CHAPTER- 8

REVIEW OF STATE FINANCES

8.1 The terms of reference (TOR) has mandated that TASFC while making its recommendations shall have regard, among other considerations, to the resources of GOA and demands ther eon, in particular, on account of expenditure on maintenance of law and order, civil administration, debt servicing and other committed expenditure. This has mad e it incumbent upon TASFC to make a review of state finances on the basis of actual behaviour of different fiscal indicators.

8.2 Assam is one of the ten special category states of the country strategically located along its international borders. Its terrain is comp osed of both hills and plains, inhabited by myriad ethnic group s of d iverse socio-economic culture and tradition. The administr ation of the two hill d istricts- Karbi-Anglong and Nor th Cachar Hills-is vested on the respective Autonomous District Councils (ADC). The four plains districts- Kokrajhar, Udalguri, Chirang and Baksa- falling under the Bodoland Territorial Area Districts (BTAD), are administered by the Bodoland Territor ial Council (BTC). These six districts together constitute the Schedule VI areas of the state. Apart from the autonomous councils under Schedule VI areas, six more autonomous councils have been constituted for certain schedule tribes. These are (i) Mising Autonomous Council, (ii) Rabha Hasong Autonomous Council, (iii) Tiwa Autonomous Council, (iv) Deor i Autonomous Council, (v) Sonowal Kachari Autonomous Council and (vi) Thengal Kachari Autonomous Council. The process of formal election to these councils has been started. Pending election these councils consist of Ad hoc functionaries. However, separate budgetary allocations are made for them.

8.3 Despite abundance of physical resources, the financial resource base of the state is weak. On the contrary, the administrative overhead is unduly high because GOA has to satisfy the hopes and aspirations of various ethnic and sub-ethnic groups thinly spread over the state. The presence of a pluralistic society has necessitated the creation of administrative structures and the implementation of programmes not all of which are based on economic viability considerations. All these factors have been germane to the creation of a larger than required administrative structures with considerable duplication of functions and costs. This has had a serious impact on the growth of non-Plan revenue expenditure of GOA.

8.4 The state has conspicuous natural resources in abundance. The presence of vibrant tea and oil sectors add to its strength. But its constraints are also many like lack of infrastructure, entrepreneurship, geographical remoteness, recurrence of floods and prolonged rainy season restricting physical construction period to a few months in winter. Given the balance of its natural advantages over its constraints, the state had been able to maintain a modest growth rate in the past and also to contain budgetary imbalances within manageable limits. But even this modest growth could not be sustained for long. It started declining in the mid eighties with deceleration in agriculture and stagnation in industry.

8.5 Right from the beginning of the nineties, acute and persistent financial problems gripped GOA due to chronic mismatch between revenue and expenditure. The growth of GOA's revenue has not been commensurate with the growth of its non-plan revenue expenditure. The factors responsible for this impasse have been tardy economic development, inadequate investment on industralisation and infrastructure development and extremely slow pace of urbanization. The tax base being narrow there was very little scope for enhanced taxation. Sales Tax, the only buoyant source of revenue, had reached a saturation point and its further exploitation was deemed to be counter-productive due to probable tr ade diversion. Excise revenue had been languishing because of prohibition in some areas. Agricultural income tax (AIT) which is collected from tea is most volatile to demand and price fluctuations in domestic and international markets. Due to sharp competition from other tea producing countries coupled with inherent sickness of domestic production, the yield from AIT plummeted to an all time low in 2002-03. The income fr om royalty on crude oil, state's most valuable depleting asset, has been dependent on GOI, since the rate of royalty is determined by them under a Central Act and the Rules framed thereunder. The income from forest has almost faded away because of the national policy for conservation of forests and the Supreme Court's ban on cutting of trees. Service charges, in general, are either too low or not levied at all, allowing the user the benefit of services virtually fr ee of cost.

8.6 On the other hand, there has been a phenomenal increase in the wage bill including pensionary liabilities, in the wake of pay and pension revisions and annual increases in dearness allowance (DA) to neutralize inflation. The exponential growth of public debt with concomitant liability of repayment and servicing, the need to provide budgetary suppor t to sick public sector und ertakings (PSU) and the hike in security related expenditure due to protracted insurgencies has blown government expenditure out of all proportions. Added to this has been the high cost of pr oviding social ser vices and maintenance and upkeep of existing assets induced by inflation and high freight cost. The state depends on other parts of the country for meeting the deficit in food grains, essential inputs and manufactured goods and the mounting cost of transportation has add ed ad ditional financial burden.

