

CHAPTER - I
FINANCES OF THE STATE GOVERNMENT

CHAPTER – I: Finances of the State Government

Profile of Arunachal Pradesh

Arunachal Pradesh, the largest State area-wise in the North-Eastern region, is a Special Category State¹ with a geographical area of about 83,743 sq km. It has a long international border with Bhutan in the West (160 km), China in the North and North-east (1080 km) and Myanmar in the East (440 km). It also shares common boundaries with Assam and Nagaland. According to the Census of India, 2011, the population of the State stood at 13,83,727 (Male : 7,13,912; Female : 6,69,815) and the density of population of the State was 17 persons per sq km. The state's literacy rate increased from 54.54 per cent (2001) to 65.38 per cent (2011), second lowest among States/UTs. As per data furnished by the Director of Economics & Statistics, Govt. of Arunachal Pradesh (July 2014), Gross Domestic Product (GDP) of the State was ₹ 13,491.03 crore (Base Year 2004-05) and the estimated per capita GSDP of the State stood at ₹ 91,829 during 2013-14.

The State primarily depends on resources transferred by the Central Government, as the State's own resources during 2009-14 contributed only about 10 to 16 *per cent* of the total Revenue Receipts. Outstanding fiscal liabilities of the State as a percentage to GSDP indicated a decreasing trend during 2009-14. It declined from its peak of 41.73 *per cent* in 2009-10 to 36.58 *per cent* in 2013-14.

Growth and Composition of GSDP

Gross State Domestic Product (GSDP) is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy as it indicates the standard of living of the State's population. The trend in the annual growth of India's GDP and State's GSDP at current prices are indicated below.

Table - 1.1

Trends in the annual growth of India's GDP and State's GSDP at current prices

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
India's GDP (₹ in crore)	61,08,903	72,48,860	83,91,691	93,88,876	1,04,72,807
Growth rate of India's GDP	15.18	18.66	15.77	11.88	11.54
State's GSDP (₹ in crore)	7474.45	9017.90	10396.16	11817.14	13491.03
Growth Rate of GSDP	31.42	20.65	15.28	13.67	14.16

As per the State's GSDP series (base year 2004-05), there was a fluctuating trend in the growth rate of GSDP. Increase in growth of GSDP during 2013-14 was mainly due to increase of 14.35 *per cent* in the Tertiary/ Service sector. During 2013-14, GSDP also exceeded the assessment (₹ 7355 crore) made by the 13th Finance

¹ The 5th Finance Commission (1969) accorded special status to 3 States on the basis of harsh terrain, backwardness and social problems prevailing in the States. Thereafter, the number of such States increased to 11, including Arunachal Pradesh.

Commission by 83.43 *per cent*. Incidentally, the growth of GSDP during 2013-14 at 14.16 *per cent* exceeded the assessment of the 13th Finance Commission (11.49 *per cent*).

1.1 Introduction

This Chapter provides a broad perspective of finances of the Government of Arunachal Pradesh during the current year and analyses critical changes in major fiscal aggregates relative to the previous year, keeping in view the overall trend during the last five years. The analysis has been made based on the State Finance Accounts and information obtained from State Government. The structure of Government Accounts, lay-out of Finance Accounts, methodology adopted for assessment of the fiscal position and State Profile are shown in **Appendices 1.1**. While **Appendix 1.2** briefly outline the Fiscal Responsibility and Budget Management (FRBM) Act of the Government, **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to State Government finances for the period 2009-14.

1.1.1 Summary of Current Year Fiscal Transactions

Table 1.2 presents a summary of the State Government's fiscal transactions during the current year (2013-14) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts/disbursements and the overall fiscal position during the current year.

Table - 1.2

Summary of Fiscal Transactions (Current Year)

(₹ in crore)

Receipts	2012-13	2013-14	Disbursements	2012-13	2013-14		
					Non-Plan	Plan	Total
Section – A : Revenue							
Revenue Receipts	5761.52	5820.43	Revenue Expenditure	4786.24	3957.59	1773.81	5731.40
Tax Revenue	316.50	434.51	General Services	1423.46	1734.50	45.56	1780.06
Non-tax Revenue	284.22	405.06	Social Services	1506.28	970.38	799.78	1770.16
Share of Union Taxes/Duties	957.93	1045.85	Economic Services	1856.50	1252.72	928.46	2181.18
Grants-in-aid from Govt. of India	4202.87	3935.01	-	-	-	-	-
Section – B : Capital							
Miscellaneous Capital Receipts	Capital Outlay	1206.28	6.21	1673.49	1679.70
Recoveries of Loans & Advances	2.95	3.42	Loans & Advances Disbursed	3.95	12.50	6.03	18.53
Public Debt Receipts ²	276.45	354.15	Repayment of Public Debt	166.64	-	169.08	169.08
Contingency Fund	-	-	Contingency Fund	-	-	-	-
Public Account Receipts	4113.19	5705.44	Public Account Disbursements	3784.15	-	-	4648.49
Opening Balance	1108.81	1315.66	Closing Balance	1315.66	-	-	971.90
Total	11262.92	13199.10	Total	11262.92	-	-	13199.10

² Includes Net Ways and Means Advances.

Significant changes during 2013-14 over the previous year are shown below:

- **Revenue Receipts** increased by 1.02 *per cent* (₹ 58.91 crore) over the previous year. The increase was contributed by Non-Tax Revenue of ₹ 120.84 crore (42.52 *per cent*), Tax Revenue of ₹ 118.01 crore (37.29 *per cent*) and State share of Union Taxes & Duties of ₹ 87.92 crore (9.18 *per cent*), which was partly offset by decrease under Grants-in-Aid of ₹ 267.86 crore (6.37 *per cent*) from the Government of India (GoI).
- **Revenue Expenditure** increased by 19.75 *per cent* (₹ 945.16 crore) over the previous year. While 28.18 *per cent* (₹ 870.18 crore) of the increase was under Non-Plan heads, increase under Plan heads was 4.41 *per cent* (₹ 74.98 crore) over the previous year. **Capital Expenditure** during the year also increased by 39.25 *per cent* (₹ 473.42 crore) over the previous year.
- **Recovery of Loans & Advances** during the current year increased by ₹ 0.47 crore and **Disbursement of Loans & Advances** also increased by ₹ 14.58 crore compared to the previous year.
- **Public Debt Receipts** increased by ₹ 77.70 crore over the previous year wholly due to increase in receipts under Internal Debt. **Repayment of Public Debt** also increased by ₹ 2.44 crore over the previous year.
- **Public Account Receipts and Disbursements** increased by ₹ 1592.25 crore and ₹ 844.34 crore respectively over the previous year.
- The total inflow during 2013-14 was ₹ 11883.44 crore against ₹ 10154.11 crore in 2012-13, while the total outflow during 2013-14 was ₹ 12227.20 crore against ₹ 9947.26 crore during the previous year, registering an increase of 17.03 *per cent* in inflow and 22.92 *per cent* in outflow. During 2013-14, a decrease in cash balances by ₹ 343.76 crore (26.13 *per cent*) over the previous year was seen.

1.1.2 Review of the Fiscal Situation

Performance of the State during 2013-14 in terms of key fiscal targets set for selected parameters laid down in the Arunachal Pradesh Fiscal Responsibility & Budget Management (Amendment) Act, 2012, and projections made in the Medium Terms Fiscal Policy Statement (MTFPS) *vis-à-vis* achievements are given in **Table 1.3** below.

Table - 1.3

Trends in Major fiscal parameters/variables *vis-à-vis* projections for 2013-14

Fiscal Parameters	2013-14		
	Targets as prescribed in FRBM Act	Projections made in MTFPS	Actuals
Revenue Surplus (₹ in crore)	Strive to remain Revenue Surplus during 2010-15	-	89.03
Revenue Surplus (as % of GSDP)	Strive to maintain in a consistent manner	28.67	0.66
Fiscal Deficit/GSDP (<i>per cent</i>)	Not more than 3 %	1.21	11.90
Total Outstanding Debt/GSDP (<i>per cent</i>)	52.5	32.38	36.58

The above Table indicates that the State was able to achieve targets prescribed in the FRBM Act/MTFPS in respect of Revenue Surplus and Total Outstanding Debt as a percentage of GSDP. While the ratio of Fiscal Deficit-GSDP (in *percentage*) not only surpassed the target fixed in the FRBM Act but also failed to achieve the projection made in MTFPS.

1.1.3 Budget Estimates and Actuals

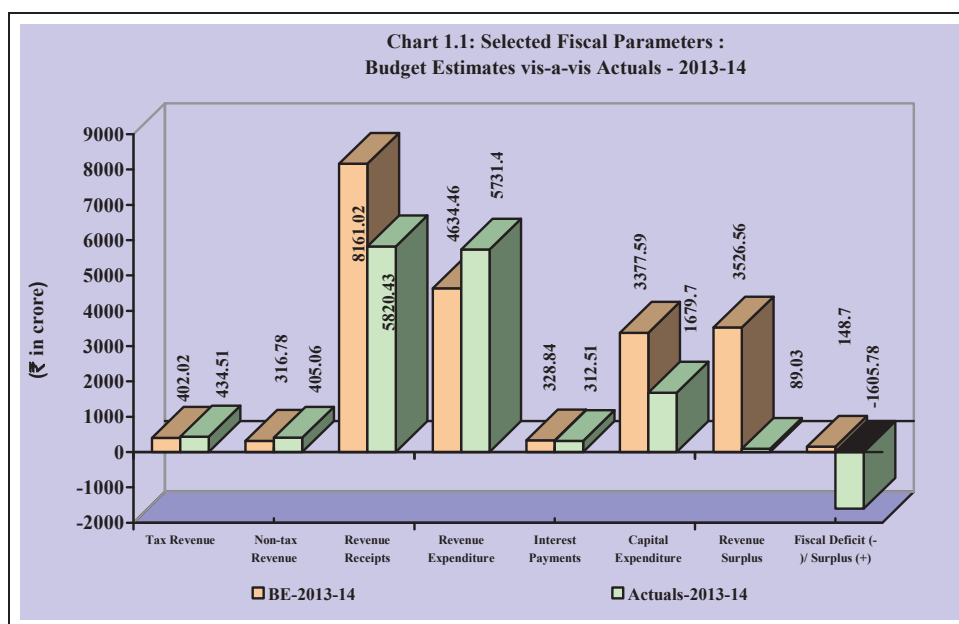
Budget papers presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from Budget Estimates are indicative of non-attainment and non-optimization of desired fiscal objectives due to various causes, some within and some beyond the control of the Government. **Table 1.4** presents the consolidated picture of State Finances during 2012-13 (Actuals) and 2013-14 (Budget Estimates, Revised Estimates and Actuals) and **Chart 1.1** presents the Budget Estimates and Actuals for some important fiscal parameters for 2013-14.

Table - 1.4
Variation in Major Items – Actuals of 2013-14 over 2012-13 and Budget Estimates/Revised Estimates with Actuals of 2013-14

(₹ in crore)

Parameters	2012-13	2013-14			Percentage of Excess (+)/ Shortfall (-) with reference to		
	Actuals	Budget Estimates (BE) ³	Revised Estimates (RE) ⁵	Actuals	Actuals 2012-13	BE	RE
Tax Revenue	316.50	402.02	475.59	434.51	37.29	8.08	-8.64
Non-Tax Revenue	284.22	316.78	564.26	405.06	42.52	27.87	-28.21
REVENUE RECEIPTS	5761.52	8161.02	7232.41	5820.43	1.02	-28.68	-19.52
Non-debt Capital Receipts	2.95	3.85	0.00	3.42	15.93	-11.17	0.00
REVENUE EXPENDITURE	4786.24	4634.46	6324.04	5731.40	19.75	23.67	-9.37
Interest Payments	271.85	328.84	350.81	312.51	14.96	-4.97	-10.92
CAPITAL EXPENDITURE	1206.28	3377.59	3292.31	1679.70	39.25	-50.27	-48.98
Disbursement of Loans & Advances	3.95	4.12	20.32	18.53	369.11	349.76	-8.81
REVENUE SURPLUS	975.28	3526.56	908.37	89.03	-90.87	-97.48	-90.20
Fiscal Deficit (-)/ Surplus (+)	- 232.00	+148.70	-2404.26	-1605.78	-592.15	-1179.88	33.21

³ Net Estimates.



