Annexure XIV.1
(Para 14.3)

Methodology for estimation of non-Plan capital gaps.

The manner in which the non-Plan capital gaps of States have been worked out is discussed in the following paragraphs.

Capital expenditure outside the Revenue Account

2. Capital expenditure, outside the revenue account, in respect of various services are classified into various categories under Major Heads 459 to 544. The Sixth Finance Commission held the view that the provisions contemplated under these heads were essentially in the nature of outlays which should result in creation of tangible assets and from the economic point of view should be classified as investment expenditure. That Commission, accordingly, omitted these expenditures while working out the non-Plan capital gap of the States.

3. The Seventh Finance Commission broadly agreed with the views of the Sixth Finance Commission. They also omitted most of these items while working out the non-Plan capital gap of the States. The only two exceptions made were as follows:

(i) A provisión of Rs.20 crores was made on the non-Plan capital account for construction of a new capital for Assam. On the receipt side, a non-Plan loan of Rs.20 crores was also assumed with the result that there was no net effect on the non-Plan capital account during the forecast period.

(ii) Payment of compensation for abolition of zamindari were allowed as expenditure where-ever indicated by the State Governments.

The Commission mentioned that in respect of State trading, the activities should be self-financing and in respect of land reforms, the corresponding outlays should be included in the Plan.

4. The Seventh Finance Commission's approach has generally been followed. The outlays provided by the State Governments in respect of State trading and land reforms have also been excluded while working out the non-Plan capital gaps.

5. Twelve States have included in their forecasts provisions for constructing administrative buildings totalling Rs.230.54 crores over the five-year period 1984-89. Both the Sixth as well as the Seventh Finance Commissions did not allow any provision for capital outlays on construction of administrative buildings on the ground that these outlays create new assets and should form part of the Plan. Following this view, the provisions asked for by the State Governments for the purpose on capital account have been omitted while working out their non-Plan capital gaps.

E - Public Debt

6. Varous heads which constitute 'public Debt' are listed in the budgets under Major Heads 603 and 604. On the receipt side, the amounts are shown on a gross basis and the repayment of the maturing debt is shown on the expenditure side. Unless otherwise stated, all calculations are based on outstandings as at the end of 1983-84.

(a) Market loans

7. The practice so far has been to take into account net receipts on account of loans from public i.e., fresh loans *minus* repayment of old maturing debt - as a resource for the Plan. Both the Sixth as well as the Seventh Finance Commissions ignored such net receipts while working out the non-Plan capital gap. The same procedure has been adopted in respect of market loans.

(b) & (c) Loans from LIC and loans from others

8. The Sixth Finance Commission had ignored fresh receipts as well as the repayment, if any, in respect thereof while working out the non-Plan capital gaps. Fresh gross receipts from LIC etc. are taken as a Plan resource and repayments in respect of old loans are charged to non-Plan account. This is done because the gross loan assistance from these institutions is tied to specific Plan programmes. The method adopted by the Seventh Finance Commission has been followed in the assessment of the non-Plan capital gaps and fresh gross receipts from these institutions have been ignored. Repayment of loans has, however, been provided on the non-Plan disbursement side.

Annexure XIII-2
(Para 13.18)

Methodology to compute the additional grants-in-aid payable to deficit States to meet the increase in committed liability on account of making provisions for the maintenance of Plan Schemes completed by 1984-85.

The amount of grants, if any, to be paid to the ten deficit States in each of the years 1985-86 to 1988-89 (and for Rajasthan in 1985-86 only) should be computed as follows:—

(a) The budgetary measures to raise additional resources which these States are expected to take in 1984-85 may be computed in the same manner as we have computed the budgetary measures which the States were expected to take in the year 1983-84 (vide para 3.44). In other words, out of the target of additional resource mobilisation fixed by the Planning Commission for 1984-85, 48.56 per cent may be treated as the target of additional resources to be raised through budgetary resources. This would be the estimated yield in 1985-86 and this may be projected in the remaining three years of the forecast period at 8 per cent, which is the average all-States rate of growth of tax revenue derived from the tax revenues adopted for the forecast period.

