CHAPTER I
FINANCES OF THE STATE GOVERNMENT

Manipur is a special category State and is located in the north-eastern corner of India having a population of 27.21 lakh (2011 census). The density of population is 122 per sq. km. The land-locked State is bounded by Nagaland in the North, Mizoram in the south, Cachar district of Assam in the west, and has an international border-line with Myanmar in the east. The total geographical area of 22,327 sq. km. of the State is divided into two parts – the central valley portion and hill portion surrounding the valley. There are nine districts in the State, of which four are in the valley and five districts are located in the hills. The State is connected by three National Highways (NH) *viz.,* NH-39, NH-53 and NH-150. There is an airport at Imphal, the capital town of the State. Presently, rail-line connects only Jiribam town at the border of Assam.

GSDP[1] of the State grew at the rate of 10.63 *per cent* (₹ 9198 crore) during 2010-11 against a growth of 12.37 *per cent* (₹ 8314 crore) during 2009-10.The Compounded Annual Growth Rate (CAGR) of GSDP of the State during 2001-11 was 11.79 *per cent* (Appendix 1.1 D).

This chapter provides a broad perspective of the finances of the Government of Manipur during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years.

1.1 Summary of current year's fiscal transactions

The table below presents the summary of the State Government's fiscal transactions during the current year (2010-11) *vis-à-vis* the previous year while Appendix 1.2 provides details of receipts and disbursements as well as overall fiscal position during the current year.

[1] Information as per Department of Economics and Statistics, Government of Manipur.

Table 1.1 Summary of Current Year's Fiscal Operations

(₹ in crore)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section-A: Revenue					**Non - Plan**	**Plan**	**Total**
3873.14	Revenue receipts	5429.94	3014.40	Revenue expenditure	2979.44	1098.57	4078.01
196.04	*Tax revenue*	*267.05*	*1181.29*	*General services*	*1618.53*	*24.22*	*1642.75*
239.75	*Non-tax revenue*	*259.88*	*891.16*	*Social services*	*662.83*	*575.64*	*1238.47*
597.56	*Share of Union Taxes/ Duties*	*990.57*	*815.98*	*Economic services*	*584.97*	*498.71*	*1083.68*
2839.79	*Grants from Government of India*	*3912.44*	*125.97*	*Grants-in-aid and Contributions*	*113.11*	-	*113.11*
Section-B: Capital							
-	Misc. Capital receipts	-	1587.78	Capital outlay	0.99	1917.07	1918.06
3.28	Recoveries of Loans and Advances	1.19	6.89	Loans and Advances disbursed	0.25	3.55	3.80
519.89	Public debt receipts *	298.40	116.75	Repayment of public debt *			115.02
-	Contingency Fund	-	-	Contingency Fund			-
3218.15	Public Account receipts	4008.55	3137.29	Public Account disbursements			3634.11
616.05	Opening Cash Balance	367.40	367.40	Closing Cash Balance			356.48
8230.51	**Total**	**10105.48**	**8230.51**	**Total**			**10105.48**

(source: Finance Accounts)

* Excluding net transactions under Ways and means advances and Overdraft, if any

Following are the significant changes during 2010-11 over the previous year:

- **Revenue receipts** increased significantly by ₹ 1556.80 crore (40 *per cent*) over the previous year. Tax revenue increased by ₹ 71.01 crore and State's share of Union Taxes and Duties by ₹ 393.01 crore. Non–tax revenue and Grants-in-aid from Government of India (GoI) also increased by ₹ 20.13 crore and ₹ 1072.65 crore respectively. The robust growth in revenue receipt was mainly contributed by the Grants-in-aid from GoI;
- **Revenue expenditure** and **Capital expenditure** increased by ₹ 1063.61 crore (35 *per cent*) and ₹ 330.28 crore (21 *per cent*) respectively over the previous year;
- **Disbursement of Loans and Advances** decreased by ₹ 3.09 crore (45 *per cent*) over the previous year. Recoveries of Loans and advances also decreased by ₹ 2.09 crore over the previous year;
- **Public debt receipts** decreased sharply by ₹ 221.49 crore (43 *per cent*) over the previous year. Repayments of public debt also decreased by ₹ 1.73 crore over the previous year;
- **Public Accounts receipts and disbursements** increased by ₹ 790.40 crore (25 *per cent*) and ₹ 496.82 crore (16 *per cent*) over the previous year. Thus, net receipts increased by ₹ 293.58 crore during the year;

- The total inflow during 2010-11 was ₹ 10,105.48 crore against ₹ 8,230.51 crore in 2009-10, while the total outflow during 2010-11 was ₹ 9749 crore against ₹ 7863.11 crore during the previous year, leading to marginal decline in cash balances of the State by ₹ 10.92 crore (3 *per cent*) over the previous year.

1.2 Fiscal Responsibility and Budget Management (FRBM) Act, 2005

As per recommendation of the Twelfth Finance Commission (TFC), the State Government has enacted (August 2005) the Manipur Fiscal Responsibility and Budget Management Act (MFRBM) Act, 2005 and MFRBM Rules. The State Government has also developed its own Fiscal Correction Path for the period 2005-10 detailing the structural adjustments to achieve its fiscal targets. A Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets in each year was placed in the State Assembly to fine tune its fiscal targets. According to the recommendations of the Thirteenth Finance Commission (ThFC), *the states should amend/enact FRBM Acts to build in the fiscal reform path worked out. State-specific grants recommended for a state should be released upon compliance*. Accordingly, the MFRBM Rules, 2010 has been amended (July 2010) by the State Government fixing the target of Fiscal deficit – GSDP ratio for fiscal deficit correction path.

The performance of the State during 2010-11 in terms of fiscal targets fixed for major fiscal parameters/variables laid down in the FRBM Act and MTFPS *vis-à-vis* achievements is given in the table below:

Table 1.2 Trends in Major fiscal parameters/variables *vis-à-vis* projections for 2010-11

(₹ in crore)

Fiscal parameters	Targets as per FRBM Act	Projections made in MTFPS	Actual
Revenue deficit/surplus	Revenue deficit targeted at 0.00 (by 31.3.2009)	24.56 *per cent* of Total Revenue Receipts i.e 24.56 % x 5429.94 i.e ₹ 1333.59 crore	(+) 1352
Fiscal deficit/ GSDP *(per cent)*	3 *per cent* of GSDP (by 31.3.2009)	3.48 *per cent* of GSDP	6.18 *per cent* (FD –₹ 569 cr and GSDP-₹ 9198 cr)
State's outstanding guarantees	Not to exceed thrice the State's own tax revenue receipts of the second preceding year i.e.₹ 510.21 crore (170.07 x 3).	NA	233
Salary expenditure	35 *per cent* of revenue expenditure net interest payment and pension *i.e.* 35 *per cent* of (4078.01–364.78 – 400.15) i.e. ₹ 1159.58 crore.	NA	1677.95[2]

(source: FRBM Act/Rules, MTFPS *etc*)

The above table reveals that the State could achieve the targets of fiscal parameters in respect of Revenue deficit and Outstanding guarantees. Though fiscal deficit (FD) was reduced by ₹ 164 crore from ₹ 733 crore in previous year to ₹ 569 crore in 2010-11, the target of FD as percentage of GSDP could not be achieved as set in the FRBM act/MTFPS. As compared to previous year FD-GSDP ratio of 8.82 *per cent*, the ratio registered 6.18 *per cent*.

[2] including ₹ 4.81 crore on wages and excluding ₹ 36.55 crore (Leave Encashment benefits) booked under 'M.H-2071-Pensions and Other Retirement Benefits'

As per ThFC recommendation, the State is also required to reduce the FD-GSDP ratio to 3.5 *per cent* in 2011-13 and to 3 *per cent* thereafter. The current trend of FD-GSDP ratio indicates that the State Government may require to give special attention to meet this parameter.

As in the previous years, the curb on Salary expenditure could not be achieved *vis-a-vis* FRBM target. As compared to an expenditure of ₹ 1140.77 crore incurred as salary and wages in 2009-10, an amount of ₹ 1677.95 crore was incurred under the salary and wages head in 2010-11; ₹ 537.18 crore (47 *per cent*) more than the previous year.

1.3 Growth and composition of Gross State Domestic Product

Gross State Domestic Product (GSDP), a major fiscal indicator is considered to be a key factor for assessing the performance of the State's economy. It is prepared based on income generating approach that measures gross income generated by factors of production physically located within the geographical boundaries of the State and also represents the volume of goods and services produced within the State. During 2010-11, the advance estimate GSDP for the State of Manipur was ₹ 9198 crore, which was arrived at on the basis of current price. The table below shows the trend of growth of GSDP for the last five years.

Table 1.3: GSDP and the rate of growth during 2006-11

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Gross State Domestic Product*	6137	6799	7399	8314 (Q)	9198(A)
Growth rate of GSDP	7.22	10.79	8.82	12.37	10.63

* at current price and 2004-05 as base year; (Q) – Quick estimates, (A) – Advanced estimates
(Source: Economics and Statistics Department)

As per the preliminary GSDP figures of 2009-11, the State could register a robust GSDP growth as compared to earlier years (2006-09). The advance estimates of GSDP of the State at ₹ 9198 crore was higher than the ThFC and MTFPS projection of ₹ 8115 crore. The registered growth rate of GSDP at 10.63 *per cent* in 2010-11 was also marginally higher than the ThFC projected annual growth rate of 10.58 *per cent*.

1.4 Budget analysis

The budget papers presented by State Government provide description of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Several reasons may account for the deviation of actual realization from budget estimates e.g unanticipated and unforeseen events or under/over estimation of expenditure/revenue, *etc*. The table below and chart presents the consolidated picture of budget estimates and actuals of the State finances during 2010-11.

Table 1.4: Statement showing budget estimates and Actuals

(₹ in crore)

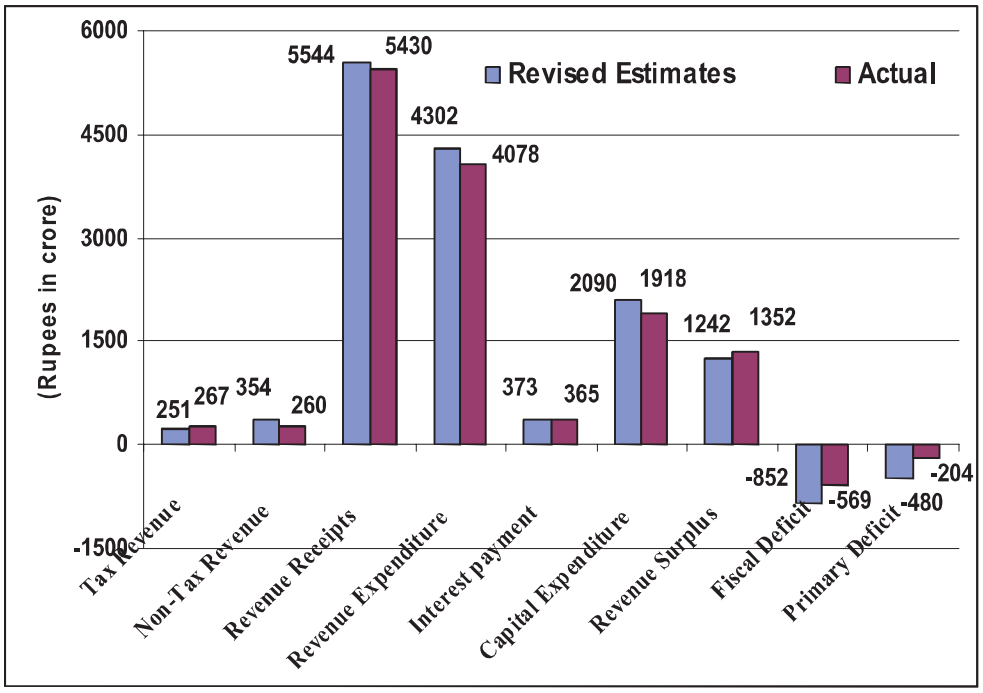
Parameters	2010-11			Percentage of excess (+)/ shortfall (-) w.r.t RE
	Budget Estimates (BE)	Revised Estimates (RE)	Actual	
Tax revenue	288.74	250.95	267.05	6.42
Non-tax revenue	456.63	353.50	259.88	(-) 26.48
Revenue receipts	5368.27	5544.34	5429.94	(-) 2.06
Revenue expenditure	4049.79	4301.96	4078.01	(-) 5.21
Interest payment	361.40	372.66	364.78	(-) 2.11
Capital expenditure	1765.06	2090.32	1918.06	(-) 8.24
Disbursement of Loans & Advances	18.20	8.00	3.80	(-) 52.50
Revenue surplus	1318.48	1242.38	1351.93	8.82
Fiscal deficit	- 282.00	- 852.28	- 568.74	(-) 33.27
Primary deficit (-)/surplus (+)	- 79.40	- 479.62	- 203.96	(-) 57.47
Capital receipts	179.12	-	-	-
Recoveries of Loans and Advances	3.66	3.66	1.19	(-) 67.49

(source: Budget documents and Finance Accounts)

The chart below presents the budget estimates and actuals for some important fiscal parameters during 2010-11.

