# CHAPTER-I
# FINANCES OF THE STATE GOVERNMENT

# CHAPTER 1

# FINANCES OF THE STATE GOVERNMENT

This chapter provides an overview of the finances of the State government during the financial year 2013-14 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 and is spread over a geographical area of 2.22 lakh sq.kms. which includes an area of 1.21 lakhsq.kms. under illegal occupation of China and Pakistan. The three regions of the State, viz Kashmir, Jammu andLadakh, have been organized into 22 districts.

As per 2011 Census (Provisional Data), the State's population in census-covered areas was 1.25 crore. The decadal growth rate in population declined to 23.71 *per cent* during2001-2011 from 29.43 *per cent* during 1991-2001. The population density of the State increased from 100 per sq km in 2001 to 124 per sq km. in 2011.The overall sex ratio declined from 892 in 2001 to 883 as per census 2011.

Incidence of poverty in the State has been on declining trend. The proportion of Below Poverty Line persons in the total population was estimated at 40.86 *per cent* in 2000 by the Department of Food and Public Distribution, Government of India, 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.

The Gross State Domestic Product (GSDP)[1] measures the value of goods and services produced within the State. At current market prices, the GSDP was estimated ₹ 87319 crore during 2013-14, up from ₹ 77558 crore in 2012-13. The State's estimated GSDP for 2013-14 was about 0.83*per cent* of the country's estimated national Gross Domestic Product (GDP) for the year (₹ 10472807 crore).

As per the State government estimates, major constituents of State's GSDP in 2013-14 are Services (51.70 *per cent)*, Industry (24.93 *per cent*) and Agriculture and allied activities (23.38 *per cent).*

At current prices, State Per Capita Income has been steadily rising (₹ 33,650, ₹ 40,089, ₹ 45,198, ₹ 51,493 and ₹58,593 for the years 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14).

[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 an Annual Financial Statement (budget) and Demands for Grants by individual Departments, to ensure responsibility of the Heads of Departments for spending on intended purpose. 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 of State Government, 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 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 Ltd.

The State 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 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 2013-14

**Statements 1** and **2 and Appendix I** of the Finance Accounts 2013-14 provide summary position of opening and closing cash balances, receipts and disbursements during the year under broad categories, condensed in **Table 1.1**. ***Appendix 1.3***contains data showing trends in major fiscal aggregates since 2009-10. ***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 | | | | |
|---|---|---|---|---|---|---|---|
| **2012-13** | | **2013-14** | **2012-13** | | **2013-14** | | |
| **Section-A: Revenue** | | | | | | | |
| | | | | | **Non Plan** | **Plan** | **Total** |
| **5,832** | **State's Own Tax revenue** | **6273** | **10626** | **General Services** | 11374 | 29 | **11403** |
| **2,160** | **State's Own Non-tax revenue** | **2870** | **6908** | **Social Services** | 6319 | 1577 | **7896** |
| **3,871** | **Share of Union Taxes/ Duties** | **4142** | **7583** | **Economic Services** | 7526 | 233 | **7759** |
| **14354** | **Grants from Government of India** | **13843** | | | | | |
| **26,217** | **Revenue receipts** | **27128** | **25117** | **Revenue expenditure** | **25219** | **1839** | **27058** |

| Section-B:Capital | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | **5,224** | **Capital Outlay** | 335 | 4172 | **4507** |
| **2** | **Recoveries of Loans and Advances** | **4** | **93** | **Loans and Advances disbursed** | 121 | | **121** |
| **3,287** | **Public Debt receipts@** | **3152** | **1,343** | **Repayment of Public Debt@** | 1298 | | **1297** |
| **-** | **Contingency Fund** | **-** | **-** | **Contingency Fund** | - | | **-** |
| **19,124** | **Public Account receipts@@** | **17840** | **17,723** | **Public Account disbursements@@** | 14169 | | **14169** |
| **961** | **Opening Cash Balance** | **91** | **91** | **Closing Cash Balance** | 1063 | - | **1063** |
| **49,591** | **Total** | **48215** | **49,591** | | | | **48215** |

*@ 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.*

The revenue receipts increased by₹911 crore(3.47 percent) during the year 2013-14 over the previous year, due to increase in share of Union taxes and duties (7 *percent*), State's own non tax revenue (32.87 *percent*) and State's own tax revenue (7.56 percent). Likewise revenue expenditure increased by₹1941 crore (7.73 *percent*) during the year 2013-14 over the previous year. The aggregate cash balance of the State (including un-invested cash with the RBI, invested cash and cash in departmental cash chests) increased during 2013-14 from the opening balance of ₹91 crore by ₹972 crore to a closing balance of ₹1063 crore.

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

***Appendix 1.3*** presents the data on key fiscal aggregates (absolute monetary values, ratios and growth rate) for the period from 2009-10 to 2013-14. 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 75 *per cent* of the total revenue receipts of the State during 2009-13. It declined to 70 *per cent* in 2012-13 and 66per cent during 2013-14. These non-debt resources transferred by the Central government through the State government accounts financed on an average63 *per cent* of total expenditure of the State government during 2009-12, 60 *per cent* in 2012-13 and 57per cent in2013-14, showing decline in the State's dependence on transfer of Central resources. The State continue to maintain revenue surplus which however declined from ₹2264 crore in 2009-10 to ₹70 crore during 2013-14.
- The State's own tax revenues (SOTR) have shown a growth rateof 21.8 *per cent* per annum during 2009-10 to 2013-14, with Commercial Taxes registering a higher growth rate of 22.9 *per cent* per annum in tandem with economic growth.

### *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** ( ₹in crore)

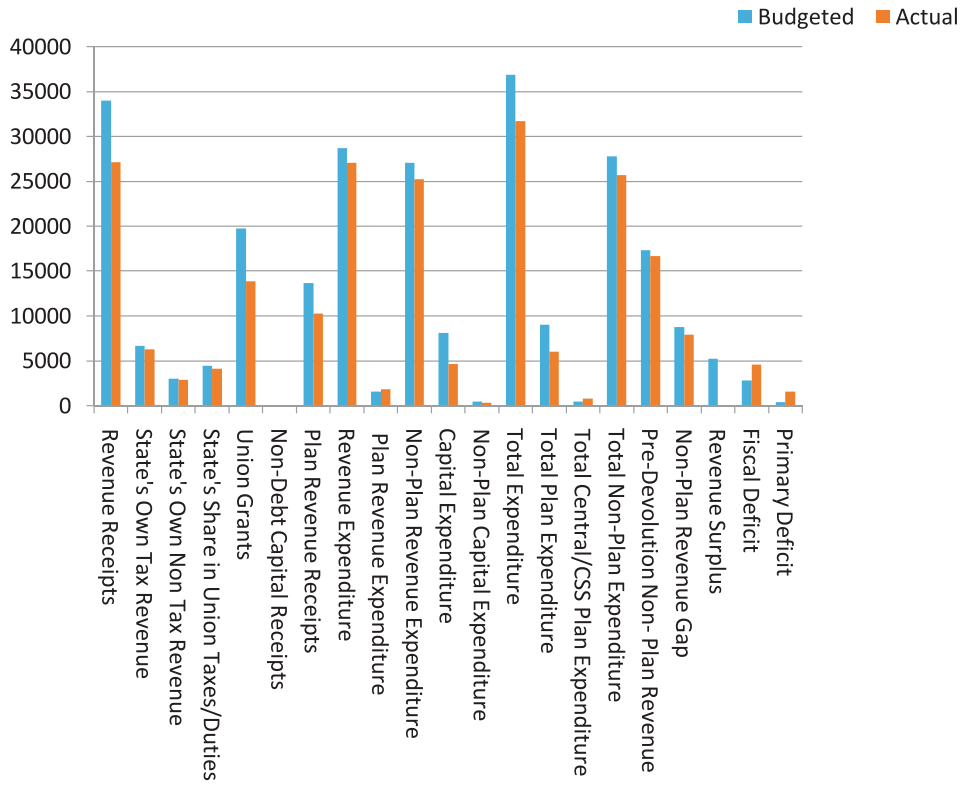
| Sl. No. | Fiscal Aggregate | 2011-12 | | | 2012-13 | | | 2013-14 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Budget | Revised | Actual | Budget | Revised | Actual | Budget | Revised | Actual |
| **1** | **Revenue Receipts (a)+(b)+(c)+(d)** | **26,701** | **25,513** | **24,783** | **29,948** | **29,499** | **26,217** | **33970** | **31227** | **27128** |
| *A* | *State's Own Tax Revenue* | *4,183* | *4,791* | *4,745* | *5,419* | *5,975* | *5,833* | *6700* | *6820* | *6273* |
| *B* | *State's Own Non Tax Revenue* | *1,620* | *1,851* | *2,002* | *2,118* | *2,819* | *2,160* | *3033* | *3400* | *2870* |
| *C* | *State's share in Union Taxes/Duties* | *3,328* | *3,691* | *3,495* | *4,245* | *4,085* | *3,870* | *4485* | *4514* | *4142* |
| *D* | *Grants-in-aid from Union government* | *17,570* | *15,180* | *14,541* | *18,166* | *16,620* | *14,354* | *19752* | *16493* | *13843* |
| **2** | **Non-Debt Capital Receipts** | **358** | **356** | **168** | **224** | **131** | **2** | **40** | **85** | **4** |
| **3** | **Net Borrowings and other liabilities (Fiscal Deficit)** | **2,979** | **3,979** | **3,694** | **2,364** | **3,364** | **4,216** | **2867** | **3831** | **4554** |
| **4** | **Total Receipts (1+2+3)** | **30,038** | **29,848** | **28,645** | **33,853** | **34,311** | **30,435** | **36877** | **35143** | **31686** |
| **5** | **Revenue Expenditure 5(i)+5(ii)** | **22,752** | **22,854** | **22,680** | **24,990** | **25,237** | **25,117** | **28690** | **27617** | **27058** |
| i | Plan | 1,178 | 1,081 | 1,248 | 1,442 | 1,242 | 1,557 | 1594 | 1594 | 1839 |
| ii | Non-Plan | 21,574 | 21,773 | 21,432 | 23,548 | 23,995 | 23,560 | 27096 | 26023 | 25219 |
| **6** | **Capital Expenditure 6(i)+6(ii)** | **7,286** | **6,994** | **5,965** | **8,863** | **9,074** | **5,317** | **8187** | **7526** | **4628** |
| i | Plan | 7,020 | 6,617 | 5,474 | 7,028 | 7,228 | 4,971 | 7476 | 6776 | 4172 |
| ii | Non-Plan (excluding Debt Repayment, including Loans and Advances) | 266 | 377 | 491 | 518 | 529 | 346 | 711 | 750 | 456 |
| **7** | **Total expenditure** | **30,038** | **29,848** | **28,645** | **33,853** | **34,311** | **30,434** | **36877** | **35143** | **31686** |
| i | Plan | 8,198 | 7,698 | 6,722 | 8,470 | 8,470 | 6,528 | 9070 | 8370 | 6011 |
| ii | Non-Plan | 21,840 | 22,150 | 21,933 | 25,383 | 25,841 | 23,906 | 27767 | 26688 | 25675 |
| | **GSDP (New Series with Base Year 2004-05)** | **62,365** | **62,365** | **65979** | **70,160** | **76,115** | **77,558** | **87319** | **87319** | **87319** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Pre-Devolution Non-Plan Revenue Deficit (PDNPRD)** | **15,771** | **15,131** | **14,685** | **16,011** | **15,201** | **15,568** | **17363** | **15803** | **16076** |
| | **PDNPRD as *per cent* of GSDP** | **25.28** | **24.26** | **23.50** | **22.82** | **19.97** | **20.07** | **19.80** | **18.10** | **18.41** |
| | **Non-Plan Revenue Gap** | **7,412** | **6,555** | **6,638** | **7,270** | **6,376** | **7,618** | **8776** | **6479** | **7925** |
| | **Non-Plan Revenue Gap as *per cent* of GSDP** | **11.4** | **9.9** | **10.0** | **9.55** | **8.37** | **10.0** | **10.0** | **7.4** | **9.08** |
| | **Revenue Surplus** | **3949** | **2659** | **2103** | **4,958** | **4,262** | **1,100** | **5280** | **3610** | **70** |
| | **Revenue Surplus as *per cent* of GSDP** | **6.0** | **4.03** | **3.2** | **6.5** | **5.6** | **1.4** | **6.04** | **4.13** | **0.08** |
| | **Fiscal Deficit** | **2,979** | **3,979** | **3,694** | **2,364** | **3,364** | **4,216** | **2867** | **3831** | **4554** |
| | **Fiscal Deficit as per cent of GSDP** | **4.8** | **6.4** | **5.6** | **3.1** | **4.4** | **5.5** | **3.3** | **4.4** | **5.2** |
| | **Primary Deficit (+) / Surplus (-) (Fiscal Deficit - Interest Payments)** | **616** | **1,441** | **1,311** | **-299** | **701** | **1,510** | **-433** | **531** | **1553** |
| | **Primary Deficit (+)/Surplus(-) as per cent of GSDP** | **1.0** | **2.3** | **1.99** | **0.92** | **0.39** | **1.95** | **-0.49** | **0.61** | **1.78** |
| | **State's Own Tax Revenue as *per cent* of GSDP** | **6.34** | **7.26** | **7.2** | **7.11** | **7.84** | **7.7** | **7.7** | **7.8** | **7.2** |

