

CHAPTER - I
FINANCES OF THE STATE
GOVERNMENT

Chapter I

Finances of the State Government

Profile of Arunachal Pradesh

Arunachal Pradesh is a Special Category State and area-wise, is the largest State in the North-Eastern region with a geographical area of about 83,743 sq. km. It has an international border with Bhutan in the West (160 kms), China in the North and North-East (1,080 kms) and Myanmar in the East (440 kms). It also shares common boundaries with Assam and Nagaland. Arunachal Pradesh has 0.11 *per cent* of the country's population. According to the Census of India-2011, population of the State stood at 13,83,727¹ with a population density of 17 persons per sq. km and literacy rate of 65.38 *per cent*.

Growth and Composition of Gross State Domestic Product

Gross State Domestic Product (GSDP) is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP is an important indicator of the State's economy as it indicates the standard of living of the State's population. The trend in the annual growth of India's Gross Domestic Product (GDP) and State's GSDP at current prices are indicated below.

Table - 1.1: Trends in the annual growth of India's GDP vis-à-vis GSDP

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
India's GDP (₹ in crore)	99,44,013	112,33,522	124,45,128	136,82,035	151,83,709
Growth rate of India's GDP (in per cent)	13.82	12.97	10.79	9.94	10.98
State's GSDP (₹ in crore)	12,547	14,581	17,931	20,294	24,056
Growth Rate of GSDP (in per cent)	13.41	16.21	22.98	13.18	18.54

(Source: Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation for India's GDP and Department of Economics and Statistics, Government of Arunachal Pradesh for State GSDP).

Table 1.1 shows that the annual growth rate of GSDP of the State ranged between 22.98 *per cent* (2014-15) to 13.18 *per cent* (2015-16). The GSDP increased to ₹ 24,056 crore in 2016-17 from ₹ 12,547 crore in 2012-13 and ₹ 20,294 crore in 2015-16; thereby, representing an increase of 91.73 *per cent* and 18.54 *per cent* respectively. The GSDP during 2016-17 exceeded the assessment (₹ 21,427 crore) made by Fourteenth Finance Commission (FFC) by 12.27 *per cent*. The Compound Annual Growth Rate (CAGR) in respect of GSDP between the period from 2007-08 to 2016-17 was 22.98 *per cent*.

¹ Male:7,13,912; Female: 6,69,815

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1.1 Introduction

This Chapter provides a broad perspective of finances of the Government of Arunachal Pradesh and analyses critical changes in major fiscal aggregates keeping in view the overall trends during the last five years. The analysis has been made based on the State Finance Accounts and information obtained from State Government. The structure of Government Accounts, lay-out of Finance Accounts, methodology adopted for assessment of the fiscal position and State Profile are shown in **Appendix 1.1**. While, **Appendix 1.2** briefly outlines the Fiscal Responsibility and Budget Management (FRBM) Act of the State Government, **Appendix 1.3** presents the time series data on key fiscal variables/ parameters and fiscal ratios relating to State Government finances for the period 2012-13 to 2016-17.

1.1.1 Summary of Current Year Fiscal Transactions

Table 1.2 presents a summary of the State Government's fiscal transactions during 2016-17 *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts/ disbursements and the overall fiscal position during the period.

Table - 1.2: Summaries of Fiscal Transactions (Current Year)

(₹ in crore)

Receipts	2015-16	2016-17	Disbursements	2015-16	2016-17		
					Non-Plan	Plan	Total
Section – A : Revenue							
Revenue Receipts	10553.1	11779.57	Revenue Expenditure	8362.74	6638.40	2756.14	9394.54
Tax Revenue	535.07	708.75	General Services	2518.09	2696.79	70.97	2767.76
Non-Tax Revenue	392.12	544.82	Social Services	2556.67	1653.77	1392.70	3046.47
Share of Union Taxes/ Duties	7075.58	8388.30	Economic Services	3287.98	2287.84	1292.47	3580.31
Grants-in-aid from Govt. of India	2550.33	2137.70	-	-	-	-	-
Section – B : Capital							
Misc. Capital Receipts	-	-	Capital Outlay	1993.25	0.56	1543.45	1544.01
Recoveries of Loans & Advances	5.48	3.79	Loans & Advances Disbursed	12.98	-	-	10.33
Public Debt Receipts	621.10	1015.27	Repayment of Public Debt	1286.44	-	-	586.77
Public Account Receipts	6038.90	6369.65	Public Account Disbursements	5360.99	-	-	7560.96
Opening Balance	1073.43	1275.61	Closing Balance	1275.61	-	-	1347.28
Total	18292.01	20443.89	Total	18292.01	-	-	20443.89

(Source: Finance Accounts 2015-16 & 2016-17)

Significant changes during 2016-17 were as under:

- Revenue Receipts increased by ₹ 1,226.47 crore (11.62 per cent) over the previous year. The increase was mainly due to increase in State share of Union Taxes & Duties by ₹ 1,312.72 crore (18.55 per cent), Own Tax Revenue by ₹ 173.68 crore (32.46 per cent) and Non Tax Revenue by ₹ 152.70 crore (38.94 per cent) partly offset by decrease in Grants-in-aid (GIA) from Government of India (GoI) by ₹ 412.63 crore (16.18 per cent). However, finances of States are heavily dependent on Central transfers and State's Own Resources (Own Tax plus Non-Tax Revenue) is just 10.64 per cent of Revenue Receipts during 2016-17.
- Revenue Expenditure increased by ₹ 1,031.80 crore (12.34 per cent) over the previous year.
- Capital Expenditure decreased by ₹ 449.24 crore (22.54 per cent) over the previous year.
- Recovery and Disbursement of Loans & Advances decreased by ₹ 1.69 crore (30.84 per cent) and ₹ 2.65 crore (20.42 per cent) respectively compared to the previous year.
- Public Debt Receipts increased by ₹ 394.17 crore (63.46 per cent) over the previous year due to increase in receipts under Internal Debt other than Ways and Means Advance (WMA) whereas, Repayment of Public Debt decreased by ₹ 699.67 crore (54.39 per cent) over the previous year.
- Public Account Receipts and Public Account Disbursements increased by ₹ 330.75 crore (5.48 per cent) and ₹ 2,199.97 crore (41.04 per cent) over the previous year respectively.
- The total inflow² in respect of all fund was ₹ 19,168.28 crore against ₹ 17,218.58 crore in 2015-16, while the total outflow³ was ₹ 19,096.61 crore against ₹ 17,016.40 crore during the previous year.
- There was an increase in cash balances by ₹ 71.67 crore (5.62 per cent) over the previous year.

1.1.2 Review of the Fiscal Situation

FFC and the State Government set fiscal indicators to be achieved during 2016-17. Targets *vis-à-vis* achievements in respect of major fiscal aggregates are shown in **Table 1.3:**

² For 2016-17, Gross Receipt ₹ 20,443.89 crore minus Opening Balance of ₹ 1,275.61 crore; for 2015-16, Gross Receipt ₹ 18,292.01 crore minus Opening Balance of ₹ 1,073.43 crore

³ For 2016-17, Gross Disbursement ₹ 20,443.89 crore minus Closing Balance of ₹ 1,347.28 crore; for 2015-16, Gross Disbursement ₹ 18,292.01 crore minus Closing Balance of ₹ 1,275.61 crore

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Table - 1.3: Trends in Major fiscal parameters/ variables vis-à-vis projections for 2016-17

Particulars	Targets as prescribed in the FFC	Projections made in Medium Term Fiscal Plan Statement (MTFPS)	Actuals
Revenue Surplus (₹ in crore)	-	2341.33	2385.03
Revenue Surplus (as % of GSDP)	-	11.09	9.91
Fiscal Deficit/ GSDP (per cent)	3.25	0.41	Fiscal Surplus
Total Outstanding Debt/ GSDP (per cent)	32.63	21.94	23.38

(Source: Budget documents of the State Government, FFC report and Finance Accounts 2016-17)

It will be seen that the State was able to achieve targets prescribed by the FFC for Fiscal Deficit as well as Outstanding Debt as a percentage of GSDP.

1.1.3 Budget Estimates and Actuals

Budget papers presented by the State Government provide estimations of revenue and expenditure for a particular year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from Budget Estimates (BEs) are indicative of non-attainment and non-optimisation of desired fiscal objectives due to various reasons, some within and some beyond the control of the Government.

Table 1.4 presents the consolidated picture of BEs vis-à-vis Actuals for the State Finances during 2016-17.

Table - 1.4: Variation in Major Items – Actuals (2016-17) over BEs

(₹ in crore)

Parameters	2016-17		Percentage of variations with reference to BEs
	BEs	Actuals	
Tax Revenue	670.64	708.75	5.68
Non-Tax Revenue	528.90	544.82	3.01
Revenue Receipts	12774.16	11779.57	(-7.79)
Non-debt Capital Receipts	30.84	3.79	(-87.71)
Revenue Expenditure	10553.32	9394.54	(-10.98)
Interest payments	500.84	399.23	(-20.29)
Capital Expenditure	2605.86	1544.01	(-40.75)
Disbursement of Loans & Advances	14.60	10.33	(-29.25)
Revenue Surplus	2,220.84	2,385.03	7.39
Fiscal Deficit (-)/ Surplus (+)	-368.78	834.48	326.28

(Source: Finance Accounts 2016-17 and Annual Financial Statement 2017-18 of the State Government)

- In 2016-17, when compared with the BEs, Revenue Receipts and Revenue Expenditure fell short by 7.79 per cent and 10.98 per cent respectively.
- Compared with the BEs, the Non-debt Capital Receipts and Capital Expenditure in 2016-17 fell short by 87.71 per cent and 40.75 per cent respectively.
- Against the Revenue Surplus of ₹ 2,220.84 crore projected in BEs, the year ended with a Revenue Surplus of ₹ 2,385.03 crore. Further, in 2016-17, the State Government witnessed Fiscal Surplus of ₹ 834.48 crore against the projected Fiscal Deficit of ₹ 368.78 crore in BEs.

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The wide variation between BEs and Actuals indicated that the estimation was unrealistic.

1.1.4 Major policy initiatives in the budget

Major policy announcements made in the budget speech 2016-17 and status of their implementation is given in **Table 1.5**.

Table - 1.5: Status of implementation of major policy announcements during 2016-17

Major Announcements	Department	Status of Implementation (March 2017)
₹ 10.00 crore was proposed for reconstruction of working women hostel at Itanagar. ₹ 25.00 crore was also earmarked for establishment of working women hostels in district and circle headquarters.	Women and Child Development	No budget provision was made for construction of working women hostels.
₹ 5.00 crore was proposed for Agriculture Employment Generation Programme.	Agriculture	₹ 15.00 crore was provisioned for the Programme, out of which ₹ 13.00 crore was re-appropriated to other schemes and balance ₹ 2.00 crore was utilised for the scheme.
₹ 12.00 crore was proposed for sanitation and waste disposal activities.	Urban Development	₹ 2.15 crore was provisioned and utilised for the said activities.

(Source: Budget Speech and Appropriation Accounts 2016-17)

1.1.5 Migration to New Pension Scheme

GoI introduced (01 April 2004) a defined, contribution based New Pension Scheme (NPS) to cover all new entrants to Government service. The interim Pension Fund Regulatory and Development Authority (PFRDA) was established (October 2003) by GoI. The PFRDA, being regulator for NPS, had been authorised by the GoI to appoint/ establish various intermediaries in the system, such as Central Record Keeping Agency (CRA), Pension Funds Trust for NPS, Custodian Banks, etc. PFRDA appointed National Securities Depository Limited (NSDL) as the CRA for a period of 10 years from 01 December 2007 for performing the functions of record keeping, accounting, administration and customer services for subscribers to the schemes of pension funds approved by PFRDA. Further, three pension fund managers, a custodian and a trustee bank had also been appointed.

Under the NPS, the option to join the new system was available for state governments. According to terms of the Scheme, both the Government and employee were to contribute 10 per cent each of basic pay and dearness allowance and the entire amount was to be transferred to the designated fund manager through NSDL/ Trustee Bank.

In Arunachal Pradesh, State Government employees recruited on or after 01 January 2008 were eligible for NPS. The contributions received from both the Government and employees are credited to the Major Head 8342-117 under Deposit & Advances and are transferred to NSDL/ Trustee Bank by debiting the same Major Head of Account.

