

**Honorable Speaker,**

1. I rise to present the Annual Financial Statements relating to the Receipts and Expenditure for the current year and the next financial year.
2. The first budget of the present Government, focused on macro-budgetary matters wherein the fiscal strategy was outlined; in the second one, attention was paid to distributive issues pertaining to allocative efficiency. In this budget, the third one, my focus is on the micro-budgetary reform: operations of Government programs and agencies. This budget is devoted to improving the operational efficiency of spending.
3. Taking further the process changes initiated earlier, my effort in this budget is to initiate a comprehensive change of procedures and organization, aided by Information Technology.

In other words, I propose a Business Process Reengineering to build a new framework for the budget.

4. It is a move from the traditional Public Administrative Budgeting to a modern Public Management Approach. This shift will have fundamental implications.

#### **Towards Modern Public Management System:**

5. Our budgeting practices have so far focused on economy of inputs, financial regularity, and adherence to procedure. The proposed new Public Management System is designed for greater flexibility of inputs and processes in return for greater emphasis on outputs and performance.
6. The existing system doesn't allow for an easy translation from policy to priorities to budget lines. In reality, expenditure budgeting is still largely incremental. The spending ministries and

the political executive have limited roles in this phase. The result is very little ownership of the allocations done and the tradeoffs made. I propose to change the system.

7. In the new system, internal controls and audit system of the line departments will drive the budget implementation. The ex ante controls of, and unnecessary dependence on the finance department in the line departments' budget management will be done away with.
8. Drawing from the International Monetary Fund's classification reforms spelt out in its Government Finance Statistics Manual, I intend to give the budget structure a developmental rather than a purely administrative orientation.
9. To start with, I propose to reorganise the 29 departmental demands for grants into four major sectoral categories: Administrative, Infrastructure Development, Social Sector and Economic Development. Within each category,

the demand for grants for each department will be presented. This year we have made a small beginning by just arranging the demands for grants along these lines. A summary of these has been given in the ‘Budget at a Glance’.

10. Changing the format of budget documentation and reporting is an important aspect of the budget reform process and of implementing a new framework for public financial management. With your support and approval, I want to give it a legislative backing.
11. The new legislative framework for public financial management will shift the onus of managing the use of resources from central control to the managers of spending departments and agencies.
12. The legislation will specify who is responsible for putting in place such procedures, what the procedures should achieve, what the information and reporting requirements are, how the procedures are to be overseen, and how

compliance is to be assured. It sets clear sanctions.

13. These reforms will also go a long way in making budgeting understandable and meaningful for the political executive and legislators; and relevant for the people. It will be in line with the priorities that they articulate through different stakeholders, principally the elected ones.

#### **Modernizing management of budgetary operations**

14. Having put in place a new conceptual framework, we need to streamline and strengthen the operational process of allocation and utilisation of expenditure across sectors and activities.
15. The current process of budgeting, releasing, and distributing the budget within the Government authorities and booking the expenditure against the budget is being carried out manually. The manual practice is a time-consuming process, besides lacking transparency. There is also great

difficulty in monitoring and controlling the transactions coupled with non-availability of data for decision making. This often results in either overspending or non-utilization of grants.

16. To overcome these difficulties and shortcomings, and to have better control over the finances, I am introducing a computerized budgeting system known as “Budget Estimation, Allocation and Monitoring System” (BEAMS). It is an online computerized system to distribute the budget and to authorize expenditure.
17. As soon as the budget is released, the departments can allocate funds to their field officers through this system. All the expenditure thereafter will not only be checked for budget availability before the bills can be submitted, but also the monthly cash flows will be controlled against pre-determined targets. This system will permit the re-appropriation of funds within the prescribed limits and will allow withdrawal/surrender of budget grants.

18. The expenditure monitoring system now proposed will provide expenditure data to the Government on a real time basis. There will be robust Management Information System (MIS) generated on budget authorizations, cash flows, fund transfer transactions and authorization slips. This will give more realistic picture of actual expenditure and bills in process.
19. Having changed the entire classificatory system, the implementation, and execution process related to the budget, what remains to be aligned with it is a new commitment, verification, and payments system. For this I propose a historic change; I propose to move away from the ancient and archaic system of Treasuries.
20. The State Government transitioned from a cash treasury to a cashless treasury in 1996. Until then all Government payments including salaries were disbursed by treasuries. In a farsighted move, the finance department then moved all these

transactions to the J&K Bank. This systemic improvement made the treasuries cashless and reduced their functions to mere gate keeping.

21. Since then another technological development has taken place in the banking sector which we now know as Anywhere Banking. This delinked a physical branch from the account as far as receipts and payments are concerned. Now a cheque can be encashed in any branch.
22. The overall technological revolution in Banking and Financial Services calls for a reform of the Government's payment system. I propose to replace the present Treasury System which is geographically demarcated by a functionally aligned Pay and Accounts Office (PAO) System.
23. For all receipts and disbursements of the Government, the Pay and Accounts Offices would be departmentally aligned. They would deal with those heads of accounts which are related to the function of their concerned departments. This is

unlike the current system of geographically defined treasuries dealing with the multiple functional heads of accounts of all the departments.

24. Instead of receiving the receipts and disbursing the payments of numerous departments as in the treasury system, the PAO would deal with just one department. This will ensure better understanding of the department resulting in better forecasting, budgeting, accounting and reporting.
25. An inbuilt pre-check in the PAO system will be able to monitor and control the purpose and objective of payments, budgetary sanctions and ceilings, proper classification, and excess payment issues.
26. I propose to strengthen the budget control mechanism of audit and invoice checking at the department level. In the present system, bills/challans and invoices are physically carried to network of treasuries which are within a 5-10 kms distance from the DDOs.

27. This will be replaced by a computerized Integrated Financial Management System (IFMS). In the IFMS the bills would be processed online at all levels viz. generation of financial sanction by the competent authority, generation of bill by DDO and passing and payment by PAO. Besides making the payments faster, it would bring transparency and accountability.
28. I intend to start the process of moving from treasury system to PAO system from 1<sup>st</sup> of October this year and complete the transition by March 31, next year. It will be a gradual non-disruptive process.
29. In my previous budget, I had mentioned the chaos in the Government bank accounts with our main banker. Over the years an unwieldy web of bank accounts has been created. Spending agencies at the lowest level have maintained bank accounts instead of keeping books of accounts resulting more than 3 lakh bank accounts being opened

with the J&K Bank alone. From a cash management perspective, it is impossible to track and leverage the money lying in those accounts.

