

CHAPTER-I
FINANCES OF THE STATE GOVERNMENT

CHAPTER 1

FINANCES OF THE STATE GOVERNMENT

Profile of Jammu and Kashmir

The State of Jammu and Kashmir holds a strategic place on the country's map with its borders touching Pakistan and China. The State spreads over a geographical area of 22,236 square kilometres including the areas not under Government control. For the purpose of this Report, the area, population and all other fiscal/ economic parameters are confined only for the areas for which census and economic data is available. As per 2011 Census (Provisional Data), the State's population in census-covered areas was 1,25,48,926 (53 *per cent* male population and 72.79 *per cent* rural population). Administratively, the State Government control spans 22 districts, 82 tehsils and 142 blocks. The decadal growth rate in population declined to 23.71 *per cent* during 2001-2011 from 29.43 *per cent* during 1991-2001, but is nevertheless one of the highest in the country. The State has a relatively high literacy rate of 68.74 *per cent* (78.26 *per cent* amongst males and 58.01 *per cent* amongst females). There has been marked increase in literacy as these numbers were 55.52 *per cent*, 66.60 *per cent* and 43 *per cent*, respectively in 2001. The number of Primary, Middle and High and Higher Secondary Schools has increased from 14,655 to 27,692 during the 10th and 11th (up to 2010-11) Plan periods. Similarly, the number of health care institutions (District/ Sub-District hospitals, Primary Health Centres, Dispensaries, Family Welfare Sub-Centres) has increased from 3,077 to 3,286 during the two previous Five Year Plans resulting in decrease in infant mortality rate from 51 per thousand in 2007 to 43 per thousand in 2010, though far below the target of less than 30, and decrease in decadal population growth. The number of villages and hamlets provided with potable water increased from 6,507 in 2002-03 to 12,798 in 2010-11 benefiting a population of 114.43 lakh population. The overall 'sex ratio' (number of females per 1000 males) declined from 892 in 2001 to 883 in 2011. The child sex ratio [0 to 6 years] has shown a sharp decline from 941 in 2001 to 859. The population density of the State increased from 100 per sq. km in 2001 to 124 per sq. km, which is lower than the population density of 382 per sq. km at national level. The population of the Jammu and Kashmir (J&K) State accounts for 1.04 *per cent* of the country in 2011 as against 0.99 *per cent* population in 2001 on comparable basis and ranks 19th among the States/UTs. Population in 0-6 years age-group is 20,08,642 (10,80,662 Male, 9,27,980 Female).

This chapter provides a broad perspective of the finances of the State Government by analysing the trends and structural profile in the major fiscal aggregates during the 11th Five Year Plan (2007-12) with base year figures of 2006-07 as a reference. The Finance Accounts of the State Government are laid out in **19 statements**, the structure and the layout of which are depicted in **Appendix 1.1. Appendix 1.2** of this chapter briefly outlines the methodology adopted for the assessment of the fiscal position of

the State and **Appendix 1.4** presents the time series data on key fiscal variables/ parameters and fiscal ratios relating to the State Government finances for the period 2002-03 to 2011-12. The major changes in the key fiscal aggregates were that the State Government maintained the revenue surplus though less by ₹ 1,664 crore over the previous year. The fiscal deficit during 2011-12 was 5.92 *per cent* of GSDP against 4.7 *per cent* required under the Fiscal Responsibility and Budget Management Act. The fiscal liabilities (excluding committed liabilities on account of revision of pay and pension) however, decreased from 65.55 *per cent* of GSDP in 2010-11 to 58.15 *per cent* in 2011-12.

The Gross State Domestic Product (GSDP), which measures the value of goods and services produced within the State's boundary, is estimated (as per the Advance Estimates made by the State Government in its Economic Survey for 2011-12) to be ₹ 62,365 crore (at current market prices) during 2011-12, marking an increase of 13.95 *per cent* over ₹ 54,731 crore in 2010-11. Excluding the impact of inflation, the real growth is estimated to be 6.78 *per cent* against 6.63 *per cent* as per Advance Estimates for 2010-11. In this Report, the GSDP data used for the Eleventh Plan period (2007-08) is the new GSDP series with Base Year 2004-05 while previous years' data is the old GSDP series with Base Year 1999-2000. Details are in **Appendix 1.7**.

1.1 Salient features of the State's Budgetary System and Profile

The State Government secures legislative approval for spending from the Consolidated Fund of the State by presenting annual budget and nearly 29 Demand for Grants, typically one demand for one Department. This is to ensure responsibility of the Heads of Departments for spending on intended purpose. There is no system of outcome/ performance budgeting/ reporting by the Departments to the State Legislature as the Departments do not prepare annual reports of their activities and achievements. (Some Departments have websites to disseminate some information to general public.) The budget allotments process is highly centralized. The State Government used to bank with wholly owned J&K Bank. Since April 1, 2011, all Government receipts and expenditures are consolidated into a single account with the Reserve Bank of India (RBI). During 2011-12, switchover to the Ways & Means Advances and Overdraft Regulations Scheme of the RBI helped the State Government save over ₹ 220 crore as interest. The J&K Bank continues to function as agency bank of the RBI. The State follows a system of classification of receipts and expenditure, which generally conforms to the function-cum-programme based system followed by the Central and other State Governments at top level of major/ minor heads of accounts. However, at lower levels of expenditure classification, the heads of classification are a mix of purpose of expenditure and the spending unit. The system is to some extent *ad hoc* driven by diverse information needs of the Government rather than any particular standard, especially at the lowest level of expenditure classification.

The State's expenditure requirements cannot be met from its own resources and it has substantial dependence on resource flow from the Central Government. The State of Jammu and Kashmir is one of the 11 Special Category States substantially dependent on Central Government's financial support for financing their budget. Eleven States in the Union (Arunachal Pradesh, Assam, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand) are termed as "Special Category States" for the purpose of preferential treatment in the matter of Central financial assistance, mainly in terms of financing the expenditure on State Plan. These States have some distinct characteristics and fiscal handicaps calling for special treatment in Central government's financial support for their developmental plans such as clear geographical disadvantages due to proximity to international boundaries, hilly terrains and distinct backlog of socio-economic developmental. Public expenditure plays a significant role in the Gross State Domestic Product of these States. In view of these problems, the Central Government provides 90 *per cent* financing for schemes/ projects included in the State Plan in the form of grants-in-aid to the Special Category States whereas for other States, such Central assistance in the form of grants is limited to only 30 *per cent* of the estimated, eligible cost of a State Plan scheme/ project. Higher (90 *per cent*) financing of State Plan schemes/ projects by way of grants-in-aid from the Central Government and access to substantial Central grants for financing Central and Centrally Sponsored Plan Schemes and also on non-Plan account coupled with State's own efforts at revenue mobilization have ensured that the State has continued to be a revenue surplus State despite having deficit after excluding central transfers. (The grants from the Central Government are treated as (non-tax) revenue receipts of the State Government.)

1.2 Legislative Framework of Budget consequent to the Fiscal Responsibility and Budget Management (FRBM) Act, 2006

Concerns about growth in governments' expenditure exceeding their non-debt resources raising issues of inter-generational equity have led to development of a national consensus on prudential management of Government debt and deficit. The State has also recognized this imperative need and committed to follow a path of fiscal consolidation.

Four key fiscal parameters, viz., (a) revenue deficit, (b) fiscal deficit, (c) primary deficit and (d) outstanding fiscal liabilities indicate the extent of overall fiscal imbalances in the finances of a government during a specified period. In the context of States in the Union, another useful measure of the deficit-bias in a State's fiscal policy is the "State's Own Deficit (SOD)", which is the State's Fiscal Deficit minus non-debt resources received from the Central Government. An important constituent of the State's Own Deficit is 'Pre-Devolution Non-Plan Revenue Deficit (PDNPRD)', which represents the gap between the State's non-plan revenue expenditure and the State's Own Revenues (tax and non-tax).

With the declared objective of ensuring prudence in fiscal management and fiscal stability by progressive strengthening of revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability and greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term frame work and for matters connected therewith or incidental thereto, the Jammu and Kashmir Fiscal Responsibility and Budget Management (FRBM) Act was enacted on 14 August 2006. Details of the FRBM Act and amendments made to it are in **Appendix 1.3**. This Report contains an assessment of government's compliance to the FRBM Act, 2006 and FRBM Rules, 2008.

1.3 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2011-12) *vis-a-vis* the previous year. **Appendix 1.5** presents a more disaggregated view of this Table.

Table-1.1
Summary of Current Year's Fiscal Operations
(Receipts and disbursements during 2011-12)

(₹ in crore)

Receipts			Disbursements				
Various Items	2010-11	2011-12	Various Items	2010-11	2011-12		
	Total	Total		Total	Non-Plan	Plan	Total
Section-A: Revenue							
Revenue receipts	22233.65	24782.96	Revenue expenditure	18466.82	21432.21	1248.27	22680.48
State's Own Tax revenue	3482.58	4745.48	General Services	7777.40	9707.36	17.40	9724.76
State's Own Non-tax revenue	1093.11	2001.65	Social Services	5213.93	5210.70	1081.88	6292.58
Share of Union Taxes/Duties	3066.98	3495.11	Economic Services	5475.49	6514.15	148.99	6663.14
Grants from Government of India	14590.98	14540.72					
Section-B: Capital							
			Capital Outlay	6063.53	425.24	5473.58	5898.82
Miscellaneous Capital Receipts	Grants-in-aid and Contributions
Recoveries of Loans and Advances	1.50	168.48	Loans and Advances disbursed	71.63	65.61		65.61
Public Debt receipts@	5206.21	4036.44	Repayment of Public Debt@	3931.98	1211.31		1211.31
Contingency Fund	0.26	1.20	Contingency Fund	0.16	0.36		0.36
Public Account receipts @ @	55860.32	18834.79	Public Account disbursements @ @	54735.07	17106.29		17106.29
Opening Cash Balance	67.20	99.94	Closing Cash Balance	99.94	960.94		960.94
Total	83369.14	47923.81		83369.14			47923.81

@ Excludes net transactions under ways and means advances and overdraft.

@@ These exclude transactions of investment of cash balances and departmental cash chests. The net effect of these transactions is included in the opening and closing cash balances in the row next below. Cash balance of the State, as a result of the aforesaid inflow/outflow, increased by ₹ 860.99 crore over the previous year. Out of this, ₹ 760.90 crore has been invested in short term securities.

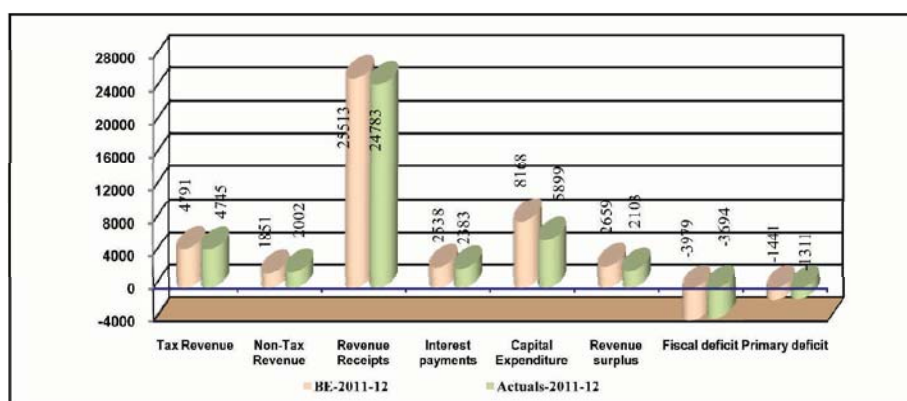
It would thus be evident that:

- Revenue receipts grew by around 11 per cent (₹ 2,549 crore) over the previous year. The growth mainly came from increase in tax revenue (₹ 1,262 crore), non-tax revenue (₹ 909 crore) of the State Government and share of union taxes/ duties (₹ 428 crore).
- Revenue expenditure increased by ₹ 4,213 crore (23 per cent) over the previous year. Increase in salary, purchase of power and payment of interest on internal debt mainly caused increase in revenue expenditure.
- Capital expenditure witnessed a decline of around three per cent (₹ 165 crore) over the previous year mainly due to decrease in spending of ₹ 128 crore in Economic Services Sector.

- Public Account receipts and disbursements decreased by ₹ 37,025 crore and ₹ 37,629 crore respectively over the previous year.
- Public Debt receipts and its repayments decreased by ₹ 1,169 crore and ₹ 2,721 crore respectively during the year 2011-12.
- Cash balance of the State, as a result of the aforesaid inflow/ outflow, increased by ₹ 861 crore over the previous year.
- The State's own revenues (₹ 6,747 crore) were not sufficient enough to meet even the Revenue expenditure, which increased from ₹ 10,614 crore in 2006-07 to ₹ 22,680 crore in 2011-12, and would have resulted in a Revenue deficit ranging from minus ₹ 8,182 crore in 2006-07 to minus ₹ 15,933 crore in 2011-12 but for the assistance from the Central Government amounting to ₹ 18,036 crore. Due to Central grants (treated as the State's non-tax revenues), the State has continued to maintain revenue surplus with a surplus of ₹ 2,103 crore during 2011-12.
- During the 10th Five Year Plan period (2002-2007), the State's non-plan expenditure increased by 55 *per cent* and Plan expenditure increased by 42 *per cent* while State's own non-debt receipts increased by only 28 *per cent*. During the 11th Plan period (2007-12), the growth in non-plan expenditure, Plan Expenditure and State's own non-debt resources has been 86 *per cent*, 61 *per cent* and 100 *per cent* respectively.

