Chapter- 4

Review of State Finances

4.1 Paragraph 4(ii) of the terms of reference mandated that in making its recommendations the Commission shall have regard, among other considerations, to the resources of State Government and demands thereon, in particular, on account of expenditure on maintenance of law and order, civil administration, debt servicing and other committed expenditure.

(a) Critical Analysis of State Finances

4.2 The state finances of Assam experienced severe financial crisis since the beginning of the current century and it continued unabated till 2004-05. During all these years revenue expenditure outstripped revenue receipts leading to unbridled increase of revenue deficit, fiscal deficit and non-plan deficit. The overall fiscal scenario was dominated by acute ways and means problems intermittently followed by frequent slippage into unauthorized overdraft with the Reserve Bank of India (RBI). The normal functioning of the Government was very often parsalysed over this period 2000-05. Reserve Bank of India used to impose ban on State Government payments with unfailing regularity. For instance, the State Government's account was in overdraft for 294 days in 2000-01 due to RBI ban for 175 days. In 2004-05 the State Government's account remained in overdraft for 129 days.

4.3 As a matter of fact, from 2000-01 onwards the fiscal profile of the state took a nose dive which persisted for the next five years at a stretch upto 2004-05 as reflected in fiscal parameters like overall revenue deficit, non-plan revenue deficit and fiscal deficit. During 2000-01, the overall deficit in revenue account was Rs.779 crores and it ended with Rs.292 crores in 2004-05. However, more disturbing is the high proportion of non-plan revenue deficit and fiscal deficit during this period. The non-plan revenue deficit which was Rs.1269 crores in 2000-01 steadily rose to Rs.1386 crores in 2004-05. And over the same period fiscal deficit escalated from Rs.1540 crores to Rs.2057 crores. Table- 1 below summarises the position.

Table- 1
Fiscal Parameters

(Rs. in Crores)

Parameters	2000-01	2001-02	2002-03	2003-04	2004-05
1. Overall Revenue Deficit	779.48	881.38	319.16	684.89	291.88
2. Non-Plan Revenue Deficit	1269.06	1310.55	1099.30	1449.21	1386.30
3. Fiscal Deficit	1539.96	1448.14	927.70	1393.98	2057.46
4. Fiscal Deficit as percentage of GSDP	4.18	3.78	2.14	2.95	3.92

4.4 The deepening fiscal crisis of the State during the period 2000-05 is clearly reflected in the above table by the growing size of revenue and fiscal deficits. The most disturbing feature is the high proportion of revenue deficits as percentage of fiscal deficit. It indicates a declining trend in capital expenditure and that borrowings are used largely to finance revenue expenditure rather than creation of capital assets.

4.5 A remarkable feature is that these crippling deficits have occurred despite a significant improvement in State's own tax and non- tax revenue collection. For instance, collection of state taxes during this period increased from Rs.1410 crores in 2000-01 to Rs.2713 crores in 2004-05 recording a growth of around 92 percent within a span of four years. During the same period collection of non-tax revenues increased from Rs.527 crores to Rs.1070 crores recording more than hundred per cent increase. However, this favourable trend in revenue collection was more than counter-balanced by the abnormal growth in revenue expenditure. By and large, the fiscal imbalance can be attributed to the chronic mis-match between receipt and expenditure.

4.6 On the expenditure side, the main factors responsible for the burgeoning revenue expenditure are the relentless increase in expenditure on salaries, wages and pension mainly on account of periodic revision of pay scales and twice a year increase in dearness allowance and dearness relief. Expenditure on salary and wages which was to the tune of Rs.3300 crores in 2000-01 shot upto Rs.5194 crores in 2004-05 even though it does not include grants-in-aid for salary given to Universities, Colleges and other autonomous bodies. Over the same period pensionary liability soared from Rs.673 crores to Rs.1062 crores.

4.7 Next to salary and pensionary liability, growing debt servicing burden accounted for a significant increase in revenue expenditure. The accumulated debt stock of the State Government which was Rs.10067 crores at the end of 2000-01 swelled to Rs.16418 crores by the end of March, 2005. Consequently, interest payment which was of the order of Rs.865 crores in 2000-01 increased to Rs.1404 crores in 2004-05. Another important aspect of the exponential growth of revenue expenditure is the ever rising trend of expenditure on administrative overhead due to difficult terrain, remoteness of the areas and the presence of different ethnic and sub-ethnic groups spread over the hill and plain districts of the State. The presence of a pluralistic society has necessitated the creation of administrative structures not all of which are based on economic viability considerations. The implementation of social and economic programmes has to fulfill the hopes and aspirations of different ethnic groups having diverse socio-economic and cultural tradition. All these factors led to the creation of a larger than required administrative structure as evident from the large number of Autonomous Councils set up at different point of time. Initially there were two Autonomous Councils in the two hill districts of Karbi Anglong and North Cachar. In October 2003 the four plain districts of Kokrajhar, Udalguri, Chirang and Baksa formed the Bodoland Territorial Area Districts (BTAD) which is administered by the Bodoland Territorial Council (BTC). The above six districts constitute the Schedule VI areas of Assam. Apart from the Autonomous Councils in the Schedule VI areas, six more Autonomous Councils have been set up in the plain districts for different scheduled tribes. These are (i) Mising Autonomous Council, (ii) Rabha Hasong Autonomous Council, (iii) Tiwa Autonomous Council, (iv) Deori Autonomous Council, (v) Sonowal Kachari Autonomous Council and (vi) Thengal Kachari Autonomous Council. Budgetary support for plan and non-plan purposes has to be extended to all these bodies. This has escalated the administrative costs and severely impacted the growth of revenue expenditure.

