EduTap

SUMMARY SHEET

Finance Commission

EduTap

EduTap Hall of Fame

RBI Grade B 2020 - 21

198 Selections Out of 257

SEBI Grade A 2020

63 Selections Out of 80

NABARD Grade A 2020

65 Selections Out of 69

1 The need for a body like Finance Commission

- **Vertical and horizontal imbalances are common features of most federations and India is no exception to this**.
- The Constitution has assigned taxes with a nation-wide base to the Union to make the country one common economic space unhindered by internal barriers to the extent possible.
- States being closer to people and more sensitive to the local needs have been assigned functional responsibilities involving expenditure disproportionate to their assigned sources of revenue resulting in **vertical imbalances**.
- **Horizontal imbalances** across States are on account of factors, which include historical backgrounds, differential endowment of resources, and capacity to raise resources.
- Unlike in most other federations, differences in the developmental levels in Indian States are very sharp.

In an explicit recognition of vertical and horizontal imbalances, the Indian Constitution embodies the following enabling and mandatory provisions to address them through the transfer of resources from the Centre to the States.

1. Levy of duties by the Centre but collected and retained by the States (Article 268)
2. Taxes and duties levied and collected by the Centre but assigned in whole to the States (Article 269).
3. Sharing of the proceeds of all Union taxes between the Centre and the States under Article 270. (Effective from April 1, 1996, following the eightieth amendment to the Constitution replacing the earlier provisions relating to mandatory sharing of income tax under Article 270 and permissive sharing of Union excise duties under Article 272).
4. Statutory grants-in-aid of the revenues of States (Article 275)
5. Grants for any public purpose (Article 282).
6. Loans for any public purpose (Article 293).

In addition to provisions enabling transfer of resources from the Centre to the States, a distinguishing feature of the Indian Constitution is that it provides for an institutional mechanism to facilitate such transfers.

The institution assigned with such a task under **Article 280 of the Constitution is the Finance Commission**.

2 APPOINTMENT

Article 280 of the Indian Constitution reads:

President should, within two years of commencement of the Constitution and thereafter **on expiry of every 5th year**, or at such intervals as he/ she thinks necessary, would constitute a Finance Commission.

3 COMPOSITION OF FINANCE COMMISSION

- A Finance Commission would consist of a Chairman and 4 other members who are all will be appointed by the President.

- As per the provisions contained in the **Finance Commission [Miscellaneous Provisions] Act, 1951** and The **Finance Commission (Salaries & Allowances) Rules, 1951**, the **Chairman** of the Commission is selected from among persons who have had experience in public affairs, **and the four other members** are selected from among persons who—
  (a) are, or have been, or are qualified to be appointed as Judges of a High Court; or
  (b) have special knowledge of the finances and accounts of Government; or
  (c) have had wide experience in financial matters and in administration; or
  (d) have special knowledge of economics.

4 ROLES & RESPONSIBILITIES

Under the Constitution, the main responsibilities of a Finance Commission are the following:

- The distribution between the Union and the States of the net proceeds of taxes which are to be divided between them and the allocation between the States of the respective shares of such proceeds.
- Determination of principles and quantum of grants-in-aid to States which are in need of such assistance.
- 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.

The role of the Finance Commission has widened after the 73rd and 74th Constitutional amendments to recognise the rural and urban local bodies as the third tier of government.

Article 280 (3) (bb) and Article 280 (3) (c) of the Constitution mandate the Commission to recommend measures to augment the Consolidated Fund of a State to supplement the resources of Panchayats and Municipalities based on the recommendations of the respective State Finance Commissions (SFCs). This also includes augmenting the resources of Panchayat and municipalities.

5 PROCEDURES & FUNCTIONING

- The Finance Commission is considered a **quasi-judicial body** because it has powers of the civil court according to the Court of Civil Procedure.
- The Commission can summon and enforce the attendence of any witness. It can ask any person to share information or produce a document, which it deems relevant for carrying out its work.
- The Commission can ask for any public record or document from any court or office in the country.