8.7 Against this dismal backdrop, acute fiscal imbalance star ted surfacing from the beginning of 1990 and by 1999-2000 it showed a sharp deterioration. The yaw ning gap between revenue and expenditure has been the root cause of this fiscal malady. It had an adverse affect on the cash flows of GOA and intermittently pushed it to having recourse to unauthorized overdraft (OD) with Reserve Bank of India (RBI). In fact, GOA was on OD for 294 days in 2000-01 out of which government payment was suspended by RBI for 175 days. Similar has been the situation in the next two fiscals. During 2001-02 and 2002-03, GOA was on OD for 312 and 255 days respectively and payment was suspended by RBI for 174 and 154 days respectively . It has not only undermined GOA's credibility in public eye but halted the pace of normal administr ation and development activities as well. However, such situation has been averted by availing, from time to time, GOA's dues from GOI in advance supplemented by ways and means advances from GOI recoverable within the year. But these were simply palliatives, which did not solve and only postponed the resolution of the problem.

8.8 Upto 1988-89, GOI's budgetary support had been extended to the special categor y states including Assam both for plan funding and to cover non-plan gap. However, this special dispensation was discontinued from 1989-90 on the assumption that transfer recommend ed by the Ninth Finance Commission (NFC) would fully meet the requirements of GOA on non-plan account. However, belying the expectation of NFC, the actual position that emerged has been totally at variance with the assessment of NFC. While NFC assessed the overall non-plan revenue expend iture of GOA for the period 1990-95 at Rs. 7294 crores, the actual expenditure booked by the Accountant General (AG) for that period amounted to Rs. 9472 crores. It was not an aberration. There have been quite a few such instances of wide variations between assessment made by successive CFCs and the actual. For example, against the Tenth Finance Commission's (TEFC) forecast of non-plan revenue expenditure during 1995-2000 at Rs. 15132 crores, the actual expenditure incurred by GOA was Rs. 16459 crores. Projected devolution on account of state's share of central taxes during that period was Rs. 7064 crores, but actual devolution on the basis of collection was far less at Rs. 6362 crores. Similarly, Eleventh Finance Commission (EFC) assessment of non-plan revenue expenditure during 2000-05 was Rs. 23670 crores while actual expenditure amounted to Rs. 31414 crores. In the same period recommended devolution of central taxes was Rs. 12362 crores but the actual devolution based on collection was only Rs. 9950 crores. As a consequence, as per assessment of TEFC its terminal year 1999-2000 was expected to close with a nominal surplus of Rs. 35.67 crores, but the year actually closed with a non-plan revenue deficit of Rs. 1358.42 crores. Likewise, terminal year of EFC 2004-05 was expected to close with a post devolution surplus of Rs. 1461 crores but it closed with a deficit of Rs. 1386 crores. The variation was substantial indeed. The full financial burden of meeting this additional gap over the level assessed by the CFCs, devolved on GOA. This alone explains the magnitude and root cause of fiscal imbalance of GOA. Apart from this, the percentage share of Assam in the central divisible pool has been constantly declining under the award of successive CFCs, from 4.07 per cent under the award of the Eighth CFC to 3.22 per cent under the Twelfth CFC. The position is summarized at Annexure- 8.1.

8.9 In this background, the negative budgetary balances started soaring and it touched its peak during 1999-2000. In that year the overall revenue deficit, non-plan revenue deficit and fiscal deficit recorded unprecedented levels. These were Rs. 1004.73 crores, Rs. 1358.42 crores and Rs. 1605.82 crores respectively. In terms of per centage of GSDP it was 3.43 per cent, 4.64 per cent and 5.49 per cent respectively. The repeated budgetary imbalances comp elled GOA to undertake fiscal r eform programmes. Accord ingly in January 2000, a fiscal reform progr amme was finalized in consultation with GOI, having the following broad features:

(i) Ban on taking over new private institutions in education and other areas.

(ii) Rationalization of manpower in government through abolition of non-essential vacant posts and redeployment of surplus man power.

(iii) Ban on creation of new posts except ed ucation, health and police d epar tments.

(iv) Tax reforms including introduction of entry tax, review of tax concessions to industries, improvement in tax compliance and rationalization of sales tax.

(v) Impr ovement in cost recovery by revising user charges in education, irrigation, water supply, health and industrial estates.