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 1.1**graphically captures actuals in 2013-14*vis-à-vis*budgeted.

**Chart 1.1**
**Budgeted vs Actual**




The States own tax revenue mobilisation fell short of the budgeted targets. There were significant shortfalls in the grants-in-aid from the Union Government and plan revenue receipts leading to shortfall in resources. The effect being budgeted capital expenditure was reduced and there was significant increase in the fiscal deficit over the budgetary limit. Actual fiscal deficit (₹ 4554 crore)was 5.2 *per cent* of GSDP which breached the target of 3.6 *per cent* of GSDP set under the FRBM Act.

## 1.3 Resources of the State

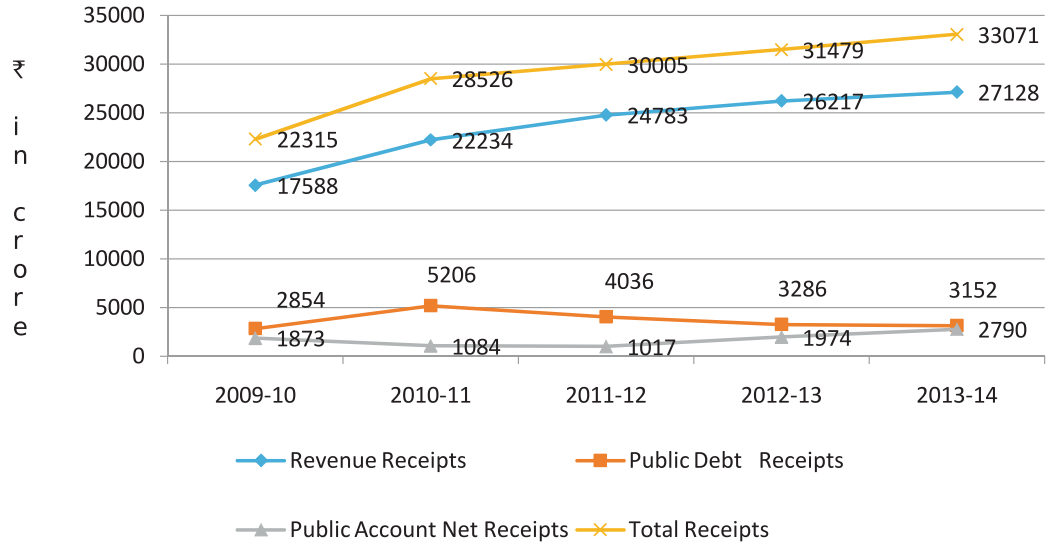
### *1.3.1 Resources of the State as per the Annual Finance Accounts*

The resources for financing the State Budget are categorised into revenue receipts and capital receipts. Revenue receipts of a State comprise of: (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 and (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 : (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.

**Chart 1.2** depicts the trends in various components of the receipts of the State during 2009-14.

**Chart 1.2: Relative Share of different receipts ( ₹ in crore)**




The revenue receipts and the public account receipts showed upward trend during 2009-14 while the public debt receipts showed downward trend, from ₹5206 crore in 2010-11 to ₹4036 crore in 2011-12 and to ₹3152 crore in 2013-14. The share of Public Debt Receipts vis-a-vis total receipts indicates a downward trend from 18.26 *percent* during 2010-11 to 9.53 *per cent* in2013-14 whereas the Revenue Receipts in the total receipts shows an upward trend increasing from 77.94 *per cent* in 2010-11 to 82.03 *per cent* in 2013-14. Public account receipts in total receipts also increased from 3.80 per cent in 2010-11 to 8.44 *per cent* in 2013-14.

### *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[2].

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*** under schemes costing more than ₹ one crore. Funds of over ₹100 Crore provided to some major programme/ schemes out of the total amount (₹ 3199.93 crore) reported as released during 2013-14 are given in **Table 1.3.**

**Table 1.3**
**Funds transferred directly to State implementing agencies (unaudited)**

*(₹in crore)*

| Name of the Programme/scheme | Name of the Implementing Agency in the State | Total Funds released by GOI during | | |
|---|---|---|---|---|
| | | 2011-12 | 2012-13 | 2013-14 |
| **SarvaShikshaAbhiyan** | Ujala Society | 300.71 | 508.06 | 891.44 |
| **MGNREGA** | Assistant Commissioners Development DRDA | 781.31 | 762.76 | 603.16 |
| **PMGSY** | State Rural Roads Agency | 762.10 | 266.32 | 523.24 |
| **National Rural Drinking Water Programme** | State Water and Sanitation Mission | 420.42 | 474.50 | 412.66 |
| **National Rural Health Mission (NRHM)** | State Health Department and other agencies | 452.45 | 139.23 | 354.89 |
| **Rashtriya Madhyamik Shiksha Abhiyan (RMSA)** | Ujala Society, Srinagar/Noor Society | 96.36 | 109.36 | 135.78 |
| | **Total** | **2813.35** | **2260.23** | **2921.17** |

*(Source: CPMS of CGA's website)*

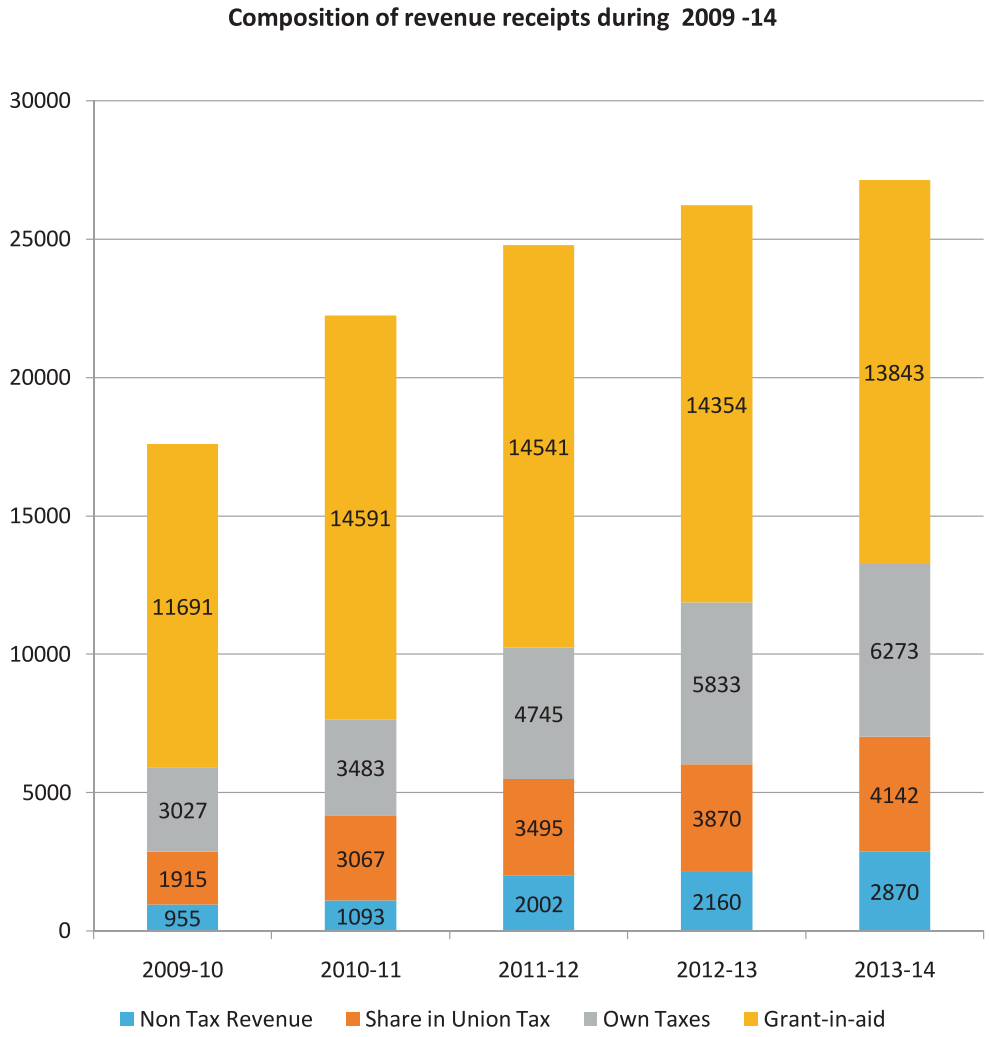
Consolidated data base at apex level was not maintained by the State government.

