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 14.29 *per cent* (₹ 10619 crore) at current price during 2011-12 against a growth of 12.56 *per cent* (₹ 9291 crore) during 2010-11. The Compounded Annual Growth Rate (CAGR) of GSDP of the State during 2002-12 was 12.29 *per cent* (**Appendix-1.1 - Part 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. The details of structure, form of Government accounts, layout of Finance Accounts, methodology adopted for assessment of fiscal position, profile of the State *etc*. are given in **Appendix-1.1.**

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 (2011-12) *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)

2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
Section-A: Revenue					**Non - Plan**	**Plan**	**Total**
5429.94	Revenue receipts	5653.55	4078.01	Revenue expenditure	3925.83	1081.09	5006.92
267.05	*Tax revenue*	*368.07*	*1642.75*	*General services*	*2124.69*	*8.91*	*2133.60*
259.88	*Non-tax revenue*	*311.53*	*1238.47*	*Social services*	*856.18*	*583.11*	*1439.29*
990.57	*Share of Union Taxes/ Duties*	*1154.03*	*1083.68*	*Economic services*	*768.30*	*489.07*	*1257.37*
3912.44	*Grants from Government of India*	*3819.92*	*113.11*	*Grants-in-aid and Contributions*	*176.66*	-	*176.66*
Section-B: Capital							
-	Misc. Capital receipts	-	1918.06	Capital expenditure	(-) 3.22	1698.63	1695.41
1.19	Recoveries of Loans and Advances	1.89	3.80	Loans and Advances disbursed			0.08
298.40	Public debt receipts	293.33	115.02	Repayment of public debt *			160.24
-	Contingency Fund	-	-	Contingency Fund			-
4008.55	Public Account receipts	5582.21	3634.11	Public Account disbursements			5396.61
367.40	Opening Cash Balance	356.48	356.48	Closing Cash Balance			(-)371.80
10105.48	**Total**	**11887.46**	**10105.48**	**Total**			**11887.46**

(Source: Finance Accounts)

*Excluding net transactions under Ways and means advances (₹ 89.95 crore) and Overdraft, if any

Following are the significant changes during 2011-12 over the previous year:

- **Revenue receipts** increased marginally by ₹ 223.61crore (4 *per cent*) over the previous year. Tax revenue and Non–tax revenue increased by ₹ 101.02 crore (38 *per cent*) and ₹ 51.65 crore (20 *per cent*) respectively. State's share of Union Taxes and Duties also increased by ₹ 163.46 crore. Grants-in-aid from Government of India (GoI) decreased by ₹ 92.52 crore. Despite significant increase in Own tax revenue and Non-tax revenue, Revenue receipts as a whole increased marginally due to decline in Grants-in-aid;
- **Revenue expenditure** increased by ₹ 928.91 crore (23 *per cent*) over the previous year while **Capital expenditure** decreased by ₹ 222.65 crore (12 *per cent*);
- **Disbursement of Loans and Advances** decreased significantly by ₹ 3.72 crore (98 *per cent*) over the previous year. Recoveries of Loans and advances increased by ₹ 0.70 crore over the previous year;
- **Public debt receipts** decreased by ₹ 5.07 crore (2 *per cent*) over the previous year. Repayment of public debt increased sharply by ₹ 45.22 crore (39 *per cent*) over the previous year;
- **Public Account receipts and disbursements** increased significantly by ₹ 1573.66 crore (39 *per cent*) and ₹ 1762.50 crore (48 *per cent*) respectively over the previous year; and

- The total inflow during 2011-12 was ₹ 11887.46 crore against ₹ 10,105.48 crore in 2010-11, while the total outflow during 2011-12 was ₹ 12259.26 crore against ₹ 9749 crore during the previous year, leading to negative cash balances of the State of ₹ 371.80 crore.

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 (MFRBM) Act, 2005 and MFRBM Rules. A Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets in each year is 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 2011-12 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 2011-12

(₹ 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)	19 *per cent* of Total Revenue Receipts *i.e.* 19 *per cent* x 5653.55 *i.e.* ₹ 1074.17 crore	(+) 646.63
Fiscal deficit/ GSDP *(per cent)*	3 *per cent* of GSDP (by 31.3.2009)	7 *per cent* of GSDP	9.86 *per cent* (FD – ₹ 1046.97 cr and GSDP - ₹ 10619 cr)
State's outstanding guarantees	Not to exceed thrice the State's own tax revenue receipts of the second preceding year *i.e.* ₹ 588.12 crore (196.04 x 3)	NA	175.35
Salary expenditure	35 *per cent* of revenue expenditure net interest payment and pension *i.e.* 35 *per cent* of (5006.92–397.44–628.15) *i.e.* ₹ 1393.47 crore	NA	2215.87[2]

(Source: FRBM Act/Rules, MTFPS *etc.*)

The above table reveals that the State could achieve the targets of fiscal parameters of FRBM Act in respect of Revenue Deficit/Surplus and Outstanding guarantees. Though there was Revenue surplus, it could not achieve the targets set in MTFPS. Fiscal parameters in respect of fiscal deficits/GSDP and Salary expenditure could not be achieved as in the previous years. Fiscal deficit (FD) increased by ₹ 478.23 crore (84.09 *per cent*) from ₹ 568.74 crore in previous year to ₹ 1046.97 crore in 2011-12 and 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 6.18 *per cent*, the ratio was 9.86 *per cent* in the current year.

[2] including ₹ 5.78 crore on wages and excluding ₹ 49.19 crore (Leave Encashment benefits) booked under 'Major Head-2071-Pensions and Other Retirement Benefits'

As per ThFC recommendation, the State is 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. The expenditure under salary and wages exceeded the targets set as per FRBM Act (₹ 1393.47 crore) by ₹ 822.40 crore (59 *per cent*). Expenditure on Salary and Wages increased by ₹ 537.92 crore from ₹ 1677.95 crore (32 *per cent*) in 2010-11 to ₹ 2215.87 crore in 2011-12.

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 2011-12, the advance estimate GSDP for the State of Manipur was ₹ 10619 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 2007-12

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Gross State Domestic Product*	6799	7399	8254	9291(Q)	10619(A)
Growth rate of GSDP in *per cent*	10.79	8.82	11.56	12.56	14.29

* 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 2010-12, the State could register a robust GSDP growth as compared to earlier years (2007-10). The advance estimates of GSDP of the State during 2011-12 at ₹ 10619 crore was higher than the ThFC figure of ₹ 9001 crore but marginally lower than MTFPS projection of ₹ 10660 crore. The registered growth rate of GSDP at 14.29 *per cent* in 2011-12 was also higher than the ThFC projected annual growth rate of 10.91 *per cent*.

1.4 Budget analysis

The budget papers presented by the 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 2011-12.

Table 1.4: Statement showing budget estimates and Actuals

(₹ in crore)

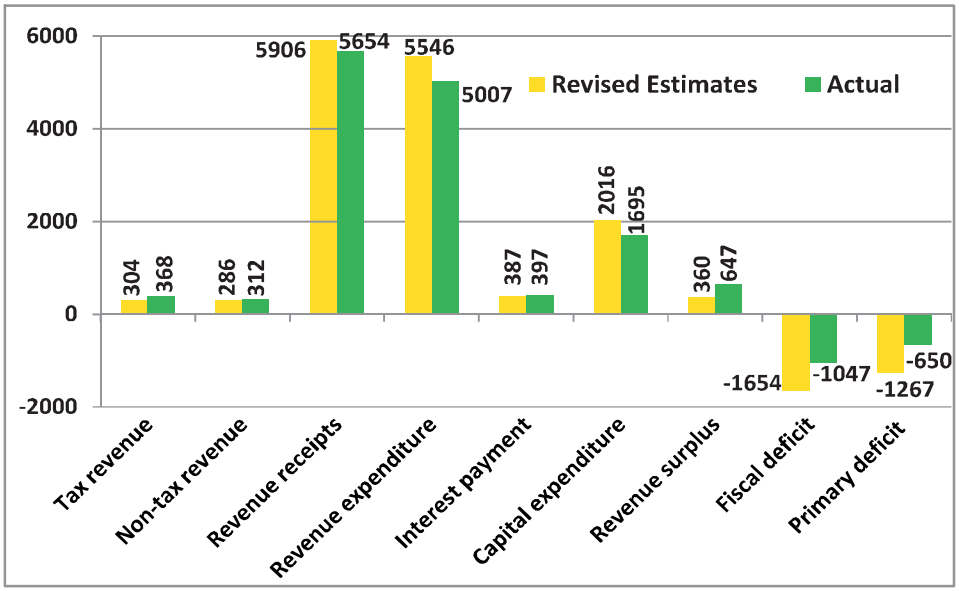
Parameters	2011-12			Percentage of excess (+)/shortfall (-) w.r.t. RE
	Budget Estimates (BE)	Revised Estimates (RE)	Actual	
Tax revenue	317.84	304.45	368.07	20.90
Non-tax revenue	459.72	285.88	311.53	8.97
Revenue receipts	5882.32	5906.47	5653.55	(-) 4.28
Revenue expenditure	4744.00	5546.45	5006.92	(-) 9.73
Interest payment	392.40	387.12	397.44	2.67
Capital expenditure	1978.84	2016.35	1695.41	(-) 15.92
Disbursement of Loans & Advances	2.50	1.50	0.08	(-) 94.67
Revenue surplus	1138.31	360.02	646.63	79.61
Fiscal deficit	- 839.09	- 1654.24	- 1046.97	(-) 36.71
Primary deficit (-)/surplus (+)	- 446.69	- 1267.12	- 649.53	(-) 48.74
Capital receipts	-	-	-	-
Recoveries of Loans and Advances	3.93	3.59	1.89	(-) 47.35

(Source: Budget documents and Finance Accounts)

The chart below presents the budget estimates and actuals for some important fiscal parameters during 2011-12.

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

(₹ in crore)



During 2011-12 revenue receipts, revenue expenditure and capital expenditure were less than the budget projections. Actual tax revenue collection and non tax revenue collection were more than the budget figures by ₹ 63.62 crore and by ₹ 25.65 crore respectively. The budget project of Interest payment was relatively accurate as there was marginal difference (₹ 10 crore) 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 ₹ 286.61 crore (80 *per cent)*, fiscal deficit was less than the budget figures by ₹ 607.27 crore.

In case of primary deficit, it was less than the budget by 49 *per cent* (₹ 617.59 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 2007-12. Chart 1.3 depicts the composition of resources of the State during the current year.

