

CHAPTER - I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government, based on the analysis of the information in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the Chapter also contains a section on the analysis of indicators of financial performance of the government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are described in the **Appendix-I(A)**.

1.2 Financial position of the State

1.2.1 In the Government accounting system comprehensive accounting of the fixed assets like land and buildings etc. owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. An abstract of such liabilities and the assets as on 31 March 2001, compared with the corresponding position on 31 March 2000 is given below:-

Table 1.1

SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF ARUNACHAL PRADESH AS ON 31 MARCH 2001

(Rupees in crore)

As on 31.03.2000	Liabilities		As on 31.03.2001
		External Debt	
162.49		Internal Debt	219.41
	57.92	Market Loans bearing interest	74.14
	...	Market Loans not bearing interest	...
	...	Loans from LIC	1.31
	104.57	Loans from other Institutions	143.96
		Ways and Means Advances	
		Overdraft from Reserve Bank of India	
404.64		Loans and Advances from Central Government	442.96
	85.16	Non-Plan Loans	87.02
	273.98	Loans for State Plan Schemes	309.42
	0.45	Loans for Central Plan Schemes	0.45
	1.76	Loans for Centrally Sponsored Plan Schemes	2.00
	43.29	Loans for Special Schemes	44.07
0.05		Contingency Fund	0.05
196.14		Small Savings, Provident Funds etc.	263.20
11.74		Deposits	17.77
...		Suspense and Miscellaneous balances	43.26
4.66		Reserve Funds	7.68
2168.56		Surplus on Government Account	

(Rupees in crore)

As on 31.03.2000	Assets		As on 31.03.2001
2807.88		Gross Capital Outlay on Fixed Assets	3072.13
	12.34	Investment in Shares on Companies, Corporation etc.	12.71
	2795.54	Other Capital Outlay	3059.42
15.17		Loans and Advances	16.31
	6.10	Loans for Other Industries and Minerals	6.10
	2.29	Other Development Loans	2.28
	3.79	Loans for Co-operatives	3.76
	2.99	Loans to Government Servants	4.17
		Reserve Fund Investment	
5.73		Advances	6.07
62.42		Suspense and Miscellaneous Balances	...
118.19		Remittance Balances	116.48
(-) 61.11		Cash in Treasuries and Local Remittances	(-)66.31
	(-)80.59	Deposits with Reserve Bank	(-)72.54
	0.65	Departmental Cash Balance	0.85
	...	Permanent Advances	...
	16.17	Cash Balance Investment	...
	2.66	Investment of earmarked Funds	5.38
		Deficit on Government accounts	
		(i) Revenue Deficit of the Current Year	
		(ii) Appropriation of Contingency Fund	
		(iii) Miscellaneous Deficit	
2948.28			3144.68

1.2.2 While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. It would be seen from table that while the liabilities increased by 27.52 per cent, the assets grew only by 6.66 per cent during 2000-2001 over the previous year, mainly as a result of a very high growth in the loans from other institutions (38 per cent), loans from LIC (100 per cent), Small Savings, Provident funds etc. (34 per cent) and Suspense and Miscellaneous balances (100 per cent) and deficit in revenue account.

1.3 Sources and applications of fund

1.3.1 The position of sources and applications of funds during the current and the preceding years is given in the table below.

Table 1.2
SOURCES AND APPLICATION OF FUNDS

(Rupees in crore)

1999-2000		SOURCES		2000-2001
1008.92		1. Revenue receipts		961.41
1.35		2. Recoveries of Loans and Advances		1.60
76.94		3. Increase in Public debt other than overdraft		95.24
6.97		4. Net receipts from Public account		180.14
	33.53	-Increase in Small Savings	67.06	
	(-) 2.55	-Increase in Deposits and Advances	5.69	
	(-) 22.95	-Net effect of Suspense and Miscellaneous transactions	105.68	
	(-) 1.06	-Net effect of Remittance transactions	1.71	
2.66		5. Increase in Reserve Funds		0.30
...		6. Increase in earmarked Funds		2.72
...		7. Net effect of Contingency Fund transactions		...
2.22		8. Decrease in closing cash balance		5.20
1099.06		Total		1246.61

(Rupees in crore)

1999-2000	APPLICATION	2000-2001
837.34	1. Revenue expenditure	979.62
2.85	2. Lending for development and other purposes	2.74
258.87	3. Capital expenditure	264.25
...	4. Net effect of Contingency Fund transactions	...
...	5. Increase in closing cash balance	...
1099.06	Total	1246.61

1.3.2 The main sources of funds include the revenue receipts of the Government, recoveries of the loans and advances, public debt and the receipts in the Public Account. These are applied mainly on revenue and capital expenditure and the lending for developmental purposes. It would be seen that the revenue receipts constitute the most significant source of fund for the State Government. Their relative share went down from 91.80 *per cent* in 1999-2000 to 77.12 *per cent* during 2000-2001. This was mainly due to decrease by Rs.225.10 crore and Rs.3.36 crore under State's share of net proceeds of the divisible Union Taxes and non-Tax Revenue respectively when compared to 1999-2000. The relative share of net receipts from the Public Account, however, increased significantly from 0.63 *per cent* in 1999-2000 to 14.45 *per cent* in 2000-2001 and the receipts from the Public Debt went up marginally from 7 *per cent* to 8 *per cent*. The increase in net Public Account receipts was mainly due to increase in suspense and miscellaneous transactions.