## 1.4 Revenue receipts

Statement-11 of the Finance Accounts details the revenue and Non debt capital receipts of the Government by Minor heads. 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 2009-14 are presented in ***Appendix 1.3*** and also depicted in **Chart 1.3**.

[2] These funds are not routed through the State Budget

**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 on an average 75*per cent* of the State's revenue receipts during 2009-12 and declined to 70 & 66 per cent during 2012-13 and 2013-14 respectively. 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 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Revenue Receipts (RR) (₹ in crore)** | 17,588 | 22,234 | 24,783 | 26,217 | 27128 |
| **State's Own Revenues (₹ in crore)** | 3982 | 4576 | 6747 | 7993 | 9143 |
| **Rate of growth of RR (*per cent*)** | 22.97 | 26.42 | 11.46 | 5.79 | 3.47 |
| **R R/GSDP (*per cent*)** | 39.02 | 37.56 | 35.79 | 33.80 | 31.07 |

| | | | | | |
|---|---|---|---|---|---|
| **Revenue Buoyancy w.r.t GSDP** | 1.49 | 0.73 | 1.61 | 0.38 | 0.27 |
| **Revenue Buoyancy with reference to State's own taxes** | 1.79 | 1.77 | 0.32 | 0.25 | 0.24 |

Revenue receipts showed a progressive increase over the period 2009-10 to 2013-14 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. The buoyancy ratio of States own tax revenue to GSDP has shown declining trend.

### *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 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 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Tax revenue** | 3,027 | 3,483 | 4,745 | 5,833 | 6,273 |
| ***Of which*** | | | | | |
| **Tax on sale of goods and services** | 2,146 | 2,425 | 3,414 | 4,174 | 4,579 |
| **Non-tax revenue** | 955 | 1,093 | 2,002 | 2,160 | 2870 |
| **Of which receipts from sale of power** | 702 | 822 | 1,007 | 1,589 | 1533 |
| **Total** | **3,982** | **4,576** | **6,747** | **7,993** | **9143** |

The receipts from the sale of power being a major constituent of non-tax revenue declined from 73.56 *per cent* of the total non-tax revenue during the year 2012-13 to 53.41per cent during 2013-14. The tax on the sale of goods and services that constituted 71.56 *per cent* of the total tax revenue during 2012-13 increased to 73 per cent during 2013-14.

#### *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 tax revenue relative to GSDP**

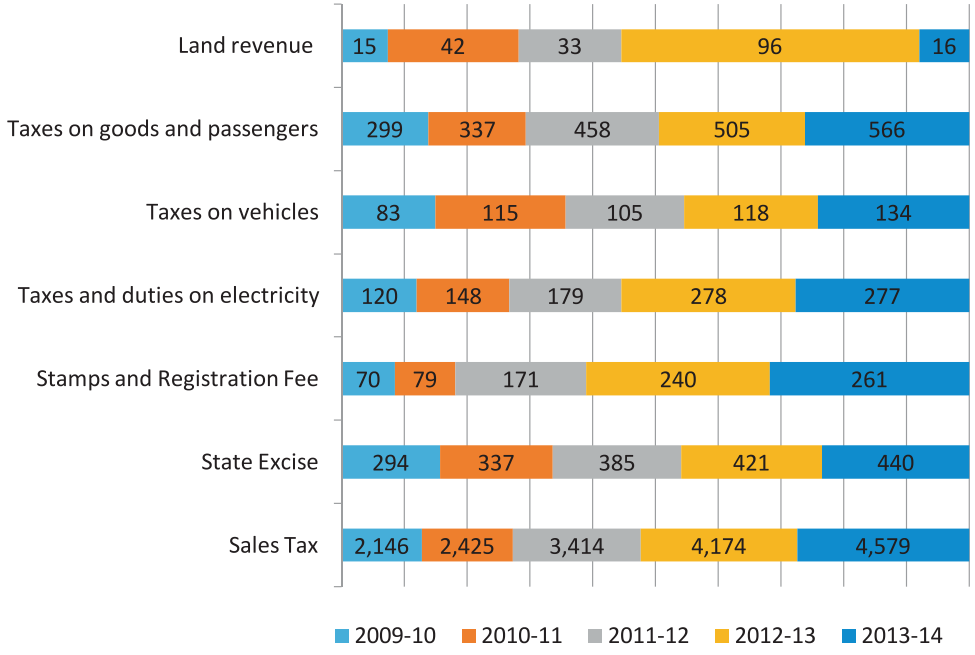
| Particulars | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Own Tax Receipts (OTR) (₹ in crore)** | **3027** | **3483** | **4745** | **5833** | **6273** |
| **Rate of growth of OTR (*per cent*)** | 12.82 | 15.06 | 36.23 | 22.93 | 7.54 |
| **OTR/GSDP (*per cent*)** | 6.26 | 6.11 | 7.19 | 7.66 | 7.18 |
| **Buoyancy* ratios** | | | | | |
| **OTR Buoyancy w.r.t GSDP** | 0.89 | 0.85 | 2.29 | 1.49 | 0.60 |
| **OTR Buoyancy with reference to RR** | 0.56 | 0.57 | 3.16 | 3.96 | 2.17 |

*Refer Glossary of Terms – Appendix 4.1

The States own tax receipts have been showing progressive increase registering a trend growth rate of21.8*per cent* during 2009-10 to 2013-14. The tax-wise break-up of tax revenue from the year 2009-10 to 2013-14 is given in**Chart1.4**

**Chart-1.4**
**Trends of Tax Revenue**

(Amount ₹ in crore)




It is noticeable from the above chart that, the land revenue collection decreased from ₹96 crore in 2012-13 to ₹16 crore in 2013-14, a decrease of 83.33 *per cent*.

The variations between the budget estimates and actuals of tax revenue receipts for the year 2012-13 and 2013-14 in respect of the principal heads of tax revenue are mentioned in **Table 1.7**.

**Table 1.7**
**Budget Estimates and Actual Tax revenue during 2013-14**

*(₹in crore)*

| Head of Revenue | 2012-13 (Actuals) | 2013-14 (BE) | 2013-14 (RE) | 2013-14 (Actuals) |
|---|---|---|---|---|
| **Commercial Taxes (VAT/GST on sales and services)** | 4,174 | 4799 | 4,799 | 4,579 |
| **State Excise Duties** | 421 | 423 | 442 | 440 |
| **Other State Taxes/Duties** | 1237 | 5,963 | 6,093 | 1254 |

### *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

from2011-12 to 2013-14 along with the relevant all India average percentages are given in **Table 1.8**.

**Table 1.8**
**Cost of collection of major State taxes**

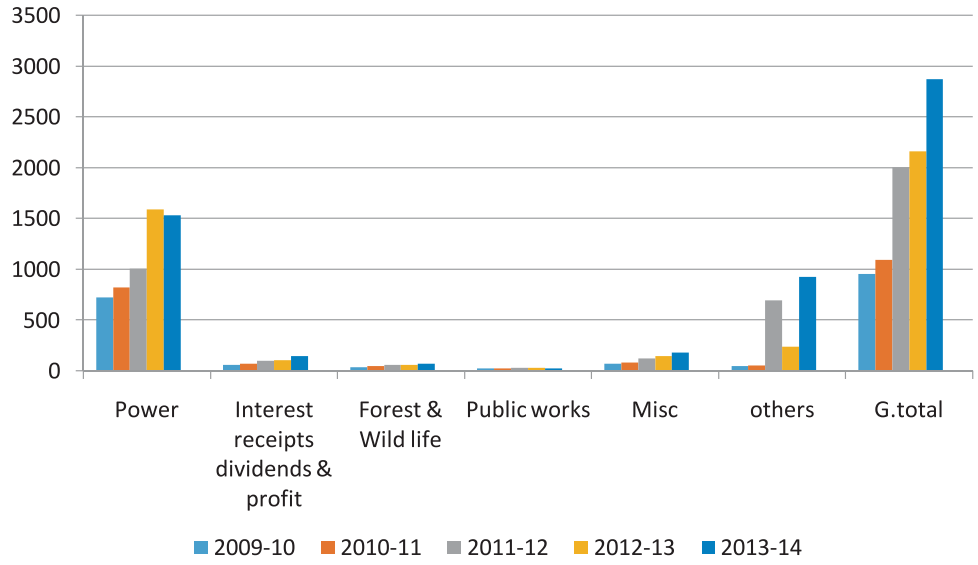
| Head of Revenue | Year | Gross Collection (₹ in crore ) | Expenditure on Collection (₹ in crore ) | Percentage of expenditure to gross collection (*per cent*) | All India average percentage during the preceding year |
|---|---|---|---|---|---|
| **Sales Tax** | 2011-12 | 3414.01 | 27.59 | 0.81 | 0.75 |
| | 2012-13 | 4174.39 | 88.08 | 2.11 | 0.83 |
| | 2013-14 | 4578.81 | 38.66 | 0.84 | 0.73 |
| **State Excise** | 2011-12 | 385.46 | 17.09 | 4.43 | 3.05 |
| | 2012-13 | 421.28 | 18.88 | 4.48 | 2.98 |
| | 2013-14 | 440.06 | 19.71 | 4.48 | 2.96 |
| **Stamp Duty & Registration Fee** | 2011-12 | 170.97 | 20.87 | 12.21 | 1.60 |
| | 2012-13 | 240.14 | 23.26 | 9.69 | 1.89 |
| | 2013-14 | 260.68 | 23.88 | 9.16 | 3.25 |
| **Taxes on Vehicles** | 2011-12 | 104.52 | 7.44 | 7.12 | 3.71 |
| | 2012-13 | 117.89 | 7.66 | 6.50 | 2.96 |
| | 2013-14 | 134.23 | 10.05 | 7.49 | 4.17 |
| **Land Revenue** | 2011-12 | 32.99 | 56.24 | 170.48 | NA |
| | 2012-13 | 95.45 | 63.84 | 66.88 | NA |
| | 2013-14 | 15.96 | 77.47 | 485.40 | NA |

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. It may also be seen that the cost of collection of land revenue during 2013-14 was ₹77.47 crore, which is 485 per cent the amount of land revenue realised (₹15.96 crore). Reasons for less collection of land revenue during the year 2013-14 were not intimated by the State Government.

### *1.4.1.3 State's own non-tax revenue*

An itemised break-up of non-tax revenue during the period 2009-14 along with percentage increase/ decrease over 2012-13 is given in **Chart 1.5.**

**Chart- 1.5**
**Trends of non-tax revenue**




Receipts from Power Development Department constitute the most significant component of State's non tax revenue.Receipts from power development department decreased from ₹1589 Crore in 2012-13 to₹1533 crore in 2013-14. However,under "Others",the receipts abnormally increased from ₹235 crore in 2012-13 to ₹924 crores in 2013-14.

