PART - I

Sir,

I rise to present the budget for the year 2007-08.

2. As I stand before you, I am overwhelmed by the responsibility that has been cast upon me. Yet, under the guidance of Hon'ble Chief Minister, Jenab Ghulam Nabi Azad, and the patron of Peoples' Democratic Party, Jenab Mufti Mohammed Sayeed, I am confident to meet the challenge with grit and determination. I hope to build upon the significant contribution made by two of my illustrious predecessors who are also the Members of this House. I have absolutely no doubt that this august House will give me all the support and strength in discharging the mandate in a meaningful and purposeful manner.

3. This is my maiden effort. And I do so with all humility- and a certain sense of sobriety too!! - as I am acutely conscious of the challenges and the limitations; of rising public expectations and impatience and the constraints of capital and capacity. Nevertheless, I am driven by hope and optimism - the innate strength of our people and their collective will to guide the course of destiny.
4. Mr. Speaker Sir, we are witness to a very rapidly changing environment. The winds of change appear to be blowing – sweeping across the three regions of the State. Yearning for peace is palpable. It is impossible for any other force to reverse the direction and momentum of change - propelled by the collective resolve and commitment of people themselves.

5. It is matter of satisfaction that the Central Government recognizes our dynamic context - of withering of boundaries and of dismantling of barriers. The historic decision taken by the UPA Government, headed by Dr. Manmohan Singh, to hold Round Table Conference is a strong endorsement of the need to harness the new found enthusiasm for political and economic reconstruction of the state. The five Working Groups have met eleven times so far. Discussions have thrown up a number of new and innovative ideas relating to Confidence Building Measures to strengthen relations across the country, fostering economic development and ensuring good governance in the state. This should give us a comprehensive agenda for forward movement.
**THE CONTEXT**

6. I have attempted to anchor the budget in this dynamic context. My budget proposals echo the peace through development agenda of the coalition Government. After all, financing development in Jammu and Kashmir is financing peace in the country and the region. Therefore, my budget is about development through more efficient and judicious application of resources and utilization of such resources especially human resource.

7. Hon'ble Speaker Sir, apart from a qualitative change in the overall environment, there are a number of developments, which make this year's budget different and important. The most important change is that the budget itself is being presented in January. As Hon'ble Members are aware, the basic idea of pre-ponement was to optimally utilize the lean winter months for seeking legislative approval of the budgetary proposals much ahead of the norm. This will also help maximize the limited working season for implementing and monitoring plan schemes. I complement this House for endorsing such a landmark decision. While the financial year has not changed and will continue to follow the April-March cycle, all approvals and releases for the next financial year would be in place before the close of
current financial year so that work begins right from the first of April 2007. I trust three weeks of February and the full month of March will also help our officers in overseeing proper end-of-the-year conclusion of the development schemes.

8. The other significant aspect is that we are at the doorstep of the Eleventh Five Year Plan - the current financial year being the last year of the Tenth Plan. It is, therefore, time to reflect on lessons learned and strategise for the future. We need to push ourselves into a high growth orbit. And also ensure that the growth is both employment generating and inclusive. Development processes should build greater stakeholdership of the poor, the vulnerable and the marginalized. Development needs to be engendered with complete association of women. The needs and aspirations of members of scheduled castes, scheduled tribes, other backward classes, Gujjars and Bakarwals and our Pahari speaking brethren should find adequate reflection in our developmental framework. Above all, growth must result in jobs for our unemployed youth.

9. Even though, a comprehensive set of allocation for addressing unemployment can be done only through the plan, the underlying theme of my budget is financing
employment. It is for this reason, I have made a break from the recent past, and opted for an “expansionary” budget to support a stiff target of eight percent average economic growth with greater employment intensity and elasticity over the next five years. As Planning Minister, I need a larger development effort but as Finance Minister I need to make developmental spending more efficient. Implementation schedules need to be tighter, delivery processes toned up. Project monitoring will have to be close and rigorous. Ultimately, absorptive capacity of developmental expenditure at the ground level must increase so that major flagship national programmes do not by-pass us.

10. That brings me to the most crucial dimension of this budget. This August House had passed the Jammu & Kashmir Fiscal Responsibility and Budget Management legislation during the last session. The Act stands notified in the Government Gazette. I propose to make the Act applicable with effect from April 01, 2007. This will call for stringent policy measures for mobilization of additional resources, better tax and non-tax collections and full cost recovery of user charges. We shall need to reduce profligacy in the way we work and live. Expenditure compression, particularly establishment related, will need to become the norm. As of now, to give you an idea, the total expenditure
on salaries is Rs. 4,389 crore out of the overall budget of Rs.14,163 crore. Pensionary outgo is Rs. 1,010 crore. Put together, salaries and pensions account for Rs. 5,400 crore i.e. approximately 38% of the total budget. This is unacceptable and cannot be continued for long.

11. In a major development, the Task Force on Development of Jammu and Kashmir headed by Dr. C. Rangarajan has submitted its report to the Hon'ble Prime Minister of India in December last. The task force recognizes the unique economic features of the state. It also makes the suggestion that systems and processes of fiscal federalism that work for the rest of the country are not necessarily optimal for J&K. Encouraged by the recommendations, the State Government has made a fervent appeal to the Central Government for formulating the second phase of Prime Minister’s Reconstruction Plan based on the Rangarajan Committee Report and front load the second phase in a manner that it takes off during the first year of the eleventh plan itself.

12. One of the major decisions of the Coalition Government has been the creation of eight new districts in the state - four each for the two divisions. Apart from this, three sub-divisions and twelve new tehsils have also been
created. The money required for the new administrative units would be in the range of Rs. 400 crore. The requirement of financial support has been projected for inclusion in possibly the second phase of Prime Minister's Reconstruction Plan. For the duration of the eleventh plan, annual recurring cost on account of establishment will be met out of plan funds and the liabilities will be shifted to the non-plan side after the conclusion of the eleventh plan. Appropriate allocations for district plans will be made by the Planning & Development Department based on existing norms. I have made a provision of Rs.36 lacs in the non-plan budget during the current year to meet the expenses of recently appointed nodal officers who will steer the process of creating the new units.

13. We began the current financial year with a handicap. The scars of the cruel earthquake of October 2005 had to be removed from our beautiful landscape. While Temporary Shelters Units had been set up in Karnah, Uri and Poonch in the winter of 2005-06 itself, thanks to the release of financial assistance of Rs. 300 crore by the Central Government, the work relating to permanent reconstruction of fully damaged houses still remained half-done. Our persistent efforts and follow up with the Central Government led to a further release of Rs.284 crore during the current
financial year for making available the last instalment of financial assistance to the affected households. So far, an amount of Rs.561 crore has been disbursed through the treasuries against the central grant of Rs. 584 crore received till date.

14. I place on record the State Government's deep appreciation and gratitude to UPA Chairperson Smt. Sonia Gandhi and Prime Minister Dr. Manmohan Singh for personally ensuring the releases. Apart from assistance for construction of individual residential structures, the Central Government is actively considering additional financial assistance of Rs. 135 crore for restoration of damaged public infrastructure. It is now our duty and collective responsibility to ensure that moneys are utilized in the most efficient and fruitful manner. In particular, care needs to be taken to ensure that new construction and restoration work is earthquake-resistant and is of proper quality and specifications.

15. As if the devastation caused by the earthquake was not enough, in July and August this year, cloud bursts and flash floods brought huge miseries to our people living in certain areas of Leh and Kargil. Locust swarm infested Zanskar and Changthang resulting in near total loss of food
and fodder. Heavy downpour in most parts of both Jammu and Kashmir divisions took a heavy toll of public as well as private property. The total loss on account of these calamities is assessed at Rs.657 crore. An amount of Rs. 31 crore has already been provided from out of the Calamity Relief Fund for immediate rescue, relief and rehabilitation. Our request for central assistance for the balance requirement, particularly for permanent reconstruction of damaged public utilities is pending with the Central Government. We are closely following up the matter.

