HARYANA


NORTH
HIMACHAL PRADESH
CHANDIGARH
PANCHKULA
AMBALA
YAMUNANAGAR
PUNJAB
KURUKSHETRA
KAITHAL
KARNAL
UTTAR PRADESH
SIRSA
FATEHABAD
JIND
PANIPAT
HISAR
SONIPAT
RAJASTHAN
ROHTAK
BHIWANI
DELHI
JHAJJAR
GURGAON
FARIDABAD
MAHENDEGARH
REWARI
PALWAL
NUH
MEWAT
NARNAUL

Chapter 1 Finances of the State Government

Profile of Haryana

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 (573 persons per sq km) as per the 2011 census was higher than the all-India density (382 persons per sq km). The State has seen considerable economic growth in the past decade and the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2010-11 has been 16.42 *per cent*. During this period, its population grew by 19.90 *per cent* from 2.11 crore in 2001 to 2.54 crore in 2011.

Due to its higher GSDP growth rate and low population, the per capita income growth in Haryana fared better than that of other General Category States in the current decade.

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Haryana during 2010-11 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 2010-11 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 2010-11. Details of assessment/projections of the Thirteenth Finance Commission (ThFC), the Fiscal Correction Path (FCP) and the Mid-Term Fiscal Policy Statement (MTFPS) for the year 2010-11 are given in ***Appendix 1.6***.

Table 1.1: Summary of the current year's fiscal transactions

(₹ in crore)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
					Non-Plan	Plan	Total
Section – A : Revenue							
20,992.66	**Revenue Receipts**	**25,563.67**	**25,257.39**	**Revenue Expenditure**	**22,058.68**	**6,251.51**	**28,310.19**
13,219.50	Tax revenue	16,790.37	7,755.35	General Services	9,262.30	65.84	9,328.14
2,741.40	Non-tax revenue	3,420.93	9,902.22	Social Services	6,574.39	4,329.69	10,904.08
1,774.47	Share of Union Taxes/Duties	2,301.75	7,529.91	Economic Services	6,140.75	1,855.98	7,996.73
3,257.29	Grants from Government of India	3,050.62	69.91	Grants-in-aid and Contributions*	81.24	-	81.24
Section – B : Capital							
9.39	**Miscellaneous Capital Receipts**	**8.00**	**5,218.48**	**Capital Outlay**	**186.09**	**3,845.01**	**4,031.10**
212.84	**Recoveries of Loans and Advances**	**233.05**	**829.69**	**Loans And Advances Disbursed**	**183.37**	**538.50**	**721.87**
8,455.37	**Public Debt Receipts**	**9,842.73**	**2,745.97**	**Repayment of Public Debt****	**-**	**-**	**3,971.08**
-	**Contingency Fund**	**192.83**	**-**	**Contingency Fund**	**-**	**-**	**192.83**
15,789.41	**Public Account Receipts**	**16,594.62**	**14,319.66**	**Public Account Disbursements**	**-**	**-**	**15,324.41**
3,404.94	**Opening Cash Balance**	**493.42**	**493.42**	**Closing Cash Balance**	**-**	**-**	**376.84**
48,864.61	**Total**	**53,928.32**	**48,864.61**	**Total**			**53,928.32**

(Source: State Finance Accounts of the respective years.)
***Compensation and assignment to local bodies and *Panchayati Raj* Institutions.**
****Excluding net transactions of Ways and Means Advances and overdrafts.**

The following are the major changes in fiscal transactions during 2010-11 over the previous year:

- Revenue receipts increased by ₹ 4,571 crore (22 *per cent*) due to increase in tax revenue by ₹ 3,570 crore (27 *per cent*) and non-tax revenue by ₹ 680 crore (25 *per cent*). Share of Union taxes and duties from the Government of India (GOI) increased by ₹ 527 crore (30 *per cent*). Grants-in-aid from GOI decreased by ₹ 206 crore (six *per cent*). The State's own tax revenue (₹ 16,790 crore) fell short by five *per cent* of the target fixed by ThFC (₹ 17,614 crore) and 10 *per cent* of FCP (₹ 18,744 crore) but was higher by two *per cent* than the projection made in MTFPS (₹ 16,469). The State's own non–tax revenue (₹ 3,421 crore) was lower by 71 *per cent* than the target fixed by ThFC (₹ 11,990 crore), by 14 *per cent* than the projection made in FCP (₹ 3,972 crore) and by four *per cent* than the targets fixed in MTFPS (₹ 3,549 crore) for the year 2010-11 ***(Appendix 1.6)***.

- Revenue expenditure increased by ₹ 3,053 crore (12 *per cent*), mainly due to increase in expenditure on social services (₹ 1,002 crore), economic services (₹ 467 crore) and general services (₹ 1,573 crore). The Non-Plan Revenue expenditure (NPRE) (₹ 22,059 crore) was lesser by ₹ 885 crore (four *per cent*) than the projections made by the Government in FCP (₹ 22,944 crore) but was higher by

₹ 361 crore (two *per cent*) and ₹ 6,269 crore (40 *per cent*) than the projections made in MTFPS (₹ 21,698 crore) and the normative assessment in ThFC (₹ 15,790 crore) respectively ***(Appendix 1.6)***.

- There was a decrease of ₹ 1,187 crore (23 *per cent*) in capital expenditure mainly on economic services, especially on 'Agriculture and Allied Activities' (₹ 834 crore) and 'Transport' (₹ 275 crore).

- Recovery of loans and advances increased by ₹ 20 crore (nine *per cent*) during 2010-11.

- Public debt receipts increased by ₹ 1,387 crore (16 *per cent*) mainly due to increase in internal debt receipts by ₹ 1,214 crore. The repayment of public debt also increased by ₹ 1,225 crore (45 *per cent*). Thus, there was a net increase of ₹ 162 crore in public debt receipts.

- Public Account receipts increased from ₹ 15,789 crore in 2009-10 to ₹ 16,595 crore in 2010-11 and their disbursements also increased from ₹ 14,320 crore in 2009-10 to ₹ 15,324 crore in 2010-11.

- The cash balance of the Government at the close of 2010-11 decreased by ₹ 117 crore over the previous year.

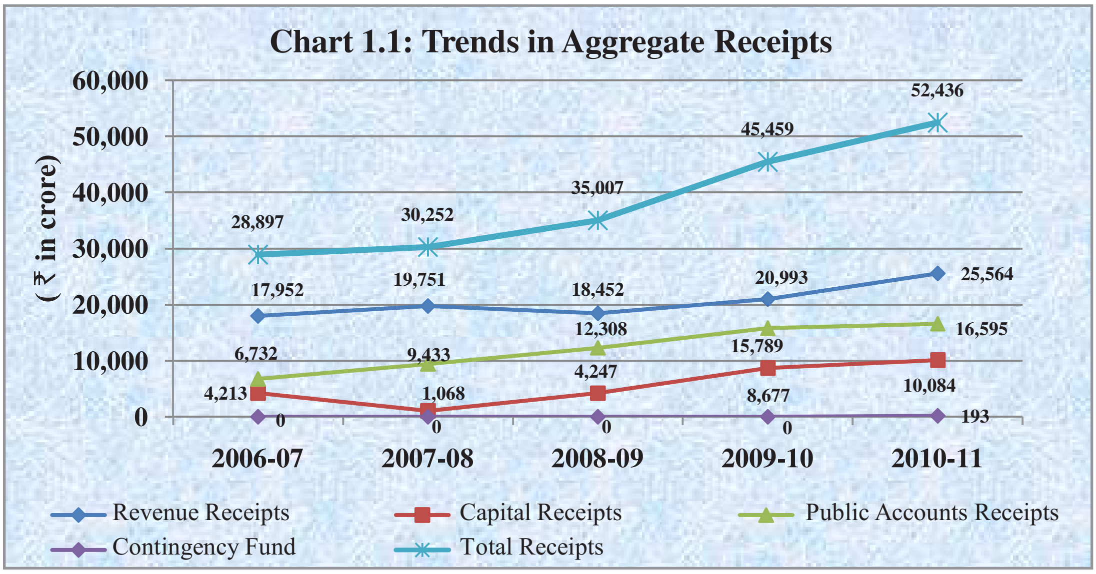
1.2 Resources of the State

1.2.1 Resources of the State as per Finance Accounts 2010-11

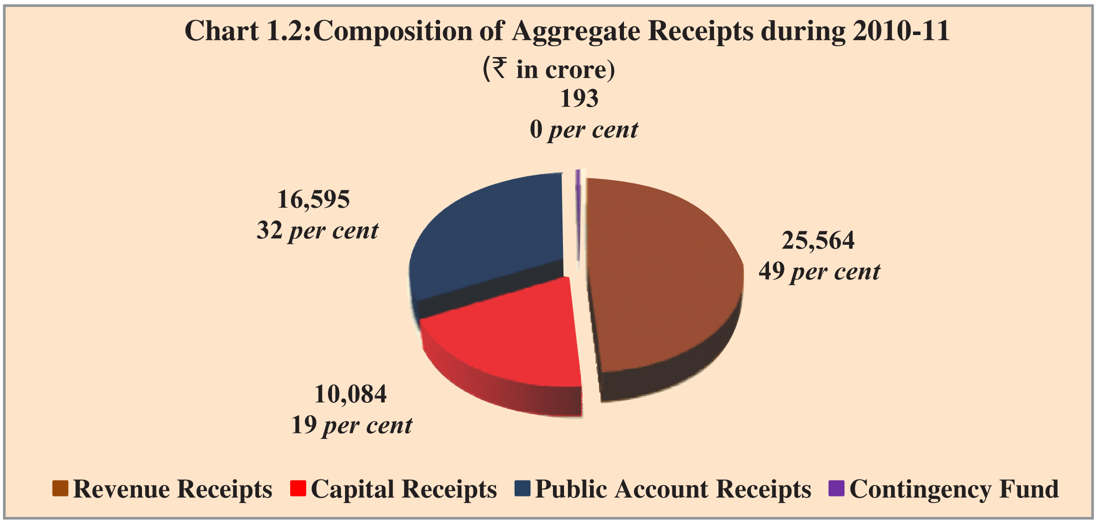
Revenue[1] and capital[2] are the two streams of receipts that constitute the resources of the Government. **Table 1.1** presents the receipts and disbursements of the Government during 2010-11 as recorded in Finance Accounts 2010-11 while **Chart 1.1** depicts the trends of various components of the receipts of the Government during 2006-11. **Chart 1.2** depicts the composition of resources of the Government during 2010-11.

1 Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from GOI.

2 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 ₹ 23,539 crore, (81 *per cent*) from ₹ 28,897 crore in 2006-07 to ₹ 52,436 crore in 2010-11. Revenue receipts increased by ₹ 7,612 crore (42 *per cent*), Capital receipts which included recovery of loans and advances and public debt increased by ₹ 5,871 crore (139 *per cent*) and Public Account receipts increased by ₹ 9, 863 crore (146 *per cent*) during the same period. The State Government appropriated ₹ 190 crore to increase the corpus of the Contingency Fund from ₹ 10 crore to ₹ 200 crore in 2010-11. The share of revenue receipts in the total receipts decreased from 62 *per cent* in 2006-07 to 49 *per cent* in 2010-11. The share of the Public Account in the total receipts increased from 23 *per cent* in 2006-07 to 32 *per cent* in 2010-11 whereas the share of capital receipts including debt increased from 15 *per cent* to 19 *per cent* during the same period.

