CHAPTER III

REASSESSMENT OF THE FORECASTS OF STATE GOVERNMENTS ON REVENUE ACCOUNT

3. 1 While making our recommendations regarding the devolution of taxes and grants-in-aid, we are required to have regard, among others, to the considerations mentioned in para 5 of the President's Order, For the purpose of the present chapter, the following considerations mentioned in that para are relevant:

(i) The revenue resources of States for the five years ending with the financial year 1988-89 on the basis of the levels of taxation likely to be reached at the end of the financial year 1983-84 and the targets set for additional resource mobilisation for the Plan.

(ii) The requirements on revenue account of the States to meet the expenditure on administration and other non-Plan commitments or liabilities, keeping however in view national policies and priorities. In assessing such requirements, we have to take into account :

(a) Such provision for emoluments and terminal benefits of Government employees, teachers and employees of local bodies as obtaining on a specified date as we deem it proper and with reference to appropriate objective criteria, rather than in terms of actual increases that may have been given effect to ; and

(b) commitments in regard to interest charges on their debt, transfer of funds to local bodies and aided institutions.

(iii) Adequate maintenance and upkeep of capital assets and maintenance of Plan schemes completed by the end of 1983-84, the norms, if any, on the basis of which specified amounts are allowed for the maintenance of different categories of capital assets and the manner in which such maintenance expenditure could be monitored, being indicated by us.

(iv) The scope for better fiscal management and economy in expenditure consistent with efficiency.

(v) The need for ensuring reasonable returns on investments in irrigation and power projects, transport undertakings, industrial and commercial enterprises and the like.

3. 2 In order to assess the revenue resources of States on a comparable and uniform basis, State Governments were requested to send their forecasts of revenue receipts and revenue expenditure in the proformae prescribed by the Commission. The forecasts of revenue receipts were required to be based on the levels of taxation likely to prevail at the end of 1983-84. The forecasts of expenditure were, similarly, to be based on the normal level of standing charges on non-Plan account as at the end of 1983-84 i. e. after excluding all provisions for any fresh expenditure during the forecast period. Provisions for emoluments in 1983-84 were required to be made on the basis of the rates of emoluments obtaining on the date specified by us under para 5(iv) (a) of the President's Order i. e. , the 1st April, 1982*, taking into account the effect of all orders passed and implemented before that date. Estimates in regard to the expenditure likely to be incurred on the maintenance of capital assets and Plan schemes completed by the end of 1983-84 and also 1984-85 were separately obtained from States. Similarly, States were requested to send their proposals for fresh expenditure - whether for the upgradation of standards of services or for the improvement of the existing norms of maintenance - separately and not to incorporate their financial effect in the forecast of normal expenditure.

3. 3 Detailed discussions were held between the officials of the State Governments led by their Chief Secretaries/Finance Secretaries and the officials of the Commission headed by the

* For reasons stated later on in this Chapter.

Secretary on the forecasts received from the State Governments. On the basis of these discussions many States have revised their forecasts taking also into account the latest estimates of receipts and expenditure for the base year 1983-84 which are generally based on the budget estimates for 1983-84.

3.4 Some important decisions which this Commission had to take were about the assumptions to be made in regard to the rates of growth of incomes and prices which influence revenue receipts and revenue expenditure of both the Union and the State Governments. In this respect, we were, unlike our predecessors, severely handicapped on account of one important circumstance. Our predecessors had the advantage of being able to look into the estimates of resources made by the Planning Commission for the next 5 years which generally coincided with the period during which the recommendations of the previous Finance Commissions were to be in force. These estimates contain important details useful for forecasting. Our recommendations on the contrary, would be in force in the last year of the Sixth Plan (i. e. in 1984-85) and in the first four years (i. e. in 1985-89) of the Seventh Plan 1985-90. The preparatory work in regard to the Seventh Plan is still continuing in the Planning Commission and, therefore, unlike the earlier Finance Commissions, we did not get the benefit of the views of the Planning Commission on important issues which have a bearing on our work, particularly assumptions regarding future rates of growth of incomes and prices.

3.5 We had engaged the National Institute of Public Finance and Policy (NIPFP, for short), New Delhi to help us in the matter of forecasting of receipts and expenditure of the State Governments. The NIPFP submitted reports on the following subjects which concern the State forecasts :

(a) Revenue and Expenditure Projections: Evaluation and Methodology.

(b) Relative Taxable Capacity and Tax Effort of Indian States.

3.6 The study "Revenue and Expenditure Projections : Evaluation and Methodology" evaluated the forecasts given by the State Governments to the Sixth and Seventh Finance Commissions and the estimates made by these Commissions, in respect of six major State taxes (i. e. sales tax, State excise duties, stamp duties & registration fees, motor vehicle taxes, entertainment duty and electricity duty) and six important heads of non-plan expenditure (i.e. administration of justice, police, district administration, jails, education and medical, including public health). After examining the relative efficacy of the forecasts based on long term trend rates of growth and those based on elasticity method, the NIPFP observed that though the latter could be expected to provide a better forecast with respect to some of the taxes, the former would generally give a fairly good approximation to realisation in all categories of expenditure and State taxes.

3.7 This suggestion was carefully considered by us. The main difficulty in adopting the long term trend rates of growth for the forecast period is the uncertainty about the future rates of growth of prices.

3.8 The Sixth Finance Commission estimated the expenditure on non-Plan account on the assumption of relative price stability. It also observed that, while it might not be possible to isolate, with the requisite degree of precision, the influence of price increase on rates of growth of taxes from other factors, it was obvious that given the assumption of price stability the rates of growth for the forecast period were bound to be lower than witnessed during the years since 1969-70. The Seventh Finance Commission remarked that it did not believe it was possible in practice to project revenues on the assumption of no price changes whatsoever in the forecast period. However, it believed that the rates of growth it had adopted would be fair to the States. The Commission went on to state further that taking the overall receipts and expenditure as projected by them, 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 its report.

3.9 Because of uncertainties in regard to future price trends, it is difficult to build up forecasts of revenue receipts and expenditure which reflect realistically the emerging price situation. The elasticity of revenues with respect to prices can take care of the rise in expenditure on account of the price factor to a certain extent. Besides, we cannot also ignore the overall policy framework for maintaining relative price stability in the economy. The Planning Commission also works out the resources for the Five-Year Plans at the base year prices. For these reasons, we opted to base our forecast on the assumption of price stability in the economy.

3.10 Shri G C. Baveja has reservation in regard to basing the forecast on the assumption of price stability. He agrees with the observation of the Seventh Finance Commission to the effect that it is not possible to project revenues on the assumption of no price change whatsoever in the forecast period. In his opinion it would be more realistic to work out the forecasts of both the Central Government and the State Governments on the assumption of a modest annual rise in prices say of 5 per cent during the forecast period. However, for the sake of unanimity on this issue, he agreed that the forecast may be made on the assumption of price stability.

GENERAL METHODOLOGY ADOPTED FOR FORECASTING

3.11 Our projections of receipts and expenditure for the forecast period are based on the estimates for the base year 1983-84. All State Governments have presented their budgets for 1984-85 which show their revised estimates for 1983-84 of receipts and expenditure. We have, however, not received these budgets from all the States, so as to enable us to reassess their forecast on the basis of the R. E. 1983-84. Such re-assessment could have been done in the case of those States from whom the budget documents had been received but in that case we would not have ensured uniformity of treatment amongst the States. In any case, paucity of time also prevented us from examining these estimates for adoption. We had obtained the actuals of the receipts and expenditure for the year 1982-83 from the Accountants General of States and based thereon we have made our own estimates of the receipts and expenditure in the base year 1983-84 which have been used for purposes of forecasting. We thought that these estimates were more reliable than the budget estimates of State Governments for 1983-84 which are based only on the revised estimates for 1982-83. In exceptional cases where the actuals of 1982-83 appeared to be inexplicably out of line with the past trends of receipts or expenditures, the 1981-82 actuals have been used for projection purposes.

3.12 In order to capture the effect of prices in the estimates of receipts and expenditure for the base year 1983-84, the long term trend rate of growth was applied to the 1982-83 actuals. We have, however, taken care to eliminate unusual items of receipts / expenditure from the actuals of 1982-83 before using them for projection purposes. In respect of the principal taxes, the State-specific rates of growth for 1970-1982 were used for this purpose. However, for those States for which the data was not available for that full period, the rates of growth for a shorter period ending with 1981-82 were used. Due to non-availability of comparable data, the rates of growth in the period 1976-1982 were used in respect of other receipts. The projection of revenue expenditure for the year 1983-84 was generally based on the all States' growth rate 1976-82, duly adjusted for changes in emoluments (whether by way of revision of pay scales or grant of fresh instalments of dearness allowance) sanctioned after 1. 1. 1977 and upto 31. 3. 1982. We have specified 1st April, 1982 as the date for the purpose of para 5(iv) of the President's Order. We have taken into account the emoluments at the rates actually obtaining in the States as on that date. Therefore, while using the actual expenditure of 1982-83 furnished by Accountants General for being projected into the base year 1983-84, we have made suitable adjustments for any pay revision or additional dearness allowance sanctioned after 1st April, 1982.

3.13 In order to determine the rates of growth of revenue receipts for the forecast period, the method we followed was to isolate the increase attributable to rise in prices from the trend rates of growth of important tax and non-tax revenues, as adopted by us for estimating the receipts in 1983-84. For this purpose, we examined the elasticities of these revenues with respect to changes in prices as worked out by NIPFP for the Planning Commission while the resources for the Sixth Plan were worked out. We also took note of the estimates made by the same Institute for our use. We have used the price elasticities and the SDP deflators to net out the price effect and get the real growth rate which reflects the impact of rise in income and other factors, including the effectiveness of tax administration etc. The rates of growth have been fixed after making due adjustments to ensure that a certain minimum effort is assumed on the part of all States. Certain ceilings of rates of growth have also been set to ensure that States who have done well in the past are not placed in a disadvantageous position.

3.14 The rates of growth of expenditure in the forecast period are primarily based on the all States' growth rates for 1976-82. We obtained from the State Governments head-wise details of total expenditure broken up into salary and non-salary expenditures. As regards salary expenditure, the data was adjusted so as to exclude the effect of revision in emoluments, including increases in dearness allowance, sanctioned after 1.1.1977 and upto 31.3.1982 and, thus the real rate of growth of salary at 1976-77 prices was worked out. Similarly, from the non-salary expenditure, the effect of prices was isolated by using the Index Number of Wholesale Prices(1970-71 = 100) for manufactured products. The rate of increase in the Index of Wholesale Prices of manufactured products was deducted from the rate of growth of non-salary expenditure on the assumption of unit elasticity of such expenditure with respect to prices, to arrive at the growth rate of such expenditure at 1976-77 prices. By integrating the two rates, composite rates of growth for different heads of expenditure were determined and were generally used by us for the forecast period.

In the case of certain items of expenditure like maintenance of buildings and irrigation works, the provisions in the forecast period have been made on the basis of special norms explained later, and not on the basis of growth rates. In some other cases, like provisions for diet and medicine in hospitals, the expenditure on the basis of the norms in force in 1982-83 has been projected on the basis of growth rates and to this have been added the additional requirements based on the revised norms.

RATES OF GROWTH OF CERTAIN SPECIFIC HEADS OF REVENUE RECEIPTS

3.15 Annexure III-1 gives the rates of growth of six principal taxes during the period 1970-1982, as worked out by the National Institute of Public Finance and Policy. Annexure III-2 shows the rates of growth we have adopted for the forecast period. In the case of certain States, the rate of growth has been worked out for a shorter period ending 1982 for special reasons like their coming into existence after 1970.

