

*CHAPTER II*  
*FINANCES OF THE STATE*



## Chapter II

## FINANCES OF THE STATE

### 2.1 Introduction

This Chapter provides a broad perspective of finances of the State Government 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.

### 2.2 Major changes in Key Fiscal Aggregates vis-à-vis 2018-19

**Table 2.1** below gives a bird's eye view of the major changes in key fiscal aggregates of the State during 2019-20, compared to the previous year.

**Table 2.1: Changes in key fiscal aggregates in 2019-20 compared to 2018-19**

Revenue Receipts	<ul style="list-style-type: none"><li>✓ Revenue Receipts of the State decreased by 8.07 per cent</li><li>✓ Own Tax Revenue of the State increased by 15.05 per cent</li><li>✓ Own Non-Tax Revenue increased by 6.98 per cent</li><li>✓ State's Share of Union Taxes and Duties decreased by 13.88 per cent</li><li>✓ Grants-in-Aid from Government of India decreased by 1.52 per cent</li></ul>
Revenue Expenditure	<ul style="list-style-type: none"><li>✓ Revenue Expenditure decreased by 1.70 per cent</li><li>✓ Revenue Expenditure on General Services increased by 0.20 per cent</li><li>✓ Revenue Expenditure on Social Services decreased by 4.83 per cent</li><li>✓ Revenue Expenditure on Economic Services decreased by 0.06 per cent</li><li>✓ Expenditure on Grants-in-Aid decreased by 40.34 per cent</li></ul>
Capital Expenditure	<ul style="list-style-type: none"><li>✓ Capital Expenditure decreased by 35.52 per cent</li><li>✓ Capital Expenditure on General Services decreased by 38.05 per cent</li><li>✓ Capital Expenditure on Social Services decreased by 40.93 per cent</li><li>✓ Capital Expenditure on Economic Services decreased by 32.81 per cent</li></ul>
Loans and Advances	<ul style="list-style-type: none"><li>✓ Disbursement of Loans and Advances decreased by 20.54 per cent</li><li>✓ Recoveries of Loans and Advances increased by 38.39 per cent</li></ul>
Public Debt	<ul style="list-style-type: none"><li>✓ Public Debt Receipts increased by 48.61 per cent</li><li>✓ Repayment of Public Debt increased by 26.39 per cent</li></ul>
Public Account	<ul style="list-style-type: none"><li>✓ Public Account Receipts decreased by 53.66 per cent</li><li>✓ Disbursement of Public Account decreased by 10.33 per cent</li></ul>
Cash Balance	<ul style="list-style-type: none"><li>✓ Cash balance decreased by ₹ 1,537.15 crore (33.78 per cent) during 2019-20 compared to previous year</li></ul>

Source: Finance Accounts of the respective years

### 2.3 Sources and Application of Funds

**Table 2.2** compares the sources and application of funds of the State during 2019-20 with 2018-19.

**Table 2.2: Details of Sources and Application of funds during 2019-20 compared to 2018-19**  
(₹ in crore)

Particulars		2018-19	2019-20	Increase/ Decrease
Sources	Opening Cash Balance with RBI	2243.00	4,550.97*	2,307.97
	Revenue Receipts	16,195.96	14,888.55	(-) 1,307.41
	Recoveries of Loans and Advances	5.08	7.03	1.95
	Public Debt Receipts (Net)	925.21	1,437.10	511.89
	Public Account Receipts (Net)	1,415.31	(-) 1,942.03	(-) 3,357.34
	<b>Total</b>	<b>20,784.56</b>	<b>18,941.62</b>	<b>(-) 1,842.94</b>
Application	Revenue Expenditure	12,429.48	12,218.73	(-) 210.75
	Capital Expenditure	5,727.43	3,693.05	(-) 2,034.38
	Disbursement of Loans and Advances	20.16	16.02	(-) 4.14
	Closing Cash Balance with RBI	2,607.49	3,013.82	406.33#
	<b>Total</b>	<b>20,784.56</b>	<b>18,941.62</b>	<b>(-) 1,842.94</b>

Source: Finance Accounts of the respective years

\* The opening balance is different from the closing balance of previous year due to rectification of error which was coming from the past several years.

# The increase was mainly due to rectification of error

## 2.4 Summary of Current Year Fiscal Transactions

Government accounts are maintained on cash basis. **Table 2.3** presents a summary of the State Government's fiscal transactions during 2019-20 *vis-à-vis* the previous year while **Appendix 2.1** provides details of receipts/disbursements and the overall fiscal position during the period.

**Table 2.3: Summary of Fiscal Transactions (Current and Previous Year)**

(₹ in crore)

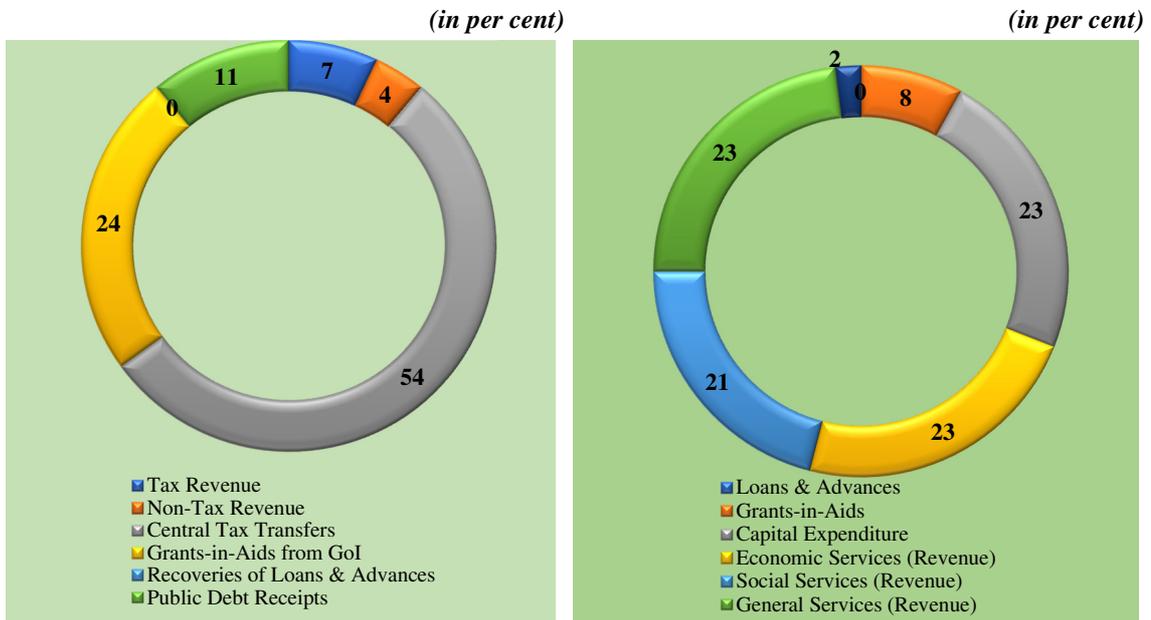
Receipts	2018-19	2019-20	Disbursements	2018-19	2019-20
<b>Section – A: Revenue</b>					
<b>Revenue Receipts</b>	<b>16,195.96</b>	<b>14,888.55</b>	<b>Revenue Expenditure</b>	<b>12,429.48</b>	<b>12,218.73</b>
Tax Revenue	1,068.04	1,228.73	General Services	3,823.32	3,831.05
Non-Tax Revenue	608.87	651.38	Social Services	4,472.42	4,256.22
Share of Union Taxes/ Duties	10,436.14	8,987.57	Economic Services	4,133.74	4,131.46
GIA from GoI	4,082.91	4,020.87			
<b>Section – B: Capital</b>					
<b>Misc. Capital Receipts</b>	<b>NIL</b>	<b>NIL</b>	<b>Capital Expenditure</b>	<b>5,727.43</b>	<b>3,693.05</b>
<b>Recoveries of Loans &amp; Advances</b>	<b>5.08</b>	<b>7.03</b>	<b>Loans &amp; Advances Disbursed</b>	<b>20.16</b>	<b>16.02</b>
<b>Public Debt Receipts</b>	<b>1,204.97</b>	<b>1,790.70</b>	<b>Repayment of Public Debt</b>	<b>279.76</b>	<b>353.60</b>
<b>Public Account Receipts</b>	<b>7,411.96</b>	<b>3,434.93</b>	<b>Public Account Disbursements</b>	<b>5,996.65</b>	<b>5,376.96</b>
<b>Opening Balance</b>	<b>2,243.00</b>	<b>2,607.49</b>	<b>Closing Balance</b>	<b>2,607.49</b>	<b>3,013.82</b>
Rectification of error during 2009-10		1,943.48			
<b>Total</b>	<b>27,060.97</b>	<b>24,672.18</b>	<b>Total</b>	<b>27,060.97</b>	<b>24,672.18</b>

Source: Finance Accounts of the respective years

The percentage share of various resources collected during the year and their application is given in the charts below:

**Chart 2.1: Composition of Resources**

**Chart 2.2: Application of Resources**



**Source: Finance Accounts 2019-20**

In both composition and application of resources, the share of receipt and disbursement of loans and advances was less than one per cent.

Significant changes during 2019-20 over the previous year are:

- Revenue Receipts decreased by ₹ 1,307.41 crore (8.07 per cent) over the previous year. The GoI funds constitute more than 87.30 per cent of the total resources of the State. The decrease in Revenue Receipts was mainly due to decrease in receipts from GoI both under share of central taxes and GIA. There has been a significant decrease in the share of central taxes by ₹ 1,448.57 crore (13.88 per cent) and GIA from GoI by ₹ 62.04 crore (1.52 per cent) during the year. The decrease in State share of Union taxes and duties was attributed to less collection by the GoI, and the decrease in GIA was due to less allocation to schemes like PMGSY, National Health Mission. There was a steep reduction in Revenue Receipts in the current year as a percentage of GSDP over previous year.
- The State's own resources increased by ₹ 203.20 crore, when compared to previous year, but fell short of the 14<sup>th</sup> FC assessment by ₹ 31.89 crore. The increase in State's own resources was due to collection of more SGST.
- Although State's own revenues increased over the previous year, the State continues to be heavily dependent on Central transfers, as the State's own resources (own tax plus non-tax revenue) is a meagre 12.62 per cent (10.35 per cent during 2018-19) of Revenue Receipts during 2019-20.
- Revenue Expenditure decreased by ₹ 210.75 crore (1.70 per cent) over the previous year. The Revenue Expenditure of the State was ₹ 12,218.73 crore as against the

projection of ₹ 9,127.00 crore made in the 14<sup>th</sup> FC Report. There has been a significant increase (₹ 3,091.73 crore) in the Revenue Expenditure of the State when compared with the assessment of the 14<sup>th</sup> FC for the year 2019-20.

- There has been a significant decrease in the Capital Expenditure by ₹ 2,034.38 crore (35.52 *per cent*) over the previous year. The actual Capital Expenditure also fell short of the amount estimated in the budget by over 53.88 *per cent*. The decrease in Capital Expenditure was mainly in respect of expenditure on construction of Roads and Bridges (₹ 769.62 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 238.24 crore), Other Administrative Services (₹ 221.90 crore) and Public Works (₹ 198.98 crore), *etc.*
- Public Account Receipts decreased by ₹ 3,977.03 crore (53.66 *per cent*) and Disbursements by ₹ 619.69 crore (10.33 *per cent*) over the previous year respectively.
- The total inflow<sup>1</sup> in respect of all funds was ₹ 20,121.21 crore against ₹ 24,817.97 crore in 2018-19, while the total outflow<sup>2</sup> was ₹ 21,658.36 crore against ₹ 24,453.48 crore during the previous year. The outflow exceeding the inflow was met from the cash balance.
- There was decrease in cash balances by ₹ 1,537.15 crore (33.78 *per cent*) over the previous year. This was mainly due to decrease in cash balance investment account.

### 2.5 Resources of the State

The resources of the State are described below:

1. **Revenue Receipts** consist of Tax Revenue, non-Tax Revenue, State's share of Union taxes and duties and GIA from the GoI.
2. **Capital Receipts** comprise 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) and Loans and Advances from GoI. Both Revenue and Capital Receipts form part of the Consolidated Fund of the State.
3. **Net Public Accounts Receipts:** These are receipts and disbursements in respect of certain transactions such as Small Savings, Provident Fund, Reserve Funds, Deposits, Suspense, Remittances, *etc.* which do not form part of the Consolidated Fund.

These are kept in the Public Account 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. The balance after disbursements is the fund available with the Government for use.

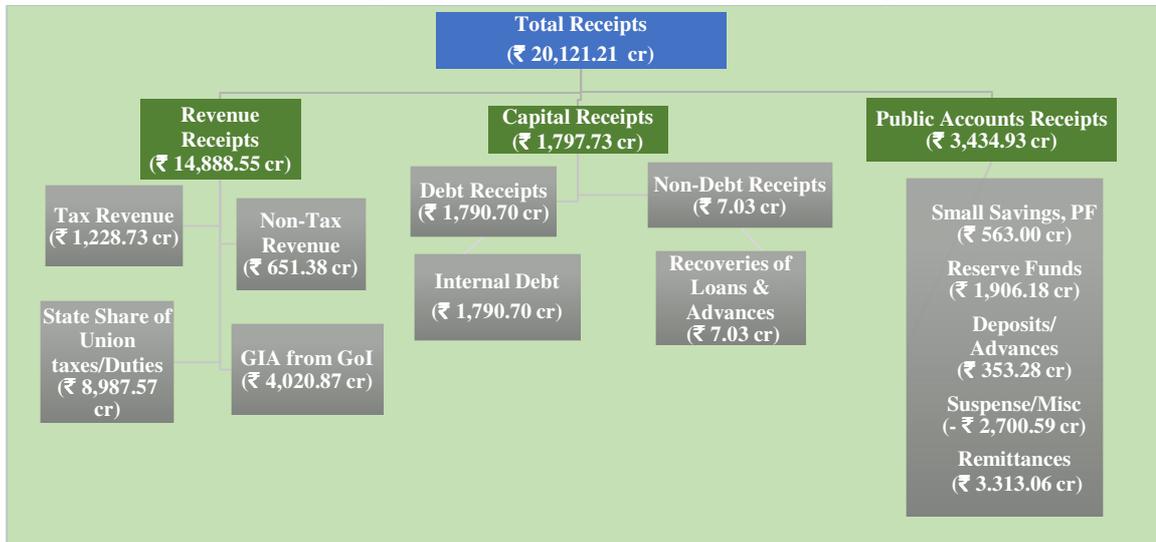
<sup>1</sup> For 2018-19, Gross Receipts ₹ 27,060.97 crore *minus* Opening Balance of ₹ 2,243.00 crore; For 2019-20, Gross Receipts ₹ 24,672.18 crore *minus* Opening Balance of ₹ 4,550.97 crore

<sup>2</sup> For 2018-19, Gross Disbursements ₹ 27,060.97 crore *minus* Closing Balance of ₹ 2,607.49 crore; For 2019-20, Gross Disbursements ₹ 24,672.18 crore *minus* Closing Balance of ₹ 3,013.82 crore

2.5.1 Receipts of the State

Chart 2.3 depicts the various components of the receipts of the State during 2019-20.

Chart 2.3: Composition of receipts of the State during 2019-20



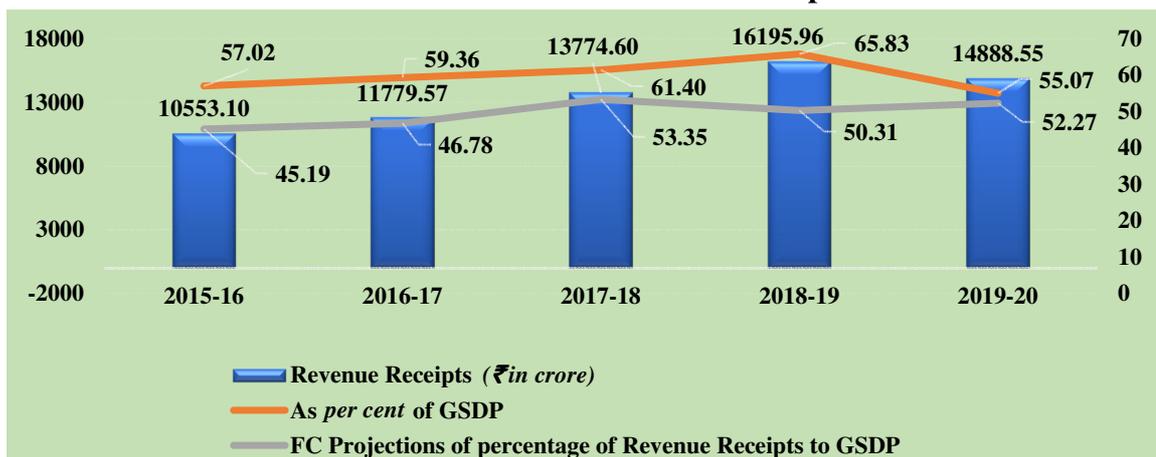
Source: Finance Accounts 2019-20

2.5.2 State's Revenue Receipts

2.5.2.1 Trends and growth of Revenue Receipts

Statement-14 of the Finance Accounts details Revenue Receipts of the Government. Trends and composition of Revenue Receipts over the period 2015-20 are presented in Appendix-2.2 and depicted in Charts 2.4 and 2.5 respectively. Trends in Revenue Receipts relative to GSDP are presented in Table 2.4.

