



CHAPTER-II
Finances of the State

Chapter 2: 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* 2020-21

Table 2.1 below gives a bird's eye view of the major changes in key fiscal aggregates of the State during 2020-21, compared to the previous year.

Table 2.1: Changes in key fiscal aggregates in 2020-21 compared to 2019-20

Revenue Receipts	<ul style="list-style-type: none"> ✓ Revenue Receipts of the State increased by 15.01 <i>per cent</i> ✓ Own Tax Revenue of the State increased by 16.47 <i>per cent</i> ✓ Own Non-Tax Revenue increased by 28.42 <i>per cent</i> ✓ State's Share of Union Taxes and Duties increased by 16.52 <i>per cent</i> ✓ Grants-in-Aid (GIA) from Government of India (GoI) increased by 9.01 <i>per cent</i>
Revenue Expenditure	<ul style="list-style-type: none"> ✓ Revenue Expenditure increased by 7.11 <i>per cent</i> ✓ Revenue Expenditure on General Services increased by 10.06 <i>per cent</i> ✓ Revenue Expenditure on Social Services increased by 2.43 <i>per cent</i> ✓ Revenue Expenditure on Economic Services increased by 9.20 <i>per cent</i> ✓ Expenditure on GIA increased by 63.91 <i>per cent</i>
Capital Expenditure	<ul style="list-style-type: none"> ✓ Capital Expenditure increased by 38.73 <i>per cent</i> ✓ Capital Expenditure on General Services increased by 13.08 <i>per cent</i> ✓ Capital Expenditure on Social Services decreased by 10.70 <i>per cent</i> ✓ Capital Expenditure on Economic Services increased by 61.54 <i>per cent</i>
Loans and Advances	<ul style="list-style-type: none"> ✓ Disbursement of Loans and Advances decreased by 70.04 <i>per cent</i> ✓ Recoveries of Loans and Advances decreased by 15.50 <i>per cent</i>
Public Debt	<ul style="list-style-type: none"> ✓ Public Debt Receipts decreased by 15.34 <i>per cent</i> ✓ Repayment of Public Debt decreased by 26.61 <i>per cent</i>
Public Account	<ul style="list-style-type: none"> ✓ Public Account Receipts increased by 31.70 <i>per cent</i> ✓ Disbursement of Public Account decreased by 19.68 <i>per cent</i>
Cash Balance	<ul style="list-style-type: none"> ✓ Cash balance increased by ₹375.51 crore (12.46 <i>per cent</i>) during 2020- 21 over the previous year

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 2020-21 with 2019-20.

**Table 2.2: Details of Sources and Application of funds during 2020-21
Compared to 2019-20**

		(₹ in crore)		
Particulars		2019-20	2020-21	Increase/ Decrease
Sources	Opening Cash Balance with RBI	4,550.97	3,013.82	(-)1,537.15
	Revenue Receipts	14,888.55	17,123.51	2,234.96
	Recoveries of Loans and Advances	7.03	5.94	(-)1.09
	Public Debt Receipts (Net)	1,437.10	1,256.57	(-)180.53
	Public Account Receipts (Net)	(-)1,942.03	205.14	2,147.17
	Total	18,941.62	21,604.98	2,663.36
Application	Revenue Expenditure	12,218.73	13,087.50	868.77
	Capital Expenditure	3,693.05	5,123.35	1,430.30
	Disbursement of Loans and Advances	16.02	4.80	(-)11.22
	Closing Cash Balance with RBI	3,013.82	3,389.33	375.51
	Total	18,941.62	21,604.98	2,663.36

Source: Finance Accounts of the respective years

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 2020-21 *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	2019-20	2020-21	Disbursements	2019-20	2020-21
Section – A: Revenue					
Revenue Receipts	14,888.55	17,123.51	Revenue Expenditure	12,218.73	13,087.50
Tax Revenue	1,228.73	1,431.10	General Services	3,831.05	4,216.56
Non-Tax Revenue	651.38	836.53	Social Services	4,256.22	4,359.45
Share of Union Taxes and Duties	8,987.57	10,472.58	Economic Services	4,131.46	4,511.49
GIA from GoI	4,020.87	4,383.30			
Section – B: Capital					
Misc. Capital Receipts	NIL	NIL	Capital Expenditure	3,693.05	5,123.35
Recoveries of Loans and Advances	7.03	5.94	Loans and Advances Disbursed	16.02	4.80
Public Debt Receipts	1,790.70	1,516.06	Repayment of Public Debt	353.60	259.49
Public Account Receipts	3,434.93	4,523.68	Public Account Disbursements	5,376.96	4,318.54

Receipts	2019-20	2020-21	Disbursements	2019-20	2020-21
Opening Balance	4,550.97	3,013.82	Closing Balance	3,013.82	3,389.33
Total	24,672.18	26,183.01	Total	24,672.18	26,183.01

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

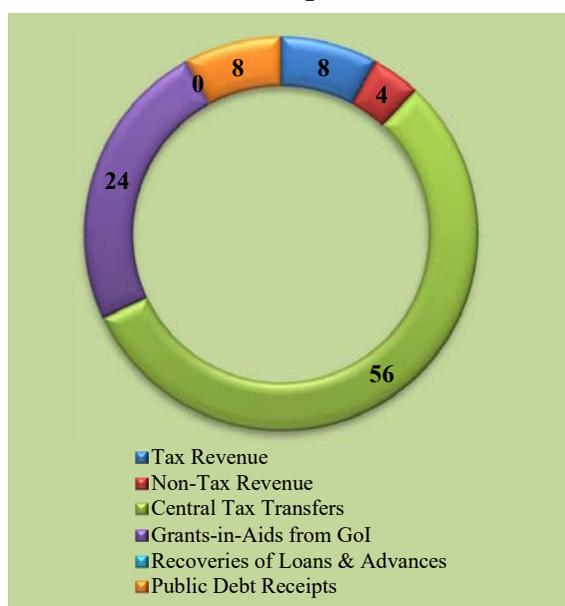
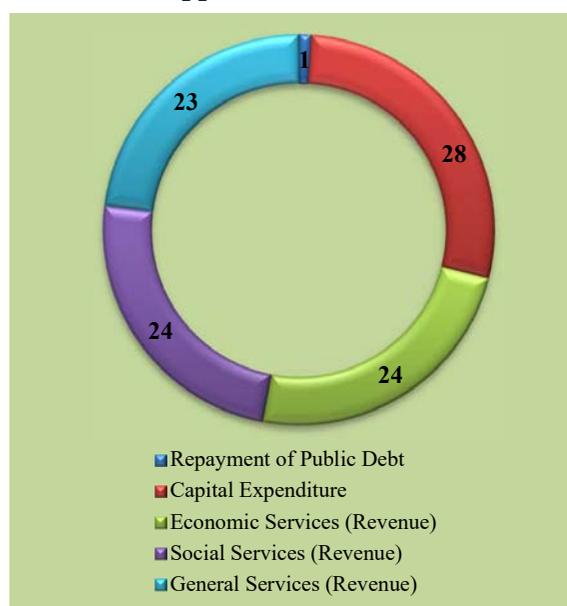


Chart 2.2: Application of Resources



Source: Finance Accounts 2020-21

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 2020-21 over the previous year are:

- Revenue Receipts increased by ₹2,234.96 crore (15.01 per cent) over the previous year. The GoI funds constitute more than 86.76 per cent of the total resources of the State. The increase in Revenue Receipts was mainly due to substantial increase in Own Tax Revenue and receipts from GoI both under share of Central taxes and GIA. There has been a significant increase both in the share of central taxes by ₹1,485.01 crore (16.52 per cent) and GIA from GoI by ₹362.42 crore (9.01 per cent). The Own Tax Revenue increased by ₹202.37 crore (16.47 per cent) during the year. The increase in State share of Union taxes and duties can be attributed to increase in net proceeds of Central Goods and Services Tax (CGST) and Taxes on income other than Corporation Tax assigned to states. The increase in GIA was due to increase in allocation to Rural Local Bodies and State Disaster Response Mitigation Fund (SDRM).
- During 2020-21, the State's Own Resources (Own Tax plus Non-tax Revenue) increased by ₹387.52 crore (20.61 per cent), over the previous year. The increase in State's Own Resources was mainly due to more collection of Public works (124.00 per cent), State Excise (64.00 per cent), Taxes on income other than Corporation Tax (34.00 per cent), Value Added Tax (VAT) and Stamp and Registration Fees (29.00 per cent), Central Goods and Services Tax (24.00 per cent) and State Goods and Services Tax (7.00 per cent).

- Although there is a growth in the State's Own Resources, the State continues to be heavily dependent on Central transfers (86.76 per cent), as the State's own resources contributed merely 13.24 per cent of Revenue Receipts during 2020-21.
- Revenue Expenditure increased by ₹868.77 crore (7.11 per cent) over the previous year. The Revenue Expenditure of the State was ₹13,087.50 crore as against the projection of ₹10,735.00 crore made in the XV FC Report and against the projection of ₹14,207.60 crore made in the Medium Term Fiscal Plan (MTFP) during 2020-21. Thus, this expenditure was ₹2,352.50 crore (21.91 per cent) more than the assessment of the XV FC for the year 2020-21 but ₹1,120.10 crore (7.88 per cent) less than MTFP estimate.
- There has been a significant increase in the Capital Expenditure by ₹1,430.30 crore (38.73 per cent) over the previous year. The increase in Capital Expenditure was mainly due to a significant increase in the Capital Expenditure on Animal Husbandry (745.00 per cent), Civil Aviation (431.00 per cent), Other Rural Development Programmes (347.00 per cent), Crop Husbandry (145.00 per cent), North Eastern Areas (96.00 per cent), Roads and Bridges (70.00 per cent) and Irrigation and Flood Control (28.00 per cent). However, the actual Capital Expenditure fell short of the amount estimated in the budget by ₹1,996.39 crore (28.04 per cent).
- Public Account Receipts increased by ₹1,088.75 crore (31.70 per cent) and Public Account disbursements decreased by ₹1,058.42 crore (19.68 per cent) over the previous year.
- The total inflow³ in respect of all funds was ₹23,169.19 crore against ₹20,121.21 crore during previous year, while the total outflow⁴ was ₹22,793.68 crore against ₹21,658.36 crore during the previous year. The outflow exceeding the inflow was met from the cash balance.
- There was decrease in cash balances by ₹375.51 crore (12.46 per cent) over the previous year. This was mainly due to increase in cash balance investment account and investment of Earmarked Funds.

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 For 2019-20, Gross Receipts ₹24,672.18 crore *minus* Opening Balance of ₹4,550.97 crore
For 2020-21, Gross Receipts ₹26,183.01 crore *minus* Opening Balance of ₹3,013.82 crore

⁴ For 2019-20, Gross Disbursements ₹24,672.18 crore *minus* Closing Balance of ₹3,013.82 crore
For 2019-20, Gross Disbursements ₹26,183.01 crore *minus* Closing Balance of ₹3,389.33 crore

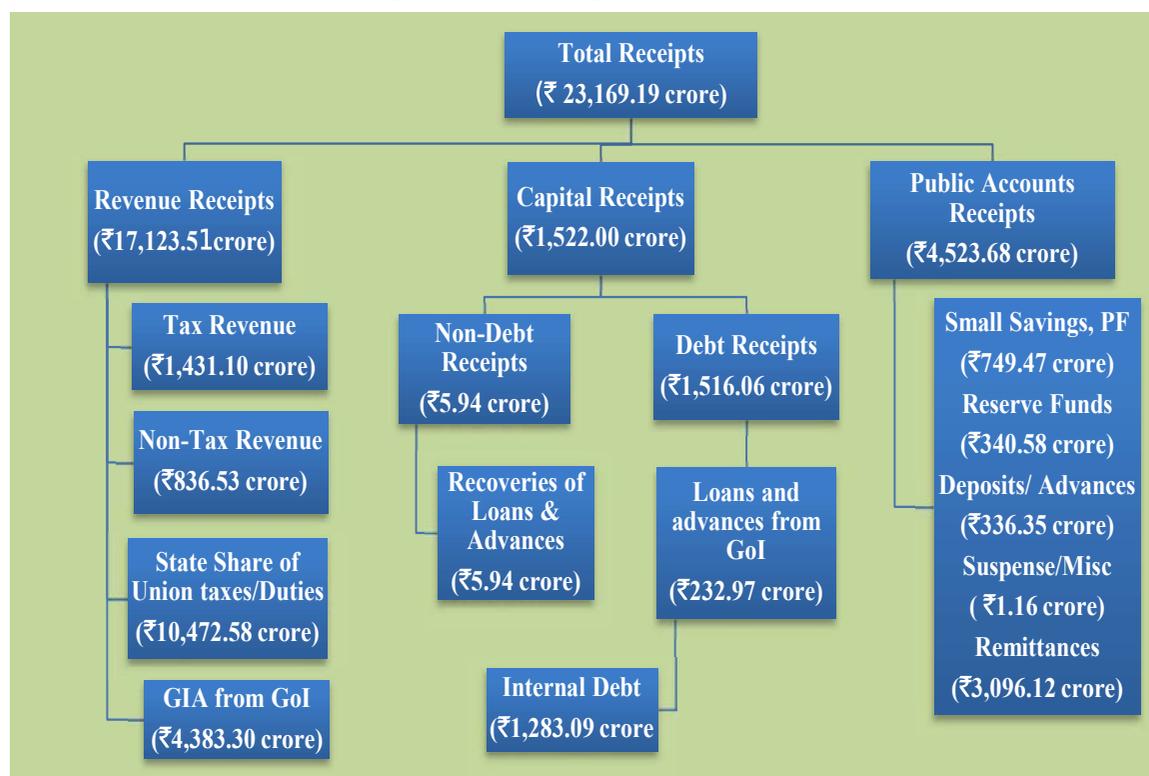
3. **Net Public Accounts Receipts:** These are receipts and disbursements in respect of certain transactions such as Small Savings, Provident Fund, Reserve Funds, Deposits, Suspense, Remittances, *etc.* which do not form part of the Consolidated Fund.

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.

2.5.1 Receipts of the State

Chart 2.3 depicts the various components of the receipts of the State during 2020-21.

