Addressing the Concerns with ToR in 15th FC

What is the issue?

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The 15th Finance Commission constituted recently is shaped with certain issues relating to the Terms of Reference (ToR).

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What is the role of the Finance Commission?

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- The Finance Commission (FC) is a constitutional body created to address issues of vertical and horizontal imbalances of federal finances in India.
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- It is appointed every five years and consists of a chairman and four other members.
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- The constitutional mandate of the FC is\n
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1. To decide on the proportion of tax revenue to be shared with the States
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2. The principles which should govern the grants-in-aid to States.
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3. Responsibility to make recommendations on policy issues referred by the President in the interests of sound finance.
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- The recommendations made by the FC are advisory in nature and, hence, not binding on the Government.
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What is Terms of Reference (ToR)?

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- Besides the core mandated areas of FC like tax devolution, ToR is a set of other areas that the President mandates the FC to provide its recommendations.
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- Although the FC is an independent quasi-judicial body, it can work on areas which suit the government's preferences by careful handling of the ToR.
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- Some of the key ToR for the 15th FC are reviewing the need for revenue deficit grants, assessing the increased tax devolution of the 14th FC, measuring effect of flagship schemes, etc.
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What are the concerns with ToR in 15th FC?

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- Some provisions under the ToR of the 15th FC seem to transgress upon the discretionary domain of the Commission.
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- The ToR of 15th FC has referred for estimation of revenue potential and fiscal capacity of only the Union and States leaving aside the local governments (LG), which are a crucial part of the Federal structure.
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- There is a provision in ToR for examining the fiscal impact of the "enhanced tax devolution" of the 14th FC and of national development programmes including the New India 2022.
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- Evaluating the fiscal impact of 14th FC whose period of recommendation ends in 2020 is beyond the purview of this Commission.
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- The 15th FC's ToR has omitted certain significant provisions like 'sums to be paid to states in need of assistance', which are generally found in all the previous FCs.
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- These provisions could hugely affect the LGs whose shares have increased many times since the last 2 FCs.
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What measures needs to be taken to address these concerns?

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- Provisions in ToR has to be in line with the principle of cooperative federalism which ensures citizens with comparable level of fundamental services irrespective of residential jurisdiction.
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- The efforts to provide grants to local bodies has to be consolidated with the initiatives taken by 13th and 14th FC to improve the quality of basic services.
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- Balanced regional development, inter regional equity are goals to be focussed by all tiers of the federal structure and not left to the states as implied in the ToR to usher in inclusive growth.
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Source: Business Line

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