CHAPTER - 1

INTRODUCTION

<u>A</u>. <u>Constitution of Thirteenth Finance Commission in the Centre.</u>

1.1. The Thirteenth Finance Commission (FC-XIII) was constituted by the President under Article 280 of the Constitution on 13 November 2007 to make recommendations for the period 2010-15. Dr. Vijay Kelkar was appointed the Chairman of the Commission. Dr. Indira Rajaraman, Professor Emeritus, National Institute of Public Finance & Policy (NIPFP), Dr. Abusaleh Shariff, Chief Economist, National Council of Applied Economic Research (NCAER), and Professor Atul Sarma, Former Vice-Chancellor, Rajiv Gandhi University (formerly Arunachal University) were appointed full time Members. Shri B.K. Chaturvedi, Member, Planning Commission was appointed as a part-time Member. Shri Sumit Bose was appointed as Secretary to the Commission. Subsequently, the President appointed Dr. Sanjiv Misra, Former Secretary (Expenditure), Ministry of Finance as Member of the Commission in place of Dr. Abusaleh Shariff, who was unable to join.

Terms of Reference

1.2. The Terms of Reference (ToR) of the Commission included the following: "...

4. The Commission shall make recommendations as to the following matters, namely:-

i) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;

ii) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article; and

iii) 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.

5. The Commission shall review the state of the finances of the Union and the States, keeping in view, in particular, the operation of the States' Debt Consolidation and Relief Facility 2005-2010 introduced by the Central Government on the basis of the recommendations of the Twelfth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth.

6. In making its recommendations, the Commission shall have regard, among other considerations, to :–

(i) the resources of the Central Government, for five years commencing on 1st April 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09;

(ii) the demands on the resources of the Central Government, in particular, on account of the projected Gross Budgetary Support to the Central and State Plan, expenditure on civil administration, defence, internal and border security, debt-servicing and other committed expenditure and liabilities;

(iii) the resources of the State Governments, for the five years commencing on 1st April 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09;

(iv) the objective of not only balancing the receipts and expenditure on revenue account of all the States and the Union, but also generating surpluses for capital investment;

(v) the taxation efforts of the Central Government and each State Government and the potential for additional resource mobilisation to improve the tax-Gross Domestic Product ratio in the case of the Union and tax-Gross State Domestic Product ratio in the case of the States;

(vi) the impact of the proposed implementation of Goods and Services Tax with effect from 1st April, 2010, including its impact on the country's foreign trade;

(vii) the need to improve the quality of public expenditure to obtain better outputs and outcomes;

(viii) the need to manage ecology, environment and climate change consistent with sustainable development;

(ix) the expenditure on the non-salary component of maintenance and upkeep of capital assets and the non-wage related maintenance expenditure on plan schemes to be completed by 31st March, 2010 and the norms on the basis of which specific amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure;

(x) the need for ensuring the commercial viability of irrigation projects, power projects, departmental undertakings and public sector enterprises through various means, including levy of user charges and adoption of measures to promote efficiency.

7. In making its recommendations on various matters, the Commission shall take the base of population figures as of 1971, in all such cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid.

8. The Commission may 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 (53 of 2005), and make appropriate recommendations thereon.

9. The Commission shall indicate the basis on which it has arrived at its findings and make available the estimates of receipts and expenditure of the Union and each of the States."

1.3. The following additional item was added to the terms of reference of the Commission vide President's Order published under S.O. No. 2107 dated 25 August 2008.

"8. A. Having regard to the need to bring the liabilities of the Central Government on account of oil, food and fertilizer bonds into the fiscal accounting, and the impact of various other obligations of the Central Government on the deficit targets, the Commission may review the roadmap for fiscal adjustment and suggest a suitably revised roadmap with a view to maintaining the gains of fiscal consolidation through 2010 to 2015.

1.4. The Commission was initially required to submit its report by 31 October 2009 covering the five-year period between 1 April 2010 and 31 March 2015. The conduct of elections to the Fifteenth Lok Sabha and certain State Legislative Assemblies in April-May 2009 warranted a postponement of visits by the Commission to some states. The conduct of elections also led to the delay in the presentation of the regular Budget of the Union as well as of some State Governments for the year 2009-10. Consequently, information from the Centre and some of the states on their fiscal position and projections for 2010-15 could not become available to the Commission till August 2009. In view of the above developments, the Commission was granted an extension by the President till 31 January 2010 with the condition that its report be submitted by 31 December 2009.

B. Work in the State

The work relating to the preparation, collection and consolidation of data as asked for by the Commission in several formats, questionare and other information including the projection of State forecast for the period from 2010-11 to 2014-15 started from February 2008 in the State. The following team of officers and support staff worked in the Finance Commission Division of Finance, Revenue & Expenditure Department under the charge of the then Additional Chief Secretary cum Financial Commissioner Sri. T.T. Dorji.

Finance Commission Division

1. Sri. S.K. Sharma,Principal Director
2. Sri. B. Datta, Additional Director
3. Sri. C.C. Bhutia, Deputy Director

Budget Division

1. Sri. S.D. Pradhan, Director
2. Sri. M. Pradhan, Deputy Director

Secretariat Assistance

4. Smt. Sarita Chettri
5. Sri. David Isaacs
6. Smt. Sunita Karthak.

and other Group D support staff.

With whole-hearted devotion and hard work of the team on all the holidays and beyond working hour till night could accomplish the task of preparation of State Memorandum, forecast of the State for the award period from 2010-15 and explanatory notes on the various topics etc. in five volumes (vol. I – V). The consultation with Prof. M.C. Purohit, Director, Foundation for Public Economics and Policy Research (FPEPR) and his team was also made for reshaping and fine tuning of the State Memorandum before submission to the Thirteenth Finance Commission. The memorandum of the State Government was submitted to the Commission during September 2008 after obtaining the approval of the Council of Ministers in the State.

C. State Visit-

The full team of the Commission, headed by its Chairman Dr. Vijay Kelkar with other members and official members, visited the State from 9-12 November 2008 and discussion with the Hon'ble Chief Minister and other dignitaries/officials took place on 10th November at Chintan Bhawan, Gangtok. The Commission held meeting with State Accountant General, Sikkim Separately at New Delhi on 6th November 2008.

The following Dignitaries from the State met the Chairman of the Commission separately after the State visit:

1. Dr. Pawan Chamling, Hon'ble Chief Minister
2. Sri. P.D. Rai, Member of Parliament (Lok Sabha)
3. Sri. T.T. Dorji, Chief Secretary.

The Commission submitted its report to the President of India on 30th December 2009. The report of the Commission along with the Explanatory Memorandum and action taken report has been laid in the Parliament by the Union Finance Minister on 25th February 2010.

D. Assessment made by the Commission & Transfer recommended

In adopting various methodologies and approaches, the Commission indicated the **Projection of the State Government** for 2010-15 as under (Annex 7.1) :-

1. State's own Revenue Receipts

OTR	-	Rs. 685 crores
NTR	-	Rs. 684 crores
Total	-	Rs. 1368 crores

2. Non-Plan Revenue Expenditure

Pension	–	Rs. 538 crores
Interest Payment	-	Rs. 1313 crores
Others	–	Rs. 4600 crores
Total	–	Rs. 6451 crores

3. <u>Pre-devolution NPRD – Rs. 5083 crores</u>.

Based on the Projections made by the state Government, the Commission made the assessment of the requirement of fund in each State by adopting its own formula. With such application of formula based on CGR of comparable period, rate of growth of GSDP in the State, Buoyancy etc applied in the different items, the **Commission assessed** the OWN TAX REVENUE (OTR) and NON-PLAN REVENUE EXPENDITURE (NPRE) for the award period from 2010-11 to 2014-15 as under:-
Vol. – II (Annex 7.7. – Page 398 of the report – Sikkim). The Commission has also excluded the Receipt as well as the Expenditure in respect of Transport, Power and Dairy Sector to bring uniformity in the application among all the States having PSUs and regular Department of the Government.

Annex 7.7 (*Para 7.90*)
(page 398 of the report)

State : Sikkim

Assessed Own Revenue Receipts and Non-plan Revenue Expenditure

(*Rs. crore*)

	Items	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2010-15**
A	**GSDP**	**3075**	**3412**	**3796**	**4224**	**4699**	
B.	**Own Revenue Receipts**	**513.89**	**551.02**	**677.46**	**787.88**	**920.65**	**3450.91**
	1. Own Tax Revenue	205.16	228.38	254.86	284.40	317.37	1290.16
	2. Own Non-tax Revenue	308.73	322.64	422.61	503.48	603.29	2160.75
C.	**Non-plan Revenue Expenditure**	**936.24**	**998.90**	**1301.37**	**1383.41**	**1475.51**	**6095.42**
	1. Salary	566.28	600.26	636.28	674.45	714.92	3192.20
	2. Others (i to v):-	369.96	398.64	665.09	708.96	760.59	2903.22
	i. General Services *of which*:	284.15	306.32	334.76	359.51	390.87	1675.60
	Interest Payments	*141.80*	*150.75*	*160.71*	*170.21*	*180.78*	*804.24*
	Pension	*78.15*	*85.97*	*94.57*	*104.02*	*114.43*	*477.14*
	ii. Social Services	53.27	57.53	62.13	67.11	72.47	312.52
	iii. Economic Services	32.54	34.79	37.20	39.79	42.57	186.90
	iv. Assignment to Local Bodies	0.00	0.00	0.00	0.00	0.00	0.00
	v. Committed Liabilities	0.00	0.00	230.99	242.54	254.67	728.20
D.	**Pre. Dev. Non-plan Rev. Deficit(+) / Surplus(-)**	**(+)422.35**	**(+)447.88**	**(+)623.90**	**(+)595.53**	**(+)554.85**	**(+) 2644.51**

The over all transfer of fund to the State of Sikkim for the award period covering 2010-15 is summarized below:- (table 12.7, page 253)

1.	**Share in Central Taxes & Duties**	**-**	**Rs. 3466.80 crores**
2.	**Performance incentive**	**-**	**Rs. 200.00 crores**
3.	**Local Bodies**	**-**	**Rs. 187.20 crores**
4.	**Disaster Relief**	**-**	**Rs. 113.14 crores**
5.	**Elementary Education**	**-**	**Rs. 5.00 crores**

6. **Grants for improving outcomes**

(i). Justice Delivery -*Rs. 21.80 crores (para 12.76 to 12.89)*
(ii) Issues of UIDS -*Rs. 1.10 crores (para 12.63 to 12.71)*
(iii) District innovation fund -*Rs. 4.00 crores (para 12.94 to 12.96)*
(iv) Statistical system -*Rs. 4.00 crores (para 12.98 to 12.102)*
(v) Employee & Pension Data -*Rs. 5.00 crores (para 12.103 to 12.110)*
Rs. 35.90 cores – Rs. 35.90 crores

7. **Environmental Related Grants**

(i) Forest -*Rs. 40.60 crores*
(ii) Water Sector Management -*Rs. 4.00 crores*
Rs. 44.60 crores – Rs. 44.60 crores

8. **Maintenance of Roads & Bridges** (para 12.111 to 12.114) - **Rs. 68.00 crores**

9. **State Specific Need** (para 12.275 to 12.281) - **Rs.400.00 crores**

Grand Total Rs.4520.74 crores

The year wise break-up of the Grants referred above is given in **Table - I** & **II** below:-

Table - I

Recommendation of 13th Finance Commission for the Grants to be released to the State of Sikkim from 2010-11 to 2014-15

(Rs. in Crores)

Sl. No.	Item		2010-11	2011-12	2012-13	2013-14	2014-15	2010-15
1	**Share of Central Taxes**		487.00	572.00	674.00	796.00	938.00	3467.00
	Post Devolution deficit (+) Surplus (-)		(-) 65	(-) 124	(-) 50	(-) 200	(-) 383	(-) 822
2	**Performance Grant**		80.00	60.00	60.00	-	-	200.00
3	**Local Bodies**		**17.40**	**27.10**	**39.80**	**57.10**	**55.70**	**187.20**
	(i) Gereral Basic grant		17.40	20.20	23.60	28.00	33.10	122.40
	(ii) Gereral Performance Grant		0.00	6.90	16.20	19.10	22.60	64.80
4	**Disaster Relief including Capacity Building**		**22.75**	**23.89**	**25.08**	**26.33**	**27.65**	**125.7**
	(i) Centre Share (90%)		20.48	21.50	22.57	23.70	24.89	113.14
	(ii) State Share		2.27	2.39	2.51	2.63	2.76	12.56
5	**Elementary Education**		**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**5.00**
6	**Improving outcome**		**7.87**	**7.87**	**6.38**	**7.38**	**6.39**	**35.90**
	(i) Improvement in Justice Delivery		4.35	4.35	4.36	4.36	4.37	21.80
	(ii) Incentives for issuing UIDS		0.22	0.22	0.22	0.22	0.22	1.10
	(iii) District Innovation Fund		-	2.00	-	1.00	1.00	4.00
	(iv) Improvement in Statistical System		0.80	0.80	0.80	0.80	0.80	4.00
	(v) Employee & Pension Data Base		2.50	0.50	1.00	1.00	-	5.00
7	**Environment related Grant**		**5.07**	**6.07**	**11.14**	**11.14**	**11.14**	**44.56**
	(i) Forest		5.07	5.07	10.14	10.14	10.14	40.56
	(ii) Water Sector Management (Irrigation)		-	1.00	1.00	1.00	1.00	4.00
8	**Maintenance of Roads & Bridges**		-	14.00	15.00	18.00	21.00	68.00
	State Specific Grants (Details attached)			**100.00**	**100.00**	**100.00**	**100.00**	**400.00**
10	**Total transfer (excluding item 4 (ii) & post devolution surplus**		**618.82**	**809.54**	**929.89**	**1014.32**	**1158.12**	**4520.80**

Table – II

State Specific Grants

(Rs. in Crores)

Sl. No	Sector		2010-11	2011-12	2012-13	2013-14	2014-15	2010-15
1	**Tourism**	**(i) Sky Walk at Bhaley Dhunga**		50.00	50.00	50.00	50.00	200.00
		(ii) Dev. Of Village Tourism		20.00	20.00	20.00	20.00	80.00
2	**RM & DD**	**Repair/Renovation of Foot Suspension Bridges- North Sikkim**		8.75	8.75	8.75	8.75	35.00
3	**PHE**	**Upgradation of Namchi W/S overhauling of Changay source for Gyalshing Water Supply & Rabdentse W/S**		5.00	5.00	5.00	5.00	20.00
4	**Police**	**Police Training & infrastructure (i) Police Trg. Centre at Yangyang**		2.50	2.50	2.50	2.50	10.00
		(ii) Residential. & Non Residential buildings for Police force		3.75	3.75	3.75	3.75	15.00
5	**Food**	**Addl. Storage facilities for essential commodities (Boarder Area Development)**		1.50	1.50	1.50	1.50	6.00
6	**Police**	**Reinforcement of existing security infrastructure by creating new monitoring Check Post, improving Road transport link, Security equipment etc**		3.75	3.75	3.75	3.75	15.00
7	**DOP**	**Establishment of a State Capacity Building Institute at Burtuk**		2.50	2.50	2.50	2.50	10.00
8	**Culture**	**Conservation of Heritage & Culture**		2.25	2.25	2.25	2.25	9.00
	Total			**100.00**	**100.00**	**100.00**	**100.00**	**400.00**

Chapter - 2

Summary of Projections of the State Government & the Methodology adopted

The State Government Submitted its report in five volumes as per the following details:

(1).	**Volume – I**	**-**	**Memorandum to the Thirteenth Finance Commission.**
(2).	**Volume – II**	**-**	**Financial Position of State (State Formats)**
(3).	**Volume – III**	**-**	**Subsidiary Points (Notes on Topics – State)**
(4).	**Volume – IV**	**-**	**Memorandum & Subsidiary Points (Notes on Topics- Local Bodies)**
(5).	**Volume – V**	**-**	**Upgradation Grants, Special Problems and Specific Needs of Of the State.**

Thirteenth Finance Commission had prescribed the norm for Projections / Forecast of Receipts and expenditure as under:

Basis of Norms for Forecasts or Projections

The Commission has given the following guidelines to forecast (or project) the receipts and expenditure of the State:

1. The rate of growth of revenue should not be less than the rate of growth in the years 2007-08 and 2008-09 of the Eleventh Five Year Plan. Similarly, the rate of growth of expenditure should not be more than the assumed rate for the Eleventh Five Year Plan. Any difference should be fully explained.
2. The tax and non-tax figures may be projected using the 2007-08 level of taxes and the yield from the tax measures likely to be enforced in 2008-09 and 2009-10 may be added subsequently.
3. Dearness Pay, DA and terminal benefits sanctioned up to 31.03.2008 may be taken into account while projecting the expenditure figures. Additional liabilities, if any, on account of Dearness Pay, DA revision sanctioned/to be sanctioned after 1-04-2008 to 2009-10 and impact of the recommendations of the Sixth Pay Commission may be shown separately under the head “Fresh Expenditure”, with suitable explanatory notes.
4. The State Government would have submitted data/information in respect of State resources to the Planning Commission for the formulation of the Eleventh Five Year Plan. Any deviation from the figures given to the Planning Commission should be indicated in a separate note attached to the explanatory note.

