

Chapter-I

Overview

CHAPTER-I

OVERVIEW

This chapter describes the basis and approach to the report and the underlying data provides overview of structure of Government accounts, budgetary processes, macro-fiscal analysis of key indices and State's key fiscal position including the deficits/surplus.

1.1 Profile of the State

The State of Jammu and Kashmir (J&K) was strategically located with its borders touching Pakistan and China and was spread over a geographical area of 2.22 lakh sq. km. Jammu & Kashmir was 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 were organised into 22 districts. Consequent on the reorganisation of the State of Jammu and Kashmir, under the Jammu & Kashmir Reorganisation Act, 2019, the State of Jammu and Kashmir was reorganised as Union Territory of Jammu & Kashmir and Union Territory of Ladakh (w.e.f 31 October 2019). The Union Territory of Jammu & Kashmir is constituted of all districts of erstwhile Jammu & Kashmir State except Leh and Kargil districts and Union Territory of Ladakh is constituted of Leh and Kargil districts of the erstwhile Jammu & Kashmir State. The profile of the erstwhile State and the development indicators relating to major infrastructure is reflected in **Appendix 1.1**.

As per Census 2011, the State's population was 1.25 crore. The decadal growth rate of 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 55.5 *per cent* to 67.20 *per cent* in the State, as against 64.8 *per cent* to 73 *per cent* at national level.

Consequent on the reorganisation of the State of Jammu and Kashmir during 2019-20, Jammu & Kashmir existed as a State up to 30 October 2019, and the accounts of erstwhile State of J&K have been prepared for the period 01 April 2019 to 30 October 2019.

The original budget for the year 2019-20 was for the complete year i.e 01 April 2019 to 31 March 2020. However, during the year, the reorganisation took place w.e.f 31st October 2019. Consequently, the pre-actuals for seven months (01 April 2019 to 30 October 2019) as reflected in the demand for Grants 2020-21 passed (March 2020) by the Parliament have been taken as the Budget Estimates for preparation of this report.

The Department of Economic and Statistics of J&K Government furnished estimated Gross State Domestic Product (GSDP) of Jammu and Kashmir for the complete year 2019-20. However, the department did not compile segregated GSDP for the period 01 April 2019 to 30 October 2019. Though actual expenditure figures for the erstwhile State were available for the period till 30 October 2019 but the segregated GSDP figures

were not available for the same period. Hence comparison of trends has not been included in this report.

1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period. Department of Economic and Statistics of J&K Government furnished estimated Gross State Domestic Product (GSDP) of Jammu and Kashmir for the complete year 2019-20. However, the department did not compile segregated GSDP for the period 01 April 2019 to 30 October 2019.

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India. However, as there is no Legislature, the C&AG's Report relating to the State would be placed in Parliament wherever President's Rule is extended beyond one year, as per the decision of the Government of India, Ministry of Finance (June 1994).

Pr. Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Pr. Accountant General (Audit), and certified by the CAG.

The current SFAR has been prepared for the period 01 April 2019 to 30 October 2019. Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS),
- GSDP data and other State related statistics; and

- Various audit reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the XIV Finance Commission (FC), State Fiscal Responsibility and Budget Management Act, best practices and guidelines of the Government of India.

1.3 Report Structure

The SFAR is structured into the following four Chapters:

Chapter – I	Overview This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government accounts, budgetary processes, key indices and State’s fiscal position including the deficits/surplus.
Chapter – II	Finances of the State This chapter provides a broad perspective of the finances of the State, major fiscal aggregates debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
Chapter – III	Budgetary Management This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from provisions relating to budgetary management.
Chapter – IV	Quality of Accounts & Financial Reporting Practices This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

1.4 Overview of Government Accounts Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

Part-I Consolidated Fund of the State (Section 115 of the Constitution of erstwhile State of Jammu & Kashmir)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution. Certain categories of expenditure (e.g., salaries of Constitutional authorities, loan repayments etc.), constitute a charge on the

Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

Part-II Contingency Fund of the State (Section 116 of the Constitution of erstwhile State of Jammu & Kashmir)

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional Major head relating to the Consolidated Fund of the State.

Part-III Public Accounts of the State (Section 115 (2) of the Constitution of erstwhile State of Jammu & Kashmir)

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account of the State. The Public Account includes repayables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

There is a constitutional requirement under Section 79 of the Constitution of erstwhile State of Jammu & Kashmir to present before both the Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the Government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. The original budget for the year 2019-20 was for the complete year i.e 01 April 2019 to 31 March 2020. However, as a consequence of the reorganisation that took place w.e.f 31st October 2019, the pre-actuals/Revised Estimates for seven months (01 April 2019 to 30 October 2019) as reflected in the demand for Grants 2020-21 passed (March 2020) by the Parliament have been taken as the Budget Estimates in this report.