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

GOI has been transferring a sizeable quantum of funds directly to State implementing agencies[3] 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 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 2009-10 and 2010-11 are presented in **Table 1.2.**

Table-1.2: Funds transferred directly to State Implementing Agencies

(₹ in crore)

Sr.	Programme/Scheme	Implementing Agency in the State	Central Share	
			2009-10	2010-11
1.	Members of Parliament Local Area Development Scheme	District Rural Development Agency (DRDA)	9.39	23.09
2.	National Rural Employment Guarantee Scheme	DRDA	117.89	141.12
3.	Indira Awas Yojana	DRDA	52.26	59.75
4.	Swaranjayanti Gram Swarojgar Yojana	DRDA	24.71	28.04
5.	Desert Development Programme	DRDA	27.22	22.51
6.	Integrated Wasteland Development Programme	DRDA	3.84	3.06
7.	District Rural Development Agency (Administration)	DRDA	11.45	18.31
8.	Backward Region Grant Fund	DRDA	30.23	26.75
9.	Sarva Shiksha Abhiyan	*Shiksha Sadan* Society	273.07	419.52
10.	National Programme for Education of Girls at Elementary Level	*Shiksha Sadan* Society	2.45	1.72
11.	Kasturba Gandhi Bal Vidyalya	KGBV	0.47	0.85
12.	National Rural Health Mission	Haryana State Health and Family Welfare Society	174.45	250.91
13.	National Horticulture Mission	NA	56.00	51.50
14.	Micro-Irrigation Scheme	NA	2.12	0
15.	Pradhan Mantri Gram Sarak Yojana	NA	283.72	157.75
16.	National Food Security Mission	NA	28.65	0
17.	Scheme for Central share support to State extension programme for extension reforms	NA	7.38	0
18.	Mid Day Meal		0	103.96
	Total		**1,105.30**	**1,308.84**

(Source: Information supplied by concerned departments.)

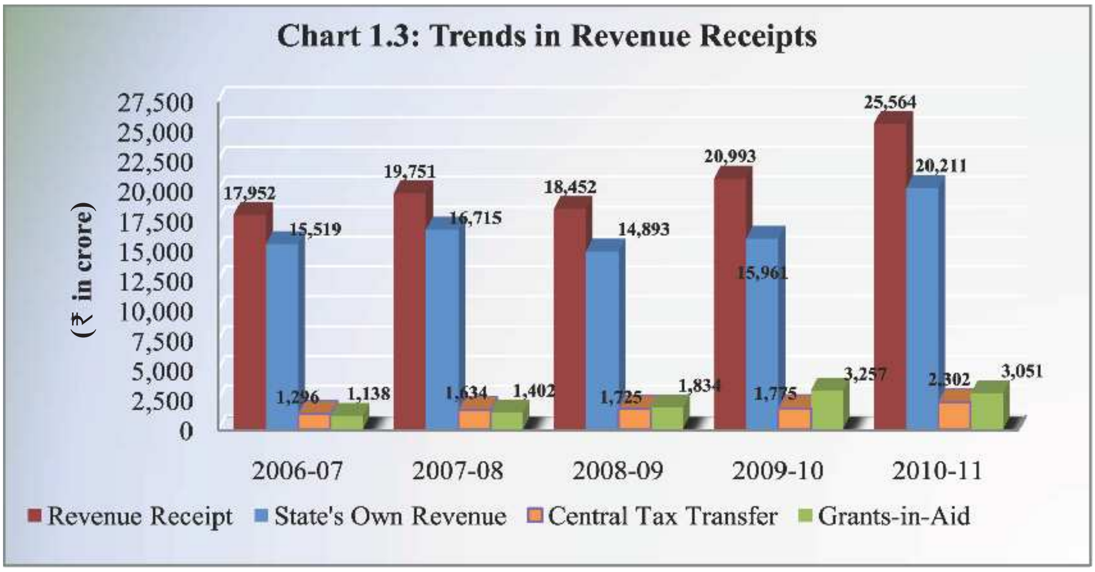
Table 1.2 shows that the funds transferred directly to the State implementing agencies (Central share) increased by 18 *per cent* during 2010-11. The increase was mainly under Sarva Shiksha Abhiyan: ₹ 146.45 crore (54 *per cent*), National Rural Health Mission: ₹ 76.46 crore (44 *per cent*), National Rural Employment Guarantee Scheme: ₹ 23.23 crore (20 *per cent*), Member of Parliament Local Area Development Scheme: ₹ 13.7 crore (146 *per cent*). However, the transfer of funds decreased by ₹ 125.97 crore (44 *per cent*) under the Pradhan Mantri Gram Sarak Yojana and by ₹ 0.73 crore (30 *per cent*) under the National Programme for Education of Girls at Elementary Level.

3 State implementing agencies include any organizations/institutions 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.

As the funds are not routed through the Government accounts, the direct transfer of funds from 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 was not in place and timely reporting about the status of expenditure by these implementing agencies was not being done. The expenditure in the Finance Accounts was understated to that extent.

1.3 Revenue Receipts

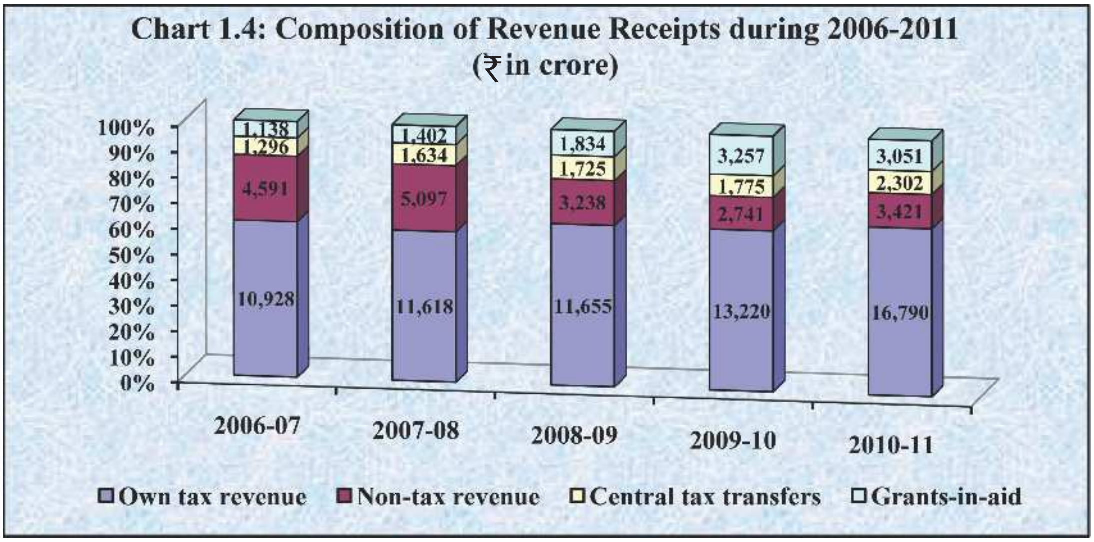
Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2006-11 are presented in ***Appendix 1.4*** and also depicted in **Charts 1.3 and 1.4** respectively.



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

The Revenue Receipts of the State increased by 42 *per cent* during the period from 2006-07 to 2010-11. The State's own revenue increased by 30 *per cent*, the grants-in-aid from GOI increased by 168 *per cent* and the central tax transfers increased by 78 *per cent* during the same period. The share of the State's own revenue (tax revenue and non-tax revenue) in the total revenue decreased from 86 *per cent* in 2006-07 to 79 *per cent* in 2010-11, which was mainly due to decrease in non-tax revenue from ₹ 4,591 crore in 2006-07 to ₹ 3,421 crore in 2010-11. The share of grants-in-aid from GOI and Central tax transfers increased from six and seven *per cent* in 2006-07 to 12 and nine *per cent* in 2010-11 respectively.

During 2001-02 to 2009-10, the compound growth rate of revenue receipts (13.54 *per cent*) was less than the growth rate of other general category States (15.20 *per cent*). This growth rate for the period 2001-02 to 2010-11 increased to 14.41 *per cent* ***(Appendix 1.1).***



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

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

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue receipts (RR) (₹ in crore)	**17,952**	**19,751**	**18,452**	**20,993**	**25,564**
Rate of growth of RR (*per cent*)	29.58	10.02	(-)6.58	13.77	21.77
R R/GSDP (*per cent*)	13.79	12.80	10.09	9.71	9.92
Buoyancy ratios[4]					
Revenue buoyancy with reference to GSDP	1.480	0.540	(-)0.355	0.755	1.134
State's Own Tax Buoyancy with reference to GSDP	1.019	0.340	0.017	0.736	1.407
GSDP(₹ in crore)	**1,30,141**	**1,54,283**	**1,82,914**	**2,16,287**	**2,57,793**
Growth rate of GSDP	19.99	18.55	18.56	18.25	19.19

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

The growth rate of revenue receipts which indicated decreasing trends between 2006-07 and 2009-10 as it declined from 29.58 *per cent* in 2006-07 to 13.77 *per cent* in 2009-10 has shown some improvement by rising to 21.77 *per cent* during 2010-11. The percentage ratio of revenue receipts to GSDP has also shown some improvement and has risen from 9.71 in 2009-10 to 9.92 in 2010-11. The State's own tax buoyancy with reference to GSDP increased from 1.019 in 2006-07 to 1.407 in 2010-11. But the revenue buoyancy with reference to the GSDP decreased from 1.480 in 2006-07 to 1.134 in 2010-11.

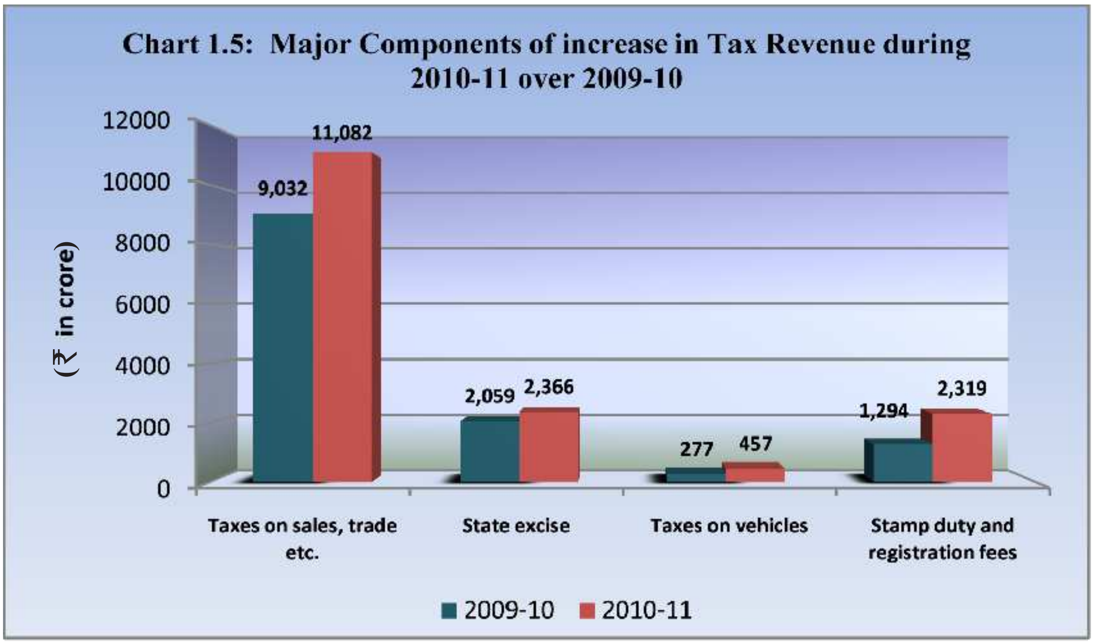
4 Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.5 implies that revenue receipts tend to increase by 0.5 percentage points, if the GSDP increases by one *per cent*.

