

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

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

1.1.1 Summary of Receipts and Disbursements

Table-1.1 Summarises the finances of the Government of Jammu and Kashmir for the year 2005-06 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from **Statement-1** of the Finance Accounts and other detailed statements.

Table 1.1: Summary of Receipts and Disbursements for the Year 2005 -2006

(Rupees in crore)

Receipts			Disbursements				
2004-05		2005-06	2004-05		2005-06		
Section-A: Revenue							
					Non-plan	Plan	Total
8866.48	I. Revenue Receipts	10315.15	8304.01	I. Revenue expenditure	8724.47	1196.25	9920.72
1351.05	Tax Revenue	1626.84	3286.69	General Services	3641.84	39.64	3681.48
641.42	Non-Tax Revenue	535.81	1995.93	Social Services	2039.62	616.32	2655.94
934.43	Share of Union Taxes/ Duties	1135.36	3021.39	Economic Services	3043.01	540.29	3583.30
5939.58	Grants from Govt of India	7017.14					
Section-B: Capital							
-	II-Miscellaneous Capital Receipts	-	2180.33	II-Capital Outlay	113.85	2905.91	3019.76
18.55	III-Recoveries of Loans and Advances	35.76	66.00	III-Loans and Advances Disbursed			53.15
1799.53	IV-Public Debt Receipts [♥]	2536.33	1003.84	IV-Repayment of Public Debt*			1225.98
0.49	V-Contingency Fund	0.61	0.47	V- Appropriation to Contingency Fund			0.60
				V. Contingency Fund			0.04
19119.59	VI-Public Account Receipts	22632.47	18250.71	VI-Public Account Disbursement			21297.49
82.92	Opening Balance	82.20	82.20	Closing Balance			84.78
29887.56	Total	35602.52	29887.56	Total			35602.52

The bulk of the total receipts of the State during 2005-06 were contributed by public account receipts (64 per cent) followed by revenue receipts (29 per cent)

[♥] Excludes Ways and Means Advances and Overdraft

* Excludes Ways and Means Advances and Overdraft

and public debt receipts (7 per cent). Similarly, the total disbursements of the State during the year consist of public account disbursements (60 per cent) followed by revenue expenditure (28 per cent), capital outlay (8.5 per cent) and repayment of public debt (3.5 per cent). Within the revenue expenditure, the share of non-plan revenue expenditure was 88 per cent of the total revenue expenditure during 2005-06 while the remaining 12 per cent was plan revenue expenditure.

1.1.2 The Fiscal Responsibility and Budget Management (FRBM) Act, 2006

To ensure prudence in fiscal management and fiscal stability by progressive strengthening of revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto, the Jammu and Kashmir Fiscal Responsibility and Budget Management (FRBM) Act was enacted on 9 August 2006. The Rules under the Act were, however, yet to be framed (November 2006) by the Government. As the fiscal targets and the contents of other provisions of the Act are made effective with effect from April 1 2006, they did not have any impact on the structure of the finances of the State during 2005-06.

1.2 Overview of Fiscal Situation of the State

1.2.1 Trend in Fiscal Aggregates

The Fiscal position of the State Government during the current year as compared to the previous year is given in **Table 1.2**.

Table 1.2

(Rupees in crore)

2004-05	Major Aggregates	2005-06
8866	1. Revenue receipts (2+3+4)	10315
1351	2. Tax Revenue	1627
641	3. Non-tax Revenue	536
6874	4. Other Receipts	8152
19	5. Non-Debt Capital Receipts	36
19	6. Of which recovery of loans	36
8885	7. Total Non-Debt Receipts (1+5)	10351
7331	8. Non-plan Expenditure (9+11+12)	8839
7239	9. On Revenue Account	8725
1103	10. Of which interest payments	1115
92	11. On Capital Account	114
-	12. On Loans disbursed	-
3219	13. Plan Expenditure (14+15+16)	4155
1065	14. Revenue Account	1196
2088	15. On Capital Account	2906
66	16. On Loans disbursed	53
10550	17. Total Expenditure (8+13)	12994
562	18. Revenue Surplus (1-9-14)	394
1665	19. Fiscal Deficit (17-1-5)	2643
562	20. Primary Deficit (19-10)	1528

Total non-debt receipts of the State essentially consist of revenue receipts of the State, which have increased by 16 *per cent* from Rs. 8,866 crore in 2004-05 to Rs. 10,315 crore in 2005-06 while the total expenditure increased by 23 *per cent* from Rs. 10,550 crore in 2004-05 to Rs. 12,994 crore in 2005-06. Of the total increase of Rs 1449 crore in revenue receipts of the State, Rs. 1278 crore (88 *per cent*) is contributed by central transfers comprising of grants-in-aid and State's share in the pool of Union taxes and duties. Although the State had maintained revenue surplus of Rs. 394 crore during 2005-06, it was lower by Rs. 168 crore as compared to revenue surplus of Rs. 562 crore during 2004-05. An increase of 16.34 *per cent* (Rs. 1449 crore) in revenue receipts during 2005-06 in comparison to that of 19.47 *per cent* (Rs. 1617 crore) in revenue expenditure resulted in a fall in revenue surplus during 2005-06. Like revenue expenditure, a sharp increase in capital expenditure (38.53 *per cent*) during 2005-06 led to the deterioration in both Fiscal and Primary Deficits respectively from Rs. 1665 crore and Rs. 562 crore in 2004-05 to Rs. 2643 crore and Rs. 1528 crore in 2005-06.

1.3 Audit Methodology

Audit observations on the Statements of Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary, analysis has been made in the light of time series data and periodic comparisons (**Appendix 1.2 to 1.5**). Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to Gross State Domestic Product (GSDP) at current market prices. The GSDP series as provided by the Directorate of Economics and Statistics Department of the State Government during each year have been used for this purpose. For tax revenue, non-tax revenue, revenue and expenditure etc. buoyancy projections have also been provided for further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volume and sources (ii) application of resources, (iii) assets and liabilities and (iv) management of deficits. Audit observations also take into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. 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. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in **Appendix 1.1-Part C**.

1.4 State Finances by Key Indicators

1.4.1 Resources by Volumes and Sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts comprise tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal

sources viz., market loans, borrowings from financial institutions/commercial banks, etc. and loans and advances from Government of India as well as accruals from the Public Account. **Table-1.3** shows that the total receipts of the State Government for the year 2005-06 were Rs. 35,520 crore. Of these, the revenue receipts of the State Government were Rs. 10,315 crore only, constituting 29 *per cent* of the total receipts. The balance came from borrowings and public account receipts.

Table 1.3: Resources of Jammu and Kashmir (Rupees in crore)

I. Revenue Receipts		10315
II. Capital Receipts		2572
(a) Miscellaneous Receipts	-	
(b) Recovery of Loans and Advances	36	
(c) Public Debt Receipts	2536	
III. Contingency Fund Receipts		1[↔]
IV. Public Account Receipts		22632
(a) Small Savings, Provident Fund, etc.	895	
(b) Reserve Fund	495	
(c) Deposits and Advances	1938	
(d) Suspense and Miscellaneous	331	
(e) Remittances	18973	
Total Receipts		35520

1.4.2 Revenue Receipts

Statement No. 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. The overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GDP) and its buoyancies are indicated in **Table 1.4**.

