

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 Jammu and Kashmir 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 layout of the Finance Accounts is depicted in *Appendix 1.1-Part B*.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the State Government 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 1.1: Summary of receipts and disbursements for the year 2007-08

(Rupees in crore)

Receipts			Disbursements				
2006-07		2007-08	2006-07		2007-08		
Section-A: Revenue							
					Non-plan	Plan	Total
11182.03	I. Revenue Receipts	13277.04	10614.05	I. Revenue Expenditure	11666.10	523.20	12189.30
1798.97	Tax Revenue	2558.18	4653.53	General Services	5560.54	63.04	5623.58
632.53	Non-Tax Revenue	807.98 ¹	2881.12	Social Services	2553.36	293.95	2847.31
1413.43	Share of Union Taxes/Duties	1775.01	3079.40	Economic Services	3552.20	166.21	3718.41
7337.10	Grants from Govt of India	8135.87 ²					
Section-B: Capital							
-	II-Miscellaneous Capital Receipts	-	2456.30	II-Capital Outlay	75.78	3641.25	3717.03
2.04	III-Recoveries of Loans and Advances	1.89	43.89	III-Loans and Advances Disbursed	-	38.27	38.27
1543.81	IV-Public Debt ³ Receipts	2848.30	403.76	IV-Repayment of Public Debt	-	772.14	772.14
0.39	V-Contingency Fund	0.01	0.14	V- Appropriation to Contingency Fund	-	0.13	0.13
				V. Contingency Fund			
25598.80	VI-Public Account Receipts	29505.85	24785.47	VI-Public Account Disbursement			28910.69
84.78	Opening Balance	108.24	108.24	Closing Balance			113.77
38411.85	Total	45741.33	38411.85	Total			45741.33

¹ The figures vary with those depicted in the Finance Accounts due to misclassification of receipts from the power sector by the State Government during 2006-07, which is rectified in the Finance Accounts of the current year.

² The figures vary with those depicted in the Finance Accounts due to misclassification of Rs 360 crore received in 2006-07 under grants-in-aid for State Plan Schemes as remittances under Public Account, which is rectified in Finance Accounts of the current year.

³ Public Debt receipts and repayments exclude Ways and Means Advances and Overdraft.

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

- Revenue receipts increased by Rs. 2095.01 crore over the previous year. The increase was contributed by tax revenue (Rs. 759.21 crore), Grants-in-aid from Government of India (GOI) (Rs. 798.77 crore), State's share of Union taxes and duties (Rs. 361.58 crore) and Non-tax revenue (Rs. 175.45 crore) during the current year.
- Revenue expenditure increased by Rs. 1575.25 crore and the capital expenditure increased by Rs. 1260.73 crore.
- Recoveries and disbursement of loans and advances decreased by Rs. 0.15 crore and Rs. 5.62 crore, respectively.
- Public debt receipts and repayments increased by Rs. 1304.49 crore and Rs. 368.38 crore, respectively.
- Public Account receipts and disbursements increased by Rs. 3907.05 crore and Rs. 4,125.22 crore, respectively.
- The closing cash balance increased by Rs. 5.53 crore.

1.1.2 The Fiscal Responsibility and Budget Management (FRBM) Act, 2006

The State Government enacted the Jammu and Kashmir Fiscal Responsibility and Budget Management (FRBM) Act on 9 August 2006 to ensure prudence in fiscal management and fiscal stability by progressive strengthening of revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto. The Rules under the Act were notified by the Government in January 2008. However, impact of the Act could not be ascertained in audit, as the format of the Fiscal Policy Statements was not submitted to the State Legislature for approval, as required. The State Government attributed (September 2008) non-submission thereof to the Legislature to technical problems.

As the FRBM Act could not be put into force, the State Government had forgone the interest relief amounting to Rs. 176.73 crore as on 31st March 2008 under DCRF⁴ which would have been available after reschedulement of GOI loans at the reduced rate of interest for next 20 years with effect from 1st April 2005. The State had also foregone the waiver of debt due to GOI, which is linked to its fiscal performance during 2005-06 to 2007-08.

⁴ In pursuance of the recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the State, Government of India formulated a scheme "The States' Debt Consolidation and Relief Facility (DCRF)" under which, general debt relief is provided by consolidating and rescheduling at substantially reduced rate 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 deficit of State

1.2 Overview of fiscal situation of the State

1.2.1 Trend in Fiscal Aggregates

The fiscal position of the State Government during the current year as compared to the previous year is given in Table-1.2.

Table 1.2

(Rupees in crore)

2006-07	Major Aggregates		2007-08
11182	1	Revenue receipts (2+3+4)	13277
1799	2	Tax Revenue	2558
633	3	Non-tax Revenue	808
8750	4	Other Receipts	9911
2	5	Non-Debt Capital Receipts	2
2	6	Of which recovery of loans	2
11184	7	Total Non-Debt Receipts (1+5)	13279
9891	8	Non-plan Expenditure (9+11+12)	11742
9781	9	On Revenue Account	11666
1787	10	Of which interest payments	2436
110	11	On Capital Account	76
-	12	On Loans disbursed	-
3223	13	Plan Expenditure (14+15+16)	4202
833	14	Revenue Account	523
2346	15	On Capital Account	3641
44	16	On Loans disbursed	38
13114	17	Total Expenditure (8+13)	15944
(+) 568	18	Revenue Surplus (+)/Deficit (-) (1-(9+14))	(+) 1088
(-) 1930	19	Fiscal Surplus (+)/Deficit (-) ((1+5)-17)	(-) 2665
(-) 143	20	Primary Surplus (+)/Deficit (-) (19-10)	(-) 229

During the current year, revenue receipts increased by 19 per cent (Rs. 2095 crore), while revenue expenditure increased by only 15 per cent (Rs. 1575 crore) over the previous year, resulting in an increase of Rs. 520 crore in revenue surplus during 2007-08 from the level of Rs. 568 crore during 2006-07. Given the increase in the revenue surplus by Rs. 520 crore, net increase of Rs. 1255 crore in the capital expenditure/loans and advances disbursed during 2007-08 over the previous year, there was an increase of Rs. 735 crore in fiscal deficit in the current year. The increase in fiscal deficit accompanied by an increase of Rs. 649 crore in interest payments during 2007-08 over the previous year led to an increase of Rs. 86 crore in primary deficit in 2007-08 from the level of Rs. 143 crore during 2006-07.

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 analysed wherever necessary over the period 2002-03 to 2007-08 and observations have been made on their behaviour as per *Appendix 1.2 to 1.4* and time series data (*Appendix 1.5*). In its Restructuring Plan of State Finances, the 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 enact the Fiscal Responsibility Act and draw their fiscal correction path accordingly for the five year period (2005-10) so that fiscal position of the State could be improved as committed in their respective FRBM Acts/Rules covering medium to long run period. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates alongwith the commitments/projections made by the State Governments in their budget statements laid in the legislature were 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) 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 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 mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP. The trends in the growth of GSDP as provided by Department of Economics and Statistics, Government of Jammu and Kashmir are given in Table-1.3.

Table 1.3: Trends in Growth and Composition of GSDP

	2002-03	2003-04	2004-05	2005-06	2006-07 (Q)	2007-08 (A)
GSDP (Rs. in crore)	20326	22194	24265	26537	29030	31793
Rate of Growth of GSDP (in per cent)	12.68	9.19	9.33	9.36	9.39	9.52

(Source: Directorate of Economics and Statistics, J&K). Q= Quick Estimates; A=Advance Estimates.

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits. The overall financial performance of the State Government as a corporate body has been presented by 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-C*.

1.4 State Finances by Key Indicators

1.4.1 Resources by Volumes and Sources

Resources of the State Government consist of revenue and capital receipts. Revenue receipts comprise 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 like proceeds from disinvestments, recoveries of loans and advances, debts raised from internal sources viz., market loans, borrowings from financial institutions/commercial banks, etc. and loans and advances obtained from GOI as well as accruals from Public Account. Table-1.4 shows that total receipts of the State Government for the year 2007-08 were Rs 45,633 crore. Of these, revenue receipts were Rs. 13,277 crore only, constituting 29 *per cent* of the total receipts. The balance 71 *per cent* came from borrowings and public account receipts.

