CHAPTER – I: FINANCES OF THE STATE GOVERNMENT

Profile of Jammu and Kashmir

The State of Jammu and Kashmir is treated as a Special Category State[1]. The State shares its borders with two countries China and Pakistan and two States Himachal Pradesh and Punjab. The growth rate of GSDP in the State during 2010-11 at current price stood at 10.35 *per cent.*

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**. **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 2006-11.

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 (2010-11) 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.

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1 The special category states have some distinct characteristics. They have international boundaries, hilly terrains and have distinctly different socio-economic developmental parameters. These states have also geographical disadvantages in their effort for infrastructural development. Public expenditure plays a significant role in the Gross State Domestic Product of the states. In view of the above problems, central government sanctions 90 *per cent* in the form of grants in plan assistance to the states in special category unlike non-special category states which get Central aid in the ratio of 70 *per cent* grant and 30 *per cent* loan.

Table 1.1 Summary of Current Year's Fiscal Operations

(₹ in crore)

Receipts			Disbursements				
2009-10		**2010-11**	**2009-10**		**2010-11**		
Section-A: Revenue							
					Non Plan	**Plan**	**Total**
17587.82	**Revenue receipts**	**22233.65**	**15323.89**	**Revenue expenditure**	**17557.92**	**908.90**	**18466.82**
3027.32	Tax revenue	3482.58	6445.24	General services	7766.82	10.58	**7777.40**
955.03	Non-tax revenue	1093.11	4257.58	Social services	4394.19	819.74	**5213.93**
1914.76	Share of Union Taxes/Duties	3066.98	4621.07	Economic services	5396.91	78.58	**5475.49**
11690.71	Grants from Government of India	14590.98					
Section-B: Capital							
			6233.76	Capital Outlay	333.42	5730.11	**6063.53**
28.09	Miscellaneous Capital Receipts	-		Grants-in-aid and Contributions			
1.62	Recoveries of Loans and Advances	1.50	49.12	Loans and Advances disbursed			**71.63**
2852.36	Public Debt receipts*	5206.21	731.15	Repayment of Public Debt*			**3931.98**
0.11	Contingency Fund	0.26	1.07	Contingency Fund			**0.16**
45173.56	Public Account receipts	55860.32	43300.47	Public Account disbursements			**54735.07**
63.10	Opening Cash Balance	67.20	67.20	Closing Cash Balance			**99.95**
65706.66	**Total**	**83369.14**	**65706.66**	**Total**			**83369.14**

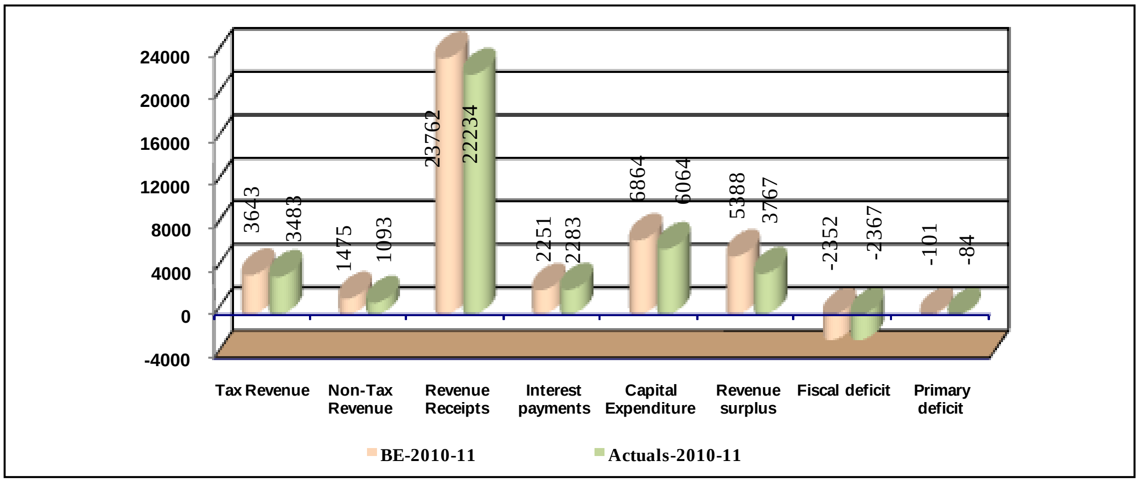
**Excludes net transactions under ways and means advances and overdraft.*

- Revenue receipts grew by around 26 *per cent* (₹ 4646 crore) over the previous year. The growth mainly came from increased grants from Government of India (₹ 2900 crore). Increases in tax revenue (₹ 455 crore), non-tax revenue (₹ 138 crore) and share of union taxes/duties (₹ 1152 crore) also contributed to the growth.
- Revenue expenditure increased by ₹ 3143 crore (21 *per cent*) over the previous year. Increases in salary, purchase of power and payment of interest on internal debt mainly contributed to the increase in revenue expenditure.
- Capital expenditure witnessed a decline of around three *per cent* (₹ 170 crore) over the previous year mainly due to decrease in spending on Economic Services Sector (₹ 305 crore).

- Public Accounts receipts and disbursements increased by ₹ 10687 crore and ₹ 11435 crore respectively over the previous year.
- Public Debt receipts increased substantially with corresponding increased repayments.
- Cash balance of the State, as a result of the aforesaid inflow/outflow, increased by ₹ 32.75 crore over the previous year.

The State has continued to maintain the revenue surplus with a surplus of ₹ 3767 crore during 2010-11.

(Chart 1.1 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 the budget estimates. The revenue surplus was less by ₹ 1621 crore than that estimated. The fiscal deficit was ₹ 2367 crore against the estimate of ₹ 2352 crore and primary deficit ₹ 84 crore, against the estimated ₹ 101 crore (March 2011). 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 the 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	Excess(+)/ Shortfall(-)
Tax revenue/GSDP (ratio)	13.74	7.30	(-) 6.44
Power Receipts (₹ in crore)	1209	882	(-) 327
Own Tax revenue	3643	3483	(-) 160
Non-tax revenue (₹ in crore)	1475	1093	(-) 382
Pension/Revenue receipts (ratio)	8.55	10.08	(+) 1.53
Transfer from centre to revenue receipts (ratio)	66.21	79.42	(+) 13.21
States own non tax revenue as *per cent* of TRR (ratio)	6.21	4.92	(-) 1.29
Revenue surplus (₹ in crore)	5388	3767	(-) 1621
Revenue surplus/Total revenue receipts (ratio)	22.67	16.94	(-) 5.73
Revenue surplus/GSDP *per cent* (ratio)	11.29	7.90	(-) 3.39
Own tax revenue receipts to revenue expenditure (ratio)	19.83	18.86	(-) 0.97
Interest payment/revenue receipts *per cent* (ratio)	9.47	10.27	(+) 0.80
Salary expenditure/revenue receipts (ratio)	55.44	34.96	(-) 20.48

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. Though the act had been enacted in August 2006, the rules were framed in January 2008**.** The State carried out an amendment in the FRBM Act in April 2010 wherein the permissible limit of fiscal deficit was raised from the level of three *per cent* to four *per cent*.

