

## CHAPTER – I: FINANCES OF THE STATE GOVERNMENT

### Profile of Jammu and Kashmir

The State of Jammu and Kashmir is treated as Special Category State<sup>1</sup>. The State shares its borders with two countries China and Pakistan and two States Himachal Pradesh and Punjab. The State accounts for 3.2 *per cent* of the total geographical area and one *per cent* of the total population of the country. However, the contribution to national income is just 0.7 *per cent*. The State income has grown at a lower rate of six *per cent* as compared to national income of 8.2 *per cent* during the last five years. The population growth of the State during 2001-2010 was 13.77 *per cent* and now provides shelter to 1.15 crore population. As per the census of 2001 the percentage of population below poverty line was 5.40 *per cent*. During 2009-10, due to economic slowdown across the country, coupled with implementation of State Pay Commission, the State had shown signs of financial stress. Despite this, the growth rate of GSDP in the State at current price stood at 10.03 *per cent*. The literacy rate stood at 55.52 *per cent* and the infant mortality rate was 49 (per thousand).

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. The Finance Accounts of the State Government are laid out in 19 statements, the structure and the layout of which are depicted in **Appendix 1.1**. This chapter provides a broad perspective of the finances of the Government of Jammu and Kashmir during the current year and analysis 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 this 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 2005-10.

### 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 (2009-10) 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.

---

<sup>1</sup> The Special Category Status gives privileges to State include enhanced financial assistance as compared to other States besides significant excise duty concessions persuading industry to relocate/relocate manufacturing within its territory are also available.

Table 1.1 Summary of Current Year's Fiscal Operations

(₹ in crore)

Receipts			Disbursements				
2008--09		2009-10	2008-09		2009-10		
Section-A: Revenue							
					Non Plan	Plan	Total
14302.51	Revenue receipts	17587.82	12047.45	Revenue expenditure	14770.64	553.25	15323.89
2682.96	Tax revenue	3027.32	5272.40	General services	6439.96	5.28	6445.24
837.16	Non-tax revenue	955.03	3017.69	Social services	3770.72	486.86	4257.58
1826.95	Share of Union Taxes/Duties	1914.76	3757.36	Economic services	4559.96	61.11	4621.07
8955.44	Grants from Government of India	11690.71					
Section-B: Capital							
			4964.23	Capital Outlay	98.60	6135.16	6233.76
-	Miscellaneous Capital Receipts	28.09		Grants-in-aid and Contributions			
3.69	Recoveries of Loans and Advances	1.62	42.41	Loans and Advances disbursed			49.12
2948.36	Public Debt receipts*	2852.36	703.15	Repayment of Public Debt*			731.15
0.16	Contingency Fund	0.11	0.29	Contingency Fund			1.07
36148.59	Public Account receipts	45173.56	35696.45	Public Account disbursements			43300.47
113.77	Opening Cash Balance	63.10	63.10	Closing Cash Balance			67.20
53517.08	<b>Total</b>	65706.66	53517.08	<b>Total</b>			65706.66

\*Excludes net transactions under ways and means advances and overdraft.

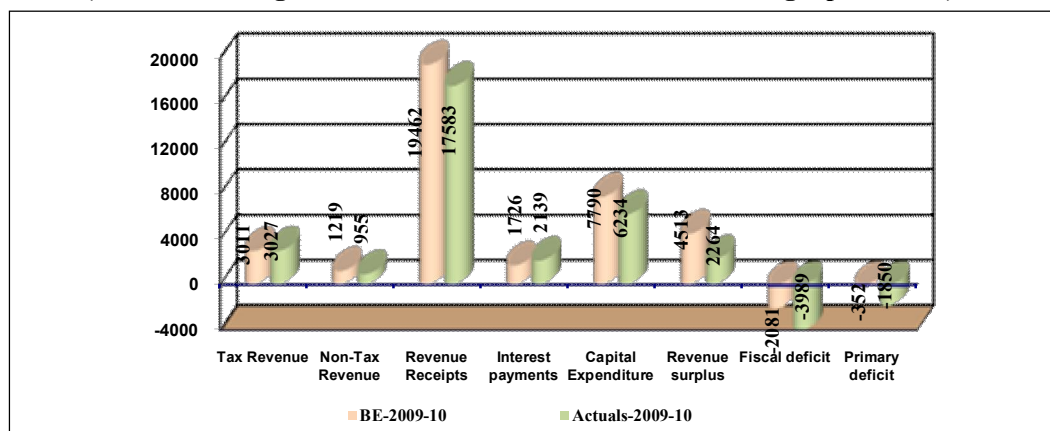
- Revenue receipts grew by around 23 per cent (₹ 3285.31 crore) over the previous year. The growth mainly came from increased grants from Government of India<sup>2</sup> (₹ 2735.27 crore) for being a special category state. Increases in tax revenue (₹ 344.36 crore), non-tax revenue (₹ 117.87 crore) and share of union taxes/duties (₹ 87.81 crore) also contributed to the growth.
- Revenue expenditure increased by ₹ 3276.44 crore (27 per cent) over the previous year. Increases in salary, purchase of power and payment of interest on internal debt and previous adjustments mainly contributed to the increase in revenue expenditure.
- Capital expenditure registered a growth of around 26 per cent (₹ 1269.53 crore) over the previous year mainly due to increase in spending on Transport Sector (₹ 389.30 crore) which accounted for 31 per cent of the growth in capital expenditure.

<sup>2</sup> Grants from GOI accounted for 66 per cent of the total Revenue Receipts in 2009-10

- Public Accounts receipts and disbursements increased by ₹ 9024.97 crore and ₹ 7604.02 crore respectively over the previous year.
- While Public Debt receipts marginally decreased, repayment of Public Debt increased marginally over the previous years.
- Cash balance of the State, as a result of the aforesaid inflow/outflow, increased by ₹ 4.10 crore over the previous year.

As per the Twelfth Finance Commission (TFC), the revenue deficit of the State was to be brought down to zero (2008-09). The State has revenue surplus of ₹ 2263.93 crore during 2009-10.

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



There were huge variations in the revenue surplus, fiscal and primary deficits vis-à-vis their budget estimates. The revenue surplus was less by ₹ 2249 crore than that estimated. The fiscal deficit was ₹ 3989 crore against the estimate of ₹ 2081 crore and primary deficit ₹ 1850 crore, against the estimated ₹ 352 crore (March 2010). Reasons for variations between the budget estimates and actual realization were, however, neither intimated by the Government nor were on record.

The projection made by State Government in its Macro Economic Framework Statement (MEFS)/Medium Term Fiscal Policy Statement (MTFPS)/Fiscal Policy Strategy Statement (FPSS) had mostly not been achieved as indicated in **table 1.2** below:

(Table 1.2)

Indicators	Assessment	Actual
Tax revenue/GSDP (ratio)	12.94	7.90
Power Receipts (₹ in crore)	1002	723
Own Tax revenue	3075	3027
Non-tax revenue (₹ in crore)	1294	955
Revenue Receipts (₹ in crore)	19681	17588
Total receipts (₹ in crore)	22885	17616 <sup>3</sup>

<sup>3</sup> Revenue receipts plus capital receipts

Indicators	Assessment	Actual
Pension/Revenue receipts (ratio)	7.60	8.91
Transfer from centre to revenue receipts (ratio)	68.00	77.35 <sup>4</sup>
States own non tax revenue as <i>per cent</i> of TRR (ratio)	6.57	5.43
Revenue surplus (₹ in crore)	4356	2264
Revenue surplus/Total revenue receipts (ratio)	22.13	12.87
Revenue surplus/GSDP <i>per cent</i> (ratio)	11.37	5.91
Own tax revenue receipts to revenue expenditure (ratio)	20.06	19.75
Interest payment/revenue receipts <i>per cent</i> (ratio)	10.27	12.17
Salary expenditure/revenue receipts (ratio)	56.46	35.97

*As per the recommendation of the Twelfth Finance Commission the Centre and State had to improve the combined tax-GSDP ratio to 17.6 per cent by 2009-10 which stood at 7.9 per cent only at the end of 2009-10. The State had not improved the tax revenue/GSDP ratio. The power receipts fell short of assessment by 28 per cent.*

### **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 and 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 09 August 2006. Though the act had been enacted in August 2006, the rules were framed belatedly. **(Appendix 1.2).**

*The Finance Minister made a mention in his budget speech that as the State Government did not meet the FRBM targets by the prescribed deadline of 31 March 2009, the State was denied a debt relief of ₹ 473 crore recommended under the TFC award. Also, the State had lost ₹ 229 crore due to non-holding of the Panchayati elections.*

