<u>PART – A</u> : <u>GENERAL</u>

Hon'ble Speaker, Sir,

1. I rise to present the Annual Financial Statement for the year 2008-2009.

2. Today is a day for applause and celebration. Much against the doomsday prophecies and much to the chagrin of the opposition, the first ever Coalition Government in J&K completes with aplomb a major responsibility of its governance: present its sixth budget.

3. With this budget, we mark the end of a process that started with the Vote on Account presented by my illustrious predecessor in 2003. Even as this budget culminates the end of a phase – a phase that has given the fiscal policy a macro-economic direction – it heralds the

beginning of another one, which will see the same coalition present another six budgets in a succession.

4. I say this, not in political brashness, but with pragmatic assessment. It is based on the fact that the seeds of our electoral success have been sown in our six budgets and those are now flowering across the state in the form of developmental work done on ground. Of course, needless to add, that this would not have been possible without the vision of Jenab Mufti Muhammed Sayeed and the dynamism of Jenab Ghulam Nabi Azad.

5. Each year of the last five years has packed a decade of performance in it. In the last five years including the current fiscal, and the next financial year, we would have spent around Rs 87,000 crore and raised approximately Rs 80,000 crore. This is

more than what was spent and earned cumulatively in the decade preceding 2002-2003.

6. To put our budgetary performance in sharp focus, the previous Government spent about Rs 43,500 crore and earned around Rs 38,000 crore over a six year period– just about half of what our Coalition Government has done. The resources raised are less than half of what we have done during our term.

7. From the time the Coalition Government took over, the size of the state budget has increased from Rs 9,000 crore in 2002-2003 to Rs 18,400 crore in 2008-09; more than double of what it inherited. Such an expansive public expenditure policy is unprecedented and indicates the massive scale of operations of the Government. Not only has the size

increased, the quality of spending has improved even more.

8. The size of the state plan has increased from Rs 2,100 crore in 2002-03 to about Rs 5,500 crore. Again, up by more than twice. More importantly, out of Rs 2,100 crore plan that the previous Government implemented, almost Rs 800 crore was salaries and only Rs 1,300 crore was developmental expenditure. This means 40 per cent of the plan was nothing but salaries, which is a non-plan item. The Coalition Government reversed this sort of planning. In our case, we provided to pay for salaries from the non-plan, as they should be, and use the plan for developmental purposes with a component for maintenance.

9. Accordingly, out of the next year's plan of about Rs 5,500 crore, an amount of

Rs 4,900 crore is the developmental expenditure, only about Rs 600 crore is the plan revenue expenditure. As such, 89 per cent of our plan is capital and only 11 per cent is salary and maintenance. What more can any one want? Investment by the State Government in 1997-98 was Rs 900 crore. Today the figure stands at Rs 4,900 crore – a five fold increase.

10. Please appreciate the sophistication of public expenditure policy: total expenditure increase two fold; plan expenditure increase three fold and capital expenditure increase five fold. I humbly submit that it will be difficult to match such public policy behaviour. Are there still any doubts about what we had promised in our common minimum program and previous budgets and what we have actually delivered?

11. If there are, let me dispel them with some more numbers. Let us look at the financing of this expenditure.

12. The previous Government, during its tenure, raised a debt (borrowings) of about Rs 5,300 crore to finance expenditure of Rs 43,000 crore. On a comparative basis, the Coalition Government has raised net market borrowing of about Rs 8,400 crore to finance expenditure of Rs 87,000 crore. This means that to finance an additional expenditure of nearly Rs 44,000 crore, we have added about Rs 3,100 crore of debt liability.

13. Technically speaking, the debt intensity of the previous Government's expenditure was 12 per cent; in our case it is around ten per cent. In fact, by funding additional Rs 44,000 crore of expenditure with Rs

3,100 crore of debt, the incremental debt intensity is 6.8 per cent – which is almost half of the average debt intensity of expenditure of the previous Government. It may not be visible today because of the profligate legacy of the past, but as we go into our next phase of budgetary management starting from next year, it will help us a lot.

14. Now for the icing on the cake! All this has been done after cleaning up the fiscal back log that we inherited. By way of a recitation, in 2002-2003, there were loans worth Rs 1,008 crore that were overdue and had to be regularized. The servicing on Baglihar bonds was not even a part of the Budget. For that matter, both the Baglihar and power bonds were off-budget borrowings. We cleared that liability. What more, even this year we would clear a liability of Rs 668 crore of National Small

Savings Fund (NSSF) loans that were contracted earlier and payments were due from 2000-2001. True to form, this was not paid and left for us to service.

15. Be that as it may, we feel privileged to have got the opportunity to bring back the state from the brink of fiscal disaster and restore its credibility. We feel chosen for having got the chance to serve the people of the state and improve the lives of the people of Jammu and Kashmir, who have been going through a prolonged phase of adversity and distress. For me, finance is not about esoteric terminology and numbers; it is about real life of the people. Behind the heavy jargon of finance, is our motive to improve the quality of life of people. How, you may ask, have I done that?