**MACRO-ECONOMIC ENVIRONMENT**

16. Yesterday, I presented the Economic Survey. It will be repetitive to mention the details. Suffice it for me to say that backed by credible policy action - fiscal, industrial and trade - the state economy shows positive signs of diversification with Gross State Domestic Project (GSDP) growing at a much faster rate than in previous years.

17. The Tenth Plan had targeted to achieve a growth rate of 6.1% at constant prices. The actual growth rate has, however, been 5.1% annually for the first four years. The growth during the current financial year is estimated at
5.75%. For the next year i.e. 2007-08, the annual growth rate is targeted at 6.5%.

18. GSDP at current prices is expected to touch an all time high of Rs. 25,050 crore during the current fiscal, primary sector contribution to GSDP continues at around 30%. While services sector accounts for half of the state’s income, the contribution of secondary sector is estimated to contribute to the overall growth by about 18%. At the end of 2007-08, GSDP is expected to reach a level of Rs.28,056 crore.

19. Per Capita Income at current prices for the year 2004-05 is estimated at Rs. 18,768. It is lower than the all India level of Rs. 25,907. According to advanced estimates, it stands at Rs. 21,362 for the current year.

**FISCAL POSITION**

20. Fiscal Deficit for the current year is estimated at Rs.1,509 crore. The deficit is likely to increase to a level of about Rs. 2,010 crore at the end of next year. That would be 7.16% of Gross State Domestic Product. In the normal course, such a level of fiscal deficit is un-sustainable and will require corrective action over the long term.
21. However, when you look at the total outstanding debt of the State Government as of March 31, 2006 which stood at Rs. 12,448 crore, the situation is within control. This includes loans from NABARD and other financial institutions. If even the overdraft with JK Bank of Rs. 1,979 crore and withdrawals from General Provident Fund amounting to Rs. 3,217 crore is also taken into account, the overall outstanding liabilities would amount to Rs. 17,644 crore.

22. Outstanding debt as a percentage of GSDP works out to 54.5% as of March 31, 2006. However, operating on GAIL (Gross Accumulated Internal Liabilities), we are today at 77.3% of GSDP. As decided in the FRBM, it is essential to restrict the debt/ GSDP ratio to a level of 55% over the next five years. To give you a perspective, the average GAIL/GSDP ratio for other states is in the range of 80 per cent to 115%. So we are better off.

23. Over the years, our overdraft with JK Bank has shown significant increase. Power deficit has been one of the major reasons for this. As of yesterday, the overdraft stood at Rs. 2,190 crore – Rs. 1,942 crore as normal overdraft and Rs. 248 crore as power account overdraft. I may mention
that last year, we did not raise any plan loan. The reason was that plan loans were available to us at more expensive rates. This year also, I deliberately decided to raise the 10% plan loan component of approximately Rs. 500 crore only in the last quarter of the financial year when the commitment of funds is the maximum. This should have a salutory impact on our end-of-the-year overdraft situation.

24. As a percentage of total expenditure, the overdraft amounted to 15.33% in 1996-97. The percentage worsened to 18.37% in 1997-98. On March 31 last year, the ratio stood at 17%. My effort will be to bring down the overdraft in the first instance to 14.5% of expenditure. This is based on an exercise of debt and deficit sustainability of the State. Considering that the expenditure is estimated at Rs. 14,163 crore this year, the acceptable level of overdraft as of March, 2007 would be Rs. 2,050 crore.

25. A very large part of the overdraft has assumed the character of a “structural deficit”. We need to break the current level of overdraft into two components – a long-term liability and a short-term “ways and means” facility. We could possibly look at meeting the first component through a combination of grant from Central Government, issue of bonds by J&K Government and raising of Additional Market
Borrowings. In any case, we must replace a part of the overdraft by debt. In view of the existing debt/GSDP ratio, and considering that GSDP is showing an upward swing, we can afford to raise or increase debt to some extent.

**REVIEW OF CURRENT YEAR’S BUDGETARY PERFORMANCE**

26. Total receipts during the current year are estimated at Rs.14,163 crore against the budget estimates of Rs.14,436 crore, of which Rs. 11,981 crore represents revenue receipts and Rs. 2,182 crore are capital receipts. The shortfall in receipts is mainly on account of non-release of Rs. 300 crore under Power Reform Grant, which will be flowing only in the next financial year.

27. Receipts on Capital Account, which were budgeted at Rs. 725 crore, are likely to go up to Rs. 886 crore. While market borrowings will remain at the budgeted level of Rs.167 crore, loans from financial institutions will be up from estimated Rs.254 crore to Rs. 415 crore.

28. Hon’ble Members will also notice a spurt in receipts under Public Account in the revised estimates from Rs.1,544 crore to Rs. 2,046 crore. This is mainly due to additional flow of Rs. 284 crore for earthquake relief.
29. On the expenditure side, against a total projected expenditure of Rs. 14,436 crore, the revised estimates of expenditure are assessed at Rs. 14,163 crore. While the non-plan expenditure will be Rs. 9,961 crore, an amount of Rs. 3,502 crore has been adopted as plan expenditure. The expenditure under Centrally Sponsored Schemes is likely to be at the projected level of Rs. 700 crore. In revenue and capital expenditure terms, the total expenditure translates into Rs. 10,212 crore on revenue account and Rs. 3,951 crore on capital account.

30. The most critical component of expenditure, which the Hon'ble Members would like to know, is the non-plan revenue expenditure. Based on assessment of the situation in the first six months of the current fiscal, this will increase by Rs. 517 crore. The increase is mainly on account of transfer of plan revenue component of Rs. 459 crore along with resource of only Rs. 400 crore.

31. Plan expenditure is estimated to be Rs. 3,502 crore as against Rs. 4,248 crore projected in the budget estimates. This is mainly due to the reason that expenditure under Prime Minister's Reconstruction Plan will not be more than Rs. 484 crore as against the size of Rs. 848 crore. The
expenditure of Rs.700 crore under CSS will be over and above this.

**REVENUE AND EXPENDITURE PROJECTIONS: 2007-08**

32. The total receipts for the year 2007-08 have been estimated at Rs. 16,267 crore of which Rs. 13,555 crore constitute revenue receipts and Rs. 2,712 crore as capital receipts. We are likely to receive an amount of Rs. 1,471 crore as share in central taxes. Further, other central transfers are expected to be of the order of Rs. 8,822 crore. The estimate for plan assistance, which includes an amount of Rs. 850 crore under PM’s Reconstruction Plan, has been kept at Rs. 4,755 crore as against the revised estimates of Rs. 3,921 crore for 2006-07. During the year 2007-08, it is proposed to mobilize additional resources of the order of Rs.150 crore through new fiscal and rationalization measures.

33. I may add that the receipts under Capital Account are being projected at a level of Rs. 1,441 crore. Similarly, receipts under Public Account are being projected at a level of Rs. 1,882 crore only.

34. As regards total expenditure, it is projected at Rs.16,267 crore. An element of Rs. 10,717 crore would
account for non-plan expenditure while the projected plan expenditure is Rs. 4,850 crore. Under centrally sponsored schemes, the level of expenditure will be Rs. 700 crore. In revenue and capital expenditure terms, the expenditure translates into Rs. 10,763 crore on revenue account and Rs. 5,504 crore on capital account.

35. As regards non-plan expenditure, a further amount of Rs. 436 crore as plan revenue component will be transferred along with resource of Rs. 400 crore to the non-plan side, while the component already transferred during the current year will be fully funded from out of non-plan resources. The non-plan revenue expenditure has been thus estimated at Rs. 9,857 crore as against Rs. 9,374 crore in the revised estimates for the current year.