30. In the last few months, the finance department has closed hundreds of inoperative and zero balance banks accounts and frozen many more which have balances but have had no transactions for over two years.
31. This has improved cash management, enabled efficient implementation of the budget, reduced the cost of Government borrowing, and maximized return on excess operating balances.
32. To this end, a centralization of cash balances through a Treasury Single Account (TSA) is required. While we do have a Central Account, it is not linked. Now the TSA will have a set of linked accounts through which all Government payment transactions are made. In any case, whatever the organization of the payment system, the finance department will be responsible for supervising all Government bank accounts.

## **Streamlining & speeding up spending**

33. J&K is first State to get off the budgetary blocks in the country. The sole reason to prepone the state budget is to have a longer working season. To avail of the "early bird" benefits, it is expedient to stipulate a timeframe for releasing to, and spending of, money by all the departments.
34. Towards this end, after the Budget is passed by the State Legislature, the Finance Department and the Planning, Development & Monitoring Department will release 50 per cent of the Revenue and Capex budget by 10<sup>th</sup> February, 2017 authorizing expenditure to be made from 1<sup>st</sup> April, 2017.
35. The administrative departments, in turn, will ensure that the Budget is communicated to HoDs and further down to executing agencies by not later than 20<sup>th</sup> February, 2017. In case this is not

done, the budgetary provisions will deem to have been conveyed to the executing agencies for taking further forward action.

36. The administrative departments/HODs/ executing agencies will immediately set in motion the procurement and tendering process which should be completed latest by 15<sup>th</sup> May, 2017. This means all budgeted works must be allotted and supply orders issued or procurements made by the specified timeline. Beyond 15<sup>th</sup> May, 2017, any work or supply orders can be issued only after the permission of Finance Department for which the concerned department will have to submit valid and satisfactory reasons for the delay.
37. The departments shall have to ensure that the tendering process commences only after the DPRs are prepared, administrative approval and technical sanctions are accorded and any other applicable requirements have been met.

38. For 2018-19, only those works will be made a part of the capital outlay and the annual budget for which the required DPR or Project Report is completed and other necessary sanctions have been obtained. Preference will be given to projects which will be completed within a span of 3 years, except, of course, the mega projects like hydropower projects or large connectivity projects.
39. It will need to be ensured that before commencing any work, it has been ascertained from the Finance or Planning, Development and Monitoring Department, as the case may be, that the required funding will be available over a period of three years to ensure completion of work.
40. No re-appropriation will be allowed on the budgetary provisions made during 2017-18 except to meet any shortfall in the salary provisions or for the purpose of clearing past liabilities. This is

applicable for the balance period of 2016-17, revised estimated provisions as well.

41. Any such re-appropriation will be made only with the prior concurrence of the Finance Department and all delegated powers of re-appropriation at the level of HoDs/ Departments or any other level are deemed to be treated as withdrawn with immediate effect.
42. Now that half of the approved budget will be released two months prior to the start of the new Financial Year, the phasing of expenditure during the year must change. Till now, almost 70 to 80 per cent of the expenditure is booked during the last quarter of the financial year. This makes a mockery of the budget numbers besides creating problems of monitoring and liquidity management.
43. From the next fiscal, expenditure during the last quarter should be limited to 30 per cent of budget allocation. Further, in the month of March, the expenditure should be limited to 15 per cent of the Budget Estimates.

## **Financial engineering in State owned enterprises**

44. In my first budget, I had outlined the strategy for Public Enterprise management. Now I am ready with the first step of an operational plan to clean up the balance sheets of various Public Sector Undertakings owned by State Government.
45. Be it the J&K Power Development Corporation, J&K SFC, J&K SICOP, J&K SIDCO, J&K SRTC or J&K TDC, for as long as one can see the accounts, the State Government has been infusing funds through the Planning Development and Monitoring Department in almost all the PSUs. Even as funds have been given, these have not been utilized to shore up the capital base of the companies and to make their balance sheets stronger.
46. Without exception, all these corporations have been reflecting these funds incorrectly in the balance sheets as plan funds. As a result, some of the Corporations are unable to even claim the legitimate incentive of the depreciation to the

extent of such funds having been utilized towards asset creation. These are poor accounting practices of the past.

47. To make systemic improvements and start proper balance sheet management, I propose to "recall and re-infuse" all the plan funds given so far to all these Corporations. The re-infusion will be done in the form of equity to strengthen the capital base of these Public Sector Corporations/Enterprises.
48. In the case of J&K State Power Development Corporation, the Power Development Department has accumulated liabilities on account of purchase of energy from J&K SPDC. As part of financial engineering, the PDD will pay J&K SPDC Rs. 2,400 crore. At the same time, J&K SPDC will return Rs. 4,300 crore which it has taken as loan from the State Government over a period of time. Once these two transactions are done, I will infuse Rs. 1,900 crore - the gap between the two transactions -as equity into the company.

49. Further, fresh valuation of assets is expected to add additional Rs. 1,000 crore to the equity base of J&K SPDC. In one go, J&K SPDC will become a debt-free company with an equity base of Rs. 3,000 crore! Post these changes I propose an Initial Public Offering (IPO) of the company. Not many companies across India shall have such a strong financial base. To give you a sense of perspective, the equity base of J&K Bank is just Rs. 48 crore. There was a time when the market capitalization of the bank was Rs. 9,000 crore.
50. Similar balance sheet management will be done for other Public Enterprises. For instance, there are huge amounts recoverable from the J&K SICOP for the premium collected by it on allotment of plots on behalf of Government. The Administrative Department in collaboration with Finance Department is directed to recover all these dues. The recoveries will be ploughed back as capital.

