CHAPTER XIII

FISCAL MANAGEMENT

Our terms of reference stipulate that in framing our proposals for grants-in-aid of the revenues of the States, we should have regard among other things to fiscal management and economy combined with efficiency in expenditure at the State level. Fiscal management is a multi dimensional concept. In the application of this concept to concrete situations, both qualitative and quantitative aspects deserve attention. Briefly stated, in assessing sound fiscal management one should have regard both to the manner in which the State has endeavoured to raise the resources needed for meeting its commitments and also the manner in which it has deployed the resources so raised so as to get the best possible results for the expenditure incurred. A review of fiscal management in this broad sense will call for a comprehensive and critical survey of the fiscal policies and administration of State Governments over a period of time. This is a task which is too difficult to undertake within the limited time at our disposal. A review of fiscal policies and administration is already being attempted in some measure on a continual basis by Audit and Public Accounts Committees under our Constitution. Since the advent of planning, the Planning Commission too has an opportunity of surveying from time to time the trends in revenues and expenditure of State Governments and more particularly their efforts at mobilisation of additional resources. Programme Evaluation Organisations at the Centre and their counter-parts in various forms at the States are also expected to play a part in focusing attention on areas of inefficiency in execution and shortfalls in achievement of results in relation to the resources deployed. While within the time at our disposal, it has not been possible to consider in depth issues relating to fiscal policies, expenditure control and quality of fiscal administration in general, during our visits to the States we invariably held discussions among others with Accountants General that enabled us to form a general judgement on the manner in which the State finances were being managed. We also obtained from Accountants General short summaries of the reports of the Public Accounts Committees for the last few years highlighting major financial irregularities and instances of infructuous expenditure. We would only like to observe that these discussions and the materials furnished to us have left us with the feeling that in many States the treasury and accounts organisations need to be considerably strengthened. In particular, arrangements have to be made without further delay for the more prompt and effective compilation and processing of data on receipts and expenditure. The considerable delays which we ourselves experienced in getting response to our requests for information on important points having a bearing on terms of reference such as for example number of employees, their distribution by pay ranges, norms for maintenance of capital assets and arrears of loans and revenue outstanding clearly point to the need for improvement of fiscal administration in many of the States. It is regrettable that we could not get even the preliminary actuals of revenues and expenditure for 1972-73 from some of the States primarily because the treasuries in the States had in turn failed to submit the monthly statements of accounts according to schedule. Some of the backward States will get additional resources in terms of our award for improvements of their standards of general administration. We would urge that some part of these additional resources should be devoted to the strengthening of financial and accounting organisations in the States without which neither sound planning nor fiscal discipline can be ensured.

2. We also noticed that in many of the States somewhat relaxed attitudes in regard to recovery of loans and tax arrears have been allowed to develop over a period of time. If these attitudes are allowed to persist, fiscal discipline will suffer an irretrievable set back. In reassessing the forecasts of receipts furnished by the State Governments, we have assumed recovery of arrears of revenues and loans to a reasonable extent.

3. A special aspect of fiscal management that arises for consideration is whether the State Governments have exerted themselves to a reasonable extent in raising resources from the sources allocated to them under the Constitution. The Fifth Finance Commission sought to measure the tax performance of the States on the basis of the ratio of per capita revenue to per capita income of the States and the same methodology was also followed by the Planning Commission in determining the tax efforts of the States for distribution of a portion of Central Assistance for State Plans. We devoted some thought to the question of further refinement of the methodology followed by the Fifth Finance Commission and evolving certain criteria for determining the relative tax performance of the States. But we have given up the effort on the practical consideration that the application of a formula based on relative tax effort, however designed, would place at a disadvantage some of the States faced with big gaps on non-Plan revenue accounts. To leave such gaps uncovered on the ground of their poor tax performance, however defensible on theoretical considerations, would jeopardise maintenance of essential administrative and social services for want of adequate resources. States, both advanced and backward, which have done better than the average at resource mobilisation might feel aggrieved that their efforts have not received recognition. But, if in the determination of the principles of Central assistance for

16. Our terms of reference envisage that the process of improvement of standards of administration in backward States should be so phased that they can reach the level obtaining in the more advanced States over a period of ten years. We have, therefore, applied our minds to the question whether the additional financial allocations, as estimated by us, for bringing the backward States upto all-States average should be spread over a period of ten years or only the five years falling within the period of our award. It is possible to argue that the process of equalisation can be deemed to be fully accomplished only when the backward States are brought up, in terms of per capita expenditure, to the average of the advanced States. We have, however, worked out the additional requirements of the States for the services indicated earlier only with reference to all-States average of expenditure on such services. In other words, our immediate objective is a more limited one of providing additional funds to certain States to come up to a minimum which we have taken as the average of all States. We consider that this limited objective can, and should be achieved within five years, i.e. by 1978-79. Having, therefore, projected the provisions needed by all the States for the services indicated on the basis of different rates of growth indicated elsewhere, we have worked out the additional provisions needed by the backward States to come up to all-States average of expenditure as assessed for 1978-79. These requirements have been spread evenly over the five-year period of our award.

17. The additional amounts as assessed by us for improvement of standards of essential administrative and social services are set out below :

Financial provision over the Fifth Plan period for upgradation of Standards of Administration

(Rs. crores)

States	General Administration	Administration of Justice	Jails	Police	Primary Education	Medical and Public Health*	Welfare of Scheduled Castes/ Tribes & Backward Classes	Total all Services
1	2	3	4	5	6	7	8	9
1. Uttar Pradesh	36.03	5.04	2.65	54.30	123.72	55.62	12.80	290.1
2. Bihar	36.21	5.58	..	39.60	35.19	35.19	15.02	166.7
3. West Bengal	3.84	..	..	..	49.56	..	18.83	72.23
4. Orissa	..	2.04	0.79	11.88	27.60	7.35	7.40	57.06
5. Andhra Pradesh	..	0.27	2.61	20.37	15.54	13.83	..	52.62
6. Madhya Pradesh	12.27	1.62	1.88	3.99	7.38	18.51	4.69	50.34
7. Rajasthan	..	1.77	1.31	..	11.31	..	13.04	27.43
8. Mysore	7.02	..	1.76	16.53	..	1.14	..	26.45
9. Haryana	..	0.42	..	(1.11)	14.79	2.07	4.17	21.45
10. Assam	4.86	1.65	..	..	..	3.24	8.27	18.02
11. Punjab	..	..	..	..	7.02	..	6.92	13.94
12. Gujarat	(10.02)	..	2.56	..	..	..	6.63	9.19
13. Kerala	1.92	..	0.77	3.84	..	..	..	6.53
14. Maharashtra	..	..	0.30	..	..	..	3.33	3.63
15. Tamil Nadu	..	..	..	(6.54)	..	..	..	..
TOTAL	102.15	18.39	14.63	150.51	292.11	136.95	101.10	815.84

*It relates to expenditure on items other than medicines and diet.