Chart 1.1: Selected fiscal parameters, budget estimates *vis-à-vis* Actuals

(₹ in crore)



During 2010-11 revenue receipts, revenue expenditure and capital expenditure were less than the budget projections. In Non-tax revenue collection, the shortage was 27 *per cent* less than the revised budget figures. Actual tax revenue collection, however, was more than the budget figures by ₹ 16 crore. The budget project of Interest payment was relatively accurate as there was

marginal difference with the actual expenditure. The key parameters of deficits indicators *viz*., revenue surplus, fiscal deficit and primary deficit were better than the budget projects. While revenue surplus was more than the budget figures by ₹ 110 crore, fiscal deficit was less than the budget figures by ₹ 283 crore. In case of primary deficit, it was less than the budget by 58 *per cent* (₹ 276 crore).

1.5 Resources of the State

1.5.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, Non-tax revenues, State's share of union taxes and duties and Grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals from Public Account. Table-1.1 presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while Chart 1.2 depicts the trends in various components of the receipts of the State during 2006-11. Chart 1.3 depicts the composition of resources of the State during the current year.

Chart 1.2: Trends in Receipts

(Rupees in crore)

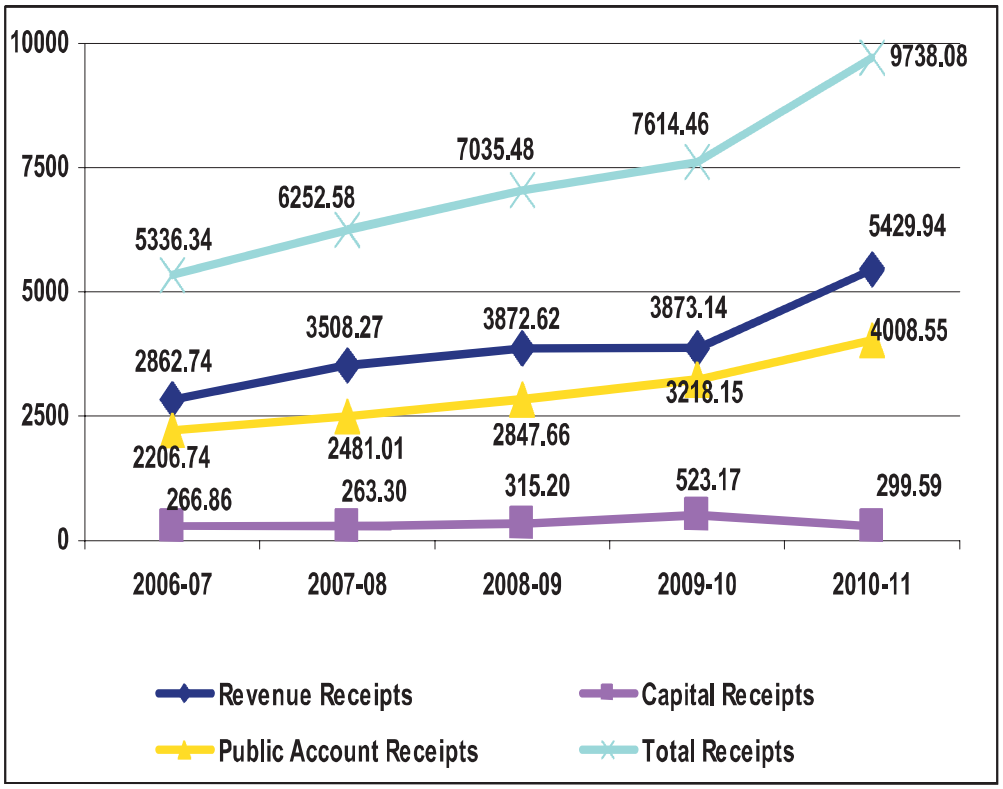
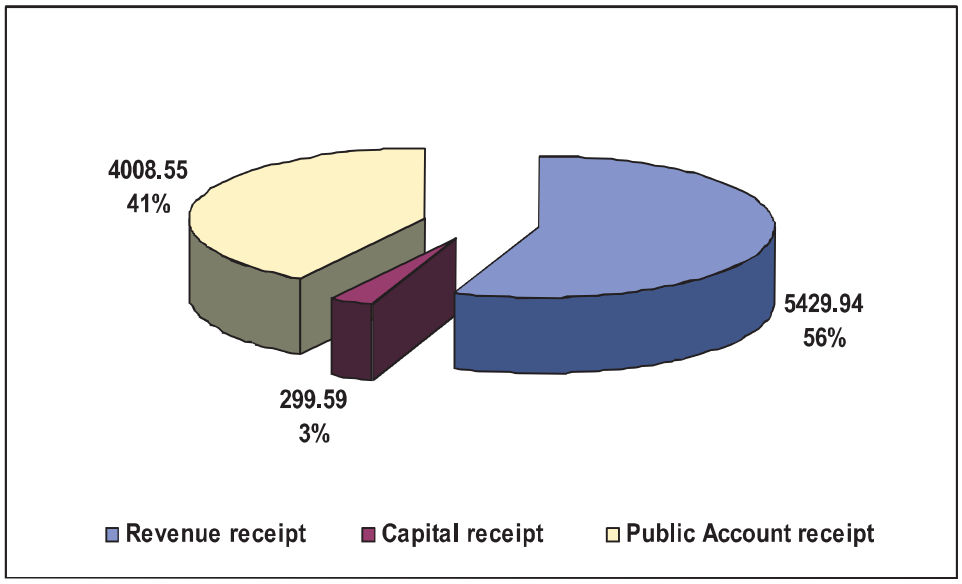


Chart 1.3: Composition of Receipts during 2010-11

(₹ in crore)



(Percentage shown in the chart has been worked against Total Receipt)

The total receipts during the current year has increased by ₹ 2123.62 crore (28 *per cent*) over the previous year. The increase in total receipt was due to increase in revenue receipts (₹ 1556.80 crore) and Public Account receipts (₹ 790.40 crore) partially offset by decrease in capital receipts (₹ 223.58 crore).

The total receipts of the State for 2010-11 was ₹ 9738.08 crore, of which ₹ 5429.94 crore (56 *per cent*) came from revenue receipts and ₹ 4008.55 crore (41 *per cent*) came from Public Account receipts. Capital receipts contributed ₹ 299.59 crore which formed three *per cent* of the total receipts.

Revenue receipts which remained stagnant in the previous year increased significantly in 2010-11 and registered a growth of 90 *per cent* from ₹ 2862.74 crore in 2006-07 to ₹ 5429.94 crore in the current year. During these five years (2006-11), the Public Account receipts increased steadily by 82 *per cent* from ₹ 2206.74 crore in 2006-07 to ₹ 4008.55 crore in 2010-11.

Capital receipts declined by ₹ 223.58 crore from ₹ 523.17 crore in 2009-10 to ₹ 299.59 crore in 2010-11. This has arrested the steady growth of capital receipts from ₹ 266.86 crore in 2006-07 to ₹ 523.17 crore in 2009-10 and will unburden to some extent repayment obligations which had built up steadily during 2006-10.

1.5.2 Funds transferred to State Implementing Agencies outside the State budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[3] for the implementation of various schemes/programmes in social and economic sectors recognized as critical especially for human and social development of population. As these

[3] Refer glossary in Appendix 4.1

funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent State's receipts and expenditure as well as other fiscal variables/parameters derived from them are understated. During 2010-11, the Government of India has transferred an amount of around ₹ 931.58 crore to the Implementing Agencies. Details are given in Appendix 1.3. Significant amount released for major programmes/schemes are detailed in the table below:

Table-1.5: Funds transferred directly to State Implementing Agencies

(₹ in crore)

Sl. No.	Programme/Scheme	Implementing Agency in the State	Total fund released by the GoI during 2010-11
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS)	Project Director, District Rural Development Agencies (DRDA)	339.45
2	Sarva Shiksha Abhiyan (SSA)	State Implementation Society, SSA	132.53
3	Pradhan Mantri Gram Sadak Yojana (PMGSY)	Manipur State Rural Roads Development Agency(MSRRDA)	88.83
4	National Rural Health Mission (NRHM)	State Health Society, State TB Society *etc.*	51.80
5	National Rural Drinking Water Programme	SWSM, Manipur	40.21
6	Human Resource Development for Health	Administrative Officer, Medical Directorate	30.00
7	Integrated Watershed Management Programme(WMP)	Project Director, District Rural Development Agencies (DRDA)	26.70
8	Rashtriya Madhyamic Shiksha Abhiyan (RMSA)	State Implementation Society, SSA	25.26
9	Infrastructure Development for product	Manipur Development Society	25.13
10	National AIDS Control Programme including STD Control	Manipur State AIDS Control Society, Social Awareness Service	23.03
11	Indira Awaz Yojana (IAY) Rural Housing	7 DRDAs	20.53
12	National Bamboo Mission	State Bamboo Steering Committee	13.07
		Total	**816.54**

(Source: Finance Accounts)

The above table shows that an amount of ₹ 339.45 crore (about 36 *per cent* of the total funds transferred) was given for Mahatma Gandhi National Rural Employment Guarantee Programme, ₹ 132.53 crore (about 14 *per cent*) for Sarva Shiksha Abhiyan and ₹ 88.83 crore (about 10 *per cent*) for Pradhan Mantri Gram Sadak Yojana. With the transfer of an amount of around ₹ 931.58 crore directly by the GoI to the State Implementing Agencies, the total availability of State resources increased from ₹ 9738.08 crore to ₹ 10, 669.66 crore during the current year.

There is no single agency monitoring the funds directly transferred by the GoI and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by the State Implementing Agencies and funded directly by the GoI and therefore, utilization of these funds runs the risk of poor accountability. Therefore, it is important to keep the accounts in a uniform manner and report the actual expenditure to the GoI, which would ensure end use of funds.

An analysis of two of these schemes *viz.,* Pradhan Mantri Gram Sadak Yojana (PMGSY) and National Bamboo Mission revealed the following improper maintenance of accounts:

➢ *Pradhan Mantri Gram Sadak Yojana*

The activities of the Pradhan Mantri Gram Sadak Yojana in the State are carried out through Manipur Rural Roads Development Agency (MSRRDA). The MSRRDA transferred the fund released by the GoI to various Programme Implementing Unit (PIU) which are the original implementing Agency. During 2010-11, ₹ 88.83 crore was released by the GoI for the programme.

During test check, it was found that out of ₹ 15.13 crore allotted to PIU, Ukhrul, ₹ 18.25 lakh released under three packages were not found entered in the cash book. Further, instead of ₹ 11.35 lakh released through another package, an amount of ₹ 12.10 lakh had been entered in the cash book. As such an amount of ₹ 0.75 lakh had been entered in the cash book in excess of the amount released.

The PIU, Ukhrul stated (December 2011) that an amount of ₹ 18.25 lakh issued by the MSRRDA in March and April 2010 was received by the PIU only in November 2011. Reasons for such inordinate delay in fund transmission were not stated in the reply. In respect of the discrepancy of ₹ 0.75 lakh between fund released and entry in the cash book, no comment had been offered.

➢ *National Bamboo Mission*

National Bamboo Mission (NBM) is 100 *per cent* centrally sponsored scheme under the Ministry of Agriculture. In Manipur, State Bamboo Steering Committee (SBSC), under the Forest Department is the implementing agency. The activities of NBM in the State are carried out through Forest Development Agencies (FDA), Bamboo Development Agencies (BDA) and one NGO[4].