5. The projections should be in conformity with the projections made under the Fiscal Responsibility Legislation. Any deviation from the projections should be clearly explained.

Methodology adopted by State for Forecast.

Methodology of Forecast

Projections of revenue as well as expenditure presented in this chapter are based on the methodology and the guidelines suggested by the Thirteenth Finance Commission (TFC)**.** On the basis of these guidelines, two methods can be used to forecast revenue and expenditure, *viz.* **Compound Growth Rate (CGR) Method** and **Buoyancy Method**. The details of these two methods are given below:

Forecast Based on Growth Rate

The conventional approach to the theory of economic forecasting is to estimate growth rate of different budgetary parameters such as revenue and expenditure and other variables in the fiscal domain.

With the help of these growth rates, estimates can be made with reference to the preceding year or the preceding time period, *i.e.* over a period of time. If the estimate is made with reference to the past year, it is calculated as a percentage change vis-à-vis that year. **This is calculated as $\Delta R/R$, where Δ represents the change over the past year and *R* represents revenue collections**.

To find out the growth rate over a period of time, the variable is regressed against time using the following equation:

$$R = ab^t$$

where R = revenue,   t = time period and

$b = (1 + r)$…where r is the growth rate of R, and t varies from 1 to n.

This method is used to estimate the **Compound Growth Rate (CGR)**.

This is the simplest method of estimating revenue and expenditure for the forecast period. However, this method does not take into account causal relationships that influence the contribution of a particular variable to the CGR. This is especially true of variables such as price change, tax effort, or variation in GSDP which have an impact on this growth rate.

Forecast based on buoyancy

Another method to project the future stream of revenue or expenditure relates to the coefficient of buoyancy of the revenue or expenditure with respect to GSDP. This method takes into account the relative changes in revenue with respect to relative changes in the GSDP. This method computes the percentage change in revenue (or expenditure) as a result of the one percent change in GSDP. Such a measure is known as buoyancy. This method thus estimates the responsiveness of the tax revenue or expenditure to changes in the base (such as income), including the effect of changes in the structure of the tax.

As stated above, the growth rate method is the conventional method and the most convenient method for forecasting revenue (or expenditure). It estimates revenue performance independent of any other factor that might contribute to growth in revenue. On the other hand, the forecast based on buoyancy method is estimated in relation to independent quantifiable economic variables (such as national income or GSDP). Buoyancy relates the growth rate of revenue to the growth of the base of the revenue sources, which is normally GSDP. It attributes the growth rate of revenue to the responsiveness of the revenue base (that is, the normal growth in revenue which will occur due to the growth in the tax base/rate).

Symbolically, this could be expressed as $\Delta R/R \div \Delta Y/Y$. If this coefficient comes out to be greater than unity, revenue is said to be buoyant. The revenue performance of the State Government is said to be productive, *i.e*. getting higher revenue from taxes as GSDP grows.

The functional form used to measure buoyancy is as given below:

$$R = aY^b$$

When this exponential form is transformed into a logarithmic form, it changes into the following equation:

$$\log R = \log a + b \log Y$$

where

R = revenue

Y= GSDP and

b=buoyancy coefficient.

This relationship shows the percentage change in revenue with respect to the percentage change in GSDP.

Choice of Methods

Though both methods were used to forecast the revenue and expenditure for Sikkim, this study adopts the buoyancy method for forecasting revenue and expenditure. The buoyancy method is superior to the method of compound growth rate for forecasting revenues and expenditures as it relates the changes in revenue to the changes in the base of the revenue sources (normally GSDP or its component), and attributes the growth rate of revenue to the responsiveness of the revenue base. For other components, we have adopted the compound growth rate method.

Details of Adjustments and the Methodology of Forecast

Both the methods required some adjustments to be made in the data. The details of the adjustments and the methodology adopted for the forecast are given below:

Adjustments in Tax and Non-tax Revenues

1. When the CGR during the period 2002-03 to 2007-08 is abnormally high (as seen in land revenue and in ‘other taxes on income’), the CGR of 2007-08 and 2008-09 has been used. However, if this growth rate (*i.e.* 2007-08 to 2008-09) is lower than the GSDP growth rate, the latter is used.
2. If, on the other hand, the CGR is negative, the estimates for 2010-11 to 2014-15 have been fixed at the 2007-08 level as the negative value of the growth rate implies a fall in revenue and this decline in revenue will not be acceptable to the State.
3. Outliers (one time high receipts) in a particular year from a specific item have been excluded and the normal interpolated values have been used for determining the trend rate. Such outliers are seen in stamp duties, registration fees and other taxes.
    3.1 In 2002-03, revenue from stamp duties & registration fees was Rs. 3.09 crore (this was due to the inclusion of an unusual one-time receipt of Rs. 2.30 crore). Therefore, this amount has been netted out and an amount of Rs. 0.79 crore has been used for estimating the trend in the growth rate.

    3.2 In the case of sales tax, an amount of Rs. 0.43 lakh has been deducted (under the heading “Deductions”) from the total sales tax revenue of Rs.26.74 crore in 2006-07.

    3.3 Under the head “Other taxes and duties on Commodities and Services”, the amount accruing from “Funds” has been added. In 2006-07, an amount of Rs 6.69 crore came from the Sikkim Transport Infrastructure Development Fund (STIDF); in 2007-08, an amount of Rs 7.50 crore was from STIDF

    and Rs 1.50 crore from the Sikkim Ecology Fund (SEF). In 2008-09, revenue from STIDF and SEF was Rs 8 crore and2 crore, respectively. Since, these “Funds” are not a source of regular income; these have not been taken into account while estimating the growth rate under this head.
4. In the case of income tax, the revenue has been shown as nil on the basis of incorporation of sub-section 26AAA under Section 10 of the Indian Income Tax Act 1961 as per the Finance Bill 2008, the State (Sikkim) Income Tax Manual 1948 (under which taxes were imposed during the earlier years and were still being implemented), will no longer be enforced in the State.
5. In the case of State lotteries, the revenues have been shown as a net figure (receipts minus expenditure). This is due to the fact that the revenue figures are rather misleading as these do not take into account current expenditures, which have been rising year after year. Also, for projecting this component, the revenue has been frozen at the level of the receipts in 2007-08 as this was the ‘normal’ revenue during the last four years. The State may find it difficult to realise the forecasted revenue on

this account in view of the ban imposed by different State Governments and proposed ban that may be imposed by the Central Government on the sale of lottery tickets. [1]

6. A different approach was used for minor irrigation, police, and interest receipts. In the case of minor irrigation, the CGR being extremely high, the rate of change between 2007-08 and 2008-09 (as submitted to the Planning Commission) has been applied.
7. Income on account of interest accruing on short-term deposits of cash balances is not an assured flow of income. Therefore, this income cannot be estimated and the 2008-09 (BE) level has been frozen.
8. The receipts under the head "Police" accrue due to the lending of services of the Sikkim Police to agencies other than the Government of Sikkim. These services are primarily hired by the Government of NCT of Delhi and also by the agencies of power generating projects operating in the State. This is not a regular and assured source of income; the receipts from these receipts have been frozen at the 2007-08 levels.
9. In the power sector, the Government has entered into an agreement with power generating agencies to have a share in the total power generated by these agencies. This share may be either consumed locally or may be sold outside the State. Therefore, as an ARM, the Government envisages additional revenue receipts by sale of this share of power. These amounts are shown as indicated in the contracts.

Forecasting Capital Receipts

This is based on the average ratios of capital receipts to capital disbursement for the period 2002-03 to 2008-09.

Forecasting Non-Plan Revenue Expenditure

The projections of non-plan revenue expenditures were made using the buoyancy method for each expenditure item for the period 2002-03 to 2007-08 (RE). The buoyancy coefficient has been applied to all the items except those for which estimates have earlier been submitted to the Planning Commission by the Sikkim Government.

[1] Revenue from lotteries has been shown as a net figure (receipts minus expenditure). This is due to the fact that the net revenue from this item is very small in recent years. The net revenue in the year 2002-03 and 2006-07 is abnormally high, as shown below:

(Rs. in crore.)

Year	2002-03	2003-4	2004-05	2005-06	2006-07	2007-08	2008-09
Receipts (Gross)	1,256.62	473.67	912.27	898.35	963.30	1,243.29	943.36
Expenditure (Gross)	1,172.48	442.25	881.11	876.16	913.29	1,213.29	913.36
Receipts (Net)	84.14	31.42	31.16	22.19	50.01	30.00	30.00

Thus, these two years (*i.e.* 2002-03 and 2006-07) have been treated as outliers and have not been considered for forecasting. The average of non-outliers (viz. 2003-04, 2004-05, 2005-06 and 2006-07) has been taken and this has been stabilized for the years 2010-11 to 2014-15.

In addition, a differential method has been adopted in the following exceptional cases:

First, when there is a declining trend in expenditure (e.g. interest on loans and advances from Central Government), the values have been frozen at 2007-08 levels.

Second, when the CGR is very high, at a 12.42% rate, then the observed CGR of GSDP has been applied to items such as stamp duty and registration fee.

Besides these exceptions, a few more adjustments have been made.

1. **State Lotteries:** The Lotteries have been shown as net figures in the receipts. Hence, no expenditure has been shown.
2. **Administration of Justice and Council of Ministers**: The CGR of State legislature as submitted to the Planning Commission is 7 percent and this has been applied to these items.
3. **Interest Payments on Internal Debt/Interest on Market Loans:** A higher growth rate has been applied because a higher level of internal and market loans entails more interest liabilities.
4. **Appropriation for Reduction or Avoidance of Debt:** Due to heavy demands for development in the State, it has to raise a large amount of loans from the market and other internal sources. It is estimated that by 2010-11, an amount of Rs 500 crore may be needed by the State and this is likely to increase annual debt by at least 10%. The State has also to maintain a Consolidated Sinking Fund @ of 3% of fresh borrowings annually.
5. **Interest on Small Savings**, **Provident Funds etc**.: This has been estimated using 2008-09 as the base.
6. **Relief on account of Natural Calamities:** In 2007-08, a one-time expenditure was incurred and this was to the tune of Rs 13.64 crore. This expenditure has been netted for projection purposes.
7. **Floods, Cyclones etc.** Expenditure under this head is sometimes more than the major Head total. This is because the transfers listed under the Calamity Relief Fund (head number 05) are not factored into totals.

The following items have been separately estimated by respective departments and put as a row in the given format:

i) Proposed expenditure on municipalities

ii) Impact of pay revision due to Fourth State Pay Commission

- Pay Revision
- Arrears due to pay and pension revision
- Pension
- Revision of wages

iii) Committed liabilities of Eleventh Five Year Plan

iv) Liability due to PRI devolution

Plan Revenue Expenditure

The estimated CGR has generally been used for forecasting Plan Revenue Expenditure. However, the growth rate of GSDP (12.42%) has been applied to those items that have shown a very high growth rate in expenditure over the years. These items include: technical education, sports & youth services, rural health services, housing and urban development, welfare of SCs /STs/ OBCs, labour & employment, nutrition, agricultural research and education, other agricultural programmes, other rural development programmes, surface water, flood control and drainage, power, village & small industries, industries, tourism, and other general economic services.

Plan Revenue Expenditure on CSS/CPS Schemes:

Normally, the observed CGR has been used for forecasting plan revenue expenditure on CSS/CPS Schemes. However, in some sectors the growth rate is abnormally high due to the introduction of these schemes during the period. These sectors are secondary education, welfare of SCs /STs / OBCs, animal husbandry, special programmes for rural development, and tourism. Hence, the GSDP growth rate of 12.42% has been used to estimate the Plan Revenue Expenditure.

Capital Expenditure: Plan

The CGR has generally been applied for forecasting capital expenditures. However, in some cases where the CGR is negative (showing a downward trend) or where the CGR is abnormally high (higher than 50%), a growth rate of 12.42% of GSDP has been applied to make the estimates. This GSDP growth rate has been used in water supply and sanitation, housing, urban development, welfare of SCs/STs/OBCs, forestry and wild life, other rural development programmes, other special area programmes, village & small industries, civil aviation, roads & bridges, other scientific research, and tourism. In addition, special treatment is given to the financial requirements of the State for upgrading certain sectors/activities.

Capital Expenditure: CSS+CPS

As the CGR is very high, a growth rate of 12.42% of GSDP has been applied to fisheries; power projects; and tourism.

Results of Forecast

The summary of the forecast of revenue and capital account based on the buoyancy method for the period 2010-11 to 2014-15 is shown in Table 4.1[2] while the forecasts based on the CGR method are shown in Table 4.2. The latter Table gives estimates with 'pay revision' as well as 'without pay revisions'. Complete details of the forecasts for each and every item are given in Statements 1 to 4 submitted separately in the Thirteenth Finance Commission with all other "Statements". The summary of revenue account is given in Statement 1 and that of capital

[2] The details of the calculations have been submitted to the Commission in the Statement ST 1.

account is given in Statement ST-1A. The statement ST 2 gives the forecast for revenue receipts. Revenue expenditure estimates based on buoyancy method (non-plan) and compound growth rate method for plan, CSS, and CPS is given in ST 3. Finally, forecast of capital expenditures based on the compound rate of GSDP has been given in ST- 4.

Summary of Forecast of Revenue and Expenditures of Sikkim

(Rs. in Crore)

As per Buoyancy-based Growth Rate

	With Pay Revision etc.	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5-Year Total**
1	Non-Plan Revenue Expenditure	1,334.52	1,471.31	1,942.81	2,167.13	2,420.82	**9,336.59**
2	Own Source Receipts	354.98	369.48	385.35	402.76	421.86	**1,934.43**
3	***Revenue Gap (Exp-Rec)***	979.54	1,101.83	1,557.46	1,764.37	1,998.96	**7,402.16**
	Without Pay Revision etc.						
1	Non-Plan Revenue Expenditure	1,008.02	1,130.81	1,270.60	1,429.94	1,611.81	**6,451.17**
2	Own Source Receipts	354.98	369.48	385.35	402.76	421.86	**1,934.43**
3	***Revenue Gap (Exp-Rec)***	653.04	761.33	885.25	1,027.18	1,189.95	**4,516.75**

Note: Buoyancy is the estimate of percentage change in tax/expenditure vis-à-vis one percent change in GSDP in that year. Buoyancy-based growth rate is the product of buoyancy coefficient with growth rate of GSDP.