**Table 1.9** shows the variation between the budgeted and actual receipts during 2011-14.

**Table 1.9**
**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 | Budget Estimate 2013-14 | Actual 2013-14 |
|---|---|---|---|---|---|---|
| **Power receipts** | 1486 | 1007 | 2387 | 1589 | 2841 | 1533 |
| **Interest receipts, dividends and profits** | 89 | 101 | 111 | 104 | 150 | 142 |
| **Forest and wild life** | 56 | 55 | 68 | 59 | 68 | 68 |
| **Miscellaneous** | 148 | 146 | 171 | 174 | 234 | 203 |
| **Others** | 72 | 693 | 82 | 234 | 107 | 924 |
| **Total** | **1851** | **2002** | **2819** | **2160** | **3400** | **2870** |

From the above table it may be seen that except under "others", actuals could not match the budgeted figures during 2013-14. In case of power department receipts, the actual receipts were 46 per cent below the Budget Estimates.

The Government informed (Feb.2014) 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. No specific time bound action plan has been prepared to achieve this goal.

### *1.4.2 Grants in aid from the Union government*

**Table 1.10**shows the significance of grants-in-aid from the Union government in the budgetary resource base of the State government. The grant-in-aid from Union Government decreased from ₹14354 crore during 2012-13 to ₹13843 crore during 2013-14 and from 66 per cent in 2009-10 to 51 per cent in 2013-14 vis-a-vis total revenue receipts.

**Table 1.10**
**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 |
|---|---|---|---|---|---|
| **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 |
| **2013-14** | 13,843 | 31,686 | 44 | 27,128 | 51 |

#### *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 63.77 *per cent* of total expenditure, 80.12 *per cent* of total non-plan revenue expenditure (₹ 25219 crore) and221 *per cent* of State' own tax/ non-tax revenues (₹ 9143 crore). This creates a persisting scenario of negative balance of current revenues for financing Annual Plan of the State. **Table 1.11** shows the extent to which plan grants of ₹ 3823 crore from the Union government have been diverted for meeting non-plan expenditure.

**Table 1.11**
**Extent of diversion of plan grants to finance non-plan expenditure**

*(₹ in crore)*

| Item | Actual 2012-13 | Budget 2013-14 | Revised 2013-14 | Actual 2013-14 |
|---|---|---|---|---|
| **(i) Expenditure on State Plan schemes** | 5864 | 8600 | 7900 | 5230 |
| **(ii) Expenditure on Central Plan and Centrally Sponsored Schemes** | 664 | 470 | 470 | 781 |
| **(iii) Total Plan expenditure (i + ii)** | 6528 | 9070 | 8370 | 6011 |
| **(iv) Central Plan Assistance (Grants-in-aid) for State Plan Schemes** | 9547 | 14964 | 10996 | 9008 |
| **(v) Central Plan Assistance (Grants-in-aid) for Central Plan and Centrally Sponsored Schemes** | 727 | 470 | 470 | 826 |
| **(vi) Total Plan grants from Union government** | 10274 | 15434 | 11466 | 9834 |
| **(vii) Plan grants diverted to meet non-Plan expenditure ( vi – iii)** | 3746 | 6364 | 3096 | 3823 |

### *1.4.3 Central Tax transfers and Utilisation of grants*

The actual release of share in Union taxes and duties to the Stateduring first four years of the award period of 13th Finance Commission *vis-à-vis* the projections made by the Commission are tabulated in **Table 1.12**.

**Table 1.12**
**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** | 2837 | 3066.98 |
| **2011-12** | 3328 | 3495.11 |
| **2012-13** | 3925 | 3870.37 |
| **2013-14** | 4630 | 4142.10 |

The Commission had recommended a total grant of ₹ 20,256 crore for the five years period from 2010-11 to 2014-15, specifically for the State. Of this, ₹ 15,937 crore was meant for filling the assessed deficit on non-plan revenue account, ₹ 1000 crore for liquidation of overdraft with the Jammu and Kashmir Bank Ltd. and ₹ 1,123 crore for

Local Bodies. The balance ₹ 2,196 crore was for several projects and activities to be completed during 2010-15. Since these grants are for the five-year period, any short-utilisation in any year could be made good in subsequent years. Thus, almost 89 *per cent* of the total grant was general budgetary support for 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 ₹ 4,317.56 crore for special purpose grants during the award period (2010-15), the State Government was to receive ₹ 3466 crore by the end of 31st March 2014 (₹ 1389 crore for 2010-11, ₹607 crore for 2011-12, ₹704 crore for 2012-13 and ₹766 crore for 2013-14), against which the actual amount received by the State Government was ₹2552 crore resulting in a shortfall of ₹914 crore. Reasons leading to short receipts are awaited from the State Government (October 2-14).

## 1.5 Capital receipts

The share of non-debt capital receipts and loans/ advances from the Union government was negligible and capital receipts are mainly borrowing from banks, financial institutions and open market as detailed in **Table 1.13**.

**Table 1.13**
**Trends in capital receipts**

***(₹in crore)***

| | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| *Non-Debt Capital receipts* | | | | | |
| **(i) Recoveries of Loans and Advances** | 2 | 2 | 168 | 2 | 4 |
| **(ii) Miscellaneous capital receipts (asset sale)** | 28 | | | | |
| ***Total non-debt Capital receipts*** | ***30*** | ***2*** | ***168*** | ***2*** | ***4*** |
| *Debt Capital receipts (Public Debt)* | | | | | |
| **(i) Ways and Means Advances and Overdraft** | 675 | 1,847 | 4,436 | 3,742 | 2,850 |
| **(ii) Loans and advances from Union Government** | 31 | -1,016 | -32 | 14 | 15 |
| **(iii) Other Debt (Market/Institutional Loans)** | 2,146 | 6,222 | 4,068 | 3,272 | 3137 |
| ***Total non-debt Capital receipts*** | ***2,852*** | ***7,053*** | ***8,472*** | ***7,028*** | ***6,002*** |
| **Total Capital receipts** | **2,882** | **7,055** | **8,640** | **7,030** | **6006** |

## 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 1.14** shows trends in receipts and disbursements under various segments of the public accounts.

**Table 1.14**
**Profile of public accounts**

*(₹in crore)*

| Constituents of Public Accounts | Public Account Receipts | | Disbursement from Public Account | | Excess of receipts over disbursement | |
|---|---|---|---|---|---|---|
| | 2012-13 | 2013-14 | 2012-13 | 2013-14 | 2012-13 | 2013-14 |
| **State Provident Fund, Pension/ Insurance Funds** | 3,239 | 3,820 | 1,550 | 1830 | 1,689 | 1990 |
| **Reserve Funds** | 286 | 637 | 116 | 234 | 170 | 403 |
| **Deposits** | 3,411 | 2,817 | 3,216 | 2,658 | 195 | 159 |
| **Advances** | 397 | 321 | 404 | 321 | -7 | - |
| **Remittances** | 11,516 | 9,612 | 12,134 | 8,443 | -618 | 1169 |
| **Receipts in Cash Balance Investment Account** | 14,268 | 14,530 | 13,703 | 15,397 | 565 | -867 |
| **Receipts in Departmental Cash Balances Account** | 46 | 36 | 38 | 50 | 8 | -14 |
| **Other Suspense and Misc** | 275 | 633 | 303 | 683 | -28 | -50 |
| **Total** | **33,438** | **32,406** | **31,464** | **29,616** | **1,974** | **2790** |

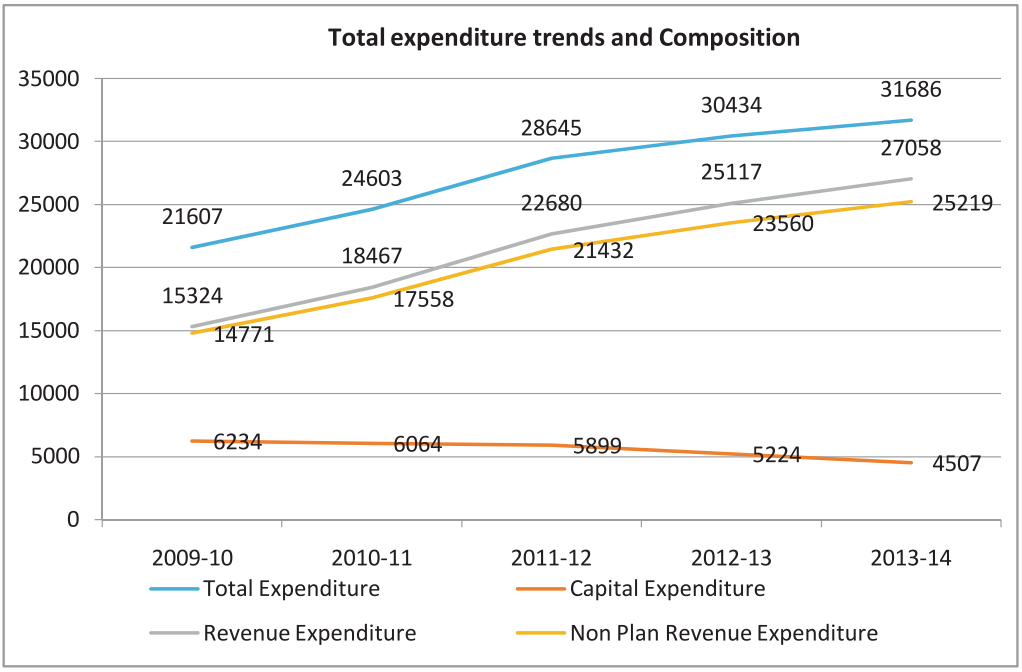
## 1.7 Application of resources

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*

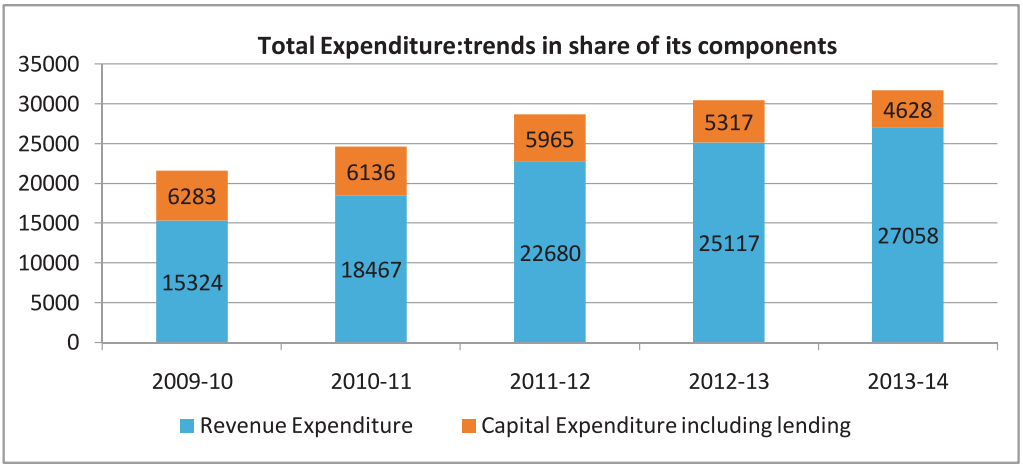
**Chart 1.6**presents the trends in total expenditure during 2009-14.

