

# **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 Union Territory's key fiscal position including the deficits/surplus.

#### 1.1 Profile of the Union Territory of Jammu and Kashmir

The Union Territory of Jammu and Kashmir is constituted of 20 districts. The projected population of Union Territory of Jammu and Kashmir for the year 2021 was 1.34 crore and density was 82 person per square km. As per Population projections for India and States 2011-2036, the population growth has been projected at 7.2 and Infant mortality rate at 29 for the period 2021-25.

##### 1.1.1 Gross State Domestic Product of the Union Territory of Jammu and Kashmir

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the Union Territory in a given period of time. Growth of GSDP is an important indicator of the economy, as it denotes the extent of changes in the level of economic development of the State/UT over a period of time. Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service sectors. The GSDP of UT of Jammu and Kashmir during 2020-21 was ₹1,76,282 crore.

**Table 1.1: GSDP compared to the GDP**

(₹in crore)

Year	2019-20	2020-21
GDP (2011-12 Series)	2,03,51,013	1,97,45,670
Growth rate of GDP over previous year (in per cent)	7.75	-2.97
UT of J&K's GSDP (2011-12 Series)	1,70,382	1,76,282*

Source: MOSPI, GoI website

\*Growth rate of GSDP over previous year has not been shown as two new UTs viz. UT of Jammu and Kashmir and UT of Ladakh were formed from the 'Appointed Day' 31 October 2019.

#### 1.2 Basis and Approach to Union Territory Finances Audit Report

In terms of Section 72 of Jammu and Kashmir Reorganisation Act, 2019, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of Union Territory of Jammu and Kashmir are to be submitted to the Lt. Governor of the Union Territory, who shall cause them to be laid before the Legislature of the Union Territory.

The Union Territory Finances Audit Report is prepared and submitted under Section 72 of Jammu and Kashmir Reorganisation Act, 2019.

Pr. Accountant General (Accounts and Entitlements) prepares the Finance Accounts and Appropriation Accounts of the Union Territory of Jammu and Kashmir, 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 Government of Union Territory of Jammu and Kashmir, 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.

Finance Accounts and Appropriation Accounts of the Union Territory constitute the core data for this report. Other sources include the following:

- Budget of the Union Territory: 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 Pr. Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS);
- GSDP data and other Union Territory related statistics; and
- Various audit reports of the CAG of India.

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

### **1.3 Report Structure**

The Union Territory Finances Audit Report is structured into the following five Chapters:

<b>Chapter – I</b>	<b>Overview</b> This chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and UTs fiscal position including the deficits/surplus.
<b>Chapter – II</b>	<b>Finances of the Union Territory</b> This chapter provides a broad perspective of the finances, debt profile of the Union Territory of Jammu and Kashmir and key Public Account transactions, based on the Finance Accounts of the Union Territory of Jammu and Kashmir for the year 2020-21.

<b>Chapter – III</b>	<b>Budgetary Management</b> This chapter is based on the Appropriation Accounts of Union Territory of Jammu and Kashmir for the year 2020-21 and reviews the appropriations and allocative priorities of the Government of Union Territory of Jammu and Kashmir and reports on deviations from Constitutional provisions relating to budgetary management.
<b>Chapter – IV</b>	<b>Quality of Accounts and Financial Reporting Practices</b> This chapter has comments on the quality of accounts rendered by various authorities of the Union Territory Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the Government.
<b>Chapter –V</b>	<b>Financial Performance of Public Sector Undertakings</b> This chapter contains comments about the financial performance of Public Sector Undertakings of UT of Jammu and Kashmir during the year 2020-21.

#### 1.4 Overview of Government Account Structure and Budgetary Processes

The Accounts of the Government of Union Territory of Jammu and Kashmir are kept in three parts:

**1. Consolidated Fund of the Union Territory of Jammu and Kashmir (Section 67 of the Jammu and Kashmir Reorganisation Act 2019)**

This Fund comprises all revenues received in the Union Territory of Jammu and Kashmir by the Government of India or Lieutenant Governor of the Union Territory of Jammu and Kashmir in relation to any matter with respect to which the Legislative Assembly of the Union Territory of Jammu and Kashmir has power to make laws, and all grant made and all loans advanced to the Union Territory of Jammu and Kashmir from the Consolidated Fund of India and all loans raised by the Government of India or the Lieutenant Governor of the Union Territory of Jammu and Kashmir upon the security of the Consolidated Fund of the Union Territory of Jammu and Kashmir and all moneys received by the Union Territory of Jammu and Kashmir in repayment of loans shall form one Consolidated Fund. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided in Jammu and Kashmir Reorganisation Act 2019.