N.B.—Figures in brackets not included in total for the reasons indicated in paras 10 and 12 of this Chapter.

These amounts together with those provided for separately in regard to a typical States have been taken into account by us in the determination of grants-in-aid of the States under Article 275 of the Constitution.

18. The provision of additional funds may not by itself ensure that they would be utilised for the purposes which we have in view. There have been instances when the States, faced with constraint of resources, have diverted the provisions in the Plan for essential social services to other programmes. Having regard to the magnitude of the special help now being provided to them for improvement of certain essential services, it would be in the national interest to prescribe some arrangements for ensuring greater accountability on the part of the States for the funds provided to them. We outline briefly our suggestion in this regard in the Chapter on grants-in-aid.

the Plan, some weightage is given for the relative efforts of the States at mobilisation of revenues, as was done at the time of the formulation of the Fourth Plan, the grievance of such States would be substantially met.

4. With the increasing investments in irrigation and power projects and road transport undertakings, non-tax revenues in the form of interest receipts and dividends should be expected to become increasingly important in State finances. We have, therefore, made a detailed review of the working results of these major projects in different States and sought to stipulate certain minimum standards of performance.

FINANCIAL RESULTS OF STATE ELECTRICITY BOARDS

5. Schemes for generation and distribution of power have absorbed no less than 15 per cent of the outlays on State Plans in recent years. The investment in power projects as at the end of 1973-74 is estimated at well over Rs. 5000 crores. The loans advanced by State Governments to Electricity Boards would also have risen by the end of 1973-74 to about 3225 crores. The need for ensuring high level of efficiency in the selection, execution and management of power projects so as to secure reasonable return on the massive investments made in them cannot, therefore, be overtemphasised.

6. The question of prescribing certain minimum rates of return on investments in power projects has been engaging the attention of the Planning Commission and the State Governments in the last decade. The Venkataraman Committee which made a review of the working results of State Electricity Boards urged that a phased programme should be drawn up for attaining a minimum return of 11 per cent on capital invested after meeting all working expenses and depreciation. In the course of negotiations with the International Bank for Reconstruction and Development for loans for certain transmission projects in the middle sixties, the issue of prescribing a norm of 11 per cent return on capital invested according to a phased programme again came up for consideration. In this connection, the State Electricity Boards also gave an undertaking that they would achieve a return of 11 per cent by certain stipulated dates. These dead-lines have already been passed. The Fourth Finance Commission felt that the State Governments should realise their interest dues excluding interest on fresh loans to be made in the Fourth Plan period and estimated the States' resources accordingly. The Fifth Finance Commission also assumed that the State Governments should be able to realise in full interest charges on loans advanced by them to the State Electricity Boards except in the case of Assam and Rajasthan.

7. Despite this all round awareness of the need to achieve certain minimum rates of return on investments made in power projects, the working results of State Electricity Boards, far from registering any improvement, have suffered further set back during the current Plan period. The forecasts furnished by the State Governments point to no significant improvement in the standards of performance of State Electricity Boards in financial terms in the Fifth Plan period. Taking all State Electricity Boards together, while their revenue receipts would have increased from Rs. 387 crores in 1969-70 to Rs. 692 crores in 1973-74 reflecting the growth in generation and sale of power and revision of tariff, their net surplus, after setting on revenue expenditure and obligatory transfers to depreciation fund, would have declined from 4.2 per cent to 3.3 per cent on the capital base. The rate of return will more or less be of the same order during the forecast period. It may well register further erosion, if the assumptions made by State Government about trends in revenue receipts and expenditure go awry.

8. It is to be conceded that the set back in the financial position of the State Electricity Boards has been partly due to causes beyond their control. Mention may be made in this connection of increases in costs on account of factors such as wage awards and increase in cost of raw materials, fuel and replacements. The capital costs of new projects have also outstripped, by a very substantial margin, the estimated costs. Inadequate investigations, changes in specifications and, in certain cases, even a measure of deliberate underestimation of original costs have been responsible for this phenomenon. There are also certain other factors related to our national economic policies, which impair the profitability of State Electricity Boards. Mention may be made of the high cost of indigenisation of equipment. Thermal stations are now increasingly constrained to use lower grades of coal, as the higher grades with lower ash content are costlier and are reserved for production of steel. The emphasis, in recent years, on the utilisation of groundwater resources for irrigation and the growing urge for provision of certain basic amenities in rural areas have led to a significant step up in the programmes for rural electrification. While at the beginning of the Fourth Plan, there were about 75,000 villages to which power had been extended, by the end of the Plan about 1.5 lakhs of villages would have the benefit of power supply. In other words, the number of electrified villages would have doubled in the course of five years. The progress in terms of energisation of pump sets has even been more striking. As against a little over one million pump sets connected to power at the commencement of the Fourth Plan, over 2.5 million pump sets would have been energised by the end of the Fourth Plan under the various programmes now under way. While this impressive spread of rural electrification is wholly desirable, the present tariff policies entail losses which would increase with the growing use of electricity for lift irrigation. There is a very wide gap between the cost of power at the point of delivery to agricultural consumers and the actual rate charged to the consumers.