16. In other words, what has been the impact of the expansionary fiscal policy followed by the Coalition Government for last five years? Many, but I will give you only one: impact on per capita income. The per capita income in the year 2003-2004 was Rs 14,848 at constant prices. In 2008-09, it will be Rs 19,899 at constant prices. This means during our period, income of an average person in J&K has increased by Rs 5,051. In the previous six years (1997-98 to 2002-2003) it increased from Rs 7,128 to Rs 7,675 at constant prices i.e by only Rs 547. The mere fact that we have been able to add about Rs 1,000 every year for the last five years to the pocket of an average person in J&K means a lot more to me than my cutting debt intensity or running a high overdraft. I measure the success of the Coalition Government by such yard sticks and not those which get me headlines for one day

or claps from the gallery for one minute. The Coalition Government has changed not only the political discourse in the state but also its economic destiny.

17. We have delivered whatever we had committed. There can be no better example of that than the design and implementation of the Prime Minister's Reconstruction Plan (PMRP). Prior to this, we have only heard of packages and never seen them. No package ever announced was backed by a financing plan except the PMRP. Not only did we ensure that every rupee committed to, was backed by an allocation by Ministry in the Government of India, we even shared it with the House.

18. On the contrary, we are still to know the fate, let alone the contents, of the famous Deve Gowda Package; or the equally hyped up Vajyapee Package of 1 lakh jobs

and what not. Those promises made in the air have now been replaced by the PMRP on the ground.

II. REVISED ESTIMATES : 2007-08

19. I now present the revised estimates for the current year i.e. 2007-08. Total receipts during the current year are estimated at Rs. 17,354 crore against the budget estimates of Rs. 16,267 crore. An amount of Rs. 13,901 crore has been estimated as revenue receipts while the capital receipts aggregate Rs.3,453 crore. The increase in receipts is mainly on account of our decision to mobilize additional Open Market Borrowings (OMB) of the order of Rs.668 crore to payoff past and current interest liability on account of NSSF loans.

20. Receipts on Capital Account, which were budgeted at Rs. 1,441 crore, are likely to go up to Rs. 2,298 crore. While market borrowings will increase by about Rs. 1,200 crore, share in small savings will be down by Rs. 400 crore; as the Central Government had asked states to raise 75% of the NSSF loan allocations through the OMB route.

21. On the expenditure side, against a total projected expenditure of Rs. 16,267 crore, the revised estimates of expenditure are assessed at Rs. 17,354 crore. The Non-Plan Revenue Expenditure is estimated to increase by Rs. 1,459 crore. The increase is mainly on account of transfer of plan revenue component to the non-plan account and additional interest outgo for paying off outstanding interest liability on NSSF loans as mentioned earlier.

22. While the non-plan expenditure will be of the order of Rs. 12,191 crore, an amount of Rs. 4,463 crore has been adopted as plan expenditure. The expenditure under Centrally Sponsored Schemes (CSS) is likely to be at the projected level of Rs. 700 crore. In revenue and capital expenditure terms, the total expenditure translates into Rs. 11,855 crore on revenue account and Rs. 5,499 crore on capital account.

23. Last year, through the 'Budget at a Glance' document, we started the practice of sharing with this House the position with regard to off-treasury and off-budget expenditure on development through mega central flagship schemes like Sarva Shiksha Abhiyan (SSA), National Rural Health Mission (NRHM) and Pradhan Mantri Gram Sadak Yojana (PMGSY) etc. During the current financial year, the likely

expenditure of this nature would be of the order of Rs. 800 crore, which is expected to go up to Rs. 1,150 crore in 2008-09. This expenditure of Rs. 800 crore is over and above the normal capital expenditure of Rs. 5,499 crore during 2007-08 duly captured by the budget.

24. With a view to scrutinize (review and revise) the pace and quality of delivery of huge and significant expenditure under CSS, the State Government proposes to set up an institutional mechanism in the form of 'Oversight and Monitoring Committee' to monitor pace and implementation of these programmes.

III. BUDGET ESTIMATES : 2008-09

25. The total receipts for the year 2008-09 have been estimated at Rs. 18,443 crore of which Rs. 15,316 crore constitute

revenue receipts and Rs. 3,127 crore as capital receipts. We are likely to receive an amount of Rs. 1,985 crore as share of central taxes. Further, other central transfers are expected to be of the order of Rs. 9,525 crore. The estimate for plan assistance, which includes an amount of Rs. 1,018 crore under PM's Reconstruction Plan, has been kept at Rs. 5,156 crore as against the revised estimates of Rs. 4,014 crore for 2007-08.

26. As regards total expenditure, it is projected at Rs. 18,443 crore. An element of Rs. 12,175 crore would account for non-plan expenditure while the projected plan expenditure is Rs. 5,518 crore, which includes Rs 1,018 crore under PMRP. Under Centrally Sponsored Schemes, the level of expenditure will be Rs. 750 crore. In revenue and capital expenditure terms, the expenditure translates into Rs 12,089

crore on revenue account and Rs 6,354 crore on capital account.

IV. ANNUAL PLAN : 2008-09

27. Having achieved a good rate of growth, the Eleventh Plan will focus attention on labour intensive industries and small and medium enterprises and crafts that will create employment opportunities in the manufacturing and services sector. The strategy of the plan is to maximize employment for every unit of out put generated. This will be supplemented by financing employment as laid out in the Employment Policy which is under the consideration of the Cabinet.

