

CHAPTER I
FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (*Appendix-1.1 Part-A*). The Finance Accounts of the Government of Assam are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and Public Account of the State. The lay out of the Finance Accounts is depicted in *Appendix-1.1 Part-B*.

1.1.1 Summary of Receipts and Disbursements

Table-1 summarises the finances of the Government of Assam for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from **Statement-1** of Finance Accounts and other detailed Statements.

Table-1: Summary of receipts and disbursements for the year 2007-08

(Rupees in crore)							
2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
Section-A: Revenue					Non-Plan	Plan	Total
13666.94	Revenue receipts	15324.92	11456.53	Revenue expenditure	10676.78	2067.38	12744.16
3483.32	Tax revenue	3359.50	4302.36	General services	4920.99	3.43	4924.42
1859.27	Non-tax revenue	2134.59	4477.48	Social Services	3997.95	958.80	4956.75
3898.99	Share of Union Taxes/Duties	4918.21	2668.89	Economic Services	1748.90	1105.15	2854.05
4425.36	Grants from Government of India	4912.62	7.80	Grants-in-aid/Contributions	8.94	--	8.94
Section-B: Capital							
-	II. Miscellaneous Capital Receipts	--	1452.98	II. Capital Outlay	217.28	1470.83	1688.11
34.57	III. Recoveries of Loans and Advances	40.33	80.63	III. Loans and Advances disbursed	3.09	139.80	142.89
1115.71	IV. Public Debt receipts [#]	1138.30	494.73	IV. Repayment of Public Debt [#]	--	--	575.14
-	V. Contingency Fund	--	-	V. Contingency Fund			
4846.21	VI. Public Account receipts	6093.34	4501.58	VI. Public Account disbursement	--	--	6190.20
-	VII. Closing overdraft from Reserve Bank of India	--	-	VII. Opening overdraft from Reserve Bank of India	--	--	--
1025.71	Opening Balance	2702.69	2702.69	Closing Balance			3959.08
20,689.14	Total	25,299.58	20,689.14	Total			25,299.58

[#] Includes net Ways & Means Advances and Overdraft

Following are the significant changes during 2007-08 over the previous year;

- Revenue receipts grew by Rs.1,658 crore over the previous year. The increase was mainly contributed by the State's share of Union Taxes and Duties (Rs.1,019.22 crore) and grants from Government of India (GOI) (Rs.487.26 crore);
- Revenue expenditure and Capital expenditure increased by Rs.1,288 crore and Rs.235 crore respectively, over the previous year;
- Disbursement of Loans and Advances increased by Rs.62 crore, while increase in recoveries of Loans and Advances was Rupees six crore only;
- Public Debt receipts and Public Debt repayments increased by Rs.23 crore and Rs.80 crore respectively over the previous year;
- Public Account disbursements increased by Rs.1,689 crore over the previous year as against the increase in its receipts by Rs.1,247 crore;

1.1.2 The Assam Fiscal Responsibility and Budget Management (AFRBM) Act, 2005

The State Government enacted the Assam Fiscal Responsibility and Budget Management (AFRBM) Act in May 2005 and amended it in September 2005 and August 2007 to ensure fiscal stability, sustainability, improve efficiency and transparency in management of public finances, enhance the availability of resources and remove the impediments to effective conduct of fiscal policy and prudent debt management for improving the social and physical infrastructure and human development in the State. The Act prescribed the following fiscal targets for the State Government:

- Eliminate revenue deficit within four financial years beginning on the 1st day of April, 2005 and ending on the 31st day of March, 2009;
- Reduce fiscal deficit to three *per cent* of the estimated Gross State Domestic Product (GSDP) within a period of four financial years beginning on the 1st day of April, 2005 and ending on the 31st day of March, 2009;
- Restrict the total debt stock of the State Government including the Government guarantees to 45 *per cent* of the GSDP of the previous year at current prices within a period of five years beginning on the 1st day of April, 2005.
- Government Guarantees to be restricted at any point of time to fifty *per cent* of the State's own tax and non-tax revenue of the second preceding year, as reflected in the books of accounts as maintained by the Accountant General.

1.1.3 Roadmap to Achieve the Fiscal Targets as laid down in AFRBM Act/Rules

Keeping in view the fiscal targets laid down in the AFRBM Act and the rules made there under and the anticipated annual rate of reduction of fiscal deficit of the State worked out by the GOI for the Twelfth Finance Commission (TFC) award period following its recommendation, the State Government developed its Own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates for implementation during the period from 2005-06 to 2009-10 (*Appendix-1.1 Part-C*).

1.1.4 Fiscal Policy Statement(s) 2007-08

As required under Section 3 of the Act, the State Government laid before the Legislative Assembly, the rolling Five Year Fiscal Plan for the period from 2008-09 to 2012-13 along with the Annual Budget for the financial year 2007-08. The rolling Five Year Fiscal Plan provided for the budget estimates and projections for 2007-08 and 2008-09 and only projections for next four years (2009-10 to 2012-13) for selected fiscal parameters and variables determining the fiscal performance of the State.

1.1.5 Mid-Term Review of Fiscal Situation

To enforce compliance with the fiscal principles and targets laid down in the AFRBM Act, 2005, the Finance Department is to review every year, the trends in receipts and expenditure including the fiscal indicator targets set for the current financial year and place before the State Legislature a statement containing the outcome of such reviews. However, the State Government is yet to enforce the provision of the Act in this regard.

The performance of the State during 2007-08 in terms of key fiscal targets fixed for selected variables laid down in AFRBM Act, 2005 vis-à-vis achievements are given in **Table-2**.

Table-2

Trends in Major fiscal parameters/variables vis-à-vis projections for 2007-08

(Rupees in crore)

Fiscal variables	2007-08			Actuals
	Targets as Prescribed in FRBM Act	Projections made in		
		Fiscal Correction Path	Five year Fiscal Plan Statement	
Revenue Deficit (Rs. in crore)	0.0 (By 31.3.2009)	(+) 276	(+) 897	(+) 2581
Fiscal Deficit (Rs. in crore)	-	2476	2065	(+) 790
Fiscal Deficit/GSDP (<i>per cent</i>)	3 <i>per cent</i> of GSDP (By 31.3.2009)	5	3	**
Salary as percentage of State's own resources*	60 <i>per cent</i> (By 31.3.2010)	116	106	95
Ratio of the Total Debt Stock including Government guarantees to GSDP	45 <i>per cent</i> (By 31.3.2010)	42	28	31
Ratio of State Guarantees to State's Own Resources of second preceding Year	50 <i>per cent</i>	24	17	20

*State's Own Resources: Tax and Non-tax revenue of the State

**There was revenue surplus

The above table reveals that the State has achieved all the FRBM targets, before the time lines prescribed in the Act except containing expenditure on salary. The State Government has to initiate requisite measures to contain the expenditure on salaries relative to its own resources, to achieve the corresponding FRBM target within the time frame prescribed in the Act. As a result of debt Consolidation under the scheme

‘Debt Consolidation and Relief Facility’ (DCRF)¹ the State has received debt relief of Rs.105.40 crore during 2007-08 from GOI.

1.2 Overview of Fiscal Situation of the State

1.2.1 Trends in Fiscal Aggregates

The fiscal position of the State during the current year as compared to the previous year is given in Table-3.

