

Fourteenth Finance Commission: Devolution of Funds to States

Structure of presentation

- Core philosophy of FFC
- Transfers to the States
- Transfers to Local Governments
 - Focus on basic services
 - Design and quantum
 - Flow of funds
- Going forward with convergence

Core philosophy

- Comprehensive view of transfers – included both non-plan and plan expenditures
- Anchored on greater trust between 3 layers of government- Union, State and Local.
- All 3 layers equally endowed with wisdom, knowledge, integrity and effectiveness.
- Enhance flow of resources in an assured, objective and untied manner.

Core philosophy

- “In our view, the rewards that come from placing trust in local bodies far exceed the costs associated with administering and complying with conditionalities.”
- “Central to the trust-based approach adopted by us is the understanding that the local bodies will discharge their statutory functions with all due care.”

Transfer to States

- Massive increase in devolution to States
- From 32 % in FC XIII to 42% of divisible pool - an increase estimated at Rs. 25 lakh crore over award period.
- During 2015-16 (BE) alone Rs.5,23,958 crore to be transferred as tax devolution to States against Rs.3,37,808 crore in 2014-15 (RE).
- Recommended grants-in-aid of Rs.5,37,354 (2015-20)crore comprising
 - **Rs. 2,87,436 crore** for local bodies,
 - **Rs.1,94,821 crore** for Revenue Deficit Grants to 11 eligible states and
 - **Rs.55,097 crore** for Central share in SDRF.

Transfer to States

Channel	2014-15 (BE)	2014-15 (RE)	2015-16 (BE)
Rs. in Crore			
1 Devolution of Taxes	3,82,216	3,37,808	5,23,958
2 Assistance to States:	4,01,414	3,51,231	3,24,176
I Non Plan Grants	69,095	79,174	1,07,566
II CSS – through State Budgets	5,505	4,283	23,817
III CSS – Direct to implementing agencies	-	-	-
IV CA for State Plans	3,14,814	2,55,874	1,80,293
3 Total transfer to States (1+2)	7,71,630	6,77,139	8,35,634

- **Statutory Transfer up from 59% in 2014-15 (BE) to 76% in 2015-16 (BE),**
- **Total transfer to States up from 49% of Gross Revenue Receipts of Union in 2014-15 (BE) to 50% in 2015-16 (BE),**

Transfer to States (contd.)

- Net increase in transfers to States.
- Assured transfers through tax devolution and statutory transfers.
- Funds are untied and without conditionalities.
- Greater flexibility and autonomy to States in design, implementation and financing of schemes.
- Expectation that States, in the spirit of cooperative federalism will foster achievement of National Goals
- Use their extra fiscal space to create productive national assets.
- Huge responsibility on States to deliver with additional resources

Grants to Local Governments

- Local bodies receiving grants since Tenth FC.
- Grants were conditional- sector specific.
- Conditionalities on State governments – non-compliance meant loss of funds to local bodies.
- FFC has sought to correct this through:
 - Enhancement of grants
 - Minimal conditionalities
 - Placing trust in local bodies

Focus on Basic Services

- Recognition that Local bodies (PRIs & ULBs) have a critical role in delivering basic services to citizens.
- Provide unconditional support to improve the status of such core services.
- Key elements identified- water supply, sanitation, SWM, sewerage, drainage etc.
- Untied grants so expenditure could be on both new capital expenditure or O&M.

Design and Quantum

- Huge increase from Rs.87,519 crore in FC XIII to Rs.2,87,436 crore during FFC award (an increase of 228%).
- In 2015-16 Rs. 8363.06 crore – to progressively increase yearly.
- Almost 3% + of divisible pool of Central taxes from 2016 to 2019.
- Grants in two parts
 - Basic grant : performance grant of 90:10 for **gram panchayats**
 - Basic grant : Performance grant of 80:20 for **municipalities.**

	Basic	Performance	Total
RLB	1,802,63	20,029	2,00,292
ULB	69,715	17,429	87,144
	2,49,978	37,458	2,87,436

Grants to local governments - contd

- Detailed procedure for disbursement of performance grant to be designed by the State Governments.
- Eligibility for performance grants
 - Submission of audited accounts
 - Show increase in own revenues
 - Publish service level benchmarks for urban services in case of ULBs
- Provides unconditional support to the gram panchayats and municipalities for delivering the basic functions assigned to them.
- Distribution of resources to be made by States on the basis of recommendations of State Finance Commissions.

Flow of Funds

- Assured flow – minimal conditions.
- Based on needs – population (90%), area (10%).
- Two installments for basic grants – states to release with 15 days of receipt.
- Performance grants based on:
 - ✓ Audit and accounts
 - ✓ Increase in own revenues (excluding octroi & entry tax)
 - ✓ Benchmarking of services.
- Will ensure accountability and transparency and enhance efforts to raise more resources.

Going forward - Convergence

- AMRUT, Smart Cities, Swacch Bharat, Housing for All – Designed to enhance basic services in urban areas.
- Important to have convergence of funds and activities – at all 3 levels.
- FFC grants are unconditional – so responsibility with State governments and ULBs to make best use of it.
- Planning and implementation will require attention.
- Even towns/cities not part of programme can enhance services through FFC grants.

Going Forward

- States need to improve the allocative efficiency through focus on utilization, targets and outcomes, delivery of services.
- “In our view, the rewards that come from placing trust in local bodies far exceed the costs associated with administering and complying with conditionalities.”
- “Central to the trust-based approach adopted by us is the understanding that the local bodies will discharge their statutory functions with all due care.”

Thank you