

Chapter-I
Finances of the State Government

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

This chapter provides a broad perspective of the finances of the Government of Jammu and Kashmir during the financial year 2018-19 by benchmarking against past trends of major fiscal aggregates and its structural profile. *Appendix 1.1* contains profile of Jammu & Kashmir and the development indicators relating to major infrastructure and *Appendix 1.2* contains the structure and layout of the Finance Accounts of the State Government on which this Report is based. *Appendix 1.3* briefly outlines the methodology adopted for assessment of the fiscal position of the State.

1.1 Profile of the State

The State of Jammu and Kashmir (J&K) is strategically located with its borders touching Pakistan and China and is spread over a geographical area of 2.22 lakh sq.kms, which includes an area of 1.21 lakh sq. kms under illegal occupation of China and Pakistan. Jammu & Kashmir is the 6th largest state of India occupying 6.76 *per cent* of the country's geographical area. The three regions of the State viz., Kashmir, Jammu and Ladakh have been organized into 22 districts. Consequent to the reorganization of the State of Jammu and Kashmir, under the Jammu & Kashmir Reorganization Act, 2019, the State of Jammu and Kashmir has been reorganized as Union Territory of Jammu & Kashmir and Union Territory of Ladakh (31 October 2019).

As per Census, the State's population was 1.28 crore (2019). The decadal growth rate in population declined to 23.71 *per cent* during 2001-2011 from 29.43 *per cent* during 1991-2001. The population density of the State increased from 100 per sq km in 2001 to 124 per sq km in 2011. The overall sex ratio declined from 892 in 2001 to 889, as per census 2011.

During the decade 2001-2011, literacy rate increased from 55.52 *per cent* to 67.16 *per cent* in the State, as against 64.84 *per cent* to 72.99 *per cent* at national level.

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognized final goods and services produced within the State in a given period of time. The growth of GSDP is an important indicator of standard of living of the State's population. The trends in the annual growth of India's GDP and GSDP of Jammu and Kashmir at current prices and constant prices are given below:

Table-1.1: Comparative statement of GDP vis-à-vis GSDP

Year	2014-15	2015-16	2016-17	2017-18	2018-19
Current Prices					
India's GDP (₹ in crore)	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate of GDP (Percentage)	10.99	10.46	11.55	11.28	11.20

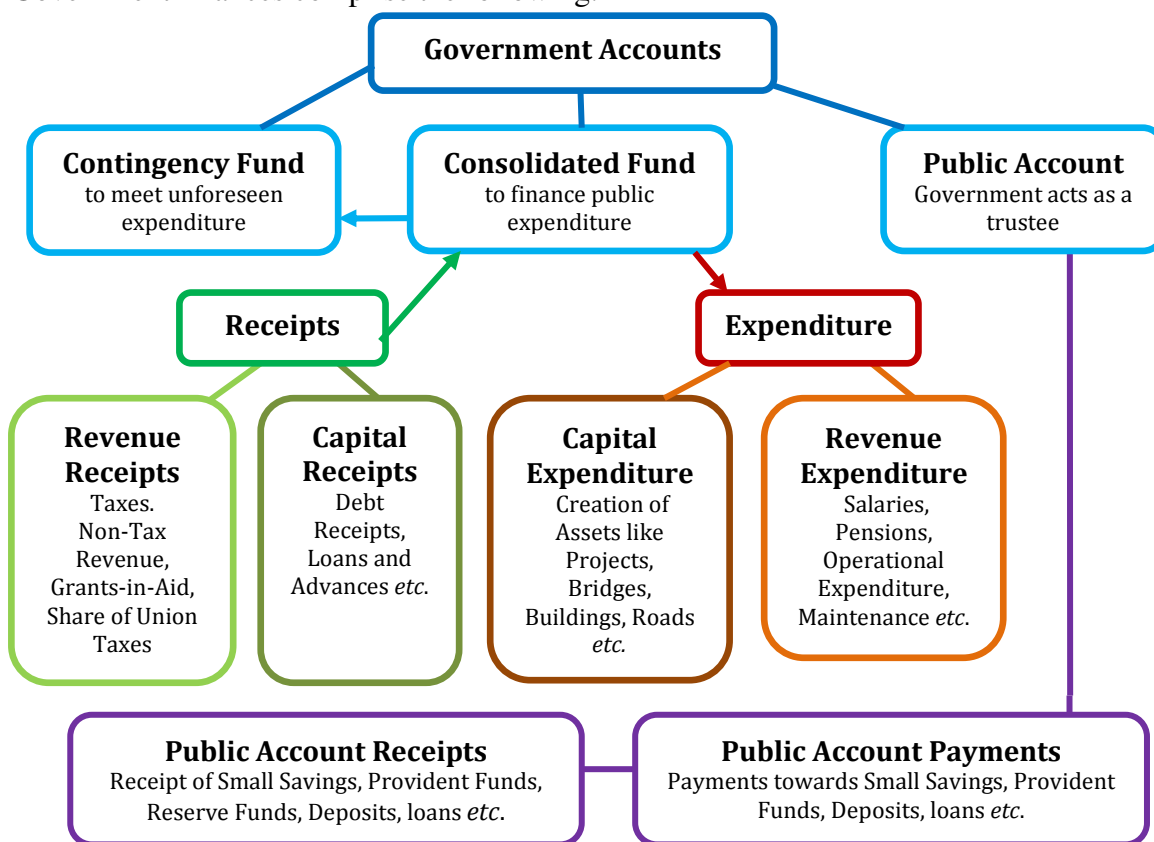
State's GSDP (₹ in crore)	98,370	1,17,168	1,25,379	1,38,488	1,54,441*
Growth rate of GSDP (Percentage)	2.88	19.11	7.00	10.46	11.52
Growth rate of Neighboring States @					
Punjab	6.91	9.85	9.46	12.21	8.92
Himachal Pradesh	9.51	10.09	9.53	9.13	11.20
Constant Prices (Base year 2011-12)					
India's GDP (₹ in crore)	1,05,27,674	1,13,69,493	1,22,98,327	1,31,79,857	1,40,77,586
Growth rate of GDP (Percentage)	7.41	8.00	8.17	7.17	6.81
State's GSDP* (₹ in crore)	82,372	97,001	1,00,730	1,07,580	1,14,639
Growth rate of GSDP (Percentage)	(-)3.22	17.76	3.84	6.80	6.56

(Source: Web site of the Ministry of Statistics and Programme Implementation, Government of India) * Directorate of Economics and Statistics Department, J&K, @O/o the A.G (Audit) of respective states

1.1.1 Summary of Fiscal Transactions

Chart: 1.1 Structures of Government Accounts

Government finances comprise the following:



Source: Based on Budget Manual

The summary of the State Government's fiscal transactions (*Appendix 1.4 and 1.5*) during the current year (2018-19) *vis-à-vis* the previous year (2017-18) is given below:

Table 1.2 Summary of current year's fiscal operations

(₹ in crore)

Receipts			Disbursements		
	2017-18	2018-19		2017-18	2018-19
Section-A: Revenue			Section-A: Revenue		
State's Own Tax Revenue	9,536	9,826	General Services	16,888	22,850
State's Own Non-Tax Revenue	4,362	4,349	Social Services	13,117	17,931
Share of Union Taxes/Duties	11,912	13,990	Economic Services	10,911	15,309
Grants from Government of India	22,702	23,066	-	-	-
Revenue Receipts	48,512	51,231	Revenue Expenditure	40,916	56,090
Section-B: Capital			Section-B: Capital		
-	-	-	Capital Outlay	10,353	8,413
Recoveries of Loans and Advances	4	4	Loans and Advances disbursed	25	69
Public Debt Receipts\$	25,557	25,336	Repayment of Public Debt \$	22,490	20,647
Contingency Fund	-	-	Contingency Fund	-	-
Public Account Receipts@	15,122	18,261	Public Account disbursements#	15,286	9,656
Opening Cash Balance	429	554	Closing Cash Balance	554	511
Total	89,624	95,386		89,624	95,386

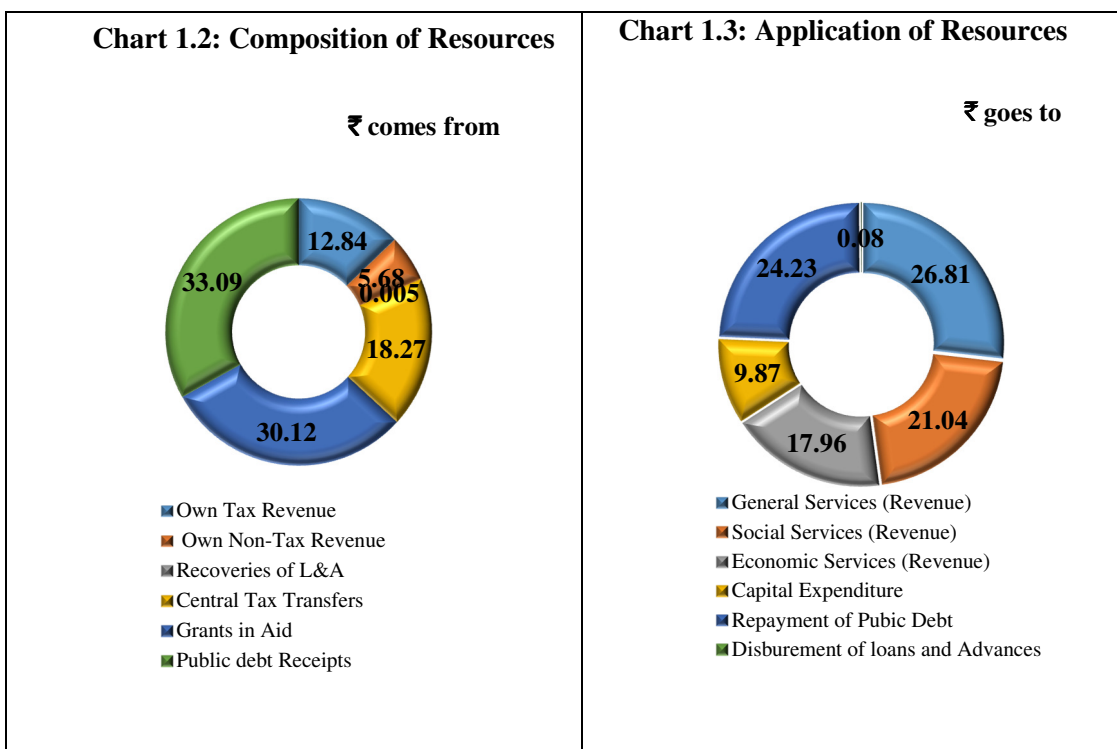
(Source: Finance Accounts of respective years)

@# These exclude transactions of investment of cash balances and departmental cash chests (@ ₹20,846 crore receipts, # ₹20,846 disbursements). The net effect of these transactions is included in the opening and closing cash balances in the row next below.

\$ includes Ways and Means Advances

Appendix 1.5 provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Composition of sources and application of funds in the Consolidated Fund of the State during 2018-19 is given in **Chart 1.2** and **Chart 1.3**.



1.1.2 Review of the fiscal situation

Fiscal reforms path in Jammu and Kashmir

Jammu and Kashmir Fiscal Responsibility and Budget Management (FRBM) Act was enacted on 14 August 2006. The principal objective of the Act was reducing the Fiscal Deficit to three *per cent* of GSDP by 2009-10. Essential obligations cast on the Government under the FRBM Act, amendments made to it and its implementation are detailed in *Appendix 1.6 & Appendix 1.7* respectively.

The Fourteenth Finance Commission (14th FC) has projected an average annual growth rate of 11.78 *per cent* for GSDP for the State w.e.f 2015-16 to 2019-20. Keeping in view the recommendations regarding growth, revenues and fiscal management, new set of targets have been fixed.

Major fiscal variables provided in the budget, based on the recommendations of the 14th FC and as projected by the State in Budget are given below:

Table 1.3: Variations in major fiscal variables from projections (percentage of GSDP)

Fiscal variables	2018-19				
	Projection as per 14 th FC	Targets proposed in/ the Budget	Actuals	Variation of actuals from projections	
				Targets prescribed by 14 th FC	Targets of Budget
1	2	3	4	5	6
Revenue Deficit (-)/ Surplus (+)	(-) 8.66	8.31	(-)3.15	(-)5.51	(-)11.46
Fiscal Deficit/ GSDP	3	6.15	8.64	5.64	2.49
Ratio of total outstanding liabilities to GSDP	47.30	-	51.22	3.92	-

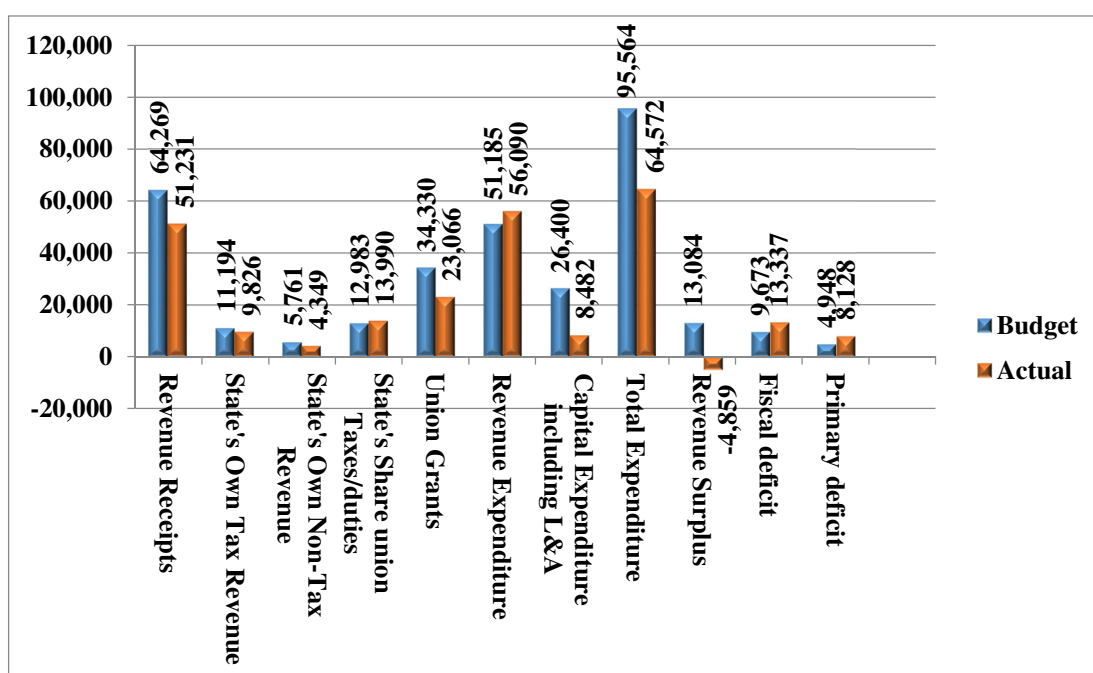
The percentage of fiscal deficit with respect to GSDP could not be kept within the projections of 14th FC as well as target made in budget. There was Revenue Deficit against a projection of Revenue Surplus in the budget Estimates. The ratio of outstanding liabilities (Fiscal Liabilities) to GSDP at 51.22 *per cent* was higher than the recommendations of 14th FC.

1.1.3 Budget Estimates and Actual

The budget papers provide estimates of revenue and expenditure for a particular fiscal year. The estimation of revenue and expenditure should be made as accurately as possible so that variations can be analysed to find out the causes. The Budget estimates and actual for some important fiscal parameters are given below:

Chart 1.4: Selected Fiscal Parameters: Budget Estimates *vis-a-vis* Actuals for 2018-19

(₹ in crore)



(Source: Budget and Finance Accounts)

The State Government could not achieve the budget targets *vis-à-vis* actual as detailed below:

As against the targeted Revenue Receipt of ₹64,269 crore, the actual Revenue Receipts were ₹51,231 crore (79.71 *per cent*) mainly due to less receipt of Grant-in-Aid.

The Non-Tax Receipts was only ₹4,349 crore (75.49 *per cent*) against the anticipated receipt of ₹5,761 crore mainly due to lesser receipts under Power.

The Revenue Expenditure was excess by ₹4,905 crore than the budget provision of ₹ 51,185 crore because of excess expenditure in Economic Services under Agriculture Sector, Rural Development and Transport Sector.

The Capital Expenditure including Loans and Advances was lesser by ₹17,918 crore at ₹8,482 crore, against the Budget Estimate of ₹26,400 crore because of lesser

expenditure in all three services i.e General Services, Social Services and Economic Services.

The State Government could not achieve the targets of Revenue Surplus as there was Revenue Deficits of ₹4,859 crore because of implementation of Seventh Pay Commission by the State Government and lower Revenue Receipts to higher Revenue Expenditure also affected in achieving the targets of Fiscal Deficits and Primary Deficits.

1.1.4 Buoyancy Ratios

Buoyancy Ratios indicate the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. The Buoyancy Ratios of Revenue Receipts, State's Own Tax Revenue, Total Expenditure and Liabilities with respect to GSDP are given below:

Table 1.4: Buoyancy Ratios of Revenue Receipts, State's Own Tax Revenue, Total Expenditure and Fiscal Liabilities in comparison to GSDP

	2014-15	2015-16	2016-17	2017-18	2018-19
GSDP (₹ in crore)	98,370	1,17,168	1,25,379	1,38,488	1,54,441
Rate of Growth of GSDP (in per cent)	2.88	19.11	7.00	10.46	11.52
Revenue Receipts (RR)					
RR during the year (₹ in crore)	28,939	35,781	41,978	48,512	51,231
Rate of Growth of RR (in per cent)	6.68	23.64	17.31	15.56	5.60
Buoyancy of RR with GSDP	2.32	1.24	2.47	1.49	0.49
State's Own Tax Revenue (SOTR)					
SOTR during the year (₹ in crore)	6,334	7,326	7,819	9,536	9,826
Rate of Growth of SOTR (in per cent)	0.97	15.66	6.73	21.96	3.04
Buoyancy of SOTR with GSDP	0.34	0.82	0.96	2.10	0.26
Total Expenditure (TE)					
TE during the year (₹ in crore)	34,550	43,845	48,174	51,294	64,572
Rate of Growth of TE (in per cent)	9.04	26.9	9.87	6.48	25.89
Buoyancy of TE with GSDP	3.14	1.41	1.41	0.62	2.25
Fiscal Liabilities (FL)					
Fiscal Liabilities at the end of the year (₹ in crore)	48,314	55,358	62,219	68,217	79,105
Rate of Growth of FL (per cent)	8.15	14.57	12.39	9.64	15.96
Buoyancy of FL with GSDP	2.83	0.76	1.77	0.91	1.39

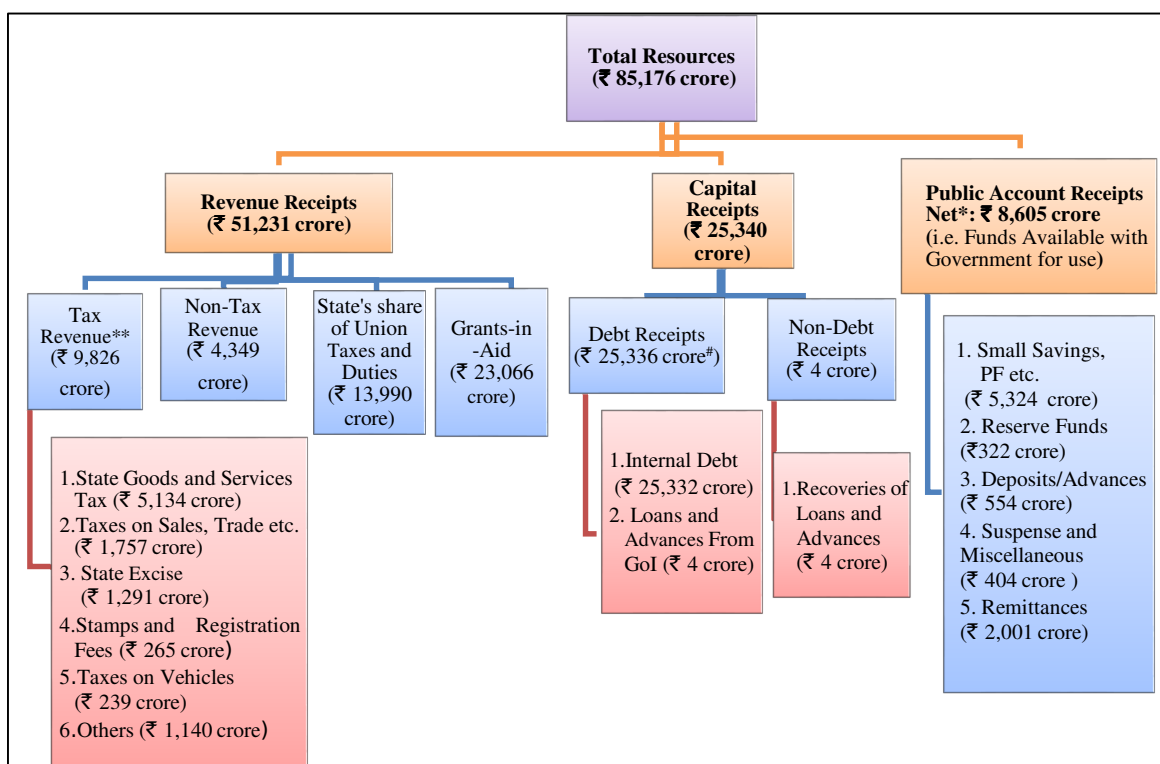
(Source: Finance Accounts of respective years)

The Buoyancy of RR, SOTR with reference to GSDP was lower during 2018-19 in comparison to 2017-18 as the growth rate of RR and SOTR was lower during 2018-19 as compared to the previous year. The growth rate of TE has remained more than the growth rate of GSDP during 2014-15 to 2018-19 except during 2017-18. The buoyancy of TE and liabilities was higher than the RR and SOTR during 2018-19.

