

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 in *Appendix I Part A*. The Finance Accounts of the Government of Haryana are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State of Haryana. The lay out of the Finance Accounts is depicted in *Appendix I Part B*.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the Government of Haryana for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement-I of Finance Accounts and other detailed statements.

Table 1.1 Summary of Receipts and Disbursements for the year 2006-07

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements			
Section-A: Revenue							
					Non-Plan	Plan	Total
13,853.31	I. Revenue receipts	17,952.43	12,639.89	I. Revenue expenditure	13,908.03	2,454.12	16,362.15
9,078.65	Tax revenue	10,927.76	4,579.67	General Services	4,807.85	37.20	4,845.05
2,458.56	Non-tax revenue	4,590.76	3,995.60	Social Services	3,030.48	1,584.92	4,615.40
1,200.97	Share of Union Taxes/Duties	1,295.64	3,814.76	Economic Services	5,794.89	832.00	6,626.89
1,115.13	Grants from Government of India	1,138.27	249.86	Grants-in-aid/Contributions	274.81	--	274.81
Section-B: Capital							
-	II. Misc. Capital Receipts	-	1,612.30	II. Capital Outlay	-58.61	2,486.21	2,427.60
289.90	III. Recoveries of Loans and Advances	2,200.74	176.67	III. Loans and Advances disbursed	149.63	35.09	184.72
3,348.75	IV. Public Debt receipts	2,011.89	1,107.51	IV. Repayment of Public Debt	1,113.77	-	1,113.77
-	V. Contingency fund		-	V. Contingency fund	-	-	-
5,460.57	VI. Public account receipts	6,732.30	5,564.32	VI. Public account disbursements	5,395.14	-	5,395.14
1,880.86	Opening Cash Balance	3,732.70	3,732.70	Closing Cash Balance	7,146.68	-	7,146.68
24,833.39	Total	32,630.06	24,833.39	Total	27,654.64	4,975.42	32,630.06

Following are the major changes during 2006-07 over previous year:

- There had been an increase of Rs 4,099 crore in Revenue Receipts. Increase was mainly due to increase in Non-Tax Revenue (Rs 2,133 crore), Tax Revenue (Rs 1,849 crore), Share of Union Taxes and duties (Rs 94 crore) and grants from Government of India (Rs 23 crore).
- Revenue expenditure increased by Rs 3,722 crore, mainly due to increase in expenditure on Economic Services (Rs 2,812 crore), on Social Services (Rs 620 crore) and General Services (Rs 265 crore). Similarly, there was an increase of Rs 816 crore in Capital Expenditure, mainly due to increase of expenditure under Power Projects (Rs 510 crore) and Major and Medium Irrigation (Rs 100 crore) over previous year.
- Sharp increase in recovery of loans and advances was reported during current year (Rs 1,911 crore) as compared to previous year (Rs 133 crore). This was mainly due to the recovery of Rs 2,034 crore from Power Projects (Rs 1,914 crore excess over previous year).
- Government of India had given a Debt Waiver of Rs 96.67 crore and interest relief of Rs 35.31 crore during this year on the recommendations of Twelfth Finance Commission under Debt Consolidation and Relief Facility.
- Public debt receipts decreased by Rs 1,337 crore over previous year mainly due to decline in internal debt by Rs 1,319 crore and in borrowing from the Central Government by Rs 18 crore.
- Net receipts under Public Account increased by Rs 1,441 crore.
- Cash balance of the State increased by Rs 3,414 crore over previous year mainly due to increase in cash investments (Rs 2,879 crore) and reserve fund investments (Rs 281 crore). Out of total cash balance of Rs 7,147 crore at the end of current year, the State Government had invested Rs 6,407 crore in the securities of Government of India.

1.1.2 State Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by 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)

2005-06	Sr. No	Major Aggregates	2006-07
13,853	1	Revenue Receipts (2+3+4)	17,952
9,079	2	Tax Revenue (net)	10,928
2,458	3	Non-Tax Revenue	4,590
2,316	4	Other Receipts	2,434
290	5	Non-Debt Capital Receipts	2,201
290	6	Of which recovery of loans	2,201
14,143	7	Total Receipts (1+5)	20,153
10,722	8	Non-Plan Expenditure (9+11)	13,999
10,625	9	On Revenue Account	13,908
2,100	10	Of which Interest Payments	2,265
97	11	On Capital Account	91
137*	12	Of which Loans disbursed	150*
3,707	13	Plan Expenditure (14+15)	4,975
2,015	14	On Revenue Account	2,454
1,692	15	On Capital Account	2,521
40	16	Of which loans disbursed	35
14,429	17	Total Expenditure (13+8)	18,974^s
1,213	18	Revenue Surplus (+) [1-(14+9)]	1,590
(-) 286	19	Fiscal Deficit /Surplus (+) [(1+5)-17]	1,179
1,814	20	Primary Deficit/Surplus (+) [19-(-10)]	3,444

Note: Non-plan capital expenditure (Rs (-) 59 crore) is due to realisation of recoveries more than non-plan capital expenditure.

\$ Lower rounding.

Table-1.2 shows that revenue receipts increased by Rs 4,099 (30 per cent) during 2006-07 while revenue expenditure increased by Rs 3,722 crore (29 per cent) over the previous year resulting in an improvement in revenue surplus by Rs 377 crore during the current year from the level of Rs 1,213 crore in the previous year. The incremental surplus of Rs 377 crore in revenue account in 2006-07 along with an increase of Rs 1,911 crore under non-debt capital receipts accompanied with an increase of Rs 823 crore in capital expenditure and disbursement of loans and advances resulted in fiscal surplus of Rs 1,179 crore in 2006-07 from the fiscal deficit of Rs 286 crore in 2005-06.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts have been analysed wherever necessary over the period of last five years and observations have been made on their behaviour. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-06

to 2009-10) so that fiscal position of the States could be improved as committed in their respective FRBM Acts/Rules during medium to long term. The norms/Ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their Fiscal Responsibility Acts and in other Statements required to be laid in the legislature under the Act are 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) 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 market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure, etc. with reference to the base represented by GSDP have also 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 are also affected by factors other than GSDP. The New GSDP series with 1993-94 as base (**Table 1.3**) as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios.

Table 1.3: Gross State Domestic Product (GSDP) – Growth Trends

Estimates	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP) (Rupees in crore)	69,953	78,816	89,431	1,00,676	1,16,247
Rates of Growth GSDP (<i>per cent</i>)	9.71	13.16	13.47	12.57	15.47

Source: Directorate of Economics and Statistics, Government of Haryana.

Note: Figures for 2002-03 to 2004-05 are provisional estimates, for 2005-06 and 2006-07 quick and advance 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. The overall financial performance of the State Government as a body corporate has been presented by the 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 I Part C**.

The summarised financial position of the Government i.e. assets and liabilities, abstracts of receipts and disbursements for the year 2006-07, sources and application of funds and time series data is given in **Appendix II to V**.

1.2.1 The Haryana Fiscal Responsibility and Budget Management Act, 2005

The State Government has enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 in July 2005 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit,

reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operation of the Government and conduct of fiscal policy in a medium term framework. The Act prescribes the following fiscal targets for the State Government:

- Progressively reduce revenue deficit from the financial year 2005-06, so as to bring it down to zero by 2008-09 and generate revenue surplus thereafter;
- Progressively reduce fiscal deficit from the financial year 2005-06, so as to bring it down to not more than three *per cent* of GSDP by 31 March 2010; and
- Ensure within a period of five years, beginning from the financial year 2005-06 and ending on 31 March 2010, the outstanding total debt including contingent liabilities does not exceed 28 *per cent* of estimated GSDP for that year.

Besides enactment of FRBM ACT, 2005 as per recommendations of 12th Finance Commission, the State Government adopted VAT System with effect from 1 April 2003 and introduced a New Contributory Pension Scheme with effect from 1 January 2006. The State Government did not avail of Ways and Means Advances and Over Draft since June 2002. A Resource Mobilisation Committee has been set up under the Chairmanship of the Chief Minister of the State to mop up additional revenue.

1.2.1.1 Fiscal Policy Statement(s) 2006-07

As prescribed in the Act, the State Government has laid *inter-alia* the following three statements of fiscal policy alongwith the Budget of the Government for 2006-07 before the legislature:

- a) Macroeconomic Framework Statement containing an overview of the State economy, analysis of growth and sectoral composition of GSDP.
- b) Medium Term Fiscal Policy Statement containing Fiscal Indicators and Assumptions, underlying the fiscal indicators.
- c) Fiscal Policy Strategy Statement containing fiscal policy of the State for ensuing year relating to taxation, expenditure, borrowing and other liabilities, lending, investment, other contingent liability, etc.

1.2.1.2 Roadmap to achieve the fiscal targets as laid down in FRBM Act/Rules

Keeping in view the fiscal targets laid down in the FRBM Act and the rules made there under, the State Government has developed its Own Fiscal Correction Path indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (*Appendix VI*).

The targets framed in Mid-Term Fiscal Policy for the year 2006-07 for various variables alongwith projections made by the State Government in Fiscal Correction Path as well as by TFC are being used to present the comparative analysis of actual performance vis-à-vis targets and projections in **Table 1.4**.