1.1.2 Thirteenth Finance Commission

The achievements of the State against targets set forth by the Thirteenth Finance Commission (ThFC) were:

1. ***An ordinance for amendment of the FRBM Act was passed on 25 August 2011 to pave way for reduction of outstanding debt as percentage of GSDP to 56.1 per cent, 55.1 per cent, 53.6 per cent and 51.6 per cent for the years 2010-11, 2011-12, 2012-13 and 2013-14 respectively to reach the target of 49.3 per cent in the year 2014-15, as required under the ThFC award.***
2. ***The ThFC in its award granted an amount of ₹ 1000 crore and allowed market borrowing of ₹ 1300 crore for liquidation of the Overdraft with the J&K Bank. The State thus switched over its ways and means facility to the RBI w.e.f 01.04.2011 and had liquidated entire overdraft with the J&K Bank as on 31***

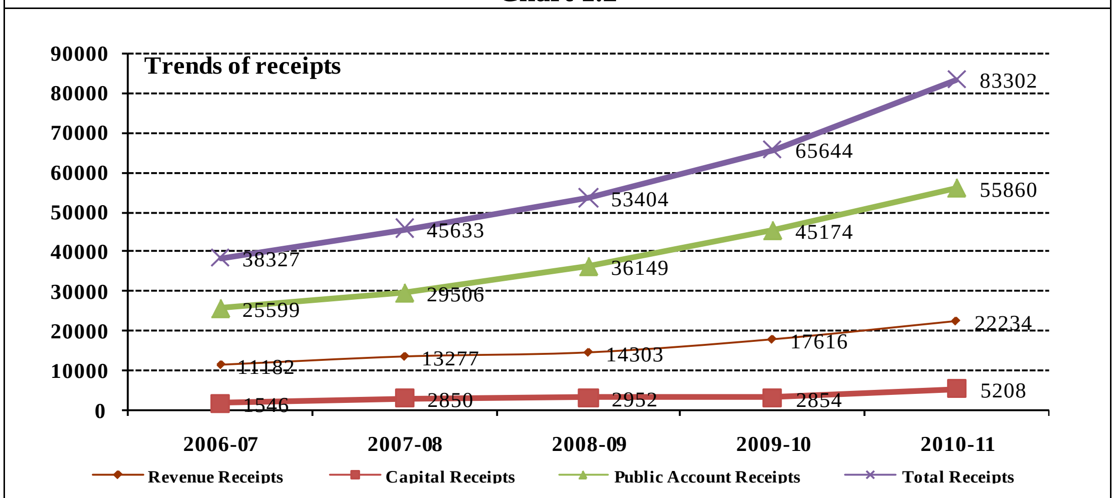
March 2011. The step would pave way for ways and means facility at comparatively lesser rate of interest.

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[2] of receipts that constitute the resources of the State Government. Revenue receipts comprises 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 2006-11.

Chart 1.2



The revenue receipts which formed 28 *per cent* of the total receipts at an average during 2006-10 declined to 27 *per cent* during 2010-11. The capital receipts increased by one *per cent*, on an average of the total receipts during the above period over the average of the last four years, and formed only seven *per cent* of the total receipts during 2010-11. The public account receipts were 67 *per cent* of the total receipts (2010-11) against the average of 68 *per cent* during 2006-10.

2 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.

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 the total amount of ₹ 2174 crore during 2010-11 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	
		2009-10	2010-11
PMGSY	State Rural Roads Agency	144.70	366.09
National Rural Health Mission (NRHM)	State Health Department and other agencies	90.00	132.15
Sarva Shiksha Abhiyan	Ujala Society	373.63	403.49
Package for Special Category State DIPD	Jammu and Kashmir Financial Corporation Limited	12.00	23.14
MGNREGA	Assistant Commissioners Development DRDA	173.24	313.60
National Rural Drinking Water Programme	State Water and Sanitation Mission	-	468.91
Rural Housing (IAY)	Assistant Commissioners DRDA	57.25	66.43
Local Area Development Schemes (MPLADS)	District Development Commissioners	17.00	24.00
Total		**867.82**	**1797.81**

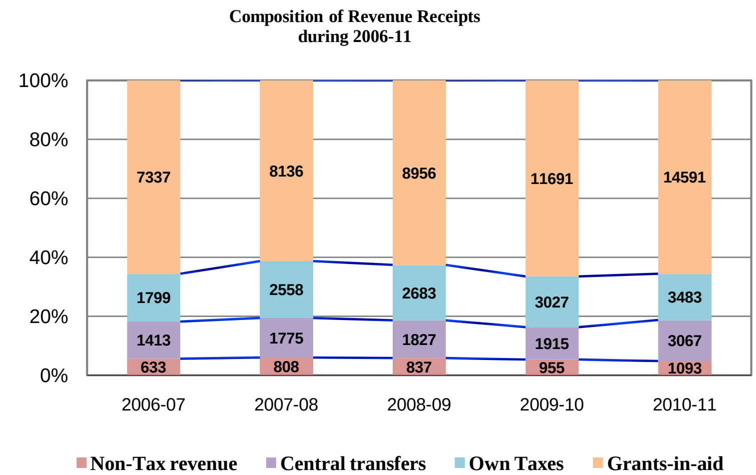
(Source: CPMS of CGA's website)

These figures 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 2006-11 are presented in **Appendix 1.3** and also depicted in **Chart 1.3**

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 75 and 79 *per cent* during 2006-11. 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

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	**11,182**	**13,277**	**14,303**	**17,588**	**22,234**
Rate of growth of RR (*per cent*)	8.41	18.74	7.73	22.97	26.42
R R/GSDP (*per cent*)	38.52	41.76	41.09	45.92	46.60
Buoyancy Ratios[3]					
Revenue Buoyancy w.r.t GSDP*	0.83	1.80	0.76	2.25	2.55
State's Own Tax Buoyancy w.r.t GSDP*	1.04	4.06	0.48	1.26	1.46
Revenue Buoyancy with reference to State's own taxes	0.80	0.44	1.58	1.79	1.77

**Figures for 2006-10 revised due to revision of GSDP by the State Government w.r.t Base Year 2004-05*

The Revenue Receipts showed a progressive increase over the period 2006-11 in absolute terms and the growth rate in 2010-11 was 26.42 *per cent* over the previous year. The buoyancy of ratio of own tax to GSDP increased from 1.04 *per cent* in 2006-07 to 1.46 *per cent* in 2010-11.

[3] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 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 2006-07 to 2010-11 are presented below:

1.3.2 Trend of tax and non-tax revenue

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

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Tax revenue	1,798.97	2,558.18	2,682.96	3027.32	3482.58
Non-tax revenue	632.53	807.98	837.16	955.03	1093.11
Total	**2,431.50**	**3,366.16**	**3,520.12**	**3982.35**	**4575.69**

The break-up of tax and non-tax revenue during the period alongwith increase/decrease over 2009-10 **(Tables 1.6 and 1.7)** and reasons for major variations during the current year are mentioned below:

Table 1.6: Trends of tax revenue

(₹ in crore)

Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage increase (+)/ decrease (-) in 2010-11 over 2009-10
Sales tax	1,159.72	1,804.81	1835.99	2145.72[4]	2424.52	(+) 13
State excise	212.80	244.15	238.67	293.78	337.24	(+) 15
Stamps and registration fee	56.92	65.62	57.13	69.51	78.58	(+) 13
Taxes and duties on electricity	59.70	93.49	150.76	120.34	147.50	(+) 23
Taxes on vehicles	63.96	72.60	65.47	83.09	115.33	(+) 39
Taxes on goods and passengers	243.16	264.59	271.39	299.43	337.16	(+) 13
Land revenue	2.57	9.58	63.53	15.41	42.03	(+) 173
Other taxes and duties on commodities and services	0.13	3.33	0.01	0.02	0.22	-
	1,798.96	**2558.17**	**2682.95**	**3027.30**	**3482.58**	

4 Include ₹ 50 crore representing waiver booked as incentive under MH 2040 by credit to MH-0040 by the Department

1.3.3 Reasons for major variations in tax revenue:

The reasons for variation in receipts for 2010-11 from those of 2009-10 reported by the concerned departments are as under:

Taxes on Sales, Trades etc.	The increase was due to more receipts under VAT.
State Excise	The increase was mainly due to more revenue on account of sale of liquor.
Taxes and duties on Electricity	The increase was corresponding to the increased power tariff under 0801 – Power.
Taxes on vehicles	The increase was mainly due to collection of more receipts under State Motor Vehicles Taxes.
Land Revenue	Increase was mainly due to more collection of Land Revenue.