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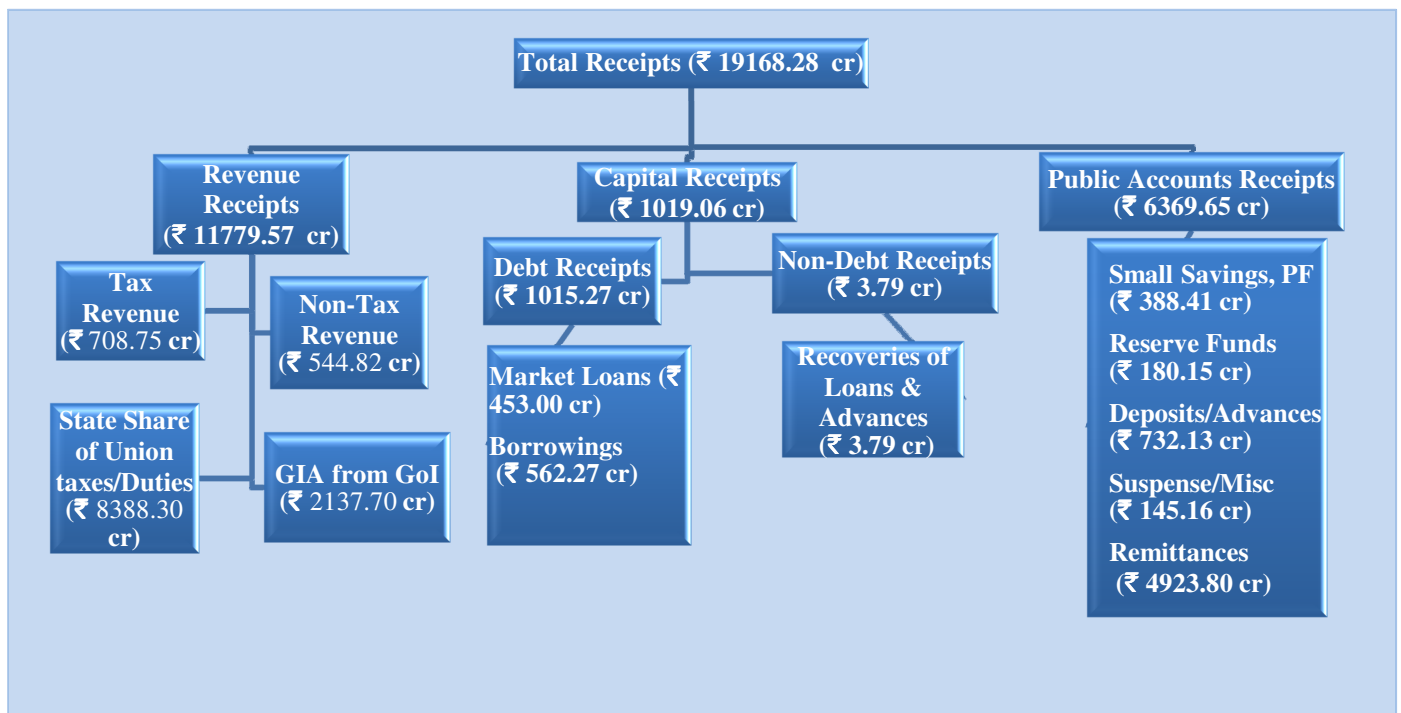
As on 01 April 2016, the fund (Major Head 8342-117) had a balance of ₹ 63.20 crore. During 2016-17, the State Government transferred an amount of ₹ 0.28 crore (₹ 0.14 crore each being Government and employees contributions) to the fund. Out of the total amount of ₹ 63.48 crore⁴ available under this fund, the State Government has only transferred ₹ 3.47 crore (5.47 per cent) to NSDL, leaving a balance of ₹ 59.97 crore⁵ as on 31 March 2017 yet to be transferred.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute resources of the State Government. Revenue Receipts consist of Tax Revenue, Non-Tax Revenue, State share of Union Taxes & Duties and GIA from GoI. Capital Receipts comprise of miscellaneous Capital Receipts such as proceeds from disinvestments, recoveries of Loans and Advances, debt receipts from internal sources (market loans, borrowings from Financial Institutions/ Commercial Banks), Loans and Advances from the GoI and accruals from Public Account. **Chart 1.1** shows the composition of resources of the State during 2016-17.

Chart - 1.1: Components and Sub-components of Resources

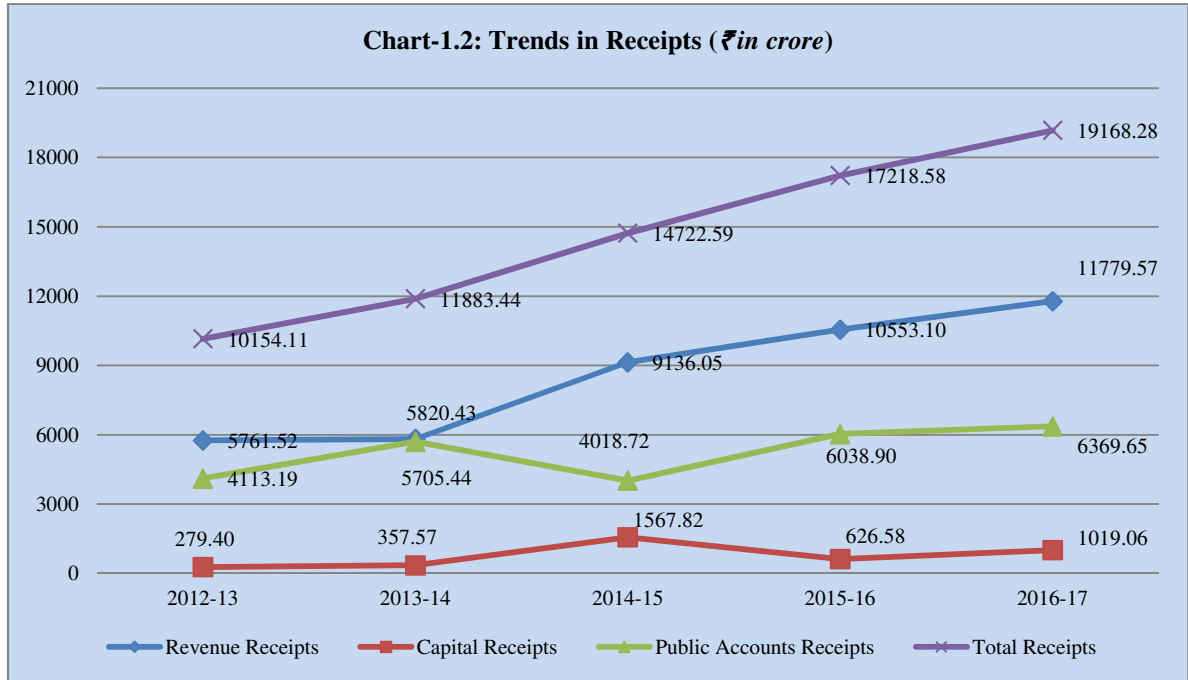


(Source: Finance Accounts 2016-17)

⁴ Opening Balance of ₹ 63.20 crore plus Contribution received ₹ 0.28 crore

⁵ An amount of ₹ 0.04 crore was transferred to GPF accounts/ CGEGIS accounts/ salary head, which was erroneously deposited under the Major Head 8342-117

Chart 1.2 depicts trends in various components of receipts of the State during 2012-13 to 2016-17.



(Source: Finance Accounts of respective years)

Total Receipts of the State during 2016-17 was ₹ 19,168.28 crore, of which ₹ 11,779.57 crore (61.45 per cent) came from Revenue Receipts and the remaining ₹ 7388.71 crore (38.55 per cent) from Capital Receipts and Public Account. Total Receipts of the State increased from ₹ 10,154.11 crore in 2012-13 to ₹ 19,168.28 crore in 2016-17 at a CAGR of 17.22 per cent. Total Receipts during 2016-17 increased by ₹ 1,949.70 crore (11.32 per cent) over the previous year.

Revenue Receipts in 2016-17 (₹ 11,779.57 crore) increased by ₹ 6018.05 crore (104.45 per cent) and ₹ 1226.47 crore (11.62 per cent) over 2012-13 and 2015-16 respectively.

Capital Receipts in 2016-17 (₹ 1,019.06 crore) increased by ₹ 739.66 crore (264.73 per cent) and ₹ 392.48 crore (62.64 per cent) over 2012-13 and 2015-16 respectively.

Public Account Receipts in 2016-17 (₹ 6,369.65 crore) increased by ₹ 2256.46 crore (54.86 per cent) and ₹ 330.75 crore (5.48 per cent) over 2012-13 and 2015-16 respectively.

1.2.2 Funds directly transferred to the Implementing Agencies in the State

The GoI has been transferring a sizeable quantum of funds directly to the Implementing Agencies in the State for implementing various schemes/ programmes in Social and Economic Sectors. From 2014-15 onwards, GoI decided to route these funds through the State Budget. Contrary to this decision, however, an amount of ₹ 254.35 crore was released (**Appendix-1.6**) directly to the implementing agencies/ organisations in the State during 2016-17.

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Table-1.6 presents details of fund released (₹ 10 crore and above in each case) directly to the Implementing Agencies during 2016-17:

Table - 1.6: Funds transferred directly to Implementing Agencies in the State

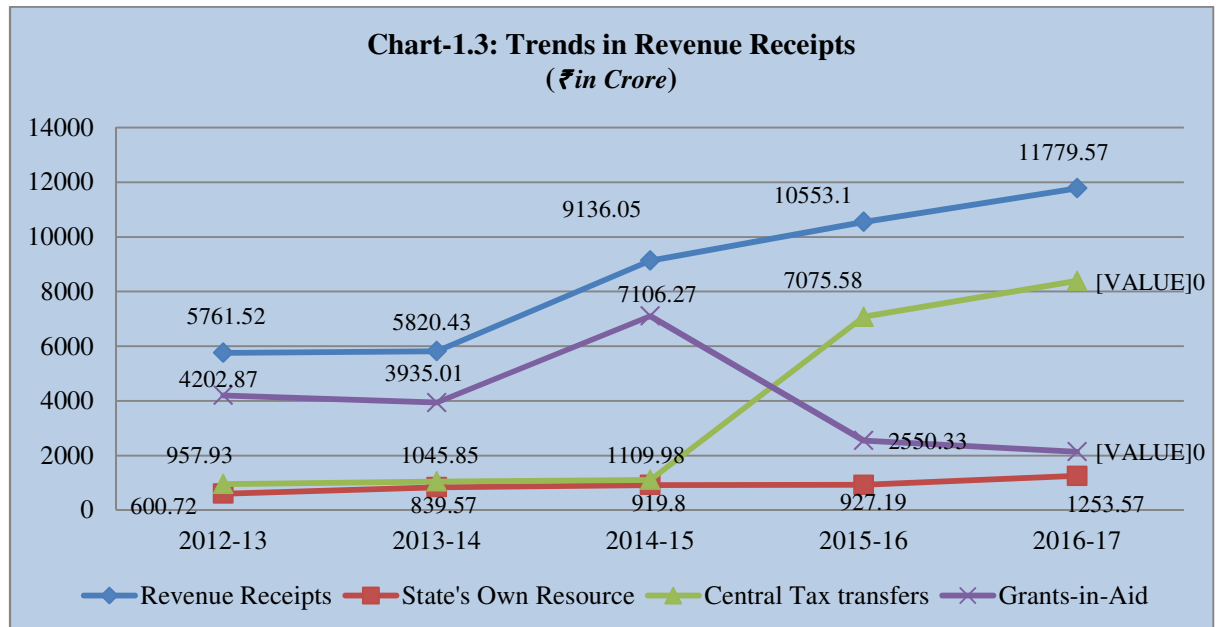
Sl No.	Name of the schemes/ programmes	Implementing Units	Funds released (₹ in crore)
1	National Institute of Technology	NIT, Arunachal Pradesh	51.71
2	Swadesh Darshan-Integrated Development of Theme based Tourism Circuits	Arunachal Tourism Society	44.02
3	Pradhan Mantri Kaushal Vikas Yojana (PMKVY)	Arunachal Pradesh Skill Development Society	20.77
4	MPs Local Area Development Schemes	Deputy Commissioners	15.00
5	National Health Mission	Arunachal Pradesh State Health Society	14.04
6	NER-Textile Promotion Scheme	Director of Textiles and Handicrafts	13.95
7	GRID Interactive Renewable Power MNRE	AP Energy Development Agency	10.79

(Source: 'Public Financial Management System' Portal of the Controller General of Accounts, GoI)