To enable the Finance Commission to discharge its responsibilities in an effective manner, the Constitution vests the Finance Commission with power to determine its procedures.

Under the Constitution, the **President shall cause every recommendation made by the Finance Commission together with an explanatory memorandum as to the action taken thereon to be laid before each House of Parliament**.

Finance commission has to make recommendations to the President on two specific matters and on any other mater referred to the commission by the president in the interest of Sound Finance.

The two specific matters are as follows:

1. **How the net proceeds of taxes should be distributed between the Union and States?**
2. **On what principles, the grants-in-aid of the revenues of the State out of the Consolidated Fund of India should be give to needy states?**

Here it must be noted that, the recommendations made by the Finance Commission are **merely advisory** in nature and therefore, not binding on the Government. This advisory nature of recommendations was envisioned to keep the Fiscal Federalism in India balanced.

6 FINANCE COMMISSIONS CONSTITUTED TILL DATE

Finance Commission	Year of Establishment	Chairman	Operational Duration
First	1951	K. C. Neogy	1952–57
Second	1956	K. Santhanam	1957–62
Third	1960	A. K. Chanda	1962–66
Fourth	1964	P. V. Rajamannar	1966–69
Fifth	1968	Mahaveer Tyagi	1969–74
Sixth	1972	K. Brahmananda Reddy	1974–79
Seventh	1977	J. M. Shelat	1979–84
Eighth	1983	Y. B. Chavan	1984–89
Ninth	1987	N. K. P. Salve	1989–95
Tenth	1992	K. C. Pant	1995–2000
Eleventh	1998	A. M. Khusro	2000–2005
Twelfth	2002	C. Rangarajan	2005–2010
Thirteenth	2007	Dr. Vijay L. Kelkar	2010–2015
Fourteenth	2013	Dr. Y. V Reddy	2015–2020
Fifteenth	2017	N. K. Singh	2020–2025

7 14th Finance Commission

- The 14th Finance Commission was constituted in January 2014. Commission **chairman was former RBI governor Y V Reddy** and its members were Sushma Nath, M. Govinda Rao, Abhijit Sen and Sudipto Mundle. **In December 2014, Commission had submitted its report** to the then President Pranab Mukherjee.

7.1 Broad Parameters in recommendation:

In recommending horizontal distribution, the FFC has used broad parameters of population (1971) and changes of population since, income distance, forest cover and area.

Criteria & weights for financial devolution to states

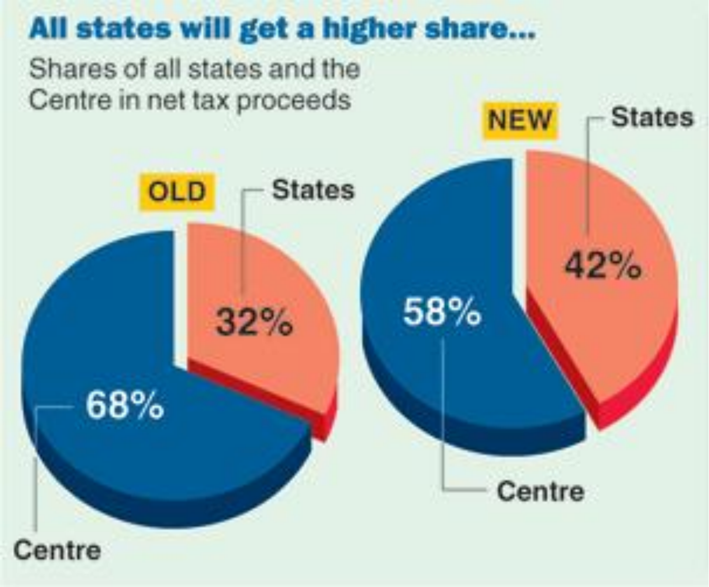
Variables	13th Finance Commission	14th Finance Commission
Population (1971)	25.0	17.5
Demographic change (2011)	0	10.0
Income Distance	47.5	50.0
Area	10.0	15.0
Forest Cover	0	7.5
Fiscal Discipline	17.5	0
Total	100.0	100.0

SOURCE: REPORTS OF THE 13TH AND 14TH FINANCE COMMISSIONS

7.2 Vertical Distribution to States:

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.