Revenue receipts consist of tax revenue, non-tax revenue, share of Union Taxes/Duties, and grants from Government of India.

Revenue expenditure consists of all those expenditures of the Government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government departments and various services, interest payments on debt incurred by the Government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The **Capital receipts** consist of:

- **Debt receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, etc.;

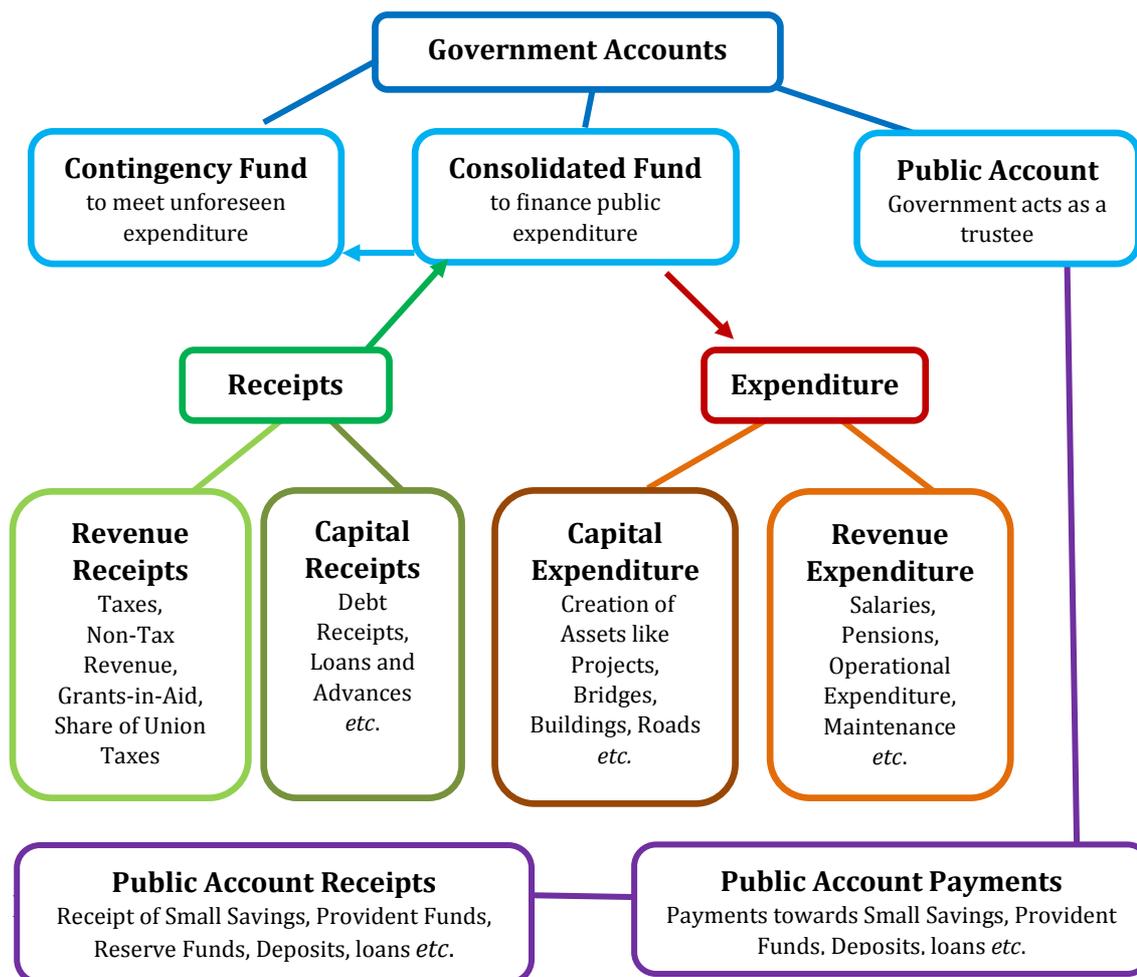
- **Non-debt receipts:** Proceeds from disinvestment, Recoveries of loans and advances;

Capital expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the Government to PSUs and other parties.

1.5 Structure of Government Accounts and Budgetary Processes

Government finances comprise the following:

Chart 1.1: Structure of Government Accounts



In terms of Section 79 of the Constitution of erstwhile State of Jammu & Kashmir, the Governor of the State causes to be laid before both houses of Legislature, a statement of the estimated receipts and expenditure of the State for the year, in the form of an Annual Financial Statement. In terms of Section 80 of the Constitution of erstwhile State of Jammu & Kashmir, the statement is submitted to the State Legislature in the form of Demands for Grants/Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Section 81 *ibid* to provide for appropriation of the required money out of the Consolidated Fund. The original budget for the year 2019-20 was for the complete year i.e. 01 April 2019 to 31 March 2020. However, during the year, the reorganisation took place w.e.f. 31st October 2019.