3.16 We have paid attention to the recovery of arrears of taxes as well as arrears of some important non-tax sources of revenue. After taking into account the various problems associated with collection of arrears, we have assumed a tolerance limit of arrears that would always remain. Arrears outstanding at the end of 1982-83 or 1981-82 (depending upon the latest year for which we have information) in excess of these tolerance limits have been taken into account for full recovery in the forecast period. Collections of arrears of land revenue, agricultural income tax and irrigation dues would be affected by climatic conditions to which agriculture is susceptible. We have, therefore, ignored the accumulation of arrears upto one year's demand and have assumed in our forecast the recovery of arrears in excess of this tolerance limit. In regard to sales tax, the corresponding tolerance limit assumed is 10 percent of the sales tax revenue in 1982-83. This limit has been fixed keeping in view the orders staying recovery that may have been issued by both the Departmental authorities and by Courts, as well as the hard core of arrears, the recovery of which might be difficult. In the case of excise duties, forest receipts and revenues from mines and minerals, the tolerance limit is fixed at 5 per cent of the revenue in 1982-83 as in all such cases, the revenue authorities are generally expected to collect the revenue in advance before permitting the tax-payer or contractor to carry on his business. Similarly, a 5 per cent tolerance limit of the revenue in 1982-83 has been fixed for motor vehicle taxes and electricity duty also.

Tax Revenues:

3.17 Particulars of some important tax receipt heads are given below:

(i) Sales-tax: We have taken the receipts under the local sales tax laws and the Central Sales Tax Act, 1956 together for consideration. In order to ensure uniformity as between the States, purchase tax levied in some States on sugarcane, jute etc. and accounted for under a different head has also been considered as part of sales tax receipts. In regard to the forecast period, the rates of growth adopted are a minimum of 7 per cent and a maximum of 10.5 per cent.

(ii) Excise duties : Some States had taken measures between 1977-78 and 1979-80 to introduce prohibition. However, these measures were given up later on. In respect of such States the rate of growth between 1981-82 and 1982-83 has been taken into account for projecting the revenue in the base year 1983-84. In the case of other States, projections for 1983-84 have been made on the basis of long-term trend rates of growth. For the forecast period, the receipts have been projected for all States at either 7 per cent or 10 per cent, depending upon their past trends of growth rates, and the performance of the States placed in similar circumstances.

It may be mentioned in this connection that the Seventh Finance Commission had recommended that, in the event of any State implementing prohibition measures during the period from 1979-80 to 1983-84 and suffering a loss of excise revenue from potable alcohol in relation to the corresponding revenue in 1978-79, 50 per cent of such loss should be compensated by the Centre. A request has been made to us by the General Secretary, All India Prohibition Council, that we should make a similar recommendation to facilitate the implementation of prohibition. No State has made any such request to us, and, therefore, we are not making any such recommendation.

(iii) Stamps & Registration : For the forecast period a minimum rate of growth of 4 per cent and a maximum of 10 per cent has been adopted.

(iv) Motor Vehicle Taxes : We have considered together the taxes on motor vehicles and the taxes on goods and passengers carried by road booked under major heads 41 and 42 for forecasting. A minimum rate of growth of 6 per cent and a maximum of 11 per cent has been adopted.

(v) Electricity Duty : The receipts from electricity duty are a function of consumption of power in the State and receipts in 1983-84 have been estimated on this basis. This procedure could not be adopted for the forecast period as the Seventh Plan has not been finalised and we could not get a profile of Statewise consumption of power in the forecast period on which this duty is levied. We have, therefore, worked out the rates of growth of consumption of power liable to the levy of electricity duty in various States during the years 1976-82 and adopted these rates subject to a minimum of 5 per cent and maximum of 10 per cent for projection in the forecast period.

(vi) Entertainment Duty : In the absence of information regarding the number of cinema houses, the class-wise number of seats and the particulars of tariff charged from time to time for admission, the rate of growth for the forecast period has been worked out on the basis of the trend growth rate 1970-82 subject to a minimum of 6 per cent and maximum of 10 per cent.

Non-tax Revenues :

3.18 We now turn our attention to non-tax revenues. The major sources of non-tax revenues are interest receipts and dividends, receipts from forests, mines and minerals and irrigation works and receipts from departmentally run undertakings. Out of these, interest receipts from public sector undertakings will be dealt with later. The other important receipts are dealt with below :-

(i) Interest receipts : Interest receipts have been computed on the basis of the loans likely to remain outstanding at the end of 1983-84@. We notice that the recovery of interest by States has been much less than was estimated by the Seventh Finance Commission. This situation has to be improved. We have considered the various aspects which have a bearing on this issue. An examination of the rates of interest now being charged by State Governments on various kinds of loans showed that the bulk of the loans disbursed in the recent past have been at rates of interest of 7 per cent or more. For a proper assessment of the scope for recovery of interest, account should be taken of the arrears of interest at the end of 1981-82 or 1982-83. Keeping these factors in view, we have considered it desirable to provide for a minimum recovery of interest on a normative basis. We have adopted an average rate of 6 per cent on the loans outstanding at the end of 1983-84. No extra collection has been taken into account separately in respect of recovery of arrears. We think that States should be strict in achieving this minimum norm during the forecast period.

(ii) Dividend : The share capital investment of States (other than in the State Electricity Boards and in the State Road Transport Undertakings) have shown a phenomenal increase over the period 1975-82. There were 432 undertakings having a turnover of Rs. 50 lakhs or more with a share capital of Rs. 596* crores at the end of 1975-76. As against this, there were 657 undertakings (inclusive of those undertakings having a turnover of less than Rs. 50 lakhs) with a share capital investment of Rs. 1,546 crores at the end of 1981-82. Annexure III-3 gives the Statewise details of number of enterprises and investments therein. Most of these concerns are running in losses and hardly provide a return to the State Governments. We cannot view this situation without concern. It is necessary to ensure that these investments give a proper return to the State Governments.

@ The only exception is loans to Government servants for purposes other than housing, for which interest receipts from future lendings have been included, as such loans have been taken into account for working out the non-Plan capital gap.

* Appendix I.24 (1) of the Report of the Seventh Finance Commission.

We think that the principles adopted for the classification of the State public enterprises by the Seventh Finance Commission into three categories namely, investments in promotional enterprises, investments in financial enterprises and investments in commercial enterprises are reasonable. We have also classified the enterprises on the same basis. We are not assuming any return from the investments in the promotional undertakings. The financial institutions are similar to banking institutions but with this difference that they have to promote the growth of industrial units in the States. Therefore, we have felt that a minimum return of 3 per cent from 1984-85 should be realised. In regard to commercial enterprises, we have no qualms in prescribing a minimum average rate of return of 5 per cent. In both cases, the dividend has been worked out on the estimated investment as at the end of 1983-84.

In regard to dividends payable by co-operatives a slightly different classification has been adopted. Investments in co-operative banks, including land development banks, credit societies, sugar mills, spinning mills and other industrial co-operatives should yield a minimum average return of 5 per cent. Investments in societies engaged in processing, warehousing, marketing and housing activities and consumers' societies should yield a minimum return of 3 per cent. We feel that investments in some of the co-operative institutions set up to promote the social policies of Government may not generally yield any return. Accordingly, for forecasting purposes, no dividend has been taken into account from the investments in dairy, farming and fishermen's societies, labour co-operatives and co-operatives organised as part of the programme of Tribal Area Sub-Plan.

The amounts of dividend taken into account in the forecast are shown in Annexure III-4.

(iii) Revenue from Forests : Many State Governments have drawn our attention to the restrictions contained in the Forest (Conservation) Act, 1980. This Act provides that without the prior approval of the Central Government no State Government can direct that any reserved forest shall cease to be reserved or that any forest land may be used for any non-forest purposes. They have, therefore, represented that forest revenues would not record any growth in the forecast period.

There is no doubt that the nation's forest wealth has been depleted due to indiscriminate felling in the past, compounded by thefts and illegal extractions. There is also an urgent need to curb all such activities and restore the ecological balance in nature. This does not mean that even legitimate felling according to working plans prepared by the forest departments has to be stopped Taking all these factors into account we think that a uniform rate of growth of 5 per cent in the forest revenue in the forecast period for all the States, which is less than the rate warranted by past trend rates of growth, would be consistent with the need to conserve the forests and preserve the ecological balance.

(iv) Mines & Minerals : Rates of growth based on past trends present an uneven and erratic picture for all States. We have, therefore, by and large, estimated the future receipts attributable to non-fuel minerals and coal on the basis of the available projections of production. The rates of growth were adjusted by assuming a minimum rate of 5 per cent and a maximum rate of 10 per cent.

(v) Irrigation Receipts : The Seventh Finance Commission had noted the deficits suffered by the State budgets on account of multipurpose, major and medium irrigation schemes. It also observed that if steps were taken for better management (such as efficient and economic maintenance and management of the irrigation systems, raising water rate demands correctly and collecting them fully and in time), the receipts from these schemes could be enhanced. Accordingly, it had expected that the receipts would not only cover the working expenses but also yield a small return of Rs. 190 crores by way of interest at 1 per cent on the total capital invested by the States at the end of 1978-79 to be realised by 1983-84 in stages. These expectations have been belied as, according to the actuals of 1981-82, the expenditure under the relevant major heads for all States excluding interest was Rs. 214 crores, while the receipts were only Rs. 148 crores. For the forecast period, States have projected expenditure at Rs. 2,611 crores and receipts at Rs. 1,112 crores resulting in a loss of Rs. 1,499 crores.

Keeping in view the losses being incurred by the Irrigation Projects, we have not assumed any returns on investments in these projects in the forecast period. However, we expect a minimum effort from the State Governments so as to ensure that the receipts cover, at least, the cost of maintenance as recommended even by the Seventh Conference of Irrigation Ministers held in December, 1982. We have provided for receipts* accordingly after applying the norms for maintenance prescribed by us later on in this Chapter. As mentioned therein, we have adopted higher norms for maintenance of irrigation works in the hill States, taking into account the higher cost of materials. However, as we think that it will not be possible for them to match these higher costs by corresponding increase in revenue, we have estimated their revenue receipts at the same rate as for the States in the plains.

(vi) Receipts from Departmental Schemes: In many States, water supply schemes and milk supply schemes are run departmentally. While as a matter of principle the States should cover the full cost of these services by charging an appropriate price from the beneficiaries we notice that this has not been achieved. For the water supply schemes it may not be possible for the State Governments to recover the entire working expenses. We have, therefore, assumed that the losses incurred in 1982-83 on the running of water supply schemes would be gradually reduced to 50 per cent by the end of 1988-89.

The Milk Supply Schemes are of a semi-commercial nature and can be treated slightly differently. Accordingly, we have assumed that the losses in 1982-83 would be made good at the end of 1986-87, and that with the commencement of 1987-88 there would be no losses on this account.

In some States certain consumer goods are produced by industrial units run departmentally. In respect of such units we have assumed a return of 5 per cent over the capital invested therein, which is the same as the rate of dividends assumed by us on the State Governments' investments in commercial enterprises.

(vii) Other Receipts: For all other receipts, a growth rate of 5 per cent has generally been adopted.

RETURN ON INVESTMENTS IN POWER PROJECTS

3.19 The States have invested vast sums in power projects in the form of loans. These projects are required to function on a commercial basis. Consequently, the States are entitled to expect a reasonable return. However, the returns 2/ in the past have been far from satisfactory in the vast majority of States. Naturally, this has caused concern because such large portions of the nation's resources are yielding a negligible or no return.