Table 1.4: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of State's receipts		2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
I.	Revenue Receipts	7548	8212	8866	10315	11182	13277
II.	Capital Receipts	1472	1858	1818	2572	1546	2850
	Public Debt Receipts	1390	1854	1799	2536	1544	2848
	Recovery of Loans and Advances	82	4	19	36	2	2
	Miscellaneous Capital Receipts	-	-	-	-	-	-
III.	Contingency Fund	-	1.33	0.49	0.61	0.39	0.01
IV.	Public Account Receipts	16830	19049	19120	22632	25599	29506
(a)	Small Savings, Provident Fund, etc.	609	712	698	895	991	1004
(b)	Reserve Fund	136	167	151	495	411	183
(c)	Deposits and Advances	1169	820	1091	1938	1323	1853
(d)	Suspense and Miscellaneous	143	339	308	331	315	198
(e)	Remittances	14773	17011	16872	18973	22559	26268
	Total Receipts⁵	25850	29120	29804	35520	38327	45633

Within the aggregate receipts, the composition of revenue receipts during 2002-03 to 2007-08 ranged between 28 and 30 *per cent* and the composition of capital receipts, between 4 and 7 *per cent*. However, the composition of public account receipts during the same period ranged between 64 and 67 *per cent*.

1.4.2 Revenue Receipts

Statement No. 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in Table-1.5.

⁵ Rounded figures

Table 1.5: Revenue Receipts-Basic indicators

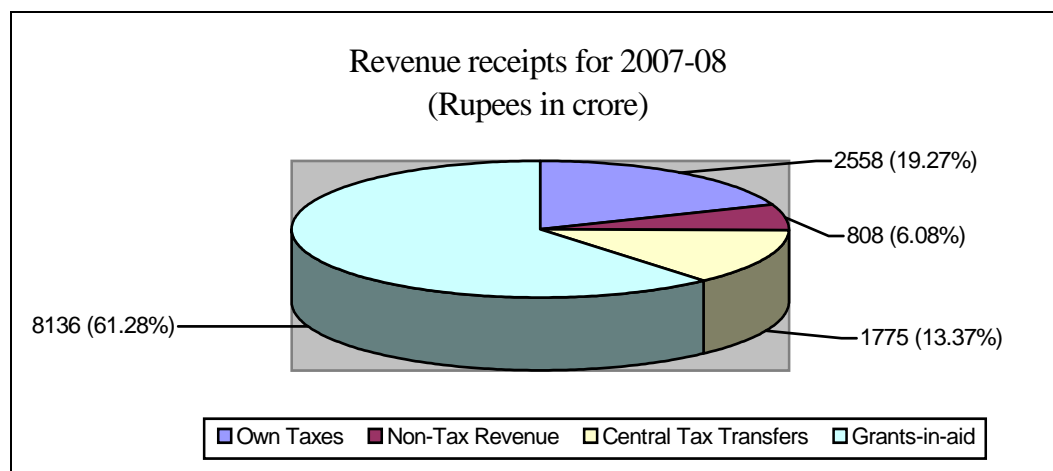
(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts	7548	8212	8866	10315	11182	13277
Own taxes (<i>per cent</i>)	1033 (13.69)	1170 (14.25)	1351 (15.24)	1627 (15.77)	1799 (16.09)	2558 (19.27)
Non-Tax Revenue (<i>per cent</i>)	865 (11.46)	633 (7.71)	641 (7.23)	536 (5.20)	633 (5.66)	808 (6.08)
Central tax Transfers (<i>per cent</i>)	685 (9.07)	817 (9.95)	934 (10.53)	1135 (11.00)	1413 (12.64)	1775 (13.37)
Grants-in-aid (<i>per cent</i>)	4965 (65.78)	5592 (68.09)	5940 (67.00)	7017 (68.03)	7337 (65.61)	8136 (61.28)
Rate of Growth of Revenue Receipts (<i>per cent</i>)	16.32	8.80	7.96	16.34	8.41	18.74
Revenue Receipts/GSDP ratio	37.13	37.00	36.54	38.87	38.52	41.76
Buoyancy of Revenue receipts	1.29	0.96	0.85	1.75	0.90	1.97
Buoyancy of Own taxes	2.25	1.44	1.66	2.18	1.13	4.43
Revenue Buoyancy with reference to State's own taxes	0.57	0.66	0.51	0.80	0.80	0.44
GSDP Growth (<i>per cent</i>)	12.68	9.19	9.33	9.36	9.39	9.52

General Trends

The revenue receipts have shown a progressive increase over the period 2002-08 with progressive increase in the share of own taxes and Central tax transfers and consistent decline in the share of non-tax revenue. The share of grants-in-aid from GOI remained dominant and varied within the range of 61 to 68 *per cent* of the total revenue receipts of the State during 2002-03 to 2007-08. During 2007-08, 25.35 *per cent* of the revenue receipts have come from the State's own resources comprising tax and non-tax revenue, while the Central tax transfers and grants-in-aid together contributed the remaining 74.65 *per cent* of the total revenue.

Chart 1.1



Tax Revenue

The tax revenue has increased by 42.19 *per cent* from Rs. 1799 crore in 2006-07 to Rs. 2558 crore during 2007-08. All the components of tax revenue showed an increasing trend during the year 2007-08. The revenue from sales tax not only contributed the major share of tax revenue (71 *per cent*), but also increased by 56 *per cent* (Rs. 646 crore) over the previous year due to additional receipts under VAT and Sales tax Acts. Table-1.6 below shows the trend of tax revenue during 2002-08.

Table 1.6: Tax Revenue

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Taxes on Sales, trade etc.	536	674	804	1014	1159	1805
State Excise	223	205	272	219	213	244
Taxes on Vehicles	34	38	42	49	64	73
Stamps and Registration	26	34	39	46	57	66
Land Revenue	3	3	11	4	3	9
Other Taxes*	211	216	183	295	303	361
Total	1033	1170	1351	1627	1799	2558

*Other Taxes includes taxes on goods and passengers and other taxes and duties on commodities and services

Non-Tax Revenue

The non-tax revenue has increased by Rs. 175 crore (27.65 *per cent*) during the current year from the level of Rs. 633 crore in 2006-07. The share of non-tax revenue in the total receipts however decreased from 11.46 *per cent* (Rs. 865 crore) in 2002-03 to 6.08 *per cent* (Rs. 808 crore) in 2007-08. The increase in non tax revenue was mainly on account of increase of Rs. 122 crore in power receipts due to revision of power tariff rates in 2007-08. The power sector continued to be the major contributor of non-tax receipts of the Government and during the current year, its share was 74 *per cent* of the total non-tax receipts of the State. Other major contributors in non-tax revenue during the current year were interest receipts, dividends and profits (Rs. 65.33 crore), forestry and wild life (Rs. 32.20 crore), public works (Rs. 16.44 crore), water supply and sanitation (Rs. 13.64 crore), etc.

The actual receipts under State's tax and non-tax revenue vis-à-vis assessment made by TFC and the State Government in the budget estimates are given below:

Table 1.7: Comparative statement of revenue receipts

(Rupees in crore)

	Assessment made by TFC	Budget Estimates of 2007-08	Actuals
Tax Revenue	2142.49	2198.64	2558.18
Non-Tax Revenue	361.05	913.05	807.98
Total	2503.54	3111.69	3366.16

The receipts from own tax revenue at Rs. 2,558 crore during 2007-08 exceeded

the normative projection of Rs. 2142.49 crore made by the TFC and Rs. 2198.64 crore projected in the budget estimates for 2007-08 by 19.40 *per cent* and 16.35 *per cent* respectively. The non-tax revenue at Rs. 807.98 crore exceeded the normative projection of Rs. 361.05 crore made by the TFC by 123.79 *per cent* but was less by 11.51 *per cent* in comparison to Rs. 913.05 crore assessed in the budget estimates for 2007-08.

Central Tax Transfers

The Central tax transfers increased by Rs. 362 crore over the previous year and constituted 13 *per cent* of the revenue receipts during the year 2007-08. The increase was mainly under corporation tax (Rs. 137.93 crore), customs duty (Rs. 67.82 crore), taxes on income other than corporation tax (Rs. 123.64 crore) and Union excise duty (Rs. 32.05 crore).

Grants-in aid

The details of grants-in-aid to the State by GOI are given in Table-1.8. During the current year, the grants-in-aid increased by Rs. 799 crore over the level of 2006-07. The increase was due to receipt of more grants (Rs. 848 crore) under State plan schemes, which increased from Rs. 3,782 crore in 2006-07 to Rs. 4630 crore in 2007-08, and receipt of more grants for special Central assistance for power reforms (Rs. 1170 crore)⁶ and special plan assistance for earthquake affected areas (Rs. 146.58 crore). The non-plan grants, which *inter alia* include Grants under the Proviso to Article 275 (I) of the Constitution of India and for meeting expenditure on Central Road Fund, Calamity Relief Fund, Modernisation of Police Force, etc., increased marginally by Rs. 24 crore.