1.2 Resources of the State as per Finance Accounts 2018-19

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue Receipts consist of Tax Revenues, Non-Tax Revenues, State's share of Union Taxes and Duties and Grants-in-Aid from the Government of India (GoI). Capital Receipts comprise Miscellaneous Capital Receipts such as proceeds from Disinvestments, Recoveries of Loans and Advances, Debt Receipts from internal sources (Market Loans, Borrowings from financial institutions/commercial banks) and Loans and Advances from GoI as well as accruals from Public Account. **Table 1.2** presents the receipts and disbursements of the State (**Appendix 1.4**) during the current year *vis-a-vis* the previous year as recorded in its Annual Finance Accounts while **Chart 1.6** depicts the trends in various components of the receipts of the State during 2014-19, **Chart 1.5** shows the composition of resources of the State during the current year are given below:

Chart 1.5: Components and sub component of the resources



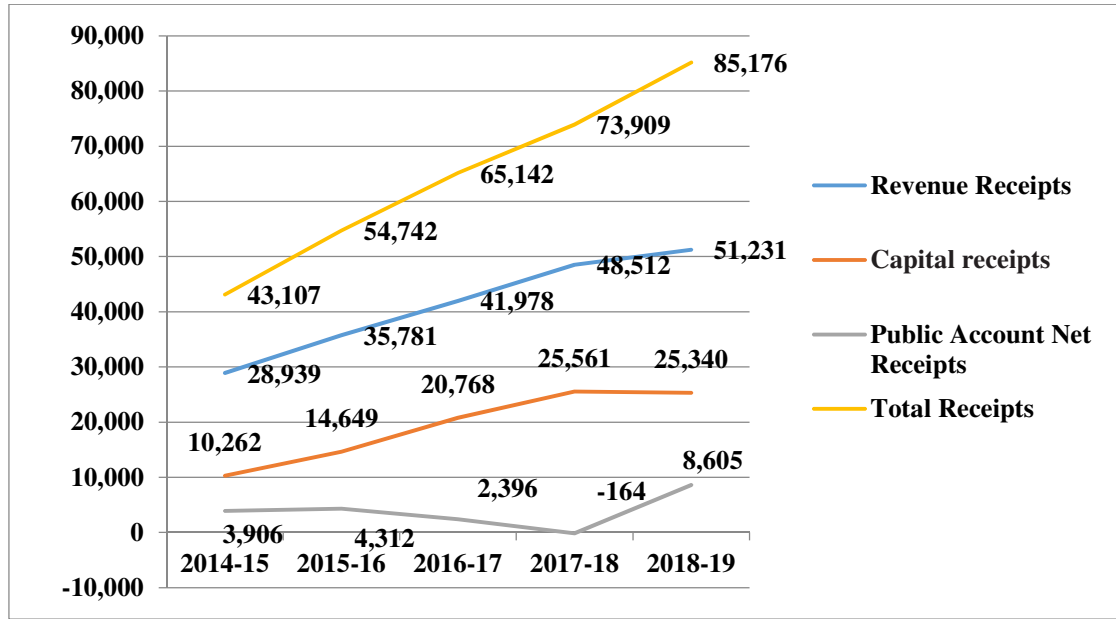
*Public Accounts Receipts Net (₹8,605 crore) = Public Accounts Receipts (₹39,107 crore) less Public Accounts Disbursements (₹30,502 crore)

**does not include compensation of ₹1,462 crore received due to implementation of GST (included in GIA)

Includes Ways and Means Advance.

Chart 1.6: Trends in Resources of State

(₹ in crore)

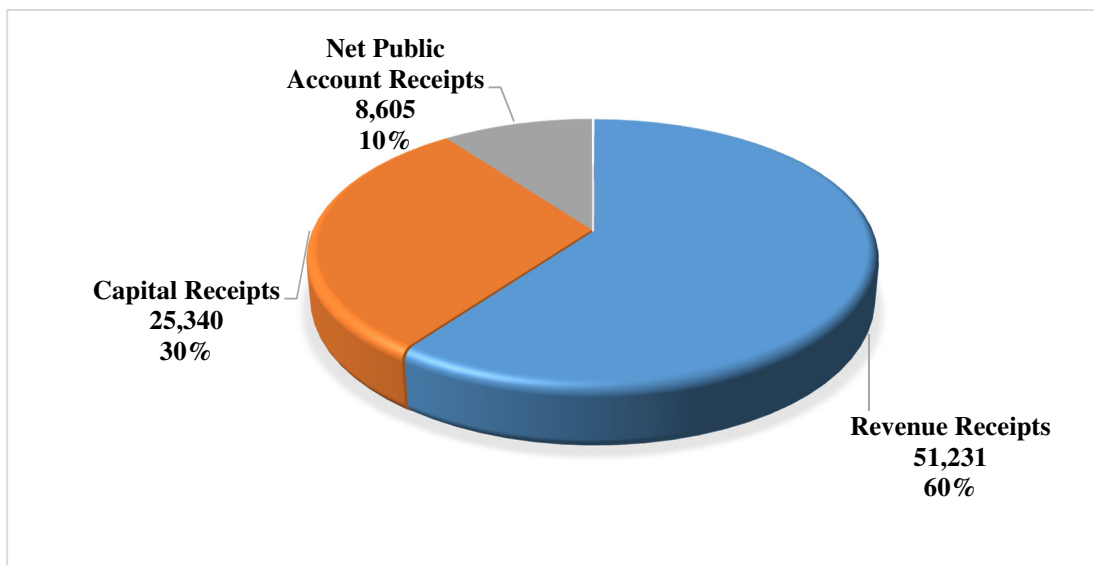


(Source: Finance Accounts of the respective years)

The Revenue Receipts and the Total Receipts showed upward trend during 2014-15 to 2018-19. The Revenue Receipts increased by ₹2,719 crore during 2018-19 over the previous year. The Public Account Net Receipts also showed upward trend in 2014-15 to 2015-16. It, however, decreased from ₹4,312 crore in 2015-16 to ₹2,396 crore in 2016-17 and during 2017-18, there was surplus of payment over receipts of ₹164 crore due to less receipt under Remittances. During 2018-19 the Net Public Account Receipt increased to ₹8,605 crore due to increase in receipts in Small Savings as compared to the previous year and due to less disbursement of remittances as compared to receipt of remittances.

The Capital Receipts showed upward trend from ₹10,262 crore in 2014-15 to ₹25,561 crore in 2017-18. The Capital Receipts decreased to ₹25,340 crore in 2018-19 from ₹25,561 crore in 2017-18. Ratio of Revenue Receipts to Total Receipts showed declining trend, decreasing from 67.13 per cent in 2014-15 to 60.15 per cent in 2018-19. Revenue Receipts increased by 5.60 per cent during 2018-19 over the previous year.

Chart 1.7: Component of Resources of State during 2018-19
(₹ in crore)

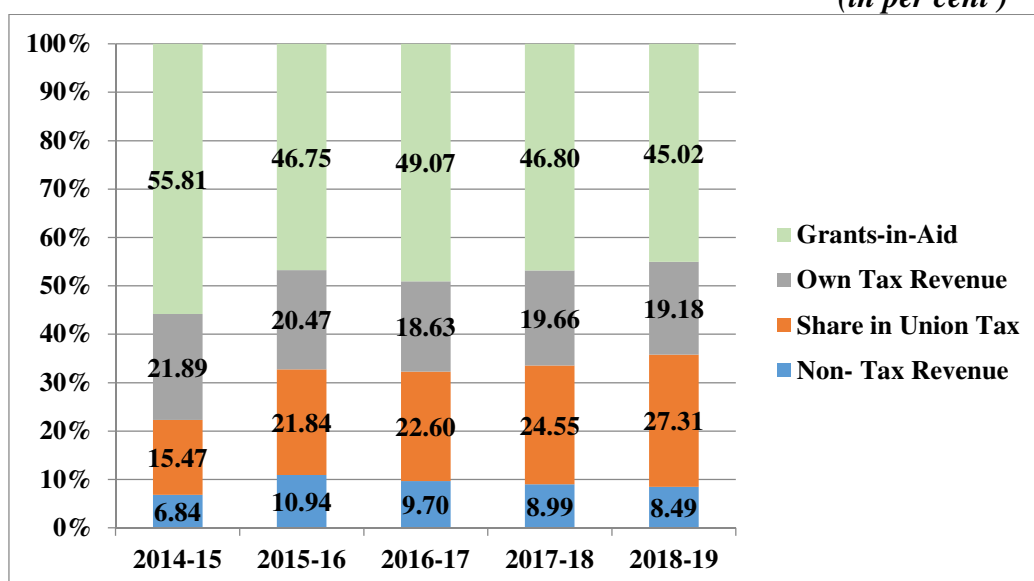


Revenue Receipts in 2018-19 with respect to the previous year has increased by ₹2,719 crore from ₹48,512 crore to ₹51,231 crore (five per cent), Capital Receipts decreased by ₹221 crore during 2018-19 from ₹25,561 crore to ₹25,340 crore and Public Account Net Receipts increased by ₹8,769 crore during 2017-18 to 2018-19. The Revenue Receipts constitute 60 per cent of Total State resources (₹85,176 crore) Capital Receipts constitutes 30 per cent and Net Public Accounts Receipt constitute 10 per cent of total State resources.

1.3 Revenue Receipts

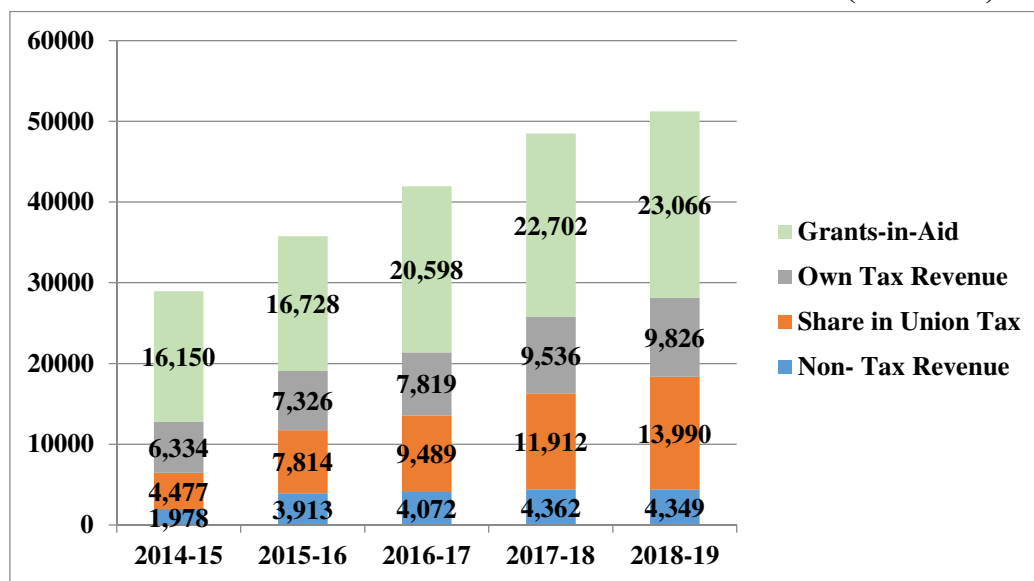
The trends and composition of Revenue Receipts over the period 2014-15 to 2018-19 are presented in *Appendix 1.4* and also depicted below:

Chart 1.8: Composition of Revenue Receipts during 2014-15 to 2018-19
(in per cent)



(Source: Finance Accounts of respective years)

Chart 1.9: Composition of Revenue Receipts during 2014-15 to 2018-19
(₹ in crore)



(Source: Finance Accounts of respective years)

The Revenue Receipts of the State increased by 77.03 per cent during the period from 2014-15 to 2018-19 (₹28,939 crore to ₹51,231 crore). Transfers from the Union Government of State's share in Union taxes and duties and Grants-in-Aid together constituted 71.28 per cent of the State's Revenue Receipts during 2014-15 which increased to 72.33 per cent during 2018-19. The share of Own Tax Revenue constituted 21.89 per cent of the Revenue Receipts during 2014-15 which decreased to 19.18 per cent in 2018-19. Share of Non-Tax Revenue constituted 6.84 per cent in 2014-15 which increased to 8.49 per cent in 2018-19.

The Revenue Receipts increased by ₹2,719 crore (5.60 per cent) during 2018-19 over the previous year, mainly due to increase in the State's share in the Union Taxes and Duties ₹2,078 crore (17.44 per cent), Grants-in-Aid from Government of India by ₹364 crore and State's Own Tax Revenue increased by ₹290 crore. The trends in Revenue Receipts relative to SOTR are given below:

Table 1.5: Trends in Revenue Receipts relative to SOTR

	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Receipts (RR) (₹ in crore)	28,939	35,781	41,978	48,512	51,231
Rate of growth of RR (per cent)	6.68	23.64	17.31	15.56	5.60
State's Own Tax Revenues (SOTR) (₹ in crore)	6,334	7,326	7,819	9,536	9,826
Rate of growth of State's Own Tax Revenue (SOTR) (per cent)	0.97	15.66	6.73	21.96	3.04

(Source: Finance Accounts of respective years)

The growth rate of both Revenue Receipts and State's Own Tax Revenues was fluctuating during the period from 2014-15 to 2018-19. The growth rate of Revenue Receipts in the current year was 5.60 per cent which was lower than the growth rate of

11.64 per cent in Special Category States (SCS) (**Appendix 1.1**). The increase in Revenue Receipts was due to increase in State Share of Union Taxes/Duties.

1.3.1 State's Own Resources

As the State's share in Central Taxes and Grants-in-Aid is determined on the basis of recommendations of the Finance Commission, the State's performance in mobilization of resources is assessed in terms of its own resources comprising Own Tax and Non-Tax sources.

The State's Own Tax and Own Non-Tax Receipts for the year 2018-19 *vis-a-vis* assessment made by 14th FC are given below:

Table 1.6: Actual Tax and Non-Tax receipts *vis-à-vis* assessment made by 14th FC
(₹ in crore)

Particulars	14 th FC Projections	Budget Estimates	Actual	Per cent age variation of actual over	
				14 th FC projections	Budget Estimates
Own Tax Revenue	13,221	11,194	9,826	(-)26	(-)12
Own Non-Tax Revenue	1,092	5,761	4,349	298	(-)25
Total	14,313	16,955	14,175		

The collection under State's Own Tax Revenue fell short by 26 per cent of the projections made by 14th FC and 12 per cent of Budget Estimates. The receipts under Own Non-Tax Revenue were more by 298 per cent of the projections made by 14th FC but fell short by 25 per cent of Budget Estimates.

Thus, the State Government could not achieve its own targets projected in the Budget Estimates. The State's Own Resources (Own Tax Revenue and Own Non-Tax Revenue) of ₹14,175 crore during 2018-19 was not enough to cover its committed liabilities (salaries & wages, interest payments, pension and subsidies) of ₹38,186 crore (**Para 1.6.3**).

1.3.1.1 Tax Revenue

The gross collection in respect of major taxes and duties are given in **Table 1.7** which also depicts the trends in various components of Own Tax Revenue of the State during 2014-15 to 2018-19.

Table 1.7: Components of State's Own Tax Revenue

Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19
Sales Tax	4,602	5,277	6,012	4,493	1,757
GST	0	0	0	2,611	5,134
State Excise	466	533	569	833	1,291
Stamps and Registration Fee	248	264	228	307	265
Taxes on Vehicle	132	145	150	228	239
Taxes and Duties on Electricity	313	429	90	179	189
Land Revenue	15	12	17	29	41
Others	558	666	753	856	910
Total	6,334	7,326	7,819	9,536	9,826

(Source: Finance Accounts of respective years)

Sales Tax and Goods and Services Tax (GST) increased by ₹2,289 crore from ₹4,602 crore to ₹6,891 crore during 2014-15 to 2018-19 while there was decrease of ₹213 crore during 2018-19 over the previous year.

Collection of State Excise increased from ₹466 crore to ₹1,291 crore during the period from 2014-15 to 2018-19, an increase of 177 *per cent*. There is increase in Excise duty by 55 *per cent* in 2018-19 over the previous year due to levy of additional assessment fee @ 31.5 *per cent* on sale of liquor w.e.f 01/09/2017.

The collection of Stamps and Registration fee increased from ₹248 crore to ₹307 crore during 2014-15 to 2017-18 while the collection decreased by ₹42 crore during 2018-19 over the previous year mainly due to less receipts under sale of Stamps during the current year.

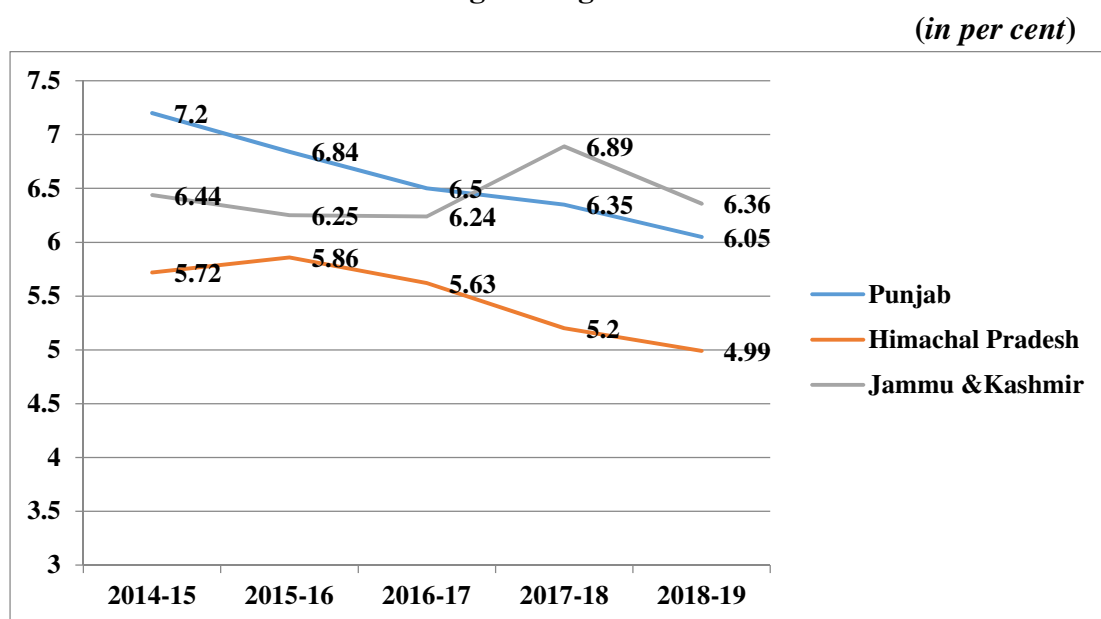
Taxes on Vehicle collection increased from ₹132 crore to ₹239 crore during the same period, an increase of 81.06 *per cent*. The collection of Taxes on Vehicle increased from ₹228 crore in 2017-18 to ₹239 crore in 2018-19.

