

## **State Annual Action Plan (SAAP)**

The basic building block for the SAAP will be the SLIPs prepared by the ULBs. At the State level, the SLIPs of all Mission cities will be aggregated into the SAAP. Therefore, the SAAP is basically a State level service improvement plan indicating the year-wise improvements in water-supply and sewerage connections to households.

Principles of Prioritization: The States will decide on the inter-ULB allocation based on gap analysis and financial strength of ULBs and choose those ULBs in the first year that have higher gaps in provision of water supply and sewerage. The prioritization of ULBs for funding will be done after consultation with local MPs, Mayors and Commissioners of the concerned ULBs. Financially weaker ULBs can be financed to a greater extent. Urban Local Bodies with a high proportion of urban poor could receive a higher share. Moreover, the potential Smart cities will be given first preference because the Smart Cities Mission and the AMRUT are complementary. Based on prioritization by the States and resources available, the States will send the SAAP up to three times the Central Assistance (CA) allocated to the State during 2015-16 (because a project is likely to take three years for completion and the funding will be given in three instalments) and the outstanding CA of the previous year plus the annual allocation of the year in the subsequent years. As a result, different ULBs within a State may become entitled to different funding patterns, but the share of the Centre will be fixed as given in these Guidelines.

Importance of O&M: Experience with past programmes has shown that once projects are completed the ULBs pay little attention to the operation and maintenance of infrastructure assets created. Therefore, projects being proposed to the MoUD in the SAAP will include O & M for at least five years to be funded by way of levy of user charges or other revenue streams. However, for the purpose of calculation of the project cost, the O&M cost will be excluded and the States/ULBs will fund the O&M through an appropriate cost recovery mechanism in order to make them self-reliant and cost-effective.

Financing of projects: Financing is an important element of the SAAP. The maximum share which will be given by the Central Government. The States/ULBs have to plan for the remaining resource generation at the time of preparation of the SAAP. The financial share of cities will vary across States. In some States, the ULBs may be in a position to contribute significantly to the project cost as compared to a ULB in another State. Accordingly, States have to decide

during formulation of the SAAP how the residual financing (over and above Central Government share) is shared between the State, ULBs and any other source identified by the State/ULB (e.g. PPP, market borrowing). **However, the State contribution to the SAAP will not be less than 20 percent of the total project cost.**

Importantly, at the State level the SAAP should only contain those projects where complete project cost is completely linked with revenue sources. This will include dovetailing with other sectoral and financial programmes of the Centre and State Governments. A useful way is to create a Financial Intermediary, also a Reform in the AMRUT, in order to pool funds from all sources and release funds to ULBs in time. Such intermediaries will also be able to access external sources of finance, such as debt and bonds, which small and financially distressed ULBs are unable to access. The potential opened by the promulgation of Regulations by the SEBI for muni-bonds can be fully realized by such an intermediary. During the process of developing the SAAP, the States/UTs should explore the possibility of using Public Private Partnerships (PPP), which should be the preferred execution model. The PPP should include appropriate Service Level Agreements (SLAs) with strong citizen feedback built into it. This will lead to the People Public Private Partnership (PPPP) model.

Approval of SAAP: The SAAP will be approved by the MoUD once a year according to the schedule given by the Apex Committee. The Apex Committee may revise the SAAP, approve with conditions or return it for rectification of gaps. The AMRUT will provide **project funds to ULBs through the States**. Some of the criteria to evaluate the SAAP by the MoUD are given below.

- i. How well has the State Government diagnosed service level gaps?
- ii. How well has the State planned and financed capital expenditure?
- iii. How well has the State moved towards achievement of universal coverage in water supply and sewerage/septage and thereafter other benchmarks in these two sectors and in urban transport and storm water drain construction?
- iv. What is the expected level of the financial support from the Central Government and how well have State/ULB and other sources of finance been identified and accessed?
- v. How fairly and equitably have the needs of the ULBs been given due consideration?
- vi. Have adequate consultations with all stakeholders been done, including citizens, local MPs and other public representatives?