Table 1.8: Grants-in-aid from GOI

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State Plan Schemes	2100	2701	3191	3045	3782	4630
Non Plan grants	2699	2659	2448	3484	3016	3040
Grants for Central, Centrally Sponsored Plan Schemes and Special Plan Schemes	167	231	300	488	539	466
Total	4966	5591	5939	7017	7337	8136
Percentage of increase over previous year	6.89	12.59	6.22	18.15	4.56	10.89

Revenue Arrears

The arrears of tax revenue at the end of March 2008 were Rs. 1011 crore, which constituted 40 *per cent* of tax revenue of the State. Of these, Rs. 687.91 crore

⁶ The special Central assistance for power sector reforms amounting to Rs 1530 crore was approved by the Government of India during 2006-07, of which, Rs 360 crore was included in grants-in-aid during that year itself, while the remaining Rs 1170 crore is included in the grants-in-aid of the current year.

(68 per cent) were more than five years old. A disaggregated analysis of revenue arrears revealed that 95 per cent of pending arrears were related to sales tax (Rs. 960.39 crore) followed by taxes on goods and passengers (5 per cent). Further, all the pending arrears relating to State excise (Rs. 3.54 crore), 69 per cent of sales tax arrears (Rs. 659.60 crore) and 52 per cent of arrears relating to taxes on goods and passengers (Rs. 24.55 crore) were reported to be more than five year old. Out of the total sales tax arrears of Rs. 960.39 crore, recovery of Rs. 25.12 crore was stayed by courts/appellate authority. Similarly, out of the total State excise arrears of Rs. 3.54 crore, recovery of Rs. 0.13 crore was stayed by courts/appellate authority and Rs. 3.41 crore were proposed to be recovered as arrears of land revenue. As the pending revenue arrears constitute about 40 per cent of the revenue receipts of the State during 2007-08, special drive needs to be initiated by the State Government for their recovery, which would provide a cushion to reduce the burden of fiscal liabilities of the State.

1.5 Application of Resources

1.5.1 Growth of Expenditure

Statement No. 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, and extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State, its trend and annual growth, ratio of expenditure to the GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table-1.9.

Table 1.9: Total Expenditure-Basic Parameters

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure*	8941	9703	10550	12994	13114	15944
Revenue Expenditure	7180	7754	8304	9921	10614	12189
Capital Expenditure	1421	1881	2180	3020	2456	3717
Loans and advances	340	68	66	53	44	38
Rate of Growth of TE (<i>per cent</i>)	10.45	8.52	8.73	23.17	0.92	21.58
TE/GSDP Ratio (<i>per cent</i>)	43.99	43.72	43.48	48.97	45.17	50.15
Revenue Receipts/TE ratio (<i>per cent</i>)	84.42	84.63	84.04	79.38	85.27	83.27
Buoyancy of Total Expenditure with						
GSDP (ratio)	0.82	0.93	0.94	2.48	0.10	2.27
Revenue Receipts (ratio)	0.64	0.97	1.10	1.42	0.11	1.15
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	0.41	0.87	0.76	2.08	0.74	1.56
Revenue Receipts (ratio)	0.32	0.91	0.89	1.19	0.83	0.79
Buoyancy of Capital Expenditure with						
GSDP (ratio)	1.26	3.52	1.70	4.12	(-) 1.99	5.39
Revenue Receipts (ratio)	0.98	3.68	2.00	2.36	(-) 2.22	2.74

*Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans & Advances

The total expenditure of the State has increased from Rs. 8,941 crore in 2002-03 to Rs. 15,944 crore in 2007-08 with annual oscillations ranging between 0.92 *per cent* and 23.17 *per cent*. In relative terms, capital and revenue expenditure components have increased by 162 *per cent* and 70 *per cent*, respectively during the period 2002-08. However, in absolute terms increases were of the order of Rs. 2,296 crore in capital expenditure and Rs. 5,009 crore in revenue account during the period under report. These trends indicate that increase in capital and revenue expenditure was in the ratio of 1:2 during the last six year period. Increase of Rs. 2,830 crore in total expenditure (21.58 *per cent*) during 2007-08 over the previous year has been due to increase of Rs. 1575 crore in revenue expenditure and Rs. 1,261 crore under capital head, accompanied by a marginal decrease of Rs. 6 crore in disbursement of loans and advances. Increase in revenue expenditure was mainly on account of increase in the expenditure on interest payments (Rs. 649 crore), modernization of the police force including expenditure on its direction and administration (Rs. 127 crore) and pension and other retirement benefits (Rs. 172 crore) under General Services. Steep increase in capital expenditure was mainly due to increase under the major heads transport (Rs. 515 crore), urban development (Rs. 277 crore) offset by decrease in housing (Rs. 118.36 crore), energy (Rs. 178 crore), special areas programmes (Rs. 138 crore) and irrigation and flood control (Rs. 60 crore). During the current year, 83 *per cent* of the total expenditure was met from revenue receipts and the remaining 17 *per cent* from capital receipts and borrowed funds.

Out of the total expenditure of Rs. 15,944 crore during 2007-08, Rs.4,202 crore was incurred under plan component and Rs. 11,742 crore under non-plan component. The expenditure under plan component increased by Rs.1,627 crore (63 *per cent*) from Rs. 2,575 crore in 2002-03 to Rs. 4,202 crore in 2007-08. While in the non-plan component, there was an increase by Rs.5,376 crore (84 *per cent*) from Rs. 6,366 crore to Rs. 11,742 crore during the same period. The expenditure under plan component increased by Rs. 979 crore (30 *per cent*) from Rs. 3223 crore in 2006-07 to Rs. 4202 crore in 2007-08, while under non-plan component there was an increase of Rs. 1851 crore (19 *per cent*) from Rs. 9891 crore in 2006-07 to 11742 crore in 2007-08.

1.5.2 Trend in Total Expenditure by Activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services, Interest Payments, Social and Economic Services, and Loans and Advances. Relative share of these components in total expenditure is indicated in Table-1.10.

Table 1.10: Components of Expenditure-Relative Share

(in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	35.91	35.46	31.71	28.78	35.92	36.00
<i>Of which, Interest Payments</i>	12.25	12.84	10.45	8.58	13.63	15.28
Social Services	23.40	23.86	24.13	25.49	28.29	24.89
Economic Services	36.89	39.98	43.53	45.32	35.45	38.87
Loans and Advances	3.80	0.70	0.63	0.41	0.34	0.24

The movement of relative share of these components of expenditure exhibited relative stability with inter-year variations. Expenditure on General Services including interest payments together accounted for 36 per cent during 2007-08. On the other hand, expenditure on Social and Economic Services during the same period together accounted for 63.76 per cent.

1.5.3 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 State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table-1.11.

Table 1.11: Revenue Expenditure-Basic Parameters

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure	7180	7754	8304	9921	10614	12189
<i>Of which,</i>						
<i>Non-Plan Revenue Expenditure (NPRE)</i>	6284	6807	7239	8725	9781	11666
<i>Plan Revenue Expenditure (PRE)</i>	896	947	1065	1196	833	523
Rate of Growth of						
NPRE (<i>per cent</i>)	4.56	8.32	6.35	20.53	12.10	19.27
PRE (<i>per cent</i>)	10.21	5.69	12.46	12.30	(-)30.35	(-)37.21
NPRE/GSDP (<i>per cent</i>)	30.92	30.67	29.83	32.88	33.69	36.69
NPRE as <i>per cent</i> of TE	70.28	70.15	68.62	67.15	74.58	73.17
NPRE as <i>per cent</i> of RR	83.25	82.89	81.65	84.59	87.47	89.00
NPRE as <i>per cent</i> of RE	87.52	87.79	87.17	87.94	92.15	95.71
Buoyancy of Revenue Expenditure with:						
GSDP (ratio)	0.41	0.87	0.76	2.08	0.74	1.56
Revenue Receipts (ratio)	0.32	0.91	0.89	1.19	0.83	0.79

Overall revenue expenditure of the State increased from Rs. 7,180 crore in 2002-03 to Rs. 12,189 crore in 2007-08, showing an increase of 70 per cent over

the period. The non-plan revenue expenditure during the same period increased from Rs. 6,284 crore to Rs. 11,666 crore, showing an increase of 86 *per cent*. The share of NPRES in total revenue expenditure increased from 88 *per cent* in 2002-03 to 96 *per cent* in 2007-08. The non-plan revenue expenditure which increased by Rs. 1,885 crore (19 *per cent*) in 2007-08 over the previous year was on account of increase in the expenditure by Rs. 140.19 crore (6 *per cent*) under Social Services Sector, Rs. 910.31 crore (19.58 *per cent*) in the General Services Sector and Rs. 834.60 crore (31 *per cent*) in the Economic Services Sector. Under Social Services, the increase in the expenditure was mainly on education, sports, art and culture (Rs. 114 crore), health and family welfare (Rs. 139 crore) and water supply and sanitation (Rs. 163 crore). The expenditure was, however, offset by Rs. 280 crore decrease in expenditure on social welfare and nutrition. Under General Services, the increase in the expenditure was mainly on interest payments (Rs. 649 crore), modernisation of the police force including expenditure on direction and administration (Rs. 127 crore) and pension and other retirement benefits (Rs. 172 crore). In Economic Services, the increase was observed in agriculture and allied activities (Rs. 181 crore), special areas programmes (Rs. 63 crore), purchase of power (Rs. 450 crore), etc. The non-plan revenue expenditure of Rs. 11,666 crore during 2007-08 is significantly higher than the normatively assessed level of Rs. 6,514 crore by the TFC for the State for the year 2007-08 as well as the budget estimates (Rs. 10,109 crore) of the State Government for 2007-08 (Table-1.12).