## **1.2 Resources of the State**

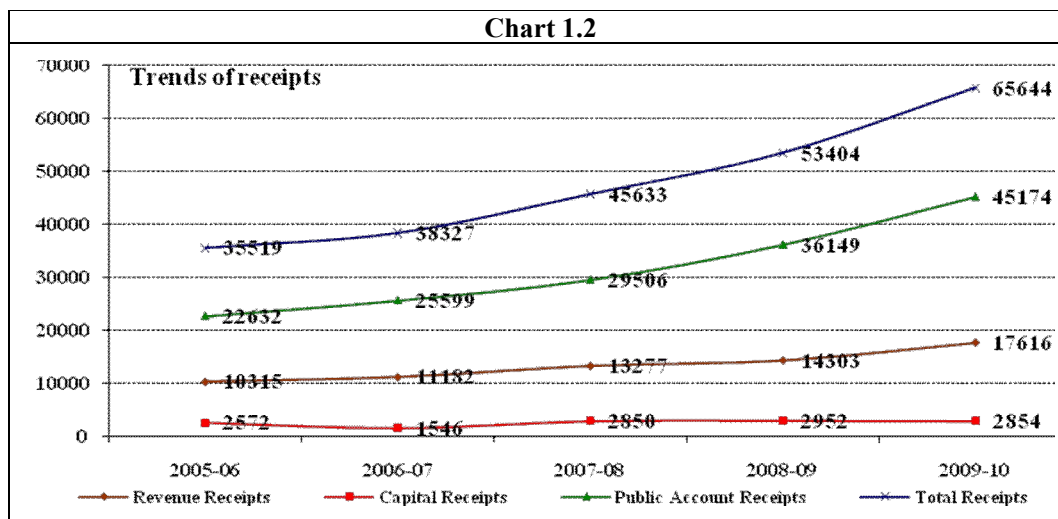
### **1.2.1 Resources of the State as per Annual Finance Accounts**

Revenue and capital are the two streams<sup>5</sup> 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

<sup>4</sup> States share of union taxes and duties plus grants from GOI

<sup>5</sup> Revenue Receipts: These includes own tax revenue, non-tax revenue, States share of union taxes and duties and grants-in-aid from GOI. Capital Receipts: These comprise proceeds from disinvestments recovery of loans and advances, debt receipt from internal resources market loan, borrowings from financial institutions/commercial banks and loans and advances from GOI as well as accrual from public account.

recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2005-10.



The revenue receipts which formed 29 *per cent* of the total receipts at an average during 2005-09 declined to 27 *per cent* during 2009-10. The capital receipts also decreased by one *per cent*, on an average of the total receipts during the above period over the average of last four years, and formed only 4 *per cent* of the total receipts during 2009-10. The public account receipts were 69 *per cent* of the total receipts (2009-10) against the average of 66 *per cent* during 2005-10.

### 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 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**. Funds provided to major programme/schemes out of total ₹ 1395.14 crore during 2009-10 are detailed in **Table 1.3**.

**Table 1.3 Funds Transferred Directly to State Implementing Agencies**

(₹ in crore)

Name of the Programme/scheme	Name of the Implementing Agency in the State	Total Funds released by GOI during	
		2008-09	2009-10
Accelerated Rural Water Supply Programme	SGO Secretary Finance	403.73	289.90
National Rural Health Mission (NRHM)	State Health Department and other agencies	64.69	90.00
Sarva Shiksha Abhiyan	Ujala Society	205.32	373.63
Setting up of 6000 model schools at block level		-	25.82
NREGS	Assistant Commissioners DRDA	105.36	173.24

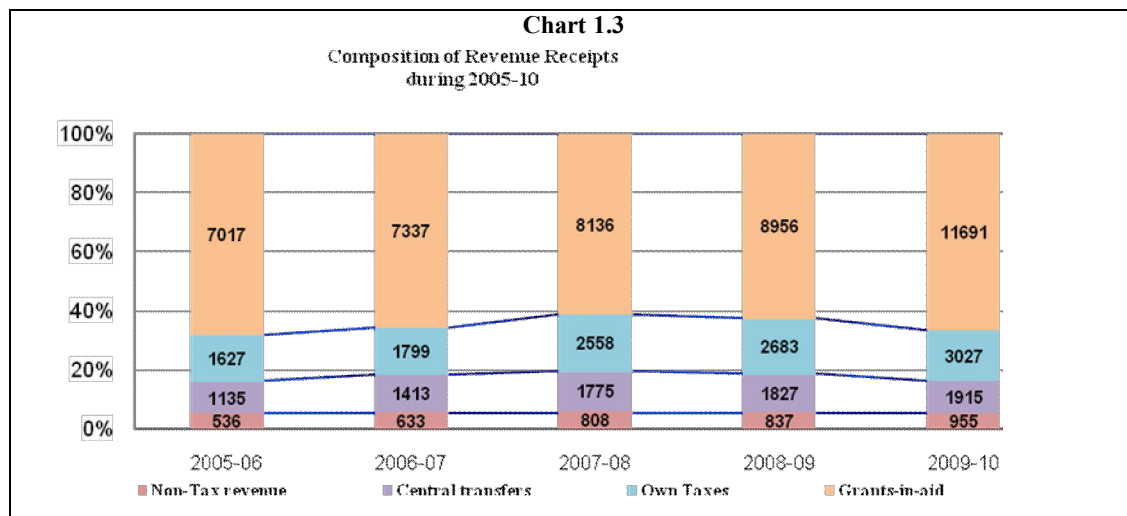
Name of the Programme/scheme	Name of the Implementing Agency in the State	Total Funds released by GOI during	
		2008-09	2009-10
Pradhan Mantri Gram Sadak Yojana (PMGSY)	State Rural Roads Agency	191.36	144.70
Integrated Child Development Programme	State Social Welfare Department	37.92	-
Macro Management of Agriculture Schemes	Agriculture Department	18.30	-
Rural Housing (IAY)	Assistant Commissioners DRDA	71.29	57.25
Local Area Development Schemes (MPLADS)	District Development Commissioners	25.00	17.00
National e-Governance Action Plan	State Department for e Governance	17.28	-
<b>Total</b>		<b>1140.25</b>	<b>1171.54</b>

(Source: CPMS of CGA's website)

₹ 289.90 crore (25 per cent) was given under Accelerated Rural Water Supply Programme, ₹ 90.00 (8 per cent) under NRHM, ₹ 373.63 (32 per cent) under Sarva Shiksha Abhiyan, ₹ 173.24 (15 per cent) under NREGS, ₹ 144.70 (12 per cent) under PMGSY, ₹ 57.25 crore (5 per cent) under Rural Housing, ₹ 25.82 crore (2 per cent) under setting up of schools at block level. These data are 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 2005-10 are presented in **Appendix 1.3** and also depicted in **Chart 1.3**



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 61 and 77 per cent during 2005-10. 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 1.4** below:

**Table 1.4: Trends in Revenue Receipts relative to GSDP**

	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Revenue Receipts (RR) (₹ in crore)</b>	<b>10,315</b>	<b>11,182</b>	<b>13,277</b>	<b>14,303</b>	<b>17588</b>
Rate of growth of RR ( <i>per cent</i> )	16.34	8.41	18.74	7.73	22.97
R R/GSDP ( <i>per cent</i> )	38.87	38.52	41.76	41.09	45.92
<b>Buoyancy Ratios<sup>6</sup></b>					
Revenue Buoyancy w.r.t GSDP	1.75	0.89	1.97	0.82	2.28
State's Own Tax Buoyancy w.r.t GSDP	2.18	1.13	4.43	0.52	1.27
Revenue Buoyancy with reference to State's own taxes	0.80	0.80	0.44	1.58	1.79

Though the Revenue Receipts showed a progressive increase over the period 2005-10 in absolute terms, the growth rate increased from 16.34 *per cent* in 2005-06 to 22.96 *per cent* in 2009-10 due to collection of more taxes on sales, trade, etc vis-a-vis previous years. The buoyancy ratio of own taxes to GSDP increased from 0.52 *per cent* to 1.27 *per cent* during 2009-10 over the previous year.

### 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 2005-06 to 2009-10 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 1.5: Trends of tax revenue and non-tax revenue**

	2005-06	2006-07	2007-08	2008-09	2009-10
Tax revenue	1,626.84	1,798.97	2,558.18	2,682.96	3027.32
Non-tax revenue	535.81	632.53	807.98	837.16	955.03
<b>Total</b>	<b>2,162.65</b>	<b>2,431.50</b>	<b>3,366.16</b>	<b>3,520.12</b>	<b>3982.35</b>

(₹ in crore)

The break-up of tax and non-tax revenue during the period alongwith increase/decrease over 2008-09 (**Tables 1.6 and 1.7**) and reasons for major variations during the current year are mentioned below:

<sup>6</sup> 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*.

