

CHAPTER –I

FINANCES OF THE STATE GOVERNMENT

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CHAPTER – I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1.1-Part A**). The Finance Accounts of the Government of Arunachal Pradesh are laid out in nineteen Statements, presenting the receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account. The lay out of the Finance Accounts is depicted in **Appendix 1.1-Part B**.

1.1.1 Summary of Receipts and Disbursements

Table 1.1 summarizes the financial position of the State Government for the year 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement 1 of Finance Accounts and other detailed Statements.

Table 1.1: Summary of Receipts and Disbursements for the year 2007-08

(Rupees in crore)

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
Section – A: Revenue							
					Non-Plan	Plan	Total
2592.17	I. Revenue Receipts	3003.01	1897.23	I. Revenue Expenditure	1215.88	1043.67	2259.55
78.24	Own Tax revenue	98.09	559.60	General Services	598.13	21.93	620.06
297.17	Non-tax revenue	656.92	633.59	Social Services	216.35	490.23	706.58
347.14	Share of Union Taxes/Duties	437.87	704.04	Economic Services	401.40	531.51	932.91
1869.62	Grants-in-aid from Government of India	1810.13	-	Grants-in aid / contribution	-	-	-
Section – B: Capital							
-	II. Miscellaneous Capital receipts	-	585.60	II. Capital Outlay	201.13	552.08	753.21
2.33	III. Recovery of Loans and Advances	2.94	4.78	III. Loans and Advances disbursed	2.79	0.18	2.97
110.37	IV. Public Debt Receipts¹	291.06	92.44	IV. Repayment of Public Debt	-	-	77.13
-	V. Contingency Fund	-	-	V. Contingency Fund	-	-	...
1484.20	VI. Public Account Receipts	2423.76	1556.07	VI. Public Account Disbursements	-	-	2169.85

¹ Ways and means advances and overdraft were not taken during 2007-08.

14.39	Opening Cash Balance	67.34	67.34	Closing Cash Balance	-	-	525.40
4203.46	Total	5788.11	4203.46	Total			5788.11

Following are the significant changes during 2007-08 over the previous year:

- Revenue receipts grew by around 16 *per cent* (Rs. 411 crore) over the previous year. The increase was contributed by the State's own resources (Rs. 380 crore) especially increase in non-tax revenue (Rs. 360 crore) and State's share in Union taxes and duties (Rs. 91 crore). This increase was partly counterbalanced by decrease in grants-in-aid from the GOI (Rs. 60 crore).
- Revenue expenditure and capital expenditure increased by Rs. 363 crore (over 19 *per cent*) and Rs. 167 crore (over 28 *per cent*) respectively over the previous year.
- Recovery of loans and advances increased by Rs. 0.61 crore, where as disbursement of loan and advances decreased by Rs. 1.81 crore compared to the previous year.
- While Public Debt receipts increased by Rs. 180.69 crore, repayment of Public Debt decreased by Rs. 15.31 crore over the previous year.
- Public Account receipts and disbursements increased by Rs. 180.69 crore and Rs. 613.78 crore respectively over the previous year.
- Cash balance of the State as a result of the aforesaid inflows/outflows increased by Rs. 458.06 crore over the previous year

1.1.2 Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in **Table 1.2**.

Table 1.2

(Rupees in crore)

2006-07	Sl.No.	Major Aggregates	2007-08
2592	1.	Revenue Receipts (2+3+4)	3003
78	2.	Tax Revenue	98
297	3.	Non-Tax Revenue	657
2217	4.	Other Receipts	2248
2	5.	Non-Debt Capital Receipts	3
2	6.	Of which Recovery of Loans	3
2594	7.	Total Receipts (1+5)	3006
1089	8.	Non-Plan Expenditure (9+11+12)	1420
1086	9.	On Revenue Account	1216
188	10.	Of which, Interest payments	155
..	11.	On Capital Account	201
3	12.	On Loans disbursed	3

1399	13.	Plan Expenditure (14+15+16)	1596
811	14.	On Revenue Account	1044
586	15.	On Capital Account	552
2	16.	On Loans disbursed	..
2488	17.	Total Expenditure (8+13)	3016
(+) 695	18.	Revenue Surplus (+)/Deficit(-) {1-(9+14)}	(+) 743
(+) 106	19.	Fiscal Deficit (-) (1+5-17)	(-) 10
(+) 294	20.	Primary Deficit (-)/Surplus (+) {(1+5)-(17-10)}	(+) 145

During the current year, while revenue expenditure increased by 19 *per cent* (Rs. 363 crore), revenue receipts increased by 16 *per cent* (Rs. 411 crore) over the previous year, resulting in increase in surplus by Rs. 48 crore in revenue account. The increment in revenue surplus (Rs. 48 crore) and non-debt capital receipts (Rs. 1 crore) accompanied by an increase of Rs 167 crore in capital expenditure and a decrease of Rs. 2 crore in disbursement of loans and advances turned the fiscal surplus of Rs 106 crore in 2006-07 into fiscal deficit of Rs. 10 crore during the current year. Despite a decline of Rs 33 crore in interest payments, primary surplus decreased to Rs. 145 crore in 2007-08 from Rs. 294 crore in previous year due to deterioration in fiscal deficit position of the state during current year.

1.2 Methodology adopted for assessment of Fiscal Position

The trends in the major fiscal aggregates of receipts and expenditure emerging from the Statements of Finance Accounts were analysed wherever necessary over the period 2002-03 to 2007-08 and observations have been made on their behaviour. In its Restructuring Plan of the State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, the TFC also recommended that all States enact the Fiscal Responsibility (FR) Act and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that the fiscal position of the State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Government in its FR Act and in other statements required to be laid in the Legislature under the Act were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP)² is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure, *etc.* with reference to the base represented by GSDP have also

² GSDP is defined as the total income of the State or the market value of goods and services using labour and all other factors of production.

been worked out to assess as to whether the mobilization of resources, pattern of expenditure, etc. are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than the GSDP. GSDP series are being changed by the Directorate of Economics and Statistics, Government of Arunachal Pradesh every year, which resulted in the change from the ratios depicted in the previous Audit Reports. The trends in growth and composition of GSDP for the last six years are presented in **Table 1.3**.

Table 1.3: Trends in Growth of GSDP

Estimates	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
GSDP (Rupees in crore)	2,071.20	2,367.72	2,853.49	2,918.23	3,423.89	3,739.62
GSDP (Rate of Growth in <i>per cent</i>)	-1.56	14.32	20.52	2.27	17.33	9.22

Source: Figures furnished by the State Government, Department of Economics and Statistics. (2002 -03 to 2005-06 - Revised estimate, 2006-07 – Provisional estimate and 2007-08 - Quick estimates).

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Trends and Composition of Aggregate Receipts, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits (**Appendices 1.2 to 1.6**). The overall financial performance of the State Government as a body corporate has been presented by application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 – Part C**.

1.2.1 The Fiscal Responsibility and Budget Management Act

The State Government has enacted the Arunachal Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act, 2006 to (i) ensure fiscal prudence, stability and efficiency, (ii) achieve fiscal consolidation for facilitating the generation of revenue surplus for enhancing the scope for improvement of investment in the social and economic sectors/infrastructure, (iii) ensure fiscal and debt sustainability through progressive reduction of the fiscal deficit and proper debt management system and (iv) provide a more transparent and accountable system of budgeting that will ensure an efficient and effective system of governance. The APFRBM Act, 2006 came into effect on 30th March 2006 and the Fiscal Responsibility and Budget Management (FRBM) Rules, 2007 came in to force with effect from 12th February 2007. The Rule set the following fiscal targets for the State Government;

- Maintain at least the level of revenue surplus in the base year (average of 2001-02 to 2003-04) in the subsequent years, beginning with the financial year 2005-06 and ending with 2008-09 and adhere to it thereafter.
- Reduce every year the fiscal deficit by a minimum of 0.03 *per cent* of the GSDP by the end of each financial year, beginning with the financial year 2005-06 so as to reduce the same to 3 *per cent* or below by 2008-09 and adhere to it thereafter.

1.2.1.1 Roadmap to Achieve the Fiscal Targets as laid down in FRBM Act/Rules

The State Government has also developed its own Fiscal Correction Path (FCP) detailing the structural adjustments required for mobilizing additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the APFRBM Act (**Appendix 1.2**).

1.2.1.2 Fiscal Policy Statements

The State Government in its fiscal correction path prescribed the fiscal target relative to GSDP for revenue surplus, total outstanding liabilities and fiscal deficit as 7.36 percent, 67.98 *per cent* and 7.43 *per cent* respectively for the year 2007-08. The State Government had revised these targets in its MTFP for the year 2007-08 as follows:

-	Revenue surplus as a percentage of GSDP:	11.61
-	Total outstanding liabilities as a percentage of GSDP:	76.25
-	Fiscal deficit as a percentage of GSDP:	6.65

1.2.1.3 Mid-Term Review of Fiscal Situation

To enforce compliance with the principles and targets laid down in the FRBM Act, 2006, the State Finance Department is to review every half year the trends in receipts and expenditure including the fiscal indicators target set for the current financial year and place before the State Legislature a statement containing the out come of such review. However, the State Government is yet to enforce the provision of the Act in this regard as no mid-term review has been undertaken during 2007-08.

1.2.1.4 Fiscal Performance

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under Debt Consolidation and Relief Facility (DCRF)³. According to the scheme, the quantum of write off of repayment of GOI loans after consolidation and re-schedulement will be linked to the absolute amount by which the revenue deficit is reduced in each successive year during the award period. As a result of improved fiscal performance in terms of this criterion, the Arunachal Pradesh Government received a debt waiver of Rs.20.21 crore from the GOI under DCRF during 2007-08.

