

# Chapter I

## Finances of the State Government

### Profile of Arunachal Pradesh

Arunachal Pradesh is a Special Category State<sup>1</sup>, area-wise is the largest State in the North-Eastern region 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. Arunachal Pradesh provides shelter to 0.11 *per cent* population of the country. 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/Union Territories.

### 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 Gross Domestic Product (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	2011-12	2012-13	2013-14	2014-15	2015-16
India's GDP (₹ in crore)	87,36,039	99,51,344	112,72,764	124,88,205	13,567,192
Growth rate of India's GDP	*	13.91	13.28	10.78	8.64
State's GSDP (₹ in crore)	11,063	12,547	14,607	16,389	19,473*
Growth Rate of GSDP	*	13.41	16.42	12.20	18.82

(Source: Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation except for GSDP for 2015-16)

\* Growth of GSDP and GDP for the year 2011-12 has not been indicated as the base year has been revised to 2011-12.

**Table 1.1** shows that the annual growth rate of GSDP of the state was not uniform and ranged between 22.64 *per cent* (2011-12) to 12.20 *per cent* (2014-15). The GSDP increased from ₹ 16,389 crore in 2014-15 to ₹ 19,473 crore in 2015-16, representing an increase of 18.82 *per cent*. The GSDP during 2015-16 exceeded the assessment (₹ 18,536.00 crore) made by XIV Finance Commission (FC) by 5.06 *per cent*. The Compound Annual Growth Rate (CAGR) in respect of GSDP between the period from 2006-07 to 2015-16 was 18.87 *per cent*.

<sup>1</sup> V Finance Commission (1969) accorded special status to three 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.

# Finances of The State Government

## 1.1 Introduction

This Chapter provides a broad perspective of finances of the Government of Arunachal Pradesh and analyses critical changes in major fiscal aggregates 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 **Appendix 1.1**. **Appendix 1.2** briefly outline the Fiscal Responsibility and Budget Management (FRBM) Act of the Government, while **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to State Government finances for the period 2011-16

### 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 (2015-16) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts/disbursements and the overall fiscal position during the said period.

**Table - 1.2: Summaries of Fiscal Transactions (Current Year)**

(₹ in crore)

Receipts	2014-15	2015-16	Disbursements	2014-15	2015-16		
					Non-Plan	Plan	Total
Section – A : Revenue							
Revenue Receipts	9136.05	10553.10	Revenue Expenditure	7156.59	5659.41	2703.33	8362.74
Tax Revenue	462.16	535.07	General Services	2062.59	2457.41	60.68	2518.09
Non-Tax Revenue	457.64	392.12	Social Services	2358.39	1297.19	1259.48	2556.67
Share of Union Taxes/Duties	1109.98	7075.58	Economic Services	2735.61	1904.81	1383.17	3287.98
Grants-in-aid from Govt. of India	7106.27	2550.33	-	-	-	-	-
Section – B : Capital							
Miscellaneous Capital Receipts	-	-	Capital Outlay	1483.18	9.62	1983.63	1993.25
Recoveries of Loans & Advances	27.41	5.48	Loans & Advances Disbursed	4.93	2.77	10.21	12.98
Public Debt Receipts <sup>2</sup>	1540.41	621.10	Repayment of Public Debt	1053.91	-	-	1286.44
Contingency Fund	-		Contingency Fund	-	-	-	
Public Account Receipts	4018.72	6038.90	Public Account Disbursements	4922.45	-	-	5360.99
Opening Balance	971.90	1073.43	Closing Balance	1073.43	-	-	1275.61
Total	15694.49	18292.01	Total	15694.49	-	-	18292.01

Significant changes during 2015-16 over the previous year are shown below:

- Revenue Receipts increased by 15.51 *per cent* (₹ 1417.05 crore) over the previous year. The increase was mainly contributed by State share of Union Taxes & Duties

<sup>2</sup> Includes Net Ways and Means Advances.

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₹ 5965.60 crore (537.45 *per cent*), Tax Revenue ₹ 72.92 crore (15.78 *per cent*) which was partly offset by decrease in Grants-in-Aid (GIA) from Government of India (GoI) ₹ 4555.94 crore (64.11 *per cent*) and Non-Tax Revenue ₹ 65.52 crore (14.32 *per cent*). Huge variation in the State's share of Union Taxes and Duties and GIA from the GoI was due to change in pattern of devolution as recommended by XIV FC

- Revenue Expenditure increased by 16.85 *per cent* (₹ 1206.15 crore) over the previous year. Capital Expenditure during the year also increased by 34.39 *per cent* (₹ 510.07 crore) over the previous year.
- Recovery of Loans & Advances during the current year decreased by ₹ 21.93 crore whereas Disbursement of Loans & Advances also increased by ₹ 8.05 crore compared to the previous year.
- Public Debt Receipts decreased by ₹ 919.31 crore over the previous year due to decrease in receipts under Internal Debt and Ways and Means Advance. Repayment of Public Debt increased by ₹ 232.53 crore over the previous year.
- Public Account Receipts increased by ₹ 2020.18 crore and Public Account Disbursements also increased by ₹ 438.54 crore over the previous year.
- The total inflow in respect of all fund during 2015-16 was ₹ 17,218.58 crore against ₹ 14,722.59 crore in 2014-15, while the total outflow during 2015-16 was ₹ 17,016.40 crore against ₹ 14,621.06 crore during the previous year. During 2015-16, increase in cash balances by ₹ 202.18 crore (18.83 *per cent*) over the previous year was seen.

### 1.1.2 Review of the Fiscal Situation

Performance of the State during 2015-16 in terms of key fiscal targets set for selected parameters laid down in the Arunachal Pradesh Fiscal Responsibility & Budget Management (Amendment) Act (FRBM), 2012, and projections made in the Medium Terms Fiscal Policy (MTFP) Statement *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 2015-16**

Particulars	Targets as prescribed in FRBM Act	Projections made in MTFP Statement	Actuals
Revenue Surplus ( <i>₹ in crore</i> )	Strive to remain Revenue Surplus during 2011-16	2333.26	2190.36
Revenue Surplus (as % of GSDP)	Strive to maintain in a consistent manner	25.63	11.25
Fiscal Deficit/GSDP ( <i>per cent</i> )	Not more than 3 % by 2012-13	Revenue Surplus	
Total Outstanding Debt/GSDP ( <i>per cent</i> )	No mention.	25.15	30.27

The above table indicates that the State was able to achieve targets prescribed in the Arunachal Pradesh FRBM Act/MTFP Statement in respect of Revenue Surplus and Fiscal Deficit/Surplus-GSDP (as percentage). While Revenue Surplus as a percentage of

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GSDP was below the target prescribed in the MTFP Statement, the total Outstanding Debt as a percentage of GSDP was quite higher than the projection made in MTFP Statement.

### 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 reasons, some within and some beyond the control of the Government. **Table 1.4** presents the consolidated picture of State Finances during 2014-15 (Actuals) and 2015-16 {Budget Estimates (BE), Revised Estimates (RE) and Actuals} and **Chart 1.1** presents the Budget Estimates and Actuals for some important fiscal parameters for 2015-16.