**Table 1.6: Trends of tax revenue**

*(₹ in crore)*

Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage increase (+)/ decrease (-) in 2009-10 over 2008-09
Sales tax	1,014.49	1,159.72	1,804.81	1835.99	2145.72 <sup>7</sup>	(+) 17
State excise	218.68	212.80	244.15	238.67	293.78	(+) 23
Stamps and registration fee	46.43	56.92	65.62	57.13	69.51	(+) 22
Taxes and duties on electricity	58.02	59.70	93.49	150.76	120.34	(-) 20
Taxes on vehicles	49.17	63.96	72.60	65.47	83.09	(+) 27
Taxes on goods and passengers	236.27	243.16	264.59	271.39	299.43	(+) 10
Taxes on immovable property other than agricultural land	0.09	0.06	-	-	-	--
Land revenue	3.47	2.57	9.58	63.53	15.41	(-)76
Other taxes and duties on commodities and services	0.22	0.07	3.33	0.01	0.02	-
	<b>1,626.84</b>	<b>1,798.96</b>	<b>2558.17</b>	<b>2682.95</b>	<b>3027.30</b>	

**1.3.3 Reasons for major variations in tax revenue:**

The reasons for variation in receipts for 2009-10 from those of 2008-09 reported by the concerned departments are as under:

**Taxes and Duties on Electricity:** Decrease under taxes and duties on electricity were due to collection of less receipt on account of taxes on consumption and sale of electricity.

**Land Revenue:** The decrease was due to non-crediting of sale proceeds of land under 'Roshini Act'.

**Taxes on Sales / Trades etc:** The increase was due to more receipts under State Sales Tax Act.

**Stamps:** The increase was due to more sale of stamp (judicial and non-judicial).

**Taxes on vehicles:** Increase was mainly due to collection of more receipts under State Motor Vehicle Taxation.

**State Excise:** The increase was mainly due to more sale of country spirits.

**1.3.4 Reasons for major variations in non- tax revenue**

The details of major non-tax revenue raised during the year 2009-10 along with figures for the preceding four years are mentioned in Table below:

<sup>7</sup> Include ₹ 50 crore representing waiver booked a incentive under MH 2040 by credit to MH-0040 by the Department



Table 1.7: Trends of non-tax revenue

(₹ in crore)

Head of revenue	2005-06	2006-07	2007-08	2008-09	Budget estimate	2009-10	Percentage increase (+)/ decrease (-) in 2009-10 over 2008-09
Power	384.31	478.94	600.94	629.98	1022.53	723.64	(-) 15
Interest receipts, dividends and profits	25.05	34.02	65.33	56.51	51.24	54.80	(+)3
Forest and wild life	45.51	18.99	32.20	31.61	39.49	37.46	(-) 19
Public works	12.63	16.16	16.44	16.89	16.17	23.87	(+) 41
Medical and public health	8.83	12.62	13.21	9.92	11.96	9.49	(-) 4
Water supply and sanitation	9.58	10.95	13.64	14.65	23.30	13.16	(-)10
Police	8.01	6.59	4.21	10.35	7.81	12.84	(+) 24
Non-ferrous mining and metallurgical industries	8.54	9.98	16.43	14.86	18.15	25.34	(+) 71
Crop husbandry	4.35	4.31	4.52	5.00	5.21	5.23	(+) 5
Animal husbandry	3.98	4.75	4.66	4.70	4.43	5.13	(+) 9
Others	25.02	35.22	36.40	42.69	18.52	44.07	(+) 3
<b>Grand total:</b>	<b>535.81</b>	<b>632.53</b>	<b>807.98</b>	<b>837.16</b>	<b>1218.81</b>	<b>955.03</b>	

The following were the reasons for variations:

**Interest receipts:** Decrease was mainly due to collection of less revenue on other interests and less credit afforded under irrigation schemes.

**Non-ferrous mining and metallurgical industries:** Increase is mainly due to more receipts on account of mineral concession fee, rent and royalty.

The State Government, in its MEFS/ MTFPS/ FPSS, estimated for 2009-10 non tax revenue of ₹ 1294 crore which stood at ₹ 955 crore at the end of the year.

### 1.3.5 Variation between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2009-10 in respect of the principal heads of tax revenue are mentioned below:

Table 1.8: Budget estimates and actuals during 2009-10

Head of Revenue	Budget estimates	Actuals	Variations excess (+) shortfall (-)	Percentage of variation increase (+)/ decrease (-)
<b>Tax Revenue (₹. in crore)</b>				
Sales tax	2065.70	2145.72	(-) 80.02	(+) 4
State excise	260.00	293.78	(+)33.78	(+) 13
Stamps and registration fee	82.61	69.51	(-)13.10	(-) 16
Taxes on goods and passengers	315.64	299.43	(-)16.21	(-) 5
Taxes and duties on electricity	195.38	120.35	(-)75.03	(-) 38
Taxes on vehicles	83.50	83.10		-

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

2009-10 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 of gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection from 2007-08 to 2009-10 alongwith the relevant all India average percentages for 2008-09 were as follows:

**Table 1.9 : Trends of cost of collection**

(₹ in crore)

Head of Revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage during the preceding year
Sales tax.	2007-08	1804.81	14.52	0.80	0.82
	2008-09	1835.99	15.30	0.83	0.95
	2009-10	2145.73	73.56 <sup>8</sup>	3.43	0.88
State excise	2007-08	244.15	9.88	4.05	3.03
	2008-09	238.67	11.10	4.65	3.34
	2009-10	293.78	12.37	4.21	3.66
Stamp duty and registration fees	2007-08	65.63	13.41	20.43	2.33
	2008-09	57.14	6.04	10.57	3.44
	2009-10	69.51	7.80	11.22	2.77
Taxes on vehicles	2007-08	72.60	3.98	5.48	2.47
	2008-09	65.47	4.73	7.22	2.74
	2009-10	83.10	4.56	5.49	2.93

Percentage of cost of collection of taxes on vehicles, state excise and stamps and registration fee during 2007-10 was higher than All India Average cost of collection for 2008-09.

### **1.3.7 Revenue Arrears**

The arrears of revenue, as on 31 March 2010, in respect of the principal heads of revenue as reported by the departments was ₹ 1211.70 crore of which ₹ 650.52 crore were outstanding for more than five years as mentioned below:-

**Table 1.10**

Sl. No	Heads of revenue	Amount outstanding (₹ in crore)		Remarks
		As on 31 March 2010	for more than five years	
1.	Taxes on Sales/VAT, Trades etc.	1153.66	616.27	Out of the arrears, recovery of ₹ 82.26 crore was stayed by courts/appellate authorities/proposed for recovery as arrears of land revenue
2.	State excise	4.77	4.77	Out of total arrears, recovery of ₹ 0.94 crore was stayed by court and ₹ 2.09 crore was proposed to be recovered by collectors as arrears of land revenue.

<sup>8</sup> Include ₹ 50 crore representing waiver booked a incentive under MH 2040 by credit to MH-0040 by the Department

Sl. No	Heads of revenue	Amount outstanding (₹ in crore)		Remarks
		As on 31 March 2010	for more than five years	
3.	Motor spirit tax	0.75	-	The recovery of ₹ 0.75 crore was stayed by courts/ appellate authorities/ proposed for recovery as arrears of land revenue.
4.	Passenger tax	28.06	18.67	Nil.
5.	Entertainment Tax	0.21	0.21	Nil.
6.	Toll Tax	24.25	10.60	Out of total arrears, ₹ 4.61 crore are proposed to be recovered as arrears of land revenue and ₹ 9.02 crore have been stayed by the Courts. ₹ 0.02 crore are due for recovery for which demand notices have been issued.
	<b>Total</b>	<b>1211.70</b>	<b>650.52</b>	

(Source: Figures supplied by the Department)

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

The details of cases of evasion of tax detected by the departments, cases finalized and demands raised as reported by the department concerned are mentioned below: -

Table 1.11

Department	Number of cases					
	Pending as on 31 March 2009	Detected during 2009-10	Total	in which assessments/ investigation completed and additional demand including penalty etc. raised during 2009-10		Pending as on 31 March 2010
				Cases	(₹ in lakh)	
Commercial Tax Department	277	2357	2634	2424	296.38	210
Passenger Tax	Nil	688	688	688	1.48	Nil
State Excise	1	-	1	-	-	1

The number of pending cases during the current year has declined over the previous year. The progress of recovery of amount demanded after completion of investigation including penalty imposed was not intimated (October 2010).

