

CHAPTER – I : FINANCES OF THE STATE GOVERNMENT

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts of the State Government are laid out in nineteen statements as depicted in **Appendix 1.1**.

This chapter provides a broad perspective of the finances of the State Government during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. **Appendix 1.2** of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2004-09.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the Jammu and Kashmir Government's fiscal transactions during the current year (2008-09) vis-à-vis the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(Rupees in crore)

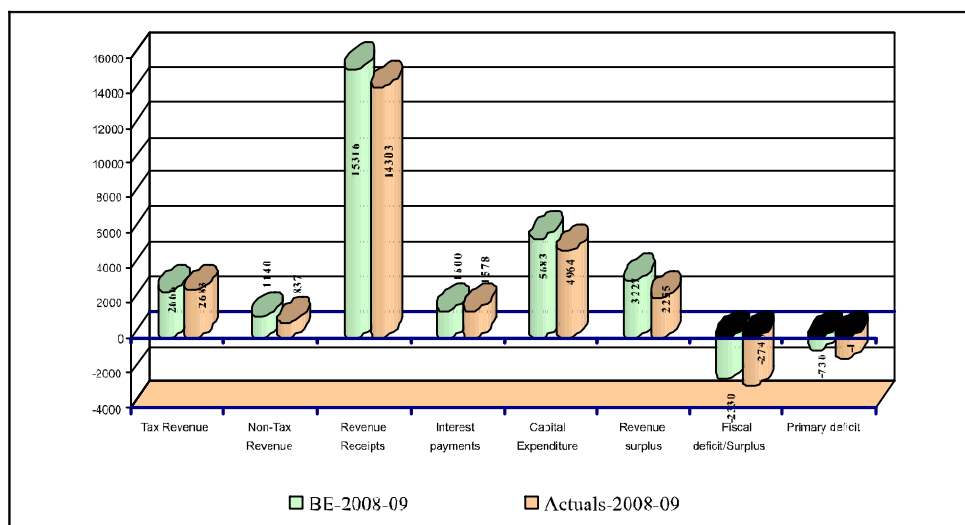
Receipts			Disbursements				
2007-08		2008-09	2007-08		2008-09		
Section-A: Revenue							
					Non Plan	Plan	Total
13277.04	Revenue receipts	14302.51	12189.30	Revenue expenditure	11734.46	313.00	12047.45
2558.18	Tax revenue	2682.96	5623.58	General services	5267.44	4.97	5272.40
807.98	Non-tax revenue	837.16	2847.31	Social services	2814.97	202.72	3017.69
1775.01	Share of Union Taxes/Duties	1826.95	3718.41	Economic services	3652.05	105.31	3757.36
8135.87	Grants from Government of India	8955.44					
Section-B: Capital							
			3717.03	Capital Outlay	271.07	4693.16	4964.23
-	Miscellaneous Capital Receipts		-	Grants-in-aid and Contributions			
1.89	Recoveries of Loans and Advances	3.69	38.27	Loans and Advances disbursed			42.41
2848.30	Public Debt receipts*	2948.36	772.14	Repayment of Public Debt*			703.15
0.01	Contingency Fund	0.16	0.13	Contingency Fund			0.29
29505.85	Public Account receipts	36148.59	28910.69	Public Account disbursements			35696.45
108.24	Opening Cash Balance	113.77	113.77	Closing Cash Balance			63.10
45741.33	Total	53517.08	45741.33	Total			53517.08

*Excluding net transactions under ways and means advances and overdraft.

- Revenue receipts grew by around 8 *per cent* (Rs 1025.48 crore) over the previous year. The increase was mainly due to increase in by grants from Government of India¹ (Rs 819.58 crore). Increase in tax revenue (Rs 124.78 crore), non-tax revenue (Rs 29.18 crore) and share of union taxes/duties (Rs 51.94 crore) were also the factors for increase in revenue receipts.
- Revenue expenditure decreased marginally by Rs. 141.85 crore over the previous year. The decrease was mainly due to less expenditure on General Services.
- Capital expenditure, however, registered a growth of around 34 *per cent* (Rs. 1247.20 crore) over the level of previous year mainly due to increase in spending on Economic Services (Rs. 1055.92 crore).
- Public Accounts receipts and disbursements increased by Rs. 6642.74 crore and Rs. 6785.76 crore respectively over the previous year.
- While Public Debt receipts marginally increased, repayment of Public Debt decreased marginally over the previous years.
- Cash balance of the State, as a result of the aforesaid inflow/outflow, decreased by Rs. 50.67 crore over the previous year.

As per the TFC, the revenue deficit of the State was to be brought down to zero by the end of March 2009. The State has revenue surplus of Rs. 2255.06 crore during the year on account of decrease in the revenue expenditure vis-à-vis previous year and due to increase in Central transfers of the share of Union taxes/duties.

(Chart 1 showing actual realisation of revenue vis-à-vis budget provisions)



There were huge variations in the revenue surplus, fiscal and primary deficits/surplus vis-à-vis budget estimates. The revenue surplus was less by Rs. 927 crore with reference to the estimates. The fiscal deficit was Rs. 2746 crore against the estimate of

¹ Grants from GOI accounted for 63 *per cent* of the total Revenue Receipts in 2008-09

Rs. 2330 crore. Also against primary deficit of Rs. 730 crore, the deficit was of the order of Rs. 1168 crore (March 2009). Reason for variations in the budget estimates and actual realization was, however, not intimated by the Government nor were these on record.

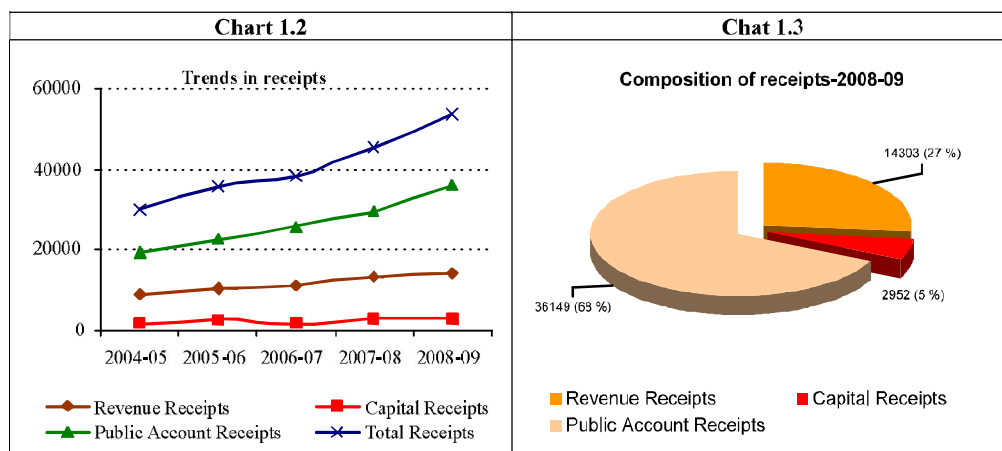
1.1.1 The Fiscal Responsibility and Budget Management (FRBM) Act,

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 a fiscal policy in a medium term frame work and for matters connected therewith or incidental thereto, the Jammu and Kashmir Fiscal responsibility and Budget Management (FRBM) Act was enacted on 9 August 2006. (**Appendix 1.2 Part B**). The rules under the act were yet to be approved by the Government (March 2009). Finance Minister in his budget speech made a mention that as the State Government did not meet the FRBM targets by the prescribed dead line which was 31 March 2009, the State was denied a debt relief estimated at Rs. 473 crore recommended under the TFC award. Further, added that the State also lost Rs. 229 crore as the Government did not hold the Panchayat elections.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. 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 accruals from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2004-09. **Chart 1.3** depicts the composition of resources of the State during the current year.



The revenue receipts which formed 29 *per cent* of the total receipts at an average during 2004-05 and 2007-08 declined to 27 *per cent* during 2008-09. The capital receipts also decreased by six *per cent* on an average of total receipts during the above period over the average of last four years, these formed only five *per cent* of capital receipts during 2008-09. The public account receipts were 68 *per cent* of the total receipts (2008-09) against the average of 65 *per cent* during 2003-08.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies for the implementation of various schemes/programs in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. To present a holistic picture on available aggregate resources, funds directly transferred to state Implementing Agencies are detailed in **Appendix 1.5**. A total Rs. 1429 crore was transferred directly to implementing agencies during 2008-09. Significant amounts given to the major programme/schemes are detailed in Table 1.2.

