CHAPTER 2

RE-ASSESSMENT OF THE FORECASTS OF STATE GOVERNMENTS ON REVENUE ACCOUNT

The primary objective of a Finance Commission is to evolve a scheme of transfer of financial resources from the Centre to the States, so designed as to place each State in a position where it can expect to maintain financial equilibrium during the period covered by the report of the Commission. It is essential therefore to estimate the budgetary needs of of each State Government for this period, in a uniform manner, taking due note of any special features that there may be in one State or the other. The basic document for this purpose is the forecast of revenues and expenditure prepared by the State Government itself. As we have mentioned earlier, we had requested the State Governments to furnish these forecasts in a standard form, which followed the classification of receipts and expenditure used for budgeting and accounting of State Government transactions. We have also obtained from the State Government, in the last few months, revised forecasts taking into account their budgets for the current year as well as any developments relevant to the forecasts,. which may have taken place after the budgets were presented.

2. The forecasts we have obtained relate to non-Plan expenditure. It has now been well established that the financial requirements of the States for their Plans are not considered by the Finance Commission. For practical reasons, if for no other, the requirements for the Plans of the Centre and the States from year to year, which would vary depending on the priorities of development, the progress of individual projects and programmes according to schedule or otherwise, escalations in costs and changes in the content of projects, etc. are most conveniently dealt with from time to time by the Planning Commission and the government concerned. The concern of the Finance Commission is the less discussed,but for that reason not the less vital,area of non-Plan expenditure embracing the basic administrative infrastructure and the adequate maintenance and upkeep of capital assets already created and the public services built up before the commencement of a new Plan. These aspects broadly determine the levels of non-Plan revenue expenditure. In regard to revenue receipts the Finance Commission goes by the general principle that measures which the States or the Centre may take to raise fresh resources should be left out of account, as the new resources raised in the period covered by the Commission's report are generally taken as being meant for new investment in the Plans. The Commission, however, is very much concerned with the returns which investments already made by the governments should fetch.

3. We have re-assessed the forecasts of revenue receipts and expenditure of the States in the light of these broad considerations. For the purpose of the re-assessments, both of revenue receipts and expenditure, like the earlier Commissions, we have adopted the method of applying suitable rates of growth by which individual items of revenue and expenditure may be expected to increase annually. The rates of growth have been applied to the actuals of the year for which firm figures are available in the accounts. In regard to items of receipts we have taken the actuals of 1977-78 as furnished to us by the Accountants General, unless these figures cannot be adopted for one reason or another. The actuals of receipts of 1977-78 are unlikely to undergo any change, unlike the preliminary actuals of the expenditure for the same year which we have for most of the States, also from the Accountants General. The actuals of expenditure for 1977-78 are liable to significant changes on account of adjustments, and we would not have the final picture in time for our Report. In regard to the items of expenditure therefore we have applied the rates of growth adopted by us to the actuals of 1976-77. Here again we have had to go by

other figures, where the 1976-77 actuals are vitiated for any reasons, such as their not reflecting fully the impact of revisions of emoluments effected before 1.1.1977, or being inflated because of inclusion of arrear payments of emoluments, etc. Wherever necessary, we have allowed for factors not reflected in the actuals of receipts in 1977-78 or of expenditure in 1976-77, and which ought to be taken into account for arriving at the 1978-79 base for projections. In the case of items of expenditure, we have excluded from the projections the effect of revisions in emoluments sanctioned after 1.1.1977, which have been dealt with separately later. In this manner both for receipts and expenditure we have arrived at the base year figures of 1978-79 for the purposes of projections. We do not consider it satisfactory to make projections based on the budget estimates of the States for 1978-79, or the revised estimates for 1977-78, for the actuals are likely to differ considerably from these estimates, as is shown by general experience.

4. Many States have given us to understand that they have assumed that there would be relative stability in prices or no price changes in the forecast period while preparing their forecasts of revenue receipts and expenditure. A few States have specifically stated that their forecasts of receipts would give them cushions to enable them to absorb the burden of unforeseen demands on their resources. We have also observed that the projections of receipts in many States are unduly conservative, and their projections would obviously give them cushions to meet stresses in their finances which may occur from time to time.

5. Some States, however, have built in allowances for price changes of varying orders in the forecast period, while projecting expenditure. Many have also built in higher norms of expenditure for maintenance of capital assets and on improving the standards of administration in certain services and sectors. We have allowed for a few such proposals of the States in determining the rates of growth for expenditure, but most of them have been dealt with separately.

6. We do recognise the anxiety of the State Governments, reflected in the assumptions they have made and the methods they have adopted in forecasting their receipts and expenditure, that the equilibrium of their finance in the period covered by our report should not be seriously upset on account of price changes and unavoudable new commitments of expenditure. In the re-assessment of the receipts of the States from taxes, we have taken care to discount the rates at which tax revenues have grown in the early seventies which witnesses severe price inflation. We have also taken note of the fact that there has been a welcome effort at tightening up the tax administration in many States in recent years, and that the higher rates of growth observed in such States as a result of these efforts cannot obviously be sustained in future years. On the other hand, we could not be indifferent to the high levels of arrears of taxes and other revenues noticed in a few States, and have therefore taken credit for recovery out of these arrears to a suitable extent in the forecast period.

Tax and non-tax revenues

7. We have made a detailed analysis of the growth of each item of tax and non-tax revenue as well as non-plan expenditure of the States for a long period of years, from 1963-64 to 1975-76 in most cases. The rates of growth over this long period as well as the co-efficients of elasticity and buoyancy with respect to incomes at current prices have been estimated. Similarly we have the partial elasticity co-efficient of tax revenues estimated with respect to real incomes and prices. These exercises were done for us by the National Institute of Public Finance and Policy, New Delhi, whose assistance we would like to acknowledge here. While we have not fovnd the analysis of non-tax revenues and expenditure particularly useful, we have kept in mind the estimated parameters for certain tax items, together with other factors,

while determining the future growth of tax revenues in each State. We have also naturally taken note of the trends in the growth of these taxes after 1975-76, apart from the changes in the tax laws and rate structures after that year. Besides, specific factors relevant to particular taxes have also been kept in mind, for instance the number of cinema houses in respect of entertainment tax, the laws relating to ceilings on urban and agricultural lands in respect of stamp duties, etc. Nor have we ignored broad considerations like the relative economic position of the States and the patterns of their economies. While we do not believe it is possible in practice to project revenues on the assumption of no price changes whatsoever in the forecast period, we believe that the rates of growth we have adopted would be fair to the States. Taking the overall receipts and expenditure as we have projected, we consider that except in a situation of more than marginal increases in prices, the States should be able to manage their finances fairly smoothly in the period of our report.

8. In the light of the considerations set out above, we have adopted the rates of growth of different taxes as shown in Appendix I. 1. We believe that these rates of growth would be realistic for the years covered by our report.

9. We have not adopted the method of applying rates of growth in the case of some taxes. For land revenue we have re-assessed the forecasts of the States taking a recovery of 85 per cent on the normal demand and 50 per cent of the outstanding arrears in each year. Receipts from electricity duty have been projected on the basis of the anticipated sale of energy in the new Plan period. In regard to purchase tax on sugercane, we have taken note of the recent steep increase in the production of sugar in the country, and the possibility that increases of the same order would not occur in the next few years. We have, therefore, adopted a rate of growth of 3 per cent for receipts from this tax in the case of Uttar Pradesh and Bihar and 4 per cent for the other States.

<u>State excise duties and the impact of prohibition</u>

10. We have paid special attention to the projection of the revenues from State excise duties, keeping in mind the national policy favouring complete prohibition in 4 years. Almost all the States have indicated to us that they are in agreement with this policy in principle, though the steps different States have taken till now do not go equally far towards complete prohibition. Some States have indicated in their forecasts the revenue effect of the measures they have already implemented and have in mind for the future. A few States have given us alternative projections of revenue, with and without the introduction of prohibition in stages. We have kept in mind the context of the national policy while deciding the method of projecting the excise revenue from potable liquor. We have estimated the excise receipts for 1978-79, on the basis of the decisions taken and implemented by the State Governments so far, such as a specific reduction in the sale of liquor, declaration of large areas as dry, etc. We have assumed that the revenue thus assessed for 1978-79 would remain static in each year of the forecast period. To this we have added, for each year, the assistance assured to the States in the present Central Government policy on the subject, equal to half the difference between the total receipts of excise revenue for 1977-78 and the re-assessed receipts for 1978-79, wherever the latter is less. In regard to the other items of revenue booked under the same head, we have adopted a rate of growth of receipts at 5 per cent per year. We wish to state specifically that the method we have adopted for projecting the excise revenues should not be construed as a disparagement of the intentions expressed by a number of State Governments to take steps progressively to achieve prohibition in the next 3 or 4 years. We feel, however, that it would be unsafe to project the revenues in any other manner than the one we have adopted. The level of revenue which we have adopted for each State and each year, should be the one with respect to which the Central Government would make grants to the States to compensate any loss of

excise revenue arising from prohibition measures in the years 1979-80 to 1983-84. We have given in Appendix I. 2 the receipts we have estimated under this head, for each State and each year, broken down between excise revenue from potable liquor and from the other receipts under the head.

The Department of Social Welfare of the Central Government have written to the State Governments on 3rd August 1978, and also to us on the 4th August 1978 indicating the policy of the Central Government. We had taken up this subject in the course of our discussions with the Secretary in the Department and with the Union Finance Secretary. The Union Finance Secretary has also written to us clarifying the policy. These communications have been reproduced in Appendix I. 3(i) to (iii). We find that the present policy of the Central Government, offering to compensate the States to the extent of 50 per cent of the loss of excise revenue if they took steps to implement prohibition, stipulates that the entire revenue under the major head "039 - State Excise" would be counted for the year 1977-78 as well as for the year for which a State makes a claim for assistance, in order to determine the "established loss" of revenue. We find that in a number of States the revenue from items other than potable liquor is substantial, and as we have observed earlier, is being projected by us to grow annually at 5 per cent. We would also like to mention that in Karnataka there are cesses on the excise revenue, the receipts from which are not booked under the same major head of account as excise, and the loss of which, therefore would not be reflected in the revenue under the excise revenue head. A number of States have also pointed out that with the introduction of prohibition their revenue from sales tax on potable liquor would diminish. We find from the clarifications given to us by the Central Government that its assistance policy would not cover the loss or diminution of these revenues. We had also enquired, in our discussions with the Union Finance Secretary, whether any studies had been done which would support the position taken in the assistance policy of the Centre that the uncompensated part of the excise revenue can be made up by the States by tapping the savings on consumption of liquor through other means. We were informed that while this matter had not been studied in detail, it was the belief of the Central Government that savings on liquor were likely to be spent on other consumption which was already subject to tax or could be taxed by the States. The State Governments with whom we have discussed this point, have mentioned that they expected that the savings on liquor would be largely spent on items like foodgrains, clothing, etc. which were either not subject to tax or were taxed at low rates. In their view, to the extent that the savings were spent on items like entertainment, there could be some increase in the revenue, but overall it appeared they would not be able to make up anywhere near the uncompensated part of the excise revenue loss. We feel that there is considerable validity in this view of the States.

11. We, therefore, hold the view that where the State Government implements further measures towards prohibition in the years from 1979-80 onwards, and thereby suffers a loss in the excise revenue from potable liquor to a figure below that assumed by us for that year, the difference should be made up entirely by a grant by the Central Government, and we recommend accordingly. We also recommend that the Government of India should assess the grant payable, if any, to each State in each year of the period of our report, and make the payment under Article 275. In our view, in making this grant, the Central Government should make no distinction between the States which are left with an overall surplus for the five-year period as a result of our scheme of transfer of resources from the Centre, and those which are not. We make this recommendation, taking into account the fact that the present policy of Central assistance does not distinguish between "surplus" States and the other States. We also believe that if such grants are not made to the "surplus" States, they would suffer a diminution in the resources for their Plan, a result which we do not consider equitable or just. Nor would we wish to lay ourselves open to a possible charge

that our view of this matter indirectly will discourage the "surplus" States from taking up a ti me-bound programme for achieving complete prohibition.

12. Prof. Raj Krishna and Shri H.N. Ray, however, do not agree with this approach and have set out their views in a joint Note appended to this Report.

13. Gujarat and Tamil Nadu have asked for specific grants equivalent to the loss of excise revenue following the introduction of complete prohibition in those States quite some time back. The losses have been calculated notionally. We are unable to accede to their request to compensate notional losses of revenue.

14. We have generally adopted an annual rate of growth of 5 per cent for the projection of revenues of the States from non-tax sources, or have accepted the forecasts of the State Governments themselves where we found these reasonable, except for interest, profits and dividends, revenues from forests, mines and minerals, and receipts from the departmental schemes providing supplies and services.