1.3.3 The funds were mainly applied for revenue expenditure, which went up from 76.19 *per cent* (1999-2000) to 78.58 *per cent* (2000-2001) and was higher than the total revenue receipts of the State Government by Rs.18.21 crore. This led to the Revenue deficit. A notable change during the year when compared to 1999-2000 was that while the percentage of capital expenditure decreased to 21.20 *per cent* from 23.55 *per cent*, lending for development also decreased to 0.22 *per cent* from 0.26 *per cent*.

1.4 Financial operations of the State Government

1.4.1 Exhibit-I (page 19-20) gives the details of the receipts and disbursements made by the State Government. The Revenue expenditure (Rs.979.62 crore) during the year was higher than the revenue receipts (Rs.961.41 crore) resulting in revenue deficit of Rs.18.21 crore. The Revenue receipts comprised tax revenue (Rs.20.63 crore), non-Tax revenue (Rs.63.65 crore), State's share of union taxes and duties (Rs.115.67 crore) and grants-in-aid from the Central Government (Rs.761.46 crore). The main sources of tax revenue were State Excise (44 *per cent*), Sales Tax (40 *per cent*) and land revenue (7 *per cent*). Non-tax revenue came mainly from Forest and Wild life (20 *per cent*), Power (19 *per cent*), Road Transport (10 *per cent*) and Non-Ferrous Mining and Metallurgical Industries (8 *per cent*).

1.4.2 The capital receipts comprised Rs.1.60 crore from recoveries of loans and advances and Rs.116.14 crore from public debt. Against this, the expenditure was Rs.264.25 crore on capital outlay, Rs.2.74 crore on disbursement of loans and advances and Rs.20.90 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.875.54 crore,

against which disbursement of Rs.695.10 crore were made. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was a increase in the minus cash balance (Rs.5.20 crore) from Rs.(-) 61.11 crore at the beginning of the year to Rs.(-) 66.31 crore at the end of the year.

1.4.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit-I and the time series data for the five years period from 1996-97 to 2000-2001 presented below:-

Table 1.3
TIME SERIES DATA ON STATE GOVERNMENT FINANCES
(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Part A. Receipts					
1. Revenue Receipts	809.04	835.46	923.57	1008.92	961.41
(a) Tax Revenue	8.53	9.83	11.29	13.88	20.63
Agricultural Income Tax	.....	.....	.....	.....	...
Sales Tax	0.40	0.32	0.28	0.35	8.19
State Excise	4.90	5.56	7.58	10.08	9.01
Taxes on vehicle	1.09	0.97	1.01	1.12	1.12
Stamps and Registration fees	0.37	0.42	0.50	0.45	0.25
Land Revenue	1.27	1.98	1.33	1.36	1.45
Other Taxes	0.50	0.58	0.59	0.52	0.61
(b) Non Tax Revenue	66.08	57.27	64.54	67.01	63.65
(c) State's share of Union Taxes	179.03	243.83	268.84	340.77	115.67
(d) Grants-in-aid from GOI	555.40	524.53	578.90	587.26	761.46
2. Misce. Capital Receipts	...	...	...	...	...
3. Total Revenue and non Debt Capital receipts (1+2)	809.04	835.46	923.57	1008.92	961.41
4. Recoveries of Loans and Advances	1.27	1.33	1.38	1.35	1.60
5. Public Debt Receipts	59.06	65.36	76.78	94.81	116.14
Internal Debt (excluding Ways & Means Advance and Overdrafts)	13.84	15.59	18.61	24.50	59.64
Net Transactions under Ways & Means Advances & Overdraft	...	...	...	...	...
Loans and advances from Government of India*	45.22	49.77	58.17	70.31	56.50
6. Total receipts in the Consolidated Fund (3+4+5)	869.37	902.15	1001.73	1105.08	1079.15
7. Contingency Fund Receipts	...	...	...	...	...
8. Public Accounts Receipts	1378.53	4003.49	2939.28	2674.81	875.54**
9. Total Receipts of the State (6+7+8)	2247.90	4905.64	3941.01	3779.89	1954.69
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	604.09	664.62	746.81	837.34	979.62
Plan	210.69	260.18	282.51	297.67	371.44
Non-Plan	393.40	404.44	464.30	539.67	608.18
General Services	166.46	195.99	231.54	270.79	332.04
Social Services	201.72	225.76	234.80	280.48	298.60
Economic Services	235.91	242.87	280.47	286.07	348.98
Grants-in-aid and Contributions	...	...	...	...	...

* Excludes Ways and Means Advances from GOI.