Table 1.12: Non-Plan Revenue Expenditure: Actual vis-a-vis Normative Assessment by TFC
(Rupees in crore)

Particulars	Assessed by the TFC	Budget estimates	Actual
Interest Payments	1646.06	1251.25	2436.10
Pension	839.21	982.00	1192.96
Other General Services	1141.93	2262.83	1931.48
Social Services	2034.17	2384.29	2553.36
Economic Services	720.05	3228.97	3552.20
Committed liabilities	132.64	-	-
Total Non-plan Revenue Expenditure	6514.06	10109.34	11666.10

The actual expenditure incurred on all five components of non-plan revenue expenditure was more than the assessment made by the TFC. In case of interest and pension payments, the expenditure exceeded the assessments made in the budget estimates 2007-08.

Plan revenue expenditure consistently increased from Rs. 896 crore in 2002-03 to Rs. 1,196 crore in 2005-06 and declined steeply by 30.35 *per cent* (Rs. 363 crore) during 2006-07 and by 37.21 *per cent* (Rs. 310 crore) during 2007-08. Decrease of Rs. 310 crore during 2007-08 over the previous year was mainly on account of decline of Rs. 92.92 crore in the expenditure on health and family welfare, Rs. 116.81 crore on agriculture and allied activities, Rs. 39.79 crore on industries and minerals, Rs. 36.90 crore on water supply and sanitation and Rs. 24.45 crore on rural development.

1.5.4 Committed Expenditure

Expenditure on Salaries and wages: The expenditure on salaries and wages increased from Rs. 3,260 crore in 2002-03 to Rs. 4,426 crore in 2007-08 as indicated in Table-1.13.

Table 1.13: Expenditure on Salaries and Wages

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salary and wages	3260	3174	3245	3724	3995	4426 ⁷
Of which						
<i>Non-plan</i>	<i>Details not available</i>	2487	2497	2838	3467	4170
<i>Plan</i>		687	748	886	528	256
As per cent of GSDP	16.04	14.30	13.37	14.03	13.76	13.92
As per cent of Revenue Receipts	43.19	38.65	36.60	36.10	35.73	33.34

(Source: Departmental figures for 2002-03 and VLC data of A&E office for the years 2003-04 to 2007-08)

Salaries and wages accounted for 33.34 per cent of the revenue receipts during 2007-08. Keeping in view the norms of the TFC that the total salary bill relative to revenue expenditure net of interest payments and pensions is not to exceed 35 per cent, the corresponding share in the State is estimated to be 52 per cent requiring attention of the Government for keeping the salary expenditure within the prescribed norm of TFC.

Expenditure on pension payments: Pension payments grew at the rate of 17 per cent from Rs. 1,021 crore during 2006-07 to Rs. 1,193 crore during 2007-08. The increase was mainly due to increased number of pensioners during 2007-08 in comparison to previous year. Year-wise break-up of expenditure incurred on pension payments during the years 2002-03 to 2007-08 is indicated in Table-1.14.

Table 1.14: Expenditure on Pensions

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pensions	593	677	731	929	1021	1193
As per cent of GSDP	2.92	3.05	3.01	3.50	3.52	3.75
As per cent of Revenue Receipts	7.86	8.24	8.24	9.01	9.13	8.99

The ratio of pension payments to the GSDP showed increasing trend during 2002-08. With the increase in number of retirees, the pension liabilities are likely to increase further in future. The Government has contemplated no measures to meet the growing expenditure.

Interest payments: Interest payments made and their ratio to revenue receipts and revenue expenditure during the period 2002-08 are detailed in Table-1.15.

⁷ Salary: Rs. 4400 crore; wages Rs. 26 crore

Table 1.15: Interest payments

Year	Total Revenue Receipts	Interest payments	Percentage of interest payments with reference to	
	(Rupees in crore)		Revenue Receipts	Revenue Expenditure
2002-03	7548	1095	14.51	15.25
2003-04	8212	1246	15.17	16.70
2004-05	8866	1103	12.44	13.28
2005-06	10315	1115	10.81	11.24
2006-07	11182	1787	15.98	16.84
2007-08	13277	2436	18.35	19.99

The major source of borrowings is market loans at interest rates varying from 5.60 per cent to 14 per cent. There was an overall increase of Rs. 649 crore (36 per cent) in the interest payments during 2007-08 over the previous year. The increase was due to excess expenditure of Rs. 681.70 crore incurred on payment of interest on internal debts due to previous adjustments in the current year and payment of interest on special securities issued to National Small Savings Fund of the Central Government by the State Government (Rs. 29 crore). The expenditure was, however, offset by decrease in the expenditure by Rs. 35 crore on payment of interest on loans and advances from Central Government (Rs. 11 crore) and on other obligations (Rs.24 crore). During 2007-08 interest payments accounted for 18.35 per cent of revenue receipts and 19.99 per cent of revenue expenditure.

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 the 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-1.16 gives these ratios during 2002-08.

Table 1.16: Indicators of Quality of Expenditure

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	1421	1881	2180	3020	2456	3717
Revenue Expenditure	7180	7754	8304	9921	10614	12189
<i>Of which</i>						
Social and Economic Services	4026	4381	5017	6239	5960	6565.71
<i>Salary and wage* component</i>	<i>Details not available</i>	2081 (47.50)	2136 (42.58)	2436 (39.04)	2728 (45.77)	3028.14 (46.12)
<i>Non-Salary and wage component</i>		2300 (52.50)	2881 (57.42)	3803 (60.96)	3232 (54.23)	3537.57 (53.88)
As per cent of Total Expenditure⁸						
Capital Expenditure	16.52	19.52	20.79	23.34	18.79	23.37
Revenue Expenditure	83.48	80.48	79.21	76.66	81.21	76.63
As per cent of GSDP						
Capital Expenditure	6.99	8.48	8.98	11.38	8.46	11.69
Revenue Expenditure	35.32	34.94	34.22	37.39	36.56	38.34

(*Figures of wages are based on data from VLC)

Except for the year 2006-07, the ratio of capital expenditure to total expenditure showed an increasing trend during 2002-08. The revenue expenditure continues to have a dominant share in total expenditure, which is 76.63 *per cent* in 2007-08. Within the revenue expenditure incurred on Social and Economic Services, the share of salary and wage component during 2007-08 comprised 46.12 *per cent*, while the non-salary components comprised 53.88 *per cent*.

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-1.17 summarises the expenditure incurred by the State Government in expanding and strengthening the Social Services in the State during 2002-08.

⁸ Comprises revenue and capital expenditure only

Table 1.17: 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 <i>Of which</i>	854.86	860.55	939.22	1066.30	1153.91	1270.47
(a) <i>Salary and Wage* component</i>	<i>Details not available</i>	766.70	803.04	902.28	974.82	1066.91
(b) <i>Non-Salary and Wage Component</i>		93.85	136.18	164.02	179.09	203.56
Capital Expenditure	48.01	79.05	93.06	117.43	142.81	155.29
Total	902.87	939.60	1032.28	1183.73	1296.72	1425.76
Health and Family Welfare						
Revenue Expenditure <i>Of which</i>	391.93	388.83	432.51	487.42	555.29	601.49
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>	307.17	319.55	368.73	419.75	458.90
(b) <i>Non-Salary and Wage Component</i>		81.66	112.96	118.69	135.54	142.59
Capital Expenditure	40.10	44.31	66.30	87.11	184.03	205.81
Total	432.03	433.14	498.81	574.53	739.32	807.30
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure <i>Of which</i>	326.31	335.71	359.62	431.46	488.24	614.36
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>	163.67	173.76	205.82	219.28	300.27
(b) <i>Non-Salary and Wage Component</i>		172.04	185.86	225.64	268.96	314.09
Capital Expenditure	215.42	329.96	364.28	430.14	472.08	626.48
Total	541.73	665.67	723.90	861.60	960.31	1240.84
Other Social Services						
Revenue Expenditure <i>Of which</i>	188.02	242.49	264.58	670.76	683.68	360.99
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>	54.75	50.48	55.69	62.25	57.53
(b) <i>Non-Salary and Wage Component</i>		187.74	214.10	615.07	621.43	303.46
Capital Expenditure	27.37	33.10	26.83	21.40	30.20	134.28
Total	215.39	275.59	291.41	692.16	713.89	495.27
Total (Social Services)						
Revenue Expenditure <i>Of which</i>	1761.12	1827.58	1995.93	2655.94	2881.12	2847.31
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>	1292.28	1346.83	1532.52	1676.10	1883.61
(b) <i>Non-Salary and Wage Component</i>		535.30	649.10	1123.42	1205.02	963.70
Capital Expenditure	330.90	486.42	550.47	656.08	829.12	1121.86
Grand Total	2092.02	2314.00	2546.40	3312.02	3710.24	3969.17