Taxes and Duty on Electricity decreased from ₹313 crore in 2014-15 to ₹90 crore in 2016-17 due to decrease in rate of Electricity Duty from 22 *per cent* to 10 *per cent* and it has increased from ₹90 crore in 2016-17 to ₹189 crore in 2018-19.

State Own Tax Revenue (SOTR) increased by ₹3,492 crore (55 *per cent*) during 2014-15 to 2018-19. The State Own Tax Revenue increased by ₹290 crore from ₹9,536 crore during 2017-18 to ₹9,826 crore in 2018-19.

The comparison of State's Own Tax Revenue to GSDP with neighboring States from 2014-15 to 2018-19 is given below:

Chart 1.10: Comparison of State's Own Tax Revenue to GSDP with neighboring States*



*figures provided by respective AsG (Audit)

The ratio of Own Tax Revenue to GSDP was lower than Punjab during 2014-15 to 2016-17 but remained higher than Himachal Pradesh during 2014-15 to 2018-19. However, during 2018-19 the ratio of Own Tax Revenue to GSDP (percentage) of Jammu and Kashmir was higher than the neighbouring States of Himachal Pradesh and Punjab.

Goods and Services Tax

State Government implemented the Goods and Services Tax (GST) Act which became effective from 8th July 2017. According to GST (Compensation to the States) Act 2017, Central Government will compensate the States for loss of revenue arising on account of implementation of GST for a period of five years. The compensation payable to the State shall be calculated for every financial year after the receipt of final revenue figures, as audited by the CAG of India. The base year (2015-16) revenue figure was finalized under GST Act. In case of Jammu and Kashmir, the Revenue was ₹4,766.30 crore during the base year (2015-16). The projected revenue for any year in a State shall be calculated by applying the projected growth rate (14 per cent per annum) over the base year revenue of that State.

The projected revenue for the year 2018-19 in accordance with base year figure was ₹7,061.48 crore¹. Against the projected revenue of ₹7,061.48 crore for the year 2018-19, the Revenue Receipt of the State Government under GST including collection of taxes subsumed in GST during the year 2018-19 remained at ₹5,391.86 crore as detailed in **Table 1.8**. Against the actual loss of ₹1,669.62 crore due to implementation of GST, the State Government received compensation to the tune of ₹1,462 crore, It has resulted in less compensation to the extent of ₹207.62 crore, as given below:

Table 1.8: Pre-GST and SGST collected, provisional apportionment of IGST and compensation received from GOI against protected revenue

(₹ in crore)

Month	Monthly revenue to be protected	Pre-GST collected	SGST collected *	Provisional apportionment of IGST	Total amount received	Compensation received	Total	Surplus (+)/ Deficit(-)
	1	2	3	4	5=(2+3+4)	6	7=(5+6)	8=1-(5+6)
April-18	588.45	10.31	178.45	209.54	398.30	0	398.30	(-)190.15
May-18	588.45	17.06	119.88	196.88	333.82	23.00	356.82	(-)231.63
June-18	588.45	6.66	119.40	218.19	344.25	0	344.25	(-)244.20
July-18	588.45	7.29	134.41	515.79	657.49	147.00	804.49	216.04
Aug-18	588.45	12.71	129.70	225.78	368.19	0	368.19	(-)220.26
Sep-18	588.45	3.17	128.92	292.94	425.03	415.00	840.03	251.58
Oct-18	588.45	4.15	132.80	226.04	362.99	0	362.99	(-)225.46
Nov-18	588.45	2.42	127.03	444.38	573.83	292.00	865.83	277.38

¹ $4766.30 \times (1 + 14/100)^3 = 7061.48$ for 2018-19 and for one month will be $7061.48/12 = 588.45$

Dec-18	588.45	13.67	133.82	340.43	487.92	0	487.92	(-)100.53
Jan-19	588.45	157.98	159.36	226.75	544.09	282.00	826.09	237.64
Feb-19	588.45	2.72	137.61	167.37	307.70	0	307.70	(-)280.75
Mar-19	588.53	19.49	180.44	388.32	588.25	303.00	891.25	302.72
Total	7,061.48	257.63	1,681.82	3,452.41	5,391.86	1,462.00	6,853.86	(-)207.62

* State Taxes Department, J&K

Advance apportionment from IGST

During the year 2018-19, the State Government has collected an amount of ₹5,134.23 crore as GST, which includes an amount of ₹298.00 crore received on account of advance apportionment of Integrated Goods and Services Tax (IGST). In addition, an amount of ₹1,462.00 crore has also been received as Compensation from Government of India.

Audit of GST Receipts

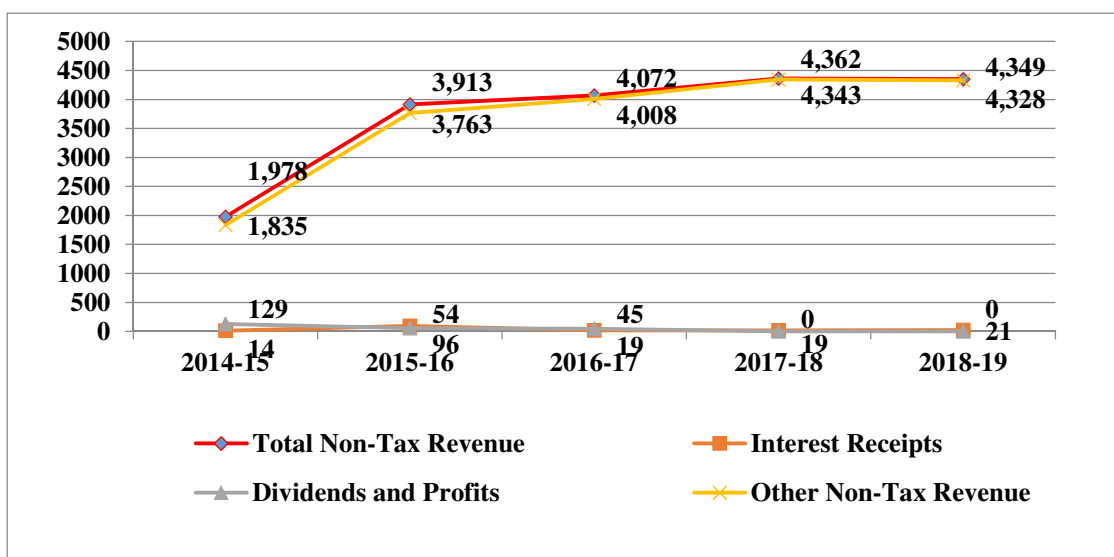
With automation of the collection of Goods and Services Tax (GST) having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfill the CAG’s Constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

1.3.1.2 Non Tax Revenue

Growth of Non-Tax Revenue during five years (2014-15 to 2018-19) is given in **Chart 1.11** and **Table 1.19** depicts the trends in various components of Non-Tax Revenue of the State during 2014-15 to 2018-19.

Chart 1.11: Non-Tax Revenue

(₹ in crore)



(Source: Finance Accounts of respective years)

Table 1.9: Growth of Non-Tax Revenue during 2014-15 to 2018-19

(₹ in crore)					
Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19
Interest receipts	14 (8)	96(585)	19(-80)	19 (0)	21(11)
Dividends and Profits	129 (0)	54(-58)	45(-17)	0 (-100)	0(0)
Other non-tax receipts	1,835(-33)	3,763(105)	4,008(7)	4,343(8)	4,328(-0)
Forestry and wild Life	71	68	14	18	20
Power	1,428	1,477	2,770	3,151	3,246
Miscellaneous*	166	204	221	266	273
Others**	170	2,014	1,003	908	789
Total	1,978	3,913	4,072	4,362	4,349

* Miscellaneous depts. Public Works, Medical & Public Health, Water Supply & Sanitation, Police, Non Ferrous Mining & Metallurgical Industries, Crop Husbandry, Animal Husbandry.

**Others:-Pension and Misc. General Services, Labour and Employment, Other Administrative Services, Stationery & Printing, Minor Irrigation, OSAP, Fisheries, Education etc, Village and Small Industries, Housing, Social Security & Welfare, Medium Irrigation, Tourism and others.

(The percentage increase over previous year is shown in parenthesis)

Source: Finance Accounts of respective years

Non-Tax Revenue increased by ₹2,371 crore (120 per cent) during 2014-15 to 2018-19. The receipt under category 'others' has decreased from ₹2,014 crore in 2015-16 to ₹789 crore in 2018-19 due to abolition of Abiyana (Irrigation Tax). Non-Tax Revenue (₹4,349 crore) constituted 8.49 per cent of the Revenue Receipt (₹51,231 crore) during 2018-19, registering an decrease of ₹13 crore over the previous year, mainly due to decrease in receipt under Medium Irrigation, Public Works and Pension and Misc. General Services.

The receipts from the sale of Power, being a major constituent of Non-Tax Revenue, increased from 72.19 per cent of the Total Non-Tax Revenue during the year 2014-15 to 74.63 per cent in 2018-19 and it increased by 3.01 per cent during 2018-19 over the previous year.

The receipts under "Others" category include Water Usage Charges. The Water Usage Charges are being levied @ 25 paise per cusec of water on Hydel power generating companies under the provisions of the Jammu and Kashmir Water Resources (Regulation and Management) Act, 2010 amended on 25 October 2012 and 27 October 2014. Under the Act, the proceed of the levy are to be credited into a separate Savings Bank Account maintained by the Secretary, Finance Department, to be utilized for establishment of Hydroelectric and Multi-purpose Hydroelectric Projects and for buying back Hydro electric Power Projects already established in the State and purchase of power. During the year 2018-19, the State Government collected ₹674.97 crore on account of Water Usage Charges which has been adjusted on account of purchase of power and the balance in bank account at the end of March 2019 was ₹4.34 crore and interest earned thereon, which was kept out of Consolidated Fund of State.

Burden of unrecovered cost of Power from consumers, Creation of liability due to less payment on account of power purchase

The function of electricity supply to consumers is handled departmentally in the State, as de-bundling and power reforms have not yet been achieved (March 2019). Hence, the receipts and expenditure on procurement and supply of electricity forms part of the State Government accounts. Steadily rising gap between the Revenue Expenditure of the Power Development Department and Revenue Receipts is the most significant

structural imbalance in the Budget of the Government and a drain on the resources, which could otherwise be deployed for developmental outlays. The trend in the gap between receipts from power consumers and expenditure on power purchase is given below:

Table 1.10: Shortfall in the performance of Power Development Department

(₹ in crore)

Financial year	Cost of Power purchase#	Revenue Target	Actual Revenue realised	Amount paid towards purchase of Power
2014-15	5,207	2,630	1,428	4,404
2015-16	5,294	2,980	1,477	6,127
2016-17	5,619	4,741	2,770	6,132
2017-18	5,709	4,841	3,151	3,036
2018-19	7,167	5,042	3,246	5,265

(Source: Budget and Finance Accounts of the respective years) #Departmental figures

The targets for the collection of tariff have not been achieved during 2014-15 to 2018-19. During 2018-19, Receipt on account of sale of power was ₹3,246 crore against the target of ₹5,042 crore. The revenue realized from sale of power was less than the cost of purchase in all the years. The State had set its revenue collection targets lower than the cost of purchase. This less realization of revenue against cost of power purchase during respective years was a burden on the State. Difference between cost of purchase of power and actual revenue realized from sale of power is on account of operational inefficiencies and slow implementation of power reforms. The State has very high AT&C losses (50 per cent).

During 2018-19, the Department purchased power worth ₹7,167 crore and against which it paid only ₹5,265 crore. As on March 2019, the department had a cumulative liability of ₹8,970 crore on account of unpaid power purchase bills.

During 2018-19, the State Government is shown to be in Revenue Deficit by ₹4,859 crore and Fiscal Deficit by ₹13,337 crore. After taking into account the deferred liability on account of outstanding power bills amounting to ₹8,970 crore, the Revenue Deficit and Fiscal Deficit is understated to that extent.

Implication of UDAY

With the objective of ensuring financial turnaround of Power Distribution Companies (DISCOM), the Ministry of Power Government of India (GoI) introduced (November 2015) the Ujwal Discom Assurance Yojana (UDAY) to improve the operational and financial efficiency of the State DISCOM. States were to take 75 per cent of DISCOM debt as on September 2015 over two years i.e 50 per cent of DISCOM debt shall be taken in 2015-16 and 25 per cent in 2016-17.

In March 2016, the Ministry of Power, Government of India and Government of Jammu and Kashmir signed a Memorandum of Understanding (MOU) under the scheme UDAY-"Ujwal DISCOM Assurance Yojana" and borrowed funds to the tune of ₹3,537.55 crore (₹2,140 crore in 2015-16 and ₹1,397.55 crore in 2016-17) from RBI by issue of Non Statutory Liquidity Ratio (SLR) bond at the rates ranging between 7.07 per cent to 8.72 per cent with maturity date from March 2022 to

October 2031. The function of electricity supply to consumers is being handled departmentally in the State so this money was utilised by the State Government to clear liabilities of the Central Public Sector Undertakings (CPSU). The State Government has to pay interest on the bonds and bonds amounting ₹353.755 crore will also be maturing every year from 2021-22 to 2031-32. During 2018-19, State Government paid ₹284.12 crore towards interest on bonds issued under UDAY Scheme.

1.3.2 Grants-in-Aid from Government of India

The GoI had operated new Sub-Major Heads under Major Head-1601 Grants-in-Aid (GIA) for providing GIA to States during 2017-18 and discontinued Plan and Non-Plan classification.

Table 1.11: Grants-in-Aid received from Government of India

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Non-Plan Grants	3,343	11,135	12,776	--	--
Grants for Centrally Assisted State Plan Schemes/Centrally sponsored schemes	12,720	4,365	7,766	9,096	7,608
Grants for Central and Centrally sponsored Plan Schemes	87	1,228	56	--	--
Finance Commission Grant (Post Devolution Revenue Deficit Grant)	--	--	--	11,849	12,952
Grants for Rural Local Bodies	--	--	--	--	204
Grants for Urban Local Bodies	--	--	--	--	126
Grant-in-Aid for SDRF	--	--	--	--	253
Other Transfers/Grants to States	--	--	--	620	461
Compensation for loss of revenue arising out of implementation of GST	--	--	--	1,137	1,462
Total	16,150	16,728	20,598	22,702	23,066
Total grants as a per cent age of Revenue Receipts	56	47	49	47	45

(Source: Finance Accounts of respective years)

The Grants-in-Aid received from Union Government increased from ₹16,150 crore during 2014-15 to ₹23,066 crore during 2018-19 in absolute terms. As percentage of Revenue Receipts, Grants-in-Aid decreased from 56 per cent to 45 per cent during 2014-15 to 2018-19. The Grants-in-Aid increased by ₹364 crore from ₹22,702 crore in 2017-18 to ₹23,066 crore in 2018-19. The trend indicates that the State Government is dependent on Grants-in-Aid from GoI to the extent of 45 per cent of Revenue Receipts during 2018-19.

1.3.3 Funds transferred to State Implementing Agencies outside the State Budget

During 2018-19 an amount of ₹23,066 crore was routed through State Budget as grants by the Government of India. In addition, there were more than 55 schemes involving a total amount of ₹895 crore (excluding ₹105.42 crore released to Autonomous Bodies/other Entities of Union Government operating in the State), which continued under direct funding mode by the Union Government to the J&K

Implementing Agencies (Institutions, Corporations, Societies, etc.) during 2018-19. There was decrease of ₹210 crore i.e.19 *per cent* in direct transfer of funds from Union Government to implementing agencies as compared to the previous year (*Appendix 1.8*). These funds are outside the Budgetary and Accounting system of the State Government. The schemes where direct funding is ₹100 crore or more during the year are given below:

Table 1.12: Major funds transferred directly to State implementing agencies (unaudited)
(₹ in crore)

Name of the Programme/scheme	Name of the Implementing Agency in the State	Total funds released by GOI during
		2018-19
Central Assistance for PakulDul HEP (Hydro Electric Project) under J&K PMDP Grant to Chenab Valley Power	Chenab Valley Power Projects Pvt. Ltd.	100.00
Support to National Institute of Technology (NIT)	NIT Srinagar.	191.59
Total		291.59

(Source Finance Accounts of respective years)

1.3.4 Central tax transfers

The components of State's share in Union Taxes and Duties are given in **Table 1.13**

Table 1.13: Components of State's share in Union Taxes and Duties

(₹ in crore)

Component of State's share of Union taxes	13 th FC & 14 th FC award period				
	2014-15	2015-16	2016-17	2017-18	2018-19
Corporation Tax	1,833.83	2,976.52	3,623.44	3,824.16	4,910.14
Customs	849.30	1,507.13	1,558.67	1,260.30	1,000.82
Income Tax	1,309.53	2,075.73	2,518.30	3,229.22	3,616.11
Other Taxes and Duties on commodities and services	0	5.78	0.03	0.00	7.28
Taxes on Wealth	4.95	0.60	8.29	-0.11	1.80
Other taxes on Income & Expenditure	0.04	0.06	0	0	25.57
Union Excise Duties	479.58	1,247.66	1,779.87	2,020.60	665.11
CGST	NA	NA	NA	316.80	3,484.87
IGST	NA	NA	NA	1,260.68	278.10
Grand total	4,477.23	7,813.48	9,488.60	11,911.65	13,989.80
Devolution as per cent age of Revenue Receipts of the State	15.47	21.84	22.60	24.55	27.31
NA: Not applicable due to implementation of GST Act with effect from 8 July 2017					

(Source: Finance Accounts of respective years)

The 14th FC recommended increasing the States' share of Central Taxes from 32 to 42 *per cent*. Accordingly, the State's share in the net proceeds of Central Tax (excluding Service Tax) was fixed at 1.854 *per cent*. The share of Union Taxes of ₹13,989.80 crore received during 2018-19 was ₹2,078.15 crore more as compared to 2017-18. The devolution as percentage of Revenue Receipts of the State's share in Central Taxes increased from 15.47 *per cent* to 27.31 *per cent* during 13th FC and 14th FC and during 2018-19, the increase was 17.45 *per cent* over the previous year.

1.3.5 Funds created by levying Cess

The state government collects cess on the cost of construction incurred by employers under the Building and Other Construction Workers' Welfare Cess Act, 1996. The collected cess is to be spent on welfare schemes for construction workers. For this purpose, J & K Building and Other Construction Workers' Board has been constituted. As on March 2018, there was balance of ₹450.56 crore and the Board received ₹155.12 crore during 2018-19 as labour cess, monthly contribution, interest etc. Out of this, the Board spent ₹72.74 crore on labour welfare schemes and on administrative expenditure leaving a closing balance of ₹532.94 crore as 31 March 2019. The amount so deducted on account of Labour cess is being kept in the Official Bank Account in the name of Secretary, J&K Building and Other Construction Workers Welfare Board and remains outside the Government Account.