28. The size of the Annual Plan for the next financial year has been fixed at Rs 4,500 crore. Over and above this, an outlay of Rs 1,018 crore has been projected under

Prime Minister's Reconstruction Plan (PMRP).

29. We are grateful to the Planning Commission of India for also undertaking to fully fund the plan. In the financing arrangement, Planning Commission has agreed to continue the dispensation of Power Reform Grant (PRG) of Rs 1,300 crore for the next year also. The direction and pace of the reform process in the power sector, as per benchmarks set in the Tripartite Memorandum of Understanding (MoU) has been positive and has been endorsed and appreciated by the Planning Commission. Planning Commission has assured that the last year's balance of Rs 300 crore under PRG will be released shortly. The MoU for the current year has been finalized and releases from out of the current year's

provision of Rs 1,300 crore will also start flowing after signing of the MoU.

30. As I had mentioned in the last year's budget speech, the plan shall have three sub-plans. The sectoral sub-plan will lay emphasis on connectivity and power which are both central to infrastructure development. Towards this end, capital expenditure is proposed to be hiked by 16% on power, 14% on connectivity and 14% on communication. This sub-plan will also focus on building capacities in the health and education sectors. The operational sub-plan will aim at completion of ongoing works. Adequate provision of Rs 500 crore has been adopted as state share so as to ensure that flagship schemes are fully accessed.

31. Just to mention, the revenue and capital outlay put together in education sector will

go up by 54.38%. Similarly, the outlay for health will be Rs 266 crore apart from the amount of Rs 85 crore under NRHM and Rs 200 crore under PMGSY.

32. Lastly, the functional sub-plan will be in the form of a maintenance plan and will be one of the basic thrust areas in the plan.

33. Again to mention some numbers, the provision of state share under SSA will increase three fold while that under Accelerated Rural Water Supply Programme (ARWSP) will be more than doubled.

34. As the Hon'ble Members are aware, one of the major initiatives taken by the Coalition Government, over the past two years, has been to progressively reduce revenue component of the plan, especially salaries on the plan account. In the last financial year, an element of plan revenue of Rs

459 crore was transferred to the non-plan along with resources. During the current fiscal, another tranche of Rs 436 crore of plan revenue has been shifted. From 2008-09 onwards, the entire burden of committed liabilities of Rs 895 crore will be on the non-plan. This will put some fiscal pressure on our non-plan. Yet, we are committed to embark upon the path of reform and make the plan more and more capital intensive.

35. The impact of this initiative has been extremely positive. While capital expenditure in the next year's plan is likely to go up by 24 percent, revenue expenditure will come down by about 38%. To share the exact numbers, in the next year's plan, the revenue component will be Rs 638 crore i.e. 14%. The balance Rs 3,862 crore, accounting for 86% of the plan, will be the capital expenditure.

36. In sum, taking into account an aggregate of expenditure of Rs 750 crore under Centrally Sponsored Schemes (CSS), the total plan expenditure is expected to be Rs 6,268 crore – of which an amount of Rs 5,541 crore will be capital expenditure. This would be the highest ever level of development expenditure in the state. The off-budget developmental expenditure of Rs 1,150 crore, I may repeat, will be in addition.

37. I may conclude my intervention on the plan by sharing the larger picture that plan expenditure which was Rs 2,218 crore in the year 2001-02 has reached a level of Rs 3,179 crore last year. It is likely to be of the order of Rs 4,463 crore this year. Inclusive of CSS, capital expenditure which was around Rs.2,100 crore in 2001-02 is likely to touch a level of Rs 5,500 crore

this year and over Rs.6,300 crore next year – showing a 300% increase! I leave the conclusion on the performance of the Coalition Government with regard to tempo of development to this august House!!

V. ADMINISTRATIVE REFORMS : CHANGING TAX ADMINISTRATION

38. Our tax performance has been good; largely due to a very positive switch-over to the new VAT regime. From a level of Rs 409 crore as GST in the year 2001-02, Commercial Tax collections last year show almost a three time increase at Rs 1,159 crore. The collections under Commercial Taxes during current year show a buoyancy of around 35% and are likely to reach Rs 1,480 crore. If the same momentum continues, about which we are optimistic, collections next year will touch an all time high level of Rs 1,778 crore.

39. As a result of robust growth in VAT collections, overall taxes revenue has been estimated at a level of Rs. 2,299 crore for the current year. I have adopted the level of tax collection at Rs. 2,666 crore for the next financial year.

40. Considering that the overall tax collection was Rs 804 crore for the year 2001-02, over a period of five years, overall tax collections have more than doubled and will go up next year by three times than in 2001-02.

41. The spectacular achievement regards VAT places a great onus on us. We cannot pat our backs and rest on our oars. Given the increase in volume of trade and with over 100% increase in the number of registered dealers after the introduction of VAT regime in the state, organizational changes in the Commercial Taxes

Department have become extremely necessary.

42. Switch over to the mechanism of self assessments demands quality-based audit assessments. It is proposed to have an intermediate rung of officers between the Commercial Tax Officer (CTO) and the Deputy Commissioner. Such officers of the rank of Assistant Commissioners will be assigned audit assessments of dealers above a particular turnover limit. The arrangement will be in line with the one in other states of the country; as also in the Income Tax Department.