**Chart- 1.6**




The composition of total expenditure in terms of revenue-capital classification is depicted in **Chart 1.7**.

**Charts 1.7**




From **Chart 1.7**above, it may be seen, that the total expenditure increased by ₹10079 crore from ₹21607 crore in 2009-10 to ₹31686 crore in 2013-14. The capital expenditure (including lending) decreased from ₹6283 crore to₹4628 crore over the

same period, while the revenue expenditure increased by ₹11,734 crore from₹15,324 crore in 2009-10 to ₹27058 crore in 2013-14.

The total expenditure, 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 1.15**.

**Table 1.15**
**Total expenditure – Basic Parameters**

| Particulars | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Total Expenditure (TE) (₹ in crore)** | **21607** | **24603** | **28645** | **30434** | **31686** |
| **Total Plan Expenditure (₹in crore)** | **6688** | **6639** | **6722** | **6528** | **6011** |
| **Total Non-Plan Expenditure (₹in crore)** | **14870** | **17892** | **21857** | **23813** | **25554** |
| **Rate of growth (*per cent*)** | 26.70 | 13.86 | 16.43 | 6.25 | 4.11 |
| **TE/GSDP ratio (*per cent*)** | 44.66 | 43.18 | 43.42 | 39.24 | 36.29 |
| **RR/TE ratio (*per cent*)** | 81.40 | 90.37 | 86.52 | 86.14 | 85.62 |
| **Buoyancy of total expenditure with reference to** | | | | | |
| **GSDP(ratio)** | 0.78 | 1.04 | 1.85 | 0.36 | 0.33 |
| **RR(ratio)** | 1.16 | 0.52 | 1.43 | 1.08 | 1.18 |
| **Revenue Expenditure (RE) *(₹ in crore)*** | 15,324 | 18,467 | 22,680 | 25,117 | 27058 |
| ***Non-Plan Revenue Expenditure (NPRE)*** | 14,771 | 17,558 | 21,432 | 23,560 | 25,219 |
| ***Plan Revenue Expenditure (PRE)*** | 553 | 909 | 1,248 | 1,557 | 1839 |
| **Rate of Growth of** | | | | | |
| **RE (*per cent*)** | 27.20 | 20.51 | 22.82 | 10.74 | 7.73 |
| **NPRE (*per cent*)** | 25.88 | 18.87 | 22.07 | 9.93 | 7.04 |
| **PRE (*per cent*)** | 76.68 | 64.38 | 37.29 | 24.76 | 18.11 |
| **Ratio** (per cent) | | | | | |
| **RE as percentage of TE** | 70.92 | 75.06 | 79.18 | 82.53 | 85.39 |
| **NPRE/GSDP (*per cent*)** | 30.53 | 30.82 | 32.48 | 30.38 | 28.88 |
| **NPRE as percentage of TE** | 68.36 | 71.37 | 74.82 | 77.41 | 79.59 |
| **NPRE as percentage of RR** | 83.98 | 78.97 | 86.48 | 89.87 | 92.96 |
| **Buoyancy ratio of Revenue Expenditure with** | | | | | |
| **GSDP** | 1.16 | 1.44 | 1.27 | 1.29 | 0.61 |
| **Revenue Receipts** | 1.18 | 0.78 | 1.99 | 1.86 | 2.22 |

Out of the total expenditure of ₹ 31686 crore during 2013-14, ₹ 6011 crore was plan expenditure (₹ 5,230 crore under State plan and₹781 crore under Central and centrally sponsored plan) and ₹ 25553.86 crore was non-plan expenditure. The plan expenditure decreased by ₹ 517 crore from the level of ₹ 6528 crore in 2012-13. The shortfall was higher under State plan (₹ 634 crore) which was partially offset by increase under Central/ Centrally sponsored segment (₹ 117 crore).

### *1.7.2 Revenue expenditure*

The overall revenue expenditure of the State increased from ₹ 15324 crore in 2009-10 to ₹ 27058 crore in 2013-14 showing a trend growth rate of 15.5 *per cent* per annum during the period. The non-plan revenue expenditure (NPRE) during the same period increased from ₹ 14771 crore to ₹ 25219 crore, showing a growth rate of 14.6 *per cent* per annum.

The total non-plan expenditure recorded an increase of ₹ 1769 crore (seven *per cent*) from ₹ 23,906 crore (includes disbursement of loans and advances) in 2012-13 to ₹ 25,675 crore in 2013-14. The steady increase in non-plan expenditure is a cause of concernas it erodes the resource base for developmental interventions. **Table 1.16** highlights the four most significant constituents of NPRE and the pre-emption of budgetary resources caused by rising NPRE.

**Table 1.16**
**Composition of non-plan revenue expenditure (NPRE)**

| Main drivers of NPRE growth | Actual 2012-13 (₹ in crore) | As *per cent* of NPRE (2012-13) | Actual 2013-14 (₹ in crore) | As *per cent* of NPRE (2013-14) |
|---|---|---|---|---|
| **(i) Salaries** | 10,298 | 43.7 | 10,845 | 43.00 |
| **(ii) Pension** | 3,463 | 14.7 | 3,592 | 14.24 |
| **(iii) Interest Payments** | 2,707 | 11.5 | 3001 | 11.90 |
| **(iv) Revenue expenditure on Power** | 4,393 | 18.7 | 4,303 | 17.06 |
| **Total** | 20,861 | 88.6 | 21741 | 86.21 |
| **Non-Plan Revenue Expenditure** | 23,560 | 100.00 | 25,219 | 100.00 |

From above, it may be seen that the four major items of NPRE- salaries, pension, interest payments and revenue expenditure on power take away more than 86 *per cent* budgetary resources leaving little for other expenditure.

Share of salaries/ wages/ pension in the total expenditure has ranged between ₹7933 crore and₹15197 crore (45 per cent and 56 per cent of revenue receipts) during 2009-10 to 2013-14. The expenditure on payment of interest has increased from ₹ 2139 crore to ₹ 3,001 crore during the same period.

#### *1.7.2.1 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 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 1.17.**

**Table 1.17**
**Shortfall in the performance of Power Development Department**

*(₹in crore)*

| Financial year | Target revenue | Actual revenue | Expenditure on Power purchase | Deficit |
|---|---|---|---|---|
| **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 |
| **2013-14** | 2,841 | 1533 | 3738 | 2205 |

As can be seen from the details above, the targets for the collection of the tariff have not been achieved. The shortfall in collection of revenue was ₹1308 crore during 2013-14 as compared to targets.

### *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 1.18** presents the trends in the expenditure on these components during 2009-14.

**Table-1.18**
**Components of committed expenditure**

*(₹in crore)*

| Components of Committed Expenditure | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Salaries *of which*** | 6365 (36.18) | 7772 (34.96) | 10113 (40.81) | 10600 (40.43) | 11605 (42.78) |
| *Salaries Non-Plan Head* | *6095* | *7467* | *9665* | 10036 | 10845 |
| *Salaries Plan Head* | *233* | *305* | *448* | 564 | 760 |
| **Interest Payments** | 2139 (14) | 2283 (10.26) | 2383 (9.61) | 2707 (10.33) | 3001 (11.06) |
| **Pensions** | 1568 (8.91) | 2242 (10.08) | 3296 (13.29) | 3463 (13.21) | 3592 (13.24) |

*(Figures in parenthesis represent percentage of revenue receipts.)*

From above, it can be seen that as against the increase in revenue receipts of 3.47 *per cent*, the expenditure on salary and wages increased by 9.48 *per cent* during 2013-14. Likewise pension payments showed upward trend from ₹1568 crore in 2009-10 to ₹3592 crore in 2013-14 and increased by 3.73 per cent during 2013-14.

As reported in Appendix-XII of the Finance Accounts 2013-14, committed liabilities as on 31 March 2014 aggregated to₹ 1452.94 crore, of which ₹ 1208.96 crore was on account of compensation payable to landowners on land acquisition.

### *1.7.4 Financial assistance by State government to Local& autonomous Bodies and other institutions*

The assistance provided by way of grants-in-aid to local &autonomous Bodies and other institutions by various departments of the State government during the current year relative to the previous years is tabulated in **Table 1.19**.

**Table 1.19**
**Financial assistance to Local Bodies etc**

*(₹in crore)*

| Name of the Department | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Education and Sports** | 521.66 | 171.84 | 213.46 | 209.81 | 538.22 |
| **Housing and Urban Development** | 217.01 | 253.98 | 289.28 | 303.11 | 192.45 |
| **Agriculture** | 138.63 | 203.47 | 151.61 | 216.42 | 13.8 |
| **Art and Culture** | - | - | - | - | - |
| **General Administration** | 11.14 | 6.13 | 8.50 | 9.14 | 19.46 |
| **Industries** | 25.53 | 11.66 | 21.41 | 75.23 | 23.52 |
| **Tourism** | 71.17 | 150.40 | 5.52 | 1.76 | 8.86 |
| **Administration of Justice** | 3.32 | 3.67 | 4.48 | 4.80 | 0.05 |
| **Health and Family Welfare** | 0.47 | 0.36 | 0.34 | 0.23 | 14.06 |
| **Others** | 442.27 | 644.76 | 1100 | 1263.78 | 671.38 |
| **Total** | **1431.20** | **1446.27** | **1795.16** | **2084.28** | **1481.38** |
| **Assistance as a percentage of Revenue expenditure** | 9.34 | 7.83 | 7.91 | 8.30 | 5.47 |

The grants-in-aid are mainly utilised by the autonomous institutions for the payment of salary to their employees. The Government 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 2013-14. The level of financial assistance sharply decreased from ₹2084.28 crore in 2012-13 to ₹1481.38 crore in 2013-14. During 2013-14, 49.32*per cent* of the total assistance was givento the Education & sports and Housing & urban development.The assistance categorised as 'Others' comprised mainly the assistance to Ladakh Autonomous Hill Development Councils for Leh.

Financial assistance of ₹ 306.45 crore was provided by the State government to 82 ULBs (2 Municipal Corporations, 6 Municipal councils, 74 Municipal committees) during 2013-14 and₹ 71.76 crore to 4128 Panchayati Raj Institutions.

## 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[3]. Apart from improving the allocation towards development expenditure[4], 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. **Table 1.20** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis*previous years. The development expenditure showed an increase of ₹4640 crore(31.19 *per cent*)during 2009-10 to 2013-14.