The State has continued to maintain the revenue surplus with a surplus of ₹ 2103 crore during 2011-12.

(Chart 1.1 showing actual realisation of revenue vis-a-vis budget provisions)



There were huge variations in the revenue surplus, fiscal and primary deficits vis-à-vis the budget estimates. The revenue surplus was less by ₹ 556 crore than that estimated. The fiscal deficit was ₹ 3,694 crore against the estimate of ₹ 3,979 crore and primary deficit ₹ 1,311 crore, against the estimated ₹ 1,441 crore (March 2012). Reasons for

variations between the budget estimates and actual realization were, however, neither intimated by the Government nor were on record.

1.4 Trends in Key Fiscal Aggregates

The trends in Budget Estimates, Revised Estimates and actual financial outcomes of some top level fiscal aggregates for 2011-12 and for preceding two years are given in **Table 1.2** below:

Table-1.2
Trends in Key Fiscal Aggregates

	Fiscal Aggregate	2009-10			2010-11			2011-12		
		Budget	Revised	Actual	Budget	Revised	Actual	Budget	Revised	Actual
1	Revenue Receipts (a)+(b)+(c)+(d)	19462	19681	17588	22849	23762	22234	26701	25513	24783
(a)	State's Own Tax revenue	3011	3075	3027	3505	3643	3483	4183	4791	4745
(b)	State's Own Non Tax Revenue	1319	1294	955	1457	1475	1093	1620	1851	2002
(c)	State's share in Union Taxes	1880	1880	1915	2911	2911	3067	3328	3691	3495
(d)	Grants from Centre	13252	13432	11691	14976	15733	14591	17570	15180	14541
2	Non-Debt Capital Receipts	388	376	30	376	360	2	358	356	168
3	Fiscal Deficit	2081	2090	3989	1800	2352	2367	2979	3979	3694
4	Total Receipts (1+2+3)	21931	22147	21607	25025	25474	24603	30038	29848	28645
5	Revenue Expenditure 5(i)+5(ii)	14949	15325	15324	17698	18374	18467	22752	22846	22680
(i)	Plan	704	694	553	981	919	909	1205	1100	1248
(ii)	Non-Plan	14245	14631	14771	16717	17455	17558	21547	21746	21432
6	Capital Expenditure 6(i)+6(ii)	6982	6822	6234	7327	8100	6064	7286	6994	5899
(i)	Plan	6796	6519	6135	7075	6767	5730	7020	6617	5474
(ii)	Non-Plan (excluding Debt Repayment, including Loans and Advances)	186	303	99	252	1333	406	266	377	491
7	Total expenditure	22739	22885	21607	25025	26474	24603	30038	29840	28645
(i)	Plan	7500	7213	6688	8056	7686	6639	8225	7698	6722
(ii)	Non-Plan	15239	15677	14919	16969	18788	17964	21813	22150	21923
	Pre-Devolution Non-Plan Revenue Deficit (PDNPRD)	9915	10262	10789	11755	12337	12982	15744	15104	14685
	GSDP (New Series with Base Year 2004-05)	38807	38297	43236	42460	47709	47709	62365	62365	62365
	Fiscal Deficit as per cent of GSDP	5.36	5.46	9.23	4.24	4.95	4.96	4.78	6.38	5.92

	Fiscal Aggregate	2009-10			2010-11			2011-12		
		Budget	Revised	Actual	Budget	Revised	Actual	Budget	Revised	Actual
	Revenue Surplus	4513	4356	2264	5151	5388	3767	3949	2659	2103
	PDNPRD/GSDP (per cent)	25.54	26.71	25	27.81	25.85	27.21	25.24	24.22	23.55

The 'Non-Plan Capital Expenditure' shown in the above table is net expenditure. Pre-Devolution Non-Plan Revenue Deficit being an important fiscal parameter was targeted to be brought down to 20 *per cent* of GSDP by 2008-09 and maintained thereafter. The same however was between 23 to 25 *per cent* during 2009-2012. The fiscal deficit also continued to be more than three *per cent* of the GSDP during this period.

1.5 Thirteenth Finance Commission Recommendations

Consequent upon the amendments to the FRBM Act on the lines of Thirteenth Finance Commission Recommendations, the State could avail three benefits (a) write off of Central Government loans (₹ 57 crore) and (b) release of State-Specific grants (₹ 350 crore) and (c) A special one-time grant of ₹ 1,000 crore from the Central Government along with market borrowing of ₹ 1,300 crore for liquidation of the State Government's overdraft with the Jammu and Kashmir (J&K) Bank. The State liquidated entire overdraft with the J&K Bank as on 31 March 2011 and started a single account with the RBI for all Government receipts and expenditures with effect from 01.04.2011. During 2011-12, the interest burden on overdraft/ ways & means advances came down by over ₹ 220 crore as a result of this switch over to new banking arrangements.

Out of an allocation of ₹ 350 crore as grants to the State for 12 State-specific schemes under the *Th FC* award, the Central Government released ₹ 86.64 crore as first instalment to the State Government during 2011-12 against which an expenditure of ₹ 17.63 crore was reported as incurred. Poor utilisation of funds was mainly due to delayed release of funds by the State Government to the implementing agencies. While the funds (₹ 8.51 crore) for preservation of heritage "Mubark Mandi" were released in June 2012, funds amounting to ₹ 6.25 crore for "Tawi Front" had not been released till August 2012 to the implementing agencies.

The State Government adopted the New Pension Scheme from January 2010 for Government employees. The Government's and the employees' contributions under the scheme were to be credited to the Major Head 8342-Other Deposits-Sub Head-117, Minor Head 120-Misc. Defined contribution Pension Scheme for Government employees by the Treasury Officers. This classification of the contributions under the scheme was not followed during 2009-10 and 2010-11 and the amounts were deposited in the Bank accounts by the treasury officers. However, the correct accounting system for the contributions under the scheme were followed from 2011-12 and figures of the same appeared in the State Finance Accounts 2011-2012. The *Th FC* observed that the contributions of State employees were lying in the State Public Account and recommended that the State should build a data base

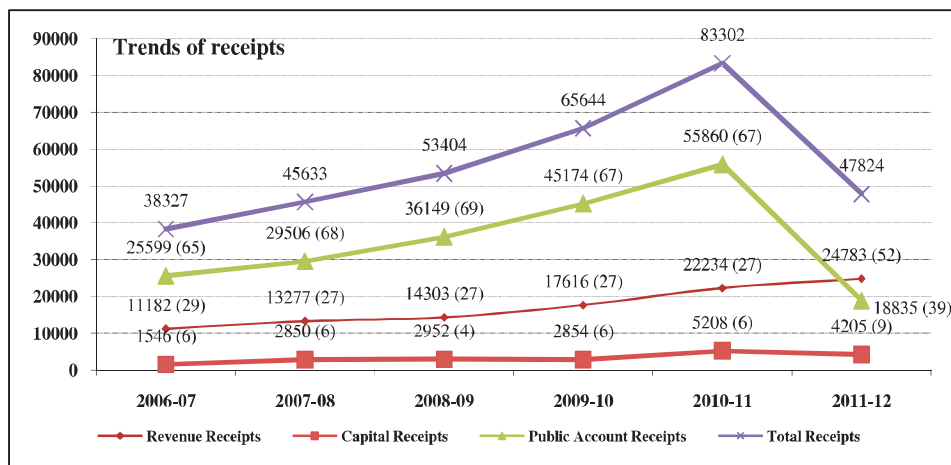
of its employees and pensioners so as to facilitate the transfer of funds to Pension and Fund Managers. For this purpose, the Central Government released during 2010-11 first instalment of ₹ 2.50 crore to the State out of which only ₹ 0.50 crore have been advanced to the Information Technology Department and ₹ two crore placed in deposit in the Public Account. Contributions amounting to ₹ 13.60 crore were not transferred to the Pension Fund Managers as on ending March 2012.

1.6 Resources of the State

The resources for financing the State Budget are categorised into Revenue receipts and Capital receipts. While Revenue Receipts of a State comprise of its Tax Revenue, State's share in Central taxes/ duties, non-tax revenues and Grants-in-aid from the Central Government, Capital Receipts comprise of four broad components: (i) Non-debt capital receipts like recoveries of loans/ advances given by the State Government; (ii) proceeds of disinvestment of equity in public sector companies or proceeds from sale of other assets like land/ buildings; (iii) Receipts, which create liabilities for the government like market loans, borrowings from financial institutions/ commercial banks, loans and advances from the Central Government and (iv) receipts into the Public Account for which the State Government act as a banker.

Table-1.1 presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** below depicts the trends in various components of the receipts of the State during 2006-12.

Chart 1.2



The revenue receipts, which formed 27 *per cent* of the total receipts at an average during 2007-11, has increased to 52 *per cent* during 2011-12 due to decrease in Public Accounts receipts from ₹ 55,860 crore in 2010-11 to ₹ 18,835 crore during 2011-12. The Capital receipts remained almost constant during 2007-11 and increased by three *per cent* of the total receipts in 2011-12. The Public Account receipts were 39 *per cent* of the total receipts (2011-12) against the average of 67 *per cent* during 2007-11.

1.7 Funds transferred directly by the Government of India (GOI) to State implementing agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies for implementation of various schemes/ programs in social and economic sectors. As these funds are not routed through the State Budget/ State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/ parameters derived from the Finance Accounts do not present a complete picture of the fund flow of Central Government resources into the State. The funds directly transferred to State Implementing Agencies under some major schemes are detailed in **Appendix 1.6**. Funds provided to some major programme/ schemes out of the total amount of ₹ 3,389 crore during 2011-12 are detailed in **Table 1.3** below:

Table-1.3

Funds Transferred directly by the GOI to State implementing agencies

(₹ in crore)

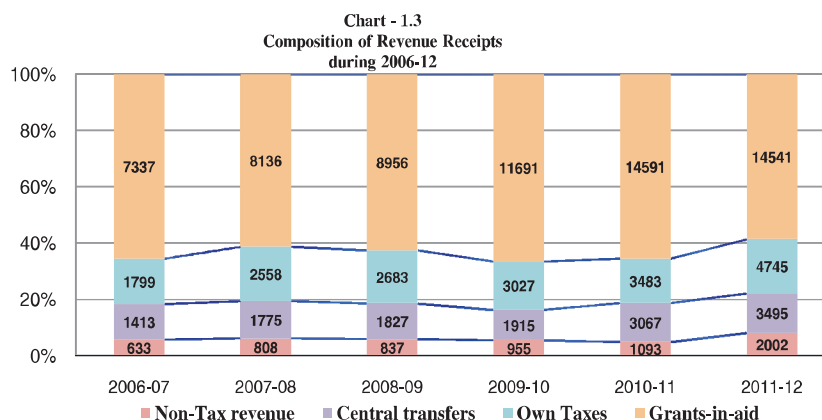
Name of the Programme/scheme	Name of the Implementing Agency in the State	Total Funds released by GOI during	
		2010-11	2011-12
PMGSY	State Rural Roads Agency	366.09	762.10
National Rural Health Mission (NRHM)	State Health Department and other agencies	132.15	452.45
Sarva Shiksha Abhiyan	Ujala Society	403.49	300.71
Package for Special Category State DIPPS	Jammu and Kashmir Financial Corporation Limited	23.14	59.59
MGNREGA	Assistant Commissioners Development DRDA	313.60	781.31
National Rural Drinking Water Programme	State Water and Sanitation Mission	468.91	420.42
Rural Housing (IAY)	Assistant Commissioners DRDA	66.43	58.83
Local Area Development Schemes (MPLADS)	District Development Commissioners	24.00	40.00
TOTAL		1797.81	2875.41

(Source: CPMS of CGA's website)

These figures are yet to be verified by the Implementing Agencies. The consolidated data base at apex level was not maintained by the State Government. Since there is no system of regular feedback to the office of the Accountant General (A&E), Jammu and Kashmir about the unspent balances available with the above mentioned implementation agencies and the liability of matching counterpart funds required to be provided by the State Government to these agencies, neither the Finance Accounts nor this Audit Report on State Finances provide a full picture of the funds meant for socio-economic development in the State. This systemic weakness can be addressed if there is an information exchange agreement with the implementing agencies which are registered societies controlled and operated by State Government officers.

1.8 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of tax and non-tax revenues, Central tax transfers and grants-in-aid from the Central Government. The trends and composition of revenue receipts over the period 2006-12 are presented in *Appendix 1.4* and also depicted in **Chart 1.3**.