**Table - 1.4: Variation in Major Items – Actuals of 2015-16 over 2014-15 and Budget Estimates/Revised Estimates with Actuals of 2015-16**

(₹ in crore)

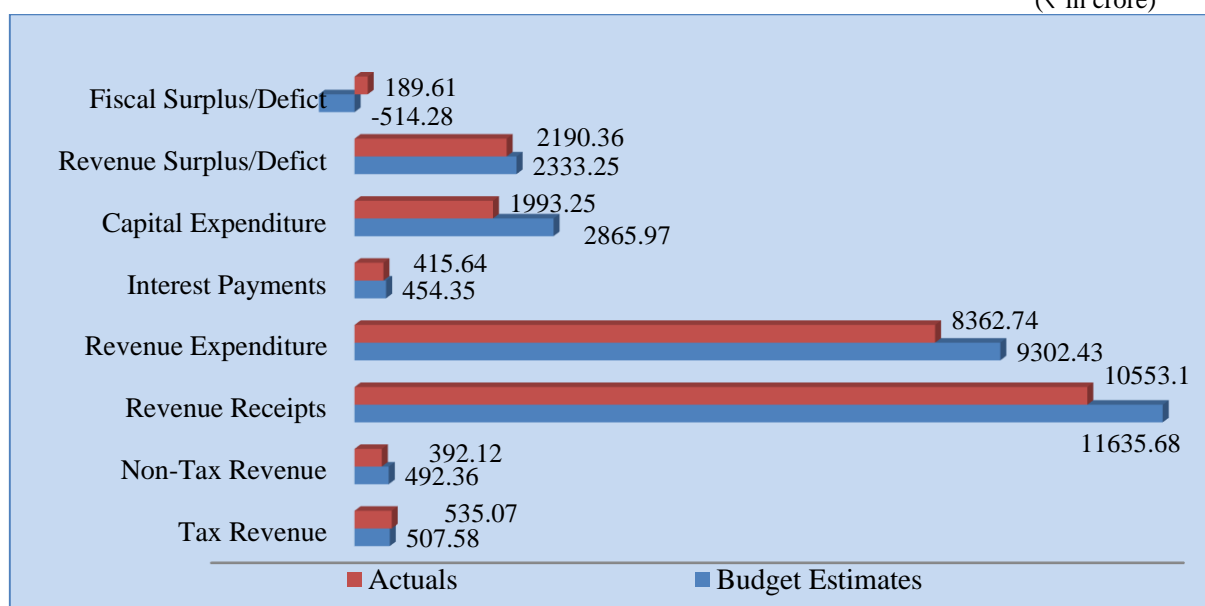
Parameters	2014-15	2015-16			Percentage of Excess (+)/ Shortfall (-) of actuals with reference to		
	Actuals	BE <sup>3</sup>	RE <sup>4</sup>	Actuals	2014-15	BE	RE
Tax Revenue	462.16	507.58	555.07	535.07	15.78	5.42	-3.60
Non-Tax Revenue	457.64	492.36	492.36	392.12	-14.32	-20.36	-20.36
<b>Revenue Receipts</b>	<b>9136.05</b>	<b>11,635.68</b>	<b>11,407.98</b>	<b>10,553.10</b>	<b>15.51</b>	<b>-9.30</b>	<b>-7.49</b>
Non-debt Capital Receipts	27.41	28.04	28.04	5.48	-80.01	-80.46	-80.46
<b>Revenue Expenditure</b>	<b>7156.59</b>	<b>9302.43</b>	<b>9172.19</b>	<b>8362.74</b>	<b>16.85</b>	<b>-10.10</b>	<b>-8.83</b>
Interest payments	350.88	454.35	491.77	415.64	18.46	-8.52	-15.48
<b>Capital Expenditure</b>	<b>1483.18</b>	<b>2865.97</b>	<b>2554.01</b>	<b>1993.25</b>	<b>34.39</b>	<b>-30.45</b>	<b>-21.92</b>
Disbursement of Loans & Advances	4.93	9.60	13.81	12.98	163.29	35.21	-6.01
<b>Revenue Surplus</b>	<b>1979.46</b>	<b>2333.25</b>	<b>2235.79</b>	<b>2190.36</b>	<b>10.65</b>	<b>-6.12</b>	<b>-2.03</b>
Fiscal Deficit (-)/ Surplus (+)	518.76	(-) 514.28	(-)303.99	189.61	-63.45	136.87	162.37

<sup>3</sup> Net Estimates

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

(₹ in crore)



- In 2015-16, when compared with the Budget Estimates, actual Revenue Receipts exceeded by 5.42 *per cent* but in case of Revised Estimates, it fell short by 3.60 *per cent*. Compared with Budget Estimates, the actual Revenue Expenditure fell short by 10.10 *per cent*, similarly against Revised Estimates; the actual Revenue Expenditure fell short by 8.83 *per cent*.
- Compared with the Budget and Revised Estimates, Capital Expenditure was lower by 30.45 and 21.92 *per cent* respectively. Compared to the previous year, Capital Expenditure increased by ₹ 510.07 crore (34.39 *per cent*) mainly due to increase of ₹ 305.44 crore (33.20 *per cent*) under Economic Services, ₹ 224.88 crore (186.31 *per cent*) under General Services, which was partly offset by decrease of ₹ 20.25 crore (4.58 *per cent*) under Social Services.
- Against the Revenue Surplus of ₹ 2333.25 crore projected in Budget Estimates and ₹ 2235.79 crore in Revised Estimates, the year ended with a Revenue Surplus of ₹ 2190.36 crore. Further, in 2015-16, the State Government witnessed Fiscal Surplus of ₹ 189.61 crore against the Fiscal Deficit of ₹ 514.28 crore and ₹ 303.99 crore projected in Budget Estimates and Revised Estimates respectively.

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

### 1.1.4 Major policy initiatives in the budget

Major policy announcements made in the budget speech 2015-16 and status of their implementation is given in the **Table 1.5**.

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**Table - 1.5: Status of implementation of major policy announcements during 2015-16**

Major Announcements	Status of Implementation (March 2016)
A sum of ₹ 30.00 crore was provided for effective implication of the Chief ministers Universal Health Scheme	No budget provision against the scheme was made during the year and accordingly no expenditure was incurred.
A sum of ₹ 12.70 crore was provided for launching the scheme 'VIDYA' a flagship programme to encourage girl child education.	No budget provision against the scheme was made during the year and accordingly no expenditure was incurred
A sum of ₹ 10.00 crore was provided for Chief Ministers Agriculture Mechanisation Scheme	During the year 2015-16, a provision of ₹10.00 crore was made in the Budget, but the entire fund was re-appropriated without assigning any reason.

### 1.1.5 Migration to New Pension Scheme (NPS)

GoI introduced (01 April 2004) a defined, contribution based NPS to cover all new entrants to Government service. The interim Pension Fund Regulatory and Development Authority (PFRDA) was established by GoI (October 2003). PFRDA being the regulator for the NPS had been authorised by the GoI to appoint/establish various intermediaries in the system, such as Central Record Keeping Agency (CRA), Pension Funds Trust for the NPS, Custodian Banks and etc. PFRDA appointed National Securities Depository Limited (NSDL) as the CRA for a period of 10 years from 01 December 2007 for performing the functions of record keeping, accounting, administration and customer services for subscribers to the schemes of pension funds approved by PFRDA. Further, three pension fund managers, a custodian and a trustee bank had also been appointed.

Under the NPS, the option to join the new system was available to the State Governments. The NPS architecture, evolved and worked out by the PFRDA was capable of accommodating the various State Governments' request to join the NPS, within the overall framework of the pension architecture as devised by the PFRDA.

State Government employees recruited on or after 01 January 2008 are eligible for the New Pension Scheme, which is a defined contributory pension scheme. According to the terms of the Scheme, the Government and employee each contribute 10 *per cent* of basic pay and dearness allowance and the entire amount, is transferred to the designated fund manager through NSDL/Trustee Bank.

As on 01 April 2015, the fund had a balance of ₹ 91.33 crore (Major Head 8342-117). During 2015-16, the State Government transferred an amount of ₹ 5.19 crore being Government and employees contribution pertaining to previous years to the fund. Out of the total fund ₹ 96.52 crore, the State Government transferred ₹ 33.25 crore of accumulated balances to NSDL along with interest of ₹3.74 crore. An amount of ₹ 0.07 crore was also withdrawn from the accumulated balances for payment of terminal

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benefits to retired/resigned persons and withdrawal of excess deposit of employers contribution made in the earlier years. The closing balance in the fund as on 31 March 2016 was ₹ 63.20 crore.

During 2015-16, the employee's contribution towards NPS had been directly uploaded to NSDL. Further, out of the Government share of ₹ 15.51 crore booked under Major Head 2071-01-117, an amount of ₹ 6.98 crore was only uploaded directly to NSDL. The State Government intimated that the balance fund could not be transferred due to procedural delay.

