

CHAPTER I

FINANCES OF THE STATE GOVERNMENT

In Summary

Jammu and Kashmir had a revenue surplus of Rs. 458 crore during 2003-04, but persistence of large fiscal deficits year after year indicated continued fiscal imbalances.

Revenue of the State consists mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs. 5,514 crore in 1999-2000 to Rs. 8,212 crore in 2003-04 at trend growth rate (TGR) of 12.35 *per cent*. There were, however, significant inter year variations in the growth rates. Rate of growth of revenue receipts during 2003-04 was only 8.80 *per cent* as compared to 16.32 *per cent* during 2002-03. Arrears of revenue were at a high of Rs. 1,454 crore and represented 81 *per cent* of tax and non-tax revenue receipts of the current year. On an average 22 *per cent* of the revenue came from State's own resources, while Central tax transfers and grants-in-aid from Government of India comprised 78 *per cent* of the total revenue of the State.

Total expenditure of the State increased from Rs. 6,857 crore in 1999-2000 to Rs. 9,703 crore in 2003-04 at a TGR of 11 *per cent*. However, the year 2003-04 experienced a marginal decline in growth rate which stood at 8.52 *per cent*. The capital expenditure during 2003-04 increased by nine *per cent* over the last five years.

The interest payment during 2003-04 was Rs. 1,246 crore and the same grew by 47 *per cent* over the last five years. The rate of interest paid on the borrowings of the State during 2002-03 and 2003-04 was more than the rate of growth of GSDP during these years violating the cardinal rule of debt sustainability. The finances of the State continued to be dependent on the overdraft from Jammu and Kashmir Bank.

Though it is not uncommon for a State to borrow for widening its infrastructure and for creating income-generating assets, an ever-increasing ratio of fiscal liabilities to GSDP together with a large fiscal deficit could lead the State finances into a debt trap, particularly if these investments are yielding very low returns relative to the cost of raising funds.

1.1 Introduction

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 the Public Account of

the State Government. The lay out of the Finance Accounts is depicted in the **Box 1.1**.

Box 1.1

Lay out of Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.

Statement No. 3 gives financial results of electricity schemes and irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government for repayments of loans etc. raised by the statutory corporations, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2004.

Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.

Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No. 11 indicates the detailed account of revenue receipts by minor heads.

Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan and plan separately and capital expenditure major head wise.

Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of the current year.

Statement No. 14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, cooperative banks and societies etc. up to the end of the current year.

Statement No. 15 depicts the capital and other expenditure to the end of the current year and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts disbursements and balances under heads of account relating to debt, Contingency Fund and Public Account.

Statement No. 17 presents the detailed account of debt and other interest bearing obligations of the Government.

Statement No. 18 provides the detailed account of loans and advances given by the Government of Jammu and Kashmir, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.

Statement No. 19 gives the details of balances of earmarked funds.

1.2 Trend of Finances with reference to Previous year

Finances of the State Government during the current year compared to previous year were as under:

(Rupees in crore)

2002-03	Major Aggregates	2003-04
7548	1. Revenue receipts (2+3+4)	8212
1033	2. Tax Revenue	1170
865	3. Non-tax Revenue	633
5650	4. Other Receipts	6409
82	5. Non-Debt Capital Receipts	4
82	6. Of which recovery of loans	4
7630	7. Total Non-Debt Receipts (1+5)	8216
6366	8. Non-plan Expenditure (9+11+12)	7046
6284	9. On Revenue Account	6807
1095	10. Of which interest payments	1246
82	11. On capital Account	239
-	12. On Loans disbursed	-
2575	13. Plan Expenditure (14+15+16)	2657
896	14. Revenue Account	947
1339	15. On Capital Account	1642
340	16. On Loans disbursed	68
8941	17. Total Expenditure (8+13)	9703
1311	18. Fiscal Deficit (17-7)	1487
368	19. Revenue Surplus (9+14-1)	458
216	20. Primary Deficit (18-10)	241

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government of Jammu and Kashmir for the year 2003-04 covering revenue receipts and expenditure, capital receipts and expenditure, receipts and disbursements on account of public debt and public account made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements. Abstract of receipts and disbursements during the year 2003-04 and also the sources and application of funds has been depicted in *Appendices-2* and *3* respectively.