Table-3

(Rupees in crore)			
2006-07	Sl. No.	Major Aggregates	2007-08
13667	1.	Revenue Receipts (2+3+4)	15325
3483	2.	Tax Revenue	3359
1859	3.	Non-Tax Revenue	2135
8325	4.	Other Receipts	9831
35	5.	Non-Debt Capital Receipts	40
35	6.	Of which, Recovery of Loans	40
13702	7.	Total Receipts (1+5)	15365
9848	8.	Non-Plan Expenditure	10897
9794	9.	On Revenue Account	10677
1516	10.	Of which, Interest Payments	1512
50	11.	On Capital Account	217
4	12.	On Loans disbursed	3
3142	13.	Plan Expenditure	3678
1662	14.	On Revenue Account	2067
1403	15.	On Capital Account	1471
77	16.	On Loans disbursed	140
12990	17.	Total Expenditure (13+8)	14575
(+) 2211	18.	Revenue Deficit (-)/Surplus (+) {1- (9+14)}	(+) 2581
(+) 712	19.	Fiscal Deficit (-)/Surplus (+) {(1+5)-17}	(+) 790
(+) 2228	20.	Primary Deficit (-) /Surplus (+) (10+19)	(+) 2302

During the current year revenue receipts increased by 12.13 per cent (Rs.1,658 crore) while revenue expenditure increased by 11.24 per cent (Rs.1,288 crore) over the previous year resulting in an increase in revenue surplus by Rs.370 crore during 2007-08 over the previous year. Increase in revenue surplus as well as a marginal increase of Rupees five crore in non-debt capital receipts along with the combined increase of Rs.297 crore in capital expenditure and loans and advances disbursed during 2007-08 over the previous year, led to an increase in fiscal surplus by Rs.78 crore during the current year. The increase in fiscal surplus accompanied by a marginal decrease of Rupees four crore in interest payments during 2007-08 over the previous year led to an increase in primary surplus by Rs.74 crore during the year.

¹ DCRF : In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue of the States, Government of India formulated a scheme “The State Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10)” under which general debt relief is provided by consolidating and rescheduling at substantially reduced rates of interest the Central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States.

1.3 Methodology adopted for the assessment of fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analyzed wherever necessary over the period 2002-08 and observations have been made on their behaviour. In its Restructuring Plan of State finances, the TFC recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States enact the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-10) so that the fiscal position of State could be improved as committed in their respective FR Acts/Rules covering medium to long term. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their FR Acts and in other Statements required to be laid in the legislature under the Act, have been used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that GSDP is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP² at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc., with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilization of resources, pattern of expenditure etc., are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The New GSDP series with 1999-2000 as base (**Table-4**) as published by the Director of Economics and Statistics of the State Government in Economic Survey 2007-08 have been used in estimating these percentages and buoyancy ratios.

Table – 4: Trends in Growth and Composition of GSDP

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Gross State Domestic Product (GSDP) (Rs. in crore)	43332	47191	52920	57543 (P)	65033 (Q)	72700 (Adv)
Rate of growth of GSDP (per cent)	13.30	8.91	12.14	8.74	13.02	11.79

Note : P-Provisional; Q-Quick; A-Advance

The key fiscal aggregates for the purpose are grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits (**Appendix 1.2 to 1.5**). The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part D**.

² GSDP is defined as the total income of the State or the market value of goods and services produced using labour and all other factors of production.

1.4 Trends and composition of aggregate Receipts

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the GOI. 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 the GOI as well as accruals from Public Account. **Table-5** shows that the total receipts of the State Government for the year 2007-08 were Rs.22,596 crore. Of these, revenue receipts comprised Rs.15,325 crore, constituting 68 *per cent*. The balance came from borrowings and receipts from the Public Account. Increase in Deposits and Advances were mainly due to increase in Deposits not bearing interest by Rs.532.66 crore and advances by Rs.56.24 crore over previous year. Remittances increased by Rs.325 crore (16.94 *per cent*) over previous year mainly due to increased receipts under PW remittances (Rs.393.62 crore) and miscellaneous remittances (Rs.0.64 crore) over previous year which was partly offset by Rs.69.12 crore due to decrease in receipt in Forest remittances.

Table-5: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)						
Sources of Receipts	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
I Revenue Receipts	6793	7765	9937	12045	13667	15325
II Capital Receipts	3062	2344	4600	1417	1151	1178
Recovery of Loans and Advances	28	40	1389	38	35	40
Public Debt Receipts	3034	2304	3211	1379	1116	1138
Miscellaneous Capital Receipts	--	--	--	--	--	--
III Contingency Fund	35	--	--	--	--	--
IV Public Account Receipts	2290	3957	2988	4146	4846	6093
(a). Small Savings, Provident Fund <i>etc.</i>	407	746	610	617	566	608
(b). Reserve Fund	184	135	478	149	370	506
(c). Deposits and Advances	(-) 10	926	1349	1637	2150	2739
(d). Suspense and Miscellaneous	858	1138	(-) 901	(-) 155	(-) 158	(-) 3
(e). Remittances	851	1012	1452	1898	1918	2243
Total Receipts	12180	14066	17525	17608	19664	22596

1.4.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government consisting of its own tax and non-tax revenues, central tax transfers and grants-in-aid from the GOI. The overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-6**.

Table-6: Revenue Receipts - Basic parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (RR) (Rupees in crore)	6793	7765	9937	12045	13667	15325
Own Taxes (<i>per cent</i>)	1935 (28.49)	2070 (26.66)	2713 (27.30)	3232 (26.83)	3483 (25.48)	3359 (21.92)
Non-Tax Revenue (<i>per cent</i>)	693 (10.20)	946 (12.18)	1070 (10.77)	1459 (12.11)	1859 (13.60)	2135 (13.93)
Central Tax Transfers (<i>per cent</i>)	1814 (26.70)	2162 (27.84)	2584 (26.00)	3057 (25.38)	3899 (28.53)	4918 (32.09)
Grants-in-aid (<i>per cent</i>)	2351 (34.61)	2587 (33.32)	3570 (35.93)	4297 (35.68)	4426 (32.38)	4913 (32.06)
Rate of growth of RR (<i>per cent</i>)	13.88	14.31	27.97	21.21	13.46	12.13
RR/GSDP (<i>per cent</i>)	15.68	16.45	18.78	20.93	21.02	21.08
Revenue Buoyancy (ratio)	1.04	1.61	2.30	2.43	1.03	1.03
State's own taxes Buoyancy (ratio)	1.83	0.78	2.56	2.19	0.60	(-) 0.30
Revenue Buoyancy with reference to State's own taxes ratio	0.57	2.06	0.90	1.11	1.72	(-) 3.43
GSDP Growth (<i>Per cent</i>)	13.30	8.91	12.14	8.74	13.02	11.79

The revenue receipts of the State increased from Rs.6,793 crore in 2002-03 to Rs.15,325 crore in 2007-08 at an annual average rate of 20.93 *per cent*. While 36 *per cent* of the revenue receipts during 2007-08 have come from the State's own resources comprising taxes and non-taxes, central tax transfers and grants-in-aid together contributed 64 *per cent*. The share of non-tax revenue and central tax transfers in the total revenue receipts of the State has increased by four percentage and five percentage points respectively during 2002-08 with slight inter-year variations while that of State's own taxes and grants-in-aid declined by seven percentage points and three percentage points respectively during the period.

Tax Revenue

Tax revenue has decreased by Rs.124 crore (3.56 *per cent*) from Rs.3,483 crore in 2006-07 to Rs.3,359 crore in 2007-08. The share of sales tax in total tax revenue has been more than 74 *per cent* throughout the period 2002-08 but it decreased sharply in 2007-08. The decrease in sales tax of Rs.92 crore from 2,783 crore in 2006-07 to Rs.2,691 crore in 2007-08 was mainly due to decrease in collection of other receipts. State Excise (Rs.189 crore), Stamps and Registration fees (Rs.110 crore) were the other contributors in the share of tax revenue during 2007-08 besides Sales tax. **Table-7** below presents the trends in growth and composition of tax revenue during 2002-08.

Table-7: Trends in Growth and Composition of Tax Revenue

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Sales Tax	1441	1551	2099	2568	2783	2691
State Excise	122	129	144	160	175	189
Taxes on vehicles	116	124	135	156	151	139
Taxes on Agricultural Income	3	3	5	7	3	3
Stamps and Registration fees	50	62	72	86	97	110
Land Revenue	62	62	58	75	74	80
Taxes and duties on Electricity	13	3	62	13	16	5
Other taxes	128	136	138	167	184	143
Total	1935	2070	2713	3232	3483	3360

Non-Tax Revenue

Non-tax revenue constituted 14 *per cent* of the total revenue receipts and increased by Rs.276 crore recording a growth rate of 14.85 *per cent* over the previous year.

The increase was mainly due to increase in the realisation of interest on investment on cash balances and other receipts (Rs.73 crore), sale of timber and other forest produce and Environmental Forestry (Rs.26 crore) and receipts under Labour laws and other receipts (Rs.12 crore). Besides, the credit entry on account of debt relief of Rs.105.40 crore under 'Miscellaneous General Services' received as an incentive under DCRF led to sharp increase in non-tax revenue of the State.

