Chapter-I

Finances of the State Government

CHAPTER 1

FINANCES OF THE STATE GOVERNMENT

This chapter provides an overview of the finances of the State government during the financial year 2014-15 by benchmarking against past trends of major fiscal aggregates and its structural profile. ***Appendix 1.1*** contains profile of Jammu &Kashmir and the development indicators relating to major infrastructure and ***Appendix 1.2*** contains the structure and layout of the Finance Accounts of the State government on which this Report is based. ***Appendix 1.3*** briefly outlines the methodology adopted for the assessment of the fiscal position of the State.

1.1 Profile of the State

The State of Jammu and Kashmir (J&K) is strategically located with its borders touching Pakistan and China and is spread over a geographical area of 2.22 lakh sq.kms. which includes an area of 1.21 lakh sq.kms. under illegal occupation of China and Pakistan. It is situated between $32^{0}\ 17^{/}$N and $36^{0}58^{/}$ N latitudes and $73^{0}\ 26^{/}$E and $80^{0}30^{/}$E longitudes constituting the northern most extremity of India. J & K is the 6th largest state of India occupying 6.76 *per cent* of the country's geographical area. The three regions of the State, viz Kashmir, Jammu and Ladakh, have been organized into 22 districts.

As per 2011 Census (Provisional Data), the State's population in census-covered areas was 1.25 crore. The decadal growth rate in population declined to 23.71 *per cent* during 2001-2011 from 29.43 *per cent* during 1991-2001. The population density of the State increased from 100 per sq km in 2001 to 124 per sq km. in 2011. The overall sex ratio declined from 892 in 2001 to 883 as per census 2011.

Incidence of poverty in the State has been on declining trend. The proportion of Below Poverty Line persons in the total population was estimated at 40.86 *per cent* in 2000 by the Department of Food and Public Distribution, Government of India, declined to 21.63 *per cent* of total population according to a BPL head count survey carried out by the State government in 2007-08 and to 15.1 *per cent* in 2011-12 according to an assessment made by the Planning Commission.

As per Census 2011, literacy rate of the state is 68.74 *per cent* with 78.26 *per cent* male literates and 58.01 *per cent* female literates. The overall literacy rate improved by 13.22 *per cent* points over Census 2001. With the improvement in the literate population of the state , the gender gap has also reduced to 20.25

per cent in 2011 as against 23.60 *per cent* in 2001.Literacy rate is derived after excluding the children in the age group of 0-6 years, which are by the definition of census treated as illiterate.

The Gross State Domestic Product (GSDP)[1] measures the value of goods and services produced within the State. At current market prices, the GSDP was estimated ₹87921crore during 2014-15 up from₹ 87570 crore during 2013-14.

As per the State government estimates, major constituents of State's GSDP in 2014-15 are Services (52.62 *per cent)*, Industry (25.43 *per cent*) and Agriculture and allied activities (21.96 *per cent).*

At current prices, State Per Capita Income has been steadily rising during the years from 2009-10 to 2013-14 but decelerated during the year 2014-15 thereby registering a negative growth rate of -0.66 *per cent* during 2014-15 (₹ 33,650, ₹ 40,089, ₹ 46734, ₹ 52386, ₹59279 and ₹58888[A] for the year 2009-10, 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 respectively).

Trends in annual growth of the country's GDP and the State's GSDP are given in ***Appendix 1.3***.

1.1.1 Salient features of the State's Budgetary and Accounting System

The State government secures legislative approval for spending from the Consolidated Fund of the State by presenting an Annual Financial Statement (budget) and Demands for Grants which are on cash/gross based by individual Departments. These Demands are discussed in the Legislature, replied by the Minister-in-charge of the Department and then passed. However, expenditure in the interim is incurred against the Vote On Account. The State Legislature has enacted Fiscal Responsibility & Budget Management (FRBM) Act 2006 (amended on 17th December 2008, 20th April 2010, 9th April & 25th August 2011) and the Government has passed FRBM Rules 2008 there under which *inter alia* specify the annual targets for (a) Revenue Deficit as percentage of Total Revenue Receipts (b) Fiscal Deficit as percentage of GSDP (c) Total outstanding liabilities as percentage of GSDP and committed liabilities. 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, in J&K State one more Code, Group Head denoting the Non Plan, Plan and CSS expenditure upto 2015, was introduced under the Major Heads in the Demand for Grants. The

[1]The GDP/GSDP data used in this Report is based on the new series with Base Year 2004-05.

budget allotments process is highly centralized. 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 for which dissemination of information is limited on some government websites. The Government presents statements required under the FRBM Act/Rules to the legislature alongwith Budget. The Appropriation Account and Finance Accounts are prepared by the Accountant General (A&E) on the basis of the compilation and consolidation of receipts/disbursements transactions originating in the books of Drawing and Disbursing Officers of State Government, through the Treasuries and/or the Bank accounts controlled by the RBI and the transactions originating in the books of the RBI. The accounts are audited by the Accountant General (Audit). Since April 1, 2011, the Reserve Bank of India (RBI) is the sole banker of the Government in place of the Jammu and Kashmir Bank Ltd. which though continues to work as RBI's agent.

The State is one of the 11 Special Category States entitled to 90 *per cent* financing for schemes/projects included in the State Plan in the form of grants-in-aid from the Union government. 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 coupled with State's own efforts at revenue mobilisation have ensured that the State has continued to be a revenue surplus State upto 2013-14 despite having deficit after excluding central transfers. However due to short mobilisation of State Own Non Tax Revenues by ₹ 892 crore viz-a-viz previous year, the State could not maintain Revenue Surplus during the year 2014-15.

1.2 Summary of Fiscal Transactions in 2014-15

Statements 1 and **2 and Appendix I** of the Finance Accounts 2014-15 provide summary position of opening and closing cash balances, receipts and disbursements during the year under broad categories, condensed in **Table 1.1**. ***Appendix 1.4*** contains data showing trends in major fiscal aggregates since 2010-2015 ***Appendix 1.5*** presents a more disaggregated view of the Table.

Table 1.1
Summary of current year's fiscal operations

(₹ in crore)

	Receipts		Disbursements				
2013-14		2014-15	2013-14		2014-15		
Section-A: Revenue							
					Non Plan	Plan	Total
6273	**State's Own Tax revenue**	**6334**	**11403**	**General Services**	12027	12	**12039**
2870	**State's Own Non-tax revenue**	**1978**	**7896**	**Social Services**	6406	2095	**8501**
4142	**Share of Union Taxes/ Duties**	**4477**	**7759**	**Economic Services**	8024	765	**8789**
13843	**Grants from Government of India**	**16150**					
27128	**Revenue receipts**	**28939**	**27058**	**Revenue expenditure**	**26457**	**2872**	**29329**
Section-B:Capital							
			4507	**Capital Outlay**	633	4501	**5134**
4	**Recoveries of Loans and Advances**	**3**	**121**	**Loans and Advances disbursed**	87	-	**87**
3152	**Public Debt receipts@**	**10033**	**1297**	**Repayment of Public Debt@**			8323
-	**Contingency Fund**	-	-	**Contingency Fund**	-		-
17840	**Public Account receipts@@**	**22032**	**14169**	**Public Account disbursements@@**			**17796**
91	**Opening Cash Balance**	**1063**	**1063**	**Closing Cash Balance**	1401	-	**1401**
48215	**Total**	**62070**	**48215**				**62070**

@ Excludes net transactions under ways and means advances and overdraft (₹226 crore).

@@ These exclude transactions of investment of cash balances and departmental cash chests (₹15210 crore receipts, ₹15540 disbursements),. The net effect of these transactions is included in the opening and closing cash balances in the row next below.

The revenue receipts increased by ₹1811 crore (6.68 *percent*) during the year 2014-15 over the previous year, due to increase in share of Union taxes and duties (8 *per cent*),Grant –In-Aid (16.67 *per cent)* but decrease in State's own Non-tax revenue by 31.08 percent. Likewise revenue expenditure increased by ₹2271 crore (8.39 *per cent*) during the year 2014-15 over the previous year with evenly increase in all Sectors. The aggregate cash balance of the State (including uninvested cash with the RBI, invested cash and cash in departmental cash chests) increased during 2013-14 from the opening balance of ₹1063 crore by ₹338 crore to a closing balance of ₹1401crore.

1.2.1 Review of the fiscal situation - Trends in Key Fiscal Aggregates

Appendix 1.4 presents the data on key fiscal aggregates (absolute monetary values, ratios and growth rate) for the period from 2010-11 to 2014-15. Notable points emerging from this trend analysis are as follows:-

- The State's share in Union taxes and duties and grants from the Union government together constituted 79.42 *per cent* of the total Revenue Receipts during 2010-11 but declined to 71.28 *per cent* during 2014-15 and had seriously impaired the liquidity position and reductions in revenue surplus with consequentially increase the fiscal deficit. These non-debt resources transferred by the Central government through the State government accounts financed on 72 *per cent* of total expenditure of the State government during 2010-11, 73 *per cent* in 2011-12, 60 *per cent* in 2012-13, 57 *per cent* in2013-14 and 60 *per cent* during 2014-15 showing decline in the State's dependence on transfer of Central resources. The State could not continue to maintain revenue surplus (which however declined from ₹3767 crore in 2010-11 to ₹70 crore during 2013-14) during 2014-15 due to short fall of states own Non Tax Revenue and Grant-In-Aid viz-a-viz projected Receipts.

- The State's own tax revenues (SOTR) have shown a growth of 0.97 *per cent* with the previous year.

1.2.2 Budget Estimates and Actual

The trends in budget estimates, revised estimates and actual financial outcomes of some top level fiscal aggregates are given in **Table 1.2**.

Table 1.2 (₹ in crore)

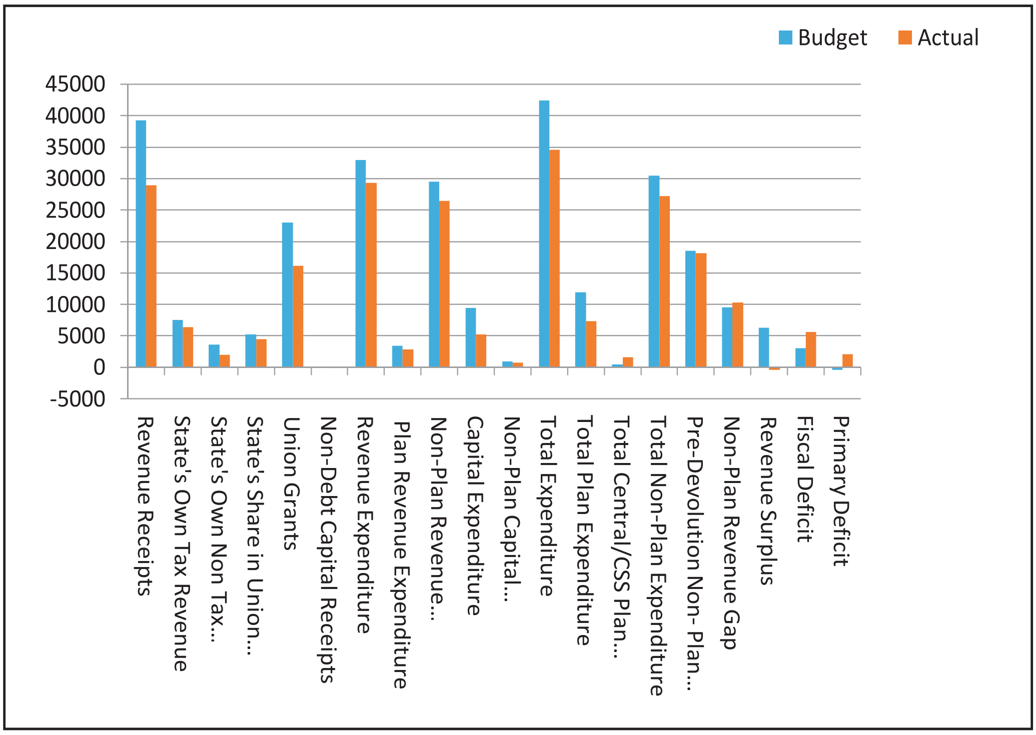
Sl. No.	Fiscal Aggregate	2012-13			2013-14			2014-15		
		Budget	Revised	Actual	Budget	Revised	Actual	Budget	Revised	Actual
1	**Revenue Receipts (a)+(b)+(c)+(d)**	**29,948**	**29,499**	**26,217**	**33,970**	**31,227**	**27,128**	**39,221**	**34,541**	**28,939**
a	*State's Own Tax Revenue*	*5,419*	*5,975*	*5,833*	*6,700*	*6,820*	*6,273*	*7,496*	*6,438*	*6,334*
b	*State's Own Non Tax Revenue*	*2,118*	*2,819*	*2,160*	*3,033*	*3,400*	*2,870*	*3,561*	*3,154*	*1,978*
c	*State's share in union taxes/ duties*	*4,245*	*4,085*	*3,870*	*4,485*	*4,514*	*4,142*	*5,191*	*4,477*	*4,477*
d	*Grants-in-aid from Union government*	*18,166*	*16,620*	*14,354*	*19,752*	*16,493*	*13,843*	*22,973*	*20,472*	*16,150*
2	**Revenue Expenditure**	**24,990**	**25,237**	**25,117**	**28,690**	**27,617**	**27,058**	**32,948**	**31,503**	**29,329**
3	**Capital Expenditure including loans & advances**	**8,863**	**9,074**	**5,317**	**8187**	**7526**	**4628**	**9436**	**10363**	**5221**
4	**Total expenditure**	**33,853**	**34,311**	**30,434**	**36,877**	**35,143**	**31,686**	**42,384**	**41,866**	**34,550**
5	**Revenue Surplus**	**4,958**	**4,262**	**1,100**	**5,280**	**3,610**	**70**	**6,273**	**3,038**	**-390**
6	**Fiscal Deficit**	**2,364**	**3,364**	**4,216**	**2,867**	**3,831**	**4,554**	**3,020**	**6,561**	**5,608**
7	**Primary Deficit (+) / Surplus (-) (Fiscal Deficit - Interest Payments)**	**-299**	**701**	**1,510**	**-433**	**531**	**1,553**	**-450**	**3,141**	**2,075**

There was Revenue deficit of ₹-390 crore as against the budget estimates of Revenue surplus of ₹3038 crore during the current year whereas the fiscal deficit and primary deficit showed declining trend vis-a-vis budgeted estimates by ₹953 crore and ₹1066 crore respectively. The Capital expenditure was only 50 *per cent* of the Budgeted estimates of ₹10363 and has therefore remained less by ₹5142 crore (49.62%) of the budgeted estimates. This indicates that asset creation was not given much priority as intended in the budget estimates.

