

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 as explained in *Appendix I Part A*. The Finance Accounts of the Government of Haryana are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State of Haryana. The lay out of the Finance Accounts is depicted in *Appendix I Part B*.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the Government of Haryana for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement-I of Finance Accounts and other detailed statements.

Table 1.1 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							
					<u>Non-Plan</u>	<u>Plan</u>	<u>Total</u>
17,952.43	I. Revenue Receipts	19,750.74	16,362.15	I. Revenue Expenditure	14,351.36	3,175.51	17,526.87
10,927.76	Tax revenue	11,617.82	4,845.05	General Services	5,188.05	41.63	5,229.68
4,590.76	Non-tax revenue	5,097.08	4,615.40	Social Services	3,526.54	2,212.13	5,738.67
1,295.64	Share of Union Taxes/Duties	1,634.36	6,626.89	Economic Services	5,300.13	921.75	6,221.88
1,138.27	Grants from Government of India	1,401.48	274.81	Grants-in-aid/Contributions	336.64	-	336.64
Section-B: Capital							
--	II. Misc. Capital Receipts	10.15	2,427.60	II. Capital Outlay	15.43	3,410.74	3,426.17
2,200.74	III. Recoveries of Loans and Advances	213.80	184.72	III. Loans and Advances Disbursed	259.58	25.92	285.50
2,011.89	IV. Public Debt Receipts	843.50	1,113.77	IV. Repayment of Public Debt	840.92	-	840.92
-	V. Contingency Fund	-	-	V. Contingency Fund	-	-	-
6,732.30	VI. Public Account Receipts	9,432.73	5,395.14	VI. Public Account Disbursements	8,818.08	-	8,818.08
3,732.70	Opening Cash Balance	7,146.68	7,146.68	Closing Cash Balance	6,500.06	-	6,500.06
32,630.06	Total	37,397.60	32,630.06	Total	30,785.43	6,612.17	37,397.60

Following are the major changes during 2007-08 over the previous year:

- Revenue Receipts increased by Rs 1,799 crore due to increase in Tax Revenue (Rs 690 crore), Non-Tax Revenue (Rs 506 crore) including a credit entry of Rs 96.66 crore on account of debt waiver under DCRF, share of Union Taxes and Duties (Rs 338 crore) and grants from Government of India (Rs 264 crore).
- Revenue expenditure increased by Rs 1,165 crore, mainly due to increase in expenditure on Social Services (Rs 1,124 crore). However, revenue expenditure on Economic Services decreased by Rs 405 crore.
- There was an increase of Rs 998 crore in Capital Expenditure due to increase of expenditure mainly under Economic Services (Rs 644 crore) especially under Major and Medium Irrigation (Rs 325 crore).
- Recovery of loans and advances declined sharply during the current year to Rs 214 crore from Rs 2,201 crore in the previous year. The decline was observed mainly on account of decrease in recovery of loans and advances from the Power Sector.
- Public debt receipts decreased by Rs 1,168 crore in 2007-08 over the previous year mainly due to decline in internal debt receipt by Rs 1,214 crore. The repayment of public debt has also decreased by Rs 273 crore resulting in a decline of Rs 895 crore in net public debt receipts during the current year.
- Public Account receipts and disbursement at the end of the current year were Rs 9,432.73 crore and Rs 8,818.08 crore against Rs 6,732.30 crore and Rs 5,395.14 crore respectively during 2006-07. Net receipts under Public Account decreased by Rs 723 crore during 2007-08 relative to the previous year.
- Cash balance of the State at the close of the current year decreased by Rs 647 crore over the previous year due to the fiscal transactions of the Government listed above. Out of a total cash balance of Rs 6,500 crore at the end of current year, the State Government had invested Rs 6,354 crore in the securities of Government of India and interest earned on such investments was Rs 410 crore.

1.1.2 State fiscal position by key indicators

The fiscal position of the State Government as reflected by key fiscal indicators during the current year as compared to the previous year is given in **Table 1.2**.

Table 1.2

(Rupees in crore)

2006-07	Sr. No	Major Aggregates	2007-08
17,952	1	Revenue Receipts (2+3+4)	19,751
10,928	2	Tax Revenue	11,618
4,590	3	Non-Tax Revenue	5,097
2,434	4	Other Receipts	3,036
2,201	5	Non-Debt Capital Receipts	224
2,201	6	Of which recovery of loans	214
20,153	7	Total Receipts (1+5)	19,975
13,999	8	Non-Plan Expenditure (9+11)	14,626
13,908	9	On Revenue Account	14,351
2,265	10	Of which Interest Payments	2,346
91	11	On Capital Account	275
150	12	Of which loans disbursed	259
4,975	13	Plan Expenditure (14+15)	6,613
2,454	14	On Revenue Account	3,176
2,521	15	On Capital Account	3,437
35	16	Of which loans disbursed	26
18,974	17	Total Expenditure (13+8)	21,239
1,590	18	Revenue Surplus (+) [1-(14+9)]	2,224
1,179	19	Fiscal Deficit /Surplus (+) [(1+5)-17]	(-) 1,264
3,444	20	Primary Deficit/Surplus (+) [(1+5)-(17-10)]	1,082

Table-1.2 shows that revenue receipts increased by Rs 1,799 (10 per cent) during 2007-08 while revenue expenditure increased by Rs 1,165 crore (seven per cent) over the previous year resulting in an improvement in revenue surplus by Rs 634 crore during the current year from the level of Rs 1,590 crore in the previous year. Given the increase of Rs 634 crore in revenue surplus, a decrease of Rs 1,977 crore under non-debt capital receipts accompanied with an increase of Rs 1,099 crore in capital expenditure and disbursement of loans and advances resulted in a fiscal deficit of Rs 1,264 crore in 2007-08 from the fiscal surplus of Rs 1,179 crore in 2006-07. The steep increase in fiscal deficit also led to a sharp decline in primary surplus from Rs 3,444 crore in 2006-07 to Rs 1,082 crore in 2007-08 despite an increase of Rs 81 crore in interest payments.

1.2 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 have been analysed wherever necessary over the period of the last five years and observations have been made on their behaviour. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that the fiscal position of the States could be improved as committed in their respective FRBM Acts/Rules. 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 Fiscal

Responsibility Acts and in other Statements required to be laid in the legislature under the Act are used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP)¹ 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 a percentage of the GSDP 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 1.3**) as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios.

Table 1.3: Gross State Domestic Product (GSDP) at current prices–Growth Trends

Estimates	2003-04	2004-05	2005-06	2006-07	2007-08
Gross State Domestic Product (GSDP) (Rupees in crore)	82,468	93,627	1,06,385	1,26,475	1,47,576
Rates of Growth GSDP (<i>per cent</i>)	13.68	13.53	13.63	18.88	16.68

Source: Directorate of Economics and Statistics, Government of Haryana.

Note: Figures for 2003-04 to 2005-06 are provisional estimates, for 2006-07 quick and for 2007-08 advance estimates.

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Trends and composition of aggregate receipts, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits. 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 I Part C**.

The summarised financial position of the Government i.e. assets and liabilities, abstracts of receipts and disbursements for the year 2007-08, sources and application of funds and time series data is given in **Appendix II to V**.

1.2.1 The Haryana Fiscal Responsibility and Budget Management Act, 2005

The State Government has enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 in July 2005 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal

¹ 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.

sustainability, greater fiscal transparency in fiscal operation of the Government and conduct of fiscal policy in a medium term framework. The Act prescribes the following fiscal targets for the State Government:

- Progressively reduce revenue deficit from the financial year 2005-06, so as to bring it down to zero by 2008-09 and generate revenue surplus thereafter;
- Progressively reduce fiscal deficit from the financial year 2005-06, so as to bring it down to not more than three *per cent* of GSDP by 31 March 2010; and
- Ensure that within a period of five years, beginning from the financial year 2005-06 and ending on 31 March 2010, the outstanding total debt including contingent liabilities does not exceed 28 *per cent* of estimated GSDP for that year.

1.2.1.1 Fiscal Policy Statement(s) 2007-08

As prescribed in the Act, the State Government has laid *inter-alia* the following three statements of fiscal policy alongwith the Budget of the Government for 2007-08 before the legislature:

- a) Macroeconomic Framework Statement containing an overview of the State economy, analysis of growth and sectoral composition of GSDP.
- b) Medium Term Fiscal Policy Statement containing fiscal indicators and assumptions underlying the fiscal indicators.
- c) Fiscal Policy Strategy Statement containing fiscal policy of the State for ensuing year relating to taxation, expenditure, borrowing and other liabilities, lending, investment, other contingent liability, etc.

1.2.1.2 Roadmap to achieve the fiscal targets as laid down in FRBM Act/Rules

Keeping in view the fiscal targets laid down in the FRBM Act and the rules made there under, the State Government has developed its Own Fiscal Correction Path indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (**Appendix VI**).

The targets framed in Mid-Term Fiscal Policy for the year 2007-08 for various variables alongwith projections made by the State Government in Fiscal Correction Path as well as by TFC are being used to present the comparative analysis of actual performance vis-à-vis targets and projections in **Table 1.4**.

Table 1.4

Fiscal Parameters	Projection in TFC/FRBM	Projection as per MTFPS	Projection as per FCP	Actual	Percentage variation of actuals over		
					TFC	MTFPS	FCP
Own Tax Revenue	11,186	12,251	10,800	11,618	3.86	(-) 5.17	7.57
Own Non-Tax Revenue	1,802	2,925	2,080	5,097	182.85	74.26	145.05
Revenue Expenditure	-	16,769	15,425	17,527	-	4.52	13.63
NPRE	9,602	13,618	13,000	14,351	49.46	5.38	10.39
Revenue Deficit (-)/ Surplus (+) as per cent of GSDP (As per State) FRBM Act	0.0 (by 2008-09)	Revenue surplus	(-) 0.14 (Rs 165 crore)	(+) 2,224	Revenue Surplus	Revenue Surplus	Revenue Surplus
Fiscal Deficit (-)/ Surplus (+) as per cent of GSDP (As per State) FRBM Act	Not more than 3 per cent by 2009-10	(-) 1.24 (Rs 1830 crore)	(-) 1.84 (Rs 2145 crore)	(-) (0.85) (Rs 1,264 crore)	FRBM Targets achieved prior to target 2009-10	MTFPS target Achieved	FCP target achieved
Consolidated Debt (including Guarantees) as per cent of GSDP (As per State) FRBM Act	28.0	22.3 (Rs 32,923 crore)	29.32 (Rs 34,200 crore)	23.0 (Rs 33,520 crore)	FRBM Targets achieved prior to target date 31 st March 2010	Slightly higher than the MTFPS target but within the FCP limit	

The trends presented in the table reveal that the targets/norms set by TFC and State FRBM Act as well as by the State Government's in its MTFPS-2007-08 and FCP are achieved in case of almost all the fiscal parameters. In fact, the State has achieved the fiscal targets laid down in FRBM Act, 2005 four years prior to the schedule envisaged in the Act. Similarly, the outstanding fiscal liabilities including guarantees at 23 per cent of GSDP are also well within the limit of 28 per cent of GSDP to be achieved by 2009-10 as envisaged in the Act. The State Government has received a debt waiver of Rs 96.66 crore during the year linked to its fiscal performance under Debt Consolidation and Relief Facility².