³ In pursuance of the recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the States, GOI formulated a scheme “**The States’ Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10)**” under which general debt relief is provided by consolidating and rescheduling the Central loans granted to States at substantially reduced rates of interest on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficit of States.

The fiscal performance of the State Government in terms of key fiscal variables vis-à-vis the targets laid in FRBM Act, 2006; projections made in its FCP and the budget estimates as projected by the State Government in MTFP for the year 2007-08 is presented in **Table 1.4**:

Table 1.4: Fiscal Performance

(Values in crore of rupees and ratios in per cent)

Key Fiscal Parameters	FRBM/ TFC Targets	FCP	MTFP 2007-08	Actual	Observations on Variation over		
					Column (2)	Column (3)	Column (4)
1	2	3	4	5	6	7	8
Revenue deficit (-) or surplus (+) /GSDP	0.0 (By 31.3.09)	+7.36	+11.61	(+)19.87	FRBM Target Achieved ahead of time limit and projections for RS in FCP/MTFP exceeded		
Fiscal deficit (-) or surplus (+) /GSDP	>3.0 (By 31.3.09)	-7.43	-6.65	(-) 0.27	FRBM Target Achieved and FD was well below the FCP/MTFP projections		
Tax Revenue	138	67	88	98	(-)40	(+)31	(+)10
Non-Tax Revenue	104	195	176	657	(+)553	(+)462	(+)481
Non-Plan Revenue Expenditure	881	1103	N/A	1216	(+)335	(+)113	-
Debt/GSDP Ratio	30.98	56.82	72.98	70.57	(+)39.59	(+)13.75	(-)2.41

The trends in major fiscal parameters/variables vis-à-vis projections made in APFRBM Act and the projections made in its FCP and MTFP for the year 2007-08 presented in the above Table reveals that the State has achieved the targets for revenue and fiscal deficits as laid down in State's APFRBM Rules, 2007 for the year 2007-08. The State has achieved fiscal targets as laid down in the FRBM Act/Rules and TFC much before the timeline indicated in them with the current year ending in revenue surplus of Rs 743 crore and fiscal deficit at only Rs 10 crore being 0.27 per cent of GSDP. However, in terms of its own tax revenue, NPRE and debt to GSDP ratio, the achievement of the State was below the normative assessment/norms prescribed by the TFC.

1.3 Trends and Composition of Aggregate Receipts

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the 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 the GOI as well as accruals from Public Account. **Table 1.5** shows that the total receipts of the State Government for the year 2007-08 were Rs. 5,721 crore, i.e. an increase of Rs. 1533 crore (36.60 per cent) over the previous year. Of these, revenue receipts were Rs. 3,003

crore only, constituting 52 *per cent* of the total receipts. The balance came mainly from borrowings (5 *per cent*) and public account receipts (43 *per cent*).

Table 1.5 – Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of State's Receipts	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
I. Revenue Receipts	1108	1576	1502	1849	2592	3003
II. Capital Receipts	145	308	218	717	112	294
(a) Recovery of Loans and Advances	2	2	3	3	2	3
(b) Public Debt Receipts ⁴	143	306	215	714	110	291
(c) Miscellaneous Capital Receipts	-	-	-	-	-	-
III. Contingency Fund Receipts	-	-	-	-	-	-
IV. Public Account Receipts	1514	958	1209	1425	1484	2424
(a) Small Savings, Provident Fund, etc.	96	141	134	129	133	122
(b) Reserve Funds	3	72	11	17	10	10
(c) Deposits and Advances	157	137	91	147	230	250
(d) Suspense and Miscellaneous	530	(-) 333	47	51	(-)237	443
(e) Remittances	728	941	926	1081	1348	1599
Total Receipts	2,767	2842	2929	3991	4188	5721

It was observed that remittances (Rs. 1599 crore) constitute 66 *per cent* out of the total receipts under Public Account (Rs. 2424 crore) in 2007-08. Of the remittances, 98.81 *per cent* have come from Public Works and Forest Departments (Rs. 1580 crore). Netting these receipts against the disbursements, the net receipts under remittances turn out to be only Rs. 0.17 crore during the current year.

1.3.1 Revenue Receipts.

Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from the GOI. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in **Table 1.6**.

Table 1.6 – Revenue Receipts-Basic Parameters

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (RR) (Rupees in crore)	1108	1576	1502	1849	2592	3003
Own Taxes (<i>per cent</i>)	37(3)	44(3)	50(3)	62(3)	78(3)	98(3)
Non-Tax Revenue (<i>per cent</i>)	76(7)	121(8)	170(11)	202(11)	297(11)	657(22)
Central Tax Transfers (<i>per cent</i>)	122(11)	161(10)	192(13)	272(15)	347(13)	438(15)
Grants-in-aid (<i>per cent</i>)	873 (79)	1251 (79)	1090 (73)	1313 (71)	1870 (72)	1810 (60)
Rate of Growth of RR (<i>per cent</i>)	2.12	42.23	(-)4.70	23.10	40.18	15.86
Rate of Growth of Own Taxes (<i>per cent</i>)	19.35	18.92	13.64	24	25.81	25.64
RR/GSDP (<i>per cent</i>)	53.50	66.56	52.64	63.36	75.70	80.30

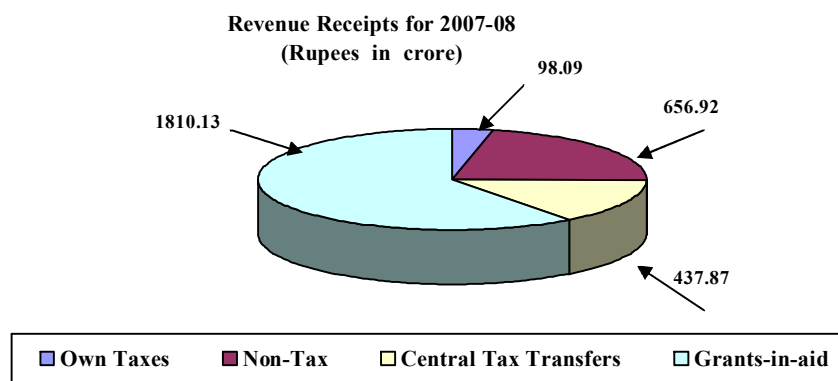
⁴ Included net (Nil) Ways and Means Advances also.

Buoyancy Ratio ⁵						
Revenue Buoyancy Ratio	-1.36	2.95	-0.23	10.18	2.32	1.72
State's Own Taxes Buoyancy Ratio	-12.37	1.32	0.66	10.58	1.49	2.78
Revenue Buoyancy Ratio with reference to State's Own Taxes	0.11	2.23	(-)0.34	0.96	1.56	0.62
GSDP Growth (per cent)	-1.56	14.32	20.52	2.27	17.33	9.22

General Trends

The revenue receipts of the State increased by Rs. 1,895 crore from Rs. 1,108 crore in 2002-03 to Rs. 3,003 crore in 2007-08. There were, however, wide inter-year variations in the growth rates, which declined to 15.86 per cent in 2007-08 from 40.18 per cent during the preceding year. Although all the components of revenue receipts have exhibited increases in absolute terms over the period 2002-08, the share of State's own taxes remained static at 3 per cent while that of non tax revenue steadily increased from 7 per cent in 2002-03 to 12 per cent in 2006-07 and further steeply to 22 per cent in the current year. Within the central transfers, the share of grants-in-aid has gradually reduced from 79 per cent to 60 per cent as against an increase in the share of central tax transfers from 10 per cent to 15 per cent during the period.

Chart 1.1



Tax Revenue

Tax revenue has increased by 25.37 per cent during the current year (Rs.98.09 crore) over the previous year (Rs.78.24 crore). The revenue from sales tax contributed the major share of tax revenue (79 per cent) and it increased by about 25 per cent over the previous year. State excise and taxes on vehicles were the other major contributors in the State's tax revenue. **Table 1.7** below shows the trend of tax revenue during 2002-08:

⁵ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 1.72 during 2007-08 implies that revenue receipts tend to increase by 1.72 percentage points if the GSDP increases by one per cent.

Table 1.7: Tax Revenue*(Rupees in crore)*

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Land Revenue	0.81	3.57	0.76	1.11	2.10	2.12
Stamps and Registration Fees	2.10	0.31	0.46	0.41	0.55	0.86
State Excise	14.26	15.42	17.79	9.51	10.98	11.61
Taxes on Sales, Trade, etc.	17.62	21.79	28.25	47.69	61.64	77.06
Taxes on Vehicles	1.75	2.02	2.21	2.99	2.93	6.42
Other Taxes ⁶	0.72	0.62	0.64	0.38	0.04	0.02
Total	37.26	43.73	50.11	62.09	78.24	98.09

Non-Tax Revenue

Table 1.8 below shows the trend of non-tax revenue during 2002-08:

Table 1.8: Non-Tax Revenue*(Rupees in crore)*

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Interest receipts, dividends and profits	6	9	5	7	13	29
General Services	11	21	14	41	75	53
Social Services	4	5	4	4	9	7
Economic Services	55	86	147	150	200	568
Total	76	121	170	202	297	657

The non-tax revenue, which constituted 22 *per cent* of the total revenue receipts during 2007-08, has increased by Rs. 360 crore recording a growth rate of 121 *per cent* over the previous year. Eighty six *per cent* of non-tax revenue during 2007-08 was received from economic services and within this category, receipts under Power alone contributed 81 *per cent* (Rs. 458 crore). During 2007-08, receipts from power sector increased by Rs 339 crore relative to the previous year for which reasons are awaited from the State Government (December 2008). It was however observed from the budget documents that such a steep increase in receipts seems to be on account of upfront receipts from private power developers. The trends in interest receipts and dividends and profits reveal significant improvement during 2007-08 compared to 2002-03 mainly because of increase in realization of interest on investment of cash balances. The non-tax revenue of the Government during 2006-08 is also inclusive of Rs. 20.21 crore received as an incentive in the form of debt waiver from the GOI under DCRF (the contra credit entry which was made under the head ‘Miscellaneous General Services’).