**Table 1.20** and **Chart 1.8** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

**Table-1.20**
**Development expenditure**

*(₹in crore)*

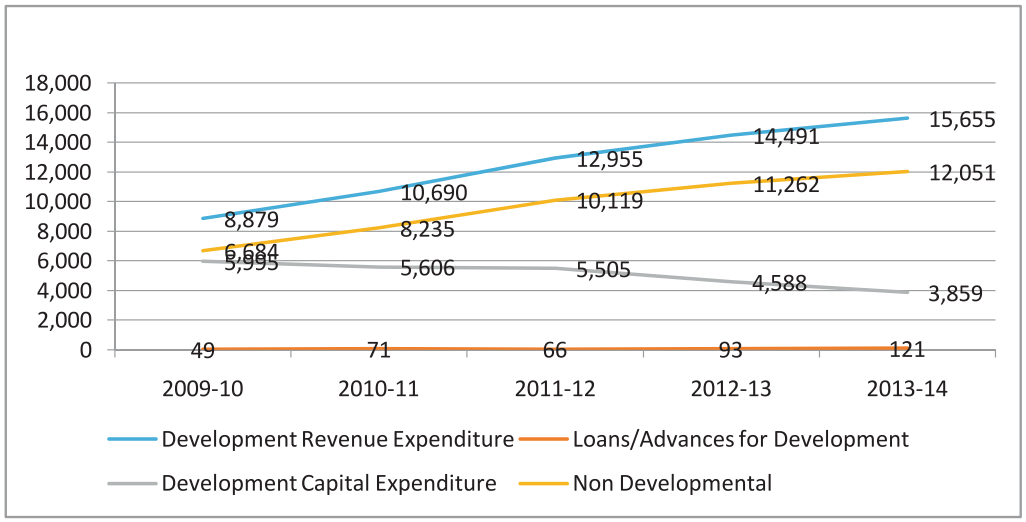
| Components of Development Expenditure | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Total Expenditure** | **21607** | **24603** | **28645** | **30434** | **31686** |
| **Total Development Expenditure** | **14,874** | **16296** | **18460** | **19079** | **19514** |
| **Development Revenue Expenditure (₹ in crore)** | **8,879** | **10,690** | **12,955** | **14,491** | **15,655** |
| **Share of Development revenue expenditure in total expenditure (*per cent*)** | ***41.1*** | ***43.5*** | ***45.2*** | ***47.6*** | ***49.41*** |

3 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 commodities that 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.

4 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.

| | | | | | |
|---|---|---|---|---|---|
| **Development Capital Expenditure (₹ in crore)** | **5,995** | **5,606** | **5,505** | **4,588** | **3,859** |
| **Share of Development Capital Expenditure in total expenditure (*per cent*)** | ***27.7*** | ***22.8*** | ***19.2*** | ***15.1*** | ***12.18*** |
| **Loans/Advances for Development (₹ in crore)** | **49** | **71** | **66** | **93** | **121** |
| **Total Development Revenue & Capital to total Expenditure*(per cent)*** | **68.8** | **66.3** | **64.4** | **62.7** | **61.59** |

**Charts 1.8**
**Trends in expenditure by activities**




The share percentage of Development capital expenditure in total expenditure fell from 15.1 per cent in 2012-13 to 12.18 per cent in 2013-14.

### *1.8.2 Efficiency of Expenditure Use*

**Table 1.21** provides analysis of the sector-wise expenditure and its relation to developmental indices.

**Table 1.21**
**Efficiency of Expenditure use in selected Social and Economic services**

***(in per cent)***

| Social/Economic Infrastructure | 2011-12 | | | 2012-13 | | | 2013-14 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ratio of CE to TE | In RE, the share of | | Ratio of CE to TE | In RE, the share of | | Ratio of CE to TE | In RE, the share of | |
| | | S&W | O&M | | S & W | O& M | | S & W | O& M |
| **Social Sector (SS)** | | | | | | | | | |
| **General Education** | 13.44 | 81.14 | - | 13.90 | 85.34 | - | 12.2 | 82.72 | 0.01 |
| **Health and Family Welfare** | 17.44 | 86.71 | 0.56 | 18.67 | 87.45 | 0.56 | 13.08 | 85.19 | 0.78 |
| **WS, Sanitation & HUD** | 32.33 | 53.69 | 3.35 | 34.45 | 51.56 | 3.35 | 21.99 | 55.68 | 3.36 |
| **Others** | 28.85 | 16.93 | - | 23.65 | 14.67 | - | 1.30 | 13.17 | - |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Total (SS)** | **19.95** | **70.83** | **-** | **16.35** | **74.56** | **-** | **13.47** | **67.24** | **-** |
| **Economic Sector (ES)** | | | | | | | | | |
| **Agriculture and Allied Activities** | 34.01 | 82.29 | 0.15 | 29.11 | 85.36 | 0.15 | 22.29 | 79.78 | 0.18 |
| **Irrigation and Flood Control** | 55.85 | 80.72 | 6.46 | 53.35 | 83.65 | 6.46 | 44.49 | 77.29 | 6.95 |
| **Power and Energy** | 12.41 | 11.88 | 0.84 | 11.71 | 13.67 | 0.84 | 8.13 | 10.89 | 0.92 |
| **Transport** | 84.72 | 73.80 | 30.43 | 87.92 | 72.40 | 30.43 | 71.74 | 0.71 | 43.01 |
| **Others** | 52.31 | 34.43 | - | 57.61 | 31.66 | - | 10.82 | 42.45 | - |
| **Total (ES)** | **37.13** | **34.06** | **-** | **39.74** | **36.83** | **-** | **25.31** | **32.67** | **-** |
| **Total (SS+ES)** | **29.81** | **51.92** | **-** | **27.34** | **51.92** | **-** | **19.77** | **50.11** | **-** |

*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 showed consistent decline from 29.81 per cent in 2011-12 to 27.34 per cent in 2012-13 and further down to 19.77 per cent in 2013-14. In the revenue expenditure, salary and wages form major component within the Social and Economic services and their share has shown a marginal decrease from 51.92 in 2012-13 to 50.11 per cent during 2013-14.

### *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 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 2014 is given in ***Appendix X*** of the Finance Accounts. There were 267 incomplete projects as per details given in **Table 1.22**.

**Table 1.22**
**Department-wise profile of incomplete projects as on 31 March 2014**

| Department | No. of incomplete Projects | Sanctioned Project Cost (₹ in crore) | RevisedCost (₹in crores) | Cum. Actual expenditure (₹in crore) |
|---|---|---|---|---|
| **Public works** | 194 | 651.92 | 661.27 | 487.36 |
| **Power Development Department** | 2 | 24.00 | 26.60 | 20.21 |
| **Public Health Engineering** | 71 | 782.33 | 809.20 | 324.87 |
| **Total** | **267** | **1458.25** | **1497.07** | **832.44** |

As on 31 March 2014 there were 267 projects/ works costing ₹one crore or above which had overshot their scheduled completion dates. These incomplete projects had a total sanctioned cost of ₹1458.25 crore revised to ₹1497.07 crore. An amount of ₹832.44 crore had been expended on these incomplete projects by 31 March 2014. Blocking of funds on incomplete projects/ works impinged negatively on the quality of expenditure and deprived the State of the intended benefits for prolonged periods.

### *1.9.2 Investment and Returns*

As per the Statement 14 of the Finance Accounts, as on 31 March 2014, the State government had cumulatively invested ₹ 533.27 crore in three Statutory Corporations (₹ 220.16 crore), 20 Companies (₹ 263.33 crore), three non-functional Government Companies (₹ 2.57 crore), eight Cooperative Institutions/Local Bodies (₹ 37.83 crore), two Rural Banks (₹ 9.04 crore) and two Joint Stock Companies (₹ 0.34 crore). **Table 1.23** gives overall picture of return on investment *vis-a-vis* the average cost of Government borrowing.

**Table-1.23**
**Return on Investment**

| Investment/Return/Cost of Borrowings | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Investment at the end of the year (₹ in crore)** | 422.82 | 470.78 | 484.95 | 498.25 | 533.27 |
| **Return (₹ in crore)** | 44.16 | 56.71 | 68.16 | 87.35 | 128.88 |
| **Return *(per cent)*** | 10.44 | 12.05 | 14.05 | 17.53 | 24.17 |
| **Average rate of interest on all Government liabilities *(per cent)*** | 8.07 | 7.61 | 7.06 | 7.07 | 7.07 |
| **Difference between interest rate and return *(per cent)*** | 2.37 | 4.44 | 6.99 | 10.46 | 17.10 |

During 2013-14, the return on investment solely came from the Jammu and Kashmir Bank Limited (₹ 128.88 crore), in which the Government holds 53 *per cent* equity.

### *1.9.3 Loans and advances by State Government*

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/ organizations. **Table 1.24** presents theposition of loans and advances advanced/ outstanding as on 31 March 2014, interest receipts *vis-a-vis* interest payments during the last 5 years**.**

**Table 1.24**
**Average interest received on loans advanced by the State Government**

*(₹in crore)*

| Quantum of Loans/Interest Receipts/ Cost of Borrowings | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Opening Balance** | 1018.92 | 1066.42 | 1136.55 | 1033.69 | 1292.55* |
| **Amount advanced during the year** | 49.12 | 71.63 | 65.61 | 93.40 | 121.42 |
| **Amount repaid during the year** | 1.62 | 1.50 | 168.47 | 1.53 | 4.13 |
| **Closing Balance** | 1066.42 | 1136.55 | 1033.69 | 1125.56 | 1409.84 |
| Of which **outstanding balance for which terms and conditions have been settled** | | | | | |
| **Net addition** | 47.50 | 70.13 | (-) 102.86 | 91.87 | 117.29 |
| **Interest Receipts** | 5.07 | 3.00 | 4.74 | 1.31 | 1.64 |
| **Interest receipts as *per cent* to outstanding Loans and advances** | 0.47 | 0.26 | 0.46 | 0.12 | 0.12 |
| **Interest payments as *per cent* to outstanding fiscal liabilities of the State Government** | 8.07 | 7.61 | 7.06 | 6.72 | 6.72 |
| **Difference between interest payments and interest receipts (*per cent*)** | 7.60 | 7.35 | 6.60 | 6.60 | 6.60 |

(* : An amount of ₹167.00 crore has been proforma increased to the balance as on 31 March 2013 due to rectification of mis – classification intimated by the State Government).

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.

### *1.9.4 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 increased by₹ 972 crore during 2013-14, from ₹ 91 crore at end 2012-13, to ₹1063 crore.Out of this total Cash balance,₹1051.38crore was held in cash balance investment account which includes ₹193.85 crore invested in 14 days treasury bills.