(vi) Power sector reform including the constitution of a State Electricity Regulatory Commission.

(vii) Reform of public sector undertakings including introduction of VRS and leasing of PSUs.

8.10 Thereafter, in pursuance of the recommendations of EFC, GOA had implemented the Medium Term Fiscal Reform Programmes (MTFRP) to contain fiscal imbalance. The major agenda of this reform programme has been the reduction of revenue deficit as a percentage of revenue receipt by 16 per cent in a period of five years from 2000-05.

8.11 In pursuance of the recommendations of TFC, GOA has also enacted the Assam Fiscal Responsibility and Budget Management Act, 2005 (AFRBM). Another significant step in this direction has been the finalization of Medium Term Fiscal Plan (MTFP) under Assam Governance and Public Resource Management Programme (AGPRMP) for the period 2005-10. The twin objectives of AFRBM and MTFP are to eliminate revenue deficit and to contain fiscal deficit to 3 per cent of GSDP by 2008-09.

8.12 The aforesaid fiscal reform measures unleashed by GOA have brought about significant improvement and, in fact, a complete turn around of fiscal scenario has been made possible in 2005-06. The overall budgetary position of GOA from 2001-02 to 2007-08 (BE) is at Annexure- 8.2. It will appear from Annexure- 8.2 (items 8-10) that for the first time in 2005-06 overall revenue, non-plan revenue and fiscal balances emerged in the positive and it also recorded a marked improvement as percentage of GSDP (items 13-15).

8.13 The improvement in non-plan revenue account is significant in view of normalization of plan schemes undertaken during this period. Prior to 2002-03, almost 70 per cent of the revenue component of state plan outlay consisted of salary thereby eroding the development content of plan outlay. From 2002-03 onwards, GOA has, in a phased manner, transferred about 87130 plan posts involving a hefty sum of Rs. 813 crores from plan to non-plan revenue account. In spite of this huge diversion from plan to non-plan, the improvement under non-plan revenue account is of particular significance. Another significant feature of the budgetary position of GOA is that debt stock as percentage of GSDP has remained more or less at the same level (item 16 of Annexure- 8.2).

8.14 As pointed out earlier, the budgetary imbalance that started soaring from the early nineties continued unabated till 2004-05. A turn around in fiscal scenario took place in 2005-06 in which year revenue and fiscal deficits were not only wiped out but became positive. A closer look into the fiscal scenario will reveal that the performance of GOA in collecting its own tax and non-tax revenues played a vital role in this fiscal turn around. The devolution on account of GOA's share of central taxes, however, has shown less buoyancy. This is inspite of the fact that taxes and duties constitutionally assigned to the centre are more elastic in nature compared to state taxes and duties. During 2000-01, state taxes both in absolute term and as percentage of GSDP was far below the level of devolution of central taxes and duties. But by 2004-05, state taxes outstripped state's share of central taxes in absolute term and as percentage of GSDP as well. Details are at Annexure- 8.3.

STATE TAXES

8.15 Own tax revenue of GOA is derived mainly from 1) Sales Tax [now the Assam Value Added Tax (VAT)] (about 75%), 2) Agricultural Income Tax, 3) Professions etc. Tax, 4) Land Revenue (including cess on green tea leaf, 5) Stamps and Registration, 6) State Excise, 7) M.V. Tax, 8) Passenger and Goods Tax, 9) Electricity Duty and 10) Entertainment Tax. As per accounts compiled by C&AG, the aggregate collection from state taxes amounted to Rs. 3482.89 crores in 2006-07. It recorded a step up of 7.8 per cent over the previous year. It formed 5.45 per cent of GSDP at current prices. In this regard, Twelfth Finance Commission (TFC) has set a target of tax: GSDP ratio at 6.8 per cent by 2009-10, the terminal year of its award period. This target of tax: GSDP ratio seems to be reasonable. Further, TFC has assumed an annual growth of 13.2 per cent in collection of state taxes upto 2009-10. It has been reported that the actual collection of State taxes during 2006-07 includ es a sum of Rs. 216.43 crores being the yield from entry tax. By a recent verdict of the Hon'ble Gauhati High Court, the levy of entry tax has been scrapped. As such ther e will be no accrual against this item from 2007-08 onwards. Besides, a consensus has been ar rived at between the Central and the State governments to phase out Centr al Sales Tax (CST) over a period of three years beginning from 2007-08. As a part of this consensus, the rate of CST has to be reduced from 4 per cent to nil, that is, annually by 1 per centage point with effect from 01-04-2007. The revenue loss to the states on account of reduction of CST rate will be compensated by non-plan grants-in-aid from GOI. TASFC adopted the actual collection of 2006-07, after making necessary adjustments for entry tax and CST, as the base for the purpose of projection for the subsequent years. An annual grow th rate of 11 per cent has been assumed over the base year figure as against 13.2 per cent recommended by TFC. In respect of CST, the actual collection of Rs. 550.49 crores in 2006-07 has been projected at 11 per cent for the subsequent year s having made a reduction in rate of 1 percentage point in each year. The estimated loss due to reduction in rate has been counter balanced by contra credit under non-plan grant from GOI. On this basis the projected amounts of tax revenue of GOA will be Rs. 3685.47 crores for 2008-09, Rs. 39 02.66 crores for 2009-10 and Rs. 4123.04 crores for 2010-11 as per Annexure-8.3.