Chart 1.2: Trends in Receipts

(₹ in crore)

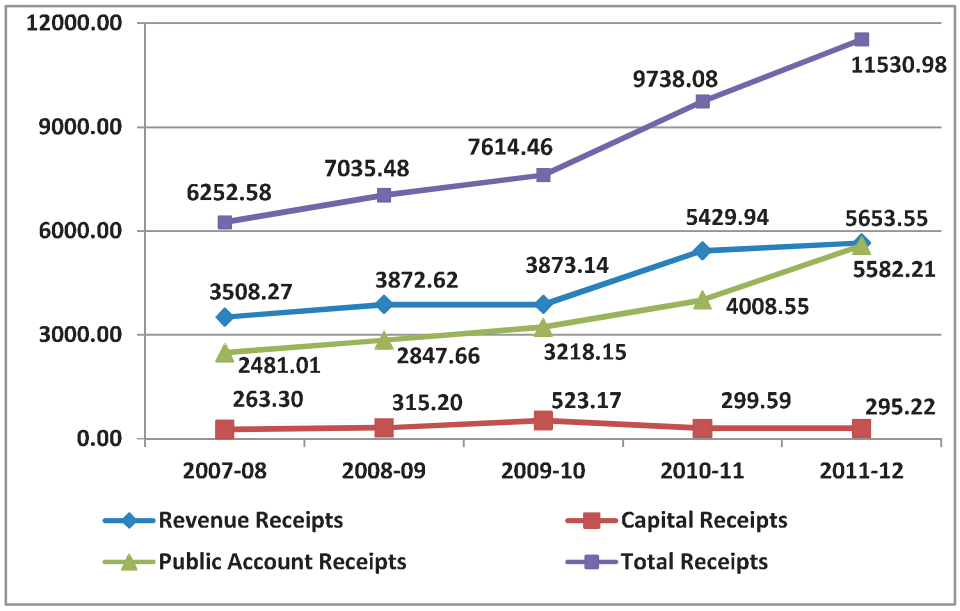
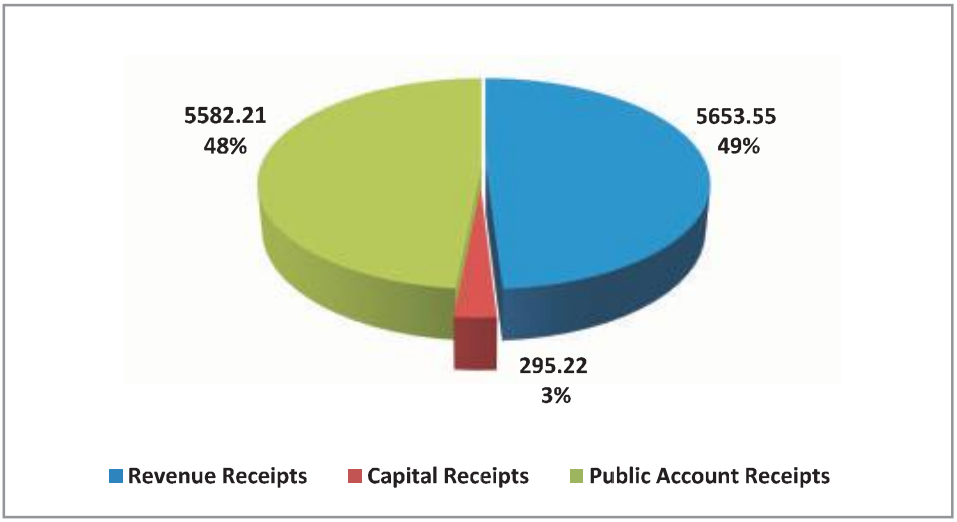


Chart 1.3: Composition of Receipts during 2011-12

(₹ in crore)



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

The total receipts during the current year has increased by ₹ 1792.90 crore (18 *per cent*) over the previous year. The increase in total receipts was mainly due to increase in Public Account receipts (₹ 1573.66 crore) which comprised 88 *per cent* of the increase in total receipts. Revenue receipts increased by ₹ 223.61 crore while capital receipts decreased marginally by ₹ 4.37 crore. Thus, increase in total receipts in the current year came in the form of borrowings, which may put a strain on the repayment profile if such trend were to be continued.

The total receipts of the State for 2011-12 was ₹ 11530.98 crore, of which ₹ 5653.55 crore (49 *per cent*) came from revenue receipts and ₹ 5582.21 crore (48 *per cent*) came from Public Account receipts. Capital receipts contributed ₹ 295.22 crore which formed three *per cent* of the total receipts.

Though Revenue receipts registered a steady growth of 61 *per cent* from ₹ 3508.27 crore in 2007-08 to ₹ 5653.55 crore in the current year, it could increase marginally in 2011-12 by 4 *per cent* as compared to 2010-11. Public Account receipts increased significantly by 39 *per cent* in 2011-12 over the previous year. During these five years (2007-12), the Public Account receipts increased significantly by 125 *per cent* from ₹ 2481.01 crore in 2007-08 to ₹ 5582.21crore in 2011-12.

As in previous year, Capital receipts declined by ₹ 4.37 crore from ₹ 299.59 crore in 2010-11 to ₹ 295.22 crore in 2011-12.

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 2011-12, the Government of India has transferred an amount of around ₹ 1259.32 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: Major 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 2011-12
1	Mahatma Gandhi National Rural Employment Guarantee	9 District Rural Development Agencies (DRDAs)	584.85
2	Pradhan Mantri Gram Sadak Yojana	Manipur Rural Roads Development Agency	177.53
3	National Mission on Medicinal Plants	Manipur Horticulture Development Society	87.46
4	National Mission on Micro Irrigation	State Micro Irrigation Committee, Manipur	50.00
5	National Rural Drinking Water Programme	State Level Water and Sanitary Mission, Manipur	47.60
6	Sarva Shiksha Abhiyan	State Implementation Society	39.41
7	Rashtriya Madhyamik Shiksha Abhiyan	State Implementation Society	38.13
8	Integrated Watershed Management Programme	5 DRDAs	25.57
9	Rural Housing –Indira Awas Yojana	9 DRDAs	23.63
10	National Bamboo Mission	State Bamboo Steering Committee	17.22
11	National AIDS Control Programme including sexually transmitted disease Control	Manipur State AIDS Control Society	13.40
12	National Afforestation Programme	Forest Development Agencies, Thoubal and State Forest Development Agency Manipur	12.74
		Total:	**1117.54**

(Source: Finance Accounts)

The above table shows that an amount of ₹ 584.85 crore (about 46 *per cent* of the total funds transferred) was given for Mahatma Gandhi National Rural Employment Guarantee Programme, ₹ 177.53 crore (about 14 *per cent*) for Pradhan Mantri Gram Sadak Yojana and ₹ 87.46 crore (about 7 *per cent*) for National Mission on Medicinal Plants. With the transfer of an amount of around ₹ 1259.32 crore directly by the GoI to the State Implementing Agencies, the total availability of State resources increased from ₹ 11,530.98 crore to ₹ 12,790.30 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 help in keeping track of end use of funds.

An analysis of two of these schemes *viz.,* National Rural Drinking Water Programme and National Aids Control Programme revealed the following improper maintenance of accounts:

➢ *National Rural Drinking Water Programme*

The activities of the National Rural Drinking Water Programme (NRDWP) in the State are carried out through State Level Water and Sanitary Mission (SWSM) under Community and Capacity Development Unit (CCDU) of the Public Health Engineering Department. CCDU transferred the fund released by the GoI to various Programme Implementing Units (PIUs).

During 2011-12, ₹ 47.60 crore was released by the GoI through 14 sanction orders for the implementation of the programme. Out of the total amount, ₹ 45.18 crore was allocated to 14 PIUs. An amount of ₹ 2.42 crore pertaining to two sanction orders received from the GoI were utilized by the Nodal Agency itself. The Nodal agency stated that the late release of fund from the Ministry resulted in inability to utilize the funds fully. The details are shown below:

Table 1.6: Allocation of fund under NRDWP for the year 2011-12

(₹ in crore)

Name of Division	Receipt
Bishnupur division	4.29
Chandel division	2.73
Churachandpur division	3.44
Imphal East division	5.55
Imphal West division	6.92
Thoubal division	6.17
Senapati division	3.07
Kangpokpi division	2.68
Ukhrul division	2.43
Jiribam division	3.29
Mechanical & Electrical division	0.42
Investigation Planning and Design division-I	1.31
Maintenance division-II	0.15
Tamenglong division	2.73
CCDU	2.42
Total:	**47.60**

(Source: Departmental records)

Out of the above 14 divisions, two divisions were test checked (November-December 2012). In case of Imphal East, PHE Division, no separate cash book was maintained for the fund transferred under NRDWP. On this being pointed out by audit, the Department accepted (November 2012) the audit comment and stated that cash book will be maintained henceforth.

In the cash book of the Mechanical and Electrical Division no entry was made in the receipt column. The department accepted the audit observation and made a spot rectification thereafter.

➢ *National AIDS Control Programme*

The activities of the National AIDS Control Programme in the State are carried out through the Manipur AIDS Control Society (MACS). MACS transferred the funds released by GoI to various NGOs, District Hospitals, District Authorities, Autonomous Bodies *etc.* The details are as below:

Table 1.7: Funds received for National AIDS Control Programme, 2011-12

(₹ in crore)

	Receipt	Payment	Balance
Global Fund Rolling Continuous Channel (RCC)-II	Grant from NACO- 3.35 Previous year balance, Other Income- 0.14 ***Sub-total- 3.49***	Advance to NGOs- 0.02 Advances to Autonomous Bodies, Inter Unit Transfer- 0.64 Other expenses- 1.78 ***Sub-total- 2.44***	1.05
Global Fund RCC-IV	Grant from NACO- 0.68 Previous Year balance, Other Income- 2.94 ***Sub-total- 3.62***	Advance to NGOs- 1.60 Advance to Staff, Autonomous Bodies, Inter Unit Transfer- 0.60 Advance to District Hospital- 0.22 Other expenses- 0.59 ***Sub-total- 3.01***	0.61
Pool Fund	Grant from NACO- 13.33 Previous Year balance, other income, imprest- 3.79 ***Sub-total- 17.12***	Advances to NGOs- 7.84 Advance to District Hospital- 0.06 Other Advances- 1.74 Other expenses- 3.54 ***Sub-total- 13.18***	3.94
Global Fund VII	Grant from NACO- 0.76 Previous year balance, Other income- 1.90 ***Sub-total- 2.66***	Advance to NGOs- 1.89 ***Sub-total- 1.89***	0.77
Grand total:	**26.89 ***	**20.52**	**6.37**

** including ₹ 8.77 crore from Previous year balance, Other income (as shown in the above Table) and ₹ 4.72 crore not reflected in CGA's website.*

(Source: Departmental records)

The two amounts transferred under RCC II (₹ 0.5 crore) during 2011-12 and under Pool Fund (₹ 4.22 crore) received by MACS from the GoI were not reflected in Controller General of Account's (CGA) website.

Four implementing units/ centres *viz.,* (i) Anti-Retroviral Therapy (ART) Centre, Regional Institute of Medical Sciences (RIMS), (ii) Centre of Excellence, RIMS, (iii) ART (Adult) Centre, Jawaharlal Nehru Institute of Medical Sciences (JNIMS) and (iv) ART(Pediatrics) Centre, JNIMS were test checked.

No cash book was found to be maintained in ART (Adult) Centre, JNIMS. On this being pointed out by Audit, the Centre accepted the audit observation and stated that cash book will be maintained henceforth (January 2013).

Cash book entries were not made at ART centre, RIMS for the funds transferred by MACS. On this being pointed out by Audit, the necessary rectifications were carried out. Further, ₹ 1.5 lakh released by MACS (January 2013) had not been received by the Centre.

No discrepancy was noticed in respect of Centre of Excellence, RIMS and ART (Pediatrics) Centre, JNIMS did not co-operate with Audit despite taking the matter with the highest level of the State Government.

