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Study of Revenue Implications of 14th Finance Commission Recommendations and Union Budget FY 2015-16 on Odisha

1. Recommendations of Fourteenth Finance Commission

The recommendation of finance commission (FC) broadly comprises of tax devolution from Centre to States, non-plan grant & loan to State, central assistance for States & UTs and assistance for central and centrally sponsored schemes. The fourteenth finance commission (FFC) recommends to raise the tax devolution from 32 percent to 42 percent from total divisible pool which is a weighted base formula, i.e. fiscal capacity had been given weightage 47.5 percent in thirteenth finance commission (TFC) but in FFC it has been increased to 50 percent, population of 1971 has been given 25 percent and 17.5 percent in TFC and FFC respectively, population of 2011 is newly introduced with a weightage of 10 percent, the area of the States has 10 percent and 15 percent of weightage in TFC and FFC respectively, fiscal discipline has been deleted in FFC whereas the weightage of 17.5 percent was represented in TFC and the forest cover which plays an opportunity cost for the States, has been given 7.5 percent weightage in this FFC recommendations. Similarly, the changing revenue sharing pattern in CSS, removing some of major schemes in CSS and restructuring of both plan & non plan grants are the major changes in the FFC recommendations.

2. Union Budget 2015-16

The recommendations of FFC are reflected in the Union Budget 2015-16. To examine the impact of recommendations of FFC on the Union Budget 2015-16, a comparative study is carried out with respect to Union Budget 2014-15(B.E). The following observations are made from the comparative analysis of the Budget Estimate of the Union Government (see Table 1).

- A compositional shift in 2015-16(BE) is established as compared to 2014-15(BE).
- Because of recommendations of FFC, States' share of taxes and Duties has increased by 37% in 2015-16(BE).
- Besides, Non Plan Grants & Loans to States has gone up by 55.14% in 2015-16(BE).
- However, the rise in Non Plan Grants & Loans to States has been completely neutralized by a significant decline in Plan Grants & Loans to States by 40.62%.
- **It is further noticed that, during 2015-16(BE), the Non Plan Grants & Loans to States have increased by Rs. 3,8611 crore with respect 2014-15(BE), whereas the Plan Grants & Loans to States have declined drastically by Rs.1,33,934 crore.**
- **This shift clearly indicates an adverse impact of the Central funding towards the States in terms of Centrally Sponsored Schemes (CSS), Normal Central Assistance (NCA), Additional Central Assistance (ACA) and Special Central Assistance (SCA).**
- **It is also observed that the rise in Non Plan Grants & Loans to States will be mainly used for the purpose of post devolution revenue grants.**
- **Therefore, both the State specific and Sector specific grants will be adversely affected.**
- **The total transfer to States relative to Gross Tax Revenue of Centre is calculated at 57.15% in 2015-16(BE) which is lower (57.31%) than 2014-15(BE).**
- **The total Transfer to States relative to Gross Revenue Receipt of Centre is estimated at 49.57% in 2015-16(BE) which is lower (48.58%) than 2014-15(BE).**
- **The total Transfer to States relative to GDP is estimated at 5.87 % in 2015-16(BE) which is lower (6.07%) than 2014-15(BE).**

Table 1: Compositional Shift in Union Budget on Account of FFC Recommendations				
(In crores of Rupees)				
		2014-15	2015-16	Change (Y-O-Y)
		BE	BE	
Sl. No	Particulars	A	B	C= (B/A)-1
1	States' share of taxes and Duties	382216	523958	37.08%
2	Non-Plan Grants & Loans to States	70019	108630	55.14%
3	Plan Grants & Loans to States	329712	195778	-40.62%
4=(2+3)	Total Grants & Loans to States	399731	304408	-23.85%
5=(4+1)	Total Transfer to States	781947	828366	5.94%
6	Gross Tax Revenue of Centre	1364524	1449490	6.23%
7	Non Tax Revenue of Centre	212505	221733	4.34%
8=(6+7)	Gross Revenue Receipts	1577029	1671223	5.97%
9	GDP at Current Prices(B.E)	12876653	14108945	9.57%
10=(5/6)	Total Transfer to States relative to Gross Tax Revenue of Centre	57.31%	57.15%	-0.27%
11=(5/8)	Total Transfer to States relative to Gross Revenue Receipt of Centre	49.58%	49.57%	-0.03%
12=(5/9)	Total Transfer to States relative to GDP	6.07%	5.87%	-3.32%

3. Objective of the Study

The objective of the study is to examine the impact of recommendations of FFC and Union Budget 2015-16 on the total Central Transfer (both Share tax and Grants from Centre) to Odisha at a disaggregated level.