4.8 Finally, the long drawn insurgency problem accompanied by violent outbursts at times has necessitated very heavy expenditure on maintenance of law and order. For instance, expenditure on law and order was barely Rs.100 crores in the eighties but it exceeded Rs.600 crores mark by the late nineties.

4.9 Besides these inherent problems other exogenous factors are also responsible for the growing fiscal imbalance of the State. As earlier stated collection of State taxes showed remarkable improvement during the period 2000-2005. As per assessment of the Eleventh Finance Commission, collection of State taxes was Rs.8260 crores. Against this, actual collection was Rs.9685 crores showing an improvement of Rs.1425 crores. During this period devolution of Central taxes recommended by them was Rs.12362 crores but the actual devolution based on collection was far less at Rs.9950 crores leading to a shortfall of Rs.2412 crores. Likewise, non-plan revenue expenditure over the same period was assessed by them at Rs.23670 crores while actual expenditure far exceeded to Rs.31414 crores. The overall assessment of Eleventh Finance Commission over the five year period was a surplus of Rs.2976 crores on non-plan revenue account. On the contrary, the actual position that emerged showed a non-plan deficit of Rs.6514 crores. Thus the overall deterioration over the assessment of the Commission amounted to a staggering figure of Rs.9490 crores. The full financial burden of meeting this additional gap vested on the State Government and it is the root cause of the fiscal imbalance.

4.10 That the above variations between assessment and the actual was not an aberration is evident from similar variations between the award and actual position of subsequent Commissions. The pre-devolution non-plan revenue gap as assessed by the Twelfth Finance Commission for the period 2005-10 was Rs.17984 crores. After devolution of Central taxes the State was placed at non-plan revenue surplus of Rs.1867 crores. However, the actual position that emerged showed a non-plan revenue deficit of Rs.126 crores during that period. The overall deterioration over the assessment of the Commission was Rs.1993 crores. This was so, despite several fiscal reform programmes undertaken by the government during this period.

4.11 The available trends indicate that the position will be no better in respect of assessment made by the Thirteenth Finance Commission for the period 2010-15. The actual available for 2010-11 shows a non-plan revenue gap of Rs.657 crores while the Commission assessed a post-devolution revenue surplus of Rs.248 crores for that year. Moreover, an issue in the report of the Thirteenth Finance Commission is causing considerable disquiet for Government of Assam. In Chapter- 7.72 it is stated that budget estimates of 2009-10 has been adopted as the base for projection of expenditure under the head Compensation and Assignment to Local Bodies and an annual growth of 8 percent is assumed over the base. On the contratry, in case of Assam the base adopted is the actual of 2007-08 which was only Rs.8.94 crores and the assessment made for five years is a meagre sum of Rs.66 crores vide Annexure-7.7 in Vol.-II of the Report of the Thirteenth Finance Commission. In contrast, the budget estimates for 2009-10 was more than Rs.900 crores. It has been ascertained that in case of other States the budget estimates of 2009-10 has been adopted as the base. It has thus deprived the State of considerable amount to the tune of Rs.926 crores. Government of India did not agree to the request of the Government of Assam for compensating the loss sustained on the ground that the recommendations of the Central Finance Commission have been accepted in accordance with convention. It would be inappropriate to make departure from accepted convention. Had there been some mechanism to correct things in the inter regnum between two Finance Commissions, the State could get adequate compensation for loss sustained.

4.12 In the wake of repeated budgetary imbalances that started from 1998-99 and continued unabated upto 2004-05 government was compelled to undertake several fiscal reform programmes. The first of which was implemented in January 2000 in consultation with Government of India (GOI). The broad features of this reform programme was as follows:

(i) Ban on taking over new private institutions in education and other areas.
(ii) Rationalization of manpower in government sector through abolition of non-essential vacant posts and redeployment of surplus manpower.
(iii) Ban on creation of new posts except education, health and police departments.
(iv) Tax reforms including introduction of entry tax, review of tax concessions to industries, improvement in tax compliance and rationalization of sales tax.
(v) Improvement in cost recovery through revision of user charges in education, irrigation, water supply, health and industries sectors.
(vi) Power sector reform.
(vii) Reform of Public Sector Undertakings (PSU) including introduction of VRS and leasing out of PSUs.