- In 2013-14, compared with the Budget Estimates and Revised Estimates, actual **Revenue Receipts** fell short by 28.68 and 19.52 *per cent* respectively. Compared with Budget Estimates, the actual **Revenue Expenditure** exceeded by 23.67 *per cent*, but fell short of Revised Estimates by 9.37 *per cent*.
- Compared with the Budget and Revised Estimates, **Capital Expenditure** was less by 50.27 and 48.98 *per cent* respectively. Compared to the previous year, Capital Expenditure increased by ₹ 473.42 crore (39.25 *per cent*), mainly due to increase of ₹ 103.95 crore (123.96 *per cent*) under General Services, ₹ 224.04 crore (80.08 *per cent*) under Social Services and ₹ 145.43 crore (17.26 *per cent*) under Economic Services.
- **Revenue Surplus** (₹ 89.03 crore) during the year was less by ₹ 3437.53 crore and ₹ 819.34 crore compared to the assessment made in the Budget and Revised Estimates respectively. Against the fiscal surplus of ₹ 148.70 crore and fiscal deficit of ₹ 2404.26 crore, as assessed in the Budget and Revised Estimates, the year ended with a fiscal deficit of ₹ 1605.78 crore.

The wide variation between Budget Estimates and Actuals indicated that the budgeting was unrealistic.

1.2 Resources of the State

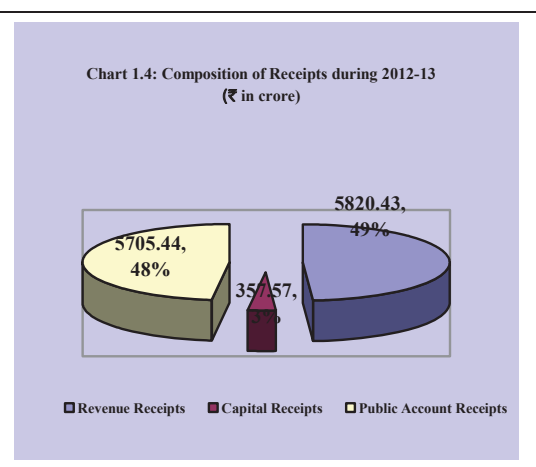
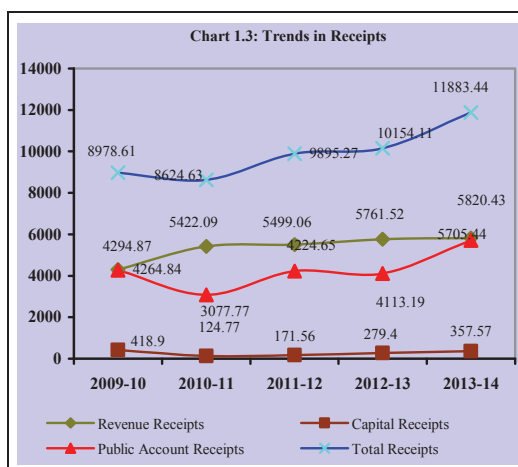
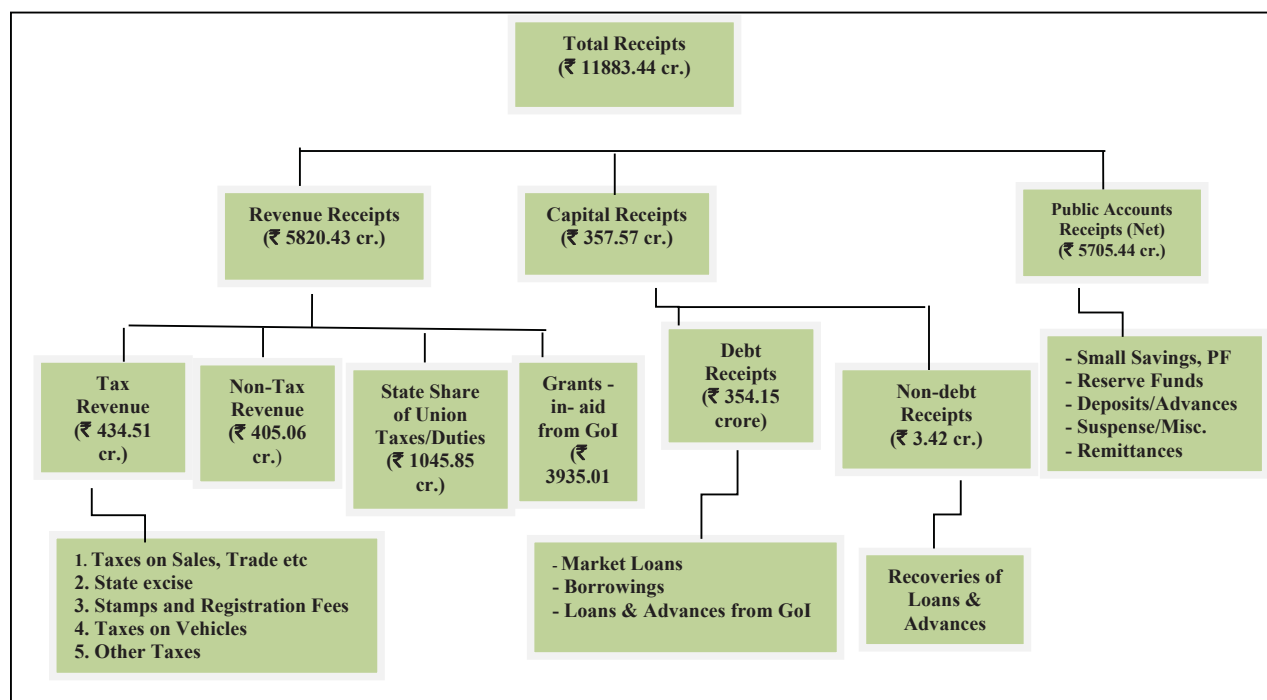
1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and **Capital** are the two streams of receipts that constitute resources of the State Government. Revenue Receipts consist of Tax Revenue, Non-tax Revenue, State share of Union Taxes & Duties and Grants-in-aid from the Government of India (GoI). Capital Receipts comprise of miscellaneous Capital Receipts such as proceeds from disinvestments, recoveries of loans & advances, debt receipts from internal

sources (market loans, borrowings from Financial Institutions/Commercial Banks), loans & advances from the GoI and accruals from Public Account. **Table 1.2** above presents receipts and disbursements of the State during the current year as recorded in the Annual Finance Accounts, while **Charts 1.2 & 1.3** depict trends in various components of receipts of the State during 2009-14. **Chart 1.4** depicts the composition of resources of the State during the current year.

The following Flow Chart shows the components and sub-components of resources.

Chart - 1.2



Total Receipts during the current year increased by ₹ 1729.33 crore (17.03 per cent) over the previous year. Out of the total receipts, Public Accounts Receipts increased by 38.71 per cent (₹ 1592.25 crore), followed by Capital Receipts by 27.98 per cent (₹ 78.17 crore), whereas Revenue Receipts increased by only 1.02 per cent (₹ 58.91 crore)

Total Receipts of the State for 2013-14 was ₹ 11883.44 crore, of which ₹ 5820.43 crore (48.98 *per cent*) came from Revenue Receipts and the remaining (52.02 *per cent*) from Borrowings and Public Account. Total Receipts of the State increased by 32.38 *per cent* from ₹ 8976.61 crore in 2009-10 to ₹ 11883.44 crore in 2013-14.

Revenue Receipts increased by 35.52 *per cent* steadily from ₹ 4294.87 crore in 2009-10 to ₹ 5820.43 crore in 2013-14, whereas **Capital Receipts** decreased by 14.64 *per cent* from ₹ 418.90 crore in 2009-10 to ₹ 357.57 crore in 2013-14. **Public Account Receipts** increased from ₹ 4264.84 crore (47.50 *per cent* of Total Receipts) in 2009-10 to ₹ 5705.44 crore (48.01 *per cent* of Total Receipts) in 2013-14.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budget

The Central Government transferred a sizeable quantum of funds directly to State Implementing Agencies⁴ for implementation of various Schemes/Programmes in the Social and Economic Sectors recognized as critical. As the funds were not routed through the State Budget/State Treasuries, the Annual Finance Accounts do not reflect the flow of such funds, and to that extent, State receipts/expenditure and fiscal variables/parameters derived from the Annual Finance Accounts are underestimated. An illustrative position of Central funds transferred to State Implementing Agencies during 2013-14 for implementation of various Schemes is given in **Appendix 1.5**. The GoI directly transferred ₹ 1167.13 crore (approx.) to State Implementing Agencies during 2013-14. The scheme-wise position involving substantial amount of Central funds is given in **Table 1.5**.

Table - 1.5
Funds Transferred directly to State Implementing Agencies

(₹ in crore)		
Programme/Scheme	Implementing Agency in the State	Funds Transferred by GoI
National Rural Drinking Water Programme (NRDWP)	SWSM, Arunachal Pradesh	237.31
Sarva Shiksha Abhiyan (SSA)	SSA Rajya Mission, Itanagar	192.62
MGNREGA	DRDA (District)	158.53
Integrated Watershed Management Programme (IWMP)	SLNA & DRDA (District)	122.34
Support to National Institute of Technology (NITs) incl. Ghani Khan Institute	National Institute of Technology, Arunachal Pradesh	101.50
National Rural Health Mission (NRHM)	AP State Health Society	64.95
Rural Housing (IAY)	DRDA(District)	57.07
Assistance to other Institutes, incl. CIT Kokrajhar SLIET, NERIST, NIFFT, Ranchi,	North Eastern Regional Institute of Science & Technology (NERIST)	24.24
Assistance to other Institutes, incl. , CIT Kokrajhar SLIET, NERIST, NIFFT, Ranchi	North Eastern Regional Institute of Science & Technology (NERIST)	24.24
Grid Interactive Renewable Power	AP Energy Development Agency	19.42

Source: Central Plan Scheme Monitoring System of CGA Website

⁴ State Implementing Agency includes any Organization/Institution, including non-Governmental Organizations which are authorized by the State Government to receive funds from the GoI for implementing specific programmes in the State, e.g., State Implementing Society for SSA, State Health Mission for NRHM, etc.;

Out of ₹ 1167.13 crore, ₹ 237.31 crore (20.33 per cent) was transferred to the SWSM, Arunachal Pradesh for National Rural Drinking Water Programme and ₹ 192.62 crore (16.50 per cent) to the SSA Rajya Mission for Sarva Shiksha Abhiyan. Unless uniform accounting practices are diligently followed by all the implementing agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement - 11 of the Finance Accounts details Revenue Receipts of the Government. Revenue Receipts consist of its own Tax and Non-tax revenues, Central Tax transfers and Grants-in-aid from GoI. Trends and composition of Revenue Receipts over the period 2009-14 are presented in **Appendix 1.3** and depicted in **Charts 1.5** and **1.6** respectively. Trends in Revenue receipts relative to GSDP are presented in **Table 1.6**.