3.20 Two Committees have gone into this question. The Venkataraman Committee reported in 1964 that Electricity Boards should yield a return of 11 per cent, made up of 6 per cent interest on capital, ½ per cent for appropriation to reserves, 3 per cent net profit and a notional 1½ per cent on account of electricity duty. Again, the Rajadhyaksha Committee reported in 1980. It reported that the State Electricity Boards should earn a gross return of 15 per cent including an average composite rate of interest of 7 per cent to be paid by the Boards on State Government loans.

3.21 It is worth noting that the World Bank, when financing rural electrification projects in this country, now stipulates that the State Electricity Boards contribute to investment not less than 20 per cent of the 3 years annual average of capital expenditure of the Electricity Board. The contribution' is to be computed, inter alia, after payment of the interest due to the State Government, and taking credit for rural electrification subsidy subject to certain ceilings.

3.22 Even Parliament has been concerned with this unsatisfactory state of affairs. To remedy this situation, Section 59 of the Electricity (Supply) Act of 1948 has been amended in 1983. It now lays down that State Electricity Boards shall adjust their tariffs "so as to ensure that the total revenues in any year of account shall, ... leave such surplus as is not less than three per cent.....". This, more or less, corresponds to the 11 per cent return envisaged by the Venkataraman Committee. Thus, it will be seen that everyone who has examined this matter objectively has come to the conclusion that the return should be about 11 per cent.

3.23 On the other hand, it is undeniable that there are certain constraints on the functioning of State Electricity Boards. In some spheres they have to be guided by non-commercial considerations for the

* See Annexure III-20

1/ Loans advanced by the State Governments as on 31. 4. 1984 amounted to Rs. 13,639 crores. Statewise details are given in Annexure III-5.

2/ Annexure III-6 gives Board-wise details of commercial losses in 1982-83 and accumulated arrears of interest sake of development of the country, for example, rural electrification schemes. Power projects, also, have a fairly long gestation period, and until they come into operation the capital invested obviously cannot yield any return. The costs of generating electricity are, to some extent, affected by factors beyond control of the Boards, such as rise in prices and quality of coal and so forth. These, and like considerations, cannot entirely be ignored.

3.24 Nevertheless, we think that the costs could be reduced considerably by taking steps to improve maintenance, reduce over-staffing and transmission and distribution losses, and pilferage etc. Balancing all these various considerations, and not being unappreciative of the problems of the State Electricity Boards, we think, that, at the very least, they should pay the interest stipulated when the loans were granted by the State Governments. We have worked out the average of these rates of interest and it comes to about 7 per cent per annum. We have, accordingly, assumed that State Electricity Boards will be giving a return to the State Governments at this rate during the forecast period.

3.25 However, we think it necessary to make three qualifications. Firstly, works-in-progress cannot at that stage participate in yielding a return. In respect of such works, we have assumed that those in hand in 1983-84 will be completed over a period of 10 years. The corollary is that 10 per cent of the capital invested in the works-in-progress upto the end of 1983-84 will become productive of a return in each year of the forecast period. To arrive at the amounts of loans allocable to works-in-progress (excluding capital stores and advances for capital works and stores), we have worked out the ratio of the amount invested in works-in-progress in 1981-82 to the total block capital in that year, and applied it to the total loans to the Electricity Boards estimated to be outstanding at the end of 1983-84 3/. The calculation of returns has been made accordingly.

3.26 Secondly, we think that the portion of the loans attributable to rural electrification 3/ schemes ought to be excluded from calculating the return. Subsidies given by the State Governments to the Electricity Boards for the purpose of the rural electrification schemes should also be excluded.

3.27 And thirdly, credit has been given to the State Electricity Boards for the sums realised by the State Governments as electricity duty, if any, imposed by them. The calculation of returns have been made by us accordingly, unless the State forecast was higher.

3.28 For fixing a norm of return, we see no distinction between Power projects run by Electricity Boards and those run departmentally. The amounts worked out on the basis indicated above are shown in the Annexure III-7.

3.29 We should mention that we did at one stage contemplate some kind of classification of Electricity Boards with the object of prescribing differential norms of return. However, on studying the matter carefully we found that it was not possible to do so, for the reason that far too many factors influence the working of the Boards.

3.30 It will be observed that in fixing the returns expected to be given by State Electricity Boards to State Governments, we have adopted a somewhat more liberal approach than Seventh Finance Commission. This should not be taken to mean that we view the matter with less seriousness. It is too obvious that large national resources have been invested and we would exhort the States and Electricity Boards to do everything in their power to ensure that proper returns are obtained. We are quite sure that it is possible to reduce rural electrification losses, and waste and theft of power and also accelerate the load growth in rural areas. We hope that our appeal to the State Electricity Boards and State Governments will not go unheeded.

RETURNS ON INVESTMENTS IN ROAD TRANSPORT UNDERTAKINGS

3.31 The investments by State Governments in Road Transport Undertakings are less than those in power projects, but are still huge. The returns are, again, far from satisfactory. It is recognised by statute that Road Transport Corporations should be run on a commercial basis. Section 22 of the Road Transport Corporations Act, 1950 specifically says that a Corporation in carrying on its undertaking

3/ Annexure III-5 shows details of the State Governments' Loans outstanding with the Electricity Boards, amounts allocated to works-in-progress and Rural Electrification.

"shall act on business principles". It follows, therefore, that we would be perfectly justified in approaching this matter as one would in judging the performance of a private commercial enterprise.

3.32 The Road Transport Corporations have, however, put forth some reasons why they are unable to give proper returns to the State Governments. For example, they have said that fixing of passenger fares is not within their discretion, but is decided by the State Government. They have also mentioned that they are at a disadvantage as against private operators in a State where road transport is only partially nationalised and are not able to earn as much as they might otherwise have done. Another major reason which they have advanced for their poor performance is that the taxes namely, the motor vehicle tax and the tax on passengers imposed by the States, cast a heavy burden on them and cut into their profits.

3.33 Although we do not accept as valid all these reasons put forth by the Road Transport Corporations, we are not prepared to say that they are totally devoid of all substance. Yet, we think that even taking things as they are, there is very considerable scope for improvement. We have made a study of the performance in physical terms of Road Transport Corporations in various States. The information which we have collected is tabulated in Annexure III-8. Even a cursory glance at the Annexure shows that there is much room for improving the occupancy ratio, and the staff-bus ratio. The table also establishes that fuel utilised does not give reasonable kilometreage which is probably due to the lack of proper maintenance. We can also see that fleet utilisation is not at the optimum level.

3.34 Our immediate predecessor, the Seventh Finance Commission, prescribed differential normative returns for groups of undertakings. The highest rate of return which they adopted was 6.5 per cent. The performance of Road Transport Corporations since the time the Seventh Finance Commission gave its Report, shows that, barring a few exceptions, they were not able to reach the norms assumed by that Commission. This is apparent from Annexure III-9. This may possibly indicate that the norms assumed by the Seventh Finance Commission were, in the circumstances, too high. But it cannot possibly justify the poor extent of the performance of the Road Transport Corporations. We have no doubt, that although within the period of five years with which we are concerned, it will not be possible for Road Transport Corporations to reach the norms prescribed by the Seventh Finance Commission, it is possible for them to very substantially improve their performance.

3.35 Taking everything into account, we are of the opinion, that there is no reason whatsoever why the Road Transport Corporations should not be able to give a return of 3 per cent to the State Governments after providing for depreciation. As in the case of power projects, we see no reason for making any distinction between the departmental undertakings and Road Transport Corporations.

3.36 However, so far as the hill States are concerned, we recognise that the nature of their terrain is such as to raise operating costs. Consequently, we do not think it will be right to apply the same norm to them. We think, it will be sufficient, if during the forecast period they are able to cover fully their operating costs inclusive of interest payments to creditors other than State Governments, and after providing for depreciation. The provisions we have made in the forecast are shown in Annexure III-10.

3.37 We will only add that the observations which we have made while dealing earlier with the returns on power projects, are applicable with equal force here. The appeal which we have made there, should also be taken as having been addressed to the Road Transport Undertakings.

ADDITIONAL RESOURCES MOBILISATION

3.38 Para 5(iii) of the President's Order requires us to have regard to the revenue resources of States for the five years ending with the financial year 1988-89 on the basis of the levels of taxation likely to be reached at the end of the financial year 1983-84, and the targets set for additional resource mobilisation for the Plan.

3.39 There is a difference of opinion amongst us on the interpretation of the said terms of reference, in particular, as to the significance of the words, "targets set for additional resource mobilisation for the Plan". According to the majority of the Commission, comprising Shri Y.B. Chavan, Dr. C.H. Hanumantha Rao and Shri A.R. Shirali, the Commission is required for the resons explained hereinafter, to ascertain the levels of taxation likely to be reached at the end of 1983-84 for determining the revenue resources for the five years ending with 1988-89, and, in this no distinction is envisaged between the levels of taxation reached before the commencement of the Sixth Plan and the additional resource mobilisation measures taken during the Sixth Plan period merely because the proceeds of the latter are shown separately in the Plan exercises.

3.40 On the other hand, the view taken by Shri Justice T.P.S. Chawla and Shri G.C. Baveja is that the practice followed by the Planning Commission should also be followed by the Finance Commission, so as to maintain the consistency between the forecasts made by the Planning Commission and the Finance Commission. They, therefore, feel that in accordance with this practice, the additional resources mobilised during the course of the Sixth Plan upto the terminal year i. e. 1984-85 should be treated as a Plan resource, and not included in the non-Plan resource forecast until 1985-86. They are further of the view, that from the year 1985-86, receipts from the additional resources mobilised in 1984-85 should also be taken into account. Their reasons are given in detail in a separate minute of dissent.

3.41 According to the majority, the President's Order requires the Commission to estimate the revenue resources for the five years ending 1988-89 on the basis of the levels of taxation likely to be reached at the end of 1983-84. It is, therefore, clear that the revenue resources during 1984-85 are to be based on the levels of taxation likely to be reached at the end of 1983-84. Considering that the Commission was initially required to submit its report by 31st October, 1983, the level of taxation likely to be reached at the end of 1983-84 could only be determined on the basis of the actual levels reached at the end of 1982-83 and the estimated incremental levels likely to be reached at the end of 1983-84. It is in connection with the determination of the latter that the words "targets set for additional resource mobilisation for the Plan" in the Order become relevant. The only possible interpretation of these words is that the targets set for the Annual Plan for 1983-84 had to be taken into account. Any other interpretation would be inconsistant with the requirement of estimating the revenue resources for the five year period 1984-89 on the basis of the levels of taxation likely to be reached at the end of 1983-84. It might be mentioned that both the Sixth and the Seventh Finance Commissions also computed the resources of the States for the forecast period on the basis of the levels of taxation likely to be reached at the end of the year in which they were required to make their reports. The minority view that the additional resources mobilised during the course of the Sixth Plan period i. e. 1980-81 to 1983-84 should be excluded from the computation of revenue resources in 1984-85 is, thus, not consistant with the requirement of the Order referred to above.

3.42 It is true that the Planning Commission shows the proceeds of the additional resource mobilisation measures taken during the Plan period separately in the Plan exercise. But it has not prevented the Planning Commission from setting off the proceeds of additional resource mobilisation against gaps in resources on non-Plan account with the result that they hardly constitute a Plan resource in such cases. There is, therefore, no inconsistency between the procedure adopted by the majority and that actually followed by the Planning Commission.

3.43 As for the point regarding additional resource mobilisation in 1984-85, this has been dealt with later in connection with the committed liabilities.

