

THE ARUNACHAL PRADESH FISCAL RESPONSIBILITY ACT, 2006 (ACT NO.4 OF 2006)

(as amended vide Act No 14 of 2006;10 of 2010;8 of 2011;08 of 2018)

(Received the assent of the Governor on 30-3-2006.

6th December 2006, 20th April 2010; 09th December 2011; 8th April 2012 & 1st May 2018

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to provide for the responsibility of the State Government to ensure fiscal stability and sustainability, and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on State Government borrowings, debt and deficits, greater transparency in fiscal operations of the State Government and use of a medium-term fiscal framework and for matters connected therewith or incidental thereto.

BE it enacted by the Arunachal Pradesh Legislature in the Fifty-seventh Year of the Republic of India as follows:

1. (1) This Act may be called the Arunachal Pradesh Fiscal Responsibility ¹[**and Budget Management**] Act, 2006.
- (2) It shall extend to the whole of Arunachal Pradesh.
- (3) It shall be deemed to have come into force with effect from 1st April, 2005.
2. In this Act, unless the context otherwise requires:
 - (a) "Annual Budget" means the annual financial statement laid before the House of State Legislature under Article 202 of the Constitution;
 - (b) "Current Year" means the year preceding the year for which budget and Medium Term Fiscal Plan (MTFP) are being presented;
 - (c) "Fiscal Deficit" means the excess of
 - (i) total disbursements from the Consolidated Fund of the State (excluding repayment of debt) over total receipts into the Fund (excluding the debt receipts), during a financial year ; or
 - (ii) total expenditure from the Consolidated Fund of the State (including loans but excluding repayment of debt) over own tax and non-tax revenue receipts, devolution and other grants from Government of India to the State, and non-debt capital receipts during a financial year which represents the borrowing requirements, net of repayment of debt, of the State Government during the financial year;

For the purpose of calculation of fiscal deficit, borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government are to be treated as borrowings of the Government.

 - (d) "Fiscal indicators" means the measures such as numerical ceilings and proportions to gross state domestic product, as may be prescribed, for evaluation of the fiscal position of the State Government;
 - (e) "Previous Year" means the year preceding the current year;
 - (f) "Revenue Deficit" means the difference between revenue expenditure and revenue receipts; and

Explanation

For the purpose, of this clause interest payment by Explanation Government towards borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on Government, shall be treated as revenue expenditure.

- (g) "Total Liabilities" means the liabilities under the Consolidated Fund of the State and the public account of the State.

Medium Term Fiscal Plan to be laid before the Legislature.

3. (1) The State Government shall in each financial year lay before the state Legislature a Medium Term Fiscal Plan along with the annual budget.
- (2) The Medium Term Fiscal Plan shall set forth a four-year rolling target for the prescribed fiscal indicators with specification of underlying assumptions.

(3) In particular and without prejudice to the provisions contained in sub-section (2), the Medium Term Fiscal Plan shall include an assessment of sustainability relating to,

- (i) the balance between revenue receipts and revenue expenditures ;
- (ii) the use of capital receipts including borrowings for generating productive assets.

(4) The Medium Term Fiscal Plan shall, inter alia, contain,

- (a) the medium term fiscal objectives of the State Government;
- (b) an evaluation of the performance of the prescribed fiscal indicators in the previous year vis-a-vis the targets set out earlier, and the likely performance in the current year as per revised estimates ;
- (c) a statement on recent economic trends and future prospects for growth and development affecting fiscal position of the State Government ;
- (d) the strategic priorities of the State Government in the fiscal areas for the ensuing financial year
- (e) the policies of the State Government for the ensuing financial year relating to taxation, expenditure, borrowings (including borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government, with ceiling fixed for each agency) and other liabilities, lending and investments, pricing of administered goods and services and description of other activities, such as guarantees and activities of Public Sector Undertakings which have potential budgetary implications ; and the key fiscal measures and targets pertaining to each of these ;
- (f) an evaluation as to how the current policies of the State Government are in conformity with the fiscal management principles set out in section 4 and the fiscal objectives set out in the Medium Term Fiscal Plan.

(5) The Medium Term Fiscal Plan shall be in such Form as may be prescribed.

2[(6) (1) Medium Term Fiscal Plan (MTFP) shall contain three-year-forward estimates of revenues and expenditure, with detailed breakup of major items, and a narrative explanation of how these estimates have been generated. These estimates should be in broad conformity with the fiscal parameters recommended by FC-XIII. The intent should be to ensure a tighter integration between the multi-year framework and annual Budget exercise provided by MTFP into the State's budget and the MTFP shall, rather than a statement of intent be a statement of commitment.