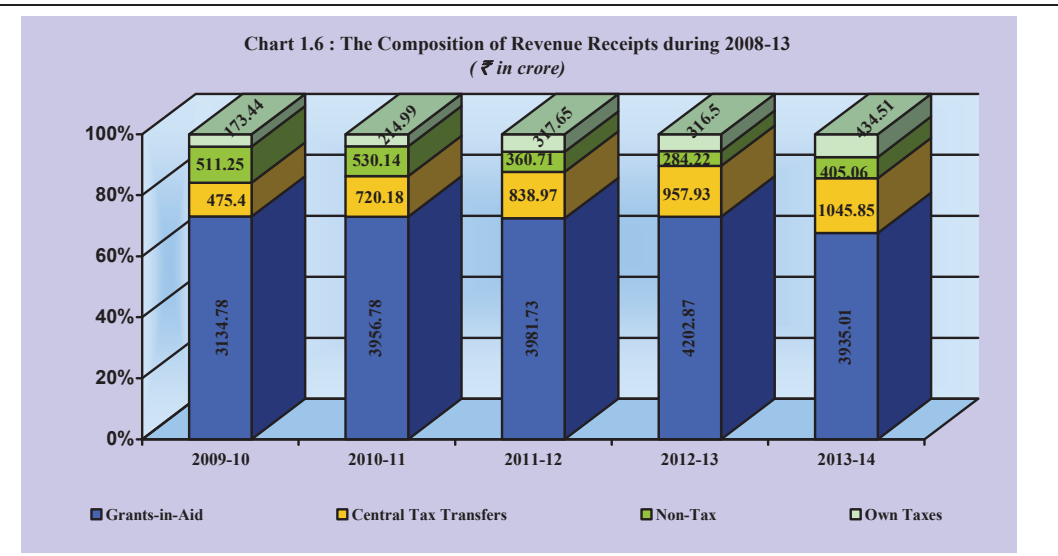
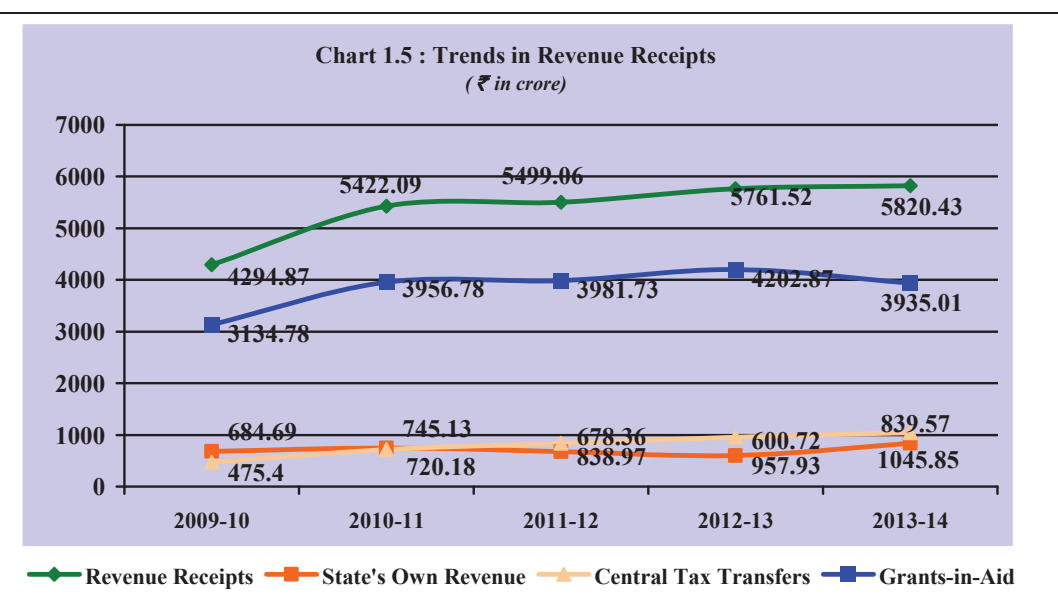


Table - 1.6
Trends in Revenue Receipts relative to GSDP

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue Receipts (RR) (₹ in crore)	4294.87	5422.09	5499.06	5761.52	5820.43
Rate of growth of Revenue Receipts (per cent)	11.38	26.25	1.42	4.77	1.02
Rate of growth of Own Taxes (per cent)	27.31	23.96	47.75	(-) 0.36	37.29
Revenue Receipts/GSDP (per cent)	57.46	60.13	52.90	48.76	43.14
Buoyancy Ratio					
Revenue Buoyancy Ratio with reference to GSDP	0.36	1.27	0.09	0.35	0.07
State's Own Taxes Buoyancy Ratio with reference to GSDP	0.87	1.16	3.13	-0.03	2.63
State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts	2.40	0.91	33.63	-0.08	36.56

Revenue Receipts of the State increased by ₹ 1525.56 crore (35.52 per cent) from ₹ 4294.87 crore in 2009-10 to ₹ 5820.43 crore in 2013-14. Tax revenue increased by ₹ 261.07 crore (150.52 per cent) from ₹ 173.44 crore in 2009-10 to ₹ 434.51 crore in 2013-14, whereas Non-tax revenue decreased by ₹ 106.18 crore (20.77 per cent) from ₹ 511.25 crore in 2009-10 to ₹ 405.06 crore in 2013-14. The Buoyancy Ratio of Revenue Receipts with reference to GSDP increased due to significant decrease in the rate of growth of GSDP in 2013-14 compared to the previous year. The Buoyancy Ratio of the State's own Tax revenue with reference to GSDP increased due to significant increase in the growth rate of the State's own Tax revenue under Taxes on Sales, Trade, etc; (38.35 per cent).

The Buoyancy Ratio of the State's own taxes with reference to Revenue Receipts indicates the pace of growth of its own taxes. State's own taxes Buoyancy Ratio with reference to Revenue Receipts during the current year was 35.56. This was due to increase in both Tax and Non-tax revenue in the current year compared to the previous year.

1.3.1 State's Own Resources

As the State share in Central taxes and Grants-in-aid is determined on the basis of recommendations of the Finance Commission, the State's performance in mobilization of resources was assessed in terms of its own resources comprising of own tax and non-tax sources.

The State's actual Tax and Non-tax receipts for 2013-14 vis-à-vis assessment made by 13th Finance Commission and MTFP (latest) are given in the Table below:

Table - 1.7

	13 th FC Projections	Budget Estimates	Actual
Tax Revenue	222.88	402.02	434.51
Non-Tax Revenue	470.99	316.78	405.06

Tax Revenue was 94.95 per cent higher than the assessment made by the 13th Finance Commission and 8.08 per cent higher than the assessment made in the Budget Estimates for the year. Collection of Non-Tax Revenue during 2013-14 was lower

than the assessments made by the 13th Finance Commission (14.00 *per cent*) and lower than the assessments made in the Budget Estimates (27.87 *per cent*).

1.3.1.1 Tax Revenue

The gross collection in respect of major taxes and duties is given in **Table 1.8**

Table - 1.8

Tax Revenue

(₹ in crore)

Heads	2009-10	2010-11	2011-12	2012-13	2013-14	% Increase (+)/ Decrease (-) over Previous Year
Taxes on Sales, Trade, etc.:	130.23	168.24	216.36	161.62	223.60	38.35
State Excise	23.78	29.74	37.63	49.11	55.50	13.01
Taxes on Vehicles	13.07	11.76	12.41	13.37	17.09	27.82
Stamp & Registration Fees	1.88	1.86	2.24	3.05	4.18	37.05
Land Revenue	4.43	3.37	3.85	4.70	11.39	142.34
Taxes on Goods & Passengers		0.01	45.16	84.65	122.75	45.01
Other Taxes ⁵	0.05	0.02	-	-	-	-
TOTAL	173.44	214.99	317.65	316.50	434.51	37.29

Tax Revenue increased by 37.29 *per cent* during the current year (₹ 434.51 crore) over the previous year (₹ 316.50 crore). Revenue from Taxes on Sales, Trade, etc.; contributed to the major share of Tax revenue (51.46 *per cent*) and increased by 38.35 *per cent* over the previous year. Taxes on goods and passengers, State Excise and Taxes on Vehicles were the other major contributors to the State Tax revenue. The Tax-GSDP Ratio 3.22 during 2013-14 was higher than the projection (3.03 *per cent*) made by the 13th Finance Commission.

1.3.1.2 Non-tax Revenue

Table 1.9 shows the trends of Non-Tax Revenue during the period 2009-14.

Table - 1.9

Non-Tax Revenue

(₹ in crore)

Heads	2009-10	2010-11	2011-12	2012-13	2013-14	% Increase(+)/ Decrease (-) over previous year
Fiscal Services	0.02	-	-	-	-	-
Interest Receipts, Dividends & Profits	40.02	111.35	48.71	40.32	24.66	- 38.84
General Services	23.09	17.67	19.84	27.77	42.75	53.94
Social Services	9.07	9.67	10.35	16.97	36.86	117.21
Economic Services	439.05	391.45	281.81	199.16	300.79	51.03
TOTAL	511.25	530.14	360.71	284.22	405.06	42.52

Non-Tax Revenue (NTR), which constituted around 6.96 *per cent* of total Revenue Receipts, significantly increased by ₹ 120.84 crore (42.52 *per cent*) during 2013-14

⁵ Other Taxes include taxes on professions, trades, callings and employment, taxes & duties on electricity and other taxes & duties on commodities and services.

over the previous year. Around 74.26 *per cent* (₹ 300.79 crore) of Non-Tax Revenue during 2013-14 was received from Economic Services, and within this category, receipts under Power Sector alone contributed 48.34 *per cent* (₹ 145.41 crore). Interest Receipts decreased by ₹ 15.66 crore (38.84 *per cent*) during 2013-14 compared to the previous year, mainly due to decrease in Interest Receipts on State/Union Territory Governments by ₹ 17.07 crore. However, the CAGR of Non-Tax Revenue for Arunachal Pradesh between 2004-05 and 2012-13 (6.62 *per cent*) significantly inclined to 10.11 *per cent* between 2004-05 and 2013-14.

1.3.2 Grants-in-Aid

Details of Grants-in-aid from the GoI are given in **Table 1.10**.

Table - 1.10
Grants-in-Aid from the GoI

Particulars	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Non-Plan Grants	505.76	836.29	850.18	966.40	743.62
Grants for State Plan Schemes	2296.66	2616.44	2565.22	2733.97	2543.31
Grants for Central Plan Schemes	66.43	47.59	30.74	13.04	166.23
Grants for Centrally Sponsored Schemes	142.39	378.31	352.96	391.16	391.68
Grants for Special Plan Schemes	123.54	78.15	182.63	98.30	90.17
TOTAL	3134.78	3956.78	3981.73	4202.87	3935.01
Percentage of Increase (+)/Decrease (-) over previous year	(+) 26.12	(+) 26.22	(+) 0.63	(+) 5.55	(-) 6.37

Grants-in-aid from the GoI decreased by 6.37 *per cent* (₹ 267.86 crore) from ₹ 4202.87 crore in 2012-13 to ₹ 3935.01 crore in the current year. The decrease was mainly due to decrease in Grants for State Plan Schemes by ₹ 190.66 crore (6.97 *per cent*), Non-plan Grants ₹ 222.78 crore (23.05 *per cent*) and Grants for Special Plan Schemes ₹ 8.13 crore (8.27 *per cent*). The decrease was partly offset by increase in Grants for Central Plan Schemes by ₹ 153.19 crore (1174.77 *per cent*).

Non-Plan Grants (₹ 743.62 crore) constituted 18.90 *per cent* of total grants during the year, of which 91.39 *per cent* (₹ 679.61 crore) was under the proviso to Article 275(1) of the Constitution. The remaining amount (₹ 64.01 crore) was released mainly as Contribution to Calamity Relief Fund State Disaster Response Fund (SDRF) (₹ 38.29 crore) and pay Scale of University and College Teachers (₹ 13.79 crore).

1.3.3 Central Tax Transfers

Central Tax Transfers increased by 9.18 *per cent* (₹ 87.92 crore) over the previous year and constituted 17.97 *per cent* of Revenue Receipts. The increase was mainly due to transfer of additional amount in Taxes on Income other than Corporation Tax (₹ 33.28 crore), Service Tax (₹ 30.44 crore), Union Excise Duties (₹ 12.34 crore), Customs (₹ 11.47 crore) and Corporation Tax (₹ 7.65 crore).

1.4 Capital Receipts

Details of Capital Receipts during 2009-10 to 2013-14 are given in **Table 1.11**.