Table 1.4

Fiscal forecasts	Projection in TFC	Projection as per MTFPS	Projection as per FCP	Actual	Percentage variation of actuals over		
					TFC	MTFPS	FCP
Own Tax Revenue	9,727	10,686	9,582	10,928	12.34	2.26	14.05
Own Non-Tax Revenue	1,573	3,061	1,981	4,590	191.80	49.95	131.70
Revenue Expenditure	-	13,618	14,067	16,362	-	20.15	16.31
NPRE	8,351	11,833	11,833	13,908	66.54	17.54	17.54
Capital Expenditure	-	2,221	1,527	2,428	-	9.32	59.00
Revenue Deficit (-)/ Surplus (+)	To be wiped out by 2008-09	RD to be 2.33 per cent of RR	(-) 320	(+)1,590	*	*	*
Fiscal Deficit (-)/ Surplus (+)	To reduce to not more than 3 per cent of GSDP by 2008-09	FD to be 1.78 Per cent of GSDP	(-) 1,848	(+)1,179	*	*	*
Consolidated Debt (including Guarantees)	31 per cent of GSDP by 2008-09	32,645	31,845	33,690 (29 per cent of GSDP)	-	3.20	5.79

* **There was revenue surplus and fiscal surplus during the current year.**

The State Government achieved revenue and fiscal surplus against the deficit targets envisaged in FCP and MTFPS for the year 2006-07. In fact, the State has achieved the fiscal targets laid down in FRBM Act, 2005 three years prior to the schedule envisaged in the Act. As a result, the State Government received debt relief of Rs 131.98 crore (including interest relief of Rs 35.31 crore) linked to its fiscal performance. The outstanding fiscal liabilities including guarantees at 29 per cent although marginally exceeded the 28 per cent of GSDP as envisaged in the Act to be achieved by 2009-10. Although resources mobilized by the State during 2006-07 exceeded the projections, but the non-plan revenue expenditure of the State during 2006-07 was higher by 67 per cent over the normative projection of TFC and by 17.5 per cent over the projections made by the State Government in Medium Term Fiscal Policy Statement for 2006-07 and in its Fiscal Correction Path.

1.3 Trends and composition of aggregate receipts

The aggregate receipts of State Government consist of revenue receipts and capital receipts; revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial

institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-1.5** shows that the total receipts of the State Government for the year 2006-07 were Rs 28,897 crore. Of these, the revenue receipts were Rs 17,952 crore, constituting 62 *per cent* of total receipts. The balance came from capital receipts, borrowings, receipts from Contingency Fund and Public Account.

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
I Revenue Receipts	8,657	9,843	11,149	13,853	17,952
II Capital Receipts	3,755	6,441	4,632	3,639	4,213
Recovery of Loans and Advances	106	156	157	290	2,201
Public Debt Receipts	3,649	6,285	4,475	3,349	2,012
Miscellaneous Capital Receipts	-	-	-	-	-
III Contingency Fund	-	-	-	-	-
IV Public Account Receipts	4,921	7,662	5,973	5,461	6,732
a. Small Savings, Provident Fund, etc.	1,001	1,000	1,040	1,166	1,245
b. Reserve Fund	135	177	196	244	280
c. Deposits and Advances	2,142	4,457	2,278	1,893	1,936
d. Suspense and Miscellaneous	(-) 124	194	628	(-) 349	197
e. Remittances	1,767	1,834	1,831	2,507	3,074
Total Receipts	17,333	23,946	21,754	22,953	28,897

The total receipts of the State Government increased by 67 *per cent* from Rs 17,333 crore in 2002-03 to Rs 28,897 crore in 2006-07, of which Revenue Receipts increased by 107 *per cent* from Rs 8,657 crore in 2002-03 to Rs 17,952 crore in 2006-07.

While non- debt receipts increased by 1,976 *per cent* from Rs 106 crore in 2002-03 to Rs 2,201 crore in 2006-07, the Public Account receipts increased by 37 *per cent* from Rs 4,921 crore in 2002-03 to Rs 6,732 crore in 2006-07. The debt capital receipts, which create future repayment obligations, decreased from Rs 3,649 crore in 2002-03 to Rs 2,012 crore in 2006-07, which was indicative of the improving fiscal position of the State. The recovery of loans and advances has improved by Rs 1,911 crore over previous year.

1.3.1 Revenue Receipts

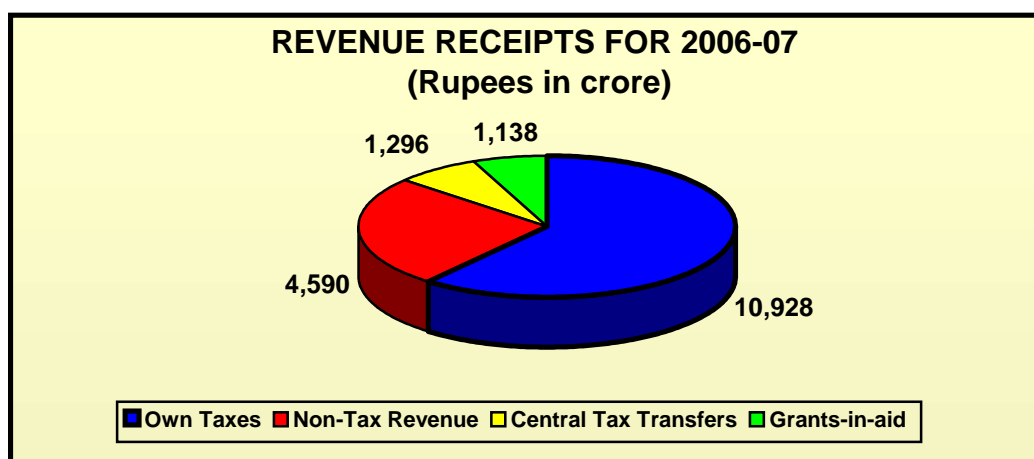
Statement 11 of the Finance Accounts details the revenue receipts of the Government. The Revenue Receipts consist of its own taxes and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product and its buoyancies are indicated in **Table 1.6**.

Table 1.6: Revenue Receipts – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR) (Rupees in crore)	8,657	9,843	11,149	13,853	17,952
Own taxes (<i>per cent</i>)	5,550(64)	6,348(64)	7,440(67)	9,079(65)	10,928(61)
Non-Tax Revenue (<i>per cent</i>)	1,808(21)	2,223(23)	2,544(23)	2,458(18)	4,590(26)
Central Tax Transfers (<i>per cent</i>)	756(9)	601(6)	619(5)	1,201(9)	1,296(7)
Grants-in-aid (<i>per cent</i>)	543(6)	671(7)	545(5)	1,115(8)	1,138(6)
Rate of Growth RR (<i>per cent</i>)	13.91	13.70	13.27	24.25	29.58
R R/GSDP (<i>per cent</i>)	12.42	12.48	12.47	13.76	15.44
Buoyancy Ratios¹					
Revenue Buoyancy w.r.t GSDP	1.434	1.042	0.985	1.929	1.913
State's Own Tax Buoyancy w.r.t GSDP	1.200	1.093	1.277	1.753	1.317
Revenue Buoyancy with reference to State's own taxes	1.194	0.953	0.772	1.101	1.452

General Trends

The revenue receipts of the State have shown an increasing trend over the period 2002-07 with an average 65 *per cent* share of its own taxes till 2005-06 which dipped to 61 *per cent* in the current year mainly on account of relatively significant increase in the share of non-tax revenue from 18 *per cent* in 2005-06 to 26 *per cent* during the current year. The sharp increase of about 30 *per cent* in revenue receipts during 2006-07 was mainly on account of an increase in State's own taxes (20 *per cent*) and non-tax revenue (87 *per cent*).



Tax Revenue

The Tax Revenue has increased by 20 *per cent* during the current year (Rs 10,928 crore) over previous year (Rs 9,079 crore). The revenue from sales taxes not only contributed the major share of tax revenue (63 *per cent*) but also increased by 22 *per cent* over the previous year. The value added tax (VAT)

¹ 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 1.913 during 2006-07 implies that revenue receipts tend to increase by 1.913 percentage points if the GSDP increases by one *per cent*.

introduced in April 2003 had enhanced the buoyancy of sales tax revenue and generated higher collection of Rs 1,249 crore during 2006-07. **Table 1.7** below shows the trends in the composition of tax revenue of the State during 2002-07.

Table 1.7: Tax Revenue

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Sales Tax	3,337	3,838	4,761	5,604	6,853
Taxes on goods and passengers	653	660	705	758	738
Stamps and Registration	541	696	727	1,340	1,765
State Excise	879	923	1,013	1,107	1,217
Taxes on Vehicles	114	132	140	172	224
Other Taxes *	26	99	94	98	131
Total	5,550	6,348	7,440	9,079	10,928

* **Other Taxes includes land revenue, taxes and duties on electricity and other taxes on duties and commodities and services.**

Non-Tax Revenue

The Non-Tax Revenue which constituted 26 *per cent* of total revenue receipts during 2006-07 increased by Rs 2,132 crore recording a growth rate of 87 *per cent* over previous year. The steep increase in non-tax revenue was mainly on account of an increase of Rs 1,848 crore in receipts under the major head Urban Development due to more receipts on applications from investors for grant of licence for change of land use and increase in rate of fee and charges and recovery of outstanding dues from Haryana Urban Development Authority (HUDA) on account of services rendered by Urban Estate Department of the Government. As a result, the share of receipts under urban development had increased to 56 *per cent* (as compared to 29 *per cent* in 2005-06) followed by interest receipts (14 *per cent*) and Road Transport (12 *per cent*). The credit entry of debt waiver (Rs 96.97 crore) and interest relief of Rs 35.31 crore given by Government of India under DCRF as receipts from miscellaneous general services also led to an increase in non-tax revenue of the State. It may, however, also be noted that the high receipts of Rs 571.18 crore under transport during the year were offset by equally high expenditure of Rs 699.63 crore under Transport as Haryana does not have a Road Transport Corporation and the State buses are being run departmentally.