1.3.6 Grants-in-Aid to States on recommendation of Central Finance Commissions

As per 14th FC Recommendations, ₹6,178.37 crore was projected (2015-20) as grants for Urban Local Bodies, Rural Local Bodies and State Disaster Response Fund (SDRF). Against this, an amount of ₹753.26 crore, ₹1,078.44 crore, ₹1,214.56 crore and ₹1,373.11 crore were to be released/allocated during the years 2015-19, as given below:

Table 1.14: Projections made by the Finance Commission vis-a-vis releases

(₹ in crore)

Components	2015-16	2016-17	2017-18	2018-19	Total Projections	2015-16	2016-17	2017-18	2018-19	Total Releases	Balance
Urban Local Bodies(ULB)	125.30	224.71	258.41	297.71	906.13	Nil	Nil	Nil	125.30	125.30	780.83
Rural Local Bodies(RLB)	373.96	585.73	675.15	779.40	2,414.24	367.72	Nil	Nil	203.81	571.53	1,842.71
SDRF (including State Share)	254.00	268.00	281.00	296.00	1,099.00	254.00	254.70	13.50	280.90	803.10	295.90
Total	753.26	1,078.44	1,214.56	1,373.11	4,419.37	621.72	254.70	13.50	610.01	1,499.93	2,919.44

(Source: Fourteenth Finance Commission Report)

An amount of ₹1,499.93 crore (including State Share) was received by the State Government from the Ministry of Finance, Government of India (GOI) during 2015-19. During 2018-19, ₹610.01 crore was released by the GOI and the State Government which includes grants of ₹125.30 crore of ULB's of 2015-16, ₹203.81 crore of RLB's 1st installment of 2016-17 and ₹252.90 crore (GOI), ₹28 crore (State share) of SDRF of 2017-18 (**Appendix 1.9**).

1.4 Capital Receipts

Capital Receipts include recoveries of Loans and Advances, receipts through debt i.e. Internal Debt Loans and from GoI and Miscellaneous Capital Receipts

The Capital Receipts during five years (2014-15 to 2018-19) are given below:

Table 1.15: Trends in growth and composition of receipts

(₹ in crore)

Sources of State's Receipts	2014-15	2015-16	2016-17	2017-18	2018-19
Capital Receipts (CR)	10,262	14,649	20,768	25,561	25,340
Miscellaneous Capital Receipts	-	-	-	-	-
Recovery of Loans and Advances	3	4	19	4	4
Public Debt Receipts	10,259	14,645	20,749	25,557	25,336
Market Loans	1,400	2,250	2,790	6,200	6,684
Bonds	202	2,342	1,440	41	4
Loans from Financial Institutions	1,197	1,045	646	668	402
Ways and Means Advance including overdraft	7,448	8,991	15,848	18,617	18,242
Loans from GoI	12	17	25	31	4
Percentage of Market Loan to Public Debt Receipt	14	15	13	24	26
Rate of growth over the previous year (per cent)					
Of Public Debt Capital Receipts	71	43	42	23	(-01)
Of Non-Debt Capital Receipts	(-25)	33	375	-79	0
Of GSDP at Current Prices	2.88	19.11	7.00	10.46	11.52
of Capital Receipts	71	43	42	23	(-01)

(Source: Finance Accounts of respective years)

Capital Receipts increased from ₹10,262 crore in 2014-15 to ₹25,340 crore in 2018-19 mainly due to increase in Market Loan (₹1,400 crore in 2014-15 to ₹6,684 crore in 2018-19) and Ways and Means Advances including Over Draft (₹7,448 crore in 2014-15 to ₹18,242 crore in 2018-19). The Capital Receipts decreased by ₹221 crore in 2018-19 over the previous year mainly because of decrease in Ways and Means Advance including Overdraft and Loans from Financial Institutions.

The Public Debt Receipts increased from ₹10,259 crore to ₹25,557 crore during the period 2014-15 to 2017-18 and it decreased to ₹25,336 crore in 2018-19.

Share of Market Loans to Public Debt Receipts has risen from 24 per cent in 2017-18 to 26 per cent in 2018-19.

1.4.1 Recoveries of Loans and Advances

The details of Loans and Advances disbursed and recovery made during 2014-15 to 2018-19 are given below:

Table 1.16 Quantum of Loans disbursed and recovered during 2014-15 to 2018-19

(₹ in crore)

Quantum of Loans disbursed and recovered	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Balance	1,409.83	1,493.94	1,583.64	1,640.52	1,660.86
Amount advanced during the year	86.80	93.79	76.24	24.75	69.15
Amount recovered during the year	2.69	4.09	19.36	4.41	4.24
Closing Balance*	1,493.94	1,583.64	1,640.52	1,660.86	1,725.77
Net addition	84.11	89.70	56.88	20.34	64.91

(Source: Finance Accounts of respective years)

*Difference occurring, is due to rounding off

The total outstanding loans registered increasing trend from ₹1,493.94 crore to ₹1,725.77 crore during the period 2014-15 to 2018-19. Out of ₹1,725.77 crore, major portion of loans amounting to ₹910.16 crore² were outstanding (March 2019) against seven entities. Against the outstanding amount of ₹ 910.16 crore, ₹1.25 crore were only recovered during 2018-19. The recovery of loan is very poor resulting in continuous increase in outstanding balances from ₹1,493.94 crore in 2014-15 to ₹1,725.77 crore in 2018-19. Recovery of loans and advances during the year was only 0.25 per cent of outstanding loans.

Audit examination of Loans and Advances given to Agro Industries and J&K State Road Transport Corporation revealed that there was outstanding loan of ₹7.94 crore and ₹346.72 crore respectively as on March 2018. Despite poor performance of recovery, State Government disbursed new loan of ₹37.98 crore and ₹30 crore respectively and no amount was recovered from these entities during 2018-19. As on March 2019, loan amounting to ₹45.93 crore and ₹376.72 crore were outstanding against Agro Industries and J&K State Road Transport Corporation which had an accumulated losses of ₹42.10 crore and ₹1,148.12 crore as per their latest finalized accounts. Thus, loans were sanctioned by the State Government without ensuring its recovery. Since recovery has been almost negligible, Government may consider booking these amounts under Revenue Expenditure as Grants/Subsidies instead of Capital Expenditure for ensuring that accounts reflect the correct position.

1.4.2 Debt Receipts from internal sources

An amount of ₹25,332 crore was received as internal debt which includes Market Loans of ₹6,684 crore and loans of ₹402 crore from financial institutions and banks during 2018-19 which was ₹194 crore less than internal debt receipt of ₹25,526 crore of the previous year. Trends in market borrowing are detailed in paragraph 1.10.

1.4.3 Loans and Advances from Government of India

The Loans and Advances received from Government of India decreased by ₹27.66 crore from ₹31.60 crore in 2017-18 to ₹3.94 crore in 2018-19 and repayment of ₹117 crore was made during the year.

1.5 Public Account Receipts

In respect of sums credited to the Public Accounts of the State, the Government acts as a trustee or banker and bears a fiduciary liability. Major constituents of the Public Accounts are State Provident Fund, Insurance/Pension Funds, Reserve Funds, Deposits and Advances. Besides, the Public Accounts section of the Government Accounts is also used to record transitory and pass through transactions under Suspense and Miscellaneous and Remittance heads before their final accounting to appropriate receipt or payment head of account, and also cash balance transactions. **Table 1.17** given below shows trends in receipts and disbursements under various segments of the Public Accounts.

2 (1) Municipalities ₹5.17 crore (Nil recovery), (2) Development Authority, Srinagar – ₹1.91 crore (Nil recovery), (3) Public Sector and other Undertakings (J&K, HPMC Ltd) – ₹12.66 crore (Nil recovery), (4) Electricity Board, JKPDCC – ₹85.04 crore (Nil recovery), (5) Agro Industries – ₹45.93 crore (Nil recovery), (6) J&K Industries Ltd – ₹ 382.73 crore (₹1.25 crore), (7) Jammu and Kashmir State Road Transport Corporation Limited – ₹376.72 crore (Nil recovery)

Table 1.17: Profile of Public Account

(₹ in crore)

Constituents of Public Accounts	Public Account Receipts		Disbursement from Public Account		Excess of receipts over disbursement	
	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19
Small Savings (State Provident Fund, Pension/ Insurance Funds)	5,032	8,858	3,476	3,534	1,556	5,324
Reserve Funds	419	695	129	373	290	322
Deposits	4,894	4,914	3,810	4,360	1,084	554
Remittances	934	2,741	3,889	740	(-)2,955*	2,001
Receipts in Cash Balance Investment Account	15,576	20,846	15,576	20,846	0	0
Other Suspense and Misc.	3,842	1,053	3,981	649	(-)139	404
Total	30,697	39,107	30,861	30,502	(-)164	8,605

(Source Finance Accounts of respective years)

*Under Remittances, the disbursement was in excess of receipts mainly due to adjustment of accounts of previous year/non-adjustment.

The Public Accounts Receipts increased from ₹30,697 crore in 2017-18 to ₹39,107 crore in 2018-19, disbursements decreased from ₹30,861 crore in 2017-18 to ₹30,502 crore in 2018-19 mainly because of less disbursement under remittances as compared to the previous year. Excess of disbursement over receipts was ₹164 crore in 2017-18 converted into surplus of receipt over disbursement amounting to ₹8,605 crore in 2018-19 because of increase in receipt under small savings (on account of transfer of arrears related to 7th pay commission into GPF).

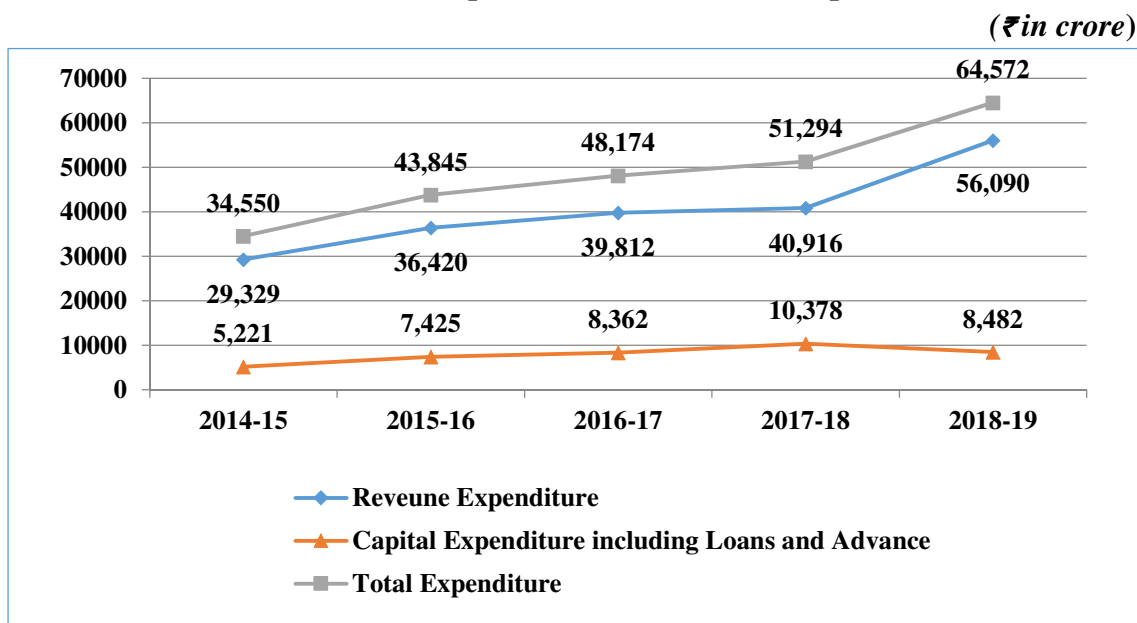
1.6 Application of Resources

State raises resources to perform its sovereign functions, maintain levels of service delivery for Social and Economic Services, extend the network of these services through Capital Expenditure, Investments and to discharge debt service obligations. It is also important to ensure that the fiscal correction and consolidation process does not adversely affect the quality of public expenditure directed towards maintenance of infrastructure, creation of new infrastructure and other needs of development and social justice.

1.6.1 Growth and Composition of Expenditure

Chart 1.12 presents the trends in Total Expenditure during 2014-15 to 2018-19.

Chart 1.12: Total Expenditure trends and Composition

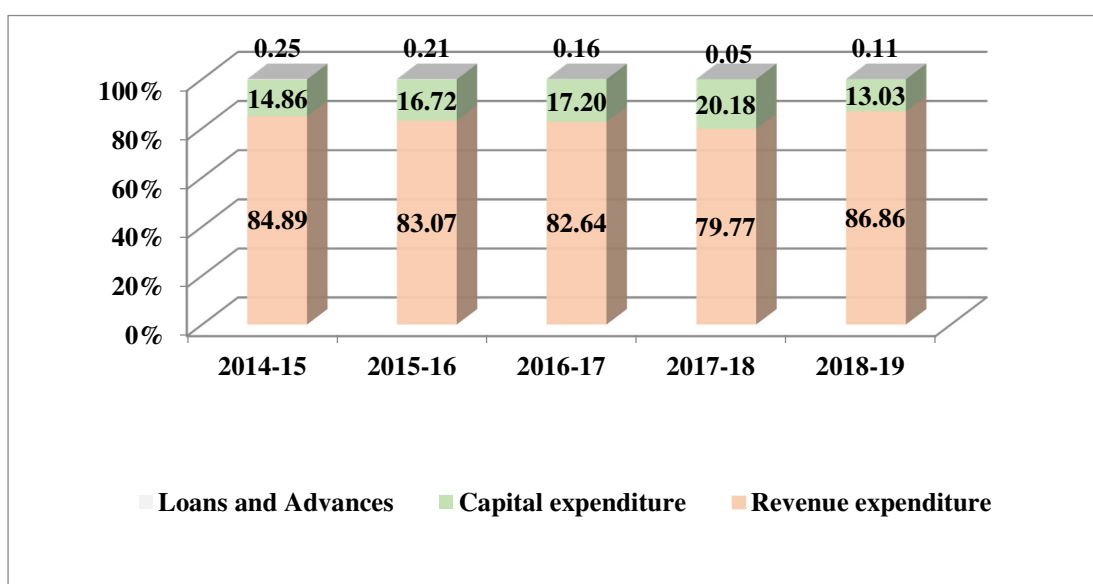


(Source Finance Accounts of respective years)

From **Chart 1.12** above, it may be seen that the Total Expenditure increased by ₹30,022 crore (86.89 per cent) from ₹34,550 crore in 2014-15 to ₹64,572 crore in 2018-19. The Capital Expenditure (including Loans and Advances) increased by ₹3,261 crore (62.46 per cent) from ₹5,221 crore (₹5,134 crore plus ₹87 crore) to ₹8,482 crore (₹8,413 crore plus ₹69 crore) over the same period, while the Revenue Expenditure increased by ₹26,761 crore (91.24 per cent) from ₹29,329 crore in 2014-15 to ₹56,090 crore in 2018-19. The Revenue Expenditure had a predominant share in Total Expenditure, as 80 per cent to 87 per cent of the expenditure was incurred on Revenue Expenditure during 2014- 15 to 2018-19.

Chart 1.13: Total Expenditure: Trends in share of its components

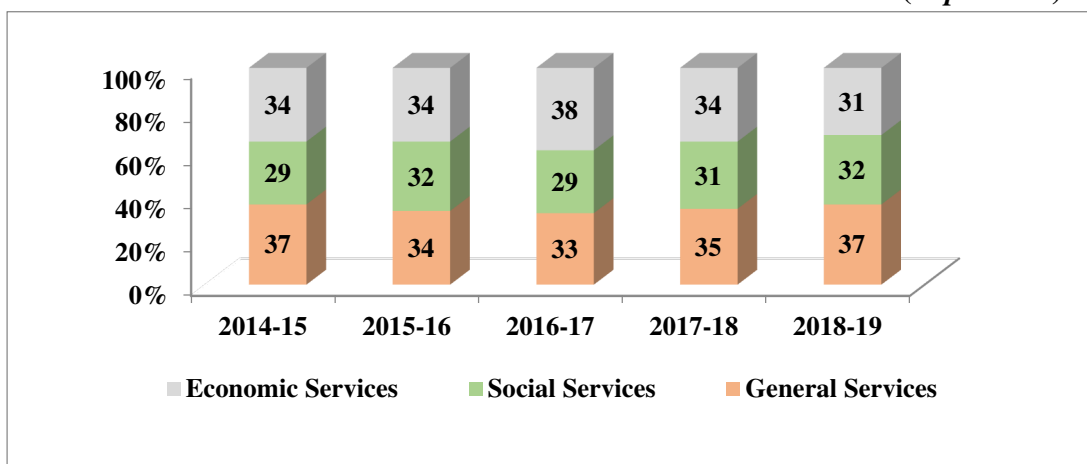
(in per cent)



The share of Revenue Expenditure during 2018-19 was more than previous year. The Capital Expenditure (excluding Loans and Advances) increased by ₹3,279 crore from 2014-15 to 2018-19. Its share in Total Expenditure was in increasing trend from 14.86 per cent in 2014-15 to 20.18 per cent in 2017-18 due to misclassification of Revenue Expenditure as Capital Expenditure. It decreased from 20.18 per cent in 2017-18 to 13.03 per cent in 2018-19 and includes misclassification of Revenue Expenditure as Capital Expenditure of ₹2,261.99 crore during 2018-19. The share of Loans and Advances disbursed decreased from 0.25 per cent in 2014-15 to 0.11 per cent in 2018-19.

Chart 1.14: Total Expenditure: Trends by Activities

(in per cent)



The combined share of Social and Economic Services which represented Development Expenditure was ranging between 63 per cent to 67 per cent during 2014-15 to 2018-19. The relative shares of various components of expenditure indicated that the share of General Services was 37 per cent in 2018-19 as compared to 35 per cent in previous year, while the Social Services was 32 per cent during 2018-19 as compared to 31 per cent during the previous year. Economic services decreased from 34 to 31 per cent in 2018-19. The combined share of Social and Economic Services decreased from 65 per cent to 63 per cent over the previous year due to decrease in Development Revenue Expenditure in Economic Services.

1.6.2 Revenue Expenditure

Table 1.18 presents the growth of Revenue Expenditure over five years (2014-15 to 2018-19).

Table 1.18: Growth of Revenue Expenditure

(₹ in crore)

	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Expenditure	29,329	36,420	39,812	40,916	56,090
Growth rate (per cent)	8.39	24.18	9.31	2.77	37.09
Revenue Expenditure as percentage to GSDP	30	31	32	30	36

Revenue Expenditure during 2014-15 to 2018-19 increased by ₹26,761 crore (91.24 per cent) but its percentage to GSDP increased from 30 per cent to 36 per cent during the same period.

The Revenue Expenditure increased by ₹15,174 crore (37.08 per cent) from ₹40,916 crore to ₹56,090 crore over the previous year. The increase in Revenue Expenditure under General Services was ₹5,962 crore from ₹16,888 crore to ₹22,850 crore, Social Services expenditure of ₹4,814 crore from ₹13,117 crore to ₹17,931 crore was mainly under Education, Sports, Art and Culture, Health and Family Welfare, Water Supply, Sanitation, Pension & Misc. General Services and Economic Services expenditure increased by ₹4,398 crore mainly under Energy sector.

The Revenue Expenditure in 2018-19 at ₹56,090 crore was more than the projections made by the 14th FC (₹40,506 crore) mainly due to increase in salaries and pension payments on implementation of Seventh Pay Commission.

1.6.3 Committed Expenditure

The Committed Expenditure on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.19** and **Chart 1.15** present the trends in the expenditure on these components during 2014-15 to 2018-19.