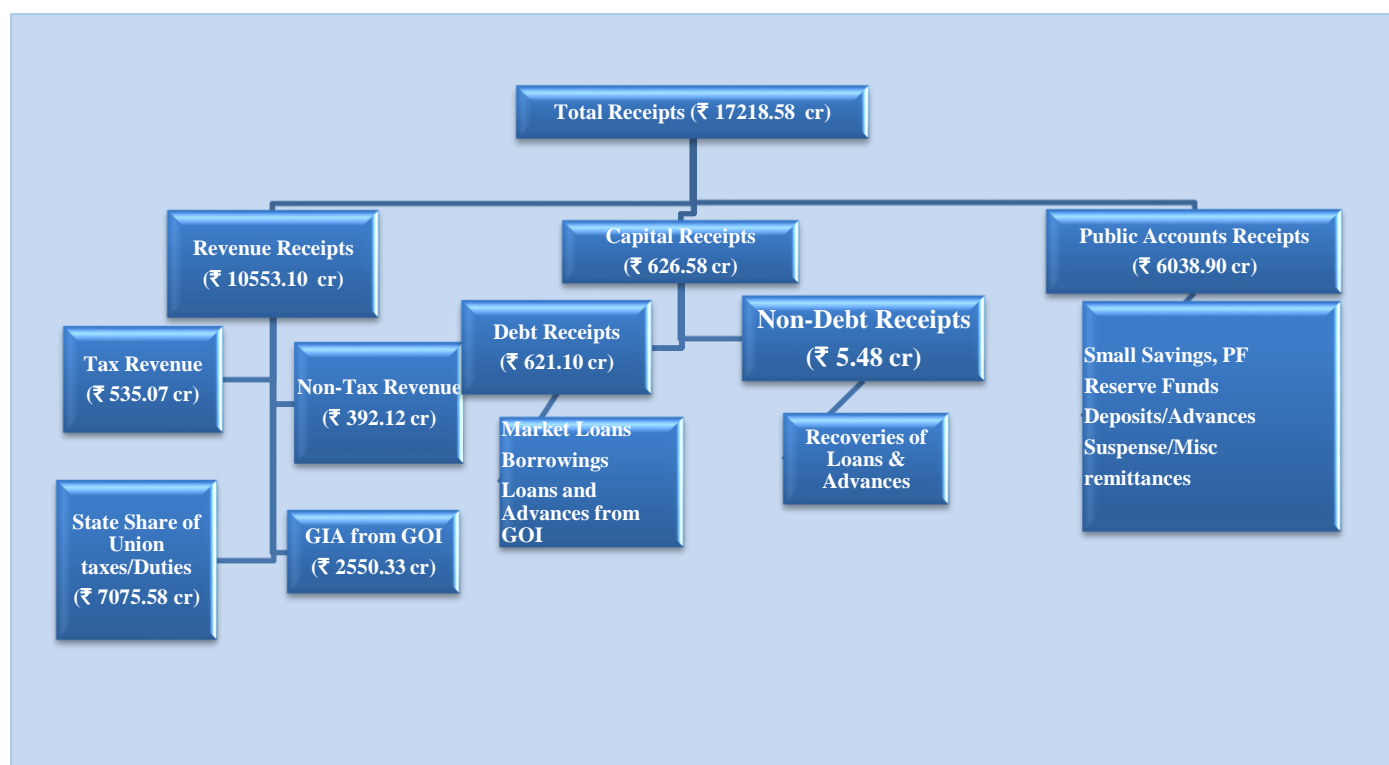
### 1.2 Resources of the State

#### 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 GIA from 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** presents receipts and disbursements of the State during the current year as recorded in the Annual Finance Accounts, while **Chart 1.3** depict trends in various components of receipts of the State during 2011-16 and **Chart 1.2** & **1.4** depict the composition of resources of the State during the current year.

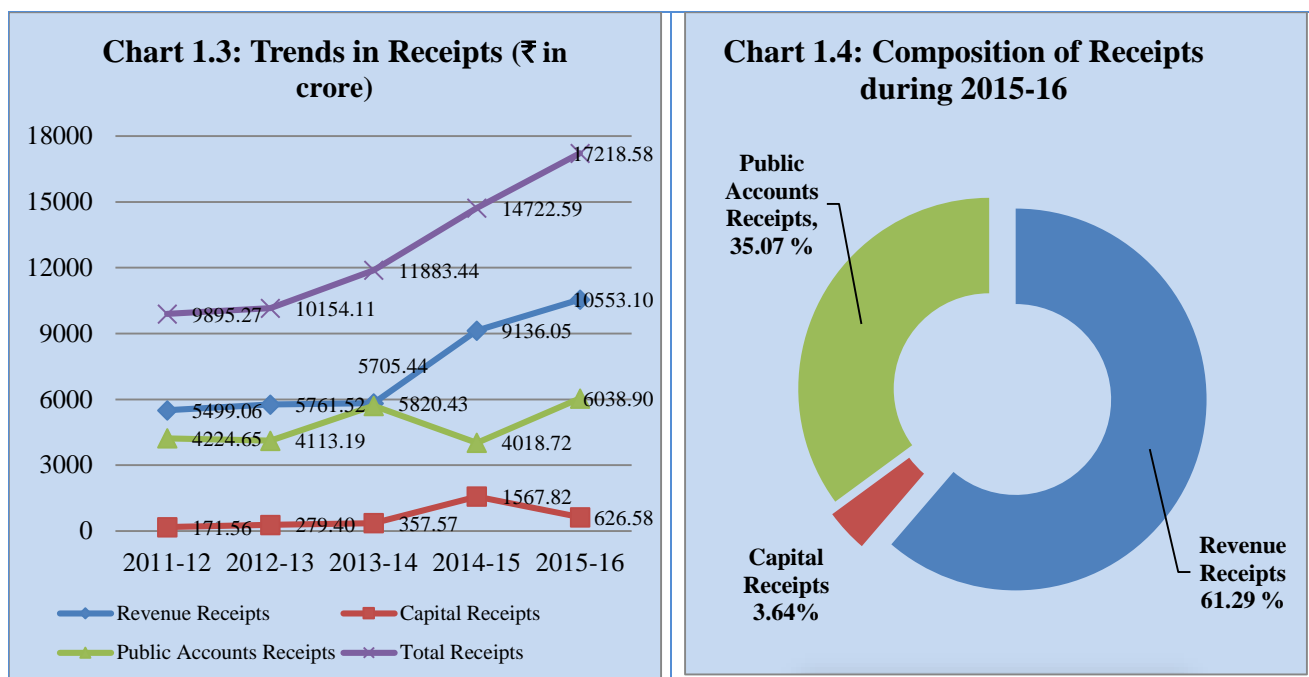
The following Flow Chart shows the components and sub-components of resources.

**Chart - 1.2: Components and Sub-components of Resources**





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Total Receipts during the current year increased by ₹ 2495.99 crore (16.95 *per cent*) over the previous year. Out of the total receipts, Public Accounts Receipts increased by 50.27 *per cent* (₹ 2020.18 crore) and Revenue Receipts by 15.51 *per cent* (₹ 1417.05 crore), whereas Capital Receipts decreased by 60.03 *per cent* (₹ 941.24 crore).

Total Receipts of the State for 2015-16 was ₹ 17,218.58 crore, of which ₹ 10,553.10 crore (61.29 *per cent*) came from Revenue Receipts and the remaining (38.71 *per cent*) from Borrowings and Public Account. Total Receipts of the State increased from ₹ 9895.27 crore in 2011-12 to ₹ 17,218.58 crore in 2015-16 at a compounded annual growth rate of 14.85 *per cent*.

Revenue Receipts increased steadily from ₹ 5499.06 crore in 2011-12 to ₹ 10,553.10 crore in 2015-16, whereas Capital Receipts increased from ₹ 171.56 crore in 2011-12 to ₹ 626.58 crore in 2015-16. Public Account Receipts increased from ₹ 4224.65 crore in 2011-12 to ₹ 6038.90 crore in 2015-16.