The 'fiscal deficit' is the net accretion to the public debt and other liabilities used for financing the expenditure other than debt redemption. This method of financing the redemption of public debt and other liabilities implies that the liabilities are not repaid out of current revenues but merely rolled over indefinitely. All borrowings and other liabilities cannot be endlessly refinanced and may have to be eventually paid out of Government's non-debt receipts. Hence, borrowings are in the nature of deferred taxation/ asset sale. The ability of an entity to continuously refinance old liabilities with new liabilities depends on continued credit worthiness of the entity.

Chart 1.1graphically captures actuals in 2014-15*vis-à-vis* budgeted.

Chart 1.1
Budgeted vs Actual



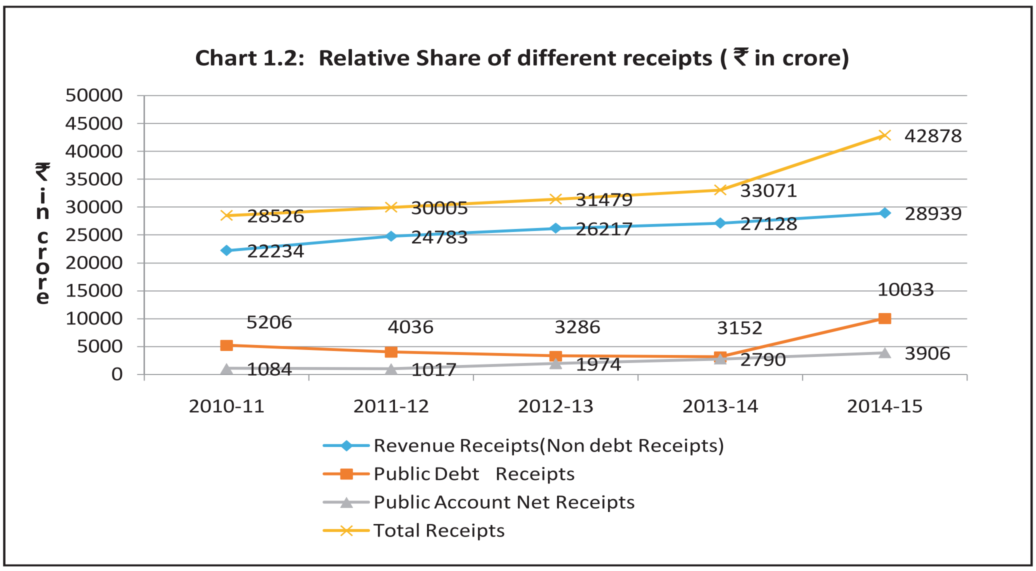
The States own tax revenue mobilisation of ₹6334 crore fell short of the budgeted target by ₹104 crore. There were significant shortfalls in the grants-in-aid from the Union Government and plan revenue receipts leading to shortfall in resources. The Non Plan Revenue Expenditure was not wholly financed from the States Own Resources resulting in increase in pre-devolution Non Plan Revenue Deficit from ₹16076 crore to ₹18145 crore. Actual fiscal deficit (₹ 5608 crore) was 6.38 *per cent* of GSDP which breached the target of 3 *per cent* of GSDP set under the FRBM Act.

1.3 Resources of the State

1.3.1 Resources of the State as per the Annual Finance Accounts

The resources for financing the State Budget are categorised into revenue receipts and capital receipts. Revenue receipts of a State comprise of: (a) tax revenue (i) revenue from State's own taxes like State Excise, VAT/GST which the State can control (ii) State's share in Central taxes/duties under the Finance Commission award and (b) (i) non-tax revenues under control of the State like interest/ dividend and user charges and (ii) grants-in-aid from the Central government, which is also accounted for as non-tax revenue of the State. Capital receipts comprise of : (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 Union government and (iv) receipts into the public accounts of the State government as a banker or trustee of others' funds like security deposits.

Chart 1.2 depicts the trends in various components of the receipts of the State during 2010-15.

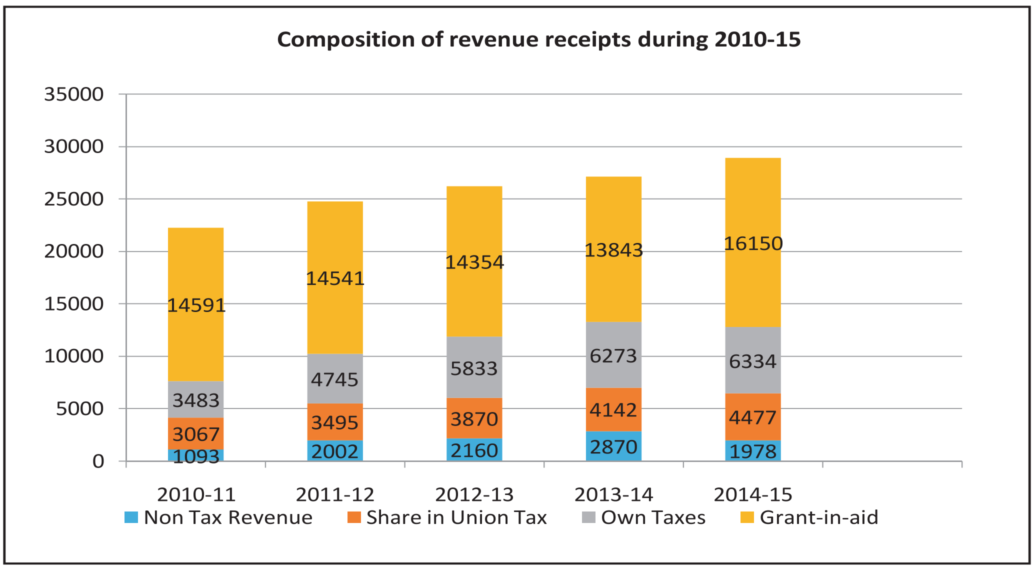


The revenue receipts and the public account receipts showed upward trend during 2010-15 while the public debt receipts showed downward trend, from ₹5206 crore in 2010-11 to ₹3152 crore in 2013-14 and increased to ₹10033 crore during 2014-15. The Revenue Receipts to total receipts show downward trend decreasing from 77.94 *per cent* in 2010-11 to 67.49 *per cent* in 2014-15. Public account receipts in total receipts however, increased from 3.80 *per cent* in 2010-11 to 9.11 *per cent* in 2014-15.

1.4 Revenue receipts

Statement-14 of the Finance Accounts details the revenue and Non debt capital receipts of the Government by Minor heads. 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 2010-15 are presented in ***Appendix 1.4*** and also depicted in **Chart 1.3**.

Chart 1.3



Transfers from the Union government in the form of State's share in Union taxes and duties and grants in aid together constituted on an average 79 *per cent* of the State's revenue receipts during 2010-12 and declined to 70 & 66 *per cent* during 2012-13 and 2013-14 respectively but slightly increased to 71 *per cent* during 2014-15. The trends in revenue receipts relative to GSDP are presented in **Table 1.3**.

Table 1.3
Trends in revenue receipts relative to GSDP

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Receipts (RR) (₹ in crore)	22,234	24,783	26,217	27128	28939
State's Own Revenues (₹ in crore)	4576	6747	7993	9143	8312
Rate of growth of RR *(per cent)*	26.42	11.46	5.79	3.47	6.68
R R/GSDP *(per cent)*	38.28	36.34	33.80	31.07	32.91
Revenue Buoyancy w.r.t GSDP	1.32	0.65	0.45	0.25	16.70

Revenue receipts showed a progressive increase over the period 2010-11 to 2014-15 in absolute terms. However, the growth rate of Revenue Receipts shows a declining trend from 26.42 *per cent* in 2010-11 to 6.68 *per cent* in 2014-15, which means the buoyancy of States own tax revenue to GSDP has shown declining trend upto 2013-14 but increased during 2014-15 due to slow growth rate in GSDP.

1.4.1 State's Own Revenues

The State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The trend in State's own tax and non-tax revenue can be seen from **Table 1.4**.

Table 1.4
Trends of tax revenue and non-tax revenue

(₹ in crore)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Tax revenue	3,483	4,745	5,833	6,273	6334
Of which					
Tax on sale of goods and services	2,425	3,414	4,174	4,579	4602
Non-tax revenue	1,093	2,002	2,160	2870	1978
Of which receipts from sale of power	822	1,007	1,589	1533	1428
Total	**4,576**	**6,747**	**7,993**	**9143**	**8312**

The State has been taxing Services under the Jammu and Kashmir General Sales Tax Act, 1962 since March 1997, which yielded ₹884.53 crore in 2014-15. 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 Services 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 Services Tax collection during 2010-15, the share (1.551 *per cent)* forgone by the State works out to ₹8363.38 crore, against which the State Service Tax collection was ₹4461.09 crore (₹623.22 crore in 2010-11, ₹887.66 crore in 2011-12, ₹1018.96 crore in 2012-13, ₹1046.72 crore in

2013-14, ₹884.53 crore in 2014-15) and the State's share in Central Service Tax would have been about ₹9674.30 crore i,e 1.551 percent of total central service collection of ₹623746 crore (₹71016 crore in 2010-11, ₹97509 crore in 2011-12, ₹132601 crore in 2012-13, ₹154630 crore in 2013-14, ₹167990 crore in 2014-15).

The receipts from the sale of power being a major constituent of non-tax revenue declined from 73.56 *per cent* of the total non-tax revenue during the year 2012-13 to 72.19 *per cent* during 2014-15. The tax on the sale of goods and services that constituted 71.56 *per cent* of the total tax revenue during 2012-13 increased to 72.66 *per cent* during 2014-15.The Service Tax received during the year 2014-15 appears overstated as an instance of double accountal of Service Tax was found by the audit while auditing of vouchers. The Cheque bearing No: 161881 dated: 31.3.2015 for ₹0.38crore was issued by the Executive Engineer Mechanical Irrigation Division Ananatang (H.Q Awantipora) to the Dy. Commissioner Commercial Tax Srinagar through Awantipora Treasury stands credited both by the treasury as well as Division under Major Head-0040(Service Tax)

1.4.1.1 State's Own Tax Revenue

The performance of State's own tax revenue is detailed in **Table 1.5**.

Table 1.5
Trends in State's own tax revenue relative to GSDP

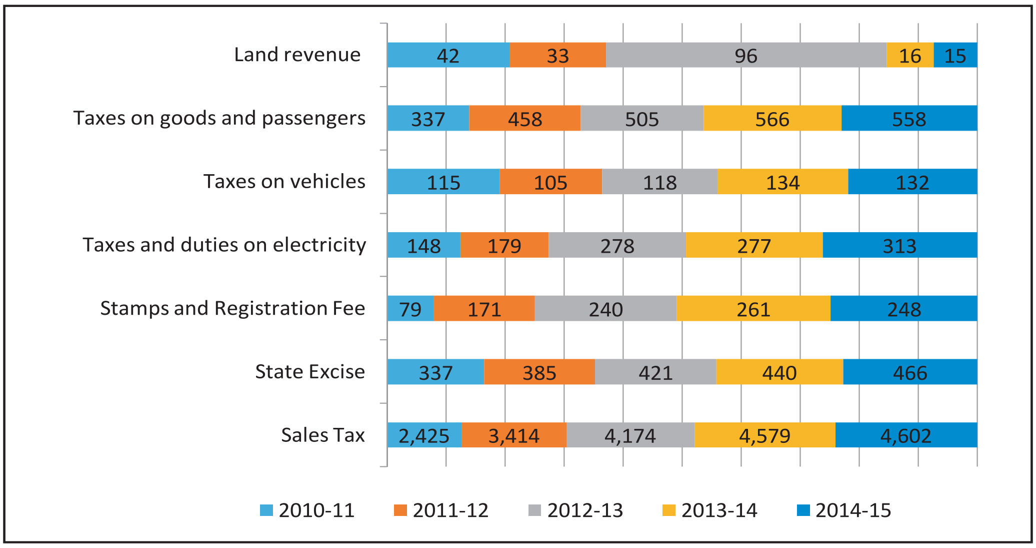
Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Own Tax Receipts (OTR) (₹ in crore)	**3483**	**4745**	**5833**	**6273**	**6334**
Rate of growth of OTR (*per cent*)	15.06	36.23	22.93	7.54	0.97
OTR/GSDP (*per cent*)	5.99	6.95	7.52	7.18	7.20
Buoyancy* ratios					
OTR Buoyancy with reference to GSDP	0.75	2.08	1.79	0.54	2.42

*Refer Glossary of Terms – Appendix 4

The States own tax receipts have been showing progressive increase from ₹3483 crore in 2010-11 to ₹6334 crore in 2014-15 The tax-wise break-up of tax revenue from the year 2010-11 to 2014-15 is given in **Chart1.4**

Chart-1.4
Trends of Tax Revenue

(Amount ₹ in crore)



It is noticeable from the above chart that, the land revenue collection decreased from ₹96 crore in 2012-13 to ₹15 crore in 2014-15, a decrease of 84.38 *per cent*. The variations between the budget estimates and actuals of tax revenue receipts for the year 2013-14 and 2014-15 in respect of the principal heads of tax revenue are mentioned in **Table 1.6**.