The mobilization of State’s own resources *vis-à-vis* assessments made by the TFC and State Government are given **Table 1.9**:

⁶ Other Taxes include duties on commodities and services.

Table 1.9

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in		Actuals
		FCP	Budget 2007-08	
Tax Revenue	138	67	79	98
Non-Tax Revenue	104	195	176	657

Tax revenue was 29 per cent lower as compared to the assessment made by the TFC, but it was higher by 46 per cent compared to the assessment made by the State Government in the FCP. The non-tax revenue exceeded by a big margin both the normative assessment of the TFC and the State's projections indicated in FCP and MTFP for 2007-08 mainly on account of huge receipts shown under Power sector.

Central Tax Transfers

The Central tax transfers increased by Rs. 91 crore over the previous year and constituted 15 per cent of revenue receipts. The increase was mainly under corporation tax (Rs. 31 crore), taxes on income other than corporation tax (Rs. 27 crore), customs (Rs. 15 crore), Union excise duties (Rs.7 crore) and service tax (Rs 10 crore).

Grants-in-Aid

Grants-in-aid from the GOI have decreased by 3.21 per cent from Rs. 1,870 crore in 2006-07 to Rs. 1,810 crore in the current year. Within the plan grants, major decline was observed under the Centrally Sponsored Schemes (Rs. 258 crore: 81 per cent) but the same increased in State Plan Schemes by 21 per cent (Rs. 220 crore) over the previous year in the form of increase in Block Grants (Rs. 234 crore). The grants under the Centrally Sponsored Schemes decreased mainly under Accelerated Rural Water Supply Programme (Rs. 193.82 crore) in Rural Development Sector. Details of Grants-in-aid from the GOI are given in **Table 1.10**

Table 1.10: Grants-in-Aid from the GOI

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State Plan Schemes	519	822	614	726	1049	1269
Non-Plan Grants	243	300	300	389	388	380
Grants for Central Plan Schemes	6	3	13	44	68	61
Grants for Centrally Sponsored Schemes	72	93	129	105	320	62
Grants for Special Plan Schemes	33	33	34	49	45	38
Total	873	1251	1090	1313	1870	1810
Percentage of increase (+)/ decrease (-) over previous year	(-)2.24	(+)43.30	(-)12.87	(+) 20.46	(+) 42.42	(-)3.21

1.3.2 Revenue Arrears

The arrears of tax revenue at the end of March 2008 in respect of some principal heads of revenue were Rs. 71.16 crore of which, Rs. 7.65 crore (10.68 *per cent*) were more than five years old. An analysis of revenue arrears revealed that out of the total outstanding revenue, Rs 43.94 crore (61.75 *per cent*) relates to tax revenue and Rs 27.22 crore (38.25 *per cent*) relates to non-tax revenue. Sixty two *per cent* of pending arrears pertain to Land Revenue followed by Geology and Mining (30.65 *per cent*). The pending revenue arrears constituted about 9.43 *per cent* of State's own revenue during 2007-08. Appropriate steps need to be initiated by the State Government for their recovery, which would in turn provide a cushion to reduce the burden of fiscal liabilities of the State.

1.4 Application of Resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. Total expenditure, its annual growth rate and ratio of expenditure to the GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.11**.

Table 1.11: Total Expenditure – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure (TE) ⁷ (Rupees in crore)	1324	1829	1891	2109	2488	3016
Rate of Growth (<i>per cent</i>)	(-)0.90	38.14	3.39	11.53	17.97	21.22
TE/GSDP Ratio (<i>per cent</i>)	63.92	77.25	66.27	72.27	72.67	80.65
Revenue Receipts/TE Ratio (<i>per cent</i>)	83.69	86.17	79.43	87.67	104.18	99.57
Buoyancy Ratio of Total Expenditure with reference to:						
GSDP	0.58	2.66	0.17	5.08	1.04	2.30
Revenue Receipts	(-)0.42	0.90	(-)0.72	0.50	0.45	1.34

The total expenditure during the current year has increased by Rs. 528 crore (21.22 *per cent*) over the previous year. Of the increase in total expenditure, revenue expenditure formed 69 *per cent* (Rs. 363 crore), capital expenditure component was 32 *per cent* (Rs. 67 crore) partly offset by decline in disbursement of loans and advances (Rs. 2 crore: 1 *per cent*). While the share of plan expenditure constituted 53 *per cent* (Rs. 1,596 crore) of the total

⁷ Total expenditure includes revenue expenditure, capital expenditure and loans & advances.

expenditure, the remaining 47 per cent was non-plan expenditure (Rs. 1,420 crore).

During the current year, 99.57 per cent (Rs. 3,003 crore) of total expenditure was met from revenue receipts and the remaining Rs. 13 crore (0.43 per cent) from non-debt capital receipts (Rs. 3 crore) and borrowed funds (Rs. 10 crore). The buoyancy of total expenditure to GSDP stood at 2.30 in 2007-08 indicating a tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

1.4.2 Trends in Total Expenditure by Activities

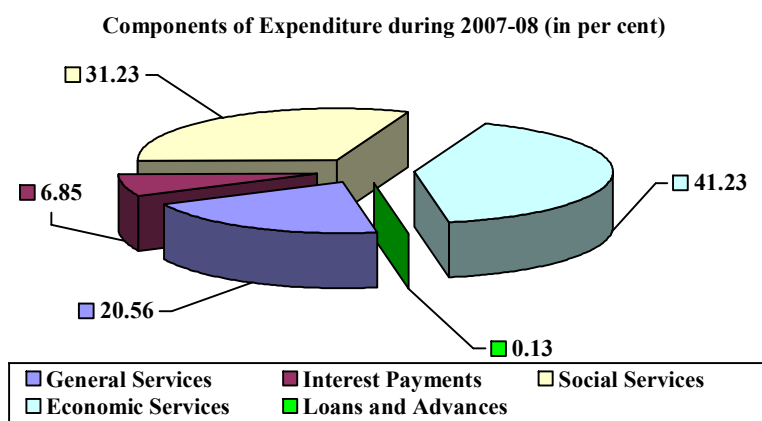
In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in Table 1.12.

Table 1.12: Components of Expenditure-Relative Share

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	28.90	26.77	26.63	23.94	23.38	20.56
Of which Interest Payments	9.47	8.44	7.77	7.42	7.55	6.85
Social Services	27.67	27.86	28.80	31.35	31.09	31.23
Economic Services	43.21	45.12	44.25	44.54	45.34	41.23
Loans and Advances	0.22	0.25	0.32	0.17	0.19	0.13

(In per cent)

Chart 1.2



The movement of the relative share of these components of expenditure indicated relative stability over the period 2002-08 with minor inter year variations. Of the total expenditure during 2007-08, expenditure on general services and interest payments, which is considered as non-developmental, together accounted for 20.56 per cent. On the other hand, expenditure on

social and economic services together accounted for 72.46 *per cent* during 2007-08. The relative share of social services exhibited relative stability during the period 2002-08. The relative share of economic services which ranged between 43.21 *per cent* and 45.34 *per cent* during the last five year period 2002-07 has decreased to 41.23 *per cent* in 2007-08. The loans and advances revealed wide fluctuations during the period 2002-07 and stood at 0.13 *per cent* during 2007-08 compared to the previous year.

1.4.3 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.13**.

Table 1.13: Revenue Expenditure – Basic Parameters

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE)	1031	1392	1510	1668	1897	2260
<i>Of which</i>						
<i>Non-Plan Revenue Expenditure (NPRE)</i>	609 (59.07)	841 (60.42)	931 (61.66)	944 (56.59)	1086 (57.25)	1216 (53.81)
<i>Plan Revenue Expenditure (PRE)</i>	422 (40.93)	551 (39.58)	579 (38.34)	724 (43.41)	811 (42.75)	1044 (46.19)
Rate of Growth of						
RE (<i>per cent</i>)	0.10	35.01	8.48	10.46	13.73	19.14
NPRE (<i>per cent</i>)	5.91	38.10	10.70	1.40	15.04	11.97
PRE (<i>per cent</i>)	(-)7.05	30.57	5.08	25.04	12.02	28.73
Ratios (<i>per cent</i>)						
RE/TE (<i>per cent</i>)	77.87	76.11	79.85	79.09	76.25	74.93
NPRE/GSDP (<i>per cent</i>)	31.02	37.18	37.88	35.41	37.56	38.79
NPRE as <i>per cent</i> of TE	46.00	45.98	49.23	44.76	43.65	40.32
NPRE as <i>per cent</i> of RR	54.96	53.36	61.98	51.05	41.90	40.49
Buoyancy Ratio of Revenue Expenditure with						
GSDP	-0.06	2.45	0.41	4.61	0.79	2.08
Revenue Receipts	0.05	0.83	(-)1.80	0.45	0.34	1.21

(Figures in brackets represent percentages to revenue expenditure)

The revenue expenditure increased by 119 *per cent* from Rs. 1,031 crore in 2002-03 to Rs. 2,260 crore in 2007-08. The non-plan revenue expenditure during the same period increased from Rs. 609 crore to Rs. 1,216 crore, showing an increase of 99.67 *per cent* indicating that the share of NPRE in total revenue expenditure declined from 59 *per cent* in 2002-03 to 54 *per cent*

in 2007-08. As a result, plan revenue expenditure, which normally covers the maintenance expenditure incurred on services, has increased by Rs. 622 crore during 2002-08 keeping its share in total revenue expenditure between 38 and 46 *per cent* during the period. The growth of PRE during 2007-08 significantly improved to 28.73 *per cent* against 12.02 *per cent* during the previous year mainly due to increase in expenditure on education, sports, art and culture by Rs. 46.10 crore followed by Transport (Rs.43.09 crore), Water Supply, Sanitation, Housing and Urban Development (Rs. 36.94 crore), Special Areas Programmes (Rs. 23.68 crore) and Agriculture and Allied Activities (Rs. 13.80 crore). The NPRES in 2007-08 at Rs. 1216 crore was 38.02 *per cent* (Rs. 335 crore) higher than the normatively assessed level of Rs. 881 crore by the TFC and 10.24 *per cent* (Rs. 113 crore) higher than the assessment made by the State Government in its FCP for the year (Table 1.14).