1.6 Revenue Receipts

Statement-11 of the Finance Accounts contains 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 2007-12 are presented in **Appendix-1.4** 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

(₹ in crore)

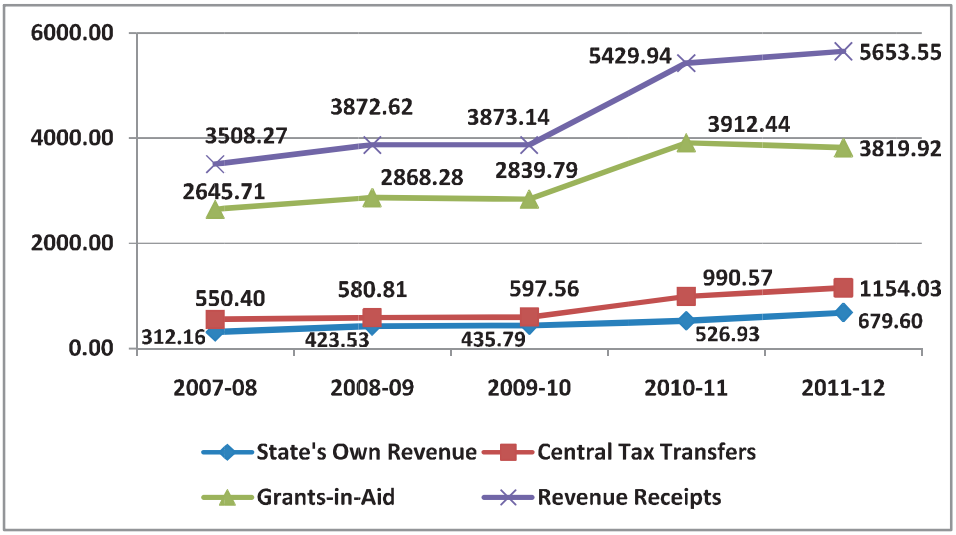


Table 1.8: Trends in Revenue receipts relative to GSDP

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue receipts (RR) (₹ in crore)	3508.27	3872.62	3873.14	5429.94	5653.55
Rate of growth of RR (*per cent*)	*22.55*	*10.39*	*0.01*	*40.19*	*4.12*
State Own taxes* (₹ in crore)	312.16	423.53	435.79	526.93	679.60
Rate of growth of Own taxes (*per cent*)	*3.16*	*35.68*	*2.89*	*20.91*	*28.97*
GSDP (₹ in crore)	6799	7399	8254	9291(Q)	10619(A)
Rate of growth of GSDP (*per cent*)	*10.79*	*8.82*	*11.56*	*12.56*	*14.29*
Revenue Receipts/GSDP (*per cent*)	51.60	52.34	46.92	58.44	53.24
Buoyancy Ratios[4]					
Revenue buoyancy w.r.t. GSDP	2.09	1.18	0.0009	3.20	0.29
State's Own taxes Buoyancy w.r.t GSDP	0.29	4.05	0.25	1.66	2.03

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

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

Though the State's own taxes remained buoyant as compared to the GSDP during 2011-12, 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 12 *per cent*). Nearly 88 *per cent* of the State Revenue receipt is from the Grants-in aid and Central tax transfers. As such, unless the proportion of State's own revenue sources improves, any reduced devolution of Central funds in future will have an adverse impact on the State's economy. As can be seen from **Appendix-1.4,** some of the sources of tax revenue like

[4] Refer glossary in Appendix 4.1

taxes on vehicles, state excise, stamp and registration *etc*., have the scope of increasing their revenue collection.

1.6.1 General trends

As can be seen from chart 1.4, during 2007-12 around 88 to 91 *per cent* of the revenue receipt of the State came from GoI. The revenue receipts of the State increased by ₹ 2145.28 crore from ₹ 3508.27 crore in 2007-08 to ₹ 5653.55 crore in 2011-12. 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). During 2011-12, the growth rate reduced to 4.12 *per cent*. Except for Grants-in-aid from GoI in 2009-10 and 2011-12, all the components of revenue receipts have exhibited increases in absolute terms over the period of 2007-12. The almost nil growth in revenue receipts in 2009-10 and 2011-12 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 during the period 2007-12 except during 2009-10 and 2011-12. 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 by ₹ 163.46 crore (16 *per cent)* over the previous year and constituted 20 *per cent* of revenue receipts. The increase was mainly due to increase in Corporation tax (₹ 67.06) and Customs duties (₹ 26.87 crore).

1.6.3 Grants-in-aid

Grants-in-aid from GoI decreased by ₹ 92.52 crore in 2011-12 over the previous year from ₹ 3912.44 crore to ₹ 3819.92. However, it continued to remain the major contributor to the revenue receipts of the State and accounted for 67 *per cent* of the revenue receipts of the State. The decrease in Grants-in-aid was mainly due to decrease in Grants for Centrally Sponsored Schemes (₹ 63.39 crore), Grants for State/Union Territory Plan Schemes (₹ 17.83 crore) and Non-plan Grants (₹ 9.74 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 2007-12 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 2011-12.

Table 1.9: Sector-wise component of Tax revenue and Non-tax revenue

(₹ in crore)

Name of component	Year				2011-12		
	2007-08	2008-09	2009-10	2010-11	BE	Actual	Variation in Actual and BE *(in per cent)*
Tax revenue							
Sales tax	120.75	141.38	163.28	227.57	242.20	296.92	22.59
Other taxes on Income and Expenditure	14.72	15.46	17.63	18.77	30.00	21.60	(-) 28
Taxes on vehicles	3.57	4.03	4.34	4.44	15.65	13.21	(-) 15.59
State excise	3.75	3.91	4.70	6.61	12.11	9.80	(-) 19.08
Stamps and registration fees	2.93	3.18	4.26	3.57	15.52	4.82	(-) 68.94
Others tax revenue	1.73	2.11	1.83	6.09	2.36	21.72	820
Sub-total:	**147.45**	**170.07**	**196.04**	**267.05**	**317.84**	**368.07**	15.80
Non-tax revenue							
General Services	62.31	105.12	80.74	96.36	122.78	157.73	28.47
Social Services	4.79	9.78	11.63	16.25	24.07	7.89	(-) 67.22
Economic Services	70.00	98.57	114.65	102.62	271.82	120.73	(-) 55.58
Interest receipts and dividends *etc.*	27.61	39.99	32.73	44.65	41.05	25.18	(-) 38.66
Fiscal services	--	--	*	Δ	#	-	
Sub-total:	**164.71**	**253.46**	**239.75**	**259.88**	**459.72**	**311.53**	(-) 32.23
Total:	**312.16**	**423.53**	**435.79**	**526.93**	**777.56**	**679.60**	(-) 12.60

* ₹ 0.12 lakh only Δ ₹ 0.05 lakh only # ₹. 0.16 lakh only

(Source:- Budget documents and Finance Accounts)

(a) Own tax revenue

The tax revenue during 2011-12 increased by 38 *per cent* from ₹ 267.05 crore in 2010-11 to ₹ 368.07 crore in 2011-12. The tax revenue was 15.80 *per cent* more than the budget estimates of ₹ 317.84 crore. The increase of ₹ 101.02 crore was mainly contributed by Sales Tax (₹ 69.35 crore). As in the previous years, Sales Tax (₹ 296.92 crore) is the major contributor of the State own tax resource and accounted for around 81 *per cent* of the tax. The own tax revenue-GSDP ratio (3.47 *per cent*) was higher than the projection (2.81 *per cent*) made by the ThFC. The Compounded Annual Growth Rate[5] (CAGR) of own tax revenue between 2002-03 and 2010-11 was 19.28 *per cent*, which increased to 21.21 *per cent* between 2002-03 and 2011-12; indicating that the collection of own tax revenue has improved in 2011-12 relative to previous years.

(b) Non-tax revenue

The non-tax revenue increased by 20 *per cent* (₹ 51.65 crore) from ₹ 259.88 crore in 2010-11 to ₹ 311.53 crore in 2011-12. The increase of ₹ 51.65 crore was mainly due to increase in Miscellaneous General Services (₹ 61.46 crore) and Power (₹ 18.30 crore), offset by decrease under Interest Receipts (₹ 19.47 crore) and Water Supply and Sanitation (₹ 8.34 crore). The CAGR of Own non-tax revenue between 2002-03 and 2010-11 was 21.02 *per cent*, which declined to 20.89 *per cent* between 2002-03 and 2011-12. The Non-tax revenue was less by 32.23 *per cent* than budget estimates of ₹ 459.72 crore.

[5] 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

As such there is a significant variation between the budget estimate and the actual non-tax revenue collection.

➢ *Cost of 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 2010-12

(₹ in crore)

Name of Services	2010-11			2011-12		
	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	14.21	46.83	30	5.87	64.32	9
Irrigation	10.68	26.85	40	8.80	31.63	28

(Source: Finance Accounts)

NTR as percentage of NPRE under Water Supply and Sanitation decreased from 30 *per cent* in 2010-11 to 9 *per cent* in 2011-12. This was due to increase in NPRE and decrease in NTR over the previous year. It is not understood how the NTR of a service like water supply and sanitation should have fallen by more than 50 *per cent* over the previous year. Similarly, in case of Irrigation the corresponding figure declined from 40 *per cent* to 28 *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 (TFC/ThFC)

The mobilization of State's own resources *vis-à-vis* assessments made by the TFC (2006-10)/ThFC (2010-12) 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
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	-	-	-
2011-12	253.17	82.90	336.07	368.07	311.53	679.60	-	-	-

(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 tax collection was more than the projected figure of ThFC in 2010-12. Thus, for two successive years the actual Tax revenue collected was more than the projection

made in the ThFC. The actual revenue collection from Non-tax revenue was much higher than the TFC/ThFC targets and there was no shortfall in own revenue collection *vis-à-vis* TFC/ThFC targets during 2007-12.

Tax revenue of ₹ 368.07 crore was more than the projection made in the MTFPS/budget (Tax revenue - ₹ 317.84 crore). However, Non-tax revenue of ₹ 311.53 crore was short of the projections made in the MTFPS/budget (Non-tax revenue - ₹ 459.72 crore) during 2011-12.

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 2007-12 are presented in the table and depicted in the chart below:

Table 1.12: Composition of Total expenditure

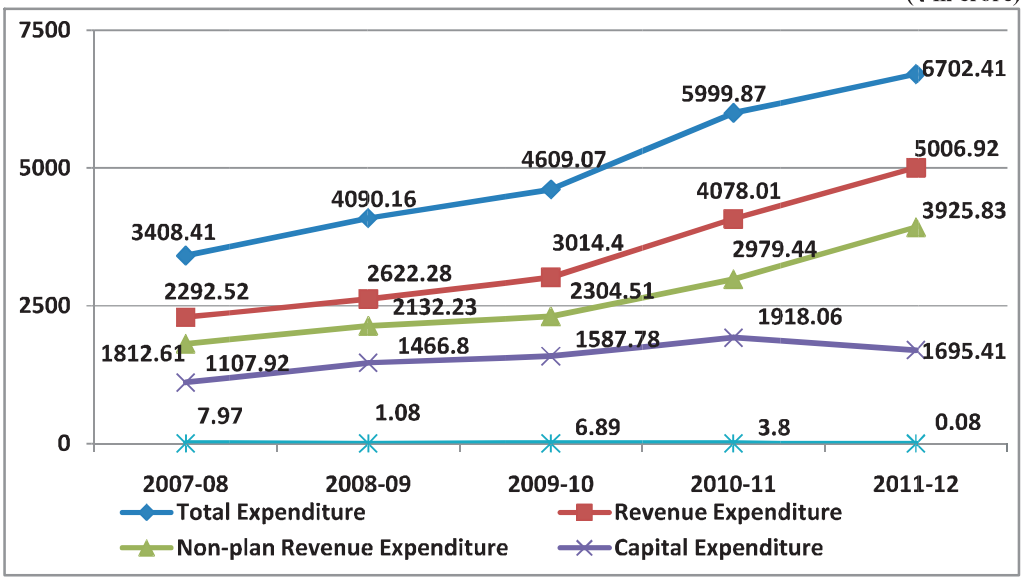
(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Total Expenditure	**3408.41**	**4090.16**	**4609.07**	**5999.87**	**6702.41**
Revenue expenditure	2292.52	2622.28	3014.40	4078.01	5006.92
Of which, Non-plan revenue expenditure	*1812.61*	*2132.23*	*2304.51*	*2979.44*	*3925.83*
Capital expenditure	1107.92	1466.80	1587.78	1918.06	1695.41
Loans and Advances	7.97	1.08	6.89	3.80	0.08

(Source: Finance Accounts)

Chart 1.5: Trends in various components of Total Expenditure during 2007-12

(₹ in crore)



During 2011-12, the total expenditure increased by ₹ 702.54 crore (12 *per cent*) from the previous year. The increase was due to increase in revenue expenditure (₹ 928.91 crore) and offset by decrease in Capital expenditure (₹ 222.65 crore). During 2007-12, Revenue expenditure had increased significantly by 118 *per cent* from ₹ 2292.52 crore to ₹ 5006.92 crore. There was a similar trend in increase of Non-plan revenue expenditure (NPRE), which constitutes the major portion of revenue expenditure. During the same period, the capital expenditure increased by 53 *per cent* only. As such allotment of expenditure towards asset creation has grown at a much lower pace as compared to day-to-day activities of the Government. There was a decrease of expenditure of ₹ 7.89 crore under Loans and Advances during the period 2007-08 to 2011-12.

