

## PRESS NOTE

Article 280 of the Constitution of India requires the constitution of a Finance Commission every five years, or earlier. For the period 1st April, 2015, to 31st March, 2020 the 14th Finance Commission (FFC) was constituted by the orders of President on 2nd January, 2013 & submitted its report on 15/12/2015.

The Finance Commission is required to recommend the distribution of the net proceeds of taxes of the Union between the Union and the States (commonly referred to as vertical devolution); and the allocation between the States of the respective shares of such proceeds (commonly known as horizontal devolution).

With regard to vertical distribution, FFC has recommended by majority decision that the the States' share in the net proceeds of the Union tax revenues be 42%. The recommendation of tax devolution at 42% is a huge jump from the 32% recommended by the 13th Finance Commission. The transfers to the States will see a quantum jump. This is the largest ever change in the percentage of devolution. In the past, when Finance Commissions have recommended an increase, it has been in the range of 1-2% increase. As compared to the total devolutions in 2014-15 the total devolution of the States in 2015-16 will increase by over 45%.

The consequence of this much greater devolution to the States is that the fiscal space for the Centre will reduce in the same proportion. As recorded in Chapter-8 of FFC's Report, amongst other demands of the States, the States had demanded both an increase in share of tax devolution, and a reduced role of CSS. In Paras 8.6 & 8.7 of its Report, the FFC has noted that

*"8.6: Another dominant view has been that a majority of the resources should flow in the form of tax devolution---"*

*"8.7: An overwhelming majority of States have suggested reducing the number of CSS as well as outlays on them---."*

FFC has taken the view that tax devolution should be primary route of transfer of resources to States. It may be noted that in reckoning the requirements of the States, the FFC has ignored the Plan and Non-Plan distinction; it sees the enhanced devolution of the divisible pool of taxes as a "compositional shift in transfers from grants to tax devolution" (Para 8.13 of FFC Report). Thus, basically the FFC Report expects the CSS, in fact Central assistance to State Plans as a whole, to reduce and be replaced by greater devolution of taxes.

Keeping in mind the spirit of cooperative federalism that has underpinned the creation of National Institution for Transforming India (NITI), the Government has accepted the recommendation of the FFC to keep the States' share of Union Tax proceeds (net) at 42%.

In recommending horizontal distribution, the FFC has used broad parameters of population (1971) and changes of population since, income distance, forest cover and area. The details of this criteria and the weight assigned to them are given in Annexure-1. The State-wise share of the divisible pool of Central taxes, in percentage terms, is given in Annexure-2. As service tax is not levied in J&K, the share of the States, in percentage terms has been calculated separately by FFC. These are given in Annexure-3.

The Finance Commission is also required to recommend on 'the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State'.

FFC has recommended distribution of grants to States for local bodies using 2011 population data with weight of 90% and area with weight of 10%. The grants to States will be divided into two, a grant to duly constituted Gram Panchayats and

a grant to duly constituted Municipal bodies, on the basis of rural and urban population.

FFC has recommended grants in two parts; a basic grant, and a performance grant, for duly constituted Gram Panchayats and municipalities. The ratio of basic to performance grant is 90:10 with respect to Panchayats and 80:20 with respect to Municipalities.

FFC has recommended out a total grant of Rs 2,87,436 crore for five year period from 1.4.2015 to 31.3.2020. Of this the grant recommended to Panchayats is Rs 2,00,292.20 crores and that to municipalities is Rs 87,143.80 crores. The transfers in the year 2015-16 will be Rs 29,988 crores. Inter-se share of each state in respect of local bodies grant is at Annexures-4 and 5.

The Government has accepted the recommendations of the Finance Commission with regard to grants to local bodies. The Finance Commission is also required to 'review the present arrangements as regards financing of Disaster Management with reference to the National Calamity Contingency Fund and the Calamity Relief Fund and the funds envisaged in the Disaster Management Act, 2005 (Act 53 of 2005), and make appropriate recommendations thereon'.

FFC has recommended that up to 10 percent of the funds available under the SDRF can be used by a State for occurrences which State considers to be 'disasters' within its local context and which are not in the notified list of disasters of the Ministry of Home Affairs.