(b) The increase in the revenue component of the approved plan outlay in 1984-85 over the corresponding outlay in 1983-84 may be ascertained. In the case of Andhra Pradesh, this may be ascertained after excluding the provisions for the mid-day meals scheme, in respect of which full provisions have already been made for maintenance. 30 per cent of this increase may be assumed as the additional committed expenditure which the States would have to incur in 1985-86. This amount may be projected at 6 per cent for the remaining three years.

(c) If the committed expenditure as computed in (b) is more than the additional revenue computed as in (a) in any of the years commencing from 1985-86, grants-in-aid may be provided to the deficit States concerned.

(d) Ways & Means advances from RBI

9. This is a short term accommodation to the States and has been ignored from the receipt as well as disbursement side as the net effect over the year is expected to be nil. (However, provisions have been made on Revenue Account for payment of interest to the RBI on such advances).

Loans and advances from the Central Government

10. Loans are received by the States from the Centre for both Plan as well as non-Plan purposes. Plan loans have to be excluded for working out the non-Plan capital gaps. Non-Plan loans are mainly of the following types:–

(i) Share in small savings.
(ii) Short term loans for agricultural in-puts.
(iii) Loans for Modernisation of Police Force.
(iv) Loans under the National Loans Scholarship Schemes.
(v) Loans to clear over-drafts.
(vi) Other minor items.

(i) Small Savings Loans

11. Loans received by the States as share in small savings have so far been considered a Plan resource. Both the Sixth and Seventh Finance Commissions left the States' share of net receipts in small savings as a resource available for financing the Plan. The Sixth Finance Commission excluded repayments to Centre on the ground that they had excluded fresh receipts on this account. The Seventh Finance Commission, however, made full provision for repayment of small savings loans falling due during the forecast period for computing the non-Plan capital gap. The method adopted by the Seventh Finance Commission has been followed.

(ii) Short term loans for agricultural inputs

12. Short term loans are generally given for 6 months. Some of the loans given in 1983-84 would fall due for repayment in 1984-85 and some of the repayments in respect of loans to be given in 1988-89 would fall due after the period covered by the present Commission's recommendations. For purposes of working out non-Plan capital gap, both fresh receipts and repayments thereof on this account have been ignored.

(iii) Loans for Modernisation of Police Force

13. Receiptsof fresh loans and repayment thereof have been excluded both from the receipt as well as repayment side for working out the non-Plan capital gaps.

(iv) Loans under the National Loans Scholarship Schemes.

14. The same procedure as for (iii) above has been followed.

(v) Loans to clear over-drafts

15. No receipts have been assumed for any of the years of the forecast period. Full repayments have, however, been allowed on the disbursement side while working out the non-Plan capital gap.

(vi) Ways and Means advances

16. These are generally recovered within the same year. Both receipts and repayments have been omitted while making the reassessment of the non-Plan capital gap.

(vii) Other loans

17. The same procedure as for (iii) above has been adopted for the forecast period.

F - Loans and Advances

18. Transactions on account of Loans and advances are recorded in the State budgets under Major Heads 677 to 767, both on receipts as well as disbursement side.

Recoveries of loans and advances

19. Recoveries of loans and advances shown under Heads 677 to 767 have been taken as receipt on capital account for the purposes of working out the non-Plan capital gap. The Sixth and Seventh Finance Commissions had done likewise. A perusal of the State budget shows that the performance of the State Governments in the matters of recovery of loans is uneven. The State forecasts also assume recoveries in the forecast period at varying levels which are not comparable with one another. The Sixth Commission had made a category-wise review of the outstanding loans by taking the balance of repayment period as 10 years and defaults also at 10 per cent. The Seventh Finance Commission adopted a normative approach and assumed different levels of recoveries for loans advanced for various services.

20. At the end of 1983-84, the total outstandings of the loans and advances disbursed by the State Governments are estimated at around Rs.20, 000 crores as per details given below:—

	(Rs. crores)
1. Loans to State Electricity Boards	13,210
2. Loans to Road Transport Corporations	331
3. Short-term loans	457
4. Other loans	6,002
Total:	20,000

(The Statewise position is indicated in the enclosure).

