CHAPTER 1

FINANCES OF THE STATE GOVERNMENT

This chapter provides an overview of the finances of the State government during the financial year 2012-13 by benchmarking against past trends of major fiscal aggregates and its structural profile. ***Appendix 1.1***contains the structure and layout of the Finance Accounts of the State government on which this Report is based. ***Appendix 1.2*** briefly outlines the methodology adopted for the assessment of the fiscal position of the State.

1.1 Profile of the State

The State of Jammu and Kashmir (J&K) is strategically located with its borders touching Pakistan and China. The State spreads over a geographical area of 2,22,236sqkms which includes an area of 1,20,849 sqkms under illegal occupation of China and Pakistan. The three regions of the State, viz Kashmir, Jammu andLadakh, have been re-organized into 22 districts, including, eight new districts created during the year 2006-07. The districts are further divided into 82 Tehsils, 142 Community Development Blocks, 6652 villages, 68 Urban areas besides seven Urban Agglomerations. The Ladakh region has two statutory autonomous Development Councils, one each for the districts of Leh and Kargil.

As per 2011 Census (Provisional Data), the State's population in census-covered areas was 1,25,48,926 (53 *per cent* male population and 72.79 *per cent* rural population). The decadal growth rate in population declined to 23.71 *per cent* during 2001-2011 from 29.43 *per cent* during 1991-2001 Population in 0-6 years age-group is 20,08,642 (10,80,662 Male, 9,27,980 Female). The population density of the State increased from 100 per sq km in 2001 to 124 per sq km, which is lower than the population density of 382 per sq km at national level. The population of the Jammu and Kashmir State accounts for 1.04 *per cent* of the country's population in 2011 as against 0.99 *per cent* in 2001 and ranks 19th among the States/ UTs.

The State has 23636 educational institutions in public sector and 5200 in private sector with total enrollment of 17.40 lakh, (Primary: 8.95 lakh, Middle: 4.26 lakh, High Schools: 2.30 lakh and Higher Secondary: 1.89 lakh). The State has a relatively high literacy rate of 68.74 *per cent* (78.26 *per cent* amongst males and 58.01 *per cent* amongst females), up from 55.50 *per cent* in 2001 (66.60 *per cent* amongst males and 43 *per cent* amongst females). During the decade 2001-2011, literacy rate at the national level increased from 64.84 *per cent* to 74.04 *per cent*.The dropout rate in the State has declined to 11 *per cent* in 2012-13. The Gross Enrollment Ratio for the State of Jammu and Kashmir was 10.36 *per cent* in 2007-08 which has increased to 18.20 *per cent* (provisional) in 2011-12 which is higher than the national Gross Enrollment Ratio of 15 *per cent*. The enrollment has accordingly increased from 77,000 in 2004-05 to 1,19,000 in 2011-12. A total number of 28,542

AnganwadiCentres are currently functional. The child sex ratio [0 to 6 years] has shown a sharp decline from 941 in 2001 to 859 as per census 2011. The overall sex ratio has also declined from 892 in 2001 to 883 as per census 2011. Neo-natal mortality and adverse sex ratio are identified concerns in a rapidly expanding healthcare infrastructure including 76 Community Health Centres upgraded as First Referral Units, 192 Primary Health Centres made functional on 24x7 basis and 9814 Accredited Social Health Activists engaged.

Incidence of poverty has been declining. The proportion of Below Poverty Line persons in Jammu and Kashmirin the total population was estimated to be 40.86 *per cent* in 2000 by the Department of Food and Public Distribution, Government of India, which continues to form the basis of foodgrain allocation under the Public Distribution System. The poverty ratio declined to 21.63 *per cent* of total population according to a BPL head count survey carried out by the State government in 2007-08 and to 10.6 *per cent* in 2011-12 according to an assessment made by the Planning Commission.

As per the latest Economic Census (2005), there were 3.24 lakh establishments employing 7.52 lakh persons in the State. The number of unemployed who have registered themselves with the Employment Exchanges has increased from 1.06 lakh in 2008 to 5.94 lakh in 2012.

The Gross State Domestic Product (GSDP)[1] of a State measures the value of goods and services produced within the State. At current market prices, the GSDP is estimated to be ₹ 76115 crore during 2012-13, up from ₹ 65979 crore in 2011-12. The State's estimated GSDP for 2012-13 is about 0.76 *per cent* of the country's estimated national Gross Domestic Product (GDP) for the year (₹ 10028118 crore).

As per the State government estimates, major constituents of State's GSDP in 2012-13 are Services (54.89 *per cent)*, Industry (24.55 *per cent*) and Agriculture and allied activities(20.56 *per cent).*In 2004-05, the corresponding shares were 43.72 *per cent*, 28.22 *per cent* and 28.06 *per cent,* respectively. As per advanced estimates for 2012-13, the growth rates in the three sectors are estimated to be 10.10 *per cent,* 3.17 *per cent* and 3.84 *per cent*, respectively. The Services sector is growing fastest causing a major shift in the structure of the economy. The overall GSDP is estimated to grow at the rate of 7.01 *per cent* during 2012-13 as compared to 6.22 *per cent* in 2011-12 and 5.96 *per cent* in 2010-11.

At current prices, Per Capita Incomehas been steadily rising (₹ 30,212, ₹ 33,650, ₹ 38,880, ₹ 44,533 and ₹ 50806 for the years 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13) though it is still short of the national average, estimated to be ₹ 68747 in 2012-13.

[1]The GDP/GSDP data used in this Report is based on the new series with Base Year 2004-05.

Trends in annual growth of the country's GDP and the State's GSDP are given in ***Appendix 1.2***.

1.1.1 Salient features of the State's Budgetary System

The State government secures legislative approval for spending from the Consolidated Fund of the State by presenting Annual Financial Statement (budget) and Demands for Grants by individual Departments. This is to ensure responsibility of the Heads of Departments for spending on intended purpose. These Demands are discussed in the Legislature, replied by the Minister-in-charge of the Department and then passed. However, expenditure is incurred against the Vote on Account before the Appropriation Act is passed. The individual Demands are discussed and passed by the Legislature rather than by Legislative Committees. The State follows a system of classification of receipts and expenditure, which generally conforms to the function-cum-programme based system followed by the Central and other State governments at top level of major/ minor heads of accounts. However, at lower levels of expenditure classification, the heads of classification are a mix of purpose of expenditure and the spending unit. The system is to some extent *ad hoc*, driven by diverse information needs of the Government rather than any particular Standard, especially at the lowest level of expenditure classification. Ostensibly due to some uncertainty of resource availability, full authority to spend approved budget is not delegated to all functionaries down the line. The budget allotments process is highly centralized. There is no system of outcome/ performance budgeting/ reporting by the departments to the State Legislature as the departments do not prepare annual reports of their activities and achievements for which dissemination of information is limited on some government websites. The Appropriation Accounts and Finance Accounts are prepared by the Accountant General (A&E) on the basis of the compilation and consolidation of receipts/disbursements transactions originating in the books of Drawing and Disbursing Officers through the Treasuries and/ or the Bank accounts controlled by the RBI and the transactions originating in the books of the RBI. The accounts are audited by the Principal Accountant General (Audit). Since April 1, 2011, the Reserve Bank of India (RBI) is the sole banker of the Government in place of the Jammu and Kashmir Bank. Some Government Officers and Government controlled entities still continue to bank with the Jammu and Kashmir Bank, as per Government directions, or with other banks. Operation of such bank accounts for public funds outside the government accounts affects the completeness of government accounts.

The State's expenditure requirements are not met fully from its own resources and it has substantial dependence on resource flow from the Central government. The State of Jammu and Kashmir is one of the 11 Special Category States entitled to 90 *per cent* financing for schemes/projects included in the State Plan in the form of grants-in-aid from the Union government. Higher (90 *per cent*) financing of State plan schemes/ projects by way of grants-in-aid from the Central government and access to

substantial Central grants for financing Central and Centrally sponsored plan schemes and also on non-plan account coupled with State's own efforts at revenue mobilisation have ensured that the State has continued to be a revenue surplus State despite having deficit after excluding central transfers.

1.2 Summary of Fiscal Transactions in 2012-13

Statement 1 and **2 and Appendix I** of the Finance Accounts 2012-13 provide summary position of opening and closing cash balances, receipts and disbursements during the year under broad categories. These are condensed and recapitulated in **Table 1.1**. The summary of the State government's fiscal transactions during the current year (2012-13) are compared with the previous year. More details are given in ***Appendix 1.3*** that contains data showing trends in major fiscal aggregates since 2002-03. ***Appendix 1.4*** presents a more disaggregated view of the Table.

Table 1.1
Summary of current year's fiscal operations

(₹in crore)

Receipts			Disbursements				
2011-12		**2012-13**	**2011-12**		**2012-13**		
Section-A:Revenue							
					Non Plan	**Plan**	**Total**
4,745	**State's Own Tax revenue**	**5,832**	**9725**	**General Services**	10614	12	**10626**
2,002	**State's Own Non-tax revenue**	**2,160**	**6292**	**Social Services**	5548	1360	**6908**
3495	**Share of Union Taxes/ Duties**	**3,871**	**6663**	**Economic Services**	7399	184	**7583**
14541	**Grants from Government of India**	**14354**					
24,783	**Revenue receipts**	**26,217**	**22680**	**Revenue expenditure**	**23560**	**1557**	**25,117**
Section-B:Capital							
			5899	**Capital Outlay**	253	4971	**5,224**
169	**Recoveries of Loans and Advances**	**2**	**66**	**Loans and Advances disbursed**	93		**93**
4,036	**Public Debt receipts@**	**3,287**	**1,211**	**Repayment of Public Debt@**	1343		**1,343**
1	**Contingency Fund**	**-**	**1**	**Contingency Fund**	-		**-**
18,835	**Public Account receipts@@**	**19,124**	**17,106**	**Public Account disbursements@@**	17723		**17,723**
100	**Opening Cash Balance**	**961**	**961**	**Closing Cash Balance**	91		**91**
47,924	**Total**	**49,591**	**47,924**				**49,591**

@ Excludes net transactions under ways and means advances and overdraft.
@@ These exclude transactions of investment of cash balances and departmental cash chests. The net effect of these transactions is included in the opening and closing cash balances in the row next below.

As a result of the aforesaid inflow/ outflow, the aggregate cash balance of the State (including un-invested cash with the RBI, invested cash and cash in departmental cash chests) decreased during 2012-13 from the opening balance of ₹ 961 crore by ₹ 870 crore to a closing balance of ₹ 91 crore.

The abridged accounts mentioned above have to be read with comments and explanations in the Finance Accounts. Government accounts being mainly on cash basis, the deficit on Government account indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation on stock figures etc. do not figure in the accounts. Suspense and miscellaneous balances include cheques issued but not paid and payments made on behalf of the State and others pending settlement, etc.

1.2.1 Review of the fiscal situation - Trends in Key Fiscal Aggregates

Appendix 1.3presents the data on key fiscal aggregates (absolute monetary values, ratios and growth rate) for the period from 2002-03 to 2012-13. Notable points emerging from this trend analysis are as follows:-

- The State's share in Union taxes and duties and grants from the Union government together constituted on an average 76.51 *per cent* of the total revenue receipts of the State during 2002-12. It declined to 69.5 *per cent* in 2012-13. These non-debt resources transferred by the Central government through the State government accounts financed on an average 64.90 *per cent* of total expenditure of the State government during 2002-12 and 59.9 *per cent* in 2012-13, showing thereby decline in the State's dependence on transfer of Central resources. This, of course, does not take into account the resources transferred by the Union Ministries directly to implementing agencies, bye-passing the State government accounts.

- The State's own tax revenues (SOTR) have shown a trend growth rate of 19.7 *per cent* per annum during 2006-07 to 2012-13, with Commercial Taxes registering a higher trend growth rate of 21.3 *per cent* per annum in tandem with economic growth. The SOTR has been an average 6.7 *per cent* of GSDP during 2006-07 to 2012-13 with a ratio of 7.7 *per cent* in 2012-13. The initial GSDP estimates have been undergoing upward revisions in recent years and hence there is scope for improvement.

- The State's own revenues, though buoyant, have proved to be insufficient to cover the revenue expenditure, particularly the non-plan revenue expenditure. It is a matter of concern that the non-plan gap is being filled through plan grants resulting in diversion of plan resources for non-plan purposes. The State has continued to maintain revenue surplus due to Central grants-in-aid(both plan and non-plan), to meet the deficit in the State's revenue account, but the surplus declined from ₹ 2103 crore in 2011-12 to ₹ 1100 crore during 2012-13.

1.2.2 Budget Estimates and Actuals

The trends in budget estimates, revised estimates and actual financial outcomes of some top level fiscal aggregates are given in **Table 1.2**.