The FFC has noted in Para 10.26 as follows:

*"The financing of NDRI has so far been almost wholly through the levy of cess on select items, but if the cess are discontinued or when they are*

*subsumed under the Goods and Services Tax (GST) in future, we recommend that the Union Government consider ensuring an assured source of funding for NDRF”.*

In view of the above, with regard to disaster relief, the Government has decided that the percentage share of the States will continue to be as before, and that the flows will also be of the same order, as in the existing system; and that, once GST is in place, the recommendation of FFC on disaster relief would be implemented in the manner recommended by the Finance Commission.

The Finance Commission is also required to make recommendation regarding the principles governing grants-in-aid of the States' revenues, by the Centre. As noted by the FFC in Para 11.28, while calculating grants to the States they "have departed significantly from previous Finance Commissions, by taking into consideration a States' entire revenue expenditure needs without making a distinction between Plan and Non-Plan". Taking thus into account the expenditure requirements of the States, the tax devolution to them, and the revenue mobilization capacity of the States, the FFC have recommended "Post-Devolution Revenue Deficit Grants" of a total of Rs. 1,94,821 crores, for the five year period. The States of Andhra Pradesh, Assam, J&K, Himachal Pradesh, Kerala, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and West Bengal (a total of 11 States) have been identified for receiving these revenue deficit grants. The details are given in Annexure-6. The Government has accepted the recommendation in principle.

To summarize, the Grants-in-Aid to the States total to Rs. 5.37 lac crores is given in the Table given below:

### Grants-in-Aid to States

(Rs. crore)

1	Local Government(all States)	287436
2	Disaster Management(all States)	55097
3	Post-devolution Revenue Deficit (11 States)	194821
	<b>Total</b>	<b>537354</b>

As stated above, the compositional shift recommended by the FFC would substantially impact Central Assistance. In this regard, para 7.43 of the FFC Report states as follows :

*“Plan revenue expenditure of States is financed by States’ own resources, borrowing and Plan grants from the Union. The Plan grants include normal Central assistance, which is untied, additional Central assistance for specific-purpose schemes and transfers, special Plan assistance, special Central assistance, Central Plan schemes and CSS. For the purpose of our assessment of Plan revenue expenditure of States, we have included expenditure incurred on State Plans and States’ contribution to CSS. This excludes Union expenditure on CSS, central Plan schemes and North Eastern Council Plan schemes and externally aided projects financed through grants from the Union. We have estimated the 2014-15 base year Plan revenue expenditure (as defined above) for each State, applying an annual growth rate of 13.5 per cent over 2012-13 and 2013-14. For the purpose of our projection period, we have assumed an annual growth rate of 13.5 per cent over base year estimates for all the States, implying that the Plan revenue expenditure will increase at the same rate as the GDP growth rate.”*

Based on the above, over 30 Centrally Sponsored Schemes have been identified which ought to have been transferred to the States because expenditure on them has already been taken into account as State expenditure, in arriving at the greater devolution of 42% to the States. However, keeping in mind that many of these schemes are national priorities, and some are legal obligations (such as MGNREGA) and in order to underline the Central Government's continued support to national priorities, especially with regard to schemes meant for the poor, most of these are proposed to be continued. The Government has decided that only 8 Centrally Sponsored Schemes be delinked from support from the Centre.

Certain programmes of the Government will have to continue unaltered as they are either legal/Constitutional obligations, or are privileges available to the elected representatives for welfare of their constituents. Further, and more importantly it is proposed that the Union Government may continue to support certain programmes which are for the benefit of the socially disadvantaged in an unaltered manner from its own resources.

In respect of various Centrally sponsored schemes, the sharing pattern will have to undergo a change with States sharing a higher fiscal responsibility for scheme implementation. Details of changes in sharing pattern will have to be worked out by the administrative Ministry/Department on the basis of available resources from Union Finances.

#### **Other recommendations of the FFC**

In addition to the recommendations regarding Vertical, and Horizontal devolution and grants, the FFC has made certain other recommendations. These relate to cooperative federalism, Goods & Services Tax, Fiscal Consolidation Roadmap, Pricing of Public Utilities and Public Sector Enterprises. The recommendations of the Finance Commission will be examined by the Government in due course in consultation with the concerned stakeholders.