9. Among the other factors contributing to the deterioration in the financial position of State Electricity Boards, one cannot overlook the serious losses of energy in the transmission and distribution of power. In many States, transmission losses range from 20 to 27 per cent as against only 15 per cent or so which can

be considered normal. In the course of our discussions with representatives of State Governments, some of them conceded that a small part of what is euphemistically called 'transmission losses' may be due to outright theft of power. Energetic and purposeful action needs to be taken to arrest the present trend of transmission losses. Our estimates reveal that a saving of even one per cent in transmission losses will mean an aditional revenue of the order of Rs. 8.5 crores per annum at the present level of generation of power.

10. The poor working results of Electricity Boards are reflected in the budgets of State Governments in the form of default, in full or in part, in payment of interest on loans advanced by State Governments. The total arrears of interest due from Electricity Boards stood at Rs. 280 crores at the end of 1971-72 and would have risen to nearly Rs. 400 crores by the end of 1973-74. The Commission is distressed to note that some of the State Electricity Boards are not in a position to meet even the obligatory transfers to Depreciation Reserve Fund. Some States—Uttar Pradesh, Orissa and Rajasthan—seem to be recovering in full interest payments on loans given to the Boards while their Boards are not in a position to meet such payments. This, in turn, has led the Boards to curtail their transfers to the Depreciation Reserve Fund. The forecasts made available to us by the States show that the operating surplus of some of the State Electricity Boards, after the statutory transfers to Depreciation Fund, will not be adequate to meet even the interest on open market loans and loans from financial institutions. As a Commission charged with the responsibility for looking into the quality of fiscal management at State level, we cannot but view with extreme concern some of the present trends in the functioning of State Electricity Boards. It is not enough to stop with the exhortation that these trends should be reversed and suitable remedial action should be taken. It is also absolutely essential to build into our scheme of devolution suitable deterrents against the continued poor performance of State Electricity Boards. We feel strongly that unless some minimum returns are laid down in respect of investments made in power projects, and are strictly enforced, the present drift will continue with serious consequences for the health of our economy. At the same time, we recognise that the norms proposed should be realistic and be capable of realisation within the period of our award. The return of 11 per cent suggested by the Venkataraman Committee and also agreed to by the States in the course of negotiations for loans from the World Bank would appear to be unattainable for the present. But there is no reason why action should not be taken immediately to raise the levels of tariff and improve operational efficiency so as to secure a minimum return of at least 6 per cent on the loans advanced to State Electricity Boards and outstanding at the end of 1973-74. Strictly speaking, this norm should be made applicable also to additional loan assistance, which the State Governments propose to extend to the Electricity Boards during the Fifth Plan period. But information made available by States on the fresh loans to be advanced during 1974-79 is incomplete. It may not be fair on our part to make any assessment on our own of the quantum of loan assistance likely to be extended to the State Electricity Boards, as the State Plans and the outlays for development of power are yet to be determined on a firm basis. In computing the interest receipts of the State Governments on the basis of norms laid down by us, we, therefore, proposed to leave out of account fresh loans from the State Governments to the Electricity Boards during the period 1974-75 to 1978-79. If, however, any State should be in a position to recover interest on such fresh loans, such receipts will be available to them for financing the Plan. As indicated earlier, the default of the State Electricity Boards in payment of interest due from them would result in accummulation of arrears to the extenst of nearly Rs. 400 crores at the end of 1973-74. In the light of the general financial picture of the Electricity Boards now before us, it will be highly unrealistic to assume recovery of arrears to any extent. Even the recovery of current dues would call for determined action on the part of State Governments and Electricity Boards. Further, we should remember that the Fifth Finance Commission had assumed full recovery of interest in all States except Rajasthan and Assam during the period of their award. To the extent that the States had failed to secure returns upto the norms laid down by Finance Commission, they possibly have already paid the penalty in terms of smaller Plan outlays. To assume recovery of past arrears of interest for our present assessment of the needs of the States might be construed as inflicting on them a double penalty. We have, therefore, left the arrears of interest out of account in our estimation of the resources of the State Governments for the forecast period 1974-79.

11. It has been urged before us by some State Governments that the preponderance of thermal capacity in their grids adversely affects the average cost of generation of power, the operating costs of thermal plants being significantly higher than those of hydel plants. They have, therefore, pleaded for an element of concession for thermal plants in the norms that may be prescribed. The cost of generation of thermal power is undoubtedly higher than that of hydel power. We, therefore, fell that in respect of thermal capacity the rate of return would admit of some reduction. Keeping this in view, we have allocated the loans advanced by the State Governments to the State Electricity Boards and outstanding at the end of 1973-74 between thermal capacity and hydel capacity on pro-rata basis. We have assumed recovery of interest at 5 per cent on the loans allocated to thermal capacity and 6 per cent on hydel.

12. The rates of interest charged by the State Governments on the loans advanced to the State Electricity Boards vary. Some States charge concessional rates on certain types of loans such as those for rural electrification. In the interests of uniform treatment, we have considered it desirable to reassess the interest due to State Governments on an identical basis—5 per cent in respect of loans allocable to thermal capacity and 6 per cent in respect of hydel.

13. Some of the State Governments have also contended before us that the locking up of capital in works under construction is one of the major factors contributing to the default of State Electricity

Boards in payment of interest charges in full. *Prima facie* this argument has some validity. The need to pay interest on loans taken for projects even during the period of construction does impose a serious burden on Electricity Boards. But, as against this, we should recognise that a price has to be paid for capital. The large investment in works under construction is an index of the considerable potential for development of power in the State and there is no reason why such States should get a concessional treatment. Also, capital under construction covers such elements as inventories and the waiver of interest on inventories may only promote greater inefficiency in management of materials and stores. The present tendency on the part of some of the States to take up a large number of projects and to spread the available resources too thinly over them needs also to be kept in check. Having regard to these considerations, the Members of the Commission, except Dr. Gulati, feel that there will be no justification to draw any distinction between capital invested in completed works and capital invested in works under construction for purposes of recovery of interest.

14. Dr. Gulati feels, however, that there is considerable substance in the plea made before us for drawing a distinction between capital invested in completed works and that locked up in works under construction for purposes of requiring the recovery of interest on a uniform basis for all the States. He is of the view that it is necessary in this regard to take into account the fact that the proportion of capital invested in works in progress to total investment in electricity schemes is far from uniform and in fact ranges widely from 7.98 per cent for Tamil Nadu to 60.79 per cent for Jammu and Kashmir. Not to make the above distinction will, he feels, place the States with relatively higher proportion of capital locked up in works in progress at a disadvantage compared to others in fulfilling the norms we are laying down for the recovery of interest.