15. In the case of receipts from forests, we have not only taken into accoont the trends of growth of past receipts but also the areas under forests in each State and the revenue per hectare. We have also taken note of the fact that in some States the State Forest Development Corporations have been entrusted with the forest operations in some areas, while in a few the forest operations are being done departmentally and not through lessees. The forest revenues of Andhra Pradesh, Assam, Bihar, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Orissa, Tripura and Maharashtra have been projected to grow at an annual rate of 8 per cent. We have adopted 7 per cent as the rate of growth of revenue in Manipur, Meghalaya, Nagaland, Tamilnadu and West Bengal, and 6 per cent for the other States. In the case of receipts from mines and minerals, we have compared the projections of the States, in respect of royalties on major minerals, with the production estimates for each mineral obtained from the Union Ministries concerned. The revenue from royalties has been projected on the basis of the production anticipated during the forecast period. The other receipts under this Head have been projected taking into account the past trends. Cesses on royalties which are levied in a few States have been projected on the same lines as the royalties.

16. We have been concerned at the picture of deficits disclosed in the forecasts of a num ber of States, in respect of departmental milk supply schemes, undertakings of a commercial nature, water supply schemes, ports and transport services. These services have been expanding in the States over the years, and the State Governments have been investing increasingly in them. Generally these services benefit particular sections of the people, and to the extent the services incur deficits borne by the State Governments, they become a burden on the tax-payer in general. While we appreciate that some of the services are very desirable, we see no reason why receipts on account of these services should not at least cover the working expenses even if they do not generate surpluses for new investments which will be necessary as population grows and urbanisation spreads. It also seems to us that if deficits in these supplies and services, which are of the nature of subsidies from the budget, are not taken note of and conscious efforts are not made to reduce them, there is bound to be a degree of laxity in keeping control over costs and in pricing policies, We recognise, at the same time, that the States will need some time to improve the financial working of such ventures. We have accordingly re-assessed the forecasts of receipts and expenditure on such items, so that the deficit would be reduced to nil by 1983-84. In the case of water transport services run by the Assam Government, however, considering the unique place of these services in the economy of Assam, we have assumed that the deficit would be reduced to half by 1983-84.

17. We note with concern that in some States there appeared to be no policy in terms of which the departments concerned with the provision of supplies and services of the nature described above were required to control costs and to improve efficiency in such a manner as to reduce the net burden on the budgets. The State Governments which are not already maintaining proforma commercial accounts for such schemes and services, should consider doing so. This should help in bringing about a degree of cost-consciousness in the management of these schemes and services, thereby resulting in economy and greater efficiency.

18. We have elsewhere referred to another aspect, namely high levels of arrears of revenues in some States, and indicated that we have assumed that the arrears would be reduced in the forecast period. In our examination of the forecast on the capital account also, which we deal with later, we have assumed recoveries of loans on the basis of a normative approach rather than give credit for the unsatisfactory position in many States. Another important area where good management should produce better results than now, concerns the working of the departmental schemes for irrigation, electricity and transport as well as the corporate bodies set up by the States in these fields, which we shall discuss in some detail later.

<u>Additional resource mobilisation</u>

19. In the projections of the revenue receipts of the States as described above, we have taken the levels of taxation as in the current year, on the basis of the information furnished to us by the States till early in October, 1978. Para 5(iii) of the Presidential Order requires us to have regard also to the targets for additional resource mobilisation for the Plan. We have been informed by the Planning Commission and the Union Finance Ministry that the aggregate of the targets for additional resource mobilisation in the current year is Rs.452.17 crores for all the States, excepting Meghalaya and Sikkim for which no such target was settled. We have also been informed that in some States the target figures include resources to be mobilised through economies in expenditure and better collections of revenue, which it is not possible to quantify. Another relevant point in this connection is that States still have a few months in the current year during which they may take steps to mobilise further resources. We have also noted that when the targets were fixed it was not known that the Central Government would levy an excise duty on electricity, which, according to our estimation, should yield Rs. 125.33 crores in the current year relateable to generation of electricity by the electricity boards and other undertakings of the States. This levy, we have no doubt, would have the effect of inhibiting the State Governments from revising electricity duty upwards and the electricity undertakings from revising their tariffs upwards for raising more resources for themselves. In the light of these factors we have considered it appropriate to reduce the resource mobilisation target of the States by the amount of the Central excise payable on generation of electricity. We have also assumed that the norm of performance against the target so adjusted should be the same as it had been in the States as a whole in the four years 1974-75 to 1977-78, when the all States' performance was 94.98 per cent. We have further assumed that the proportion of the tax and non-tax measures, which would be reflected directly in the budget, to the resource mobilisation by the State enterprises would be the same as it was in 1974-78. On these assumptions we have worked out that the aggregate modified target for the twenty States (for which resource mobilisation targets were set for the current year) should be Rs. 190.36 crores for tax and non-tax revenue measures, and Rs. 120.07 crores for measures in the field of the State enterprises. Taking the additional resources so far raised by the States, we have computed the shortfalls in performance against the modified targets of tax and non-tax resources which we have derived. Five States have done better than the target worked out by us. So as not to penalise the effort, we have given these

States credit for their performance in excess of the target. After allowing for the full year's yield of the measures taken by them, fourteen States have shortfalls as shown below:

States	(Rs. crores)
1. Andhra Pradesh	19.78
2. Assam	2.11
3. Bihar	10.88
4. Haryana	5.90
5. Jammu & Kashmir	1.26
6. Karnataka	13.33
7. Kerala	6.84
8. Maharashtra	21.89
9. Manipur	0.26
10. Nagaland	0.10
11. Rajasthan	9.79
12. Tamil Nadu	8.23
13. Tripura	0.21
14. Uttar Pradesh	19.67

We have added these amounts back to the revenues of the States in the current year and projected them to grow during the forecast period at the same rate as the aggregate tax and non-tax revenues of each State (excluding interest and dividends) as reassessed by us. The receipts thus projected have been added to the revenue receipts of these States for the forecast period.

Shri H.N.Ray, however, does not agree with this approach and has given his views in a separate Note which has been appended to this report.

Revenue expenditure

20. We now indicate the manner in which we have reassessed the revenue expenditure projections of the States. We have kept in mind the desirability of the State Governments restraining the growth of non-Plan expenditure generally in the interest of the provision of services to the tax-payer at the least cost to him, and of conserving resources for the development Plans. We have projected most items of expenditure to grow annually at five per cent wherever the States have adopted a higher rate in their forecasts. In the case of the tax collection charges, as well as Treasury and Accounts Administration, however, we have recognised that in many States a somewhat higher rate of growth of expenditure than 5 per cent a year in the fore-cast period would enable them to improve the efficiency of the departmental organisations and achieve better administration of the taxes and higher collections as well as improved control over Government expenditure. The rates of growth adopted are six per cent and eight per cent in most cases. The expenditure on the Police has been reassessed on the basis of an annual rate of growth of 6.5 per cent, and expenditure on fire services at 6 per cent.

21. Under developmental heads of expenditure we have given special consideration to the requirements of individual States. For education an annual rate of growth of 7 per cent has been adopted for reassessing the expenditure forecast of these States, namely, Bihar, Jammu and Kashmir, Orissa, Tripura and West Bengal, while for the other States, the rate adopted is six per cent. For medical services, we have adopted rates of growth which would enable States to provide adequately for items like X-ray equipment, etc. We have also provided additionally for expenditure on medicines and diet for patients so that States

can spend upto Rs.2568 a year on medicines and Rs.1100 a year on diet per hospital bed. The former is the average expenditure on medicines for all States in 1977-78 as estimated by us, and the latter has been taken by us as a desirable minimum. We have shown in Appendices I.4(i)and (ii) the additional provisions thus included in the forecasts of the States concerned.

22. We find a variety of practices in different States in regard to old age pensions and pensions for the destitutes, the infirm, etc., the expenditure on which is booked under the head 288-Social Security and Welfare. In a few States, there is no such social security scheme at all, while in others the rates of monthly pension are too low in our opinion. We feel concerned about this situation, and believe that it would be desirable to have some uniformity as between the States. We have, therefore, allowed in the forecast period adequate provisions in each State to enable payment of Rs.60 per month by way of a social security pension to 0.1 per cent of the population according to the 1971 census. In the case of the States where the expenditure on social security pension is higher than this level, we have allowed it to stand. The amounts thus provided have been taken at a static level in each year of the forecast period. The provisions allowed by us, together with the actual expenditure in 1976-77 are shown in Appendix 1.5. Some States have recently decided on unemployment relief payments. West Bengal, Kerala, Karnataka and Punjab have included pensions on this account in their revised forecasts on revenue account. We are not in a position to judge the merits of these schemes and their priority vis-a-vis other developmental schemes of the States. We believe that such schemes should properly belong to the Plans, and have therefore not allowed any provisions in the forecasts as reassessed by us.

23. In regard to the transactions on food and civil supplies we have examined the revenue expenditure head 309 and the capital account head 509, taking into account the different practices followed by the States for the booking of transactions in the accounts. We have assumed that except in Himachal Pradesh and Jammu & Kashmir, there would be no net burden on the budgets in the forecast period on account of these transactions, but have allowed for the regular establishment costs. In regard to food subsidy, Himachal Pradesh has included in its forecast a small amount for subsidising mainly the cost of transport of certain essential commodities to the remote areas in the State. In view of the special circumstances, we have allowed for this expenditure. Jammu & Kashmir has been withdrawing food subsidies in a phased manner since about 2 years. According to the State Government, the total burden on the subsidy on foodgrains had reached Rs.15.87 crores in 1975-76, whereafter it is being reduced progressively. Simultaneously the State Government has undertaken certain development schemes outside the Plan, utilising the savings on the food subsidies. We understand that the Planning Commission has till now allowed such an arrangement. The State Government has included expenditure to the tune of Rs.12.66 crores on food subsidies in its forecast for the first 3 years on a diminishing scale, and at the same time has also proposed a food subsidy sub-Plan of Rs.56 crores in the five-year period made up of Rs.13.15 crores on revenue account and Rs.42.85 crores on capital account. The State Government has urged that since the Planning Commission has so far allowed a food subsidy sub-Plan outside the Plan, the same practice should be accepted for the period covered by our Report and Rs.56 crores should be provided for on the non-Plan account for a food subsidy sub-Plan. We have given careful consideration to this matter. We appreciate the efforts of the State Government to reduce the food subsidy expenditure to nil after the first 3 years of the forecast period, and have accordingly allowed this expenditure to the tune of Rs.12.66 crores in the years 1979-80 to 1981-82. However, in regard to the food subsidy sub-plan, though we may be in sympathy with the approach of the State Government, we feel precluded from providing for expenditure of a clearly developmental nature which ought to be in the Plan. Besides, we are not aware of the contents of the

sub-Plan of Rs.56 crores. Even if we were, we are not in a position to assess their merits as the Planning Commission would be able to do. We are, therefore, leaving this aspect to be discussed and settled between the State Government and the Planning Commission.

24. There are a number of items of expenditure in the States for which the Central Government provides non-Plan grants. Some of these items are functions performed by the States as agents of the Central Government. Many others are in pursuance of schemes of joint efforts between the Central Government and the States to improve particular areas of administration, for instance, grants forming part of Central assistance for modernisation of the police. Some others have ad hoc origins like grants to the States towards the cost of the personnel of the former National Fitness Corps. Among the Central Ministries only the Ministry of Supply and Rehabilitation (Department of Rehabilitation) has written to us that they are meeting the cost of certain institutions (Permanent Liability Homes, etc.) in the States which had been set up as part of the measures for rehabilitation and welfare of refugees and migrants. They have observed that institutions of these types should be the responsibility of the States concerned, but the latter had not so far taken them over on account of financial constraints. The Department have, therefore, suggested that we may take this into account and allow for the full expenditure in the forecast of the States concerned. A copy of their communication is reproduced at Appendix I.6. We have accepted this request and have accordingly allowed fully for the expenditure on the institutions in the forecasts of the States concerned. As regards non-Plan grants to the other Ministries, we have assumed that they will continue as at present and have reassessed the States' forecasts accordingly wherever necessary.

25. The forecasts of the States include provisions for assignments of revenues from taxes to local bodies. The taxes so assigned and the amounts involved differ widely as between the States. We have provided for these assignments to continue in the forecast period on the same basis as at present. State Governments also give grants to local bodies. A few have revised the amounts of these grants recently. We have allowed provisions for these grants to continue on the current basis, with an annual increase of 2 per cent in the forecast period.

Committed liabilities

26. The maintenance of Plan schemes completed by the end of 1978-79 becomes a "committed" liability on the non-Plan account from 1979-80 onwards. We had requested State Governments to furnish us details of Plan expenditure for the year 1978-79 as well as their estimates of the committed liability from 1979-80 onwards. We had asked for scheme-wise details, showing recurring and non-recurring items. Not all State Government have been able to give us the information in detail. We have also noticed that in many States the Plan outlay budgeted by them is different from the Plan outlay for the current year approved by the Planning Commission. Since the Plan outlay approved by the Planning Commission is linked with a certain scheme of financing settled at the time of the approval of the Plans, we have taken the approved Plan outlay as the basis. The committed liability arising on account of expenditure on the capital side, for example, maintenance of buildings, roads and irrigation works, have been examined separately and provided for as indicated later. We have therefore estimated the committed liability arising out of the revenue account component of the approved Plan for 1978-79; where the budgeted outlay is different from the approved Plan outlay we have made our own estimate of the revenue component of the approved outlay. Similarly, in respect of Central sector and Centrally sponsored schemes, we have suitably modified the outlays shown in the State budgets in the light of the outlays in the Central budget. We have also taken into account information furnished by the Planning Commission, which may be found in Appendix I.7, for the purpose of estimating committed expenditure liabilities in the States. For instance, a number of

states have included in their forecasts provisions for family welfare programmes on the assumption that they would cease to be Centrally sponsored, though the actual position is otherwise. We have corrected the forecasts of the States in such cases.