Table 1.2 Funds Transferred Directly to State Implementing Agencies

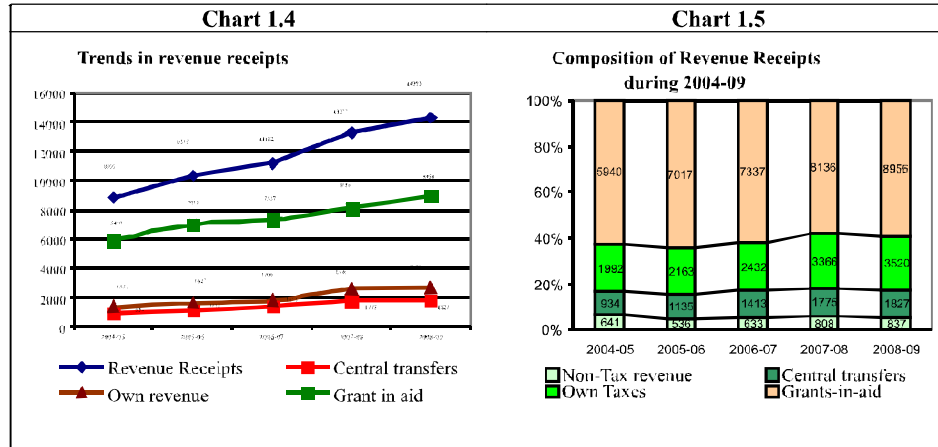
Name of the Programme/scheme	Name of the Implementing Agency in the State	Total fund released by the GOI during 2008-09 (Rs. in Crore)
Accelerated Rural Water Supply Programme	SGO Secretary Finance, PHE Department	403.73
National Rural Health Mission (NRIIM)	State Health Department and other agencies	64.69
Sarva Shiksha Abhiyan	Ujala Society, Education Department	205.32
NREGS	Assistant Commissioners DRDA	105.36
Pradhan Mantri Gram Sadak Yojana (PMGSY)	State Rural Roads Agency	191.36
Integrated Child Development Programme	State Social Welfare Department	37.92
Macro Management of Agriculture Schemes	Agriculture Department	18.30
Rural Housing (IAY)	Assistant Commissioners DRDA	71.29
Local Area Development Schemes (MPLADS)	District Development Commissioners	25.00
National e-Governance Action Plan	State Department for e Governance	17.28
Total		1140.25

(Source: CPMS of CGA's website)

Rs. 403.73 crore (28 *per cent*) was given under Accelerated Rural Water Supply Programme, Rs. 64.69 (5 *per cent*) under NRHM, Rs. 205.32 (14 *per cent*) under Sarva Shiksha Abhiyan, Rs. 105.36 (7 *per cent*) under NREGS, Rs. 191.36 (13 *per cent*) under PMGSY, Rs. 37.92 crore (3 *per cent*) to ICDS, Rs. 71.29 crore under Rural Housing, Rs. 25 crore (2 *per cent*) under MPLADS. This data is yet to be verified by the implementing Agencies. The consolidated data base at apex level was not maintained by the State Government.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2003-09 are presented in **Appendix 1.3** and also depicted in **Chart 1.4** and **1.5** respectively.



Transfers from the Central Government in the shape of State's share of Union taxes and duties and grants in aid form the major constituent of the State's revenue receipts and varied between 75 and 79 *per cent* during 2003-08. The remaining revenue was raised by the State out of its own resources.

The trends in revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	8,866	10,315	11,182	13,277	14,303
Rate of growth of RR (<i>per cent</i>)	7.96	16.34	8.41	18.74	7.73
R R/GSDP (<i>per cent</i>)	36.54	38.87	38.52	41.76	41.09
Buoyancy Ratios²					
Revenue Buoyancy w.r.t GSDP	0.85	1.75	0.89	1.97	0.82
State's Own Tax Buoyancy w.r.t GSDP	1.66	2.18	1.13	4.43	0.52
Revenue Buoyancy with reference to State's own taxes	0.51	0.80	0.80	0.44	1.58

Though the Revenue Receipts showed a progressive increase over the period 2004-09 in absolute terms, the growth rate declined from 7.96 *per cent* in 2004-05 to 7.72 *per cent* in 2008-09 and peaked during 2007-08 due to collection of more taxes on sales, trade, etc vis-à-vis previous years.

² 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 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one *per cent*.

1.3.1 State's Own Resources

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes etc.; the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts vis-à-vis budget estimates during the years from 2004-05 to 2008-09 are presented below:

1.3.2 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Jammu and Kashmir and the corresponding figures for the preceding four years are mentioned below:

Table 1.4: Trends of tax revenue and non-tax revenue

(Rs in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Tax revenue	1,351.05	1,626.84	1,798.97	2,558.18	2,682.96
Non-tax revenue	641.42	535.81	632.53	807.98	837.16
Total	1,992.47	2,162.65	2,431.50	3,366.16	3,520.12

The break-up of tax and non-tax revenue during the above period alongwith increase/decrease over 2007-08 (Tables 1.5 and 1.6) and reasons for major variations during the current year are mentioned below:

Table 1.5: Trends of tax revenue

(Rs in crore)

Si. No.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage increase (+)/ decrease (-) in 2008-09 over 2007-08
1.	Sales tax	804.12	1,014.49	1,159.72	1,804.81	1835.99	(+) 2
2.	State excise	272.37	218.68	212.80	244.15	238.67	(-) 2
3.	Stamps and registration fee	39.25	46.43	56.93	65.63	57.14	(-) 13
4.	Taxes and duties on electricity	49.36	58.02	59.70	93.49	150.76	(+) 61
5.	Taxes on vehicles	41.68	49.17	63.96	72.60	65.47	(-) 10
6.	Taxes on goods and passengers	132.62	236.27	243.16	264.59	271.39	(+) 3
7.	Taxes on immovable property other than agricultural land	0.30	0.09	0.06	-	-	-
8.	Land revenue	11.24	3.47	2.57	9.58	63.53	(+) 563
9.	Other taxes and duties on commodities and services	0.11	0.22	0.07	3.33	0.01	(-) 100
Total		1,351.05	1,626.84	1,798.97	2558.18	2682.96	(+) 5

1.3.3 Reasons for major variations in tax revenue:

Taxes and duties on Electricity

Increase under Taxes and duties on electricity was due to increased revenue on sale of electricity.

Land Revenue

Increase was mainly due to crediting of Sale proceeds of land to the Government Accounts under 'Roshni Act³'.

Taxes on Sales, Trades etc.

Increase was due to widening of Sales Tax base with introduction of VAT on different services like hotels, beauty saloons, cellular telecom agencies, private nursing homes, advertisers, courier agencies, banquet halls, catering services and cable operators, etc.

Taxes on Goods and Passengers

Increase was mainly due to more receipts under Passenger Tax.

Stamps and Registration Fees

Decrease was mainly due to less revenue on account of sale of Judicial Stamps.

Performance review on 'Transition from Sales tax to VAT' and 'Assessment and Collection of Toll Tax' was conducted during 2008-09 which figure in the separate Report of Comptroller and Audit General of India for the year ended 31 March 2009 and highlights of which are given under:

Review on transition from sales tax to VAT

There was increase in revenue growth after the implementation of VAT in the State, however, revenue per assessee decreased from 0.03 crore in 2004-05 to 0.02 crore in post VAT period. The existing shortage of person in position in the pre-VAT period, coupled with the increased workload under VAT, was not addressed by the department which affected proper implementation of the Act which resulted in non-levy of penalty of Rs. 98.10 crore on unregistered dealers collecting tax and irregularly availing input tax credit of Rs. 16.21 crore in five test-checked circles. Non-levy of penalty for delayed submission of returns/audit reports resulted in short realisation of government revenue of Rs. 4.39 crore. Non-verification of the correctness of opening stock declared by the dealer as on 1 April 2005 resulted in revenue loss of Rs. 48.03 lakh including interest and penalty. Prescribed registers/records were either not maintained or were not maintained in the prescribed form, in three out of 11 commercial tax circles test-checked. The Deputy Commissioners (Audit) had failed to check even the minimum prescribed percentage of tax remission cases.

³ The Act enacted on 13th November 2001 provides for providing ownership rights to occupants of State land for the purpose of generating funds to finance power projects in the State.