1.3.4 Reasons for major variations in non- tax revenue

The details of major non-tax revenue raised during the year 2010-11 along with the figures for the preceding four years are mentioned in Table below:

Table 1.7: Trends of non-tax revenue

(₹ in crore)

Head of revenue	2006-07	2007-08	2008-09	2009-10	Budget estimate (BE)	2010-11	Percentage increase (+)/ decrease (-) in 2010-11 over BE
Power	478.94	600.94	629.98	723.64	1208.61	822.09	**(-) 32**
Interest receipts, dividends and profits	34.02	65.33	56.51	54.80	51.32	67.04	**(+) 31**
Forest and wild life	18.99	32.20	31.61	37.46	52.63	47.47	**(-) 10**
Public works	16.16	16.44	16.89	23.87	30.00	23.58	**(-) 21**
Medical and public health	12.62	13.21	9.92	9.49	14.74	9.40	**(-) 36**
Water supply and sanitation	10.95	13.64	14.65	13.16	26.70	15.97	**(-) 40**
Police	6.59	4.21	10.35	12.84	15.05	10.99	**(-) 27**
Non-ferrous mining and metallurgical industries	9.98	16.43	14.86	25.34	28.15	34.51	**(+) 23**
Crop husbandry	4.31	4.52	5.00	5.23	5.79	4.53	**(-) 22**
Animal husbandry	4.75	4.66	4.70	5.13	5.49	5.41	**(-) 1**
Others	35.22	36.40	42.69	44.07	36.26	52.11	**(+) 44**
Grand total:	**632.53**	**807.98**	**837.16**	**955.03**	**1474.74**	**1093.11**	**(-) 26**

The following were the reasons for variations:

Power	The increase in revenue was due to collection of more receipts on account of Power tariff.
Police	The decrease in revenue was mainly due to less collection of revenue under "Other receipts".
Crop Husbandry	The decrease in revenue was mainly due to less receipt of revenue from Horticulture and Vegetable crops.
Medical and Public Health	The decrease was mainly due to less receipt of revenue under Allopathy.
Interest receipts, dividends and profits	The increase was mainly due to receipts of dividends from other investmens as well as under 'other receipts'.
Water supply and sanitation	Increase was mainly due to receipts under Rural water supply as well as fees, fines.
Education, Sports and culture	Increase was due to more receipts on account of University and Higher Education admission fee and tuition/other fess under Technical Education

The State Government, in its MEFS/ MTFPS/ FPSS, estimated for 2010-11 non-tax revenue of ₹1475 crore which stood at ₹1093 crore at the end of the year, a shortfall of 25.90 per cent.

1.3.5 Variation between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2010-11 in respect of the principal heads of tax revenue are mentioned below:

Table 1.8: Budget estimates and actuals during 2010-11

Head of Revenue	Budget estimates	Actuals	Variations excess (+) shortfall (-)	Percentage of variation increase (+)/ decrease (-)
Tax Revenue (₹ in crore)				
Sales tax	2572.69	2424.52	(-) 148.17	(-) 6
State excise	307.00	337.24	(+) 30.24	(+) 10
Stamps and registration fee	72.73	78.58	(+) 5.85	(+) 8
Taxes on goods and passengers	358.10	337.16	(-) 20.94	(-) 6
Taxes and duties on electricity	214.00	147.50	(-) 66.50	(-) 31
Taxes on vehicles	113.10	115.33	(+) 2.23	(+) 2

There was considerable variation between budget estimates and actuals in respect of taxes and duties on electricity.

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 2008-09 to

2010-11 alongwith the relevant all India average percentages for 2009-10 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	2008-09	1835.99	15.30	0.83	0.95
	2009-10	2145.73	73.56[5]	3.43	0.88
	2010-11	2424.52	22.17	0.91	0.96
State excise	2008-09	238.67	11.10	4.65	3.34
	2009-10	293.78	12.37	4.21	3.66
	2010-11	337.24	14.38	4.26	3.64
Stamp duty and registration fees	2008-09	57.14	6.04	10.57	3.44
	2009-10	69.51	7.80	11.22	2.77
	2010-11	78.58	12.68	16.14	2.47
Taxes on vehicles	2008-09	65.47	4.73	7.22	2.74
	2009-10	83.10	4.56	5.49	2.93
	2010-11	115.33	5.38	4.66	3.07

Percentage of cost of collection of taxes on vehicles, state excise and stamps and registration fee during 2008-11 was higher than the All India Average cost of collection.

1.3.7 Revenue Arrears

The arrears of revenue, as on 31 March 2011, in respect of the principal heads of revenue as reported by the departments was ₹ 1494 crore of which ₹ 369 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 2011	for more than five years	
1.	Taxes on Sales/VAT, Trades etc.	1426.38	351.59	Out of arrears, recovery of ₹ 42.78 crore stayed by courts/Appellate authorities/proposed for recovery as arrears of land revenue.
2.	State excise	4.76	4.76	
3.	Motor spirit tax	0.77	-	
4.	Passenger tax	33.29	1.65	
5.	Entertainment Tax	0.20	0.20	
6.	Toll Tax	28.93	10.61	Out of the total arrears, recovery of ₹ 24.10 crore was stayed by courts/Appellate authorities.
	Total	**1494.33**	**368.81**	

(Source: Figures supplied by the Department)

5 Include ₹ 50 crore representing waiver booked as incentive under MH 2040 by credit to MH-0040 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 2010	Detected during 2010-11	Total	in which assessments/ investigation completed and additional demand including penalty etc. raised during 2010-11		Pending as on 31 March 2011
				Cases	(₹ in lakh)	
Commercial Tax Department	210	7918	8128	6425	273.86	1703
Passenger Tax	01	-	01	-	-	01
State Excise	Nil	2005	2005	2005	2.13	Nil

The progress of recovery of amount demanded after completion of investigation including penalty imposed was not intimated (October 2011).

1.3.9 Refund

The number of refund cases pending at the beginning of the year 2010-11, claims received during the year, refunds allowed during the year and cases pending at the close of the year (March 2011), as reported by the concerned departments, are mentioned below:-

Table 1.12: Refunds of sales tax claims

(₹in crore)

Particulars	2006-07		2007-08		2008-09		2009-10		2010-11	
	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	13	0.11	57	3.19	85	3.35	13[6]	13.75	10	12.80
Claims received during the year	55	3.15	47	0.77	19	0.19	NIL	NIL	-	-
Refunds made during the year	11	0.07	19	0.61	1	-	3	0.95	01	1.60
Balance outstanding	57	3.19	85	3.35	103	3.54	10	12.80	09	11.20

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

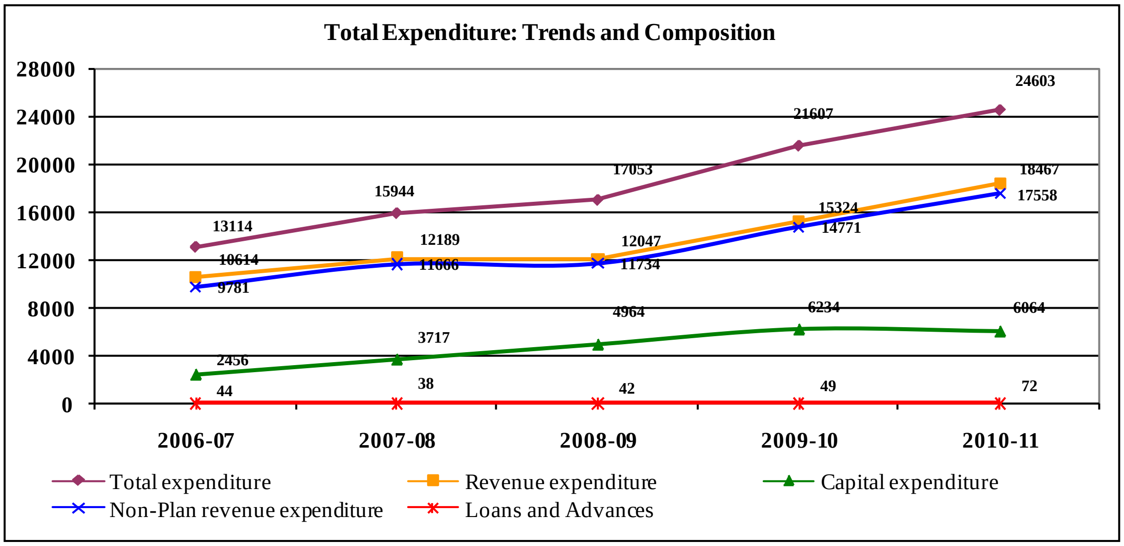
[6] Difference with previous years closing balance figures not imtimated by the Department.