(*Figures of wages are based on data from VLC)

The allocation to Social Sector increased from Rs. 2092.02 crore in 2002-03 to Rs. 3969.17 crore in 2007-08 indicating the commitment of the Government to improve social well being of the people. Expenditure on Social Sector during the current year (Rs. 3969.17 crore) accounted for 25 *per cent* of total expenditure and 39 *per cent* of developmental expenditure⁹. Expenditure on Education has increased by Rs. 129.04 crore over previous year. Similarly expenditure on water supply and sanitation increased by Rs. 280.53 crore and expenditure on Health and Family Welfare has shown an increase of only Rs. 67.98 crore over previous year. Recognizing the need to improve the quality of education and health services, TFC 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 (both under plan and non-plan heads) reveal that the salary and wage component under education sector increased by 9.45 *per cent* over 2006-07 while non-salary and wage component increased by 13.66 *per cent*. Similarly, under Health and Family Welfare sector, the salary and wage component increased by 9.33 *per cent* while non-salary and wage component increased by 5.20 *per cent*. The expenditure pattern both in education and health services has not been as per the norms of the TFC which needs correction in the ensuing years.

1.6.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditure that promotes directly or indirectly, the productive capacity within the State's economy. The revenue expenditure on Economic Services increased from Rs. 2264.79 crore in 2002-03 to Rs. 3718.40 crore in 2007-08, while the capital expenditure on Economic Services increased from Rs. 1034.17 crore to Rs. 2480.62 crore (Table-1.18) during the period.

⁹ Development expenditure is defined as the total expenditure made on social and economic services.

Table 1.18: Expenditure on Economic Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Agriculture, Allied Activities						
Revenue Expenditure	479.33	472.76	514.79	575.41	597.55	661.33
<i>Of which</i>						
(a) <i>Salary and Wage* Component</i>	<i>Details not available</i>	318.74	348.50	387.92	443.77	492.64
(b) <i>Non-Salary and Wage Component</i>		154.02	166.29	187.49	153.78	168.69
Capital Expenditure	78.69	263.84	159.06	214.43	179.51	52.16
Total	558.02	736.60	673.85	789.84	777.06	713.49
Irrigation and Flood Control						
Revenue Expenditure	151.70	159.14	227.37	194.87	211.39	235.54
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>	118.97	123.79	138.90	146.18	157.53
(b) <i>Non-Salary and Wage Component</i>		40.17	103.58	55.97	65.21	78.01
Capital Expenditure	46.28	98.48	83.32	102.35	114.04	174.45
Total	197.98	257.62	310.69	297.22	325.43	409.99
Energy						
Revenue Expenditure	1182.96	1417.43	1796.83	1875.24	1675.42	2181.33
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>	103.34	109.94	122.74	196.78	221.54
(b) <i>Non-Salary and Wage Component</i>		1314.09	1686.89	1752.50	1478.64	1959.79
Capital Expenditure	444.59	552.10	709.38	699.21	487.66	665.33
Total	1627.55	1969.53	2506.21	2574.45	2163.08	2846.66
Transport						
Revenue Expenditure	32.56	36.05	39.15	36.21	50.47	50.25
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>	0.25	1.35	1.24	4.04	0.81
(b) <i>Non-Salary and Wage Component</i>		35.80	37.80	34.97	46.43	49.44
Capital Expenditure	252.43	243.56	316.52	418.02	454.17	969.48
Total	284.99	279.61	355.67	454.23	504.64	1019.73
Other Economic Services						
Revenue Expenditure	418.24	467.50	443.25	901.57	544.57	589.95
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>	246.70	205.26	252.39	260.67	272.01
(b) <i>Non-Salary and Wage Component</i>		220.80	237.99	649.18	283.90	317.94
Capital Expenditure	212.18	167.71	302.38	871.59	334.38	619.20
Total	630.42	635.21	745.63	1773.16	878.95	1209.15
Total (Economic Services)						
Revenue Expenditure	2264.79	2552.88	3021.39	3583.30	3079.40	3718.40
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>	788.00	788.84	903.19	1051.44	1144.53
(b) <i>Non-Salary and Wage Component</i>		1764.88	2232.55	2680.11	2027.96	2573.87
Capital Expenditure	1034.17	1325.69	1570.66	2305.60	1569.76	2480.62
Grand total	3298.96	3878.57	4592.05	5888.90	4649.16	6199.02

(*Figures of wages are based on data from VLC)

The expenditure on Economic Services (Rs. 6199.02 crore) during 2007-08 accounted for 38.97 *per cent* of the total¹⁰ expenditure (Rs. 15,906 crore) and 53 *per cent* of the revenue expenditure (Rs. 11,666 crore). Expenditure on agriculture and allied activities, irrigation and flood control, energy and transport consumed more than 80 *per cent* of the total economic sector expenditure during 2007-08. The trends in revenue and capital expenditure on Economic Services during the period 2002-08, reveal that except for 2006-07, the capital expenditure has consistently increased from Rs. 1,034.17 crore (31 *per cent*) in 2002-03 to Rs. 2480.62 crore (40 *per cent*) in 2007-08. On the other hand, revenue expenditure with inter-year fluctuations increased from Rs. 2,264.79 crore (69 *per cent*) to Rs. 3718.40 crore (60 *per cent*) in 2007-08. Increase of Rs. 910.86 crore in capital expenditure during 2007-08 over the previous year was mainly under the heads of Special Areas Programme (Rs. 138.29 crore), General Economic Services (Rs. 148.86 crore), Energy (Rs. 177.67 crore) and Transport (Rs. 515.31 crore). Increase of Rs. 515.31 crore in capital expenditure on Transport during 2007-08 over the level of 2006-07 was mainly due to increase of Rs. 510.32 crore in capital expenditure on roads and bridges and Rs. 4.99 crore on capital expenditure on road transport. Within the Capital expenditure on roads and bridges, the increase was mainly on account of increase of Rs. 390.33 crore in sub-head 101-bridges under state Highways and Rs. 95.40 crore in sub-head 800 other expenditure. However, the increase of Rs. 639 crore in revenue expenditure during 2007-08 over the previous year was mainly due to increase of Rs. 450 crore on account of purchase of power.

Of the revenue expenditure, the expenditure on salary and wages has moderately increased from Rs. 788 crore (31 *per cent*) in 2003-04 to Rs. 1,144.53 crore (31 *per cent*) in 2007-08 while its non-salary component has increased from Rs. 1,764.88 crore (69 *per cent*) to Rs. 2573.87 crore (69 *per cent*) indicating allocative priorities towards their better quality.

1.6.4 Financial Assistance by the State to Local Bodies and Other Institutions through respective Departments

The quantum of assistance provided by way of grants and loans to the following departments for disbursement to various local bodies and other institutions under them during the six-year period 2002-08 is presented in Table-1.19.

¹⁰ Excluding loans and advances

Table 1.19: Financial Assistance to Local Bodies and Other Institutions

(Rupees in crore)

Name of the Department	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Education and sports	76.77	43.11	79.34	78.24	88.01	116.45
Housing and Urban Development	65.96	71.66	78.60	118.30	135.49	146.05
Agriculture	40.66	36.74	47.81	51.04	72.90	60.72
Art and culture	3.50	3.31	14.71	5.44	7.32	7.93
General Administration	2.75	3.29	2.69	3.50	2.95	4.66
Industries	3.00	2.43	4.00	4.00	5.25	7.05
Tourism	3.87	2.41	5.34	3.43	5.06	5.24
Administration of Justice	1.65	0.92	1.60	1.91	1.63	2.26
Family welfare and Medical Health	1.14	0.70	0.82	0.48	0.44	0.64
Others	0.04	1.18	0.76	7.35	11.83	9.86
Total	199.34	165.75	235.67	273.69	330.88	360.86
Assistance as a percentage of Revenue expenditure	2.78	2.14	2.84	2.76	3.12	2.96

The total assistance of Rs. 360.86 crore in 2007-08 increased by 81 *per cent* over the level of 2002-03, and by 9 *per cent* as compared to the previous year mainly as a result of increased assistance for Education and Housing and Urban Development. Around 90 *per cent* of the financial assistance during 2007-08 was given by the State Government for Agriculture, Education, Housing and Urban Development. Financial assistance provided during the year included Rs. 146.05 crore paid to Municipal Committees/Local Bodies under Housing and Urban Development, Rs. 48.72 crore to two Agriculture Universities under Agriculture Research and Rs. 95.19 crore to Government aided Educational Institutions/Universities etc.

