

## 1.1 Introduction

Haryana is an agrarian State with 21 districts, of which eight districts are part of the National Capital Region. As indicated in **Appendix 1.1**, Haryana has lower poverty levels as compared to other Indian States. The density of its population (478 persons per sq km) as per the 2001 census was higher than the all India density (325 persons per sq km). The State has seen considerable economic growth in the past decade and the compound growth rate of its Gross State Domestic Product (GSDP) for the period 2000-01 to 2008-09 has been 15.37 *per cent* as compared to 12.50 *per cent* in other General Category States. During this period, its population grew by 17.58 *per cent* against 13.42 *per cent* in other General Category States.

This chapter provides a broad perspective of the finances of the Government of Haryana during 2009-10 and analyses critical changes observed in the major fiscal aggregates in relation to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government accounts have been explained in **Appendix 1.2 Part A** and the layout of the Finance Accounts is depicted in **Appendix 1.2 Part B**. The methodology adopted for assessment of the fiscal position and norms/ceilings prescribed by the Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 are given in **Appendix 1.3 Part A and B**.

### 1.1.1 Summary of Current Year's Fiscal Transactions

A summary of the State Government's fiscal transactions during 2009-10 vis-à-vis the previous year is presented in **Table 1.1. Appendix 1.5 Part A and B** provides details of receipts and disbursements as well as the overall fiscal position during 2009-10.

## Finances of the State Government

Table 1.1: Summary of current year's fiscal transactions

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section – A : Revenue					Non-plan	Plan	Total
18,452.31	Revenue Receipts	20,992.66	20,534.73	Revenue Expenditure	19,542.62	5,714.77	25,257.39
11,655.28	Tax revenue	13,219.50	6,024.47	General Services	7,687.33	68.02	7,755.35
3,238.45	Non-tax revenue	2,741.40	7,258.73	Social Services	5,887.63	4,014.59	9,902.22
1,724.62	Share of Union Taxes/Duties	1,774.47	7,035.75	Economic Services	5,897.75	1,632.16	7,529.91
1,833.96	Grants from Government of India	3,257.29	215.78	Grants-in-aid and Contributions*	69.91	-	69.91
Section – B : Capital							
6.80	Miscellaneous Capital Receipts	9.39	4,501.67	Capital Outlay	1,015.19	4,203.29	5,218.48
351.80	Recoveries of Loans and Advances	212.84	332.31	Loans And Advances Disbursed	213.93	615.76	829.69
3,888.06	Public Debt Receipts	8,455.37	1,291.84	Repayment of Public Debt	-	-	2,745.97
-	Contingency Fund	-	-	Contingency Fund	-	-	-
12,308.28	Public Account Receipts	15,789.41	11,441.82	Public Account Disbursements	-	-	14,319.66
6,500.06	Opening Cash Balance	3,404.94	3,404.94	Closing Cash Balance	-	-	493.42
41,507.31	Total	48,864.61	41,507.31	Total	-	-	48,864.61

(Source: State Finance Accounts of the respective years.)

\* Compensation and assignment to local bodies and Panchayati Raj Institutions.

The following are the major changes in fiscal transactions during 2009-10 over the previous year:

- Revenue receipts increased by ₹ 2,541 crore (13.77 per cent) due to increase in tax revenue (₹ 1,564 crore) by 13.42 per cent. Share of Union taxes and duties and grants from the Government of India (GOI) increased by ₹ 50 crore (2.90 per cent) and ₹ 1,423 crore (77.61 per cent) respectively. The Government received a debt credit of ₹ 96.67 crore under the Debt Consolidation and Relief Facility<sup>1</sup> (DCRF) from GOI. The State's own tax revenue (₹ 13,220 crore) fell short by 11 per cent of the target fixed by the Twelfth Finance Commission (TFC) (₹ 14,794 crore) and 10 per cent of the State Government in its Medium Term Fiscal Policy Statement (MTFPS) (₹ 14,646 crore) and four per cent of the Fiscal Correction Path (FCP) (₹ 13,700 crore). The State's own non-tax revenue (₹ 2,741 crore) was higher by 16 per cent than the target fixed by TFC (₹ 2,372 crore) and by 19 per cent than the projections made by the Government in FCP (₹ 2,300 crore) but

<sup>1</sup> Debt Consolidation and Relief Facility is an incentive provided on the basis of the Twelfth Finance Commission's recommendations for containing the revenue and fiscal deficit as per the Fiscal Responsibility Legislation.

lower by 24 *per cent* than the targets fixed in MTFPS (₹ 3,600 crore) for the year 2009-10.

- Revenue expenditure increased by ₹ 4,723 crore (23 *per cent*), mainly due to increase in expenditure on social services (₹ 2,643 crore), economic services (₹ 494 crore) and general services (₹ 1,731 crore). The Non-Plan Revenue expenditure (NPRE) which was ₹ 19,542 crore in 2009-10 was higher by 72 *per cent* than the normative assessment of TFC (₹ 11,374 crore), 23 *per cent* of the projection of the Government made in FCP (₹ 15,930 crore) but lower by three *per cent* of the projection of MTFPS (₹ 20,201 crore).
- There was an increase of ₹ 716 crore (16 *per cent*) in capital expenditure mainly on economic services, especially on 'Agriculture and Allied Activities' (₹ 482 crore) and 'Transport' (₹ 368 crore).
- Recovery of loans and advances decreased by ₹ 139 crore (39 *per cent*) during 2009-10.
- Public debt receipts increased by ₹ 4,567 crore (117 *per cent*) in 2009-10 over the previous year, mainly due to increase in internal debt receipts by ₹ 4,498 crore. The repayment of public debt also increased by ₹ 1,454 crore (113 *per cent*). Thus, there was a net increase of ₹ 3,113 crore in public debt receipts during 2009-10.
- Public Account receipts increased from ₹ 12,308 crore in 2008-09 to ₹ 15,789 crore in 2009-10 and their disbursements also increased from ₹ 11,442 crore in 2008-09 to ₹ 14,320 crore in 2009-10.
- The cash balance of the Government at the close of 2009-10 decreased by ₹ 2,912 crore over the previous year. Out of the total cash balance of ₹ 493 crore at the end of the current year, ₹ 103 crore invested in securities of GOI, earned interest of ₹ 25 crore during 2009-10.

### 1.1.2 Analysis of budgetary assumptions

#### 1.1.2.1 Introductory

The Planning Commission approved the Eleventh Five Year Plan (2007-12) for ₹ 35,000 crore, wherein a provision of ₹ 10,000 crore (revised to ₹ 10,400 crore) was made for the year 2009-10. The State budget is prepared by adopting the incremental system i.e. the first charge on available resources is on all the ongoing schemes and the new schemes are included thereafter. The Finance Department examines the departmental proposals by taking into account the figures of the previous year and of the current fiscal year upto September. Estimates for the year

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2009-10 were prepared keeping in view the pre-actual<sup>2</sup> figures of 2007-08 and receipts/expenditure of the base year 2008-09 upto September 2008. Accordingly, the budgetary assumptions for the budget estimates for 2009-10 were made as under:

### Revenue Receipts:

- Non-Plan revenue receipts<sup>3</sup> were to grow at 14.73 *per cent* over 2008-09.

### Tax revenue:

- There was to be no change in the tax structure, which would remain as applicable during 2008-09;
- The State's own tax revenue was assumed to grow at 1.96 *per cent* due to the slowdown in the economy and revenue from Value Added Tax (VAT) was to grow at 16.53 *per cent*.

### Non-Tax Revenue:

- Non-tax revenue would decrease by 4.70 *per cent* due to the impact of the slowdown in economy.

### Central share of Union taxes:

- This would remain at the level of Budget Estimates (BE) 2008-09.

### Grants-in-aid:

The Revenue Deficit Grant and the Central Share of Calamity Relief Fund as recommended by the TFC were taken under Non-Plan grants. Grants for local bodies were taken at one-fifth of the total recommended for the TFC period. Grants for State-specific needs, maintenance of forests and heritage conservation as recommended by TFC were taken as Plan resources under the State's own funds (SOF). A provision for ₹ 2,258.77 crore was made by State.

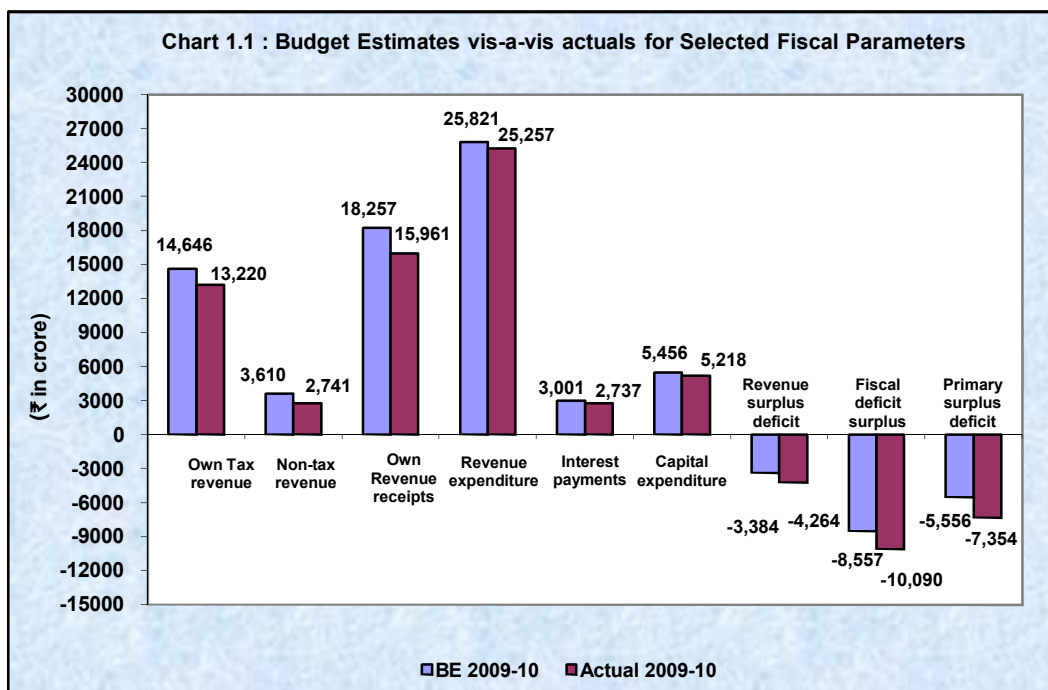
**Non-Plan expenditure:** This was assumed to grow at 23.06 *per cent* over 2008-09.

Details of projected receipts and expenditure and actuals thereagainst are given in **Appendix 1.6**.

<sup>2</sup> Pre-actual figures are the figures supplied by the Accountant General (A&E) before finalisation of Finance Accounts.

<sup>3</sup> Non-Plan revenue receipts: Includes State's own tax revenue, non-tax revenue, share in Central taxes and Non-Plan grants-in-aid.

Chart 1.1 represents the budget estimates and actuals for some important fiscal parameters.



(Source: State Finance Accounts and Budget Estimates for 2009-10.)

### 1.1.2.2 Shortcomings in Budgetary Assumptions

An analysis of the budgetary assumptions made for receipts and expenditure for preparation of the BE for the year 2009-10 in the Finance Department and actuals thereagainst was conducted (June-August 2010) to examine the process and transparency in preparation of BE. It was noticed that the budgetary assumptions were not based on realistic grounds and in some cases, were made by ignoring the proposals of concerned departments:

- i) The statement of fiscal policy and disclosure under the Fiscal Responsibility and Budget Management (FRBM) Act, 2005, laid by the Government with the BE for 2008-09 and 2009-10 indicates overall growth at the rate of 17.9 and 14.7 *per cent* at current prices during 2008-09 and 2009-10 respectively. The reduction in the growth rate from 17.9 *per cent* in 2008-09 to 14.7 *per cent* in 2009-10 was mainly under the manufacturing and tertiary sectors, although there was increase in the growth rate under the agriculture sector. The impact of slow growth in GSDP was not worked out to arrive at the actual effect of recession in the economy in the BE.
- ii) Non-Plan Revenue Receipts (NPRR) (₹ 20,521.58 crore) projected in the BE 2009-10 constituted only 0.39 *per cent* growth over the

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- BE 2008-09 (₹ 20,441.38 crore) against the assumed growth of 14.73 *per cent*.
- iii) The State's own tax revenue was assumed to grow at 1.96 *per cent* (₹ 14,646.50 crore) over the approved Plan 2008-09 (₹ 14,365.32 crore) whereas the actual receipts (₹ 13,219.50 crore) were 7.97 *per cent* less than the approved Plan of 2008-09.
- iv) Value Added Tax was assumed to grow at 16.53 *per cent* during 2009-10 over the approved Plan of 2008-09 (₹ 8,385 crore) but the actual receipt (₹ 7,907.22 crore) decreased by 5.70 *per cent* in 2009-10.
- v) The State's Non Tax Revenue projected at ₹ 3,610.01 crore registered a decrease of 11.50 *per cent* over BE 2008-09 (₹ 4,079.30 crore). The actual receipt of ₹ 2,741.40 crore was 32.80 *per cent* less than the approved Plan of 2008-09 (₹ 4,079.30 crore).
- vi) Non-tax revenue under the receipt head '0217 Urban Development' was estimated at ₹ 1,200 crore against the proposal of ₹ 350 crore from the concerned department in view of the recession in the real estate market. However, the actual receipt (₹ 133.70 crore) was only 11 *per cent* of the projections. Thus, the impact of recession in the real estate market was underestimated at the time of forecasting the budget estimate for 2009-10.
- vii) Projection of ₹ 425 crore under '0042-Passenger and Goods Tax' was made without keeping in view the decreasing trends during 2008-09. The actual receipt of ₹ 391.45 crore during 2009-10 resulted in higher estimation by ₹ 33.55 crore.
- viii) Provision of ₹ 130 crore under the head "0043-Taxes and Duties on Electricity" was made by ignoring the past trends (₹ 107 crore in 2008-09) and recommendations from the concerned department (₹ 120 crore). Against this, the actual collection was ₹ 119.59 crore, resulting in higher estimation by ₹ 10.41 crore.
- ix) The share of Central taxes was assumed at the level of BE 2008-09 (₹ 1,686.76 crore) but was projected at ₹ 1,921.72 crore in BE in 2009-10 which was higher by 13.93 *per cent*. Actual receipt of ₹ 1,774.47 crore during the year was 5.20 *per cent* higher than the approved Plan of 2008-09.
- x) Projected growth of 23.06 *per cent* over the approved Plan of 2008-09 (₹ 16,500.60 crore) in NPRES was not realistic as the actual expenditure (₹ 19,542.62 crore) during 2009-10 was only 18.44 *per cent* higher than the projection of the approved Plan of 2008-09.

