

EXECUTIVE SUMMARY

Background

This Report on the finances of the Government of Jammu and Kashmir is brought out to assess the financial performance of the State during the year 2012-13 *vis-à-vis* the Budget Estimates and the targets set under the Fiscal Responsibility and Budget Management Act, 2006 and analyses the dominant trends and structural profile of Government's receipts and disbursement.

Based on the audited accounts of the Government of Jammu and Kashmir for the year ending 31 March 2013 and additional data collated from several sources such as the Economic Survey brought out by the State government and Census, this report provides an analytical review of the Annual Accounts of the State government in three Chapters.

Chapter-1 is based on the Finance Accounts and makes an assessment of Jammu and Kashmir Government's fiscal position during 2012-13 and as on 31 March 2013. It provides an insight into trends and profile of key fiscal aggregates, committed expenditure, borrowing pattern, etc.

Chapter-2 is based on Appropriation Accounts and it gives the grant-wise description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter-3 details Government's compliance with various reporting requirements and financial rules and non-submission of accounts.

Audit findings and recommendations

Trends in key fiscal aggregates: The State has continued to maintain revenue surplus since 2002-03 due to substantial allocation of grants from the Central government. The surplus declined from ₹ 2103 crore in 2011-12 to ₹ 1100 crore during 2012-13.

Service tax is the only Central tax that is presently not applicable to the State of Jammu and Kashmir. The State has its own service tax under State law. As per the assessment made by the 13th Finance Commission regarding likely Central service tax collection during 2010-15, the share (1.551 *per cent*) foregone by the State works out to ₹ 8363.38 crore. During 2011-12, service tax collection by the Union government was ₹ 97509 crore. Had this tax been applicable to Jammu and Kashmir, the State's share would have been about ₹ 1512 crore. On the other hand, the service tax collection under State law was less than ₹ 957 crore.

The State's share in Central taxes/ duties and Central grants together constituted on an average 76.51 *per cent* of the total revenue receipts of the State during 2002-12. It

declined to 69.5 *per cent* of the total revenue receipts during 2002-13. These non-debt resources financed on an average 64.9 *per cent* of total expenditure during 2002-12 and 59.9 *per cent* during 2012-13. The State's own resources though buoyant have proved to be insufficient to cover the revenue expenditure. There is continuing diversion of plan grants for meeting the non-plan revenue gap, to the extent of ₹ 3746 crore in 2012-13.

The State's own tax revenues have shown a steady increase, particularly the Commercial taxes. However, these were not sufficient enough to meet even the revenue expenditure of the State. The total expenditure of the State increased by 6.25 *per cent* from ₹ 28645 crore in 2011-12 to ₹ 30434 crore in 2012-13 while the capital expenditure decreased by 11.44 *per cent* (from ₹ 5899 crore during 2011-12 to ₹ 5224 crore during 2012-13) and revenue expenditure increased by 10.75 *per cent* from 2011-12 to 2012-13 (from ₹ 22,680 crore during 2011-12 to ₹ 25,117 crore during 2012-13). The percentage of developmental capital expenditure to total expenditure declined from 19.2 *per cent* in 2011-12 to 15.07 *per cent* in 2012-13. Capital expenditure shows a declining trend.

Non-plan revenue expenditure is dominated by four principal constituents, viz., salaries and other personnel costs of employees and para-employees, pensions and other post-retirement benefits, interest payments and Power Department's deficit (difference between amount paid to power producers and amount realised from power consumers). Together these four constitute nearly 63.32 *per cent* of total expenditure, 81.80 *per cent* of total non-plan revenue expenditure (₹ 23561 crore) and 241 *per cent* of State's own tax/ non-tax revenues (₹ 7993 crore).

Fiscal consolidation and regulation of debt/ deficit: The State enacted the Jammu and Kashmir Fiscal Responsibility and Budget Management Act (FRBM Act) in 2006, which was repeatedly amended to align the annual targets for fiscal deficit and total liabilities as per the recommendations of the Twelfth and Thirteenth Finance Commissions. The targets stood diluted due to change in the methodology of computation of GSDP after the Finance Commission awards but the targets were not tightened.

As per the customised fiscal correction path recommended by the 13th Finance Commission specifically for Jammu and Kashmir and the corresponding amendment made in the FRBM Act, the targeted fiscal deficit during 2010-11, 2011-12 and 2012-13 was 5.3, 4.7 and 4.2 *per cent* of GSDP of respective years. The actual fiscal deficit was 5.0, 5.9 and 5.5 *per cent*, respectively. Thus, the fiscal deficit target was not met during 2011-12 and 2012-13. The 'fiscal deficit' being reported in the Budget documents and the Statements presented with the Budget under the FRBM Act is at

variance with that computed from government accounts by following the definition given in the FRBM Act. The fiscal deficit target was missed despite postponement of certain committed liabilities like arrears of pay revision and payment for purchase of electricity.