1.6.5 Delay in furnishing Utilisation Certificates

Financial Rules provide that for the grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General within 18 months from the date of their sanction unless specified otherwise.

In respect of grants paid up to 2006-07, 10,144 UCs for an aggregate amount of Rs. 1,862.82 crore were awaited as on 30 September 2008. Department-wise break-up of UCs not received in respect of grants paid up to 2006-07 is given in *Appendix-1.6*. In the absence of UCs, it was not clear as to how the departmental officers satisfied themselves whether and to what extent the recipients utilised the grants for the purpose for which these were provided.

1.6.6 Non-submission of Accounts

In order to identify the Institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, Government/Heads of Departments are required to furnish to Audit every year, detailed information about the financial assistance given to various Institutions, the purpose for which such assistance was sanctioned and the total expenditure of the Institutions. The particulars of 34 bodies/authorities whose 218 annual accounts for 2007-08 and earlier years were awaited are indicated in *Appendix-1.7*.

Four Autonomous Bodies mentioned below covered under Section 19 (3) and 20 (1) of the CAG's DPC Act had also not furnished the accounts for the period shown against each of them.

Table 1.20

S. No	Name of the Body	Period for which Accounts are awaited	Number of Accounts
Section 19 (3)			
1.	Khadi and Village Industries Board	2004-05 to 2007-08	4
Section 20 (1)			
2.	Sher-e-Kashmir University of Agricultural Sciences and Technology, Kashmir	2006-07 to 2007-08	2
3.	Sher-e-Kashmir University of Agricultural Sciences and Technology, Jammu	2005-06 to 2007-08	3
4.	Employees Provident Fund	1996-97 to 2007-08	12

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, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. *Appendix 1.4* 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 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 1.4* shows that the liabilities and assets grew by 13 *per cent* and 17 *per cent* respectively. The liabilities of the State Government depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to retired State employees, guarantees/letters of comforts issued by the State Government.

1.7.1 Financial Results of Irrigation Works

The total capital outlay on six irrigation projects¹¹ as on 2007-08 was Rs. 171.62 crore. Financial results of these projects for the year 2007-08 showed that against revenue realisation of Rs. 32.27 lakh (forming only 0.19 per cent of the total capital outlay), working expenses aggregated Rs. 69.96 lakh resulting in loss of Rs. 37.69 lakh. After taking into account further expenditure of Rs. 40.53 lakh paid as interest on the capital outlay, the total loss aggregated Rs. 78.22 lakh.

1.7.2 Incomplete Projects

The department wise information pertaining to incomplete projects as on 31 March 2008 is given in Table-1.21.

Table 1.21: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Number of Incomplete Projects	Initial Budgeted cost	Revised ¹² total cost of Projects	Cumulative actual expenditure as on 31 March 2008
Irrigation and Flood Control	6	41.95	109.76	50.63
Public Health Engineering	12	27.12	29.18	24.47
Sewerage and Drainage	2	304.85	446.67	42.75
Public Works	34	78.03	148.91	65.22
Power Development	34	274.77	377.56	181.94
Total	88	726.72	1112.08	365.01

According to the information available in Appendix-IV of the Finance Accounts for the year 2007-08, there were 88 incomplete projects as of March 2008 in which Rs. 365.01 crore was blocked. Out of 88 projects, the initial budgeted cost of 52 projects was revised from Rs. 584.52 crore to Rs. 969.89 crore thus involving a cost overrun of Rs 385.37 crore. However, an expenditure of Rs. 264.74 crore was incurred (March 2008) on these projects so far. Further, in 55 projects there was time overrun of 1 to 11 years and 33 projects due for completion during 2007-08 were also not completed (March 2008). This showed that the Government spread its resources thinly without prioritization, which failed to yield adequate return.

1.7.3 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by the Departmental Undertakings/Government Departments, which are required to prepare annually *proforma* accounts in prescribed formats showing the results of financial operations so that Government can assess their functioning. The Heads of Departments in Government are to ensure that the Undertakings, which are

¹¹ Kathua Feeder, Pratap Canal, Ranbir Canal, Martand Canal, Zaingir Canal and Ahizi Canal.

¹² Out of 88 incomplete projects the original cost of Rs. 584.52 crore in respect of 52 projects was revised to Rs. 969.89 crore. For remaining 36 projects budgeted cost is indicated.

funded by the budgetary releases, prepare the accounts in time and submit the same to Accountant General for audit. As of March 2008, preparation of 169 *proforma* accounts in respect of nine departmentally managed Government/Quasi commercial undertakings (*Appendix 1.8*) was in arrears for periods ranging between one to 39 years.

1.7.4 Investments and Returns

As on 31 March 2008, the State Government had invested Rs. 356.97 crore in its Statutory Corporations, Government Companies, Joint Stock Companies and Co operative Societies (Table-1.22). Return on the investment made in these PSUs ranged between Rs. 13.34 crore and Rs. 30.24 crore during 2002-08. The return on investment amounting to Rs. 30.24 crore accrued to the State Government during 2007-08 was only from Jammu and Kashmir Bank Limited (Rs. 29.64 crore) and Rs. 60 lakh from the Jammu and Kashmir Cements Limited. With an average interest rate of 12.19 *per cent* paid by the Government on its borrowings, the return on these investments during 2007-08 was only 8.47 *per cent*.

Table 1.22: Return on Investment

Year	Investment at the end of the year	Return	Percentage return	Average rate of interest on Government borrowing	Difference between interest rate and return
	(Rupees in crore)				
2002-03	375.27	13.34	3.55	9.64	6.09
2003-04	349.93	15.92	4.55	9.84	5.29
2004-05	347.82	26.28	7.56	8.10	0.54
2005-06	353.27	20.62	5.84	7.19	1.35
2006-07	355.77	21.22	5.96	10.09	4.13
2007-08	356.97	30.24	8.47	12.19	3.72

The investment of Rs. 356.97 crore was held in 17 working Companies (Rs. 181.68 crore), three working Statutory Corporations (Rs. 143.32 crore), three non-working¹³ Companies (Rs. 2.57 crore), two Joint stock Companies (Rs. 0.34 crore), 11 co-operative institutions (Rs. 28.96 crore) and one GOI undertaking (Rs. 0.10 crore).

1.7.5 Loans and Advances by State Government

In addition to investment in Co-operatives, Corporations and Companies, the Government has also been providing support in terms of loans and advances to many of these Parastatals. Total outstanding balance as on 31 March 2008 was Rs. 980.20 crore (Table-1.23) which included Rs. 897.98 crore on account of Economic Services, Rs. 60.89 crore on Social Services and Rs. 21.33 crore outstanding against the Government servants etc. Within Economic Sector, major

¹³ Non-working company is one, which is under the process of liquidation/merger, etc.

part of the loan was outstanding against Industries and Minerals (Rs. 420.91 crore), Transport (Rs. 299.78 crore) and Energy (Rs. 85.05 crore).

Table 1.23: 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	515.24	773.37	837.13	884.58	901.97	943.82
Amount Advanced during the year	340.20	68.30	66.00	53.15	43.89	38.27
Amount repaid during the year	82.07	4.54	18.55	35.76	2.04	1.89
Closing Balance	773.37	837.13	884.58	901.97	943.82	980.20
Net Addition	258.13	63.76	47.45	17.39	41.85	36.38
Interest Received	1.03	1.09	1.27	1.24	1.88	1.44
Interest Received as <i>per cent</i> to Loans advanced	0.16	0.14	0.15	0.14	0.20	0.15
Average interest paid by the State (<i>per cent</i>)	9.64	9.84	8.10	7.19	10.09	12.19
Difference between interest paid and received (<i>per cent</i>)	9.48	9.70	7.95	7.05	9.89	12.04

Against the recovery of Rs. 2.04 crore during 2006-07, the recoveries during 2007-08 was only Rs. 1.89 crore which was mostly on account of recovery of loans to Government servants etc. The decrease in repayment of loans during the year was due to decrease (Rs. 2.68 lakh) in repayments of loans advanced to Government servants and negligible repayments under other sectors.