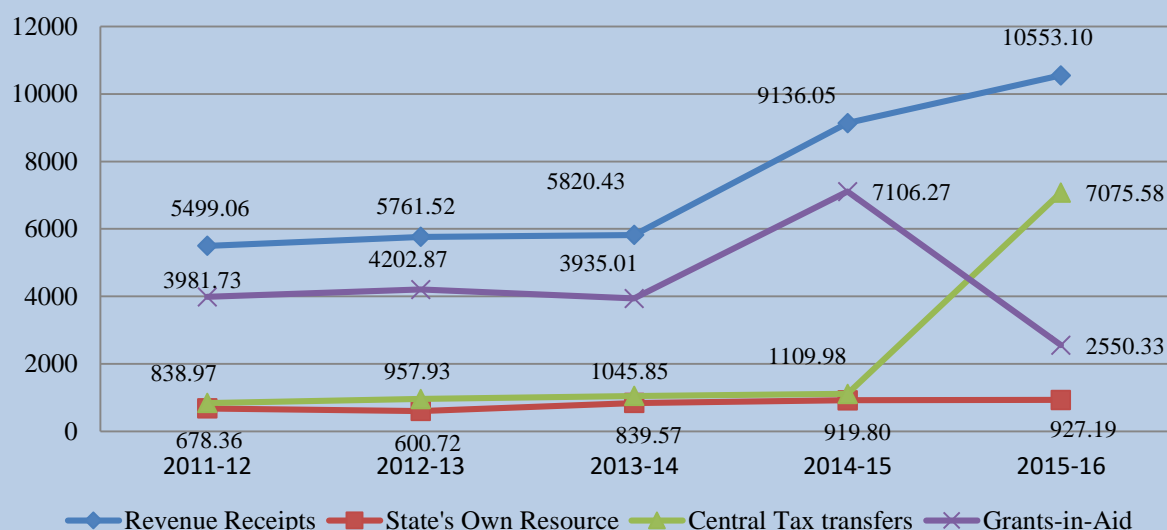
### 1.3 Revenue Receipts

**Statement - 14** 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 GIA from GoI. Trends and composition of Revenue Receipts over the period 2011-16 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**.

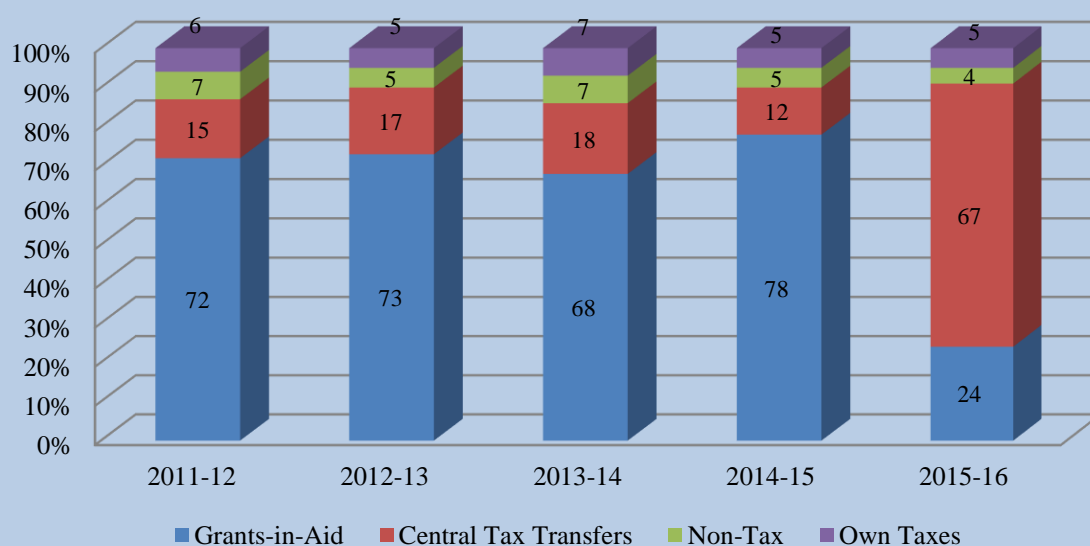


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**Chart 1.5: Trends in Revenue Receipts  
(₹ in Crore)**



**Chart 1.6: Composition of Revenue Receipts  
(in per cent)**



Revenue Receipts of the State increased by ₹ 5054.04 crore from ₹ 5499.06 crore in 2011-12 to ₹ 10,553.10 crore in 2015-16 at a CAGR of 17.70 *per cent*. However, during the same period State's Own Resources grew at much less pace and grew at a CAGR of 8.13 *per cent*.

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**Table - 1.6: Trends in Revenue Receipts relative to GSDP**

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue Receipts (₹ in crore)	5499.06	5761.52	5820.43	9136.05	10553.10
Rate of growth of Revenue Receipts (per cent)	1.42	4.77	1.02	56.97	15.51
Rate of growth of Own Taxes (per cent)	47.75	(-) 0.36	37.29	6.36	15.78
Revenue Receipts/GSDP (per cent)	49.71	45.92	39.85	55.75	54.19
<b>Buoyancy Ratio<sup>4</sup></b>					
Revenue Buoyancy Ratio with reference to GSDP	0.06	0.36	0.06	4.67	0.82
State's Own Taxes Buoyancy Ratio with reference to GSDP	2.11	(-) 0.03	2.27	0.52	0.84
State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts	33.63	-0.08	36.56	0.11	1.02

The Buoyancy Ratio of Revenue Receipts with reference to GSDP decreased due to significant decrease in the rate of growth of Revenue Receipts in 2015-16 compared to the previous year. The Buoyancy Ratio of the State's Own Tax Revenue with reference to GSDP indicates the slower pace of growth rate in State's Own Tax Revenue as compared to growth rate of GSDP in 2014-15 and 2015-16.

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 1.02, which indicates that State's Own Tax Revenue increased by almost same pace as Revenue Receipts.

### 1.3.1 State's Own Resources

As the State share in Central taxes and GIA from GoI 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.

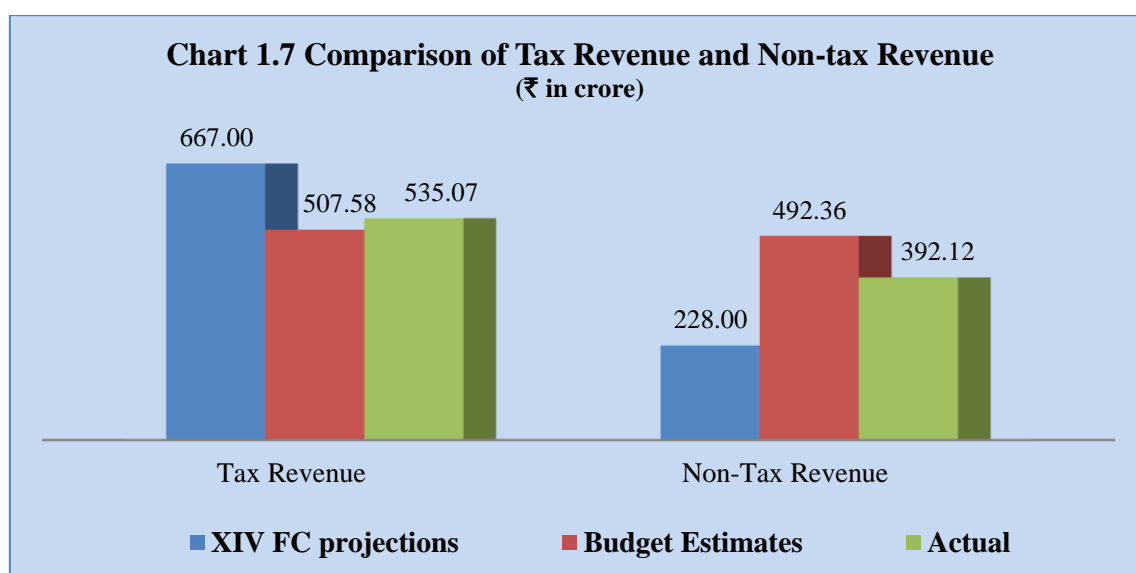
The State's actual Tax and Non-Tax receipts for 2015-16 vis-à-vis assessment made by XIV FC and Budget Estimates are given in the **Table 1.7** and **Chart 1.7** below:

**Table - 1.7: Tax and Non-Tax Receipts**

	XIV FC Projections	Budget Estimates	(₹ in crore) Actual
Tax Revenue	667.00	507.58	535.07
Non-Tax Revenue	228.00	492.36	392.12

<sup>4</sup> As explained Appendix 1.1.C

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Tax Revenue was 19.78 *per cent* lower than the assessment made by the XIV FC and 5.42 *per cent* higher than the assessment made in the Budget Estimates for the year. Collection of Non-Tax Revenue during 2015-16 was higher than the assessments made by the XIV FC (71.98 *per cent*), but lower than the assessments made in the Budget Estimates (20.36 *percent*).