During 2010-11 an amount of ₹13.07 crore including ₹ 5.91 crore for the NGO was released by GOI for the programme, the details of which are as shown below:-

Table-1.6: Scheme-wise receipt and expenditure under NBM for the year 2010-11

(₹ in crore)

Sl. No.	Name of Implementing Agencies	Fund received
1	FDA/Senapati Forest Division	0.64
2	FDA/Northern Forest Division	1.04
3	FDA/Eastern Forest Division	0.73
4	FDA/Tengnoupal Forest Division	0.76
5	FDA/Southern Forest Division	0.91
6	FDA/Jiribam Forest Division	0.53
7	FDA/Western Forest Division	0.73
8	BDA	1.61
9	SBSC (Overhead & Training of Field Functionaries)	0.17
10	FEEDS/KVK-Sylvan, Hengbung, Senapati District	5.91
11	SBSC (Overhead)	0.04
Grand Total		**13.07**

(Source: Departmental records and records of the Societies)

[4] FEEDS/KVK-Sylvan

During test check, it was found that in the FDA, Southern Forest Division (Sl. No. 5) a total amount of ₹ 31.63 lakh was found entered in the cash book without mentioning the cheque number and the date. In the records of the Bamboo Development Agency (Sl. No. 8), an amount of ₹ 60 lakh released in March 2011 had still not been entered (November 2011) in the cash book of BDA. No reply had been offered as of February 2012.

1.6 Revenue receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and Grants-in-aid from GoI. The trends of revenue receipts over the period 2006-11 are presented in Appendix 1.5 and depicted in the chart below. The trends in revenue receipts relative to GSDP are also presented in the table below:

Chart 1.4: Trends in Revenue receipts

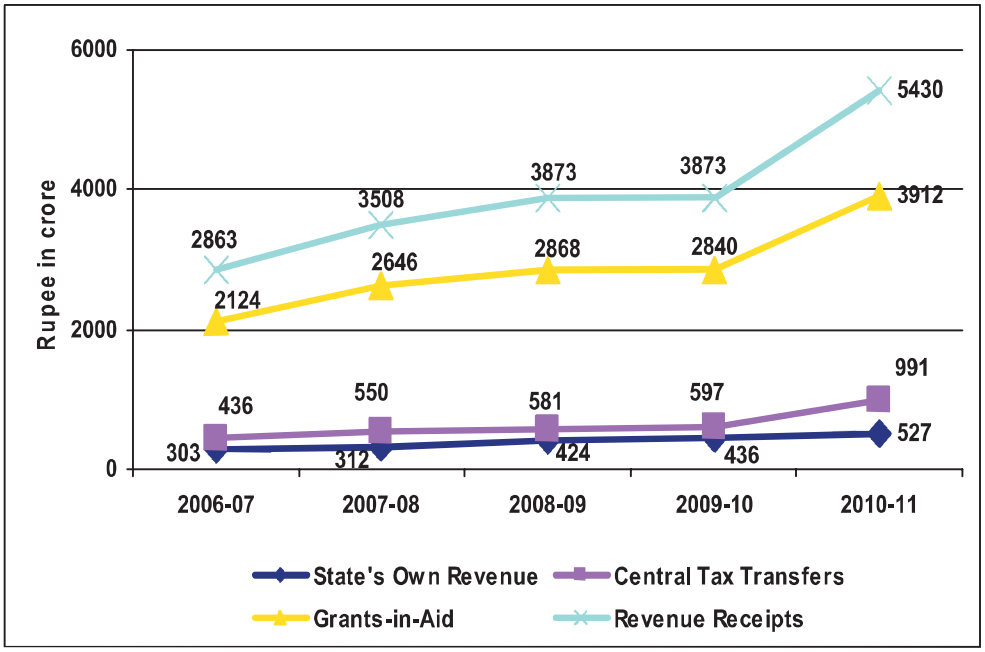


Table 1.7: Trends in Revenue receipts relative to GSDP

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue receipts (RR) (₹ in crore)	2862.74	3508.27	3872.62	3873.14	5429.94
Rate of growth of RR *(per cent)*	*18.85*	*22.55*	*10.39*	*0.01*	*40.19*
State Own taxes* (₹ in crore)	302.61	312.16	423.53	435.79	526.93
Rate of growth of Own taxes *(per cent)*	*76.49*	*3.16*	*35.68*	*2.89*	*20.91*
GSDP (₹ in crore)	6137	6799	7399	8314 (Q)	9198(A)
Rate of growth of GSDP *(per cent)*	*7.23*	*10.79*	*8.82*	*12.37*	*10.63*
R R/GSDP *(per cent)*	46.65	51.60	52.34	46.59	59.03
Buoyancy Ratios[5]					
Revenue buoyancy w.r.t. GSDP	2.61	2.09	1.18	0.0002	3.78
State's Own taxes Buoyancy w.r.t GSDP	10.58	0.29	4.05	0.23	1.97

* *includes both Tax revenue and Non-tax revenue*

(Source: Finance Accounts and records of Directorate of Economics and Statistics)

[5] Refer glossary in Appendix 4.1

Though the State's own taxes remained buoyant as compared to the GSDP during 2010-11, it will have little impact to the revenue position in the State as the contribution of the State's own taxes to the revenue receipts of the State is marginal (about 10 *per cent*). As such, unless the proportion of State's own revenue sources improves, reduced devolution of Central funds in future will have an adverse impact on the State's economy.

1.6.1 General trends

As can be seen from chart 1.4, during 2006-11 around 89 to 91 *per cent* of the revenue receipt of the State came from GoI. The revenue receipts of the State increased by ₹ 2567.20 crore from ₹ 2862.74 crore in 2006-07 to ₹ 5429.94 crore in 2010-11. There were, however, wide inter-year variations in the growth rates, which ranged from 40.19 *per cent* growth (2010-11) to almost nil growth (2009-10). Except for Grants-in-aid from GoI in 2009-10, all the components of revenue receipts have exhibited increases in absolute terms over the period of 2006-11. The almost nil growth in revenue receipts in 2009-10 coincided with the negative growth of Grants-in-aid from GoI in 2009-10; and shows the extent to which the State's economy is dependent on central funds. The revenue receipts remained buoyant *vis-à-vis* GSDP and grew at nearly twice the rate of GSDP or more during 2006-07 except in 2009-10. The buoyancy of the State's own taxes depicted widely fluctuating figures indicating an uncertain trend of rate of growth as compared to GSDP growth rate.

1.6.2 Central tax transfers

The Central tax transfers increased significantly by 66 *per cent* (₹ 394 crore) over the previous year and constituted 18 *per cent* of revenue receipts. The increase was mainly due to transfer of additional amount of ₹ 141.29 crore as Corporation tax during 2010-11 and ₹ 89.59 crore as Customs duties. The central tax transfers also contributed around 25 *per cent* of increase in revenue receipts (₹ 1557 crore) during the year.

1.6.3 Grants-in-aid

Unlike previous year, Grants-in-aid from GoI increased by 38 *per cent* (₹ 1072 crore) in 2010-11 and contributed nearly 69 *per cent* of the incremental revenue receipts during the year. The Grants-in-aid continued to remain the major contributor to the revenue receipts of the State and accounted for 72 *per cent* of the revenue receipts of the State. The increase in Grants-in-aid was mainly contributed by increase in Special Plan Assistance (₹ 258.69 crore), Non-Plan Revenue Deficit Grant (₹ 251.18crore) and Accelerated Irrigation Benefits Programme (₹ 231.25 crore).

1.6.4 State's own resources

As the State's share in Central taxes and Grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for plan schemes *etc.*, the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax

sources. The table below shows the trends of tax and non-tax revenue during the years 2006-11 as well as the variation between the budget estimates of revenue receipts and the actual receipts under the principal heads of tax and non-tax revenue for the year 2010-11.

Table 1.8: Sector-wise component of Tax revenue and Non-tax revenue

(₹ in crore)

Name of component	Year				2010-11		
	2006-07	2007-08	2008-09	2009-10	BE	2010-11	Variation in Actual and BE *(in per cent)*
Tax revenue							
Sales tax	96.64	120.75	141.38	163.28	220.00	227.57	(+) 3.44
Other taxes on Income and Expenditure	13.28	14.72	15.46	17.63	30.00	18.77	(-) 37.43
Taxes on vehicles	3.19	3.57	4.03	4.34	15.00	4.44	(-) 70.40
State excise	3.62	3.75	3.91	4.70	6.00	6.61	(+) 10.16
Stamps and registration fees	2.83	2.93	3.18	4.26	10.00	3.57	(-) 64.30
Others	2.01	1.73	2.11	1.83	7.74	6.09	(-) 21.32
Sub-total	**121.57**	**147.45**	**170.07**	**196.04**	**288.74**	**267.05**	**(-) 7.51**
Non-tax revenue							
General Services	91.94	62.31	105.12	80.74	214.39	96.36	(-) 55.05
Social Services	3.39	4.79	9.78	11.63	14.91	16.25	(+) 8.99
Economic Services	50.66	70.00	98.57	114.65	182.32	102.62	(-) 43.71
Interest receipts and dividends *etc.*	35.05	27.61	39.99	32.73	45.01	44.65	(-) 0.80
Fiscal services	--	--	--	*	-		-
Sub-total	**181.04**	**164.71**	**253.46**	**239.75**	**456.63**	**259.88**	**(-) 43.09**
Total	**302.61**	**312.16**	**423.53**	**435.79**	**745.37**	**526.93**	**(-)50.6**

* ₹ 0.12 lakh only ₹ 0.05 lakh only

(a) Own tax revenue

The tax revenue during 2010-11 increased by 36 *per cent* from ₹ 196.04 crore in 2009-10 to ₹ 267.05 crore in 2010-11. The increase of ₹ 71.01 crore was mainly contributed by Sales Tax (₹ 64.28 crore). As in the previous years, Sales Tax (₹ 227.57 crore) remained the only major contributor of the State own tax resource and accounted for around 85 *per cent* of the tax. The own tax revenue-GSDP ratio (2.90 *per cent*) was marginally higher than the projection (2.75 *per cent*) made by the ThFC. The Compounded Annual Growth Rate[6] (CAGR) of own tax revenue between 2001-02 and 2009-10 was 18.33 *per cent*, which increased to 20.17 *per cent* between 2001-02 and 2010-11; indicating that the collection of own tax revenue has improved in 2010-11 relative to previous years.

➢ *Cost of collection*

The gross collection of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during 2008-09 to 2010-11 along with relevant All India Average percentage of expenditure on collection to gross collection are mentioned in the table below:

[6] Compounded Annual Growth Rate is calculated by taking the n^{th} root of the total percentage growth rate, where n is the number of years in the period under considered. CAGR = [Ending Value/Beginning Value]$^{(1/\text{no. of years})}$ - 1

Table 1.9: Expenditure on collection *vis-à-vis* percentage to gross collection

(₹ in crore)

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure to gross collection
Taxes/VAT on sales, trade *etc.*	2008-09	141.38	1.62	1.15	0.83
	2009-10	163.28	1.54	0.94	0.88
	2010-11	227.57	2.46	1.08	0.96
State excise *	2008-09	3.91	1.75	44.76	3.27
	2009-10	4.70	1.74	37.02	3.66
	2010-11	6.61	2.05	31.01	3.64
Taxes on vehicles	2008-09	4.03	1.96	48.64	2.58
	2009-10	4.34	1.90	43.78	2.93
	2010-11	4.44	2.89	65.09	3.07

(source: Finance Accounts)

* *Since cost of collection has not been segregated, the expenditure under Direction and Administration has been taken as cost of collection.*

As can be seen from the above, the cost of collection of taxes/VAT on sales *etc.* of the State was marginally higher than the corresponding All India average. During 2010-11 though the gross collection on sales tax/VAT *etc* improved, the percentage of expenditure to collection increased marginally due to increase of expenditure on collection of taxes. The cost on collection of taxes on vehicles of the State was abnormally higher than All India figures and exceeded more than 50 *per cent* of the taxes collected in 2010-11. Such incidence of high expenditure *vis-à-vis* collection of taxes is a cause of concern.

(b) Non-tax revenue

The non-tax revenue increased by 8 *per cent* (₹ 20.13 crore) from ₹ 239.75 crore in 2009-10 to ₹ 259.88 crore in 2010-11. The increase of ₹ 20.13 crore was mainly due to Miscellaneous General Services (₹ 15.40 crore) and Interest Receipts of State Government (₹ 11.93 crore) offset by decrease under Power (₹ 15.78 crore). The CAGR of Own non-tax revenue between 2001-02 and 2009-10 was 30 *per cent*, which declined to 28 *per cent* between 2001-02 and 2010-11. As around 81 *per cent* of the non-tax revenue came from three heads of accounts *viz.*, Power (₹ 88.29 crore), Miscellaneous General Services (₹ 77 crore) and Interest Receipts (₹ 45 crore), any variation in revenue collection under these heads would tend to affect the overall revenue collection of non-tax revenue.