The actual tax and non-tax revenue receipts vis-à-vis the assessments made by the TFC and the State Government in its FCP and Five year Fiscal Plan Statement for 2007-08 were as under:

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in		Actuals
		Fiscal Correction Path	Five year Fiscal Plan Statement	
Own Tax Revenue	4005	4210	3915	3359
Own Non-Tax Revenue	1405	1543	1424	2135

Own tax revenue was less by Rs.851 crore than assessed (Rs.4,210 crore) in FCP, Rs.556 crore less than assessed (Rs.3,915 crore) in Five Year Fiscal Plan (FYFP) and Rs.646 crore less than the normative assessment of TFC, while non-tax revenue was more by Rs.730 crore, 592 crore and Rs.711 crore than assessed in TFC, FCP and FYFP respectively.

Central Tax Transfers

The central tax transfers increased by Rs.1,019 crore over the previous year and constituted 32.09 *per cent* of revenue receipts. The increase in central tax transfers was mainly due to increase in Corporation tax (Rs.344 crore), taxes on income other than Corporation tax (Rs.309 crore), Customs (Rs.169 crore) and Service Tax (Rs.117 crore).

Grants-in-aid

Grants-in-aid from the GOI increased from Rs.4,426 crore in 2006-07 to Rs.4,913 crore in 2007-08. The increase was mainly under State Plan Scheme (Rs.224 crore), Non-Plan Grants (Rs.177 crore), Centrally Sponsored Plan Schemes (Rupees one crore) and Special Plan Schemes (Rs.139 crore). The grants for Central Plan schemes decreased by Rs.54 crore from Rs.188 crore in 2006-07 to Rs.134 crore in 2007-08. The decrease was mainly due to decrease in grants under Special Central assistance to Scheduled Castes (Rupees seven crore), ICDS training programme (Rs.15 crore). There was sharp increase (Rs.176.96 crore) in non-plan grants from Rs.708.70 crore in 2006-07 to Rs.885.66 crore in 2007-08 which included Rupees eight crore for maintenance of Forest as recommended by the TFC. The TFC had recommended additional grants of Rs.219.66 crore for Education Sector and Rs.190.93 crore for Health Sector during 2007-08.

1.5 Application of resources

1.5.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs.7,750 crore in 2002-03 to Rs.14,575 crore in 2007-08. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-8**.

Table-8: Total Expenditure - Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure (TE)* (Rupees in crore)	7750	9200	13384	11727	12990	14575
Rate of Growth (<i>per cent</i>)	4.15	18.71	45.48	(-) 12.38	10.77	12.20
TE/GSDP Ratio (<i>per cent</i>)	17.89	19.50	25.29	20.38	19.97	20.05
RR/TE Ratio (<i>per cent</i>)	87.65	84.40	74.25	102.71	105.21	105.15
Buoyancy of Total Expenditure with reference to:						
GSDP (ratio)	0.31	2.10	3.75	**	0.83	1.03
RR (ratio)	0.30	1.31	1.63	**	0.80	1.01

* Total Expenditure includes revenue expenditure, capital expenditure and loans and advances.

** Rate of growth of Total Expenditure was negative.

Total expenditure at Rs.14,575 crore during 2007-08 increased by Rs.1,585 crore (12 *per cent*) over the previous year. Out of the total expenditure, the revenue expenditure constituted 87 *per cent* (Rs.12,744 crore) while capital expenditure excluding loans and advances formed 12 *per cent* (Rs.1,688 crore). The break up of total expenditure in terms of plan and non-plan expenditure reveals that while the share of plan expenditure constituted 25 *per cent* (Rs.3,678 crore), the remaining 75 *per cent* was non-plan expenditure (Rs.10,897 crore).

The increase in total expenditure during 2007-08 over previous year was due to increase in revenue expenditure by Rs.1,288 crore and capital expenditure by Rs.235 crore. The increase in revenue expenditure was mainly due to increase in expenditure on superannuation and retirement allowances (Rs.109 crore), Gratuity (Rs.45 crore), Leave encashment (Rs.15 crore), General Education (Rs.348 crore), Medical and Public Health (Rs.69 crore), Urban Development (Rs.63 crore), Agriculture and Allied Activities (Rs.59 crore), Rural Development (Rs.224 crore) and Industry and Minerals (Rs.65 crore). The increase in capital expenditure of Rs.235 crore over the previous year was mainly due to increase in plan capital expenditure in Water Supply, Sanitation, Housing and Urban Development (Rs.106.22 crore) and Transport (Rs.102.64 crore) and non plan capital expenditure in Energy (Rs.93.77 crore) over the previous year. Loans and advances constituted 0.98 *per cent* of the total expenditure and increased by Rs.62 crore over the previous year. The increase in Loans and Advances was mainly due to increased disbursement of Rs.29.82 crore for power projects over the previous year.

1.5.2 Trends in Total Expenditure by Activities

In terms of activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. The relative share of these components in total expenditure is indicated in **Table-9**.

Table-9: Components of Expenditure-Relative share

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	<i>(In per cent)</i>					
General Services	40.31	38.56	27.73	35.91	33.30	34.08
Of which,						
Interest payments	16.06	15.72	10.49	12.88	11.67	10.37
Social Services	37.68	36.96	32.20	34.38	35.66	35.84
Economic Services	20.22	22.96	32.69	28.71	30.36	29.04
Grants-in-aid	0.10	0.13	0.10	0.10	0.06	0.06
Loans & Advances	1.69	1.39	7.28	0.90	0.62	0.98

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But expenditure on General Services and interest payments, which are considered as non-developmental, together accounted for 34.08 *per cent* in 2007-08 as against 33.30 *per cent* in 2006-07. On the other hand, developmental expenditure i.e., expenditure on Social and Economic Services together accounted for 64.88 *per cent* in 2007-08 as against 66.02 *per cent* in 2006-07. This indicates that there was an increase in non-developmental expenditure and decrease in developmental expenditure during the year in comparison with the previous year.

1.5.3 Incidence of Revenue expenditure

Revenue expenditure had predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of

revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-10**.

Table-10: Revenue Expenditure - Basic Parameters

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE)	7113	8450	10229	10536	11456	12744
Of which,						
Non-Plan Revenue Expenditure (NPRE)	5781	7021	8208	8407	9794	10677
Plan Revenue Expenditure (PRE)	1332	1429	2021	2129	1662	2067
Rate of Growth (per cent) NPRE	7.06	21.45	16.91	2.42	16.50	9.02
PRE	(-) 7.88	7.28	41.43	5.34	(-) 21.94	24.37
NPRE/GSDP (per cent)	13.34	14.88	15.51	14.61	15.06	14.69
NPRE as per cent of TE	74.59	76.32	61.33	71.69	75.40	73.26
NPRE as per cent of RR	85.10	90.42	82.60	69.80	71.66	69.67
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	0.29	2.11	1.73	0.34	0.67	0.95
Revenue Receipts (ratio)	0.28	1.31	0.75	0.14	0.65	0.93

The overall revenue expenditure of the State increased by 79.16 per cent from Rs.7,113 crore in 2002-03 to Rs.12,744 crore in 2007-08 at an average annual rate of 13.19 per cent and increased from Rs.11,456 crore in 2006-07 to Rs.12,744 crore in 2007-08. In 2007-08, the NPRE was Rs.10,677 crore (84 per cent) and PRE was Rs.2,067 crore (16 per cent). The non-plan expenditure increased consistently from Rs.5,781 in 2002-03 to Rs.10,677 crore in 2007-08 while the plan expenditure increased from Rs. 1,332 crore in 2002-03 to Rs.2,067 crore in 2007-08 with wide inter year variations. The increase of Rs.883 crore in NPRE during 2007-08 over the previous year was mainly due to increase in Elementary Education by Rs.122.07 crore, Technical Education by Rs.20.27 crore, Crop Husbandry under Agriculture and Allied Activities by Rs.30.69 crore, Calamity Relief Fund under Social Welfare and Nutrition by Rs.107.81 crore, Urban Health and Rural Health by Rs.25.91 crore and Rs.27.23 crore respectively. There was also an increase of Rs.13.49 crore in water supply under Water Supply, Sanitation, Housing and Urban Development and Rs.97 crore in Roads and Bridges under Transport over the previous year.

