Capture Finance (VCF) and Municipal Bonds.



4 CATEGORY C: PUBLISHING OF SERVICE LEVEL BENCHMARKS

4.1. HOW TO DO IT?

As per 14FC, each ULB must measure and publish the Service Level Benchmarks relating to basic urban services each year for the award period and make it publically available (through the ULB's website and other means). In addition to this mandatory condition of 14FC, the activities mentioned below are to be undertaken by individual ULBs for availing the grant for the remaining three years, i.e. 2017-18, 2018-19 and 2019-20.

The supporting documents for the below-mentioned activities have to be as per the following assessment years:

For Performance Grant of 2017-18	Use status of service delivery in 2016-17
For Performance Grant of 2018-19	Use status of service delivery in 2017-18
For Performance Grant of 2019-20	Use status of service delivery in 2018-19

A. Water Supply

1. Coverage

A maximum score of 15 will be given for achieving a benchmark of 90% and above of water supply coverage by the ULB and 0 marks for less than 70% coverage of water supply as per the scoring pattern given in the table below:

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*				



*: Household level coverage of direct water supply connections: % Total number of households in the service area that are connected to the water supply network with a direct service connection, as percentage of Total number of households in that service area. The service area may be either an electoral ward, or the ULB as a whole.¹

Rationale for the indicator

The minimum level acceptable standard for water supply service should be a household level water supply connection, i.e. a direct piped connection for water supply within the household. Water provision to households (urban poor or otherwise), at common public standposts cannot be considered as an acceptable / long-term permanent service provision standard. The social costs of not having access to piped water connection at household level are significant. Innovative service delivery options may be adopted for delivery of piped water connections to properties with inappropriate tenure rights (as in many urban slums).²

2. Reduction in Non-Revenue Water (NRW)

Up to a maximum score of 15 will be given for achieving a benchmark of less than 20% of NRW and a score of 0 for achieving a benchmark of above 40% NRW as per the scoring pattern given in the table below:

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**				

** : Extent of Non-Revenue Water %: This indicator highlights the extent of water produced which does not earn the utility any revenue. This is computed as - Difference between total water produced (ex-treatment plant) and total water sold expressed as a percentage of total water produced. NRW comprises - a) Consumption which is authorized but not billed, such as public stand posts; b) Apparent losses such as illegal water connections, water theft and metering inaccuracies; c) Real losses which are leakages in the transmission and distribution networks.³

¹ According to the Handbook of Standardized Service Level Benchmarks, MoUD Pg 22

² Ibid. Pg. 23

³ Ibid. Pg. 28

Rationale for the indicator

Reduction in NRW to acceptable levels is vital for the financial sustainability of the water utility. NRW can be reduced through appropriate technical and managerial actions, and therefore monitoring NRW can trigger such corrective measures. Reduction of real losses can be used to meet currently unsatisfied demand or to defer future capital expenditures to provide additional supply capacity. Reduction of NRW is desirable not just from a financial stand point, but also from economic and environmental benefits point of view.⁴

3. Coverage of Water Supply for Public/Community Toilets

Up to a maximum score of 10 will be given for ensuring 24X7 water supply to all public and community toilets in the city and a score of 0 for less than 100% water supply to all public and community toilets as per the scoring pattern given in the table below:

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

A maximum score of 10 will be given for ensuring 50% and above scientific processing of waste and a score of 0 for less than 20% scientific disposal of waste as per the scoring pattern given below:

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

***: Extent of scientific disposal of waste in landfill sites: % Amount of waste that is disposed in landfills that have been designed, built, operated and maintained as per standards laid down by Central agencies. This extent of compliance should be expressed as percentage of total quantum of waste disposed at landfill sites, including open dump sites.⁵

⁴ Ibid. Pg. 29

⁵ Ibid. Pg. 66

Rationale for the indicator

Inert waste should finally be disposed at landfill sites, which are designed, built, operated and maintained as standards laid down in prevailing laws and manuals of nodal agencies. This includes collection and treatment of leachate at the landfill site. Extent of compliance should be seen against total quantum of waste that is disposed in landfills. This is a critical performance parameter from an environmental sustainability perspective.⁶

4.2. WHY TO DO SO?

In the discussions carried out by 14FC with representatives of the local bodies, there was a strong consensus amongst the participants in favor of providing more funds for drinking water, sanitation, drainage, local roads, school buildings, solid waste management, street lighting, maintenance of burial and cremation grounds and parks. The States, in their memoranda to the 14FC, have also highlighted the need to support provision of these basic services relating to water, sanitation and solid waste management. Improvements in the quality of basic services are also likely to lead to an increase in the willingness of citizens to pay for the services. In addition to this, these conditions are likely to strengthen ULBs such that they are able to implement basic service delivery in an effective and a focused manner, thereby leading to an improvement in service delivery outcomes.

⁶ Ibid. Pg. 67



5 GENERAL GUIDELINES

- a. The Performance Grant for ULBs will be divided into tier-wise shares and distributed across each tier, subject to fulfilment of three mandatory conditions of 14FC as well as scoring above 60 or 50 as applicable, 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 based on the population (2011 Census) and area of the ULBs in the ratio of 90:10
- b. 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
- c. 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
 - i. In the second round, the remaining undisbursed amount (of ineligible ULBs) to be further disbursed equitably among the same set of eligible ULBs as an additionality using the norms of 14FC
- d. No expenditure should be incurred out of the 14FC 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 14FC has not distinguished between O&M and capital expenditure within the components of basic services