Chart 2.3: Composition of receipts of the State during 2020-21



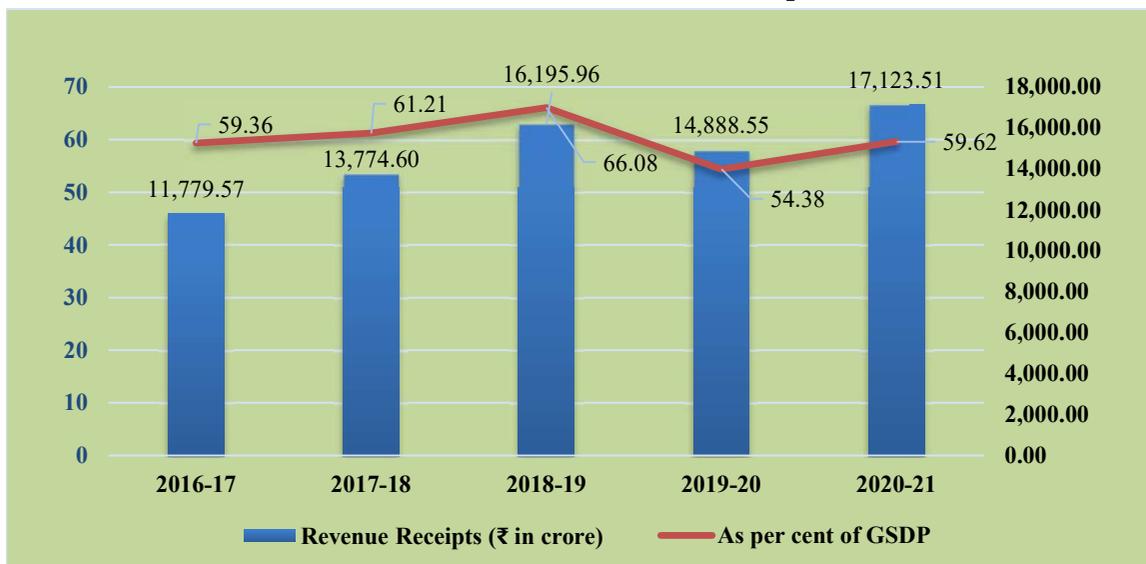
Source: Finance Accounts 2020-21

2.5.2 State's Revenue Receipts

2.5.2.1 Trends and Growth of Revenue Receipts

Statement-14 of the Finance Accounts depicts Revenue Receipts of the Government. Trends and composition of Revenue Receipts over the period 2016-21 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

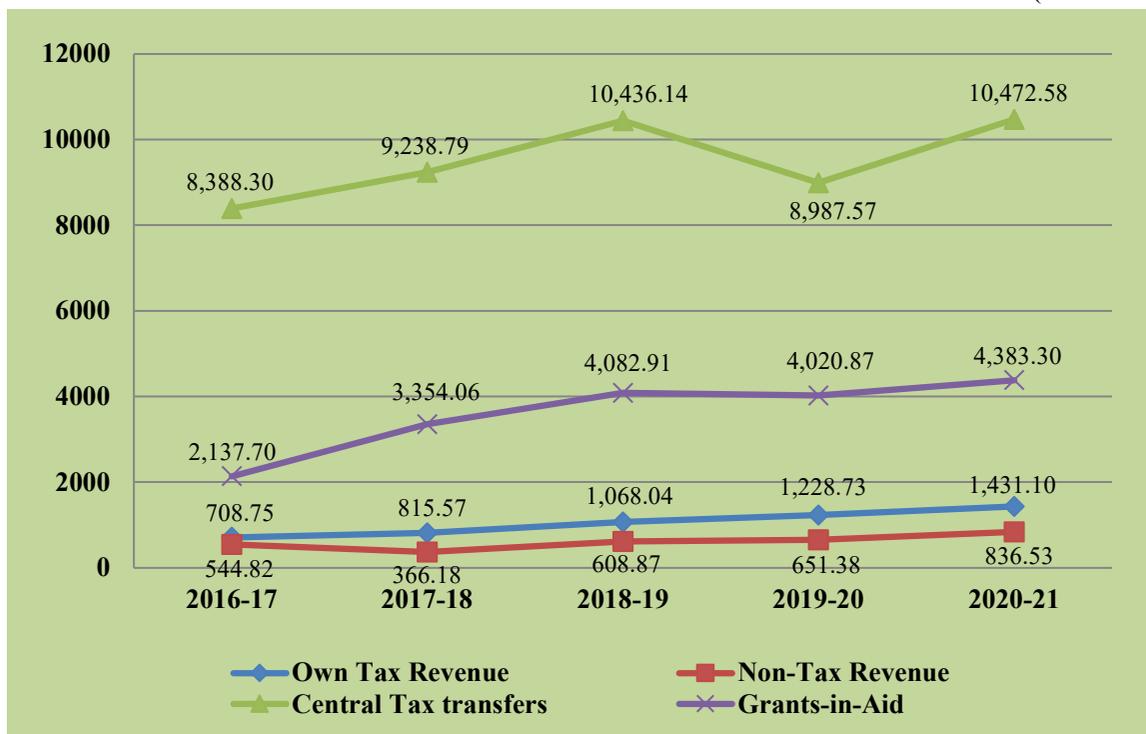


Source: Finance Accounts of the respective years

As can be seen from the **Chart 2.4** the Revenue Receipts as a percentage of GSDP was in range of 54 to 66 per cent during the five-year period. The Revenue Receipts as percentage of GSDP declined in the year 2019-20 to 54.38 per cent from 66.08 per cent in 2018-19. This was mainly due to reduction in Revenue Receipts over previous year. There was increase in Revenue Receipts as percentage of GSDP of the state during 2020-21, mainly due to higher proportion of increase in Revenue Receipts over the previous year compared to percentage increase in GSDP.

Chart 2.5: Composition of Revenue Receipts

(₹ in crore)



Source: Finance Accounts of the respective years

XV FC projected that the State's own revenue resources during 2020-21 would be ₹1,552.00 crore. However, the actual collections during the year was ₹2,267.63 crore indicating that the State achieved its projected own revenue collection.

Revenue Receipts of the State increased by ₹5,343.94 crore (45.37 per cent) from ₹11,779.57 crore in 2016-17 to ₹17,123.51 crore in 2020-21 at a CAGR of 9.80 per cent.

Table 2.4: Trend in Revenue Receipts

Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Receipts (RR) (₹ in crore)	11,779.57	13,774.60	16,195.96	14,888.55	17,123.51
Rate of growth of RR (per cent)	11.62	16.94	17.58	(-)8.07	15.01
Own Tax Revenue	708.75	815.57	1,068.04	1,228.73	1,431.10
Non-Tax Revenue	544.82	366.18	608.87	651.38	836.53
Rate of growth of Own Revenue (Own Tax and Non-tax Revenue) (per cent)	35.20	(-) 5.73	41.90	12.12	20.61
GSDP (₹ in crore) (2011-12 Series)	19,845.64	22,503.33	24,510.84	27,377.06	28,721.36
Rate of growth of GSDP (per cent)	7.22	13.39	8.92	11.69	4.91
RR/ GSDP (per cent)	59.36	61.21	66.08	54.38	59.62
Buoyancy Ratios					
Revenue Buoyancy w.r.t. GSDP	1.61	1.27	1.97	(-)0.69	3.06
State's Own Revenue Buoyancy w.r.t. GSDP	4.88	(-)0.43	4.70	1.04	4.20

Source: Finance Accounts of the respective years, GSDP figures: Directorate of Economics and Statistics

Buoyancy Ratios⁵ 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 increased significantly due to a sizable increase in the rate of growth of Revenue Receipts during 2020-21 over the previous year.

Tax buoyancy indicates the measure of efficiency or responsiveness in tax collection in response to the 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 during 2020-21 was 4.20 per cent. Buoyancy Ratio of the State's own Revenue during 2018-19 was 4.70 per cent but fell sharply to 1.04 per cent during 2019-20. Buoyancy Ratio of the State's own Revenue increased during 2020-21 over the previous year. This was mainly because of the increased growth rate of State's Own Revenue and decreased in growth rate of GSDP in current year when compared with the previous year. The CAGR of the Revenue Receipts of the State (15.01 per cent) was higher than the CAGR of the NE&H States (6.95 per cent). The decadal CAGR of the State was 11.70 per cent.

⁵ To cite an example the Buoyancy ratio of Revenue Receipts with GSDP of more than one indicates that the growth rate of Revenue Receipts would be much higher than the growth rate of the GSDP

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 Finance Commission (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 2020-21 *vis-à-vis* assessment made by XV FC and BEs are given in **Table 2.5**.

Table 2.5: Tax and Non-Tax Receipts

(₹ in crore)

Particulars	XV FC projections	Budget Estimates	Actual	Percentage variation of actual over	
				Budget estimates	XV FC projections
Own Tax revenue	1,262.00	806.00	1,431.10	77.56	13.40
Non-tax revenue	291.00	600.00	836.53	39.42	187.47

Source: Recommendations of XV FC Report, Annual Financial Statement and Finance Accounts, 2020- 21

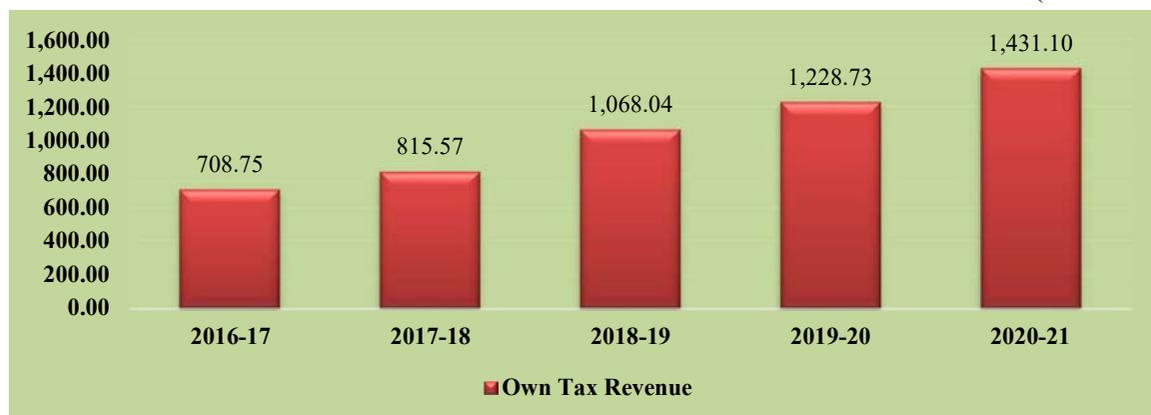
The State collected higher Tax Revenue compared to the budgeted amount, with broad-based increases in almost all tax components. The sharp growth in the GST collections in the State could be one of the reasons for higher collection of own tax revenues. Own Tax Revenue was 13.40 *per cent* higher than the projections made by XV FC and 77.56 *per cent* higher than the assessment made in BE for the year 2020-21. Collection of Non-Tax Revenue during 2020-21 was 187.47 *per cent* higher than the projections made by the XV FC and 39.42 *per cent* higher than the assessments made in the BE.

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 2016-21 are presented in **Chart 2.6** and **Table 2.6**.

Chart 2.6: Growth of Own Tax Revenue during 2016-21

(₹ in crore)



Source: Finance Accounts of the respective years

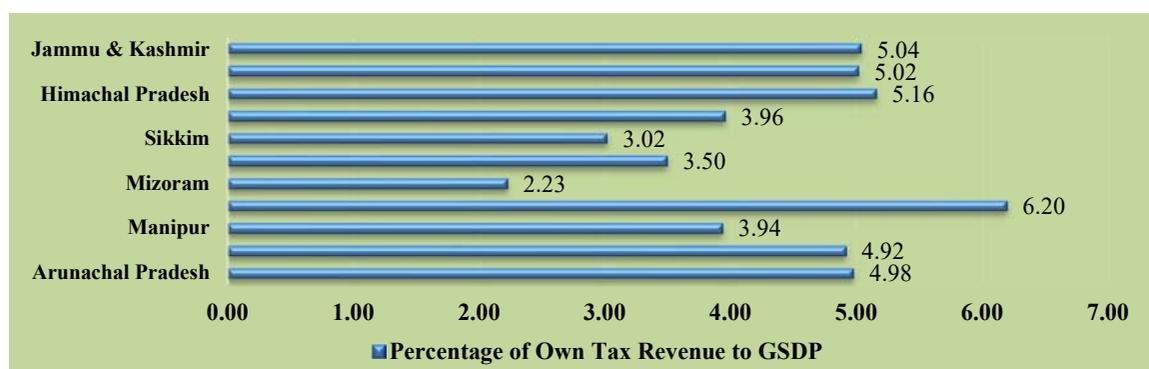
Table 2.6: Components of State's Own Tax Revenue

Particulars	2016-17					2017-18					2018-19					2019-20					2020-21					Sparklines
	2016-17	2017-18	2018-19	2019-20	2020-21	2016-17	2017-18	2018-19	2019-20	2020-21	2016-17	2017-18	2018-19	2019-20	2020-21	2016-17	2017-18	2018-19	2019-20	2020-21	2016-17	2017-18	2018-19	2019-20	2020-21	
Goods and Service Tax	-	223.73	601.00	801.55	859.29																					
Taxes on Sales, Trade, etc.	282.54	285.13	268.74	219.82	283.09																					
State Excise	109.05	122.61	136.73	144.97	238.02																					
Taxes on Vehicles	24.47	31.40	32.43	38.12	32.70																					
Stamps & Registration Fees	5.08	10.42	9.16	8.14	10.45																					
Land Revenue	6.44	13.32	14.58	15.97	7.52																					
Taxes on Goods & Passengers	281.17	128.96	5.40	0.16	0.00																					
Total	708.75	815.57	1,068.04	1,228.73	1,431.10																					

Source: Finance Accounts of the respective years

During the five-year period from 2016-17 to 2020-21, the Tax Revenue increased by 101.92 per cent, i.e., from ₹708.75 crore in 2016-17 to ₹1,431.10 crore in 2020-21. The CAGR of the Own Tax Revenue for 2016-17 to 2020-21 for the State stood at 19.20 per cent and decadal CAGR of the State was 16.22 per cent. The CAGR of Own Tax Revenue during the period 2019-20 to 2020-21 was 16.47 per cent. This was higher than the CAGR of NE&H States (2.97 per cent).

The collections from Taxes on Goods and Passengers was nil during the year 2020-21 as it got subsumed in GST from July 2017. The collections under Stamps and Registration increased by ₹5.37 crore (105.71 per cent) from ₹5.08 crore in 2016-17 to ₹10.45 crore in 2020-21. The reduction in collections in Taxes on Sales and Trade from 2017-18 to 2019-20 was as a result of the introduction of GST due to which the Value Added Tax (VAT) on other products except liquor and petroleum products got subsumed in GST. However, during the current year, there was increase in collections of Taxes on Sales and Trade by ₹63.27 crore (28.78 per cent) over the previous year due to increase in cess on liquor. State's Own Tax Revenue of ₹1,431.10 crore at 4.98 per cent of GSDP, was lower than Himachal Pradesh, Meghalaya, Uttarakhand and Jammu and Kashmir but higher than the other NE&H States as shown in **Chart 2.7**.

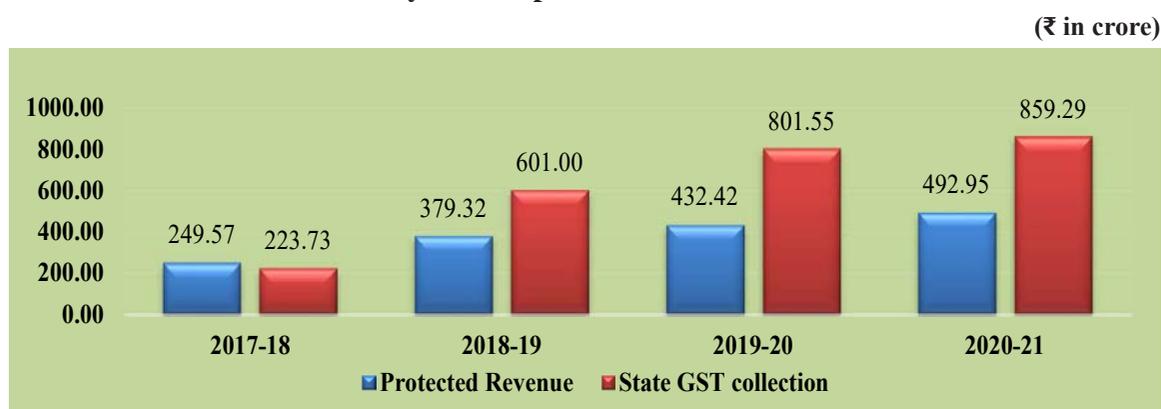
Chart 2.7: Percentage of Own Tax Revenue to GSDP of NE&H States during 2020-21

Source: Finance Accounts of the respective States

2.5.4.1 State Goods and Services Tax (SGST)

As per the GST (Compensation to States) Act, 2017, States will be compensated for the shortfall in revenue arising on account of implementation of the goods and services tax 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 2017-2021. State Goods and Services Tax of the State increased by ₹635.56 crore (45.37 *per cent*) from ₹223.73 crore in 2017-18 to ₹859.29 crore in 2020-21. During the current year, GST increased by ₹57.74 crore over the previous year. This increase was due to increase in collections of Tax (₹34.11 crore), Interest (₹4.45 crore) and Input Tax Credit of SGST and Integrated Goods and Services Tax (₹6.21 crore).

