

## APPENDIX V

### CORRESPONDENCE WITH UNION AND STATE GOVERNMENTS.

- (1) Letter No. 22-OSD/60, dated the 26th September 1960 from Shri G. R. Kamat, Officer on Special Duty, Ministry of Finance, to the Finance Secretaries of all States.

The third Finance Commission is likely to be appointed very shortly. As on the last two occasions, it will be an advantage if, in anticipation of the appointment of the Commission, the State Governments prepare financial and other data which will be required by the Commission. This letter, which I am writing after consultation with the Chairman designate, indicates the detailed information that will be needed by the Commission for its work. It will be noticed that the information asked for is generally similar to that which was made available by the State Governments to the first and second Finance Commissions.

2. This letter may be regarded as the first request for information on behalf of the Commission. When the Commission is constituted and its terms of reference defined, this letter will be placed before it. The Commission may then wish to call for such additional information as may be needed for its work. I shall indicate these further requirements to you at a later date.

3. The Commission will have in any case to make recommendations to the President as to—

- (a) the allocations of income-tax and other divisible taxes under articles 270 and 272 of the Constitution; and
- (b) the States which are in need of assistance by way of grants-in-aid from Central revenues and the sums to be paid to them under the substantive part of article 275(1) of the Constitution.

If the President requires the Commission to make recommendations on other matters, the State Governments will be addressed in due course for such additional material as may be needed by the Commission in respect of those matters.

4. As regards the allocation and distribution of income-tax, the Commission will have before them the various considerations which have influenced the past settlements. It is, therefore, not necessary in such representations as the State Governments may wish to make, to go into the past history in any great detail. But it would assist the Commission if each State Government sends up a self-contained Memorandum expressing its views on the existing basis of the division of proceeds of income-tax and putting forth its case for modifications, if any.

5. As regards the allocation of the Central excise duties, the Commission will welcome any comments the State Governments may have on the existing division and any suggestions in regard to the future allocation of the duties of Central excise.

6. For determining the States in need of assistance and grants-in-aid to be paid to them under the substantive part of article 275 (1), the Commission will require from all States a forecast, year by year, of the estimated revenue and expenditure for the years upto 1965-66. This forecast may be prepared in the form appended as Annexure I to this letter. Appended to the form are a number of notes indicating the basis on which the forecast should be prepared and the additional details which the Commission is likely to require.

7. The second Finance Commission had also asked for detailed notes on several subsidiary points relating to financial and economic matters. The points on which similar detailed notes are likely to be required by the third Finance Commission are listed in Annexure II. I shall be glad if you kindly arrange to send a detailed note on each of these points.

8. I shall be grateful if the memorandum and the statements asked for in this letter are sent to the Secretary to the Commission by the 15th December 1960 with 10 spare copies.

9. If there is any point on which you require clarification or further instructions, would you kindly write to me?

## ANNEXURE I

## FORECAST OF REVENUE AND EXPENDITURE

—State

(Rupees in lakhs)

Heads	1959-60 (Actuals)	1960-61 (Revised Estimates)	1961-62	1962-63	1963-64	1964-65	1965-66
Revenue							
Total Revenue							
Expenditure met from Revenue							
Total Expenditure							
Net							
Surplus							
Deficit							

## NOTES

1. Figures should be given by major heads of account. Where the forecasts under any of the Major heads of Revenue or Expenditure are not based on the actuals for the past years, suitable annotations should be added to explain the variations and the basis of the forecasts.

2. If the figures given in the above forecasts differ from those arrived at after the recent discussions between the State Governments and the Planning Commission, such differences should be indicated and briefly explained.

### 3. In the Revenue Estimates—

(a) the State's share of income-tax and divisible excises and any grant received under the substantive provision of article 275 of the Constitution should be shown as *nil*; receipts on account of tax on railway fares, estate duties and the additional duties of excise collected by the Centre in lieu of sales tax should be excluded from the estimates but shown separately in brackets under the respective heads of account and the basis of the forecasts explained;

(b) full details should be given of any other grants from the Centre included in the estimates, indicating the major heads of account under which they are shown;

(c) any amount included for anticipated improvements in revenue or any allowance made for the abandonment of any existing sources of State Revenue or the reduction in the yield should be explained in supplementary notes, indicating the amounts involved in each year;

(d) credit should be taken for additional incomes or receipts accruing from completed, continuing or fresh projects of development; and

(e) any amounts included in the forecasts, on account of additional receipts attributable exclusively to measures of fresh taxation proposed to be undertaken in connection with the third Five Year Plan should be shown separately for each year and explained in a separate note.