Table 1: Summary of receipts and disbursements for the year 2003-2004 (Rupees in crore)

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
Section-A: Revenue							
					Non-plan	Plan	Total
7548.17	I. Revenue Receipts	8211.67	7179.50	I. Revenue expenditure	6806.85	947.32	7754.17
1033.09	Tax revenue	1170.28	3153.59	General Services	3341.02	32.69	3373.71
865.21	Non-tax revenue	632.54	1761.12	Social Services	1384.09	443.49	1827.58
684.52	Share of Union Taxes/Duties	817.42	2264.79	Economic Service	2081.74	471.14	2552.88
4965.35	Grants from Government of India	5591.43					
Section-B: Capital							
-	II. Miscellaneous Capital Receipts	-	1421.00	II. Capital Outlay	238.98	1641.50	1880.48
82.07	III. Recoveries of Loans and Advances	4.54	340.20	III. Loans and Advances Disbursed			68.30
1390.31	IV. Public debt receipts	1853.80	422.52	IV. Repayment of Public Debt			1332.35
-	V. Contingency Fund	1.33	0.21	V. Contingency Fund			1.43
16829.99	VI. Public account receipts	19048.53	16673.14	VI. Public account Disbursement			18105.83
291.64	Opening balance	105.61	105.61	Closing Balance			82.92
26142.18	Total	29225.48	26142.18	Total			29225.48

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2003-04 and wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a corporate has been presented by the application of ratios commonly adopted for the relational interpretation of fiscal aggregates. The reporting parameters are depicted in the **Box 1.2**.

Box 1.2

Reporting Parameters

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 the GSDP at current market prices. The GSDP series as provided by the Directorate of Economics and Statistics Department of the State Government have been used for the years 1999-2000 to 2002-03. In the absence of any indication of GSDP for 2003-04 by the State Government, growth rate of 2003-04 over 2002-03 was assumed and these figures are merely indicative.

For tax revenues, non-tax revenues, revenue expenditure etc. buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.

For most series a trend growth during 1999-2004 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in *Appendix 1*.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account as defined in **Box 1.3**.

Box 1.3: State Government Funds and the Public Account

Consolidated Fund	Contingency Fund	Public Account
All receipts of the State Government from revenues, loans and recoveries of loans go into Consolidated Fund constituted under Article 115 of constitution of Jammu and Kashmir. All expenditure of the Government is incurred from this Fund from which no amount can be drawn without authorisation from the State Legislature. This part consists of two main divisions, namely Revenue Account (Revenue Receipts and Revenue expenditure) Capital Account (Capital Receipts, Capital expenditure, Public Debt and loans etc.)	The Contingency Fund created under Article 116 of the Constitution of Jammu and Kashmir is in the nature of an imprest placed at the disposal of the Governor of the State to meet urgent unforeseen expenditure pending authorisation from the State Legislature. Approval of the State Legislature is subsequently obtained for such expenditure and for transfer of equivalent amount from the Consolidated Fund to Contingency Fund. The corpus of this Fund authorised by the Legislature during the year was Rs. 40 lakh.	Receipts and disbursements in respect of small savings, provident funds, deposits, reserve funds, suspense, remittances etc. which do not form part of the Consolidated Fund, are accounted for in Public Account and are not subject to vote by the State Legislature

1.5 State finances by key indicators

1.5.1 Resources by volumes and sources: Resources of the 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 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 Public Accounts.

Table 2 shows that the total receipts of the State Government for the year 2003-04 were Rs. 29,120 crore. Of these, the revenue receipts of the State Government were Rs. 8,212 crore only, constituting 28 *per cent* of the total receipts. The balance of receipts came from borrowings and public account receipts.

Table 2-Resources of Jammu and Kashmir (Rupees in crore)

I. Revenue Receipts		8212
II. Capital Receipts		1858
(a) Miscellaneous Receipts	-	
(b) Recovery of Loans and Advances	4	
(c) Public Debt Receipts	1854	
III. Contingency Fund Receipts		1
IV. Public Account Receipts		19049
(a) Small Savings, Provident Fund, etc.	712	
(b) Reserve Fund	167	
(c) Deposits and Advances	820	
(d) Suspense and Miscellaneous	339	
(e) Remittances	17011	
Total Receipts		29120

1.5.2 Revenue Receipts: Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State consist mainly of its own tax 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 (GDP) and its buoyancy is indicated in Table 3.

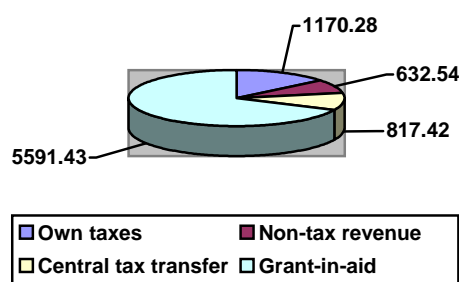
Table 3: Revenue Receipts-Basic Parameters (Value in Rupees crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Receipts	5514	5660	6489	7548	8212	6685
Own taxes	578	746	804	1033	1170	866
Non-Tax Revenue	405	444	462	865	633	562
Central tax Transfers	1232	675	576	685	817	797
Grants-in-aid	3299	3795	4647	4965	5592	4460
Rate of Growth	22.29	2.65	14.65	16.32	8.80	12.35
Revenue Receipts/GSDP	39.50	37.05	38.00	40.32	40.02	39.07
Revenue Buoyancy	0.999	0.281	1.245	1.696	0.915	1.041
GSDP Growth	22.304	9.433	11.769	9.622	9.616	11.861