Table 1.2

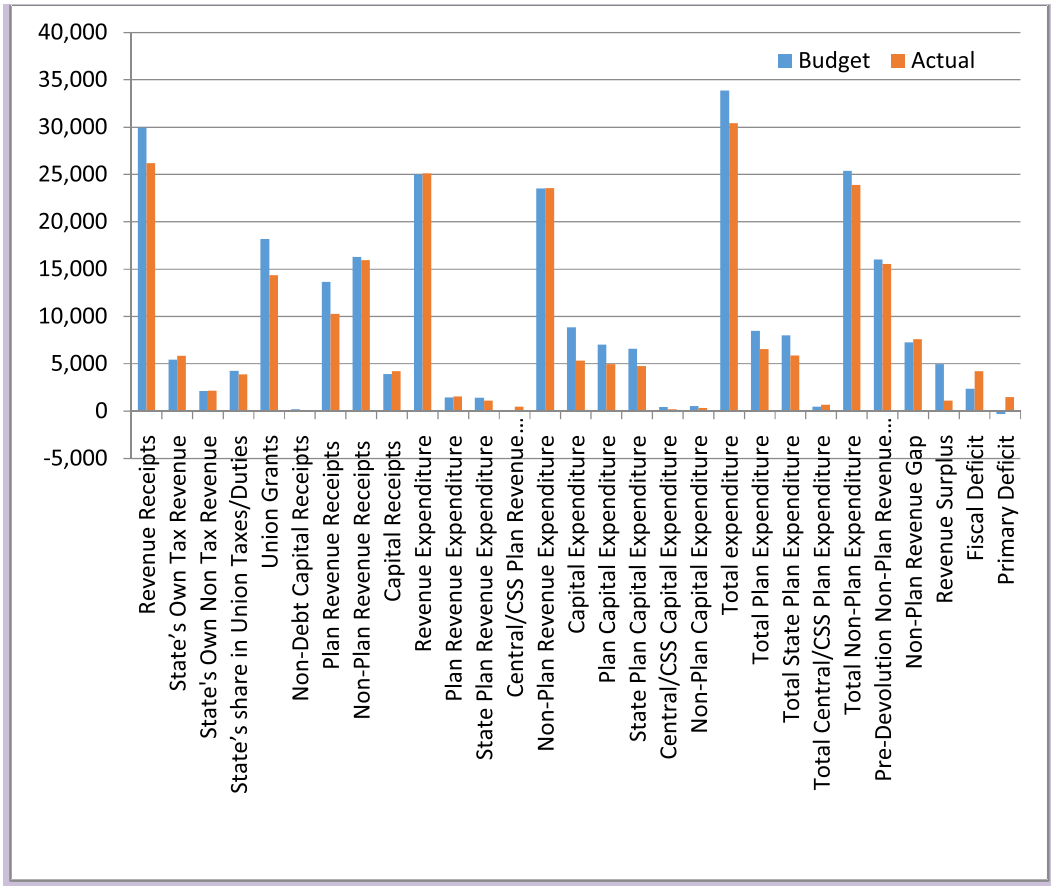
Sl. No.	Fiscal Aggregate	2010-11			2011-12			2012-13		
		Budget	Revised	Actual	Budget	Revised	Actual	Budget	Revised	Actual
1	**Revenue Receipts (a)+(b)+(c)+(d)**	**22,849**	**23,762**	**22,234**	**26,701**	**25,513**	**24,783**	**29,948**	**29,499**	**26,217**
a	State's Own *Tax Revenue*	*3,505*	*3,642*	*3,483*	*4,183*	*4,791*	*4,745*	*5,419*	*5,975*	*5,833*
b	*State's Own Non Tax Revenue*	*1,457*	*1,475*	*1,093*	*1,620*	*1,851*	*2,002*	*2,118*	*2,819*	*2,160*
c	State's share in *Union Taxes/Duties*	*2,911*	*2,911*	*3,067*	*3,328*	*3,691*	*3,495*	*4,245*	*4,085*	*3,870*
d	*Grants-in-aid from Union government*	*14,976*	*15,733*	*14,591*	*17,570*	*15,180*	*14,541*	*18,166*	*16,620*	*14,354*
2	**Non-Debt Capital Receipts**	**376**	**360**	**2**	**358**	**356**	**168**	**224**	**131**	**2**
3	**Net Borrowings and other liabilities (Fiscal Deficit)**	**1,800**	**2,361**	**2,295**	**2,979**	**3,979**	**3,694**	**2,364**	**3,364**	**4,216**
4	**Total Receipts (1+2+3)**	**25,025**	**26,483**	**24,531**	**30,038**	**29,848**	**28,645**	**33,853**	**34,311**	**30,435**
5	**Revenue Expenditure 5(i)+5(ii)**	**17,698**	**18,383**	**18,467**	**22,752**	**22,854**	**22,680**	**24,990**	**25,237**	**25,117**
i	Plan	981	928	909	1,178	1,081	1,248	1,442	1,242	1,557
ii	Non-Plan	16,717	17,455	17,558	21,574	21,773	21,432	23,548	23,995	23,560
6	**Capital Expenditure 6(i)+6(ii)**	**7,327**	**8,100**	**6,064**	**7,286**	**6,994**	**5,965**	**8,863**	**9,074**	**5,317**
i	Plan	7,075	6,758	5,730	7,020	6,617	5,474	7,028	7,228	4,971
ii	Non-Plan (excluding Debt Repayment, including Loans and Advances)	252	1,342	406	266	377	491	518	529	346
7	**Total expenditure**	**25,025**	**26,483**	**24,603**	**30,038**	**29,848**	**28,645**	**33,853**	**34,311**	**30,434**
i	Plan	8,056	7,686	6,639	8,198	7,698	6,722	8,470	8,470	6,528
ii	Non-Plan	16,969	18,797	17,964	21,840	22,150	21,933	25,383	25,841	23,906
	GSDP (New Series with Base Year 2004-05)	**42,460**	**47,709**	**56976**	**62,365**	**62,365**	**65979**	**70,160**	**76,115**	**76115**

	Pre-Devolution Non-Plan Revenue Deficit (PDNPRD)	**11,905**	**12,337**	**12,982**	**15,771**	**15,131**	**14,685**	**16,011**	**15,201**	**15,568**
	PDNPRD as *per cent* of GSDP	**28.00**	**25.85**	**23.71**	**25.28**	**24.26**	**23.50**	**22.82**	**19.97**	**20.45**
	Non-Plan Revenue Gap	**3,765**	**4,347**	**4,836**	**7,412**	**6,555**	**6,638**	**7,270**	**6,376**	**7,618**
	Non-Plan Revenue Gap as *per cent* of GSDP	**8.9**	**9.1**	**8.5**	**11.4**	**9.9**	**10.0**	**9.55**	**8.37**	**10.0**
	Revenue Surplus	**5151**	**5388**	**3767**	**3949**	**2659**	**2103**	**4,958**	**4,262**	**1,100**
	Revenue Surplus as *per cent* of GSDP	**9.0**	**9.5**	**6.6**	**6.0**	**4.03**	**3.2**	**6.5**	**5.6**	**1.4**
	Fiscal Deficit	**1,800**	**2,352**	**2,367**	**2,979**	**3,979**	**3,694**	**2,364**	**3,364**	**4,216**
	Fiscal Deficit as per cent of GSDP	**4.2**	**4.9**	**4.2**	**4.8**	**6.4**	**5.6**	**3.1**	**4.4**	**5.5**
	Primary Deficit (+) / Surplus (-) (Fiscal Deficit - Interest Payments)	**(-)400**	**152**	**84**	**616**	**1,441**	**1,311**	**-299**	**701**	**1,510**
	Primary Deficit as per cent of GSDP	**(-)0.9**	**0.3**	**0.15**	**1.0**	**2.3**	**1.99**	**0.92**	**0.39**	**1.98**
	State's Own Tax Revenue as *per cent* of GSDP	**6.15**	**6.39**	**6.1**	**6.34**	**7.26**	**7.2**	**7.11**	**7.84**	**7.7**

The 'non-plan capital expenditure' shown in the above Table does not include cash outgo on account of redemption of public debt and other liabilities because these disbursements have been deducted from the corresponding public debt and public accounts receipts. The 'fiscal deficit' is the net accretion to the public debt and other liabilities used for financing the expenditure other than debt redemption. This method of financing the redemption of public debt and other liabilities implies that the liabilities are not repaid out of current revenues but merely rolled over indefinitely. All borrowings and other liabilities cannot be endlessly refinanced and may have to be eventually paid out of Government's non-debt receipts. Hence, borrowings are in the nature of deferred taxation/ asset sale. The ability of an entity to continuously refinance old liabilities with new liabilities depends on continued credit worthiness of the entity.

Chart 1.1graphically captures actual fiscal outcomes in 2012-13 *vis-à-vis* Budget 2012-13.

Chart 1.1
Budgeted vs Actual outcome



While State's own tax revenue mobilisation exceeded the Budget target, there were significant shortfalls in the plan capital expenditure and grants-in-aid from the Union government with the overall effect being a significant increase in the fiscal deficit over the budgetary limit. Actual fiscal deficit (₹ 4216 crore, 5.5 *per cent* of GSDP) breached the target of 4.2 *per cent* of GSDP under the FRBM Act.

1.3 Resources of the State

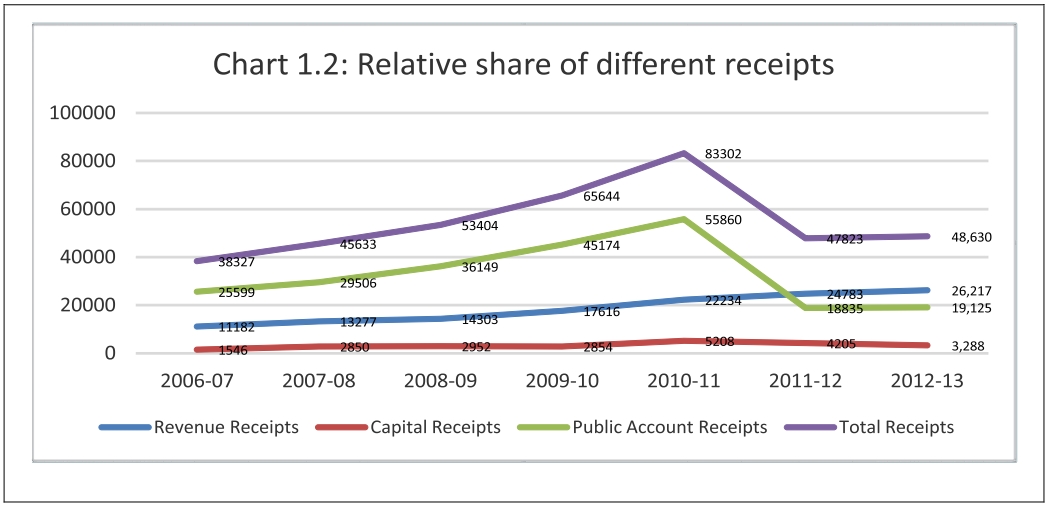
1.3.1 Resources of the State as per the Annual Finance Accounts

The resources for financing the State Budget are categorised into revenue receipts and capital receipts. Revenue receipts of a State comprise of four broad components: (a) tax revenue (i) revenue from State's own taxes like State Excise, VAT/ GST which the State can control (ii) State's share in Central taxes/ duties under the Finance Commission award (b) (i) non-tax revenues under control of the State like interest/ dividend and user charges and (ii) grants-in-aid from the Central government, which is also accounted for as non-tax revenue of the State. Capital receipts comprise of four broad components: (i) non-debt capital receipts like recoveries of loans/ advances given by the State government, (ii) proceeds of disinvestment of equity in public sector companies or proceeds from sale of other assets like

land/ buildings (iii) receipts, which create liabilities for the Government like market loans, borrowings from financial institutions/ commercial banks, loans and advances from the Union government and (iv) receipts into the public accounts of the State government as a banker or trustee of others' funds like security deposits.

It may be seen that the revenue receipts are recurring in nature and these funds are not required to be returned, in normal course. On the other hand, the capital receipts may entail creation of a liability to repay. Thus, capital receipts are further sub-divided into no-liability-to-repay type capital receipts (sale of assets like land and financial investments) and liability creating receipts such as public debt and public accounts. Public debt receipts are the receipts resulting from Government's initiative to borrow whereas in respect of receipts into the public accounts of the State, the Government acts like a trustee or banker (such as court deposits, provident fund etc.).

Chart 1.2 depicts the trends in various components of the receipts of the State during 2006-13.



The average share of revenue receipts in total receipts was 27 *per cent* during 2007-11, increased to 52 *per cent* in 2011-12 and 54 *per cent* in 2012-13 as the share of public accounts receipts declined from an average of 67 *per cent* during 2007-11 to 39 *per cent* during 2011-2012 and 2012-13. The share of capital receipts has remained almost constant.

1.3.2 Funds transferred to State Implementing Agencies outside the State Budget

The Central government has been transferring funds directly to the State implementing agencies for implementation of various schemes/ programs in Social and Economic sectors. As these funds are not routed through the State Budget/ State Treasury System, Annual Finance Accounts do not capture these funds.

On the basis of the information provided on the Central Plan Scheme Monitoring System (CPSMS) portal of the Controller General of Accounts, the information on

direct transfer of Government of India' budgetary resources to various State and District level societies and other entities in Jammu and Kashmir (commonly referred to as 'State level implementing agencies') have been compiled in ***Appendix 1.5*** of the Finance Accounts 2012-13 under schemes costing more than ₹ one crore. Funds provided to some major programme/ schemes out of the total amount (₹ 2667 crore) reported as released during 2012-13 are given in **Table 1.3.**

Table 1.3
Funds transferred directly to State implementing agencies

(₹in crore)

Name of the Programme/scheme	Name of the Implementing Agency in the State	Total Funds released by GOI during		
		2010-11	2011-12	2012-13
PMGSY	State Rural Roads Agency	366.09	762.10	266.32
National Rural Health Mission (NRHM)	State Health Department and other agencies	132.15	452.45	139.23
SarvaShikshaAbhiyan	Ujala Society	403.49	300.71	508.06
Package for Special Category State DIPP	Jammu and Kashmir Financial Corporation Limited	23.14	59.59	33.21
MGNREGA	Assistant Commissioners Development DRDA	313.60	781.31	762.76
National Rural Drinking Water Programme	State Water and Sanitation Mission	468.91	420.42	474.50
Rural Housing (IAY)	Assistant Commissioners DRDA	66.43	58.83	50.10
Local Area Development Schemes (MPLADS)	District Development Commissioners	24.00	40.00	45
	Total	**1797.81**	**2875.41**	**2281.55**

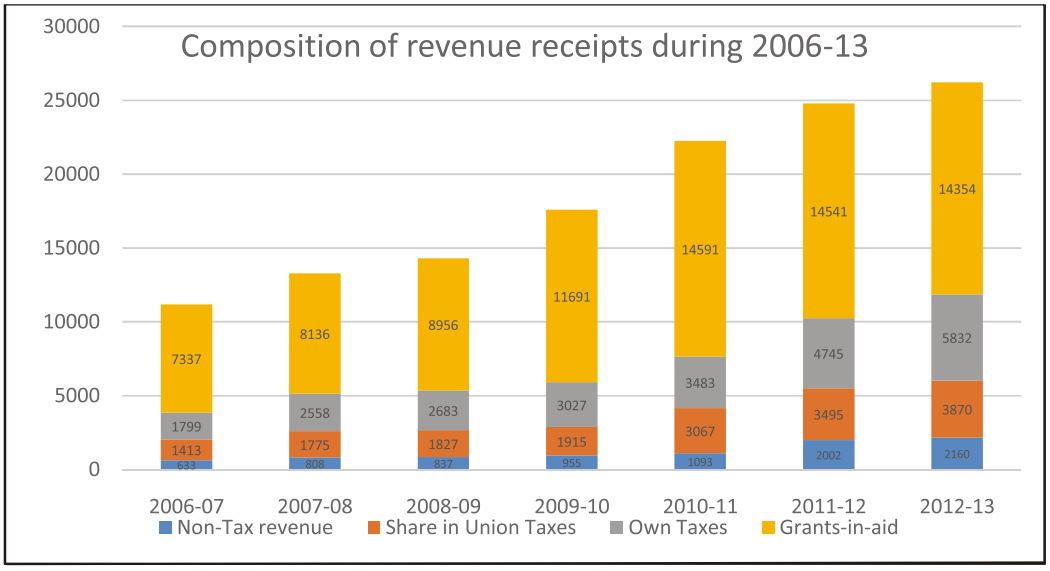
(Source: CPMS of CGA's website)

These figures are yet to be verified by the implementing agencies. The consolidated data base at apex level was not maintained by the State government. Since there is no system of regular feedback to the office of the Accountant General (A&E), Jammu and Kashmir about the unspent balances available with the above mentioned implementation agencies and the liability of matching counterpart funds required to be provided by the State government to these agencies, the Finance Accounts cannot provide a full picture of the public funds.

1.4 Revenue receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of tax and non-tax revenues, Central tax transfers and grants-in-aid from the Central government. The trends and composition of revenue receipts over the period 2006-13 are presented in ***Appendix 1.3*** and also depicted in **Chart 1.3**.

Chart 1.3



Transfers from the Union government in the form of State's share in Union taxes and duties and grants in aid together constituted 73 to 79 *per cent* of the State's revenue receipts during 2006-12 but the share declined to 70 *per cent* during 2012-13. The trends in revenue receipts relative to GSDP are presented in **Table 1.4**.