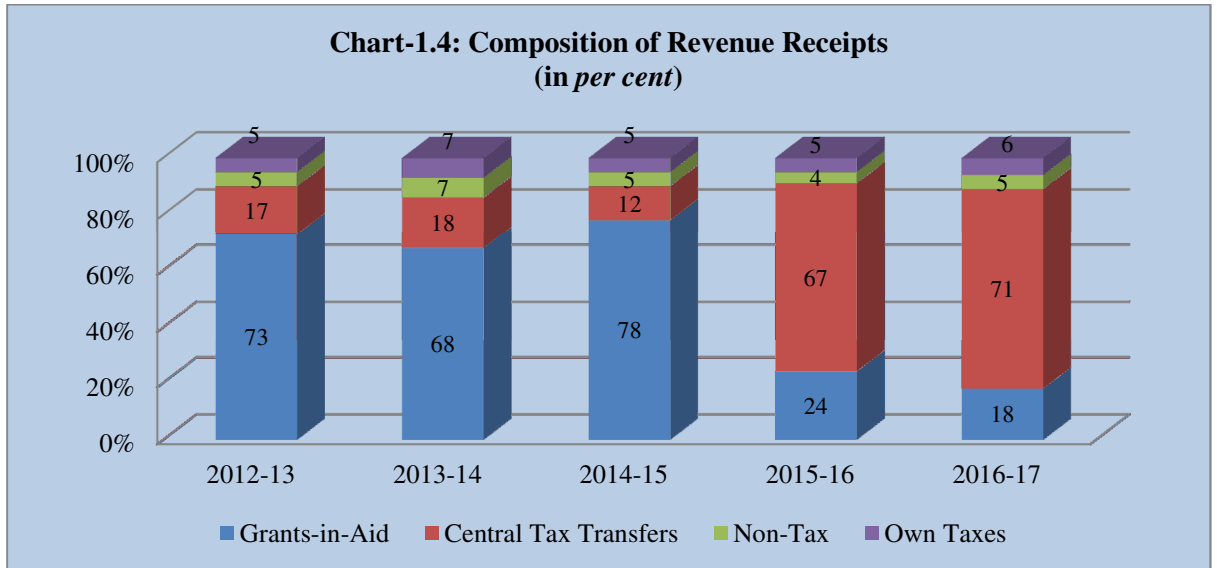
As there is no central monitoring mechanism for utilisation of funds under this category, reliable data on quantum of expenditure against the funds received directly by the Implementing Agencies from GoI, is not readily available to Audit. In view of different accounting practices followed by different implementing agencies, it is difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-14 of the Finance Accounts details Revenue Receipts of the Government. Trends and composition of Revenue Receipts over the period 2012-17 are presented in **Appendix-1.3** and depicted in **Charts 1.3** and **1.4** respectively. Trends in Revenue Receipts relative to GSDP are presented in **Table 1.7**.



(Source: Finance Accounts of respective years)



(Source: Finance Accounts of respective years)

Revenue Receipts of the State increased (₹ 6,018.05 crore) from ₹ 5,761.52 crore in 2012-13 to ₹ 11,779.57 crore in 2016-17 at a CAGR of 19.58 per cent. Similarly, during the same period, State's Own Resources grew almost at same pace at a CAGR of 20.19 per cent.

Table - 1.7: Trends in Revenue Receipts relative to GSDP

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Receipts (₹ in crore)	5761.52	5820.43	9136.05	10553.10	11779.57
Rate of growth of Revenue Receipts (per cent)	4.77	1.02	56.97	15.51	11.62
Rate of growth of Own Taxes (per cent)	(-) 0.36	37.29	6.36	15.78	32.46
Revenue Receipts/ GSDP (per cent)	45.92	39.92	50.95	52.00	48.97
Buoyancy Ratio⁶					
Revenue Buoyancy Ratio with reference to GSDP	0.36	0.06	2.48	1.18	0.63
State's Own Taxes Buoyancy Ratio with reference to GSDP	(-)0.03	2.30	0.28	1.20	1.75
State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts	(-)0.08	36.47	0.11	1.02	2.79

(Source: Finance Accounts of respective years)

The Buoyancy Ratio of Revenue Receipts with reference to GSDP decreased due to significant decrease in the rate of growth of Revenue Receipts in 2016-17 compared to the previous year as well as significant increase in the growth of GSDP. The Buoyancy Ratio of the State's Own Tax Revenue with reference to GSDP indicates the significant pace of growth rate in State's Own Tax Revenue in 2016-17 as compared to growth rate of GSDP in 2016-17.

State's Own Taxes Revenue Buoyancy Ratio with reference to Revenue Receipts during 2016-17 was 2.79, which indicates that the rate of growth of State's Own Tax Revenue was more than double as compared to rate of growth of Revenue Receipts.

⁶ As explained in Appendix 1.1.C

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1.3.1 State's Own Resources

As the State share in Central taxes and GIA from GoI is determined on the basis of recommendations of the FC, the State's performance in mobilisation of resources was assessed in terms of its own resources comprising of own tax and non-tax sources.

The State's Own Tax and Non-Tax receipts for 2016-17 vis-à-vis assessment made by FFC and BEs are given in the **Table 1.8** below:

Table - 1.8: Tax and Non-Tax Receipts

(₹ in crore)

Particulars	FFC Projections	Budget Estimates	Actual
Own Tax Revenue	823.00	670.64	708.75
Non-Tax Revenue	251.00	528.90	544.82

(Source: FFC Report, Annual Financial Statement and Finance Accounts 2016-17)

Own Tax Revenue was 13.88 per cent lower than the projections made by the FFC and 5.68 per cent higher than the assessment made in the BEs for 2016-17. Collection of Non-Tax Revenue during 2016-17 was higher than the projections made by the FFC (117.06 per cent) as well as the assessments made in the BEs (3.01 per cent).

1.3.1.1 Own Tax Revenue

The gross collection in respect of major taxes and duties is given in **Table 1.9**.

Table - 1.9: Own Tax Revenue

(₹ in crore)

Heads	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage variation over previous year
Taxes on Sales, Trade, etc.	161.62	223.60	195.24	190.22	282.54	48.53
State Excise	49.11	55.50	59.87	86.33	109.05	26.32
Taxes on Vehicles	13.37	17.09	17.78	19.30	24.47	26.79
Stamps & Registration Fees	3.05	4.18	3.83	5.63	5.08	(-)9.77
Land Revenue	4.70	11.39	5.99	8.89	6.44	(-)27.56
Taxes on Goods & Passengers	84.65	122.75	179.45	224.70	281.17	25.13
TOTAL	316.50	434.51	462.16	535.07	708.75	32.46

(Source: Finance Accounts of respective years)

In 2016-17, Own Tax Revenue increased by 123.93 per cent from ₹ 316.50 crore in 2012-13 to ₹ 708.75 crore and by 32.46 per cent over the previous year (₹ 535.07 crore). Taxes on Sales, Trade, etc., increased by ₹ 92.32 crore in 2016-17 over 2015-16 due to increase in tax base and revenue mobilisation by enforcement teams. Receipt in State Excise also witnessed an increase of 26.32 per cent due to revision of Excise Duty and import fee. However, due to change of volume and transaction of land acquisition during 2015-16 and 2016-17, the Land Revenue registered a decrease of 27.56 per cent in 2016-17 over 2015-16. The Tax-GSDP Ratio of 2.95 during 2016-17 was lower than the projection (3.84 per cent) made by the FFC.

1.3.1.2 Non-Tax Revenue

Table 1.10 shows the trends of Non-Tax Revenue during the period 2012-17.

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Table - 1.10: Non-Tax Revenue

(₹ in crore)

Heads	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage variation over previous year
Interest Receipts, Dividends & Profits	40.32	24.66	13.13	39.11	56.39	44.18
General Services	27.77	42.75	30.46	81.65	108.96	33.45
Social Services	16.97	36.86	28.07	28.52	17.57	(-)38.39
Economic Services	199.16	300.79	385.98	242.84	361.90	49.03
TOTAL	284.22	405.06	457.64	392.12	544.82	38.94

(Source: Finance Accounts of respective years)

Non-Tax Revenue significantly increased by ₹ 152.70 crore (38.94 per cent) during 2016-17 over the previous year and constituted 4.63 per cent of the Revenue Receipts. During 2016-17, Economic Services contributed 66.43 per cent (₹ 361.90 crore) of Non-Tax Revenue, and within this category, receipts under Power Sector accounted for 71.74 per cent (₹ 259.61 crore). CAGR of Non-Tax Revenue between 2007-08 and 2016-17 for the State was (-) 2.06 per cent.

1.3.2 Grants-in-aid

Details of GIA from GoI are given in **Table 1.11**.

Table - 1.11: Grants-in-aid from the Government of India

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Non-Plan Grants	966.40	743.62	952.12	174.36	228.69
Grants for State Plan Schemes	2733.97	2543.31	5735.73	2062.45	1633.22
Grants for Central Plan Schemes	13.04	166.23	37.59	60.72	17.73
Grants for Centrally Sponsored Schemes	391.16	391.68	315.03	147.54	187.99
Grants for Special Plan Schemes	98.30	90.17	65.80	105.26	70.07
TOTAL	4202.87	3935.01	7106.27	2550.33	2137.70
Percentage of Increase (+)/Decrease (-) over previous year	(+) 5.55	(-) 6.37	(+) 80.59	(-)64.11	(-)16.18
Total Grants as a percentage of Revenue Receipts	72.95	67.61	77.78	24.17	18.15

(Source: Finance Accounts of respective years)

GIA from GoI decreased by 16.18 per cent (₹ 412.63 crore) from ₹ 2550.33 crore in 2015-16 to ₹ 2,137.70 crore in 2016-17. The decrease was mainly due to decrease in Grants for State Plan Schemes by ₹ 429.23 crore (20.81 per cent), Grants for Central Plan Schemes by ₹ 42.99 crore (70.80 per cent) and Grants for Special Plan Scheme by ₹ 35.19 crore (33.43 per cent). The decrease was partly offset by increase in Non-plan Grants by ₹ 54.33 crore (31.16 per cent) and Grants for Centrally Sponsored Scheme (CSS) by ₹ 40.45 crore (27.42 per cent).

Non-Plan Grants (₹ 228.69 crore) constituted 10.70 per cent of total grants during 2016-17, of which ₹ 105.78 crore was under the proviso to Article 275 (1)⁷ of the

⁷ Grants under Article 275(1) of the Constitution of India provides such sums, capital and recurring as may be necessary, as Parliament may by law provide shall be charged on the Consolidated Fund of India as GIA to enable that State to meet the costs of promoting the welfare of Scheduled Tribes in that State or raising the level of administration of the Scheduled Areas therein.

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Constitution. The remaining amount was released mainly as Contribution to National Disaster Response Fund (NDRF) (₹ 51.06 crore), State Disaster Response Fund (SDRF) (₹ 49.50 crore) and Other Grants (₹ 22.35 crore).

1.3.3 Central Tax Transfers

As per the FFC recommendations, the share of net proceeds of shareable Central Taxes was increased from 32 *per cent* during XIII FC award period to 42 *per cent*. The State share for all shareable taxes was increased from 0.288 *per cent* during XIII FC award period to 1.370 *per cent* during FFC award period and the share of Service Tax from 0.328 *per cent* during XIII FC award period to 1.431 *per cent* during FFC award period.

The share of Union taxes received during 2016-17 was ₹ 8,388.30 crore, an increase of ₹ 1,312.72 crore (18.55 *per cent*) over the previous year. The main contributions of the share of Union taxes were Corporation Tax-₹ 2,677.52 crore (31.92 *per cent*); Taxes on Income other than Corporation Tax-₹ 1,860.88 crore (22.19 *per cent*); Service Tax-₹ 1,376.76 crore (16.42 *per cent*); Union Excise-₹ 1,315.22 crore (15.88 *per cent*); and, Customs-₹ 1,151.76 crore (13.73 *per cent*).

1.3.4 Optimisation of Fourteenth Finance Commission Grants

The details of devolution of FFC grants during the period 2016-17 are given in **Table-1.12**.

Table - 1.12: Details of grants released vis-à-vis FFC recommendations

(₹ in crore)

Sl. No.	Purpose for which grant is released	Actual release 2015-16	Fund recommended by FFC for 2016-17	Actual release 2016-17
1	Share in Central Taxes	7075.58	8388.30	8388.30
2	Disaster Relief (SDRF)	46.80	49.00	49.50
3	Local Bodies Grant, of which	55.97	180.66	77.37
	(I) Performance Grants			
	(a) Rural Local Bodies	Nil	16.08	16.08
	(b) Urban Local Bodies	Nil	9.57	0.00
	(II) Basic Grants			
	(a) Rural Local Bodies	44.26	122.58	61.29
(b) Urban Local Bodies	11.71	32.43	0.00	
	Total	7178.35	8617.96	8515.17

(Source: Data Furnished by the State Government)

The State Government had received financial assistance of ₹ 8,515.17 crore (98.81 *per cent*) against an amount of ₹ 8,617.96 crore as recommended by FFC. **There** was a significant decrease of ₹ 103.29 crore (57.18 *per cent*) in the funds released as Local Bodies Grant as compared to the FFC recommendations during 2016-17.