4.13 This was followed by implementation of the Medium Term Fiscal Reform Programmes (MTFRP) as recommended by the Eleventh Finance Commission to contain fiscal imbalance. The major agenda of this programme was the cumulative reduction of revenue deficit as a percentage of revenue receipt by 16 percent in a period of five years from 2000-05 for Special Category States and 12% for General Category States.

4.14 Another important milestone in fiscal reform is the enactment of the Assam Fiscal Responsibility and Budget Management Act (AFRBM) in 2005. This was followed by a programme of Medium Term Fiscal Plan (MTFP) under Assam Governance and Public Resource Management Programme (AGPRMP). The objectives of the said programmes were to eliminate revenue deficit and to contain fiscal deficit to 3 percent of Gross State Domestic Product (GSDP) by 2008-09.

4.15 The fiscal reform measures adopted by the State had started yielding favourable result from 2005-06, onwards. In fact, a positive turn around in fiscal scenario took place in 2005-06. In the preceding years revenue and fiscal deficits took an alarming proportion as indicated in Table- 1. However, in 20 05-06 revenue and fiscal deficits were not only wiped out but became comfortably posi tive. The overall revenue and non-plan revenue account showed a surplus of Rs.150 9 crore and Rs.281 crores respectively in 2005-06 from a huge deficit of Rs.292 crore and Rs.1386 crores respectively in the previous year (2004-05). Likewise, the fiscal deficit of Rs.2057 crores in the previous year (2004-05) turned into a positive figure of Rs.356 crores in 2005-06. This favourable trend continued upto 2008- 09. Thereafter it started declining once again. In 2009-10 revenue deficit rose to Rs.1348 crore. Non-plan revenue deficit and fiscal deficit escalated to Rs. 2457 crores and Rs.4043 crores respectively. Fiscal deficit stood at 4.37 percent of GSDP in 2009-10. This has overstripped the limit of 3.5 percent of GSDP as pr escribed in State's FRBM Act. More importantly, it has exceeded the Government of India's norm of 4 percent adopted as a part of stimulus packages for allowing enhanced borrowings to the States. This heavy downslide is largely accountable to the revision of pay and pension as per Revision of Pay Rules, 2010. The pos ition somewhat improved in 2010-11. As per the actual available for 2010-11, the revenue deficit turned into surplus of Rs.53 crore, non-plan revenue deficit de clined to Rs.657 crore and fiscal deficit came down to Rs.2985 crore at 1.91 percent of GSDP. The fiscal deficit is well within the limit of 3 percent of GSDP prescribed by the Stat's FRBM Act. The Table- 2 below summarises the position. The overall budgetar y position of the State from 2005-06 onwards is at Annexure-4.1.

Table-2
Fiscal Parameters

Year	Revenue deficit(-) /surplus(+) (Rs. in crore)	Fiscal deficit(-) /surplus (+) (Rs. in crore)	Non-Plan Revenue deficit(-) / surplus (+) (Rs. in crore)	Fiscal deficit(-) / surplus (+) as % of GSDP
2005-06	(+) 1509.08	(+) 355.71	(+) 281.17	(+) 0.60
2006-07	(+) 2210.42	(+) 711.39	(+) 156.25	(+) 1.10
2007-08	(+) 2580.76	(+) 790.39	(+) 613.18	(+) 1.11
2008-09	(+) 3833.71	(+) 1406.79	(+) 1492.26	(+) 1.73
2009-10	(-) 1347.71	(-) 4043.42	(-) 2457.05	(-) 4.37
2010-11	(+) 53.12	(-) 2984.82	(-) 657.26	(-) 1.91

4.16 For the purpose of estimating the Balance from Current Revenues (BCR), State's own taxes viz. (i) tax revenue, (ii) non-tax revenue and transfer from the Centre i.e. (i) State's share of Central taxes and (ii) non-plan gr ants-in-aid are critically analyzed below.

State Taxes

4.17 State taxes are collected mainly from the following sources (1) Sales Tax (VAT), (2) Agricultural Income Tax, (3) Tax on Profession, Trade, Calling etc, (4) Land Revenue which includes cess on green tea leaf and specified lands, (5) Stamps and Registration, (6) State Excise Duties, (7) Motor Vehicle Tax, (8) Passengers and Goods Tax which includes entry tax, (9) Electricity Duty and (10) Entertainment Tax.

4.18 As per actual, the aggregate collection from State taxes amounted to Rs.5929.85 crores in 2010-11. It recorded an increase of 18.9 percent over the level of collection in the previous year. The ratio of collection with GSDP at current prices is 5.7 percent. It has exceeded the Tax-GSDP ratio of 4.8 percent projected by the Thirteenth Finance Commission. The item-wise collection of State taxes during 2010-11 is shown at Table- 3 below which is adopted as the base. For the purpose of projection for the subsequent years an annual growth of 11 percent has been assumed over the base year as against 14 percent adopted by the Thirteenth Finance Commission.

