

EXECUTIVE SUMMARY OF THE PROPOSAL TO THE 13TH FINANCE COMMISSION

(i) In this Memorandum submitted to the Thirteenth Finance Commission (THFC), the Himachal Pradesh Government has projected the State's achievements in Social Sector Service delivery and its special problems as a Hill State. This memorandum also projects the State's trends of Revenue Receipts, Revenue Expenditure and other committed liabilities for the consideration of the Commission.

(ii) While the State has made remarkable progress in several sectors, especially in the field of Human Capital Resources, it faces the daunting financial task of consolidating these gains. Given the challenge of cost disadvantages due to difficult topography and problems in maintenance of existing infrastructure, there are large financial costs involved in increasing access to the very difficult and harsh terrain of the State. Attracting new investment in Himachal Pradesh shall also require a large amount of investment in basic infrastructure of roads, railways and airport connectivity. All this would need to come through Central Assistance due to the weak resources of this sparsely populated State.

(iii) In our Memorandum, in Chapter-2, we have stated that Himachal Pradesh faces all the constraints and disadvantages faced by the Special Category Hill States. The cost of living is high, the scope of attracting private investment is very limited and the infrastructure base including Transport, Railways and Industry (except in certain border areas of the State) continues to be weak. The Commission is requested to take into account the facts of dispersed population, remoteness, harsh climate, limited tax base and high cost parameters while making an assessment of the financial needs of this State. Himachal Pradesh is already facing an acute debt situation and future

fiscal stress due to interest payments that have to be paid to service its past high debt. Thirteenth Finance Commission is urged to make a paradigm shift in the resource transfers to Himachal Pradesh, to help it in containing the past "*business as usual*" model of incurring high debt to meet its developmental requirements. This paradigm shift is all the more necessary for the 2010-2015 period, to meet the coming financial shock of the new pay revisions.

(iv) In assessing the Revenue Receipts and Revenue Expenditure of the State, the Commission is requested to kindly note that Himachal Pradesh has made vigorous progress in generating its own resources as is evident from its high per capita tax revenue and the increase in its Non-Tax Revenues. The Own Tax Revenue per capita of Himachal Pradesh is higher than the all India average. In the case of Non Tax Revenue per capita, it is more than two and a half times higher than the all India average.

(v) The State Government earnestly requests the Commission to make an objective and realistic assessment of the State's Revenue Expenditure Liability trends, **especially on account of its Salary, Pension and Interest Payment burdens**. The salary and pension expenditure is linked to the Union Government in terms of dearness allowance, dearness pay merger and 6th Pay Commission recommendations. These are committed liabilities on which the Government of Himachal Pradesh has very little scope for expenditure compression. A 5 to 6% increase in salaries and 10% increase in pensions was allowed by the 12th Finance Commission (TFC). Given the inflation trends, such an assessment of Revenue Expenditure on these two items has turned out to be unrealistic.

(vi) The Thirteenth Finance Commission is thus requested to recommend full neutralization of the 6th Central Pay Commission impact on

annual cash outflow of the States w.e.f. 1.1.2006, till the year 2014-15 including expected inflation trend of 6% to 8%. This is especially relevant for Special Category States whose financial health vitally depends on a realistic appraisal of their trends in Revenue Expenditure especially on the components of salary, pension and interest payments.

(vii) The Commission is thus also requested to take into account the actual interest payments of Himachal Pradesh because of its high debt stress. Chronically revenue deficit and debt stressed States like Himachal Pradesh may be sympathetically considered for a special debt relief package which enables them to come out of the debt trap.

(viii) In view of the Finance Commission's mandate as per Para-6(viii) of the Terms of Reference pertaining to the need to promote sustainable development, Himachal Pradesh has requested for a large dispensation to States with considerable forest area. The Commission is requested to kindly take note of the submissions of the State on this account, because of the benefits of our forest ecology for the downstream States.

(ix) The Commission is also requested to consider favourably other pleas of the State Government for higher maintenance grants for roads, buildings, irrigation and water supply schemes, adequate provision for transfer of committed plan liabilities and equalization Grants keeping in view the high cost of delivery of essential services in Himachal Pradesh.

(x) Successive Finance Commissions have stressed the need for States to become financially self-reliant to generate Revenue Surplus so as to accelerate Capital formation. Himachal Pradesh has been a chronically Revenue Deficit State for reasons already outlined in this Memorandum. The

Commission is requested to strongly support and recommend the State's case before the Union Government on the issues of levy of Generation Tax on power produced in the State, 12% free power royalty on pre 1990 commissioned Hydel Projects and the State's claim in Bhakra Nangal and Beas Projects. The State Government also requests the Commission that in case the Union Government does not adequately compensate and/or allows the imposition of the proposed generation tax, the revenues thereof may be suitably incorporated in the revenue deficit grants of Himachal Pradesh.

(xi) The Commission is requested to increase the all States share of Central Taxes to a substantial extent to redress the vertical imbalance between the Centre and the States. The States' socio-economic responsibilities have increased manifold and they can fulfill their commitments only if their share is progressively increased by successive Finance Commissions, to 70% over the long term. The Commission is requested to take steps in this direction in the overall interest of the nation by announcing its award for a 50% each sharing between the Centre and the States. This 50% sharing should include any surcharges imposed by the Union Government except for a surcharge for meeting a major national calamity or a war.

(xii) While determining the Horizontal transfer of State's share in Central Taxes, the Commission is requested to increase the share of Himachal Pradesh to at least 2% of all States share of Central Taxes so that it can share in the buoyancy of revenues and decrease its dependence on Article 275 grants.

(xiii) Given the recurrence of various national calamities in the Himalayan region, the State Government requests the Finance Commission to

double the amount under the Calamity Relief Fund. This fund should also be a 100% centrally sponsored fund for the Special Category States.

(xiv) The State Government is happy to note that the Union Government has asked the Commission to suggest "*the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and municipalities in the State on the basis of the recommendations made by the Finance Commission of the State*". The State Government has already decided to devolve financial resources to the Local Bodies as per the recommendations of its 3rd State Finance Commission award for the 2007-2012 period. In view of the continuing mismatch between the forecast periods of the State Finance Commission and the Union Finance Commission, there is a shortfall in devolution of Resources to the local bodies as per recommendation of the 12th Finance Commission for 2007-2010 period. The Commission is requested to take this factor into account while making its recommendation. The Commission has also been requested to consider suitable specific grants for water supply schemes in PRIs and grants for solid waste management in Urban Local Bodies.

(xv) The Commission is also requested to favourably consider special grants for three schemes that is Shimla region gravity Water Supply Scheme, State Government liabilities for ongoing Bhanupalli-Bilaspur railway line and a new airport catering for bigger aircraft, to boost tourism in Himachal.

(xvi) For the 2010-2015 period, the Government has projected its Revenue Receipts and Expenditure on a realistic basis with a Compound Annual Growth Rate (CAGR) of 11.57% in the case of Revenue Receipts and 9.015% for Revenue Expenditure. The State's Own Receipts have been projected at Rs. 27,398 crore while the Total Revenue Expenditure is estimated at Rs.

83,384 crore leaving a pre-devolution Revenue Deficit of Rs. **55,986 crore** for 2010-2015. The State Government requests the Thirteenth Finance Commission to ensure that the year wise revenue gaps are met by an appropriate combination of share in Central taxes and grants.

(xvii) In all, in this memorandum, a request has been made to the Commission for recommending the following awards for the 2010-15 period:

		<u>(Rs. crore)</u>
a)	Pre-Devolution Revenue Deficit Amount	55,986
b)	Environment Protection Grant	10,523
c)	Grants for Local Bodies	1,191
d)	Special Purpose Grants	1,677
	Total	69,377

CHAPTER-1

AN INTRODUCTION TO THE DEVELOPMENT STATUS OF HIMACHAL PRADESH

1.1 Soon after independence, the Central government took the decision to integrate all the Hill States of erstwhile East Punjab into a single unit to be administered by the Government of India through a Chief Commissioner. By merger of thirty one small and big Hill principalities, Himachal Pradesh came into existence as a Part 'C' State on 15th April, 1948. The decision of the Central Government to create Himachal Pradesh was guided by political considerations rather than any financial factors for creating a viable economic unit.

1.2 The State of Himachal Pradesh has undergone quite a few administrative changes over the years. The neighbouring princely State of Bilaspur was merged with Himachal Pradesh in 1954. On the recommendations of the States' Reorganization Commission, the categorization of States as Part 'A', 'B' and 'C' etc. was abolished and Himachal Pradesh became a Union Territory in 1956. A new separate State of Haryana was carved out after reorganizing Punjab on 1st November, 1966 and simultaneously Kullu, Kangra, Shimla and some parts of Hoshiarpur and Gurudaspur districts were merged into Himachal Pradesh. It was on 25th January, 1971 that Himachal Pradesh became the 18th State of Union of India.

Geographic Profile:

1.3 Himachal Pradesh is predominantly a mountainous State located in North - West India. It shares an international border with China. The State has a deeply dissected topography - high mountain ranges interspersed with deep gorges and valleys. The climate varies from semi tropical in lower hills, to

semi arctic in the cold deserts of Spiti and Kinnaur. Altitude ranges from 350 meters to 6975 meters above mean sea level. Annual precipitation varies from one of the highest levels recorded in Kangra valley to the scantiest levels in the cold deserts of Spiti and Kinnaur. Such diverse geo-climatic features can not have a uniform development strategy.

1.4 Out of the total two dimensional geographical area of 55,673 square kilometers, 14,353 square kilometers (25.78%) is actual forest cover, whereas area classified under forests including alpine meadows and above tree line constitutes 67% of the total geographical area. Himachal Pradesh has five major perennial rivers viz. Sutlej, Yamuna, Ravi, Beas and Chenab.

Administrative Units:

1.5 Contrary to the practice in many other States, there has not been any addition to the districts and any alteration in the boundaries of districts since 1st September, 1972. However, there have been changes in the number of sub-divisions and sub tehsils within the districts. There have also been alterations in the boundaries of these units. Twelve districts of the State have been divided into 75 development blocks and 3243 Panchayats. The PRI's in all the 12 districts , that is 12 Zila Parishads, Panchayat Samitis in 75 Development Blocks, and Gram Panchayats in 3243 Panchayats are in place. One Municipal Corporation in Shimla, 20 municipal Councils and 28 Nagar Panchayats, besides 7 Cantonment Boards, represent Urban Local Bodies in the State.

Demographic Profile:

1.6 Population of Himachal Pradesh is 60.77 lakh persons as per the Census report for the year 2001. 90.2% of the total population inhabits 17,495

villages in the rural areas of the State. These villages are sparsely distributed across the State as can be easily inferred from the fact that the density of persons per square kilometer in the remote and tribal area of Lahaul & Spiti is only 2 persons per square kilometer. However, State has densely populated pockets also. Hamirpur district has population density of 369 persons per square kilometer, whereas population density for the whole State is 109 persons per square kilometer. The decennial growth rate during the decade between 1991 and 2001 was 17.54%. Sex ratio has recorded a decline from 976 in 1991 to 968 in 2001. The decline is more pronounced in the age group of 0-6 years (951 in 1991 to 896 in 2001) and is actually a challenge for the State government. 24.72% of State's population comprises of Scheduled Caste population and 4.02% of its population is those of Scheduled Tribes.

Human Development:

1.7 The achievements made by Himachal Pradesh in this field in general, and in the areas of health and education in particular, have caught attention of the social researchers and the planners at national and global levels. Table 1.1 below gives a broad picture of the Education and Health Infrastructure in the State.

Table 1.1: Government Health and Educational Institutions in the State (as on 31st March, 2007)

A. Health Institutions		
1.	Hospitals	117
2.	PHCs/CHCs/RH/SHCs	514
3.	Allopathic Dispensaries	40
4.	Ayurvedic/Homeopathy/Unani Dispensaries	1122
5.	Health Sub Centres	2071
6.	Dental College	1
B. Educational Institutions		
1.	Primary Schools	10607
2.	Middle Schools	2168
3.	High Schools	860
4.	Senior Secondary Schools	990
5.	Colleges	74

Source: Economics and Statistics Department, H.P.

1.8 Himachal Pradesh has made giant strides in providing education to its population. The success story of educational and literacy revolution in Himachal Pradesh is widely known. Recognition has come from Nobel Laureate Amartya Sen, the World Bank, the PROBE report and also from independent media like "India Today" which does annual ranking of the States with respect to the achievements made by them in various fields. Literacy has nearly doubled from 42.5% to 76.5% in a period of two decades since 1981. Progress made in achieving high female literacy rates is also impressive. Female literacy has more than doubled from 31.46% in 1981 to 67.4% in 2001. The challenge now is to preserve the gains made and to provide adequate teaching staff in the educational institutions and also provide for quality improvement.

1.9 The State has an extensive network of health care institutions. Although, there has been considerable expansion in the health care services, yet, some gaps still remain to be filled to cater to the sparsely dispersed population of the State. Achievements of the State with regard to critical health indicators are higher than the national averages. The birth rate is 18.8, death rate is 6.8 and IMR is 50 in 2006 as compared to the national averages which are 23.5, 7.5 and 57 respectively. Life Expectancy at Birth (2000-2004) is 66.5 years compared to the national average of 63.0 years. Low weight at birth and relatively lower percentage of institutional deliveries still remain critical areas.