3.44 As stated earlier, we have taken into account the levels of taxation actually reached at the end of 1982-83 and the estimated incremental level likely to be reached at the end of 1983-84. For determining the latter in relation to the targets set for the Annual Plan 1983-84, we have decided to use certain norms based on the performance in the earlier years. For this purpose, we obtained from the States details of the yield of revenue from measures taken in 1980-81, 1981-82 and 1982-83 to raise additional resources. States have taken both budgetary and extra-budgetary measures in the past three years to raise fresh resources. The all-States' aggregate of receipts in the years 1980-81 1981-82 and 1982-83 from budgetary measures constituted 48.56 per cent of the corresponding total receipts from both budgetary and extra-budgetary measures. We have decided to apply the same percentage to the target fixed by the Planning Commission for 1983-84 to arrive at a normative target for realisation of fresh revenue receipts in 1983-84 which would determine the levels of taxation at the end of that year. Wherever we have received the details of additional revenue measures from the State Governments, we have calculated the full year's yield thereof. If the yield so calculated was less than 48.56 per cent of the target fixed by the Planning Commission for 1983-84, we have added the difference to the revenue estimate for 1983-84, if it was more, we gave credit to the States for the difference.

RATES OF GROWTH OF CERTAIN SPECIFIC HEADS OF REVENUE EXPENDITURE

3.45 The general methodology for projecting the expenditure in the base year 1983-84 and thereafter for the forecast period has already been explained. The rates of growth adopted for certain important heads of expenditure are discussed below.

(i) Elections: We have made adequate provisions for holding elections to Parliament and the State Legislatures in the years when they fall due. Provision has also been made for the issuance of identity cards to voters in certain States in the North-East, in respect of which estimates have been furnished to us by the Office of the Election Commission. Assistance to be provided by the Centre in regard to these items of expenditure has been included in the estimates of receipts.

(ii) Police: We have taken into account the payments made by a State to other States for the use of their police forces. In the case of the seven hill States of Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Nagaland, Sikkim and Tripura, we have excluded from the forecast payments to Government of India for the deployment of the Central police force in these States, as there are large fluctuations in the expenditure on this account. We are recommending in the Chapter on Grants-in-Aid measures to deal with such expenditure. While the normal trend rate of growth for police expenditure worked out to 5.5 per cent only, we have assumed a higher rate of growth of 6.5 per cent so as to provide a cushion for accommodating any extra or unusual expenditure or any further improvements in administration.

(iii) Education: The normal trend rate of growth of expenditure on education works out to 4.5 per cent only. This is not surprising as expenditure on expansion of education is treated as Plan expenditure.

We are aware that the standards of maintanance of educational institutions, particularly of the primary and middle schools, leave much to be desired. Furniture, equipment, laboratory stores etc. are some of the basic and essential needs which suffer when State Governments decide to impose restrictions in expenditure as a measure of economy. In order to ensure that some provisions are available to make good this backlog, we have decided to project expenditure on education at the rate of 7 per cent during the forecast period.

(iv) Medical and Health: To improve the standards of service rendered in hospitals in the States marked by low expenditure levels on medicines and diet it was felt that the expenditure on medicines and diet should be stepped up to the level of all-States average.

Based on the information received from States, the all-States average of annual expenditure on medicines and diet worked out respectively at Rs.4069 and Rs.1296 per bed per annum as against Rs.2578 and Rs.1100 recommended by the Seventh Finance Commission. We have made additional provisions in the expenditure forecast of the States whose estimates were found to be lower than all-States average. In making the additional provision, we have restricted the additional amount to the difference between the all-States average and the norm fixed by the Seventh Finance Commission. We may add that while reckoning the expenditure on medicines, we have taken into account the total expenditure on medicines incurred by a State. This would include the expenditure on medicines for serving both in-patients and the out-patients. It is only for the purpose of facility in calculation that we have worked out the expenditure on medicines with reference to bed strength.

(v) Pensions: Due to insufficiency of comparable data we could not work out satisfactorily a trend rate of growth for this head. We have, therefore, adopted a 5 per cent rate of growth, both for estimating the base year's expenditure for 1983-84 and the requirements for the future, as was done by the Seventh Finance Commission. Estimates of expenditure, if any, furnished by the State Governments for the implementation of the judgement of the Supreme Court in the case of D.S. Nakara and others vs. Union of India, declaring that the benefit of revision in pensionary benefits should apply to all pensioners, irrespective of the date of their retirement, have been accepted and provisions made accordingly.

(vi) Subsidies on the sale of foodgrains: The sale of foodgrains at fair prices, particularly to the weaker sections of the society, is an important plank of national policy. An elaborate infrastructure has been created for this purpose, both by the Central Government and the State Governments. The major operations of procurement, storage and inter-State distribution are handled by the Centre through the Food Corporation of India. These gigantic operations involve large outlays. As the specific objective is to ensure that all over the country, foodgrains should be made available at a fair price, large amounts of subsidies are being given by the Centre to the Food Corporation of India. In accordance with the national policy, the foodgrains are delivered by the Food Corporation of India in all States at fixed central points at the same price.

In some States like Himachal Pradesh, Jammu & Kashmir, Nagaland, Sikkim and Manipur the essential commodities received at the central points have to be transported to far flung places in remote and inaccessible areas. To ensure that the burden of this additional cost is not passed on to the consumers in the remote areas, it is absorbed by the State Governments and is reflected in accounts as a loss or as a subsidy. We consider this to be an inescapable item of expenditure and have, therefore, made provisions in the forecast.

We notice that subsidy is also given to ensure that foodgrains are sold through the public distribution system at a specified concessional rate. For example, the Government of Andhra Pradesh has launched a scheme whose objective is to enable families, whose annual income is not more than Rs.6000/- per annum, to get rice at the rate of Rs.2/- per kg. through public distribution system. The difference between the procurement price and the concessional sale price is subsidized by Government. This subsidized rice is being supplied at the rate of 5 kgs. per head per month subject to a maximum of 25 kgs. per family. An expenditure of Rs.1,192 crores as subsidy has been projected for the forecast period by the State Government. Similarly, the Government of Karnataka has started a scheme from February, 1983 whereunder super-fine rice, fine rice and ordinary rice are to be sold to card holders in informal ration areas at subsidized rates of Rs.2.10, Rs.2 and Rs.1.90 per kg. respectively. The liability of the subsidy on this account has been assessed at Rs.100 crores over the forecast period.

We have to take a view about this expenditure on subsidies in the background of the steps taken at the national level and the expenditure already being incurred to ensure that rice is made available at reasonable prices to the consumer. In our view it would not be equitable to provide for the large expenditure on this account in the estimates of one or two States only. Therefore, for the limited purpose of forecasting of expenditure under the concerned heads, and without commenting on the merits of the schemes, we have not taken into account the provision made by the State Governments for these subsidies.

(vii) Social Security and Welfare Measures: Provisions for expenditure on a large number of social security and welfare measures are made under the major head 288. We have made reasonable provisions for all the social security schemes including those that have been launched for the first time in 1983-84. Mention may be made in this connection of the schemes like the Chief Minister's Nutritious Meal Programme in Tamil Nadu, the scheme for giving pension to agricultural workers in Kerala and the Scheme for giving employment allowance to unemployed persons in West Bengal, Punjab and Kerala, to mention only a few of such schemes.

The old age pension scheme is being implemented by practically all States. In Bihar, we noticed that the per capita expenditure on this scheme in 1981-82 was Rs.9.65. This appeared to be extraordinarily large. Therefore, for forecasting purposes, we have adopted a per capita rate of Rs.4.59 which is the highest per capita expenditure among all the States excluding Bihar.

(viii) Debt Services: We have made provisions for the payment of interest by the State Governments on all loans and other interest bearing obligations estimated to be outstanding at the end of 31.3.1984. Interest on State Provident Funds has, in addition, been calculated on the basis of the yearly accretions to the fund in the forecast period. Further, we have also made provisions in the forecast period for the payment of interest to the Reserve Bank of India on the likely ways and means advances, likely to be availed of by the States. These have been estimated on the assumption that the maximum permissible limit of such advances including special advances, would remain outstanding for half the year in each year of the forecast period.

In respect of Central loans, we have made provision for interest liability in the forecast period on the basis of the outstandings as per our scheme of consolidation and re-scheduling of loans and the new rates of interest as detailed in the Chapter on Non-Plan Capital Gap of the States. As regards loans taken by States from the Life Insurance Corporation, etc., Accountants General of only some States have furnished this information. Therefore, in the case of the other States, this data was worked out by us on the basis of the information contained in the States' forecast. To these, we have added the interest payments in respect of the loans taken in the year 1983-84. Particulars of such loans have been taken from the forecasts given by the States to the Planning Commission for the purpose of estimating their financial resources for the annual Plan 1984-85, copies of which have been sent to us also by the States.

In short, barring interest on the fresh ways & means advances from Reserve Bank of India and the fresh accretions to Provident Fund, we have not made provisions for any interest payments in respect of fresh borrowings during the forecast period, mainly for the reason that estimates of such loans could not be made with a reasonable degree of accuracy. Therefore, like our predecessors, we have worked out an arrangement for the discharge of such fresh liabilities in the forecast period, details of which are given in the Chapter on Grants-in-aid.

PROVISIONS FOR EMOLUMENTS AND TERMINAL BENEFITS

A - EMOLUMENTS

3.46 We are required to take into account, under para 5(iv) (a) of the President's Order, provisions for emoluments and terminal benefits of Government employees, teachers and employees of local bodies as obtaining on such date, as the Commission deems it proper to specify and with reference to appropriate objective criteria, rather than in terms of actual increases that may have been given effect to. The inclusion of 'terminal benefits' of Government employees is an addition to our terms of reference as compared to that of the last Commission.

3.47 A specific reference to the provisions needed for emoluments of Government employees was made for the first time in the President's Order dated 28th June, 1972, constituting the Sixth Finance Commission. That Commission was required to take into account "such provision for the emoluments of Government employees, teachers and local body employees, as obtaining on a specified date as the Commission deem it proper in the light of the States' capacity and needs". The Sixth Finance Commission specified 1st January, 1972 as the date of reference for this purpose, in the hope of getting "a clear picture of the relative position of different States in respect of scales of pay as on a date when the State Government's judgement was least likely to have been clouded by the implications of the impending appointment of a Finance Commission".

3.48 The Sixth Finance Commission observed that it would be conducive to sound fiscal management and rational decision making, if it became known that a Finance Commission did not consider itself bound to take note of all the increases in emoluments that may have been given effect to. At the same time, States which had observed a measure of restraint in pay revisions should have the assurance that their minimum requirements in this regard would not go unnoticed.

3.49 The terms of reference of the Seventh Finance Commission in this respect were identical with those given to us except that the subject of 'terminal benefits' has been added in our terms of reference. That Commission specified 1st January, 1977 as the relevant date for the computation of emoluments of Government employees for two reasons. Firstly, it noted that the Centre had not sanctioned any fresh instalments of dearness allowance after 1.3.1975, and it, therefore, presumed that by the 1st January, 1977, State Governments would have sanctioned all the instalments of dearness allowance which the Centre had sanctioned by than or at any rate, those considered justified by them. Secondly, it observed that on the announcement of elections to the Lok Sabha, a number of States, had hastened to sanction benefits to their employees, somewhat more freely than had been their practice, which it declined to take into account so as to mete out uniform treatment to all States.

3.50 We are in general agreement with the approach of the Sixth and Seventh Finance Commissions regarding specifying of a date in accordance with our terms of reference. However, unlike in 1977, when some States proceeded to announce increases in anticipation of the impending Lok Sabha elections there had been no special circumstances in 1982 which might have influenced the State Governments in the period immediately prceding the constitution of our Commission. We were, therefore, convinced that we should take into account all the decisions which the State Governments had taken during the financial year 1981-82. Also we did not want to specify a date too remote from the date of the President's Order. Hence, at our first meeting, we decided to specify the 1st April, 1982 as the date for the purpose of para 5(iv) (a) of the President's Order.