36. As I mentioned, the steep rise in non-plan revenue expenditure is a cause of concern and has an adverse impact on our overall fiscal situation. With the recruitment process having been set in motion for filling up of vacant posts as also rationalization of organizational structure of a number of departments, the next year’s salary bill will be around Rs. 3,900 crore as against the revised estimates of
Rs. 3,589 crore for the current fiscal which would mean an increase of Rs. 300 crore. Further, an amount of Rs. 200 crore has been set apart for meeting the funds required on account of DA/interim relief that may be sanctioned during the year 2007-08.

STATE’S OWN REVENUES

37. Tax collections and non-tax income constitute State’s own revenues. While the tax story is positive, on the non-tax side, it is a tale of woes. I would like to deal with the second aspect first.

38. Non-tax receipts do not indicate an encouraging trend. Against the last year’s revised estimate of Rs. 727 crore, the actual realization was of the order of Rs. 536 crore only. The receipts during the current financial year are also expected to be less by Rs. 217 crore against the budgeted level of Rs.821 crore. The principle reason is the shortfall in power revenue collection by about Rs. 193 crore - down to Rs. 407 crore from Rs. 600 crore. We need to reverse the trend. The Government has decided to set up a four-member Ministerial Committee to review the progress of collection of non-tax revenues on a quarterly basis, apart from looking at strategies to augment the revenue flows.
39. There are huge arrears of power tariff and water charges payable by Government departments and municipal bodies. I have made a specific provision of Rs 30 crore in the budget exclusively for paying up past liabilities of power bills due from the Government departments. Similarly, a provision of Rs. 3 crore has been made for clearing liabilities of water charges. Efforts for recovery from private entities will be intensified.

40. During the current fiscal, tax collection is estimated at a level of Rs. 1,903 crore of which Rs. 1,200 crore will come from General Sales Tax (GST)/ VAT and Rs.703 crore from Excise and other taxes. Since the actual tax performance compares favourably with budget estimates, and considering the rate of growth of VAT collections alone at around 25%, I have adopted the level of tax collection at Rs.2,199 crore during the next financial year.

41. The present tax GSDP ratio stands at 7.5%. It will be our endeavour to increase “own tax: GSDP” ratio by 1% over the Eleventh Five Year Plan. The destination will be to reach the level of 8.5% by 2011-12.

42. The non-conformity by our neighbouring States to the approved VAT rates in respect of some commodities is a
cause of concern and the State Government has vociferously registered its concern with the Empowered Committee of Finance Ministers of different States. Let me add here that Empowered Committee has recognized and appreciated the fact that we are a zero-deviation State!

43. Infrastructure for toll collection is being upgraded at Toll Post Lower Munda and Upshi. Land issues relating to the construction of new Toll Plaza at Lakhanpur being constructed at a cost of Rs. 32.20 crore are being resolved. Necessary infrastructure is being created at Nagri to facilitate toll collection and clearance in view of the new developments. With the extension of railways upto Udhampur, a new Toll Post is under construction at an estimated cost of Rs 2.04 crore.

44. Two major reforms are on the anvil at the national level. One relates to phasing out of Central Sales Tax (CST) and the other is allowing the States to impose VAT on Additional Excise Duty items like textiles, tobacco and sugar. The ultimate abolition of CST will help reduce prices of commodities in our state, which is immensely dependent on imports of consumable items and capital goods. We have been very vociferous in demanding that, in the first phase, CST should be brought down from existing 4% to 3%. We
do expect a very positive decision on this sooner than later. The abolition of Declaration Forms for purchase of goods in inter-state trade by Government Departments is also under active consideration of the Central Government. This shall meet the long pending demand of trade and industry. The State Government is pressing for a compensation package, which shall be both monetary as well as non-monetary in nature, so as to offset the likely losses to be incurred by our State in the event of the phase out of CST.

**NEW FISCAL MEASURES**

45. In the pre-budget discussions, while talking to a cross-section of the Business, Trade and Industries Associations, a demand was raised for the provision of a fresh amnesty scheme by the Government to facilitate voluntary liquidation of tax arrears payable under the General Sales Tax.

46. In order to reduce arrears created mainly due to technical defaults, I propose to consider the grant of an amnesty scheme, for trade and industry alike, effective from April, 2007 and extending upto September 30, 2007. Let me, however, state very categorically that this would be the last opportunity for amnesty. Open-ended and regular
amnesties vitiate the collection climate and discourage honest taxpayers. To demonstrate the strength of the Government's will in this regard, I propose to remove the relevant provision per-se in the Act through legislative action so that in future no amnesty scheme is announced. Necessary legislation for this will be introduced in the next year.

47. Under the VAT regime, there is a provision of self-assessment. The department shall now have to conduct audit assessments of only 10-15% of the cases annually. However, we need to clear the huge back log of assessment cases pending disposal under the erstwhile tax regime. Accordingly, I propose to introduce a scheme of ‘Deemed Assessments’ under the J&K General Sales Tax Act, 1962 through enabling amendments in the Act and the Rules.

48. The Industrial Policy of 2004 has provided necessary policy environment for growth of domestic industry; apart from channelising investments from outside. Our hope and expectation all along has been is that the local industry stands on its own feet. Toll exemptions provided to local industrialists under the Industrial Policy need to be reviewed by the close of financial year so as to target the
facility in favour of only needy and eligible manufacturing units.

49. There have been differing opinions regarding grant of exemptions and the need for revisiting of the ‘negative list’. I would like to point out that grant of any exemption is a retrograde step and is an impediment to growth. We need to come out of the mind set of ‘protection’ and be prepared to bite the bullet of competition. Often, I have thought aloud about having a ‘positive’ list; rather than a negative list, so as to provide incentives only to those industries that need support. Accordingly, I propose the setting up of a Committee to go into this issue and furnish their recommendations to the Government by March 31, 2007.

50. I do agree with the representatives of Trade and Industry, that there are certain anomalies in the VAT rate schedules. Goods figure in one rate schedule in our scheme of things and the same goods attract a different rate schedule in other states. This results in misclassification of goods. This problem shall be addressed through the new HSN-based commodity classification code for VAT tariff being finalized by the Empowered Committee shortly. I trust the new HSN based classification framework will remove the
problems being faced by traders dealing with optical aids like spectacles etc.

51. In my consultations, several interest groups have demanded placement of additional goods of local importance in the zero percent VAT rate schedule. As the Hon’ble Members are aware, each state is allowed ten items of local importance to be included in the zero percent rate schedule category. We have already exhausted this quota. Yet, the State Government has made a strong appeal to the Empowered Committee for expanding the list to include fifteen instead of ten items. If this is agreed to, items like rakhi thread, chunnies being offered at the holy shrine of Shri Mata Vaishno Deviji, wood carvings, saffron and wool tops etc. could be considered for inclusion.

52. Our compliance record is also on an improvement curve. To encourage consumers to demand invoices for the goods purchased by them, I propose to introduce a “lucky coupon system” whereunder a coupon shall accompany every sale invoice beyond a certain limit and the customer shall be eligible for a monetary reward if he gets the lucky coupon with his purchase invoice. The scheme shall be notified by June 2007.
53. Intelligence gathering, surveillance and inspection are crucial aspects of any efficient system of tax administration. Accordingly, I propose a scheme of rewards for persons providing vital information for better tax recovery. A system of awards and incentive will also be introduced for those of the employees of the Commercial Taxes and Excise Departments who are instrumental in seizures associated with tax evasion. The details shall be notified by June 2007.