Transfers from the Central Government in the shape of State's share in Union taxes and duties and grants in aid form the major constituent of the State's revenue receipts and varied between 75 and 79 *per cent* during 2006-11 and constituted 73 *per cent* of the revenue receipts of the State for the year 2011-12. The trends in revenue receipts relative to GSDP are presented in **Table 1.4** below:

Table-1.4
Trends in Revenue Receipts relative to GSDP

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	11,182	13,277	14,303	17,588	22,234	24783
State's Own Revenues (₹ in crore)	2432	3366	3520	3982	4576	6747
Rate of growth of RR (<i>per cent</i>)	8.41	18.74	7.73	22.97	26.42	11.46
R R/GSDP (<i>per cent</i>)	38.52	41.76	41.09	45.92	46.60	39.74
Buoyancy Ratios ¹						
Revenue Buoyancy w.r.t GSDP	0.83	1.80	0.76	2.25	2.55	0.82
State Own Tax Buoyancy with respect to GSDP*	1.04	4.06	0.48	1.26	1.46	2.60
Revenue Buoyancy with reference to State's own taxes	0.80	0.44	1.58	1.79	1.77	0.32

Figures for 2007-10 revised due to revision of GSDP by the State Government w.r.t Base Year 2004-05

The Revenue Receipts showed a progressive increase over the period 2006-12 in absolute terms and the growth rate in 2011-12 was 11.46 *per cent* over the previous year. The buoyancy ratio of own tax to GSDP increased from 1.04 *per cent* in 2006-07 to 2.60 *per cent* in 2011-12.

¹ 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*.

1.8.1 State's Own Revenues

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for Plan schemes etc., the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The trend in State's own tax and non-tax revenue can be seen from the **Table 1.5** below:

Table-1.5

Trends of tax revenue and non-tax revenue

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Tax revenue	1,798.97	2,558.18	2,682.96	3027.32	3482.58	4745.45
Non-tax revenue	632.53	807.98	837.16	955.03	1093.11	2001.65
Total	2,431.50	3,366.16	3,520.12	3982.35	4575.69	6747.10

1.8.2 State's Own Tax Revenue

The performance of State's Own Tax Revenue has indeed been remarkable as detailed in the **Table 1.6** below:

Table-1.6

Trends in State's Own Tax Revenue relative to GSDP

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Own Tax Receipts (OTR) (₹ in crore)	1799	2558	2683	3027	3483	4745
Rate of growth of OTR (<i>per cent</i>)	10.57	42.19	4.89	12.82	15.06	36.23
OTR/GSDP (<i>per cent</i>)	5.57	7.18	6.84	7.00	7.30	7.61
Buoyancy Ratios						
OTR Buoyancy w.r.t GSDP	1.04	4.06	0.48	1.26	1.46	2.60
OTR Buoyancy with reference to RR	1.25	2.25	0.63	0.55	0.57	3.16

The State's Own Tax Receipts showed a progressive increase over the period 2006-12 in absolute terms and the growth rate in 2011-12 was 36.23 *per cent* over the previous year. The buoyancy ratio of own tax to GSDP increased from 1.04 *per cent* in 2006-07 to 2.60 *per cent* in 2011-12, though it had peaked to 4.06 in 2007-08. During 2011-12, there was record collection of commercial taxes. The State has brought new services under the tax net, which are taxed as part of the State's integrated legislation for taxation of goods and services.

The tax-wise break-up of tax revenue during the period along with percentage increase/ decrease over 2010-11 is given in **Table 1.7** below:

Table-1.7
Trends of tax revenue

(₹ in crore)

Head of Revenue	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage increase (+)/ decrease (-) in 2011-12 over 2010-11
Sales tax	1,159.72	1,804.81	1835.99	2145.72	2424.52	3414.01	(+) 41
State excise	212.80	244.15	238.67	293.78	337.24	385.46	(+) 14
Stamps and registration fee	56.92	65.62	57.13	69.51	78.58	170.97	(+) 118
Taxes and duties on electricity	59.70	93.49	150.76	120.34	147.50	179.12	(+) 21
Taxes on vehicles	63.96	72.60	65.47	83.09	115.33	104.52	(-) 9
Taxes on goods and passengers	243.16	264.59	271.39	299.43	337.16	457.93	(+) 36
Land revenue	2.57	9.58	63.53	15.41	42.03	32.99	(-) 21
Other taxes and duties on commodities and services	0.13	3.33	0.01	0.02	0.22	0.48	-
TOTAL	1,798.96	2558.17	2682.95	3027.30	3482.58	4745.48	36

The State has been taxing services under the Jammu and Kashmir General Sales Tax Act, 1962 since March 1997, which yielded ₹ 697.69 crore in 2011-12. Although the Government has initiated several measures to widen the tax base and improve collection of tax on services yet the tax collected under the State law is significantly less than the share foregone by the State in the Central Service Tax collections, which is the only Central tax that is presently not applicable to the State. As per the assessment made by the Thirteenth Finance Commission regarding likely Central Service Tax collection during 2010-15, the share (1.551 *per cent*) foregone by the State works out to ₹ 8363.38 crore. During 2010-11, the State Service tax collection was ₹ 626.77 crore whereas the State's share in Central Service Tax would have been about ₹ 1100 crore.

The variations between the budget estimates and actuals of tax revenue receipts for the year 2011-12 in respect of the principal heads of tax revenue are mentioned in **Table 1.8** below:

Table-1.8

Budget estimates and actual Tax Revenue during 2011-12

(₹ in crore)

Head of Revenue	Budget estimates	Actuals	Variations excess (+) shortfall (-)	Percentage of variation increase (+)/ decrease (-)
Sales tax	3419.32	3414.01	(-) 5.31	-
State excise	383	385.46	(+) 2.46	(+) 1
Stamps and registration fee	133.27	170.97	(+) 37.70	(+) 28
Taxes on goods & passengers	439	457.93	(+) 18.93	(+) 4
Taxes and duties on electricity	262	179.12	(-) 82.88	(-) 32
Taxes on vehicles	128.50	104.52	(-)23.98	(-) 19

1.8.3 Cost of Collection

The figures of gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection from 2008-09 to 2011-12 along with the relevant All India Average percentages for 2010-11 were as indicated in **Table 1.9** below:

Table-1.9

Cost of collection in respect of major revenue receipts

(₹ in crore)

Head of Revenue	Year	Gross Collection	Expenditure on Collection	Percentage of expenditure to gross collection	All India Average percentage during the preceding year
Sales Tax	2008-09	1835.99	15.30	0.83	0.95
	2009-10	2145.73	73.56 ²	3.43	0.88
	2010-11	2424.52	22.17	0.91	0.96
	2011-12	3414.01	27.59	0.81	0.75
State Excise	2008-09	238.67	11.10	4.65	3.34
	2009-10	293.78	12.37	4.21	3.66
	2010-11	337.24	14.38	4.26	3.64
	2011-12	385.46	17.09	4.43	3.05
Stamp duty & Registration fee	2008-09	57.14	6.04	10.57	3.44
	2009-10	69.51	7.80	11.22	2.77
	2010-11	78.58	12.68	16.14	2.47
	2011-12	170.97	20.87	12.20	1.60
Taxes on vehicles	2008-09	65.47	4.73	7.22	2.74
	2009-10	83.10	4.56	5.49	2.93
	2010-11	115.33	5.38	4.66	3.07
	2011-12	104.52	7.44	7.11	3.71

It may be seen that the cost of collection of State Excise, Stamp duty and Registration fee and Taxes on vehicles is significantly higher than the All India Average cost of collection.

² Includes ₹ 50 crore representing waiver booked as incentive under MH-2040 by credit to MH-0040 by the Department.

1.8.4 State's own non-tax revenue

An itemized break-up of non-tax revenue during the period 2006-12 along with percentage increase/ decrease over 2010-11 is given in **Table 1.10** below:

Table-1.10
Trends of non-tax revenue

(₹ in crore)

Head of Revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Budget Estimate (BE)	2011-12	Percentage increase (+)/ decrease (-) in 2011-12 over 2010-2011
Power	478.94	600.94	629.98	723.64	822.09	1486.22	1006.93	22
Interest receipts, dividends and profits	34.02	65.33	56.51	54.80	67.04	89.29	101.22	51
Forest and wild life	18.99	32.20	31.61	37.46	47.47	55.57	55.20	16
Public works	16.16	16.44	16.89	23.87	23.58	22.29	25.94	10
Medical and public health	12.62	13.21	9.92	9.49	9.40	17.38	14.55	55
Water supply and sanitation	10.95	13.64	14.65	13.16	15.97	34.50	20.57	29
Police	6.59	4.21	10.35	12.84	10.99	17.60	24.91	127
Non-ferrous mining and metallurgical industries	9.98	16.43	14.86	25.34	34.51	43.00	41.18	19
Crop husbandry	4.31	4.52	5.00	5.23	4.53	6.79	11.73	159
Animal husbandry	4.75	4.66	4.70	5.13	5.41	6.22	6.41	18
Others	35.22	36.40	42.69	44.07	52.11	72.58	693.00	1230
Grand Total:	632.53	807.98	837.16	955.03	1093.11	1851.44	2001.64	

Non-tax revenue of ₹ 693 crore under “Others” includes ₹ 543.44 crore received by the State as water usage charges from National Hydroelectric Power Corporation (NHPC) in respect of hydel projects owned by it in the State. The Government has informed the Legislature through the Statements placed under the FRBM Act that all departments are expected to recover at least 50 *per cent* of the ‘service charges’ from the users after accounting for Operations and Maintenance expenses, as recommended by the Thirteenth Finance Commission. No specific time bound action plan has been presented to achieve this goal.

The receipts of the Power Development Department (PDD) constitute the most significant constituent of State's non-tax revenue. All other items are really insignificant in comparison. **Table 1.11** below shows how shortfall in the performance of PDD contributed to deterioration in the fiscal deficit of the State Government despite a record performance on tax revenue front and despite large unbudgeted revenue on account of water usage charges from NHPC.

Table-1.11

Shortfall in the performance of Power Development Department

(₹ in crore)

Financial year	Target for collection of tariff	Actual tariff collected	Expenditure on Power purchase	Deficit
2002-03	440	607	882	275
2003-04	455	368	1135	767
2004-05	483	383	1318	935
2005-06	461	384	1674	1290
2006-07	405	479	1355	876
2007-08	780	601	1750	1149
2008-09	922	630	2034	1404
2009-10	1065	702	1997	1295
2010-11	1209	822	2310	1488
2011-12	1486	1007	3000	1993

As can be seen from the details above, the targets for collection of tariff have not been achieved since 2003-04 except in 2006-07 wherein collection of tariff was ₹ 74 crore more than the target fixed for collection. The shortfall in collection of revenue was ₹ 479 crore during 2011-12.

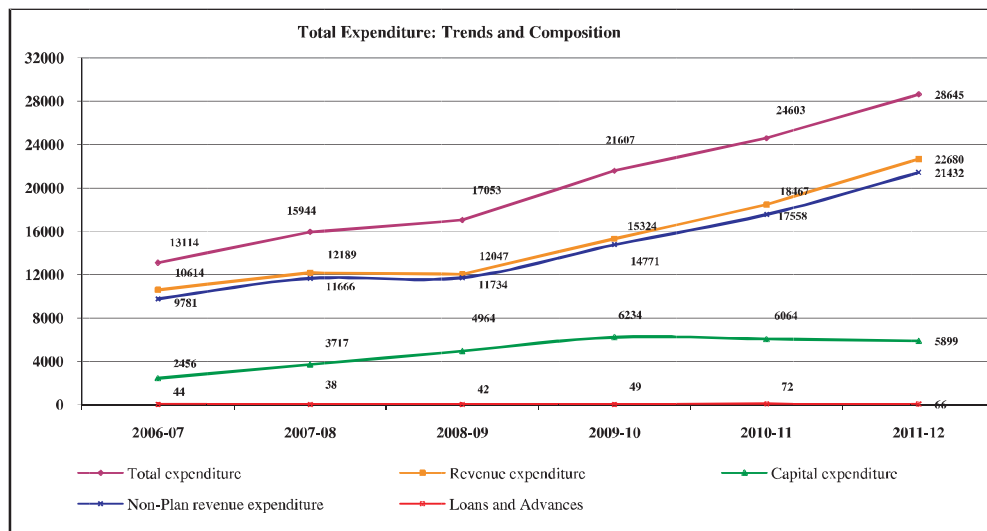
1.9 Application of resources

State raises resources to perform their sovereign functions, maintain levels of service delivery for social and economic services; extend the network of these services through capital expenditure, investments and to discharge their debt service obligations. It is also important to ensure that the fiscal correction and consolidation process does not adversely affect the quality of public expenditure directed towards maintenance of infrastructure, creation of new infrastructure and other needs of development and social justice.

1.9.1 Growth and Composition of Expenditure

Chart 1.4 presents the trends in total expenditure over a period of six years (2006-12). The composition of total expenditure, both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.5** and **1.6**.