Table 1.4
Trends in revenue receipts relative to GSDP

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Receipts (RR) (₹ in crore)	**11,182**	**13,277**	**14,303**	**17,588**	**22,234**	**24,783**	**26,217**
State's Own Revenues (₹ in crore)	2432	3366	3520	3982	4576	6747	7993
Rate of growth of RR (*per cent*)	8.41	18.74	7.73	22.97	26.42	11.46	5.79
R R/GSDP (*per cent*)	35.79	33.80	36.35	39.02	37.56	35.79	34.44
Buoyancy Ratios[2]							
Revenue Buoyancy w.r.t GSDP	1.61	0.55	1.60	1.49	0.73	1.61	0.38
Revenue Buoyancy with reference to State's own taxes	0.80	0.44	1.58	1.79	1.77	0.32	0.25

Revenue receipts showed a progressive increase over the period 2006-07 to 2012-13 in absolute terms but the growth rate shows a declining trend with 2010-11 peak being due to one-off special grants-in-aid under the Finance Commission's award. Declining buoyancy of State's own tax revenue to GSDP shows that the tax base is not growing

[2] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts increase by 0.6 *per cent,* if the GSDP increases by one *per cent*.

tandem with growth in the economy. The Services sector constitutes bulk of the State's economy.

1.4.1 State's Own Revenues

The State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The State's share in Union taxes/ duties 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, which are beyond the control of the State government.The trend in State's own tax and non-tax revenue can be seen from **Table 1.5**.

Table 1.5
Trends of tax revenue and non-tax revenue

(₹in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Tax revenue	1,799	2,558	2,683	3,027	3,483	4,745	5,833
Of which							
Tax on sale of goods and services	1,159	1,805	1,836	2,146	2,425	3,414	4,174
Non-tax revenue	633	808	837	955	1,093	2,002	2,160
Of which receipts from sale of power	479	601	630	702	822	1,007	1,589
Total	**2,432**	**3,366**	**3,520**	**3,982**	**4,576**	**6,747**	**7,993**

The receipts from the sale of power is a major constituent of non-tax revenue comprising 73.56 *per cent* of the total non-tax revenue during the year 2012-13. Likewise, the tax on the sale of goods and services constituted 71.56 *per cent* of the total tax revenue.

1.4.1.1 State's Own Tax Revenue

The performance of State's own tax revenue is detailed in **Table 1.6**.

Table 1.6
Trends in State's own t**ax revenue relative to GSDP**

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Own Tax Receipts (OTR) (₹ in crore)	**1799**	**2558**	**2683**	**3027**	**3483**	**4745**	**5833**
Rate of growth of OTR (*per cent*)	10.57	42.19	4.89	12.82	15.06	36.23	22.93
OTR/GSDP (*per cent*)	5.41	6.90	6.34	6.26	6.11	7.19	7.66
Buoyancy Ratios							
OTR Buoyancy w.r.t GSDP	0.96	3.62	0.35	0.89	0.85	2.29	1.49
OTR Buoyancy with reference to RR	1.25	2.25	0.63	0.56	0.57	3.16	3.96

The States own tax receipts have been showing progressive increase registering a trend growth rate of 19.7 *per cent* during 2006-07 to 2012-13 though growth did not match the record growth of 36.23 *per cent* in 2011-12. The State has brought new services under the tax net, which are taxed as part of the State's integrated legislation for taxation of goods and services. The tax-wise break-up of tax revenue during the period along with percentage increase/ decrease over 2011-12 is given in **Table 1.7**.

Table 1.7
Trends of tax revenue

(₹in crore)

Head of Revenue	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Trend Growth rate
Sales Tax	1,159	1,805	1,836	2,146	2,425	3,414	4,174	21.3
State Excise	213	244	239	294	337	385	421	12.5
Stamps and Registration Fee	57	66	57	70	79	171	240	26.3
Taxes and duties on electricity	60	93	151	120	148	179	278	23.4
Taxes on vehicles	64	73	65	83	115	105	118	11.8
Taxes on goods and passengers	243	265	271	299	337	458	505	13.3
Land revenue	3	9	64	15	42	33	96	56.6
TOTAL	**1,799**	**2555**	**2683**	**3027**	**3483**	**4745**	**5,832**	**19.7**

The variations between the budget estimates and actuals of tax revenue receipts for the year 2011-12 and 2012-13 in respect of the principal heads of tax revenue are mentioned in **Table 1.8**.

Table 1.8
Budget Estimates and Actual Tax revenue during 2012-13

(₹in crore)

Head of Revenue	2011-12 (Actuals)	2012-13 (BE)	2012-13 (RE)	2012-13 (Actuals)
Commercial Taxes (VAT/GST on sales and services)	3,414	3,940	4,219	4,174
State Excise Duties	385	404	413	421
Other State Taxes/Duties	946	1,075	1,343	1,237

1.4.1.2 Cost of Collection

The figures of gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection from 2008-09 to 2012-13 along with the relevant all India average percentages for 2011-12 are given in **Table 1.9**.

Table 1.9
Cost of collection of major State taxes

Head of Revenue	Year	Gross Collection (₹ in crore)	Expenditure on Collection (₹ in crore)	Percentage of expenditure to gross collection (*per cent*)	All India average percentage during the preceding year
Sale Tax	2008-09	1835.99	15.30	0.83	0.95
	2009-10	2145.73	73.56	3.43	0.88
	2010-11	2424.52	22.17	0.91	0.96
	2011-12	3414.01	27.59	0.81	0.75
	2012-13	4174.39	88.08	2.11	0.83
State Excise	2008-09	238.67	11.10	4.65	3.34
	2009-10	293.78	12.37	4.21	3.66
	2010-11	337.24	14.38	4.26	3.64
	2011-12	385.46	17.09	4.43	3.05
	2012-13	421.28	18.88	4.48	2.98
Stamp Duty & Registration Fee	2008-09	57.14	6.04	10.57	3.44
	2009-10	69.51	7.80	11.22	2.77
	2010-11	78.58	12.68	16.14	2.47
	2011-12	170.97	20.87	12.21	1.60
	2012-13	240.14	23.26	9.69	1.89
Taxes on Vehicles	2008-09	65.47	4.73	7.22	2.74
	2009-10	83.10	4.56	5.49	2.93
	2010-11	115.33	5.38	4.66	3.07
	2011-12	104.52	7.44	7.12	3.71
	2012-13	117.89	7.66	6.50	2.96

It may be seen that the cost of collection of taxes on Vehicles, State Excise and Stamps and Registration Fee is significantly higher than the All India Average cost of collection.

1.4.1.3 State's own non-tax revenue

An itemised break-up of non-tax revenue during the period 2006-13 along with percentage increase/ decrease over 2011-12 is given in **Table 1.10**.

Table 1.10
Trends of non-tax revenue

(₹ in crore)

Head of Revenue	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Trend Growth Rate
Power	479	601	630	724	822	1,007	1,589	19.1
Interest receipts, dividends and profits	34	65	57	55	67	101	104	17.0
Forest and Wild Life	19	32	32	37	47	55	59	19.0
Public Works	16	16	17	24	24	26	27	10.9
Medical and Public Health	13	13	10	9	9	15	18	4.2
Water Supply and Sanitation	11	14	15	13	16	21	32	15.7
Police	7	4	10	13	11	25	28	32.7
Non-Ferrous Mining and Metallurgical Industries	10	16	15	25	35	41	54	32.1
Crop Husbandry	4	5	5	5	5	12	8	14.7
Animal Husbandry	5	5	5	5	5	6	7	5.0
Others	35	36	43	44	52	693	235	52.5
Grand total:	**633**	**808**	**837**	**955**	**1,093**	**2,002**	**2,160**	**22.9**

The receipts under 'others' category include water usage charges. Non-tax revenue of ₹ 693 crore under 'others' in 2011-12 included ₹ 543.44 crore received by the State as water usage charges from National Hydroelectric Power Corporation (NHPC) in respect of hydel projects owned by it in the State. The water usage charges are being levied on hydel power generating companies under the provisions of the Jammu and Kashmir Water Resources (Regulation & Management) Act, 2010 enacted on 25 October 2010. NHPC has challenged the levy in the Jammu and Kashmir High Court. Under an amendment to the Act made on 25 October 2012, the proceeds of the levy are to be credited into a separate account maintained by the Secretary, Finance Department. Hence, a separate Savings Bank account has been opened in the Jammu and Kashmir Bank, outside the Government Accounts. As on 31 March 2013, the balance in this bank account was ₹ 433.31 crore. Due to this development, there was a significant drop under this head of non-tax revenue in 2012-13 Government Accounts.

The receipts of the Power Development Department (PDD) constitute the most significant constituent of State's non-tax revenue. **Table 1.11** shows the variation between the budgeted and actual receipts during 2011-12 and 2012-13.

Table 1.11
Trends of non-tax revenue

(₹in crore)

Head of non-tax Revenue	Budget Estimate 2011-12	Actual 2011-12	Budget Estimate 2012-13	Actual 2012-13
Power receipts	1486	1007	2387	1,589
Interest receipts, dividends and profits	89	101	111	104
Forest and wild life	56	55	68	59
Public works	22	26	25	27
Medical and public health	17	15	20	18
Water supply and sanitation	35	21	37	32
Police	18	25	25	28
Non-ferrous mining and metallurgical industries	43	41	50	54
Crop husbandry	7	12	07	8
Animal husbandry	6	6	07	7
Others	72	693	82	234
Total	**1851**	**2002**	**2819**	**2160**

The Government informed the Legislature through the Statements placed under the FRBM Act that all departments are expected to recover at least 50 *per cent* of the 'service charges' from the users after accounting for Operations & Maintenance expenses, as recommended by the 13th Finance Commission. However, no specific, time bound action plan has been presented to achieve this goal.

1.4.2 Grants in aid from the Union government

Table 1.12shows the significance of grants-in-aid from the Union government in the budgetary resource base of the State government:

Table 1.12
Trends in grants-in-aid from the Union government

Year	Grants-in-aid (₹ in crore)	Total Expenditure (₹ in crore)	Grants as *per cent* of Total Expenditure	Total Revenue Receipts (₹ in crore)	Grants as *per cent* of Total Revenue Receipts
2008-09	8,956	17,053	53	14,303	63
2009-10	11,691	21,607	54	17,588	66
2010-11	14,591	24,603	59	22,234	66
2011-12	14,541	28,645	51	24,783	59
2012-13	14,354	30,434	47	26,217	55

1.4.2.1 Diversion of Plan grants to finance non-plan expenditure

The non-plan revenue gap (excess non-plan revenue expenditure over revenue receipts excluding plan grants-in-aid) in the State government account necessitates diversion of plan grants to fill the gap. The non-plan revenue expenditure is dominated by four principal constituents, viz., salaries and other personnel costs of employees and para-employees, pensions and other post-retirement benefits, interest payments and Power Department's deficit (difference between amount paid to power producers and amount realised from power consumers). Together these four constitute

nearly 63.52 *per cent* of total expenditure, 81.80 *per cent* of total non-plan revenue expenditure (₹ 23561 crore), 241 *per cent* of State' own tax/ non-tax revenues (₹ 7993 crore). This creates a persisting scenario of negative balance of current revenues for financing Annual Plan of the State. **Table 1.13** shows the extent to which plan grants of ₹ 3746 crore from the Union government have to be necessarily diverted for meeting non-plan expenditure.

Table 1.13
Extent of diversion of plan grants to finance non-plan expenditure

(₹in crore)

Item	Actual 2011-12	Budget 2012-13	Revised 2012-13	Actual 2012-13
Expenditure on State Plan schemes	6,113	7,300	7,300	5,864
Expenditure on Central Plan and Centrally Sponsored Schemes	608	470	470	664
Total Plan expenditure	6,721	7,770	7,770	6,534
Central Plan Assistance (Grants-in-aid) for State Plan Schemes	9,255	12,988	11,198	9,547
Central Plan Assistance (Grants-in-aid) for Central Plan and Centrally Sponsored Schemes	734	470	470	727
Total Plan grants from Union government	9,989	13,458	11,668	10,274
Plan grants diverted to meet non-Plan expenditure	3,268	5,688	3,898	3,746

1.4.3 Central Tax transfers

The actual release of share in Union taxes and duties to Jammu and Kashmir during first three years of the award period of 13th Finance Commission *vis-à-vis* the projections made by the Commission is tabulated in **Table 1.14**.

Table 1.14
State's share in Union taxes and duties: Actual devolution *vis-à-vis* 13th Finance Commission projections

(₹in crore)

Year	13th Finance Commission projection	Actual tax devolution
2010-11	2,837	3066.98
2011-12	3,328	3495.11
2012-13	3,925	3870.37

1.4.4 Utilisation of XIII Finance Commission grants

The 13th Finance Commission has recommended a total grant of ₹ 20,256 crore for the five years period from 2010-11 to 2014-15, specifically for Jammu and Kashmir. Of this, ₹ 15,937 crore is meant for filling the assessed deficit on non-plan revenue account, ₹ 1000 crore is for liquidation of overdraft with the Jammu and Kashmir Bank and ₹ 1,123 crore is meant for Local Bodies. The balance ₹ 2,202 crore is for several projects and activities to be completed during 2010-15. Since these grants are for the five-year period, any short-utlisation in any year can be made good in

subsequent years. Almost 89 *per cent* of the total grant is general budgetary support (i.e. meeting non-plan revenue gap and clearing overdraft).

Appendix 1.6 details the special purpose grants (other than the non-plan revenue deficit grant) recommended by the Commission. Out of total allocation of ₹ 4,325 crore for such grants during the award period (2010-15), an amount of ₹ 1853.25 crore has been cumulatively received by 31March 2013 by the State government. Utilisation certificates aggregating to ₹ 317.69 crore were pending with concerned departments (September 2013) for rendition to the Union government.

The State government utilised the special grant of ₹ 1000 crore during 2010-11 to retire the high cost overdraft with Jammu and Kashmir Bank as a prelude to switchover to banking with the Reserve Bank of India with effect from 2011-12. During, 2011-12, the interest burden on overdraft/ ways and means advances came down by over ₹ 220 crore as a result of this switchover to new banking arrangements. As may be seen from details given in Para 1.4.2.1 and Table 1.38, the non-plan revenue gap in the government accounts has overshot the assessment made by the Finance Commission. With the result, the non-plan revenue gap is required to be filled in not only by the grants under the Finance Commission's award but also by forced diversion of plan grants, approved by the Planning Commission, for financing the non-plan revenue expenditure.

In so far as the grants for Local Bodies are concerned, there is a condition precedent for release of these grants, viz., entrustment of Technical Guidance and Supervision role for the audit of Local Bodies to the C&AG of India. This has been ordered by the State government with effect from 2013-14 for which operational arrangements are being worked out (July 2013). The transfer of functions, responsibilities and funding to Panchayati Raj Institutions is pending.

For State Disaster Relief Fund, against the grants receivable of ₹ 489.30 crore (₹ 155.21 crore in 2010-11, ₹ 162.97 crore in 2011-12 and ₹ 171.12 crore in 2012-13), only ₹ 155.22 crore were received in 2010-11 and 2012-13. The details of non-compliance to terms and conditions leading to short-receipt are awaited from the State government (September 2013).