NON-TAX REVENUE

8.16 Royalty on petroleum crude is the major component of non-tax revenue of GOA. In regar d to revision of rate of royalty, the past practice had been to revise the rate once in a block period of three years. Ministry of Petroleum and Natural Gas used to fix the rate at the expiry of every three years, based on the administered price of crude oil which had no relevance to import parity price. As a result, the yield from royalty stagnated due to unrealistic price and the time lag in revision. This practice has been changed now and the rate of royalty is linked to 20 per cent of wellhead price of imported crude oil. The switch over to the revised procedure has, no doubt, brought flexibility to the yield from oil royalty which has increased from Rs. 368 crores in 2000-01 to Rs. 1386 crores in 2006-07. TFC had also recommended sharing of profit of petroleum with the oil producing states at the rate of 50 per cent. However, this recommendation has not been acted upon by GOI so far.

8.17 Accrual of interest and dividend from loan and investment, respectively, made by GOA had been very nominal in the past. It started picking up from 2005-06. This is mainly due to investment of surplus cash balance in short term securities. However, it is a temporary phenomenon and may not continue for a long period. Non-tax revenue from forestry has lost much of its significance due to the national policy of conservation of forests. Anyway, it has again started picking up from 2005-06. Other items of non-tax revenue are service charges, rents, rates etc., the yield from which will depend upon the efficiency and cost effectiveness of providing these services.

8.18 TFC has set a target of Non-Tax Revenue: GSDP ratio at 1.4 per cent by the terminal year of its award period, i.e. 2009-10. This ratio has already been exceeded and it stood at 2.53 per cent in 2005-06 itself. TFC had assumed an annual growth rate of 9.2 per cent in non-tax revenue. Since the base is already too high compared to the level presumed by TFC, it would be fair to assume a modest 5 per cent growth over the budget estimates of 2007-08 for the purpose of projection upto 2010-11 (Annexur e-8.3).

SHARE OF CENTRAL TAXES

8.19 Devolution recommended by TFC on account of state's share in central taxes and duties is Rs. 19850.69 crores for the period 2005-10. The year wise phasing is indicated below:

Table- A

2005-06	2006-07	2007-08	2008-09	2009-10	2005-10
2958.19	3386.77	3886.12	4469.03	5150.58	19850.69

The actual amounts released by GOI during 2005-06 and 2006-07 were Rs. 3057.43 cr ores and Rs. 3899.42 crores respectively. The budget estimates of GOA for 2007-08 is Rs. 4226.02 crores which appear s to be conservatice compared to the actual of 2006-07. In view of this, the actual of 2006-07 has been adopted as the basis for the purpose of projection upto 2010-11, assuming an annual growth rate of 11 per cent over the base year figure (Annexure- 8.3).

NON-PLAN GRANTS

8.20 Grants-in-aid from GOI under non-plan is received by GOA mainly under the award of CFCs. Apart from this, non-plan grants for other purposes are also received. These include modernization of police force, re-imbursement of security r elated expenditure, home guards, civil defence, Indo-Bangladesh bord er check posts, calamity relief, national highways and the like. Usually, receipt and expenditure on this account should counter -balance each other. Hence, in working out the Balance Fr om Current Revenues

(BCR) these can be struck off from both receipt and expenditure sides. However, since expenditure against these grants is built in the expenditure stream of GOA it cannot be segregated from other expenditure. It is, therefore, essential to include these grants in the receipt side. As per actual of 2006-07, non-plan grants released by GOI is Rs. 708.70 crores and this has been projected during the forecast period at a nominal growth rate of 5 per cent annually. Apart from this, non-plan grants from GOI to compensate the estimated loss due to reduction in rate of CST has been assumed in all the years from 2007-08 onwards as per details at Annexure- 8.3.