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 (2006-11). 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.**

Chart 1.4



As can be seen from the above Chart, the total expenditure of the State increased from ₹ 13,114 crore in 2006-07 to ₹ 24603 crore in 2010-11 (88 *per cent*). In relative terms, capital and revenue expenditure components have increased by 147 *per cent* and 74 *per cent*, respectively during the period 2006-11.

The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.13**.

Chart 1.5

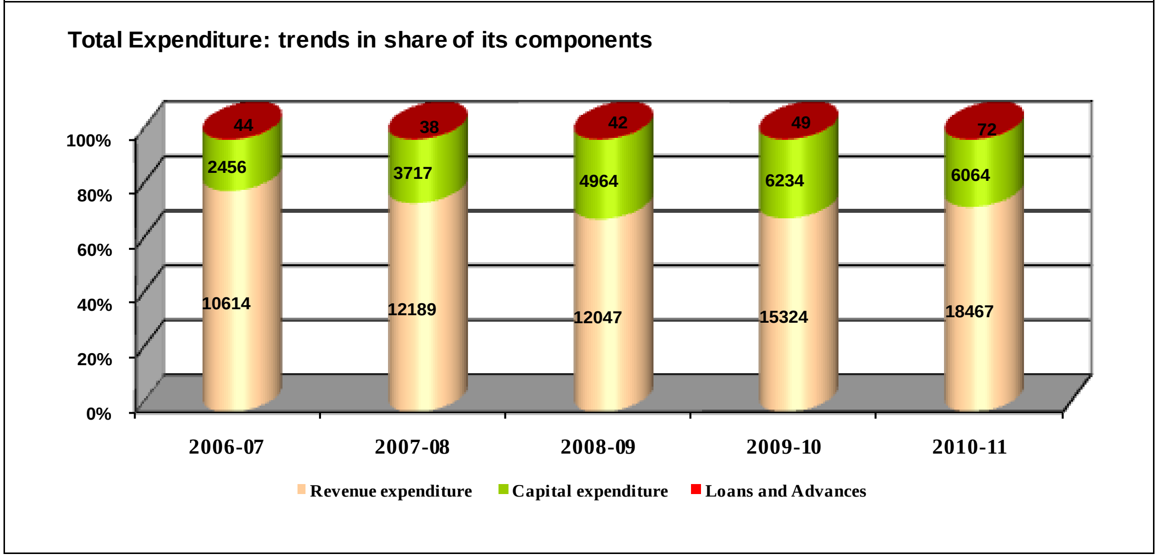


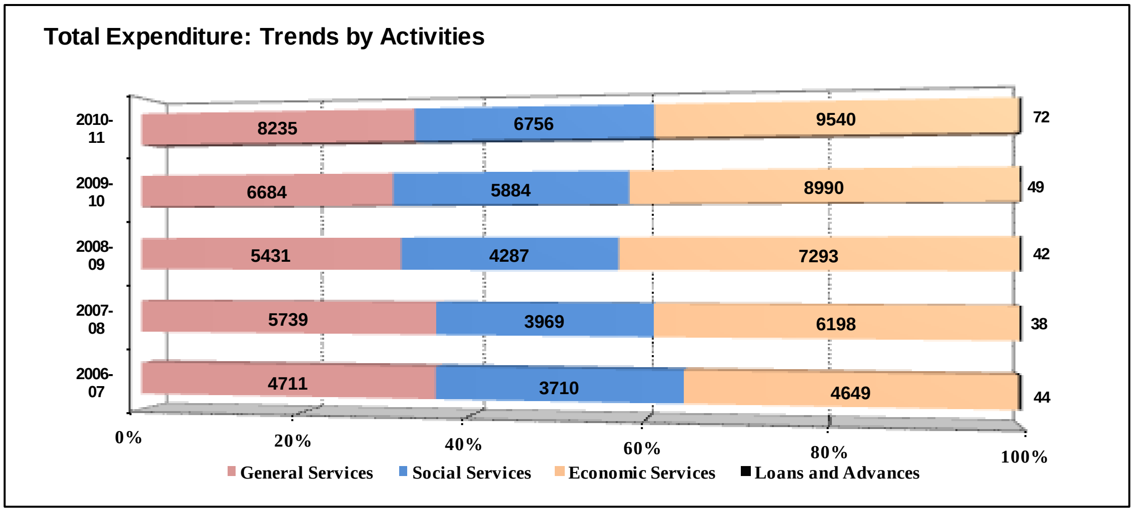
Table 1.13: Total Expenditure – Basic Parameters

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure (TE) (₹ in crore)	**13114**	**15944**	**17053**	**21607**	**24603**
Rate of growth (*per cent*)	0.92	21.58	6.96	26.70	13.87
TE/GSDP ratio (*per cent*)	40.64	44.76	43.47	49.97	51.57
RR/TE ratio (*per cent*)	85.27	83.27	83.87	81.40	90.37
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	0.09	1.68	0.36	1.94	0.98
RR (ratio)	0.11	1.15	0.9	1.16	0.52

In absolute terms increases were of the order of ₹ 3608 crore in capital expenditure and ₹ 7853 crore in revenue account during the period under report. Increase of ₹ 2996 crore in the total expenditure (14 *per cent*) during 2010-11 over the previous year has been due to increase of ₹ 3143 crore under revenue head, accompanied by a marginal increase of ₹ 23 crore in disbursement of loans and advances off set by decrease of ₹ 170 crore in capital expenditure. Decrease in capital expenditure was mainly under Social Service (₹ 84 crore), Economic Services (₹ 305 crore) with a corresponding increase of ₹ 219 crore under General Services.

Out of the total expenditure of ₹ 24603 crore during 2010-11, ₹ 6639 crore was spent under plan component and ₹ 17892 crore under non-plan component. The expenditure under plan component decreased by ₹ 49 crore (one *per cent*) from ₹ 6688 crore in 2009-10 to ₹ 6639 crore in 2010-11, while under non-plan component there was an increase of ₹ 3022 crore (20 *per cent*) from ₹ 14870 crore in 2009-10 to 17892 crore in 2010-11.

Chart 1.6



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.

Table: 1.14

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Expenditure (RE) *(₹ in crore)*	**10614**	**12189**	**12047**	**15324**	**18467**
Of which					
Non-Plan Revenue Expenditure (NPRE)	9781	11666	11734	14771	17558
Plan Revenue Expenditure (PRE)	833	523	313	553	909
Rate of Growth of					
RE (*per cent*)		14.84	-1.16	27.20	20.51
NPRE (*per cent*)		19.27	0.58	25.88	18.87
PRE (*per cent*)		-37.21	-40.15	76.68	64.38
Ratio (*per cent*)					
RE as percentage of TE	80.94	76.45	70.64	70.92	75.06
NPRE/GSDP (*per cent*)	30.31	32.75	29.91	34.16	36.80
NPRE as percentage of TE	74.58	73.17	68.81	68.36	71.37
NPRE as percentage of RR	87.47	87.87	82.04	83.98	78.97
Buoyancy Ratio of Revenue Expenditure with					
GSDP	0.69	1.43	-0.11	2.66	1.98
Revenue Receipts	0.83	0.79	-0.15	1.18	0.78

The overall revenue expenditure of the State increased from ₹ 10614 crore in 2006-07 to ₹ 18467 crore in 2010-11 showing an increase of 74 *per cent* over the period. The non-plan revenue expenditure during the same period increased from ₹ 9781 crore to ₹ 17558 crore, showing an increase of 80 *per cent*. The share of NPRE in the total revenue expenditure increased from 92 *per cent* in 2006-07 to 95 *per cent* in 2010-11. The NPRE of ₹ 17558 crore during 2010-11 was higher than the budget estimates (₹ 17455 crore) of the State Government by ₹ 103 crore.