Table - 1.11

Trends in Growth and Composition of Receipts

(₹ in crore/Rate of Growth in per cent)

Sources of State's Receipts	2009-10	2010-11	2011-12	2012-13	2013-14
Capital Receipts (CR)	418.90	124.77	171.56	279.40	357.57
Miscellaneous Capital Receipts	-	-	-	-	-
Recovery of Loans & Advances	202.70	2.41	2.90	2.95	3.42
Public Debt Receipts	216.20	122.36	168.66	276.45	354.15
Rate of growth of Non-debt Capital Receipts	7191.37	(-) 98.81	20.33	1.72	15.93
Rate of growth of Debt Capital Receipts	50.26	(-) 43.40	37.84	63.91	24.85
Rate of growth of CR	185.63	(-) 70.21	37.50	62.86	27.98

Public Debt Receipts increased by ₹ 77.70 crore (28.11 per cent) over the previous year. Public Debt Receipts Consisted two components viz. Internal Debt of the State and Loans and Advances from the Central Government. Internal Debt consisted of Market Loans (₹ 230 crore), Loans from Financial Institutions (₹ 68.72 crore), Special Securities issued to National Small Savings Fund (₹ 49.47 crore) and Other Loans (₹ 5.97 crore).

During the year, no Loans & Advances from the Central Government were received by Government of Arunachal Pradesh.

1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances, etc., which do not form part of the Consolidated Fund, are kept in Public Accounts set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker. After disbursements, the balance is the fund available for use with the Government.

Table - 1.12
Public Account Receipts

(₹ in crore)

Sources of State's Receipts	2009-10	2010-11	2011-12	2012-13	2013-14
PUBLIC ACCOUNT RECEIPTS	4264.84	3077.77	4224.65	4113.19	5705.44
Small Savings, Provident Fund, etc.;	220.14	183.41	256.02	278.81	308.36
Reserve Funds	15.00	17.00	19.00	20.00	62.54
Deposits & Advances	540.38	650.90	940.44	1032.07	1370.75
Suspense & Miscellaneous	649.59	(-) 219.28	10.55	(-) 0.07	963.98
Remittances	2839.74	2445.74	2998.64	2782.38	2999.81

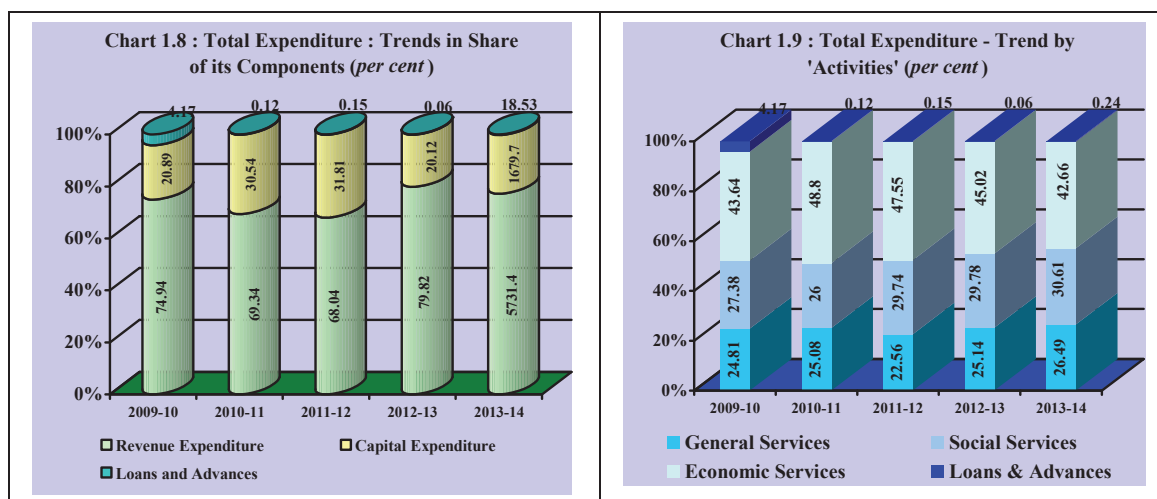
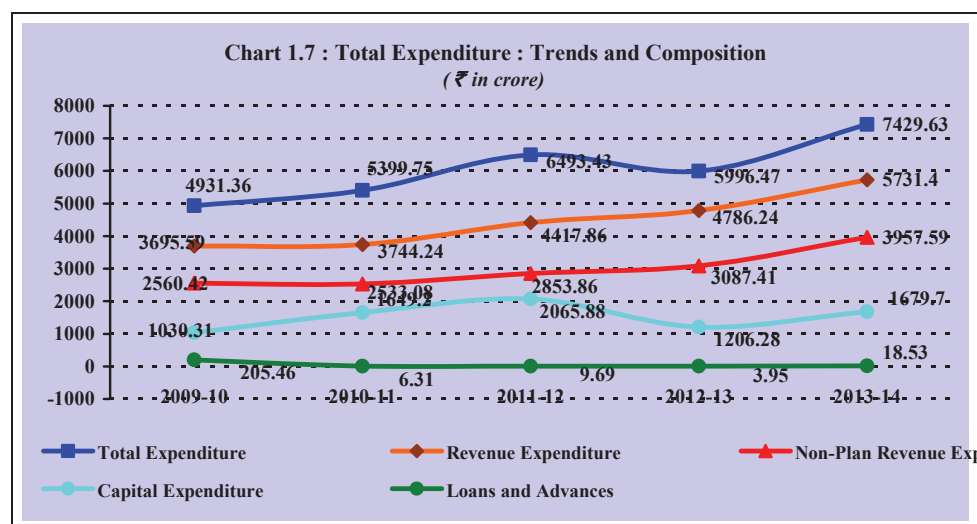
1.6 Application of Resources

Analysis of allocation of expenditure at 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. Therefore, it is

important to ensure that the ongoing fiscal correction and consolidation process at State level is not at the cost of expenditure, especially expenditure directed towards development and Social sectors.

1.6.1 Growth and Composition of Expenditure

Chart 1.7 presents trends in total expenditure over 5 years (2009-14). The composition, both in terms of 'economic classification' and 'expenditure by activities,' are depicted in Charts 1.8 and 1.9 respectively.



The total expenditure of the State increased by ₹ 2498.27 crore (50.66 per cent) from ₹ 4931.36 crore in 2009-10 to ₹ 7429.63 crore in 2013-14. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to Revenue receipts and its buoyancy with respect to GSDP and Revenue Receipts, are indicated in Table 1.13.

Table - 1.13

Total Expenditure – Basic Parameters

<i>(₹ in crore)</i>					
Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Total Expenditure (TE) (₹ in crore)	4931.36	5399.75	6493.43	5996.47	7429.63
Rate of Growth (per cent)	17.05	9.50	20.25	(-) 7.65	23.90
TE/GSDP Ratio (per cent)	65.98	59.88	62.46	50.74	55.07
RR/TE Ratio (per cent)	87.09	100.41	84.69	96.08	78.34
Buoyancy of Total Expenditure with reference to					
GSDP (ratio)	0.54	0.46	1.33	(-)0.56	1.69
RR (ratio)	1.50	0.36	14.26	(-) 1.60	23.43

The increase of ₹ 1433.16 crore (23.90 per cent) in Total Expenditure during 2013-14 over the previous year was mainly on account of increase of ₹ 945.16 crore in Revenue Expenditure, ₹ 473.42 crore in Capital Expenditure and ₹ 14.58 crore in Loans & Advances. While the share of Plan Expenditure constituted around 46.48 per cent (₹ 3453.33 crore) of the Total Expenditure, the remaining 53.52 per cent (₹ 3976.30 crore) was Non-plan Expenditure. The buoyancy of Total Expenditure to GSDP stood at 1.69 in 2013-14 due to growth rate of Total Expenditure at a much higher pace compared to GSDP. Similarly, the Buoyancy Ratio of Total Expenditure to Revenue Receipts stood at 23.43, indicating significant increase in expenditure at a much higher pace compared to Revenue Receipts.

In terms of activities, Total Expenditure comprises of expenditure on General Services, including Interest payments, Social & Economic Services, Grants-in-Aid and Loans & Advances. Of the Total Expenditure in 2013-14, expenditure on General Services, including Interest Payments, which are considered as non-developmental, together accounted for 26.49 per cent. On the other hand, expenditure on Social & Economic Services (Revenue & Capital) together accounted for 73.48 per cent during 2013-14. The relative share of Social Services increased from 29.78 per cent in 2012-13 to 30.74 per cent in 2013-14. The relative share of Economic Services was 42.74 per cent in 2013-14, which was lowest in the last 5 years, after reaching its peak in 2009-10 (52.74 per cent). Loans & Advances showed wide fluctuations during 2009-14 and stood at 0.25 per cent of the total expenditure during 2013-14.

1.6.2 Revenue Expenditure

Revenue Expenditure is incurred to maintain the current level of services and payment of past obligations and does not result in any addition to the State's infrastructure and service network. The overall Revenue Expenditure, its rate of growth, ratio of Revenue expenditure to GSDP and Revenue Receipts and its buoyancy are indicated in **Table 1.14**.

Table - 1.14**Revenue Expenditure – Basic Parameters***(₹ in crore)*

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue Expenditure (RE)	3695.59	3744.24	4417.86	4786.24	5731.40
<i>of which</i>					
Non-Plan Revenue Expenditure (NPRE)	2560.42 (69.28)	2533.08 (67.65)	2853.86 (64.60)	3087.41 (64.51)	3957.59 (69.05)
Plan Revenue Expenditure (PRE)	1135.17 (30.72)	1211.16 (32.35)	1564.00 (35.40)	1698.83 (35.49)	1773.81 (30.95)
Rate of Growth of					
RE (per cent)	27.63	1.32	17.99	8.34	19.75
NPRE (per cent)	46.08	(-) 1.07	12.66	8.18	28.18
PRE (per cent)	(-) 0.66	6.69	29.13	8.62	4.41
Ratio (per cent) of					
RE as percentage of TE	74.94	69.34	68.04	79.82	77.14
NPRE/GSDP (per cent)	34.26	28.09	27.45	26.13	29.33
NPRE as percentage of TE	51.92	46.91	43.95	51.49	53.27
NPRE as percentage of RR	59.62	46.72	51.90	53.59	67.99
Buoyancy Ratio of Revenue Expenditure with...					
GSDP	1.47	0.05	0.83	0.60	1.39
Revenue Receipts	2.43	0.05	12.67	1.74	19.36

(Figures in brackets represent percentages to Revenue Expenditure)

Revenue Expenditure constituted 68.04 to 77.14 *per cent* of Total Expenditure during 2009-14 and increased by 55.09 *per cent* from ₹ 3695.59 crore in 2009-10 to ₹ 5731.40 crore in 2013-14. Non-Plan Revenue Expenditure (NPRE) during the same period increased from ₹ 2560.42 crore in 2009-10 to ₹ 3957.59 crore in 2013-14 - an increase of 54.57 *per cent* - outpacing the growth of Revenue Expenditure during the period. As a percentage of total Revenue Expenditure, NPRE also decreased from 69.28 *per cent* in 2009-10 to 69.05 *per cent* in 2013-14. As a result, the share of Plan Revenue Expenditure (PRE) in the Total Revenue Expenditure, which normally covers maintenance expenditure incurred on services, showed marginal increase from 30.72 *per cent* during 2009-10 to 30.95 *per cent* during 2013-14.

Compared to previous years, NPRE during 2013-14 increased by ₹ 870.18 crore. The growth of 28.18 *per cent* in NPRE during 2013-14 against a growth of 8.18 *per cent* during the previous year, was mainly due to increased expenditure on Agriculture & Allied Activities (₹ 199.70 crore), Transport (₹ 142.96 crore) followed by Education, Sports and Arts & Culture (₹ 77.98 crore). PRE increased by ₹ 74.98 crore (4.41 *per cent*) over the previous year. The growth of PRE was mainly due to increased expenditure on Water Supply & Sanitation, Housing & Urban Development (₹ 85.77 crore).

NPRE at ₹ 3957.59 crore during 2013-14, was around 71.93 *per cent* (₹ 1655.68 crore) higher than the normatively assessed level of ₹ 2301.91 crore by the 13th Finance Commission (Table 1.15).