Chart-1.4



As can be seen from the above Chart, the total expenditure of the State increased from ₹ 13,114 crore in 2006-07 to ₹ 28,645 crore in 2011-12 (118 *per cent*). The capital and revenue expenditure components have increased by 140 and 114 *per cent*, respectively during the period 2006-12. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.12** below:

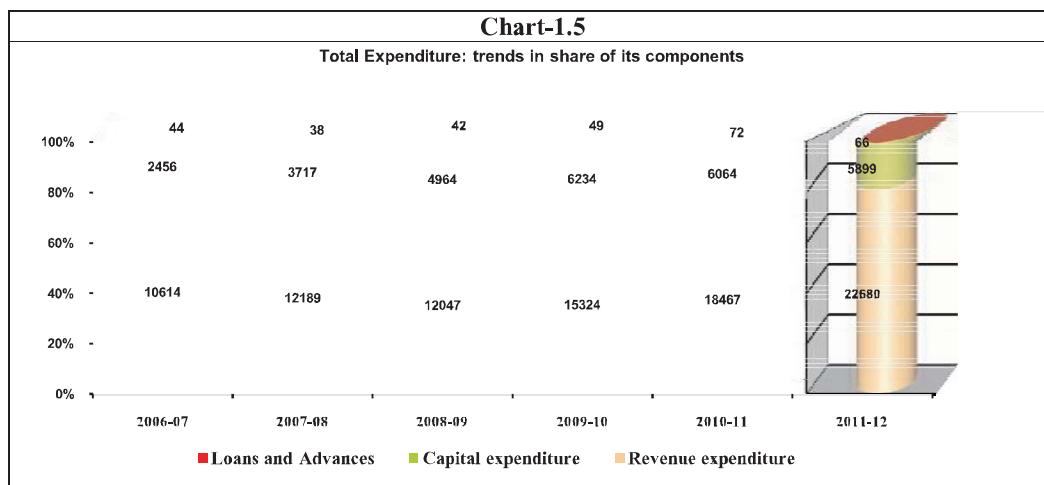


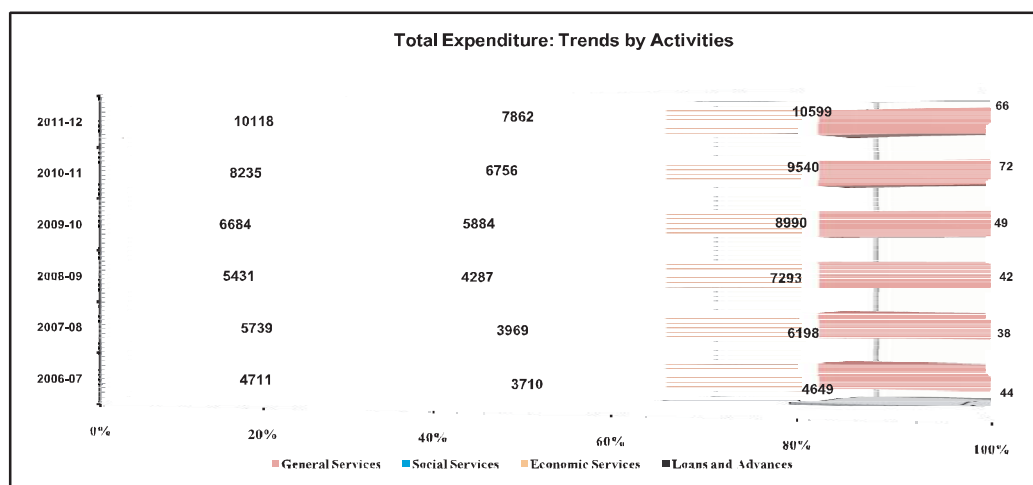
Table-1.12
Total Expenditure – Basic Parameters

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Expenditure (TE) (₹ in crore)	13114	15944	17053	21607	24603	28645
Total Plan Expenditure (₹ in crore)	3179	4164	5006	6688	6639	6722
Total Non-Plan Expenditure (₹ in crore)	9891	11742	12005	14870	17892	21857
Rate of growth (<i>per cent</i>)	0.92	21.58	6.96	26.70	13.87	16.43
TE/ GSDP ratio (<i>per cent</i>)	40.64	44.76	43.47	49.97	51.57	45.93
RR/ TE ratio (<i>per cent</i>)	85.27	83.27	83.87	81.40	90.37	86.52
Buoyancy of Total Expenditure with reference to						
GSDP (ratio)	0.09	1.68	0.36	1.94	0.98	1.18
RR (ratio)	0.11	1.15	0.9	1.16	0.52	1.43

From **Chart 1.5** above, it may be seen that increases in capital and revenue expenditure were of the order of ₹ 3,443 crore (from ₹ 2,456 crore in 2006-07 to ₹ 5,899 crore in 2011-12) and ₹ 12,066 crore in revenue account (from ₹ 10,614 crore in 2006-07 to ₹ 22,680 crore in 2011-12). The total expenditure increased by ₹ 4,042 crore (16 *per cent*) from ₹ 24,603 crore in 2010-11 to ₹ 28,645 crore in 2011-12. While revenue expenditure increased by ₹ 4,213 crore (from ₹ 18,467 crore in 2010-11 to ₹ 22,680 crore in 2011-12), there was decrease of ₹ 165 crore (from ₹ 6,064 crore in 2010-11 to ₹ 5,899 crore in 2011-12) in capital expenditure. Decrease in capital expenditure during 2011-12 was mainly under Economic Services (₹ 128 crore), General Services (₹ 64 crore) with a corresponding increase of ₹ 27 crore under Social Services over the previous year.

From **Table 1.12** above, it is evident that out of the total expenditure of ₹ 28,645 crore during 2011-12, ₹ 6,722 crore was Plan and ₹ 21,857 crore was non-Plan expenditure. The Plan expenditure increased by ₹ 83 crore (one *per cent*) from ₹ 6,639 crore in 2010-11 to ₹ 6,722 crore in 2011-12. However, the non-Plan expenditure recorded a far higher growth, an increase of ₹ 3,965 crore (22 *per cent*) from ₹ 17,892 crore in 2010-11 to ₹ 21,857 crore in 2011-12.

Chart-1.6



Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. During the years 2006-07 to 2011-12, revenue expenditure had a predominant share (on an average 75.50 *per cent*) in the total expenditure and has been increasing at a fast pace since 2009-10 as indicated in **Table 1.13** below:

Table-1.13

Components of Revenue Expenditure

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total expenditure	13114	15944	17053	21607	24603	28645
Revenue Expenditure (RE) (₹in crore)	10614	12189	12047	15324	18467	22680
	(81)	(76)	(71)	(71)	(75)	(79)
Non-Plan Revenue Expenditure (NPRE)	9781	11666	11734	14771	17558	21432
	(92)	(96)	(97)	(96)	(95)	(94)
Plan Revenue Expenditure (PRE)	833	523	313	553	909	1248
Rate of Growth of						
RE (<i>per cent</i>)	6.98	14.84	-1.16	27.20	20.51	22.82
NPRE (<i>per cent</i>)	12.10	19.27	0.58	25.88	18.87	22.06
PRE (<i>per cent</i>)	-30.35	-37.21	-40.15	76.68	64.38	37.29
Ratio (<i>per cent</i>)						
RE as percentage of TE	80.94	76.45	70.64	70.92	75.06	79.17
NPRE/GSDP (<i>per cent</i>)	30.31	32.75	29.91	34.16	36.80	34.37
NPRE as percentage of TE	74.58	73.17	68.81	68.36	71.37	74.82
NPRE as percentage of RR	87.47	87.87	82.04	83.98	78.97	86.48
Buoyancy ratio of Revenue Expenditure with						
GSDP	0.69	1.43	-0.11	2.66	1.98	1.63
Revenue Receipts	0.83	0.79	-0.15	1.18	0.78	1.99

(Figures in parenthesis represent percentage of NPRE to RE)

The overall revenue expenditure of the State increased from ₹ 10,614 crore in 2006-07 to ₹ 22,680 crore in 2011-12 showing an increase of 114 *per cent* over the period. The non-plan revenue expenditure during the same period increased from ₹ 9,781 crore to ₹ 21,432 crore, showing an increase of 119 *per cent*. The share of NPRE in the total revenue expenditure slightly increased from 92 *per cent* in 2006-07 to 94 *per cent* in 2011-12. The Government achieved incurring less Non-Plan revenue expenditure to the extent of ₹ 314 crore against the budget provisions of ₹ 21,746 crore for 2011-12.

1.9.2 Committed Expenditure

The revenue expenditure of the State Government on account of interest payments, salaries and wages, pensions and subsidies is considered relatively inflexible charge on the State's resources. **Table 1.14** presents the trends in the expenditure on these components during 2006-12.

Table-1.14
Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Salaries & Wages	3995 (35.73)	4426 (33.34)	4820 (33.70)	6365 (36.18)	7772 (34.96)	10113 (40.81)
<i>Non-Plan Head</i>	3467	4170	4682	6095	7467	9665
<i>Plan Head</i>	528	256	138	233	305	448
Interest Payments	1787 (15.98)	2436 (18.35)	1578 (11.03)	2139 (14)	2283 (10.26)	2383 (9.61)
Pensions	1021 (9.13)	1193 (8.99)	1269.40 (8.89)	1568 (8.91)	2242 (10.08)	3296 (13.29)
Subsidy		17.63	28.68	35.60	74.51 (0.34)	44.73 (0.18)

(Figures in parenthesis represent percentage of revenue receipts)

From above, it can be seen that as against the increase in revenue receipts of 11 *per cent*, the expenditure on salary and wages increased by 30 *per cent* during 2011-12. This expenditure, however, does not include arrears of pay and pension revision consequent upon award of the Sixth Central Pay Commission. As per Appendix-XII of the Finance Accounts 2011-12, reported committed liabilities as on 31-03-2012 aggregated to ₹ 1,256.10 crore, of which ₹ 1,024.51 crore was on account of compensation payable to landowners on land acquisition.

The figures of subsidy allowed by the State Government upto 2006-07 were not made available by the State Government. However, this data was maintained by the office of the Accountant General (A&E), Jammu and Kashmir from 2007-08. The Government was able to reduce the subsidy by 40 *per cent* during 2011-12 over the previous year.

1.9.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to autonomous bodies by various departments of the State Government during the current year relative to the previous years is presented in **Table 1.15** below:

Table-1.15
Financial Assistance to Local Bodies etc

(₹ in crore)

Name of the Department	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Education and Sports	88.01	116.45	113.93	521.66	171.84	213.46
Housing and Urban Development	135.49	146.05	170.82	217.01	253.98	289.28
Agriculture	72.90	60.72	80.60	138.63	203.47	151.61
Art and Culture	7.32	7.93	9.43	-	-	-
General Administration	2.95	4.66	4.20	11.14	6.13	8.50
Industries	5.25	7.05	7.04	25.53	11.66	21.41
Tourism	5.06	5.24	15.06	71.17	150.40	5.52
Administration of Justice	1.63	2.26	3.30	3.32	3.67	4.48
Health and Family Welfare	0.44	0.64	-	0.47	0.36	0.34
Others	11.83	9.86	146.02	442.27	644.76	699.01
Total	330.88	360.86	550.40	1431.20	1446.27	1393.61
Assistance as a percentage of Revenue expenditure	3.12	2.96	4.57	9.34	7.83	6.14

The total assistance of ₹ 1,393.61 crore paid in 2011-12 increased by 321 *per cent* over the level of 2006-07. However, it decreased by four *per cent* as compared to the previous year 2010-11. The assistance categorised as 'others' comprised mainly the assistance to Ladakh Autonomous Hill Development Councils for Leh (₹ 263 crore up from ₹ 220 crore in 2010-11) and Kargil (₹ 243 crore, up from ₹ 196 crore in 2010-11). Around 47 *per cent* of the total financial assistance (₹ 1,393.61 crore) was provided for Education and Sports, Housing and Urban Development and Agriculture sectors during 2011-12.

1.10 Grant-in-Aid/ Financial assistance to Panchayati Raj Institutions (PRIs)/ Urban Local Bodies (ULBs)

The local bodies have been in existence for a long time and were required to perform effectively as vibrant democratic units of local self-government. These institutions had, however, become weak and ineffective on account of a variety of reasons, including the failure to hold regular elections, prolonged super sessions and inadequate devolution of powers and functions and lack of financial resources. With the enactment of the Constitution 73rd and 74th amendments, an attempt was made to strengthen these institutions and ensure peoples participation in their functioning. While the 73rd amendment to the Constitution sought to strengthen the Panchayati Raj Institutions and make these viable and responsive peoples bodies in the rural areas, 74th amendment related to the Urban local bodies. Though the State Government has not so far adopted the above amendments, the Panchayats in the State came into being

with effect from June 2011 after the panchayat elections were conducted during the period March-June 2011. Elections to ULBs have not been held after completion of tenure by elected bodies in March 2010.