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 2006-07 to 2010-11 along with the respective all-India average are presented in ***Appendix 1.7.***

Tax Revenue

The tax revenue increased by 27 *per cent* during 2010-11 (₹ 16,790 crore) over the previous year (₹ 13,220 crore). Component wise increase is indicated in **Chart 1.5**.



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

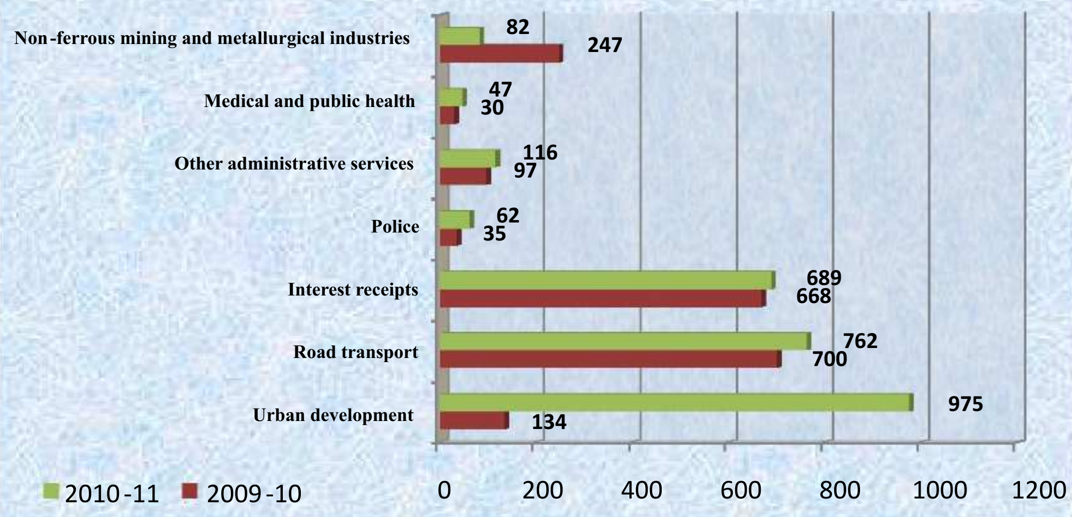
The revenue from taxes on sales, trade, etc. comprised the major share of tax revenue (66 *per cent*) and the same increased by 23 *per cent* over the previous year. Receipts under stamps and registration, State excise and taxes on vehicles increased during 2010-11 by 79 *per cent*, 15 *per cent* and 65 *per cent* respectively over 2009-10. During 2001-02 to 2009-10, the compound growth rate of tax revenue (13 *per cent*) was less than the growth rate of other general category States (14.53 *per cent*). This growth rate for the period 2001-02 to 2010-11 increased to 14.47 *per cent* ***(Appendix 1.1).*** The State's own tax revenue was less than the assessment made by ThFC (₹ 17,614 crore) as well as the projections made by the Government in its FCP (₹ 18,744 crore) but was higher than the projections made in MTFPS (₹ 16,469 crore) ***(Appendix 1.6)***.

Non-tax Revenue

Non-tax revenue (₹ 3,421 crore) constituted 13 *per cent* of the total revenue receipts during 2010-11, exhibiting an increase of ₹ 680 crore (25 *per cent*) over the previous year.

Chart 1.6: Major Components of Non-tax Revenue during 2010-11 over 2009-10

(₹ in crore)



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

The increase in non-tax revenue was mainly on account of an increase of ₹ 841 crore in receipts under the major head 'Urban Development'. The increase in the non-tax revenue was offset by a decrease (₹ 165 crore) under "Non-ferrous mining and metallurgical industries" due to closure of mining operations in Aravali hills as a result of pending litigation. During 2001-02 to 2009-10, the compound growth rate of non-tax revenue (6.42 *per cent*) was less than the growth rate of other general category States (13.87 *per cent*). This growth rate for the period 2001-02 to 2010-11 increased to 8.31 *per cent* ***(Appendix 1.1).*** However, non-tax revenue at ₹ 3,421 crore during 2010-11 was lower than the projections made by ThFC (₹ 11,990 crore), by the Government in the FCP (₹ 3,972 crore) and in its MTFPS (₹ 3,549 crore) ***(Appendix 1.6)***.

Expenditure on tax collection

The expenditure on collection of tax revenue 2006-11 ranged between 0.66 and 0.86 *per cent* for taxes on sales, trades, etc., 2.34 and 4.09 *per cent* for taxes on vehicles, 0.91 and 1.30 *per cent* for State Excise, 0.51 and 1.23 *per cent* for stamp duty and registration fees and 0.30 and 0.50 *per cent* for taxes on goods and passengers. However, it was less than the all-India average expenditure incurred on tax collection as detailed in ***Appendix 1.6.***

1.3.2 Loss of Revenue due to evasion of Taxes and Refunds

Out of 23,294 cases of evasion of taxes (20,122 cases were detected during 2010-11 and 3,172 cases were pending on 31 March 2010), assessments/ investigations were completed in 19,691 cases and additional demand of ₹ 18.07 crore including penalty had been raised by the Excise and Taxation Department.

Refunds of ₹ 641.06 crore were made to 3,233 claimants, against outstanding amounts totalling ₹ 1,139.22 crore in 3,856 cases by the Excise and Taxation and Power departments during 2010-11. The balance 623 cases, involving refunds of ₹ 498.16 crore, pertained to the Excise and Taxation Department.

1.3.3 Revenue Arrears

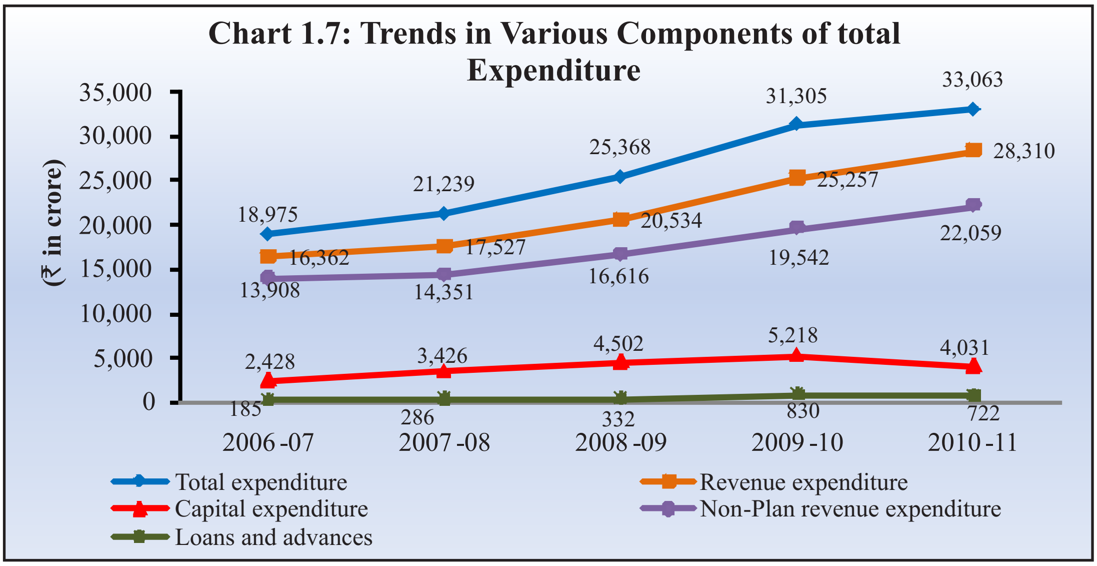
The arrears of revenue increased by ₹ 1,822 crore (115 *per cent*) from ₹ 1,602 crore in 2006-07 to ₹ 3,444 crore in 2010-11. Of these, ₹ 987 crore (29 *per cent*) was outstanding for a period of more than five years. The arrears were mainly on account of taxes on sales, trade, etc.: ₹ 2,887 crore, tax on entry of goods into local areas: ₹ 201 crore, taxes and duties on electricity: ₹ 128 crore, State excise: ₹ 108 crore and taxes on goods and passengers: ₹ 59 crore. As is evident from the above data, taxes on sales, trade, etc. constituted 84 *per cent* of the total arrears. Demands amounting to ₹ 775 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.

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 of over a period of five years (2006-2011) are shown in **Chart 1.7** and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.8 and 1.9** respectively.



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

Table 1.4 presents the growth of capital expenditure over five years (2006-11):

Table 1.4: Growth of Capital Expenditure **(₹ in crore)**

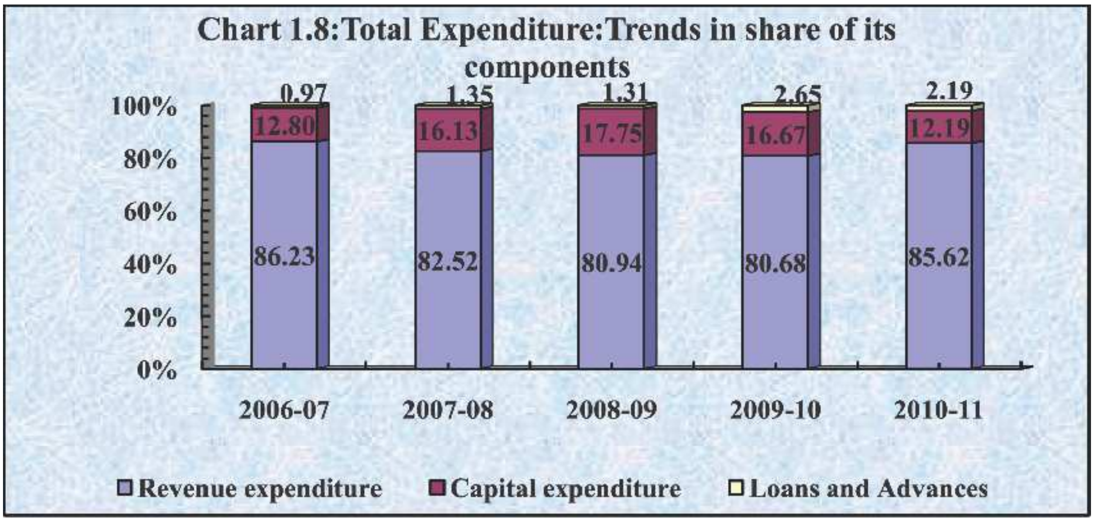
	2006-07	2007-08	2008-09	2009-10	2010-11
Capital expenditure	2,428	3,426	4,502	5,218	4,031
Growth rate (*per cent*)	51	41	31	16	(-)23
Percentage of total expenditure	12.80	16.13	17.75	16.67	12.19

(Source: State Finance Accounts of the respective years)

Total expenditure increased by 74 *per cent* over a period of five years (2006-11). During this period, revenue expenditure increased by 73 *per cent* and capital expenditure by 66 *per cent*. But during the year the capital expenditure decreased by ₹ 1,187 crore (23 *per cent)* over that of 2009-10. The compound annual growth rate (17.19 *per cent*) of capital expenditure for 2001-02 to 2009-10 was less that the compound growth rate (22.61 *per cent)* of other general category States. This growth rate for the period 2001-02 to 2010-11 decreased to 11.87 *per cent* (***Appendix 1.1****)*.