Table - 1.15

Actual Non-Plan Revenue Expenditure during 2013-14 vis-à-vis Normative Assessment by the 13th Finance Commission

(₹ in crore)

Sectors	13 th FC Assessment	Actuals
Salaries	937.73	2098.77
Interest Payments	289.15	312.51
Pension	212.20	398.40
Other General Services	173.05	271.04
Social Services	73.09	147.37
Economic Services	212.73	729.50
TOTAL	2301.91	3957.59

During 2013-14, actual expenditure incurred on all components under Non-Plan Head was more than the assessments made by the 13th Finance Commission. The total NPRE during 2013-14 also exceeded the projection made by the State Government in the Budget (₹ 3134.98 crore) by 26.24 per cent (₹ 822.61 crore).

According to recommendation of the 13th Finance Commission, 'the practice of diverting of Plan Assistance to meet Non-plan needs of Special Category States should be discontinued.' During 2013-14, Revenue Receipts of Arunachal Pradesh, excluding Plan Assistance (₹ 3191.39 crore), was ₹ 2629.04 crore. Against this, NPRE during the year was ₹ 3957.59 crore. It was obvious that Plan assistance was diverted to Non-plan heads and that the State could not adhere to the recommendation of the 13th Finance Commission.

1.6.3 Capital Expenditure

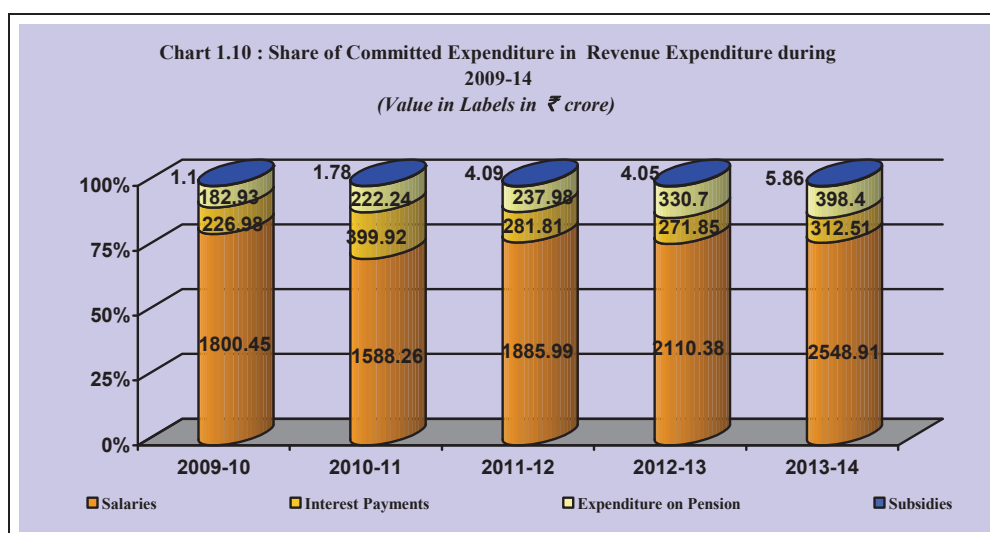
Capital Expenditure during 2013-14 (₹ 1679.70 crore) increased by ₹473.42 crore over the previous year mainly due to increased expenditure on General Services (₹ 103.95 crore), Transport (₹ 215.41 crore) and Water Supply, Sanitation, Housing and Urban Development (₹153.41 crore). However, this expenditure constituted only 22.61 per cent of Total Expenditure during this year. Though there was an increase in Capital Expenditure during the current year compared to the previous year, the State Government could not fulfil its commitment made in the Budget Estimates for incurring Capital Expenditure during the year, as the expenditure fell short of the Budget estimates (₹ 3377.59 crore) by 50.27 per cent.

1.6.4 Committed Expenditure

Committed Expenditure of the State Government on Revenue Account mainly consists of Interest Payments, expenditure on Salaries, Pensions and Subsidies. **Table 1.16** and **Chart 1.10** present the trends in expenditure on these components during 2009-14.

Table - 1.16
Components of Committed Expenditure

(₹ in crore)					
Components of Committed Expenditure	2009-10	2010-11	2011-12	2012-13	2013-14
Salaries	1800.45	1588.26	1885.99	2110.38	2548.91
<i>of which</i>					
<i>Non-Plan Head</i>	1492.54	1368.19	1569.99	1752.10	2098.77
<i>Plan Head</i>	307.91	220.07	316.00	358.28	450.14
Interest Payments	226.98	399.92	281.81	271.85	312.51
Expenditure on Pension and other Retirement Benefits	182.93	222.24	237.98	330.70	398.40
Subsidies	1.10	1.78	4.09	4.05	5.86
TOTAL	2211.46	2212.20	2409.87	2716.98	3265.68



Overall Committed Expenditure increased by ₹ 1054.22 crore (47.67 per cent) from ₹ 2211.46 crore in 2009-10 to ₹ 3265.68 crore in 2013-14. Committed Expenditure during 2013-14 constituted 56.98 per cent of Revenue Expenditure and 56.11 per cent of Revenue Receipts. Component-wise analysis is given below:-

1.6.4.1 Expenditure on Salaries

During 2013-14, **Salaries** alone accounted for 43.79 per cent of Revenue Receipts of the State. It increased by 20.78 per cent (₹ 438.53 crore) from ₹ 2110.38 crore in 2012-13 to ₹ 2548.91 crore in 2013-14, and also exceeded the projection made in the Macro-Economic Framework (MEF) Statement of March 2013 (₹ 1884.22 crore) by ₹ 664.69 crore. *The expenditure on Non-plan Salary component during 2013-14 (₹ 2098.77 crore) was more than twice of the assessment made by the 13th Finance Commission for the State (₹ 937.73 crore).*

1.6.4.2 Interest Payments

Interest Payments, comprising of interest on Internal Debt, Small Savings, Provident Funds, etc., Loans & Advances from the Central Government and other obligations increased by ₹ 40.66 crore from ₹ 271.85 crore in 2012-13 to ₹ 312.51 crore in 2013-14.

Interest Payments (₹ 312.51 crore) were higher than the projections of the year made by the 13th Finance Commission (₹ 289.15 crore) and lower than the MEFS of March 2013 (₹ 328.84 crore).

1.6.4.3 Expenditure on Pension Payments

Pension Payments (including other Retirement Benefits) indicated an increasing trend during the 5 year period (2009-14). Pension Payments during the current year increased by ₹ 67.70 crore, an increase of 20.47 per cent over the previous year. A comparative analysis of actual Pension Payments and the assessment/projection made by the 13th Finance Commission and the State Government showed that actual Pension Payments exceeded the assessment made by the 13th Finance Commission by ₹ 186.20 crore and the projection made by the State Government in its Budget for 2013-14 by ₹ 84.90 crore as shown in (Table 1.17).

Table - 1.17

Actual Pension Payments vis-à-vis Projection

(₹ in crore)

Year	Assessment made		Actuals	Excess over assessment made	
	by 13 th FC	Budget		By 13 th FC	in Budget
2013-14	212.20	313.50	398.40	186.20 (87.75)	84.90 (27.08)

(Figures in brackets represent percentages)

Subsidies

Table 1.16 shows that expenditure on payment of Subsidies increased by 44.69 per cent from ₹ 4.05 crore in 2012-13 to ₹ 5.86 crore during the current year. It constituted 0.10 per cent of Revenue Expenditure. The single recipient of Subsidies in 2013-14 was Agriculture (₹ 5.86 crore).

1.6.5 Financial Assistance by the State Government to Local Bodies and others

The quantum of assistance provided by way of Grants and Loans to Local Bodies and others during the current year, relative to previous years is presented in Table 1.18.

Table - 1.18

Financial Assistance to Local Bodies and others

(₹ in crore)

Institutions	2009-10	2010-11	2011-12	2012-13	2013-14
University and Educational Institutions	3.45	8.42	3.95	6.85	6.64
Cultural Institutions/Voluntary Organizations for promotion of Arts & Culture	28.76	8.11	0.46	3.06	1.00
State Institute of Rural Development	-	0.50	0.20	0.60	0.40
Social Welfare	0.32	0.34	0.60	0.53	0.57
Food and Warehousing	36.12	22.13	18.57	3.65	105.91
Co-operation	-	2.10	1.27	0.75	1.05
Other Institutions	0.93	16.51 ⁶	0.58	7.49	21.81
TOTAL	69.58	58.11	25.63	22.93	137.38
Assistance as percentage of RE	1.88	1.62	0.58	0.48	2.40

⁶ Other Institutions included Local Bodies, Corporations, Urban Development Authorities, Town Development : Scientific Bodies (AP Science Centre Society).

Financial assistance extended to Local Bodies and other Institutions with inter-year variations increased by 499.13 *per cent* from ₹ 22.93 crore in 2012-13 to ₹ 137.38 crore in 2013-14. The share of financial assistance in Revenue Expenditure also marginally increased from 0.48 *per cent* in 2012-13 to 2.40 *per cent* during the current year. Food and Warehousing were the major recipients (around 77.09 *per cent*) of the financial assistance followed by other Institutions (around 15.88 *per cent*).

1.6.5.1 Assistance to Co-operative Societies

With a view to providing for orderly development of Co-operative movement in the State, the Arunachal Pradesh Co-operative Societies Act, 1978 was enacted. Under the provisions of Section 51 to 62 of the Act, the State Government provides assistance to Co-Operative Societies (the Societies) in the shape of Share Capital, Subsidies/Grants, and Loans. As per information furnished by the Registrar of Co-operative Societies (the Registrar), at the end of 2013-14 the State had 701 functional registered Societies of 25⁷ categories.

In terms of Section 82 of the Act, the Registrar is responsible for Audit of every Society at least once in a year. Based on data and information provided by the Registrar, Government assistance and performance of the Societies were analyzed in Audit. Results are set out below:

- Up to 2013-14, Government investment towards Share Capital was ₹ 194.25 crore to 142 Societies (16 types).

As per latest Audited accounts, 98 Societies (10 types) where Government invested Share Capital of ₹ 193.96 crore, incurred total accumulated losses of ₹ 151.29 crore, while only 44 Societies (6 types) with Government Share Capital of ₹ 0.29 crore earned total profit of ₹ 3.69 crore (**Appendix 1.6**)

- During the 5 year period (2009-10 to 2013-14) the Government sanctioned ₹ 7.45 crore as subsidy to 170 Societies for creation of Assets/Infrastructure.
- At the end of 2013-14, State Government sanctioned interest bearing Loans of ₹ 28.05 crore to 581 Societies and net investment (after recovery and accord of fresh Loans) was ₹ 25.59 crore to 574 Societies.

As on 31.03.2014, overdue amount of Government Loans and Interest awaiting realization was ₹ 3.07 crore and ₹ 54.60 lakh respectively.

1.7 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of expenditure. Improvement in the quality of expenditure

⁷ Apex (5), Lamps (34); Consumer (81); Multi-purpose (393); Marketing & Processing (7); Handloom & Weaving (37); Farming (22); Dairy (17); Transport (12); Industries (13); Thrift & Credit (17); Schools & Colleges (10); Fisheries (7); Piggery (3); Poultry (2); Welfare (3); Housing (1); Floriculture (1); Cinema (1); Hydropower (1); Cultural (1); Construction (4); Co-operative Union (13); Labour (6); Miscellaneous/Others (10).

basically involves three aspects - adequacy (adequate provisions for providing public services); efficiency (expenditure use) and effectiveness (assessment of outlay-outcome relationships for select services) of expenditure. Analysis of expenditure data is dis-aggregated into Development and Non-development Expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans & Advances is categorized into Social, Economic and General Services. Broadly, Social and Economic Services constitute Development Expenditure, while expenditure on General Services is treated as Non-development Expenditure.

1.7.1 Efficiency of Expenditure Use

In view of the importance of public expenditure for social and economic development, it is important for the State Government to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods⁸. Apart from improving allocation towards Development Expenditure, 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 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 1.19** presents the trend in Development Expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budget and the previous years, **Table 1.20** shows details of Capital Expenditure and components of Revenue Expenditure incurred on maintenance of the selected social and economic services.