15. We have carefully examined the question whether any concessional treatment is called for in respect of capital investment in rural electrification programmes. The recognition of a lower rate of return on loans advanced or deemed to have been advanced for rural electrification programmes may benefit unduly States which have already forged ahead in rural electrification. Agricultural tariff in most States are also palpably low and the losses currently being incurred on rural electrification are thus in the nature of concealed subsidies. Even granting for the sake of argument that rural electrification can never be fully remunerative and should, therefore, be given subsidies, it is only fair that the burden of this subsidy should be borne by the general tax payer of the State concerned and not be shifted to the national exchequer. Some of the State Governments have provided in their forecasts for payment of subsidy to Electricity Boards for such purposes as rural electrification, supply of power to energy-intensive industries, supply of power to backward areas at concessional rates, etc. In the interests of uniformity of treatment, we have thought it fit to exclude all such subsidies in our assessment of the financial needs of the States.

16. It will be recalled that the Fifth Finance Commission has shown some concession in favour of Assam and Rajasthan in view of the special difficulties in their operating systems. We have examined carefully the question whether similar concessional treatment would be warranted in respect of these or other States. We do not find that the working results of State Electricity Boards of Assam, Jammu and Kashmir and Rajasthan provide conclusive evidence of any special disabilities that need to be taken note of. We have given full recognition to the several special problems faced by these States in determining grants-in-aid. We have also extended to them a generous measure of debt relief. We are of the view that such explicit assistance to States facing special difficulties is far more desirable than any indirect help such as recognition of lower rates of return on investments in power projects or other remunerative enterprises would imply. It is essential not to weaken the will of these States to strive for and achieve better results in the power sector.

17. The levy of Electricity Duty/Tax on sale or consumption of electricity introduces some complication in the prescription of norms for recovery of interest on loans advanced by the State Governments to the Electricity Boards. The levy of Electricity Duty, it may be argued, limits the scope for revision of tariffs by Electricity Boards and to that extent also reduces the operating surplus out of which interest is payable. Some of the State Governments—Andhra Pradesh and Himachal Pradesh—do not levy any duty on consumption/sale of electricity. Tamil Nadu, which was till 1970-71 levying duty on all categories of consumers of electricity, withdrew it in respect of certain classes of consumers and merged it with the tariff. Other States levy electricity duty but at varying rates. Parity of treatment among States demands that prescription of norms for recovery of interest does not place at a disadvantage States which are now raising considerable revenue in the form of taxes on sale/consumption of electricity. The revenues realised as Electricity Duty should be set off against the interest due according to the norms prescribed by us so that revenue from Electricity Duty and interest from Electricity Board might together make up the interest stipulated as the minimum to be recovered from Electricity Boards.

18. The Electricity Duty is now being levied not merely on units generated within a State but also on units bought from other States. To set off the whole of the proceeds from the Electricity Duty against interest due from Electricity Board may not be quite proper because there is no loan assistance corresponding to units purchased from other States. We have, therefore, allocated, with reference to the information available with us, the receipts from Electricity Duty proportionately between units generated within the States and units bought from outside and set off only the Electricity Duty ascribable to 'own'

generation against interest due. As we are determining the interest liability with reference to loans outstanding at the end of 1973-74, we have thought it appropriate to set off against the interest due accruals from Electricity Duty only at the levels reached in 1973-74.

19. Some of the State Governments are also executing power projects departmentally. It is essential to ensure that reasonable returns are secured on such direct investments also. While reassessing the forecasts of receipts and expenditure furnished by the State Governments, we have assumed returns on these direct investments at the same rates as prescribed by us in respect of loans to Electricity Boards. However, the Commission, having regard to the special features of generation and transmission of power in Manipur, Nagaland and Tripura, felt that it would be unrealistic to expect these States to recover interest on their investments in Power Schemes during the forecast period. Nonetheless, we see no reason why they should not cover fully their working expenses.

20. Government of Mysore have set up a Power Corporation, which has been charged with the responsibility of execution of certain power projects. We have considered it appropriate to assume recovery of interest at 6 per cent on the loans advanced by the Government of Mysore to the Power Corporation.

21. We are fully aware that the recovery of interest up to the norms indicated by us in earlier paragraphs would call for considerable effort both by way of revision of tariff and improvement of operational efficiency of Electricity Boards. The Statement below, which shows State-wise the loans advanced to Electricity Boards and expected to be outstanding at the end of 1973-74 and the interest recoverable from State Electricity Boards, according to the norms stipulated by us, highlights the corrective action that needs to be taken by the State Governments either through revision of tariff or improvement of operational efficiency of Electricity Boards or both.

(Rs. crores)

States	Loans advanced by State Governments and estimated to be outstanding at the end of 1973-74	Interest payable to the State Government according to norms laid down by us for the period 1974-79	Receipts from Electricity Duty (as in the forecast) during 1974-79, attributable to own generation*	Interest receipts taken credit for in the forecast of States for 1974-79**	"Mark up" of the estimates of receipts of interest considered necessary in the light of our norms
1	2	3	4	5	6
1. Andhra Pradesh	214.70	55.90	Nil	34.69	+21.21
2. Assam	73.76	20.82	1.50	Nil	+19.32
3. Bihar	180.87	46.01	27.00	Nil	+19.01
4. Gujarat	167.57	41.89	35.15	46.53	Nil
5. Haryana	166.99	48.83	7.80	7.62	+33.41
6. Himachal Pradesh	33.89	10.17	Nil	4.29	+5.88
7. Jammu & Kashmir	83.81	24.90	0.95	Nil	+23.95
8. Kerala	157.06	47.12	11.25	5.08	+30.79
9. Madhya Pradesh	184.46	48.53	22.85	31.30	Nil
10. Maharashtra	268.21	67.13	82.80	40.81	Nil
11. Mysore	54.86	16.46	7.05	Nil	+9.41
12. Orissa	76.36	20.38	18.00	12.39	Nil
13. Punjab	304.68	88.75	15.75	Nil	+73.00
14. Rajasthan	182.19	52.49	2.70	7.32	+42.47
15. Tamil Nadu	246.62	71.51	8.90	27.95	+34.66
16. Uttar Pradesh	757.48	205.73	23.94	127.36	+54.43
17. West Bengal	72.04	18.62	43.45	..	..
Total	**32,25.55**	**8,85.24**	**3,90.09**	**3,45.34**	**+3,67.54**

*Computed in the manner indicated in para 18.