The revenue receipts of the State increased from Rs. 5,514 crore in 1999-2000 to Rs. 8,212 crore in 2003-04 showing a trend growth rate of 12 *per cent*. There were, however, significant inter-year variations in these growth rates. Rate of growth of revenue receipts during 2003-04 was only 8.80 *per cent* as compared to 16.32 *per cent* during 2002-03. During the five-year period 1999-2004, the State's GDP grew at an average level of 11.86 *per cent*.. Average revenue growth during this period exceeded average GSDP growth with revenue buoyancy of greater than one. The year 2003-04, however, witnessed sharp decline in revenue buoyancy to 0.915 due to moderate growth in revenue receipts during 2003-04 relative to GSDP.

While 22 *per cent* of the revenue receipts during 2003-04 have come from State's own resources comprising tax and non-tax, central tax transfers and grants-in-aid together contributed 78 *per cent* of the total revenue. Sales tax was the major contributor (58 *per cent*) of State's own tax revenue followed by State Excise (18 *per cent*), Stamps and Registration fees (3 *per cent*), taxes on vehicles (3 *per cent*). Of the non-tax revenue sources, power receipts (58 *per cent*) interest receipts (19 *per cent*) and receipts from Forestry and Wild life (9 *per cent*) were the major Contributors.

Revenue receipts for 2003-04



Besides, the arrears of revenue increased by 64 *per cent* from Rs. 886 crore in 1999-2000 to Rs. 1,454 crore at the end of 2003-04. Of these, Rs. 763 crore (52 *per cent*) were more than five years old.

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 0.10 *per cent* for secondary education, 0.15 *per cent* for university and higher education, 0.50 *per cent* for technical education, 2.28 *per cent* for medical and public health, and 2.75 *per cent* for water supply and sanitation and 3.81 *per cent* for Housing.

The source of total receipts under different heads and GSDP during 1999-2004 is indicated in Table 4.

Table 4-Sources of Receipts: Trends (Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross Domestic product
		Non-Debt Receipts [∇]	Debt Receipts	Accruals in Public Account*		
1999-2000	5514	5	1148	15828	22495	13961
2000-01	5660	14	902	18177	24753	15278
2001-02	6489	132	1062	17615	25298	17076
2002-03	7548	82	1390	16830	25850	18719
2003-04	8212	4	1854	19049	29119	20519

* Slightly differ from item no. 9 of *Appendix-8* due to exclusion of receipts into Contingency Fund

1.6 Application of resources

1.6.1 Trend of growth: Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs. 6,857 crore in 1999-2000 to Rs. 9,703 crore in 2003-04 at an average trend rate of 11 *per cent* per annum.

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 5.

[∇] Includes recoveries of loans and advances

Table 5: Total Expenditure-Basic Parameters (value in Rupees crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Total Expenditure*	6857	7547	8095	8941	9703	8229
Rate of Growth	23.17	10.06	7.26	10.45	8.52	10.97
TE/GSDP Ratio	49.12	49.40	47.41	47.76	47.29	48.09
Revenue Receipts/TE ratio	80.41	74.99	80.16	84.42	84.63	80.90
Buoyancy of Total Expenditure with						
GSDP	1.039	1.066	0.617	1.086	0.886	0.925
Revenue Receipts	1.039	3.796	0.496	0.640	0.968	0.888

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

Overall expenditure of the State comprising revenue expenditure, capital expenditure and loans and advances, increased from Rs. 6,857 crore in 1999-2000 to Rs. 9,703 crore in 2003-04 at an average annual trend rate of 10.97 *per cent*. On an average, for each one *per cent* increase in State's GDP, the expenditure increased by 0.925 *per cent* during 1999-2004. For each one *per cent* increase in revenue receipts expenditure increased by 0.888 *per cent*.

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 6.

Table 6: Components of Expenditure-Relative Share (in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
General Services	23.60	22.67	24.47	23.66	22.62	23.40
Interest Payments	12.32	10.19	12.93	12.25	12.84	12.11
Social Service	25.29	25.04	24.02	23.40	23.86	24.32
Economic Services	37.47	41.32	38.00	36.89	39.98	38.73
Loans and Advances	1.32	0.78	0.58	3.80	0.70	1.44

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 and interest payments which were considered as non-developmental, together accounted for 35.53 *per cent* during 1999-2004. On the other hand, average development expenditure i.e., on Social and Economic services together accounted for 63 *per cent* during 1999-2004.