NON-PLAN REVENUE EXPENDITURE

8.21 The non-plan revenue expenditure (NPRE) of GOA which was Rs. 5147 crores in 2000-01 shot up to Rs. 9794 crores as per actual of 2006-07. Thus within a span of six years it recorded a growth of about 90 per cent. The major component of NPRE is, of course, the wage bill followed by pension and other retirement benefits, debt servicing and others.

8.22 Salary expenditure was roughly of the order of Rs. 3000 crores in 2000-01 and it went up to Rs. 4854 crores by 2006-07 recording an increase of about 62 per cent in six years. It constituted about 51 per cent of total non-plan expenditure. The actual of 2006-07 has been adopted as the base and projected at 8 per cent upto 2010-11. It is a long standing demand of GOA employees to establish parity in emoluments with GOI employees at the same level as the scales recommended by the Fifth Central Pay Commission. Meanwhile, the Sixth Central Pay Commission is also on the verge of submitting its report. The additional financial burden likely to devolve on GOA in the wake of pay and pension revisions could not be taken into consideration by TASFC, because a Pay Commission, to be appointed shortly by GOA has to consider the issues of pay revision and parity with GOI scales.

8.23 Expenditure on pension and other retirement benefits was Rs. 673 crores in 2000-01 and it went up to Rs. 1178 crores during 2006-07 recording an increase of about 75 percent in six years. TFC has recommended an annual growth of 10 per cent in respect of expenditure on pension and other retirement benefits. The actual of 2006-07 has been projected at 10 per cent for the subsequent years.

8.24 Expenditure on debt servicing amounted to Rs. 865 crores in 2000-01 and it increased to Rs. 1516 crores by 2006-07 recording a rise of 75 per cent in six years. In the same period outstanding public debt went up from Rs. 10067 crores to Rs. 18457 crores. During this period debt- GSDP ratio moved from 27.39 per cent to 28.87 per cent. Upper limit of debt-GSDP ratio, as recommended by TFC, is 30.8 per cent by 2009-10. Debt servicing accounted for about 15.8 per cent of total non-plan expenditure during 2006-07. TFC has recommended an annual growth of 7.5 per cent in respect of interest payment. The actual of 2006-07 has been projected at 7.5 per cent for the subsequent years up to 2010-11.

8.25 As mentioned earlier in paragraph 8.21, the total NPRE reflected in the preliminary actual of 2006-07 is Rs. 9794 crores. Net of salary, pension and interest payment, the amount left is Rs. 2246 crores. This amount may be construed as operation and maintenance and other contingent expenditure. This amount has been projected at a 10 per cent growth rate for the remaining years upto 2010-11. Details of NPRE is at Annexure- 8.4.

8.26 On the basis of the foregoing analysis of revenue and expenditure of GOA, the BCRs from 2006-07 to 2010-11 have been drawn as at Annexure- 8.5. Non-Plan revenue deficit/surplus or BCR has been always negative in case of GOA. The negative BCR was well over thousand crores from 2000-05 as per item 9 of Annexure- 8.2. For the first time in 2005-06, BCR recorded a surplus of Rs. 281.17 crores. But in spite of this favourable trend, BCR is again estimated at deficit of Rs. 3066.70 crores and Rs. 1465.84 crores in the revised estimates of 2006-07 and the budget estimates of 2007-08 respectively as per state budget 2007-08. There seems to be no reason for BCR to take a downward plunge without having any remarkable additional financial burden during these years. Meanwhile, accounts for 2006-07 has been finalized by CAG which shows that BCR has again emerged in a surplus of Rs. 156.25 crores, in place of a deficit of Rs. 3066.70 crores estimated by GOA. As such there is no reason to be apprehensive about current year's budgetary BCR deficit of Rs. 1465.84 crores, unless of course any major decision is taken like pay revision etc involving huge outgo on non-plan revenue account. BCR, no doubt, is a true indicator in determining state's capability in resource transfer to sub-statal bodies.