1.5 Capital receipts

The capital receipts are either non-debt capital receipts such as proceeds from disinvestment of equity in government companies/ corporations and recoveries of loans and advances or debt capital receipts, credited underpublic debt section of the Consolidated Fund. The public debt receipts fall broadly under two categories (a) loans/ advances from the Union government and (b) borrowings from banks, financial institutions through negotiated loans or open market borrowings through issue of State Development Loans. The share of non-debt capital receipts and loans/ advances from the Union government is negligible and capital receipts are

mainly borrowing from banks, financial institutions and open market, as detailed in**Table 1.15**.

Table 1.15
Trends in capital receipts

(₹in crore)

	2008-09	2009-10	2010-11	2011-12	2012-13
Non-Debt Capital receipts					
(i) Recoveries of Loans and Advances	4	2	2	168	2
(ii) Miscellaneous capital receipts (asset sale)		28			
Total non-debt Capital receipts	***4***	***30***	***2***	***168***	***2***
Debt Capital receipts (Public Debt)					
(i) Ways and Means Advances and Overdraft	235	675	1,847	4,436	3,742
(ii) Loans and advances from Union Government	19	31	-1,016	-32	14
(iii) Other Debt (Market/Institutional Loans)	2,694	2,146	6,222	4,068	3,272
Total non-debt Capital receipts	***2,948***	***2,852***	***7,053***	***8,472***	***7,028***
Total Capital receipts	**2,952**	**2,882**	**7,055**	**8,640**	**7,030**

These have been discussed in Paras 1.11.1 and 1.11.3 in detail.

1.6 Public Accounts receipts

In respect of sums credited to the public accounts of the State, the Government acts as a trustee or banker. Major constituents of the public accounts are State Provident Fund, Insurance/ Pension Funds, Reserve Funds, Deposits and Advances. Besides, the public accounts section of the Government Accounts is also used to record transitory transactions under Suspense and Miscellaneous and remittance heads before their final accounting to appropriate receipt or payment head of account as also cash balance transactions. **Table 1.16** shows trends in receipts and disbursements under various segments of the public accounts:

Table 1.16
Profile of public accounts

(₹in crore)

Constituents of Public Accounts	Public Account Receipts		Disbursement from Public Account		Excess of receipts over disbursement	
	011-12	2012-13	2011-12	2012-13	2011-12	2012-13
State Provident Fund, Pension/ Insurance Funds	3,327	3,239	1,257	1,550	2,070	1,689
Reserve Funds	196	286	70	116	126	170
Deposits	3,298	3,411	3,325	3,216	-27	195
Advances	346	397	347	404	-1	-7
Remittances	10,992	11,516	11,619	12,134	-627	-618
Receipts in Cash Balance Investment Account	13,050	14,268	13,762	13,703	-712	565
Receipts in Departmental Cash Balances Account	28	46	28	38	0	8
Other Suspense and Misc	676	275	488	303	188	-28
Total	**31,913**	**33,438**	**30,896**	**31,464**	**1,017**	**1,974**

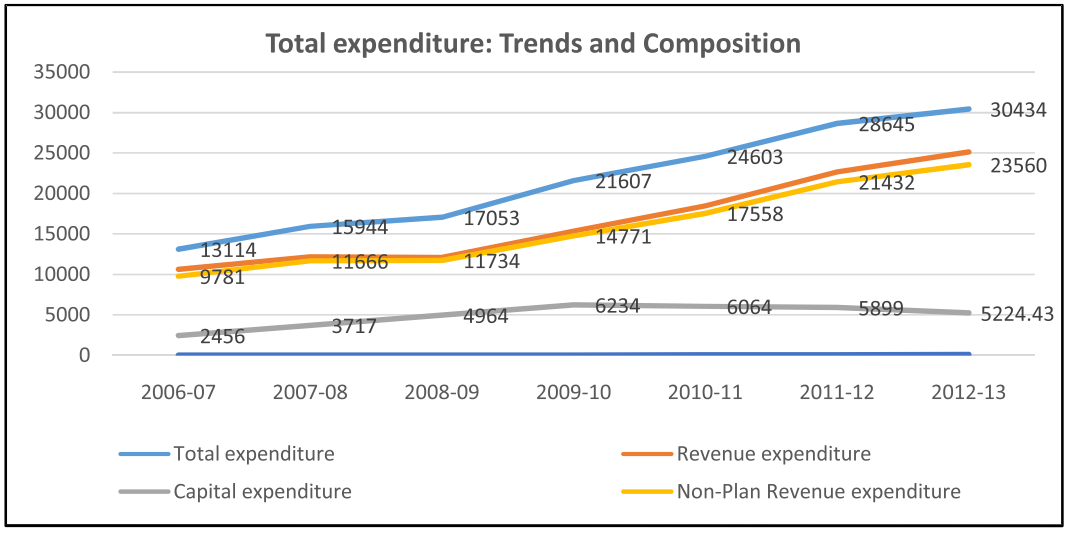
1.7 Application of resources

State raises resources to perform their sovereign functions, maintain levels of service delivery for social and economic services; extend the network of these services through capital expenditure, investments and to discharge their debt service obligations. It is also important to ensure that the fiscal correction and consolidation process does not adversely affect the quality of public expenditure directed towards maintenance of infrastructure, creation of new infrastructure and other needs of development and social justice.

1.7.1 Growth and composition of expenditure

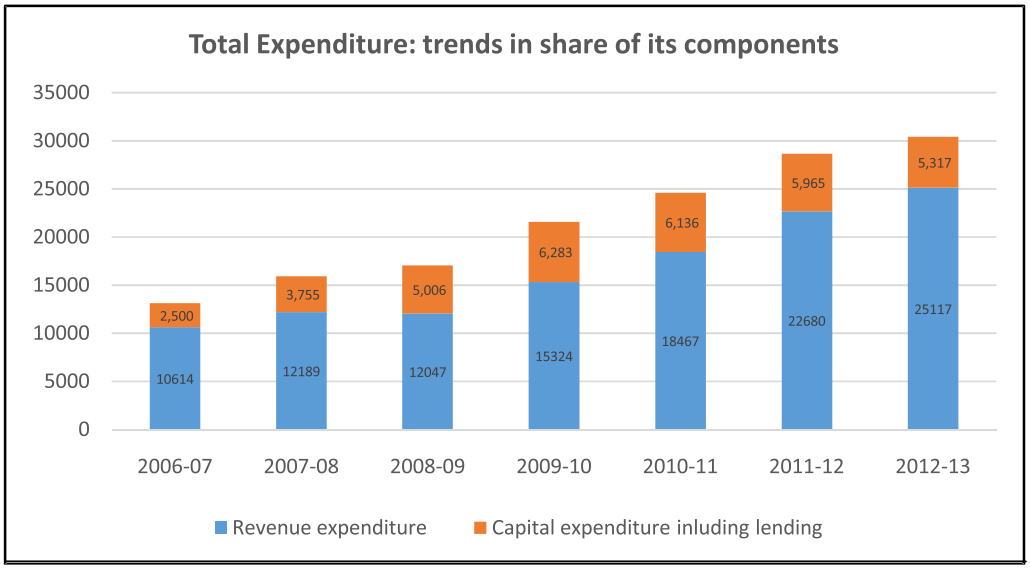
Chart 1.4 presents the trends in total expenditure during 2006-13.

Chart 1.4



The composition of total expenditure in terms of revenue-capital classification is depicted in **Chart 1.5**.

Charts 1.5



The total expenditure, its trend growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are tabulated in **Table 1.17**.

Table 1.17
Total expenditure – Basic Parameters

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Total Expenditure (TE) (₹ in crore)	**13114**	**15944**	**17053**	**21607**	**24603**	**28645**	**30434**
Rate of growth (*per cent*)	0.92	21.58	6.96	26.70	13.86	16.43	6.25
TE/GSDP ratio (*per cent*)	39.46	42.98	40.30	44.66	43.18	43.42	39.99
RR/TE ratio (*per cent*)	85.27	83.27	83.87	81.40	90.37	86.52	86.14
Buoyancy of Total Expenditure with reference to							
GSDP(ratio)	1.85	0.49	1.86	0.78	1.04	1.85	0.41
RR(ratio)	0.11	1.15	0.90	1.16	0.52	1.43	1.08
Revenue Expenditure (RE) (*₹in crore*)	10,614	12,189	12,047	15,324	18,467	22,680	25,117
Non-Plan Revenue Expenditure (NPRE)	9,781	11,666	11,734	14,771	17,558	21,432	23,560
Plan Revenue Expenditure (PRE)	833	523	313	553	909	1,248	1,557
Rate of Growth of							
RE (*per cent*)		14.84	(-)1.16	27.20	20.51	22.82	10.74
NPRE (*per cent*)		19.27	0.58	25.88	18.87	22.07	9.93
PRE (*per cent*)		(-)37.21	(-)40.15	76.68	64.38	37.29	24.76
Ratio (*per cent*)							
RE as percentage of TE	80.94	76.45	70.64	70.92	75.06	79.18	82.53
NPRE/GSDP (*per cent*)	29.43	31.45	27.73	30.53	30.82	32.48	30.95
NPRE as percentage of TE	74.58	73.17	68.81	68.36	71.37	74.82	77.41
NPRE as percentage of RR	87.47	87.87	82.04	83.98	78.97	86.48	89.87
Buoyancy ratio of Revenue Expenditure with							
GSDP	1.27	-0.08	1.90	1.16	1.44	1.27	0.70
Revenue Receipts	0.83	0.79	(-)0.15	1.18	0.78	1.99	1.86

Out of the total expenditure of ₹ 30434 crore during 2012-13, ₹ 6528 crore was plan expenditure (₹ 5,864 crore under State plan and under Central and Centrally sponsored plan) and ₹ 23906 crore was non-plan expenditure. The plan expenditure actually decreased by ₹ 194 crore from the level of ₹ 6722 crore in 2011-12. The shortfall was higher under State plan (₹ 249 crore) which was partially offset by increase under Central/ Centrally sponsored segment (₹ 55 crore).

1.7.2 Revenue expenditure

The overall revenue expenditure of the State increased from ₹ 10614 crore in 2006-07 to ₹ 25117 crore in 2012-13 showing a trend growth rate of 16.4 *per cent* per annum during the period. The non-plan revenue expenditure during the same period

increased from ₹ 9781 crore to ₹ 23560 crore, showing a TGR of 16.4 *per cent* per annum.

The non-plan expenditure recorded an increase of ₹ 1983 crore (nine *per cent*) from ₹ 21923 crore in 2011-12 to ₹ 23,906 crore in 2012-13. The steady increase in non-plan revenue expenditure is a cause of serious concern as it erodes the resource base for sparing budgetary resources for developmental interventions. **Table 1.18** highlights the four most significant constituents of NPRE and the significant pre-emption of budgetary resources cause by rising NPRE.

Table 1.18
Composition of non-plan revenue expenditure (NPRE)

Main drivers of NPRE growth	Actual 2011-12 (₹ in crore)	As *per cent* of NPRE (2011-12)	Actual 2012-13 (₹ in crore)	As *per cent* of NPRE (2012-13)
(i) Salaries	9,802	45.7	10,298	43.7
(ii) Pension	3,297	15.4	3,463	14.7
(iii) Interest Payments	2,383	11.1	2,707	11.5
(iv) Revenue expenditure on Power	3,767	17.6	4,393	18.7
Total on the top four constituents of NPRE	19,249	89.8	20,861	88.6
Non-Plan Revenue Expenditure	21,432	100.0	23,560	100.0
Receipts from sale of power	1,007	4.7	1,589	6.7
Unrecovered Revenue expenditure purchase/supply of power	2,760	14.3	2,804	13.4

From above, it may be seen that the four major items of salaries, pension, interest payments and revenue expenditure on power take away more than 80 *per cent* budgetary resources leaving little for other expenditure.

1.7.2.1 Sharp increase in personnel costs

Share of salaries/ wages/ pension in the total expenditure has ranged between 44 *per cent* and 46 *per cent* during 2006-07 to 2012-13. The expenditure on payment of interest has increased marginally from ₹ 2,283 crore in 2010-11 to ₹ 2,707 crore in 2012-13. The Government has decided to pay 100 *per cent* of the arrears of pay and pension revision following the adoption of the Sixth Central Pay Commission Award in five equal annual instalments. This liability is not fully discharged. The sharply rising trend in personnel costs (salaries/ wages/ honorarium to regular and para-employees and retirement benefits) and pensions has thus to be seen in the context of the fact that full arrears of revision of pay and pension implementation of Sixth Central Pay Commission have not yet been paid. So the rise in pay/ pension bill would have been higher but for the deferment of part of the arrears. The increase is both on account of increase in the size of workforce as well as rise in per capita expenditure.

Workforce size has increased on account of (a) creation of new districts, blocks, treasuries, directorates and other administrative units; (b) regularisation of irregularly engaged daily-wagers. The Jammu & Kashmir Civil Service (Special Provisions) Act, 2010 was enacted to regularise engagement of employees on *ad hoc*, contractual or consolidated basis without following due process of recruitment to public service and/ or without sanctioned strength. Persons having seven years 'service' under irregular arrangements found otherwise fit by an empowered committee of officers with appeal to the Chief Secretary are eligible for regularisation. The process is still going on; and (c) retrospective in-situ upgradationof employees going as far back as 1989 in engineering departments and additional benefit of three guaranteed promotions after completion of 9, 18 and 27 years in all Government departments with consequent re-fixation of pay and revision of pension.

As summarised in **Table 1.19**, it is seen that there is a shift in the payment of wages/ salaries of personnel from non-plan Budget to plan Budget.

Table 1.19
Profile of Government employment

Particulars	2011-12 (Actuals)	2012-13 (RE)
Reported strength of employees	419083	433670
Of which		
Under Plan	20278	61382
Under non-Plan	398805	372288
Salary expenditure (₹ in crore)	10053	11497

1.7.2.2 Interest Burden

Prior to 01 April 2011, the State government used to raise temporary loans from the J&K Bank for meeting its cash deficit from time to time but the cash balances were spread into numerous accounts with the result that 'overdrafts' in some accounts became unavoidable even as there were surpluses in accounts held at other branches of the Bank. The maximum temporary loan obtained was ₹ 2694.25 crore as on 30 June 2010. Under the new arrangements, all Government transactions are consolidated in a single account by the RBI on a daily basis. The State government liquidated its overdraft with J&K Bank in full on 31 March 2011 through special grants-in-aid (₹ 1000 crore) from the Union government. Retirement of high cost overdraft with J&K Bank has helped bring down the level of high cost debt of the State and consequent reduction in the interest burden of the State government. The average rate of interest on interest bearing liabilities of the Government came down during 2006-11 from 8.70 *per cent* to 8.15 *per cent* in 2012-13. The trend growth rate in interest burden since 2006-07 is 5.8 *per cent* per annum. With interest rate on market loans showing an upward trend, increasing fiscal deficit and increasing resort to market loans to finance the fiscal deficit, the benefit of low interest burden may not last long.

1.7.2.3 Burden of unrecovered cost of procurement and supply of power

The function of electricity supply to consumers is handled departmentally in the State. Hence, the receipts and expenditure on procurement and supply of electricity forms part of the State government accounts. Steadily rising gap between the revenue expenditure of the Power Development Department and the Department's revenue receipts is the most significant structural imbalance in the Budget of the Government and a drain on the resources, which could otherwise be deployed for developmental outlays.The trend in the gap between receipts from Power consumers and expenditure on Power purchase is given in **Table 1.20**.