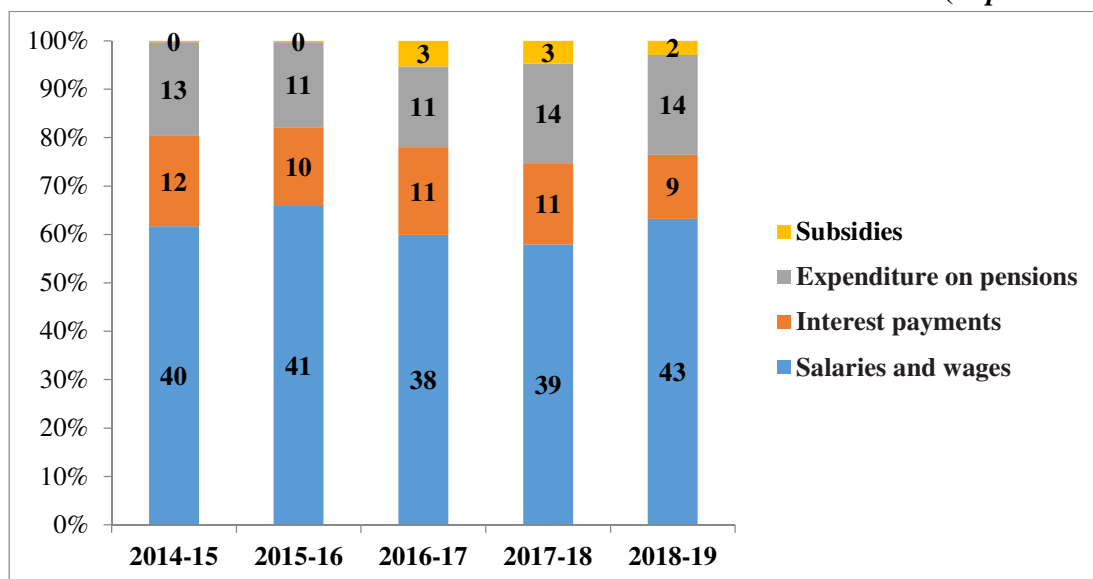
Table 1.19: Components of Committed Expenditure

Components of Committed Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19	
					Budget Estimate	Actual
Salaries & Wages	11,802	15,060	15,154	16,143	24,010	24,154
Interest Payments	3,533	3,719	4,567	4,663	4,725	5,209
Expenditure on Pensions	3,686	3,781	4,216	5,408	5,100	7,519
Subsidies	55	68	1,337	1,306	0	1,304
Total	19,076	22,628	25,274	27,520	33,835	38,186
Per cent of Revenue Receipt	66	63	60	57		74
Per cent of Revenue Expenditure	65	62	63	67		68

(Source Finance Accounts of respective years)

Chart 1.15: Share of Committed Expenditure in Total Revenue Expenditure

(in per cent)



The pension payments showed upward trend from ₹3,686 crore in 2014-15 to ₹7,519 crore in 2018-19 and increased by 39.03 *per cent* over the previous year and the interest payment increased by ₹1,676 crore (47.43 *per cent*) from ₹3,533 crore in 2014-15 to ₹5,209 crore during 2018-19. The expenditure on salaries and wages increased by ₹8,011 crore (49.61 *per cent*) during 2018-19 from ₹16,143 crore 2017-18 to ₹24,154 crore in 2018-19, the increase was mainly due to implementation of Seventh Pay Commission.

Committed Expenditure on account of salary & wages, pension, interest payment and subsidies constituted 68 *per cent* of Revenue Expenditure during 2018-19 as compared to 67 *per cent* of previous year, and Committed Expenditure on account of salary & wages, pension, interest payment & subsidies constituted 74 *per cent* of Revenue Receipt during 2018-19 as against 57 *per cent* in the previous year.

Expenditure on Salaries and Wages

The expenditure on salaries and wages increased by ₹12,352 crore (104.64 *per cent*) during the period from 2014-15 to 2018-19. During 2017-18 to 2018-19, the CAGR of expenditure on salaries and wages was 49.54 *per cent*, which was higher than SCS (14.70 *per cent*). (*Appendix 1.1*)

Interest Payments

The percentage of interest payment to Revenue Receipt decreased from 12 *per cent* in 2014-15 to 10 *per cent* in 2018-19. Interest payments increased by ₹1,676 crore (47.43 *per cent*) from ₹3,533 crore to ₹5,209 crore during 2014-15 to 2018-19. There was an increase of ₹546 crore (11.71 *per cent*) over the previous year. Interest payments of ₹5,209 crore during 2018-19 was higher than the projections made in 14th FC (₹4,319 crore).

Pension payments

Pension payments increased by ₹3,833 crore (103.99 *per cent*) during the period from 2014-15 to 2018-19 which was 6.83 *per cent* of Revenue Expenditure (₹56,090 crore). The expenditure on pension payments in 2018-19 was higher than the assessments made by 14th FC (₹5,897 crore) mainly due to implementation of Seventh Pay Commission to the State Government employees. To meet the increasing pension liabilities, a new Defined Pension Contribution Scheme (New Pension Scheme) was introduced by the State with effect from 1 January 2010.

Subsidies

The expenditure on subsidy increased by ₹1,249 crore from ₹55 crore in 2014-15 to ₹1,304 crore in 2018-19. Expenditure on subsidies during 2018-19 constituted two *per cent* of the Revenue Expenditure (₹56,090 crore). The main heads on which subsidy was provided during the year were Power Development Department (₹1,200 crore) and Agriculture Production Department (₹12.63 crore).

New Pension Scheme

The New Pension Scheme (NPS) was launched in the Jammu and Kashmir State from 1 January 2010. The NPS which is mandatory for all the employees joining Government services w.e.f. 1 January 2010 is a “Defined Contribution Pension Scheme” wherein both the employer and the employee contribute 10 *per cent* of the basic pay and dearness allowance every month.

During 2018-19, the State Government incurred an amount of ₹423.88 crore with an equal matching contribution by the employees. The entire amount of ₹845.49 crore including employees’ contribution of ₹421.61 crore was transferred to the Minor Head 117-Defined Contribution Pension Scheme for the Government Employees under Major Head 8342-Other Deposits. Out of ₹904.90 crore (including previous liability of ₹59.41 crore), ₹783.22 crore was transferred from this head of Deposit Account to the designated fund manager through the National Securities Depository Limited (NSDL)/ Trustee Bank. As such, as on 31 March 2019, an amount of ₹121.68 crore was lying under the Major Head 8342-“Other Deposits”-117 “Defined Contribution Pension Scheme” for the Government Employees (which actually being deposits bearing interest) awaiting transfer to NSDL/Trustee Bank.

Uncollected, unmatched and non-transferred amounts with accrued interest represent outstanding liabilities of the State Government under the scheme, which has not been computed.

There was outstanding balance of ₹59.41 crore at the beginning of the year 2018-19 relating to Defined Pension Contribution Scheme (New Pension Scheme) on which ₹4.64 crore was required to be paid as interest (taking GPF interest rate of 7.60 *per cent* from 01-04-2018 to 30-09-2018 and 8.00 *per cent* from 01-10-2018 to 31-03-2019) on the balance of ₹59.41 crore lying under interest bearing Deposit, but the State Government had not paid any interest on Deposits (NPS). Thus, the State Government has created an interest liability on the amount not transferred to NSDL incorrectly used the funds that belong to its employees and created uncertainty in respect of benefits due to the employees affected thus leading to possible failure of the scheme itself.

The Government may credit the outstanding amount along with interest which should not be less than the rate of interest paid on GPF without further delay.

1.6.4 Financial assistance by State Government to Local and Autonomous Bodies and other institutions

The assistance provided by way of Grants-in-Aid to Local and Autonomous Bodies and other institutions by various departments of the State Government during the current year relative to the previous years is tabulated below:

Table 1.20: Financial assistance to Local Bodies/Autonomous Bodies

(₹ in crore)

Name of the Department	2014-15	2015-16	2016-17	2017-18	2018-19
Education, Sports, Art & Culture	303.68	506.89	519.02	1,489.30	1,886.69
Housing and Urban Development	447.55	512.50	518.33	627.45	619.08
Agriculture	158.93	186.79	265.59	243.66	329.60
General Administration	12.55	13.11	17.35	38.37	28.56
Industries & Commerce	20.32	21.47	20.29	39.98	35.00
Tourism	20.50	33.23	18.71	31.85	54.53
Administration of Justice	4.77	6.01	5.97	6.94	12.48
Health and Family Welfare	134.82	51.81	337.06	245.41	240.66
Others	432.23	190.87	26.83	31.15	118.90
Total	1,535.35	1,522.68	1,729.15	2,754.11	3,325.50
Assistance as a percentage of Revenue Expenditure	5.23	4.18	4.34	6.73	5.93

(Source Finance Accounts of respective years)

The financial assistance increased from ₹1,535.35 crore in 2014-15 to ₹3,325.50 crore in 2018-19. During 2018-19, 75.35 per cent of the total assistance (₹3,325.50 crore) was given to the Education and Sports, Art and Culture and the Housing and Urban Development.

Apart from the above, financial assistance of ₹1,144.19 crore was provided to Ladakh Autonomous Hill Development Councils (Leh ₹546.24 crore and Kargil ₹597.95 crore) during 2018-19.

1.7 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: 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 selected services) of expenditure.

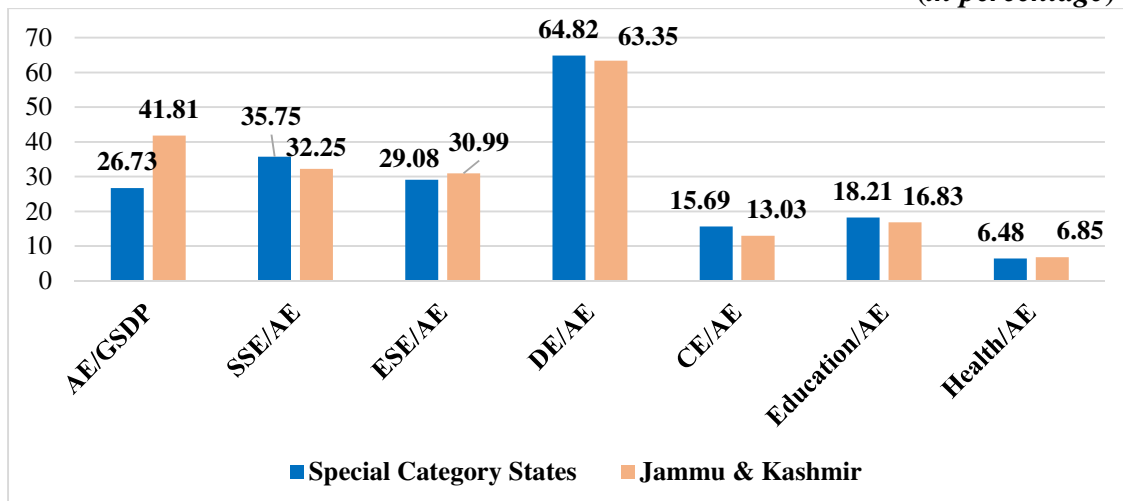
1.7.1 Adequacy of Public Expenditure

To enhance human development, the State is required to step up expenditure on key social services like Education, Health etc. **Table 1.21** analyses the fiscal priority and fiscal capacity of the Government with regard to development expenditure, social sector expenditure and Capital expenditure during 2018-19 against the average of Special Category States.

Table 1.21: Fiscal Priority of the Special Category State (SCS) and Jammu and Kashmir in 2014-15 and 2018-19

Fiscal Priority of the State	AE/ GSDP	SSE/ AE	ESE/ AE	DE/ AE	CE/ AE	Education/ AE	Health/ AE
Special Category States (Ratio) 2014-15	26.00	36.27	30.49	66.76	14.46	18.52	5.60
Jammu & Kashmir (Ratio) 2014-15	35.12	29.26	33.88	63.39	14.86	13.06	5.83
Special Category States (Ratio) 2018-19	26.73	35.75	29.08	64.82	15.69	18.21	6.48
Jammu & Kashmir (Ratio) 2018-19	41.81	32.25	30.99	63.35	13.03	16.83	6.85

AE:-AggregateExpenditure DE-DevelopmentExpenditure SSE:-SocialSectorExpenditure
CE:-Capital Expenditure ESE:-Economic Sector Expenditure
Source for GSDP Directorate of Economics and Statistics Department, J&K

Chart 1.16: Prioritisation in public expenditure for the year 2018-19
(in percentage)

Fiscal Priority:

- Aggregate expenditure of J&K as ratio of GSDP was higher than SCS during 2014-15 and 2018-19;
- The priority given to Education in J&K was lower than SCS during 2014-15 and 2018-19;
- The ratio of CE to AE was higher in 2014-15 but lower in J&K during 2018-19 as compared to SCS ;
- The ratio of SSE to AE was lower in J&K during 2014-15 and 2018-19, whereas it was higher in Economic Sector during the 2014-15 and 2018-19, when compared with SCS.

1.7.2 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 rationalisation measures and lay emphasis on provision of core public and merit goods. Apart from improving the allocation towards Development Expenditure, 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. **Table 1.22** presents the trends in Development Expenditure relative to the Aggregate Expenditure of the State during the current year *vis-à-vis* previous years.

The Development Expenditure showed an increase of ₹19,002 crore (86.76 per cent) during 2014-15 to 2018-19 and increased from 63.40 per cent to 67.03 per cent upto 2016-17 thereafter decreased to 63.35 per cent *vis-a-vis* the Total Expenditure.

Table-1.22: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2014-15	2015-16	2016-17	2017-18	2018-19
Total Expenditure	34,550	43,845	48,174	51,294	64,572
Total Development Expenditure	21,903	29,058	32,295	33,603	40,905
Development Revenue Expenditure (₹ in crore)	17,290	22,745	24,702	24,028	33,240
Share of Development Revenue Expenditure in Total Expenditure (per cent)	50.04	51.87	51.28	46.84	51.48
Development Capital Expenditure (₹ in crore)	4,526	6,219	7,517	9,550	7,596
Share of Development Capital Expenditure in Total Expenditure (per cent)	13.10	14.18	15.60	18.62	11.76
Loans/Advances for Development (₹ in crore)	87	94	76	25	69
Total Development Expenditure to Total Expenditure (per cent)	63.40	66.27	67.03	65.51	63.35

(Source Finance Accounts of respective years)

The share of Development Capital Expenditure in Total Expenditure increased from 13.10 per cent in 2014-15 to 18.62 per cent in 2017-18 decreased to 11.76 per cent in 2018-19, while the share of Development Revenue Expenditure in Total Expenditure increased from 50.04 to 51.87 per cent during 2014-15 to 2015-16, then it declined for two years and stood at 46.84 per cent in 2017-18 and during 2018-19 it increased to 51.48 per cent. Mis-classification of Revenue Expenditure

of ₹2,262 crore as Capital Expenditure in 2018-19 has resulted in inflating Capital Expenditure to that extent as detailed in Para 1.11.1 (Table 1.33). The decrease in Development Capital Expenditure in 2018-19 indicates that Government spent less towards development works and creation of assets.

Table 1.23 provide the details of Capital Expenditure and the components of Revenue Expenditure incurred on the maintenance of the selected social and economic services.

Table 1.23: Efficiency of Expenditure use in selected Social and Economic Services

(in per cent)

Social/Economic Infrastructure	2016-17			2017-18			2018-19		
	Ratio of CE to TE	In RE, the share of		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		S & W	O & M
Social Sector (SS)									
General Education	8.93	69.46	0.02	11.26	63.00	0.03	7.30	69.19	0.00
Health and Family Welfare	15.47	70.30	0.82	16.59	72.65	0.88	19.76	72.97	0.76
Water Supply, Sanitation & Housing and Urban Development	31.23	49.19	4.43	32.79	42.39	4.93	29.70	55.82	3.61
Others	22.54	14.33	0.03	19.91	15.54	0.01	10.48	16.37	0.01
Total (SS)	16.62	59.07	0.91	17.52	56.26	0.98	13.90	62.45	0.63
Economic Sector (ES)									
Agriculture and Allied Activities	27.26	80.02	0.24	31.09	80.29	0.25	17.35	82.15	0.13
Irrigation and Flood Control	47.94	61.62	9.32	41.71	62.54	8.73	28.54	83.35	5.52
Power and Energy	7.98	7.60	0.74	11.54	12.74	1.58	2.66	12.03	0.75
Transport	51.68	0.03	12.09	54.08	0.01	7.10	32.08	0.01	5.41
Others	57.42	41.56	0.75	62.30	44.79	0.92	17.92	43.88	0.54
Total (ES)	28.40	24.76	1.67	38.26	31.91	2.23	23.48	32.09	1.35
Total (SS+ES)	23.33	40.82	1.31	28.44	45.20	3.41	18.60	48.47	0.96

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 increased from 23.33 per cent in 2016-17 to 28.44 per cent in 2017-18 and decreased to 18.60 per cent in 2018-19 mainly due to decrease under Economic Sector from 38.26 per cent 2017-18 to 23.48 per cent in 2018-19. The decrease in expenditure in Economic Sector was under the heads, Power and Energy, Agriculture and allied Activities and Transport.

1.8 Financial Analysis of Government Capital Expenditure and Investments

As part of the framework provided by the Fiscal Responsibility Budget Management (FRBM) Act, the State is expected to not only keep its fiscal deficit at low levels but also to meet its capital expenditure/ investment (including loans and advances) requirements out of the revenues. 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.

1.8.1 Incomplete Projects

On the basis of the information furnished by the departments, details of incomplete projects costing ₹one crore and above, as on 31 March 2019, are given in **Appendix IX** of the Finance Accounts. There were 291 incomplete projects as given below:

Table 1.24: Department-wise profile of incomplete projects as on 31 March 2019

(₹in crore)					
Department	No. of Incomplete Projects	Sanctioned Project Cost	Revised Cost	Cum. Actual Expenditure	Cost over run
Public Health Engineering (PHE), Srinagar *	240	800.66	800.92	402.04	0.26
Public Health Engineering (PHE), Jammu	44	83.88	99.57	81.60	15.69
EM & RE Jammu *	02	5.51	5.51	4.22	0.00
Public Works Department (R&B)Jammu *	04	47.07	47.07	5.42	0.00
Irrigation and Flood Control, Jammu *	01	2.55	2.55	2.55	0.00
Total	291	939.67	955.62	495.83	15.95

(Source Finance Accounts)

*The Revised cost in r/o 234 incomplete projects have not been shown in Appendix IX of Finance Accounts-Vol-II.

As on March 2019, there were 291 incomplete projects costing ₹one crore or above with target date of completion during 2012-13 to 2018-19. These incomplete projects had a total sanctioned cost of ₹939.67 crore revised to ₹955.62 crore. Reasons for cost revision were awaited (November 2019) from these Departments. An amount of ₹495.83 crore had been expended on these incomplete projects till March 2019. Out of 291 incomplete projects, 166 number of projects were delayed by more than one year, 7 projects delayed by more than five years and remaining 118 projects which were to be completed in 2018-19 were also incomplete. Thus, blocking of funds on incomplete projects/works impinged negatively on the quality of expenditure and deprived the State of the intended benefits for prolonged periods.

The Government may analyse the reasons for the delays in completion of projects and take steps for their completion to achieve the intended benefits.

1.8.2 Financial results of Irrigation Projects

The financial results of seven major irrigation projects³ involving a Capital Expenditure of ₹499.40 crore at the end of March 2019 showed that revenue realized from these schemes during 2018-19 was only ₹0.20crore. The Revenue Receipts of none of the schemes were sufficient to cover even the direct working expenses. After meeting the working expenses and interest charges, the projects suffered loss of ₹2.07 crore (0.41 *per cent* of the Capital Outlay).The major loss making projects were Ranbir Canal, Pratap Canal and Kathua Feeder during 2018-19.

1.8.3 Investment and Returns

As per Statement 8 of the Finance Accounts, as on 31 March 2019, the State Government had cumulative investment of ₹689.42 crore in 25 Companies (₹282.76 crore), three Statutory Corporations (₹355.64 crore), eight Co-operative Institutions/ Local Bodies (₹37.83 crore), two Rural Banks (₹12.85 crore) and two Joint Stock Companies (₹0.34 crore). **Table 1.25** gives overall picture of return on investment *vis-a-vis* the average cost of Government borrowing.

