Finances of the State Government

Mizoram is a mountainous region and is situated in the north-east of India. It has a pleasant climate and is also very rich in flora and fauna. It became the 23rd State of the Indian Union on 20 February, 1987. It has an area of 21,081 sq. km., being bounded on the north by the State of Assam and Manipur, on the west by Bangladesh and State of Tripura, on the east and south by Myanmar (Burma) and has an international boundary with Myanmar and Bangladesh. The State has eight districts with 26 Blocks and 23 sub-divisions and three Autonomous District Councils. According to the 2001 Census, Mizoram has a population of 8,88,573 of which 4,59,109 are males and 4,29,464 females. The literacy rate for the State is 88.80 *per cent* (2001 census). The State has only one airport at Lengpui which is 30 km away from the capital city, Aizawl.

GSDP of the State registered a lesser growth of 20.91 *per cent* in 2009-10 as against a growth of 22.23 *per cent* in 2008-09. The Compounded Annual Growth Rate (CAGR) of the State during 2000-09 was 10.06 *per cent*, which was lower than that of NE States (11.81 *per cent*). However, the CAGR of GSDP for 2000-10 improved to 13.70 *per cent*.

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

1.1 Summary of Current Year's Fiscal Transactions

Table-1.1 presents the summary of the State Government's fiscal transactions during the current year (2009-10) *vis-à-vis* the previous year while Appendix-1.2 provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table-1.1: Summary of Current Year's Fiscal Operations (2009-10)

(₹ in crore)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
					Non Plan	Plan	Total
Section-A: Revenue							
2653.13	**Revenue receipts**	**2963.51**	**2313.80**	**Revenue expenditure**	**1805.35**	**897.35**	**2702.70**
94.62	Tax revenue	107.58	803.75	General services	925.47	22.20	947.67
158.67	Non-tax revenue	126.51	898.19	Social services	496.72	608.96	1105.68
383.39	Share of Union Taxes/ Duties	394.53	611.86	Economic services	383.16	266.19	649.35
2016.45	Grants from Government of India	2334.89	--	Grants-in-aid and Contributions	--	--	--
Section-B: Capital							
--	**Misc. Capital Receipts**	--	**441.04**	**Capital Outlay**	**107.37**	**465.43**	**572.80**
24.86	**Recoveries of Loans and Advances**	**25.31**	**17.41**	**Loans and Advances disbursed**	--	--	**24.94**
105.77	**Public Debt receipts**	**225.89**	**96.29**	**Repayment of Public Debt**	--	--	**365.33**
--	**Contingency Fund**	--	--	**Contingency Fund**	--	--	--
1500.75	**Public Account receipts**	**2463.30**	**1480.05**	**Public Account Disbursement**	--	--	**2504.71**
239.77	**Opening Cash Balance**	**175.69**	**175.69**	**Closing Cash Balance**	--	--	**(-)316.78**
4524.28	**Total**	**5853.70**	**4524.28**	**Total**	--	--	**5853.70**

The followings are the significant changes during 2009-10 over the previous year:

- **Revenue receipts** increased to ₹ 2,963.51 crore in 2009-10 from ₹ 2,653.13 crore in 2008-09 (11.70 *per cent*), mainly due to increase in Grants-in-Aids (₹ 318.44 crore). Non-tax revenue, however, decreased from ₹ 158.67 crore in 2008-09 to ₹ 126.51 crore in 2009-10 (20.27 *per cent)*. The revenue receipt (₹ 2,963.51 crore) was, however, lesser by ₹ 45.70 crore (1.52 *per cent)* than the assessment of the State Government in its Fiscal Correction Path (FCP) (₹ 3,009.21 crore).

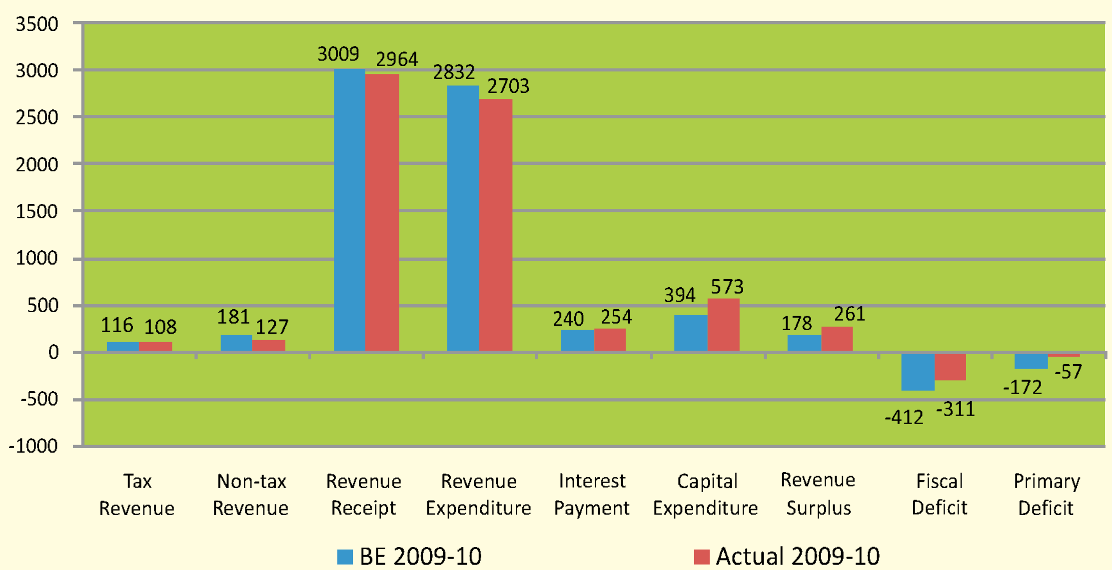
- **Revenue expenditure and Capital expenditure** increased by ₹ 388.90 crore (16.81 *per cent*) and ₹ 131.76 crore (29.87 *per cent*) respectively over the previous year. Revenue expenditure was lower by ₹ 129 crore (4.56 *per cent*) than the assessment made by the

State Government in its FCP (₹ 2,831.69 crore). However, Capital expenditure was higher by ₹ 179 crore (45.43 *per cent*) than the projection made by the State Government in its FCP (₹ 393.87 crore).

- **Disbursement of Loans and Advances** increased by ₹ 7.53 crore (43.25 *per cent*) while recoveries of the same, increased by ₹ 0.45 crore (1.81 *per cent*) over the previous year.
- **Public Debt receipts and repayment** increased by ₹ 120.12 crore (113.57 *per cent*) and ₹ 269.04 crore (279.41 *per cent*) respectively over the previous year.
- **Public Account receipts and disbursements** increased by ₹ 962.55 crore (64.14 *per cent*) and ₹ 1,024.65 crore (69.23 *per cent*) over the previous year.
- **Cash balance** of the State decreased by ₹ 492.47 crore (280.30 *per cent*) over the previous year, as a result, the investment from cash balances has been decreased from ₹ 175.69 crore in 2008-09 to ₹ (-) 266.48 crore in 2009-10.

The Chart below presents the budget estimates and actuals for some important fiscal parameters during 2009-10.

Chart -1.1: Selected Fiscal Parameters: Budget Estimates *vis-a-vis* Actuals



The above chart depicts that revenue receipts decreased by ₹ 45 crore over the estimated amount of ₹ 3,009 crore. Revenue expenditure was ₹ 2,703 crore during 2009-10 against the estimated amount of ₹ 2,832 crore. Against the estimation of revenue surplus of ₹ 178 crore, there was revenue surplus of ₹ 261 crore during 2009-10. There was fiscal deficit of ₹ (-) 311 crore and primary deficit of ₹ (-) 57 crore during 2009-10 against the estimated fiscal deficit of ₹ (-) 412 crore and primary deficit of ₹ (-) 172 crore respectively.

1.2 Fiscal Responsibility and Budget Management (FRBM) Act, 2006

According to Mizoram Fiscal Responsibility and Budget Management (MZFRBM) Act, 2006, the State Government envisaged to:

(1) eliminate Revenue deficit by the end of 2008-09 to zero *per cent*

(2) reduce Fiscal deficit to 3 *per cent* of the estimated GSDP by 2008-09 which was amended in 2009 to achieve the target by 2009-10 and again amended in 2010 to reduce fiscal deficit to 3 *per cent* of GSDP by 2014-15

(3) ensure that total outstanding debt, excluding Public Account and Risk Weighted Outstanding Guarantees in a year shall not exceed twice of the estimated receipt in the Consolidated Fund of the State at the close of the financial year

As per recommendation of the Twelfth Finance Commission, the Mizoram Fiscal Responsibility and Budget Management (MZFRBM) Act, 2006, the State Government prepares a Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets, each year for placement in the State Assembly.

The performance of the State during 2009-10 in terms of Fiscal targets fixed for selected variables laid down in the FRBM Act, MTFPS and the Fiscal Correction Path (FCP) *vis-à-vis* achievement is given in the table below:

Table-1.2: Trends in Major fiscal parameters/variables *vis-à-vis* projections for 2009-10

(₹ in crore)

Fiscal variables	Targets as per FRBM Act	Projections made in		Actual
		FCP	MTFPS	
Revenue Surplus	Revenue deficit targeted at 0.00 (by 31.03.09)	178	178	261
Fiscal Deficit	3 *per cent* of GSDP by 2008-09 which was amended in July, 2009 to achieve the target by 2009-10 and was further amended in October, 2010 to achieve the target by 2014-15	(-) 412	(-) 412	(-) 311
Fiscal Deficit/GSDP (*per cent*)	3 *per cent* of GSDP (by 31.03.15)	(-) 8.46	(-) 8.46	(-) 5.54
State's Outstanding Liabilities	Not to exceed twice the estimated receipt in the Consolidated Fund of the State at the close of the financial year i.e. ₹ 6018 crore	3368	3368	3628
Salary expenditure	35 *per cent* of revenue expenditure net of interest payment and pension as per TFC recommendation i.e. ₹ 800 crore	1035	1035	1079

The above table reveals that the State Government achieved the target of revenue deficit well before the targeted period by achieving revenue surplus in the last 5 years. However, the Government should endeavor to increase the revenue surplus in the coming years to minimize the resource gap.

The Fiscal deficit during the current year could not be kept within the limit set in the MZFRBM Act. The fiscal deficit in 2009-10 was ₹ 311 crore which was ₹ 101 crore less than the assessment made in the FCP (₹ 412 crore). However, the fiscal deficit increased to ₹ 311 crore in 2009-10 from ₹ 94 crore in 2008-09. The increase in Fiscal deficit in the current year was mainly due to increase in Revenue expenditure (₹ 389 crore) and Capital expenditure (₹ 132 crore) partially offset by increase in Revenue receipt (₹ 311 crore) over the previous year. With that in view, the Government should pursue a policy of reducing revenue expenditure so as to confine the stiff increase of Fiscal deficit.

While the State's outstanding liabilities (₹ 3,628 crore) in 2009-10 was within prescribed limit of MZFRBM Act (₹ 6,018 crore), it was more than assessment in FCP (₹ 3,368 crore). The State's outstanding liabilities increased by ₹ 14 crore (0.39 *per cent*) in the current year over 2008-09; and the State Government should adopt conscious efforts to slowly move to efficient management of debt by taking initiative for repayment of high cost loans at manageable interest.

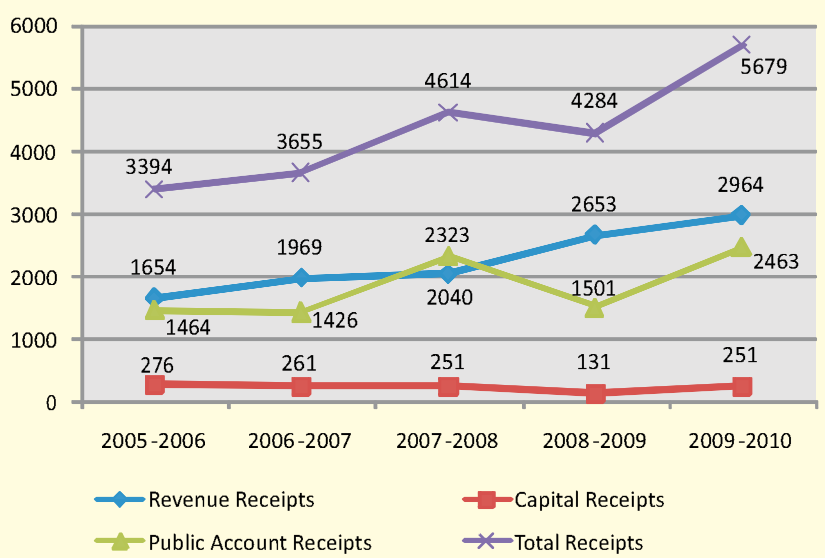
The State Government could not contain the level of salary expenditure (₹ 1,079 crore) at 35 *per cent* of revenue expenditure net of interest payment and pension as envisaged in the TFC recommendation and stood at 47 *per cent* of revenue expenditure net of interest payment and pension. The relatively higher level of salary expenditure is a major concern for the State Government. The State Government should endeavor to keep the salary expenditure within the prescribed limit to maintain fiscal sustainability.