Table 1.6
Budget Estimates and Actual Tax revenue during 2013-14

(₹ in crore)

Head of Revenue	2013-14 (Actuals)	2014-15 BE	2014-15 RE	2014-15 Actuals
Commercial Taxes (VAT/GST on sales and services)	4,579	5344	4530	4602
State Excise Duties	440	462	462	466
Other State Taxes/Duties	1254	6881	5924	1266

In respect of commercial tax actuals could not match with the projected estimates and in case of others it is far below the Budget estimates.

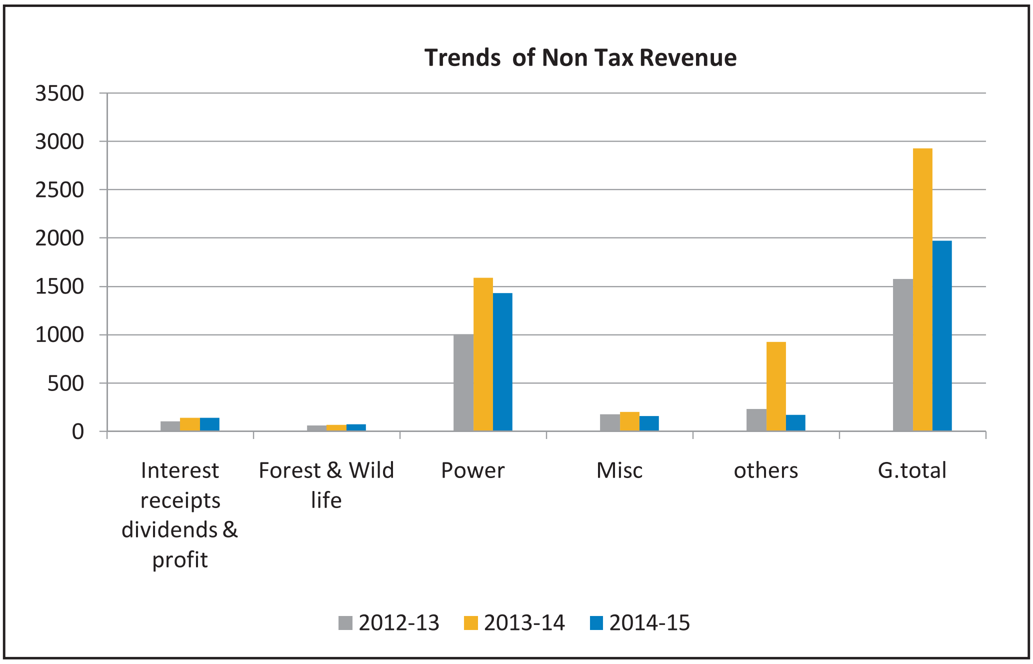
1.4.1.2 Cost of Collection

Expenditure on collection of taxes on Sales, trade was ₹40.10 crore, State Excise ₹19.20 crore, Stamp Duty and Registration Fee ₹26.91 crore, Vehicles ₹8.42 crore and Land Revenue ₹67.79 crore during 2014-15. Percentage of expenditure to gross collection of revenue was 0.87, 4.12, 10.85, 6.36 and 465.27 respectively. The percentage of collection charges in respect of Land Revenue was the highest.

1.4.1.3 State's own non-tax revenue

An itemised break-up of non-tax revenue during the period 2010-15 along with percentage increase/ decrease over 2013-14 is given in **Chart 1.5.**

Chart- 1.5



Receipts from Power Development Department constitute the most significant component of State's non tax revenue. Receipts from power development department decreased from ₹1533 crore in 2013-14 to ₹1428 crore in 2014-15. Likewise, under "Others", the receipts abnormally decreased from ₹924 crore in 2013-14 to ₹171 crore during 2014-15.

Table 1.7 shows the variation between the budgeted and actual receipts during 2012-15

Table 1.7
Trends of non-tax revenue

(₹ in crore)

Head of non-tax Revenue	Budget Estimate 2012-13	Actual 2012-13	Budget Estimate 2013-14	Actual 2013-14	Budget Estimates 2014-15	Actual 2014-15
Power receipts	2387	1589	2841	1533	2630	1428
Interest receipts, dividends and profits	111	104	150	142	73	142
Forestry and wild life	68	59	68	68	71	71
Miscellaneous *	171	174	234	203	264	166
Others	82	234	107	924	116	171
Total	**2819**	**2160**	**3400**	**2870**	**3154**	**1978**

* [Miscellaneous depts. are Public Works, Medical & Public Health, Water supply & Sanitation, Police , Non-ferrous mining & metallurgical industries . Crop husbandry, Animal husbandry]

From the above table it may be seen that except under "Forestry & Wild Life", actuals could not match the budgeted figures during 2014-15. In case of power department receipts, the actual receipts were 46 *per cent* below the Budget Estimates while as interest receipts showed increase of ₹69 crore (*95 per cent*) over the Budget Estimates

The receipts under ¨others¨ category include water usage charges .During 2011-12 the state received ₹543.44 crore as water usage charges from National Hydroelectric Power Corporation(NHPC) in respect of hydel projects owned by it in the state. During 2012-13 and 2013-14 it was ₹158.02 crore and ₹0.02 crore respectively. The water usage charges are being levied on hydel power generating companies under the provisions of the Jammu and Kashmir water resources (Regulation & Management) Act 2010 enacted on 25 October 2010 and amended on 25 October 2012 and 27 October 2014. Under the amendment to the Act the proceeds of the levy are to be credited into a separate Saving Bank Account maintained by the Secretary, Finance Department for being utilized for establishment of Hydel Projects, Hydroelectric Projects, Multipurpose Hydroelectric Projects and buying back Hydroelectric Power Projects already established in the State. As on 31 March 2013, the balance in this bank account was ₹433.31 crore. No amount was transferred to the Saving Bank Account through Consolidated Fund of the State due to non crediting of receipts on account of water usage charges in the consolidated fund of the state during 2014-15.

Rogi Kalyan Simiti (RKS) is another area under which 50 *per cent* sale proceeds of the admission ticket in the Hospitals are kept outside the State Account and utilized for the purpose of hospital development.

The Government informed (Feb.2014) 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 & Maintenance expenses, as recommended by the 13th Finance Commission. No specific time bound action plan has been prepared to achieve this goal.

1.4.2 Grants in aid from the Union government

Table 1.8 shows the significance of grants-in-aid from the Union government in the budgetary resource base of the State government. The grant-in-aid from Union Government increased from ₹14591 crore during 2010-11 to ₹16149 crore during 2014-15 but decreased from 66 *per cent* in 2010-11 to 56 *per cent* in 2014-15 vis-a-vis total revenue receipts and from 59 *per cent* to 47 *per cent* Viz-a-viz Total Expenditure.

Table 1.8

Trends in grants-in-aid from the Union government

Year	Grants-in-aid (₹ in crore)	Total Expenditure (₹ in crore)	Grants as *per cent* of Total Expenditure	Total Revenue Receipts (₹ in crore)	Grants as *per cent* of Total Revenue Receipts
2010-11	14,591	24,603	59	22,234	66
2011-12	14,541	28,645	51	24,783	59
2012-13	14,354	30,434	47	26,217	55
2013-14	13,843	31,686	44	27,128	51
2014-15	16150	34550	47	28939	56

1.4.3 Optimisation of Thirteenth Finance Commission [ThFC] grants.

The actual release of share in Union taxes and duties to the State during five years of the award period of 13th Finance Commission *vis-à-vis* the projections made by the Commission are tabulated in **Table 1.9**.

Table 1.9
State's share in Union taxes and duties: Actual devolution *vis-à-vis* 13th Finance Commission projections

(₹ in crore)

Year	13th Finance Commission projection	Actual tax devolution
2010-11	2837	3067
2011-12	3328	3495
2012-13	3925	3870
2013-14	4630	4142
2014-15	5462	4477

The Commission had recommended a total grant of ₹ 20,256 crore excluding share in central taxes & duties of ₹ 20182.70 crore for the five years period from 2010-11 to 2014-15, specifically for the State. Of this, ₹ 15,937 crore was meant for filling the assessed deficit on non-plan revenue account, ₹ 1000 crore for liquidation of overdraft with the Jammu and Kashmir Bank Ltd. and ₹ 1,123 crore for Local Bodies.

Out of ₹1123 crore for local bodies the state Government has received only ₹627 crore leading to short fall of ₹ 496 crore due to non- existence of elected local bodies. The balance ₹ 2,196 crore was for several projects and activities to be completed during 2010-15. The utilisation certificates for ₹ 316.26 crore are pending till 31-3-2015. Thus, almost 89 *per cent* of the total grant was general budgetary support for meeting non-plan revenue gap and clearing overdraft. The central share of ₹20182.70 crore however does not include net proceeds of shareable Service tax as it is only central tax that is not applicable to the state of Jammu & Kashmir. The state has its own Service tax under State law.

Appendix 1.7 details the special purpose grants (other than the non-plan revenue deficit grant) recommended by the Commission. Out of total allocation of ₹4,317.56 crore for special purpose grants during the award period (2010-15), the actual amount received by the State Government was ₹2915.26 crore resulting in a shortfall of ₹1402.30 crore. Reasons leading to short receipts were due to non existence of elected urban local bodies. (October 2015).

1.5 Capital receipts

The share of non-debt capital receipts and loans/advances from the Union government was negligible and capital receipts are mainly borrowing from banks, financial institutions and open market as detailed in **Table 1.10**.

Table 1.10
Trends in capital receipt

(₹ in crore)

	2010-11	2011-12	2012-13	2013-14	2014-15
Non-Debt Capital receipts					
(i) Recoveries of Loans and Advances	2	168	2	4	3
(ii) Miscellaneous capital receipts (asset sale)	-	-	-	-	-
Total non-debt Capital receipts	***2***	***168***	***2***	***4***	***3***
Debt Capital receipts (Public Debt)					
(i) Ways and Means Advances and Overdraft	1,847	4,436	3,742	2,850	7448
(ii) Loans and advances from Union Government	-1016**	-32*	14	15	12
(iii) Other Debt (Market/ Institutional Loans)	6,222	4,068	3,272	3137	2799
Total debt Capital receipts	***7,053***	***8,472***	***7,028***	***6,002***	***10259***
Total Capital receipts	**7,055**	**8,640**	**7,030**	**6006**	**10262**

*includes ₹56.06 crore loans written off by Ministries of GOI on recommendations of 13th Finance Commission

**includes (-) ₹103229.22 lakh on account of rectification, actual addition ₹1687.60 lakh during the year

1.6 Public Account receipts

In respect of sums credited to the public accounts of the State, the Government acts as a trustee or banker. Major constituents of the public accounts are State

Provident Fund, Insurance/ Pension Funds, Reserve Funds, Deposits and Advances. Besides, the public accounts section of the Government Accounts is also used to record transitory transactions under Suspense and Miscellaneous and remittance heads before their final accounting to appropriate receipt or payment head of account as also cash balance transactions. **Table 1.11** shows trends in receipts and disbursements under various segments of the public accounts.

Table 1.11

Profile of public accounts

(₹ in crore)

Constituents of Public Accounts	Public Account Receipts		Disbursement from Public Account		Excess of receipts over disbursement	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
State Provident Fund, Pension/ Insurance Funds	3820	3883	1830	1650	1990	2233
Reserve Funds	637	489	234	1166	403	-677
Deposits	2817	3172	2658	2797	159	375
Advances	321	424	321	423	-	01
Remittances	9612	13777	8443	11236	1169	2541
Receipts in Cash Balance Investment Account	14530	15131	15397	15461	-867	-330
Receipts in Departmental Cash Balances Account	36	79	50	79	-14	-
Other Suspense and Misc	633	287	683	524	-50	-237
Total	**32406**	**37242**	**29616**	**33335**	**2790**	**3906**

The net decrease in the Reserve Funds is due to excess disbursements in respect of State Disaster Response Fund and General Insurance Fund- Janta Insurance during the year 2014-15 viz-a-viz actual Receipts.