Assessment and collection of toll tax

Due to non-functioning of weighbridges assessment of additional toll in respect of the 17.12 lakh vehicles that crossed the toll post was made on lump sum basis and not on the actual laden weight leaving every scope for the loss of revenue. Absence of a provision for cross verification of the toll post records of import and export of goods with Commercial Taxes Department resulted in non-levy of toll of Rs. 55.23 lakh. Allowing of the vehicles carrying load in excess of the permissible limit resulted in loss of the revenue of Rs. 15.14 lakh on account of the basic toll. There was delay in transfer of the toll receipts to the Government account by the Jammu & Kashmir Bank Ltd. Timely deposit would have saved the Government from payment of the interest of Rs. 69.35 lakh on the overdrafts. Lack of monitoring resulted in incorrect grant of exemption from payment of additional toll to the extent of Rs. 4.58 crore to various industrial units. The correctness of the exemption allowed on 1,27,952 metric tons of raw material and finished goods involving toll of Rs. 5.11 crore could not be verified due to non-preparation of chief article statement.

1.3.4 Reasons for major variations in non- tax revenue

The details of major non-tax revenue raised during the year 2008-09 along with figures for the preceding four years are mentioned in Table below:

Table 1.6 : Trends of non-tax revenue

(Rs in crore)

Head of revenue	2004-05	2005-06	2006-07	2007-08	Budget estimate	2008-09	Percentage increase (+)/ decrease (-) in 2008-09 over 2007-08
Power	382.87	384.31	478.94	600.94	922.05	629.98	(+) 5
Interest receipts, dividends and profits	144.40	25.05	34.02	65.33	52.19	56.51	(-)14
Forest and wild life	43.46	45.51	18.99	32.20	39.80	31.61	(-) 2
Public works	11.76	12.63	16.16	16.44	15.15	16.89	(+) 3
Medical and public health	8.02	8.83	12.62	13.21	20.79	9.92	(-) 25
Water supply and sanitation	7.36	9.58	10.95	13.64	22.40	14.65	(+) 7
Police	5.30	8.01	6.59	4.21	0.09	10.35	(+) 146
Non-ferrous mining and metallurgical industries	6.01	8.54	9.98	16.43	17.00	14.86	(-) 10
Crop husbandry	4.18	4.35	4.31	4.52	5.16	5.00	(+) 11
Animal husbandry	3.99	3.98	4.75	4.66	4.61	4.70	(+) 1
Others	24.07	25.02	35.22	36.40	41.04	42.69	(+) 17
Grand total:	641.42	535.81	632.53	807.98	1140.28	837.16	(+) 4

The following were the reasons for variations:

Interest Receipts: Decrease was due to less receipt of interest from Public Sector and other Undertakings.

Police: Increase was mainly due to more receipts under fee, fines and forfeitures.

Water Supply and Sanitation: Increase was mainly due to more receipts from Rural Water Supply Schemes and receipts under sewerage and sanitation.

Others: The increase under others were mainly due to more receipts under fee, fines and forfeitures under Other Administrative Services and more receipts as subscriptions and contribution towards pension and on account of recoveries.

1.3.5 Variation between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2008-09 in respect of the principal heads of tax revenue are mentioned below:

Table 1.7 : Budget estimates and actuals during 2008-09

Head of revenue	Budget estimates	Actuals	Variations excess (+) shortfall (-)	Percentage of variation increase (+)/ decrease (-)
Tax Revenue (Rs. in crore)				
Sales tax	1778.00	1835.99	(+) 57.99	(+) 3
State excise	245.00	238.67	(-) 6.33	(-) 3
Stamps and registration fee	79.17	57.14	(-) 22.03	(-) 28
Taxes on goods and passengers	299.50	271.39	(-) 28.11	(-) 9
Taxes and duties on electricity	179.65	150.76	(-) 28.89	(-) 16
Taxes on vehicles	75.86	65.47	(-) 10.39	(-) 14

There was a considerable variation between budget estimates and actuals in respect of the stamp and registration fee, taxes and duties on electricity and taxes on vehicles as 2008-09 was a year when the entire nation was impacted by the global slowdown. In J&K also, there was a considerable shortfall.

1.3.6 Cost of collection

The figures for gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection from 2004-05 to 2008-09 along with the relevant all India average percentage of expenditure on collection to gross collection for 2007-08 were as follows:

Table 1.8 : Trends of cost of collection

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average (percentage)
		(Rs. in crore)			
Sales tax	2004-05	804.12	11.88	1.48	0.95
	2005-06	1,014.49	12.94	1.28	0.91
	2006-07	1,159.72	13.88	1.20	0.82
	2007-08	1,804.81	14.52	0.80	0.95
	2008-09	1835.99	15.30	0.83	
Taxes on vehicles	2004-05	41.68	2.68	6.43	2.74
	2005-06	49.17	2.98	6.06	2.67
	2006-07	63.96	3.12	4.88	2.47
	2007-08	72.60	3.98	5.48	2.74
	2008-09	65.47	4.73	7.22	

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average (percentage)
		(Rs. in crore)			
State excise	2004-05	272.37	8.48	3.11	3.34
	2005-06	218.68	9.98	4.56	3.40
	2006-07	212.80	9.43	4.43	3.30
	2007-08	244.15	9.88	4.05	3.34
	2008-09	238.67	11.10	4.65	
Stamps and registration fee	2004-05	39.25	4.33	11.03	3.44
	2005-06	46.43	4.83	10.40	2.87
	2006-07	56.93	4.55	7.99	2.33
	2007-08	65.63	13.41	20.43	3.44
	2008-09	57.14	6.04	10.57	

Percentage of cost of collection of taxes on vehicles, state excise and stamps and registration fee during 2008-09 was higher than All India Average cost of collection for 2007-08. It was however encouraging to note that cost of collection in respect of sales tax was lower than All India Average.

1.3.7 Revenue Arrears

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue for which information was furnished by the department amounted to Rs. 752.79 crore of which Rs. 401.19 crore were outstanding for more than five years as detailed in Table 1.9.

Table 1.9: Arrears of Revenue

(Rs in crore)

Sl. No.	Head of revenue	Amount outstanding		Remarks
		as on 31 March 2009	for more than five years as on 31 March 2009	
1.	Sales tax (including Motor Spirit)	735.07	392.07	Out of total arrears of Rs. 735.07 crore, recovery of Rs. 76.78 crore was stayed by courts/appellate authority.
2.	State excise	4.63	4.63	Out of the total arrears of Rs. 4.63 crore recovery of Rs. 0.96 crore was stayed by courts and arrears of Rs. 3.67 crore was proposed to be recovered as arrears of land revenue.
3.	Taxes on goods and passengers	12.87	4.27	Out of total arrears of Rs. 12.87 crore, recovery of Rs. 5.64 crore was stayed by courts and Rs. 2.31 crore was proposed to be recovered as arrears of land revenue.
4.	Entertainment tax	0.22	0.22	Demand notices for recovery of Rs. 0.22 crore were stated to have been issued.
Total		752.79	401.19	

The arrears outstanding for more than five years constituted 53 *per cent* of the total arrears.

1.3.8 Loss of Revenue due to Evasion of Taxes, Write off/waivers and Refunds

The details of tax evasion cases detected by the Sales Tax and Excise Departments, those finalised and the cases where additional tax demands were raised, as reported by the departments, are mentioned below:

Table 1.10 : Cases of tax evasion of taxes, write off/waiver

Name of tax/duty	Cases pending as on 31 March 2008	Cases detected during 2008-09	Total	No. of cases in which assessment/investigations completed and additional demand including penalty etc. raised		No. of cases pending finalisation as on 31 March 2009
				No. of cases	Amount (Rs in crore)	
Sales tax	585	2592	3177	2910	2.00	267
State excise	1	Nil	1	Nil	Nil	1
Taxes on goods and passengers	36	1593	1629	1629	0.10	-

Number of Sales Tax cases pending finalisation as of March 2009 has declined by more than 50 *per cent* over the previous year. However, the progress of recovery of amount demanded after completion of investigation including penalty imposed was not intimated (October 2009).

1.3.9 Write-off and waiver of revenue

Arrears of Rs. 36.77 crore pertaining to Sales Tax were waived during 2008-09. Further, Rs. 72.38 crore were reduced due to rectification, appeals and remission during the year 2008-09.