3.51 Many States had misgivings about the implications of the specified date, i.e. the 1st April, 1982. They, therefore, suggested that whatever decisions they have actually taken in respect of revision of emoluments, even though ordered after the specific date, should be taken into account for the purpose of making provisions in the forecast period, instead of determining these on the basis of objective criteria. This was particularly emphasised by the States who either do not have a revenue surplus or have a surplus which is negligible. A view was strongly expressed that as the recommendations of the Commission were to be based on the levels of taxation/receipts likely to obtain at the end of 1983-84, it was only fair that decisions on emoluments and terminal benefits by the State Governments upto, say, June, 1983, should be taken note of by the Commission.

3.52 In regard to emoluments, certain States have sought parity with the emoluments given to Central Government employees, while others have desired parity with those of nationalised banks, the Life Insurance Corporation and the major Central public sector undertakings. Some States have urged that at any rate there should be no difference between the Central and State scales of pay in respect of certain common categories of posts while the difference in respect of emoluments of other posts should be restricted to about 10 per cent.

3.53 All States have mentioned about their being under constant pressure to sanction fresh instalments of dearness allowance corresponding to the increases sanctioned at the Centre. They were unanimous that in any event, there was no justification whatsoever for any differentiation in respect of dearness allowance, as increases in the cost of living affected all employees in the same way regardless of whether their employer was the Union or the State.

3.54 Some Chief Ministers have also requested us to make provisions for States to pay interim relief and bonus to the same extent as sanctioned by the Centre.

3.55 The All India State Government's Employees Federation sent us a detailed Memorandum and its representatives also met us. When we visited the State capitals, the State Employees Associations put forward their views which were substantially the same as those of the State Governments.

3.56 At the outset, we wish to state that there were two objectives we had in mind in specifying 1st April, 1982 as the relevant date. First, we wanted the State forecasts of expenditure relating to emoluments to be on a comparable basis i.e. based on the rates of levels of emoluments obtaining on a given date. And secondly we wanted to be able to compare the emoluments attached to certain common categories of posts, e.g., peons, constables, lower division clerks, etc. on a common date so as to be able to evolve objective criteria for making provisions in the forecast period. Obviously, it could not be a future date as that might lead some States to raise the emoluments of their employees before that date which they might not otherwise have done. Therefore, it had to be a past date. In selecting 1st April, 1982, we were also guided by the consideration that the date should not be too remote.

3.57 State Governments have urged us to accept as a principle that they should be enabled to neutralize the increases in the cost of living by the payment of dearness allowance in the same manner and to the same extent as the Central Government. There is, no doubt, force in this demand. We agree that there is no reason why in the matter of the grant of dearness allowance any distinction should be made between the employees of the Union and those of the States.

3.58 As regards emoluments, other than dearness allowance, the considerations are more complex. We agree with the observations of the Sixth and Seventh Finance Commissions that a Finance Commission cannot take the place of a Pay Commission and should not take upon itself the burden of recommending revision or pay scales. Pay Commissions take into account many considerations like the cost of living, the pay scales obtaining at the Centre and in adjacent States for comparable posts, the expenditure incurred on establishment in relation to the total Government expenditure, the need to conserve resources for the development Plans and so on. These are matters beyond our ken. For the same reason, therefore, it would not be proper for us to express any opinion as to whether the State Governments' pay scales should be brought on par with those obtaining at the Centre. Conversely, we would also not be justified in refusing to make provisions simply on the ground that in certain cases the emoluments other than dearness allowance actually being paid by a State are higher than at the Centre or in any other State. Our limited concern is merely to evolve an appropriate objective criteria on the basis of which provisions can be made during the forecast period.

3.59 In order to make provisions for the minimum requirements of emoluments on the basis of an objective criterion, the Sixth Finance Commission took the average of the emoluments obtaining in States on the specified date, i.e. 1st of January 1972. It made additional provisions in the expenditure estimates of those States where the emoluments on the specified date were less than this average. The Seventh Finance Commission also adopted a similar approach. However, it adjusted the all-States average so as to maintain the relativity that existed on 1.1.72 between the average emoluments of the States, on the one hand and those at the Centre on the other. We are also satisfied that the objective criterion on the basis of which provisions should be made for emoluments, is the all-States average emoluments obtaining in the States as on the date specified by us, i.e., 1st April 1982.

3.60 Having considered all aspects of the matter, we are of the view that provisions for emoluments should be made in the forecast of the States on the following objective criteria:

(a) Provisions should be made for the emoluments actually obtaining on 1st April, 1982 on the basis of orders both issued as well as implemented before that date.

(b) Provisions should be made for payment of dearness allowance to compensate for increases in the cost of living to the same extent as has been done by the Centre so far. These provisions should be linked to increases of 8 points in the 12-monthly average of the All India Consumer Price Index number for Industrial Workers (1960=100), and this average is hereinafter referred to as the 'CPI'.

(c) Provisions should also be made for covering the disparities in the rate or level of emoluments obtaining in various States. Thus, if the level of actual emoluments on 1st April 1982 in a State is lower than the corresponding all States' average worked out in the manner indicated hereinafter, a further provision should be made to cover the difference.

Provisions for emoluments in the forecast period have been worked out in accordance with these criteria. The manner in which this has been done is briefly explained in the subsequent paragraphs.

3.61 State Governments have furnished information about the CPI level upto which the last instalment of dearness allowance was sanctioned by orders issued prior to 1.4.1982. The number of instalments of dearness allowance for which provisions have been made so as to link them with the CPI level of 440 i.e. the level upto which the Central Government had sanctioned additional dearness allowance upto 1.4.1982, is shown in Annexure III-11.

3.62 The Central pattern of sanctioning dearness allowance has been followed in all States from before 1st April, 1982 except in Assam, Meghalaya and Tripura. These States have adopted this pattern sometime after 1st April, 1982. In the case of these three States also we have made provisions for dearness allowance on the Central pattern.

3.63 We have obtained from State Governments the details of the annual cost of one instalment of dearness allowance and also the total number of Government employees*, paid from both the Plan and non-Plan Budget, as well as the total number of employees of local bodies. The cost of one instalment per year per employee was worked out, but this was found to vary considerably from State to State. As we have decided to make provisions for payment by the States of dearness allowance on the same pattern as that of the Central Government, we thought it worth-while to compare the per employee cost of one instalment of dearness allowance to the Centre with that to States. We have been informed by Ministry of Finance, that, on an average, this works out to Rs. 147 per employee per annum in so far as Central Government employees are concerned. We are aware that this average would, to some extent, very according to the pay-range-wise composition of the employees. Making an allowance of 10 per cent for this factor, we decided that a maximum incidence of Rs. 162 per employee per annum would be a reasonable norm on the basis of which this burden could be estimated. We have, therefore, adopted the cost of one instalment of dearness allowance as worked out from the State data but subject to the maximum amount worked out on the above norm.

3.64 The provisions for additional dearness allowance made on this basis to compensate the cost of living upto CPI 440 are indicated in the Table in paragraph 3.68.

3.65 The Sixth and the Seventh Finance Commission worked out the all-States average as on the dates specified by them (i.e. 1.1.1972 and 1.1.1977 respectively) by taking into account the actual emoluments obtaining on those dates. We have decided to calculate the all-States average by first bringing the emoluments to a uniform CPI level. On the date specified by us i.e. 1st April, 1982, the CPI level upto which dearness allowance had been sanctioned varies from State to State. Therefore, the actual emoluments as on this date are not comparable as between States. We, therefore, felt it necessary, in the first instance, to work out the presumptive emoluments as on 1st April, 1982 i.e. what would have been paid if, like the Centre, all States had sanctioned dearness allowance upto CPI level of 440. This has been done by adding to the actual emoluments as on 1.4.1982, the provisions for additional dearness allowance referred to in the previous para. A summary of the all-States average level of presumptive emoluments as on 1.4.1982 and the State-wise presumptive emoluments as on that date in respect of the selected common categories of posts which account for the bulk of Government employees is given in Annexure III-13. Details thereof, post-wise, are given in Annexures III-14(i) to III-14(xi).

3.66 State Governments have furnished the numbers of their employees classified by pay ranges. The provisions needed for emoluments have been worked out with reference to (i) the difference between the all States average emoluments for the particular common category post and the presumptive emolu-

* Total number of State Government Employees, Teachers and other employees of Local Bodies and Aided Institutions is given in Annexure III. 12.

ments attached to that post in a State and (ii) the estimated number of employees falling within the pay-range of that post. The provisions worked out on this basis are indicated in the Table in paragraph 3.68.

3.67 The Centre has already sanctioned after 1st April, 1982 another seven instalments of additional dearness allowance with effect from various dates when the CPI increased by 8 points from 440 to 496. Accordingly, we have also made provisions for these additional instalments in the forecast period. Details thereof have been indicated in the table in the next paragraph.

3.68 To sum up, the Table below shows the provisions we have made for emoluments of Government employees etc. during the five years ending 1988-89. These are in addition to the normal requirements projected during the forecast period on the basis of the rates obtaining as on 1.4.1982 included in the base year estimates of 1983-84.

Table: 1 : Additional provisions made for emoluments for five years of the forecast period 1984-85 to 1988-89.

(Rs. lakhs)

Name of the State	For DA upto 12 monthly CPI average of 440 as on 1.4.1982.	To make up the difference with reference to the presumptive emoluments on 1.4.82 adjusted to CPI 440	Total (2+3)	For DA consequent on increase in the 12 monthly average CPI from 440 to 496	Total of 4+5
1	2	3	4	5	6
1. Andhra Pradesh	19480	3246	22726	34090	56816
2. Assam	11500	4173	15673	12740	28413
3. Bihar	22760	6615	29375	39830	69205
4. Gujarat	13280	1974	15254	23240	38494
5. Haryana	6860	Nil	6860	12005	18865
6. Himachal Pradesh	2080	Nil	2080	3640	5720
7. Jammu & Kashmir	Nil	489	489	8750	9239
8. Karnataka	Nil	Nil	Nil	26705	26705
9. Kerala	12000	6573	18573	21000	39573
10. Madhya Pradesh	18000	24932	42932	31500	74432
11. Maharashtra	23360	Nil	23360	40880	64240
12. Manipur	1200	529	1729	1680	3409
13. Meghalaya	@	Nil	Nil	2701	2701
14. Nagaland	1460	176	1636	2555	4191
15. Orissa	11860	9503	21363	20755	42118
16. Punjab	8000	Nil	8000	14000	22000
17. Rajasthan	14880	15391	30271	26040	56311
18. Sikkim	515	107	622	721	1343
19. Tamil Nadu	3685	50134	53819	25795	79614
20. Tripura	3700	2796	6496	5180	11676
21. Uttar Pradesh	25860	17793	43653	45255	88908
22. West Bengal	45395	Nil	45395	45395	90790
Total	245875	144431	390306	444457	834763

3.69 Some Chief Ministers have requested us to make provisions to enable States to pay the interim relief sanctioned by the Central Government to its employees with effect from 1st June 1983, as well as the ad hoc bonus sanctioned to its employees for the year 1982-83.

@ State Government has sanctioned DA upto Six-monthly average CPI level of 457 as on 1.1.82 on their own pattern viz.Rs.1.30 per point for all employees, but switched over to Central pattern w.e.f. 1.10.1983. The State Government has indicated that the estimated cost for switch over to Central pattern is Rs.27.01 crores upto 12-monthly average CPI of 496 which has been accepted.

3.70 The Government of Uttar Pradesh, like the Centre, has already sanctioned for 1982-83 an ad hoc bonus of 15 days' pay to its employees and to teachers and employees of local bodies. Pending the evolution of a formula they have made a provision of Rs.247.14 crores for the forecast period.