**Adjusted for subsidies being paid.

22. Likewise, the following table shows the net receipts envisaged for 1974-79 by State Governments under Electricity Schemes run departmentally and the returns that should be obtained according to the norms laid down by us :

(Rs. crores)

States		As indicated by State Governments in their forecasts for 1974–79	Worked out according to norms laid down by us 1974–79
1. Andhra Pradesh	Gross Receipts	18.25	24.59
	Working Expenses	(—) 7.65	
	Interest charges	(—) 29.70	(—) 24.59
	Net Receipts	(—) **19.10**	**Nil**
2. Maharashtra	Gross Receipts	46.25	46.25
	Working Expenses	(—) 0.70	(—) 0.70
	Interest charges	—	—
	Net Receipts	**45.55**	**45.55**
3. Orissa	Gross Receipt	3.59	3.59
	Working Expenses	(—) 2.50	(—) 2.50
	Interest charges	(—) 0.88	(—) 0.88
	Net Receipts	**0.21**	**0.21**
4. Manipur	Gross receipts	8.65	
	Working Expenses	(—) 10.93	Nil
	Interest charges	(—) 3.16	Nil
	Net Receipts	(—) **5.44**	**Nil**
5. Nagaland	Gross Receipts	1.69	
	Working Expenses	(—) 3.19	Nil
	Interest charges	Nil	Nil.
	Net Receipts	(—) **1.50**	**Nil**
6. Tripura	Gross Receipts	9.67	Nil
	Working Expenses	(—) 13.23	
	Interest charges	(—) 3.37	Nil*
	Net Receipts	(—) **6.93**	**Nil**

*In the case of these States the Commission has assumed recovery of only Working Expen.cs in view of their special problems in generation and distribution.

23. By the end of 1973-74, Government of Mysore would have advanced loans to the extent of Rs. 96.82 crores to the Power Corporation. In estimating the revenues of the Government of Mysore for the forecast period, we have assumed recovery of interest by them of Rs. 29.05 crores at 6 per cent of the loans outstanding against the Power Corporation.

24. The mark-up of interest receipts State-wise will be reduced to the figures indicated in the table below, if Dr. Gulati's suggestion referred to earlier is accepted.

(Rs. crores)

States	"Mark-up" of interest receipts considered necessary on the basis of loans-attributable to completed works only	Consequential relief to States as compared to norms prescribed by the majority o the Commission
1	2	3
1. Andhara Pradesh	+11.89	9.32
2. Assam	+16.76	2.56
3. Bihar	+7.74	11.27
4. Gujarat	Nil	--
5. Haryana	+12.61	20.80
6. Himachal Pradesh	+0.80	5.08
7. Jammu & Kashmir	+8.82	15.13
8. Kerala	+13.56	17.23
9. Madhya Pradesh	Nil	..
10. Maharashtra	Nil	..
11. Mysore	+ 9.41	..
12. Orissa	Nil	..
13. Punjab	+30.75	42.25
14. Rajasthan	+29.79	12.68
15. Tamil Nadu	+28.94	5.72
16. Uttar Pradesh	+19.33	35.10
17. West Bengal	Nil	..
TOTAL	+190.40	177.14

As regards electricity schemes run departmentally, Dr. Gulati's suggestion will ensure a relief of Rs. 13.40 crores for Andhra Pradesh, *i.e.* the contra-entry interest receipts of Rs. 24.59 crores taken credit for in our reassessment will be reduced to Rs. 11.19 crores and there will be a corresonpding increase in the States' overall deficit on revenue account and the grants-in-aid under Article 275. In regard to loans to Mysore Power. Corporation the concra-entry interest receipts amounting to Rs. 29.05 crores taken credit for in our reassessment will be reduced to Rs. 15.89 crores which will reduce the overall surplus on revenue account of the State by Rs. 13.16 crores.

25. In laying down certain minimum norms of performance on the part of State Electricity Boards, we have been guided by the consideration that a time bound programme of action for revision of tariff and orf implementation of other measures to improve the working results of State Electricity Boards may not fructify unless suitable financial deterrents are evolved. It is necessary to ensure that the pressure on State Government to enforce certain minimum standards of performance on the part of Electricity Boards is not in any way weakened through *ad hoc* expedients such as special accommodation. States qualifying for grants under Article 275 will immediately feel the impact of our assumptions of minimum returns on loans advanced to State Electricity Boards and on direct

investments in electricity projects. But so far as surplus States are concerned, our assumptions will only have the effect of reducing the surplus on non-Plan account, which they could otherwise have utilised for purposes of the Plan. Whatever additional revenues that the State Governments or the Electricity Boards are able to raise by way of revision of tariff, is now treated as part of their additional tax effort for the Plan. It is true that conceptually revision of tariff of public enterprises has the same effect as additional taxation. But we have reason to fear that this approach has fostered the wrong notion that while the gap in resources arising from the failure of States to secure reasonable returns on power and other projects should be made good by devolution or grants-in-aid from the Centre, whatever action may be taken for getting larger returns from such projects should rank as additional tax effort for the Plan. A complete reorientation of this outlook is called for. We would, therefore, urge that the measures needed to be taken by the State Governments to realise the minimum returns from power projects envisaged by us should not be deemed to be part of their additional tax effort. In other words, in addition to whatever target of taxation that may be laid down for purposes of State Plans, the State should be required to achieve the norms we have suggested for Electricity Boards.