1.3.10 Refund

The number of refund cases pending at the beginning of the year 2008-09, claims received and refunds allowed during the year and the cases pending at the close of year 2008-09, as reported by the Sales tax Department, are mentioned below:

Table 1.11 : Refunds of sales tax claims

Particulars	2004-05		2005-06		2006-07		2007-08		2008-09	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Claims outstanding at the beginning of the year	3	2.49	2	0.42	13	0.11	57	3.19	85	3.35
Claims received during the year	4	1.57	14	4.01	55	3.15	47	0.77	19	0.19
Refunds made during the year	4	1.57	8	3.03	11	0.07	19	0.61	1	Negligible
Balance outstanding	5	2.49	8	1.40	57	3.19	85	3.35	103	3.54

1.4 Application of resources

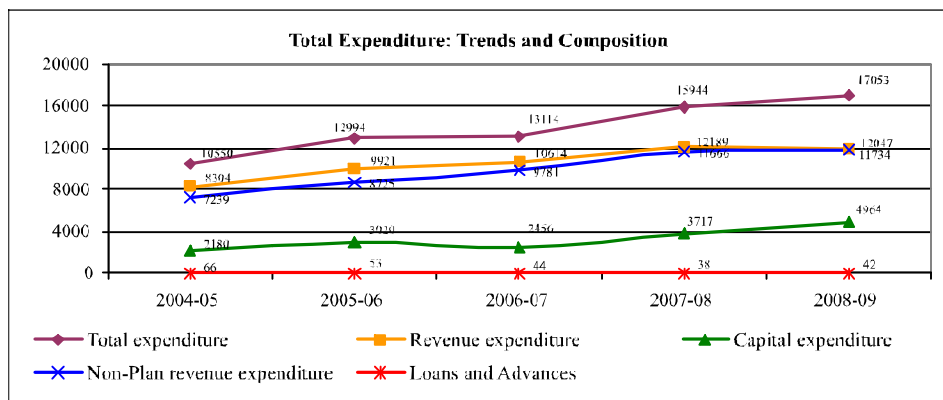
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level

is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2003-08) and its composition, both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8**.

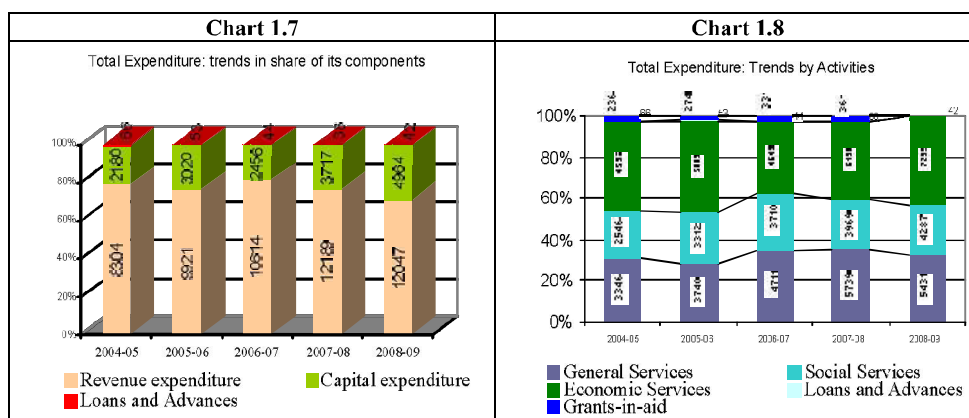
Chart 1.6



As can be seen from the above Chart, the total expenditure of the State increased from Rs. 10,550 crore in 2004-05 to Rs. 17,053 crore in 2008-09 (by 62 *per cent*). In relative terms, capital and revenue expenditure components have increased by 128 *per cent* and 45 *per cent*, respectively during the period 2004-09. In absolute terms increases were of the order of Rs. 2,784 crore in capital expenditure and Rs. 3,743 crore on revenue account during the period under report. These trends indicate that increase in capital and revenue expenditure was in the ratio of 1:1.34 during the last five year period. Increase of Rs. 1,109 crore in total expenditure (7 *per cent*) during 2008-09 over the previous year has been due to increase of Rs. 1,247 crore in capital expenditure, off-set by decrease of Rs. 142 crore under revenue head, accompanied by a marginal increase of Rs. 4 crore in disbursement of loans and advances. Increase in capital expenditure was mainly under Economic Services (Rs. 1,056 crore) Agriculture and Allied Activities (Rs. 308 crore), Energy (Rs. 512 crore) and General Economic Services (Rs. 167 crore); and under Social Services (Rs. 146.73 crore) on Education, Sports, Art and Culture (Rs. 69 crore) and Social Welfare and Nutrition (Rs. 76 crore).

Out of the total expenditure of Rs. 17,053 crore during 2008-09, Rs. 5,006 crore was incurred under plan component and Rs. 12,005 crore under non-plan component. The expenditure under plan component increased by Rs. 1,853 crore (59 *per cent*) from Rs. 3,153 crore in 2004-05 to Rs. 5,006 crore in 2008-09. However, in the non-plan component, there was an increase by Rs. 4,959 crore (70 *per cent*) from Rs. 7,046 crore to Rs. 12,005 crore during the same period. The expenditure under plan component increased by Rs. 842 crore (20 *per cent*) from Rs. 4,164 crore in 2007-08 to Rs. 5,006 crore in 2008-09, while under non-plan component there was a marginal

increase of Rs. 263 crore (2 per cent) from Rs. 11,742 crore in 2007-08 to 12,005 crore in 2008-09.



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. Revenue expenditure had a predominant share in the total expenditure. The overall expenditure of the State increased from Rs. 7,754 crore in 2003-04 to Rs. 12,047 crore in 2008-09 showing an increase of 55 per cent over the period. The non-plan revenue expenditure during the same period increased from Rs. 6,807 crore to Rs. 11,734 crore, showing an increase of 72 per cent. The share of NPRE in total revenue expenditure increased from 88 per cent in 2003-04 to 97 per cent in 2008-09. The NPRE, however, increased at a lower rate by Rs. 68 crore in 2008-09 over the previous year. The NPRE of Rs. 11,666 crore during the current year was lower than the budget estimates (Rs. 11199.79 crore) of the State Government by Rs. 466 crore

1.4.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.12** present the trends in the expenditure on these components during 2004-09.

Table-1.12: Components of Committed Expenditure

(Rs in crore)

Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
Salaries* & Wages , Of which	3245 (36.59)	3724 (36.10)	3995 (35.73)	4426 ⁴ (33.34)	4820 ⁵ (33.70)
Non-Plan Head	2497	2838	3467	4170	4682
Plan Head**	747	886	528	256	138
Interest Payments	1103 (12.44)	1115 (10.81)	1787 (15.98)	2436 (18.35)	1578 (11.03)
Pensions	731 (8.24)	929 (9.01)	1021 (9.13)	1193 (8.99)	1269.40 (8.89)
Subsidy					2868.44

⁴ Salary: Rs. 4400 crore; Wages: Rs. 26 crore.

⁵ Salary: Rs. 4772 crore, Wages: Rs. 48 crore

Expenditure on salary and wages increased by 9 *per cent* over the previous year, however, increase as a receipt of revenue receipt was on 26 basis points. Likewise, there was 12 *per cent* increase in non plan expenditure, whereas expenditure under plan heads decreased by 46 *per cent*. There was also decrease in interest payment as compared to the previous year. The figures of subsidy during 2004-08 were not made available by the State Government. However this data was maintained by the office of the Principal Account General from 2008-09.

1.4.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.13**

Table 1.13: Financial Assistance to Local Bodies etc

(Rs in crore)

Name of the Department	2004-05	2005-06	2006-07	2007-08	2008-09
Education and sports	79.34	78.24	88.01	116.45	113.93
Housing and Urban Development	78.60	118.30	135.49	146.05	170.82
Agriculture	47.81	51.04	72.90	60.72	80.60
Art and culture	14.71	5.44	7.32	7.93	9.43
General Administration	2.69	3.50	2.95	4.66	4.20
Industries	4.00	4.00	5.25	7.05	7.04
Tourism	5.34	3.43	5.06	5.24	15.06
Administration of Justice	1.60	1.91	1.63	2.26	3.30
Family welfare and Medical Department	0.82	0.48	0.44	0.64	* ⁶
Others	0.76	7.35	11.83	9.86	146.02 ⁷
Total	235.67	273.69	330.88	360.86	550.40
Assistance as a percentage of Revenue expenditure	2.84	2.76	3.12	2.96	4.57

The total assistance of Rs. 550.40 crore paid in 2008-09 increased by 134 *per cent* over the level of 2004-05, and by 53 *per cent* as compared to the previous year. This was mainly as a result of increased assistance to Ladakh Autonomous Hill Development Councils, Leh and Kargil. Around 78 *per cent* of the financial assistance during 2008-09 was given by the State Government for Education and sports, Housing and Urban Development and Ladakh Autonomous Hill Development Councils, Leh/Kargils.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate