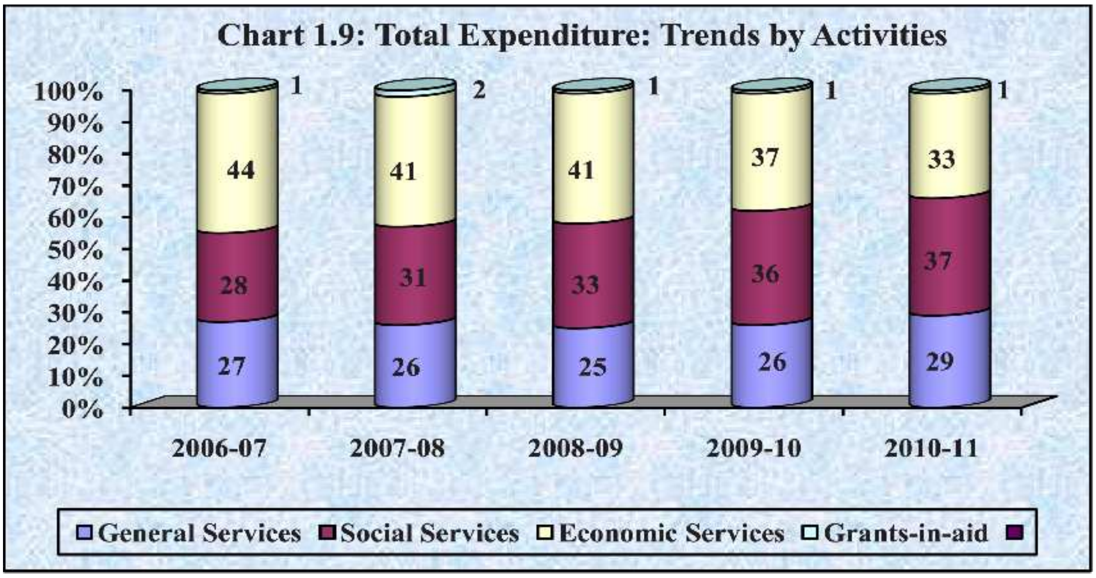
Disbursement of loans and advances also increased by 290 *per cent* during the period from 2006-07 to 2010-11. However, the share of NPRE in total expenditure decreased from 73 *per cent* in 2006-07 to 67 *per cent* in 2010-11.

During 2001-02 to 2009-10, the compound growth rate (14.74 *per cent*) of total expenditure was higher than the growth rate (13.53 *per cent*) of other general category states. This growth for the period 2001-02 to 2010-11 decreased to 13.67 *per cent*. The total expenditure during 2010-11, i.e. ₹ 33,063 crore increased by six *per cent* over the previous year. The bifurcation of total expenditure into Plan and Non-Plan expenditure revealed that the share of Plan and Non-Plan expenditure was 32 and 68 *per cent* respectively.



(Source: State Finance Accounts of the respective years)

The share of revenue expenditure in total expenditure decreased from 86.23 *per cent* in 2006-07 to 85.62 *per cent* in 2010-11, while the share of capital expenditure in total expenditure decreased from 12.80 *per cent* in 2006-07 to 12.19 *per cent* in 2010-11. The share of loans and advances disbursed increased from 0.97 *per cent* in 2006-07 to 2.19 *per cent* in 2010-11. The ratio of NPRE to total expenditure increased from 62.42 *per cent* to 66.72 *per cent* over the year 2010-11. The ratio of NPRE to GSDP decreased from 9.04 *per cent* to 8.56 *per cent*.



(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 payments increased from 27 *per cent* in 2006-07 to 29 *per cent* in 2010-11, the share of economic services decreased from 44 *per cent* in 2006-07 to 33 *per cent* in 2010-11. The combined share of social and economic services which represented development expenditure also decreased from 72 *per cent* in 2006-07 to 70 *per cent* in 2010-11.

Revenue expenditure of the State increased by 12 *per cent* from ₹ 25,257 crore in 2009-10 to ₹ 28,310 crore in 2010-11, mainly due to increase in expenditure on general services (₹1,573 crore) on account of more expenditure on pension (₹ 704 crore) and interest payments (₹ 582 crore). The expenditure on social services also increased by ₹ 1,002 crore over the previous year due to more expenditure on education, sports, art and culture (₹ 690 crore) and social welfare and nutrition (₹ 101 crore). The break-up 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 ₹ 3,053 crore in revenue expenditure comprised of ₹ 2,517 crore and ₹ 536 crore in NPRE and PRE respectively.

The NPRE in 2010-11 at ₹ 22,059 crore was higher than the normative assessment of ThFC (₹ 15,790 crore) and the projection made in MTFPS (₹ 21,698 crore) but was within the projection of the Government made in its FCP (₹ 22,944 crore) ***(Appendix 1.6)***.

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 2006-11 are presented in **Table 1.5** and **Chart 1.10**.

Table 1.5: Components of committed expenditure

(₹ in crore)

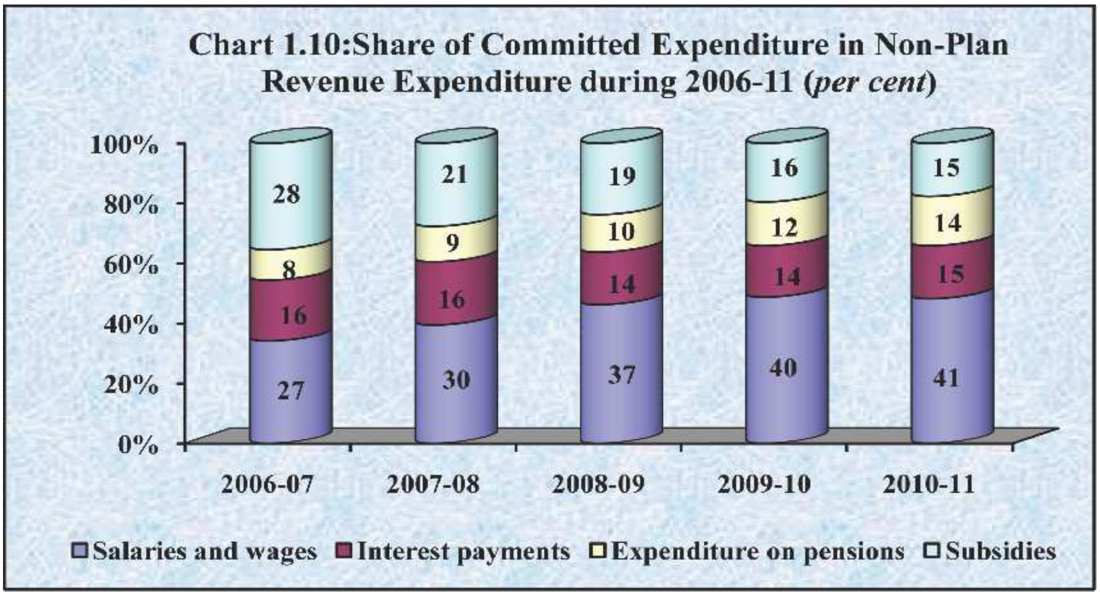
Component of committed expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					Budget estimates	Actual
Salaries and wages, of which	4,126 (23)	4,566 (23)	6,546 (35)	8,440 (40)	10,022 (41)	9,809* (38)
Non-Plan Head	3,784	4,292	6,069	7,746	9,142	8,974
Plan Head **	342	274	477	694	880	835
Interest Payments	2,265 (13)	2,346 (12)	2,339 (13)	2,737 (13)	3,913 (16)	3,319 (13)
Expenditure of pension	1,173 (7)	1,298 (7)	1,614 (9)	2,390 (11)	2,300 (9)	3,094 (12)
Subsidies	3,852 (21)	3,057 (15)	3,190 (17)	3,089 (15)	3,274 (13)	3,285 (13)
Total	**11,416**	**11,267**	**13,689**	**16,656**	**19,509**	**19,507**

(Source: State Finance Accounts of the respective years and information supplied by office of Principal Accountant General (Accounts and Entitlement).

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

*** Includes wages of ₹ 136.90 crore.**

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



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

Salaries and wages

The expenditure on salaries and wages (₹ 9,809 crore) increased by 138 *per cent* during the period from 2006-07 to 2010-11. During 2001-02 to 2009-10, the compound annual growth rate of expenditure on salaries and wages (13.65 *per cent*) was higher than the growth rate (11.45 *per cent*) of other general category States. This growth rate for the period 2001-02 to 2010-11 increased to 13.92 *per cent* ***(Appendix 1.1)***. The expenditure on salaries and wages was higher than the State's own FCP (₹ 9,500 crore) and assessment made by ThFC (₹ 6,457 crore) but was within the projections made in MTFPS of the Government (₹ 10,191 crore) ***(Appendix 1.6)***.

Interest payments

Interest payments (₹ 3,319 crore) increased by 47 *per cent* over a period of five year (2006-11). During 2010-11, there was an increase of ₹ 582 crore (21 *per cent*) over the previous year. The percentage of interest payments to revenue receipts remained almost consistent during 2006-11. Interest payments during 2010-11 were within the projections made by the State in its FCP (₹ 3,509 crore), the projections in the MTFPS (₹ 3,573 crore) and the assessment made by ThFC (₹ 3,474 crore) for the year 2010-11***(Appendix 1.6)***.

Pension payments

Pension payments (₹ 3,094 crore) increased by 164 *per cent* during the period from 2006-07 to 2010-11 but its percentage to revenue receipts increased from seven in 2006-07 to 12 in 2010-11. During 2001-02 to 2009-10, the compound annual growth rate of expenditure on pension (17.52 *per cent)* was higher than the growth rate (14.09 *per cent)* of other general category States. This growth rate for the period 2001-02 to 2010-11 increased to 18.77 *per cent* (***Appendix 1.1***). The expenditure on pension payments in 2010-11 was higher than the assessments made by ThFC (₹ 1,939 crore), the projection made by the Government in its FCP (₹ 2,950 crore) and MTFPS (₹ 3,070 crore) respectively ***(Appendix 1.6)***. To meet the increasing pension liabilities, a new Contributory Pension Scheme was introduced by the State with effect from 1 January 2006.

Subsidies

Payment on subsidies decreased by ₹ 567 crore (15 *per cent*) from ₹ 3,852 crore in 2006-07 to ₹ 3,285 crore in 2010-11, which was 13 *per cent* of the revenue receipts. Out of the total subsidies of ₹ 3,285 crore, ₹ 2,949 crore (90 *per cent*) was for the power and energy sectors, the bulk of which was for rural electrification (₹ 2,940 crore). The actual total subsidy to the power and energy sector was within the projection in FCP (₹ 3,200 crore) and MTFPS (₹ 3,200.65 crore). The balance subsidy at ₹ 336 crore was higher by ₹ 56 crore (20 *per cent)* than the projection in the FCP (₹ 280 crore) but was within the projections made in MTFPS (₹ 385.99 crore) ***(Appendix 1.6)***.

Total committed expenditure

The total expenditure (₹ 16,085 crore) on salary, interest and pension payments was higher by ₹ 126 crore than the projections by the Government in its FCP (₹ 15,959 crore) and consumed 63 *per cent* of the revenue receipts against 58 *per cent* projected in the FCP. The four components, i.e. salary and wages, interest, pension payment and subsidies constituted about 88 *per cent* of the NPRE during 2010-11.