A comparative position of NPRE vis-à-vis assessment made in TFC and FCP reveal that NPRE was 17 per cent (Rs.2, 156 crore) less than the projection made in FCP but higher by 17 per cent (Rs.1,536 crore) relative to TFC assessment as indicated in Table-11.

Table -11

	(Rupees in crore)		
	Assessment/Projections		Actual
	TFC	FCP	
Non-plan revenue expenditure	9141	12833	10677

The PRE has increased by Rs.405 crore from Rs.1,662 crore in 2006-07 to Rs.2,067 crore in 2007-08, mainly due to increase in Special Central assistance to Tribal sub-plan (Rs.56.70 crore), assistance to Public Sector and other undertakings

(Rs.15.55 crore) under Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes, Rs.64.93 crore in Child Welfare, Rs.68.89 crore in Nutrition under Social Welfare and Nutrition and Rs.16.30 crore in Handloom and Textiles under Industry and Minerals over previous year.

1.5.4 Committed Expenditure

Expenditure on Salaries and Wages: The expenditure on salaries increased from Rs.3,883 crore in 2002-03 to Rs.5,241 crore in 2007-08 as indicated in **Table-12**.

Table-12: Expenditure on Salaries

(Rupees in crore)						
Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries & Wages	3883	4462	5194 ³	4238	4684	5241 ⁴
Of which,						
Non-Plan Head	3038	4005	4376	3883	4484	5068
Plan Head	845	457	818	355	200	173
As per cent of GSDP	8.96	9.46	9.81	7.36	7.20	7.21
As per cent of RR	57.16	57.46	52.27	35.18	34.27	34.20

Source: Finance Accounts for 2005-06 to 2007-08 and for the years prior to that, State Government figures were adopted.

Salaries accounted for 34 per cent of revenue receipts of the State during 2007-08 and the non plan salary expenditure increased by more than 13 per cent (Rs.584 crore) over the previous year. Expenditure of Rs.5,241 crore on salaries during 2007-08 was less by Rs.1,412 (27 per cent) than assessed (Rs.6,653 crore) by the State Government in its FCP but higher by Rs.170 crore (three per cent) against the projection of Rs.5,071 crore in FYFP. The expenditure on salaries was 53 per cent of the revenue expenditure, net of interest payments and pensions as against the TFC norm of 35 per cent and constituted 95 per cent of total tax and non-tax revenue during 2007-08 requiring attention of the Government to achieve the target of limiting it to 60 per cent by 2010 as laid down in FRBM Act, 2005.

Expenditure on Pension payments: Pension payments grew at an annual average rate of 12.13 per cent from Rs.776 crore in 2002-03 to Rs.1,341 crore in 2007-08. The year-wise break up of expenditure incurred on pension payments during 2002-03 to 2007-08 is indicated in **Table-13**.

Table-13: Expenditure on Pensions

(Rupees in crore)						
Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions	776	909	1062	1011	1178	1341
As per cent of GSDP	1.79	1.93	2.01	1.76	1.81	1.84
As per cent of RR	11.42	11.71	10.69	8.39	8.62	8.75

Source: Finance Accounts

³ Represents salaries only and includes salaries spent from Grants-in-aid but excludes wages up to 2004-05.

⁴ Represents salaries only but excludes wages and salaries spent from Grants-in-aid. The salary expenditure figure shown in Appendix-III of Finance Accounts of the Government of Assam for the years ended 2005-06, 2006-07 & 2007-08 do not include salaries spent from Grants-in-aid.

Though pension payment was Rs.199 crore less than the projections made in the FCP (Rs.1,540 crore) for the year 2007-08 and Rs.73 crore less than the projections made in Five year Fiscal Plan (Rs.1,414 crore) and also Rs.120 crore less than the assessment made by TFC (Rs.1,461 crore), it has increased by more than 14 *per cent* from Rs.1,178 crore in 2006-07 to Rs.1,341 crore in 2007-08 mainly due to increase in the expenditure under superannuation and retirement benefits. The State Government has not introduced the new Pension Policy so far to meet the increasing pension liabilities.

Interest payments

Interest payments made and their ratio to revenue receipts and revenue expenditure during the period 2002-08 are detailed in **Table-14**.

Table-14: Interest payments

Year	Total Revenue Receipts (Rupees in crore)	Interest Payments	Percentage of Interest payments to	
			Revenue Receipts	Revenue Expenditure
2002-03	6793	1245	18.33	17.50
2003-04	7765	1446	18.62	17.11
2004-05	9937	1404	14.13	13.73
2005-06	12045	1510	12.54	14.33
2006-07	13667	1516	11.09	13.23
2007-08	15325	1512	9.87	11.86

Interest payments increased by 21.45 *per cent* from Rs.1,245 crore in 2002-03 to Rs.1,512 crore in 2007-08. The interest payments during 2007-08 were on internal debt (Rs.1,118 crore), loans from Central Government (Rs.134 crore) and Small Savings, Provident Fund, etc. (Rs.260 crore). The interest payment was Rs.918 crore less than that projected (Rs.2,430 crore) in the FCP for the year 2007-08, Rs.306 crore less than the projections made (Rs.1,818 crore) in Five year Fiscal Plan and Rs.319 crore less than that projected (Rs.1,831 crore) by TFC. The interest payments relative to revenue receipts at 10 *per cent* was well within the norm of 15 *per cent* recommended by TFC to be achieved during its award period.

The major sources of borrowings of the State Government were (i) Loans from the Centre, (ii) Loans from Market, (iii) Loans from Banks and Financial institutions and (iv) Loans from Small Savings and Provident Fund with interest rates ranging from 7.14 *per cent* to 9.97 *per cent* per annum during the period from 2002-08.

Subsidies

The State Government has been giving subsidies to various target groups but has not made any explicit provision for subsidies in its Annual Budget. It has not paid subsidy to PSUs and other institutions during 2007-08.

1.6 Expenditure by Allocative Priorities

1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore the ratio of capital expenditure to total expenditure

as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. **Table-15** gives these ratios during 2002-08.

Table-15: Indicators of Quality of Expenditure

(Rupees in crore)						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	506	622	2181	1085	1453	1688
Revenue Expenditure	7113	8450	10229	10536	11456	12744
Of which,						
Social and Economic Services with	3993	4908	6527	6324	7146	7811
(i) Salary & Wage Component	2897 (73)	3302 (67)	4017 (62)	3411* (54)	3754* (53)	4226* (54)
(ii) Non-Salary & Wage Component	1095 (27)	1606 (33)	2510 (38)	2913 (46)	3392 (47)	3585 (46)
As per cent of Total Expenditure **						
Capital Expenditure	6.64	6.86	17.57	9.34	11.26	11.70
Revenue Expenditure	93.36	93.14	82.43	90.66	88.74	88.30
As per cent of GSDP						
Capital Expenditure	1.17	1.32	4.12	1.89	2.23	2.32
Revenue Expenditure	16.42	17.91	19.33	18.31	17.62	17.53

* Excludes wage component.

** Total expenditure excludes Loans and Advances.

Table-15 shows that capital and revenue expenditure of the State for the year 2007-08 were Rs.1,688 crore and Rs.12,744 crore respectively, constituting 11.70 per cent and 88.30 per cent of the total expenditure indicating hardening of resources. The increasing pressure on revenue expenditure seems to have crowded out capital expenditure over the period. However, the salary and wage component of revenue expenditure incurred on Social and Economic Services had decreased from 73 per cent in 2002-03 to 54 per cent in 2007-08 while that of non salary component has gradually increased from 27 per cent to 46 per cent which indicates the changing allocative priorities of the Government towards creating productive assets and developing social and economic infrastructure in the State.

1.6.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these

services in the State. **Table-16** summarizes the expenditure incurred by the State Government in expanding and strengthening the social services in the State during 2002-08.