Bulk of the loans advanced by the State Governments are to the State Electricity Boards and practically the entire amount of these loans is not repayable. No recoveries against these loans have, therefore, been assumed. As regards loans to Road Transport Corporations, no recoveries have been assumed in respect of the permanent loans of Rs.38.64 crores in Tamil Nadu and the loans of Rs.82.72 crores in West Bengal which have been decided to be written off by the State Government. For the balance, a 10 year term of repayment of loans has been assumed. On this basis, 50 per cent of the outstanding loans should be recovered over the forecast period. However, only 45 per cent recovery has been assumed.

21. No recovery has been assumed against the outstanding short-term loans since such loans spill-over from year to year and a certain amount remains always outstanding. It has been assumed that at the end of the forecast period a similar amount will spill-over for recovery in later years.

22. Of the remaining amount of Rs.6002 crores, the itemwise break-up is as follows:—

	(Rs. crores)
1. Loans for Social and Community Services	2361
2. General Economic Services	931
3. Agricultural and allied services	870
4. Other economic services	1398
5. Government servants and miscellaneous	442
Total:	6002

These loan outstandings have been classified into two categories viz. long-term loans (20 years) and medium term loans (10 years). The loans for Water Supply Schemes, Housing including loans given to Government servants for construction of houses and for urban development have been taken as long-term loans and all other remaining loans as medium-term loans. Accordingly, the recovery over the forecast period has been assumed at the rate of 25 per cent of the former and 45 per cent (as against 50 per cent due during the forecast period) of the latter.

Disbursements of Loans and Advances

23. As regards disbursements of loans and advances under Major Heads 677 to 767, both the Sixth and the Seventh Finance Commissions held the view that these should form part of the Plan. The only exception was made in the case of loans to Government servants (other than for housing) which were treated as non-Plan and provided for while working out the non-Plan capital gap. The same procedure has been followed.

G - Inter-State Settlement

24. Net transactions under this item have been taken into consideration as was done both by the Sixth as well as the Seventh Finance Commission.

H - Appropriations to Contingency Fund and II - Contingency Fund (net)

25. Appropriations to Contingency Fund and the net transactions under Contingency Fund have been ignored while working out the non-Plan capital gap of the States. The Sixth and the Seventh Finance Commissions had done likewise.

III. Public Account

805 - State Provident Funds

26. The Sixth Finance Commission took into account receipts as well as disbursements under this item while working out the non-Plan capital gaps. The Seventh Commission, however, took the view that net receipts under State Provident Funds should constitute a Plan receipt and as such, that Commission omitted the net receipts while working out the non-Plan capital gap. The approach of the Seventh Finance Commission has been followed and State Provident Funds (net) have been treated as a Plan resource.

811 - Insurance & Pension Funds

27. As in the case of State Provident Funds, net receipts under this item have been treated as a Plan resource.

J - Reserve Funds

822 - Sinking Funds

28. These are built out of appropriations from current revenues. Both the Sixth as well as the Seventh Finance Commissions did not allow these appropriations on the revenue account and left out net receipts under sinking funds while working out the non-Plan capital gaps. The same approach has been adopted.

823-835 - Other Funds

29. The Sixth Finance Commission took the view that there should be no net accretion on this account on the capital side and adjusted the revenue account to the extent of actual requirements for maintenance. Consequently the Commission omitted this item while working out the non-Plan capital gap. The same approach has been followed.

K - Deposits and Advances (M.H. 838-850)

30. The Sixth Finance Commission omitted all net receipts other than civil deposits while working out the non-Plan capital gaps. The Seventh Finance Commission, however, took the view that these net receipts should be available for financing the Plan. The approach of the Seventh Finance Commission has been adopted.

L&M - Suspense, Miscellaneous and Remittances (M.H. 858-893)

31. Except for '873-Cash Balance Investment Account', all other items appearing under these Heads, are of accounting nature. These may affect the States' position on capital account in one year to be equally off-set in the subsequent years. Both the previous Commissions ignored these items while working out the non-Plan capital gaps. The same approach has been adopted.