### 1.1.2.3 Shortcomings in Plan estimates

The Plan expenditure during 2009-10 assessed at ₹ 10,000 crore, was revised (January 2010) to ₹ 10,400 crore, against which the actual expenditure was ₹ 9,624.44 crore, which was less than the original estimates. Variations were due to:

- i) Seventy-nine Plan schemes under different sectors included in the approved Plan of 2009-10 with an outlay of ₹ 524.21 crore were withdrawn in the revised estimates (RE) (**Appendix 1.7**).
- ii) Provision of ₹ 246.84 crore made for 35 Plan schemes in the original estimates was reduced to ₹ 147.74 crore in the revised outlay but no expenditure was incurred against the provisions under these schemes (**Appendix 1.8**).
- iii) Twenty-seven new Plan schemes with provisions of ₹ 277.09 crore were included in the RE against which expenditure of ₹ 154.12 crore was incurred during the year (**Appendix 1.9**).
- iv) The provision of ₹ 54.64 crore approved for seven Plan schemes was increased to ₹ 58.89 crore in the RE against which expenditure of ₹ 43.74 crore was incurred. The expenditure was less than the original provisions and therefore, the revision was not need based (**Appendix 1.10**).
- v) An expenditure of ₹ 6.91 crore was incurred against five schemes without any provisions in the BE (**Appendix 1.11**).
- vi) In 41 schemes, an additional amount of ₹ 1,350.93 crore was sanctioned, after the approval of the annual Plan for ₹ 10,000 crore by the Planning Commission of India. The estimates were revised to ₹ 10,400 crore.

The Director, Economic and Statistical Analysis (DESA) stated (September 2010) that the withdrawal of funds, reduction in provisions, additions of new schemes, incurring expenditure without provisions, etc. was due to non-implementation of schemes, surrender of budget by respective departments, transfer of funds to other schemes, non-approval of projects/schemes, economy measures, non-opening of heads of accounts, late receipts of demands, delay in approval of action plan, less receipt of Central grant, etc.

- vii) The Government, in contravention of the guidelines of the Planning Commission of India converted (December 2009) two schemes<sup>4</sup> of the Co-operation department with a total outlay of ₹ 107 crore from Non-Plan to Plan during 2009-10 to enhance the outlay of agriculture and allied activities. The schemes were converted only to achieve the base line expenditure of 3.77 per cent during 2009-10 under the agriculture and allied sectors for getting Central assistance for 2010-11 under the flagship scheme *Rashtriya Krishi Vikas Yojana* (RKVY) in the Cooperation Department (Major head-“2401- Crop Husbandry”).

DESA justifying (July 2010) the conversion of Non-Plan schemes into Plan schemes stated that the outlay under Agriculture and Allied sector was increased during the year 2009-10 to make the State eligible to assess funds from GOI under RKVY. However, the fact remains that the conversion of Non-Plan schemes to Plan was done in contravention of the guidelines issued by the Planning Commission of India on classification of expenditure.

### 1.2 Resources of the State

#### 1.2.1 Resources of the State as per Finance Accounts 2009-10

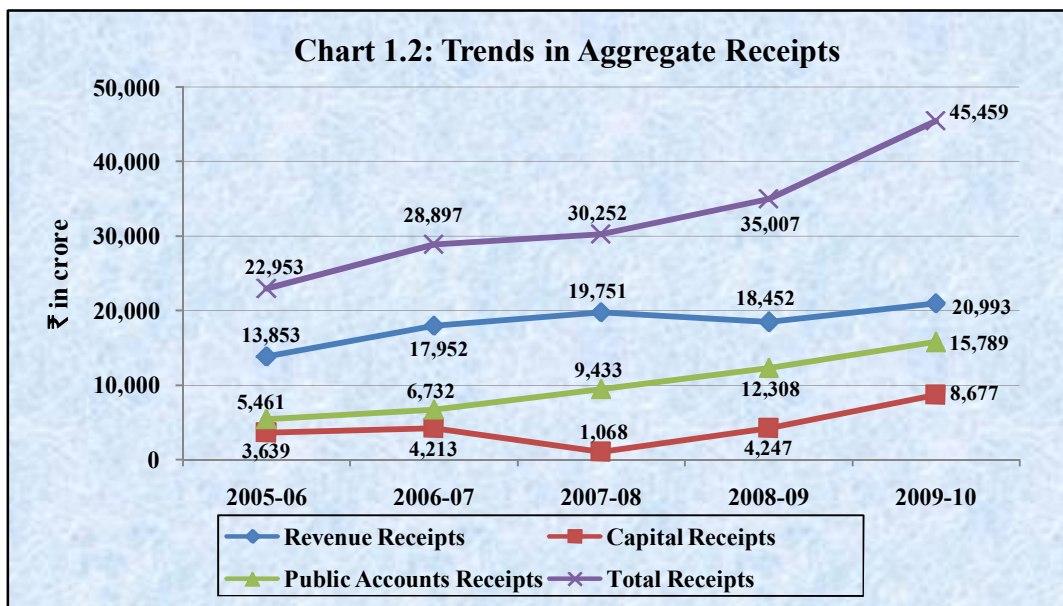
Revenue<sup>5</sup> and capital<sup>6</sup> are the two streams of receipts that constitute the resources of the Government. **Table 1.1** presents the receipts and disbursements of the Government during 2009-10 as recorded in Finance Accounts 2009-10 while **Chart 1.2** depicts the trends of various components of the receipts of the Government during 2005-10. **Chart 1.3** depicts the composition of resources of the Government during 2009-10.

<sup>4</sup> i) Loan to co-operative sugar mills, with outlay of ₹ 80 crore.  
ii) Scheme for rebate on interest on co-operative loans, with financial outlay of ₹ 27 crore.

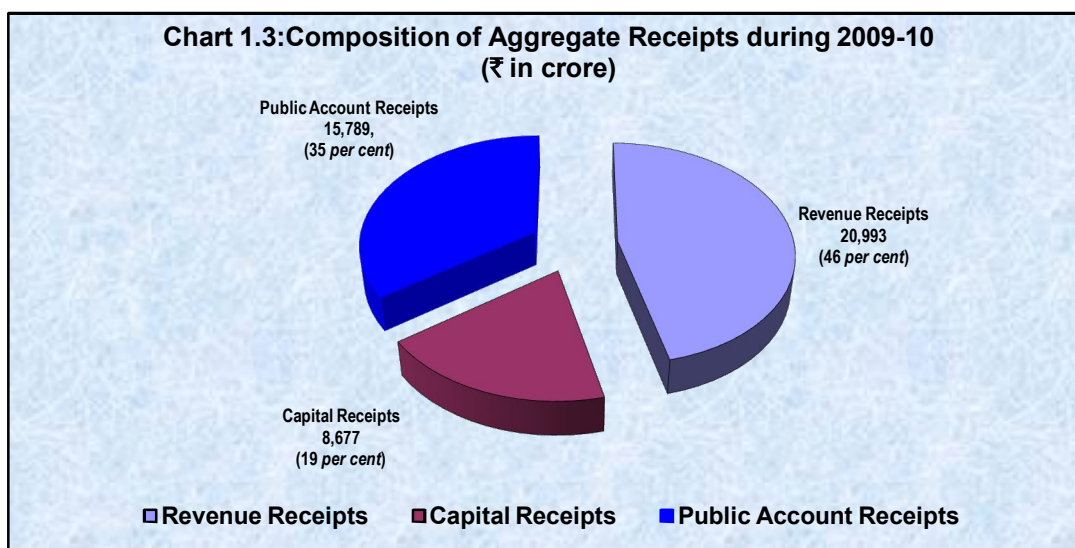
<sup>5</sup> Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from GOI.

<sup>6</sup> Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account.





(Source: State Finance Accounts of the respective years.)



(Source: State Finance Accounts of the respective years.)

The total receipts of the Government increased by ₹ 22,506 crore (98 per cent) from ₹ 22,953 crore in 2005-06 to ₹ 45,459 crore in 2009-10. Revenue receipts increased by ₹ 7,140 crore (52 per cent) from ₹ 13,853 crore in 2005-06 to ₹ 20,993 crore in 2009-10. Capital receipts which included recovery of loans and advances and public debt, increased by ₹ 5,038 crore (138 per cent) from ₹ 3,639 crore in 2005-06 to ₹ 8,677 crore in 2009-10. Public Account receipts also increased by ₹ 10,328 crore (189 per cent) from ₹ 5,461 crore in 2005-06 to ₹ 15,789 crore in 2009-10. The share of revenue receipts in the total receipts decreased from 60 per cent in 2005-06 to 46 per cent in 2009-10.

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The share of Public Account amounts in the total receipts increased from 24 per cent in 2005-06 to 35 per cent in 2009-10 whereas the share of capital receipts including debt increased from 16 per cent in 2005-06 to 19 per cent in 2009-10.

### 1.2.2 Funds transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to State implementing agencies<sup>7</sup> for the implementation of various schemes/programmes in the social and economic sectors. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on the availability of aggregate resources, funds directly transferred to State implementing agencies during 2008-09 and 2009-10 are presented in **Table 1.2**.

**Table-1.2: Funds transferred directly to State Implementing Agencies**

(₹ in crore)

Sr. No.	Programme/Scheme (Indicate Centre Share)	Implementing Agency in the State	Central Share	
			2008-09	2009-10
1.	Members of Parliament Local Area Development Scheme	District Rural Development Agency (DRDA)	28.60	9.39
2.	National Rural Employment Guarantee Scheme	DRDA	134.57	117.89
3.	Indira Awas Yojana	DRDA	50.33	52.26
4.	Swaranjayanti Gram Swarojgar Yojana	DRDA	23.51	24.71
5.	Desert Development Programme	DRDA	10.59	27.22
6.	Integrated Wasteland Development Programme	DRDA	4.28	3.84
7.	District Rural Development Agency (Administration)	DRDA	8.03	11.45
8.	Backward Region Grant Fund	DRDA	11.57	30.23
9.	Sarva Shiksha Abhiyan	Shiksha Sadan Society	204.52	273.07
10.	National Programme for Education of Girls at Elementary Level	Shiksha Sadan Society	0	2.45
11.	Kasturba Gandhi Bal Vidyalaya	KGBV	0.95	0.47
12.	National Rural Health Mission	Haryana State Health and Family Welfare Society	211.59	174.45
13.	National Horticulture Mission	NA	33.00	56.00
14.	Micro-Irrigation Scheme	NA	12.07	2.12
15.	Pradhan Mantri Gram Sarak Yojana	NA	272.02	283.72
16.	National Food Security Mission	NA	11.04	28.65
17.	Scheme for Central share support to State extension programme for extension reforms	NA	5.77	7.38
<b>Total</b>			<b>1,022.44</b>	<b>1,105.30</b>

(Source: Finance Account and Information supplied by concerned departments.)

<sup>7</sup> State implementing agencies include any organization/institution including non-governmental organizations which are authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State implementation society for *Sarva Shiksha Abhiyan*, State Health Mission, under National Rural Health Mission, etc.