Table-16: Expenditure on Social Services**(Rupees in crore)**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Education, Sports, Art and Culture						
Revenue Expenditure	1997	2362	2503	2516	2751	3047
Of which,						
(a) Salary & Wage Component	1717	2044	2337	1999*	2080*	2471*
(b) Non-Salary & Wage Component	280	318	166	517	671	576
Capital Expenditure	1	1	1	3	2	1
Total	1998	2363	2504	2519	2753	3048
Health and Family Welfare						
Revenue Expenditure	324	350	409	399	568	653
Of which,						
(a) Salary & Wage Component	255	298	314	314*	357*	369*
(b) Non-Salary & Wage Component	69	52	95	85	211	284
Capital Expenditure	6	21	12	12	4	4
Total	330	371	421	411	572	657
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure	195	215	415	422	329	311
Of which,						
(a) Salary & Wage Component	84	58	194	113*	139*	135*
(b) Non-Salary & Wage Component	111	157	221	309	190	176
Capital Expenditure	15	17	35	30	149	260
Total	210	232	450	452	478	571
Other Social Services						
Revenue Expenditure	381	434	935	650	829	946
Of which,						
(a) Salary & Wage Component	82	98	135	133*	135*	150*
(b) Non-Salary & Wage Component	299	336	800	517	694	796
Capital Expenditure	--	--	--	--	--	1
Total	381	434	935	650	829	947
Total (Social Services)						
Revenue Expenditure	2897	3361	4262	3987	4477	4957
Of which,						
(a) Salary & Wage Component	2138	2498	2980	2559*	2711*	3125*
(b) Non-Salary & Wage Component	759	863	1282	1428	1766	1832
Capital Expenditure	22	39	48	45	155	266
Grand Total	2919	3400	4310	4032	4632	5223

Source: Finance Accounts and State Government figures

* Excludes wage component

The expenditure on Social Services increased from Rs.2,919 crore in 2002-03 to Rs.5,223 crore in 2007-08 and it constituted 36.19 *per cent* of the total revenue and capital expenditure (Rs.14,432 crore) during 2007-08. Three major Social Services *viz.* General Education (Rs.3,047 crore), Health and Family Welfare (Rs.653 crore), Water Supply and Sanitation (Rs.311 crore) accounted for 77 *per cent* of the total Expenditure on Social Services. Out of revenue expenditure on Social Services, the share of total salary component increased from Rs.2,138 crore in 2002-03 to Rs.3,125 crore in 2007-08 (46 *per cent*) whereas non salary component increased by 141 *per cent* from Rs.759 crore in 2002-03 to Rs.1,832 crore in 2007-08. Assuming that non-salary component of revenue expenditure is a proxy for the maintenance and efficient running of the services, the quality of these services seem to have improved over the period 2002-08. The capital expenditure on Social Services increased from Rs.22 crore in 2002-03 to Rs.266 crore in 2007-08 indicating improved quality of expenditure on these services.

To improve the quality of education and health services in the States, the TFC recommended that the non-plan salary expenditure under education, health and family welfare should increase only by five to six *per cent* while non salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. The trends in expenditure revealed that the salary and wage component of revenue expenditure under General Education increased by 19 *per cent* in 2007-08 over the previous year, while the non salary component decreased by 14 *per cent*. Under Health sector, salary and wage component increased by three *per cent* while non salary component increased by 35 *per cent*. While the expenditure pattern in Health sector seems to be in conformity with TFC norms, while in Education sector, attention is required for containing salary component of NPPE. The TFC had recommended a total grant (specific grants-in-aid) of Rs.2,073.39 crore (Rs.1,107.37 crore for Education sector and Rs.966.02 crore for Health sector) over the award period 2005-10 due to the inability of the State Government to spend adequately in these sectors.

1.6.3 Expenditure on Economic Services

Expenditure on Economic Services includes all such expenditure as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs.4,233 crore) accounted for 29.33 *per cent* of the total expenditure (Table-17). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed 62 *per cent*.

Table-17: Expenditure on Economic Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6	7
Agriculture, Allied Activities						
Revenue Expenditure	362	478	488	548	614	672
<i>Of which,</i>						
(a) Salary & Wage Component	284	304	396	318*	355*	365
(b) Non-Salary & Wage Component	78	174	92	230	259	307
Capital Expenditure	1	1	1	--	1	1
Total	363	479	489	548	615	673
Irrigation and Flood Control						
Revenue Expenditure	129	177	208	219	269	292
<i>Of which,</i>						
(a) Salary & Wage Component	112	154	200	195*	239*	253
(b) Non-Salary & Wage Component	17	23	8	24	30	39
Capital Expenditure	112	82	110	112	197	196
Total	241	259	318	331	466	488
Power & Energy						
Revenue Expenditure	5	142	312	323	291	31
<i>Of which,</i>						
(a) Salary & Wage Component	--	--	--	--	--	--
(b) Non-Salary & Wage Component	5	142	312	323	291	31
Capital Expenditure	64	82	1374	205	208	419
Total	69	224	1686	528	499	450
Transport						
Revenue Expenditure	222	247	309	347	387	504
<i>Of which,</i>						
(a) Salary & Wage Component	113	141	201	161*	222*	256
(b) Non-Salary & Wage Component	109	106	108	186	165	248
Capital Expenditure	186	186	299	434	357	517
Total	408	433	608	781	744	1021
Other Economic Services						
Revenue Expenditure	377	503	948	900	1108	1355
<i>Of which,</i>						
(a) Salary & Wage Component	250	205	240	178*	226*	227
(b) Non-Salary & Wage Component	127	298	708	722	882	1128
Capital Expenditure	109	214	326	279	512	246
Total	486	717	1274	1179	1620	1601
Total (Economic Services)						
Revenue Expenditure	1095	1547	2265	2337	2669	2854
<i>Of which,</i>						
(a) Salary & Wage Component	759	804	1037	852*	1042*	1101
(b) Non-Salary & Wage Component	336	743	1228	1485	1627	1753
Capital Expenditure	472	656	2110	1030	1275	1379
Grand Total	1567	2203	4375	3367	3944	4233

Source: Finance Accounts and State Government figures.

* Excludes wage component.

Out of total expenditure on Economic Services during 2007-08, 11 per cent on Power and Energy, 12 per cent on Irrigation and Flood Control and 24 per cent on Transport and 16 per cent on Agriculture and allied activities was incurred. As compared to 2002-03, significant increase was observed in 2007-08 in Power and Energy (552 per cent), Transport services (150 per cent), Agriculture and allied activities (85 per cent) and Irrigation and Flood Control (102 per cent).

The trends in revenue and capital expenditure on Economic Services indicate that the capital expenditure has increased from Rs.472 crore (30 per cent) in 2002-03 to Rs.1,379 crore (33 per cent) in 2007-08, while the revenue expenditure increased from Rs.1,095 crore (70 per cent) in 2002-03 to Rs.2,854 crore (67 per cent) in 2007-08. Of the revenue expenditure, salary component increased from Rs.759 crore (69 per cent) in 2002-03 to Rs.1,101 crore (39 per cent) in 2007-08 whereas non-salary component increased from Rs.336 crore (31 per cent) to Rs.1,753 crore (61 per cent) indicating allocative priorities probably towards their maintenance and better quality of services.

1.6.4 Financial Assistance to local bodies and other institutions

The quantum of assistance provided by State Government by way of grants and loans to local bodies and others during the six-year period 2002-08 is presented in **Table-18**.