26. We would also like to refer to the tendency brought to our notice on the part of some of the Central Ministries to exert pressure on the State Governments and their Electricity Boards to extend concessional tariff for certain energy-intensive industries. We concede that power-intensive industries may call for specially negotiated favourable rates and that under certain circumstances it may be advantageous to State Governments and their Electricity Boards, to concede special rates to large projects sponsored by the Central Government. But we would like to urge very strongly that the Government of India should not overlook the need to assure certain minimum returns on the investments made by the State Electricity Boards in arriving at a settlement about power tariff for such big projects. Even making allowance for some benefits in the form of inter-State sales-tax, additional employment and the like accruing to the States concerned from the location of such big Central projects, it has been stressed that the States concerned, some of them economically backward, are not the only beneficiaries of such industrial projects sponsored by the Centre. Often the Centre and other economically advanced States benefit more from increased production of products such as aluminium for which favourable tariff is sought. It would, therefore, be highly inequitable to expect the States where such projects are located to bear the full burden of supply of cheap power. In all such cases involving supply of concessional power by State Government to Central industrial projects, the larger aspects of securing reasonable return from power projects should not be lost sight of.

Losses on Major and Minor Irrigation works in the State.

27. Irrigation projects rank next only to schemes for generation and transmission of power in terms of capital investment. The investment in major and medium irrigation projects, expenditure on which is debited to "98-Capital Outlay on Multi-purpose River Valley Schemes" and "99-Capital Outlay on Irrigation, Navigation and Embankment Work (Commercial)", is estimated to be of the order of Rs. 3,500 crores at the end of 1973-74. State-wise details of cumulative capital outlay on major and medium irrigation projects at the end of 1971-72 and as estimated at the end of 1973-74, are furnished in Table 5(a) in Appendix IX. The bulk of this investment has been made since the comencement of planning in the country. The outlays on irrigation projects would account of approximately 16 per cent of the aggregate outlays of the State Plan by the end of 1973-74. The era of planning which has witnessed phenomenal increase in investment in irrigation projects has, however, been unfortunately marked by sharp and progressive deterioration in the working results of irrigation projects. As against a marginal loss of only Rs. 58 lakhs in 1950-51, State Governments sustained a loss of nearly Rs. 150 crores on major and medium irrigation projects n 1971-72. In that eyar except for Andhra Pradesh, Haryana and Punjab, no other State was able to cover even the working expenses from receipts by way of water charges. According to the forecasts furnished by the State Governments to us, Gujarat, Madyha Pradesh and Rajasthan alone would be able to meet their working expenses, while in all other States the receipts would fall short of even working expenses, let alone recovery of interest charges. Taking all States together, the aggregate loss on irrigation projects including interest charges, as projected during the Fifth Plan period, would be well over Rs. 1,000 cores.

28. Decline in net receipt from irrigation works attracted the notice of the Second Finance Commission, which considered t "a disturbing feature of the revenue position of most States." The Commission also apprehended that with the completion of some of the projects by the end of the Second Plan period, their impact on the revenue budget of the States would cause anxiety. The Third Finance Commission also viewed with concern the losses on irrigation projects and the reluctance of the States to increase water rates or collect betterment levies. The reports of these two Commissions do not, however, indicate that the losses on account of irrigation projects were left out of account in the assessment of the budgetary gaps of the States. The Fifth Finance Commission took the stand that the losses on account of irrigation projects should be contained within certain stipulated limits. The Commission saw no reason why public sources of irrigation should not be so managed as to avoid at least losses, when very large numbers of agriculturists were incurring higher costs in obtaining water from private sources. While working out the entitlements to grants-in-aid of revenues of the States the Commission therefore assumed that "within the next five years' it will be possible for the State Governments to take steps to improve the returns for covering working expenses and interest charges at $2\frac{1}{2}$ per cent per annum on the investments in all irrigation projects."

29. An improvement in working results of irrigation projects can be secured, not through any economy in expenditure on maintenance, but only through enhancement of the present level of receipts. The Irrigation Commission found that water rates in vogue were a mere fraction of the value of the produce of the area receiving irrigation. The results of the study made by them for the two main crops, *viz.* rice and wheat are reproduced in Table 5(b) in Appendix IX of our report. It will be seen therefrom that the water rates for rice vary between 1.2 per cent to 2.4 per cent of the value of produce in Uttar Pradesh to about 7 per cent in Bihar. As for wheat, the water rates in terms of the value of produce vary from 0.9 per cent in part of Uttar Pradesh to 4.4 per cent in Gujarat. Irrigation projects have entailed large draft on the scarce resources of the community. The beneficiaries of the projects are easily identifiable. Hence it is imperative to fix water rates at reasonable levels so as to eliminate recurring subsidies of a substantial nature from the general budget.

30. The losses on irrigation projects as indicated in the forecasts furnished to us cannot, therefore, be conceded in full. Some norms have to be laid down for containing the losses on irrigation projects if they cannot altogether be eliminated. While it is reasonable to insist that the massive investments in irrigation projects should yield a minimum return over and above maintenance charges, we recognise that the norms prescribed should be realistic. Our estimates show that if a net return of even 2½ per cent is to be secured, as envisaged by the last Finance Commission, the States will have to raise additional resources of the order of Rs. 619 crores, if expenses on maintenance of irrigation works are to be incurred at the levels projected by them. Efforts of this magnitude may seem unrealistic. We, therefore, feel that the immediate objective for the States should be to ensure that at least the maintenance charges on major and medium irrigation projects are fully covered. The forecasts of working expenses, as furnished by the State Governments, have been reassessed with reference to certain norms. The position in respect of receipts and working expenses on multi-purpose river valley projects and irrigation (commercial) will, on the assumption that the gap, if any, between receipts and working expenses is to be fully covered by the end of 1978-79, be as under :

Financial working of Irrigation (Commercial) and Multi-purpose River Schemes

(Rs. crores)