Table-1.25: Return on Investment

Investment/Return/Cost of Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Investment during the year (₹in crore)	3.90	10.67	255.90	96.08	35.90
Investment at the end of the year (₹in crore)	537.17	547.83	803.74	653.52	689.42
Return (₹in crore)	128.88	54.13	45.11	Nil	Nil
Return (<i>per cent</i>)	23.99	9.88	5.61	Nil	Nil
Average rate of interest on all Government liabilities (<i>per cent</i>)	7.6	7.17	7.77	7.15	7.07
Difference between return and interest rate (<i>per cent</i>)	16.39	2.71	(-) 2.16	(-)7.15	(-)7.07

(Source Finance Accounts of the respective years)

During 2014-15 the return (dividend/interest receipt) was ₹128.88 crore which decreased during 2015-16 and 2016-17 to ₹54.13 crore and ₹45.11 crore respectively, during the year 2017-18 and 2018-19 no amount was received. The return on investment solely came from the Jammu and Kashmir Bank Limited, in which the Government holds 59.23 *per cent* equity. The return on investment is on historical cost and not on the net present value basis. The rate of dividend/interest was 23.99 *per cent* during the year 2014-15 and it continuously decreased during the subsequent years and there was no return in 2017-18 and 2018-19, while the investment at the end of each year during the said period increased from ₹537.17 crore to ₹689.42 crore.

³ 1. Kathua Feeder canal, 2. Partap canal, 3. Ranbir canal, 4. Martand canal, 5.Zaingir canal, 6.Ahizi canal, 7. Dadi canal

During last five years State Government made investment to the tune of ₹402.45 crore (Companies 4, Statutory Corporations 2 and Rural/Cooperative Banks 2) out of which only two⁴ had made profit and remaining five⁵ had suffered sustained losses and had an combined accumulated loss of ₹3,150.23 crore at the time of finalization of their accounts.

During 2018-19, investments were made by the State mainly in loss making Statutory Corporations/Government Companies viz; The Jammu and Kashmir State Financial Corporation (₹15.00 crore), Jammu and Kashmir State Road Transport Corporation (₹17.90 crore), The Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Backward Classes Development Corporation Ltd. (₹0.45 crore). These Statutory Corporations/Government Companies had accumulated losses as per latest finalized accounts - The Jammu and Kashmir State Financial Corporation (₹176.15 crore upto 2017-18), Jammu and Kashmir State Road Transport Corporation (₹1,148.11 crore upto 2013-14), The Jammu and Kashmir Scheduled Castes, Scheduled Tribes and Backward Classes Development Corporation Ltd. (₹5 crore upto 2001-02). As on 31 March 2019, State has total investment of ₹364.63 crore in these three PSUs/Government Companies whose accumulated losses were ₹1,329.27 crore as on date of finalization of their accounts. During 2018-19, State also incorporated one new Government Company (Jammu Kashmir Trade Promotion Organization) with investment of ₹2.55 crore.

The State Government may consider reviewing the working of State PSU's which have suffered losses and formulate a strategic plan for their closure or revival, as the case may be.

1.8.4 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 1.26** presents the position of Loans and Advances outstanding as on 31 March 2019, interest receipts *vis-à-vis* interest payments during the last five years.

Table 1.26: Average interest received on Loans and Advances by the State Government

	(₹ in crore)				
Quantum of Loans/Interest Receipts/Cost of Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Balance	1,409.83	1,493.94	1,583.64	1,640.52	1,660.86
Amount advanced during the year	86.80	93.79	76.24	24.75	69.15
Amount recovered during the year	2.69	4.09	19.36	4.41	4.24
Closing Balance	1,493.94	1,583.64	1,640.52	1,660.86	1,725.77
Of which outstanding balance for which terms and conditions have been settled					
Net addition	84.1	89.70	56.89	20.34	64.91
Interest Receipts	1.88	0.97	1.88	2.17	Nil

⁴ JK Cement Corporation and J&K Women's Development Corporation Limited

⁵ JK State Finance Corporation, J&K State Road Transport Corporation, J&K Bank Limited, J&K SC/ST, Backward Classes Development Corporation Limited, Ellaquai Dehati Bank

Interest receipts as <i>per cent</i> to outstanding Loans and advances	0.13	0.06	0.11	0.13	Nil
Interest payments as <i>per cent</i> to outstanding liabilities of the State Government	7.31	6.72	7.34	6.84	6.58
Difference between interest payments and interest receipts (<i>per cent</i>)	7.18	6.66	7.23	6.71	6.58

(Source Finance Accounts of respective years)

Recoveries of Loans and Advances are not forthcoming from loss making public sector undertakings. No assessment about potential recoverability of these loans has been made in the FRBM Statements presented to the Legislature.

1.8.5 Cash Balances and their investment

Comparative figures of cash balances and investment of cash balance for the years 2017-18 and 2018-19 are given below:

Table 1.27: Detail of Cash Balances and investment of cash balances

(₹ in crore)

	Opening balance 01 April 2018	Closing Balance 31 March 2019
(a) General Cash Balance		
Cash in Treasuries	6.77	6.77
Deposit with Reserve Bank	126.72	83.38
Deposit with J&K Bank and other Banks	21.02	21.02
Local Remittances	-	-
Total	154.51	111.17
Investment held in cash Balance Investment Account	383.92	383.92
Total (a)	538.43	495.09
(b) Other Cash Balances and Investment		
Cash with departmental officers viz. Divisional Officers of the Public Works Department, Forest department officers	4.97	4.97
Permanent advances for Contingent Expenditure with Departmental Officers	0.12	0.12
Investment out of earmarked funds	10.86	10.86
Total (b)	15.95	15.95
Grand Total (a)+(b)	554.38	511.04

(Source: State Finance Accounts of respective years)

The State Government is banking with the Reserve Bank of India with effect from 01 April 2011 for its cash/overdraft management. The cash balance decreased by ₹43 crore during 2018-19, from ₹554 crore as on 31 March 2018 to ₹511 crore as on 31 March 2019.

The cash balance for the year 2018-19 was not even equal to the earmarked reserve funds amounting to ₹2,486 crore which means that reserve funds were used for other than the intended purpose. As on 31 March 2019, an amount of ₹383.92 crore was held in Cash Balance Investment Account and also an investment of ₹10.86 crore was done out of Earmarked Funds. State Government earned an interest of ₹9.04 crore on it.

The State Government maintained the mandatory minimum daily cash balance of ₹1.14 crore with Reserve Bank of India on 187 days during the year without taking Special Ways and Means Advance/Ways and Means Advances (WMA)/ Overdrafts, and on 171 days minimum balance was maintained by obtaining Normal Ways and Means Advance and on seven days Overdraft was taken in addition to obtaining Normal Ways and Means. The balance as on 01 April 2018 was ₹300.71 crore under

Normal Ways and Means Advance and ‘Nil’ under Overdraft. The balance at the end of the year 2018-19 was ₹532.38 crore under Normal Ways and Means Advances and ‘Nil’ under Overdraft. Interest paid to the Reserve Bank of India on Normal Ways and Means Advances and Overdrafts during 2018-19 was ₹12.16 crore and ₹0.15 crore respectively. Government needs to streamline its cash Management for reducing its dependence on Ways and Means Advances.

1.9 Assets and Liabilities

1.9.1 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 at historical cost i.e. in terms of the cash inflow and outflow in nominal terms without making any adjustment for appreciation/depreciation. Statement 12 of the Finance Accounts 2018-19 gives an overview of sources and application of funds. Statement 1, 6 and Statement 17 of the Finance Accounts 2018-19 provide summary position of the Government’s financial liabilities such as borrowing from open market and financial institutions, loans and advances from the Union Government and net receipts under public accounts in respect of which the Government functions as a trustee or banker.

The Finance Accounts of the State Government do not include a complete statement of all assets belonging to the State Government because the subsidiary records of assets and their valuation are not maintained by the Accountant General (A&E), Jammu and Kashmir. The Finance Accounts merely depict cumulative Capital Expenditure, each year’s Capital Expenditure being added in nominal terms without any adjustment of appreciation/depreciation of assets.

1.9.2 Fiscal Liabilities

There are two sets of liabilities namely, Public Debt and “Other Liabilities under Public Accounts”. Public Debt consists of market loans, special securities issued by RBI and Loans and Advances from the Central Government. Other Liabilities, which are part of Public Account, include deposits under Small Savings Scheme, Provident Funds and Other Deposits. The composition of Fiscal Liabilities during the five years is presented in **Table 1.28** (trends in Outstanding Fiscal Liabilities (*Appendix 1.4 and 1.5*) of the Government since 2014-15.

Table-1.28: Trend in Fiscal Liabilities ending 2014-15 to 2018-19

(₹ in crore)

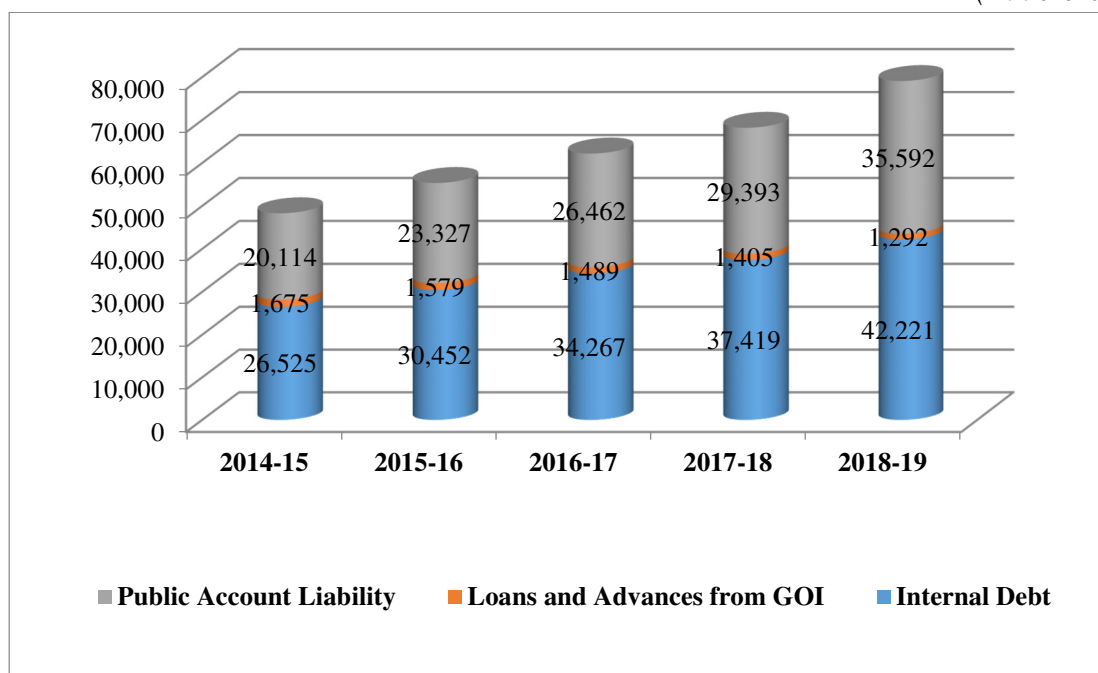
Components of Fiscal Liabilities	2014-15	2015-16	2016-17	2017-18	2018-19
Internal Debt-Borrowings from open market & Financial Institutions	26,525 (55)	30,452 (55)	34,267 (55)	37,419 (55)	42,221 (53)
Loans and Advances from GOI	1,675 (3)	1,579 (3)	1,489 (2)	1,405 (2)	1,292 (2)
Public Account Liability	20,114 (42)	23,327 (42)	26,463 (43)	29,393 (43)	35,592 (45)

GSDP	98,370	1,17,168	1,25,379	1,38,488	1,54,441
Growth rate of GSDP (per cent)	2.88	19.11	7.00	10.46	11.52
Fiscal Liability	48,314	55,358	62,219	68,217	79,105
Growth Rate of Fiscal Liability (per cent)	8.15	14.57	12.39	9.64	15.96
Revenue Receipts	28,939	35,781	41,978	48,512	51,231
Fiscal Liability as per cent of Revenue Receipts	166.95	154.71	148.22	140.62	154.41
Growth rate of Revenue Receipts (per cent)	6.68	23.64	17.31	15.56	5.60
Buoyancy Ratio					
Fiscal Liability vis-a-vis Revenue Receipts.	1.22	0.61	0.71	0.62	2.85
Fiscal Liability vis-a-vis GSDP	2.83	0.76	1.77	0.92	1.39

(Figures in the parenthesis is percentage to Total Liability)

Chart 1.17: Composition of Outstanding fiscal liabilities

(₹ in crore)



(Source: Finance Accounts of respective years)

The overall Fiscal Liabilities of the Government increased from ₹48,314 crore during 2014-15 to ₹79,105 crore during 2018-19. It increased by ₹10,888 crore from ₹68,217 crore at the end of 31 March 2018 to ₹79,105 crore by the end of 31 March 2019. As a percentage of the GSDP, the stock of accumulated fiscal liabilities increased from 49.26 per cent at end of 2017-18 to 51.22 per cent at end of 2018-19. The accumulated fiscal liabilities were 1.54 times of the Government's Revenue Receipts (₹51,231 crore) and 5.58 times of the Government's Own Tax and own Non-Tax Revenues as on 31 March 2019. The buoyancy ratio of these liabilities with respect to GSDP during 2018-19 was 1.39, indicating that for each one per cent increase in GSDP, fiscal liabilities grew by 1.39 times.

1.9.3 Reserve Funds

‘Reserve Funds’ are funds forming part of the public accounts of the State by appropriating sums from the Consolidated Fund and setting aside for an earmarked purpose. **Table 1.29** shows movement of closing balances in various reserve funds as on 31 March 2019. The cumulative aggregate balance in these funds at the end of 31 March 2019 was ₹2,497 crore of which ₹11 crore has been invested outside Government accounts. It is also seen from a review of receipt/disbursement transactions in the funds, that most of the funds were dormant, having no/negligible transactions.

Table 1.29: Trend in year-end Closing Balances under Reserve Funds

(₹ in crore)

RESERVE FUNDS	2014-15	2015-16	2016-17	2017-18	2018-19
Reserve Funds Bearing interest					
Calamity Relief Fund (now State Disaster Response Fund)	202	336	600	740	903
Total - Reserve Fund Bearing Interest	202	336	600	740	903
Reserve Funds Not Bearing interest					
Calamity Relief Fund (now State Disaster Response Fund)	28	-	-	--	-
Sinking fund	97	135	169	220	317
Famine Relief Fund	9	8	9	9	9
Depreciation and Renewal Reserve Funds of Govt. Commercial Deptts./ Undertakings.	574	573	573	573	573
Depreciation and Renewal Reserve Funds of Govt. Non-Commercial Deptts.	73	73	73	73	73
Development Fund for Agricultural Purposes	41	41	41	41	41
Constituency Development Funds	72	104	116	160	234
Other Development and Welfare Funds	85	115	136	183	168
General Insurance Fund (Janta Insurance)	66	65	63	67	43
Guarantee Redemption Fund	7	8	12	15	19
Other Funds	77	86	93	94	117
Total - Reserve Funds Not Bearing interest	1,129	1,208	1,285	1,435	1,594
Total - Reserve Funds	1,331	1,544	1,885	2,175	2,497
Of which balances invested					
Investments from State Disaster Response Fund	11	11	11	11	11

(Source: Finance Accounts of respective years)

1.9.3.1 State Disaster Response Fund

(a) As on 1 April 2018, ₹740.39 crore (including ₹10.86 crore invested from the Fund) were lying in the Fund. During 2018-19, an amount of ₹330.89 crore (₹252.90 crore Central Share, ₹28.00 crore State Share and ₹49.99 crore interest) was transferred to the Fund. Besides, unspent balance of previous years amounting to ₹0.71 crore was also credited to the Fund.

During the year, ₹168.88 crore was incurred on natural calamities, leaving a balance of ₹903.11 crore in the Fund as on 31 March 2019. Net balance of ₹892.25 crore (₹903.11 crore minus ₹10.86 crore invested amount) which was required to be invested in Central Government Securities and/or Auctioned Treasury Bills and/or in interest earning deposits and certificate of deposits with scheduled commercial banks on the recommendations of the State Executive Committee (SEC) managing the Fund, had not been invested (March 2019).

(b) There was an outstanding balance of ₹729.53 crore under interest bearing Reserve Funds (SDRF) at the beginning of the year 2018-19 and ₹46.21 crore was required to be paid as interest (taking Ways and Means Advance average interest rate of 6.00 per cent from 01 April 2018 to 05 June 2018, 6.25 per cent from 06 June 2018 to 31 July 2018, 6.50 per cent from 01 August 2018 to 06 February 2019 and 6.25 per cent from 07 February 2019 to 31 March 2019) on the balance of ₹729.53 crore lying under interest bearing fund (SDRF). The State Govt. was also required to pay interest of ₹3.96 crore on account of accrued interest for delay in respect of two installments of the SDRF Grants for the year 2018-19. However, the State Government had paid interest of ₹49.99 crore on interest bearing Reserve Funds (SDRF), thereby resulting in short transfer of ₹0.18 crore during 2018-19.

1.9.3.2 Consolidated Sinking Fund

The State Government constituted (January 2012) a Consolidated Sinking Fund with the objective to redeem its outstanding liabilities commencing from the financial year 2011-12. The State Government is to contribute every year minimum of 10 per cent of 0.5 per cent of the total outstanding liabilities at the end of 2010-11 every year to make it equal to 0.5 per cent of outstanding liabilities as at the end of 2010-11. In addition, contribution of 0.5 per cent of incremental liabilities should be made towards fund every year.

As on 31 March 2019, as against the required contribution of ₹364.21 crore since inception of this fund, the State Government has contributed ₹316.60 crore towards the Fund. During the year 2018-19, ₹97.05 crore was contributed to this fund against required contribution of ₹70.08 crore (10 per cent of 0.5 per cent of total liabilities of ₹31,261.01 crore at the end of 2010-11 and 0.5 per cent of total incremental liabilities of ₹10,889.09 crore during 2018-19). The balance under the Fund was not invested as of March 2019.

1.9.3.3 Guarantee Redemption Fund

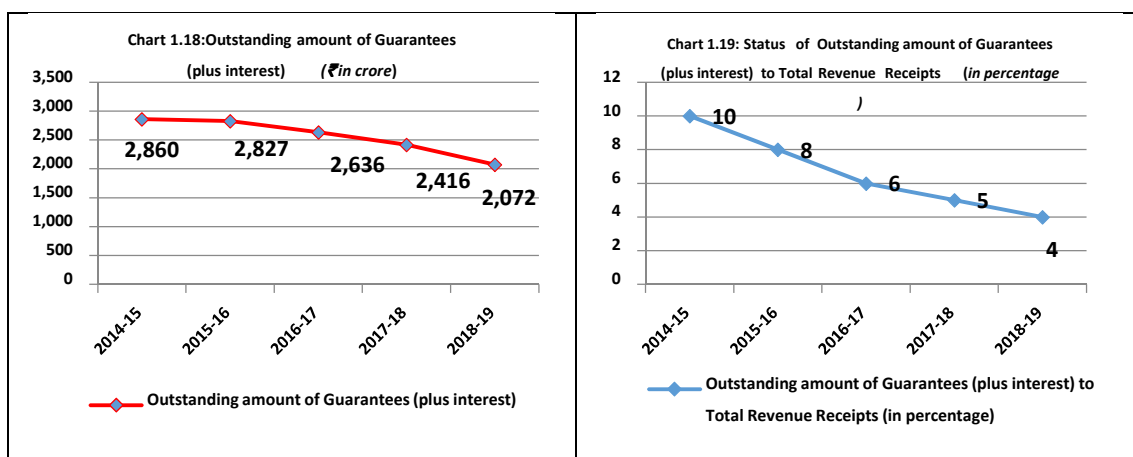
The State Government set up a Guarantee Redemption Fund (GRF) in 2005-06 to meet liabilities arising from invoking of Guarantees extended to various State

Government Entities. Under the guidelines, the State Government is required to make minimum annual contributions to the Fund at the rate of 0.5 per cent of the outstanding Guarantees at the end of the previous year. Against minimum requirement of ₹12.07 crore i.e., {0.5 per cent of outstanding Guarantee of ₹2,414.10 crore (excluding interest of ₹1.97 crore) as on 31 March 2018}, the State Government contributed ₹1.00 crore towards the fund in 2018-19. The State Government received ₹3 crore as Guarantee Commission/Fee during 2018-19 and was credited to the Fund. The closing balance of the Fund as on 31 March 2019 was ₹19.42 crore.