Table 1.14: Non-Plan Revenue Expenditure: Actuals *vis-à-vis* Normative Assessment by TFC

(Rupees in crore)

Particulars	Assessed by the TFC	Revised Estimates - 2007-08	Actual	Difference with reference to {Excess (+) / Less (-)}	
				Column (2)	Column (3)
Interest Payments	189	187	155	(-)34	(-)32
Pension	88	80	109	(+)21	(+)29
Other General Services	185	347	356	(+)171	(+)9
Social Services	198	248	707	(+)509	(+)459
Economic Services	176	604	933	(+)757	(+)329
Committed Liabilities	45	-	267	(+)222	-
Total	881		2527		

Except for interest payments, the actual expenditure incurred on all other components of non-plan revenue expenditure was more than the assessments made by the TFC. The expenditure also exceeded the assessments made in the Budget 2007-08 on all the components except for interest payments.

1.4.4 Committed Expenditure

Expenditure on Salaries and Wages

The trends in expenditure on salaries and wages both under plan and non-plan heads are presented in Table 1.15.

Table 1.15: Expenditure on Salaries and Wages*(Rupees in crore)*

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries and Wage ⁸	446	505	550	575	670	757
<i>Of which</i>						
<i>Non-Plan Head</i>	327	370	398	421	485	535
<i>Plan Head*</i>	119	135	152	154	185	222
As percentage of GSDP	21.53	21.33	19.27	19.70	19.57	20.24
As percentage of Revenue Receipts	40.25	32.04	36.62	31.10	25.85	25.21

Source: The figures of salary and wages from 2002-03 and 2004-05 are furnished by the State Government and figures for 2005-06 to 2007-08 are furnished by the AG (A&E) Shillong

** Plan Head includes salaries and wages paid under Centrally Sponsored Schemes.*

The expenditure on salaries and wages increased by 13 *per cent* during 2007-08 over the previous year and accounted for 25.21 *per cent* of the revenue receipts. The State did not restrict the expenditure on salaries during 2007-08 as assessed in its FCP (Rs. 688 crore) for the year. Moreover the total non-plan salary bill (Rs. 535 crore) at 44 *per cent* of non-plan revenue expenditure net of interest payments and pensions was marginally lower than the norms of 35 *per cent* prescribed by the TFC.

1.4.5 Pension Payments

The pension payments (including other retirement benefits) indicated an increasing trend during the six year period 2002-08 (**Table 1.16**).

Table 1.16: Expenditure on Pensions (including other retirement benefits)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pension and other Retirement Benefits (Rupees in crore)	60	66	70	71	79	109
Rate of Growth	11.10	10.00	6.06	1.43	11.27	37.97
As <i>per cent</i> of GSDP	2.90	2.79	2.45	2.43	2.31	2.91
As <i>per cent</i> of Revenue Receipts	5.42	4.19	4.66	3.84	3.05	3.63
As <i>per cent</i> of RE	5.82	4.74	4.64	4.26	4.16	4.82

Source: Finance Accounts 2007-08

Pension payments during the current year have increased by Rs. 30 crore recording a growth rate of over 38 *per cent* over the previous year mainly on account of increase in the number of pensioners and family pensioners. A comparative analysis of actual pension payments and the assessment/projections made by the TFC and the State Government (**Table 1.17**) reveals

⁸ Represents salaries and wages only but excludes salaries and wages spent from grants-in-aid

that actual pension payments exceeded the projections made by the TFC and the State Government by 19.27 per cent and 22.02 per cent respectively.

Table 1.17: Pension Payments vis-à-vis Projection

(Rupees in crore)

	Assessment made by the TFC	Assessment made by the State Government in FCP and Budget 2007-08	Actual expenditure on Pensions	Expenditure in excess of assessment made in	
				TFC	FCP and Budget
Pension Payments	88	85	109	21 (19.27)	24 (22.02)

(Figures in brackets represent percentages)

1.4.6 Interest Payments

Interest payments and their ratio to revenue receipts and revenue expenditure during 2002-08 are detailed in **Table 1.18**.

Table 1.18: Interest Payments

Year	Revenue Receipts	Total Revenue Expenditure	Interest payment	Percentage of interest with reference to	
	(Rupees in crore)			Revenue Receipts	Revenue Expenditure
2002-03	1108	1031	125	11.28	12.12
2003-04	1576	1392	142	9.01	10.20
2004-05	1502	1510	147	9.79	9.74
2005-06	1849	1668	157	8.49	9.41
2006-07	2592	1897	188	7.25	9.91
2007-08	3003	2260	155	5.16	6.86

Interest payments have consistently increased from Rs. 125 crore in 2002-03 to Rs. 188 crore in 2006-07 but indicated a sharp decline to Rs 155 crore during current year. Interest payments in 2007-08 were on market loans (Rs. 33 crore), Special Securities issued to National Small Savings Fund of the Central Government (Rs. 48 crore), other internal debt (Rs. 26 crore), loans and advances received from Central Government (Rs.1 crore) and Small Savings, Provident Fund, etc. (Rs.37 crore). The overall interest payments (Rs.155 crore) was lower than the projections made by the TFC (Rs. 188 crore), FCP (Rs. 190 crore) and budget estimates (Rs. 208 crore) of the year.

1.4.7 Subsidies

The trends in subsidies given by the State Government are given in **Table 1.19**.

Table 1.19: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2002-03	22	0	1.66
2003-04	31	(+) 41	1.69
2004-05	19	(-) 39	1.00
2005-06	2	(-) 89	0.09
2006-07	3	(+) 50	0.12
2007-08	2	(-) 33	0.07

Source: Information furnished by the Finance Department for the year prior to 2005-06. For the years 2005-06 to 2007-08 figures of Finance Accounts of the State are adopted.

During the current year, subsidies constituted 0.07 per cent of the total expenditure against 0.12 per cent in 2006-07 indicating decline in subsidies by the State Government. The decrease in subsidies (Rs. 1 crore) was mainly on account of decrease in payment to Co-operation (Rs. 0.78 crore) and Civil Supplies (Rs.0.06 crore).

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. **Table 1.20** gives these ratios during 2002-08.

Table 1.20: Indicators of Quality of Expenditure

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	290	433	375	438	586	753
Revenue Expenditure	1031	1392	1510	1668	1897	2260
<i>Of which</i>						
Social and Economic Services with	667	954	1021	1179	1338	1640
(i) Salary & Wage Component	278 (41.68)	313 (33.86)	328 (32.13)	350 (29.69)	548 (40.96)	344 (20.98)
(ii) Non-Salary & Wage Component	389 (58.32)	641 (66.14)	693 (67.87)	829 (70.31)	790 (59.04)	1296 (79.02)
As per cent of Total Expenditure (excluding loans and advances)						

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure	21.95	23.73	19.89	20.80	23.60	24.99
Revenue Expenditure	78.05	76.27	80.11	79.20	76.40	75.01
As per cent of GSDP						
Capital Expenditure	14.00	18.29	13.14	15.01	17.12	20.14
Revenue Expenditure	49.78	58.79	52.92	57.16	55.40	60.43

Revenue expenditure constituted around 76 to 80 per cent of total expenditure during 2002-08 resulting in expenditure on capital account ranging between 24 per cent and 20 per cent. The ratio of capital expenditure to GSDP has also increased from 14 per cent in 2002-03 to 20.14 per cent in 2007-08 with inter-year variations. The non-salary component constituted 79 per cent of revenue expenditure under social and economic services during 2007-08 and increased by 64 per cent over previous year, against (-) 37 per cent on salary component. The non-salary component increased by 233 per cent from 2002-03 (Rs. 389 crore) to 2007-08 (Rs. 1296 crore) while salary component increased by 23.74 per cent and correspondingly the share of non-salary component in revenue expenditure incurred on social and economic services increased from 58.32 to 79.02 per cent and that of salary component decreased from 41.68 to 20.98 per cent during the period. These trends indicate the focus of the Government towards the improvement in the delivery of these services.

1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities, etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.21** summarizes the expenditure incurred by the State Government in expanding and strengthening social services in the State during 2002-08.