The increase in Revenue expenditure (₹ 928.91 crore) was mainly due to increase in expenditure relating to Pension and other Retirement benefits (₹ 228 crore), Police (₹ 185.21 crore), General Education (₹ 84.41 crore), Power (₹ 62.85 crore) and Medical and Public Health (₹ 41.24 crore), as compared to 2010-11.

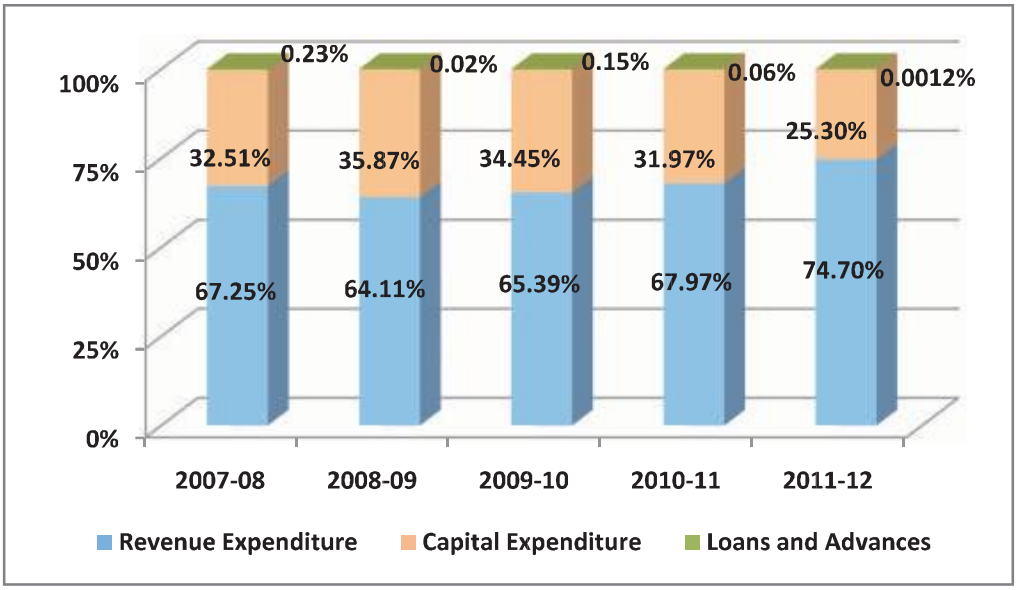
The decrease in Capital expenditure (₹ 222.65 crore) was mainly due to decrease in expenditure relating to Water Supply and Sanitation (₹ 135.15 crore), Power Projects (₹ 113.47 crore) and Major Irrigation (₹ 77.71 crore), partially offset by increase in Medical and Public Health (₹ 47.30 crore), Police (₹ 35.37 crore)[6] and North Eastern Areas (₹ 31.98 crore).

A comparative study of expenditure in terms of Revenue, Capital and Loans and Advances reveals that since 2008-09, capital expenditure had a declining trend and there was a significant reduction in the share of capital expenditure during the year 2011-12. Revenue expenditure on the other hand has been increasing steadily since 2008-09. The analysis also reveals that expenditure on Loans and Advances has been below 1 *per cent* during the whole period of 2007-12. The components of the share of expenditure are shown in the chart below:

[6] The increase was mainly due to increased in expenditure in relation to minor head 211-Police Housing (₹ 29.37 crore)

Chart 1.6: Trends 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 1.13: Trends in composition of expenditure in terms of Plan and Non-plan

(₹ in crore)

Types of Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
NON-PLAN					
Revenue	1812.61	2132.23	2304.51	2979.44	3925.83
Capital	(-)1.68	3.01	(-)0.80	0.99	(-) 3.22
Loans and Advances	3.85	0.34	0.19	0.25	0.08
Sub-total *	***1814.78 (53)***	***2135.58 (52)***	***2303.90 (50)***	***2980.68 (50)***	***3922.69(59)***
PLAN					
Revenue	479.91	490.05	709.89	1098.57	1081.09
Capital	1109.59	1463.79	1588.58	1917.07	1698.63
Loans and Advances	4.12	0.74	6.7	3.55	-
Sub-total *	***1593.62(47)***	***1954.58 (48)***	***2305.17 (50)***	***3019.19 (50)***	***2779.72(41)***
TOTAL (Non-Plan and Plan)					
Revenue	2292.52	2622.28	3014.40	4078.01	5006.92
Capital	1107.91	1466.80	1587.78	1918.06	1695.41
Loans and Advances	7.97	1.08	6.89	3.80	0.08
Total Expenditure	**3408.40**	**4090.16**	**4609.07**	**5999.87**	**6702.41**

(Source: Finance Accounts)

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

The table discloses that Non-plan expenditure which remained around 50 *per cent* of total expenditure during 2007-11 increased to 59 *per cent* in 2011-12. The corresponding decrease of 9 *per cent* in Plan expenditure over the previous year was mainly due to decrease in capital accounts which decreased by ₹ 218.44 crore. Loans and Advances under Plan heads was nil in the year 2011-12. Under Non-plan heads, Revenue expenditure has increased by ₹ 2113.22 crore (117 *per cent*) from ₹ 1812.61 crore in 2007-08 to ₹ 3925.83 crore in 2011-12. 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 2011-12 was ₹ 3925.83 crore and was nearly 59 *per cent* of the Total expenditure. The NPRE in the current year exceeded the projections made in the MTFPS/budget estimates (₹ 3114.95 crore) by ₹ 810.88 crore.

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

Table 1.14: ThFC recommendations of NPRE *vis-à-vis* Actuals

(₹ in crore)

ThFC/ Actuals[7]	Salary	General Services (GS)	*Interest Payment (under GS)*	*Pension (under GS)*	Social Services (SS)	Economic Services (ES)	Assignment to Local Bodies	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)(2+3+6+7+8)
2010-11								
ThFC	1242.73	738.34	*350.29*	*273.78*	151.54	135.95	110.46	2379.02
Actuals	1595.49	972.69	*364.78*	*400.15*	70.80	227.35	113.11	2979.44
2011-12								
ThFC	1287.66	804.97	*373.90*	*301.15*	163.66	144.39	119.30	2519.98
Actuals	2091.56	1284.13	*397.44*	*628.15*	74.30	299.18	176.66	3925.83

(Source: Thirteenth Finance Commission Report and Finance Accounts)

As in the previous years, all the components of expenditure except for expenditure under Social Services exceeded the limits set by the ThFC.

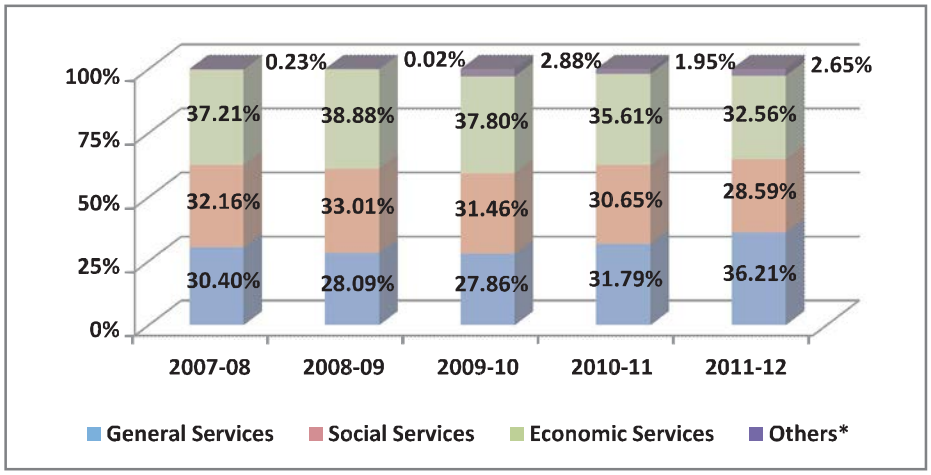
NPRE increased by ₹ 946.39 crore in 2011-12 (₹ 3925.83 crore) over the previous year (₹ 2979.44 crore). The overall increase in NPRE was mainly due to increase in expenditure on account of Superannuation and Retirement benefits (₹ 228.00 crore), Special Police (₹ 102.39 crore) and Family Pensions (₹ 58.67 crore).

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

[7] The amount shown under Salary excludes Leave Encashment. Amounts under GS, SS and ES is excluding salary under the respective sectors.

Chart 1.7: Trends in composition of Total Expenditure by activities during 2007-12

(In per cent)



(Others includes Loans and Advances)*

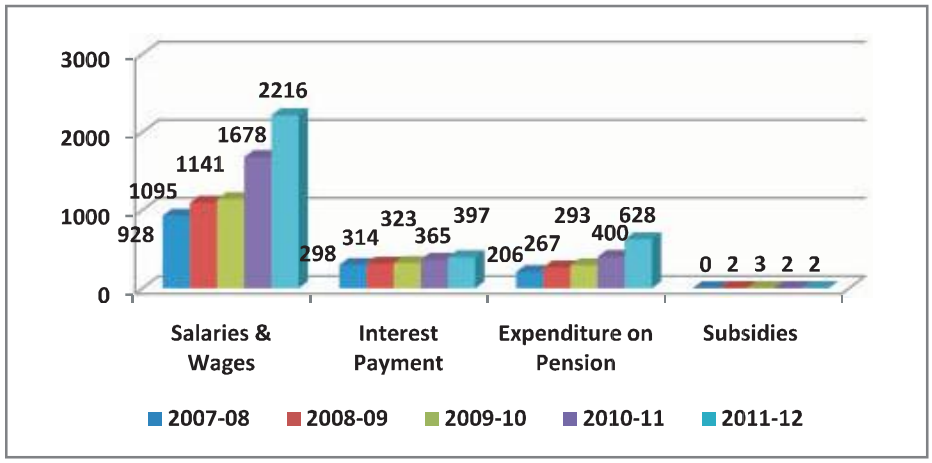
The share of expenditure on account of General Services increased by four *per cent* during the current year while the share on Social Services and Economic Services decreased by about two to three *per cent*. Expenditure on General Services increased by ₹ 519.50 crore[8] in 2011-12 over the previous year. On revenue account, the increase in expenditure on General Services was mainly due to increase in expenditure on account of Pensions and Other retirement benefits (₹ 228 crore) and Police (₹ 185.21 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 2007-12.