1.6.2 Incidence of Revenue expenditure: In total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue

expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table 7.

Table 7: Revenue Expenditure-Basic Parameters (value in Rupees crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Expenditure	6055	6621	6823	7180	7754	6887
Rate of Growth (per cent)	23.34	9.35	3.05	5.23	7.99	8.41
RE/GSDP	43.37	43.34	39.96	38.36	37.79	40.25
RE as percentage of TE	88.30	87.73	84.29	80.30	79.91	83.69
RE as percentage of RR	109.81	116.98	105.15	95.12	94.42	103.02
Buoyancy of Revenue Expenditure with						
GSDP	1.046	0.991	0.259	0.544	0.831	0.709
Revenue Receipts	1.047	3.528	0.208	0.320	0.908	0.681

Overall revenue expenditure of the State showed a trend growth rate of 8.41 *per cent*. Rate of growth of revenue expenditure increased from 3.05 *per cent* in 2001-02 to 7.99 *per cent* in 2003-04. However, the State's revenue expenditure-GSDP ratio declined from 43.37 *per cent* in 1999-2000 to 37.79 *per cent* in 2003-04. On an average 83.69 *per cent* of the total expenditure was on current consumption.

1.6.3 High salary expenditure: Salaries accounted for 38 *per cent* of the revenue receipts and 40 *per cent* of the revenue expenditure of the State during 2003-04. The expenditure on salaries increased from Rs. 3,037 crore in 1999-2000 to Rs. 3,124 crore in 2003-04 as indicated in Table 8.

Table 8 (Rupees in crore)

Heads	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary expenditure*	3037	3032	3119	3260	3124
As a percentage of GSDP	21.754	19.846	18.265	17.415	15.225
As a percentage of Revenue Receipts	55.078	53.569	48.066	43.190	38.04
As a percentage of Revenue expenditure	50.157	45.794	45.713	45.404	40.29

1.6.4 Huge expenditure on pension payments: Pension payments have increased by 63.92 *per cent* from Rs. 413 crore in 1999-2000 to Rs. 677 crore in 2003-04 (average annual rate of 12.96 *per cent*). Year-wise break-up of expenditure incurred on pension payments during the years 1999-2000 to 2003-04 was as under:

* Salary expenditure figures for the years 1999-2000 to 2002-03 provided by the Finance Department Jammu and Kashmir Government

Table 9

(Rupees in crore)

Year	Expenditure on pension payments	Percentage to total revenue expenditure
1999-2000	413	6.82
2000-01	449	6.78
2001-02	556	8.15
2002-03	593	8.26
2003-04	677	8.73

With the increase in number of retirees, the pension liabilities are likely to increase further in future.

1.6.5 Interest payments: Interest payments made and their ratio to Revenue Receipts and Revenue Expenditure during the period 1999-2004 are detailed in Table 10.

Table 10

Year	Interest payments (Rupees in crore)	Percentage of interest payments with Reference to	
		Revenue Receipts	Revenue Expenditure
1999-2000	845	15.325	13.955
2000-01	769	13.587	11.615
2001-02	1047	16.135	15.345
2002-03	1095	14.507	15.251
2003-04	1246	15.173	16.069

Interest payments increased steadily by 47 per cent from Rs. 845 crore in 1999-2000 to Rs. 1,246 crore in 2003-04 primarily due to ever increasing borrowings. The interest payment was on internal debts (Rs. 638 crore), loans raised from Central Government (Rs. 377 crore) and other obligations (Rs. 231 crore). During 2003-04 interest payments accounted for 15 per cent of revenue receipts and 16 per cent of revenue expenditure.

1.7 Expenditure by Allocative priorities

The expenditure of the State in the nature of plan, capital and developmental expenditure reflects its quality. Higher the ratio of these components to total expenditure, better is its quality. Table 11 gives these ratios during 1999-2004:

Table 11: Quality of Expenditure (per cent to total expenditure)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Plan Expenditure	22.10	20.53	26.32	25.99	26.87	24.61
Capital Expenditure	10.51	11.58	15.22	16.52	19.51	15.06
Developmental Expenditure	63.60	66.68	62.38	62.68	64.29	63.93

(Total expenditure does not include Loans and Advances)

The share of capital expenditure showed a significant increase from 10.51 *per cent* in 1999-2000 to 19.51 *per cent* in 2003-04. Developmental expenditure increased marginally from 62.68 *per cent* in 2002-03 to 64.29 *per cent* in 2003-04.

Out of the developmental expenditure of Rs. 6,194 crore during the year, Social services accounted for 37 *per cent* (Rs. 2,315 crore). Expenditure on General Education, Health, Medical and Family Welfare, Water supply and sanitation constituted 88 *per cent* of the expenditure on social sector during 2003-04.