Table 1.21: Expenditure on Social Services

(Rupees in crore) (Per cent in brackets)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Education, Sports, Art and Culture	165.59	198.66	223.92	240.41	296.77	332.43
Revenue Expenditure	154.15	182.88	204.34	216.07	248.29	297.21
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	120.29 (78.03)	134.51 (73.55)	137.51 (67.29)	148.42 (68.69)	163.36 (65.79)	196.55 (66.13)
(b) <i>Non-Salary & Wage Component</i>	33.86 (21.97)	48.37 (26.45)	66.83 (32.71)	67.65 (31.31)	84.93 (34.21)	100.66 (33.87)
Capital Expenditure	11.44	15.78	19.58	24.34	48.48	35.22
Health and Family Welfare	62.81	76.28	94.00	75.92	122.88	117.10
Revenue Expenditure	58.72	67.51	77.07	70.83	92.63	103.31
<i>Of which</i>						

(a) Salary & Wage Component	47.43 (80.77)	52.11 (77.19)	56.25 (72.99)	60.46 (85.36)	68.54 (73.99)	76.16 (73.72)
(b) Non-Salary & Wage Component	11.29 (19.23)	15.40 (22.81)	20.82 (27.01)	10.37 (14.64)	24.09 (26.01)	27.15 (26.28)
Capital Expenditure	4.09	8.77	16.93	5.09	30.25	13.79
Water Supply, Sanitation, Housing and Urban Development	82.46	106.56	153.74	198.06	221.12	297.97
Revenue Expenditure <i>Of which</i>	60.67	86.95	124.19	153.26	165.99	215.21
(a) Salary & Wage Component	8.15 (13.43)	8.79 (10.11)	9.27 (7.46)	10.13 (6.61)	18.35 (11.05)	20.88 (9.70)
(b) Non-Salary & Wage Component	52.52 (86.57)	78.16 (89.89)	114.92 (92.54)	143.13 (93.39)	147.64 (88.95)	194.33 (90.30)
Capital Expenditure	21.79	19.61	29.55	44.80	55.13	82.76
Other Social Services	55.54	109.37	72.90	146.87	132.67	107.46
Revenue Expenditure <i>Of which</i>	54.22	95.94	67.07	130.89	126.68	90.85
(a) Salary & Wage Component	1.67 (3.08)	2.18 (2.27)	2.50 (3.73)	1.70 (1.30)	120.80 (95.36)	31.90 (35.11)
(b) Non-Salary & Wage Component	52.77 (97.33)	93.76 (97.73)	64.57 (96.27)	129.19 (98.70)	5.88 (4.64)	58.95 (64.89)
Capital Expenditure	1.32	13.43	5.83	15.98	5.99	16.61
Total (Social Services)	366.40	490.87	544.56	661.26	773.44	854.96
Revenue Expenditure <i>Of which</i>	327.76	433.28	472.67	571.05	633.59	706.58
(a) Salary & Wage Component	177.54 (54.17)	197.59 (45.60)	205.53 (43.48)	220.71 (38.65)	372.29 (58.76)	325.49 (46.06)
(b) Non-Salary & Wage Component	150.22 (45.83)	235.69 (54.40)	267.14 (56.52)	350.34 (61.35)	261.30 (41.24)	381.09 (53.93)
Capital Expenditure	38.64	57.59	71.89	90.21	139.85	148.38

Expenditure on social sector during the current year accounted for over 28 *per cent* of the total expenditure (Rs. 3013 crore) and 36 *per cent* of development expenditure⁹(Rs. 2370 crore). Expenditure on education, sports, art and culture; health and family welfare and water supply and sanitation, housing and urban development constituted over 81 *per cent* of the expenditure on social sector.

The trends in revenue and capital expenditure on social services during 2002-08 reveal that the share of capital expenditure remained within the range of 11 to 18 *per cent* indicating the dominant share of the revenue expenditure. Of the revenue expenditure on social services, the share of salary and wage component has decreased from 54.17 *per cent* in 2002-03 to 38.65 *per cent* in 2005-06 but increased sharply in 2006-07 and reached its peak of 58.76 *per cent* which however declined to 46.06 *per cent* in 2007-08. Therefore during the period salary component of revenue expenditure increased by 83.6 *per cent* (Rs 148 crore) but its share declined from 54 *per cent* to 46 *per cent* during the

period. The non-salary component of revenue expenditure on social services has increased by 154 per cent (Rs 231 crore) during the period 2002-08 thereby increasing its share from 46 per cent to 54 per cent during the period. .

Recognizing the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education, health and family welfare should increase only by 5 to 6 per cent, while non-salary expenditure under non-plan heads should increase by 30 per cent per annum during the award period. However, the expenditure on salary and wage component under education sector increased by 20.85 per cent and under health and family welfare sector the increase of 10.14 per cent far surpassed the recommendations of the TFC. The increase in non-salary (non-plan) expenditure under these two sectors is also not encouraging in as much as 18.82 per cent and 12.50 per cent increase under education and health and family welfare sectors respectively are below the recommendations of the TFC. Thus, expenditure pattern under both these sectors needs correction in the ensuing years.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditure that promotes directly or indirectly, productive capacity within the States' economy. **Table 1.22** presents the trends in expenditure incurred on economic services during the period from 2002-03 to 2007-08.

Table 1.22: Expenditure on Economic Services

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	<i>(Rupees in crore) (Per cent in brackets)</i>					
Agriculture and Allied Activities	141.01	214.80	184.39	226.99	241.67	407.78
Revenue Expenditure	135.83	208.40	179.55	204.44	226.04	273.05
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	71.83 (52.88)	78.86 (37.84)	85.77 (47.77)	90.31 (44.17)	100.89 (44.63)	110.64 (40.52)
(b) <i>Non-Salary & Wage Component</i>	64.00 (47.12)	129.54 (62.16)	93.78 (52.23)	114.13 (55.83)	125.15 (55.37)	162.41 (59.48)
Capital Expenditure	5.18	6.40	4.84	22.55	15.63	197.73
Irrigation and Flood Control	50.41	77.22	43.29	51.12	89.06	97.79
Revenue Expenditure	45.49	59.57	39.43	45.25	76.73	87.96
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	8.00 (17.59)	9.77 (16.40)	10.23 (25.94)	10.84 (23.96)	12.81 (16.69)	16.66 (18.94)
(b) <i>Non-Salary & Wage Component</i>	37.49 (82.41)	49.80 (83.60)	29.20 (74.06)	34.41 (76.04)	63.92 (83.31)	71.30 (81.06)
Capital Expenditure	4.92	17.65	3.86	5.87	12.33	9.83

⁹ Development expenditure is defined as the total expenditure incurred on social and economic services

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Energy	126.96	195.36	254.96	227.32	248.53	263.89
Revenue Expenditure	14.33	25.00	105.55	103.23	120.25	136.00
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	7.96 (55.55)	8.78 (35.12)	9.14 (8.66)	10.34 (10.02)	11.78 (9.80)	22.28 (16.38)
(b) <i>Non-Salary & Wage Component</i>	6.37 (44.45)	16.22 (64.88)	96.41 (91.34)	92.89 (89.98)	108.47 (90.20)	113.72 (83.62)
Capital Expenditure	112.63	170.36	149.41	124.09	128.28	127.89
Transport	117.65	188.67	144.50	165.77	267.68	317.23
Revenue Expenditure	43.01	81.76	58.58	70.29	81.96	138.46
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	10.93 (25.41)	16.47 (20.14)	15.62 (26.66)	16.61 (23.63)	18.19 (22.19)	20.74 (14.98)
(b) <i>Non-Salary & Wage Component</i>	32.08 (74.59)	65.29 (79.86)	42.96 (73.34)	53.68 (76.37)	63.77 (77.81)	117.72 (85.02)
Capital Expenditure	74.64	106.91	85.92	95.48	185.72	178.77
Other Economic Services	136.35	205.05	209.46	268.00	280.83	364.93
Revenue Expenditure	100.39	145.69	164.84	184.66	199.06	297.44
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	1.16 (1.16)	1.30 (0.89)	1.31 (0.79)	1.36 (0.74)	31.91 (16.03)	43.89 (14.76)
(b) <i>Non-Salary & Wage Component</i>	99.23 (98.84)	144.39 (99.11)	163.53 (99.21)	183.30 (99.26)	167.15 (83.97)	253.55 (85.24)
Capital Expenditure	35.95	59.36	44.62	83.34	81.77	67.50
Total (Economic Services)	572.37	880.10	836.60	939.20	1127.27	1514.63
Revenue Expenditure	339.05	520.42	547.95	607.87	704.04	932.91
<i>Of which</i>						
(a) <i>Salary & Wage Component</i>	99.88 (29.46)	115.18 (22.13)	122.07 (22.28)	129.46 (21.30)	175.58 (24.94)	214.21 (22.96)
(b) <i>Non-Salary & Wage Component</i>	239.17 (70.54)	405.24 (77.87)	425.88 (77.72)	478.41 (78.70)	528.46 (75.06)	718.70 (77.04)
Capital Expenditure	233.23	360.68	288.65	331.33	423.73	581.72

The expenditure on economic services during 2007-08 (Rs. 1515 crore) accounted for over 50.29 per cent of the total expenditure (revenue plus capital expenditure) and 64 per cent of the development expenditure during the year. Out of the total expenditure on economic services during the current year, 31.08 per cent was incurred on agriculture and allied services, 20.94 per cent on transport and 17.42 per cent on energy.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure consistently increased from Rs. 233 crore in 2002-03 to Rs. 582 crore (149.79 per cent) in 2007-08. Revenue expenditure also consistently increased from Rs. 339 crore in 2002-03 to Rs. 933 crore (175.22 per cent) in the current year. An increase of Rs. 229 crore (32.51 per cent), during 2007-08 over the previous year in revenue expenditure was mainly due to the increase in agriculture and allied activities (Rs.47 crore),

energy (Rs.16 crore), transport (Rs.56 crore) and other economic services (Rs.98 crore).

Within the revenue expenditure, salary and wage component ranged between 21 and 29 *per cent* of the total revenue expenditure during 2003-08. It increased from Rs. 100 crore in 2002-03 to Rs. 214 crore (114 *per cent*) during the current year, whereas the non-salary and wage component ranged between 71 and 79 *per cent* during 2002-08. The non-salary and wage component also increased from Rs. 239 crore in 2002-03 to Rs. 719 crore (200.84 *per cent*) indicating change in allocative priorities of the State Government.

1.5.4 Financial Assistance to Local Bodies and other Institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six-year period 2002-08 is presented in **Table 1.23**.