43. In the new framework of audit assessments, the number of appeals is expected to increase. Commissioner of Commercial Tax at present authorizes audits and address appeals against such audits. It leaves him with little time for

larger administrative and management issues. I accordingly propose to have a Special Commissioner of Appeals who shall hear appeals against the orders passed by Assistant Commissioners and Deputy Commissioners. This sort of a mechanism is in place in other states in the country as well. This should lead to speedy disposal of cases coming up for appeal.

44. At present, the second appeal against the orders of the Deputy Commissioner (Appeals) lies before the Appellate Tribunal. There is, as of now, only one judicial member from the J&K Judicial Services. In order to equip this forum with technical expertise, I propose to have two technical members on the Tribunal, to be drawn from the Kashmir Administrative Services cadre.

45. The rapidly changing tax scenario also requires a number of re-organizational measures. I propose to create additional Commercial Taxes circles; in the first instance.

46. Added surveillance is required under the VAT regime to circumvent the activities of tax suppressers and tax evaders for which purpose 'Flying Squads' shall be put in place with adequate conveyance and communication facilities.

47. On the infrastructure side, the construction of Toll Plaza at Lakhanpur is off the drawing board and is about to take a practical shape. Steps have already been initiated for round the clock operations at the check-post. However, sustaining the same requires a 'Single Window Clearance System' for which structural changes in the administrative mechanism are

required. I propose constitution of a Committee headed by the Finance Secretary for working out the modalities in this behalf before March 31, 2008.

48. A Green Channel facility is already in place at Lakhanpur to which nearly 250 dealers with clean track record have access. The Department of Commercial Taxes shall be adding another 750 dealers to this list.

49. The switchover to the VAT regime has necessitated comprehensive computerization of the Commercial Taxes Department. The Empowered Committee of State Finance Ministers has agreed to get the computerization programme of the Department financed by the Central Government. An initial investment of Rs. 4 crore was envisaged. However, the offers received in response to tenders are at a much higher rate. Since the

computerization of the Department is inalienable, the state Government may have to consider partial or even total financing of the project in case the Central Government of India does not fulfill its commitment.

50. Similarly, for convenience of traders and to ensure better compliance and rational governance of taxes, simplification of statutory forms shall also be carried out by the Commercial Taxes Department.

VI. INSTITUTIONAL REFORMS :

51. It is widely recognized that agriculture growth is guided by investment both in the public and private sector. Plan interventions and budgetary subventions can only have limited impact on efforts to push up growth in agriculture. In the circumstances, the credit delivery

institutions that are dented need to be revived.

52. Cooperative Credit Institutions, particularly in the short-term structure, are an important part of the multi-institutional framework for rural credit. State Government is in principle agreeable to the implementation of the Vaidyanathan Committee on recapitalization of these institutions, particularly Primary Agriculture Cooperative Societies.

53. Further, I had announced last year that the State Government will be considering financial support to Jammu Central Cooperative Bank to make it compliant with Section 11 (i) of Banking Regulations Act, 1949. A provision of Rs 4 crore had been made in the current budget. A further provision of Rs 4 crore is being proposed during 2008-09.

54. Similarly, the State Government is actually considering to its share of 15% with regard to recapitalization of two Regional Rural Banks in the state namely Kamraz Rural Bank sponsored by J&K Bank and Ellaquai Dehati Bank sponsored by State Bank of India. Jammu Rural Bank does not require any recapitalization support.

55. Revenue from stamps is slowly but surely emerging as an important source of revenue for the state. In order to have a scientific management of stamps and in keeping with the recommendations of the Union Ministry of Finance, the State Government shall also be going for de-matting of stamps. This will improve the administration and avoid frauds like the one, which have come to fore in some other states in the recent past. I accordingly propose to adopt this system in the state during the next financial year.

56. Police Department has an ambitious programme of land acquisition for locating the newly created battalions. At the beginning of the current financial year, a provision of Rs 9 crore had been made. For the current year, I have revised the provision to Rs 12 crore. I propose to make a provision of Rs 18 crore in estimates for the next financial year. This should step up the pace of creation of infrastructure facilities for our own force.

57. Hospital security in the present scenario is not only desirable but also mandatory. I sincerely believe that it is economical and a far more viable proposition to "outsource" security than actually recruiting personnel for managing it. Accordingly, I have enhanced the budgetary provision from Rs 71 lacs to Rs.160 lacs in the revised estimates. Similarly, appropriate provisions have

been built both in the revised estimates and the budget estimates for the next year for introducing "enhanced sanitation services" through the outsourcing route in the two hospitals in Jammu and Srinagar, in the first instance, on a pilot basis.

58. State Government has put in place a Housing Policy in 2004. To ensure proper on-ground translation of the policy, building bye-laws will be appropriately revised so as to build safeguards and provide a uniform dispensation for both Government and private colonies.

59. Jawahar Lal Nehru Urban Renewal Mission (JNNURM) is a reform-driven Centrally Sponsored Scheme. One of the mandatory reforms relate to the area of Rent Control Legislation. I take this opportunity to reiterate commitment of the State Government to the establishment of a new

Rent Control System for clearly delivering the rights and obligation of both the tenants and the landlords.