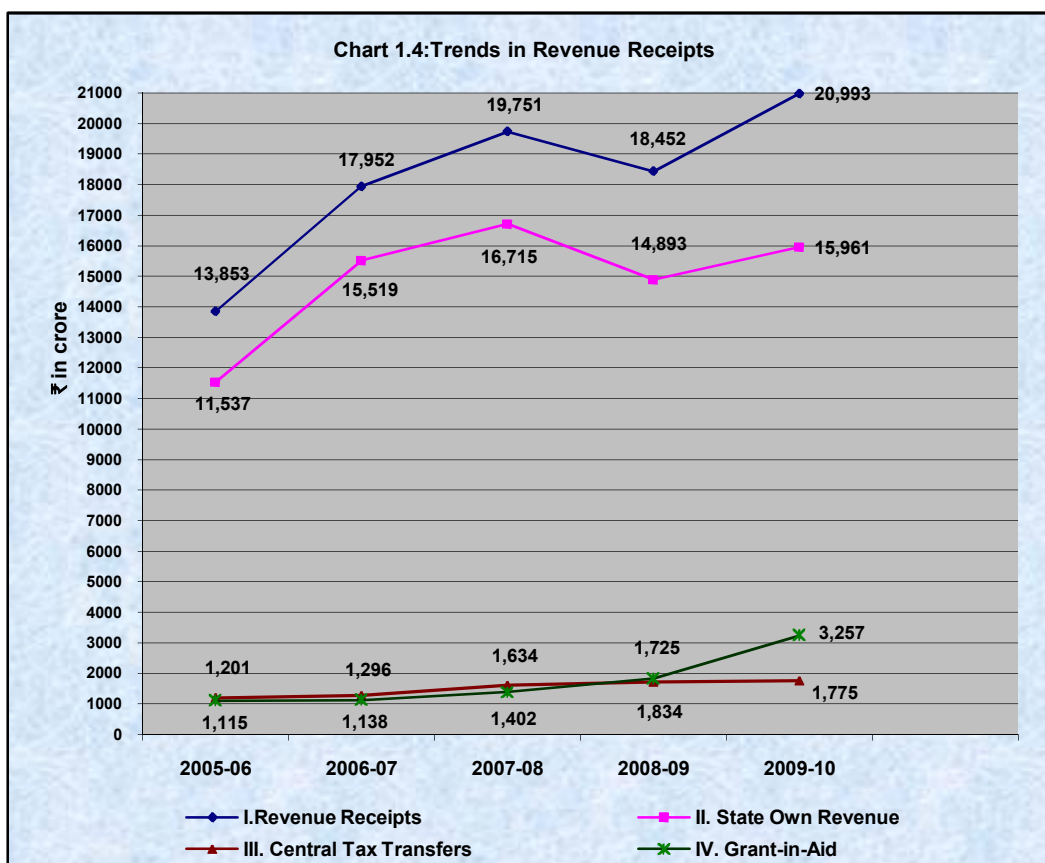
**Table 1.2** shows that the funds transferred directly to the State implementing agencies (Central share) increased by eight *per cent* during 2009-10 (₹ 1,105.30 crore) over 2008-09 (₹ 1,022.44 crore). The increase was mainly under Backward Region Grant Fund: ₹ 18.66 crore (161 *per cent*), Desert Development Programme: ₹ 16.63 crore (157 *per cent*), National Food Security Mission: ₹ 17.61 crore (160 *per cent*), National Horticulture Mission: ₹ 23 crore (70 *per cent*) and Sarva Shiksha Abhiyan: ₹ 68.55 crore (34 *per cent*). However, the transfer of funds decreased by ₹ 16.68 crore (12 *per cent*) under the National Rural Employment Guarantee Scheme (NREGA), ₹ 19.21 crore (67 *per cent*) under the Member of Parliament Local Area Development scheme, ₹ 37.14 crore (18 *per cent*) under the National Rural Health Mission and ₹ 9.95 crore (82 *per cent*) under the Micro-Irrigation scheme.

As the funds are not routed through the Government accounts, the direct transfer of funds from the GOI to the State implementing agencies runs the risk of oversight of maintenance of accounts and utilisation of funds by these agencies. In the absence of uniform accounting practices followed by all these agencies, proper documentation and timely reporting about the status of expenditure by these implementing agencies was not in place.

### 1.3 Revenue Receipts

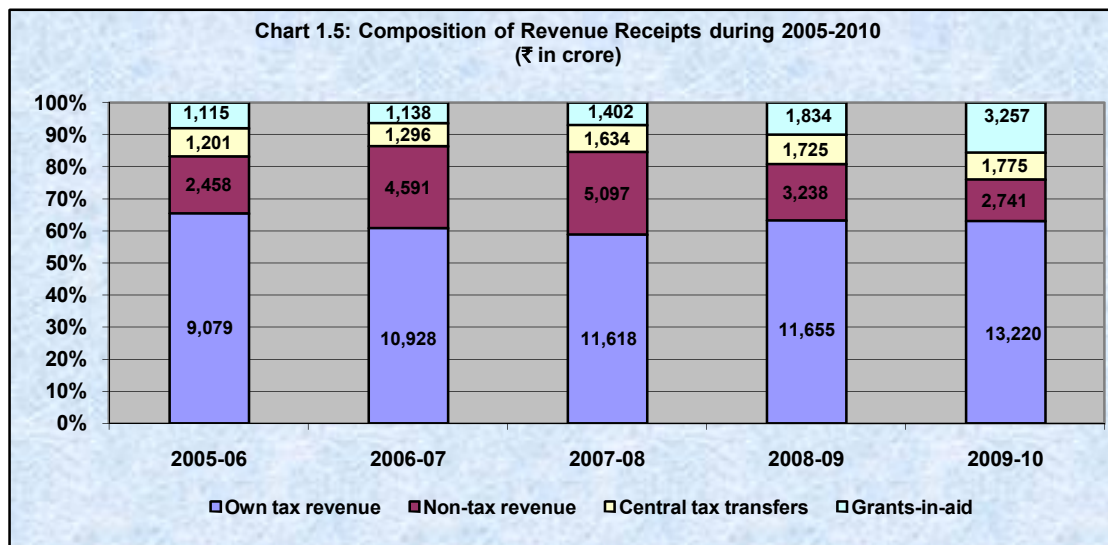
**Statement 11** of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2005-10 are presented in **Appendix 1.4** and also depicted in **Charts 1.4 and 1.5** respectively.

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(Source: State Finance Accounts of the respective years.)

The Revenue receipts of the State increased by ₹ 2,541 crore (14 per cent) from ₹ 18,452 crore in 2008-09 to ₹ 20,993 crore in 2009-10. Its own tax revenue increased by ₹ 1,565 crore (13 per cent) from ₹ 11,655 crore in 2008-09 to ₹ 13,220 crore in 2009-10. The increase was mainly under taxes on sales, trade, etc. (₹ 877 crore) and State excise (₹ 640 crore). Non-tax revenue decreased by ₹ 497 crore (15 per cent) from ₹ 3,238 crore in 2008-09 to ₹ 2,741 crore in 2009-10. The increase of ₹ 50 crore in Central transfers was mainly under corporation tax (₹ 165 crore), tax on income, etc. (₹ 52 crore) offset by a decrease in customs duties (₹ 81 crore) and Union excise duties (₹ 88 crore). The grants-in-aid from GOI, which constituted 16 per cent of the revenue receipts in the current year, increased from ₹ 1,834 crore in 2008-09 to ₹ 3,257 crore. The increase of ₹ 1,423 crore was under Centrally sponsored schemes (₹ 140 crore), Non-Plan grants (₹ 1,094 crore) and State Plan schemes (₹ 189 crore).



(Source: State Finance Accounts of the respective years.)

The trends in revenue receipts relative to the GSDP at current prices are presented in **Table 1.3**.

**Table 1.3: Trends in Revenue Receipts relative to GSDP**

	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Revenue receipts (RR) (₹ in crore)</b>	<b>13,853</b>	<b>17,952</b>	<b>19,751</b>	<b>18,452</b>	<b>20,993</b>
Rate of growth of RR ( <i>per cent</i> )	24.25	29.58	10.02	(-) 6.58	13.77
R R/GSDP ( <i>per cent</i> )	13.02	13.78	12.81	10.11	10.02
<b>Buoyancy ratios<sup>8</sup></b>					
Revenue buoyancy with reference to GSDP	1.767	1.320	0.544	(-) 0.358	0.934
State's Own Tax Buoyancy with reference to GSDP	1.605	0.909	0.343	0.017	0.911

(Source: State Finance Accounts of the respective years.)

The growth of revenue receipts which indicated decreasing trends declined from 24.25 *per cent* in 2005-06 to 13.77 *per cent* in 2009-10. The percentage ratio of revenue receipts to GSDP decreased from 13.02 in 2005-06 to 10.02 in 2009-10. The revenue buoyancy with reference to the GSDP also decreased from 1.767 in 2005-06 to 0.934 in 2009-10. The State's own tax buoyancy with reference to GSDP decreased from 1.605 in 2005-06 to 0.911 in 2009-10. The potential for increasing the buoyancy of the State's own tax revenue needs to be explored.

<sup>8</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

## Finances of the State Government

### 1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes, etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the year 2005-06 to 2009-10 along with the respective all-India average are presented in **Appendix 1.12**.

#### Tax Revenue

The tax revenue increased by 13 *per cent* during 2009-10 (₹ 13,220 crore) over the previous year (₹ 11,655 crore). The revenue from taxes on sales, trade, etc. comprised the major share of tax revenue (68 *per cent*) and the same increased by 11 *per cent* over the previous year. The value added tax (VAT) introduced in April 2003 had enhanced the revenue buoyancy of the taxes on sales, trade, etc. and generated a higher collection of ₹ 878 crore during 2009-10. Receipts under stamps and registration decreased by 2.41 *per cent* from ₹ 1,326 crore in 2008-09 to ₹ 1,294 crore in 2009-10. Other components of tax revenue exhibited relative stability with insignificant increases and decreases during the year. It is important to note that the State's own tax revenue was less than the assessment made by TFC (₹ 14,794 crore) as well as the projections made by the Government in its FCP (₹ 13,700 crore) and MTFPS (₹ 14,646 crore).

The expenditure on collection of tax revenue during 2005-10 ranged between 0.66 and 0.87 *per cent* for taxes on sales, trades etc., 2.34 and 4.08 *per cent* for taxes on vehicles, 0.94 and 1.30 *per cent* for State excise, 0.42 and 1.23 *per cent* for stamp duty and registration fees and 0.30 and 0.95 *per cent* for taxes on goods and passengers.

#### Non-tax Revenue

During the period from 2000-01 to 2008-09, the compound annual growth rate of non-tax revenue in Haryana (10.67 *per cent*) was lower than the growth rate of other General Category States (12.08 *per cent*) which further decreased to 7.42 *per cent* (for the period 2000-01 to 2009-10) (**Appendix 1.1**). Non-tax revenue which included debt relief of ₹ 96.67 crore from GOI on repayment of the consolidated loan under DCRF, constituted 13 *per cent* of the total revenue receipts during 2009-10 exhibiting a significant decrease of ₹ 497 crore (15 *per cent*) over the previous year. The decrease in non-tax revenue was mainly on account of a decrease of ₹ 751 crore in receipts under the major head 'Urban

Development'. The expenditure incurred on the collection of non-tax revenue was much higher than the expenditure incurred for collection of tax revenue. However, non-tax revenue at ₹ 2,741 crore during 2009-10 exceeded the projections made by TFC (₹ 2,372 crore) and by the Government in the FCP (₹ 2,300 crore). It was less by ₹ 859 crore (24 *per cent*) than the projection made by the Government in its MTFPS (₹ 3,600 crore).

### 1.3.2 Loss of Revenue due to evasion of Taxes and Refunds

Out of 21,917<sup>9</sup> cases of evasion of taxes (20,907 cases were detected during 2009-10 and 1,010 cases during earlier periods), assessments/investigations were completed in 18,707 cases and additional demand of ₹ 17.22 crore including penalty had been raised by the Excise and Taxation Department.

Refunds of ₹ 158.62 crore were made to 2,659 claimants, against outstanding amounts totalling ₹ 439.52 crore in 3,118 cases by the Excise and Taxation, Power and Urban Development Departments during 2009-10. Of the 459 balance cases involving refunds of ₹ 280.90 crore, 99 *per cent* cases of refund pertained to the excise and taxation department and one *per cent* cases (involving one *per cent* of the total amount) related to the Power and Urban Development departments.

### 1.3.3 Revenue Arrears

The arrears of revenue increased by 126 *per cent* from ₹ 1,432 crore in 2005-06 to ₹ 3,232 crore<sup>10</sup> in 2009-10. Of these, ₹ 832 crore (26 *per cent*) was outstanding for a period of more than five years. The arrears were mainly on account of taxes on sales, trade, etc.: ₹ 2,724 crore, tax on entry of goods into local areas: ₹ 188 crore, taxes and duties on electricity: ₹ 114 crore, State excise: ₹ 85 crore and taxes on goods and passengers: ₹ 65 crore. As is evident from the above data, taxes on sales, trade, etc. constituted 84 *per cent* of the total arrears. Demands amounting to ₹ 589 crore could not be realised due to stays granted by the High Court, judicial and non-judicial authorities. Collection of arrears of revenue needs immediate attention along with effective measures for their realisation in a time-bound manner.

<sup>9</sup> Figures are as per Audit Report (Revenue Receipts).