The State's own revenue receipts vis-à-vis assessments made by TFC and State Government are given below:

Table 1.8

(Rupees in crore)

	Assessments made by TFC	Projections by State Government in		Actuals
		MTFP	FCP	
Tax Revenue	9,727	10,686	9,582	10,928
Non-Tax Revenue	1,573	3,061	1,981	4,590

The State's own tax and non-tax revenue receipts exceeded both the assessments made by TFC as well as the projections made by the State Government in MTFPS and FCP for 2006-07. The steep increase in non-tax revenue relative to the projections was mainly on account of more receipts under Urban Development owing to increasing urbanization in the State.

Central Tax Transfers

The Central Tax transfers increased by Rs 95 crore over the previous year and constituted seven *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs 67 crore), customs duties (Rs 34 crore) and service tax (Rs 39 crore) and partly offset by decrease in Union Excise duties (Rs 29 crore).

Grants-in-aid

The grants-in-aid from Government of India (GOI) increased from Rs 1,115 crore in 2005-06 to Rs 1,138 crore in the current year. The increase was mainly under State plan schemes (Rs 119 crore) and Centrally Sponsored Schemes (Rs 48 crore) which was partly offset by decrease in Non-Plan Grants (Rs 139 crore). Details of Grants-in-aid from GOI are given in **Table 1.9**.

Table No 1.9: Grants-in-aid from GOI

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State plan schemes	214	338	201	511	630
Non- Plan grants	109	117	84	269	130
Grants for Central Schemes	17	61	7	10	5
Grants for Central and Centrally Sponsored Schemes	203	156	253	325	373
Total	543	672	545	1,115	1,138
Percentage of increase/decrease over previous year	5.85	23.76	(-) 18.90	104.59	2.06

Arrears of revenue

The arrears of revenue have increased by 178 *per cent* from Rs 577 crore in 2002-03 to Rs 1,602 crore² at the end of 2006-07. Of these, Rs 390 crore (24 *per cent*) were outstanding for a period of more than five years. Arrears were mainly in respect of taxes on sales, trade, etc. (Rs 1,269 crore), tax on entry of goods into local areas (Rs 122 crore), taxes and duties on electricity (Rs 90 crore) and State Excise (Rs 42 crore). Demands for Rs 398 crore were stayed by High Court, Judicial and other authorities. The deterioration in the position of collection of arrears of revenue needs attention and effective measures for their realisation.

² Figures are provisional as supplied by the State Government Departments.

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 of the State increased from Rs 10,234 crore in 2002-03 to Rs 18,975 crore in 2006-07. The total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.10**.

Table 1.10: Total Expenditure – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure (TE) * (Rupees in crore)	10,234	12,932	12,512	14,429	18,975
Rate of Growth (<i>per cent</i>)	(-) 1.82 **	26.36	(-) 3.25	15.32	31.50
TE/GSDP ratio (<i>per cent</i>)	14.69	16.41	13.99	14.33	16.32
Revenue Receipts/TE ratio (<i>Per cent</i>)	84.59	76.11	89.11	96.00	94.61
Buoyancy of total expenditure with reference to					
GSDP (ratio)	(-) 0.187	2.003	(-) 0.241	1.219	2.036
Revenue Receipts (ratio)	(-) 0.131	1.924	(-) 0.245	0.632	1.065

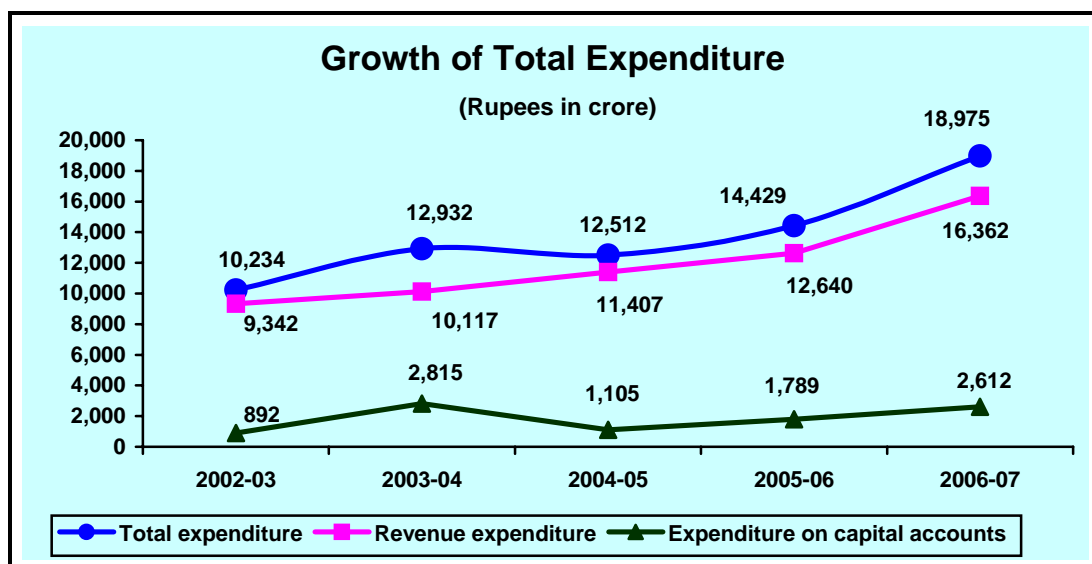
* Total expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances.

** Rate of growth of total expenditure was negative in 2002-03 and 2004-05.

The total expenditure during the current year at Rs 18,975 crore has increased by Rs 4,546 crore (31 *per cent*) over previous year. Of the total increase, revenue expenditure contributed Rs 3,722 crore (82 *per cent*), capital expenditure shared Rs 816 crore (18 *per cent*) and remaining Rupees eight crore by loans and advances. The bifurcation of total expenditure into plan and non-plan expenditure revealed that the share of plan and non-plan expenditure was 26 *per cent* and 74 *per cent* respectively. The increase in total expenditure was mainly on account of increase in both capital expenditure (Rs 510 crore) and revenue expenditure (Rs 2,344 crore) on power projects during the year.

There was an upward trend in the ratio of revenue receipts to total expenditure from 85 *per cent* in 2002-03 to 95 *per cent* in 2006-07 with inter year variations indicating decreasing reliance on the borrowed funds and in 2006-07 the State's total expenditure was not only financed out of its non-debt receipts but it also resulted in a fiscal surplus of Rs 1,179 during the year. On the other hand ratio of total expenditure with GSDP indicated the upward trend from 14.69 *per cent* in 2002-03 to 16.32 *per cent* in 2006-07. The buoyancy of total expenditure with reference to GSDP and revenue receipts although widely fluctuated with negative ratio in 2002-03 and 2004-05 due to decline in total expenditure during these years but in the last two years it picked up and stood at 2.036 and 1.065 in 2006-

07 indicating increasing propensity of the Government to spend with the increase in GSDP and revenue receipts.



Note: Expenditure on Capital Account=Capital Expenditure+Disbursement of Loans and Advances.

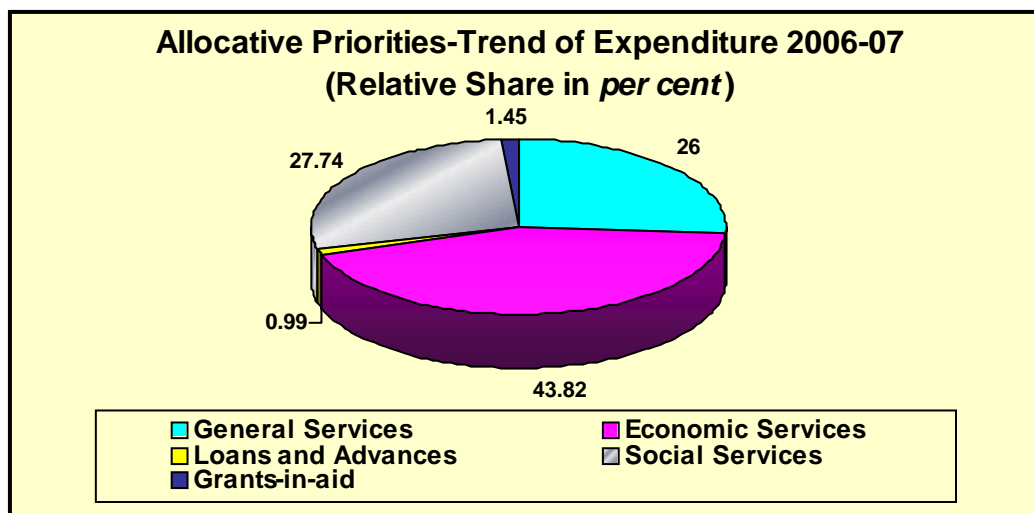
Trends in Total Expenditure by activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.11**.

Table 1.11: Components of expenditure – Relative Share

(In per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	39.47	34.29	39.61	32.31	26.00
Of which interest payments	19.01	16.34	17.86	14.55	11.94
Social Services	29.55	25.43	28.01	30.73	27.74
Economic Services	26.46	21.13	29.98	34.00	43.82
Grants-in-aid	0.06	0.37	0.73	1.73	1.45
Loans and Advances	4.46	18.78	1.67	1.23	0.99

The movement of relative share of the various components of expenditure indicated that while share of General Services including interest payment has declined from 39 per cent in 2002-03 to 26 per cent in 2006-07, the share of economic services has steeply increased from 26 per cent to 44 per cent during this period. The increase in share of economic services was mainly on account of steep increase in expenditure on the power projects. The shares of social services remained almost stable with minor inter year variations while the share of loans and advances consistently declined during the period with the exception of an unusual increase in 2003-04.



1.4.2 Incidence of revenue expenditure

Revenue expenditure had a 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 States 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 1.12.