Due to liquidation of high cost overdraft with Jammu and Kashmir Bank with the help of ₹ 1000 crore grants-in-aid from the Union government, the debt burden of the State has moderated. The overall fiscal liabilities increased by 11 *per cent* from ₹ 36267 crore at the end of 2011-12 to ₹ 40265 crore at the end of 2012-13. The 'fiscal liabilities' as a percentage of GSDP are within the targets set by the 13th Finance Commission, mainly on account of the denominator effect because the actual GSDP has turned out to be significantly higher than that projected by the 13th Finance Commission though the Commission had excluded certain one-off borrowings while setting the targets for 2010-15. 'Total liabilities' as defined under the FRBM Act are not being reported/ monitored/ targeted.

The pre-devolution non-plan revenue deficit was targeted to be brought down to 20 *per cent* of GSDP by 2008-09 under the FRBM Act and maintained thereafter. The same, however, was between 23 to 25 *per cent* during 2009-12.

The opening cash balance for the year 2012-13 was ₹ 961 crore. It decreased by ₹ 870 crore during 2012-13. This drawdown was necessitated due to increase in non-plan expenditure that could not be offset by reduction in plan expenditure or financed through any other means of financing.

The percentage of market loans to total liabilities increased from 29.6 *per cent* in 2008-09 to 38.5 *per cent* in 2012-13. Gradually increasing reliance on open market for debt financing exposes the State to market risks in due course. Presently, the maturity profile is such that there is no redemption pressure in short and medium term.

Major fiscal concerns: As the Government looks forward to diversification in the State's economy through increased industrialisation and modern agriculture as a prescription for sustained and inclusive, job creating economic growth, there are two potential drags on the State's economy. First is the steady increase in the unrecovered expenditure on procurement and supply of electricity and second is the steady expansion in the number and per capita expenditure on personnel (both regular and para employees). It is not a coincidence that the State's efforts at promoting industrialisation through substantial tax revenues being foregone by both the Union and State governments have demonstrably failed to enhance the level of industrialisation, as separately commented in detail in a previous Audit Report for 2011-12. Expansion in public employment (through ongoing regularisation of irregular appointments and expansion of administrative and service delivery

infrastructure) and the difficulties in management of electricity supply both act as disincentive to diversification of the economy. The power receipts accounted for nearly 74 per cent of non-tax revenue and covered only 36 per cent revenue expenditure on Power Development Department in 2012-13. Addressing Power Sector reforms should continue to be a priority area for the State government. These need the government's attention.

Government investments: The State government had invested ₹ 498.25 crore as on 31st March 2013 in Statutory Corporations, Government Companies and Co-operative Societies, including ₹ 25.78 crore invested in Jammu and Kashmir Bank Ltd in which the Government holds 53 per cent equity. Total returns of ₹ 87.35 crore was received during 2012-13, almost entirely from the Jammu and Kashmir Bank, which has had a consistent record of profitability.

Outcome Budget: There is no system of outcome/ performance budgeting/ reporting by the departments to the State Legislature as the departments do not prepare annual reports of their activities and achievements.

Oversight of funds transferred directly to the State implementing agencies: There is no single agency monitoring its use and regular availability of data on actual expenditure *vis-à-vis* receipts in any particular year on major flagship schemes and other important schemes, which are being implemented by State implementing agencies and are funded directly by the Government of India. In order to ensure proper accounting of these funds and the updated information, a system may be evolved by the State government.

Financial management and budgetary control: During 2012-13, there was overall saving of ₹ 1089.70 crore in 29 grants/ appropriations. This was the result of saving of ₹ 5831.27 crore in 23 grants and three appropriation under Revenue Section and 22 grants under Capital Section which is offset by excess of ₹ 4741.57 crore in six grants and one appropriation under Revenue Section and seven grants and one appropriation under Capital Section. In 15 cases, expenditure aggregating ₹ 12,543.29 crore exceeded by ₹ 4,741.57 crore the total approved provisions of ₹ 7801.72 crore.

As the Appropriation Accounts have not been discussed by the Public Accounts Committee since 1980-81, excess expenditure aggregating to ₹ 90,198.17 crore for the years 1980-2012 is yet to be regularised by the State Legislature.

Audit noticed persistent errors in budgeting, persistent savings¹, excess expenditure, expenditure without provision. In 42 cases, anticipated savings were either not

¹ Can also be termed as shortfall in the utilization of funds.

surrendered or surrendered at the end of the year in the month of March leaving no scope for utilizing these funds for other development purposes.

Against a total amount of ₹ 2667.61 crore drawn on AC bills by various Drawing and Disbursing Officers (DDOs) during 1995-2013, corresponding DC bills were not submitted (June 2013) to the Accountant General (A&E), Jammu and Kashmir.

Financial reporting: There were delays in furnishing utilisation certificates against the loans and grants from various grantee institutions. Abnormal delays of 1-18 years were noted in submission of annual accounts by some of the departmental commercial undertakings and Autonomous Bodies.

Follow up on previous Reports on State Finances: No action taken report has been sent by the Finance Department to the Public Accounts Committee on the Audit observations/ recommendations contained in any of the previous Reports on State Finances. None of these Reports have yet been discussed by the Public Accounts Committee.