Table- 3
Collection of State taxes

(Rs. in crore)

State taxes	2010-11	2011-12 L.E.	2012-13 Est.	2013-14 Est.	2014-15 Est.	2015-16 Est.
1. Sales Tax (VAT)	4318.60	4793.65	5320.95	5906.25	6555.94	7277.09
2. AIT	101.20	112.33	124.69	138.40	153.63	170.53
3. Professional Tax	160.60	178.26	197.86	219.63	243.79	270.60
4. Land Revenue	141.87	157.48	174.80	194.03	215.37	239.06
5. Stamps & Registration	122.84	136.35	151.35	168.00	186.48	206.99
6. State Excise	323.12	358.66	398.12	441.91	490.52	544.48
7. M.V. Tax	232.00	257.52	285.85	317.29	352.19	390.93
8. APGT (of which Entry Tax)	478.10 (461.67)	530.69 (512.45)	589.07 (568.82)	653.86 (631.39)	725.79 (700.84)	805.63 (777.93)
9. Electricity Duty	41.58	46.15	51.23	56.87	63.12	70.06
10.Entertainment Tax	9.94	11.03	12.25	13.59	15.09	16.75
Total	**5929.85**	**6582.12**	**7306.17**	**8109.83**	**9001.92**	**9992.12**

Non-Tax Revenue

4.19 The main sources of non-tax revenue are royalty on petroleum crude, coal and lignite, receipts from interest, dividend and forest produce. Other receipts in this category consist of user charges, fees, fines and reimbursement from GOI. By and large about 70 percent of non-tax revenue is derived from royalty on crude oil. Rate of royalty is linked to the wellhead price of imported crude and depends on the quantum of annual extraction. Interest receipts accrue mainly from investment of surplus cash balance of government in short term securities and also from loans and advances to government servants. In the wake of Hon'ble Supreme Court's ban on felling of trees, forest can not be looked upon as a resource of revenue. Rather its conservation and extension of coverage is necessary in the interest of ecology and environment. What is collected now as forest revenue is mainly from sale of minor forest produce like cane, bamboo, sand, stone etc.

4.20 As per actual, the aggregate collection from non-tax revenue during 2010-11 amounted to Rs.2373 crores. It recorded a decline of Rs.380 crores from the previous year's collection of Rs.2753 crores. The reasons for this decline were fall in interest receipt, forest and reimbursement against election expenses and national highways, . The Working Group on States' Financial Resources for the 12th Five Year Plan constituted by the Planning Commission decided that non-tax revenue may be projected at 10 percent for Special Category States during the 12th Plan. The preliminary actual of 2010-11 is adopted as the base of non-tax revenue. For the purpose of projection in subsequent years an annual growth of 10 percent has been assumed over the base year. The detail is shown at Table- 4 below.

Table- 4
Non-Tax Revenue

(Rs. in crore)

Non-Tax Revenue	2010-11	2011-12 L.E.	2012-13 Est.	2013-14 Est.	2014-15 Est.	2015-16 Est.
1. Royalty on Crude Oil	1625.93	1788.52	1967.37	2164.11	2380.52	2618.57
2. Royalty on Coal	29.35	32.28	35.51	39.06	42.97	47.27
3. Interest	415.88	457.47	503.22	553.54	608.89	669.78
4. Dividend	14.98	16.48	18.13	19.94	21.93	24.12
5. Forestry	131.01	144.11	158.52	174.37	191.81	210.99
6. Others	156.17	171.79	188.97	207.87	228.65	251.51
Total	**2373.32**	**2610.65**	**2871.72**	**3158.89**	**3474.77**	**3822.24**

Share of central Taxes

4.21 State's share of Central taxes booked by the AG in the actual accounts of 2010-11 is Rs.7969 crores. The fiscal year 2010-11 is the first year of the award period of Thirteenth Finance Commission. The Commission recommended devolution of Rs.7397 crores for that year. Hence, the actual of 2010-11 shows a substantial improvement over the recommended amount of 13th Finance Commission. The actual of 2010-11 is adopted as the base. And as decided by the Working Group on State's Financial Resources of the Planning Commission, an annual growth of 20 percent is assumed for projection during subsequent years as shown in Table- 5 below.

Table- 5
State's Share of Central Taxes

(Rs. in crore)

2010-11	2011-12 L.E.	2012-13 Est.	2013-14 Est.	2014-15 Est.	2015-16 Est.
7968.62	9562.34	11474.81	13769.77	16523.73	19828.48

Non-Plan Grants from GOI

4.22 Non-Plan grant-in-aid from the Centre is received by the State under the award of the Central Finance Commission both for the local bodies and for upgradation of state administration as well. The actual of 2010-11 includes an amount of Rs.508 crores as non-plan grant under Finance Commission award. However, in our assessment Finance Commission grant is omitted from both receipt and expenditure sides.