## Criteria and Weights

Criteria	Weight (per cent)
Population	17.5
Demographic Change	10
Income Distance	50
Area	15
Forest Cover	7.5

where

- a) **Population** is the population of the State as per the 1971 census;
- b) **Demographic change** are changes in population since 1971;
- c) **Income Distance** is computed by calculating the difference between 3 year average (2010-11 to 2012-13) GSDP for each State with respect to the State with highest per capita GSDP;
- d) **Forest Cover** has been used as there is an opportunity cost in terms of area not available for other economic activities;
- e) **Area** has a floor limit at 2% for smaller States in deciding the horizontal devolution.

## Inter-se Share of States

(per cent)

States	Share of States
Andhra Pradesh	4.305
Arunachal Pradesh	1.370
Assam	3.311
Bihar	9.665
Chhattisgarh	3.080
Goa	0.378
Gujarat	3.084
Haryana	1.084
Himachal Pradesh	0.713
Jammu & Kashmir	1.854
Jharkhand	3.139
Karnataka	4.713
Kerala	2.500
Madhya Pradesh	7.548
Maharashtra	5.521
Manipur	0.617
Meghalaya	0.642
Mizoram	0.460
Nagaland	0.498
Odisha	4.642
Punjab	1.577
Rajasthan	5.495
Sikkim	0.367
Tamil Nadu	4.023
Telangana	2.437
Tripura	0.642
Uttar Pradesh	17.959
Uttarakhand	1.052
West Bengal	7.324
All States	100.000



**Share of States Other than Jammu & Kashmir in Service Tax**  
(Per cent)

States	Share of States
Andhra Pradesh	4.398
Arunachal Pradesh	1.431
Assam	3.371
Bihar	9.787
Chhattisgarh	3.166
Goa	0.379
Gujarat	3.172
Haryana	1.091
Himachal Pradesh	0.722
Jharkhand	3.198
Karnataka	4.822
Kerala	2.526
Madhya Pradesh	7.727
Maharashtra	5.674
Manipur	0.623
Meghalaya	0.650
Mizoram	0.464
Nagaland	0.503
Odisha	4.744
Punjab	1.589
Rajasthan	5.647
Sikkim	0.369
Tamil Nadu	4.104
Telangana	2.499
Tripura	0.648
Uttar Pradesh	18.205
Uttarakhand	1.068
West Bengal	7.423
All States	100.000

## (i) Grants to Local Bodies State-wise Share – Basic Grants

(Rs. Crore)