Table 1.20
Shortfall in the performance of Power Development Department

(₹in crore)

Financial year	Target revenue	Actual revenue	Expenditure on Power purchase	Deficit
2002-03	440	607	882	275
2003-04	455	368	1135	767
2004-05	483	383	1318	935
2005-06	461	384	1674	1290
2006-07	405	479	1355	876
2007-08	780	601	1750	1149
2008-09	922	630	2034	1404
2009-10	1065	702	1997	1295
2010-11	1209	822	2310	1488
2011-12	1486	1007	3000	1993
2012-13	2,387	1589	3870	2281

Amongst the three regions of the State, Ladakh is not connected with the national grid. The unrestricted peak power demand exceeds 2700 MW with peaks coming in Kashmir and Jammu regions in winters and summers, respectively. With increasing economic activity, the demand is steadily rising. The targeted Public Distribution System in the State covers 19.72 lakh households. As per Census 2011, 85.14 *per cent* households have access to electricity. However, only approximately 50 *per cent* electrified households are serviced through properly functional meters. The power tariffs are the lowest in the country (next to Sikkim) and the transmission and distribution losses are the highest in the country. Therefore, the financial losses of the Power Development Department continue to be a serious drag on the finances of the State. It is a growing fiscal hole that cannot be sustainably filled by Central resource transfers through the Finance Commission and the Planning Commission.

The transmission and distribution losses, measuring energy lost during transmission as well as un-metered drawals are unacceptably high and out of line with national averages.The transmission and distribution losses were 61.61 *per cent* in 2011-12. The transmission losses ranged between 4.43 and 8.14 *per cent* against the Central Electricity Authority norm of four *per cent* during the period 2008-12.The Government has acknowledged that the biggest weakness is on the distribution front. It necessitates undertaking necessary reforms for cutting down these losses besides

appropriate tariff revisions. However, during 2012-13, some progress was made and about 1.5 lakh registered consumers were added, including regularised unauthorised connections.

1.7.3 Committed expenditure

The revenue expenditure of the State government on account of interest payments, salaries and wages, pensions and subsidies is considered relatively inflexible charge on the State's resources. **Table 1.21** presents the trends in the expenditure on these components during 2006-13.

Table-1.21
Components of committed expenditure

(₹in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Salaries of *which*	3995 (35.73)	4426 (33.34)	4820[3] (33.70)	6365[4] (36.18)	7772[5] (34.96)	10113 (40.81)	10600 (40.43)
Salaries Non-Plan Head	*3467*	*4170*	*4682*	*6095*	*7467*	*9665*	10036
Salaries Plan Head	*528*	*256*	*138*	*233*	*305*	*448*	564
Interest Payments	1787 (15.98)	2436 (18.35)	1578 (11.03)	2139 (14)	2283 (10.26)	2383 (9.61)	2707 (10.33)
Pensions	1021 (9.13)	1193 (8.99)	1269.40 (8.89)	1568 (8.91)	2242 (10.08)	3296 (13.29)	3463 (13.21)

(Figures in parenthesis represent percentage of revenue receipts.)

From above, it can be seen that as against the increase in revenue receipts of six *per cent*, the expenditure on salary and wages increased by five *per cent* during 2012-13. As reported in Appendix-XII of the Finance Accounts 2012-13, committed liabilities as on 31 March 2013 aggregated to ₹ 1256.10 crore, of which ₹ 1024.51 crore was on account of compensation payable to landowners on land acquisition.

1.7.4 Financial assistance by State government to Local Bodies and other institutions

The quantum of assistance provided by way of grants and loans to Autonomous Bodies by various departments of the State government during the current year relative to the previous years is tabulated in **Table 1.22**.

3, 4, 5 : Does not include Honorarium to employees and para-employees.

Table 1.22
Financial assistance to Local Bodies etc

(₹in crore)

Name of the Department	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Education and Sports	88.01	116.45	113.93	521.66	171.84	213.46	209.81
Housing and Urban Development	135.49	146.05	170.82	217.01	253.98	289.28	303.11
Agriculture	72.90	60.72	80.60	138.63	203.47	151.61	216.42
Art and Culture	7.32	7.93	9.43	-	-	-	-
General Administration	2.95	4.66	4.20	11.14	6.13	8.50	9.14
Industries	5.25	7.05	7.04	25.53	11.66	21.41	75.23
Tourism	5.06	5.24	15.06	71.17	150.40	5.52	1.76
Administration of Justice	1.63	2.26	3.30	3.32	3.67	4.48	4.80
Health and Family Welfare	0.44	0.64	-	0.47	0.36	0.34	0.23
Others	11.83	9.86	146.02	442.27	644.76	1100	1263.78
Total	**330.88**	**360.86**	**550.40**	**1431.20**	**1446.27**	**1795.16**	**2084.28**
Assistance as a percentage of Revenue expenditure	3.12	2.96	4.57	9.34	7.83	7.91	8.30

The grants-in-aid are mainly utilised by the autonomous organizations for the payment of salary to their employees. The Government has decided to pay the arrears of pay and pension revision following the extension of the recommendations of the Sixth Central Pay Commission to State government employees in five equal annual instalments with part of the liability being carried forward beyond 2012-13. The level of financial assistance has been rising very rapidly showing a trend growth rate of 41.4 *per cent* per annum since 2006-07. The assistance categorised as 'others' comprised mainly the assistance to Ladakh Autonomous Hill Development Councils for Leh (₹ 353.45 crore (2012-13), up from ₹ 263 crore in 2011-12) and Kargil (₹ 354.61 crore (2012-13), up from ₹ 243 crore in 2011-12).

1.7.4.1 Grant-in-aid/ Financial assistance to Panchayati Raj Institutions (PRIs)/ Urban Local Bodies (ULBs)

The Local Bodies have been in existence for a long time and were required to perform effectively as vibrant democratic units of local self-government These institutions had, however, become weak and ineffective on account of a variety of reasons, including the failure to hold regular elections, prolonged supersessions and inadequate devolution of powers and functions and lack of financial resources. With the enactment of the Constitution 73rd and 74thamendments, an attempt has been made to strengthen these institutions and ensure peoples participation in their functioning. While the 73rd amendment to the Constitution sought to strengthen the Panchayati Raj Institutions and make these viable and responsive peoples bodies in the rural areas, the 74th amendment related to the Urban Local Bodies. The State government has not

so far adopted the above amendments. Elections to Panchayati Raj Institutions (PRIs) were last held in 2010.

1.7.4.2 Devolution of Functions

The Jammu and Kashmir Municipal Act 2000, lays down the functions devolved to the ULBs and include preparation of plans for economic development and social justice, performance of functions and implementation of schemes relating to urban and town planning, regulation of land use and construction of buildings, roads and bridges, solid waste management, providing other civic amenities, etc. and imposition of certain taxes. In order to empower the PRIs, instructions to devolve certain functions of 13 departments (Agriculture, Animal Husbandry, Consumer Affairs and Public Distribution, Education, Fisheries, Forest, Health & Family Welfare, Horticulture, Industries & Commerce, Public Health Engineering, Revenue, Rural Development, and Social Welfare departments) were issued by the State government in September, 2011.

1.7.4.3 Funds

Financial assistance of ₹ 303.52 crore was provided by the State government to 86 ULBs during 2012-13. Financial assistance of ₹ 92.54 crore was provided by the State government to 4128 Panchayati Raj Institutions during 2012-13.

1.7.4.4 Accounting, Auditing and Reporting

The accrual based accounting system on the lines of National Municipal Accounts Manual was notified by the State government for being followed by the ULBs of the State. However, only two Municipal Corporations of Jammu and Srinagar have prepared the final accounts for 2011-12. The State government issued orders in December, 2011 for adoption of Model Accounting System by PRIs. While the two Municipal Corporations of Jammu and Srinagar are audited and reported upon by the CAG of India, accounts of 84 ULBs are audited by the Examiner Local Funds, Finance Department. With effect from financial year 2013-14, the Technical Guidance and Support role for audit of Rural and Urban Local Bodies has been entrusted to the C&AG of India.

1.8 Quality of Expenditure

1.8.1 Adequacy of Public 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 select services). 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 rationalisation measures and lay emphasis on provision of

core public and merit goods[6]. Apart from improving the allocation towards development expenditure[7], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/ or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/ or GSDP), the better would be the quality of expenditure. While **Table 1.23** 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 1.24** and **Chart 1.6** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table-1.23
Development expenditure

(₹in crore)

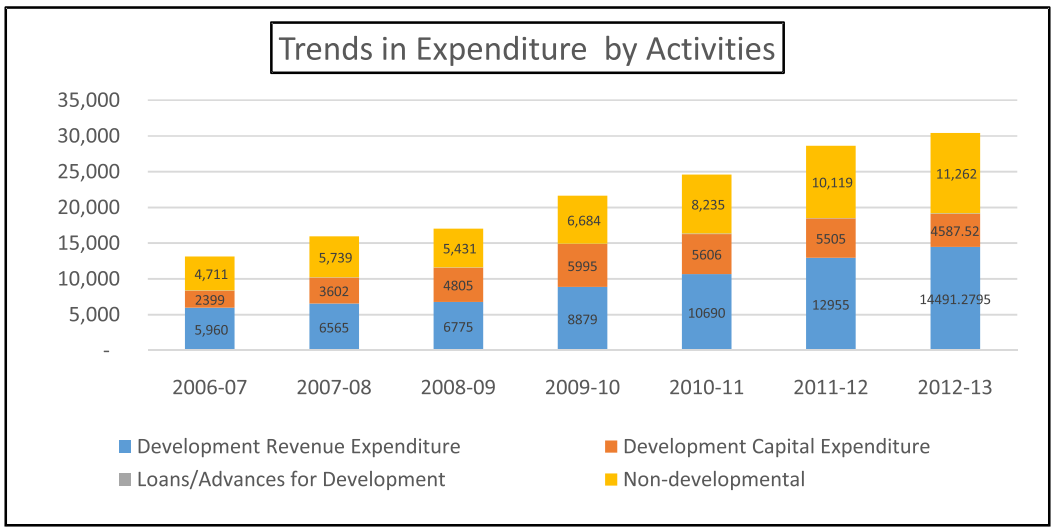
Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Development Revenue Expenditure (₹ in crore)	**5,960**	**6,565**	**6,775**	**8,879**	**10,690**	**12,955**	**14,491**
Share in total expenditure (*per cent*)	***45.4***	***41.2***	***39.7***	***41.1***	***43.5***	***45.2***	***47.6***
Development Capital Expenditure (₹ in crore)	**2,399**	**3,602**	**4,805**	**5,995**	**5,606**	**5,505**	**4,588**
Share in total expenditure (*per cent*)	***18.3***	***22.6***	***28.2***	***27.7***	***22.8***	***19.2***	***15.1***
Loans/Advances for Development (₹ in crore)	**44**	**38**	**42**	**49**	**71**	**66**	**93**

The composition of total expenditure in terms of 'expenditure by activities' is depicted in **Chart 1.6**.

6 Core public goods are those which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commoditiesthat the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

7 The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Charts 1.6
Trends in expenditure by activities



It may be seen that the share of developmental capital expenditure in total expenditure (i.e., Social and Economic Service sectors) has been recently declining after a peak in 2009-10.

1.8.2 Efficiency of Expenditure Use

Table 1.24 provides analysis of the sector-wise expenditure and its relation to developmental indices.

Table 1.24
Efficiency of Expenditure Use in selected Social and Economic services

(in per cent)

Social/Economic Infrastructure	2010-11			2011-12			2012-13		
	Ratio of CE to TE	In RE, the share of S&W	In RE, the share of O&M	Ratio of CE to TE	In RE, the share of S & W	In RE, the share of O& M	Ratio of CE to TE	In RE, the share of S & W	In RE, the share of O& M
Social Sector (SS)	15.84	75.71	0.10	13.44	81.14	-	13.90	85.34	-
General Education									
Health and Family Welfare	23.31	83.97	0.96	17.44	86.71	0.56	18.67	87.45	0.56
WS, Sanitation & HUD	32.98	51.75	3.68	32.33	53.69	3.35	34.45	51.56	3.35
Others	32.51	15.46	0.28	28.85	16.93	-	23.65	14.67	-
Total (SS)	**22.83**	**66.44**	**0.91**	**19.95**	**70.83**	**-**	**16.35**	**74.56**	**-**
Economic Sector (ES)	34.08	78.69	0.16	34.01	82.29	0.15	29.11	85.36	0.15
Agriculture and Allied Activities									
Irrigation and Flood Control	55.38	76.80	7.96	55.85	80.72	6.46	53.35	83.65	6.46
Power and Energy	29.64	11.31	0.97	12.41	11.88	0.84	11.71	13.67	0.84
Transport	87.82	0.88	31.06	84.72	73.80	30.43	87.92	72.40	30.43
Others	49.74	52.65	0.25	52.31	34.43	-	57.61	31.66	-
Total (ES)	**42.60**	**33.30**	**1.86**	**37.13**	**34.06**	**-**	**39.74**	**36.83**	**-**
Total (SS+ES)	**34.40**	**49.46**	**1.40**	**29.81**	**51.92**	**-**	**27.34**	**51.92**	**-**

TE: Total Expenditure on respective Services; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages: O&M: Operation and Maintenance

The ratio of capital expenditure to total expenditure in Social and Economic service sectors during 2012-13 showed a decrease over the previous year. In the revenue expenditure, salary and wages form major component within the Social and Economic services and their share (51.92 *per cent*) had remained constant during 2012-13. Further, the share of Operation and Maintenance expenditure within the sectors had also remained constant.

1.8.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

Besides stepping up the expenditure on key social and economic services, enhancing human development requires the State to improve the delivery mechanism to obtain the desired outcomes. The State government is expected to relate expenditure to outcomes in terms of quality, reach and the impact of government expenditure. The system of presenting outcome budget needs to be introduced.

1.9 Financial analysis of Government capital expenditure and investments

As part of the framework provided by the Fiscal Responsibility Budget Management (FRBM) Act, the State is expected to not only keep its fiscal deficit at low levels but also to meet its capital expenditure/ investment (including loans and advances) requirements out of the revenues. 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 a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-a-vis* previous years.

1.9.1 Financial Results of Irrigation Projects

The total capital outlay on seven irrigation projects[8] as at the end of 2012-13 was ₹ 316.43 crore as per Appendix IX of the Finance Accounts. Against revenue realisation of ₹ 0.86 crore, working expenses aggregated to ₹ 1.44 crore and net loss after meeting interest charges on the capital outlay (₹ 0.33 crore) was ₹ 0.91 crore.

1.9.2 Incomplete projects

On the basis of the information furnished by the departments, details of incomplete projects costing ₹ one crore and above as on 31 March 2013 is given in Appendix X of the Finance Accounts. There were 203 incomplete projects as per details given in **Table 1.25**.