1.4 Capital Receipts

Details of Capital Receipts during 2012-13 to 2016-17 are given in **Table 1.13**.

Finances of The State Government

Table - 1.13: Trends in Growth and Composition of Capital Receipts

(₹ in crore/Rate of Growth in per cent)					
Sources of State's Receipts	2012-13	2013-14	2014-15	2015-16	2016-17
Public Debt Receipts	276.45	354.15	1540.41	621.10	1015.27
Recovery of Loans & Advances	2.95	3.42	27.41	5.48	3.79
Miscellaneous Capital Receipts	-	-	-	-	-
Capital Receipts	279.40	357.57	1567.82	626.58	1019.06
Rate of growth of Non-debt Capital Receipts	1.72	15.93	701.46	(-)80.01	(-)30.84
Rate of growth of Debt Capital Receipts	63.91	24.85	334.96	(-)59.68	63.46
Rate of growth of CR	62.86	27.98	338.47	(-)60.03	62.64

(Source: Finance Accounts of respective years)

Public Debt Receipts increased by ₹ 392.48 crore (62.64 per cent) over the previous year. Public Debt Receipts consist of two components viz., Internal Debt of the State and Loans and Advances from the Central Government. Internal Debt consisted of Market Loans (₹ 453.00 crore), Ways and Means Advances from the RBI (₹ 253.94 crore), Loans from Financial Institutions (₹ 166.63 crore) and Special Securities issued to National Small Savings Fund (₹ 141.70 crore). During the year, no Loans & Advances from the Central Government were received by Government of Arunachal Pradesh.

1.4.1 Recoveries of Loans and Advances

The Recoveries of Loans and Advances progressively decreased from ₹ 27.41 crore during 2014-15 to ₹ 3.97 crore during 2016-17. The major contributor of recoveries under Loans and Advances were loan recovery from Government Servants (₹ 3.05 crore), Multipurpose Rural Cooperatives (₹ 0.49 crore) and Other Cooperatives (₹ 0.20 crore)

1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances, etc., which do not form part of the Consolidated Fund, are kept in Public Accounts set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. After disbursements, the balance is the fund available for use with the Government.

Table - 1.14: Public Account Receipts

(₹ in crore)					
Sources of State's Receipts	2012-13	2013-14	2014-15	2015-16	2016-17
Public Accounts Receipts	4113.19	5705.44	4018.72	6038.90	6369.65
Small Savings, Provident Fund, etc.	278.81	308.36	405.28	387.63	388.41
Reserve Funds	20.00	62.54	20.00	200.00	180.15
Deposits & Advances	1032.07	1370.75	2081.34	1946.75	732.13
Suspense & Miscellaneous	(-) 0.07	963.98	(-) 1691.51	(-)480.14	145.16
Remittances	2782.38	2999.81	3203.61	3984.66	4923.80

(Source: Finance Accounts of respective years)

During 2016-17, the Public Account Receipts increased by ₹ 330.75 crore (5.48 per cent) over the previous year. This was mainly due to increase in Remittances by ₹ 939.14 crore, Suspense and Miscellaneous by ₹ 625.30 crore and Small Savings,

Finances of The State Government

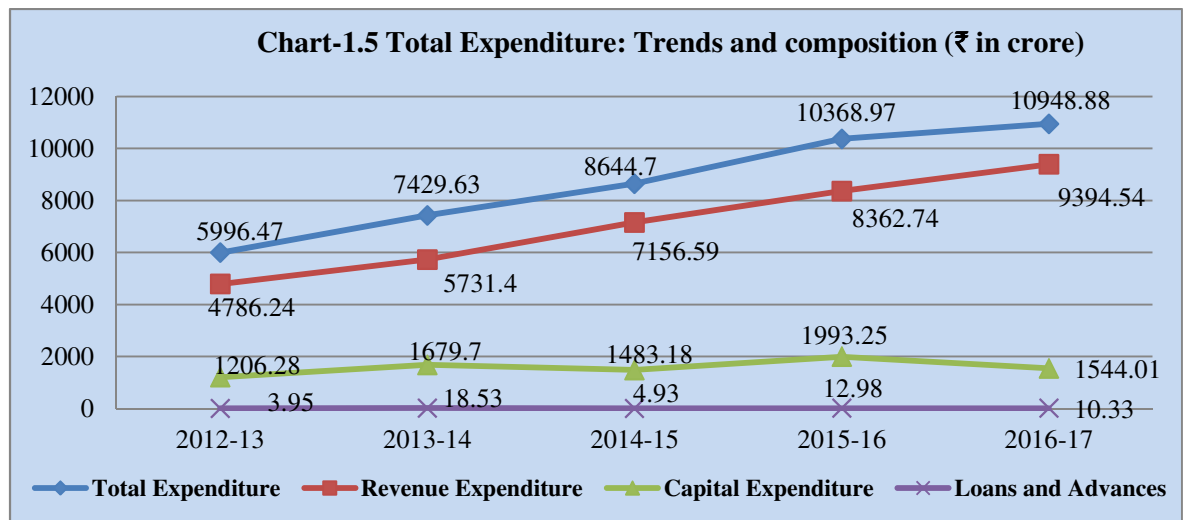
Provident Fund, etc. by ₹ 0.78 crore offset by decrease in Deposit and Advances by ₹ 1214.62 crore and Reserve Funds by ₹ 19.85 crore.

1.6 Application of Resources

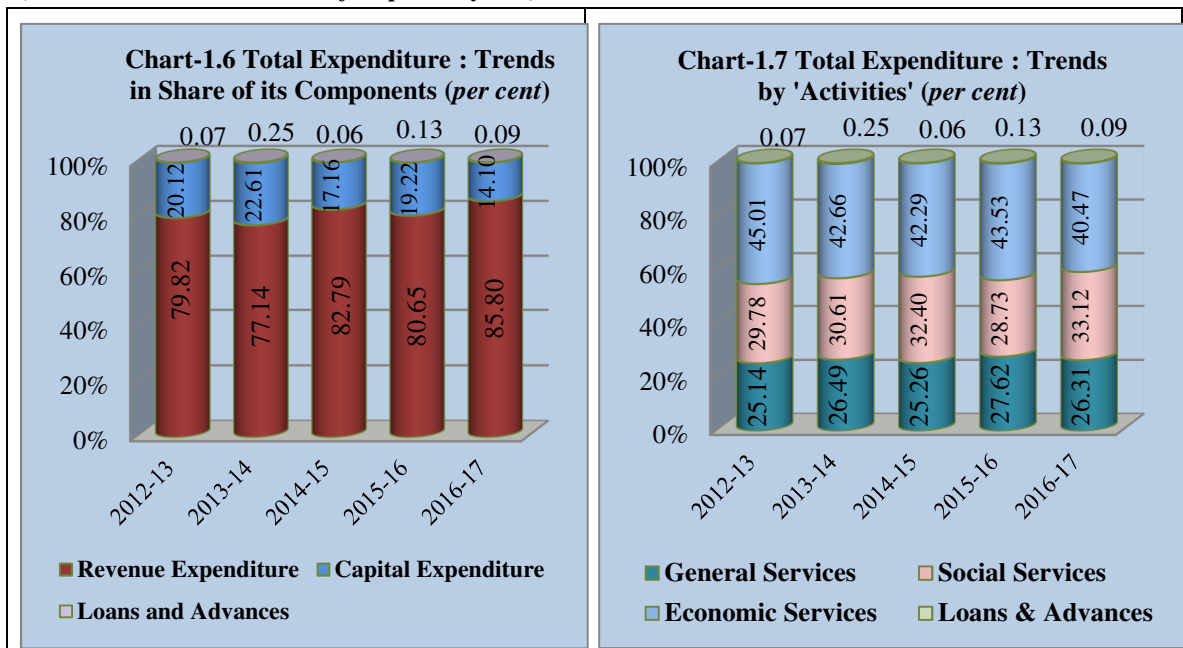
Analysis of allocation of expenditure at State Government level assumes significance since major expenditure responsibilities are entrusted with the State Government. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. Therefore, it is important to ensure that the ongoing fiscal correction and consolidation process at State level is not at the cost of expenditure, especially expenditure directed towards development and Social Sector.

1.6.1 Growth and Composition of Expenditure

Chart 1.5 presents trends in total expenditure over five years (2012-13 to 2016-17). The composition, both in terms of 'economic classification' and 'expenditure by activities,' are depicted in **Charts 1.6 and 1.7** respectively.



(Source: Finance Accounts of respective years)



(Source: Finance Accounts of respective years)

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Total Expenditure of the State increased by ₹ 4,952.41 crore (82.59 per cent) from ₹ 5,996.47 crore in 2012-13 to ₹ 10,948.88 crore in 2016-17. Total Expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to Revenue receipts and its buoyancy with respect to GSDP and Revenue Receipts are indicated in **Table 1.15**.

Table - 1.15: Total Expenditure – Basic Parameters

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Total Expenditure (TE)	5996.47	7429.63	8644.70	10368.97	10948.88
<i>Non-Plan Expenditure</i>	3092.26	3966.49	4268.05	5671.80	6641.45
<i>Plan Expenditure</i>	2904.21	3463.14	4376.65	4697.17	4307.43
Rate of Growth of TE(<i>per cent</i>)	(-) 7.65	23.90	16.35	19.95	5.59
TE/GSDP Ratio (<i>per cent</i>)	47.79	50.95	48.21	51.09	45.51
RR/TE Ratio (<i>per cent</i>)	96.08	78.34	105.68	101.78	107.59
Buoyancy of Total Expenditure with reference to					
GSDP (<i>ratio</i>)	(-) 0.57	1.47	0.71	1.51	0.30
RR (<i>ratio</i>)	(-) 1.60	23.43	0.29	1.29	0.49

(Source: Finance Accounts of respective years)

The increase of ₹ 579.91 crore (5.59 per cent) in Total Expenditure during 2016-17 over the previous year was on account of increase of ₹ 1031.80 crore in Revenue Expenditure partly offset by decrease in Capital Expenditure by ₹ 449.24 crore and Loans and Advances by ₹ 2.65 crore. While the share of Plan Expenditure constituted around 39.34 per cent (₹ 4,307.43 crore) of the Total Expenditure, the remaining 60.66 per cent (₹ 6,641.45 crore) was Non-plan Expenditure. Buoyancy of Total Expenditure to Revenue Receipts stood at 0.49, indicating that the growth rate of Total Expenditure was lower as compared to growth rate of Revenue Receipts.

In terms of activities, Total Expenditure comprises of expenditure on General Services, including Interest Payments, Social and Economic Services and Loans & Advances. Of the Total Expenditure in 2016-17, expenditure on General Services, including Interest Payments, which are considered as non-developmental, accounted for 26.31 per cent. On the other hand, expenditure on Social and Economic Services (Revenue & Capital), termed as Development Expenditure, together accounted for 73.59 per cent during 2016-17. The relative share of Social Services increased from 28.72 per cent in 2015-16 to 33.12 per cent in 2016-17, whereas the relative share of Economic Services decreased from 43.53 per cent in 2015-16 to 40.47 per cent in 2016-17.

1.6.2 Revenue Expenditure

Revenue Expenditure is incurred to maintain the current level of services and payment of past obligations and does not result in any addition to the State's infrastructure and service network. The Revenue Expenditure, its rate of growth, buoyancy ratio of Revenue Expenditure to GSDP and Revenue Receipts are indicated in **Table 1.16**.

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Table - 1.16: Revenue Expenditure – Basic Parameters

(₹ in crore)					
Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Expenditure (RE), of which	4786.24	5731.40	7156.59	8362.74	9394.54
<i>Non-Plan Revenue Expenditure (NPRE)</i>	3087.41 (64.51)	3957.59 (69.05)	4245.71 (59.33)	5659.40 (67.67)	6638.40 (70.66)
<i>Plan Revenue Expenditure (PRE)</i>	1698.83 (35.49)	1773.81 (30.95)	2910.88 (40.67)	2703.34 (32.33)	2756.14 (29.34)
Rate of Growth of RE(per cent)	8.34	19.75	24.87	16.85	12.34
RE as percentage of TE	79.82	77.14	82.79	80.65	85.80
Buoyancy Ratio of RE with					
GSDP	0.62	1.22	1.08	1.28	0.67
Revenue Receipts	1.75	19.36	0.44	1.09	1.06

(Figures in brackets represent percentages to Revenue Expenditure)

(Source: Finance Accounts of respective years)

Revenue Expenditure increased by ₹ 4,608.30 crore from ₹ 4,786.24 crore in 2012-13 to ₹ 9,394.54 crore in 2016-17 at a CAGR of 18.36 per cent. Non-Plan Revenue Expenditure (NPRE) during the same period increased from ₹ 3,087.41 crore in 2012-13 to ₹ 6,638.40 crore in 2016-17 at a CAGR of 21.09 per cent outpacing the growth of Revenue Expenditure during the period. As a percentage of Revenue Expenditure, NPRE also increased from 64.51 per cent in 2012-13 to 70.66 per cent in 2016-17. As a result, the share of Plan Revenue Expenditure (PRE) in the Revenue Expenditure decreased from 35.49 per cent during 2012-13 to 29.34 per cent during 2016-17.