1.6.1 Funds transferred to State Implementing Agencies outside the State Budget

Prior to 2014-15 transfer of Funds under CSS Schemes used to take place through two modes viz the State budget and direct transfer to District Rural Development Officers and independent societies. Starting with 2014-15 the entire financial assistance to the States for CSS was to be routed through the Consolidated Funds of the States under the head Central Assistance to State/UT Plans. Excepting major schemes such as Sarva Shiksha Abhiyan, National Rural Health Mission and Mahatma Gandhi National Rural Employment Guarantee Schemes, where the funds were routed through the State Budget in 2014-15, there are some other 30 schemes costing more than one crore amounting to ₹293.66 crore, which continue under direct funding by the Union Government to the J&K implementing agencies (DRDA, Societies etc) during the year 2014-15. They have been placed at ***Appendix 1.6***. These funds are outside the State Budgetary and accounting system of the Government. Examples of Major programmes /schemes are given in **Table 1.12** below:-

Table 1.12

Funds transferred directly to State implementing agencies (unaudited)

(₹ 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	2012-13	2013-14	2014-15
Package for Special Category State (DIPP)	J&K Financial Corporation Ltd	23.14	59.59	33.21	41.17	35.69
MP's Local Area Development Scheme (MPLADS)	District Development Commissioner	24.00	40.00	45.00	-	35.00
Technology up gradation fund scheme (TUFS)	J&K Bank Ltd.	6.24	12.98	16.34	-	8.92
Buddhist & Tibetan Studies	Galdan Targaisling Cultural Welfare Society	7.43	6.58	2.97	-	9.68
Off Grid DRPS	Renewable Energy Development Agency	21.87	82.98	33.93	-	22.02
Grid interactive renewal Power (MNRE)	J&K Power Development Corporation	-	9.75	29.20	-	38.64
Skill Development	J&K Skill development initiative modular Employable skill society	-	-	6.27	11.31	2.63
Total		**82.68**	**211.88**	**166.92**	**52.48**	**152.58**

(Source: CPMS of CGA's website)
(Consolidated data base at apex level was not maintained by the State government)

The financial assistance provided by the Centre for CSS is in the nature of Grants and is reflected under Revenue Receipts of the State. Since the Budget of the some major schemes like SSA, NHRM and MGNREGS was placed under Capital Section for creation of the Asset the routing of CSS transactions through the State Budget has contributed to the decrease in revenue deficit and increase in Capital outlay of the State during 2014-15.

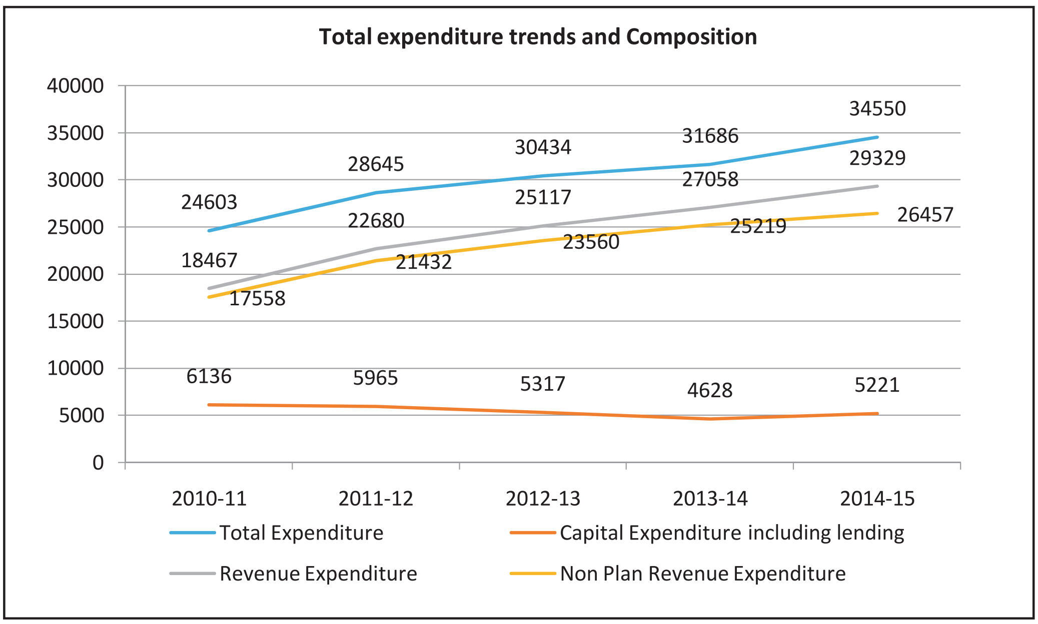
1.7 Application of resources

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.

1.7.1 Growth and composition of expenditure

Chart 1.6 presents the trends in total expenditure during 2010-15.

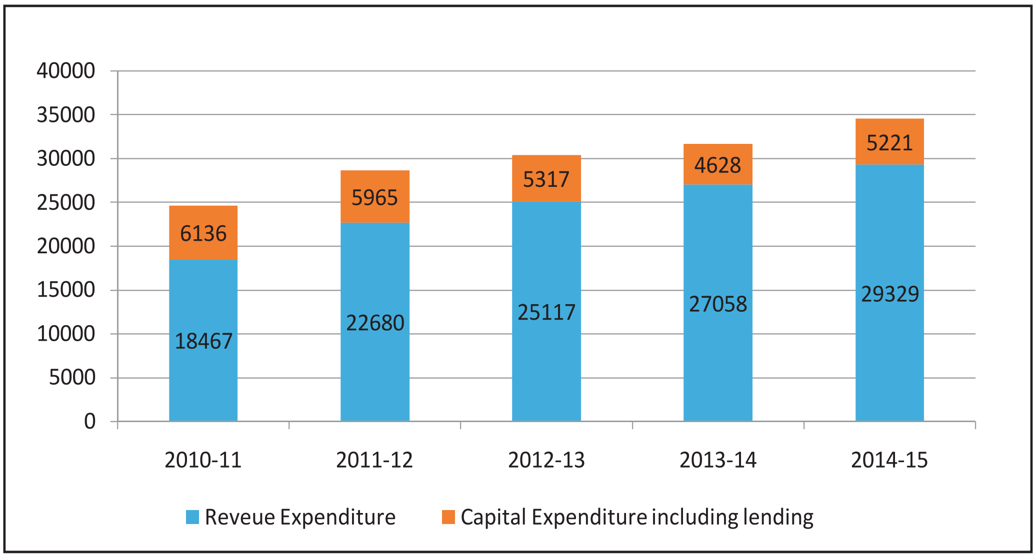
Chart- 1.6



The composition of total expenditure in terms of revenue-capital classification is depicted in **Chart 1.7**.

Charts 1.7

Total Expenditure: Trends in Share of its components



From **Chart 1.7** above, it may be seen, that the total expenditure increased by ₹9947 crore from ₹24603 crore in 2010-11 to ₹34550 crore in 2014-15. The capital expenditure (including lending) decreased from ₹6136 crore to ₹5221 crore over the same period, while the revenue expenditure increased by ₹10,862 crore from ₹18,467 crore in 2010-11 to ₹29329 crore in 2014-15.

The total expenditure, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are tabulated in **Table 1.13**.

Table 1.13
Total expenditure – Basic Parameters

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Total Expenditure (TE) (₹ in crore)	**24603**	**28645**	**30434**	**31686**	**34550**
Total Plan Expenditure (₹ in crore)	**6639**	**6722**	**6528**	**6011**	**7373**
Total Non-Plan Expenditure (₹ in crore)	**17892**	**21857**	**23813**	**25554**	**27090**
Rate of growth (*per cent*)	13.86	16.43	6.25	4.11	9.04
TE/GSDP ratio (*per cent*)	42.36	42.01	39.24	36.29	39.30
RR/TE ratio (*per cent*)	90.37	86.52	86.14	85.62	83.76
Buoyancy of total expenditure with reference to					
GSDP(ratio)	0.69	0.94	0.49	0.30	22.60
RR(ratio)	0.52	1.43	1.08	1.18	1.35
Revenue Expenditure (RE) *(₹ in crore)*	18,467	22,680	25,117	27058	29329
Non-Plan Revenue Expenditure (NPRE)	17,558	21,432	23,560	25,219	26457

Plan Revenue Expenditure (PRE)	909	1,248	1,557	1839	2872
Rate of Growth of					
RE (*per cent*)	20.51	22.82	10.74	7.73	8.39
NPRE (*per cent*)	18.87	22.07	9.93	7.04	4.91
PRE (*per cent*)	64.38	37.29	24.76	18.11	56.17
Ratio (*per cent)*					
RE as percentage of TE	75.06	79.18	82.53	85.39	84.89
NPRE/GSDP (*per cent*)	30.80	32.05	30.70	29.26	30.09
NPRE as percentage of TE	71.37	74.82	77.41	79.59	76.58
NPRE as percentage of RR	78.97	86.48	89.87	92.96	91.42
Buoyancy ratio of Revenue expenditure with					
GSDP	1.02	1.31	0.84	0.56	20.97
Revenue Receipts	0.78	1.99	1.86	2.22	1.26

Out of the total expenditure of ₹34550 crore during 2014-15, ₹7373 crore was plan expenditure (₹5784 crore under State plan and ₹1589 crore under Central and centrally sponsored plan) and ₹27090 crore was non-plan expenditure. There is increase of expenditure under Plan schemes as well as in Non-Plan Expenditure by ₹1362 crore and ₹1536 crore respectively with the previous year.

1.7.2 Revenue expenditure (Preponderance of revenue expenditure)

Bulk of Government expenditure goes towards Revenue expenditure which does not usually result in fresh creation of assets for the Government and is meant for normal running and maintenance of Govt machinery. The total revenue expenditure for the year 2014-15 was ₹29329 crore, it increased from ₹18467 crore in 2010-11 showing a growth rate of 58.82 *per cent* during the period. The non-plan revenue expenditure (NPRE) during the same period increased from ₹17558 crore to ₹26457 crore, showing a growth of 50.68 *per cent*. *62 per cent* of the Revenue was towards the committed expenditure viz interest payment, salaries, pension and subsidies.

The total non-plan expenditure recorded an increase of ₹1502 crore (seven *per cent*) from ₹25675 crore (includes disbursement of loans and advances) in 2013-14 to ₹27177 crore in 2014-15. The steady increase in non-plan expenditure is a cause of concern as it erodes the resource base for developmental interventions. **Table 1.14** highlights the four most significant constituents of NPRE and the pre-emption of budgetary resources caused by rising NPRE.

Table 1.14
Composition of non-plan revenue expenditure (NPRE)

Main drivers of NPRE growth	Actual 2012-13 (₹ in crore)	As *per cent* of NPRE (2012-13)	Actual 2013-14 (₹ in crore)	As *per cent* of NPRE (2013-14)	Actual 2014-15 {₹ in crore}	As percent Of NPRE {2014-15}
(i) **Salaries**	10,298	43.7	10,845	43.00	10863	41.06
(ii) **Pension**	3,463	14.7	3,592	14.24	3686	13.93
(iii) **Interest Payments**	2,707	11.5	3001	11.90	3533	13.35
(iv) **Revenue expenditure on Power**	4,393	18.7	4,303	17.06	4982	18.83
Total	20,861	88.6	21741	86.21	23064	87.18
Non-Plan Revenue Expenditure	23,560	100.00	25,219	100.00	26457	100.00

From above, it may be seen that the four major items of NPRE- salaries, pension, interest payments and revenue expenditure on power take away more than 87 *per cent* budgetary resources leaving little for other expenditure.

Share of salaries/wages/pension in the total expenditure has ranged between ₹13761crore and ₹14549 crore (52 *per cent* and 51 *per cent* of revenue receipts) during 2012-13 to 2014-15. The expenditure on payment of interest has increased from ₹2707 crore to ₹3533 crore during the same period.

1.7.2.1 Burden of unrecovered cost of procurement and supply of power

The function of electricity supply to consumers is handled departmentally in the State. Hence, the receipts and expenditure on procurement and supply of electricity forms part of the State government accounts. Steadily rising gap between the revenue expenditure of the Power Development Department and revenue receipts is the most significant structural imbalance in the Budget of the Government and a drain on the resources, which could otherwise be deployed for developmental outlays. The trend in the gap between receipts from power consumers' and expenditure on power purchase is given in **Table 1.15.**

Table 1.15
Shortfall in the performance of Power Development Department

(₹ in crore)

Financial year	Target revenue	Actual revenue	Expenditure on Power purchase	Deficit
2010-11	1209	822	2310	1488
2011-12	1486	1007	3000	1993
2012-13	2,387	1589	3870	2281
2013-14	2,841	1533	3738	2205
2014-15	2630	1428	4404	2976

As can be seen from the details above, the targets for the collection of the tariff have not been achieved. The shortfall in collection of revenue was ₹1202 crore during 2014-15 as compared to targets. The actual sale of Power is only 32.43 *per cent* of the purchase of power resulting in deficit of ₹2976 crore.

1.7.3 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 1.16** presents the trends in the expenditure on these components during 2009-14.

Table-1.16
Components of committed expenditure

(₹ in crore)

Components of Committed Expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
Salaries *of which*	7772 (34.96)	10113 (40.81)	10600 (40.43)	11605 (42.78)	11733 (40.55)
Salaries Non-Plan Head	*7467*	*9665*	10036	10845	10961
Salaries Plan Head	*305*	*448*	564	760	772
Interest Payments	2283 (10.26)	2383 (9.61)	2707 (10.33)	3001 (11.06)	3533 (12.21)
Pensions	2242 (10.08)	3296 (13.29)	3463 (13.21)	3592 (13.24)	3686 (12.74)

(Figures in parenthesis represent percentage of revenue receipts.)