Summary of Forecast of Revenue and Expenditures of Sikkim Base on Growth Rate

(Rs. in Crore)

Based on Compound Growth Rate

	With Pay Revision etc.	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5-Year Total**
1	Non-Plan Revenue Expenditure	**1,336.32**	**1,473.40**	**1,945.34**	**2,170.25**	**2,424.75**	**9,350.06**
2	Own Source Receipts	**359.11**	**373.71**	**389.73**	**407.33**	**426.70**	**1,956.58**
3	***Revenue Gap (Exp-Rec)***	977.21	1,099.69	1,555.61	1,762.92	1,998.05	**7,393.48**
	Without Pay Revision etc.						
1	Non-Plan Revenue Expenditure	***1,009.82***	***1,132.91***	***1,273.12***	***1,433.06***	***1,615.74***	**6,464.65**
2	Own Source Receipts	**359.11**	**373.71**	**389.73**	**407.33**	**426.70**	**1,956.58**

3	***Revenue Gap (Exp-Rec)***	650.71	759.20	883.39	1,025.73	1,189.04	**4,508.07**

With the choice of methodology adopted, the Summary of Non-Plan Revenue Receipt and Non-Plan Revenue Expenditure of the State thus arrived, comes to a PRE - DEVOLUTION NON - PLAN REVENUE DEFICIT of Rs.7402.16 Crores as per Table – III below. The State government had also projected the requirement of fund amounting to Rs. 1729.29 crores for the upgradation grant and for the scheme specific to the State Sikkim as detailed vide Table-IV below:-

Table – III

(Rs. in crore)

Summary of Non-Plan Revenue Receipt and
Non-Plan Revenue Expenditure - in a Nutshell - Projected to the Thirteenth Finance Commission

Rs. in Crore

	ESTIMATE	FORECAST					
HEADS	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**Total 2010 - 15**
1	**9**	**10**	**11**	**12**	**13**	**14**	
I. Revenue Receipts (1+2)	**342.74**	**354.98**	**369.48**	**385.35**	**402.76**	**421.86**	**1934.43**
1. State's Own Revenue	**342.74**	**354.98**	**369.48**	**385.35**	**402.76**	**421.86**	**1934.43**
i. Total Tax Revenue	109.73	116.87	125.88	135.85	146.90	159.15	684.65
ii. Total Non-Tax Revenues	233.01	238.11	243.60	249.51	255.86	262.70	1249.78
II. Total Revenue Expenditure (1+2+3+4+5+6)	**1727.63**	**1334.52**	**1471.31**	**1942.81**	**2167.13**	**2420.82**	**9336.59**
1. General Services of which	**444.81**	**503.57**	**571.62**	**650.55**	**742.25**	**848.89**	**3316.88**
i. Interest Payments	*167.04*	*191.55*	*220.81*	*255.78*	*297.59*	*347.60*	*1313.33*
ii. Pension and Other Retirement Benefits	*66.49*	*77.46*	*90.23*	*105.11*	*122.44*	*142.62*	*537.86*
iii. Gen. Serv. other than Interest & Pension	*211.28*	*234.56*	*260.58*	*289.66*	*322.22*	*358.67*	*1465.69*
2. Social Services	**294.05**	**325.85**	**361.13**	**400.27**	**443.72**	**491.93**	**3488.59**
3. Economic Services	**161.14**	**178.60**	**198.07**	**219.77**	**243.97**	**270.99**	**1111.40**
4. Grants In Aid to Local Bodies	**33.18**	**60.50**	**49.49**	**44.77**	**48.58**	**53.16**	**256.50**
5. Revision of pay, DA, pension and wages etc.	**794.45**	**266.00**	**291.00**	**318.50**	**348.76**	**382.02**	**1606.28**
6. Committed liability of 11th Plan	-	-	-	**308.95**	**339.85**	**373.83**	**1022.63**
7. Non Plan Deficit (II - I)	**1384.89**	**979.54**	**1101.83**	**1557.46**	**1764.37**	**1998.96**	**7402.16**
Negative figures indicates Surplus							

Pre-dovulotion - Total Projection for NPRDG - Rs. 7402.16 Crores
Projection for Upgradation - Rs.1729.29 Crores (details as per Table iv)
Grand Total - Rs. 9131.45 Crores for 2010-15

Table IV

Estimates of Grant Expenditure for Up-gradation of Administration Special Problems and Specific Needs of Sikkim

(Rs. in crores)

Sl.No.	Name of Department/Sector	Amount
1	***Introduction.***	
2	***Upgradation of General Administrative Services***	
2.1	***Police Administration***	*Not estimated*
2.2	***Human Resource Development Department***	***550.00***
2.2.1	*Establishment of District Institute of Education and Training (Diet)*	*50.00*
2.2.2	*Infrastructure Development for Replacement of Old Schools*	*100.00*
2.2.3	*Up gradation and Improvement of Playfield*	*100.00*
2.2.4	*Increase in the Number of Colleges*	*300.00*
2.3	***Public Works Department***	***135.00***
2.3.1	*Construction of Secretariat building at Raj Bhawan at Gangtok, East Sikkim*	*15.00*
2.3.2	*Construction of Secretariat Annexe Building at Tashiling Complex, Gangtok, East Sikkim*	*120.00*
2.4	***Up-gradation and Special Problem Grant under Urban Development***	***128.90***
2.4.1	*Drainage*	*2.50*
2.4.2	*Construction of Toilets*	*1.25*
2.4.3	*Hatsheds*	*8.65*
2.4.4	*Maintenance*	*7.50*
2.4.5	*Up-gradation of Towns*	*5.00*
2.4.6	*Garbage Disposal*	*2.50*
2.4.7	*Computerisation*	*1.00*
2.4.8	*Public Awareness Campaign*	*0.50*
2.4.9	*Multi-storey Parking Plazas at Mangan, Gyalshing and Namchi*	*42.60*

Sl.No.	Name of Department/Sector	Amount
2.4.10	*Development of Sokeythang to create- Library, Habitat Centre Community Center , State Children Park etc.*	*57.40*
2.5	***Capacity Building for Administration and Fiscal Reforms***	***17.00***
2.5.1	*Establishment of State Capacity Building Institute*	*10.00*
2.5.2	*Staff Training for Better Expenditure Management*	*Not estimated*
2.5.3	*E-Governance*	*7.00*
3	***Up-gradation of Social and Cultural Services***	
3.1	***Conservation of Heritage and Culture of Sikkim***	***8.60***
3.1.1	*Restoration/Preservation of Monasteries and Mandirs*	*2.50*
3.1.2	*Documentation of the Intangible Heritage of the State*	*0.50*
3.1.3	*Up-Gradation of Museum*	*0.50*
3.1.4	*Up- Gradation of Archives*	*1.00*
3.1.5	*Preservation/Restoration of Tradition Houses*	*0.80*
3.1.6	*Preservation/Restoration of Historical Buildings*	*1.00*
3.1.7	*Preservation/Restoration of Chorten, Mendangs and Mani Lakhang*	*0.40*
3.1.8	*Preservation of Devithans And Pilgrimage Centers*	*0.60*
3.1.9	*Preservation of Sacred Caves, Water Bodies and Hermitages:*	*0.50*
3.1.10	*Revival of Traditional Arts and Crafts*	*0.30*
3.1.11	*Restoration/Preservation of Various Ruins in the State*	*0.50*
3.2	***Health Care, Human Service and Family Welfare Department***	***218.31***
3.2.1	*Upgradation of the Sir Thutob Namgyal Memorial Hospital into a 500-Bed Multi- specialty Hospital*	*203.31*
3.2.2	*Health Insurance Scheme for BPL Families of Sikkim.*	*15.00*
3.3	***Water Security and Public Health Engineering Department***	***20.82***
3.3.1.	*Up-Gradation of Namchi Water Supply scheme*	*17.42*
3.3.2	*Over-hauling of Lower Changay Source for Gyalshing Water Supply*	*1.18*
3.3.3.	*Overhauling of Rabdentse Water Supply Scheme, Gyalshing*	*2.22*
4	***Up-gradation of Economic Services***	

Sl.No.	Name of Department/Sector	Amount
4.1	***Promotion of Tourism***	***560.90***
4.1.1	*Passenger ropeway from Dodak to Barsey Rhododendron sanctuary in West Sikkim*	*18.00*
4.1.2	*Nature interpretation centre, Eco-lodge, meditation centre and crafts village at Cho-Dzo, Ravangla*	*4.90*
4.1.3	*Eco-tourism: Village or Rural Tourism*	*100.00*
4.1.4	*Creation of hydro-tourism with river course development project the on along Tista and Rangit rivers*	*200.00*
4.1.5	*Complete tourism infrastructure at Lachen village (Snow Tourism)*	*20.00*
4.1.6.	*Development of Guru-Dongmar wetland tourism as an international tourist destination.*	*10.00*
4.1.7	*Development of Neh, South District, as a tourist destination.*	*5.00*
4.1.8	*Construction of Skywalk at Bhaley Dhunga Yangyang*	*200.00*
4.1.9	*Construction of Village tourism at Darap, West Sikkim*	*3.00*
4.2	***Forest, Environment and Wildlife Management Department***	***15.50***
4.2.1	*Conservation Oriented Forest Policy*	*5.50*
4.2.2	*Establishment Of Institute For Protection Of Environment (Water Bodies, Glacier, Melting Snow, Research And Skill Upgradation Training Centre*	*10.00*
4.3	***Rural Management and Development Department.***	***50.05***
4.3.1.	*Circular Road Around Chardham at Solophok, Namchi In South Sikkim.*	*15.00*
4.3.2.	*Repair/ Renovation of 71 Suspension Foot Bridges under North District*	*35.05*
4.4	***Animal Husbandry, Livestock & Veterinary Services***	***10.14***
4.4.1	*Construction of most hygienic slaughter house at Gyalshing*	*4.36*
4.4.2	*Construction of most hygienic slaughter house at Namchi*	*5.78*
4.5	***Agriculture/ Horticulture***	***12.07***
4.5.1	*Rejuvenation of Cardamom*	*2.33*
4.5.2	*Rejuvenation of Mandarin Orange*	*1.72*
4.5.3	*Rejuvenation of Lachen/ Lachung Apple*	*2.49*

Sl.No.	Name of Department/Sector	Amount
4.5.4	*Establishment of Floriculture Research Study Centre including Tissue Culture, Marketing, Cold Storage, Pre-Hardening & Hardening*	*5.53*

CHAPTER - 3

Summary of Recommendations of the Thirteenth Finance Commission (2010-2015)

Finances of Union and States

1. The Ministry of Finance (MoF) should ensure that the finance accounts fully reflect the collections under cesses and surcharges as per the relevant heads, so that there are no inconsistencies between the amounts released to states in any year and the respective percentage shares in net central taxes recommended by the Finance Commission for that year. (Para 4.33)

2. The states need to address the problem of losses in the power sector in a time-bound manner.(Para 4.38)

3. Initiatives should be taken to reduce the number of Centrally Sponsored Schemes (CSS) and to restore the predominance of formula-based plan transfers. (Para 4.56)

4. A calibrated exit strategy from the expansionary fiscal stance of 2008-09 and 2009-10 should be the main agenda of the Centre. (Para 4.62)

Goods and Services Tax

5. Both the Centre and the states should conclude a 'Grand Bargain' to implement the Model GST. The Grand Bargain comprises six elements:

   i) The design of the Model GST is suggested in paras 5.25 to 5.35.
   ii) The operational modalities are outlined in paras 5.36 to 5.41.
   iii) The proposed agreement between the Centre and states, with contingencies for changes, is in paras 5.49 to 5.51.
   iv) The disincentives for non-compliance are described in Para 5.52.
   v) The implementation schedule is described in paras 5.57 to 5.59.
   vi) The procedure for claiming compensation is in Para 5.60. (Para 5.48)

6. Any GST model adopted must be consistent with all the elements of the Grand Bargain. To incentivise implementation of the Grand Bargain, this Commission recommends sanction of a grant of Rs. 50,000 crore. The grant would be used to meet the compensation claims of State Governments for revenue losses on account of implementation of GST between 2010-11 and 2014-15, consistent with the Grand

Bargain. Unspent balances in this pool would be distributed amongst all the states, as per the devolution formula, on 1 January 2015. (paras 5.54 and 5.55)

7. The Empowered Committee of State Finance Ministers (EC) should be transformed into a statutory council. The compensation should be disbursed in quarterly instalments on the basis of the recommendations by a three-member Compensation Committee comprising of the Secretary, Department of Revenue, Government of India; Secretary to the EC and chaired by an eminent person with experience in public finance. (Para 5.60)

8. In the unlikely event that a consensus with regard to implementing all the elements of the Grand Bargain cannot be achieved and the GST mechanism finally adopted is different from the Model GST suggested by us, this Commission recommends that this amount of Rs. 50,000 crore shall not be disbursed. (Para 5.62)

9. The states should take steps to reduce the transit time of cargo vehicles crossing their borders by combining checkposts with adjoining states and adopting user-friendly options like electronically issued passes for transit traffic.(Para 5.47)

<u>Union Finances</u>

10. The policy regarding use of proceeds from disinvestment needs to be liberalised to also include capital expenditure on critical infrastructure and the environment. (Para 6.46)

11. Records of landholdings of PSUs need to be properly maintained to ensure that this scarce resource is put to productive use, or made available for other public projects, or else, sold. (Para 6.48)

<u>State Finances</u>

12. **The practice of diverting plan assistance to meet non-plan needs of special category states should be discontinued. (Para 7.79)**

13. <u>With reference to public sector undertakings</u>:

    i) All states should endeavour to ensure clearance of the accounts of all their Public Sector Undertakings (PSUs). (Para 7.95)

    ii) The states should use the flexibility provided by the Comptroller and Auditor General (C&AG) to clear the backlog of PSU accounts. (Para 7.95)

    iii) All states need to draw up a roadmap for closure of non-working PSUs by March 2011. Divestment and privatisation of PSUs should be considered and actively pursued. (paras 7.95 and 7.97)

    iv) The Ministry of Corporate Affairs should closely monitor the compliance of state and central PSUs with their statutory obligations. (Para 7.95)

v) A task force may be constituted to design a suitable strategy for disinvestment/ privatisation and oversee the process. A Standing Committee on restructuring may be constituted under the chairmanship of the Chief Secretary to operationalise the recommendations of the task force. An independent technical secretariat may be set up to advise the finance departments in states on restructuring/disinvestment proposals. (Para 7.98)

14. **With reference to the power sector:**

i) Reduction of Transmission and Distribution (T&D) losses should be attempted through metering, feeder separation, introduction of High Voltage Distribution Systems (HVDS), metering of distribution transformers and strict anti-theft measures. Distribution franchising and Electricity Services Company (ESCO)-based structures should be considered for efficiency improvement.
(Para 7.114)

ii) Unbundling needs to be carried out on priority basis and open access to transmission strengthened. Governance should be improved through State Load Summary of Recommendations Dispatch Centres (SLDCs) and this function should eventually be made autonomous.(Para 7.116)

iii) Proper systems should be put in place to avoid delays in completion of hydro projects. (Para 7.117)

iv) Instead of putting up thermal power plants in locations remote from sources of coal, states should consider joint ventures (JVs) in or near the coal-rich states. (Para 7.119)

v) Case 1 bid process should be extensively used to avoid vulnerability to high-cost purchases during peak demand periods. (Para 7.120)

vi) Regulatory institutions should be strengthened through capacity building, consumer education and tariff reforms like Multi Year Tariff (MYT). Best practices of corporate governance should be introduced in power utilities. (Para 7.121)

15. Migration to the New Pension Scheme needs to be completed at the earliest. (Para 7.122)

16. States with large cash balances should make efforts towards utilising these before resorting to fresh borrowings. (Para 7.127)

17. With reference to accounting reforms:

i) The Government of India (GoI) should ensure uniformity in the budgetary classification code across all states. The list of appendices to the finance accounts of states also needs to be standardised. (paras 7.129 and 7.134)

ii) Details of contra-entries as well as the summary of transactions between the public account and the consolidated fund should be provided as a separate annex to the finance accounts of the states. (Para7.131)

iii) Public expenditure through creation of funds outside the consolidated fund of the states needs to be discouraged. Expenditure through such funds and from civil deposits should be brought under the audit jurisdiction of the C&AG. (paras 7.132 and 7.133)

iv) The following statements need to be provided with the finance accounts of states:

a) Comprehensive data on all subsidies.(Para 7.135)

b) Consolidated information on the number of employees at each level, along with the commitment on salary. This statement should also include information on employees and their salary where such expenditure is shown as grants or booked under other expenditure.
(Para 7.136 & 7.137)

c) Details of maintenance expenditure. (Para 7.138)

Sharing of Union Tax Revenues

18. The share of states in net proceeds of shareable central taxes shall be 32 per cent in each of the financial years from 2010-11 to 2014-15. Under the Additional Duties of Excise (Goods of Special Importance) Act, 1957, all goods were exempted from payment of duty from 1 March 2006. Following this, the Centre had adjusted the basic duties of excise on sugar and tobacco products. In view of these developments, the states' share in the net proceeds of shareable central taxes shall remain unchanged at 32 per cent, even in the event of states levying sales tax (or Value Added Tax (VAT)) on these commodities. (paras 8.17 and 8.18)

19. In the event of notification of the 88th Amendment to the Constitution and enactment of any legislation following such notification, it should be ensured that the revenue accruing to a state under the legislation should not be less than the share that would accrue to it, had the entire service tax been part of the shareable pool of central taxes. (Para 8.19)

20. The Central Government should review the levy of cesses and surcharges with a view to reducing their share in its gross tax revenue. (Para 8.20)