8.27 TASFC, has assessed the BCR from 2006-11 as per Annexure- 8.5 based on the actual of 2006-07. BCR as estimated for all these years might improve even further. This is so because the estimate is based on actual of 2006-07. The aggregate yield from non-tax revenue seems to be very high compared to the revised estimate of that year or even the budget estimates of next year. It would be unfair to adopt this high figure as the base for projection without proper analysis of the causes of this abnormal increase and identifying the secular trends. Such an exercise is not possible in the limited time given to TASFC. Similarly, in the aggregate non-plan revenue expenditure of 2006-07 (which is taken as the base for projection) emoluments of "provincialised" panchayat staff as well as current level of devolution to PRIs/ULBs are built in and net of these BCR will improve further.

SCHEDULE VI AREAS

8.28 As per para 2 (a) (i) of the TOR, TASFC has been mandated to make its recommendations in respect of PRIs and ULBs, after taking into account the transfers that are to be made by GOA to the Autonomous District Councils (ADCs) constituted under Schedule VI of the Constitution of India.

8.29 Since the commencement of the Constitution and following the reorganization of Assam two ADCs have been functioning in the two hill districts of the State, one in Karbi Anglong and the other in North Cachar Hill Districts.

8.30 The total area of the two hill districts is 15322 sq. kms. which accounted for 20.58 percent of the total geographical area of the State of Assam. As per 2001 census the total population of the two hill districts is 10, 01,390 which constitute 3.76 per cent of the total State population. Out of this population 58.06 per cent belong to ST and 3.25 per cent belong to SC. The density of population in Karbi Anglong is 78 per sq. km. while in NC Hills it is 38. The two autonomous districts are mostly inhabited by backward hill tribes. Their mainstay is agriculture which is predominantly shifting (jhum) cultivation. The general characteristics of land being hilly terrain, the people living on hill tops and slopes are constrained to practice jhum cultivation, which does not even provide subsistence to the jhumias for the whole year. As a result people in general are poor and backward – deprived of basic minimum services like safe drinking water, medical care, education and better connectivity.

8.31 It is evident that long before the 73rd and the 74th amendments came into force, the two hill districts of Assam were enjoying autonomy under the special status accorded to them under Schedule VI of the Constitution. However, compared to the three tiers envisaged for PRIs in the 73rd amendment, the ADCs have only one tier at the district level. Recently both the ADCs have constituted ad hoc village level councils, but their empowerment is still to be done. The system of holding election to the village councils has yet to be put in place.

8.32 The ADCs have been vested with wide responsibilities within the Constitutional framework covering legislative, executive and judicial functions. Most important among the legislative functions are 1) matters relating to land, ii) forests, iii) regulation of jhum and iv) social customs. Judicial functions are exercised by ADCs wherever all the parties are Scheduled Tribes (ST) and provided that the offence is not punishable with imprisonment for more than five years. The administration of justice is based on a three tier judicial system – village courts, subordinate district council courts and district council courts. Among the three tiers, the village courts are more proactive. Each of these village courts settle all petty disputes itself without taking recourse to formal judicial system run by the Deputy Commissioner (DC). ADCs discharge executive functions arising out of implementation of Acts, Rules and Regulations framed by them. Besides, thirty departments have been entrusted to them and the executive power in respect of these departments vest in the ADCs. The non-entrusted subjects, however, are directly controlled by GOA.

8.33 ADCs consist of thirty members both elected and nominated-26 elected and 4 nominated-in Karbi Anglong and 28 elected and 2 nominated in NC Hills. Each ADC, unless dissolved earlier, continues for a period of five years from the date of its first meeting. There is a Chairman and a Deputy Chairman for each ADC. Further, there is an Executive Council (EC) with the Chief Executive Member (CEM) as its head and a fixed number of Executive Members. They are appointed by the Governor on the advice of the CEM. All executives functions of ADC are vested with the EC. There is a Secretariat in each ADC with a Principal Secretary as its head. The Circle Officers and BDOs look after the revenue administration and developmental activities of the circles and blocks respectively. They work under the overall control of the ADC.

8.34 After 73rd and 74th amendments to the Constitution, an MOU was signed on 01-04-1995 by the ADCs with the Chief Minister of Assam. As per the MOU apart from 30 departments, 29 subjects listed in Schedule XI for PRIs were entrusted to the ADCs and the executive power of such subjects stood delegated to the ADCs by a resolution of the State Assembly published under Notification No. HAD 57/95/268-269 dated 25-09-1996.