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

Table 1.15

(₹ in crore)

Particulars	Projections	Actuals
Non-plan expenditure	21047	17892
Interest payments	2251	2283
Wages and Salaries	13173	7772
Pension payment	2031	2242

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 1.16** present the trends in the expenditure on these components during 2006-11.

Table-1.16: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11
Salaries & Wages , *Of which*	3995 (35.73)	4426 (33.34)	4820[7] (33.70)	6365[8] (36.18)	7772[9] (34.96)
Salaries Non-Plan Head	*3467*	*4170*	*4682*	*6095*	*7467*
Salaries Plan Head	*528*	*256*	*138*	*233*	*305*
Interest Payments	1787 (15.98)	2436 (18.35)	1578 (11.03)	2139 (14)	2283 (10.26)
Pensions	1021 (9.13)	1193 (8.99)	1269.40 (8.89)	1568 (8.91)	2242 (10.08)
Subsidy		17.63	28.68	35.60	74.51 (0.34)

(Figures in parenthesis represent percentage of revenue receipts.)

Expenditure on salary and wages increased by 22 *per cent* over the pervious year, against an increase of revenue receipt of 26 *per cent*. Likewise, there was 23 *per cent* increase in non-plan salary expenditure, whereas expenditure under plan heads increased by 31 *per cent*. There was also increase in interest payment as compared to the previous year. The figures of subsidy allowed by the State Government upto 2006-07 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 109 *per cent* during 2010-11 over the previous year.

[7] Salary: ₹ 4772 crore, Wages: ₹ 48 crore
[8] Salary: ₹ 6328 crore, Wages: ₹ 37 crore
[9] Salary: ₹ 7722 crore; Wages: ₹ 50 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 autonomous bodies by various departments of the State Government during the current year relative to the previous years is presented in **Table 1.17**

Table 1.17: Financial Assistance to Local Bodies etc

(₹ in crore)

Name of the Department	2006-07	2007-08	2008-09	2009-10	2010-11
Education and sports	88.01	116.45	113.93	521.66	171.84
Housing and Urban Development	135.49	146.05	170.82	217.01	253.98
Agriculture	72.90	60.72	80.60	138.63	203.47
Art and culture	7.32	7.93	9.43	-	-
General Administration	2.95	4.66	4.20	11.14	6.13
Industries	5.25	7.05	7.04	25.53	11.66
Tourism	5.06	5.24	15.06	71.17	150.40
Administration of Justice	1.63	2.26	3.30	3.32	3.67
Health and Family welfare	0.44	0.64	-	0.47	0.36
Others	11.83	9.86	146.02	442.27	644.76
Total	330.88	360.86	550.40	1431.20	1446.27
Assistance as a percentage of Revenue expenditure	3.12	2.96	4.57	9.34	7.83

The total assistance of ₹ 1446.27 crore paid in 2010-11 increased by 337 *per cent* over the level of 2006-07, and by one *per cent* as compared to the previous year. The assistance categorised as 'others' comprised mainly the assistance to Ladakh Autonomous Hill Development Councils, Leh (₹ 220 crore) and Kargil (₹ 196 crore). Around 44 *per cent* of the financial assistance was provided for Education and sports, Housing and Urban Development and Agriculture sectors during 2010-11.

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 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[10]. Apart from improving the allocation towards development expenditure[11], 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 1.18** 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 1.19** 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.

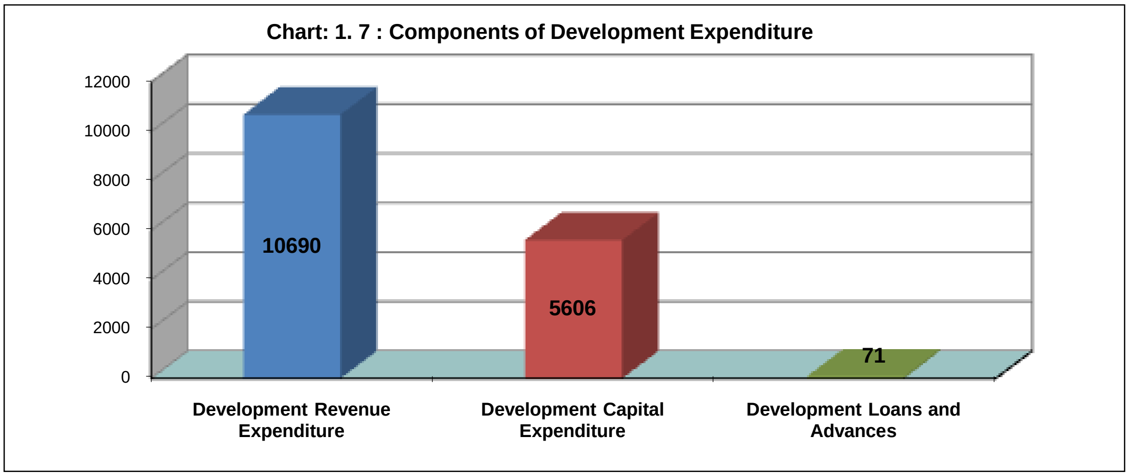
Table-1.18: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Development Expenditure						
a. Development Revenue Expenditure	5960 (45)	6565 (41)	6775 (40)	8879 (41)	10240	10690 (43)
b. Development Capital Expenditure	2399 (18)	3602 (23)	4805 (28)	5995 (28)	5772	5606 (23)
c. Development Loans and Advances	44 (*)	38 (*)	42 (*)	49 (*)	90	71
Figures in parentheses indicate percentage to aggregate expenditure (₹24,603 crore) * negligible						

10 Core public goods are those 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.

11 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.



The aggregate of development expenditure under both Revenue and Capital heads varied between 63 and 69 *per cent* during the above period. In absolute terms, it increased from ₹ 14874 crore in 2009-10 to ₹ 16296 crore in 2010-11 registering an increase of ₹ 1422 crore (10 *per cent*). The reasons for huge variations of Development Capital Expenditure (DCE) with budget estimates was not intimated by the State Government.

Table 1.19 –Efficiency of Expenditure Use in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2009-10			2010-11		
	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
Social Services (SS)						
General Education	12.06	79.55	-	15.84	75.71	0.10
Health and Family Welfare	25.81	81.40	0.24	23.31	83.97	0.96
WS, Sanitation & HUD	50.18	50.50	1.96	32.98	51.75	3.68
Others	32.29	12.70	0.30	32.51	15.46	0.28
Total	**27.64**	**65.85**	**0.45**	**22.83**	**66.44**	**0.91**
Economic Services (ES)						
Agriculture and Allied Activities	27.50	79.00	0.78	34.08	78.69	0.16
Irrigation and Flood Control	61.13	75.52	0.30	55.38	76.80	7.96
Power and Energy	27.31	10.70	0.06	29.64	11.31	0.97
Transport	96.56	2.30	2.32	87.82	0.88	31.06
Others	64.22	51.01	1.68	49.74	52.65	0.25
Total (ES)	**48.60**	**32.95**	**0.48**	**42.60**	**33.30**	**1.86**
Total (SS+ES)	**40.31**	**43.92**	**0.46**	**34.40**	**49.46**	**1.40**

TE: Total Expenditure on respective Services; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages: O&M: Operation and Maintenance

The ratio of capital expenditure to total expenditure in Social and Economic Service Sectors during 2010-11 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. The share of salary and wage in these sectors instead of coming down had increased during 2010-11 as compared to the previous year. However, the share of operation and maintenance expenditure within the sectors had increased over the previous year which was encouraging.

1.5.2 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. Five 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 2011 (Report No. 2).