1.3 Trends and composition of aggregate receipts

The aggregate receipts of State Government comprise 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 Government of India (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 GOI as well as

² In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the States, Government of India formulated a scheme "The States' 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.

accruals from Public Account. To mop up additional revenue, a Resource Mobilisation Committee has been set up under the Chairmanship of the Chief Minister of the State. **Table-1.5** shows that the total receipts of the State Government for the year 2007-08 were Rs 30,252 crore. Of these, the revenue receipts were Rs 19,751 crore, constituting 65 *per cent* of total receipts. The balance came from capital receipts, borrowings and receipts from Public Account.

Table 1.5: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)					
Sources of State's Receipts	2003-04	2004-05	2005-06	2006-07	2007-08
I Revenue Receipts	9,843	11,149	13,853	17,952	19,751
II Capital Receipts	6,441	4,632	3,639	4,213	1,068
Recovery of Loans and Advances	156	157	290	2,201	214
Public Debt Receipts	6,285	4,475	3,349	2,012	844
Miscellaneous Capital Receipts	-	-	-	-	10
III Contingency Fund	-	-	-	-	-
IV Public Account Receipts	7,662	5,973	5,461	6,732	9,433
a. Small Savings, Provident Fund, etc.	1,000	1,040	1,166	1,245	1,274
b. Reserve Fund	177	196	244	280	234
c. Deposits and Advances	4,457	2,278	1,893	1,936	2,786
d. Suspense and Miscellaneous	194	628	(-) 349	197	292
e. Remittances	1,834	1,831	2,507	3,074	4,847
Total Receipts	23,946	21,754	22,953	28,897	30,252

The total receipts of the State Government increased by 26 *per cent* from Rs 23,946 crore in 2003-04 to Rs 30,252 crore in 2007-08, of which Revenue Receipts increased by 101 *per cent* from Rs 9,843 crore in 2003-04 to Rs 19,751 crore in 2007-08. While non- debt receipts increased by 44 *per cent* from Rs 156 crore in 2003-04 to Rs 224 crore (recovery of Loans and Advances Rs 214 crore plus Miscellaneous Capital Receipts Rs 10 crore) in 2007-08, the Public Account receipts increased by 23 *per cent* from Rs 7,662 crore in 2003-04 to Rs 9,433 crore in 2007-08. The debt capital receipts, which create future repayment obligations, decreased from Rs 6,285 crore in 2003-04 to Rs 844 crore in 2007-08 which is an indicative of an improvement in the fiscal position of the State. The recovery of loans and advances has decreased by Rs 1,987 crore over the previous year as the cushion of Rs 2,034 crore recovered from the power sector during 2006-07 was not available during the current year.

1.3.1 Revenue Receipts

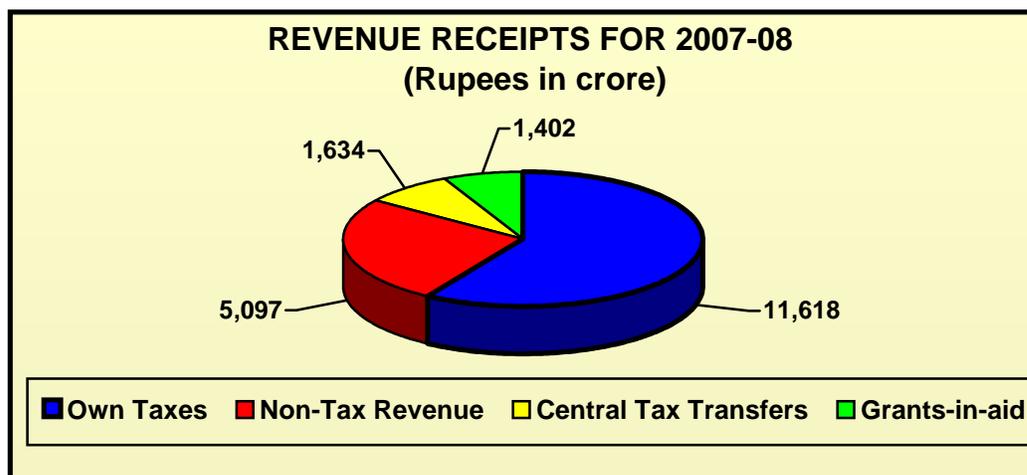
Statement 11 of the Finance Accounts details the revenue receipts of the Government. The Revenue Receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product and its buoyancies are indicated in **Table 1.6**.

Table 1.6: Revenue Receipts – Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (RR) (Rupees in crore)	9,843	11,149	13,853	17,952	19,751
Own taxes (<i>per cent</i>)	6,348(64)	7,440(67)	9,079(65)	10,928(61)	11,618(59)
Non-Tax Revenue (<i>per cent</i>)	2,223(23)	2,544(23)	2,458(18)	4,590(26)	5,097(26)
Central Tax Transfers (<i>per cent</i>)	601(6)	619(5)	1,201(9)	1,296(7)	1,634(8)
Grants-in-aid (<i>per cent</i>)	671(7)	545(5)	1,115(8)	1,138(6)	1,402(7)
Rate of growth of RR (<i>per cent</i>)	13.70	13.27	24.25	29.58	10.02
R R/GSDP (<i>per cent</i>)	11.93	11.91	13.02	14.19	13.38
Buoyancy Ratios³					
Revenue Buoyancy w.r.t GSDP	1.001	0.980	1.779	1.566	0.601
State's Own Tax Buoyancy w.r.t GSDP	1.051	1.271	1.616	1.078	0.378
Revenue Buoyancy with reference to State's own taxes	0.953	0.772	1.101	1.453	1.588

General Trends

The revenue receipts of the State have shown an increasing trend over the period 2003-08 with an average 63 *per cent* share of its own taxes, 23 *per cent* share of non-tax revenue, seven *per cent* each of central tax transfer and grants-in-aid. The increase of Rs 1,799 crore (10 *per cent*) in revenue receipts in 2007-08 was mainly on account of an increase in the States own taxes Rs 690 crore (six *per cent*) and non-tax revenue Rs 507 crore (11 *per cent*).



Tax Revenue

The Tax Revenue has increased by six *per cent* during the current year (Rs 11,618 crore) over previous year (Rs 10,928 crore). The revenue from sales taxes not only contributed the major share of tax revenue (67 *per cent*) but also increased by 13 *per cent* over the previous year. The value added tax (VAT)

³ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 0.601 during 2007-08 implies that revenue receipts tend to increase by 0.601 percentage points if the GSDP increases by one *per cent*.

introduced in April 2003 had enhanced the buoyancy of sales tax revenue and generated a higher collection of Rs 868 crore during 2007-08. Receipt under tax on goods and passenger decreased by 49 *per cent* from Rs 738 crore in 2006-07 to Rs 379 crore in 2007-08 mainly due to reduction in rates of passenger tax and lesser collections under goods tax and local area development tax. Other components exhibited relative stability with insignificant increase/decrease during the year. **Table 1.7** below shows the trends in the composition of tax revenue of the State during 2003-08.

Table 1.7: Tax Revenue

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Sales Tax	3,838	4,761	5,604	6,853	7,721
Taxes on goods and passengers	660	705	758	738	379
Stamps and Registration	696	727	1,340	1,765	1,763
State Excise	923	1,013	1,107	1,217	1,379
Taxes on Vehicles	132	140	172	224	234
Other Taxes *	99	94	98	131	142
Total	6,348	7,440	9,079	10,928	11,618

* **Other Taxes includes land revenue, taxes and duties on electricity and other taxes on duties and commodities and services.**

Non-Tax Revenue

The Non-Tax Revenue which constituted 26 *per cent* of total revenue receipts during 2007-08 increased by Rs 506 crore (11 *per cent*) over the previous year. The increase in non-tax revenue was mainly on account of an increase of Rs 243 crore in receipts under the major head Urban Development on account of larger receipts on applications from investors for grant of licence for change of land use and increase in rate of fee and charges and recovery of outstanding dues from Haryana Urban Development Authority (HUDA) on account of services rendered by Urban Estate Department of the Government. Increase of Rs 109 crore in Interest Receipts was mainly due to more 'interest realised on investment of cash balances' and 'interest from Departmental Commercial Undertakings' and increase of Rs 79 crore in Non-ferrous mining and metallurgical industries was due to receipt of high bids on minor mineral quarries. It may, however, also be noted that the high receipts of Rs 623 crore under transport during the year were offset by an equally high expenditure of Rs 732 crore under Transport as Haryana does not have a Road Transport Corporation and the State buses are being run departmentally.

The State's own revenue receipts vis-à-vis assessments made by TFC and State Government are given below:

Table 1.8

(Rupees in crore)

	Assessments made by TFC	Projections by State Government in		Actuals
		MTFP	FCP	
Tax Revenue	11,186	12,251	10,800	11,618
Non-Tax Revenue	1,802	2,925	2,080	5,097

The State's own tax revenue receipts exceeded the assessments made by TFC as well as the projections made by the State Government in FCP but was less than the projection in MTFPS by Rs 633 crore. However, the non-tax revenue exceeded the projections made by TFC and by the State Government in FCP and MTFPS by Rs 3,295 crore, Rs 3,017 crore and Rs 2,172 crore respectively. The increase in non-tax revenue relative to the projections was mainly on account of more receipts under Urban Development owing to increasing urbanisation in the State.