1.10 Himachal Pradesh is one of the few States of the country where gender equality is an integral part of the social ethos as well as the overall development strategy. Female literacy is well above the national level and women employment is much higher than most States of the country. However, sudden drop in sex ratio in the age group of 0-6 years between 1991 and 2001 has bewildered the social scientists and the planners alike.

Economic Profile of the State:

1.11 State's economy grew at an average annual rate higher than the national average from Seventh Five Year Plan onwards. Eighth Plan and Ninth Plan recorded average annual growth rate of 6.3% and 6.4%, respectively as against the national averages of 6.2% and 5.6%. However, Tenth Five Year Plan registered an average annual growth rate of 7.6% which is lower than the national average of 7.8%. Slippages in the actualization of power generation targets, relatively longer gestation period involved in setting up and operationalising new industrial projects and slowing down of agriculture sector during the last two years of the Tenth Five Year Plan, have resulted in lowering of growth rate during the Tenth Five Year Plan. The growth process in Himachal Pradesh is accompanied by structural changes in the State's economy as is summarized in the table given below.

Table 1.2: Percentage Contribution of Sectoral State Domestic Product

Year	Primary Sector	Secondary Sector	Tertiary Sector
1980-81	50.35	18.69	30.96
1990-91	35.1	26.5	38.4
2000-01	25.25	35.77	38.98
2003-04	25.07	36.04	68.89
2006-07	21.57	40.64	37.79
2007-08 (Adv. Est)	21.52	41.89	36.59

Source: Economic Survey 2007-08, Himachal Pradesh.

1.12 Data in the above table indicates the structural transition that the State's economy has undergone since 1980s. The contribution of the Primary sector in the State Domestic Product has declined and Secondary and Tertiary Sectors are now competing with each other for dominant share of the economy. However, the very fact that about 57% of the main workers are either cultivators or are agricultural labourers (Census 2001), indicates the existence of low productivity per worker in the agriculture sector. Possible

reasons for low productivity in agriculture sector are: (a) Geographic features of the state do not support large size holdings - average size of the holdings in the State is just 1.07 hectares; (b) steep slopes and rugged terrain are not very conducive for providing low cost irrigation facilities; (c) relatively weak market linkages of the farm operations because of large distances to the markets for buying necessary inputs and also for disposing off marketable surplus which adds to the transportation costs.

1.13 The Agriculture sector has several challenges. The average holding size is about 1.07 hectares, which is 80% of the national average holding size. Over 92% of holdings are classified as small or marginal. Crop yields are constrained by low per hectare fertilizer consumption that is half of national average. The average yield of most food crops is lower than national averages. Irrigation facilities are particularly underdeveloped, with more than 77% of the net sown area in the State being un-irrigated, compared to 61% at the All India level. Clearly, the Government has to intervene to fill critical gaps in accelerating the pace of agricultural development.

1.14 Industrial activity in Himachal Pradesh is largely concentrated along the area bordering adjoining States of Punjab, Haryana and Uttar Pradesh for obvious reason of better market accessibility. There is very little private investment in the interior areas of the State and this calls for appropriate interventions by the Finance Commission, Union Government and the State government.

Infrastructure in the State:

1.15 With the rapid growth of State's economy in the recent years, the urgency of removing infrastructure bottlenecks has increased. Traditionally, power, roads and telecommunications (expansion of railways in Himachal Pradesh in the past had not been a priority with the Central Government) have been evaluated as the available stock of infrastructure. However, with the reorientation of the development strategy with the tilt towards 'inclusive growth', infrastructure in the area of education, basic health care services and irrigation facilities is also being enumerated while taking stock of the existing infrastructure in the State.

1.16 Expansion of infrastructure in the provision of basic health care services has already been discussed in the earlier paras. The State has already achieved impressive expansion in infrastructure facilities such as electrification, banking, post office facilities and teledensity. Practically all the villages of the State are electrified. Per capita consumption of electricity in the State is 831 kWh per annum as against the national average of 613 kWh. While there are only 0.70 primary and 0.25 secondary schools per 1000 population in India, corresponding figures for the State of Himachal Pradesh are 1.74 and 0.30 - an important input in achieving universalization of elementary education. However, this also implies the need for greater revenue expenditure.

1.17 Despite very high costs involved in cutting through difficult terrain to make provisions for all weather roads, Himachal Pradesh has achieved road density of 53 kilometers per 100 square kilometers of area in 2007 against the national average of 106 km. Maintenance of these roads poses a huge challenge in view of adverse weather, hilly terrain and thus

maintenance costs tend to be very high. Out of the total irrigation potential of 3.35 lakh hectares, the State Government has created a Culturable Command Area (CCA) of 2.12 lakh hectares by the end of March, 2007. A huge amount of investment is required to realize the remaining potential as steep slopes involve high construction and operational costs. The State Government is already spending over Rs. 200 crore per annum on account of energy charges to lift water from rivers and streams for existing irrigation and water supply schemes.

1.18 The challenge lies in consolidating the gains already achieved and to build on them to achieve the targets of more inclusive growth. No doubt, it will involve huge investment and the State government will have to continue to look towards the Central government for financial and technical assistance.

CHAPTER-2

SPECIAL CATEGORY STATES: PROBLEMS AND NEED FOR SPECIAL DISPENSATION

Historical Background:

2.1 A large portion of India's international border stretching from north to north east comprises mainly of the area situated at high altitudes of the Himalayas and the topographical features of this area pose a lot of hardship to the people residing in these areas in earning their livelihoods. Himachal Pradesh and ten other Special Category States of India are located along this expanse of largely mountainous area. Historically, ever since the attainment of independence and with the advent of planning era, this area, either by virtue of its difficult topography or its administrative structure in the form of Union territories or Part 'C' States or as parts of other larger States, had remained in a state of utter neglect in terms of socio-economic development. It is not that peculiar problems of this area have not caught the attention of the planners in these States and in the Centre. Yet, the resource flow to this area over the years has proven to be inadequate in tackling the specific problems of this area. Inadequacy of their own resources and insufficient central assistance after independence, despite liberal treatment, coupled with high cost per unit of development, have been important factors in the backwardness of Special Category States.

2.2 There was no scientific basis for providing central assistance to the states during first two decades of planning. It was only from the Fourth Five Year Plan onwards that central assistance was provided to the States based on a formula popularly known as 'Gadgil formula'. This system provided for a formula based central assistance to the relatively developed states

whereas, the Special Category States/comparatively backward States were allocated a lump sum central assistance based on the assessment of development needs of these States. Two main factors viz. (i) greater development needs of these states and (ii) scarce resources with these States were the main basis of the Gadgil formula in providing central assistance. This assistance is transferred to Special Category States as 90% grant.

2.3 The Hills States of the country have unique features which make them eligible for getting extra attention in central assistance. Within these States, the diversity in topography, socio-cultural attributes, climatic conditions and local resource based advantages is so great that a uniform development strategy can not work perfectly for the entire State. The need to give these States a preferential treatment in meeting their development needs has been recognized by the planners within these States as well as at the central level. The Planning Commission and the successive Finance Commissions have taken into consideration the special problems of these States while devolving liberal central assistance to them.

Special Problems of Hill States:

2.4 The level of development in a State is traditionally assessed by the growth rates of the GSDP and per capita income which, however, conceals distributional distortions especially, in Hill States. Hill States are often characterized by high proportion of rural population, poorly developed infrastructure, mountainous topography with steep slopes, making limited availability of land for agricultural operations and non availability of choices with respect to livelihood strategies during most part of the year. Agriculture suffers chronically from low productivity. Difficult terrain and high costs involved in lifting water for irrigation leaves a large proportion of land dependent on rainfed cultivation. Per unit cost of building physical

infrastructure is much higher than in plains. Vulnerability of unstable strata of relatively younger Himalayas to frequent slips and slides makes maintenance of existing physical infrastructure extremely expensive.

Table 2.1: Demographic Indicators of Special Category States

		Area Sq Kms	Population Density Persons per Sq Km	Rural Population as % of total Population	ST Population as % of total Population	Work Participation Rate	CL + AL as % of total Population*	% of Marginal Workers out of total Workers
1	Arunachal Pradesh	83743	13	79.2	64	44	62	14.06
2	Assam	78438	340	87.1	12	36	52	25.41
3	Himachal Pradesh	55673	109	90.2	4	49	68	34.37
4	Jammu & Kashmir	222236	46	75.2	11	37	49	30.51
5	Manipur	22327	103	74.9	32	41	52	30.24
6	Meghalaya	22429	103	80.4	86	42	66	21.97
7	Mizoram	21081	42	50.4	94	53	61	22.41
8	Nagaland	16579	120	82.8	89	43	69	16.96
9	Sikkim	7096	76	88.9	21	49	56	19.06
10	Tripura	10486	305	82.9	31	36	51	21.32
11	Uttarakhand	53483	159	74.3	3	37	58	25.89
12	All India	3287240	325	72.2	8	39	58	22.18
	Average of States other than Special Category States	157806	430	-	-	-	-	-

Source: Census 2001.

* CL = Cultivators

AL = Agricultural Labourers

2.5 Table 2.1 above enumerates some of the demographic indicators of Special Category States which are compared with the All India averages. All the Special Category States have very small geographic area as compared to the average geographic area of all the non Special Category Status States taken together. Only Jammu & Kashmir has an area more than the average size of larger States. But Jammu & Kashmir has population density of just 46 persons per square kilometer of area as compared to 430 for the larger States. Thus all Special Category States are smaller in size, are thinly populated and have largely mountainous topography. These States have rural population percentage much above the national average and the population of these States has a large proportion of Scheduled Tribes. These two indicators

are sufficient to indicate need for additional central allocations for these States. Comparison of indicators of Special Category States with those of national averages may not give an exact idea of the variance between the two as the extremely low values of indicators for Special Category States are also a part of the national averages and the lower values for Special Category States keep the value of national averages artificially lower. Simple average of indicators for non Special Category States if compared with those for the Special Category States may give a fair idea of disparities existing in the two categories of States. Such segregation of indicators has not been attempted in the present analysis as these indicators are not readily available for the two categories of States. However, it is clear that the actual magnitude of disparities existing between Special Category States and non Special Category States is much larger than what is generally inferred by comparing averages for the Special Category States with the national averages.

2.6 About three fifths of the total workers in the Special Category States have to depend on agriculture for earning their livelihoods reaffirming the fact that the economies in the Special Category States are primarily agrarian. However, relatively low proportion of net sown area as percentage of total area reported leaves a large proportion of population to compete hard for earning their livelihoods. Higher work participation rates for Special Category States undermine the problems of disguised employment and underemployment in these States. Low productivity of agricultural sector reaffirms the existence of disguised and under employment. Few opportunities in manufacturing and tertiary sectors in these States force people to seek employment in agriculture. Low productivity of agriculture in these States is also established from the fact that on an average about one fourth of the GSDP is contributed by this sector whereas this sector accounts for

employment of about three fifths of total workers in these States. These States require huge efforts and resources to increase productivity of agricultural operations as a result of the difficult terrain in hill areas.

Table 2.2: Status of infrastructure in Agriculture

1.	2.	Road Density* (2002)	% contribution of primary sector in GSDP (2005-06)	Net Sown Area as % of reporting area for land use (2002-03)	Un-irrigated Net Sown Cropped Area as % of operated area (2002-03)	
					Rabi	Kharif
1.	2.	3.	4.	5.	6.	7.
1	Arunachal Pradesh	21.93	24.77	2.98	60.52	64.58
2	Assam	114.09	32.04	35.58	39.99	81.29
3	Himachal Pradesh	53.20	23.01	12.00	50.62	61.11
4	Jammu & Kashmir	10.54	30.51	19.39	50.69	46.10
5	Manipur	51.21	22.24	8.23	33.28	83.46
6	Meghalaya	42.65	32.34	10.33	57.65	59.42
7	Mizoram	24.07	17.30	4.40	79.92	87.16
8	Nagaland	126.79	33.17	20.26	34.99	36.08
9	Sikkim	28.45	19.69	17.31	57.68	74.63
10	Tripura	155.41	NA	26.69	15.44	45.63
11	Uttarakhand	62.72	22.66	14.24	39.63	40.46
12	All India	105.97	21.74	43.56	19.10	50.62

Source: Statistical Abstract India (Combined Issue 2005-06), 42nd Edition, CSO.

Column 4: CSO

* Total road length including un-surfaced roads

2.7 Topographic and climatic features can have wide ranging ramifications in determining the course of development in any economy, which in turn, depends on the stock of created physical infrastructure in different sectors of the economy. Cutting roads and irrigation channels through the rock solid strata of the Himalayas needs relatively higher amounts of financial and other resources and maintaining this stock of created infrastructure is even costlier. Road density (defined as the total length of roads per 100 square kilometers of area) in all the Special Category States barring those which have larger plains than the mountainous area, is not even half of the national average. Similarly the proportion of net sown area out of total area reported for land classification in mountainous States is just a small proportion of the

national average. Dependence of large proportion of agricultural operations on Monsoons is evident from the relatively large proportion of cropped net sown area remaining un-irrigated during both the cropping seasons (columns 6 and 7 of Table 2.2).