**2. Contingency Fund of the Union Territory of Jammu and Kashmir (Section 69(1) of the Jammu and Kashmir Reorganisation Act 2019)**

This Fund is in the nature of an imprest, which is established by the Legislature by law, and is placed at the disposal of the Lieutenant Governor

to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the Legislature of Union Territory of Jammu and Kashmir. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the Union Territory of Jammu and Kashmir.

**3. Public Accounts of the Union Territory of Jammu and Kashmir (Section 68(1) of the Jammu and Kashmir Reorganisation Act 2019)**

Apart from above, all other public moneys received by or on behalf of the Lieutenant Governor, shall be credited to a Public Account entitled the Public Account of the Union Territory of Jammu and Kashmir. The Public Account includes re-payables 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 41 of the Jammu and Kashmir Reorganisation Act 2019 to present before the Legislature of the Union Territory, 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. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

**Revenue Receipts** consists 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 of Union Territory, 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.

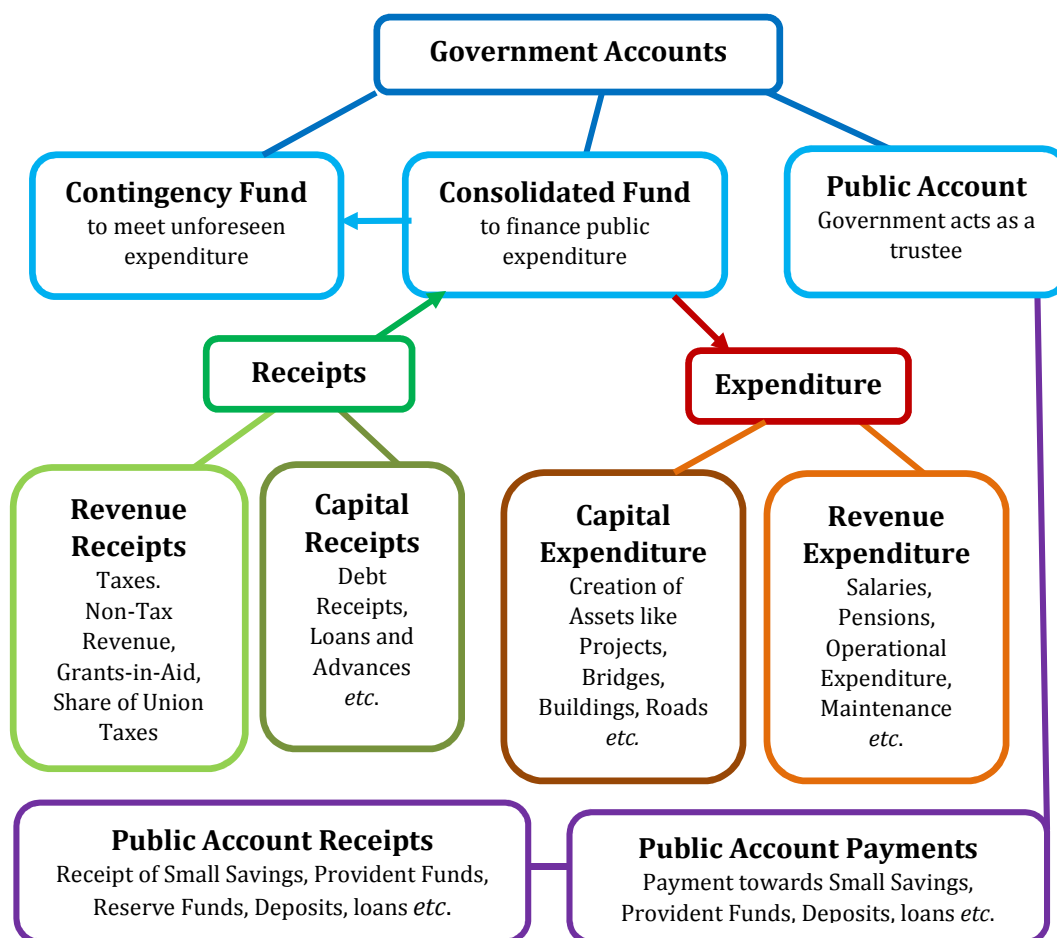
At present, we have an accounting classification system in Government that is both functional and economic.