4.23 Other non-plan grants from the Centre include reimbursement of expenditure on Border Roads, Home Guards, Civil Defence, Indo-Bangla Border Check Posts, Security Related Expenditure, compensation for loss of revenue on account of CST/VAT etc. The actual of 2010-11 includes an amount of Rs.458. 82 crores on this account. This is adopted as the base and projected at an annual growth of 9 percent for the subsequent years as shown in Table- 6 below.

Table- 6
Non-Plan Grants from GOI

(Rs. in crore)

	2010-11	2011-12 L.E.	2012-13 Est.	2013-14 Est.	2014-15 Est.	2015-16 Est.
Non-Plan Grants	458.82	500.11	545.12	594.18	647.65	705.94

Non-Plan Revenue Expenditure

4.24 The major components of non-plan revenue expenditure of the State Government are salary and wages of employees, pension, interest payment, devolution and grant under the award of SFCs, expenditure against CFC grant and other non-plan expenditure on general, social and economic services.

Salary and Wages

4.25 The major portion of non-plan revenue expenditure of the State Government is spent on salary and wages of the employees and it accounts for nearly 45 percent of the total expenditure. The number of State Government employees at the end of March, 2008 was about 4.53 lakhs out of which 4.35 lakhs draw salary under non-plan. The actual amount disbursed under salary during 2008-09 in non-plan account was Rs.5584 crores. It increased to Rs.7805 crores in 2009-10 and Rs.10031 crores in 2010-11. This abnormal hike in salary bill is due to switching over to the revised scales of pay with arrear from 01.04.2009 as per recommendation of the Assam Pay Commission, 2008. The actual of 2010-11 amounted to Rs.10031 crores is adopted as the base. This is projected at an annual growth of 14 percent upto 2012-13 and thereafter at 12 percent as suggested by the Working Group on Resources of the Planning Commission.

Pension

4.26 Next to salary pension is an important item of non- plan revenue expenditure. The total number of pensioners at the end of March, 2010 was approximately 1.67 lakhs. On an average more than 20,000 employees retire annually and the number of pensioners is swelling steadily over the years. Consequently the pension bill which was Rs.1437 crores in 2008-09 increased to Rs.1769 crores in 2009-10 and further to Rs.2385 crores in 2010-11. The actual of 2010-11 is adopted as the base and projected at 16 percent for the subsequent years. This is also the growth rate suggested by the Working Group of Planning Commission.

Interest Payment

4.27 Interest payment is showing a steady growth year after year owing to increase in accumulated debt stock every year. The year end debt stock of the State Government from 2005-06 is shown at Table-10. The actual for interest payment in 2010-11 is Rs.1912 crores. This is adopted as the base and projected at an annual growth of 9 percent thereafter.

Expenditure against Devolution of State and Central Finance Commission

4.28 During the forecast period (2012-16) devolution from the SFC and grant-in-aid from the Central Finance Commission is omitted from both receipt and expenditure side.

Other Non-Plan Expenditure

4.29 In this category non-salary component of expenditure in respect of all government departments under general, social and economic sectors are clubbed together. The Working Group on State's Financial Resources has suggested an annual growth of 9 percent in respect of other non-plan expenditure. The actual of 2010-11 is adopted as the base and projected at an annual growth of 9 percent thereafter. Table- 7 below summaries the position of non-plan revenue expenditure.

Table- 7

(Rs. in crore)

Items	2010-11 Actual	2011-12 L.E.	2012-13 Est.	2013-14 Est.	2014-15 Est.	2015-16 Est.
1. Salary	10030.59	11434.87	13035.75	14600.04	16352.04	18314.28
2. Pension	2384.53	2766.05	3208.62	3722.00	4317.52	5008.33
3. Interest	1912.12	2084.21	2271.79	2476.25	2699.11	2942.03
4. Devolution of SFC and CFC	357.57	917.05	-	-	-	-
6. Other	3209.20	3498.03	3812.85	4156.01	4530.05	4937.75
Total	**17894.01**	**20700.21**	**22329.01**	**24954.30**	**27898.72**	**31202.39**

Pre-Devolution BCR

4.30 On the basis of the foregoing analysis and assumptions about the revenue receipt and non-plan revenue expenditure of the Government of Assam, the pre-devolution Balance from Current Revenues (BCR) is worked out for the period 2012-13 to 2015-16 as shown in Table- 8 below.