The State Government may ensure that contributions to Reserve Funds are made as stipulated.

1.9.4 Status of Guarantees-Contingent Liabilities

Guarantees are liabilities contingent on Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees could be extended by the State and outstanding guarantees including interest for the last five years is tabulated below:



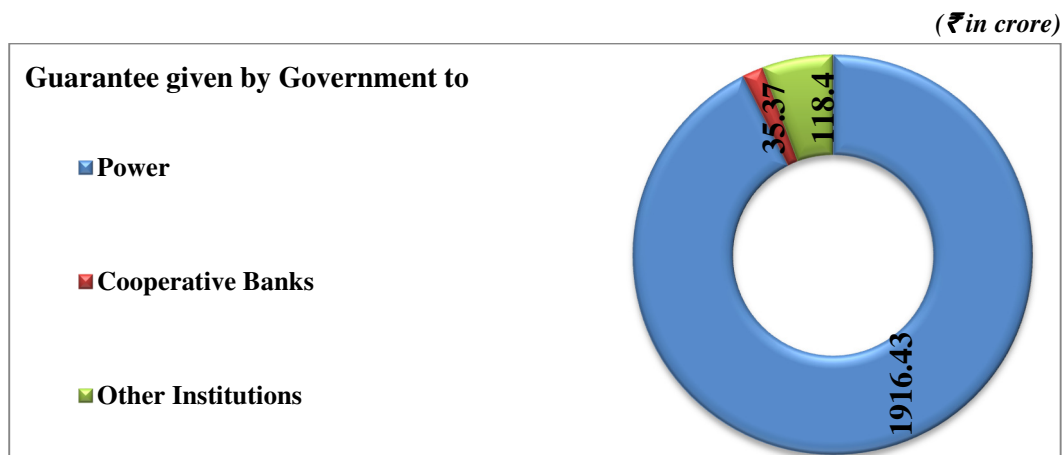
(Source: Finance Accounts of respective years)

The FRBM Act, 2006 enjoins upon the State Government to limit the amount of annual incremental risk weighted guarantees to 75 per cent of the Total Revenue Receipts in the year preceding the current year or at 7.5 per cent of GSDP of the year preceding the current year, whichever is lower. The total outstanding Guarantees given by the State Government as on 31 March 2019 aggregated ₹2,070.20 crore (excluding interest) (under reconciliation with State Government) which is 4.27 per cent of Total Revenue Receipts of ₹48,511.88 crore of 2017-18 and 1.49 per cent of GSDP of ₹1,38,488 crore (current prices) of 2017-18 as available on the web site of Ministry of Statistics and Programme implementation, Government of India (01 August 2019) plus interest of ₹1.95 crore. The State Government has not yet assessed the risks of the various Guarantees.

The State Government has set up (2005-06) Guarantee Redemption Fund (GRF) for meeting its obligations arising out of guarantees issued on behalf of the State Government Departments/State Owned Corporations and PSUs and other Autonomous and Statutory Bodies. The State Government has prescribed levy of

Guarantee commission/fee of two *per cent* of the guarantees, as intimated by State Finance Department. An amount of ₹three crore was received as Guarantee Fee/Commission during 2018-19.

Chart 1.20: Sector –wise details of guarantees at the end of 31 March 2019



(Source: State Finance Accounts)

Ninety-three *per cent* of the loans guaranteed by the Government related to the Jammu and Kashmir Electricity Board and Jammu and Kashmir Power Development Corporation.

The total outstanding Guarantees given by the State Government as on 31 March 2019 aggregated to ₹2,070.20 crore (excluding interest) (under reconciliation with State Government) which is 4.27 *per cent* of Total Revenue Receipts of ₹48,511.88 crore of 2017-18 which is within the limit fixed under FRBM Act.

1.10 Debt Management

Table 1.30 gives a time series analysis of internal debt profile of the State Government for the last five years.

Table 1.30: Internal Debt profile of State Government

(₹ in crore)

Year	Opening Balance	Debt Receipts	Repayment during the year	Closing Balance	Increase/Decrease	Per cent age of increase over previous year
2014-15	24,714.88	10,246.80	8,436.28	26,525.40	1,810.52	07
2015-16	26,525.40	14,627.78	10,701.55	30,451.63	3,926.23	15
2016-17	30,451.63	20,723.83	16,908.71	34,266.75	3,815.12	13
2017-18	34,266.75	25,525.97	22,374.19	37,418.53	3,151.78	09
2018-19	37,418.53	25,332.27	20,529.39	42,221.41	4,802.88	13

(Source: State Finance Accounts of respective years)

Internal Debt consists of Market Loans, Loans from LIC, GIC and other institutions, as detailed in Statement 17 of Finance Accounts. Market borrowings form a major portion of the internal debt of the State Government, with interest rates ranging from 6.97 *per cent* to 14 *per cent*. In 2018-19, the State Government borrowed against Bonds, Loans from Financial institutions ₹18,648 crore (out of total internal debt receipts of ₹25,332 crore). Bonds, loans from Financial institutions, special securities repaid was ₹18,772 crore. The outstanding market loans as of 31 March 2019 was ₹30,947 crore which is 73 *per cent* of total outstanding internal debt of ₹42,221 crore.

There was a decrease of ₹194 crore in Internal Debt Receipts during the year from ₹25,526 crore in 2017-18 to ₹25,332 crore in 2018-19.

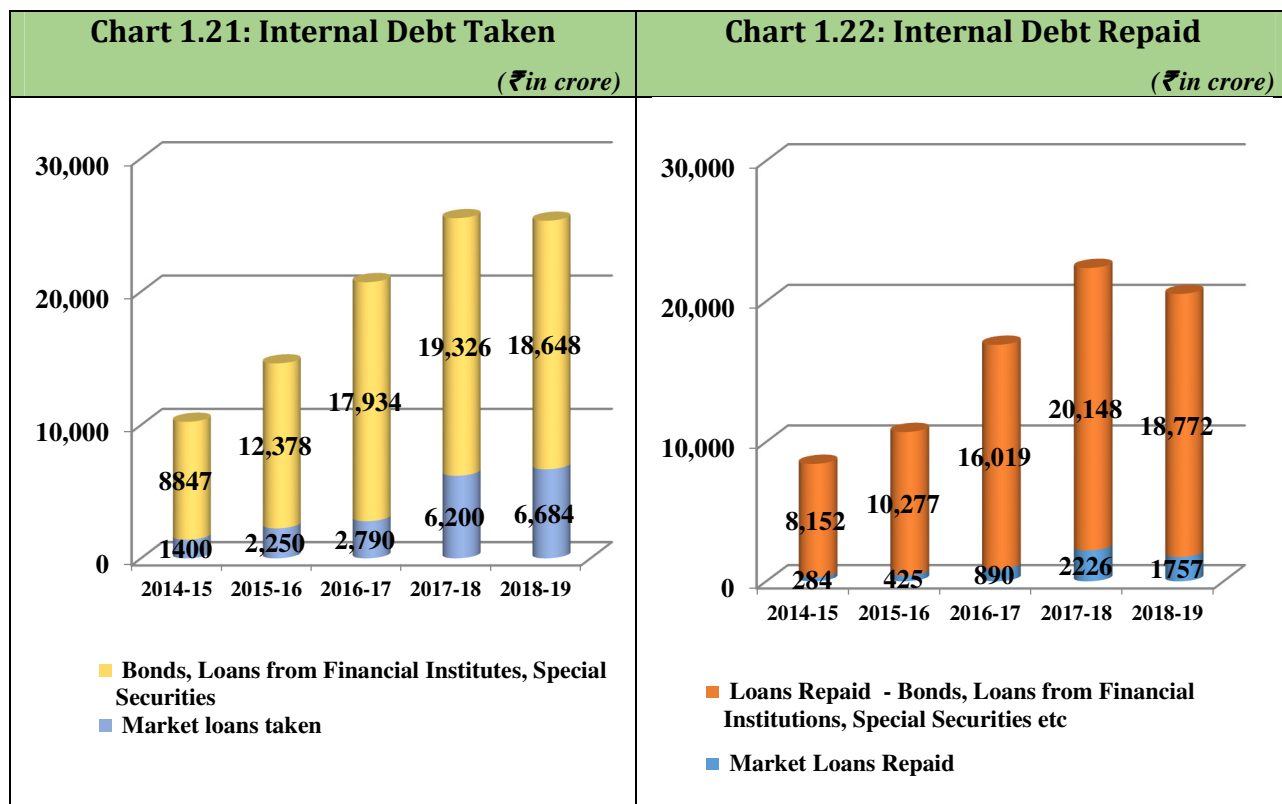


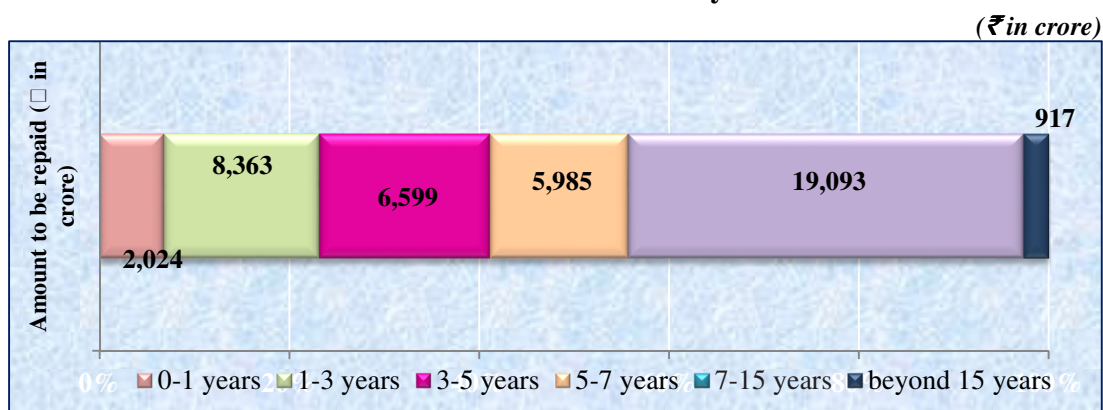
Chart 1.21 shows that Internal Debt of the State increased by ₹15,085 (147 per cent) from ₹10,247 crore in 2014-15 to ₹25,332 crore in 2018-19.

Chart 1.22 shows that Internal Debt Repayment increased by ₹12,093 crore (143 per cent) from ₹8,436 crore to ₹20,529 crore during this period. An interest of ₹3,200 crore was paid on internal debt during 2018-19.

Debt Maturity Profile

Debt maturity profile indicates commitment on the part of the Government for debt repayment or debt servicing which is given below:

Chart 1.23: Debt Maturity Profile

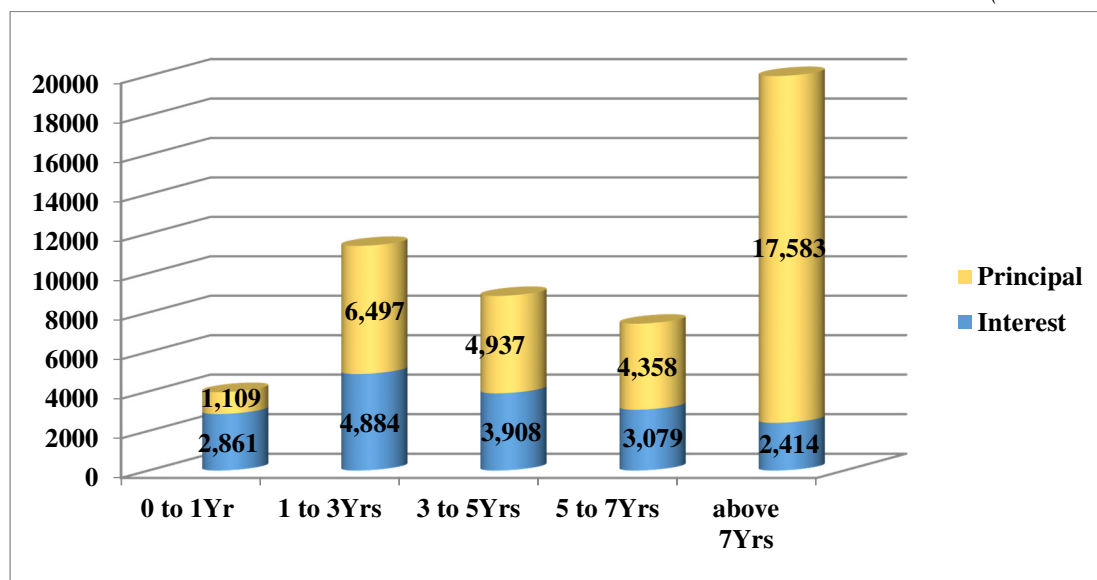


The maturity profile of Outstanding Public Debt as on 31 March 2019 showed that ₹22,971 crore (53 per cent) of the total outstanding debt of ₹42,981 crore was in the maturity bucket of up to seven years and the balance ₹20,010 crore (47 per cent) from seventh year onwards.

Repayment schedule of market loans along with interest has been given below:

Chart 1.24: Repayment Schedule of Market Loans (including UDAY Bonds)

(₹ in crore)



(Source: Finance Accounts)

The State will have to repay market loans and UDAY bonds of ₹12,543 crore (36 per cent of total outstanding market loans and UDAY bonds of ₹34,484 crore as on 31 March 2019) along with interest of ₹11,653 crore during next five years up to 2023-24. Balance Market loans and UDAY bonds of ₹21,941 crore will have to be repaid in subsequent years up to 2031-32 alongwith interest of ₹5,493 crore. This means that the State will have to make repayment of ₹4,839 crore annually during next five years. Market loans and interest thereon (including interest on UDAY bonds) repaid during 2018-19 was ₹4,306 crore.

Revenue Receipts and Revenue Expenditure have grown at an annual average rate of 13.91 per cent and 17.07 per cent respectively in the past ten years. Applying these growth rates, and assuming that the Revenue Receipts and Revenue Expenditure maintain the average growth rate of last ten years, Revenue Deficit during 2021-22 works out to ₹13,925 crore. The State is committed to repayment of Principal of UDAY Bonds from the year 2021-22. Borrowings during that year projected at the average annual growth rate of last ten years (19.17 per cent) would be ₹42,878 crore. After meeting the debt liability of ₹40,695 crore (including repayment of UDAY Bonds Principal of ₹214 crore) falling due for repayment in 2021-22, borrowed funds would fall short of bridging the revenue gap by ₹11,741 crore. The State would thus have to resort to additional borrowings to meet its liabilities from 2021-22.

Utilisation of Borrowed Funds

Borrowings are to be used on self-sustaining development activities and creation or augmentation of capital assets and are not to be applied in financing current expenditure. The year-wise position of borrowings and its utilization towards repayment, net capital expenditure and revenue expenditure are given below:

Table 1.31: Details of utilization of Borrowed Funds towards Repayments, Net Capital Expenditure and Revenue Expenditure

(₹ in crore)

Year	Total Borrowings	Repayment of earlier Borrowings*(Principal) (Percentage)	Net Capital Expenditure met from the borrowing
(1)	(2)	(3)	(4)
2014-15	10,259	6,161(60.05)	4,098(39.95)
2015-16	14,645	8,352(57.03)	6,293(42.97)
2016-17	20,749	14,187(68.37)	6,562(31.63)
2017-18	25,557	19,452(76.11)	6,105(23.89)
2018-19	25,336	17,366(68.54)	7,970(31.46)

(Figures in the parenthesis is percentage of Total Borrowings)

* Total repayment of public debt – interest paid during the year

In the years 2014-15 to 2018-19, the State Government utilized 57 per cent to 76 per cent of the total borrowings for making repayment of earlier principal borrowing and the remaining borrowings were partially used for Net Capital Expenditure.

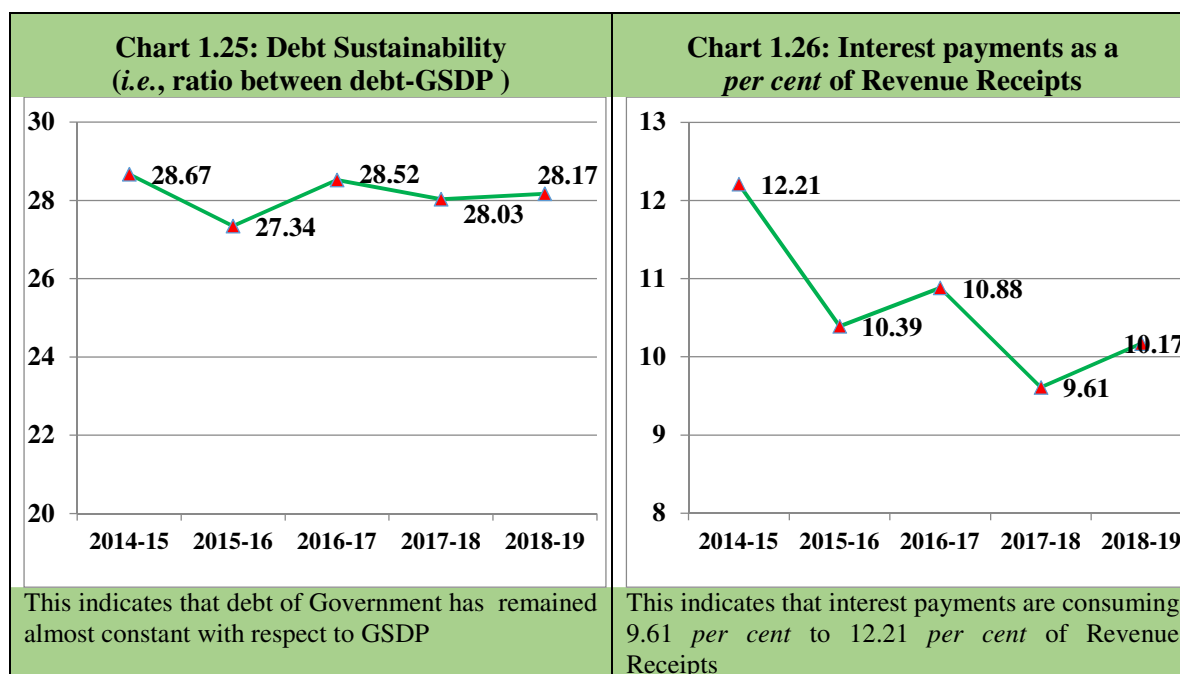


Chart 1.25 shows that the ratio of Debt to GSDP during 2014-15 to 2018-19 remained almost constant which ranged between 27.34 per cent to 28.67 per cent.

Chart 1.26 indicates that interest payment as a percentage of Revenue Receipt decreased during the same period.

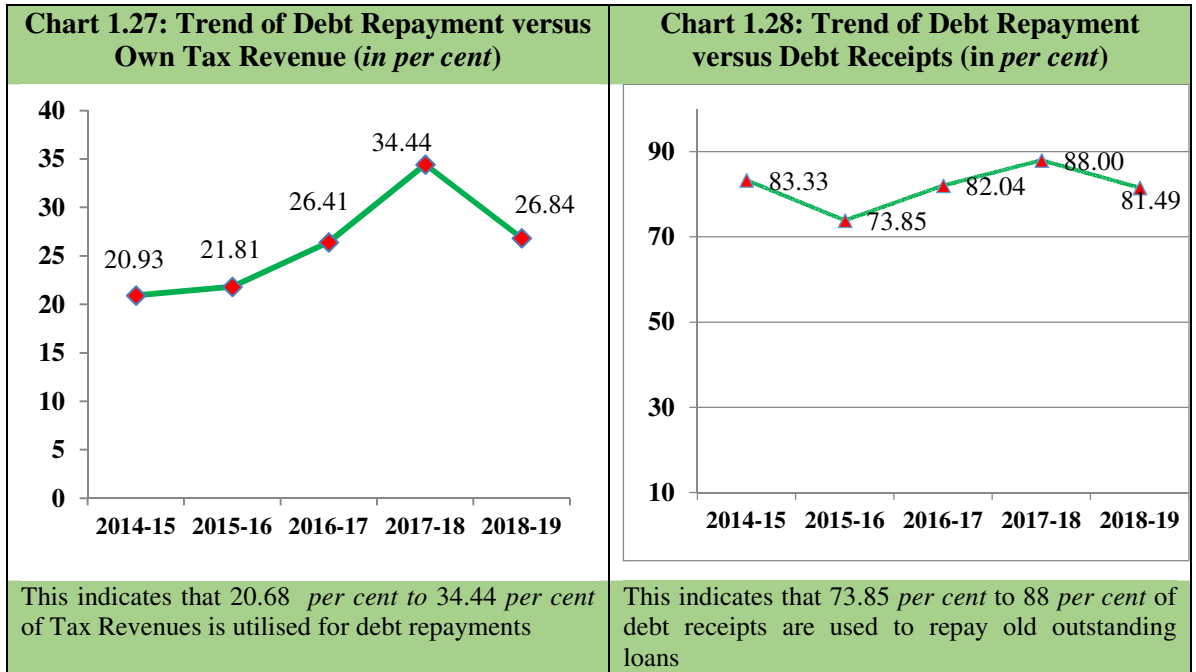


Chart 1.27 indicates that the percentage of own Tax Revenue utilized for Repayment of Debt (excluding Ways and Means advances and Over Drafts) increased from 20.93 per cent to 34.44 per cent during 2014-15 to 2017-18 and decreased to 26.84 per cent during 2018-19.