1.10.1 Devolution of Functions

The Jammu and Kashmir Municipal Act 2000, lays down the functions devolved to the ULBs and include preparation of plans for economic development and social justice, performance of functions and implementation of schemes relating to urban and town planning, regulation of land use and construction of buildings, roads and bridges, solid waste management, providing other civic amenities etc. and imposition of certain taxes. In order to empower the PRIs, instructions to devolve certain functions of 14 departments (Agriculture, Animal Husbandry, Consumer Affairs and Public Distribution, Education, Fisheries, Forest, Health & Family Welfare, Horticulture, Industries & Commerce, Public Health Engineering, Public Works (R&B), Revenue, Rural Development, and Social Welfare departments) were issued by the State Government in September 2011.

1.10.2 Funds

Financial assistance of ₹ 368.36 crore (Grant-in-Aid: ₹ 289.28 crore, State/Central Plan assistance: ₹ 43.12 crore; Centrally Sponsored Schemes: ₹ 35.96 crore) was released by the State Government to 86 ULBs during 2011-12. The ULBs realised a revenue of ₹ 54.11 crore during the year 2011-12 through taxes, fees, etc. The Panchayati Raj Institutions (4,128) were provided financial assistance of ₹ 155.06 crore (Infrastructure/ Furniture: ₹ 41.17 crore; Rent: ₹ 0.32 crore; *Th FC* award: ₹ 113.57 crore) during the year 2011-12.

1.10.3 Accounting, Auditing and Reporting arrangements

A new Model Accounting Structure has been prescribed in January 2009 by the Comptroller and Auditor General of India (CAG) uniformly all over India to prepare and maintain the budget and accounts by the PRIs. The State Government also issued orders in December 2011 for adoption of Model Accounting Structure by PRIs.

The CAG and GOI had formulated in December 2004 the National Municipal Accounts Manual with double entry system for ULBs and requested (May 2005) the States to adopt the same with appropriate modifications to meet State specific requirements. The State Government notified the accrual based accounting system on the lines of National Municipal Accounts Manual to be followed by the ULBs of the State. Only two municipal corporations of Jammu and Srinagar have prepared the final accounts for 2011-12. The audit of ULBs is conducted by the Examiner Local Funds, Finance Department, Government of Jammu and Kashmir being the primary auditor. Municipal Corporations of Jammu and Srinagar are also audited and reported upon by the CAG of India under Section 14 of the CAG's (DPC) Act, 1971.

Entrustment of audit of PRIs and ULBs in Jammu and Kashmir under Technical Guidance and Support arrangements has not yet been given to the CAG of India as per recommendations of the Thirteenth Finance Commission.

1.11 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 provisions for providing public services), efficiency of expenditure (use), and the effectiveness (assessment of outlay-outcome relationships for select services). 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 State governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods³. Apart from improving the allocation towards development expenditure⁴, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure, the better would be the quality of expenditure. While **Table 1.16** indicates the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years, **Table 1.17** and **Chart 1.7** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services. The aggregate of development expenditure under both Revenue and Capital heads varied between 64 and 69 *per cent* of total expenditure during 2006-12. In absolute terms, it increased from ₹ 16,296 crore in 2010-11 to ₹ 18,461 crore in 2011-12 registering an increase of ₹ 2,165 crore (13 *per cent*).

Table-1.16

Development Expenditure (sum of expenditure on Social and Economic Sectors)

(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (BE)	2011-12
Development Revenue Expenditure	5960 (45)	6565 (41)	6775 (40)	8879 (41)	10690 (43)	12604	12956 (45)
Development Capital Expenditure	2399 (18)	3602 (23)	4805 (28)	5995 (28)	5606 (23)	5778	5505 (19)
Loans/ Advances for Development	44	38	42	49	71	70	66

Note: The Loans and Advances given by the State government for development activities constitute a relatively small fraction of its expenditure portfolio (0.23% of total expenditure in 2011-12). Figures in parentheses indicate percentage to aggregate expenditure.

- ³ Core public goods are those which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good. e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.
- ⁴ 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 categorized 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.

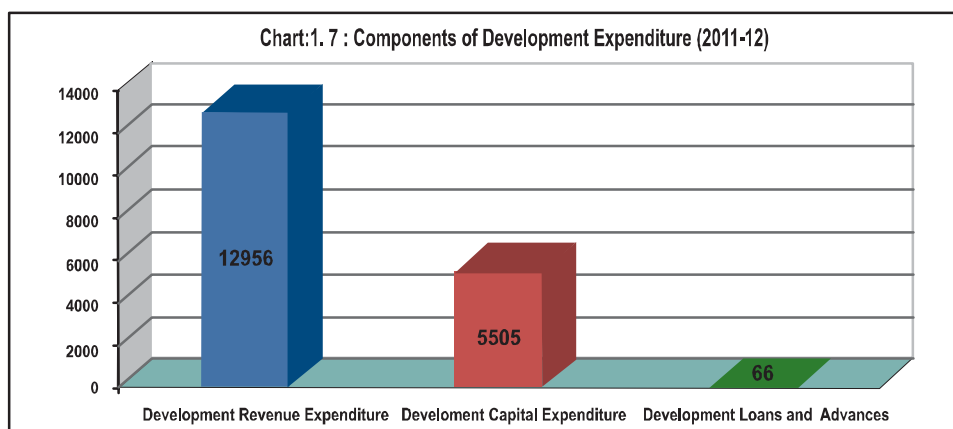


Table 1.17 below indicates the efficiency of expenditure use in selected Social and Economic Services.

Table-1.17
Efficiency of Expenditure Use in Selected Social and Economic Services

(in per cent)

Social/Economic Infrastructure	2010-11			2011-12		
	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 Service						
General Education	15.84	75.71	0.10	13.44	81.14	-
Health and Family Welfare	23.31	83.97	0.96	17.44	86.71	0.56
WS, Sanitation & HUD	32.98	51.75	3.68	32.33	53.69	3.35
Others	32.51	15.46	0.28	28.85	16.93	-
Total	22.83	66.44	0.91	19.95	70.83	-
Economic Service						
Agriculture and Allied Activities	34.08	78.69	0.16	34.01	82.29	0.15
Irrigation and Flood Control	55.38	76.80	7.96	55.85	80.72	6.46
Power and Energy	29.64	11.31	0.97	12.41	11.88	0.84
Transport	87.82	0.88	31.06	84.72	73.80	30.43
Others	49.74	52.65	0.25	52.31	34.43	-
Total (ES)	42.60	33.30	1.86	37.13	34.06	-
Total (SS+ES)	34.40	49.46	1.40	29.81	51.92	-
TE: Total Expenditure on respective Services; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operation and Maintenance						

The ratio of capital expenditure to total expenditure in Social and Economic Service Sectors during 2011-12 showed a decrease over the previous year. In the revenue expenditure the salary and wages formed the major component within the Social and Economic Services. The share of salary and wage in these sectors instead of coming down had increased during 2011-12 as compared to the previous year. However, the share of operation and maintenance expenditure within the sectors had decreased over the previous year.

1.11.1 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Besides stepping up the expenditure on key social and economic services, enhancing human development requires the State to improve the delivery mechanism to obtain the desired outcomes. The State Government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of government expenditure.

1.11.2 Capital Expenditure and Investments

As part of the framework provided by the Fiscal Responsibility Budget Management (FRBM) Act, the State is expected to not only keep its fiscal deficit at low levels but also to meet its capital expenditure/ investment (including loans and advances) requirements out of the revenues. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy 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 the current year *vis-a-vis* previous years.

1.12 Financial Results of Major Works/ Projects

The total capital outlay on six irrigation projects⁵ as at the end of 2011-12 was ₹ 300.12 crore. Financial results of these projects for the year 2011-12 showed that against the revenue realisation of ₹ 1.08 crore, working expenses aggregated to ₹ 1.85 crore resulting in loss of ₹ 0.77 crore. After taking into account further expenditure of ₹ 0.56 crore, paid as interest on the capital outlay, the total loss aggregated to ₹ 1.33 crore.

1.12.1 Incomplete projects

On the basis of the information furnished by the departments, the statistics on incomplete projects costing ₹ one crore and above as on 31 March 2012 is given in **Table 1.18** below:

Table-1.18
Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cum. Actual expenditure as on 31.3.2012
Public works	81	534.47	*	336.63
Irrigation and Flood Control	3	70.41	85.46	22.96
Public Health Engineering	85	300.63	*	230.77
Total	169	905.51	85.46	590.36

A total number of 169 projects, which should have been completed by March 2012 were incomplete despite incurring an expenditure of ₹ 590.36 crore. The delay in completion of these projects ranged between one and 11 years. Despite the

⁵ Kathua Feeder, Pratap Canal, Ranbir Canal, Martand Canal, Zaingir Canal and Ahizi Canal

availability of sufficient funds (closing cash balance of ₹ 961 crore), these projects were not completed.

1.13 Returns on Investments

As on 31 March 2012, the State Government had invested ₹ 484.95 crore (₹ 470.78 crore as of 31 March 2011) in its Statutory Corporations (₹ 193.91 crore), Government Companies (₹ 256.32 crore), Joint Stock Companies (₹ 0.34 crore), Cooperative Societies (₹ 25.33 crore), and others (₹ 9.05 crore). **Table-1.19** below gives the overall picture of return on investment *vis-a-vis* the average cost of Government borrowing.

Table-1.19
Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)	355.77	356.97	364.61	422.82	470.78	484.95
Return (₹ in crore)	21.22	30.24	40.85	44.16	56.71	68.16
Return (<i>per cent</i>)	5.96	8.47	11.20	10.44	12.05	14.05
Average rate of interest on Government borrowing (<i>per cent</i>)	10.09	12.19	6.91	8.07	7.61	7.06
Difference between interest rate and return (<i>per cent</i>)	(-) 4.13	(-) 3.72	4.29	2.37	4.44	6.99

Out of total returns of ₹ 68.16 crore, the return on investment mainly came from the Jammu and Kashmir Bank Limited (₹ 67.02 crore) in 2011-12 in which the State Government had invested ₹ 25.78 crore (5.32 per cent of total investment). An amount of ₹ 1.14 crore was received as returns from other Companies, Corporations, etc. in which the investments were ₹ 459.17 crore (94.68 *per cent* of total investment). The average return on investments during 2006-11 was 9.62 *per cent* which increased to 14.05 *per cent* during the current year. The average rate of interest on Government borrowings during 2006-11 was 8.97 *per cent*, which reduced to 7.06 *per cent* in 2011-12.

As on 31 March 2012, there were 21 Government companies (18 working and three⁶ non-working⁷ companies) and three Statutory Corporations (all working) fully owned by the State Government. The total capital investment made by the State Government in the working PSUs at the end of March 2012 was ₹ 447.66 crore. **Table 1.20** below provides the details of progress made by working PSUs in finalization of Annual accounts by September 2012.

⁶ Himalayan Wool Combers Limited, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited) and Tawi Scooters Limited.

⁷ Non-working company is one which is under the process of liquidation/merger, etc.

Table 1.20

Details of progress made by working PSUs

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Number of Working PSUs	20	20	20	20	21	21
Number of accounts finalized during the year	12	12	15	10	34	31
Number of accounts in arrears	211	219	224	236	223	243
Average arrear per PSU	10.55	10.95	11.20	11.70	10.62	11.57
Number of Working PSUs/Corporations with arrears in accounts	19	19	19	19	19	21
Extent of arrears	2 to 19	3 to 19	4 to 19	4 to 20	4 to 20	3 to 34

Most of the working PSUs had failed to finalize even one account in each year causing accumulation of the arrears. The main reasons for non-finalization of the accounts by the PSUs noticed during audit were non-constitution of the Boards, non-holding of regular Board meetings, delay in finalization of accounts by the Statutory Auditors and lack of trained staff. In addition to the above, there were also the arrears in finalization of accounts by non-working PSUs. Though the concerned Administrative Departments and officials of the Government were informed every quarter by Audit regarding arrears in finalization of accounts but no remedial measures were taken. As a result of this, net worth of these PSUs could not be ascertained.

1.13.1 Loans and advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organizations. **Table 1.21** below presents the position of loans and advances advanced/ outstanding as on 31 March 2012, interest receipts *vis-a-vis* interest payments during the last three years.

Table-1.21

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	2011-12
Opening Balance	980.20	1018.92	1066.42	1136.55
Amount advanced during the year	42.41	49.12	71.63	65.61
Amount repaid during the year	3.69	1.62	1.50	168.47
Closing Balance	1018.92	1066.42	1136.55	1033.69
Of which Outstanding balance for which terms and conditions have been settled				
Net addition	38.72	47.50	70.13	(-) 102.86
Interest Receipts	9.92	5.07	3.00	4.74
Interest receipts as <i>per cent</i> to outstanding Loans and advances	0.97	0.47	0.26	0.46
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	6.91	8.07	7.61	7.06
Difference between interest payments and interest receipts (<i>per cent</i>)	5.94	7.60	7.35	6.60

During the current year, the State Government advanced loans and advances of ₹ 65.61 crore under Social Services (₹ 4.12 crore), Economic Services (₹ 61.05 crore) and to Government servants (₹ 0.44 crore). The recipients under Economic Services were the PSUs under Industries and Commerce Department (₹ 38.41 crore) and the Jammu and Kashmir State Road Transport Corporation (₹ 22.64 crore).