Table - 1.19

Development Expenditure

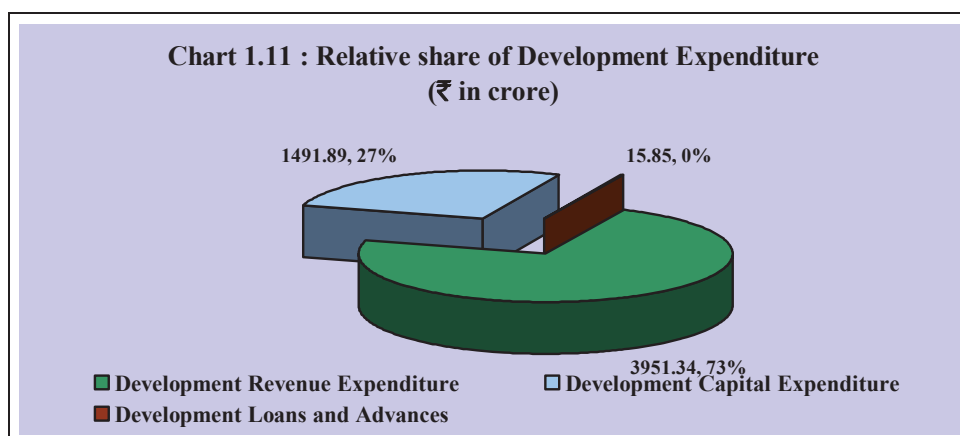
(₹ in crore)

Components of Development Expenditure	2009-10	2010-11	2011-12	2012-13	2013-14	
					BE (Net)	Actuals
Development Expenditure {(a) to (c)}	3706.17 (75.16)	4042.27 (74.86)	5024.44 (77.38)	4486.17 (74.81)	3802.58 (47.44)	5459.08 (73.48)
(a) Development Revenue Expenditure	2534.56 (51.40)	2479.01 (45.91)	3133.42 (48.26)	3362.78 (56.08)	3200.10 (39.92)	3951.34 (53.18)
(b) Development Capital Expenditure	967.90 (19.63)	1560.11 (28.89)	1885.07 (29.03)	1122.42 (18.72)	601.96 (7.51)	1491.89 (20.08)
(c) Development Loans & Advances	203.71 (4.13)	3.15 (0.06)	5.95 (0.09)	0.97 (0.01)	0.52 (0.01)	15.85 (0.21)

(Figures in brackets indicate percentage to Aggregate Expenditure)

Development expenditure increased by 21.69 per cent over the previous year and also exceeded the assessment made in the Budget Estimates by 43.56 per cent. The relative share of Development expenditure during 2013-14, given in **Chart 1.11** below, shows that around 73 per cent of Development Expenditure was incurred on Revenue Account and only 23 per cent was utilized for Capital Expenditure.

⁸ Appendix - 1.1.c.



During the current year, Development Capital Expenditure as a percentage of Aggregate Expenditure increased to 20.08 *per cent* as compared to 18.72 *per cent* in 2012-13, and also exceeded the budget projection by 147.84 *per cent*. This was a desirable improvement in the expenditure pattern. However, the predominant share of Revenue Expenditure in Development Expenditure indicated that more emphasis was given on maintenance of current level of services, which did not result in any addition to the State's infrastructure and service network. Thus, the expenditure pattern under this sector needs further correction in the ensuing year.

Table - 1.20
Efficiency of Expenditure Use in selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2012-13		2013-14	
	Ratio of Capital Exp. to Total Exp. ⁹	In Revenue Exp. the share of Salary	Ratio of Capital Exp. to Total Exp. ¹¹	Share of Salary in Revenue Exp.
SOCIAL SERVICES (SS)	15.66	56.34	22.16	56.98
General Education	6.93	68.33	6.52	74.84
Technical Education, Sports and Arts & Culture	35.24	30.43	50.21	45.66
Health & Family Welfare	4.82	78.55	8.30	80.47
Water Supply & Sanitation, Housing and Urban Development	37.43	27.79	47.72	23.58
Other Social Services	13.86	38.12	15.97	32.81
ECONOMIC SERVICES (ES)	31.22	34.86	31.18	35.56
Agriculture & Allied Activities	3.38	40.11	3.03	46.74
Irrigation & Flood Control	13.90	29.05	10.78	27.39
Energy	30.01	32.72	22.70	37.89
Transport	52.37	30.31	54.51	29.28
Other Economic Services	28.25	37.28	26.99	29.10

⁹ Total Revenue and Capital Expenditure of services concerned.

Social Services

Trends in Capital Expenditure on Social Services revealed that the share of Capital Expenditure to Total Expenditure during the period was 15.66 *per cent* in 2012-13 and 22.16 *per cent* in 2013-14, which indicated that Revenue Expenditure was dominant. There was significant increase in the share of Capital Expenditure to Total Expenditure on Technical Education, Sports and Arts & Culture but decrease in General Education and Other General Services. Health & Family Welfare was the worst sufferer, as only 4.30 *per cent* of the Total Expenditure was incurred on Capital Account during 2013-14, but marginal inclination as against 4.82 *per cent* during the previous year.

Of the Revenue Expenditure on Social Services, the share of Salary component increased from 56.34 *per cent* in 2012-13 to 56.98 *per cent* in 2013-14, implying more expenditure on Salary components. The Non-salary and Wage Expenditure on Social Services increased by 15.80 *per cent* during 2013-14 from ₹ 657.65 crore in 2012-13 to ₹ 761.59 crore in 2013-14. Within the priority Sectors, Non-salary and Wage components continued to have the dominant share under Technical Education, Sports, Arts & Culture, Water Supply, Sanitation, Housing and Urban Development. High Salary and Wage Expenditure was observed under General Education (2012-13 : 68.33 *per cent* and 2013-14 : 74.84 *per cent*) and Health & Family Welfare Services (2012-13 : 78.55 *per cent*; 2013-14 : 80.47 *per cent*).

Expenditure on the Non-plan Salary component under both General Education and Health & Family Welfare Sectors during 2013-14 increased by 15.83 *per cent* and 23.08 *per cent* respectively. While the Non-plan Non-salary Expenditure under General Education and Health & Family Welfare registered a decrease of 56.95 *per cent* and 20.48 *per cent* during 2013-14 over the previous year.

Economic Services

Expenditure on Economic Services (including Loans & Advances) during 2013-14 (₹ 3175.30 crore) accounted for about 42.74 *per cent* of the Total Expenditure¹⁰ and 58.17 *per cent* of Development Expenditure during the year. Out of the Total Expenditure on Economic Services during the current year, 38.39 *per cent* (₹ 1218.99 crore) was incurred on Transport, 19.68 *per cent* (₹ 624.84 crore) on Agriculture & Allied Activities and 16.61 *per cent* (₹ 527.57 crore) on Energy.

Trends in Revenue and Capital Expenditure on Economic Services indicated that under both heads, expenditure on Economic Services showed an increasing trend - ₹ 324.68 crore in Revenue Expenditure and ₹ 145.43 crore (17.26 *per cent*) in Capital Expenditure. The share of Capital Expenditure on Economic Services to the total Revenue and Capital Expenditure on Economic Services during 2009-14 ranged between 31.88 and 43.66 *per cent*. Revenue Expenditure on Economic Services also consistently increased from ₹ 1337.90 crore in 2009-10 to ₹ 21811.80 crore (63.03 *per cent*) in the current year. An increase of ₹ 324.68 crore (17.49 *per cent*) during

¹⁰ Revenue Expenditure + Capital Expenditure + Disbursement of Loans & Advances

2013-14 over the previous year in Revenue Expenditure was mainly due to the increase under Agriculture & Allied Services (₹ 164.56 crore), Transport (₹ 146.22 crore), Irrigation & Flood Control (₹ 31.90 crore), Energy (₹ 20.30 crore), Communication (₹ 4.97 crore), General Economic Services (₹ 3.74 crore), partly offset by decrease under Special Areas Programmes (₹ 91.81 crore), and Science, Technology & Environment (₹ 1.95 crore). Within Revenue Expenditure on Economic Services, the Salary component constituted 34.86 per cent and 35.56 per cent during 2012-13 and 2013-14 respectively.

1.8 Financial Analysis of Government Expenditure and Investments

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

1.8.1 Investment and Returns

As per Statement 14 of the Finance Accounts for 2013-14, as of 31 March 2013, the State Government invested ₹ 245.05 crore in 5 Government Companies (₹ 9 crore) and 145 Co-operative Banks and Societies (₹ 236.05 crore). Details are given in Table 1.21.

Table - 1.21

Return on Investment

Investment/Return/Cost of Borrowings	2009-10	2010-11	2011-12	2012-13	2013-14
Investment at the end of the year (₹ in crore)					
(i) Government Companies	9.04	9.04	9.04	9.04	9.00
(ii) Co-operative Bank/Societies	209.14	209.11	212.62	215.14	236.05
TOTAL	218.18	218.15	221.66	224.18	245.05
Return (₹ in crore)	-	-	-	-	-
Return (per cent)	-	-	-	-	-
Average Rate of Interest on Government Borrowings (per cent)	7.47	12.16	7.52	6.41	6.66
Difference between Interest Rate & Return (per cent)	7.47	12.16	7.52	6.41	6.66

During 2009-14, the average return on investment was *nil*, while the Government paid interest at an average rate of 6.41 to 12.16 per cent on its borrowings during the period.

1.8.2 Loans & Advances by the State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the Government also provided Loans & Advances for other purposes, e.g., loans to Power Projects, Government servants, Tourism, etc.; **Table 1.22** shows outstanding Loans & Advances as on 31 March 2013 and Interest Receipts *vis-à-vis* Interest Payments during the last 5 years.

Table - 1.22

Average Interest received on Loans & Advances given by the State Government

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
OPENING BALANCE	52.41	55.17	59.07	65.86	66.86
Amount advanced during the year	205.46	6.31	9.69	3.95	18.53
Amount recovered during the year	202.70	2.41	2.90	2.95	3.42
CLOSING BALANCE	55.17	59.07	65.86	66.86	81.97
<i>Net Addition</i>	<i>2.76</i>	<i>3.90</i>	<i>6.79</i>	<i>1.00</i>	<i>15.11</i>
Interest Receipts	5.22	1.78	0.66	1.32	1.84
Interest received as <i>percentage</i> to outstanding Loans & Advances	9.70	3.12	1.06	1.99	2.47
Interest payments as <i>percentage</i> to outstanding fiscal liabilities of the State Govt.	7.28	12.16	7.52	6.41	6.66
Difference between Interest Payments & Receipts (<i>percentage</i>)	(-) 2.23	8.98	6.46	4.42	4.19

Loans & Advances given by the State Government in 2013-14 increased from ₹ 3.95 crore in 2012-13 to ₹ 18.53 crore. During 2009-14, recovery of Loans & Advances was ₹ 214.38 crore against ₹ 243.94 crore advanced during the period. The total outstanding Loans & Advances as on 31 March 2013 was ₹ 81.97 crore. Interest Receipts of ₹ 1.84 crore on Loans & Advances by the Government of Arunachal Pradesh during 2013-14 constituted only 2.44 *per cent* of outstanding Loans & Advances at the end of 2013-14 (₹ 81.97 crore).

1.8.3 Cash Balances and Investment of Cash Balances

Table 1.23 depicts Cash Balances and Investments made by the State Government out of Cash Balances during the year.

Table - 1.23

Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 1 st April 2013	As on 31 st March 2014	Increase(+)/ Decrease(-)
Cash Balances ¹¹	1315.66	971.90	343.76
Investments from Cash Balances (a & b)	1020.88	825.83	195.05
a. GOI Treasury Bills	1020.88	825.83	195.05
b. GOI Stock/Securities	-	-	-
Fund-wise break-up of Investment from Earmarked Balances (a & b)	129.90	149.90	(-)20.00
a. Sinking Fund Investment Account	129.90	149.90	(-)20.00
b. Other Development & Welfare Funds	-	-	-
Interest realized on Investment of Cash Balances	37.23	21.41	(-) 15.82

¹¹ Excluding investment of Earmarked Funds.