➢ *Cost recovery in supply of merit goods and services*

The cost of recovery of Non-Tax Revenue Receipts (NTR) as a percentage of non-plan revenue expenditure (NPRE) in supply of merit goods and services of some selected socio-economic services by Government are shown in the table below:-

Table 1.10: Cost of recovery of socio-economic services during 2009-11

(₹ in crore)

Name of Services	2009-10			2010-11		
	Non-tax revenue receipts	Non-plan revenue expenditure	NTR as percentage of NPRE	Non-tax revenue receipts	Non-plan revenue expenditure	NTR as percentage of NPRE
Water Supply and Sanitation	9.48	58.17	16	14.21	46.83	30
Irrigation	7.18	11.83	61	10.68	26.85	40

(source: Finance Accounts)

NTR as percentage of NPRE under Water Supply and Sanitation increased from 16 *per cent* in 2009-10 to 30 *per cent* in 2010-11. This improvement was the net result of decrease in NPRE and increase in NTR over the previous year. However, in case of Irrigation the corresponding figure declined from 61 *per cent* to 40 *per cent*. In these two selected services, the NPRE was more than the NTR in both the years; and therefore efforts needs to be explored to limit NPRE and increase NTR collection so as to make the provision of these important services self sufficient.

1.6.5 Own resources vis-à-vis assessments of Twelfth/Thirteenth Finance Commissions

The mobilization of State's own resources *vis-à-vis* assessments made by the TFC (2006-10)/ThFC (2010-11) and actuals are as follows:-

Table 1.11: TFC/ThFC recommendations of Tax and Non-Tax *vis-à-vis* Actuals

(₹ in crore)

Year	Assessment of TFC/ThFC			Actual			Shortfall (percentage)		
	Tax	Non-Tax	Total	Tax	Non-Tax	Total	Tax	Non-Tax	Total
2006-07	169.65	40.15	209.80	121.57	181.04	302.61	48.08(28)	-	-
2007-08	190.17	48.76	238.93	147.45	164.71	312.16	42.72(22)	-	-
2008-09	213.18	58.34	271.52	170.07	253.46	423.53	43.11(20)	-	-
2009-10	238.98	69.11	308.09	196.04	239.75	435.79	42.94(18)	-	-
2010-11	223.41	49.96	273.37	267.05	259.88	526.93	-	-	-

(source: Finance Accounts)

The State could not achieve the targets of tax revenue collection fixed by the TFC during the award period of 2006-10. However, the State was able to reduce the shortfall in succeeding years, and was more than the projected figure of ThFC in 2010-11. The actual revenue collection from non-tax revenue, however, was much higher than the TFC/ThFC targets and there was no shortfall in own revenue collection *vis-à-vis* TFC/ThFC targets during 2006-11.

However, both own tax revenue and non-tax revenue was short of the projections made in the MTFPS/budget (Own tax revenue -₹ 288.74 crore and Non-tax revenue - ₹ 456.63 crore).

1.7 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is therefore important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors.

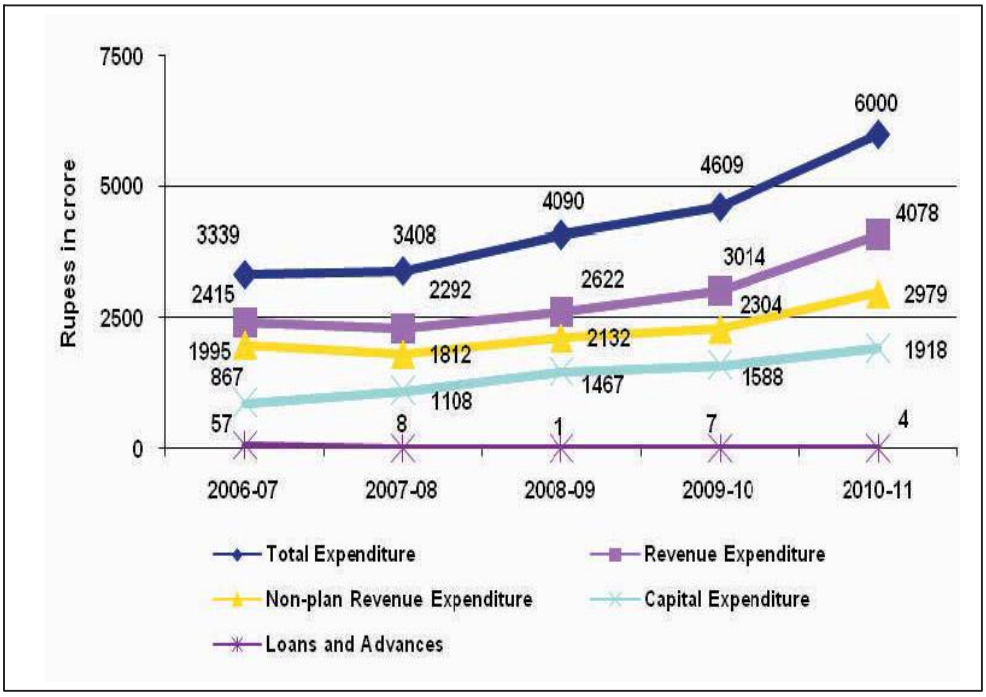
1.7.1 Growth and composition of expenditure

The total expenditure and its compositions during the years 2006-11 are presented in the table and depicted in the chart below:-

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure	**3338.46**	**3408.41**	**4090.16**	**4609.07**	**5999.87**
Revenue expenditure	2414.65	2292.52	2622.28	3014.40	4078.01
Of which, Non-plan revenue expenditure	*1994.65*	*1812.61*	*2132.23*	*2304.51*	*2979.44*
Capital expenditure	866.97	1107.92	1466.80	1587.78	1918.06
Loans and Advances	56.84	7.97	1.08	6.89	3.80

(source: Finance Accounts)

Chart 1.5: Trends in various components of Total Expenditure during 2006-11



The CAGR of total expenditure of the State between 2001-02 and 2010-11 was 16.48 *per cent*.

During 2010-11 the total expenditure increased by ₹ 1390.80 crore (30 *per cent*) from the previous year. The increase was due to increase in revenue

expenditure (₹ 1063.61 crore) and capital expenditure (₹ 330.28 crore). During 2006-11, expenditure on capital accounts had increased significantly by 121 *per cent* from ₹ 867 crore to ₹ 1918 crore; exhibiting a much more steady growth than revenue expenditure which grew by 69 *per cent* during the period. There was a decrease of expenditure of ₹ 3.09 crore under Loans and Advances.

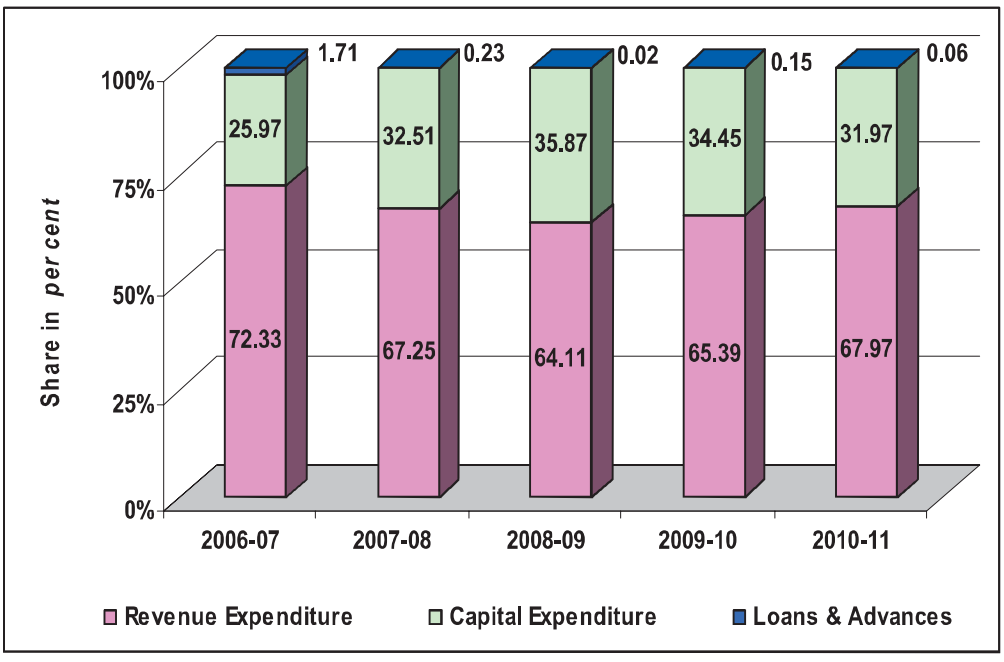
The increase in revenue expenditure (₹ 1063.61 crore) was mainly due to Police (₹254.18 crore), Pension and other Retirement benefits (₹ 107.35 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other backward Classes (₹ 103.06 crore), General Education (₹ 96.06 crore) and Medical and Public Health (₹79.32 crore) partially offset by decrease in Compensation to Local Bodies Raj Institutes (₹ 12.86 crore).

The increase in capital expenditure (₹ 330.28 crore) was mainly due to Public Works (₹ 161.09 crore), Water Supply and Sanitation (₹ 119.44 crore), Minor Irrigation (₹ 94.44 crore), Flood control Projects (₹ 30.46 crore) partially offset by decrease in Urban Development (₹ 50.25 crore), Tourism (₹ 34.63 crore), Education, Sports, Art and Culture (₹ 26.90 crore).

A comparative study of expenditure in terms of Revenue, Capital and Loans and Advances reveals that since 2006-07 the share of State's resources allocation to capital expenditure increased steadily till 2008-09. However, after 2008-09, the trend has been reversed as the share of capital expenditure started declining. The analysis also reveals that expenditure on Loans and Advances has been curtailed drastically since 2006-07. The components of the share of expenditure are shown in the chart below:-

Chart 1.6: Trend showing share of components of Total expenditure

(*In per cent*)



The composition of expenditure in terms of Plan and non-plan expenditure is shown in the table below:

Table 1.12: Trends in composition of expenditure in terms of Plan and Non-plan

(₹ in crore)

Types of Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11
NON-PLAN					
Revenue	1994.65	1812.61	2132.23	2304.51	2979.44
Capital	2.42	(-)1.68	3.01	(-)0.80	0.99
Loans and Advances	5.28	3.85	0.34	0.19	0.25
Sub-total *	***2002.35 (60)***	***1814.78 (53)***	***2135.58 (52)***	***2303.90 (50)***	***2980.68 (50)***
PLAN					
Revenue	420.00	479.91	490.05	709.89	1098.57
Capital	864.55	1109.59	1463.79	1588.58	1917.07
Loans and Advances	51.56	4.12	0.74	6.7	3.55
Sub-total *	***1336.11 (40)***	***1593.62(47)***	***1954.58 (48)***	***2305.17 (50)***	***3019.19 (50)***
TOTAL (Non-Plan and Plan)					
Revenue	2414.65	2292.52	2622.28	3014.40	4078.01
Capital	866.97	1107.91	1466.80	1587.78	1918.06
Loans and Advances	56.84	7.97	1.08	6.89	3.80
Total Expenditure	**3338.46**	**3408.40**	**4090.16**	**4609.07**	**5999.87**

(source: Finance Accounts)

* Figures in bracket represent percentage with respect to the Total Expenditure

The table discloses that non-plan expenditure was reduced from 60 *per cent* from 2006-07 to 50 *per cent* in 2010-11, with corresponding increase in Plan expenditure from 40 *per cent* in 2006-07 to 50 *per cent* in 2010-11. The increase in Plan expenditure was mainly due to increase in capital accounts, which increased by ₹ 1052.52 crore (121 *per cent*) and revenue accounts ₹ 678.57 crore (162 *per cent*). Loans and Advances under Plan heads was reduced significantly from ₹ 51.56 crore in 2006-07 to about ₹ four crore only in next four years (2007-11). Under non-plan heads, revenue expenditure has increased by ₹ 984.79 crore (50 *per cent*) from ₹ 1994.65 crore in 2006-07 to ₹ 2979.44 crore in 2010-11. Other components under non-plan heads had been confined to an insignificant amount.