Table 1.12: Revenue Expenditure–Basic Parameters

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE)	9,342	10,117	11,407	12,640	16,362
Of which					
Non-plan Revenue Expenditure (NPRE)	8,293	8,993	9,954	10,625	13,908
Plan Revenue Expenditure (PRE)	1,049	1,124	1,453	2,015	2,454
Rate of Growth (<i>Per cent</i>)					
NPRE	7.93	8.30	12.75	10.81	29.45
PRE	11.18	8.44	10.69	6.74	30.90
RE	(-) 12.36	7.15	29.27	38.68	21.79
RE/TE (<i>per cent</i>)	91.28	78.23	91.17	87.60	86.23
NPRE/ GSDP (<i>Per cent</i>)	11.91	11.41	11.13	10.55	11.96
NPRE as <i>per cent</i> of TE	81.03	69.54	79.56	73.64	73.30
NPRE as <i>per cent</i> to RR	95.80	91.36	89.28	76.70	77.47
Buoyancy of Revenue expenditure with reference to					
GSDP (ratio)	0.817	0.631	0.947	0.860	1.904
Revenue Receipts (ratio)	0.570	0.606	0.961	0.445	0.996

Revenue expenditure of the State has consistently increased at an average rate of 15.6 *per cent* from Rs 9,342 crore in 2002-03 to Rs 16,362 crore in 2006-07. During the year 2006-07 the revenue expenditure increased by Rs 3,722 crore (29 *per cent*) over the previous year mainly due to more expenditure on Power (Rs 2,344 crore), General Education (Rs 293 crore), Roads and Bridges

(Rs 210 crore), Interest Payments (Rs 165 crore) and pensions and other retirement benefits (Rs 140 crore). The break up of revenue expenditure into NPRE and PRE has shown that while former increased by 31 *per cent* (Rs 3,283 crore), the latter by 22 *per cent* (Rs 439 crore) in 2006-07 over the previous year.

The non--plan revenue expenditure in 2005-06 and 2006-07 vis-à-vis assessment made by TFC and State Government for the year revealed that while NPRE was significantly higher than the normative assessment of TFC in both the years, it was lower than the State's projection in 2005-06. During the current year, NPRE was higher by little more than 17 *per cent* (Rs 2,075 crore) in 2006-07 over the projection in MTFPS/FCP due to steep enhancement in subsidies (Rs 2,369 crore) in power and energy sector.

Table 1.13

(Rupees in crore)

Year	Assessments made by TFC (1)	Assessments made by State Government in MTFPS/Fiscal Correction Path (2)	Actual NPRE (3)
2005-06	7,657	11,134	10,625
2006-07	8,351	11,833	13,908

Though the ratio of revenue expenditure to revenue receipts declined during 2002-07, the revenue expenditure continued to grow and the expenditure on salaries (Rs 4,153 crore), interest payments (Rs 2,265 crore), pensions (Rs 1,173 crore) and subsidy (Rs 3,852 crore) alone consumed 64 *per cent* of total revenue receipts of the State during 2006-07. The relatively higher buoyancy ratios of revenue expenditure with reference to GSDP and the revenue receipts especially in the current year indicate tendency of the Government to step up the current revenue expenditure.

1.4.3 Committed expenditure

1.4.3.1 Expenditure on Salaries

Table 1.14: Expenditure on Salaries

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries	3,008.46	3,255.96	3,714.10	3,893.35	4,153.12
Of which					
Non-Plan Head	2,892.41	3,000.45	3,308.12	3,584.47	3,810.62
Plan Head	116.05	255.51	405.98	308.88	342.50
As <i>percent</i> of GSDP	4.32	4.13	4.15	3.86	3.57
As <i>percent</i> of Revenue Receipts	34.75	33.07	33.31	28.10	23.13

The trends in **Table 1.14** indicate that the expenditure on salaries increased by 38 *per cent* from Rs 3,008 crore in 2002-03 to Rs 4,153 crore in 2006-07. Expenditure on Salary both as percentage of GSDP and revenue receipts declined over the period 2002-07. Actual salary expenditure at Rs 4,153 crore in 2006-07 was, however, less than the projections in the State's Own Fiscal Correction Path

(Rs 4,274 crore) as well as of what was envisaged in Medium Term Fiscal Policy Statement of the State Government (Rs 4,190 crore). The total salary bill relative to revenue expenditure net of interest payments and pension was 32 *per cent* well within the norm of 35 *per cent* envisaged by the Twelfth Finance Commission.

1.4.3.2 Pension payments

Table 1.15: Expenditure on Pensions

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	745.91	765.70	901.93	1,033.13	1,173.32
As per cent of GSDP	1.07	0.97	1.01	1.03	1.01
As per cent of RR	8.62	7.78	8.09	7.46	6.54
As per cent of RE	7.98	7.57	7.91	8.17	7.17

Table 1.15 indicate that pension payments increased by 57 *per cent* from Rs 746 crore in 2002-03 to Rs 1,173 crore in 2006-07. The expenditure on pension payments at Rs 1,173 crore in 2006-07 was comparable with the projections made in the State's Own FCP/MTFPS, and higher by little more than 10 *per cent* than the normative assessment made by TFC for the year (Table 1.16).

Table 1.16: Pension Payments vis-à-vis Projections

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Assessments made by State Government in MTFPS	Actual Expenditure on pensions
	(1)	(2)	(3)	(4)
Pension payments	1,059	1,151	1,113	1,173

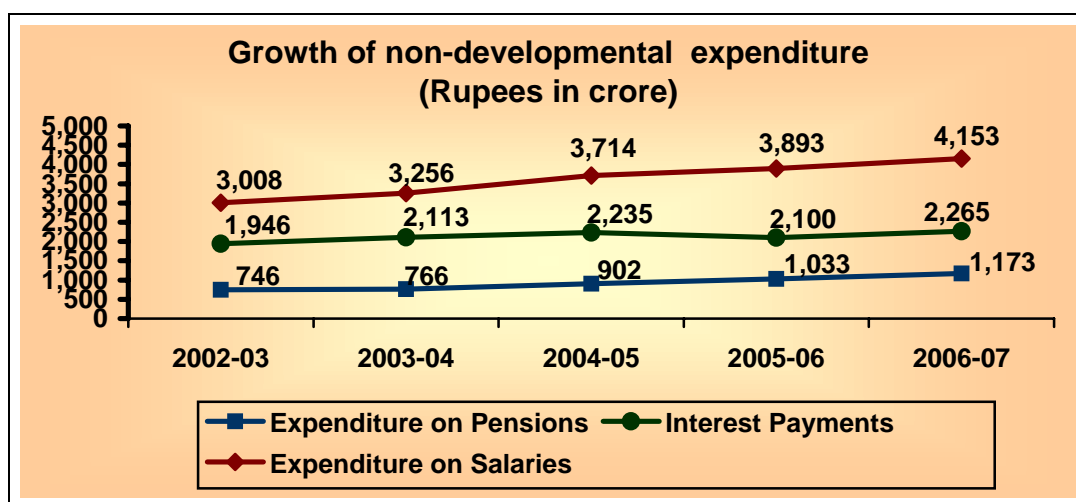
With the increase in the number of retirees, the pension liabilities are likely to increase further in future. To meet the increasing pension liabilities, a new Contributory Pension Scheme has been introduced by the State with effect from 1 January 2006.

1.4.3.3 Interest Payments

Table 1.17: Interest Payments

Year	Total revenue receipts	Interest Payments	Percentage of interest payments with reference to	
	(Rupees in crore)		Total Receipts	Revenue Expenditure
2002-03	8,657	1,946	22	21
2003-04	9,843	2,113	21	21
2004-05	11,149	2,235	20	20
2005-06	13,853	2,100	15	17
2006-07	17,952	2,265	13	14

The interest payments increased by 16 per cent from Rs 1,946 crore in 2002-03 to Rs 2,265 crore in 2006-07 but during the last four years these remained almost stable around an average of Rs 2,178 crore with minor inter year variations around this mean value. However, interest payment increased by eight per cent (Rs 165 crore) during the year over previous year due mainly to increase in the payment of interest on Internal Debt (Rs 185 crore) and Small Saving and Provident Fund (Rs 25 crore) offset by decrease in interest on Loans and Advances from Government of India (Rs 46 crore) on account of interest rate relief (Rs 35.31 crore) received by the State under DCRF. It was observed that interest payments as a percentage of revenue receipts had progressively decreased from 22 per cent in 2002-03 to 13 per cent in 2006-07 which is within the medium term target of 15 per cent of Revenue Receipts by 2009-10 envisaged by TFC. Moreover, interest payments at Rs 2,265 crore during 2006-07 were within the projections by the State in its FCP (Rs 2,400 crore) and Medium Term Fiscal Policy Statement (Rs 2,278 crore) for the year 2006-07.



1.4.3.4 Subsidies

State Government has been paying subsidies to the various Corporations, etc. The trends in the subsidies given by the State Government are given in **Table 1.18**.

Table 1.18: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2002-03	883.52	3	9
2003-04	957.44	8	7
2004-05	1,156.97	21	9
2005-06	1,465.74	27	10
2006-07	3,852.45	163	20

Trends in **Table 1.18** indicate a steep rise in the payment of subsidies during 2006-07 over the previous year and constituted one fifth of the total expenditure. Out of total subsidies of Rs 3,852.45 crore, Rs 3,759.34 crore (98 per cent) were

for power and energy Sector, bulk of which was for rural electrification (Rs 1,544.37 crore), fuel surcharge adjustment (Rs 2,022.29 crore) and electricity arrear waiver scheme (Rs 188.76 crore). The actual expenditure on subsidy to power and energy sector was more than 2.5 times (Rs 3,759.34 crore) as against the projection of Rs 1,464.80 crore in State's own Fiscal Correction Path. The general subsidy at Rs 93.21 crore which is inclusive of the food subsidy of Rs 21.08 crore as recommended by the TFC also exceeds marginally by Rs 10.60 crore to the projection of Rs 82.61 crore in FCP for the year.