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 three financial years. As such, the State was not eligible for compensation. However, State had received the GST compensation of ₹5.69 crore for loss of revenue for the month of April and May on account of implementation of Goods and Service Tax during 2020-21.

With automation of the collection of Goods and Service Tax (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 of the GST receipts. The accounts for the year 2020-21 are, therefore, not certified as of December 2021.

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 details. However, many district level officers could not furnish details. The arrears of revenue as on 31 March 2021 in respect of the Tax and Excise Department, furnished by 15 Superintendents of Tax & Excise out of 26 Superintendents of Tax and Excise, amounted to ₹67.27 crore of which ₹65.80 crore was outstanding for more than five years, as detailed in the **Table 2.7**

Table 2.7: Details of outstanding revenue

(₹ in crore)

Head of Revenue	Amount outstanding as on 01 April 2020	Collection of arrears of revenue during 2020-21	Total amount outstanding as on 31 March 2021	Amount outstanding for more than five years as on 31 March 2021
0040	60.96	0.00	60.96	59.43
0039	6.31	0.00	6.31	6.31
Total	67.27	0.00	67.27	65.80

Source: Data furnished by the State Government

The department has intimated that notices have already been issued to the defaulter's Dealers/ DDOs to deposit the outstanding revenue. The fact remains that recovery of ₹65.80 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 time limit for such recovery.

2.5.5 Non-Tax Revenue

Non-Tax revenue consists of interest receipts, dividends and profits, mining receipts, departmental receipts, etc. **Table 2.8** shows the trends and composition of Non-Tax Revenue during the period 2016-21.

Table 2.8: Components of State's Own Non-Tax Revenue

(₹ in crore)

Revenue Head	2016-17	2017-18	2018-19	2019-20	2020-21	Sparkline
Interest Receipts	56.39	46.98	88.01	62.49	34.12	
Dividends and Profits	-	-	-	-	-	-
Other non-tax receipts	488.43	319.20	520.86	588.88	802.41	
a) Minor Irrigation	4.60	0.12	0.19	0.33	0.37	
b) Road Transport	0.09	18.37	17.60	18.51	10.01	
c) Urban Development	3.65	3.96	3.84	3.96	4.24	
d) Education	4.60	4.57	3.58	6.48	6.55	
e) Non-ferrous mining	61.01	48.81	56.30	72.04	83.00	
f) other or misc.	414.48	243.37	439.35	487.56	698.24	
Total	544.82	366.18	608.87	651.37	836.53	

Source: Finance Accounts of the respective years

During 2020-21, Non-Tax Revenue increased by ₹185.16 crore (28.43 per cent) over the previous year and constituted 4.89 per cent of the Revenue Receipts. The increase in Non-tax Revenue was mainly due to an increase in revenue collection on Family Welfare (3,478.00 per cent), Public Service Commission (1,536.00 per cent), Other Administrative Services (183.00 per cent), Crop Husbandry (155.00 per cent), Miscellaneous General Services (151.00 per cent), Co-operation (78.00 per cent), Contribution and Recoveries towards Pension and Other Retirement Benefits (75.00 per cent), Public Works (59.00 per cent) and Forestry and Wild Life (33.00 per cent). During 2020-21, Economic Services contributed ₹364.00 crore (43.51 per cent) of Non-Tax Revenue, and within this category, receipts under Power Sector accounted for ₹243.28 crore (66.83 per cent).

The CAGR of Non-Tax Revenue of the State from 2019-20 to 2020-21 was 19.20 per cent while the CAGR of the NE&H States for the same period was (-)14.64 per cent.

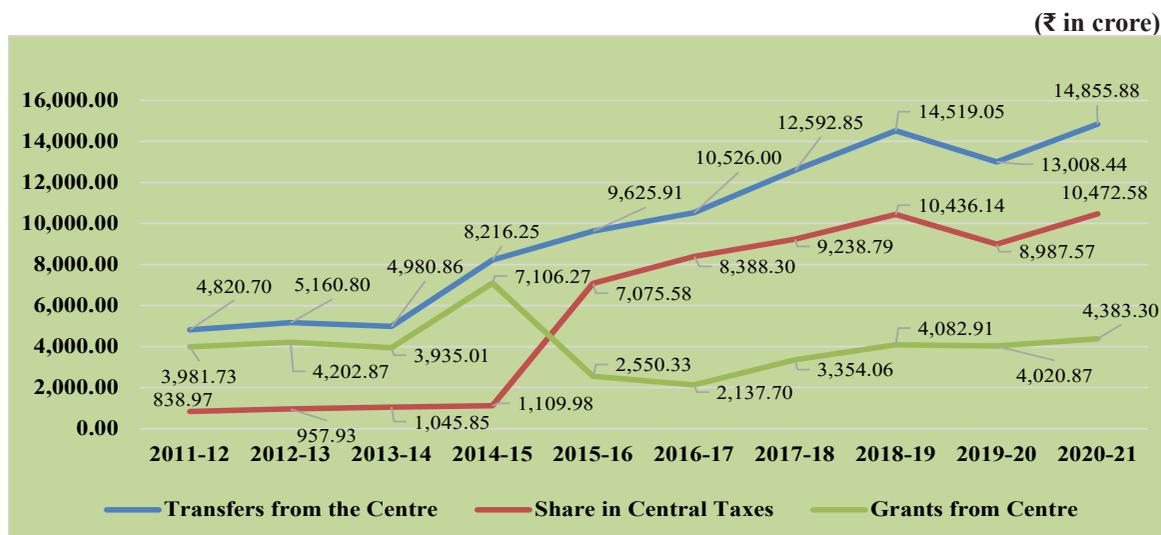
2.5.6 Transfers from the Centre

The Finance Commissions (FCs) have been recommending transfers under two important heads, namely tax devolutions and GIA, for corresponding five-year periods. First, they recommend tax devolutions which are general purpose transfer without being earmarked for expenditure in any specific area and these devolutions are specified as a percentage of shareable tax revenue. Second, the FCs state the principles governing GIA and recommend amount of specific purpose grants.

As per the recommendation of XV FC for the period 2020-21, the vertical share of net proceeds of the central taxes to all the States combined decreased from 42 to 41 per cent. Further, there was change in inter se share of taxes to States due to change in the criteria. According to the new criteria, share of Arunachal Pradesh in the GoI taxes increased from 1.370 per cent during the XIV FC period to 1.760 per cent during the award period of XV FC. Thus, the State Government is now getting access to more untied funds compared to the period of XIV FC.

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

Chart 2.9: Central transfers during 2011-12 to 2020-21



Source: Finance Accounts of the respective years

The actual GIA received from GoI during the current year was ₹4,383.30 crore as against ₹2,137.70 crore in 2016-17; similarly, the share of central taxes from the GoI during the current year was ₹10,472.58 crore as against ₹7,075.58 crore in 2016-17. The GIA and the State's share of central taxes increased by ₹362.43 crore and ₹1,485.01 crore respectively during the current year over the previous year. Net proceeds of the share of GIA and shareable central taxes, constituted 89.36 *per cent* of the total Revenue Receipts for the State in the year 2016-17, which was reduced to 86.75 *per cent* in 2020-21.

During the period from 2016-17 to 2020-21, the trend of increase in the overall receipts from GoI (Tax devolution *plus* GIA) had reversed for the first time in 2019-20 with a shortfall of ₹1,510.61 crore when compared to the 2018-19. The overall receipts from GoI increased by ₹1,847.44 crore from ₹13,008.44 crore in 2019-20 to ₹14,855.88 crore in 2020-21. The increase in the receipts from the GoI had a positive impact on the Capital Expenditure of the State which is meant for creation of infrastructure in the State, as State is heavily dependent on transfer from the GoI.

The projections made by the FC in respect of the Revenues of the GoI and also the divisible pool of taxes were more optimistic than the actual collections. The details of the projections made and actual devolution are shown in **Table 2.9**.

Table 2.9: State's share in Union taxes and duties: Actual devolution *vis-à-vis* FC projections
(₹ in crore)

Year		Projections by FC	Actual tax devolution	Difference
2016-17	1.370 <i>per cent</i> of net proceeds of all shareable taxes excluding service tax and 1.431 <i>per cent</i> of net proceeds of sharable service tax recommended by XIV FC	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
2020-21	1.760 <i>per cent</i> of net proceeds of all sharable taxes recommended by XV FC for the 2020-21	15,051.10	10,472.58	4,578.52

Source: XV FC report and Finance Accounts of the respective years.

As can be seen from the **Table 2.9** above, the actual devolution of GoI taxes to the state fell short of the projections made by the XV FC for the year 2020-21, which resulted in reduced Revenue Receipts by 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 is meant for creation of infrastructure. The actual devolution of funds during year was ₹10,472.58 crore as against the ₹ 15,051.10 crore projection made by the FC for the year 2020-21.

Table 2.10 presents the composition of Central Tax Transfers over the period 2016-21:

Table 2.10: Details of Central Tax Transfers

Head	2016-17	2017-18	2018-19	2019-20	2020-21
Central Goods and Services Tax (CGST)	-	127.92	2,575.12	2,550.31	3,152.15
Integrated Goods and Services Tax (IGST)	-	931.56	205.50	0.00	0.00
Corporation Tax	2,677.52	2,825.84	3,628.32	3,064.45	3,130.39
Taxes on Income other than Corporation Tax	1,860.88	2,386.20	2,672.11	2,401.21	3,205.59

Head	2016-17	2017-18	2018-19	2019-20	2020-21
Customs	1,151.76	931.30	739.56	569.70	582.90
Union Excise Duties	1,315.22	973.50	491.48	396.08	355.91
Service Tax	1,376.76	1,062.55	98.42	0.00	39.53
Other Taxes	6.16	(-)0.08	25.63	5.82	6.11
Central Tax transfers	8,388.30	9,238.79	10,436.14	8,987.57	10,472.58
Growth rate over previous year	18.55	10.14	12.96	(-)13.88	16.52
Percentage of Central tax transfers to Revenue Receipts	71.21	67.07	64.44	60.37	61.16

Source: Finance Accounts of the respective years

The share of Union taxes received during 2020-21 was ₹10,472.58 crore, an increase of ₹1,485.01 crore (16.52 per cent) over the previous year. In all components except union excise duties of the GoI taxes, the actual receipts were more than the amounts received in the previous year. Two main components of the State's share of Union taxes that increased were Corporation Tax (which increased by ₹65.94 crore) and Taxes on Income other than Corporation Tax (which increased by ₹804.38 crore). While the decadal CAGR of Central Tax transfer (2011-12 to 2020-21) was 30.15 per cent. The CAGR from 2019-20 to 2020-21 was 16.52 per cent, which was higher than the CAGR of NE&H States from 2019-20 to 2020-21 (-8.60 per cent).

2.5.7 Grants-in-Aid from GoI

Details of GIA from GoI are given in **Table 2.11**.

Table 2.11: GIA from the GoI

Particulars	(₹ in crore)				
	2016-17	2017-18	2018-19	2019-20	2020-21
Non-Plan Grants	228.69	-	-	-	-
Grants for State Plan Schemes	1,633.22	-	-	-	-
Grants for Central Plan Schemes	17.73	-	-	-	-
Grants for Centrally Sponsored Schemes	187.99	-	-	-	-
Grants for Special Plan Schemes	70.07	-	-	-	-
Centrally Sponsored Schemes	-	2,511.35	3,056.16	3,193.17	2877.45
FC Grants	-	140.17	124.57	380.98	782.05
Other Grants to State	-	702.54	902.18	446.72	723.80
Total	2,137.70	3,354.06	4,082.91	4,020.87	4,383.30
Percentage of Increase (+)/ Decrease (-) over previous year	(-)16.18	(+)56.90	(+)21.73	(-)1.52	(+)9.01
Total Grants as a percentage of Revenue Receipts	18.15	24.35	25.21	27.01	25.60

Source: Finance Accounts of the respective years

During the current year, GIA from GoI increased by ₹362.43 crore (9.01 per cent) over the previous year. The increase was mainly due to more allotment of Other Grants to State (₹277.08 crore) and FC Grants (₹401.07 crore). The State Government estimated the GIA from GoI at ₹4,877.00 crore in the budget estimates for the year 2020-21 and the same was revised with a substantial increase of ₹3,265.36 crore taking the Revised Estimates to ₹8,142.36 crore. Against the estimates, the GoI released ₹4,383.30 crore during the

year as GIA. The quarter-wise flow of funds from GoI which has a bearing on the cash management of the state and smooth implementation of various schemes is indicated in the **Table 2.12**.

Table 2.12: Details of fund flow from GoI

Particulars	(₹ in crore)				
	Fund received during April-December	Percentage of Fund received during April-December	Fund received during January- March	Percentage of Fund received during January- March	Total Fund Received
Share of Central Taxes	6,540.89	62.46	3,931.69	37.54	10,472.58
GIA for GoI	2,655.29	60.58	1,728.01	39.42	4,383.30
Total	9,196.18	--	5,659.70	--	14,855.88

Source: Monthly Civil Accounts 2020-21

2.5.7.1 Utilisation of Funds under Centrally Sponsored Schemes

A Sub-Group of Chief Ministers on Rationalisation of Centrally Sponsored Schemes (CSSs) was set up (March 2015) in pursuance of the decision 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 33 umbrella schemes, of which six schemes were categorised as “Core of the Core schemes”, while 26 schemes were categorised as “Core schemes” and the balance scheme was 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. For Core schemes, the funding pattern for the NE&H States was fixed at 90:10 while for other States the funding pattern was 60:40. For the optional schemes the funding pattern for NE&H States was fixed at 80:20 while for other States it was 50:50. Thus, for special category States⁶ 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.

It was verified in audit whether the funds released by the GoI for different categories of the schemes were actually spent by the State along with State’s share for the purpose for which those funds were released. It was observed that the State incurred more expenditure than released by GoI. Excess expenditure incurred during the year was mainly due to unspent

⁶ **In the year 1969, the Fifth Finance Commission** (Chairman Shri Mahavir Tyagi) had given status of Special Category States to three States (Jammu & Kashmir, Assam and Nagaland) **on the basis of Gadgil Formula**. Later, total **11 states had given Special Category Status**: 1. Assam, 2. Arunachal Pradesh, 3. Manipur, 4. Meghalaya, 5. Mizoram, 6. Nagaland, 7. Sikkim, 8. Tripura, 9. Himachal Pradesh, 10. Jammu & Kashmir and 11. Uttarakhand

balance of previous year. 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 2.13**.

Table 2.13: Details of CSS Schemes, funding pattern, amounts released and expenditure

(₹ in crore)

Types of schemes	No. of schemes	Funding Pattern	Central Share Release	State Share Release	Actual Expenditure
Core of the core Schemes	06	100:00	280.54	11.57	431.49
Core Schemes	26	90:10	2,594.21	420.01	3,432.36
Optional Scheme	01	80:20	2.70	0.45	4.05
Total	33	--	2,877.45	432.03	3,867.90

Source: Information furnished by State Government

2.5.8 Capital Receipts

Details of Capital Receipts during 2016-17 to 2020-21 are given in **Table 2.14**.