32. 'Cash Balance Investment Account' is a category by itself. Some of the States have sizeable transactions under this item which is in the nature of investment by the State Governments. A veiw could be held that the States should in the first instance use these investments to cover their non-Plan capital gaps. On the other hand, these investments provide a cushion for meeting new expenditures and for increasing the size of the Plan. Such investments have been ignored while working out the non-Plan capital gaps.

Cash Balances

33. The net transactions on account of all budgetary operations of the State Governments both on revenue as well as capital accounts get reflected in the 'Closing Cash Balance' at the end of the year. The difference between the 'Opening Cash Balance' and the 'Closing Cash Balance' represents the net position of all Government transactions during the year. The Sixth Finance Commission ignored these balances while working out the non-Plan capital account. The Commission took the view that since cash balances in excess of certain limits would always be kept invested in Treasury Bills or Securities, it would penalise the States which have such balances for their past prudence if these are taken into account in the non-Plan account. That Commission, therefore, ignored the value of securities held by the State Governments in determining the non-Plan capital gaps. Following this view, cash balances (net) have been ignored from the computation of the non-Plan capital gaps.

Enclosure
(Para 20 of Annexure XIV.1)

Loans and advances outstanding at the end of 1983-84

(Rs. crores)

Sl. No.	STATE	State Electricity Boards	Road Transport Corporation	Short term loans	OTHER LOANS: Social & Com. services	General economic services	Agri. & allied services	Other Economic Services	Govt. servant & misc.	Total of other loans 5+6+7+8+9)
	1	2	3	4	5	6	7	8	9	10
1.	Andhra Pradesh	584.35	5.30	77.73	149.57	98.84	12.48	15.07	9.55	285.51
2.	Assam	382.16	-	20.89	54.10	21.16	0.62	35.24	29.55	140.67
3.	Bihar	681.61	2.71	94.23	110.97	40.97	30.65	74.18	28.41	285.18
4.	Gujarat	865.27	-	15.58	159.64	50.39	59.10	162.47	77.33	508.93
5.	Haryana	543.84	-	0.47	33.93	17.22	51.58	3.72	8.18	114.63
6.	Himachal Pradesh	103.05	0.05	4.15	11.10	3.69	3.55	4.56	7.62	30.52
7.	Jammu & Kashmir	-	0.09	0.25	29.93	4.60	8.92	14.75	4.21	62.41
8.	Karnataka	753.63	0.31	28.85	140.41	46.42	80.98	110.18	53.23	431.22
9.	Kerala	189.49	9.58	2.67	40.28	42.30	33.02	81.31	15.45	212.36
10.	Madhya Pradesh	1245.03	3.83	18.11	104.35	72.81	66.09	25.03	9.01	277.29
11.	Maharashtra	1753.07	16.15	6.82	336.81	189.24	152.72	110.68	33.91	832.36
12.	Manipur	-	-	NA	6.70	2.14	1.33	2.81	2.39	15.37
13.	Meghalaya	6.76	-	1.47	1.78	1.09	0.34	0.43	2.14	5.78
14.	Nagaland	-	-	0.12	1.90	0.65	0.50	3.28	2.05	8.38
15.	Orissa	145.82	5.38	6.57	30.73	12.12	7.89	23.90	10.35	84.99
16.	Punjab	1028.67	3.20	5.86	108.61	18.65	75.94	198.83	17.53	419.56
17.	Rajasthan	605.80	0.17	14.78	55.24	28.31	20.34	25.44	25.84	155.17
18.	Sikkim	-	-	-	0.48	0.19	0.53	1.03	1.99	4.22
19.	Tamil Nadu	1054.88	65.92	20.44	347.76	122.96	152.29	102.15	68.44	793.60
20.	Tripura	-	0.15	-	11.74	3.96	0.99	1.32	3.67	21.68
21.	Uttar Pradesh	2739.30	15.11	62.13	254.82	123.67	67.40	96.72	15.80	558.41
22.	West Bengal	527.52	202.86	76.36	369.95	20.78	43.16	304.77	15.64	754.30
	TOTAL:	13210.25	330.81	457.48	2360.80	931.16	870.42	1397.87	442.29	6002.54

NA = Not Available