Table 1.23: Financial Assistance

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
University and Educational Institutions	10.12	15.89	24.43	16.49	10.14	12.96
Cultural Institutions/Voluntary Organisations for promotion of Art and Culture	0.12	0.21	0.09	5.21	0.25*	0.50
State Institute of Rural Development	8.46	16.03	0.85	24.36	..	1.07
Social Welfare	0.50	0.46	0.70	0.15	0.15	0.16
Warehousing Corporations	0.77	4.77	..	4.94	14.93	23.06
Co-operation	..	..	..	..	..	..
Zilla Parishads/Village Panchayats etc.	..	..	0.48	..	..	..
Other Institutions	2.43	27.42	15.04	15.97	1.84	5.74
Total	22.40	64.78	41.59	67.12	27.31	43.49
Assistance as percentage of Revenue Expenditure	2.17	4.65	2.75	4.02	1.44	1.92

* The figures of 2006-07 as furnished earlier were rectified and corrected figures depicted.

The financial assistance extended to local bodies and other institutions with inter-year variations increased by 94 *per cent* from Rs. 22.4 crore in 2002-03 to Rs. 43.5 crore in 2007-08. More than half of the total assistance was released for warehousing corporations during 2006-07 and 2007-08 followed by assistance to universities and other educational institutions. The State Government is also giving adhoc grants on year to year basis to various institutions grouped under the head 'other institutions' which varied from 27.42 crore in 2003-04 to Rs 1.84 crore in 2006-07 and stood at Rs 5.74 crore in the current year.

1.5.5 Non-submission of accounts

In order to identify the institutions which attract audit under Section 14/15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act), Government/Heads of Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose for which assistance was sanctioned and the total expenditure of the institutions. Information for the year 2007-08 called for in April 2008 from 19 departments was awaited as of October 2008.

1.5.6 Abstract of performance of Autonomous Bodies

The audit of accounts of the North Eastern Regional Institute of Science and Technology (NERIST) in the State has been entrusted to the Comptroller and Auditor General of India under Section 20(1) of the DPC Act, 1971 up to 2011-12. The preparation and audit of accounts of the Institute are up to date.

1.5.7 Misappropriation, losses, defalcation, etc.

The State Government reported 38 cases of misappropriation, defalcation, etc. involving Government money amounting to Rs. 8.96 crore up to the period March 2008 on which final action was pending. The department-wise break up of pending cases is given in **Appendix 1.7**.

1.6 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.3** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. **Appendix 1.6** depicts the time series data on State Government finances for the period 2002-08.

1.6.1 Financial Analysis of Government Investments

1.6.1.1 Incomplete Projects

As per information contained in **Appendix II** of the Finance Accounts for the year 2007-08, as of March 2008, there were 285 ongoing projects and target dates of completion for most of them have not been indicated by the State Government. A further analysis however revealed that 126 projects were taken up between 1991-92 and 2003-04 at an estimated cost of Rs. 13.92 crore against which, expenditure incurred was Rs. 12.53 crore. Within the category of the projects costing Rupees one crore or more there were 3 ongoing projects in the department of PHE, as on 31 March 2008 involving the budgeted cost of

the order of Rs.17.52 crore and the cumulative expenditure incurred on them amounted to Rs.5.56 crore as on 31 March 2008. Since the targeted dates of their completion and the revised cost, if any are not indicated by the Government, it is difficult to make observations on cost and time overruns of these projects. It was however observed that in case of one project cumulative expenditure was Rs.4.07 crore as against the budgeted cost of Rs.3.98 crore.

1.6.1.2 Government Investments and Returns

As of 31 March 2008, Government had invested Rs. 218 crore in Government Companies and Co-operative Societies (**Table 1.24**). The return on this investment was Rs.0.01 lakh in the last year while the Government paid interest at an average rate of 6.19 to 10.77 *per cent* on its borrowings during 2002 - 08.

Table 1.24: Return on Investment

Year	Investment **		Return	Rate of Return on Capital Employed	Average rate of interest on Government borrowing	Difference between interest rate and return
	during the year	at the end of the year				
	(Rupees in crore)						(Per cent)
2002-03	0.84	16.08	*	0.02	10.77	10.75
2003-04	0.05	16.13	0.00	0.00	10.32	10.32
2004-05	0.12	16.23	0.00	0.00	8.90	8.90
2005-06	11.58	27.77	0.00	0.00	7.58	7.58
2006-07	3.99	31.76	0.00	0.00	7.99	7.99
2007-08	185.82	217.58	*	*	6.19	6.19

** Figures differs from figures in Chapter VII and difference is under reconciliation.

* less than 0.01

The investment of the State Government at the end of March 2008 included Rs.9.04 crore in five Government Companies *viz.* Arunachal Pradesh Forest Corporation Limited (Rs 3.80 crore), Arunachal Pradesh Plywood Industries Limited (Rs. 0.20 crore), Arunachal Pradesh Industrial Development Financial Corporation Limited (Rs. 1.82 crore), Arunachal Pradesh Handloom and Handicraft Development Corporation Limited (Rs.0.83 crore) and Arunachal Pradesh Mineral Development and Trading Corporation (Rs.2.39 crore), as well as Arunachal Pradesh State Co-operative Apex Bank Limited (Rs. 190.53 crore) and Rs.18.02 crore in 143 Co-operative Societies. The State Government during the current year invested Rs 180 crore as equity shares in Arunachal Pradesh State Co-operative Apex Bank Limited. However, dividend declared by the Companies/Co-operatives during the current year was Rs. 0.01 lakh. Of the five Government Companies three Companies are running at a loss. The details are shown in **Table 1.25**

Table 1.25: Details of loss making Government Companies*(Rupees in crore)*

Name of Companies	Amount invested	Invested up to	Accumulated loss	Period up to ¹⁰
Arunachal Pradesh Forest Corporation Limited	3.80	1995-96	-	1998-99
Arunachal Plywood Industries Limited	0.28	1987-88	-	-
Arunachal Pradesh Industrial Development and Financial Corporation Limited	1.82	2006-07	8.78	2000-01
Handloom and Handicraft Development Corporation	0.83	1996-97	3.38	1996-97
Arunachal Pradesh Mineral Development and Trading Corporation	2.39	2006-07	0.12	1992-93

** Figures differs from figures in Chapter VII and difference is under reconciliation.

1.6.1.3 Loans and Advances by State Government

In addition to the investments in Co-operatives, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. The total outstanding loans and advances as on 31 March 2008 was Rs. 28 crore (Table 1.26). Interest received against these loans and advances was meager, which had increased by 85.19 per cent during the year over previous year.

Table 1.26: Average Interest Received on Loans and Advances by the State Government*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	19	20	21	25	25	28
Amount advanced during the year	3	3	6	3	5	3
Amount recovered during the year	2	2	2	3	2	3
Closing Balance	20	21	25	25	28	28
Net Addition	1	1	4	-	3	..
Interest Received	-	-	0.49	-	0.54	1.00
Interest received as per cent to outstanding Loans and Advances	-	-	2.13	-	2.04	3.57
Average interest rate paid on borrowings by the State Government (per cent)	10.77	10.32	8.90	7.58	7.99	6.19
Difference between interest paid and received (per cent)	10.77	10.32	6.77	7.58	5.95	2.62

The outstanding loans and advances were mainly in Co-operation (Rs. 11.25 crore), Village and Small Industries (Rs. 1.92 crore) and Government Servants (Rs. 8.26 crore). During the current year, major portion of loans were advances to other Co-operatives (Rs.0.18 crore) and Government Servants (Rs.2.79 crore).

1.6.2 Management of Cash Balances

¹⁰ Accounts for the subsequent years are in arrears.

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – Ordinary and Special – from Reserve Bank of India (RBI) has been put in place. The operating limit for Ordinary WMA is reckoned as the three year average of revenue receipts and the operative limit for Special WMA is fixed by RBI from time to time depending on the holding of Government securities.

Under the agreement with the RBI, the Government of Arunachal Pradesh has to maintain an all time minimum balance of Rs.26 lakh with RBI. If the balance falls below the agreed minimum, the Government can take Ordinary WMA from the RBI. In addition, Special WMA are made available against GOI securities held by the State Government. Overdrafts are given by the RBI if the State has a minus balance after availing of the maximum advance.

WMAs and Overdrafts availed, the number of occasions it was availed and interest paid by the State during 2002-08 is detailed in **Table 1.27**.

Table 1.27: Ways and Means Advances and Overdrafts of the State

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Ways and Means Advances						
Take in the year	27.39	-	146.65	42.20	-	-
Outstanding	-	-	55.40	88.70	55.64	55.64
Interest paid	0.04	-	0.24	0.21	8.18	-
<i>Number of Days</i>	28	-	74	59	-	-
Overdraft						
Taken in the year	-	-	45.22	201.50	-	-
Outstanding	-	-	0.50	172.98	-	-
Interest paid	-	-	0.51	0.90	-	--
<i>Number of Days</i>	-	-	6	35	-	-

As can be seen from the above table, the Government did not have to resort to WMA during the current year (2007-08) indicating comfortable position of cash balances of the State. The cash balances of the State Government increased from Rs. 67.34 crore to Rs. 525.40 crore in 2007-08 over the previous year mainly due to increase in cash balance investment by Rs. 845.96 crore.

1.7 Undischarged Liabilities

According to Arunachal Pradesh FRBM Act, 2006, the total liabilities means the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the Public Sector

Undertakings and including guarantees where principal and/or interest are to be serviced out of the State budget.

1.7.1 Fiscal Liabilities - Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public Debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Account. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. However, no law has been passed in the State to lay down any such limit. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table 1.28 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources and also the buoyancy of fiscal liabilities with respect to these parameters.