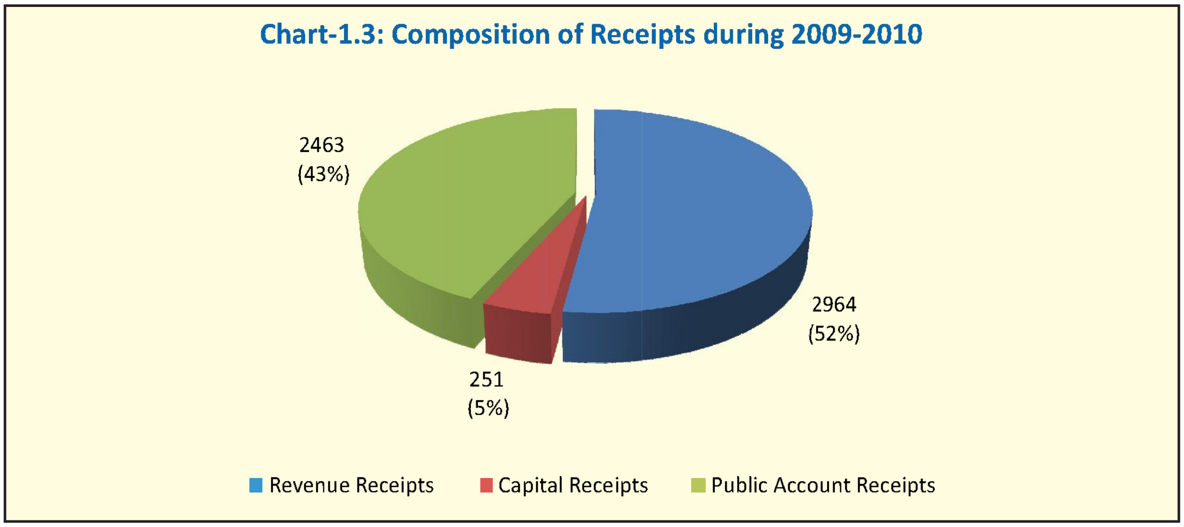
1.3 Resources of the State

1.3.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the GOI as well as accruals from Public Account. Table-1.1 presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while Chart-1.2 depicts the trends in various components of the receipts of the State during 2005-10. Chart-1.3 depicts the composition of resources of the State during the current year.

Chart-1.2: Trends in Receipts





The total receipts of the State Government for 2009-10 was ₹ 5,679 crore of which ₹ 2,964 crore (52 *per cent)* came from revenue receipts and balance (48 *per cent*) from borrowings and Public Account and Capital Receipts.

The share of revenue receipt of the State to total receipts increased from 49 *per cent* in 2005-06 to 52 *per cent* in 2009-10. On the other hand, the Capital Receipts together with Public Account receipts ranged from 38 *per cent* to 56 *per cent* of total receipts during 2005-10. Revenue receipts increased steadily by 79 *per cent* from ₹ 1,654 crore in 2005-06 to ₹ 2,964 crore in 2009-10, whereas the Capital receipts which create future repayment obligation with inter year fluctuation decreased from ₹ 276 crore (eight *per cent* of total receipts) in 2005-06 to ₹ 131 crore (three *per cent* of total receipts) in 2008-09 and again increased to ₹ 251 crore (four *per cent*) in 2009-10. The Public Account receipts showed inter year variation ranging from 35 *per cent* to 50 *per cent* to total receipt during 2005-10 and stood at 43 *per cent* in the current year.

The Revenue Buoyancy decreased from 1.35 *per cent* in 2008-09 to 0.56 *per cent* in 2009-10. The Capital Buoyancy increased from (-) 2.16 *per cent* in 2008-09 to 4.38 *per cent* in 2009-10. The Public Account buoyancy[1] increased from (-) 1.59 *per cent* in 2008-09 to 3.64 *per cent* in 2009-10.

1.3.2 Funds Transferred to State Implementing Agencies outside the State Budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies for the implementation of various schemes/programmes in social and economic sectors recognized as critical. As these funds are not routed through the

[1] Definition included in Appendix-1.1, Part-C.

State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, an attempt was made in audit and scheme wise funds directly transferred to State implementing agencies were obtained from nine schemes as detailed in Table-1.3.

Table-1.3: Funds Transferred Directly to State Implementing Agencies

(₹ in crore)

Sl. No.	GoI Scheme (Percentage sharing of funds between Centre and State)	Implementing Agency	GoI released fund 2009-10
1	Accelerated Rural Water Supply Programme	Public Health Engineering Department	53.35
2	National Social Assistance Programme	Social Welfare Department	5.78
3	Integrated Child Development Scheme	Social Welfare Department	15.70
4	Sarva Shikhsa Abhiyan	Mizoram Sarva Shiksha Abhiyan Mission	85.12
5	Jawaharlal Nehru National Urban Renewal Mission	Urban Development and Poverty Alleviation Department	47.17
6	National Rural Health Mission	Health Services	32.14
7	National Rural Employment Guarantee Scheme	Rural Development	276.97
8	Indira Awas Yojana	Rural Development	18.53
9	Backward Region Grant Fund	Rural Development	21.33
10	Capacity Building Project, SWAN	Information and Communication Technology	0.28
11	Pradhan Mantri Gram Sadak Yojana	Public Works Department	44.57
12	MMA, ISOPOM & ATMA – 90:10	Agriculture Department	1.22
13	Rajiv Gandhi Grameen Vidyutikaran Yojana	Power Department	81.03
Total			**683.19**

Source: Finance Accounts – 2009-10

The GOI directly transferred to State Implementing Agencies an amount of ₹ 683.19 crore in 2009-10. Thus, with the transfer of ₹ 683.19 crore by GOI to State Implementing Agencies, the total availability of State resources increased from ₹ 5,678.50 crore to ₹ 6,361.69 crore in 2009-10.

Funds transferred directly from the Union Government to the State Implementing Agencies run the risk of poor oversight and therefore, unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers. It also inhibits the Fiscal Responsibility and Budget Management (FRBM) requirement of transparency in fiscal operations and thus bypasses accountability.

1.4 Revenue Receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from the GOI. The trends and composition of revenue receipts over the period 2005-10 are presented in Appendix-1.4 and also depicted in Chart-1.4 and 1.5 respectively.

Chart-1.4: Trends in Revenue Receipts

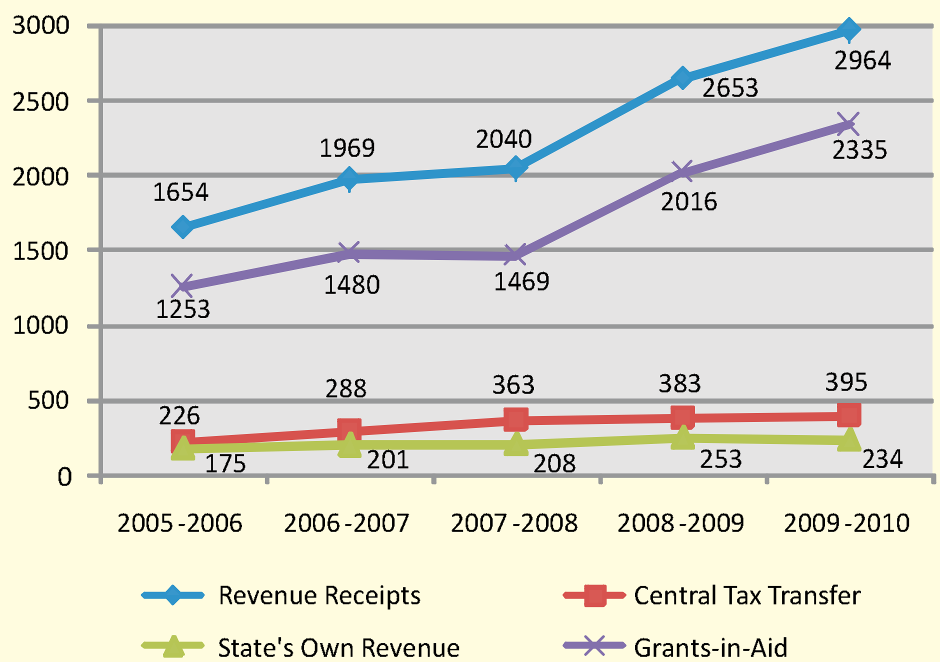
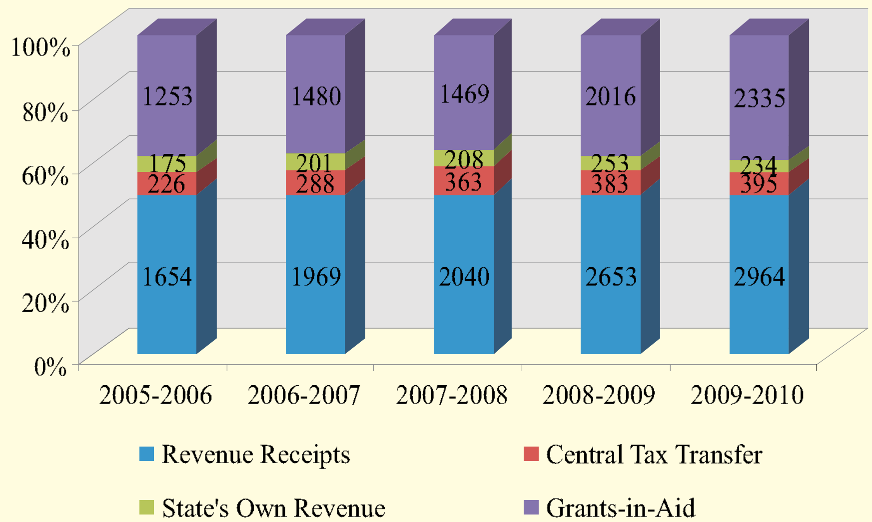


Chart-1.5: The Composition of Revenue Receipts during 2005-10



The Compounded Annual Growth Rate (CAGR) of revenue receipts for Mizoram between 2000-01 and 2008-09 was 15.66 *per cent* which is higher than the average of NE States (14.87 *per cent*). However, the CAGR during 2000-10 dropped to 15.22 *per cent* requiring special attention of the Government for generating more revenue receipts.

The Revenue receipts of the State increased from ₹ 1,654 crore in 2005-06 to ₹ 2,964 crore in 2009-10 at an annual average rate of 16 *per cent*, while eight *per cent* of the Revenue receipts (₹ 2,964 crore) during 2009-10 have come from State's own resources (₹ 234 crore), central tax transfers and grant-in-aid together contributed about 92 *per cent*.

Tax Revenue:- The percentage of tax revenue to total revenue receipts ranged between three and four *per cent* during 2005-10. The tax revenue has increased by ₹ 13 crore (13.68 *per cent*) from ₹ 95 crore in 2008-09 to ₹ 108 crore in 2009-10. The increase in tax revenue during 2009-10 over previous year was mainly due to increase in Sales tax (₹ 8.43 crore).

Non-Tax Revenue:- Non-tax revenue constituted four *per cent* of total revenue receipts and decreased by ₹ 32 crore during 2009-10 recording a negative growth rate of 20.12 *per cent* over the previous year. The decrease in non-tax revenue during 2009-10 over previous year was mainly due to decrease in realisation of interest receipts (₹ 15 crore) and other receipts (₹ 24 crore).

Debt waiver under Debt Consolidation and Relief facilities:- The Twelfth Finance Commission has framed a scheme of debt relief of Central loans named debt Consolidation and Relief Facility based on fiscal performance of the State linked to the reduction of deficits of the States. Under the scheme, the repayments due on Central loans from 2005-06 to 2009-10, after consolidation and reschedulement of loans, will be eligible for write off. The amount sanctioned by GOI as debt relief each year will be adjusted by showing repayment of Central loans and crediting the amount to the head of account ‘0075-Miscellaneous receipts’. The States will be eligible for the benefit subject to fulfillment of certain conditions, *viz.* Legislating FRBM Act, gradual abolition of revenue deficit by 2008-09, bringing annual reduction targets for fiscal deficit, bringing out the Annual Fiscal Policy Statement etc. As assessed by the TFC, in the case of Mizoram, the amount of repayment due for the period 2005-10 after consolidation and reschedulement was ₹ 67.85 crore. The ratio of total repayment to average revenue deficit (2001-02 to 2003-04) is 0.51 by which repayments will be written off for every rupee reduction in revenue deficit. Thus, the annual repayment due was ₹ 13.57 crore. During the period 2005-10, GOI sanctioned ₹ 12.93 crore as debt relief for Government of Mizoram, as detailed below.

Table-1.4: Debt Relief due and received during the period 2005-10

(₹ in crore)

Year	Debt relief due as per TFC recommendations	Debt relief sanctioned by the Central Government
2005-06	13.57	0.00
2006-07	13.57	12.93
2007-08	13.57	0.00
2008-09	13.57	0.00
2009-10	13.57	0.00
Total	**67.85**	**12.93**

Thus, due to non-fulfillment of the conditionalities for receiving the debt relief, the State Government failed to receive an amount of ₹ 54.92 crore as debt relief during the period 2005-10.