➢ *Non-plan revenue expenditure*

Revenue expenditure is incurred to maintain the current level of services and payment for past obligation and as such does not result in any addition to State's infrastructure and service network.

As discussed in the preceding para, non-plan revenue expenditure (NPRE) in 2010-11 was ₹ 2979.44 crore and accounted for nearly 50 *per cent* of the Total expenditure. The NPRE in the current year exceeded the projections made in the MTFPS/budget estimates (₹ 2912.57 crore) by ₹ 66.87 crore.

The targets of various components of expenditure fixed by the ThFC *vis-à-vis Actuals* in respect of NPRE are as follows:-

Table 1.13: ThFC recommendations of NPRE *vis-à-vis* Actuals

(₹ in crore)

ThFC/ Actuals	Salary	General Services (GS)	*Interest Payment (under GS)*	*Pension (under GS)*	Social Services	Economic Services	Assignment to Local Bodies	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)(2+3+6+7+8)
ThFC	1242.73	738.34	*350.29*	*273.78*	151.54	135.95	110.46	2379.02
Actuals	1595.49[7]	972.69	*364.78*	*400.15*	70.80	227.35	113.11	2979.44

(Source: Thirteenth Finance Commission Report and Finance Accounts)

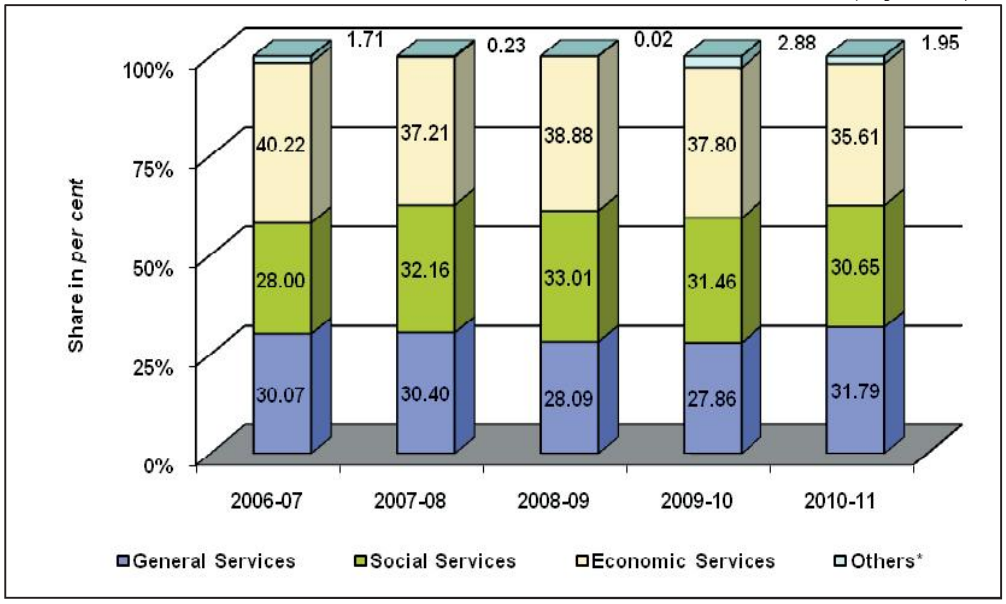
As can be seen except for expenditure under Social Services, all other components of expenditure exceeded the limits set by the ThFC.

NPRE increased by ₹ 674.93 crore in 2010-11 (₹ 2979.44 crore) over the previous year (₹ 2304.51 crore). The overall increase in NPRE was mainly due to increase in expenditure on account of Police (₹ 252.69 crore), Superannuation and Retirement Allowances (₹ 66.54 crore), Governmnt Primary Schools (₹ 57.44 crore) and Interest on Market Loans (₹ 43.28 crore).

The trend in composition of total expenditure by activities is shown in the chart given below:

Chart 1.7: Trends in composition of Total Expenditure by activities during 2006-11

(In per cent)



(Others includes Loans and Advances)*

The share of expenditure on account of General Services which was restricted around 30 *per cent* or below of the TE during the last four years (2006-10) increased to around 32 *per cent* of the TE in 2010-11; affecting the share on Social Services and Economic Services by about one to two *per cent*. Expenditure on General Services increased by ₹ 624 crore[8] in 2010-11 over

[7] Includes salary expenditure under Revenue head (Non-plan) including ₹ 2.65 crore on Wages (Non-plan) but excluding ₹ 36.55 crore on Leave salary encashment booked under 'MH-2701- Pensions and Other Retirement Benefits'

[8] ₹ 462 crore on Revenue accounts and ₹ 162 crore on Capital accounts

the previous year. On revenue account, the increase in expenditure on General Services was mainly due to increase in expenditure on account of Police (₹ 252.69 crore) and Pensions and Other retirement benefits (₹ 107.35 crore) while on capital accounts it was mainly on account of Office Buildings (₹ 114.94 crore).

1.7.2 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. The table below and Chart 1.8 present the trends in the expenditure on these components during 2005-10.

Chart 1.8: Trend of Committed expenditure for the years 2006-11

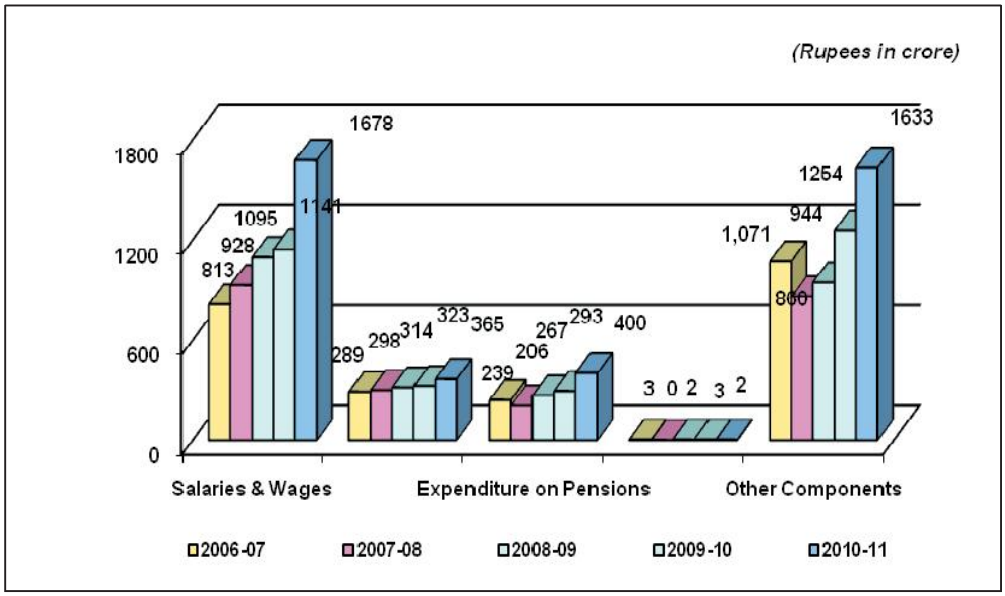


Table-1.14: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actual
Salaries & Wages , *of which*	813 (28.40)	928 (26.45)	1095 (28.27)	1141 (29.46)	1596.53	1678* (30.90)
Non-Plan Head	*779*	*884*	*1041*	*1077*	*1495.51*	*1595.49*
Plan Head	*34*	*44*	*54*	*64*	*101.02*	*82*
Interest Payments	289 (10.09)	298 (8.49)	314 (8.11)	323 (8.34)	361.40	365 (6.72)
Expenditure on Pensions	239 (8.35)	206 (5.87)	267 (6.89)	293 (7.56)	399.59	400 (7.37)
Subsidies	3 (0.01)	-	2 (0.05)	3 (0.08)	1.90	2 (0.03)
Other Components	1,071 (37.41)	860 (24.52)	944 (24.38)	1254 (32.38)	1690.37	1633 (30.07)
Total	**2,415 (84.35)**	**2,292 (65.34)**	**2622 (67.71)**	**3014 (77.82)**	**4049.79**	**4078 (75.10)**

(source: Budget documents and Finance Accounts)

* including expenditure on account of Wages ₹ 4.81 crore and excluding ₹ 36.55 crore on Leave salary encashment booked under 'MH-2701- Pensions and Other Retirement Benefits'

(Figures in the parentheses indicate percentage to Revenue receipts)

Salaries and wages alone accounted about 31 *per cent* of revenue receipts of the State during 2010-11 and increased by ₹ 537 crore (47 *per cent*) over the previous year. The increase in salary expenditure (₹ 537 crore) in 2010-11 over the previous year was nearly twelve times the increase in salary expenditure (₹ 46 crore) in 2009-10. Expenditure on salaries under non-plan heads increased by ₹ 518 crore (48 *per cent*) in 2010-11 (₹ 1595.49 crore) over the previous year (₹ 1077 crore), whereas this expenditure on plan head increased by ₹ 18 crore (28 *per cent*) in 2010-11 (₹ 82 crore) over the previous year (₹ 64 crore). The non-plan salary expenditure was more by ₹ 352.76 crore than the projection (₹ 1242.73 crore) made by the ThFC. The considerable increase in salary expenditure was due to implementation of 6th pay commission recommendation, payment of revised pay arrears for three months and dearness allowances and fresh recruitment in Police department.

Interest payments increased by 26 *per cent* from ₹ 289 crore in 2006-07 to ₹ 365 crore in 2010-11. Compared to previous year, interest payments during 2010-11 increased by 13 *per cent*. Interest payments was mainly made on Interest on Internal debt (₹ 245.71 crore). Interest on Internal debt accounted for 67 *per cent* (₹ 245.71 crore) while the remaining share was for payment of interest on Small Savings, Provident Funds *etc*. and on Loans and Advances from Central Government. As *per cent* of revenue receipts, Interest payment showed a declining trend and steadily decreased from 10 *per cent* in 2006-07 to 7 *per cent* in 2010-11. The overall interest payment (₹ 364.78 crore) during the year was higher by ₹ 14.49 crore than the projection (₹ 350.29 crore) made by the ThFC of the year.

Pension payments accounted for 7 *per cent* of revenue receipts of the State during 2010-11 and increased by 37 *per cent* from ₹ 293 crore in 2009-10 to ₹ 400 crore in 2010-11. Increase of ₹ 107 crore in pension payments during 2010-11 over the previous year was mainly due to increase in Superannuation and Retirement Allowances (₹ 66.54 crore) and Family Pensions (₹ 26.90 crore). As compared to ThFC projection of ₹ 273.78 crore, the Pension payment in 2010-11 (₹ 400.15 crore) was more by 46 *per cent* (₹ 126.37 crore).

The State Government has adopted the new Restructured Defined Contribution Pension Scheme of the GoI *mutatis mutandis* in respect of new entrants to the State's service with effect from 1 January 2005. The contribution of the State Government employees covered under the new scheme increased from a closing balance of ₹ 17.60 crore in 2009-10 to ₹ 33.86 crore in 2010-11. The State Government, however, had not contributed a matching share of the contribution of employees. Thus, the liability of the Government would increase by further ₹ 33.86 crore.

1.7.3 Financial assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in the table below:

Table 1.15: Financial Assistance to Local Bodies *etc.*

(₹ in crore)

Financial Assistance to Institutions	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities *etc.*)	40.20	40.50	29.75	32.04	35.55	35.17
Municipal Corporations and Municipalities	0.87	1.93	19.90	3.60	7.62	3.81
Other Institutions	1.25	0.84	1.02	1.67	5.82	2.11
Total	**42.32**	**43.27**	**50.67**	**37.31**	**48.99**	**41.09**
Assistance as percentage of RE	1.75	1.89	1.93	1.24	1.20	1.01

(source: Budget documents and Finance Accounts)

The total assistance (₹ 41.09 crore) provided during 2010-11 was less than the estimates made in the budget (₹ 48.99 crore) by ₹ 7.9 crore. As compared to last year, the total assistance increased by ₹ 3.78 crore in 2010-11. Financial assistance to universities and educational institutions alone constituted nearly 86 *per cent* of the total assistance of the State Government during 2010-11. Amongst education services, maximum assistance was given to Non-Government Primary Schools (₹ 21.43 crore).

1.8 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, *viz*., adequacy of the expenditure (*i.e.* adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for selected services).