Table 1.4: Revenue Receipts-Basic indicators (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts	5660	6489	7548	8212	8866	10315
Own taxes (<i>per cent</i>)	746 (13.18)	804 (12.39)	1033 (13.68)	1170 (14.25)	1351 (15.24)	1627 (15.77)
Non-Tax Revenue (<i>per cent</i>)	444 (7.84)	462 (7.12)	865 (11.46)	633 (7.71)	641 (7.23)	536 (5.20)
Central tax Transfers (<i>per cent</i>)	675 (11.93)	576 (8.88)	685 (9.08)	817 (9.95)	934 (10.53)	1135 (11.00)
Grants-in-aid (<i>per cent</i>)	3795 (67.05)	4647 (71.61)	4965 (65.78)	5592 (68.09)	5940 (67.00)	7017 (68.03)
Rate of Growth of Revenue Receipts (<i>per cent</i>)	2.65	14.65	16.32	8.80	7.96	16.34
Revenue Receipts/GSDP ratio	37.05	38.00	40.32	42.94	42.80	45.29
Buoyancy of Revenue receipts	0.281	1.245	1.696	4.067	0.956	1.647
Buoyancy of Own taxes	3.081	0.661	2.960	6.129	1.857	2.059
Revenue Buoyancy with reference to State's own taxes	0.09	1.89	0.57	0.66	0.51	0.80
GSDP Growth (<i>per cent</i>)	9.433	11.769	9.622	2.164	8.330	9.924

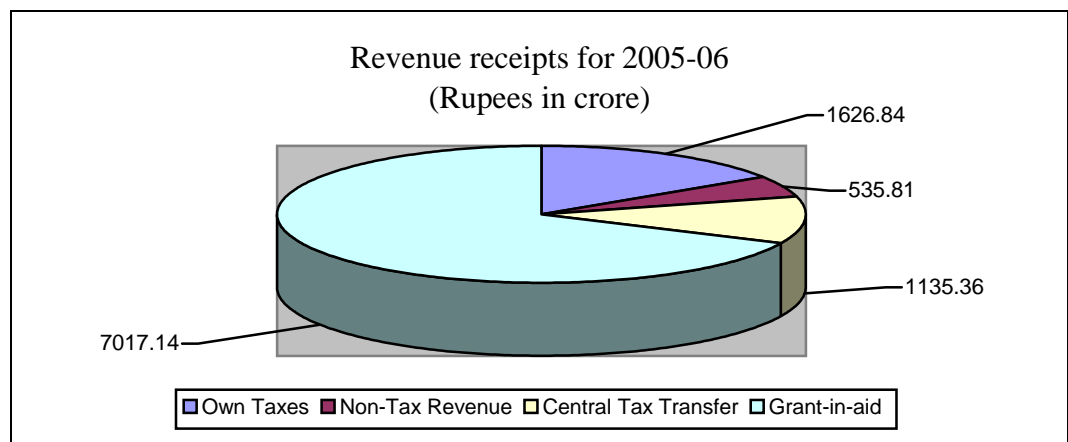
The revenue receipts of the State increased at an annual average rate of 14 *per cent* from Rs. 5,660 crore in 2000-01 to Rs. 10,315 crore in 2005-06 with

↔ Rs. 0.61 lakh rounded to Rs 1.00 crore

significant inter-year variations. The revenue receipts increased by 16.34 *per cent* during 2005-06 mainly on account of central transfers comprising of State's share in Union pool of taxes and duties and grants-in-aid from Government of India. While 21 *per cent* of the revenue receipts during 2005-06 have come from the State's own resources comprising tax and non-tax revenue, the Central tax transfers and grants-in-aid together contributed 79 *per cent* of the total revenue. Although the State Government received lesser grants for implementation of State plan schemes during 2005-06, there was a sharp increase in the non-plan grants from Rs. 2447.78 crore in 2004-05 to Rs. 3483.61 crore during 2005-06 which included Rs. 2458.56 crore for meeting the non-plan revenue deficit as recommended by the Twelfth Finance Commission.

The receipts from own tax revenue at Rs. 1626.84 crore during 2005-06 was marginally less than the normative projection of Rs. 1671.96 crore made by the Twelfth Finance Commission (TFC) for the State for 2005-06. Sales tax was the major contributor (62 *per cent*) of State's own tax revenue followed by taxes on goods and passengers (15 *per cent*) and State excise (13 *per cent*). Of the non-tax revenue sources, power receipts (72 *per cent*), interest receipts, dividends and profits (5 *per cent*) and receipts from Forestry and Wild life (8 *per cent*) were the major contributors. However, non tax revenue receipts in 2005-06 declined by 16.38 *per cent* from Rs. 641 crore in 2004-05 mainly due to fall of 83 *per cent* in interest receipts and dividends and profits (Rs. 119.35 crore) in 2005-06 over the previous year 2004-05. More over, the current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government were 0.07 *per cent* for secondary education, 0.04 *per cent* for university and higher education, 0.22 *per cent* for technical education, 1.91 *per cent* for medical and public health, 3.54 *per cent* for water supply and sanitation and 4.27 *per cent* for housing.

Chart 1.1



Besides, the arrears of tax revenue at the end of March 2006 were Rs. 920.45 crore, which constitute 57 *per cent* of tax revenue of the State. Of these, Rs. 556.85 crore (60 *per cent*) were more than five years old. A desegregated analysis of revenue arrears reveals that 95 *per cent* of pending arrears related to Sales tax (Rs. 877 crore) followed by taxes on goods and

passengers (4 per cent) and State excise (0.4 per cent). Further, all the pending arrears relating to State excise (Rs. 3.65 crore), 61 per cent of sales tax arrears (Rs. 532.27 crore) and 53 per cent of arrears relating to taxes on goods and passengers (Rs. 21 crore) were reported to be more than five year old. Out of total sales tax arrears of Rs. 877 crore, recovery of Rs. 25.60 crore was stayed by courts/appellate authority, Rs. 197.55 crore were lying under amnesty and Rs. 211.23 crore pertain to non-existing dealers. Similarly, of the total arrears of taxes on goods and passengers, recovery of Rs. 12.07 crore was stayed by courts and arrears of Rs. 2.25 crore were proposed to be recovered as arrears of land revenue. As the pending revenue arrears constitute more than half of the revenue receipts of the State during 2005-06, a special drive needs to be initiated by the State Government for their recovery, which would in turn provide a cushion to reduce the burden of fiscal liabilities of the State.

1.4.3 Sources of Receipts

The source of receipts under different heads as well GSDP during 2000-2006 is indicated in **Table 1.5**.

Table 1.5: Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts				Total Receipts	Gross Domestic Product
		Non-Debt Receipts [∇]	Debt Receipts	Contingency Fund Receipts	Accruals in Public Account		
2000-01	5660	14	902	0.19	18177	24753	15278
2001-02	6489	132	1062	0.35	17615	25298	17076
2002-03	7548	82	1390	#	16830	25850	18719
2003-04	8212	4	1854	1.33	19049	29120	19124
2004-05	8866	19	1799	0.49	19120	29804	20717
2005-06	10315	36	2536	0.61	22632	35520	22773

The total receipts of the State during 2005-06 are mainly contributed by public account receipts (64 per cent) followed by revenue receipts (29 per cent) and public debt receipts (7 per cent). Revenue receipts have increased from Rs. 5,660 crore in 2000-01 to Rs. 10,315 crore in 2005-06 largely due to enhanced central transfers. Of the capital receipts, debt receipts increased from Rs. 902 crore in 2000-01 to Rs. 2,536 crore in 2005-06 essentially on account an increase of Rs. 1897 crore in the internal debt receipts from Rs. 308 crore in 2000-01 to Rs. 2205 crore in 2005-06. The increase of Rs. 737 crore in debt receipts during 2005-06 was largely on account of booking of Rs. 975 crore under the category 'Other Loans'.