7.3 Grants to States for Local Bodies:

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.

7.4 Use of SDRF Funds:

FFC has recommended that up to 10 percent of the funds available under the SDRF (State Disaster Response Fund) 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.

Union government has accepted recommendations of the 14th Finance Commission (FC) as per its agenda of cooperative federalism. **The accepted recommendations are for the five-year period 2015-16 to 2019 20.**

8 15th Finance Commission

The Government of India, with the approval President of India, has constituted Fifteenth Finance Commission in pursuance of clause (1) of article 280 of the Constitution, read with the provisions of the Finance Commission (Miscellaneous Provisions) Act, 1951.

The Fifteenth Finance Commission was constituted on 27 November 2017 against the backdrop of the abolition of Planning Commission (as also of the distinction between Plan and non-Plan expenditure) and the introduction of the goods and services tax (GST), which has fundamentally redefined federal fiscal relations.

8.1 Composition of the commission:

Composition of the Fifteenth Finance Commission	
Chairman	Shri N.K. Singh Former Member of Parliament and former Secretary to the Government of India
Member	Shri Shaktikanta Das Former Secretary to the Government of India
Member	Dr. Anoop Singh Adjunct Professor, Georgetown University
Member (Part Time)	Dr. Ashok Lahiri Chairman (Non-executive, part time) Bandhan Bank
Member (Part Time)	Dr. Ramesh Chand Member, NITI Aayog
Secretary	Shri Arvind Mehta

However Ajay Narayan Jha was appointed replacing Shaktikanta Das who resigned from the commission to serve as the governor of the Reserve Bank of India.

8.2 Operational Period of recommendations:

The 15th Finance Commission (Chair: Mr N. K. Singh) was required to submit two reports. The first report, consisting of recommendations for the financial year 2020-21, was tabled in Parliament on

February 1, 2020. The final report with recommendations for the 2021-26 period will be submitted by October 30, 2020.

8.3 Recommendations of the 15th Finance Commission

The 15th Finance Commission proposed recommendations for both vertical and horizontal devolution.

Vertical Devolution

- **41% of the divisible pool** to be devolved to the States in the year 2020-21.
- The XV-FC reduced the States' share to 41% because of the re-organization of the State of Jammu & Kashmir into UTs of Ladakh and Jammu & Kashmir through the Jammu & Kashmir Re-organization Act, 2019.
- UTs are the responsibilities of the Union and their demands have to be met from the Union Government's resources.

Horizontal Devolution

Horizontal devolution is done primarily to enable the States to provide basic public goods and services with equivalent tax effort. The various criteria to be considered for horizontal devolution are classified into three broad groups as follows.

- **Need-based criteria**: **Population, area and forest & ecology** form the need-based criteria. This is needed to address the fiscal gap of States existing due to the structural mismatch between the States' resources and their expenditure liabilities.
- **Equity-based criterion**: **Income distance** forms the equity-based criterion to ensure fiscal equalization given the large differences in the resource base available and status of development within the country.
- **Performance-based criteria**: **Demographic performance and tax effort** are part of the performance-based criteria that is framed to reward and incentivize States to perform better, in terms of utilization of resources available to them.

Horizontal Devolution Criteria

Criteria	14th FC 2015-20	15th FC 2020-21
Income Distance	50.0	45.0
Population (1971)	17.5	-
Population (2011)	10.0	15.0
Area	15.0	15.0
Forest Cover	7.5	-
Forest and Ecology	-	10.0
Demographic Performance	-	12.5
Tax Effort	-	2.5
Total	**100**	**100**

Uttar Pradesh and Bihar have received the largest devolutions for 2020-21 while Karnataka and Kerala saw the largest decreases in the share of the divisible pool.