### 1.3.9 Refund

The number of refund cases pending at the beginning of the year 2009-10, claims received during the year, refunds allowed during the year and cases pending at the close of the year (March 2010), as reported by the concerned departments, are mentioned below:-

Table 1.12: Refunds of sales tax claims

(Amount: ₹ in crore)

Particulars	2005-06		2006-07		2007-08		2008-09		2009-10	
	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	2	0.42	13	0.11	57	3.19	85	3.35	13	13.75
Claims received during the year	14	4.01	55	3.15	47	0.77	19	0.19	NIL	NIL
Refunds made during the year	8	3.03	11	0.07	19	0.61	1	Negligible	3	0.95
Balance outstanding	8	1.40	57	3.19	85	3.35	103	3.54	10	12.80

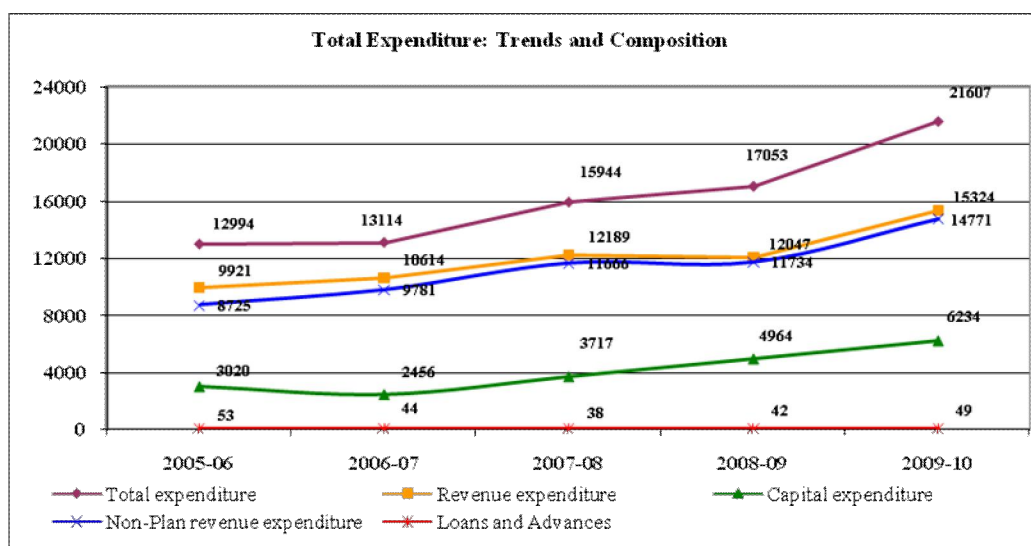
## 1.4 Application of resources

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 1.4** presents the trends in total expenditure over a period of five years (2005-10). The composition of total expenditure, both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.5 and 1.6** respectively.

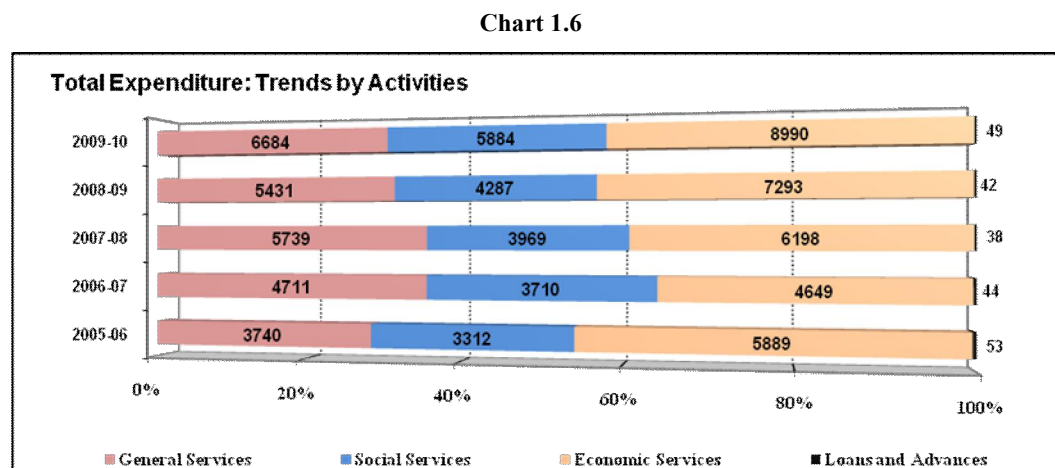
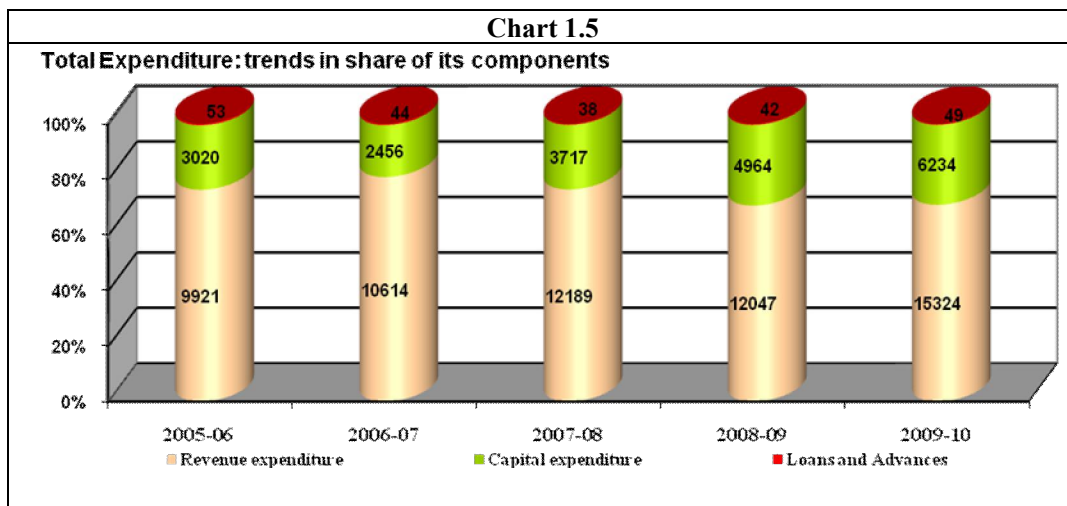
Chart 1.4



As can be seen from the above Chart, the total expenditure of the State increased from ₹ 12,994 crore in 2005-06 to ₹ 21,607 crore in 2009-10 (66 per cent). In relative terms, capital and revenue expenditure components have increased by 106 per cent and 54 per cent, respectively during the period 2005-10. In absolute terms increases were of the order of ₹ 3,214 crore in capital expenditure and ₹ 5,403 crore in revenue account during the period under report. Increase of ₹ 4,554 crore in the total expenditure (27 per cent) during 2009-10 over the previous year has been due to increase of ₹ 1,270 crore in capital expenditure, increase of ₹ 3,277 crore under revenue head, accompanied by a marginal increase of ₹ 7 crore in disbursement of loans and advances. Increase in capital expenditure was mainly under Social Service (₹ 357.36 crore), Economic Services (₹ 832.79 crore). The capital expenditure in Agriculture sector however, decreased over the previous year by 12 per cent in 2009-10.

Out of the total expenditure of ₹ 21,607 crore during 2009-10, ₹ 6,688 crore was spent under plan component and ₹ 14,870 crore under non-plan component. The expenditure

under plan component increased by ₹ 2586 crore (63 per cent) from ₹ 4102 crore in 2005-06 to ₹ 6688 crore in 2009-10. In the non-plan component, there was an increase by ₹ 6031 crore (68 per cent) from ₹ 8839 crore to ₹ 14870 crore during the same period. The expenditure under plan component increased by ₹ 1682 crore (34 per cent) from ₹ 5006 crore in 2008-09 to ₹ 6688 crore in 2009-10, while under non-plan component there was a marginal increase of ₹ 2865 crore (24 per cent) from ₹ 12005 crore in 2008-09 to ₹ 14870 crore in 2009-10.



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 revenue expenditure of the State increased from ₹ 9921 crore in 2005-06 to ₹ 15324 crore in 2009-10 showing an increase of 54 per cent over the period. The non-plan revenue expenditure during the same period increased from ₹ 8725 crore to ₹ 14771 crore, showing an increase of 69 per cent. The share of NPRE in the total revenue expenditure increased from 88 per cent in 2005-06 to 96 per cent in 2009-10. The NPRE of ₹ 14771 crore during 2009-10 was higher than the budget estimates (₹ 14245 crore) of the State Government (by ₹ 526 crore).

The fiscal indicators as projected by the State Government in its MEFS/ MTFPS/ FPSS are tabulated below:

**Table 1.13**

(₹ in crore)

Particulars	Projections	Actuals
Non-plan expenditure	15672	14771
Interest payments	2023	2139
Wages and Salaries	11113	6365
Pension payment	1495	1568

### **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 1.14** present the trends in the expenditure on these components during 2005-10.