Table 2.14: Trends in growth and composition of Capital Receipts

(₹ in crore)

Sources of State's Receipts	2016-17	2017-18	2018-19	2019-20	2020-21
Capital Receipts	1,019.06	1,772.95	1,210.05	1,797.74	1,522.00
<i>Recovery of Loans and Advances</i>	3.79	5.68	5.08	7.03	5.94
Public Debt Receipts	1,015.27	1,767.27	1,204.97	1,790.71	1,516.06
Internal Debt	761.33	1,250.33	1,204.97	1,790.71	1,283.09
<i>Growth rate (per cent)</i>	164.42	64.23	(-)3.63	48.61	(-)28.35
Loans and advances from GoI	0.00	0.00	0.00	0.00	232.97
<i>Growth rate (per cent)</i>	0.00	0.00	0.00	0.00	232.97
<i>Rate of growth of debt Capital Receipts (per cent)</i>	63.46	74.07	(-)31.82	48.61	(-)15.34
<i>Rate of growth of non-debt capital receipts (per cent)</i>	(-)30.84	49.87	(-)10.56	38.39	(-)15.50
<i>Rate of growth of GSDP (per cent)</i>	7.22	13.39	8.92	11.69	4.91
<i>Rate of growth of Capital Receipts (per cent)</i>	62.64	73.98	(-)31.75	48.57	(-)15.34

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 2.14** above, the major source of Capital Receipts for the State is Internal Debt. Although, according to MTFP, the annual Internal Debt of the State shall be limited to only 2.28 per cent of the GSDP of the State, the receipts from Internal Debt for the State were found to be above the MTFP target every year during the last five years. This was due to two reasons. Firstly, it was observed that the State estimated Internal Debt (₹1,675.71 crore in BEs) above the stipulated 2.28 per cent of GSDP at the BE stage. Secondly, since optimistic projections are made for GSDP figures in the Budget estimates, thus, the permissible internal debt of ₹683.45 crore taking a ratio of 2.28 per cent of the GSDP is also inflated. Even at the stage of Revised Estimates, the internal debt (₹2,052.06 crore) was not adjusted to realistic levels.

Capital Receipts estimated in the budget for the year 2020-21 were ₹1,685.71 crore, which was subsequently revised to ₹2,062.06 crore. The budget assumed net Public Debt Receipts at ₹1,141.32 crore, indicating over estimation of these receipts as the Government was entitled to borrow only 2.28 per cent of the GSDP, i.e., ₹766.56 crore. However,

the actual Capital Receipts during the year were ₹1,522.00 crore, of which Internal Debt Receipts were ₹1,283.09 crore constituting 4.47 *per cent* of GSDP which is far more than the admissible limit of 2.28 *per cent*.

It was observed that the Government has been opting increasingly for the Market Borrowings year after year as the share of Market Borrowings in Internal Debt has been increasing in four years out of five. 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 (₹767.81 crore during 2020-21 against ₹1,367.13 crore during 2019-20), Loans from Financial Institutions (₹251.71 crore during 2020-21 against ₹247.19 crore during 2019-20) and Special Securities issued to National Small Savings Fund (₹263.57 crore during 2020-21 against ₹176.38 crore during 2019-20). State Government received ₹232.97 crore loans from GoI during the year.

2.6 Application of Resources

Analysis of allocation of expenditure at the State Government level assumes significance since the State Government has major socio-economic responsibilities. While within the framework of fiscal responsibility legislations, there are budgetary constraints on raising finance by deficit or borrowings; at the same time, it is important to ensure that the ongoing fiscal correction and consolidation process at the 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 presents trend in Total Expenditure and its composition over five years (2016-17 to 2020-21).

Table 2.15: Total Expenditure and its Composition

Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
Total Expenditure (TE)	10,948.88	14,093.64	18,177.07	15,927.80	18,215.65
Revenue Expenditure (RE)	9,394.54	10,900.47	12,429.48	12,218.73	13,087.50
Capital Expenditure (CE)	1,544.01	3,188.10	5,727.43	3,693.05	5,123.35
Loans and Advances	10.33	5.07	20.16	16.02	4.80
GSDP	19,845.64	22,503.33	24,510.84	27,377.06	28,721.36
As a percentage of GSDP					
TE/ GSDP	55.17	62.63	74.16	58.18	63.42
RE/ GSDP	47.34	48.44	50.71	44.63	45.57
CE/ GSDP	7.78	14.17	23.37	13.49	17.84
Loans and Advances/ GSDP	0.05	0.02	0.08	0.06	0.02

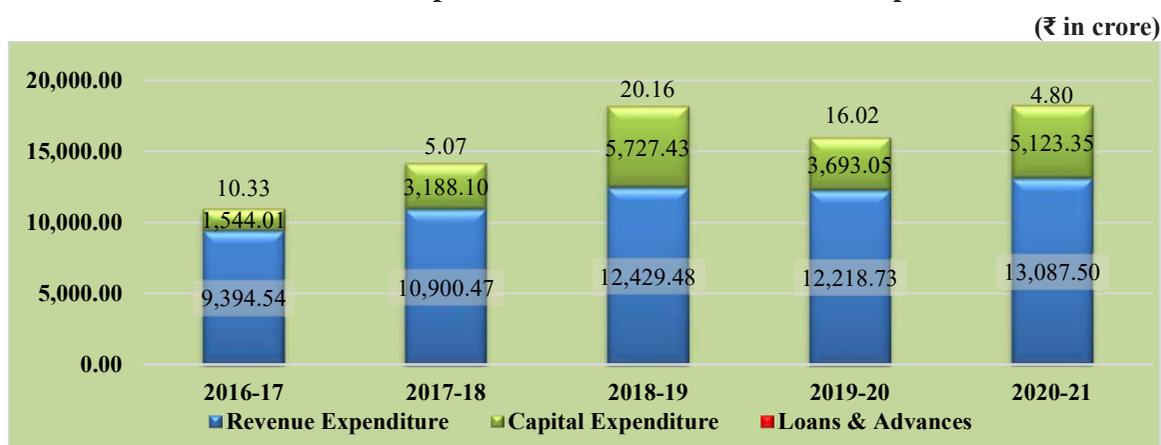
Source: Finance Accounts of the respective years

Total Expenditure (TE) showed an increasing trend during the five years period 2016-21, except for the year 2019-20, where TE was reduced over the previous year 2018-19. The TE increased by ₹2,287.85 crore (14.36 *per cent*) during the year 2020-21 over the previous year. The increase in Total Expenditure during the year 2020-21 was mainly

due to increase in Capital Expenditure during the year. The CAGR of Total Expenditure during 2016-21 was 13.57 per cent which was lower than Sikkim and higher than other NE&H States.

The composition of expenditure has been skewed towards Revenue Expenditure with Capital Expenditure being 14 to 32 per cent of total expenditure in various years. Higher proportion of Capital Expenditure to total expenditure is desirable as it is directed towards creation of long-term assets. Capital Expenditure as a ratio of Total Expenditure was a mere 14.10 per cent in 2016-17. It increased steadily to 31.51 per cent by 2018-19. However, it experienced a dip to 23.19 per cent in 2019-20 before increasing again to 28.13 per cent in 2020-21.

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 ₹7,266.77 crore (66.37 per cent), i.e., from ₹10,948.88 crore in 2016-17 to ₹18,215.65 crore in 2020-21. The TE as a percentage of GSDP, was 55.17 per cent in 2016-17 and reached 74.16 per cent in 2018-19. There was increase in TE as percentage of GSDP during 2020-21 over the previous year. This increase was mainly due to increase in the Capital Expenditure as a percentage of GSDP during the year over the previous year.

The CAGR of TE (13.57 per cent) is much higher than the CAGR of the Revenue Receipts of the State (9.80 per cent) during 2016-17 to 2020-21, indicating that the increase of the expenditure was faster than the receipts. This partly contributed to non-achievement of the Revenue Surplus target in the budget. Since the trend of TE increasing at a pace higher than the Revenue Receipts is not sustainable, there is a need to take appropriate corrective action. The CAGR of the TE of the State from 2019-20 to 2020-21 was higher than (14.36 per cent) the CAGR of the TE of the NE&H States (4.04 per cent). The decadal CAGR of the State was 10.48 per cent.

The percentage increase of Capital Expenditure is more than the percentage increase of Revenue Expenditure. While the increase in Revenue Expenditure was 39.31 per cent over 2016-17 to 2020-21, the increase in the Capital Expenditure was 231.82 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 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 Ratio of TE to GSDP of State during 2020-21 was 63.42 *per cent* while the ratio of TE to GSDP of the NE&H States during 2020-21 was 26.92 *per cent*.

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

Parameters	(In per cent)				
	2016-17	2017-18	2018-19	2019-20	2020-21
General Services	26.31	28.59	26.88	28.18	27.23
Social Services	33.05	34.08	31.34	31.24	26.83
Economic Services	40.47	37.27	41.66	40.44	45.25
Others (Grants to Local Bodies and Loans and Advances)	0.17	0.05	0.13	0.13	0.69

Source: Finance Accounts of the respective years

Chart 2.11: Total Expenditure - Expenditure by activities



Source: Finance Accounts of the respective years

During the current year, the proportion of expenditure in General and Social Services decreased while the proportion of expenditure in Economic Services has increased over the previous year, indicating that resources which were earlier used to finance administrative expenditure are now directed towards other vital sector which contributes to the infrastructure and employment growth in the State.

Component-wise major expenditure in Revenue and Capital sections incurred in 2020-21 compared with 2019-20 is in **Table 2.17**.

Table 2.17: Major expenditure components under Revenue and Capital

(₹ in crore)

Particulars	Sector	Revenue		Capital	
		2019-20	2020-21	2019-20	2020-21
Administrative Services	General	1,750.84	1,816.59	657.91	743.99
Education, Sports, Arts and Culture	Social	1,846.89	1,584.61	107.52	65.11
Health and Family Welfare	Social	944.32	928.95	59.08	10.61
Water Supply, Sanitation, UD & H	Social	901.57	1,161.97	394.50	350.30
Roads and Bridges	Economic	890.39	652.33	1,833.43	3,120.01
Irrigation and Flood	Economic	211.93	367.44	133.72	171.34

Source: Finance Accounts of the respective years

There was an overall increase in the Capital Expenditure in the current year over the previous year by 39.30 per cent. However, the increase in Capital Expenditure in the sectors like Administrative Services was 13.08 per cent, Irrigation and Flood was 28.13 per cent, and Roads and Bridges was 70.17 per cent.

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

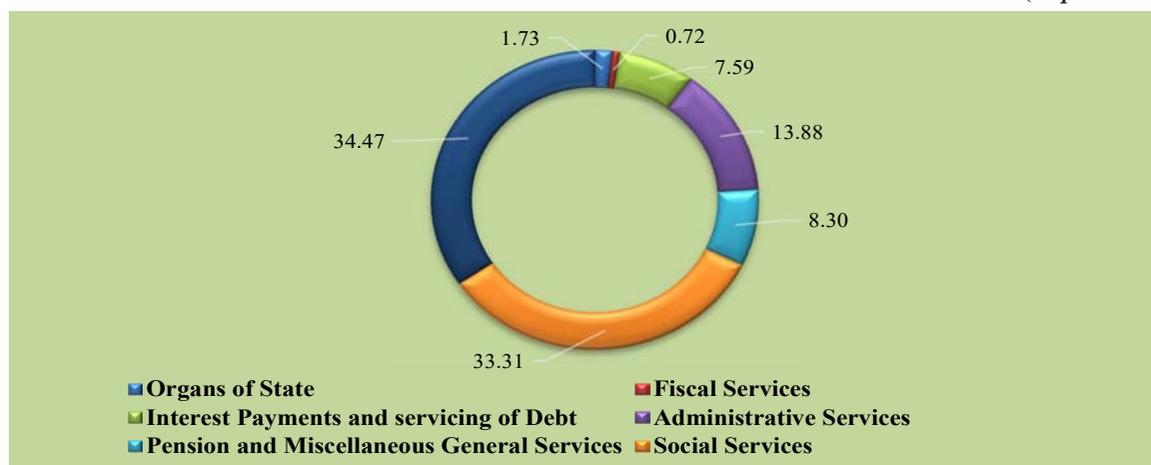
(₹ in crore)

Parameters	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Receipts (RR)	11,779.57	13,774.60	16,195.96	14,888.55	17,123.51
Rate of Growth of RR (per cent)	11.62	16.94	17.58	(-)8.07	15.01
Total Expenditure (TE)	10,948.88	14,093.64	18,177.07	15,927.80	18,215.65
Revenue Expenditure (RE)	9,394.54	10,900.47	12,429.48	12,218.73	13,087.50
Rate of Growth of RE (per cent)	12.34	16.03	14.03	(-)1.70	7.11
Revenue Expenditure as percentage of TE	85.80	77.34	68.38	76.71	71.85
RE/ GSDP (per cent)	47.34	48.44	50.71	44.63	45.57
RE as percentage of RR	79.75	79.13	76.74	82.07	76.43
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	1.71	1.20	1.57	(-)0.15	1.45
Revenue Receipts (ratio)	1.06	0.95	0.80	0.21	0.47

Source: Finance Accounts of the respective years

Chart 2.12: Sector-wise Distribution of Revenue Expenditure

(In per cent)



Source: Finance Accounts, 2020-21

Revenue Expenditure increased by ₹3,692.96 crore (39.31 *per cent*) from ₹9,394.54 crore in 2016-17 to ₹13,087.50 crore in 2020-21 at a CAGR of 8.64 *per cent*. During 2020-21, it increased by ₹868.77 crore (7.11 *per cent*) over the previous year was due to increase in expenditure under Social Services by ₹103.23 crore, Economic Services by ₹380.03 crore and General Services by ₹385.51 crore. The increase in expenditure under all sectors (General Sectors, Social Sectors and Economic Sector) over the previous year due to increase of expenditure in Pension and other Retirement Benefits (₹203.00 crore) and partial offset by decrease in expenditure in Public Works (₹19.58 crore) under General Services, Water Supply and Sanitation (₹133.04 crore), Urban Development (₹260.40 crore) and Secretariat Social Services (₹9.28 crore) under Social Services, Forestry and Wild Life (₹31.91 crore), Rural Development (₹106.59 crore), Minor Irrigation (₹148.16 crore), and Power (₹150.21 crore) under Economic Services.

The State Government projected that the total Revenue Expenditure of the State for the year 2020-21 would be ₹14,402.84 crore, however, the FC assessed it as only ₹10,735.00 crore during year. The actual Revenue Expenditure was less than the projections made by the State Government and more than assessment made by the XV FC as it was ₹13,087.50 crore during the year. There was an increase of ₹2,352.50 crore (21.91 *per cent*) over the projection of the XV FC.

2.6.1.1 Major changes in Revenue Expenditure

The variations in Revenue Expenditure (Major Heads) over the previous year are depicted in **Table 2.19**.

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

(₹ in crore)

Major Heads of Account	2019-20	2020-21	Increase (+)/ Decrease (-) (In <i>per cent</i>)
2515-Other Rural Development	211.68	748.53	536.85 (253.61)
2245-Relief on account of Natural Calamities	71.50	325.44	253.94 (353.85)
2801-Power	893.96	1,044.17	150.21 (16.80)
3054-Roads and Bridges	890.39	652.33	(-)238.06 (26.74)
2202-General Education	1,708.14	1,485.92	(-)222.22 (13.01)
2235-Social Security and Welfare	352.69	216.37	(-)136.32 (38.65)

Source: Finance Accounts of respective years

Analysis of the reasons for the changes in Revenue Expenditure during 2020-21 over the previous year revealed the following:

- There had been increase in expenditure in Other Rural Development of ₹536.85 crore (253.61 *per cent*). This was mainly due to increase in the Revenue Expenditure on Direction and Administration by ₹562.43 crore (350.66 *per cent*) and partial offset by decrease in expenditure under Minor Head 800- Other Expenditure by ₹25.58 crore (49.07 *per cent*).
- There had been a significant increase in Revenue Expenditure in Relief on account of Natural Calamities by ₹253.94 crore (253.94 *per cent*). The increase in Revenue Expenditure was mainly due to increase in Revenue Expenditure by

₹245.00 crore (379.84 per cent) towards Disaster Response Fund and ₹12.00 crore (600.00 per cent) towards Gratuitous Relief.