1.5 Application of Resources

1.5.1 Growth of Expenditure

Statement No. 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, and extend the network of these

[∇] Includes recoveries of loans and advances

Negligible

services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in **Table 1.6**.

Table 1.6: Total Expenditure-Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Total Expenditure* (Rupees in crore)	7547	8095	8941	9703	10550	12994
Rate of Growth (<i>per cent</i>)	10.06	7.26	10.45	8.52	8.73	23.17
TE/GSDP Ratio (<i>per cent</i>)	49.40	47.41	47.76	50.74	50.92	57.06
Revenue Receipts/TE ratio (<i>per cent</i>)	74.99	80.16	84.42	84.63	84.04	79.38
Buoyancy of Total Expenditure with						
GSDP (ratio)	1.066	0.617	1.086	3.937	1.048	2.335
Revenue Receipts (ratio)	3.796	0.496	0.640	0.968	1.097	1.418
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	0.991	0.259	0.544	3.692	0.851	1.962
Revenue Receipts (ratio)	3.528	0.208	0.320	0.908	0.891	1.192
Buoyancy of Capital Expenditure with						
GSDP (ratio)	2.326	3.508	1.663	14.958	1.909	3.883
Revenue Receipts (ratio)	8.279	2.818	0.980	3.678	1.997	2.358

*Total Expenditure includes Revenue Expenditure, Capital Expenditure and Loans & Advances

The total expenditure of the State has increased at an annual average rate of 12 *per cent* per annum during 2000-06 with oscillations ranging from 7 *per cent* to 23 *per cent*. In relative terms, the capital and revenue expenditure components have increased by 248 *per cent* and 50 *per cent* respectively during the period 2000-06. However, in absolute terms increases were of the order of Rs. 2153 crore in capital expenditure and Rs. 3300 crore in revenue account during the period under report. These trends indicate that increase in capital and revenue expenditure was in the ratio of 1:1.5 during the last six year period. An increase of Rs. 2444 crore in total expenditure (23 *per cent*) during 2005-06 over the previous year has been reported to be mainly due to an increase in both revenue (Rs. 1617 crore) and capital (Rs. 840 crore) heads of expenditure under general, social and economic services accompanied with a marginal decline of Rs. 13 crore in loans and advances. A step up in total expenditure during 2005-06 is also reflected in terms of the buoyancies of total expenditure with respect to GSDP and total revenue receipts of the State.

1.5.2 Trend in Total Expenditure by Activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services, interest payments, social and economic services, and loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.7**.

Table 1.7: Components of Expenditure-Relative Share (in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	32.86	37.40	35.91	35.46	31.71	28.78
<i>Of which Interest Payments</i>	<i>10.19</i>	<i>12.93</i>	<i>12.25</i>	<i>12.84</i>	<i>10.45</i>	<i>8.58</i>
Social Services	25.04	24.02	23.40	23.86	24.13	25.49
Economic Services	41.32	38.00	36.89	39.98	43.53	45.32
Loans and Advances	0.78	0.58	3.80	0.70	0.63	0.41

The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations, but expenditure on general services including interest payments together accounted for 28.78 per cent during 2005-06. On the other hand, expenditure on social and economic services together accounted for 70.81 per cent during 2005-06. The total expenditure of Rs. 9201 crore incurred on social and economic services during 2005-06 comprised of Rs. 2962 crore of capital expenditure (32 per cent) and Rs. 6239 crore of revenue expenditure at (68 per cent) indicating that investment in creating productive assets and infrastructure development is picking up momentum in the State.

1.5.3 Incidence of Revenue Expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in **Table 1.8**.

Table 1.8: Revenue Expenditure-Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure	6621	6823	7180	7754	8304	9921
<i>Of which</i>						
<i>Non-Plan Revenue Expenditure (NPRE)</i>	5886	6010	6284	6807	7239	8725
<i>Plan Revenue Expenditure (PRE)</i>	735	813	896	947	1065	1196
Rate of Growth of						
NPRE (per cent)	9.99	2.11	4.56	8.32	6.35	20.53
PRE (per cent)	4.40	10.61	10.21	5.69	12.46	12.30
NPRE/GSDP (per cent)	38.53	35.20	33.57	35.59	34.94	38.31
NPRE as per cent of TE	77.99	74.24	70.28	70.15	68.62	67.15
NPRE as per cent of RR	103.99	92.62	83.25	82.89	81.65	84.59
Buoyancy of Revenue Expenditure with:						
GSDP (ratio)	0.991	0.259	0.544	3.692	0.851	1.962
Revenue Receipts (ratio)	3.528	0.208	0.320	0.908	0.891	1.192

Overall revenue expenditure of the State increased from Rs. 6,621 crore in 2000-01 to Rs. 9,921 crore in 2005-06, showing an increase of 50 per cent over the period. However, the non-plan revenue expenditure during the same period increased from Rs. 5,886 crore to Rs. 8,725 crore, showing an increase of 48 per cent indicating that the share of NPRE in total revenue expenditure declined only marginally from 89 per cent in 2000-01 to 88 per cent in 2005-06. As a result, plan revenue expenditure which normally covers the maintenance

expenditure incurred on services has only increased by Rs. 461 crore during 2000-06 keeping its share in total revenue expenditure almost constant at 11 to 12 *per cent* during the period. The rate of growth of non-plan revenue expenditure during 2005-06 was as high as 20.53 *per cent* largely on account of sharp increase in the expenditure by Rs. 579 crore (40 *per cent*) in social services, Rs. 518 crore (21 *per cent*) in economic services and Rs. 389 crore (12 *per cent*) in general services over the level of 2004-05. The non-plan revenue expenditure at Rs. 8,725 crore during 2005-06 is significantly higher than the normatively assessed level of Rs. 5,517 crore by the Twelfth Finance Commission for the State for the year (Table 1.9).

Table 1.9: Non-Plan Revenue Expenditure: Actual vis-à-vis Normative Assessment by TFC
(Rupees in crore)

No.	Particulars	Assessed by the TFC	Actual	Difference Excess (+)/ Less (-)
1	Interest Payments	1424.39	1115.13	(-) 309.26
2	Pension	693.57	928.70	(+) 235.13
3	Other General Services	1030.71	1598.01	(+) 567.30
4	Social Services	1716.91	2039.62	(+) 322.71
5	Economic Services	651.20	3043.01	(+) 2391.81
Total Non-plan Revenue Expenditure		5516.78	8724.47	(+) 3207.69

Except for interest payments, the actual expenditure incurred on all other four components of non-plan revenue expenditure was more than the assessment made by the Twelfth Finance Commission.

1.5.4 Committed Expenditure

Expenditure on Salaries and wages: The expenditure on salaries and wages increased from Rs. 3,032 crore in 2000-01 to Rs. 3,724 crore in 2005-06 as indicated in Table 1.10. Out of salary and wage expenditure of Rs. 3,724 crore during 2005-06 major part Rs. 1,581 crore (42 *per cent*) was incurred on social services. However, Rs. 1,115 crore (30 *per cent*) was incurred on general services and Rs. 1,028 crore (28 *per cent*) on economic services.