Cash Balances of the State Government at the end of the current year decreased from ₹ 1315.66 crore in 2012-13 to ₹ 971.90 crore in 2013-14. As of 31 March 2014, the State Government invested ₹ 825.83 crore in GoI Treasury Bills. During 2013-14, Interest of ₹ 21.41 crore was earned on investment of Cash Balances. *The 13th Finance Commission recommended that States with large Cash Balances make efforts towards utilizing their Cash Balances before resorting to fresh borrowings.*

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – Ordinary and Special – from the Reserve Bank of India (RBI) has been put in place.

The Government did not have to resort to WMA during the current year or during 2009-14, indicating a comfortable position of Cash Balances of the State. However, there was a balance of WMA of ₹ 55.64 crore since March 2007 (Ordinary WMA - ₹ 50.24 crore; Special WMA - ₹ 5.40 crore).

1.9 Assets and Liabilities

1.9.1 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, Government accounts do capture financial liabilities of the Government and assets created out of expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and assets as on 31 March 2014, compared with the corresponding position on 31 March 2013. While liabilities in the Appendix consist mainly of Internal Borrowings, Loans & Advances from the GoI, receipts from Public Account and Reserve Funds, assets comprise mainly of Capital Outlay and Loans & Advances given by the State Government and Cash Balances.

1.9.2 Fiscal Liabilities

Trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3**. However, the composition of fiscal liabilities during the current year *vis-à-vis* the previous year, is presented in **Charts 1.12** and **1.13**.

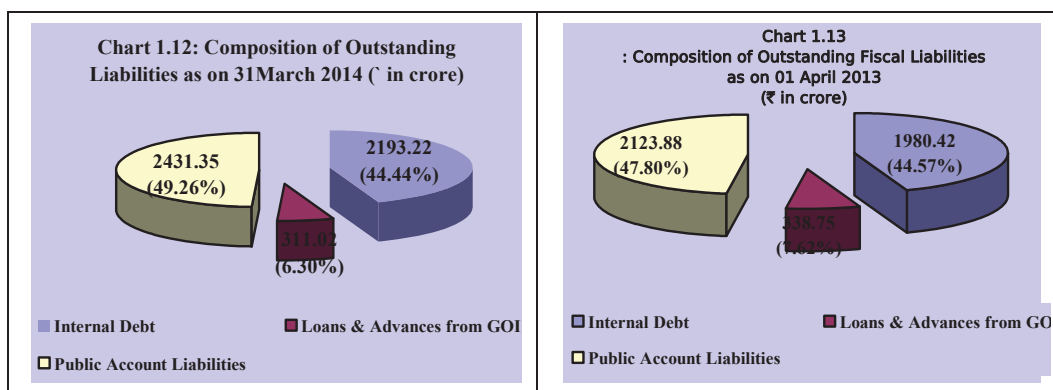


Table 1.24 gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP to Revenue Receipts and the State's own resources and also the buoyancy of fiscal liabilities with reference to these parameters.

Table - 1.24

Fiscal Liabilities – Basic Parameters

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Fiscal Liabilities¹² (₹ in crore)	3119.05	3456.24	4036.15	4443.04	4935.59
Rate of Growth (per cent)	5.56	10.81	16.78	10.08	11.09
Ratio of Fiscal Liabilities to					
GSDP (per cent)	41.73	38.33	38.82	37.60	36.58
Revenue Receipts (per cent)	72.62	63.74	73.40	77.12	84.80
Own Resources (per cent)	455.54	463.84	594.99	739.62	587.87
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	0.18	0.52	1.10	0.74	0.78
Revenue Receipts (ratio)	0.49	0.41	11.82	2.11	10.87
Own Resources (ratio)	(-) 0.23	1.22	(-) 1.87	(-) 0.88	29.74

Fiscal liabilities of ₹ 4935.59 crore during 2013-14 consisted of Internal Debt, e.g., Market Loans bearing interest, WMA, loans from Financial Institutions and Special Securities issued to the National Small Savings Fund, etc; ₹ 2193.22 crore; Loans & Advances from the Central Government : ₹ 311.02 crore; Public Account Liabilities, e.g. Small Savings, Provident Funds, Reserve Funds and Deposits, etc; ₹ 2431.35 crore. Overall fiscal liabilities of the State increased from ₹ 3119.05 crore in 2009-10 to ₹ 4935.59 crore in 2013-14. The growth rate in 2013-14 was 11.09 per cent over the previous year. The ratio of fiscal liabilities to GSDP decreased from 37.60 per cent in 2012-13 to 36.58 per cent in 2013-14. **These liabilities were around 85 per cent of Revenue Receipts. The overall liability was about 4.55 times the State's own receipts at the end of 2009-10, whereas it was more than 5 times the State's own resources at the end of March 2013-14, which is a matter of concern.** The buoyancy of these liabilities with respect to GSDP during the year was 1.01, indicating that for every 1 per cent increase in GSDP, fiscal liabilities grew by 0.78 per cent.

As per the APFRBM Act (amended in December 2011), the State Government targeted to maintain the outstanding Debt-GSDP Ratio at 55.2 per cent during 2012-13, 52.5 per cent during 2013-14 and 50.1 per cent during 2014-15 in line with the recommendation of the 13th Finance Commission. As seen from **Table - 1.24** above, fiscal liabilities to GSDP Ratio during 2013-14 was within the target spelt out in the APFRBM Act.

During 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortization of Open Market Loans. In 2013-14, the Government appropriated ₹ 20 crore from Revenue and credited it to this fund for investment in Government of India Securities.

¹² Includes Internal Debt, Loans & Advances from Government of India, Small Savings, Reserve Funds Deposits and Provident Funds, etc;.

1.9.3 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by borrowers for whom the Guarantee was extended. As per the Finance Accounts, the maximum amount for which Guarantees were given by the State and outstanding Guarantees at the end of the year since 2009-10, are given in **Table 1.25**.

Table - 1.25

Guarantees given by the Government of Arunachal Pradesh

Particulars	₹ in crore				
	2009-10	2010-11	2011-12	2012-13	2013-14
Maximum Amount Guaranteed	12.00	<i>Information not furnished by the State Govt.</i>	2.00	2.00	2.00
Outstanding Amount of Guarantees (incl. Interest)	0.61		1.55	1.55	1.55
Percentage of Maximum Amount Guaranteed to Total Revenue Receipts	0.28		0.04	0.04	0.04

The Government guaranteed loans to one Company, i.e., Arunachal Pradesh Industrial Development & Financial Corporation, Ltd. (APIDFCL), which at the end of 2013-14 stood at ₹ 1.55 crore. *No law under Article 293 of the Constitution was passed by the State Legislature laying down the maximum limit within which the Government may give Guarantees on the security of the Consolidated Fund of the State.*

1.10 Debt Management

1.10.1 Debt Sustainability

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 debts. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service debts.

Apart from the magnitude of debt of the State Government, it is important to analyze various indicators that determine debt sustainability of the State. This Section assesses the debt sustainability of the State Government in terms of Debt Stabilization¹³, sufficiency of Non-Debt Receipts,¹⁴ net availability of Borrowed Funds,¹⁵ burden of Interest Payments (measured by Interest Payments to Revenue Receipts Ratio) and maturity profile of State Government Securities. **Table 1.26** shows the debt sustainability of the State according to these indicators for the 5-year period from 2009-10 to 2013-14.

¹³ Appendix 1.1.c.

¹⁴ Appendix 1.1.c.

¹⁵ It indicates the extent to which Debt Receipts are used in debt redemption indicating the net availability of borrowed funds.

Table - 1.26

Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Debt Stabilization (Quantum Spread + Primary Deficit)	506.44	689.48	(-) 441.16	332.87	(-) 960.04
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 79.61	458.54	(-) 1016.22	759.47	(-) 1373.78
Net Availability of Borrowed Funds	(-) 47.59	(-) 45.73	207.21	135.05	180.03
Burden of Interest Payments (IP/RR Ratio) (per cent)	5.28	7.38	5.12	4.72	5.37

The **Table** above shows that State Debt was stable during 2009-14 except in 2011-12 and 2013-14.

Trends in Resource Gap indicate the oscillation between positive and negative magnitudes. Resource Gap was negative in 3 of the 5-year period, indicating that incremental Non-debt Receipts were not sufficient to meet incremental Primary Expenditure and Interest burden. However, the negative Resource Gap during 2013-14 indicated a significant decreasing capacity of the State to sustain debt in medium to long run.

Debt Redemption Ratio fluctuated widely during 2009-14, which remained more than unity in 2009-10 and 2010-11, while during 2011-12, 2012-13 and 2013-14, the ratio was around 84, 91 and 91 *per cent* respectively. In the current year, against borrowed funds of ₹ 2037.66 crore, the Government repaid ₹ 1545.11 crore as Principal and Interest on Internal Debt (₹ 354.15 crore) and other Liabilities¹⁶ (₹ 1683.50 crore), as a result of which borrowed funds of ₹ 180.03 crore were available for development purposes.

1.11 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 Government Accounts represents the gap between receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, ways in which the deficit is financed and resources raised are applied are important pointers to its fiscal health. This Section presents trends, nature, magnitude, the manner of financing deficits and assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2013-14.

¹⁶ Small Savings, Provident Funds, Reserve Funds, Deposits, etc.

1.11.1 Trends in Deficits

Charts 1.14 and 1.15 present the trends in deficit indicators over the period 2009-14.

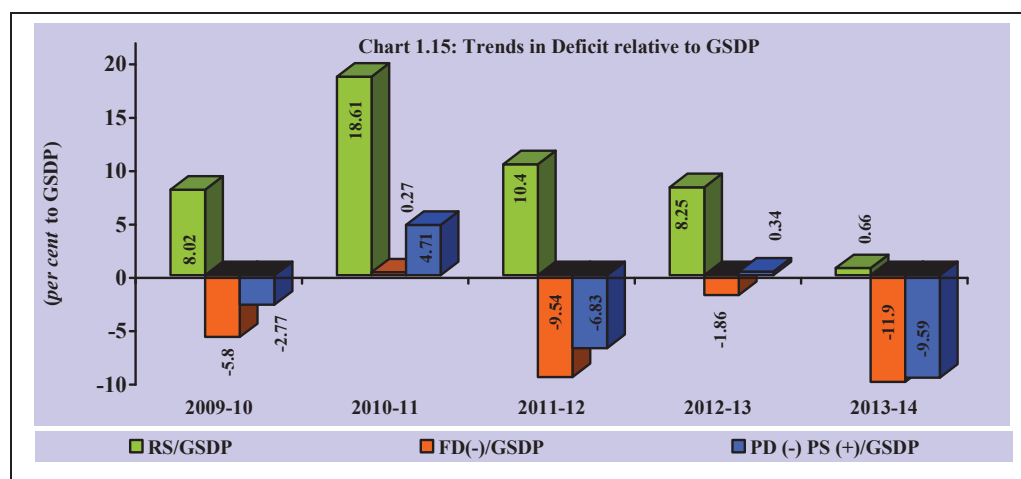
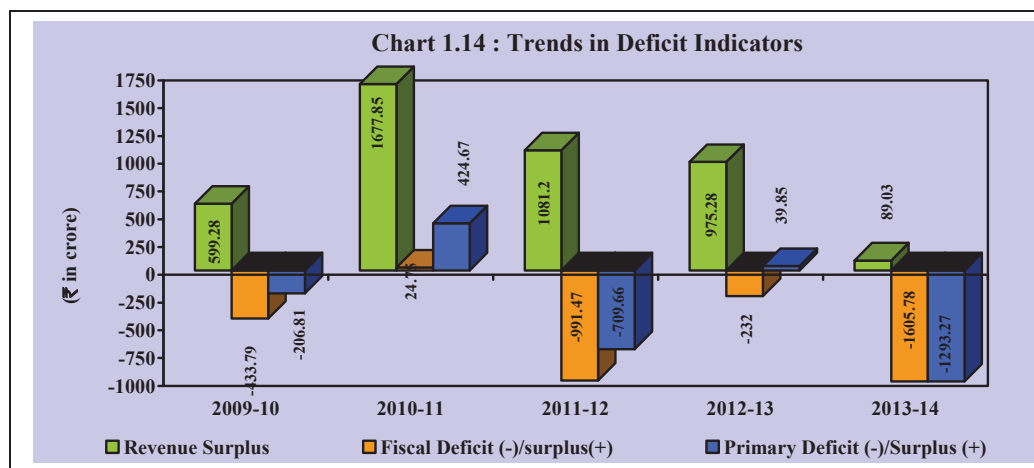


Chart 1.14 reveals that the State had Revenue Surplus during the period 2009-14, which after inter-year variations, decreased from ₹ 975.28 crore in 2012-13 to ₹ 89.03 crore in the current year. Compared to 2012-13, Revenue Surplus in 2013-14 significantly decreased by ₹ 886.25 crore (90.87 per cent) due to marginal increase in Revenue Receipts by ₹ 58.91 crore in 2013-14 and significant increase in Revenue Expenditure by ₹ 945.16 crore in 2013-14. The fact was due to decrease in Grants-in-Aid from the GoI of ₹ 267.86 (6.37 per cent) during 2013-14 compared to 2012-13. Revenue Surplus in the current year was primarily on account of better growth in State's own taxes and State Share in Union Taxes & Duties.