## 1.10 Assets and Liabilities

### *1.10.1 Growth and composition of Assets and Liabilities*

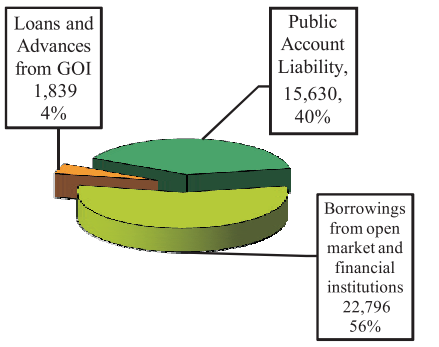
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the government is not done. However, the government accounts do capture the financial liabilities of the government and the assets created out of the expenditure incurred at historical 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 2013-14 gives an

overview of sources and application of funds. Statement 6 and Statement 15 of the Finance Accounts 2013-14 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 comfort 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.

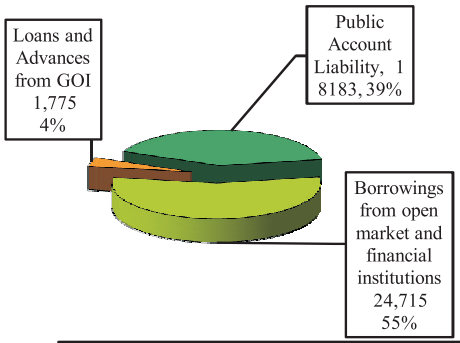
There are two sets of liabilities namely, public debt and "other liabilities under public accounts". Public debt consists of market loans, special securities issued by RBI and loans and advances from the Central government. Other liabilities, which are a part of public account, include deposits under 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 1.9*** and ***1.10.***(Please also see ***Appendix 1.3***for trends in outstanding fiscal liabilities of the government since 2002-03)

***Chart 1.9***




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

***Chart 1.10***




**Composition of outstanding Fiscal Liabilities as on 31-03-2014**

The overall fiscal liabilities of the government increased from ₹ 40265 crore at the end of 31 March 2013 to ₹ 44673 crore by the end of 31 March 2014. As a percentage of GSDP, the stock of accumulated fiscal liabilities declined from 51.9 *per cent* at end of 2012-13 to 51.2 per cent at end of 2013-14. At end of 2013-14, the accumulated

liabilities were 1.65times of the government's revenue receipts during 2013-14 and 4.88 times government's own tax and non-tax revenues during 2013-14.

### *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 1.25** shows movement of closing balances in various reserve funds as on 31st March 2014. The cumulative aggregate balance in these funds as at the end of 31 March 2014 was ₹ 2,007 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 1.25**
**Trend in year-end Closing Balances under Reserve Funds**

*(₹in crore)*

| RESERVE FUNDS | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|---|
| **Reserve Funds Bearing interest** | | | | | | |
| **Calamity Relief Fund (now State Disaster Response Fund)** | 379 | 438 | 427 | 470 | 526 | 882 |
| ***Total - Reserve Fund Bearing Interest*** | ***379*** | ***438*** | ***427*** | ***470*** | ***526*** | ***882*** |
| **Reserve Funds Not Bearing interest** | | | | | | |
| **Calamity Relief Fund (now State Disaster Response Fund)** | 28 | 28 | 28 | 28 | 28 | 28 |
| **Sinking fund** | -2 | -2 | - | - | 32 | 61 |
| **Famine Relief Fund** | 9 | 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 | 574 |
| **Depreciation and Renewal Reserve Funds of Govt. Non-Commercial Deptts.** | 73 | 73 | 73 | 73 | 73 | 73 |
| **Development Fund for Agricultural Purposes** | 39 | 39 | 39 | 39 | 39 | 41 |
| **Co-operative Development Funds** | 0 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Constituency Development Funds** | 38 | 53 | 50 | 78 | 95 | 95 |
| **Other Development and Welfare Funds** | 24 | 34 | 42 | 73 | 104 | 104 |
| **General Insurance fund (Janta Insurance)** | 14 | 16 | 21 | 23 | 71 | 68 |
| **Guarantee Redemption Fund** | 1 | 4 | 5 | 5 | 5 | 6 |
| **Other Funds** | 35 | 36 | 41 | 46 | 50 | 67 |
| ***Reserve Funds Not Bearing interest*** | ***836*** | ***866*** | ***881*** | ***948*** | ***1,079*** | ***1,126*** |
| **Total -Reserve Funds** | **1,215** | **1,305** | **1,308** | **1,419** | **1,605** | **2,008** |
| **Of which balances invested** | | | | | | |
| ***Investments from State Disaster Response Fund*** | *11* | *11* | *11* | *11* | *11* | *11* |

### *1.10.4 Contingent liabilities*

#### *1.10.4.1 Status of Guarantees*

Guarantees are liabilities contingent on 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 could be extended by the State and outstanding guarantees for the last five years is tabulated in **Table 1.26**.

**Table-1.26**
**Guarantees given by the State government**

*(₹in crore)*

| Guarantees | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Outstanding amount of guarantees** | 3037 | 2708 | 2098 | 611 | 2714 |

The FRBM Act, 2006 enjoins upon the State government 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 2013-14 aggregated ₹ 2714 crore which waslesser than the maximum guaranteeable limit of ₹5816.85 crore (7.5% of the GSDP of the preceding year) and thus was 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 Government. The fund had a balance of ₹ 5.20 crore ending March 2013.₹ one crore was credited from the consolidated fund of the State during 2013-14 but no guarantee fee was

collected.As per Finance Accounts 2013-14, an amount of ₹0.40 crore is collectable as guarantee fee.

## 1.11 Debt management

### *1.11.1 Debt profile*

**Table 1.27** shows the outstanding public debt and other liabilities in last five years, showing the liabilities as *per cent* of GSDP and per capita.

**Table 1.27**
**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*) |
|---|---|---|---|
| **2009-10** | 28,735 | 48,385 | 59.4 |
| **2010-11** | 31,272 | 56,976 | 54.9 |
| **2011-12** | 36,267 | 65,979 | 55.0 |
| **2012-13** | 40,265 | 77,558 | 51.9 |
| **2013-14** | 44,673 | 87,319 | 51.2 |

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*

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[5], net availability of borrowed funds[6], 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 1.28**.

**Table 1.28**
**Debt Sustainability: Indicators and Trends**

| Indicators of Debt Sustainability | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Debt Stabilization (Quantum Spread +/- Primary Deficit)** | (-) 1328 | 703 | 843 | 1497 | 814 |
| **Sufficiency of Non-debt Receipts (Resource Gap) (₹ in crore)** | 3285 | 4646 | 2549 | 1434 | 911 |
| **Net Availability of Borrowed Funds (₹ in crore)** | 2310 | 254 | 2612 | 1291 | 1406 |
| **Burden of Interest Payments ( Interest Payment to Revenue Receipts Ratio)** | 0.12 | 0.10 | 0.09 | 0.10 | 0.11 |

With the retirement of high cost overdraft in 2010-11 whichthe Government had with the Jammu and Kashmir Bank Limited,through the special grant of ₹ 1000 crore from the Union Government, the debt burden of the State hadmoderated.But increase in primary deficit from ₹ 1311 crore during 2011-12 to ₹ 1553 crore during 2013-14 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

[5] 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.

[6] 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.

go up if in the market perception the Government debt is not sustainable. **Table 1.29** summarises key debt sustainability indicators in the context of market loans.

**Table 1.29**
**Key debt sustainability indicators in the context of market loans**

*(₹in crore except where per cent specified)*

| Description | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 | 2013-14 |
|---|---|---|---|---|---|
| Total liabilities | 28,735 | 31,272 | 36,267 | 40,265 | 44,673 |
| Total Public Debt (year end) | 18,592 | 19,867 | 22,691 | 24,635 | 26,490 |
| Total market loans (year-end) | 8,183 | 11,298 | 13,956 | 15,510 | 17,205 |
| Percentage of market loans to total liabilities (*per cent*) | 28.5 | 36.1 | 38.5 | 38.5 | 38.5 |
| Percentage of market loans to total public debt (*per cent*) | 44.0 | 56.9 | 61.5 | 63.0 | 65.0 |
| Weighted average interest rate on market loans (*per cent*) | 3.04 | 2.34 | 7.32 | 8.00 | 7.88 |
| Interest paid on market loans | 234 | 228 | 927 | 1178 | 1289 |
| GSDP at current market prices | 48,385 | 56,976 | 65,979 | 77558 | 87319 |
| GSDP growth rate (*per cent* per annum) | 14.3 | 17.8 | 15.8 | 17.55 | 12.59 |
| Average Interest Rate on market loans/ GSDP growth rate (*per cent*) | 21 | 13 | 46 | 46 | 63 |
| Revenue Receipts | 17,588 | 22,234 | 24,783 | 26,217 | 27,128 |
| Total Interest Payment | 2,139 | 2,283 | 2,383 | 2,707 | 3,001 |
| Interest payments to Revenue Receipts (*per cent*) | 12.2 | 10.3 | 9.6 | 10.3 | 11.06 |
| Primary Deficit | 1,850 | 84 | 1,311 | 1,510 | 1,553 |
| Total liabilities as *per cent* of GSDP | 59.39 | 54.89 | 54.97 | 51.92 | 51.16 |
| Outstanding guarantees | 3,037 | 2,708 | 2,098 | 611 | 2,714 |
| Revenue Surplus | 2,264 | 3,767 | 2,103 | 1,100 | 70 |
| Fiscal Deficit | 3,989 | 2,367 | 3,694 | 4,216 | 4,554 |

Note: As per the definition of the term 'total liabilities', off budget borrowings through public sector undertakings are also required to be included. However, these are not included in the figures shown above for want of information.

As can be seen from above table, the total liabilities of the state have increased from ₹28735 crore in 2009-10 to ₹44673 crore in 2013-14. Of the increase of total liabilities of ₹15938 crore as much as ₹9022 crore was through market loans. The percentage of market loans to total public debt which was 44 per cent in 2009-10 rose to as much as 65 per cent by 2013-14. This shows that the dependence of the Government on high interest rate bearing market loans was on increasing trend to fund its expenditures instead of improving states own revenue resources to generate developmental funds.