Table- 8
Pre-Devolution BCR

(Rs. in crore)

Items	2012-13 Forecast	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast
A. Revenue Receipt				
1. State Taxes	7306.16	8109.83	9001.91	9992.12
2. Non-Tax Revenue	2871.72	3158.89	3474.78	3822.24
3. Share of Central Taxes	11474.81	13769.77	16523.73	19828.48
4. Non-Plan Grants	545.12	594.18	647.66	705.94
Total- A	**22197.81**	**25632.67**	**29648.08**	**34348.78**
B. Non-Plan Revenue Expenditure				
1. Salary	13035.75	14600.04	16352.04	18314.28
2. Pension	3208.62	3722.00	4317.52	5008.33
3. Interest Payment	2271.79	2476.25	2699.11	2942.03
4. Others	3388.26	3693.20	4025.59	4387.89
Total- B	**21904.42**	**24491.49**	**27394.26**	**30652.53**
C. BCR (A - B) (-) deficit/(+) Surplus	**(+) 283.39**	**(+) 1141.18**	**(+)2253.82**	**(+)3696.28**

4.31 The pre-devolution BCR indicates the capacity of the State Government in the matter of resource transfer to the local Government. The above table shows that pre-devolution BCR is negative during the forecast period of 2012-13 only and thereafter becomes positive during last three years of the forecast period 2013-16. This has been possible due to adoption of a favourable rate of growth in respect of State's share in Central taxes as suggested the Working Group on State's Financial Resources. In case of State taxes and non-tax revenues we have adopted a moderate rate of growth at 11 percent and 10 percent respectively. Moreover, on the receipt side, grants recommended by Thirteenth Finance Commission are not taken into consideration in our assessment of the BCR. Apparently, therefore, there will be no fiscal constraint on the State Government in the matter of resource transfer to the local bodies.

(b) Impact of Implementation of the Recommendationsof Previous SFCs
First Assam State Finance Commission (1996-2001)

4.32 The First SFC recommended sharing of some selected State taxes with the local bodies. In terms of their recommendation, the devolution of state taxes and duties was pegged at 2 percent of the net proceeds of state taxes.

4.33 Besides, they also recommended certain amount of grants-in-aid to the PRIs and ULBs; debt relief for the ULBs; write-off of outstanding PRI debt as well as some other measures for improvement of financial position of the PRIs and ULBs.

4.34 The above recommendations were accepted by Government and Action Taken Report (ATR) laid before the State Legislature. But despite acceptance the recommendations, on the whole these remained unimplemented.

Second Assam State Finance Commission (2001-2006)

4.35 The Second SFC recommended global sharing of 3 .5 percent of the net proceeds of all taxes and duties collected by the State Government. They also recommended grants-in-aid for the ULBs and write-off of outstanding loans of the PRIs. That apart, they also recommended other measures for augmenting the resource base of local bodies, synchronization of the financial year of PRIs with that of government, termination of dual authority in the matter of granting building permission by the ULBs, framing of separate pay structure for local bodies, separate norms for maintenance of assets, creation of a data bank and a separate SFC Cell in Finance Department.

4.36 The above recommendations were selectively accepted by government and ATR laid before the State Legislature. The recommendation relating to devolution and grants were not accepted. Recommendation relating to augmentation of resources, local finance data base and debt relief even though accepted remained unimplemented.

Third Assam State Finance Commission (2006-2011)

4.37 The Third SFC submitted its report in two parts – the Preliminary and the Final. The preliminary report covered the first two fiscals 2006-07 and 2007-08. And the final report covered the remaining three years. The preliminary report was submitted on 31.03.2007, by which time the first fiscal 2006-07 came to an end. Hence, the report became effective for one year 2007-08.

4.38 The preliminary report recommended global sharing of 10 percent of the net proceeds of all taxes and duties collected by the State Government during 2007-08 and the final report raised the percentage share to 25 percent for the remaining three years. In addition, grants amounting to Rs.81 .24 crores was recommended during 2007-08 and Rs.512.22 crores for the remaining three years. The Commission recommended merger of DRDA with ZP and Block with AP and for this purpose an additional devolution of Rs.258 crores was recommended for three years for meeting the salary of DRDA and Block staff. That apart a host of other measures were recommended for improving the financial position of PRIs and ULBs.

4.39 The above recommendations were accepted by government but the ATR for the preliminary and the final reports were laid before the State Legislature jointly. As a result the recommendations relating to fiscal year 2007-08 also went by default. Hence, the actual implementation of TASFC report started from financial year 2008-

09. The amount shown in Table- 9 below was released to PRIs and ULBs during the three years of the final report of TASFC.

Table- 9

(Rs. in lakh)

Level of Local Bodies	2008-09	2009-10	2010-11
PRI	4859.97	6762.54	11942.53
GMC	2488.00	4926.31	6278.46
MB/TC	2372.60	4688.54	9216.69
Total	**9720.57**	**16377.39**	**27437.68**

4.40 However, the amount recommended by TASFC as grants-in-aid mainly for construction works could not be released due to delay in finalization of DPR and meanwhile the code of conduct for the Assembly poll was imposed. Merger of DRDA and Block staff with ZPs and APs respectively, though accepted was not implemented.