Table-18: Financial Assistance

Name	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Zilla Parishads and other Panchayati Raj institutions	25.53	14.82	23.04	27.30	27.19	42.53
Municipal Corporations/Urban Sewerage Board	13.59	19.63	65.28	16.71	17.66	24.47
Co-operative Societies and Co-operative Institutions	10.49	3.82	1.85	0.04	0.04	1.64
Universities and Educational Institutions	761.40	841.75	919.04	922.90	892.58	822.57
Assam State Electricity Board (ASEB)	21.84	86.28	946.92	81.26	70.53	102.36
Assam State Housing Board (ASHB)	0.61	0.86	0.97	1.42	1.34	1.34
Assam Khadi and Village Industries Board	1.30	2.46	5.90	6.96	6.80	11.25
Guwahati Metropolitan Development Authority	0.50	8.86	26.13	33.88	27.79	0.12
Other Institutions	17.49	31.35	69.58	76.56	61.44	109.22
Autonomous Councils	23.45	11.66	135.24	83.28	167.75	83.86
Total	876.20	1021.49	2193.95	1250.31	1273.12	1199.36
Assistance as percentage of RE	12.32	12.09	21.45	11.87	11.11	9.41

Source: Detailed Appropriation Accounts

The total assistance at the end of 2007-08 had grown by 37 per cent over the level of 2002-03. The assistance to local bodies as a percentage of total revenue expenditure had decreased from 12.32 per cent in 2002-03 to 9.41 per cent in 2007-08. Although the financial assistance to educational institutions constituted about 69 per cent of the total financial assistance by State Government during 2007-08, decrease in assistance

to Universities and Educational Institutions (Rs.70 crore) led to a net decrease of Rs.74 crore in financial assistance during the year. The increase in assistance during 2007-08 to Zilla Parishads and other Panchayati Raj institutions was mainly due to award of plan grants to Assam Urban Water Supply Schemes (Rs.9.50 crore) and increase in assistance to Assam State Electricity Board (ASEB) was mainly due to disbursement of loans to Electricity Boards.

1.6.5 Misappropriation, losses, defalcations, etc

The State Government reported 210 cases of misappropriation, defalcation, etc., involving Government money amounting to Rs.3.62 crore upto March 2008 on which final action was pending. The Department-wise break up of pending cases is given in *Appendix-1.6*.

1.7 Assets and Liabilities

In Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.2* gives an abstract of such liabilities and the assets as on 31 March 2008 compared with the corresponding position on 31 March 2007. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. *Appendix-1.5* depicts the time series data on State Government finances for the period 2002-2008.

1.7.1 Incomplete projects

As on 31 March 2008, there were 391 incomplete projects, which include 120 irrigation projects (expenditure: Rs.28.73 crore) in which Rs.375.27 crore was blocked. Of these, 249 projects (expenditure: Rs.325.17 crore) were incomplete for less than five years, five projects (expenditure: Rs.0.34 crore) were incomplete for periods ranging from five to 10 years, 10 projects (expenditure: Rs.3.22 crore) were incomplete for periods ranging from 10 to 20 years and five projects (expenditure: Rs.0.88 crore) were incomplete for more than 20 years. Details in respect of 122 projects involving capital of Rs.45.66 crore were not available. This showed that the Government was spreading its resources thinly, without any yield or return. Reasons for incomplete projects were paucity of funds, price escalation and natural calamities etc. The department-wise information pertaining to incomplete projects as on 31 March 2008 is given in *Appendix-1.7*.

1.7.2 Investments and returns

As on 31 March 2008, the Government had invested Rs.1,989.32 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives (Table 19). The average return on this investment was less than one *per cent* in the last six years while the Government paid interest at an average rate of 7.14 to 9.97 *per cent* on its borrowings during 2002-08. Details are given in *Appendix-1.8*.

Table-19: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowings	Difference between interest paid and return
	(Rupees in crore)		(per cent)		
2002-03	570.35	5.93	1.04	9.82	8.78
2003-04	587.89	6.88	1.17	9.97	8.80
2004-05	1952.91	9.29	0.48	8.47	7.99
2005-06	1969.95	15.47	0.79	8.18	7.39
2006-07	1984.46	18.54	0.93	7.66	6.73
2007-08	1989.32	24.00	1.21	7.14	5.93

During the last four years, i.e. from 2004-08, the State Government investments have increased only marginally by Rs.36.41 crore. During the current year, Government has invested Rupees four crore in Statutory Corporations, Rs.0.20 crore in Government Companies, Rs.0.01 crore in Joint Stock Companies and Rs.0.65 crore in Cooperative Societies. The accumulated loss of the Statutory Corporations was Rs.516 crore as of March 2006. The major loss sustaining organisation's are Assam Financial Corporation (investment: Rs.2.75 crore; loss Rs.86.29 crore) and Assam State Transport Corporation (investment: Rs.329.14 crore; loss Rs.422.63 crore).

1.7.3 Loans and Advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, the Government has also been providing loans and advances to many of them. Total amount of outstanding loans and advances as on 31 March 2008 was Rs.2,824 crore (Table-20). Interest received against these loans and advances continued to be negligible, i.e. even less than half a *per cent* of outstanding loans and advances during the period 2002-08.

Table-20: Average Interest Received on Loans Advanced by the State Government

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	2832	2935	3022	2607	2675	2721
Amount advanced during the year	131	128	974	106	81	143
Amount repaid during the year	28	41	1389	38	35	40
Closing Balance	2935	3022	2607	2675	2721	2824
Net addition	103	87	-	68	46	103
Interest Received	1	4	7	6	8	8
Interest received as <i>per cent</i> to outstanding Loans and advances	0.03	0.13	0.27	0.22	0.29	0.28
Average interest rate (in <i>per cent</i>) paid on borrowings by State Government	9.82	9.97	8.47	8.18	7.75	7.14
Difference between average interest paid and received (<i>per cent</i>)	9.79	9.84	8.20	7.96	7.46	6.86

Major recipients of loans during 2007-08 were Electricity Boards (Rs.102.36 crore), consumer industries (Rs.10.46 crore) and Government servants (Rs.0.15 crore).

1.7.4 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 and special- from Reserve Bank of India has been put in place. The operative limit for normal WMA is reckoned as the three year average of revenue receipts and the operative limit for special WMA is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. The limit in respect of Assam was Rs.295 crore for normal and Rs.299.84 crore for special WMA during 2007-08. The State Government did not avail of any WMA and overdrafts during the year. WMA and overdrafts availed, the number of occasions when these were availed and interest paid by the State are detailed in **Table-21**.

Table-21: Ways and Means Advances and Overdrafts of the State

(Rupees in crore)						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Ways and Means Advances						
Availed in the year	955.84	2092.32	4288.55	1652.63	--	--
Number of occasions	39	53	81	32	--	--
Outstanding WMA, if any	226.39	227.96	317.49	-	--	--
Interest Paid	11.60	14.26	10.15	3.15	--	--
Number of days	39	53	81	32	--	--
Overdraft						
Availed in the year	4533.27	4343.54	1782.80	228.07	--	--
Number of occasions	116	104	64	08	--	--
Number of days	315	237	129	30	--	--
Interest Paid	32.68	23.10	3.69	0.63	--	--

The cash balances of the State Government at the end of current year increased from Rs.2,703 crore in 2006-07 to Rs.3,959 crore in 2007-08. The State Government had invested Rs.5,146.33 crore in GOI Treasury Bills and Rs.4.35 crore in securities of the GOI and earned an interest of Rs.231.38 crore and Rs.1.11 crore respectively.

1.8 Undischarged Liabilities

“Total liabilities” as defined in AFRBM Act, 2005 means the liabilities under the Consolidated Fund of the State and the Public Account of the State.

1.8.1 Fiscal Liabilities-Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund - Capital Account. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by an Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits.

Table-22 gives the fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-22: Fiscal Liabilities – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities* (Rupees in crore)	13720	15285	17855	19082	20483	21871
Rate of Growth (<i>per cent</i>)	17.94	11.41	16.81	6.87	7.34	6.78
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	31.66	32.39	33.74	33.16	31.50	30.08
Revenue Receipts (<i>per cent</i>)	202.00	196.80	179.70	158.42	149.87	142.71
Own Resources (<i>per cent</i>)	522.10	506.80	472.00	406.78	383.43	398.09
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	1.35	1.28	1.39	0.79	0.56	0.58
Revenue Receipts (ratio)	1.29	0.80	0.60	0.32	0.55	0.56
Own Resources (ratio)	0.70	0.77	0.66	0.29	0.53	2.38

* Includes Internal Debt, Loans and Advances from GOI, Small Savings, Provident Funds, etc., Reserve Funds (Gross) and Deposits.