- There was increase in expenditure by ₹150.21 crore (16.80 per cent) on Power. This was mainly due to increase in purchase of power by ₹115.04 crore (32.09 per cent).
- There had been decrease in expenditure in Roads and Bridges by ₹238.06 crore (26.74 per cent). This was mainly due to decrease in expenditure by ₹307.68 crore (61.55 per cent) towards maintenance and repairs under District and Other roads.
- There was decrease in expenditure by ₹222.22 crore (13.01 per cent) on General Education. This was due to decrease in expenditure by ₹245.28 crore (50.63 per cent) under Minor Head Other Expenditure and ₹6.35 crore (100.00 per cent) towards Other Adult Education Programmes.
- There was decrease in expenditure in Social Security and Welfare by ₹136.32 crore (38.65 per cent). This was due to decrease in expenditure by ₹76.85 crore (54.32 per cent) towards Other Expenditure under Rehabilitation and ₹67.28 crore (91.11 per cent) towards Other Social Security and Welfare Programmes.

2.6.2 Committed Expenditure

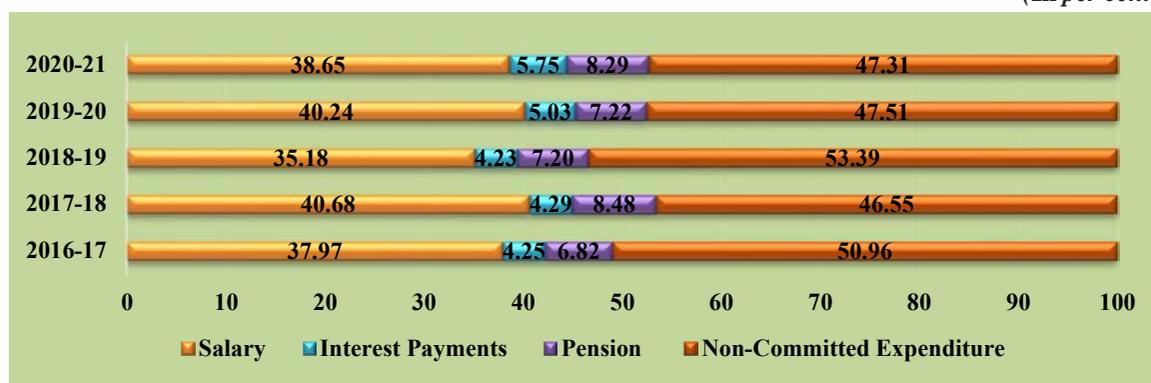
Committed Expenditure of the State Government on Revenue Account consists of Interest Payments, expenditure on Salaries and expenditure on Pensions. **Table 2.20** and **Chart 2.13** presents the trends in expenditure on these components and share of Committed Expenditure in total Revenue Expenditure during 2016-21 respectively.

Table 2.20: Components of Committed Expenditure

(₹ in crore)					
Components of Committed Expenditure	2016-17	2017-18	2018-19	2019-20	2020-21
Salaries	3,566.88	4,434.61	4,372.49	4,917.24	5,058.48
Expenditure on Pensions	640.58	923.97	894.37	882.31	1,085.32
Interest Payments	399.23	467.36	526.10	614.53	752.34
Total	4,606.69	5,825.94	5,792.96	6,414.08	6,896.14
As a percentage of Revenue Receipts					
Salaries	30.28	32.19	27.00	33.03	29.54
Expenditure on Pensions	5.44	6.71	5.52	5.93	6.34
Interest Payments	3.39	3.39	3.25	4.13	4.39
Total	39.11	42.29	35.77	43.08	40.27
As a percentage of Revenue Expenditure					
Salaries	37.97	40.68	35.18	40.24	38.65
Expenditure on Pensions	6.82	8.48	7.20	7.22	8.29
Interest Payments	4.25	4.29	4.23	5.03	5.78
Total	49.04	53.45	46.61	52.49	52.69

Source: Finance Accounts of respective years

During the year 2020-21, there was increase in the Revenue Expenditure when compared with the previous year. As can be seen from the **Table** above, the Committed Expenditure was about 46 to 53 per cent of Revenue Expenditure over the past five years. The high share of the committed expenditure in the total Revenue Expenditure indicates that the amounts available for implementing other welfare schemes, and maintenance of assets is getting reduced. The share of Committed Expenditure to total Revenue Expenditure is depicted in **Chart 2.13**.

Chart 2.13: Share of Committed expenditure in total Revenue Expenditure*(In per cent)*

Source: Finance Accounts of the respective years

Overall Committed Expenditure increased by ₹2,289.45 crore (49.70 per cent) from ₹4,606.69 crore in 2016-17 to ₹6,896.14 crore in 2020-21. Committed Expenditure during 2020-21 constituted 52.69 per cent of Revenue Expenditure and 40.27 per cent of Revenue Receipts.

The Committed Expenditure which was 39.11 per cent and 49.04 per cent of the Revenue Receipts and Revenue Expenditure respectively during the year 2016-17 increased to 40.27 per cent and 52.69 per cent of the same during the year 2020-21. 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.

2.6.2.1 Salaries

During 2020-21, Salaries alone accounted for 38.65 per cent of Revenue Expenditure and 29.54 per cent of Revenue Receipts. The expenditure on salaries during the year increased by 41.81 per cent over 2016-17 and by 2.87 per cent over 2019-20.

The expenditure on Salaries and wages as a percentage of Revenue Receipts during the period 2016-21 decreased from 30.28 per cent in 2016-17 to 29.54 per cent in 2020-21. The above expenditure as a percentage of Revenue Expenditure increased during the period 2016-21 from 37.97 per cent in 2016-17 to 38.65 per cent in 2020-21.

2.6.2.2 Interest Payments

During 2020-21, Interest Payments (comprising of interest on Internal Debt, Small Savings, Provident Funds etc., interest on Loans and Advances from the GoI and interest on other obligations) increased by ₹353.11 crore (88.45 per cent) from ₹399.23 crore in 2016-17 to ₹752.34 crore in 2020-21. The increase over previous year was ₹137.81 crore (22.43 per cent). The position of the Interest Payments during the current year is given in the **Table 2.21**.

Table 2.21: Interest Payments in the year 2020-21

			(₹ in crore)
Year	XV FC assessment	Assessment of State Government in Budget (MTFP)	Actual
2020-21	691.00	710.75	752.34

Source: XV FC Report, Budget Documents and Finance Accounts of the respective years

The actual Interest Payments during the year exceeded the XV FC assessment and the budgeted amount as reflected in MTFP. The expenditure on Interest Payments during the year was projected by the State Government at ₹710.75 crore, however, XV FC assessed as ₹691.00 crore. The actual Interest Payments during the current year was ₹752.34 crore which was higher than the State Government projection and the assessment of XV FC. This indicates that the State did not maintain fiscal discipline with regard to borrowings and its costs. The Interest Payments as a percentage of Revenue Receipts during the year 2020-21 was 5.75 per cent which is more than the percentage of Revenue Receipts recommended by the XV FC.

2.6.2.3 Pension Payments

Pension Payments (including other Retirement Benefits) increased from ₹640.58 crore constituting 5.44 and 6.82 per cent of the Revenue Receipts and Revenue Expenditure respectively during the year 2016-17 to ₹1,085.32 crore constituting 6.34 and 8.29 per cent of Revenue Receipts and Revenue Expenditure respectively during 2020- 21. 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 year was projected by the State Government at ₹1,280.00 crore, however, the FC assessed it as ₹1,030 crore. The actual Pension Payments during 2020-21 was ₹1,085.32 crore which was lower than the State Government projection and higher than the assessment made by XV 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 which recommended enhancement of pensions.

2.6.2.4 Undischarged Liabilities in National Pension System

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

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

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 and Advances and thereafter to be transferred to NSDL/Trustee Bank by debiting the same Major Head of Account. However, the State Government is not following the above accounting procedure (*i.e.*, passing the amounts through Public Account). Instead the State Government adopted a method of routing the amounts through a current and a savings account (at SBI, Naharlagun and SBI, Itanagar respectively) outside the Government accounts.

There were 23,842 employees who were covered under the NPS as on 31 March 2021, out of which, Permanent Retirement Account Number (PRAN) were issued to 23,217 employees. Total number of employees whose PRAN was not generated were 625. The PRAN of such subscriber was not generated due to non-receipt of Common Subscriber Registration Form (CSRF) which is mandatory for opening of PRAN Account.

Public Account (Major Head-8342) had opening balance of ₹23.62 crore which was mostly a legacy balance. The State Government transferred ₹10.04 crore (₹5.02 crore as employees' contribution *plus* ₹5.02 crore as Government contribution) from this Public Account to the Savings Account (at SBI, Itanagar) and not to NSDL/ Trustee Bank. No fresh amount was credited to this Public Account (*i.e.*, 8342 Major Head) during 2020-21. Thus, the Public Account had a balance of ₹13.58 crore as on 31 March 2021 which should be transferred to NSDL/ Trustee bank.

The current account (at SBI, Naharlagun) had opening balance of ₹6.32 crore as Employee's contribution without any component of Employer's contribution. During the year 2020-21, the State Government credited an amount of ₹2.49 crore (Employees' contribution) to this current account. Thereafter, out of the available balance of ₹8.81 crore in this Current account, State Government transferred ₹7.92⁷ crore of employees' contribution to the Savings Account (at SBI, Itanagar) and not to NSDL/ Trustee Bank. Thus, the current account had a balance of ₹0.90 crore as on 31 March 2021 which should be transferred to NSDL/ Trustee Bank.

The Saving Account (at SBI, Itanagar) had a balance of ₹106.13 crore (comprising Employee's contribution of ₹85.31 crore *plus* Government's contribution of ₹17.79 crore and accrued Interest of ₹3.03 crore). In 2020-21, an amount of ₹17.96 crore (₹12.94 crore as employees' contribution + ₹5.02 crore as Government contribution) was transferred from Public Account (Major Head 8342) and Current Account (at SBI, Naharlagun) to this Saving Account. In addition, the State Government transferred another ₹204.50 crore (₹96.17 crore as employees' contribution *plus* ₹108.33 crore as Government contribution) to this Saving Account. During 2020-21, State Government had also accrued interest

⁷ Include ₹0.07 crore, which was withdrawn due to wrong booking

of ₹3.94 crore from the Saving Account. Thereafter, out of the available amount of ₹332.53 crore in the Saving Account (at SBI, Itanagar), State Government transferred ₹248.82 crore to NSDL leaving a balance of ₹83.72 crore as on 31 March 2021. This balance of ₹83.72 crore should be transferred to NSDL/ Trustee bank.

During the current year, a cumulative balance of ₹13.58 crore was lying in Public Account (Major Head 8342), a cumulative balance of ₹0.90 crore was lying in the Current Account (at SBI, Naharlagun) and a cumulative balance of ₹83.72 crore was lying in the Saving Account (at SBI, Itanagar). Thus, a total amount of ₹98.20 crore was yet to be transferred to NSDL as on 31 March 2021. Non-transfer of this amount to NSDL for investment in the authorised securities has implications on the social security of the employees covered under the NPS. The summary of transactions of NPS during the last five years is shown in **Table 2.22**.

Table 2.22: The summary of the transactions under NPS

(₹ in crore)

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
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	22.49	151.61	127.06	136.08	10.72
2020-21	136.08	98.73	112.27 ⁸	-	211.00	248.88 ⁹	98.20	9.66*
Total	--	433.98	317.44	130.08	751.42	722.34	--	--

Source: Finance Accounts of the respective years

* It includes interest payment of ₹3.94 during 2020-21

Audit analysis of functioning of NPS revealed the following:

During the period from 2016-17 to 2020-21, State Government contributed only ₹317.44 crore as against the total Employees' share of ₹433.98 crore. Moreover, against the total collected funds of ₹751.42 crore, the Government transferred only ₹722.34 crore to the designated authority (NSDL). As a result, the total liability of the Government on account of NPS stood at ₹228.28 crore (₹130.08 crore- matching share not contributed *plus* ₹98.20 crore- short transfer to NSDL) as on 31 March 2021. Thus, the State Government has created interest liability on the amount not transferred to NSDL, incorrectly used the funds that belong to its employees and created uncertainty of benefit in respect of the affected employees.

It was also observed that both the contributions (₹7.92 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

⁸ It includes ₹ 3.94 crore as interest

⁹ It includes ₹ 2.78 crore towards withdrawal of wrong booking

bank account operations. State Government paid ₹24.51 lakh for service charge to NSDL.

2.6.3 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 2020-21, relative to previous years is presented in **Table 2.23**.

Table 2.23: Financial Assistance to Local Bodies etc.

(₹ in crore)					
Financial Assistance to Institutions	2016-17	2017-18	2018-19	2019-20	2020-21
(A) Local Bodies					
Municipal Corporations and Municipalities	7.87	1.92	3.74	5.37	5.56
<i>Panchayati Raj</i> Institutions	0.00	0.00	0.00	0.00	116.23
Total (A)	7.87	1.92	3.74	5.37	121.79
(B) Others					
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	0.00	1.00	5.43	0.00	0.00
Cultural Institutions/ Voluntary Organisations for promotion of Arts and Culture	0.00	0.00	0.00	0.00	0.00
State Institute of Rural Development	0.66	0.00	0.00	0.00	0.00
Social Welfare	0.48	0.41	0.54	0.00	0.00
Food, Storage and Warehousing	7.11	15.59	7.67	208.60	0.00
Co-operation	2.99	0.83	1.15	0.92	1.47
Other Institutions ¹⁰	18.76	17.62	36.10	23.36	16.26
Total (B)	30.00	35.45	50.89	232.88	17.73
Total (A+B)	37.87	37.37	54.63	238.25	139.52
Revenue Expenditure	9,394.54	10,900.47	12,429.48	12,218.73	13,087.50
<i>Assistance as percentage of Revenue Expenditure</i>	<i>0.40</i>	<i>0.34</i>	<i>0.44</i>	<i>1.95</i>	<i>1.07</i>

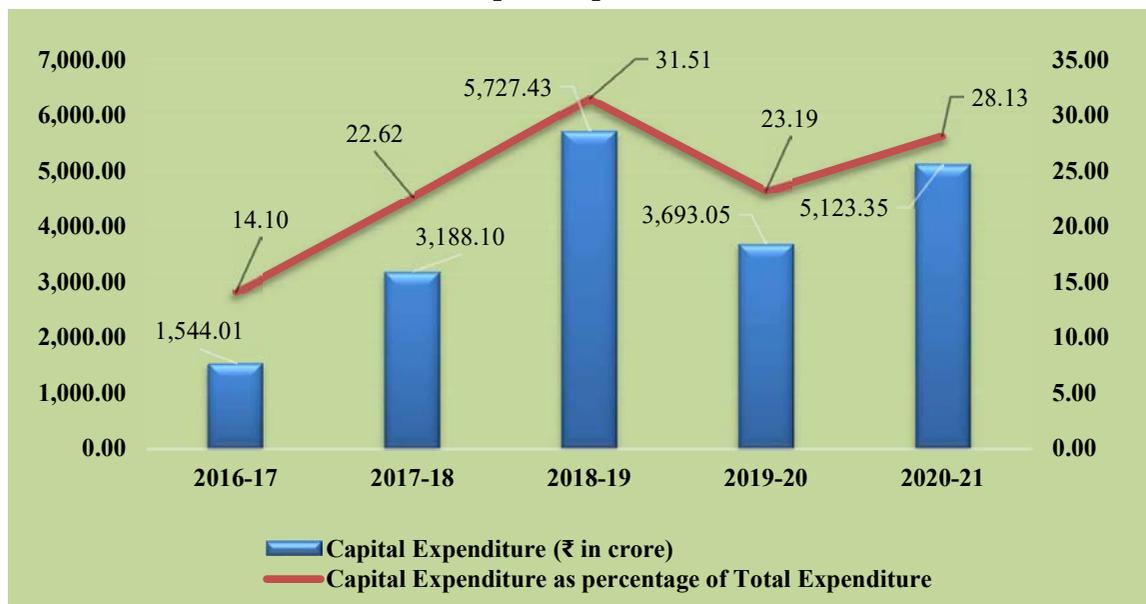
Source: Finance Accounts of the respective years

Financial Assistance extended to Local Bodies and other Institutions decreased by ₹98.73 crore during the year over the previous year due to non-allotment of Financial Assistance towards Hill transport subsidy under Food and Civil Supplies department. The share of Financial Assistance in Revenue Expenditure also decreased from 1.95 per cent in 2019-20 to 1.07 per cent during 2020-21. No Financial Assistance was extended to Rural Local Bodies from the State funds during the last five years period.