54. While the economy at the national level is doing extremely well, there is a widespread concern for rising prices. Commodities like paddy, rice, wheat, pulses, floor, atta, maida, suji and besan are essential commodities and consumed by the general masses, particularly weaker and poor sections of the society. These were put under zero rate category of VAT schedule for a period of one year i.e. upto 31.03.2006. Subsequently, in consultation with the Empowered Committee, we postponed its placement in 4% rate category for a further period of one year upto the end of the current financial year. We will endeavour to continue the exemption of tax on these commodities beyond March 2007.
55. Further, in order to protect the domestic bread industry from stiff competition from supplier of premier bread from Punjab who offer attractive margin to local distributor and are able to cut prices by reducing such margins, I propose to levy an additional toll of one rupee per loaf of bread coming into the state.

56. I also propose the placement of ‘made-ups” in the zero percent rate schedule under VAT, which shall benefit the common masses.

57. Keeping in line with the tradition, the Excise Department will announce the Annual Excise Policy for the next financial year by March 31, 2007. Duty Free structure will be appropriately rationalised to give further impetus to the reform process. Number of duty slabs will also be reduced to facilitate easier tax collection with minimized harassment to the trader. I trust the new arrangements will meet the long-standing requests of manufacturers and traders alike.

58. The people living in Basohli and Bani areas have been demanding that local vehicles crossing Lakhanpur Toll
Post from and to Basohli and Bani be exempted from payment of basic toll. I propose to agree to their request.

**ADDITIONAL RESOURCE MOBILIZATION**

59. Vat regime does not leave much flexibility or maneuverability with the State Government to raise tax rates. It becomes necessary, therefore, to explore the sources of additional revenue. Yet, I have all along held that resources must be raised in a manner that does not pinch the poor. I, therefore, propose to make very modest tax proposals for Additional Resource Mobilization.

60. At the national level, ‘services’ sector is growing at a whopping 50% per annum. We have not been able to tap the ‘services’ sector within the state in the absence of an independent service tax enactment. As Hon'ble Members are aware, we are taxing services under the provisions of the Jammu and Kashmir General Sales Tax Act, 1962. This has been made possible by amplifying the definition of “goods” to cover services as well. There is a strong case for having a separate legislation on service tax. Till such time we decide on various options, I propose to bring such additional services as are generally being used by the affluent sections of the society within the ambit of taxation.
These include courier services, marriage and banquet halls, private educational and professional institutions, coaching institutions, cable network, insurance, banking and other financial services, etc.

61. Since our GSDP is around Rs. 25,000 crore and the “services” sector accounts for roughly half of it, and considering that the existing tax-GSDP ratio is 7.5%, we should look for much higher flows of revenues from this ever-expanding sector. As the first step towards this, I propose to enhance the rate of tax on ‘services’ from 4% to 8%. An increase of this magnitude is necessary as it has been static at 4% for quite some time. I may mention that Government of India is levying service tax at 12% under the Central Act. Both the measures are expected to generate a revenue of Rs. 40 crore.

62. The J&K Entry Tax on Goods Act has been in operation for the past six years. It has served a dual purpose. On the one hand, it has been able to safeguard the interests of domestic traders, on the other it has yielded significant tax revenues. Restricting entry tax to a few scheduled items only often leads to unscheduled goods being imported under the garb of personal use.
63. Therefore, I propose the levy of Entry Tax on all goods for personal use and consumption in conformity with tax rates. However, while proposing the above measure, I have also kept in mind the interests of the common man and suggest an amendment in the Act whereby a threshold limit shall be fixed beyond which alone there shall be levy of Entry Tax. This measure is expected to generate a revenue of Rs. 10 crore.

64. The rates of Basic Toll were revised in June, 2003. I propose to rationalize these rates further. A 5% increase will be made in the rates of Basic Toll. Light Motor Vehicles and Rehras shall be exempted from the proposed hike. Differentiated Toll shall be levied on Trawlers carrying goods and material, with wheel strength and carriage capacity varying from 10 wheels to 14 wheels and above. The details shall be notified subsequently. I do expect to mobilize an additional Rs. 5 crore on account of these measures.

65. We have recently amended the earlier ROSHNI scheme. The idea is to make implementation hassle free by keeping the procedures simple and intelligible to common people. It is difficult for me as Finance Minister to precisely
assess the level of resource inflow during the current financial year or the next financial year. The receipts, howsoever much these may be, will be credited to a separate fund titled J&K Development Fund under the Public Account. We propose to carefully deploy the funds strictly in accordance with rules framed for the purpose and under the directions of Fund Management Committee, which will be constituted by the Hon'ble Chief Minister.

**ANNUAL PLAN 2007-08**

66. The aggregate size of the eleventh plan proposed by the state Government is Rs. 37,829 crore (at current prices). This, however, does not take into account the size of the Prime Minister's Reconstruction Plan (PMRP), National Flagship Programmes and other Central Sector Schemes. The size of the plan reflects a major step up as compared to the tenth plan, which aggregated Rs. 14,500 crore (at 2001-02 prices).

67. The fundamental objective of the new plan would be ensuring high, sustainable and inclusive growth, more importantly a job generating economic growth. In terms of structure, what we intend to do is to have three sub plans
with the overall State plan. The first would be a functional sub plan, in terms of maintenance plan, done in a public-private partnership mode. We have already taken pro-active initiatives to encourage partnership with the interested private players in the health sector. While prevailing security scenario does not help us in this course we shall continue to use PPP model innovatively for maintenance of capital assets.

68. The second would be an operational sub-plan in terms of completing all the on-going works which have been going on for more than one plan period. Without sounding sensational, the spill over cost of works at the beginning of the new plan is around Rs. 8,000 crore. It may take us the entire eleventh plan to complete the on-going works if no work is initiated. And, hence the need for a focused approach in terms of an operational sub plan.

69. The third sub plan would be sectoral – with top priority to Connectivity, Health and Education. We will need to limit the new capital expenditure allocation on a minimum need basis in respect of the other sectors. At a time when Bharat Nirman – the country’s flagship programme --- seeks to connect all the villages in the country, in J&K we still have tehsil headquarters and niabats that are not connected. In many districts, road density is as low as 5 to 6 percent. It is
difficult to justify such huge disparities to our people. Also, lack of connectivity impacts delivery of other public services. Hon'ble Chief Minister has strongly represented our case to the Central Government for making a special financial dispensation to J&K for land compensation as land holdings by individual families in rural areas are extremely limited and any acquisition is bound to impact their livelihood.

70. Our approach to the new plan will, therefore, be “intensive” expenditure planning rather than “extensive”. It will also be important to fully provide our share for Centrally Sponsored Schemes with a view to maximizing our access to the central funds. I have made a provision of Rs. 400 crore in the next year’s plan.

71. The size of Annual Plan for the year 2007-08 has been fixed at a level of Rs. 4,000 crore. This was done recently in a High Level Meeting co-chaired by Hon'ble Chief Minister, J&K and Deputy Chairman, Planning Commission of India on December 13, 2006. Apart from the Normal Plan (Rs. 4,000 crore), the size of PMRP for the next year has been fixed at Rs. 850 crore. A special Power Reform Grant of Rs. 1,300 crore, on the pattern of the current year, will be
required to meet the power deficit estimated at Rs. 1,496 crore for the next year.

72. In other words, full funding of the Annual Plan for the next financial year is contingent upon separate and independent financing of the power deficit through the special power reform grant of Rs. 1,300 crore. Planning Commission has agreed to provide Rs. 300 crore of the grant portion. The balance portion of Rs. 1,000 crore has to come from Union Finance Ministry. The Chief Minister met with the Union Finance Minister who has assured of a positive decision on this issue. The Hon'ble Chief Minister has personally sought the support of Hon'ble Prime Minister as well.

**CHALLENGES OF UNEMPLOYMENT**

73. Members of this august house may appreciate that it should be our collective endeavour to try and provide self-employment opportunity to every household, especially to those with no access to Government employment. So far we have not been able to address the issue because we were bound within the framework of the tenth five year plan which lacked employment as a thrust area. Now that we are starting the eleventh five year plan, the time has come to put in place
framework that will ensure a holistic redressal of the unemployment issue.