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 efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is the quality of expenditure. **Table 1.19** gives these ratios during 2002-07

Table 1.19: Indicators of Quality of expenditure

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	436	386	897	1,612	2,428
Revenue Expenditure, of Which	9,342	10,117	11,407	12,640	16,362
Social and Economic Service with	5,341	5,701	6,417	7,810	11,242
i) Salary component	2,271	2,464	2,813	2,928	3,123
ii) Non-Salary component	3,070	3,237	3,604	4,882	8,119
As per cent of total expenditure					
Capital Expenditure	4.26	2.98	7.17	11.17	12.80
Revenue Expenditure	91.28	78.23	91.17	87.60	86.23
As per cent of GSDP					
Capital Expenditure	0.62	0.49	1.00	1.60	2.09
Revenue Expenditure	13.41	12.84	12.75	12.55	14.08

Though, no norms for prioritisation of Capital Expenditure have been laid in the FRBM Act, the percentage of capital expenditure to total expenditure shows an increasing trend from 4.26 *per cent* in 2002-03 to 12.80 *per cent* in 2006-07. Relative to GSDP also, the capital expenditure reflects an increasing trend with inter year variations. Expenditure on non-salary component under revenue expenditure also consistently increased during 2002-07 and in the current year it was enhanced by 66 *per cent* over previous year from the level of Rs 4,882 crore in 2005-06. These trends indicate the improvement in the quality of expenditure and the impetus being given to asset formation by the State.

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 1.20** summarises the expenditure incurred by the State Government in expanding and strengthening of Social Services in the State during 2002-07.

Table 1.20: Expenditure on Social Services

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Education, Sports, Art and Culture	1,455	1,541	1,681	1,993	2,330
Revenue Expenditure	1,447	1,536	1,675	1,970	2,292
Of which					
(a) Salary component	1,196	1,233	1,311	1,393	1,571
(b) Non-Salary component	251	303	364	577	721
Capital Expenditure	8	5	6	23	38
Of which General Education	1,427	1,508	1,651	1,957	2,287
Revenue Expenditure	1,419	1,503	1,645	1,934	2,249
Of which					
(a) Salary component	-	-	-	1,375	1,551
(b) Non-Salary component	-	-	-	569	698
Capital Expenditure	8	5	6	23	38
Health and Family Welfare	351	359	393	467	488
Revenue Expenditure	343	350	381	449	467
Of which					
(a) Salary component	255	268	290	307	326
(b) Non-Salary component	88	82	91	142	141
Capital Expenditure	8	9	12	18	21
Water Supply, Sanitation, Housing and Urban Development	562	691	644	865	1,128
Revenue Expenditure	367	421	385	484	556
Of which					
(a) Salary component	148	151	178	194	203
(b) Non-Salary component	219	270	207	290	353
Capital Expenditure	195	270	259	381	572
Other Social Services	656	699	787	1,109	1,318
Revenue Expenditure	652	689	777	1,092	1,300
Of which					
(a) Salary component	100	104	112	117	126
(b) Non-Salary component	552	585	665	975	1,174
Capital Expenditure	4	10	10	17	18
Total (Social Services)	3,024	3,290	3,505	4,435	5,264
Revenue Expenditure	2,809	2,996	3,218	3,996	4,615
Of which					
(a) Salary component	1,699	1,756	1,891	2,011	2,226
(b) Non-Salary component	1,110	1,240	1,327	1,985	2,389
Capital Expenditure	215	294	287	439	649

The expenditure on social sector increased from Rs 3,024 crore in 2002-03 to Rs 5,264 crore in 2006-07 with sharp increase in 2005-06 and the current year. These trends indicating the Government's increasing commitment to improve social well being of the society. Expenditure on Social Sector during current year (Rs 5,264 crore) accounted for 28 *per cent* of total expenditure and 39 *per cent* of developmental expenditure³. Of the total increase of Rs 829 crore on social services in 2006-07 over the previous year, expenditure on water supply and sanitation increased by Rs 263 crore (32 *per cent*) followed by on education by Rs 320 crore (40 *per cent*) and on health and family welfare by Rs 21 crore (2.5 *per cent*).

Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure (taking expenditure under both plan and non-plan heads) reveal that the salary component under education sector increased by 13 *per cent* over 2005-06 while non-salary component decreased by 25 *per cent*. Similarly under Health and Family Welfare sector, the salary component increased by six *per cent* but the non-salary component decreased by Rupees one crore in 2006-07 over the previous year. The expenditure pattern both in education and health services has not been as per the norms of the TFC which needs correction in the ensuing years.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs 8,315 crore) accounted for 44 *per cent* of the total expenditure (**Table 1.21**). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 93 *per cent* of the expenditure.

Table 1.21: Expenditure on Economic Sector

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture and Allied Activities	6	(-) 252	219	507	572
Revenue Expenditure	411	423	463	537	625
Of which					
(a) Salary component	235	243	262	273	307
(b) Non- Salary component	176	180	201	264	318
Capital Expenditure	(-) 405	(-) 675	(-) 244	(-) 30	(-) 53
Irrigation and Flood Control	703	641	709	966	1,108
Revenue Expenditure	475	417	446	497	552
Of which					
(a) Salary component	76	196	363	222	225
(b) Non- Salary component	399	221	83	275	327
Capital Expenditure	228	224	263	469	556

³ Development expenditure is defined as the total expenditure made on social and economic services.

	2002-03	2003-04	2004-05	2005-06	2006-07
Power and Energy	984	1,146	1,439	1,693	4,548
Revenue Expenditure	850	983	1,206	1,418	3,762
Of which					
(a) Salary component	-	1	1	*	2
(b) Non- Salary component	850	982	1,205	1,418	3,760
Capital Expenditure	134	163	233	275	786
Transport	809	993	1,132	1,276	1,535
Revenue Expenditure	593	683	840	915	1,156
Of which					
(a) Salary component	173	177	198	342	278
(b) Non- Salary component	420	506	642	573	878
Capital Expenditure	216	310	292	361	379
Other Economic Services	206	204	252	464	552
Revenue Expenditure	203	200	244	448	532
Of which					
(a) Salary component	88	91	98	79	85
(b) Non- Salary component	115	109	146	369	447
Capital Expenditure	3	4	8	16	20
Total (Economic Services)	2,708	2,732	3,751	4,906	8,315
Revenue Expenditure	2,532	2,706	3,199	3,815	6,627
Of which					
(a) Salary component	572	708	922	916	897
(b) Non- Salary component	1,960	1,998	2,277	2,899	5,730
Capital Expenditure	176	26	552	1,091	1,688

* Rs 0.13 crore only, which is below Rupees one crore.

The expenditure on Economic Sector during the year increased by 70 per cent (Rs 3,409 crore) over the previous year. The expenditure on Economic Services accounted for 44 per cent of the total expenditure of the State of which Revenue Expenditure accounted for 80 per cent with capital expenditure accounting for remaining 20 per cent. The steep increase in the expenditure on Economic Sector in the current year was predominantly on account of payment of subsidy amounting to Rs 3,759.34 crore for power and energy due to which non-salary component has also shown a jump of 165 per cent during the year in the sector and 98 per cent in economic services of the State. It is difficult to make a comment on the quality of expenditure on economic services due to a steep increase in subsidies to the power and energy sector.

1.5.4 Financial assistance by the State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and other institutions during the five years period 2002-07 is presented in Table 1.22.

Table 1.22: Financial Assistance

	(Rupees in crore)				
	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	190.14	242.31	72.91	244.06	247.53
Municipal Corporations and Municipalities	158.95	175.96	180.00	Nil*	125.63
Zila Parishads and Other Panchayati Raj Institutions	5.02	59.25	29.42	73.12	135.02
Development Agencies	116.82	114.68	121.28	303.31	231.93
Hospitals and other Charitable Institutions	16.26	10.55	22.32	25.28	20.32
Other Institutions	120.61	124.46	92.19	196.29	161.51
Total	607.80	727.21	518.12	842.06	921.94
Assistance as percentage of RE	7	7	5	7	6

* No grants-in-aid are given under capital outlay on water supply and sanitation.

Financial assistance to Local Bodies and Other institutions increased from Rs 607.80 crore in 2002-03 to Rs 921.94 crore in 2006-07 and ranged between five to seven *per cent* of revenue expenditure during the period 2002-07.

1.5.5 Delay in furnishing utilisation certificates

Of the 4,396 utilisation certificates (UCs) due in respect of grants and loans aggregating Rs 1,826.01 crore paid upto 2005-06, 2,981 UCs for an aggregate amount of Rs 1,311.39 crore were in arrears. Details of department-wise break up of outstanding UCs are given in *Appendix VII*.

1.5.6 Non-Submission of Accounts

In order to identify the institutions which attract audit under Section 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions.

The accounts of 76 bodies/authorities, which were received for the year 2005-06, attracted audit by Comptroller and Auditor General of India. All of these, 76 bodies/authorities, audit of which was due, were audited during 2006-07.

Three hundred and fifty annual accounts of 114 autonomous bodies/authorities for 2006-07 and earlier years had not been received as of July 2007 by the Accountant General (Audit). The details are given in *Appendix VIII*. Of these bodies/authorities, 22⁴ Municipal Committees and three⁵ Aided Colleges did not submit their accounts for five years or more.

⁴ Sr. No. 1 to 7, 9 to 17, 20, 28, 42, 43, 45 and 46 of *Appendix VII*.

⁵ Sr. No 88, 94 and 102 of *Appendix VII*.

1.5.7 Abstract of performance of the autonomous bodies

The audit of accounts of eight bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature are indicated in **Appendix IX**.