60. The Coalition Government has proactively pursued policy of empowerment of Urban Local Bodies through necessary legislative action and elections to these bodies. Urban Local Bodies are being provided a devolution of 10% of the aggregate of four taxes. The devolution which was Rs 120 crore in 2005-06 went upto Rs 129 crore last year showing almost a 40% increase. The magnitude of devolution is likely to be of the order of Rs 148 crore during the current year. As a first step towards capacity building, a proposal of re-organization of ULBs is under active consideration of the State Government which, inter-alia, aims at a standardized yet, need-based and functional pattern of staff.

VII. INITIATIVES & INCENTIVES :

61. The new Industrial Policy announced in 2004 has led to positive outcomes. Within the broader framework of the announced policy, separate sub-policy packages are being worked out for backward districts of the state that have special geographical and infrastructural constraints and hence require special remedial measures. The new dispensation will be in place by September, 2008.

62. The Hon’ble Chief Minister has written to the Hon'ble Prime Minister for extension of the new North Eastern Package to J&K and extending the central incentives to older units as well.

63. In my pre-budget consultations, the industry had made a special request for exemption from additional toll on items to be imported by the existing industrial units

for substantial capacity expansion. The demand has merit. I accordingly propose to exempt capital goods (directly linked to the manufacturing process), imported for substantial capacity expansion by the existing industrial units, from levy of additional toll for a period of one year with effect from April 01, 2008.

64. The payments to SSI units in government treasuries are being honoured on "first come first served basis". There is a demand that a system of payment on priority needs to be worked out for SSI units. To support such units, I propose to designate four Treasuries – Pampore, Tankipora Srinagar, Gandhi Nagar Jammu and Saddar Treasury Jammu - as SSI treasuries where such a system of fast-track clearance of SSI bills will be put in place.

65. To promote the culture of public-private partnership in the state, the industry associations of Bari Brahamna, Samba, Lassipora and Rangreth Industrial Estates will be given the option to manage one or two ITIs each. The associations can, to start with, ensure that the skill imparted in the ITIs is what they want. They will then stand committed to do campus recruitments. At a later date, should the associations want, they can adopt the ITIs and run them as they want. The Government will give them the same amount of money as is budgeted for the respective ITI.

66. Provident Fund Act will apply to those enterprises that employ 10 workers and above. At present it is applies to those with 5 or more employees.

67. The three per cent interest subsidy on working capital given to new industrial units will now be applicable to existing units as well for a period of two years.

68. Years of militancy has taken heavy toll on the tourism sector. The revival of this sector is essential for energizing the state economy. This calls for modernization and up-gradation of existing tourist spots as also diversification to new destinations. Setting up of Development Authorities has been a remarkable beginning in that direction.

69. Our tourism products are well known - world over. What requires to be done is to put J&K back on the confidence map. The best strategy to achieve this will be a greater effort on the publicity front and organization of expo shows, tourism marts and festivals and fairs. The provision on

this account has been increased from Rs 3 crore to Rs 4 crore as of now but will be revised to Rs 10 crore during the course of the year.

70. The Government is working on restructuring power arrangements for the tourism sector. The possibility of a seasonal power tariff policy and/or seasonal agreements for tourist related businesses is being examined. The details of this will be announced in due course.

71. Proceeding with the Government's commitment to revival of tourism as a 'service' industry, the decision to give tax holiday has encouraged the revival of this sector. I propose to continue the existing package over the next year. I also propose to exempt from entry tax import of items essential for expansion and modernization,

provided such items are not available locally.

72. Transporters in general have also voiced concern about the negative impact of "phasing out process of old vehicles" on their finances and employment. The Government is seized of the matter. J&K Bank will formulate a special package for 1000 new vehicles during the next financial year.

73. People associated with passenger transport have sought an amnesty scheme analogous to the one provided to trade and industry to liquidate their arrears of passenger tax. Last year, this august House had approved an Amnesty for SSI units and traders. The results have been largely upto our expectations. For purpose of equity, I propose an amnesty in favour of defaulters of Passenger Tax. The

amnesty shall cover penalty or interest as the case may be with the principle amount to be paid in full, although in instalments to be worked out in consultation with registered transport associations. I propose to do away with the provision relating to grant of amnesty under the Passenger Tax Act, 1963 once the proposed amnesty scheme is over.

74. Alongwith the said amnesty scheme, I also propose the revamping of the Passenger Tax Act, 1963 so as to make it more rational and in tune with the needs of the rapidly growing passenger transport.

75. For giving impetus to the housing sector, J&K Bank will consider provision of a line of credit to both the Development Authorities, under Government Guarantee, for development of housing colonies in the capital cities.

76. Regarding the demand of the industry to do away with the negative list, I reiterate what I had stated in my budget speech for 2007-08, that it shall only be too appropriate to have a positive list rather than a negative list.

77. However, till such time the positive list is finalized, I propose the deletion of a number of activities from the negative list. Empty bottles, except all types of glass bottles, will henceforth enjoy exemption. Similarly, oil cakes, wheat bran, maize and rice bran will be exempt from additional toll as long as these are imported for manufacture of poultry and cattle feed. This should benefit the agriculture and allied sectors.