1.8.1 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[9]. Apart from improving the allocation towards development expenditure[10], the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While Table 1.16 presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years, Table 1.17 provides the details of capital expenditure and the components of salary and wages in revenue expenditure of the selected social and economic services.

[9] Refer glossary in Appendix 4.1
[10] Refer glossary in Appendix 4.1

Table-1.16: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actual
Development Expenditure (a to c)						
a. Development Revenue Expenditure	1,542 (46.18)	1,360 (39.91)	1,528 (37.36)	1707 (37.04)	2529.86	2322 (38.70)
b. Development Capital Expenditure	402 (12.04)	482 (14.14)	1,412 (34.52)	1485 (32.22)	1526.18	1653 (27.55)
c. Development Loans and Advances	52 (1.56)	4 (0.12)	1 (0.02)	7 (0.15)	16.70	4 (0.06)

(source: Budget documents and Finance Accounts)

Figures in parentheses indicate percentage to Aggregate expenditure

Development Revenue Expenditure increased by ₹ 615 crore from ₹ 1,707 crore last year to ₹ 2322 crore during the current year. Though Development capital expenditure increased by ₹ 168 crore in 2010-11 over the previous year, its share to Aggregate expenditure decreased from 32 *per cent* to 28 *per cent* in 2010-11. The Development Capital Expenditure, however, was more than what was estimated in the budget. The above table also revealed that Development Capital Expenditure which as percentage of aggregate expenditure increased significantly in 2008-09 has since shown a steady declining trend. As a consequence, the gap of share of developmental capital expenditure *vis-à-vis* that of developmental revenue has increased in 2010-11.

Percentages of revenue and capital expenditure to the aggregate expenditure of the sector/sub-sector of some selected Social and Economic Services are shown in the table below:

Table 1.17 –Efficiency of Expenditure in Selected Social and Economic Services

(In *per cent*)

Social/Economic Infrastructure	2009-10		2010-11	
	Share of CE to TE	Share of S&W in RE	Share of CE to TE	Share of S&W in RE
Social Services (SS)				
General Education	7.66	75.22	4.39	75.31
Health and Family Welfare	38.72	74.78	31.21	63.01
WS, Sanitation, & HUD	73.94	26.23	78.53	36.59
Total (SS)	**38.55**	**57.19**	**32.66**	**52.96**
Economic Services (ES)				
Agriculture & Allied Activities	3.29	37.54	4.12	39.93
Irrigation and Flood Control	79.20	73.46	85.57	77.16
Power & Energy	64.21	20.19	59.34	31.29
Transport	79.24	26.89	74.30	31.92
Total (ES)	**53.15**	**31.91**	**49.19**	**34.72**
Total (SS+ES)	**46.52**	**45.11**	**41.55**	**44.45**

(source: Finance Accounts)

TE: Total expenditure inclusive of loans and advances of each sector/sub-sector/head; CE: Capital expenditure; RE: Revenue expenditure; S&W: Salaries and Wages.

While the share of capital expenditure as ratio of total expenditure in respect of General Education and Health and Family Welfare decreased in 2010-11 as compared to previous year, the ratio in respect Water Supply, Sanitation and Housing and Urban Development had increased in 2010-11. The decrease of share in General Education was mainly due to decrease in capital expenditure

in respect of Secondary Education (₹ 10.95 crore). In Health and Family Welfare even though the capital expenditure increased by ₹ 14.97 crore, its share as percentage of total expenditure reduced as expenditure under Revenue head had increased by much higher rate (₹ 82.70 crore). The improvement in share of Water Supply, Sanitation and Housing and Urban Development was mainly due to increase on account of Water Supply (₹ 67.67 crore).

Under Economic Services, while the share of capital expenditure in Agriculture and Allied Activities and Irrigation and Flood Control improved, the share in Power and Energy and Transport had decreased in 2010-11 as compared to previous year. The improvement in Agriculture and Allied Activities and Irrigation and Flood Control was mainly due to increase in Capital Outlay on Crop Husbandry (₹ 7.50 crore) while improvement in Irrigation and Flood Control was mainly due to capital outlay on Major and Medium Irrigation (₹ 94.44 crore) respectively. The share of capital expenditure under Transport decreased in 2010-11 as a result of the decrease under Capital Outlay on Roads and Bridges (₹ 16.19 crore). In Power and Energy, capital expenditure increased by ₹ 7.97 crore against increase in revenue expenditure of ₹ 43.89 crore. As such, the ratio of capital expenditure to total expenditure had decreased due to large variation in rate of increase expenditure under capital and revenue heads.

Except for Health and Family Welfare share of salary and wages as percentage of revenue expenditure have increased as compared to 2009-10 in all the selected services.

1.8.2 Effectiveness of expenditure, i.e. outlay-outcome relationship

Performance reviews indicating the outlay-outcome relationship are *inter-alia* included in the State Audit Report. The effectiveness of the expenditure as brought out in performance review of Public Distribution System in the State taken up during 2009-10 is as follows:

A review on Public Distribution System (PDS) revealed that there was short lifting of wheat and sugar against the allocation made by Government of India. There were instances of diversion of rice, wheat and kerosene. Monitoring, inspection and the activities of the vigilance committee at State and District level were found to be inadequate. Monitoring mechanism and inspection of Fair Price Shop at different levels needs strengthening to prevent pilferage of commodities. The review also revealed that the State Government did not formulate guidelines for identification of beneficiaries and review of households. PDS consumers were denied the intended benefit of having PDS items at prescribed scale and affordable price in a timely manner. Bank interest on Cash Credit Account was charged from the beneficiaries even when credit facilities were not availed of and instead of availing of transport subsidy and Hill Transport Subsidy Scheme, the State Government charged beneficiaries the cost of transportation by fixing high end retail price.

(Paragraph 1.1 of Audit Report 2009-10)

1.9 Financial analysis of Government expenditure and investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.9.1 Incomplete projects

The department-wise information pertaining to incomplete projects of which the scheduled date of completion is already over as on 31 March 2011 is given in the table below:

Table 1.18: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Cumulative actual expenditure as on 31.03.2011
IFCD	1	3.76	2.00
NLCPR	1	3.40	3.08
PWD	13	79.62	54.96
PHED	6	79.87	72.14
Total	**21**	**166.65**	**132.18**

(source: Finance Accounts)

As of 31 March 2011, there were 21 incomplete projects each costing ₹ 1 crore and above, involving total budgeted cost of ₹ 166.65 crore on which expenditure of ₹ 132.18 crore has already been incurred. The above list is only indicative and not exhaustive and does not include projects for which the targeted dates of completion have been revised. The following pictures represent few of the projects lying incomplete as of March 2011:

	
A zonal reservoir (estimated cost ₹ 464 lakh) was to be constructed at Kwakeithel Thiyam Leikai, Imphal. The reservoir (scheduled to be completed on March 2011) which was started on 2009-10 has not been completed as on March 2011 despite spending ₹ 301.60 lakh. (PHED)	**Construction of main office building of PHED (estimated cost ₹ 841.23 lakh) which started on 2007-2008 was scheduled to be completed by March 2011. Despite spending ₹ 669.01 lakh, construction of office building has not been completed as of March 2011. (PHED)**

(source of photographs: Public Health Engineering Department)

Delay in completion of works invites the risk of escalation in cost of the works besides depriving the beneficiaries of the benefits of the projects.

1.9.2 Investment and returns

As of 31 March 2011, Government had invested ₹ 176.31 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives. During the last five years (2006-11), the Government could earn only ₹ five lakh from the investment made on these Corporations/ Companies *etc*. while it paid an average rate of interest ranging from 6 *per cent* to 7 *per cent*, the details of which are shown in the table below:

Table-1.19: Return on Investment

(₹ in crore)

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year	173.17	173.87	175.83	176.25	176.31
Return	-	0.05	-	-	-
Return *(per cent)*	-	0.03	-	-	-
Average rate of interest on Govt. borrowing *(per cent)*	7.14	6.84	6.69	6.22	6.27
Difference between interest rate and return *(per cent)*	7.14	6.81	6.69	6.22	6.27

(source: Finance Accounts)

Investments as on 31 March 2011 were made in two statutory corporations, 15 Government companies and 46 types of Co-operative banks and institutions.

Major investments were made in Manipur State Road Transport Corporation (₹ 41.56 crore), Manipur Spinning Mills Corporation Ltd. (₹ 33.89 crore), Manipur Handloom and Handicrafts Development Corporation Ltd. (₹ 11.79 crore) and Manipur State Co-operative Bank Ltd. (₹ 21.99 crore). Of these, Manipur State Road Transport Corporation has been liquidated and Manipur Spinning Mills Corporation Ltd. is under liquidation process since June 2003. However, the liquidation of the company is yet to be completed as of February 2012, reason of which was not on record.

1.9.3 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organizations. The table below presents the outstanding loans and advances as on 31 March 2011, interest receipts *vis-à-vis* interest payments during the last four years.

Table-1.20: Average Interest Received on Loans Advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	
				BE	Actual
Opening Balance	193.11	198.79	199.20	202.81	202.81
Amount advanced during the year	7.97	1.07	6.89	18.20	3.80
Amount repaid during the year	2.29	0.66	3.28	3.66	1.19
Closing Balance	**198.79**	**199.20**	**202.81**	**217.35**	**205.42**
Of which Outstanding balance for which terms and conditions have been settled	NA	NA	NA	NA	NA
Net addition	5.68	0.41	3.61	14.54	2.61
Interest Receipts	0.56	0.58	2.23	NA	7.37
Interest receipts as *per cent* to outstanding Loans and Advances	0.28	0.29	1.10	NA	3.59
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	6.84	6.46	5.84	NA	5.96
Difference between interest payments and interest receipts (*per cent*)	6.56	6.17	4.74	NA	2.37

(source: Budget documents and Finance Accounts)

No budget provision for interest receipts on loans advanced was available in the Budget documents.

Total amount of outstanding loans and advances as on 31 March 2011 was ₹ 205.42 crore. Interest received against these loans and advances improved substantially from ₹ 2.23 crore in the previous year to ₹ 7.37 crore in 2010-11. Against repayment of Loans/Advances of ₹ 1.19 crore, an amount of ₹ 3.80 crore was advanced during 2010-11. As of March 2011, major recipients of loans were for Other Social Security and Welfare Programmes (₹ 129.15 crore), Village and Small Industries (₹ 22.59 crore), Housing (₹ 18.13 crore) and Co-operation (₹ 14.01 crore).

1.9.4 Cash balances and investment of cash balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatch in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances from RBI has been put in place. The operative limit for

Normal Ways and Means Advances is reckoned on the three years average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by the RBI from time to time depending on the holding of Government securities. The limit for Normal Ways and Means Advances has been fixed (April 2006) at ₹ 60 crore while the limit of Special Ways and Means Advances is revised by the RBI from time to time.

The State availed of Ways and Means Advance of ₹ 38.79 crore for seven days in 2007-08 and paid an interest of ₹ three lakh. During the last three years (2008-11), the Government did not have to resort to Ways and Means Advances and Overdraft indicating a comfortable position of cash balances of the State.

The table below depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.21: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 31 March 2010	As on 31 March 2011	Increase(+)/ Decrease(-)
Cash Balances[11]	367.40	356.48	(-)10.92
Investments from Cash Balances (a to c)	590.80	155.31	(-)435.49
a. GoI Treasury Bills	*588.37*	*152.88*	*(-)435.49*
b. Other Securities (Long term Investment)	*2.43*	*2.43*	-
c. Other Investments	-	-	-
Funds-wise Break-up of Investment from Earmarked balances (a to c)	33.98	68.42	(+)34.44
a. Sinking Fund	*30.98*	*51.94*	*(+)20.96*
b. Guarantee Redemption Fund	*3.00*	*6.30*	*(+)3.30*
c. State Disaster Response Fund	-	*10.18*	*(+)10.18*
Interest Realized on investment of cash balances	30.49	37.28	6.79

(source: Finance Accounts)

The cash balances of the State Government at the end of current year decreased by ₹ 10.92 crore from ₹ 367.40 crore in the previous year to ₹ 356.48 crore in 2010-11. As of 31 March 2011, the State Government has invested ₹ 152.88 crore in GoI treasury bills and ₹ 2.43 crore in GoI securities (long term security). During 2010-11, an interest of ₹ 37.28 crore was earned on investment of cash balance. Further, the Government invested ₹ 68.42 crore in Sinking fund/Guarantee redemption fund *etc*. as of March 2011.