27. The committed expenditure estimates as percentage of the revenue Plan outlay of 1978-79 vary very widely as between the States. For instance, in the State Plan sector these percentages vary from 25.4 to 85.96. This range of variation is inexplicable since the content of the revenue Plan outlay under the different heads of development does not vary too much as between the States. Keeping these considerations in mind, we have allowed for committed expenditure liabilities in 1979-80 at the levels proposed by the States, subject to a maximum of 50 per cent of the revenue component of the plan outlay for 1978-79. In the case of Sikkim and Haryana, which have made unduly low estimates in our view, we have adopted 30 per cent of the revenue Plan outlay. The estimate for 1979-80 in each case has been projected to grow at an annual rate of 5 per cent for the rest of the period covered by our Report. For the States which are members of the North Eastern Council, we have provided for the committed expenditure liabilities, on account of North Eastern Council Plan schemes in those States, which are likely to be completed in 1978-79. We have obtained the necessary information from the Council's Secretariat.

We would like to suggest here that it would be useful if the State Governments, and perhaps the Planning Commission also undertake studies which would help them, and future Finance Commissions, to estimate "committed" expenditure liabilities much more closely than is now the case.

Debt Services

28. Interest payment liabilities have been largely got verified from the Accountants General, and adopted accordingly. Some States had included in their forecast interest liability on fresh borrowings in the forecast period. We have decided not to take into account the fresh borrowings and lendings of the States in the forecast period, and therefore the interest liability, as well as interest receipts attributable to the fresh borrowings and lendings assumed by the States have been omitted in our re-assessment. However, we have provided for the interest liability on fresh accretions to provident funds in the forecast period in each State, as estimated by the States. In the case of Assam, we have allowed interest on Central Loan assistance assumed by us in the forecast period towards the outlay on the capital project of the State.

29. We have carefully considered the question whether appropriations for the reduction or avoidance of debt should be allowed for as expenditure on the revenue account. The existing practices amongst the States are not uniform. Most States do not make these appropriations, but some of them have included expenditure on this account in their forecasts. Very few also invest the appropriations to sinking funds, where these are presently made. The Reserve Bank of India, whom we consulted, has indicated that for public borrowings from 1975 they had advised all the States that it was not necessary to create sinking funds. Earlier they had advised the States in 1971 that it was not necessary to provide on revenue account for depreciation funds. This communication to us has been reproduced in Appendix I.8. Considering this advice and the existing practices in most States, as well as the fact that Plan schemes by way of public borrowings are calculated net of repayments, we have decided not to allow for appropriations on the revenue account for sinking funds or depreciation funds.

In Maharashtra, the practice is to make appropriations on the revenue account also to repay loans to the Central Government and other agencies to the extent that recoveries against lendings from such loans fall short of the repayment liability. We have taken repayment liabilities of this nature into account while estimating the non-Plan capital gap, and have not allowed for appropriations for this purpose in its forecast of revenue expenditure.

Transfer to Funds

30. Similarly, we have examined each case of transfers from the revenue account to funds of various categories. The number and purposes of these funds differ from State to State. Some of them have been prescribed in enactments of the States concerned, while other funds are consequence of historical practices followed in different States. Providing for transfers from the revenue account to such funds inflates revenue expenditure in a formal sense, and no substantive principle is involved as far as our purposes are concerned. The only exception we have made is in the case of the transfers proposed by Gujarat to the State Famine Relief Fund, the balance of which are invested. In this State certain taxes have been levied and earmarked for transfer to the Famine Relief Fund so that the invested balances could be encashed and used to meet the relief expenditure when the necessity arises a policy which we would like to commend. Elsewhere, we have taken the view that the margin we have allowed for relief expenditure in any State should be invested in easily encashable securities, and not merged in the general balances. The view we have taken in regard to the Gujarat Famine Relief Fund is consistent with this approach.

Maintenance and upkeep of capital assets

31. Our terms of reference require us to provide for the adequate maintenance and upkeep of capital assets completed by the end of the current year. We have obtained detailed information on the capital values of buildings, lengths of roads of different categories, investments in irrigation schemes and areas benefited, investments in flood control works and the nature of physical assets created. The proformae in which we had asked the States to furnish the detailed information are reproduced in Annexures III.1 and 7.

32. In regard to the maintenance of buildings, we had requested the State Governments also to indicate the norms followed by them for making provisions in their budgets. The information received from them has been of considerable value. Generally they have indicated that their norms are in terms of percentages of the capital costs of different types of buildings. These percentage norms also vary depending on the age of the buildings. Andhra Pradesh has informed us that they follow norms in terms of plinth areas of the buildings. We have also obtained from the Union Government the norms followed by them for making provisions for maintenance of buildings by the Central Public Works Department. We have been informed that till August 1978 these norms were in terms of percentages of the capital costs. As a result of changing over to norms based on plinth areas, we understand that the increased provision works out to about 8 per cent over those based on the earlier norms. Considering the wide variations in the norms adopted by the different States as well as in the norms they have proposed for the future, and taking into account also the fact that the Central Public Works Department maintains buildings all over the country, we have considered it proper to adopt the norms in force in the Central Public Works Department till recently by way of percentages of capital costs of buildings; these norms are shown in Appendix I.9. We have calculated the provisions for the maintenance of the buildings in each State, taking the capital values as indicated by the State Government up to the latest year for which they could furnish information, and bringing the position up-to-date as at the end of 1978-79 by reference to the accounts and the budgets. The provision so calculated has been increased by 8 per cent for the purpose of arriving at the re-essessed requirement in 1979-80. We

have noticed a few cases where the actual expenditure by the States in recent years has been higher than calculated by us. In such cases we have made suitable adjustments in the amount assessed by us. The re-assessed requirement for 1979-80 has been projected so as to take care also of the provisions required for the maintenance of new buildings which may be completed in the forecast period. This projection has been done for each State taking into account the rate of additions to building assets in the years 1974-79 and assuming that the proportion of the capital outlays on buildings in the Plan outlay would be about the same in the forecast period as in the years 1974-79. This approximation has had to be adopted since there are no data on the basis of which capital values of new buildings can be estimated otherwise. Appendix I.10 shows the provisions included in 1979-80 and 1979-84 in the forecasts of the States, and those as re-assessed by us.

33. In respect of the maintenance of roads, as mentioned earlier, we obtained detailed information from each State on the lengths of roads of various categories as well as of roads maintained by the State Governments and those maintained by the local Bodies. On our request, many States have also furnished the norms which they have been following for providing in their budgets for maintenance of roads, and the norms which they feel should be adopted for the forecast period. We have also consulted the Director General, Road Development, in the Ministry of Shipping and Transport of the Union Government. He in-formed us that a conference of Chief Engineers of the country had set up a Committee in 1977 in order to examine the costs of maintenance of roads, and the Committee's report should be helpful to the Commission when it was ready. We understand that this report has not been finalised as yet. Consequently, we have decided to go by the advice of the Director General, Road Development, that the norms suggested by him to the Sixth Commission could be used with an escalation factor of 45 per cent. This escalation factor has been suggested to reflect the increases in the costs of road maintenance in the last few years as worked out in the Ministry. We have also benefited by the reports of the Technical Committees which had been set up in two or three States in the recent past and which had made fairly detailed studies of the subject.

The norms of costs of maintenance, which we have adopted, are related to the zones in which the roads fall, the nature of the surface, as well as traffic intensities. The in-formation furnished by the States in regard to road lengths is not in such detail, unfortu-nately, as to enable us to apply the norms directly in very many cases. We have, therefore, had to make reasonable assumptions in regard to the zones in which the roads fall and the traffic intensities. In cases where the zonewise information of roads length was not available, we have used the average of the norms of maintenance costs for all the zones, in the States where road lengths are in more than one zone. Where we have no specific information from the States we have adopted the norm relating to a traffic intensity of 150 to 450 commercial vehicles per day in respect of State Highways, and the norm relating to a traffic intensity of 45 to 150 commercial vehicles per day for major district roads and other district roads. Where details of roads by the type of surface have not been furnished by the States, we have derived these in the same proportion as in the surface categories available in the "Basic road statistics" compiled by the Shipping & Transport Ministry. We have added, to the annual maintenance provisions for ordinary repairs and periodical renewals so calculated, 20 per cent for special repairs. Besides, for roads in hilly areas, heavy rainfall areas and desert areas we have added a suitable percentage; the lengths of roads in such areas have been worked out drawing upon the districtwise information available in the Union Ministry of Shipping & Transport. For Himachal Pradesh, we have allowed Rs.30 lakhs additionally for special repairs to the old Hindustan-Tibet road, taking into account the considerations urged in this behalf by the State Government.

34. We have examined carefully the question of providing in the State forecasts for the maintenance of the village roads and the roads with local bodies. Some State Governments like Karnataka, Punjab, Orissa and Rajasthan have shown substantial lengths of village roads as being maintained by the Government; while in a large number of States this is not the position. In fact, Andhra Pradesh, Haryana, Madhya Pradesh, Sikkim, Tamil Nadu and Uttar Pradesh did not show any village road as being maintained by the Government. In several States the local bodies are shown as maintaining considerable lengths of other district roads and village roads. In some States major district roads are also with the local bodies, and in Maharashtra 360 kilometres of State Highways are also shown as being with the local bodies for maintenance. In the case of Bihar, the State Government has shown maintenance expenditure on village roads under the major head '314-Community Development', the maintenance being the function of the Rural Engineering Department of the Government. Some States make specific purpose grants for road maintenance to their local bodies, while in many the general purpose grants given to them are presumed to be available, at least in part, for the maintenance of roads. We have also noted that in some States the transfer of large lengths of roads with local bodies is in pursuance of the desirable policy of decentralisation of functions from the State Government level. We also feel that the economic value of the rural roads is high. In view of these considerations we have decided, unlike the Sixth Commission, that we should provide in the forecasts of the States also for the reasonable expenditure required for the maintenance of village roads with the local bodies. We also feel that no differentiation should be made between the roads maintained by the Governments and by the local bodies in the matter of the norms for providing for the maintenance. On the other hand, in all States, local bodies do have powers to raise revenues on their own, and also receive the proceeds of taxes assigned to them by the States, apart from grants. Accordingly, we have decided that for the roads which are with the local bodies for maintenance, provision should be made to the extent of 100 per cent of the norm for State Highways, 80 per cent of the norm for major district roads and 60 per cent of the norm for other district roads and village roads. The amounts we have allowed in the forecasts on this basis for State and local body roads are shown in Appendix I.11. We would expect that the States concerned would make available to the local bodies at least these amounts provided by us in the period covered by our report.

The maintenance provisions for roads calculated as above have been taken for 1979-80, and projected to grow annually at 5 per cent, including 2 per cent for increases in traffic intensity.

35. Our terms of reference speak of providing adequately for the maintenance of capital assets created till the end of the current year. We are, therefore, apparently not concerned with the maintenance of such assets created in the five years covered by our Report. This would be consistent with the concept used in planning that the maintenance of assets created during the course of a five-year Plan would be a charge on the Plan outlays till the end of the Five-Year Plan, and only thereafter be met from the non-Plan side of the budget. The facts, however, are different, as we have been informed by the State Governments. The practice is that the maintenance of irrigation schemes, roads and buildings is actually met from the non-Plan provisions in the budget as soon as the works are completed. We have been informed that this is the practice in respect of roads and buildings even in the Central Government. We had consulted the Planning Commission in this matter, and have been informed that we may provide for the maintenance

of irrigation systems, which may be completed during the period covered by our Report. But that Commission would take care of the maintenance requirements of roads and buildings which may be completed in the years 1979-80 to 1983-84. Our communication to the Planning Commission and their reply are reproduced in Appendix I.12. We find it difficult to accept the view that irrigation works and the other types of capital assets should be distinguished on the ground, stated by the Planning Commission, that the State Governments would receive substantial additional revenues on account of new irrigation but not from the other types of capital assets, or on the ground that the maintenance requirements of roads and buildings completed in the period covered by our Report would be relatively small. At the operational levels of the Executive Engineers in the field, it will be extremely difficult in practice to book separately the expenditure on the maintenance of roads and buildings created till the end of 1978-79 and on those created thereafter. We have, therefore, taken a practical view, keeping in mind the over-riding importance of the requirement that States must be enabled to maintain capital assets adequately. We have no means, however, of making reasonably close estimates of lengths of roads of different categories, or of capital values of buildings, likely to be completed in each State in the years covered by our Report. We feel that the rates of growth we have adopted, as indicated above, for projecting the maintenance provisions for roads and buildings in each year of the period covered by our Report would be adequate to cover the new assets also.