**Table-1.14: Components of Committed Expenditure**

(₹ in crore)

Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
Salaries* & Wages , <i>Of which</i>	3724 (36.10)	3995 (35.73)	4426 <sup>9</sup> (33.34)	4820 <sup>10</sup> (33.70)	6365 <sup>11</sup> (36.18)
<i>Salaries Non-Plan Head</i>	2838	3467	4170	4682	6095
<i>Salaries Plan Head</i>	886	528	256	138	233
Interest Payments	1115 (10.81)	1787 (15.98)	2436 (18.35)	1578 (11.03)	2139 (14)
Pensions	929 (9.01)	1021 (9.13)	1193 (8.99)	1269.40 (8.89)	1568 (8.91)
Subsidy			17.63	28.68	35.60

Expenditure on salary and wages increased by 32 *per cent* over the previous year, however, increase of revenue receipt was 23 percent only. Likewise, there was 24 *per cent* increase in non-plan expenditure, whereas expenditure under plan heads increased by 34 *per cent*. There was also increase in interest payment as compared to the previous year. The figures of subsidy allowed by State Government during 2004-07 were not made available by the State Government. However this data was maintained by the office of the Principal Accountant General from 2007-08. The subsidy also increased by 24 *per cent* during 2009-10 over the previous year.

*As per the recommendations of the TFC, interest payment relative to revenue receipts was to be brought down to 15 per cent. However, it stood at 12 per cent at the end of 31 March 2010. The Commission also recommended for the ratio of salary expenditure to revenue expenditure not to exceed 36 per cent which, however, stood at 41 per cent during 2009-10.*

<sup>9</sup> Salary: ₹ 4400 crore; Wages: ₹ 26 crore.

<sup>10</sup> Salary: ₹ 4772 crore, Wages: ₹ 48 crore

<sup>11</sup> Salary: ₹ 6328 crore, Wages: ₹ 37 crore

### 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 1.15: Financial Assistance to Local Bodies etc**

(₹ in crore)

Name of the Department	2005-06	2006-07	2007-08	2008-09	2009-10
Education and sports	78.24	88.01	116.45	113.93	521.66
Housing and Urban Development	118.30	135.49	146.05	170.82	217.01
Agriculture	51.04	72.90	60.72	80.60	138.63
Art and culture	5.44	7.32	7.93	9.43	-
General Administration	3.50	2.95	4.66	4.20	11.14
Industries	4.00	5.25	7.05	7.04	25.53
Tourism	3.43	5.06	5.24	15.06	71.17
Administration of Justice	1.91	1.63	2.26	3.30	3.32
Health and Family welfare	0.48	0.44	0.64	* <sup>12</sup>	0.47
Others	7.35	11.83	9.86	146.02	442.27 <sup>13</sup>
<b>Total</b>	<b>273.69</b>	<b>330.88</b>	<b>360.86</b>	<b>550.40</b>	<b>1431.20</b>
<i>Assistance as a percentage of Revenue expenditure</i>	<i>2.76</i>	<i>3.12</i>	<i>2.96</i>	<i>4.57</i>	<i>9.34</i>

The total assistance of ₹ 1431.20 crore paid in 2009-10 increased by 423 *per cent* over the level of 2005-06, and by 160 *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 61 *per cent* of the financial assistance during 2009-10 was given by the State Government for Education and sports, Housing and Urban Development and Agriculture sectors.

## 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 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.

<sup>12</sup> Negligible

<sup>13</sup> This includes ₹ 387.92 crore disbursed to Ladakh Autonomous Hill Development Council, Leh (₹ 193.31 crore and Ladakh Autonomous Hill Development Council, Kargil (₹ 194.61 crore).

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 1.16: Fiscal Priorities and Fiscal capacity of the State during 2009-10**

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
<b>J&amp;K's Average (Ratio) 2005-06</b>	<b>57.06</b>	<b>71.22</b>	<b>25.49</b>	<b>23.24</b>	<b>9.11</b>	<b>4.42</b>
<b>J&amp;K Average (Ratio) 2009-10</b>	<b>56.42</b>	<b>69.07</b>	<b>27.22</b>	<b>28.85</b>	<b>11.03</b>	<b>5.20</b>

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure  
CE Capital Expenditure  
Population of J&K: 1.08 crore in 2005-06 and 1.16 crore in 2009-10  
# Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed.  
Source: (1) For GSDP, the information was collected from States's Directorate of Economics

In **Table 1.15**, we are comparing the fiscal priority given to different categories of expenditure and fiscal capacity of J&K for 2005-06 (the commencement of Twelfth Finance Commission) and 2009-10 (the end of Twelfth Finance Commission). Following points emerge from the table:

- The ratio of aggregate expenditure to GSDP decreased by one *per cent* in 2009-10 over 2005-06. Similarly development expenditure also decreased by two *per cent* which indicated that expenditure on general services has increased during the TFC period.
- It was encouraging to note that expenditure on social sector, overall capital expenditure and expenditure on education and health sectors had increased indicating that attention was paid by the Government for infrastructure building as well as key social sector areas.

### **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 goods<sup>14</sup>. Apart from improving the allocation towards development expenditure<sup>15</sup>, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of

<sup>14</sup> 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.

<sup>15</sup> 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.

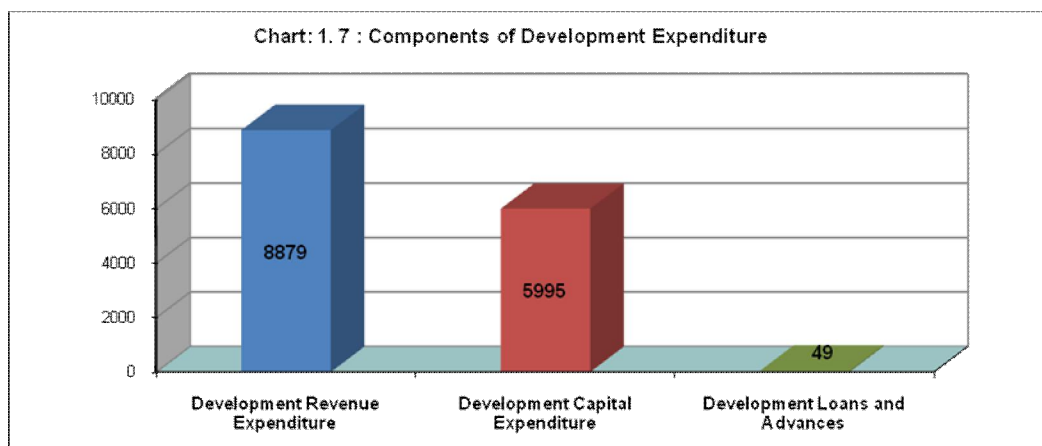


expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.17** 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 1.17** and **Chart 1.7** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

**Table-1.17: Development Expenditure**(*₹ in crore*)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
<b>Development Expenditure</b>						
a. Development Revenue Expenditure	6239 (48)	5960 (45)	6565 (41)	6775 (40)	18955	8879 (41)
b. Development Capital Expenditure	2962 (23)	2399 (18)	3602 (23)	4805 (28)	8524	5995 (28)
c. Development Loans and Advances	53 (*)	44 (*)	38 (*)	42 (*)	65 (*)	49 (*)

*Figures in parentheses indicate percentage to aggregate expenditure \* negligible*



The aggregate of development expenditure under both Revenue and Capital heads varied between 63 and 73 *per cent* during the above period. In absolute terms, it increased from ₹ 11580 crore in 2008-09 to ₹ 14874 crore in 2009-10 registering an increase of ₹ 3294 crore (28 *per cent*). The reasons for huge variations of Development Revenue Expenditure (DRE) with budget estimates was not intimated by the State Government.

**Table 1.18 –Efficiency of Expenditure Use in Selected Social and Economic Services**

(In per cent)

Social/Economic Infrastructure	2008-09			2009-10		
	Ratio of 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
<b>Social Services (SS)</b>						
General Education	13.94	84.74	0.05	12.06	79.55	-
Health and Family Welfare	20.31	77.36	1.17	25.81	81.40	0.24
WS, Sanitation & HUD	50.27	48.60	4.64	50.18	50.50	1.96
Others	39.32	17.06	0.08	32.29	12.70	0.30
<b>Total</b>	<b>29.59</b>	<b>68.04</b>	<b>1.30</b>	<b>27.64</b>	<b>65.85</b>	<b>0.45</b>
<b>Economic Services (ES)</b>						
Agriculture and Allied Activities	33.95	79.51	0.42	27.50	79.00	0.78
Irrigation and Flood Control	56.31	69.74	7.61	61.13	75.52	0.30
Power and Energy	35.53	10.80	1.84	27.31	10.70	0.06
Transport	95.12	2.91	90.24	96.56	2.30	2.32
Others	54.92	44.37	1.28	64.22	51.01	1.68
<b>Total (ES)</b>	<b>48.48</b>	<b>32.90</b>	<b>2.94</b>	<b>48.60</b>	<b>32.95</b>	<b>0.48</b>
<b>Total (SS+ES)</b>	<b>41.49</b>	<b>48.55</b>	<b>2.21</b>	<b>40.31</b>	<b>43.92</b>	<b>0.46</b>
<i>TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&amp;W: Salaries and Wages; O&amp;M: Operation and Maintenance</i>						

The ratio of capital expenditure to total expenditure in Social and Economic Service Sectors during 2009-10 showed a decrease over the previous year. In the revenue expenditure the salary and wages formed the major component within the Social and Economic Services. From the revenue expenditure incurred on Social and Economic Sectors, the share of salary and wage component during the year 2009-10 registered decrease of 4.63 per cent over the previous year, there was also a decrease of 1.75 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. Four reviews under Social and Economic services were taken up and figured in the separate Report of the Comptroller and Auditor General of India ended 31 March 2010:

## 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 a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-a-vis previous years.