The overall fiscal liabilities of the State increased from Rs.13,720 crore in 2002-03 to Rs.21,871 crore in 2007-08. The growth rate was 6.78 *per cent* during 2007-08 over the previous year. The ratio of fiscal liabilities to GSDP has decreased from 31.66 *per cent* in 2002-03 to 30.88 *per cent* in 2007-08. These liabilities stood at nearly 1.43 times the revenue receipts (as against the projection of 3 times in FRBM Act by the year ending 2008-09) and 3.98 times of the States own resources at the end of 2007-08. Buoyancy of fiscal liabilities to GSDP, fiscal liabilities to revenue receipts and to own resources has increased during 2007-08.

In line with the recommendations of the TFC, the State Government set up the Sinking Fund for amortization of market borrowings as well as other loans and debt obligations. As on 31 March 2008 the outstanding balance in the Sinking Fund was Rs.841 crore. During 2007-08, Rs.204 crore has been invested in the Sinking Fund.

1.8.2 Status of Guarantees-Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per **Statement-6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of 2007-08 are given in **Table-23**.

Table-23: Guarantees given by the Government of Assam

Year	Maximum amount guaranteed	Outstanding amount of guarantees*	Percentage of maximum amount guaranteed to total revenue receipts	(Rupees in crore)	
				Outstanding guarantees as percentage of State's own Revenue**	of second preceding year
2002-03	2888	1881	42.51		90
2003-04	2904	1833	37.40		70
2004-05	1034	711	10.41		24
2005-06	1727	1273	14.34		34
2006-07	1563	904	11.44		19
2007-08	1189	951	7.76		20

* Includes interest

** State's own revenue includes tax revenue and non tax revenue

Government has guaranteed loans raised by various corporations and others, which at the end of 2007-08 stood at Rs.951 crore. Out of the total outstanding guarantees, Rs.666 crore (70 per cent) were towards Assam State Electricity Board. The State Government is yet to implement the recommendation of the TFC by setting up Guarantee Redemption Fund through earmarked guarantee fees. As per FRBM Act, State Government guarantees shall be restricted to 50 per cent of State's tax and non-tax revenue of the second preceding year, which was within the limit during 2007-08. During 2007-08, it showed a significant improvement and constituted 20 per cent of the State's revenue.

1.8.3 Debt Sustainability

Debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero.

Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable, provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards debt stabilization are indicated in **Table-24**.

Table-24: Debt Sustainability-Interest Rate and GSDP Growth (in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	9.82	9.97	8.47	8.18	7.66	7.14
GSDP Growth <i>per cent</i>	13.30	8.91	12.14	8.74	13.02	11.79
Interest spread	3.48	(-) 1.06	3.67	0.56	5.36	4.65
Quantum spread (Rs. in crore)	477.46	(-) 162.02	655.28	106.86	1104.05	1017.00
Primary Deficit (-) /Surplus (+) (Rs. in crore)	316	51	(-) 654	1866	2228	2302

Table-24 reveals that quantum spread together with primary deficit remained negative during 2003-04 and 2004-05 resulting in an increase in debt GSDP ratio since 2005-06. Quantum spread together with primary deficit remained positive resulting in a decline in debt/GSDP ratio from 33.16 per cent in 2005-06 to 30.08 per cent in 2007-08. This trend indicates that the State is moving towards debt stabilization which in turn may improve the debt sustainability of the State.

Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest

burden and the incremental primary expenditure. **Table-25** indicates the resource gap as defined for the period 2003-08.

Table-25: Incremental revenue receipts and Revenue Expenditure

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2003-04	984	1249	201	1450	(-) 466
2004-05	3521	4426	(-) 42	4184	(-) 663
2005-06	757	(-) 1763	106	(-) 1657	(+) 2414
2006-07	1619	1257	6	1263	(+) 356
2007-08	1663	1589	(-) 4	1585	(+) 78

The trends in table-25 reveal that the incremental non-debt receipts of the State had been able to meet the incremental interest liabilities and incremental primary expenditure in three years out of the five year period 2003-08. Moreover, the persistent positive resource gap during the last three years is a pointer towards fiscal and debt sustainability of the State.

1.8.4 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest. **Table-26** below gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the State over the last six years.

Table-26: Net Availability of Borrowed Funds

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Internal debt						
Receipts	6415	7286	7895	7495	1103	1199
Repayment (Principal + Interest)	6937	7599	7203	3484	1486	1687
Net Funds Available	(-) 522	(-) 313	692	4011	(-)383	(-) 488
Net Funds Available (<i>per cent</i>)	(-) 8.14	(-) 4.30	8.77	53.52	(-) 34.72	(-) 40.70
Loans and Advances from the GOI						
Receipts	2058	1452	1297	(-) 3918	13	(-)61
Repayment (Principal + Interest)	1603	1670	1515	291	294	140
Net Funds Available	455	(-) 218	(-) 218	(-) 4209	(-) 281	(-) 201
Net Funds Available (<i>per cent</i>)	22.11	(-)15.01	(-) 16.81	(-)107.43	(-)2161.54	(-)329.51
Other obligations						
Receipts	1133	1458	2053	1971	2552	3263
Repayment (Principal + Interest)	1113	947	1430	2057	2003	2698
Net Funds Available	20	511	623	(-) 86	549	565
Net Funds Available (<i>per cent</i>)	1.77	35.05	30.35	(-) 4.36	21.51	17.32
Total liabilities						
Receipts	9606	10196	11245	5548	3668	4401
Repayments (Principal+ Interest)	9653	10216	10148	5832	3783	4525
Net Funds Available	(-) 47	(-) 20	1097	(-) 284	(-) 115	(-) 124
Net Funds Available (<i>per cent</i>)	(-) 0.49	(-) 0.20	9.76	(-) 5.12	(-) 3.14	(-) 2.82

The net funds available on account of the internal debt and loans and advances from the GOI and other obligations after providing for the interests and repayments remained negative during the last three years. During the current year, the Government repaid principal plus interest on account of internal debt of Rs.1,687 crore, the GOI loan of Rs.140 crore and also discharged other obligations of Rs.2,698 crore as a result of which, payments exceeded the receipts during the year. During 2007-08, in view of the large cash balances, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payment on loans raised from the market as well as from the GOI.

1.9 Management of deficits

Deficit in Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised and applied are important pointers to its fiscal health.

1.9.1 Trends in Deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 27**.

The State although continued to experience revenue deficit during 2002-03 to 2004-05 with inter year variations but took a turnaround in 2005-06 and showed a revenue surplus of Rs.1,509 crore in 2005-06, Rs.2,211 crore in 2006-07 which further increased to Rs.2,581 crore in 2007-08. This improvement in revenue account during 2007-08 was mainly on account of steep increase in Central transfers comprising State's share in Central taxes and duties and grants-in-aid from the GOI by Rs.1,506 crore in 2007-08 over the previous year. The State's own resources comprising of tax and non tax revenue increased marginally by Rs.152 crore during the year. Revenue expenditure on the other hand increased by Rs.1,288 crore in 2007-08 resulting in huge surplus on revenue account during the current year.

Huge revenue surplus in 2007-08 accompanied by moderate increase in plan capital expenditure (Rs.68 crore) and non-plan capital expenditure (Rs.167 crore) in 2007-08 together with disbursement of loans and advances (Rs.143 crore) resulted in a situation of fiscal surplus (Rs.790 crore) during 2007-08. The interest payments amounting to Rs.1,512 crore in 2007-08 led to huge primary surplus of Rs.2,302 crore in 2007-08.

Table-27: Fiscal Imbalances – Basic Parameters

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Deficit (-)/Surplus(+) (Rupees in crore)	(-) 320	(-) 685	(-) 292	(+) 1509	(+) 2211	(+) 2581
Fiscal Deficit (-)/Surplus(+) (Rupees in crore)	(-) 929	(-) 1395	(-) 2058	(+) 356	(+) 712	(+) 790
Primary Deficit (-)/Surplus(+) (Rupees in crore)	(+) 316	(+) 51	(-) 654	(+) 1866	(+) 2228	(+) 2302
RD/GSDP (per cent)	(-) 0.85	(-) 1.70	(-) 0.67	*	*	*
FD/GSDP (per cent)	(-) 2.47	(-) 3.47	(-) 4.73	*	*	*
PD/GSDP (per cent)	(+) 0.84	(+) 0.13	(-) 1.50	*	*	*
RD/FD (per cent)	34.45	49.10	14.19	*	*	*

(Negative figures indicate deficit)

* There is revenue surplus

Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit⁵ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD had declined from 34.45 *per cent* in 2002-03 to 14.19 *per cent* in 2004-05 and thereafter revenue account has shown surplus during the succeeding three years. This trajectory shows a consistent improvement in the quality of the deficit and during the current year, the State has experienced a fiscal surplus indicating that non-debt receipts exceeded the total expenditure, leaving cash balance to meet the past debt obligations.