36. The provisions worked out as above for the maintenance of roads and buildings do not include the costs on account of regular establishment and tools and plant. We have added to those provisions 16 per cent on account of the costs of establishment and 4 per cent on account of tools and plant.

Multi-purpose, major and medium irrigation

37. We have earlier referred to the information obtained by us from the States in regard to the investments in irrigation, the benefits therefrom etc. in a form prescribed by us. We found that in a number of cases the information furnished by the States in this form, in regard to receipts of working expenses, did not tally with the forecasts of revenue receipts and expenditures. The response to our requests to the States concerned for clarifying and reconciling the discrepancies has, unfortunately, not been adequate. Since it is necessary for us to consider the matter of providing for working expenses in irrigation systems in physical terms, we have gone by the information furnished by the States in the form referred to above.

38. As in the case of the roads and buildings, we had requested the States to let us have the norms of maintenance costs which they follow presently and propose for the future. Many States have furnished this information to us, and a few in considerable detail. We had also requested the Accountants General to furnish to us the details of the working expenses of a number of projects. From the responses from the Accountants General we find that in most cases the State Government Departments concerned do not keep accounts of the expenditure broken down into all its components, and, therefore, the Accountants General also could not give us the complete details of the expenditure. At our request, the Department of Irrigation of the Union Government had undertaken an examination of the actual working expenses in selected projects in a number of States. A copy of the Note received from them may be seen at Appendix I.13. The components of material, work-charged staff, etc. in the expenditure vary very widely between the States.

The reasons for such variations are not clear. These exercises therefore have not proved to be directly helpful. The Department of Irrigation have also advised us of their views in regard to the appropriate level of expenditure for the proper operation and maintenance of irrigation systems. They have stated:

"In view of above and after considering recommendations made by the various authorities and also keeping in view the present rate of cost of labour, materials and equipment, it is proposed that the following annual rates (including work-charged and regular establishment) per hectare of irrigated area may be recommended by the Seventh Finance Commission in respect of Operation & Maintenance charges to irrigation projects:—

1. Gravity canal system — Rs. 50 per hectare

   (a) In case of new projects — Rs. 50 per hectare of potential created and subsequently Rs. 50 per hectare of the irrigated area when the annual gross irrigated area equals to potential created.

   (b) The grants for maintenance of Canal inspection roads used for public purposes should be borne by the P.W. Departments of the States.

   (c) Maintenance of Plantations and Gardens should be separately provided for.

2. Lift Schemes (Pumped Canals): Rates may vary according to the lifts involved. No blanket rate can be prescribed. The grant should not include depreciation charges. The expenditure on dredging of supply channels in the river bed when the river recedes away from the bank should be taken as a special work under a separate estimate.

3. Irrigation from tubewells: Rs. 50 per hectare plus the cost of energy consumed by the system.

4. Special Repairs: A provision may be made at the rate of 20 per cent of the total annual grants for normal operation and maintenance."

The Department have also given us to understand that the norms per hectare suggested by them may be taken to include the maintenance of diversion structures but not the expenditure on the operation and maintenance of major dams.

39. We have been informed that the third Conference of the State Ministers of Irrigation held in November 1977 had also considered this subject and recommended that at least Rs. 50 per hectare of gross area irrigated or the culturable command area, whichever was more, should be provided annually for proper and efficient maintenance of major and medium irrigation schemes. We have also noted that the International Development Association (of the World Bank Group), which has appraised a number of irrigation projects in the country in recent years has estimated the maintenance costs per hectare at Rs. 32 for the Chambal Project in Rajasthan in May 1974, Rs. 48 for the Chambal Project in Madhya Pradesh in June 1975, Rs. 45 for the Nagarjunasagar project in Andhra Pradesh in April 1976, Rs. 50 for the Periar Project in Kerala in May 1977 and Rs. 50 for medium irrigation projects in Orissa in July 1977.

40. We have taken into account the expenditure in recent years worked out for us from the information given by the States, as well as the suggestions of the Department of Irrigation and the other material referred to above. The working expenses would vary quite often from one project to another. We are in no position to go into the individual projects. Our purpose will be served by the adoption of an over-all norm for working out the maintenance provisions for the irrigation systems in the State as a whole. We believe that as a rule the provisions required on this account would be adequate if calculated at Rs. 50 per hectare of gross irrigated area, with an addition of 20 per cent thereof for special repairs. These provisions would include the cost of work-charged as well as regular establishments and tools and plant. In the case of a few States, viz., Andhra Pradesh, Kerala and Orissa, however, on the basis of the information available with us from them, we have adopted a norm of Rs. 45 per hectare. Himachal Pradesh, Maghalaya, Sikkim and Tripura do not have any irrigation at present from major and medium projects. Schemes now under construction are expected to give benefits in the forecast period. We have presumed that 2/3rd of the potential to be created would be utilised, and we have provided for working expenses at Rs. 45 per hectare of gross irrigated area calculated accordingly. In these cases as well as for Manipur we have not adopted any return by way of interest on the investment; receipts, however, have been taken to match working expenses.

41. In a few States, the expenditure booked in the relevant major heads of account in 1976-77 are higher than what they should have been on the bsis of the norms we have adopted. We have, however, no clear explanation for this situation. It appears likely that the utilisation of the potential in the projects in such cases is much lower than the optimum, and this may be an important factor.

42. In order to allow in our re-assessment of the forecasts of the States adequate provisions for the maintenance of new irrigation systems or extensions of the present irrigation systems likely to be completed in the years covered by our Report, we have to estimate what the gross irrigated areas are likely to be in each year in each State. The information furnished to us by the States in this regard has been compared with the targets of creation of additional irrigation potential in each State in the new Plan period upto 1982-83. We find that there is too much of variation between these figures and the information given to us by the States. We have, therefore, not been able to accept the estimations of the States. We have assumed that in each State the gross irrigated area will increase in the years of the forcast period at the same rate as the irrigation potential at the end of 1977-78 should increase in order to achieve the target potential in 1982-83. We believe that this would give a reasonably good approximation of the likely new development of irrigation, and we have allowed for maintenance provisions accordingly in the forecasts.

43. We have given careful consideration to the question of returns on the investments of the State Governments in irrigation, power, transport, etc. This is a major area of fiscal management where poor performance would lead to sizable subsidy burdens on the budgets and therefore on the general tax payers. A few States have argued before us that irrigation systems, transport services and electricity schemes are "social" services provided by the Government, and returns on the investments made should not be insisted upon. We have no hesitation in rejecting this view, which is little better than a cloak for inefficiency and the lack of will to make these investments pay. We find that the National Development Council and the Planning Commission also expect that State Government investments of this nature should produce returns.

44. In respect of multipurpose, major and medium schemes, we have noted the concern of the earlier Finance Commission, and also the Commissions and Committees which have gone into the question, that the deficits suffered by the State budgets have been increasing over the last few Plan periods. The picture presented to us now by the States shows no improvement except in a few of them. The information furnished by the States, in the form we had referred to earlier, shows that for the period 1979-84, nineteen States would be in deficit to the tune of Rs.2890 crores after providing for working expenses and interest on the investments at the rates prescribed by the State Governments concerned. We cannot but record our views that this is a serious situation. Without providing for the interest, the deficit shown for the same period by the same State is Rs.302 crores. This is the amount by which working expenses exceed receipts. The last Commission had proceeded on the basis that the States would improve their position over the period 1974-79 so as to match receipts and working expenses. It is, in our view, disappointing that this situation has not been achieved. Complacency in this regard would be harmful and unjustified. Such deficits are in fact subsidies by the general tax-payer to those who benefit from irrigation. It is not as if that these budgetary subsidies can be reduced only by raising the irrigation rates, which States find difficulty in doing. Steps like better utilisation of the available potential, efficient and economic maintenance and management of the irrigation systems, raising water rate demands correctly and collecting them fully and in time, will all contribute to the desired result. We may note here that in quite a few States the arrears of water rates are substatial. A few States have in fact assumed that the position of recovery of the current demand and of arrears will not improve in the forecast period. We do not think it proper to make allowances for such factors. Nor do we consider that we should only satisfy ourselves with stipulating that receipts and working expenses should be matched as they should be, and no better performance should be expected. At least a small improvement is definitely called for. We have accordingly assumed that in each State in the period covered by our Report, receipts should not only cover working expenses but also provide for a return by way of interest at 1 per cent on the total capital invested by the States at the end of 1978-79, as estimated by us from the information furnished by them including their budgets. We have assumed that his return of 1 per cent would be achieved beginning with 0.2 per cent in 1979-80, and going up by 0.2 per cent in each year of the period. We have re-assessed the forecasts of the States accordingly.

45. We have given in Appendix I.14(i) the re-assessed receipts and working expenses for 1979-80 and 1979-84 together with the corresponding estimates of each State. We have also added the following Appendices:-

I.14 (ii) Position of revenue arrears at the end of 1976-77, 1978-79 and 1983-84.

(iii) Water rates per acre in the States.

Minor Irrigation

46. Minor irrigation schemes are of many kinds, and much more dispersed than the major and medium schemes are, by their very nature. From 1st April 1978 minor irrigation schemes are defined to include those with culturables command areas upto 2000 hectares irrespective of the capital cost. These schemes include flow irrigation from surface water, with small storages or diversion works and river lifts. In the hilly regions these are generally the means of irrigation. Tanks are important sources of minor irrigation in some States. The potential from surface water irrigation schemes by the end of 1977-78 has been estimated at 7.8 million hectares. The potential from ground water development, created by the end of 1977-78, was very much larger at 21 million hectares. Especially in ground water development there has been very sizable investment by cultivators from their own resources

as well as institutional finance in a very large way. In a few States, Government investments in tubewells for exploitation of ground water resources are substantial. Quite a few States have also set up corporate bodies for minor irrigation investments, especially in tubewells.

47. The maintenance of tanks as well as other surface works has not been satisfactory in many parts of the country. It seems desirable that the reasons for this situation are studied and remedial steps instituted. It appears that one of the important contributory factors has been the relative neglect of ex-zamindari works in a few States, while in some others the transfer of responsibility to local levels was perhaps not accompanied by the provision of technical staff of the levels of competence required. Financial allocations have also been often too small. Among the consequences of unsatisfactory maintenance, has been a deterioration in the certainty of water supply for irrigation from these works, and the low level of receipts from water rates. It appears that this may also have led to inadequate financial provisions for the proper maintenance of these works.

48. Not all the States have furnished information to us showing the Government investments in minor irrigation, the irrigation potential and its utilisation, the receipts and the working expenses. Some States have not furnished information in regard to schemes with the corporate bodies which they have set up. Appendix I.15 shows the net receipts from minor irrigation in 1978-79 as they appear in the budget estimates of the States.

49. The Sixth Commission had stipulated that the States should reduce the losses of minor irrigation works in 1978-79 to 50 per cent of what they were in 1973-74. That Commission had noted that in 1971-72 the States incurred a loss of about Rs.42 crores on minor irrigation and flood control works, maintenance expenditure on which was debited to the same head of Irrigation (non-commercial). The position in 1978-79 is that the losses on minor irrigation are estimated at Rs.65.5 crores in 20 States. Uttar Pradesh shows the highest loss at about Rs.27 crores. We can readily appreciate that the working expenses would have increased considerably over the levels obtaining 5 years ago, in view of the general increase in prices in the early seventies. We are also aware of the increases in costs of energy as a result of tariff revisions by the Electricity Boards, a factor of considerable relevance in the States in which public investments in tubewells are substantial, as in U.P. At the same time we are also aware of the constraints in the way of revising water rates upwards; this would be all the more difficult in irrigation sources other than tubewells, in view of the uncertainties in the availability of water when needed for irrigation. However, with due attention to maintenance, and determined efforts to maximise utilisation of the potential available, we see no reason why the present burdens on the State budgets by way of losses in these schemes, should not be reduced substantially. For instance, we have been informed that even in tubewell systems in a few States the actual irrigation in perhaps about 60 per cent of the potential, for various reasons like non-completion of the channels, irregular availability of power, etc. Such deficiencies can certainly be set right.

50. Taking an overall view, and keeping in mind the desirability of reducing the burdens on the State budgets, we are proceeding on the basis that in each State the level of losses in 1979-80, after taking into account the "committed" expenditure, would be progressively reduced to half by 1983-84. The forecasts of the States have been reassessed accordingly.