** Excludes Other Accounts figures.

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001	
11. Capital Expenditure	276.97	293.57	232.35	258.87	264.25	
Plan	277.75	294.24	232.50	257.81	264.06	
Non-Plan	(-)0.78	(-)0.67	(-)0.15	1.06	0.19	
General Services	8.93	15.71	15.23	15.29	15.88	
Social Services	62.50	44.91	28.83	31.07	42.89	
Economic Services	205.54	232.95	188.29	212.51	205.48	
12. Loans and advances given	1.13	1.06	1.54	2.85	2.74	
13. Total (10+11+12)	882.15	959.25	980.70	1099.06	1246.61	
14. Repayments of Public Debt	10.16	12.29	16.07	17.87	20.90	
Internal Debt (excluding Ways & Means Advances and Overdrafts)	1.78	1.84	2.27	2.29	2.72	
Net Transactions under Ways & Means Advances & Overdraft	...	...	...	...	...
Loans and advances from Government of India*	8.38	10.45	13.80	15.58	18.18	
15. Appropriation to Contingency Fund	...	...	...	...	...
16. Total Disbursement out of Consolidated Fund (13+14+15)	892.31	971.54	996.77	1116.93	1267.51	
17. Contingency Fund Disbursement	...	...	...	...	...
18. Public Account Disbursement	1395.33	3913.07	2967.88	2628.03	695.10***	
19. Total Disbursement by the State (16+17+18)	2287.64	4884.61	3964.65	3744.96	1962.61	
Part C. Deficits/Surplus						
20.	Revenue Surplus (1-10)	204.95	170.84	176.76	171.58	...
	Revenue Deficit	18.21
21. Fiscal Deficit (3+4-13)	71.84	122.46	55.75	88.79	283.60	
22. Primary Deficit (21-23)	18.58	62.20	(-)15.51	8.99	162.92	
Part D. Other data						
23. Interest Payments (included in revenue expenditure)	53.26	60.26	71.26	79.80	120.68	
24. Arrears of Revenue (Percentage of Tax & non tax Revenue Receipts)	NA	NA	NA	NA	NA	
25. Financial Assistance to local bodies etc.	4.52	10.85	9.06	13.84	8.17	
26. Ways and Means Advances / Overdraft availed (days)	...	1	21	6	1	
27. Interest on WMA/Overdraft	....	....	0.010	0.02	0.00026
28. Gross State Domestic Product (GSDP)	329.02	996.19	1071.81	1110.58	NA	
29. Outstanding Debt (year end)	487.42	565.15	652.80	763.28	925.58	
30. Outstanding guarantees (year end)	0.50	0.50	0.50	0.50	0.55	
31. Maximum amount granted (year end)	...	...	....	....	...
32. Number of incomplete projects	...	...	41	106	241
33. Capital blocked in incomplete projects	...	...	31.25	26.02	47.41

* Excludes Ways and Means and Advances from GOI.

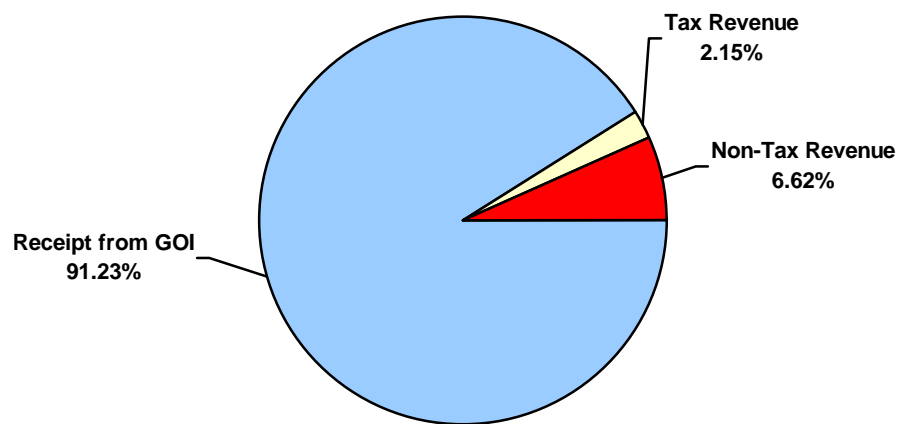
*** Excludes Other Accounts figures.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure 1. Revenue receipts decreased from Rs.1008.92 crore in 1999-2000 to Rs.961.41 crore in 2000-2001 which constituted a decrease of 4.71 per cent.

Figure 1

Revenue Receipts 2000-01 (Rupees in crores)
(Percentage of Total Revenue and non Debt Capital Receipt)



Tax revenue

1.5.2 These constitute negligible share (2.15 per cent) of the revenue receipts inspite of a 48.63 per cent growth over the previous year 1999-2000.

Non-tax revenue

1.5.3 The non-tax revenue constituted 6.62 per cent of the revenue receipts of the Government in 2000-2001. Despite having registered a significant growth of 7559 per cent and 3031 per cent under other Rural Development Programme and Urban Development, the non-tax revenue decreased marginally by 5.01 per cent over the previous year i.e. 1999-2000, mainly due to decrease in receipts under Other Industries (100 per cent), Other Administrative Services (88 per cent), Information and Publicity (88 per cent), Food Storage and Warehousing (72 per cent) and Social Security Welfare (71 per cent) during 2000-2001.

State's share of Union taxes and duties and grants-in-aid from the Central Government

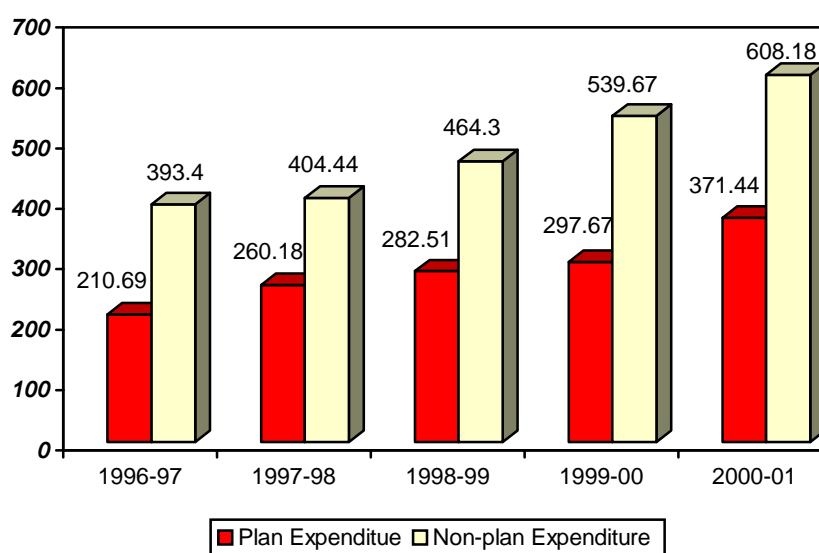
1.5.4 The State's share of Union taxes (excise duties, income and corporation taxes) decreased by 66 per cent during the year, while the grants-in-aid from the Central Government increased by 30 per cent. These receipts (Rs.877.13 crore) financed 90 per cent of the revenue expenditure (Rs.979.62