Table 1.28: Fiscal Liabilities – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities ¹¹ (Rupees in crore)	1227	1525	1778	2337	2371	2639
Rate of Growth (<i>per cent</i>)	12.16	24.29	16.59	31.44	1.45	11.30
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	59.24	64.41	62.31	80.08	69.25	70.57
Revenue Receipts (<i>per cent</i>)	110.74	96.76	118.38	126.39	91.47	87.88
Own Resources (<i>per cent</i>)	1085.84	924.24	808.18	885.23	632.27	349.54
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	-7.77	1.70	0.81	13.86	0.08	1.23
Revenue Receipts (ratio)	5.74	0.57	(-)3.53	1.36	0.04	0.71
Own Resources (ratio)	1.13	0.53	0.50	1.57	0.03	0.11

Overall fiscal liabilities of the State increased from Rs. 1227 crore in 2002-03 to Rs. 2639 crore in 2007-08. The growth rate in 2007-08 was 11.30 *per cent* over the previous year. Fiscal liabilities during 2007-08 consist of internal debt, e.g., market loans bearing interest, loans from Life Insurance Corporation of India (LIC) and other institutions, etc. (Rs. 1508 crore), loans and advances from Central Government (Rs. 449 crore), small savings, provident funds (State Provident Funds and Insurance & Pension Funds: Rs. 570 crore) and other non-interest bearing obligations such as deposit of local funds, civil deposits, etc. (Rs. 112 crore). The ratio of fiscal liabilities to GSDP also

¹¹ Includes Internal Debt, Loans and Advances from Government of India, Small Savings, Provident Funds, etc., Deposits and other non-interest bearing obligations.

increased from 59.24 *per cent* in 2002-03 to 70.57 *per cent* in 2007-08. These liabilities stood at 88 *per cent* of revenue receipts and 3.50 times of the State's own resources at the end of 2007-08. The buoyancy of these liabilities with respect to GSDP during the year was 1.34 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.23 *per cent*.

According to **Statement 4** of the Finance Accounts for the year 2007-08, during 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortization of open market loans. In 2007-08, the Government appropriated Rs. 10 crore from revenue and credited to this fund for investment in the GOI Securities.

1.7.2 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State. Even the APFRBM Act, 2006 also did not fix any ceiling limit for the maximum or outstanding guarantees to be given by the State Government. As per **Statement 6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2002-03 are given in **Table 1.29**.

Table 1.29: Guarantees given by the Government of Arunachal Pradesh

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Maximum amount guaranteed (year end)	-	27	14	24	24	12
Outstanding amount of guarantees (including interest)	-	20	8	6	13	0.98
Percentage of maximum amount guaranteed to total revenue receipts	-	1.71	0.93	1.30	0.93	0.40

The maximum amount guaranteed by the State Government has declined by 100 *per cent* from Rs 24 crore in 2006-07 to 12 crore in the current year. However, outstanding guarantees at the end of 2007-08 stood at only Rs. 0.98 crore (including interest) which was 0.40 *per cent* of revenue receipts of the State during 2007-08. The State Government is yet to implement the recommendation of the TFC by setting up a guarantee redemption fund through earmarked guarantee fees.

1.8 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to

sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilization in terms of debt/GSDP ratio.

1.8.1 Debt Stabilization

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilization are indicated in **Table 1.30**.

Table 1.30: Debt Sustainability – Interest Rate and GSDP Growth (in per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	10.77	10.32	8.90	7.58	7.99	6.19
GSDP Growth	-1.56	14.32	20.52	2.27	17.33	9.22
Interest Spread	(-)12.33	4.00	11.62	(-)5.31	9.34	3.03
Outstanding Debt (Rupees in crore)	1094	1227	1525	1778	2337	2371
Quantum Spread ¹² (Rupees in crore)	(-)135	49	177	94	218	72
Primary Deficit (-)/ Surplus (+) (Rupees in crore)	(-)88	(-)108	(-)239	(-)100	(+)294	(+)145
Quantum Spread + Primary Deficit (Rupees in crore)	(-)223	(-)59	(-)62	(-)6	(+)76	217

Table 1.30 reveals that quantum spread together with primary deficit has been consistently negative till 2005-06 and accordingly the ratio of fiscal liabilities to GSDP increased from 59.24 *per cent* in 2002-03 to 80.08 *per cent* in 2005-06. Thereafter, not only quantum spread was positive but the primary deficit turned into surplus leading to a steady decline in debt to GSDP ratio which stood at 70.6 *per cent* in 2007-08. These trends indicate State may move towards debt stabilization which in turn would improve the debt sustainability of the State, provided primary surplus is sustained and/or quantum spread kept at significantly positive in ensuing years

¹² Quantum Spread: Interest Spread x Opening Fiscal Liabilities ÷ 100.

1.8.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. The persistent negative resource gap indicates the non-sustainability of debt while the continued positive resource gap strengthens the capacity of the State to sustain the debt. **Table 1.31** indicates the resource gap as defined for the period 2002-08:

Table 1.31: Incremental Revenue Receipts and Revenue Expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	23	(-)15	16	1	(+)22
2003-04	468	344	17	361	(+)107
2004-05	(-)75	113	5	118	(-)193
2005-06	348	148	10	158	(+)190
2006-07	742	198	31	229	(+)513
2007-08	411	396	(-)33	363	(+)48

Table 1.30 reveals that incremental non-debt receipts were adequate to cover the incremental primary expenditure except in 2004-05 when non-debt receipts declined in absolute terms. At the other extreme, despite a marginal increase of Rs 24 crore in non-debt receipts in 2002-03, huge positive resource gap was observed mainly due to fall in both interest payments and primary expenditure relative to the previous year. During 2005-06 and 2006-07, State had steep increase in central transfers resulting in significant increment in non-debt receipts leading to positive resource gap in these years. During the current year, despite a marginal increase of Rs 31 crore in Central transfers, the State could manage to maintain the positive resource gap primarily on account of steep increase in receipts from the power sector.

1.8.3 Net Availability of Borrowed Funds

Debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payment) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e., they are (a) not being used for financing revenue expenditure and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table 1.32 gives the position of receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last six years.

Table 1.32: Net Availability of Borrowed Funds*(Rupees in crore)*

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Internal Debt¹³						
Receipts	103	190	240	589	300	285
Repayment (Principal + Interest)	76	67	175	160	340	162
Net Fund Available	27	123	65	429	(-)40	123
Net Fund Available (<i>per cent</i>)	26.21	64.74	27.08	72.84	-	43.16
Loans and Advances from GOI						
Receipts	67	116	71	203	17	6
Repayment (Principal + Interest)	88	252	88	286	105	28
Net Fund Available	(-)21	(-)136	(-)17	(-)83	(-)88	(-)22
Net Fund Available (<i>per cent</i>)	-	-	-	-	-	-
Other obligations¹⁴						
Receipts	221	318	211	248	308	322
Repayment (Principal + Interest)	180	189	152	191	321	311
Net Fund Available	41	129	59	57	(-)13	11
Net Fund Available (<i>per cent</i>)	18.55	40.57	27.96	22.98	-	3.42
Total Liabilities						
Receipts	391	624	522	1040	625	613
Repayments (Principal + Interest)	344	508	415	637	766	501
Net Fund Available	47	116	107	403	(-)141	112
Net Fund Available (<i>per cent</i>)	12.02	18.59	20.50	38.75	-	18.27

The debt redemption ratio during the period 2002-08 remained less than the unity except in the year 2006-07 indicating the fact that debt repayments including interest charges were less than the fresh debt receipts. The net availability of borrowed funds increased steadily from 12 *per cent* in 2002-03 to 38.75 *per cent* in 2005-06 which could have been employed to meet the deficit or for other developmental purposes. It was only in 2006-07 internal debt repayments increased sharply resulting in debt redemption ratio exceeding unity reflecting the fact that the fresh debt receipts were far less than the debt repayments. The position again reversed in 2007-08 when internal debt repayments became almost half while debt receipts remained almost at the level of the previous year. Given the fact that debt redemption ratio in respect of GOI loans and advances remained more than unity throughout the period, the net availability was determined largely by the debt redemption ratio in respect of internal debt and public account during the period.

¹³ Includes Ways and Means Advances and Overdrafts.

¹⁴ Small Savings, Provident Funds, etc., Deposits and other non-interest bearing obligations.

1.9 Management of Deficits

1.9.1 Trends in Deficits

Deficit in Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.33**.

Table 1.33: Fiscal Imbalances – Basic Parameters

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Surplus (RS)(+)/ Revenue Deficit (RD) (-) (Rupees in crore)	(+)77	(+)184	(-)8	(+)182	(+)695	(+)743
Fiscal Deficit (FD) (-) (Rupees in crore)	(-)124	(-)250	(-)386	(-)257	(+)106	(-)10
Primary Deficit (PD) (-)/ Surplus (+) (Rupees in crore)	(-)88	(-)108	(-)239	(-)100	(+)294	(+)145
RD (-) RS(+)/GSDP (<i>per cent</i>)	3.72	7.77	(-)0.28	6.24	20.30	19.87
FD/GSDP (<i>per cent</i>)	(-)5.99	(-)10.56	(-)13.53	(-)8.81	3.10	(-)0.27
PD (-) PS (+)/GSDP (<i>per cent</i>)	(-)4.25	(-)4.56	(-)8.38	(-)3.43	8.59	3.88
RD/FD (<i>per cent</i>)	Revenue Surplus		2.07	Revenue Surplus		

Table 1.33 reveals that the revenue account experienced surplus throughout the period 2002-08 with an exception of minor deficit of Rs 8 crore during 2004-05. Revenue surplus has consistently increased from Rs 182 crore in 2005-06 to Rs 743 crore in 2007-08. An improvement of Rs 48 crore in revenue surplus during the current year was mainly on account of an increase of Rs.411 crore in revenue receipts (16 *per cent*) against the increase of Rs 363 crore (19 *per cent*) in revenue expenditure. Although around 3/4th of revenue receipts of the State are contributed in the form of Central transfers, during 2007-08 the increase in revenue surplus was mainly on account of a steep increase in non-tax revenue (Rs.360 crore) which seems to be due to huge upfront receipts from private power developers in the State.