8.35 The MOU envisaged that to finance the expenditure on the delegated subjects and entrusted subjects, GOA would release funds to the ADCs on a half yearly basis and it would be the duty of the ADCs to submit the detailed accounts every month to the Accountant General (AG), Assam.

8.36 The ADCs have been empowered by the Constitution to levy and collect land revenue, taxes on land and buildings, tolls on persons, taxes on profession, trades, callings and employments, taxes on animals, vehicles and boats, taxes on entry of goods etc.

Besides the sources of revenue allocated by the Constitution, the ADCs also get 90 per cent of MV Tax and 60 per cent of r oyalty on miner als as assigned r evenues from GOA.

8.37 The budgetary position of the two ADCs, as r eflected in the bud get document of GOA, is at Annexure- 8.6.

8.38 Until the creation of Bodoland Territorial Council (BTC), the Schedule VI areas in Assam were limited to the two hill districts of Karbi Anglong and NC Hills. After signing a tripartite Memorandum of Settlement (MOS) between the Bodo Liberation Tiger (BLT), the GOA and the GOI, the BTC was created in October, 2003 under Schedule VI of the Constitution. BTC consists of the four districts of Kokrajhar, Udalguri, Chirang and Baksa covering 3079 villages. By an amendment of Schedule VI, 40 departments were handed over to the BTC. While the administrative organ is known as BTC, the area covered under the BTC is known as the Bodoland Territorial Area Districts (BTAD).

8.39 The total geographical area of BTAD is 8970 sq. km and the total population is 26, 31,289, out of which 51.48 per cent belong to the ST. It cover s 12.05 per cent of the total geographical area of the State and 9.87 per cent of the population. Thus, with the creation of B TC about one third (32.63%) of the total area and about one seventh (13.63%) of the total population of the State is covered by Schedule VI areas.

8.40 The BTC consists of not more than 46 members, 40 directly elected on the basis of adult suffrage and 6 nominated by GOA. Out of 40 elected representatives, 30 seats are reserved for ST, 5 for non tribal communities and another 5 open to all communities.

8.41 The BTC secretariat is headed by a senior IAS officer designated as the Principal Secretary. The executive functions of BTC are exercised through the Principal Secretar y who is assisted by officers and staff deputed by GOA as at Annexure- 8.7.

8.42 The BTC has been empowered to make appointment to all non-gazetted posts under its control. However, all gazetted officers in the BTC Secretariat as well as the Heads of Department and other District Officers are either appointed or deputed by GOA.

8.43 The executive power of the BTC is vested with the Executive Council consisting of the Chief Executive Member (CEM), the Deputy CEM and 12 Executive Members. As stated earlier, the BTC Legislative Assembly has 46 members, who among themselves elect one Speaker and one Deputy Speaker. The BTC has the power to legislate on the 40 subjects entrusted to them.

8.44 With the creation of the BTC, the erstwhile PRIs within BTAD had to be abolished. In their place village level local administration was vested with the Village Councils. The Village Councils have been renamed as Village Council Development Committees (VCDC). GOA by notification No.TAD/B TC/129/2006/90 dated 30-06-2006 has constituted 415 VCDCs covering 3069 villages.

8.45 BTAD is inhabited mainly by backward ST communities. Their mainstay is primitive agriculture which can barely provide them sustenance throughout the year. Consequently they remain steeped in poverty, unemployment, inadequate income generation and relative deprivation. This state of affairs created widespread d iscontent lead ing to prolonged agitation and unrest. The creation of the BTAD marked the culmination of insurgency. But the fact remains that the four districts representing BTAD are remote and underdeveloped areas having little or very poor infrastr ucture. Only Kokrajhar has been a district HQ earlier and Udalguri a Sub-Divisional HQ. Baksa and Chirang are totally lacking infr astructure to serve as distr ict HQs.

8.46 It is reported that the Ministry of Home Affairs (MHA) Government of India has sanctioned seven projects for upgrad ation of infrastructure in BTAD amounting to Rs.35 crores. As of now, financial expenditure made is Rs.29.62 crores which is 85 per cent of the amount sanctioned.

8.47 Apart fr om this another socio-economic package covering 18 projects of road construction/improvement has been approved by GOI at an estimated cost of Rs.248 cr ores. An amount of Rs.100 cr ores has already been released by GOI out of which Rs.81.59 cr ores has been placed at the disposal of BTC. The projects are at various stages of completion.