Problems Peculiar to Himachal Pradesh:

2.8 The per capita cost of providing not only physical infrastructure but also public services is very high in the State. The cost involved in achieving universalization of Primary and Elementary Education has been very high. Indicators suggesting better availability of Primary and Secondary schools per unit of geographical area and higher teacher-pupil ratio than the national average do not reveal the quantum of efforts put in to achieve these goals. The geographical area in plains and hills is determined in 2D plane and the folds/undulations in hilly terrain are not accounted for while determining the overall area. The hill area is, if stretched after removing all folds/undulations or if it is enumerated on a 3D plane, much higher than the 2D geographical area. An exercise was assigned to the Centre for Geo-informatics, Research and Training of the CSK Himachal Pradesh Agricultural University by the Planning Department of Himachal Pradesh for estimating 3D area of the State using modern Geo-IT tools, remote sensing and GIS. The recently submitted report indicates that the 3D area of the state comes out to be 86,384.77 square kilometers which is about 56% more than the 2D area of 55673.00 square kilometers. District wise 3D and 2D areas as listed in the table 2.3 will give an idea about the variation between the two.

Table 2.3 District wise 3D and 2D geographical area

S.No.	District	2D area (Sq Kms.)	3D area (Sq Kms.)
1.	Bilaspur	1167.00	1327.025
2.	Chamba	6528.00	11674.528
3.	Hamirpur	1118.00	1146.642
4.	Kangra	5739.00	7088.432
5.	Kinnaur	6401.00	11762.311
6.	Kullu	5503.00	9693.987
7.	Lahaul & Spiti	13835.00	22892.628
8.	Mandi	3950.00	5402.766
9.	Shimla	5131.00	7888.039
10.	Sirmour	2825.00	3654.497
11.	Solan	1936.00	2284.508
12.	Una	1540.00	1569.406
13.	Himachal Pradesh	55673.00	86384.769

Source : CSK H.P. Agriculture University, Palampur.

2.9 This implies traveling a much larger distance to reach a destination which is at an aerial distance of 1 kilometer. These factors are required to be considered while assessing availability of social and physical infrastructure per unit of area.

2.10 Recent literature available at the national and state level speaks about the higher per capita income of Himachal Pradesh. However, per capita income of Himachal Pradesh has to be viewed in the context of high cost of living, especially at high altitude. The per capita income has increased from Rs. 240 in 1951-52 to 39,819 in 2007-08. During the decade of 1990s, the population of Himachal Pradesh grew at the decennial growth rate of 17.54 per cent whereas the rate for the country as a whole was 21.54 per cent. In the mountain areas, the higher consumption requirements increase the cost of living and reduce the taxable capacity of the population, limiting the scope for additional resource mobilization. The tax potential of Himachal Pradesh is further affected by the fact that the major products of the State are

primary in nature, on which value added component is much higher at the processing/manufacturing stage, an activity done in industrially advanced States.

Plea for special dispensation:

2.11 The constraints and disadvantages faced by hill States like Himachal Pradesh have been recognized by successive Finance Commissions and the Planning Commission alike. Administrative overheads of establishing a full fledged legislature and administration are higher in these States. These States have to depend largely on other States for meeting the deficit of food grains and supplies of essential inputs and manufactured goods. The infrastructure base is weak. Transport and communication are the main bottlenecks and this raises the per unit cost of primary, intermediary and finished goods alike.

2.12 The Thirteenth Finance Commission is, therefore, earnestly requested to take into account the topography, the harsh climate and the dispersed population of Himachal Pradesh while making an assessment of the financial resources of the State and while formulating norms for revenue expenditure assessment, devolution of resources, debt restructuring and financing of relief expenditure.

CHAPTER-3

ASSESSMENT OF REVENUE RECEIPTS AND REVENUE EXPENDITURE

3.1 One of the Terms of Reference of the 13th Finance Commission prescribed by the Union Government expects the Commission to assess

"the resources of the State Governments, for the five years commencing on 1st April, 2010, on the basis of levels of taxation and non-tax revenues likely to be reached at the end of 2008-09 with the objective of not only balancing the receipts and expenditure on revenue account of all the States and the Union, but also generating surpluses for capital investment".

3.2 Successive Finance Commissions have adopted a normative approach in assessing the Receipts and Expenditure. In this exercise, the genuine needs and socio-economic milieu of the Special Category States like Himachal Pradesh have been ignored in arriving at the Trend Growth Rates (TGR) of Revenue Receipts and Revenue Expenditure. In the particular case of Himachal Pradesh, such normative assessments have successively pushed the State into a near debt trap situation.

3.3 In assessing the Revenue Gaps, the factors like topography, the historically weak tax base, high cost of administration in the hilly and mountainous terrain of Himachal Pradesh, its geographical location at the northern most parts, borders containing tribal population and problems of development in the international border area have been largely ignored. This has resulted in assessment of high Trend Growth Rates (TGRs) for Revenue Receipts and artificial compression of Revenue Expenditures of the State and the consequently downplaying/deflation of the deficit on the Revenue Account.

Own Revenue Receipts of the State:

3.4 The State, in the past 5 years has seen a Compound Annual Growth Rate (CAGR) in Own Tax Revenue of 17% and a Compound Average growth of 66% in Own Non Tax Revenues. Himachal Pradesh, already had a high per capita Own Tax Revenue of Rs. 2316 which is one of the highest in the Special Category States, while the All States per capita average of Own Tax Revenue was Rs. 2005 for 2005-06. Due to transport and communication constraints, prices of goods and services in the State are estimated to be about 20% higher than in the neighbouring States in the plain areas making further increase in taxes, a difficult proposition.

3.5 Given the above scenario, we would like to submit that in the period between 2002-03 to 2006-07, the percentage of SOTR to State's GSDP increased from 4.7% to 5.8% signifies increased Own Tax mobilization by the State. Given the weak capacity of the Special Category States to raise tax rates or to expand the tax basket, the Commission is requested to delink assessment of Own Tax Revenues of Special Category States from General Category States and arrive at a more realistic Tax Revenue Growth rate for Special Category States.

3.6 A similar exercise needs to be done by the Commission for the Own Non Tax Revenues. This is especially so in view of the fact that traditional sources of Non-Tax Revenues of the State viz. receipts from sale of Timber and Forestry produce and Mining royalties have taken a huge hit in last several years because of environmental consideration and Judicial intervention through various orders/judgements of the Supreme Court and the High Court. Nevertheless, the per capita Own Non Tax Revenue of

Himachal Pradesh was Rs. 1067 which is two and a half times of the all States average.

3.7 In the National interest, Himachal Pradesh has voluntarily given up the exploitation of its forest wealth. Taking into account the watershed, carbon reduction and other ecological benefits, this forest wealth of Himachal Pradesh has been estimated at more than Rs. 1.50 lakh crore. Scientific forest-logging could give us benefits of at least Rs. 1000 crore per annum. Since our Government has not exploited this forest wealth in the national interest, it is only fair that the Commission accounts for this matter in its devolution award for Himachal Pradesh.

3.8 While forestry receipts seem to suggest a large increase in the years 2003-04, 2004-05, 2005-06 and 2006-07, these figures are not a reflection of the State's Revenue from forestry resources, since 37%, 52%, 51% and 17%, respectively of the forest revenue receipts in the above years were on account of CAT Plan money deposited by various projects/agencies to meet the expenditure on compensatory afforestation. From 2007-08 onwards, no receipts on account of compensatory afforestation have been assumed because this revenue flow has been shifted to a Central Government authority, in line with the Supreme Court judgement in this matter.

3.9 The State has made good efforts to improve its revenue receipts. The Sales Tax (VAT) Receipts have increased at a CAGR of 24% in 2002-07 period. Given the rapid increase in this period due to introduction of VAT, it is expected that the growth rate of this revenue stream shall now slow down by year 2008-09. Therefore the estimated growth rate in Revenue Receipts is now expected to decelerate to 11.57% in the forecast period of 2010-2015. We therefore urge the Commission to accept the State's Own

Revenue projections as given in Statement-2 of the Statements already furnished to the Commission.

Return on Investment in Public Sector Enterprises/Undertakings (PSEs):

3.10 The Commission has been asked to examine the potential for return on State Government investments in PSEs. As on 31.3.07 the Government investment in various PSEs stood as follows:

Table 3.1: State's investments up to the end of 2006-07

(Rs. in crore)

A-Statutory Corporation and Boards	
H.P. Financial Corporation	21.97
Himachal Road Transport Corporation	261.66
HP Scheduled Castes and Scheduled Tribes Corpn.	38.28
H.P. Ex-servicemen Corporation	4.09
H.P State Electricity Board	282.11
Parbati Project	2.13
B-Government Companies	157.05
C-SJVNL	1027.20
D-Other Joint Stock Companies	0.10
E-Cooperative Banks	17.26
F-Cooperative Societies	63.16
Total	1875.01

Source: AG, Himachal Pradesh.

3.11 As is expected, the State has invested the maximum in hydropower followed by the SRTC. Other investments are in Public Sector Enterprises (PSEs) or Development Institutions which are corporatised entities catering to the weaker sections of the society. The 12th Finance

Commission had adopted and assumed a uniform return of 7% on outstanding loan and 5% on equity to be achieved in a graded manner by the terminal year of the forecast period. This formulation has been kept uniform for all the States.

3.12 We would like to submit that hilly States like Himachal Pradesh have under developed and sparse markets and much less developed infrastructure and connectivity. This is so unlike the advanced States with adequate infrastructure and all round connectivity. Therefore, there is a need for assuming a lower rate of return on the investments made by the State of Himachal Pradesh in PSEs of the State.

3.13 The H.P. State Electricity Board is still a bundled utility which has to maintain transmission and distribution lines over extremely difficult and hilly terrain. If the Board were to recover the full costs of the distribution and transmission network, the costs would be prohibitive and would adversely affect the energy security of the State where people suffer extremely harsh climates in winters. It would also adversely affect the State Government's efforts to reduce people's dependence on firewood and other fossil fuels for cooking and heating purposes.

3.14 With the State Government now providing for a transparent system of transfers to the State Electricity Board on account of subsidy to agricultural and domestic consumers as per the provisions of the Electricity Act and the Tariff Orders of the Electricity Regulatory Commission, it would be realistic to assume a zero return from the Board to the State Government on account of investment made by the Government in the Board.

3.15 The Road Transport Corporation of the State is the lifeline of the State. The DTC case of Delhi also shows that the State must continue to play an effective role by investing suitably in State Owned Road Transport Corporation and this Sector cannot be completely privatized or left to the vagaries of free market forces. The private bus operators are unwilling to ply on un-remunerative and remote routes with low passenger load.

3.16 The SRTC has to ply on not only these routes but also provide healthy competition to private bus operators on the main and arterial roads. Currently, the HRTC is running 958 uneconomical routes out of total of 2200 routes where it is unable to cover its variable costs. HRTC, like all other State Owned Transport Corporations is rendering yeoman social service to the common man and thus it is un-realistic for the Finance Commissions to assume that SRTCs would generate surpluses so as to return dividend to the State on the Equity invested in them.

3.17 The Himachal Road Transport Corporation is one of the best managed Transport Corporations of the country as would be evident from the following table:

**Table 3.2: Performance Indicators State Transport Undertakings:
Different States.**

	Drivers per Bus	Conductors per Bus	Inspection Staff per Bus	Manpower productivity per day	Effective km. per crew per day
Himachal Road Transport Corporation	1.64	1.69	0.11	47.10	74.38
Mizoram ST	12.90 for Drivers, Conductors & Inspection Staff.			5.29	-
Nagaland ST	1.64	1.11	1.97	14.73	41.35
Meghalaya TC	3.71 for Driver, Conductors & Inspection Staff			14.97	
Tripura TC	2.58	2.79	2.60	9.82	26.56
AP SRTC	2.33	2.34	0.38	51.29	72.50
UP SRTC	1.92	1.60	0.65	51.48	94.49
Gujrat SRTC	5.20 for Drivers & Conductors.		0.26	48.80	69.24
Maharashtra SRTC	2.31	2.24	0.28	45.74	69.96

Source: ASRTU data 2006

3.18 Only recently, in February, 2008, the State Government has approved a 25% bus fare hike increasing the passenger fare to 93 paise per kilometer in the hilly areas and 63 paise per kilometer in the plain areas.

3.19 Given the productivity parameters of the HRTC as given in table 3.2 above and prevalence of already very high bus fares in the State, it is unrealistic to expect any returns from the State Government investment in HRTC. Because of its social responsibilities HRTC is incurring continuous losses. Its cumulative loss upto 2006-07 was Rs.438 crore. The State Government is required to provide budgetary support of about Rs. 100 crore per annum to the State Road Transport Corporation to enable it to meet its

social obligations to run bus services in the mountainous interior and difficult areas of the State.

3.20 The 10th Finance Commission had rightly assumed no returns on State Government investments in SEBs and SRTCs of the States. We urge the 13th Finance Commission to take cognizance of the fact that the Electricity Utilities including SEBs and SRTCs are still extension arms of the public welfare functions of the State having a corporatised set up. This however, does not make them commercial Public Sector Enterprises (PSEs) in the strict sense of the word and therefore the 13th Finance Commission may not assume any unreasonable returns from the PSEs.