74. To mitigate the growing problem of unemployment in the state, Government will initiate a number of steps as part of the overall plan strategy. Development departments will be advised to explore the scope for innovative self employment projects under various sectors and to play more proactive role for creation of large scale self-employment and wage employment opportunities ensuring more productive and efficient use of the available human resources.

75. Keeping in view the magnitude of unemployment, the State Government has decided to take up a major initiative for creation of self and wage employment opportunities during the year 2007-08 and rest of the eleventh plan period up to 2011-12.

76. In order to achieve this end, a High Power Employment Mission is proposed to be constituted to take over the responsibility of coordination with different departments and related institutions. The Employment Mission will be set up at the state level to look into employment related issues and monitor generation
programmes at each level. The Employment Mission will function in the Planning and Development Department.

77. This Mission will be headed by Planning Minister, and will have five members. This Apex Body will determine policies and issue general directions. The main objectives of this Mission shall be as follows:

a) to facilitate generation of adequate employment opportunities through a policy framework.

b) To recommend and initiate bold steps for infrastructure development which will open up avenues for self-employment and create a conducive atmosphere for sustainable wage employment.

c) To act as a catalyst in opening of marketing opportunities for commodities and goods produced in the State.

d) To mount special drive for creation of self-employment opportunities particularly in agriculture and allied sectors and small scale industries, handicraft and cottage industries and in the I.T. sector.

e) To monitor generation of self-employment in different sectors and programmes.

f) To formulate area and trade specific strategies for maximizing employment opportunities on a sustainable basis in the State supported and private sectors.
g) To facilitate proactively substantial wage self employment for various development activities with special emphasis on creation of community and individual assets. Sectors like forestry, watershed development, rural communication, horticulture and land development among others will receive priority.

78. The Government intends to bring synergy in different development sectors in terms of creation of self-employment opportunities. In this regard, a series of policy interventions, including a model law on contract farming, restructuring of cooperatives and new and innovative self-employment programmes (SEPs) will be taken. Such schemes shall contain training component for up-gradation of skill and entrepreneurial ability. Assistance will be provided to educated unemployed persons for their self-employment in urban and rural growth centres in the services and small business sectors. Development of infrastructure for marketing shall be given utmost priority. Export promotion in Handloom, and Cottage Industries will be given priority. Handicraft artisans and Handloom Weavers would be assisted with a particular emphasis on market orientation and linkage with the SME sector. Special measures will be initiated for improving the skills of young persons in order to improve their employability.
79. All this, I am aware is only policy pronouncements. But I am equally conscious of the fact that loan financing of the unemployed hasn’t worked well. Banks and financial institutions don’t lend because they don’t find the proposals commercially viable. To be fair, the moment Government steps in, it has been observed that the propensity to default of loans increases. In addition to this, there are issues of mortgages and collaterals. To avoid all this, I propose the creation of a Venture Capital Fund for self-employment. Typically venture capital are funds in exchange of equity given to start up firms and small businesses with exceptional growth potential. I am innovating it and instead of growth using it for funding activities with exceptional employment potential. It will also include, within itself, a sustenance allowance for the period during which the enterprise or activity is not yielding any returns up to a maximum period of three years. The initial corpus of this fund, till we finalize the eleventh plan document will be Rs. 100 crore.

80. This corpus will be used to finance small and mini enterprises and commercial activities by participating with the private entrepreneur. As is the way of venture capital financing, there will be no interest rate on these funds. But after a moratorium of three years, Government will share
the profits. The exact mechanics of it will be worked out before 31st March, 2007.

81. Till such time that the Mission is set up and it reviews, restructures and integrates the plethora of schemes of center and the state, I feel there is immediate need to make the existing schemes more attractive. I propose to increase the level and extent of capital subsidy as well as extending the scope and period of interest subsidy particularly to cover new emerging areas such as floriculture, fish farming, apiculture and rural transport. I propose to double the capital subsidy from 5 per cent to 10 per cent of the unit cost and also double the ceiling from Rs. 7,500 to Rs. 15,000 in each case. It is also proposed to increase the interest subsidization of 5 per cent to other sectors in addition to handicraft and handlooms. A notification to this effect with all details will be issued by March 31st to be operated from 1st of April, 2007.

82. A new self-employment scheme will be launched by the State Government shortly for the benefit of unemployed women in distress. It is proposed that the Women's Development Corporation will provide loans to the beneficiaries at an interest rate of 5 per cent from the Plan. To begin with, about 100 women from each district would be
selected under the scheme. Later, the department would increase the number of beneficiaries to 200 from each tehsil. At present, the department has been allocated Rs 10 crore for launching the new scheme.

83. For young urban educated unemployed (or marginally employed) women, I propose to help them establish integrated communications Kiosks, or specialized marketing cells for promotion of local handicrafts or organic food and organically processed food kiosks or such like activities. This will be exclusively for young women in the urban area under a special package of assistance for promotion of self-employment. The requisite training for setting up such Kiosks will be imparted at the Entrepreneur Development Institute and the venture funded through bank loans with government subsidy as admissible under existing self-employment schemes.

84. Establishment of 22 Tourism Development Authorities also offers tremendous opportunities for diversified tourist activity. In all these new unexploited areas there is bound to be demand for accommodation. The government will support development of paying guest type of accommodation by educated youth through a special self-employment scheme.
85. There is a need to develop skills for at least 5,000 to 10,000 people within a period of six to eight months so that they can participate in the BPO sector employment boom, the revenue generation potential of which is projected to be $20 billion. To give a fillip to this and resultant employment in the sector, the State Government plans to set up a centre for skill enhancement in partnership with private players. The state will create the infrastructure and get private players to run six month skill upgradation courses. The state will subsidise the cost of training for six months. A corpus of Rs.5 crore has been earmarked for this.

**SECTORAL INITIATIVES**

86. Road connectivity especially in rural areas provides the basic access to social and economic services. The Central Government has launched Bharat Nirman Programme to provide road connectivity to all habitations having population of more than 500 till 2009. Pradhan Mantri Grameen Sadak Yojna (PMGSY) is being used as the vehicle for delivering physical connectivity for this purpose. During the current year, 108 schemes have been approved at an aggregate cost of Rs. 144 crore. A large number of projects are in the pipeline. Implementation of schemes
under the Asian Development Bank (ADB) loan will be speeded.

87. Effective healthcare of the poor, vulnerable and marginalized sections of the society will be ensured under National Rural Health Mission. A seven-year Programme Implementation Plan aggregating Rs. 4,762 crore has been prepared and submitted to the Central Government. While the Central Government has agreed to provide Rs. 87 crore during the current year, proposal seeking financial assistance of Rs. 1,802 crore during the next year is under their consideration. Apart from this, for providing building, machinery and equipment at Public Health Centre level, an ambitious project for Rs 1,051 crore has been formulated for consideration by the World Bank. At this juncture, I must place on record our gratitude to the Hon'ble Prime Minister who agreed to the request made by Hon'ble Chief Minister, for continuing 90% grant - 10% loan dispensation to us in respect of externally aided projects.

88. Our State imports poultry worth Rs. 180 crore from neighbouring States like Punjab. Considering the huge demand, it is essential to encourage and support poultry development initiatives within the State. To maintain a healthy and harmonious balance between protection of ‘hatching’ units and
promotion of ‘rearing’ enterprises, I propose to reduce toll tax on imported “one day old chicks” from rupees two to rupee one per bird.

89. Government is committed to revival of tourism as a ‘service’ industry in the state. The decision to give tax holiday has seen revival of the sector and the package will be continued over the next year.

90. A High Level Group will review the Central Government’s packages for soft loan for hoteliers and guest houses announced in September, 2003 for the purpose of generation of employment through revival of tourism.