The expenditure on salary and wages increased by 1.11 *per cent* during 2014-15 and the pension payments showed upward trend from ₹2242 crore in 2010-11 to ₹3686 crore in 2014-15 and increased by 2.62 *per cent* during 2014-15. The interest payment increased by ₹1250 crore from ₹2283 crore in 2010-11 to ₹3533 crore during 2014-15.

As reported in Appendix-XII of the Finance Accounts 2014-15, committed liabilities as on 31 March 2015 aggregated to ₹2673.34 crore, of which ₹1457.73 crore was on account of compensation payable to landowners on land acquisition & ₹1044.13 crore on account of unpaid bills on works and supplies.

1.7.4 Financial assistance by State government to Local & autonomous Bodies and other institutions

The assistance provided by way of grants-in-aid to local & autonomous Bodies and other institutions by various departments of the State government during the current year relative to the previous years is tabulated in **Table 1.17**.

Table 1.17
Financial assistance to Local Bodies etc

(₹ in crore)

Name of the Department	2010-11	2011-12	2012-13	2013-14	2014-15
Education, Sports Art & Culture	171.84	213.46	209.81	538.22	303.68
Housing and Urban Development	253.98	289.28	303.11	192.45	447.55
Agriculture	203.47	151.61	216.42	13.8	158.93
General Administration	6.13	8.50	9.14	19.46	12.55
Industries	11.66	21.41	75.23	23.52	20.32
Tourism	150.40	5.52	1.76	8.86	20.50
Administration of Justice	3.67	4.48	4.80	0.05	4.77
Health and Family Welfare	0.36	0.34	0.23	14.06	134.82
Others	644.76	1100	1263.78	671.38	432.23
Total	**1446.27**	**1795.16**	**2084.28**	**1481.38**	**1535.35**
Assistance as a percentage of Revenue expenditure	7.83	7.91	8.30	5.47	5.23

The grants-in-aid are mainly utilised by the autonomous institutions for the payment of salary to their employees. The Government decided to pay the arrears of pay and pension revision following the extension of the recommendations of the Sixth Central Pay Commission to State government employees in five equal annual instalments with part of the liability being carried forward beyond 2013-14. The level of financial assistance sharply decreased from ₹2084.28 crore in 2012-13 to ₹1535.35 crore in 2014-15. During 2014-15, 48.93 *per cent* of the total assistance was given to the Education & sports and Housing & Urban

Development. The assistance categorised as 'Others' comprised mainly the assistance to Ladakh Autonomous Hill Development Councils for Leh to the tune of ₹404.22 crore

There are 4128 No. of Panchayat Raj Institutions in J&K State. An Amount of ₹86.05 crore was released by the Government as Financial assistance to these institutions during the year 2014-15.

1.8 Quality of Expenditure

1.8.1 Adequacy of Public Expenditure

To enhance human development the State is required to step up their expenditure on key social services like Education, Health etc. **Table 1.18** analyses the fiscal priority and fiscal capacity of the Government with regard to development expenditure, social sector expenditure and Capital expenditure during 2014-15.

Table 1.18

Fiscal Priority of the Special Category* (SCS) in 2011-12 and 2014-15

Fiscal Priority of the State	AE/GSDP	SSE/AE	ESC/AE	DE/AE	CE/AE	Education/ AE	Health/AE
Special Category States (Ratio) 2011-12	26.39	37.02	28.37	61.26	14.02	18.86	5.40
Jammu & Kashmir Average (Ratio) 2011-12	42.01	27.67	37.00	64.93	20.59	13.16	5.38
Jammu & Kashmir Average (Ratio)2014-15	39.30	29.51	33.88	63.40	14.86	13.06	5.84
Special category States Average (Ratio) 2014-15	N/A	38.14	28.89	63.51	14.22	19.31	5.49

*Based on 9 Special category States 1) Assasm 2) Himachal Pradesh 3) Manipur 4) Meghalaya 5) Mizoram 6) Nagaland 7) Sikkim 8) Tripura 9) Uttrakhand.
AE: Aggregate Expenditure DE: Development Expenditurte SSE: Social Sector Expenditure CE: Capital Expenditure ESC: Economic Sector

Fiscal priority:

- Aggregate expenditure of J&K as ratio of GSDP was higher in 2011-12 as compared to special category states.
- The priority given to the Education in J&K lowers than the Special category States during 2011-12 & 2014-15.
- The ratio of CE to AE was higher during 2011-12 as compared to Special Category States.
- The ratio of SSE to AE was lower than the special category States during

2011-12 and 2014-15 whereas it was higher in Economic Sector to AE during the same period.

1.8.2 Efficiency of Expenditure Use

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 rationalisation measures and lay emphasis on provision of core public and merit goods[2]. Apart from improving the allocation towards development expenditure[3], 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/or GSDP) 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 (and/or GSDP), the better would be the quality of expenditure. **Table 1.20** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* previous years. The development expenditure showed an increase of ₹5607 crore (34.41 *per cent*) during 2010-11 to 2014-15 but decreased from 66.24 *per cent* to 63.40 *per cent* viz-a-viz Total Expenditure during the same period.

Table 1.19 and **Chart 1.8** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

2 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.

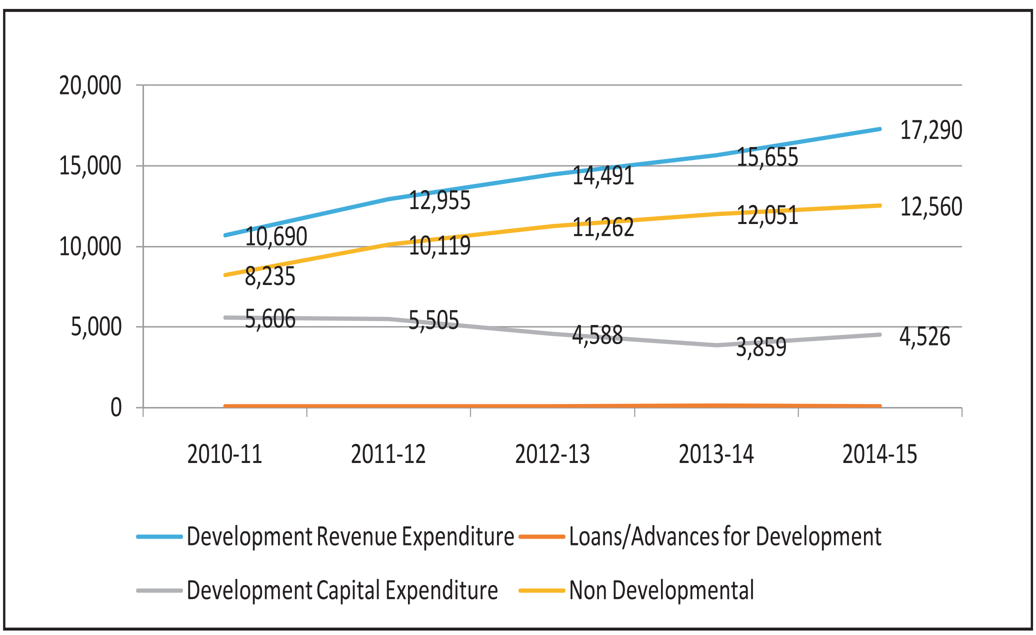
3 The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Table-1.19
Development expenditure

(₹ in crore)

Components of Development Expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
Total Expenditure	**24603**	**28645**	**30434**	**31686**	**34550**
Total Development Expenditure	**16296**	**18460**	**19079**	**19514**	**21903**
Development Revenue Expenditure (₹ in crore)	**10690**	**12955**	**14491**	**15655**	**17290**
Share of Development revenue expenditure in total expenditure (*per cent*)	***43.5***	***45.2***	***47.6***	***49.41***	***50.04***
Development Capital Expenditure (₹ in crore)	**5606**	**5505**	**4588**	**3859**	**4526**
Share of Development Capital Expenditure in total expenditure (*per cent*)	***22.8***	***19.2***	***15.1***	***12.18***	***13.10***
Loans/Advances for Development (₹ in crore)	**71**	**66**	**93**	**121**	**87**
Total Development Revenue & Capital to total Expenditure(*per cent*)	**66.24**	**64.44**	**62.69**	**61.59**	**63.40**

Charts 1.8
Trends in expenditure by activities



The share percentage of Development capital expenditure in total expenditure fell from 22.8 *per cent* in 2010-11 to 13.10 *per cent* in 2014-15 while as the share of Development Revenue Expenditure in total expenditure increased from 43.5 *per cent* to 50.04 *per cent* during the same years.

Table 1.20 provides analysis of the sector-wise expenditure and its relation to developmental indices.

Table 1.20

Efficiency of Expenditure use in selected Social and Economic services

(in per cent)

Social/ Economic Infrastructure	2012-13			20113-14			2014-15		
	Ratio of CE to TE	In RE, the share of		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		S & W	O& M
Social Sector (SS)									
General Education	13.90	85.34	-	12.2	82.72	0.01	11.77	75.03	1.23
Health and Family Welfare	18.67	87.45	0.56	13.08	85.19	0.78	10.57	76.04	0.72
WS, Sanitation & HUD	34.45	51.56	3.35	21.99	55.68	3.36	25.87	50.10	6.24
Others	23.65	14.67	-	1.30	13.17	-	21.78	19.68	0.25
Total (SS)	**16.35**	**74.56**	**-**	**13.47**	**67.24**	**-**	**15.91**	**63.06**	**1.89**
Economic Sector (ES)									
Agriculture and Allied Activities	29.11	85.36	0.15	22.29	79.78	0.18	29.56	79.05	0.86
Irrigation and Flood Control	53.35	83.65	6.46	44.49	77.29	6.95	37.67	76.21	8.00
Power and Energy	11.71	13.67	0.84	8.13	10.89	0.92	2.77	10.00	0.98
Transport	87.92	72.40	30.43	71.74	0.71	43.01	41.80	0.16	14.65
Others	57.61	31.66	-	10.82	42.45	-	72.31	46.59	0.73
Total (ES)	**39.74**	**36.83**	**-**	**25.31**	**32.67**	**-**	**24.93**	**29.05**	**2.23**
Total (SS+ES)	**27.34**	**51.92**	**-**	**19.77**	**50.11**	**-**	**20.75**	**45.77**	**2.47**

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 showed consistent decline from 27.34 *per cent* in 2012-13 to 19.77 *per cent* in 2013-14 and to 20.75 *per cent* in 2014-15. In the revenue expenditure, salary and wages form major component within the Social and Economic services and their share has shown a marginal decrease from 51.92 in 2012-13 to 50.11 *per cent* during 2013-14 and to 45.77 *per cent* in 2014-15.

1.8.3 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. The system of presenting outcome budget needs to be introduced.

1.9 Financial analysis of Government 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.

1.9.1 Incomplete projects

On the basis of the information furnished by the departments, details of incomplete projects costing ₹1 crore and above as on 31 March 2015 is given in ***Appendix IX*** of the Finance Accounts. There were 671 incomplete projects as per details given in **Table 1.21**.

Table 1.21

Department-wise profile of incomplete projects as on 31 March 2015

Department	No. of incomplete Projects	Sanctioned Project Cost (₹ in crore)	Revised Cost (₹ in crores)	Cum. Actual expenditure (₹ in crore)	Cost over run (₹ in crore)
Public works Jammu	574	2452.69	2518.93	1328.10	66.24[6]
Power Development Department Jammu	30	525.29	655.53	401.16	130.24[6]
Public Health Engineering Jammu	56	81.92	110.36	96.63	28.44[41]
Irrigation and Flood Control Kashmir	11	77.48	77.48	75.63	Nil
Total	**671**	**3137.38**	**3362.30**	**1901.52**	**224.92**

[No. of works are in brackets]

As on 31 March 2015 there were 671 projects/works costing ₹1 crore or above which had overshot their scheduled completion dates. These incomplete projects had a total sanctioned cost of ₹3137.38 crore revised to ₹3362.20 crore. An amount of ₹1901.52 crore had been expended on these incomplete projects by 31 March 2015.

In respect of 6 projects of PWD, 41 projects of PHE and 6 projects of PDD Divisions the cost was revised upwards by ₹224.92 crore. Reasons for revising the cost are awaited from these Departments.

Blocking of funds on incomplete projects/works impinged negatively on the quality of expenditure and deprived the State of the intended benefits for prolonged periods.

1.9.2 Financial results of Irrigation Projects

The financial results of seven major irrigation projects involving a capital expenditure of ₹324.25 crore at the end of March 2015 showed that Revenue realised from these schemes during 2014-15 was only ₹0.90 crore (0.28 *per cent* of the capital outlay of ₹324.25 crore). The revenue receipts of none of these schemes were sufficient to cover even the direct working expenses. After meeting the working expenses and interest charges, the schemes suffered a net loss of ₹1.20 crore (0.37 *per cent* of the capital outlay). The major loss making projects were Ranbir canal & Partap canal.

1.9.3 Investment and Returns

As per the Statement 8 of the Finance Accounts, as on 31 March 2015, the State government had cumulatively invested ₹537.17 crore in three Statutory Corporations (₹220.16 crore), 23Companies (₹269.80 crore), eight Cooperative Institutions/Local Bodies (₹37.83 crore), two Rural Banks (₹9.04 crore) and two Joint Stock Companies (₹0.34 crore). **Table 1.22** gives overall picture of return on investment *vis-a-vis* the average cost of Government borrowing.