Chart 2.4: Trends in Revenue Receipts

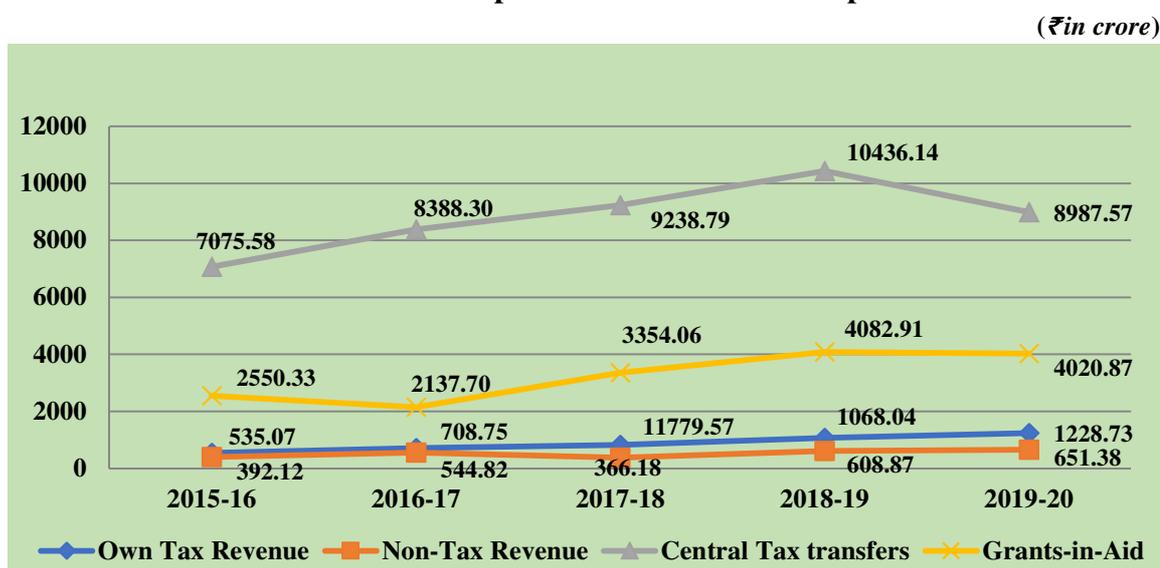


Source: Finance Accounts of the respective years

As can be seen from the Chart 2.4, the Revenue Receipts as a percentage of GSDP continuously increased for four out of five years which coincided with the award period of the 14<sup>th</sup> FC. The Revenue Receipts as percentage of GSDP declined sharply in the year 2019-20. This was mainly due to reduction in Revenue Receipts over previous year and increased GSDP of the State. The 14<sup>th</sup> FC projected that the Revenue Receipts of the State

as a percentage of GSDP would increase to 52.27 *per cent* at the end of the award period. However, the actual Revenue Receipts as percentage of GSDP was higher than the projections. The Revenue Receipts which were 57.02 *per cent* of GSDP in 2015-16 came down to 55.07 *per cent* of GSDP in 2019-20, indicating that there is scope for improving the compliance in tax collection and expanding the tax net in the State.

**Chart 2.5: Composition of Revenue Receipts**



Source: Finance Accounts of the respective years

The State Government submitted to 14<sup>th</sup> FC that the State's own revenue resources during the award period would be ₹ 6,752.00 crore. However, the actual collections at the end of 2019-20 were ₹ 6,919.52 crore indicating that the State had achieved its projected revenue collection from own resources. The overall Revenue Receipts of the State fell short of the projection by a whopping ₹ 10279.22 crore (₹ 77,471.00 crore - ₹ 67,191.78 crore) mainly due to reduced receipt of the GoI tax devolution.

Revenue Receipts of the State increased by ₹ 4,335.45 crore from ₹ 10,553.10 crore in 2015-16 to ₹ 14,888.55 crore in 2019-20 at a CAGR of 8.99 *per cent*, although the 14<sup>th</sup> FC projected a CAGR of 19.88 *per cent*. Thus, the CAGR of Revenue Receipts fell short of the 14<sup>th</sup> FC projections sharply by 10.89 *per cent*. This was mainly due to reduced receipts from GoI.

**Table 2.4: Trend in Revenue Receipts**

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Receipts (RR) (₹ in crore)	10,553.10	11,779.57	13,774.60	16,195.96	14,888.55
Rate of growth of RR ( <i>per cent</i> )	15.51	11.62	16.94	17.58	(-) 8.07
Own Tax Revenue	535.07	708.75	815.57	1068.04	1,228.73
Non-Tax Revenue	392.12	544.82	366.18	608.87	651.38
Rate of growth of Own Revenue (Own Tax and Non-tax Revenue) ( <i>per cent</i> )	0.80	35.20	(-) 5.73	41.90	12.12
Gross State Domestic Product (₹ in crore) (2011-12 Series)	18509.16	19845.44	22432.48	24602.88	27036.64
Rate of growth of GSDP ( <i>per cent</i> )	3.06	7.22	13.04	9.68	9.89

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
RR/GSDP ( <i>per cent</i> )	57.02	59.36	61.40	65.83	55.07
<b>Buoyancy Ratios</b>					
Revenue Buoyancy w.r.t. GSDP	5.07	1.61	1.30	1.82	(-) 0.82
State's Own Revenue Buoyancy w.r.t. GSDP	0.26	4.88	-0.44	4.33	1.23

Source: Finance Accounts of the respective years,

Source of GSDP figures: Directorate of Economics and Statistics

Buoyancy Ratios<sup>3</sup> indicate the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. The Buoyancy Ratio of Revenue Receipts with reference to GSDP decreased significantly due to decrease in the rate of growth of Revenue Receipts in 2019-20 compared to the previous year. The 14<sup>th</sup> FC projected a Buoyancy of 0.82 in the year 2019-20 which could not be met due to lower buoyancy of State Own Tax Revenue coupled with reduced receipt of GoI funds. The negative Buoyancy Ratio of the State's Revenue Receipts in the year 2019-20 was mainly due to reduced receipt of the GoI funds.

Tax buoyancy indicates the measure of efficiency or responsiveness in tax collection in response to growth in GSDP. Tax revenues are considered as buoyant when they increase more than proportionately in response to the increase in GSDP even when the rates of taxes remain unchanged. The Buoyancy Ratio of the State's own Revenue with reference to GSDP indicates the increased growth rate in State's Tax Revenue in 2019-20 as compared to growth rate of GSDP in 2019-20. This Buoyancy Rate which was 4.33 in the previous year fell sharply to 1.23 in the current year. This was mainly because of the increased base in current year when compared with the base figure of the previous year.

### 2.5.3 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 tax and non-tax sources.

The State's Tax and Non-Tax Revenue for 2019-20 *vis-à-vis* assessment made by 14<sup>th</sup> FC and BEs are given in **Table 2.5**.

**Table 2.5: Tax and Non-Tax Receipts**

(₹ in crore)

Particulars	14 <sup>th</sup> FC projections	Budget Estimates	Actual	Percentage variation of actual over	
				Budget Estimates	14 <sup>th</sup> FC projections
Own Tax revenue	1,547.00	979.58	1,228.73	25.43	(-) 20.57
Non-tax revenue	365.00	1,050.00	651.38	(-) 37.96	78.46

Source: 14<sup>th</sup> FC Report, Annual Financial Statement and Finance Accounts 2019-20

The State collected higher Tax Revenue compared to the budget estimates, with increase in almost all tax components. The sharp growth in the GST collections in the State was one of the reasons for higher collection of own tax revenues. In case of Non-Tax Revenue,

<sup>3</sup> To cite an example the Buoyancy ratio of Revenue Receipts with GSDP of more than one indicates that the growth w.r.t. of Revenue Receipts would be much higher than the growth rate of the GSDP

the State budgeted for higher collections despite the fact that the actual collections of Non-Tax Revenues fell short of the budgeted amounts in previous year. The BEs of own resources were also not comparable with the actual receipts of the previous year. Tax Revenue was 20.57 per cent lower than the projections made by the 14<sup>th</sup> FC and 25.43 per cent higher than the assessment made in the BEs for 2019-20. Collection of Non-Tax Revenue during 2019-20 was higher than the projections made by the 14<sup>th</sup> FC (78.46 per cent) but lower than the assessments made in the BEs (37.96 per cent).

### 2.5.4 Own Tax Revenue

Own Tax Revenues of the State consist of State GST, State Excise, Taxes on Vehicles, Stamp Duty and Registration Fees, Land Revenue, Taxes on Goods and Passengers, etc. Growth and Composition of State's Own Tax Revenue over the period 2015-20 are presented in **Chart 2.6** and **Table 2.6**.

**Chart 2.6: Growth of Own Tax Revenue during 2015-20**



Source: Finance Accounts of the respective years

**Table 2.6: Components of State's Own Tax Revenue**

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	Sparklines
Goods and Service Tax	-	-	223.73	601.00	801.55	
Taxes on Sales, Trade, etc.	190.22	282.54	285.13	268.74	219.82	
State Excise	86.33	109.05	122.61	136.73	144.97	
Taxes on Vehicles	19.30	24.47	31.40	32.43	38.12	
Stamps & Registration Fees	5.63	5.08	10.42	9.16	8.14	
Land Revenue	8.89	6.44	13.32	14.58	15.97	
Taxes on Goods & Passengers	224.70	281.17	128.96	5.40	0.16	
<b>Total</b>	<b>535.07</b>	<b>708.75</b>	<b>815.57</b>	<b>1068.04</b>	<b>1228.73</b>	

Source: Finance Accounts of the respective years

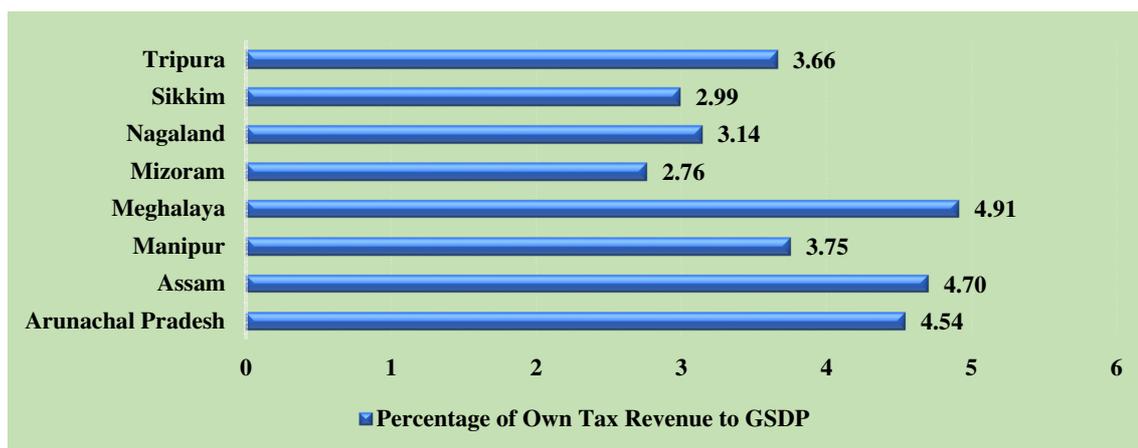
In 2019-20, Tax Revenue increased by 129.52 per cent from ₹ 535.07 crore in 2015-16 to ₹ 1,228.73 crore and by 15.05 per cent over the previous year (₹ 1,068.04 crore). Thus, there was a significant increase in the State's Own Tax Revenue during the financial year, mainly due to GST. The CAGR of own tax revenue for 2018-19 to 2019-20 for the

State stood at 15.05 while it was (-) 8.10 for NE&H States during the same period and 1.65 for average of all the States in the country indicating that the performance in collection of own tax revenue was relatively better in the State.

The Tax-GSDP Ratio of 4.54 *per cent* during 2019-20 was marginally lower than the projection (4.67 *per cent*) made by the 14<sup>th</sup> FC. Besides, the collections from Taxes on Goods and Passengers fell drastically by over 97 *per cent* during the year 2019-20 as it got subsumed in GST from July 2017. The collections under Stamps and Registration have been declining from 2017-18 onwards. The reduction in collections in Taxes on Sales, Trade from 2017-18 onwards was due to introduction of GST due to which the VAT on other products except liquor and petroleum products got subsumed in GST. Thus, apart from GST, the increase in other tax revenues was only marginal, indicating that the State had not effectively tapped its tax potential and relied more on GoI transfers.

State's Own Tax Revenue of ₹ 1,228.73 crore at 4.54 *per cent* of GSDP, was marginally lower than that of Meghalaya (4.91 *per cent*) and Assam (4.70 *per cent*) during 2019-20 but higher than the other NER States as shown in **Chart 2.7**.

**Chart 2.7: Percentage of Own Tax Revenue to GSDP of North Eastern States during 2019-20**



Source: Finance Accounts of the respective States

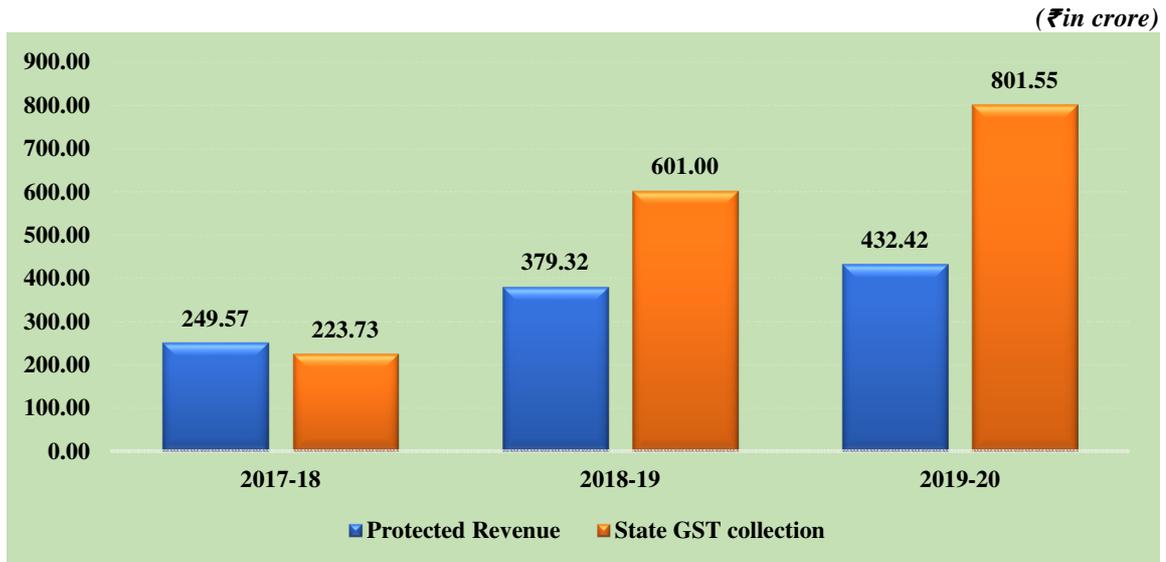
In its reply (January 2021), the State Government stated that the increase in State's Own Tax Revenue was due to increase in SGST and IGST.

#### 2.5.4.1 State Goods and Services Tax (SGST)

As per the GST (Compensation to States) Act, 2017, States will be compensated for shortfall in revenue arising on account of implementation of the GST considering an annual growth of 14 *per cent* from the base year, for a period of five years. The Centre levies the Integrated GST (IGST) on inter-state supply of goods and services, and apportions the State's share of tax to the State where the goods or services are consumed.

The Arunachal Pradesh Goods and Services Tax Act, 2017 was passed by the State Legislature on 24 June 2017 and made effective from 01 July 2017 in the State. **Chart 2.8** shows the year-wise protected revenue and actual collection of the State over the period 2017-2020.

Chart 2.8: Details of year-wise protected revenue and actual collection



Source: Finance Accounts of the respective years

The State was able to achieve the benchmark target of SGST collection with more than 14 per cent annual growth in last two financial years. As such, the State was not eligible for compensation and accordingly, it had not received the GST compensation.

With automation of the collection of GST having taken place, it is essential for Audit to move from sample checks to a comprehensive check of all transactions, to fulfil the CAG's constitutional mandate of certifying the Accounts. The State Government had signed the Memorandum of Understanding (MoU) in the proforma for providing the access of the data and accordingly, the State Government had created User IDs and issued Password. However, due to want of VPN certificate, the required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions had limited the comprehensive auditing the GST receipts. The accounts for the year 2019-20 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

#### 2.5.4.2 Analysis of arrears of revenue

The arrears of revenue as at the end of the year was called from the Tax and Excise Department and it was stated that the department did not have the consolidated details of the arrears of revenue for the entire State, and hence instructed all the district level officers to furnish the details. However, many district level officers could not furnish the details. The arrears of revenue as on 31 March 2020 in respect of the Tax and Excise Department, furnished by eight Superintendents of Tax & Excise out of 26 Superintendents of Tax & Excise, amounted to ₹ 102.54 crore of which ₹ 58.28 crore was outstanding for more than five years, as detailed in **Table 2.7**.