User Charges:

3.21 Successive Finance Commissions have viewed recovery of O&M costs of various public services as important components of Non Tax Revenue Receipts. The 13th Finance Commission too is mandated to look at this aspect while assessing the Revenue Receipts & Revenue Expenditure of the States.

3.22 The recovery rate on account of irrigation receipts continues to be low in the State because the Government sees it as a development service for subsistence based agriculture in the hills of the State. The annual cost of O&M works out to Rs. 12,700 per hectare in the State at current prices. The high O&M costs are far in excess of the payment capacity of the farmers, who are mostly marginal land owners and the O&M cost of irrigation facilities even exceeds the per capita incomes of the marginal farmers.

3.23 Therefore only nominal return should be assumed in the State's forecast instead of the assessed recovery receipts as percentage of

expenditure, starting from 50% in 2005-06 to 90% in 2009-10, as was assessed by the 12th Finance Commission.

3.24 Similarly in the case of water supply, the cost of supplying potable water is very high. The supplies come either through lengthy flow schemes over hazardous terrain and harsh climatic conditions, or have to be lifted from deep valleys. Shimla town is getting water at a cost of Rs. 42 per 1000 litres, perhaps the highest in the country. The cost of operation and maintenance works out to Rs. 750 per capita per annum across the State, which again would be beyond the paying capacity of the local population. Therefore, there is very little scope for enhancing the rates to fully cover operation and maintenance costs.

3.25 As far as recovery from service delivery by the health Institutions in the State, the Government has formed Rogi Kalyan Samitis or Hospital Welfare & Development Societies to decentralize decision making and improve the effectiveness of the public health systems in the State. These societies have been allowed to levy user charges so that the money so collected is used at local levels in a decentralized manner. This decentralization and formation of Hospital Welfare Societies are important reform measures initiated by the Government in the State. Thus, only a nominal growth rate of about 5% per annum in Revenue Receipts from Health services may be assumed by the Commission, unlike the very high and unrealistic annual growth rate of 25% assumed for social and economic services by the 12th Finance Commission.

3.26 In the field of Education, the State has achieved extensive coverage and universalisation of elementary education. In 1961, the literacy rate in Himachal Pradesh (21% for males and 9% for females) was below the

all India averages. By 1987-88, literacy rates in 10-14 age group were as high as 95% for males and 81% for females in rural areas and even higher in urban areas (96% for males and 97% for females). In that respect, Himachal Pradesh was second to Kerala among major States. (Sen Gupta, S (1991), Progress of Literacy in India during 1983 to 1988, Sarvekshana, April-June).

3.27 The strong commitment of the State Government and community institutions to a rapid expansion and improvement of schooling facilities has played a major part in this success (Dreze and Sen : India Economic Development and Social Opportunity, PP 129). Per capita Government expenditure on education in Himachal Pradesh is about twice as high as the all India average (ibid PP 122).

3.28 With education free upto Matric level in the State, education can not be a source of income to the State. The Government does not rely on such revenue receipt as a source of income to meet the total Non Plan Revenue Expenditure on education which is Rs. 1810 crore (BE) in 2008-09.

Revenue Expenditure:

3.29 Himachal Pradesh continues to have very high Revenue Expenditure as a percentage of total expenditure. It was 87.32% of the total expenditure in 2006-07. This figure has hovered between 85.67% to 89.86% in the 5 year period of 2002-03 to 2006-07. Within the Total Revenue Expenditure, the NPRES has shown a consistent increase at an average rate of 14% over the 2002-03 to 2006-07 period and it continued to share the dominant proportion ranging from 73% to 85% of total revenue expenditure in this 5 year period (CAG Civil Report (H.P) 2006-07, Para 1.5.3, PP 14).

3.30 The reason for the high levels of NPRE are the committed liabilities of the Government on account of Salaries, Interest Payments, Pension expenditure, Maintenance expenditure and Grants-in-Aid to educational institutions and local bodies. NPRE as a percentage of total expenditure continues to be high in the State as in most Special Category States, which are categorized by a weak Revenue Base and high costs of development and administration.

3.31 Reducing this committed expenditure would need a long term action plan. The State Government is committed to filling only essential and functional posts. The increase in salary expenditure in 2006-07, 2007-08 and 2008-09 (BE) has been necessitated by Union Government linked DA releases, the cascading effect of Dearness Allowance merger w.e.f. 1.4.2004 on the pattern of the Central Government, Supreme Court and High Court judgements which necessitated regularization of 14,000 daily wagers from a back date which cost the State Rs. 170 crore in 2007-08 and payment of 5% Interim Relief in March, 2008. All these events were beyond the control of the State Government which has to take into account the salary systems in Central Government and in Punjab (to which the State is historically linked for purposes of pay scales, since 1971, when the hilly regions of Punjab were merged into Himachal Pradesh to form the present day State). The impact of rising salaries has been sought to be reduced by the following steps:

- New appointments are being made on Contract basis by changes in the recruitment rules;
- The Government intends to fill only essential and functional posts against attrition in number of employees, due to retirement/death/resignation;

- Contributory Pension Scheme (as opposed to Defined Benefit Scheme) has been started and 23000 employees have already joined this new scheme;
- Outsourcing measures have been adopted for delivery of services;
- Budgetary support to several PSUs has been discontinued or frozen;
- Several economy measures as ban on LTC, restriction on vehicles expenditure etc. have been enforced by the Government.

3.32 It needs to be emphasized that committed liabilities on account of salaries, pensions and interest payments cannot be reduced only over a long term. Only a just and fair award of the Commission, which recognizes this reality can help to ease the difficult fiscal transition path for Himachal Pradesh.

Trends of Employees Strength:

3.33 In the case of Himachal Pradesh, the Commission must not lose sight of the need for a higher employee population ratio on account of our low population density and scattered nature of the habitations. A generalized assessment of cost factors operating uniformly across all States would be grossly unfair to Hill States like Himachal Pradesh. Historically determined actuals should be accepted as the right base for future projections. Also important to take note is the historical tie of our salary structure with Punjab. Such a linkage can be traced back to the days when the State was a centrally administered territory. Over time, this linkage has become inviolable. Therefore, the Commission should accept the projections on this account, especially when we have contained the overall number of employees. Infact, by not allowing filling up of functional posts, there has been a decline of about 3% in the total numbers of employees of the State in the period between

1999-2000 and 2006-07 as would be evident from the Table 3.5. Compression in employees strength has taken place due to non-filling of vacant posts including those in Education and Health Departments.

Table 3.3 : Employees Strength

	All Govt Employee	Local Bodies	Public Undertaking	Total
1999-2K	233744	4068	47025	284837
2000-01	235594	4239	46494	286267
2001-02	235389	4274	45926	285589
2002-03	236659	4176	44707	285542
2003-04	233142	4248	45083	282473
2004-05	230968	4203	44366	279537
2005-06	229641	4207	43815	277663
2006-07	228933	4206	44151	277290

Source : Actual Data Input from all Departments.

Assessment of Salary and Pension Expenditure:

3.34 Salary continues to be the largest Standard Object of Expenditure in the total expenditure consisting of 26.59% of the total expenditure in 2006-07 (actuals), 25.5% of total expenditure in 2007-08 (RE) and 26.92% of total expenditure in 2008-09 (BE).

3.35 The 12th Finance Commission had made quite unrealistic assumption of 5% growth in salaries with the objective *"to ensure that salaries are held in constant in real terms"* (para 6.35 of 12th Finance Commission Report). This was a very unrealistic assumption which runs absolutely contrary to salary expenditure trends in the Centre and in the

States. Only a slightly higher 6% growth has been allowed for salaries in Education Sector, which too does not take into account the national objectives of Universalisation of Elementary Education. It also does not take into account the massive investments made by the State Government in the Education Sector and the corresponding Revenue Expenditure increase.

3.36 In Himachal Pradesh a very important reason for the high Salary expenditure is the large investments made by the State Government in Health and Education Sectors. The Education and Health infrastructure has undergone large expansion over the last two decades and most educational/health infrastructure indicators are above the national average. This has also necessitated recruitment of large number of staff for these institutions and concomitantly most of the Salary expenditure is in these two sectors. 62% of the total Salary expenditure is on the employees of these two sectors which exhibits the developmental nature of such revenue expenditure. In order to sustain the achievements of the State in the areas of Health and Education, the Commission is requested to accept our Revenue Expenditure projections in these two Sectors based on actual inflation linked DA releases, rather than applying any arbitrary normative criteria.

3.37 Similarly, the Pension expenditure has increased substantially due to retirements of employees predominantly from the Health and Education Departments. The State Government is unable to influence the pension expenditure in the short or in the medium term. The 12th Finance Commission had recognized this fact, but only to a limited extent by allowing a 10% annual growth. This growth rate is insufficient keeping in view the emerging trends of expected pay revision, inflation rate and increasing life expectancy in Himachal Pradesh. Thus a trend growth rate of 16% increase per annum would

be more realistic for Himachal Pradesh due to these factors and also the fact that the number of retirees in Himachal Pradesh will substantially increase over the 2009-2012 period.

3.38 Given the above alarming trends, the State Government has already implemented the structural change in the Civil Services Employees Pension Scheme w.e.f. 15th May 2003 by introducing the Contributory Pension Scheme for appointments made on or after this date.

6th Pay Commission Impact on Salary and Pension Liability:

3.39 The 6th Central Pay Commission has recently given its recommendations to the Central Government. The Pay Commission recommendations will have a profound effect on the Union and State Government finances and also the national economy. The Union Government, even though it has large and diverse responsibilities, also has a larger slice of Central taxes/Levies as well as greater share of Non Tax Revenues. With the unbridled sovereign power of borrowings, the Union Government is in a much better position to implement the financial recommendations of the 6th Central Pay Commission.

3.40 There is now enough evidence to indicate that the Central Pay Commission recommendations cannot be viewed in isolation as the State Governments cannot be immune to the fiscal impact of their recommendations. Himachal Pradesh too will be affected by the 6th Central Pay Commission recommendations and there will be a large financial outgo which cannot be fully met by the State Government from its existing Revenue sources.

3.41 The State Government would thus like to make a strong appeal to the 13th Finance Commission to fully provide for the increased salary and pension expenditure devolving on the State on account of the implementation of the Pay Commission recommendations w.e.f. 1.1.2006 by comprehensively including the entire impact of the 6th Central Pay Commission expenditure in the Revenue Expenditure forecast of the State for the 2010-15 period.

3.42 Since, the Punjab Pay Commission report which normally follows the Central Pay Commission recommendations, is likely to be implemented only in 2009-10, the Government has included the Salary/Pension arrears from 1.1.2006 to 31.3.2009 in 2010-2011, while the actual increase in Salary/Pension due to the new Pay Commission recommendation for final year 2009-10, has been reflected in the forecast of that year itself. The arrears for the three years period of 2006-07 to 2008-09 on account of Salary and Pension revision would be about Rs. 1500 crore and Rs. 540 crore respectively. These arrears will need to be postponed for payment in 2010-11. The total impact of Salary and Pension Arrears has been estimated at Rs. 2762 crore for the 12th Finance Commission period of 2006-07 to 2009-10 which includes the Pay Commission Impact of Rs. 722 crore on Salary and Pension in 2009-10 itself.

3.43 The following Table 3.3 gives the yearly impact of 6th Central Pay Commission on Salary expenditure:

Table: 3.4.: Additional financial liability due to Sixth Central Pay Commission recommendations (Salary Expenditure).

(Rs. in crore)

Description	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
Expenditure on Salary as per existing Instructions. (without Pay Commission Implementation impact)	2683.33	3086.00	3376.00	3882.00	4465.00	5135.00	5905.00	6791.00	7810.00
Estimated Additional Expenditure on implementation of Sixth Central Pay Commission.	500	500.00	500.00	500.00	574.00	660.00	760.00	873.00	1004.00
Requirement of funds for payment of arrear w.e.f. 1.1.2006 to 31.3.2009	—	—	—	—	1500.00*	—	—	—	—
Total Expenditure on salary on implementation of Sixth Central Pay Commission.	—	—	—	4382.00	6539.00	5795.00	6665.00	7664.00	8814.00

*The Salary arrears of Rs. 1500 crore pertain to 2006-07 to 2008-09 period, which are proposed to be paid in 2010-11.

3.44 The above table indicates a very large additional liability on the State due to the 6th Central Pay Commission recommendations. Since this is an additional financial liability which has not been included in the NPRE assessment done by the 12th Finance Commission from 2005-2010, the entire additional salary liability for the past period as well as the forecast period may be included in the Revenue Expenditure (RE) assessment by the Commission for an accurate assessment of the RE and Revenue Deficit Gap.

3.45 Similar calculations have been done in respect of Pension expenditure on account of the Pay Commission recommendations. The following

table 3.4 gives a picture of the additional expenditure to be borne by the State due to Pay Commission recommendation:

Table 3.5 : Financial liability due to 6th Central Pay Commission recommendations on account of Pension.