Sl No	States	Rural Local Bodies						Urban Local Bodies					
		2015-16	2016-17	2017-18	2018-19	2019-20	2015-20	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
1	Andhra Pradesh	934.34	1293.75	1494.81	1729.23	2336.56	7788.68	348.92	483.14	558.23	645.77	872.57	2908.64
2	Arunachal Pradesh	88.52	122.58	141.62	163.83	221.38	737.93	23.42	32.43	37.47	43.34	58.56	195.22
3	Assam	584.80	809.76	935.60	1082.32	1462.45	4874.92	93.14	128.97	149.01	172.38	232.92	776.43
4	Bihar	2269.18	3142.08	3630.39	4199.71	5674.70	18916.05	256.83	355.63	410.90	475.34	642.28	2140.99
5	Chhattisgarh	566.18	783.98	905.81	1047.86	1415.89	4719.72	152.39	211.01	243.80	282.04	381.09	1270.33
6	Goa	14.44	20.00	23.10	26.73	36.12	120.39	21.10	29.21	33.76	39.05	52.76	175.88
7	Gujarat	932.25	1290.86	1491.47	1725.36	2331.33	7771.26	614.91	851.45	983.77	1138.05	1537.74	5125.91
8	Haryana	419.28	580.57	670.80	775.99	1048.53	3495.17	199.61	276.39	319.35	369.43	499.18	1663.95
9	Himachal Pradesh	195.39	270.56	312.60	361.63	488.64	1628.82	19.36	26.81	30.98	35.84	48.42	161.42
10	Jammu & Kashmir	373.96	517.81	598.29	692.11	935.19	3117.36	125.30	173.50	200.46	231.90	313.35	1044.51
11	Jharkhand	652.83	903.96	1044.45	1208.24	1632.59	5442.07	183.74	254.42	293.95	340.05	459.48	1531.64
12	Karnataka	1002.85	1388.62	1604.42	1856.02	2507.88	8359.79	562.08	778.29	899.25	1040.27	1405.62	4685.50
13	Kerala	433.76	600.62	693.96	802.78	1084.73	3615.85	351.66	486.94	562.61	650.84	879.42	2931.48
14	Madhya Pradesh	1463.61	2036.62	2341.57	2708.78	3660.14	12200.72	496.79	687.89	794.80	919.44	1242.36	4141.27
15	Maharashtra	1623.32	2247.77	2597.10	3004.37	4059.55	13532.11	1191.24	1649.49	1905.83	2204.70	2979.02	9930.29
16	Manipur	22.25	30.80	35.59	41.17	55.63	185.44	16.57	22.95	26.52	30.67	41.45	138.16
17	Meghalaya	0.00	0.00	0.00	0.00	0.00	0.00	3.03	4.19	4.84	5.60	7.57	25.22
18	Mizoram	0.00	0.00	0.00	0.00	0.00	0.00	11.54	15.97	18.46	21.35	28.85	96.17
19	Nagaland	0.00	0.00	0.00	0.00	0.00	0.00	12.23	16.94	19.57	22.64	30.59	101.98
20	Odisha	955.52	1323.09	1528.71	1768.44	2389.54	7965.28	170.10	235.54	272.14	314.82	425.39	1417.98
21	Punjab	441.70	611.61	706.66	817.48	1104.58	3682.02	235.41	325.96	376.62	435.68	588.69	1962.35
22	Rajasthan	1471.95	2038.17	2354.92	2724.22	3681.01	12270.27	433.12	599.73	692.93	801.60	1083.13	3610.50
23	Sikkim	16.03	22.20	25.65	29.67	40.09	133.64	4.79	6.63	7.66	8.86	11.98	39.92
24	Tamil Nadu	947.65	1312.19	1516.12	1753.87	2369.86	7899.69	790.04	1093.95	1263.96	1462.18	1975.71	6585.85
25	Telangana	580.34	803.58	928.47	1074.07	1451.30	4837.75	325.23	450.33	520.32	601.92	813.32	2711.12
26	Tripura	36.24	50.18	57.98	67.07	90.63	302.11	21.41	29.65	34.25	39.63	53.54	178.48
27	Uttar Pradesh	3862.60	5348.45	6179.65	7148.74	9659.47	32198.90	983.60	1361.97	1573.63	1820.41	2459.76	8199.37
28	Uttarakhand	203.26	281.45	325.19	376.19	508.31	1694.42	78.29	108.41	125.26	144.90	195.79	652.66
29	West Bengal	1532.21	2121.61	2451.33	2835.75	3831.70	12772.60	637.21	882.33	1019.45	1179.32	1593.51	5311.81
	<b>Total</b>	<b>21624.46</b>	<b>29942.87</b>	<b>34596.26</b>	<b>40021.63</b>	<b>54077.8</b>	<b>180262.96</b>	<b>8363.06</b>	<b>11580.12</b>	<b>13379.78</b>	<b>15478.00</b>	<b>20914.08</b>	<b>69715.04</b>

## Grants to Local Bodies State-wise Share -- Performance Grants.

(Rs. Crore)