Consequently, the pre-actuals/Revised Estimates for seven months (01 April 2019 to 30 October 2019) as reflected in the demand for Grants 2020-21 passed (March 2020) by the Parliament have been taken as the Budget Estimates for preparation of this report. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

1.5.1 Snapshot of Finances

The following table provides the details of actual financial results for the period from 01 April 2019 to 30 October 2019 *vis-à-vis* Budget Estimates of the same period. Time series data on the State Government Finances is depicted in **Appendix 1.2**.

Table 1.1: Actuals versus Budget Estimates for the period 01 April 2019 to 30 October 2019

(₹ in crore)

Sl. No.	Components	Budget Estimate*	Actuals	Percentage of Actual to B.E.
1	Own Tax Revenue	6,427	5,410	84
2	Non-Tax Revenue	1,036	2,197	212
3	Share of Union taxes/duties	6,762	6,802	101
4	Grants-in-aid and Contributions	13,513	15,643	116
5	Revenue Receipts (1+2+3+4)	27,738	30,052	108
6	Recovery of Loans and Advances	0	2	-
7	Other Receipts	(-31)	-	-
8	Borrowings and other Liabilities	6,424	4,728 [#]	74
9	Capital Receipts (6+7+8)	6,393	4,730	74
10	Total Receipts (5+9)	34,131	34,782	102
11	Revenue Expenditure, of which	28,171	30,244	107
12	Interest payments	1,737	3,355	193
13	Capital Expenditure	5,960	4,538	76
14	Capital outlay	5,948	4,522	76
15	Loans and Advances	12	16	133
16	Total Expenditure (11+13)	34,131	34,782	102
17	Revenue Deficit (5-11)	(-433)	(-192)	44
18	Fiscal Deficit {16-(5+6+7)}	(-6,424)	(-4,728)	74
19	Primary Deficit (18-12)	4,687	1,373	29

*Pre-actuals for the period 01 April 2019 to 30 October 2019 reflected in Budget for the year 2020-21. # Borrowings and other Liabilities. Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts – Disbursement) of Public Account + Net of Opening and Closing Balance.

The borrowings during the period 01 April 2019 to 30 October 2019 was 74 per cent of the target projected in the budget. During this period, there was increase in both, Revenue Receipts and Revenue Expenditure, as compared to the Budget Estimates. However, the increase in Revenue Receipts (₹2,314 crore) was more than the increase in Revenue Expenditure (₹2,073 crore), which resulted in lesser Revenue Deficit (₹192 crore) than projected in Budget Estimates (₹433 crore). The increase in Revenue Receipts was due to increase in Own Non Tax revenue (₹1,161 crore), Share of Union Taxes (₹40 crore) and Grants-in-Aid (₹2,130 crore), partially offset by decrease in Own Tax Revenue (₹1,017 crore). The actual Capital Expenditure was less

than the estimated figures by an amount of ₹1,422 crore. As a result, the actual fiscal deficit (₹4,728 crore) was lesser than the Budget Estimates (₹6,424 crore).

1.5.2 Snapshot of Assets and liabilities of the Government

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 2019-20 (01 April 2019 to 30 October 2019) gives an overview of sources and application of funds. Statement 1, 6 and 17 of the Finance Accounts 2019-20 (01 April 2019 to 30 October 2019) 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 Pr. 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.

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from Public Account and Reserve Funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. Although the State has been bifurcated (w.e.f 31 October 2019), the assets and liabilities of erstwhile State are yet to be distributed between the newly created Union Territories. The position of assets and liability for current year and previous year is shown in **Table 1.2**.

Table 1.2: Summarised position of Assets and Liabilities of the erstwhile state of Jammu & Kashmir

(₹ in crore)

Liabilities				Assets			
		2018-19	2019-20 (01/04/2019 to 30/10/2019)			2018-19	2019-20 (01/04/2019 to 30/10/2019)
Consolidated Fund							
A	Internal Debt	42,221	45,429	A	Gross Capital Outlay	98,478	1,03,001
B	Loans and Advances from GoI	1,292	1,237	B	Loans and Advances	1,726	1,740
Contingency Fund		1	1			-	-
Public Account							
A	Small Savings, Provident Funds, etc.	26,242	27,162	A	Advances	13	13
B	Deposits	6,853	6,914	B	Remittance	-	-
C	Reserve Funds	2,497	2,805	C	Suspense and Miscellaneous	-	344
D	Remittances	2,765	2,848	Cash balance (including investment in Earmarked Fund)		511	-42
E	Suspense and Misc. Balance	5	-	Total		1,00,728	1,05,056
Cumulative Excess of Receipts over Expenditure		18,852	18,660	Deficit in Revenue Account			
Total		1,00,728	1,05,056	Total		1,00,728	1,05,056

1.6 Fiscal Balance: Achievement of Deficit and Total Debt Targets

Jammu and Kashmir Fiscal Responsibility and Budget Management (FRBM) Act was enacted on 14 August 2006, to provide for the responsibility of the Government to ensure prudence in fiscal management and fiscal stability by progressive strengthening of revenue surplus, reduction in fiscal deficit, prudent debt management, consistent with fiscal sustainability, greater transparency in fiscal operations of the Government

and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto.