Grants in Aid

Revenue Deficit Grants: 14 states are estimated to face a revenue deficit post-devolution. The Commission has recommended revenue deficit grants worth Rs 74,341 crore to these 14 states. Furthermore, the three states of Karnataka, Mizoram, and Telangana received special grants to make up the shortfall between untied transfers received by these States in the form of tax devolution plus revenue deficit grant in 2020-21 vis-a-vis the corresponding amount in 2019-20.

Sectoral Grants: The XV-FC is considering recommending sectoral grants for nutrition, health, pre-primary education, judiciary, rural connectivity, railways, statistics and police training, and housing during its tenure. Of these, grants for nutrition, to augment the efforts of the States towards reducing and ultimately eliminating malnutrition, is specifically recommended even in 2020-21.

Performance-based Incentives: Six broad areas are identified to provide performance-based incentives to States.

- Implementation of Agriculture Reforms
- Development of Aspirational Districts and Aspirational Blocks
- Power Sector Reforms
- Enhancing Trade including Exports
- Incentives for Education
- Promotion of Domestic and International Tourism

Empowering Local Bodies

Some significant changes made by XV-FC compared to previous Finance Commissions:

- To recommend grants to all tiers of the Panchayati Raj to enable pooling of resources to create durable community assets and improve their functional viability.
- To give grants to the Fifth and Sixth Schedule areas and Cantonment Boards.
- To provide for tied grants in the critical sectors of sanitation and drinking water to ensure additional funds to the local bodies over and above the funds allocated for these purposes under the centrally sponsored schemes (CSS), Swachh Bharat and Jal Jeevan Missions.
- To account for increasing urbanization the share of urban local bodies in Finance Commission grants to local bodies should be gradually increased to 40 per cent over the medium term.
- Since larger cities will tend to grow faster with the agglomeration effect, the fifty Million-Plus cities in the country need differentiated treatment, with special emphasis on meeting the challenges of bad ambient air quality, groundwater depletion and sanitation.

Grants to Local Bodies:

- The Commission has recommended a total of Rs 90,000 crore for grants to the local bodies in 2020-21.
- This amounts to 4.31% of the divisible pool.
- These grants will be made available to all three tiers of Panchayat - village, block, and district.
- The inter-se distribution of grants for local bodies among the States may be based on population and area in the ratio of 90:10.
- For 2020-21, the proportion of grants between rural and urban local bodies recommended by the XV-FC is in the ratio of 67.5:32.5.
- For all urban bodies, the distribution of grants for 2020-21 is based on population.

Disaster Risk Management

- To promote local-level mitigation activities, mitigation funds shall be set up at both national and state levels in the form of NDMF and State Disaster Mitigation Funds (SDMF), following the Disaster Management Act.
- The Commission recommended the creation of funds for disaster mitigation along with disaster response, which will now together be called as National Disaster Risk Management Fund (NDRMF) and State Disaster Risk Management Funds (SDRMF).
- Recommended grants for the State Disaster Risk Management Fund is Rs 28,983 crore. Out of this, the share of SDRF shall be 80 per cent and the share of SDMF 20 per cent. The allocation for the National Disaster Risk Management Fund is Rs 12,390 crore.
- Allocations for NDRF / SDRF will be further sub-divided into
  - Response and Relief – 40 per cent
  - Recovery and Reconstruction – 30 per cent
  - Capacity Building – 10 per cent

8.4 Recommendation of 15th Finance Commission Report 2021-26

We will cover the major recommendations of the 15th Finance Commission Report for 2021-26 under various subhead as highlighted below:

8.4.1 Administrative/ Operational Changes

- The IT platform of **GST needs to be rectified**.

8.4.2 Tax Policy Changes

- The **inverted duty structure** between intermediate inputs and final outputs present in the GST for many items should be resolved by streamlining its multiple rate structure.

Inverted Duty Structure

Meaning:

An inverted duty structure comes up in a situation where import duties on input goods are higher than on finished goods. In other words, the GST rate paid on purchases is more than the GST rate payable on sales.

What Problem it Causes?