Central Tax Transfer:- Central tax revenue increased by ₹ 12 crore from ₹ 383 crore in 2008-09 to ₹ 395 crore in 2009-10 and constituted 13.32 *per cent* of revenue receipts during the year. The increase was mainly due to increase in transfer of corporation tax (₹ 36 crore) and Taxes on Income other than Corporation Tax (₹ 12 crore) which was partly offset by decrease in Customs (₹ 18 crore) and Union Excise Duties (₹ 20 crore).

Grants-in-aid:- Grants-in-aid from the GOI increased by ₹ 319 crore (16 *per cent*) from ₹ 2,016 crore in 2008-09 to ₹ 2,335 crore in 2009-10 mainly due to increases in grants for Other Plan Grants (₹ 425 crore) which was partly offset by decrease in Non-plan Grants (₹ nine crore), grants for Centrally Sponsored Scheme (CSS) (₹ 63 crore), grants for special plan schemes (₹ 21 crore) and Grants for Central plan scheme (₹ nine crore).

The trends in revenue receipts relative to Gross State Domestic Product (GSDP) are presented in Table-1.5 below:

Table-1.5: Trends in revenue receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (₹ in crore)	**1654**	**1969**	**2040**	**2653**	**2964**
Rate of growth of RR (*per cent*)	10.12	19.04	3.61	30.05	11.72
RR/GSDP (*per cent*)	55.92	60.10	53.66	57.08	52.75
Buoyancy Ratios					
Revenue Buoyancy w.r.t. GSDP	0.94	1.77	0.22	1.35	0.56
State's Own Tax Buoyancy w.r.t. GSDP	3.49	2.20	0.92	0.98	0.66
Revenue Buoyancy with reference to State's own taxes	0.27	0.81	0.25	1.38	0.86
Note : Calculations are based on revised GSDP.					

The revenue receipts of the State grew by 11.72 *per cent* during 2009-10 over the previous year. However, both Revenue receipts and State's Own Tax increased at slower rate in the current year as compared with the growth of GSDP. This indicated that the flow of Revenue receipts did not commensurate with growth of the State's GSDP and such efforts to maintain a buoyant Revenue receipts *vis-à-vis* GSDP needs to be considered.

1.4.1 State's Own Resources

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

The performance of State in regard to mobilisation of its own resources *vis-à-vis* assessment made by the TFC and State Government in its FCP statements for 2009-10 were as under:-

Table-1.6: Tax Revenue and Non-tax Revenue *vis-à-vis* TFC/FCP

(₹ in crore)

Parameters	Assessment made by TFC	Fiscal Correction Path (FCP)	Actual
Tax Revenue	111.52	116.29	107.58
Non-tax Revenue	82.66	181.14	126.51

The above table indicates that tax revenue fell short by four *per cent* than the assessment made in the TFC and also it recorded a decrease of seven *per cent* than the assessment made in FCP. However, Non-tax revenue increased by 53 *per cent* over the assessment made in the TFC but decreased by 30 *per cent* over the assessment made in the FCP.

(a) Tax Revenue

The Compounded Annual Growth Rate of Own Tax Revenue for NE States between 2000-01 and 2008-09 was 15.15 *per cent* which was lower than that of Mizoram (26.50 *per cent*). However, the CAGR dropped to 25.01 *per cent* during 2000-10 requiring the State Government to revamp its tax administration.

The tax revenue has increased by ₹ 13 crore from ₹ 95 crore in 2008-09 to ₹ 108 crore in 2009-10. The tax revenue of the State increased from ₹ 55.05 crore in 2005-06 to ₹ 107.58 crore in 2009-10. The major contributors in the State's own tax during 2009-10 are sales tax ₹ 86 crore (80 *per cent* of tax revenue), taxes on vehicles ₹ 6.71 crore (6 *per cent* of tax revenue) and other taxes ₹ 8.29 crore (8 *per cent* of tax revenue). Collection of sales tax increased by ₹ 8.43 crore in 2009-10 over previous year; mainly due to increase of ₹ 9.26 crore in Receipt under State Sales Tax Act which was partly offset by decrease of ₹ two crore in Sale of motor spirits and lubricants. The sector wise components of Tax revenue is given below:

Table-1.7: Sector-wise component of tax revenue for the year 2005-10

(₹ in crore)

Name of component	Year				2009-10		
	2005-06	2006-07	2007-08	2008-09	BE	2009-10	Variation of Actual over BE (in *per cent*)
Sales Tax	41.59	53.72	62.04	77.51	96.93	85.94	(-) 11.34
State Excise	1.46	1.65	1.69	1.87	1.84	2.10	(+) 14.13
Taxes on vehicles	4.35	5.01	5.37	5.50	6.49	6.71	(+) 3.39
Land Revenue	1.59	0.73	1.48	1.63	1.68	2.76	(+) 64.29
Stamps & Registration fees	0.17	0.21	0.23	0.46	0.28	0.39	(+) 39.29
Taxes on Goods & Passengers	0.99	0.98	1.07	1.43	1.18	1.39	(+) 17.80
Other Taxes	4.90	5.32	5.65	6.22	7.89	8.29	(+) 5.07
Total	**55.05**	**67.62**	**77.53**	**94.62**	**116.29**	**107.58**	**(-) 7.49**

There was large variation between Actual figures and Budget Estimates on Sales tax. The Own Tax Revenue (OTR) of the State remained below the normative assessment made by TFC (₹ 111.52 crore) and below the projection of FCP (₹ 116.29 crore).

(b) Non-tax Revenue

Non-tax revenue on the other hand ranged from ₹ 120 crore in 2005-06 to ₹ 159 crore in 2008-09 and thereafter declined to ₹ 127 crore in 2009-10. The major contributors in State's non tax revenue during 2009-10 are Power (₹ 67.86 crore), interest receipts (₹ 17.85 crore) and other receipts under General Service (₹ 18.05 crore). The composition of non-tax revenue for the year 2005-10 is given below:

Table-1.8: Composition of non-tax revenue for the year 2005-10

(₹ in crore)

Name of component	Year				2009-10		
	2005-06	2006-07	2007-08	2008-09	BE	2009-10	Variation of Actual over BE (in *per cent*)
General Services	12.11	52.50	6.48	12.13	22.83	18.05	(-) 20.94
Social Services	6.69	7.78	8.80	8.25	10.03	9.60	(-) 4.29
Economic Services	94.34	64.35	99.42	105.38	142.11	81.00	(-) 43.00
Interest received and dividends & profits	6.94	8.76	15.60	32.91	6.17	17.85	(+) 189.30
Total	**120.08**	**133.39**	**130.30**	**158.67**	**181.14**	**126.50**	**(-) 30.16**

As can be seen from the above table, there was large variations between Actual figures and Budget Estimates; except under Social Services head. The large variation under Economic Services of (-) 43.00 *per cent* was due to less receipts over Budget provision mainly under Power (₹ 25.54 crore), Non-ferrous Mining and Metallurgical Industries (₹ 13.09 crore), Civil aviation (₹ 11.46 crore), Other agricultural programs (₹ 9.35 crore) and Road Transport (₹ 6.02 crore). The non-tax revenue was more than the normative assessment of the TFC but was less than the projection of FCP.

The Compounded Annual Growth Rate of Non-Tax Revenue for Mizoram between 2001 and 2009 was 18.66 *per cent* which was higher by 1.13 *per cent* than the average of NE States (17.53 *per cent*). It, however, came down to 13.53 *per cent* during 2000-10. The State Government needs to take immediate steps to chalk out measures for collection of non tax revenue including arrears.

1.4.2 Cost of recovery

The details of Non-Tax Revenue receipts (NTR), Non-Plan Revenue Expenditure (NPRE) and the percentage of NTR *vis-à-vis* NPRE of some selected services are shown in the table below:

Table-1.9: Cost of recovery of socio-economic services during 2008-10

(₹ in crore)

Name of services	2008-09			2009-10		
	Non-Tax Revenue Receipts	Non Plan Revenue Expenditure	NTR as percentage of NPRE	Non-Tax Revenue Receipts	Non Plan Revenue Expenditure	NTR as percentage of NPRE
Power	93.40	141.08	66.20	67.86	139.11	48.78
Water Supplies and Sanitation	6.57	38.00	17.29	7.39	46.06	16.04
Transport	4.18	51.90	8.05	4.32	62.05	6.96

As can be seen from the above table, NTR as percentage of NPRE in all the above selected schemes declined significantly due to increase in NPRE. This was due to increase Non-plan expenditure in Road Transport (₹ 1.18 crore), Water Supplies and Sanitation under Direction and Administration (₹ 11.61 crore) and Power under Transmission and Distribution (₹ 7.42 crore).

1.4.3 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the last three years (2007-08 to 2009-10) along with relevant All India Average percentage of expenditure on collection to gross collection for 2008-09 are mentioned in the table below:

Table-1.10: Expenditure on collection *vis-à-vis* percentage to gross collection

(₹ in crore)

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure over gross collection	All India average percentage for the year 2008-09
Taxes/VAT on sales, trade etc.	2007-08	62.04	4.63	7.46	0.88
	2008-09	77.51	6.03	7.78	
	2009-10	85.94	6.84	7.96	
State Excise*	2007-08	1.69	8.49	502.37	3.66
	2008-09	1.87	11.86	634.22	
	2009-10	2.10	12.94	616.19	
Stamp duties and registration fees	2007-08	0.23	0.12	52.17	2.77
	2008-09	0.46	0.16	34.78	
	2009-10	0.39	0.17	43.59	
Taxes on vehicles	2007-08	5.37	2.66	49.53	2.93
	2008-09	5.50	3.31	60.18	
	2009-10	6.71	3.68	54.84	

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

The table above indicates that the percentage of expenditure on collection in respect of all the components of State's Own Tax revenue were much higher than All India Average cost of collection which is indicative of the fact that excess expenditure incurred on collection of revenue might impede in the path of improvement towards achieving a healthy fiscal path in the State.

1.4.4 Loss of revenue due to Evasion of Taxes, Write off/Waivers and Refunds

During 2009-10, evasion of Tax (including Interest and penalty) amounting to ₹ 361.56 lakh due to concealment of turnover in three cases, underassessment of tax amounting to ₹ 509.63 lakh and irregular exemption of taxes to two dealers amounting to ₹ 1,324.08 lakh were detected and pointed out during the audit of Sales tax/VAT in 2009-10. The amount indicated above is only illustrative and not exhaustive. The State, thus, sustained revenue loss to that extent. The State Government should strictly comply with the provisions of the VAT, Act to curb such irrational evasion of taxes which hinder the growth of revenue resources of the State.

1.4.5 Revenue Arrears

The position of Outstanding Revenue Arrears during 2004-10 is given below:

Table-1.11: Outstanding Revenue Arrears

(₹ in lakh)

Sl. No.	Deptt.	Type of Revenue	Amount outstanding as on						Total
			2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	
1	PWD	0059-PW	289.60	104.62	201.96	45.32	201.64	15.22	**858.36**
2	PWD	1054-R&B	136.81	5.87	25.32	21.76	11.25	42.83	**243.84**
3	Taxation	Sales Tax	42.59	95.78	128.73	143.23	268.45	466.33	**1145.11**
4	Land Revenue	Land Revenue	--	--	--	3.40	9.24	--	**12.64**
5	Forest	Forest Revenue	1.47	1.32	10.99	6.20	0.20	--	**20.18**
Total			**470.47**	**207.59**	**367.00**	**219.91**	**490.78**	**524.38**	**2280.13**

Source: Information furnished by the Departments

The total outstanding arrears in revenue from 2004-05 to 2009-10 amounted to ₹ 22.80 crore of which outstanding arrear in PWD was ₹ 11.02 crore, Sales Tax was ₹ 11.45, Land Revenue was ₹ 0.13 crore and Forest Revenue was ₹ 0.20 crore.