Chart 1.8: Trend of Committed expenditure for the years 2007-12

(₹ in crore)



[8] ₹ 490.85 crore on Revenue accounts and ₹28.65 crore on Capital accounts

Table-1.15: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actual
Salaries & Wages , *of which*	928 (26.45)	1095 (28.27)	1141 (29.46)	1678 (30.90)	1830.00	2215.87* (39.19)
Non-Plan Head	*884*	*1041*	*1077*	*1595.49*	*1743.38*	*2091.56*
Plan Head	*44*	*54*	*64*	*82*	*86.62*	*124.31*
Interest Payments	298 (8.49)	314 (8.11)	323 (8.34)	365 (6.72)	392.39	397.44 (7.03)
Expenditure on Pensions	206 (5.87)	267 (6.89)	293 (7.56)	400 (7.37)	389.55	628.15 (11.11)
Subsidies	-	2 (0.05)	3 (0.08)	2 (0.03)	2.09	1.84 (0.03)
Total:	**1432 (40.82)**	**1678 (43.33)**	**1760 (45.44)**	**2445 (45.03)**	**2614.03**	**3243.30 (57.37)**

(Source: Budget documents and Finance Accounts)

** including expenditure on account of Wages ₹ 5.78 crore and excluding ₹ 49.19 crore on Leave salary encashment booked under 'MH-2071- Pensions and Other Retirement Benefits'*

(Figures in the parentheses indicate percentage to Revenue receipts)

Salaries and wages accounted for about 39 *per cent* of revenue receipts of the State during 2011-12 and increased by ₹ 537.87 crore (32 *per cent*) over the previous year. During the last two years, the expenditure on Salary and Wages has increased substantially. Expenditure on salaries under Non-plan heads increased by ₹ 496.07 crore (31 *per cent*) in 2011-12 (₹ 2091.56 crore) over the previous year (₹ 1595.49 crore). Salary under Plan head increased significantly by ₹ 42.31 crore (52 *per cent*) in 2011-12 (₹ 124.31 crore) over the previous year (₹ 82 crore). The Non-plan salary expenditure was more by ₹ 803.90 (62 *per cent*) crore than the projection (₹ 1287.66 crore) made by the ThFC. Committed expenditure as a percentage of Revenue receipts increased from 41 *per cent* (2007-08) to 45 *per cent* (2009-10) to 57 *per cent* (2011-12). As such, if the trend continues the State's economy would be limited to a lesser scope of expenditure over the coming years.

Interest payments increased by 33 *per cent* from ₹ 298 crore in 2007-08 to ₹ 397.44 crore in 2011-12. Compared to previous year, interest payments during 2011-12 increased by 8 *per cent*. Interest payments was mainly made on Interest on Internal debt (₹ 266.47 crore). Interest on Internal debt accounted for 67 *per cent* out of the total interest payment of ₹ 397.14 crore while the remaining share was for payment of interest on Small Savings, Provident Funds, *etc*. and on Loans and Advances from Central Government. The overall interest payment (₹ 397.44 crore) during the year was higher by ₹ 23.54 crore than the projection (₹ 373.90 crore) made by the ThFC of the year.

Pension payments accounted for 11 *per cent* of Revenue receipts of the State during 2011-12 and increased by 57 *per cent* from ₹ 400 crore in 2010-11 to ₹ 628.15 crore in 2011-12. Increase of ₹ 228.15 crore in pension payments during 2011-12 over the previous year was mainly due to increase in Superannuation and Retirement Allowances (₹ 123.26 crore) and Family Pensions (₹ 58.67 crore). The Pension payment in 2011-12 (₹ 628.15 crore) was more by 109 *per cent* (₹ 327 crore) when compared with the ThFC projection (₹ 301.15 crore).

The State Government has adopted (August 2010) 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 funds available in head "Defined Contribution Pension Scheme for Government Employees" increased from ₹ 33.86 crore in 2010-11 to ₹ 61.35 crore in 2011-12. The State Government had not contributed its matching share up to 2010-11 towards this Scheme. However, the State Government contributed only ₹ 8.23 crore towards this Scheme against employees' contribution of ₹ 27.49 crore during 2011-12. Thus, the State Government had not fully contributed its matching share and its liability at the close of 2011-12 stood at ₹ 53.12 crore (₹ 61.35 crore - ₹ 8.23 crore).

As per the provision of the scheme, three funds managers *viz*. State Bank of India Pension Funds Private limited, Life Insurance Corporation Pension Fund limited and Unit Trust of India asset Management Company were appointed as pension fund managers. However, no funds had been transferred to these fund managers for investment for the benefit of the employees covered by the new pension scheme.

1.7.3 Financial assistance by State Government to other institutions

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

Table 1.16: Financial Assistance to other institutions *etc*.

(₹ in crore)

Financial Assistance to Institutions[9]	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities *etc*.)	40.50	29.75	32.04	35.17	42.22	44.81
Municipal Corporations and Municipalities	1.93	19.90	3.60	3.81	11.87	3.72
Co-operative institutions	*	*	*	*	1.52	1.39
Other Institutions	0.84	1.02	1.67	2.11	5.68	0.86
Total:	**43.27**	**50.67**	**37.31**	**41.09**	**61.29**	**50.78**
Assistance as percentage of RE	1.89	1.93	1.24	1.01	1.29	1.01

* included in Other Institutions

(Source: Budget documents and Finance Accounts)

The total assistance (₹ 50.78 crore) provided during 2011-12 was less than the estimates made in the budget (₹ 61.29 crore) by ₹ 10.51 crore. As compared to 2010-11, the total assistance increased by ₹ 9.69 crore in 2011-12. Financial assistance to universities and educational institutions alone constituted nearly 88 *per cent* of the total assistance of the State Government during 2011-12. Amongst education services, maximum assistance was given to Non-Government Primary Schools (₹ 26.85 crore). During the period 2007-08 to 2011-12, the assistance as a percentage of revenue expenditure ranged between 1.93 to 1.01.

[9] Only minor heads relating to "Assistance" under the respective major head of accounts had been considered.

1.7.4 Local Bodies

The 73rd and 74th Constitutional Amendments Acts marked a new era in the federal democratic set up of the country so far as it conferred constitutional status to the panchayats and municipalities and recognized them as the third tier of Government. The Constitutional amendment provide for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice and implementation of 29 subjects and 18 subjects listed in XI and XII Schedule of the Constitution of India.

Post 73rd Constitutional Amendment the Government enacted the Manipur Panchayati Raj (MPR) Act and established a two-tier Panchayati Raj Institutions (PRIs) system at the village and district levels. The State has 9 districts of which 5 districts are located in the hill areas and 4 districts are spread out in the valley. As on March 2012 there were 4 Zilla Parishads and 165 Gram Panchayats in the State. Consequent upon the 74th Constitutional Amendment the Government enacted the Manipur Municipality Act 1994. There are three categories of Urban Local Bodies (ULBs) in the State *e.g.* Municipal Councils (MCs), Nagar Panchayats (NPs) and Small Town Committee (STC). As of March 2012 there were 9 Municipal Councils (MCs), 18 Nagar Panchayats (NPs) and one Small Town Committee (STC) in the State.

Devolution of functions, functionaries and funds (3 Fs) to PRIs and ULBs

The 73rd Amendment to the Constitution and the Manipur Panchayati Raj Act, 1994 envisaged transfer of the functions to PRIs listed in the XIth Schedule. Accordingly, the State Government through executive orders had to transfer all the 29 functions to the PRIs. For effective functioning of both the State Government and PRIs, Activity Mapping delineated the role and responsibility of PRIs. Out of 29 functions the State Government devolved functions of 16 departments to PRIs as of March 2012. There has been no change in the 3Fs transferred since the first time the order was issued in 2005.

The 74th Constitutional amendments provide for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice and implementation relating to 18 subjects listed in the XIIth Schedule for municipalities. However, the State Government has not issued any notification in case of transfer of funds, functions and functionaries to ULBs.

Thus, transfer of funds, functions and functionaries to PRIs and ULBs was not adequate and effective to enable them to function as institutions of local self government.

Accounting and auditing arrangement of PRIs and ULBs

PRIs: Sections 43 and 73 of MPR Act stipulated that the accounts of GPs and ZPs shall be kept in such form and manner as may be prescribed. However, the basic records like Advance Register, Cheque Issue Register, Assets Registers *etc*., and Receipt and Payment Accounts were not maintained in

PRIs. Model Accounting Structure for PRI prescribed by the Ministry of Panchayati Raj (MoPR), Government of India in consultation with the C&AG of India was also not adopted in any of the GPs and ZPs.

The Director, Local Fund Audit (DLFA), Government of Manipur conducts audit of accounts of GPs and ZPs under Sections 44(1) and 74(1) of the Manipur Panchayati Raj Act, 1994. The duty of the DLFA is to conduct audit on the PRIs accounts and audit reports are to be forwarded to the audited entities and the State Government.

The Accountant General (Audit), Manipur conducts the audit of the accounts of PRIs under Sections 14(1) and 20(1) of C&AG's Duties, Power and Condition of Service (DPC) Act, 1971. The State Government had entrusted audit of PRIs to the C&AG under Technical Guidance and Support (TGS) arrangement in February 2012 by way of Gazette notification in pursuance of the 13th Finance Commission recommendations.

ULBs: The Ministry of Urban Development, GOI and C&AG developed (December 2004) National Municipal Accounts Manual (NMAM) which is based on accrual based double entry accounting system and circulated to the State Government for adoption in ULBs for greater transparency and control over finances. The ULBs were required to prepare their budget and maintain their accounts in the formats as prescribed in NMAM with appropriate codifications and classifications. The State Government also issued an order to all ULBs in March 2011 for adoption of NMAM with immediate effect. It was, however, observed that none of the ULBs had adopted NMAM as of March 2012. All ULBs kept their accounts in conventional method without following any acceptable accounting standards. Thus, the correctness of accounts could not be ascertained.

The Director, Local Fund Audit (DLFA) conducts audit of accounts of MCs, NPs and STC under Sections 72(1) of the Manipur Municipalities Act, 1994. In August 2012, the DLFA intimated that the audit of accounts upto March 2012 of 18 units out of 28 auditable ULBs units were conducted.

C&AG of India conducts the audit of the accounts of ULBs under Section 20(1) of C&AG's DPC Act, 1971 under Technical Guidance and Support (TG&S) module, as entrusted by the State Government in pursuance of the recommendation of the Thirteenth Finance Commission. The State Gazette notification regarding entrustment of TG&S to C&AG was issued in March 2012.

Reporting arrangement

Under TG&S arrangement, audit findings of test checked accounts of PRIs and ULBs conducted by the Accountant General are presented in the form of Annual Technical Inspection Report (ATIR) and submitted to the State Government for necessary action. There is a provision in the terms and conditions of TG&S entrustment that CAG or his representative will have the right to report to the State Legislature, the result of audit.