Table 1.10: Expenditure on Salaries and Wages

(Rupees in crore)						
Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure* on Salary and wages	3032	3119	3260	3174	3245	3724
Of which						
<i>Non-plan</i>	<i>Details not available</i>			2487	2497	2838
<i>Plan</i>				687	748	886
<i>As per cent</i> of GSDP	19.85	18.27	17.42	16.60	15.66	16.35
<i>As per cent</i> of Revenue Receipts	53.57	48.07	43.19	38.65	36.60	36.10

Salaries and wages accounted for 16 *per cent* of State's GDP and 36 *per cent* of the revenue receipts during 2005-06. According to the norms of the Twelfth Finance Commission, that total salary bill relative to revenue expenditure net of

* Expenditure figures for the years 2000-03 had been provided by the Finance Department

interest payments and pensions was not to exceed 35 *per cent*, but the percentage share in the State is estimated to be 47 *per cent*.

Expenditure on pension payments: Pension payments grew at the rate of 27 *per cent* from Rs. 731 crore during 2004-05 to Rs. 929 crore during 2005-06. Increase was noticed mainly in superannuation and retirement allowances (Rs. 76.81 crore), commuted value of pension (Rs. 94.47 crore) and gratuity (Rs. 29.85 crore). The main reason for increase was due to revision of emoluments of pensioners necessitated due to merger of 50 *per cent* dearness allowance/relief with the basic pay/pension effective from 1 April 2004 but paid after December 2004. Year-wise break-up of expenditure incurred on pension payments during the years 2000-01 to 2005-06 is indicated in **Table 1.11**.

Table 1.11: Expenditure on Pensions

(Rupees in crore)

Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure of Pensions	449	556	593	677	731	929
As <i>per cent</i> of GSDP	2.94	3.26	3.17	3.54	3.53	4.08
As <i>per cent</i> of Revenue Receipts	7.93	8.57	7.86	8.24	8.24	9.01

The ratio of pension payments to the State's GDP and revenue receipts showed increasing trend during 2000-06. With the increase in number of retirees, the pension liabilities are likely to increase further in future.

Interest payments: Interest payments made and their ratio to revenue receipts and revenue expenditure during the period 2000-2006 are detailed in **Table 1.12**.

Table 1.12: Interest payments

Year	Total Revenue Receipts	Interest payments	Percentage of interest payments with reference to	
			Revenue Receipts	Revenue Expenditure
	(Rupees in crore)			
2000-01	5660	769	13.587	11.615
2001-02	6489	1047	16.135	15.345
2002-03	7548	1095	14.507	15.251
2003-04	8212	1246	15.173	16.069
2004-05	8866	1103	12.441	13.283
2005-06	10315	1115	10.809	11.239

Interest payments increased from Rs. 769 crore during 2004-05 to Rs. 1,115 crore during 2005-06 and accounted for 10.81 *per cent* of revenue receipts and 11.24 *per cent* of revenue expenditure during 2005-06. The interest payment was on internal debts (Rs. 731 crore), loans raised from Central Government (Rs. 247 crore) and other obligations (Rs. 137 crore).

1.6 Expenditure by Allocative priorities

1.6.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore the ratio of capital expenditure to total expenditure as well as to GSDP and the 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 quality of expenditure. **Table 1.13** gives these ratios during 2000-06.

Table 1.13 – Indicators of Quality of Expenditure

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	867	1225	1421	1881	2180	3020
Revenue Expenditure	6621	6823	7180	7754	8304	9921
<i>Of which</i>						
Social and Economic Services	4173	3838	4026	4381	5017	6239
<i>Salary and wage component</i>	<i>Details not available</i>			2081	2136	2436
<i>Non-Salary and wage component</i>				2300	2881	3803
As per cent of Total* Expenditure						
Capital Expenditure	11.58	15.22	16.52	19.52	20.79	23.34
Revenue Expenditure	88.42	84.78	83.48	80.48	79.21	76.66
As per cent of GSDP						
Capital Expenditure	5.67	7.17	7.59	9.84	10.52	13.26
Revenue Expenditure	43.34	39.96	38.36	40.55	40.08	43.56

Although the ratio of capital expenditure to total expenditure showed an increasing trend during 2000-06, revenue expenditure continues to have a dominant share in total expenditure, which is 77 per cent in 2005-06. The increasing share of capital expenditure in total expenditure during 2000-06 indicates the priorities accorded by the Government to creating productive assets and developing social and economic infrastructure in the State.

The increase of Rs. 1,617 crore (19 per cent) in revenue expenditure during 2005-06 was due to increase of Rs. 394.79 crore (12 per cent) in general services, Rs. 660.01 crore (33 per cent) in social services and Rs. 561.91 crore (19 per cent) in economic services. Within social services, a significant increase of Rs. 418.43 crore was observed during 2005-06 over the previous year under the non-plan revenue head 'social welfare and nutrition' on account of enhanced relief expenditure due to natural calamities. Amongst the economic services, the increase was largely on account of transfer of Rs. 442 crore to Ladakh Autonomous Hill Development Council under the major head 'Special Area Programmes'. Out of the total revenue expenditure of Rs. 9,921 crore during 2005-06 the expenditure on social and economic services (Rs. 6,239 crore) comprised about 63 per cent.

The increase in capital expenditure from Rs. 2,180 crore during 2004-05 to Rs. 3,020 crore during 2005-06 was mainly due to an increase of Rs. 734.94 crore in the expenditure on economic sector. Under economic sector, major increase was noticed in the capital expenditure on special areas programme (Rs. 295.16 crore), general economic services (Rs. 279.10 crore), transport (Rs. 101.50 crore) and agriculture (Rs. 55.37 crore).

1.6.2 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

* Comprises Revenue and Capital Expenditure only

prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.14** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2000-06.

Table 1.14: Expenditure on Social Services

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Education, Sports Art and Culture						
Revenue Expenditure	835.10	817.72	854.86	860.55	939.22	1066.30
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			766.70 (81)	803.04 (78)	902.28 (76)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			93.85	136.18	164.02
Capital Expenditure	31.74	47.10	48.01	79.05	93.06	117.43
Total	866.84	864.82	902.87	939.60	1032.28	1183.73
Health and Family Welfare						
Revenue Expenditure	361.05	388.40	391.93	388.83	432.51	487.42
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			307.17 (62)	319.55 (62)	368.73 (61)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			81.66	112.96	118.69
Capital Expenditure	21.56	43.28	40.10	44.31	66.30	87.11
Total	382.61	431.68	432.03	433.14	498.81	574.53
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure	293.98	288.69	326.31	335.71	359.62	431.46
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			163.67 (80)	173.76 (78)	205.82 (80)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			172.04	185.86	225.64
Capital Expenditure	204.82	210.85	215.42	329.96	364.28	430.14
Total	498.80	499.54	541.73	665.67	723.90	861.60
Other Social Services						
Revenue Expenditure	159.32	179.18	188.02	242.49	264.58	670.76
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			54.75 (71)	50.48 (65)	55.69 (66)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			187.74	214.10	615.07
Capital Expenditure	(-) 17.74	(-) 31.31	27.37	33.10	26.83	21.40
Total	141.58	147.87	215.39	275.59	291.41	692.16
Total (Social Services)						
Revenue Expenditure	1649.45	1673.99	1761.12	1827.58	1995.93	2655.94
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			1292.28 (76)	1346.83 (74)	1532.52 (72)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			535.30	649.10	1123.42
Capital Expenditure	240.38	269.92	330.90	486.42	550.47	656.08
Grand Total	1889.83	1943.91	2092.02	2314.00	2546.40	3312.02

(Note: Figures in the brackets represent the percentage of non-plan salaries and wages in the total salary and wage expenditure under the particular head)

The expenditure on Social services increased from Rs. 1889.83 crore in 2000-01 to Rs. 3312.02 crore in 2005-06 and it constituted 25.59 per cent of the total revenue and capital expenditure (Rs. 12,941 crore) during 2005-06. Expenditure

on Education, Health services and drinking water and sanitation facilities etc. consumed 79 *per cent* of the total social sector expenditure during 2005-06.