91. The fundamental requirement of facilities at any tourist destination is the availability of assured and quality transport service; particularly in terms of modern vehicles. I propose to introduce a window of soft loans for this purpose. J K Bank will extend loan facilities to travel and taxi operators against viable projects. The effective rate of interest to be borne by such beneficiaries will be a maximum of 7% per annum. The Government shall bear the differential in the interest so charged. The amount of interest subsidy will be met from the plan allocations of the Tourism Department.
92. Small traders and dhabawallas’ serving cooked food and food preparations from eateries will be covered under the “composition of tax” scheme. This will reduce their accounting hassles and bring them on to a much softer tax dispensation.

93. The framework of incentives under Industrial Policy of 2004 has been positively received by the manufacturing sector. With a view to further build on the momentum, as was announced in the last year’s budget speech, within the broader policies framework, separate sub-policy packages will be worked out for Kashmir Valley and some of the districts of the State. I propose to appoint a Working Group under the chairmanship of the Economic Advisor to the State Government, which shall submit a concrete plan of action by June, 2007 to implement this decision. Similarly, Industries and Commerce Department will come out with a trade policy which will lay down future road map for enhanced trading activity; particularly in the context of concrete and positive possibilities of trans-LOC trade.

94. A number of suggestions were made at the time of pre-budget consultations. Handicraft sector engages around
3.5 lac artisans in our state. The most meaningful way to market the production would be to hold exhibitions within and outside the country. I have ensured a plan provision of Rs.105 lacs for this purpose in the next year's plan. As regards promotion of “brands”, financial support of Rs.30 lacs will be extended over the next five years for registration of handicraft items under Geographical Indicators Act for Kashmir Pashmina, Kani Shawl and Sozni. One of the suggestions was that a cluster for gem, jewellery and silverware be created. A scheme has been formulated by Industries and Commerce Department, which is being included in the eleventh plan.

95. The challenge of urban poverty needs a focused response. To be able to access centrally sponsored schemes in the Urban Development sector, an amount of Rs. 100 crore has been earmarked as state share in the plan for 2007-08.

96. City Development Plans of two mission cities of Srinagar and Jammu have been prepared and finalized. While the plan for Srinagar is estimated to cost Rs. 4,206 crore, that for Jammu will cost Rs. 4,120 crore. The two plans cover vital aspects such as sewerage and drainage, augmentation of water supply, solid waste management and
preservation of water bodies. Effective implementation of plans will lead to the renewal of old cities. I may add here that two Sewerage projects (Phase-I) have already been sanctioned in respect of Srinagar and Jammu for Rs. 653 crore. Projects relating to water supply and drainage projects of the two cities are also likely to be sanctioned during the current year for an amount of Rs. 588 crore.

**CAPACITY EFFORTS**

97. Human resource development is central to good governance. We must not forget that the quality of our personnel largely determines the pace of absorption of funds and in the ultimate sense the quality of delivery of public service. The Government shall notify a comprehensive and forward looking Training Policy in consultation with prestigious management and administrative training institutes in the country. The efforts will be to work out on annual training schedule for about 100 KAS officers; particularly short term training courses ranging from one to four weeks. For this purpose, I have increased the allocation for training of KAS officers by Rs. 75 lacs to Rs. 1 crore in the next year's budget. The policy will also address the need for upgradation of Secretariat Training Institute on the pattern of the Central Secretariat Training Institute so that
an aggregate of 500 to 1000 clerical staff across the departments is imparted training annually.

98. Tax collection is increasingly becoming complex and demands specialized response. Taxation covers a wide range of Acts and Rules and demands services of trained manpower. With a view to equipping our tax personnel with requisite skills and expertise, a new training College for imparting training and refresher courses to the Excise and Taxation personnel will be set up at erstwhile Toll Post Nagrota. The staff required for this purpose will be assessed and provided.

INSTITUTIONAL REFORM

99. I propose to introduce a number of reforms to strengthen the existing institutional framework to improve the speed and quality of delivery of public service, as a part of the Good Governance agenda of the coalition Government. I would make a brief mention of some of the proposed steps.

100. Cooperative Credit Institutions are not in good financial health. A high level group under the chairmanship of Economic Advisor is presently engaged in looking at various options to revamp the cooperative credit structure, which is essential for achieving the 4% growth rate for
Agriculture and Allied sectors targeted under the eleventh plan.

101. To start with, Jammu Central Cooperative Bank (JCCB) is proposed to be supported as it is not complying with Section 11(i) of Banking Regulation Act, 1949. Finance Department has undertaken an exercise for one-time settlement of this liability, crystallized at Rs. 80 crore, over a twenty-year period. A provision for Rs. 4 crore is being made in the Budget for 2007-08.

102. Union Finance Minister in his Budget Speech for the year 2004-05 had announced state-wise merger/amalgamation of Regional Rural Banks (RRBs) within the existing framework. In J&K, there are three RRBs. Two of the RRBs namely Jammu Rural Bank and Kamraz Rural Bank are sponsored by JK Bank. An action Plan for amalgamation of the two banks has been prepared by the Bank and approved by its Board. As a first step, an integrated management structure shall be put in place whereby both the banks would come under the same administrative hierarchy. Further, in principle, the State Government could agree for disinvestment in the RRBs and assign its share of equity to JK Bank, subject to the required regulatory approvals.
103. Cabinet has recently approved the DART Legislation on the lines of Central Act of 1993. Once enacted, it will provide much-needed platform for banks and other financial institutions dispensing credit in the State. It is expected that this will lead to a turnaround in the deteriorating loan portfolios (NPAs) of banks.

104. I fully share the concern of the Hon’ble Members on the health of public sector units in the State. A High Level Committee has been set up recently for working out a model “Golden Handshake cum Voluntary Retirement Scheme” shortly to be made applicable across the board in all ailing and potentially viable units.

105. Although a significant part of money required to fund such an expenditure would come by way of fungibility of assets of the ailing units, yet a share of it must come from the Government as well. I have proposed an additional allocation of Rs. 40 crore - Rs. 20 crore from non-plan and Rs. 20 crore from plan - during 2007-08 for this purpose.

106. Trade and Industry have been representing for a transparent and non-discretionary policy of one time settlement of non-performing loans given by the State Finance Corporation. I have appointed a settlement
committee for this purpose and a settlement scheme shall be made effective from April 1st, 2007. This scheme should meet the expectations of the transporters.

107. Combined Financial Organization for Major Hydel Projects and Flood Control Department was created in August, 1965 and continued to remain under the control of a senior representative of Comptroller and Auditor General of India. Initially, the mandate of this organization was to address issues arising out of devastating floods in 1957. Subsequently, its control was extended to power projects in the year 1972. However, now that both Power Development Department and Irrigation and Flood Control Department have a full time Financial Advisor cum Chief Accounts Officer, continuation of a separate administrative mechanism is neither necessary nor desirable. As a first step, I propose to take out Flood Control sector including Ravi Tawi Irrigation Complex from the functional jurisdiction of this organization. The changed administrative unit will now be exclusively under the control of Power Development Department. Necessary changes in the role and function of the altered unit will be notified in consultation with the Power Development Department by end of February 2007.
WELFARE MEASURES

108. A vibrant urban local bodies sector is necessary to realize the objectives of urban development. The Housing and Urban Development Department had initiated a proposal for revision of honorarium in respect of Mayor and Deputy Mayor and payment of honorarium to President, Vice President, Corporators and the Councillors of Urban Local Bodies. The package of honorarium will be implemented with effect from April 1, 2007.

109. My predecessor had agreed on the floor of the House during the last year that salaries of Personal Assistants to Hon'ble Members would be revised. The revised rate of Rs.3,000/- per month would be made effective from April, 2007.