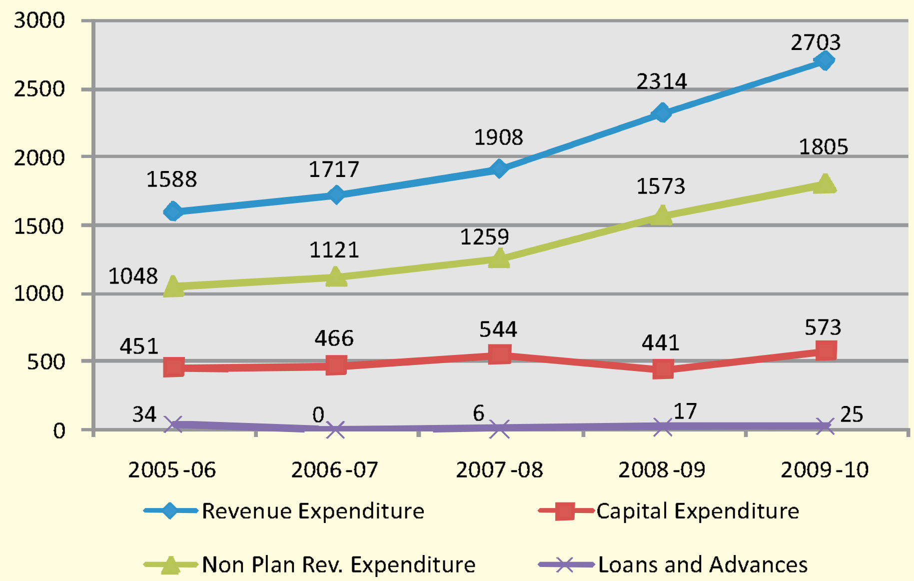
1.5 Application of Resources

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

1.5.1 Growth and Composition of Expenditure

Chart-1.6 presents the trends in total expenditure over a period of five years (2005-10) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in Charts-1.7 and 1.8.

Chart -1.6: Total Expenditure : Trends and Composition



Statement 12 of the Finance Accounts depicts the detailed revenue expenditure and Statement 13 depicts capital expenditure. States raised resources to perform their sovereign functions, maintained their existing nature of delivery of social and economic services, to extend to network of these services through capital expenditure and investments and to discharge their debt service obligations.

The Compounded Annual Growth Rate of total expenditure of the State between 2000-01 and 2008-09 was 10.85 *per cent* and was lower than that of NE States (11.80 *per cent*). However, it increased to 11.73 *per cent* during 2000-10.

The total expenditure of the State increased from ₹ 2,772 crore in 2008-09 to ₹ 3,300 crore in 2009-10. Of the total expenditure, the revenue expenditure (₹ 2,703 crore) constituted

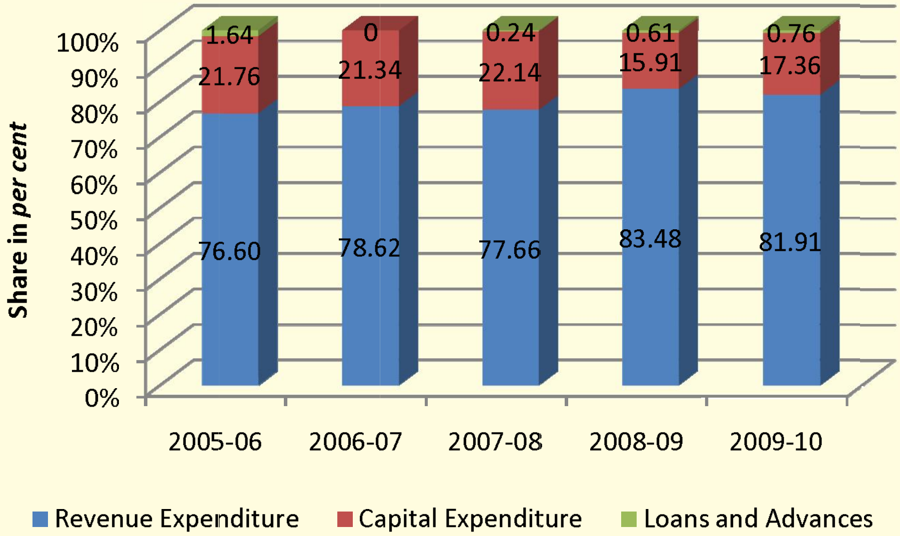
81.90 *per cent* while capital expenditure (₹ 573 crore) constituted 17.35 *per cent* and loans and advances (₹ 25 crore) formed 0.75 *per cent*.

The breakup of total expenditure in terms of plan and non-plan expenditure reveals that while the share of plan expenditure constituted 41.30 *per cent* (₹ 1,363 crore), the remaining 58.70 *per cent* (₹ 1,937 crore) was non-plan expenditure. The increase in total expenditure during 2009-10 over the previous year was mainly due to increase in revenue expenditure by ₹ 389 crore (16.81 *per cent*), capital expenditure by ₹ 132 crore (29.93 *per cent*) and loan and advances by ₹ eight crore (43.25 *per cent)*.

The increase in revenue expenditure during 2009-10 over the previous year was mainly due to increase in expenditure on Police (₹ 48.86 crore), Pension and other Retirement Benefits (₹ 38.22 crore), Education, Sports, Art and Culture (₹ 89.91 crore), Health and Family Welfare (₹ 77.48 crore), Social Welfare (₹ 8.48 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 20.30 crore), Food Storage and Warehousing (₹ 26.06 crore), Public Works (₹ 5.06 crore).

The trends showing share of components of Total expenditure during 2005-10 are shown in the Chart-1.7 below:

Chart-1.7: Trends showing share of components of Total Expenditure



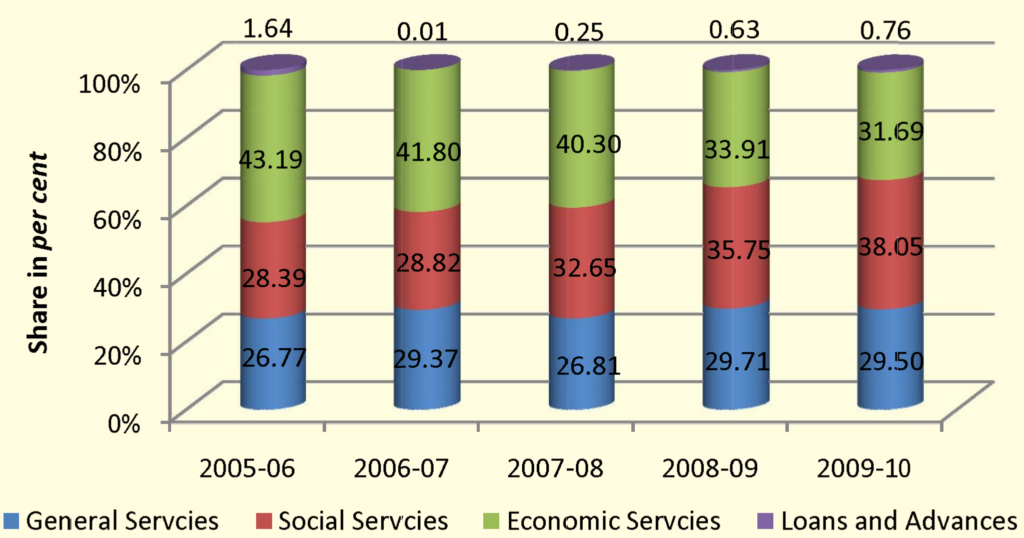
The increase in capital expenditure of ₹ 132 crore over the previous year was mainly due to increase in plan capital expenditure on Education, Sports , Arts & Culture (₹ 31.46 crore), Water Supply and Sanitation (₹ 38.50 crore), Energy (₹ 48.85 crore), Transport (₹ 78.77 crore) and increase in non plan capital expenditure on Agriculture (₹ 31.31 crore) partly offset by decrease in plan expenditure on Social Welfare (₹ 6.30 crore) under Social Sector and decreased in plan expenditure on Irrigation and Flood Control (₹ 30.57 crore), General Economic Services (₹ 10.10 crore), Rural Development (₹ 2.88 crore), Special Areas Programme (₹ 36.60 crore) and Industry & Minerals (₹ 6.54 crore) under Economic Sector.

The Annual Compounded Growth Rate of Capital Expenditure of the State between 2000-01 and 2008-09 was 13.19 *per cent* and was much lower than that of NE States (19.67 *per cent*). The State Government needs to create space for more expenditure in capital keeping in view the development of the State.

Loans and advances constituted 0.76 *per cent* of the total expenditure which increased by ₹ eight crore over the previous year. The increase in loan and advances was mainly due to increase in disbursement of loans for Housing (₹ 1.77 crore) and loans to Government Servant (₹ 14.50 crore) which was partly offset by decrease in Village and Small Industries (₹ 8.60 crore) over the previous year.

The trends in composition of Total Expenditure by activities during 2005-10 are shown in the Chart-1.8 below:

Chart-1.8: Trends in composition of Total Expenditure by activities during 2005-10



In terms of activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, Grants-in-Aid and Loans and advances. The movement of relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But the expenditure on general services including interest payments, which are considered as non developmental, together accounted for 29.50 *per cent* in 2009-10 as against 29.71 *per cent* in 2008-09. On the other hand development expenditure, i.e. expenditure on Social and Economic Services together accounted for 69.74 *per cent* in 2009-10 as against 69.66 *per cent* in 2008-09. This indicates that there was marginal decrease in non developmental expenditure and marginal increase in developmental expenditure in comparison to previous year.

Revenue expenditure had predominant share in total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation and as such does not result in any addition to State's infrastructure and service network. The overall revenue expenditure of the State increased from ₹ 2,313.80 crore in 2008-09 to ₹ 2,702.70 crore in 2009-10. Thus, the revenue expenditure as a percentage of the total expenditure did not indicate a regular trend as it constituted 79 *per cent* in 2006-07, 78 *per cent* in 2007-08, 83 *per cent* in 2008-09 to 82 *per cent* in 2009-10. A comparative position of Non Plan Revenue Expenditure (NPRE) *vis-à-vis* assessment made by TFC and FCP revealed that NPRE was 2.22 *per cent* (₹ 41 crore) lower than the projections made in FCP and also higher by 171.43 *per cent* (₹ 1,140 crore) relative to TFC assessment, as indicated below:-

Table-1.12: Comparison of Non-plan revenue expenditure *vis-a vis* TFC and FCP

(₹ in crore)

	Assessment/Projections		***Actual***
	TFC	**FCP**	
Non Plan Revenue Expenditure	665	1846	1805

The Plan Revenue Expenditure (PRE) increased by ₹ 156 crore from ₹ 741 crore in 2008-09 to ₹ 897 crore in 2009-10 mainly due to increase in Education, Sports and Art & Culture (₹ 37.83 crore), Health and Family Welfare (₹ 71.56 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 14.44 crore), Welfare of SC, ST and OBC (₹ 29.72 crore), Social Welfare and Nutrition (₹ 12.60 crore) and Energy (₹ 6.84 crore) which was partly offset by decreased in expenditure on Agriculture & Allied Activities (₹ 16.52 crore) over the previous year.

The ratio of NPRE to GSDP decreased from 35.43 *per cent* to 32.13 *per cent* during 2005-10. The buoyancy of NPRE to GSDP also decreased from 1.12 *per cent* in 2008-09 to 0.71 *per cent* in 2009-10, while with reference to Revenue Receipts (RR) it increased by 1.61 *per cent* from 2008-09 to 2009-10 as indicated below:

Table-1.13: NPRE *vis-à-vis* GSDP and Revenue Receipt

	2005-06	2006-07	2007-08	2008-09	2009-10
Non Plan Revenue Expenditure	1048.07	1121.49	1259.31	1573.21	1805.35
Growth of NPRE	7.34	7.01	12.29	24.93	14.76
GSDP	2957.91	3276.18	3802.42	4647.55	5619.41
Growth of GSDP	10.76	10.76	16.06	22.23	20.91
Ratio of NPRE to GSDP	35.43	34.23	33.12	33.85	32.13
Revenue Receipts	1654.00	1969.00	2040.00	2653.00	2964.00
Ratio of NPRE to RR	63.37	56.96	61.73	59.30	60.91
Buoyancy of NPRE w.r.t. GSDP	0.68	0.65	0.77	1.12	0.71

1.5.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. Table-1.14 and Chart-1.9 present the trends in the expenditure on these components during 2005-10.