3.71 As already stated, our terms of reference require us to make provisions for emoluments on the basis of objective criteria, rather than on the basis of actual increases sanctioned. We have explained the objective criteria which we have decided to adopt. Keeping them in view we are unable to accede to these requests as they do not come within those objective criteria.

B - TERMINAL BENEFITS

3.72 Terminal benefits are given in different forms such as pension, gratuity, commutation of pension, encashment of leave, family pension etc. and they very from State to State. In addition to the benefits given on retirement, pensioners are also given dearness relief to compensate them for increases in the cost of living from time to time. Expenditure relating to various types of terminal benefits is booked under the Major Head 266.

3.73 We are required to make provisions for terminal benefits on the basis of objective criteria. Since statistics regarding the number of pensioners in different pension slabs are not maintained by States it was not possible to work out, on the basis of any objective criteria, the requirements for terminal benefits during the forecast period. Therefore, the actual expenditure under Major Head 266 for the year 1982-83, excluding relief, if any, sanctioned to pensioners after the specified date, i.e. 1.4.1982 was taken as the basis for working out the estimates of expenditure on terminal benefits for the forecast period. Accordingly, provisions have been built into the forecasts, as already indicated in para 3.45(v).

3.74 As regards dearness relief, again, for lack of statistics, we were unable to make reasonably approximate estimates of the cost to the State Governments of one instalment of dearness relief to pensioners. Consequently, we have estimated the cost of this relief to the States on the assumption that it bears the same ratio to the cost of one instalment of additional dearness allowance as that at the Centre. This ratio in the case of the Centre is 7.8 per cent.

3.75 We have allowed for payment of dearness allowance to State Government employees upto the 12-monthly average of the All India Consumer price Index Number for Industrial Workers (1960 = 100) of 496. According to the prevailing practice at the Centre, relief to pensioners is also sanctioned as and when dearness allowance is sanctioned to serving Government employees. Therefore, we propose to make provisions for dearness relief to pensioners upto the same index level as for dearness allowance. The provisions needed by the States except Meghalaya, for payment of relief to pensioners, have been worked out at the rate of 7.8 per cent of the provisions made in respect of additional dearness as shown in the Table below. Meghalaya had been sanctioning relief to pensioners on their own pattern upto 30.9.1983. They switched over to the Central pattern with effect from 1.10.1983. Additional requirements of funds for grant of relief to pensioners, during the forecast period, upto CPI level of 496 have been indicated by the State Government. Their estimate has been accepted. The amounts so worked out for the forecast period 1984-89 are shown in the following table.

Table 2 : Provision for Dearness relief to Pensioners during 1984-89 upto CPI level of 496.

	State	(Rs.lakhs)		State	(Rs. lakhs)
1.	Andhra Pradesh	4178	12.	Manipur	225
2.	Assam	1891	13.	Meghalaya	55*
3.	Bihar	4882	14.	Nagaland	313
4.	Gujarat	2849	15.	Orissa	2544
5.	Haryana	1471	16.	Punjab	1716
6.	Himachal Pradesh	446	17.	Rajasthan	3192
7.	Jammu & Kashmir	683	18.	Sikkim	96
8.	Karnataka	2083	19.	Tamil Nadu	2299
9.	Kerala	2574	20.	Tripura	693
10.	Madhya Pradesh	3861	21.	Uttar Pradesh	5547
11.	Maharashtra	5011	22.	West Bengal	7082
				Total	53691

*As indicated by State Government.

These are in addition to the normal requirements projected for the forecast period on the basis of the rates obtaining on 1.4.1982 included in the base year estimates of 1983-84.

MAINTENANCE OF CAPITAL ASSETS

3.76 Para 5(v) of the President's Order requires us to have regard, inter alia, to the need for adequate maintenance and upkeep of capital assets and to indicate the norms, if any, on the basis of which specified amounts are allowed for the maintenance of different categories of capital assets and the manner in which such maintenance expenditure could be monitored.

3.77 We had requested the State Governments to give us information about the prevailing norms of expenditure for the maintenance of various types of capital assets and also to indicate the norms which they would recommend for adoption in the quinquennium commencing from 1st April, 1984. During our visits to States, we ascertained the views of the Secretaries to Governments and the Heads of the Departments concerned with the maintenance of buildings, roads and irrigation works, both as to the norms of maintenance and the steps needed to ensure that the provisions made are actually utilized. We also had discussions with the concerned Ministries in the Government of India. The requirements for maintenance for various kinds of capital assets are considered in the paragraphs that follow.

MAINTENANCE OF MAJOR AND MEDIUM IRRIGATION WORKS

3.78 We requested the States to furnish information about the potential created from major and medium irrigation works upto the end of 1981-82, and likely to be created at the end of 1983-84 and their utilisation. As the data received from the States were incomplete, we have obtained similar data from the Ministry of Irrigation, details of which are furnished in Annexure III-15.

3.79 The Union Ministry of Irrigation also gave us particulars about the maintenance expenditure incurred on some projects in Maharashtra, Punjab and Tamil Nadu (Annexure III-16). These show wide variations, not only from State to State but also from project to project within the same State as was only to be expected. For instance, the maintenance expenditure in Maharashtra in the year 1979-80 was only Rs.27.95 per hectare on the Gangapur project, whereas for Jayakwadi Project it was as high as Rs.171.70 per hectare in the same year. In Punjab, the variation was from a minimum of Rs.9.10 per hectare on Upper Bari Doab Canal System to Rs.38.66 per hectare on the Bhakra Canal System. The corresponding minimum and maximum levels of maintenance expenditure in Tamil Nadu were Rs.10.90 (Vaigai) and Rs.68.35 (Krishnagiri Project) per hectare.

3.80 With this range of intra-State and inter-State variation, we wanted to examine whether it would not be more realistic to evolve Statewise/region-wise norms. At our instance, the Ministry of Irrigation explored this possibility but found it difficult to suggest a desirable set of State-wise/region-wise norms. They, however, felt that, within the limits of an all-India norms, it should be possible for the States to provide for the desired levels of expenditure on maintenance, and accommodate the widely differing needs of various projects.

3.81 Some States have suggested to us certain norms of expenditure for the period covered by our report (Annexure III-17). These vary for plain areas from Rs.75 per hectare suggested by Orissa and Haryana to Rs.127 per hectare proposed by Uttar Pradesh. Jammu & Kashmir has suggested Rs.200 per hectare. Some States have suggested gross irrigated area as the basis for determining the norms of expenditure while some others have pleaded for use of irrigation potential for this purpose. During our discussions with the States, many of them, however, expressed the view that the norms recommended by the Seventh Conference of Irrigation Ministers might be adopted. But, at least one State felt that the norms recommeded by this Conference were too high.

3.82 We held discussions with the Ministry of Irrigation and requested them to suggest norms for our consideration. Based on the recommendations made by the Seventh Conference of the Irrigation Ministers of States held in December, 1982 the Ministry of Irrigation has proposed the following norms for maintenance and return :-

(a) Operation and maintenance charges of irrigated systems may be placed at Rs. 100 per hectare of culturable command area, where irrigation intensities are less than 100% and, Rs.100 per hectare of potential/irrigated area, where irrigation intensities are more than 100%. In hilly areas this may be increased by 50%. This provision should be exclusive of regular establishment charges.

(b) For special repairs, provisions may be made at the rate of 20% of the annual grants for normal operation and maintenance.

(c) Regular establishment required for maintenance of canals should be financed separately. Based on typical studies carried out by the Central Water Commission a provision at Rs.50/- per hectare of irrigated area may be made till more data become available from States.

(d) The States should also review and revise upwards their water rates with regular periodicity to ensure that the costs of operation and maintenance are met fully, and a return on capital investment of at least 1 per cent is realised.

3.83 We drew the attention of the Ministry of Irrigation to the fact that in 1978, the Seventh Finance Commission had, after consulting the Ministry, recommended that provisions for maintenance be made generally on a norm of Rs.50 per hectare of gross irrigated area, inclusive of the cost of regular establishment, and enquired the reasons for the large increase in the norm of maintenance now suggested. The Ministry of Irrigation explained that due to some misunderstanding it was conveyed to the Seventh Finance Commission that the norms suggested by the Ministry were inclusive of the expenditure on regular establishment while, in fact, the expenditure on regular establishment was meant to be in addition to the suggested norm of Rs.50 per hectare of irrigated area. Further, it was pointed out that the rate recommended by the Ministry to the Seventh Finance Commission "had a relation only to the level of expenditure which was being incurred at that time and corresponded to the level of maintenance that existed then. It was not linked to the requirements of the system to maintain it to the desired degree or standard."

3.84 We have considered all aspects of this matter. It would appear from the Note dated 2nd November, 1977 sent by the Department of Irrigation to the Seventh Finance Commission (vide Appendix 1.13 of the Report of the Seventh Finance Commission) that the norms suggested by that Department were not merely based on the level of expenditure then being incurred by the States. That Note showed that the Department considered that one of the main reasons for under-utilisation of irrigation poterntial was that the maintenance of irrigation and drainage systems was neglected. The Department had further mentioned that a Central Water Utilisation Team had found that the operation and maintenance budgets were grossly inadequate in many cases and the systems were gradually deteriorating. The Note also alludes to the emphasis laid by the World Bank on operation and maintenance strictly in accordance with sound engineering principles. Further, while collecting material from the States for this particular purpose, the irrigation project authorities had been requested to indicate the amount which they required for proper operation and maintenance. From this it would appear that the norms recommended by the Seventh Finance Commission, based on the aforesaid Note of the Department of Irrigation did reflect the needs of funds for proper maintenance.

3.85 The norms now suggested by the Ministry roughly work out to Rs.170 per hectare of irrigated area in the plains, and Rs.230 per hectare of irrigated area in the hilly areas. These seem to be quite high, even allowing for the increase in costs since 1976-77 on the basis of which the Department of Irrigation gave its note to the Seventh Finance Commission. The Ministry has furnished a statement of the "Estimated index for operation and maintenance charges (All India)" (Annexure III-18). On the basis of the trend increase in prices, the norm of Rs.50 per hectare of irrigated area fixed by the Seventh Finance Commission would now work out to about Rs.88 in 1983-84. Even if the costs of establishment and special repairs are added to the norms of the Seventh Finance Commission adjusted above, the amount would still be less than what has been proposed now.

3.86 As regards regular establishment, the sum of Rs.50 per hectare of irrigated area seems to be rather excessive when we consider the fact that in the case of roads and buildings, provision for regular establishment is being made at 16% of the provision for normal repairs.

3.87 Further, on the basis of the norms of maintenance now suggested by the Ministry of Irrigation a provision of Rs.512 crores would have to be made for all the States in 1983-84, as against which their actual expenditure in 1981-82 amounted to Rs.214 crores only. An increase in the maintenance provision of this order does not seem justified.

3.88 When the Seventh Conference of Irrigation Ministers recommended higher norms for maintenance it recommended at the same time that the States should raise their water rates so that the irrigation receipts not only met the full cost of maintenance but also gave a return of 1 per cent on the capital. Unfortunately, this position does not exist in most States as is apparent from Annexure III-19. The receipts fall far short of the maintenance expenditure in almost all States, and, therefore, a yield on the capital is yet a very far cry. We observe that even though expenditure on maintenance of irrigation works has risen substantially after the Seventh Finance Commission made its report, very few States have taken any step to raise their irrigation rates. Even where the rates have been increased, they are not commensurate with maintenance expenditure.

3.89 Keeping all these aspects in view, we have decided to provide a consolidated amount of Rs.100 per hectare of gross irrigated area for maintenance including normal repairs, special repairs and regular establishment. This is nearly double the norm adopted by the Seventh Finance Commission. We hope that this expenditure will be matched by water rates and other irrigation receipts.