crore) of the State. The relative share of State share of Union Taxes to Revenue Receipts decreased from 22 *per cent* in 1996-97 to 12 *per cent* in 2000-2001 while the grants-in-aid from GOI increased from 69 *per cent* in 1996-1997 to 79 *per cent* in 2000-2001.

1.6 Revenue expenditure

1.6.1 The revenue expenditure (both Plan and Non-Plan) accounted for 79 *per cent* of the expenditure of the State Government during 2000-2001 and increased by 17 *per cent* compared to 1999-2000. Compared to the previous year the increase was 25 *per cent* under the Plan side and 13 *per cent* in the Non-Plan side. The share in Non-Plan expenditure during 2000-2001 was 62.08 *per cent* of the revenue expenditure against 37.92 *per cent* under Plan. The trend analysis shows that the growth under Non-Plan being faster than the Plan side as shown in Figure 2.

Figure 2



1.6.2 Sector-wise analysis shows that while the expenditure on General Services increased by 99 *per cent* from Rs.166.46 crore in 1999-2000 to Rs.332.04 crore in 2000-2001, the corresponding increases in expenditure on Social Services and Economic Services were only 48 *per cent*. As a proportion of total expenditure, the share of General Services increased from 28 *per cent* in 1996-97 to 34 *per cent* in 2000-2001, whereas the share of Economic Services and Social Services decreased from 39 *per cent* to 36 *per cent* and from 33 *per cent* to 30 *per cent* respectively.

Interest payments

1.6.3 Interest payments increased steadily by 127 *per cent*, from Rs.53.26 crore in 1996-1997 to Rs.120.68 crore in 2000-2001. This is further discussed in the section on financial indicators.

Financial assistance to local bodies and other institutions

1.6.4 The quantum of assistance in the form of grants-in-aid provided to different local bodies etc., during the period of five years ending 2000-2001 was as follows:

Table 1.4

(Rupees in lakh)

		1996-97	1997-98	1998-99	1999-2000	2000-2001
(1)	Universities and Educational Institutions	355.91	651.00	673.00	965.00	378.91
(2)	Art and Culture	58.28	...	...	...	46.18
(3)	Medical and Public Health and other charitable Institutions	1.90	355.00	...	...	...
(4)	Urban Development	5.01	...	...	...	...
(5)	Social Welfare	30.67	...	...	...	41.85
(6)	Rural Development	...	...	170.00	243.00	222.00
(7)	Other institutions	...	79.00	63.00	58.00	127.64
(8)	Panchayat Raj Institutions	...	...	...	118.00	...
	Total	451.77	1085.00	906.00	1384.00	816.58
	Percentage of growth over previous year	234	140	(-) 16.50	52.75	(-) 41
	Assistance as a percentage of revenue expenditure	0.75	1.63	1.21	1.65	0.83
	Assistance as a percentage of revenue receipts	0.56	1.30	0.98	1.37	0.85

During the year the assistance to the local bodies and others decreased considerably (41 *per cent*) as compared to 1999-2000. The financial assistance to universities and educational institutions also witnessed a downfall by 60.73 *per cent* over 1999-2000.

1.6.5 The assistance to local bodies and others ranged between 0.56 and 0.85 *per cent* of the revenue receipts and between 0.75 and 0.83 *per cent* of the revenue expenditure during 1996-2001.

Loans and Advances by the State Government

1.6.6 The Government gives loans and advances to Government companies, local bodies, autonomous bodies, cooperatives, non-Government institutions, etc., for developmental and non-developmental activities. The position for the last five years given below shows that during 2000-2001 there was negligible

improvement in repayment as a result of which the closing balance increased by about 7.51 *per cent*.

Table 1.5

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Opening balance	13.91	13.78	13.51	13.67	15.17
Amount advanced during the year	1.13	1.06	1.54	2.85	2.74
Amount repaid during the year	1.27	1.33	1.38	1.35	1.60
Closing balance	13.78	13.51	13.67	15.17	16.31
Net addition	(-) 0.14	(-) 0.27	(+)0.16	(+) 1.50	(+) 1.14
Interest received	0.81	0.42	0.03	0.001	0.0001

1.7 Capital expenditure

1.7.1 Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e. Public Sector Undertakings (PSUs), corporations, etc. and loans and advances. The capital expenditure in 1999-2000 and 2000-2001 has increased by 11 *per cent* and 2 *per cent* over the previous years viz. 1998-1999 and 1999-2000 respectively. The share of Capital expenditure to total expenditure has dropped from 31 *per cent* in 1996-1997 to 21 *per cent* in 2000-2001. The table in paragraph 1.4.3 shows that 77.75 *per cent* and 16.23 *per cent* of the capital expenditure during 2000-2001 was on Economic and Social Services respectively.