Description	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1.	3.	4.	5.	6.	7.	8.	9.		11.
Pension & other retirement benefits expenditure/ liability as per normal trends.	912.00	1049.00	1206.00	1357.00	1562.00	1797.00	2067.00	2378.00	2736.00
Additional financial liability for implementation of 6 th Central Pay Commission recommendation on account of Pension & other retirement benefits.	152.00*	179.00*	209.00*	222.00	270.00	328.00	398.00	481.00	581.00
Total Pension Expenditure including 6 th Central Pay Commission impact	-	-	-	1579.00	1832.00	2125.00	2465.00	2859.00	3317.00
Requirement of funds for the payment of arrear w.e.f. 2006-07 to 2008-09 on account of 6 th Central Pay Commission recommendations	-	-	-	-	540.00*	-	-	-	-

*Arrears for the years 2006-07 to 2008-09 have been shown for payment during the year 2010-11.

3.46 We request the Commission to take into account the entire additional pension liability which is expected to devolve on the State from 1st January, 2006 to 31st March, 2015 while assessing the Revenue Expenditure forecast for 2010-2015 period so that a realistic assessment of the State's liability is done and the Commission does full justice to the task of assessing the Revenue Deficit of the State.

Interest Payments:

3.47 Because of funding of Annual Plans through high levels of borrowings in order to contribute to the required Plan resources, Himachal Pradesh has become one of the most debt stressed States in the country. The financing of our approved 9th and 10th 5 year Plans witnessed an increase in our

outstanding debt burden of about Rs. 5,000 crore in 1997 to almost Rs. 20,000 crore at the end of the 10th Five Year Plan. Thus, the high interest payments of about Rs. 1,700 crore per annum in recent years is not because of any fiscal profligacy on the part of the State Government but because of the need to resort to borrowings to fund our Annual Plans and to enable the Government to invest in Capital Expenditure/Capital formation. The State Government recognizes the need to control interest burden and it has been reasonably successful in this respect as would be evident from the following Table:

Table 3.6 : Interest payments

(Rs. in crore)

Year	Total Revenue Receipts	Interest Payments	Percentage of interest payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
2002-03	3,659	1,172	32.03	22.80
2003-04	3,981	1,473	37.00	26.36
2004-05	4,635	1,641	35.40	28.33
2005-06	6,559	1,563	23.83	24.17
2006-07	7,835	1,669	21.30	21.83

Source : CAG(Civil) Report 2006-07

3.48 We hope that the Commission will assess the interest payment liabilities of the State realistically based on the fact that the share of own funds (not borrowings) to fund the Annual Plans has been coming down due to emerging BCR gaps on account of salary and pension expenditure trends. As a result of the widening Revenue Gap, borrowings became a necessity resulting in interest liability crossing 20% of the total Revenue Expenditure in most States. Himachal Pradesh has been no exception to this trend with interest

payments ranging from 21.83% of Revenue Expenditure in 2006-07, to 28.33% in 2004-05.

3.49 The Interest Liability as a percentage of Total Revenue Receipts and Revenue Expenditure have come down primarily due to the low interest regime in the past years and debt swapping initiated by the Central Government and the State Government. This trend will not continue in the coming years due to hardening of the interest rates. Interest payments in the forecast period have been projected to increase at an annual growth rate of 12%, as indicated in Table 3.7.

Table 3.7: Interest Liability Projections

(Rs. in crore)

	Interest Payments	Interest as % of Rev. Exp.
2007-08(RE)	1737	17.00
2008-09	1829	19.60
2009-10	2048	18.50
2010-11	2294	15.80
2011-12	2570	18.00
2012-13	2878	18.00
2013-14	3223	17.80
2014-15	3610	17.50

3.50 Though, Interest liability has been projected to increase at an annual growth rate of 12%, the same is quite reasonable given the capital requirements for investments in critical sectors of power, irrigation, roads etc. and the emerging scenario of hardening interest rates ,with very little scope for debt swapping ,in the future years. In view of these reasons, we hope that the Commission will assess interest liabilities of the State

realistically, without being guided by normative projections which tend to depress interest liabilities and which will result in an unrealistic estimation of the interest liability for the 2010-2015 period.

Maintenance of Capital Assets:

3.51 Maintenance of capital assets such as roads and bridges, buildings, irrigation and water supply schemes etc. has suffered considerably in the recent years because of the fund crunch and the very low norms applied by the Commission for assessment of requirement of funds. We have explained in detail the norms and requirement of maintenance funds in the explanatory notes with our Forecast of Resources and Expenditures. We hope that the Commission will take cognizance of these while assessing our expenditures.

Committed Plan Liabilities

3.52 On the completion of a 5 year Plan period, States are expected to transfer the committed liabilities on account of completed Plan Schemes into the Non Plan Side. To primarily create the fiscal space for required capital investment in hydro power projects, the State Government decided to shift a part of the Plan Revenue expenditure i.e Rs. 349.78 crore to the Non-Plan account for 2008-09. The State Government submits that Special Category States may be treated at par with General Category States for transfer of the Plan Revenue Expenditure for the period from 2012-13 to 2014-2015. If only 10% transfer to non-plan side is allowed for Special Category States, as was done by the 12th Finance Commission, the Plan size of the State would be artificially inflated, for which the State would have to resort to higher borrowings in order to fund its Annual Plans.

3.53 It is requested that all the transferred committed plan liabilities be taken into consideration while assessing the Revenue Expenditure of the State in the forecast period. The details of the committed liabilities transfer have also been discussed in subsequent chapter-5.

Debt Relief and Debt Restructuring:

3.54 The State's Debt to GSDP percentage is one of the highest in the country at 63.8% which is a matter of serious concern. The Table 3.8 below gives a comparative picture of the Liabilities to GSDP.

Table 3.8 : Percentage of debt Liabilities to Total GSDP-States Comparison

States	%age of liability to total GSDP 2006-07
Mizoran	83.60
Sikkim	81.00
Manipur	70.80
Arunachal Pradesh	64.30
Himachal Pradesh	63.80
J&K	60.10
Uttarakhand	55.00
Punjab	52.90
Goa	48.40
All India	31.8
Haryana	29.10

Source: RBI Publication : 2006-07, State Finances, A Study of Budget of 2006-07

3.55 Even in terms of per capita debt, the State has a very high debt level as is evident from Table 3.9. This high debt is affecting the State's development expenditure as interest and loan repayments pre-empt resources for development.

Table 3.9 : Per Capita Debt - States Comparison

(In Rs.)

States	2006-07
Goa	38,221
Mizoram	32,850
Himachal Pradesh	26,860
Sikkim	26,638
Punjab	21,829
Arunachal Pradesh	16,470
Uttarakhand	16,227
Manipur	13,973
J&K	13,559
Haryana	12,610
All India	11,209

Source: RBI Publication: 2006-07, State Finances, A Study of Budget of 2006-07.

3.56 As stated previously, the State has got into acute debt stress because of the State's weak Revenue base and its inability to contribute to State's Own Resources for funding the State's Annual Plans. We urge the Commission to make a realistic assessment of the debt burden and interest liability of the State. Unless the Commission recommends substantial debt relief to the State, debt servicing will continue to pre-empt substantial Revenue Expenditure of the State.

3.57 The Commission may recommend to the Union Government a Special Debt Relief Facility for chronically Revenue Deficit and Debt Stressed States, which enables them to get relief from their present high levels of debt.

CHAPTER-4

AUGMENTATION OF STATE RESOURCES

4.1 While expenditure compression is always a desirable fiscal objective, Governments across the country rely on resource mobilization to generate additional revenues to meet their socio-economic and other commitments. There is a need for the Central and State Governments to increase tax base and improve their Tax/GDP and Tax GSDP ratios so that increase in revenue receipts is sufficient to generate revenue surplus and to keep fiscal deficit within manageable levels. Himachal Pradesh Government is conscious of the need to increase tax and non tax revenues so as to improve the fiscal situation of the State.

4.2 However, as we have already discussed previously, Himachal Pradesh suffers from several constraints such as those of historically weak revenue base, lack of adequate private investment, close location to border area, remoteness from markets, connectivity problems, land locked terrain, harsh climate and inadequate infrastructure, all of which constrains the generation and augmentation of state's own resources. In the case of Himachal Pradesh, hydel power and forests are two sources which could have been important instruments to generate additional resources. While the efforts to generate resources from hydel power have started bearing fruit, the State continues to be deprived of its legitimate share of revenues from scientific forest exploitation. Himachal has also been deprived of its legitimate claim in Bhakra Nangal and Beas projects, its claim to 12% free Power from hydel projects commissioned before 7.9.90 and in its efforts to levy generation tax. We feel that acceptance of these legitimate demands by the Centre and the Finance Commission would help the State Government to

come out of the present cycle of perennial deficits and additional borrowing which constrains our scope for adequate capital investment in vital sectors such as power, roads, health, irrigation, education, agriculture and others.

4.3 The State Government would like to discuss and present its case in a detailed manner in this chapter so that the Commission can take a sympathetic view in the matter and make appropriate recommendation in its report.

Compensation for forgoing Forest Revenues:

4.4 Himachal Pradesh's growth and revenue drivers in the medium term are dependent on its forest resources. Nearly 67% of the Pradesh's area is classified as Forest, though effectively the forest cover is much lower, primarily because a large area is either alpine meadows or is above the tree line.

4.5 As stated in the preceding paras of Chapter 3 of this Memorandum, the forest wealth of Himachal Pradesh has been estimated at over Rs. 1.50 lakh crore. The Forest Conservation Act coupled with Apex Court orders/judgement in Civil No. 202 of 1995 (titled T.N. Godavarman versus Union of India) has limited the State Government from undertaking even scientific and ecologically viable forest logging which could give us a revenue source of about Rs. 1000 crore per annum. The national forest policy of 1988 mandates that the "forests would not be managed for earning revenues". The Himalayan forests are rich sources of biological diversity from which benefits flow not only to the concerned states where these forests are located but also to the downstream and adjoining States. The State Government needs to

be suitably compensated on account of Revenue foregone due to ban on felling of trees.

4.6 Despite several judiciary mandated directions and the State Government's efforts to conserve forests and tree cover, there are several worrying impacts on the environment which need the attention of the Central Government and the 13th Finance Commission. While forest cover has increased in recent years, the quality and density of the cover has diminished as has the economic productivity, water holding capacity and the ability to sustain species richness (World Bank Report 2007 : Himachal Pradesh : Accelerating Development and Sustaining Success in a Hill State).

4.7 By not felling its forests, Himachal Pradesh is helping all the down stream States with direct and indirect benefits of drinking and irrigation water, watershed functions of the forests, carbon sink and oxygen production, control of flow of silt etc. Nearly 90 percent of the installed hydel capacity in the State is owned by the Central Government, and the benefit of these projects is shared by all States of the northern region. By retaining forest cover in the catchments of these projects, Himachal Pradesh is bearing the cost of ensuring their longevity. Clearly, the entire nation has high stakes in ensuring protection of forest wealth. It is estimated that about 6,500 sq. km additional area, either blanks or having crown density below 10%, can be brought under good tree cover by way of intensive plantations. In addition to checking the denudation of soil cover and the rate of erosion and sediment load in rivers and streams, it is necessary to treat the catchment areas with intensive soil and water conservation measures to increase the crown density of such forest. This will entail a huge cost.

Carbon Credit Issues:

4.8 Himachal Pradesh Government has taken up with the Central Government the issue of adequately compensating the State by way of a mechanism akin to Carbon Credits and also because of the State sacrificing its revenue returns/Non Tax Revenue due to the preservation of its forest wealth for the benefit of the nation.

4.9 The Kyoto Protocol 2005 caps the quotas on the maximum amount of greenhouse gases for developed nations. In return, these countries set quotas on the carbon emissions of their local industries and other organizations. To maintain ecological balance, if European countries are buying carbon credits, Himachal too needs to be compensated through a similar carbon credit mechanism within the country.

4.10 Internationally, India has maintained a stance that it is the developed countries that need to pay. Domestically, we have been shy of examining whether this concept can be applied to the states, offering incentives to those on the path of green growth. In the last two years, the carbon markets have gained some maturity, silencing sceptics who thought carbon trading was too complex to work. Last year, saw a spurt in the market. The carbon market grew in value to an estimated \$30 billion, three times greater than the previous year. (Sonu Jain: Indian Express: Give Credit where Credit is Due: dated 10.4.2008).

4.11 A question may arise as to who will pay a State like Himachal Pradesh when nobody is legally required to buy. The Commission is requested to give a suitable recommendation to the Union Government so that States like Himachal Pradesh, J&K, Uttarakhand, Madhya Pradesh etc. get financial

compensation from the Union Government until a legally binding carbon credit market develops in the country. The living green trees must be attached sufficient monetary value for the services rendered by them in maintaining the eco-system, providing for firewood, forest produce, fodder, grazing land, tourism, carbon sequestration, flood control, bio-diversity and nutrient cycle.

Funds for Forest Maintenance/Soil Conservation:

4.12 Himachal Pradesh alongwith similarly situated States need to be compensated for due carbon credits until a legally binding carbon credit mechanism is put in place. We propose that initially the State may be compensated for Carbon Credit by the Union Government to the tune of Rs. 500 crore per annum for the year 2010-11 period, with suitable price indexation thereafter.