### 1.3.1.1 Tax Revenue

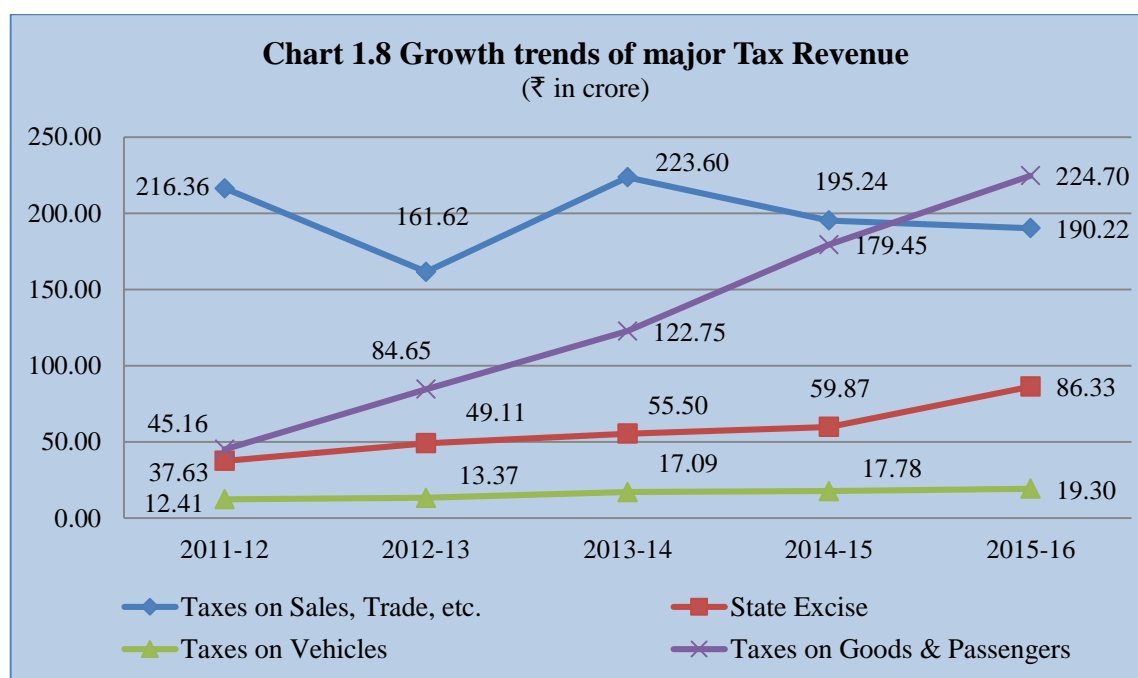
The gross collection in respect of major taxes and duties is given in **Table 1.8** and **Chart 1.8** below:

**Table - 1.8: Tax Revenue**

(₹ in crore)

Heads	2011-12	2012-13	2013-14	2014-15	2015-16	% Increase (+)/ Decrease (-) over Previous Year
Taxes on Sales, Trade, etc.	216.36	161.62	223.60	195.24	190.22	(-)2.57
State Excise	37.63	49.11	55.50	59.87	86.33	44.20
Taxes on Vehicles	12.41	13.37	17.09	17.78	19.30	8.55
Stamp & Registration Fees	2.24	3.05	4.18	3.83	5.63	47.00
Land Revenue	3.85	4.70	11.39	5.99	8.89	48.41
Taxes on Goods & Passengers	45.16	84.65	122.75	179.45	224.70	25.22
<b>TOTAL</b>	<b>317.65</b>	<b>316.50</b>	<b>434.51</b>	<b>462.16</b>	<b>535.07</b>	<b>15.78</b>

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Tax Revenue increased by ₹ 217.42 crore (68.45 *per cent*) from ₹ 317.65 crore in 2011-12 to ₹ 535.07 crore in 2015-16 and by 15.78 *per cent* during the current year (₹ 535.07 crore) over the previous year (₹ 462.16 crore). Revenue from Taxes on Goods & passengers contributed to the major share of Tax Revenue (41.99 *per cent*) and increased by 25.22 *per cent* over the previous year. Taxes on Sales, Trade, *etc.*, State Excise and Taxes on Vehicles were the other major contributors to the State Tax Revenue. The Tax-GSDP Ratio of 2.75 during 2015-16 was lower than the projection (3.60 *per cent*) made by the XIV FC.

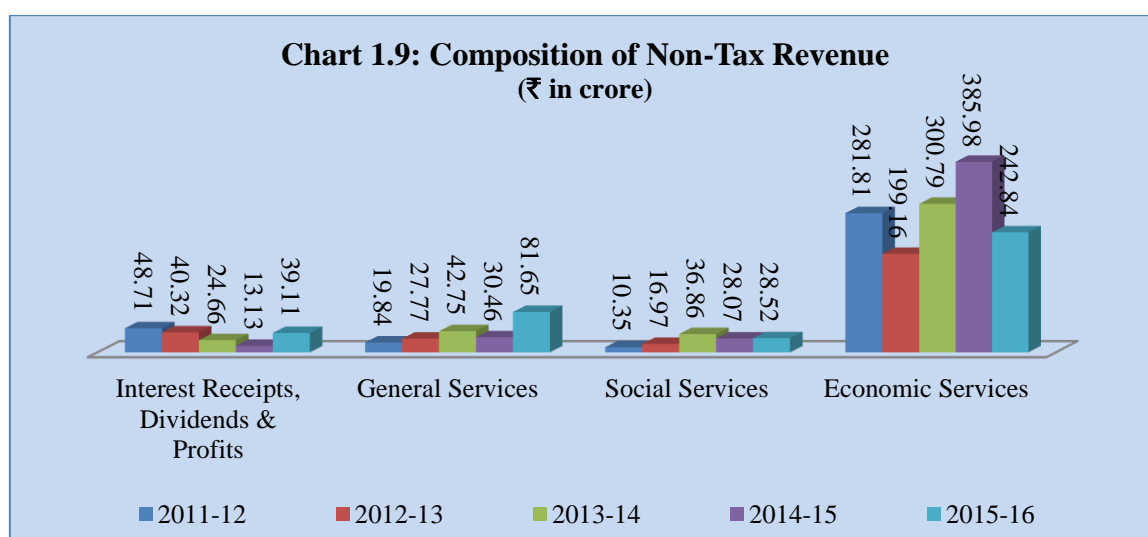
### 1.3.1.2 Non-Tax Revenue

**Table 1.9** and **Chart 1.9** show the trends of Non-Tax Revenue during the period 2011-12 to 2015-16.

**Table - 1.9 Non-Tax Revenue**

Heads						(₹ in crore)
	2011-12	2012-13	2013-14	2014-15	2015-16	% Increase/ Decrease over previous year
Interest Receipts, Dividends & Profits	48.71	40.32	24.66	13.13	39.11	197.87
General Services	19.84	27.77	42.75	30.46	81.65	168.06
Social Services	10.35	16.97	36.86	28.07	28.52	1.60
Economic Services	281.81	199.16	300.79	385.98	242.84	(-)37.08
<b>TOTAL</b>	<b>360.71</b>	<b>284.22</b>	<b>405.06</b>	<b>457.64</b>	<b>392.12</b>	<b>(-)14.32</b>

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Non-Tax Revenue decreased by ₹ 65.52 crore (14.32 *per cent*) during 2015-16 over the previous year. Non-Tax Revenue constituted around 3.72 *per cent* of Revenue Receipts. Around 61.93 *per cent* (₹ 242.84 crore) of Non-Tax Revenue during 2015-16 was received from Economic Services, and within this category, receipts under Power Sector alone contributed 48.20 *per cent* (₹ 117.04 crore). Interest Receipts increased by ₹ 25.98 crore (197.87 *per cent*) during 2015-16 compared to the previous year, mainly due to increase in Interest Receipts on State/Union Territory Governments by ₹ 39.11 crore. CAGR of Non-Tax Revenue for Arunachal Pradesh between 2006-07 and 2014-15 was 5.55 *per cent*. However, it witnessed a decline of 14.32 *per cent* during 2014-15 to 2015-16.