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[10]. Apart from improving the allocation towards development expenditure[11], 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 (Development expenditure or Capital expenditure) to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.17** 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 1.18** provides the details of capital expenditure and the components of salary and wages in revenue expenditure of the selected social and economic services.

Table 1.17: Development Expenditure[12]

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actual
Development Expenditure (a to c)						
a. Development Revenue Expenditure	1,360 (39.91)	1,528 (37.36)	1707 (37.04)	2322 (38.70)	3081.00	2696.66 (40.23)
b. Development Capital Expenditure	482 (14.14)	1,412 (34.52)	1485 (32.22)	1653 (27.55)	1705.25	1402.00 (20.92)
c. Development Loans and Advances	4 (0.12)	1 (0.02)	7 (0.15)	4 (0.06)	1.00	-

(Source: Budget documents and Finance Accounts)

Figures in parentheses indicate percentage to Aggregate expenditure

Development Revenue expenditure increased by ₹ 374.66 crore from ₹ 2322 crore last year to ₹ 2696.66 crore during the current year. Development capital expenditure decreased by ₹ 251 crore in 2011-12 over the previous year. Both the Development Revenue Expenditure and the Development Capital Expenditure, however, were less than what was estimated in the budget. The above table also revealed that Development Capital Expenditure which as percentage of aggregate–expenditure increased significantly till 2008-09 has since shown a steady declining trend. The gap between the share of

[10] Refer glossary in Appendix 4.1
[11] Refer glossary in Appendix 4.1
[12] Refer glossary in Appendix 4.1

developmental capital expenditure *vis-à-vis* that of developmental revenue expenditure has further increased in 2011-12.

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

Table 1.18: Efficiency of Expenditure in Selected Social and Economic Services

(In *per cent*)

Social/Economic Infrastructure	2010-11		2011-12	
	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	4.39	75.31	4.18	85.69
Health and Family Welfare	31.21	63.01	36.11	69.04
WS, Sanitation & HUD	78.53	36.59	67.65	45.09
Total (SS)	**32.66**	**52.96**	**24.90**	**61.30**
Economic Services (ES)				
Agriculture & Allied Activities	4.12	39.93	4.14	50.07
Irrigation and Flood Control	85.57	77.16	80.68	82.23
Power & Energy	59.34	31.29	41.66	32.49
Transport	74.30	31.92	67.70	30.48
Total (ES)	**49.19**	**34.72**	**42.38**	**39.21**
Total (SS+ES)	**41.55**	**44.45**	**34.21**	**51.00**

(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, WS: Water Supply and HUD: Housing and Urban Development.

Under Social Services, the share of capital expenditure as ratio of total expenditure in respect of General Education and Water Supply, Sanitation and Housing and Urban Development decreased in 2011-12 as compared to previous year. However, the ratio in respect of Health and Family Welfare had increased in 2011-12. The share of Capital expenditure to Total expenditure in respect of General Education decreased marginally in the current year as compared to that of previous year. The decrease of share in General Education was mainly due to decrease in capital expenditure in respect of Education, Sports, Art and Culture (₹ 11.08 crore). The increase in the share of Health and Family Welfare was mainly due to increase in Medical and Public Health (₹ 47.30 crore). The reduction in share of Water Supply, Sanitation and Housing and Urban Development was mainly due to decrease on account of Water Supply and Sanitation (₹ 135.15 crore).

Under Economic Services, while the share of capital expenditure in Agriculture and Allied Activities improved marginally, the share in Irrigation and Flood Control, Power and Energy and Transport had decreased in 2011-12 as compared to previous year. Reduction in Irrigation and Flood Control was mainly due to decrease in capital outlay on Major Irrigation (₹ 77.71 crore). In transport, Capital expenditure decreased by ₹ 3.68 crore while Revenue expenditure increased by ₹ 36.35 crore. The Capital expenditure on Power and Energy decreased over the previous year by ₹ 113.47 crore while the Revenue expenditure increased by ₹ 61.84 crore. As such, the ratio of Capital expenditure to total expenditure had decreased due to large variation in rate of increase in expenditure under capital and revenue heads.

Except for Transport, share of salary and wages as percentage of Revenue expenditure have increased as compared to 2010-11 in all the selected services. In respect of General Education and Irrigation and Flood Control, the share of salary and wages of Revenue expenditure was very high and was above 80 *per cent.*

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 Elementary Education in the State as reflected in Audit Report 2010-11 is as follows:

The performance audit of the Elementary education revealed that Sarva Shiksha Abhiyan (SSA) was being implemented without proper planning and without carrying out household survey and pre-project activities. There were short release of fund, delay in release of fund and diversion of fund in implementation of SSA. Teachers were posted in school with zero enrolment and there were schools with no posting of teachers. Under Mid-Day Meal (MDM), despite a trend of low attendance, foodgrains consumption for 100 *per cent* attendance was reported.

Civil works taken up both under SSA and MDM suffered from many deficiencies/irregularities due to which there were infrastructure gaps. Contract management was weak both under these schemes with loopholes in the contract clauses.

(Paragraph 1.1 of Audit Report 2010-11)

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 2012 is given in the table below:

Table 1.19: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department/Implementing Agencies	No. of Incomplete Projects	Initial Budgeted Cost	Cumulative actual expenditure as on 31.03.2012
Minor Irrigation (NLCPR)	3	13.02	4.69
Public Works	7	12.29	8.05
Health Services (NLCPR)	1	14.37	13.47
Youth Affairs and Sports	5	93.64	82.61
MSRRDA(PMGSY-Phase-VI)	1	363.66	270.70
Education (Schools)	79	24.76	12.17
Total	**96**	**521.74**	**391.69**

(Source: Finance Accounts)

NLCPR-Non-Lapsable Central Pool of Resources; MSRRDA-Manipur State Rural Road Development Agency; PMGSY-Pradhan Mantri Gram Sadak Yojana.

As of 31 March 2012, there were 17[13] incomplete projects each costing ₹ 1 crore and above, involving a total budgeted cost of ₹ 496.98 crore on which an expenditure of ₹ 379.52 crore had 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 2012:



A barrage (estimated cost: ₹ 498 lakh) was to be constructed over the Itok River at Chandrakhong. The barrage (scheduled to be completed during 2011-12) which was started during 2010-11 has not been completed and only ₹ 179.35 lakh, 36 *per cent* of the estimated cost has been incurred as on March 2012 (Minor Irrigation Department).



Construction of District Sports Complex, Thoubal (estimated cost ₹ 2114 lakh) which started during 2007-2008 was scheduled to be completed during 2011-12. Despite spending ₹ 1800.40 lakh, much of the construction of the complex has not been completed as of March 2012 (Youth Affairs and Sports Department).

(Source of photographs: Public Health Engineering Department & Youth Affairs and Sports 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.

[13] Excluding 79 projects undertaken by Education (Schools) as these projects cost less than ₹ 1 crore.

1.9.2 Investment and returns

As of 31 March 2012, Government had invested ₹ 180.93 crore in statutory corporations, rural banks, joint stock companies and co-operatives. During the last five years (2007-12), 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 6.22 *per cent* to 6.84 *per cent*, the details of which are shown in the table below:

Table 1.20: Return on Investment

(₹ in crore)

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year	173.87	175.83	176.25	176.31	180.93
Return	0.05	-	-	-	*
Return *(per cent)*	0.03	-	-	-	-
Average rate of interest on Govt. borrowing *(per cent)*	6.84	6.69	6.22	6.27	6.36
Difference between interest rate and return *(per cent)*	6.81	6.69	6.22	6.27	6.36

* only ₹ 3,000/-

(Source: Finance Accounts)

Investments as on 31 March 2012 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. (₹ 26.62 crore).

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 institutions/organizations. The table below presents the outstanding loans and advances as on 31 March 2012, interest receipts *vis-à-vis* interest payments during the last four years.

Table 1.21: 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	2011-12	
					BE	Actual
Opening Balance	193.11	198.79	199.20	202.81	205.42	205.42
Amount advanced during the year	7.97	1.07	6.89	3.80	2.50	0.08
Amount repaid during the year	2.29	0.66	3.28	1.19	3.93	1.89
Closing Balance	**198.79**	**199.20**	**202.81**	**205.42**	**203.99**	**203.61**
Of which Outstanding balance for which terms and conditions have been settled	NA	NA	NA	NA	NA	NA
Net addition	5.68	0.41	3.61	2.61	(-)1.43	(-) 1.81
Interest Receipts	0.56	0.58	2.23	7.37	NA	1.25
Interest receipts as *per cent* to outstanding Loans and Advances	0.28	0.29	1.10	3.59	NA	0.61
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	6.84	6.46	5.84	5.96	NA	6.23
Difference between interest payments and interest receipts (*per cent*)	6.56	6.17	4.74	2.37	NA	5.62

(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 2012 was ₹ 203.61 crore. Interest received against these loans and advances reduced significantly from ₹ 7.37 crore in the previous year to ₹ 1.25 crore in 2011-12. Against repayment of Loans/Advances of ₹ 1.89 crore, an amount of ₹ 0.08 crore was advanced during 2011-12. As of March 2012, major recipients of loans were Other Social Security and Welfare Programmes (₹ 128.56 crore), Village and Small Industries (₹ 22.59 crore), Housing (₹ 18.13 crore) and Co-operation (₹ 13.95 crore).

1.9.4 Cash balances and investment of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary 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 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. However, during the current year, the State Government resorted to Ways and Means Advance of ₹ 89.95 crore.

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

Table-1.22: Cash balances and investment of cash balances

(₹ in crore)

Particulars	As on 31 March 2011	As on 31 March 2012	Increase(+)/ Decrease(-)
Cash Balances[14]	356.48	(-) 371.80	(-)728.28
Investments from Cash Balances (a to c)	155.31	2.43	(-)152.88
a. GoI Treasury Bills	*152.88*	-	*(-)152.88*
b. Other Securities (Long term Investment)	*2.43*	*2.43*	-
c. Other Investments	-	-	-
Funds-wise Break-up of Investment from Earmarked balances (d to f)	68.42	99.38	30.96
d Sinking Fund	*51.94*	*78.37*	*26.43*
e Guarantee Redemption Fund	*6.30*	*10.83*	*4.53*
f State Disaster Response Fund	*10.18*	*10.18*	-
Interest Realized on investment of cash balances	37.28	20.42	(-)16.86

(Source: Finance Accounts)

[14] Including investment of earmarked funds

The cash balances of the State Government at the end of current year decreased by ₹ 728.28 crore from ₹ 356.48 crore in the previous year to a negative cash balance of ₹ 371.80 crore in 2011-12. As of 31 March 2012, the State Government has invested ₹ 2.43 crore in GoI securities (long term security). However, the Government has withdrawn ₹ 152.88 crore from GoI treasury bills during the year 2011-12. During 2011-12, an interest of ₹ 20.42 crore was earned on investment of cash balance. Further, the Government invested ₹ 99.38 crore in Sinking fund/Guarantee redemption fund *etc*. as of March 2012. Most of the interest receipts in 2011-12 was from investment of cash balance (₹ 20.42 crore out of ₹ 25.18 crore). As can be seen from the above table, the Government had a nil Treasury bill investment at the close of the 2011-12. As such, the interest receipts of the State Government in the next year may be adversely affected by the negative closing cash balance in 2011-12.

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 1.5** gives an abstract of such liabilities and assets as on 31 March 2012, compared with the corresponding position on 31 March 2011. While the liabilities in this Appendix consist mainly of internal borrowings, receipts from the Public Account, Small Savings, Provident Funds and Loans and Advances from Central Government, the assets comprise mainly the capital outlay, Remittance Balance and Loans and Advances given by the State Government.