Total loans and advances outstanding as on 31 March 2012 stood at ₹ 1,033.69 crore, which included ₹ 900.80 crore on account of Economic Services, ₹ 113.69 crore on Social Services and ₹ 19.20 crore outstanding against the Government servants etc. Within Economic Services, major part of the loan was outstanding against Jammu and Kashmir State Horticulture Produce Marketing and Processing Corporation Limited (₹ 12.67 crore), Industries and Minerals Limited (₹ 498.39 crore) and Jammu and Kashmir State Road Transport Corporation (₹ 386.83 crore). The loan recoveries effected during 2011-12 were ₹ 168.47 crore, which was mainly from the Jammu and Kashmir State Power Development Corporation (₹ 167 crore).

1.13.2 Cash Balances and their investment

The State Government transactions are carried out by the Reserve Bank of India (RBI) with effect from 1st April 2011 in terms of the agreements entered into by the RBI with the State Governments under Section 21 A of the RBI Act. The cash balance increased by ₹ 861 crore during 2011-12 from ₹ 99.94 crore at the end of 2010-11 to ₹ 960.94 crore at the end of 2011-12. Out of the cash balance of ₹ 960.94 crore, ₹ 712.49 crore remained invested in "14 day Treasury Bills". Out of the remaining amount of ₹ 248.45 crore, the details of ₹ 37.39 crore investments held in the cash balance investment Account were not intimated by the State Government as it continued in the books for over 13 years. The cash balance investment account of the Government saw a very high level of activity during 2011-12 with aggregate inflow of ₹ 13,050 crore and outflow of ₹ 13,762 crore resulting in net increase in invested cash balance by ₹ 712 crore. It indicates under-utilization of budget.

1.14 Assets and Liabilities

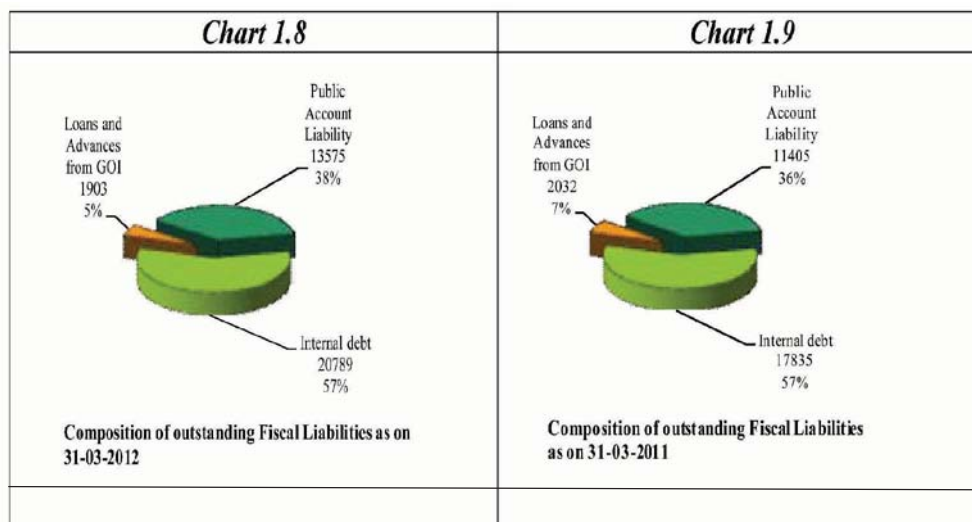
1.14.1 Growth and composition of Assets and Liabilities

In the existing Cash based 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* gives an abstract of such liabilities and the assets as on 31st March 2012 compared with the corresponding position on 31st March 2011. While the liabilities as shown in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. *Appendix 1.5* shows that both the liabilities and assets grew by 14 per cent. The liabilities of the State Government depicted in the Finance Accounts, however, do

not include future liabilities on account of pension and other retirement benefits payable to retired State employees, and contingent liabilities arising out of guarantees issued by the State Government or deferred payment liability on account of revision to pay and pension after adoption of the recommendations of the Sixth Central Pay Commission (estimated to be ₹ 3,368 crore as on 31 March 2012).

1.14.2 Fiscal Liabilities

There are two sets of liabilities namely, Public Debt and “other liabilities under Public Accounts”. Public Debt consists of market loans, special securities issued by RBI and loans and advances from the Central Government. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits. The trends in outstanding fiscal liabilities of the State are presented in *Appendix 1.4*. The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in *Charts 1.8* and *1.9*.



The overall fiscal liabilities of the State increased from ₹ 31,272 crore at the end of 31 March 2011 to ₹ 36,267 crore at the end of 31 March 2012 (16 *per cent* increase). The fiscal liability to GSDP ratio of the State declined from 65.6 *per cent* at the end of 31 March 2011 to 58.2 *per cent* at the end of 31 March 2012, showing improvement in fiscal liability. The buoyancy of these liabilities with respect to GSDP during the year was 1.14 indicating that for each one per cent increase in GSDP, fiscal liabilities grew 1.14 times. These liabilities stood at 1.46 times of the State’s total revenue receipts and 5.37 times of its own total resources.

1.14.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. 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 1.22** below:

Table-1.22

Guarantees given by the State Government

Guarantees	2008-09	2009-10	2010-11	2011-12
Max amount guaranteed (₹ in crore)	3295	4748	4750	4750
Outstanding amount of guarantees (₹ in crore)	2536	3037	2708	2098
Percentage of maximum amount guaranteed to total revenue receipts	23.04	26.99	21.36	19.16

As per the recommendations of the Twelfth Finance Commission (TFC), the States were to create guarantee redemption fund for the guarantees provided by it to various financial institution for grant of loans to various bodies in the State. The Fund was created in 2005-06, which has a balance of ₹ 5.20 crore ending March 2012. Further, an amount of ₹ 45.14 lakh had been received as guarantee fee during the year 2011-12. The stock of guaranteed liabilities has been steadily falling in last three years. The outstanding amount of guarantees was about eight *per cent* of revenue receipts of the State.

1.15 Debt Sustainability

The Debt Sustainability is the ability of the State to maintain a constant debt-GDP 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 balance between costs of additional borrowings with returns from such borrowings. Therefore, rise in fiscal deficit should match with the increase in capacity to service the debt.

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-GDP 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 multiplied by rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

The sustainability of debt of the State Government in terms of debt stabilization, sufficiency of non-debt receipts⁸, net availability of borrowed funds⁹, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.23** below analyzes the debt

⁸ 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.

⁹ Defined as the ratio of the debt redemption (Principal + 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 according to these indicators for the period of six years beginning from 2006-07.

Table-1.23

Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilization (Quantum Spread + Primary Deficit)	(-) 126	(-) 562	(-) 1027	(-) 1328	703	843
Sufficiency of Non-debt Receipts (Resource Gap) ₹ in crore	833	2095	1027	3285	4646	2549
Net Availability of Borrowed Funds	16	329	1343	2310	254	2612
Burden of Interest Payments (IP/RR Ratio)	0.160	0.183	0.110	0.121	0.103	0.096

As is seen from above, the debt of the State continues to be stabilised during the year 2011-12 although Primary Deficit increased from ₹ 84 crore to ₹ 1,311 crore during the same year as shown in *Appendix 1.4*.

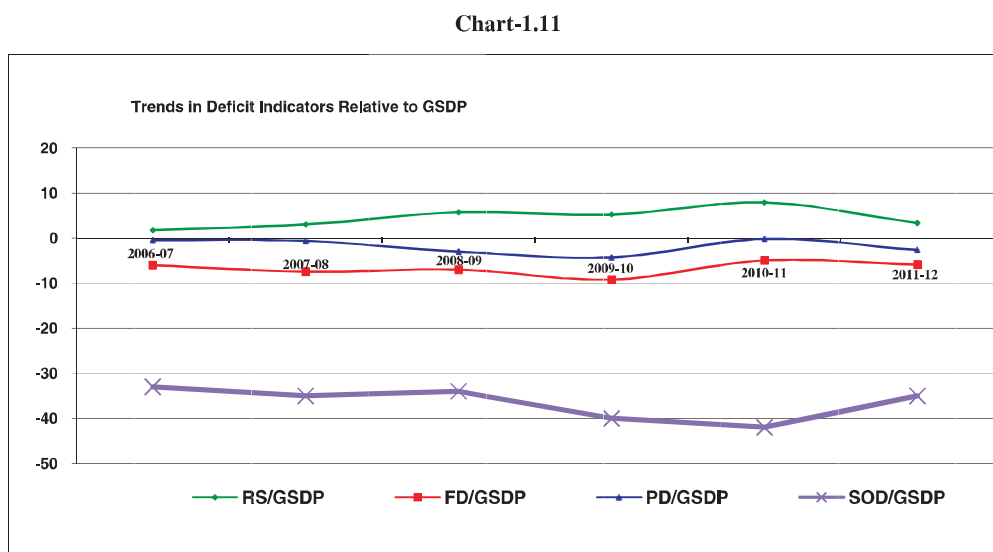
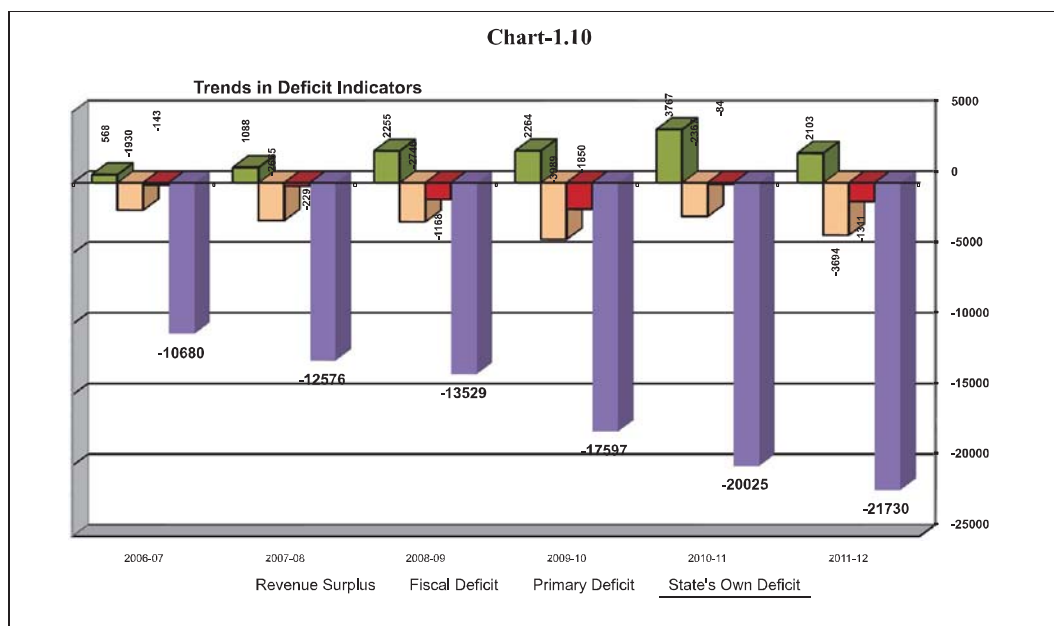
1.16 Fiscal Imbalances

Three keys fiscal parameters – revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during the specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government.

1.16.1 Trends in Deficits

Three measures of deficits in government accounts, viz., (a) revenue deficit (b) fiscal deficit and (c) primary deficit are commonly used to assess the extent of overall fiscal imbalances in the finances of a government during a specified period. Another useful measure of the deficit-bias in a State's fiscal policy is the "State's Own Deficit (SOD)", which is the State's fiscal deficit excluding non-debt resources received from the Central Government.

Charts 1.10 and 1.11 present the trends in deficit indicators over the period 2006-12



The Charts above reveal that while the State has continued to maintain revenue surplus during the period 2006-12, the fiscal deficit increased from ₹ 1,930 crore in 2006-07 to ₹ 3,694 crore in 2011-12 and the primary deficit increased from ₹ 143 crore to ₹ 1,311 crore during the same period. The State's Own Deficit also increased from ₹ 10,680 crore to ₹ 21,730 crore during 2006-12.