1.7.6 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 the expenditure obligations, the State Government had obtained temporary loan from Jammu and Kashmir Bank for its ways and means requirements. There was no improvement in management of cash balances during 2007-08. Despite revenue surplus for the past five years, the State Government had taken temporary loan from bank on all 366 days during 2007-08 and paid an interest of Rs. 220.91 crore on the overdraft.

Table 1.24: Ways and Means advances and overdraft of the State

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Temporary loan/overdraft raised by the Government from J&K Bank						
Taken during the year	7212.35	8345.85	1114.20	11269.95	1104.62	994.77
Repaid during the year	7213.80	8180.44	933.86	10949.36	1022.16	1069.45
Outstanding	1381.10	1546.51	1726.85	2047.44	2129.90	2055.22
Interest Paid	137.58	126.99	131.81	138.42	183.51	220.91
Number of Days	365	366	365	365	365	366

The amount of interest paid on the temporary loan/overdraft increased from Rs. 137.58 crore in 2002-03 to Rs. 220.91 crore during 2007-08 and there was an outstanding balance of Rs. 2,055.22 crore at the close of 2007-08.

1.8 Undischarged Liabilities

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 the Act of its Legislature. However, no such law has been passed by the State, to lay down any such limit. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits. Table-1.25 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 1.25: Fiscal Liabilities-Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities* (Rupees in crore)	12279	13038	14199	16801	18602	21366
Rate of Growth (<i>per cent</i>)	17.58	6.18	8.90	18.33	10.72	14.86
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	60.41	58.75	58.52	63.31	64.08	67.20
Revenue Receipt (<i>per cent</i>)	162.68	158.77	160.15	162.88	166.36	160.92
Own Resources (<i>per cent</i>)	646.95	723.13	712.80	776.75	764.88	634.76
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	1.39	0.67	0.95	1.96	1.14	1.56
Revenue Receipts (ratio)	1.08	0.70	1.12	1.12	1.27	0.79
Own resources (ratio)	0.35	- ¹⁴	0.85	2.14	0.86	0.39

* Includes internal debt, loans and advances from GOI and other obligations.

Overall fiscal liabilities of the State increased from Rs. 12,279 crore in 2002-03 to Rs. 21,366 crore in 2007-08. The growth rate was 14.86 *per cent* during 2007-08 over previous year. The ratio of fiscal liabilities to GSDP also increased from 60.41 *per cent* in 2002-03 to 67.20 *per cent* in 2007-08. The buoyancy of these liabilities with respect to GSDP during the year was 1.56 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.56 *per cent*. These liabilities stood at 1.61 times State's revenue receipts and 6.35 times its own resources.

¹⁴

Own resources had a negative trend

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 the year since 2002-03 is given in Table-1.26.

Table 1.26: Guarantees given by the Government of Jammu and Kashmir

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of Guarantees	Percentage of maximum amount guaranteed to total revenue receipts
2002-03	1574	1231	20.85
2003-04	1969	1612	23.98
2004-05	2878	1914	32.46
2005-06	4720	1959	45.76
2006-07	3245	2565	29.02
2007-08	3308	2807	24.92

Government has guaranteed loans raised by various Corporations and others, which at the end of 2007-08 stood at Rs. 2,807 crore including interest. The outstanding amount of guarantees is in the nature of contingent liabilities, which were about 21 *per cent* of revenue receipts of the State. Although no law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which the Government may give guarantees on the security of the Consolidated Fund of the State, J&K FRBM Act, 2006 enacted by the Legislature has prescribed the ceiling limit on the amount of annual incremental risk weighted guarantees to 75 *per cent* of the Total Revenue Receipts (TRR) in the year preceding the current year or at 7.5 *per cent* of GSDP of the year preceding the current year, whichever is lower. The incremental guarantees in 2007-08 were only 2 *per cent* and 0.83 *per cent* of revenue receipts and GSDP of the preceding year respectively.

1.8.3 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP 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 the debt stabilisation in terms of debt/GSDP ratio.

1.8.4 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 x 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 stabilise 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 stabilisation are indicated in Table-1.27.

Table 1.27: Debt Sustainability-Interest Rate and GSDP Growth

(In per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average interest paid by the State	9.64	9.84	8.10	7.19	10.09	12.19
GSDP Growth	12.68	9.19	9.33	9.36	9.39	9.52
Interest spread	3.04	(-) 0.65	1.23	2.17	(-) 0.70	(-) 2.67
Opening balance of Outstanding Debt	10443	12279	13038	14199	16801	18602
Quantum Spread	317	(-) 80	160	308	(-) 118	(-) 497
Primary Deficit (-)/ Surplus (+) (Rs. in crore)	(-) 216	(-) 241	(-) 562	(-) 1528	(-) 143	(-) 229

Table-1.27 reveals that quantum spread together with primary deficit has been negative from 2003-04 to 2007-08 indicating oscillating debt-GSDP ratios during the period and increased from 60 per cent in 2002-03 to 67 per cent in 2007-08. The ratio of fiscal deficit to GSDP also fluctuated during the period 2002-08. These trends indicate the State needs to improve the fiscal imbalances for attaining and improving the debt sustainability position in the medium to long run.

1.8.5 Sufficiency of Non-debt Receipts

Another indicator of 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-1.28 indicates the resource gap as defined for the period 2002-08.

Table 1.28: Incremental revenue receipts and Revenue Expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
1	2	3	4	5 (3+4)	6 (2-5)
2002-03	1009	798	48	846	(+) 163
2003-04	586	611	151	762	(-) 176
2004-05	669	990	(-) 143	847	(-) 178
2005-06	1466	2432	12	2444	(-) 978
2006-07	833	(-) 552	672	120	(+) 713
2007-08	2095	2181	649	2830	(-) 735

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. The debt sustainability of the State in term of the resource gap oscillated between the negative and positive phases during the period 2002-08. The resource gap during 2002-08 in four out of six years was negative, which indicates efforts to be initiated to improve the sustainability of debt.

1.8.6 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of funds after payment of the principal on account of earlier contracted liabilities and interest. Table-1.29 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 1.29: Net Availability of Borrowed Funds

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Internal debt						
Receipts	811	9316	2409	13475	2557	3826
Repayment (Principal+ Interest)	606	8930	1722	12778	2562	3578
Net Fund Available	205	386	687	697	(-) 5	248
Net Fund Available (<i>per cent</i>)	25.28	4.14	28.52	5.17	(⁻¹⁵)	6.48
Loans and Advances from GOI						
Receipts	579	718	324	11	9	17
Repayment (Principal+ Interest)	739	1598	1070	375	355	350
Net Fund Available	(-) 160	(-) 880	(-) 746	(-) 364	(-) 346	(-) 333
Net Fund Available (<i>per cent</i>)	(-) 27.63	(-) 122.56	(-) 230.25	(-) 3309.09	(-) 3844	(-) 1959
Other obligations¹⁶						
Receipts	1756	1533	1765	3144	2525	2822
Repayment (Principal+ Interest)	1060	1527	1648	1990	2158	2408
Net Fund Available	696	6	117	1154	367	414
Net Fund Available (<i>per cent</i>)	39.64	0.39	6.63	36.70	14.53	14.67
Total liabilities						
Receipts	3146	11567	4498	16630	5091	6665
Repayments	2405	12055	4440	15143	5076	6336
Net receipts	741	(-) 488	58	1487	16	329
Net Funds Available (<i>per cent</i>)	23.55	(-) 4.22	1.29	8.94	0.31	4.94

The net availability of funds on account of the internal debt, loans and advances from GOI and other obligations after providing for the interest and repayment varied from 0.31 *per cent* in 2006-07 to 4.94 *per cent* in 2007-08. During the current year the Government repaid internal debt of Rs. 1,628 crore; GOI loans of Rs. 139 crore were also discharged alongwith other obligations of Rs. 2133 crore

¹⁵ Negligible

¹⁶ Comprises small savings, provident fund, reserve fund and deposits

and interest of Rs. 2436 crore, as a result of which, meagre borrowed funds were available for development purposes.

1.9 Management of Deficits

The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the 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 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-1.30.