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 2006-07 to 2010-11 is given in **Table 1.6**

Table 1.6: Financial assistance to local bodies, etc.

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11		
					Budget estimate	Actual	Percentage of variation
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	247.53	459.65	538.49	446.03	987.97	741.79	(-) 25
Municipal Corporations and Municipalities	*125.63*	103.22	464.45	306.24	265.15	291.43	10
Zila Parishads and Other *Panchayati Raj* Institutions	135.02	93.88	412.16	366.26	574.63	267.83	(-) 53
Development Agencies	231.93	520.33	268.75	333.48	429.42	388.23	(-) 10
Hospitals and other Charitable Institutions	20.32	49.46	46.80	125.79	331.89	211.97	(-) 36
Other Institutions	161.51	345.05	322.72	368.89	243.35	322.21	32
Total	**921.94**	**1,571.59**	**2,053.37**	**1,946.69**	**2,832.41**	**2,223.46**	**(-) 21**
Assistance as percentage of Revenue Expenditure	**6**	**9**	**10**	**8**		**8**	

[Source: Information supplied by Principal Accountant General (Accounts and Entitlement)]

Financial assistance to local bodies and other institutions increased from ₹ 921.94 crore in 2006-07 to ₹ 2,223.46 crore, constituting eight *per cent* of the revenue expenditure during 2010-11. An analysis of the above table reveals that the financial assistance during 2010-11 increased to ₹ 2,223.46 crore from ₹ 1,946.69 crore in 2009-10. The increase of ₹ 276.77 crore (14 *per cent*) over the previous year was mainly due to more assistance to educational institutions (₹ 295.76 crore), hospitals and other charitable institutions (₹ 86.18 crore) and development agencies (₹ 54.75 crore). The assistance to

Zila Parishads and other *panchayati raj* institutions, other institutions and municipal corporations and municipal committees decreased by ₹ 98.43 crore, ₹ 46.68 crore and ₹ 14.81 crore respectively. Against the estimated provision of ₹ 2,832.41 crore, financial assistance of only ₹ 2,223.46 crore was released. The decrease in the actual release vis-à-vis the budget estimate to development agencies, educational institutions, hospitals and other charitable institutions and *Zila Parishads* and other *Panchayati Raj* institutions ranged between 10 and 53 *per cent*. The actual release of ₹ 559.26 crore to local bodies was more than the assessment made by ThFC (₹ 97.25 crore) ***(Appendix 1.6)***.

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 require 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 2010-11.

Table-1.7: Fiscal Priority and Fiscal Capacity of the State in 2007-08 and 2010-11

Fiscal Priority of the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States Average* (Ratio) 2007-08	17.09	64.28	32.54	16.14	14.64	3.98
Haryana's Average (Ratio) 2007-08	13.77	72.25	31.36	16.13	13.36	2.73
General Category States Average* (Ratio) 2010-11	16.68	64.29	36.68	13.25	17.39	4.34
Haryana Average (Ratio)*2010-11	12.83	70.37	37.45	12.19	18.06	3.29

* 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 2007-08 and the current year i.e. 2010-11.

Fiscal Priority:

- Aggregate expenditure of Haryana as a ratio of GSDP was lower in both years 2007-08 and 2010-11 as compared to general category States.

- Government gave adequate fiscal priority to DE in 2007-08 and 2010-11, as its ratio to AE was higher than the average ratio of other general category States.
- The ratio of SSE of AE in 2007-08 was lower than the corresponding ratio for other general category States, but the Government gave due priority to this sector in 2010-11 as its ratio in AE was higher than the ratio of other general category States.
- The ratio of CE to AE was lower than the ratio of other general category States in 2007-08 and 2010-11.
- Significant improvement was observed in the ratio of expenditure on education expenditure to AE which increased from 13.36 *per cent* in 2007-08 to 18.06 *per cent* in 2010-11. The priority given to education in Haryana was higher than in general category States (17.39 *per cent*).
- The priority given to health in Haryana was less than in other general category States in 2007-08 and 2010-11. Greater fiscal priority needs 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[5]. Apart from improving the allocation towards development expenditure[6], 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.

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5 *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.

6 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.

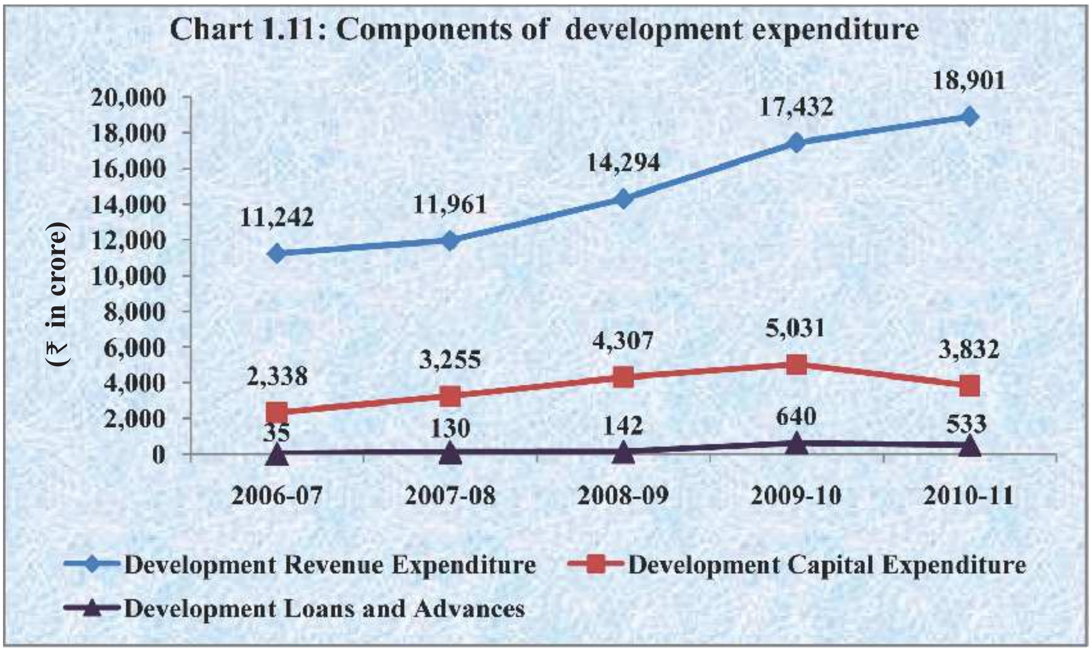
Development expenditure comprised revenue and capital expenditure including loans and advances in socio-economic services. **Table 1.8** presents the trends in development expenditure relative to the aggregate expenditure of the State during the period 2006-07 to 2010-11. **Chart 1.11** presents component-wise development expenditure during 2006-11. **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	2006-07	2007-08	2008-09	2009-10	2010-11	
					Budget Estimate	Actual
Development expenditure (a to c)	**13,615(72)**	**15,346(72)**	**18,743(74)**	**23,103(74)**	**24,194(72)**	**23,266(70)**
a. Development revenue expenditure	11,242(59)	11,961(56)	14,294(56)	17,432(56)	19,491(58)	18,901(57)
b. Development capital expenditure	2,338(12)	3,255(15)	4,307(17)	5,031(16)	3,316(10)	3,832(12)
c. Development loans and Advances	35(0.18)	130(0.61)	142(0.56)	640(2)	1,387(4)	533(1)

(Source: State Finance Accounts of the respective years.)
(Note:Figures in parentheses indicate percentage of aggregate expenditure.)



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

Development expenditure increased by 71 *per cent* during the period from 2006-07 to 2010-11. This expenditure, which constituted 70 *per cent* of the total expenditure increased by only ₹ 163 crore (0.45 *per cent*) from ₹ 23,103 crore in 2009-10 to ₹ 23,266 crore in 2010-11. Revenue expenditure constituted 81 *per cent* of development expenditure whereas the share of capital expenditure including loans and advances was only 19 *per cent*. The development capital expenditure during the year decreased by 24 *per cent* over previous year, which indicates that the less expenditure was incurred on assets creation. This expenditure was within its budget estimates. Against the provision of ₹ 24,194 crore, the actual expenditure was ₹ 23,266 crore.

Table 1.9 Efficiency of expenditure use in selected Social and Economic Services

Social/economic infrastructure	2009-10			2010-11		
	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
Social Services (SS)						
Education, Sports, Art and Culture	0.021	68.00	0.02	0.013	67.61	0.69
Health and Family Welfare	0.068	76.38	0.03	0.017	74.46	-[7]
Water Supply, Sanitation, Housing and Urban Development	0.413	35.41	7.13	0.463	36.63	7.08
Total (SS)	**0.116**	**64.60**	**1.08**	**0.122**	**63.91**	**1.55**
Economic Services (ES)						
Agriculture and Allied Activities	0.478	50.94	1.55	0.126	46.81	1.61
Irrigation and Flood Control	0.462	22.28	13.77	0.458	49.86	7.43
Power and Energy	0.244	0.06	-	0.181	0.03	-
Transport	0.475	36.85	27.22	0.392	44.37	19.89
Total (ES)	**0.385**	**20.97**	**8.62**	**0.278**	**26.10**	**5.78**
Total (SS + ES)	**0.264**	**44.51**	**4.56**	**0.200**	**46.85**	**3.46**

(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

The ratio of capital expenditure on Social Services with reference to the total expenditure increased from 0.116 in 2009-10 to 0.122 in 2010-11, whereas the ratio of capital expenditure on Economic Services decreased from 0.385 in 2009-10 to 0.278 in 2010-11.

The share of expenditure on salaries and wages decreased from 64.60 *per cent* in 2009-10 to 63.91 *per cent* in 2010-11. The share of expenditure on O&M increased from 1.08 to 1.55 *per cent* in 2010-11. Under Economic Services, the share of salaries and wages increased from 20.97 *per cent* in 2009-10 to 26.10 *per cent* in 2010-11. However, the share of O&M decreased from 8.62 *per cent* in 2009-10 to 5.78 *per cent* in 2010-11. Under Social Services and Economic Services combined, the share of salary and wages increased from 44.51 *per cent* in 2009-10 to 46.85 *per cent* in 2010-11. However, the share of O&M decreased from 4.56 *per cent* in 2009-10 to 3.46 *per cent* in 2010-11.

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 2010-11.

