EXECUTIVE SUMMARY

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Background

This Report on the finances of the Government of Jammu and Kashmir is being brought out to assess objectively the financial performance of the State during the year 2011-12. The aim of this Report is to provide the State Government with timely input based on actual data so that there is a better insight into both well performing as well as ill performing schemes/ programmes of the Government. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government in Fiscal Responsibility and Budget Management Act, 2006 as well as in the Budget Estimates of 2011-12 and the fiscal performance during 11th Five Year Plan.

The Comptroller and Auditor General of India (C&AG) has been commenting upon the Government's finances for over five years since FRBM legislation and have already published five Reports in the past. Since these comments formed part of the Civil Audit Report, it was felt that the audit findings on State finances remained camouflaged in the large body of audit findings on compliance and performance audits. The obvious fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring State finances to center-stage once again, a Stand-Alone Report on State Government finances is considered an appropriate audit response to this challenge. Accordingly, from the Report year 2009 onwards, C&AG had decided to bring out a separate volume titled "**Report on State Finances.**" This Report is the fourth in this endeavor.

The Report

Based on the audited accounts of the Government of Jammu and Kashmir for the year ending March 2012, this report provides an analytical review of the Annual Accounts of the State Government. The Report is in three Chapters.

Chapter-1 is based on the audit of Finance Accounts and makes an assessment of Jammu and Kashmir Government's fiscal position as on 31 March 2012. It provides an insight into trends in committed expenditure, borrowing pattern besides a brief account of Central funds transferred directly to the State implementing agencies through off-budget route.

Chapter-2 is based on audit of Appropriation Accounts and it gives the grant-wise description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter-3 is an inventory of Jammu and Kashmir Government's compliance with various reporting requirements and financial rules. The chapter also provides details of non- submission of accounts. The Report also has additional data collated from several sources in support of the findings.

Audit findings and recommendations

Fiscal Correction Path: The State has been a revenue surplus State from 2002-03 till 2011-12 due to substantial central subvention. The State enacted the Jammu and Kashmir Fiscal Responsibility and Budget Management Act (FRBM Act) in 2006, which 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. The targets stood diluted due to change in the methodology of computation of GSDP after the Finance Commission awards but the targets were not tightened. However, even these fortuitously diluted targets for Fiscal Deficit and Total Liabilities have not been achieved. The Fiscal Deficit increased to 5.92 *per cent* of GSDP in 2011-12 (against the target of 4.70 *per cent*) even after deferment of estimated ₹ 3368 crore payment on account of arrears of revision of pay and pension after adoption of the recommendations of the Sixth Central Pay Commission. The pre-devolution non-plan revenue deficit, targeted to be capped at 20 *per cent* of GSDP by 2007-08 was 23.55 *per cent* in 2011-12.

Trends in Key Fiscal Aggregates

The State has continued to maintain revenue surplus with the State's share in Central taxes/ duties and Central grants together constituting on an average 76.73 *per cent* of the total revenue receipts of the State during 2002-12 and 72.76 *per cent* in 2011-12. These resources financed on an average 64.86 *per cent* of total expenditure during 2002-12. State's Own Deficit continues to be high as there was 63 *per cent* dependence in State budget on non-debt resources from the Central Government during 2011-12.

The State's own tax revenues have shown a steady increase, particularly the Commercial Taxes. However, these are not sufficient enough to meet even the revenue expenditure of the State. The total expenditure of the State increased by 118 *per cent* during 2006-12 with the capital and revenue expenditure components having increased by 140 and 114 *per cent*. Expenditure on salary and wages increased by 30 *per cent* in 2011-12, as compared to an increase of 11 *per cent* in revenue receipts. The expenditure on subsidies, however, decreased by 40 *per cent* during 2011-12 over the previous year. The aggregate of development expenditure under Revenue and Capital heads varied between 64 and 69 *per cent* during 2006-12. The ratio of capital expenditure to total expenditure in Social and Economic Service Sectors during 2011-12 showed a decrease over the previous year.

Consequent upon shifting of ways and means advance facilities to the RBI, the cash balance increased during 2011-12, from ₹ 99.94 crore at the end of 2010-11 to ₹ 960.94 crore at the end of 2011-12 (₹ 861 crore). The overall fiscal liabilities of the State increased from ₹ 31272 crore at the end of 31 March 2011 to ₹ 36267 crore at the end of 31 March 2012 (16 *per cent* increase). The fiscal liability to GSDP ratio of the State was, however, 58.2 *per cent* at the end of 31 March 2012, which had improved from the level of 65.50 *per cent* at the end of 31 March 2011.

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.

Budgetary System

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.

Prior to 2011-12, the Jammu and Kashmir Government obtained temporary loans from the Jammu and Kashmir Bank for its Ways and Means requirements at relatively higher interest rates. 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 Jammu and Kashmir (J&K) Bank continues to function as agency bank of the RBI.

Greater priority to capital expenditure: No specific norms regarding prioritization of capital expenditure have been laid in FRBM Act. Though the State has been able to maintain a revenue surplus, it however registered a decrease of ₹ 1664 crore during 2011-12 compared to the previous year. This in turn raised the fiscal deficit by ₹ 1327 crore during the year resulting in decrease in capital expenditure by three *per cent* over the year 2011-12.

Efforts should be made to arrest the situation of fiscal deficits in order to generate more funds for capital expenditure.

Review of Government investments: The State Government had invested ₹ 484.95 crore as on 31st March 2012 in Statutory Corporations, Government Companies and Co-operative Societies from which total returns of ₹ 68.16 crore was received during 2011-12. Out of the total investment, an amount of ₹ 25.78 crore was invested in Jammu and Kashmir Bank Ltd. which yielded returns of ₹ 67.02 crore during 2011-12 while the remaining investment of ₹ 459.17 crore yielded a return of ₹ 1.14 crore only during the year.

The Government may ensure better value for money in investments by identifying the Companies/ Corporations which are endowed with low financial but high socio-economic returns.

Debt sustainability: The debt-GSDP ratio showed declining trend from 2008-09 to 2011-12 from 62 to 58 *per cent* as against the target (55.10 *per cent*) set forth by the Thirteenth Finance Commission for the year 2011-12 in respect of Jammu and Kashmir.

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

Oversight of funds transferred directly from the GOI to the State implementing agencies: There is no single agency monitoring its use and also there is no readily available data to ascertain how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State implementing agencies which are funded directly by the Government of India (GOI).

A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General (Accounts and Entitlements), Jammu and Kashmir to ensure its effective utilization.

Financial management and budgetary control: The State Government's budgetary processes have not been sound during the year, with errors in budgeting, persistent savings[1], excess expenditure, expenditure without provision. In many cases, anticipated savings were either not surrendered or surrendered at the end of the year in the month of March leaving no scope for utilizing these funds for other development purposes.

Budgetary controls should be strictly observed to avoid such deficiencies in financial management. A close and rigorous monitoring mechanism should be put in place by the DDOs to ensure adjustment of Abstract Contingent (AC) bills during the stipulated time frame.

Financial reporting: State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delays in furnishing utilization certificates against the loans and grants from various grantee institutions. Abnormal delays were noted in submission of annual accounts by some of the departmental commercial undertakings and Autonomous Bodies.

Government departments may take urgent action for finalization of outstanding annual accounts of departmentally managed commercial undertakings.

[1] Can also be termed as shortfall in the utilization of funds.