Table 12: Social Sector Expenditure (Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Education	799	867	865	903	939
Health, Medical and Family Welfare	383	382	432	432	433
Water Supply and sanitation	421	499	499	542	666
Total	1603	1748	1796	1877	2038
As a percentage of expenditure on Social sector	92.45	92.49	92.39	89.72	88.03

Similarly, the expenditure on Economic Services (Rs. 3,879 crore) accounted for 63 *per cent* of the development expenditure (Rs. 6,194 crore) during 2003-04. Of which, Irrigation and Flood Control, Energy and Transport accounted for 65 *per cent*.

Table 13: Economic Sector Expenditure (Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Irrigation and Flood Control	145	167	177	198	258
Energy	1544	1811	1399	1628	1969
Transport	117	177	245	285	280
Total	1806	2155	1821	2111	2507
As a percentage of Expenditure on Economic sector	70.29	69.11	59.20	63.99	64.63

1.7.1 Financial Assistance to Local Bodies and other Institutions

(i) **Extent of assistance:** The quantum of assistance provided department-wise to different local bodies etc. during the period of five years ending 2003-04 was as follows:

Table 14: Financial Assistance to local bodies and other institutions (Rupees in crore)

Name of the Department	1999-2000	2000-01	2001-02	2002-03	2003-04
Education	61.79	77.66	76.02	76.77	43.11
Housing and Urban Development	99.42	61.27	61.62	65.96	71.66
Agriculture	12.71	46.21	40.40	40.66	36.74
Art and culture	4.00	4.28	4.52	3.50	3.31
General Administration	2.22	2.40	2.93	2.75	3.29
Industries	Nil	4.87	2.89	3.00	2.43
Tourism	2.16	0.98	2.66	3.87	2.41
Law and Justice	1.16	1.76	1.22	1.65	0.92
Health family welfare and Medical	Nil	0.52	0.55	1.14	0.70
Others	2.48	10.36	22.22	0.04	1.18
Total	185.94	210.31	215.03	199.34	165.75
Percentage of increase (+)/decrease (-) over previous year	(+) 55.97	(+) 13.106	(+) 2.244	(-) 7.297	(-) 16.851
Assistance as a percentage of Revenue expenditure	3.071	3.176	3.152	2.776	2.138

The total assistance at the end of 2003-04 decreased by 11 *per cent* over the level of 1999-2000, and by 17 *per cent* as compared to previous year mainly as a result of decreased assistance to education sector. The assistance to local bodies as a percentage of total revenue expenditure had, also decreased from three *per cent* in 2000-01 to two *per cent* in 2003-04.

ii) 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 upto 2002-03, 9304 UCs for an aggregate amount of Rs. 1,500.89 crore was awaited as on 30 September 2004. Department-wise break-up of UCs not received up to 30 September 2004 in respect of grants paid during 2001-03 is given in *Appendix-4*. In the absence of utilisation certificates, it was not clear as to how the departmental officers satisfied themselves whether and to what extent recipients utilized the grants for the purpose for which these were paid.

(iii) Delay in 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. The details of two defaulting departments which had not furnished information for 2003-04 is given in *Appendix-5*. The particulars of

35 bodies/authorities whose 126 annual accounts for 2003-04 and earlier years were awaited are indicated in *Appendix-6*.

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 period shown against each of them.

Table 15

S. No	Name of the Body	Period for which Accounts awaited	No. of Accounts
Section 19 (3)			
1.	Khadi and Village Industries Board	2001-02 to 2003-04	3
Section 20 (1)			
2.	Sher-E-Kashmir University of Agricultural Sciences and Technology, Kashmir	2003-04	1
3.	Sher-E-Kashmir University of Agricultural Sciences and Technology, Jammu	2002-03 and 2003-04	2

1.8 Assets and liabilities

The Government accounting system does not cover comprehensive accounting of the fixed assets like land and buildings etc. owned by Government. However, the Government Accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. *Appendix-7* gives an abstract of such liabilities and the assets as on 31 March 2004, compared with the corresponding position on 31 March 2003. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. *Appendix-7* shows that the liabilities and assets grew by 10 *per cent* and 13 *per cent* respectively. The liabilities of Government of Jammu and Kashmir depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to retired state employees, guarantees/letters of comforts issued by the State Government. *Appendix-8* depicts the Time Series Data on State Government Finances for the period 1999-2004.

1.8.1 Financial results of irrigation works

The financial results of six irrigation projects with capital outlay of Rs. 134.51 crore showed that revenue realised during 2003-04 (Rs. 21.02 lakh) was only 0.16 *per cent* of the capital invested. After meeting the working and maintenance expenditure (Rs. 1.23 crore) and interest charges (Rs. 39.77 lakh) the net loss was Rs. 62.45 lakh.