Table-1.14: Components of Committed Expenditure

(₹ in crore)

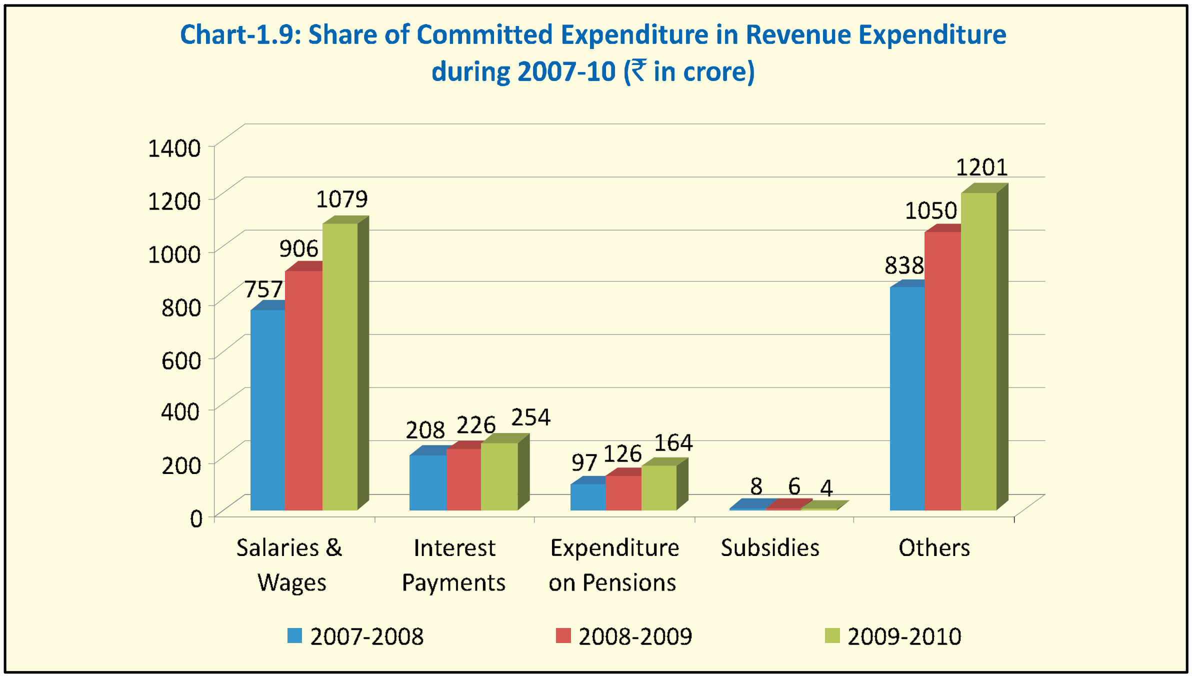
Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE(@)	Actuals(@)
Salaries* & Wages , *of which*	560 (33.86)	623 (31.64)	757 (37.11)	906 (34.15)	1035	1079 (36.40)
Non-Plan Head	445	473	602	737	--	888
Plan Head**	115	150	155	169	--	191
Interest Payments	185 (11.19)	229 (11.63)	208 (10.20)	226 (8.52)	240	254 (8.57)
Expenditure on Pensions	89 (5.38)	77 (3.91)	97 (4.75)	126 (4.75)	148	164 (5.53)
Subsidies	2 (0.12)	--	8 (0.39)	6 (0.23)	--	4 (0.13)
Other Components	752 (45.47)	788 (40.02)	838 (41.08)	1050 (39.58)	1409	1202 (40.55)
Total Revenue Expenditure	**1588**	**1717**	**1908**	**2314**	**2832**	**2703**
Revenue Receipt	**1654**	**1969**	**2040**	**2653**		**2964**

Figures in the parentheses indicate percentage to Revenue Receipts

* *Represents Salaries and wages and includes spent from Grants-in-aid.*

** *Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.*

(@) *BE figures are gross figures sourced from Annual Financial Statement, Government of Mizoram, 2009-10, while Actuals are net figures sourced from Finance Accounts, 2009-10.*



Salaries (₹ 1079 crore) alone accounted for more than 36.40 *per cent* of revenue receipts (₹ 2,964 crore) during the year. It increased by about 19.09 *per cent* from ₹ 906 crore in 2008-09 to ₹ 1,079 crorein 2009-10. Salary expenditure under Non-Plan head during 2009-10 increased by ₹ 151 crore (20.49 *per cent*) and Plan head also increased by ₹ 22 crore (13.02 *per cent*) over the previous year. Non-plan salary expenditure ranged from 79.52 *per cent* to 82.30 *per cent* of total expenditure on salaries during 2007-10. Expenditure on salaries during 2009-10 was higher by ₹ 44 crore (4.25 *per cent*) than assessed (₹ 1,035 crore) by the State Government in its FCP. The expenditure on salaries (₹ 1,079 crore) was 47 *per cent* of the revenue expenditure, net of interest payment (₹ 254 crore) and pension (₹ 164 crore) as against TFC norms of 35 *per cent* and constituted 461 *per cent* of total tax and non-tax revenue (₹ 234 crore) during 2009-10, requiring immediate attention of the Government to achieve the TFC norm.

The Compounded Annual Growth Rate of Salary & Wages of the State between 2003-04 and 2008-09 was 11.84 *per cent* and was much higher than that of NE States (7.26 *per cent*).

Pension payments grew from 24 *per cent* to 30 *per cent* from ₹ 97 crore in 2007-08 to ₹ 164 crore in 2009-10. Pension payment (₹ 164 crore) alone account for nearly 6 *per cent* of revenue receipts (₹ 2,964 crore) of the State during the year and increased by ₹ 38 crore (30 *per cent*) over the previous year. Pension payment was ₹ 16 crore (10.71 *per cent*) higher than the projections (₹ 148 crore) made by the State Government in its FCP and also ₹ 7 crore higher than the assessment made by the TFC (₹ 171 crore). Increase of ₹ 38 crore in pension payment during 2009-10 over the previous year was mainly due to increase in expenditure under superannuation and retirement allowances (₹ 13.38 crore), family pension (₹ 8.56 crore), commutation of pension (₹ 3.93 crore), gratuities (₹ 6.97 crore) and leave encashment (₹ 4.82 crore).

The Compounded Annual Growth Rate of Pension Payment of the State between 2000-01 and 2008-09 was 15.58 *per cent* and was much higher than that of NE States (11.03 *per cent*).

Interest payments increased by 12.39 *per cent* from ₹ 226 crore in 2008-09 to ₹ 254 crore in 2009-10. The interest payments has increased mainly due to increase in Internal Debt (₹ 8.18 crore), Loans and Advances from Central Government (₹ 9.60 crore) and Small Savings, Provident Fund, etc. (₹ 10.96 crore). The interest payment was ₹ 14.45 crore more than that projected (₹ 239.90 crore) in FCP for the year 2009-10 and also ₹ 23.21 crore higher than projected (₹ 231.14 crore) by TFC. The interest payment relative to revenue receipts at 8.58 *per cent* was well within the norm of 15 *per cent* recommended by the TFC to be achieved during the award period. The major sources of borrowings of the State Government were (i) Loans from the Centre, (ii) Market loans, (iii) Loans from Banks and Financial Institutions, (iv) Loans from Small Savings Fund of the Central Government with interest rate ranging from 6.43 *per cent* to 6.60 *per cent* per annum during the period 2007-10.

1.5.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in Table-1.15.

Table-1.15: Financial Assistance to Local Bodies etc.

(₹ in crore)

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	43.77	27.00	29.20	33.34	31.47
PRIs / ULBs	66.46	71.05	85.50	90.50	2.60
Consumer Co-operative Societies/ MIZOFED	0.74	2.10	2.66	2.46	0.95
Other Institutions[2]	11.45	28.22	30.42	13.44	412.21
Total	**122.42**	**128.37**	**147.78**	**139.74**	**447.23**
Assistance as percentage of RE	7.71	7.48	7.75	6.04	16.55

Source : Finance Account, 2009-10

[2] (Figures for 2009-10) Apex Bank (₹ 0.05 crore), Emergency Management Research Institute (₹ 8.56 crore), Pollution Control Board (₹ 0.30 crore), State Library (₹ 0.20 crore), NREGS (₹ 9.65 crore), Sports Council (₹ 14.13 crore), Lai Autonomous District Council (₹ 50.49 crore), Mara Autonomous District Council (₹ 48.31 crore), Chakma Autonomous District Council (₹ 31.88 crore), MUCO Bank (₹ 0.05 crore) and others (₹ 248.59 crore).

The above table revealed that there was large variation of financial assistance given to PRIs/ ULBs and other institutions during 2009-10 as compared to previous years, the reasons of which was not on record. Financial assistance increased by ₹ 307.49 crore (220 *per cent*) in 2009-10 over the previous year; as a result of which financial assistance as percentage of Revenue expenditure increased from 6.04 *per cent* in 2008-09 to 16.55 *per cent* in the current year.

1.6 Quality of Expenditure

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

1.6.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education and health etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while the low fiscal capacity would be reflected if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. Table-1.16 analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2005-06 and 2009-10.

Table-1.16: Fiscal Priority and Fiscal capacity of the State during 2005-06 and 2009-10

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
All NE States Average (Ratio) 2005-06	29.84	65.98	32.91	16.21	18.06	4.63
Mizoram State's Average (Ratio) 2005-06	70.10	73.22	32.27	21.77	14.06	3.71
All NE States Average (Ratio) 2009-10	36.83	64.98	34.64	17.55	16.47	5.65
Mizoram State's Average (Ratio) 2009-10	58.74	69.90	38.21	17.36	15.96	7.63

AE: Aggregate Expenditure

DE: Development Expenditure

SSE: Social Sector Expenditure

CE: Capital Expenditure

 # Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

Source: For GSDP, the information was collected from the State's Directorate of Economic and Statistics (Manipur, Assam, Mizoram and Meghalaya as per new series 2004-05)

The above table shows the fiscal priority given by the Mizoram Government to various expenditure heads in 2005-06 (the first year of the Twelfth Finance Commission Award Period) and the current year *viz.* 2009-10. The State had a much higher AE/GSDP in both years under consideration as compared to the average of NE States. DE/AE ratio was also higher than the NE States in both the years indicating that the State was paying more attention to Development Expenditure. While CE/AE ratio was higher than the NE States in 2005-06, the ratio in 2009-10 of Mizoram was marginally lesser than that of NE States; indicating that the States Capital expenditure was on slower path as compared to other NE States. SSE/AE ratio of Mizoram in 2005-06 was lesser than the NE States, however, it was higher in 2009-10. Within SSE the expenditure profile of Education of the State in both the years was lower than the NE States. The expenditure profile of Health, however, improved from 3.71 *per cent* in 2005-06 to 7.63 *per cent* in 2009-10. The Compounded Annual Growth Rate between 2000-01 and 2008-09 of Education (9.85 *per cent*) and Health (15.53 *per cent*) was higher than that of NE States which stood at 7.69 *per cent* and 11.29 *per cent* respectively and increased to 11.18 *per cent* and 18.69 *per cent* respectively in 2000-01 to 2009-10.

1.6.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure 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. While Table-1.17 presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years, Table-1.18 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table-1.17: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Development Expenditure (a to c)	**1518(73)**	**1543(71)**	**1798(73)**	**1943(70)**	**2391**	**2307(70)**
a. Development Revenue Expenditure	1046(50)	1101(50)	1263(51)	1510(54)	1835	1755(53)
b. Development Capital Expenditure	438(21)	442(20)	531(22)	421(15)	556	547(17)
c. Development Loans and Advances	34(2)	0	4(0)	12(0)	--	5(0)
Figures in parentheses indicate percentage to aggregate expenditure.						

The development expenditure was lower than the assessment made by the State Government in budget estimates by ₹ 84 crore during 2009-10. The development revenue expenditure increased by 16 *per cent* (₹ 245 crore), while development capital expenditure also increased by 30 *per cent* (₹ 126 crore) over the previous year. The table reveals that though Development expenditure accounted for substantial portion of the Aggregate expenditure, the expenditure was more skewed towards social activities rather in actual asset creation.

[3] *Core public goods* are 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.

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

Social/ Economic Infrastructure	2008-09				2009-10			
	Ratio of CE to TE	In RE, the share of S&W		Non-Salary	Ratio of CE to TE	In RE, the share of S&W		Non-Salary
		₹ in crore	In *per cent*	₹ in crore		₹ in crore	In *per cent*	₹ in crore
Social Services (SS)								
Education, Sports, Art and Culture	1.70	282.20	70.77	116.57	7.28	337.37	69.06	151.12
Health and Family Welfare	2.35	82.42	48.22	88.51	0.00	95.55	37.94	156.28
WS, Sanitation & HUD	38.14	23.37	19.80	94.64	43.53	23.24	16.69	116.04
Other Social Services	4.12	21.60	10.26	188.87	0.26	31.21	13.80	194.87
Total (SS)	**9.35**	**409.59**	**45.60**	**488.59**	**11.91**	**487.37**	**44.08**	**618.31**
Economic Services (ES)								
Agri. & Allied Activities	27.86	80.38	35.78	144.28	31.85	93.41	38.17	151.34
Irrigation and Flood Control	94.76	2.57	61.93	1.58	89.31	2.84	53.28	2.49
Power & Energy	17.34	37.99	22.91	127.85	32.88	43.52	25.49	127.21
Transport	38.11	33.67	48.59	35.62	61.07	43.99	56.83	33.41
Other Economic Services	36.21	46.52	31.45	101.40	17.73	54.62	36.14	96.52
Total (ES)	**34.60**	**201.13**	**32.87**	**410.73**	**37.91**	**238.38**	**36.71**	**410.97**
Grand Total (SS+ES)	**21.68**	**610.72**	**40.44**	**899.32**	**23.70**	**725.75**	**41.35**	**1029.28**

The ratio of salary and wage component under Social and Economic Services to revenue expenditure during the current year was 41.35 *per cent*, a marginal increase of 0.91 *per cent* over the previous year. The salary and wage component under revenue expenditure in Social Sector increased by ₹ 77 crore from ₹ 410 crore in 2008-09 to ₹ 487 crore in 2009-10, showing a decrease by 1.52 *per cent* over the previous year; while non-salary component increased by 26.38 *per cent* from ₹ 489 crore in 2008-09 to ₹ 618 crore in 2009-10. Again, within the revenue expenditure under economic services, the salary and wage component increased by 18 *per cent* from ₹ 201 crore in 2008-09 to ₹ 238 crore in 2009-10 and also non-salary component increased by 0.06 *per cent* from ₹ 410.73 crore in 2008-09 to ₹ 410.97 crore in 2009-10.