51. I am deeply pained to inform the house that in our premier institution, J&K Bank, there have been some serious lapses in corporate governance and management failures over the last few years. As a promoter of the bank, we did make some efforts in the last two years to sort out the issues of asset quality without impairing the autonomy of the bank.
52. With a change in the top management and the board, the reality has now surfaced. The bank has declared NPAs of Rs. 6,000 crore. There is also a significant under-provisioning of impaired assets. As a result of which the bank has had to declare a huge loss of Rs. 600 crore for the quarter ended September 2016-17. There will be more unpleasant news this year. But I hope that the bank will go back to its profit making ways in the first or second quarter of the next financial year.
53. To help the Bank on its road to recovery, I am making an equity infusion of Rs. 532 crore in two

tranches. This will help the Bank in not only maintaining the required Capital Adequacy but also in financing new asset growth. Needless to say that this money shall be given with the strict conditionality of the Board of Directors establishing accountability at levels wherever there has been a breach and taking penal action.

54. In my first budget, I had mooted the idea of an Asset Reconstruction Company. It was proposed as a practical solution to provide commercial banks a market route and avenues for recovery of bad assets. With the recent Judgment of the Hon'ble Supreme Court on SARFAESI, it has gained news value. I am happy to report that we completed the formalities for incorporating the "J&K Asset Reconstruction Company" in partnership with the J&K Bank. The State Government is a majority shareholder in this, while J&K bank holds 49 per cent.

55. The mandate of this state-owned ARC is to buy the impaired assets of state subjects that are mortgaged to financial institutions. These will, of course, include some of the assets of the commercial banks as well of other financial institutions like the State Finance Corporation.
56. A special situations fund within the ARC shall focus on constructive investing in distressed assets for restructuring and turnaround of “state subject owned businesses”.
57. The business viability of the ARC is not in doubt as most of these impaired assets have substantial collaterals. Indeed, these are hugely over collateralized. Or in other words, the assets of SMEs in J&K are grossly underleveraged.

#### **Addressing calamity and Uncertainty**

58. Despite the spate of natural calamities in the past and recurring violent civil strife that we are faced with, the state has neither insured its own assets

nor has it been able to give insurance cover to private businesses, be it in agriculture, horticulture, other crops or to SMEs.

59. I am happy to inform that we have succeeded in working out a comprehensive insurance scheme for nine crops including paddy, wheat, maize, apple, mango, saffron, pulses, and oil seeds against damages from most of the natural disasters including hail, floods, draught etc. Additionally, in order to provide the much needed fillip to the poultry sector, I intend to subsidise the premium costs on account of insurance of livestock by the poultry farmers.
60. I have made a provision of Rs. 75 crore in the budget for the purpose of premium subsidy. This is the biggest intervention till date to ensure that the farmers get right compensation if their crops are damaged due to reasons beyond their control. A matching share of Rs. 75 crore will be received from Central Government and farmers will be required to pay nominal part of the premium.

61. Similarly, assets of public importance are increasingly becoming vulnerable to arson, civil strife, terror attacks, fire, floods, and natural calamities. As the creation of these assets takes considerable effort and huge resources, it has become imperative to have them covered under insurance. By doing so their chances of loss get mitigated and the huge costs to be borne by the State in absence of insurance cover for such assets get considerably reduced.
62. All departments will submit an inventory of land, buildings, machinery, equipments and other assets latest by 30<sup>th</sup> June, 2017 for which National Informatics Centre (NIC) has been asked to develop MIS. All lands and buildings shall also have to be mapped through GIS.
63. All departments will submit a list of important buildings, which need to be insured, to the Finance Department by 30<sup>th</sup> April, 2017 to facilitate insurance of such assets.

64. The PWD department has been advised to inspect and valuate them so that LOIs/ EOIs are invited. Since rules in vogue at present do not allow insurance of public assets and Government vehicles, it is intended to take up insurance of these assets in a phased manner and as per availability of resources.
65. As regards businesses, especially the SMEs, I have asked the J&K Bank to ensure a business insurance cover at an affordable premium. The bank will do it for all those SMEs who have taken business loans from the bank. I hope all other commercial banks follow suit.
66. With this, we would have provided insurance cover to public assets and private businesses, be it in agriculture, industry or services.
67. To protect our invaluable heritage, all the artefacts, rare manuscripts, paintings and other priceless items in the Toshkhana and the J&K

Academy of Arts, Culture and Languages will also be insured after proper documentation and valuation. An amount of Rs. 5 crore is earmarked for this purpose.

### **Setting up a social security system**

68. At present, a number of schemes are administrated by various departments targeting the same population for the same need especially in the social sector. While the target groups and criterion may vary, yet the fundamental objective is the same.
69. An example of this is the scholarship schemes of the State Government. Hon'ble Members will be surprised to know that there are more than two dozen scholarship schemes for students being administered at present by various departments. Obviously, there are many doubts regarding the targeting of beneficiaries and also whether the same beneficiaries are receiving scholarship benefits from various schemes. No data is available.

70. A more efficient and transparent way would be to converge all these schemes under one umbrella and make it Aadhaar-linked so that no duplication occurs. This would ensure that the effort is focused fully on targeting and reaching the deserving and marginalized groups. An effort would be made in this regard in the financial year 2017-18. Further, a mechanism will be worked out to administer it through one department or nodal agency.
71. In this context, I want to leave the seeds of a thought on how to transition from running social welfare schemes to a well laid out social security system. It is not possible for me to do it now and on my own; it will need not only concurrence but help from the Central Government as well.
72. At the moment we are spending around Rs. 2,000 crore on social welfare through a plethora of schemes. I would want to create a

social security fund and provide a "Universal Basic Income" to all those living "Below the Poverty Line" through a direct beneficiary transfer system. Not only will it eliminate all the leakages, the cost of delivery will also be reduced dramatically.

73. Till such time that we are able to provide a safety net for all the people living 'below the poverty line'; I have created a social security system for all the construction workers in the state. As minister for Labour, I feel very privileged to announce these path breaking measures.
74. In a major initiative for the welfare of the working class, which will also push financial inclusion and the DBT system, it has been decided that the J & K Bank will seed/link all the Bank Account Numbers of construction workers registered with the J&K Building and Other Construction Workers Welfare Board.