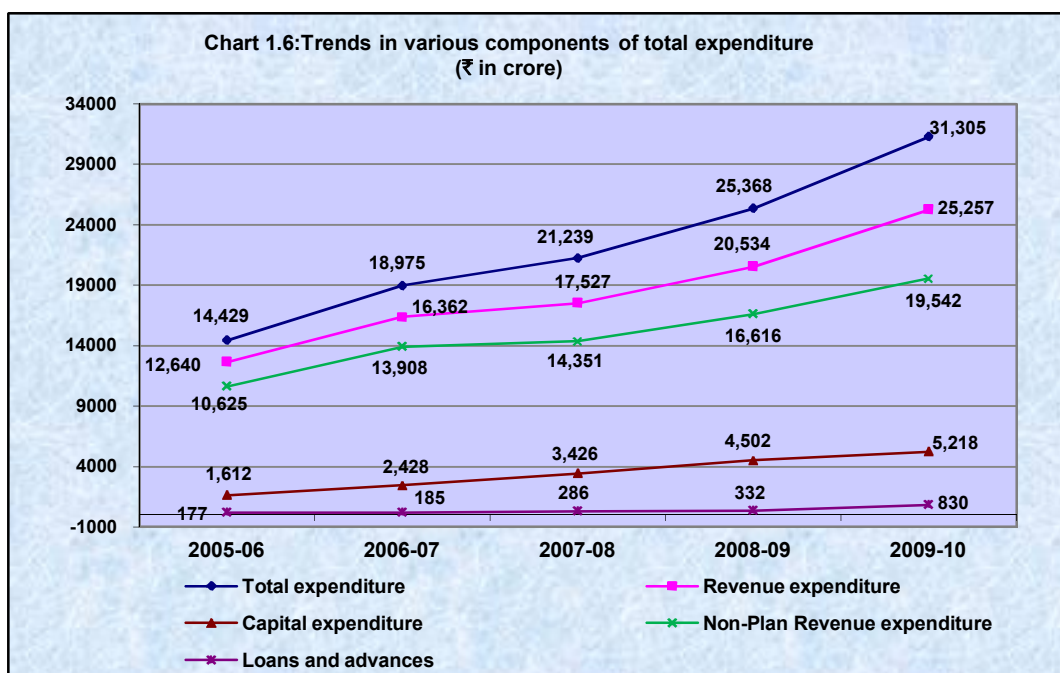
<sup>10</sup> Figures are as per Audit Report (Revenue Receipts).

### 1.4 Application of Resources

Analysis of the allocation of expenditure at the State Government's level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social sectors.

#### 1.4.1 Growth and Composition of Expenditure

Trends observed in total expenditure over a period of five years (2005-2010) are shown in **Chart 1.6** and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively. **Table 1.4** presents the growth of capital expenditure over five years (2005-10):



(Source: State Finance Accounts of the respective years.)

**Table 1.4: Growth of Capital Expenditure**

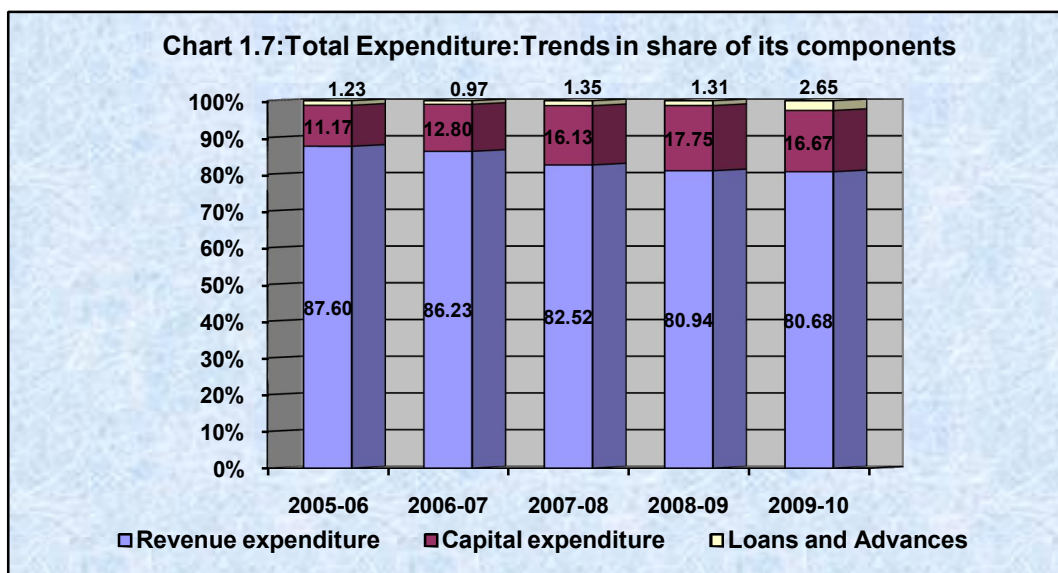
	(₹ in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Capital expenditure	1,612	24,28	3,426	4,502	5,218
Growth rate (per cent)	80	51	41	31	16
Percentage of total expenditure	11.17	12.80	16.13	17.75	16.67

(Source: State Finance Accounts of the respective years.)



The trends in various components of expenditure during the last five years vis-à-vis the total expenditure during the period increased by ₹ 16,876 crore (117 per cent) from ₹ 14,429 crore in 2005-06 to ₹ 31,305 crore in 2009-10. Of this, revenue expenditure increased by ₹ 12,617 crore (almost 100 per cent) from ₹ 12,640 crore in 2005-06 to ₹ 25,257 crore in 2009-10. Capital expenditure increased by ₹ 3,606 crore (224 per cent) from ₹ 1612 crore in 2005-06 to ₹ 5,218 crore in 2009-10. Compound annual growth rate of capital expenditure (15.26 per cent) of Haryana for 2000-01 to 2008-09 was less than that of other General Category States (21.41 per cent) during the same period (**Appendix 1.1**). Disbursement of loans and advances also increased by ₹ 653 crore (369 per cent) from ₹ 177 crore in 2005-06 to ₹ 830 crore in 2009-10. However, the share of NPRE in total expenditure decreased from 74 per cent in 2005-06 to 62 per cent in 2009-10.

The total expenditure during 2009-10, i.e. ₹ 31,305 crore increased by ₹ 5,937 crore (23 per cent) over the previous year. Of the total increase, revenue expenditure contributed ₹ 4,723 crore (80 per cent) while capital expenditure accounted for ₹ 716 crore (12 per cent). The remaining amount of ₹ 498 crore (eight per cent) was contributed by loans and advances. The bifurcation of total expenditure into Plan and Non-Plan expenditure revealed that the share of Plan and Non-Plan expenditure was 34 and 66 per cent respectively.

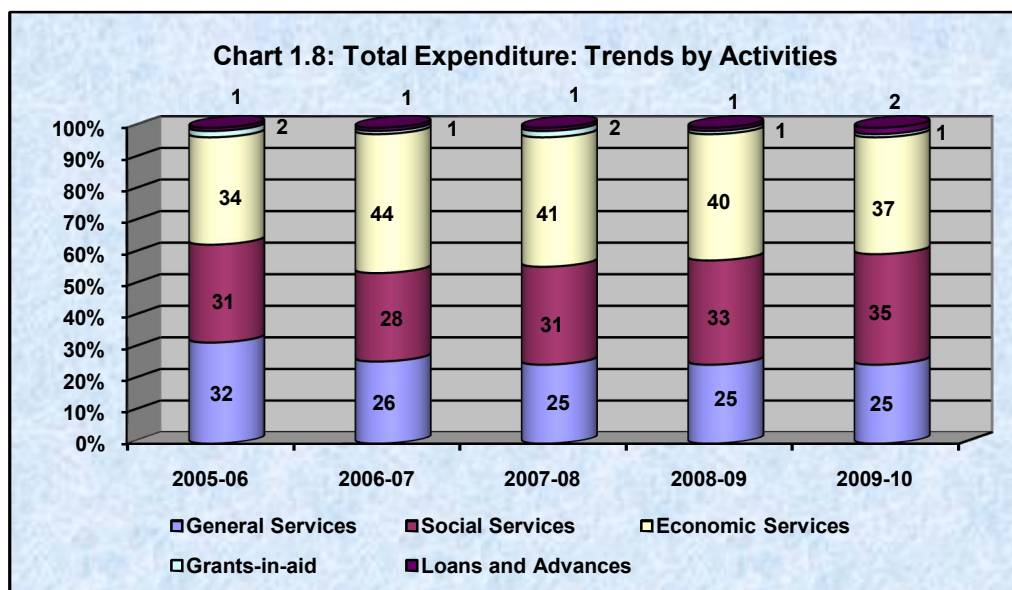


(Source: State Finance Accounts of the respective years.)

The share of revenue expenditure in total expenditure decreased from 87.60 per cent in 2005-06 to 80.68 per cent in 2009-10, whereas the share of capital expenditure in total expenditure increased from 11.17 per cent in 2005-06 to 16.67 per cent in 2009-10. The share of loans and advances

## Finances of the State Government

disbursed increased from 1.23 *per cent* in 2005-06 to 2.65 *per cent* in 2009-10. The ratio of NPRE to GSDP increased from 9.10 *per cent* to 9.32 *per cent* and NPRE to total expenditure decreased from 65.50 *per cent* to 62.42 *per cent* over 2008-09.



(Source: State Finance Accounts of the respective years.)

The movement of relative shares of various components of expenditure indicated that while the share of general services including interest payment declined from 32 *per cent* in 2005-06 to 25 *per cent* in 2009-10, the share of economic services increased from 34 *per cent* in 2005-06 to 37 *per cent* in 2009-10, mainly due to the steep increase in expenditure on power projects. Although the combined share of social and economic services which represented development expenditure increased from 65 *per cent* in 2005-06 to 72 *per cent* in 2009-10, there was no substantial increase in 2009-10 from its level in 2008-09. The share of loans and advances remained almost constant during 2005-10.

Revenue expenditure of the State consistently increased at an average rate of 20 *per cent* from ₹ 12,640 crore in 2005-06 to ₹ 25,257 crore in 2009-10. The increase of ₹ 4,723 crore (23 *per cent*) during 2009-10 over the previous year was mainly due to increase in expenditure on general education (₹ 1379 crore), social security and welfare (₹ 846 crore), pension and other retirement benefits (₹ 776 crore), interest payments (₹ 398 crore) and police (₹ 325 crore). The breakup of revenue expenditure into NPRE and Plan Revenue Expenditure (PRE) showed that the proportionate share of NPRE was substantially higher than the PRE. The total increase of ₹ 4,723 crore comprised ₹ 2,926 crore and ₹ 1797 crore in NPRE and PRE respectively.

The NPRE in 2009-10 at ₹ 19,542 crore was higher than the normative assessment of TFC (₹ 11,374 crore) and the projection of the Government made in its FCP (₹ 15,930 crore) but lower than the projection made in MTFPS (₹ 20,201 crore).

### 1.4.2 Committed Expenditure

The committed expenditure of the Government on its revenue account mainly consists of interest payments and expenditure on salaries and wages, pensions and subsidies. The trends of expenditure on these components during 2005-10 are presented in **Table 1.5** and **Chart 1.9**.

**Table 1.5: Components of committed expenditure**

(₹ in crore)

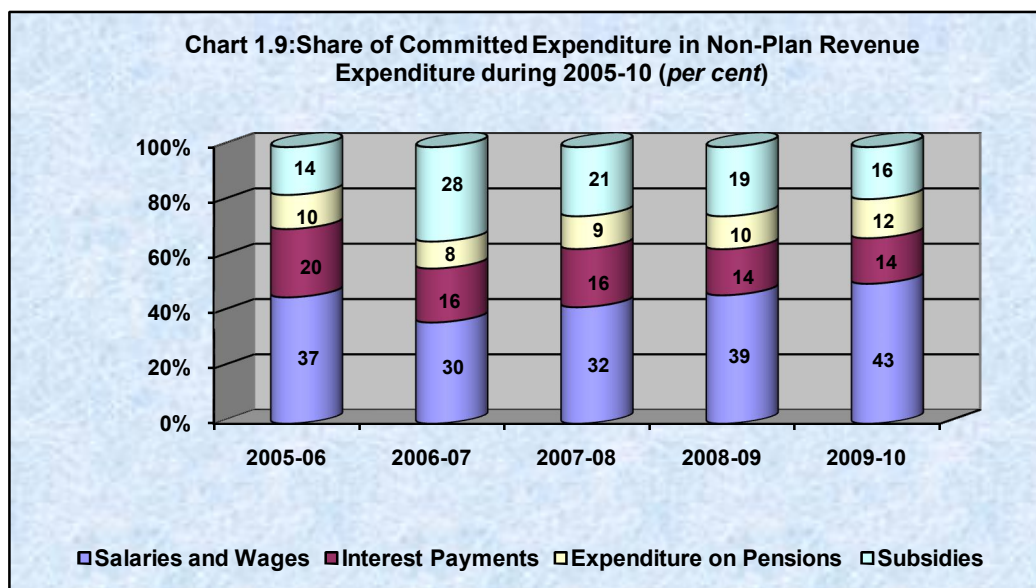
Component of committed expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					Budget estimates	Actuals
Salaries and wages, of which	3,894 (28)	4,126 (23)	4,566 (23)	6,546 (35)	9,348 (42)	8,440*
Non-Plan Head	3,584	3,784	4,292	6,069	8,750	7,746
Plan Head **	310	342	274	477	598	694
Interest Payments	2,100 (15)	2,265 (13)	2,346 (12)	2,339 (13)	3,001 (13)	2,737 (13)
Expenditure of pension	1,033 (7)	1,173 (7)	1,298 (7)	1,614 (9)	2,190 (10)	2,390 (11)
Subsidies	1,466 (11)	3,852 (21)	3,057 (15)	3,190 (17)	3,056 (14)	3,089 (15)
<b>Total</b>	<b>8,493</b>	<b>11,416</b>	<b>11,267</b>	<b>13,689</b>	<b>17,595</b>	<b>16,656</b>

(Source: State Finance Accounts of the respective years and information supplied by A.G (A&E).)