7 Less than 0.01.

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 from			Total	Expenditure	Percentage of expenditure to available funds
		GOI	State Share	Other sources including opening balance			
1	National Rural Health Mission	250.91	28.07	-	278.98	278.66	100
2	Integrated Watershed Management Programme (Desert Development Programme)	5.84	1.52	66.35	73.71	28.74	39
3	National Rural Employment Guarantee Act	113.77	5.53	59.57	178.87	213.68	119
4	Accelerated Irrigation Benefits Programme	0.00	16.00	-	16.00	16.00	100
5	Backward Regions Grant Fund	39.53	-	-	39.53	27.66	70
6	Indira Awas Yojana	59.75	19.92	6.50	86.17	78.08	90
7	Sarva Shiksha Abhiyan	364.40	250.31	132.31	747.02	645.41	86
8	Rural Water Supply Schemes (A) Accelerated Rural Water Supply Scheme	178.36	237.00	99.94	515.30	336.71	65
	(B) Desert Development Programme	97.64	--	-	97.64	48.31	49
9	Mid-day Meal Scheme	145.06	66.42	28.02	239.50	209.65	88
10	Integrated Child Development Services Scheme	160.29	10.58	-	170.87	132.67	78
11	National Horticulture Mission	51.50	9.09	2.49	63.08	60.20	95
12	Pradhan Mantri Gram Sadak Yojana	109.39	--	-	109.39	109.39	100
13	Macro-Management of Agriculture including National Watershed Development Project for Rainfed Area and Extension Service	13.34	1.48	0.01	14.83	14.50	98
14	National Agriculture Insurance Scheme	--	1.34	-	1.34	1.34	100
15	Integrated scheme on Oil seeds, Pulses and Maize	5.03	2.29	1.85	9.17	8.56	93
16	Jawaharlal Nehru National Urban Renewal Mission		84.89	-	84.89	86.40	102
17	National e-governance Action Plan		7.35	-	7.35	7.35	100
18	Rajiv Gandhi Gramin Vidyuti Karan Yojana	110.60	10.38	38.68	159.66	47.42	30
19	Accelerated Power Development and Reform Programme	28.46	5.92	27.14	61.52	8.73	14
20	National Social Assistance Programme	53.24	-	-	53.24	48.50	91

(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), Accelerated Power Development and Reform Scheme, Rajiv Gandhi Gramin Vidyuti Karan Yojana, Rural Water Supply Schemes (A) Accelerated Rural Water Supply Scheme (B) Desert Development Programme and Backward Regions Grant Fund ranged between 14 and 70 *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 2010-11 vis-à-vis the previous year.

1.6.1 Financial results of irrigation works

The financial results of seven irrigation projects with a capital outlay of ₹ 411.61 crore at the end of March 2011 showed that revenue realised from these projects during 2010-11 (₹ 169.47 crore) was 41 *per cent* of the capital outlay. After meeting the working and maintenance expenditure (₹ 247.53 crore) and interest charges (₹ 20.58 crore), there was a loss of ₹ 98.64 crore, which was 24 *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 2011 is given in **Table 1.11**. Only those projects where the scheduled dates for completion are already over as of 31 March 2011 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 2011
Buildings and Roads	21	88.87	-	41.24
Total	**21**	**88.87**	**-**	**41.24**

(Source: State Finance Accounts for 2010-11.)

The scheduled dates of completion of these projects were between August 2008 and March 2011, but these were incomplete, involving time overruns varying from six to 37 months. Reasons for delay in completion of these projects were not intimated by the department.

1.6.3 Investments and returns

The Government as of 31 March 2011, had invested ₹ 6,376.98 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.12**). The average return on these investments was 0.14 *per cent* in the last five years while the Government paid an average interest rate of 8.59 *per cent* on its borrowings during 2006-11.

Table 1.12: Return on investments

Investment/return/cost of borrowings	2006-07	2007-08	2008-09	2009-10	2010-11	
					Budget estimate	Actual
Investment at the end of the year (₹ in crore)	3,058.05	3,988.43	5,031.32	5,575.18	802.47	6,376.98
Return (₹ in crore)	5.62	6.05	8.27	9.60	3.77	2.48
Return (*per cent*)	0.18	0.15	0.16	0.17	0.47	0.04
Average rate of interest on Government borrowings (*per cent*)	9.20	7.43	7.82	9.29	8.46	9.22
Difference between interest rate and return (*per cent*)	9.02	7.28	7.66	9.12	7.99	9.18

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

While the Government investments increased by 109 *per cent* over a period of five years from 2006-07 to 2010-11, the return from investments decreased from ₹ 5.62 crore in 2006-07 to ₹ 2.48 crore in 2010-11. The percentage return from investments also decreased from 0.18 in 2006-07 to 0.04 in 2010-11. The Government paid interest at an average rate of 7.43 to 9.29 *per cent* on its borrowings during 2006-11, whereas, the percentage of return from investments ranged between 0.04 and 0.18 during the same period. Investment of ₹ 801.80 crore during 2010-11 was within the budget provision (₹ 802.47 crore).

Eleven Government Companies with an aggregate investment of ₹ 5,776 crore up to 2010-11 were incurring losses and their accumulated losses amounted to ₹ 6,170 crore as per the accounts furnished by these Companies upto 2010-11 (***Appendix 1.8***). It is pertinent to note that ₹ 796 crore of the total investment (99 *per cent*) in 2010-11 was made by the Government in the equity capital of UHBVNL[8] (₹ 228 crore), DHBVNL[9] (₹ 80 crore), HPGCL[10] (₹ 103 crore) and HVPNL[11] (₹ 385 crore). Losses of ₹ 5,715 crore in these four[12] power distribution companies constituted 93 *per cent* of the total losses (₹ 6,170 crore) of Government Companies during the year. The losses were mainly attributable to deficiencies in financial management, planning, implementation of projects, operations and monitoring. 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.

ThFC had recommended that the State Government should draw up a roadmap by March 2011 for closure of non-working Public Sector Undertakings (PSUs) as well as to consider their disinvestment and privatisation. There were seven[13] non-working PSUs (all companies) as on 31 March 2011. Of these, two[14] PSUs were under closure but their liquidation process had not been started. The State Government had also not taken up the exercise of disinvestment, privatisation and restructuring of non-working PSUs.

ThFC had also recommended the reduction of transmission and distribution losses through metering, feeder separation, introduction of High Voltage Distribution Systems, metering of distribution transformers and strict anti-theft measures. The State Government had signed (12 February 2001) a memorandum of understanding (MOU)

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8 Uttar Haryana Bijli Vitran Nigam Limited.

9 Dakshin Haryana Bijli Vitran Nigam Limited.

10 Haryana Power Generation Corporation Limited

11 Haryana Vidhyut Parsaran Nigam Limited

12 Losses: UHBVNL (₹ 3,691 crore), DHBVNL (₹ 1,894 crore), HPGC (₹ 108 crore) and HVPN (₹ 22 crore).

13 (i) Haryana State Minor Irrigation (Tubewells) Corporation, (ii) Haryana State Housing Finance Corporation limited, (iii) Haryana Concast Limited, (iv) Haryana Tanneries Limited, (v) Haryana State Small Industries and Export Corporation Limited, (vi) Haryana State Handloom and Handicrafts Corporation Limited and (vii) Haryana Minerals Limited.

14 (i) Haryana State Housing Finance Corporation Limited and (ii) Haryana Concast Limited.

with GOI, Ministry of Power as a joint commitment for implementation of a reform programme in the power sector with identified milestones.

The State Government had already completed metering of all distribution feeders and all consumers. The transmission and distribution losses were required to be reduced to 15.50 *per cent* by 2007-08 but this target was not achieved as these losses for the year 2009-10 were 26.46 *per cent*.

1.6.4 Departmentally managed 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 1.9***. The following points were observed:

- An amount of ₹ 3,223.28 crore had been invested by the Government in five 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 23 years.
- The accumulated losses of two out of three[15] departmental undertakings were ₹ 284.67 crore as against the total investment of ₹ 3,177.94 crore.

1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the Government had also been providing loans and advances to many institutions/organisations. **Table 1.13** presents the outstanding loans and advances as on 31 March 2011 and interest receipts vis-à-vis interest payments during the last three years.

15 Agriculture Department (Seed Depot Scheme): ₹ 0.10 crore, Food and Supply (Grain Supply Scheme): ₹ 153.37 crore and Haryana Roadways: ₹ 131.30 crore.

Table 1.13: Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of loans / interest receipts / cost of borrowings	2008-09	2009-10	2010-11	
			Budget Estimate	Actual
Opening Balance	1,897	1,877		2,494
Amount advanced during the year	332	830	1,602	722
Amount repaid during the year	352	213	228	233
Closing Balance	**1,877**	**2,494**		**2,983**
Of which Outstanding balance for which terms and conditions have been settled	1,877	2,494		2,983
Net addition	(-)20	617	1,374	489
Interest receipts	53	73	87	54
Interest receipts as percentage of outstanding Loans and advances	2.81	3.34		1.97
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.25	6.96	8.79	7.17
Difference between interest payments and interest receipts (*per cent*)	4.44	3.62		5.20

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

Total outstanding loans and advances as on 31 March 2011 was ₹ 2,983 crore, against an outstanding amount of ₹ 2,494 crore as on 31 March 2010. Interest received on the loans advanced was 1.97 *per cent* in 2010-11 and was below the weighted rate of interest of 9.22 *per cent* paid on Government borrowings during 2010-11. Interest of ₹ 54 crore received during the year on loans and advances was below the budgeted projections (₹ 87 crore). Out of ₹ 722 crore advanced during the year, ₹ 246.82 crore was for Social Services (Loans from Infrastructure Development Funds for strengthening social and physical infrastructure), ₹ 286.45 crore for Economic Services (₹ 223.56 crore for power projects, ₹ 12.31 crore for industry and minerals and ₹ 50.41 crore for Co-operation) and ₹ 188.60 crore for 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 ₹ 690.90 crore were outstanding at the beginning of the year 2010-11 against co-operative sugar mills. Further, loans totalling ₹ 50 crore were given to these sugar mills without any recovery against previous loans.

Loans and advances (₹ 38.10 crore), {the detailed accounts of which were kept in the office of the Principal Accountant General (A&E), Haryana, Chandigarh (PAG (A&E)}, given to Municipal Corporations/Improvement Trusts for providing water supply and sanitation facilities and interest of ₹ 74.32 crore as detailed in **Table 1.14** were overdue for recovery at the end of 2010-11.

Table 1.14: Overdue loans and advances and interest thereon

(₹ in crore)

Year	Principal	Interest
Upto 2007	30.24	62.86
2008-09	2.62	3.82
2009-10	2.62	3.82
2010-11	2.62	3.82
Total	**38.10**	**74.32**

(Source: State Finance Accounts.)

In respect of loans for which detailed accounts were kept by PAG (A&E), the acceptances of loans of ₹ 15.38 crore in 4,139 cases were awaited from Government departments/institutions. Of these, acceptances in 24 cases involving loans of ₹ 12.13 crore were more than 15 years old while the acceptances in the remaining cases were awaited for 10 to 15 years.

The administrative departments are required to intimate to the PAG (A&E), by July each year, the arrears in recovery of principal and interest of loans for which detailed accounts are maintained by departmental officers. During 2010-11, 219 statements from 14 departmental officers were due, of which only 28 statements from three departments were received.

1.6.6 Cash Balances and Investment of Cash Balances

Table 1.15 depicts the cash balances and investments made by the Government out of the cash balances during the year.

Table 1.15: Cash balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 1 April 2010	As on 31 March 2011	Increase(+)/ decrease(-)
Cash balances	493.42	376.84	(-)116.58
Investment from cash balances (a to d)	103.34	683.53	(+)580.18
a. GOI Treasury Bills	103.34	683.53	(+)580.18
b. GOI securities			-
c. Other securities			-
d. Other investments			-
Fund-wise break-up of investment from earmarked balances (a to e)	1,517.63	1,455.13	(-)62.50
a. Sinking Fund	387.94	523.85	(+)135.91
b. Funds for developmental schemes	0.11	0.11	-
c. Funds for village reconstruction *for Harijan* uplift	2.19	2.19	-
d. Calamity Relief Fund	1,067.99	864.74	(-)203.25
e. Guarantee Redemption Fund	59.40	64.24	(+)4.84
Interest realised	25.40	40.59	(+)15.19

(Source: State Finance Accounts of the respective years)

Cash balances during the year decreased from ₹ 493.42 crore to ₹ 376.84 crore. The investments out of cash balances increased from ₹ 103.34 crore to ₹ 683.53 crore. The investment from earmarked balances decreased by ₹ 62.50 crore from ₹ 1,517.63 crore on 1 April 2010 to ₹ 1,455.13 crore, which was mainly due to decrease in investments out of the Calamity Relief Fund [₹ (-) 203.25 crore]. Interest of ₹ 40.59 crore realised on investments during 2010-11 was higher by ₹ 15.19 crore (60 *per cent*) than the interest earned (₹ 25.40 crore) during 2009-10.