1.8.2 Incomplete projects: As per the information furnished by the State Government there were 194 incomplete projects as of March 2004 in which Rs. 757.18 crore were blocked. This showed that the Government is spreading its resources thinly without prioritisation which failed to yield any return.

1.8.3 Investments and returns: As on 31 March 2004, Government had invested Rs. 349.93 crore in its statutory corporations, Government companies, joint stock companies and co-operative Societies. Average return on this investment was only 3.13 *per cent* during the last five years. With an average interest rate of 10.04 *per cent* being paid by Government on its borrowings the average annual subsidy amounted to 6.91 *per cent* and the implicit subsidy during the period 1999-2004 was Rs. 124.47 crore.

Table No 16: Return on Investment

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Investment (Rs. in crore)	355.05	359.60	363.35	375.27	349.93	360.64
Returns (Rs. in crore)	7.73	-Nil-	19.53	13.34	15.92	11.30
Percentage of returns	2.18	-Nil-	5.38	3.56	4.55	3.13
Average interest rate paid by Government	11.25	8.84	10.65	9.64	9.84	10.04
Difference between interest rates and return	9.07	8.84	5.27	6.08	5.29	6.91
Implicit subsidy (Rs. in crore)	32.20	31.79	19.15	22.82	18.51	24.92

1.8.4 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 2004 was Rs. 837.13 crore. Interest received on such loans had varied from 0.67 *per cent* to 2.36 *per cent* during 1999-2004 (Table 17). Total implicit subsidy during 1999-2004, on such loans was Rs. 302.62 crore.

Table 17: Average Interest received on Loans advanced by the State Government

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	469.07	555.17	599.93	515.25	773.37
Amount Advanced during the year	90.64	58.58	47.12	340.20	68.30
Amount repaid during the year	4.54	13.82	131.80	82.07	4.54
Closing Balance	555.17	599.93	515.25	773.37	837.13
Net Addition	86.10	44.76	(-) 84.68	258.12	63.76
Interest Received	0.67	1.64	2.36	1.03	1.09
Interest Received as per cent to Loans advanced	0.13	0.28	0.42	0.16	0.14
Average interest paid by the State (per cent)	11.25	8.84	10.65	9.64	9.84
Difference between interest paid and received (per cent)	11.12	8.56	10.23	9.48	9.70
Implicit subsidy	56.95	49.44	57.04	61.08	78.11

1.8.5 Commercial activities-Lack of accountability in the use of public funds in 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 the budgetary releases prepare the accounts in time and submit the same to Accountant General for Audit.

As of March 2004 preparation of proforma accounts in respect of two departmentally managed units viz. Directors, Consumer Affairs Public distribution Department, Jammu and Srinagar was in arrears for the period of five and 29 years respectively.

1.8.6 Management of cash balances: Ideally, 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 366 days during 2003-04.

Table 18: Ways and Means and overdraft of the State and Interest Paid thereon

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Ways and Means Advances/overdraft					
Taken in the year	5274.57	5928.19	6000.15	7212.35	8345.85
Outstanding	1024.34	1183.55	1382.55	1381.10	1546.51
Interest Paid	99.23	71.57	130.88	137.58	126.99
Number of Days	366	365	365	365	366

1.8.7 Undischarged liabilities

i) Fiscal liabilities-public debt and guarantees: 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. Table 19 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table 19: Fiscal Liabilities-Basic Parameters (value in Rupees crore and ratios in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Fiscal Liabilities\$	8182	9224	10443	12279	13038	10633
Rate of Growth	19.71	12.74	13.22	17.58	6.18	13.93
Ratio of Fiscal Liabilities to						
GSDP	58.61	60.37	61.16	65.60	63.54	62.14
Revenue Receipt	148.39	162.97	160.93	162.68	158.77	158.60
Own Resources	832.35	775.13	824.88	646.95	723.13	753.90
Buoyancy of Fiscal Liabilities						
GSDP	0.884	1.350	1.123	1.827	0.643	1.176
Revenue Receipt	0.884	4.810	0.902	1.077	0.702	1.129
Own resources	0.540	0.605	2.069	0.352	φ	1.320

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

Overall fiscal liabilities of the State increased from Rs. 8,182 crore in 1999-2000 to Rs. 13,038 crore in 2003-04 on an average growth rate of 13.93 *per cent*. The ratio of these liabilities to GSDP also increased from 58.61 *per cent* in 1999-2000 to 63.54 *per cent* in 2003-04. These liabilities stood at 1.59 times of its revenue receipts and 7.23 times its own resources.