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-1.4.** 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 2011 (₹ in crore)

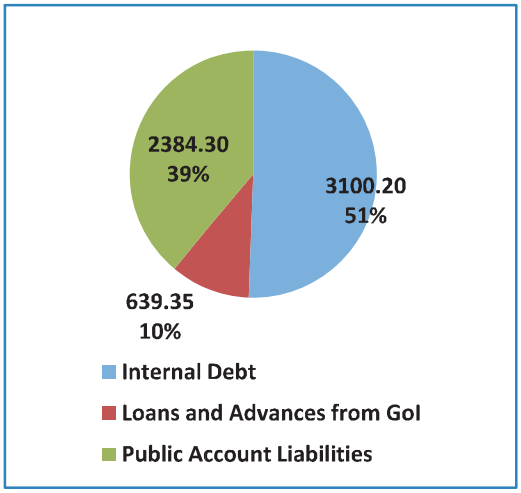
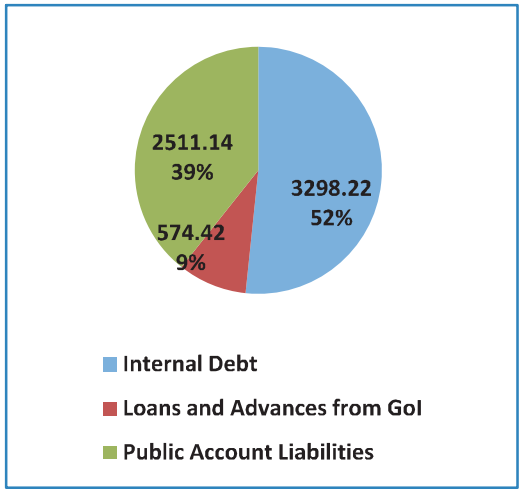


Chart 1.10: Composition of outstanding fiscal liabilities as on 31 March 2012 (₹ in crore)



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

Table 1.23: Details showing Fiscal liabilities, its growth rate and ratio to GSDP

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal liabilities [15] (₹ in crore)	4529	4861	5519	6124	6384
Rate of growth *(per cent)*	*8*	*7*	*14*	*11*	*4*
Ratio of fiscal liabilities to :-					
GSDP *(per cent)*	*66.61*	*65.70*	*66.38*	*66.58*	*60.12*
Revenue receipts *(per cent)*	*129.09*	*125.48*	*142.50*	*112.78*	*112.92*

(Source: Finance Accounts)

As can be seen from the table above, Fiscal liabilities has increased by ₹ 260 crore from ₹ 6124 crore in 2010-11 to ₹ 6384 crore in 2011-12 and the percentage of fiscal liabilities to GSDP during 2007-11 remained above 65 *per cent*. However, the ratio decreased to 60 *per cent* during the current year. The percentage of fiscal liabilities to Revenue receipts depicted a fluctuating trend during 2007-12 and was 113 to 143 *per cent* 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 66 *per cent* in 2011-12 in the MTFPS and projected at 61 *per cent* in the next two years. Given the trend of ratio of fiscal liabilities to GSDP during 2007-12, the target of limiting Fiscal liabilities to 25 *per cent* of GSDP (ThFC) will be difficult. The target of Fiscal liabilities-GSDP ratio *vis-à-vis* that of MTFPS, however, could be achieved.

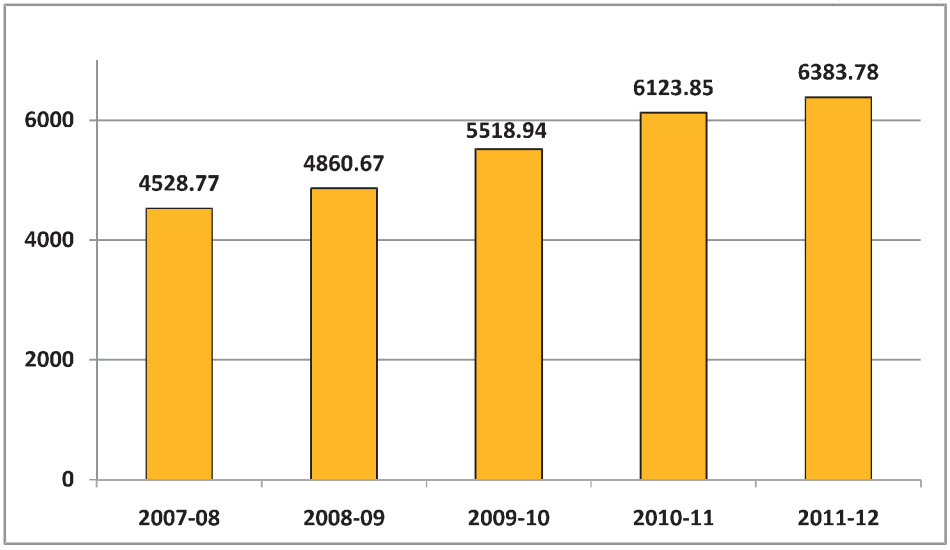
Thus, there is an urgent need for the State Government to re-look at its borrowings and repayment patterns and to ensure an economy path to foster faster growth of GSDP and ensure better repayment capacity to curb down the

[15] Refer glossary in Appendix-4.1

growth rate of fiscal liabilities. The increasing position of fiscal liabilities during 2007-12 is depicted in the bar chart below:

Chart 1.11: Trend showing fiscal liabilities during 2007-12

(₹ in crore)



The increase in fiscal liabilities (₹ 259.93 crore) was mainly due to increase in Internal Debt (₹ 198 crore) and Public Account liabilities (₹ 127 crore) offset by a decrease in Loans and Advances from GoI (₹ 65 crore). The increase in Internal Debt was mainly due to two market loans totaling to ₹ 150 crore borrowed with interest rates ranging from 8.65 *per cent* to 9.04 *per cent*. The increase in Fiscal Liability was mainly due to "MH-8009-State Provident Funds" (₹ 233.19 crore) under Public Accounts. The fiscal liabilities during the current year was lesser by ₹ 639 crore than the assessed figure of ₹ 7023 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 ₹ 26.43 crore in 2011-12. The closing balance of the fund at the close of the year was ₹ 78.37 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 five years is given in the table below:

Table 1.24: Guarantees given by the Government of Manipur

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10	2010-11	2011-12
Maximum amount guaranteed	207	197	197	196	196
Outstanding amount of guarantees	211	274	195	233	175
Percentage of maximum amount guaranteed to Total revenue receipts	5.90	5.09	5.09	3.61	3.47

(Source: Finance Accounts)

The outstanding guarantee of ₹ 175 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 2011-12. As of 31 March 2012, the interest amount (₹ 96.51 crore) has exceeded the principal amount (₹ 78.84 crore). The principal beneficiaries of outstanding loans were Planning and Development Authority (₹ 61.26 crore), Khadi and Village Industries (₹ 34.36 crore) and Manipur Tribal Development Corporation Limited (₹ 21.24 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. The State Government transferred an amount of ₹ 4.53 crore to this fund during 2011-12. The closing balance of the fund at the close of the year was ₹ 10.83 crore, which was reinvested on purchase of securities. However, compared to outstanding amount of guarantee of ₹ 175 crore, the corpus of ₹ 10.83 crore available in this fund is very meager and would not be able to cushion much of the outstanding guarantee in case of re-payment default by the loanee institutes.

1.10.4 Off - budget borrowings

The State Government has not reported (January 2013) any off-budget borrowings during 2011-12.

1.11 Debt sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze various indicators that determine the debt sustainability[16] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[17]; sufficiency of non-debt receipts[18]; net availability of borrowed funds[19]; 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 2007-12.

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

Table 1.25: Debt sustainability: Indicators and trends

(₹ in crore)

Indicators of debt sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt stabilization (Quantum spread + Primary deficit)	397	303	(-) 57	37	(-)163.91
Sufficiency of non-debt receipts (Resource gap)	(+) 577	(-) 318	(-) 517	(+)164	(-)478.23
Net availability of borrowed funds	42	32	336	241	(-)137.51
Burden of interest payments (IP/RR Ratio)	8.49	8.11	8.33	6.72	7.03

(Source: Finance Accounts)

The increase in the quantum of expenditure coupled with marginal increase in revenue collection in 2011-12 had a negative impact in the debt scenario of the economy of the State. The fiscal indicator of Debt Stabilization indicates that from 2009-10 onwards the position was moving to unstable conditions. The scenario has since deteriorated in 2011-12 and this gives an indication that the economy may be burdened with debt unsustainability in coming years.

The incremental total/aggregate expenditure (₹ 702.54 crore)[20] was higher than the incremental non-debt receipt (₹ 224.31 crore). This resulted in a resource gap of ₹ 478.23 crore. In other words, 68 *per cent* of the incremental total/aggregate expenditure (including repayment of earlier debt) had to be met from borrowed funds. This trend if continued in the coming years could put severe strain on the debt position of the economy.

The maturity profile of debt is given in the table below and in case of 2011-12 depicted in chart below:

Table 1.26: Maturity profile of debt

(₹in crore)

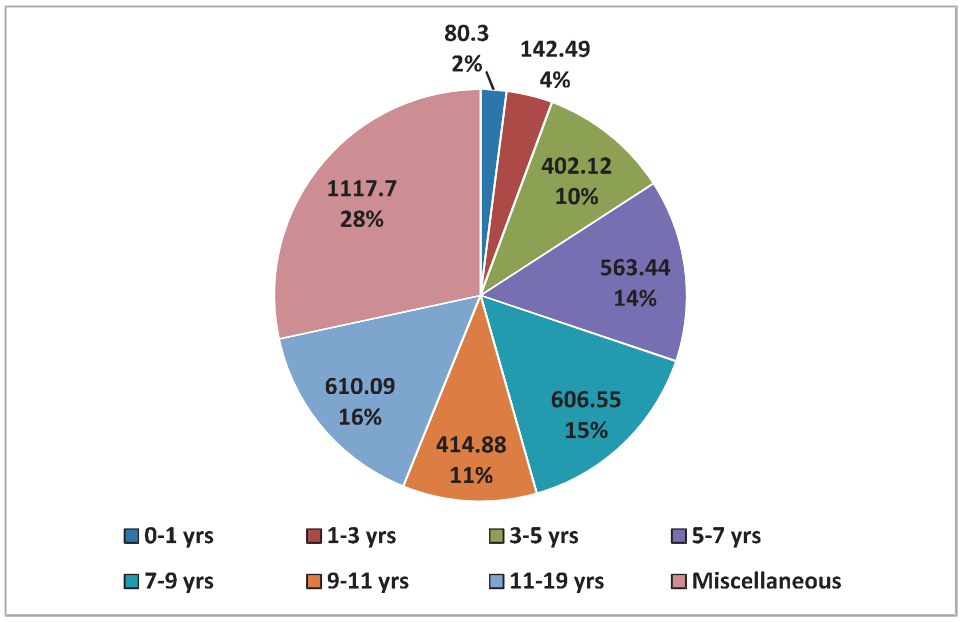
Maturity profile (in years)	2009-10	2010-11	2011-12
0 - 1	27.21	32.36	80.30
1 - 3	126.44	149.32	142.49
3 - 5	142.98	266.54	402.12
5 – 7	404.82	434.32	563.44
7 – 9	596.08	654.73	606.55
9 -11	608.53	574.38	414.88
11 - 19	717.88	676.51	610.09
Miscellaneous*	974.20	996.65	1117.70
Total	**3598.14**	**3784.81**	**3937.57**

(Source: Finance Accounts)

* Year of maturity not known.