8.48 The budgetary allocation of GOA for administration of BTAD in respect of both entrusted and non-entrusted subjects and accrual of revenue as per the budget estimates of 2007-08 is as under:

Revenue Receipt - Rs.199.32 lakh

Non-Plan Rev. Exp. - Rs.53812.81 lakh

8.49 The total bud getary allocation of GOA for Schedule VI ar eas comp rising of Karbi Anglong, NC Hills and BTAD in 2007-08 is Rs.91342.81 lakhs. Revenue collection from these areas during the year is only Rs.2260.45 lakhs. These are alr eady built in in the expenditure stream of GOA. Any further requirement on this account may be placed before the Thirteenth Central Finance Commission.

AUTONOMOUS TRIBAL COUNCILS

8.50 As mentioned in paragr aph 8.2 there are six autonomous councils for certain schedule tribes belonging to the Brahmaputra Valley areas. In add ition, for the hill tribes of Barak Valley there is a

Barak Valley Hill Tribes Development Council. GOA make separate budgetary allocations for each of these tribal councils, both under plan and under non-Plan. Budgetary allocations for 2007-08 are shown at Annexure – 8.8. The expenditure incurred by GOA for these councils under non-plan has been taken into account by TASFC in the assessment of NPRE of GOA.

8.51 The Constitution of India has clearly demarcated the functions and finances of the Union and the States in three lists contained in Schedule VII, viz, the Union, State and Concurrent lists. Parliament and the State Legislatures have the power to make laws with respect to any of the matters enumerated in the concurrent list. There is, however, no separate list of taxes for local bodies inspite of there being lists of functions for PRIs and ULBs under Schedule XI and XII respectively. Even the 73rd and 74th Constitutional amendments have not considered the issue of demarcating the sources of revenue of the local bodies. In the absence of a separate list of taxes, local bodies continue to remain dependent on State Legislature in respect of their entitlement to taxes from the state list. With a view to removing this imbalance between the functions and finances of local bodies, the Constitutional amendment envisaged transfer of resources from state to local bodies through the machinery of the State Finance Commission (SFC). Devolution of funds from the state government to local bodies thus assumes great significance for enabling local bodies to meet their Constitutional obligations towards promotion of rural/urban infrastructure and essential core services.

8.52 In the changed scenario, it is imperative that GOA make adequate resource transfer through devolution and grants-in-aid to PRIs and ULBs so as to enable them to discharge their Constitutional obligations. An appropriate fiscal package, however, would depend on the financial health of GOA. In this regard the approach of TASFC has been to maintain a proper balance betw een the resources and responsibilities of the two tiers of government. In keeping with this approach the review of state finances has been made taking utmost care to leave elbow room for GOA. For instance, in the assessment of state's revenue an annual hike of 11 per cent has been assumed in respect of state taxes and 5 per cent in case of non-tax revenues as against the TFC's recommendations of 13.2 per cent and 9.2 per cent respectively for tax and non-tax revenues,. Moreover, the estimated abnormal incr ease in non-tax revenue has been moderated for the purpose of projection. In the case of NPRE, the TASFC's assumed growth rates are higher than that recommend ed by TFC. Growth rates of NPRE as recommended by TFC varies between 5.3 per cent to 6.7 per cent for other than the health (11.5 per cent) and education (9.5 per cent) sector s. The TASFC, however, has assumed overall growth of 8 per cent in respect of salary exp enditure and 10 per cent other than salar y. Besid es in the assessment of NPRE the current level of expenditure in Schedule VI areas and for the seven Autonomous Tribal Councils has been taken care of and projected for the next three years. As pointed out earlier in paragraph 8.27, the BCR of GOA so worked out includes the emoluments of "provincialised" Panchayat emp loyees as well as current level of devolution to PRIs/ULBs. Net of these the position is likely to improve still. The review of State finances has also indicated that apparently there should not be any difficulty for GOA in assisting the PRIs and ULBs.

8.53 Moreover, CFCs are mandated by the Constitution to make recommend ations as to the measures needed to augment the Consolidated Fund of the State to supplement the resources of

Panchayats and municipalities. However, the only inhibiting factor in this arrangement is the non-synchronization of the award period of CFC and SFC. In the instant case the Thirteenth Central Finance Commission's recommendations will cover only one year of TASFC's recommendations, that is, its terminal year 2010-11. GOI will have to take a view to rectify this anomalous situation.