Flood control schemes

51. We now turn to the question of providing adequate funds for the maintenance of flood control schemes, in which we include drainage works and anti-sea erosion works. Here again, we have been confronted with the problem of inadequate data. Not all States have responded to our request for information on investments, lengths of embankments, drains, sea walls etc., maintenance expenses, norms for such expenses etc. Among the States which have furnished information, a few have shown investments on what are stated to be present day costs, which they have calculated by inflating the historical costs to allow for current price levels. We have compared the information furnished by the States with that obtained from the Planning Commission, the Union Department of Irrigation, and the Central Water Commission. The Department of Irrigation have indicated that in the last couple of decades, the funds provided for the maintenance of flood control works in most States were inadequate, with the consequence that embankments breached often, leading to substantial damage to life and property, and also to large expenditures on repairs and restoration of the works, rehabilitation of the people affected, etc. A Ministers' Committee which reported in March 1972 had recommended that the annual provision for maintenance of embankments and drainage works should be 4 to 5 per cent of the capital cost worked out to the price levels of 1972, and 5 to 13 per cent in the case of river-training and anti-sea erosion works. That Committee found that in fact about 0.5 per cent of the capital cost was being then spent on the whole for maintenance of these works. The Sixth Commission provided 4 per cent of the capital invested at the end of 1973-74 for the maintenance expenditure for flood control works. The Central Water Commission have now stated in a communication to us that there are about 10700 k.m. of embankments and 18700 km of drainage channels constructed till March 1978, apart from anti-sea erosion works and river training works. They have indicated the norms of maintenance expenditure for different kinds of works, observing that a uniform percentage of the capital cost would not be appropriate. The Department have suggested that earthen embankments would need between Rs. 7000 and Rs. 10,000 per km. annually at current price levels during the first 3 years and between Rs. 5000 and Rs. 7000 thereafter. On current costs of construction, the Department has worked out that these norms would be 3 per cent of the capital cost initially and 2 per cent thereafter. Armoured embankments are stated to require annually from Rs. 5000 to Rs. 7000 per km. For drains, broadly classified into three categories by capacity, the norms of maintenance suggested by the Department are Rs. 1000 per km (upto 200 cusecs capacity), Rs. 1500 per km (upto 500 cusecs capacity) and Rs. 3000 per km for capacities above 500 cusecs. On the basis of these norms, the Department have roughly estimated that the annual maintenance costs would be Rs. 15 crores for all flood protection works in the country. The actual expenditure, as seen from the accounts, was over Rs. 23 crores in 1976-77, but this figure probably includes special repairs as well as reconstruction after damage by floods, which are not included in the calculation of the annual costs done by the Department.

52. Appendix 1.16 shows the information obtained from the Central Water Commission in regard to lengths of embankments, drainage channels etc., as also corresponding figures furnished to us by the State Governments. The wide variations between the two sets of figures in the case of some States are possibly due to differences in the classification of the items taken into account.

53. In the light of the above, we have estimated the annual requirement for maintenance of flood control and drainage works, and anti-sea erosion works, taking into account the physical

date from the Central Water Commission and the States, the maintenance norms suggested by the Department of Irrigation, the actual expenditure in each State in 1976-77, and such data as are available in the budget documents and the finance accounts of the States. The provisions we have allowed for 1979-80 are shown in Appendix 1. 17 together with the provisions allowed in the subsequent years of the period covered by our Report. The latter have been worked out assuming an annual growth of expenditure at 6 per cent for 1979-84. The provisions thus allowed should, in our view, meet the requirements of special repairs, as well as the maintenance of new works which may be completed during the years covered by our Report.

<u>Investments in electricity</u>

54. We have already dealt with the question of returns on State Governments investments in irrigation. We now turn to their investments in electricity. Electricity is a basic input for economic development, and is one of the fast growing sectors of the economy. Its generation and distribution are also highly capital-intensive. The bulk of the investments of the State Governments is by way of loans to the Electricity Boards. In a few States there are also investments in departmental schemes. Karnataka has a wholly owned company for the execution of generation projects and for the operation of the projects, which sells power to the State Electricity Board for distribution. The investment of the State Governments in all these undertakings is estimated to reach the level of Rs. 7370 crores by the end of the current year. The total investments of the State electricity boards in electricity generation and distribution would be higher than the loans drawn by them from the State Governments, since they also generate internal resources which are ploughed back into fresh investments, apart from borrowings from the market and financial institutions, and consumers' deposits. Till the Electricity (Supply) Act was amended recently, the investments of the State Governments in electricity boards could be made only by way of loans. The recent amendment enables a State Government to provide equity capital also, in which case the question of return on the equity capital would arise only after meeting any liability for income tax. No State has so far informed us that it has taken advantage of the recent amendment in the law for providing equity capital to the electricity boards.

55. The financial working of the electricity boards and the returns realised on the investments made by the State Governments have been a matter of concern for a long time. The Venkataraman Committee made a number of recommendations in 1964, and suggested that within 3 to 5 years the Boards should aim at a total return of 11 per cent after meeting fully the operation and maintenance expenses and depreciation. The return of 11 per cent was composed of 6 per cent interest on the capital, ½ per cent for appropriation to reserve, 3 per cent net profit and a notional 1½ per cent on account of electricity duty which was State Government revenue. In other words the return expected was 9½ per cent exclusive of electricity duty. A number of power projects have been assisted by the World Bank, which at the time of agreeing to extend assistance, obtained undertakings that the electricity board concerned should achieve a return of 9½ per cent exclusive of electricity duty on what was termed the average capital base. This average capital base was taken as the average of the capital base at the beginning and at the end of a financial year, the capital base itself being defined as the net value of the assets in use, less consumers' contributions, plus 1/6 of the operation and maintenance expenditure (excluding depreciation). The statement below gives an idea of the returns on the average capital base in 15 States for the years 1974-75 to 1976-77, calculated on the World Bank method:—

Sl. No.	Name of the Board	1974-75 (Actuals)	1975-76 (Actuals)	1976-77 (Actuals)
1.	2.	3.	4.	5.
1.	Andhra Pradesh	6.6	7.7	9.0
2.	Assam	1.0	5.5*	11.7(p)
3.	Bihar	0.15	7.0	8.1
4.	Gujarat	4.6	7.9*	9.7(p)
5.	Haryana	4.0	7.2	6.4
6.	Kerala	5.7	5.9	8.5
7.	Karnataka	6.8	15.75*(p)	15.8(p)
8.	Madhya Pradesh	11.7	12.8	13.1
9.	Maharashtra	10.9	10.0	13.0
10.	Orissa	3.3	8.5	6.4(p)
11.	Punjab	3.0	7.4	8.2
12.	Rajasthan	4.96	8.7	9.2
13.	Tamil Nadu	9.6	9.7	9.5
14.	Uttar Pradesh	1.3	4.6	5.8
15.	West Bengal	5.2	5.5	9.5

Source : Department of Power, Government of India.

* Forecast for the Board's Operations only.

(p) Provisional

Note : Figures in respect of Andhra Pradesh, Orissa, Maharashtra and West Bengal are for combined operation of the Board and Government Projects.

It will be seen that the performance, judged by the returns calculated above, varied in 1976-77 from 5.8 per cent in UP to 15.8 per cent in Karnataka. The latter State has only hydro-electric power which is often taken as less costly in terms of operation and maintenance expenses than thermal generation. At the same time, it is seen that in Madhya Pradesh and Maharashtra, which have predominantly thermal generation, the returns were 13.1 per cent and 13.0 per cent, respectively, indicating that the performance of the electricity boards need not be dependent only on the fact of the power generation being thermal or hydro-electric.

56. The capital base adopted in the World Bank formula for calculating returns includes only the value of assets in use, whereas the value of the works in progress and stores forms, in many cases, a sizable proportion of the total investments of the electricity boards. The earnings of the boards also have to be used for servicing loans raised from financial institutions at rates of interest which are higher than the six per cent rate generally adopted. Some State Governments have also prescribed, from time to time, rates of interest more than 6 per cent on their loans to the electricity boards. Therefore in many States the electricity boards have accumulated contingent interest liabilities. The statement below, furnished by the Department of Power and based on summary records of discussions of the Planning Commission with the States, shows the

estimated accumulated interest liability on State Government loans at the end of 1977-78:—

Sl. No.	Name of the Board	Accumulated Interest liability on State Government loans	Unadjusted Depreciation	Total
		(Figures are Rs. in crores)		
1	2	3	4	5
1.	Andhra Pradesh	34.58	-	34.58
2.	Assam	32.46	-	32.46
3.	Bihar	133.67	10.35	144.02
4.	Gujarat	28.52	-	28.52
5.	Haryana	62.46	-	62.46
6.	Himachal Pradesh	14.29	3.10	17.39
7.	Karnataka	5.80	-	5.80
8.	Kerala	42.11	-	42.11
9.	Madhya Pradesh	8.53	-	8.53
10.	Maharashtra	11.43	-	-
				(19.46)a
11.	Meghalaya	18.03	1.46	19.49
12.	Orissa	28.16	-	28.16
13.	Punjab	127.91	-	127.91
14.	Rajasthan	60.85	-	60.85
15.	Tamil Nadu	20.45	5.00	25.45
16.	Uttar Pradesh	198.57	1.18	199.75
17.	West Bengal	46.10	-	46.10
	Total:	873.92	21.09	864.12

Note: (a) Figure in bracket represents surplus for the year.
(1) General reserves have not been considered for calculation of losses or surplus.

It will be noticed that a few States, namely, Bihar, Uttar Pradesh, Punjab, Haryana and Rajasthan account for about 2/3rd of the accumulated interest liability.

57. It is generally accepted that electricity duty levied by the States limits the scope for revision of tariffs by the electricity boards, as the ultimate burden on the consumers has always to be taken into account in fixing tariffs. The levels of duty vary widely from State to State. A few States do not levy the duty at all. The Department of Power has pointed out that the revenue from duty varied from 0.6 per cent to 5.2 per cent of the investments by the State Governments in different States in 1975-76. This points to the need for taking into account the revenue from electricity duty while computing returns to the State Government from its investments in electricity.

58. It would appear, prima facie, that the performance of the boards can be improved by enhancing their earnings through upward revisions in tariffs. Under the Electricity (Supply) Act, till it was recently amended, the boards were required to carry on their operations without incurring losses and towards this end, adjust the tariffs from time to time. The tariffs so fixed from time to time generally have an in-built element of cross-subsidisation of some categories of consumers by others, in order to subserve

what are regarded as desirable socio-economic policies. For instance, consumption for agricultural purposes is generally subsidised in all States in the tariff structure.

59. It is necessary, however, to realise that financial performance can be improved by better and efficient management, and revisions of tariffs need only be a last resort. For instance, the utilisation of existing generating capacity and of fuel leaves much room for improvements in a number of States. Information received from the Department of Power in regard to capacity utilization of thermal power stations and coal consumption may be seen in Appendix I.18 and Appendix I.19. The capacity utilisation percentages of major thermal power stations during 1976-77 varied from 24.11 to well over 80 per cent in the different States, indicating the scope for improvement in the utilisation of a number of power stations. We have also obtained from the Department of Power the coal consumption per unit generated in the thermal power stations, in kilograms per unit in 1977-78. The figures vary from about 0.5 to 1.13 in 35 power stations in the country. The average for the country was 0.6. The coal consumption in a thermal power station depends on the efficiency of the plant and the heat content of the coal used. The efficiency, in terms of the specific heat consumption (i.e. kilo calories input) per unit generated, varies according to the design of the individual generating units. The coal consumption per unit generated also varies because of the calorific value of the coal actually used. All the same it has been possible over the years to achieve a reduction in the specific coal consumption from about 0.9 Kg. per unit to about 0.6 Kg. per unit, in spite of the decline in the average calorific value of the coal used in thermal power stations during the period from 6200 to 5000 kilo calories per kg. The trend of improvement in this regard should be maintained in the future, with the installation of larger and more efficient generating units in all the States.

Appendix I.20 shows the percentage of energy losses in transmission and distribution for most States for the year 1974-75 to 1976-77. It will be seen that during 1976-77 these losses varied from 11.57 per cent in West Bengal, around 15 per cent in Karnataka and Kerala and around 17 per cent in Gujarat, Orissa and Maharashtra to over 22 per cent in Uttar Pradesh, over 24 per cent in Andhra Pradesh and Punjab and almost 26 per cent in Bihar.

Again, in regard to establishment costs, according to an analysis the results of which have been communicated to us by the Department of Power, the cost per unit sold in 1974-75 varied from 2.7 paise to 8.1 paise in different electricity boards. Similarly, the staff employed per thousand consumers also varied from 13.8 to 135 in different boards in 1973-74. A Department of Power Working Group which did these studies, had also evolved certain standards for employment in different spheres of the functions of a board and had recommended these norms to the electricity boards, suggesting that variations to suit local conditions should not exceed 20 per cent of the norms. It is not known how far the boards have acted upon this advice.