110. There are over seven thousand three hundred Numberdars and two thousand seven hundred twenty-five Chowkidars working in our State. At present Numberdars are being paid a monthly remuneration of Rs. 81/- while Chowkidars are being paid monthly remuneration of Rs.225/-. They have been demanding enhancement in the present rates of honorarium. The State Government has already constituted a High Power Committee to examine the demand. The Committee will submit its recommendations
before the end of the financial year. Hon'ble Chief Minister will announce the new rates on or before April 13, 2007. I have made adequate budgetary provision for the enhancement.

111. For the current year, for payment of DA to our employees, a budget provision for Rs.150 crore was made. Finance Department exceeded this provision to pay three instalments of DA to the employees to bring them at par with central DA. I have made a provision of Rs.200 crore for DA in the next year's budget.

112. Judicial system occupies a prominent place in governance. Advocates are a vital link between the judicial system and litigants and ensure that ends of justice are properly served. For them, knowledge connectivity is a big necessity. I propose to make an allocation of Rs. 50 lacs from the budgetary resources of the next financial year as seed capital contribution to a Knowledge Management Fund which could possibly be set up by the fraternity of advocates under the overall guidance of the Hon'ble High Court of Jammu & Kashmir. I have no hesitation, whatsoever, in accepting a bias here; as I deem it a privilege to have been a part of this fraternity.
113. Right to information is a matter of reality now. Informed public opinion is crucial to healthy growth of democratic institutions as also sharpening of instruments of governance. Media can play a very effective role in achieving these objectives. The Government recognizes the problems being faced by the members of media; particularly relating to proper housing. In my informal discussions with representatives of the fourth estate, I have been suggesting that they could consider forming a group cooperative housing society for setting up a special colony for the members of both electronic and print media. The Government could consider granting a suitable piece of land for this purpose. On my part, I have made a provision of Rs.50 lacs as one time contribution for kick starting such a measure for journalist friends. And enemies too!

114. In an increasing market driven economy, it is essential to protect the interests of the poor and the vulnerable, with traditional livelihoods and low income and consumption potential. Many states have experimented with specific social security nets relevant to their circumstances. I propose to appoint a High Level Working Group to look at the ways of bringing below poverty line family under some kind of insurance cover. This is not merely statement of intent. I propose to fix a time-line of six months for not only
the submission of the recommendations but also the commencement of action. I have made a token provision of rupee one lac in the estimates for the next year and propose to build on the provision at the time of finalization of revised estimates during the course of the financial year.

PART-II

POWER BUDGET : 2007-08

115. I now move on to the second part of my budget - the Power Budget. For the first time in 2006-07, the issues confronting the power sector and their impact on the general budget were presented separately. The broad assessment presented last year continues to be valid now also. As such I do not intend to elaborate upon the same.

THE CONTEXT

116. Electricity tariff in Jammu and Kashmir is amongst the lowest in the country. It represents only 28% of the cost of supply and is even lower than the cost of purchase. In other words for any unit of power supply, the Power Development Department looses nearly three rupees. The need for enhancement of the tariff is, therefore, imperative in case we are to gradually move to power sector being a source of
revenues rather than being the source of deficits as it is now.

117. Unfortunately our State is also characterized by transmission and distribution losses, which are amongst the highest in the country. While 15-20% of the losses could be attributed to the system, our losses are to the tune of nearly 47%. Thus nearly 27% of the estimated losses could be straightaway attributed to theft.

118. Our energy accounting systems have traditionally suffered from weaknesses and the lack of documentation had regrettably come in the way of greater accountability from both ends – from the departments and from the consumers end.

119. The development of power infrastructure has to be done keeping in view the long-term requirements of the network based on anticipated levels of growth of consumption. We have to think and plan ahead based on this future requirement since the economic growth is so vitally connected with the availability of infrastructure, particularly power. We are thankful to the Hon’ble Prime Minister for making sufficient allocations under the Reconstruction Plan for augmentation of the transmission
infrastructure in the State. Keeping in view the severe cost escalation and the long gestation period of these projects, the Hon'ble Prime Minister has agreed to increase the allocation previously kept in the Prime Minister's Reconstruction Plan (PMRP) for this purpose at Rs. 706 cores to about Rs. 1,300 crore. I am confident that the required infrastructure will be commissioned during the eleventh plan period and will usher in a new era so far as power supply is concerned.

120. Now I come to the oft-discussed and important issue of power generation. Despite an assessed potential of over 16,000 MW, at present the hydro potential in the State has been tapped only to the extent of about 1500 MW both in the State as well as in the Central Sector. This has necessitated huge import of power by the State. Since the Indus Water Treaty presents limitations on the storage of water, our projects are designed as run of the river projects and typically do not provide much relief during the peak demand period, particularly the winter months. We have been forced to purchase power from outside the State to meet this demand, at a very heavy price to the State exchequer.
121. The Government has been actively pursuing the issue of compensating the State for such disadvantage at the national level. We appreciate that our difficulties have been well-recognized. The Rangarajan Committee on Economic Development which was established by the Honorable Prime Minister, has recommended to the Government of India the transfer of NHPC constructed 390 MW Dul Hasti Project to the State. When the project is transferred to the State, it would provide considerable relief to the State particularly in summer months and would even afford flexibility to bank our power with other States in summer and get it back in winter when we need it most.

122. Unfortunately, the development of hydro potential of the State has not been at a desirable pace for a variety of reasons. Power projects typically require huge investment and have long gestation period. It is well recognized that careful planning and pre-project activities contribute as much to the success of the projects as the post contract award stage. We need to build a shelf of projects, prioritize them and find resources for their implementation through all possible means.
In the above context, I think it was a wise decision to have a separate power budget. Quite apart from making us focus directly on the problem, the decision has been taken at a time when the power sector in India is undergoing significant changes. By far the most significant change is that power has become a “tradeable commodity” now. Till very recently it was “non-tradeable”. This simple fact that we have the option to trade in power has opened up immense possibilities for us.

As is well known, the state’s power demand peaks during the winter months, but our energy generation, largely hydel, falls during the same period. As a result we become heavily dependent on central sector power which too is not sufficient to meet its winter power requirements. Under these conditions, the simple policy solution is that we start trading in power: “buy in winter” and “sell in summer”.

In order to do so, we have to address the issue of the gross mismatch between the load profile and the hydro-thermal mix available to the state. We need to move towards a system where, for meeting the base load demand and maintaining reliable and quality supply, the state ties up
long-term capacities in IPP projects, particularly based on coal and gas.

126. We need to evolve a policy mechanism within which the department or the Power Development Corporation can approach project developers or take the assistance of trading companies who would facilitate development of long term thermal projects at competitive prices.

127. Going beyond this, what is required is a policy framework that would address issues like direct and indirect subsidies, single window clearance for projects, logistics supports to IPPs, a strong securitization mechanism which will ensure speedy financing.

128. To my mind, the solution to all our problems in power lies in the creation of a state transmission utility. A long-term transmission plan (15 years or longer) needs to be developed for the state. Under the Prime Minster’s Reconstruction Plan funds have been provided for strengthening the transmission and distribution (T&D) infrastructure.

129. Keeping in view the large hydro potential, limited available transmission corridors in the valley and ever-increasing right-of-way problems in laying transmission lines,
it is important to develop an integrated transmission system for the state that optimizes utilization of resources and serves long term requirement of evacuating power from the ongoing and future hydro projects.