Expenditure under Education, Sports, Art & Culture increased by ₹ 55 crore (a decrease of 1.71 *per cent*) from ₹ 282 crore in 2008-09 to ₹ 337 crore in 2009-10; while the increase in expenditure on Health and Family Welfare was ₹ 14 crore from ₹ 82 crore in 2008-09 to ₹ 96 crore in 2009-10, showing a decrease by 10.28 *per cent* over the previous year.

Recognizing the need to improve the quality of education and health services, TFC recommended that non-plan salary expenditure under Education and Health and Family Welfare Department should increase by five to six *per cent* while non-salary expenditure under non-plan head should increase by 30 *per cent* during the award period. Trends in expenditure revealed that the salary and wage component and non-salary and wage component under Education, Sports, Art & Culture increased by 20 *per cent* and 29 *per cent* respectively over 2008-09.

During 2009-10, in the salary & wage component under Economic Services, an increase was observed in Agri. and Allied Activities (16.21 *per cent*), Energy (14.56 *per cent*), Transport (30.65 *per cent*) and Irrigation & Flood Control (10.51 *per cent*).

The trend in revenue and capital expenditure on Economic Services indicate that revenue expenditure increased by 6.05 *per cent* from ₹ 612 crore in 2008-09 to ₹ 649 crore in 2009-10 and capital expenditure increased by 21.04 *per cent* from ₹ 328 crore in 2008-09 to ₹ 397 crore in 2009-10 (Detailed in Appendix-1.5 Part-A & Part-B).

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

Performance reviews indicating the outlay-outcome relationship are *inter-alia* included in the State Audit Report. The effectiveness of the expenditure as brought out in Integrated Audit of the Higher and Technical Education (H&TE) Department taken up during April-July 2010 is as follows:

The objective of providing higher education, (both in general and technical disciplines) by the H&TE Department was not achieved fully due to significant deficiencies in planning as it was not on actual need based assessment for the State. There were serious weaknesses in financial management as evident from cases of excess/disproportionate expenditure over AICTE norms, non maintenance of essential records for disbursement of stipends/book grants, non submission of utilisation certificates, and non-reconciliation of accounts with treasury, splitting up of sanction orders, misappropriation of Government money and mismanagement/ non deposit/unauthorised appropriation of student fees which was indicative of the fact that there was either little or no role exercised by the Department to enforce effective internal controls over Government expenditure. As against the available intake capacity in the degree colleges, the number of students enrolled during 2005-10 was ranging from 53 to 64 *per cent* only. Due to non availability of well equipped and modern techniques of teaching, a sizeable number of students pursued higher education outside the State during 2007-10. Moreover, post-matric scholarship was irregularly sanctioned to a large number of students studying in more than one college in the same academic year 2009-10. Monitoring and evaluation of various programmes/schemes implemented in the State had neither been carried out by the Department nor by the Government.

1.7 Financial Analysis of Government Expenditure and Investments

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

1.7.1 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2010 is given in Table-1.19 below:

Table-1.19: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department	No. of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Over Runs	Cumulative actual expenditure as on 31.3.2010
Public Works (Roads)	8	31.53	--	--	30.98
Public Works (Buildings)	3	3.34	--	--	2.84
Power and Electricity (P&E)	1	5.90	--	--	5.07
	1	10.20	--	--	2.56
	1	135.20	191.13	--	180.48
Public Health Engineering (PHE)	34	171.63	--	--	84.31
Total	**48**	**357.80**	**191.13**	--	**306.24**

Source : Finance Account 2009-10

Out of 164 projects, there were 48 incomplete projects as of March 2010, which were started with initial budgeted cost of ₹ 357.80 crore under Public Works (Roads) (₹ 31.53 crore), Public Works (Buildings) (₹ 3.34 crore), Public Health Engineering (₹ 171.63 crore) and Power & Electricity Departments (₹ 151.31 crore) and the projects were to be completed by March 2010. Due to non completion of the projects (March 2010), an amount of ₹ 306.24 crore booked against these projects remained blocked. Out of these projects, only one project (P&E - one project) which was to be completed at a cost of ₹ 135.20 crore had subsequently been revised at ₹ 191.13 crore.

1.7.2 Investment and returns

As of 31 March 2010, Government had invested ₹ 19 crore in Government Companies and Co-operatives. The average return on this investment was nil in the last five years while the Government paid an average interest rate ranging from 6.43 *per cent* to 7.56 *per cent* on its borrowings during 2005-10 (Table-1.20).

Table-1.20: Return on Investment

(₹ in crore)

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	13.68	15.37	17.21	18.73	19.00
Return (₹ in crore)	--	--	--	--	--
Return *(per cent)*	--	--	--	--	--
Average rate of interest on Govt. borrowing *(per cent)*	6.52	7.56	6.43	6.45	7.02
Difference between interest rate and return *(per cent)*	6.52	7.56	6.43	6.45	7.02

During the last five years, i.e. 2005-10, the State Government's investments have increased by ₹ 5.32 crore. During the current year, Government has invested ₹ 2.76 crore in Government Companies and ₹ 16.24 crore in Co-operative Societies. As of March 2010, five Working Government Companies have registered accumulated loss of ₹ 43.30 crore.

In view of the substantial losses in all the five Working Government Companies, the Government should review their working so as to wipe out their losses and consider measures for revamping the PSEs with prospects of revival or for winding up of units with no such prospects.

1.7.3 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/organisations. Table-1.21 presents the outstanding loans and advances as on 31 March 2010, interest receipts *vis-à-vis* interest payments during the last three years.

Table-1.21: Average Interest Received on Loans Advanced by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/Cost of Borrowings	2007-08	2008-09	2009-10
			Actual
Opening Balance	**270**	**249**	**241.51**
Amount advanced during the year	6	17	24.94
Amount repaid during the year	27	25	25.32
Closing Balance	**249**	**241**	**241.13**
Of which Outstanding balance for which terms and conditions have been settled			
Net addition	(-) 21	(-) 8	(-) 0.38
Interest Receipts	5.03	5.36	1.70
Interest receipts as *per cent* to outstanding Loans and advances	2.02	2.22	0.70
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	6.16	6.24	7.01
Difference between interest payments and interest receipts (*per cent*)	4.14	4.02	6.31

Total amount of outstanding Loans and advances as on 31 March 2010 was ₹ 242 crore. Interest received against these loans and advances continued to be negligible which decreased by 68 *per cent* from ₹ 5.36 crore in 2008-09 to ₹ 1.70 crore in 2009-10. Major recipients of loans during 2009-10 were Small Scale Industries (₹ 0.12 crore), Loans for housing (₹ 5.05 crore) and Government Servants (₹ 19.77 crore). During 2009-10, only ₹ 25.32 crore was repaid by the Institutions/Organisations/Government Servants.

1.7.4 Cash Balances and Investment of Cash balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatch in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances from RBI has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three years average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by the RBI from time to time depending on the holding of Government securities. The limit for ordinary Ways and Means Advances to the State Government was ₹ 55 crore w.e.f. 01-04-2006. The limit for Special Ways and Means Advances is being revised by the RBI from time to time. Under an agreement with the Reserve Bank of India, the State Government has to maintain a minimum daily cash balance of ₹ 0.20 crore with the Bank.

The position of Ways and Means Advances and Overdraft is shown in the table below:

Table-1.22: Ways and Means Advances and Overdraft

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Ordinary and Special Ways & Means Advances					
Availed in the year	63.24	19.59	23.98	--	1.37
Outstanding WMAs	12.13	31.72	12.13	12.13	12.13
Interest paid	0.03	--	0.02	--	8.63
Number of days	8	8	3	--	19
Overdraft					
Availed in the year	--	--	--	--	--
Outstanding Overdraft	15.08	15.08	15.08	15.08	15.08
Number of days	--	--	--	--	--
Interest paid	--	--	--	--	--

The State availed Ordinary and Special Ways & Means Advances during the period 2005-06 to 2009-10 except during 2008-09 against which an interest of was paid ₹ 8.68 crore. The State, however, did not avail of any overdraft facility during 2005-10.

Table-1.23 depicts the cash balances and investments made by the State Government out of cash balances[5] during the year.

Table-1.23: Cash Balances and Investment of Cash balances

(₹ in crore)

Particulars	As on 1 April 2009	As on 31 March 2010	Increase (+)/ Decrease(-)
Cash Balances	176	(-) 317	(-) 493
Investments from Cash Balances (a to d)	259	(-) 187	(-) 446
a. GOI Treasury Bills	196	(-) 266	(-) 462
b. GOI Securities	--	--	--
c. Other Securities, if any specify	--	--	--
d. Other Investments	63	79	(+) 16
Fund-wise Break-up of Investment from Earmarked balances (a to c)			
a. Sinking Fund	63	79	(+) 16
Interest Realized	27	12	(-) 15

Cash balance of the State Government at the end of the current year decreased by ₹ 493 crore from ₹ 176 crore in 2008-09 to a minus balance of ₹ (-) 317 crore in 2009-10. This had an

[5] The General cash balance represents the combined balances of the Consolidated Fund of India and the Public Account. As per the agreement with the Reserve Bank of India, the State Government has to maintain with the Bank on all days a minimum balance. **(Explanatory Notes on Appendix–I, Finance Accounts, Vol. I).**

adverse effect on the investment from cash balances as it decreased by 172 *per* cent from ₹ 259 crore in 2008-09 to ₹ (-) 187 crore in 2009-10. The State Government has invested ₹ (-) 266 crore in GOI Treasury Bills and earned an interest of ₹ 12 crore during 2009-10. Further, the Government transferred ₹ 79 crore to Sinking Fund for amortisation of long term loans.

1.8 Assets and Liabilities

1.8.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. Appendix-1.3 gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

The FRBM Act, 2006 of the State defined the total liabilities as "The explicit liabilities under the Consolidated Fund of the State and the Public Account of the State including General Provident Fund".

1.8.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in Appendix-1.4. The compositions of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in Chart-1.10 and 1.11.

Chart-1.10: Composition of Outstanding Fiscal Liabilities as on 31-03-2009 (₹ in crore)

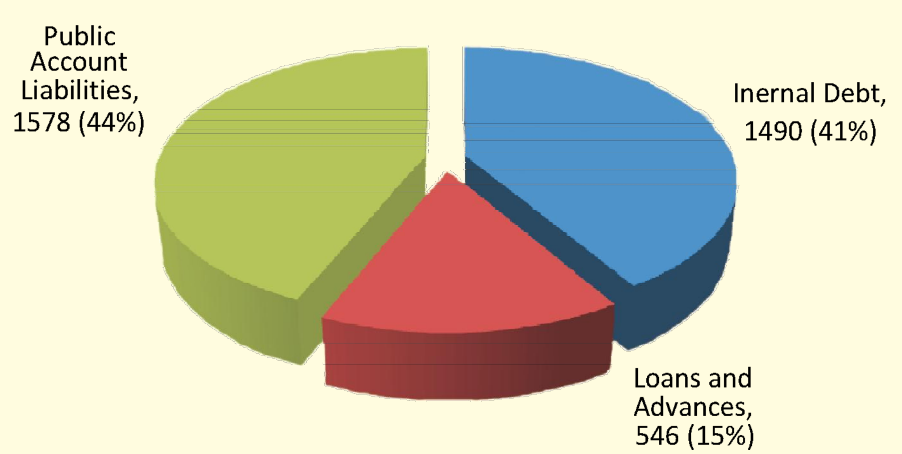
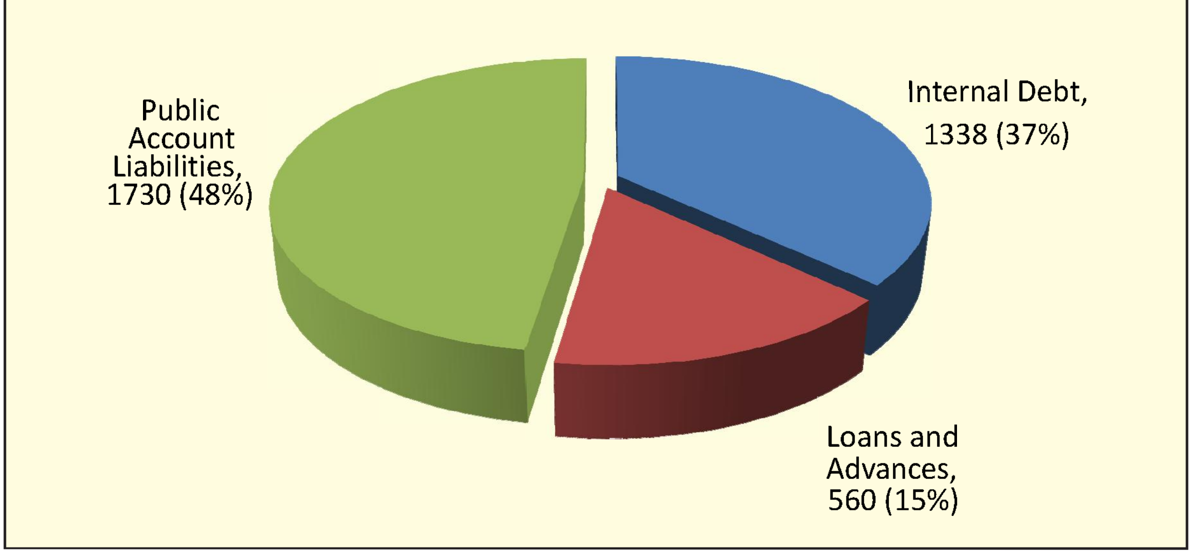