4. Figures of 'gross receipts' and 'working expenses' included in the forecast in respect of each commercial and industrial undertaking, such as road transport and electricity schemes for which commercial accounts are kept, should be shown year by year in a separate statement.

### 5. In the expenditure estimates—

(a) no allowance should be made for fresh expenditure on development but details of such expenditure should be given in brackets under each major head for each year. For this purpose, all expenditure on the Third Plan to be met from the revenue budget may be treated as fresh expenditure on development;

(b) if the estimates include any special item of expenditure, this should be indicated in explanatory notes; in particular, any major increase in non-plan expenditure due to reasons such as administrative reorganisation, general revision of emoluments, included in the estimates, should be specified, in the explanatory notes, giving full details of the increase in expenditure attributable to each such measure;

(c) provision should be included for maintenance expenditure on capital schemes of development as well as recurring expenditure on those schemes of the first and second Five Year Plans, financed from revenue budget, which will not form part of the third Five Year Plan; a separate statement should be appended giving amounts so provided for each year;

(d) provision should be included for the normal growth of expenditure.

6. Provision for debt services should be confined to interest charges. It should not include any provision for depreciation, amortisation or repayment of loans but should include provision for any obligatory sinking fund or depreciation charges in respect of public loans. The amounts so included in each year should be separately indicated. Provision for debt services for loans outstanding at the end of second Five Year Plan should be shown separately from that made for fresh net borrowings expected to be received during the third Five Year Plan.

7. A separate statement should be appended showing the amounts included in these forecasts by way of transfers to and from any reserve funds with explanations as to the nature of those funds.

\*In respect of Central loans sanctioned up to the end of 1957-58, the rates of interest should be those as revised in the Ministry of Finance letter No. 15 (11)-B/57, dated the 24th February, 1958.

8. The following additional statements should also be furnished along with this forecast.

- (a) A statement showing the recommendations of the Taxation Enquiry Commission which have been implemented, the resulting increase in revenue and the estimated additional revenue if the remaining recommendations are implemented should be attached.
- (b) Another statement should be attached giving the details of additional taxation which the State Government had proposed at the time of formulation of the second Five Year Plan and the taxation measures actually implemented with their yields during the period of that Plan and their expected proceeds during future years.
- (c) The position of arrears in the collection of land revenue and of sales tax, during the years 1957-58 to 1959-60, with a detailed statement showing for each year, and in respect of each of these two sources of revenue (i) the arrears outstanding at the beginning of the year; (ii) the demand for the year, (iii) the amounts collected, (iv) the amounts remitted or written off and, (v) the balance carried forward to the subsequent year.
- (d) Matching or *ad hoc* grants received or expected to be received from the Central Government and other statutory or non-statutory bodies, e.g., the National Cooperative Development and Warehousing Board, the Indian Council of Agricultural Research, the Indian Central Cotton Committee, the Indian Central Jute Committee, the Handloom Board, etc. during the years 1956-57 to 1960-61 showing separately;
  - (i) the gross expenditure on account of plan and non-plan schemes financed by such grants;
  - (ii) the pattern and duration of the grants; and
  - (iii) additional expenditure-likely to be thrown on the State revenues on the discontinuance of such grants.
- (e) Receipts, payments and balances, in the State Road fund, and the famine and natural calamities fund, if established (*vide* para. 184 of the second Finance Commission's report), for each of the years 1956-57 to 1960-61.
- (f) Total expenditure in connection with famine and natural calamities in each of the last 10 years and the amount of assistance received from the Centre towards such expenditure, by way of supply of foodgrains at concessional prices or otherwise.