1.6.3 Committed Expenditure

Committed Expenditure of the State Government on Revenue Account mainly consists of Interest Payments, expenditure on Salaries, Pensions and Subsidies. **Table 1.17** present the trends in expenditure on these components during 2012-17.

Table - 1.17: Components of Committed Expenditure

(₹ in crore)					
Components of Committed Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
Salaries, of which	2110.38	2548.91	2853.24	3098.20	3566.88
<i>Non-Plan Head</i>	1752.10	2098.77	2343.78	2864.40	3468.12
<i>Plan Head</i>	358.28	450.14	509.46	233.80	98.76
Interest Payments	271.85	312.51	350.88	415.64	399.23
Pension and other Retirement Benefits	330.70	398.40	480.71	555.25	640.58
Subsidies	4.05	5.86	7.02	12.03	4.99
TOTAL	2716.98	3265.68	3691.85	4081.12	4611.68

(Source: Finance Accounts of respective years)

Overall Committed Expenditure increased by ₹ 1,894.70 crore (69.74 per cent) from ₹ 2,716.98 crore in 2012-13 to ₹ 4,611.68 crore in 2016-17. Committed Expenditure during 2016-17 constituted 49.09 per cent of Revenue Expenditure and 39.15 per cent of Revenue Receipts. Component-wise analysis is as follows:

1.6.3.1 Salaries

During 2016-17, Salaries alone accounted for 30.28 *per cent* of Revenue Receipts. It increased by 69.02 *per cent* and 15.13 *per cent* over 2012-13 and 2015-16 respectively.

1.6.3.2 Interest Payments

During 2016-17, Interest Payments, comprising of interest on Internal Debt, Small Savings, Provident Funds, *etc.*, Loans & Advances from the Central Government and other obligations, increased by 46.86 *per cent* over 2012-13; it decreased by ₹ 16.41 crore (3.95 *per cent*) over 2015-16.

1.6.3.3 Pension Payments

Pension Payments (including other Retirement Benefits) showed an increasing trend during the five year period (2012-17). During 2016-17, Pension Payments increased by ₹ 309.88 crore (93.70 *per cent*) over 2012-13 and by ₹ 85.33 crore (15.37 *per cent*) over the previous year.

1.6.3.4 Subsidies

Expenditure on payment of Subsidies increased by 23.21 *per cent* over 2012-13 whereas it decreased by 58.52 *per cent* from ₹ 12.03 crore in 2015-16 to ₹ 4.99 crore during 2016-17. It constituted 0.05 *per cent* of Revenue Expenditure. The single recipient of Subsidies in 2016-17 was Agriculture Department.

1.6.4 Capital Expenditure

Capital Expenditure during 2016-17 (₹ 1544.01 crore) decreased by ₹ 449.24 crore over the previous year due to significant decrease in expenditure on Economic Services (₹ 374.38 crore) and General Services (₹ 232.50 crore), which was partly offset by increase in expenditure on Social Services (₹ 157.65 crore). This expenditure constituted only 14.10 *per cent* of Total Expenditure during 2016-17 as compared to 19.22 *per cent* during the previous year. The State Government could not maintain the Capital Expenditure in line with the projections made in the BEs and REs during 2016-17, as the expenditure fell short of the BEs (₹ 2,605.86 crore) by 40.75 *per cent* and REs (₹ 2,438.24 crore) by 36.68 *per cent*. This indicated that more emphasis was given on maintenance of current level of services, which did not result in any addition to the State's infrastructure and service network.

1.6.5 Financial Assistance by the State Government to Local Bodies, etc.

The quantum of assistance provided by way of Grants and Loans to Local Bodies and others during 2016-17, relative to previous years is presented in **Table 1.18**

Table - 1.18: Financial Assistance to Local Bodies etc.

Institutions	2012-13	2013-14	2014-15	2015-16	2016-17
University and Educational Institutions	6.85	6.64	11.16	7.39	0.00
Cultural Institutions/ Voluntary Organisations for promotion of Arts & Culture	3.06	1.00	0.00	2.22	0.00
State Institute of Rural Development	0.60	0.40	0.00	0.66	0.66
Social Welfare	0.53	0.57	0.57	0.44	0.48

(₹ in crore)

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Institutions	2012-13	2013-14	2014-15	2015-16	2016-17
Food, Storage and Warehousing	3.65	105.91	22.09	0.00	7.11
Co-operation	0.75	1.05	3.22	1.25	2.99
Other Institutions ⁸	7.49	21.81	7.59	14.21	26.63
TOTAL	22.93	137.38	44.63	26.03	37.67
<i>Assistance as percentage of Revenue Expenditure</i>	<i>0.48</i>	<i>2.40</i>	<i>0.62</i>	<i>0.31</i>	<i>0.40</i>

(Source: Finance Accounts of respective years)

Financial assistance extended to Local Bodies and other Institutions with inter-year variations increased by 44.72 per cent from ₹ 26.03 crore in 2015-16 to ₹ 37.67 crore in 2016-17. The share of financial assistance in Revenue Expenditure also marginally increased from 0.31 per cent in 2015-16 to 0.40 per cent during 2016-17. Other Institutions were the major recipients (around 70.69 per cent) of the financial assistance followed by Food, Storage and Warehousing (18.87 per cent).

1.7 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of expenditure. Improvement in the quality of expenditure basically involves three aspects - adequacy (adequate provisions for providing public services); efficiency (expenditure use) and effectiveness (assessment of outlay-outcome relationships for select services) of expenditure.

1.7.1 Adequacy of Public Expenditure

The analysis of expenditure data is disaggregated into Developmental and Non-Developmental Expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorised into Social, Economic and General Services. In terms of quality of expenditure, the State was relatively well placed compared to other Special Category States (SCS). **Table 1.19** analyses the fiscal priority given by the State Government to various expenditure heads in 2012-13 and 2016-17 with regard to Developmental Expenditure, Social Sector Expenditure and Capital Expenditure.

Table - 1.19: Fiscal priority of the State in 2012-13 and 2016-17

Fiscal priority by the State	TE/GSDP	DE/TE	SSE/TE	CE/TE	Education/TE	Health/TE
SCS Average (Ratio) 2012-13	24.80	61.10	34.30	15.10	18.10	5.30
Arunachal Pradesh (Ratio) 2012-13	47.79	74.81	29.78	20.12	11.73	4.54
SCS Average (Ratio) 2016-17	27.40	61.50	34.20	13.60	16.60	5.40
Arunachal Pradesh (Ratio) 2016-17	45.51	73.67	33.12	14.10	12.51	6.46

TE: Total Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; CE: Capital Expenditure

Developmental expenditure includes Developmental Revenue Expenditure, Developmental Capital Expenditure and Development Loans & Advances disbursed.

(Source: Finance Accounts 2012-13 & 2016-17)

A comparison of the data related to Arunachal Pradesh with that of the SCS revealed the following:

⁸ Other Institutions include Municipal Committees and Scientific Bodies.

- Total Expenditure as a proportion of GSDP had been higher in the State as compared to the SCS average during 2012-13 and 2016-17.
- Development Expenditure as a proportion of Total Expenditure has also been higher in the State as compared to the SCS average during both 2012-13 and 2016-17.
- Expenditure on Social Sector as a proportion of Total Expenditure was lower than the SCS average during 2012-13 and 2016-17.
- The share of Capital Expenditure as a proportion of Total Expenditure of the State was higher than the SCS average in both the years 2012-13 and 2016-17.
- The share of expenditure on Education as a proportion of Total Expenditure was also lower than the SCS averages in both the years, though it improved in 2016-17.
- The share of expenditure on Health as a proportion of Total Expenditure was less than the SCS average in 2012-13 but was higher in 2016-17.

1.7.2 Efficiency of Expenditure Use

In view of the importance of public expenditure for social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods⁹. Apart from improving allocation towards Development Expenditure, 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 existing Social and Economic Services infrastructure. 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 trend in Development Expenditure relative to the Total Expenditure of the State during 2016-17 *vis-à-vis* previous years:

Table - 1.20: Development Expenditure

Components of Development Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
Development Expenditure {(a)+(b)+(c)}£	4486.17 (74.81)	5459.08 (73.48)	6456.92 (74.69)	7502.53 (72.36)	8065.61 (73.67)
(a) Development Revenue Expenditure\$	3362.78 (74.96)	3951.34 (73.38)	5094.00 (78.89)	5844.65 (77.90)	6626.78 (82.16)
(b) Development Capital Expenditure\$	1122.42 (25.02)	1491.89 (27.33)	1362.48 (21.10)	1647.67 (21.96)	1430.93 (17.74)
(c) Development Loans & Advances\$	0.97 (0.02)	15.85 (0.29)	0.44 (0.01)	10.21 (0.14)	7.90 (0.10)

(₹ in crore)

(Figures in parenthesis indicate:-£: Percentage to Total Expenditure, \$: Percentage to Development Expenditure)

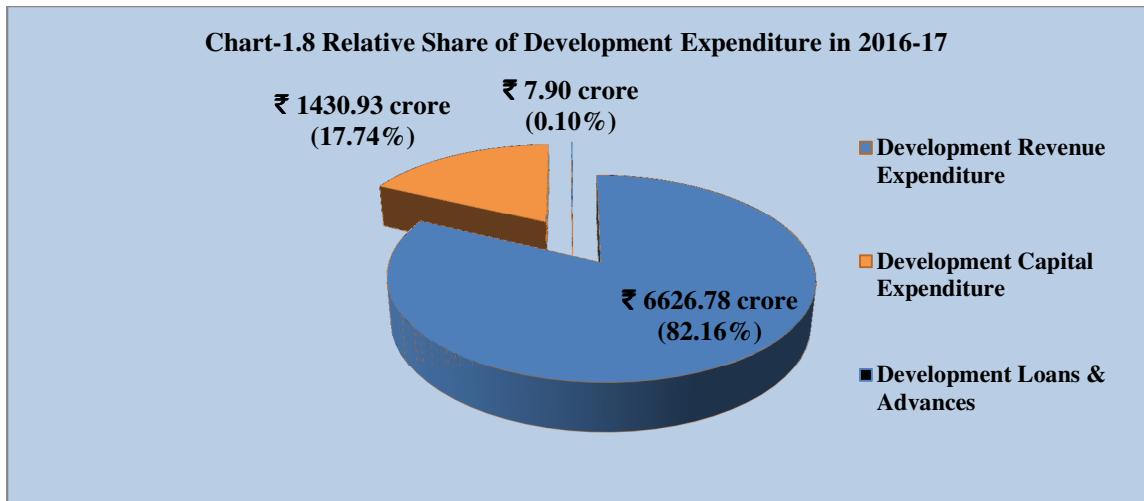
(Source: Finance Accounts of the respective years)

The Development Expenditure on socio-economic services increased from ₹ 4486.17 crore in 2012-13 to ₹ 8065.61 crore in 2016-17. Development Expenditure increased by 7.51 per cent (₹ 563.08 crore) over the previous year. During the five year period ending 2016-17, the share of State's Development Expenditure averaged around 74 per cent of the State's Total Expenditure. The relative share of Development

⁹ As explained in Appendix - 1.1.C.

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Expenditure during 2016-17, depicted in **Chart 1.8** below, shows that 82.16 per cent of Development Expenditure was incurred on Revenue Account and only 17.74 per cent was utilised for Capital Expenditure.



(Source: Finance Accounts 2016-17)

During 2016-17, Development Capital Expenditure as a percentage of Total Expenditure decreased to 13.07 per cent as compared to 15.89 per cent in 2015-16. Though, the State Government had earmarked a considerable amount to create assets, it failed to utilise the same, which resulted in predominant share of Revenue Expenditure in Development Expenditure. This indicated that more emphasis was given on maintenance of current level of services, which did not result in any addition to the State's infrastructure and service network. The expenditure pattern under this sector needs correction in the ensuing years.

Table 1.21 and **Table 1.22** summarise the percentage of expenditure incurred by the State Government in expanding and maintaining Social and Economic Services in the State under selected components of Economic and Social Services sector during the period 2012-17.