States	Receipts	Working Expenses according to norms	Surplus	Mark up (—) in receipts	Final position after mark-up
1	2	3	4	5	6
1. Andhra Pradesh	31.55	37.00	(—)5.45	(+)5.45	Nil
2. Assam	..	..	..	..	..
3. Bihar	31.44	40.60	(—)9.16	(+)4.84	(—)4.32
4. Gujarat	18.38	8.95	(+)9.43	..	(+)9.43
5. Haryana	32.95	16.65	(+)16.30	..	(+)16.30
6. Himachal Pradesh	..	..	..	..	..
7. Jammu & Kashmir	1.11	1.50	(—)0.39	(+)0.15	(—)0.24
8. Kerala	0.96	2.05	(—)1.09	(+)0.31	(—)0.78
9. Madhya Pradesh	17.98	9.85	(+)8.13	..	(+)8.13
10. Maharashtra	17.45	15.20	(+)2.25	..	(+)2.25
11. Manipur	..	..	..	..	..
12. Meghalaya	..	..	..	..	..
13. Mysore	16.50	13.00	(+)3.50	..	(+)3.50
14. Nagaland	..	..	..	..	..
15. Orissa	9.41	7.60	(+)1.81	..	(+)1.81
16. Punjab	26.31	22.55	(+)3.76	(+)8.52	(+)12.28
17. Rajasthan	13.82	11.25	(+)2.57	(+)2.23	(+)4.80(b)
18. Tamil Nadu	12.64	16.10	(—)3.46	(+)0.86	(—)2.60
19. Tripura	..	..	..	..	..
20. Uttar Pradesh	131.00	107.75	(+) 23.25	..	(+)23.25
21. West Bengal	4.90	10.30	(—)5.40	(+)5.05	(—)0.35
TOTAL	366.40	320.35	(+)46.05	27.41	73.46

(a) On account of mark-up of receipts under "Multi-purpose River Schemes" as per Commission's decision to eliminate the loss in—the last year of the Plan.

(b) Estimates adopted on the basis of Revised Forecast of State Government which envisaged a net surplus.

31. From the above table, it may prima facie appear that many of the States are already covering the working expenses arrived at according to norms and that, therefore, they could be expected to ensure a further improvement in the working results of the irrigation projects so as to secure a minimum return on their investments. There can be no doubt that our objective should be to secure a reasonable return on all investments made in irrigation projects, but we have refrained from stipulating any minimum returns for the forecast period for purposes of computation of the budgetary gaps/surpluses of the States for certain reasons. Firstly, if past experience be any guide, it is doubtful if States would be able to hold down the working expenses at the levels stipulated by us. Secondly, the requisite measure of public support for the enhancement of water rates may be more readily forthcoming, if the States are enabled to utilise the additional resources accruing from such enhancements (over and above the level needed to cover working expenses) for purposes of the Plan. We cannot also overlook the fact, borne out by past experience, that revision of water rates is far more difficult to effect in most States than enhancement of power tariff or passenger fares in road transport undertakings. The gestation period of major irrigation projects, including the time taken for substantial or full utilisation of irrigation potential is much longer than in the case of power projects whether hydel or thermal. With power projects the utilisation of additional capacity created has generally not posed any serious problem in most States, whereas in the case of irrigation projects there is considerable time lag between creation and utilisation of irrigation potential. On these considerations, in reassessing the forecasts of State Governments for the purpose of our award, we have only assumed that there will be no gap between receipts and working expenses by the end of 1978-79. We would, however, urge that the revision of water rates up to the level needed to cover in full the maintenance charges should not be reckoned towards additional tax effort for the Plan. Revision of water rates above this level should, however, be treated as additional resources mobilisation for the Plan by the States.

32. Dr. Minhas is, however, unable to agree with the view of the majority that in projecting the revenue accounts of the States relating to "98-Capital Outlays or Multi-purpose River Valley Schemes" and "99-Capital Outlays on Irrigation, Navigation and Embankment Works (Commercial)" for the forecast period, the receipts under these heads should be taken to cover only their working expenses.

33. Working on the basis of norms of expenditure on the maintenance of irrigation works, the irrigation receipts of the States of Gujarat, Haryana, Madhya Pradesh, Maharashtra, Mysore, Orissa, Punjab, Rajasthan and Uttar Pradesh would be in excess of the working expenses during the next five years. Both the receipts and expenditure under this head are insignificant and, therefore, of no relevance for the States of Assam, Himachal Pradesh, Manipur, Meghalaya, Nagaland and Tripura. When 15 out of the 21 States of the Union would be in a position to more than cover their working expenses, it does not seem proper to adopt the norm that the irrigation receipts should just cover only the working expenses. While a very large number of agriculturists are incurring higher costs in obtaining water from private sources, it does seem odd that the Finance Commission should condone fully the loss of interest chargeable to public investments in major and medium irrigation works. The beneficiaries of irrigation works are clearly identifiable and they must be made to pay the full economic costs of irrigation water overtime. An effective beginning nevertheless must be made immediately to gather adequate irrigation receipts in support of the regular non-Plan budgets of the States.

34. In the interests of sound fiscal management, Dr. Minhas recommends that while working out the entitlements to grants-in-aid of the revenues of the States, the Commission should assume that within the next five years it will be possible for the State Governments to take steps to improve the returns so as to cover working expenses and interest charges of at least 1 per cent per annum on the investments in all major and medium irrigation projects. As a corollary of this recommendation, the receipts of all the States must therefore be marked up as shown in columns 5 and 6 of the Statement below. The amounts by way of grants under Article 275 recommended in Chapter XV for the States of Andhra Pradesh, Bihar,

Jammu and Kashmir, Kerala, Orissa, Rajasthan, Uttar Pradesh and West Bengal should be marked down by Rs. 24.30, 24.06, 0.88, 3.79, 8.05, 11.05, 0.81 and 15.61 crores, respectively for the period of our award.