## ANNEXURE II

### LIST OF SUBSIDIARY POINTS

- (i) For the States of Gujarat and Maharashtra, the information in respect of past years should relate to the respective areas of the former Bombay State, now included in these two States. The information should cover such periods for which it is readily available.
- (ii) For the incomplete year 1960-61, figures of revised estimates based on six-monthly actuals may be given.

1. Rates of the principal taxes (agricultural income-tax, stamps, motor vehicles, entertainment tax, electricity duty, general sales tax and other taxes and duties) in 1956-57 and the changes therein during the period upto 1960-61.

2. Basis and rates of land revenue assessment (including surcharge, special rates, etc.) in 1956-57 and changes during the period upto 1960-61.

3. Excise revenue in 1956-57, the changes therein and the future plans of the State Governments in regard to prohibition.

4. Particulars of the cesses levied by the State, their purposes, the total proceeds of each cess, the amounts, if any, thereof transferred to local bodies or spent directly by the State Governments during 1957-58, 1958-59 and 1959-60.

5. The nature of economy measures, if any, carried out by the State Government in the years 1956-57 to 1960-61 inclusive and their results.

6. Revisions of pay and allowances of (i) State employees and (ii) of employees of local authorities and other quasi-Government bodies financed by the State Government in each of the last five years and the consequent increase in expenditure.

7. Important measures of administrative reorganisations, if any, carried out during the years 1957-58 to 1960-61, the purpose of these reorganisations and their impact on the revenue budget of the State Government.

8. Financial results of the working of State commercial and industrial undertakings like road transport, electricity schemes, industries etc., for which commercial accounts are maintained, during each of the years 1956-57 to 1960-61.

9. New State enterprises established, or addition to and expansion of existing enterprises during 1957-58 to 1960-61 and those proposed to be established during 1961-62 to 1965-66 (only schemes costing Rs. 10 lakhs and over need be given).

10. Debt position of the State showing separately the total outstanding debt to the public, to the Central Government and to any other institution on 1st April 1952, 1st April 1957 and 1st April 1961 and the interest yielding assets held against such debt (see for illustration the statement at pages 83 and 84 of the Explanatory Memorandum on the Central Budget for 1960-61).

11. Position of taccavi and land improvement loans—advances, recoveries and remissions and write-offs during each of the five years upto and inclusive of 1960-61 and total outstandings and overdue arrears at the end of each of these years.

12. Revenue (indicating separately grants from State Government) of local bodies and expenditure incurred by them on roads, education, medical and health services in the last three years for which actuals are available.

13. Mileage of national highways and A, B and C class roads on 1st April 1948, 1st April 1952, 1st April 1956 and 1st April 1960.

14. Strength of establishment under Police (with separate figures for border police where such police is maintained separately), General Administration, Justice and Jails on 1st April 1948, 1st April 1952, 1st April 1956 and 1st April 1960.

15. Number of primary schools, pupils and teachers therein on 1st April 1948, 1st April 1952, 1st April 1956 and 1st April 1960.

16. Number of hospitals and dispensaries, total number of beds, nurses, doctors and midwives, rural and urban separately, on 1st April 1948, 1st April 1952, 1st April 1956 and 1st April 1960.

17. Programme of agrarian reforms in the State, their effect on revenue and expenditure during 1959-60 and their probable effects during the year 1960-61 to 1965-66.

18. Grow More Food Schemes, 1956-57 to 1960-61. Give for each year particulars of (i) gross expenditure, (ii) loans and (iii) grants received from the Centre. Also give increase in food production over this period.

19. Details of the programme of community development, giving especially the progress so far of opening of Community Development and National Extension Service blocks in each of the five years 1956-57 to 1960-61, as well as the programme for the extension of the scheme during the third Five Year Plan period.

20. Kilowatts of energy generated in 1948, 1952, 1956 and 1960 by (i) state undertakings (excluding purchases from the Damodar Valley Corporation in the case of West Bengal and Bihar) and (ii) private undertakings.

21. Financial and other details of each of the major irrigation and hydro-electric projects, relating to the period 1956-57 to 1960-61, indicating the capital outlay, running costs and the revenue derived each year and other tangible benefits of the project.