3.90 In addition, we have provided funds at Rs.30 per hectare for the maintenance of the unutilised potential existing at the end of 1983-84.

We are very concerned at the extent of the unutilised potential, and we would urge the States, in the national interest, to bring this potential into use as expeditiously as possible. We have, therefore, assumed that in the States of Andhra Pradesh, Haryana, Karnataka, Kerala, Orissa, Punjab, Tamil Nadu and West Bengal, the unutilised potential in 1983-84 which is less than 10 per cent of the potential estimated to be created at the end of that year, will be fully utilised by the end of 1988-89. For Bihar, Madhya Pradesh, Rajasthan, Uttar Pradesh and Jammu & Kashmir, where the corresponding percentage of unutilised potential in 1983-84 varies from 11.8 per cent to 27.4 per cent, we have assumed that the unutilised potential will be reduced to 5 per cent by the end of 1988-89. In the other States, where the corresponding percentage of unutilised potential in 1983-84 varies from 33.3 per cent to 41.4 per cent, we have assumed that the unutilised potential at the end of 1988-89 will be reduced to 10 per cent.

3.91 The provisions for maintenance have been made by us on the basis of these norms.

3.92 For hill States these norms have been increased by 30 per cent to provide for the extra cost as compared to the cost in plains.

3.93 The provisions worked out on this basis are indicated in Annexure III - 20.

3.94 The provisions for maintenance expenditure thus made may, for some States, be less than the expenditure actually incurred in 1983-84. But at the same time, the receipts that we have taken note of on a normative basis may also be less than the actual receipts being realised in some States. We would only say that we have made provisions both for revenue receipts and maintenance expenditure on a normative basis. If in any State, it is found necessary to incur a larger expenditure for maintenance, it should also ensure that irrigation receipts are also increased so that there is no further burden on the budgetary resources of the States.

MAINTENANCE OF FLOOD CONTROL WORKS

3.95 The Ministry of Irrigation, Government of India set up an Expert Committee in 1982 under the Chairmanship of the Member (Flood), Central Water Commission to suggest norms for maintenance of flood control works. This Expert Committee gave its report in December, 1982. During our discussions with the Ministry, the norms recommended by this Committee were placed before us for consideration. They are as follows :

"Embankments

Rs. 12,000 to Rs. 17,000 per km. in the first three years after construction and Rs. 9,000 to Rs. 12,000 per km. in subsequent years, the lower rates to be adopted for embankments upto a height of 3 metres (10 ft.). For armoured embankments, lower rate to be adopted.

In case of embankments situated in areas of heavy monsoon rainfall of the order of 1500 mm. or more, an increase of 10% in the above rates is recommended.

In case of embankments along rivers with a flood discharge of 10,000 cumecs or more an increase of 30-40 per cent is recommended.

Drainage Channels

Discharge upto 5 cumecs	Rs.2000 per km
Discharge between 5 to 15 cumecs	Rs.2500 per km
Discharge above 15 cumecs	Rs.5000 per km

The above rates will be applicable for non-tidal channels. In case of channels, in tidal areas, the above rates will be upgraded by 50 per cent.

River training and Bank protection works including sea walls

5 per cent of updated capital cost in the first three years and 3 per cent in subsequent years.

In case of temporary and light works such as bed bars, timber dempeners, porcupines, "Salballah" screens/spurs a rate of 10 per cent is recommended.

The recommended rate for 1982-83 will be increased for subsequent years at 10 per cent per year or the actual yearly escalation, in case of embankments and drainage channels.

The recommended rates are exclusive of all regular establishment charges.

3.96 Inadequacy of data as to the length, height and age of the embankments and the discharge capacities of the drainage channels has rendered it difficult for us to assess the needs of the States on the basis of these norms. The recommended rates for river training works, bank protection works, and seawalls are in terms of percentages of the capital cost of these assets. Application of these rates also posed problems for want of data. Therefore, we have projected the actual expenditure incurred by each State on maintenance of flood protection works in 1981-82 at a growth rate of 10 per cent per annum to arrive at the estimated requirement for 1983-84. The sums provided for each State on this basis during the forecast period can be seen at Annexure III-21.

MAINTENANCE OF MINOR IRRIGATION WORKS

3.97 Due to data problems we could not adopt a normative approach in making provisions for the maintenance of minor irrigation. We have, therefore, projected the actual expenditure of these States in the year 1981-82 at the rate of 10 per cent to arrive at the estimated requirements for 1983-84, as has been done in the case of flood control works. This amount has been projected for five years of the forecast period.

MAINTENANCE OF ROADS

3.98 We had requested the States to furnish information about the estimated lengths of various types of roads as at the end of 1983-84. However, except eight States, the data furnished by other States relates to earlier years. For such States, we have estimated, on the basis of past trends, the likely lengths of roads as at the end of 1983-84 for which maintenance provisions would have to be made. For this purpose, we have referred to the "Basic Road Statistics of India" published by the Transport Research Division of the Ministry of Shipping and Transport. We also had detailed discussions with that Ministry about the provisions required to be made for the maintenance of roads.

3.99 We first deal with the maintenance of highways. The Ministry of Shipping and Transport has recommended that the norms for maintenance of State highways prescribed by the 1968 Expert Committee should be followed by all States, and the requirement of funds should be worked out by applying the currently applicable costs of materials and wages to the physical specifications prescribed in these norms. Based on these recommendations, the Ministry has worked out the norms in financial terms which have been accepted by us.

3.100 For other State roads, the Ministry has recommended the acceptance of the norms prescribed by the Malhotra Committee. This Committee was set up as a result of the recommendation of the Conference of the Chief Engineers held in 1977 and it gave its report in 1978. For most of the maintenance needs, the recommendations of this Committee specify the physical quantities of material and the manpower required for various types of roads. We, therefore, requested the Director General, Road Development, Ministry of Shipping and Transport to convert these requirements into financial terms. The monetary norms worked outby him have been accepted by us. In Assam, gravel roads occupy an important place in the State's road network. However, the Malhotra Committee did not specifically indicate the norms for maintenance of such roads. The Ministry of Shipping and Transport, whom we consulted, have advised that the norms applicable to water-bound Macadam (WBM) road may be adopted for gravel roads also. We have accepted this recommendation, and provisions for such roads in Assam have been made on this basis.

3.101 The norms allowed for State highways and other roads are indicated in Annexure III-22. These are exclusive of establishment charges, and charges for tools and plants. Provisions for these items have been added at the rate of 16 per cent and 4 per cent of the norm respectively.

3.102 We have also examined the requirements for the roads maintained by local bodies. The Seventh Finance Commission recognised the economic importance of these roads and the need for their maintenance requirements on par with other State roads. It provided for a major part of the maintenance requirement in the forecast and assumed that the balance would be raised by local bodies. The finances of local bodies have come under severe strain and we think it might not be possible for them to afford even the limited sums for the maintenance of roads which the Seventh Finance Commission had expected of them. We have, therefore, made full provisions for the maintenance of such roads on the same norms as for State roads.

3.103 The States have made a strong plea for provisions for the maintenance of village earthen roads also. On examining the data regarding these roads, it appeared that large lengths of village kacha tracks have also been included. This, and, the other infirmities in the data have precluded us from considering whether to make provisions for such roads.

3.104 Roads are a basic infrastructure for all developmental activities, and, more so in States which are not well served by railways. Therefore, the importance of maintenance of roads does not need to be streassed. The Union Ministry of Shipping and Transport urged that, at least, the most important aspect of maintenance viz. surface renewals, should be monitored. The sums allocated for maintenance of roads should , it was suggested, be broken up into three components, i.e. 35 per cent for ordinary repairs, 50 per cent for surface renewals and 15 per cent for special repairs and minor flood damage repairs. The Ministry felt that the sums allocated for surface renewals could be monitored, as such renewals have to be carried out periodically. We think there is merit in this suggestion. However, we have refrained from earmarking the provisions for the purposes as suggested, as we hope that the States themselves will take necessary action to ensure proper utilisation of the provisions for maintenance.

3.105 When we worked out the provisions for maintenance in 1984-85 on the basis of the norms indicated above, we found that in the case of Assam, Bihar, Haryana, Karnataka, Maharashtra, Manipur, Punjab, Rajasthan and Tamil Nadu they were disproportionately larger than the estimated current levels of expenditure. For these States, the provisions for 1984-85 have been restricted to twice the estimated requirement for the year 1983-84, which has been assessed by assuming a rate of growth of 10 per cent over the actuals of 1981-82. In Nagaland, however, the provision we worked out for 1984-85 was less than the actual expenditure in 1982-83. Therefore, we have allowed a higher provision based on the prevailing levels of expenditure.

The provisions for maintenace in 1984-85 and for the five years have been shown in Annexure III-23. These include a provision of Rs. 81 lakhs for the maintenance of the Old Hindustan-Tibet Road, in Himachal Pradesh during the forecast period.

MAINTENANCE OF BUILDINGS

3.106 Both the Sixth and Seventh Finance Commissions allowed expenditure for maintenance of buildings on the basis of the norms used by the Central Public Works Department for the maintenance of Central Government buildings. From 1978, the Central Public Works Department switched over to the system of assessing maintenance requirements on norms based on plinth area, from the earlier system based on percentage of capital costs.

3.107 We had requested the States for information regarding the total estimated plinth area of residential and non-residential buildings as at the end of 1983-84, and asked them to indicate separately the plinth area of medical and educational buildings. From the information received, we notice that Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Karnataka, Kerala, Manipur, Orissa, Punjab, Rajasthan and West Bengal still use capital cost as the basis for making maintenance provisions, while Andhra Pradesh, Assam, Madhya Pradesh, Uttar Pradesh, Maharashtra, Meghalaya, Tamil Nadu and Tripura use plinth area for this purpose. All States have requested for a substantial enhancement in the maintenance provisions. The seven hill States have stated that due to the higher costs of materials in hill areas, their unit requirements for maintenance would be higher than those of the States in the plains.

3.108 We obtained the views of the Ministry of Works and Housing on the issue of maintenance, and also collected information regarding the norms followed by the Central Public Works Department for maintenance of Central Government buildings. These norms are shown at Annexure III-24. As the Centre owns buildings throughout the country, we think that it will be proper to make provisions for maintenance of State Government buildings on the same norms as those followed by the Centre keeping in view, however, the levels of expenditure being currently incurred.

3.109 To this end, we have updated the data furnished by the States in regard to plinth area of buildings, on the basis of past trends, so as to arrive at the likely plinth area in 1983-84 for which maintenance expenditure has to be provided in the forecast period. The States of West Bengal, Himachal Pradesh, Jammu & Kashmir, Punjab, Rajasthan and Tripura, could not provide us any data on the plinth area of buildings. They had, however, furnished information to us about the capital cost of the buildings. Using this data and certain norms we have been able to compute their requirements on a plinth area basis.

3.110 We have accepted the norms currently used for the maintenance of Central Government buildings (vide Annexure III-24) for making provisions in the forecast period for maintenance of buildings by States. We agree that the unit cost of maintenance of buildings in hill States would be higher than elsewhere. Therefore, in accordance with the recommendations made by the Central Public Works Department, we have made suitable higher provisions for buildings in hill areas.

3.111 Provision at the rate of 16 per cent and 4 per cent for establishment and tools and plants have also been made in all cases.

3.112 The norms of the Central Public Works Department for special repairs are related to the age of the buildings. Buildings have been classified into 3 age groups, i.e. 0 to 20 years, 20 to 40 years and above 40 years. As we did not have full information on the age of buildings we have made provisions for special repairs on the norms applicable to buildings in the age group of 20 to 40 years as we think that this would be a fair average, and should meet their requirements.