Note: Figures in parentheses indicate a percentage to revenue receipts.

\* Includes wages of ₹ (-) 23.10 crore.

\*\* Plan Head also includes the salaries and wages paid under Centrally sponsored schemes.



(Source: State Finance Accounts of the respective years.)

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### Salaries and wages

During 2000-01 to 2008-09, the compound annual growth rate of expenditure on salaries and wages in Haryana (11.63 *per cent*) was higher than that of other General Category States (9.37 *per cent*). This growth rate for Haryana further increased (13.50 *per cent*) for the period 2000-01 to 2009-10 (**Appendix 1.1**). The expenditure on salaries and wages increased by 117 *per cent* from ₹ 3,894 crore in 2005-06 to ₹ 8,440 crore in 2009-10. Actual salary expenditure at ₹ 8,440 crore in 2009-10 was, however, higher than the projections in the State's own FCP (₹ 5,080 crore) and within the projections made in MTFPS of the Government (₹ 8,820 crore). The percentage of the salary bill, net of interest payments and pension to revenue expenditure was 38 *per cent*, which was higher than the norm of 35 *per cent* envisaged by the TFC.

### Interest payments

Interest payments increased by 30 *per cent* from ₹ 2100 crore in 2005-06 to ₹ 2,737 crore in 2009-10. During 2009-10, there was an increase of ₹ 398 crore (17 *per cent*) over the previous year. The percentage of interest payments to revenue receipts decreased from 15 *per cent* in 2005-06 to 13 *per cent* in 2009-10. Interest payments were within the medium-term target of 15 *per cent* of revenue receipts to be achieved by 2009-10 as envisaged by TFC. Interest payments (₹ 2,737 crore) during 2009-10 were also within the projections made by the State in its FCP (₹ 2,840 crore) and the projections in the MTFPS (₹ 2,947 crore) for the year 2009-10.

### Pension payments

During 2000-01 to 2008-09, the compound annual growth rate of expenditure on pension in Haryana (13.87 *per cent*) was higher than that of other General Category States (12.03 *per cent*). This growth rate for Haryana further increased (17.24 *per cent*) for the period 2000-01 to 2009-10 (**Appendix 1.1**). Pension payments increased by ₹ 1,357 crore (131 *per cent*) from ₹ 1,033 crore in 2005-06 to ₹ 2,390 crore in 2009-10 but its percentage to revenue receipts increased from seven in 2005-06 to 11 in 2009-10. The expenditure on pension payments (₹ 2,390 crore) in 2009-10 was higher by 70 *per cent*, 52 *per cent* and nine *per cent* than the projections made by TFC and the Government in FCP and MTFPS respectively. To meet the increasing pension liabilities, a new Contributory Pension Scheme was introduced by the State with effect from 1 January 2006.

### Total expenditure

The total expenditure (₹ 13,567 crore) on salary, interest and pension payments was higher by ₹ 4,002 crore (42 *per cent*) than the projections

by the Government in FCP (₹ 9,565 crore) and consumed 64.63 per cent of the revenue receipts against 50.52 per cent projections in the FCP.

### Subsidies

Payment of subsidies increased by ₹ 1,623 crore (111 per cent) from ₹ 1,466 crore in 2005-06 to ₹ 3,089 crore in 2009-10 which constituted 10 per cent of the total expenditure and consumed 15 per cent of the revenue receipts. Out of the total subsidies of ₹ 3,089 crore, ₹ 2,780 crore (90 per cent) were for the power and energy sectors, the bulk of which were for rural electrification (₹ 2,771 crore). The actual total subsidy to the power and energy sector was 151 per cent (₹ 2,780 crore) of the projection (₹ 1,840 crore) in the State's own FCP. The general subsidy at ₹ 309 crore was also 258 per cent of the projection (₹ 120 crore) in the FCP for 2009-10.

#### 1.4.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and other institutions during the period 2005-06 to 2009-10 is given in **Table 1.6**.

**Table 1.6: Financial assistance to local bodies, etc.**

	2005-06	2006-07	2007-08	2008-09	2009-10		
					Budget estimate	Actual	Percentage of variation
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	244.06	247.53	459.65	538.49	775.01	446.03	(-) 42
Municipal Corporations and Municipalities	Nil	125.63	103.22	464.45	306.24	306.24	-
Zila Parishads and Other Panchayati Raj Institutions	73.12	135.02	93.88	412.16	405.79	366.26	(-) 10
Development Agencies	303.31	231.93	520.33	268.75	380.98	333.48	(-) 12
Hospitals and other Charitable Institutions	25.28	20.32	49.46	46.80	145.41	125.79	(-) 13
Other Institutions	196.29	161.51	345.05	322.72	300.13	368.89	(+) 23
<b>Total</b>	<b>842.06</b>	<b>921.94</b>	<b>1,571.59</b>	<b>2,053.37</b>	<b>2,213.56</b>	<b>1,946.69</b>	<b>(-) 54</b>
<b>Assistance as percentage of RE</b>	<b>7</b>	<b>6</b>	<b>9</b>	<b>10</b>		<b>8</b>	

(Source: Information supplied by Accountant General (Accounts and Entitlement).)

Financial assistance to local bodies and other institutions increased from ₹ 842.06 crore in 2005-06 to ₹ 1,946.69 crore, constituting eight per cent of the revenue expenditure during 2009-10. An analysis of the above table reveals that during 2009-10, the financial assistance decreased to ₹ 1,946.69 crore from ₹ 2,053.37 crore in 2008-09. The decrease of ₹ 106.68 crore (five per cent) over the previous year was mainly due to less assistance to educational institutions (₹ 92.46 crore), municipal corporations and municipal committees (₹ 158.21 crore), Zila Parishads and other panchayati raj institutions (₹ 45.90 crore). The assistance to development agencies, hospitals and other charitable institutions and other institutions increased by ₹ 64.73 crore, ₹ 78.99 crore and ₹ 46.17

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crore respectively. Against the estimated provision of ₹ 2,213.56 crore, financial assistance of only ₹ 1,946.69 crore was released. The decrease in the actual release vis-à-vis the BE to educational institutions, development agencies, *Zila Parishads*, hospitals and other charitable institutions, etc., ranged between 10 and 42 *per cent*. However, the actual release to other institutions was more than the BE by 23 *per cent*, mainly under non-conventional sources of energy, social and economic services and compensation and assignments to local bodies and *panchayati raj* institutions. Actual release of ₹ 672.50 crore to local bodies was 17 times more than the projection of TFC (₹ 40.98 crore).

### 1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provision for providing public services); efficiency of expenditure and use and effectiveness (assessment of outlay-outcome relationships for selected services).

#### 1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.7** analyses the fiscal priority and fiscal capacity of the Government with regard to development expenditure, social sector expenditure and capital expenditure during 2009-10.

**Table-1.7: Fiscal Priority and Fiscal Capacity of the State in 2005-06 and 2009-10**

Fiscal Priority of the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States Average* (Ratio) 2005-06	17.58	61.39	30.91	13.92	15.02	4.06
Haryana's Average (Ratio) 2005-06	13.56	64.97	30.73	11.17	13.81	3.24
General Category States Average* (Ratio) 2009-10	18.18	66.11	35.76	14.85	16.18	4.29
Haryana Average (Ratio)* 2009-10	14.94	73.80	36.38	16.67	16.99	3.50

\* As per cent of GSDP  
 AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure, CE: Capital Expenditure.  
 # Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.  
 Source for GSDP: Information was collected from the State's Directorate of Economics and Statistics.

**Table 1.7** shows the comparison of fiscal priorities given to different categories of expenditure of the State in 2005-06 (the first year of award period of TFC) and the current year i.e. 2009-10 (terminal year of the TFC's award period).

### Fiscal Priority:

- AE as a ratio of GSDP in both 2005-06 and 2009-10 (13.56 and 14.94 *per cent*) was lower in the case of Haryana as compared to other General Category States (17.58 and 18.18 *per cent*).
- Government gave adequate fiscal priority to DE in 2005-06 and 2009-10, as its ratio (64.97 and 73.80 *per cent*) to AE was higher than the average ratio (61.39 and 66.11 *per cent*) of other General Category States.
- The ratio of SSE (30.73 *per cent*) in AE in 2005-06 was lower than the ratio (30.91 *per cent*) in other General Category States, but the Government gave due priority to this sector in 2009-10 as its ratio in AE (36.38 *per cent*) was higher than the ratio (35.76 *per cent*) of other General Category States.
- The ratio of CE to AE (11.17 *per cent*) in 2005-06 was lower than the ratio of other General Category States (13.92 *per cent*). However, during 2009-10, this ratio (16.67 *per cent*) was higher than the ratio (14.85 *per cent*) of other General Category States.
- The ratio of education expenditure to AE increased from 13.81 *per cent* in 2005-06 to 16.99 *per cent* in 2009-10 and was higher than the ratio of other General Category States (16.18 *per cent*).
- The ratio of expenditure on health to AE (3.24 and 3.50 *per cent*) in 2005-06 and 2009-10 was less than the ratio of other General Category States (4.06 and 4.29 *per cent*). Greater fiscal priority may be given to health by the Government.

### 1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods<sup>11</sup>.

<sup>11</sup> *Core public goods* are goods which all citizens enjoy in common, in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of those goods, e.g. enforcement of law and order, security and protection of our rights, pollution-free air and other environmental goods, road infrastructure etc.

*Merit goods* are commodities that the public sector provides free or at subsidised rates because an individual or society should have them on the basis of some concept of need, rather than the ability and willingness to pay the Government. Examples of such goods include the provision of free or subsidised food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, provision of basic education to all, drinking water, sanitation, etc.

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Apart from improving the allocation towards development expenditure<sup>12</sup>, particularly in view of the fiscal space being created on account of the decline in expenditure on debt servicing in the recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure being made on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. **Table 1.8** presents the trends in development expenditure<sup>13</sup> relative to the aggregate expenditure of the State during the period 2005-06 to 2009-10. **Chart 1.10** presents component-wise development expenditure during 2005-10. **Table 1.9** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of selected social and economic services.

**Table 1.8: Development expenditure**

(₹ in crore)

Component of committed expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					Budget Estimate	Actuals
<b>Development expenditure (a to c)</b>	<b>9,375 (65)</b>	<b>13,615 (72)</b>	<b>15,346 (72)</b>	<b>18,743 (74)</b>	<b>22,934 (73)</b>	<b>23,103 (74)</b>
a. Development revenue expenditure	7,810 (54)	11,242 (59)	11,961 (56)	14,294 (56)	17,855 (57)	17,432 (56)
b. Development capital expenditure	1,530 (11)	2,338 (12)	3,255 (15)	4,307 (17)	3,857 (12)	5,031 (16)
c. Development loans and Advances	35 (0.24)	35 (0.18)	130 (0.61)	142 (0.56)	1,222 (4)	640 (2)

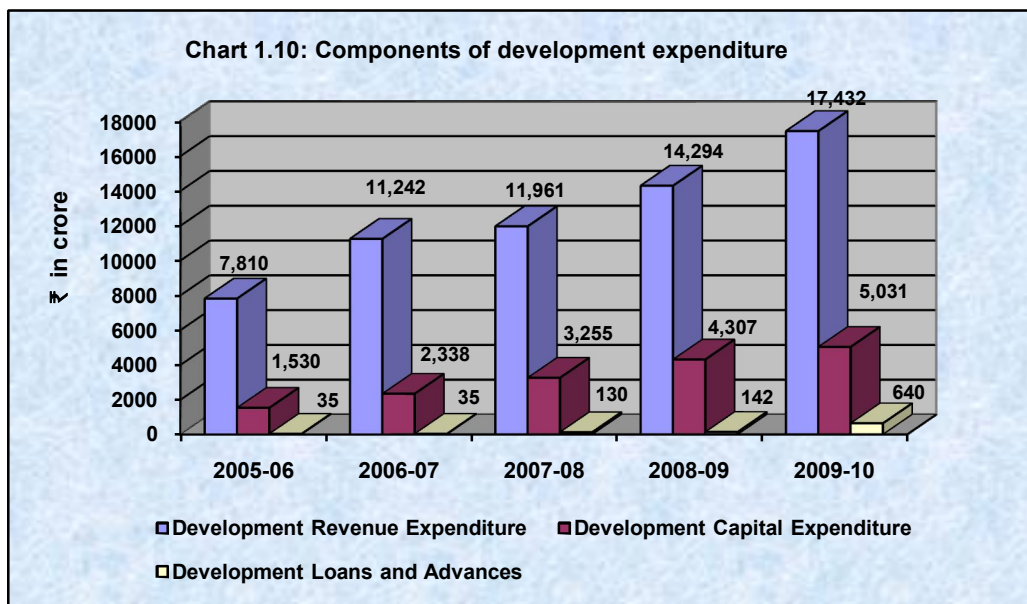
(Source: State Finance Accounts of the respective years.)

(Note: Figures in parentheses indicate percentage of aggregate expenditure.)

<sup>12</sup> The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorised into Social Services, Economic Services and General Services. Broadly, the Social and Economic Services constitute development expenditure, while expenditure on General Services is treated as non-development expenditure.

<sup>13</sup> Development expenditure is defined as total expenditure made on Social and Economic Services.





(Source: State Finance Accounts of the respective years.)