- Taxpayers who face an inverted duty structure will always have Input Tax Credit (ITC) in their GST electronic credit ledger even after paying off the output tax liability.
- This creates working capital issues for the taxpayers, as crucial resources remain blocked in the form of ITC.
- While the GST law provides the option to claim the unutilized ITC as a refund, there are other complications.
- From the government's standpoint, because of the current anomaly, many administrative-level issues have cropped up.

A complicated refund process under GST creates additional compliance requirements and finally leads to more cost of compliance.

How feasible is the inverted duty structure in the context of trade policy?

- Experts broadly agree that the **structure currently raises the cost of procuring input goods**, which makes manufacturing more expensive, and higher costs ultimately **makes businesses less competitive** in the cutthroat world of global export orders.

- Industry bodies like the Confederation of Indian Industry (CII) have pointed out that to maintain the razor thin profit margins as well as consistently secure global buyers, **businesses need a regime where lower or minimal duties on intermediates and raw materials is a must.**
- **Higher duties on finished goods** would counterbalance this and stop the market being flooded with foreign-manufactured items, as has been the case in India in most sectors.
- The **current system also incentivizes the export of raw materials** and not value-added products.

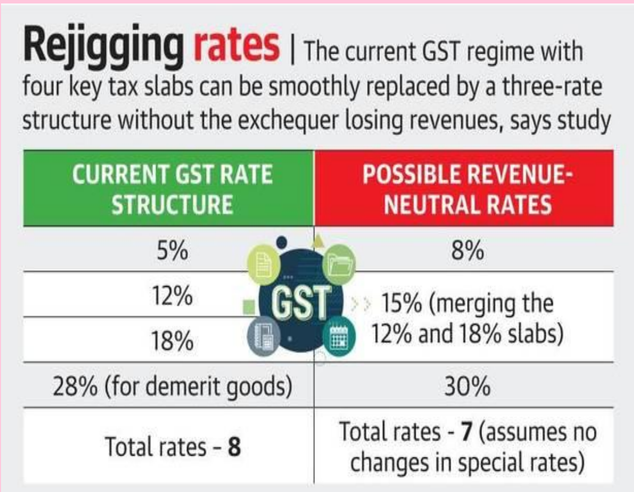
8.4.3 Tax Policy Changes

- The **myriad exemptions under different direct tax laws** that breeds tax evasion, especially by the richer groups, will need to be reduced.
- The **threshold limits may be kept a the current level** for some time to build stability in the tax regime and to ensure greater predictability and better tax planning for the taxpayer.
- The Union Government may **initiate action for a Constitutional amendment to effect a change** that enables **periodic revision of the limits of professions tax** upon the recommendations of the President of India, after taking into cognisance a recommendation to this effect by the Finance Commission.

8.4.4 Institutional and Tax Policy Changes

- It is important to **restore the revenue neutrality of the GST rate**, which was compromised by the multiple rate structure and several downward adjustments of rates.
- **Multiple rate changes since the introduction of the GST regime in July 2017** have brought the effective GST rate to 11.6% from the original revenue neutral rate of 15.5%.
- The **rate structure can be rationalised by merging** the rates of 12 per cent and 18 per cent. The system can be operated with a **three-rate structure of** a merit rate, standard rate and demerit rate.

Three Rate GST Structure



Rejigging rates | The current GST regime with four key tax slabs can be smoothly replaced by a three-rate structure without the exchequer losing revenues, says study

CURRENT GST RATE STRUCTURE	POSSIBLE REVENUE-NEUTRAL RATES
5%	8%
12%	15% (merging the 12% and 18% slabs)
18%	
28% (for demerit goods)	30%
Total rates - **8**	Total rates - **7** (assumes no changes in special rates)

- The Government can **rationalise the GST rate structure** without losing revenues by rejigging the four major rates of 5%, 12%, 18% and 28% with a **three-rate framework** of 8%, 15% and 30%, as per a National Institute of Public Finance and Policy (NIPFP) study.
- The nature of rate changes has also meant that over **40% of taxable turnover value now falls in the 18% tax slab**, thus any move to dovetail that slab with a lower rate will trigger losses to the tax kitty that need to be **offset by marginal hikes in other remaining major rates — 5% and 28%.**

8.4.5 Towards Cooperative Federalism

- Commission recommends **retaining the vertical share of 41 per cent of the divisible** pool of taxes for the States during the award period of this Commission.