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 2010-11, the minimum cash balances for eight days were maintained by taking ordinary and special ways and means advances amounting to ₹ 670.48 crore, for which interest of ₹ 1.16 crore at the rate of 7.25 *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*** give an abstract of such liabilities and assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While the liabilities in this Appendix mainly consist of internal borrowings, loans and advances from 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 FRBM Act, means the liabilities under the Consolidated Fund 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 the 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 2010-11 vis-à-vis the previous year are presented in **Charts 1.12** and **1.13.**

Chart 1.12: Composition of outstanding fiscal liabilities as on 01 April 2010 (₹ in crore)

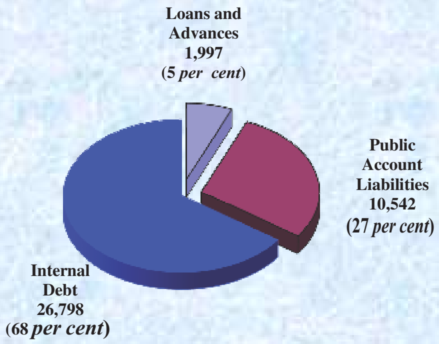
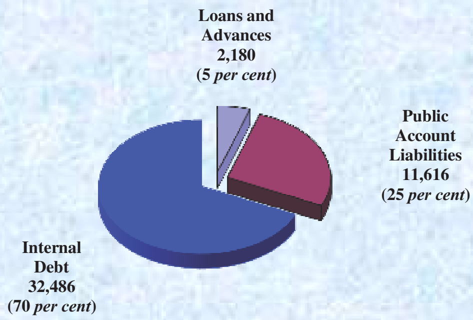


Chart 1.13: Composition of outstanding fiscal liabilities as on 31 March 2011 (₹ in crore)



(Source: State Finance Accounts of the respective years)

The overall fiscal liabilities of the State increased from ₹ 39,337 crore in 2009-10 to ₹ 46,282 crore in 2010-11. The growth rate was 17.66 *per cent* during 2010-11 over the previous year, mainly due to increase in receipts of public debt (₹ 5,871 crore), small savings, provident funds, etc., (₹ 748 crore) and deposits (₹ 317 crore). The ratio of fiscal liabilities to GSDP showed a consistently decreasing trend and decreased from 0.220 *per cent* in 2006-07 to 0.180 *per cent* in 2010-11. These liabilities were 1.81 times the revenue receipts and 2.29 times the State's own resources as at the end of 2010-11. Payment of interest on the fiscal liabilities was ₹ 3,319 crore (7.17 *per cent*) during the year 2010-11. It is significant to note that fiscal liabilities at ₹ 46,282 crore were higher than the limit of ₹ 44,799 crore and ₹ 46,157 crore projected in the MTFPS and FCP respectively of the State Government for the year 2010-11 ***(Appendix 1.6)***.

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 2011, the closing balance in the Sinking Fund was ₹ 525.98 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 1.16.**

Table 1.16: Guarantees given by the Government of Haryana

(₹ in crore)

Guarantees	2008-09	2009-10	2010-11	
			Budget Estimate	Actual
Maximum amount guaranteed	5,188	4,757	3,700	5,515
Outstanding amount of guarantees	4,575	4,565	3,700	4,528
Percentage of maximum amount guaranteed to total revenue receipts	28	23	15	22
Criteria as per State's own FCP	3,400	3,200		2,500

(Source: State Finance Accounts of the respective years)

No amount was paid by the Government towards guarantees during 2010-11. The outstanding amount of ₹ 4,528 crore of guarantees, as on 31 March 2011, was in respect of Corporations and Boards (₹ 173 crore), Co-operative Banks and Societies (₹ 1,955 crore), Government Companies (₹ 972 crore) and Power (₹ 1,428 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 2011, the balance in the Fund was ₹ 64.24 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 ₹ 4.84 crore, which was only 0.11 *per cent* of the outstanding guarantees. However, the outstanding guarantee of ₹ 4,528 crore as on 31 March 2011 was higher than the projection of ₹ 2,500 crore given in the State's FCP for the year. Total liabilities including guarantees (₹ 50,810 crore) during 2010-11 stood at 19.71 *per cent* of the GSDP which was well within the limit of 22.4 *per cent* envisaged in FCP for the year.

Apart from this, the Government issued letters of comfort to banks for raising loans totalling ₹ 6,010 crore in favour of Government companies in the power sector, against which ₹ 4,976 crore was outstanding as of 31 March 2011, which amounted to creation of contingent liabilities. This amount, if included in the outstanding liabilities (₹ 55,786 crore), would be 21.64 *per cent* of GSDP.

1.7.4 Investment in Public Private Partnerships

With a view to provide adequate development of social and physical infrastructure which is pre-requisite for sustaining economic growth the State Government adopted the Public Private Partnership (PPP) mode of infrastructure development.

Under this, the State Government completed six projects with a total estimated cost of ₹ 114.94 crore ***(Appendix 1.10).*** Twenty-one PPP projects ***(Appendix 1.11)*** with a total estimated cost ₹ 64,336.58 crore were under implementation and 34 projects ***(Appendix 1.12)*** were under consideration of the State Government.

1.7.5 Balances under the Reserve Fund

At the beginning of 2010-11, the opening balance under Reserve Fund was ₹ 1,839.94 crore. After addition of ₹ 317.04 crore and disbursement of ₹ 370.61 crore, the fund was closed with a balance of ₹ 1,786.37 crore. Of this, the State Disaster Response Fund (Calamity Relief Fund) was opened on 1 April 2010 with a balance of ₹ 1,127.96 crore and closed at ₹ 924.71 crore on 31 March 2011 after receipt of ₹ 116.16 crore and disbursement of ₹ 319.41 crore. The Sinking Fund had an opening balance of ₹ 390.07 crore in 2010-11. During the year, ₹ 135.91 crore (₹ 105.68 crore: contribution and ₹ 30.24 crore: income on investment) was received but no disbursements were made out of the fund. The fund was closed at ₹ 525.98 crore.

Expenditure of ₹ 319.41 crore from the State Disaster Response Fund was incurred through cheques paid directly to the implementing agencies instead of through the treasury. Similarly, the disinvestment proceeds of fixed deposit receipts under the State Disaster Response Fund investment account amounting to ₹ 222.96 crore were also not routed through treasuries.

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[16] of the State. This section

16 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.

assesses the sustainability of debt of the Government in terms of debt stabilisation[17]; sufficiency of non-debt receipts[18]; net availability of borrowed funds[19]; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of Government securities. **Table 1.17** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2006-07.

Table 1.17: Debt sustainability: Indicators and trends

(₹ in crore)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilisation (Quantum Spread + Primary Deficit)	6,857	4,027	(-) 1,283	(-) 5,594	(-) 17
Sufficiency of non-debt receipts (Resource Gap)	1,464	(-) 2,443	(-) 5,293	(-) 3,533	2,831
Net Availability of borrowed funds	(-) 392	(-) 1,709	1,113	4,682	3,564
Burden of interest payments (IP/RR Raito)	13	12	13	13	13
Maturity Profile of State Debt (In Years)					
0 – 1			1,153.46 (5)	14,930.27 (6)	3,275.07(9)
1 – 3			2,790.89 (12)	28,167.40 (12)	4,314.32(12)
3 – 5			3,892.16 (17)	29,221.95 (13)	4,431.02(13)
5 – 7			3,871.19 (17)	28,592.97 (13)	2,115.30(6)
7 -9				29,287.36 (13)	8,401.90(24)
9-11				30,204.86 (13)	6,039.07(17)
11-13				26,336.62 (12)	1,568.11(5)
13-15				26,239.50 (12)	1,517.14(4)
15 and above				13,288.80 (6)	3,002.11(9)

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

Out of four indicators of debt sustainability, the State had fared well on three indicators. The position of each indicator was as under:

If the quantum spread together with primary deficit is zero, the debt-GSDP ratio would be constant or debt would be stabilized eventually. The quantum spread together with the primary deficit increased from (-) ₹ 5,594 crore in 2009-10 to (-) ₹ 17 crore in 2010-11. However, the debt-GSDP ratio was still negative. This indicated that the debt

17 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.

18 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.

19 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.

sustainability of the State had improved in 2010-11. The State needs to take further corrective measures for sustainability of debts so that the quantum spread plus primary deficit together become a positive value.

The positive resource gap between the non-debt receipts and the total expenditure of the State indicate the enhancement in the capacity of the Government to sustain the debt.

The position of net funds available from borrowed funds improved from ₹ 1,113 crore in 2008-09 to ₹ 3,564 crore in 2010-11. During 2010-11, the Government raised market loans of ₹ 4,450 crore (₹ 650 crore carrying 8.38 *per cent* interest, ₹ 600 crore carrying 8.52 *per cent* interest, ₹ 600 crore carrying 8.50 *per cent*, ₹ 800 crore and ₹ 1,000 crore carrying 8.07 *per cent* and 8.57 *per cent* interest respectively).

The ratio of interest payments to revenue receipts was almost constant during 2006-11 which was well with the target of 15 *per cent* envisaged by the Twelfth Finance Commission.

The maturity profile of State debt as given in **Table 1.17** 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, six *per cent* between five and seven years, 24 *per cent* between seven and nine years, 17 *per cent* between nine and 11 years, five *per cent* between 11 and 13 years, four *per cent* between 13 to 15 years and nine *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.

A well thought out debt repayment strategy will have to be worked out by the Government to ensure that no additional borrowings, which mature in these critical years, are made.

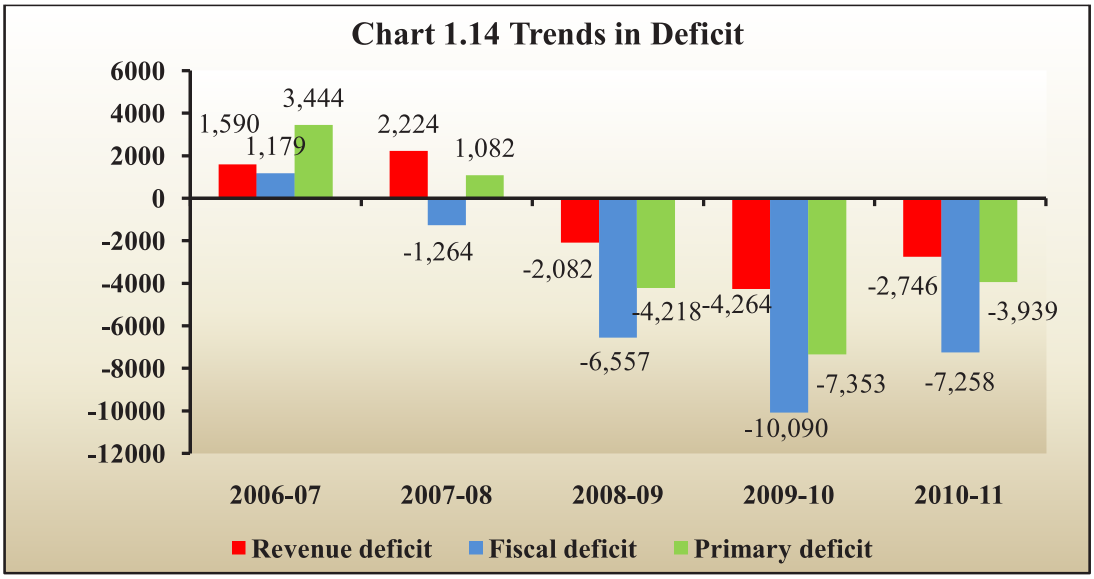
All the above-mentioned paragraphs lead to a conclusion that unless borrowings are restricted, the State will have serious problem in debt servicing.