Central Tax Transfers

The Central Tax transfers increased by Rs 338 crore (from Rs 1,296 crore to Rs 1,634 crore) during the year and constituted eight *per cent* of revenue receipts. The increase was mainly under Corporation Tax (Rs 114 crore), Taxes on Income other than Corporation Tax (Rs 103 crore), Customs (Rs 56 crore), Service Tax (Rs 39 crore) and Union Excise Duty (Rs 26 crore).

Grants-in-aid

The grants-in-aid from Government of India (GOI) increased from Rs 1,138 crore in 2006-07 to Rs 1,402 crore in the current year. The increase of Rs 264 crore was under Centrally Sponsored Schemes (Rs 123 crore), non-plan grants (Rs 122 crore), Central Schemes (Rs 10 crore) and State plan schemes (Rupees nine crore). Details of grants-in-aid from GOI are given in **Table 1.9**.

Table No 1.9: Grants-in-aid from GOI

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State plan schemes	338	201	511	630	639
Non-Plan grants	117	84	269	130	252
Grants for Central Schemes	61	7	10	5	15
Grants for Central and Centrally Sponsored Schemes	156	253	325	373	496
Total	672	545	1,115	1,138	1,402
Percentage of increase/decrease over previous year	23.76	(-) 18.90	104.59	2.06	23.20

Arrears of revenue

The arrears of revenue have increased by 133 *per cent* from Rs 851 crore in 2003-04 to Rs 1,982 crore⁴ at the end of 2007-08. Of these, Rs 424 crore (21 *per cent*) were outstanding for a period of more than five years. Arrears were

⁴ Figures are as per Audit Report (Revenue Receipts)

mainly in respect of taxes on sales, trade, etc. (Rs 1,591.87 crore), tax on entry of goods into local areas (Rs 157.37 crore), taxes and duties on electricity (Rs 85.72 crore) and State Excise (Rs 52.31 crore). Demands for Rs 342 crore were stayed by High Court, Judicial and other authorities. Collection of arrears of revenue needs attention alongwith effective measures for their realisation.

1.4 Application of resources

1.4.1 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. Total expenditure of the State increased from Rs 12,932 crore in 2003-04 to Rs 21,239 crore in 2007-08. The 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 1.10**.

Table 1.10: Total Expenditure – Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure (TE) * (Rupees in crore)	12,932	12,512	14,429	18,975	21,239
Rate of Growth (<i>per cent</i>)	26.36	**(-) 3.25	15.32	31.51	11.93
TE/GSDP (<i>per cent</i>)	15.68	13.36	13.56	15.00	14.39
Revenue Receipts/TE (<i>Per cent</i>)	76.11	89.11	96.00	94.61	92.99
Buoyancy of total expenditure with reference to					
GSDP (ratio)	1.927	(-) 0.240	1.124	1.668	0.715
Revenue Receipts (ratio)	1.924	(-) 0.245	0.632	1.065	1.191

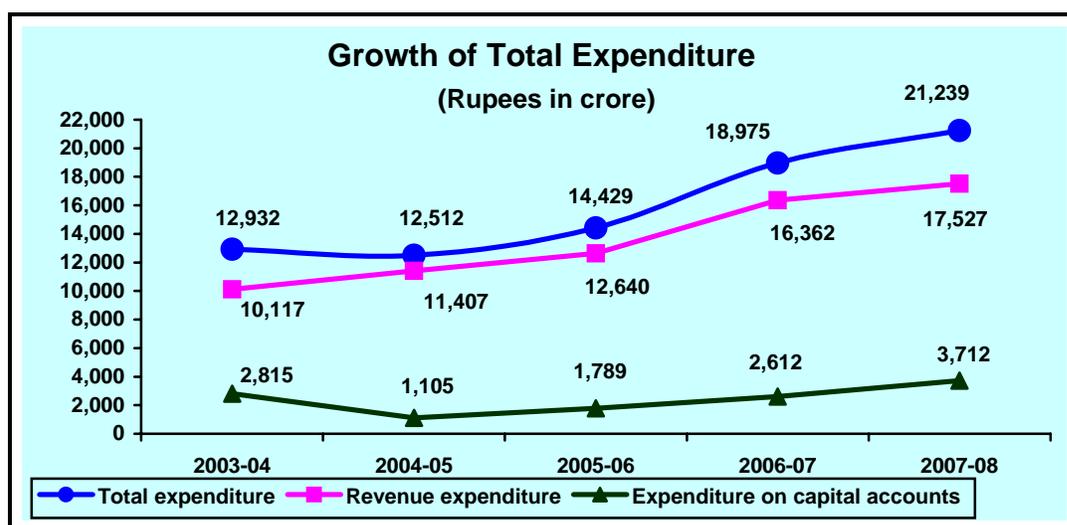
* **Total expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances.**

** **Rate of growth of total expenditure was negative in 2004-05.**

The total expenditure during the current year at Rs 21,239 crore has increased by Rs 2,264 crore (12 *per cent*) over the previous year. Of the total increase, revenue expenditure contributed Rs 1,165 crore (51 *per cent*), capital expenditure shared Rs 998 crore (44 *per cent*) with the remaining Rs 101 crore (five *per cent*) being contributed by loans and advances. The bifurcation of total expenditure into plan and non-plan expenditure revealed that the share of plan and non-plan expenditure was 31 *per cent* and 69 *per cent* respectively. The increase in total expenditure was due to an increase in revenue expenditure mainly on establishment, appointment of new teachers and implementation of Sarva Shiksha Abhiyan (Rs 434 crore); more assistance to credit Co-operatives (Rs 390 crore) and more expenditure on Panchayati Raj and Community Development Programmes

(Rs 244 crore) and increase in capital expenditure on Major/Medium Irrigation (Rs 325 crore) and Water Supply and Sanitation (Rs 119 crore).

There was an upward trend in the ratio of revenue receipts to total expenditure from 76 per cent in 2003-04 to 93 per cent in 2007-08 with inter year variations indicating decreasing reliance on borrowed funds. On the other hand, ratio of total expenditure to GSDP indicated a downward trend from 16 per cent in 2003-04 to 14 per cent in 2007-08. The buoyancy of total expenditure with reference to revenue receipts has been increasing in recent years, growing from a negative ratio in 2004-05 which was due to negative growth of total expenditure during that year to Rs 1.191crore in 2007-08, which indicated increasing propensity of the Government to spend with the increase in revenue receipts.



Note: Expenditure on Capital Account=Capital Expenditure + Disbursement of Loans and Advances.

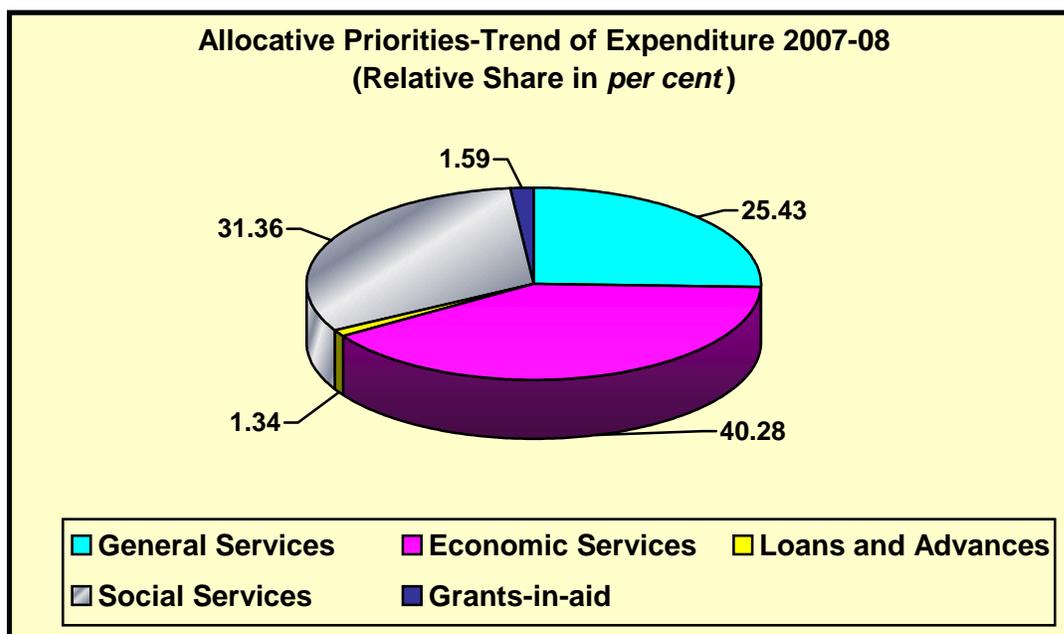
Trends in Total Expenditure by activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.11**

Table 1.11: Components of expenditure – Relative Share

	(In per cent)				
	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	34.29	39.61	32.31	26.00	25.43
Of which interest payments	16.34	17.86	14.55	11.94	11.05
Social Services	25.43	28.01	30.73	27.74	31.36
Economic Services	21.13	29.98	34.00	43.82	40.28
Grants-in-aid	0.37	0.73	1.73	1.45	1.59
Loans and Advances	18.78	1.67	1.23	0.99	1.34

The movement of relative share of the various components of expenditure indicated that while the share of General Services including interest payment

declined from 34 *per cent* in 2003-04 to 25 *per cent* in 2007-08, the share of economic services increased from 21 *per cent* to 40 *per cent* mainly due to steep increase in expenditure on power projects. The share of social services expenditure, though remaining almost stable with minor variations, indicated a marginal increase during 2007-08 as compared to the preceding year. The combined share of social and economic services, which represents the development expenditure, has increased from 47 *per cent* in 2003-04 to 72 *per cent* in 2007-08, though there was no substantial increase in 2007-08 from its level in the previous year. The share of loans and advances consistently declining from 18.78 *per cent* in 2003-04 to 0.99 *per cent* in 2006-07 went up to 1.34 *per cent* in 2007-08.



1.4.2 Incidence of revenue expenditure

Revenue expenditure had a 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 States 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 1.12**.