### 1.3.2 Grants-in-Aid

Details of GIA from GoI are given in **Table 1.10**.

**Table - 1.10: Grants-in-Aid from the Government of India**

(₹ in crore)					
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Non-Plan Grants</b>	850.18	966.40	743.62	952.12	174.36
Grants for State Plan Schemes	2565.22	2733.97	2543.31	5735.73	2062.45
Grants for Central Plan Schemes	30.74	13.04	166.23	37.59	60.72
Grants for Centrally Sponsored Schemes	352.96	391.16	391.68	315.03	147.54
Grants for Special Plan Schemes	182.63	98.30	90.17	65.80	105.26
<b>TOTAL</b>	<b>3981.73</b>	<b>4202.87</b>	<b>3935.01</b>	<b>7106.27</b>	<b>2550.33</b>
Percentage of Increase (+)/Decrease (-) over previous year	(+) 0.63	(+) 5.55	(-) 6.37	(+) 80.59	(-) 64.11
Total Grants as a percentage of Revenue Receipts	72.41	72.95	67.61	77.78	24.17

GIA from GoI significantly decreased by 64.11 *per cent* (₹ 4555.94 crore) from ₹ 7106.27 crore in 2014-15 to ₹ 2550.33 crore in 2015-16. The decrease was mainly due to decrease in Grants for State Plan Schemes by ₹ 3673.28 crore (64.04 *per cent*), Non-plan Grants ₹ 777.76 crore (81.69 *per cent*) and Grants for Centrally Sponsored Scheme

## Finances of The State Government

by ₹ 167.49 crore (53.17 *per cent*). The decrease was partly offset by marginal increase in Grants for Special Plan Scheme by ₹ 39.46 crore (59.97 *per cent*) and Grants for Central Plan Schemes by ₹ 23.13 crore (61.53 *per cent*).

Non-Plan Grants (₹ 174.36 crore) constituted 6.84 *per cent* of total grants during the year, of which ₹ 99.00 crore was under the proviso to Article 275(1) of the Constitution. The remaining amount was released mainly as Contribution to State Disaster Response Fund (SDRF) (₹ 46.80 crore) and Other Grants (₹ 28.56 crore).

### 1.3.3 Central Tax Transfers

14 FC had recommended that the State's Share of Central Taxes be increased to 42 *per cent* from 32 *per cent*. The share of Union taxes received during 2015-16 was ₹ 7075.58 crore, an increase of ₹ 5965.60 crore (537.45 *per cent*) over the previous year. The main contributions of the share of Union taxes were mainly, Corporation Tax (₹ 2239.74 crore), Taxes on Income other than Corporation tax (₹ 1585.26 crore), Service Tax (₹ 1232.59 crore), Customs (₹ 1115.78 crore) and Union Excise (₹ 900.89 crore).

### 1.3.4 Optimisation of XIV Finance Commission Grants

XIV FC was constituted by the President of India under Article 280 of the Constitution of India on 13th January 2013 to give recommendations on specified aspects of Centre-State fiscal relations during 2015-20 (award period). XIV FC, as per the terms of reference, has three constitutionally mandated tasks namely, the distribution of net revenues from the divisible pool of taxes, grants-in-aid to the needy States and measures for supplementing the State resources for devolution to local bodies.

The details of the XIV FC grants released, disbursed and utilised during the period 2015-16 are given in **Table 1.11**.

**Table - 1.11: Details of grants released, disbursed and utilised**

(₹ in crore)

Sl No	Purpose for which grant is released	Amount to be released by GoI as per recommendations	Actual amount released by GoI	Shortfall in release in grants
1	Share in Central Taxes	7231.00	7075.58	155.42
2	Disaster Relief (SDRF)	47.00	46.80	0.20
3	Local Bodies Grant			
(i)	Performance Grants			
(a)	RLB	0.00	0.00	0.00
(b)	ULB	0.00	0.00	0.00
(ii)	Basic Grants			
(a)	RLB	88.52	44.26	44.26
(b)	ULB	23.42	11.71	11.71
<b>Total</b>		<b>7389.94</b>	<b>7178.35</b>	<b>211.59</b>

The State Government had received financial assistance of ₹ 7178.35 crore (97.14 *per cent*) against the recommended amount of ₹ 7389.94 crore.

## Finances of The State Government

### 1.4 Capital Receipts

Details of Capital Receipts during 2011-12 to 2015-16 are given in **Table 1.12**.

**Table - 1.12: Trends in Growth and Composition of Capital Receipts**

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

Sources of State's Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
Public Debt Receipts	168.66	276.45	354.15	1540.41	621.10
Recovery of Loans & Advances	2.90	2.95	3.42	27.41	5.48
Miscellaneous Capital Receipts	-	-	-	-	-
<b>Capital Receipts</b>	<b>171.56</b>	<b>279.40</b>	<b>357.57</b>	<b>1567.82</b>	<b>626.58</b>
Rate of growth of Non-debt Capital Receipts	20.33	1.72	15.93	701.46	(-)80.01
Rate of growth of Debt Capital Receipts	37.84	63.91	24.85	334.96	(-)59.68
Rate of growth of CR	37.50	62.86	27.98	338.47	(-)60.03

Public Debt Receipts decreased by ₹ 919.31crore (59.68 per cent) over the previous year. Public Debt Receipts Consists of two components viz., Internal Debt of the State and Loans and Advances from the Central Government. Internal Debt consisted of Market Loans (₹ 130.04 crore), Ways and Means Advances from the RBI (₹ 333.18 crore), Special Securities issued to National Small Savings Fund (₹ 136.39 crore), Loans from Financial Institutions (₹ 16.85 crore), and Other Loans (₹ 4.64 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 - 1.13: Public Account Receipts**

(₹ in crore)

Sources of State's Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
Public Accounts Receipts	4224.65	4113.19	5705.44	4018.72	6038.90
Small Savings, Provident Fund, etc;.	256.02	278.81	308.36	405.28	387.63
Reserve Funds	19.00	20.00	62.54	20.00	200.00
Deposits & Advances	940.44	1032.07	1370.75	2081.34	1946.75
Suspense & Miscellaneous	10.55	(-) 0.07	963.98	(-) 1691.51	(-)480.14
Remittances	2998.64	2782.38	2999.81	3203.61	3984.66