Table - 1.21 Efficiency of Capital Expenditure in selected Social and Economic Services

(in per cent)

Services	Ratio of Capital Expenditure to Total Expenditure [†]				
	2012-13	2013-14	2014-15	2015-16	2016-17
Social Services (SS)					
General Education	6.93	6.52	4.71	3.94	3.94
Technical Education, Sports and Arts & Culture	35.24	50.21	52.67	44.95	26.04
Health & Family Welfare	4.82	8.30	5.87	5.05	2.11
Water Supply & Sanitation, Housing and Urban Development	37.43	47.72	38.24	32.30	41.86
Other Social Services	13.86	15.97	11.41	14.36	12.03
Total (SS)	15.66	22.16	15.8	14.17	15.99
Economic Services (ES)					
Agriculture & Allied Activities	3.38	3.030	1.05	2.07	0.95
Irrigation & Flood Control	13.90	10.78	20.09	40.91	31.38
Energy	30.01	22.70	19.55	18.74	18.15

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Services	Ratio of Capital Expenditure to Total Expenditure [£]				
	2012-13	2013-14	2014-15	2015-16	2016-17
Transport	52.37	54.51	41.18	41.99	30.34
Other Economic Services	28.25	26.99	20.73	16.36	17.47
Total (ES)	31.22	31.18	25.18	27.15	19.20
Grand Total (SS + ES)	25.02	27.41	21.10	21.99	17.76

(Source: Finance Accounts of respective years)

£-Total Revenue and Capital Expenditure of the Services concerned

The Table shows that:

- Development Capital expenditure, in *per cent* terms, decreased to 17.76 *per cent* in 2016-17 from 25.02 *per cent* in 2012-13 and 21.99 *per cent* 2015-16 respectively.
- The ratio of Capital Expenditure in selected Social Services ranged between 14.17 to 22.16 *per cent* during 2012-17.
- The ratio of Capital Expenditure in selected Economic Services ranged between 19.20 to 31.22 *per cent* during 2012-17.

Table - 1.22: Efficiency of Revenue Expenditure in selected Social and Economic services

(₹ in crore)

Services	In Revenue Expenditure, the share of Salary					In Revenue Expenditure, the share of Non-Salary				
	2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17
General Education	461.04 (71.16)	535.41 (74.84)	573.26 (60.10)	643.04 (54.02)	715.45 (55.37)	186.83 (28.84)	179.95 (25.16)	380.61 (39.90)	547.32 (45.98)	576.69 (44.63)
Technical Education, Sports and Arts & Culture	25.86 (51.69)	28.82 (45.66)	35.00 (45.62)	39.54 (46.03)	50.05 (42.79)	24.17 (48.31)	34.30 (54.34)	41.72 (54.38)	46.36 (53.97)	66.93 (57.21)
Health & Family Welfare	203.66 (78.55)	251.02 (80.47)	280.63 (51.38)	291.79 (59.66)	388.09 (56.06)	55.61 (21.45)	60.91 (19.53)	265.57 (48.62)	197.30 (40.34)	304.23 (43.94)
Water Supply & Sanitation, Housing and Urban Development	65.33 (27.79)	75.96 (23.58)	84.89 (23.75)	101.41 (21.70)	112.26 (19.16)	169.73 (72.21)	246.11 (76.42)	272.52 (76.25)	365.84 (78.30)	473.58 (80.84)
Other Social Services	95.17 (30.30)	120.72 (33.75)	116.10 (27.37)	130.51 (40.27)	138.30 (38.50)	218.88 (69.70)	236.96 (66.25)	308.09 (72.63)	193.56 (59.73)	220.89 (61.50)
Social Services	851.06 (56.50)	1011.93 (57.17)	1089.88 (46.21)	1206.29 (47.18)	1404.15 (46.09)	655.22 (43.50)	758.23 (42.83)	1268.51 (53.79)	1350.38 (52.82)	1642.32 (53.91)
Agriculture & Allied Activities	177.00 (40.11)	202.87 (33.48)	226.56 (34.49)	265.16 (39.81)	279.27 (36.26)	264.34 (59.89)	403.03 (66.52)	430.29 (65.51)	400.90 (60.19)	490.94 (63.74)
Irrigation & Flood Control	39.51 (29.06)	45.97 (27.39)	52.20 (42.67)	56.26 (32.08)	67.82 (37.65)	96.44 (70.94)	121.88 (72.61)	70.12 (57.33)	119.12 (67.92)	112.33 (62.35)
Energy	126.79 (32.72)	154.52 (37.89)	177.12 (40.27)	208.20 (37.20)	231.28 (29.03)	260.73 (67.28)	253.30 (62.11)	262.70 (59.73)	351.44 (62.80)	565.32 (70.97)
Transport	123.72 (30.31)	162.33 (29.28)	174.24 (20.15)	169.20 (15.10)	48.76 (5.56)	284.52 (69.69)	392.13 (70.72)	690.51 (79.85)	951.37 (84.90)	828.68 (94.44)
Other Economic Services	177.79 (36.78)	206.50 (46.39)	221.86 (34.03)	233.07 (30.41)	455.00 (47.60)	305.66 (63.22)	238.64 (53.61)	430.01 (65.97)	533.26 (69.59)	500.91 (52.40)
Economic Services	644.81 (34.73)	772.19 (35.40)	851.98 (31.14)	931.89 (28.34)	1082.13 (30.22)	1211.69 (65.27)	1408.98 (64.60)	1883.63 (68.86)	2356.09 (71.66)	2498.18 (69.78)
Grand Total	1495.87 (44.48)	1784.12 (45.15)	1941.86 (38.12)	2138.18 (36.58)	2486.28 (37.52)	1866.91 (55.52)	2167.21 (54.85)	3152.14 (61.88)	3706.47 (63.42)	4140.50 (62.48)

(Source: Finance Accounts of respective years)

The table shows that:

- The expenditure on Salary components under Social and Economic Services during 2016-17 increased by 66.21 *per cent* and 16.28 *per cent* over 2012-13 and

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2015-16 respectively. The expenditure on Non-Salary component under Social and Economic Services in 2016-17 increased by 121.78 per cent and 11.71 per cent over 2012-13 and 2015-16 respectively.

- The Salary component under Revenue expenditure in selected Social Services in 2016-17 increased by 64.99 per cent and 16.40 per cent over 2012-13 and 2015-16 respectively. The Non-Salary component in 2016-17 increased by 150.65 per cent and 21.62 per cent over 2012-13 and 2015-16 respectively.
- The Salary component under Revenue expenditure in selected Economic Services in 2016-17 increased by 67.82 per cent and 16.12 per cent over 2012-13 and 2015-16 respectively. The Non-Salary component in 2016-17 increased by 106.17 per cent and 6.03 per cent over 2012-13 and 2015-16 respectively.

1.8 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its Fiscal Deficit (and Borrowings) not only at low levels, but also meet its Capital Expenditure/ Investment (including Loans and Advances) requirements. In addition, in a transition to complete dependence on market-based resources, the State Government needs to initiate measures to earn adequate returns on its investments and recover its cost of borrowings to avoid complete dependence on market borrowings. This section presents a broad financial analysis of investments and other Capital Expenditure undertaken by the Government during 2016-17 *vis-à-vis* previous years.

1.8.1 Investment and Returns

As per Statement 8 and 19 of the Finance Accounts for 2016-17, as of 31 March 2017, the State Government invested ₹ 250.02 crore in five Government Companies (₹ 9.00 crore) and 150 Co-operative Banks and Societies (₹ 241.02 crore) as detailed in **Table 1.23**.

Table - 1.23: Return on Investment

	(₹ in crore)				
Investment/ Return/ Cost of Borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Investment at the end of the year (₹ in crore)					
(i) Government Companies	9.04	9.00	9.00	9.00	9.00
(ii) Co-operative Bank/ Societies	215.14	236.05	238.59	240.11	241.02
TOTAL	224.18	245.05	247.59	249.11	250.02
Return (₹ in crore)	<i>Nil</i>				
Average Rate of Interest on Government Borrowings (per cent)	6.41	6.66	6.35	6.92	6.93
Difference between Interest Rate & Return rate (per cent)	6.41	6.66	6.35	6.92	6.93

(Source: Finance Accounts of respective years)

During 2012-13 to 2016-17, average return on investment was 'Nil', while the Government paid interest at an average rate of 6.41 per cent to 6.93 per cent on its borrowings during the period. As on 31 March 2017, there were five working

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Government Companies and as per latest finalised annual accounts, three¹⁰ companies had accumulated losses of ₹ 29.09 crore and two companies had earned a profit of ₹ 23.50 crore. As per their latest finalised accounts, aggregate net worth¹¹ of two loss making companies¹² stood at *negative* ₹ 18.63 crore and the accumulated losses in these two companies exceeded their paid up capital and in one loss making company¹³ the accumulated loss was more than 80 *per cent* of its paid up capital. The two profit making companies¹⁴ had a combined net worth of ₹ 28.52 crore.

1.8.2 Loans & Advances by the State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the Government also provided Loans and Advances for other purposes, *e.g.*, loans to Power Projects, Government servants, Tourism, *etc.* **Table 1.24** shows outstanding Loans and Advances as on 31 March of last five years.

Table - 1.24: Loans & Advances by the State Government

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
OPENING BALANCE	65.86	66.86	81.97	59.49	66.99
Amount advanced during the year	3.95	18.53	4.93	12.98	10.33
Amount recovered during the year	2.95	3.42	27.41	5.48	3.79
CLOSING BALANCE	66.86	81.97	59.49	66.99	73.53
<i>Net Addition</i>	<i>1.00</i>	<i>15.11</i>	<i>-22.48</i>	<i>7.50</i>	<i>6.54</i>

(₹ in crore)

(Source: Finance Accounts of respective years)

The amount of Loans & Advances by the State Government decreased from ₹ 12.98 crore in 2015-16 to ₹ 10.33 crore in 2016-17. Out of this, ₹ 7.90 crore pertains to Economic Services (Loans for Co-operation) and ₹ 2.43 crore to Government Servants. The repayment of Loans and Advances also decreased by ₹ 1.69 crore in 2016-17 mainly on account of decreases in recovery of Loans for Co-operation (₹ 1.53 crore) and Loans to Government Servants (₹ 0.18 crore), which was offset by an increase under Loans for Urban Development (₹ 0.02 crore).

1.8.3 Cash Balances and Investment of Cash Balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA), Ordinary or Special, from the Reserve Bank of India (RBI) has been put in place. The operating limit for ordinary WMA is reckoned as the three year average of Revenue Receipts and the operative limit for special WMA is fixed by RBI from time to time

¹⁰ AP Industrial Development and Financial Corporation Limited (₹ 22.70 crore); AP Mineral Development and Trading Corporation Limited (₹ 1.81 crore) and AP Forest Corporation Limited (₹ 4.58 crores)

¹¹ Net worth represents paid up capital plus free reserves less accumulated losses.

¹² AP Industrial Development and Financial Corporation Limited (₹ 18.55 crore); and AP Forest Corporation Limited (₹ 0.08 crores)

¹³ AP Mineral Development and Trading Corporation Limited (₹ 0.32 crore)

¹⁴ Arunachal Police Housing and Welfare Corporation Limited (₹ 22.02 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (₹ 6.50 crore)

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depending on the holding of Government securities. Overdrafts are given by the RBI, if the state has a minus balance after availing of the maximum advances.

Under an agreement with the RBI, the State Government has to maintain an all-time minimum balance of ₹ 26.00 lakh with RBI. If the balance falls below the agreed minimum, the Government can take ordinary WMA from the RBI, in addition, special WMAs are made available against GoI securities held by the State Government.

The position of Ways and Means Advances and Overdraft for the period 2012-17 is shown in **Table 1.25:**

Table - 1.25: Ways and Means Advances and Overdraft

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Ordinary and Special Ways & Means Advance					
Availed during the year	0	0	551.79 (33)	99.81 (14)	253.94 (12)
Outstanding WMAs	55.64	55.64	55.64	353.26	205.21
Interest Paid	0	0	4.21	1.18	0.56
Overdraft					
Availed during the year	0	0	581.38 (28)	233.37 (14)	0
Outstanding Overdraft	0	0	0	(-) 24.01	(-) 605.39
Interest Paid	0	0	0	3.23	0

Figures in parenthesis indicate number of days the advances/ Overdraft availed during the year.
(Source: Finance Accounts of respective years)

During 2016-17, the Government resorted to ordinary and special Ways and Means Advances amounting to ₹ 253.94 crore for 12 days.