1.10 Assets and liabilities

1.10.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. Appendix 1.4 gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and

[11] Including investment of earmarked funds

Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

The FRBM Act of the State has defined the total liabilities as "Total liabilities means the sum of the liabilities under the Consolidated Fund of the State, and the Public Account of the State and also include borrowings by the public sector undertakings and special purpose vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State budget".

1.10.2 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in Appendix 1.5**.** The composition of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in Charts 1.9 and 1.10.

Chart 1.9: Composition of outstanding fiscal liabilities as on 31 March 2010 (₹ in crore)

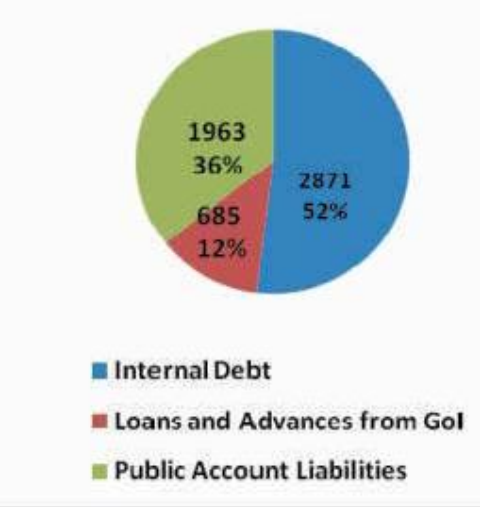
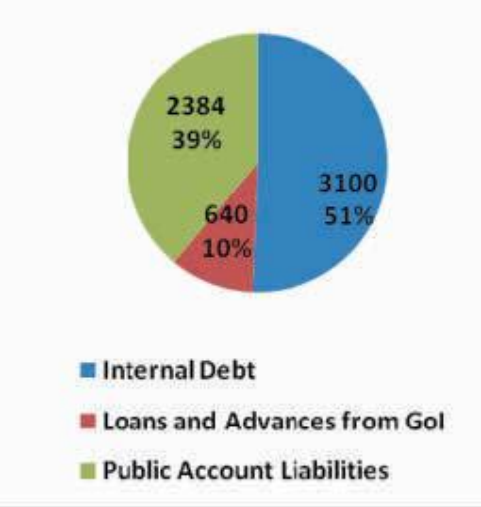


Chart 1.10: Composition of outstanding fiscal liabilities as on 31 March 2011 (₹ in crore)



The table below gives fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP and revenue receipts.

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Fiscal liabilities [12] (Rupees in crore)	4187	4529	4861	5519	6124
Rate of growth *(per cent)*	*7*	*8*	*7*	*14*	*11*
Ratio of fiscal liabilities to					
GSDP *(per cent)*	*68.23*	*66.61*	*65.70*	*66.38*	*66.58*
Revenue receipts *(per cent)*	*146.25*	*129.09*	*125.48*	*142.50*	*112.78*

(source: Finance Accounts)

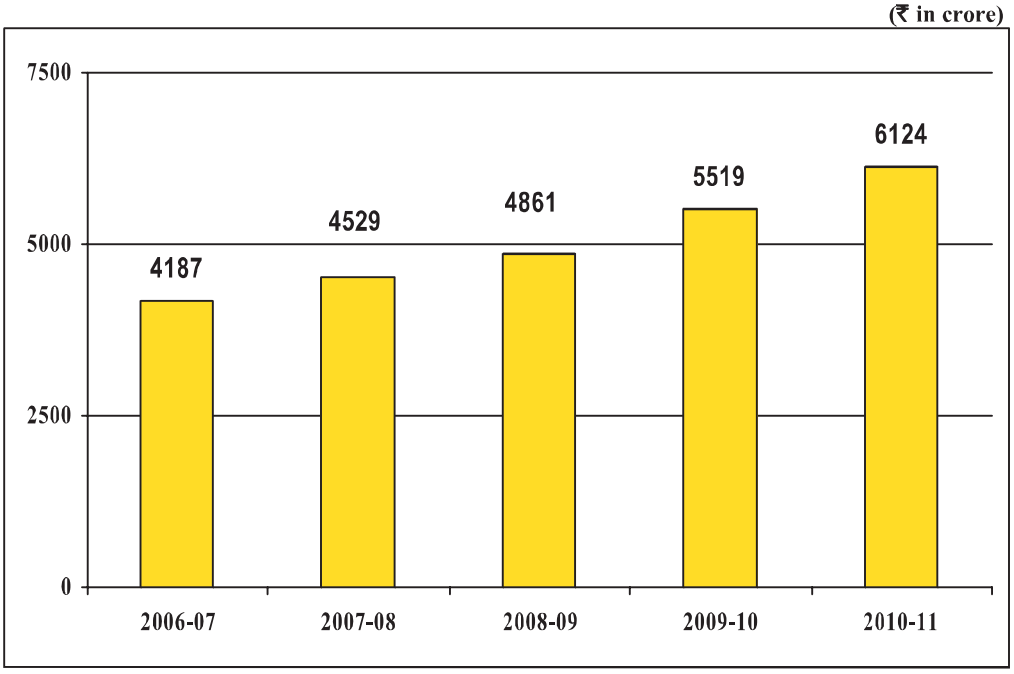
As can be seen from the table above, fiscal liabilities during the last two years (2009-11) has grown at a faster rate as compared to the previous years and the ratio of fiscal liabilities to GSDP during 2006-11 remained above 65 *per cent*.

[12] Refer glossary in Appendix 4.1

The ratio of fiscal liabilities to revenue receipts depicted a fluctuating trend during 2006-11 and was 1.13 to 1.46 times more than that of revenue receipts. As per the ThFC recommendations, fiscal liabilities should be limited to 25 *per cent* of GSDP by 2014-15. Fiscal liabilities – GSDP ratio was projected at 57.33 *per cent* in 2010-11 in the MTFPS and projected at 52.18 *per cent* in the next two years. Given the trend of ratio of fiscal liabilities to GSDP during 2006-11, the target of limiting Fiscal liabilities to 25 *per cent* of GSDP (ThFC) will be difficult. It also appears unlikely to meet the target of fiscal liabilities-GSDP ratio (MTFPS) of 52.18 *per cent*.

Thus, there is an urgent need for the State Government to re-look at its borrowings and repayment patterns and to ensure an economy path to foster faster growth of GSDP and ensure better repayment capacity to curb down the growth rate of fiscal liabilities. The increasing position of fiscal liabilities during 2006-11 is depicted in the bar chart below:

Chart 1.11: Trend showing fiscal liabilities during 2006-11



The overall fiscal liabilities of the State Government increased by ₹ 605 crore from ₹ 5519 crore in 2009-10 to ₹ 6124 crore in 2010-11. The increase in fiscal liabilities was mainly due to increase in Internal Debt (₹ 228.65 crore) and Public Account liabilities (₹ 421.52 crore) offset by a decrease in Loans and Advances from GoI (₹ 45.27 crore). The increase in Internal Debt was mainly due to three market loans totaling to ₹ 258.14 crore borrowed with interest rates ranging from 8.40 *per cent* to 8.55 *per cent*. The increase in Public Accounts was mainly due to "8449-Other Deposits" (₹ 166.32 crore) and Public Works Deposits (₹ 163.47 crore). The fiscal liabilities during the current year exceeded by ₹ 1472 crore than the assessed figure of ₹ 4652 crore in the MTFPS.

The State Government had set up (February 2008) a Consolidated Sinking Fund for amortization of market borrowings, other loans and debt obligations, as per the recommendation of the TFC, and transferred an amount of ₹ 20.96 crore[13] in 2010-11. The closing balance of the fund at the close of the year was ₹ 51.94 crore. The corpus of the fund has been reinvested in purchasing of securities.

1.10.3 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 FRBM Act and the Manipur Ceiling on State Government Guarantee Act, 2004, the total outstanding guarantees as of 1 April of any year shall not exceed thrice the State's own tax revenue receipts of the second preceding year.

The maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in the table below:

Table-1.22: Guarantees given by the Government of Manipur

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10	2010-11
Maximum amount guaranteed	207	197	197	196
Outstanding amount of guarantees	211	274	195	233
Percentage of maximum amount guaranteed to total revenue receipts	5.90	5.09	5.09	3.61

(source: Finance Accounts)

The outstanding guarantee of ₹ 233 crore was kept within the limit of the FRBM Act *ibid*. No additional guarantee has been given by the State Government in respect of loans raised by Statutory Corporations, Local bodies and other institutions during 2010-11. As of 31 March 2011, the interest amount (₹ 120.62 crore) has exceeded the principal amount (₹ 111.98 crore). The principal beneficiaries of outstanding loans were Planning and Development Authority (₹ 120.63 crore), Khadi and Village Industries (₹ 31.48 crore) and Manipur Tribal Development Corporation Limited (₹ 21.17 crore).

The State Government had set up (February 2008) a guarantee redemption fund to meet the contingent liabilities arising from such guarantees, as per the recommendation of the TFC and transferred an amount of ₹ 3.30 crore[14] during 2010-11. The closing balance of the fund at the close of the year was ₹ 6.30 crore, which was reinvested on purchase of securities.

1.10.4 Off - budget borrowings

The State Government has not reported (February 2012) any off-budget borrowings during 2010-11.

[13] Including appropriated amount of ₹ 19.09 crore and Interest.
[14] Including appropriated amount of ₹ 3 crore and interest

1.11 Debt sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability[15] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[16]; sufficiency of non-debt receipts[17]; net availability of borrowed funds[18]; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. The table below analyzes the debt sustainability of the State according to these indicators during 2006-11.

Table 1.23: Debt sustainability: Indicators and trends

(₹ in crore)

Indicators of debt sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt stabilization (Quantum spread + Primary deficit)	(-) 250	397	303	(-) 57	37
Sufficiency of non-debt receipts (Resource gap)	(-) 204	(+) 577	(-) 318	(-) 517	(+)164
Net availability of borrowed funds	(-) 7	42	32	336	241
Burden of interest payments (IP/RR Ratio)	10.09	8.49	8.11	8.33	6.72

(source: Finance Accounts)

Despite the increase in the quantum of expenditure in 2010-11, the buoyancy in revenue collection had a positive impact in the debt scenario of the economy of the State and to some extent reversed deteriorating debt scenario experienced in the previous year. As compared to primary deficit of ₹ 410 crore in 2009-10, the primary deficit in 2010-11 decreased to ₹ 204 crore, which had resulted in positive indicators that the debt was again being stabilized in the current year.

The incremental total/aggregate expenditure (₹ 1391 crore) was also lower than the incremental non-debt receipt (₹ 1555 crore). Thus, increment of total/aggregate expenditure in the current year did not aggravate the fiscal deficit and primary deficit position of the State in 2010-11 as it did in the previous year.

During 2010-11 against debt receipt of ₹ 1531 crore, debt redemption and interest payment was ₹ 1290 crore, leaving borrowed funds of ₹ 241 crore only for purposes other than debt redemption. Thus, 84 *per cent* of the borrowed fund was being utilized to service the past liabilities of the State. With the increase in revenue receipts in the current year, the ratio of interest payment–revenue receipts have declined to 6.72 *per cent* in 2010-11 from 8.33 *per cent* in the previous year; reducing the burden of interest payment on revenue receipts by about 2 *per cent* in the current year.