States	Receipts assumed in the forecast	Working Expenses according to norms	5 year's interest at 1 per cent per annum	Surplus(+) or deficit (—)	Mark up of receipts required for surplus States	Mark up of receipts required for deficit States
1	2	3	4	5	6	7
1. Andhra Pradesh	31.55	37.00	18.85	(—) 24.30	..	24.30
2. Assam	..	..	..	..	..	..
3. Bihar	31.44	40.60	14.90	(—) 24.06	..	24.06
4. Gujarat	18.38	8.95	13.22	(—) 3.79	3.79	..
5. Haryana	32.95	16.65	6.22	(+) 10.08	..	..
6. Himachal Pradesh	..	..	..	..	..	..
7. Jammu & Kashmir	1.11	1.50	0.49	(—) 0.88	..	0.88
8. Kerala	0.96	2.05	2.70	(—) 3.79	..	3.79
9. Madhya Pradesh	17.98	9.85	9.27	(—) 1.14	1.14	..
10. Maharashtra	17.45	15.20	17.11	(—) 14.86	14.86	..
11. Manipur	..	..	..	..	..	..
12. Meghalaya	..	..	..	..	..	..
13. Mysore	16.50	13.00	14.48	(—) 10.98	10.98	..
14. Nagaland	..	..	..	..	..	..
15. Orissa	9.41	7.60	9.86	(—) 8.05	..	8.05
16. Punjab	26.31	22.55	12.83	(—) 9.07	9.07	..
17. Rajasthan	13.82	11.25	13.62	(—) 11.05	..	11.05
18. Tamil Nadu	12.64	16.10	6.52	(—) 9.98	9.98	..
19. Tripura	..	..	..	..	..	..
20. Uttar Pradesh	131.00	107.75	24.06	(—) 0.81	..	0.81
21. West Bengal	4.90	10.30	10.21	(—) 15.61	..	15.61
TOTAL	**366.40**	**320.35**	**174.34**	**(—)128.29**	49.82	88.55

35. Dr. Gulati, who agrees with the majority recommendation on this subject, would like to add that in the event of any rate of returns being prescribed for investments in irrigation, it is no less important to draw a distinction between investments locked up in works under construction and investments in works which are already completed as has been suggested by him in regard to investment in power projects.

36. Turning to minor irrigation works, expenditure on which is debited on the revenue account to "44-Irrigation (non-commercial)" the picture revealed is no less unsatisfactory. In 1971-72, the States incurred a loss of nearly Rs. 42 crores on minor irrigation and flood control works, maintenance expenditure on which is debited to "44-Irrigation (non-commercial)". Here again, the working expenses may not admit of any reduction. In fact, as proposed by us elsewhere in our report, the provisions for working expenses will have to be marked up appreciably in most of the States according to the norms considered essential by us. The losses will further widen unless remedial action is immediately initiated. In order that the States may be induced to take such action we have, in reassessing the forecasts of the States, assumed that the States should by the end of 1978-79 reduce the losses on minor irrigation works upto half of the estimated losses in 1973-74. As regards flood control works, we feel that in view of the absence of any arrangements at present for recovery of charges of maintenance of flood control works from the beneficiaries, we may have to reconcile ourselves for the present to the continuance of losses on such works.

Financial Results of State Road Transport Undertakings.

37. Road transport, particularly passenger transport is another sector in which State Governments have made large investments in recent years. These undertakings are under different forms of management. Most of them have been set up under the Road Transport Corporation Act, 1950, while a few function as companies under the Indian Companies Act. There are also seven undertakings run departmentally. The investments in all these undertakings taken together would be about Rs. 380 crores at the end of 1973-74, out of which the contribution of State Governments in the form of equity and loans would amount to about Rs. 205 crores. It is gratifying to find that road transport undertakings have by and large proved financially remunerative and make

reasonable contribution to State revenues in the form of interest payments and dividends. But there are a few undertakings whose financial position should cause serious concern. The road transport corporations of Assam and Kerala will not have adequate surpluses to provide fully for depreciation and interest charges. Calcutta State Transport Corporation, the North Bengal State Transport Corporation and Durgapur State Transport Corporation will not meet even their working expenses, let alone provision for depreciation and interest. In the light of the experience of most of the road transport undertakings it is clear that given proper management and economic fare structure State Governments should be able to secure reasonable return on their investments in this sector. We are, therefore, convinced that it would be realistic to assume recovery of interest and/or dividends at a minimum of 6 per cent on the investments made by the State Governments while reassessing the forecast of the State Governments. The Calcutta State Transport Corporation does not even meet its working expenses in full at present and this position is expected to continue during the forecast period. Having regard to the special features of operation of transport services in the large metropolitan area of Calcutta, we have considered it appropriate to reassess the forecasts of the State Governments on the basis that the Corporation should meet its working expenses in full during the forecast period. We have not assumed any credit for interest on the investments made by the State Government. We do not, however, see any justification for extending special treatment of North Bengal and Durgapur State Transport Corporations. Road transport services are being run departmentally in Manipur and Nagaland. In view of the special problems of operation of transport services in these two States, we feel that these services may at best be expected to cover their working expenses. In reassessing the forecasts of these two State Governments we have not, therefore, assumed any recovery of interest of their investment in road transport. A statement showing the investment by way of equity or loan in road transport undertakings by the State Governments, the forecasts of interest receipts as furnished by the State Governments and as reassessed by us with reference to the norms indicated above has been appended in Table No. 6 in Appendix IX.

Recovery of Interest on loans advanced by State Governments.

38. State Governments have advanced loans for a variety of purposes. We have already indicated separately our assumptions in regard to recovery of interest on loans advanced to State Electricity Boards and Road Transport Undertakings. The information obtained by us from State Governments shows that, by and large, there is no concessional element in the rates of interest on loans granted for various purposes. In view of this, one should normally expect the interest receipts on these loans to match, if not provide a surplus over, the average rate of borrowing of the State Governments. But it is distressing to find that recovery of interest in 1971-72 worked out to as low as 0.4 per cent and 0.7 per cent on loans outstanding in two of the States. In many other States too, it worked out to less than 5.29 per cent, the average rate of borrowing of State Governments, though it should also be mentioned that in some of the States interest receipts work out to a much higher figure ranging from 5.6 per cent to 7.62 per cent. It is clear that the shortfall in interest receipts reflects the failure of State Governments to enforce prompt recovery of the loans advanced by them. Here again, we consider that certain minimum standards of performance should be insisted on and the anticipated receipts from interest for the forecast period reassessed on that basis. Even allowing for some element of default in the recovery of interest, it should not be difficult for the State Governments to realise at least 5 per cent interest on loans outstanding. It has been represented to us that, in recent years, loans have been granted in large measure for relief purposes and such loans are exposed to high risk of default. While we expect the State Governments to take appropriate action for recovery of interest even on such loans, we have considered it advisable to leave out loans granted to victims of natural calamities, refugees and repartriates in computing interest receipts wherever in information about amounts outstanding under such loans was made available to us. States which perform better than the norm laid down by us should be allowed to keep such receipts as resources for their Plan.