

# CHAPTER 15

## Financial Requirements and State Devolution

15.1 The Commission has estimated a requirement of about Rs.54,555 crore at current prices for infrastructure provision and O&M over a period 20 years beginning from 2012-13, as can be seen from Annex 15.1. Similarly, during the award period i.e., 2012-2017, the Commission estimated a requirement of about Rs. 5,777 crore, as presented in Table 15.1.

**Table 15.1: Investment Requirements during the Award Period**

*(Rs in crore.)*

S.No	Year	Investment Requirement		
		Capital	O&M	Total
1	2012-13	560.84	334.80	895.64
2	2013-14	644.96	364.26	1,009.22
3	2014-15	741.71	396.32	1,138.02
4	2015-16	852.96	431.19	1,284.16
5	2016-17	980.91	469.14	1,450.04
	<b>Total</b>	<b>3,781.37</b>	<b>1,995.71</b>	<b>5,777.08</b>

### Resource Gap

15.2 The Commission, based on an average annual growth of 11 percent in capital expenditure and O&M achieved during the last five years, projects that during the award period about Rs 3,723 crore would be available to ULBs as against the requirement of Rs 5,777 crore thereby leaving a gap of about Rs 2,053 crore, as given in Table 15.2. Additionally, Rs.200 crore would be needed to provide access to sanitation and Rs.50 crore for capacity building, as recommended by this Commission, taking the total gap to Rs.2,303 crore.

**Table 15.2: Available Investments during the Award Period**

*(Rs in crore)*

Sl No	Year	Available			Additional Funds Required	Total
		Capital	O&M	Total		
1	2012-13	501.23	96.66	597.89	297.74	895.64
2	2013-14	556.37	107.30	663.66	345.56	1,009.22
3	2014-15	617.57	119.10	736.67	401.36	1,138.02
4	2015-16	685.50	132.20	817.70	466.46	1,284.16
5	2016-17	760.90	146.74	907.65	542.40	1,450.04
	<b>Total</b>	<b>3,121.57</b>	<b>602.00</b>	<b>3,723.57</b>	<b>2,053.51</b>	<b>5,777.08</b>

## Projection of ULBs Own Sources and State Government Grants

15.3 The projected available resources to meet capital and O&M expenditures and gap have been assessed against possible allocations by State Government and revenue generation by ULBs during the award period. As can be seen from table 15.3, ULBs' own resources for the award period i.e., 2012-13 to 2016-17 are likely to be about Rs 2,113 crore while the state government grants are likely to be about Rs 2,852 crore taking the total to Rs 4,965 crore. Based on ULB data it is assumed that 75 percent of the projected revenues are available for capital and O&M expenditure and this works out to Rs 3,724 crore (table 15.3), leaving a gap of about Rs 2,303 crore including allocations for sanitation and capacity building, as against the required Rs. 5,777 crore.

**Table 15.3: Revenue Income Projections from Own Sources & State Grants**

(Rs in crore.)

Revenue Income	Growth rate	2012-13	2013-14	2014-15	2015-16	2016-17	Total	75% (capital and O&M)
Own Sources	15.06	313.46	360.48	414.55	476.73	548.24	2113.45	1585.08
State Transfers	5.41	512.14	539.79	568.94	599.66	632.05	2852.58	2139.43
<b>Total</b>		<b>825.59</b>	<b>900.26</b>	<b>983.48</b>	<b>1076.39</b>	<b>1180.28</b>	<b>4,966.03</b>	<b>3724.51</b>

## Additional Resources from ULBs

15.4 The estimated revenue gap of over Rs. 2,303 crore to meet the infrastructure investments need to be mobilized by the ULBs by improving the tax and non-tax resources and devolutions from state government. The Commission estimates that ULBs can mobilize additionally Rs 648 crore through tax reforms as discussed in the previous chapter (Paras 14.81-82) and can be seen from Table 15.4. After taking into account the additional resources, there is still a gap of about Rs.1,605 crore which need to be met from additional state devolutions.

**Table 15.4: Additional Resources from ULBs during 2013-14 to 2016-17**

S.No	Tax Source	Amount (Rs crore.)
1	Property tax	268
2	Professional tax	200
3	Advertisement tax	100
4	Others	80
	<b>Total</b>	<b>648</b>

## State Devolutions

15.5 The Commission, in its interim report, recommended an allocation of 8% of net SOTR to local bodies, both rural and urban. The divisible pool for the five year period covered by this Commission is estimated to be Rs.5793.50 crore. The share of the ULBs, on the basis of population, comes to 1.85% of this 8%, which translates to Rs.1339.75 crore during the five year period. Therefore, there is likely to be a gap of only about Rs.310.00 crore (Rs.1650 crore – 1340 crore) in the total investment required during the five year period. We are not making any specific recommendation as to how this gap is to be met. We expect that additional grants from the State Government and better internal resource mobilization by the ULBs themselves will bridge this gap. As we have stated earlier, the devolution made by this Commission is meant for capital expenditure, creating assets in the areas of water supply, sanitation, SWM, roads etc. and capacity building. The Commission suggests that UADD prepare sectoral plans alongwith estimates for the award period of five years for each of these sectors taking into account the requirement of ULBs, alongwith a capacity building plan, and make annual allocations accordingly. A consolidated picture of investment requirements and resource mobilization including transfers under this Commission's award, can be seen from the Table 15.5 below.

**Table 15.5: Investment Requirement and Resource Mobilization**

*(Rs.in crore)*

Investment Requirement		Resource Mobilization		
Capital	3781.37	Available resources with ULBs		3724.51
O&M	1995.71	Resource generation through proposed reforms	648	
Sanitation	200.00	SFC Allocation	1340	
Capacity Building	50.00	Gap	314.57	
		<b>Sub Total</b>		<b>2302.57</b>
<b>Total</b>	<b>6027.08</b>	<b>Grand total</b>		<b>6027.08</b>

We are proposing that the funds required for sanitation (Rs. 200 crore) and for capacity building and creation of an institute of urban development (Rs.50 crore) may be provided by the State Government as grant-in-aid. That will reduce the gap to only about Rs.64 crore, which is left unbridged.