21. The indicative ceiling on overall transfers to states on the revenue account may be set at 39.5 per cent of gross revenue receipts of the Centre. (Para 8.21)

22. The share of each state in the net proceeds of all shareable central taxes in each of the financial years from 2010-11 to 2014-15 shall be as specified in Table 1.1:(paras 8.38 and 8.39)

<u>Revised Roadmap for Fiscal Consolidation</u>

23. The revenue deficit of the Centre needs to be progressively reduced and eliminated, followed by emergence of a revenue surplus by 2014-15. (paras 9.18 and 9.31)

24. A target of 68 per cent of GDP for the combined debt of the Centre and states should be achieved by 2014-15. The fiscal consolidation path embodies steady reduction in the augmented debt stock of the Centre to 45 per cent of GDP by 2014-15, and of the states to less than 25 per cent of GDP, by 2014-15. (paras 9.29 and 9.69, Table 9.7)

25. The Medium Term Fiscal Plan (MTFP) should be reformed and made a statement of commitment rather than a statement of intent. Tighter integration is required between the multi-year framework provided by MTFP and the annual budget exercise. (Para 9.38)

26. The following disclosures should be made along with the annual Central Budget/MTFP:

    i) Detailed breakup of grants to states under the overall category of non-plan and plan grants. (Para 9.41)

    ii) Statement on tax expenditure to be systematised and the methodology to be made explicit. (Para 9.42)

    iii) Compliance costs of major tax proposals to be reported. (Para 9.43)

    iv) Revenue Consequences of Capital Expenditure (RCCE) to be projected in MTFP.(Para 9.45)

    v) Fiscal impact of major policy changes to be incorporated in MTFP. (Para 9.46)

    vi) Public Private Partnership (PPP) liabilities to be reported along with MTFP. (paras 9.48 and 9.49)

    vii) MTFP to make explicit the values of parameters underlying projections for receipts and expenditure and the band within which they can vary while remaining consistent with targets. (Para 9.61)

27. Transfer of disinvestment receipts to the public account to be discontinued and all disinvestment receipts be maintained in the consolidated fund. (Para 9.52)

28. GOI should list all public sector enterprises that yield a lower rate of return on assets than a norm to be decided by an expert committee. (Para 9.52)

29. The FRBM Act needs to specify the nature of shocks that would require a relaxation of FRBM targets. (Para 9.62)

30. In case of macroeconomic shocks, instead of relaxing the states' borrowing limits and letting them borrow more, the Centre should borrow and devolve the resources using the Finance Commission tax devolution formula for inter se distribution between states. (Para 9.63)

31. Structural shocks such as arrears arising out of Pay Commission awards should be avoided by, in the case of arrears, making the pay award commence from the date on which it is accepted. (Para 9.64)

32. An independent review mechanism should be set-up by the Centre to evaluate its fiscal reform process. The independent review mechanism should evolve into a fiscal council with legislative backing over time. (paras 9.65 and 9.66)

33. Given the exceptional circumstances of 2008-09 and 2009-10, the fiscal consolidation process of the states was disrupted. It is expected that states would be able to get back to their fiscal correction path by 2011-12, allowing for a year of adjustment in 2010-11.

    i) States that incurred zero revenue deficit or achieved revenue surplus in 2007-08 should eliminate revenue deficit by 2011-12 and maintain revenue balance or attain a surplus thereafter. Other states should eliminate revenue deficit by 2014-15. (paras 9.69 to 9.72)

    ii) The General Category States that attained a zero revenue deficit or a revenue surplus in 2007-08 should achieve a fiscal deficit of 3 per cent of Gross State Domestic Product (GSDP) by 2011-12 and maintain such thereafter. Other general category states need to achieve 3 per cent fiscal deficit by 2013-14. (paras 9.74 to 9.76, Table 9.5)

    iii) All special category states with base fiscal deficit of less than 3 per cent of GSDP in 2007-08 could incur a fiscal deficit of 3 per cent in 2011-12 and maintain it thereafter. Manipur, Nagaland, Sikkim and Uttarakhand to reduce their fiscal deficit to 3 per cent of GSDP by 2013-14. (paras 9.79 and 9.81)

    iv) Jammu & Kashmir and Mizoram should limit their fiscal deficit to 3 per cent of GSDP by 2014-15. (Para 9.80)

34. States should amend/enact FRBM Acts to build in the fiscal reform path worked out. State-specific grants recommended for a state should be released upon compliance. (Para 9.82)

35. Independent review/monitoring mechanism under the FRBM Acts should be set up by states. (Para 9.84)

36. Borrowing limits for states to be worked out by MoF using the fiscal reform path, thus acting as an enforcement mechanism for fiscal correction by states. (Para 9.85)

37. Loans to states from National Small Savings Fund (NSSF) contracted till 2006-07 and outstanding at the end of 2009-10 to be reset at 9 per cent rate of interest, subject to conditions prescribed. (Para 9.106)

38. National Small Savings Scheme to be reformed into a market-aligned scheme. State Governments are also required to undertake relevant reforms at their level. (paras 9.111 and 9.112)

39. Loans from GoI to states and administered by ministries/departments other than MoF, outstanding as at the end of 2009-10, to be written off, subject to conditions prescribed. (Para 9.114)

40. A window for borrowing from the Central Government needs to be available for fiscally weak states that are unable to raise loans from the market. (Para 9.114)

41. For states that have not availed the benefit of consolidation under the Debt Consolidation and Relief Facility (DCRF), the facility, limited to consolidation and interest rate reduction, should be extended, subject to enactment of the FRBM Act. (Para 9.115)

42. The benefit of interest relief on NSSF and the write-off should be made available to states only if they bring about the necessary amendments/enactments of FRBM. (Para 9.116)

Local Bodies

43. Article 280(3) (bb) & © of the Constitution should be amended such that the words 'on the basis of the recommendations of the Finance Commission of the State's are changed to 'after taking into consideration the recommendations of the Finance Commission of the State'. (para 10.130)

44. Article 243(I) of the Constitution should be amended to included the phrase 'or earlier' after the words ' every fifth year'. (para 10.125)

45. The quantum of local body grants should be provided as per Table 10.4. The general basic grant as well as the special areas basic grant should be allocated amongst states as specified. The state-wise eligibility for these grants is placed in annexes 10.15a and 10.15c. (Para 10.159)

46. State Governments will be eligible for the general performance grant and the special areas performance grant only if they comply with the prescribed stipulations. These grants will be disbursed in the manner specified. The state-wise eligibility for these grants is placed in annexes 10.15b and 10.15d. (paras 10.161 to 10.164)

47. The states should appropriately allocate a portion of their share of the general basic grant and general performance grant, to the special areas in proportion to the population of these areas. This allocation will be in addition to the special area basic grant and special area performance grant recommended by us. (Para 10.170)

48. State Governments should appropriately strengthen their local fund audit departments through capacity building as well as personnel augmentation. (Para 10.167)

49. The State Governments should incentivise revenue collection by local bodies through methods such as mandating some or all local taxes as obligatory at non-zero rates of levy, by deducting deemed own revenue collection from transfer entitlements of local bodies, or through a system of matching grants. (Para 10.173)

50. To buttress the accounting system, the finance accounts should include a separate statement indicating head-wise details of actual expenditures under the same heads as used in the budget for both Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs). We recommend that these changes be brought into effect from 31 March 2012. (Para 10.177)

51. The Government of India and the State Governments should issue executive instructions so that their respective departments pay appropriate service charges to local bodies. (Para 10.178)

52. Given the increasing income of State Governments from royalties, they should share a portion of this income with those local bodies in whose jurisdiction such income arises. (Para 10.179)

53. State Governments should ensure that the recommendations of State Finance Commissions (SFCs) are implemented without delay and that the Action Taken Report (ATR) is promptly placed before the legislature. (Para 10.129)

54. SFCs should consider adopting the template suggested in Annex 10.5 as the basis for their reports. (para 10.127)

55. Bodies similar to the SFC should be set up in states which are not covered by Part IX of the Constitution. (Para 10.180)

56. Local bodies should consider implementing the identified best practices. (Para 10.79)

57. A portion of the grants provided by us to urban local bodies be used to revamp the fire services within their jurisdiction.(Para 10.172)

58. Local Bodies should be associated with city planning functions wherever other development authorities are mandated this unction. These authorities should also share heir revenues with local bodies.(Para 10.168)

59. The development plans for civilian areas within the cantonment areas (excluding areas under the active control of the forces) should be brought before the district planning committees. (Para 10.169)

60. State Governments should lay down guidelines for the constitution of nagar panchayats. (Para 10.133)

Disaster Relief

61. The National Calamity Contingency Fund (NCCF) should be merged into the National Disaster Response Fund (NDRF) and the Calamity Relief Fund (CRF) into the State Disaster Response Funds (SDRFs) of the respective states. Contribution to the SDRFs should be shared between the Centre and states in the ratio of 75:25 for general category states and 90:10 for special category states. (paras 11.78, 11.79 and 11.82)

62. Balances as on 31 March 2010 under state CRFs and the NCCF should be transferred to the respective SDRFs and NDRF. (paras 11.78 and 11.93)

63. Budgetary provisions for the NDRF need to be linked to expenditure of the previous year from the fund. With cesses being subsumed on introduction of the GST; alternative sources of financing need to be identified. (Para 11.78)

64. The total size of the SDRF has been worked out as Rs. 33,581 crore, to be shared in the ratio given above, with an additional grant of Rs. 525 crore for capacity building. (paras 11.92 and 11.102)

65. Assistance of Rs. 250 crore to be given to the National Disaster Response Force to maintain an inventory of items required for immediate relief. (Para 11.103)

66. Provisions relating to the District Disaster Response Fund (DDRF) in the Disaster Management (DM) Act may be reviewed and setting up of these funds left to the discretion of the individual states. (Para 11.96)

67. Mitigation and reconstruction activities should be kept out of the schemes funded through FC grants and met out of overall development plan funds of the Centre and the states. (Para 11.83)

68. The list of disasters to be covered under the scheme financed through FC grants should remain as it exists today. However, man-made disasters of high-intensity may be considered for NDRF funding, once norms have been stipulated and the requisite additional allocations made to the NDRF. (Para 11.100)

69. The administrative mechanism for disaster relief to be as prescribed under the DM Act, i.e., the National Disaster Management Authority (NDMA)/National Executive Council (NEC) at the Centre and the State Disaster Management Agency (SDMA)/State Executive Council (SEC) at the state level. Financial matters to be dealt with by the Ministry of Finance as per the existing practice. (paras 11.105 and 106)

70. Prescribed accounting norms should be adhered to for the continuance of central assistance to the SDRFs. (Para 11. 95)

Grants-in-aid to States

NPRD and Performance Incentive

71. Total non-plan revenue grant of Rs. 51,800 crore is recommended over the award period for eight states (Table 12.4). (Para 12.12)

72. A performance grant of Rs. 1500 crore is recommended for three special category states who have graduated from a Non-plan Revenue Deficit (NPRD) situation. (Para 12.13)

Elementary Education

73. A grant of Rs. 24,068 crore is recommended for elementary education over the award period. (Para 12.23)

74. The education grant will be an additionality to the normal expenditure of the states for elementary education. The expenditure (plan + non-plan) under elementary education, i.e., major head-2202, sub-major head-01, exclusive of grants recommended, should grow by at least 8 per cent annually during 2010-15. (Para 12.23)

Environment

75. An amount of Rs. 5000 crore is recommended as forest grant for the award period. (Para 12.46)

76. Grants for the first two years are untied but priority should be given to the preparation of working plans. Release of grants for the last three years is linked to progress in the number of approved working plans. (Para 12.47)

77. Twenty five per cent of the grants in the last three years are for preservation of forest wealth. These grants are over and above the non-plan revenue expenditure on forestry and wildlife (major head-2406) and shall be subject to the conditionalities given in Annex 12.3. Seventy five per cent of the grants in the last three years can be used by states for development purposes. (Para 12.47)

78. An incentive grant of Rs. 5000 crore is recommended for grid-connected renewable energy based on the states' achievement in renewable energy capacity addition from 1

April 2010 to 31 March 2014. The performance of states in this regard needs to be reviewed on the basis of data published by GoI on capacity addition by states. (paras 12.52 and 12.53)

79. An amount of Rs. 5000 crore is recommended as water sector management grant for four years, i.e,. 2011-12 to 2014-15 of the award period. (Para 12.57)

80. Release of water sector grants would be subject to setting up of a Water Regulatory Authority and achieving the normatively assessed state-specific recovery of water charges. (Para 12.58)

81. Water sector grants should be an additionality to the normal maintenance expenditure to be undertaken by the states and shall be released and monitored in accordance with the conditionalities in Annex 12.8. (Para 12.58)

Improving Outcomes

82. States should be incentivised to enroll such of their residents who participate in welfare schemes within the Unique Identification (UID) programme. A grant of Rs. 2989 crore is proposed to be given to State Governments in this regard, as indicated in Annex 12.9. (Para12.70)

83. States should be incentivised to reduce their Infant Mortality Rates (IMR) based upon their performance beyond 31 December 2009. A grant of Rs 5000 crore is recommended for this purpose. (Para 12.75)

84. A grant of Rs. 5000 crore is proposed to support improvement in a number of facets in the administration of justice. These include operation of morning/evening courts, promotion of Alternate Dispute Resolution (ADR) mechanisms, enhancing support to Lok Adalats, as well as legal aid and training. (Para 12.79)

85. A grant of Rs 20 crore is recommended for promotion of innovation by setting up a Centre for Innovation in Public Systems (CIPS) to identify, document and promote innovations in public services across states. The second grant of Rs. 1 crore per district is for the creation of a District Innovation Fund (DIF) aimed at increasing the efficiency of the capital assets already created. (paras 12.92 and 12.96)

86. To enhance the quality of statistical systems, we recommend a grant of Rs. 616 crore for State Governments at the rate of Rs. 1 crore for every district to fill in statistical infrastructure gaps in areas not addressed by the India Statistical Project (ISP). (Para 12.101)

87. A grant of Rs. 10 crore will be provided to each general category state and Rs. 5 crore to each special category state to set up an employees' and pensioners' data base. We also urge GoI to initiate a parallel effort for preparing a data base for its own employees and pensioners. (Para 12.108)

Maintenance of Roads and Bridges

88. An amount of Rs. 19,930 crore has been recommended as grant for maintenance of roads and bridges for four years (2011-12 to 2014-15) of our award period. (Para 12.114)

89. The maintenance grants for roads and bridges will be additionality to the normal maintenance expenditure to be incurred by the states. Release of this grant and expenditure will be subject to the conditionalties indicated in Annex 12.17. (Para 12.114)

State-specific Needs

90. A total grant of Rs. 27,945 crore is recommended for state-specific needs (Table 12.6)

91. In addition to the stipulations described in paras 5.52 and 9.82, state-specific grants are subject to the following conditionalities:

i) No funds from any of the state-specific grants may be used for land acquisition by the states. Wherever land is required for a project/construction, such land may be made available by the State Government.

ii) The phasing of the state-specific grants given in Table 12.6 is only indicative; states may communicate their required phasing to the Central Government. The grant may be released in a maximum of two instalments per year.

iii) Accounts shall be maintained and Utilization Certificates (UCs)/ Statements of Expenditure (SOEs) provided as per General Finance Rules (GFR) 2005. (Para 12.324)

Monitoring

92. The High Level Monitoring Committee headed by the Chief Secretary to review the utilisation of grants and to take corrective measures, set up as per the recommendation of FC-XII, should continue. (Para 12.326)

93. The total grants-in-aid recommended for the states over the award period are given in Table 1.2.

CHAPTER - 4

Devolution of Taxes & other Grants

I. Sharing of Union Tax Revenues.

The criteria adopted by the Commission on the inter-se shares of States in Tax Devolution is based on the following weights assigned:-

1.	Population (1971)	-	25.0%
2.	Area	-	10.0%
3.	Fiscal Capacity Distance	-	47.5%
4.	Fiscal Discipline	-	17.5%

With weightage given above the Share of Sikkim in the inter-se Horizontal devolution as worked out by the Commission is 0.239% and the share of Sikkim in the Service Tax is 0.243% which constitutes 18.5% average devolution as percentage of GSDP (Table 8.1 to 8.4).

The share of States in net proceeds of shareable Central Taxes has been fixed at 32% in the vertical devolution in each of the Financial years from 2010-11 to 2014-15. This increase has been recommended by the XIII Finance Commission against 30.5% earlier recommended by XII Finance Commission for 2005-10.