The Cash Balances and Investments made by the State Government out of Cash Balances during 2016-17 are shown in **Table 1.26**

Table - 1.26: Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 1 st April 2016	As on 31 st March 2017	Increase(+)/ Decrease(-)
Cash Balances¹⁵	1275.61	1347.28	71.67
Investments from Cash Balances (a & b)	2026.86	1103.03	(-) 923.83
a. GoI Treasury Bills	2026.86	1103.03	(-) 923.83
b. GoI Stock/ Securities	-	-	-
Fund-wise break-up of Investment from Earmarked Balances (a & b)	369.90	519.90	150.00
a. Sinking Fund Investment Account	369.90	519.90	150.00
b. Other Development & Welfare Funds	-	-	-
Interest realised on Investment of Cash Balances	38.07	55.43	17.36

(Source: Finance Accounts 2016-17)

Cash Balances of the State Government increased from ₹ 1,275.61 crore in 2015-16 to ₹ 1,347.28 crore in 2016-17. There was a difference of ₹ 12.31 crore (net debit) at the end of accounting year 2016-17 between the General Cash Balance as worked out by the Accountant General (₹ 599.28 crore) and as reported by the RBI (₹ 611.59 crore). This difference was mainly due to misclassification of transactions by bank/ treasuries. As of

¹⁵ Including investment of Earmarked Funds

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31 March 2017, the State Government invested ₹ 1,103.03 crore in GoI Treasury Bills. During 2016-17, Interest of ₹ 55.43 crore was earned on investment of Cash Balances.

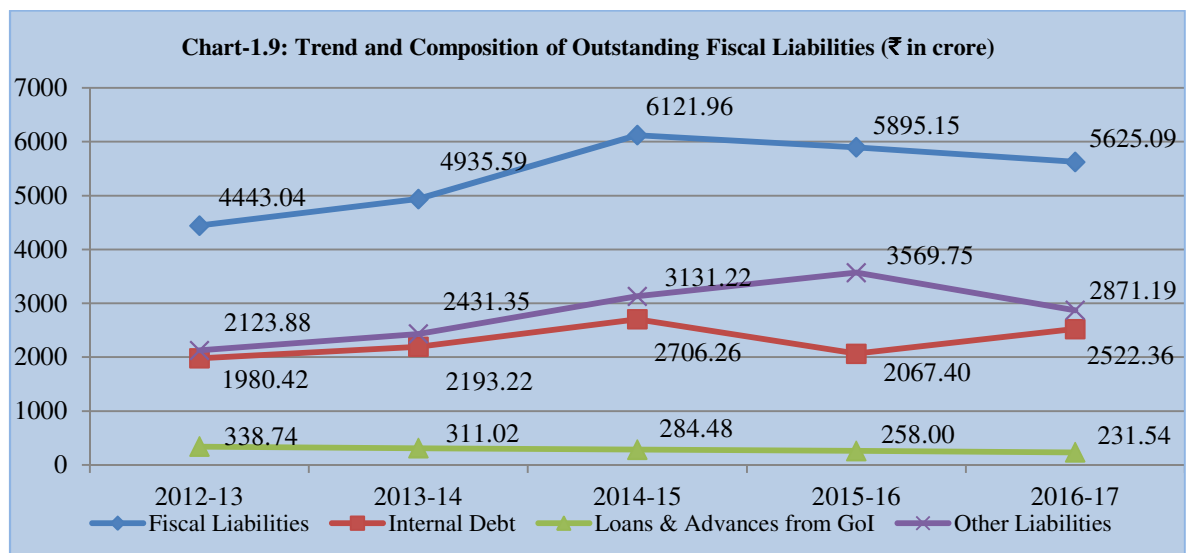
1.9 Assets and Liabilities

1.9.1 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, Government accounts do capture financial liabilities of the Government and assets created out of expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and assets as on 31 March 2017, compared with the corresponding position on 31 March 2016. While, liabilities consist mainly of Internal Borrowings, Loans & Advances from GoI, receipts from Public Account and Reserve Funds, Assets comprise mainly of Capital Outlay and Loans & Advances given by the State Government and Cash Balances.

1.9.2 Fiscal Liabilities

Trends and composition of fiscal liabilities during the last five years are presented in **Charts 1.9**.



(Source: Finance Accounts of respective years)

Table 1.27 gives the Fiscal Liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP, to Revenue Receipts and to the State's Own Resources and also the buoyancy of Fiscal Liabilities with reference to these parameters.

Table - 1.27: Fiscal Liabilities – Basic Parameters

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Fiscal Liabilities (₹ in crore)	4443.04	4935.59	6121.96¹⁶	5895.15	5625.09
Rate of Growth (per cent)	10.08	11.09	24.04	(-).3.70	(-) 4.58
Ratio of Fiscal Liabilities to					
GSDP (per cent)	35.41	33.85	34.14	29.05	23.38
Revenue Receipts (per cent)	77.12	84.80	67.01	55.86	47.75

¹⁶ The difference of ₹ 0.25 crore between last year Closing Balance and this year Opening Balance is due to correction of error in calculation

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Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
<i>Own Resources (per cent)</i>	739.62	587.87	665.58	635.81	448.73
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	0.75	0.68	1.05	(-)0.28	(-)0.25
Revenue Receipts (ratio)	2.11	10.87	0.42	(-)0.24	(-)0.39
Own Resources (ratio)	(-) 0.88	0.28	2.52	(-)4.61	(-)0.13

(Source: Finance Accounts of respective years)

Fiscal Liabilities of ₹ 5625.09 crore during 2016-17 consisted of Internal Debt (market loans, WMAs, loans from Financial Institutions and Special Securities issued to National Small Savings Fund, etc.) :- ₹ 2522.36 crore; Loans & Advances from the Central Government :- ₹ 231.54 crore; Public Account Liabilities (Small Savings, Provident Funds, etc., Reserve Funds and Deposits) :- ₹ 2871.19 crore. While the Fiscal Liabilities of the State increased (26.60 per cent) from ₹ 4443.04 crore in 2012-13 to ₹ 5625.09 crore in 2016-17, it decreased (4.58 per cent) from ₹ 5895.15 crore in 2015-16. The ratio of Fiscal Liabilities to GSDP decreased from 29.05 per cent in 2015-16 to 23.38 per cent in 2016-17. These liabilities were around 48 per cent of Revenue Receipts. The overall liability was about 7.40 times the State's own resources at the end of 2012-13, whereas it had improved to more than four times the State's own resources at the end of March 2017.

1.9.3 Transactions under Reserve Fund

The total Fiscal Liabilities of ₹ 5625.09 crore include balance of ₹ 586.12 crore under Reserve Funds as on 31 March 2017. The State has three Reserve Funds viz., State Disaster Response Fund (SDRF), Sinking Funds and Other Funds. The status of Reserve Funds are as under:

(a) State Disaster Response Fund

SDRF was set up by the State Government in 2010-11 with contribution of funds from GoI and the State Government in the ratio of 90:10. During 2016-17, Central Government released an amount of ₹ 49.50 crore towards SDRF. Although, the State Government deposited ₹ 24.75 crore, being first instalment of SDRF released by the Central Government, to the designated bank account, the second instalment from the Central Government (₹ 24.75 crore) along with State share (₹ 5.40 crore) amounting to ₹ 30.15 crore was transferred to the Public Account Head 8121-112. Moreover, the State share was short by ₹ 0.10 crore. At the end of March 2017, outstanding balance under the Public Account Head 8121-112 amounting to ₹ 66.09 crore, remained un-invested.

Further, the amount deposited in the SDRF Bank Account was kept outside the purview of Government Accounts. As such, Audit could not ascertain the quantum of expenditure incurred as well as the balance available in the SDRF Bank Account.

(b) Consolidated Sinking Fund

The State Government set up a 'Consolidated Sinking Fund' (CSF) in 1999-2000 for amortisation of market borrowings, other loans and non-debt obligations as per the recommendation of XII FC. According to the guidelines of the RBI, which is

responsible for management of the Fund, State Government is required to contribute a minimum of 0.5 *per cent* of the outstanding liabilities of the previous year. Accordingly, the contribution due from the State Government was ₹ 29.48 crore¹⁷. Against this, the State Government contributed ₹ 150.00 crore to the Fund. As of 31 March 2017, ₹ 519.90 crore (including previous year's balance of ₹ 369.90 crore) was invested in GoI Securities.

1.9.4 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by borrowers for whom the Guarantee was extended. As per the Finance Accounts, the maximum amount for which Guarantees were given by the State and outstanding Guarantees at the end of the year since 2012-13 to 2016-17, is given in **Table 1.28**.

Table - 1.28: Guarantees given by the Government of Arunachal Pradesh

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Maximum Amount Guaranteed	2.00	2.00	2.00	2.00	2.00
Outstanding Amount of Guarantees (incl. Interest)	1.55	1.55	0.97	0.97	0.98
Percentage of Maximum Amount Guaranteed to Total Revenue Receipts	0.04	0.04	0.02	0.02	0.02

(Source: Finance Accounts of respective years)

The outstanding amount of guarantee of ₹ 0.98 crore as at the close of 2016-17 was with respect to the Government guaranteed loans to one Company, *i.e.*, Arunachal Pradesh Industrial Development & Financial Corporation Limited.

No law under Article 293 of the Constitution has been passed by the State Legislature laying down the maximum limit within which the Government may extend Guarantees on the security of the Consolidated Fund of the State.

1.10 Debt Management

1.10.1 Debt Sustainability

Debt sustainability is defined as the ability of the State to service its debt in future and also embodies the concern about the ability to service debts. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service debts.

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine debt sustainability of the State. **Table 1.29** shows the debt sustainability of the State according to these indicators for five year period from 2012-13 to 2016-17.

¹⁷ 0.5 *per cent* of the total outstanding liabilities of ₹ 5895.15 crore of State Government as on 31 March 2016

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Table - 1.29: Fiscal Liabilities – Net Debt Available to the State

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Fiscal Liabilities (FL)	4443.04	4935.59	6121.96 ¹⁸	5895.15	5625.09
GSDP	12,547	14,581	17,931	20,294	24,056
Total Debt Receipts	1560.76	2037.65	3985.91	3110.70	2222.86
Total Debt Payments	882.01	1232.6	2448.90	2921.87	2093.69
Net Debt available to the State	678.75	805.05	1537.01	188.83	129.17
Ratio of FL to GSDP	35.41	33.85	34.14	29.05	23.38

(Source:-Finance Accounts of the respective years and for GSDP figures: Directorate of Economics and Statistics, Government of Arunachal Pradesh)

Table-1.29 shows that the Debt-GSDP ratio had been on a downward trend from 34.14 per cent during 2014-15 to 23.38 per cent in 2016-17. Again, the Debt-GSDP ratio during 2016-17 was 23.38 per cent which was well within the projected Debt-GSDP ratio set forth by FFC (32.63 per cent) for Arunachal Pradesh. The net Debt available to the State had been positive during 2012-17 indicating that the incremental revenue receipts were sufficient to meet the incremental primary expenditure and interest burden. Although, the net Debt available to the State stood at positive at ₹ 129.17 crore during 2016-17, the decreasing trend from 2014-15 indicate that the State had to made sustainable efforts to mobilise more resources to meet the incremental liabilities arising on account of additional primary expenditure and interest payments.

Details of the Public Debt are available in the Statement 17 of the Finance Accounts 2016-17 and summarised in **Table 1.30**.

Table - 1.30 Summary of Public Debt

(₹ in crore)

Sl. No.	Description of the Debt	Balance as on 01 April 2016	Additions	Repayments	Balance as on 31 March 2017	Interest paid during the year
1	Internal Debt	2067.40	1015.27	560.31	2522.36	229.99
2	Loans and Advances from GoI	258.00	-	26.46	231.54	18.00
	Total	2325.40	1015.27	586.77	2753.90	247.99

(Source: Finance Accounts 2016-17)

The Public Debt of the State Government as on 01 April 2016 was ₹ 2,325.40 crore with addition during the year 2016-17 of ₹ 1,015.27 crore. After discharging/ repayment of loan amount of ₹ 586.77 crore during the year (excluding an interest payment of ₹ 247.99 crore), there was a closing balance of ₹ 2,753.40 crore as on 31 March 2017.