1.6 Financial Analysis of Government Expenditure and Investments

In the post-Fiscal Responsibility 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[12] as on 2010-11 was ₹ 271.67 crore. Financial results of these projects for the year 2010-11 showed that against the revenue realisation of ₹ 56.80 lakh (forming only 0.21 *per cent* of the total capital outlay), working expenses aggregated ₹ 175.72 lakh resulting in loss of ₹ 118.92 lakh. After taking into account further expenditure of ₹ 113.98 lakh, paid as interest on the capital outlay, the total loss aggregated ₹ 232.90 lakh.

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31st March 2011 is given in **Table 1.20.**

[12] Kathua Feeder, Pratap Canal, Ranbir Canal, Martand Canal, Zaingir Canal and Ahizi Canal.

Table 1.20: 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 31.3.2011
Public works*	60	21640.59	21890.94	-	17428.35
Power Development	01	725.64	-	-	-
Irrigation and Flood Control	01	1061.22	-	-	1049.69
Public Health Engineering	29	11250.11	-	-	8276.30
Sewerage and Drainage	02	281.50	-	-	188.56

**Does not include incomplete projects under R&B Kashmir due to non-receipt of information.*

Thus 93 projects which should have been completed by March 2011 were incomplete despite expenditure of ₹ 269.43 crore.

1.6.3 Payments made to labour mates

Paragraph 200 of the State Public Works Account Code (PWAC) prohibits payment of daily labour through a contractor, instead of by muster roll for making payment to labourers engaged on works. The paragraph, however, envisages that in case of emergency it may not be possible to employ labour otherwise than through a contractor, it is expedient to pay the contractor, at suitable rates, on the basis of work actually executed. The contractor is paid on the basis of number of labourers employed each day, his own profit or commission being either included in the rates allowed, or paid separately in lump sum or at a percentage rate. When this course is adopted, a report of the numbers of labourers of each class employed on each day should be made by the subordinate in charge of the work daily to the Sub-divisional officer to enable the latter to keep a check on the expenditure and to deal with the contractors claim when received.

The Executive Engineers of various divisions involved in works are engaging labourers through mates (contractors) for execution of works without resorting to tendering process and huge sums of money are paid to these mates through the medium of Hand Receipts (Form-28) – an instrument which is usually meant for making petty and emergent kind of payment. On reference to the departments through usual audit memos, the executing departments attribute execution through labour contractors to works being of emergent nature.

Usually the payments are drawn from the treasury through self cheques (cheques for the chest) and paid to the subordinate officers as temporary advances for making payments to labour contractors. The subordinate officers after making the payments submit adjustment accounts against such advances.

Test check of records of 78 (R&B: 24; Electric: 21; Irrigation & FC: 19; PHE: 14) Divisions executing works showed that works amounting to ₹ 62.85 crore had been got executed through labour mates out of the total works expenditure of ₹ 473.52 crore incurred during March 2011 alone. The payment on Hand Receipts varied in the range of one to 90 *per cent.*

The percentage range is categorized hereunder.

S.No	Percentage Range	Number of Divisions
1.	1-25	62
2.	26-50	11
3.	50-75	2
4..	75-90	3

Use of Hand Receipts was significantly high in five executing Divisions namely Estates Division Jammu: 80 *per cent*, FC Division, Akhnoor: 90 *per cent*, PHE City-II, Jammu: 78 *per cent*, Irrigation Division, Udhampur: 57 *per cent* and Irrigation Division, Akhnoor: 52 *per cent*.

Impact of the action of the Divisions

Action of the Executive Engineers of the Divisions taking recourse to employing labour mates for execution of works:

- *tantamount to subversion of the tendering procedure by which competitive rates could be obtained.*
- *Cartelization of labour mates resulting payment of higher rates cannot be ruled out*
- *Deposits otherwise retained from the contractors for works cannot be deducted to safeguard against the quality of work executed by the mates.*
- *Income Tax deductions @ 2.24 per cent are being made in most of the cases. The deductions of 10.5 per cent on account of Service Tax (ST) are, however, not being effected from such bills/payments. Non-deduction of ST in these cases has put the public exchequer to a loss of ₹ 6.60 crore in one month (March 2011) only.*

Response of the Government

On constant persuasion and repeatedly pointing out in the review meetings held with the State functionaries, the State Government issued circular instructions to all the executing divisions under Government Order of August 2011 to dispense with the use of Hand Receipts for the works executed by them. The impact of the circular instructions on the execution of works and the mode of payment was yet to be ascertained.

A Chief Controlling Officer (CCO) based review of the Public Works Department was conducted during 2010-11 and is included in the CAG's Audit Report (Report No 2) for the year ended 31 March 2011, Jammu and Kashmir. The highlights of the review are summarised as under;

The State Roads and Buildings Department is mandated with the construction and maintenance of roads, bridges and buildings in the State in Government sector. Sufficient funds are being poured in the sector through both State and Centrally Sponsored Schemes. Despite huge spending in the sector, the outcome has not been up to the mark primarily due to non-prioritization of schemes, taking up of unapproved schemes for execution and incurring huge sums on execution without ensuring that the land on which the works are being executed are free from all encumbrances. Brief audit findings are as;

- *No comprehensive road planning policy was in place in the State. Planning of works was not upto the mark.*
- *Delay in release of funds was seen at all the levels which impacted the programme implementation.*
- *Diversion of ₹16.30 crore to other schemes impacted the schemes for which the funds were meant. Unauthorised liability of ₹110.82 crore had been created due to execution of unapproved works.*
- *Shortfall in achievement of targets was witnessed in all the programmes. Unrealistic estimation led to cost over-run over the original estimates in 1803 road works. Cost overrun of ₹27.52 crore was witnessed in 98 roads and 45 building works. Also, time over-run of one to nine years was seen in 167 road and 220 building works.*
- *Works taken up on disputed sites resulted in blocking of ₹148.43 crore on 113 road and 56 building works. 59 works had been split at different levels to avoid sanction of the higher authority.*
- *Due to non-procurement of sufficient construction material, eight executing divisions spent ₹ 62.47 crore on procurement of material from the open market and incurred an extra expenditure of ₹1.04 crore.*
- *Internal control mechanism, monitoring and quality control of works were virtually non-existent.*

1.6.4 Investment and returns

As of 31 March 2011, Government had invested ₹ 470.78 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives **(Table 1.21)**. The average return on such investments during the five years (2006-11) was 9.62 *per cent* while the Government paid an average interest rate of 8.97 *per cent* on its borrowings during these years.

Table-1.21: Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (₹ in crore)	355.77	356.97	364.61	422.82	470.78
Return (₹ in crore)	21.22	30.24	40.85	44.16	56.71
Return *(per cent)*	5.96	8.47	11.20	10.44	12.05
Average rate of interest on Government borrowing *(per cent)*	10.09	12.19	6.91	8.07	7.61
Difference between interest rate and return *(per cent)*	(-) 4.13	(-) 3.72	4.29	2.37	4.44

As on 31 March 2011, the State Government had invested ₹ 470.78 crore in its Statutory Corporations (₹ 186.91 crore), Government Companies (₹ 254.23 crore), Joint Stock Companies (₹ 0.34 crore) and Cooperative Societies (₹ 22.83 crore), others (₹ 6.47 crore). Return on the investment made in these PSUs ranged between ₹ 21.22 crore and ₹ 56.71 crore during 2006-11. The return on investment amounting to ₹ 56.71 crore which accrued to the State Government during 2010-11 was entirely from the Jammu and Kashmir Bank Limited. The average return of interest on Government borrowings during 2006-10 was 9.32 *per cent* which was reduced to 7.61 *per cent* in 2010-11.

As on 31 March 2011, there were 21 Government companies (18 working and three[13] non-working[14] 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 2011 was ₹ 438.92 crore.

The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2011.

Table 1.22

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Number of Working PSUs	20	20	20	20	21
Number of accounts finalised during the year	12	12	15	10	34
Number of accounts in arrears	211	219	224	236*	223
Average arrears per PSU (3/1)	10.55	10.95	11.20	11.70	10.62
Number of Working PSUs with arrears in accounts	19	19	19	19	19
Extent of arrears	2 to 19	3 to 19	4 to 19	4 to 20	4 to 20

**Includes two accounts received from a new Company viz., J&K Bank Financial Services, for the years 2008-09 and 2009-10, not earlier included as accounts in arrears*

Of these, only one PSU viz., Jammu and Kashmir Bank Ltd., had finalized the accounts for 2010-11.