75. We will be providing specially designed micro-credit ATM cards to all the registered construction workers with the following features:
- a) Cash Credit facility up to Rs. 10,000 at one year MCLR to every registered construction worker.
  - b) In-built accidental insurance cover of Rs. 2.00 lakh through Pradhan Mantri Suraksha Bima Yojana at a premium of Rs. 12 per annum.
  - c) In-built life insurance cover of Rs. 2.00 lakh through Pradhan Mantri Jeevan Jyoti Bima Yojana at a premium of Rs. 330 per year.
  - d) In-built health insurance cover of Rs. 30,000 through Rashtriya Swasthya Bima Yojana at a premium of Rs. 30 per annum. All the three premiums will be paid by the Board on behalf of the workers.

- e) Facility of withdrawal of cash through Bank's Business Correspondents/Khidmat Centres post biometric verification
76. It is planned that account numbers and Aadhaar numbers of all the dependent family members of the registered construction workers shall also be linked by the J&K Bank to the main account to create an extensive database of about 15 lakh people directly related to the registered construction workers.
77. This will be the social security net to provide direct and extended benefits to all the workers and their families such as education benefit to the children of workers, marriage benefits etc.
78. The most important element of the social security system for this section of the working class is the availability of a small corpus of money for meeting emergent and urgent basic household or familial needs. This step forward shall have a positive multiplier effect in this section of society as this will help the workers to live a dignified life and

shall help them in actively raising the standard of living of their families.

### **Employment Initiatives**

79. Unemployment is a social issue of serious magnitude in the state. Even as the rate of unemployment is supposed to be very high in the state, we do not have actual figures for unemployment in the state.
80. As of now, there are 27 employment schemes being implemented in the state out of which 12 schemes have 100 per cent funding from Government of India and 6 schemes are funded upto the extent of 90 per cent. The State Government has its own 9 self-employment schemes being implemented by various Government Departments. The Employment Department, having abundant human resources and huge infrastructure in almost all the districts of the state, is currently not running any employment scheme.

81. Also, there is an institutional network available in the state in the form of ITIs, RSETIs, J&K EDI, J&K CDI etc which if leveraged properly can help address the problem of unemployment to a large extent.
82. Globally, the following five key constraints have been identified as barriers to enterprise start-ups by young people in particular.
  - Social and cultural attitude towards youth entrepreneurship
  - Entrepreneurship Education
  - Access to Institutional Finance
  - Administrative and Regulatory Framework
  - Business Assistance & Support
83. Accordingly, I propose the following holistic measures to address the problem of unemployment in the state:
  - Aadhaar-seeded registration with the Employment department shall be made

mandatory for applying to Government jobs as well as applying for employment schemes of the Government. The Employment department shall maintain a centralised database of unemployed youth thus registered and update the list regularly. This will provide the much-needed real-time unemployment data to the state for future employment related interventions.

- All state-sponsored credit-linked self-employment schemes shall be subsumed into a single, sector-agnostic credit linked which shall be implemented by the Employment Department. Accordingly, the State Level Bankers' Committee has been asked to develop a credit-linked programme incorporating therein all hassle-free features available for access to institutional finance by the start-ups. The Government shall further incentivize the scheme by appropriate and adequate interest subventions.

- All the beneficiaries of the said scheme shall have to mandatorily undergo a comprehensive Entrepreneurship Development Program through RSETIS and J&KEDI so as to equip them with basic managerial and enterprise creation skills.
- A proper sanctioning mechanism on the pattern of the erstwhile Seed Capital Fund Scheme shall be put in place for sanctioning of the cases under the scheme under a single window system.
- The Employment Department shall design a Structured Awareness Programme and implement it at the grass-root level in collaboration with Educational Institutions and Panchayats etc for creating public awareness regarding the initiative as well as fostering entrepreneurial mindset among the youth.

#### **Government Employees welfare Initiatives:**

84. It has been the constant endeavor of this Government to provide better working and living

conditions to all classes of Government employees. During the six months, not only were all the pending D.A arrears cleared, we enhanced the Temporary Move Allowance and Darbar Move Allowance for the "move employees".

85. Today the Government employees are receiving their GPF claims within one day while earlier they used to wait for 6-8 months to receive their own money deposited with the Government. For the first time, pensioners have been sanctioned full pension upon attaining the age of 80. The Government employees have also been allowed to claim the medical reimbursement over and above the insurance limit provided certain conditions are met.
86. For the previous three years, the Gazetted Employees of the State Government were provided a comprehensive medical insurance cover of Rs. 5.00 lakh which is expiring on 31<sup>st</sup> March 2017.

87. I have instructed that the insurance cover be provided to all the serving employees of all categories in Government for a period of five years. Further, it shall also be made optional for pensioners up to a cover of Rs. 6 lakh for the full family unit. Finance Department shall accordingly invite product proposals from insurance companies for reimbursement of medical expenses of all employees.
88. With all these measures that have been taken, I feel we may have earned the epithet of an employee-friendly Government. Yet one thing has been nagging me. There are a lot of people working for the State Government whose salaries come from the Union Government through centrally sponsored schemes. Be it the SSA and RMSA teachers, anganwadi workers, or those engaged under the National Health Mission. Their salaries are not paid on time. More often than not, they don't get it for months on end.

89. The reason for this is that their salary is linked to the release of funds from Central Government which may get delayed for a variety of reasons ranging from our own lax compliance to the resource constraints of the Central Government.
90. We have a Chief Minister who has her ear to the ground and gets to hear of the distress of these people without salaries for months on end. I had been given a deadline by the HCM to find a solution to this problem. I am glad to announce a very bold decision: I am delinking the disbursement of salary from the source of funding of salary. With this, the misery of thousands of people who do an honest day's job will be a memory of the past. I am aware of the fact that this can cause a liquidity stress but I will endure it, knowing that it is for a good cause.
91. In the last year's Budget speech, I had mentioned that Government inherited an estimated 61,000 casual, seasonal, ad hoc, temporary, NYCs and

various other categories of persons engaged in various departments without proper authorization. While the previous Government engaged them without thinking about source of wages or remuneration for them, the present Government treats this problem as a social issue which needs to be addressed.