[15] Refer glossary in Appendix 4.1
[16] Refer glossary in Appendix 4.1
[17] Refer glossary in Appendix 4.1
[18] Refer glossary in Appendix 4.1

The maturity profile of debt is given in the table below and in case of 2010-11 depicted in chart below:

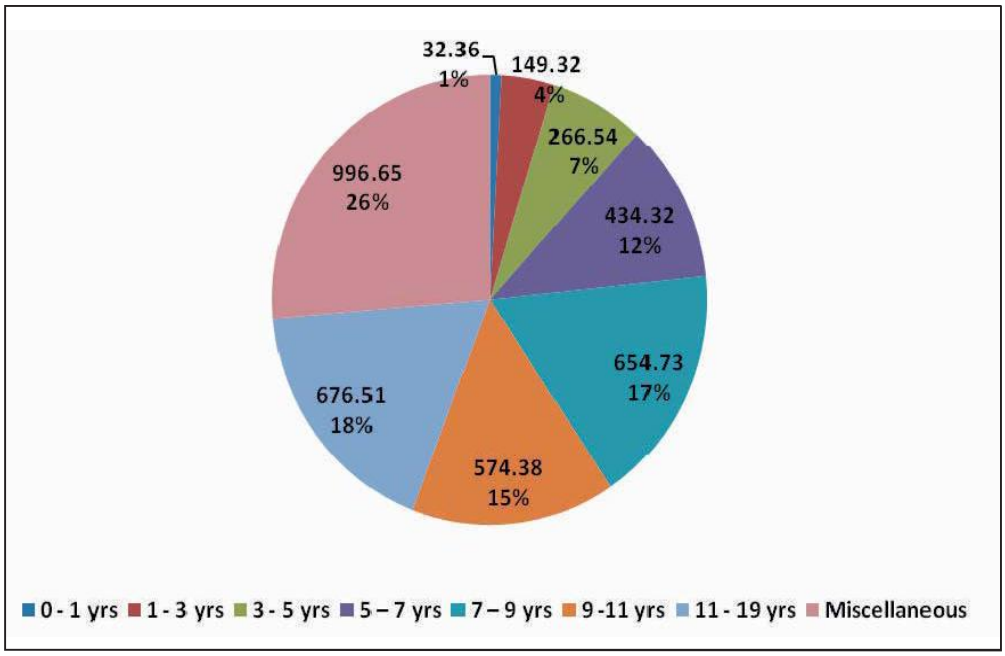
Table 1.24: Maturity profile of debt

(₹in crore)

Maturity profile (in years)	2008-09	2009-10	2010-11
0 - 1	56.45	27.21	32.36
1 - 3	86.60	126.44	149.32
3 - 5	164.48	142.98	266.54
5 – 7	280.16	404.82	434.32
7 – 9	476.94	596.08	654.73
9 -11	466.08	608.53	574.38
11 - 19	718.66	717.88	676.51
Miscellaneous*	45.82	974.20	996.65
Total	**2,295.19**	**3598.14**	**3784.81**

(source: Finance Accounts)
* Year of maturity not known.

Chart 1.12: Maturity profile of debt in 2010-11 *(₹in crore)*



As stated earlier, Fiscal liability–GSDP ratio in the current year stood at 66.58 *per cent* (para 1.10.2). Given the fact that the maturity profile of debt payment has stabilized in 2010-11 as compared to previous year, the Government may find this as an opportune time to initiate the process of debt stabilization and controlling of deficits at 25 *per cent* of GSDP as envisaged by the ThFC.

1.12 Fiscal imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an

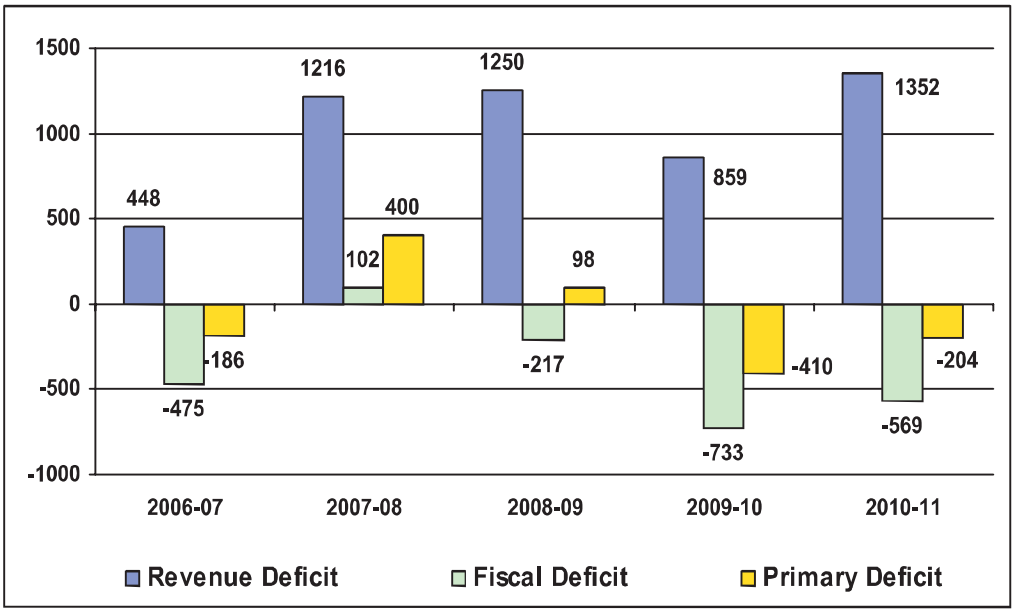
indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and Fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2010-11.

1.12.1 Trends in deficits

The chart below presents the trends in deficit indicators over the period 2006-11:

Chart 1.13: Trends of deficit/surplus indicators

(₹in crore)



The significant improvement in revenue surplus by ₹ 493 crore in 2010-11 over the previous year served as harbinger in controlling the harsh financial deficit situation experienced by the State in the previous year. Despite increase of ₹ 1391 crore in total expenditure in 2010-11 over the previous year, both fiscal deficit and primary deficit were restrained as a result of improvement of revenue receipts. While fiscal deficit decreased by ₹ 164 crore, primary deficit had decreased by ₹ 206 crore over the previous year. Interest payment (₹ 365 crore) alone accounted for 64 *per cent* of the fiscal deficit (₹ 569 crore) and as such obligations of past liabilities formed major portion of the fiscal deficit in the current year. As interest bearing borrowing[19] in 2010-11 was ₹ 298.40 crore as compared to ₹ 519.89 crore in the previous year, this may easy out interest burden in coming years; provided such a trend is followed in the future. Though there are signs of recovery of the financial deficit situation of the State, a cautious and prudent management of expenditure and revenue mobilization needs to be addressed so that financial position returns to a comfortable position.

[19] Includes only Internal debt and Loans and Advances from Central Government

1.12.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit is reflected in the table below:

Table 1.25: Components of fiscal deficit and its financing pattern

(₹ in crore)

	Particulars	2007-08	2008-09	2009-10	2010-11
Decomposition of fiscal deficit		**(+)102**	**(-)217**	**(-) 733**	(-)568.74
1	*Revenue surplus*	*1216*	*1250*	*859*	*1351.93*
2	*Net capital expenditure*	*(-) 1108*	*(-) 1467*	*(-) 1588*	*(-)1918.06*
3	*Net Loans and Advances*	*(-) 6*	*(-) 0.42*	*(-) 3.61*	*(-)2.61*
Financing pattern of fiscal deficit*					
1	Market Borrowings	192.73	248.79	445	206.20
2	Loans from the GoI	(-)236.71	(-)239.96	(-) 41.97	(-) 45.27
3	Special Securities Issued to NSSF	199.92	199.46	(-) 2.67	(-) 5.91
4	Loans from Financial Institutions	(-)2.74	(-)4.08	2.77	28.36
5	Small Savings, PF *etc.*	52.41	52.32	24.94	41.31
6	Deposits and Advances	132.78	83.72	226	386.78
7	Suspense	27.64	(-)4.78	(-) 34.34	(-) 0.28
8	Remittances	111.13	(-)48.16	(-) 160.23	(-) 81.22
9	Reserve Fund	3.88	5.40	24.52	27.87
Increase/decrease in cash balance		(-) 156.40	36.36	28.50	(-) 395.76

(source: Finance Accounts)

** All these figures are net of additions and discharges during the year*

As can be seen from the above table, fiscal deficit of 2007-11 was mainly due to quantum of capital expenditure, which followed a continual path of increasing trend since 2007-08. To finance this gap, the State Government relied more on Market borrowings and Loans from Financial Institutions and reduced the dependency from the Central Government. Due to decrease in fiscal deficit in the current year, the market borrowings increased by only ₹ 206 crore in 2010-11 as compared to increase of ₹ 445 crore occurred in previous year.

1.12.3 Quality of deficit/surplus

The decomposition of primary deficit into primary revenue deficit/surplus and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances; which would indicate the extent to which the deficit/surplus has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. The table below analyses decomposition of primary deficit/surplus:

Table 1.26: Primary deficit/surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure *	Capital expenditure	Loans and Advances	Primary expenditure	Primary revenue surplus	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2006-07	2,864	2,126	867	57	3,050	738	(-) 186
2007-08	3,510	1,994	1,108	8	3,110	1,516	(+) 400
2008-09	3,874	2,308	1,467	1	3,776	1,566	(+) 98
2009-10	3,876	2,692	1,588	7	4,287	1,184	(-) 411
2010-11	5,431	3,713	1,918	4	5,635	1,718	(-) 204

(source: Finance Accounts)

* *Net of Total expenditure and Interest payment*

The non-debt receipts of the State during 2006-11 were sufficient to meet the primary revenue expenditure[20] and in two years (2007-09) it was more than the primary expenditure, resulting in primary surplus in these two years. In the remaining three years (2006-07 and 2009-11) where primary deficit had occurred, the primary surplus was not adequate to cover the capital expenditure and Loans and Advances. Primary deficit has been mainly on account of increase in capital expenditure during these years and may improve the productive capacity of the State's economy. However, this needs to be balanced with the debt profile of the State and financial deficits scenario experienced by the State in the last two years (2009-11).

1.13 Conclusion and recommendations

The fiscal position of the State viewed in terms of key parameters—revenue surplus, fiscal deficit, primary deficit, *etc*. revealed that the state had maintained revenue surplus during the last five years, as set out in the Manipur FRBM Act, 2005 and the Manipur FRBM Act, 2010.

Revenue receipts

During 2006-11, around 89 to 91 *per cent* of the revenue receipts of the State came from the GoI. There has been a significant increase of ₹ 1557 crore in the revenue receipts in 2010-11 as compared to previous year; mainly due to increase in the State's share of Union taxes and duties and also due to greater devolution of Grants-in-aid from the GoI. The significant increase in Grants-in-aid (₹ 1072 crore) experienced in the current year had a favourable impact on the revenue receipts of the state and was the main factor for the increase in the revenue receipts. The share of Union Taxes / Duties also increased by ₹ 394 crore in 2010-11 from previous year; augmenting the increase of revenue receipts during the current year. Increase of own tax and non-tax collection (₹ 91 crore) also contributed in the overall of revenue receipts of the State (Paras 1.1, 1.6 and Table 1.8).

Expenditure status

During 2006-11, expenditure on capital accounts had increased significantly by 121 *per cent* from ₹ 867 crore to ₹ 1918 crore; exhibiting a much more steady growth than revenue expenditure which grew by 69 *per cent* during the period (para 1.7.1). Plan expenditure as percentage of total expenditure increased from 40 *per cent* in 2006-07 to 50 *per cent* in 2010-11. This increase was at the expense of non-plan expenditure which exhibited a corresponding decline in trend during 2006-11 (para 1.7.1).

A similar trend was also noticed in terms of expenditure by activities, and was orienting more towards developmental activities of Social Services and Economic Services. However, NPRE continued to exceed the limits set in

[20] Primary revenue expenditure is revenue expenditure minus interest payment.

MTFPS/budget/ThFC, and therefore should remain a focal point of attention of the Government (para 1.7.1).

Salaries expenditure alone accounted for more than 31 *per cent* of revenue receipts of the State during the year. The non-plan salary expenditure was more than the projection made by the ThFC (para 1.7.2).

Fiscal position, fiscal liabilities and sustainability of debt

During 2010-11, due to an increase in the devolution of Grants-in-aid from the Central Government and share of taxes and duties, the revenue surplus increased by ₹ 493 crore. As a result of the significant increase in revenue surplus, the State Government was able to restrain both fiscal deficit and primary deficit, despite increase in total expenditure (para 1.12.1). At 6.18 *per cent* of GSDP, the fiscal deficit is still way off the mark of the ThFC target to limit the ratio at 3.5 *per cent* of GSDP by 2012-13 and at 3 *per cent* thereafter. As such this fiscal parameter would need special focus of the State Government if the target of ThFC is to be achieved (para 1.2).

Fiscal liabilities have been increasing during the last five years, and have increased at a faster rate during the last two years (2009-11) as compared to the previous years. The fiscal liabilities during the current year exceeded by ₹ 1472 crore than the assessed figure of ₹ 4652 crore in the MTFPS (Para 1.10.2). The incremental total expenditure was also lower than the incremental non-debt receipt, and thus did not aggravate the fiscal deficit and primary deficit position of the State in 2010-11 as it did in the previous year (para 1.11). Though there are signs of recovery of the financial deficit situation of the State, a cautious and prudent management of expenditure and revenue mobilization needs to be addressed so that financial position returns to a comfortable position (para 1.12.1).