### 1.6.1 Financial Results of Irrigation Works

The total capital outlay on six irrigation projects<sup>16</sup> as on 2009-10 was ₹ 215.54 crore. Financial results of these projects for the year 2009-10 showed that against the revenue realisation of ₹ 53.46 lakh (forming only 0.24 per cent of the total capital outlay), working expenses aggregated ₹ 65.55 lakh resulting in loss of ₹ 12.09 lakh. After taking into account further expenditure of ₹ 55.51 lakh, paid as interest on the capital outlay, the total loss aggregated ₹ 67.60 lakh.

### 1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31<sup>st</sup> March 2010 is given in **Table 1.19**

**Table 1.19: Department-wise Profile of Incomplete Projects**

(₹ in lakh)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Over Runs	Cum. Actual expenditure as on 31.3.2010
Public works	6	1045.97	2062.55	672.35	1718.32
Power Development	8	9806.63	10294.00	1824.55	11631.18
<b>Total</b>	<b>14</b>	<b>10852.60</b>	<b>12356.55</b>	<b>2496.90</b>	<b>13349.50</b>

Thus it is clear from above that 14 projects could not be completed despite cost overrun of ₹ 123.57 crore.

(a) Chapter 5.7 of the Jammu and Kashmir Book of financial powers stipulate that no work should be taken up for execution in anticipation of accord of the Administrative Approval and Technical Sanction by a competent authority.

Records, however, showed that 4215<sup>17</sup> works estimated to cost of ₹ 4298.73 crore had been taken up by the works executing departments in anticipation of accord of Administrative Approval and Technical Sanction by the competent authority as tabulated 1.20 below:

**Table 1.20**

(₹ in crore)

Department	No. of works	Estimated cost	Expenditure
Power Development	61	120.29	347.63
R&B	3639	1556.68	4081.78
Irrigation	515	2039.13	419.53
PHE	NA	582.61	386.99
<b>Total</b>	<b>4215</b>	<b>4298.71</b>	<b>5235.93</b>

This had resulted in irregular expenditure of ₹ 5235.95 crore incurred thereon from May 2005 to March 2010.

<sup>16</sup> Kathua Feeder, Pratap Canal, Ranbir Canal, Martand Canal, Zaingir Canal and Ahizi Canal.

<sup>17</sup> Power Development Department: 61 works

### 1.6.3 Investment and returns

As of 31 March 2010, Government had invested ₹ 422.82 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (Table 1.21). The average return on this investment was 8.38 *per cent* while the Government paid an average interest rate of 8.89 *per cent* on its borrowings.

**Table-1.21: Return on Investment**

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	353.27	355.77	356.97	364.61	422.82
Return (₹ in crore)	20.62	21.22	30.24	40.85	44.16
Return ( <i>per cent</i> )	5.84	5.96	8.47	11.20	10.44
Average rate of interest on Government borrowing ( <i>per cent</i> )	7.19	10.09	12.19	6.91	8.07
Difference between interest rate and return ( <i>per cent</i> )	1.35	4.13	3.72	(-) 4.29	2.37

As on 31 March 2010, the State Government had invested ₹ 422.82 crore in its Statutory Corporations (₹ 181.91 crore), Government Companies (₹ 211.49 crore), Joint Stock Companies (₹ 0.34 crore) and Cooperative Societies (₹ 22.62 crore), others (₹ 6.46 crore). Return on the investment made in these PSUs ranged between ₹ 20.62 crore and ₹ 44.16 crore during 2005-10. The return on investment amounted to ₹ 44.16 crore which accrued to the State Government during 2009-10 was from the Jammu and Kashmir Bank Limited (₹ 43.56 crore), and ₹ 60 lakh from the Jammu and Kashmir Cements Limited. The average return of interest on Government borrowings during 2005-09 was nine *per cent* which was reduced to eight *per cent* in 2009-10.

As on 31 March 2010 there were 20 Government companies (17 working and three<sup>18</sup> non-working<sup>19</sup> companies) and three Statutory corporations (all working) under the control of the State Government. The total capital investment made by the State Government in the working PSUs at the end of March 2010 was ₹ 390.83 crore. Besides, the loan of ₹ 6152.84 crore was also outstanding against the companies/corporations. Out of 17 working companies, only one company (J&K bank) had finalised its accounts for 2009-10. During the year 2009-10 out of 20 working PSUs, four PSUs earned profit of ₹ 514.89 crore and 14 PSUs incurred loss of ₹ 158.86 crore. One working PSU (Jammu and Kashmir Cable Car Corporation Limited) had not prepared the Profit and Loss Account while one PSU (Jammu & Kashmir State Forest Corporation) had not submitted its accounts since 1996-97 when its audit was entrusted to CAG. The major contributors to profit were Jammu and Kashmir Bank Limited. (₹ 512.38 crore) and Jammu and Kashmir cements Ltd. (₹ 1.53 crore). The heavy losses were incurred by Jammu and Kashmir State Road Transport Corporation (₹ 54.67 crore), Jammu and Kashmir Power Development

<sup>18</sup> 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.

<sup>19</sup> Non-working company is one which is under the process of liquidation/merger, etc.

Corporation Limited (₹ 39.05 crore), and Jammu and Kashmir Industries Limited (₹ 36.23 crore). The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2010.

Table 1.22

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Number of Working PSUs	20	20	20	20	20
Number of accounts finalised during the year	11	12	12	15	10
Number of accounts in arrears	203	211	219	224	234
Average arrears per PSU (3/1)	10.15	10.55	10.95	11.20	11.70
Number of Working PSUs with arrears in accounts	19	19	19	19	19
Extent of arrears	1 to 18	2 to 19	3 to 19	4 to 19	5 to 20

Evidently, most of the working PSUs had failed to finalise even one account in each year causing accumulation of the arrears. The main reasons for non-finalisation of the accounts by the PSUs noticed during audit were non-constitution of the Boards, non-holding of regular Board meetings, delay in finalization of accounts by the Statutory Auditors and lack of trained staff. In addition to above, there were also the arrears in finalisation of accounts by non-working PSUs. Out of three non-working PSUs (all companies), two PSUs had gone into liquidation process. The remaining one non-working PSU had arrear of accounts for 20 years. The matter was referred to Chief Secretary/Administrative Departments but the position remained the same.

No instructions/corrective measures were directed/issued by the Government to make the non-performing companies profitable (September 2010).

#### 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 1.23 presents the position of loans and advances advanced/outstanding as on 31 March 2010, interest receipts vis-a-vis interest payments during the last three years.

Table 1.23 Average Interest Received on Loans Advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10
Opening Balance	943.82	980.20	1018.92
Amount advanced during the year	38.27	42.41	49.12
Amount repaid during the year	1.89	3.69	1.62
<b>Closing Balance</b>	<b>980.20</b>	<b>1018.92</b>	<b>1066.42</b>
<i>Of which</i> Outstanding balance for which terms and conditions have been settled			
Net addition	36.38	38.72	47.50
Interest Receipts	1.44	9.92	5.07
Interest receipts as <i>per cent</i> to outstanding Loans and advances	0.15	0.97	0.47
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	12.19	6.91	8.07
Difference between interest payments and interest receipts ( <i>per cent</i> )	12.04	5.94	7.60

During the current year, the State Government advanced loans and advances of ₹ 49.12 crore under Social Services (₹ 20.85 crore), Economic Services (₹ 27.03 crore) and to Government servants (₹ 1.24 crore). The recipients under Economic Services were the Jammu and Kashmir Industries Limited-a State Government Company (₹ 13.31 crore) and the J&K State Road Transport Corporation (₹ 13.72 crore).