Despite a cushion of Rs. 48 crore in the form of incremental revenue surplus in 2007-08, the fiscal surplus of Rs 106 crore in 2006-07 turned into fiscal deficit of Rs. 10 crore during the current year mainly because of net increase of 164 crore in capital expenditure disbursement of loans and advances relative to previous year. Fiscal deficit relative to GSDP at 0.22 *per cent* was however well within the norm of 3 *per cent* prescribed by APFRBM Act 2006. Despite a decline of Rs 33 crore in interest payments, primary surplus decreased to Rs. 145 crore in 2007-08 from Rs. 294 crore in previous year due to deterioration in fiscal deficit position of the state during current year.

1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit¹⁵ into primary revenue deficit¹⁶ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The State experienced the revenue surplus throughout the period 2002-08 with an exception of minor deficit of Rs 8 crore during 2004-05. The RD being wiped out in 2005-06 and turning into surplus since then, indicates the fact that all borrowings (fiscal liabilities) were used in activities resulting in expansion in the asset back up of the State.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-08 reveals (**Table 1.34**) that throughout this period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure¹⁷ requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit till 2005-06 and thereafter turned into surplus during 2006-07 and 2007-08. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to certain extent to improve the productive capacity of the State's economy.

Table 1.34: Primary Deficit/Surplus – Bifurcation of Factors

(Rupees in crore)

Year	Non-debt Receipt (NDR)	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	NDR vis-à-vis Primary Revenue Expenditure	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3 + 4 + 5)	7 (2 - 3)	8 (2 - 6)
2002-03	1111	906	290	3	1199	(+)205	(-)88
2003-04	1579	1250	433	4	1687	(+)329	(-)108
2004-05	1504	1363	375	6	1744	(+)141	(-)240
2005-06	1852	1511	438	4	1953	(+)341	(-)101
2006-07	2594	1709	586	5	2300	(+)85	(+)294
2007-08	3006	2105	753	3	2861	(+)901	(+)145

¹⁵ Primary deficit is defined as the fiscal deficit net of interest payments and indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course for the year.

¹⁶ Primary revenue deficit as the gap between non-interest revenue expenditure of the State and its revenue receipts indicates the extent to which the revenue receipts of the state are able to met the primary expenditure incurred under revenue account.

¹⁷ Primary expenditure of the State, defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.35** below presents a summarized position of Government finances over 2002-08, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table 1.35: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
I. Resource Mobilization						
Revenue Receipts (RR)/ GSDP	53.50	66.56	52.64	63.36	75.70	80.30
Revenue Buoyancy Ratio	-1.36	2.95	-0.23	10.18	2.32	1.72
Own tax/GSDP	1.79	1.86	1.75	2.12	2.28	2.62
Own Taxes Buoyancy Ratio	-12.37	1.32	0.66	10.58	1.49	2.78
II. Expenditure Management						
Total Expenditure (TE) ¹⁸ / GSDP	63.92	77.25	66.27	72.27	72.67	80.65
RR/TE	83.69	86.17	79.43	87.67	104.18	99.57
Revenue Expenditure (RE)/ TE	77.87	76.11	79.85	79.07	76.27	74.93
Plan Expenditure ¹⁹ / Total Expenditure	53.75	53.61	50.30	55.11	56.14	52.92
Capital Expenditure/ Total Expenditure	21.90	23.69	19.83	20.75	23.54	24.97
Development Expenditure/ Total Expenditure	70.88	75.02	73.05	75.89	76.43	78.58
Buoyancy of TE with RR	(-)0.42	0.90	(-)0.721	0.50	0.45	1.34
Buoyancy of RE with RR	0.047	0.829	(-)1.804	0.453	0.342	1.207
III. Management of Fiscal Imbalances						
Revenue Deficit(-)/Surplus (+) (Rs in crore)	(+)77	(+)184	(-)8	(+)182	(+)695	(+)743
Fiscal Deficit (-)/Surplus (+) (Rs in crore)	(-)124	(-)250	(-)386	(-)257	(+)106	(-)10
Primary Deficit (-)/ Surplus (+) (Rs in crore)	(-)88	(-)108	(-)239	(-)100	(+)294	(+)145
Revenue Deficit/Fiscal Deficit	Revenue Surplus		0.32	Revenue Surplus		
IV. Management of Fiscal Liabilities						
Fiscal Liabilities (FL)/ GSDP	59.24	64.41	62.31	80.08	69.25	70.57
FL/RR	110.74	96.76	118.38	126.39	91.47	87.88
Buoyancy of FL with RR (ratio)	-7.77	1.70	0.81	13.86	0.08	1.23
Buoyancy of FL with Own Receipt (ratio)	5.74	0.57	(-)3.53	1.36	0.04	0.71

¹⁸ Total expenditure excludes Loans and Advances.

¹⁹ Excluding disbursement of Loans

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Interest Spread	(-)9.69	4.91	(-)0.24	0.88	0.45	2.25
Net Funds Available	12.02	18.59	20.50	38.75		18.27
V. Other Fiscal Health Indicators						
Return on Investment	0.02	-	-	-	-	-
BCR (Rupees in crore)	(-)131	(-)210	(-)211	(-)8.00	37	370
Financial Assets/Liabilities (ratio)	2.46	2.50	2.27	2.09	2.39	2.62

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of State to resources. Revenue receipts comprise not only of the tax and non tax resources of the State but also the transfers from Union Government. The ratios of revenue receipts and of own taxes to GSDP indicated a steady increase over the period 2002-08. It may be pertinent to mention that around 75 per cent of the revenue receipts of the State is shared by central transfers during this period and increase in the receipts relative to GSDP during the current year was primarily driven by a steep increase in non tax revenue of the State. The State's own taxes to GSDP ratio although increased gradually from 1.79 per cent in 2002-03 to 2.62 per cent in the current year, yet remained too low indicating the potential of additional resource mobilization through this source as actual tax revenue during the year was far below the normative assessment of TFC as well as in relation to the rate of growth of GSDP during the period.

Various ratios relating to expenditure indicate quality of expenditure and sustainability in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure decreased to 75 per cent during the year due to a favorable bias to capital expenditure. The higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts indicates the propensity of the State Government to create assets by resorting to capital expenditure. Capital expenditure increased by Rs.167 crore in 2007-08 over the previous year. Increasing reliance on revenue receipts particularly from 2005-06, to finance the total expenditure indicates decreasing dependence on borrowed funds. This is also reflected in the decreasing ratio of financial liabilities to revenue receipts, during the current year. Increasing proportion of development expenditure in the total expenditure also indicates improvement in both development and quality of expenditure.

Although revenue surplus was maintained during the year, there was deterioration in fiscal deficit and primary surplus position primarily due to sharp increase in capital expenditure. Balance from Current Revenue (BCR) which was Rs 37 crore in 2006-07 increased ten times to Rs 370 crore during 2007-08 indicating sharp increase in net availability of resources from current revenue of the State for plan and capital expenditure. The ratio of assets to

liabilities, which shows the extent to which additional liabilities were employed for creation of additional assets continued to exceed during the period 2003-08 and stood at 2.62 in 2007-08.

1.11 Conclusion

The key fiscal parameters - revenue and fiscal deficits - revealed a mixed trend in the fiscal situation of the State during the current year as revenue surplus increased by 7 *per cent* (Rs 48 crore) while the fiscal surplus turned into deficit and the primary surplus deteriorated by 50.7 *per cent* (Rs 149 crore) in 2007-08 relative to the previous year. An improvement in the revenue surplus may however be seen in view of the fact that around 75 *per cent* of the State's revenue receipts (Rs 3003 crore) are contributed by increased Central transfers comprising of State's share in Union pool of taxes and duties (Rs 438 crore) and grants-in-aid from Government of India (Rs 1810 crore) in 2007-08 over the previous year. Moreover, within the State's own resources, a sharp increase in non tax revenue (Rs 360 crore) in 2007-08 over the previous year was primarily due to the fact that an increase of Rs 339 crore was recorded as receipts from the power sector in the State which appears to be due to enhanced upfront receipts from private power developers. Besides the fact that deterioration in fiscal deficit was mainly due to increase in capital expenditure by 28 *per cent* (Rs 167 crore) and relative to GSDP it was well within the norm of three *per cent* stipulated in FRBM Act-2006. The expenditure pattern of the State reveals that the revenue expenditure continued to share a dominant proportion in total expenditure of the State which was around 75 *per cent* during 2007-08 and within the revenue expenditure, NPRE at Rs 1216 crore in 2007-08 was significantly higher than the normative assessment of Rs 881 crore made by the TFC for the year. Further, three components - salary expenditure, pension liabilities and interest payments constituted about 66 *per cent* of the NPRE during 2007-08. These trends in expenditure indicate the need for change in allocative priorities. The fiscal liabilities of the State have consistently increased and stood at as high as 70.6 *per cent* of GSDP in 2007-08 and are quite high, especially when compared with the TFC norm of 31 *per cent*, to be achieved by the terminal year of its award period. The increasing fiscal liabilities accompanied by a negligible rate of return (less than one *per cent*) on Government's investment and inadequate interest cost recovery continued to be a cause of concern and might lead to an unsustainable debt position in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and mobilize the additional resources especially by exploiting the untapped taxable sources in ensuing years as the tax revenue of the State in the current year (Rs.98 crore) is far below the normative assessment of TFC (Rs. 138 crore) for the year.