3.113 When the provisions for maintenance in 1984-85 according to the above norms were worked out, we noticed that they were disproportionately larger than the estimated expenditure in 1983-84 for the States of Madhya Pradesh, Tamil Nadu, Himachal Pradesh and Jammu & Kashmir. We have, therefore, restricated the provisions for 1984-85 in the case of these States to twice the requirements assessed for the year 1983-84. In the case of Assam, Bihar and Meghalaya the actual expenditure in 1981-82 was higher than the provisions for 1984-85 calculated by us. For these States, we have made provisions on the basis of the existing levels of expenditure. The provisions made for 1984-85 and the five years 1984-85 to 1988-89 are shown in Annexure III-25.

MONITORING OF PROVISIONS MADE FOR MAINTENANCE OF CAPITAL ASSETS

3.114 The President's Order specifically requires us to indicate the manner in which the maintenance expenditure for which we have made provisions could be monitored. The Seventh Finance Commission was also required to make recommendations on this subject. It had observed that physical performance objectives cannot be laid down in respect of the provisions for maintenance of roads and buildings, irrigation and flood control works, etc. It was, therefore, of the view that the provisions made for maintenance could be discussed and reviewed regularly during the Annual Plan discussions, and accordingly suggested that the Planning Commission may, in consultation with the States, evolve a suitable procedure for monitoring the adequate maintenance of capital assets and other schemes. The Planning Commission indicated to us that detailed monitoring would be difficult. They, however, clarified that during the course of Annual Plan discussions adequate provisions for maintenance are made while working out States' resources keeping in view the norms recommended by the Finance Commission which are treated as the minimum provisions needed for maintenance.

3.115 The need for monitoring the expenditure on maintenance of capital assets arises mainly due to two reasons. Firstly, these capital assets have been created at great cost and they cannot be allowed to be neglected as that would be a waste of the outlays incurred and it would be difficult to find adequate resources for their replacement. Such neglect should not, therefore, be allowed to take place. Secondly, many State Governments seem to prefer creation of new assets to proper maintenance of assets already created. In the process, resources for the Plan are found at the cost of maintenance of the capital assets already created by diversion of the maintenance provisions meant for the latter. Such diversion should be avoided.

3.116 We are of the view that the State Governments must accept it as a matter of policy that proper maintenance of capital assets already created in order to preserve them for their full life is equally, if not more, important than creating new assets. In order to ensure that this policy is strictly given effect to, we would suggest that there should be in every State a high power committee consisting of the State Chief Secretary, Finance Secretary, Planning Secretary, Secretaries to Government in the Irrigation and Public Works Departments and the concerned Chief Engineers to review the manner in which provisions for maintenance are being made in the budget and their utilisation. We would also suggest that a statement be included in the Budget documents showing the provisions made in the Budget and the actual utilisation of the provisions made in the last Budget. It will also be necessary for the Planning Commission and the Union Finance Ministry to review annually the manner in which the provisions for maintenance are being made and utilised by the States.

3.117 We have noticed that the accounts as presently maintained and compiled do not clearly show the provisions for maintenance of roads, buildings, irrigation schemes, etc. at one place except to some extent under the Major Head 259. Even in the latter case, a clear picture is not available becasue of 'Suspense' transactions relating mainly to Stores purchases, sometimes, together with the transactions under 'Suspense', even a negative figure of expenditure is shown. Again, under the major head relating to Roads and Irrigation, the provisions for maintenance are spread over various projects/schemes and it is difficult to obtain a consolidated picture. As this has been creating difficulties for us, and to facilitate the monitoring arrangements, we would suggest that the accounting of maintenance expenditure under each of the relevant major heads may be reviewed by the Union Ministry of Finance in consultation with Comptroller and Auditor General of India and suitable procedures devised to enable all concerned to obtain easily a complete picture of the expenditure being incurred on maintenance under that head.

COMMITTED EXPENDITURE IN RESPECT OF PLAN SCHEMES

3.118 Our terms of reference require us, inter alia, to make provisions for the maintenance of Plan schemes completed by the end of 1983-84.

3.119 We requested States to furnish us a forecast of their requirements for maintenance of (i) Plan schemes completed by the end of 1983-84; and (ii) Plan schemes completed by the end of 1984-85 i.e., at the end of the Sixth Plan period. The need for making provisions for these requirements in 1984-85 was considered by us when we presented our Interim Report to the President. We were aware that the schemes initiated in the earlier years and which would get completed at the end of 1983-84 would, according to the prevailing practice, continue as Plan schemes in 1984-85 also, and be included in 1984-85 Annual Plan. We, therefore, thought that the provisions for the maintenance of such completed schemes would be required only from the financial year 1985-86 and, therefore, we made no provisions on this account for the year 1984-85.

3.120 The majority of the Commission comprising Shri Y.B. Chavan, Dr. C.H. Hanumantha Rao and Shri A.R. Shirali have felt it appropriate to review the above decision. On further consideration of the President's Order, they have deemed it necessary to include in the projections of revenue expenditure for 1984-85 provisions for maintenance of Plan schemes completed by 1983-84. On the other hand, Shri Justice T.P.S. Chawla and Shri G.C. Baveja are of the view that provisions for these schemes should, according to the existing practice, be included in the Annual Plan for 1984-85, and making provisions therefor again on the non-Plan side is unnecessary. Their view is set out in detail in a minute of dissent.

3.121 According to the majority, a plain reading of para 5 (v) of the President's Order suggests that the Commission is required to make provisions for maintenance of Plan schemes completed by 1983-84 in 1984-85 and onwards. The rationale of this requirement seems to be that 1983-84 being the base year for projection of revenue expenditure into the forecast period, maintenance provisions for Plan schemes completed by 1983-84 should be included in the expenditure forecasts for 1984-85 and onwards. By making provisions for maintenance of Plan schemes completed by 1983-84 in the projections of revenue expenditure in 1984-85, the Commission would only be giving effect to the requirements of the President's Order, the rationale for which has been stated above. The majority, however, expects that the Planning Commission as well as the Government of India would take this into account and make such adjustments for 1984-85 as may be necessary,

3.122 In making provisions for committed expenditure, we have taken note of the estimated requirements furnished to us by the State Governments and the views of the Planning Commission and the Central Ministries respecting to committed expenditure requirements for Centrally Sponsored Schemes.

3.123 The Seventh Finance Commission noted that the estimates of committed expenditure, as a percentage of the Plan Outlay on revenue account in 1978-79 varied considerably as between States. Keeping this in view, that Commission allowed for committed liabilities as 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, the States' estimates were revised upwards to 30 per cent. We are faced with the same problem. In respect of the State Plan Schemes completed by the end of 1983-84, the maintenance expenditure requirements estimated by States for 1984-85 varies from 29.8 per cent to 88.9 per cent of the Plan provisions on the revenue account in 1983-84. The corresponding percentage in respect of Central Sector and Centrally Sponsored Schemes varies between 13 per cent and 138.9 per cent.

3.124 We sought information from the States about the actual expenditure incurred in 1979-80 on the maintenance of the Plan schemes completed at the end of 1978-79. From the information received from 12 States the following facts came to light:

(a) The revenue component of the State Plan in 1978-79 under the heads 277-Education, 280-Medical and 288-Social Security and Welfare accounted for 26.48 per cent of the revenue component of the total Plan, the balance of 73.52 per cent being accounted for by all other heads.

(b) The maintenance expenditure incurred in 1979-80 as a percentage of the revenue component of the Plan in 1978-79 in respect of the three heads mentioned in (a) above was 62.81 per cent.

(c) The percentage corresponding to (b), in regard to the residual Plan schemes was 17.0 per cent.

(d) The total maintenance expenditure in 1979-80 as a percentage of the revenue component of the total Plan outlay in 1978-79 was 29.19 per cent.

3.125 On the basis of the above, it appears to us that a provision of 30 per cent of the total outlay on revenue account in the year 1983-84 would cover the maintenance expenditure of schemes completed upto 1983-84. As it was noticed that this would not be sufficient to maintain the mid-day meal scheme which has been taken in Andhra Pradesh as a part of the 1983-84 State Plan, the maintenance provisions have been augmented suitably. The provisions so included in 1984-85 are shown in Annexure III-26.

3.126 In regard to Centrally Sponsored schemes, we obtained the views of the Planning Commission and the Central Ministries concerned with this matter. After considering their views, we have made provisions for all States for the expenditure on account of the maintenance of the schemes of post-Matric Scholarships to Scheduled Castes and Scheduled Tribes, pre-Matric Scholarships to Scheduled Caste children, and for the maintenance of assets created under the National Rural Employment Programme and the Rural Landless Employment Guarantee Scheme.

3.127 According to the majority, the terms of reference make no mention of the requirements for maintenance of Plan schemes likely to be completed by the end of 1984-85. However, they have considered on merit the question of including provision on this account in the requirements of the States in the forecast period, keeping in view the fact that full details of the Annual Plan for 1984-85 are not yet available. The reassessment of the States' forecast in respect of the last four years of the period covered by our Report i.e. 1985-86 to 1988-89, excludes any projections of revenue receipts and revenue expenditure on account of fresh resource mobilisation in 1984-85 and additional committed liability that would result consequent upon the implementation of the Annual Plan for that year. Having examined all the relevant aspects of the question, it is broadly considered that the additional non-Plan liability which would arise during 1985-89 consequent upon the completion of new Plan schemes in 1984-85 i.e. over and above the provisions already made for schemes completed by 1983-84 would, by and large, be more than offset by additional revenue which the States are expected to raise on the basis of the targets agreed to by the States for the Annual Plan 1984-85. It is, however, likely that in the case of a few deficit States, the expenditure on account of additional committed liability which would become a charge on their non-Plan account from 1985-86 onwards, would be in excess of the additional revenue which they are expected to raise on the basis of the targets agreed to for the Annual Plan 1984-85. We think, that in these cases, such excess may be computed by the Ministry of Finance and the Planning Commission and be covered by additional grants-in-aid during each of the four year 1985-86 to 1988-89 as recommended by us separately in the Chapter on Grants-in-aid.

3.128 Shri Justice T.P.S. Chawla and Shri G.C. Baveja are of the view that the provisions made by the majority of the Commission for maintenance of Plan schemes during 1984-85 in respect of schemes completed in 1983-84 is totally contrary to the procedure adopted by the Planning Commission. Expenditure on maintenance of Sixth Plan Schemes forms part of annual Plans until the Sixth Plan itself is over, and can by no process of reasoning form part of non-Plan expenditure during 1984-85 which is the last year of the Sixth Plan. Therefore, they are of the view that for the purpose of maintenance of Plan schemes which have been completed in 1983-84, provisions need be made for the first time from 1985-86 only. For almost all the States, their Plans for 1984-85 have already been settled by the Planning Commission. It is not, therefore, clear as to what the majority want to convey when they suggest that the Planning Commission as well as the Government of India would take this into account and make such adjustment for 1984-85 as may be necessary.

3.129 They also feel that exclusion of provisions for maintenance of schemes completed in 1984-85 from the forecast for the period commencing from the Seventh Plan viz. 1985-86 onwards is not desirable. They wish that instead of leaving it to the Ministry of Finance and Planning Commission, this Commission should have worked out the amounts of grants-in-aid due to deficit State on this account. The reason of the minority are set out in their minute of dissent.

3.130 As a result of the reassessment of the State forecasts on the lines indicated in this Chapter, sixteen States have deficits aggregating to Rs.18,484.83 crores, and six States surpluses amounting to Rs.8,063.94 crores, on the non-Plan revenue account over the forecast period, without taking into account devolution of taxes. State-wise details of such surpluses/deficits are shown in Annexures III-27(i) to III-27(xxii).