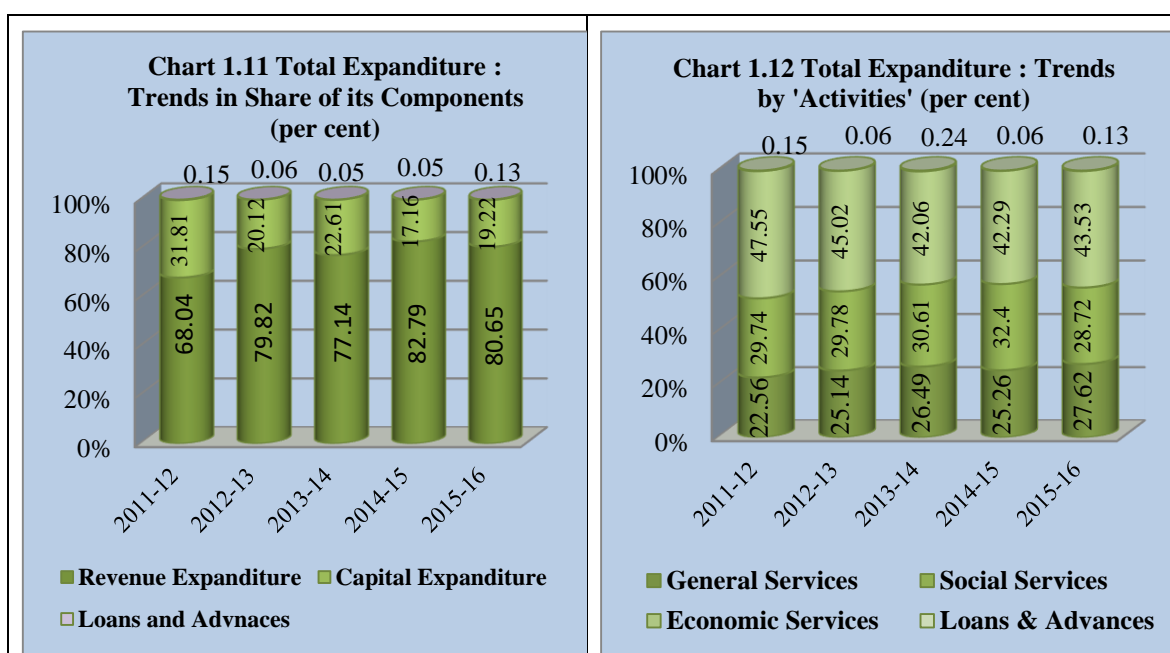
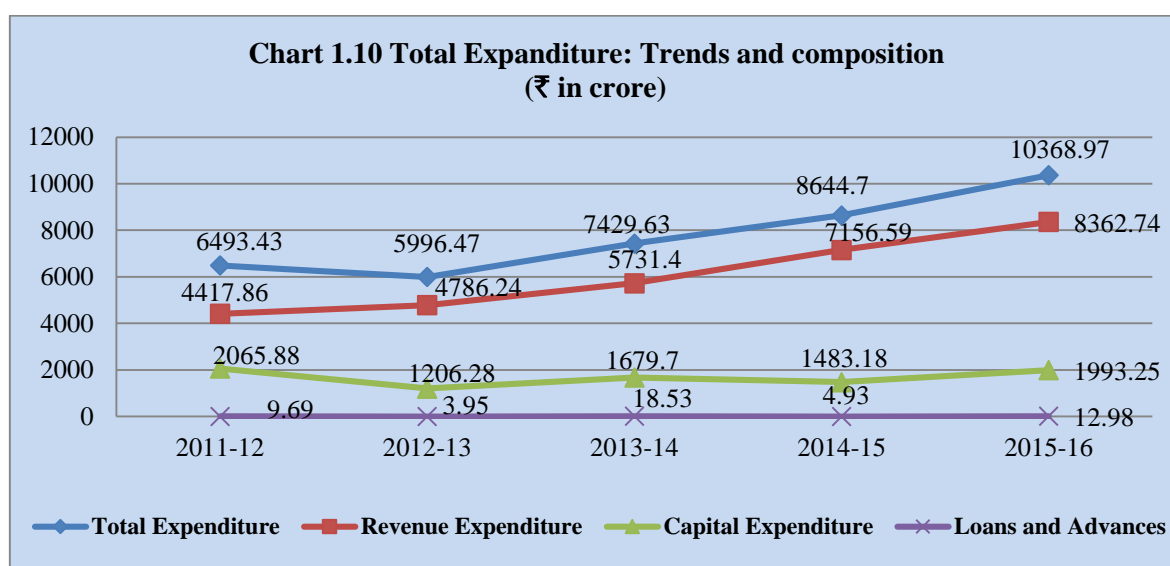
# Finances of The State Government

## 1.6 Application of Resources

Analysis of allocation of expenditure at State Government level assumes significance since major expenditure responsibilities are entrusted with the State Government. 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 1.10** presents trends in total expenditure over five years (2011-12 to 2015-16). The composition, both in terms of 'economic classification' and 'expenditure by activities,' are depicted in **Charts 1.11 and 1.12** respectively.



## Finances of The State Government

Total Expenditure of the State increased by ₹ 3875.54 crore (59.68 *per cent*) from ₹ 6493.43 crore in 2011-12 to ₹ 10,368.97 crore in 2015-16. 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 1.14**.

**Table - 1.14: Total Expenditure – Basic Parameters**

	(₹ in crore)				
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Total Expenditure (TE) (₹ in crore)</b>	<b>6493.43</b>	<b>5996.47</b>	<b>7429.63</b>	<b>8644.70</b>	<b>10368.97</b>
<i>Non-Plan Expenditure</i>	2863.63	3092.26	3966.49	4268.05	5671.80
<i>Plan Expenditure</i>	3629.80	2904.21	3463.14	4376.65	4697.17
<b>Rate of Growth of TE (<i>per cent</i>)</b>	20.25	(-) 7.65	23.90	16.35	19.95
<b>TE/GSDP Ratio (<i>per cent</i>)</b>	58.70	47.79	50.86	52.75	53.25
<b>RR/TE Ratio (<i>per cent</i>)</b>	84.69	96.08	78.34	105.68	101.78
<b>Buoyancy of Total Expenditure with reference to</b>					
<b>GSDP (<i>ratio</i>)</b>	0.89	(-)0.57	1.46	1.34	1.06
<b>RR (<i>ratio</i>)</b>	14.26	(-) 1.60	23.43	0.29	1.29

The increase of ₹ 1724.27 crore (19.95 *per cent*) in Total Expenditure during 2015-16 over the previous year was on account of increase of ₹ 1206.15 crore in Revenue Expenditure, followed by increase in Capital Expenditure by ₹ 510.07 crore and Loans and Advances by ₹ 8.05 crore. While the share of Plan Expenditure constituted around 45.30 *per cent* (₹ 4697.17 crore) of the Total Expenditure, the remaining 54.70 *per cent* (₹ 5671.80 crore) was Non-plan Expenditure. Buoyancy of Total Expenditure to Revenue Receipts stood at 1.29, indicating significant increase in Total Expenditure at a much higher pace compared to Revenue Receipt.

In terms of activities, Total Expenditure comprises of expenditure on General Services, including Interest Payments, Social and Economic Services, and Loans & Advances. Of the Total Expenditure in 2015-16, expenditure on General Services, including Interest Payments, which are considered as non-developmental, together accounted for 27.62 *per cent*. On the other hand, expenditure on Social & Economic Services (Revenue & Capital) together accounted for 72.36 *per cent* during 2015-16. The relative share of Social Services decreased from 32.40 *per cent* in 2014-15 to 28.73 *per cent* in 2015-16. The relative share of Economic Services increased from 42.29 *per cent* in 2014-15 to 43.53 *per cent* in 2015-16.

### 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 1.15**.

## Finances of The State Government

**Table - 1.15: Revenue Expenditure – Basic Parameters**

(₹ in crore)					
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Revenue Expenditure (RE)</b>	<b>4417.86</b>	<b>4786.24</b>	<b>5731.40</b>	<b>7156.59</b>	<b>8362.74</b>
<i>of which</i>					
<i>Non-Plan Revenue Expenditure (NPRE)</i>	2853.86 (64.60)	3087.41 (64.51)	3957.59 (69.05)	4245.71 (59.33)	5659.40 (67.67)
<i>Plan Revenue Expenditure (PRE)</i>	1564.00 (35.40)	1698.83 (35.49)	1773.81 (30.95)	2910.88 (40.67)	2703.34 (32.33)
<b>Rate of Growth of</b>					
<b>Rate of Growth of RE (per cent)</b>	17.99	8.34	19.75	24.87	16.85
<b>Ratio (per cent) of</b>					
<b>RE as percentage of TE</b>	68.04	79.82	77.14	82.79	80.65
<b>Buoyancy Ratio of RE with</b>					
<b>GSDP</b>	0.79	0.62	1.20	2.04	0.90
<b>Revenue Receipts</b>	12.67	1.75	19.36	0.44	1.09

(Figures in brackets represent percentages to Revenue Expenditure)

Revenue Expenditure increased by ₹ 3944.88 crore from ₹ 4417.86 crore in 2011-12 to ₹ 8362.74 crore in 2015-16 at a CAGR of 17.30 *per cent*. Non-Plan Revenue Expenditure (NPRE) during the same period increased from ₹ 2853.86 crore in 2011-12 to ₹ 5659.40 crore in 2015-16, at a CAGR of 18.67 *per cent* outpacing the growth of Revenue Expenditure during the period. As a percentage of total Revenue Expenditure, NPRE also increased from 64.60 *per cent* in 2011-12 to 67.67 *per cent* in 2015-16. 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 decrease from 35.40 *per cent* during 2011-12 to 32.33 *per cent* during 2015-16.