**REFORM INITIATIVES**

130. I am happy to say that we are on the right course now. As the House is aware, the Jammu and Kashmir State Electricity Regulatory Commission Act was enacted in 2000 and the State Electricity Regulatory Commission had also been established under this Act. The main purpose of the Act was to establish independent regulator, which would decide on issues concerning multiple stakeholders like the power distribution utility and various consumer interests, besides the private sector investors. Under this Act, the function of fixation of electricity tariff has been assigned to the Commission. The Commission is expected to do so based on the application filed by the Power Utility (in this case the Power Development Department) after the prescribed procedure of public consultation. For the first time, the Power Development Department has filed an application before the Commission detailing its annual revenue requirement and made a petition for fixation of tariff.
131. The Power Development Department has assigned the highest priority to energy accounting, as the same is fundamental to the start of reform process. Towards this end all 11 KV and higher voltage feeders shall be metered using electronic meters and the job is likely to be accomplished by the end of the next month. This would enable a proper assessment of where the losses are more and how they can be reduced at the micro level. Proper information on the energy consumption patterns in different geographical locations and consumer categories will also enable the department in designing its scheme for improving the quality of supply of electricity.

132. At the management level, the department has introduced greater accountability by assigning the responsibility of energy accounting for each 11 KV feeder to specific Junior Engineers by name. Starting December 2006, the Department has framed energy account for all 11 KV feeders. Supervisory responsibilities have been assigned to the Superintending Engineer and Executive Engineers.

133. The distribution of power is essentially a commercial operation. There have been major changes in the approach towards this segment at the national level since the last few years. We should not keep ourselves isolated from these
changes and should try and leverage the maximum advantages from the experience of other states. Ours is amongst the few states, where this function is still being done by the Government Department. It would be imperative to move towards a corporate structure as soon as possible.

134. As a first step, and to emphasize the commercial nature of operations, the Electric Divisions in the State have been designated as Accounting and Profit Centers with the responsibility to maintain an account with regard to the commercial operations relevant to the local area. The department is working with the Power Finance Corporation of India to “corporatise” PDD and the government will take a decision on the issue after considering all implications.

135. One of the major weaknesses of our power distribution system has been the absence of consumer metering in most areas. This single factor has been responsible for lack of accountability both at the end of the distributor of energy as well as that of the consumer. Until 1\textsuperscript{st} April 2006, there were only 68,000 consumer meters in the State. During the current year, one lac twenty-two thousand consumer meters have been installed. The Power Development Department intends to cover 40% of the
consumers by metering by the end of August 2007. The thrust of the operation has been in the high consumption urban centers of Jammu and Srinagar.

136. Our experience shows that in the areas where 100% consumer metering had been introduced, the consumption levels have come down and the outages have decreased since the power distribution hardware like transformers are suffering less or no damage. I appeal to the Hon’ble Members to lend a helping hand to the departmental functionaries who are engaged in this important operation. I assure you that concomitant steps will be taken for improvement of the distribution infrastructure like replacement of worn-out poles, electricity cables, transformers etc. in those areas that are being covered under intensive metering.

137. While the above-mentioned steps are directed towards a better management of the energy accounting system, from the financial stand point, the bottom line is the revenue collection. To improve efficiencies in this direction, the Power Development Department has undertaken to computerize the billing operations and the job has been entrusted to the National Informatics Centre. By the end of
August-September 2007, it is targeted to complete 100% computerized billing in Srinagar and Jammu cities which account for 60% of the total power consumption of the State. The achievement of this benchmark is one of the conditions of the tripartite MOU signed with the Government of India.

138. I have dealt at length with some of the important power reform measures initiated during the current year and indicated specific targets set by the department for itself. Now I deal with some of the issues related to the improvement of power transmission and distribution systems, which also have important bearing on the quality of power supply to our consumers.

139. As the House is aware, there had been a serious bottleneck for the last so many years in the transmission of power to the Kashmir region. I am happy to put on record the assistance provided by the Government of India in addressing this issue. The 400 KV transmission line Kishenpur – Wagoora Transmission Line was commissioned by the Power Grid Corporation of India Ltd. in December 2006, relieving this severe bottleneck.
140. The Power Development Corporation, which is entrusted with the mandate of developing the hydro potential of the State, shall prepare basin-wise development programmes. It will adopt three-stage process of project approval. These stages are; (Stage 1) survey & investigation and preparation of pre-feasibility reports (Stage 2) detailed investigation, preparation of DPR and pre-construction activity including land acquisition and statutory clearances and (Stage 3) execution of projects after investment decision, financial closure and contract award.

141. It has been estimated that if the state alone were to take up the projects that have been envisaged in the eleventh plan, more than Rs. 11,000 crore will be required. PDC will, therefore, implement these projects by effectively utilizing the mechanism of joint ventures and private sector participation. The overall approach will be to maximize long-term advantage to the State, and to put it on the national map as a net power exporter.
POWER RECEIPTS AND EXPENDITURE : REVISED ESTIMATES 2006-07

142. The revenue receipts from sale of power are expected to aggregate to Rs. 407 crore during 2006-07. Despite the fact that this is higher by nearly 14.6 per cent compared to the receipts last year, the shortfall compared to the budget estimates is Rs. 193 crore.

143. This shortfall in revenues, combined with the slippage of Rs. 31 crore on the expenditure, sets us back by Rs. 214 crore. The revised expenditure on power, going by the present trends, will be Rs. 1,995 crore. This includes, power purchase of Rs. 1,548 crore, in addition to maintenance, salaries and interest on power bonds. In short, despite best efforts of the department, the power deficit will not be substantially lower than last year. As of now, it is estimated to be Rs. 1,592 crore. This is also because there has been an increase in revenue expenditure on establishment resulting from the transfer of establishment from plan to non-plan.

144. It is this power deficit that is distorting the state finances. There is no option but to address this issue and to take all necessary steps to match the receipts and expenditure in this sector. This requires sustained efforts
aimed at power sector reforms in all aspects. It is well recognized that the turn around cannot be brought about in one or two years, but may take five to seven years. During this period of transition the power sector will require support from the State and the Central Government.

**BUDGET ESTIMATES: 2007-08**

145. The State Government has held detailed discussions with the Government of India in the Planning Commission and Ministry of Finance on the subject. Based on these discussions the State Government entered into a tripartite Memorandum of Understanding with the Planning Commission and the Ministry of Finance under which the Government of India agreed to support the State with Special Central Assistance on the condition that the State Government takes certain steps towards the reform of the power sector.

146. Within the framework of the MOU and inputs of the departments, the Budget estimates for power have been worked out. It is estimated that the power receipts will increase to Rs. 700 crore in 2007-2008. This is based on the assumptions of increased metering, lower T&D losses and improvement in the T&D infrastructure. It doesn't assume a
hike in the power tariffs. However, if during the course of the year, we find that we are lagging behind the agreed targets, we will have no option but to increase the tariffs.

147. As far as expenditures are concerned, we have estimated that the total expenditure will increase to Rs. 2,194 crore during the year. Out of this, the department has estimated power purchase to be about Rs. 1,700 crore. The remaining, of course, goes for salaries, maintenance and interest payments. With this level of expenditure, given power receipts at Rs. 700 crore, the actual power deficit works out to Rs. 1,496 crore. It is proposed that we fund this to the extent of Rs. 1,300 crore which is coming in the form of a power reform grant and Rs. 196 crore will come from the non-plan receipts of the state, outside the power budget. In other words, there will be non-plan additional transfer of Rs. 200 crore to the power budget from the general budget.

148. I have outlined above, some of the critical issues confronting the power sector in the overall context of the state finances. The government will gradually but surely be moving towards major structural changes in the years ahead for an overall consensus and cooperation of all members will be required. My esteemed colleague, the Honorable Power
Minister will be taking the house into confidence as we traverse this challenging path.

149. With these submissions, I lay on the table of the House Annual Financial Statement for the year 2007-08 and the Supplementary Statement of Expenditure for the year 2006-07. I also take this opportunity to thank the Associations of trade, industry, tourism, transport, Chambers of Commerce and Industry, experts from academia and above all representatives of political parties who made the process of budget making this year both consultative and participatory.