The trends in revenue and capital expenditure on social services during the last three years 2003-06 reveal that the share of capital expenditure remained within the range of 20-22 *per cent* which indicated that the revenue expenditure was dominant. Of the revenue expenditure on social services, the share of salary and wage component has declined from 71 *per cent* in 2003-04 to 58 *per cent* in 2005-06 implying more expenditure on non-salary components including on their maintenance indicating a move towards providing better quality of services. The non-salary and wage expenditure on social services has increased by 110 *per cent* during 2003-06 from Rs. 535 crore to Rs. 1123 crore in 2005-06. Even within the priority sectors of education and health and family welfare, despite the fact that the salary and wage component continues to have dominant share in their respective revenue expenditures ranging from 76 *per cent* in health and family welfare to 85 *per cent* in education (including sports, art and culture), increasing trends both in capital expenditure and expenditure on non-salary and wage component indicate expansion as well as an improvement in qualitative aspect of these services.

1.6.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditure that promotes directly or indirectly, productive capacity within the State's economy. The revenue expenditure on economic services increased from Rs. 2,523.29 crore in 2000-01 to Rs. 3,583.30 crore in 2005-06, while the capital expenditure on economic services increased from Rs. 594.58 crore to Rs. 2,305.60 crore (**Table 1.15**).

Table 1.15: Expenditure on Economic Services

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture, Allied Activities						
Revenue Expenditure	437.32	470.71	479.33	472.76	514.79	575.41
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			318.74 (70)	348.50 (66)	387.92 (65)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			154.02	166.29	187.49
Capital Expenditure	109.23	(-) 14.37	78.69	263.84	159.06	214.43
Total	546.55	456.34	558.02	736.60	673.85	789.84
Irrigation and Flood Control						
Revenue Expenditure	142.06	140.57	151.70	159.14	227.37	194.87
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			118.97 (60)	123.79 (60)	138.90 (61)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			40.17	103.58	55.97
Capital Expenditure	25.05	36.31	46.28	98.48	83.32	102.35
Total	167.11	176.88	197.98	257.62	310.69	297.22
Power and Energy						
Revenue Expenditure	1569.94	994.08	1182.96	1417.43	1796.83	1875.24
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			103.34 (100)	109.94 (99)	122.74 (100)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			1314.09	1686.89	1752.50
Capital Expenditure	241.52	404.43	444.59	552.10	709.38	699.21
Total	1811.46	1398.51	1627.55	1969.53	2506.21	2574.45
Transport						
Revenue Expenditure	38.04	52.78	32.56	36.05	39.15	36.21
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			0.25 (76)	1.35 (95)	1.24 (40)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			35.80	37.80	34.97
Capital Expenditure	138.59	192.64	252.43	243.56	316.52	418.02
Total	176.63	245.42	284.99	279.61	355.67	454.23
Other Economic Services						
Revenue Expenditure	335.93	506.21	418.24	467.50	443.25	901.57
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			246.70 (70)	205.26 (63)	252.39 (60)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			220.80	237.99	649.18
Capital Expenditure	80.19	292.59	212.18	167.71	302.38	871.59
Total	416.12	798.80	630.42	635.21	745.63	1773.16
Total (Economic Services)						
Revenue Expenditure	2523.29	2164.35	2264.79	2552.88	3021.39	3583.30
<i>Of which</i>						
(a) <i>Salary and Wage Component</i>	<i>Details not available</i>			788.00 (72)	788.84 (69)	903.19 (68)
(b) <i>Non-Salary and Wage Component</i>	<i>Details not available</i>			1764.88	2232.55	2680.11
Capital Expenditure	594.58	911.60	1034.17	1325.69	1570.66	2305.60
Grand total	3117.87	3075.95	3298.96	3878.57	4592.05	5888.90

(Note: Figures in the brackets represent the percentage of non-plan salaries and wages in the total salary and wage expenditure under the particular head)

The expenditure on Economic Services (Rs. 5,889 crore) during 2005-06 accounted for 45.51 *per cent* of the total capital and revenue expenditure (Rs. 12,941 crore). Expenditure on agriculture and allied activities, irrigation and flood control, energy and transport consumed nearly 70 *per cent* of the total economic sector expenditure during 2005-06.

The trends in revenue and capital expenditure on economic services during the period 2000-06 reveal that the capital expenditure has consistently increased from Rs. 594.58 crore (19 *per cent*) in 2000-01 to Rs. 2,305.60 crore (39 *per cent*) in 2005-06 while revenue expenditure with inter year fluctuations increased from Rs. 2,523.29 crore (81 *per cent*) to Rs. 3,583 crore (61 *per cent*) in 2005-06. An increase of Rs. 735 crore in capital expenditure during 2005-06 over the previous year was mainly on account of increases under the heads of special areas programme (Rs. 295.16 crore), general economic services (Rs. 279.10 crore), transport (Rs. 101.50 crore) and agriculture (Rs. 55.37 crore). Of the revenue expenditure, the expenditure on salary and wages has moderately increased from Rs. 788 crore (31 *per cent*) in 2003-04 to Rs. 903 crore (25 *per cent*) in 2005-06 while its non-salary component has increased from Rs. 1,765 crore (69 *per cent*) to Rs. 2,680 crore (75 *per cent*) indicating allocative priorities towards their better quality and maintenance.

1.6.4 Financial Assistance to Local Bodies and Other Institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six-year period 2000-06 is presented in **Table 1.16**.

Table 1.16: Financial Assistance to Local Bodies and Other Institutions

Name of the Department	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Education	77.66	76.02	76.77	43.11	79.34	78.24
Housing and Urban Development	61.27	61.62	65.96	71.66	78.60	118.30
Agriculture	46.21	40.40	40.66	36.74	47.81	51.04
Art and culture	4.28	4.52	3.50	3.31	14.71	5.44
General Administration	2.40	2.93	2.75	3.29	2.69	3.50
Industries	4.87	2.89	3.00	2.43	4.00	4.00
Tourism	0.98	2.66	3.87	2.41	5.34	3.43
Law and Justice	1.76	1.22	1.65	0.92	1.60	1.91
Health family welfare and Medical	0.52	0.55	1.14	0.70	0.82	0.48
Others	10.36	22.22	0.04	1.18	0.76	7.35
Total	210.31	215.03	199.34	165.75	235.67	273.69
Assistance as a percentage of Revenue expenditure	3.176	3.152	2.776	2.138	2.838	2.759

The total assistance at Rs. 273.69 crore in 2005-06 increased by 30 *per cent* over the level of 2000-01, and by 16 *per cent* as compared to the previous year mainly as a result of increased assistance for Housing and Urban Development.