As already mentioned, Pre-Devolution Non-Plan Revenue Deficit (PDNPRD) is an important fiscal parameter which was targeted to be brought down to 20 per cent of

GSDP by 2008-09 and maintained thereafter. **Table 1.24** compares the actual outcomes of PDNPRD during 2010-11 and 2011-12 as compared to the State-specific projections made by the 13th Finance Commission:

Table 1.24

(₹ in crore)

Key Aggregates	13 FC projection 2010-11	Actual 2010-11	13th FC projection 2011-12	Actual 2011-12
GSDP	48,206	54,731	53,677	62,365
Own Revenue Receipts	4,228	4,576	4,713	6,747
Own Tax Revenue	3,889	3,483	4,330	4,745
Own Non-tax Revenue	339	1,093	383	2,002
Non-plan Revenue Expenditure	11,005	17,558	11,706	21,432
Pre- Devolution Non-Plan Revenue Deficit (PDNPRD)	6,777	12,982	6,993	14,685
PDNPRD as per cent of GSDP	14.06	23.71	13.03	23.50

1.16.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit is shown in **Table 1.25** below:

Table-1.25

Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Decomposition of Fiscal Deficit						
1. Revenue Surplus	568	1088	2255	2264	3767	2103
2. Capital Expenditure	2456	3717	4964	6234	6064	5899
3. Loans and Advances	44	38	42	49	72	66
Financing Pattern of Fiscal Deficit @						
1. Market Borrowings	1264	2198	2372	2113	2386	2954
2. Loans from GOI	(-) 124	(-) 122	(-) 127	(+) 805	(-) 1112	(-) 129
3. Small Savings, PF etc.	426	341	458	693	1203	2070
4. Deposits and Advances	84	216	206	1544	59	(-) 27
5. Suspense and Miscellaneous	(-) 53	(-) 204	158	(-) 162	168	186
6. Remittances	205	112	(-) 381	(-) 292	(-) 307	(-) 627
7. Reserve funds	152	130	11	90	3	126
8. Net amount recouped to contingency fund	0.30	-	-	-	-	1
9. Recoveries of Loans and Advances	2	2	4	2	2	168
10. Drawdown of cash balance (+)/Accretion to cash balance (-)	(-) 24	(-) 6	51	4	(-) 33	(-) 861
@ All these figures are net of disbursements/outflows during the year						

The revenue surplus decreased by ₹ 1,664 crore in 2011-12 over the previous year which resulted in decrease in capital expenditure by ₹ 165 crore over the previous year and more borrowings. The fiscal deficit was met from borrowings out of Public Account (of which Small Savings, Provident Funds, etc. formed a major share) and market borrowings.

1.16.3 Quality of Deficit/ Surplus

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

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2011-12 reveals (**Table-1.26**) that the primary deficit during the period was on account of capital expenditure incurred and loans and advances disbursed by the State Government. The State had to borrow to meet the requirements under capital account over primary expenditure during 2011-12. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.26
Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Exp.	Capital Exp.	Loans & Advances	Primary Exp.	Percentage Capital Exp/ Primary Exp.	Primary Revenue deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6(3+4+5)	7 (4/6)	8 (2-3)	9 (2-6)
2006-07	11184	8827	2456	44	11327	22	(+) 2357	(-) 143
2007-08	13279	9753	3717	38	13508	28	(+) 3526	(-) 229
2008-09	14307	10469	4964	42	15475	32	(+) 3838	(-) 1168
2009-10	17618	13185	6234	49	19468	32	(+) 4433	(-)1850
2010-11	22236	16184	6064	72	22320	27	(+) 6052	(-) 84
2011-12	24951	20297	5899	66	26262	22	(+)4654	(-)1311

It is thus evident that:

- The non-debt receipts of the State were higher than the primary revenue surplus which was sufficient to meet this expenditure due to considerable support from the Central Government.
- Total primary expenditure increased from ₹ 11,327 crore in 2006-07 to ₹ 26,262 crore in 2011-12 which was due to increase of primary revenue expenditure by ₹ 11,470 crore and capital expenditure by ₹ 3,443 crore.
- During the period 2006-12 the State had primary revenue surplus, which increased from ₹ 2,357 crore in 2006-07 to ₹ 4,654 crore in 2011-12. The primary deficit, however, increased from ₹ 143 crore in 2006-07 to ₹ 1,311 crore in 2011-12.

1.17 An assessment of State's compliance with the Debt/ Deficit reduction targets and other obligations under the FRBM Act and Rules

As already mentioned, the FRBM Act was enacted on 14th August 2006 to be effective from 2006-07 with the principal objective of reducing the fiscal deficit to 3 per cent of GSDP by 2009-10 besides casting several other fiscal transparency obligations on the State Government.

In so far as the fiscal marksmanship under FRBM Act is concerned, **Table 1.27** shows actual outcomes in 2011-12 and have been compared with the projections made in the Medium Term Fiscal Policy Statement presented in March 2009, March 2010 and March 2011 for the three Fiscal Indicators for which rolling targets were fixed in the annual budgets as required under the FRBM Rules.

Table 1.27

Fiscal Indicators	2011-12 projection in March 2009	2011-12 projection in March 2010	2011-12 projection in March 2011	Percentage to GSDP	
				2011-12 target as per Th FC "old series"	Actual outcome 2011-12 "new series"
Revenue Surplus/ Deficit as percentage of Total Revenue Receipts (TRR)	22.13	26.54	14.79	10.42	8.42
Fiscal Deficit as percentage of GSDP	5.5	4.1	4.7	4.7	5.9
Total Outstanding Liabilities as percentage of GSDP	49.51	47.72	55.1	55.1	58.15

@ The closing cash balance as on 31st March 2012 was ₹ 961 crore. Net of this liquid asset, the fiscal liabilities and Public Debt stand reduced by 1.54 per cent of GSDP.

It is noticed that the new series GSDP with Base Year 2004-05 gives relatively a higher figure than the smaller figures of old series GSDP with Base Year 1999-2000 assumed by the Thirteenth Finance Commission. Hence, despite the fortuitous increase in the GSDP due to change of computation methodology, the diluted targets for improvement of revenue surplus and reduction in fiscal deficit and total liabilities for 2011-12 have not been met.

It may also be noticed that the definition of 'Total Liabilities' as per the FRBM Act is wider than that assumed and reported by the State Government in FRBM Statements presented with the budgets since 2008-09. The Act defines 'total liabilities' to mean the "liabilities under the Consolidated Fund of the State and the Public Account of the State and includes borrowings by the public Sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/ or interest are to be serviced out of the budget." It was this wider aggregate that was targeted to be capped to 55.1 per cent of GSDP in 2011-12. However, the Government included only its direct financial liabilities as included in the government accounts. The unfunded liabilities on account of pensions and other retirement benefits are also excluded, though these were also required to be included as per the FRBM Act. The liabilities of PSUs/ SPVs have been excluded. This

compliance was made difficult by the fact that the accounts of several PSUs are heavily in arrears and therefore their liabilities could not be ascertained.

The FRBM Act was enacted/ amended by Jammu and Kashmir and several other States on the recommendations of the Twelfth and Thirteenth Finance Commissions. The Twelfth Finance Commission (TFC) recommendations accepted by the Central Government required the State Government to enact/ amend the FRBM Act to conform to the customized fiscal reform path of achieving fiscal deficit and outstanding debt targets for the five year period (2005-10). The principal target for the State was to achieve fiscal deficit of 3 *per cent* of GSDP by 2009-10. **Table 1.28** shows movement of key debt/ deficit indicators during 2005-10:

Table 1.28

(*per cent* of State's GSDP)

Fiscal parameter (as <i>per cent</i> of GSDP)/ Year	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Surplus	1.56	1.76	3.05	5.75	5.23
Fiscal Deficit	9.96	5.98	7.48	7.00	9.22
Outstanding Fiscal Liabilities	63.31	57.65	59.98	61.91	66.46
Outstanding Public Debt	37.92	37.65	39.94	41.98	43.00

Due to non-implementation of FRBM Act, the State could not avail the debt waiver recommended by the TFC, linked to its fiscal performance and also had to forego interest relief on loans received from GOI due to the State during 2005-06 and 2006-07. The State could not achieve the targets set by the Twelfth Finance Commission and incorporated in the FRBM Act for reduction of fiscal deficit, outstanding fiscal liabilities and outstanding public debt. The fiscal Deficit target for 2009-10 was raised from three to four *per cent* after the close of the year which could not have been acted upon during the year.

The Thirteenth Finance Commission (*Th FC*) recommendations accepted by the Central Government required the State Government to enact/ amend the FRBM Act to conform to the customized fiscal reform path of achieving fiscal deficit and outstanding debt targets indicated in **Table 1.29** below. The achievements of the State in meeting the debt/ deficit reduction targets set by the *Th FC* are noted within parentheses.

Table 1.29

(*per cent* of State's actual/projected GSDP)

Fiscal parameter (as <i>per cent</i> of GSDP)/Year	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Surplus	7.90	3.37			
Fiscal Deficit	5.3 (5.0)	4.7 (5.9)	4.2	3.6	3
Fiscal liabilities	(65.55)	(58.15)			
Total Public Debt	56.10 (41.6)	55.10 (36.4)	53.6	51.6	49.3

The fiscal deficit of the State was 5.9 *per cent* of the GSDP during 2011-12 against five *per cent* of GSDP in 2010-11 and as against Thirteenth Finance Commission

target of 4.7 *per cent* for 2011-12. In last two years, the ratio of outstanding “Public Debt” (Internal debt and loans and advances in the Consolidated Fund) to GSDP has remained well below the Thirteenth Finance Commission targets and the ratio of fiscal liabilities (‘Public Debt’ and other liabilities in the Public Accounts) to GSDP has marginally decreased during 2011-12, which is encouraging. A few deficiencies, delays and deviations in implementation of the FRBM Act are listed below:

- The State could not achieve targets set by the Twelfth and Thirteenth Finance Commissions and incorporated in the FRBM Act for reduction of fiscal deficit, outstanding fiscal liabilities and outstanding public debt.
- The original target of reducing the fiscal deficit to three *per cent* of the GSDP by the end of 2009-10 was missed by a very wide margin as the actual fiscal deficit shot up to 9.1 *per cent* in that year. An amendment in the FRBM Act in April 2010 raising the 2009-10 target to four *per cent* was of no avail.
- As per the customised fiscal correction path recommended by the Thirteenth Finance Commission specifically for Jammu and Kashmir and the corresponding amendment made in the FRBM Act, the State had to cap the fiscal deficit at 4.7 *per cent* of GSDP in 2011-12, but the fiscal deficit was actually 5.9 *per cent*. This non-compliance carries an immediate financial penalty of loss of interest relief on loans from the National Small Savings Fund.
- The FRBM Act had imposed specific obligations on the State Government for the period 2006-07 to 2009-10 and contemplated that the Government may, by notification in the Government Gazette, make rules for carrying out the provisions of the Act. However, the Government framed and notified the FRBM Rules in January 2008. The delay effectively shifted the compliance deadline.
- The FRBM Act contemplates that the Government may setup an agency independent of the Government to review periodically the compliance of the provisions of the Act, and table such reviews in each House of the State Legislature. However, no such independent review has been carried out so far.
- The FRBM Rules specified only the annual targets for (a) Revenue Deficit as percentage of Total Revenue Receipts (TRR), (b) Fiscal Deficit as percentage of GSDP and (c) Total Outstanding Liabilities as percentage of GSDP. The Rules omitted to define annual targets for ‘pre-devolution non-plan revenue deficit’ which was to be reduced to 20 *per cent* of GSDP by 2009-10. In fact, this fiscal parameter is not even being mentioned in the Budget documents presented to the State Legislature. Apparently, this parameter did not receive Government’s attention because no fiscal concessions/ incentives were attached to its compliance.
- The FRBM Act was repeatedly amended to align the annual targets for Fiscal Deficit and Total Liabilities as per the recommendations of the Twelfth and

Thirteenth Finance Commissions. This was done so mechanically that the targets for 2009-10 and 2010-11 were reset/ relaxed through unnecessary amendments to the FRBM Act after the close of the respective financial years. Nothing could have been done by the government to achieve the revised targets after the year was over.

- The year 2007-08 had ended with Fiscal Deficit of 7.5 *per cent* of GSDP. Therefore, the 17th December, 2008 amendment to the FRBM Act, targeting Fiscal Deficit of three *per cent* of GSDP for 2008-09, less than four months before the close of the financial year, was rather unrealistic. The year ended with Fiscal Deficit of seven *per cent* of GSDP.
- The annual targets for Fiscal Deficit, Total Liabilities etc. were recommended by the Twelfth and Thirteenth Finance Commissions on certain assumptions and forecast about GSDP. Even after the GSDP data was revised, these targets were not correspondingly revised. (For example, the GSDP was ₹ 31,793 crore for 2007-08 based on National Income Accounts with 1999-2000 as base year). After these were revised with 2004-05 as the base year, the GSDP for 2007-08 shot up to ₹ 35,620 crore. Thus, the targets set with reference to GSDP series with 1999-2000 as base year with a new GSDP series giving significantly higher numbers should have been revised downwards. However, this was not done. Thus, the debt/ deficit reduction targets (as *per cent* of GSDP) under the FRBM Act stand diluted due to fortuitous increase in GSDP on change in methodology of its calculation, beyond the contemplation of the Thirteenth Finance Commission. This rendered the whole process of evaluating compliance to the FRBM Act in the Budget documents flawed.
- The FRBM Act required that in the Medium Term Fiscal Policy Statement to be presented with the Budget to the Legislature, the Government shall set forth the fiscal management objectives of the Government and three year rolling targets for the prescribed fiscal indicators with clear enunciation of the underlying assumptions. The Statement was also to include the various assumptions behind the fiscal indicators and assessment of sustainability relating to (i) the balance between revenue receipts and revenue expenditure (ii) the use of capital receipts including borrowings for generating productive assets and (iii) the estimated yearly pension liabilities worked out on actuarial basis for the next ten years. The Act provided that in case it was not possible to calculate the pension liabilities on actuarial basis during the period of first three years after the enforcement of the Act, Government may, during that period, estimate the pension liabilities by forecasts on the basis of trend growth rates. However, these provisions of the FRBM Act were given scant attention and in fact in the Medium Term Fiscal Policy Statements actually presented to the Legislature, the provisions of the Rules were mechanically repeated.