FRBM Act required that Medium Term Fiscal Policy Statement is to be presented to the Legislature, in which the Government shall set forth the fiscal management objectives and three year rolling targets for the prescribed fiscal indicators. The fiscal targets fixed for 2019-20 in MTFP Statements were for complete year 2019-20. As per these targets, the erstwhile State was to maintain Revenue Surplus, Fiscal Deficit below three *per cent* of GSDP and outstanding debt to GSDP ratio below 44.01 *per cent*. The State got bifurcated into two Union Territories w.e.f 31 October 2019 and there were no targets for part year 2019-20 (up to 30 October 2019). However, it was noted that during the part year (till 30 October 2019), there was a Revenue Deficit of ₹192 crore. As the GSDP figures for the part year were not available, the State's performance on the parameters of Fiscal Deficit and outstanding debt as a percentage of GSDP, could not be assessed and commented upon.

1.6.1 Deficit Parameters

Revenue Deficit: The difference between revenue expenditure and revenue receipts is Revenue Deficit. There was Revenue Deficit (RD) of ₹192 crore in 2019-20 (01 April 2019 to 30 October 2019).

Fiscal Deficit: Fiscal deficit is the difference between the Government's total expenditure and its total receipts excluding borrowings. During the period 01 April 2019 to 30 October 2019, the Fiscal deficit was ₹4,728 crore.

Primary Deficit/Surplus: There was Primary Deficit of ₹1,373 crore during 2019-20 (01 April 2019 to 30 October 2019).

1.7 Deficits and Total Debt after examination in Audit

In order to present better picture of State Finances, there is a tendency to classify revenue expenditure as capital expenditure and to conduct off budget fiscal operations. During the period 01 April 2019 to 30 October 2019, Revenue Deficit and Fiscal Deficit were understated by ₹154.91 crore and ₹50.12 crore respectively owing to misclassification and short transfer of funds and interest to the Reserve Funds and there was off budget borrowing of ₹0.23 crore as detailed in the following para.

1.7.1 Post audit - Deficits

Misclassification of revenue expenditure as capital, short contributions to reserve funds, non transfer of State share and non transfer of interest on account of delayed transfer of State Disaster Response Funds has impacted the Revenue and Fiscal Deficit as shown in **Table 1.3**.

Table 1.3: Revenue and Fiscal Deficit, post examination by Audit

Sl. No.	Item	Impact on Revenue Deficit (Understated (+)/ overstated(-) (₹ in crore)	Impact on Fiscal Deficit (Understated) (₹ in crore)
		Under Statement	Under Statement
1	Grants-in-Aid classified as Capital Expenditure	68.97	-
2	Operating cost and transport/handling charges of food grains classified as Capital Expenditure	29.20	-
3	Stipend and Scholarship booked under Capital Expenditure	0.11	-
4	Subsidy booked under Capital Expenditure	6.47	-
5	Salary booked under Capital Expenditure.	0.04	-
6	Short Contribution to Guarantee Redemption Fund	5.04	5.04
7	SDRF Grant (State Share) not transferred to SDRF	45.00	45.00
8	Amount not transferred to SDRF (interest on account of delay in transfer)	0.08	0.08
Total Net impact		154.91	50.12

Source: Finance Accounts

Revenue Deficit of ₹192 crore during the period 01 April 2019 to 30 October 2019 is understated by ₹154.91 crore because of Revenue Expenditure being classified as Capital Expenditure and due to short transfer of funds and interest to the Reserve Funds. Fiscal Deficit is also understated by ₹50.12 crore due to short transfer of funds and interest to the Reserve Funds.

1.7.2 Post audit – Total Public Debt

As per the J&K FRBM Act, the total liabilities means liabilities under Consolidated Fund of the State and Public Accounts of the State and includes borrowings by the public Sector Undertakings and the Special Purpose vehicles and other equivalent instruments including Guarantees where the Principal and/or the interest is serviced out of the budget. There is an off budget borrowing of ₹0.23 crore during 01 April 2019 to 30 October 2019 for implementation of RGGVY/DDUGJY which needs to be included in total liabilities of the State.