Chart-1.11: Composition of Outstanding Fiscal Liabilities as on 31-03-2010 (₹ in crore)

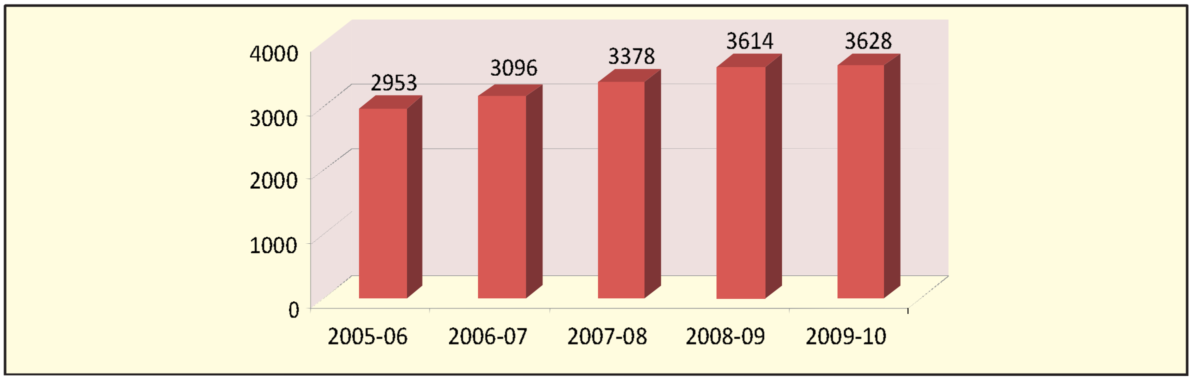


The overall fiscal liabilities of the State Government increased by ₹ 14 crore (0.39 *per cent*) from ₹ 3,614 crore in 2008-09 to ₹ 3,628 crore in 2009-10 and was 65 *per cent* of GSDP. The ratio of fiscal liabilities to GSDP has decreased from 78 *per cent* in 2008-09 to 65 *per cent* in 2009-10. The fiscal liabilities of the State Government was also ₹ 338 crore more than FCP projection in 2008-09 (₹ 3,276 crore) and ₹ 260 crore more in 2009-10 (₹ 3,368 crore). These fiscal liabilities stood at nearly 1.22 times the Revenue receipts and 15.50 times of State's own resources at the end of 2009-10.

As per para 24 of the 13th Finance Commission recommendations, Fiscal Liabilities should be limited to 25 *per cent* of GSDP by 2014-15. During the current year, percentage of fiscal liabilities to GSDP was 65 *per cent* which was much higher compared to the recommendation. The increasing position of fiscal liabilities during 2005-10 is depicted in the bar chart below:

Chart-1.12: Trend showing Fiscal Liabilities during 2005-10

(₹ in crore)



In line with the recommendation of the TFC, the State Government has set up sinking fund for amortisation of market borrowings as well as other loans and debt obligations. As on 31 March 2010, the balance in the sinking fund was ₹ 74.25 crore. During 2009-10, ₹ 16 crore has been invested in the sinking fund.

1.8.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. In compliance with the TFC recommendations regarding creation of Guarantee Redemption Fund (GRF), the State Government has set up the fund during May 2009 with initial corpus fund of ₹ 50 lakh. A ceiling has also been laid down in its Medium Term Fiscal Policy Strategy Statement that fresh guarantees in a year should not exceed three *per cent* of GSDP. However, information regarding Guarantee Commission or fee has not been received from the State Government[6].

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 three years is given in Table-1.24.

Table-1.24: Guarantees given by the Government of Mizoram

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10
Maximum amount guaranteed	232	305	189
Outstanding amount of guarantees	153	134	103
Revenue Receipts	2040	2653	2964
Total Receipts in Consolidated Fund of the State	2291	2784	3215
Percentage of maximum amount guaranteed to revenue receipts	11.37	11.50	6.38

The State Government had guaranteed loans raised by various corporations and others which at the end of 2009-10 stood at ₹ 103 crore. The outstanding guarantees decreased by 23 *per cent* from ₹ 134 crore in 2008-09 to ₹ 103 crore in 2009-10. The outstanding guarantees were three *per cent* of the revenue receipts of the Government and it is pertinent to note that if the liabilities arising out of the outstanding guarantees are added to the fiscal liabilities of the State Government at the close of the current year, the ratio of total liabilities to GSDP would increase from 65 *per cent* to 66 *per cent*.

1.9 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability[7] of the State. This section assesses the

[6] Source: Notes to Finance Account,2009-10, Vol.-I.

[7] The Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.

sustainability of debt of the State Government in terms of debt stabilisation[8]; sufficiency of non-debt receipts[9]; net availability of borrowed funds[10]; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. Table-1.25 analyzes the debt sustainability of the State according to these indicators for the period of five years beginning from 2005-06.

Table-1.25: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	115 +(-)212 =(-)97	94 + 38 = 132	298+(-)183 =115	533+131 =664	502+(-)57 =445
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 160	(+) 205	(-) 200	(+) 297	(-) 218
Net Availability of Borrowed Funds	58	(-) 106	94	10	(-) 241
Burden of Interest Payments (IP/RR Ratio)	11.17	11.62	10.20	8.50	8.58

Maturity Profile of State Debt (In Years)*	(₹ in crore)
0 – 1	1186.03
1 – 3	1215.01
3 – 5	1066.96
5 – 7	1213.09
7 – 9	968.55
9 – 11	584.07
11 – 13	374.59
13 – 15	255.88
15 and above	301.97
Total	**7166.15**

[8] 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 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.

[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.

[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.

The State could maintain a healthy debt stabilisation scenario due to robust growth of GSDP (21 *per cent*) in 2009-10 despite reversal of Primary Surplus to Primary Deficit in the current year. However, increase in Non-debt receipt in the current year was lesser than the incremental Aggregate expenditure; resulting in resource gap of ₹ (-) 218 crore in 2009-10. This meant that the gap in expenditure had to be met from the borrowed funds and as such due prudence needs to be applied in the expenditure pattern so that resource gap remains within manageable controls of the fiscal capability of the State.

Net availability of borrowed funds was also reduced to ₹ (-) 241 crore in 2009-10 from ₹ 10 crore due to more redemption of past obligations of past borrowings than the debt receipt of the State in the current year. The debt burden of the State was also positive during 2005-10 as the fiscal burden of Interest payment continued to maintain a declining trend; indicating that increase of debt burden was lesser than the growth of Revenue receipts during 2005-10.

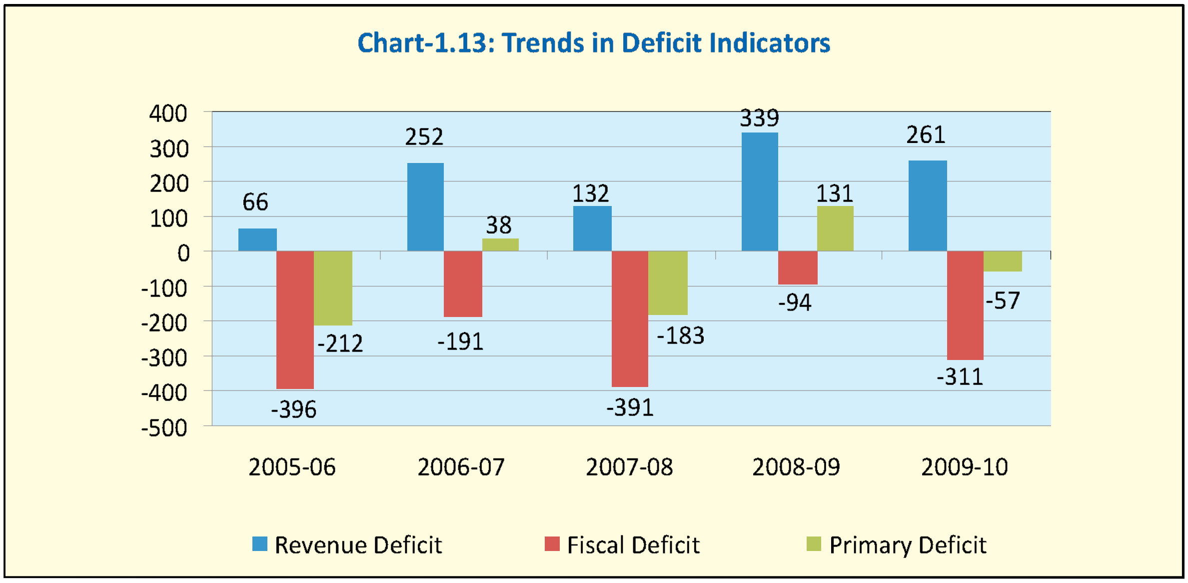
The maturity profile of the State Government (Table-1.25) indicates that out of the total debt burden of ₹ 7166.15 crore, 48.39 *per cent* of the total public debt is repayable within the next five years while the remaining 51.61 *per cent* of the debt are required to be paid in more than five years time.

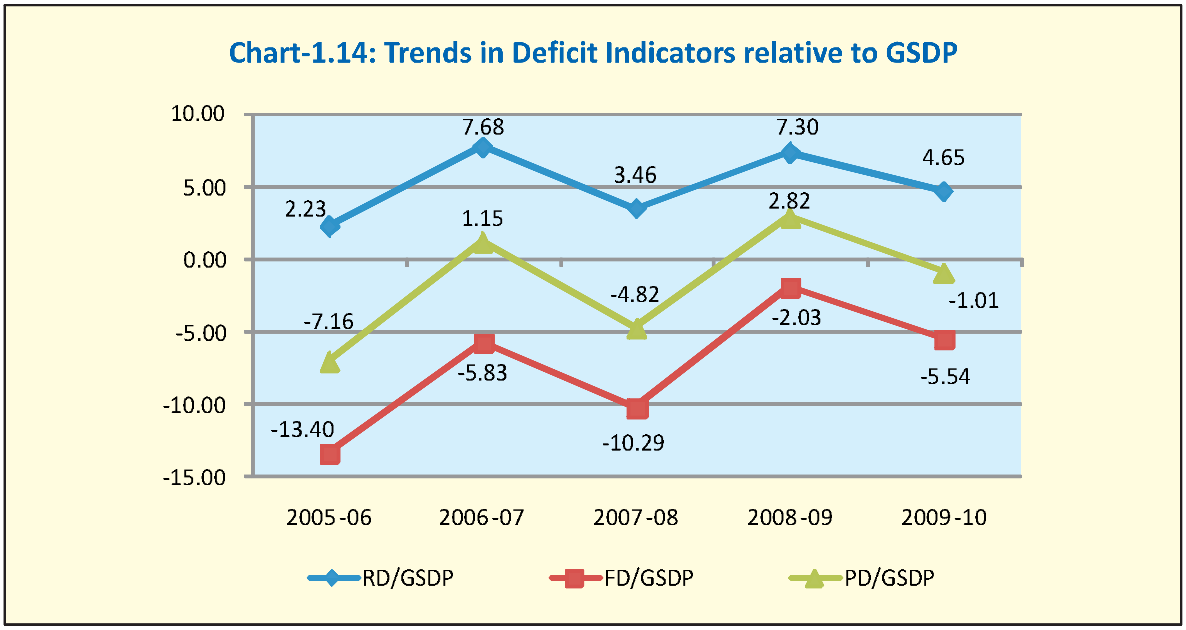
1.10 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government Accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised and applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2009-10.

1.10.1 Trends in Deficits

Chart-1.13 and **1.14** presents the trends in deficit indicators over the period 2005-10.





During 2009-10, there was a fall in all the three major fiscal indicators *viz.*, revenue, fiscal and primary deficits over the previous year. The State had continued to experience revenue surplus during the last five years. The revenue surplus decreased to ₹ 261 crore in 2009-10 from ₹ 339 crore in 2008-09 (23 *per cent*). This decrease on revenue account during 2009-10 was mainly due to decrease in Non-tax Revenue by ₹ 32 crore in 2009-10 over the previous year. Revenue Expenditure on the other hand increased by ₹ 389 crore in 2009-10 over the previous year resulting in decrease in surplus on revenue account during the current year. Fiscal deficit increased from ₹ (-) 94 crore (2.03 *per cent* of GSDP) in 2008-09 to ₹ (-) 311 crore

(5.54 *per cent* of GSDP) in 2009-10. The increase in fiscal deficit (₹ 217 crore) indicated that the increase in expenditure was more than the increase in receipts of the State in the current year. Similarly, the Primary surplus of ₹ 131 crore in 2008-09 turned to a deficit of ₹ (-) 57 crore in 2009-10; mainly due to increase in expenditure both in revenue and capital expenditure in the current year. The fact that Primary surplus of previous year reversed to deficit indicated that the State's receipt was not able to meet the quantum of expenditure of the current year.