Table 2.7: Details of outstanding revenue

Head of Revenue	Amount outstanding as on 31st March 2019	Collection of arrears of revenue during 2019-20	Total amount outstanding as on 31st March 2020	Amount outstanding for more than 5 years as on 31st March, 2020
0040	58.26	0.08	102.35	58.25
0039	0.14	10.01	0.19	0.03
<b>Total</b>	<b>58.40</b>	<b>10.09</b>	<b>102.54</b>	<b>58.28</b>

(₹ in crore)

Source: Data furnished by the State Government

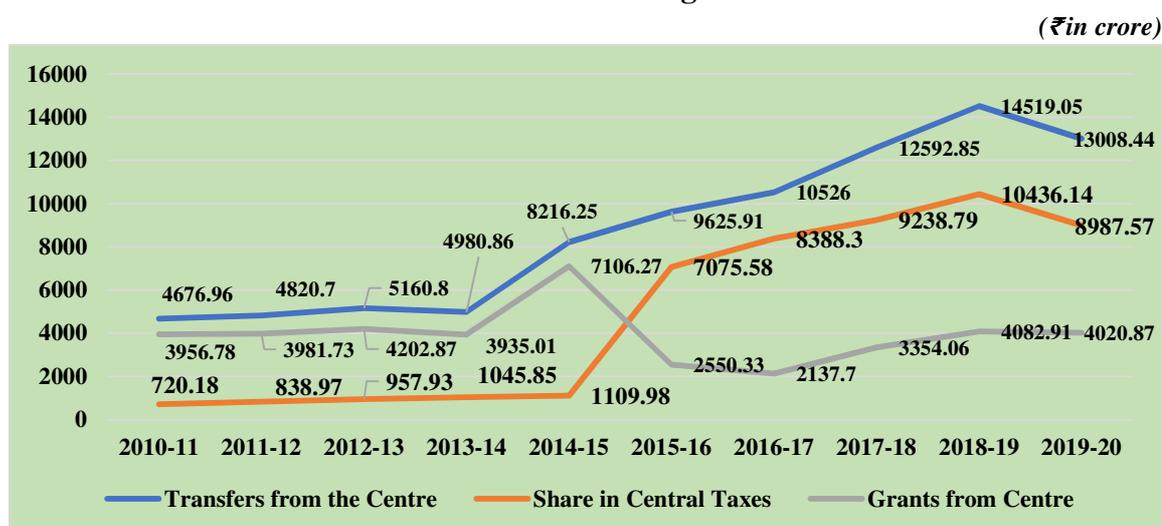
The Department had intimated that notices had already been issued to the defaulter's dealers/ DDOs to deposit the outstanding revenue. The fact remains that recovery of ₹ 58.28 crore was pending for more than five years. Clearance of arrears of such magnitude requires focused efforts by all departments concerned and a push for coordination with other departments such as banks, Police Department and quasi-judicial/ judicial bodies involved in the process of recovery, before expiry of the statutory period.

### 2.5.5 Transfers from the Centre

The FC has been recommending transfers under two heads for a period of five years. First, it recommends tax devolutions which are general purpose transfer without being earmarked for expenditure in any specific area and are specified as a percentage of sharable tax revenue. Second, it states the principles governing GIA and recommends amount of specific purpose grants. As per the recommendation of 14<sup>th</sup> FC for the award period 2015-16 to 2019-20, the vertical share of net proceeds of central taxes increased from 32 per cent to 42 per cent. Further, there was change in inter se share of taxes to states due to change in the criteria. These modifications in the inter se distribution of GoI taxes resulted in enhancement of the State share of GoI taxes from 0.328 per cent during the 13<sup>th</sup> FC period to 1.370 per cent during the award period of 14<sup>th</sup> FC. This resulted in the State Government getting access to more untied funds.

Chart 2.9 shows the amount of transfers from the GoI in the last 10 years.

Chart 2.9: Central transfers during 2010-11 to 2019-20



Source: Finance Accounts of the respective years

There was reduction in the GIA from the GoI when compared to the amounts in 2014-15. The actual GIA received from GoI during the year was ₹ 4,020.87 crore as against ₹ 7,106.27 crore in 2014-15. While, the share of central taxes from the GoI sharply increased after the year 2014-15 due to the decision of enhancing the share. The actual receipts on account of share of central taxes during the year was ₹ 8,987.57 crore against ₹ 1,109.98 crore in 2014-15.

The trend of increase in the overall receipts from GoI (Tax devolution plus GIA) had reversed for the first time during the award period of 14<sup>th</sup> FC in 2019-20 with a shortfall of ₹ 1,510.61 crore when compared to the previous year.

The projections made by the FC in respect of the Revenues of the GoI and also the divisible pool of taxes were more than the actual collections due to which the State could not get the revenues as envisaged. The details of the projections made and actual devolution are given in **Table 2.8**.

**Table 2.8: State's share in Union taxes and duties: Actual devolution vis-à-vis Finance Commission projections**

(₹ in crore)

Year	Finance Commission projections	Projections by FC	Actual tax devolution	Difference
2015-16		7,936.16	7,075.58	860.58
2016-17	1.370 per cent of net proceeds of all shareable taxes excluding service tax and 1.431 per cent of net proceeds of sharable service tax	9,157.42	8,388.30	769.12
2017-18		10,580.60	9,238.79	1,341.81
2018-19		12,240.00	10,436.14	1,803.86
2019-20		14,176.00	8,987.57	5,188.43

Source: 14<sup>th</sup> FC report and Finance Accounts of the respective years.

As can be seen from **Table 2.8** above the actual devolution of GoI taxes to the State fell short of the projections made by the 14<sup>th</sup> FC in all the five years of the award period, which resulted in reduced Revenue Receipts of the State. Since the State is largely dependent on the resources from GoI, the reduction in the GoI tax devolution had an impact on the Capital expenditure of the State which was meant for creation of infrastructure in the State. The actual devolution of funds in the current year fell short of even the devolution of previous year by ₹ 1,448.53 crore. In fact, the actual devolution of taxes in the current year was less than the actual devolution received in the year 2017-18 also. **Table 2.9** presents the composition of central tax transfers over the period 2015-20:

**Table 2.9: Details of Central Tax Transfers**

(₹ in crore)

Head	2015-16	2016-17	2017-18	2018-19	2019-20
Central Goods and Services Tax	-	-	127.92	2575.12	2550.31
Integrated Goods and Services Tax	-	-	931.56	205.50	0.00
Corporation Tax	2239.74	2677.52	2825.84	3628.32	3064.45
Taxes on Income other than Corporation Tax	1585.26	1860.88	2386.20	2672.11	2401.21
Customs	1115.78	1151.76	931.30	739.56	569.70
Union Excise Duties	900.89	1315.22	973.50	491.48	396.08
Service Tax	1232.59	1376.76	1062.55	98.42	0.00

Head	2015-16	2016-17	2017-18	2018-19	2019-20
Other Taxes	1.32	6.16	(-) 0.08	25.63	5.82
<b>Central Tax Transfers</b>	<b>7075.58</b>	<b>8388.3</b>	<b>9238.79</b>	<b>10436.14</b>	<b>8987.57</b>
Growth rate over previous year	537.45	18.55	10.14	12.96	(-) 13.88
Percentage of Central tax transfers to Revenue Receipts	67.05	71.21	67.07	64.44	60.37

Source: Finance Accounts of the respective years

The share of Union taxes received during 2019-20 was ₹ 8,987.57 crore, a decrease of ₹ 1,448.57 crore (13.88 per cent) over the previous year. In almost all components of the GoI taxes, the actual receipts were less than the receipts of the previous year despite the fact the GDP of the country registered a growth rate 7.21 per cent over previous year. The State had not received any IGST receipts in 2019-20. The main contributions of the share of Union taxes, Corporation Tax decreased by ₹ 563.87 crore (15.54 per cent) followed by decrease in Taxes on Income other than Corporation Tax by ₹ 270.90 crore (10.14 per cent). Although the share of Union taxes and duties showed an increasing trend in this decade with a CAGR of 39.68 per cent during the period from 2010-11 to 2018-19 which was much higher than the average CAGR of NE&H States (19.84 per cent) and average of all states (16.83 per cent), but this trend reversed in the current year as the CAGR for 2018-19 to 2019-20 was (-) 13.88 per cent. This decline in the share of Union taxes and duties had an impact on the total Revenue Receipts of the states and also fiscal deficit.

### 2.5.6 Grants-in-Aid from GoI

Details of GIA from GoI are given in Table 2.10.

**Table 2.10: GIA from the GoI**

Particulars	₹ in crore				
	2015-16	2016-17	2017-18	2018-19	2019-20
Non-Plan Grants	174.36	228.69	-	-	-
Grants for State Plan Schemes	2,062.45	1,633.22	-	-	-
Grants for Central Plan Schemes	60.72	17.73	-	-	-
Grants for Centrally Sponsored Schemes	147.54	187.99	-	-	-
Grants for Special Plan Schemes	105.26	70.07	-	-	-
Centrally Sponsored Schemes	-	-	2,511.35	3,056.16	3,193.17
FC Grants	-	-	140.17	124.57	380.98
Other Grants to State	-	-	702.54	902.18	446.72
<b>Total</b>	<b>2,550.33</b>	<b>2,137.70</b>	<b>3,354.06</b>	<b>4,082.91</b>	<b>4,020.87</b>
Percentage of Increase (+)/Decrease (-) over previous year	(-)64.11	(-)16.18	(+)56.90	(+) 21.73	(-)1.52
Total Grants as a percentage of Revenue Receipts	24.17	18.15	24.35	25.21	27.01

Source: Finance Accounts of the respective years

GIA from GoI decreased by 1.52 per cent (₹ 62.04 crore) from ₹ 4,082.91 crore in 2018-19 to ₹ 4,020.87 crore in 2019-20. The decrease was mainly due to less allotment of Other Grants to State with Legislatures (₹ 455.46 crore). The decrease was partly offset by increase in FC Grants (₹ 256.41 crore) and in Centrally Sponsored Schemes (₹ 137.01 crore).

In its reply (January 2021), the State Government stated that the decrease in GIA from GoI was mainly due to non-submission of utilisation certificates and delinking of various GoI schemes.

The flow of funds from GoI which has a bearing on the cash management of the State *vis-à-vis* the implementation of various schemes is indicated in **Table 2.11**.

**Table 2.11: Details of fund flow from GoI**

(₹in crore)

Particulars	Total Fund Received	Fund received during April-December ( <i>Per cent</i> of Total Funds received)	Fund received during January- March ( <i>Per cent</i> of Total Funds received)
Share of Central Taxes	8,987.57	6,550.99 (72.89)	2,436.58 (27.11)
GIA for GoI	4,020.87	1,720.48 (42.79)	2,300.39 (57.21)
<b>Total</b>	<b>13,008.44</b>	<b>8,271.47 (63.59)</b>	<b>4,736.97 (36.41)</b>

Source: Monthly Civil Accounts 2019-20

While there was even flow of tax devolution, the flow of funds in respect of the GIA from GoI is not evenly spread as substantial amounts were released only in the last quarter of the financial year leaving very little time for the implementing agencies to implement the schemes and furnish the utilisation certificates to the GoI.

### 2.5.6.1 Utilisation of funds under Centrally Sponsored Schemes

A Sub-Group of Chief Ministers on Rationalisation of Centrally Sponsored Schemes (CSSs) was set up in pursuance of the decisions taken by the Governing Council of NITI Aayog. The Sub-group inter alia recommended that the total number of schemes should not exceed 30 and Existing CSSs should be divided into Core and Optional Schemes. The focus of Core schemes should comprise the National Development Agenda where the Centre and States will work together in the spirit of Team India. Those schemes which are for social protection and social inclusion should form the core of core and be the first charge on available funds for the National Development Agenda. The optional schemes shall be schemes where States would be free to choose the ones they wish to implement.

Based on the recommendations of the Sub-Group, the 66 Centrally Sponsored schemes have been rationalised into 28 umbrella schemes, of which six schemes were categorised as Core of the Core schemes, while 20 schemes were categorised as Core schemes and the balance schemes were treated as optional schemes. The core of the core schemes were legislatively backed or designed to sub serve the vulnerable sections of population, and existing financing pattern was continued. With respect to Core schemes, the funding pattern for the eight NE and Himalayan States of Uttarakhand, Himachal Pradesh, Jammu Kashmir was fixed at 90:10 while the funding pattern for other states was 60:40. For the optional schemes the funding pattern for NER states and Himalayan States of Uttarakhand, Himachal Pradesh, Jammu Kashmir was fixed at 80:20 while for other states it was 50:50. Thus, for North Eastern and Himalayan States, a more liberal funding pattern was fixed keeping in view the financial position of those States and necessity to implement the

national development agenda in those States. There is no centralised data base with the State Government to track the State share to be released, actually released, and the expenditure incurred therefrom.

It was verified in audit whether the funds released by the GOI for different categories of schemes were actually spent by the State along with its share for the purpose for which those funds were released. It was observed that the State did not fully spend the fund released by the GoI on these schemes. The summarised position of the funds released by the GoI for different categories of the schemes and actual expenditure incurred by the Government are indicated in the **Table 2.12**.

**Table 2.12: Details of CSS Schemes, funding pattern, funds released and expenditure**

(₹ in crore)

Types of schemes	No. of schemes	Funding Pattern	Central Share Release	Actual Expenditure	Balance
Core of the core Schemes	6	100:00	545.35	345.67	199.68
Core Schemes	26	90:10	2643.76	1737.96	905.80
Optional Scheme	1	80:20	4.05	0.85	3.20
<b>Total</b>	<b>33</b>		<b>3193.16</b>	<b>2084.48</b>	<b>1108.68</b>

As could be seen from the table, more than 34 *per cent* of the funds released by GOI as Grants-in-Aid for implementation of different categories of schemes remained unspent, resulting in non-achievement of the objectives for which the money was released.

### 2.5.7 Optimisation of Fourteenth Commission Grants

The 14<sup>th</sup> FC recommended grants in two parts - Basic Grant and Performance Grant for duly constituted Gram Panchayats and Municipalities. The purpose of the Basic Grant is to provide a measure of unconditional support to the Gram Panchayats and Municipalities for delivering the basic functions assigned to them under their respective statutes. In the case of Gram Panchayats, 90 *per cent* of the grant was the Basic Grant and 10 *per cent* was the Performance Grant. In the case of Municipalities, the division between Basic and Performance Grant was on 80:20 basis. The release of Performance Grants shall be subject to meeting the specified benchmarks. The actual grants provided by 14<sup>th</sup> FC to the States for local bodies and SDRF are given in **Table 2.13**.

**Table 2.13: Details of recommended amount, actual release and transfers of GIA**

(₹ in crore)

Transfers	Recommendation of the XIV-FC			Actual release by GoI			Short (-)/ Excess (+) release
	2015-19	2019-20	Total	2015-19	2019-20	Total	
Local Bodies	740.85	323.10	1063.95	276.70	324.28	600.98	(-) 462.97
(i) Grants to PRIs	571.49	248.44	819.93	253.28	152.48	405.76	(-) 414.17
(a) General Basic Grant	516.55	221.38	737.93	237.20	152.48	389.68	(-) 348.25
(b) General Performance Grants	54.94	27.06	82.00	16.08	0.00	16.08	(-) 65.92

Transfers	Recommendation of the XIV-FC			Actual release by GoI			Short (-)/ Excess (+) release
	2015-19	2019-20	Total	2015-19	2019-20	Total	
(ii) Grants to ULBs	169.36	74.66	244.02	23.42	171.80	195.22	(-) 48.80
(a) General Basic Grant	136.66	58.56	195.22	23.42	171.80	195.22	0.00
(b) General Performance Grants	32.70	16.10	48.80	0.00	0.00	0.00	(-) 48.80
Total for Local Bodies	740.85	323.10	1063.95	276.70	324.28	600.98	(-) 462.97
State Disaster Response Fund	202.00	57.00	259.00	201.60	56.70	258.30	(-) 0.70
<b>Grand Total</b>	<b>942.85</b>	<b>380.10</b>	<b>1322.95</b>	<b>478.30</b>	<b>380.98</b>	<b>859.28</b>	<b>(-) 463.67</b>

*Source: 14<sup>th</sup> FC Report and Finance Accounts of the respective years*

The Local Bodies need to spend not only on the provision of basic services to the people, but also require support for administrative infrastructure and capacity building.

The grants recommended by 14<sup>th</sup> FC, were to be released in two instalments each year in June and October. This would enable timely flow of funds to local bodies during the year, enabling them to plan and execute the works better. The 14<sup>th</sup> FC recommend that 50 per cent of the Basic Grant for the year be released to the State as the first instalment of the year. The remaining Basic Grant and the full Performance Grant for the year be released as the second instalment for the year. The State should release the grants to the Gram Panchayats and Municipalities within fifteen days of it being credited to their account by the Union Government.

It was observed that only first instalment of the grant recommended for PRIs was released as stipulated, in the years 2015-16, 2016-17 and 2019-20 the second instalment meant for the years 2015-17 was not received by the State. In the years 2017-18 and 2018-19, even the first instalment of the Basic Grant to PRIs was not fully received by the State. In the year 2019-20, the State received only partial second instalment for PRIs. The Performance Grant to PRIs was not received during the award period of 14<sup>th</sup> FC except in the year 2016-17. The non-receipt of Basic Grant was mainly due to delayed submission of UCs by the State Government, coupled with non-conducting of elections to PRIs. The non-release of Performance Grant was attributed to not meeting of the performance bench marks prescribed.

Similarly for ULBs, the Basic Grant for ULBs was not received at all during the years 2016-17 to 2018-19. The second instalment of the Basic Grant for ULBs pertaining to the year 2015-16 was received in the year 2017-18. However, the arrears of the Basic Grants for ULBs were received in the year 2019-20. The Performance Grant for ULBs were not received at all during the award period the 14<sup>th</sup> FC. The State Government also did not release the grants received from GoI to local bodies within the stipulated time of 15 days due to which it had to pay a penalty of ₹ 76.63 lakh. Thus, the objective of providing timely grants to local bodies to plan and discharge the assigned functions could not be achieved.

As against ₹ 819.93 crore and ₹ 244.02 crore recommended by 14<sup>th</sup> FC for Rural and Urban local bodies respectively during the award period, the State received only ₹ 405.76 crore for Rural local bodies and ₹ 195.22 crore for Urban local bodies during

the entire award period of 14<sup>th</sup> FC (2015-20). This resulted in resource denial to the cash starved rural local bodies of the State.

In its reply (January 2021), the State Government accepted that due to not holding Panchayati and Municipality elections as well as non-submission of Audit Report of Municipality to GoI, the GoI had not released the Grants to them.

### 2.5.8 Capital Receipts

Details of Capital Receipts during 2015-16 to 2019-20 are given in **Table 2.14**.