4.13 In order to improve the forest wealth and to invest in plantation and soil conservation activities, Himachal Pradesh needs to be provided an additional sum of Rs. 180 crore per annum to treat about 450 sq. km. area per annum @ Rs. 40,000 per hectare. This amount should be over and above the funds which need to be provided to the State on account of compensating it for revenue loss (Rs. 1000 crore per annum), for maintenance & Presentation of Forests (Rs. 150 crore) besides fully compensating the State on account of expenditure incurred by it on the Non Plan Revenue account, for maintenance of Forests.

4.14 States like Himachal Pradesh and infact other States with a large percentage of area classified as forest such as the Hill States, Chattisgarh, Madhya Pradesh etc. i.e. States having an area classified as

'forest' of over 40% need to be compensated for environment conservation and forest protection in the interest of the entire country.

4.15 While the 12th Finance Commission acknowledged this issue to some extent, the devolution of grant for the maintenance of forests was too meager for a State like Himachal Pradesh, which got a Maintenance Grant of only Rs. 4 crore per annum for the 2005-2010 period. We request the Finance Commission to recommend a Grant of Rs. 150 crore in 2010-11 on this count, with suitable indexation thereafter, to enable the State Government to pursue forest conservation activities with renewed vigor.

4.16 It is also submitted that the Commission may not assess the Revenue Expenditure incurred for protection of forests, on a normative basis, as is done for items of other NPRES. As per last 5 years expenditure on Forestry related activities, the State has spent the following amounts on the Revenue account for forest and allied activities.

Table 4.1: Non Plan Revenue Expenditure on Forestry and Allied Activities.

(Rs. in crore)

Year	Amount Spent
2004-05	93.79
2005-06	91.66
2006-07	99.19
2007-08(RE)	118.28
2008-09(BE)	148.69

Source: AG Finance Accounts/Budget documents.

4.17 The above table shows increasing Non Plan Revenue Expenditure on Forests Maintenance which shows the State Government's commitment to protection and regeneration of forests in the interest of the State and in

national interest. It would be fair and just if assessment of Revenue expenditure on forest conservation is based on actual trends instead of normative parameters, as has been done by the past Commissions.

4.18 Such an approach towards assessing the NPRE on forest conservation would not only compensate the State to enable it to implement its commitments to the country but also strengthen the State's resolve to protect forests, tree cover and soil cover in the national interest.

4.19 Therefore, in the interest of the preservation of Himalayan ecology and its potential all round benefits to the adjoining States and other parts of the Country, the Commission is requested to award the following amount for Himachal Pradesh.

Table 4.2

		<i>(Rs. in crore)</i> <u>2010-11</u>
1.	Revenue Loss per annum due to ban on green felling to be compensated.	Rs. 1000
2.	Additional cost per annum for plantation and soil conservation (to treat 450 sq. km. per year @ Rs. 40,000 per hectare)	Rs. 180
3.	Additional Grant for Maintenance & Preservation of Forest	Rs. 150
4	Compensation for Carbon Credits for forests preservation	Rs 500
Total		Rs.1,830*

* This amount to be suitably indexed for inflation at 7% for the entire award period upto 2014-2015.

Levy of Generation Tax:

4.20 In order to generate additional revenue resources, the State Government has requested several times the Union Power Ministry to allow levy of a nominal generation tax on all electricity produced in the State. This proposal was also recommended in 1992 by an Expert Committee of the Planning Commission headed by Dr. C. Rangarajan. A small 10 paise tax per unit on power generated will help us mobilize additional revenue of about Rs. 250 crore per annum. The Bill, unanimously passed by the Himachal Pradesh State Legislative Assembly for this purpose, was not accorded required assent of the President of India.

Himachal Pradesh's Claim in Bhakra Nangal and Beas Projects:

4.21 Bhakra Nangal project was among the 'temples of modern India' visualized by Pt. Nehru. Although this multi purpose project, with an installed capacity of 1380.20 MW, ushered in the green revolution in North India, the State of Himachal Pradesh got nothing but suffering and massive problems of relief and rehabilitation of the affected population. The Beas project led to impounding of river Beas at Pandoh and Pong, again leading to large-scale human dislocation in Himachal Pradesh, while the neighbouring States drew all the benefits of irrigation and power. Pandoh dam supports a 990 MW powerhouse at Dehar, while Pong dam has an installed capacity of 360 MW. All these projects form a part of the BBMB system.

4.22 Consequent upon the reorganization of the erstwhile state of Punjab under the Punjab Reorganization Act 1966, 7.19 percent of the population was transferred to Himachal Pradesh. Under Section 78 of the Punjab Reorganization Act, GOI was required to apportion the assets and

liabilities among successor States if they themselves failed to reach any agreement among themselves within two years of the appointed day i.e 1-11-1966. Himachal Pradesh, which was then a Union Territory, expected the Union Government to protect its claim of 7.19 percent share in all the assets, but this protection was unfortunately denied to us. Instead we were allocated an adhoc share of 2.5 percent in Bhakra Nangal project, 15 MW in the Dehar plant generation and none whatsoever in Pong dam!

4.23 Subrahmanyam Committee in 1978 also acknowledged the concept of allocating power on the basis of transferred population ratio. The matter has been taken up at the level of the Prime Minister's Office also, but to no avail. Finally, as a last resort, the State Government was compelled to seek relief from the Apex Court, but it is unlikely that the matter will be settled anytime soon. At the end of March 2008, the arrears on this account work out to Rs. 1500 Crore approximately. We are prepared to settle the matter out of court if the claims of the State are recognized and a mechanism evolved to start paying us our current dues immediately. The arrears can be spread over a reasonable time frame after duly indexing to future inflation.

Allocation of 12% Free Power of Pre September, 1990 Hydel Projects:

4.24 Hydel projects lead to large-scale dislocation of human population. Recognizing the distress caused by construction of hydel projects, the GOI vide its notification dated 1-11-1990, permitted supply of 12 percent power royalty to the States, where these projects are located. However, the benefit was extended only from projects commissioned after 7-9-1990. Himachal Pradesh viewed this as grave injustice, since it excluded major hydel projects of BBMB such as Bhakra-Nangal and Beas projects. These projects had led to submergence of large tracts of fertile

land in the State as also large-scale dislocation of human population. The State continues to grapple with the resettlement issues of these projects even today, many years after they were commissioned. Till March 2008, the State has a legitimate claim of over Rs. 5000 crore on account of its 12% royalty dues from the BBMB projects.

4.25 The above proposals of the State Government would help it to generate its Own Revenues and reduce its dependence on Central transfers besides eliminating deficit on the Revenue Non Plan Account. We have been pursuing these critical resource raising matters with the Union Government, repeatedly.

Conclusion:

4.26 We request the Finance Commission to accept the State Government's proposal on grant of Forests Maintenance/Grant/Compensation for loss/Plantation and Soil Conservation Grant/Carbon Credits of Rs. 1,830 crore for 2010-11 with suitable price indexation for the next four years, and also take into account actual Non Plan Revenue Expenditure on forestry related activities instead of applying normative Trend Growth Rates.

4.27 It is also requested that the 13th Finance Commission may strongly support and recommend the State's case before Government of India on the issues of Generation Tax, 12% Free Power Royalty in pre 1990 projects and the State's claim in Bhakra Nangal and Beas Projects.

CHAPTER-5

TRANSFER OF COMMITTED LIABILITIES FROM PLAN TO NON PLAN

5.1 Himachal Pradesh enjoyed the status of being revenue surplus State till 1987-88. Deficits on revenue account became a chronic feature of the State's Annual Financial Statements from 1988-89 onwards. The unrealistic approach adopted by the Ninth Finance Commission in making an assessment of the expenditure needs of Himachal Pradesh contributed to worsening of deficit situation on revenue account. The Ninth Finance Commission grossly under assessed the State's committed expenditure liabilities on account of interest payment, pensions, pay revision, ADA installments etc. thereby resulting in a situation where large BCR gaps remained uncovered. It also did not separately provide for transfer of committed liabilities of the Seventh Five Year Plan to the Non Plan side.

5.2 It was around that time only when another development occurred with regard to the changes in the scheme of Annual Plan financing. Till late 1980s, negative balance of current revenues, negative contribution of the State Public Sector Enterprises like State Electricity Board and State Road Transport Corporation and the negative contribution under miscellaneous capital receipts were all taken into account while firming up scheme of Plan financing. This had an important ramification for Special Category States in getting a lump-sum Central Assistance as reflected in Scheme of Plan Financing during the award period of Finance Commission which was used as a cover for the erosion in Non Plan revenue balances. These negative balances were ignored in the scheme of Plan financing during the period between 1990-91 and 1993-94 which resulted in gradual but sure deterioration in the

financial situation of the Special Category States like Himachal Pradesh. Remedial measures were taken sometime in 1994 on the recommendations of the Rangarajan Committee Report. However, damage done to the States financial position had been so severe during the intervening years that Himachal Pradesh was in no position to transfer committed liabilities to the Non Plan account as the committed liabilities of the Eighth Five Year Plan had also accumulated by that time.

5.3 Since there was no let up in the already deteriorated financial situation of the State right through the decade of 1990s, the State had no alternative but to continue charging committed liabilities of Seventh and Eighth Five Year Plans on the Plan side revenue account. This resulted in swelling of revenue component of successive Annual Plans as is evident from the table 5.1 below.

Table 5.1: Composition of Plan expenditure in Himachal Pradesh

Year	Expenditure on Revenue account (Crore Rs.)	Expenditure on Capital account (Crore Rs.)	Ratio of revenue expenditure to capital expenditure (Plan)
1985-86	80	116	0.69
1987-88	118	136	0.87
1989-90	166	152	1.09
1990-91	195	169	1.15
1995-96	480	353	1.36
1999-2000	943	590	1.60
2000-01	1282	554	2.31
2001-02	1202	650	1.85
2002-03	1386	862	1.61
2003-04	840	781	1.08
2004-05	978	630	1.55
2005-06	1182	820	1.44
2006-07	1099	895	1.23
2007-08 (RE)	1049	1045	1.01
2008-09 (BE)	652	1738	0.38

Source: Finance Accounts and Budget Documents, GOHP and Reports of the Comptroller and Auditor General of India

5.4 The Government of India, in February, 2003 had advised the State Government to transfer all the committed liabilities till the end of the Ninth Five Year Plan to the Non Plan account to enable the Finance Commission to make realistic assessment of the State's Non Plan revenue deficit after devolution. The Planning Commission had also recommended that the States should consider transferring all the committed liabilities up to the Ninth Five Year Plan period to the Non Plan account.

5.5 An exercise was done during 2002-03 to identify all the committed liabilities on revenue account accumulated, during the Seventh, Eighth and Ninth Five Year Plans period, on account of Salaries, Wages, Grant-in-Aid, Scholarships, Subsidies, Social Security Pensions and Maintenance. These liabilities during 2002-03 amounted to Rs. 1021.00 crore.

5.6 Transferring such a huge amount of committed liabilities in a single year from Plan to Non Plan account would have cast an enormous burden on the Non Plan account, which in turn, would have lead to sharp deterioration in the BCR. This posed a serious threat to the entire process of Plan formulation. As a result, the Himachal Pradesh Government, as a conscious policy decision decided to transfer only a sum of Rs. 858.45 crore from Plan to Non Plan during the financial year 2003-04.

5.7 Committed liabilities of the order of Rs. 163.00 crore were still left un-transferred to Non Plan account. During the intervening years, the committed liabilities on revenue account of the Tenth Five Year Plan period had also accumulated. A similar exercise has been undertaken for the year 2008-09. A total amount of Rs. 349.78 crore was identified for transferring to the Non Plan account in 2008-09. This amount includes the committed

liabilities that remained to be transferred to the Non Plan account during the earlier similar exercise.

5.8 The State Government earnestly hopes that the Thirteenth Finance Commission will take cognizance of this important fiscal correction undertaken by it while making an assessment of the Non Plan requirements on revenue account during the award period of the Commission.

CHAPTER-6

PRINCIPLES FOR DEVOLUTION OF RESOURCES

6.1 Inter-governmental fiscal transfers, based on the recommendations of the Finance Commission serve to redress vertical as well as horizontal imbalances in our federal system. The transfers are necessitated by the need to correct the asymmetry in the assignment of functions and expenditure needs, and availability of financial resources to the two tiers of government. Apart from inter-governmental transfers, there is a need to reduce the inequalities amongst the States with respect to their revenue capacity and unit cost of providing goods and services. This calls for a system of ensuring horizontal distribution of resources, which is equitable and fair even to the most fiscally disadvantaged unit of the federation.

Vertical Devolution:

6.2 The Finance Commissions have the onerous responsibility to lay down the principles for vertical and horizontal devolution of tax collections made by the Centre. Vertical imbalance in tax collections and its appropriation arises because of centralization of resources of revenue relative to that of expenditure responsibilities. In this context, the comparison is between the Centre and all the States together. There is no doubt that the Centre has major demands on its resources on account of gross budgetary support to the Central and State Plan, defence, internal security, debt servicing and other committed liabilities.