Table 1.12: Revenue Expenditure–Basic Parameters

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE)	10,117	11,407	12,640	16,362	17,527
Of which					
Non-plan Revenue Expenditure (NPRE)	8,993	9,954	10,625	13,908	14,351
Plan Revenue Expenditure (PRE)	1,124	1,453	2,015	2,454	3,176
Rate of Growth (<i>per cent</i>)	8.30	12.75	10.81	29.45	7.12
NPRE	8.44	10.69	6.74	30.90	3.19
PRE	7.15	29.27	38.68	21.79	29.42
RE/TE (<i>per cent</i>)	78.23	91.17	87.60	86.23	82.52
NPRE/ GSDP (<i>per cent</i>)	10.90	10.63	9.99	11.00	9.72
NPRE as <i>per cent</i> of TE	69.54	79.56	73.64	73.30	67.57
NPRE as <i>per cent</i> to RR	91.36	89.28	76.70	77.47	72.66
Buoyancy of Revenue expenditure with reference to					
GSDP (ratio)	0.607	0.942	0.793	1.560	0.427
Revenue Receipts (ratio)	0.606	0.961	0.445	0.996	0.711

Revenue expenditure of the State has consistently increased at an average rate of 18 *per cent* from Rs 10,117 crore in 2003-04 to Rs 17,527 crore in 2007-08. During the year 2007-08 the revenue expenditure increased by Rs 1,165 crore (seven *per cent*) over the previous year mainly due to a higher expenditure on General Education (Rs 434 crore), Co-operation (Rs 390 crore) and Other Rural Development Programme (Rs 244 crore). The break up of revenue expenditure into NPRE and PRE showed that the proportionate share of PRE in increase of revenue expenditure was substantially higher than that of NPRE. The total increase of Rs 1,165 crore comprised increase of Rs 722 crore and Rs 443 crore in PRE and NPRE respectively. Since PRE is inclusive of the money spent on maintenance of productive assets of the Government, its predominance in the increase in revenue expenditure was reflective of better quality of Government spending.

The non-plan revenue expenditure in 2006-07 and 2007-08 vis-à-vis assessment made by TFC and State Government for the year revealed that NPRE was higher than both the normative assessment of TFC and the projection of State Government made in FCP/MTFPS.

Table 1.13

	(Rupees in crore)		
Year	Assessments made by TFC	Assessments made by State Government in MTFPS/Fiscal Correction Path	Actual NPRE
2006-07	8,351	11,833/11,833	13,908
2007-08	9,602	13,618/13,000	14,351

Though the ratio of Non-Plan revenue expenditure to revenue receipts declined during 2003-08, the revenue expenditure continued to grow and the expenditure on salaries (Rs 4,597 crore), interest payments (Rs 2,346 crore), pensions (Rs 1,298 crore) and subsidy (Rs 3,057 crore) alone consumed 57 *per cent* of total revenue receipts of the State during 2007-08. The relatively lower buoyancy ratios of revenue expenditure with reference to GSDP and the revenue receipts

especially in the current year indicate a tendency of the Government to check its current revenue expenditure.

1.4.3 Committed expenditure

1.4.3.1 Expenditure on Salaries

Table 1.14: Expenditure on Salaries

(Rupees in crore)					
Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries	3,255.96	3,714.10	3,893.35	4,153.12	4,596.97
Of which					
Non-Plan Head	3,000.45	3,308.12	3,584.47	3,810.62	4,322.83
Plan Head	255.51	405.98	308.88	342.50	274.14
As per cent of GSDP	3.95	3.97	3.66	3.28	3.11
As per cent of Revenue Receipts	33.07	33.31	28.10	23.13	23.27

The trends in **Table 1.14** indicate that the expenditure on salaries increased by 41 per cent from Rs 3,256 crore in 2003-04 to Rs 4,597 crore in 2007-08. Actual salary expenditure at Rs 4,597 crore in 2007-08 was, however, higher than the projections in the State's Own Fiscal Correction Path (Rs 4,450 crore) and slightly lower than that envisaged in Medium Term Fiscal Policy Statement of the State Government (Rs 4,649 crore). The total non-plan salary bill relative to revenue expenditure net of interest payments and pension was 31 per cent which was within the norm of 35 per cent envisaged by the Twelfth Finance Commission.

1.4.3.2 Pension payments

Table 1.15: Expenditure on Pensions

(Rupees in crore)					
Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions	765.70	901.93	1,033.13	1,173.32	1,297.51
As per cent of GSDP	0.93	0.96	0.97	0.93	0.88
As per cent of RR	7.78	8.09	7.46	6.54	6.57
As per cent of RE	7.57	7.91	8.17	7.17	7.40

Table 1.15 indicates that pension payments increased by 69 per cent from Rs 766 crore in 2003-04 to Rs 1,298 crore in 2007-08. The expenditure on pension payments at Rs 1,298 crore in 2007-08 was lower than the projections made in the State's Own FCP/MTFPS, and higher by little more than 11 per cent than the normative assessment made by TFC for the year (**Table 1.16**).

Table 1.16: Pension Payments vis-à-vis Projections

(Rupees in crore)				
Head	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Assessments made by State Government in MTFPS	Actual Expenditure on pensions
Pension payments	1,165	1,300	1,314	1,298

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. To meet the increasing pension liabilities, a new

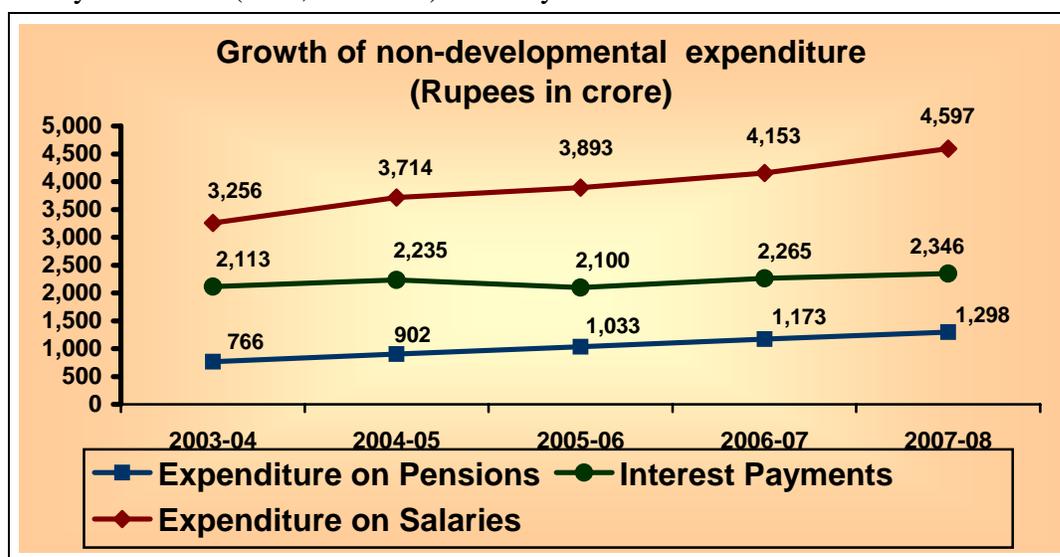
Contributory Pension Scheme has been introduced by the State with effect from 1 January 2006.

1.4.3.3 Interest Payments

Table 1.17: Interest Payments

Year	Total revenue receipts	Interest Payments	Percentage of interest payments with reference to	
	(Rupees in crore)		Total Revenue Receipts	Revenue Expenditure
2003-04	9,843	2,113	21	21
2004-05	11,149	2,235	20	20
2005-06	13,853	2,100	15	17
2006-07	17,952	2,265	13	14
2007-08	19,751	2,346	12	13

The interest payments increased by 11 per cent from Rs 2,113 crore in 2003-04 to Rs 2,346 crore in 2007-08. However, interest payments increased by four per cent (Rs 81 crore) during the year over previous year due mainly to increase in the payment of interest on Internal Debt (Rs 40 crore), Small Saving and Provident Fund (Rs 22 crore) and on Loans and Advances from Government of India (Rs 14 crore). It was observed that interest payments as a percentage of revenue receipts had progressively decreased from 21 per cent in 2003-04 to 12 per cent in 2007-08 which is within the medium term target of 15 per cent of revenue receipts by 2009-10 envisaged by TFC. Moreover, interest payments at Rs 2,346 crore during 2007-08 were within the projections by the State in its FCP (Rs 2,565 crore) and a little lower than the projection in the Medium Term Fiscal Policy Statement (Rs 2,359 crore) for the year 2007-08.



1.4.3.4 Subsidies

The trends in the subsidies given by the State Government are given in Table 1.18.

Table 1.18: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/decrease (-) over previous year	Percentage of subsidy in total expenditure
2003-04	957.44	8	7
2004-05	1,156.97	21	9
2005-06	1,465.74	27	10
2006-07	3,852.45	163	20
2007-08	3,057.20	(-) 21	14

Trends in **Table 1.18** indicate a decrease in the payment of subsidies during 2007-08 over the previous year. It constituted 14 *per cent* of the total expenditure. Out of total subsidies of Rs 3,057 crore, Rs 2,568 crore (84 *per cent*) were for power and energy sector, bulk of which was for rural electrification (Rs 2,371.42 crore) and under electricity arrear waiver scheme (Rs 188.76 crore). The actual subsidy to power and energy sector was more than 1.5 times (Rs 2,568.36 crore) the projection of Rs 1,530 crore in State's Own Fiscal Correction Path. The general subsidy at Rs 489 crore was also nearly five times of the projection of Rs 100 crore in FCP for the year.

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is the quality of expenditure. **Table 1.19** gives these ratios during 2003-08.