92. Given the resource position, I have a choice to make: either implement the 7<sup>th</sup> Pay Commission or regularize, in some manner, the estimated 61,000 casual and other workers who have been on the fringes from 10 to 20 years. On grounds of economic and financial logic both have competing claims. Yet on social and moral grounds the case of the casual workers is a much more compelling and a heart rending one.
93. In the course of the next financial year, I intend to start the process of regularization of the casual workers of various categories subject to a set of guidelines and objective criteria. However, as an

indicator of my intent, I am announcing the regularization, on a contractual basis, of all those who have given their land to the State Government on the promise of a Government job and have been left out so far. They will have to go through a process of documentation and verification which will be done by the General Administration Department.

94. For the remaining categories, a Committee under the chairmanship of Chief Secretary is currently busy in formulation of various options to deal with the issue. During the course of the year, the Government will set out a policy with timelines for absorbing these people. Needless to say that the prevalent guidelines for regularization or bringing them into a contractual ambit will not be diluted.
95. I must share my gratitude to the cross section of Government employees who supported my view of not implementing the 7<sup>th</sup> Pay Commission to be able to finance the regularization of casual and other workers. To all the employees: you have made us proud!

96. As a reciprocation of the gesture of supporting a larger cause of our society, I feel morally obliged, even as I will be financially out of pocket, to announce the implementation of 7<sup>th</sup> Pay Commission for Government employees from 1<sup>st</sup> April, 2018. The revised salary and DA will be paid to the employees from 30<sup>th</sup> April, 2018. Detailed modalities in this regard will be issued by Finance Department in due course of time.
97. Meanwhile, in the run up to the 7<sup>th</sup> Pay Commission implementation, I will address the pay anomalies of employees which have remained unaddressed. To do the basic groundwork for it, I am appointing a group of knowledgeable professionals in the services matters to make recommendations to the committee constituted under the chairmanship of the Chief Secretary.

### **Manpower Audit**

98. The existing Government structure right from bottom to the highest level reflects thinking behind these structures of several decades back.

The Government has expanded at all levels with incremental additions in an adhoc manner without even having taken once a comprehensive view on the Government structure. Accordingly, I propose to set-up a Commission of reputed professionals to conduct a zero based Manpower Audit at all levels. Their mandate will be to suggest manpower rationalisation in view of technological and considerable automation having taken place. Recommendations of this Commission will be given due consideration by the Government for rationalisation of the Government structure. The objective will not be to indiscriminately abolish posts or departments but to effectively use manpower for services to the people

### **Recruitment Rules**

99. The Recruitment Rules for Government Servants at all levels need urgent revision as most of them were framed several decades back and have lost relevance in the context of today's youth's

educational attainment, as well as emerging job requirements. I announce the intention of the Government to a complete revision of all Recruitment Rules within one financial year so as to synchronize job requirements with commensurate educational qualifications.

100. With a view to enhance the dignity of work, increase the morale of workforce, inspire a change in work culture and motivate to enhance the skills and go up the chain, I announce the government intent to change the nomenclature of the Government employees at lower levels. These names are relics of a colonial rule with a feudal mindset.
101. Further, following the Union Government's nomenclature, I also announce decision of the government to change the "class" categorization for specifying the seniority of employees with alphabetical groupings. While it is currently being classified as I, II, III and IV group services, it will be changed into A, B, C and D.

102. I hope Government Employees will continue to work with renewed dedication and zeal to implement policies and programs of the Government in right spirit.

### **Sectoral Development Initiatives**

#### **Transport**

103. Transport sector has suffered badly on account of natural calamities and long spells of law and order disturbances in the State. The capacity of the transport vehicle owners to replace their vehicles so as to bring in a worthwhile change in the public transport system in the State has shrunk considerably. This could be a major factor that is coming in the way of efforts for decreasing the rate of accidents on roads resulting in loss of life and property. Under these circumstances Government intervention in this sector is the need of the hour.

104. It is accordingly proposed that an interest subvention scheme with a liberal repayment plan

shall be put in place to help the public transport vehicle owners to replace vehicles over 10 years old with new, eco friendly, efficient and aesthetically better mass transport vehicles.

105. Taking cognizance of the fact that the transport sector suffers every time there is unrest, I propose to waive off token tax and passenger tax for six months from 1<sup>st</sup> July, 2016 to 31<sup>st</sup> December, 2016.
106. To provide more relief to this ailing sector it is proposed that an amnesty for waiving off interest and penalty on arrears of passenger tax up to the year 2015-16.
107. The Transporters have represented that the tax paid in other states by the transport vehicle owners of J&K is much higher than that charged in the state of J&K as the entry tax under J&K Motor Vehicles Act has last been revised in the year 2002 and is restricted to only Deluxe Coaches. In order

to protect the business of the transporters who are registered in the state of Jammu and Kashmir, apart from increase in the rate of entry tax on deluxe buses, entry Tax on other passenger vehicles shall also be imposed in conformity with the rates existing in neighboring states.

### **Agriculture**

108. The conversion of Agricultural land for various purposes is a huge concern. The Government will bring a comprehensive policy, and if need arises, a legislation to prevent and effectively ban conversion of agriculture land, irrigated land and land under saffron, vegetables and paddy. Government will not acquire any cultivable and irrigated land for construction of buildings etc. except in case of mega infrastructure and connectivity projects.
109. The Government proposes to promote Integrated Farming System and for this purpose one demonstration unit - in private sector - in every

constituency will be established during 2017-18 involving progressive farmers. Each unit will have in addition to cereal production, vegetable, dairy, poultry, horticulture and mushroom as additional source of income to the farmers. Agriculture Production Department shall draw out the features of the scheme and incentives in this regard.

### **Environment**

110. In our single minded devotion to pursue accelerated development, we tend to ignore the environmental dimension and impact of development projects. In addition to specific environment initiatives, it is this government's policy to ensure mainstreaming of the environmental impact.
111. In this context, revival and restoration of our traditional river systems and water bodies, gains significance. While the main rivers are covered by the World Bank project, important water assets

like Wular lake will need to be funded through public private partnership.

112. For showcasing the rich and diverse wild life heritage of the state, I propose to set up one zoo each in Kashmir and Jammu.