1.10.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the Table-1.26.

Table-1.26: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Particulars		2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit		**(-)396**	**(-)191**	**(-)391**	**(-)94**	**(-)311**
1	Revenue Surplus	66	252	132	339	261
2	Net Capital Expenditure	(-)451	(-)466	(-)544	(-)441	(-)573
3	Net Loans and Advances	(-)11	23	21	8	0.40
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	(-)99	(-)108	(-)129	(-)29	59
2	Loans from GOI	9	26	7	12	(-)13
3	Special Securities Issued to NSSF	(-)26	(-)8	1	2	(-)8
4	Loans from Financial Institutions	(-)38	(-)40	36	2	98
5	Small Savings, PF etc.	(-)98	(-)143	(-)172	(-)188	(-)44
6	Deposits and Advances	2	128	(-)36	(-)37	(-)105
7	Suspense and Misc	(-)123	(-)112	(-)32	78	(-)292
8	Remittances	(-)71	26	(-)26	72	40
9	Reserve Fund	9	(-)2	6	(-)1	(-)4
10	Increase/decrease in Cash balance with RBI	39	38	(-)50	(-)8	(-)46
11	Compensation and other Bonds	--	4	4	3	4
12	Overall Deficit (1 to 11)	**(-)396 (13.39)**	**(-)191 (5.83)**	**(-)391 (10.28)**	**(-)94 (2.02)**	**(-)311 (5.53)**

Figures in brackets indicate the per cent to revised GSDP of base year 2004-05.
* *All these figures are net of disbursements/outflows during the year.*

The State had fiscal deficits during the last five years (2005-10) with inter year variations. However, the deficits have increased to ₹ 311 crore in 2009-10 from ₹ 94 crore in 2008-09. During 2009-10, the fiscal deficit of ₹ 311 crore was mainly met out from Deposits & Advances (₹ 105 crore), Small Savings and provident funds, etc. (₹ 44 crore) and Loans from GoI (₹ 13 crore). However, the State reduced its dependency to meet the fiscal gap from the Market loan in the current year.

1.10.3 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition 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) were not having any asset backup. The bifurcation of the primary deficit (Table-1.27) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which might be necessary to improve the productive capacity of the State's economy.

Table-1.27: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-)/ surplus (+)	Primary deficit (-)/ surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2005-06	1677	1403	451	34	1888	(+) 274	(-) 211
2006-07	1993	1489	466	--	1955	(+) 504	(+) 38
2007-08	2067	1700	544	6	2250	(+) 367	(-) 183
2008-09	2678	2088	441	17	2546	(+) 590	(+) 132
2009-10	2989	2449	573	25	3047	(+)540	(-)58

The non-debt receipts of the State during 2005-06 to 2009-10 were sufficient to meet the primary revenue expenditure. The non-debt receipts of the State increased by more than 78 *per cent* from ₹ 1,677 crore in 2005-06 to ₹ 2,989 crore in 2009-10. However, due to decrease of Non-tax revenue, the Revenue receipt could not increase at a rate higher than that of Primary revenue expenditure and as such Primary revenue surplus decreased from ₹ 590 crore in 2008-09 to ₹ 540 crore in 2009-10. Due to this and the increase in Capital expenditure, the State could not sustain the Primary surplus of the 2008-09 and experienced a deficit in the current year.

1.10.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. Table-1.28 presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table-1.28: Change in Revenue Receipts and Correction of Deficit

(*Per Cent* of GSDP)

Parameters	2007-08	2008-09	2009-10	
			BE	Actual
Revenue Receipts (a to d)	**53.65**	**57.09**	**53.55**	**52.73**
a. State's Own Tax Revenue	2.04	2.04	2.07	1.91
b. State's Own Non-tax Revenue	3.43	3.41	3.22	2.25
c. State's Share in Central Taxes and Duties	9.56	8.25	7.00	7.02
d. Grants-in-Aid	38.62	43.39	41.26	41.55
Revenue Expenditure	50.19	49.79	50.39	48.10
Revenue Surplus	3.46	7.3	3.16	4.65
Fiscal Deficit	(-)10.29	(-)2.03	(-) 7.32	(-) 5.54

Calculated on revised GSDP of base year 2004-05.

Ratio of revenue receipts to GSDP decreased over the previous years by 4.36 *per cent* and budget estimates increased over the previous year by 5.83 *per cent*. Ratio of revenue expenditure to GSDP decreased over the previous year by 1.69 *per cent* in 2009-10. The revenue receipts to GSDP decreased by 0.82 *per cent* in 2009-10 over the budget estimates for the year due to decrease in the State's own Tax revenue and own Non-tax revenue by 0.16 *per cent,* 0.97 *per cent* respectively.

1.11 Conclusion and Recommendations

Revenue receipts increased to ₹ 2,963.51 crore in 2009-10 from ₹ 2,653.13 crore in 2008-09 (11.70 *per cent*), mainly due to increase in Grants-in-Aids (₹ 318.44 crore). Non-tax revenue, however, decreased from ₹ 158.67 crore in 2008-09 to ₹ 126.51 crore in 2009-10 (20.27 *per cent)*. The revenue receipt (₹ 2963.51 crore) was, however, lesser by ₹ 45.70 crore (1.52 *per cent)* than the assessment of the State Government in its Fiscal Correction Path (FCP) (₹ 3,009.21 crore) (Para 1.1).

The Government should mobilize additional resources both through tax and non-tax resources. It should also make efforts to collect revenue arrears, increase tax compliance, and reduce tax administration cost. There is an urgent need to improve tax collection efficiency**.**

Funds transferred directly from the Government of India (GOI) to the State implementing agencies: As long as the funds transferred from Central to State Government under major flagship and other important schemes remain outside the State budget with no monitoring at any level and with no readily available data on its expenditure in any particular year, the system is at risk in accountability and transparency (Para 1.3.2).

A system has to be urgently put in place to ensure proper accounting of these funds and the updated information should be validated both by the State Government as well as the Accountant General (A&E).

Revenue expenditure and Capital expenditure increased by ₹ 388.90 crore (16.81 *per cent*) and ₹ 131.76 crore (29.87 *per cent*) respectively over the previous year. Revenue expenditure was lower by ₹ 129 crore (4.56 *per cent*) than the assessment made by the State Government in its FCP (₹ 2,831.69 crore). However, Capital expenditure was higher by ₹ 179 crore (45.43 *per cent*) than the projection made by the State Government in its FCP (₹ 393.87 crore) (Para 1.1).

The total expenditure of the State increased from ₹ 2,772 crore in 2008-09 to ₹ 3,300 crore in 2009-10. Of the total expenditure, the revenue expenditure (₹ 2,703 crore) constituted 81.90 *per cent* while capital expenditure (₹ 573 crore) constituted 17.35 *per cent* and loans and advances (₹ 25 crore) formed 0.75 *per cent*.

The breakup of total expenditure in terms of plan and non-plan expenditure reveals that while the share of plan expenditure constituted 41.30 *per cent* (₹ 1,363 crore), the remaining 58.70 *per cent* (₹ 1,937 crore) was non-plan expenditure. The increase in total expenditure during 2009-10 over the previous year was mainly due to increase in revenue expenditure by ₹ 389 crore (16.81 *per cent*), capital expenditure by ₹ 132 crore (29.93 *per cent*) and loan and advances by ₹ eight crore (43.25 *per cent)* (Para 1.5.1).

The State Government should focus on improving outcome oriented expenditure so that the benefits of public spending reach the targeted population. The Government should also focus on expenditure management to bring about qualitative improvement in the public spending. The State Government should initiate action to restrict the components of non-plan revenue expenditure by phasing out implicit subsidies and resort to need based borrowings to curb interest and principal payments.

During 2009-10, there was a fall in all the three major fiscal indicators *viz.*, revenue, fiscal and primary deficits over the previous year. The revenue surplus decreased to ₹ 261 crore in 2009-10 from ₹ 339 crore in 2008-09 (23 *per cent*). Fiscal deficit increased from ₹ (-) 94 crore (2.03 *per cent* of GSDP) in 2008-09 to ₹ (-) 311 crore (5.54 *per cent* of GSDP) in 2009-10. Similarly, the Primary surplus of ₹ 131 crore in 2008-09 turned to a deficit of ₹ (-) 57 crore in 2009-10; mainly due to increase in expenditure both in revenue and capital expenditure. The fact that Primary surplus of previous year reversed to deficit in the current year indicates that the State's receipt was not able to meet the quantum of expenditure of the current year (Para 1.10.1).

There is an urgent need to initiate adequate measures to contain expenditure on pension and salaries relative to its own resources. The State Government, therefore, needs to restructure its fiscal policies on expenditure to contain it within the optimum level of resources.

As of 31 March 2010, there were 48 incomplete projects in which ₹ 306 crore was blocked (Para 1.7.1).

The overall fiscal liabilities of the State Government increased by ₹ 14 crore (0.39 *per cent*) from ₹ 3,614 crore in 2008-09 to ₹ 3,628 crore in 2009-10 and was 65 *per cent* of GSDP. The ratio of fiscal liabilities to GSDP has decreased from 78 *per cent* in 2008-09 to 65 *per cent* in 2009-10. The fiscal liabilities of the State Government was also ₹ 338 crore more than FCP projection in 2008-09 (₹ 3,276 crore) and ₹ 260 crore more in 2009-10 (₹ 3,368 crore). These fiscal liabilities stood at nearly 1.22 times the Revenue receipts and 15.50 times of State's Own Resources at the end of 2009-10.

As per para 24 of the 13th Finance Commission recommendations, Fiscal Liabilities should be limited to 25 *per cent* of GSDP by 2014-15. During the current year, percentage of fiscal liabilities to GSDP was 65 *per cent* which was much higher compared to the recommendation (Para 1.8.2).

Thus, there is an urgent need for the State Government to re-look at its borrowings and repayment patterns and to ensure that the increasing trend of Capital Expenditure materialize into concrete assets creation to enable a faster growth of GSDP and ensure better repayment capacity.

As of 31 March 2010, Government had invested ₹ 19 crore in Government Companies and Co-operatives. The average return on this investment was nil in the last five years, while the Government paid an average interest rate ranging from 6.43 *per cent* to 7.56 *per cent* on its borrowings during 2005-2010. During 2005-10, the State Government's investments have increased by ₹ 5.32 crore. As of March 2010, five Working Government Companies have registered accumulated loss of ₹ 43.30 crore (Para 1.7.2).

In view of the substantial losses in all the five Working Government Companies, the Government should review their working so as to wipe out their losses and consider measures for revamping the PSEs with prospects of revival or for winding up of units with no such prospects.

The State Government had guaranteed loans raised by various corporations and others which at the end of 2009-10 stood at ₹ 103 crore. The outstanding guarantees decreased by 23 *per cent* from ₹ 134 crore in 2008-09 to ₹ 103 crore in 2009-10. The outstanding guarantees were 3 *per cent* of the revenue receipts of the Government and it is pertinent to note that if the liabilities arising out of the outstanding guarantees are added to the fiscal liabilities of the State Government at the close of the current year, the ratio of total liabilities to GSDP would increase from 65 *per cent* to 66 *per cent*. Since managing contingent liabilities is an issue of concern, the State Government needs to follow a conscious policy of restricting the size of contingent liabilities (Para 1.8.3).

The State could maintain a healthy debt stabilisation scenario due to robust growth of GSDP (21 *per cent*) in 2009-10 despite reversal of Primary Surplus to Primary Deficit in the current year. However, increase in Non-debt receipt in the current year was lesser than the incremental Aggregate expenditure; resulting in resource gap of ₹ (-) 218 crore in 2009-10. This meant that the gap in expenditure had to be met from the borrowed funds and as such due prudence needs to be applied in the expenditure pattern so that resource gap remains within manageable controls of the fiscal capability of the State. Net availability of borrowed funds was also reduced to ₹ (-) 241 crore in 2009-10 from ₹ 10 crore due to more redemption of past obligations of past borrowings than the debt receipt of the State in the current year. The debt burden of the State was also positive during 2005-10 as the fiscal burden of Interest payment continued to maintain a declining trend; indicating that increase of debt burden was lesser than the growth of Revenue receipts during 2005-10.

In view of the decline in Revenue surplus and increase in Fiscal deficit, there is an urgent need to apply due prudence in expenditure pattern so that resource gap remains within manageable controls of the fiscal capability of the State. The State should make efforts to return to Primary surplus as in the previous year to widen the scope of fiscal manoeuvre towards more productive and capital creation expenditure (Para 1.9).