[8] Kathua Feeder, Pratap Canal, Ranbir Canal, Martand Canal, Zaingir Canal and Ahizi Canal

Table 1.25
Department-wise profile of incomplete projects as on 31 March 2013

Department	No. of Incomplete Projects	Sanctioned Project Cost (₹ in crore)	Cum. Actual expenditure (₹in crore)
Public works	92	507	421
Power Development Department	3	9	8
Public Health Engineering	108	535	261
Total	**203**	**1,051**	**690**

1.9.3 Investment and Returns

As per the Statement 14 of the Finance Accounts, as on 31 March 2013, the State government had cumulatively invested ₹ 498.25 crore in three functional Statutory Corporations (₹ 198.91 crore), 20 functional Government Companies (₹ 259.56 crore), three non-functional Government Companies (₹ 2.57 crore), eight Cooperative Banks/ Societies (₹ 27.83 crore), two Rural Banks (₹ 9.04 crore) and two Joint Stock Companies (₹ 0.34 crore). **Table 1.26** gives overall picture of return on investment *vis-a-vis* the average cost of Government borrowing.

Table-1.26
Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Investment at the end of the year (₹ in crore)	355.77	356.97	364.61	422.82	470.78	484.95	498.25
Return (₹ in crore)	21.22	30.24	40.85	44.16	56.71	68.16	87.35
Return *(per cent)*	5.96	8.47	11.20	10.44	12.05	14.05	17.53
Average rate of interest on all Government liabilities *(per cent)*	10.09	12.19	6.91	8.07	7.61	7.06	7.07
Difference between interest rate and return *(per cent)*	(-) 4.13	(-) 3.72	4.29	2.37	4.44	6.99	10.46

During 2012-13, as in previous years, the return on investment mainly came from the Jammu and Kashmir Bank Limited (₹ 86 crore), in which the Government holds 53 *per cent* equity. Wholly owned Jammu and Kashmir Projects Construction Corporation and J&K Power Development Corporation are other potential profit-making ventures. While the former is largely dependent upon the Government for securing business from Government departments on nomination basis, the latter has several high cost projects under execution with a relatively high debt burden.

Table 1.27 provides the details of progress made by working PSUs in finalisation of Accounts by July 2013.

Table 1.27
Details of progress made by working PSUs

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Number of Working Government Companies/Corporations	20	20	20	20	21	21	20
Number of accounts finalized during the year	12	12	15	10	34	31	05
Number of accounts in arrears	211	219	224	236	223	243	156
Average arrear per PSU	10.55	10.95	11.20	11.70	10.62	11.57	7.80
Number of Working PSUs/Corporations with arrears in accounts	19	19	19	19	19	21	17
Extent of arrears (Number of years)	2 to 19	3to 19	4 to 19	4 to 20	4 to 20	4 to 21	2 to 17

A total number of fifteen PSUs had failed to finalise even one account in each year causing accumulation of the arrears ranging between 2 to 17 years. Though the concerned Administrative Departments and officials of the Government were informed every quarter by Audit regarding arrears in finalisation of accounts but no remedial measures were taken. As a result of this, net worth of these PSUs could not be ascertained.

1.9.4 Loans and advances by State government

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/ organizations. **Table 1.28** presents theposition of loans and advances advanced/ outstanding as on 31 March 2013, interest receipts *vis-a-vis* interest payments during the last five years**.**

Table 1.28
Average interest received on loans advanced by the State government

(₹in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13
Opening Balance	980.20	1018.92	1066.42	1136.55	1033.69
Amount advanced during the year	42.41	49.12	71.63	65.61	93.40
Amount repaid during the year	3.69	1.62	1.50	168.47	1.53
Closing Balance	**1018.92**	**1066.42**	**1136.55**	**1033.69**	1125.56
Of which Outstanding balance for which terms and conditions have been settled					
Net addition	38.72	47.50	70.13	(-) 102.86	-
Interest Receipts	9.92	5.07	3.00	4.74	1.31
Interest receipts as *per cent* to outstanding Loans and advances	0.97	0.47	0.26	0.46	0.12
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	6.91	8.07	7.61	7.06	6.72
Difference between interest payments and interest receipts (*per cent*)	5.94	7.60	7.35	6.60	6.60

Recoveries of loans and advances are not forthcoming from loss making public sector undertakings. No assessment about potential recoverability of these loans has been made in the FRBM Statements presented to the Legislature.

1.9.5 Cash Balances and their investment

The State government is banking with the Reserve Bank of India with effect from 01 April 2011 for its cash/ overdraft management. The cash balance decreased by ₹ 870 crore during 2012-13, from ₹ 961 crore at end 2011-12 to ₹ 91 crore at end 2012-13. This drawdown was necessitated due to increase in the non-plan expenditure that could not be offset by reduction in plan expenditure or financed through any other means of financing.

1.10 Assets and Liabilities

1.10.1 Growth and composition of Assets and Liabilities

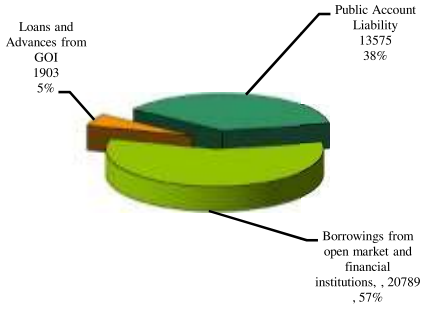
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the government is not done. However, the government accounts do capture the financial liabilities of the government and the assets created out of the expenditure incurred at historical cost, i.e., in terms of the cash inflow and outflow in nominal terms without making any adjustment for appreciation/ depreciation. Statement 17 of the Finance Accounts 2012-13 gives an overview of sources and application of funds. The cumulative capital expenditure at end of the financial year 2012-13 is compared with the corresponding position as on 31 March 2012. These figures may be used as a rough proxy for 'book value' of assets created out of cumulative capital expenditure. Besides cumulative capital outlay, the assets include financial assets by way of outstanding loans and advances given by the State government and cash balances. Statement 06and Statement 15of the Finance Accounts 2012-13 provide summary position of the government's financial liabilities such as borrowing from open market and financial institutions, loans and advances from the Union government and net receipts under public accounts in respect of which the government functions as a trustee or banker. The liabilities of the State government depicted in the Finance Accounts, however, do not include future liabilities on account of pension and other retirement benefits payable to retired State employees, and contingent liabilities arising out of guarantees/ letters of comforts issued by the State government.

The Finance Accounts of the State government do not include a complete statement of all assets belonging to the State government because the subsidiary records of assets and their valuation are not maintained by the Accountant General (A&E), Jammu and Kashmir. The Finance Accounts merely depict cumulative capital expenditure, each year's capital expenditure being added in nominal terms without any adjustment of appreciation/ depreciation of assets.

1.10.2 Fiscal liabilities

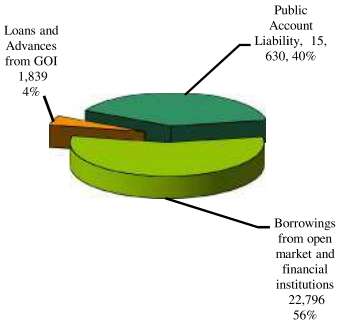
There are two sets of liabilities namely, public debt and "other liabilities under public accounts". Public debt consists of market loans, special securities issued by RBI and loans and advances from the Central government. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits. The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in ***Charts 1.7*** and ***1.8.*** (Please also see ***Appendix 1.3***for trends in outstanding fiscal liabilities of the government since 2002-03)

Chart 1.7



Composition of outstanding Fiscal Liabilities as on 31-03-2012

Chart 1.8



Composition of outstanding Fiscal Liabilities as on 31-03-2013

The overall fiscal liabilities of the government increased from ₹ 31272 crore at the end of 31 March 2011 to ₹ 36267 crore by the end of 31 March 2012 and ₹ 40,265 crore by the end of 31 March 2013. As a percentage of GSDP, the stock of accumulated fiscal liabilities have declined from 59.4 *per cent* at end of 2009-10 to 55 per cent at end of 2011-12 and further to 52.9 *per cent* at end of 2012-13. At end of 2012-13, the accumulated liabilities were 1.54 times of the government's revenue receipts during 2012-13 and 5.04 times government's own tax and non-tax revenues during 2012-13.

1.10.3 Management of Reserve Funds

'Reserve Funds' are funds forming part of the public accounts of the State by appropriating sums from the Consolidated Fund and setting aside for an earmarked purpose. **Table 1.29** shows movement of closing balances in various reserve funds as on 31st March 2013. The cumulative aggregate balance in these funds as at the end of 31 March 2013 was ₹ 1,605 crore of which ₹ 11 crore has been invested outside government accounts. It is also seen from a review of receipt/ disbursement transactions in the funds, that most of the funds were dormant having no or negligible transactions.

Table 1.29
Trend in year-end Closing Balances under Reserve Funds

(₹in crore)

RESERVE FUNDS	2008-09	2009-10	2010-11	2011-12	2012-13
Reserve Funds Bearing interest					
Calamity Relief Fund (now State Disaster Response Fund)	379	438	427	470	526
Total - Reserve Fund Bearing Interest	***379***	***438***	***427***	***470***	***526***
Reserve Funds Not Bearing interest					
Calamity Relief Fund (now State Disaster Response Fund)	28	28	28	28	28
Sinking fund	-2	-2	-	-	32
Famine Relief Fund	9	9	9	9	9
State Roads & Bridges Fund	-0	-	-	-	-
Depreciation and Renewal Reserve Funds of Govt. Commercial Deptts./ Undertakings.	576	576	574	574	574
Depreciation and Renewal Reserve Funds of Govt. Non-Commercial Deptts.	73	73	73	73	73
Development Fund for Agricultural Purposes	39	39	39	39	39
Co-operative Development Funds	0	0	0	0	0
Constituency Development Funds	38	53	50	78	95
Other Development and Welfare Funds	24	34	42	73	104
General Insurance fund (Janta Insurance)	14	16	21	23	71
Guarantee Redemption Fund	1	4	5	5	5
Other Funds	35	36	41	46	50
Reserve Funds Not Bearing interest	***836***	***866***	***881***	***948***	***1,079***
Total -Reserve Funds	**1,215**	**1,305**	**1,308**	**1,419**	**1,605**
Of which balances invested					
Investments from State Disaster Response Fund	*11*	*11*	*11*	*11*	*11*

1.10.4 Contingent liabilities

1.10.4.1 Status of Guarantees

Guarantees are liabilities contingent on the security of the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Statement 9 of the Finance Accounts, the maximum amount for which

guarantees were given by the State and outstanding guarantees for the last five years is tabulated in **Table 1.30**.

Table-1.30
Guarantees given by the State government

(₹in crore)

Guarantees	2008-09	2009-10	2010-11	2011-12	2012-13
Max amount guaranteed	3295	4748	4750	4750	2650
Outstanding amount of guarantees	2536	3037	2708	2098	611

The FRBM Act, 2006 lays down the limits within which State government may give guarantees on the security of the Consolidated Fund of the State. Under the Act, the State government is required to limit the amount of annual incremental risk weighted guarantees to 75 *per cent* of the total revenue receipts in the year preceding the current year or at 7.5 *per cent* of GSDP of the year preceding the current year, whichever is lower. The total outstanding guarantees at end 2012-13 aggregated ₹ 26,49,48.06 lakh, which is 10.7 *per cent* of total revenue receipts in 2011-12 and 4.02 *per cent* of the GSDP for 2011-12, which was well within the statutory limit.

A Guarantee Redemption Fund (GRF) was created in 2005-06 as per the recommendations of the Twelfth Finance Commission out of the guarantee fee received from the borrowers whose debts are guaranteed by the guarantor. The fund has a balance of ₹ 5.20 crore (March 2013). There were no transactions in the fund during 2012-13. The stock of guaranteed liabilities has been steadily falling. non-collection of due guarantee fee and non-transfer of the fees from the Consolidated Fund of the State to the GRF defeats the purpose of creation of the GRF.

1.10.4.2 Off-Budget Borrowings

The term 'off-budget borrowings' refers to incurring liabilities by Government without bringing them into government accounts. These may also arise when government does not fully pay moneys it owes to government companies/ corporations. While a reasonable amount of unpaid bills are always there in the system due to time taken in passing the claims, these become a cause of concern when the magnitude is sizeable and non-payment could be attributed to lack of budget provision. A significant item of 'off-budget borrowings' by the government pertains to non-clearance of bills for purchase of power from the J&K Power Development Corporation (JKPDC). As on 31 March 2010, JKPDC had ₹ 822.73 crore receivables from the State government due for over six months and ₹ 201.67 crore as dues less than six months. By 31 March 2011, these figures had risen to ₹ 1131.23 crore and ₹ 279.58 crore, respectively. Accounts for JKPDC for 2011-12 and 2012-13 have not yet been finalised.

1.11 Debt management

1.11.1 Debt profile

Table 1.31 shows the outstanding public debt and other liabilities in last five years, showing the liabilities as *per cent* of GSDP and per capita.

Table 1.31
Burden of Public debt and other liabilities

Year	Year-end fiscal liabilities (₹ in crore)	GSDP (₹ in crore)	Liabilities as *per cent* of GSDP (*per cent*)	Per Capita Liabilities (₹ in thousands)
2008-09	24,287	42,315	57.4	19.35
2009-10	28,735	48,385	59.4	22.90
2010-11	31,272	56,976	54.9	24.92
2011-12	36,267	65,979	55.0	28.90
2012-13	40,265	76,115	52.9	32.09

For per capita computation, the population (1,25,48,926) as per provisional Census data 2011 has been used in the above table. The 'fiscal liabilities' include (a) liabilities on account of borrowing from banks, financial institutions, open market and Union government (all accounted for in the Consolidated Fund as 'public debt') and (b) other liabilities on account of State Provident Fund, Pension/ Insurance Fund, Reserve Funds and Deposits (all accounted for under the public accounts of the State). The figure of 'fiscal liabilities' represent balances under the specified heads and do not account for year-end cash balances (whether invested or not). Increase in per capita liabilities from year to year signifies rising debt burden on the State and individual persons.

1.11.2 Debt sustainability

The debt or any other liability is to be serviced out of the income of the entity. However, resource starved governments with ever increasing expenditure commitments seldom have an opportunity to repay debts out of their income unless there is some occasional windfall income. Hence, year after year liabilities are incurred in excess of repayments due to be made in that year with the result the stock of outstanding liabilities continues to grow year after year. This scenario can continue so long as there are enough lenders able and willing to lend. Besides 'borrowing' in a formal sense, governments also have access to funds received in their capacity as the trustees or bankers such as Provident Fund of its employees. Although not accounted as 'public debt'-because there is no formal agreement to borrow and lend-these nevertheless constitute liabilities of the government. These funds are also used to finance government expenditure and redemption of such liabilities is similarly met by assumption of more such liabilities. **Table 1.32** gives time series data on the four deficits and total liabilities during 2006-13.