	Attribute of transaction	Classification
Standardised in LMMH by CGA	Function- Education, Health, etc. /Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States/UT	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-salary, minor works, etc. (2-digit)

### 1.4.1 Structure of Government Accounts

**Chart 1.1: Structure of Government Accounts**

Government finances comprise the following:



### 1.4.2 Budgetary Process

In terms of Section 41 of the Jammu and Kashmir Reorganisation Act 2019, the Lieutenant Governor of Union Territory of Jammu and Kashmir shall cause to be laid before Legislative Assembly, a statement of the estimated receipts and expenditure of the Union Territory, in the form of an Annual Financial Statement. In terms of Section 42, the statement is submitted to the Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Section 43 to provide for appropriation of the required money out of the Consolidated Fund.

In pursuance of Gazette of India, Extraordinary, Part (II), Section 3, Sub section (ii), S.O 3938 (E) dated 31 October 2019 issued consequent upon the proclamation issued on 31<sup>st</sup> day of October 2019, Gazette of India, Extraordinary, Part (II), Section 3, Sub section (ii), S.O. 3937(E) dated 31<sup>st</sup> October, 2019, under section 73 of Jammu and Kashmir Reorganisation Act, 2019, read with Article 239 and 239A of the Constitution and Section 74 of the Jammu and Kashmir Reorganisation Act, 2019, the bill to authorise payment and appropriation of certain sums from and out of the Consolidated Fund of the Union Territory of Jammu and Kashmir of the moneys required to meet the expenditure *charged* on the Consolidated Fund of the Union Territory of Jammu and Kashmir and the grants made for the expenditure of the Union Territory of Jammu and Kashmir for the financial year 2020-21 from 1<sup>st</sup> day of April 2020 to 31<sup>st</sup> day of March 2021 was introduced in Parliament and assented to in March 2020. The Budget for the year 2020-21 of Union Territory of Jammu and Kashmir and Appropriation Bills for incurring expenditure by the Union Territory of Jammu and Kashmir for the period 2020-21 were presented in Parliament in March 2020. Appropriation Accounts of Union Territory of Jammu and Kashmir for the period 2020-21 was audited and commented to in **Chapter 3** of this Report.

### 1.5 Snapshot of Finances

The position of budget estimate and actuals (**Appendix 1.1**) in respect of some components have been shown in **Table 1.2**.

**Table 1.2: Actuals Vs Budget for the year 2020-21**

(₹ in crore)

Sl. No	Components	(Budget Estimate)	(Actuals)	Percentage of Actuals to B.E.	Percentage of Actuals to GSDP
1	Own Tax Revenue	13,241	8,877	67.04	5.04
2	Own Non-Tax Revenue	4,065	4,077	100.30	2.31
3	Share of Union taxes/duties	15,200	0.00	0.00	0.00
4	Grants-in-aid and Contributions	54,594	39,542	72.43	22.43
5	Additional Resource Mobilisation	4,000	0.00	0.00	0.00
6	<b>Revenue Receipts (1+2+3+4+5)</b>	<b>91,100</b>	<b>52,496</b>	<b>57.62</b>	<b>29.78</b>
7	Recovery of Loans and Advances	5	2	40.00	0.00
8	Other Receipts	84	0.00	0.00	0.00
9	Borrowings and other Liabilities	10,240	10,693 <sup>#</sup>	104.42	6.07



10	Capital Receipts (7+8+9)	10,329	10,695	103.54	6.07
11	Total Receipts (6+10)	1,01,429	63,191	62.30	35.85
12	Revenue Expenditure	62,664	52,634	83.99	29.86
13	Interest payments	6,891	6,372	92.47	3.61
14	Capital Expenditure	38,764	10,532	27.17	5.97
15	Capital outlay	38,656	10,470	27.09	5.94
16	Loan and advances	108	62	57.41	0.04
17	Appropriation to Contingency Fund	0.00	25	-	0.01
18	Total Expenditure (12+14+17)	1,01,428	63,191	62.29	35.85
19	Revenue Deficit (6-12)	28,436	-138	-0.49	-0.08
20	Fiscal Deficit {18-(6+7+8)}	10,240	10,693	104.42	6.07
21	Primary Deficit (20-13)	3,349	4,321	129.02	2.45

Source: Budget 2020-21 and Finance Accounts 2020-21. # Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance. Public Debt receipts includes ₹2,099.80 crore as back-to-back loans from GoI in lieu of GST Compensation shortfall.