78. I also propose exclusion of activity of locally extracted and processed marble stones from the negative list.

79. There has been a demand for exemption of additional toll on Basmati rice being exported out of the state on the analogy of fresh fruit. I propose exemption from levy of additional toll on export of basmati rice. I trust it shall benefit the farmers.

80. With a view to provide a modicum of relief to our consumers particularly in rural areas, I propose to continue with the placement of Paddy, Rice, Wheat, Pulses, Flour, Atta, Maida, Suji and Besan in the zero percent VAT schedule for one more year with effect from April 01, 2008.

81. To support our weavers engaged in traditional crafts, I propose placement of locally handmade carpets also in the zero percent VAT schedule.

82. There have been demands from the trading community on VAT rates on

certain items. Responding positively to some of the demands, I propose the placement of rakhi thread in the zero percent VAT schedule. I also propose to place raw tobacco and bidis in zero percent rate schedule under VAT so as to bring it at par with the uniform VAT rates. I further propose to place optical goods like spectacles etc alongwith both handmade and machine made soap in the four percent rate schedule under VAT.

83. A large section of people have been submitting to the Government that levy of basic toll (to and fro) on local vehicles crossing toll post Lakhanpur for a short duration of time is very harsh on them and have demanded that the toll be charged only one way. I agree to their request and accordingly propose levy of one-way toll only on such local vehicles, which cross the Toll post Lakhanpur, but undertake

the return journey on the same day, within 24 hours.

84. There has been a demand from various industries associations regarding exemption of service tax on job related work carried out by manufacturing units in the state. I propose to constitute a Committee comprising of senior officers of the Finance and Industries & Commerce Departments to work out the modalities for addressing the concern.

85. Given the extreme volatility in apple prices over the season, and drought conditions in certain pockets in the valley, it has become necessary to review the pricing, scope and coverage of the existing Market Intervention Scheme. This aspect will be addressed.

VIII. WELFARE MEASURES :

86. It is a matter of satisfaction that the State Government has been paying Dearness Allowance (DA) to employees as per the increased rates at par with the Central Government employees. For the current year, Hon'ble Members will recall, I had kept a provision of Rs 200 crore for DA. However, the actual increase has been higher resulting in additional outgo of Rs 100 crore. For the next financial year also, I propose to earmark an amount of Rs 200 crore to ensue that our employees get DA, and in time, as per the rates that will be notified by the Central Government.

87. There have been complaints in the past with regard to non-payment of old age and widow pension in time. Inadequate provisioning for payments under both

Integrated Social Security Schemes (ISSS) and National Old Age Pension Scheme (NOAPS) has been one of the reasons for such delays. The cost sharing is on 50:50 basis between plan and non plan. In the revised estimates for the current year, I have increased the outlay on the non plan side by about Rs 8 crore to cover all the 2,68,737 sanctioned cases. I have proposed the provision at the same level of Rs 37 crore for the next year.

88. There has been a long outstanding demand for enhancing the scale of "militia relief" for discharged persons. The State Government has decided to enhance the scale of relief in respect of persons discharged on their own request to a level of Rs 500 per month and to a level of Rs 750 per month in respect of persons discharged on medical grounds. Accordingly, I have raised the provision by

Rs. 2 crore in the budget estimates for 2008-09.

89. Central Government funding for eleven Welfare Extension Programmes (Border Areas) under which the employees of J&K State Social Welfare Advisory Board were being paid salaries has been withdrawn by the Central Government since the last two years. The salary dues in respect of 179 employees serving under the projects were paid partly from out of state share. While the larger question of their adjustment is under consideration of the Social Welfare Department, I have made a provision of Rs 3.63 crore in the revised estimates on the non-plan side to take care of their salary dues.

90. During the year 2002-03, Central Government had stopped funding in respect of three schemes under Family Welfare Programme. Consequently,

arrangements for drawal of salary of 466 employees working in over 100 centres had to be made. While these employees could be paid salaries from out of the unspent balances of central funds upto last year, with a view to ensuring that these employees receive their salaries during the current year, I have made appropriate provision in the non-plan budget to be adjusted against possible reimbursements from the Central Government.

91. As regards health arrangements for employees working in the Civil Secretariat, I have made a dispensation of Rs 5 lacs for purchase of an ambulance. Similarly, I have made a special provision of Rs 5 lacs for medicines for the Civil Secretariat dispensary so that it does not have to depend on the resources from the respective Directorates.

92. In line with the State Government's overall policy, I have attempted to address the question of inadequate provision for "dietary expenses" in respect of inmates lodged in different jails. The requirement of diet expenses, as per the designated scale, works out to Rs 3.40 crore. In the budget estimates for the current year, a provision of Rs 1.45 crore only had been made. I have enhanced the provision to meet the expenses to the full extent and retain the same provision for the next financial year. Similarly, I have enhanced the provision for medicines for jail inmates from Rs 45 lacs to Rs 60 lacs.

93. In the last budget, I had highlighted the need of putting in place welfare measures for our journalist friends. I have made a provision of Rs 50 lacs for preparation and development of the site, if and when the land becomes available, so that there is no

hiatus in operationalizating the housing project.