1.5.8 Non-furnishing of accounts of utilisation of grants

Out of 244 autonomous bodies to whom various Government departments released grants-in-aid of Rs 390.09 crore during the year 2006-07, as detailed in **Appendix X**, 220 did not render the accounts for the utilisation of grants to the concerned departments as of June 2007.

1.6 Misappropriation, losses, defalcations, etc.

The State Government reported 212 cases of misappropriations, defalcations, etc. involving Government money amounting to Rs 1.96 crore up to the period March 2007 on which final action was pending at the end of June 2007. The department-wise break up of pending cases is given in **Appendix XI (A&B)**.

1.6.1 Write off of losses, etc.

As reported to Audit, losses due to theft, fire and irrecoverable revenue, etc. in respect of Education Department amounting to Rs 2.34 lakh in two cases were written off during 2006-07 by competent authorities.

1.7 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, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. As per FRBM Act 2005, total liabilities consist of liabilities under the Consolidated Fund and Public Account of the State and also include borrowings by the Public Sector Undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of the State Budget. **Appendix II** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities in this 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 V** depicts the time series data on State Government finances for the period 2002-07.

1.7.1 Financial Results of Irrigation Works

The financial results of seven major irrigation projects with a capital outlay of Rs 351.34 crore at the end of March 2007 showed that revenue realised from these projects during 2006-07 (Rs 69.21 crore) was 20 *per cent* of the capital outlay. After meeting the working and maintenance expenditure (Rs 162.09 crore) and interest charges (Rs 17.83 crore), there was a loss of Rs 110.72 crore, which was 32 *per cent* of capital outlay on these projects.

1.7.1.1 Incomplete Projects

The department-wise information pertaining to incomplete projects as on 31 March 2007 is given in the **Table 1.23**.

Table 1.23: Department-wise profile of incomplete projects

(Rupees in crore)

Department	Number of Incomplete Projects	Initial Budgeted Cost	Actual expenditure as on 31 March 2007
Buildings and Roads	13	50.38	26.53
Irrigation	7	15.55	9.77
Total	20	65.93	36.30

The targeted dates of completion of these projects were between December 2005 and March 2007, but these were lying still incomplete. Even after their dates of completion were over, the sanctioned amount is also not fully utilised. Reasons for delay in completion of these projects were not intimated by the Departments.

1.7.2 Financial Analysis of Government Investments

1.7.2.1 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are required to prepare annual *proforma* accounts in the prescribed format showing the results of financial operations so that the Government can assess the results of their working.

As of March 2007, there were six undertakings/schemes in which Government of Haryana had invested Rs 1,684.54 crore at the end of financial year upto which their accounts were completed. Department-wise position of arrears in preparation of *proforma* accounts and the investment made by the Government are given in **Appendix XII**.

1.7.2.2 Investments and returns

As of 31 March 2007, Government had invested Rs 3,058.05 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.24**). The investment increased from Rs 2,261.44 crore in 2005-06 to Rs 3,058.05 crore in 2006-07, their returns increased from Rs 1.92 crore to Rs 5.62 crore. The return on this investment was a meagre 0.06 to 0.24 *per cent*

during the last five years, while the Government paid interest at the average rate of 8.49 to 10.33 *per cent* on its borrowings during 2002-07. Of these, one Statutory Corporation and 12 Government Companies with an aggregate investment of Rs 2,690.16 crore upto 2006-07 were incurring losses and their accumulated losses amounted to Rs 2,080.96 crore as per the accounts furnished by these companies upto 2006-07 (**Appendix XIII**). No reasons were intimated for losses in these companies. Uttar Haryana Bijli Vitran Nigam Limited, Dakshin Haryana Bijli Vitran Nigam Limited and Haryana Vidyut Prasaran Nigam Limited were major Government companies having accumulated losses of Rs 758 crore, Rs 601 crore and Rs 202 crore respectively. Thus, Government needs not only to invest the high cost borrowings more judiciously to get better results, but also consider disinvesting its equity in loss-making units.

Table 1.24: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Weighted rate of interest ⁶ on Government borrowings	Difference between interest rate and return
	(Rupees in crore)			(Per cent)	
2002-03	3,067.25	1.73	0.06	10.33	10.27
2003-04	1,689.51	4.11	0.24	9.11	8.87
2004-05	1,861.34	2.35	0.13	8.49	8.36
2005-06	2,261.44	1.92	0.09	8.95	8.86
2006-07	3,058.05	5.62	0.18	9.20	9.02

1.7.2.3 Loans and Advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2007 was Rs 1,825 crore against outstanding amount of Rs 3,841 crore as on 31 March 2006. Reduction in outstanding loans and advances during the current year (Rs 2,012 crore) was mainly due to repayment of loans and advances of Rs 2,033.56 crore by the power and energy sector (**Table 1.25**). Interest received against the loans advanced although increased to five *per cent* during 2006-07 but it was mainly on account of a steep decline in outstanding loans and advances during the current year. This is still below the weighted rate of interest of 9.20 on Government borrowings during the current year. Out of Rs 185 crore advanced during 2006-07, Rs 150 crore were advanced to Government Servants and the balance of Rs 35 crore were advanced mainly for Industry and Mineral (Rs 24 crore), Energy (Rupees five crore) and Agriculture and Allied activities (Rupees five crore).

⁶ **Weighted Rate of Interest** (I_w) $I_w = \sum_i^n I_i W_i$, where I_i is the rate of interest on the i^{th} stock of debt and W_i is the share of i^{th} stock in the total debt stock of the State.

Table 1.25: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	1,279	1,630	3,903	3,954	3,841
Amount advanced during the year	457	2,429	208	177	185
Amount repaid during the year	106	156	157	290	2,201
Closing Balance	1,630	3,903	3,954	3,841	1,825
Net Addition (+) / Reduction (-)	350	2,273	51	(-) 113	(-) 2,016
Interest received	7	95	206	47	95
Interest received as <i>per cent</i> to outstanding Loans and Advances	0.43	2.43	5.21	1.22	5.20
Weighted rate of interest (in <i>per cent</i>) paid on borrowings by State Government	10.33	9.11	8.49	8.95	9.20
Difference between weighted interest paid and received (<i>per cent</i>)	9.90	6.68	3.28	7.73	4.00

1.7.3 Management of cash balances

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 has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. The limit was fixed at Rs 3,275.22 crore for special and Rs 295 crore for ordinary Ways and Means Advances during the year 2006-07. No Ways and Means Advances and Over Draft were availed of during 2004-05 to 2006-07.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed and interest paid by the State are detailed in **Table 1.26**.

Table 1.26: Ways and Means Advances and Overdrafts of the State

(Rupees in crore)

Ways and Means Advances	2002-03	2003-04	2004-05	2005-06	2006-07
Availed in the Year	633.97	238.98	-	-	-
Number of occasions	32	16	-	-	-
Outstanding WMAs, if any	-	-	-	-	-
Interest Paid	3.04	0.26	-	-	-
Number of days	50	27	-	-	-
Overdraft					
Availed in the Year	177.42	-	-	-	-
Number of occasions	21	-	-	-	-
Number of days	21	-	-	-	-
Interest Paid	0.79	-	-	-	-

The cash balances of the State Government at the end of current year increased by Rs 3,414 crore (91 *per cent*) from the level of Rs 3,733 crore in the previous year. The State Government's cash balance investment had increased

from Rs 3,979 crore in 2005-06 to Rs 7,138 crore at the end of current year. The State Government had invested Rs 6,407.02 crore in the GOI securities under cash balance Investment Account and earned an interest of Rs 302.12 crore.

1.8 Undischarged liabilities

“Total liabilities” as defined in Haryana Fiscal Responsibility and Budget Management Act, 2005 (FRBM Act) 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 the special purpose vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State budgets.

1.8.1 Fiscal Liabilities

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 Accounts. 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 an Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits.

Table 1.27 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

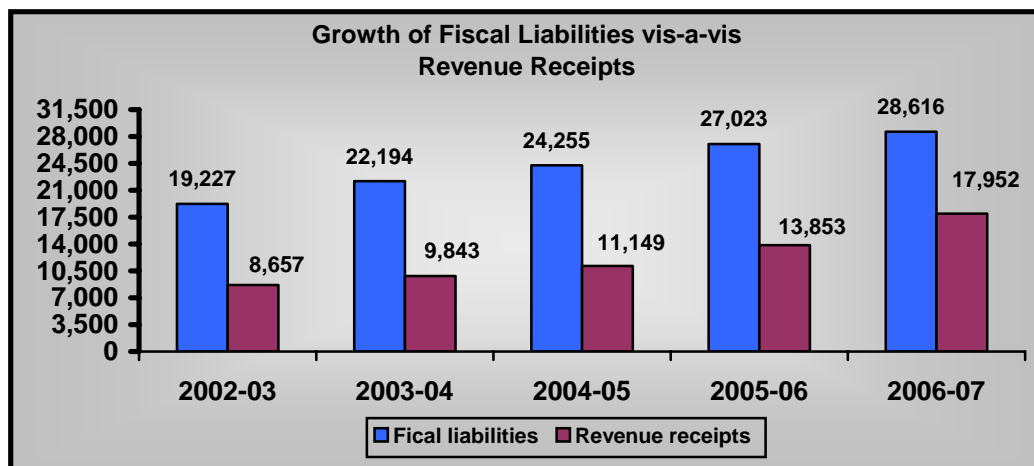
Table 1.27: Fiscal Liabilities–Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities ⁷ (Rupees in crore)	19,227	22,194	24,255	27,023	28,616
Rate of Growth (<i>per cent</i>)	13.07	15.43	9.29	11.41	5.90
Ratio of fiscal liabilities to					
GSDP(<i>per cent</i>)	27.60	28.15	27.12	26.84	24.62
Revenue Receipts (<i>per cent</i>)	222.1	225.5	217.6	195.1	159.40
Own Resources (<i>per cent</i>)	261.3	258.9	242.9	234.2	184.39
Buoyancy of fiscal liabilities to					
GSDP (ratio)	1.347	1.173	0.689	0.908	0.381
Revenue Receipts (ratio)	0.940	0.538	0.70	0.470	0.199
Own Resources (ratio)	1.203	0.936	0.563	0.733	0.171

⁷ Includes internal debt (market loans, loans from NSSF and loans from other financial institutions), loans and advances for GOI, the liabilities arising from the transactions in the Public Account of the State.