(2) Note dated the 27th September, 1960, from Shri G. R. Kamat, Officer on Special Duty, to the Government of India, Ministry of Finance (Budget Division).

Will the Budget Division kindly arrange to collect the following material for the information and use of the Finance Commission?

- (a) A forecast, in the attached form, of the revenue and expenditure of the Central Government by major heads of account for the years upto 1965-66.
- (b) A statement showing for each of the five years ending 1960-61 the grants made to the States from revenue with brief notes regarding the basis on which the grant was calculated and the purpose of the grant. (For the purpose of this statement the payment of the States' share of income-tax and Union excises, and the allocations to the States of estate duty, taxes on railway fares and additional duties of excise, in lieu of sales tax, should not be treated as a grant.)
- (c) A statement showing the capital grants (but not loans) if any, made to the States in the last five years and provided for in the budget for the current year with explanations as in (b) above.

2. Ten copies of the material assembled may be kept ready and sent to me by 1st of December 1960.

### Forecast of Revenue and Expenditure

(Rupees in lakhs)

Heads	1959-60 (Actuals)	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66
Revenue							
_____							
_____							
_____							
_____							
<b>Total Revenue</b>							





(3) Letter No. FC. 3(15)-B/60, dated the 6th January 1961, from Shri G. R. Kamat, Member-Secretary, Finance Commission, to the Finance Secretaries of all States.

I am directed to invite a reference to the Ministry of Finance, Department of Economic Affairs, circular letter No. 22-OSD/60, dated the 26th September 1960, regarding the material required for the Finance Commission and to state that, in addition to the information asked for in paragraph 7 thereof on subsidiary points mentioned in annexure II of their letter, the Finance Commission would like to have information relating to the system of decentralised administration, popularly known as 'Panchayati Raj' which has been in operation for some time past in part or whole of various States. Detailed points on which the information is required are set out in the attached note.

2. In addition, the Finance Commission desires to have your views on the present system of allocation of resources to the State Governments by way of share of taxes and duties and statutory grants-in-aid on the one hand and by way of grants under article 282 of the Constitution on the other. A note on the subject is enclosed.

I shall be grateful if your reply is sent so as to reach here by the 10th February, 1961.

Government of India  
**PANCHAYATI RAJ**

A system of decentralised administration known as 'Panchayati Raj' has been in operation in part or whole of various States. The Commission would like to have a descriptive note from the Governments of States on the constitution, authority and working of the system and its effects on the revenue budget of the State Government. The note should broadly cover the following points:

- (a) functions allotted to the Panchayati institutions, showing particularly those hitherto performed by the State administration with the estimated savings in expenditure by State Government consequent on the transfer of those functions;
- (b) shares of specific revenues of the State Governments allotted to Panchayati administrations and the aggregate amounts actually paid to them each year;
- (c) powers of taxation delegated and the extent to which they have been exercised;
- (d) grants, if any, made to Panchayati administrations by the State Governments, the basis on which such grants are

determined, the authority determining the amounts of grants and the amounts to be paid each year;

- (e) measures, if any, taken to encourage Panchayati administrations to tap additional resources;
- (f) savings, if any, in the administrative cost of the State Government arising out of decentralisation;
- (g) the nature of supervision exercised by the State Administration on the accounts and the financial administration of the Panchayati units and additional cost, if any, involved;
- (h) arrangements, if any, made for evaluation of the system of Panchayats; and
- (i) a brief appreciation of the results so far achieved from the introduction of the system and likely developments in the Third Plan period.

#### *Allocation of Resources*

In addition to taxes and duties assigned to the States or shared between the Union and the States in accordance with the provisions of articles 269, 270, 272 and grants-in-aid of the revenues of the States in accordance with article 275 of the Constitution, financial assistance is also afforded to the States for development projects included in the Five Year Plans and for other purposes. This assistance has been made under the purview of article 282.

The growing tempo of developmental activities has called for a larger allocation of resources to the States in recent years. Of the provision of Rs. 382 crores of allocation in the Union estimates for 1960-61, Rs. 169 crores or 44.24 per cent. are in the shape of special assistance.