6.3 However, States have a heavier obligation to incur public expenditure. States have suffered perennially on this account since tax

devolutions to States as percentage to net shareable tax revenue have hovered between 28.88% in 7th Finance Commission, 27.33% in 8th Finance Commission period, 28.79% in 9th Finance Commission, 27.78% in 10th Finance Commission and 29.5% in the 11th Finance Commission period (*Source : Annexure 7.3, 12th Finance Commission Report*).

6.4 Though, the 12th Finance Commission has increased the vertical devolution to the States to 30.5% of the divisible tax pool, this continues to be inadequate given the huge commitments of the State in the social and economic sectors. As also recommended by the 12th Finance Commission, despite the 88th Constitutional amendment relating to service tax, the 13th Finance Commission may recommend to the Centre that the entire service tax proceeds must form a part of the shareable pool of Central taxes and the Finance Commission must have the competence and jurisdiction to recommend the same share of service tax devolution to States, as in case of other Central taxes of the shareable pool. Since service sector is seeing unprecedented growth, it would be fair and just if the "Taxes on services are included in the shareable pool of other Central taxes to be devolved on the recommendation of the Finance Commission so that the States get a fair share of the revenue from the buoyancy in service tax collection". (*Source: 12th Finance Commission Report*).

6.5 Central expenditures also need to be reviewed and rationalized. This would free additional resources for devolution to the States. A way out would be to impose a hard budget constraint on the Central government as well and this can be achieved by ensuring that the devolution would be out of gross resources and not net resources. The Commission may kindly recommend a suitable amendment in the Constitution to ensure this.

6.6 The Centre continues to impose surcharges and cess which do not form a part of the divisible pool of taxes. In the Memorandum presented to the 12th Finance Commission, too, the State Government had proposed that in case the surcharge/cess is continued for more than one or two years, it should be integrated with the main tax so that the States too can benefit from the surcharge/cess collection, being part of the main taxes. We again request the Commission to give a recommendation on this count to the Union Government so that the collection on account of surcharges/cess are shared by the Union Government with the States.

6.7 In view of the increased responsibilities of the States and the growth of non tax revenue receipts of the Centre, we feel that the share of the States in the sharable pool of taxes should be progressively enhanced to 70%. The 13th Finance Commission is requested to redress the present vertical imbalance by recommending a 50% vertical devolution of taxes to the States.

Horizontal Distribution inter-se States:

6.8 Finance Commission transfers must operate to correct the imbalance in the overall resource flows and enable the development of peripheral and backward regions to achieve balanced regional development in the country. Special category States suffer from adverse credit-deposit ratios of commercial banks, highlighting the flight of capital from them to more advanced States and regions. Private investors find climatic and geophysical features, distance from resources and markets and the under developed infrastructure of these States, unattractive for investment. Therefore any formula for inter-se sharing must endeavour to reduce the

inequity among States with respect to their revenue raising capacity and the standards of public service.

6.9 The last several Finance Commissions have tended to assign greater weightage to the Income and Population criteria, assigning smaller weightage to factors as Index of Infrastructure, Fiscal Discipline, Tax Effort, Area etc. This has resulted in a continuous decline in the State's inter-se percentage share. Himachal's share in all States' share in Central Taxes continues to be low and has gone down progressively as is evident from the following table 6.1:

Table: 6.1

	H.P. Share in All States' share of Central Taxes as % of Devolution
10th FC	0.70
11th FC	0.68
12th FC	0.522

Source: Finance Commission Reports

6.10 Progressive decline in percentage share of State's share of divisible pool has affected devolutions to the State. The State does not fully benefit from buoyancy in Central revenue receipts. The State has been getting a near stagnant revenue deficit Grant which progressively decreases over the forecast period of the Commission.

6.11 **It is therefore submitted that the State's share in Central Taxes as % of Devolution be increased to at least 2% of all States share of Central Taxes. This would be possible if factors like 3D Area, Forest Cover, Infrastructure deficit, Private investment deficit, Higher operational costs, Higher cost of living, Remoteness from market & ports etc. are factored in determining the horizontal distribution of State's share in Central Taxes.**

CHAPTER-7

DISASTER MANAGEMENT AND CALAMITY RELIEF.

7.1 The Commission, under para-8 of the Terms of Reference has the mandate "*to review the present arrangements as regards financing of Disaster Management with reference to the National Calamity Contingency Fund and the Calamity Relief Fund and the funds envisaged in the Disaster Management Act, 2005 and make appropriate recommendations thereon*".

7.2 In a federal structure, the primary duty of the Himachal Pradesh is to provide relief and rehabilitation to the affected persons at the time of any natural calamity. Himachal Pradesh is home to several snow-fed rivers and during rainy season, these rivers wreak havoc with life, public property and agriculture and horticulture systems, which happen to be the mainstay of the predominantly rural population of the State. Whereas rivers Beas, Ravi and Chanderbhaga (Chenab) originate inside Himachal Pradesh, river Satluj flows through the State entering in Himachal Pradesh in Kinnaur district from Tibetan plateau and river Yamuna flows along the boundary of the State collecting a large part of its volume from tributaries like Pabbar, Rupi, Giri etc. River Satluj flows through the districts Kinnaur, Shimla, Kullu, Mandi and Bilaspur, till it reaches Govindsagar.

7.3 Himachal Pradesh suffers from a wide range of natural calamities during the rainy season as also during winter season. The intensity and magnitude of natural calamities is very hard in the case of excessive rains, excessive snow, flash floods and cloudbursts. The infrastructure (roads, bridges, irrigation projects, drinking water supply projects, hydro electric projects etc.) which takes several decades to build and facilitate

development, vanishes in no time. More often than not, human lives also get lost.

7.4 The State has suffered natural calamities of monumental proportion during last decade, particularly due to global warming and other reasons including flash floods in August, 2000 and June, 2005, when the flash floods in Satluj and Spiti rivers had occurred due to sudden breach of waters in the Tibetan Plateau and on Parchhu river in Chinese territory. These floods caused immense damage to lives and property downstream Satluj rivers. Similarly, during 2006 Monsoon, the State suffered extensive losses to the private and public properties, including that of agricultural and horticultural crops. The total losses in term of money was estimated at Rs. 2366 crore. During the South West Monsoon, 2007, the State again suffered huge losses caused by excessive floods, rains etc. The losses in terms of money were estimated at Rs. 1268 crore in respect of private and public properties including that of the agricultural and horticultural crops. All 12 Districts were affected, 98 human lives were lost and 3087 heads of cattle perished. The agricultural cropped area was affected to the extent of 1,12,982 Hects. Besides, 66,748 Hects. of horticultural areas was also affected. The State also falls in a seismologically active zone and it has a history of suffering severe to mild earthquakes at regular intervals.

7.5 The 11th & 12th Finance Commissions continued with the previous financial arrangement in respect of both the Calamity Relief Fund and the National Calamity Contingency Fund. The CRF Scheme continues to be a 75:25 Scheme. The NCCF has a corpus of Rs. 500 crore from which outgo is replenished by way of collection of National Calamity Contingent Duty and Levy of Special Surcharge.

Views of the State Government:

7.6 The Size of the Calamity Relief Fund needs to be at least doubled for Himachal Pradesh in view of the heavy losses suffered by the State due to heavy rain, land slides, drought etc. Table 7.1 gives the estimation of loss and funds available in CRF in the last few years:

Table 7.1: Estimated Losses and Relief Expenditure in Himachal Pradesh
(Rs. crore)

Year	Estimated Loss	Funds Available in CRF
1995-1996	505.99	25.44
1996-1997	476.77	26.95
1997-1998	798.65	28.44
1998-1999	332.26	29.98
1999-2000	426.38	31.16
2000-2001	1765.42	43.49
2001-2002	138.25	45.66
2002-2003	707.21	47.94
2003-2004	726.00	58.00
2004-2005	1170.00	52.86
2005-2006	372.00	100.69
2006-2007	2366.50	103.60
2007-2008	1268.00	106.65

7.7 The assistance provided by the Centre for calamities is quite inadequate relative to the losses incurred by the State from natural calamities. Therefore, the size of the Calamity Relief Fund may be doubled for Himachal Pradesh which is constantly grappling with grave natural calamities. In the case of Special Category States, we request that the Calamity Relief Fund (CRF) be funded 100% by the Central Government.

7.8 The Commission may recommend to the Union Government that a review of the list of approved items of expenditure needs to be done in consultation with State Governments so that local needs are taken into

consideration under the Calamity Relief Fund Scheme. Expenditure on restoration of infrastructure, including capital expenditure in the affected areas should be allowed as a valid charge on the Calamity Relief Fund. This is significantly true for hilly States where natural calamities as flash floods, cloudbursts, avalanches destroy basic infrastructure in the affected areas whose restoration therefore becomes a top priority. The Commission may give necessary recommendation to the Union Government so that such expenditure is allowed to be charged to the CRF on conditions as may be devised by the Union Government.

7.9 The 11th and 12th Finance Commissions had allowed a 5% mark up on the CRF for the respective forecast periods. We feel that this mark up is quite low and does not factor the inflationary trends. We suggest a 10% per annum increase in the CRF for the forecast period of 2010-2015.

7.10 Similarly, under the NCCF Scheme also, expenditure on restoration of Infrastructure damaged in natural calamities should be fully reimbursed. The Commission may give necessary recommendation to the Union Government so that such expenditure is allowed to be charged to the NCCF at least for the special category states.

CHAPTER-8

AUGMENTATION OF THE CONSOLIDATED FUND OF THE STATES TO ASSIST LOCAL BODIES

8.1 With 73rd and the 74th Constitutional amendments, two diverse trends were witnessed in 1990s, i.e. globalization of economies and localization of authority and governance. With this background, the Thirteenth Finance Commission is required to make recommendations on the following matter as per its Term of Reference i.e.

"the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State"

8.2 The State Government has constituted State Finance Commissions at regular intervals. The 1st State Finance Commission was constituted in April, 1994, the 2nd State Finance Commission was constituted in May, 1999 and the 3rd State Finance Commission was constituted in May, 2005. All the three State Finance Commissions have submitted their reports within the stipulated time frame. The financial recommendations of the State Finance Commissions have been accepted by the State government.

Terms of Reference of the State Finance Commissions:

8.3 The State Government had constituted the First and the Second State Finance Commissions with Terms of Reference which were already given in the Constitution of India.

8.4 With the rising level of awareness of the representatives of the Local Government Institutions and people and a decade of active existence of these bodies, the following Terms of Reference were added to the mandate of the Third State Finance Commission by the Government:

(a) the Commission should make a normative assessment of needs based on the actual devolution of functions to each tier of the PRIs/Municipalities and an assessment of potential fiscal capacity based on the tax and non-tax resources available to PRIs/Municipalities in making any recommendations on devolving untied grants or share of State taxes to these bodies;

(b) the Commission should make an assessment of recurring grants for specific schemes of the State government relating to support for honorarium and expenses of elected representatives and employees of PRIs/Municipalities and suggest improvements in these schemes in order to promote the exercise of fiscal autonomy and responsibility by the PRIs/Municipalities;

(c) the Commission should suggest appropriate ways to take forward the process of devolution of functions, funds and functionaries to the PRIs/Municipalities keeping in view the existing delivery system and the financial capacity of the State Government. It may make specific suggestions with regard to:

- support for pilots to hand over responsibility for delivery of primary education, primary health, water and sanitation and rural roads to appropriate levels of PRIs/Municipalities;*

- *changes in legislation and procedures necessary to enhance the tax and non-tax capacity of the PRIs/Municipalities consistent with accepted principles of taxation at the local level;*
- *strengthening of administrative capacity of PRIs/Municipalities by placing under their control relevant categories of employees either by way of recruitment at the level of relevant tiers of the PRIs/Municipalities or by seconding of existing State Government staff to them;*

Recommendations of the Third State Finance Commission:

8.5 In keeping with the additional Terms of Reference, the Third State Finance Commission has given a number of recommendations consisting of increased financial devolutions, proposed amendments in the existing tax laws of Local Government Institutions so as to increase their revenue generation base, recommended enhanced devolution of assigned taxes, fees, levy of new charges and devolution of old charges to Local Institutions. It has also recommended more functions and control of functionaries of Primary Education, Rural Health, ICDS programme and Animal Husbandry departments to the local bodies and has also proposed increasing the scope of powers to these bodies. The salient features of the financial assessment made and financial devolution recommended by the Third State Finance Commission and accepted by the government is given in the Table 8.1 below:

Table 8.1: Assessed Income and Expenditure of Local Bodies and Gap Filling Grants (2007-12)

(Rs. in Crore)

Sr. No.	Item	Local Bodies		
		Panchayati Raj Institutions	Urban Local Bodies	Total
1	2	3	4	5
I	Assessed Income	66.73	273.04	339.77
II	Assessed Expenditure	295.01	480.49	775.50
III	Recommended Grants/Resource transfer			
1.	Gap filling/Resource transfer	228.28	15.19	243.47
2.	Development grant in lieu of abolition of octroi	-	207.83	207.83
IV	Total Recommended resource transfer	228.28	223.02	451.30

Source: 3rd State Finance Commission Report.