Fiscal deficit, which represents total borrowings of the Government and total Resource Gap, decreased from negative ₹ 232.00 crore in 2012-13 to negative ₹ 1605.78 crore in 2013-14. The significant increase in Total Expenditure (₹ 1433.16 crore) partly offset by decrease in Revenue Surplus (₹ 886.25 crore) over the previous year, mainly led to a fiscal deficit of ₹ 1605.78 crore in the current year.

As per recommendations of the 13th Finance Commission, *all Special Category States with base fiscal deficit of less than 3 per cent of GSDP in 2007-08, could incur a fiscal deficit of 3 per cent in 2012-13 and maintain it thereafter.* While the Government of Arunachal Pradesh was successful in restricting the Fiscal Deficit-GSDP Ratio in 2012-13, the State was unsuccessful in the current year as the Fiscal Deficit-GSDP Ratio in 2013-14 was 11.90 per cent.

The Primary Surplus of ₹ 39.85 crore, experienced by the State during 2012-13, took a turnaround in 2012-13 and resulted in a Primary Deficit of ₹ 1293.27 crore. The marginal increase of ₹ 40.66 crore (14.96 per cent) in Interest Payments in 2013-14 over the previous year and a significant Fiscal Deficit of ₹ 1605.78 crore witnessed during the year, led to the Primary Deficit.

1.11.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of Fiscal Deficit underwent a compositional shift as reflected in **Table: 1.32**

Table - 1.32
Components of Fiscal Deficit and its Financing pattern

(₹ in crore)						
Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
DECOMPOSITION OF FISCAL DEFICIT						
Fiscal Deficit (-)/Surplus (+)		(-) 433.79	(+) 24.75	(-) 991.47	(-) 232.00	(-) 1605.78
1.	Revenue Deficit (-)/Surplus (+)	599.28	1677.85	1081.20	975.28	89.03
2.	Net Capital Expenditure	1030.31	1649.20	2065.88	1206.28	1679.70
3.	Net Loans & Advances	(-) 2.76	(-) 3.90	(-) 6.79	(-) 1.00	(-)15.11
FINANCING PATTERN OF FISCAL DEFICIT						
1.	Market Borrowings	66.82	(-) 12.93	(-) 1.34	133.37	199.82
2.	Loans from GoI	(-) 24.13	(-) 26.82	(-) 27.55	(-) 27.55	(-) 27.73
3.	Special Securities issued to NSSF	49.90	55.10	5.48	17.11	23.23
4.	Loans from Financial Institutions	12.78	20.51	54.73	(-) 13.12	(-) 10.25
5.	Small Savings, PF, etc;.	142.74	79.49	128.18	125.92	143.53
6.	Reserve Funds	15.00	17.00	19.00	20.00	62.54
7.	Deposits & Advances	(-) 85.40	218.01	281.45	70.32	44.22
8.	Suspense & Miscellaneous	502.98	(-) 196.33	(-) 166.77	(-) 3.62	914.58
9.	Remittances	28.85	9.81	8.12	166.42	(-) 87.92
10.	Increase (-)/Decrease (+) in Cash Balances	(-) 275.77	(-) 188.59	(+) 690.17	(-) 206.85	343.76
11.	Increase/Decrease in Ways & Means Advances	-	-	-	-	-
Overall Deficit (1 to 11) (-)		(-) 433.79	24.75	(-) 991.47	(-) 232.00	(-)1605.78

Fiscal Deficit increased by ₹ 1373.78 crore from ₹ 232.00 crore in 2012-13 to ₹ 1605.78 crore in 2013-14. The Fiscal Deficit was mainly met out from Suspense and Miscellaneous (₹ 914.58 crore), Small Savings, PF, etc; (₹ 143.53 crore) and Market Borrowings (₹ 199.82 crore) and decrease in Cash Balance (₹ 343.76 crore).

1.11.3 Quality of Deficit/Surplus

The ratio of Revenue Deficit to Fiscal Deficit and decomposition of Primary Deficit into Primary Revenue Deficit and Capital Expenditure (including Loans & Advances) would indicate the quality of deficit in the State's finances. The ratio of Revenue Deficit to Fiscal Deficit indicates the extent to which borrowed funds were used for current consumption. Further, a persistently high ratio of Revenue Deficit to Fiscal Deficit also indicates that the asset base of the State is continuously shrinking and a part of borrowings (fiscal liabilities) do not have any asset back-up. The bifurcation of Primary Deficit (**Table 1.33**) would indicate the extent to which the deficit was on account of enhancement in Capital Expenditure, which may be desirable to improve the productive capacity of the State's economy.

Table - 1.33

Primary Deficit/Surplus – Bifurcation of Factors

(₹ in crore)

Year	Non-Debt Receipt	Primary Revenue Expenditure	Capital Expenditure	Loans & Advances	Primary Expenditure	Primary Revenue Surplus	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3 + 4 + 5)	7 (2 - 3)	8 (2 - 6)
2009-10	4497.57	3468.61	1030.31	205.46	4704.38	1028.96	(-) 206.81
2010-11	5424.50	3344.32	1649.20	6.31	4999.83	2080.18	(+) 424.67
2011-12	5501.96	4136.05	2065.88	9.69	6211.62	1365.91	(-) 709.66
2012-13	5764.47	4514.39	1206.28	3.95	5724.62	1250.08	(+) 39.85
2013-14	5823.85	5418.89	1679.70	18.53	7117.12	404.96	(-)1293.27

Analysis of factors resulting into Primary Deficit or Surplus of the State during 2009-14 revealed that in 3 of the 5 years (2009-10, 2011-12 and 2013-14), the State experienced Primary Deficit, which was on account of Capital Expenditure incurred and Loans & Advances disbursed by the State Government. In other words, Non-debt Receipts of the State were sufficient to meet Primary Revenue Expenditure. But Non-debt Receipts were not enough to meet expenditure requirements under Capital Account and Loans & Advances during 2009-10, 2011-12 and 2013-14, resulting in Primary Deficit. However, during 2010-11 and 2012-13, Non-Debt Receipts were sufficient to meet the expenditure requirement both under Revenue and Capital Accounts, resulting in Primary Surplus. Primary Surplus of ₹ 39.85 crore during 2012-13 turned into Primary Deficit of ₹ 1293.27 crore in the current year, mainly on account of marginal increase in Non-Debt Receipts by ₹ 59.38 crore and significant increase in Primary Expenditure ₹ 1392.50 crore, which may not be desirable and needs improvement.

1.12 Conclusion and Recommendations

The fiscal position of the State viewed in terms of key fiscal parameters - Revenue Surplus, Fiscal Deficit and Primary Deficit - indicated that the State maintained Revenue Surplus during 2009-14, but Fiscal and Primary Deficits showed fluctuating trends. Fiscal Surplus of ₹ 24.75 crore in 2010-11 took a turnaround and resulted in Fiscal Deficit of ₹ 991.47 crore in 2011-12 and again decreased to Fiscal Deficit of

₹ 232.00 crore in 2012-13 and reached its peak at ₹ 1605.78 crore during 2013-14. Primary surplus of ₹ 39.85 crore in 2012-13 took a turnaround and resulted in Primary Deficit of ₹ 1293.27 crore in 2013-14.

Revenue Receipts

Revenue receipts during 2013-14 grew by 1.02 *per cent* (₹ 58.91 crore) over the previous year. Tax Revenue was 94.95 *per cent* higher than the assessment made by the 13th Finance Commission and 8.08 *per cent* higher than the assessment made in the Budget Estimates for the year. Collection of Non-Tax Revenue during 2013-14 was lower than the assessments made by the 13th Finance Commission (14.00 *per cent*) and in the Budget Estimates (27.87 *per cent*). Central Transfers, comprising of the State Share of Central taxes and Grants-in-Aid from the GoI decreased by ₹ 179.94 crore in 2013-14 and contributed about 86 *per cent* of Revenue Receipts during the year. However, the State primarily depends on resources transferred by the Central Government. The State's own resources as a percentage of Total Receipts declined from 15.94 *per cent* in 2009-10 to 14.42 *per cent* in 2013-14. This indicates that Central Transfers were the key to the increase in Revenue Receipts of the State.

The State should make efforts to increase its own resources and restore the buoyancy in Revenue Surplus in the ensuing years.

Revenue and Total Expenditure

Revenue Expenditure of the State increased by 55.09 *per cent* from ₹ 3695.59 crore in 2009-10 to ₹ 5731.40 crore in 2013-14. This expenditure as a percentage of Total Expenditure, though decreased to 77.14 *per cent* in 2013-14 from 79.82 *per cent* in 2012-13, averaged around 74 *per cent* during 2009-14, leaving inadequate resources for expansion of services and creation of assets. NPRE during the same period increased from ₹ 2560.42 crore in 2009-10 to ₹ 3957.59 crore in 2013-14, which was around 72 *per cent* (₹ 1655.68 crore) higher than the normative level of ₹ 2301.91 crore assessed by the 13th Finance Commission for the year. Further, Salaries, Pensions, Interest Payments and Subsidies continued to consume a major share of Revenue Expenditure, accounting for more than 57 *per cent* in 2013-14. Development Expenditure in 2013-14 increased by 21.69 *per cent* over the previous year, and also exceeded the assessment made in the Budget Estimates by 43.56 *per cent*. However, the relative share of Development Expenditure in 2013-14, showed that 73 *per cent* of Development Expenditure was incurred on Revenue Account and only 27 *per cent* was utilized for Capital Expenditure. A predominant share of Revenue Expenditure in Development Expenditure indicated that more emphasis was given on maintenance of the current level of resources, which did not result in any addition to the State's infrastructure and service network.

The Government should initiate suitable measures to compress components of Non-plan Revenue Expenditure and emphasize on provision of Development Capital Expenditure.

Fiscal Correction Path

During 2013-14, there was significant degradation in all the three major fiscal indicators - Revenue Surplus, Fiscal Deficit and Primary Deficit. Increase in Fiscal Deficit in the last year indicated a unstable fiscal position of the State. Prevalence of fiscal liabilities of the State over 2009-14, which stood at 36.58 *per cent* of the GSDP in 2013-14, appeared to be quite high, especially when compared with the limit prescribed by the 13th Finance Commission, i.e., steady reduction in augmented Debt Stock of States to less than 25 *per cent* of GDP by 2014-15.

During 2013-14, while the Government paid Interest at an average rate of 6.66 *per cent* on its borrowings during the period, the average Return on Investment in Government Companies and Co-operative Societies was 'zero'. Cash Balances of the State at the end of 2013-14 decreased to ₹ 971.90 crore

Increasing fiscal liabilities, accompanied by no return on Government investments and inadequate interest cost recovery on Loans & Advances, may lead to an unsustainable fiscal situation in the medium to long-term time-frame.

The State Government should endeavour to maintain a proper Debt-GSDP Ratio, so that incremental non-debt receipts become adequate to cover the interest burden.