While the amounts covered by articles 269, 270, 272 and 275 (other than its proviso) are determined on the basis of principles formulated by an independent statutory Commission, the nature and quantum of special assistance are determined each year by the Union Government for each State separately after a review of its developmental expenditure. This assistance is discretionary in character.

While the allocations based on the recommendations of the Commission have hitherto been unconditional, special grants are for specific projects or groups of projects and are adjusted from time to time on the basis of the actual expenditure incurred on the projects concerned.

The third Finance Commission proposes to consider the economic, financial and administrative aspects of the present bases of allocations and make such recommendations as may be appropriate in the interest of sound finance.

The Commission would, therefore, welcome the views of the Union and State Governments on the system of dual allocations and, in particular, on the following points:

- (i) do they regard the channeling of resources in the two ways mentioned as satisfactory; if not, in what respects are improvements necessary and how best should they be brought about?
- (ii) are dual independent allocations conducive to efficient and effective use of resources and ensure maximum beneficial results to the community as a whole?

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(4) Letter No. FC.5(2)-A/60, dated the 10th March 1961, from Shri R. Saran, Deputy Secretary, Finance Commission, to the Finance Secretaries of all States.

I am directed to invite a reference to the terms of reference of the third Finance Commission mentioned in paragraph 4 of the President's Order of the 2nd December 1960, constituting this Commission. Paragraph 4(c) of this order required the Commission to make recommendation as regards the changes, if any, to be made in the principles governing the distribution among the States under article 269 of the net proceeds in any financial year of taxes on railway fares.

In their letter No. F.4(14)-B/60, dated the 28th February 1961, the Government of India, Ministry of Finance, Department of Economic Affairs, have informed this Commission that, in pursuance of the recommendation made by the Railway Convention Committee, it has been decided to merge the tax on railway fares with the passenger fares from 1st April 1961 and that the Railway Passenger Fares Act, 1957, is accordingly proposed to be repealed with effect from that date. The Government of India have, however, agreed that, in lieu of the net proceeds of this tax which used to go to the State Governments, a sum of Rs. 12.5 crores representing the average of the actual collections of this tax during the two years 1958-59 and 1959-60 would be distributed among the States per year during the quinquennium 1961-66 as a grant under article 282 of the Constitution.

This Commission has now been requested to make its recommendation as to the manner in which the fixed sum of Rs. 12.5 crores should be distributed among the States and to this extent the terms of reference of the Commission referred to above stand modified. This matter is brought to the notice of the State Government so that they may, if necessary, take this change into account in offering their views on this subject, as requested in the Government of India, Ministry of Finance letter No. FC. 1-B/60, dated the 18th November, 1960.

(5) Letter No. FC. 8(1)-B/60, dated the 30th June, 1961, from Shri S. K. Bose, Deputy Secretary (Research), Finance Commission, to the Finance Secretaries of all States.

I am directed to enclose, for the information of the State Government, a copy of a letter from the Government of India to the Finance Commission intimating an amplification of paragraph 4(d) of the terms of reference of the Commission (copy supplied to you earlier) so as to include the item 'Silk Fabrics' on which additional excise duty is now levied with effect from the 1st March, 1961 in lieu of sales tax hitherto imposed by the State Governments.

2. As the amount to be distributed amongst the States will now include the net proceeds of the additional excise duty on mill-made silk fabrics also, the Commission wishes to ascertain the amounts that were collected by the State Government from the proceeds of sales tax on mill-made silk fabrics. For this purpose, the Commission would like to have the following information:

- (a) The rate(s) at which sales tax was levied on mill-made pure silk fabrics in the State under the State's Sales Tax Act or other similar law;
- (b) the sums (actuals or estimated) realised by the State Government in each of the last three financial years from such tax on mill-made silk fabrics and the basis on which these estimates are worked out.

3. It is requested that the suggestions of the State Government, if any, in regard to the principles of distribution of the net proceeds of this additional excise duty be communicated to the Commission for its consideration.

4. It is requested that the material asked for in this letter may kindly be sent to reach the Commission's Office by the 31st July 1961, at the latest.