2.6.4 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 2016-21.

¹⁰ Other Institutions-Science Technology and Environment

Chart 2.14: Capital Expenditure in the State

Source: Finance Accounts of the respective years

Capital Expenditure constituted 14.10 *per cent* of Total Expenditure during 2016-17 and 28.13 *per cent* during 2020-21. The Capital Expenditure as a percentage of TE peaked to 31.51 *per cent* during 2018-19, slid down to 23.19 *per cent* in 2019-20 and reached 28.13 *per cent* in 2020-21. During 2020-21 (₹5,123.35 crore), the Capital Expenditure increased by ₹1,430.30 crore over the previous year (₹3,693.05 crore). This was due to increase in expenditure on Roads and Bridges. (₹1,286.58 crore) and Special Assistance to State for Capital Expenditure (₹108.11 crore)

Significant variance can be noticed between Budget Estimate of Capital Expenditure and actual spending thereon in 2020-21, indicating that the Budgeted amount was not realistic. This gap between Budget Estimate and actual spending on Capital Expenditure reduced in magnitude in 2020-21.

During 2020-21, State Government received ₹232.97 crore as Special Assistance to State for Capital Expenditure. Out of ₹232.97 crore, an amount of ₹108.11 crore against 13 Projects are given in **Table 2.24** and remaining amount (₹124.86 crore) could not be utilised due to late release from the GoI.

Table 2.24: Details for Scheme for Special Assistance to State for Capital Expenditure during 2020-21

(₹ in crore)			
Sl. No.	Name of the Projects	Fund Released	Expenditure
1.	Hospital building Block-II under Strengthening & Upgradation of TRIHMS Hospital for Medical College, Arunachal Pradesh	22.50	22.50
2.	Purchase of Advance Life Support/Basic Life Support Ambulance	4.68	4.50
3.	Construction of Ring Road through Jully, Itanagar	3.50	3.50
4.	Completion of Komsing Bridge at Pangin	3.37	3.37

Sl. No.	Name of the Projects	Fund Released	Expenditure
5.	Construction of Double Lanning of Steel Arch Borum Bridge at Naharlagun	3.00	3.00
6.	Smart City Component construction of CC Pavements roads in Itanagar.	11.11	11.11
7.	Smart Street Light	3.47	3.47
8.	Greenfield Airport Nodal Department(Civil Aviation)	15.61	15.61
9.	Public Health Engineering and Water Supply Department	20.77	20.77
10.	Central Studio and Virtual Classroom	4.00	4.00
11.	Construction of permanent structure for Sainik School, Niglok	5.00	5.00
12.	Miao-Vijaynagar Road Gap funding	10.00	10.00
13.	Last Mile Hydro Project	3.68	3.68
Total		110.69	108.12

Source: Information furnished by Director of Planning, GoAP

The increase in the receipts from the GoI had a positive impact on the Capital Expenditure of the State which is meant for creation of infrastructure in the State as State is heavily dependent on transfer from the GoI.

2.6.4.1 Major Changes in Capital Expenditure

As there was increase of ₹1,430.30 crore in Capital Expenditure during the current year over the previous year, **Table 2.25** highlights the cases of significant increase of over 25 per cent in various Heads of Account in Capital Expenditure during the year 2020-21 vis-à-vis the previous year.

Table 2.25: Capital Expenditure during 2020-21 compared to 2019-20

(₹ in crore)

Major Heads of Accounts	2019-20	2020-21	Increase (in per cent)
4059 - Capital Outlay on Public Works	164.09	234.19	70.10 (42.72)
4235 - Capital Outlay on Social Welfare and Nutrition	158.43	219.29	60.86 (38.41)
4552 - Capital Outlay on North Eastern Areas	62.02	121.80	59.78 (96.38)
4711 - Capital Outlay on Flood Control Projects	125.67	167.91	42.24 (33.61)
5054 - Capital Outlay on Roads and Bridges	1,833.43	3,120.01	1,286.58 (70.17)

Source: Finance Accounts of the respective years

Analysis of the reasons for significant increase in Capital Expenditure during 2020-21 over the previous year is as follows:

- There was increase in expenditure by ₹70.01crore (42.72 per cent) towards Public Works. This was due to increase in expenditure by ₹104.29 crore (86.48 per cent) towards creation of assets under State Annual Development Agenda (SADA) as State Government emphasized creation of assets.
- There was increase in Capital Outlay in Social Welfare and Nutrition by ₹60.86 crore (38.41 per cent). This was due to significant increase in expenditure by ₹7.89 crore (100.00 per cent) towards Welfare of Handicapped and ₹52.97 crore (33.43 per cent) towards other expenditure (booked due to non-availability of proper heads) under Social Welfare.

- There had been increase in expenditure by ₹59.78 crore (96.38 per cent) in North Eastern Areas, which was due to increase in expenditure towards Roads and Bridges (₹49.64 crore), Tourism (₹4.48 crore), Sports and Youth Affairs (₹2.52 crore), Water Resource Department (₹1.80 crore), and Medical (₹1.46 crore).
- There had been increase in expenditure by ₹42.24 crore (33.61 per cent) in Flood control projects. This was mainly due to increase in expenditure by ₹77.24 crore (61.46 per cent) towards other expenditure (department booked under 800-other expenditure due to non-availability of respective heads) during the year which was partially offset by decrease in expenditure by ₹35.00 crore towards Civil Works.
- There had been increase in expenditure in Roads and Bridges. This was due to increase in expenditure by ₹80.66 crore (389.09 per cent) towards Road Works, by ₹136.61 crore (100.00 per cent) towards construction of Rural Roads under District and by ₹1,074.04 crore (121.50 per cent) against Other Expenditure under Roads during the year.

2.6.4.2 Capital Locked in Incomplete Projects

As per Finance Accounts of the State for the year 2020-21, there were 80 incomplete/ongoing projects in five Departments as on 31 March 2021. Age profile of incomplete projects based on the year of sanction/ year of start of these projects as on 31 March 2021 are shown in **Tables 2.26 and 2.27**.

Table 2.26: Age profile of incomplete projects as on 31 March 2021 (₹ in crore)

Year	No of incomplete projects	Estimated cost	Expenditure
2008-09	03	236.00	211.52
2009-10	03	49.48	45.96
2011-12	03	49.58	38.59
2013-14	02	34.54	28.15
2014-15	02	24.08	17.75
2016-17	03	64.21	46.82
2017-18	13	139.95	82.70
2018-19	20	261.03	124.19
2019-20	29	421.58	137.50
2020-21	02	51.05	8.46
Total	80	1,331.48	741.64

Source: Finance Accounts 2020-21

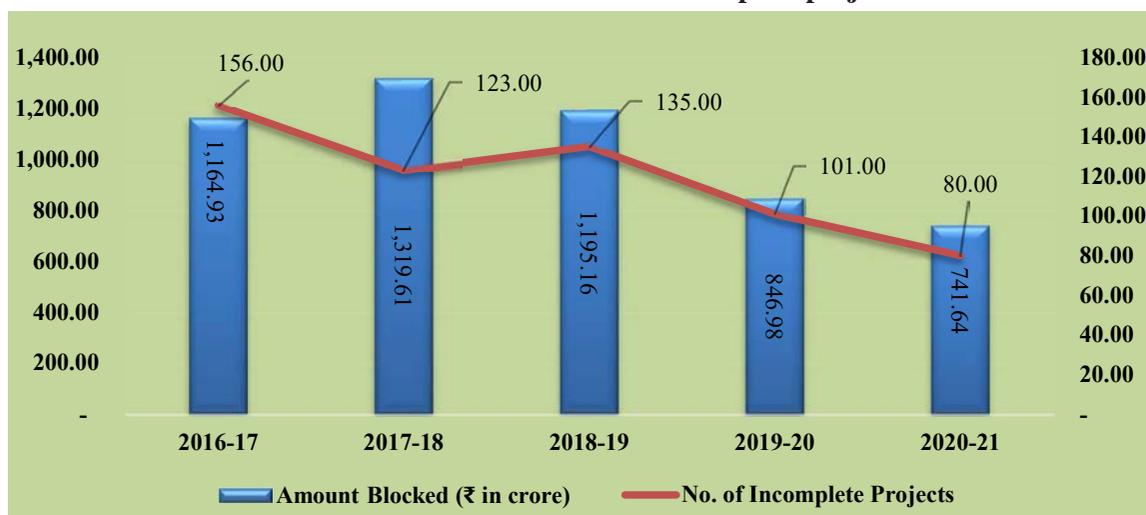
Table 2.27: Department-wise profile of incomplete projects as on 31 March 2021 (₹ in crore)

Department	No of incomplete projects	Estimated cost	Expenditure
PWD	40	739.29	449.50
RWD	07	88.78	31.30
WRD	01	10.00	5.60
Powers	16	300.08	182.34
PHE	16	193.33	72.91
Total	80	1,331.48	741.64

Source: Finance Accounts 2020-21

The Government does not have a comprehensive list of capital projects taken up in past having relevant information such as status of these projects, details of time and cost over run in the execution of these projects and approved cost and revised cost of completing these projects. In the absence of a comprehensive database of incomplete projects, information was sought from the implementing departments. Based on the information furnished by implementing agencies it was seen that 80 projects on which an expenditure of ₹741.64 crore was incurred, remained incomplete and the resources required for completing these works were not made available. The year-wise detail of incomplete projects is shown in the **Chart 2.15**.

Chart 2.15: Year-wise details of incomplete projects



Source: Finance Accounts of the respective years

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 necessary for completing those works within the stipulated timeframe. Thus, available resources are thinly spread over an extended number of works. Time over run of the infrastructure projects also have the inherent risk of cost over runs.

Blocking of funds on incomplete projects/ works impinges negatively on the quality of expenditure and deprives the State of the intended benefits for prolonged periods. Further, the funds borrowed for implementation of these projects during the respective years proved futile and the State had to share the extra burden in terms of servicing of debt and interest liabilities. Effective steps need to be taken to complete all these above projects without further delay to avoid cost overrun due to time overrun.

State Government in its reply (January 2022) stated that Government has been encouraging the completion of the incomplete projects rather than taking new projects.

2.7 Quality of Capital Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of expenditure. Improvement in the quality of expenditure basically involves three aspects - adequacy (adequate provisions for providing public services); efficiency of expenditure and effectiveness (assessment of outlay-outcome relationships for select services). While assessment of the outlay and establishment of outcome relationships for many of the services is being done at the budget stage, the actual expenditure during the year fell short of the allocations made in the budget. The State Government had prepared the Outcome budget based on expected outcomes identified in 26 departments. However, actual achievement of the objectives of the schemes was not included in the outcome budget. This resulted in unrealistic preparation of Outcome Budget for the year 2020-21.

2.7.1 Expenditure Priorities

It is important for the State Government to take appropriate expenditure rationalization 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 2.28 compares the fiscal priority of the State Government with that of NE&H States with regard to Total Expenditure (TE), Capital Expenditure (CE) on Education and Health during 2020-21, taking 2016-17 as the base year.

Table 2.28: Fiscal Priority of the State Government

Fiscal Priority of the State	TE/GSDP	DE/TE	SSE/TE	ESE/TE	CE/TE	Education/TE	Health/TE
NE&H States 2016-17	17.12	72.16	35.64	37.00	19.77	14.93	5.49
Arunachal Pradesh 2016-17	55.17	73.67	33.12	40.55	14.10	12.51	6.46
NE&H States 2020-21	16.18	67.45	38.97	28.48	13.03	15.00	6.74
Arunachal Pradesh 2020-21	63.42	72.75	27.49	45.26	28.13	8.59	5.16

Source: Finance Accounts of the respective years

TE: Total 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 and Advances Disbursed.

While the ratio of Total Expenditure to GSDP during 2020-21 increased when compared with 2016-17, and was higher than that of average of NE&H States; the ratio of Development Expenditure to Total Expenditure marginally declined in the same period though it is much higher than the NE&H States. The ratio of expenditure on Education and Health to the Total Expenditure firstly declined with reference to the base year and secondly was lower than that of average of NE&H States (indicating that the priority given to these sector is not commensurate with average of NE&H States). The Capital Expenditure during the year which is meant for creating infrastructure constituted 28.13 *per cent* of the Total expenditure while that of the NE&H States was 13.03 *per cent*.

2.7.2 Object Head-wise Expenditure

Finance Accounts depict transactions only up to the Minor Head level. The Government Accounting Rules provide for recording of the expenditure upto the object level. Therefore, an attempt has been made to ascertain the extent of expenditure incurred on the actual items at the Object Head Level from the accounts data maintained in the Accounts wing of the office. The details of the items with significant percentage of expenditure are given in **Table 2.29**:

Table 2.29: Object head wise expenditure

Object Head	(In per cent)	
	2019-20	2020-21
Salary and Wages	33.32	30.18
Pension/ Gratuity	5.42	5.87
Medical Treatment	0.06	0.04
Office Expenses	1.25	1.30
Materials and Supplies	0.62	0.42
Minor Works	8.01	6.44
GIA	7.49	11.6
GIA (Creation of Assets)	0.69	0.22
Scholarship and Stipends	0.81	0.45
Interest	3.77	4.07
Other Charges	9.75	9.15
Motor Vehicles	0.24	0.13
Major Works	22.48	27.66
Investment	1.47	1.30
Others	4.61	2.23

Source: Finance Accounts, 2020-21

With respect to the expenditure under Other Charges, the details of the items on which the expenditure was incurred is not recorded in the accounts. This has serious implications for the decision making and also affects the transparency in accounting. In 2020-21 the expenditure on Other Charges constituted 9.15 *per cent* of the Total Expenditure which should be properly classified.

Minor works during 2020-21 decreased from 8.01 to 6.44 *per cent* over the previous year was due to increase of committed expenditure in the total Revenue Expenditure which indicates that the available funds for maintenance of assets is getting reduced.

2.7.3 Loans and Advances by State Government

State Government has provided loans and advances to many institutions/ organisations. **Table 2.30** presents the outstanding loans and advances as on 31 March 2021 along with interest receipts *vis-à-vis* interest payments during the five-year period from 2016-17 to 2020-21.

Table 2.30: Quantum of loans disbursed and recovered during five years

Quantum of loans disbursed and recovered	(₹ in crore)				
	2016-17	2017-18	2018-19	2019-20	2020-21
Opening Balance of loans outstanding	66.99	73.53	72.92	88.00	96.99
Amount advanced during the year	10.33	5.07	20.16	16.02	4.80
Amount recovered during the year	3.79	5.68	5.08	7.03	5.94
Closing Balance of the loans outstanding	73.53	72.92	88.00	96.99	95.85
Net addition	6.54	(-)0.61	15.08	8.99	(-)1.14

Source: Finance Accounts of the respective years

The total amount of outstanding loans and advances as on 31 March 2021 was ₹95.85 crore. The amount of loans disbursed during the year decreased by 70.03 per cent from ₹16.02 crore in 2019-20 to ₹4.80 crore in 2020-21. Out of the total amount of Loans advanced during the year, Economic Services received ₹0.95 crore, and the remaining ₹3.85 crore was provided to Government servants. Within the Economic Services, Co-operation was the single recipient. Recovery of Loans and Advances decreased by 15.50 per cent from ₹7.03 crore in 2019-20 to ₹5.94 crore in 2020-21.