### **E-Commerce**

113. The Government will create an e-Commerce platform to link 20000 artisans and weavers of the State for direct online sale of their products. The target is to increase the exports of Handicrafts and Handloom Products from the current level by Rs. 1000 crore annually besides serving the prime objective of minimizing the exploitation of the multiple layers of middleman-ship.

### **Walnut trade**

114. Walnut trade in Jammu and Kashmir has received a severe setback primarily due to import of walnuts from California and China. The sector needs urgent support to make it viable again. In

my tax proposals, I have already announced hiking toll rates substantially on incoming walnuts to the State of Jammu and Kashmir thereby making our own walnuts competitive. However, considering that the sector needs much bigger interventions, the Government has formulated a comprehensive scheme for Rs. 314 crores in consultation with experts which will be submitted to Government of India for funding. In the meantime, I intend to announce 50 per cent interest subvention for setting up Modern Walnut Processing Units with cold stores, packaging units etc. for a period of 5 years in the private sector. An initial provision of Rs. 10 crores is being made in the Budget and if more is required, the same will be augmented.

### **Leather industry**

115. In order to provide fillip to the leather processing industry, I propose to provide Rs. 5.00 crore to establish a Common Facility Centre at Lassipora. This will enable the wet blue tanners to progress towards making finished leather and possibly,

value added leather products like such as shoe uppers, footwear, garments, assorted leather goods etc.

116. To encourage tanners to upscale from making wet blue to finished leather, I propose to provide 50 per cent interest subvention on bank loans to new units for next five years.
117. The State Government will bear 50 per cent of the cost of design training of candidates from the state if such training is obtained from institutions like NID, NIFT or CLRI.
118. The participation by state entrepreneurs for display of their products in any exhibition in the country shall be facilitated by the State Government by contributing 50 per cent of the cost of participation such as hiring of stall and travel to and fro to the exhibition location, transport of samples, etc subject to a ceiling to be notified.

### **Fur Artisans**

119. With a view to help restoring the livelihood of the 696 identified fur artisans who were affected due to ban on the fur trade way back in 1972, a scheme for rehabilitation of the fur artisans has been formulated. The scheme will be implemented in two years viz. 2017-18 and 2018-19.
120. A target of 348 cases per year shall be exclusively kept for these fur artisans to avail the benefit of the scheme. The State Government shall make a special incentive equivalent to 5 per cent of the project in each case as substitute to 5 per cent beneficiaries share required as per the guidelines of PMEGP. A budgetary provision of Rs. 2 crore for the current year has been provided.

### **Revival of Silk Factory, Rajbagh**

121. The silk production of the State is projected for increase from 2.80 lakh meters to 6.80 lakh meters per annum. The addition of 4 lakh meters

will be of high end fabric only increasing the value from Rs. 5 crore to Rs. 32 crore. This shall be achieved under the Project “Composite Market Centre for whole chain of Silk activity at Govt. Silk Factory Rajbagh” already formulated and being funded by the World Bank.

### **Revival of Bemina Woolen Mills**

122. The Wool Cloth fabric production of 5 lakh meters per annum is projected for increase to 8.75 lakh meters. The addition of 3.75 lakh meters will be of high end fabric only, increasing the value from Rs. 2.50 crore to Rs. 34 crore. This shall be achieved under the Project “Composite Market Centre for whole chain of Wool activity at Govt. Woolen Mills Bemina” already formulated and being funded by the World Bank.

### **Land Acquisition for Infrastructure Development**

123. A major roadblock in the connectivity and other infrastructure development is the process of land acquisition. One constraint in this process is the

money for compensation. I am proposing a land compensation fund to be created at the level of the DC in which money is earmarked only for land acquisition but fungible across all land acquisition cases in the district. This will help speed up the land acquisition.

124. I am told that non-payment of compensation by PWD & PMGSY to forest department over last ten year as a result of which forest department does not give NoCs to many projects. I will clear this liability, to the extent it is authorized before March 31<sup>st</sup>, 2017.

#### **Revised Estimates for 2016-17**

125. Given the prevailing situation and the low level of macroeconomic activity, both receipts as well as expenditure have had to be revised downwards. The total revenue receipts of the state for the current financial year are revised to Rs. 57,522 crore; lower than the Budgeted

Estimates by Rs. 4,159 crore. This shortfall is mainly on account of lower collection of State's own Tax Revenue and a reduced level of borrowings. Tax Revenue is expected to register a shortfall of Rs. 778 crore. The non tax revenue shows an increase of about Rs. 1,200 crore because the RE includes contra credit of Rs. 1,400 crore on account of power subsidy. Otherwise, non tax revenues have done equally badly.

126. Likewise, Revenue Expenditure is about Rs. 2,400 crore less than what we had budgeted for, and Capital Expenditure is more or less at the budgeted level. As a consequence of this, the resource gap has increased by about a Rs. 1,000 crore. In other words, the fiscal deficit is higher than what we had budgeted for. However, from a macroeconomic and fiscal perspective, the State Government is better off because we have used the higher deficit to extinguish past liabilities; be those in power, works or salaries.

127. Indeed, in the course of this year we have cleared liabilities of Rs. 5,000 crore and hope to clear Rs. 3,000 crore more.

### **Budget Estimates for 2017-18**

128. During 2017-18, the State Government intends to spend almost Rs. 80,000 crore. Of this, developmental expenditure would be about Rs. 31,000 crore and current expenditure would be almost Rs. 49,000 crore. This level of expenditure will be financed through non debt creating receipts of Rs. 58,000 crore and about Rs. 18,000 crore of borrowings. Given the composition of our revenues, we have a revenue surplus of more than Rs. 9,300 crore. Yet, there will be a resource gap of Rs. 3,137 crore for which ways and means have to be found during the course of the year.
129. In the new scheme of federal finance, Centrally Sponsored Schemes account for a major part of the capital expenditure budget. Significant

resources are also committed towards meeting the required state share for accessing central funds under the CSS and for putting in counterpart share for World Bank/ADB funded projects and now the Prime Minister's Development Package (PMDP).