With the formula adopted above, the share of Sikkim in the devolution of Central Taxes comes as under during the award period 2010-2015.

2010-11	-	Rs. 487 Crores
2011-12	-	Rs. 572 Crores
2012-13	-	Rs. 674 Crores
2013-14	-	Rs. 796 Crores
2014-15	-	Rs. 938 Crores
Total 2010-15	-	**Rs. 3467 Crores**

With the above devolution, the year-wise break-up of Post Devolution Non-Plan **Revenue Surplus** of the State comes as under:-

2010-11	-	Rs. 65.00 Crores
2011-12	-	Rs. 124.00 Crores
2012-13	-	Rs. 50.00 Crores
2013-14	-	Rs. 200.00 Crores
2014-15	-	Rs. 383.00 Crores
Total 2010-15		**Rs. 822.00 Crores**

These Surpluses have not been adjusted in the recommendation of other grants.

II Performance Grant

Sikkim became a State of the Indian Union in 1975 and has received Non-Plan Revenue Deficit Grants (NPRD) since Finance Commission VII onwards. After normatively assessing the revenue and expenditure and taking into account of the devolution indicated in Part I above, the Commission felt that three States viz Assam, Sikkim and Uttarakhand are not found to be in need of NPRD grants any longer. In recognition of the State's effort to achieve major progress, the Commission has recommended the following performance grant as an incentive to continue on the path of fiscal prudence:-

2010-11	-	Rs. 80.00 Crores
2011-12	-	Rs. 60.00 Crores
2012-13	-	Rs. 60.00 Crores
Total	**-**	**Rs. 200.00 Crores**

No other conditionalities have been attached for the release of such grant. (para 12.13)

III. Grant for Elementary Education

Though, XII Finance Commission provided grants for the Education Sector in 8 States but no such grant was provided for Sikkim. In consideration of the requirement of funds to the States in view of increasing percentage of State Share in SSA and also for implementation of Right to Education Act, XIII Finance Commission recommended the Grant of Rs. 5.00 Crore for Sikkim @ Rs. 1.00 crores in each year of the award period (2010-15).

In order to ensure that these grants do not substitute for the current expenditure of States, the Commission stipulates that the expenditure (Plan + Non-Plan) under Elementary Education (Major Head 2202-01), exclusive of the above grant recommended should grow by at least 8%, the assumed growth rate in the projection of the non-salary component of the Social Sector during the award period annually during 2010-15. (para 12.14 to 12.23)

IV Environment Related Grants

A. Forests

A sum of Rs. 40.56 Crores have been earmarked for the State of Sikkim as Environment related Grants connected with Forest Conservation. Grants for the 1st two years are untied but priority should be given to the preparation of working plans. The fund earmarked for these two years are @ Rs. 5.07 crores per annum. The release of Grants for the last three years @ Rs. 10.14 crores per annum is linked to progress in the number of approved Working Plans (Para 12.47).

Twenty five percent of the grants in the last three years are for preservation of Forest Wealth. These grants are over and above the Non-Plan revenue expenditure on Forestry & Wildlife (M.H. 2406) and shall be subject to the conditionalties given at Annex 12.3. Seventy five percent of the Grants in the last three years can be used by State for Development purposes.

B. Incentives for Grid connected Renewable Energy. (Para 12.50 and 12.54)

The Thirteenth Finance Commission, vide para 12.52 and 12.53 has recommended the incentive grant of Rs. 50000 crores to be made available to all the States on the achievements in renewable energy capacity addition from April 1. 2010 to March 31,2014. The performance of a State needs to be reviewed on the basis of data published by GoI on Capacity addition by States on the formula recommended at para 12.52 of the report. No Specific grant to the specific State is recommended, but the release of grant to the States will be on the basis of the performance of the State during the award period as per the prescribed formula.

C. Water Sector Management

An amount of Rs. 4.00 crores has been recommended as Water Sector Management Grant for the last four years of the award period @ Rs. 1.00 crores from 2011-12 to 2014-15. The release of this grant is subject to setting up of a Water Regulatory Authority and achieving the normatively assessed State Specific recovery of Water charges. This grant is an addtionality to the normal maintenance expenditure of the State and shall be released in accordance with the conditionalties in Annex 12.8.

The recovery rate for Irrigation in Sikkim in 2009-10 (BE) as assessed by Commission in 1.78% of NPRE and 0.12% of NPRD which has been calculated at 6.74% as the recovery Rate. (para 12.58)

IV Maintenance of Roads & Bridges

The XIII Finance Commission has provided grants for the maintenance of Roads & Bridges in addition to the normal maintenance Expenditure as assessed within the over all Non-Plan Revenue Expenditure of the State. These grants are only for the ordinary repairs. The assessment of annual requirement of fund for the special category States have been arrived after incorporation of the increase by 20% than that of the Roads in Plain area (para 12.114)

The Commission has provided grants-in-aid for maintenance of Roads to the extent of 50% of the requirement assessed for Non PMGSY Road and 90% for PMGSY Roads for four years from 2011-12. The grants are over and above the State Budget and shall be subject to conditionalities given in Annex 12.17. The break-up for utilization of the grant by the state, subject to the fulfillment of conditionalties, are as under:-

2010-11	-	Nil
2011-12	-	Rs. 14.00 Crores
2012-13	-	Rs. 15.00 Crores

2013-14	-	Rs. 18.00 Crores
2014-15	-	<u>Rs. 21.00 Crores</u>
Total	**-**	**<u>Rs. 68.00 Crores</u>**

V. Improving Outcomes-

(a) Incentive Grants for Reduction of IMR (para 12.72-12.73)

The Thirteenth Finance Commission, through the use of forward looking criteria, proposed the creation of a system of Rewards for better performances and punishment for past behavior. In doing so, the Commission proposes to incentivise states for improvement in Human Development Indicators (HDIs) with focus on improvement in the Infant Mortality Rate (IMR). The Commission has accepted the recommendation of the Administrative Staff College of India (ASCI), Hyderabad and the States have been recommended to be awarded both for improvement in the parameter as well as the level at which the improvement is made. The Commission has accepted the formula detailed at Annex 12.10* and recommended on account of Rs. 5000 crores to be given to all the States on the basis of the eligibility, to be determined annually, bases o\upon improvement in the IMR index. The grant will be released over a three year's period between 2012 and 2015 as scheduled vide table 12.5

The basis of computation of data has been described in para 12.75 which is as under:-
Data pertaining to 2009-10, which will be available in 2010 will be the base line for computing eligibility for all the succeeding years. Disbursal of grants will commence from 2012-13. This will give the states a period of two years to make improvements. During 2012-13, the cumulative change in IMR between the years 2009, 2010 and 2011 for each state will be applied to the formula in Annex 12.10. For 2013-14, the cumulative change 220 between 2009 and 2012 will be applied to the formula. The same procedure will be followed for succeeding year. A simulated calculation applying this formula is placed in Annex 12.11. The grant will be released in three annual instalments between 2012-13 and 2014-15 after the publication of the annual SRS bulletin/report incorporating statewise IMR statistics for the relevant year as shown in Annex 12.11*.

(* please refer to the main volume for these Annexures).

(b) <u>Grants for improving Delivery of Justice</u>

The Finance Commission vide (Annex 12.12) recommended the following Grants to Sikkim for improving the delivery of Justice.

1.	No. of Sanctioned Courts	=	13
2.	No. of Judicial Districts	=	2
3.	Morning/Evening Courts	=	2.04
4.	Lok Adalat/Legal Aid	=	0.24
5.	Training of Judicial Officer	=	0.20
6.	Training of Public Prosecutors	=	0.12
7.	Heritage Court Building	=	0.37
8.	State Judicial Academy	=	15.00
9.	ADR Centres	=	2.72
10.	Court Managers	=	1.09

Total = Rs. 21.78 Crores @ Rs. 4.356 crores per annum for 5 years.

The State Government has been advised to formulate the State litigation Policy in line with the National litigation policy which will be a step for reviewing the existing cases and withdrawing frivolous and vexatious cases, norms for defending cases and setting up of Empowered Committee to eliminate unnecessary litigation. Such a policy must be put in place by the State Government before the end of fiscal year to be eligible to draw the installment for the succeeding year. This condition does not apply to the 1st annual installment (2010-11). The State will, therefore, be entitled to the grants only prospectively after framing its policy (para 12.89).

(c) Incentive for issuing unique Identification (UID)

The Commission has recommended for the grant of Rs. 1.10 crores to be released annually @ Rs. 0.22 crores per annum for Sikkim @ Rs. 100 per person for incentivising citizens below the poverty line to register for UID. (Para 12.70)
The release of Grants shall be subject to the following conditions – (para 12.71)

i). States may use this grant either to directly assist the intended beneficiaries or create convenient facilities for them in such a way that the cost of registration of beneficiaries is minimal.

ii). The assistance, if provided, will be restricted to beneficiaries of NREGS, RSBY, PDS, old-age pensioners and other welfare schemes of the State and Central Governments targeted at persons below the poverty line.

iii). The grant will be released in five annual instalments, with two tranches per year, on 1st July and 1st January of each year. The first tranche, amounting to one-tenth of the State's allocation shown in Annex 12.9 will be released on 1st July 2010 without any conditions. All subsequent installments will be released on a reimbursement basis as per the following procedure. The UIDA will certify the number of persons from those mentioned in (ii) above who have been registered in that State and included in the Central ID Data Repository (CIDDR). The eligibility of a State will be computed on the basis of a grant of Rs. 100 for every UID issued from that State and included in the CIDDR. The amount paid earlier will be deducted from the entitlement so computed and the balance will be released as that tranche.

(d) District Innovation Fund

The Commission has recommended Rs. 1.00 crores to be made available to every District for increasing the efficiency of capital assets already created. The Commission has felt that a number of critical gaps in public infrastructure are yet to be filled due to increasing pressure on establishment cost. The projects under these schemes should be demand driven rather than supply driven.

The Commission has recommended that at the district level, only 90% of the cost be made from DIF and balance 10% from non-governmental contributions like NGOs. This amount must be collected and deposited with the district agency before the scheme is sanctioned. Sikkim will be entitled to its eligible amount of Rs. 4.00 crores in two installments. The first installment of release in 2011-12 after the State Govt. finalises detail guideline for implementation of scheme notifies the authority at the district level which would sanction the project under the scheme. The second installment will be released after the State Govt. submits a report on the use of first installment detailing the benefits created. (Para 12.95).

(e) <u>Improving Statistical Systems in State Government</u>

In order to fill the infrastructure gaps in the state, the Commission has recommended Rs. 4.00 crores for Sikkim for filling up the gap in Statistical System. At least 75% of grants will be utilized for strengthening statistical infrastructure at the district level not covered by India Statistical Project. A maximum of 25% of grant can be used for improving Statistical infrastructure at State Head Quarters. Sikkim will be eligible for Rs. 4.00 crores @ Rs. 1 crore being provided to every district. The grant will be drawn in five annual installments. The first installment will be drawn only after the State submits an expenditure plan for the entire grant. All subsequent installments will be drawn after submission of UCs/SOEs for the previous installments. (para 12.98 to 12.102)

(e) <u>Setting up of a Data Base for Govt. Employees and Pensioners.</u>

The Commission has recommended to all the States to set up employee and Pensioner data base and to put in place framework which enables them to have accurate maintenance on a continuous basis. The Data base should be design to allow for subsequent extension to include other financial benefits including GPF, Insurance and Health Benefits to employees as well as pensioner and family pensioners. The grant recommended for Sikkim is Rs. 5.00 crores. The State willing to set up this data base will be able to draw Rs. 2.50 crores during 2010-11 without any pre-condition to commence the work. The work has been expected to be completed in three years. The balance of fund will be released after the State certifies that it has created a data base and is functionally integrated with the treasury on a transactional basis (para 12.103 to 12.110). The suggested template for Employee Data Base format is attached vide annex – 12.15. The States may include additional data fields to meet the specific requirement. The data base to be adopted should also cover for two types of pensioners – one for those drawing pension under defined benefit scheme and the other for those enrolled under New Pension Scheme (NPS).

CHAPTER - 5

State Specific Need Schemes

While providing a total grant of Rs. 400 crores for Sikkim to be utilized @ 25% of the provision in the last four years of award period (2011-12 to 2014-15), the Thirteenth Finance recommended the following grants vide para 12.275 to 12.281.

1. Development of Tourism

12.275. In view of the importance of tourism for the state's economy, the Government of Sikkim has sought grants for promotion of tourism as follows:

i) The state has highlighted their project for the construction of a 'sky walk' at Bhaley Dunga, South Sikkim. It has been argued that this will be the first of its kind in the country. It is expected to be a major tourist attraction as it would be exciting to walk over transparent glass overlooking the skies below, at a height of almost 5000 ft. The project would, thus, have a major impact on infrastructure development and enhance commercial activities in the state. We recommend a grant of Rs. 200 crore, while urging the State Government to ensure that the fragile ecosystem in the region is not disturbed in the course of implementation of the project.

ii) The second project highlighted by the state relates to development of village tourism and requires funds for improvement of village surroundings, connectivity and the natural attractions in rural areas. We recommend an amount of Rs. 80 crore for this purpose.

2. Repair/ Renovation of Suspension Foot Bridges under North District of Sikkim

12.276. The state memorandum has highlighted the need for replacement of old and dilapidated timber bridges by steel members as well as replacement of old cables and suspenders. Since, these bridges ensure connectivity of villages in remote and backward areas, we recommend a grant of Rs. 35 crore, as sought by the State Government.

3. Water Security and Public Health Engineering

12.277. The state has requested funds for upgradation of the Namchi Water Supply Scheme, overhauling of the Lower Changay Source for Gyalshing Water Supply and Rabdentse Water Supply Scheme. It has stated that these schemes will take care of drinking water supply in two districts of South and West Sikkim. We recommend Rs. 20 crore for this purpose.

4. Police Training and Infrastructure

12.278. Grants have been sought by the State Government for police training and infrastructure as follows:

i) The state has sought funds to set up a police training centre at Yangang in order to augment this training capacity, including additional residential accommodation and equipments. We recommend a grant of Rs. 10 crore for this purpose.

ii) The State Government has also represented shortage of both residential and nonresidential buildings for the police force. We recommend a grant of Rs. 15 crore for this purpose.

5. Border Area Development

12.279. For development of its border areas, the State Government has requested funds as per the following requirements:

i) The state has sought grants of Rs. 6 crore to create additional storage facilities for essential commodities since the transportation of these commodities has often been disrupted upon closure of the National Highway due to unavoidable circumstances. We recommend the amount sought by the State Government.

ii) The state has emphasised the need to reinforce the existing security infrastructure along both domestic and international borders by creating new monitoring checkposts, improving road transport links, strengthening security equipments, etc. We recommend that a grant of Rs. 15 crore be given to the state towards this end.

6. Establishment of State Capacity Building Institute

12.280. For the purpose of imparting training, facilitating transfer of knowledge and building and developing the potential capacities of unemployed youth, the state has proposed setting up of a Capacity Building Institute at Burtuk. In order to enable the state to help the youth gain knowledge and skills for various career options, we recommend a grant of Rs. 10 crore as sought by the State Government.

7. Conservation of Heritage and Culture of Sikkim

12.281. The State Government has stated that a number of monuments have been conserved with the grant provided by FC-XII and has sought grants for conservation of the remaining monuments in the state. We recommend a grant of Rs. 9 crore in this regard.