[20] Total/Aggregate expenditure of current year-Total/Aggregate expenditure of pervious year

Chart 1.12: Maturity profile of debt in 2011-12 ***(₹in crore)***



As stated earlier, Fiscal liability–GSDP ratio in the current year stood at 60 *per cent* (para 1.10.2). Analysis of the debt profile[21] given in **Appendix-1.6** revealed that from 4th year (2015-16) onwards re-payment debt profile will increase to ₹ 188.07 crore from ₹ 78.19 crore from the previous year. The trend will increase to ₹ 361.74 crore in the 7th year (2018-19) to ₹ 408.59 crore in the 10th year (2021-22) before peaking it at ₹ 596.33 crore in the 13th year (2024-25). Such re-payment profile is very high as compared to repayment of ₹ 160.24 crore in the current year and ₹ 115.02 in 2010-11. The corpus of ₹ 78.37 crore available in the Consolidated Sinking Fund at the end of the current year is also far too meager to buffer any re-payment shortcomings, should such situation arise in future.

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 2011-12.

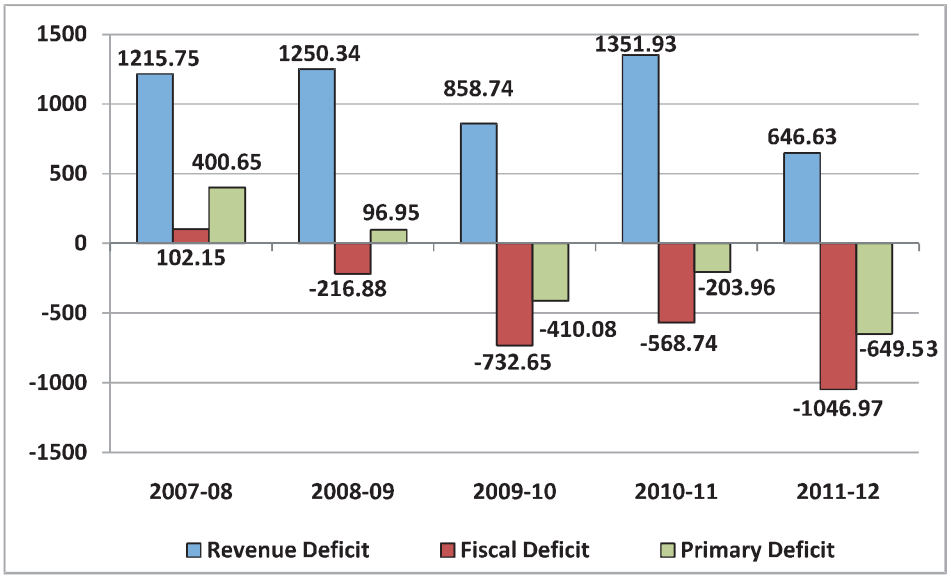
[21] *Debt profile of which year of maturity is known*

1.12.1 Trends in deficits

The chart below presents the trends in deficit indicators over the period 2007-12:

Chart 1.13: Trends of deficit/surplus indicators

(₹ in crore)



There has been a significant reduction in Revenue surplus by ₹ 705.30 crore in 2011-12 over the previous year due to reduction in grant in aid given by the GoI. This in turn brought out the worst Fiscal deficit and Primary deficit experienced by the State during the last five years (2007-12). The Fiscal deficit increased by ₹ 478.23 crore over the previous year and the Primary deficit increased by ₹ 445.57 crore over the previous year. Given the profile of increase of Fiscal deficit (84 *per cent* over the previous year) and Primary deficit (219 *per cent* over the previous year), the strain in the economy was more of the current year expenditure *vis-a-vis* revenue mobilization than of past liabilities. There may be a need to balance the expenditure *vis-à-vis* revenue mobilization to have a better control of fiscal deficit scenario as experienced in the current year. As may be seen from chart above the primary deficit alone in 2011-12 is more than the fiscal deficits of the year 2010-11 and 2008-09.

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 1.27: Components of fiscal deficit and its financing pattern

(₹ in crore)

	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
(a) Decomposition of fiscal deficit		**(+)102**	**(-)217**	**(-) 733**	(-)568.74	(-)1046.97
1	*Revenue surplus*	*1216*	*1250*	*859*	*1351.93*	*646.63*
2	*Net capital expenditure*	*(-) 1108*	*(-) 1467*	*(-) 1588*	*(-)1918.06*	*(-)1695.41*
3	*Net Loans and Advances*	*(-) 6*	*(-) 0.42*	*(-) 3.61*	*(-)2.61*	*1.81*
(b) Financing pattern of fiscal deficit*						
1	Market Borrowings	192.73	248.79	445	206.20	76.97
2	Special Securities Issued to NSSF	199.92	199.46	(-) 2.67	(-) 5.91	(-)12.85
3	Loans from Financial Institutions	(-)2.74	(-)4.08	2.77	28.36	43.96
4	Ways and Means Advance from the RBI	-	-	-	-	89.95
5	Loans from the GoI	(-)236.71	(-)239.96	(-) 41.97	(-) 45.27	(-)64.93
6	Small Savings, PF *etc.*	52.41	52.32	24.94	41.31	233.69
7	Deposits and Advances	132.78	83.72	226	386.78	(-)114.24
8	Suspense and Miscellaneous	27.64	(-)4.78	(-) 34.34	(-) 0.28	6.23
9	Remittances	111.13	(-)48.16	(-) 160.23	(-) 81.22	21.57
10	Reserve Fund	3.88	5.40	24.52	27.87	38.35
11	Increase (-) /decrease (+) in cash balance	(-) 583.16	(-) 75.83	248.65	10.92	728.28
Total (b) (1 to 11)		**(-)102**	**(+)217**	**(+) 733**	**(+)568.74**	**(+)1046.97**

(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 2007-12 was mainly on account of difference in capital receipts and capital expenditure. To finance this gap, the State Government relied more on Market borrowings and Loans from Financial Institutions and increasingly reduced the dependency from the Central Government. Consequently, during the current year, borrowing from small savings, provident fund *etc.*, increased significantly by ₹ 192.38 crore from ₹ 41.31 crore in 2010-11 to ₹ 233.69 crore in 2011-12.

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 1.28: Primary deficit/surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure*	Capital expendi-ture	Loans and Advances	Primary expendi-ture	Primary revenue surplus	Primary deficit (-)/ surplus (+)
1	**2**	**3**	**4**	**5**	**6 (3+4+5)**	**7 (2-3)**	**8 (2-6)**
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
2011-12	5,655	4,610	1,695	0.08	6,305	1,045	(-)650

(Source: Finance Accounts)

** Net of Total revenue expenditure and Interest payment*

The non-debt receipts of the State during 2007-12 were sufficient to meet the primary revenue expenditure[22] 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 (2009-12) where primary deficit had occurred, the primary surplus was not adequate to cover the capital expenditure and Loans and Advances. There was a decrease in Primary revenue surplus by ₹ 673 crore. This was due to higher quantum of increase of Primary revenue expenditure (₹ 897 crore) as compared to quantum of increase of Non-debt receipts (₹ 224 crore). This mismatch between the rate of growth of Non-debt receipts and Primary revenue expenditure could have restricted the increasing trend of Capital expenditure, which decreased from ₹ 1918 crore from previous year to ₹ 1695 crore to the current year.

1.13 Conclusion and recommendations

Revenue receipts

Despite significant increase in own Tax revenue and own Non-tax revenue, Revenue receipts of the State as a whole increased marginally by 4 *per cent* (₹ 223.61 crore) only due to decrease in Grants-in-aid from GoI. Against this, the Revenue expenditure increased by 23 *per cent* (₹ 928.91 crore). The mismatch between Revenue receipts and Revenue expenditure resulted in sharp decline in Revenue surplus from ₹ 1352 crore in the previous year to ₹ 647 crore in 2011-12. The Total receipts of the State in the current year increased by ₹ 1792.90 crore, of which 88 *per cent* of the increase (₹ 1573.66 crore) was contributed by Public Accounts Receipts, for which the State Government had to bear payment liabilities in future (paras 1.1 and 1.5.1).

Funds transferred directly from GoI to the State implementing agencies

The GoI directly transferred ₹ 1259.23 crore to State implementing agencies during 2011-12. Direct transfer of funds from the GoI to the State implementing agencies run the risk of inadequate monitoring of utilization of funds by these agencies in the absence of uniform accounting policies and effective monitoring system.

In most of the test checked units, no proper cash book was maintained and in one case some amount transferred by the State implementing agencies had not been still received by the implementing unit. In one case, no co-operation was extended to Audit by the implementing unit despite taking up the matter with the highest level.

The State need to set up a mechanism to monitor utilization and proper maintenance of records of funds directly received by the implementing agencies (para 1.5.2).

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

Expenditure status

During 2011-12 the total expenditure increased by ₹ 702.54 crore (12 *per cent*) from the previous year. The increase was due to increase in Revenue expenditure (₹ 928.91 crore) offset by decrease in Capital expenditure (₹ 222.65 crore). During 2007-12, Revenue expenditure had increased significantly by 118 *per cent* as compared to increase of 53 *per cent* in respect of Capital expenditure. There was a similar trend in increase of Non-plan Revenue expenditure (NPRE), which constituted major portion of Revenue expenditure. Non-plan Revenue expenditure which remained around 50 *per cent* of the Total expenditure during 2007-11 increased to 59 *per cent* in the current year at the expense of Plan expenditure. Committed expenditure as percentage of Revenue receipts increased from 41 *per cent* (2007-08) to 45 *per cent* (2009-10) to 57 *per cent* (2011-12). As such, the State's expenditure scope for developmental activities has been increasingly limited over the years.

Salaries expenditure has increased substantially during the last two years and account for 39 *per cent* of Revenue receipts during 2011-12. The Non-plan salary expenditure in 2011-12 was more by ₹ 803.90 crore (62 *per cent*) than what was assessed by the ThFC.

Increase of Revenue expenditure and Non-plan expenditure at the expense of Plan expenditure may deter stimulus for economic growth. As substantial portion of Revenue receipts are confined to Committed expenditure like Salaries and Wages, Interest payment *etc*., the State has limited scope for other development activities. The State may need to re-look this aspect with the Revenue receipts and fiscal liabilities profile of the State (paras 1.7.1 and 1.7.2).

Fiscal position, fiscal liabilities and sustainability of debt

Decrease in devolution of Grants-in-aid from the GoI has an adverse effect on the economy of the State in terms of fiscal position and sustainability of debt. This is despite increase in Own tax and Non-tax collection by the State and decrease in Capital expenditure (paras 1.1 and 1.12.3). In terms of key fiscal indicators, the deficit experienced by the State was the worst during the last five years (2007-12). Fiscal deficit increased from ₹ 569 crore to ₹ 1047 crore while Primary deficit increased from ₹ 204 to ₹ 650 crore over the previous year (para 1.12.1).

Fiscal deficit scenario experienced by the State is a cause of concern, especially from the fact the year 2011-12 ended with negative closing cash balance. In case the position does not improve in the coming years, the State may face the prospect of an unmanageable debt scenario. The State's flow of revenue resources should keep up with the pace of expenditure obligations, and the Government may need to explore avenues for further raising the revenue realizations from both tax and non-tax revenue sources.