1.8 Quality of expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and Revenue and Capital. While the Plan and Capital expenditure are usually associated with asset creation, the Non-Plan and Revenue expenditure are identified with expenditure on establishment, maintenance and services.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General services, to the detriment of Economic and Social Services.

1.8.3 The following table lists out the trend in these indicators :

Table 1.6

		1996-97	1997-98	1998-99	1999-2000	2000-2001
1.	Plan expenditure as a Percentage of :					
	Revenue expenditure	35	39	38	36	38
	Capital expenditure	104	100	100	100	100
2.	Capital expenditure (<i>per cent</i> of total expenditure)	31	31	24	24	21
3.	Expenditure on General Services (<i>per cent</i>)					
	Revenue	28	29	31	32	34
	Capital	3	5	7	6	6
4.	Amount of wastage and diversion of funds detected during test audit	-	-	-	-	-
5.	Non-remunerative expenditure on incomplete projects (Rupees in crore)	-	-	31.25	26.02	47.41
6.	Unspent balances under deposit heads, booked as expenditure at the time of their transfer to the deposit head	NA	NA	NA	NA	NA

1.8.4 It would be seen that the share of Plan expenditure under revenue increased in 1997-98 and declined successively in 1998-99 to 2000-2001 whereas in respect of capital side, cent *per cent* has been achieved. The share of capital expenditure to total expenditure showed a decreasing trend (from 31 *per cent* to 21 *per cent*) during 1996-97 to 2000-2001. The expenditure on General Services under both Revenue and Capital showed an increasing trend between 1997-98 and 2000-2001 in comparison with 1996-97. As on 31.3.2001, Rs.47.41 crore was blocked in 241 incomplete projects.

1.9 Financial Management

1.9.1 The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

Investments and returns

1.9.2 Investments are made out of the capital outlay by the government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under :

Table 1.7**(Rupees in crore)**

Sector	Number of concerns	Amount invested	
		As on 31.03.2001	during 2000-2001
(1) Government Companies	5	8.71	0.37
(2) Cooperative Institutions	144	4.00	---
Total	149	12.71	0.37

1.9.3 The details of investments and the returns realized during the last five years by way of dividend and interest were as follows :

Table 1.8

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing (per cent)
(Rupees in Crore)				
1996-97	11.29	0.01	0.07	14.00
1997-98	11.80	0.01	0.08	13
1998-99	12.07	0.03	0.25	13.05 and 12.30
1999-2000	12.34	0.001	0.001	14 and 11.30
2000-2001	12.71	0.0001	0.0001	14 and 11.30

1.9.4 Thus, while the Government was raising high cost borrowings from the market, its investments in Government companies etc., fetched insignificant returns.

Ways and means advances and overdraft

1.9.5 Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs.10 lakh. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking Ways and Means Advances (WMA)/ Overdraft (OD) from the Bank. In addition special ways and means advances are also made by the Bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government, and hence reflects on the financial management in Government.

1.9.6 The extent to which the Government maintained the minimum balance with the Bank and took WMA and OD during the year 2000-2001 is given below :-

1. Number of days on which the minimum balance was maintained without obtaining any advance 364 days
2. Number of days on which the minimum balance was maintained by taking ordinary ways and means advance 01 day
3. Number of days on which overdraft was taken

During 2000-2001 the State Government took ordinary (Rs.13.36 crore) ways and means advance and the entire amount (Rs.13.36 crore) was repaid along with interest of Rs.0.26 lakh.

Deficit

1.9.7 Deficits in Government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.9.8 The Revenue Deficit is the excess expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficit in Government account.

Table 1.9

(Rupees in crore)

CONSOLIDATED FUND (CF) 2000-2001					
Receipt	Amount			Disbursement	Amount
Revenue	961.41	Revenue deficit	18.21	Revenue	979.62
Misc.					
Capital receipts	...			Capital	264.25
Recovery of loans & advances	1.60			Loans & advances disbursement	2.74
Sub Total	963.01	Gross fiscal deficit	283.60	Sub Total	1246.61
Public debt receipts	116.14			Public debt repayment	20.90
Total	1079.15	A: Deficit in CF:	188.36		1267.51
PUBLIC ACCOUNT 2000-2001					
Small savings, PF etc.	102.96			Small savings, PF, etc.	35.90
Deposits & advances	61.98			Deposits & advances	56.29
Reserve Funds	3.02			Reserve Funds	2.72
Suspense & Misc.	133.26			Suspense & Misc.	27.58
Remittances	574.32			Remittances	572.61
Total Public Account	875.54*	B : Surplus in Public Account :	180.44		695.10*
		Investment in earmarked fund :	2.72		
		Decrease in cash balances (A-B):	5.20		

1.9.9 The table shows that the Government sustained a revenue deficit of Rs.18.21 crore and a fiscal deficit of Rs.283.60 crore as of 31 March 2001. The deficit was mainly financed by net proceeds of the Public Debt (Rs.95.24 crore) and partly by the surplus from Public Account (Rs.180.44 crore). The table in paragraph 1.4.3 shows that the fiscal deficit has grown by 219.40 per cent in 2000-2001, when compared to 1999-2000.

* Excludes Other Accounts figures.

Application of the borrowed funds (Fiscal Deficit)

1.9.10 The Fiscal Deficit (FD) represents total net borrowing of the Government. These borrowings are applied for meeting the Revenue Deficit (RD), for making the Capital Expenditure (CE) and for giving loans to various bodies for development and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowings for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of Arunachal Pradesh for the last five years.