1.11 Fiscal Imbalances

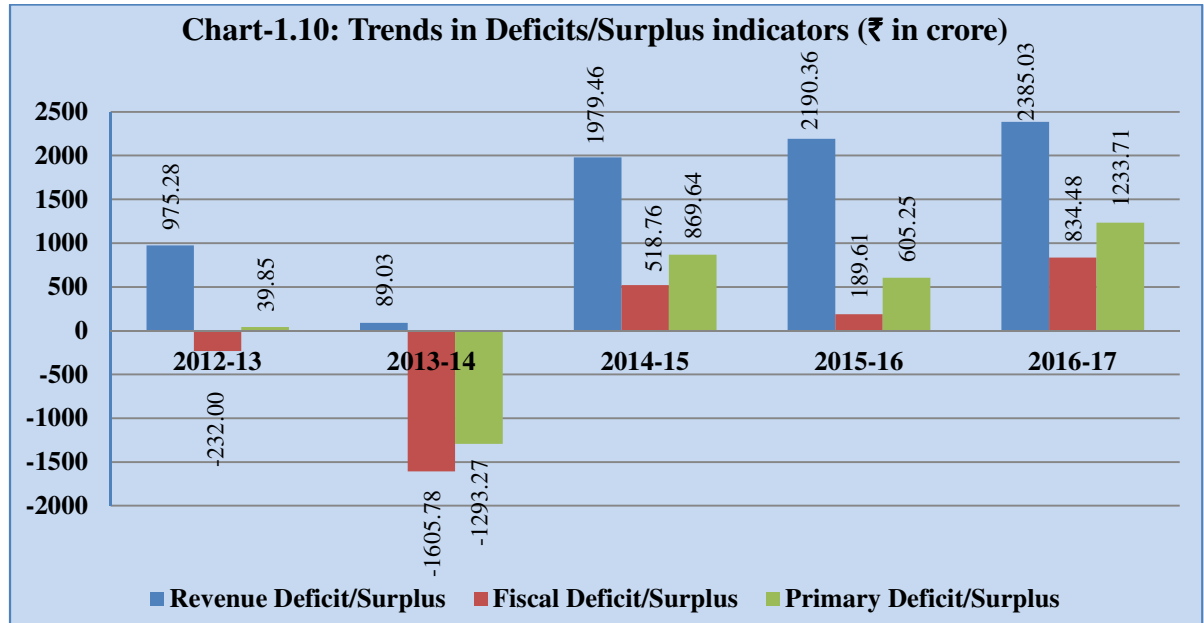
Three key fiscal parameters - Revenue, Fiscal and Primary Deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in Government Accounts represents the gap between receipts and

¹⁸ The difference of ₹ 0.25 crore between last year Closing Balance and this year Opening Balance is due to correction of error in calculation

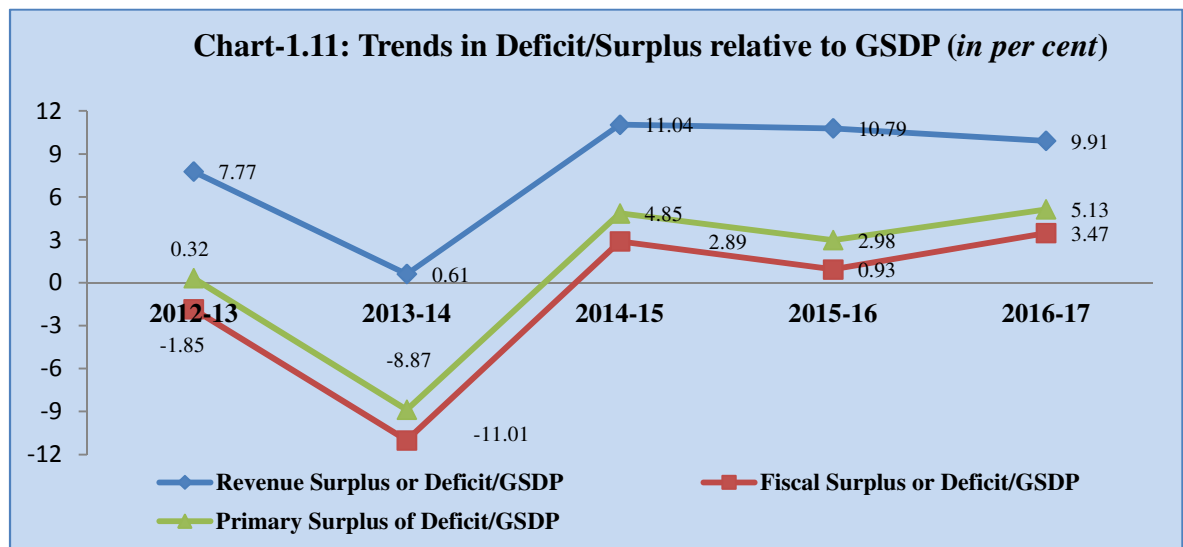
expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, ways in which the deficit is financed and resources raised are applied are important pointers to its fiscal health. This Section presents trends, nature, magnitude, the manner of financing deficits and assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/ Rules for the financial year 2016-17.

1.11.1 Trends in Deficits/Surplus

Charts 1.10 and 1.11 present the trends in deficit indicators over the period 2012-13 to 2016-17.



(Source: Finance Accounts of the respective years)



(Source: Finance Accounts of the respective years)

Chart 1.18 reveals that the State had Revenue Surplus during the period 2012-13 to 2016-17, which increased from ₹ 89.03 crore in 2013-14 to ₹ 2,385.03 crore in 2016-17. Compared to 2015-16, Revenue Surplus in 2016-17 increased by ₹ 194.67 crore

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(8.89 per cent) due to significant increase in Revenue Receipts by ₹ 1,226.47 crore in 2016-17 and only a marginal increase in Revenue Expenditure by ₹ 1,031.80 crore in 2016-17.

Fiscal Surplus, which represents excess of total resource gap over the total borrowings of the Government, increased from ₹ 189.61 crore in 2015-16 to ₹ 834.48 crore in 2016-17. The significant increase in Revenue Receipt (₹ 1,226.47 crore) over the previous year plus significant decrease in Capital expenditure (₹ 449.24 crore) mainly led to a Fiscal Surplus of ₹ 834.48 crore in 2016 - 17.

As per recommendations of the XIV FC, Fiscal Deficit of all States will be anchored to an annual limit of three per cent of GSDP. The State was successful to maintain Fiscal Surplus for the last three years.

The Primary Deficit of ₹ 1,293.27 crore, experienced by the State during 2013-14, took a turnaround in 2014-15 followed up to 2016-17, resulting in a Primary Surplus of ₹ 1,233.71 crore. The increase of ₹ 628.46 crore (103.83 per cent) compared to previous year in primary surplus was due to significant increase in Fiscal Surplus (₹ 644.87 crore) over the previous year coupled with decrease in Interest Payments by ₹ 16.41 crore.

1.11.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the Fiscal Deficit is given in **Table-1.31**.

Table - 1.31: Components of Fiscal Deficit and its Financing Pattern1

		(₹ in crore)				
Sl. No	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Decomposition of Fiscal Deficit						
Fiscal Deficit (-)/Surplus (+)		(-)232.00	(-)1605.78	518.76	189.61	834.48
1	Revenue Deficit (-)/Surplus (+)	975.28	89.03	1979.46	2190.36	2385.03
2	Net Capital Expenditure	1206.28	1679.70	1483.18	1993.25	1544.01
3	Net Loans & Advances	(-)1.00	(-)15.11	22.48	(-)7.50	(-)6.54
Financing pattern of Fiscal Deficit						
1	Market borrowings	133.37	199.82	178.49	58.76	287.28
2	Loans from GoI	(-)27.55	(-)27.73	(-)26.53	(-)26.49	(-)26.45
3	Special Securities issued to NSSF	17.11	23.23	51.70	98.07	86.77
4	Loans from Financial Institutions	(-)13.12	(-)10.25	9.23	(-)66.26	89.21
5	Small Savings, PF, etc	125.92	143.53	200.03	135.66	157.23
6	Reserve Funds	20.00	62.54	20.00	200.00	171.55
7	Deposits and Advances	70.32	44.22	480.25	72.37	(-)1305.66
8	Suspense and Miscellaneous	(-)3.62	914.58	(-)1686.94	(-)454.00	148.74
9	Remittances	166.42	(-)87.92	82.93	723.89	(-)363.18
10	Increase (-)/ Decrease (+) in cash balances	(-)206.85	343.76	(-)101.53	(-)202.18	(-)71.67
11	Increase/ Decrease in WMAs, Overdraft	0.00	0.00	273.61	(-)729.43	(-)8.30
Overall Deficit (1 to 11) (-)		232.00	1605.78	(-)518.76	(-)189.61	(-)834.48

(Source: Finance Accounts of respective years)

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The table shows that though the State observed Fiscal Deficit during 2012-13 and 2013-14, the State was in a comfortable position with Fiscal Surplus of ₹ 518.76 crore during 2014-15 and ₹ 834.48 crore during 2016-17.

1.11.3 Quality of Deficit/ Surplus

The ratio of Revenue Deficit to Fiscal Deficit and decomposition of Primary Deficit into Primary Revenue Deficit and Capital Expenditure (including Loans & 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, a persistently high ratio of Revenue Deficit to Fiscal Deficit also indicates that the asset base of the State is continuously shrinking and a part of borrowings (Fiscal Liabilities) does not have any asset back-up. The bifurcation of Primary Deficit (*Table 1.32*) would indicate the extent to which the deficit was on account of enhancement in Capital Expenditure, which may be desirable to improve the productive capacity of the State's economy.

Table - 1.32: Primary Deficit/ Surplus – Bifurcation of Factors

(₹ in crore)							
Year	Non-Debt Receipt	Primary Revenue Expenditure	Capital Expenditure	Loans & Advances	Primary Expenditure	Primary Revenue Surplus	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3 + 4 + 5)	7 (2 - 3)	8 (2 - 6)
2012-13	5764.47	4514.39	1206.28	3.95	5724.62	1250.08	(+) 39.85
2013-14	5823.85	5418.89	1679.70	18.53	7117.12	404.96	(-)1293.27
2014-15	9163.46	6805.71	1483.18	4.93	8293.82	2357.75	(+)869.64
2015-16	10558.58	7947.10	1993.25	12.98	9953.33	2611.48	(+)605.25
2016-17	11783.36	8995.31	1544.01	10.33	10549.65	2788.05	(+)1233.71

(Source: Finance Accounts of respective years)

Analysis of the factors resulting into Primary Deficit or Surplus of the State during 2012 - 13 to 2016 - 17 revealed that only in 2013 - 14, the State experienced Primary Deficit as the Non-Debt Receipts were not enough to meet expenditure requirements under Revenue, Capital and Loans & Advances Account. However, during 2012 - 13, 2014 - 15 to 2016 - 17, Non- debt Receipts were sufficient to meet the expenditure requirement under Revenue, Capital and Loans & Advances Accounts, resulting in Primary Surplus. Primary Deficit of ₹ 1,293.27 crore during 2013 - 14 turned into Primary surplus of ₹ 869.64 crore in 2014 - 15 and continued as Primary Surplus of ₹ 1,233.71 crore during 2016 - 17, which is desirable and needs to be maintained in a consistent manner.

1.12 Significant Findings and Recommendations

The State had Revenue Surplus during the period 2012-13 to 2016-17, which increased from ₹ 89.03 crore in 2013-14 to ₹ 2,385.03 crore in 2016-17. The State had a Fiscal Surplus of ₹ 834.48 crore in 2016-17 which was well beyond the Fiscal Deficit limit of three *per cent* of GSDP recommended by FFC.

The Revenue Receipts of the State grew steadily from ₹ 5,761.32 crore in 2012-13 to ₹ 11,779.57 crore in 2016-17. However, the State's Own Resources (Own Tax and Non-Tax Resources) constituted only around 11 *per cent* of the Revenue Receipts during

2012-17. *The State Government may explore mobilising additional resources through Tax and non-Tax sources.*

Revenue Expenditure increased by ₹ 1,031.81 crore (12.34 per cent) but Capital Expenditure decreased by ₹ 449.24 crore (22.54 per cent) over the previous year. Revenue Expenditure accounted for 86 per cent of the State's Total Expenditure during 2016-17, which was in the nature of current consumption, thereby, leaving only 14 per cent for Capital Expenditure (investment in infrastructure and asset creation). The Non-Plan Revenue Expenditure ranged between 59 to 71 per cent during 2012-17. The Committed Expenditure on salaries and wages, interest payments, pension and subsidies grew from ₹ 2,716.98 crore in 2012-13 to ₹ 4,611.68 crore in 2016-17.

During 2016-17, the Government had invested ₹ 250.02 crore in Government Companies, Co-operative Bank, Societies, etc. The average return on this investment was *Nil* in the last five years while, the Government paid an average interest rate ranging from 6.35 to 6.93 per cent on its borrowings during 2012-17. Out of the five working Government Companies, accumulated losses in two Companies had exceeded their paid-up capital and in one Company, the accumulated loss was more than 80 per cent of the paid-up capital; the remaining two Companies were in profit. *The Government may consider reviewing the continuance of these loss-making companies from the perspective of their public utility.*

The outstanding fiscal liabilities have shown a steady increase from ₹ 4,443.04 crore in 2012-13 to ₹ 5,625.09 crore in 2016-17. The ratio of fiscal liabilities to GSDP has decreased marginally from 34.14 per cent in 2014-15 to 23.38 per cent in 2016-17, which was lower than the limit prescribed by the FFC for 2016-17.