- Under the FRBM Rules, 2008, the Government had committed to disclose summary of assets in the Budget documents. A footnote in the Rules read as follows: “States that are not in a position to provide information in respect physical assets may to begin with, provide information only in respect of financial assets. They may disclose their physical assets within ___ years from the date of publication of the Notification of the Rules in the State Gazette.” Thus a template was mechanically copied without specifying the number of years within which disclosure on physical assets would begin. The Statement presented with Budget 2012-13 shows the physical assets as on 31 March 2010 to be having ‘Book Value’ of ₹ 1,58,237.68 crore (of which Lands account for ₹ 65,540.92 crore) and financial assets to be ₹ 1,607.34 crore. These numbers could not be independently verified by Audit in the absence of audit of subsidiary records to see the basis of valuation and completeness.
- The FRBM Act defines ‘total liabilities’ to mean the “liabilities under the Consolidated Fund of the State and the Public Account of the State and includes borrowings by the Public Sector Undertakings (PSUs) and the Special Purpose Vehicles (SPVs) and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of the budget.” It was this wider aggregate that was targeted to be capped to 55.1 *per cent* of GSDP. However, the State government continues to include only the financial liabilities of the government forming part of the government accounts. The liabilities of PSUs/ SPVs have been excluded. This compliance was made difficult by the fact that the accounts of several PSUs are heavily in arrears and therefore their liabilities could not be ascertained. The unfunded liabilities on account of pensions and other retirement benefits are also excluded, though these were also required to be included as per the FRBM Act. Thus, substantive provisions of the FRBM Act regarding computation of ‘total liabilities’ have not been complied so far.
- The ‘committed liabilities’ disclosed in the FRBM statements presented to the Legislature do not include such liabilities as (a) liability of undisbursed arrears of pay and pension revision (b) liability of counterpart matching funds under various Centrally Sponsored Schemes/ Programmes. The debt/ deficit reduction targets were thus missed despite postponement of such expenditures.
- Any State Government can meet the targets for reduction/elimination of Fiscal Deficit, Revenue Deficit, Total Liabilities etc., if the Central Government chooses to provide sufficient grants-in-aid or debt relief, especially outside the scope of the award of a Finance Commission. A truer measure of a State’s fiscal prudence or fiscal responsibility is the State’s Own Deficit, which measures the resource gap between the State’s expenditure and the State’s own non-debt receipts assuming that old financial liabilities continue to be refinanced out of fresh borrowings. These non-debt resources depend upon State’s own fiscal policies. It is a matter of satisfaction that the State has

shown some improvement in dependence on transfer of resources from the Central Government from 67 *per cent* in 2006-07 to 63 *per cent* in 2011-12 with a one-off increase to 72 *per cent* in 2010-11. A special grant of ₹1,000 crore was given by the Central Government in 2010-11 to facilitate liquidation of the State Government's overdraft with the J&K Bank. This reduced the outstanding liabilities of the State Government.

- The capacity of a State substantially dependent on resource flow from the Central Government for financing even for its day-to-day running expenditures are inherently and severely limited. However, owing to increased tourism and other economic activities and improving tax compliance, there has been very satisfactory growth in the revenues from State's own taxes. There is increasing scope and imperative of improving recovery of user charges, particularly in the power sector where the gap between the cost of supply of electricity and revenue realization from consumers is very steep and needs to be bridged in the long-term interests of fiscal sustainability of State intervention in this area. The obligatory expenditures by way of salaries and pensions also require rationalization as there are critical manpower shortages for smooth implementation of developmental schemes/ projects on one hand and constraints to increased industrialization under high personnel costs.
- By delayed notification of FRBM Rules in January 2008 and shifting the compliance by three years under Rules contrary to the intent and provisions of the FRBM Act, there has been a basic breach of the intent and purpose of the Act. Further, the Statements required to be presented along with Budget were couched in general terms instead of mentioning specific policy measures. In one section of the Mid Term Fiscal Path Statement (MTFPS), the provisions of the Rules were reproduced instead of giving government's views as required under the Act/ Rules. This showed a somewhat casual approach to the implementation of the FRBM Act. The amendments made, sometimes through promulgation of ordinances, were directed at securing funds and concessions without putting in place systems in place for ensuring and monitoring compliance. The evaluation of the implementation of the Act as was required to be done has not been carried out so far.
- The State has continued to be revenue surplus but only due to high levels of grants from the Central Government. The State's Own Deficit has been consistently high and steadily rising with expenditure growth far outpacing valiant efforts of tax departments at revenue mobilization. The State has not met the fiscal deficit reduction targets, even after these have been diluted and reset. Since the past projections made by the State Government in the statements made before the State Legislature under FRBM Act have proved to be unachievable, special efforts are required to lend credibility to the targets now set for future years.

- Notwithstanding the above deviations, the State has made good use of the opportunities presented by increased economic activities to substantially increase tax revenues. There has been record mobilization of commercial taxes and stamp duties and the State's own revenues have shown very high growth. However, State's Own Deficit continues to remain high, mainly on account of high increase in expenditure and commitments on establishment related expenditure and serious shortfalls in bridging the resource gap in the power sector.
- The power sector requires large investments in modernizing and expanding transmission and distribution infrastructure. Jammu and Kashmir State Lands (Vesting of Ownership rights to the Occupants) Act, 2001 was enacted to regularize illegal occupation of State lands on payment for purpose of generating funds to finance Power projects. As the trend in non-debt capital receipts show, the impact of the Act on resources has been insignificant.

1.18 Conclusion

The following is a summary of the significant comments

- The State has made good use of the opportunities presented by increased economic activities to substantially increase tax revenues. There has been record mobilization of commercial taxes and stamp duties in 2011-12 and the State's own revenues have shown very high growth.
- It is to the credit of the government that the State's dependence on non-debt resources from the Central Government (as percentage of total expenditure) has come down from 67 *per cent* in 2006-07 to 63 *per cent* in 2011-12, excluding a one-off peak of 72 *per cent* in 2010-11.
- Even as concerns remain about delay in completion of on-going projects, the State government's capital expenditure has registered significant and steady increase, a stray peak in 2010-11 notwithstanding.
- The State switched over to government banking with the RBI with effect from 01.04.2011 after liquidating its entire overdraft with the J&K Bank as on 31 March 2011 with special Central assistance in the form of grants-in-aid of ₹ 1,000 crore. During 2011-12, the interest burden on overdraft/ ways & means advances came down by over ₹ 220 crore as a result of this switchover to new banking arrangements.
- The State Government has taken significant decisions like introduction of new pension scheme, bringing more items under the ambit of VAT, more services under the tax net, computerization of commercial tax department to be completed by April 2013 and a host of other institutional and sectoral reform measures. The arrears in the accounts of PSUs are being liquidated.

All these are positive features.

- The State has continued to maintain revenue surplus during the period 2002-12 due to high levels of share in Central taxes and grants from the Central Government. An adjusted weightage of 10 *per cent* is given to the area of a State in deciding *inter se* share of different States in the total divisible pool of Central Taxes/ Duties. In case of J&K, full area of 2,22,236 sq. km. is taken into consideration. As a Special Category State, the State gets 90 *per cent* assistance for State Plan as grants-in-aid. The 63 *per cent* dependence of the State on non-debt resources from the Central Government in 2011-12 (as percentage of total expenditure) – though less than 67 *per cent* in 2006-07 - is still substantial. The State's Own Deficit and Pre-Devolution Non-Plan Revenue Deficit has come down from the high levels in 2006-07 but is still short of targets under FRBM Act. Growth in expenditure has far outpacing the growth of revenue mobilization. Controlling the growth of Pre-Devolution Non-Plan Revenue Deficit requires particular attention to augment resources for developmental activities.
- The State has been taxing services under the Jammu and Kashmir General Sales Tax Act, 1962 since March 1997, which yielded ₹ 697.69 crore in 2011-12. The State Government has initiated several measures to widen the tax base and improve collection of tax on services under the State law. However, the tax collected under the State law is significantly less than the share foregone by the State in the Central Service Tax collections, which is the only Central tax that is presently not applicable to the State. As per the assessment made by the Thirteenth Finance Commission regarding likely Central Service Tax collection during 2010-15, the share foregone by the State works out to ₹ 8,363.38 crore. During 2010-11, the State Service tax collection was ₹ 626.77 crore whereas the State's share in Central Service Tax would have been about ₹ 1,100 crore.
- Only one out of 21 Government owned companies/ corporations, viz., the J&K Bank is the principal source of government's revenue from dividends. Other companies are either non-functional or deeply burdened financially. The financial return on investments made in these companies is not commensurate with the opportunity cost of investment measured in terms of average cost of government borrowing.
- The State has not met the fiscal deficit reduction targets, even after these have been diluted and reset. As per the customized fiscal correction path recommended by the *Th FC* specifically for Jammu and Kashmir and the amendment made in the FRBM Act, the State had to maintain the fiscal deficit at 4.7 *per cent* of GSDP, which was not achieved during 2011-12 as the fiscal deficit was 5.9 *per cent* even after deferring payment of about ₹ 3,368 crore on account of revision of pay and pension after adoption of the recommendations of Sixth Central Pay Commission.

- The cash balance investment account of the Government saw a very high level of activity with aggregate inflow of ₹ 13,049.63 crore and outflow of ₹ 13,762.12 crore resulting in net increase in invested cash balance by ₹ 760 crore. It indicates problems of lack of spending capacity due to various reasons rather than funds shortage being responsible for under-utilization of budget. Accretion to large cash balance during the year is indicative of lack of spending capacity and possibly avoidable borrowings by the Government.
- But for the accretion to the cash balance, the fiscal liabilities of the government as on 31st March 2012 at the end of 2011-12 would have been less by ₹ 860.99 crore, i.e., ₹ 35,406 crore (56.77 *per cent* of GSDP).
- All the past projections made by the State Government in the statements made before the State Legislature under FRBM Act have proved to be unachievable. Hence, special efforts are required to lend credibility to the FRBM targets now reset for future years.
- The revenue expenditure grew by 22.8 *per cent* in 2011-12 despite deferment of pay revision arrears etc. although revenue receipts grew by only 11.5 *per cent*. This does not bode well for the government's commitment under the FRBM Act to maintain the Revenue Surplus.
- The expenditure on salaries, wages, pension and other retirement benefits together accounts for 46.9 *per cent* of total expenditure, 59.1 *per cent* of revenue expenditure and 198.7 *per cent* of State's own revenues in 2011-12. The government has decided to stagger the payment of arrears of pay and pension revision, following the extension of the recommendations of the Sixth Central Pay Commission to State Government employees and those in the Autonomous Bodies, in five equal annual instalments. The strength of regular employees is set to grow further with the ongoing regularization of irregular engagement of persons on *ad hoc*, contractual or consolidated basis under the Jammu & Kashmir Civil Service (Special Provisions) Act, 2010. The increase in personnel costs on State exchequer has overtaken the fiscal gains on account of improved tax collection and reduction in interest burden.
- Centrality of plugging the power sector resource deficit to the State's sustained economic progress has been acknowledged by the Government in the FRBM statements presented to the Legislature. The power receipts account for nearly 80 *per cent* of non-tax revenue and covered only 23 *per cent* of the total expenditure on power development department in 2011-12. The power receipts of ₹ 1,007 crore fell short of the Revised estimates target of ₹ 1,486 crore. Although 85.14 *per cent* households are electrified as per Census 2011 figures, the numbers of households covered by properly functional meters are far less and the transmission & distribution losses are one of the highest in the country. Financial losses of the Power Development Department continue to be a serious drag on the finances of States, which necessitates undertaking

necessary reforms for cutting down transmission and distribution losses, unacceptably high and out of line with national averages through proper metering of power consumption at different nodes besides appropriate tariff revisions.

- The Government has articulated the need for all departments to recover at least 50 *per cent* of the 'service charges' from the users after accounting for Operations & Maintenance expenses, as recommended by the Thirteenth Finance Commission. It is recommended that a time bound action plan be formulated to achieve this goal.
- At the end of 2011-12, unspent funds aggregating to ₹ 335.30 crore were held in the non-lapsable Fund of Autonomous Hill Development Councils for Leh and Kargil in the Public Accounts. The accounts of these Councils have not been prepared since inception in 1995 and 2004, respectively.

1.19 Recommendations

The Government may consider:

- strengthening tax administration to collect revenue arrears.
- taking appropriate measures to reduce non-plan revenue expenditure.
- prepare an effective action plan to complete all projects promptly so that people derive envisaged benefits in time.
- consider taking appropriate measures to ensure better value for money in investments.
- improving Management Information System (MIS) to access periodic information on receipts and expenditure in respect of funds directly transferred by Government of India to State Implementing Agencies.