1.6.5 Delay in furnishing Utilisation Certificates

Financial Rules provide that where grants are given for specific purposes, Utilisation Certificates (UCs) should be obtained by departmental officers from the grantees and after verification; these should be forwarded to the Accountant General within 18 months from the date of their sanction unless specified otherwise.

In respect of grants paid up to 2004-05, 9,185 UCs for an aggregate amount of Rs. 1,458.15 crore were awaited as on 30 September 2006. Department-wise break-up of UCs not received in respect of grants paid up to 2004-05 is given in **Appendix-1.6**. In the absence of Utilisation Certificates, it was not clear as to how the departmental officers satisfied themselves whether and to what extent the recipients utilised the grants for the purpose for which these were paid.

1.6.6 Non-submission of Accounts

In order to identify the Institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, Government/Heads of Departments are required to furnish to Audit every year, detailed information about the financial assistance given to various Institutions, the purpose for which such assistance was sanctioned and the total expenditure of the Institutions. Law Department has not furnished any information in this regard since 1997-98 in respect of the State Human Rights Commission. The particulars of 31 bodies/authorities whose 141 annual accounts for 2005-06 and earlier years were awaited are indicated in **Appendix-1.7**.

Three Autonomous Bodies mentioned below covered under Section 19 (3) and 20 (1) of the CAG's DPC Act had also not furnished the accounts for the periods shown against each.

Table 1.17

S. No	Name of the Body	Period for which Accounts awaited	Number of Accounts
Section 19 (3)			
1.	Khadi and Village Industries Board	2003-04 to 2005-06	3
Section 20 (1)			
2.	Sher-E-Kashmir University of Agricultural Sciences and Technology, Kashmir	2003-04 to 2005-06	3
3.	Sher-E-Kashmir University of Agricultural Sciences and Technology, Jammu	2005-06	1

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, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position on 31 March 2005. While the liabilities in this **Appendix** 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 and loans and advances given by the State Government and cash balances. **Appendix 1.4** shows that the liabilities and assets grew by 16 *per cent* and 17 *per cent* respectively. The liabilities of the Government of Jammu and Kashmir depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to retired State employees, guarantees/letters of comforts issued by the State Government. **Appendix 1.5** depicts the time series data on State Government finances for the period 2000-2006.

1.7.1 Financial Results of Irrigation Works

The financial results of six irrigation projects with capital outlay of Rs. 170.06 crore showed that revenue realized during 2005-06 (Rs. 32.42 lakh) was only 0.19 *per cent* of the capital invested.

1.7.2 Incomplete Projects

The department wise information pertaining to incomplete projects as on 31 March 2006 is given in **Table 1.18**.

Table 1.18: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Number of Incomplete Projects	Initial Budgeted cost	Cost Over Runs	Revised Total Cost of Projects	Cumulative Actual expenditure as on 31 March 2006
Irrigation and Flood Control	26	112.09	114.50	226.59	170.38
Public Health Engineering	99	892.62	353.43	1246.05	449.53
Sewerage and Drainage	12	16.69	23.27	39.96	21.98
Public Works	126	848.55	145.47	994.02	436.50
Power Development	85	449.33	1082.12	1531.45	638.19
Total	348	2319.28	1718.79	4038.07	1716.58

According to the information available in Appendix-IV of the Finance Accounts for the year 2005-06, there were 348 incomplete projects as of March 2006 in which Rs. 1,716.58 crore were blocked. Besides, there was cost over run of Rs. 1,718.79 crore in these projects as the initial estimated cost of Rs. 2,319.28 crore was revised to Rs. 4,038.07 crore. This showed that the Government spread its resources thinly without prioritization, which failed to yield adequate return.

1.7.3 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by the Departmental Undertakings/Government Departments, which are required to prepare annually *proforma* accounts in prescribed formats showing the results of financial operations so that Government can assess their functioning. The Heads of Departments in Government are to ensure that the Undertakings, which are funded by budgetary releases, prepare the accounts in time and submit the same to the Accountant General for audit. As of March 2006, preparation of 160 *proforma*

accounts in respect of nine departmentally managed Government/Quasi commercial undertakings (**Appendix 1.8**) was in arrears for periods ranging between one to 37 years.

1.7.4 Investments and Returns

As on 31 March 2006, the State Government had invested Rs. 353.27 crore in its Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Societies (**Table 1.19**). Return on the investment made in these PSUs was low and decreased from Rs. 26.28 crore in 2004-05 to Rs. 20.62 crore in 2005-06. The return on investment amounting to Rs. 20.62 crore accrued to the State Government during 2005-06 was only from Jammu and Kashmir Bank Limited and decline in returns was essentially due to a decline of Rs. 5.16 crore in accruals from the Bank during the year. With an average interest rate of 7.19 *per cent* paid by the Government on its borrowings, the return on these investments during 2005-06 was only 5.84 *per cent*.

Table 1.19: Return on Investment

Year	Investment at the end of the year	Return	Percentage return	Average rate of interest on Government borrowing	Difference between interest rate and return
	(Rupees in crore)				
2000-01	359.60	Nil	Nil	8.84	8.84
2001-02	363.35	19.53	5.38	10.65	5.27
2002-03	375.27	13.34	3.56	9.64	6.08
2003-04	349.93	15.92	4.55	9.84	5.29
2004-05	347.82	26.28	7.56	8.10	0.54
2005-06	353.27	20.62	5.84	7.19	1.35

1.7.5 Loans and Advances by State Government

In addition to investment in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these Parastatals. Total outstanding balance as on 31 March 2006 was Rs. 901.97 crore (**Table 1.20**). Interest received on such loans was meagre and it decreased from 0.42 *per cent* in 2001-02 to 0.14 *per cent* in 2005-06.

Table 1.20: Average Interest received on Loans advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	555.17	599.93	515.25	773.37	837.13	884.58
Amount Advanced during the year	58.58	47.12	340.20	68.30	66.00	53.15
Amount repaid during the year	13.82	131.80	82.07	4.54	18.55	35.76
Closing Balance	599.93	515.25	773.37	837.13	884.58	901.97
Net Addition	44.76	(-) 84.68	258.12	63.76	47.45	17.39
Interest Received	1.64	2.36	1.03	1.09	1.27	1.24
Interest Received as <i>per cent</i> to Loans advanced	0.28	0.42	0.16	0.14	0.15	0.14
Average interest paid by the State (<i>per cent</i>)	8.84	10.65	9.64	9.84	8.10	7.19
Difference between interest paid and received (<i>per cent</i>)	8.56	10.23	9.48	9.70	7.95	7.05

1.7.6 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 the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Jammu and Kashmir Bank has been put in place. There was no improvement in management of cash balances as overdraft facilities were used for all the 365 days during 2005-06.

Table 1.21: Ways and Means advances and overdraft of the State (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Ways and Means Advances/overdraft						
Taken in the year	5928.19	6000.15	7212.35	8345.85	1114.20	11269.95
Outstanding	1183.55	1382.55	1381.10	1546.51	1726.85	2047.44
Interest Paid	71.57	130.88	137.58	126.99	131.81	138.42
Number of Days	365	365	365	366	365	365

Amount of interest paid on the overdraft increased from Rs. 71.57 crore in 2000-01 to Rs. 138.42 crore during 2005-06 and there was an outstanding balance of Rs. 2,047.44 crore at the close of 2005-06.