Chart 1.28 indicates that debt repayment as percentage of debt receipt also showed increasing trend during 2015-16 to 2017-18 as it increased from 73.85 per cent to 88 per cent, and decreased to 81.49 per cent during 2018-19, showing that maximum portion of the debt receipts has been utilized for repayment of earlier debt.

Debt Sustainability

Debt Sustainability implies State's ability to service its debt in future. Apart from the magnitude of debt of State Government, it is important to analyse the various indicators that determine the debt sustainability of the State. The analysis assesses the sustainability of the debt of the State Government in terms of rate of growth of outstanding debt; ratio of interest payment and revenue receipts, debt repayment and debt receipt; net debt available to the State. **Table 1.32** analyse the debt sustainability of the State according to these indicators for the period of five years beginning from 2014-15.

Table 1.32: Debt Sustainability

Indicators of Debt Sustainability	2014-15	2015-16	2016-17	2017-18	2018-19
Outstanding Public Debt	28,201	32,031	35,756	38,823	43,513
Rate of Growth of Outstanding Public Debt	6.46	13.58	11.63	8.58	12.08
GSDP	98,370	1,17,168	1,25,379	1,38,488	1,54,441
Rate of Growth of GSDP	2.88	19.11	7.00	10.46	11.52
Revenue Receipt	28,939	35,781	41,978	48,512	51,231
Interest payments on debts	2,388	2,463	2,836	*3,038	3,281*

(₹ in crore)

Average interest Rate of Outstanding Debt (interest paid/OB of Public Debt+CB of Public Debt/2)	8.73	8.18	8.37	8.15	7.96
Percentage of Interest to Revenue Receipt	8.25	6.88	6.76	6.26	6.40
Debt Receipt	10,259	14,645	20,749	25,557	25,336
Debt Payment	8,549	10,815	17,023	22,490	20,647
Percentage of Debt Payment to Debt Receipt	83.33	73.84	82.04	88.00	81.49
Net Debt available to the State	(-) 678	1367	890	29	1,408

Source: State Finance Accounts*Includes interest payment of ₹284.12 crore on UDAY Bonds issued during 2015-16 and 2016-17

An analysis on debt sustainability was carried out based on a study by E.D Domar⁶. The Domar Model states that necessary premise for ensuring stability in public indebtedness is that interest rates for Government loans should not exceed the growth rate of GDP. The dynamics of public debt depending on the interest rate, growth rate of GDP and the primary budget balance are as follows:

g-r (g- real economic growth rate; r- real interest rate)	s<0 (primary deficit)	s > 0 (primary surplus)
g-r> 0 (strong economic growth)	Public debt as percentage of GSDP should converge to a stable level greater than zero.	Public debt as percentage of GSDP should converge to a stable level less than zero leading to public savings.
g-r<0 (slow economic growth)	Public debt as percentage of GSDP should increase indefinitely without converging to a stable level.	Undefined situation.

Applying the analysis to Jammu & Kashmir it was seen that except during 2014-15 the Domar gap (g-r) was positive in all the years from 2015-16 to 2018-19. There was primary deficit in all years except in 2017-18 when the State had primary surplus. Since the past four year trend has been that of positive Domar gap, it can be said that the public debt will converge to a stable level. The debt to GSDP ratio of the State ranged between 49 *per cent* and 54 *per cent* in the last five years. The corresponding Fourteenth Finance Commission (FFC) Fiscal target of Debt Limit was 45.57, and Fiscal Deficit ceiling was 3 *per cent* of GSDP.

Year	Real Growth (g)	Real Interest (r)	g-r	Primary deficit (-)/ Surplus(s) (₹ in crore)
2014-15	(-) 3.22	2.69	(-) 5.91	(-)2,075
2015-16	17.76	2.19	15.57	(-)4,341
2016-17	3.84	3.05	0.79	(-)1,610
2017-18	6.80	1.35	5.45	(+)1,885
2018-19	6.56	2.65	3.91	(-)8,128

Real Growth rate calculated for Real GDP.
Real Interest rate is the nominal interest rate adjusted for inflation

⁶ E.D Domar, 1914-1997, Domar Model does not take into account maturity profile, composition, cost and risk characteristics of debt stock

The capital expenditure of the State has hovered between 13 to 20 *per cent* during 2014-19. Revenue surplus of ₹7,595 crore in 2017-18 converted to revenue deficit of ₹4,859 crore in 2018-19 on account of implementation of Seventh Pay Commission. The Fiscal deficit also increased to 8.64 *per cent* of GSDP in 2018-19 from 2.01 *per cent* in 2017-18 primarily on this account. This will impact revenue flows in the future which will in turn impact the primary balance. Moreover, other factors such as public account liabilities and *force majeure* events⁷, and any other unanticipated loss of revenue also have to be reckoned in assessing the debt sustainability/stability of the State as these cannot be anticipated or determined statistically; they have not been factored in the analysis.

1.11 Fiscal Imbalances

Three fiscal parameters- Revenue, Fiscal and Primary Deficits indicate the extent of overall fiscal imbalances in the finances of State Government during the specified period. The nature of deficit is an indicator of the prudence of fiscal management of the Government.

1.11.1 Trends in Deficits

Chart 1.29 gives time series data on the three deficits during 2014-15 to 2018-19.

Chart 1.29: Trends in Deficits

(₹ in crore)

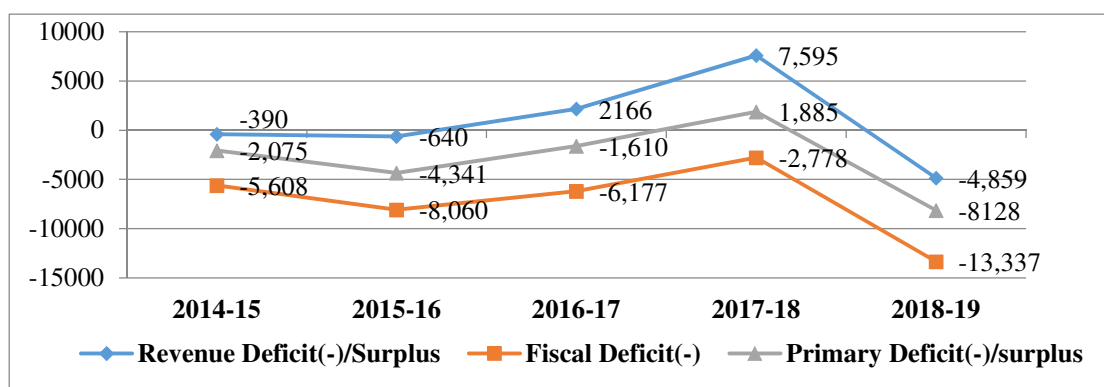
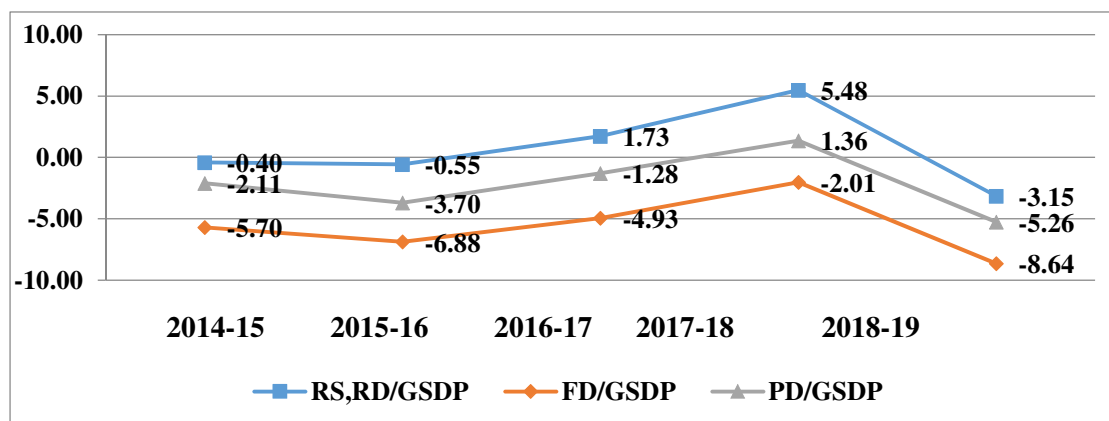


Chart-1.30: Deficit Indicators related to GSDP (in per cent)



⁷ Like current Corona Virus crisis and its effect on GSDP

Revenue Deficits: The State remained in Revenue Deficit (RD) during the period 2014-15 to 2018-19, except 2016-17 and 2017-18. There was Revenue Deficit (RD) of ₹4,859 crore in 2018-19 as compared to Revenue Surplus (RS) of ₹7,595 crore in 2017-18 mainly due to implementation of 7th Pay Commission recommendation for J&K Government employees. There was an increase in salary by ₹8,029 crore during 2018-19 contributing to the Revenue Deficit. This increase in salary also includes arrears to the tune of ₹3,900 crore on account of implementation of pay commission recommendation which were credited to GPF Accounts by way of book adjustment. This has resulted in onetime impact on Revenue Deficit to that extent. The Revenue Deficit of ₹4,859 crore during 2018-19 was also understated by ₹2,277.88 crore owing to misclassification and short transfer of funds/interest to the Reserve Funds.

Fiscal Deficit: Fiscal Deficit (FD) increased from ₹5,608 crore in 2014-15 to ₹13,337 crore in 2018-19. The percentage of FD to GSDP increased from 5.70 per cent in 2014-15 to 8.64 per cent in 2018-19. Fiscal Deficit increased by ₹10,559 crore from ₹2,778 crore in 2017-18 to ₹13,337 crore in 2018-19. During 2018-19, 64 per cent of Fiscal Deficit was financed from Public Account and remaining 36 per cent was financed through market borrowings.

Primary Deficit/Surplus: Primary Deficit (PD) increased from ₹2,075 crore in 2014-15 to ₹8,128 crore in 2018-19 except 2017-18 when there was Primary Surplus of ₹1,885 crore. **Chart 1.30** presents the trends in key deficit indicators related to GSDP over the period 2014-15 to 2018-19.

Primary Revenue Balance denotes the gap between non-debt receipts of the State and its non-interest revenue expenditure. It indicates the extent to which non-debt receipts of the State were able to meet the expenditure on capital account. In 2018-19, the State registered a Primary Revenue Surplus of ₹350 crore (**Table 1.36**).

Impact of Revenue Surplus/Fiscal Deficit

Revenue Surplus and Fiscal Deficit was overstated and understated, as given below:

Table 1.33: Effective Revenue and Fiscal deficit

(₹ in crore)

Particulars	Impact on Revenue Deficits (Under- Stated)	Impact on Fiscal Deficit (Under- stated)	Ratio before taking the net impact (in per cent)		Ratio after taking the net impact (in per cent)	
			RD/GSDP	FD/GSDP	RD/GSDP	FD/GSDP
Grants-in-Aid classified as Capital Expenditure	1,874.17	-	3.15	8.64	4.62	8.63
Operating cost and transport/handling charges of PDS classified as Capital Expenditure	286.21	-				
Stipend and Scholarship booked under Capital Expenditure	0.19	-				
Subsidy booked under Capital Expenditure	99.18	-				
Salary booked under Capital Expenditure	2.24	-				

Short Contribution to Guarantee Redemption Fund	11.07	11.07				
Amount not transferred to SDRF (interest on account of delay in transfer)	0.18	0.18				
Amount not transferred to NPS (interest on account of delay in transfer)	4.64	4.64				
Total Net Impact	2,277.88	15.89				

Revenue Deficits of ₹4,859 crore is understated by ₹2,277.88 crore because of Revenue Expenditure being classified as Capital Expenditure and short transfer of funds/interest to the Reserve Funds and Fiscal Deficit is also understated by ₹15.89 crore due to short transfer of funds/interest to the Reserve Funds.

1.11.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as given below:

Table 1.34: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Particulars		2014-15	2015-16	2016-17	2017-18	2018-19
Components of fiscal deficit						
1	Revenue Surplus/Deficit(-)	(-390)	(-640)	(+)2,166	(+)7,595	(-)4,859
2.	Net Capital Expenditure	(-) 5,134	(-) 7,331	(-) 8,286	(-)10,353	(-)8,413
3.	Net Loans and Advances	(-)84	(-) 90	(-)57	(-)21	(-) 65
4	Fiscal Deficit	(-) 5,608	(-)8,060	(-)6,177	(-)2,778	(-)13,337
Financing pattern of Fiscal Deficit						
1.	Market Borrowings	1,811	3,926	3,815	3,152	4,803
2.	Loans from GOI	(-)100	(-) 96	(-)90	(-)84	(-)113
3.	Small Savings, PF etc.	2,232	2,886	1,846	1,556	5,323
4.	Deposits and Advances	376	112.39	949	1,084	554
5.	Suspense and Miscellaneous	(-)237	(-) 131	(-)93	(-)140	404
6.	Remittances	2,545	(-) 208	(-)690	(-)2,955	2,001
7.	Reserve Funds	(-)677	214	334	290	322
8.	Drawdown of cash balance (+)/Accretion to cash balance(-)	(-)338	(+)874	(+)98	(-)125	(+)43

(Source: Finance Accounts of respective years)

Table 1.35: Receipts and Disbursements under components financing the fiscal deficit of 2018-19

(₹ in crore)

	Particulars	Receipt	Disbursement	Net
1	Market Borrowing	25,332	20,529	4,803
2	Loans from GoI	4	117	(-)113
3	Small Savings, Provident Funds etc.	8,857	3,534	5,323
4	Deposits and advances	4,914	4,360	554
5	Reserve Funds	695	373	322
6	Suspense and Miscellaneous	1,053	649	404
7	Remittances	2,741	740	2,001
8	Overall surplus (-) deficit (+)	43,596	30,302	13,294
9	Increase (-) decrease (+) in cash balance	554	511	(+)43
10	Gross Fiscal Deficit	44,150	30,813	13,337

(Source: State Finance Accounts)

During 2018-19, 64 per cent of Fiscal Deficit was financed from Public Account and remaining 36 per cent was financed through market borrowings.

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 State's 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.

Table 1.36: Primary Deficit/Surplus–bifurcation of factors

(₹ in crore)

Year	Non-Debt Receipts	Revenue Receipts	Primary Revenue Exp.	Capital Exp.	Loans & Advances	Total Primary Exp.	Primary Revenue Surplus	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6	7 (4+5+6)	8 (3-4)	9 (2-7)
2014-15	28,942	28,939	25,796	5,134	87	31,017	3,143	(-) 2,075
2015-16	35,785	35,781	32,701	7,331	94	40,126	3,080	(-) 4,341
2016-17	41,997	41,978	35,245	8,286	76	43,607	6,733	(-) 1,610
2017-18	48,516	48,512	36,253	10,353	25	46,631	12,259	(+)1,885
2018-19	51,235	51,231	50,881	8,413	69	59,363	350	(-)8,128

- Non Debt Receipts of the State mainly included Revenue Receipts and recoveries of loans and advances which were higher than the Primary Revenue Expenditure.
- The Total Primary Expenditure increased from ₹31,017 crore in 2014-15 to ₹59,363 crore in 2018-19. This was on account of increase in Primary Revenue Expenditure by ₹25,085 crore, while Capital Expenditure increased by ₹3,279 crore.
- The Primary Revenue Surplus which was ₹3,143 crore in 2014-15 increased further to ₹12,259 crore in 2017-18 and during 2018-19 it reduced to ₹350 crore.
- The Primary Deficit which was ₹2,075 crore in 2014-15 converted to Primary Surplus of ₹1,885 crore during 2017-18 and in 2018-19 there is again Primary Deficit of ₹8,128 crore.

Table 1.37 Components of Fiscal Deficit

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue deficit(-)/ surplus (+)	(-)390	(-)640	(+)2,166	(+)7,595	(-)4,859
Net Capital Expenditure	(-)5,134	(-)7,331	(-)8,286	(-)10,353	(-)8,413
Net loans and advances	(-)84	(-)90	(-)57	(-)21	(-)65
Fiscal Deficit	(-)5,608	(-)8,060	(-)6,177	(-)2,778	(-)13,337

Fiscal Deficit increased from ₹5,608 crore in 2014-15 to ₹13,337 crore in 2018-19. During 2018-19, 63 *per cent* of the Fiscal Deficit was on account of Net Capital Expenditure and 36 *per cent* was on account of Revenue Deficit.

1.12 Conclusions

The State, being a special category State, had high share in Central Taxes and grants from the Central Government. The State's dependence on central resources increased from 71 *per cent* in 2014-15 to 72 *per cent* in 2018-19. Over the last five years, there was increase in the Total Capital Expenditure (including Loans and Advances) from ₹5,221 crore to ₹8,482 crore. State's Own Tax Revenue (SOTR) grew from ₹6,334 crore in 2014-15 to ₹9,826 crore in 2018-19.

Revenue Receipts increased by 5.60 *per cent* during 2018-19 over the previous year. The increase in Revenue Receipts was due to increase in State's share of Union Taxes/Duties and Grants-in-Aid.

The Grants-in-Aid increased by ₹364 crore from ₹22,702 crore in 2017-18 to ₹23,066 crore in 2018-19. The State Government is dependent on Grants-in-Aid from GoI to the extent of 45 *per cent* of Revenue Receipts during 2018-19.

The State's Own Resources of ₹14,175 crore during 2018-19 was not enough to cover its committed liabilities (salaries, interest payments, pension and subsidies) of ₹38,186 crore.

Committed expenditure on account of salary & wages, pension, interest payment and subsidies constitutes 68 *per cent* of Revenue Expenditure.

Cash balance of ₹511 crore at the close of 2018-19 was lesser than the earmarked reserve funds amounting ₹2,486 crore which means that reserve funds were used for other than the intended purpose.

The decrease in Development Capital Expenditure during 2018-19 indicates that the Government spent less towards development works and creation of assets as compared to previous year.

The outstanding market loans as of 31 March 2019 was ₹30,947 crore which was 73 *per cent* of outstanding total internal debt of ₹42,221 crore. Market borrowings decreased by ₹194 crore from ₹25,526 crore in 2017-18 to ₹25,332 crore in 2018-19. Net debt availability increased from ₹29 crore in 2017-18 to ₹1,408 crore in 2018-19.

The State's Primary Surplus of ₹1,885 crore in 2017-18 turned into Primary Deficit in 2018-19 and stood at ₹8,128 crore. Revenue Surplus of ₹7,595 crore during 2017-18 turned to Revenue Deficit of ₹4,859 crore in 2018-19. State Government could not achieve the target of Revenue Surplus and Fiscal Deficit as per 14th FC targets. Fiscal Deficit (FD) increased from ₹2,778 crore in 2017-18 to ₹13,337 crore in 2018-19.