We also find, to our regret, that collection of the dues of the boards needs to be tightened up in many States. According to information collected by us, the arrears due for collection increased from Rs.166 crores at the end of 1973-74 to Rs.266 crores at the end of 1975-76. The arrears were substantial in many cases as may be seen from the

Table below:

Outstanding arrears to be collected by the Boards from the consumers as on 31.3.1976

(Rs. crores)

Boards	Outstanding arrears	Revenue in 1975-76 from sale of Energy
Uttar Pradesh	59.6	156.2
Maharashtra	27.4	130.1
Tamil Nadu	24.2	157.5
Bihar	23.2	68.2
Andhra Pradesh	22.4	83.1
Gujarat	20.3	85.1
Madhya Pradesh	20.1	63.5
Rajasthan	18.4	46.7
West Bengal	12.8	54.7
Kerala	12.0	28.0

60. We have no doubt that given efficient management the electricity boards can do much better than in the past, and we are hopeful that the returns to the State Governments from their investments in the electricity boards should definitely improve. We have adopted a normative return of 6 per cent on the total investments of the States as they are estimated to be at the end of 1978-79, in the electricity boards as well as in the departmental undertakings, and in the case of Karnataka in the Mysore Power Corporation also. The return of 6 per cent has been assumed from 1979-80 onwards for each year of the forecast period. We have already referred to the inhibiting effect of the electricity duty levied by the States and the Central excise on electricity generation on the scope for electricity boards adjusting their tariffs upwards where such a course is necessary for improving their financial position. We have therefore taken the 6 per cent return as inclusive of the revenue derived by the States from electricity duty in the current year and the amount of Central excise duty payable by the electricity boards as estimated by us for the current year. In these calculations we have taken into account only that part of the electricity duty and the Central excise as relates to the own generation of the electricity board or other undertaking of the State Government. The investments of the States in the electricity boards at the end of the current year have been taken as furnished by the State Governments. For departmental electricity schemes the investments have been worked out from the accounts for 1976-77 and the budget documents. In the case of Jammu & Kashmir, though there is an electricity board, its operations are managed by the State Government which bears the interest obligations of the board's borrowings from the market and the financial institutions. These have been allowed for in the expenditure forecast of the State.

61. The returns worked out as above, after taking credit for the electricity duty and the Central excise, add up to Rs.229.34 crores for all the States for each year from 1979-80 to 1983-84, and Rs.1146.70 crores for the five years covered by our Report. In the case of 3 States, Gujarat, Kerala and Orissa, where the returns so calculated exceed 6 per cent, we have set the excess off against the receipts of these States, so as not to penalise them for their better management compared to the other States. Appendix I.21 shows the State-wise returns we have assumed in the forecast period.

62. We do not feel optimistic that the financial working of the electricity schemes would change so much for the better that we can also expect the accumulated past interest liability to the State Governments would be cleared in the forecast period. Therefore, we have not taken any credit in the State Governments forecasts for receipts on this account. However, to the extent that any electricity board is able to clear its cumulative interest liability to the State Government, the resources of the State for the Plan would be augmented.

63. We might mention that we have considered whether the investment relating to works in progress at the end of the current year should be taken into account for the purpose of calculating the return, and whether, similarly, the investments on works likely to be completed and commissioned in the forecast period should also be taken into account. We have already referred to the different sources of finance for the electricity boards. Among other difficulties, it will not be possible to estimate how much of the State Government investment out of the total finances available to the electricity board can be taken as relating to works completed or in progress at the end of the current year. The same difficulty arises for the years of the forecast period. In regard to the latter, there is the further difficulty of making an accurate estimation of when works which will be in progress at the end of the current year would be commissioned within the forecast period. For these reasons, we have had to content ourselves with calculating the return in accordance with the norms we have assumed on the total investments of the State Governments at the end of the current year, without distinguishing between completed works and works in progress. Any return to the States from works which may be commissioned within the forecast period would therefore be available to the States as resource for the Plan.

64. Shri H.N. Ray does not agree with some of the above recommendations and has appended a separate Note to this report outlining his views.

<u>Road transport undertakings.</u>

65. Another important sector in which State Governments have invested large sums of money is road transport. Most of the undertakings are Corporations under the State Road Transport Corporation Act. There are a few run departmentally by the State Governments, and a few Government-owned companies. While the State Governments concerned contribute the major part of the capital of the Road Transport Corporations, the Railways also make a contribution and participate in the management. Unlike investments in irrigation or in power projects, the investments in road transport have a short gestation period before they become productive.

66. For our analysis of the financial working of the Road Transport Undertakings of the States, we have utilised the information received from the States on the relevant Subsidiary Points, the annual reports, balance sheets and profit and loss accounts of the undertakings, data collected from the Planning Commission, and, to some extent, information contained in the Report of the Association of State Transport Undertakings on the performance of nationalised road transport undertakings. In some cases the information furnished by the States did not quite tally with the annual accounts of the Corporations. We have used the latter to the extent available. In our exercises we have made no distinction between the Undertakings of the States whether they are corporations under the Act mentioned above or companies or departmental undertakings. The total block capital of all the undertakings (excluding the Sikkim Nationalised Transport Undertaking) was Rs. 397 crores at the end of 1973-74 and Rs. 609 crores at the end of 1976-77, as reported by the States. The block capital is the cumulative outlay on permanent assets including vehicles, workshops etc.

While the block capital increased by 53.6 per cent between 1973-74 and 1976-77, gross receipts increased from Rs. 389 crores to Rs. 712 crores in the same period, i.e. by 83.2 per cent. The working expenses excluding depreciation and interest increased by 76.1 per cent from Rs. 352 crores to Rs. 619 crores. The net loss was Rs. 25.18 crores in 1973-74, Rs. 44.60 crores in 1974-75, Rs. 33.85 crores in 1975-76 and Rs. 12.98 crores in 1976-77. While there has thus been an improvement, taking all the States in the aggregate, the individual States have not all fared in the same way. The position of Bihar, Punjab, West Bengal and Himachal Pradesh worsened; while that of Haryana, Kerala, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu, Uttar Pradesh and Jammu & Kashmir showed significant improvement. The results are inclusive of those of freight services run by some undertakings except for Tripura. In the case of Sikkim, no interest liability has been provided for in the accounts of any of the years, and depreciation provisions has been shown only for 1973-74. Appendices I. 22(i) and I. 22(ii) show the aggregate results of the State Transport Undertakings from 1973-74 to 1976-77 and the net profit or loss State-wise after providing for depreciation, transfers to other funds and interest liability.

67. While earnings of the undertakings have increased on account of expansion of the transport services and revisions of fares, the working expenses increased mainly on account of the larger fleets in operation, increases in prices of fuel, lubricants tyres and tubes and other stores, and revision of wages and dearness allowances of employees. Apart from these general factors which apply to all the undertakings, the financial results are greatly influenced by physical performance, the more important indicators of which are fleet utilisation, vehicle utilisation, occupancy ratio etc. Appendices I. 22(iii) and (iv) show the picture as at the end of 1976-77. For the sake of comparison, we have also shown in the Appendix some figures of the Bombay Electric Supply & Transport Undertakings and the Delhi Transport Corporation. Fleet utilisation is taken as the percentage of the number of vehicles on the road to the total fleet, or the total fleet excluding vehicles held for scrapping or major repairs. Vehicle utilisation is taken as the ratio of the average effective kilometres done per day to the average number of buses on the road per day. Occupancy ratio has been calculated as the percentage of passenger kilometres or seat kilometres sold to the seat kilometres offered. Fleet utilisation will be influenced by factors such as the maintenance and repair facility available, the condition of the roads and the nature of terrain, administrative efficiency and, to some extent, the number of over-aged vehicles in the fleet. Fleet utilisation in 1976-77 as a percentage of the total fleet was 63.2 in Bihar, between 61 and 65 in the West Bengal Undertakings, 80 in Karnataka, Kerala, Orissa and Uttar Pradesh, and 94 in Haryana. In the hill States this percentage was 49 in Manipur and 70 in Meghalaya. Fleet utilisation as a percentage of the effective fleet i.e. the total fleet excluding vehicles held for major repairs etc. varied from 81.9 in Madhya Pradesh to 90 in Andhra Pradesh and PEPSU Road Transport Corporation. In the hill State of Himachal Pradesh it was 80. Haryana and Punjab had no over-aged buses, Andhra Pradesh had 19 per cent, Madhya Pradesh 34 per cent and Maharashtra 49 per cent. Orissa had a fleet utilisation of 80 per cent with 18.5 per cent over-aged buses. while Bihar had utilisation of 63.2 per cent with only 10.8 per cent over-aged buses. This shows that any handicap in terms of a significant proportion of over-aged buses in the fleet can often be neutralised by an efficient repair and maintenance organisation and by good management. Vehicle utilisation in 1976-77 ranged from 1,77,000 Km per bus for the Express services of the Pallavan Transport Corporation of Tamil Nadu to 71,035 km in the Punjab departmental undertaking. In the hill States the figure for Manipur was 21,000 km while Jammu & Kashmir and Meghalaya had 50,000 km. In the category of city services, Calcutta Transport Corporation had 58,431 km. while in the Bombay Undertaking it was 80,735 km. in Delhi 81,271 km. and in the Madras City services of the Pallavan Transport Corporation it was 69,033 km. The occupancy ratio was 89 per cent

in the Punjab departmental undertaking , and 63 per cent in Bihar. The occupancy ratio influences the earnings of an undertaking and depends on efficient scheduling of buses, density and flow of traffic, competition from private operators etc.

68. The operating ratio i.e. the working expenses as a percentage of the gross receipts give a picture of the working of the undertakings as may be seen from Appendix I.22(iv) which gives the figures for 1975-76 and 1976-77. In 1976-77 all the four undertakings of West Bengal, as well as those of Meghalaya, Nagaland and Tripura were not able to meet even the working expenses. Appendices I.22(v) to (vii) show the revenue and cost per bus-km and passenger-km in 1976-77, the cost of personnel per bus kilometer, and the bus-km per litre of fuel. The wide variations between the States in these parameters are to a large extent a reflection of different aspects of the efficiency of management and maintenance of the fleets. They also indicate the scope for improvement in the different undertakings in operational matters. It would clearly be incorrect to assume that improvement in the financial performance of most of the undertakings will be possible only through upward revision of fares.

69. In the light of the above, we feel that the State Transport Undertakings should provide a return on the capital invested by the State Governments to the extent of 6.5 per cent. A slightly higher return in this sector than from investments in electricity undertakings is in order, since road transport operations are less complex than those of power systems, and the gestation periods are much shorter. Since we are not in a position to make reasonably accurate estimates of further investments which may be made in the years covered by our Report, we have taken only the investment by the end of the current year, as worked out by us from the accounts and the budgets of the States. We find that, in view of the levels of performance of the undertakings in the different States, as well as the circumstances and operating conditions in the hill States, it would be practical to categorise the undertakings as follows:-

1) 6.5 per cent return in each year from 1979-80 onwards for Andhra Pradesh, Haryana, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu (all seven companies together) and Uttar Pradesh;

2) Bihar, Gujarat, Jammu & Kashmir, Karnataka, Kerala, Punjab, Orissa and Assam should earn 2 per cent in 1979-80, 3 per cent in 1980-81, 4 per cent in 1981-82, 5 per cent in 1982-83 and 6.5 per cent in 1983-84;

3) Himachal Pradesh, Manipur, Meghalaya, Nagaland, Sikkim and Tripura should meet their working expenses fully and provide for depreciation in full; and

4) all the four undertakings in West Bengal including the Calcutta Tramways Company, should, in the aggregate, meet the working expenses and depreciation provisions in full by 1980-81, and thereafter earn 1 per cent on the capital in 1981-82, 2 per cent in 1982-83 and 2.5 per cent in 1983-84.

70. To the extent that the State Governments earn a return above the norms we have adopted, and a return on fresh investments made from 1979-80 onwards, their resources for the Plan would be augmented.

71. As mentioned earlier, we had obtained the annual accounts of the Electricity Boards and the Road Transport Undertakings upto the latest year for which they were available. We have already referred to the discrepancies in some cases between these and the other information furnished to us by the States. We have also found that in quite a few States the figures in the balance sheets do not always tally from one year to another and in a few cases the entries are inexplicable. We have also found that the completion of the annual accounts and the audit thereof take more time in some States than in others. We are drawing attention to these aspects since we believe that correctness and promptitude in accounting and audit are essential pre-requisites for good management, and in any case are inescapable obligations to be discharged in order to safeguard the interests of the State Governments and of the public who are the owners of these undertakings. This observation applies equally to public undertakings of the State Governments engaged in industrial and commercial enterprises. We would like to refer particularly to the somewhat unsatisfactory position disclosed in a Note which we have obtained from the Department of Company Affairs of the Central Government, and in information from the Accountants General, in regard to delays in the timely finalisation of the annual accounts and audit of Government companies. The Note which refers to Government companies of the Central and State Governments is reproduced in Appendix I. 23(i), and the information from the Accountants General is shown in Appendix I. 23(ii).

State Public enterprises and co-operatives

72. We have attempted to study in some detail the financial working of the public enterprises of the State Governments engaged in industrial and commercial activities, as well as those in the co-operative sector. Among the former, we have taken up statutory corporations and Government companies under the Companies Act, 1956, other than those in the electricity and transport fields. The housing boards, water supply and sewerage boards, slum clearance boards and the like have been excluded, as also joint stock companies, companies in other States or of the Central Government, in which the State Government investment is relatively small. Information was collected from the States relating to the functions and activities of the enterprises, the capital base, the budget support, the interest or dividend accrued or paid, etc. Besides, we obtained from most States the balance sheets of undertakings with a turnover of Rs. 50 lakhs or more.