**Table 2.14: Trends in growth and composition of capital receipts**

Sources of State's Receipts	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Capital Receipts</b>	<b>626.58</b>	<b>1,019.06</b>	<b>1,772.95</b>	<b>1,210.05</b>	<b>1,797.74</b>
<b>Recovery of Loans and Advances</b>	<b>5.48</b>	<b>3.79</b>	<b>5.68</b>	<b>5.08</b>	<b>7.03</b>
<b>Public Debt Receipts</b>	<b>621.10</b>	<b>1,015.27</b>	<b>1,767.27</b>	<b>1,204.97</b>	<b>1,790.71</b>
Internal Debt	287.92	761.33	1,250.33	1,204.97	1,790.71
<i>Growth rate</i>	<i>(-)29.30</i>	<i>164.42</i>	<i>64.23</i>	<i>(-)3.63</i>	<i>48.61</i>
Loans and Advances from GoI	0.00	0.00	0.00	0.00	0.00
<i>Growth rate</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
<i>Rate of growth of debt Capital Receipts</i>	<i>(-)59.68</i>	<i>63.46</i>	<i>74.07</i>	<i>(-)31.82</i>	<i>48.61</i>
<i>Rate of growth of non-debt capital receipts</i>	<i>(-)80.01</i>	<i>(-)30.84</i>	<i>49.87</i>	<i>(-)10.56</i>	<i>38.39</i>
<i>Rate of growth of GSDP</i>	<i>3.06</i>	<i>7.22</i>	<i>13.04</i>	<i>9.68</i>	<i>9.89</i>
<i>Rate of growth of Capital Receipts (per cent)</i>	<i>(-)60.03</i>	<i>62.64</i>	<i>73.98</i>	<i>(-)31.75</i>	<i>48.57</i>

Source: Finance Accounts of the respective years

Public Debt Receipts consist of two components viz., Internal Debt of the State and Loans and Advances from the GoI. As could be seen from the table, the major source of Capital Receipts for the State is Internal Debt and the Government had been over estimating the receipts from Internal Debt every year during the last five years. Even at the stage of Revised Estimates, these estimates of internal debt were not adjusted to realistic levels.

Capital Receipts estimated in the budget for the year 2019-20 were ₹ 1,535.53 crore, which was subsequently revised to ₹ 2,348.38 crore. The budget assumed net Public Debt Receipts at ₹ 931.29 crore, indicating over estimation of these receipts. However, the actual Capital Receipts during the year were ₹ 1,797.73 crore, of which net Internal Debt Receipts were ₹ 1,790.70 crore constituting 6.62 per cent of GSDP.

It was observed that the Government has been increasingly opting for the Market Borrowings year after year as the share of Market Borrowings in Internal Debt has been increasing. This is because the Market Borrowings are in the nature of untied funds giving freedom to the State Government to spend the money as per their priorities, while the negotiated loans from institutions like NABARD etc. are to be spent on identified schemes in specified sectors. Internal Debt consisted of Market Loans (₹ 1,367.13 crore during 2019-20 against ₹ 789.01 crore during 2018-19), Loans from Financial Institutions (₹ 247.19 crore during 2019-20 against ₹ 276.89 crore during 2018-19) and Special Securities issued to National Small Savings Fund (₹ 176.38 crore during 2019-20 against ₹ 139.08 crore during 2018-19).

During the last five years, the State did not receive any Loans & Advances from the GoI.

### 2.6 Application of Resources

Analysis of allocation of expenditure at State Government level assumes significance since the State Government has major expenditure responsibilities. Within the framework of fiscal responsibility legislations, there are budgetary constraints on raising finance 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.

#### 2.6.1 Growth and Composition of Expenditure

Table 2.15 and Chart 2.10 present trends in Total Expenditure and its composition over five years (2015-16 to 2019-20).

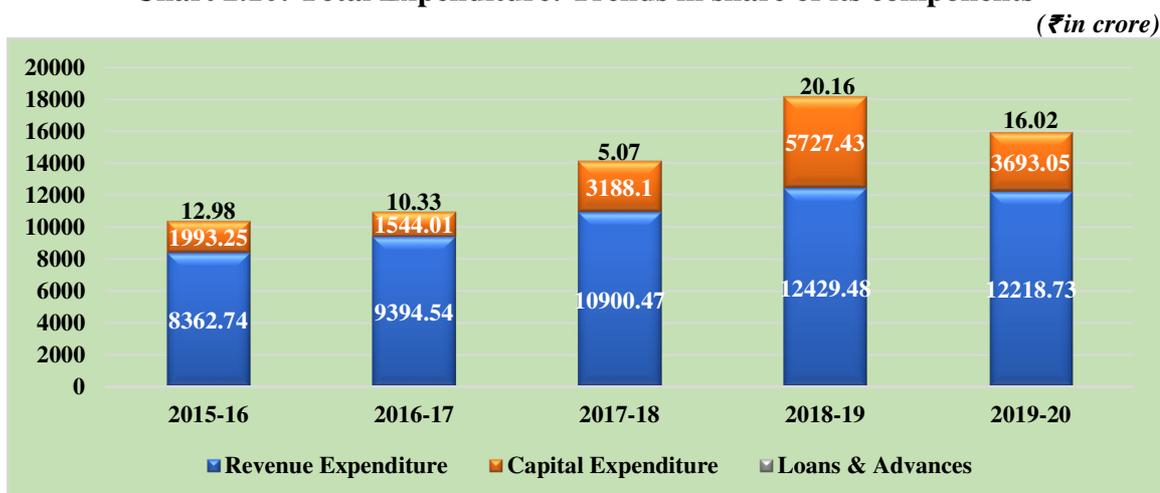
**Table 2.15: Total expenditure and its compositions**

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total Expenditure (TE)</b>	10,368.97	10,948.88	14,093.64	18,177.07	15,927.80
<b>Revenue Expenditure (RE)</b>	8,362.74	9,394.54	10,900.47	12,429.48	12,218.73
<b>Capital Expenditure (CE)</b>	1,993.25	1,544.01	3,188.10	5,727.43	3,693.05
<b>Loans and Advances</b>	12.98	10.33	5.07	20.16	16.02
<i>(₹ in crore)</i>					
<b>As a percentage of GSDP</b>					
<b>TE/GSDP</b>	56.02	55.17	62.83	73.88	58.91
<b>RE/GSDP</b>	45.18	47.34	48.59	50.52	45.19
<b>CE/GSDP</b>	10.77	7.78	14.21	23.28	13.66
<b>Loans and Advances/GSDP</b>	0.07	0.05	0.02	0.08	0.06

Source: Finance Accounts of the respective years

The increasing trend of Total Expenditure during the award period of the 14<sup>th</sup> FC *i.e.*, 2015-20 continued till 2018-19, but reversed in the terminal year *i.e.*, 2019-20 due to lesser resource mobilisation in the year coupled with initial impact of covid pandemic in the month of March. While the reduction in the Total Expenditure during the year 2019-20 when compared with previous year was ₹ 2,249.27 crore, the reduction in Revenue Expenditure was only ₹ 210.75 crore. Thus, the reduction in Total Expenditure during the year 2019-20 was mainly due to reduced Capital Expenditure during the year. The reduced Capital Expenditure was partially attributed to pandemic which commenced during the effective working season of the year and announcement of lock down during the last week of the financial year. The CAGR of total expenditure during 2019-20 over previous year was (-) 12.37 which is higher than the average of NE&H States at (-) 6.05 *per cent*.

Chart 2.10: Total Expenditure: Trends in share of its components



Source: Finance Accounts of the respective years

Total Expenditure of the State increased by ₹ 5,558.83 crore (53.61 per cent) from ₹ 10,368.97 crore in 2015-16 to ₹ 15,927.80 crore in 2019-20. However, the increase in the Total Expenditure as a percentage of GSDP was marginal as it increased from 56.02 to 58.91 per cent. This increase was mainly due to increase in the percentage of Capital Expenditure to GSDP during the period. This indicates that the share of Government expenditure during the period was more or less the same. The CAGR of Total Expenditure is much higher than the CAGR of the Revenue Receipts of the State which is only 8.99 per cent, indicating that the increase of the expenditure is faster than the receipts which partly contributed to non-achievement of the Revenue Surplus target in the budget. Since the trend of Total Expenditure increasing at a pace higher than the Revenue Receipts is not sustainable, there is a need to take appropriate corrective action.

Although in absolute terms, the increase in Revenue Expenditure was more than Capital Expenditure in last five years, the percentage increase of Capital Expenditure is more than the percentage increase of Revenue Expenditure. While the increase in Revenue Expenditure was 46.11 per cent over 2015-16 to 2019-20, the increase in the Capital Expenditure was 85.28 per cent during the same period, indicating that the Government has been focussing on improving the infrastructure in the State. However, the available resources were thinly spread among large number of works which resulted in many works remaining incomplete due to which the benefit of higher Capital expenditure did not fully accrue to the State.

The relative share of various sectors of Total Expenditure and expenditure by activities are depicted in Table 2.16 and Chart 2.11 respectively.

Table 2.16: Relative share of various sectors of expenditure

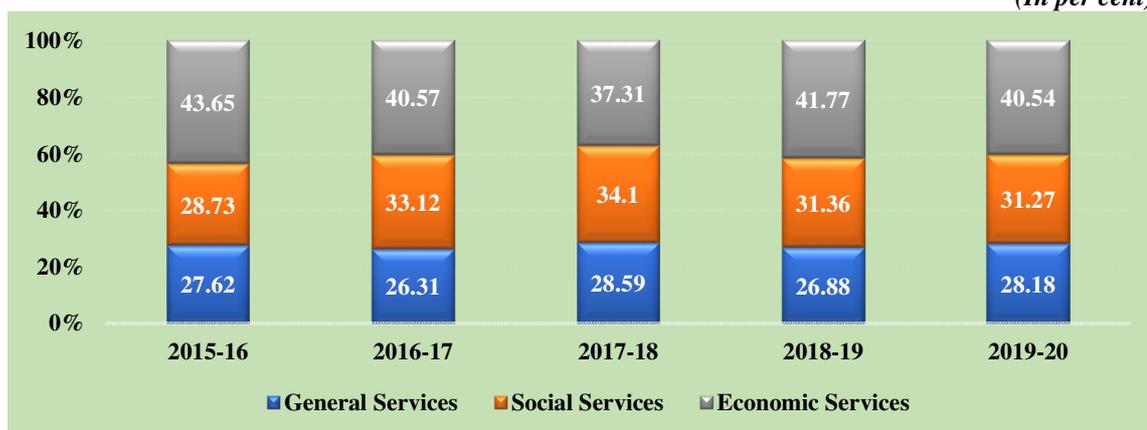
(In per cent)

Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
General Services	27.62	26.31	28.59	26.88	28.18
Social Services	28.66	33.05	34.08	31.34	31.24
Economic Services	43.53	40.47	37.27	41.66	40.44
Others (Grants to Local Bodies and Loans and Advances)	0.19	0.17	0.05	0.13	0.13

Source: Finance Accounts of the respective years

**Chart 2.11: Total expenditure - Expenditure by activities**

(In per cent)



Source: Finance Accounts of the respective years

While the proportion of expenditure in General and Social Services has increased over the last five years, the same in respect of Economic Services has declined, indicating that the administrative expenditure outpaced other vital sectors which contribute to the infrastructure and employment growth in the State.

Component-wise major expenditure in Revenue and Capital sections incurred in 2019-20 compared with 2018-19 is in **Table 2.17**.

**Table 2.17: Major expenditure components under Revenue and Capital**

(₹ in crore)

Particulars	Sector	Revenue		Capital	
		2018-19	2019-20	2018-19	2019-20
Education, Sports, Arts and Culture	Social	1,813.55	1,846.89	205.05	107.52
Health and Family Welfare	Social	1,060.85	944.32	56.76	59.08
Water Supply, Sanitation, UD & H	Social	998.39	901.57	810.46	394.50
Energy	Economic	971.12	917.75	340.36	173.35
Irrigation and Flood	Economic	203.97	211.93	164.73	133.72

Source: Finance Accounts of the respective years

There was an overall reduction in the Capital expenditure in the current year over the previous year by 35.52 per cent. The reduction in Capital Expenditure in major sectors like Water supply, Sanitation, Urban Development and housing was 51.32 per cent, Energy was 49.07 per cent and Education, Sport, Art and Culture was 47.56 per cent.

## 2.6.2 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 and sector-wise distribution are indicated in **Table 2.18** and **Chart 2.12** respectively.

**Table 2.18: Revenue Expenditure – Basic Parameters**

(₹ in crore)

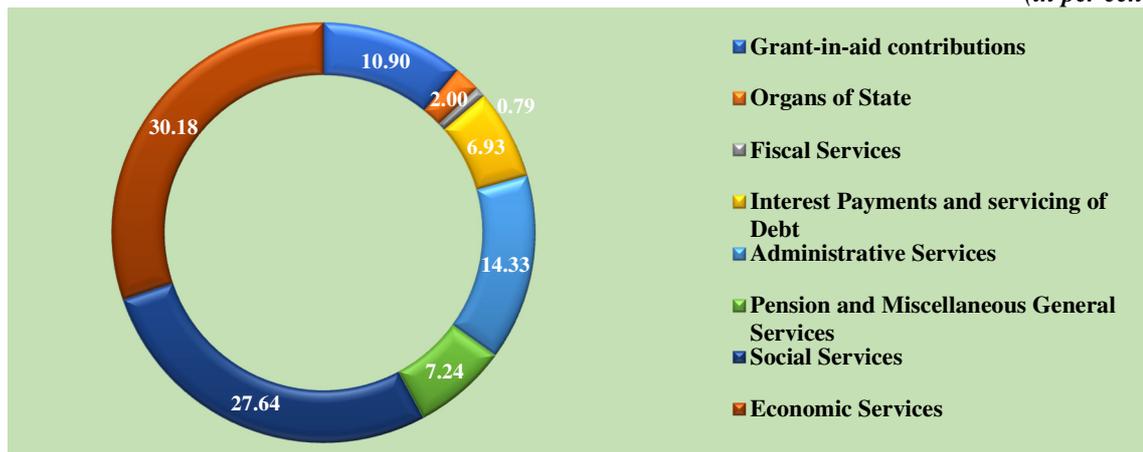
Parameters	2015-16	2016-17	2017-18	2018-19	2019-20
Total Expenditure (TE)	10,368.97	10,948.88	14,093.64	18,177.07	15,927.80
Revenue Expenditure (RE)	8,362.74	9,394.54	10,900.47	12,429.48	12,218.73
Rate of Growth of RE (per cent)	16.85	12.34	16.03	14.03	(-) 1.70

Revenue Expenditure as percentage of TE	80.65	85.80	77.34	68.38	76.71
RE/GSDP ( <i>per cent</i> )	45.18	47.34	48.59	50.52	45.19
RE as percentage of RR	79.24	79.75	79.13	76.74	82.07
<b>Buoyancy of Revenue Expenditure with</b>					
GSDP (ratio)	5.51	1.71	1.23	1.45	(-) 0.17
Revenue Receipts (ratio)	1.09	1.06	0.95	0.80	0.21

Source: Finance Accounts of the respective years

**Chart 2.12: Sector-wise Distribution of Revenue Expenditure**

(*in per cent*)



Source: Finance Accounts 2019-20

Revenue Expenditure increased by ₹ 3,855.99 crore (46.11 *per cent*) from ₹ 8,362.74 crore in 2015-16 to ₹ 12,218.73 crore in 2019-20 at a CAGR of 9.94 *per cent*. During 2019-20, it decreased by ₹ 210.75 crore (1.70 *per cent*) over the previous year, due to decrease in expenditure under Social Services by ₹ 216.19 crore, Economic Services by ₹ 2.29 crore. The decrease in Revenue Expenditure during the current year was partly offset by marginal increase in General Services by ₹ 7.73 crore. The decrease in expenditure in Social Services over the previous year was mainly due to decrease in establishment expenditure under Urban Development and in Medical Education, Training and Research. The decline in CAGR of Revenue Expenditure during 2018-19 to 2019-20 at (-)1.70 *per cent* was lower when compared with the average of NE and Himalayan states with a CAGR of (-)4.23 during the same period.

The State Government projected to the 14<sup>th</sup> FC that the total Revenue Expenditure of the State during the five years of 2015-20 would be ₹ 38,347.00 crore, but the FC assessed it as only ₹ 35,997.00 crore during the award period. However, the actual Revenue Expenditure which was ₹ 53,305.00 crore during the period, far exceeded the projections made and also assessment made by the 14<sup>th</sup> FC. This increase of ₹ 14,958.00 crore over its own projection of the State Government constituting over 39 *per cent* indicates that the State had under estimated its own expenditure.

### 2.6.2.1 Major changes in Revenue Expenditure

The top six Major Heads where the variation during 2019-20 over the previous year in the Revenue Expenditure is depicted in **Table 2.19**.

**Table 2.19: Head-wise variations in Revenue Expenditure over the previous year**

(₹ in crore)

Major Heads of Account	2018-19	2019-20	Increase (+)/ Decrease (-)
2408- Food, Storage and Warehousing	7.67	246.24	238.57
2415- Agricultural Research and Education	9.71	92.16	82.45
2049- Interest payments	526.10	614.53	88.43
2029- Land Revenue	248.29	67.71	(-)180.58
3054- Roads and Bridges	1036.66	890.39	(-)146.27
2515- Other Rural Development Programmes	355.54	211.68	(-)143.86

Analysis of the reasons for the changes in Revenue Expenditure during 2019-20 over the previous year revealed the following:

- Increase in expenditure in Food, Storage and Warehousing was due to allotment of more assistance towards hill transport subsidy during the year.
- Increase in expenditure in Agricultural Research and Education was due to more expenditure towards crop husbandry during the year.
- Decrease in expenditure in Land Revenue was due to payment of more land compensation during previous year compared to current year.
- Decrease in expenditure in Roads and Bridges was due to less expenditure towards district roads during the year.
- Decrease in expenditure in Other Rural Development Programmes was due to less expenditure towards establishment expenses during the year.
- Increase in expenditure in Interest Payments was due to payment of more interest on internal debt during the year.

### 2.6.3 Committed Expenditure

Committed Expenditure of the State Government on Revenue Account consists of Interest Payments, expenditure on Salaries, and on Pensions. **Table 2.20** and **Chart 2.13** presents the trends in expenditure on these components and share of Committed Expenditure in total Revenue Expenditure during 2015-20 respectively.