During the year one more PSU viz., Jammu and Kashmir Bank Financial Services Limited was established and three accounts pertaining to the years 2008-09, 2009-10 and 2010-11 (including two pre-incorporation accounts) were received and finalized.

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 the above, there were also the arrears in finalisation of

13 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.

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

accounts by non-working PSUs. Though the concerned Administrative Departments and Officials of the Government were informed every quarter by Audit regarding arrears in finalization of accounts but no remedial measures were taken. As a result of this, net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up with the State Finance Secretary in April 2011 to expedite the backlog of arrears in accounts in a time bound manner.

1.6.5 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 2011, 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	2008-09	2009-10	2010-11
Opening Balance	980.20	1018.92	1066.42
Amount advanced during the year	42.41	49.12	71.63
Amount repaid during the year	3.69	1.62	1.50
Closing Balance	**1018.92**	**1066.42**	**1136.55**
Of which Outstanding balance for which terms and conditions have been settled			
Net addition	38.72	47.50	70.13
Interest Receipts	9.92	5.07	3.00
Interest receipts as *per cent* to outstanding Loans and advances	0.97	0.47	0.26
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	6.91	8.07	7.61
Difference between interest payments and interest receipts (*per cent*)	5.94	7.60	7.35

During the current year, the State Government advanced loans and advances of ₹ 71.63 crore under Social Services (₹ 28.16 crore), Economic Services (₹ 42.88 crore) and to Government servants (₹ 0.59 crore). The recipients under Economic Services were the Jammu and Kashmir Industries Limited - a State Government Company (₹ 12.88 crore) and the J&K State Road Transport Corporation (₹ 30 crore).

Total loans and advances outstanding as on 31 March 2011 stood at ₹ 1136.56 crore, which included ₹ 1006.82 crore on account of Economic Services, ₹ 109.85 crore on Social Services and ₹ 19.89 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), Industries and Minerals Limited (₹ 459.97 crore) and J&K State Road Transport Corporation (₹ 369.74 crore). The recoveries effected during 2010-11 were ₹ 1.50 crore which was made mostly out of loans paid to Government servants (₹ 1.01 crore).

1.6.6 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 March 2011, such agreements exist between RBI and all the State Governments except 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 raised temporary loan from the Bank for all the 365 days during the year. The maximum temporary loan obtained was ₹ 2694.25 crore as on 30 June 2010. The total temporary loans raised during the year amounted to ₹ 1847.42 crore. A balance of ₹ 2965.06 crore was also outstanding as on 1st April 2010. Government repaid ₹ 4812.48 crore during the year leaving a *nil* balance as of 31 March 2011. During the year 2010-11, ₹ 227.71 crore was paid as interest by the Government.

The State Government has switched over its ways and means transactions with RBI with effect from 01 April 2011 and accordingly liquidated overdraft with Jammu and Kashmir Bank in full on 31 March 2011 and the credit balance of ₹ 21.05 crore as on 31.03.2011 in the Bank has been taken as cash in Bank under cash balances of State Government.

The cash balances of the State Government increased by ₹ 32.75 crore during 2010-11 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 12 years.

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 2011 compared with the corresponding position on 31 March 2010. 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 seven *per cent* and 15 *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	48.27	65.55
Total liabilities/TRR	116.53	140.65
Total liabilities/State own receipts	18.48	683.39

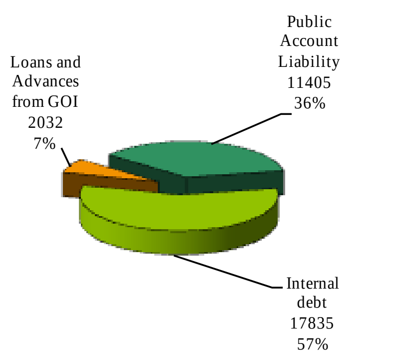
(TRR: Total Revenue Receipts)

The reasons of variations were not on record.

1.7.2 Fiscal Liabilities

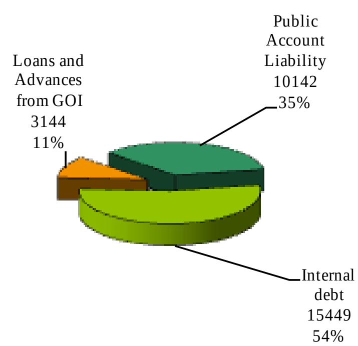
There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. Other liabilities, which are a part of Public Account, include 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.***

Chart 1.8



Composition of outstanding Fiscal Liabilities as on 31-03-2011

Chart 1.9



Composition of outstanding Fiscal Liabilities as on 1-04-2010

The overall fiscal liabilities of the State increased from ₹ 28735 crore in 2009-10 to ₹ 31272 crore in 2010-11. The fiscal liability GSDP ratio of the State was however 66 *per cent* at the end of 31 March 2011**.**

In absolute terms the growth rate of fiscal liabilities was 8.83 *per cent* during 2010-11 over the previous year. However, the ratio of fiscal liabilities to GSDP decreased from 66.46 *per cent* in 2009-10 to 65.55 *per cent* in 2010-11. The buoyancy of these liabilities with respect to GSDP during the year was 0.85 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew 0.85 times. These liabilities stood at 1.41 times of the State's revenue receipts and 6.83 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	2008-09	2009-10	2010-11
Max amount guaranteed (₹ in crore)	3295	4748	4750
Outstanding amount of guarantees (₹ in crore)	2536	3037	2708
Percentage of maximum amount guaranteed to total revenue receipts	23.04	26.99	21.36

As per the recommendations of the Twelfth Finance Commission (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 ₹ one crore during 2010-11 to guarantee redemption fund. It was, however, noticed that Government has guaranteed loans raised by various Corporations and others, which at the end of 2010-11 stood at ₹ 2708 crore (including interest), indicating decrease by about 11 *per cent* over the level of previous year. The outstanding amount of guarantees was about 12 *per cent* of revenue receipts of the State. As per TFC the states were to set up guarantee redemption fund through earmarked guarantee fee. An amount of ₹ 10 lakh has been received as guarantee fee during 2010-11.

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 x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would 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[15], net availability of borrowed funds[16], 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 2006-07.

Table 1.26: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilization (Quantum Spread + Primary Deficit)	(-) 126	(-) 562	(-) 1027	(-) 1328	703
Sufficiency of Non-debt Receipts (Resource Gap) ₹ in crore	833	2095	1027	3285	4646
Net Availability of Borrowed Funds	16	329	1343	2310	254
Burden of Interest Payments (IP/RR Ratio)	0.160	0.183	0.110	0.121	0.103

As is clear from above, the debt of the State became stable during the year 2010-11 due to considerable reduction in Primary deficit during the year, indicating increasing capacity of the State to sustain the debt.

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

15 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.

16 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.

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 2006-11.