94. Hon'ble Members will recall that, in my last year's budgetary proposals, I had announced a special dispensation of Rs 50 lacs in favour of friends from the legal fraternity for a Knowledge Management Fund. Appropriate proposals for utilizing this money both at Jammu and Srinagar were to be worked out under guidance of the Hon'ble High Court. The fact that there has been no off take in expenditure has not disheartened me. I propose to make a provision of Rs 50 lacs in the next financial year also – Rs 25 lacs each for Jammu and Srinagar Bar – for electronic-library facilities for better knowledge connectivity for my advocate friends.

95. There have been demands in the past for increasing the rates at which Government

pays for advertisements in print media. Appropriate upward revision in the rates will be considered by Information Department in the first quarter of the next financial year. Adequate provision will be made for placing in public domain the details of the activities and achievements of different departments.

96. Most parts of the state are prone to natural hazards. The recent fire incident of Maharaj Gunj points to the strong need for strengthening our response to such situations so as to minimize the damage to life and property. Fire and Emergency Services Department had auctioned 132 appliances out of which only 32 fire tenders have been replaced so far. I have made a financial provision of Rs 5 crore for procurement of 20 fire tenders this year and an equal provision in the next year's budgetary proposals. This should

enhance our capacity and improve the quality of response.

97. State Insurance Fund Rules have been introduced sometime in November, 1947. Jammu and Kashmir is perhaps the only state in the country having its own Life Insurance Scheme managed by the Government for its employees. There has been a demand for increasing the upper limit for State Insurance Fund. I propose to agree to this and propose to raise it appropriately. Also, I propose to agree to the increase in the minimum monthly subscription at 6.25% of salary or presumptive pay to the minimum subscription rate of 8.33% of the pay including Dearness Pay. I also propose to allow payment of interest on GP Fund deposits to the retirees beyond six months upto two years, from the date of

retirement/ superannuation at a rate slightly lower than the normal rate.

98. The State Government has approved Aam Admi Bima Yojna (AABY) for the landless rural households for implementation. This scheme shall come into effect from April 01, 2008. Further, the modalities for implementing the announcement made by the Hon'ble Chief Minister with regard to insurance cover for school going children will be worked out.

99. The question of social security to our skilled labourers, weavers and artisans is very dear to my heart. A health care insurance scheme for artisans and craftsmen, on the lines of the scheme applicable to Government employees, will be worked out.

PART - B : POWER

I. THE REFORM PROCESS

100. As the Hon'ble Members are aware, in order to reform the power sector, the State Government had executed a Tripartite Memorandum of Understanding (MoU) with Planning Commission of India and Union Ministry of Finance in August 2006. The reforms are spread over a period of three years backed by a central assistance of Rs 3,900 crore - Rs 1,300 crore every year in shape of a Power Reform Grant (PRG).

101. As we see it, the purpose of the grant was three-fold. Firstly, to focus on the source of fiscal imbalance in the state budget, which is the gap between power expenditure and power receipts. Secondly, for making an adhoc non-plan assistance to cover gap in

"Balance in Current Resources (BCR)" conditional to a time bound power reform programme. Thirdly, to ensure proper end-use of special/additional central assistance.

102. I am happy to report to this august House on behalf of my honourable colleague, the Power Minister, that all the conditions/ benchmarks fixed in the MoU for the first year ending August, 2007 have largely been achieved. These mainly include, strengthening of the State Electricity Regulatory Commission (SERC), appointment of an Independent Auditor, hundred percent metering of 11 KV feeder, energy accounting for each 11 KV feeder, formation of distinct distribution profit centres, consumer metering and initiation of the process of issuance of computerized bills to the consumers. Further, issuance of the tariff order by the regulator and power revenue to be atleast

forty percent of the bulk of power purchase cost were also other conditionalities which have been achieved. These benchmarks have been certified as achieved by the Independent Auditor in his report submitted to Government of India. Visible improvements are being witnessed in the power sector as a result of implementation of these reforms.

103. The State Government had received Rs 1,000 crore under PRG during the last financial year. The balance unreleased amount of Rs 300 crore is expected to be released shortly.

104. Fresh Tripartite MOU has been drafted in consultation with Planning Commission of India by the Power Development Department for the second year of the reform programme. The MOU is expected to be signed shortly by the Planning

Commission. Some of the major milestones set up are: continuation of the Independent Auditor, filing of Annual Revenue Requirement (ARR), improvement in revenue realization at 45 % of the bulk power purchase cost, computerized billing, covering 2 lac installations in major towns and 55 % consumer metering in place. The fresh MoU will entitle the State Government to the release of PRG of Rs 1,300 crore for the current year in two installments of Rs 650 crore each – the first one flowing soon after the signing of the document.

II. CURRENT YEAR'S ACHIEVEMENTS

105. The status of the achievements made in the power sector in the current year are summarized as follow:-

(a) *Generation.*

106. In the state sector, Karnah Power Project damaged due to earthquake of October 8, 2005 was restored and is generating power. The new D.G. stations of 320 KVA capacity each have been installed/commissioned for supply of power to the remote and border areas of Matchil and Keran. Ten D.G. stations with a total capacity of 6200 KVA have also been installed in the Ladakh region during the year 2007 to augment the power supply. The work on abandoned hydroelectric projects at Sanjak and Matchil is being resumed during 2008-09.