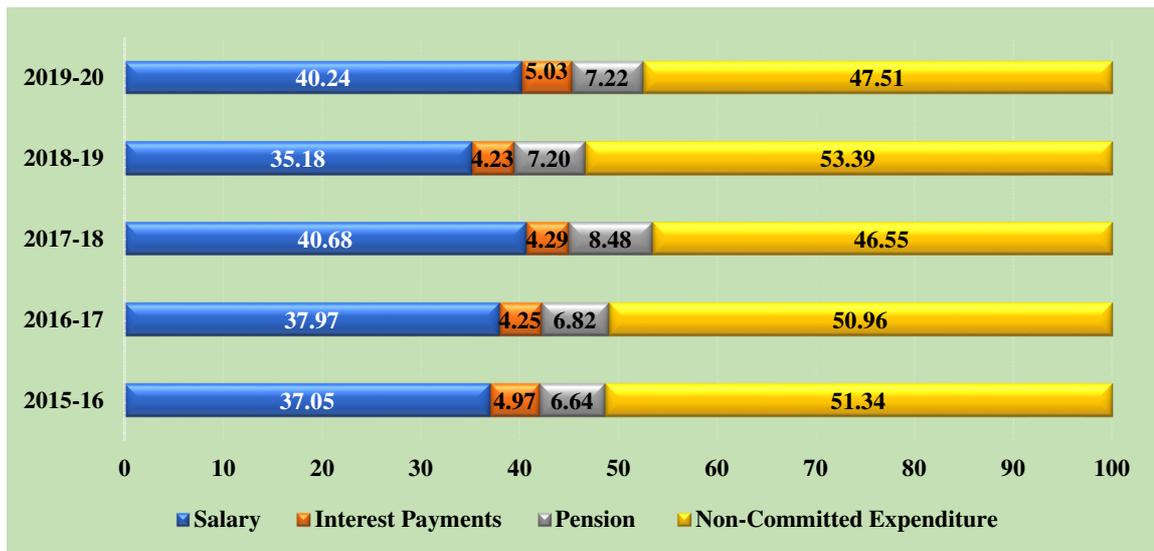
**Table 2.20: Components of Committed Expenditure**

(₹ in crore)

Components of Committed Expenditure	2015-16	2016-17	2017-18	2018-19	2019-20
Salaries	3,098.20	3,566.88	4,434.61	4,372.49	4,917.24
Expenditure on Pensions	555.25	640.58	923.97	894.37	882.31
Interest Payments	415.64	399.23	467.36	526.10	614.53
<b>Total</b>	<b>4,069.09</b>	<b>4,606.69</b>	<b>5,825.94</b>	<b>5,792.96</b>	<b>6,414.08</b>
As a percentage of Revenue Receipts					
Salaries	29.36	30.28	32.19	27.00	33.03
Expenditure on Pensions	5.26	5.44	6.71	5.52	5.93
Interest Payments	3.94	3.39	3.39	3.25	4.13
<b>Total</b>	<b>38.56</b>	<b>39.11</b>	<b>42.29</b>	<b>35.77</b>	<b>43.08</b>
As a percentage of Revenue Expenditure					
Salaries	37.05	37.97	40.68	35.18	40.24
Expenditure on Pensions	6.64	6.82	8.48	7.20	7.22
Interest Payments	4.97	4.25	4.29	4.23	5.03
<b>Total</b>	<b>48.66</b>	<b>49.04</b>	<b>53.45</b>	<b>46.61</b>	<b>52.49</b>

During the year 2019-20, there was reduction in the Revenue Expenditure when compared with the previous year. However, as could be seen from the table above, there was no corresponding reduction in the committed expenditure which showed increasing trend over the past five years. This indicates that the decrease in Revenue Expenditure was on maintenance of the assets already created in the State. The increasing share of the committed expenditure in the total Revenue Expenditure also indicates that the funds available for implementing other welfare schemes, and maintenance of assets is getting reduced year after year. The share of committed expenditure to total expenditure is depicted in the chart below:

**Chart 2.13: Share of Committed expenditure in total Revenue Expenditure**



Source: Finance Accounts of the respective years

Overall Committed Expenditure increased by ₹ 2,344.99 crore (57.63 per cent) from ₹ 4,069.09 crore in 2015-16 to ₹ 6,414.08 crore in 2019-20. Committed Expenditure during 2019-20 constituted 52.49 per cent of Revenue Expenditure and 43.08 per cent of Revenue Receipts.

The Committed Expenditure which was 38.56 per cent and 48.66 per cent of the Revenue Receipts and Revenue Expenditure respectively during the year 2015-16 increased to 43.08 per cent and 52.49 per cent of the same during the year 2019-20. This indicated that the pace of increase of Committed Expenditure was faster than the Revenue Receipts as well as Revenue Expenditure, reducing the resources available for other developmental expenditure. Component-wise analysis is given in the succeeding paragraphs.

### 2.6.3.1 Salaries

During 2019-20, Salaries alone accounted for 40.24 per cent of Revenue Expenditure and 33.03 per cent of Revenue Receipts. These increased by 58.71 per cent over 2015-16 and by 12.46 per cent over 2018-19.

The percentage expenditure on Salaries when compared with the Revenue Expenditure during the period 2015-20 increased by over three per cent (from 37.05 per cent to 40.24 per cent). This was mainly because of implementing the pay revision during the

period with increase in pay scales of the employees, disproportionate to the increase in both Revenue Receipts as well as Revenue Expenditure. The expenditure on salaries as a percentage of Revenue Receipts is lowest among the North-Eastern and Himalayan States (which ranged between 33.03 *per cent* and 60.58 *per cent*). However, the CAGR of expenditure on Salaries and wages during 2019-20 over previous year in the State was 2.94 while the average of NE&H states was (-)7.07 *per cent*.

### 2.6.3.2 Interest Payments

During 2019-20, Interest Payments, comprising of interest on Internal Debt, Small Savings, Provident Funds, *etc.*, Loans & Advances from the GoI and other obligations, increased by ₹ 198.89 crore (47.85 *per cent*) over 2015-16. The increase over previous year was ₹ 88.43 crore (16.81 *per cent*). The position of the interest payments during the current year is given in **Table 2.21**.

**Table 2.21: Interest Payments in the year 2019-20**

(₹ in crore)			
Year	14 <sup>th</sup> FC assessment	Assessment of State Government in Budget (MFTP)	Actuals
2019-20	519.00	635.06	614.53

Source: 14<sup>th</sup> FC Report, Budget Documents and Finance Accounts of the respective years

The actual Interest Payments during the current year exceeded the 14<sup>th</sup> FC assessment but is less than the budgeted amount as reflected in MFTP. The expenditure on Interest Payments during the award period of 14<sup>th</sup> FC (2015-20) was projected by the State Government at ₹ 2,901.51 crore. However, the 14<sup>th</sup> FC assessed it as ₹ 2,087.00 crore. The actual Interest Payments during the same period was ₹ 2,422.86 crore which was lower than the State Government projection to the 14<sup>th</sup> FC but higher than the assessment of the 14<sup>th</sup> FC. This indicates that the State maintained fiscal discipline with regards to borrowings and its costs. The Interest Payments as a percentage of Revenue Receipts during the year 2019-20 was 4.13 *per cent* which is more than the limit of three *per cent* recommended by 14<sup>th</sup> FC in fiscal consolidation road map.

### 2.6.3.3 Pension Payments

Pension Payments (including other Retirement Benefits) increased from ₹ 555.25 crore constituting 5.26 and 6.64 *per cent* of the Revenue Receipts and Revenue Expenditure respectively during the year 2015-16 to ₹ 882.31 crore constituting 5.93 and 7.22 *per cent* over Revenue Receipts and Revenue Expenditure respectively during 2019-20. This indicates that the Pension Payments are growing at a faster pace when compared to the Revenue Receipts as well as Revenue Expenditure. The expenditure on pension payments during the award period of 14<sup>th</sup> FC (2015-20) was projected by the State Government at ₹ 3,657.48 crore. However, the FC assessed it as ₹ 2,350.00 crore. The actual Pension Payments during the same period was ₹ 3,896.48 crore which was higher than the State Government projection to the 14<sup>th</sup> FC as well as the assessment made by 14<sup>th</sup> FC. The increase was despite introduction of NPS in the State from 2008 onwards. This was mainly due to revision of pensions consequent to implementation of Pay Revision Commission Report.

### 2.6.3.4 Undischarged liabilities in National Pension System

The GoI introduced (01 April 2004) a defined, contribution based National Pension System (NPS) to cover all new entrants to Government service. Under the NPS, the option to join the new system was available for State Government employees. According to terms of the Scheme, both the Government and employees 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.

The Government of Arunachal Pradesh opted for the NPS for the employees recruited on or after 01 January 2008. It was observed that the Government was not contributing its share regularly. The contributions received from both the Government and employees was to be initially 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. However, the State Government is not following the accounting procedure envisaged (passing the amounts through Public Account) and instead adopted a method of passing the funds through a current bank account outside the Government account. The Government is maintaining one current account and one savings account for this purpose in State Bank of India (SBI).

As of 01 April 2019, the Public Account (Major Head-8342) had a balance of ₹ 40.03 crore and no fresh amount was credited to this account. The State Government transferred ₹ 16.41 crore (₹ 8.20 crore as employees' contribution + ₹ 8.21 crore as Government contribution) out of this amount in Public Account to a Savings Account at SBI Itanagar branch, leaving a balance of ₹ 23.62 crore as on 31 March 2020 yet to be transferred.

As of 01 April 2019, the current account (in SBI, Naharlagun) had a balance of ₹ 21.50 crore (Employee's contribution ₹ 20.50 crore + Interest ₹ 1.00 crore). During the year 2019-20, the State Government credited ₹ 23.53 crore (₹ 23.14 crore as employees' contribution + ₹ 0.39 crore as Government contribution) to this current account with SBI. However, out of the available ₹ 45.03 crore, State Government transferred ₹ 38.71 crore<sup>4</sup> (₹ 37.23 crore as employees' contribution + ₹ 0.39 crore as Government contribution + Interest ₹ 1.00 crore) crore to the Savings Account at SBI Itanagar branch, leaving a balance of ₹ 6.32 crore as on 31 March 2020 yet to be transferred.

As of 01 April 2019, the savings account (in SBI, Itanagar) had a balance of ₹ 50.10 crore (Employee's contribution ₹ 50.00 crore + Interest ₹ 0.10 crore). Along with the transferred amount of ₹ 55.03 crore (₹ 45.43 crore as employees' contribution + ₹ 8.60 crore as Government contribution+ Interest ₹ 1.00 crore) from Public Account and Current account, State Government had transferred another ₹ 117.51 crore (₹ 63.89 crore as employees' contribution + ₹ 53.62 crore as Government contribution) to this savings account. During 2019-20, State Government had also accrued interest of ₹ 10.51 crore from the savings account. However, out of the available amount of ₹ 233.15 crore in

<sup>4</sup> Include ₹ 0.09 crore, which was withdrawn due to wrong booking

savings account, State Government transferred ₹ 127.02 crore to NSDL Account leaving a balance of ₹ 106.13 crore as on 31 March 2020 yet to be transferred.

As of 31 March 2020, a cumulative balance of ₹ 23.62 crore was lying in Public Account, yet to be transferred to NSDL and a cumulative balance of ₹ 6.32 crore and ₹ 106.14 crore was lying in the current account and Savings account respectively also to be transferred to NSDL. Thus, a total amount of ₹ 136.08 crore was yet to be transferred to NSDL as of 31 March 2020. Retention of the huge amounts in the savings and current accounts without transferring the amount to NSDL for investment in the authorised securities have implications for the social security of the employees covered under the NPS. The summary of transactions of NPS during the last five years is given below:

**Table 2.22: The summary of the transactions under NPS**

Year	Opening Balance	Details of Contribution				Transfer to NSDL	Closing Balance (2+6-7)	Interest liability {(2+5)* Rate}
		Employee	Employer	Short (3-4)	Total (3+4)			
1	2	3	4	5	6	7	8	9
2015-16	96.84	34.63	15.51	19.12	50.14	77.86	69.12	9.28
2016-17	69.12	83.71	9.77	73.94	93.48	79.33	83.27	11.16
2017-18	83.27	90.09	64.39	25.70	154.48	141.88	95.87	8.73
2018-19	95.87	74.40	66.45	7.95	140.85	125.19	111.53	8.31
2019-20	111.53	87.05	64.56 <sup>5</sup>	22.49	151.61	127.06 <sup>6</sup>	136.08	10.72
<b>Total</b>		<b>369.88</b>	<b>220.68</b>	<b>149.20</b>	<b>590.56</b>	<b>551.32</b>		

Source: Finance Accounts of the respective years

Audit analysis of implementation of NPS revealed the following:

During the period from 2015-16 to 2019-20, State Government contributed ₹ 220.68 crore as against the total Employees' share of ₹ 369.88 crore. Moreover, against the total collected funds of ₹ 687.40 crore (including previous year's balance ₹ 96.84 crore), the Government transferred ₹ 551.32 crore to the designated authority (NSDL). As a result, the total NPS liability of the State Government stood at ₹ 285.28 crore (₹ 149.20 crore-matching share not contributed plus ₹ 136.08 crore- short transfer to NSDL) as on 31 March 2020. The State Government has also created avoidable interest liability of ₹ 10.72 crore in 2019-20 on funds not transferred to NSDL.

It was also observed that both the contributions (₹ 151.61 crore) in the current year under NPS were not routed through the Public Account and instead, were routed through the current account. Thus, non-routing of the contributions through the Public Account is in violation of guidelines, besides being vulnerable to risks associated with the normal bank account operations.

There were 22,273 employees who were covered under the NPS as on 31 March 2020 out of which, PRAN numbers were issued to 20,389 employees.

<sup>5</sup> It includes ₹ 10.51 crore as interest

<sup>6</sup> It includes ₹ 2.92 crore towards withdrawal for final payment and wrong booking

In its reply (January 2021), the State Government stated that efforts are being made to transfer remaining funds to NSDL-CRA.

The reply has not addressed the accumulation of Government liabilities over several years, potentially depriving subscribers of mandated benefits.

#### 2.6.4 Financial assistance by the State Government to Local Bodies and Other Institutions

The quantum of assistance provided by way of Grants and Loans to Local Bodies and others during 2019-20, relative to previous years is presented in **Table 2.23**.

**Table 2.23: Financial Assistance to Local Bodies and other Institutions**

(₹ in crore)					
Financial Assistance to Institutions	2015-16	2016-17	2017-18	2018-19	2019-20
<b>(A) Local Bodies</b>					
Municipal Corporations and Municipalities	6.73	7.87	1.92	3.74	5.37
Panchayati Raj Institutions	0.00	0.00	0.00	0.00	0.00
<b>Total (A)</b>	<b>6.73</b>	<b>7.87</b>	<b>1.92</b>	<b>3.74</b>	<b>5.37</b>
<b>(B) Others</b>					
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	7.39	0.00	1.00	5.43	0.00
Cultural Institutions/Voluntary Organisations for promotion of Arts & Culture	2.22	0.00	0.00	0.00	0.00
State Institute of Rural Development	0.66	0.66	0.00	0.00	0.00
Social Welfare	0.44	0.48	0.41	0.54	0.00
Food, Storage and Warehousing	0.00	7.11	15.59	7.67	208.60
Co-operation	1.25	2.99	0.83	1.15	0.92
Other Institutions	7.48	18.76	17.62	36.10	23.36
<b>Total (B)</b>	<b>19.44</b>	<b>30.00</b>	<b>35.45</b>	<b>50.89</b>	<b>232.88</b>
<b>Total (A+B)</b>	<b>26.17</b>	<b>37.87</b>	<b>37.37</b>	<b>54.63</b>	<b>238.25</b>
Revenue Expenditure	8362.74	9394.54	10900.47	12429.48	12218.73
Assistance as percentage of Revenue Expenditure	0.31	0.40	0.34	0.44	1.95

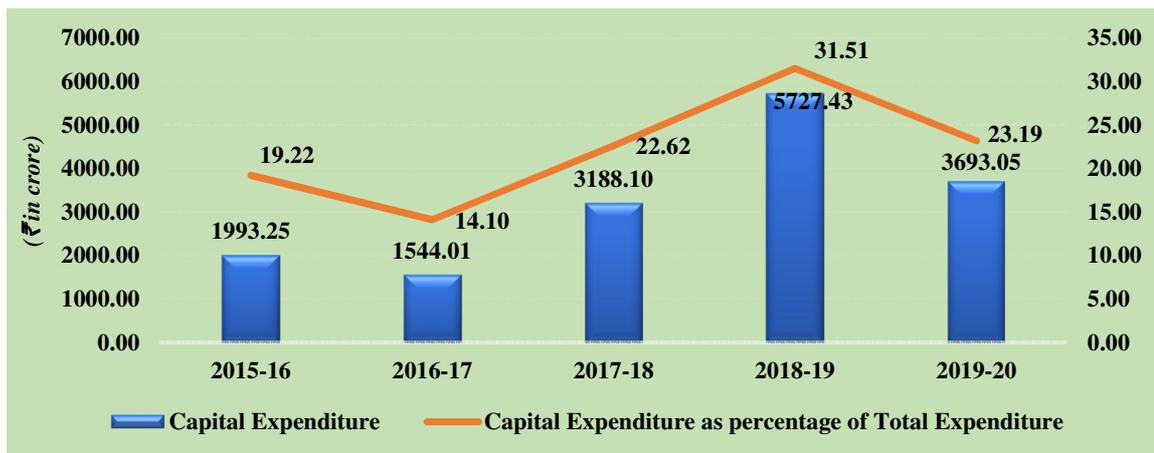
Source: Finance Accounts of the respective years

Financial assistance extended to Local Bodies and other Institutions with inter-year variations increased by 810.24 per cent from ₹ 26.17 crore in 2015-16 to ₹ 238.21 crore in 2019-20. No financial assistance was given from State funds to rural local bodies in the past five years.