There was less receipt (₹38,604 crore) under Revenue Receipts. This was due to less receipt under Own Tax Revenue (₹4,364 crore), Share of Union Taxes (₹15,200 crore), Additional Resource Mobilisation (₹4,000 crore) and Grants in Aid from GoI (₹15,052 crore) with respect to budget estimates. Revenue expenditure was less by ₹10,030 crore with respect to Budget Estimates. These resulted in Union Territory of Jammu and Kashmir having a revenue deficit of ₹138 crore against revenue surplus of ₹28,436 crore projected in budget estimate.

Goods and Services Tax (GST) Compensation is the revenue of the State Government under GST (Compensation to States) Act, 2017. However, in addition to receiving the GST compensation of ₹2,171.22 crore as revenue receipts during the year 2020-21, the Union Territory (UT) of Jammu and Kashmir also received back-to-back loans of ₹2,099.80 crore under debt receipts of the UT Government, with no repayment liability for the UT.

### 1.5.1 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.2** gives an abstract of such liabilities and assets as on 31 March 2021, compared with the corresponding position of previous year. 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 UT Government and cash balances. Summarised position of assets and liabilities is depicted in **Table 1.3**.

**Table 1.3: Summarised position of Assets and Liabilities**

(₹ in crore)

Liabilities		Assets	
		2020-21	2020-21
<b>Consolidated Fund</b>			
A	Internal Debt	10,562	A Gross Capital Outlay 15,893
B	Loans and Advances from GoI*	2,105	B Loans and Advances 95

Liabilities			Assets	
C	Transfer to Contingency Fund	25		-
<b>Contingency Fund</b>		<b>-</b>	<b>Contingency Fund</b>	<b>-</b>
Public Account				
A	Small Savings, Provident Funds, etc.	2,186	A	Advances
B	Deposits	1,356	B	Remittance
C	Reserve Funds	771	C	Suspense and Miscellaneous
D	Remittances	635	<b>Cash balance (including investment in Earmarked Fund)</b>	
E	Suspense and Misc Bal	121	<b>Total</b>	
		<b>-</b>	<b>Deficit in Revenue Accounts</b>	
<b>Total</b>		<b>17,761</b>	<b>Total</b>	
			<b>17,436</b>	
			<b>325</b>	
			<b>17,761</b>	

Source: Finance Accounts

\* Includes ₹2,099.80 crore as back-to-back loans from GoI in lieu of GST Compensation shortfall.

In addition, there were assets and liabilities of ₹1,05,056 crore of erstwhile State of Jammu and Kashmir ending 30 October 2019 which are to be distributed between Union Territory of Jammu and Kashmir and Union Territory of Ladakh.

## 1.6 Fiscal Balance: Achievement of Deficit and Total Debt Targets

As per the Statements laid under FRBM Act in the Parliament by Union Territory of Jammu and Kashmir, no fiscal indicators-rolling targets were specified for the year 2020-21 in respect of Union Territory of Jammu and Kashmir.

### 1.6.1 The Fiscal Parameters of the Union Territory of Jammu and Kashmir

**Revenue Deficit:** The difference between revenue expenditure and revenue receipts is revenue deficit. The Union Territory of Jammu and Kashmir had revenue deficit of ₹138.27 crore during 2020-21, which was 0.08 per cent of GSDP.

**Fiscal Deficit:** Fiscal deficit is the difference between the Government's total expenditure and its total receipts excluding borrowing. During the year 2020-21 Union Territory of Jammu and Kashmir had Fiscal Deficit of ₹10,693.36 crore, which was 6.07 per cent of GSDP.

**Primary Deficit/Surplus** refers fiscal deficit minus interest payments. During the year 2020-21 there was Primary Deficit (PD) of ₹4,320.90 crore. Primary deficit was 2.45 per cent of GSDP during the year.