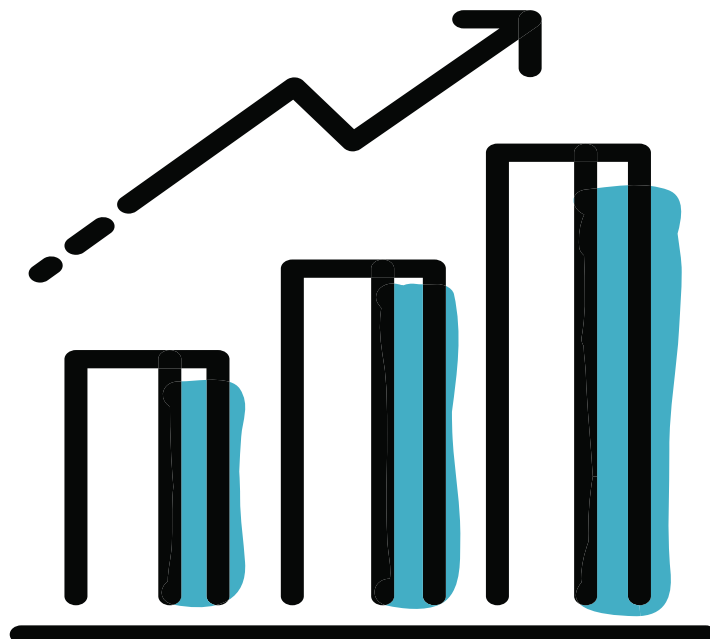


6 SUBMISSION OF ADMISSIBLE DOCUMENTARY EVIDENCES

Each of the following documents has to be completed and uploaded on 'SmartNet' (<https://smartnet.niua.org>), as per their respective timelines highlighted in this Tool Kit:

1. Each State shall upload on 'SmartNet', a duly filled form as per Annexure 1 of Tool Kit as well as to submit it to MoUD. It should provide the details of eligible and ineligible ULBs of the respective States for receiving the Performance Grant.
2. Each State shall upload on 'SmartNet', their Utilization Certificate of Performance Grant as per the format given in Annexure 4.
3. Each State shall upload on 'SmartNet', a duly filled form as per Annexure 2 of Tool Kit for each ULB, after due verification of this form which has been received from each ULB. This form should provide the details of the conditions completed by each ULB separately.
4. Each State shall upload on 'SmartNet', a duly verified Budget document of each ULB showing detailed breakup of income and expenditure as per 'Actuals' of the relevant financial years.
5. Each State shall upload on 'SmartNet', duly verified audited statements of each ULB. The Audited Accounts/Statements shall provide ULB-wise details of the following:-
 - Revenue Income,
 - ~ Own revenue receipts (Tax revenues such as property tax and Non-Tax revenues such as Fees & User Charges etc. levied and collected by the municipal body),

- ~ Grants & Transfers from State such as assigned revenues, octroi compensation, SFC grants and other state specific grants etc.
 - ~ Grants & Transfers from Central Govt. such as 14FC grants, central sponsored schemes etc.
- Revenue Expenditure,
 - ~ Administrative, Establishment & Salaries Expenses
 - ~ Operation and maintenance Expenses
 - ~ Others such as Program Expenses etc.
 - Capital Income
 - ~ Source and amount of Income such as sale of land and loans etc.
 - Capital Expenditure
 - ~ Expenditure heads and amount of expenditure such as developmental expenditure on schemes
6. Each State shall upload on 'SmartNet', a duly verified ULB-wise status of Service Level Benchmarks (current status and target for next year) as per the Handbook of MoUD for
- Water Supply
 - Sewerage
 - Solid Waste Management
 - Storm Water Drainage
7. Each State shall also upload on 'SmartNet', duly verified ULB-wise status of SLBs such as
- Water supply to Public/Community Toilets
 - Scientific disposal of solid waste



ANNEXURE 1

14 FINANCE COMMISSION PERFORMANCE GRANT (TO BE SENT BY STATE TO MoUD)

Name of State:

Number of total duly constituted ULBs:

PART 1: LIST OF ALL ULBS IN STATE THAT ARE ELIGIBLE AND INELIGIBLE 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 meeting held on _____.

(Principal Secretary/ Secretary (UD))

State Government of _____

ANNEXURE 2

14 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 the 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 costs 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
ULBs 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

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				

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				



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 grant

ANNEXURE 4

UTILIZATION CERTIFICATE FOR THE GRANT RECEIVED FOR URBAN LOCAL BODIES RECOMMENDED BY FOURTEENTH FINANCE COMMISSION DURING ITS AWARD PERIOD 2015-2020

Name Of State:-

Urban Local Body

1	Whether elections to ULBs have been held? (Yes/No) :						
2	Total no. of ULBs in the State			Remarks (if any)			
3	Total no. of ULBs to which election held			Remarks (if any)			
4	Date and year of next election due to ULBs			Remarks (if any)			
5	Details of the Basic Grant received	Year	Installment	Amount (₹ In Lakh)	Date of Receipt		
6	Details of the Basic Grant Transferred	Year to which grant pertains	Installment (For BG 1 or 2 and PG 1)	Amount (₹ In Lakh)	Date of Transfer	No. of days of delay	If delayed, amount of interest transferred (with rate of interest)
7	Details of the Performance Grant received	Grant received for the year	Amount (₹ In Lakh)	Date of Receipt			
8	Details of the Performance Grant transferred	Year	Amount (₹ In Lakh)	Date of Transfer	No. of days of delay	If delayed, amount of interest transferred (with rate of interest)	

Certified that the Urban Local Bodies Grants have been electronically transferred to the elected Urban Local Bodies within 15 days of receipt of grant from the Central Government

Signature with seal of Secretary
MA&UD Department

Countersigned:
Signature with the seal
of the Finance Secretary

NOTES



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