<u>Overall Criteria for Devolution</u>

Criteria	14th FC 2015-20	15th FC 2020-21	15th FC 2021-26
Income Distance	50.0	45.0	45.0
Area	15.0	15.0	15.0
Population (1971)	17.5	-	-
Population (2011)#	10.0	15.0	15.0
Demographic Performance	-	12.5	12.5
Forest Cover	7.5	-	-
Forest and Ecology	-	10.0	10.0
Tax and fiscal efforts*	-	2.5	2.5
Total	**100**	**100**	**100**

8.4.6 Empowering Local Government

- **The total size of grant to the local government should be 4,36,361** crore for the period 2021-26 period 2021-26.
    - Commission favour a fixed amount rather than a proportion of the divisible pool of taxes **to ensure greater predictability** of the quantum and timing of fund flow.
    - **Of these total grants**, Rs. 8,000 crore is performance-based grants for incubation of new cities and Rs. 450 crore is for shared municipal services. A sum of Rs. 2,36,805 crore is earmarked for rural local bodies, Rs. 1,21,055 crore for urban local bodies and Rs. 70,051 crore for health grants through local governments.
- For inter se distribution among States for rural and urban local bodies, weightage of **90 per cent should be given to population and 10 per cent to the area of the State.**
- Commission recommended that all States which have not done so, **must constitute SFCs, act upon their recommendations** and lay the explanatory memorandum as to the action taken thereon before the State legislature on or before March 2024.
- After March 2024, **no grants should be released to a State that has not complied** with the Constitutional provisions in respect of the SFC and these conditions.
- The **MoPR will certify the compliance of all Constitutional provisions by a State** in this respect before the release of their share of grants for 2024-25 and 2025-26.
- To supplement the resources needed to fulfil national priorities, **60 per cent of the grants to rural local bodies should be tied** to supporting and strengthening the delivery of two categories of basic services:
    a) sanitation and maintenance of ODF status; and
    b) drinking water, rain water harvesting and water recycling.

- Urban local bodies have been **categorised into two groups**, based on population, and different norms have been used for flow of grants to each, based on their specific needs and aspirations.
    - **For cities with million-plus population** (Million-Plus cities), 100 per cent of the grants are performance linked through the million plus cities challenge fund.
    - **Basic grants** are proposed only for cities/towns having a population of less than a million.
    - **Category I cities** (urban agglomerations with a population of more than one million) will be **treated as a single unit for monitoring of performance indicators** of ambient air quality and service level benchmarks.
    - **One-third of the total MCF** of each city is earmarked for achieving ambient air quality.
    - The **balance two-third of the city-wise MCF** is earmarked for achieving service level benchmarks for drinking water (including rainwater harvesting and recycling) and solid waste management.
    - **Sixty per cent of the basic grants for urban local bodies in non-Million-Plus cities should be tied to supporting and strengthening the delivery of:**
        a) sanitation and solid waste management and attainment of star ratings as developed by the MoHUA, and
        b) drinking water, rainwater harvesting and water recycling.
- Commission recommends that for the five-year award period (2021-22 to 2025-26) **grants should go to all the three tiers of panchayati raj institutions.**
- The grants recommended by us for rural local bodies and non-Million-Plus cities shall be **released in two equal instalments each year in June and October.**
- A sum of rs 8000 crore is recommended to states as grants for incubation of new cities and rs 450 crore for facilitating shared municipal services.