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 2010-11.

1.9.1 Trends of deficits

Chart 1.14 present the trends in deficit indicators over the period 2006-11.



(Source: State Finance Accounts of the respective years)

Table 1.18: Trends in deficit indicators over the period 2006-11

Year	2006-07	2007-08	2008-09	2009-10	2010-11
RD/GSDP	0.012	0.014	(-) 0.011	(-) 0.020	(-) 0.011
FD/GSDP	0.009	(-) 0.008	(-) 0.036	(-) 0.047	(-) 0.028
PD/GSDP	0.026	0.007	(-) 0.023	(-) 0.034	(-) 0.015

The revenue deficit, which indicates the excess of revenue expenditure over revenue receipts, is to be brought down to zero by 2011-12 and revenue surplus is to be generated, thereafter, as per the FRBM. The surplus achieved in 2006-07 and 2007-08 indicated downward trends since 2008-09. The revenue, fiscal and primary deficits which increased to ₹ 4,264 crore, ₹ 10,090 crore and ₹ 7,353 crore in 2009-10 respectively showed some improvement in 2010-11 and stood at ₹ 2,746 crore, ₹ 7,258 crore and ₹ 3,939 crore respectively.

During the year, the revenue deficit decreased (₹ 1,518 crore) due to the increase of ₹ 4,571 crore in revenue receipts. The decrease in revenue deficit, coupled with decrease in capital expenditure (₹ 1,187 crore) from ₹ 5,218 crore in 2009-10 to ₹ 4,031 crore in 2010-11 led to a decrease in fiscal deficit (₹ 2,832 crore) which was 2.82 *per cent* of GSDP and was well within the limit of three *per cent* projected in the FCP for the year. Decreases in revenue and fiscal deficit resulted in decrease in the primary deficit from ₹ 7,353 crore in 2009-10 to ₹ 3,939 crore in 2010-11.

The revenue deficit exceeded the projections of ₹ 2,047 crore made in FCP for the year 2010-11 ***(Appendix 1.6)***.

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 **Table 1.19.** Receipts and disbursements under the components of financing the fiscal deficit during 2010-11 are given in **Table 1.20**.

Table 1.19: Components of fiscal deficit and its financing pattern

(₹ in crore)

	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Decomposition of fiscal deficit		(+) 1,179	(-) 1,264	(-) 6,557	(-) 10,090	(-) 7,258
1	Revenue deficit(-) surplus	(+) 1,590	(+) 2,224	(-) 2,082	(-) 4,264	(-) 2,746
2	Net Capital Expenditure	(-) 2,428	(-) 3,416	(-) 4,495	(-) 5,209	(-) 4,023
3	Net loans and advances	(+)2,016	(-) 72	20	(-) 617	(-) 489
Financing pattern of fiscal deficit						
1	Market Borrowing	(-) 147.40	(-) 253.73	2,504.54	3,683.68	4,157.63
2	Loans from GOI	(-) 90.24	(-) 44.98	(-) 47.46	(-) 34.16	183.71
3	Special securities issued to National Small Savings Fund	1,099.05	50.56	(-) 79.73	534.43	934.31
4	Loans from financial institutions	36.68	250.75	218.88	1,525.45	595.99
5	Small Savings Provident Funds, etc.	364.80	299.32	352.38	861.92	747.80
6	Reserve Fund	(-) 48.32	15.23	(-) 4.81	(-) 39.13	8.93
7	Deposits and advances	377.70	184.72	216.62	526.64	316.66
8	Suspense and Miscellaneous	(-) 2,496.50	21.69	3,546.38	2,785.98	(-)635.88
9	Remittances	(-) 15.63	14.28	(-) 26.63	(-) 282.96	305.08
10	**Overall surplus (-) deficit (+)**	**(-) 919.86**	**537.84**	**6,680.17**	**9,561.85**	**6,614.23**
11	Increase (-) decrease (+) in cash balance*	(-) 258.90	(+) 726.03	(-) 122.37	(+) 528.81	(+) 644.20
12	**Gross Fiscal Deficit**	**(-) 1,179**	**1,264**	**6,557**	**10,090**	**7,258**

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

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

Table 1.20: Receipts and Disbursements under components financingthe fiscal deficit during 2010-11

(₹ in crore)

Sr. No.	Particulars	Receipt	Disbursement	Net
1	Market Borrowing	4,450.00	292.37	4,157.63
2	Loans from GOI	308.27	124.56	183.71
3	Special securities issued to National Small Savings Fund	1,312.42	378.11	934.31
4	Loans from financial institutions	4,442.51	3,846.52	595.99
5	Small Savings, Provident Funds etc.	1,964.13	1,216.33	747.80
6	Deposits and advances	8,350.15	8,033.48	8.93
7	Reserve Funds	540.01	531.07	316.66
8	Suspense and Miscellaneous	33,488.28	34,124.16	(-) 635.88
9	Remittances	5,360.62	5,055.54	305.08
10	**Overall surplus (-) deficit (+)**			**6,614.23**
11	Increase (-) decrease (+) in cash balance			(+) 644.20
12	**Gross Fiscal Deficit**			**7,258**

(Source: State Finance Accounts.)

The fiscal deficit, which represents the borrowings of the Government and its resource gap decreased from ₹ 10,090 crore in 2009-10 to ₹ 7,258 crore in 2010-11. The decrease in fiscal deficit was due to decrease in revenue deficit (₹ 1,518 crore), capital expenditure (₹ 1,187 crore) and disbursement of loans and advances (₹ 108 crore). The financing pattern of fiscal deficit shows that there was an increase in market borrowings (₹ 4,157.63 crore) but decrease in small savings, provident funds, etc. (₹ 747.80 crore) and deposits and advances (₹ 316.66 crore).

The analysis of balances under small savings, provident funds, etc, revealed that there were adverse balances under, "8011-Insurance and Pension Fund, 107-State Government Employees Insurance Scheme" of ₹ 8.62 crore. This was due to non-adjustment of interest on these funds by the State Government, the reasons for which were awaited (October 2011).

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 1.21**) 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 1.21: Primary deficit / surplus–bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary[20] 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)
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
2010-11	25,805	24,991	4,031	722	29,744	814	(-)3,939

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

The Government had a primary revenue surplus with decreasing trends. It decreased from ₹ 6,057 crore in 2006-07 to ₹ 814 crore in 2010-11. This was due to increase in primary expenditure (which includes primary revenue expenditure, capital expenditure and loans and advances) from ₹ 16,709 crore in 2006-07 to ₹ 29,744 crore in 2010-11. The details indicate that non-debt receipts were enough to meet the primary revenue expenditure and part of these receipts were utilised to meet capital expenditure. The State was experiencing primary deficit since 2008-09 which stood at ₹ 3,939 crore at the end of 2010-11. This indicates that the borrowed funds were utilised to cover the primary expenditure.

20 Primary revenue expenditure means revenue expenditure excluding interest payments.

1.10 Conclusion

Pattern of Revenue and expenditure: Revenue receipts increased by 22 *per cent* during the year over the previous year due to increase in tax revenue by 27 *per cent*. Tax revenue for 2010-11 fell short by five *per cent* and 10 *per cent* as compared to the projections made by ThFC and by the Government in FCP respectively but was higher by two *per cent* than the projections made in MTFPS. The non-tax revenue was 71 *per cent*, 14 *per cent* and four *per cent* less than the projection made by ThFC and by the Government in FCP and MTFPS respectively for the year 2010-11.

Revenue expenditure constituted 86 *per cent* of the total expenditure during the year and increased by 12 *per cent* over that of previous year. Its NPRE component at ₹ 22,059 crore was higher by 40 *per cent* and two *per cent* than the projection of ThFC (₹ 15,790 crore) and MTFPS (₹ 21,698 crore) respectively, but was lesser by four *per cent* than the State's projection in its FCP (₹ 22,944 crore). Within the Non-Plan revenue expenditure, four components i.e. salary and wages, pension liabilities, interest payments and subsidies constituted about 88 *per cent* during 2010-11. Moreover, 90 *per cent* (₹ 2,949 crore) of total subsidies (₹ 3,285 crore) were for the energy sector and were within the projection in FCP (₹ 3,200 crore).

Capital expenditure, which constituted 12 *per cent* of the total expenditure, decreased during 2010-11 by 23 *per cent* over 2009-10.

Financial assistance to local bodies and other institutions (₹ 2,223.46 crore), which constituted eight *per cent* of revenue expenditure during 2010-11, increased by 14 *per cent* over 2009-10.

Fiscal correction: Haryana is one of the States to have passed the Fiscal Responsibility and Budget Management Act early. The fiscal position of the State, viewed in terms of the trends in fiscal parameters, i.e. revenue, fiscal and primary deficit/surplus indicated that the State achieved the surplus in 2006-07 and 2007-08. But the surplus could not be sustained for long and indicated downward trends since 2008-09. The revenue, fiscal and primary deficits, which increased to ₹ 4,264 crore, ₹ 10,090 crore and ₹ 7,353 crore in 2009-10 respectively, showed some improvement in 2010-11 and stood at ₹ 2,746 crore, ₹ 7,258 crore and ₹ 3,939 crore respectively.

Debt sustainability: As per the FRBM Act, total debt including contingent liabilities should not exceed 22.4 *per cent* of the estimated GSDP for the year. Total liabilities including guarantees and letters of comfort which totalled ₹ 55,786 crore during 2010-11, stood at 21.63 *per cent* of the GSDP, which was well within the limit of the FRBM Act.

Review of Government investments: The average return on the Government's investments in Statutory Corporations, Rural Banks, Joint Stock Companies and

Co-operatives varied between 0.04 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 these investments (Para 1.6.3). A major portion of investments (99 *per cent*) was in form of investment in equity shares of various Power Corporations.

There were seven non-working PSUs, of which, two were under closures. The action for disinvestment, privatisation and restructuring of non-working PSUs was not taken.

Transmission and distribution losses which were to be brought down to 15.50 *per cent* by 2007-08 were still on the higher side and were 26.46 *per cent* at the end of 2009-10.

Incomplete projects: Twenty one projects which were scheduled for completion between August 2008 and February 2011, 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 ₹ 1,308.84 crore to State implementing agencies during the year, which was an increase of ₹ 203.64 crore (18 *per cent*) over the previous year. As the funds were 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 was not in place and timely reporting about the status of expenditure by these implementing agencies was not being done.

1.11 Recommendations

- As per the recommendations of ThFC, the revenue deficit is required to be brought down to zero by 2011-12 for which efforts have to be made to increase tax compliance, reduce administration costs, collect revenue arrears and prune unproductive expenditure.

- 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 PSUs 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 Principal Accountant General (A&E) Haryana.