107. The work on 450 MW Baglihar HEP-I is nearing completion. The 67.93 Km long 400 KV double circuit Baglihar-Kishanpur transmission line for evacuation of power from the project has been completed.

Electro-mechanical works have been completed to the extent of 97% and Civil and Mechanical works to the extent of 92%. The project is scheduled to be commissioned by the middle of 2008.

108. The State Government plans to develop the power projects viz 450 MW Baglihar Phase-II and Sawalakote I & II, apart from Kirthai-I, Kiru, Kawar, Ratle on Chenab basins. Further, we propose to have the New Ganderbal project on Sindh and Hanu project on Indus river. These projects with a total capacity of 3,796 MW are likely to be taken up for execution over the eleventh plan period by our Power Development Corporation (PDC). Assistance of ADB is being sought in the Transmission and Distribution (T&D) sector. ADB team from Manila visited the state in October, 2007 and held detailed and fruitful discussions. To cater to our

basic power load and to address the problem of seasonal variations in hydel generation, steps for forming joint ventures with NTPC and DVC (Damodar Valley Corporation) for generation of thermal power outside the state have also been initiated.

109. In the Central Sector, Dulhasti project with capacity of 390 MW has been commissioned resulting into an addition of 47 MW free power to the state. The work on the completion of Nimo Bazgo project (45 MW) in Leh and Chutak project (44 MW) in Kargil, Sewa H.E.P-II (120 MW) in Kathua and Uri H.E.P –II (240 MW) in Baramulla is going on fast track for early completion and commissioning. NHPC has also initiated work on the construction of Kishenganga HEP (33MW) in Gurez.

110. In order to address the problem of system constraints at the transformation (220/132 KV) levels, construction/ augmentation of thirty four grid stations, with a capacity addition of 3250 MVA, have been taken up for construction under PMRP at an estimated cost of Rs 795.81 crore. Similarly construction of 28 extra high voltage transmission line projects (220/132 KV) involving a length of 883 Kms have been taken up under PMRP at a cost of Rs 554.78 crore. Of this, six grid stations namely; Baribrahmna-II, Kathua, Zainkote, Samba, Hiranagar and Burn (part commissioning) have been completed with a capacity addition of 400 MVA. This has helped to clear the backlog of power sanctions pending in the industrial area of Jammu. Six more grid stations viz Gangyal, Tethar, Draba, Khanmoh, Pampore and Burn with a capacity addition of 540 MVA would be

added to the system within a period of six months alongwith associated transmission lines. The remaining grid stations and associated lines, which are in the process of allotment on turnkey basis through competitive bidding, shall be completed within a period of next 2-3 years. The completion of these projects would go a long way in ensuring reliability of the power system in the state.

III. **POWER DEFICIT**

111. Power deficit, budgeted at Rs 1,231 crore for the current year, is now estimated to be Rs 1,282 crore. These estimates, however, exclude the outstanding "Reactive Energy" (RE) payment of Rs 18 crore ending August 2007 and outstanding "Unscheduled Interchange" (UI) charges of Rs 423 crore accumulated since 2002.

112. The power deficit for the next year has been estimated at Rs 1295 crore with revenue recovery expected to increase by 17.50 % over the current year's revised estimates as per the present tariff order of SERC.

113. While the requirement of energy during the current year is estimated at 8,684 MUs, it is expected to be around at 9,039 MUs in the next year. This is estimated keeping in view the normal load growth and scheduled curtailments. The cost of purchase of power is thus estimated at Rs 1,781 crore during the current year and Rs 1,899 crore for the next year.

IV. THE IMPACT OF REFORMS

114. Broadly, the reform initiatives have started giving positive results. The revenue recovery has shown remarkable

improvement during current financial year. As on December 31, 2007, the percentage increase in revenue realization is better than the percentage increase in tariff.

115. The amount of power receipts, till December 2007 i.e. for the nine months of the current year stands at Rs 381 crore – almost double than the level of Rs 195 crore collected during the corresponding period of the last financial year. The average revenue realization per unit has improved by 67% as compared to the last year.

116. The improvement in revenue realization has come about not only due to tariff hike ordered by the Regulator, which has given the first ever tariff order, but also due to increased level of metering, frequent inspections, computerized billing and improved collection efficiency.

117. The power revenue which was just 24.31% of the bulk power purchase cost in the year 2005-06 has also shown remarkable improvement. For the last year, this percentage stood at 29.47%. The ratio is expected to improve further.

118. Notwithstanding this, T&D losses show no or little improvement. In our January 12 meeting with the Planning Commission, a concern was expressed for reducing such losses on a war footing. In order to get the T&D sector back to rails, the reform measures need to be continued till at least the two main objectives of 100% metering of consumers and computerized billing for 100% billed energy are achieved. This will ensure that Aggregate Technical & Commercial (AT&C) losses are progressively brought down to the national average.

119. With these submissions, I lay on the table of the House the Annual Financial Statement for the year 2008-09 and the revised estimates for the year 2007-08. Further, I commend the budget to the House.