Total loans and advances outstanding as on 31 March 2010 stood at ₹ 1,066.42 crore, which included ₹ 964.28 crore on account of Economic Services, ₹ 81.83 crore on Social Services and ₹ 20.30 crore outstanding against the Government servants etc. within Economic Services, Major part of the loan was outstanding against J&K State Horticulture Produce Marketing and Processing Corporation Limited (₹ 12.67 crore), Bhagliar Power Project (₹ 85.05 crore), Village Industries (₹ 25.58 crore), J&K Industries Limited (Rs. 300.96 crore) and J&K State Road Transport Corporation (₹ 320.48 crore). Against the recovery of ₹ 3.69 crore during 2009-10, the recoveries effected during 2009-10 were ₹ 1.62 crore which was made mostly out of loans paid to Government servants (₹ 1.23 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 the Government of Jammu and Kashmir. The Jammu and Kashmir Government obtains temporary loan from Jammu and Kashmir Bank for its ways and means requirements. The State Government raised temporary loan from the Bank for all the 365 days during the year. The maximum temporary loan obtained was ₹ 2974.33 crore as of 31 March 2010. The total temporary loans raised during the year amounted to ₹ 3517.55 crore. A balance of ₹ 2290.25 crore was also outstanding as on 1<sup>st</sup> April 2009. Government repaid ₹ 2842.74 crore during the year leaving a balance of ₹ 2965.06<sup>20</sup> crore as of 31 March 2010. During the year 2009-10, ₹ 234.15 crore was paid as interest by the Government.

The cash balances of the State Government decreased by ₹ 4.10 crore during 2009-10 as compared to the previous year. Details of ₹ 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 eleven years.

---

<sup>20</sup> 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 2010 compared with the corresponding position on 31 March 2009. 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 15 per cent and 19 per cent respectively. The liabilities of the State Government depicted in the Finance Accounts, however, do not include future liabilities on account of pension and other retirement benefits payable to retired State employees, guarantees/letters of comforts issued by the State Government. The projection made by State Government in its Macro Economic Framework Statement (MEFS)/Medium Term Fiscal Policy Statement (MTFPS)/Fiscal Policy Strategy Statement (FPSS) are tabulated below:

**Table 1.24**

(₹ in crore)

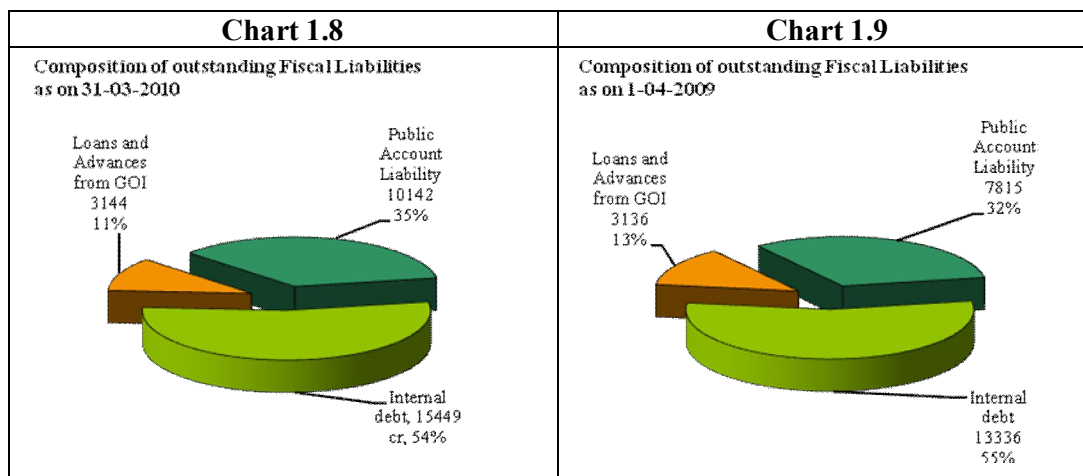
Particulars	Projections	Actual
Total liabilities/GSDP ratio	49.80	75.03
Total liabilities/TRR	103.19	163.37
Total liabilities/State own receipts	22.91	721.62

(TRR: Total Revenue Receipts)

The reasons of variations were not on record.

### 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 1.8** and **1.9**.



The overall fiscal liabilities of the State increased from ₹ 24287 crore in 2008-09 to ₹ 28735 crore in 2009-10. The fiscal liability GSDP ratio of the State was however 75 per cent at the end of 31 March 2010.

The growth rate of fiscal liabilities was 18.31 per cent during 2009-10 over the previous year. The ratio of fiscal liabilities to GSDP also increased from 69.78 per cent in 2004-05 to 75.03 per cent in 2009-10. The buoyancy of these liabilities with respect to GSDP during the year was 1.82 indicating that for each one per cent increase in GSDP, fiscal liabilities grew by 18.32 times. These liabilities stood at 1.63 times of the State's revenue receipts and 13.85 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 1.25**.

**Table-1.25: Guarantees given by the Government of –Jammu and Kashmir State**

Guarantees	2007-08	2008-09	2009-10
Max amount guaranteed (₹ in crore)	3308	3295	4748
Outstanding amount of guarantees (₹ in crore)	2807	2536	3037
Percentage of maximum amount guaranteed to total revenue receipts	24.92	23.04	26.99

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 2009-10 to guarantee redemption fund. It was, however, noticed that Government has guaranteed loans raised by various Corporations and others, which at the end of 2009-10 stood at ₹ 3,037 crore (including interest), indicating decrease by about 10 per cent over the level of previous year. The outstanding amount of guarantees was about 17 per cent of revenue receipts of the State. As per TFC the states were to set up guarantee redemption fund through earmarked guarantee fee. It



was observed that no guarantee fee was received during 2009-10. However, guarantee redemption fund stood at ₹ 420 crore.

### 1.8 Debt Sustainability

The Debt sustainability is 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. Therefore rise in fiscal deficit should match with the increase in capacity to service the debt.

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.

The sustainability of debt of the Jammu and Kashmir State Government in terms of debt stabilization, sufficiency of non-debt receipts<sup>21</sup>, net availability of borrowed funds<sup>22</sup>, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.26** analyzes the debt sustainability of the State according to these indicators for the period of five years beginning from 2005-06.

**Table 1.26: Debt Sustainability: Indicators and Trends**

(₹ in crore)

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	(-) 1220	(-) 261	(-) 726	(-) 621	(-) 2413
Sufficiency of Non-debt Receipts (Resource Gap) ₹ in crore	1466	833	2095	1027	3285
Net Availability of Borrowed Funds	1487	16	329	1343	2310
Burden of Interest Payments (IP/RR Ratio)	0.108	0.160	0.183	0.110	0.121

As is clear from above, the debt stabilisation of the State was negative due to negative trend of fiscal and primary deficit during 2005-10. The resource gap also increased

<sup>21</sup> 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.

<sup>22</sup> 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.

from ₹ 1027 crore to ₹ 3285 crore in 2009-10. The Debt GSDP ratio during 2009-10 was 75.02 while as it was 69.78 during 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.

**1.9.1 Trends in Deficits**

Charts 1.10 and 1.11 present the trends in deficit indicators over the period 2005-10.

**Chart 1.10**

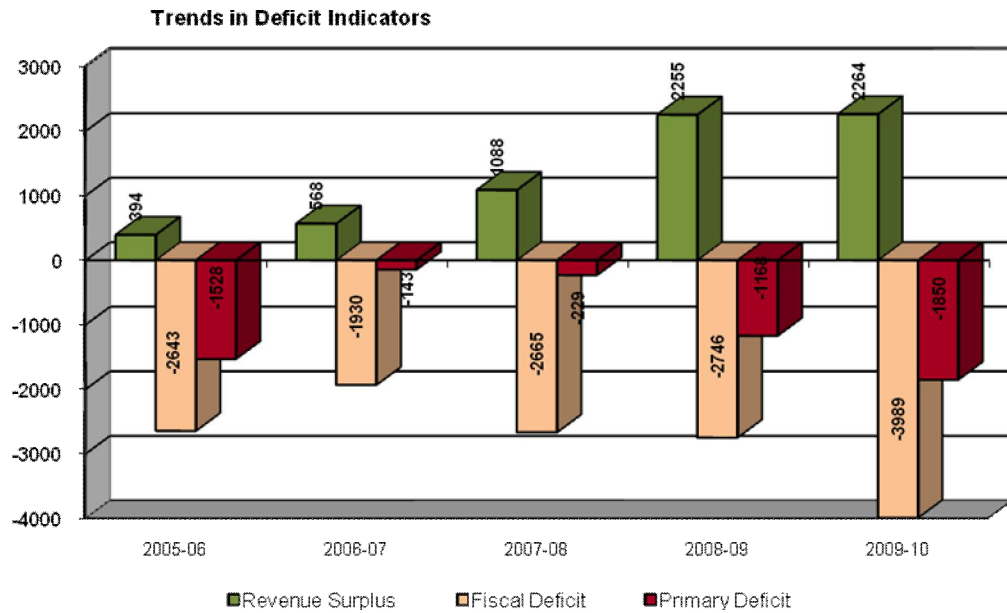
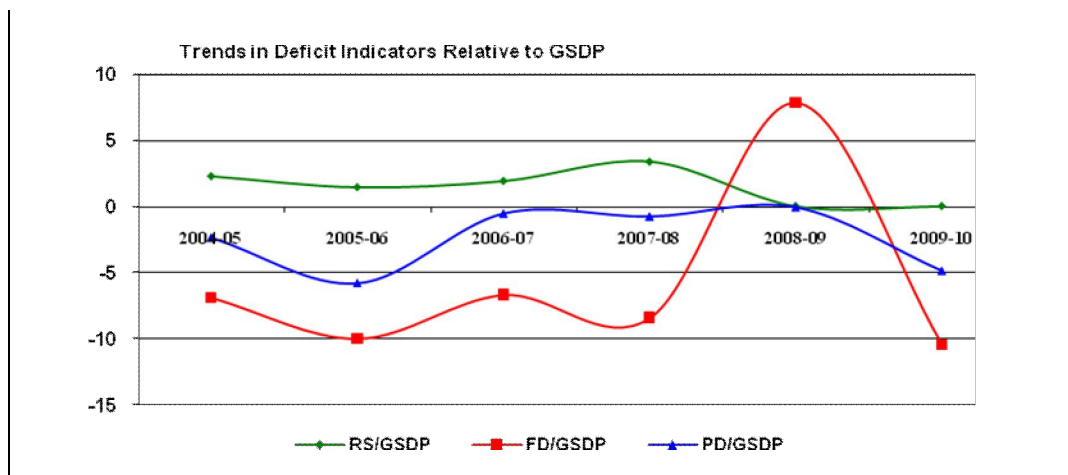