73. We had also requested the States to furnish us with projections of investments and the working of their enterprises for the years 1979-80 to 1983-84. Eight States have not furnished such forecasts. From the forecasts which we received from the other States, and the discussions which our Member Secretary has had with the officers of the State Governments, our impression is that in most cases there is little of corporate planning in concrete terms. In view of the uncertainties in making any estimates of fresh investments by these enterprises in the period covered by our Report, we have confined ourselves to an examination of their financial working so far.

74. The estimates of investments of the State Governments in their enterprises have been made separately for 3 categories, namely, financial institutions, promotional enterprises and others. The first includes the state financial corporations set up under the State Financial Corporations Act, 1951, as well as enterprises held eligible for refinance facilities by the Industrial Development Bank of India. The promotional category includes enterprises which are engaged mainly in promoting the developmental and other industries of all regions through providing infrastructural facilities, financial and managerial

assistance, technical knowhow, etc., as well as through works of development for backward areas or the weaker sections of the population. This category, therefore, includes small industries development corporations, industrial development corporations, handicrafts or handloom development corporations, export corporations, area development corporations, etc. Appendix I. 24(i) shows the total investments of State Governments in their public undertakings at the beginning of 1976-77. Appendix I. 24(ii) shows for each State, for 1975-76 and 1976-77, the returns on investments in State enterprises by way of share capital and loans, in absolute amounts, and Appendix I. 24(iii) and (iv) in percentage terms. There are wide variations as between the States and from year to year.

75. The total investments of the States in the enterprises at the beginning of 1976-77 was Rs. 902 crores, made up of Rs. 596 crores as share capital and Rs. 306 crores as loans, in 432 enterprises, 38 of which were financial enterprises, 121 promotional enterprises and the rest others. At the end of 1978-79 it is estimated that the total investments of the State Governments would be Rs. 1470 crores, of which Rs. 948 crores and Rs. 522 crores would be share capital, and loans, respectively.

76. With respect to investments by States in their enterprises, we have found that the ratios of equity to loan investments differ sharply from one State to another. We are unable to make out the reasons why these differences should be so marked. Nor are we in a position to make out, for lack of data, how much of the total capital invested has been applied to completed projects and how much is relatable to projects under implementation. One could think of different norms of returns on the capital for the different categories of enterprises, i.e. the financial group, the promotional group and the rest. We do not, however, have enough data to analyse each of the hundreds of State Government enterprises and their performance for the purpose of evolving a norm of return for each category or for groups in each category.

77. Most of the variety of corporate undertakings have been set up in recent years as companies under the Companies Act, 1956. In the course of our discussions with the States we understood that while some States have an agency within the Government to review the affairs of their public enterprises, few are fully established and effective. In many States the arrangements for such a centralised agency seem to be nebulous. We believe that it would be extremely useful for each State to build up an active agency, functioning somewhat on the lines of the Bureau of Public Enterprises of the Central Government.

78. We are, however, immediately concerned with the return on the huge investments which have been made by States in these enterprises. By the end of the current year the total investments by way of equity capital and loans are likely to exceed their total investments in road transport undertakings. Investments of this order should fetch a reasonable return to the Governments.

79. As regards the return, the receipts by way of interest on loan investments has been assumed by us together with interest on other State Government loans for a variety of purposes. A return on share capital can arise only after other liabilities are met, including provisions for taxation. Taking into account the various factors mentioned above, we consider that the State Governments should earn a return of 5 per cent on the equity capital invested by them as at the end of 1978-79. On practical considerations and in order to give the State Governments adequate time to improve the working of their enterprises, we are assuming that the return of 5 per cent on equity capital as at the end of 1978-79 should be earned by 1983-84, commencing with one per cent in 1979-80 and

increasing by one per cent every year thereafter. The forecasts of the States under the receipt head 050-Dividends and Profits,' have been reassessed accordingly.

80. In regard to the investments of the State Governments in the co-operatives, we have obtained information from the Reserve Bank for the co-operative year ending June 1975 for various categories of co-operative institutions, and for some categories for the year ending June 1976. However, data from the Bank were not available on interest and dividends received by the State Governments from the different categories of co-operative institutions. We have, however, built up the figures of cumulative investments of the State Governments in share capital and the loans in all co-operative institutions taken together, from the finance accounts as well as the State budgets, together with information on dividends and interest received by the State Governments. In the case of Manipur, Meghalaya, Nagaland, Sikkim and Tripura, however, information on dividends and interest for these institutions has not become available. Excluding these States, the return on share capital was 1.15 per cent for all States and 5.96 per cent on loans for 1976-77. Appendices I.24(v) to (vii) show the picture but this may be taken as no more than indicative.

81. The share capital investment in the co-operative institutions would be Rs. 892 crores for all States and the outstanding loans Rs. 317 crores, as worked out by us for the end of 1978-79. Here again, we have taken a rate of return of 5 per cent on the share capital invested at the end of 1978-79, to be achieved by the last year of the forecast period, in the same manner as the return on equity capital invested by the States in their public enterprises.

82. Appendix I.24(viii) shows the State-wise share capital invested in public enterprises and in the co-operatives at the end of 1978-79 and the amounts we have assumed as receipts in the forecast period by way of return on the share capital so invested.

Emoluments of State Government employees.

83. Sub-clause (iv)(a) of paragraph 5 of the Presidential Order requires us to take into account such provision for emoluments of Government employees, teachers and local body employees as obtaining on a specified date as deemed proper and with reference to appropriate objective criteria rather than in terms of actual increases that may have been given effect to. In our very first meeting held on 19th July 1977, we proposed to adopt 1st January, 1977 as the "specified" date. In doing so we had in mind two important considerations. The last instalment sanctioned by the Central Government to its employees before 1st January 1977 was given with effect from 1st March 1975. But this was withdrawn from 1st July 1976. This indicated that the movement of the all-India consumer price index for industrial workers was such that there was no occasion for any new dearness allowance instalment after March 1975 for a long time. Even in the cases of States which generally took quite some time before sanctioning new instalments of dearness allowance to their employees after the Central Government had done so, we thought it reasonable and indeed not unfair to the States to presume that by 1st January 1977 they would have sanctioned whatever dearness allowance instalments they considered were merited. Secondly, general elections to the Lok Sabha were announced in January 1977 and this appears to have acted as an impulse to a number of States (though not all) to sanction benefits to their employees somewhat more freely than had been their practice. Indisputably the announcement of the general elections was an extraneous consideration which triggered off a number of concessions in emoluments which it was not possible to take into account in the interest of uniform treatment to all the States.

84. By our letter dated the 26th July 1977 we informed the State Governments of our proposal to adopt 1st January, 1977 as the specified date and asked for their forecasts on the revenue account to be based on scales of pay and allowances on the basis of orders issued and implemented by that date. But we also asked for information in respect of revisions in pay, dearness and other allowances sanctioned by them after 1st January, 1977 and the likely expenditure on account of such revisions. Our letter dated the 26th July, 1977 and the proforma by which we sought details are reproduced in Annexure III.4.

85. In their memoranda to us, the States were almost unanimous about the desirability of parity in the rates of dearness allowance between the Central Government and the States. They urged that dearness allowance being compensation to the employees for increases in the cost of living such parity was justified, since by far the largest number of employees lived with the same set of customs, eating habits, etc. irrespective of whether they worked for the Central or the State Government. It was also pointed out that recruitment at the lower levels was generally made locally, and most Central Government employees working in a particular State spent most of their working life in the same State. A few States went further and argued for parity in total emoluments as between the Central and State Government employees of certain categories requiring the same qualifications and having similar duties. Some other States protested against the proposal of the Commission to adopt 1st January, 1977 as the specified date with reference to which the provision for emoluments might be calculated. They argued that since the tax levels of 1978-79 were to be taken into account by the Commission in regard to expenditure it would be proper to take into account firm commitments of the States till 1978-79 in regard to pay revisions, grant of dearness allowance, etc. The State Governments also observed that it would be unrealistic to assume that the price levels would not change during the period covered by our report and asked that provisions should be made for future revision of pay scales and dearness allowances. It was suggested that the Commission should recommend that the Centre should assist the States to meet the full cost of future increases in dearness allowance every time that the Central Government sanctioned an increase to its employees. Some of the States stated that the assumption of the Sixth Commission that the cost of future increases of dearness allowance would be taken care of by increases in revenue receipts from sales tax, etc. had proved incorrect. They pointed out that because of the large weight of food articles in the consumer price index, rises in price levels which led to increases in dearness allowance did not lead to a higher proportionate yield from taxes, since food articles were either subject to low rates of tax or were not taxed at all. It was also pointed out that price inflation resulted in higher government expenditure on items like material costs, transportation, etc., and it would be incorrect to assume that price increases which triggered demands for more dearness allowance resulted in enough additional revenue receipts to meet the costs of more instalments of dearness allowance as well as the additional expenditure burdens on their counts.

86. Associations of State Government employees, who met us in a number of States, generally pressed similar points.

87. The manner in which the problem of providing suitably for the emoluments of Government employees, teachers and local body employees had been dealt with by the earlier Commissions, has been summed up in the Sixth Commission's Report. But it was the Sixth Commission which, for the first time, had an explicit term of reference relating to this problem. That Commission had to take into account provisions for emoluments of State Government employees, teachers and local body employees as on a specified date deemed proper by the Commission in the light of the States' capacity and needs and the other burdens of expenditure. That Commission adopted an approach

in which an objective criterion was formulated and the provisions required for emoluments of the employees in each State were estimated with reference to that criterion. The Commission was guided by the consideration that States which had observed restraint in the matter of revision of pay and allowances and thus conserved their resources for development should not be penalised for their prudence in the past. According to that Commission its approach had certain advantages, viz. -

"(i) States whose scales of pay were distinctly above the all-States average as on 1.1.1972, would get the benefit of additional provisions needed to compensate their employees for rise in the cost of living since that date up to 1.5.1973.

(ii) States, which had observed restraint in revisions of pay and allowances and thus conserved their resources for development would not be penalised for their past prudence.

(iii) Our approach embodies a line of policy in terms of which demands for additional provision for pay or dearness allowance can be dealt with by the Finance Commissions in future. States will be relieved of the compulsion to hustle through pay revisions and present the Finance Commission with fait accompli, if it is brought home to them that their requests for additional allocation of funds for enhancement of pay and allowances would be regulated on a normative basis."

88. Accordingly the Sixth Commission allowed increases in the emoluments of State Government employees, teachers and local body employees so that the States where the emoluments were below the all-States' average as on 1.1.1972 would be enabled to increase the emoluments so as to reach that average. In addition, that Commission also allowed compensation to the employees for the increase in the consumer price index for industrial workers upto the level of 221(base 1960 = 100) reached in April 1973. The amounts thus allowed by that Commission for all the States came to Rs. 1414.15 crores. However, we find from the information furnished to us by the States that the total expenditure which they would incur during the period 1974-79 on account of revisions of pay and dearness allowance from April 1974 would come to Rs. 3692 crores, besides Rs. 118.36 crores on account of other allowances. The estimated cost to the States on account of revisions in pay and dearness allowance from April 1974 to 1st January 1977 aggregates Rs. 2883.01 crores. It has not been possible to work out how far such a massive expenditure would be covered by increase in revenue receipts attributable to price increases.

In fairness to the States and their employees, it must be said that many of them observed restraint in regard to the frequency of revisions in pay and allowances keeping in view the constraints on their resources and the demands thereon for their Plans. Quite a few States also mopped up part of the increases in emoluments, which they had allowed, by having part of the additional emoluments deposited in the provident funds which are available as resource for the Plans.

89. We have compared the level of the aggregate of pay and dearness allowance as on 1.1.1977 in each State with the all-States' average as also with the corresponding level at the Centre for certain common categories of posts which make up the bulk of State employees. We have also compared the position with that which obtained on 1.1.1972, as shown in the Report of the Sixth Commission. Appendices I.25(i) to (xi) show the picture. Since pay scales are not revised by the different States at the same time or at the same intervals, basic pays as on a particular date are not comparable. The total of pay and

dearness allowance, however, can be properly compared. For the purpose of such comparisons we have taken the emoluments of representative categories of State Government employees, who also are the bulk of the total number of employees i.e. peon, lower division clerk, upper division clerk, constable, head constable, primary school teacher, trained graduate teacher, revenue inspector, naib tehsildar, tehsildar and deputy collector. Appendices I. 2(i) and (ii) provide a synoptic picture of the changes in regard to these categories of posts in different States in terms of the index of Central emoluments and the index of all-States average emoluments, and percentage changes with reference to Central emoluments and all-States' average emoluments. Appendix I. 27 shows the number of employees in the States as furnished by them

90. The emoluments at the minimum of the pay scales for most categories of posts are clearly lower than the Central level in all States excepting a very few. The all-States' average emoluments for most of the eleven categories of posts have been below the Central emoluments as on 1.1.1972 and for all categories on 1.1.1977 over the position on 1.1.1972, the all-States' average emoluments showed a smaller increase except for primary school teachers and tehsildars. The following Table shows the picture (round figures are given):-

	As on 1.1.1972			As on 1.1.1977			Percentage increase in emoluments 1.1.77 over 1.1.72	
	Centre Rs.	All-States' Average Rs.	% Difference	Centre Rs.	All-States' Average Rs.	% Difference	Centre	All-States Average
Peon	163	141	-13.50	295	231	-21.69	80.7	63.8
L.D.C.	241	208	-13.69	390	323	-17.18	61.8	55.3
U.D.C.	261	292	+11.88	478	406	-15.06	83.1	39.0
Constable	168	166	- 1.19	315	271	-13.97	87.5	63.3
Head Constable	204	207	+ 1.47	390	317	-18.72	91.2	53.1
Primary School Teacher	320	197	-38.44	478	313	-34.52	49.4	58.9
Trained Graduate Teacher	406	315	-22.41	603	445	-26.20	48.5	41.3
Revenue Inspector	241	232	- 3.73	434	348	-19.82	80.3	50.0
Naib/Deputy Tehsildar	305	349	+14.43	582	511	-12.20	90.9	46.4
Tehsildar	536	414	-22.76	754	602	-20.16	40.6	45.4
Deputy Collector	N.A.	539	-	N.A.	743	-	-	37.9

Broadly speaking emoluments paid as on 1.1.1977 in Haryana, Punjab, Himachal Pradesh, Gujarat Maharashtra, Kerala, Andhra Pradesh, Karnataka and Rajasthan were above the all-States average.