The State Budget 2015-16 was presented before the declaration of the recommendations of the FFC and presentation of the Union Budget 2015-16.

Hence, the net impact due to Share Tax and Grants from Centre is calculated based upon the Budget Provision of Govt. of Odisha 2015-16 as it captures unanticipated revenue implications.

4. Estimation

The FFC recommendations mainly impact the revenue flow to Odisha on account of Share Tax, Removal of both Sector & State specific Grants, Schemes delinked from Central Assistance, Withdrawal of Normal Central Assistance and restructuring of revenue sharing pattern between Centre and State on 33 nos. of identified CSS.

4.1 Impact due to Share Tax

- The weighted average Share of Odisha (horizontal share) in FFC is calculated at **4.659%**.
- The Share of Odisha is **Rs.24, 411.60 crore** in the divisible pool (States' share of taxes and Duties) of **Rs 5, 23,958 crore** in FY 2015-16.
- This **Rs. 5, 23,958 crore** in 2015-16 is **42% (Vertical Share)** of Net Proceeds of Taxes of the Centre, budgeted for FY 2015-16.
- Hence, Net Tax Proceeds of the Centre budgeted for FY 2015-16 is calculated at **Rs.12, 47,519 crore (Rs 5, 23,958/42%)**.
- During 13th FC (2014-15), **32% (Vertical Share)** of Net Tax Revenue of the Centre was the divisible pool (States' share of taxes and Duties).
- On the assumption of continuance of 13th FC award (no change in the formula of FFC), the Net Tax Proceeds of the Centre, the divisible pool (States' share of taxes and Duties) in FY 2015-16 would have been **Rs.3,99,206 crore(32%* Rs.12, 47,519 crore)**.
- During 13th FC (2014-15), the weighted average Share of Odisha (horizontal share) was at **4.793%**.
- Applying this 4.793% share to the net proceed of **Rs.3,99,206 crore**, the share tax, the estimated revenue for Odisha in FY 2015-16 would have been **Rs.19,132 crore (4.793%.*3,99,206 crore)**.

- Hence, net gain on account of FFC recommendations on account of Share Tax is calculated at **Rs.5279.58 crore (Rs.24, 411.60 crore - Rs.19,132 crore)**.

4.2 Impact due Sector & State Specific Grants

13th FC (TFC) had made the provision of grants-in aid for five specific segments; i) Revenue deficit, ii) disaster relief iii) local bodies iv) sector-specific schemes iv) state-specific schemes. The 14th FC recommends grants-in aid only for Post Devolution Revenue Deficit, Local Government and Disaster Management.

4.2.1 Sector Specific Grants: The moot objective of sector specific grants was to augment expenditure in specific sectors with a high degree of externalities in order to ensure desired minimum level of expenditures in every state. The 14th FC has not recommended any sector-specific grants for crucial sectors such as education, drinking water, roads & bridges, and district innovation. The revenue loss to Odisha on account of withdrawal of sector specific grants is estimated in the table 2 given below.

Table 2: Loss on Account of Sector Specific Grants(Rs. Crore)	754.66
<i>Grants for Maintenance of Roads & Bridges</i>	<i>291.00</i>
<i>Water Sector Management</i>	<i>46.00</i>
<i>Improvement of of Statistical Systems at State and District Level</i>	<i>6.00</i>
<i>Employee & Pension Database</i>	<i>7.50</i>
<i>Grants for improving Delivery of Justice</i>	<i>38.72</i>
<i>Forest Sector Grants</i>	<i>82.74</i>
<i>Grants for Elementary Education</i>	<i>232.00</i>
<i>Grants for UID</i>	<i>35.70</i>
<i>District Innovation Fund</i>	<i>15.00</i>

4.2.2 State Specific Grants:

The State specific Grants aim to address the needs specified by the States, which are to take care of deprivation, generate significant externalities and meet the needs of the marginal groups/areas. As no categorization of states in terms of

Special Category vs Non Special Category States has been recommended by the 14th Finance Commission, the revenue loss is estimated in table 3 given below.