Table 1.19: Indicators of Quality of expenditure

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	386	897	1,612	2,428	3,426
Revenue Expenditure, of which	10,117	11,407	12,640	16,362	17,527
Social and Economic Service with	5,701	6,417	7,810	11,242	11,961
i) Salary component	2,464	2,813	2,928	3,123	3,450
ii) Non-Salary component	3,237	3,604	4,882	8,119	8,511
As per cent of total expenditure					
Capital Expenditure	2.98	7.17	11.17	12.80	16.13
Revenue Expenditure	78.23	91.17	87.60	86.23	82.52
As per cent of GSDP					
Capital Expenditure	0.47	0.96	1.52	1.92	2.32
Revenue Expenditure	12.27	12.18	11.88	12.94	11.88

Though, no norms for prioritisation of capital expenditure have been laid in the FRBM Act, the percentage of capital expenditure to total expenditure shows an increasing trend from 2.98 *per cent* in 2003-04 to 16.13 *per cent* in 2007-08. Relative to GSDP also, the capital expenditure reflects an increasing trend but is still less than the norms of three *per cent* to be achieved by all States by 2009-10

as envisaged by TFC. Expenditure on non-salary component of revenue expenditure net of subsidies also consistently increased despite the fact that subsidies have also increased during the period 2003-08. These trends indicate the improvement in the quality of expenditure and the impetus being given to asset formation by the State.

1.5.2 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 1.20** summarises the expenditure incurred by the State Government in expanding and strengthening of Social Services in the State during 2003-08.

Table 1.20: Expenditure on Social Services

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Education, Sports, Art and Culture	1,541	1,681	1,993	2,330	2,838
Revenue Expenditure	1,536	1,675	1,970	2,292	2,753
Of which					
(a) Salary component	1,233	1,311	1,393	1,571	1,726
(b) Non-Salary component	303	364	577	721	1,027
Capital Expenditure	5	6	23	38	85
Of which General Education	1,508	1,651	1,957	2,287	2,620
Revenue Expenditure	1,503	1,645	1,934	2,249	2,588
Of which					
(a) Salary component	-	-	1,375	1,551	1,684
(b) Non-Salary component	-	-	569	698	904
Capital Expenditure	5	6	23	38	32
Health and Family Welfare	359	393	467	488	580
Revenue Expenditure	350	381	449	467	529
Of which					
(a) Salary component	268	290	307	326	368
(b) Non-Salary component	82	91	142	141	161
Capital Expenditure	9	12	18	21	51
Water Supply, Sanitation, Housing and Urban Development	691	644	865	1,128	1,641
Revenue Expenditure	421	385	484	556	934
Of which					
(a) Salary component	151	178	194	203	222
(b) Non-Salary component	270	207	290	353	712
Capital Expenditure	270	259	381	572	707
Other Social Services	699	787	1,109	1,318	1,602
Revenue Expenditure	689	777	1,092	1,300	1,523
Of which					
(a) Salary component	104	112	117	126	145
(b) Non-Salary component	585	665	975	1,174	1,378
Capital Expenditure	10	10	17	18	79
Total (Social Services)	3,290	3,505	4,435	5,264	6,661
Revenue Expenditure	2,996	3,218	3,996	4,615	5,739
Of which					
(a) Salary component	1,756	1,891	2,011	2,226	2,461
(b) Non-Salary component	1,240	1,327	1,985	2,389	3,278
Capital Expenditure	294	287	439	649	922

The expenditure on social sector increased from Rs 3,290 crore in 2003-04 to Rs 6,661 crore in 2007-08 with a sharp increase from 2005-06 onwards. Expenditure on social sector during current year (Rs 6,661 crore) accounted for 31 *per cent* of total expenditure and 44 *per cent* of developmental expenditure⁵. Of the total increase of Rs 1,397 crore on social services in 2007-08 over the previous year, expenditure on Water Supply and Sanitation increased by Rs 513 crore (37 *per cent*) mainly due to more expenditure on Rural and Urban Water Supply Programmes followed by increase in General Education by Rs 333 crore (24 *per cent*) and Health and Family Welfare by Rs 92 crore (seven *per cent*).

Recognising the need to improve the quality of education and health services, TFC had recommended that the non-plan salary expenditure under education and 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. However, trends in expenditure (taking expenditure under both plan and non-plan heads) reveal that the salary component under education sector increased by nine *per cent* over 2006-07 while non-salary component increased by 30 *per cent*. Similarly under health and family welfare sector, the salary component increased by 13 *per cent* but the non-salary component increased by only 14 *per cent* in 2007-08 over the previous year. The expenditure pattern, both in education and health services has not been as per the norms of TFC and needs correction in the ensuing years.

1.5.3 Expenditure on Economic Services

The expenditure on Economic Services includes all expenditure which promotes directly or indirectly the productive capacity within the States' economy. The expenditure on Economic Services (Rs 8,555 crore) accounted for 40 *per cent* of the total expenditure (**Table 1.21**). More than 90 *per cent* of this was spent on Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport.

⁵ Developmental expenditure is defined as total expenditure made on social and economic services.

Table 1.21: Expenditure on Economic Sector

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Agriculture and Allied Activities	(-) 252	219	507	572	1,109
Revenue Expenditure	423	463	537	625	1,075
Of which					
(a) Salary component	243	262	273	307	326
(b) Non- Salary component	180	201	264	318	749
Capital Expenditure	(-) 675	(-) 244	(-) 30	(-) 53	34
Irrigation and Flood Control	641	709	966	1,108	1,595
Revenue Expenditure	417	446	497	552	708
Of which					
(a) Salary component	196	363	222	225	243
(b) Non- Salary component	221	83	275	327	465
Capital Expenditure	224	263	469	556	887
Power and Energy	1,146	1,439	1,693	4,548	3,420
Revenue Expenditure	983	1,206	1,418	3,762	2,571
Of which					
(a) Salary component	1	1	*	2	*
(b) Non- Salary component	982	1,205	1,418	3,760	2,571
Capital Expenditure	163	233	275	786	849
Transport	993	1,132	1,276	1,535	1,636
Revenue Expenditure	683	840	915	1,156	1,154
Of which					
(a) Salary component	177	198	342	278	326
(b) Non- Salary component	506	642	573	878	828
Capital Expenditure	310	292	361	379	482
Other Economic Services	204	252	464	552	795
Revenue Expenditure	200	244	448	532	714
Of which					
(a) Salary component	91	98	79	85	95
(b) Non- Salary component	109	146	369	447	619
Capital Expenditure	4	8	16	20	81
Total (Economic Services)	2,732	3,751	4,906	8,315	8,555
Revenue Expenditure	2,706	3,199	3,815	6,627	6,222
Of which					
(a) Salary component	708	922	916	897	990
(b) Non- Salary component	1,998	2,277	2,899	5,730	5,232
Capital Expenditure	26	552	1,091	1,688	2,333

* Rs 0.13 and 0.20 crore only, which are below Rupees one crore.

The expenditure on Economic Services accounted for 40 per cent of the total expenditure of the State of which revenue expenditure accounted for 73 per cent with capital expenditure accounting for the remaining 27 per cent. The expenditure on Economic Services is also to be viewed in the light of the fact that subsidy on Power and Energy constitutes a major portion of the revenue expenditure. During 2007-08, subsidy amounted to Rs 2,568 crore which was 41 per cent of the total revenue expenditure of Rs 6,222 crore as compared to the subsidy of Rs 3,759 crore (57 per cent) out of revenue expenditure of Rs 6,627 crore in 2006-07. Curtailment of expenditure on subsidy by about 16 per cent is considered as good/sound financial management.

1.5.4 Financial assistance by the State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and other institutions during the five years period 2003-08 is presented in **Table 1.22**.

Table 1.22: Financial Assistance

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	242.31	72.91	244.06	247.53	459.65
Municipal Corporations and Municipalities	175.96	180.00	Nil*	125.63	103.22
Zila Parishads and Other Panchayati Raj Institutions	59.25	29.42	73.12	135.02	93.88
Development Agencies	114.68	121.28	303.31	231.93	520.33
Hospitals and other Charitable Institutions	10.55	22.32	25.28	20.32	49.46
Other Institutions	124.46	92.19	196.29	161.51	345.05
Total	727.21	518.12	842.06	921.94	1,571.59
Assistance as percentage of RE	7	5	7	6	9

* No grants-in-aid were given under capital outlay on water supply and sanitation.

Though the financial assistance to local bodies and other institutions increased from Rs 727.21 crore in 2003-04 to Rs 1,571.59 crore in 2007-08 (116 per cent), its percentage to revenue expenditure ranged around five to nine per cent during 2003-08. The sharp increase of 70 per cent in payment of financial assistance was due to release of more funds for implementation of Sarva Shiksha Abhiyan (Rs 150 crore) and Integrated Housing and Slum Programme (Rs 93.41 crore).

1.5.5 Delay in furnishing utilisation certificates

Of the 3,836 utilisation certificates (UCs) due in respect of grants and loans aggregating Rs 2,233.33 crore paid upto 2006-07, 2,246 UCs for an aggregate amount of Rs 1,602.41 crore were in arrears. Details of department-wise break up of outstanding UCs are given in **Appendix VII**.

1.5.6 Non-submission of accounts

In order to identify the institutions which attract audit under Section 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions.

The accounts of 53 bodies/authorities, which were received for the year 2006-07, attracted audit by Comptroller and Auditor General of India. All of these, 53 bodies/authorities, audit of which was due, were audited during 2007-08.

Two hundred and thirty eight annual accounts of 92 autonomous bodies/ authorities for 2007-08 and earlier years had not been received as of July 2008 by the Accountant General (Audit). The details are given in **Appendix VIII**. Of these bodies/authorities, 11⁶ Municipal Committees and two⁷ Aided Colleges did not submit their accounts for five years or more.

1.5.7 Abstract of performance of the autonomous bodies

The audit of accounts of twenty-eight bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature are indicated in **Appendix IX**.

1.5.8 Non-furnishing of accounts of utilisation of grants

Out of 286 autonomous bodies to whom various Government departments released grants-in-aid of Rs 1,515.19 crore during the year 2007-08, as detailed in **Appendix X**, 261 did not render the accounts for the utilisation of grants to the concerned departments as of June 2008.

1.6 Misappropriation, losses, defalcations, etc.

The State Government reported 220 cases of misappropriations, defalcations, etc. involving Government money amounting to Rs 1.99 crore up to the period March 2008 on which final action was pending at the end of June 2008. The department-wise break up of pending cases is given in **Appendix XI (A&B)**.

1.6.1 Write off of losses, etc.

As reported to Audit, losses due to theft, fire and irrecoverable revenue, etc. in respect of one case of Forest Department amounting to Rs 2.47 lakh was written off during 2007-08 by competent authority.

