

TERMS OF REFERENCE OF THE ELEVENTH FINANCE COMMISSION

Paras 3-12 of the Presidential Order dated 3RD July, 1998 containing the terms of reference of the Eleventh Finance Commission are reproduced below:-

3. The Commission shall make recommendations as to the following matters:-
 - (a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under Chapter I of Part XII of the Constitution and the allocation between the States of the respective shares of such proceeds;
 - (b) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article;
 - (c) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats in the State on the basis of the recommendations made by the Finance Commission of the State;
 - (d) the measure needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State;
4. The Commission shall review the state of the finances of the Union and the States and suggest ways and means by which the governments, collectively and severally, may bring about a restructuring of the public finances so as to restore budgetary balance and maintain macro-economic stability.
5. In making its recommendations, the Commission shall have regard, among other considerations, to:-
 - (i) the resources of the Central Government and the demands thereon, in particular, on account of expenditure on civil administration, defence and border security, debt servicing and other committed expenditure or liability;
 - (ii) revenue resources of the States for the five years commencing on 1st April, 2000, on the basis of levels of taxation possible to be reached in 1998-99, targets set for additional resources mobilisation for the Plan and the potential for raising additional taxes;
 - (iii) the requirement of the States for meeting the Plan and non-Plan revenue expenditure, keeping in view the need for generating surplus for capital investment and reducing fiscal deficit;
 - (iv) the maintenance and upkeep of capital assets and maintenance expenditure of plan schemes to be completed by 31st March, 2000 and the norms on the basis of which specified amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure;

- (v) the requirements of States for upgradation of standards in non-developmental and social sectors and services particularly of States which are backward in general administration with a view to modernise and rationalise the administrative set up in the interest of speed, efficiency and sound fiscal management.
- (vi) the need for ensuring reasonable returns on investment by the States in irrigation projects, power projects, State Transport Undertaking, departmental commercial undertakings, public sector enterprises, etc;
- (vii) such provisions for emoluments and terminal benefits of Government employees including teachers and other employees of aided institutions as obtaining on a specified date as the Commission deems it proper and with reference to appropriate objective criteria rather than in terms of actual increases that may have been given effect to;
- (viii) the scope for better fiscal management consistent with efficiency and economy in expenditure including the incentives that need to be provided for better realisations of tax and non tax revenue.

6. In the case of local bodies:-

- (a) the Commission shall take into account the recommendations of the State Finance Commissions; and
- (b) where the State Finance Commissions have not been constituted as yet, or have not submitted their report giving recommendations, the Commission will make its own assessment about the manner and extent of augmentation of Consolidated Fund of the State to supplement the resources of the Panchayats and Municipalities in the State. While making such assessment, the Commission:-
 - (i) shall take into account the provisions required to be made for the emoluments and terminal benefits of the employees of local bodies including those of teachers;
 - (ii) shall take into account the existing powers of the Panchayats and Municipalities to raise financial resources including those by way of raising additional taxes by the Panchayats and Municipalities; and
 - (iii) the powers, authority and responsibility transferred to Panchayats and Municipalities under Article 243 G and 243 W of the Constitution read with Schedules Eleven and Twelve

7. The Commission may suggest changes, if any, to be made in the principles governing the distribution amongst the States of:-

- (a) the net proceeds in any financial year of the additional duties of the excise leviable under the Additional Duties of Excise (Goods of Special Importance) Act, 1957 (58 of 1957) in lieu of the sales tax levied formerly by the State Governments, and
- (b) the grants to be made available to the States in lieu of the tax under the repealed

Railway Passenger Fares Tax Act, 1957 (25 of 1957).

8. In making its recommendations on the various matters aforesaid, the Commission shall adopt the population figures of 1971 in all cases where population is regarded as a factor for determination of devolution of taxes and duties and grants-in-aid.
9. The Commission may make an assessment of the debt position of the States as on 31st day of March, 1999 and suggest such corrective measures as are deemed necessary, keeping in view the long term sustainability for both the Centre and the States.
10. The Commission may review the present scheme of Calamity Relief Fund and may make appropriate recommendations thereon."

ADDITIONAL TERMS OF REFERENCE FOR ELEVENTH FINANCE COMMISSION

In pursuance of the provisions of article 280 of the Constitution read with sections 6 and 8 of the Finance Commission (Miscellaneous Provisions) Act, 1951 (33 of 1951), the President hereby directs that in the Order dated the 3rd July, 1998 published in the Notification of the Government of India in the Ministry of Finance (Department of Economic Affairs) No. S.O. 557(E), dated the 3rd July, 1998, in paragraph 4, the following shall be added at the end, namely:-

"In particular, the Commission shall draw a monitorable fiscal reforms programme aimed at reduction of revenue deficit of the State and recommended the manner in which the grants to States to cover the assessed deficit in their Non-Plan Revenue account may be linked to progress in implementing the programme".