#### 2.6.5 Capital Expenditure

Capital Expenditure is primarily expenditure on creation of fixed infrastructure assets such as roads, buildings etc. **Chart 2.14** depicts the trends of Capital Expenditure and its percentage of Total Expenditure over the period 2015-20.

Chart 2.14: Capital expenditure in the State



Source: Finance Accounts of the respective years

Capital Expenditure during 2019-20 (₹ 3,693.05 crore) decreased by ₹ 2,034.38 crore over the previous year due to significant decrease in expenditure on Economic Services (₹ 1,127.92 crore), Social Services (₹ 502.34 crore) and General Services (₹ 404.12 crore). This expenditure constituted 23.19 per cent of Total Expenditure during 2019-20 as compared to 31.51 per cent during the previous year. The Capital Expenditure as a percentage of Total Expenditure which peaked to 31.51 per cent during the previous year, came down to 23.19 per cent during the current year.

The CAGR of the Capital Expenditure in 2019-20 over previous year was (-) 35.52 in the State while the average of NER and Himalayan States was (-)15.60, and average of all States was (-) 5.08 during the same period, indicating that the decline was much steep in the State. The actual Capital expenditure fell short of the expenditure approved by the legislature. The available resources for the Capital expenditure were thinly spread over many projects due to which the infrastructure projects could not be completed within the stipulated time frame resulting in blocking of scarce resources. The ratio of Capital Expenditure to Aggregate Expenditure of the State (23.19 per cent) is very high when compared with the average of the NE&H states (14.08 per cent) indicating that the fiscal priority of the Government is more oriented towards creation of capital assets or to improve the infrastructure of the State which would contribute to increase in the growth of GSDP. However, the State Government could not maintain the Capital Expenditure in line with the projections made in the BEs and REs during 2019-20, and the expenditure fell short of the BEs (₹ 8,006.72 crore) by 53.88 per cent and RE (₹ 4,445.42 crore) by 16.92 per cent.

### 2.6.5.1 Major Changes in Capital Expenditure

As there was decrease of ₹ 2,034.48 crore in Capital Expenditure during the current year compared to previous year, **Table 2.24** highlights the cases of significant decrease of over 25 per cent in various Heads of Account in Capital Expenditure during the year 2019-20 vis-à-vis the previous year.

**Table 2.24: Capital Expenditure during 2019-20 compared to 2018-19***(₹in crore)*

Major Heads of Accounts	2018-19	2019-20	Decrease (in per cent)
4059- Capital Outlay on Public Works	363.07	164.09	198.98 (54.80)
4070- Capital Outlay on Other Administrative Services	658.41	436.51	221.90 (33.70)
4215- Capital Outlay on Water Supply and Sanitation	416.43	253.07	163.36 (39.23)
4217- Capital Outlay on Urban Development	367.17	128.93	238.24 (64.89)
5054- Capital Outlay on Roads and Bridges	2,603.05	1,833.43	769.62 (29.57)

Source: Finance Accounts of the respective years

Analysis of the reasons for decrease in Capital Expenditure during 2019-20 over the previous year revealed the following:

- Decrease in expenditure in Public Works during the year was due to less emphasis of the State Government towards creation of assets under State Annual Development Agenda (SADA).
- Decrease in expenditure in Other Administrative Services during the year was due to less expenditure towards Border Area Development Programme (BADP) and Untied Funds.
- Decrease in expenditure in Water Supply and Sanitation during the year was due to less creation of assets related to Water Supply under SADA.
- Decrease in expenditure in Urban Development during the year was due to less expenditure towards Integrated Development of Small and Medium Towns.
- Decrease in expenditure in Roads and Bridges was due to less expenditure towards district roads during the year.

### 2.6.5.2 Capital locked in incomplete projects

As per Finance Accounts of the State for the year 2019-20, there were 101 incomplete/ongoing projects in six Department as on 31 March 2020. Age profile of incomplete projects based on the year of sanction/ year of start of these projects as on 31 March 2020 is as follows:

**Table 2.25: Age profile of incomplete projects as on 31 March 2020 (₹in crore)**

Year	No of incomplete projects	Estimated cost	Expenditure
2008-09	2	54.67	159.95
2010-11	1	15.45	12.10
2011-12	11	180.57	160.77
2012-13	2	25.49	22.13
2013-14	7	123.09	78.79
2014-15	4	59.96	22.42
2015-16	1	8.31	5.21
2016-17	22	347.22	157.22
2017-18	23	313.69	122.59
2018-19	11	123.83	16.22
2019-20	17	339.21	89.58
<b>Total</b>	<b>101</b>	<b>1591.49</b>	<b>846.98</b>

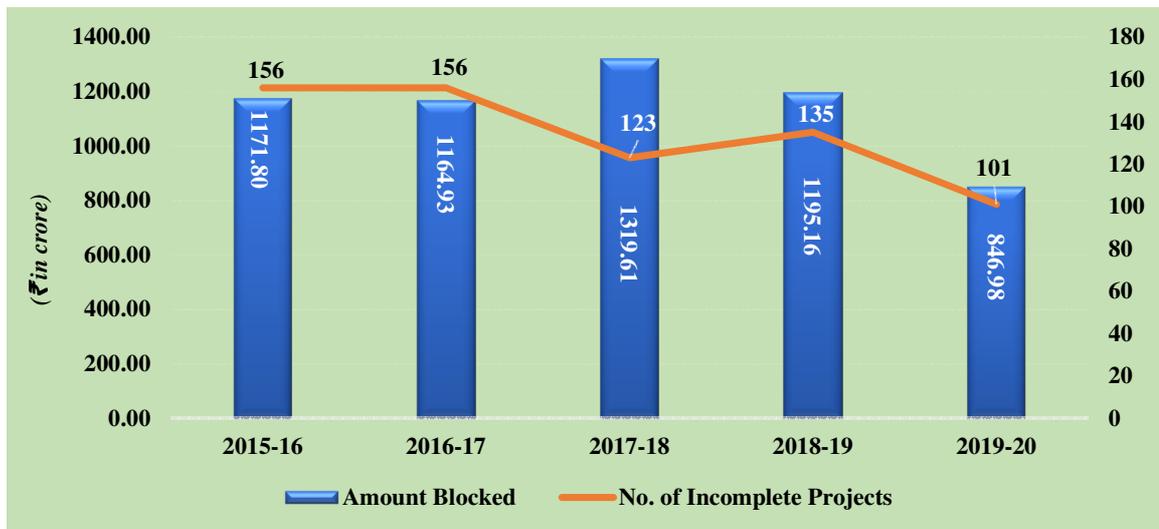
Source: Finance Accounts 2019-20

**Table 2.26: Department-wise profile of incomplete projects as on 31 March 2020 (₹in crore)**

Department	No of incomplete projects	Estimated cost	Expenditure
PWD	66	1123.91	546.63
PHED	12	115.96	67.03
WRD	11	194.89	194.82
Hydro Power	8	122.04	31.72
Power	3	29.69	5.50
RWD	1	5.00	1.28
<b>Total</b>	<b>101</b>	<b>1591.49</b>	<b>846.98</b>

The Government does not have a comprehensive list of capital projects taken up, status of these projects, details of time and cost over run in the execution of these projects, approved cost and revised cost of completing the projects, *etc.* In the absence of a comprehensive database of incomplete projects, information was sought from the implementing departments, and based on the information furnished, it was seen that 101 projects on which an expenditure of ₹ 846.98 crore was incurred, remained incomplete and the resources required for completing these works were not made available. Of these, 23 projects in which expenditure of ₹ 433.74 crore was incurred and remained incomplete were prior to 2014-15. The year-wise details of incomplete projects is shown in the chart below:

**Chart 2.15: Year-wise details of incomplete projects**



Source: Finance Accounts of the respective years

Even the details of expenditure incurred during the current year on these incomplete works was not available separately. While there are large number of works which remained incomplete over several years, the Government also took up execution of new works during the current year. The Government has been taking up large number of works without ensuring the availability of resources for completing those works within the stipulated timeframe, and available resources are thinly spread over an extended number of works. Time over run of the infrastructure projects would also have the inherent risk of cost over runs.

Effective steps need to be taken to complete all these above projects without further delays to avoid cost and time overrun and reduce extra burden of debt servicing on borrowed funds for projects.

### 2.7 Quality of investments in Companies, Corporations and other Bodies

The term State Government Public Sector Enterprises (SPSEs) encompasses the State Government owned companies set up under the Companies Act, 2013 and Statutory Corporations set up under the statutes enacted by the Parliament.

Government Company is defined in Section 2(45) of the Companies Act, 2013 as a company in which not less than 51 *per cent* of the paid-up share capital is held by Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary of a Government Company.

Audit of Government companies and Government controlled other companies is conducted by the CAG under the provisions of Section 143(5) to 143(7) of the Companies Act, 2013 read with Section 19 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 and the Regulations made there under. Under the Companies Act, 2013, the CAG appoints the Chartered Accountants as Statutory Auditors for companies and gives directions on the manner in which the accounts are to be audited. In addition, CAG has right to conduct a supplementary audit. The statutes governing some Statutory Corporations require their accounts to be audited only by CAG.

As on 31 March 2020, there were seven SPSUs (all Government Companies, including one non-working company) in the State. The turnover of the SPSUs *vis-à-vis* the GSDP of the State in the past three years is as follows:

**Table 2.27: Turnover SPSUs *vis-à-vis* GSDP for the last three years**

Particulars	2017-18	2018-19	2019-20
Turnover (₹ in crore)	24.86	28.96	26.61
GSDP (₹ in crore)	22,434.48	24,602.88	27,036.64
Percentage of Turnover to GSDP	0.11	0.12	0.10

Source: As per latest finalised accounts of SPSEs

The contribution of the SPSUs to the GSDP in the State was insignificant as the turnover of these Companies constituted less than 0.15 *per cent* of the GSDP in all the three preceding years. None of these Companies were listed on stock exchange.

As on 31 March 2020, there were six working Government Companies and as per latest finalised annual accounts, four companies had accumulated losses of ₹ 29.10 crore. Of the two companies which had earned a profit, the profit earned by one company *i.e.*, AP Police Housing and Welfare Corporation Limited was mainly due to interest on the fixed deposits invested out of the centage charges paid by the Government

The summarised position of the Government's investment (Equity and Loans) in the SPSUs and data on the performance indicators of SPSUs during last three years is as follows:

**Table 2.28: Government's investment and performance indicators of SPSUs during 2017-20**

Particulars	2017-18	2018-19	2019-20
Equity (₹ in crore)	9.00	9.00	9.00
Loans (₹ in crore)	36.25	36.25	36.25
Turnover (₹ in crore)	24.86	28.96	26.61
Budgetary support (₹ in crore)	5.55	9.88	4.79
Profit (overall) earned by working SPSUs	7.53	6.56	3.58

Source: As per latest finalised accounts of SPSEs

The investment in one non-working SPSU was ₹ 0.24 crore, which had been defunct since 1995. Of the seven SPSUs, the net worth was eroded completely in case of three SPSUs, as detailed below.

**Table 2.29: Erosion of Capital of working SPSUs**

(₹ in crore)				
Sl. No.	Company/ Corporation	Latest finalised Accounts	Paid up capital	Accumulated losses
1	Arunachal Pradesh Industrial Development and Financial Corporation Limited	2017-18	4.15	20.42
2	Arunachal Pradesh Forest Corporation Limited	2005-06	4.50	4.58
3	Arunachal Pradesh Donyi Polo Hotel Corporation Limited	2018-19	0.99	2.29

Source: As per latest finalised accounts of SPSEs

Financial statements of the companies are required to be finalised within six months from the close of the relevant financial year, *i.e.*, by end of September, in accordance with the provisions of Section 96 (1) of the Companies Act. None of the Companies have complied with this provision and the accounts of these companies are in arrears ranging from 1 to 20 years.

As per Statement 8 and 19 of the Finance Accounts for 2019-20, as of 31 March 2020, the State Government invested ₹ 250.93 crore in five Government Companies (₹ 9.00 crore) and 150 Co-operative Banks and Societies (₹ 241.93 crore) as detailed in **Table 2.30**.

**Table 2.30: Return on Investment**

(₹ in crore)					
Investment/Return/Cost of Borrowings	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Investment at the end of the year (₹ in crore)</b>					
(i) Government Companies	9.00	9.00	9.00	9.00	9.00
(ii) Co-operative Bank/Societies	240.11	241.02	241.02	241.93	241.93
<b>Total</b>	<b>249.11</b>	<b>250.02</b>	<b>250.02</b>	<b>250.93</b>	<b>250.93</b>
Return (₹ in crore)	<i>Nil</i>				
Average Rate of Interest on Government Borrowings ( <i>per cent</i> )	6.92	6.93	7.28	6.66	5.93
Difference between Interest Rate & Return rate ( <i>per cent</i> )	6.92	6.93	7.28	6.66	5.93

Source: Finance Accounts of the respective years

During 2015-16 to 2019-20, average return on investment was 'Nil', while the Government paid interest at an average rate of 5.93 *per cent* to 7.28 *per cent* on its borrowings during the period.

### 2.7.1 Loans and Advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, State Government has also provided loans and advances to many institutions/ organisations. **Table 2.31** presents the outstanding loans and advances as on 31 March 2020 along with interest receipts *vis-à-vis* interest payments during the five-year period from 2015-16 to 2019-20.

**Table 2.31: Quantum of loans disbursed and recovered during five years***(₹ in crore)*

Quantum of loans disbursed and recovered	2015-16	2016-17	2017-18	2018-19	2019-20
Opening Balance of loans outstanding	59.49	66.99	73.53	72.92	88.00
Amount advanced during the year	12.98	10.33	5.07	20.16	16.02
Amount recovered during the year	5.48	3.79	5.68	5.08	7.03
Closing Balance of the loans outstanding	66.99	73.53	72.92	88.00	96.99
Net addition	7.50	6.54	(-) 0.61	15.08	8.99

Source: Finance Accounts of the respective years

The total outstanding loans and advances as on 31 March 2019 were ₹ 96.99 crore. The loans disbursed during the year decreased by 20.54 per cent from ₹ 20.16 crore in 2018-19 to ₹ 16.02 crore in 2019-20. Out of the total loans advanced during the year, Economic Services received ₹ 13.28 crore, and the remaining ₹ 2.74 crore were provided to Government servants. Within the Economic Services, Co-operation was the single recipient. Recovery of loans and advances increased by ₹ 1.95 crore from ₹ 5.08 crore in 2018-19 to ₹ 7.03 crore in 2019-20. However, interest receipts in this regard increased by ₹ 2.12 crore during the year.

### 2.7.2 Expenditure Priorities

Availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. It is important for the State Government to take appropriate expenditure rationalisation by focusing more on Development Expenditure which is expenditure on Social and Economic Services. Apart from improving the allocation towards development expenditure, the efficiency of expenditure use is also reflected by the ratio of Capital Expenditure to Total Expenditure and the proportion of Revenue Expenditure being spent on Education and Health Sectors. The higher the ratio of these components to Total Expenditure, the quality of expenditure is considered to be better.

**Table 2.32** compares the fiscal priority of the State Government with that of NE&H States with regard to Aggregate Expenditure (AE), Capital Expenditure (CE) on Education and Health during 2019-20, taking 2015-16 as the base year.

**Table 2.32: Fiscal Priority of the State Government**

Fiscal Priority of the State	AE/ GSDP	DE/ AE	SSE/ AE	ESE/ AE	CE/ AE	Education/ AE	Health/ AE
NE&H States' Average 2015-16	24.58	66.34	36.25	30.10	13.96	18.32	5.95
Arunachal Pradesh 2015-16	56.02	72.36	28.73	43.63	19.22	12.22	4.97
NE&H States' Average 2019-20	23.02	64.20	35.42	28.77	14.08	17.42	6.19
Arunachal Pradesh 2019-20	58.91	71.80	31.27	40.53	23.19	11.21	6.19

Source: Finance Accounts of the respective years

AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; ESE: Economic Sector Expenditure; CE: Capital Expenditure.

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

While the ratio of Aggregate Expenditure to GSDP during 2019-20 increased when compared with 2015-16, the ratio of Development Expenditure to Aggregate Expenditure marginally declined though it is much higher than the NE&H States average. The ratio of expenditure on Education to the Aggregate Expenditure declined both with reference to the base year and also when compared with NE&H States average indicating that the priority given to this sector is not commensurate with other NE&H States. The Capital Expenditure which is meant for creating infrastructure in Education sector constituted 12.27 per cent of the Aggregate expenditure while the average of all the states was 16.04 per cent and that of NE&H States was 17.42 per cent.

### 2.8 Public Account

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 the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. The Government acts as a banker in respect of these. The balance after disbursements during the year is the fund available with the Government for use for various purposes.