Table-1.22
Return on Investment

Investment/Return/Cost of Borrowings	2010-11	2011-12	2012-13	2013-14	2014-15
Investment at the end of the year (₹ in crore)	470.7	484.95	498.25	533.27	537.17
Return (₹ in crore)	56.71	68.16	87.35	128.88	128.88
Return *(per cent)*	12.05	14.05	17.53	24.17	23.99
Average rate of interest on all Government liabilities *(per cent)*	7.61	7.06	7.07	7.07	7.6
Difference between interest rate and return *(per cent)*	4.44	6.99	10.46	17.10	16.39

During 2013-14 & 2014-15, the return on investment solely came from the Jammu and Kashmir Bank Limited (₹128.88 crore each year), in which the Government holds 53 *per cent* equity.

1.9.4 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 1.23** presents the position of loans and advances advanced/outstanding as on 31 March 2015, interest receipts *vis-a-vis* interest payments during the last 5 years.

Table 1.23
Average interest received on loans advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2010-11	2011-12	2012-13	2013-14	2014-15
Opening Balance	1066.42	1136.55	1033.69	1292.55*	1409.83
Amount advanced during the year	71.63	65.61	93.40	121.41	86.80
Amount repaid during the year	1.50	168.47	1.53	4.13	2.69
Closing Balance	1136.55	1033.69	1125.56	1409.83	1493.93
Of which **outstanding balance for which terms and conditions have been settled**					
Net addition	70.13	(-) 102.86	91.87	117.28	84.1
Interest Receipts	3.00	4.74	1.31	1.64	1.88
Interest receipts as *per cent* to outstanding Loans and advances	0.26	0.46	0.12	0.12	0.13
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	7.61	7.06	6.72	6.72	7.31
Difference between interest payments and interest receipts (*per cent*)	7.35	6.60	6.60	6.60	7.18

(* : An amount of ₹167.00 crore has been proforma increased to the balance as on 31 March 2013 due to rectification of mis – classification intimated by the State Government).

Recoveries of loans and advances are not forthcoming from loss making public sector undertakings. No assessment about potential recoverability of these loans has been made in the FRBM Statements presented to the Legislature.

1.9.5 Cash Balances and their investment

The State Government is banking with the Reserve Bank of India with effect from 01 April 2011 for its cash/overdraft management. The cash balance increased by ₹338 crore during 2014-15, from ₹1063 crore at the end of 2013-14 to ₹1401 crore. Out of this total Cash balance, ₹1381.19 crore was held in cash balance investment account. There is the (-) balance of ₹81 crore with the RBI on one hand and on the other hand there is the Cash Balance of ₹1401 crore. The cash balance could have been utilised to set off the negative cash balance with RBI.

1.10 Assets and Liabilities

1.10.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the government is not done. However, the government accounts do capture the financial liabilities of the government and the assets created out of the expenditure incurred at historical cost, i.e., in terms of the cash inflow and outflow in nominal terms without making any adjustment for appreciation/ depreciation. Statement 12 of the Finance Accounts 2014-15 gives an overview of sources and application of funds. Statement 6 and Statement 17 of the Finance Accounts 2014-15 provide summary position of the government's financial liabilities such as borrowing from open market and financial institutions, loans and advances from the Union government and net receipts under public accounts in respect of which the government functions as a trustee or banker. 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/ letters of comfort issued by the State government.

The Finance Accounts of the State government do not include a complete statement of all assets belonging to the State government because the subsidiary records of assets and their valuation are not maintained by the Accountant General (A&E), Jammu and Kashmir. The Finance Accounts merely depict cumulative capital expenditure, each year's capital expenditure being added in nominal terms without any adjustment of appreciation/ depreciation of assets.

1.10.2 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 composition of fiscal liabilities during the five years is presented in table **1.24** and ***Charts 1.9*** and ***1.10*** (Please also see ***Appendix 1.3*** for trends in outstanding fiscal liabilities of the government since 2010-11).

Table-1.24
Fiscal liabilities

(₹ in crore)

Narration	2010-11	2011-12	2012-13	2013-14	2014-15
Public Account Liability & % of Total Liability	11405 36%	13575 38%	15630 40%	18183 39%	20114 42%
Borrowings from open market & Finanacial Institutions	17835 57%	20789 57%	22796 56%	24715 55%	26525 55%
Loans and advances from GOI	2032 7%	1903 5%	1839 4%	1775 4%	1675 3%
Total Fiscal Liability	31272	36267	40265	44673	48314
Growth Rate	8.82	15.97	11.02	10.94	8.15
Revenue Receipts	22234	24783	26217	27128	28939
Fiscal Liability % of Revenue Receipts	140.65	146.34	153.58	164.67	166.95
Growth rate of revenue receipts	26.41	11.46	5.79	3.47	6.68
Buoyancy Ratio					
Fiscal Liability Viz-a-Viz Revenue Receipts.	0.33	1.40	1.90	3.15	1.22
Fiscal Liability viz-a-viz GSDP	0.44	0.92	0.86	0.79	20.37

Chart 1.9

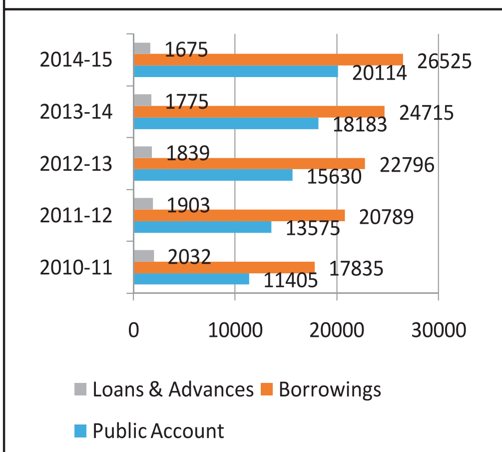
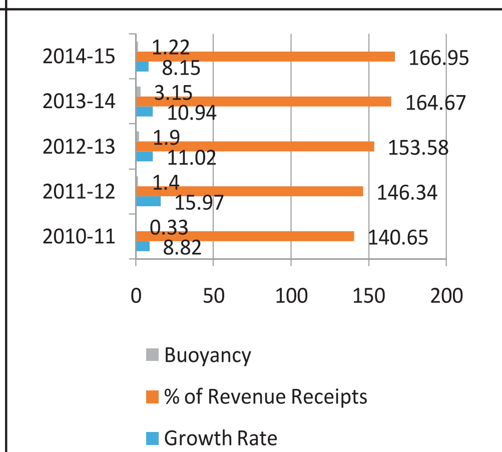


Chart 1.10



The overall fiscal liabilities of the government increased from ₹44673 crore at the end of 31 March 2014 to ₹48314 crore by the end of 31 March 2015. As a percentage of GSDP, the stock of accumulated fiscal liabilities increased from 51.2 *per cent* at end of 2013-14 to 54.95 *per cent* at end of 2014-15. At end of 2014-15, the accumulated liabilities were 1.67 times of the government's revenue receipts during 2014-15 and 5.81 times government's own tax and non-tax revenues during 2014-15. The buoyancy ratio of these liabilities with respect to GSDP during the year 2014-15 was 20.37 indicating that for each one percent increase in GSDP fiscal liabilities grew by 20.37 times.

1.10.3 Management of Reserve Funds

'Reserve Funds' are funds forming part of the public accounts of the State by appropriating sums from the Consolidated Fund and setting aside for an earmarked purpose. **Table 1.25** shows movement of closing balances in various reserve funds as on 31st March 2015. The cumulative aggregate balance in these funds as at the end of 31 March 2015 was ₹1331 crore of which ₹11 crore has been invested outside government accounts. It is also seen from a review of receipt/ disbursement transactions in the funds, that most of the funds were dormant, having no or negligible transactions.

Table 1.25
Trend in year-end Closing Balances under Reserve Funds

(₹ in crore)

RESERVE FUNDS	2010-11	2011-12	2012-13	2013-14	2014-15
Reserve Funds Bearing interest					
Calamity Relief Fund (now State Disaster Response Fund)	427	470	526	882	202
Total - Reserve Fund Bearing Interest	***427***	***470***	***526***	***882***	***202***
Reserve Funds Not Bearing interest					
Calamity Relief Fund (now State Disaster Response Fund)	28	28	28	28	28
Sinking fund	-	-	32	61	97
Famine Relief Fund	9	9	9	9	9
Depreciation and Renewal Reserve Funds of Government Commercial Deptts./ Undertakings.	574	574	574	574	574
Depreciation and Renewal Reserve Funds of Government Non-Commercial Deptts.	73	73	73	73	73
Development Fund for Agricultural Purposes	39	39	39	41	41
Constituency Development Funds	50	78	95	95	72
Other Development and Welfare Funds	42	73	104	104	85

General Insurance fund (Janta Insurance)	21	23	71	68	66
Guarantee Redemption Fund	5	5	5	6	7
Other Funds	41	46	50	67	77
Reserve Funds Not Bearing interest	***881***	***948***	***1,079***	***1,126***	***1128***
Total -Reserve Funds	**1,308**	**1,419**	**1,605**	**2,008**	**1331**
Of which balances invested					
Investments from State Disaster Response Fund	*11*	*11*	*11*	*11*	*11*

Out of ₹28 crore under Non Bearing Interest Reserve Fund only ₹11 crore was invested, the remaining amount of ₹17 crore was neither invested nor transferred to the Interest Bearing Reserve Fund after re-designation of the CRF as SDRF under Major Head- 8121.

1.10.4 Major Head 8670- Cheques & Bills

The system of cheques & bills earlier in vogue in the Food & Supply department has since been dispensed with vide Grant Order No:86-CAPD of 2011 dated: 20.10.2011 and expenditure on purchase of rice and wheat is made on payment vouchers and the transaction is booked under Major Head 4408-Capital Outlay on Food Storage & warehouse. However, there is still an un-cleared balance of ₹215.64 crore under the Major Head 8670-Cheques & Bills

1.10.5. Contingent liabilities

1.10.5.1 Status of Guarantees

Guarantees are liabilities contingent on 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 could be extended by the State and outstanding guarantees for the last five years is tabulated in **Table 1.26**.

Table-1.26
Guarantees given by the State government

(₹ in crore)

Guarantees	2010-11	2011-12	2012-13	2013-14	2014-15
Outstanding amount of guarantees	2708	2098	611	2714	2860

The FRBM Act, 2006 enjoins upon the State government to limit the amount of annual incremental risk weighted guarantees to 75 *per cent* of the total revenue receipts in the year proceeding the current year or at 7.5 *per cent* of GSDP of the year proceeding the current year, whichever is lower. The total outstanding Guarantees as on 31 March 2015 aggregated to ₹2859.63 crore which was 10.54 *per cent* of the total Revenue Receipts of ₹27127.98 crore in 2013-14 & 3 *per cent* of the GSDP of ₹87921 crore. However, the State Government has not yet assessed the risks of various Guarantees.

The State Government has set up Guarantee Redemption Fund vide Order No. dated 22nd August 2006, for meeting its obligations arising out of guarantees issued on behalf of the State Government Departments/State Own Corporations and PSUs and Other Autonomous & Statutory Bodies. Though, the above GRF order mentions about collection of Guarantee commission/fee but the exact percentage of Guaranteed commission/fee to be levied has not been specified/ prescribed in the order.

However, as against the State Government estimated receivable Guarantee commission /fee of ₹0.29 crore, no Guarantee commission/fee was received by the Government and no guarantee was evoked during the year.

1.11 Debt management

1.11.1 Debt profile

Table 1.27 shows the outstanding public debt and other liabilities in last five years, showing the liabilities as *per cent* of GSDP and per capita.

Table 1.27

Burden of Public debt and other liabilities

Year	Year-end fiscal liabilities (₹ in crore)	GSDP (₹ in crore)	Liabilities as *per cent* of GSDP(*per cent*)
2010-11	31,272	58073	53.84
2011-12	36,267	68185	53.18
2012-13	40,265	76916	52.35
2013-14	44,673	87570	51.01
2014-15	48314	87921	54.95

The 'fiscal liabilities' include (a) liabilities on account of borrowing from banks, financial institutions, open market and Union government (all accounted for in the Consolidated Fund as 'public debt') and (b) other liabilities on account of State Provident Fund, Pension/Insurance Fund, Reserve Funds and Deposits (all accounted for under the public accounts of the State). The figure of 'fiscal liabilities' represent balances under the specified heads and do not account for year-end cash balances (whether invested or not). Increase in per capita liabilities from year to year signifies rising debt burden on the State and individual persons.

1.11.2 Debt sustainability

Debt sustainability implies State's ability to service the debt. Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability[4] of the State. The analysis of variation in debt sustainability indicators of the State for the period of 5 years beginning from 2010-11 is given in **Table 1.28**

Table 1.28

Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2010-11	2011-12	2012-13	2013-14	2014-15
Ratio of debt to GSDP *(per cent)*	34.21	33.28	32.03	30.25	32.07
Ratio of debt to Revenue Receipts *(per cent)*	89.35	91.56	93.97	97.65	97.45
Sufficiency of Non-debt Receipts (Resource Gap) (₹ in crore)	1622	-1327	-505	-325	-1048
Net Availability of Borrowed Funds (₹ in crore)	254	2612	1291	1406	109
Burden of Interest Payments (Interest Payment to Revenue Receipts Ratio)	0.10	0.09	0.10	0.11	0.12
Growth of Interest Payment/ Revenue Receipts	0.25	0.38	2.35	3.13	2.65

With the retirement of high cost overdraft in 2010-11 which the Government had with the Jammu and Kashmir Bank Limited, through the special grant of ₹1000 crore from the Union Government, the debt burden of the State had moderated .But increase in primary deficit from ₹1311 crore during 2011-12 to ₹2075 crore during 2014-15 requires attention for debt stabilization.

