

BRIEF on FINANCE COMMISSION GRANTS

The Finance Commission is set up every five years by the President under Article 280 of the Constitution, mainly to give its recommendations on distribution of tax revenues between the Union and the States and amongst the States themselves. Two distinctive features of the Commission's work involve redressing the vertical imbalances between the taxation powers and expenditure responsibilities of the Centre and the States respectively and equalization of all public services across the States. The Finance Commission is a Constitutional authority and is empowered to examine issues in the TOR independently. The Finance Commission is dissolved after submitting its recommendations to the Government of India.

Fourteenth Finance Commission

2. 14th Finance Commission (FFC) was appointed by the President on 2nd January, 2013 under the Chairmanship of Dr.Y.V.Reddy. It submitted its report on 15th December, 2014 covering all aspects of its mandate. The FFC report covering the five year period commencing 1st April, 2015 together with the Explanatory Memorandum as to the action taken on the recommendations of the Finance Commission was laid on the Table of the both Houses of the Parliament on 24.2.2015. Presently, Finance Commission Division under Department of Expenditure is implementing the recommendations of the **14th Finance Commission (FFC)**, 2015-20, which has commenced on **01.04.2015**.

- Main recommendations of the FFC relate to the sharing of net Proceeds of Union taxes between Centre and States, grants-in-aid to States under Article 275, Goods and Services Tax (GST), Fiscal Environment and Fiscal Consolidation Roadmap.

3. Salient recommendations of the Fourteenth Finance Commission (FC-XIV)

Sharing of Union Taxes:

- FFC has substantially enhanced the share of the States in the Central divisible pool from the 32% to 42%, which is the biggest ever increase in vertical tax devolution.
- The higher tax devolution will allow States greater autonomy in financing and designing of the schemes as per their needs and requirements. It has also recommended on the inter-se distribution of the States' share amongst the States. The Government has accepted this recommendation regarding Tax devolution to States. The **Department of Economic Affairs (Budget Division)** releases the Share in Central Taxes to the State Governments every month based on the actual collections of Union Taxes and duties.

4. Grants -in-Aid to States under Article 275 of the Constitution:

- Besides Share of Central Taxes, FFC has recommended Grants – in –aid to cover Revenue Deficit of States, Local Body grants (both to Rural and Urban Local Bodies) and grants for augmenting the State's Disaster Relief Fund (SDRF).

- FFC has recommended the following grants for the award period 2015-2020:

		(Rs. in crore)
i	Post-Devolution Revenue Deficit Grant	1,94,821
ii	Local Bodies Grants	2,87,436
iii	Disaster Management - SDRF	55,097
	Total	5,37,354

5. Revenue Deficit Grant:

- FFC has assessed the revenues and expenditure of the States for the period 2010-15 and has projected the deficit for each State after taking into account the amount of share in Central taxes for that State. It has recommended a grant of Rs. 1,94,821 crore to meet this deficit for eleven States comprising Andhra Pradesh, Assam, Himachal Pradesh, Jammu & Kashmir, Kerala, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and West Bengal.

6. Local Bodies Grants

- FFC has recommended that Local Bodies should be required to spend the grants only on the basic services within the functions assigned to them under relevant legislations. The grants to States will be divided into two parts, a grant to duly constituted Gram Panchayats and a grant to duly constituted Municipalities on the basis of Urban and Rural population.
- The Commission has recommended grants in two parts – a Basic grant and a Performance grant for duly constituted Gram Panchayats (Rural Local Bodies) and Municipalities (Urban Local Bodies). The ratio of basic to performance grant is 90:10 with respect to Gram Panchayats and 80:20 with respect to Municipalities. The Performance grants is being released to State Governments from 2016-17.

7. Release of FFC Grants to the State Governments

- The basic grants are to be released in two instalments, in **June** and **October** every fiscal year. While 50 per cent of the Basic Grant for the year will be released to the State as the first instalment of the year, the remaining Basic Grant and the full Performance Grant for the year is to be released as the second instalment for the year. The States should release the Grants to the Gram Panchayats and Municipalities within fifteen days of it being credited to their account by the Union government, for which States may put in place an electronic transfer system by March, 2016. In case of delay, the State Government has to release the instalment along with interest at the Bank rate of Reserve Bank of India paid from its own funds.

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8. Disaster Relief

State Disaster Response Fund (SDRF)

- FFC has recommended an amount of Rs.61,219 crore as aggregate corpus of State Disaster Response Fund (SDRF) for all States for the award period with the 90% (Rs. 55,097 crore) coming from the Union Government and balance 10% from State Governments.
- The Commission has also recommended that upto 10% 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 on the notified list of disasters of the Ministry of Home Affairs.
- The detailed guidelines of SDRF have been notified by the nodal Ministry i.e. **Ministry of Home Ministry**. The guidelines contain provisions for constitution of Screening Committees at State level and proper Audit of funds. The grant is to be released in two instalments in **June** and **December** in each financial year by the Department of Expenditure (Finance Commission Division) based on the recommendations received from Ministry of Home Affairs.

9. National Disaster Response Fund (NDRF)

- Besides FFC recommended grants; releases are also made from National Disaster Response Fund (NDRF) for Disaster Relief. The Central assistance for disaster response has evolved over the awards of successive Finance Commissions. NDRF is set up at the Union level under sections 46(2) of the Disaster Management Act, 2005.
- NDRF is released to assist States to provide immediate relief. Mitigation, and long term reconstruction of assets is not financed through NDRF, but through overall development plans of the Centre and the States. Assistance from NDRF is released in case the natural calamity is considered to be of severe nature by Govt. of India and requiring expenditure by a State Govt. in excess of the balances available in its SDRF account after following the laid down procedure *viz*, assessment by the Inter- Ministerial Central Team (IMCT), recommendation of Sub Committee- of National Executive Committee and approval by High Level Committee (HLC) thereof.
- NDRF is a cess based fund and the budged provision for the Fund is made on the basis of collections in the form of National Calamity Contingency Duty (NCCD) imposed on specified goods under Central Excise and Customs.

10. The State-wise and scheme-wise position of allocation and release made during 2015-16, 2016-17, 2017-18 and 2018-19 (upto 10/09/2018) is given at **Annexure-I, II, III & IV**.