#### 2.8.1 Net Public Account Balances

Component-wise net balances in Public Account of the State as of end of March 2020 are as follows:

**Table 2.33: Component-wise net balances in Public Account as of 31 March 2020**

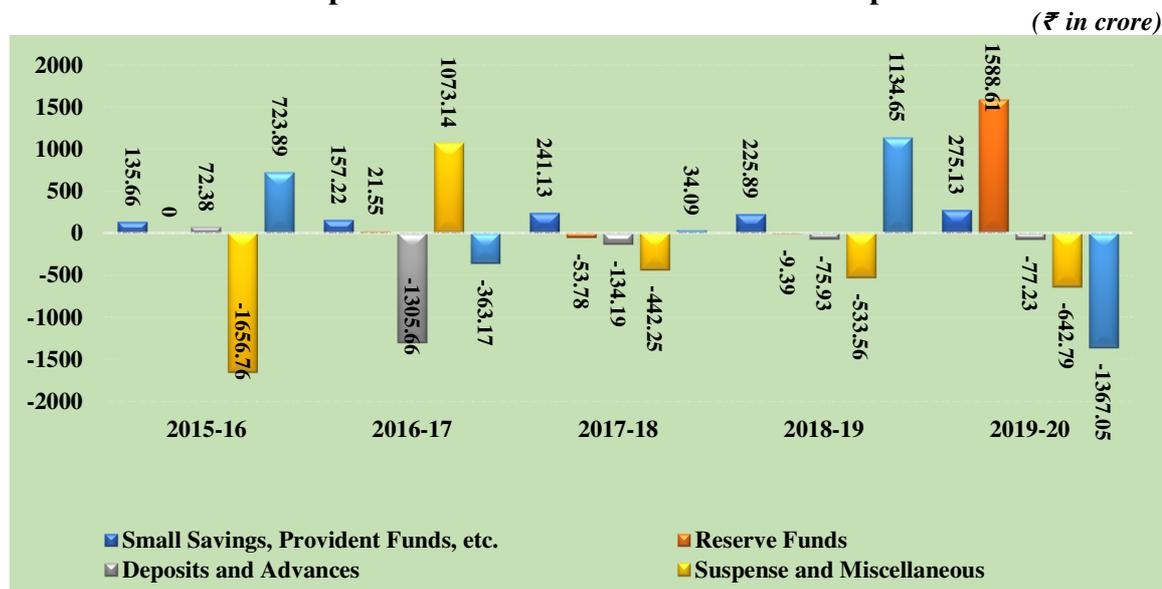
(₹ in crore)

Sector	Sub Sector	2015-16	2016-17	2017-18	2018-19	2019-20
I. Small Savings, Provident Funds, <i>etc.</i>	Small Savings, Provident Funds, <i>etc.</i>	135.66	157.22	241.13	225.89	275.13
J. Reserve Funds	(a) Reserve Funds bearing Interest	200.00	21.55	(-) 62.63	(-) 0.54	1,588.61
	(b) Reserve Funds not bearing Interest	(-) 200.00	0.00	8.85	(-) 8.85	0.00
K. Deposits and Advances	(a) Deposits bearing Interest	(-) 25.84	1.26	(-) 9.53	(-) 5.48	(-) 13.95
	(b) Deposits not bearing Interest	128.72	(-) 1,028.61	(-) 121.09	(-) 73.02	(-) 61.31
	(c) Advances	(-) 30.50	(-) 278.31	(-) 3.57	2.57	(-) 1.97
L. Suspense and Miscellaneous	(b) Suspense	(-) 454.00	148.74	(-) 404.85	(-) 176.63	(-) 2,678.97
	(c) Other Accounts	(-) 1,202.76	924.40	(-) 37.40	(-) 356.93	2,036.18
M. Remittances	(a) Money Orders, and other Remittances	723.77	(-) 363.15	34.11	1,134.72	(-) 1,367.06
	(b) Inter-Governmental Adjustment Account	0.12	(-) 0.02	(-) 0.02	-0.07	0.01
<b>Total</b>		<b>(-) 724.83</b>	<b>(-) 416.92</b>	<b>(-) 355.00</b>	<b>741.66</b>	<b>(-) 223.33</b>

*Source: Finance Accounts of the respective years*

The yearly changes in composition of balances in Public Account over the five-year period 2015-20 are given in **Chart 2.16**.

**Chart 2.16: Composition of net Public Account over the period 2015-20**



Source: Finance Accounts of respective years

## 2.9 Transaction under Reserve Funds

The total Outstanding Liabilities of ₹ 12,131.46 crore include balance of ₹ 2,937.39 crore under Reserve Funds as on 31 March 2020. The status of Reserve Funds viz., State Disaster Response Fund (SDRF), State Compensatory Afforestation Fund (SCAF), Consolidated Sinking Fund and Guarantee Redemption Fund are as follows:

### 2.9.1 State Disaster Response Fund

State Disaster Response Fund (SDRF) was set up by the Government in 2010-11 with contribution of funds from GoI and the State Government in the ratio of 90:10. The 14<sup>th</sup> FC recommended an amount of ₹ 63.00 crore (Central share ₹ 57.00 crore, State share ₹ 6.00 crore) under SDRF for year 2019-20 and accordingly GoI released ₹ 56.70 crore (in two instalments of ₹ 28.35 crore each) towards SDRF.

As per the guidelines of SDRF fund, the GoI contributions along with State share are to be transferred to the Public Account (Major Head-8121). Expenditure incurred during the year on natural calamities should be adjusted by debiting the Public Account with contra deduct debit to the Expenditure Major Head-2245. The remaining amount of the fund is to be invested. However, contrary to the guidelines, as against ₹ 63.00 crore (Central share ₹ 57.00 crore, State share ₹ 6.00 crore) to be transferred to Public Account, the Government did not transfer the funds to Public Account and instead transferred ₹ 64.50 crore to a Savings Bank Account opened for this purpose in the SBI which includes ₹ 33.00 crore pertaining to 2018-19 (₹ 27.00 crore: Central share 2<sup>nd</sup> instalment of 2018-19 and ₹ 6.00 crore: State share of 1<sup>st</sup> & 2<sup>nd</sup> instalment of 2018-19) and ₹ 31.50 crore of 2019-20 (₹ 28.35 crore: Central share 1<sup>st</sup> instalment of 2019-20 and ₹ 3.15 crore: State share of 1<sup>st</sup> instalment of 2019-20) towards SDRF. Since the money was parked in bank

account outside the Government account, the expenditure from it is not subject to usual treasury control and other prescribed checks including audit. As such, it was not possible to assess the actual fund utilisation on natural calamities. Further the expenditure in Consolidated Fund was inflated to this extent as the adjustment from the Public Account to reduce the expenditure booked against Major Head-2245 could not be carried out.

As on 31 March 2019, a cumulative balance of ₹ 2.92 crore was lying in the Public Account (Major Head-8121), which remained un-invested.

### 2.9.2 State Compensatory Afforestation Fund

Government of Arunachal Pradesh has adopted (September 2018) the Compensatory Afforestation Fund Rules. As per Fund Rules, the money received by the State Governments from the User Agencies need to be credited in '8336 Civil deposits- 00- 103 State Compensatory Afforestation Deposits' under interest bearing section in Public Accounts of the State. Out of which 90 *per cent* shall be transferred to the Major Head '8121 General and Other Reserve Funds- 00- 129 State Compensatory Afforestation Fund (SCAF)' and 10 *per cent* credited into the National Fund on yearly basis as per sub-section (4) of Section 3 of the Act; provided that, the credit of 10 *per cent* share of funds should be ensured on monthly basis so that the same is transferred to the National Fund. The applicable rate of interest on balances available under State Compensatory Afforestation Deposits under '8336- Civil deposits- 00- 103 State Compensatory Afforestation Deposits' and '8121 General and Other Reserve Funds- 00- 129 State Compensatory Afforestation Fund (SCAF)' shall be as per the rate declared by the State Government on year to year basis.

After due appropriation of funds, the expenditure on schemes to be financed from State Compensatory Afforestation Fund (SCAF) shall be incurred from the head of account '2406 Forestry and Wildlife- 04 Afforestation and Ecology Development- 103 State Compensatory Afforestation (SCA)' and is to be reimbursed by deduct refund under the Minor Head '904 Recoveries" from Public Account Head '8121 General and Other Reserve Funds- 00- 129 State Compensatory Afforestation Fund (SCAF)'

During the year 2019-20, the State received ₹ 1,588.72 crore from National Compensatory Afforestation Deposits for the State Compensatory Afforestation Fund. The State Government did not collect any funds under the Head of Account '8336 Civil deposits- 00- 103 State Compensatory Afforestation Deposits' from user agencies during the year. No budget provision was kept under '2406 Forestry and Wildlife- 04 Afforestation and Ecology Development- 103 State Compensatory Afforestation (SCA)' and hence, no expenditure was incurred during the year. As on 31 March 2020, the fund had a balance of ₹ 1588.72 crore.

### 2.9.3 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 12<sup>th</sup> 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 minimum contribution due from the State Government was ₹ 42.94 crore<sup>7</sup>. Against this, the State Government contributed ₹ 240.00 crore to the fund during the year. As on 31 March 2020, the investment against the fund was ₹ 1,344.16 crore.

#### 2.9.4 Guarantee Redemption Fund

The State Government had constituted (February 2018) a 'Guarantee Redemption Fund' for meeting the payment obligations arising out of the guarantees issued by the Government in respect of bonds issued and other borrowings by the State Level Public Sector Undertakings or other Bodies and invoked by the beneficiaries. The accumulations in the Fund would be utilised only towards payment of the guarantees issued by the Government and invoked by the beneficiary and not paid by the institution on whose behalf guarantee was issued.

According to the Act, the Government should contribute a minimum of one per cent of the outstanding guarantees at the end of the previous year and thereafter minimum 0.50 per cent every year to achieve a minimum level of three per cent in next five years.

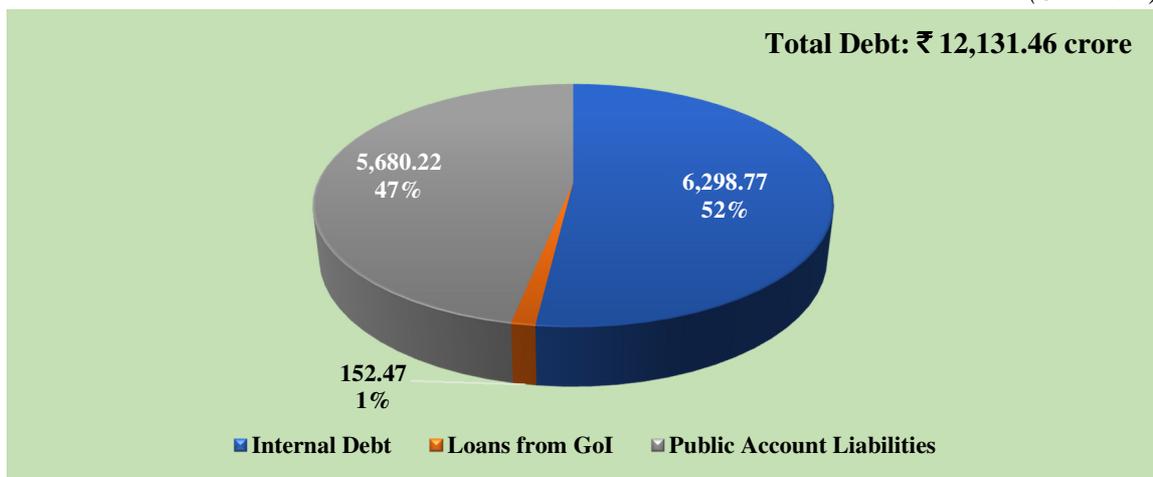
As on 01 April 2019, the fund had a balance of ₹ 1.01 crore. During 2019-20, the State Government contributed ₹ 0.56 crore to the Fund, which was almost 58 per cent of ₹ 0.97 crore (i.e., outstanding guarantee at the end of previous financial year). No guarantee was invoked during the year. As on 31 March 2020, the total amount lying in the Fund was ₹ 1.57 crore which stood invested by the Reserve Bank of India, in GoI Securities.

#### 2.10 Debt Management and Sustainability

The total outstanding debt of the State Government at the end of 2019-20 was ₹ 12,131.46 crore. Component-wise break-up of debt is shown in **Chart 2.17**.

**Chart 2.17: Break-up of outstanding Debt at the end of March 2020**

(₹ in crore)



Source: Finance Accounts 2019-20

<sup>7</sup> 0.5 per cent of the total Outstanding Liabilities of ₹ 8,588.42 crore as on 31 March 2019

Internal debt, which is primarily Market Borrowings through issue of State Development Loans (SDLs), accounts for 42 *per cent* of the total outstanding debt.

### 2.10.1 Trend of Debt

The details relating to total debt received, repayment of debt, ratio of debt to GSDP and the actual quantum of debt available to the State during the five-year period 2019-20 are given in **Table 2.34**, as also in **Chart 2.18**.

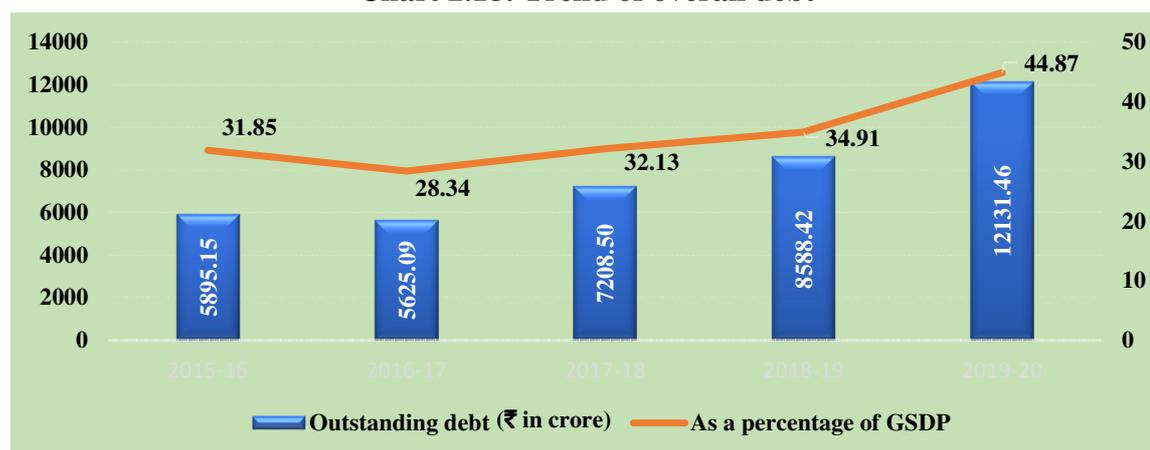
**Table 2.34: Trend of the outstanding Debt**

Particulars		(₹ in crore)				
		2015-16	2016-17	2017-18	2018-19	2019-20
<b>Outstanding Debt</b>		<b>5,895.15</b>	<b>5,625.09</b>	<b>7,208.50</b>	<b>8,588.42</b>	<b>12,131.46</b>
<b>Public Debt</b>	<b>Internal Debt</b>	2,067.40	2,522.36	3,883.82	4,835.39	6298.77
	<b>Loans from GoI</b>	258.00	231.54	205.11	178.75	152.47
<b>Public Account Liabilities</b>		3,569.75	2,871.19	3,119.57	3,574.28	5680.22
<b>Rate of growth of outstanding debt (percentage)</b>		(-)3.70	(-)4.58	28.15	19.14	41.25
<b>Gross State Domestic Product</b>		18,509.16	19,845.44	22,432.48	24,602.88	27,036.64
<b>Debt/GSDP (per cent)</b>		31.85	28.34	32.13	34.91	44.87
<b>Total Debt Receipts</b>		3,110.70	2,222.86	2,908.33	2,528.62	4,595.82
<b>Total Debt Repayments</b>		2,921.87	2,093.69	1,792.28	1,674.80	1,667.31
<b>Total Debt Receipts Available</b>		188.83	129.17	1,116.05	853.82	2,928.51

Source: Finance Accounts of the respective years

As could be seen from the table, the outstanding debt has been increasing at a greater pace than the growth of GSDP. The current year registered highest rate of growth of outstanding debt. There had been a continuous increase in the Debt to GSDP ratio in the past five years except in the year 2016-17.

**Chart 2.18: Trend of overall debt**



Source: Finance Accounts of the respective years

### 2.10.2 Debt Sustainability

Debt is considered sustainable if the borrower, in this case the State, is in a position to service its debt now, and in future. Debt sustainability indicators accordingly seek to assess the credit worthiness and the liquidity position of the borrower by examining their

ability to service the debt through timely interest payments and repay debt out of current and regular sources of revenue.

This section assesses the sustainability of debt of the State Government in terms of debt/GSDP ratio, Fiscal Deficit, burden of Interest Payments (measured by ratio of Interest Payments to Revenue Receipts) and maturity profile of the State Government debt.

**Table 2.35** shows the debt sustainability of the State according to these indicators for the five-year period beginning from 2015-20.

**Table 2.35: Debt Sustainability: Indicators and Trends**

Indicators of Debt sustainability	2015-16	2016-17	2017-18	2018-19	2019-20
Debt/GSDP ( <i>per cent</i> )	31.85	28.34	32.13	34.91	44.87
Fiscal Deficit/Surplus to GSDP ( <i>per cent</i> )	1.02	4.20	(-) 1.40	(-) 8.03	(-) 3.82
Interest Payments/Revenue Receipts Ratio	3.90	3.39	3.39	3.24	4.13
Rate of growth of outstanding Debt ( <i>per cent</i> )	(-)3.70	(-)4.58	28.15	19.14	41.25
Rate of growth of Revenue Receipts	15.51	11.62	16.94	17.58	(-) 8.07
Rate of growth of GSDP ( <i>percentage</i> )	3.06	7.22	13.04	9.68	9.89
Interest payment	415.64	399.23	467.36	526.10	614.53
Average interest rate on Outstanding Debt ( <i>per cent</i> )	6.92	6.93	7.28	6.66	5.93
Available Debt as a percentage of Debt Receipts	6.07	5.81	38.37	33.77	63.72

*Source: Finance Accounts of the respective years*

The fiscal consolidation roadmap recommended by the 14<sup>th</sup> FC had set the following targets relating to debt sustainability –

- Debt should be less than 29.62 *per cent* of GSDP; and
- Interest payments should be three *per cent* of Revenue Receipts.

As can be seen from **Table 2.35**, in the last five years, the ratio of debt to GSDP of Arunachal Pradesh has been hovering between 28.34 to 44.87 *per cent*, and in three years out of the five-year period 2015-20, this ratio was above the targets recommended by the 14<sup>th</sup> FC, and far above the target ceiling for debt of 25 *per cent* set in APFRBM Act. The growth rate of Revenue Receipts has generally outpaced the growth rate of debt during two years out of the last five years, while in the three years commencing from 2017-18 the debt grew at a significantly faster rate than the Revenue Receipts. However, in absolute terms, Revenue Receipts were higher than debt during 2019-20. The burden of Interest Payment ranged from 3.24 to 4.13 *per cent* of the Revenue Receipts. These indicate the expectations of 14<sup>th</sup> FC in fiscal consolidation road map could not be achieved in the State.