⁶ Negligible

⁷ This includes Rs. 139.15 crore disbursed to Ladakh Autonomous Hill Development Council, Leh (Rs. 1.27 crore) and Ladakh Autonomous Hill Development Council, Kargil (Rs. 137.88 crore).

provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like, education and health etc. The low level of spending on any sector by a particular State may be either due to low fiscal priorities attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while the low fiscal capacity would reflect if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. Below mentioned table shows the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table 1.14: Fiscal Priorities and Fiscal capacity of the State during 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/ National Average* (Ratio)2005-06	19.50	61.44	30.41	14.13
J&K's Average (Ratio) 2005-06	57.06	71.22	25.49	23.24
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
J&K Average * (Ratio) 2008-09	49.00	68.15	25.14	29.11
Fiscal capacity of the State	DE#	SSE	CE	
All States Average per Capita Expenditure 2005-06	3,010	1,490	692	
J&K's per Capita Expenditure (Amount in Rs.) in 2005-06	8,569	3,067	2,796	
Adjusted per Capita** Expenditure (Amount in Rs.) in 2005-06	NR	3,659	NR	
All States' Average per Capita Expenditure 2008-09	5,030	2,520	1,254	
J&K's per Capita Expenditure (Amount in Rs.) in 2008-09	10,285	3,794	4,393	
Adjusted per Capita** Expenditure (Amount in Rs.) in 2008-09	NR	5,055	NR	
<p>*As per cent to GSDP</p> <p>**Calculated as per the methodology explained in the Appendix 1.2</p> <p>AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure</p> <p>CE Capital Expenditure</p> <p>Population of J&K: 1.08 crore in 2005-06 and 1.13 crore in 2008-09</p> <p># Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed.</p> <p>Source: (1) For GSDP, the information was collected from States's Directorate of Economics and Statistics</p> <p>(2) Population figures were taken from Projection 2001-2026 of the Registrar General and Census Commissioner, India (Website:http://www.censusindia.gov.in) Population= Average of Projected population for 2005 and 2006.</p> <p>NR= No adjustment required since the state is given adequate fiscal priority</p>				

In Table 1.14, we are comparing the fiscal priority given to different categories of expenditure and fiscal capacity of J&K in 2005-06 (the first year of the Award Period of the Twelfth Finance Commission) and the current year 2008-09. In 2005-06, the J&K Government gave adequate fiscal priority to Aggregate Expenditure (AE), Development Expenditure (DE) and Capital Expenditure (CE) since AE/GSDP, DE/AE and CE/AE in the case of J&K was higher than the national average. In 2008-09, also, there was adequate priority for all categories of expenditure compared to the national average except in the case of Social Sector Expenditure, where the SSE/AE ratio was less than the national Average.

In 2005-06 as well in 2008-09, the per capita expenditure of DE, SSE and CE was higher than the national average. It is observed that the even though state gave relatively less priority to SSE compared to the rest of the nation, the per capita expenditure in both the years under consideration was higher than national average. Had the Government given adequate priority to SSE then (as explained in the methodology given in the **Appendix 1.2**), the per capita SSE would have been even higher as given by the adjusted SSE figures in the table.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods⁸. Apart from improving the allocation towards development expenditure⁹, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.15** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, **Table 1.15** and **Chart 1.9** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

⁸ *Core public goods* are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

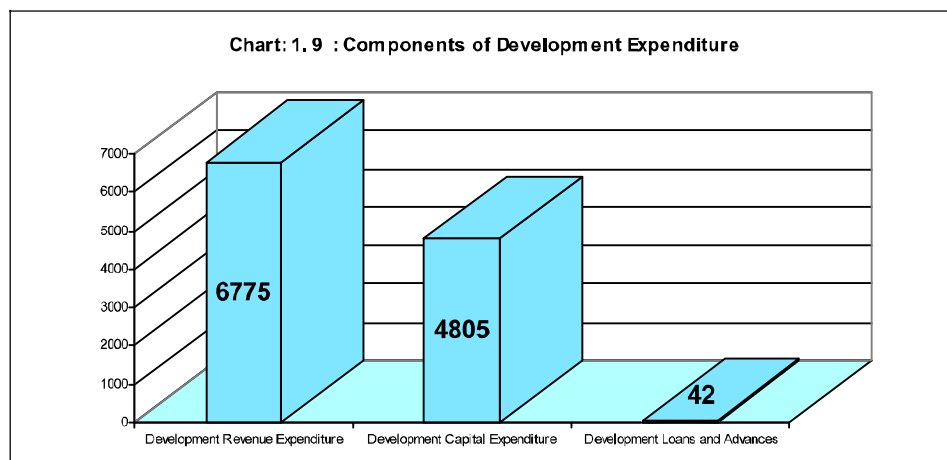
⁹ The analysis of expenditure data is disaggregated into development and non development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Table-1.15: Development Expenditure

(Rs in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure						
a. Development Revenue Expenditure	5017 (48)	6239 (48)	5960 (45)	6565 (41)	6992	6775 (40)
b. Development Capital Expenditure	2121 (20)	2962 (23)	2399 (18)	3602 (23)	4801	4805 (28)
c. Development Loans and Advances	66 (1)	53 (*)	44 (*)	38 (*)	59	42 (*)
Figures in parentheses indicate percentage to aggregate expenditure * negligible						

Figures in parentheses indicate percentage to aggregate expenditure * negligible



The aggregate of development expenditure under both Revenue and Capital heads varied between 64 and 71 *per cent* during the above period. In absolute terms, it increased from Rs. 10167 crore in 2007-08 to Rs. 11580 crore in 2008-09 registering an increase of Rs. 1413 crore (3 *per cent*). The reasons for huge variations of Development Revenue Expenditure (DRE) with budget estimates was not intimated by the State Government.

Table 1.16 –Efficiency of Expenditure used in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2007-08			2008-09		
	CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S & W	O&M*		S&W	O & M
Social Services (SS)						
General Education	10.89	83.97	0.00	13.94	84.74	0.05
Health and Family Welfare	25.49	76.29	0.95	20.31	77.36	1.17
WS, Sanitation, & HUD	50.48	48.87	5.09	50.27	48.60	4.64
Others	27.11	15.93	0.10	39.32	17.06	0.08
Total (SS)	28.26	66.15	1.31	29.59	68.04	1.30

* Negligible

Social/Economic Infrastructure	2007-08			2008-09		
	CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S & W	O&M*		S&W	O &M
Economic Services (ES)						
Agriculture & Allied Activities	7.31	74.49	0.45	33.95	79.51	0.42
Irrigation & Flood Control	42.54	66.88	7.40	56.31	69.74	7.61
Power & Energy	23.37	10.15	3.75	35.53	10.80	1.84
Transport	95.07	1.61	86.60	95.12	2.91	90.24
Others	51.20	46.10	1.25	54.92	44.37	1.28
Total (ES)	40.01	30.78	4.12	94.12	32.90	2.94
Total (SS+ES)	35.42	46.12	2.90	41.49	48.55	2.21
TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance *Subject to availability and need to be specified.						

The ratio of capital expenditure to total expenditure in Social and Economic Service Sectors during 2008-09 showed a marginal increase over the previous year. In the revenue expenditure the salary and wages formed the major component within in the Social and Economic Services. The revenue expenditure incurred on Social and Economic Sectors, the share of salary and wage component during the year 2008-09 registered an increase of 2.43 *per cent* over the previous year, there was a decrease of 0.69 *per cent* in expenditure incurred on operation and maintenance.

1.5.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Besides stepping up the expenditure on key social and economic services, enhancing human development requires the State to improve the delivery mechanism to obtain the desired outcomes. The State Government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of government expenditure. Three reviews under Social and Economic services were taken up and the main highlights of the two performance reviews which figured in the separate Report of Comptroller and Auditor General of India ended 31 March 2009 are as under:

National Rural Health Mission

The National Rural Health Mission was launched in April 2005 by the Government of India throughout the country for providing integrated healthcare services to rural population. During the period 2005-09, out of the allocation of Rs 348.54 crore, Rs 252.63 crore (72.48 per cent) was spent for the implementation of the Programme in the State. The performance audit review showed that the status of health profile of the State has been quite encouraging vis-à-vis the performance indicators available for the country. These can be further improved if there is proper fund management/utilisation and various sectors involved are covered in conformity with the guidelines issued for implementation of the Programme. There are large gaps in planning as well as implementation of the Mission activities in the State even after four years of launching the programme. This is evidenced by the findings that no new health centre was put in place against additional requirement of 1,474 SCs, 114 PHCs, 36 CHCs and eight District hospitals. Essential services and amenities were not available in many centres and there was critical shortage of technical manpower. Maternal and child health programmes have not made much headway. Planning, implementation and monitoring of the programme through participation of NGOs and community based organisations was non-existent.