Sl. No.	States	Rural Local Bodies					Urban Local Bodies				
		2016-17	2017-18	2018-19	2019-20	2016-20	2016-17	2017-18	2018-19	2019-20	2016-20
1	Andhra Pradesh	169.70	192.04	218.09	285.57	865.41	142.59	161.36	183.25	239.95	727.16
2	Arunachal Pradesh	16.08	18.20	20.66	27.06	81.99	9.57	10.83	12.30	16.10	48.81
3	Assam	106.22	120.20	136.50	178.74	541.66	38.06	43.07	48.92	64.05	194.11
4	Bihar	412.15	466.41	529.67	693.55	2101.78	104.96	118.78	134.89	176.62	535.25
5	Chhattisgarh	102.84	116.37	132.16	173.05	524.41	62.28	70.47	80.03	104.80	317.58
6	Goa	2.62	2.97	3.37	4.41	13.38	8.62	9.76	11.08	14.51	43.97
7	Gujarat	169.32	191.61	217.60	284.93	863.47	251.29	284.37	322.94	422.87	1281.48
8	Haryana	76.15	86.18	97.87	128.15	388.35	81.57	92.31	104.83	137.27	415.99
9	Himachal Pradesh	35.49	40.16	45.61	59.72	180.98	7.91	8.95	10.17	13.32	40.35
10	Jammu & Kashmir	67.92	76.86	87.29	114.30	346.37	51.21	57.95	65.81	86.17	261.13
11	Jharkhand	118.57	134.18	152.38	199.53	604.67	75.09	84.97	96.50	126.35	382.91
12	Karnataka	182.15	206.13	234.08	306.51	928.87	229.70	259.94	295.20	386.54	1171.38
13	Kerala	78.78	89.16	101.25	132.57	401.76	143.71	162.63	184.69	241.83	732.87
14	Madhya Pradesh	265.84	300.83	341.63	447.34	1355.64	203.02	229.75	260.91	341.64	1035.32
15	Maharashtra	294.84	333.66	378.91	496.15	1503.57	486.82	550.91	625.63	819.21	2482.57
16	Manipur	4.04	4.57	5.19	6.80	20.60	6.77	7.66	8.70	11.40	34.54
17	Meghalaya	0.00	0.00	0.00	0.00	0.00	1.24	1.40	1.59	2.08	6.30
18	Mizoram	0.00	0.00	0.00	0.00	0.00	4.71	5.34	6.06	7.93	24.04
19	Nagaland	0.00	0.00	0.00	0.00	0.00	5.00	5.66	6.43	8.41	25.50
20	Odisha	173.55	196.40	223.04	292.05	885.03	69.52	78.67	89.34	116.98	354.50
21	Punjab	80.23	90.79	103.10	135.00	409.11	96.20	108.87	123.63	161.89	490.59
22	Rajasthan	267.35	302.55	343.58	449.89	1363.36	177.00	200.30	227.47	297.85	902.62
23	Sikkim	2.91	3.30	3.74	4.90	14.85	1.96	2.21	2.52	3.29	9.98
24	Tamil Nadu	172.12	194.78	221.20	289.64	877.74	322.87	365.37	414.92	543.31	1646.46
25	Telangana	105.41	119.28	135.46	177.38	537.53	132.91	150.41	170.81	223.66	677.78
26	Tripura	6.58	7.45	8.46	11.08	33.57	8.75	9.90	11.24	14.72	44.62
27	Uttar Pradesh	701.57	793.92	901.60	1180.57	3577.66	401.97	454.88	516.58	676.42	2049.84
28	Uttarakhand	36.92	41.78	47.45	62.13	188.27	32.00	36.21	41.12	53.84	163.17
29	West Bengal	278.30	314.93	357.64	468.31	1419.18	260.41	294.69	334.66	438.20	1327.95
	<b>Total</b>	<b>3927.66</b>	<b>4444.71</b>	<b>5047.53</b>	<b>6609.32</b>	<b>20029.22</b>	<b>3417.72</b>	<b>3867.64</b>	<b>4392.19</b>	<b>5751.21</b>	<b>17428.76</b>

## Grant-in-aid for Revenue Deficit (2015-20)

(Rs. crore)

State 1	2015-16 2	2016-17 3	2017-18 4	2018-19 5	2019-20 6	2015-20 7
Andhra Pradesh	6609	4930	4430	3644	2499	22113
Assam	2191	1188	Nil	Nil	Nil	3379
Himachal Pradesh	8009	8232	8311	8206	7866	40625
Jammu & Kashmir	9892	10831	11849	12952	14142	59666
Kerala	4640	3350	1529	Nil	Nil	9519
Manipur	2066	2096	2091	2042	1932	10227
Meghalaya	618	535	404	213	Nil	1770
Mizoram	2139	2294	2446	2588	2716	12183
Nagaland	3203	3451	3700	3945	4177	18475
Tripura	1089	1089	1059	992	875	5103
West Bengal	8449	3311	Nil	Nil	Nil	11760
<b>Total State</b>	<b>48906</b>	<b>41308</b>	<b>35820</b>	<b>34581</b>	<b>34206</b>	<b>194821</b>