130. In this, the state also faces severe capacity deficit in matters like preparation of DPR and management of mega projects. Requisite technical and domain expertise and modern equipment is also not available. The Planning department has now been restructured and is expected to bridge this capacity deficit.
131. The main focus of 2017-18 will be timely rollout of projects under Prime Minister's Development Package (PMDP) of Rs. 80,000 Crore for development and reconstruction of physical and economic infrastructure. The package caters to the need to strengthen the economic and social infrastructure and provide for the balanced

development of the three regions of J&K. The major focus in the infrastructure sector in the State will be on physical connectivity through upgradation of road network. All unconnected roads and hamlets will be covered through different projects.

### **Tax Proposals**

132. This year shall see a major change in the national indirect tax regime in terms of a move towards a uniform Goods and Services Tax. The Constitutional Amendment, which does not apply to J&K, has been passed by the Parliament and there is time till September, 2017 to roll out the proposed GST. There are still some issues to be resolved with regard to CGST and IGST for all states.
133. As for J&K, the proposed GST law is not applicable to J&K. We will have to work out in what form it can be applied given the fact that under our

General Sales Tax Act 1962, we tax services unlike other states who derive the said powers from our own Constitution. Central excise and Central sales tax, which will be replaced by the CGST and IGST respectively, already are applicable but only to goods and not services. As regards SGST we will formulate our own law and bring it to the legislature.

134. Till such time, the following changes and continuities are proposed.
135. I propose to extend the following incentives for 2017-18:
  - a) The exemption on the Commodities like, Paddy, Rice, Wheat, Pulses, Flour, Atta, Maida, Suji and Besan which are consumed by the masses particularly by weaker sections.
  - b) VAT remission to the local industry is proposed in order to give them competitive edge in the open market.

- c) The Central Sales Tax (CST) concession.
- d) Existing incentives till 31-03-2018 on raw materials to registered industrial units under J&K Levy of Tolls Act.
- e) The exemption from tax on lodging services provided by Hotels, Lodges and Guest Houses.

### **Energy Conservation Tax Measures**

- 136. To encourage the use of low electricity consuming devices, incandescent Bulbs are proposed to be kept under schedule D-II at 40% rate tax category. In addition to the above, manufacturing of incandescent bulbs shall be kept in the negative list of industries.
- 137. To encourage the use of Star Rated electric appliances as a measure for energy conservation, I propose that in case of sale of Air Conditioners and Refrigerators a scheme of post sale incentives

shall be introduced wherein an amount equivalent to 25 per cent of the tax paid on such appliances shall be reimbursed to such consumers purchasing specified 5 star rated electrical appliances respectively, against production of valid VAT invoice.

138. With a view to harness solar energy and discourage the use of non-renewable energy sources, the solar equipments/plants have been placed in zero rated category under J&K Vat Act 2005. These solar plants cannot be put to use unless they are installed and this installation being execution of works falls under J&K GST Act, 1962 which taxes services, thus making the activity taxable. To remove this anomaly, I propose that this category of Service Providers be exempted from Sales Tax which is leviable under J&K GST Act 1962.

## **Plugging of Loopholes Resulting in Tax Evasion**

139. To curb practice of wrong declaration and tax evasion on Tarpaulin cloth and Canvas cloth, it is proposed that these commodities be taxed at 14.5 per cent.
140. To curb the misclassification in declaration of Rexine/Leatherite as Cotton Coated Fabric which is zero rated being textile, I propose that Cotton Coated Fabric be taxed at 14.5 per cent.
141. Some industrial units have obtained registration with their activity as ripening of fruits with fresh fruit as raw material. The activity involved in ripening cannot be called as manufacturing in real sense. It is therefore proposed to include the item fresh fruit in the negative list of notification SRO granting Toll exemption to industrial raw material.
142. All tobacco products are taxed at 40 per cent. However, raw tobacco is placed in the zero per cent tax slab. In order to remove this anomaly and

to avoid tax evasion, it is proposed that raw tobacco be also placed in D-II schedule of SRO 167 of the J&K VAT Act, 2005 and taxed at 40 per cent at par with other tobacco products.

### **Measures for Additional Resource Mobilisation**

143. Following Services/Activities are proposed to be brought under the tax net with a view to enhance the tax base and plug tax evasion:

- a) Body Building on Trucks, Buses and Other Vehicles.
- b) Installation/erection of Prefabricated Structures.

144. The use of the Ready to Stitch and Semi Stitched garments has become very common. I propose to place the same in tax bracket of 5 per cent.

### **Rationalization Measures**

145. It is proposed that benefit of SRO-328 dated 06.10.2016 providing concessional rate of tax in case of Vehicles sold through CSD canteens be

extended to Widows of Ex-Serviceman. It is also proposed that the benefit of this scheme may not be extended to paramilitary forces as they do not possess Canteen Smart Cards.

146. To remove the anomaly in tax rates on Index File Clips and Files of all kinds I propose to place these commodities in Schedule-A taxable at Zero per cent.
147. Since, Buns, Foot Longs and Pizza Breads are forms of bread; it is proposed that these be placed in Zero per cent tax category.
148. All medicines are at present taxed at 5 per cent, however tonics, food supplements, appetizers, dietician foods etc. are taxed at 14.5 per cent. This is resulting in misclassification and disputes. In order to remove this anomaly, all such products are proposed to be placed in 5 per cent tax category.

149. As of now, contractors working with the Government have to get a clearance certificate from the commercial taxes department. This causes a lot of inconvenience to them. To simplify the process for participating contractors, it is proposed that the list of defaulters shall be periodically updated by the Commercial Taxes Department on its website so that the departments can confirm the status of participating contractors electronically.
150. Earth Moving equipment is liable for entry tax. However, the same when imported for use in Centrally Sponsored schemes is exempted. To remove this disparity and diversion of such equipment for its sale and hire in the market on the pretext of use by the contractors, it is proposed that SRO notification 148 of 2010 of 30.03.2010 is rescinded so that all the contractors get a level playing field.

151. To settle a long pending demand of trading community, I propose that the upper limit for Turnover Tax dealers is raised from present Rs. 25 lakh to Rs. 50 lakh. Further, to rationalize the complicity created on account of calculation of taxable turnover, the turnover tax is proposed to be calculated on the gross turnover.
152. For the convenience of dealers belonging to areas away from Lakhanpur, the Commercial Taxes Department has already put in place a mechanism whereunder the suspected cases with the differential value upto Rs. one lakh are transferred to jurisdictional authorities for disposal. In order to give further relief in this regard it is proposed to raise the limit of Rs. one lakh to Rs. two Lakhs. This will give relief to most of the traders from visiting Lakhanpur for clearance of cases of suspected undervaluation.