Development expenditure increased by ₹ 13,728 crore (146 per cent) from ₹ 9,375 crore in 2005-06 to ₹ 23,103 crore in 2009-10. This expenditure, which constituted 74 per cent of the total expenditure increased by ₹ 4,360 crore (23 per cent) from ₹ 18,743 crore in 2008-09 to ₹ 23,103 crore in 2009-10. Revenue expenditure constituted 75 per cent of development expenditure whereas the share of capital expenditure including loans and advances was only 25 per cent. This expenditure also exceeded its budget estimates by ₹ 169 crore. Against the provision of ₹ 22,934 crore, the actual expenditure was ₹ 23,103 crore.

**Table 1.9 Efficiency of expenditure use in selected Social and Economic Services**  
(₹ in crore)

Social/economic infrastructure	2008-09			2009-10		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S&W	O&M		S&W	O&M
<b>Social Services (SS)</b>						
Education, Sports, Art and Culture	0.023	66.95	0.01-	0.021	68.00	0.02
Health and Family Welfare	0.057	75.24	-	0.068	76.38	0.03
Water Supply, Sanitation, Housing and Urban Development	0.422	26.30	8.96	0.413	35.41	7.13
<b>Total (SS)</b>	<b>0.133</b>	<b>50.02</b>	<b>1.46</b>	<b>0.116</b>	<b>64.60</b>	<b>1.08</b>
<b>Economic Services (ES)</b>						
Agriculture and Allied Activities	0.369	48.51	1.22	0.478	50.94	1.55
Irrigation and Flood Control	0.518	45.98	12.66	0.462	22.28	13.77
Power and Energy	0.221	0.03	-	0.244	0.06	-
Transport	0.408	30.19	26.85	0.475	36.85	27.22
<b>Total (ES)</b>	<b>0.312</b>	<b>18.82</b>	<b>6.41</b>	<b>0.385</b>	<b>20.97</b>	<b>8.62</b>
<b>Total (SS + ES)</b>	<b>0.232</b>	<b>34.67</b>	<b>3.89</b>	<b>0.264</b>	<b>44.51</b>	<b>4.56</b>

(Source: State Finance Accounts of the respective years.)

TE: Total expenditure; CE: Capital expenditure; RE: Revenue expenditure; S&W: Salaries and wages; O&M: Operations and maintenance

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The ratio of capital expenditure on social services with reference to the total expenditure decreased from 0.133 in 2008-09 to 0.116 in 2009-10, whereas the ratio of capital expenditure on economic services increased from 0.312 in 2008-09 to 0.385 in 2009-10.

The share of expenditure on salaries and wages increased from 50.02 *per cent* in 2008-09 to 64.60 *per cent* in 2009-10. The share of expenditure on O & M decreased from 1.46 *per cent* in 2008-09 to 1.08 *per cent* in 2009-10. Under economic services, the share of salaries and wages and operation and maintenance expenditure increased from 18.82 *per cent* and 6.41 *per cent* in 2008-09 to 20.97 *per cent* and 8.62 *per cent* respectively in 2009-10. Under social services and economic services combined, the expenditure on salaries and wages increased from 34.67 *per cent* in 2008-09 to 44.51 *per cent* in 2009-10.

### 1.5.3 Flagship schemes: Position of expenditure

The Government of India has identified 27 Central sector and additional Central assistance linked schemes as flagship schemes depending on their expected impact on the social and economic development of the nation. The following amounts were released for the schemes by the Central Government, Ministries to the Government of Haryana, their functionaries and various implementing agencies/NGOs during 2009-10.

**Table 1.10: Expenditure vis-à-vis availability of funds under flagship schemes implemented in Haryana**

(₹ in crore)

Sr. No.	Name of the scheme	Funds received		Total including opening balance and funds received from other sources	Expenditure	Percentage of expenditure to available funds
		From GOI	State Share			
1	National Rural Health Mission	174.45	24.00	368.82	304.19	82
2	Integrated Watershed Management Programme (Desert Development Programme)	27.22	9.17	63.49	29.45	46
3	National Rural Employment Guarantee Act	117.89	12.12	188.77	143.56	76
4	Accelerated Irrigation Benefits Programme	0.00	12.20	12.20	12.20	100
5	Backward Regions Grant Fund	30.23	0.28	46.68	39.83	85
6	Indira Awas Yojana	52.26	17.42	84.85	80.78	95
7	Sarva Shiksha Abhiyan	273.07	182.05	560.39	452.52	81
8	Rural Water Supply Schemes (A) Accelerated Rural Water Supply Scheme	187.92	2.97	190.89	90.95	48
	(B) Desert Development Programme	40.35	0.00	0.00	40.35	100
9	Mid-day Meal Scheme	129.09	47.58	176.67	175.49	99
10	Integrated Child Development Services Scheme	79.41	6.00	85.41	108.13	127
11	National Horticulture Mission	56.00	11.25	80.35	80.27	99
12	Pradhan Mantri Gram Sadak Yojana	283.72	0.00	317.93	283.72	89
13	Macro-Management of Agriculture including National Watershed Development Project for Rainfed Area and Extension Service	27.12	3.01	30.13	29.84	99
14	National Agriculture Insurance Scheme	0.00	0.34	0.34	0.34	100
15	Integrated scheme on Oil seeds, Pulses and Maize	6.56	2.01	8.65	6.38	74
16	Jawaharlal Nehru National Urban Renewal Mission	NA	7.05	7.05	7.05	100
17	National e-governance Action Plan	NA	1.68	1.68	1.68	100
18	Rajiv Gandhi Grameen Vidyutikaran Yojana	4.51	0.00	135.06	102.34	76
19	Accelerated Power Development and Reform Programme	12.82	139.49	246.31	215.79	88
20	National Social Assistance Programme	35.32	0.00	37.67	37.67	100
21	National Rainfed Area	2.03	0.23	2.26	2.23	99
22	Agricultural Extension	7.38	0.82	8.20	5.86	72

(Source: Finance Accounts and information collected from concerned departments.)

**Table 1.10** shows that utilisation of available funds under the Integrated Watershed Management Programme (Desert Development Programme), Rural Water Supply Schemes (A) Accelerated Rural Water Supply Scheme (B) Desert Development Programme, Agriculture Extension and Integrated Scheme on Oil seeds, Pulses and Maize ranged between 46 and 74 per cent.

### 1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM Act 2005 framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet capital expenditure/ investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market-based resources, the Government needs to initiate measures to earn adequate returns on its investments, recover its cost of borrowed funds rather than bearing the same on the budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during 2009-10 vis-à-vis the previous year.

#### 1.6.1 Financial results of irrigation works

The financial results of seven out of 35 irrigation projects with a capital outlay of ₹ 411.61 crore at the end of March 2010 showed that revenue realised from these projects during 2009-10 (₹ 192.78 crore) was 47 *per cent* of the capital outlay. After meeting the working and maintenance expenditure (₹ 184.39 crore) and interest charges (₹ 20.58 crore), there was a loss of ₹ 12.20 crore, which was three *per cent* of the capital outlay on these projects.

#### 1.6.2 Incomplete projects

Department-wise information pertaining to incomplete projects as on 31 March 2010 is given in **Table 1.11**. Only those projects where the scheduled dates for completion are already over as of 31 March 2010 have been included under incomplete projects.

**Table 1.11: Department-wise profile of incomplete projects**

(₹ in crore)

Department	Number of incomplete projects	Initial budgeted cost	Revised total cost of projects*	Total expenditure upto March 2009
Buildings and Roads	11	43.69	43.69	23.20
Irrigation	4	9.54	9.58	6.81
<b>Total</b>	<b>15</b>	<b>53.23</b>	<b>53.27</b>	<b>30.01</b>

(Source: State Finance Accounts for 2009-10.)

The scheduled dates of completion of these projects were between April 2008 and March 2010, but these were incomplete, involving time overruns varying from six to 23 months in the case of irrigation projects and from six to 17 months for road projects. Reasons for delay in completion of these projects were not intimated by the departments.

### 1.6.3 Investments and Returns

The Government as of 31 March 2010, had invested ₹ 5,575.18 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.12**). The average return on these investments was 0.15 *per cent* in the last five years while the Government paid an average interest rate of 8.54 *per cent* on its borrowings during 2005-10.

**Table 1.12: Return on investments**

Investment/return/cost of borrowings	2005-06	2006-07	2007-08	2008-09	2009-10	
					Budget estimate	Actuals
Investment at the end of the year (₹ in crore)	2,261.44	3,058.05	3,988.43	5,031.32	881.87	5,575.18
Return (₹ in crore)	1.92	5.62	6.05	8.27	9.54	9.60
Return ( <i>per cent</i> )	0.09	0.18	0.15	0.16	1.08	0.17
Average rate of interest on Government borrowings ( <i>per cent</i> )	8.95	9.20	7.43	7.82	9.77	9.29
Difference between interest rate and return ( <i>per cent</i> )	8.86	9.02	7.28	7.66	8.69	9.12

(Source: State Finance Accounts of the respective years.)

While the Government investments increased by ₹ 3,313.74 crore (147 *per cent*) from ₹ 2,261.44 crore in 2005-06 to ₹ 5,575.18 crore in 2009-10, the return from investments increased from ₹ 1.92 crore in 2005-06 to ₹ 9.60 crore in 2009-10. The percentage return from investments ranged from a meagre 0.09 to 0.18 during the last five years, while the Government paid interest at an average rate of 7.43 to 9.29 *per cent* on its borrowings during 2005-10. Investment of ₹ 543.86 crore during 2009-10 was within the budget provision (₹ 881.87 crore).

Ten Government Companies with an aggregate investment of ₹ 4,948 crore up to 2009-10 were incurring losses and their accumulated losses amounted to ₹ 4,592 crore as per the accounts furnished by these Companies upto 2009-10 (**Appendix 1.13**). It is pertinent to note that ₹ 529 crore of the total investment (96 *per cent*) in 2009-10 was made by the Government in the equity capital of UHBVNL<sup>14</sup> (₹ 163 crore), DHBVNL<sup>15</sup> (₹ 234 crore) and HPGL<sup>16</sup> (₹ 132 crore). Losses of ₹ 4,201 crore in these four<sup>17</sup> power distribution companies constituted 91 *per cent* of the total losses (₹ 4,592 crore) of Government Companies during the year. The losses were mainly attributable to deficiencies in financial management, planning, implementation of projects, operations and monitoring<sup>18</sup>. Thus, the Government not only needs to invest its high cost borrowings more judiciously to get better returns, but also consider disinvesting its equity in loss-making units.

<sup>14</sup> Uttar Haryana Bijli Vitran Nigam Limited.

<sup>15</sup> Dakshin Haryana Bijli Vitran Nigam Limited.

<sup>16</sup> Haryana Power Generation Limited

<sup>17</sup> Losses: UHBVNL (₹ 2,778 crore), DHBVNL (₹ 1,261 crore), HPGC<sup>17</sup> (₹ 140 crore) and HVPN<sup>17</sup> (₹ 22 crore).

<sup>18</sup> Para 1.16 of Audit Report (Commercial) for the year ended 31 March 2010.

## Finances of the State Government

### 1.6.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the investments made by the Government up to the year for which proforma accounts were finalised, net profit/loss as well as return on capital invested in these undertakings are given in **Appendix 1.14**. The following points were observed:

- An amount of ₹ 2,216.79 crore had been invested by the Government in five<sup>19</sup> undertakings at the end of the financial year upto which their accounts were finalised.
- Of the total undertakings, only two could earn net profit amounting to ₹ 1.32 crore against the invested capital of ₹ 27.73 crore, thereby yielding a rate of return of 4.76 *per cent* (Agriculture Department-Purchase and Distribution of Pesticides and Printing and Stationery-National Text Book Scheme).
- Of the loss-making undertakings, one undertaking incurred losses continuously for more than five years (Haryana Roadways) and one undertaking, viz. Agriculture Department (Seed Depot Scheme) had not prepared its proforma accounts for the last 22 years.
- The accumulated losses of these three<sup>20</sup> departmental undertakings were ₹ 230.57 crore as against the total investment of ₹ 2,189.06 crore.

### 1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the Government has also been providing loans and advances to many institutions/organisations. **Table 1.13** presents the outstanding loans and advances as on 31 March 2010 and interest receipts vis-à-vis interest payments during the last three years.

<sup>19</sup> Agriculture Department (Seed Depot Scheme), Agriculture Department (Purchase and Distribution of Pesticides), Printing and Stationery (National Text Book Scheme), Food and Supply (Grain Supply Scheme) and Haryana Roadways.

<sup>20</sup> Agriculture Department (Seed Depot Scheme): ₹ 0.10 crore, Food and Supply (Grain Supply Scheme): ₹ 132.27 crore and Haryana Roadways: ₹ 98.20 crore.

Table 1.13: Average interest received on loans advanced by the State Government  
(₹ in crore)

Quantum of loans / interest receipts / cost of borrowings	2007-08	2008-09	2009-10	
			Budget Estimate	Actuals
Opening Balance	1,825	1,897		1,877
Amount advanced during the year	286	332	1,483	830
Amount repaid during the year	214	352	267	213
<b>Closing Balance</b>	<b>1,897</b>	<b>1,877</b>		<b>2,494</b>
<i>Of which</i> Outstanding balance for which terms and conditions have been settled	1,897	1,877		
Net addition	72	(-)20	1,216	617
Interest receipts	21	53	80	73
Interest receipts as percentage of outstanding Loans and advances	1.13	2.81		3.34
Interest payments as percentage of outstanding fiscal liabilities of the State Government	8.06	7.25	7.57	6.96
Difference between interest payments and interest receipts ( <i>per cent</i> )	6.93	4.44		3.62

(Source: State Finance Accounts of the respective years.)