Social Welfare Department

The Social Welfare Department of the State administers Central and State Government schemes relating to women and child development, social justice and empowerment, social security, tribal development and educational upliftment of SC, ST and OBC students, etc. by providing direct/indirect benefits to the target groups through various programmes. The audit review showed that the flagship programmes of the Department have largely failed to meet expectations with one major scheme viz., 'Contributory Social Security Scheme for marginal workers' failing completely, and only some components succeeding to some extent in the case of other schemes. The unnecessary retention of huge undisbursed money in bank accounts and delays in finalization of rate contract for nutritive items under ICDS persisted. The financial management was also poor. The contributory factors attributable to failure of schemes include lack of proper planning, non-release of funds, non-adherence to eligibility criteria and lack of supervision and monitoring.

1.6 Financial Analysis of Government Expenditure and Investments

In the post-Fiscal Resource Budget Management (FRBM) framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements out of the reserves. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Financial Results of Irrigation Works

The total capital outlay on six irrigation projects¹⁰ as on 2008-09 was Rs. 188.40 crore. Financial results of these projects for the year 2008-09 showed that against the revenue realisation of Rs. 17.43 lakh (forming only 0.09 *per cent* of the total capital outlay), working expenses aggregated Rs. 41.29 lakh resulting in loss of Rs. 23.86 lakh. After taking into account further expenditure of Rs. 34.15 lakh paid as interest on the capital outlay, the total loss aggregated Rs. 58.01 lakh.

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects¹¹ as on 31st March 2009 is given in Table 1.17.

Table 1.17: Department-wise Profile of Incomplete Projects*(Rs in Crore)*

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects*	Cost Over Runs	Cum. actual exp as on 31.3.2009
Public Health Engineering	4	7.02	14.90	7.88	7.48
Roads and Bridges	16	32.85	61.05	28.20	22.13
Power Development	6	40.27	56.95	16.68	34.90
Total	26	80.14	132.9	52.76	64.51

¹⁰ Kathua Feeder, Pratap Canal, Ranbir Canal, Martand Canal, Zaingir Canal and Ahizi Canal.

¹¹ Where there have been time overruns

Thus, it is clear that 26 projects due for completion during the year were incomplete as of March 2009 despite expenditure of Rs.64.51 crore with cost overrun of Rs. 52.76 crore. A performance review on irrigation project was conducted during 2008-09 and is included in the separate Report of Comptroller and Audit General of India ended 31 March 2009, which highlights the following aspects.

Irrigation Projects

The Irrigation and Flood Control Department is entrusted with the job of providing assured irrigation facilities to cultivable/cultivated land in the State by construction, renovation, modernisation and maintenance of irrigation canals/channels/khuls, etc. A majority of the schemes executed by the Department were funded by the GOI. During the period 2004-09, against the total availability of funds of Rs 379.52 crore, only Rs. 314.11 crore were spent on implementation of irrigation schemes in the State. The objective of speedy development of irrigation potential and its eventual utilisation for the benefit of the farmer was not achieved to the desired extent in the State due to inherent deficiencies in planning, execution and monitoring. Implementation of the schemes was affected due to delay in release, delays in execution and non-fulfilment of pre-requisites. Scheme funds amounting to Rs. 2.48 crore were diverted/utilized on unapproved activities/items during 2003-09. In the absence of a time bound strategy for systematic harnessing of estimated irrigation potential, there was shortfall in the creation of irrigation potential. Even the irrigation potential created under various schemes was not utilised optimally. Consequently, the ultimate cost benefit ratio achieved in respect of some schemes was less than unity.

1.6.3 Investment and returns

As of 31 March 2009, Government had invested Rs. 364.61 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.18**). The average return on this investment was 8.60 *per cent* while the Government paid an average interest rate of 9.7 *per cent* on its borrowings during 2007-2009.

Table-1.18: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rs. in crore)	347.82	353.27	355.77	356.97	364.61
Return (Rs. in crore)	26.28	20.62	21.22	30.24	40.85
Return (<i>per cent</i>)	7.56	5.84	5.96	8.47	11.20
Average rate of interest on Government borrowing (<i>per cent</i>)	8.10	7.19	10.09	12.19	6.91
Difference between interest rate and return (<i>per cent</i>)	0.54	1.35	4.13	3.72	(-) 4.29

As on 31 March 2009, the State Government had invested Rs. 364.61 crore in its Statutory Corporations (Rs. 143.32 crore), Government Companies (Rs. 191.98 crore), Joint Stock Companies (Rs. 34.40 lakh) and Cooperative Societies (Rs. 28.96 crore). Return on the investment made in these PSUs ranged between Rs. 20.62 crore and Rs. 40.85 crore during 2004-09. The return on investment amounting to Rs. 40.85 crore which accrued to the State Government during 2008-09 was from Jammu and Kashmir Bank Limited (Rs. 39.95 crore), Rs. 60 lakh from the Jammu and Kashmir Cements Limited and Rs. 30.40 lakh from Jammu and Kashmir Projects Construction Corporation Limited. With an average interest rate of 6.91 *per cent* paid by the

Government on its borrowings, the return on these investments during 2008-09 was 11.20 *per cent*.

As on 31 March 2009, there were 20 Government companies (17 working and three¹² non-working¹³ companies) and three Statutory corporations (all working) under the control of the State Government. The total investment made by the State Government in the working PSUs at the end of March 2009 was Rs. 332.64 crore. Out of 17 working companies, only one company (J&K bank) had finalised its accounts for 2008-09 (September 2009) and earned profit of Rs. 409.84 crore for the year. Of the fifteen other¹⁴ working companies, which finalised their accounts for previous years by September 2009, only three companies earned an aggregate profit of Rs. 2.51 crore. Of the 12 loss-incurring working Government companies, nine had accumulated losses aggregating Rs. 524.01 crore, which exceeded their aggregate paid-up capital of Rs. 67.05 crore. Despite their poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of contribution towards equity, further grant of loans, subsidy, grants, etc. According to the available information, the total financial support so provided by the State Government during 2008-09 to eight of these nine companies amounted to Rs. 32.10 crore.

None of the three¹⁵ working Statutory corporations had finalised their accounts for 2008-09. Out of two Statutory corporations, which had finalised their accounts for 2004-05 in the previous year, one corporation (Jammu and Kashmir State Financial Corporation) had earned profit of Rs. 4.64 crore. Though the Corporation earned profit, it had accumulated loss of Rs. 192.50 crore which exceeded its paid up capital of Rs. 64.60 crore. The only loss-incurring corporation (viz., Jammu and Kashmir State Road Transportation Corporation), which had finalised its accounts for 2004-05 in the previous year, had incurred a loss of Rs. 54.67 crore. The corporation had accumulated loss of Rs. 598.92 crore, which exceeded its paid up capital of Rs. 109.51 crore. Despite poor performance and complete erosion of paid up capital, the State Government continued to provide financial support to the corporation in the form of further loan and grants. According to the available information, the total financial support so provided by the State Government by way of loan/grant during 2008-09 was Rs. 33.24 crore. A review of State Road Transport Corporation conducted during 2008-09 and included in the separate Report of the Comptroller and Auditor General of India for the year ended 31 March 2009 revealed the following aspects.

¹² Himalayan Wool Combers Limited, Jammu and Kashmir State Handloom Handicrafts Raw Material Supplies Organisation Limited (a subsidiary of Himalayan Wool Combers Limited) and Tawi Scooters Limited.

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

¹⁴ Excluding one company (viz. Jammu and Kashmir State Cable Car Corporation Limited), which has not prepared the Profit and Loss Account since inception.

¹⁵ Including one corporation (Jammu and Kashmir State Forest Corporation) which was incorporated in 1978-79 and its audit was entrusted to the CAG with effect from 1996-97. However, no accounts of the corporation were received for the years from 1996-97 and onwards.

Jammu and Kashmir Road Transport Corporation

The Corporation does not maintain separate records for bus and truck operations. It suffered a loss of Rs. 33.00 crore in 2007-08 from the operation of buses and trucks. Its accumulated loss and borrowings stood at Rs. 465.50 crore and 354.32 crore as at 31 March 2008, respectively. The Corporation earned Rs. 19.07 per kilometre and expended Rs. 31.29 per kilometre in 2007-08.