We further find that the difference for several categories of posts between the all-States' average emoluments and the Central Government emoluments was larger on 1.1.1977 than it was on 1.1.1972. The following table has been worked out taking the post of peon in most States as broadly representative of the employees on pay slabs upto Rs. 200 per month, lower division clerk for the pay slabs between Rs. 201 and Rs. 400 and trained graduate teacher for the slabs between Rs. 401 and Rs. 700.

Pay slab category	Average emoluments of Central employees		% difference	Average emoluments of State employees (All-States average)		% difference
	1.1.72 (Rs.)	1.1.77		1.1.72 (Rs.)	1.1.77	
Upto Rs. 200	163	295	80.7	141	231	63.8
Rs. 201-400	241	390	61.8	208	323	55.3
Rs. 401-700	406	603	48.5	315	445	41.3

The position which emerges is that in spite of the large expenditure incurred by the States since April 1974 on revision of pay and other emoluments, the average all-States emoluments for the representative categories who form the bulk of the employees in the States has worsened compared to that of the employees in the Central Government.

91. This Commission cannot suggest as an absolute principle that there should be parity between emoluments paid to the State and Central employees. The obvious reason is that the States as autonomous bodies have to determine matters relating to emoluments of their employees in accordance with the circumstances prevalent in each State e.g. its fiscal position, costs of living and the comparative position of employees in the neighbouring States etc., as also their resource situation and the demands on the resources for the development Plans and the needs of maintaining harmonious relations with the employees. Nevertheless, it would be un fortunate if these considerations have constrained particular States to keep the level of emoluments unduly depressed. Such a situation, we have no doubt, would not only tend to discourage fresh talent being recruited into the services of a particular Government but may also lead to the flight of skilled and qualified man-power either to the private sector or to public sector enterprises. In extreme cases where the emoluments paid are inadequate for maintenance of living standards considered appropriate in that particular social milieu, there might be loss of morale. The effects of inadequate remuneration may be imperceptible in the first instance but are nonetheless insidious and have to be tackled in good time if the efficiency of the administrative machine has to be maintained, if not improved.

92. Another major factor worth bearing in mind is that over the years pressures on the States have been mounting from their employees that in the matter of dearness allowance the example of the Centre should be followed. The scope for the States for a completely independent line of action in this area is manifestly limited. In practice, the States have necessarily had to follow the Central Government not only in the number of instalments of dearness allowance from time to time, but also in the matter of adopting the Central pattern of sanctioning dearness allowance i.e. in terms of the entitlements to dearness allowance as percentages of the pay. This appears to be an irreversible trend. The fact is that out of 22 States there are very few States where the Central pattern of dearness allowance has not been adopted. Any approach to this problem requires these realities to be taken into account.

93. In the light of the above, we feel, as the Sixth Commission did, that the position of each State should be examined by an objective method but without taking on the functions of a Pay Commission which obviously we cannot do. The all-States' average level of emoluments as on 1st January 1977 is a fair measure of the adequacy or otherwise of the level of emoluments in different States. However, as noted earlier, the all-States' average position with regard to emoluments paid to their employees has itself deteriorated vis-a-vis that of the Central Government employees between 1. 1. 1972 and 1. 1. 1977. We believe that this should be a cause for concern as it shows that in many States the level of emoluments is unduly depressed compared not only to the Centre but also to other States. This is not a situation conducive to harmonious relations between the State Governments concerned and their employees, and calls for remedial measures. We have decided, therefore, to adjust the all-States' average level of emoluments in such a manner that the differential between the adjusted average and the Central Government level is the same on 1. 1. 1977 as it was on 1. 1. 1972, and to use this adjusted average as a norm for the level of emoluments.

94. We have estimated the deficiencies where they exist in individual States compared to the adjusted all-States' average. The amounts necessary for bringing the level of emoluments in such States to the adjusted **all-States' average have been estimated, and we are** providing for these amounts in the revenue expenditure forecasts of those States in the period covered by our Report . We are making no change in respect of the States where the level of emoluments was above the adjusted all-States' average on 1. 1. 1977, and are allowing fully for the maintenance of the emoluments as on that date.

95. Consistently with our approach as set out above, we have also allowed provisions for each State to cover the cost of the two dearness allowance instalments which the Central Government has sanctioned to its employees after 1. 1. 1977. We have accordingly provided, in the re-assessment of the expenditure forecasts of the States, for the costs of two instalments of dearness allowance, according to the patterns of the States themselves, except in the case of Kerala. The two instalments of dearness allowance allowed by the Centre after 1. 1. 1977 were effective from 1. 9. 1977 and 1. 1. 1978, respectively, of which the former was in effect a restoration of the earlier instalment which had been withdrawn from 1. 7. 1976. Kerala, however, which had been following the Centre in this matter, had not withdrawn at that time any instalment of dearness allowance. Accordingly, for Kerala, only the instalment of dearness allowance sanctioned from 1. 1. 1978 has been taken into account for working out the provision for upgradation of emoluments.

96. In the estimates we have made, we have also provided for teachers in aided institutions and employees of local bodies, as the Sixth Commission had done. We believe that a close linkage exists between the emoluments of State Government employees proper and those of local bodies and aided institutions. As a result, any change in the emoluments of the former touch off demands from the latter. Accordingly, in the estimates we have made, we have provided for increases in the emoluments of teachers in aided institutions and of the employees of local bodies over their existing levels to a corresponding extent as in the case of emoluments of the State Government employees proper. To this extent, we are following the precedent of the Sixth Commission.

97. The table below sets out the provisions allowed to each State in the period covered by our Report for upgrading the average emoluments as on 1. 1. 1977 to the adjusted all-States average level described earlier, and the provisions for dearness allowance given

after 1.1.1977. The figures cover State Government employees as well as those of local bodies and teachers in aided institutions:—

(Rs. lakhs)

States	Amount claimed by State Govts.	Provision allowed for the period 1979-84		
		Upgradation of emoluments as on 1.1.77	Provision of D. A. after 1.1.77	Total
1. Andhra Pradesh	7026	876	8178	9054
2. Assam	8612	2868	2868	5736
3. Bihar	31507	28262	8635	36897
4. Gujarat	11308	-	7106	7106
5. Haryana	1712	1514	2018	3532
6. Himachal Pradesh	880	742	908	1650
7. Jammu & Kashmir	9983	6313	2825	9138
8. Karnataka	6353	2247	5069	7316
9. Kerala	19006	-	3103	3103
10. Madhya Pradesh	25636	16771	7788	24559
11. Maharashtra	34583	3399	8993	12392
12. Manipur	966	1406	388	1794
13. Meghalaya	498	185	339	524
14. Nagaland	2644	1425	641	2066
15. Orissa	7548	2826	4742	7568
16. Punjab	7891	2264	3200	5464
17. Rajasthan	4714	2811	5269	8080
18. Sikkim	N. A.	318	136	454
19. Tamil Nadu	39967	15502	9696	25198
20. Tripura	817	1493	582	2075
21. Uttar Pradesh	37065	7295	15996	23291
22. West Bengal	32230	13393	10386	23779
All States	290946	111910	108866	220776

98. Many State Governments appointed Pay Commissions or Committees after we commenced our work. The Tamil Nadu Pay Commission has submitted its report to the State Government, which has also announced its decisions and informed us of the financial implications. The Maharashtra Government had appointed a Pay Commission earlier and took decisions on its report a few months ago. Similarly, the West Bengal Government had an interim report from a Pay Commission appointed in 1977, and has taken certain decisions thereon. The Kerala Pay Commission has also made its report to the State Government. The Punjab Pay Commission has yet to submit its report, but the State Government has estimated additional expenditure of Rs. 50 crores as the likely cost of implementing that Commission's report. It becomes unnecessary to deal with these reports and the decisions taken thereon in view of our approach based on objective considerations as described above, irrespective of when particular States revise pays or allowances. To the extent that the decisions of the individual State Governments involve a higher cost to them in the period covered by our Report than we have allowed for, they would have to find the necessary additional resources on their own.

States' reassessed forecasts on Revenue account

99. We have given the summary position of the forecast on revenue account of each State, as reassessed by us, in Appendices 1.28(i) to (xxii).

The net position on revenue account of each State, as reassessed by us, assumes better fiscal management in most States than has been evident, in matters like efficient collection of government dues and improved performance and higher returns in departmental undertakings as well as public enterprises. No Finance Commission can relax these basic requirements of fiscal efficiency. We have at the same time assumed that expenditure on emoluments of employees would be better regulated with due regard to the availability of resources and the various demands thereon. In States where the levels of emoluments are lower, in the interest of the efficiency of the administrative apparatus, we have allowed suitable provisions to enable the States to improve the level of emoluments of their employees. In another Chapter, we have also dealt with the requirements of the States for improving the standards of administration of the more important non-developmental sectors and services.

CHAPTER 3

RE-ASSESSMENT OF THE RESOURCE FORECAST OF THE CENTRAL GOVERNMENT

As mentioned earlier, we obtained from the Central Government their forecast of receipts and expenditure on revenue account as well as of capital receipts and disbursements, together with notes explaining the manner in which they had projected various items. We examined the forecast on the same lines as those of the States. In that examination we were greatly aided by the discussions which we had with the Secretaries in the Union Ministry of Finance and their senior colleagues including the Chairmen of the Central Board of Direct Taxes and the Central Board of Customs & Excise. At these discussions, the Financial Commissioner, Railways, the Secretary, Planning Commission and the Union Home Secretary participated. We also had a detailed discussion with the Union Defence Secretary. These discussions helped us in getting a fuller understanding of the policies and thinking having a bearing on the resource forecast.

2. We examined the projections of the tax revenues of the Central Government in the light of considerations similar to those which we kept in mind while we were considering the forecast of tax revenue receipts of the State Governments, that is, the long term and recent revenue growth trends, elasticities of the revenues of different taxes with respect to Net National Product as well as with respect to Net National Product originating in the non-agricultural sector and the manufacturing sector as appropriate, the changes in the tax structure in recent years, concessions which have been given, and so on. We have, accordingly, taken somewhat higher rates of growth of revenues than assumed by the Central Government, in respect of Union excise duties (7%), customs duties (7%) as well as the corporation tax (9%). We also assumed a rate of growth of revenues from sales tax in the Union territories in line with what we have adopted for the neighbouring States, i.e. higher than that taken by the Central Government for the purpose of their forecast. As reassessed by us, the total revenue receipts of the Central Government in the quinquennium 1979-84 would be Rs. 80, 126 crores, of which income-tax would account for Rs. 7, 192 crores and Union excise duties Rs. 32, 607 crores.

3. In regard to the forecast of expenditure, as in the case of the forecast of the States, we eliminated unusual items of current expenditure which were unlikely to recur in the future. We moderated the rates of growth assumed in the forecast of expenditure on the Police and on Audit. In the case of the Police the present policy of the Central Government appears not to favour expansion in the strength of the Central police organisations, and efforts have been initiated to reduce the strength wherever possible. We have therefore allowed a rate of growth of expenditure at 6 per cent on the Police in the forecast period. The expenditure on subsidies on food, fertilizers and exports is very substantial, adding up to Rs. 1, 026 crores in the Central budget estimates for the current year. We proceeded on the basis that while export subsidies may not be susceptible to reduction in view of the role they play in sustaining the national export effort, there was scope for reducing the burden of subsidy on fertilizers. We have, therefore, projected the expenditure on subsidy of fertilizers in such a manner that it should be progressively reduced to nil by 1983-84. In regard to food subsidies, the expenditure as appearing in the Central budget is for the purpose of meeting the deficit incurred by the Food Corporation of India in its operations covering procurement of foodgrains, their handling and storage, and issues at prices fixed by Government. We recognise that there are a number of special considerations which apply in regard to