Debt to Revenue Receipts ratio which indicates the Government's ability to fund annual debt payments from its revenue receipts varied between 89.35 *per cent* to 97.65 *per cent* during the five year period 2010-11 to 2014-15.

The net availability of Borrowed funds like Internal debt, loans and advances from GOI and other sources after providing for repayments [including interest payments] improved from ₹254 crore in 2010-11 to ₹1406 crore in 2014-15 but decreased to ₹109 crore during 2014-15.

[4]*refer glossary of terms –Appendix 4

The negative resources gap of ₹1048 crore during 2014-15 indicates the non-sustainability of debt, while as the positive resources gap indicates the capacity to sustain the debt.

1.11.2.1 Trends in various fiscal parameters and their ratios

Chart 1.11

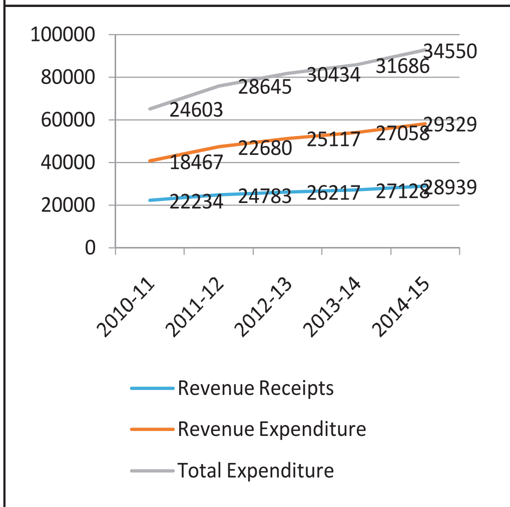


Chart 1.12

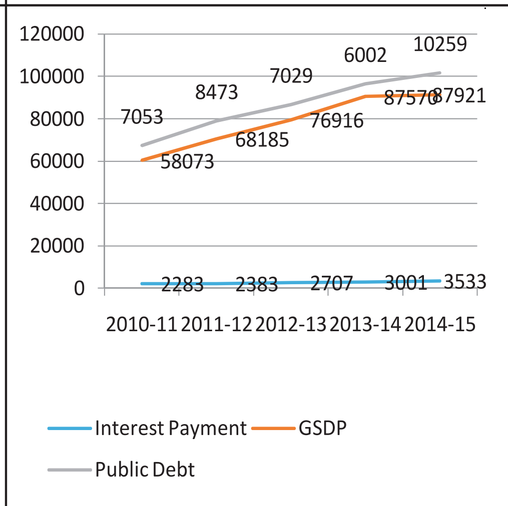


Chart 1.13

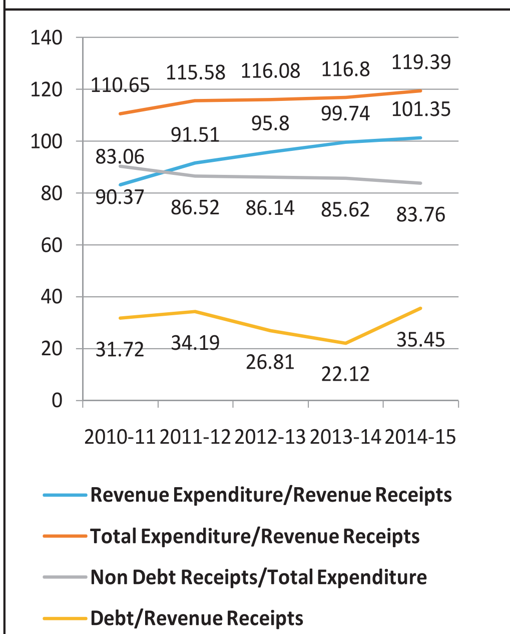
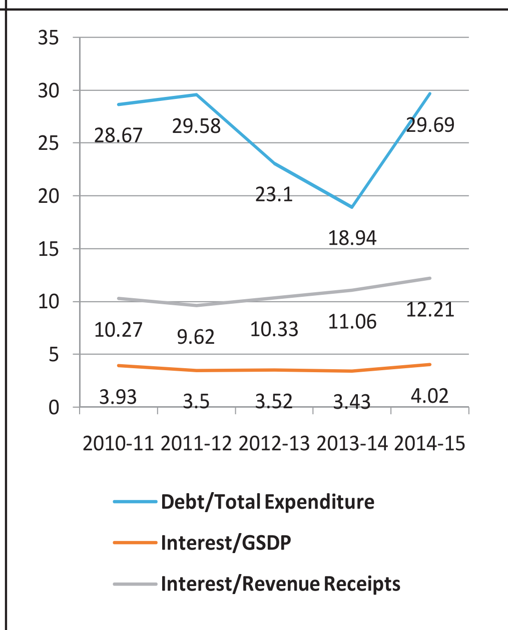


Chart 1.14



From the above **chart 1.13**, it appears that the Ratios (excepting Non Debt receipts to Total Expenditure) in respects of Revenue Expenditure to Revenue Receipts, Total Expenditure to Revenue Receipts and Debt to Revenue Receipts has increased abnormally from 2010-11 to 2014-15. Likewise from **chart 1.14**, it appears that the ratios in respect of Debt to Total Expenditure, Interest to GSDP and Interest to Revenue Receipts has also increased from 2010-11 to 2014-15 which had the adverse effect on the economy of the State.

1.11.3 Market Borrowings

Of all the constituents of outstanding liabilities of the Government, the market loans need special attention because the interest rates thereon are not administered and may go up if in the market perception the Government debt is not sustainable. **Table 1.29** summarizes key debt sustainability indicators in the context of market loans.

Table 1.29

Key debt sustainability indicators in the context of market loans

(₹ in crore except where per cent specified)

Description	2010-2011	2011-2012	2012-2013	2013-14	2014-15
Total liabilities	31,272	36,267	40,265	44,673	48314
Total Public Debt (year end)	19,867	22,691	24,635	26,490	28,200
Total market loans (year-end)	11,298	13,956	15,510	17,205	18,321
Percentage of market loans to total liabilities (*per cent*)	36.1	38.5	38.5	38.5	37.92
Percentage of market loans to total public debt (*per cent*)	56.9	61.5	63.0	65.0	64.97
Weighted average interest rate on market loans (*per cent*)	2.34	7.32	8.00	7.88	7.60
Interest paid on market loans	228	927	1178	1289	1574
GSDP at current market prices	58073	68185	76916	87570	87921
GSDP growth rate (*per cent* per annum)	20.02	17.41	12.80	13.85	0.40
Average Interest Rate on market loans/ GSDP growth rate (*per cent*)	12	42	62	57	1900
Revenue Receipts	22,234	24,783	26,217	27,128	28939
Total Interest Payment	2,283	2,383	2,707	3,001	3533
Interest payments to Revenue Receipts (*per cent*)	10.3	9.6	10.3	11.06	12.21
Primary Deficit	84	1,311	1,510	1,553	2,075
Total liabilities as *per cent* of GSDP	53.84	53.18	52.35	51.01	54.95
Outstanding guarantees	2,708	2,098	611	2,714	2860
Revenue Surplus	3,767	2,103	1,100	70	(-)390
Fiscal Deficit	2,367	3,694	4,216	4,554	5,608

Note: As per the definition of the term 'total liabilities', off budget borrowings through public sector undertakings are also required to be included. However, these are not included in the figures shown above for want of information.

As can be seen from above table, the total liabilities of the state have increased from ₹31272 crore in 2010-11 to ₹48314 crore in 2014-15. Of the increase of total liabilities of ₹17042 crore as much as ₹7023 crore was through market loans. The percentage of market loans to total public debt which was 57 *per cent* in 2010-11 rose to as much as 65 *per cent* by 2014-15. This shows that the dependence of the Government on high interest rate bearing market loans was on increasing trend to fund its expenditures instead of improving states own revenue resources to generate developmental funds.

1.11.4 Arrangement for amortization of debt

As per the recommendations of the TFC the State Government constituted Sinking fund on 30-01-2012 for redeeming is outstanding Liabilities. As per the guidelines, the State Government is required to contribute to this fund a minimum of 10 *per cent* of 0.5 *per cent* of the total outstanding liabilities at the end of 2010-11 every year beginning with the financial year 2011-12 to 2021-22 to make it equal to 0.5 *per cent* of the outstanding liabilities as at the end of 2010-11. In addition, contribution in respect of incremental liabilities from the year thereafter shall be made at 0.5 *per cent* of such incremental liabilities so as to reach the level deemed sufficient to meet the objective of the scheme. Accordingly, as on 31 March 2015 the balance under the fund should have been ₹122.76 crore (₹15.63 crore for year 2011-12, ₹35.62 crore for 2012-13, ₹37.67 crore for 2013-14 and ₹33.84 crore for 2014-15) as against ₹97.12 core (₹15.63 crore for the year 2011-12, ₹16.00 crore for 2012-13, ₹29.76 crore for 2013-14 and ₹35.73 crore for 2014-15) transferred to the fund from the year 2011-12 onwards. Overall there was a short contribution of ₹25.64 crore to the fund till 31 March 2015. The recoverable balance of ₹97.12 crore under the fund was not invested.

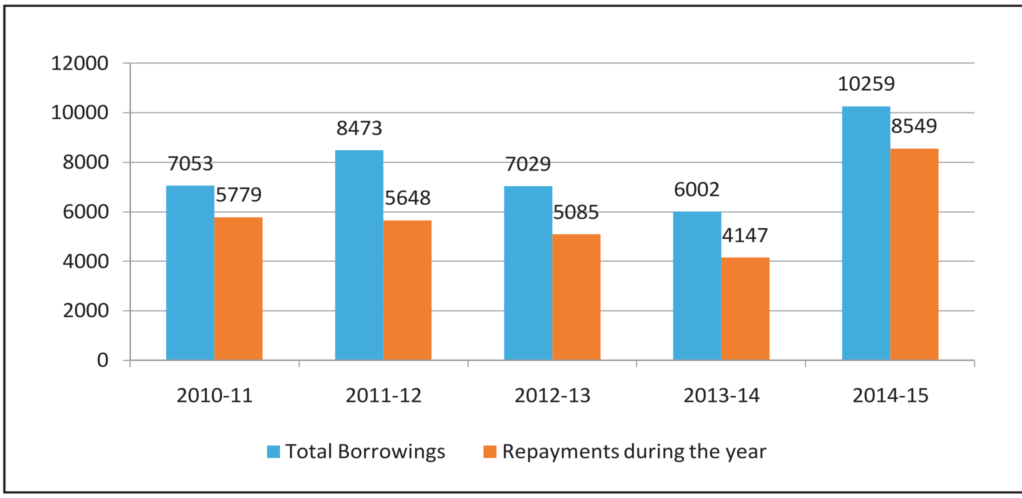
Table 1.30

Details of debt raised during the year and its utilization for payment

(₹ in crore)

Year	Total borrowings during the year	Repayment during the year/ percentage.
2010-11	7053	5779(81.93)
2011-12	8473	5648(66.65)
2012-13	7029	5085(72.34)
2013-14	6002	4147(69.09)
2014-15	10259	8549(83.33)

Chart 1.15



It is clear from the above **Table 1.30** and **chart 1.15** that more than 60 *per cent* of the current borrowings was utilized for repayment of earlier debt leaving behind less than 40 *per cent* for capital expenditure viz creation of Assets.

1.12 Fiscal imbalances

Three fiscal parameters- Revenue, Fiscal and Primary Deficits indicate the extent of overall fiscal imbalances in the finances of State government during the specified period. The nature of deficit is an indicator of the prudence of fiscal management of the Government. 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 Union 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).

1.12.1 Trends in deficits

Table 1.31 gives time series data on the four deficits and total liabilities during 2010-15.

Table-1.31

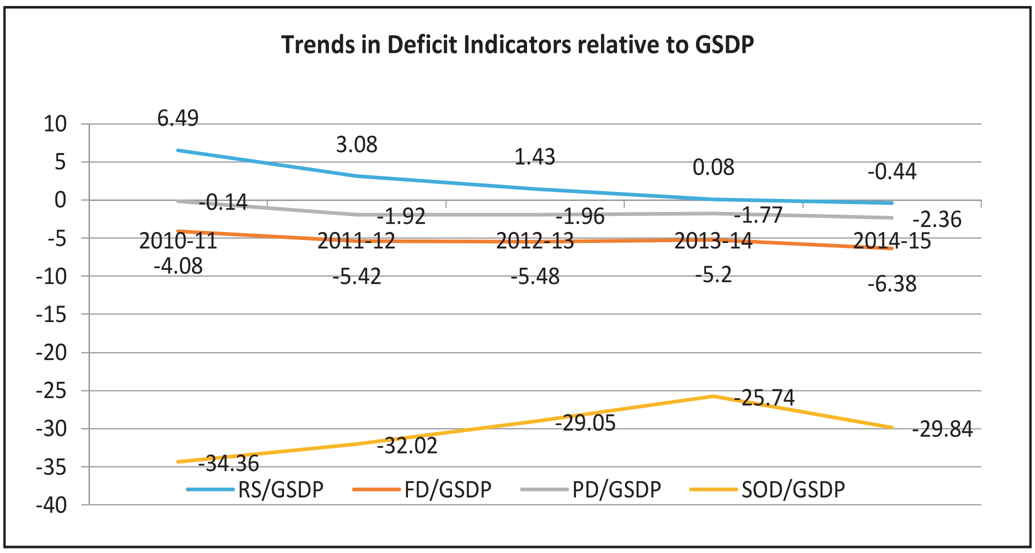
(₹ in crore)

Fiscal indicator	2010-11	2011-12	2012-13	2013-14	2014-15
Fiscal Liabilities	31272	36267	40265	44673	48314
Revenue surplus	3767	2103	1100	70	(-)390
Fiscal deficit	2367	3694	4216	4554	5608
Primary deficit	84	1311	1510	1553	2075
State's Own Deficit	19955	21832	22348	22543	26238

The above table shows that the State has continued to maintain revenue surplus during the period 2010-14 but the surplus declined sharply and reduced to Revenue deficit of ₹390 crore during 2014-15.The fiscal deficit increased from ₹2367 crore in 2010-11 to ₹5608 crore in 2014-15 and the primary deficit also increased from ₹84 crore to ₹2075 crore during the same period. The States own deficit also increased from ₹19955 crore to ₹26238 crore during 2010-15 leading to more dependence on the Central Government/Market Loans.