Chart 1.11



The Charts above reveal that the revenue account experienced surplus over the period 2004-10. The revenue surplus of ₹ 2264 crore during 2009-10 was higher by ₹ 9 crore as compared to revenue surplus of ₹ 2255 crore during 2008-09. An increase of 23 per cent (₹ 3285 crore) in revenue receipts during 2009-10 and increase of ₹ 2735 crore (31 per cent) in grant in aid from GOI resulted in an increase in revenue surplus during the current year.

Despite a cushion of ₹ 9 crore available in the form of increment in revenue surplus, net increase of ₹ 1276 crore in capital expenditure/loans and advances during 2009-10 over the previous year led to an increase of ₹ 1243 crore in fiscal deficit during the current year. The increase in fiscal deficit accompanied by a increase of ₹ 561 crore in interest payments during 2009-10 over the previous year led to the increase of ₹ 682 crore in primary deficit in 2009-10 from ₹ 1168 crore during 2009-10.

*As per TFC Fiscal deficit to GSDP targets for the Centre and States to be fixed at 3 per cent. The State had a revenue surplus however the ratio of fiscal deficit to GSDP stood at 10.41 per cent at the end of 2009-10.*

### 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 1.27**.

**Table 1.27: Components of Fiscal Deficit and its Financing Pattern**

(₹ in crore)

Particulars		2005-06	2006-07	2007-08	2008-09	2009-10
<b>Decomposition of Fiscal Deficit</b>						
1	Revenue Surplus	394	568	1088	2255	2264
2	Capital Expenditure	3020	2456	3717	4964	6234
3	Loans and Advances	55	44	38	42	49
<b>Financing Pattern of Fiscal Deficit*</b>						
1	Market Borrowings	1428	1264	2198	2372	2113
2	Loans from GOI	(-) 118	(-) 124	(-) 122	(-) 127	(+)805
3	Special Securities Issued to NSSF	-	--	-	-	
4	Loans from Financial Institutions	-	--	-	--	
5	Small Savings, PF etc	412	426	341	458	693
6	Deposits and Advances	828	84	216	206	1544
7	Suspense and Miscellaneous	(-) 58	(-) 53	(-) 204	158	(-)162
8	Remittances	101	205	112	(-) 381	(-)292
9	Reserve funds	52	152	130	11	90
10.	Net amount recouped to contingency fund	0.01	0.30	-	-	-
11.	Increase/decrease in cash balance	(-) 2	(-) 24	(-) 6	51	4
Figures in brackets indicate the <i>per cent</i> to GSDP. *All these figures are net of disbursements/outflows during the year						

The revenue surplus increased by ₹ nine crore in 2009-10 over the previous year. There was increase in capital expenditure of ₹ 1270 crore over the 2008-09. 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 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 2005-10 reveals (Table-1.28) 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 2009-10. 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 1.28: Primary deficit/Surplus – Bifurcation of factors**

(₹ in crore)

Year	Non-debt receipts	Primary revenue Exp	Capital Exp	Loans and Advances	Primary Exp	Percentage Capital Exp/ Primary Exp.	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)
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
2009-10	17618	13185	6234	49	19468	32	(+)4433	(-)1850

- The non debt receipts of the State was higher than the PRE which was sufficient to meet this expenditure.
- Total primary expenditure increased by ₹ 7589 crore from ₹ 11879 crore to ₹ 19468 crore during the period 2005-10 which was due to increase of primary revenue expenditure of ₹ 4379 crore from and capital expenditure of ₹ 3214 during the period during the TFC period.
- During the period 2005-10 the State had revenue surplus which increased from ₹ 1545 crore in 2005-06 to ₹ 1850 crore in 2009-10. However, the primary deficit increased from ₹ 1528 crore in 2005-06 to ₹ 1850 crore in 2009-10. The increase was manly due to huge payment of interests which increased from ₹ 1115 crore in 2005-06 to ₹ 1850 crore in 2009-10.

The projection made by State Government in its Macro Economic Framework Statement (MEFS)/Medium Term Fiscal Policy Statement (MTFPS)/Fiscal Policy Strategy Statement (FPSS) which mostly could not be achieved as indicated in the table below:

(Table 1.29)

Particulars	Projections	Actuals
Fiscal deficit	2090	3989
Primary deficit	67	1850
Fiscal deficit/GSDP	5.4 revised to 4	10.42

### 1.10 Conclusion and Recommendations

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 2009-10 over the previous years. While the revenue surplus increased and reached the peak level of ₹ 2264 crore in the current year, the fiscal and primary deficits have deteriorated over the previous year.

#### Receipts and Expenditure.

The expenditure pattern of the State reveals that the revenue expenditure 2005-10 continued to share a dominant proportion in the total expenditure of the State and was around 71 per cent during 2009-10. Moreover, within the revenue expenditure, the

non-plan revenue expenditure at ₹ 14771 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 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.

*To improve the position of these three parameters the State Government should mobilise additional resources both through tax and non-tax sources by expanding the tax base and rationalising the user charges. It should also make efforts to collect revenue arrears. Efforts should also be made to increase tax compliance, reduce tax collection costs, etc. so that deficits are contained. Ensure that the Government of India releases all grants due to the State by taking timely action on all conditionalities that are pre-requisite to the release. There is urgent need to improve collection of tax revenue so that departure to borrowed funds can be reduced. Though expenditure incurred under capital head had been increasing over the years, yet the State needs to ensure that targets fixed are achieved. The State should initiate action to restrict the components of non-plan revenue expenditure by phasing out implicit subsidies and resort to need based borrowings to cut down interest and principal payments.*

### **Fiscal correction path**

The State had attached low fiscal priorities towards development expenditure as the ratio of development expenditure/aggregate expenditure had decreased in 2009-10 as compared to 2005-06.

*The decrease in the ratio of development expenditure to aggregate expenditure indicates that State attaches low fiscal priority towards its development. From the point of view of development it is pertinent that Government should take appropriate expenditure measures and lay emphasis on provision of more expending under social and economic sectors.*

### **Fiscal liabilities**

The growth rate of fiscal liabilities was 18.31 per cent during 2009-10 over the previous year. The ratio of fiscal liabilities to GSDP also increased from 69.78 per cent in 2004-05 to 75.03 per cent in 2009-10.

*Recourse to borrowed funds should be carefully assessed and managed so that the recommendations of the 13<sup>th</sup> Finance Commission to bring Fiscal Liabilities-GSDP ratio to around 25 percent could be achieved in next five years.*

### **Investment and Returns**

The average rate of return on investment was 7.44 per cent while the Government paid an average interest rate of 10.44 per cent on its borrowings.

*A performance based system of accountability should be put in place in the Government Companies/statutory corporations so as to derive profitability and improve efficiency in service. The Government should ensure better value for money in investments by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns and justify the use of high cost borrowed funds for non revenue generating investments through clear and transparent guidelines.*

**Debt sustainability**

The debt sustainability of the State was dismal. The resource gap also increased during 2009-10.

*The State should make efforts to reduce primary and fiscal deficit.*