153. In order to promote digital payments, I propose to make major check-posts cashless by introduction of alternative methods for making payments by 1st of April 2017.
154. To protect the local poultry farms, Toll at the rate of Rs. 900 per quintal is being charged on import of live chicken. However, the dressed/frozen chicken is being charged Toll at a much lower rate i.e. Rs. 80 per quintal. In order to remove this anomaly, it is proposed to increase the rate of Toll on dressed/frozen chicken and bring the same at par with live chicken.
155. Edible oil is being charged Toll at a higher rate of Rs. 235 per quintal while ghee having same usage is being charged Toll at the rate of Rs. 80 per quintal. It is proposed to increase the rate of Toll on Ghee to bring it at par with the rate of Toll on edible oil.
156. Almond, walnut, dry apricot and saffron are produced in J&K. In order to further promote the

sale and use of local Dry fruits, it is proposed to increase the rate of toll on the import of Walnuts, Almonds, Dry Apricot and Saffron from Rs. 80 per quintal to Rs. 235 per quintal.

157. To protect the interest of local card board box manufacturing units, it is proposed to place the Card Board Boxes in the category of goods being charged Toll at the rate of Rs. 175/- per quintal.
158. To encourage local fish farming, it is proposed to increase the Toll rate on Fish from Rs. 80/- to Rs. 235/- Per Quintal.
159. Most of the issues pertaining to Motor Vehicles are primarily dealt by Transport Department. The entire basic data regarding vehicles is possessed by the Transport Department. However, Jammu and Kashmir Passenger Tax Act 1963 is administered by the Commercial Taxes Department which has neither full information nor is in a position to effectively administer the

same. I therefore propose that Jammu and Kashmir Passenger Tax Act, 1963 shall henceforth, be administered by the Transport Department.

### **Relief Measures**

160. The dealers registered under J&K VAT Act, 2005 have demanded amnesty at par with the amnesty granted under J&K GST Act, 1962, enabling them to settle their issues of VAT before migrating to the new tax regime. In view of disruptions in the trading and the manufacturing activity in the State and the demand of the dealers to have a clean slate for smooth transition to the new tax regime, it is proposed that amnesty shall be granted to the dealers registered under J&K VAT Act 2005 for waiver of interest and penalty till accounting year 2015-2016 on the line given to dealers registered under J&K GST Act 1962.
161. The process of rationalization of negative list has been initiated from the year 2015-16. I propose to

carry forward the same by further rationalization of the negative list by deleting the following manufacturing/industrial activities from the negative list so as to make the same eligible for remission: a) Spices in all forms, b) Wooden Shooks, c) Copper utensils manufactured by mechanized units, d) Roof Trusses, e) Corrugation of galvanized sheets, f) Cured skins, g) Roasted peanuts, h) Sheet metal items including Trunks, Suit Cases, Paties Buckets, Cans, Bukharies, Dustbins, Hamams, Steel Tankers, Shovels, Karaies and Drums.

162. There are separate negative lists of commodities that are not granted exemption from payment of toll. I propose to exempt all finished products of industrial units by doing away with the annexure 'B' and reduce Annexure-A to SRO-22 to minimum number of goods that have high risk of diversion into trade, resulting in misuse of exemptions.

163. Manpower recruitment and/or Supply Services have been brought in tax net with effect from 01.04.2015. Industry has represented that it has resulted in a considerable addition in labour cost of the local industry thereby making their products costlier. In order to relieve the industry from this additional burden, I propose to take these services out of the tax net.
164. There has been a long pending demand of industrial unit holders of the State that Excise Toll Post and Commercial Taxes Check post at Lakhanpur should be made functional 24x7. As a step ahead towards ease of doing business, it is proposed that the toll/commercial tax check post two posts at Lakhanpur shall be made effectively functional round the clock for clearance of raw materials and other machinery/spares of the industrial units of the state with immediate effect.

## **Fourth Estate**

165. In their meeting with the Hon'ble Chief Minister, newspaper editors made a compelling case for revising the advertisement tariffs. Accordingly, I propose to increase the tariffs to cover the inflation and increased cost of newsprint and other materials. The Information Department will notify the tariff hike.
166. During his first tenure as Chief Minister, Mufti sahib had donated a government building at a prime location in Jammu to set up the Jammu Press Club. Following this precedent, the Hon'ble Chief Minister, who is also the Minister for Information, desired that the building currently occupied by the Employment Department at Polo View Srinagar be handed to the journalist fraternity for setting up 'Aiwaan e sahaafat', a Kashmir Press Centre.

## **Youth Engagement**

167. In deference to the wishes of our Hon'ble Chief Minister, last year I had announced a series of incentives for our girl child and girl students. The Scooty Scheme for girl students has been extremely popular. However, we are equally affectionate towards our boys. Therefore, I announce All Terrain Mountain Bike Scheme for our boys students in the coming financial year for which appropriate guidelines will be issued before 31<sup>st</sup> March, 2017. I make a provision of Rs. 3 crore for the purpose.
168. I would end this speech on a rather personal note; as a tribute to Mufti Sahib on his first death anniversary, I propose to institute a football league in which teams from within the state will participate. The format for the proposed Mufti Memorial Gold Cup will be worked out by the J&K Football Association which will be the organizing body for the league tournament. For this I shall allocate Rs. 2 crore.

169. While inaugurating the refurbished Abhinav Theatre in Jammu, Mufti sahib expressed a desire to set up a school for sufiyana and folk music. As a tribute to him, I propose to set up the “Shams Faqeer Institute of Sufi and Folk Music”. I am making an initial provision of Rs. 5 crore.
170. The real test of budgets in J&K starts only after it is passed by this house as uncertainties continue to plague its implementation and execution. Elsewhere we can assume that once a budget document is approved, expenditure if not revenues would follow the printed figure. I pray that this year all of us work to see the budget be delivered on the ground.
171. With these words, I commend the budget and all the related documents to this august house.