Charts 1.16 present the trends in key deficit indicators related to GSDP over the period 2010-15.

Chart-1.16



1.12.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as shown in **Table 1.32**.

Table1.32

Components of fiscal deficit and its financing pattern

(₹ in crore)

Particulars		2010-11	2011-12	2012-13	2013-14	2014-15
Source of Financing the Capital Expenditure and Fiscal Deficit						
1	**Capital Expenditure**	6064	5899	5224	4507	5134
2	**Loans and Advances**	72	66	93	121	87
	FINANCED THROUGH					
1	**Revenue Surplus**	3767	2102	1100	70	(-)390
2	**Non-Debt Capital Receipts**	15	168	2	4	3
3	**Fiscal Deficit**	2367	3,694	4,216	4554	5608
	Financing pattern of fiscal Deficit @					
1.	**Market Borrowings**	2386	2954	2,008	1919	1811

2.	**Loans from GOI**	(+) 1112	(-)129	(-)64	(-)64	(-)100
3.	**Small Savings, PF etc.**	1203	2070	1,689	1990	2232
4.	**Deposits and Advances**	59	(-) 27	189	158	376
5.	**Suspense and Miscellaneous**	(-) 168	186	(-) 31	(-) 48	(-)237
6.	**Remittances**	(-) 307	(-) 627	(-) 615	1169	2545
7.	**Reserve funds**	3	126	170	403	(-)677
8.	**Net amount recouped to contingency fund**	-	-		-	-
9.	**Drawdown of cash balance (+)/ Accretion to cash balance (-)**	[-] 33	(-) 861	870	(-)972	(-)338

@ All these figures are not of disbursements/outflows during the year

Increase under the head "Small Savings, PF etc." is mainly due to accretions under State Provident Fund, following crediting of arrears of pay revision into the Provident Fund accounts of employees by the government.

The revenue surplus decreased by ₹460 crore in 2014-15 over the previous year. The fiscal deficit was met from borrowings out of public account (of which Small Savings, Provident Funds, Remittances & Reserve funds etc. formed a major share) and market borrowings.

1.12.3 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 State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high 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 factors resulting in primary deficit or surplus of the State during the period 2014-15 shows **(Table-1.33)** that the primary deficit during the period was on account of capital expenditure incurred and loans and advances disbursed by the State government. In other words, non-debt receipts of the State were enough to meet the primary expenditure requirements in the revenue account and in fact left some receipts to meet the expenditure under the capital account. The State had to borrow to meet the requirements under capital account over primary expenditure during 2013-14. 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 1.33
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)
2010-11	22236	16184	6064	72	22320	27	(+) 6052	(-) 84
2011-12	24951	20297	5899	66	26262	22	(+)4654	(-)1311
2012-13	26,217	22,394	5,224	93	27,711	19	(+)3,823	(-)1494
2013-14	27,128	24,027	4,507	121	28,655	16	(+)3101	(-)1527
2014-15	28,939	25760	5,134	87	30981	17	(+)13179	(-)2042

It may be seen from the table above that the Non debt receipts of the State were higher than the primary revenue expenditure which was sufficient to meet this expenditure due to considerable support from the Central Government. The total primary expenditure increased from ₹22320 crore in 2010-11 to ₹30981 crore in 2014-15 which was due to increase of primary revenue expenditure by ₹9576 crore, while as Capital Expenditure decreased from ₹6064 crore in 2010-11 to ₹5134 crore in 2014-15. The primary deficit however, increased from ₹84 crore during 2010-11 to ₹2042 crore during 2014-15.

The bifurcation of the factors resulting into Primary deficit or surplus of the Government during the period 2014-15 reveals that the primary deficit during this period was on account of slow rise in non-debt receipts as compared to primary expenditure. Therefore, non-debt receipts of the state were not enough to meet the primary expenditure requirements. If this trend continues debt sustainability will be in serious jeopardy as ideally incremental non-debt receipts every year should cover not only the incremental primary expenditure but also incremental interest burden.

1.13 Government obligations under the Fiscal Responsibility and Budget Management (FRBM) Act, 2006

Jammu and Kashmir Fiscal Responsibility and Budget Management (FRBM) Act was enacted on 14 August 2006 to be effective from 2006-07.The principal objective of the Act was reducing the fiscal deficit to three *per cent* of GSDP by 2009-10 besides it cast several other fiscal transparency obligations on the State government. Essential obligations cast on the Government under the FRBM Act, amendments made to it and its implementation are detailed in **Appendix 1.8 & Appendix 1.9** respectively.

1.13.1 Fiscal consolidation roadmap under the recommendations of the 12th and 13th Finance Commission

- 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 three *per cent* of GSDP by 2009-10. The State could not achieve the targets set by the TFC and could not avail the debt waiver and interest relief recommended by the TFC.
- The Thirteenth Finance Commission (ThFC) noted that for special category States like Jammu and Kashmir, the Revenue Deficit/Surplus is not of much significance for purposes of fiscal adjustment as all have revenue surplus in government accounts due to grants-in-aid from the Union government being classified as non-tax revenue of the State. Under ThFC recommendations, a customized fiscal reform path of achieving fiscal deficit and outstanding debt targets was incorporated by amending the State's FRBM Act in April 2011 and August 2011.
- **Table 1.34** summaries the targets for fiscal liabilities and fiscal deficit set by the ThFC and actual outcomes, as computed from accounts.

Table 1.34
Targets for fiscal liabilities and fiscal deficit set by 13th Finance Commission

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

Fiscal parameter (as *per cent* of GSDP)/ Year	2010-11	2011-12	2012-13	2013-14	2014-15
Fiscal Deficit – 13th Finance Commission target/projection	5.3	4.7	4.2	3.6	3
Fiscal Deficit – Government Accounts	5.0	5.9	5.5	5.2	6.38
Fiscal Liabilities – 13th Finance Commission target/projection @	56.10	55.10	53.6	51.6	49.3
Fiscal Liabilities – Government accounts @	54.89	54.97	51.92	51.2	54.95
Total Liabilities (including liabilities of PSUs etc) as per FRBM Act	NA	NA	NA	NA	NA

@As mentioned in Para 1.11.1 above giving trends in build-up of 'fiscal liabilities', these are computed by adding year-end outstanding liabilities on account of borrowing from banks, financial institutions, open market, Union government and other liabilities on account of State Provident/ Pension/ Insurance Funds, Reserve Funds and Deposits.

Table 1.35 compares the actual fiscal outcomes during 2010-11, 2011-12, 2012-13 and 2013-14 as compared to the State-specific projections made by the 13th Finance Commission.

Table 1.35

13th Finance Commissioners projections and actual fiscal outcomes

(₹ in crore)

Key Aggregates	2010-11		2011-12		2012-13		2013-14		2014-15	
	13th FC project-ions	Actual	13th FC project-ions	Actual	13th FC project-ions	Actual	13th FC project-ions	Actual	13th FC project-ions	Actual
GSDP	48,206	58073	53,677	68185	59,849	76916	66,732	87570	74406	87921
Own Revenue Receipts	4,228	4,576	4,713	6,747	5,259	7,993	5,882	9143	6575	8312
State's Own Tax Revenue	3,889	3,483	4,330	4,745	4,822	5,833	5,384	6273	6003	6334
State's Own Non Tax Revenue	339	1,093	383	2,002	431	2,160	498	2870	572	1978
State's share in Union Taxes/Duties	2,837	3,067	3,328	3,495	3,925	3,870	4630	4142	5536	4477
Non-Plan Revenue Expenditure	11,005	17,558	11,706	21,432	12,539	23,561	13,393	25219	14132	26457
Salaries	5,366	9,529	5,550	9,802	5,736	10,298	5,924	10843	6115	11733
Pension	1,812	2,242	1,993	3,297	2,192	3,463	2,411	3592	2653	3686
Interest Payment	1,863	2,283	2,054	2,383	2,240	2,707	2,420	3001	2587	3533
Pre-Devolution Non-Plan Revenue Deficit	6,777	12,982	6,993	14,685	7,280	15,568	7,511	16076	7558	18145
Post-Devolution Non-Plan Revenue Deficit	3940	4836	3665	7151	3355	8074	2,881	8845	2096	11203
Fiscal Liabilities as *per cent* of GSDP	56.1	53.84	55.1	53.18	53.6	52.35	51.6	51.0	49.3	54.95
Fiscal Liabilities	27,044	31,272	29,576	36,267	32,079	40,265	34,434	44673	36682	48314

1.14 Conclusion and Recommendations

The State being a special category State had high level of share in Central taxes and grants from the Central government. The States' dependence on central resources has been steadily declining. It came down from 79 *per cent* in 2010-11 to 71 *per cent* in 2014-15. There was decline in the total plan capital expenditure from ₹4971 crore in 2012-13 to ₹4501 crore in 2014-15. States own tax revenue (SOTR) grew from ₹5833 crore in 2012-13 to ₹6334 crore in 2014-15. The State could not match the targets of fiscal deficit recommended by the 13th Finance Commission and of the FRBM Act. The actual fiscal deficit was 5.9, 5.5, 5.2 *per cent* and 6.38 *per cent* against targeted fiscal deficit of 4.7, 4.2, 3.6 and 3 *per cent* of GSDP of respective years during 2011-12, 2012-13, 2013-14 and 2014-15.

Service Tax is the only Central Tax that is presently not applicable to the State of J&K. The State has its own Service Tax under State Law. Since the Central Service Tax is not applicable to the State, the State is not entitled to a share in the total Service Tax collected by the Central Government all over the country. The foregone share is 1.551 *per cent* of the Service Tax collected by the Centre. As per assessment made by the 13th Finance Commission regarding likely Central Service Tax collection during 2010-15, the 1.551 *per cent* share foregone by the J&K works out to ₹8363.38 crore against which the State Service Tax collection was ₹4461.09 and States actual Share in Central Service Tax would have been about ₹9674.30 crore i.e 1.551 *per cent* of the Total Central Service tax collection of ₹623746 crore.

Central Government has been transferring a sizeable quantum of funds for CSS schemes like SSA, NRHM, MGNERGA etc in the form of Grant-in-aid which is taken under revenue receipts by the State Government but the expenditure is being incurred under Capital Heads for creation of Assets. This leads to increase in revenue Surplus and Capital outlay.

The expenditure on salaries, wages, pension and other post-retirement benefits, interest payments and power development departments' deficit was nearly 61.23 *per cent* of total expenditure, 79.96 *per cent* of non-plan revenue expenditure and 106.93 *per cent* of States own revenue in 2014-15.

Since the major chunk of the Non Plan Expenditure is on Salaries, Pension and interest payments which is largely uncontrollable, the State Government may explore measures for containing other components of Non Plan Revenue Expenditure so that Revenue deficit could be eliminated.

Targets for collection of power departments' tariff were not achieved. The shortfall in collection of revenue was ₹1202 crore vis-a-vis targets and shortfall vis-a-vis expenditure on power purchased was ₹2976 crore.

The State Government may explore measures for reducing the Power deficit.

Government did not present a time bound action plan to recover minimum of 50 *per cent* of service charges after accounting for operation and maintenance expenses from the users as recommended by the 13th Finance Commission.

The State Government may prepare a time bound action plan to achieve the goal of recovery of at least 50 per cent of service charges for users as recommended by the 13th Finance Commission.

The dependence of the Government on high interest rate bearing market loans to fund its expenditures was on increasing trend instead of improving States own revenue resources to generate developmental funds. The Development Capital Expenditure registered a persistent decreasing trend from 2010-11 to 2014-15 indicating that the developmental works were getting inadequate resources.

Efforts should be made by the State Government to improve collection of tax and non-tax revenue and to control the revenue expenditure so that recourse to borrowed fund can be reduced.

There were 671 projects/ works costing ₹1 crore or above which had overshot their scheduled completion dates. An amount of ₹1901.52 crore had been expended on these incomplete projects by 31 March 2015.

The State Government may analyse the reasons for the delays in completion of projects and take adequate steps for their completion to achieve the intended benefits.

The State Government had cumulating investment of ₹537.17 crore in 3 statutory corporations, 23 companies, 8 cooperative institutions/local bodies, 2 rural banks and 2 joint stock companies. The return of ₹128.88 crore came only from JK Bank Ltd.

The State Government should improve the productivity of its investments in various entities to be able to finance the loans.