1.8 Undischarged Liabilities

1.8.1 Fiscal Liabilities-Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund-Capital Account. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no such law has been passed by the State, to lay down any such limit. Other liabilities, which are a part of Public Account, include deposits under small savings scheme, provident funds and other deposits. **Table 1.22** below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 1.22: Fiscal Liabilities-Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities\$ (Rupees in crore)	9224	10443	12279	13038	14199	16801
Rate of Growth (<i>per cent</i>)	12.74	13.22	17.58	6.18	8.90	18.33
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	60.37	61.16	65.60	68.18	68.54	73.78
Revenue Receipt (<i>per cent</i>)	162.97	160.93	162.68	158.77	160.15	162.88
Own Resources (<i>per cent</i>)	775.13	824.88	646.95	723.13	712.80	776.75
Buoyancy of Fiscal Liabilities						
GSDP (ratio)	1.350	1.123	1.827	2.856	1.068	1.847
Revenue Receipt (ratio)	4.810	0.902	1.077	0.702	1.118	1.122
Own resources (ratio)	0.605	2.069	0.352	φ	0.849	2.136

\$ Includes internal debt, loans and advances from GOI and other obligations.

φ Own resources had a negative trend

Overall fiscal liabilities of the State increased from Rs. 9,224 crore in 2000-01 to Rs. 16,801 crore in 2005-06. The growth rate was 18.33 *per cent* during 2005-06 over the previous year. The ratio of fiscal liabilities to GSDP also increased from 60.37 *per cent* in 2000-01 to 73.78 *per cent* in 2005-06. The fiscal liabilities had grown faster than the State's GSDP. The buoyancy of these liabilities with respect to GSDP during the year was 1.847 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.847 *per cent*. These liabilities stood at 1.63 times State's revenue receipts and 7.77 times its own resources.

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 2000-01 is given in **Table 1.23**.

Table 1.23: Guarantees given by the Government of Jammu and Kashmir

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of Guarantees	Percentage of maximum amount guaranteed to total revenue receipts
2000-01	982	776	17.35
2001-02	1774	1294	27.34
2002-03	1574	1231	20.85
2003-04	1969	1612	23.98
2004-05	2878	1914	32.46
2005-06	4720	1959	45.76

Government has guaranteed loans raised by various Corporations and others, which at the end of 2005-06 stood at Rs. 1,959.48 crore. The outstanding amount of guarantees is in the nature of contingent liabilities, which were about 19 *per cent* of revenue receipts of the State. Although no law under Article 293 of the Constitution had been passed by the State legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State, J & K FRBM Act, 2006 enacted by the Legislature has prescribed the ceiling limit on the amount of annual incremental risk weighted guarantees to 75 *per cent* of the TRR in the year preceding the current year or at 7.5 *per cent* of GSDP of the year preceding the current year, whichever is lower.

1.8.3 Debt Sustainability

Debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread (QS) together with primary deficit (PD) is zero, debt-GSDP ratio would be constant or sustainable. On the other hand, if $PD > QS$, debt-GSDP ratio would be rising and if $PD < QS$, it would be falling.

Table 1.24: Debt Sustainability-Interest Rate and GSDP Growth (In per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	8.84	10.65	9.64	9.84	8.10	7.19
GSDP Growth	9.43	11.77	9.62	2.16	8.33	9.924
Interest spread	0.60	1.12	(-) 0.02	(-) 7.68	0.23	2.734
Outstanding Debt	9224	10443	12279	13038	14199	16801
Quantum Spread (Rs. Crore)	55.34	116.96	(-) 2.46	(-) 1001.32	32.66	459.34
Primary Deficit (Rs. Crore)	(-) 1104	(-) 427	(-) 216	(-) 241	(-) 562	(-) 1528

The trends in **Table 1.24** reveal that in two years during 2000-06, the interest spread was negative, i.e. weighted interest rate was more than the rate of growth in GSDP during these years. The State not only experienced primary deficit, but it continues to be sizeable throughout this period. An analysis of primary deficit vis-à-vis quantum spread reveals that their sum turns out to be negative in each year of the period 2000-06 indicating rising debt-GSDP ratio and deteriorating situation of debt sustainability in the State.

1.8.4 Net Availability of Funds

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest. **Table 1.25** below gives the position of the receipts and repayment of internal debt and other fiscal liabilities of the State over the last six years.

Table 1.25: Net Availability of Borrowed Funds (Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Internal debt						
Receipt	6236	6470	811 ^{&}	9316	2409	13475
Repayment (Principal+ Interest)	5999	6225	606 ^{&}	8930	1722	12778
Net Fund Available	237	245	205	386	687	697
Net Fund Available (per cent)	3.80	3.79	25.27	4.14	28.52	5.17
Loans and Advances from GOI						
Receipt	435	393	579	718	324	11
Repayment (Principal+ Interest)	615	846	739	1598	1070	375
Net Fund Available	(-) 180	(-) 453	(-) 160	(-) 880	(-) 746	(-) 364
Net Fund Available (per cent)	(-) 41.38	(-) 115.27	(-) 27.63	(-) 122.56	(-) 230.25	(-) 3309.09
Other obligations^φ						
Receipt	1100	1408	1756	1533	1765	3144
Repayment (Principal+ Interest)	883	1028	1060	1527	1648	1990
Net Fund Available	217	380	696	6	117	1154
Net Fund Available (per cent)	19.73	26.99	39.64	0.39	6.63	36.70
Total liabilities						
Receipt	7771	8271	3146 ^{&}	11567	4498	16630
Repayments	7497	8099	2405 ^{&}	12055	4440	15143
Net receipts	274	172	741	(-) 488	58	1487
Net Funds Available (per cent)	3.53	2.08	23.55	(-) 4.22	1.29	8.94

[&] The figure is less in comparison to the previous years due to net accounting of overdraft receipts of Rs. 7,212.35 crore and repayment of Rs. 7,213.80 crore under the internal debt during 2002-03.

^φ Comprises small savings, provident fund, reserve fund and deposits

During 2005-06, the net fund availability was only 8.94 *per cent* as against the debt receipts of Rs. 16,630 crore; Government used Rs. 15,143 crore on repayment of principal and interest on debt.

1.9 Management of Deficits

The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the 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 its fiscal health.