Chart 1.10

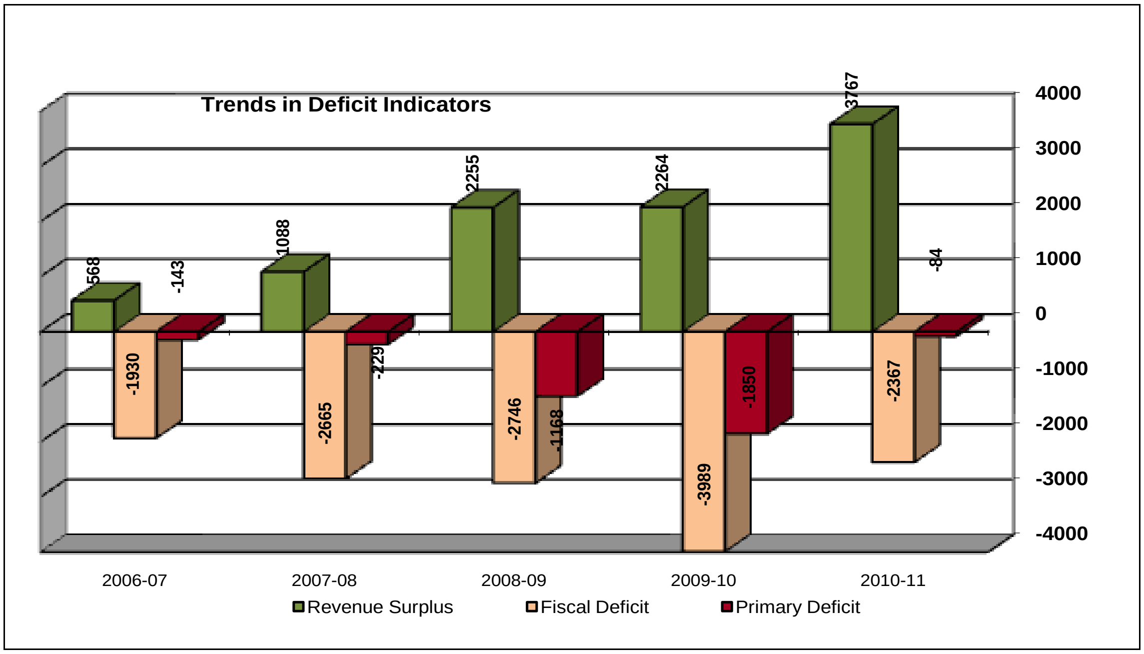
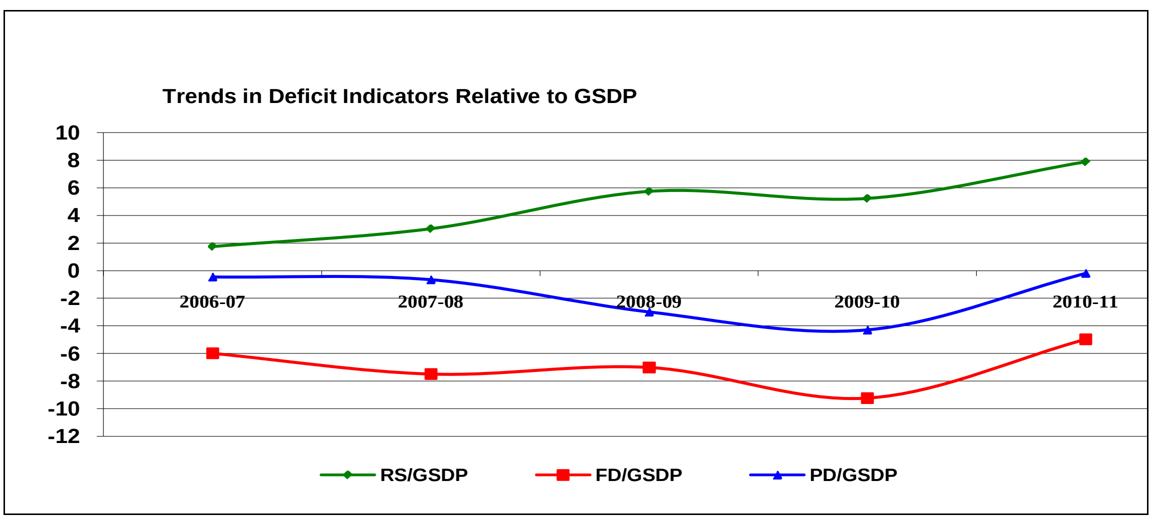


Chart 1.11



The Charts above reveal that the revenue account experienced surplus over the period 2006-11. The revenue surplus of ₹ 3767 crore during 2010-11 was higher by ₹ 1503 crore as compared to revenue surplus of ₹ 2264 crore during 2009-10. An increase of 26.41 *per cent* (₹ 4646 crore) in revenue receipts during 2010-11 and increase of ₹ 2900 crore (24.81 *per cent*) in grant in aid from GOI resulted in an increase in revenue surplus during the current year.

Despite a cushion of ₹ 1503 crore available in the form of increment in revenue surplus, net reduction of ₹ 147 crore in capital expenditure/loans and advances during 2010-11 over the previous year resulted in decrease in fiscal deficit by ₹ 1622 crore during the current year. The decrease in fiscal deficit accompanied by a increase of ₹ 144 crore in interest payments during 2010-11 over the previous year resulted in decrease in primary deficit by ₹ 1766 crore in 2010-11.

As per ThFC, the State had to maintain a Fiscal deficit at 5.3 per cent of the GSDP. The State had maintained it at 4.96 per cent which was encouraging.

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.**

Table1.27: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Particulars		2006-07	2007-08	2008-09	2009-10	2010-11
Decomposition of Fiscal Deficit						
1.	Revenue Surplus	568	1088	2255	2264	3767
2.	Capital Expenditure	2456	3717	4964	6234	6064
3.	Loans and Advances	44	38	42	49	72
Financing Pattern of Fiscal Deficit*						
1.	Market Borrowings	1264	2198	2372	2113	2386
2.	Loans from GOI	(-) 124	(-) 122	(-) 127	(+)805	(-) 1112
3.	Small Savings, PF etc.	426	341	458	693	1203
4.	Deposits and Advances	84	216	206	1544	59
5.	Suspense and Miscellaneous	(-) 53	(-) 204	158	(-)162	168
6.	Remittances	205	112	(-) 381	(-)292	(-) 307
7.	Reserve funds	152	130	11	90	3
8.	Net amount recouped to contingency fund	0.30	-	-	-	-
9.	Increase/decrease in cash balance	(-) 24	(-) 6	51	4	(-) 33
**All these figures are net of disbursements/outflows during the year*						

The revenue surplus increased by ₹ 1503 crore in 2010-11 over the previous year. There was decrease in capital expenditure by ₹ 170 crore over the 2009-10. 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 2006-11 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 2010-11. 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)
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
2010-11	22236	16184	6064	72	22320	27	(+) 6052	(-) 84

- The non-debt receipts of the State was higher than the PRE which was sufficient to meet this expenditure.
- Total primary expenditure increased by ₹ 10993 crore from ₹ 11327 crore to ₹ 22320 crore during the period 2006-11 which was due to increase of primary revenue expenditure by ₹ 7357 crore and capital expenditure by ₹ 3608 crore during the period during the period.

- During the period 2006-11 the State had primary revenue surplus which increased from ₹ 2357 crore in 2006-07 to ₹ 6052 crore in 2010-11. The primary deficit also reduced from ₹ 143 crore in 2006-07 to ₹ 84 crore in 2010-11.

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	2352	2367
Primary deficit	-101	-84
Fiscal deficit/GSDP	4.7	4.96

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 2010-11 over the previous years. While the revenue surplus increased and reached the peak level of ₹ 3767 crore in the current year, the fiscal and primary deficits have also shown considerable improvement.

Receipts and Expenditure

The expenditure pattern of the State reveals that the revenue expenditure 2006-11 continued to share a dominant proportion in the total expenditure of the State and was around 75 *per cent* during 2010-11. Moreover, within the revenue expenditure, the non-plan revenue expenditure at ₹ 17558 crore constituted about 95 *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 ratio of development expenditure/aggregate expenditure had increased in 2010-11 as compared to 2007-08.

The increase in the ratio of development expenditure to aggregate expenditure indicates that State has started attaching high 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

Though in absolute terms the growth rate of fiscal liabilities was 8.83 *per cent* during 2010-11 over the previous year, the ratio of these liabilities to GSDP decreased from 66.46 *per cent* in 2009-10 to 65.55 *per cent* in 2010-11.

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

Investment and Returns

The average return on investments during the five years (2006-11) was 9.62 *per cent* while the Government paid an average interest rate of 8.97 *per cent* on its borrowings during these years.

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

There was considerable improvement in debt sustainability of the State, however, the resource gap had increased during 2010-11.

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