## 1.12 Fiscal imbalances

Three fiscal parameters- Revenue, Fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of State government during the specified period. The nature of deficit is an indicator of the prudence of fiscal management of the Government. 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*

**Table 1.30** gives time series data on the four deficits and total liabilities during 2009-14.

**Table-1.30**

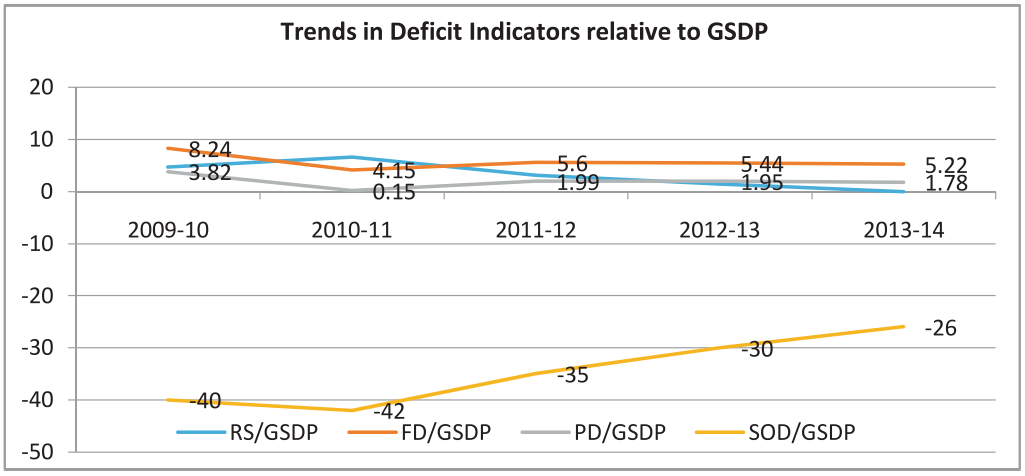
*(₹ in crore)*

| Fiscal indicator | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|
| **Fiscal Liabilities** | 28735 | 31272 | 36267 | 40265 | 44673 |
| **Revenue surplus** | 2264 | 3767 | 2103 | 1100 | 70 |
| **Fiscal deficit** | 3989 | 2367 | 3694 | 4216 | 4554 |
| **Primary deficit** | 1850 | 84 | 1311 | 1510 | 1553 |
| **State's Own Deficit** | 17576 | 19955 | 21832 | 22348 | 22543 |

The above table show that the State has continued to maintain revenue surplus during the period 2009-14 but the surplus declined sharply in 2013-14.The fiscal deficit increased from ₹3839 crore in 2009-10 to ₹4554 crore in 2013-14 and the primary deficit decreased from ₹1850 crore to ₹1553 crore during the same period. The States own deficit also increased from ₹17576 crore to ₹22543 crore during 2009-14.

**Charts 1.11** present the trends in key deficit indicators related to GSDP over the period 2009-14.

**Chart-1.11**




### *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 1.31**.

**Table1.31**
**Components of fiscal deficit and its financing pattern**

*(₹in crore)*

| Particulars | | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|---|
| **Source of Financing the Capital Expenditure and Fiscal Deficit** | | | | | | |
| **1** | **Capital Expenditure** | 6234 | 6064 | 5899 | 5224 | 4507 |
| **2** | **Loans and Advances** | 49 | 72 | 66 | 93 | 121 |
| | **Financed through** | | | | | |
| **1** | **Revenue Surplus** | 2264 | 3767 | 2102 | 1100 | 70 |
| **2** | **Non-Debt Capital Receipts** | 2 | 1.5 | 168 | 2 | 4 |
| **3** | **Fiscal Deficit** | 3989 | 2367 | 3,694 | 4,216 | 4554 |
| **Financing Pattern of Fiscal Deficit** @ | | | | | | |
| **1.** | **Market Borrowings** | 2113 | 2386 | 2954 | 2,008 | 1919 |
| **2.** | **Loans from GOI** | (+) 805 | (-) 1112 | (-)129 | (-)64 | (-)64 |
| **3.** | **Small Savings, PF etc.** | 693 | 1203 | 2070 | 1,689 | 1990 |
| **4.** | **Deposits and Advances** | 1544 | 59 | (-) 27 | 189 | 158 |
| **5.** | **Suspense and Miscellaneous** | (-) 162 | 168 | 186 | (-) 31 | (-) 48 |
| **6.** | **Remittances** | (-) 292 | (-) 307 | (-) 627 | (-) 615 | 1169 |
| **7.** | **Reserve funds** | 90 | 3 | 126 | 170 | 403 |
| **8.** | **Net amount recouped to contingency fund** | - | - | - | | - |
| **9.** | **Drawdown of cash balance (+)/Accretion to cash balance (-)** | 4 | (-) 33 | (-) 861 | 870 | (-)972 |
| *@ All these figures are not 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 Provident Fund accounts of employees by the government.

The revenue surplus decreased by ₹ 1030 crore in 2013-14 over the previous year which resulted in decrease in capital expenditure by ₹ 717 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, Remittances & Reserve 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 2013-14shows**(Table-1.32)** 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 2013-14. 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 1.32**
**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) |
| **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 |
| **2013-14** | 27,128 | 24,027 | 4,507 | 121 | 28,655 | 16 | (+)3101 | (-)1527 |

It may be seen from the table above that the Non debt receipts of the State were higher than the primary revenuesurplus which was sufficient to meet this expenditure due to considerable support from the Central Government. The total primary expenditure increased from ₹19468 crore in 2009-10 to ₹28655 crore in 2013-14 which was due to increase of primary revenue expenditure by ₹13842 crore and Capital expenditure by ₹1727 crore, while as Primary Revenue Surplus decreased

from ₹4433 crore in 2009-10 to ₹3101 crore in 2013-14. The primary deficit however, decreased from ₹1850crore during 2009-10 to ₹1527 crore during2013-14.

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

Jammu and Kashmir Fiscal Responsibility and Budget Management (FRBM) Act was enacted on 14 August 2006to be effective from 2006-07.The principal objective of the Act was reducing the fiscal deficit to three *per cent* of GSDP by 2009-10 besides it cast several other fiscal transparency obligations on the State government. Essential obligations cast on the Government under the FRBM Act, amendments made to it and its implementation are detailed in **Appendix 1.7& Appendix 1.8** respectively.

### *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.
- **Table 1.33** summarises the targets for fiscal liabilities and fiscal deficit set by the ThFC and actual outcomes, as computed from accounts.

**Table 1.33**
**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 |
|---|---|---|---|---|
| *Fiscal Deficit – 13th Finance Commission target/projection* | 5.3 | 4.7 | 4.2 | 3.6 |
| *Fiscal Deficit computed as per FRBM Act in accounts* | 5.0 | 5.9 | 5.5 | 5.2 |
| *Fiscal Liabilities – 13th Finance Commission target/projection* @ | 56.10 | 55.10 | 53.6 | 51.6 |
| *Fiscal Liabilities – Government accounts* @ | 54.89 | 54.97 | 51.92 | 51.2 |
| *Total Liabilities (including liabilities of PSUs etc) as per FRBM Act* | 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.

**Table 1.34** comparesthe actual fiscal outcomes during 2010-11, 2011-12, 2012-13 and 2013-14 as compared to the State-specific projections made by the 13th Finance Commission:

**Table 1.34**
**13th Finance Commission's projections and actual fiscal outcomes**

***(₹ in crore)***

| Key Aggregates | 2010-11 | | 2011-12 | | 2012-13 | | 2013-14 | |
|---|---|---|---|---|---|---|---|---|
| | 13th FC projec-tion | Actual | 13th FC projec-tion | Actual | 13th FC projec-tion | Actual | 13th FC projec-tion | Actual |
| **GSDP** | 48,206 | 56,976 | 53,677 | 65,979 | 59,849 | 77,558 | 66,732 | 87319 |
| **Own Revenue Receipts** | 4,228 | 4,576 | 4,713 | 6,747 | 5,259 | 7,993 | 5,882 | 9143 |
| **State's Own Tax Revenue** | 3,889 | 3,483 | 4,330 | 4,745 | 4,822 | 5,833 | 5,384 | 6273 |
| **State's Own Non Tax Revenue** | 339 | 1,093 | 383 | 2,002 | 431 | 2,160 | 498 | 2870 |
| **State's share in Union Taxes/Duties** | 2,837 | 3,067 | 3,328 | 3,495 | 3,925 | 3,870 | 4630 | 4142 |
| **Non-Plan Revenue Expenditure** | 11,005 | 17,558 | 11,706 | 21,432 | 12,539 | 23,561 | 13,393 | 25219 |
| **Salaries** | 5,366 | 9,529 | 5,550 | 9,802 | 5,736 | 10,298 | 5,924 | 10843 |
| **Pension** | 1,812 | 2,242 | 1,993 | 3,297 | 2,192 | 3,463 | 2,411 | 3592 |
| **Interest Payment** | 1,863 | 2,283 | 2,054 | 2,383 | 2,240 | 2,707 | 2,420 | 3001 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Pre- Devolution Non-Plan Revenue Deficit** | 6,777 | 12,982 | 6,993 | 14,685 | 7,280 | 15,568 | 7,511 | 16076 |
| **Post-Devolution Non-Plan Revenue Deficit** | 3940 | 4836 | 3665 | 7151 | 3355 | 8074 | 2,881 | 8845 |
| **Fiscal Liabilities as *Per cent* of GSDP** | 56.1 | 54.89 | 55.1 | 54.97 | 53.6 | 51.92 | 51.6 | 51.2 |
| **Fiscal Liabilities** | 27,044 | 31,272 | 29,576 | 36,267 | 32,079 | 40,265 | 34,434 | 44673 |

## 1.14 Conclusion

The State being a special category State had high level of share in Central taxes and grants from the Central government. The States' dependence on central resources has been steadily declining. It came down from 63 *per cent* in 2009-12 to 57 *per cent* in 2013-14. There was decline in the total plan capital expenditure from ₹4971 crore in 2012-13 to ₹4172 crore in 2013-14. States own tax revenue (SOTR) grew from₹3027 crore in 2009-10 to₹6273 crore in 2013-14.The expenditure on salaries, wages, pension and other post-retirement benefits, interest payments and power development departments' deficit was nearly 63.77 *per cent* of total expenditure, 80.12 per cent of non-plan revenue expenditure and 221 *per cent* of States own revenue in 2013-14.

Targets for collection of power departments' tariff were not achieved. The shortfall in collection of revenue was ₹1308 crore vis-a-vis targets and shortfall vis-a-vis expenditure on power purchased was ₹2205 crore. Government did not present a time bound action plan to recover minimum of 50 *per cent* of service charges after accounting for operation and maintenance expenses from the users as recommended by the 13$^{th}$ Finance Commission.

The dependence of the Government on high interest rate bearing market loans to fund its expenditures was on increasing trend instead of improving States own revenue resources to generate developmental funds. The Development Capital Expenditure registered a persistent decreasing trend from 2009-10 to 2013-14 indicating that the developmental works were getting inadequate resources.There were 267 projects/ works costing ₹ one crore or above which had overshot their scheduled completion dates. An amount of ₹832.44 crore had been expended on these incomplete projects by 31 March 2014. The State could not match the targets of fiscal deficit recommended by the 13$^{th}$ Finance Commission and of the FRBM Act. The actual fiscal deficit was 5.9, 5.5 and 5.2 *per cent* against targeted fiscal deficit of 4.7, 4.2 and 3.6 *per cent* of GSDP of respective years during 2011-12, 2012-13 and 2013-14.

## 1.15 Recommendations

The Government may consider:

(i) to prepare a time bound action plan to achieve the goal of recovery of at least 50 *per cent* of service charges from users as recommended by the 13th Finance Commission; and

(ii) to analyse the reasons for delays in completion of projects and take adequate steps for their completion to achieve the intended benefits.