1.7 Assets and liabilities

In the 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. As per FRBM Act 2005, total liabilities consist of liabilities under the Consolidated Fund and Public Account of the State and also include borrowings by the Public Sector Undertakings and the special purpose vehicles and other equivalent instruments including guarantees

⁶ Sr. No. 1 to 4, 6, 7, 9, 14, 15, 19 and 36 of **Appendix VIII**.

⁷ Sr. No 70 and 80 of **Appendix VIII**.

where the principal and/or interest are to be serviced out of the State Budget. *Appendix II* 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 consist mainly of internal borrowings, loans and advances from the GOI, receipts from the 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 V* depicts the time series data on State Government finances for the period 2003-08.

1.7.1 *Financial Results of Irrigation Works*

The financial results of 7 out of 33 irrigation projects with a capital outlay of Rs 374.60 crore at the end of March 2008 showed that revenue realised from these projects during 2007-08 (Rs 43.41 crore) was 12 *per cent* of the capital outlay. After meeting the working and maintenance expenditure (Rs 248.11 crore) and interest charges (Rs 19 crore), there was a loss of Rs 223.70 crore, which was 59.72 *per cent* of capital outlay on these projects.

1.7.1.1 *Incomplete Projects*

The department-wise information pertaining to incomplete projects as on 31 March 2008 is given in **Table 1.23**.

Table 1.23: Department-wise profile of incomplete projects

(Rupees in crore)				
Department	Number of incomplete projects	Initial budgeted cost	Revised budgeted cost	Actual expenditure as on 31 March 2008
Buildings and Roads	17	63.39	72.32	53.39
Irrigation	6	10.91	25.96	21.35
Total	23	74.30	98.28	74.74

Out of 23 incomplete works, the costs of nine works were revised from Rs 34.23 crore to 58.21 crore. Of the nine incomplete projects, five projects pertain to minor irrigation where the initial budgeted cost was revised from Rs 9 crore to Rs 24 crore, cost overruns amounted to more than 250 *per cent* while in case of the remaining four road projects the initial budgeted cost was revised from Rs 25 crore to Rs 34 crore involving cost overruns amounting to Rupees nine crore (36 *per cent*). The targeted dates of completion of these projects were between June 2006 and March 2008, but these were still lying incomplete involving time overruns varying from five to nine months in case of irrigation projects while it was within the range of one to twenty months for road projects. Reasons for delay in completion of these projects were not intimated by the Departments.

1.7.2 *Financial Analysis of Government Investments*

1.7.2.1 *Departmental Commercial Undertakings*

Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are required

to prepare annual proforma accounts in the prescribed format showing the results of financial operations so that the Government can assess the results of their working.

As of March 2008, there were six undertakings/schemes in which Government had invested Rs 1,320.84 crore at the end of financial year upto which their accounts were completed. The proforma accounts of Haryana Roadways having Government investment of Rs 344.44 crore as on 31 March 2002, were in arrear from 2002-03. The proforma account for the year 2007-08 in respect of Food and Supplies Department (Grain Supply Scheme) having Government investment of Rs 969 crore as on 31 March 2007 was also in arrear. Department-wise position of arrears in preparation of proforma accounts and the investment made by the Government are given in *Appendix XII*.

1.7.2.2 Investments and returns

As of 31 March 2008, Government had invested Rs 3,988.43 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.24**). While investment has more than doubled from Rs 1,689.51 crore in 2003-04 to Rs 3,988.43 crore, the return from the investment has increased from Rupees four crore to Rupees six crore only. The return on this investment was a meagre 0.09 to 0.24 *per cent* during the last five years, while the Government paid interest at the average rate of 7.43 to 9.20 *per cent* on its borrowings during 2003-08. Of these, one Statutory Corporation and 13 Government Companies with an aggregate investment of Rs 3,621.56 crore upto 2007-08 were incurring losses and their accumulated losses amounted to Rs 2,536.75 crore as per the accounts furnished by these companies upto 2007-08 (*Appendix XIII*). It is pertinent to note that Rs 849 crore of total investment (85 *per cent*) in 2007-08 was made by the State Government in the equity capital of Uttar Haryana Bijli Vitran Nigam Limited (Rs 147 crore), Dakshin Haryana Bijli Vitran Nigam Limited (Rs 133 crore), Haryana Vidyut Prasaran Nigam Limited (Rs 73 crore) and Haryana Power Generation Limited (Rs 496 crore) and their accumulated losses amounted to Rs 1,060 crore, Rs 714 crore, Rs 221 crore and Rs 88 crore respectively for the years for which their accounts were finalized till 2007-08 and losses of these four power distribution companies constituted 82 *per cent* of the total losses of Government's statutory corporations and government companies during the year. No reasons were intimated for losses in these companies. Thus, Government needs not only to invest the high cost borrowings more judiciously to get better results, but also consider disinvesting its equity in loss-making units.

Table 1.24: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Weighted rate of interest ⁸ on Government borrowings	Difference between interest rate and return
	(Rupees in crore)			(Per cent)	
2003-04	1,689.51	4.11	0.24	9.11	8.87
2004-05	1,861.34	2.35	0.13	8.49	8.36
2005-06	2,261.44	1.92	0.09	8.95	8.86
2006-07	3,058.05	5.62	0.18	9.20	9.02
2007-08	3,988.43	6.05	0.15	7.43	7.28

1.7.2.3 Loans and Advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2008 was Rs 1,897 crore against an outstanding amount of Rs 1,825 crore as on 31 March 2007. Interest received against the loans advanced was 1.13 *per cent* in the current year and is below the weighted rate of interest of 7.43 *per cent* on Government borrowings during the current year. Out of Rs 286 crore advanced during 2007-08, Rs 156 crore was advanced to Government Servants and the balance Rs 130 crore was advanced mainly for Consumer Industry (Rs 110 crore), for Village and Small Scale Industry (Rs 9.51 crore), for Power Projects (Rs 2.51 crore), for Co-operation (Rs 5.71 crore) and for other Rural Development Programmes (Rs 2.19 crore).

Table 1.25: Average interest received on loans advanced by the State Government

	(Rupees in crore)				
	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	1,630	3,903	3,954	3,841	1,825
Amount advanced during the year	2,429	208	177	185	286
Amount repaid during the year	156	157	290	2,201	214
Closing Balance	3,903	3,954	3,841	1,825	1,897
Net Addition (+) / Reduction (-)	2,273	51	(-) 113	(-)2,016	72
Interest received	95	206	47	95	21
Interest received as <i>per cent</i> to outstanding Loans and Advances	3.43	5.24	1.21	3.35	1.13
Weighted rate of interest (in <i>per cent</i>) paid on borrowings by State Government	9.11	8.49	8.95	9.20	7.43
Difference between weighted interest paid and received (<i>per cent</i>)	5.68	3.25	7.74	5.85	6.30

⁸ **Weighted Rate of Interest** (I_w) $I_w = \sum_i^n I_i W_i$, where I_i is the rate of interest on the i^{th} stock of debt and W_i is the share of i^{th} stock in the total debt stock of the State.

1.7.3 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 Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. The limit was revised to Rs 4,676.80 crore for special and Rs 295 crore for ordinary Ways and Means Advances during the year 2007-08. No Ways and Means Advances and Over Draft were availed of during 2004-05 to 2007-08.

The cash balances of the State Government at the end of the year decreased by Rs 647 crore (nine *per cent*) from the level of Rs 7,147 crore in the previous year. However the cash balance investment of the State Government had increased from Rs 7,138 crore in 2006-07 to Rs 7,221 crore at the end of current year. The State Government had invested Rs 6,354 crore in the GOI securities under Cash Balance Investment Account and earned an interest of Rs 410 crore.

1.8 Undischarged liabilities

“Total liabilities” as defined in Haryana Fiscal Responsibility and Budget Management Act, 2005 (FRBM Act) means the liabilities under the Consolidated Fund of the State and the Public Account of the State and also includes 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 budgets.

1.8.1 Fiscal Liabilities

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 Accounts. 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 1.26 gives the fiscal liabilities of the State, its 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.

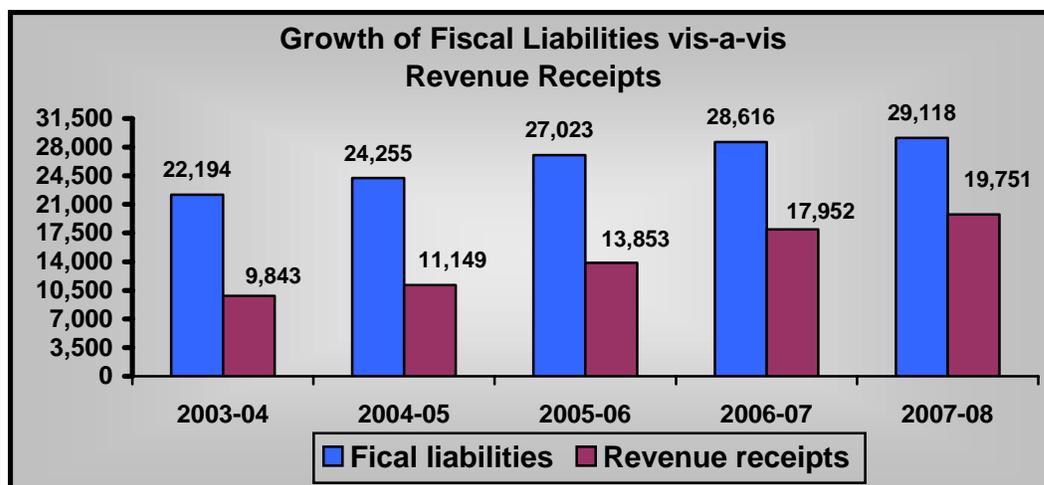
Table 1.26: Fiscal Liabilities–Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities ⁹ (Rupees in crore)	22,194	24,255	27,023	28,616	29,118
Rate of Growth (<i>per cent</i>)	15.43	9.29	11.41	5.90	1.75
Ratio of fiscal liabilities to					
GSDP (<i>per cent</i>)	26.91	25.91	25.40	22.63	19.73
Revenue Receipts (<i>per cent</i>)	225.5	217.6	195.1	159.40	147.43
Own Resources (<i>per cent</i>)	258.9	242.9	234.2	184.39	174.20
Buoyancy of fiscal liabilities to					
GSDP (ratio)	1.128	0.687	0.837	0.313	0.105
Revenue Receipts (ratio)	0.538	0.70	0.470	0.199	0.175
Own Resources (ratio)	0.936	0.563	0.733	0.171	0.228

Overall fiscal liabilities of the State increased from Rs 22,194 crore in 2003-04 to Rs 29,118 crore in 2007-08. The growth rate was 1.75 *per cent* during 2007-08 over previous year mainly due to reduction in incremental public debt receipts from Rs 898 crore in 2006-07 to Rs 2.6 crore and in incremental receipts in deposits from Rs 378 crore to Rs 185 crore. The ratio of fiscal liabilities to GSDP has shown a consistently decreasing trend and decreased from 26.91 *per cent* in 2003-04 to 19.73 *per cent* in 2007-08. These liabilities stood at 1.47 times the revenue receipts and 1.74 times of States own resources as at the end of 2007-08. Payment of interest on the fiscal liabilities was Rs 2,346 crore (eight *per cent*) during the year 2007-08. It is, however, significant to note that during the last five years (2003-08), the total fiscal liabilities at Rs 29,118 crore in 2007-08 were within the limit of Rs 30,600 crore projected in the State's Fiscal Correction Path.