8.4.7 Disaster Risk Management

- The **ratio of contribution by Union and States** to the State-level allocations for disaster management **recommended by FC-XIII** should be maintained.
- Thus, **States are to contribute** 25 per cent of funds of SDRF and SDMF except the **NEH States which shall contribute** 10 per cent, and the rest is to be provided by the Union Government.
- **Mitigation Funds** should be set up at both the **national and State levels**, in line with the provisions of the Disaster Management Act.
- The Mitigation Fund should be used for those **local level and community-based interventions** which reduce risks and promote environment-friendly settlements and livelihood practices.
- **Allocation** of disaster management funds to SDRMFs should be based on factors of past expenditure, area, population and disaster risk index (which reflect States' institutional capacity, risk exposure and hazard and vulnerability respectively).
    - **Assuming an annual increase of 5 per cent**, we arrive at the total corpus of Rs. 1,60,153 crore for States for disaster management for the duration of 2021-26, of which the Union share is Rs. 1,22,601 crore and States share is Rs. 37,552 crore.
- **Total States allocation** for SDRMF should be subdivided into funding windows that encompass the full disaster management cycle.
- Thus, the SDRF should get 80 per cent of the total allocation and the SDMF 20 per cent.
- The **SDRF allocation of 80 per cent should be further distributed as follows**: Response and Relief-40 per cent, Recovery and Reconstruction-30 per cent; and Preparedness and Capacity-building - 10 per cent.
- The allocation for the NDRMF should be **based on expenditure in previous years**.
    - Assuming an annual **increase of 5 per cent**, the total national allocation for disaster management is estimated to be Rs. 68,463 crore for the duration of 2021-26.

- To discourage excessive and unsubstantiated demands from States, **all Central assistance through the NDRF and NDMF should be provided on a graded cost-sharing basis**.
- **States should contribute** 10 per cent for assistance up to Rs. 250 crore, 20 per cent for assistance up to Rs. 500 crore and 25 per cent for all assistance exceeding Rs. 500 crore.
- A **Recovery and Reconstruction Facility** should be set up within the NDRF and SDRF.
- In the event of **SDRMF and NDRMF assistance falling short of the required assistance**, the Union and States should have recourse to other financial instruments.
- **Insurance mechanisms**, which act as a social safety net and supplement the existing financial mechanisms, need to be introduced in partnership with insurance companies after due diligence is done.

8.4.8 Pandemic and Beyond: Building Resilience in Health Sector

- Health spending by States should be **increased to more than 8 per cent of their budget by 2022.**
- **Primary health care** should be the number one fundamental commitment of each and every State and that primary health expenditure should be increased to **two-thirds of the total health expenditure by 2022.**
- Public health expenditure of Union and States together should be increased in a progressive manner to reach **2.5 per cent of GDP by 2025.**
- Given **the inter-State disparity in the availability of medical doctors**, it is essential to constitute an All India Medical and Health Service as is envisaged under Section 2A of the All-India Services Act, 1951.
  - For this purpose, **the Union Public Service Commission (UPSC) would need to do annual recruitments**, based on the State-wise requisitions by each State Government.
- The MBBS **curriculum should be restructured** to make it competency based.
- The **asymmetric distribution of medical colleges needs to be corrected** as most of them are situated in the western and southern parts of India.
- All public health facilities including district hospitals, private sector facilities and corporate hospitals should be utilised for starting **specialist DNB courses.**
- Measures should be taken to **assign a larger role for nursing professionals** and the concept of nurse practitioner, physician assistant and nurse anaesthetist should be introduced for better utilisation of nursing professionals. The **early passage of this legislation** should be fast-tracked given its multiplier benefits.
- The total grants-in-aid support to the health sector over the **award period works out to be Rs. 1,06,606 crore, which is 10.3 per cent** of the total grants-in-aid recommended by commission. This forms **about 0.1 per cent of GDP.** The **grants for the health sector will be unconditional.**
- Commission recommend Rs. **15,265 crore for critical care hospitals**. This includes Rs. 13,367 crore for general States and Rs 1,898 crore for NEH States.
- The finance commission has recommended Rs 469 crore for states for building public health laboratories.
- Commission recommend Rs. 13,296 crore for **training of the allied healthcare workforce**. Out of this, Rs. 1,986 crore will be for NEH States and Rs. 11,310 crore for general States.
- Commission recommend Rs. 2,725 crore for starting DNB courses in district hospitals for overcoming the shortfall of specialists.