Total outstanding loans and advances as on 31 March 2010 was ₹ 2,494 crore, against an outstanding amount of ₹ 1,877 crore as on 31 March 2009. Interest received on the loans advanced was 3.34 *per cent* in 2009-10 and was below the weighted rate of interest of 9.29 *per cent* on Government borrowings during 2009-10. Interest of ₹ 73 crore received during the year on the loans and advances was below the budgeted projections (₹ 80 crore). Out of ₹ 830 crore advanced during the year, ₹ 418 crore was for urban development, ₹ 124 crore for power projects, ₹ 96 crore for industries and minerals and ₹ 190 crore to Government servants.

Loans amounting to ₹ 176.31 crore were outstanding against the Haryana State Minor Irrigation (Tubewells) Corporation Limited, Chandigarh which was wound up in July 2002. Loans amounting to ₹ 618.44 crore were outstanding at the beginning of year 2009-10 against co-operative sugar mills. Further loans totalling ₹ 72.50 crore were given to these co-operative sugar mills without any recoveries against the previous loans.

### 1.6.6 Cash Balances and Investment of Cash balances

Table 1.14 depicts the cash balances and investments made by the Government out of the cash balances during the year.

## Finances of the State Government

Table 1.14 Cash balances and investment of cash balances

			(₹ in crore)
Particulars	As on 1 April 2009	As on 31 March 2010	Increase(+)/ decrease(-)
<b>Cash balances</b>	3,404.94	493.42	(-) 2,911.52
Investment from cash balances (a to d)	2,841.58	103.34	(-) 2,738.24
a. GOI Treasury Bills	2,841.58	103.34	(-) 2,738.24
b. GOI securities	-	-	-
c. Other securities	-	-	-
d. Other investments	-	-	-
Fund-wise break-up of investment from earmarked balances (a to e)	1,157.97	1,517.63	(+) 359.66
a. Sinking Fund	289.25	387.94	(+) 98.69
b. Funds for development schemes	0.11	0.11	-
c. Funds for village reconstruction for <i>Harijan</i> uplift	2.19	2.19	-
d. Calamity Relief Fund	811.37	1,067.99	(+) 256.62
e. Guarantee Redemption Fund	55.05	59.40	(+) 4.35
Interest realised	302.81	25.40	(-) 277.41

(Source: State Finance Accounts of the respective years.)

Cash balances during the year decreased from ₹ 3,404.94 crore to ₹ 493.42 crore. Consequently, the investments out of cash balances also decreased from ₹ 2,841.38 crore to ₹ 103.34 crore. However, the investment from earmarked balances increased by ₹ 359.66 crore, from ₹ 1,157.97 crore on 1 April 2009 to ₹ 1,517.63 crore on 31 March 2010, which was mainly due to increase in investments out of the Calamity Relief Fund (₹ 256.62 crore) and the Sinking Fund (₹ 98.69 crore). Interest of ₹ 25.40 crore realised on investments during 2009-10 was less by ₹ 277.41 crore (91.61 *per cent*) than the interest earned (₹ 302.81 crore) during 2008-09.

The Government had to maintain a minimum cash balance of ₹ 1.14 crore as per its agreement with the Reserve Bank of India but during 2009-10, the minimum cash balances for seven days were maintained by taking ordinary and special ways and means advances amounting to ₹ 169.58 crore, for which interest of ₹ 4.17 lakh at the rate of seven *per cent* was paid.

### 1.7 Assets and Liabilities

#### 1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.5 Parts A and B** gives an abstract of such liabilities and assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities in this Appendix mainly consist of internal borrowings, loans and advances from the GOI, receipts

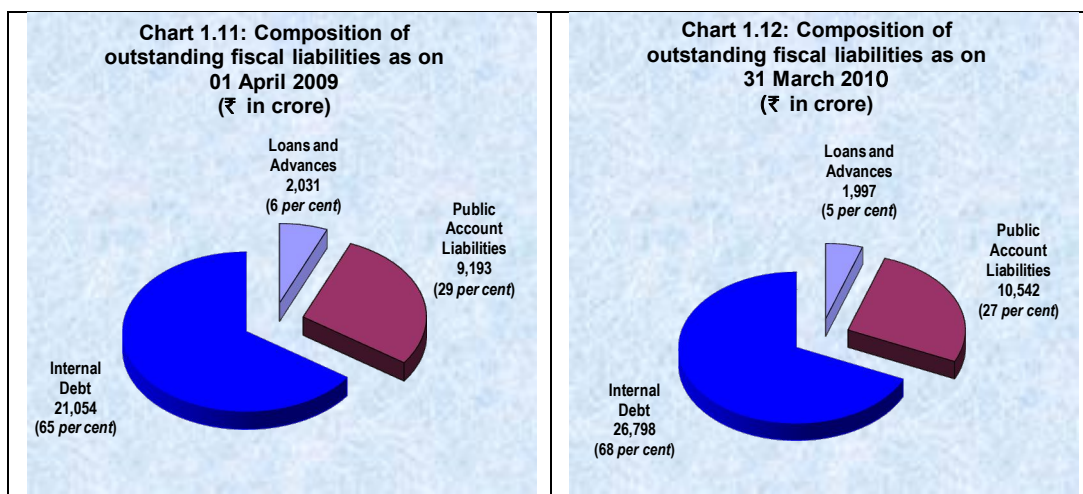


from the Public Account and Reserve Funds, the assets mainly comprise the capital outlay and loans and advances given by the Government and cash balances.

'Total liability' as defined in the HFRBM Act, means the liabilities under the Consolidated Fund of the State and the Public Account of the State and also includes borrowings by Public Sector Undertakings and special purpose vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State budgets.

### 1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**. The compositions of fiscal liabilities during 2009-10 vis-à-vis the previous year are presented in **Charts 1.11** and **1.12**.



(Source: State Finance Accounts of the respective years.)

The overall fiscal liabilities of the State increased from ₹ 32,278 crore in 2008-09 to ₹ 39,337 crore in 2009-10. The growth rate was 21.87 per cent during 2009-10 over the previous year, mainly due to increase in receipts of public debt (₹ 3,113 crore), small savings, provident funds, etc., (₹ 510 crore) and deposits (₹ 310 crore). The ratio of fiscal liabilities to GSDP showed a consistently decreasing trend and decreased from 0.254 per cent in 2005-06 to 0.188 per cent in 2009-10. These liabilities were 1.87 times the revenue receipts and 2.46 times the State's own resources as at the end of 2009-10. Payment of interest on the fiscal liabilities was ₹ 2,737 crore (6.96 per cent) during the year 2009-10. It is significant to note that fiscal liabilities at ₹ 39,337 crore were within the limit of ₹ 39,654 crore projected in the MTFPS for 2009-10 presented to the State legislature with the BE for 2009-10. However, the amount was higher than the projections made in the State's FCP (₹ 36,400 crore) by ₹ 2,937 crore (seven per cent).

## Finances of the State Government

The Government set up a consolidated Sinking Fund during 2002-03. A sum equal to one *per cent* of the outstanding market borrowings as on 31 March of the preceding year is deposited in the Fund every year. As on 31 March 2010, the outstanding balance in the Sinking Fund was ₹ 390.07 crore.

### 1.7.3 Status of Guarantees-Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. No law under Article 293 of the Constitution has been passed by the State legislature laying down the limit within which the Government may give guarantees on the security of the Consolidated Fund of the State.

As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.15**.

**Table 1.15: Guarantees given by the Government of Haryana**

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10	
			Budget Estimate	Actual
Maximum amount guaranteed	6,341	5,188	1,500	4,757
Outstanding amount of guarantees	4,402	4,575	1,500	4,536
Percentage of maximum amount guaranteed to total revenue receipts	32	28	7	23
Criteria as per State's own FCP	3,600	3,400		3,200

(Source: State Finance Accounts of the respective years.)

No amount was paid by the Government towards guarantees during 2009-10. The outstanding amount of ₹ 4,536 crore of guarantees as on 31 March 2010 was in respect of Corporations and Boards (₹ 2,002 crore), Co-operative Banks and Societies (₹ 1,822 crore) and Government Companies (₹ 712 crore).

The Government constituted the Guarantee Redemption Fund during 2003-04 to meet the contingent liabilities arising out of the total liabilities. As on 31 March 2010, the balance in the Fund was ₹ 59.40 crore. The whole amount stood invested. As per the terms of the Guarantee Redemption Fund, the Government was required to contribute an amount equal to at least one fifth of the outstanding invoked guarantees plus an amount likely to be invoked as a result of the incremental guarantees during the year. The Government contributed ₹ 4.34 crore which was only one *per cent* of the outstanding guarantees. However, the outstanding guarantee of ₹ 4,536 crore as on 31 March 2010 was higher than the projection of ₹ 3,200 crore given in the State's FCP for the year. Total liabilities including guarantees (₹ 43,873 crore) during 2009-10 stood at 21 *per cent* of the GSDP which was well within the limit of 28 *per cent* envisaged in the

HFRBM Act to be achieved by 31 March 2010, but were higher than the amount (₹ 39,654 crore) projected in the MTFPS for 2009-10.

Apart from this, the Government issued letters of comfort to banks for raising loans totalling ₹ 5,956 crore in favour of Government companies in the power sector, which amounted to creation of contingent liabilities. This amount, if included in the outstanding liabilities (₹ 49,829 crore), would be 24 per cent of GSDP.

### 1.8 Debt Sustainability

Apart from the magnitude of the debt of the Government, it is important to analyse the various indicators that determine the debt sustainability<sup>21</sup> of the State. This section assesses the sustainability of debt of the Government in terms of debt stabilisation<sup>22</sup>; sufficiency of non-debt receipts<sup>23</sup>; net availability of borrowed funds<sup>24</sup>; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of Government securities. **Table 1.16** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2004-05.

<sup>21</sup> Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings with returns from such borrowings. It means that the rise in fiscal deficit should match the increase in capacity to service the debt.

<sup>22</sup> A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt x rate spread), the debt sustainability condition states that if the quantum spread, together with the primary deficit is zero, the debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising. In case it is positive, the debt-GSDP ratio would eventually be falling.

<sup>23</sup> Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

<sup>24</sup> Defined as the ratio of debt redemption (Principal plus Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption, indicating the net availability of borrowed funds.

## Finances of the State Government

Table 1.16: Debt sustainability: Indicators and trends

(₹ in crore)

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilisation (Quantum Spread + Primary Deficit)	2,986	6,857	4,027	(-) 1,283	(-) 5,594
Sufficiency of non-debt receipts (Resource Gap)	920	1,464	(-) 2,443	(-) 5,293	(-) 3,533
Net Availability of borrowed funds	819	(-) 392	(-) 1,709	1,113	4,682
Burden of interest payments (IP/RR Raito)	15	13	12	13	13
<b>Maturity Profile of State Debt (In Years)</b>					
0 – 1				1,153.46 (5)	14,930.27 (6)
1 – 3				2,790.89 (12)	28,167.40 (12)
3 – 5				3,892.16 (17)	29,221.95 (13)
5 – 7				3,871.19 (17)	28,592.97 (13)
7 -9					29,287.36 (13)
9-11					30,204.86 (13)
11-13					26,336.62 (12)
13-15					26,239.50 (12)
15 and above					13,288.80 (6)

(Source: State Finance Accounts of the respective years.)

The quantum spread together with primary deficit further decreased from (-) ₹ 1,283 crore in 2008-09 to (-) ₹ 5,594 crore in 2009-10. As a result, the debt-GSDP ratio has risen, which can deteriorate the debt sustainability of the State in the medium to long run, if no corrective measures are taken.

The resource gap remained negative during 2007-10 and the primary expenditure was met partially out of borrowed funds, indicating that the State needed to step up its resource mobilisation efforts to ensure debt stability.

The position of net funds available from borrowed funds improved from ₹ 1,113 crore in 2008-09 to ₹ 4,682 crore in 2009-10. During 2009-10, the Government raised market loans of ₹ 4,000 crore (₹ 700 crore carrying 8.54 per cent interest, ₹ 400 crore carrying 8.32 per cent interest, ₹ 1,000 crore, ₹ 700 crore and ₹ 1,200 crore carrying 8.27 per cent, 7.83 per cent and 8.15 per cent interest respectively).

The ratio of interest payments to revenue receipts declined from 15 to 13 during 2005-10, which indicates that the burden of interest payment on revenue receipts was declining.