Table 1.10

Ratio	1996-97	1997-98	1998-99	1999-2000	2000-2001
RD/FD	...*	...*	...*	...*	0.06
CE/FD	3.85	2.39	4.17	2.92	0.93
Net loans/FD	...	...	...	0.01	0.01

1.9.11 It would be seen that borrowed fund have been applied for meeting revenue expenditure during 2000-2001, increasing the debt burden for maintaining its existing programmes instead of expanding its revenue base.

Guarantees given by the State Government

1.9.12 Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc., raised by the statutory corporations, Government companies and cooperative institutions etc., and payment of interest and dividend by them. They constitute contingent liability of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State. The outstanding guarantee as on March 2001 were Rs.55.00 lakh.

1.10 Public debt

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table. During the five year period, the total liabilities of the Government had grown by 84 *per cent*. This was on account of 99 *per cent* growth in internal debt, 66 *per cent* growth in loans and advances from Government of India and 104 *per cent* growth in

* In all the years there was a revenue surplus

other liabilities. During 2000-2001, Market Loan of Rs. 16.22 crore was raised by the Government.

Table 1.11

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities	Total liabilities	Ratio of debt to GSDP
(Rupees in crore)						
1996-97	110.18	266.23	376.41	138.63	515.04	1.56
1997-98	123.93	305.55	429.48	153.10	582.58	0.58
1998-99	140.28	349.91	490.19	178.75	668.94	0.62
1999-2000	162.49	404.64	567.13	209.89	777.02	0.70
2000-2001	219.41	442.96	662.37	283.29	945.66	NA

1.10.2 The amount of funds raised through Public debt, the amount of repayment and net funds available are given in the following table:

Table 1.12

	1996-97	1997-98	1998-99	1999-2000	2000-2001
(Rupees in crore)					
Internal Debt^(a)					
Receipt during the year	13.84	15.64	52.29	62.06	73.00
Repayment (Principal + Interest)	15.56	17.00	55.84	59.19	38.39
Net funds available (<i>Per cent</i>)	1.72 (12)	(-) 1.36 (-9)	(-) 3.55 (-7)	2.87 (5)	34.61 (47)
Loans and advances from GOI					
Receipt during the year	45.22	49.77	58.17	70.31	56.50
Repayment (Principal + Interest)	32.48	39.63	47.58	55.29	64.77
Net funds available (<i>Per cent</i>)	12.74 (28)	10.14 (20)	10.59 (18)	15.02 (21)	(-) 8.27 (-15)
Other liabilities^(b)					
Receipt during the year	34.72	39.96	50.06	61.51	145.63
Repayment	28.74	31.25	40.71	48.75	124.02
Net funds available (<i>Per cent</i>)	5.98 (17)	8.71 (22)	9.35 (19)	12.76 (21)	21.61 (15)

1.10.3 It would be seen that the bulk of the receipts borrowings were utilised in repayments during the entire period and very little were available for investment and other expenditure. Considering that the outstanding debt has been increasing year after year the net availability of funds for investment is going to reduce.

^(a) Includes Ways and Means advances.

^(b) Other liabilities includes small savings, provident fund, reserve funds, deposits and other non-interest bearing obligations.

1.11 Indicators of the financial performance

1.11.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing. Finally, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity while plan expenditure entails expansion of activity. Both these activities require resource mobilization increasing Government's vulnerability. In short, the financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of annual Financial Statement (Budget) and the Accounts. As regards the budget the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards, accounts, timeliness in submission, for which milestones exist and completeness of accounts would be the principal criteria.

1.11.2 Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility, and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in **Appendix-I(B)** to this chapter. The table in Exhibit-II (Page 21) indicates the behaviour of these indices/ratios over the period from

1996-97 to 2000-2001. The implications of these indices/ratios for the state of the financial health of the State Government are discussed in the following paragraphs.

1.11.3 The behaviours of the indices/ratios is discussed below

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government had surplus from its revenues for meeting plan expenditure. The table shows that the State Government had a negative BCR in all the five years, suggesting that Government had to depend only on borrowings for meeting its plan expenditure.

(ii) Interest ratio

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Arunachal Pradesh the ratio has increased from 0.06 to 0.12. This rising interest ratio has adverse implications on sustainability as interest burden is rising.

(iii) Capital outlay/capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than 1 (one) would not be sustainable in the long term in as much as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance. In the case of Arunachal Pradesh, the ratio has come down from 3.45 in 1996-97 to 1.43 in 2000-2001 indicating that lesser revenue receipts were being applied for capital formation.

(iv) Tax receipts vs Gross State Domestic Product (GSDP)

Tax receipts consist of State taxes and State's share of Central taxes. The latter can also be viewed as central taxes paid by people living in the state. Tax receipts suggest sustainability but the ratio of tax receipts to GSDP would imply that the Government can tax more, and hence its flexibility. A high ratio may not only point to the limits of this source of finance but also its inflexibility. Time series analysis shows that in case of Arunachal Pradesh this ratio during four years viz., 1996-97 to 1999-2000 decreased from 0.57 to 0.32. The ratio of State tax receipts compared to GSDP has decreased from 0.03 and 0.01 during the period from 1996-97 to 1999-2000. The GSDP Figures pertaining to 2000-2001 have not yet been finalised by the Government for which the ratio of the year could not be worked out. The trend analysis for these four years suggests that while the State Government

had the option to raise more resources through taxation, it chose the easier option of borrowing to meet its increasing revenue and fiscal deficits.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table presents the return on Government's investments in statutory corporations, Government companies, joint stock companies and co-operative institutions. The ROI in case of the Government of Arunachal Pradesh has been negligible varying between 0.0001 to 0.03 during 1996-2000 and reduced to zero during 2000-2001 suggesting increasing debt burden for the Government.