Corporation's buses consisted of own fleet of 677 buses. Of its own fleet, 523 (77 per cent) were overage, i.e., which are more than eight years old.

Corporation's fleet utilisation at 80 per cent in 2008-09 was below All India Average of 92 per cent.

Manpower and fuel constitute 73 per cent of total cost. Interest, depreciation and taxes account for 19 per cent and are not controllable in the short term. Thus, the major cost saving has to come from manpower and fuel. The Corporation does not maintain separate records for manpower utilisation in respect of bus fleet. However, the Corporation succeeded in reducing the manpower per vehicle from 4.3 in 2004-05 to 3.4 in 2008-09.

The Corporation has 2.65 lakh square meters of land for future development. However, the Corporation does not have any policy for tapping non-traffic revenue sources by taking up large scale PPP projects in the vacant land.

The revision of fare is being effected on the basis of fares fixed by the State Transport Authority. However, the revision does not take into consideration the increase in other operational costs of the Corporation. Thus, it would be desirable to have an independent regulatory body (like State Electricity Regulatory Commission) to fix the fares, specify operations on uneconomical

1.6.4 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/organizations. Table 1.19 presents the position of loans and advances advanced/outstanding as on 31 March 2009, interest receipts vis-à-vis interest payments during the last three years.

Table-1.19: Average Interest Received on Loans Advanced by the State Government

(Rs in Crore)			
Quantum of Loans/Interest Receipts/ Cost of Borrowings	2006-07	2007-08	2008-09
Opening Balance	901.97	943.82	980.20
Amount advanced during the year	43.89	38.27	42.41
Amount repaid during the year	2.04	1.89	3.69
Closing Balance	943.82	980.20	1018.92
<i>Of which</i> Outstanding balance for which terms and conditions have been settled			
Net addition	41.85	36.38	38.72
Interest Receipts	1.88	1.44	9.92
Interest receipts as <i>per cent</i> to outstanding Loans and advances	0.20	0.15	0.97
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	10.09	12.19	6.91
Difference between interest payments and interest receipts (<i>per cent</i>)	9.89	12.04	5.94

During the current year, the State Government advanced loans and advances of Rs. 42.41 crore under Social Services (Rs. 51 lakh), Economic Services (Rs. 41.61 crore) and to Government servants (Rs. 29 lakh). The recipients under Economic Services were the Jammu and Kashmir Industries Limited-a State Government Company (Rs. 15.37 crore) and the J&K State Road Transport Corporation (Rs. 26.24 crore).

Total loans and advances outstanding as on 31 March 2009 stood at Rs. 1,018.92 crore, which included Rs. 937.41 crore on account of Economic Services, Rs. 61.21 crore on Social Services and Rs. 20.30 crore outstanding against the Government servants etc. Within Economic Services, major part of the loan was outstanding against J&K State Horticultural Produce Marketing and Processing Corporation Limited (Rs.12.67 crore), Bhagliar Power Project (Rs. 85.05 crore), Village Industries (Rs. 25.58 crore), J&K Industries Limited (Rs. 300.96 crore) and J&K State Road Transport Corporation (Rs. 320.48 crore).

Against the recovery of Rs. 1.89 crore during 2007-08, the recoveries effected during 2008-09 were Rs. 3.69 crore which was made mostly out of loans paid to Industries and Minerals (Rs. 2.16 crore) and Government servants (Rs. 1.32 crore).

1.6.5 Cash Balances and Investment of cash balances

In terms of Section 20 of the RBI Act 1934, RBI has the obligation to undertake the receipts and payments of the Central Government and to carry out the exchange, remittance and other banking operations, including the management of the public debt of the Union. Further, as per Section 21 of the said Act, RBI has the right to transact Government business of the Union in India.

State Government transactions are carried out by RBI in terms of the agreement entered into with the State Governments in terms of section 21 A of the Act. As of now, such agreements exist between RBI and all the State Governments except with the Government of Jammu and Kashmir. The Jammu and Kashmir Government obtained temporary loan from Jammu and Kashmir Bank for its ways and means requirements. The State Government had temporary loan from the Bank for 365 days during the year. The maximum temporary loan obtained was Rs. 2480.43 crore as of 29 September 2008. The total temporary loans raised during the year amounted to Rs. 2983.48 crore. A balance of Rs. 2055.22 crore was also outstanding as on 1st April 2008. Government repaid Rs. 2648.45 crore during the year leaving a balance of Rs. 2290.25¹⁶ crore as of 31 March 2009. During the year 2008-09, Rs. 217.65 crore were paid as interest by the Government.

The cash balances of the State Government decreased by Rs. 50.67 crore during 2008-09 as compared to previous year. Details of Rs. 37.39 crore investments held in the cash balance investment Account were not intimated by the State Government as it continued in the books for over ten years.

¹⁶ The figures under reconciliation (July 2009)

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities as shown 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 10 *per cent* and 17 *per cent* respectively. The liabilities of the State Government depicted in the Finance Accounts, however, do not include the future liabilities on account of pension and other retirement benefits payable to retired State employees, guarantees/letters of comforts issued by the State Government.

1.7.2 Fiscal Liabilities

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits. The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3**. The composition of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Charts 1.10** and **1.11**.

Chart 1.10

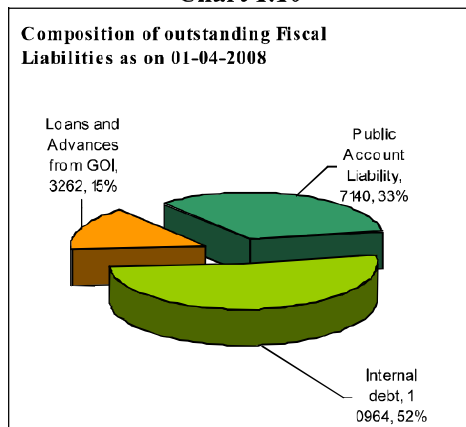
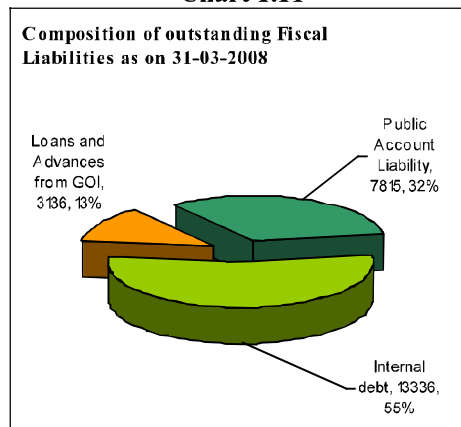


Chart 1.11



Overall fiscal liabilities of the State increased from Rs. 13,038 crore in 2003-04 to Rs. 24,287 crore in 2008-09. The growth rate was 13.67 *per cent* during 2008-09 over the previous year. The ratio of fiscal liabilities to GSDP also increased from 58.82 *per cent* in 2003-04 to 69.78 *per cent* in 2008-09. The buoyancy of these liabilities with

respect to GSDP during the year was 1.44 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.44 *per cent*. These liabilities stood at 1.70 times of the State's revenue receipts and 6.90 times of its own resources.

1.7.3 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 for the last three years is given in **Table 1.20**.

Table-1.20: Guarantees given by the Government of –Jammu and Kashmir State

Guarantees	2006-07	2007-08	2008-09
Max amount guaranteed (Rs. in crore)	3245	3308	3295
Outstanding amount of guarantees (Rs. in crore)	2565	2807	2537
Percentage of maximum amount guaranteed to total revenue receipts	29.02	24.92	23.04

As per the recommendations of the TFC the States were to create guarantee redemption fund for the guarantees provided by it to various financial institution for grant of loans to various bodies in the State. The Government transferred only Rupees One crore during 2008-09 to guarantee redemption fund. It was, however, noticed that Government has guaranteed loans raised by various Corporations and others, which at the end of 2008-09 stood at Rs. 2,537 crore, indicating decrease by about 10 *per cent* over the level of previous year. The outstanding amount of guarantees was about 18 *per cent* of revenue receipts of the State.

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze various indicators that determine the debt sustainability¹⁷ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization¹⁸, sufficiency of non-debt receipts¹⁹, net availability of borrowed

¹⁷ The 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.

¹⁸ A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

¹⁹ 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.

funds²⁰, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.21** analyzes the debt sustainability of the State according to these indicators for the period of five years beginning from 2004-05.