Fourth Assam State Finance Commission (2011-16)

4.41 The award period of the Fourth SFC is 2011-12 to 2015-16. The Commission has submitted an Preliminary Report covering the first year 2011-12. The preliminary report recommended global sharing of 14 percent of the net proceeds of all taxes and duties collected by the State Government during 2011-12 with the panchayats and municipalities at all levels. Apart from devolution it recommended grant-in-aid of Rs.334.28 crores during 2011-12 for creation and upgradation of physical infrastructure for PRIs and ULBs. It also recommended 5 percent of the divisible pool to be set aside as incentive fund for the best performing local bodies.

4.42 Apart from the incentive fund all other recommendations in the preliminary report of the Fourth SFC are accepted by government and ATR laid before the Legislature. The release of fund against tax devolution started from June 2011. Grant-in-aid is recommended mainly for the purpose of construction of office buildings and staff quarters for PRIs at all levels. An amount of Rs.120 crore is recommended for this purpose. As per latest information, release of this amount is under process. Once this recommendation is implemented PRIs at all levels will have their own office accommodation. And those having office accommodation less than adequate will be able to make extension to their buildings. Similarly, the ULBs will be in a position to upgrade their physical infrastructure so as to improve the quality of Service delivery.

(c) Direct Transfer to Local Bodies by State Government

4.43 Tax devolution and grants-in-aid recommended by the SFCs and grants under the award of the Central Finance Commissions are transferred direct to the local bodies under the major head of account "3604 – Compensation and Assignment to Local Bodies" in the State budget.

4.44 Apart from the above, every year a substantial portion of the budgetary outlays under plan and non-plan revenue account is earmarked for PRIs and ULBs against transferred subjects. Assam is one of the few States that have prepared the activity mapping in case of the PRIs. The activity mapping document clearly brings out functions, functionaries and funds which are to be devolved at various levels of PRIs. However, only partial devolution of functions has been notified in some selected subjects. Whereas devolution of funds and functionaries still remain to be operationalised. In case of ULBs, even the activity mapping is yet to be done. Given the above ground reality, PRIs and ULBs are not in a position to implement the schemes themselves. Hence, the functionaries of the line departments execute the works from their respective budget heads and accounts classification is done according to purpose.

4.45 In the budget for 2011-12, a sum of Rs.5927 crores under non-plan revenue account is earmarked for PRIs and ULBs against various transferred subjects. This accounts for nearly 28 percent of the total non-plan revenue account of the State budget. Similarly, an amount of Rs.2075 crores under plan including State's share of Central plan is earmarked for PRIs and ULBs which accounts for nearly 21 percent of the revenue account under plan. On the whole, roughly 25 percent of the total revenue account of the State budget is earmarked for PRIs and ULBs against the transferred subjects. Major head-wise flow of funds to PRIs and ULBs against transferred subjects is shown at Annexure- 4.2.

(d) Direct Absorption by State of Local Body Expenditure

4.46 The panchayat employees in Assam were provincialised with effect from 2nd October, 1991 by the Assam Panchayat Employees (Provincialization) Act, 1999 which came into force retrospectively from 01.10.1991. Accordingly, the salary bill of provincialised panchayat employees used to be met from the respective functional head in the state budget. However, from 2008-09 the salary burden of provincialised panchayat employees are being met from the devolution recommended by the Third SFC and it is booked under the head of account "3604 – Compensation and Assignment to Local Bodies". Likewise, salary burden of the ULBs are also met out of devolution recommended by the SFC.

(e) Guarantees Provided by State Government on behalf of Local Bodies

4.47 It appears from the Finance Accounts of Government of Assam, 2010-11, Volume- 2 that State Government guarantee is outstanding against three urban civic bodies. The maximum amount guaranteed, outstanding principal and interest as on 31.03.2011 against the guaranteed amount is shown in Table- 10 below.

Table- 10 (Rs. in crore)

Name of Civic Body	Maximum amount guaranteed (Principal)	Outstanding Principal	Interest
i) Amguri TC	0.37	0.20	3.06
ii) Barpeta MB	0.62	0.19	1.01

iii) Hojai MB	1.63	0.82	14.14
Total	**2.62**	**1.21**	**18.21**

4.48 The above table shows that the borrowed sum of Rs.2.62 crores has yielded interest to the tune of Rs.18.21 crores on 31.03.2011. The combined liability as on 31.03.2011 is of the order of Rs.19.42 crores and it is growing constantly. State Government may take initiative to liquidate the amount through one time settlement to arrest the growing liability.