The State Government set up a consolidated sinking fund during 2002-03. A sum equal to one *per cent* of the outstanding market borrowings as on 31 March of preceding year is deposited in the fund every year. As on 31 March 2008, the outstanding balance in the sinking fund was Rs 231.26 crore. It is, however, pertinent to mention in this context that the scheme of Sinking Fund was revised in 2006 to incorporate the recommendations of TFC relating to all loans.

⁹ Includes internal debt (market loans, loans from NSSF and loans from other financial institutions), loans and advances from GOI, the liabilities arising from the transactions in the Public Account of the State



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 year since 2003-04 is given in **Table 1.27**.

Table 1.27: Guarantees given by the Government of Haryana

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total Revenue Receipts
2003-04	9,457	5,907	96
2004-05	6,742	4,249	60
2005-06	8,448	5,644	61
2006-07	12,694	5,074	71
2007-08	6,341	4,402	32

No amount was paid by the Government towards guarantees during 2007-08. The maximum amount guaranteed by the State Government varied from Rs 6,341 crore to Rs 12,694 crore. Outstanding amount of Rs 4,402 crore of guarantees as on 31 March 2008 was in respect of Corporations and Boards (Rs 138.32 crore), Government Companies (Rs 2,519.20 crore), Co-operative Banks and Societies (Rs 1,744.29 crore). No law under Article 293 of the Constitution has been passed by the State Legislature laying down the limit within which Government may give guarantee on the security of Consolidated Fund of State.

The State Government has constituted Guarantee Redemption Fund during 2003-04 to meet the contingent liabilities arising out of the total liabilities. As per the terms of the Guarantee Redemption Fund, the State Government was required to contribute an amount equal to at least 1/5th of the outstanding invoked guarantees plus an amount likely to be invoked as a result of the incremental guarantees during the year. State Government had invested only an amount of

Rs 54.99 crore as on 31 March 2008 which was only two *per cent* of outstanding guarantees. However, the outstanding guarantees at Rs 4,402 crore as on 31 March 2008 were higher than the projection of Rs 3,600 crore given in the State's Fiscal Correction Path for the year. Total liabilities including guarantees during 2007-08 at Rs 33,520 crore stood at 23 *per cent* of the GSDP which was well within the limit of 28 *per cent* envisaged in State FRBM Act to be achieved by 31 March 2010.

1.9 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt. A prior condition for debt sustainability is debt stabilisation in terms of debt/GSDP ratio.

1.9.1 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-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the interest spread (GSDP growth rate–interest rate) and quantum spread (Debt x interest 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 the debt stabilization are indicated in **Table 1.28**.

Table 1.28: Debt Sustainability – Interest Rate and GSDP Growth

	<i>(In per cent)</i>				
	2003-04	2004-05	2005-06	2006-07	2007-08
Weighted Interest Rate	9.11	8.49	8.95	9.20	7.43
GSDP Growth	13.68	13.53	13.63	18.88	16.68
Interest spread	4.57	5.04	4.68	9.68	9.25
Quantum Spread (Rs in crore)	879	1,119	1,135	2,616	2,647
Primary Deficit (-)/Surplus (+) (Rupees in crore)	(-) 820	(+) 1,029	(+) 1,814	(+) 3,444	(+) 1,082

Table 1.28 reveals that quantum spread together with primary deficit remained positive during the period 2003-08. The debt-GSDP ratio, as a result consistently

declined during 2003-08 as indicated in table 1.26. The emergence of positive sum of quantum spread and primary surplus since 2003-04 indicates a tendency towards debt stabilisation which would eventually improve the debt sustainability of the State in the medium to long run.

1.9.2 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. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 1.29** indicates the resource gap as defined for the period 2003-08.

Table 1.29: Incremental Revenue Receipts and Revenue Expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2003-04	1,236	2,531	167	2,698	(-) 1,462
2004-05	1,307	(-) 542	122	(-) 420	1,727
2005-06	2,837	2,052	(-) 135	1,917	920
2006-07	6,010	4,381	165	4,546	1,464
2007-08	(-) 178	2,184	81	2,265	(-) 2,443

A persistent negative resource gap indicates the non-sustainability of debt while a positive resource gap strengthens the capacity of the State to sustain the debt. During the period 2003-08, the resource gap remained negative in two of the five years. It is significant to note that during 2007-08 the non-debt receipts even declined and the primary expenditure of the State was partially met out of borrowed funds indicating the fact that the State needs to step up its resource mobilization efforts to ensure debt stability and in turn sustainability in the medium to short run.

1.9.3 Net Availability of Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal plus Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. these are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table 1.30 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last five years.

Table 1.30: Net Availability of Borrowed Funds

(Rupees in crore)

Internal Debt	2003-04	2004-05	2005-06	2006-07	2007-08
Receipts	5,864	4,178	3,309	1,990	776
Repayments (Principal + Interest)	2,820	2,687	2,462	2,652	2,418
Net Funds Available	3,044	1,491	847	(-) 662	(-) 1,642
Net Funds Available (<i>per cent</i>)	52	36	26	(-) 33	(-) 212
Loans and Advances from GOI					
Receipts	421	296	40	22	68
Repayments (Principal + Interest)	2,684	2,163	310	265	280
Net Funds Available	(-) 2,263	(-) 1,867	(-) 270	(-) 243	(-) 212
Net Funds Available (<i>per cent</i>)	(-) 538	(-) 631	(-) 675	(-) 1,105	(-) 312
Other Obligations					
Receipts	5,563	3,424	3,249	3,405	4,218
Repayments (Principal + Interest)	5331	3170	3007	2,892	4,073
Net Funds Available	232	254	242	513	145
Net Funds Available (<i>per cent</i>)	4	7	7	15	3
Total liabilities					
Receipts	11,848	7,898	6,598	5,417	5,062
Repayments (Principal + Interest)	10,835	8,020	5,779	5,809	6,771
Net Funds Available	1,013	(-)122	819	(-) 392	(-) 1,709
Net Funds Available (<i>per cent</i>)	9	(-)2	12	(-) 7	(-) 34

Debt redemption ratio being greater than one during the period 2004-08 except in 2005-06 indicates that the repayment of past debt liabilities were far in excess of fresh debt receipts during these years. The State Government did not raise market loans during the current year but receipts of Rs 776 crore under internal debt were mainly on account of loans from National Capital Region Development Board (Rs 374 crore), NABARD (Rs 230 crore) and on account of securities issued to NSSF (Rs 172 crore). Against these receipts, Government discharged the past debt obligations (principal plus interest) amounting to Rs 2,418 crore resulting in negative net funds available under the debt account.

During the current year the Government repaid Government of India loans including interest amounting to Rs 280 crore and also discharged other obligations of Rs 4,073 crore along with interest obligations which were less than the total receipts resulting in negative net availability of funds during the year. In view of the large cash balances, the focus of the Government during 2007-08 seemed 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 Government of India.

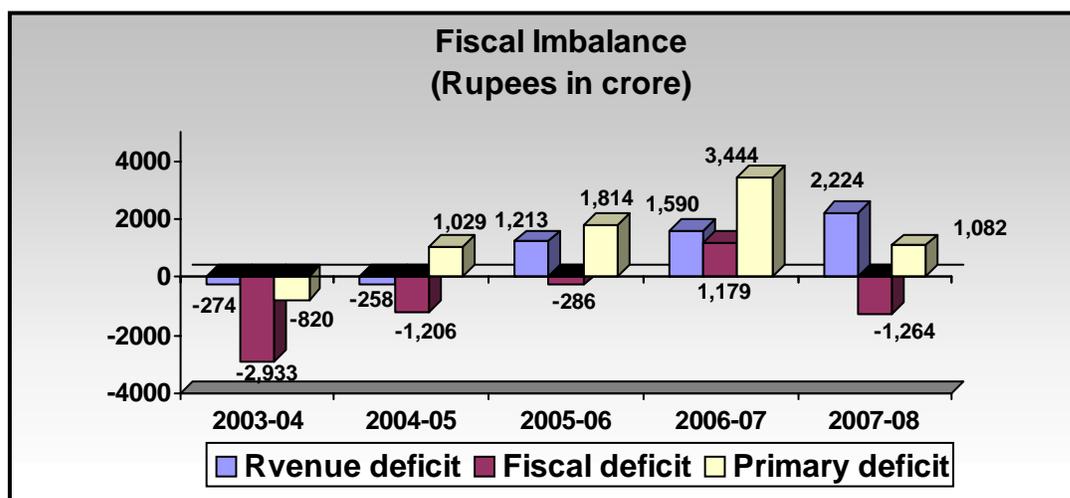
1.10 Management of deficits

The deficit in the 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 so raised are applied are important pointers to the fiscal health. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.31**.