(2) The following disclosures shall be made along with the annual budget UMTFP :

- (a) Detailed breakup of Central grants to States into constituent flows.***
- (b) Statement on tax expenditure to be systematized and the methodology to be made explicit.***
- (c) Compliance costs of major tax proposal to be reported***
- (d) Revenue Consequences of Capital Expenditure (RCCE) to be projected in MTFP along with related liabilities, physical and financial assets and vacant public land and buildings.***
- (e) Future expenditure commitments of major policy changes to be incorporated in MTFP***
- (f) Liabilities explicit and implicit in Public Private Partnerships to be reported in the MTFP***
- (g) MTFP to make explicit the values of parameters underlying projections for receipts and expenditure and the band within which they can vary while remaining consistent with targets.]***

Fiscal Management Principles.

4. (1) The State Government will be guided by the following fiscal management principles :

- (a) maintain Government debt at prudent levels ;
- (b) manage guarantees and other contingent liabilities prudently, with particular reference to the quality and level of such liabilities ;
- (c) ensure that policy decisions of the Government have due regard to their financial implications on future generations ;
- (d) ensure that borrowings are used for productive purposes and accumulation of capital assets, and are not applied to finance current expenditure ;
- (e) ensure a reasonable degree of stability and predictability in the level of the tax burden
- (f) maintain the integrity of the tax system by minimizing special incentives, concessions and exemptions ;
- (g) pursue tax policies with due regard to economic efficiency and compliance costs ;
- (h) pursue non-tax revenue policies with due regard to cost recovery and equity ;

(i) pursue expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare ;

(j) build up a revenue surplus for use in capital formation and productive expenditure ;

(k) ensure that physical assets of the Government are properly maintained ;

(l) disclose sufficient information to allow the public to scrutinize the conduct of fiscal policy and the state of public finances ;

(m) ensure that Government uses resources in ways that give best value for money ; and also ensure that public assets are put to best possible use ;

(n) minimize fiscal risks associated with running of public sector undertakings and utilities providing public goods and services ;

(o) manage expenditure consistent with the level of revenue generated ;

(p) formulate budget in a realistic and objective manner with due regard to the general economic outlook and revenue prospects, and minimize deviations during the course of the year ; and

(q) ensure discharge of current liabilities in a timely manner.

(2) The State Government shall take appropriate measures to eliminate the revenue deficit and contain the fiscal deficit at sustainable level and build up adequate revenue surplus.

(3) In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall

³[(a) Maintain the level of revenue surplus in all the years beginning from the initial financial year on 1st April 2015 and ending 31st March 2020.

(b) Maintain revenue surplus as a percentage of Gross State Domestic Product (GSDP) in each of the financial year beginning on the 1st day of April 2015 and ending on 31st March 2020 in a manner consistent with the goal set out.

(c) to reduce fiscal deficit to not more than 3%percent of the estimated Gross State Domestic Product (GSDP) for the years 2015-16 which is the award period of 14th Finance Commission.

(d) Maintain debt GSDP ratio less than 25 or equal to 25% in the preceding year to avail the additional borrowing of 0.25 per cent of GSDP.

(e)Maintain the interest payment to the level of less than or equal to 10 percent of the revenue receipts in the preceding year to avail the additional borrowing limit of 0.25 percent of GSDP in a given year for which the borrowing limits are to be fixed.

(f) The flexibility in availing the additional limit under either of two options or both will be available to the state only if there is no deficit in the year in which borrowing limits are to be fixed and immediately preceding year.

(g) If the state is not able to fully utilise its sanctioned borrowing limit of 3% of GSDP in any particular year of the award period of 14 Finance Commission(2015-16 to 2018-19) it will have the option of availing this unutilized borrowing amount only in the following year but within the award period of the 14th Finance Commission].

Provided that ¹[***revenue surplus may decrease***] and fiscal deficit may exceed the limits specified under this sub-section due to ground or grounds of unforeseen demands on the finances of the State Government due to national security or natural calamity, subject to the condition that the excess beyond limits arising due to natural calamities does not exceed the actual fiscal cost that can be attributed to the calamities ;

Provided further that the ground or grounds specified in the first proviso shall be placed before the House of Legislature, as soon as may be, alter it becomes likely that such deficit amount may exceed the aforesaid limits, with an accompanying report stating the likely extent of excess, and reasons therefor.

Measures for Fiscal Transparency.

5. (1) The State Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimize as far as practicable, secrecy in the preparation of the annual budget.

(2) In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall, at the time of presentation of the annual budget, disclose in a statement in the form as may be prescribed,

(a) the significant changes in the accounting standards, policies and practices affecting or likely to affect the computation of prescribed fiscal indicators

(b) as far as practicable, and consistent with protection of public interest, the contingent liabilities created by way of guarantees ; the actual liabilities arising out of borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liabilities for repayment is on the State Government ; all claims and commitments made by the State Government having potential budgetary implications, including revenue demands raised but not realised ; tax expenditure ; losses incurred in providing public goods and services through public utilities and undertakings; liability in respect of major works and contracts ; and subsidy payments and the impact of the same on the fiscal position of the State including in relation to the targets referred to in sub-section (3) of section-4.