Debt Position

4.49 The standard criteria for determining the debt sustainability of the States are: - acceptable level of the debt-GSDP ratio and the ratio of interest payment to total revenue receipts. Twelfth Finance Commission recommended 28% and 15% as the acceptable levels of debt-GSDP ratio and the ratio of interest payment to total revenue receipts respectively. The Table- 11 below summarises the debt position of the State from 2005-06 to 2010-11.

Table- 11

(Rs. in crore)

Year	Market Loan	Institutional Loan	NSSF Loan	Central Loan	State Provident Fund	Year end total outstanding debt	Debt-GSDP Ratio (%)
2005-06	6704.52	375.11	4602.21	2875.02	3265.39	17822.25	30.83
2006.07	7296.53	417.74	4688.26	2775.31	3614.78	18792.62	29.17
2007-08	7841.09	511.80	4679.66	2708.44	3932.74	19673.73	27.47
2008-09	9855.85	645.26	4697.03	2639.56	4322.97	22160.67	27.95
2009-10	11261.30	690.92	4721.82	2346.38	4812.52	23832.94	25.77
2010-11	11561.34	760.05	5582.28	2238.69	5352.93	25495.28	24.46

4.50 It appears from the above Table that outstanding debt position of the State during the award period of Twelfth Finance Commission (2005-10) has come down within the manageable level of 28% of GSDP, as prescribed by the Twelfth Finance Commission. In 2010-11 debt stock has far declined to 24.46% of GSDP, as against the 28.2% of GSDP prescribed by the Assam FRBM (Amendment) Act, 2011 as per award of the Thirteenth Finance Commission.

Interest Payment to Revenue Receipts

4.51 The position of interest payment to total revenue receipts in terms of percentage is indicated below:

Table- 12 (Rs. in crore)

Year	Total Revenue Receipts	Interest Payment	Interest Payment to Revenue Receipts Ratio
2005-06	12045.39	1510.12	12.54%
2006-07	13666.95	1515.67	11.09%
2007-08	15324.93	1512.24	9.87%

2008-09	18077.04	1593.33	8.80%
2009-10	19884.49	1832.58	9.22%
2010-11	23004.94	1912.12	8.31%

4.52 It appears from above Table that the ratio of interest payment to revenue receipts has been falling persistently and has come down to 8.31% in 2010-11 from 12.54% in 2005-06. The ratio of interest payment to revenue receipts remains well below the 15% benchmark prescribed by the Twelfth Finance Commission.

Government Guarantees

4.53 State Government has long since been providing Government guarantees to various State PSUs and Cooperative Institutions for investment in different sectors of the economy against loans given by Banks and Financial Institutions. Since most of the borrowing PSUs failed to discharge guarantee liabilities in time due to their weak financial conditions and became defaulters, Banks and Financial Institutions started invoking the Government guarantees. To honour the Government guarantees invoked by the Banks and Financial Institutions, State Government had initiated a process of one time settlement with the Banks and the Financial Institutions and liquidated major amount of Government guaranteed debt on behalf of the defaulted PSUs and misguided youths. In this way, State Government was able to reduce the outstanding contingent liability arising out of Government guarantees. The Table- 13 below shows the position.

Table- 13

Year	**Outstanding Government guarantees at the end of the financial year (Rs. in crore)**	
	Principal	**Interest**
2005-06	1220.56	52.37
2006-07	863.49	40.92
2007-08	897.63	53.68
2008-09	735.42	60.45
2009-10	246.53	61.22
2010-11	186.26	60.79

Consolidated Sinking Fund and Guarantee Redemption Fund

4.54 Government of Assam joined the Consolidated Sinking Fund (CSF), a scheme set up by the Reserve Bank of India to facilitate redemption of matured State Development Bonds, by constituting a CSF in 1999-2000. Government of Assam revised the scheme of CSF for redemption of all outstanding loans of the State Government commencing from 2007-08. Under the revised scheme, State Government is to contribute to the CSF on a modest scale of at least 0.5 percent of the outstanding liabilities as at the end of the previous year beginning with the financial year 2007-08. The Corpus comprising the periodic contributions as well as the interest accruing to the Fund has been kept outside the General Revenues of the Government. The

Fund is administered by the Reserve Bank of India subject to such directions/ instructions as the Government may issue from time to time. The year-wise contribution of the Government towards CSF is indicated below: -

Table- 14

Year	**Amount (Rs. in Crore)**
1999-2000	15.32
2000-01	20.00
2001-02	60.00
2002-03	72.00
2003-04	96.00
2004-05	44.00
2005-06	144.00
2006-07	176.00
2007-08	204.00
2008-09	108.00
2009-10	108.00
2010-11	120.00
Total	**1167.32**

4.55 The total contribution of the Government towards CSF as on 31.03.2011 is Rs.1167.32 crore. State Government has not yet utilized the interest amount of CSF towards redemption of loans of the State Government.

4.56 To liquidate future contingent liabilities arising out of Government guarantees, State Government has constituted Guarantee Redemption Fund vide Notification dated 15.09.2009.