However, during the five-year period 2015-16 to 2019-20, while GSDP has grown at a CAGR of 9.94 *per cent*, the outstanding debt has grown at a faster rate of 19.77 *per cent*.

### 2.10.3 Debt Profile: Maturity and Repayment

Public Debt consists of Internal Debt and Loans and Advances received from GoI. As per Statement 17 of the Finance Accounts for the year 2019-20, the maturity profile of public debt is as follows.

**Table 2.36: Maturity Profile of Public Debt**

(₹ in crore)

Date maturity	Maturity Profile	Amount			Per cent
		Internal Debt	Loans & Advances from GoI	Total	
By 2020-21	0-1 year	169.13	21.62	190.75	2.96
Between 2021-22 & 2022-23	Over 1 year to 3 years	683.19	43.22	726.41	11.26
Between 2023-24 & 2024-25	Over 3 years to 5 years	937.11	43.22	980.33	15.19
Between 2025-26 & 2026-27	Over 5 years to 7 years	699.01	8.02	707.03	10.96
2026-27 onwards	Above 7 years	3810.34	36.39	3846.73	59.63
<b>Total</b>		<b>6298.78</b>	<b>152.47</b>	<b>6451.25</b>	<b>100.00</b>

Source: Finance Accounts 2019-20

**Chart 2.19: Maturity Profile of Public Debt**

(₹ in crore)



Source: Finance Accounts 2019-20

The maturity profile of outstanding stock of Public Debt as on 31 March 2020 indicates that out of the outstanding Public Debt of ₹ 6,451.25 crore, 40.37 per cent (₹ 2,604.52 crore) is payable within the next seven years while the remaining 59.63 per cent (₹ 3,846.73 crore) is in the maturity bracket of more than seven years. Of the total outstanding Public Debt, Internal Debt consisting of Market Borrowings, Loans from NABARD and Special Securities issued to NSSF of Central Government constituted 97.64 per cent (₹ 6,298.78 crore).

### 2.10.4 Utilisation of Borrowed Funds

Borrowed funds should ideally be used to fund capital creation and developmental activities. Using borrowed funds for meeting current consumption and repayment of interest on outstanding loans is not sustainable. **Table 2.37** presents the trend of utilisation of borrowed funds for repayment of earlier borrowings, Capital Expenditure and Revenue Expenditure.

**Table 2.37: Details of utilisation of borrowed funds**

(₹ in crore)

Year	Total Borrowings	Repayment of earlier borrowings (Principal)	Net Capital Expenditure	Net Loans and Advances	Portion of Revenue expenditure met out of net available borrowings
1	2	3	4	5	6 (2-3-4-5)
2015-16	621.10	1286.44	1993.25	-7.50	NA
2016-17	1015.27	586.77	1544.01	-6.54	NA
2017-18	1767.27	432.24	3188.10	0.61	NA
2018-19	1204.97	279.76	5727.43	-15.08	NA

Year	Total Borrowings	Repayment of earlier borrowings (Principal)	Net Capital Expenditure	Net Loans and Advances	Portion of Revenue expenditure met out of net available borrowings
1	2	3	4	5	6 (2-3-4-5)
2019-20	1790.70	353.60	3693.05	-8.99	NA

Source: Finance Accounts of the respective years

It can be seen from the above table that the State Government utilised total borrowings for repayment of earlier principal debt and on Capital Expenditure during the period 2015-20. This indicated sustainable financial position of the State to the extent borrowings were used for funding capital expenditure.

### 2.11 Management 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 (WMAs), Ordinary or Special, from the RBI has been put in place. The operating limit for ordinary WMAs is reckoned as the three-year average of Revenue Receipts and the operative limit for special WMAs is fixed by RBI from time to time 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 a minimum daily balance of ₹ 26.00 lakh with RBI. If the balance falls below the agreed minimum, the Government can take ordinary WMAs from the RBI, in addition, special WMAs are made available against GoI securities held by the State Government.

The State Government availed WMAs amounting to ₹ 38.88 crore during the current year and repaid the same during the year.

The Cash Balances and Investments made by the State Government out of Cash Balances during 2019-20 are shown in **Table 2.38**.

**Table 2.38: Cash Balances and Investment of Cash Balances**

(₹ in crore)

Particulars	Opening balance on 01 April 2019	Closing balance on 31 March 2020
A. General Cash Balance		
Cash in treasuries	0.00	0.00
Deposits with Reserve Bank	(-) 316.60	256.96
Deposits with other Banks	0.00	0
Remittances in transit – Local	392.00	0
Total (A)	75.40	256.96
B. Investments held in Cash Balance investment account	3,442.42 <sup>8</sup>	1,416.05
(a) Total (A+B)	3,517.82	1,673.01

<sup>8</sup> Rectification of error during the year 2009-10

## Chapter II: Finances of the State

Particulars	Opening balance on 01 April 2019	Closing balance on 31 March 2020
(b) Other Cash Balances and Investments		
Cash with departmental officers	4.87	(-) 4.93
Permanent advances for contingent expenditure with department officers	0.01	0.01
Investment of earmarked funds	1,028.27	1,345.73
Total (b)	1,033.15	1,340.81
<b>Total (a) + (b)</b>	<b>4,550.97</b>	<b>3,013.82</b>
<b>Interest realised</b>	<b>78.01</b>	<b>59.22</b>

Source: Finance Accounts 2019-20

The decrease in Cash Balances of the State Government from ₹ 4,550.97 crore in 2018-19 to ₹ 3,013.82 crore in 2019-20 indicated that revenue receipts were insufficient to meet the revenue expenditure. There was a difference of ₹ 25.41 crore (Debit) at the end of accounting year 2019-20 between the General Cash Balance as worked out by the Principal Accountant General (₹ 256.96 crore) and as reported by the RBI (₹ 231.55 crore). This difference was mainly due to misclassification of transactions by bank/ treasuries and reconciliation not carried out by the RBI with the Pr. Accountant General Office.

As of 31 March 2020, the State Government invested ₹ 3,442.42 crore in GoI Treasury Bills. The profits derived from such investments are credited as receipts under the head '0049-Interest Receipts'. During 2019-20, Interest of ₹ 59.22 crore was earned on investment of Cash Balances. **Table 2.39** shows the year-wise Cash Balance Investment with interest earned during the last five years.

**Table 2.39: Details of Cash Balance Investment with interest earned during the last five years**

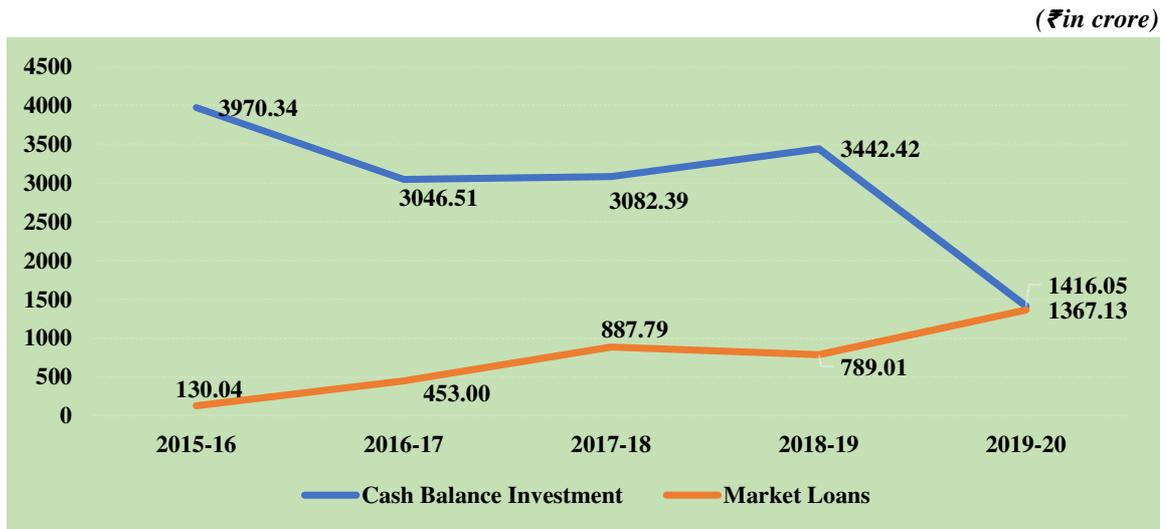
(₹ in crore)				
Year	Opening Balance	Closing Balance	Increase (+) / decrease (-)	Interest earned
2015-16	2,769.31	3,970.34	1,201.03	38.07
2016-17	3,970.34	3,046.51	(-) 923.83	55.43
2017-18	3,046.51	3,082.39	35.88	45.28
2018-19	3,082.39	3,442.42	360.03	78.01
2019-20	3,442.42	1,416.05	(-) 2,026.37	59.22

Source: Finance Accounts of the respective years

The trend analysis of the Cash Balance Investment of the State Government during 2015-20 revealed that investment decreased significantly during 2019-20.

**Chart 2.20** compares the balances available in the Cash Balance Investment Account and the Market Loans taken by the State during the period 2015-20. Market Loans were taken at higher interest rates whereas investment in Treasury Bills yielded interest at lower rates. The Government could have lowered its borrowings considering the availability of cash since it borrowed at an average interest rate of 5.93 per cent whereas average interest received on Cash Balance Investment was only five per cent.

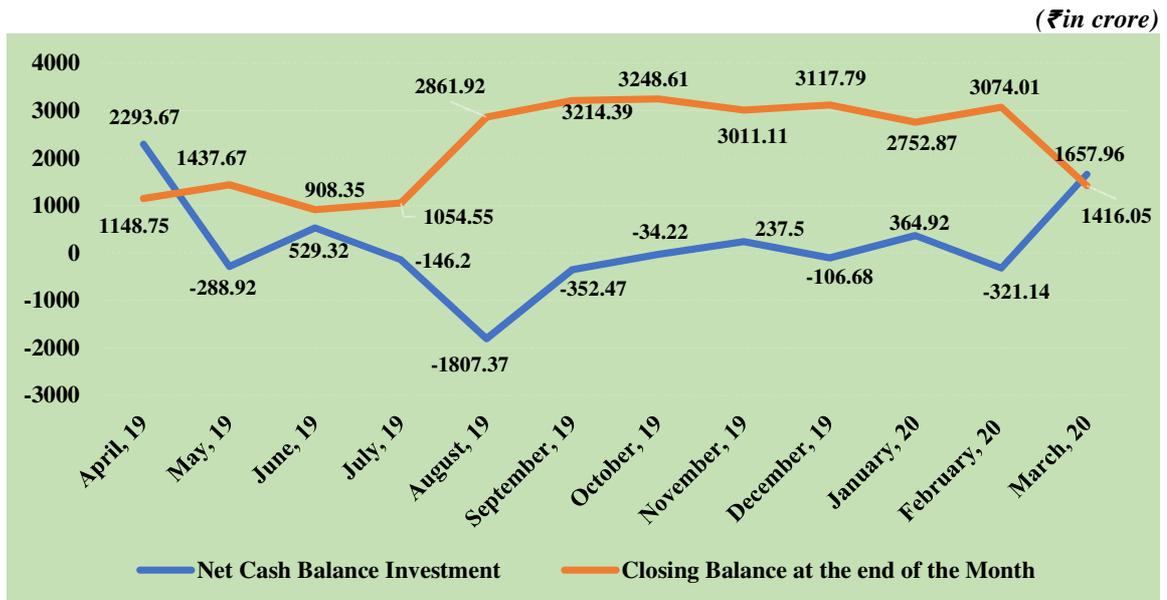
Chart 2.20: Market Loans vis-à-vis Cash Balance Investment



Source: Finance Accounts of the respective years

Chart 2.21 compares the month-wise movement Cash Balances and net Cash Balance Investments during the year.

Chart 2.21: Month-wise movement Cash Balances and Investments



Source: Monthly Civil Accounts 2019-20

### 2.11.1 Issue of cheques by cheque drawing DDOs

Cash management is one of the important function in respect of the effective financial control of the Government. As per the agreement with Reserve Bank of India, the Government had to maintain a minimum balance of ₹ 26.00 lakh with the Reserve Bank every day, so that the monetary transactions of the Government are completed. To ensure maintenance of the minimum balance with the Reserve Bank of India, the Government exercises various controls on the departmental officers having cheque drawing powers with regard to issue of cheques.

Audit scrutiny revealed that the Cheque drawing DDOs of the Works divisions in the State had issued cheques amounting to ₹ 1,909.33 crore in the month of March 2020 without reference to the available cash balance. The cheques issued by the cheque drawing DDOs in the month of March 2020 was highest and constituted 73.00 *per cent* of the total cheques issued by them in the entire year of 2019-20. There was a negative balance of ₹ 321.08 crore in the Cash Balance investment account at the beginning of the March 2020, and the total receipts in the month of March 2020 were ₹ 2,416.69 crore while disbursements excluding these cheques were ₹ 3,008.88 crore. The issue of cheques for huge amounts in the month of March by the cheque drawing DDOs resulted in a situation where a large number of cheques amounting to ₹ 703.23 crore relating to Public Works, Rural Works, Urban Development, Water Resources Department and Public Health Engineering Departments *etc.* remained unpaid at the end of the financial year, but the amount was booked as expenditure in the monthly accounts of Works divisions. Accordingly, the total expenditure in the Consolidated Fund of the State was inflated to that extent.

### 2.12 Conclusion

- Own Tax Revenue (₹ 1228.73 crore) of the State increased by 15.05 *per cent* over the previous year (₹ 1068.04 crore). Non-Tax Revenue (₹ 651.38 crore) of the State increased by 6.98 *per cent* in comparison to the previous year (₹ 608.87 crore).
- During 2019-20, the Central tax transfers decreased by ₹ 1448.57 crore (13.88 *per cent*) over the previous year from ₹ 10436.14 crore to ₹ 8987.57 crore, adversely impacting the total Revenue Receipts of the State during the year.
- Both Revenue and Capital Expenditure decreased by ₹ 210.75 crore (1.70 *per cent*) and ₹ 2,034.38 crore (35.52 *per cent*) respectively over the previous year. Revenue expenditure, which is in the nature of current consumption, accounted for 77 *per cent* of the State's total expenditure during 2019-20, leaving only 23 *per cent* for infrastructure and asset creation.
- Against Budget allocation of Capital Expenditure of ₹ 8006.72 crore, the State could spend 46.12 *per cent* (₹ 3693.05 crore) of the allocation in the Budget. This indicates that State Government did not make sustained efforts to utilise the outlay for creation of capital assets, which would have a bearing on the long term economic growth of the State.
- During 2015-2020, out of ₹ 1322.95 crore recommended by the XIV FC for grants to Local bodies, the State received ₹ 859.28 crore (64.95 *per cent*) leading to a shortfall of ₹ 463.67 crore.
- Though, the State had revenue surplus consistently during the period 2015-16 to 2019-20, the revenue receipts decreased during the current year. Though, the State has done well to augment its tax revenue by expanding its tax base and collecting more from GST, the State's own resources constituted only around 13 *per cent* of the total revenue receipts during 2019-20. This indicated heavy dependence of the State on Government of India funds, which contributed ₹ 13,008.44 crore of the total receipts of ₹ 14,888.55 crore in 2019-20.

- Under National Pension System, against contribution of ₹ 369.88 crore of the State Government employees, the State Government contributed ₹ 220.68 crore only during 2015-20, resulting in a shortfall of ₹ 149.20 crore in the matching share of the State Government. Further, the State Government was yet to transfer to ₹ 136.08 crore to NSDL till the end of 31 March 2020. The State Government has also created avoidable interest liability of ₹ 10.72 crore on funds not transferred to NSDL. The shortfall/ non-contribution of funds are liabilities of the State Government, which need to be discharged promptly.
- During 2019-20, the Government had invested ₹ 250.93 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 5.93 to 7.28 per cent on its borrowings during 2015-20. Out of the six working Government Companies, four companies had accumulated losses of ₹ 29.10 crore and two companies had accumulated profits of ₹ 36.61 crore as per their latest finalised accounts.
- The State did not maintain the details of its investment in capital projects, as well as the status of these projects along with the liabilities likely to arise from delays in completing these projects.
- The Government incurred an expenditure of ₹ 846.98 crore on 101 projects, which remained incomplete and the resources required for completing these works were not made available. Of these, 23 projects in which an expenditure of ₹ 433.74 crore was incurred and remained incomplete, were prior to 2014-15.

### 2.13 Recommendations

- Decrease of Central tax transfers in long term would negatively affect the overall health of State's finances, which would also slowly put pressure on the existing revenue surplus and other key fiscal parameters. Thus, the State Government needs to address these concerns with the appropriate authorities for stable flow of Central transfers for long term.
- The State needs to plan adequately for rolling out its major policy initiatives and ensure that adequate capacities are developed for consumption of capital expenditure for spending allocated funds for creation of durable assets.
- The State Government needs to adhere to the prescribed procedure for accounting for the NPS transactions scrupulously. It should ensure that Government contribution relating to NPS is fully matched with that of the employees' contribution and that the funds are transferred to NSDL in a timely manner to avoid unlimited liability on the State exchequer. This would also provide an assurance to the pensioners about the returns on their investment.
- The Government may review the contributions to the Consolidated Sinking Fund prudentially.

- The Government may consider reviewing the continuance of loss-making companies from the perspective of their public utility, else improve/turnaround their performance for positive financial results.
- The Government needs to maintain an accurate database with regard to the capital invested in projects which are at various stages of completion and incomplete for several years. It may review its commitment to these and liabilities arising out of inordinate delays and take necessary steps to ensure completion of these projects.