In short the recommendation of the Commission on the Specific Need of the State with year-wise break-up can be summarized as under:-

Sl. No	Sector		2010-11	2011-12	2012-13	2013-14	2014-15	2010-15
1	Tourism	(i) Sky Walk at Bhaley Dhunga		50.00	50.00	50.00	50.00	200.00
		(ii) Dev. Of Village Tourism		20.00	20.00	20.00	20.00	80.00
2	RM & DD	Repair/Renovation of Foot Suspension Bridges- North Sikkim		8.75	8.75	8.75	8.75	35.00
3	PHE	Upgradation of Namchi W/S overhauling of Changay source for Gyalshing Water Supply & Rabdentse W/S		5.00	5.00	5.00	5.00	20.00
4	Police	Police Training & infrastructure (i) Police Trg. Centre at Yangyang		2.50	2.50	2.50	2.50	10.00
		(ii) Residential. & Non Residential buildings for Police force		3.75	3.75	3.75	3.75	15.00
5	Food	Addl. Storage facilities for essential commodities (Boarder Area Development)		1.50	1.50	1.50	1.50	6.00
6	Police	Reinforcement of existing security infrastructure by creating new monitoring Check Post, improving Road transport link, Security equipment etc		3.75	3.75	3.75	3.75	15.00
7	DOP	Establishment of a State Capacity Building Institute at Burtuk		2.50	2.50	2.50	2.50	10.00
8	Culture	Conservation of Heritage & Culture		2.25	2.25	2.25	2.25	9.00
	Total			**100.00**	**100.00**	**100.00**	**100.00**	**400.00**

Finance Commission has put conditions for the release of these grants to the State vide Para 5.52 and 9.82 to ensure compliance to the recommendations in the following lines:-

1. Disincentives for Non Compliance

(Para 5.52) Keeping in mind the experience under VAT it may become necessary to deter violations of agreement by visiting a penalty on non-complying states. We recommend that Finance Commission's state specific grants and the state's share of the GST incentive grant be withheld for the period during which a state is in violation of the agreement. If a tate is in violation for only part of a year, its grant should be reduced to a proportionate extent.

2 Monitoring and Compliance

(Para 9.82) To facilitate implementation of the above roadmap we recommend that the states' enactment/amendment of their FRLs incorporating the above targets should be a conditionality forrelease of all state-specific grants.

Further to above, the Commission has also imposed the following conditions for the release of grants to these Schemes in the paragraphs mentioned below:-.

3. General Conditionalites

(Para 12.324) In addition to the stipulations prescribed in paras 5.52 and 9.82, the following conditionalties shall apply with regard to the state-specific grants recommended above:

i) No funds from any of the state-specific grants may be used for land acquisition by the states. Wherever land is required for the project/construction, such land may be made available by the State Government.

ii) The phasing of the state-specific grants given in Table 12.6 is only indicative; states may communicate their required phasing to the Central Government. The grant may be released in a maximum of two instalments in a year. However, no grants would be released in 2010-11 except the three grants indicated in the Table.

iii) Accounts shall be maintained and Utilisation Certificates (UCs)/Statements of Expenditure (SOE) provided as per General Finance Rules (GFR 2005).

CHAPTER – 6

OTHER RECOMMENDATIONS

I. Goods & Service Taxes (Chapter 5 – Para 63-76)

The recommendation of the Thirteenth Finance Commission for the conclusion of a Grand Bargain to implement the model GST has been accepted by Government of India IN PRINCIPLE in view of the ongoing discussions between the Centre and States on this aspect. The implementation of these recommendation alongwith modalities may await the outcome of the discussions (para 13 of ATR). As such the summary of recommendation of this issue has not been included in this completion.

II. Local Bodies (Chapter 10 para 149-184)

The Summary of recommendation of the Thirteenth Finance Commission on the grants to Local Bodies is re-produced below:-

10.181 Article 280 (3) (bb) & (c) of the Constitution should be amended such that the words 'on the basis of the recommendations of the Finance Commission of the State' are changed to 'after taking into consideration the recommendations of the Finance Commission of the State' (Para 10.130).

10.182 Article 243-I of the Constitution should be amended to include the phrase 'or earlier' after the words 'every fifth year' (Para 10.125).

10.183 The quantum of local body grants may be provided as per Table 10.4. The general basic grant as well as the special areas basic grant be allocated amongst states as specified. The state-wise eligibility for these grants is placed in annexes 10.15a and 10.15c. (Para 10.159)

10.184 State Governments will be eligible for the general performance grant and the special areas performance grant only if they comply with the stipulations in paras 10.161 and 10.162 respectively. These grants will be disbursed in the manner specified in paras 10.163 and 10.164. The state wise eligibility for these grants is placed in annexes 10.15b and 10.15d.

10.185 States may appropriately allocate a portion of their share of the general basic grant and general performance grant, to the 'excluded areas' in proportion to the population of these areas. This allocation will be in addition to the special area basic grant and special area performance grant recommended by us (Para 10.170).

10.186 State Governments should appropriately strengthen their local fund audit departments through capacity building as well as personnel augmentation (Para 10.167).

10.187 The State Governments should incentivise revenue collection by local bodies through methods such as mandating some or all local taxes as obligatory at non-zero rates of levy; by deducting deemed own revenue collection from transfer entitlements of local bodies or through a system of matching grants (Para 10.173).

10.188 To buttress the accounting system, the finance accounts should include a separate statement indicating head-wise details of actual expenditures under the same heads as used in the budget for both PRIs and ULBs. We recommend that these changes be brought into effect from 31 March 2012 (Para 10.177).

10.189 The Government of India and the State Governments should issue executive instructions that all their respective departments pay appropriate service charges to local bodies (Para 10.178).

10.190 Given the increasing income of State Governments from royalties, they should share a portion of this income with those local bodies in whose jurisdiction such income arises (Para 10.179).

10.191 State Governments should ensure that the recommendations of SFCs are implemented without delay and that the Action Taken Report is promptly placed before the legislature (Para 10.129).

10.192 SFCs could consider adopting the template suggested at Annex 10.5 as the basis for their reports (Para 10.127)

10.193 We recommend setting up of bodies similar to the SFC in states which are not covered by Part IX of the Constitution (Para 10.180).

10.194 Local bodies should consider implementing the best identified practices (Para 10.79).

10.195 A portion of the grants provided by us to urban local bodies may be used to revamp the fire services within their jurisdiction (Para 10.172).

10.196 Local bodies should be associated with city planning functions wherever other development authorities are mandated this function. These authorities should also share their revenues with local bodies (Para 10.168).

10.197 The development plans for civilian areas within the cantonment areas (excluding areas under the active control of the forces) may be brought before the district planning committees (Para 10.169).

10.198 State Governments should lay down guidelines for the constitution of nagar Panchayats (Para 10.133).

The following nine conditions must be achieved in the end of the financial year for the State to be eligible to draw performance grants for the succeeding financial year.

This distribution arrangement outlined above will be subject to the following conditions. For all five years between 2010- 11 and 2014-15, all states will be eligible to draw down their share of the general basic grant shown in Annex 10.15a. This will be done in two instalments, latest by 1 July and 1 January of each year, subject to submission of a utilisation certificate (UC) for the previous instalment drawn. No other documentation need be stipulated. This utilisation certificate will provide details of the distribution of the concerned instalment to urban and rural local bodies and is not required for the first instalment in 2010-11. (para 10.161). For the years 2011-2012, 2012-13, 2013-14 and 2014-15, a State Government will be eligible to draw down its share of the general performance grant shown in Annex 10.15b only if it complies with the following nine conditions. These conditions must be met by the end of a fiscal year (31 March) for the state to be eligible to draw down its performance grant for the succeeding fiscal year.

i). The State Government must put in place a supplement to the budget documents for local bodies (separately for PRIs and ULBs) furnishing the details (other than those relating to Finance Accounts) indicated in Para 10.110.They should require the PRIs to maintain accounts as specified in paras 10.111 and 10.112. They should also require urban local bodies to maintain accounts as provided in Para 10.116. To demonstrate compliance with this condition, a State Government should: (a) submit the relevant supplement to the budget documents and (b) certify that the accounting systems as recommended have been introduced in all rural and urban local bodies.

ii). The State Government must put in place an audit system for all local bodies (all categories of ULBs and all tiers of PRIs) as indicated in Para 10.121 above. The C&AG must be given TG&S over the audit of all the local bodies in a state at every tier/category and his Annual Technical Inspection Report as well as the Annual Report of the Director of Local Fund Audit must be placed before the state legislature. Certification from the C&AG will demonstrate compliance with this condition.

iii). The State Government must put in place a system of independent local body ombudsmen who will look into complaints of corruption and maladministration against the functionaries of local bodies, both elected members and officials, and recommend suitable action. This system should be made applicable to all elected functionaries and officials in all municipal corporations, municipalities and zilla parishads at least. The passage of relevant legislation and its notification will demonstrate compliance with this condition. In the event that all or a class of the functionaries mentioned above fall under the jurisdiction of the Lok Ayukta of the state, we leave it to the state to decide whether to continue with these arrangements or to shift the functionaries to the jurisdiction of the ombudsman.

Self certification by State Governments will demonstrate compliance with this condition.

iv). The State Governments must put in place a system to electronically transfer local body grants provided by this Commission to the respective local bodies within five days of their receipt from the Central Government. Wherever this is not possible due to lack of easily accessible banking infrastructure, the State Governments must put in place alternative channels of transmission such that funds are transferred within ten days of their receipt. Self-certification by the State Governments with a description of the arrangements in place will demonstrate compliance with this condition.

v). The State Governments must prescribe through an Act the qualifications of persons eligible for appointment as members of the SFC consistent with Article 243I (2) of the Constitution. The passage of relevant legislation and its notification will demonstrate compliance with this condition.

vi). All local bodies should be fully enabled to levy property tax (including tax for all types of residential and commercial properties) and any hindrances in this regard must be removed. Self-certification by the State Government will demonstrate compliance with this condition.

vii). State Governments must put in place a state level Property Tax Board, which will assist all municipalities and municipal corporations in the state to put in place an independent and transparent procedure for assessing property tax. The Board (a) shall, or cause to, enumerate all properties within the jurisdiction of the municipalities and corporations; (b) shall review the present property tax system and make suggestions for a suitable basis for assessment and valuation of properties; and (c) shall make recommendations on modalities for periodic revisions. The findings, suggestions and recommendations of the board will be communicated to the respective urban local bodies for necessary action. The exact model to be adopted is left to the respective state. The board should be staffed and equipped in such a manner as to be able to make recommendations relating to at least 25 per cent of the aggregate number of estimated properties across all municipal corporations and municipalities in the state by 31 March 2015. The board should prepare a work plan indicating how it proposes to achieve this coverage target and the human and financial resources it proposes to deploy. Passage of the relevant legislation or issue of the necessary executive instructions by the State Government for creation of the Property Tax Board as well as publication of the work plan by the Board in the State Government gazette will demonstrate compliance with this condition.

viii). Lack of resources often results in local bodies diluting the quality of services provided by them. State Governments must gradually put in place standards for delivery of all essential services provided by local bodies. For a start, State Governments must notify or cause all the municipal corporations and municipalities to notify by the end of a fiscal year (31 March) the service standards for four service sectors-water supply, sewerage, storm water drainage, and solid waste management proposed to be achieved by them by the end of the succeeding fiscal year. This could be in the form of a declaration of a minimum level of service for the indicators mentioned against each of these four service sectors in the Handbook on Service level Benchmarks published by the Ministry of Urban Development. For example a State Government may notify before 31 March 2011 that by 31 March 2012, all municipalities and municipal corporations in the state will provide a specified minimum level of service for each of the indicators for the four service sectors of water supply, sewerage, storm water drainage and solid waste management. These levels may be different for different municipalities. We envisage such a commitment to be achieved through a consultative process with the local bodies. Such a notification will be published in the State Government gazette and the fact of publication will demonstrate compliance with this condition.

ix) All municipal corporations with a population of more than 1 million (2001 census) must put in place a fire hazard response and mitigation plan for their respective jurisdictions. Publication of these plans in the respective State Government gazettes will demonstrate compliance with this condition.

III. **Disaster Relief** (Chapter 11 para 186 to 202)

The Finance Commission has recommended a State Disaster Relief Fund (SDRF) amounting to Rs. 125.70 Crores for the period 2010-15 for Sikkim which will be the substitute of Calamity Relief Fund (CRF). The Commission has also recommended the sharing of this funding between the Centre and State in the ratio of 90.10 for the Special Category State against the recommendation of the earlier Financial Commission which was in the ratio of 75.25. The following table shows the year-wise break-up of the fund with Centre's and State's contribution separately:- Annex 11.1 & 11.2)

(Rs. in crores)

	Year	Total Fund	Centre's Share	State's Share
	2010-11	23.75	20.48	2.27
	2011-12	23.89	21.50	2.39
	2012-13	25.08	22.57	2.51
	2013-14	26.33	23.70	2.63
	2014-15	27.65	24.89	2.76
Total	**2010-15**	**125.70**	**113.14**	**12.56**

Further to above, the Commission has also recommended for the Capacity Building amounting to Rs. 5.00 Crores to be devolved @ Rs. 1.00 crore per annum of the award period making the total Central grant to Rs. 118.14 crores.

The recommendation of the Commission for the application and implementation of the fund is indicated below (para11.107):-

Summary of Recommendations

11.107. Our recommendations are summarised below:

i) The CRF to be merged into the SDRFs of the respective states and the NCCF into the NDRF. Contribution to the SDRFs to be shared between the Centre and states in the ratio of 75:25 for general category states and 90:10 for special category states (paras 11.78, 11.79, and 11.82).

d) Balances as on 31 March 2010 under NCCF and the state CRFs to be transferred to the NDRF and respective SDRFs (paras 11.78 and 11.93).

di) Assistance of Rs. 250 crore to National Disaster Response Force to maintain an inventory of items required for immediate relief (Para 11.103).

iv). Provisions relating to the DDRF in the DM Act may be reviewed and setting up of these funds left to the discretion of the states (Para 11.96).

v). Mitigation and reconstruction activities to be kept out of the schemes funded through FC grants and be met out of overall development plan funds of the Centre and the states (Para 11.83).

vi) The list of disasters to be covered under the scheme financed through FC grants to remain as it exists currently. However, manmade disasters of high-intensity may be considered for NDRF funding once norms have been stipulated and requisite additional allocations made to the NDRF (Para 11.100).

vii) The administrative mechanism for disaster relief to be as prescribed under the DM Act, i.e., the NDMA/NEC at the Centre and the SDMA/SEC at the state level. Financial matters to be dealt with by the Ministry of Finance as per the existing practice (paras 11.105 and 11.106).

viii) Prescribed accounting norms to be adhered to for the continuance of central assistance to the SDRFs (Para 11.95).

CHAPTER 7

Revised Road Map for Fiscal Consolidation

In the revised Road map for Fiscal consolidation, the Commission has made the following recommendations. (para 9.118)

(i). Revenue deficit of the Centre needs to be progressively reduced and eliminated, followed by emergence of a revenue surplus by 2014-15 (paras 9.18 and 9.31)

(ii). Fiscal consolidation path embodies the steady reduction in the augmented debt stock for the States to less than 25% GDP by 2014-15.

iii). Transfer of disinvestment receipts to the public account to be discontinued and all disinvestment receipts be maintained in the consolidated fund (Para 9.52).

iv). GoI should list all public sector enterprises that yield a lower rate of return on assets than a norm to be decided by an expert committee (Para 9.52).

v). The FRBM Act specify the nature of shocks that would require a relaxation of FRBM targets (Para 9.62).

vi). In case of macroeconomic shocks, instead of relaxing states' borrowing limits and letting states borrow more, the Centre to borrow and devolve the resources using the Finance Commission tax devolution formula for inter-se distribution among states (Para 9.63).

vii). Structural shocks such as arrears arising out of Pay Commission awards to be avoided by, in the case of arrears, by making the pay award commence from the date on which it is accepted (Para 9.64).

viii). Independent review mechanism to be setup by the Centre to evaluate its fiscal reform process. The independent review mechanism to evolve into a Fiscal Council with legislative backing over time (paras 9.65 and 9.66).

ix). Given the exceptional circumstances of 2008-09 and 2009-10, the fiscal consolidation process of the states was disrupted. It is expected that states would be able to get back to their fiscal correction path by 2011-12, allowing for a year of adjustment in 2010-11.

a) States that incurred zero revenue deficit or achieved revenue surplus in 2007-08 should eliminate revenue deficit by 2011-12 and maintain revenue balance or attain a surplus thereafter. Other states to eliminate revenue deficit by 2014-15 (paras 9.69 to 9.72).

b) All special category states with base fiscal deficit of less than 3 per cent of GSDP in 2007-08 could incur a fiscal deficit of 3 per cent in 2011-12 and maintain thereafter. Manipur, Nagaland, Sikkim and Uttarakhand to reduce their fiscal deficit to 3 per cent of GSDP by 2013-14 (paras 9.79 and 9.81).

x). States to amend/enact FRBM Acts to build in the fiscal reform path worked out. State specific grants recommended for a state to be released upon compliance (Para 9.82).

xi) Independent review/monitoring mechanism under the FRBM Acts to be set up by all states (Para 9.84).

xii). Borrowing limits for states to be worked out by MoF using the fiscal reform path, thus acting as an enforcement mechanism for the fiscal correction by states (Para 9.85).

xii). Loans to states from National Small Savings Fund contracted till 2006-07 and outstanding at the end of 2009-10 to be reset at 9 per cent rate of interest subject to conditions prescribed (Para 9.106).

xiv). National Small Savings Scheme to be reformed into a market-aligned scheme. State Governments also required to undertake relvant reforms at their level (paras 9.111 and 9.112).

xv). Loans from GoI to states and administered by ministries/departments other than MoF, outstanding as at the end of 2009-10, to be written off subject to conditions prescribed (Para 9.114).

xvi). A window for borrowing from the Central Government to be available for the fiscally weak states that are unable to raise loans from market (Para 9.114).

xvii). For states that have not availed the benefit of consolidation under DCRF, the facility, limited to consolidation and interest rate reduction, to be extended subject to enactment of FRBM Act (Para 9.115).

xviii). Benefit of interest relief on NSSF and write-off available to states only if they bring about the necessary amendments/enactments of FRBM (Para 9.116)

The Commission has recommended that the Central Loans not consolidated in 2005-10 for Centrally Sponsored/Central Plan Schemes through Ministry other than Ministry of Finance as outstanding at the end of 2009-10 be written off. It has also been recommended that any further lending from Centre to States under any CSS should be completely avoided. (Para 9.114).