(vi) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Arunachal Pradesh, this ratio decreased from 0.64 in 1997-98 to 0.15 in 2000-2001 indicating availability of Capital for investment but at the cost of increased borrowings and decreasing repayment.

(vii) Debt vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government which can be used to service Debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In the case of Arunachal Pradesh, this ratio which was at 1.56 during 1996-97 declined to 0.58 and 0.62 in 1997-98 and 1998-99 but increased to 0.70 in 1999-2000 thus showing mixed trends. The figures for 2000-2001 have not yet been furnished by the Government (December 2001).

(viii) Primary deficit vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. This means that the lower the value of the ratio, the lesser is the availability of funds for capital investment. In case of Government of Arunachal Pradesh, this ratio improved from 0.26 to 0.57 (1996-97 to 2000-2001) indicating that the quantum of borrowing increased at a faster rate relative to interest payment resulting in greater availability of borrowed funds.

(ix) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings, etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, the higher the ratio the worse off is the State because it would indicate that the deficit burden is increasing without adding

to the repayment capacity of the State. During 2000-2001 the State had sustained revenue deficit for the first time during the last 5 years and the ratio was 0.06 during 2000-2001 indicating worsening financial sustainability.

(x) *Assets vs Liabilities*

This ratio indicates the solvency of the Government. A ratio of more than 1 would indicate that the State Government is solvent (assets are more than liabilities) while a ratio of less than 1 would be a contra indicator. In the case of Arunachal Pradesh this ratio has all along been more than 1 but has decreased from 4.20 in 1996-1997 to 3.16 in 2000-2001 indicating that the Government was becoming less solvent.

(xi) *Budget*

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent resumption (surrenders) of significant amounts every year vis-à-vis the final modified grant. Significant variations (excess/savings) between the final modified grant and actual expenditure were also persistent.

Conclusions

1.12 The financial position of the State Government characterised by Negative BCR during the period from 1996-1997 to 2000-2001 indicating that State does not have any surplus for meeting Plan expenditure from its revenue after excluding the Plan Central Assistance received and meeting the Non-Plan expenditure. This has adverse implications for sustainability.

1.13 The matter was reported to Government in December 2001; reply has not been received.

EXHIBIT - I
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2000-2001
(Rupees in crore)

Receipts			Disbursements		
1999-2000		2000-2001	1999-2000		2000-2001
	Section – A: Revenue				
1008.92	I. Revenue receipts	961.41	837.34	I. Revenue expenditure	979.62*
13.88	Tax Revenue 20.63		270.79	General Services 332.04	
67.01	Non Tax Revenue 63.65			Social Services	
30.25	State's Share of net proceeds of Taxes on income other than corporations		129.17	-Education, Sports, Art and Culture 142.88	
310.52	States Share of Union Taxes 115.67		53.96	-Health and Family Welfare 57.08	
			57.27	-Water Supply, Sanitation, Housing and Urban Development 54.22	
9.86	Non-Plan grants 169.48		2.58	-Information and Broadcasting 2.87	
			...	-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes ...	
			2.79	-Labour and Labour Welfare 3.81	
507.51	Grants for State Plan Scheme 514.89		33.31	-Social Welfare and Nutrition 36.11	
56.74	Grants for Central and Centrally Sponsored Plan Schemes 64.82		1.41	-Others 1.63	
13.15	Grants for Special Plan Schemes 12.27			Economic Services	
			143.89	-Agriculture and Allied Activities 141.76	
			19.98	-Rural Development 24.46	
			13.38	-Special Areas programmes 7.03	
			21.40	-Irrigation and flood control 46.34	
			8.83	-Energy 20.16	
			8.97	-Industry and Minerals 15.13	
			38.73	-Transport 46.83	
			0.30	-Science, Technology and Environment 2.31	
			21.60	-General Economic Services 35.43	
			...	-Grants-in-aid and contribution ...	
			8.98	-Communication 9.53	
...	II Revenue deficit carried over to Section B	18.21	171.58	II Revenue Surplus carried over to Section B	
(-58.89)	III Opening Cash balance including Permanent Advances and Cash Balance investment	(-) 61.11		III Opening Overdraft from RBI	---
	IV Miscellaneous Capital receipts		258.87	IV Capital Outlay	264.25
			15.29	General Services- 15.88	
			...	Social Services-	
			4.84	-Education Sports, Art and Culture 10.46	
			2.46	-Health and Family Welfare 6.27	
			23.55	-Water Supply, Sanitation, Housing and Urban Development 25.42	
			0.11	-Information and Broadcasting ...	
			.....	-Welfare of Scheduled Castes Scheduled Tribes and Other Backward classes ...	
				-Social Welfare and Nutrition 0.60	
			0.11	-Others 0.14	
				Economic Services-	
			3.57	-Agriculture and Allied Activities 3.15	
			0.76	-Rural Development 0.70	
			12.27	-Special Areas Programmes 12.23	
			5.93	-Irrigation & Flood Control 6.28	
			95.85	-Energy 86.92	
			0.57	-Industry and Minerals 0.52	
			92.81	-Transport 94.03	
			0.75	-General Economic Services 1.65	
1.35	V Recoveries of Loans and advances	1.60	2.85	V Loans and Advances disbursed	2.74
...	-From Power Projects ...		...	-For Power Projects ...	