Table-1.32

(₹in crore)

Fiscal indicator	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Fiscal Liabilities	18602	21366	24287	28735	31272	36267	40265
Revenue surplus	568	1088	2256	2264	3767	2103	1100
Fiscal deficit	1930	2665	2746	3989	2367	3694	4216
Primary deficit	143	229	1168	1850	84	1311	1510
State's Own Deficit	10638	12540	13491	17576	19955	21832	22348

In a typical scenario where governments finance redemption of older liabilities with newer liabilities, the concept of debt sustainability is important. Essentially it means that government liabilities should not grow faster than the economy it commands. The implicit assumption here is that if the government has enough control on the economy, it can generate enough taxes to service its debt and other liabilities because borrowing is nothing but deferred taxation. Debt sustainability implies that debt-GDP ratio do not increase over a period of time. Besides the default risk implicit in consideration of the growth in the stock of liabilities and cost of debt servicing, there is also another concern about liquidity risk. A government may have enough assets and ability to tax and yet may temporarily face problem of not having enough liquid assets to meet current obligations. Yet another concern associated with government liabilities is the end use of these funds by the government and concern about the government's capacity to keep balance between costs of additional borrowings with returns from such borrowings. Problems are likely to arise if the borrowed funds are used in low return or no-return investments. Therefore, it is desirable that rise in fiscal deficit should match with the increase in capacity to service the debt.

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

Apart from the magnitude of outstanding debt of the State government, it is important to assess the sustainability of the debt of the State government in terms of debt stabilisation, sufficiency of non-debt receipts[9], net availability of borrowed funds[10],

[9] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State government securities. Trends in some indicators of debt sustainability of the State are tabulated in **Table 1.33**.

Table 1.33
Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Debt Stabilization (Quantum Spread + Primary Deficit)	(-) 126	(-) 562	(-) 1027	(-) 1328	703	843	3922
Sufficiency of Non-debt Receipts (Resource Gap) (₹ in crore)	833	2095	1027	3285	4646	2549	1434
Net Availability of Borrowed Funds (₹ in crore)	16	329	1343	2310	254	2612	1291
Burden of Interest Payments (Ratio) Interest Payment to Revenue Receipts Ratio	0.16	0.18	0.11	0.12	0.10	0.09	0.10

Due to clearance of high cost overdraft the Government had with the Jammu and Kashmir Bank in 2010-11 with the non-debt assistance from the Union government and consequent reduction in recurring interest liability, the debt burden of the State hadmoderated but increase in primary deficit from ₹ 1311 crore during 2011-12 to ₹ 1510 crore during 2012-13 requires attention for debt stabilization.

1.11.3 Market Borrowings

Of all the constituents of outstanding liabilities of the Government, the market loans need special attention because the interest rates thereon are not administered and may go up if in the market perception the Government debt is not sustainable. **Table 1.34** summarises key debt sustainability indicators in the context of market loans.

[10] Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

Table 1.34
Key debt sustainability indicators in the context of market loans

(₹ in crore except where per cent specified)

Description	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Total liabilities	24,287	28,735	31,272	36,267	40,265
Total Public Debt (year end)	16,471	18,592	19,867	22,691	24,635
Total market loans (year-end)	7,201	8,183	11,298	13,956	15,510
Percentage of market loans to total liabilities (*per cent*)	29.6	28.5	36.1	38.5	38.5
Percentage of market loans to total public debt (*per cent*)	43.7	44.0	56.9	61.5	63.0
Weighted average interest rate on market loans (*per cent*)	3.54	3.04	2.34	7.32	8.90
Interest paid on market loans	224.3	234	228	927	1178
GSDP at current market prices	42,315	48,385	56,976	65,979	76,115
GSDP growth rate (*per cent* per annum)	14.1	14.3	17.8	15.8	15.4
Average Interest Rate on market loans/ GSDP growth rate (*per cent*)	25	21	13	46	52
Revenue Receipts	14,303	17,588	22,234	24,783	26,217
Total Interest Payment	1,578	2,139	2,283	2,383	2,707
Interest payments to Revenue Receipts (*per cent*)	11.0	12.2	10.3	9.6	10.3
Primary Deficit	1,168	1,850	84	1,311	1,510
Total liabilities as *per cent* of GSDP	57.40	59.39	54.89	54.97	52.90
Outstanding guarantees	2,536	3,037	2,708	2,098	611
Revenue Surplus	2,256	2,264	3,767	2,103	1,100
Fiscal Deficit	2,746	3,989	2,367	3,694	4,216

Note: As per the definition of the term 'total liabilities', off budget borrowings through public sector undertakings are also included. However, these are not included in the figures shown above for want of information. The targets under FRBM Act and 13th Finance Commission award on the last four parameters mentioned in the above table are discussed in detailed in Para 1.13.1.

While analysing the portfolio of market loans, it is important to assess if there is a rollover risk in near future. 'Rollover risk' arises when the debt is about to mature and needs to be rolled over into new debt. If interest rates rise adversely, the government

would have to refinance the debt at a higher rate and incur more interest charges in the future. Governments generally endeavor to elongate maturity profile of debt to reduce redemption pressure in short (less than one year) and medium term (1-5 years) to aid the process of fiscal consolidation. The maturity profile of market loans and other loans is given in **Statement 15** of the Finance Accounts 2012-13. The market loans are issued by the State government for a fixed tenure of 10 years and auctioned through the Reserve Bank of India. It is seen from the redemption profile that the approaching peaks in redemption are due to fall in 2017-18, particularly in 2020-21 when the additional open market borrowings undertaken to liquidate the overdraft with the J&K Bank would be due for redemption. Hence, there is no bunching of repayments or redemption pressure in near future.

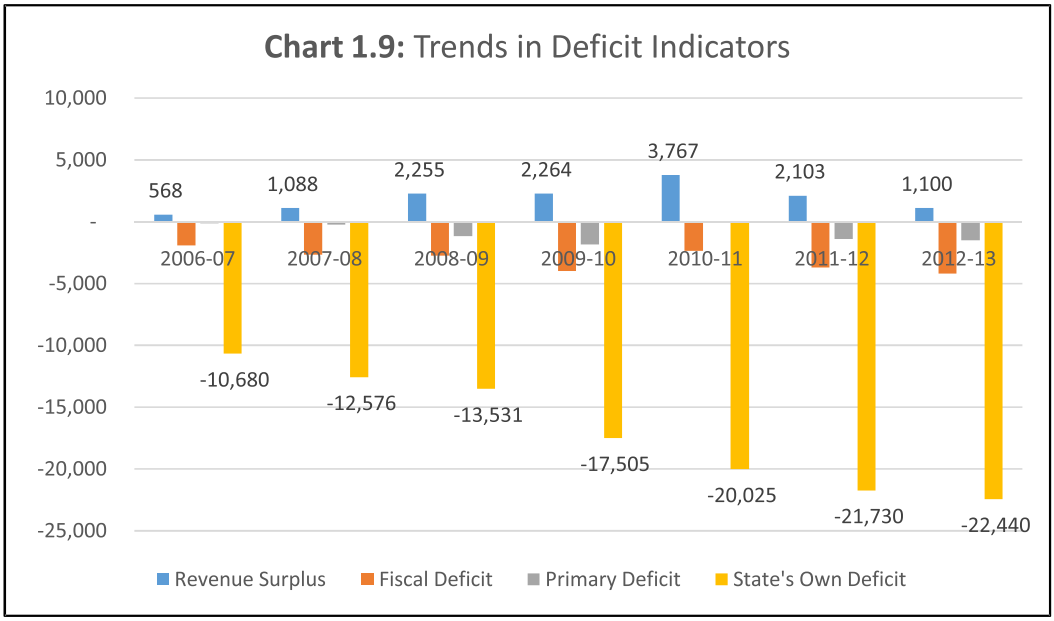
Since the State has a continuing fiscal situation of revenue surplus, there is no need to borrow for bridging the revenue deficit and the entire fiscal deficit is used to finance the capital expenditure. It is also seen that during 2012-13, there was drawdown of cash balances. Hence, there was no occasion of excess borrowings leading to accretion of cash balances or Treasury Bill holding.

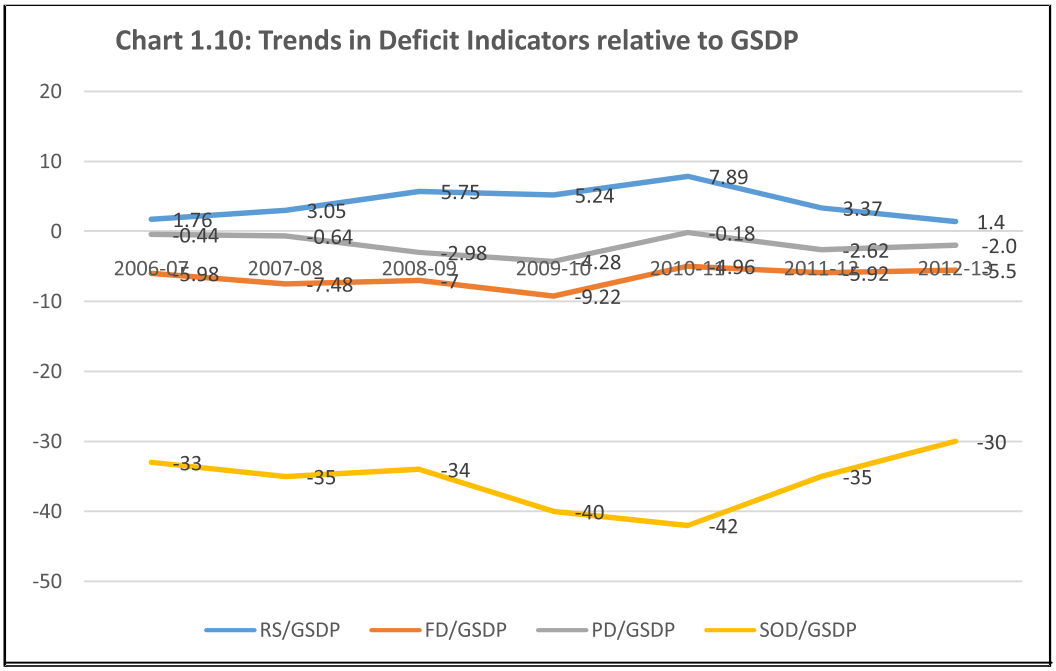
1.12 Fiscal imbalances

Three measures of deficits in government accounts, viz.,revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of agovernment during ayear.In the context of States in the Union, another useful measure of the deficit-bias in a State's fiscal policy is the "State's own deficit (SOD)", which is the State's fiscal deficit minus non-debt resources received from the Union government. An important constituent of the State's own deficit is 'Pre-devolution non-plan revenue deficit (PDNPRD)', which represents the gap between the State's non-plan revenue expenditure and the State's own revenues (tax and non-tax).

1.12.1 Trends in deficits

Charts 1.9 and **1.10** present the trends in key deficit indicators over the period 2006-13.





The above Charts show that the State has continued to maintain revenue surplus during the period 2006-13 but the surplus declined sharply in 2012-13.

1.12.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as shown in **Table 1.35**.

Table1.35
Components of fiscal deficit and its financing pattern

(₹in crore)

Particulars		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
	Sources of Financing the Capital Expenditure and Fiscal Deficit							
1	**Capital Expenditure**	2456	3717	4964	6234	6064	5899	5224
2	**Loans and Advances**	44	38	42	49	72	66	93
	FINANCED THROUGH							
1	**Revenue Surplus**	568	1088	2255	2264	3767	2102	1100
2	**Non-Debt Capital Receipts**	2	2	4	2	1.5	168	2
3	**Fiscal Deficit**	1930	2665	2746	3989	2367	3,694	4,216
	Financing Pattern of Fiscal Deficit @							
1.	**Market Borrowings**	1264	2198	2372	2113	2386	2954	2,008
2.	**Loans from GOI**	(-) 124	(-) 122	(-) 127	(+) 805	(-) 1112	(-)129	(-)64
3.	**Small Savings, PF etc.**	426	341	458	693	1203	2070	1,689
4.	**Deposits and Advances**	84	216	206	1544	59	(-) 27	189
5.	**Suspense and Miscellaneous**	(-) 53	(-) 204	158	(-) 162	168	186	(-) 31
6.	**Remittances**	205	112	(-) 381	(-) 292	(-) 307	(-) 627	(-) 615
7.	**Reserve funds**	152	130	11	90	3	126	170
8.	**Net amount recouped to contingency fund**	0.30	-	-	-	-	-	
9.	**Drawdown of cash balance (+)/Accretion to cash balance (-)**	(-) 24	(-) 6	51	4	(-) 33	(-) 861	870
	@ All these figures are net of disbursements/outflows during the year							

Increase under the head "Small Savings, PF etc." is mainly due to accretions under State Provident Fund, following crediting of arrears of pay revision into the State Provident Fund accounts of employees by the government.

The revenue surplus decreased by ₹ 1003 crore in 2012-13 over the previous year which resulted in decrease in capital expenditure by ₹ 675 crore over the previous year and more borrowings. The fiscal deficit was met from borrowings out of public account (of which Small Savings, Provident Funds, etc. formed a major share) and market borrowings.

1.12.3 Quality of Deficit/ Surplus

The ratio of revenue deficit (RD) to fiscal deficit (FD) and the bifurcation of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) was not having any asset backup.

The bifurcation of the factors resulting in primary deficit or surplus of the State during the period 2012-13 shows**(Table-1.36)** that the primary deficit during the period was

on account of capital expenditure incurred and loans and advances disbursed by the State government. In other words, non-debt receipts of the State were enough to meet the primary expenditure requirements in the revenue account and in fact left some receipts to meet the expenditure under the capital account. The State had to borrow to meet the requirements under capital account over primary expenditure during 2012-13. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.36
Primary deficit/surplus – bifurcation of factors

(₹in crore)

Year	Non-debt receipts	Primary Revenue Exp.	Capital Exp.	Loans & Advances	Primary Exp.	Percentage Capital Exp/Primary Exp.	Primary Revenue deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6(3+4+5)	7 (4/6)	8 (2-3)	9 (2-6)
2006-07	11184	8827	2456	44	11327	22	(+) 2357	(-) 143
2007-08	13279	9753	3717	38	13508	28	(+) 3526	(-) 229
2008-09	14307	10469	4964	42	15475	32	(+) 3838	(-) 1168
2009-10	17618	13185	6234	49	19468	32	(+) 4433	(-)1850
2010-11	22236	16184	6064	72	22320	27	(+) 6052	(-) 84
2011-12	24951	20297	5899	66	26262	22	(+)4654	(-)1311
2012-13	26,217	22,394	5,224	93	27,711	19	(+)3,823	(-)1494

1.13 Government obligations under the Fiscal Responsibility and Budget Management (FRBM) Act, 2006

Taking note of the concerns about growth in governments' expenditure exceeding their non-debt resources and need of prudential management of government debt and deficit, the Twelfth Finance Commission had recommended certain incentives for the States adopting legislative limits on debt and deficits. With the declared objective of ensuring prudence in fiscal management and fiscal stability by progressive strengthening of revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability and greater transparency in fiscal operations of the government and conduct of fiscal policy in a medium term frame work and for matters connected therewith or incidental thereto, the Jammu and Kashmir Fiscal Responsibility and Budget Management (FRBM) Act was enacted on 14 August 2006 to be effective from 2006-07 with the principal objective of reducing the fiscal deficit to three *per cent* of GSDP by 2009-10 besides casting several other fiscal transparency obligations on the State government. Essential obligations cast on the Government under the FRBM Act and amendments made to it are detailed in ***Appendix 1.7.***

1.13.1 Fiscal consolidation roadmap under the recommendations of the 12th and 13th Finance Commission

- The Twelfth Finance Commission (TFC) recommendations accepted by the Central government required the State government to enact/ amend the FRBM

Act to conform to the customized fiscal reform path of achieving fiscal deficit and outstanding debt targets for the five year period (2005-10). The principal target for the State was to achieve fiscal deficit of three *per cent* of GSDP by 2009-10. The State could not achieve the targets set by the TFC and could not avail the debt waiver and interest relief recommended by the TFC.