The maturity profile of State debt as given in **Table 1.16** indicates that the Government will have to repay 12 per cent of its debt between one and three years, 13 per cent between three and five years, 13 per cent between five and seven years, 13 per cent between seven and nine years, 13 per cent between nine and 11 years, 12 per cent between 11 and 13 years, 12 per cent between 13 to 15 years and six per cent after 15 years,

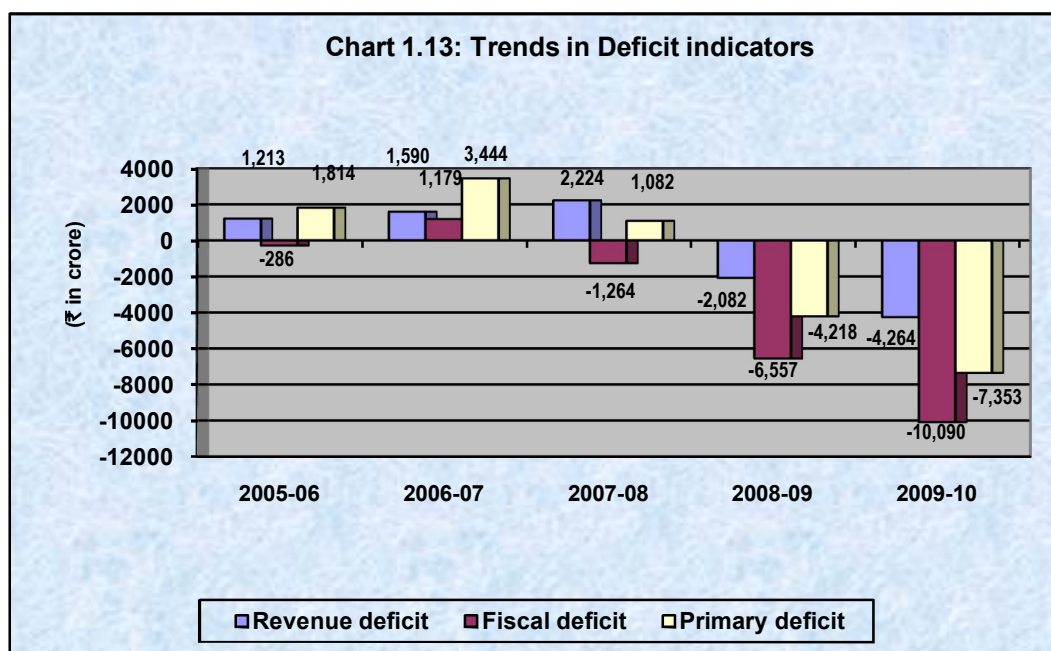
for which the Government will have to improve its debt sustainability to generate funds for repayment of loans in the coming years.

## 1.9 Fiscal Imbalances

Three key fiscal parameters i.e. revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of the Government during a specified period. The deficit in the Government accounts represents the gap between its resources and commitments. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the way in which the deficit is financed and the resources are raised and applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2009-10.

### 1.9.1 Trends in deficits

Chart 1.13 present the trends in deficit indicators over the period 2005-10.



(Source: State Finance Accounts of the respective years.)

Table 1.17: Trends in deficit indicators over the period 2005-10

Year	2005-06	2006-07	2007-08	2008-09	2009-10
RD/GSDP	0.011	0.012	0.014	(-) 0.011	(-) 0.020
FD/GSDP	(-) 0.003	0.009	(-) 0.008	(-) 0.036	(-) 0.048
PD/GSDP	0.017	0.026	0.007	(-) 0.023	(-) 0.035

## Finances of the State Government

The revenue deficit, which was to be brought down to zero by 2008-09 and to generate revenue surplus, thereafter, as per the FRBM, turned into a deficit of ₹ 2,082 crore during 2008-09, which further increased to ₹ 4,264 crore in 2009-10 due to increase of ₹ 4,723 crore (23 per cent) in revenue expenditure. Increase in revenue deficit plus increase in capital expenditure (₹ 716 crore) and disbursement of loans and advances (₹ 498 crore) led to increase in fiscal deficit of ₹ 3,533 crore from ₹ 6,557 crore in 2008-09 to ₹ 10,090 crore in 2009-10. This led to increase of ₹ 3,136 crore in the primary deficit from ₹ 4,218 crore in 2008-09 to ₹ 7,353 crore in 2009-10. As per an FRBM Act norm, the fiscal deficit was to be kept below four per cent of the GSDP but it was 4.82 per cent of the GSDP during 2009-10.

The revenue surplus and fiscal deficit were more than the target of ₹ 205 crore and ₹ 2,295 crore respectively, fixed for the year 2009-10 in the FCP. Increase in revenue deficit, fiscal deficit and primary deficit indicate the deteriorating fiscal position of the State during 2009-10.

### 1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.18**.

**Table 1.18: Components of fiscal deficit and its financing pattern**

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Decomposition of fiscal deficit</b>	(-) 286	(+) 1,179	(-) 1,264	(-) 6,557	(-) 10,090
<b>1</b> Revenue deficit(-)/surplus(+)	(+) 1,213	(+) 1,590	(+) 2,224	(-) 2,082	(-) 4,264
<b>2</b> Net capital expenditure	(-) 1,612	(-) 2,428	(-) 3,416	(-) 4,495	(-) 5,209
<b>3</b> Net loans and advances	(+) 113	(+) 2,016	(-) 72	20	(-) 617
<b>Financing pattern of fiscal deficit</b>					
<b>1</b> Market Borrowing	386.94	(-) 147.40	(-) 253.73	2,504.54	3,683.68
<b>2</b> Loans from GOI	(-) 70.36	(-) 90.24	(-) 44.98	(-) 47.46	(-) 34.16
<b>3</b> Special securities issued to National Small Savings Fund	1,860.97	1,099.05	50.56	(-) 79.73	534.43
<b>4</b> Loans from financial institutions	63.70	36.68	250.75	218.88	1,525.45
<b>5</b> Small Savings Provident Funds etc.	354.75	364.80	299.32	352.38	861.92
<b>6</b> Reserve Funds	14.12	(-) 48.32	15.23	(-) 4.81	(-) 39.13
<b>7</b> Deposits and advances	158.02	377.70	184.72	216.62	526.64
<b>8</b> Suspense and Miscellaneous	(-) 2,745.49	(-) 2,496.50	21.69	3,546.38	2,785.98
<b>9</b> Remittances	43.62	(-) 15.63	14.28	(-) 26.63	(-) 282.96
<b>10</b> Over all surplus (-) deficit (+)	66.27	(-) 919.86	537.84	6,680.17	9,561.85
<b>11</b> Increase (-) decrease (+) in cash balance*	219.39	(-) 258.90	(+) 726.03	(-) 122.37	528.81
<b>12</b> Gross Fiscal Deficit	286	(-) 1,179	1,264	6,557	10,090

(Source: State Finance Accounts of the respective years.)

\* 8999-Cash balance (Deposits with Reserve bank and remittance in treasury).

The fiscal deficit, which represents the borrowings of the Government and its resource gap increased from ₹ 6,557 crore in 2008-09 to ₹ 10,090 crore in 2009-10. The increase in fiscal deficit was due to increase of ₹ 2,182 crore in revenue deficit, increase in net capital expenditure of ₹ 714 crore and increase of ₹ 637 crore in disbursement of loans and advances. The financing pattern of fiscal deficit shows that there was an increase in market borrowings (₹ 3,683.68 crore), loans from financial institutions (₹ 1,525.45 crore), small savings, provident funds, etc. (₹ 861.92 crore) and deposits and advances (₹ 526.64 crore), which resulted in increases in the fiscal deficit.

### 1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.19**) would indicate the extent to which the deficit was on account of enhancement in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.19: Primary deficit / surplus—bifurcation of factors

(₹ in crore)							
Year	Non-debt receipts	Primary <sup>25</sup> revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2005-06	14,143	10,540	1,612	177	12,329	3,603	1,814
2006-07	20,153	14,096	2,428	185	16,709	6,057	3,444
2007-08	19,975	15,181	3,426	286	18,893	4,794	1,082
2008-09	18,811	18,195	4,502	332	23,029	616	(-) 4,218
2009-10	21,215	22,520	5,218	830	28,568	(-) 1,305	(-) 7,353

(Source: State Finance Accounts of the respective years.)

The Government had a primary revenue surplus during 2005-06 to 2008-09 with decreasing trends. It decreased from ₹ 6,057 crore in 2006-07 to ₹ 616 crore in 2008-09. During 2009-10, primary revenue surplus turned into deficit of ₹ 1,305 crore due to increase in primary expenditure (which includes primary revenue expenditure, capital expenditure and loans and advances) from ₹ 12,329 crore in 2005-06 to ₹ 28,568 crore in 2009-10 though non-debt receipts also increased from ₹ 18,811 crore (2008-09) to

<sup>25</sup> Primary revenue expenditure means revenue expenditure excluding interest payments.

₹ 21,215 crore (2009-10). Thus, the non-debt receipts fell short to meet the primary expenditure which resulted in increase in primary deficit.

### 1.10 Conclusion

**Pattern of Revenue and expenditure:** Revenue receipts increased by 14 *per cent* during the year over the previous year due to increase in tax revenue by 13 *per cent*. Tax revenue for 2009-10 fell short by 11 *per cent* as compared to projections made by TFC, 10 *per cent* as compared to the MTFPS projection and four *per cent* of the FCP projection. However, the non-tax revenue was higher by 16 *per cent* than the TFC projection and by 19 *per cent* than the FCP projection. It was lower by 24 *per cent* as compared to the MTFPS projection during the year.

Revenue expenditure, which constituted 81 *per cent* of the total expenditure during the year, increased by 23 *per cent* over that of previous year. Its NPPE component at ₹ 19,542 crore was higher by 72 *per cent* than the projection of TFC (₹ 11,374 crore) and by 23 *per cent* than the State's projection in its FCP (₹15,930 crore). However, Non-Plan expenditure at ₹ 19,542 crore was within the projection of ₹ 20,201 crore made in the MTFPS by the State Government. Within the Non-Plan revenue expenditure, four components i.e. salary and wages, pension liabilities, interest payments and subsidies constituted about 85 *per cent* during 2009-10. Moreover, 90 *per cent* (₹ 2,780 crore) of total subsidies (₹ 3,089 crore) were for the energy sector and were 151 *per cent* more than the State's own projection of ₹ 1,840 crore in the FCP for 2009-10.

Capital expenditure, which constituted 17 *per cent* of the total expenditure, also increased during 2009-10 by 16 *per cent* over 2008-09. A major proportion (74 *per cent*) of the incremental capital expenditure was in the form of investment in equity shares of various power corporations.

Financial assistance to local bodies (₹ 672.52 crore) was 17 times the projection of TFC (₹ 40.98 crore).

**Return to fiscal correction:** Haryana is one of the early States to have passed the Fiscal Responsibility and Budget Management Act. The fiscal position of the State, viewed in terms of the trends in fiscal parameters, i.e. revenue, fiscal and primary deficit/surplus indicated a downward trend in 2009-10 as compared to the previous years. The revenue, fiscal and primary deficits increased from ₹ 2,082 crore, ₹ 6,557 crore and ₹ 4,218 crore in 2008-09 to ₹ 4,264 crore, ₹ 10,090 crore and ₹ 7,354 crore respectively in 2009-10. The slippage in 2009-10 in achieving the deficit targets could be attributed largely to the slump in the



economy (which impacted revenue receipts) as well as the Sixth Pay Commission Award (which increased committed expenditure).

**Debt sustainability:** As per the FRBM Act, total debt including contingent liabilities should not exceed 28 *per cent* of the estimated GSDP for the year. Total liabilities including guarantees and letters of comfort which totalled ₹ 49,829 crore during 2009-10 stood at 24 *per cent* of the GSDP, which was well within the limit of FRBM Act but was higher than that projected in the MTFPS (₹ 39,654 crore) for 2009-10. Increase in the revenue deficit over the previous year indicated that some portion of high cost borrowings were being used by the Government for meeting its current expenditure.

**Review of Government investments:** The average return on the Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.9 to 0.18 *per cent* in the past five years while the Government paid an average interest of 7.43 to 9.29 *per cent* on this investment (Para 1.6.3).

**Incomplete projects:** Fifteen projects, which were scheduled for completion between April 2008 and March 2010, were still lying incomplete. Time overruns of incomplete projects (Para 1.6.2) will have to be reduced so that the people of Haryana benefit from these sunk costs.

**Oversight of funds transferred directly from the GOI to the State implementing agencies:** GOI directly transferred ₹ 1,105.30 crore to State implementing agencies during the year, which was an increase of ₹ 82.86 crore (eight *per cent*) over the previous year. As long as these funds remain outside the State budget, there is no single agency monitoring its use and there is no data readily available on how much is actually spent in any particular year on major flagship and other important schemes which are being implemented by State implementing agencies but are being funded directly by GOI.

### 1.11 Recommendations

- The State can achieve the targets set out in the FRBM Act of 2005 provided efforts are made to increase tax compliance, reduce administration costs, collect revenue arrears and prune unproductive expenditure so that deficits are contained to the levels envisaged in the Act.
- Borrowed funds should be used as far as possible only for infrastructure development and revenue expenditure should be met fully from revenue receipts. Efforts should be made to return to the state of primary surpluses and zero revenue deficit as soon as

possible. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

- It would be advisable for the Government to ensure better value for money in investments as otherwise, high cost borrowed funds will continue to be invested in projects with low financial returns. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritized with full justification on why high cost borrowings should be channelled there. It would also be prudent to review the working of State Public Sector Undertakings which are incurring huge losses (Para 1.6.3) and work out either a revival strategy (for those that are strategic in nature and can be made viable) or close down the sick units by disinvesting their equity.
- A system has to be put in place to ensure proper accounting of GOI funds that are transferred directly to the State implementing agencies and the updated information should be validated by the State Government as well as the Accountant General (A&E).