Table 3: State Specific Grants	436.25
<i>Eco restoration of Chilika Lake</i>	<i>12.50</i>
<i>Construction of Anganwadi Centres</i>	<i>100.00</i>
<i>Upgradation of Health infrastructure</i>	<i>87.50</i>
<i>Incentive Grant for Energy Sector</i>	<i>125.00</i>
<i>Police Training</i>	<i>17.50</i>
<i>Upgradation of Jails</i>	<i>25.00</i>
<i>Fire Service</i>	<i>37.50</i>
<i>Preservation of Monuments and Buddhist Heritage</i>	<i>16.25</i>
<i>Establishment of Market Yard</i>	<i>15.00</i>

4.3 Impact due to Normal Central Assistance(NCA)

The distribution of the NCA is formula based and is an untied assistance to States. This has been withdrawn, as recommended by 14th Finance Commission. The revenue loss on account of withdrawal of NCA is estimated at Rs.732.17 crore in FY 2015-16.

4.4 Impact due to Schemes delinked from Central Support

As 8nos. of Centrally Sponsored Schemes have been delinked from support of the Centre, the revenue loss on that account is estimated at Rs.1854 crore. **Out of these eight schemes both Backward Region Grant Fund (BRGF) and National Scheme for Modernization of Police and other Forces contributes 86.27 % of total revenue loss whereas the BRGF alone contributes to 66.15% of the total loss.** The scheme wise loss is depicted in the following table 4.

Table 4: Delinked Schemes	Loss(Rs. Crore)	% Share
Backward Regions Grant Funds	1226.51	66.15%
National Scheme for Modernisation of Police and other Forces	372.89	20.11%
Scheme for Setting up of 6000 Model Schools at Block level at Benchmark of Excellence	141.74	7.64%
Rajiv Gandhi Panchayat Sasaktikaran Abhiyan (RGPSA)	50.00	2.70%
NEGAP	24.71	1.33%
Assistance to States for Infrastructure Development for Exports (ASIDE)	16.86	0.91%
Tourist Infrastructure	13.63	0.74%
National Mission on Food processing	7.71	0.42%
Total	1854.05	100.00%

4.5 Impact due to Change in Sharing Pattern of 33 nos. of Centrally Sponsored Schemes

Considering the recommendations of the 14th Finance Commission, the Union Budget 2015-16 has declared that 31 Schemes are to be fully sponsored by the Union Government, 8 Schemes have been delinked from support of the Centre (mentioned above) and 33 Schemes are expected to be run with the changed sharing pattern. The Centre-State funding pattern is being modified wherein the State's contribution in the total shares will go up, as per the recommendations of 14th Finance Commission. This will have additional burden on the State exchequer on account of these 33 numbers of CSS.

The State Budget 2015-16 has made a provision of Rs.12, 859.60 crore on account of these 33 CSS, as per the approved work plan. The Central Share is worked out at Rs.9208.16 crore. As per the data available, by applying the expected new share pattern the Central Share will decrease to Rs.6111.41 crore. Hence, additional burden

on the State is estimated at Rs. 3096.75 crore. The details are given in the following table 5 in Annexure 1.

5. Summary of Results

On account of the recommendations of 14th Finance Commission, the net loss to the State revenue (additional burden) is estimated at Rs.1594.30 crore.