Overall fiscal liabilities of the State increased from Rs 19,227 crore in 2002-03 to Rs 28,616 crore in 2006-07. The growth rate was 5.90 *per cent* during 2006-07 over previous year. The ratio of fiscal liabilities to GSDP also decreased from 27.60 *per cent* in 2002-03 to 24.62 *per cent* in 2006-07. These liabilities stood at 1.59 times the revenue receipts and 1.84 times of States own resources as at the end of 2006-07. Payment of interest on the fiscal liabilities was Rs 2,265 crore (eight *per cent*) during the year 2006-07.

The State Government set up a consolidated sinking fund during 2002-03. A sum equal to one *per cent* of the outstanding market borrowings as on 31 March of preceding year is deposited in the fund every year. As on 31 March 2007, the outstanding balance in the sinking fund was Rs 191.34 crore. It is, however, pertinent to mention in this context that the Scheme of Sinking Fund was revised in 2006 to incorporate the recommendations of TFC relating to all loans (not just market borrowings) and State also needs to revise its scheme and enhance its contribution accordingly.



1.8.2 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.

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 year since 2002-03 is given in **Table 1.28**.

Table 1.28: Guarantees given by the Government of Haryana

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total Revenue Receipts
2002-03	12,461	7,690	144
2003-04	9,457	5,907	96
2004-05	6,742	4,249	60
2005-06	8,448	5,644	61
2006-07	12,694	5,074	71

The maximum amount guaranteed by the State Government varied from Rs 6,742 crore to Rs 12,694 crore during 2004-05 to 2006-07. Outstanding amount of Rs 5,074 crore of guarantees as on 31 March 2007 was in respect of Corporations and Boards (Rs 76 crore), Government Companies (Rs 3,172 crore), Co-operative Banks and Societies (Rs 1,818 crore), Statutory and Municipal Corporations, Townships and other Local Bodies (Rs 8 crore). No law under Article 293 of the Constitution has been passed by the State Legislature laying down the limit within which Government may give guarantee on the security of Consolidated Fund of State.

The State Government has constituted Guarantee Redemption Fund during 2003-04 to meet the contingent liabilities arising out of the total liabilities. As per the terms of the Guarantee Redemption Fund, the State Government was required to contribute an amount equal at least to 1/5th of the outstanding invoked guarantees plus an amount likely to be invoked as a result of the incremental guarantees during the year. State Government had invested only an amount of Rs 48.67 crore as on 31 March 2007 against the requirement of Rs 1,015 crore, which was only one *per cent* of total outstanding contingent liabilities. The outstanding guarantees at Rs 5,074 crore as on 31 March 2007 were significantly higher than the projection of Rs 3,799 crore given in the State's Fiscal Correction Path for the year.

1.9 Debt Sustainability

The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP 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 with the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilization in terms of debt/GSDP ratio.

1.9.1 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-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – 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 1.29**.

Table 1.29: Debt Sustainability – Interest Rate and GSDP Growth

(In per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07
Weighted Interest Rate	10.33	9.11	8.49	8.95	9.20
GSDP Growth	9.71	13.16	13.47	12.57	15.47
Interest spread	(-) 0.62	4.05	4.98	3.62	6.27
Quantum Spread (Rs Crore)	(-) 105	779	1,105	878	1,694
Primary Deficit (-)/ Surplus (+) (Rupees in crore)	(+) 475	(-) 820	(+) 1,029	(+) 1,814	(+) 3,444

Table 1.29 reveals that quantum spread together with primary deficit remained positive during the period 2002-07 except in a year 2003-04. The debt-GSDP ratio, as a result, after a slight increase in 2003-04, consistently declined thereafter. The emergence of increasing positive sum of quantum spread and primary deficit since 2003-04 indicates that the State was moving towards debt stabilization and consolidation.

1.9.2 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. **Table 1.30** indicates the resource gap as defined for the period 2002-07.

Table 1.30: Incremental Revenue Receipts and Revenue Expenditure

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	1,078	132	322	(-) 190	1,268
2003-04	1,236	2,531	167	2,698	(-) 1,462
2004-05	1,307	(-) 542	122	(-) 420	1,727
2005-06	2,837	2,052	(-) 135	1,917	920
2006-07	6,010	4,381	165	4,546	1,464

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. During the period 2002-07, except in the year 2003-04, the positive resource gap indicates towards the increasing capacity of the State to sustain the debt in the medium to long run.

1.9.3 Net Availability of Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) 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. these 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 1.31 gives the position of the 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 five years.

Table 1.31: Net Availability of Borrowed Funds

(Rupees in crore)

Internal Debt	2002-03	2003-04	2004-05	2005-06	2006-07
Receipts	3,400	5,864	4,178	3,309	1,990
Repayments (Principal + Interest)	1,935	2,820	2,687	2,462	2,652
Net Funds Available	1,465	3,044	1,491	847	(-) 662
Net Funds Available (<i>per cent</i>)	43	52	36	26	(-) 33
Loans and Advances from GOI					
Receipts	249	421	296	40	22
Repayments (Principal + Interest)	947	2,684	2,163	310	265
Net Funds Available	(-) 698	(-) 2,263	(-) 1,867	(-) 270	(-) 243
Net Funds Available (<i>per cent</i>)	(-) 280	(-) 538	(-) 631	(-) 675	(-) 1,105
Other Obligations					
Receipts	2,249	4,563	2,384	2,337	2,160
Repayments (Principal + Interest)	2,097	8,384	2,067	2,166	2,292
Net Funds Available	152	(-) 3,821	317	171	(-) 132
Net Funds Available (<i>per cent</i>)	7	(-)84	13	7	(-) 6
Total liabilities					
Receipts	5,898	10,848	6,858	5,686	4,172
Repayments (Principal + Interest)	4,979	13,888	6,917	4,938	5,209
Net Funds Available	919	(-)3,040	(-)59	748	(-) 1,037
Net Funds Available (<i>per cent</i>)	16	(-)28	(-)1	13	(-) 25

The net funds available on account of internal debt and loans and advances from Government of India and other obligations after providing for the interest and repayments of the principal declined from 13 *per cent* in 2005-06 to (-) 25 *per cent* indicating excess payments over the receipts during the year. The State Government did not raise market loans during the current year but receipts of Rs 1,990 crore under the internal debt were mainly on account of securities issued to NSSF (Rs 1,176 crore), loans from SBI (Rs 450 crore) and NABARD (Rs 192 crore). Against these receipts, Government discharged the past debt obligations (principal plus interest) amounting to Rs 2,652 crore resulting in negative net funds available under the debt account.

During the current year the Government repaid Government of India loans including interests amounting to Rs 265 crore⁸ and also discharged other obligations of Rs 2,292 crore along with interest obligations which were less than the total receipts resulting in negative net availability funds during the year.

⁸ Includes debt waiver and interest rate relief of Rs 131.98 crore received from Government of India under Debt Consolidation and Relief Facility relating to States.

During 2006-07, in view of the large cash balances, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payment on loans raised from the market as well as from the Government of India.

1.10 Management of deficits

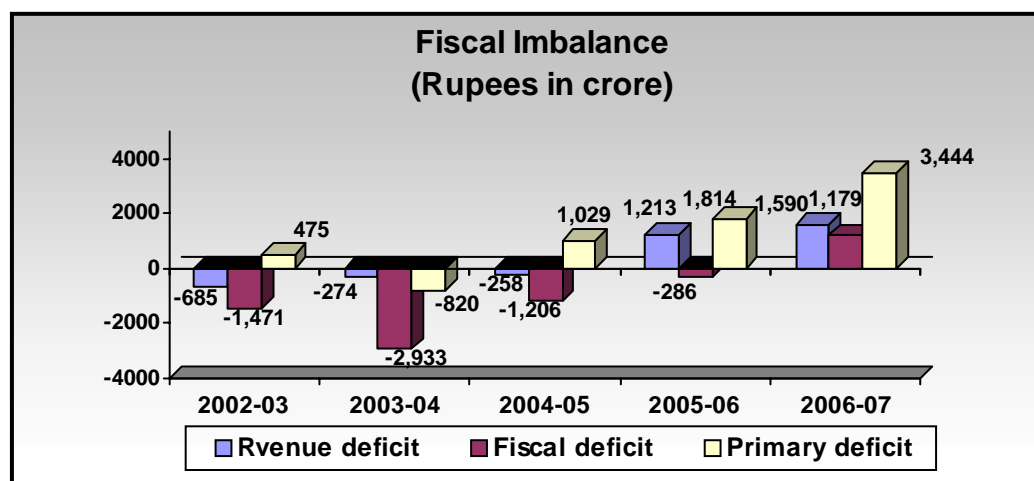
The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to the fiscal health. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.32**.