* Details of Plan and Non-Plan expenditure are given in Appendix – I(C)

(Rupees in crore)

Receipts			Disbursements		
1999-2000			2000-2001	1999-2000	2000-2001
	Section – A: Revenue				
1.08	-From Government Servants	1.22		1.79	-To Government Servants 2.40
0.27	-From Others	0.38		1.06	-To others 0.34
171.58	VI Revenue Surplus brought down		...	...	VI Revenue deficit brought down 18.21
94.81	VII Public debt receipts		116.14	17.87	VII Repayment of Public Debt 20.90
...	-External debt	...		...	-External debt ...
24.50	-Internal debt other than ways and means Advances and Overdraft	59.64		2.29	-Internal debt other than Ways & Means Advances & Overdraft 2.72
...	-Net transactions under Ways and Means Advances including overdraft	...		...	- Net transactions under Ways and Means Advances including Overdraft ...
70.31	-Loans and Advances from Central Government	56.50		15.58	-Repayment of Loans and Advances to Central Government 18.18
...	VIII Appropriation to Contingency Fund		...	...	VIII Appropriation to Contingency Fund ...
...	IX Amount transferred to Contingency Fund		...	...	IX Expenditure from Contingency Fund ...
611.49	X Public Account receipts		875.54	604.52	X Public Accounts disbursements 695.10
61.51	-Small savings and Provident fund	102.96		27.98	- Small savings and provident fund 35.90
2.66	Reserve Funds	3.02		2.66	- Reserve Funds 2.72
(-)18.02**	-Suspense and Miscellaneous	133.26		4.93	-Suspense and Miscellaneous 27.58
512.78	-Remittance	574.32		513.84	-Remittance 572.61
52.56	-Deposits and Advances	61.98		55.11	-Deposits and Advances 56.29
...	XI Closing Overdraft from Reserve Bank of India		...	(-)61.11	XI Cash Balance at end of 31 March 2001 (-) 66.31
2.66	XII Earmarked funds		2.72		-Cash in Treasuries and Local Remittances
				(-)80.59	-Deposits with Reserve Bank (-) 72.54
				0.66	-Departmental Cash Balance including permanent Advances 0.85
				16.17	-Cash Balance Investment ...
				2.66	-Investment of earmarked funds 5.38
1831.92	Total		1914.51	1831.92	Total 1914.51

Explanatory notes

1. The abridged accounts in foregoing statement have to be read with comments and explanations in the Finance accounts.
2. Government accounts being mainly on cash basis, the deficit on Government account, as shown in Statement I indicates the position on cash basis, as opposed to accrual basis in the commercial accounting, consequently, items payable or receivable or items like depreciation or variation in stock figure etc., do not figure in the accounts.
3. Suspense and Miscellaneous balances includes cheques issued but not paid, payment made on behalf of the State and other pending settlement.
4. There was a difference of Rs. 10.22 crore (net debit) between the figure reflected in the accounts Rs. (-) 15.52 crore and that intimated by the RBI under “Deposit with Reserve Bank” Rs. (-)5.30 crore. The difference is under reconciliation.

** Minus figures are due to adjustment of earlier year outstanding balances.

EXHIBIT-II
FINANCIAL INDICATORS FOR GOVERNMENT OF ARUNACHAL PRADESH

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Sustainability					
BCR (Rs. in crore)	(-) 18.61	(-) 39.20	(-) 81.35	(-) 108.15	(-) 238.74
Primary Deficit (PD) (Rs.in crore)	18.62	62.21	(-) 15.51	8.99	162.92
Interest Ratio	0.06	0.07	0.07	0.08	0.12
Capital outlay/Capital receipts	3.45	3.42	2.24	1.99	1.43
Total tax receipts/GSDP	0.57	0.25	0.26	0.32	NA
State Tax Receipts/GSDP	0.03	0.01	0.01	0.01	NA
Return on Investment ratio	0.01	0.01	0.03	0.0001	...
Flexibility					
BCR (Rs. in crore)	(-) 18.61	(-) 39.20	(-) 81.35	(-) 108.15	(-) 238.74
Capital repayments/Capital borrowings	0.13	0.64	0.21	0.19	0.15
State Tax receipts/GSDP	0.03	0.01	0.01	0.01	NA
Debt/GSDP	1.56	0.58	0.62	0.70	NA
Vulnerability					
Revenue Surplus (RS) (+) or Revenue Deficit (-) (Rs.in crore)	204.95	170.84	176.76	171.58	(-) 18.21
Fiscal Deficit (FD) (Rs. in crore)	71.84	122.46	55.75	88.79	283.60
Primary Deficit (PD) (Rs. in crore)	18.58	62.20	(-) 15.51	8.99	162.92
PD/FD	0.26	0.51	0.28	0.10	0.57
RD/FD	*	*	*	*	0.06
Outstanding Guarantees/revenue receipts	0.00	0.00	0.00	0.00	0.0006
Assets/Liabilities	4.20	4.12	3.99	3.79	3.16

- Note :
1. The interest payment in 1998-99 was more than the fiscal deficit, hence the negative figure for primary deficit.
 2. Fiscal deficit has been calculated as : Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Non-loan capital receipts.
 3. In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as internal loans + Loans and Advances from Government of India + Net receipts from small savings, PF, etc. + Repayments received from loans advanced by the State Government – Loans advanced by State Government.

* In all the years there was a revenue surplus