Table 6 : Net Impact on the State		
	Description	Impact (Rs. Crore)
A.	Net Gain from Share Tax	5279.58
B. (2+3+4+5)	Net Loss from Central Assistance	6873.88
2	Normal Central Assistance	732.17
3	Schemes Delinked from Central Assistance as indicated in Union Budget 2015-16	1854.05
4	Schemes identified to run with Changed Sharing Pattern (as per Union Budget and indications received from Ministries/ Line Departments)	3096.75
5	State specific & other 13th Finance Commission Grants (not available as per recommendations of 14th Finance Commission)	1190.91
	Net Loss (B-A)	1594.30

Annexure 1

Table 5: Changed sharing pattern of 33 nos. of CSS (Rs crore)							
Sl. No	Name of the Scheme	2015-16/ Approved Work Plan 1	Existing Share Pattern	2015-16 Centre Share (as per Approved Work Plan) 2	Expected New Share Pattern	Estimated Central Share due to expected Change in Share Pattern 3	Estimated Loss to State in FY 2015- 16 4=(2-3)
	Schemes identified to run with Changed Sharing Pattern	12859.60		9208.16		6111.41	3096.75
1	National Food Security Mission	87.41	100%	87.41	50%	43.71	43.71
2	National Horticulture Mission	128.30	85%-15%	109.06	50%	64.15	44.91
3	National Mission on Sustainable Agriculture	45.41	50%:50%	22.71	50%	22.71	0.00
4	National Oilseed and Oil Palm Mission	22.99	75%:25%	17.24	50%	11.49	5.75
5	National Mission on Agriculture Extension & Technology	87.63	85%:15%	74.48	50%	43.81	30.67
6	RKVY	554.54	100%	554.54	50%	277.27	277.27
7	Integrated Watershed Management Programme (IWMP)	251.67	90%:10%	226.50	50%	125.84	100.67
8	National Livestock Management Programme	12.68	90%:10%	11.41	50%	6.34	5.07
9	National Livestock Health & Disease Control Programme(LHDC)	18.24	90%:10%	16.41	50%	9.12	7.29
10	National Plan for Dairy Devp.(NPCDD)	15.22	75%:25%	11.42	50%	7.61	3.81
11	National Rural Drinking Water Programme (NRDWP)	469.11	75%:25%	351.83	50%	234.55	117.28
12	Swachh Bharat Abhiyan	666.70	75%:25%	500.03	50%	333.35	166.68
13	National Afforestation Programme (National Mission for a Green India)	19.80	100%	19.80	50%	9.90	9.90
14	Conservation of Natural Resources & Ecosystem	2.20	70%:30%	1.54	50%	1.10	0.44
15	Integrated Development of Wild Life Habitats	4.29	75%:25%	3.22	50%	2.15	1.07
16	National Health Mission including NRHM	1088.32	75%:25%	816.24	50%	544.16	272.08

17	National Mission on Ayush including Mission on Medicinal Plants	14.51	75%:25%	10.88	50%	7.26	3.63
18	National AIDS & STD Control Programme	46.39	100%	46.39	60%	27.83	18.56
19	National Urban Livelihood Mission	35.00	75%:25%	26.25	75%	26.25	0.00
20	Rajiv Awas Yojana		75%:25%			0.00	0.00
21	National River Conservation Programme (NRCP)						
22	SarvaShikshaAbhiyan (SSA)	2250.00	65%:35%	1462.50	50%	1125.00	337.50
23	National Programme Nutritional Support to Primary Education (MDM)	760.00	75%:25%	570.00	75%	570.00	0.00
24	Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	874.00	75%:25%	655.50	75%	655.50	0.00
25	Rashtriya Uchachatar Shiksha Abhiyan (RUSA)	85.00	65%:35%	55.25	65%	55.25	0.00
26	Skill Development Mission	10.92	75%:25%	8.19	75%	8.19	0.00
27	Development of Infrastructure Facilities for Judiciary including Gram Nyayalayas	15.61	75%:25%	11.71	50%	7.81	3.90
28	Rural Housing - Housing for All (IAY)	1286.16	75%:25%	964.62	50%	643.08	321.54
29	National Rural Livelihood Mission (NRLM)	367.69	75%:25%	275.77	50%	183.85	91.92
30	National Land Record Management Programme (NLRMP)	4.00	100%	4.00	50%	2.00	2.00
31	Integrated Child Devp. Service (ICDS)	1734.36	50%:50%	867.18	50%	867.18	0.00
32	Accelerated Irrigation Benefit Programme(AIBP) & other water resources programme	1889.39	75%:25%	1417.04	10%	188.94	1228.10
33	Panchayat Yuva Krida aur Khel Abhiyan (PYKKA)	12.07	75%:25%	9.05	50%	6.04	3.02