Table 1.32: Fiscal Imbalances – Basic Parameters

(Rupees in crore)

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Deficit (RD)(-)/ surplus (+)	(-) 685	(-) 274	(-) 258	(+) 1,213	(+)1,590
Fiscal Deficit (-) / Surplus (+)	(-) 1,471	(-) 2,933	(-) 1,206	(-) 286	(+)1,179
Primary Deficit (PD) (-)/ Surplus (+)	(+) 475	(-) 820	(+) 1,029	(+) 1,814	(+)3,444
RD/GSDP (per cent)	(-) 0.983	(-) 0.347	(-) 0.288	(+) 1.204	(+)1.367
FD/GSDP (per cent)	(-) 2.111	(-) 3.721	(-) 1.348	(-) 0.284	(+)1.014
PD/GSDP (per cent)	(+) 0.681	(-) 1.040	(+) 1.150	(+) 1.801	(+) 2.962
RD/FD (per cent)	(+) 46.57	(+) 9.34	(+) 21.39	*	(+)134.86

* There was Revenue Surplus during 2005-06.



1.10.1 Trends in Deficits

Table 1.32 reveals that the revenue account experienced a consistent improvement in term of declining deficit during the period 2002-05 turning into a huge surplus of Rs 1,213 crore during 2005-06 which increased to Rs 1,590 crore in the current year. An improvement in the revenue surplus of Rs 377 crore during

the current year was mainly on account of increase of Rs 4,099 (30 *per cent*) in revenue receipts during 2006-07 against an increase of Rs 3,722 crore (29 *per cent*) in revenue expenditure over the previous year. The sharp increase in revenue receipts during 2006-07 was mainly on account of increase of collections under sale taxes (Rs 1,249 crore) as well as stamps and registration (Rs 425 crore) and increase in receipts under the head urban development (Rs 1,848 crore) followed by interest receipts (Rs 207 crore). The enhanced revenue receipts were able to improve the revenue surplus despite the step up of non-plan and plan revenue expenditure by 31 and 22 *per cent* respectively during 2006-07 over the previous year.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, turned into a surplus of Rs 1,179 crore in 2006-07 from the marginal deficit of Rs 286 crore in 2005-06. The incremental surplus of Rs 377 crore in revenue account in 2006-07 along with an increase of recovery of loans and advances by Rs 1,911 crore largely from the power projects resulted in fiscal surplus of Rs 1,179 crore in 2006-07 despite an increase of Rs 823 crore in capital expenditure and disbursement of loans and advances.

The primary deficit⁹ except in the year 2003-04 remained surplus during the period 2002-07. A fiscal surplus of Rs 1,179 crore along with an increase of Rs 165 crore in interest payments resulted into steep increase of Rs 1,630 crore in primary surplus during 2006-07 from the level of Rs 1,814 crore in 2005-06.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit¹⁰ 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 ratio of RD to FD declined from 47 *per cent* in 2002-03 to 21 *per cent* in 2004-05 and thereafter the revenue account turned into surplus and revenue surplus was 135 *per cent* of the fiscal surplus attained during 2006-07. This trajectory shows a consistent improvement in the quality of the deficit during 2006-07 as the borrowed funds were used in activities resulting in expansion in the asset backup of the State.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2002-07 reveals (**Table 1.33**) that the State has not only experienced the primary revenue surplus throughout this period but it increased significantly from Rs 1,367 crore in 2002-03 to Rs 6,056 crore in 2006-07. In other words, non-debt receipts of the State were not only enough to meet the

⁹ Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

¹⁰ Primary revenue deficit defined as gap between non-interest revenue expenditure of the State and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

primary expenditure¹¹ requirements in the revenue account but rather left some receipts to meet the expenditure under the capital account. It was only in 2003-04, the State experienced the primary deficit when total non-debt receipts fell short of the total primary expenditure. This indicates that the State has met its primary expenditure requirement out its non-debt receipts and borrowed funds were largely used to meet its past debt obligations.

Table 1.33: Primary deficit/surplus-Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary Expenditure	Primary Revenue deficit (-) / surplus (+)	Primary deficit(-) /surplus (+)
1	2	3	4	5	6(3+4+5)	7 (2-3)	8 (2-6)
2002-03	8,763	7,396	436	456	8,288	(+) 1,367	(+) 475
2003-04	9,999	8,004	386	2,429	10,819	(+) 1,995	(-) 820
2004-05	11,306	9,172	897	208	10,277	(+) 2,134	(+) 1,029
2005-06	14,143	10,540	1,612	177	12,329	(+) 3,603	(+) 1,814
2006-07	20,153	14,096	2,428	185	16,709	(+) 6,057	(+) 3,444

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.34** below presents a summarized position of Government finances during 2002-07, 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 1.34: Indicators of Fiscal Health

(In per cent)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
Resource Mobilisation					
Revenue Receipts/GSDP	12.42	12.48	12.47	13.76	15.44
Revenue Buoyancy	1.434	1.042	0.985	1.929	1.913
Own Tax/GSDP	7.25	8.05	8.31	9.01	9.40
Expenditure Management					
Total Expenditure/GSDP	14.69	16.41	13.99	14.33	16.32
Total Expenditure/Revenue Receipts	118.22	131.38	112.23	104.16	105.70
Revenue Expenditure/Total Expenditure	91.28	78.23	91.17	87.60	86.23
Salary expenditure on Social and Economic Services/ Revenue Expenditure	23.24	24.36	24.66	23.16	19.09
Non-Salary expenditure on Social and Economic Services/ Revenue Expenditure	32.86	32.01	30.72	38.64	49.62
Capital Expenditure/Total Expenditure	4.26	2.99	7.17	11.17	12.80
Capital expenditure on Social and Economic Services/ Total Expenditure	3.82	2.47	6.71	10.60	12.32

¹¹ 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.

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
Buoyancy of TE with RR	(-) 0.131	1.924	(-) 0.245	0.632	1.065
Buoyancy of RE with RR	0.570	0.606	0.961	0.445	0.996
Management of Fiscal Imbalances					
Revenue deficit (-)/Surplus (+) (Rs in crore)	(-) 685	(-) 274	(-) 258	(+) 1,213	1,590
Fiscal deficit (-)/Surplus (+) (Rs in crore)	(-) 1,471	(-) 2,933	(-) 1,206	(-) 286	(+) 1,179
Primary Deficit (-)/Surplus (+) (Rs in crore)	(+) 475	(-) 820	(+)1,029	(+) 1,814	(+) 3,444
Revenue Deficit/Fiscal Deficit	(+) 46.57	(+) 9.34	(+) 21.39	(-) 424.12	(+) 134.86
Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	27.60	28.15	27.12	26.84	24.62
Fiscal Liabilities/RR	222.1	225.5	217.6	195.1	159.40
Buoyancy of FL with RR	0.940	0.538	0.70	0.470	0.199
Buoyancy of FL with own Receipt	1.203	0.936	0.563	0.733	0.171
Primary deficit vis-à-vis quantum spread (Ratio)	(-) 5	(-) 1	1	2	2
Net Fund Available	16	(-) 28	(-) 1	13	(-) 25
Other Fiscal Health Indicators					
Return on Investment	1.73	4.11	2.35	1.92	5.62
Balance from Current Revenue (Rs in crore)	70	326	786	2,424	3,087
Financial Assets/Liabilities	0.67	0.71	0.72	0.79	0.86

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year is 15.44 *per cent*; an increase of 1.68 percentage points over previous year. During 2002-07, the ratio of own taxes to GSDP showed continued improvement indicating reforms in tax laws and procedures especially in sales tax (implementation of VAT since April 2003) resulting in higher degree of compliance and collections during the period.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation efforts. The revenue expenditure as a percentage to total expenditure indicates overall declining trend during the period 2002-07. Increasing reliance on revenue receipts to finance the total expenditure which amounts to 95 *per cent* during 2006-07 indicates decreasing dependence on borrowed funds. The total expenditure during 2006-07 was met out of non-debt receipts of the State (revenue receipts plus miscellaneous capital receipts) and also resulted in fiscal surplus during the year. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. Increasing proportion of capital expenditure in the total expenditure also indicates improvement in both developmental and quality of expenditure which is also reflected by the increasing asset back of the financial liabilities during the period 2002-07.

A consistent improvement in fiscal position of the State viewed in terms of fiscal parameters - revenue, fiscal and primary deficit/surplus—along with positive Balance from Current Revenue are pointers of fiscal stability and sustainability of State during the period. The low return on the Government

investments vis-à-vis the cost of the borrowed funds still continued to be a cause of concern.

1.12 Conclusion

The fiscal position of the State viewed in terms of the trends in fiscal parameters-revenue, fiscal and primary deficit/surplus has shown consistent improvement during the period 2002-07. The emergence of fiscal surplus along with surplus in revenue account and a steep increase in primary surplus during 2006-07 indicates the robust fiscal health of the State. However further analysis reveals that fiscal surplus during the current year was mainly on account of a significant recovery of loans (Rs 2,034 crore) from the power projects which in turn resulted in the enhancement of non-debt receipts of the State by Rs 1,911 crore during the year. The pattern of expenditure of the State also indicates that expenditure on salaries, pensions, interest payments and subsidies amounted to 70 *per cent* of total revenue expenditure leaving relatively less resources for effective delivery and expansion of social and economic services. Moreover, a steep increase of Rs 2,387 crore in the subsidies was observed during 2006-07 thereby increasing the total expenditure on subsidies to Rs 3,852.45 crore. Out of total subsidies, 98 *per cent* (Rs 3,759.34 crore) were for power and energy Sector which was more than 2.5 times against the State's own projection of Rs 1,464.80 crore in Fiscal Correction Path for 2006-07. Similarly, although expenditure under capital head has increased by Rs 816 crore during 2006-07 over the previous year but major proportion (62 *per cent*) of the incremental capital expenditure was in the form of investment in equity shares of various power corporations. The investments in statutory corporations, joint stock companies and co-operatives increased by 35 *per cent* during the year 2006-07 over the previous year, but the return on these investments was negligible (less than one *per cent*) vis-à-vis the higher cost of the borrowed funds putting directly or indirectly the strain on the fiscal budget of the State and therefore continues to be a cause of concern.