In addition to these liabilities, Government has guaranteed loans raised by various Corporations and others which at the end of 2003-04 stood at Rs. 1,612.29 crore. The guarantees are in the nature of contingent liabilities, which were about 20 *per cent* of revenue receipts of the State. 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.

The fiscal liabilities during 1999-2004 had grown faster than the State's GDP, and revenue receipts. Average buoyancy of these liabilities with respect to GSDP was 1.176 indicating that for each one per cent increase GSDP fiscal liabilities were growing at the rate of 1.18 *per cent*.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. However, in the case of Jammu and Kashmir, increasing interest rates and declining trend of GSDP growth has resulted in negative interest spread in two out of five years (Table 20). This negative spread of interest may endanger debt sustainability.

Table 20: Debt Sustainability-Interest Rate and GSDP Growth (in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Weighted Interest Rate	11.25	8.84	10.65	9.64	9.84	10.04
GSDP Growth	22.30	9.43	11.77	9.62	9.62	11.86
Interest spread	11.05	0.60	1.12	(-) 0.02	(-) 0.22	1.82

φ Own resources had a negative trend

Another important indicator of the debt sustainability is the net availability of the borrowed funds after payment of principal and interest. Table 21 below gives the position of receipt and re-payment of internal debt and other fiscal liabilities of the State over the last five years. The average net funds available from the total receipts on account of internal debt, loans and advances from Government of India and other liabilities after providing for interest and re-payments were 3.14 *per cent* of the total debt receipts during the period 1999-2004.

Table 21: Net Availability of Borrowed Funds (Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Internal debt						
Receipt	5487	6236	6470	811*	9316	5664
Repayment (Principal+ Interest)	5622	5999	6225	606*	8930	5476
Net Fund Available	(-) 135	237	245	205	386	188
Net Fund Available (per cent)	(-) 2.46	3.80	3.79	25.27	4.14	3.32
Loans and Advances from GOI						
Receipt	935	435	393	579	718	612
Repayment (Principal+ Interest)	587	615	846	739	1598	877
Net Fund Available	348	(-) 180	(-) 453	(-) 160	(-) 880	(-) 265
Net Fund Available (per cent)	37.22	(-) 41.38	(-) 115.27	(-) 27.63	(-) 122.56	(-) 43.30
Other obligations^o						
Receipt	1098	1100	1408	1756	1533	1379
Repayment (Principal+ Interest)	809	883	1028	1060	1527	1061
Total liabilities						
Receipt	7520	7771	8271	3146*	11567	7655
Payments	7018	7497	8099	2405*	12055	7415
Net receipts	502	274	172	741	(-) 488	240
Net Funds Available (per cent)	6.68	3.53	2.08	23.55	(-) 4.22	3.14

During 2003-04, the net fund availability was negative as against the debt receipts of Rs. 11,567 crore, Government used Rs. 12,055 crore on repayment of principal and interest on debt.

1.9 Management of deficits

1.9.1 Fiscal imbalances: 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 applied are important pointers to its fiscal health. The revenue deficit of the State, which in turn indicates the excess of its revenue expenditure over revenue receipts, ranged between Rs. 334 crore and Rs. 961 crore during 1999-2002. The State had a

* Comparative lower 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.

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

revenue surplus of Rs. 368 crore and Rs. 458 crore during 2002-03 and 2003-04 respectively. The fiscal deficit which represents the total borrowings of the Government and the total resource gap increased from Rs. 1,311 crore in 2002-03 to Rs. 1,487 crore in 2003-04.

As proportion to the State's GDP, the revenue deficit during 1999-2004 was 1.18 *per cent*.

Table 22: Fiscal Imbalances-Basic Parameters (values in Rupees crore and ratios in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue surplus (+)/ Deficit (-)	(-) 541	(-) 961	(-) 334	(+) 368	(+) 458	(-) 202
Fiscal Deficit	(-) 1338	(-) 1873	(-) 1474	(-) 1311	(-) 1487	(-) 1497
Primary Deficit	(-) 493	(-) 1104	(-) 427	(-) 216	(-) 241	(-) 496
RD/GSDP	(-) 3.875	(-) 6.290	(-)1.956	(+) 1.966	(+) 2.232	(-)1.181
FD/GSDP	(-) 9.584	(-) 12.259	(-)8.632	(-) 7.004	(-) 7.247	(-)8.749
PD/GSDP	(-) 3.531	(-) 7.226	(-)2.501	(-) 1.154	(-) 1.175	(-)2.899
RD/FD	40.43	51.31	22.66	NA*	NA*	13.49

(Negative figures indicate deficit)

1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 23 below presents a summarised position of Government finances over 1999-2004, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facts.