The two States viz West Bengal and Sikkim, have not legislated FRBM Acts and did not get the benefit of consolidation of loans during the award period of XII Finance Commission. The

Commission recommend that this facility be extended to these two States during XIII Finance Commission award period on the condition that the States put in place on FRBM Act as stipulated. On meeting this condition, the loans contracted by Sikkim & West Bengal till 31.3.2004 and outstanding at the end of the year preceding the year of legislation of such Act, shall be consolidated as per the same term and condition as recommended by XII Finance Commission. (para 9.115).

XII Finance Commission had recommended the following relief on the payment of interest and repayment of loans to the State of Sikkim vide Para 12.42 & 12.44

(Rs.in Crores)

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2005-10**
1. Restructuring & Rescheduling						
i. Interest Payment	7.82	7.42	6.91	6.27	5.54	33.96
ii. Loan Repayment	2.46	2.34	2.18	1.97	1.74	10.69
2. Fiscal Performance						
i. Loan Repayment	9.61	9.61	9.61	9.61	9.61	48.07

Similar recommendation has been made by XIII Finance Commission as per the details below :-

(Rs. in Crores)

	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2010-15**
Interest Relief on NSSF Loans Base	0.84	0.80	0.75	0.70	0.65	3.73
Projected/assessed Fiscal Deficit of Sikkim	5.20	-	3.50	3.50	3.00	3.00
Projected/assessed Revenue deficit	0.00	0.00	0.00	0.00	0.00	0.00

Four States viz Manipur, Nagaland, Sikkim and Uttarakhand have a base level fiscal deficit of more than 3% but less than 6%. These States will need to make a relatively higher effort in terms of achieving 3% fiscal deficit at least by 2013-14 (para 9.79).

The borrowing limit for the year 2010-11 for a State should be fixed in such a manner that the fiscal deficit does not exceed the lower of 3.5% or fiscal deficit percentage in 2008-09 as a percent of GSDP of 2010-11 calculated by applying the projected growth rate for 2010-11 to the GDSP of 2009-10 (para 9.87).

The Finance Commission has projected the annual growth rate of GSDP (para 7.16), Tax - GSDP
Ratio (para 7.27), future projection of outstanding debt (para 9.81), future target of fiscal deficit and revenue deficit (para 9.81) for the State of Sikkim in each year of the forecast period as under:-

Years	Base year & future projections of (as per cent of GSDP)			Projected annual growth rate of GSDP (percent) (annex 7.2)	Projected tax GSDP ratio (as % of GSDP) (annex 7.3)
	Outstanding debt (annex 9.1)	fiscal deficit (annex 9.2)	Revenue Deficit (annex 9.3)		
2005-06	-	7.90	10.4	-	-
2006-07	-	4.80	-1.0	-	-
2007-08	-	2.80	-1.4	-	-
2008-09	-	-	-	11.37	-
2009-10	71.8	-	-	9.00	6.65
2010-11	68.40	-	-	10.65	6.67
2011-12	65.20	3.50	0.00	10.98	6.69
2012-13	62.10	3.50	0.00	11.25	6.71
2013-14	58.80	3.00	0.00	11.25	6.73
2014-15	55.90	3.00	0.00	11.25	6.75

Other Recommendation of the 13th Finance Commission for the structural Reforms in the State Finance is summarized below :-

i) The practice of diversion of plan assistance to meet non-plan needs of special category states to be discontinued (Para 7.79).

ii) With reference to public sector undertakings:

a). All states should endeavour to ensure clearance of the accounts of all PSUs (Para 7.95).

b). States should use the flexibility provided by C & AG to clear the back log of PSU accounts (Para 7.95).

c). All States need to draw up a roadmap by March 2011 for closure of nonworking companies. Divestment and privatisation of PSUs should be considered and actively pursued. (para 7.95 and 7.97).

d). Ministry of Corporate Affairs to closely monitor the compliance of state and central PSUs with their statutory obligations (Para 7.95).

e). A task force may be constituted to design a suitable strategy for disinvestment/ privatisation and oversee the process. A Standing Committee on restructuring may be constituted under the chairmanship of Chief Secretary to operationalise recommendations of the task force. An independent technical secretariat may be set up to advise the Finance Departments in states on restructuring/disinvestment proposals (Para 7.98).

iii) With reference to power sector:

a). Reduction of T&D losses should be attempted through metering, feeder separation, introduction of High Voltage Distribution Systems, metering of distribution transformers and strict anti-theft measures. Distribution franchising and Electricity Services Company based structures for efficiency improvement should be considered (Para 7.114).

b). Unbundling should be done on priority and open access to transmission should be strengthened. Governance should be improved through state load dispatch centres and this function should eventually be made autonomous. (Para 7.116).

c). Proper system should be placed to avoid delays in completion of hydro projects (Para 7.117).

d). Instead of putting up thermal power plants far away from coal sources, states should consider JVs in or near the coal rich states (Para 7.119).

e). Case 1 bid process should be extensively used to avoid vulnerability to high cost purchases during peak demand periods (Para 7.120).

f). Regulatory institutions should be strengthened through capacity building, consumer education and tariff reforms like multi - year tariff. Best practices of corporate governance should be introduced in power utilities (Para 7.121).

iv). The migration to the New Pension Scheme to be completed at the earliest (Para7.122).

v). States with large cash balances to make efforts towards utilising their cash balances before resorting to fresh borrowings (Para 7.127).

vi). With reference to accounting reforms:

a) GoI to ensure uniformity in the budgetary classification code across all states. List of appendices to the finance accounts of the states be also standardised (paras 7.129 and 7.134).

b) Details of contra-entries as well as summary of transactions between public account and Consolidated Fund to be provided as a separate annex to finance accounts of the states (Para 7.131).

c) Public expenditure through creation of funds outside consolidated fund of the states needs to be discouraged. Expenditure through such funds and those from civil deposits be brought under the audit jurisdiction of the C&AG (paras 7.132 and 133).

d) List of appendices to be provided with finance accounts of the states needs to be standarised by GoI on the line recommended by the Twelfth Finance Commission (para 7.134). However, the following statement have to be provided in the finance accounts of the States:-

   i) Comprehensive data on all subsidies (para 7.135)

   ii) Consolidated Information on number of employees at each level alongwith the commitment on salary, information of employees and their salary where such expenditure is classed as grants (para 7.136 & 7.137)

   iii) Details of maintenance expenditures (para 7.138).

SUMMARY

In short, the total Transfer of fund to the State of Sikkim on the recommendation of the Commission and the yearwise breakup given vide table I & II are summed up as under:-

1. Total 13th FC transfer to Sikkim amounts to Rs. 4525.7 Crores against the recommendation of Rs. 1829.14 crores by 12th FC.
2. Based on the different weightage assigned, the share of Sikkim in the divisible pool of Central Taxes is 0.239% in the horizontal distribution out of 32% vertical transfer to States (against 29.5% and 30.5% recommended by XI & XII FC respectively) from the shareable Central Taxes. This constitutes an average of 18.05% of FSDP against 12.08% average devolution recommended by XII FC. The total share of Sikkim on such devolution is Rs. 3466.8 crores.
3. An unconditional release of Rs. 200.00 crores to Sikkim as performance incentive for graduating from the regime of post-devolution Non-Plan Revenue Deficit has been recommended to be phased in first three years of award period to continue as the Path of Fiscal Prudence.
4. Total Grant of Rs. 400.00 crores recommended for State Specific Needs (details at Table II) is linked to the enactment of FRBML.
5. Release of General Performance Grants of Rs. 64.80 crores out of the Local Body Grants of Rs. 187.2 crores is linked to the fulfillment of nine conditions besides other.
6. Release of Disaster Relief Fund for Rs. 113.14 crores is linked to the creation of SDRF and other conditions.
7. Fiscal consolidation, debt writes off and re-scheduling of Interest Payment is linked to the enactment of FRBML, reduction in fiscal deficit and Debt-GSDP Ratio.
8. Release of all other Grants viz Gants for Elementary Education (Rs. 5.00 crores), Grants for Improving Outcomes (Rs. 35.9 crores), Environmental related Grants (Rs.44.6 crores) and Maintenance of Roads & Bridges (Rs. 68.0 crores) are conditional and Performance based.

Annex 12.3
(*Para 12.47*)

Projection for Non-Plan revenue Expenditure under Forestry and Wildlife (Major Head 2406)

(*Rs. crore*)

State	2010-11	2011-12	2012-13	2013-14	2014-15
1 Andhra Pradesh	189.40	204.55	220.92	238.59	257.68
2 Arunachal Pradesh	36.95	39.90	43.10	46.55	50.27
3 Assam	152.17	164.35	177.49	191.69	207.03
4 Bihar	45.40	49.03	52.95	57.19	61.76
5 Chhattisgarh	345.77	373.43	403.31	435.57	470.42
6 Goa	8.83	9.54	10.30	11.12	12.01
7 Gujarat	173.65	187.54	202.55	218.75	236.25
8 Haryana	61.88	66.83	72.18	77.95	84.19
9 Himachal Pradesh	144.45	156.00	168.48	181.96	196.52
10 Jammu & Kashmir	300.15	324.16	350.10	378.10	408.35
11 Jharkhand	89.86	97.05	104.81	113.20	122.26
12 Karnataka	274.34	296.29	319.99	345.59	373.24
13 Kerala	146.06	157.74	170.36	183.99	198.71
14 Madhya Pradesh	534.51	577.27	623.45	673.32	727.19
15 Maharashtra	523.14	565.00	610.20	659.01	711.73
16 Manipur	8.63	9.32	10.07	10.88	11.75
17 Meghalaya	33.28	35.95	38.82	41.93	45.28
18 Mizoram	13.85	14.96	16.16	17.45	18.84
19 Nagaland	17.68	19.09	20.62	22.27	24.05
20 Orissa	107.80	116.42	125.74	135.80	146.66
21 Punjab	33.09	35.73	38.59	41.68	45.02
22 Rajasthan	207.40	223.99	241.91	261.26	282.16
23 Sikkim	**13.75**	**14.85**	**16.03**	**17.32**	**18.70**
24 Tamil Nadu	111.30	120.20	129.82	140.20	151.42
25 Tripura	31.41	33.92	36.63	39.56	42.73
26 Uttar Pradesh	228.33	246.59	266.32	287.63	310.64
27 Uttarakhand	202.51	218.71	236.21	255.11	275.51
28 West Bengal	165.30	178.53	192.81	208.23	224.89
Total	**4200.88**	**4536.95**	**4899.91**	**5291.90**	**5715.25**

Preconditions for Release :

Year	Condition
2011-12	*(a) 2011-12 (BE) net of grants should not be less than the projected NPRE for 2011-12*
	(b) 2010-11 (RE) net of grants should not be less than the projected NPRE for 2010-11
2012-13	*(a) 2012-13 (BE) net of grants should not be less than the projected NPRE for 2012-13*
	(b))2011-12 (RE) net of grants should not be less than the projected NPRE for 2011-12
	(c) 2010-11 (Actuals) net of grants should not be less than the projected NPRE for 2010-11
2013-14	*(a) 2013-14 (BE) net of grants should not be less than the projected NPRE for 2013-14*
	(b) 2012-13 (RE) net of grants should not be less than the projected NPRE for 2012-13
	(c) 2011-12 (Actuals) net of grants should not be less than the projected NPRE for 2011-12
2014-15	*(a) 2014-15 (BE) net of grants should not be less than the projected NPRE for 2014-15*
	(b) 2013-14 (RE) net of grants should not be less than the projected NPRE for 2013-14
	(c) 2012-13 (Actuals) net of grants should not be less than the projected NPRE for 2012-13

Annex 12.8

(*Para 12.58 (iii)*)

Conditionalities for the Release of Grants-in-Aid for Water Sector

1. These grants should be spent only on non-salary maintenance items for public MMI and MI irrigation schemes.
2. These grants should be budgeted and spent for meeting the non-plan revenue expenditure only under the heads 2700, 2701 and 2702.
3. Recovery rate for irrigation has been taken as the ratio of NPRR under major heads 700, 701 and 702 to NPRE under major head 2700, 2701 and 2702. The states should fulfill the following criteria in respect of recovery rate for irrigation:
   a) Special category states should step up recovery rate for irrigation by at least 3 percentage points in 2011-12 over 2009-10 (BE) and then by 3 percentage points in every successive year during the forecast period.
   b) General category states should meet the following conditions:

Sl. No.	Recovery Rate of States (2009-10 BE)	Required Recovery Rate in 2011-12 `	Step-up in every Successive Year up to 2014-15
1	0% to 15%	At least 20%	By 5 percentage points
2	Above 15% but less than 75%	At least all-states average or their respective recovery rates in 2009-10 (BE) whichever is higher.	By 5 percentage points
3	75% and above	At least at 2009-10 (BE) level of the respective states.	Should maintain at least 2011-12 level during the remaining forecast period.

4. The grants may be allocated in two equal instalments in a financial year subject to the following conditions for the total of NPRE under MH 2700, 2701 and 2702 and required recovery rate as given in Annex-12.6:

Year	Items
2011-12 a)	2011-12 (BE) should not be less than the projected 'total NPRE' for 2011-12
b)	2010-11 (RE) should not be less than the projected 'total NPRE' for 2010-11.
2012-13 a)	2012-13 (BE) should not be less than the projected 'total NPRE' for 2012-13

b) 2011-12 (RE) should not be less than the Normal NPRE for 2011-12 plus grants released in 2011-12 and recovery rate in 2011-12 at required rate or higher.

c) 2010-11 (Actuals) should not be less than the Normal NPRE for 2010-11.

2013-14 a) 2013-14 (BE) should not be less than the projected 'total NPRE' for 2013-14

b) 2012-13 (RE) should not be less than the Normal NPRE for 2012-13 plus grants released in 2012-13 and recovery rate in 2012-13 at required rate or higher.

c) 2011-12 (Actuals) should not be less than the Normal NPRE for 2011-12 plus grants released in 2011-12 and recovery rate in 2011-12 at required rate or higher.

2014-15 a) 2014-15 (BE) should not be less than the projected 'total NPRE' for 2014-15

b) 2013-14 (RE) should not be less than the Normal NPRE for 2013-14 plus grants released in 2013-14 and recovery rate in 2013-14 at required rate or higher.

c) 2012-13 (Actuals) should not be less than the Normal NPRE for 2012-13 plus grants released in 2012-13 and recovery rate in 2012-13 at required rate or higher.

5. Grants should be released to only those states in the third year (i.e., 2012-13) which have set up statutory and independent water resources regulatory authority through appropriate legislation and notified all relevant provisions by 31 March 2012. However, this condition will not be applicable to north-eastern states except
Assam.