Comparative Analysis of Successive State Finance Commission's Devolutions:

8.6 A comparison of the recommendations made by the successive State Finance Commissions with regard to devolution of financial resources to Local Government Institutions vis-à-vis amounts released by the government on the recommendations is given in the following table:

Table 8.2: Financial Resource Devolutions Recommended by the State Finance Commissions and amounts released by the State Government to Local Government Institutions

(Rs. in Crore)

S. No.	Commission/Tenure	Amount recommended by the Commission	Amount released by the Government
1.	2.	3.	4.
A. Panchayati Raj Institutions			
1.	First State Finance Commission (1996-2001)	54.10	54.78
2.	Second State Finance Commission (2002-2007)	70.05	119.45
3.	Third State Finance Commission (2007-2012)	228.28	228.28*
B. Urban Local Bodies			
1.	First State Finance Commission (1996-2001)	74.55	83.96
2.	Second State Finance Commission (2002-2007)	159.46	133.66
3.	Third State Finance Commission (2007-2012)	223.02	223.02*

* Accepted to be released

8.7 The above table reveals a quantum jump in the devolution of amounts to these bodies which shows the commitment of the State Government in strengthening the third tier of governance so as to meet the rising aspirations of the people.

Constitution of the District Planning Committees:

8.8 One of the major activity enshrined under Article 243 ZD of the Constitution of India is the constitution of the District Planning Committees. In a significant measure, District Planning Committees have been constituted in all the districts of the Pradesh in May, 2006 for the preparation and consolidation of district development plans. Local bodies, as institutions of self governance have been empowered to prepare plans for economic development

and social justice and to implement the schemes relating thereto including those that are included in the Eleventh and Twelfth schedules of the Constitution.

8.9 The Twelfth Finance Commission had recommended a sum of Rs. 25,000 crore for the period 2005-10 as grants-in-aid to augment the consolidated fund of the states. The share of Himachal Pradesh out of above amount was Rs. 155 crore consisting of Rs. 147 crore for Panchayati Raj Institutions and Rs. 8 crore for Urban Local Bodies.

Proposal to the Thirteenth Finance Commission:

8.10 In view of the above position and in view of financial recommendations of the Third State Finance Commission of Himachal Pradesh, the 13th Finance Commission is requested to take its financial recommendations into account while recommending financial devolution to the State. The Twelfth Finance Commission had recommended an award of Rs. 155 crore for the period 2005-2010 to Local Government Institutions of Himachal Pradesh, the average yearly break up of which comes to Rs. 31 crores. The Third State Finance Commission has recommended an amount of Rs. 451.30 crore for the Five year period 2007-12. In view of the different period of the awards of the 12th Finance Commission and the Third State Finance Commission, the 13th Finance Commission is requested to take into account the State Finance Commission's recommendations on fiscal transfers to Local Bodies as a committed expenditure since the recommendations of the 12th Finance Commission did not take into account the recommendations of the 3rd State Finance Commission for three years (2007 to 2010).

8.11 The 3rd State Finance Commissions' financial recommendations, the devolutions proposed by the 12th Finance Commission and the mismatch between the two are brought out in the following table:

Table 8.3 : Proposal to the Thirteenth Finance Commission for Enhanced Devolutions.

(Rs. in crore)

Sr. No.	Year	Recommendation of 3 rd State Finance Commission/State Govt. proposal		Allowed by the 12 th Finance Commission	Shortfall on account of mismatch	
1.	2.	3.		4.	5.	
1	2007-08	66.12	451.28	3 rd SFC Recomm.	31.00	35.12
2	2008-09	95.40			31.00	64.40
3	2009-10	94.70			31.00	63.70
4	2010-11	94.14			-	94.14
5	2011-12	100.92			-	100.92
6	2012-13	116.02	State Govt. Proposed (4 th SFC)	-	116.02	4 th SFC
7	2013-14	133.50		-	133.50	
8	2014-15	153.50		-	153.50	
Total		854.30			93.00	761.30

8.12 The figures given in the above table take into account the entire award period (2010-15) of the 13th Finance Commission as also the amount left to be compensated for the years (2007-2010). The shortfall on account of mismatch is given in column 5 of the above table and the figures have been worked out on the following basis:

- (i) For the three years (2007-2010) which form part of the 12th Finance Commission, the award given by the 12th Finance Commission has been deducted from the award given by the 3rd State Finance Commission and figures arrived at in column 5;

- (ii) For the two years (2010-12) i.e. the last two years of the 3rd State Finance Commission award, the award amount is requested to be allowed by the 13th Finance Commission to Himachal Pradesh; and*
- (iii) For the last three years (2012-15) of the 13th Finance Commission the award of the last year of the 3rd State Finance Commission (2011-12) has been marked up by 15 percent on account of inflation and rising costs of committed liabilities and figures have been arrived out accordingly;*

8.13 Accordingly, 13th Finance Commission is requested to provide Rs. 761.30 crore as untied grants to local bodies of the State in the interest of strengthening of grass root level democracy and decentralization of administration, over and above other general devolutions to be made to the State by the 13th Finance Commission.

8.14 The 12th Finance Commission had awarded Rs.147 crore for upgradation of civic amenities and for operation and maintenance of Water Supply Source/ Schemes. We request the Commission to fund the O & M expenditure of Rural Water Supply Schemes/ rural water sources and an amount of Rs.300 crore may be recommended to cover O & M costs of traditional Water Supply Sources and Water Supply Schemes and other civic amenities, in rural Panchayats. The Commission is also requested to provide funds to the State for solid waste management in Urban Areas, on the pattern of the 12th Commission. It is proposed that a sum of Rs. 100 crore may be provided as specific grant-in-aid to the State for passing on the same to the 56 Urban Local Bodies for strengthening their solid waste management capacity. In addition, Rs.30 crore are proposed for the forecast period to

develop 3 land fill sites in Kangra, Mandi and Shimla regions for disposal of non-biodegradable waste, at a tentative cost Rs.10 crore per site.

8.15 It is accordingly proposed that an amount of Rs.761.30 crore (untied grants) and Rs. 430 crore (specific purpose grants) may be recommended to be transferred to the State to replenish devolution to the local bodies and to strengthen their fiscal position. The details of the proposal are given in Table 8.4 below:

Table 8.4: Amounts proposed for Local Bodies.

	<i>(Rs. in crore)</i>
Shortfall on account of mismatch in SFC period/Union Finance Commission period ⁹ (Untied Grants).	761.30
O&M of Water Sources for Rural Panchayat Bodies.	300.0
Solid Waste Management/Regional Land fill sites for Urban Local Bodies.	130.00
Total	1,191.30

CHAPTER-9

SPECIAL PROBLEMS/UPGRADATION GRANTS

9.1 The Commissions, in the past have been recommending grants/funds to the States, to mitigate their special problems, peculiar to the respective States. Though the THFC terms of reference do not have a specific term of reference for special problems/upgradation grants, the State Government makes an earnest plea to the Commission to consider a special dispensation for Special Problems/Upgradation Grants for the State.

9.2 The State Government requests for a special dispensation for the following 3 projects namely:

a) **Augmentation of Water Supply to Shimla from Pabbar river Gravity Water Supply Scheme:**

The State Government had commissioned WAPCOS to prepare the techno-economic feasibility report for this Scheme. As per the feasibility report submitted by the consultants, the total estimated capital cost is Rs. 715 crore and water availability through this project shall meet the drinking water supply requirements of the capital region of Shimla till at least the year 2037. It is estimated that upon commissioning, this gravity scheme shall also save energy pumping charges for lifting of water from alternative sources, of about Rs. 100 crore per year.

The Commission is requested to give its an award for funding this drinking water supply scheme for Shimla region. Not only will this gravity scheme save precious energy for the country but the availability of sufficient drinking water supply will boost economic

activity in all sectors such as tourism, education, health services, real estate etc. The conversion of Shimla area into a significant growth centre shall also increase State revenues from such increased economic activity.

b) Bhanupalli-Bilaspur-Beri Railway Line:

The State Government has been pursuing this proposal over the last three decades for the construction of this railway line. Hon'ble Prime Minister during his visit to Himachal Pradesh on 28th May, 2005 had made a public announcement to include "Bhanupalli-Bilaspur-Beri-BG Railway Line" as National Railway Project. The total length of this rail line is 63.100 kms. The estimated cost of this project has been assessed as Rs. 1047.00 crore. The sharing has been decided in the ratio of 75:25 between the Railways and the State Government. The Himachal Pradesh Government would contribute 25% (Rs. 261.75 crore) of the total project cost and the Ministry of Railways would provide 75% cost (Rs. 785.25 crore). The 25% State share would include cost of land for the project. The decision of Himachal Pradesh Government regarding sharing of the project cost has been confirmed to the Railways.

The Commission is requested to provide special grants of Rs. 262 crore to enable the State to meet its 25% share of Rs. 1047 crore project. Given the fact that the State continues to have a less than national average of Road and Rail network, funding the State's share in the project would help the State to improve its

transport network and help it to overcome a serious deficit of rail network, in the State.

c) **Funding of New Airport in Mandi District:**

In order to attract more tourists to Himachal Pradesh, the State Government is keen to establish a new Greenfield airport which can cater to wide bodied aircraft. Large aircraft will help to reduce the airfares, which are much higher than for air-travel in other parts of the country. The State Government has identified a site in Sundernagar, Mandi district to establish the new Airport. The Commission would be aware that the Planning Commission has proposed a Scheme of Greenfield Airports, in the North-East under the 11th Plan, so as to improve communications in that region.

The State Government is pursuing the matter of establishing the new Airport in Mandi district, with the Airport Authority of India. Techno-Economic Feasibility Study of the project is proposed to be undertaken under the aegis of the Airport Authority of India. While the exact cost of the project is yet to be ascertained, the Government feels that the cost of the project would be about Rs. 700 crore.

The Government is of the considered opinion that the State would not be able to give a major thrust to the National and International tourist traffic in Kullu-Manali-Mandi and Kangra areas until an Airport catering to larger aircraft is established. The special grant may be further earmarked for the Union Civil

Aviation Ministry/Airport Authority of India for the construction of the green field airport.

CHAPTER-10

FORECAST OF REVENUE RECEIPTS AND EXPENDITURE FOR THE PERIOD 2010-2015

10.1 The Government has projected its revenue receipts and expenditure on a realistic basis with a compound annual growth rate (CAGR) of 11.570% in respect of revenue receipts and 9.015% in respect of revenue expenditure, for the 2010-2015 period. The Total revenue receipts in the 2010-2015 have been projected at Rs. 27,398 crore while the total revenue expenditure has been proposed as Rs. 83,384 crore leaving a pre-devolution revenue deficit of Rs. 55,986 crore as per the following table:

Table: 10.1 : Forecast of Revenue Receipts/Expenditure/Pre-Devolution Revenue Deficit 2010-2015

(Rs. in crore)

Revenue Receipts	Revenue Expenditure	Pre-Devolution Revenue Deficit
27,398	83,384	-55,986

Details are given in the Statement-I sent to the Commission, which contains the summary of the revenue and capital account. The State's own tax revenue is projected to increase at a compounded annual growth rate of about 13.290% while the non tax revenue are projected to increase at the rate 7.785% . Considering the fact that revenue expenditure has been projected to grow at a compound annual rate of 9.015%, it is evident that the State Government has given a very realistic estimate of its revenue expenditure forecast with Revenue Receipts growth outstripping the revenue expenditure growth.

10.2 The year wise revenue receipts and revenue expenditure in the forecast period is shown in the tables 10.2 and 10.3 below:

Table 10.2: Year wise Forecast- State's Own Revenue Receipts.

			<i>(Rs. Cr.)</i>
Year	Tax	Non-Tax	TOTAL
2010-11	2926	1430	4356
2011-12	3309	1540	4849
2012-13	3746	1660	5406
2013-14	4247	1790	6037
2014-15	4820	1930	6750
Total	-	-	27,398
CAGR (%)	13.290	7.785	11.570

Table 10.3 : Year wise Forecast-Revenue Expenditure of Himachal Pradesh.

(Rs.Cr.)

Year	Revenue Exp.
2010-11	14556
2011-12	14143
2012-13	16001
2013-14	18126
2014-15	20557
Total	83,384
CAGR (%)	9.015

10.3 The Commission is requested to take into account the detailed reasons given by the State Government for the revenue gap projections for the forecast period and it is hoped that it will take a realistic view of these

projections made by Himachal Pradesh. The State Government is committed to increase its own sources of revenue as explained in this Memorandum, but it is evident from the preceding paras that until the Commission makes a realistic assessment of the revenue sources and revenue expenditure of the State, the revenue deficit of the State will not be eliminated and the State would still be left with a large revenue deficit.

10.4 Only with a larger percentage share in Central taxes and a realistic appraisal of the revenue expenditure based on actual trends including 6th Central Pay Commission impact on salaries and pensions, can the State hope to come to a path of fiscal correction and growth. The Commission is therefore requested to give its recommendation accordingly in respect of hilly and Special Category States, including Himachal Pradesh, which continue to largely depend on Central transfers and dispensation.

10.5 To summarize, this memorandum has made a request to the Commission for announcing the following awards for the 2010-15 period:

		<i>(Rs. crore)</i>
i)	Pre-Devolution Revenue Deficit	55,986
ii)	Environment protection grant	10,523
iii)	Grants for PRIs' & ULBs'	1,191
iv)	Special purpose grant	1,677
	Total	69,377