Table 1.21: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit)	(-) 402	(-) 1220	(-) 261	(-) 726	(-) 621
Sufficiency of Non-debt Receipts (Resource Gap) Rs. In crore	669	1466	833	2095	1027
Net Availability of Borrowed Funds	58	1487	16	329	1343
Burden of Interest Payments (IP/RR Ratio)	0.124	0.108	0.160	0.183	0.110

As is clear from above, the debt stabilisation of the State was negative due to negative trend of fiscal and primary deficit during 2004-09. The resource gap however decreased from Rs.2095 crore to Rs.1027 crore in 2008-09.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. 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 raised are applied are important pointers to fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in Deficits

Charts 1.12 and 1.13 present the trends in deficit indicators over the period 2004-09.

²⁰ Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

Chart 1.12

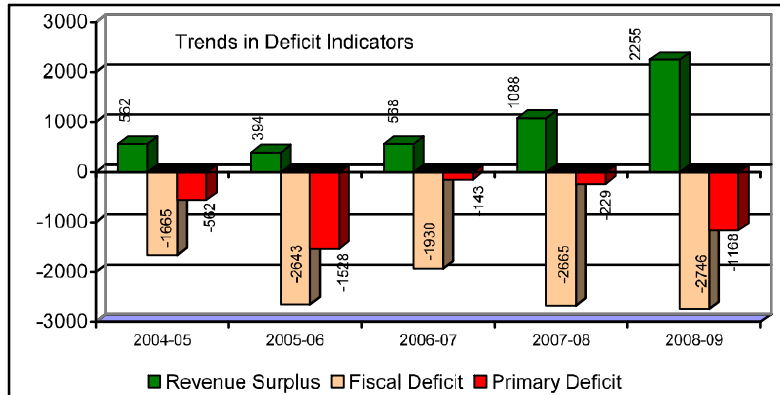
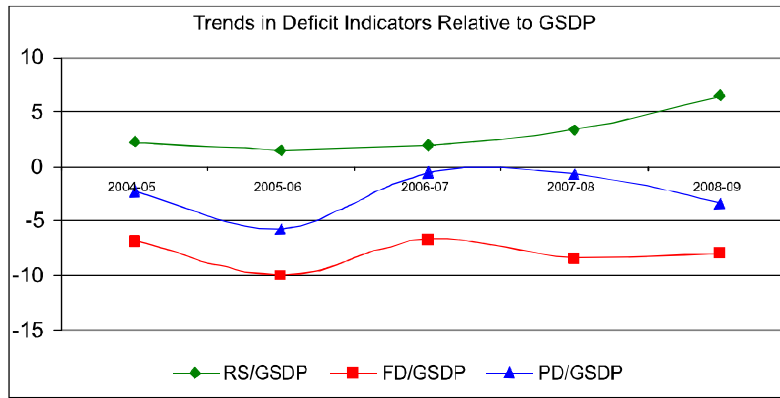


Chart 1.13



The Charts above reveal that the revenue account experienced surplus over the period 2003-09. The revenue surplus of Rs. 2,255 crore during 2008-09 was higher by Rs. 1167 crore as compared to revenue surplus of Rs. 1088 crore realized during 2007-08. An increase of 7.72 *per cent* (Rs. 1025.48 crore) in revenue receipts during 2008-09 and decrease in revenue expenditure by Rs. 141.84 crore in comparison to 2007-08, resulted in an increase of Rs. 1167 crore in revenue surplus during the current year.

Despite a cushion of Rs. 1167 crore available in the form of increment in revenue surplus, net increase of Rs. 1251 crore in capital expenditure/loans and advances disbursed during 2008-09 over the previous year led to an increase of Rs. 81 crore in fiscal deficit during the current year. The increase in fiscal deficit accompanied by a decrease of Rs. 858 crore in interest payments during 2008-09 over the previous year led to the increase of Rs. 939 crore in primary deficit in 2008-09 from the level of Rs. 229 crore during 2007-08.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1. 22**.

Table 1.22: Components of Fiscal Deficit and its Financing Pattern

(Rs in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit					
1 Revenue Surplus	562	394	568	1088	2255
2 Capital Expenditure	2180	3020	2456	3717	4964
3 Loans and Advances	47	17	42	36	39
Financing Pattern of Fiscal Deficit*					
1 Market Borrowings	1267	1428	1264	2198	2372
2 Loans from GOI	(-) 472	(-) 118	(-) 124	(-) 122	(-) 127
3 Special Securities Issued to NSSF	-	-	--	-	-
4 Loans from Financial Institutions	-	-	--	-	--
5 Small Savings, PF etc	245	412	426	341	458
6 Deposits and Advances	17	828	84	216	206
7 Suspense and Miscellaneous	(-) 21	(-) 58	(-) 53	(-) 204	158
8 Remittances	527	101	205	112	(-) 381
9 Reserve funds	101	52	152	130	11
10. Net amount recouped to contingency fund	0.02	0.01	0.30	-	-
11. Increase/decrease in cash balance	0.72	(-) 2	(-) 24	(-) 6	51

Figures in brackets indicate the *per cent* to GSDP.
 *All these figures are net of disbursements/outflows during the year

The revenue surplus increased by Rs. 1167 crore in 2008-09 over the previous year. This was also coupled with increased in capital expenditure of Rs. 1247 crore over the 2007-08. The fiscal deficit was met from borrowing out of Public Accounts of which market borrowings and small savings, PF formed the major share.

1.9.3 Quality of Deficit/Surplus

The ratio of Revenue Deficit (RD) to Fiscal Deficit (FD) and the bifurcation of primary deficit into primary revenue deficit 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. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) was not having any asset backup. The bifurcation of the primary deficit (**Table 1.23**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2003-09 reveals (Table-1.22) 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 expenditure requirements in the revenue account and 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 over primary expenditure during 2008-09. 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 1.23: Primary deficit/Surplus – Bifurcation of factors*(Rs in crore)*

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary Expenditure	Percentage Capital expenditure/primary expenditure	Primary Revenue deficit(-)/surplus (+)	Primary deficit (-)/surplus (+)
1	2	3	4	5	6(3+4+5)	7 (4/6)	8(2-3)	9(2-6)
2003-04	8216	6508	1881	68	8457	22	(+) 1708	(-) 241
2004-05	8885	7201	2180	66	9447	23	(+) 1684	(-) 562
2005-06	10351	8806	3020	53	11879	25	(+) 1545	(-) 1528
2006-07	11184	8827	2456	44	11327	22	(+) 2357	(-) 143
2007-08	13279	9753	3717	38	13508	28	(+) 3526	(-) 229
2008-09	14307	10469	4964	42	15475	32	(+) 3838	(-) 1168

1.9.3 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.24** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table-1.24 Change in Revenue Receipts and Correction of Deficit*(Per cent of GSDP)*

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)				
a. State's Own Tax Revenue	6.2	8.05	7.65	7.7
b. State's Own Non- tax Revenue	2.2	2.5	3.27	2.4
c. State's Share in Central Taxes and Duties	4.9	5.6	5.70	5.2
d. Grants-in-Aid	25.3	25.6	7.21	25.7
Revenue Expenditure	36.6	38.3	34.70	34.6
Revenue Surplus	1.96	3.42	16.32	6.48
Fiscal Deficit	(-) 6.6	(-) 8.4		(-) 7.89

1.10 Conclusion /Observations

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 2008-09 over the previous year. While the revenue surplus increased and

reached the peak level of Rs. 2,255 crore in the current year, the fiscal and primary deficits have deteriorated over the previous year. The improvement in revenue surplus by Rs. 1,167 crore during 2008-09 was due to marginal increase of 7.72 *per cent* (Rs. 1,025.48 crore) in Revenue receipts and decrease in Revenue expenditure (Rs. 141.84 crore) in comparison to 2007-08. There was marginal increase in non-tax revenue receipts. The State Government did not meet the FRBM targets by the prescribed dead line as a result debt relief could not be availed. Non-conducting of Panchayat elections, the State Government also was denied Rs. 229 crore.

The expenditure pattern of the State reveals that the revenue expenditure exhibited a declining trend during the period 2004-09, but continued to share a dominant proportion in the total expenditure of the State and was around 71 *per cent* during 2008-09. Moreover, within the revenue expenditure, the non-plan revenue expenditure at Rs 11,734 crore constituted about 97 *per cent*. The continued prevalence of fiscal and primary deficits indicates the increasing reliance of the State on borrowed funds. This was coupled with non collection of revenue arrears for the past several years which are compounding day by day. 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.