## 1.7 Deficits after examination in Audit

In order to present better picture of Union Territory finances, there is a tendency to classify revenue expenditure as capital expenditure and to conduct off budget fiscal operations.

### 1.7.1 Post Audit - Deficits

Misclassification of revenue expenditure as capital, short contributions to new pension scheme has impacted the Revenue and Fiscal Deficit as shown below.

**Table 1.4: Revenue and Fiscal Deficit, post examination by Audit**

Sl. No	Item	Impact on Revenue Deficit (Understated (+) / overstated(-)) (₹ in crore)	Impact on Fiscal Deficit Under Statement (₹ in crore)
1	Misclassification between Revenue and Capital	189.81	No Impact
2	Non Payment of Interest on State Compensatory Afforestation Fund MH 8121	13.88	13.88
3	Non Payment of interest on State Compensatory Afforestation Deposit MH 8336	10.03	10.03
4	Short contribution to Defined Contribution Pension Fund	36.84	36.84
<b>Total Net impact</b>		<b>250.56</b>	<b>60.75</b>

Source: Finance Accounts

There was Revenue Deficit of ₹138.27 crore in the accounts of Union Territory of Jammu and Kashmir for the year 2020-21 which was understated by ₹250.56 crore due to misclassification of Revenue Expenditure as Capital Expenditure, Non Payment of Interest on State Compensatory Afforestation Fund and Deposit, Short Contribution to Defined Contribution Pension Fund. There was Fiscal Deficit of ₹10,693.36 crore during 2020-21 which was understated by ₹60.75 crore due to Non Payment of Interest on State Compensatory Afforestation Fund, State Compensatory Afforestation Deposit and Short Contribution to Defined Contribution Pension Fund as shown in the table above.

### 1.7.2 Post Audit – Total Public Debt

As per the Jammu and Kashmir Fiscal Responsibility and Budget Management Act, 2006, total liabilities means the liabilities under the Consolidated Fund and the Public Account and includes borrowings by the public sector undertakings and special purpose vehicles and other equivalent instruments including guarantees where the principal and /or interest are to be serviced out of the budget. The outstanding debt/liabilities can be split into various components as given in **Table 1.5**.

**Table 1.5: Components of outstanding debt/liabilities as on 31 March 2021**

(₹ in crore)	
Borrowings and other liabilities as per Finance Accounts	Amount
<b>Internal Debt (A)</b>	<b>10,562.20</b>
Market Loans	9,435.22
Loans from other Institutions, etc.	1,692.29
Special Securities issued to the National Small Savings Fund of the Central Government	(-)565.31
<b>Loans and Advances from Central Government (B)</b>	<b>2,105.44</b>
Non-plan Loans	15.10
Loans for State/Union Territory Plan Schemes	(-)175.81

<b>Borrowings and other liabilities as per Finance Accounts</b>	<b>Amount</b>
Others	2,281.25*
<b>Liabilities upon Public Accounts (C)</b>	<b>5,068.28</b>
Small Savings, Provident Funds, etc.	2,185.97
Deposits	1,355.53
Reserve Funds	771.13
Suspense and Miscellaneous Balances	121.15
Remittances	634.50
<b>Total (A+B+C)</b>	<b>17,735.92</b>

Source: Finance Accounts

\* Includes ₹2,099.80 crore as back-to-back loans from GoI in lieu of GST Compensation shortfall.

At the end of the year 2020-21, the overall outstanding debt/liabilities of the Union Territory were understated by ₹755.65 crore by not accounting for the Suspense, Miscellaneous and Remittance balances, thereby understating the same with respect to GSDP by 0.43 *per cent*. Liabilities of Union Territory of Jammu and Kashmir to GSDP after taking into account the liability on account of Suspense and Miscellaneous and Remittance will increase from 8.44<sup>1</sup> *per cent* to 10.06 *per cent*.

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<sup>1</sup> The overall debt GSDP ratio of 8.44 has been arrived at after exclusion of GST compensation of ₹2,099.80 crore received as back-to-back loans from GoI under debt receipts from the outstanding overall debt. The back-to-back loans would not be treated as debt of the UT for any norms which may be prescribed by the Finance Commission, etc.