The bifurcation of the factors that resulted in primary deficit/surplus of the State during the period 2002-08 reveals (Table-28) that throughout this period except during the year 2004-05, State had experienced primary surplus. Even during 2004-05, State had primary revenue surplus indicating that primary deficit was on account of capital expenditure and loans and advances disbursed by the State Government during the year. In other words, non-debt receipts of the State were not only sufficient to meet the primary expenditure⁶ in the revenue account, but were able to meet the expenditure under the capital account to some extent except during 2004-05.

Table-28

(Rupees in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Deficit (-)/ Surplus (+)	Primary Deficit (-) / Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2002-03	6821	5868	506	131	6505	(+) 953	(+) 316
2003-04	7805	7004	622	128	7754	(+) 801	(+) 51
2004-05	11326	8825	2184	974	11980	(+) 2501	(-) 654
2005-06	12083	9026	1085	106	10217	(+) 3057	(+) 1866
2006-07	13702	9940	1453	81	11474	(+) 3762	(+) 2228
2007-08	15365	11232	1688	143	13063	(+) 4133	(+) 2302

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-29** below presents a summarized position of Government finances over 2002-2008, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their application, highlights areas of concern and captures its important facts.

⁵ Primary revenue deficit defined as gap between non interest revenue expenditure of the State and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

⁶ Primary expenditure of the State is defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

Table-29 Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	2	3	4	5	6	7
I. Resource Mobilisation						
Revenue Receipts/GSDP	15.68	16.45	18.78	20.93	21.02	21.08
Revenue Buoyancy	1.04	1.61	2.30	2.43	1.03	1.03
Own tax/GSDP	4.47	4.39	5.13	5.62	5.36	4.62
II. Expenditure Management						
Total Expenditure/GSDP	17.89	19.50	25.29	20.38	19.97	20.05
Total Expenditure/Revenue Receipts	114.09	118.48	134.69	97.36	95.05	95.11
Revenue Expenditure/Total Expenditure	91.78	91.85	76.43	89.84	88.19	87.44
Salary & Wage expenditure on Social and Economic Services/Revenue Expenditure	40.73	39.08	39.27	32.37	32.77	33.16
Non-Salary & Wage expenditure on Social and Economic Services/Revenue Expenditure	15.39	19.01	24.54	27.65	29.61	28.13
Capital Expenditure/Total Expenditure*	6.64	6.86	17.57	9.34	11.26	11.70
Capital Expenditure on Social and Economic Services/Total Expenditure*	6.48	7.66	17.39	9.25	11.08	11.40
Buoyancy of TE with RR	0.30	1.31	1.63	**	0.80	1.01
Buoyancy of RE with RR	0.28	1.31	0.75	0.14	0.65	0.93
III. Management of Fiscal Imbalances						
Revenue deficit/surplus (Rs. in crore)	(-) 320	(-) 685	(-) 292	(+) 1509	(+) 2211	(+) 2581
Fiscal deficit/surplus (Rs. in crore)	(-) 929	(-) 1395	(-) 2058	(+) 356	(+) 712	(+) 790
Primary deficit/surplus (Rs. in crore)	(+) 316	(+) 51	(-) 654	(+) 1866	(+) 2228	(+) 2302
Revenue Deficit/Fiscal Deficit	34.45	49.10	14.19	***	***	***
IV. Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	31.66	32.39	33.74	33.16	31.50	30.08
Fiscal Liabilities/RR	202.00	196.80	179.70	158.42	149.87	142.71
Buoyancy of FL with RR	1.29	0.80	0.60	0.32	0.55	0.56
Buoyancy of FL with Own Receipts	0.70	0.77	0.66	0.29	0.53	2.38
Net Funds Available	-	-	9.76	-	-	-
V. Other Fiscal Health Indicators						
Return on Investment	1.04	1.17	0.48	0.79	0.93	1.21
Balance from Current Revenue (Rs. in crore)	(-) 1095	(-) 1557	(-) 1383	(+) 433	(+) 332	(+) 851
Financial Assets/Liabilities	0.81	0.78	0.80	0.89	1.01	1.12

* Total expenditure excludes Loans and Advances.

** Rate of growth of Total Expenditure was negative.

*** There is revenue surplus.

The ratio of revenue receipts to GSDP remained almost static at 21 per cent during the last two years. However, ratio of State's own taxes to GSDP decreased from 5.36 per cent in 2006-07 to 4.62 per cent in 2007-08. The ratio of both the parameters to GSDP indicate adequacy of the resources.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure remained over 87 per cent during the last three years (2005-08) indicating its dominant share in the total expenditure of the State leaving capital expenditure at relatively lower level in the State. The ratio of revenue receipts to total expenditure in 2007-08 was 105.15 per cent which indicates that the State can meet its total expenditure out of its revenue receipts itself.

The revenue and fiscal surplus experienced by the State during the last three years indicates significant improvement in the fiscal position of the State. The increasing revenue receipts have been able to bring an improvement in the fiscal imbalances of the State which is also reflected by the decreasing ratio of financial liabilities to revenue receipts during the last six years (2002-03 to 2007-08) as well as from the positive balance from the current revenues from 2005-06 to 2007-08. A significant improvement in the fiscal position of the State is also reflected in the increasing assets to liabilities ratio during the last five years.

1.11 Conclusion

The fiscal position of the State viewed in terms of key fiscal parameters showed a significant improvement, as the State has been able to maintain revenue, fiscal and primary surpluses during 2005-06, 2006-07 and 2007-08. The State has achieved the targets for revenue and fiscal deficits as well as with regard to other variables as laid down in State FRBM Act/Rules, TFC as well as in FYFP and FCP for the year 2007-08. Moreover, the State has achieved these fiscal targets earlier than the timeline indicated in them with the current year ending in revenue surplus of Rs.2,581 crore and fiscal surplus of Rs.790 crore. The improvement in fiscal position of the State was on account of improvement in revenue receipts, which was, however, mainly on account of increase in mandatory central transfers comprising State share in Central taxes and grants-in-aid from the GOI. Of the incremental revenue receipts during 2005-06, 2006-07 and 2007-08, these two sources contributed 57 *per cent* in 2005-06, 60 *per cent* in 2006-07 and 91 *per cent* in 2007-08 indicating central transfers being the key in improving the revenue surplus during the year. The expenditure pattern of the State reveals that the revenue expenditure as a percentage to total expenditure although indicated declining trends, constitutes 87 *per cent* of the total expenditure during 2007-08. The NPRE at Rs.10,677 crore during 2007-08 was significantly higher than the normative projection of TFC at Rs 9,141 crore for the year. Moreover, within the NPRE, three components viz. salary expenditure, pension payments, and Interest payment constituted 76 *per cent* during 2007-08. These trends in expenditure indicate the need for changing allocative priorities. Recognizing the fact that the average education and health indicators in the State are poor compared to the national average, TFC recommended specific grants to improve the educational and health indicators in the State during its award period (2005-10). However, it is observed that the State Government could receive only Rs.205.30 crore (Education Sector: Rs.109.83 crore and Health Sector: Rs.95.47 crore) out of the recommended grants of Rs.410.59 crore (Education Sector: Rs.219.66 crore and Health Sector: Rs.190.93 crore) during 2007-08, thereby delaying the process of improvement in educational and health indicators. Furthermore, the fiscal liabilities of the State are consistently increasing and mostly borrowed funds are used for investment and disbursement of loans and advances. The huge accumulated losses of Statutory corporations especially in financial and transport sectors, resulted in negligible rate of return on Government's investment. This, coupled with inadequate interest cost recovery, continues to be a cause for concern and needs attention of the State Government.