Table 1.31: Fiscal Imbalances – Basic Parameters

(Rupees in crore)					
Parameters	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Deficit (RD)(-)/Surplus (+)	(-) 274	(-) 258	(+) 1,213	(+)1,590	(+)2,224
Fiscal Deficit (-)/Surplus (+)	(-) 2,933	(-) 1,206	(-) 286	(+)1,179	(-)1,264
Primary Deficit (PD) (-)/Surplus (+)	(-) 820	(+) 1,029	(+) 1,814	(+)3,444	(+)1,082
RD/GSDP (per cent)	(-)0.332	(-)0.276	(+)1.140	(+)1.257	(+)1.507
FD/GSDP (per cent)	(-)3.557	(-)1.288	(-)0.269	(+)0.932	(-)0.857
PD/GSDP (per cent)	(-)0.994	(+)1.099	(+)1.705	(+)2.723	(+)0.733
RD/FD (per cent)	(+) 9.34	(+) 21.39	*	(+)134.86	*

* There was Revenue Surplus during 2005-06 and 2007-08



1.10.1 Trends in Deficits

Table 1.31 reveals that the revenue account experienced a consistent improvement in terms of declining deficit during the period 2003-05 and thereafter it turned into a huge surplus of Rs 1,213 crore during 2005-06 which consistently increased to Rs 2,224 crore in the current year. An improvement in the revenue surplus of Rs 634 crore during the current year was mainly on account of increase of Rs 1,799 (10 per cent) in revenue receipts during 2007-08 against an increase of Rs 1,165 crore (7 per cent) in revenue expenditure over the previous year. Two-third of incremental Revenue Receipts during 2007-08 was

on account of increase in SORs comprising tax revenue and non-tax receipts. The enhanced revenue receipts were able to improve the revenue surplus despite the step up of non-plan and plan revenue expenditure by 3 and 29 per cent respectively during 2007-08 over the previous year.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, turned into a surplus of Rs 1,179 crore in 2006-07 mainly on account of a cushion of Rs 2034 crore available by way of recovery of loans from power projects through book adjustments during the year. As this cushion vanished as reflected by sharp decline in recovery of Loans and Advances (Rs 1,987 crore) along with an increase in Capital Expenditure (Rs 998 crore) and disbursement of Loans and Advances (Rs 101 crore), fiscal surplus again turned into huge deficit of Rs 1,264 crore in 2007-08.

The primary deficit¹⁰, except in the year 2003-04, remained surplus during the period 2003-08. A fiscal deficit of Rs. 1,264 crore mainly resulted into a steep decline of Rs 2,362 crore in primary surplus in 2007-08 from the level of Rs 3,444 crore in 2006-07 despite an increase of Rs 81 crore in interest payments during the year.

1.10.2 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit¹¹ 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. Since the State is experiencing revenue surplus for the last two years, the surplus Revenue Receipts are used to finance the expenditure in capital account of the State Government. The fiscal deficit/surplus during these years was on account of changes in non-debt capital receipts, capital expenditure and disbursement of loans and advances.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2003-08 reveals (**Table 1.32**) that the State has not only experienced a primary revenue surplus throughout this period but it increased significantly from Rs 1,995 crore in 2003-04 to Rs 4,794 crore in 2007-08 after reaching the peak level of Rs 6057 crore in 2006-07. In other words, non-debt receipts of the State were not only enough to meet the primary expenditure¹² requirements in the revenue account, some revenue receipts were used to meet the

¹⁰ Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the State during the course of the year.

¹¹ 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.

¹² Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

expenditure under the capital account. It was only in 2003-04 that the State experienced a primary deficit when total non-debt receipts fell short of the total primary expenditure. These trends indicate that the State has met its primary expenditure requirement out of its non-debt receipts and borrowed funds were largely used to meet its past debt obligations as reflected by debt-redemption ratio being greater than unity.

Table 1.32: Primary deficit/surplus-Bifurcation of factors

(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)
2003-04	9,999	8,004	386	2,429	10,819	(+) 1,995	(-) 820
2004-05	11,306	9,172	897	208	10,277	(+) 2,134	(+) 1,029
2005-06	14,143	10,540	1,612	177	12,329	(+) 3,603	(+) 1,814
2006-07	20,153	14,096	2,428	185	16,709	(+) 6,057	(+) 3,444
2007-08	19,975	15,181	3,426	286	18,893	(+) 4,794	(+)1,082

1.11 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.33** below presents a summarized position of Government finances during 2003-08, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table 1.33: Indicators of Fiscal Health

(In per cent)					
Fiscal Indicators	2003-04	2004-05	2005-06	2006-07	2007-08
Resource Mobilisation					
Revenue Receipts/GSDP	11.93	11.91	13.02	14.19	13.38
Revenue Buoyancy	1.001	0.980	1.779	1.566	0.601
Own Tax/GSDP	7.70	7.95	8.53	8.64	7.87
Expenditure Management					
Total Expenditure/GSDP	15.68	13.36	13.56	15.00	14.39
Total Expenditure/Revenue Receipts	131.38	112.23	104.16	105.70	107.53
Revenue Expenditure/Total Expenditure	78.23	91.17	87.60	86.23	82.52
Salary expenditure on Social and Economic Services/ Revenue Expenditure	24.36	24.66	23.16	19.09	19.69
Non-Salary expenditure on Social and Economic Services/ Revenue Expenditure	32.01	30.72	38.64	49.62	48.55
Capital Expenditure/Total Expenditure	2.99	7.17	11.17	12.80	16.13
Capital expenditure on Social and Economic Services/ Total Expenditure	2.47	6.71	10.60	12.32	15.33
Buoyancy of TE with RR	1.924	(-) 0.245	0.632	1.065	1.191
Buoyancy of RE with RR	0.606	0.961	0.445	0.996	0.711
Management of Fiscal Imbalances					
Revenue deficit (-)/Surplus (+) (Rs in crore)	(-) 274	(-) 258	(+) 1,213	(+)1,590	(+)2224
Fiscal deficit (-)/Surplus (+) (Rs in crore)	(-) 2,933	(-) 1,206	(-) 286	(+) 1,179	(-)1264
Primary Deficit (-)/Surplus (+) (Rs in crore)	(-) 820	(+)1,029	(+) 1,814	(+) 3,444	(+)1082
Revenue Deficit/Fiscal Deficit	(+) 9.34	(+) 21.39	*	(+) 134.86	*
Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	26.91	25.91	25.40	22.63	19.73
Fiscal Liabilities/RR	225.5	217.6	195.1	159.40	147.43
Buoyancy of FL with RR	0.538	0.70	0.470	0.199	0.175
Buoyancy of FL with own Receipt	0.936	0.563	0.733	0.171	0.228
Sum of Primary Deficit and quantum spread (Rupees in crore)	59	2,148	2,949	6,060	3,729
Net Fund Available	9	(-) 2	12	(-) 7	(-)34
Other Fiscal Health Indicators					
Return on Investment (Rupees in crore)	4.11	2.35	1.92	5.62	6.05
Balance from Current Revenue (Rs in crore)	326	786	2,424	3,087	4300
Financial Assets/Liabilities	0.71	0.72	0.79	0.86	0.94

* There was revenue surplus and fiscal deficit.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of the state to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also transfers from the Union Government. The ratio of revenue receipts to GSDP during the current year was 13.38 *per cent*; a decrease of 0.81 percentage point over the previous year. During 2003-07, the ratio of own taxes to GSDP showed continued improvement indicating reforms in tax laws and procedures especially in sales tax (implementation of VAT since April 2003) resulting in a higher degree of compliance and collections during the period. A slight decline in the

ratio in 2007-08 was observed mainly due to less realisation of tax on entry of goods into local areas.

Various ratios concerning the expenditure management of the State indicate the quality of its expenditure and sustainability of these in relation to its resource mobilisation efforts. The revenue expenditure as a percentage to total expenditure indicates an overall decline since 2004-05. The adequacy of revenue receipts to finance the total expenditure, which amounts to 93 *per cent* during 2007-08, indicates decreasing reliance on borrowed funds. Increasing proportion of capital expenditure in the total expenditure indicates improvement in both developmental and quality of expenditure which is also reflected by the increasing asset back of the financial liabilities during the period 2003-08.

A consistent improvement in financial position of the State especially with regard to its revenue account along with positive balance from current revenue is a pointer towards financial stability and sustainability of the State during the period. The low return on the Government investments vis-à-vis the cost of the borrowed funds however still continues to be a cause of concern.

1.12 Conclusions

The fiscal position of the State, viewed in terms of the trends in fiscal parameters revenue, fiscal and primary deficit/surplus indicated a mixed trend as in 2007-08 relative to the previous year fiscal surplus turned into deficit of Rs 1,264 crore; although the primary surplus was maintained, it declined sharply by Rs 2,362 crore while revenue surplus increased by Rs 634 crore. The State maintained an increase in revenue surplus mainly due to improvement in mobilization of its own resources and keeping the growth in revenue expenditure (seven *per cent*) at the lowest during the last five years (2003-08). However, a cushion of Rs 2,034 crore by way of recovery of loans from power projects through book adjustments available in 2006-07 vanished during the current year as a result of which fiscal deficit increased sharply and primary surplus dwindled in 2007-08 over the previous year. The expenditure pattern of the State reveals that though the revenue expenditure as a percentage to total expenditure indicated a declining trend, it still constituted around 82.5 *per cent* of the total expenditure during 2007-08 and its NPRES component at Rs 14,351 crore during 2007-08 exceeded significantly both the normative projection of the TFC for the State (Rs 9,602 crore) and the State's projection in its FCP (Rs 13,000 crore). Within the non-plan revenue expenditure, four components—salary expenditure, pension liabilities, interest payments and subsidies—constituted about 79 *per cent* of NPRES during 2007-08. Moreover, 84 *per cent* (Rs 2,568 crore) of total subsidies were for power and energy sector which was more than 1.5 times the State's own projection of Rs 1,530 crore in Fiscal Correction Path for 2007-08. These trends in expenditure indicate the need for changing allocative priorities. Similarly, although expenditure under capital head has increased by Rs 998 crore during 2007-08 over the previous year, a major proportion (85 *per cent*) of the

incremental capital expenditure was in the form of investment in equity shares of various power corporations. The investments in statutory corporations, joint stock companies and co-operatives increased by 30 *per cent* during the year 2007-08 over the previous year, but the return on these investments was negligible (less than one *per cent*) vis-à-vis the higher cost of the borrowed funds putting directly or indirectly a strain on the fiscal budget of the State and therefore a cause of concern.