Measures to ensure compliance

6. (1) The Annual budget, and policies announced at the time of the budget, shall be consistent with the objectives and targets specified in the Medium Term Fiscal Plan for the coming and further years.

(2) The Minister in charge of the Department of Finance, shall review, every half, year, the trends in receipts and expenditure in relation to the budget, remedial measures to be taken to achieve the budget targets and place before the House of Legislature, the outcome of such reviews. The review report shall be in such form as may be prescribed.

(3) The review reports shall explain:

(a) any deviation or likely deviation in meeting the obligations cast on the State Government under this Act.

(b) whether such deviation is substantial and relates to the actual or the potential budgetary outcomes, and how much of the deviation can be attributed to general economic environment and to policy changes by the State Government ; and

(c) the remedial measures, the State Government proposes to take.

(4) Whenever there is a prospect of either short fall in revenue or excess of expenditure over pre-specified levels for a given year on account of any new policy decisions of the State Government that affects either the State Government or its Public Sector Undertakings, the State Government, prior to taking such policy decision, shall take measures to fully offset the fiscal impact for the current and future years by curtailing the sums authorized to be paid and applied from and out of the Consolidated fund of the State under any Act to provide for the appropriation of such sums or by taking interim measures for revenue augmentation, or by taking up a combination of both ;

Provided that, while adhering to the fiscal targets, the State Governments will give priority to protecting certain expenditure declared in the Medium Term Fiscal Plan as "high priority development expenditure" (including, inter alia, elementary education, basic health and rural water supply) from curtailment or may impose a reduced or partial curtailment.

(5) Whenever one or more supplementary estimates are presented to the House of Legislature, the State Government shall also present an accompanying statement indicating the corresponding curtailment of expenditure and/or augmentation of revenue to fully offset the fiscal impact of the supplementary estimates in relation to the budget targets of the current year and the Medium Term Fiscal Plan objectives and targets for the future year.

Power to make rules.

7. (1) The State Government may, by notification in the Official Gazette, make rules for carrying out the provisions of this Act.

(2) In particular, and without prejudice to the generality of the foregoing powers such rules may provide for all or any of the following matters, namely :

(a) the fiscal indicators to be prescribed for the purpose of sub-section (2) of section 3 and clause (a) of sub-section (2) of section 5 ;

(b) the form of the Medium Term Fiscal Plan referred to in sub-section (5) of section 3 and sub-section (2) of section 5 ; and

(c) any other matter which is required to be, or may be, prescribed.

Rules to be laid before Legislature.

8. Every rule made under this Act shall be laid, as soon as may be after it is made, before the House of States Legislature, while it is in session and if the House agrees in making any modification in the rule or the House agrees that the rule should not be made, the rule shall thereafter have effect only in such

modified form or be of no effect, as the case may be ; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

Protection of action taken in good faith.

9. No suit, prosecution or other legal proceedings shall lie against the State Government or any officer of the State Government for anything which is in good faith done or intended to be done under this Act or the rules made thereunder.

Application of other laws not barred.

10. The provisions of this Act shall be in addition to, and not in derogation of the provisions of any other law for the time being in force.

Power to remove difficulties.

11. (1) If any difficulty arises in giving effect to the provisions of this Act, the State Government may, by order published in the Official Gazette, make such provisions not inconsistent with the provisions of this Act as may appear to be necessary for removing the difficulty :

Provided that no order shall be made under this section alter the expiry of two years from the commencement of this Act.

(2) Every order made under this section shall be laid, as soon as may be after it is made, before the House of the State Legislature.

[]¹ Inserted by Act No 14 of 2006.

[]² Inserted by Act No 8 of 2011 and shall be deemed to have been come into force from 1st April 2010

[]³ Inserted by Act No 8 of 2018 and shall be deemed to come into force from 1st April 2015

Note : Publication in AP Govt Gazette

1. Arunachal Pradesh Gazette Extraordinary No. 26 Vol. XIV dated 30th March, 2006. (ACT NO. 4 OF 2006)
2. Arunachal Pradesh Gazette Extraordinary No. 104 Vol. XIV dated 15th December, 2006 (ACT NO. 14 OF 2006)
3. Arunachal Pradesh Gazette Extraordinary No. 46 Vol. XVII dated 20th May 2010 (ACT NO. 10 OF 2010)
4. Arunachal Pradesh Gazette Extraordinary No. 199 Vol. XVIII dated 9th December 2011 (ACT NO. 8 OF 2011)
5. Arunachal Pradesh Gazette Extraordinary No. 79 Vol. XIX dated 17th April 2012 (ACT NO. 4 OF 2012)
6. Arunachal Pradesh Gazette Extraordinary No. 177 Vol. XXV dated May 9 2018 (ACT NO. 8 OF 2018)