Table 1.26: Fiscal Imbalances-Basic Parameters

(Value in Rupees in crore and ratio in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue surplus (+)/Deficit (-)	(-) 961	(-) 334	(+) 368	(+) 458	(+) 562	(+) 394
Fiscal Deficit	(-) 1873	(-) 1474	(-) 1311	(-) 1487	(-) 1665	(-) 2643
Primary Deficit	(-) 1104	(-) 427	(-) 216	(-) 241	(-) 562	(-) 1528
RD/GSDP	(-) 6.290	(-) 1.956	NA*	NA*	NA*	NA*
FD/GSDP	(-) 12.259	(-) 8.632	(-) 7.004	(-) 7.776	(-) 8.037	(-) 11.606
PD/GSDP	(-) 7.226	(-) 2.501	(-) 1.154	(-) 1.260	(-) 2.713	(-) 6.709
RD/FD	51.31	22.66	NA*	NA*	NA*	NA*

(Negative figures indicate deficit)

The revenue deficit of the State indicates the excess of its revenue expenditure over revenue receipts. The State had a revenue surplus during 2002-03 to 2005-06. Although the State had maintained revenue surplus of Rs. 394 crore during 2005-06, it was lower by Rs. 168 crore as compared to revenue surplus of Rs. 562 crore realized during 2004-05. An increase of 16.34 *per cent* (Rs. 1449 crore) in revenue receipts during 2005-06 in comparison to that of 19.47 *per cent* (Rs. 1617 crore) in revenue expenditure resulted in a fall in revenue surplus during 2005-06. The increase in revenue expenditure was largely on account of higher rate of growth of non-plan revenue expenditure during 2005-06 which was as high as 20.53 *per cent* largely on account of sharp increase in the expenditure by Rs. 579 crore (40 *per cent*) in social services, Rs. 518 crore (21 *per cent*) in economic services and Rs. 389 crore (12 *per cent*) in general services over the level of 2004-05.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs. 1311 crore in 2002-03 to Rs. 2,643 crore in 2005-06. The State also had a primary deficit, which increased from Rs. 216 crore in 2002-03 to Rs. 1,528 crore in 2005-06. Along with revenue expenditure, a sharp increase in capital expenditure (38.53 *per cent*) during 2005-06 led to deterioration in both Fiscal and Primary Deficits respectively from Rs. 1665 crore and Rs. 562 crore in 2004-05 to Rs. 2643 crore and Rs. 1528 crore in 2005-06.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.27** below presents a summarised position of Government finances over 2000-2006, with reference to certain key indicators that help assess the adequacy

* Not applicable, since there was revenue surplus during these years

and effectiveness of available resources and their applications, highlight areas of concern and capture its important facts.

Table 1.27: Indicators of Fiscal Health

(In per cent)

Fiscal indicators	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
I. Resource Mobilization						
Revenue Receipt/GSDP	37.05	38.00	40.32	42.94	42.80	45.29
Revenue buoyancy	0.281	1.245	1.696	4.067	0.956	1.647
Own tax/GSDP	4.883	4.708	5.518	6.118	6.521	7.144
II. Expenditure Management						
Total Expenditure/GSDP	49.40	47.41	47.76	50.74	50.92	57.06
Total Expenditure/Revenue Receipts	133.34	124.75	118.46	118.16	118.99	125.97
Revenue Expenditure/ Total ⁺ Expenditure	87.73	84.29	80.30	79.91	78.71	76.35
Salary and Wage expenditure on Social and Economic Services/Revenue Expenditure	Details not available			26.84	25.72	24.55
Non-Salary/Wage expenditure on Social and Economic Services/Revenue Expenditure	Details not available			29.66	34.70	38.34
Capital Expenditure/ Total ⁺ Expenditure	11.58	15.22	16.52	19.52	20.79	23.34
Development expenditure/Total ⁺ expenditure	66.88	62.38	62.68	64.29	68.08	71.10
Capital Expenditure on Social and Economic Services/Total Expenditure	11.06	14.60	15.27	18.68	20.10	22.80
Buoyancy of TE with RR	3.796	0.496	0.640	0.968	1.097	1.418
Buoyancy of RE with RR	3.528	0.208	0.320	0.908	0.891	1.192
III. Management of Fiscal Imbalances						
Revenue surplus (+) deficit (-) (Rs. in crore)	(-) 961	(-) 334	(+) 368	(+) 458	(+) 562	(+) 394
Fiscal deficit (Rs. in crore)	(-) 1873	(-) 1474	(-) 1311	(-) 1487	(-) 1665	(-) 2643
Primary Deficit (Rs. in crore)	(-) 1104	(-) 427	(-) 216	(-) 241	(-) 562	(-) 1528
Revenue Deficit/Fiscal Deficit	51.31	22.66	NA*	NA*	NA*	NA*
IV. Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/GSDP	60.37	61.16	65.60	68.18	68.54	73.78
Fiscal Liabilities/RR	162.97	160.93	162.68	158.77	160.15	162.88
Buoyancy of FL with RR	4.810	0.902	1.077	0.702	1.118	1.122
Buoyancy of FL with OR	0.605	2.069	0.352	- ^N	0.849	2.136
Primary deficit vis-à-vis quantum spread	(-) 1048.66	(-) 310.04	(-) 218.46	(-) 1242.32	(-) 529.34	(-) 1068.66
Net Funds Available	3.53	2.08	23.55	(-) 4.22	1.29	8.94
V. Other Fiscal Health Indicators						
Return on Investment	0.00	5.38	3.56	4.55	7.56	5.84
BCR (Rs. in crore)	(-) 1820	(-) 1644	(-) 1002	(-) 1527	(-) 1865	(-) 1943
Financial Assets/Liabilities	1.02	0.99	1.02	1.05	1.08	1.09

The ratio of own taxes to GSDP had shown continuous improvement in the six-year period. The ratio of revenue receipt to GSDP and its buoyancy was on a rising trend during 2000-01 to 2003-04 and 2005-06, although revenue buoyancy declined sharply during 2004-05. Various ratios concerning expenditure indicate quality of expenditure and sustainability in relation to resources. The total

⁺ Total expenditure does not include loans and advances

* Not applicable

^N Own resources had a negative growth

expenditure to GSDP is buoyant. The total expenditure to GSDP ratio showed a decreasing trend during 2000-04; however, it increased sharply from 118.99 *per cent* in 2004-05 to 125.97 *per cent* in 2005-06. Although revenue expenditure showed a decreasing trend over the six-year period 2000-2006, it still comprised 76 *per cent* of total expenditure during 2005-06, which reveals that most of the expenditure was incurred on current consumption. Fiscal deficits, year after year, indicate growing fiscal imbalance of the State. The continuous prevalence of primary deficits indicates that the State is unable to meet its primary expenditure out of its own funds.

1.11 Conclusion

The overall fiscal position of the State as reflected in terms of key parameters—revenue, fiscal and primary deficits—indicates deteriorating fiscal situation during 2005-06 over the previous year. Although the State had maintained revenue surplus of Rs. 394 crore during 2005-06, it was lower by Rs. 168 crore as compared to revenue surplus during 2004-05 while fiscal and primary deficits have shown substantial increases during the year. The capital and revenue expenditure have increased by 38.5 *per cent* and 19.5 *per cent* during 2005-06 but revenue receipts and non-debt receipts could not keep pace with the increase in expenditure of the State. The worsening fiscal situation despite the State having received an increase of Rs. 1,278 crore in Central transfers over the previous year, indicates that the State's own resources have not shown buoyancy during the year. The State therefore needs to take steps to improve the buoyancies in its own resources in combination with maintaining the growth in non-plan revenue expenditure as per the norms in order to have sustained improvement in its fiscal imbalances. The balance from current revenue of the State has also continued to be negative indicating continued dependence on borrowings for plan or developmental expenditure. The cardinal indicators of debt such as quantum spread together with primary deficit being perennially negative, increasing ratio of fiscal liabilities to GSDP with a growing fiscal deficit and the higher buoyancy of the debt with regard to its revenue receipts indicates unsustainable debt situation of the State in the medium to long run. The spiraling debt liabilities accompanied by secular trends in fiscal deficit can result in a vicious cycle of deficit, debt and debt service payments, unless suitable measures are taken to arrest the persistent increase in fiscal liabilities.