Annex 12.11

(*Para 12.75)*)

Simulated Calculations for Change in Infant Mortality Rate

State	2009 SRS	2012 SRS	Incentive Coeffecient	Incentive Value (%)
A	36	30	111.76	1.05
B	19	17	626.32	5.86
C	39	35	80.00	0.75
D	42	33	102.94	0.96
E	48	39	64.29	0.60
F	11	12	100.00	0.94
G	35	28	117.65	1.10
H	43	30	111.76	1.05
I	27	25	296.08	2.77
J	37	33	102.94	0.96
K	33	28	367.38	3.44
L	10	8	1629.41	15.24
M	48	38	71.43	0.67
N	23	19	867.26	8.11
O	8	7	1092.65	10.22
P	43	23	132.35	1.24
Q	24	22	394.12	3.69
R	28	21	1055.88	9.87

S	49	40	60.00	0.56
T	33	28	367.38	3.44
U	38	30	111.76	1.05
V	19	17	626.32	5.86
W	49	17.8	147.65	1.38
X	26	20	1050.23	9.82
Y	49	41	53.33	0.50
Z	29	22	951.93	8.90
				100

Median 34

Annex 12.15
(*Para 12.110*)

Template for Employee Data base Format

1. Employee Code
2. Full Name (Employee/Officer) (In Hindi)/(In English)
3. Father/Husband Name
4. Gender
5. Date of Birth
6. Date of Appointment
7. Name of Post/Designation at First Appointment
8. Current Post/Designation
9. Scale of Current Post/Designation
10. Permanent/Temporary Employee
11. Date of Salary Increment in the current Pay Scale
12. Entitlement to Pension (Defined Benefit/NPS/None of the two)
13. Name of the Bank in which Salary Account is Opened
14. Bank Account Number
15. GPF/ NPS Account Number
16. DDO Code
17. Emoluments on which Payment is to be Made Directly from the Treasury
    a) Basic Pay

b) Personal/Special Pay (if counted for pension purposes)
c) Non-practice Allowance (NPA)
d) Dearness Allowance & Dearness Pay
e) Total Salary (including allowances)

Annex 12.17
(*Para 12.114*)

Projections for Non-plan Revenue Expenditure under Roads and Bridges (Major Head 3054)

(*Rs. crore*)

Sl. No. State	2010-11	2011-12	2012-13	2013-14	2014-15
1 Andhra Pradesh	1115.20	1170.96	1229.50	1290.98	1355.53
2 Arunachal Pradesh	20.46	21.89	23.42	25.06	26.82
3 Assam	492.14	526.59	563.45	602.89	645.09
4 Bihar	466.37	489.68	514.17	539.88	566.87
5 Chhattisgarh	346.58	363.91	382.11	401.21	421.28
6 Goa	109.69	115.18	120.94	126.98	133.33
7 Gujarat	557.52	585.39	614.66	645.39	677.66
8 Haryana	416.00	436.80	458.64	481.57	505.65
9 Himachal Pradesh	590.11	619.62	650.60	683.13	717.28
10 Jammu & Kashmir	48.81	52.23	55.89	59.80	63.98
11 Jharkhand	119.72	128.10	137.07	146.66	156.93
12 Karnataka	303.70	318.89	334.83	351.57	369.15
13 Kerala	574.12	602.83	632.97	664.62	697.85
14 Madhya Pradesh	429.79	451.27	473.84	497.53	522.41
15 Maharashtra	1601.16	1681.22	1765.28	1853.54	1946.22
16 Manipur	78.65	84.15	90.04	96.35	103.09
17 Meghalaya	73.85	79.02	84.55	90.47	96.80
18 Mizoram	32.56	34.84	37.28	39.89	42.68
19 Nagaland	53.94	57.72	61.76	66.08	70.71
20 Orissa	506.04	531.34	557.91	585.80	615.09
21 Punjab	135.63	142.41	149.53	157.01	164.86
22 Rajasthan	231.47	243.05	255.20	267.96	281.36
23 Sikkim	**28.60**	**30.60**	**32.75**	**35.04**	**37.49**
24 Tamil Nadu	605.04	635.29	667.06	700.41	735.43
25 Tripura	90.95	97.32	104.13	111.42	119.22

26 Uttar Pradesh	757.25	795.11	834.87	876.61	920.44
27 Uttarakhand	88.81	95.03	101.68	108.80	116.41
28 West Bengal	241.67	253.75	266.44	279.76	293.75
Total	**10115.83**	**10644.19**	**1200.55**	**11786.41**	**12403.38**

Preconditions for Release :

Year **Condition**

2011-12(a) 2011-12 (BE) net of grants should not be less than the projected NPRE for 2011-12
(b) 2010-11 (RE) net of grants should not be less than the projected NPRE for 2010-11.

2012-13(a) 2012-13 (BE) net of grants should not be less than the projected NPRE for 2012-13
(b) 2011-12 (RE) net of grants should not be less than the projected NPRE for 2011-12
(c)2010-11 (Actuals) net of grants should not be less than the projected NPRE for 2010-11

2013-14 (a) 2013-14 (BE) net of grants should not be less than the projected NPRE for 2013-14
(b) 2012-13 (RE) net of grants should not be less than the projected NPRE for 2012-13
(c) 2011-12 (Actuals) net of grants should not be less than the projected NPRE for 2011-12

2014-15(a) 2014-15 (BE) net of grants should not be less than the projected NPRE for 2014-15
(b) 2013-14 (RE) net of grants should not be less than the projected NPRE for 2013-14
(c) 2012-13 (Actuals) net of grants should not be less than the projected NPRE for 2012-13

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

EXPLANATORY MEMORADNUM AS TO THE ACTION TAKEN ON THE RECOMMENDATIONS MADE BY THE THIRTEENTH FINANCE COMMISSION IN ITS REPORT SUBMITTED TO THE PRESIDENT ON DECEMBER 30, 2009

1. The Thirteenth Finance Commission (hereafter referred to as the Commission) was constituted by the President on November 13, 2007 to give recommendations on specified aspects of Centre State fiscal relations during 2010-15. The Commission submitted its report to the President on December 30, 2009 covering all aspects of its mandate.

2. The report of the Commission (hereafter referred to as the Report) covering the five year period commencing from April 1, 2010, together with this Explanatory Memorandum on the action taken on the recommendations of the Commission is being laid on the Table of the House, in pursuance of Article 281 of the Constitution. Summary of the main recommendations of the Commission relating to the sharing of net proceeds of Union taxes between Centre and States, grants-in-aid of revenue of States under Article 275, Goods and Services Tax (GST), financing of relief expenditure and roadmap for fiscal consolidation are contained in Chapter 1 of the Report of the Commission.

3. The Government has carefully examined the main recommendations of the Commission. The action to be taken on these recommendations is detailed below.

Sharing of Union Taxes

4. The Commission has recommended that for its award period, the share of States in the net proceeds of Union taxes may be fixed at 32%. The Commission has also recommended on the inter-se distribution of the States' share amongst the States. The details of the formula for inter -se distribution and the corresponding share of each State recommended by the Commission are indicated in Chapter 8 of the Report. It has also recommended that the total transfers to the States on the revenue account be subjected to an indicative ceiling of 39.5% of the gross tax revenues of the Centre.

The Government has accepted the above recommendations of the Commission.

Grants -in-Aid of Revenues of States under Article 275 of the Constitution

5. The Commission has recommended grants-in-aid of revenues of States for non plan revenue deficit, elementary education, environment related issues, improving outcomes, maintenance of roads and bridges, local bodies, disaster relief, GST implementation and state specific grants under Article 275 of the Constitution.

Non Plan Revenue Deficit Grant

6. The Commission 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. The Commission has recommended a grant of Rs. 51800 crore to meet this deficit for eight States. The amount of grant recommended for each state year-wise is indicated in Chapter 12 of the Report. The Commission has also recommended a performance incentive grant of Rs. 1500 crore for three special category States of Assam, Sikkim and Uttarakhand that have graduated out of Non Plan Revenue Deficit. The details of this grant are indicated in Chapter 12 of the Report.

The Government has accepted this recommendation .

Grant for Elementary Education

7. The Commission has assessed the requirement of providing elementary education for each State based on the Sarva Shiksha Abhiyan norms and recommended to provide a grant of Rs. 24068 crore equivalent to 15% of the assessed requirement. The year -wise allocation for each State and the conditionality for release of this grant are given in Chapter 12 of the Report.

The Government has accepted this recommendation.

Environment Related Grants

8. The Commission has recommended three grants under this category of Rs. 5000 crore each aggregating to Rs. 15000 crore. The first grant of each of these Rs. 5000 crore grants is forest grant, the second is for promotion for renewable energy and the third is for water sector. The year-wise allocation for each State and the conditionalities for forest and water sector grants are indicated in Chapter 12 of the Report. The eligibility of each State for the grant for renewable energy is to be decided, as indicated in Chapter 12 of the Report, based on the achievement of each state on this front in the first four years of the award period.

The Government has accepted these recommendations.

Grants for Improving Outcomes

9. The Commission has recommended six grants under this category aggregating to Rs. 14446 crore over the award period. An incentive grant for reduction in infant mortality of Rs. 5000 crore is to be released to States starting 2012-13 depending on the reduction in Infant Mortality Rate (IMR) achieved by the States with reference to the baseline level of 2009-10 figures. Grant of Rs. 5000 crore for improved delivery of justice has been recommended for Lok Adalats and Legal Aid, Alternate Dispute Resolution Centres, Heritage Court Buildings, State Judicial Academy and training of judicial officers and public prosecutors. The grant for Unique Identification (UID) programme amounting to Rs. 2989.10 crore is to be released based on the number of people covered under the UID database. Two grants of Rs. 616 crore each have been recommended for District Innovation Funds and improving statistical systems at district and State levels. Finally, a grant of Rs. 225 crore has been recommended for setting up database of employees and pensioners.

The Government has accepted these recommendations.

Grants for maintenance of Roads and Bridges

10. The Commission has assessed the requirement of ordinary repairs of roads in a State and has recommended grant of Rs. 19930 crore equivalent to 90% of the assessed requirement for PMGSY roads and 50% of the assessed requirement for other roads, for four years of the award period starting 2011-12. The allocation for each year for each State and the conditionality for this grant are indicated in Chapter 12 of the Report.

The Government has accepted these recommendations.

State Specific grants

11. The Commission has recommended grants aggregating to Rs. 27945 crore for various state specific needs of the States. The details of these grants for each item of grant for each State are indicated in Chapter 12 of the report.

The Government has accepted these recommendations.

12. For monitoring and implementation of all the above grants at the State level, the Commission has recommended setting up a monitoring committee under the chairmanship of the Chief Secretary of the State. In addition to the grants mentioned above, the Commission has recommended grants for GST implementation, local bodies and disaster relief which, alongwith the other recommendations relating to these areas, are explained below.

Goods and Services Tax

13. The Commission has recommended a model GST structure that includes features such as single rate, zero rating of exports, inclusion of various indirect taxes at the Central and State level in GST ambit, major rationalisation of the exemption structure, etc. The Commission has recommended a grant of Rs. 50000 crore for implementation of GST as per the recommended model. This grant is to be disbursed initially in the form of compensation for loss due to implementation of GST and residual amount to be distributed amongst States in the terminal year of the award period as per the devolution formula. It has also recommended administrative structure for implementation and monitoring of this grant.

The Government has accepted these recommendations in principle. However, in view of the ongoing discussions between Centre and States on this aspect, implementation of these recommendations along with modalities may await the outcome of the discussions.

Local Bodies

14. The Commission has recommended a basic grant and a performance grant for local bodies. Both these grants in any year have been quantified based on a percentage of the divisible pool of the preceding year. For every year of the award period, the Commission has recommended a basic grant amounting to 1.5% of the size of divisible pool in the preceding year. Similarly, for 2011-12 the Commission has recommended a performance grant of 0.5% of the divisible pool of the preceding year and for subsequent years in the award period, 1% of the divisible pool of the preceding year.

15. It has also recommended a separate special area basic grant of Rs. 20 per capita, carved out of the total basic grant, for every year in the award period for Schedule V and Schedule VI areas and areas excluded from Part IX and IXA of the Constitution. For these areas, it has recommended a special area performance grant of Rs. 10 per capita for 2011-12 and Rs. 20 per capita for subsequent years of the award period.

16. The performance grants are to be released if the States meet conditions specified by the Commission in Chapter 10 of the Report.

17. As per the revenue projections of the Commission, total grant recommended for the local bodies aggregates to Rs. 87519 crore over the award period. The Commission has also recommended distribution of the grants between urban and rural areas and the inter-se distribution between States. The formula and the inter-se shares are indicated in Chapter 10 of the Report.

The Government has accepted these recommendations.

Disaster Relief

18. The Commission has reviewed the existing arrangement of financing relief expenditure in light of the Disaster Management Act, 2005 and has recommended merger of the National Calamity Contingency Fund (NCCF) into National Disaster Response Fund (NDRF) and merger of Calamity Relief Funds (CRF)into State Disaster Response Fund (SDRF) with effect from 01.04.2010 and transfer of the balances in the existing funds into the new funds.

19. The Commission has assessed the relief expenditure requirements of all States and recommended that 75% of the SDRF requirement for general category states and 90% for special category states be met by the Centre through a grant to the States. It has also recommended a grant of Rs. 525 crore for capacity building. Overall, to meet the Central share of SDRF and for capacity building, the Commission has recommended a grant of Rs.26373 crore. It has mandated all states to follow the required accounting practices to properly account for relief expenditure.

The Government has accepted these recommendations.

Fiscal Roadmap

20. The Commission has assessed the finances of the Union and States and specified a combined debt target of 68% of Gross Domestic Product (GDP) to be met by 2014-15. It has worked out a roadmap for Fiscal Deficit (FD) and Revenue Deficit (RD) for the award period. For Centre, it has recommended RD to be eliminated and FD to be brought down to 3% of GDP by 2013-14. For States, the Commission has worked out fiscal roadmap for each State depending on its current deficit and debt levels. The States are required to eliminate RD and achieve FD of 3% of their respective Gross State Domestic Product (GSDP) during the Commission's award period in stages, in a manner that all the States would eliminate RD and achieve FD of 3% of GSDP latest by 2014-15. The Commission has also recommended that the borrowing limits of the States should be fixed by the Centre in line with these targets.

The Government has accepted these recommendations in principle. Detailed proposals for amendment of the FRBM Act, as may be necessary, will be taken up separately.

Debt Relief to States

21. The Commission has recommended two debt relief measures to be extended to all States. Firstly, it has recommended that the interest rates on loans from National Small Savings Fund (NSSF) to States contracted till the end of 2006-07 and outstanding as at the end of 2009-10 be reset at interest rate of 9%. The implication of this relief during the award period is estimated by the Commission to be Rs. 13517 crore. The financial implication over the entire period till the maturity of the last loan covered in this relief measure is estimated to be Rs. 28360 crore. The Commission has also recommended that structural reforms should be brought in the NSSF to make it more market linked.

22. The second debt relief recommended by the Commission is write-off of Central loans to States that are administered by central ministries other than Ministry of Finance outstanding as at the end of 2009-10. The amount of loans outstanding as at the end of 2007-08 was Rs. 4506 crore as noted by the Commission. The Commission has also recommended that any further loans under Centrally Sponsored Schemes should be completely avoided.

23. The Commission has also recommended extension of the debt consolidation facility recommended by the Twelfth Finance Commission to States that have not yet availed this benefit.

24. All the above mentioned debt relief is available to States only if they amend/legislate FRBM Acts in accordance with the recommendations of the Commission. The Commission has also recommended that the States will be eligible for the state specific grants only if they comply with this condition.

With regard to the recommendation relating to interest rate reset on NSSF loans to the States, **the Government has accepted it in principle.** However, since the recommendations are comprehensive and cover other structural aspects like interest rate mismatch, tenor mismatch and other administrative matters, Ministry of Finance will constitute a Committee to work out detailed modalities for implementation of this recommendation.

With regard to write-off of the Central loans to States, extension of the debt consolidation scheme recommended by the Twelfth Finance Commission to States that did not avail the benefit till now, and the conditions laid down by the Commission for availing these benefits, **the Government has accepted the recommendations of the Commission.**

With regard to completely avoiding central loans to states in the future, **action will be taken in consultation with the respective ministries**.

Other Recommendations

25. In addition to the above, the Commission has made other recommendations that deal with issues including revenue and expenditure reforms at Central and State levels, accounting and budgeting reforms, additional disclosures by the Centre, State and local bodies, etc. These recommendations will be examined in due course.

Implementation

26 Orders on the recommendations under Articles 270 and 275(1) of the Constitution relating to share in Union taxes and duties and grants-in-aid, respectively, will be issued after obtaining the approval of the President. The recommendations relating to reorganisation of Funds for disaster relief, debt relief to States and borrowing ceilings will be implemented by executive orders. Other recommendations of the Commission will be acted upon in due course.

New Delhi
February 25, 2010

PRANAB MUKHERJEE
Minister of Finance