8.4.9 Performance Based Incentives and Grants

- Commission recommends total **revenue deficit grants** of Rs. 2,94,514 crore over our award period for seventeen States.
- Commission recommend grants of Rs. 4,800 crores (Rs. 1,200 crore each year) from 2022-23 to 2025-26 for incentivising the States to **enhance educational outcomes.**

- Commission recommend **Rs. 6,143 crores for online learning and development of professional courses** in regional languages **(matribhasha)** for higher education in India.
- Commission recommends that Rs. 45,000 crores be kept **as performance-based incentive for all the States for carrying out agricultural reforms.**
- Commission recommended Rs. 27,539 crore for **maintenance of PMGSY** roads for the years 2021-26, out of which Rs. 14,743 crore is for the general States and Rs. 12,796 crore is for the NEH States.
- Commission recommended grants of Rs. 10,425 crore **for fast-track courts for speedier justice delivery** in cases of heinous crimes, civil cases of marginalised people, five-year-old property cases and economic offences as well as special fast-track courts for POCSO cases.
- Commission recommended Rs. 3,150 crore for **incentivising aspirational districts** and blocks for a period of five years from 2021-22 to 2025-26.
- Commission recommended an **extra annual borrowing space for the States**, of the magnitude of 0.50 per cent of their GSDP for each of the first four years of the award covering the period 2021-22 to 2024-25, based on certain performance criteria in the power sector.

8.4.10 Defence and Internal Security

- The Union Government may constitute in the Public Account of India, a **dedicated non lapsable fund**, Modernisation Fund for Defence and Internal Security **(MFDIS)**, to **bridge the gap between projected budgetary requirements and budget allocation** for defence and internal security.
- This may be called **Rashtriya Suraksha Naivedyam Kosh** or any other appropriate name. The proceeds of the **fund will be utilised for the following three purposes:**
    - capital investment for modernisation of defence services.
    - capital investment for CAPFS and modernisation of state police forces as projected by MHA; and
    - a small component as welfare fund for our soldiers and para-military personnel.
- The **total indicative size** of the proposed MFDIS over the period 2021-26 is Rs. 2,38,354 crore.

8.4.11 Fiscal Consolidation Roadmap

- For the State Governments, commission recommended that the **normal limit for net borrowing** may be fixed at 4 per cent of GSDP in 2021-22, 3.5 per cent in 2022-23 and be maintained at 3 per cent of GSDP from 2023-24 to 2025-26.
    - The **term 'normal' is used to clarify** that we have not accounted for any additional borrowing to be done by the State Governments to manage the shortfall in GST compensation to them, or the incentive-based additional borrowing space that we have recommended for power sector reforms.
- If a **State is not able to fully utilise its sanctioned borrowing limit** as specified above, in any particular year during the first four years of our award period (2021-22 to 2024-25), it will have the option of availing this unutilised borrowing amount (calculated in rupees) in any of the subsequent years within our award period.
- Given the compulsions on the revenue account of the union government, including of lending support to the budgets of sub-national government, they may have to follow an elevated path of fiscal deficit with a terminal year (2025-26) target of 4% of the GDP.
- We recognise that the **FRBM Act needs a major restructuring** and recommend that the time-table for defining and achieving debt sustainability may be examined by a High-powered Inter-governmental Group.
    - This High-powered Group can craft the new FRBM framework and oversee its implementation.

    - It is important that the **Union and State Governments amend their FRBM Acts**, based on the recommendations of the Group, so as to ensure that their legislations are consistent with the fiscal sustainability framework put in place.
- **Disclosure of the financial positions of the States and their credit rating** will help in broadening the investor base.
    - Credit rating will also **reinforce self-discipline** on the fiscal front and lead to better pricing of SDLs.
- The States and the Union should define **contingent liabilities** transparently, estimate them and assess the risks associated with them.
- States should have **more avenues for short-term borrowings** other than the ways and means advances and over draft (WMA/OD) facility provided by RBI, which has monetary policy implications.
- Such a facility **may help States in meeting the temporary mismatches** in their revenue flows at market-determined cost.