Table 1.30: Fiscal Imbalances-Basic Parameters

(Value in crore and ratio in *per cent*)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue surplus (+)/Deficit (-)	(+) 368	(+) 458	(+) 562	(+) 394	(+) 568	(+) 1088
Fiscal Deficit (-) /surplus (+)	(-) 1311	(-) 1487	(-) 1665	(-) 2643	(-) 1930	(-) 2665
Primary Deficit (-) /surplus (+)	(-) 216	(-) 241	(-) 562	(-) 1528	(-) 143	(-) 229
Revenue surplus (+)/Deficit (-)/GSDP	1.81	2.06	2.32	1.49	1.96	3.42
FD/GSDP	(-) 6.45	(-) 6.70	(-) 6.86	(-) 9.96	(-) 6.65	(-) 8.38
PD/GSDP	(-) 1.06	(-) 1.09	(-) 2.32	(-) 5.76	(-) 0.49	(-) 0.72
RD/FD	NA ¹⁷	NA	NA	NA	NA	NA

(Negative figures indicate deficit)

Table-1.30 reveals that the revenue account experienced surplus over the period 2002-08. The revenue surplus of Rs. 1088 crore during 2007-08 was higher by Rs. 520 crore as compared to revenue surplus of Rs. 568 crore realized during 2006-07. An increase of 19 *per cent* (Rs. 2095 crore) in revenue receipts during 2007-08 in comparison to 15 *per cent* (Rs. 1575 crore) in revenue expenditure resulted in an increase of Rs. 520 crore in revenue surplus during 2007-08. The sharp increase in revenue receipts was however mainly on account of increase in mandated transfers comprising State share in Central taxes and duties and grant in aid from GOI. Of the incremental revenue receipts of Rs 2095 crore during 2007-08, these two sources contributed 55 *per cent* indicating central transfers being the key in improving the revenue surplus during the year.

Despite a cushion of Rs. 520 crore available in the form of increment in revenue surplus, net increase of Rs. 1255 crore in capital expenditure/loans and advances disbursed during 2007-08 over the previous year led to an increase of Rs. 735 crore in fiscal deficit during the current year. The increase in fiscal deficit accompanied by an increase of Rs. 649 crore in interest payments during 2007-08 over the previous year led to the increase of Rs. 86 crore in primary deficit in 2007-08 from the level of Rs. 143 crore during 2006-07.

¹⁷ Revenue surplus hence not applicable

1.10 Quality of Deficit/surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit¹⁸ and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption.

The revenue deficit was completely wiped out in 2002-03 and revenue surplus was maintained throughout the period from 2002-03 to 2007-08. The revenue surplus however, peaked at Rs. 1088 crore during the current year. This trajectory shows improvement in the quality of the deficit and during 2002-08 all borrowings (fiscal liabilities) were used in activities resulting in expansion in the asset backup of the State.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2002-08 reveals (Table-1.31) that the primary deficit during the period was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure¹⁹ requirements in the revenue account; in fact left some receipts to meet the expenditure under the capital account. The State had to borrow to meet the requirements under capital account during the period over primary expenditure. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table-1.31: 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)
2002-03	7630	6085	1421	340	7846	(+) 1545	(-) 216
2003-04	8216	6508	1881	68	8457	(+) 1708	(-) 241
2004-05	8885	7201	2180	66	9447	(+) 1684	(-) 562
2005-06	10351	8806	3020	53	11879	(+) 1545	(-) 1528
2006-07	11184	8827	2456	44	11327	(+) 2357	(-) 143
2007-08	13279	9753	3717	38	13508	(+) 3526	(-) 229

¹⁸ 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.

¹⁹ Primary expenditure of the State is defined as the total expenditure net of interest payments and indicates the expenditure incurred on the transactions undertaken during the year.

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table-1.32 below presents a summarised position of Government finances over 2002-08, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facts.

Table 1.32: Indicators of Fiscal Health

(In per cent)						
Fiscal indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
I. Resource Mobilisation						
Revenue Receipts/GSDP	37.13	37.00	36.54	38.87	38.52	41.76
Revenue buoyancy	1.29	0.96	0.85	1.75	0.90	1.97
Own tax/GSDP	5.08	5.27	5.57	6.13	6.20	8.05
II. Expenditure Management						
Total Expenditure/GSDP	43.99	43.72	43.48	48.97	45.17	50.15
Total Expenditure/ Revenue Receipts	118.46	118.16	118.99	125.97	117.28	120.09
Revenue Expenditure/ Total Expenditure	80.30	79.91	78.71	76.35	80.94	76.45
Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure	Details not available	26.84	25.72	24.55	25.70	24.84
Non-Salary/Wage expenditure on Social and Economic Services/Revenue Expenditure		29.66	34.70	38.34	30.45	29.02
Capital Expenditure/ Total Expenditure ²⁰	16.52	19.52	20.79	23.34	18.79	23.37
Development expenditure/ Total expenditure	62.68	64.29	68.08	71.10	63.96	63.77
Capital Expenditure on Social and Economic Services/Total Expenditure	15.27	18.68	20.10	22.80	18.29	22.59
Buoyancy of TE with RR	0.64	0.97	1.10	1.42	0.11	1.15
Buoyancy of RE with RR	0.32	0.91	0.89	1.19	0.83	0.79
III. Management of Fiscal Imbalances						
Revenue surplus (+) deficit (-) (Rs. in crore)	(+) 368	(+) 458	(+) 562	(+) 394	(+) 568	(+) 1088
Fiscal deficit (Rs. in crore)	(-) 1311	(-) 1487	(-) 1665	(-) 2643	(-) 1930	(-) 2665
Primary Deficit (-)/surplus (+) (Rs. in crore)	(-) 216	(-) 241	(-) 562	(-) 1528	(-) 143	(-) 229
Revenue Deficit/Fiscal Deficit (Rs. in crore)	NA ²¹	NA	NA	NA	NA	NA

²⁰ Comprises revenue and capital expenditure only

²¹ Revenue surplus, hence not applicable

Fiscal indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
IV. Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/GSDP	60.41	58.75	58.52	63.31	64.08	67.20
Fiscal Liabilities/RR	162.68	158.77	160.15	162.88	166.36	160.92
Buoyancy of FL with RR	1.08	0.70	1.12	1.12	1.27	0.79
Buoyancy of FL with OR	0.35	- ²²	0.85	2.14	0.86	0.39
Primary deficit vis-a-vis quantum spread	101	(-) 321	(-) 402	(-) 1220	(-) 261	(-) 726
Net Funds Available	23.55	(-) 4.22	1.29	8.94	0.31	4.94
V. Other Fiscal Health Indicators						
Return on Investment	3.55	4.55	7.56	5.84	5.96	8.47
BCR (Rs. in crore)	(-) 1002	(-) 1527	(-) 1865	(-) 1943	(-) 2920	(-) 3484
Financial Assets/Liabilities	1.02	1.05	1.08	1.09	1.11	1.14

The ratio of own taxes to GSDP had shown continuous improvement in the six year period 2002-08. Except for 2004-05, the ratio of revenue receipts to GSDP also indicated a rising trend during 2002-08, but revenue buoyancy fluctuated widely during this period. The total expenditure to revenue receipts showed a decreasing trend during 2002-08 except in 2004-05, 2005-06 and 2007-08 when it increased sharply from 118.99 *per cent* in 2004-05 to 125.97 *per cent* in 2005-06 and from 117.28 *per cent* in 2006-07 to 120.09 *per cent* in 2007-08. Except for the year 2006-07 the percentage of revenue expenditure to total expenditure showed a decreasing trend during 2002-03 to 2007-08. Revenue expenditure constituted about 76 *per cent* of total expenditure during 2007-08, which revealed that most of the expenditure was incurred on current consumption. Fiscal deficit, although fluctuated during the period 2002-08, its ratio to GSDP at 8.38 *per cent* during 2007-08 indicates that fiscal imbalances still persist in the State. Primary deficit increased by Rs. 86 crore during 2007-08 from the previous year and its continued prevalence during 2002-08 indicated that the State is unable to meet its primary expenditure out of its own resources and its reliance on borrowed funds also tends to continue over a period of time.

1.12 Conclusion

The overall fiscal position of the State as reflected in terms of key parameters—revenue, fiscal and primary deficits—indicates mixed trends in the fiscal situation during 2007-08 over the previous year. While the revenue surplus has increased and reached the peak level of Rs 1088 crore in 2007-08, the fiscal and primary deficits have deteriorated over the previous year. The improvement in revenue surplus of the State may however be viewed in the light of the fact that little more than 55 *per cent* of the incremental revenue receipts of the State during 2007-08 (Rs 2095 crore) were contributed by the Central transfers comprising the State's share in Central taxes and duties and grants-in-aid from the GOI.

²²

Own resources had a negative growth

The expenditure pattern of the State reveals that the revenue expenditure exhibited a declining trend during the period 2003-08, but continued to share a dominant proportion in the total expenditure of the State and was around 76 *per cent* during 2007-08. Moreover, within the revenue expenditure, the non-plan revenue expenditure at Rs 11666 crore in 2007-08 was significantly higher than the normative assessment of TFC (Rs 6514 crore) for the State for the year and its four components – salaries and wages, pension liabilities, interest payments and subsidies – constituted about 67 *per cent* during 2007-08. These trends in expenditure indicate the need for changing allocative priorities. The continued prevalence of fiscal and primary deficits indicates the increasing reliance of the State on borrowed funds. The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable debt situation in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilise additional resources both through the tax and non tax sources in the ensuing years.