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 2021 are given in **Table 2.31**.

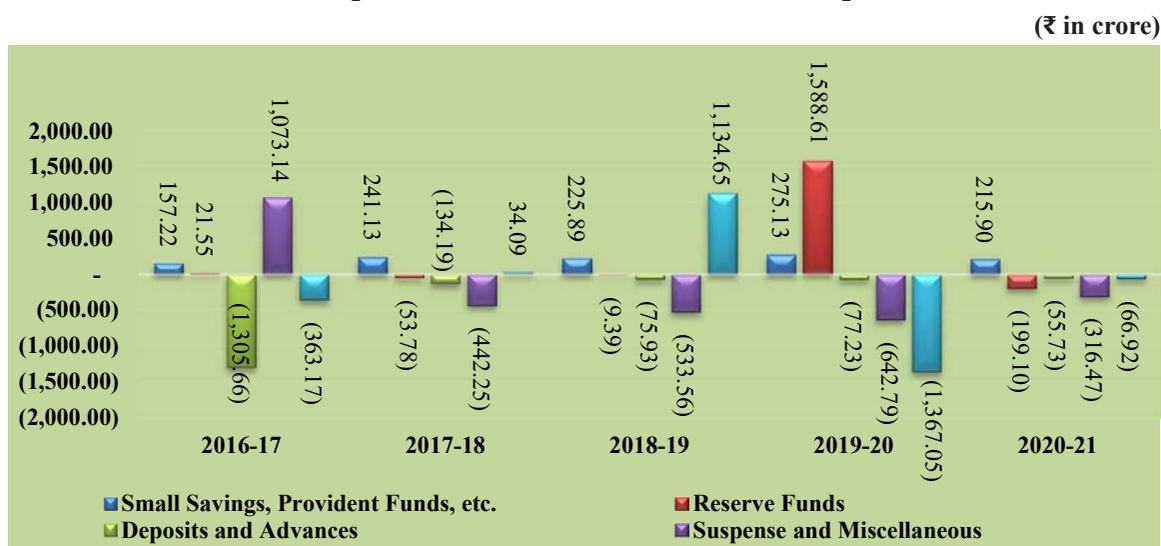
Table 2.31: Component-wise net balances in Public Account as of 31 March 2021

		(₹ in crore)				
Sector	Sub Sector	2016-2017	2017-2018	2018-2019	2019-20	2020-21
I. Small Savings, Provident Funds, etc.	Small Savings, Provident Funds, etc.	157.22	241.13	225.89	275.13	215.90
J. Reserve Funds	(a) Reserve Funds bearing Interest	21.55	(-)62.63	(-)0.54	1,588.61	(-)199.10
	(b) Reserve Funds not bearing Interest	0.00	8.85	(-)8.85	0.00	0.00
K. Deposits and Advances	(a) Deposits bearing Interest	1.26	(-)9.53	(-)5.48	(-)13.95	(-)7.15
	(b) Deposits not bearing Interest	(-)1,028.61	(-)121.09	(-)73.02	(-)61.31	(-)41.64
	(c) Advances	(-)278.31	(-)3.57	2.57	(-)1.97	(-) 4.94
L. Suspense and Miscellaneous	(b) Suspense	148.74	(-)404.85	(-)176.63	(-)2,678.97	(-)31.58
	(c) Other Accounts	924.40	(-)37.40	(-) 356.93	2,036.18	(-)284.89
M. Remittances	(a) Money Orders, and other Remittances	(-)363.15	34.11	1,134.72	(-)1,367.06	(-)66.87
	(b) Inter-Governmental Adjustment Account	(-)0.02	(-)0.02	(-)0.07	0.01	(-)0.05
Total		(-)416.92	(-) 355.00	741.66	(-)223.33	(-)420.32

Source: Finance Accounts of the respective years

The yearly changes in composition of balances in Public Account over the five-year period 2016-21 are given in **Chart 2.16**.

Chart 2.16: Composition of net Public Account over the period 2016-21



Source: Finance Accounts of respective years

2.9 Transactions under Reserve Funds

The total Outstanding Liabilities of ₹13,696.61 crore include balance of ₹3,078.85 crore under Reserve Funds as on 31 March 2021. Out of which ₹1,392.43 crore was under interest bearing Reserve Fund and ₹1,686.42 crore under not bearing interest Reserve Fund. The status of Reserve Funds *viz.*, State Disaster Response Fund (SDRF), State Compensatory Afforestation Fund (SCAF), Consolidated Sinking Fund and Guarantee Redemption Fund are discussed in subsequent paragraphs.

2.9.1 State Disaster Response Fund

State Disaster Response Fund (SDRF) was set up by the Government in 2010-11 with prescribed contribution of funds from GoI and the State Government in the ratio of 90:10. 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.

During the year 2020-21, no amount were contributed as Centre's share and State's share towards SDRF. The State received ₹59.34 crore from the GoI towards NDRF. The amount received towards NDRF was neither transferred to MH 8121-General and Other Reserve Funds nor expended from the Consolidated Fund. This has resulted in overstatement of Revenue Surplus and understatement of Fiscal Deficit to that extent. An expenditure of ₹0.20 crore was also done directly from the SDRF Account and balance lying under the Fund at the end of 31 March 2021 was ₹2.62 crore.

The contributions to the State Disaster Response Fund, expenditure and the balance therein are in **Table 2.32**.

Table 2.32: Details of State Disaster Response Fund

(₹ in crore)

Opening Balance	Contribution by Centre	Contribution by State	Total Receipts	Expenditure from the fund	Closing Balance	Invested by Reserve Bank/ State during the year
2.82	--	--	--	0.20	2.62	--

Source: Finance Accounts 2020-21

In terms of guidelines on constitution and administration of the State Disaster Mitigation Fund (under MH-8121 General and Other Reserve Fund), the Central and State Governments are required to contribute to the fund in the proportion of 90:10. During the year 2020-21, State Government received ₹250.00 crore as Central Government's share. The State's share during the year was ₹28.00 crore.

Contrary to the fund account guidelines, the State has not yet set up State Disaster Mitigation Fund (SDM) to transfer ₹309.50 crore (Central's share: ₹250.00 crore, State's share: ₹28.00 crore and previous year's balance: ₹31.50 crore) under Public Accounts. The State parked the whole amount (₹309.50 crore) in the Saving Bank Account instead of transferring the fund under Public Account. During 2020-21, State transferred the previous year's shares amount of ₹31.50 crore which resulted in understatement of Revenue Surplus and overstatement of Fiscal Deficit to that extent.

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 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 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 SCAF'

During the year 2020-21, no amount was transferred from National Compensatory Afforestation Deposits to State Compensatory Afforestation Fund. No amount was collected by the State Government under the Head of Account '8336 Civil deposits - 00- 103 State Compensatory Afforestation Deposits' from user agencies during the year. Budget provision

of ₹203.16 crore was kept under ‘2406 Forestry and Wildlife- 04 Afforestation and Ecology Development- 103 State Compensatory Afforestation (SCA)’ and an expenditure of ₹198.91 crore was incurred during the year. As on 31 March 2021, an amount of ₹1,389.81 crore has remained as balance under SCAF.

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 XII FC. According to the guidelines of the RBI, which is responsible for management of the Fund, State Government is required to contribute a minimum of 0.50 *per cent* of the Outstanding Liabilities (Public Debt *plus* Other Liabilities) of the previous year. Transactions under CSF during the year is given in the **Table 2.33**.

Table 2.33: Details of transaction under CSF during the year 2020-21

(₹ In crore)

Opening balances	Required contribution	Contribution (including interest)	Payment out of the fund	Total balance in the Fund	Amount invested by RBI during the year	Closing balance
1,344.15	60.66 ¹¹	339.95	--	1,684.09	339.95	1,684.09

Source: Finance Accounts 2020-21

It can be seen from the above **Table**, the contribution due from the State Government was ₹60.66 crore. Against this, during the year, the State Government contributed ₹339.95 crore (including interest of ₹99.95 crore) to the fund. As on 31 March 2021, an amount of ₹1,684.09 crore was invested.

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 of the fund, 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.

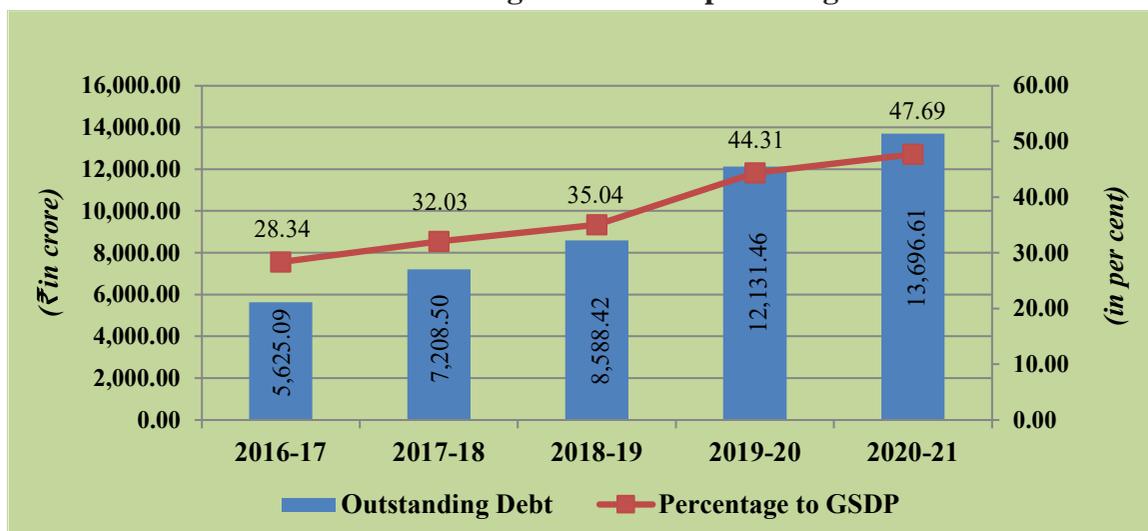
As on 01 April 2020, the fund had a balance of ₹1.57 crore. During 2020-21, the State Government contributed ₹0.63 crore to the Fund, which was almost 40.12 *per cent* of ₹1.57 crore (*i.e.*, outstanding guarantee at the end of previous financial year). No guarantee was invoked during the year. As on 31 March 2021, the total amount lying in the Fund was ₹2.20 crore and the entire amount has been invested by the Reserve Bank of India in GoI Securities.

¹¹ 0.50 *per cent* of the total Outstanding Liabilities of ₹12,121.46 crore of State Government as on 31 March 2020

2.10 Debt Management and Sustainability

Debt management is the process of establishing and executing a strategy for managing the Government's debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals that the Government may have set through enactment or any other annual budget announcements.

Chart 2.17: Outstanding Debt and its percentage to GSDP



Source: Finance Accounts of the respective year, GSDP-Director of Economics and Statistics, GoAP

2.10.1 Debt Profile

Components Total debt of the State Government typically constitutes of internal debt of the State (market loans, ways and means advances from RBI, special securities issued to National Small Savings Fund and loans from financial institutions, etc.), loans and advances from the Central Government, and Public Account Liabilities. The State FRBM Act, 2005 of the State has defined the total liabilities as follow “The total liabilities means the liabilities under the Consolidated Fund and the Public Account of the State and shall also include borrowings by the Public Sector undertakings and the Special Purpose Vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State budget. Outstanding Debt constituting outstanding internal debt, outstanding loans and advances from GoI and outstanding balance of Public Account liabilities of the State stood at ₹13,696.61 crore at the end of 31 March 2021 with an increase of ₹1,265.15 crore (12.90 per cent) over the previous year (₹12,131.46 crore). This was due to increase in outstanding internal debt by ₹1,049.33 crore, Public Account Liabilities by ₹308.58 crore and loans from GoI ₹207.24 crore. During the current year, the outstanding internal debt (₹7,348.10 crore) increased by ₹1,049.33 crore (16.66 per cent) over the previous year (₹6,298.77 crore) due to increase in market loans by ₹767.81 crore (17.87 per cent), loans from financial institutions by ₹285.24 crore (17 per cent). During the current year, the outstanding loans (₹359.71 crore) from GoI, increased by ₹207.24 crore (135.92 per cent) over the previous year mainly due to increase in other loans for State/ Union territory with legislature schemes by ₹232.97 crore. During the current year, Public Accounts Liabilities (₹5,988.80 crore) increased by ₹308.58 crore over the previous year

(₹5,680.22 crore) mainly due to increase in liabilities in respect of small savings provident funds by ₹215.90 crore and reserve funds not bearing interest by ₹340.58 crore and offset by decrease in reserve funds bearing interest by ₹199.11 crore and deposits not bearing interest by ₹41.64 crore and Deposit bearing interest by ₹7.15 crore. The rate of growth of outstanding debt of the State for the last five-year period was ranged between (-)4.58 and 41.25 per cent and the percentage of Debt of GSDP was ranged between 28.34 and 47.69 per cent during the same period.

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 2016-21 are given in **Table 2.34**.

Table 2.34: Trend of the outstanding Debt

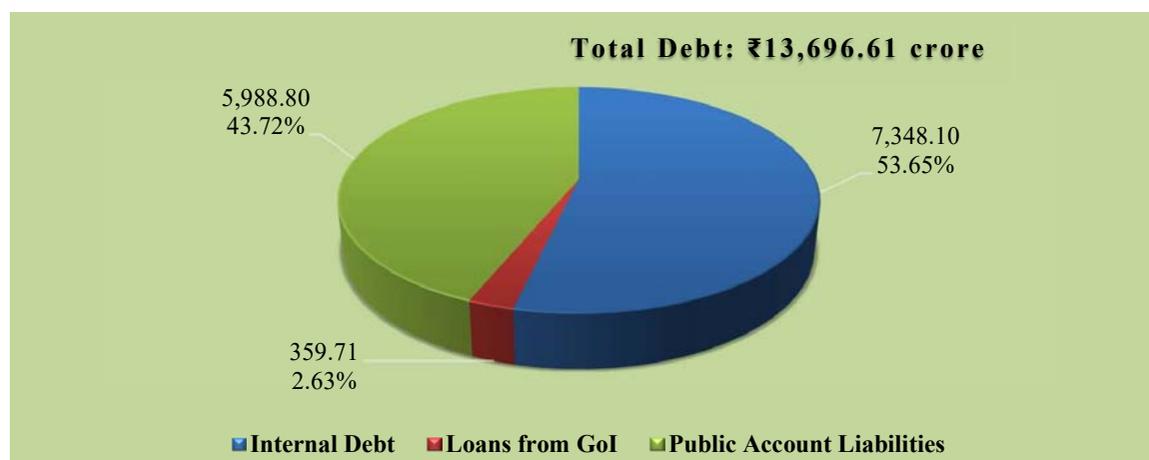
		(₹ in crore)				
Particulars		2016-17	2017-18	2018-19	2019-20	2020-21
Outstanding Debt		5,625.09	7,208.50	8,588.42	12,131.46	13,696.61
Public Debt	Internal Debt	2,522.36	3,883.82	4,835.39	6,298.77	7,348.10
	Loans from GoI	231.54	205.11	178.75	152.47	359.71
Public Account Liabilities		2,871.19	3,119.57	3,574.28	5680.22	5,988.80
Rate of growth of outstanding debt (percentage)		(-)4.58	28.15	19.14	41.25	12.90
Gross State Domestic Product (GSDP)		19,845.44	22,432.48	24,602.88	27,036.64	28,721.36
Debt/GSDP (per cent)		28.34	32.13	34.91	44.87	47.69
Total Debt Receipts		2,222.86	2,908.33	2,528.62	4,595.82	2,898.15
Total Debt Repayments		2,093.69	1,792.28	1,674.80	1,667.31	2,085.34
Total Debt Receipts Available		129.17	1,116.05	853.82	2,928.51	812.81

Source: Finance Accounts of the respective year, GSDP-Director of Economics and Statistics, GoAP

As could be seen from the **Table**, the outstanding debt has been increasing at a greater pace than the growth of GSDP. During 2019-20, registered highest rate of growth of outstanding debt. There had been an increase in the Debt to GSDP ratio in four out of five years.