* Not applicable

Table 23: Indicators of Fiscal Health (in per cent)

Fiscal indicators	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
I. Resource Mobilization						
Revenue Receipt/GSDP	39.50	37.05	38.00	40.32	40.02	39.07
Revenue buoyancy	0.999	0.281	1.245	1.696	0.915	1.041
Own tax/GSDP	4.140	4.883	4.708	5.518	5.702	5.061
II. Expenditure Management						
Total Expenditure/GSDP	49.12	49.40	47.41	47.76	47.29	48.09
Revenue Receipt/Total Expenditure	80.41	74.99	80.16	84.42	84.63	81.24
Revenue Expenditure/Total Expenditure	88.30	87.73	84.29	80.30	79.91	83.69
Plan Expenditure/Total Expenditure	22.10	20.53	26.32	25.99	26.87	24.61
Capital Expenditure/Total Expenditure	10.51	11.58	15.22	16.52	19.51	15.06
Development Expenditure/Total Expenditure	63.60	66.88	62.38	62.68	64.29	63.93
Buoyancy of TE with RR	1.039	3.796	0.496	0.640	0.968	0.888
Buoyancy of RE with RR	1.047	3.528	0.208	0.320	0.908	0.681
III. Management of Fiscal Imbalances						
Revenue surplus (+) deficit (-) (Rs. in crore)	(-) 541	(-) 961	(-) 334	(+) 368	(+) 458	(-) 202
Fiscal deficit (Rs. in crore)	(-) 1338	(-) 1873	(-) 1474	(-) 1311	(-) 1487	(-) 1497
Primary Deficit (Rs. in crore)	(-) 493	(-) 1104	(-) 427	(-) 216	(-) 241	(-) 496
Revenue Deficit/Fiscal Deficit	40.43	51.31	22.66	NA*	NA*	13.49
IV. Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/GSDP	58.61	60.37	61.16	65.60	63.54	62.14
Fiscal Liabilities/RR	148.39	162.97	160.93	162.68	158.77	158.60
Buoyancy of FL with RR	0.884	4.810	0.902	1.077	0.702	1.129
Buoyancy of FL with OR	0.540	0.605	2.069	0.352	♦	1.320
Interest spread	11.05	0.60	1.12	-0.02	(-) 0.22	1.82
Net Funds Available	6.68	3.53	2.08	23.55	(-) 4.13	3.16
V. Other Fiscal Health Indicators						
Return on Investment	2.18	0.00	5.38	3.56	4.55	3.13
BCR (Rs. in crore)	(-) 2721	(-) 1820	(-) 1644	(-) 1002	(-) 1527	(-) 1743
Financial Assets/Liabilities	1.13	1.02	0.99	1.02	1.05	1.04

The ratio of own taxes to GSDP had shown continuous improvement in the five-year period. The ratio of Revenue receipt to GSDP and its buoyancy was on a rising trend during 2001-02 and 2002-03, but the revenue buoyancy declined in 2003-04. Various ratios concerning expenditure indicate quality of expenditure and sustainability in relation to resources. The total expenditure to GSDP is buoyant. Revenue expenditure is on the decreasing trend over the five-year period 1999-2004 and comprises 80 per cent of total expenditure in 2003-04. Although the development expenditure to total expenditure showed a declining trend during 2000-2002, it did not sustain for long. These factors have not also resulted in reducing the State's dependence on borrowings to meet its expenditure

* Not applicable

♦ Own resources had a negative trend

obligations on Revenue account. Fiscal deficit year after year indicates growing fiscal imbalances of the State. Similarly, increases in the ratio of revenue deficit to fiscal deficit indicate that the application of borrowed funds was largely to meet current consumption. The decreasing primary deficit indicates increasing interest payments and lesser availability of borrowed funds for developmental purposes.

Increasing ratio of fiscal liabilities to GSDP and revenue receipts together with a growing fiscal deficit on account of increased interest payments indicate that the State is gradually getting into a debt trap. Also, the higher buoyancy of the debt with regard to its revenue receipts indicate its unsustainability. The average interest paid by the State on its borrowings during 2002-2004 has also exceeded the rate of growth of its GSDP, violating the cardinal rule of debt sustainability. There has also been a decline in net availability of funds (except 2002-03) from its borrowings due to a larger portion of these funds being used for debt servicing. The State's return on investment was insignificant. The balance from current revenue of the State has also continued to be negative indicating continued dependence on borrowings for plan or developmental expenditure.

1.11 Impact of Government policies

Appendix-9 depicts the progress achieved during 2003-04 as compared to 2001-02 and 2002-03 in various sectors. It would be seen that the percentage of literacy has remained static at 54 *per cent* during 2001-04. No new institutions were opened in Health and Family Welfare, Technical Education and Animal Health care sectors. In the power sector, generation has decreased during 2002-03, thereby increasing the purchase of power to fulfill the demand of the consumers.