- The Thirteenth Finance Commission (ThFC) noted that for special category States like Jammu and Kashmir, the Revenue Deficit/ Surplus is not of much significance for purposes of fiscal adjustment as all have revenue surplus in government accounts due to grants-in-aid from the Union government being classified as non-tax revenue of the State. Under ThFC recommendations, a customized fiscal reform path of achieving fiscal deficit and outstanding debt targets was incorporated by amending the State's FRBM Act in April 2011 and August 2011. Consequent upon the above amendments to the FRBM Act, a pre-condition laid down by the ThFC, the State could avail three benefits (a) write off of Central government loans (₹ 57 crore) (b) release of State-specific grants (₹ 350 crore) and (c) a special grant of ₹ 1000 crore to retire high cost debt taken from the J&K Bank.

- **Table 1.37**summarises the targets for fiscal liabilities and fiscal deficit set by the ThFC and actual outcomes, as computed from accounts.

Table 1.37
Targets for fiscal liabilities and fiscal deficit set by 13th Finance Commission

(***per cent*** of State's actual/projected GSDP)

Fiscal parameter (as *per cent* of GSDP)/ Year	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Fiscal Deficit – 13th Finance Commission target/projection	5.3	4.7	4.2	3.6	3
Fiscal Deficit computed as per FRBM Act in accounts	5.0	5.9	5.5		
Fiscal Liabilities – 13th Finance Commission target/projection @	56.10	55.10	53.6	51.6	49.3
Fiscal Liabilities – Government accounts @	54.89	54.97	52.90		
Total Liabilities (including liabilities of PSUs etc) as per FRBM Act	NA	NA	NA	NA	NA

@ As mentioned in Para 1.11.1 above giving trends in build-up of 'fiscal liabilities', these are computed by adding year-end outstanding liabilities on account of borrowing from banks, financial institutions, open market, Union government and other liabilities on account of State Provident/ Pension/ Insurance Funds, Reserve Funds and Deposits. These figures do not account for year-end cash balances (whether invested or not). Reporting of 'fiscal liabilities' net of cash balances could be considered provided it is a consistent accounting policy uniformly followed, including in years when there is overdraft, i.e., negative cash balance.

- As on 31 March 2010, JKPDC had ₹ 822.73 crore receivables from the State government due for over six months and ₹ 201.67 crore as dues less than six months. By 31 March 2011, these figures had risen to ₹ 1131.23 crore and ₹ 279.58 crore, respectively. Accounts for JKPDC for 2011-12 have not yet been finalised. Likewise, the government is carrying the liabilities of unpaid arrears of pay/ pension revision. On the receivable side, the government has reported that it has to receive reimbursement of ₹ 512.65 crore from the Union government incurred for 'security related expenditure'. These disclosures should form part of a structured disclosure mechanism in the FRBM Statements for a proper appreciation of true extent of fiscal liabilities, along with receivables and payables.

- **Table 1.38** compares the actual fiscal outcomes during 2010-11, 2011-12 and 2012-13 as compared to the State-specific projections made by the 13th Finance Commission:

Table 1.38
13th Finance Commission's projections and actual fiscal outcomes

(₹in crore)

Key Aggregates	2010-11		2011-12		2012-13	
	13 FC projection	Actual	13th FC projection	Actual	13th FC projection	Actual
GSDP	48,206	56,976	53,677	65,979	59,849	76,115
Own Revenue Receipts	4,228	4,576	4,713	6,747	5,259	7,993
State's Own Tax Revenue	3,889	3,483	4,330	4,745	4,822	5,833
State's Own Non Tax Revenue	339	1,093	383	2,002	431	2,160
State's share in Union Taxes/Duties	2,837	3,067	3,328	3,495	3,925	3,870
Non-Plan Revenue Expenditure	11,005	17,558	11,706	21,432	12,539	23,561
Salaries	5,366	9,529	5,550	9,802	5,736	10,298
Pension	1,812	2,242	1,993	3,297	2,192	3,463
Interest Payment	1,863	2,283	2,054	2,383	2,240	2,707
Pre- Devolution Non-Plan Revenue Deficit	6,777	12,982	6,993	14,685	7,280	15,568
Post-Devolution Non-Plan Revenue Deficit	3940	4836	3665	7151	3355	8074
Fiscal Liabilities as Per cent of GSDP	56.1	54.89	55.1	54.97	53.6	52.90
Fiscal Liabilities	27,044	31,272	29,576	36,267	32,079	40,265

1.13.2 Government's compliance with obligations under the FRBM Act and Rules

- As per the customised fiscal correction path recommended by the 13th Finance Commission specifically for Jammu and Kashmir and the corresponding amendment made in the FRBM Act, the targeted fiscal deficit during 2010-11, 2011-12 and 2012-13 was 5.3, 4.7 and 4.2 *per cent* of GSDP of respective years. The actual fiscal deficit was 5.0, 5.9 and 5.5 *per cent*, respectively. Thus, the fiscal deficit target was not met during 2011-12 and 2012-13. The 'fiscal deficit' being reported in the Budget documents and the Statements presented with the Budget under the FRBM Act is at variance with that computed from government accounts by following the definition given in the FRBM Act.

- While presenting the Budget for 2012-13 in March 2012, a target was set to achieve revenue surplus equal to 19.10 *per cent* of total revenue receipts during 2012-13. However, the actual revenue surplus of ₹ 1100 crore was only 4.19 *per cent* of the total revenue receipts of ₹ 26217 crore.

- The 'fiscal liabilities' as a percentage of GSDP are within the targets set by the 13th Finance Commission. The compliance is mainly on account of the denominator effect because the actual GSDP has turned out to be significantly higher than that projected by the 13th Finance Commission though the Commission had excluded certain one-off borrowings while setting the targets for 2010-15. It is also noted that 'total liabilities' as defined under the FRBM Act are not being reported/monitored/targeted.

- It is noted that the new series GSDP with Base Year 2004-05 gives a higher figure than the smaller figures of old series GSDP with Base Year 1999-2000 assumed by the 13th Finance Commission. Hence, despite the fortuitous increase in the GSDP due to change of computation methodology, the diluted targets for improvement of revenue surplus and reduction in fiscal deficit and total liabilities for 2012-13 have not been met by the Government.

- Pre-devolution non-plan revenue deficit was targeted to be brought down to 20 *per cent* of GSDP by 2008-09 and maintained thereafter under the FRBM Act. The same however was between 23 to 25 *per cent* during 2009-2012.

- Certain delays, deficiencies and deviations in implementation of the FRBM Act and Rules are detailed in ***Appendix 1.8.***

1.14 Follow up on previous Audit Reports on State Finances

No action taken report has been sent by the Finance Department to the Public Accounts Committee on the Audit observations/ recommendations contained in any of the previous Reports on State Finances. None of these Reports have yet been discussed by the Public Accounts Committee.

1.15 Conclusion

The following is a summary of the significant comments:

- Any State government can meet the targets for reduction/elimination of fiscal deficit, revenue deficit, total liabilities etc., if the Central government chooses to provide sufficient grants-in-aid or debt relief, especially outside the scope of the award of a Finance Commission. A truer measure of a State's fiscal prudence or fiscal responsibility is the State's own deficit, which measures the resource gap between the State's expenditure and the non-debt receipts within the control of the State, assuming that old financial liabilities continue to be refinanced out of fresh borrowings. These non-debt resources depend upon State's own fiscal policies. The State has shown improvement in dependence on transfer of resources from the Central government from 67 *per cent* in 2006-07 to 60 *per cent* in 2012-13. This, of course, does not take into account the resources transferred by the Union Ministries directly to implementing agencies, bye-passing the State government accounts.

- The capacity of a State substantially dependent on resource flow from the Central government for financing even for its day-to-day running expenditures are inherently and severely limited. However, owing to increased tourism and other economic activities and improving tax compliance, there has been a very satisfactory growth in the revenues from State's Own Taxes, which are at a level of 7.7 *per cent* of GSDP in 2012-13. There has been record mobilisation of Commercial Taxes and Stamp Duties and the State's own revenues have shown very high growth.The initial GSDP estimates have been undergoing upward revisions in recent years and hence there is a scope for improving the ratio of State's own taxes to GSDP.

- There is increasing scope and imperative of improving recovery of user charges, particularly in the Power Sector where the gap between the cost of supply of electricity and revenue realisation from consumers is very steep and needs to be bridged in the long-term interests of fiscal sustainability of State

intervention in this area. The obligatory expenditures by way of salaries and pensions also require rationalisation.

- The State has continued to be revenue surplus but only due to high levels of grants from the Central government, particularly plan grants to fill the sharply increasing non-plan revenue gap. The State's own deficit has been consistently high and steadily rising with expenditure growth far outpacing valiant efforts of tax departments at revenue mobilisation. The State has not met the fiscal deficit reduction targets, even after these have been diluted and reset. Since the past projections made by the State government in the statements made before the State Legislature under FRBM Act have proved to be unachievable, special efforts are required to lend credibility to the targets now set for future years.

- The State has financed 26.3 *per cent* of its total expenditure in 2012-13 from its own (non-debt) resources, up from 23.6 *per cent* in 2011-12. However, the indicators of quality of expenditure show deterioration as the developmental/ capital/ plan expenditures have recorded sharp reduction while non-plan revenue expenditure is growing unabated.

- Even the reported capital expenditure, which has registered a steep fall in 2012-13 is rather over-stated because of misclassification of expenditures of a revenue nature as 'capital expenditure'. The misclassification includes salaries, subsidies including food subsidy, transfer payments, office expenses and other items of a recurring, consumption nature.

- The State government has taken significant decisions like introduction of new pension scheme, bringing more items under the ambit of VAT, more services under the tax net, computerisation of Commercial Tax Department. The arrears in the accounts of PSUs are being liquidated.

- The State has continued to maintain revenue surplus during the period 2002-12 due to high levels of share in Central taxes and grants from the Central government. An adjusted weightage of 10 *per cent* is given to the area of a State in deciding inter se share of different States in the total divisible pool of Central taxes/ duties and for entire area of 2,22,236 sq. km, (including the area under foreign occupation) is taken into consideration. As a Special Category State, the State gets 90 *per cent* assistance for State plan as grants-in-aid. The 60 *per cent* dependence of the State on non-debt resources

from the Central government in 2012-13 (as percentage of total expenditure) - though less than 67 *per cent* in 2006-07 - is still substantial. Moreover, this drop has to be seen in the context of a sharp decline in the total plan expenditure from ₹ 5,730 crore in 2010-11 to ₹ 5,474 crore in 2011-12 and to ₹ 4,971 crore in 2012-13. This is the direct result of sharp rise in the non-plan revenue gap resulting in diversion of plan grants from the Union government for financing the non-plan expenditure. This diversion has emerged as the most serious budgetary concern.

- Service tax is the only Central tax that is presently not applicable to the State of Jammu &Kashmir. The State has its own service tax under State law. Since the Central service tax is not applicable to the State, the State is not entitled to a share in the total service tax collected by the Central government all over the country. The foregone share is 1.551 *per cent* of the service tax collection by the Centre. As per the assessment made by the 13th Finance Commission regarding likely Central service tax collection during 2010-15, the 1.551 *per cent* share foregone by J&K works out to ₹ 8363.38 crore. During 2011-12, service tax collection by the Union government was ₹ 97509 crore. Had this tax been applicable to J&K, the State's share would have been 1.551 *per cent* of this amount, i.e., about ₹ 1512 crore. On the other hand, the service tax collection under the State law was less than ₹ 957 crore. The gap between revenue collection from the service tax collected under the State law and the foregone share in Central service tax is too steep to be bridged soon.

- Only one out of 23 government owned companies/ corporations, viz., the J&K Bank is the principal source of government's revenue from dividends. Other companies are either non-functional or deeply burdened financially. The financial return on investments made in these companies is not commensurate with the opportunity cost of investment measured in terms of average cost of government borrowing.

- The fiscal deficit was 5.5 *per cent* of GSDP during 2012-13 against targeted 4.2 *per cent*. This is despite deferment of part of the liability on account of unpaid arrears of pay/ pension revision and full cost of power purchased. Had these expenditures not been postponed, the fiscal deficit would have been even higher. Due to this non-compliance, the State is set to lose interest relief on loans taken from the National Small Savings Fund.

- The revenue expenditure grew by 10.75 *per cent* in 2012-13 (over 2011-12) despite deferment of pay revision arrears etc. although revenue receipts grew by only 5.8 *per cent*, leading to a substantial reduction in revenue surplus from ₹ 2103 crore in 2011-12 to ₹ 1100 crore in 2012-13. Sharply declining revenue surplus does not bode well for the government's commitment under the FRBM Act to maintain and improve the revenue surplus.

- The expenditure on salaries, wages, pension and other retirement benefits together accounts for 45.2 *per cent* of total expenditure, 54.8 *per cent* of revenue expenditure and 172.2 *per cent* of State's own revenues in 2012-13. The government has decided to stagger the payment of arrears of pay and pension revision, following the extension of the recommendations of the 6th Central Pay Commission to State government employees and those in the Autonomous Bodies, in five equal annual instalments.

- Although 85.14 *per cent* households (~19.5 lakh households) are electrified as per Census 2011 figures, only ~50 *per cent* households are covered by properly functional meters and the transmission and distribution losses are one of the highest in the country. Financial losses of the Power Development Department continue to be a serious drag on the finances of States, which necessitates undertaking necessary reforms for cutting down transmission and distribution losses and appropriate tariff revision.

- The Central government has been transferring a sizeable quantum of funds directly to the State implementing agencies, usually registered societies controlled and operated by State government officers, under various central and Centrally sponsored schemes/ programmes. Since these funds do not pass through the Consolidated Fund of the State, the Finance Accounts do not present a complete picture of the fund flow of Central government resources into the State.

- As the government looks forward to diversification in the State's economy through increased industrialisation and modern agriculture as a prescription for sustained and inclusive, job creating economic growth, there are two potential drags on the State's economy. First is the steady increase in the unrecovered expenditure on procurement and supply of electricity and second is the steady expansion in the number and per capita expenditure on personnel (both regular and para employees).

1.16 Recommendations

The Government may consider:

- formulating a time bound action plan to recover at least 50 *per cent* of the 'service charges' from users after accounting for Operation and Maintenance expenses;
- improving the ratio of State's own taxes through review of tax concessions to entities that have failed to measure up to the expectations behind the concessions and continuation of efforts to widen the tax base and minimise evasion;
- instituting a system of tracking financial commitments by the Finance Department;
- bringing to Government Account all moneys held in separate bank accounts operated by Government officers through the State Treasuries;
- improving Management Information System (MIS) to access periodic information on receipts and expenditure in respect of funds directly transferred by Government of India to State implementing agencies.