The total outstanding debt of the State Government at the end of 2020-21 was ₹13,696.61 crore. Component-wise break-up of debt is shown below in **Chart 2.18**.

Chart 2.18: Break-up of outstanding Debt at the end of March 2021



Source: Finance Accounts 2020-21

Internal debt, which is primarily Market Borrowings through issue of State Development Loans (SDLs), accounts for 53.65 per cent of the total outstanding debt. The trend of the component wise debt of the state over a period of last five years is given in the **Chart 2.19**.

Chart 2.19: Details of component wise debt for the period from 2016-21

(₹ in crore)



Source: Finance Accounts of respective years

2.10.2 Debt Sustainability Analysis (DSA)

Debt sustainability is defined as the ability of the State to service its debt now and in future. However, the higher the level of public debt, the more likely it is that fiscal policy and public debt are unsustainable, as a higher debt requires a higher primary surplus to sustain it. A high level of debt raises a number of challenges:

- Large primary fiscal surpluses are needed to service a high level of debt; such surpluses may be difficult to sustain, both economically and politically.
- A high level of debt heightens an economy’s vulnerability to interest rate and growth shocks.
- A high debt level is generally associated with higher borrowing requirements, and therefore a higher risk of a rollover crisis (*i.e.*, being unable to fulfill borrowing requirements from private sources or being able to do so only at very high interest rates).
- High levels of debt may be detrimental to economic growth; while lower growth is a concern in itself, it also has a direct impact on debt dynamics and debt sustainability in the long term.

Debt vulnerability is also associated with its profile. A high share of short-term debt at original maturity, increases vulnerability to rollover (re-financing risk) and interest rate

risks. Sustainability of Public debt ensures that it does not explode and governments are not forced to increase taxes, or decrease spending.

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.

The sustainability of debt of the State Government in terms of Debt/ GSDP ratio, Fiscal Deficit/ GSDP and burden of Interest Payments (measured by ratio of Interest Payments to Revenue Receipts). Maturity profile of the State Government debt are discussed in **Table 2.35** shows the debt sustainability of the State according to these indicators for the five-year period from 2016-21.

Table 2.35: Debt Sustainability: Indicators and Trends

Indicators of Debt sustainability	2016-17	2017-18	2018-19	2019-20	202-21
Debt/GSDP (<i>per cent</i>)	28.34	32.13	34.91	44.87	44.69
Fiscal Deficit/Surplus to GSDP (<i>per cent</i>)	4.20	(-) 1.39	(-) 8.06	(-) 3.77	(-)3.78
Interest Payments/Revenue Receipts Ratio	3.39	3.39	3.24	4.13	4.39
Rate of growth of outstanding Debt (<i>per cent</i>)	(-)4.58	28.15	19.14	41.25	12.90
Rate of growth of Revenue Receipts (<i>per cent</i>)	11.62	16.94	17.58	(-) 8.07	15.01
Rate of growth of GSDP (<i>per cent</i>)	7.22	13.04	9.68	9.89	4.91
Interest payment	399.23	467.36	526.10	614.53	752.34
Average interest rate on Outstanding Debt (<i>per cent</i>)	6.93	7.28	6.66	5.93	4.76
Available Debt as a percentage of Debt Receipts	5.81	38.37	33.77	63.72	28.05

Source: Finance Accounts of the respective years

As can be seen from above **Table**, in the last five years, the ratio of debt to GSDP of Arunachal Pradesh has been hovering between 28.34 to 47.69 *per cent*, and in current year the ratio of debt to GSDP was 47.69 *per cent* which was 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 2016-17, while in the three years from 2017-18 to 2019-20, the debt grew at a significantly faster rate than the Revenue Receipts. However, in absolute terms, Revenue Receipts were higher than debt during 2020-21. The burden of Interest Payment ranged from 3.39 to 4.39 *per cent* of the Revenue Receipts.

During the five-year period 2016-17 to 2020-21, 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 2020-21, the maturity profile of Public Debt is given in **Table 2.36**.

Table 2.36: Maturity Profile of Public Debt

Date maturity	Maturity Profile	Amount			Per cent
		Internal Debt	Loans & Advances from GoI	Total	
2021-22	0 to One year	138.57	20.91	159.48	2.07
2022-23 & 2023-24	Over One year to three years	849.74	40.90	890.64	11.56
2024-25 & 2025-26	Over three years to five years	819.55	24.02	843.57	10.94
2026-27 & 2027-28	Over five years to seven years	1,786.67	5.81	1,792.48	23.26
2027-28 onwards	Above seven years	3,753.57	268.07	4,021.64	52.18
Total		7,348.10	359.71	7,707.81	100.00

Source: Finance Accounts 2020-21

Chart 2.20: Maturity Profile of Public Debt

Source: Finance Accounts 2020-21

The maturity profile of outstanding stock of Public Debt as on 31 March 2021 indicates that out of the outstanding Public Debt of ₹7,707.81 crore, 47.82 per cent (₹3,686.17 crore) is payable within the next seven years while the remaining 52.18 per cent (₹4,021.64 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 95.33 per cent (₹7,348.10 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 utilization 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)
2016-17	1,015.27	586.77	1,544.01	(-)6.54	NA
2017-18	1,767.27	432.24	3,188.10	0.61	NA
2018-19	1,204.97	279.76	5,727.43	(-)15.08	NA
2019-20	1,790.70	353.60	3,693.05	(-)8.99	NA
202-21	1,516.06	259.49	5,123.35	1.14	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 and Capital Expenditure during the period 2016-21 indicating sustainable financial position of the state.

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 (WMA), Ordinary or Special, from the Reserve Bank of India (RBI) has been put in place. The operating limit for ordinary WMA is reckoned as the three-year average of Revenue Receipts and the operative limit for special WMA is fixed by RBI from time to time 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 balance of ₹0.26 crore with RBI. If the balance falls below the agreed minimum, the Government can take ordinary WMA from the RBI, in addition, special WMAs are made available against GoI securities held by the State Government.

The 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 2020	Closing balance on 31 March 2021
A. General Cash Balance		
Cash in treasuries	0.00	0.00
Deposits with Reserve Bank	256.96	7.01
Deposits with other Banks	0	0.00
Remittances in transit – Local	0	0.00
Total (A)	256.96	7.01
B. Investments held in Cash Balance investment account	1,416.05	1,699.49
(a) Total (A+B)	1,673.01	1,706.50

Particulars	Opening balance on 01 April 2020	Closing balance on 31 March 2021
(b) Other Cash Balances and Investments		
Cash with departmental officers	(-)4.93	(-)3.49
Permanent advances for contingent expenditure with departmental officers	0.01	0.01
Investment of earmarked funds	1,345.73	1,686.31
Total (b)	1,340.81	1,682.83
Total (a) + (b)	3,013.82	3,389.33
Interest realised	59.22	32.37

Source: Finance Accounts, 2020-21

Cash Balances of the State Government increased from ₹3,013.82 crore in 2019-20 to ₹3,389.33 crore in 2020-21. There was a net difference of ₹27.01 crore (Debit) at the end of accounting year 2020-21 between the General Cash Balance as worked out by the Accountant General (₹7.01 crore) and as reported by the RBI (₹20.00 crore). This difference was mainly due to misclassification of transactions by Bank/ Treasuries.

As of 31 March 2021, the State Government invested ₹1,416.05 crore in GoI Treasury Bills. The profits derived from such investments are credited as receipts under the head '0049-Interest Receipts'. During 2020-21, Interest of ₹32.37 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
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
2020-21	1,416.05	1,699.49	(-)283.44	32.37

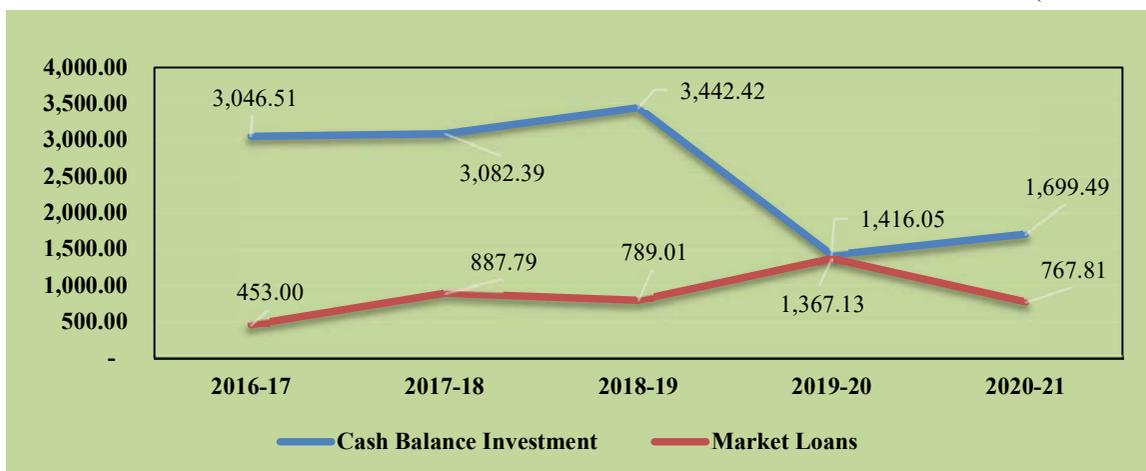
Source: Finance Accounts of the respective years

The trend analysis of the Cash Balance Investment of the State Government during 2016-21 revealed that investment decreased significantly during 2019-20. Cash Balance Investment of the State Government increased by ₹283.44 crore during 2020-21 over the previous year.

Chart 2.21 compares the balances available in the Cash Balance Investment Account and the Market Loans taken by the State during the period 2016-21.

Chart 2.21: Market Loans vis-à-vis Cash Balance Investment

(₹ in crore)

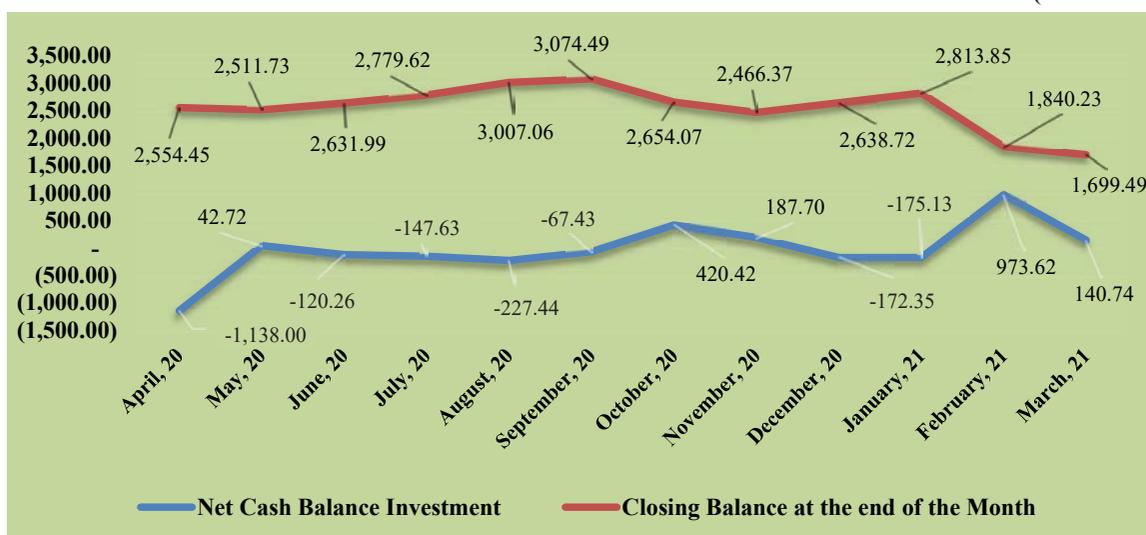


Source: Finance Accounts of the respective years

Chart 2.22 compares the month-wise movement Cash Balances and net Cash Balance Investments during the year.

Chart 2.22: Month-wise movement Cash Balances and Investments

(₹ in crore)



Source: Monthly Civil Accounts 2020-21

2.12 Conclusion

- The State had Revenue Surplus consistently during the period 2016-17 to 2020-21 and the revenue receipts increased during the current year. The State has done well to augment its non-tax revenue by expanding its tax base. However, the State's Own Resources constituted only around 13 per cent of the total Revenue Receipts during 2020-21, indicating heavy dependence of the State on funds from the Government of India, which contributed ₹14,855.88 crore (87 per cent) of the total revenue receipts of ₹17,123.51 crore in 2020-21.

- Both Revenue and Capital Expenditure increased by ₹868.77 crore (7.11 per cent) and ₹1,430.30 crore (38.73 per cent) respectively over the previous year. Revenue Expenditure, which was in the nature of current consumption, accounted for around 72 per cent of the State's total expenditure during 2020-21, leaving only 28 per cent for infrastructure and asset creation.
- The State has not complied with the rules governing NPS. Non-observance of the rules governing NPS by the State Government is fraught with the risk of unauthorised use of funds belonging to its employees, thereby creating uncertainty in respect of the benefits due to the employees, avoidable future liability to the Government and possible failure of the NPS itself in the State.
- 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 ₹741.64 crore on 80 projects, which remained incomplete and the resources required for completing these works were not made available.
- During the year 2020-21, there was increase in the Revenue Expenditure when compared with the previous year. The Committed Expenditure was about 46 to 53 per cent of Revenue Expenditure over the past five years. The high share of the Committed Expenditure in the total Revenue Expenditure indicates that the amounts available for implementing other welfare schemes, and maintenance of assets is getting reduced.
- The Capital Expenditure during the year which is meant for creating infrastructure constituted 28.13 per cent of the Total expenditure while the NE&H States was 13.03 per cent. The ratio of expenditure on Education and Health to the Total Expenditure firstly declined with reference to the base year and secondly was lower than that of average of NE&H States (indicating that the priority given to these sectors is not commensurate with average of NE&H States).
- The growth rate of Revenue Receipts has generally outpaced the growth rate of debt during 2016-17, while in the three years from 2017-18 to 2019-20, the debt grew at a significantly faster rate than the Revenue Receipts. The maturity profile of outstanding stock of Public Debt as on 31 March 2021 indicates that out of the outstanding Public Debt of ₹7,707.81 crore, 47.82 per cent (₹3,686.17 crore) is payable within the next seven years while the remaining 52.18 per cent (₹4,021.64 crore) is in the maturity bracket of more than seven years.

2.13 Recommendations

- The State Government needs to shore up its resources and explore ways of harnessing the potential within the State by appropriate measures.
- 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 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 entire amount is transferred to NSDL in a timely manner to avoid unlimited liability on the State exchequer as well as to provide an assurance to the pensioners about the returns on their investment.
- The Government needs to maintain an accurate database with regard to the Capital invested in projects which are at various stages of completion for several years and review its commitment to these and liabilities arising out of inordinate delays in their completion.
- The State Government would do well by increasing its expenditure on Health and Education to compare favorably with North Eastern and Himalayan States.
- The State Government may ensure that mobilised debt resources are used adequately for incurring Capital Expenditure for creation of assets. The increasing trends of share of Committed Expenditure to the Revenue Expenditure be corrected by identifying potential wasteful expenditure and adopting economy measures across departments.