### 1.6.3 Capital Expenditure

Capital Expenditure during 2015-16 (₹ 1993.25 crore) increased by ₹ 510.07 crore over the previous year due to increased expenditure on General Services (₹ 224.88 crore), Transport (₹ 205.62 crore), Irrigation and Flood Control (₹ 90.64 Crore), energy (₹ 22.18 crore). This expenditure constituted only 19.22 *per cent* of Total Expenditure during this year as compared to 17.16 *per cent* during the previous year. The State Government could not fulfil its commitment made in the Budget Estimates and Revised Estimates for incurring Capital Expenditure during the year, as the expenditure fell short of the Budget estimates (₹ 2865.97 crore) by 30.45 *per cent* and Revised Estimates (₹ 2554.01 crore) by 21.92 *per cent*.

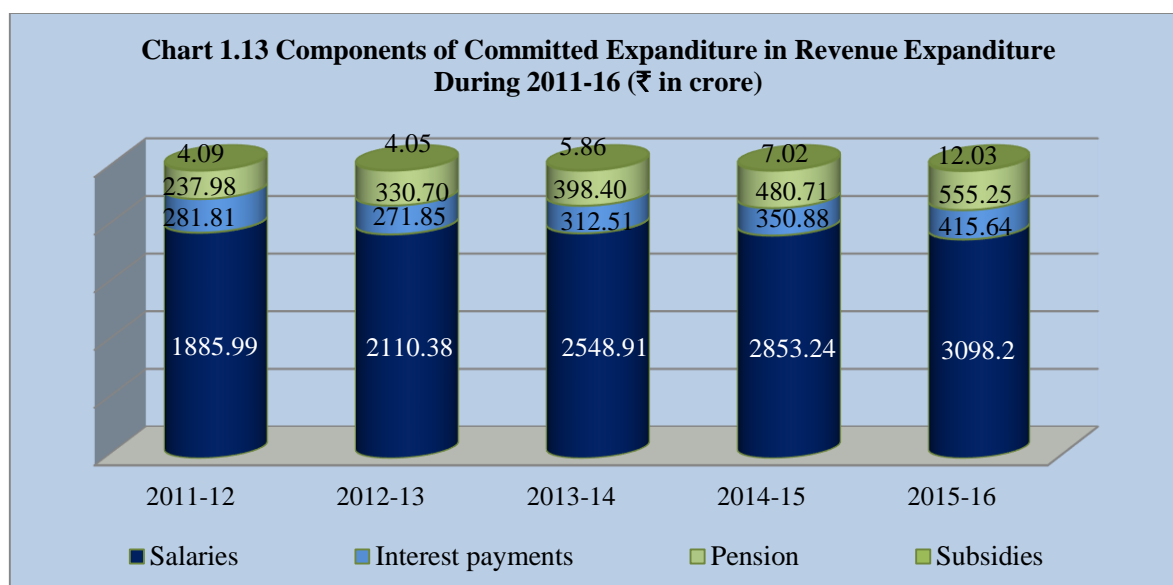
### 1.6.4 Committed Expenditure

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 1.13** present the trends in expenditure on these components during 2011-16.

## Finances of The State Government

**Table - 1.16: Components of Committed Expenditure**

(₹ in crore)					
Components of Committed Expenditure	2011-12	2012-13	2013-14	2014-15	2015-16
Salaries	1885.99	2110.38	2548.91	2853.24	3098.20
<i>of which</i>					
Non-Plan Head	1569.99	1752.10	2098.77	2343.78	2864.40
Plan Head	316.00	358.28	450.14	509.46	233.80
Interest Payments	281.81	271.85	312.51	350.88	415.64
Expenditure on Pension and other Retirement Benefits	237.98	330.70	398.40	480.71	555.25
Subsidies	4.09	4.05	5.86	7.02	12.03
<b>TOTAL</b>	<b>2409.87</b>	<b>2716.98</b>	<b>3265.68</b>	<b>3691.85</b>	<b>4081.12</b>



Overall Committed Expenditure increased by ₹ 1671.25 crore (69.35 per cent) from ₹ 2409.87 crore in 2011-12 to ₹ 4081.12 crore in 2015-16. Committed Expenditure during 2015-16 constituted 48.80 per cent of Revenue Expenditure and 38.67 per cent of Revenue Receipts. Component-wise analysis is given below:

### **1.6.4.1 Expenditure on Salaries**

During 2015-16, Salaries alone accounted for 29.36 per cent of Revenue Receipts of the State. It increased by 8.59 per cent (₹ 244.96 crore) from ₹ 2853.24 crore in 2014-15 to ₹ 3098.20 crore in 2015-16, and but, fell short of the projection made in the Macro Economic Framework Statement<sup>5</sup> (MEFS) of March 2016 (₹ 3181.22 crore) by ₹ 83.02 crore.

<sup>5</sup> A statement presented to the State Legislature at the time of the budget under FRBM Act and the rules thereunder. It contains an assessment of growth prospects of the economy with specific underlying assumption like expected GSDP, fiscal balance of the State Government, etc.

## Finances of The State Government

### 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 ₹ 64.76 crore (18.46 *per cent*) from ₹ 350.88 crore in 2014-15 to ₹ 415.64 crore in 2015-16. *Interest Payments (₹ 415.64 crore) were higher than the projections made by the XIV FC (₹ 330.00 crore) and lower than the MEFS of March 2016 (₹ 439.77 crore).*

### 1.6.4.3 Expenditure on Pension Payments

Pension Payments (including other Retirement Benefits) indicated an increasing trend during the 5 year period (2011-16). Pension Payments increased by ₹ 74.54 crore (15.51 *per cent*) over the previous year. A comparative analysis of actual Pension Payments and the assessment/projection made by the XIV FC and the State Government showed that actual Pension Payments exceeded the assessment made by the XIV FC by ₹ 170.25 crore but lower than the projection made by the State Government in its Budget for 2015-16 by ₹ 130.71 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 XIV FC	Budget		by XIV FC	in Budget
2015-16	385.00	739.19	555.25	170.25 (44.22)	(-)183.94 (24.88)

(Figures in brackets represent percentages)

### 1.6.4.4 Subsidies

Table 1.16 shows that expenditure on payment of Subsidies increased by 71.37 *per cent* from ₹ 7.02 crore in 2014-15 to ₹ 12.03 crore during the current year. It constituted 0.14 *per cent* of Revenue Expenditure. The single recipient of Subsidies in 2015-16 was Agriculture (₹ 12.03 crore).

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

(₹ in crore)

Institutions	2011-12	2012-13	2013-14	2014-15	2015-16
University and Educational Institutions	3.95	6.85	6.64	11.16	7.39
Cultural Institutions/Voluntary Organizations for promotion of Arts & Culture	0.46	3.06	1.00	0.00	2.22
State Institute of Rural Development	0.20	0.60	0.40	0.00	0.66

## Finances of The State Government

Institutions	2011-12	2012-13	2013-14	2014-15	2015-16
Social Welfare	0.60	0.53	0.57	0.57	0.44
Food and Warehousing	18.57	3.65	105.91	22.09	0.00
Co-operation	1.27	0.75	1.05	3.22	1.25
Other Institutions <sup>6</sup>	0.58	7.49	21.81	7.59	14.21
<b>TOTAL</b>	<b>25.63</b>	<b>22.93</b>	<b>137.38</b>	<b>44.63</b>	<b>26.03</b>
<i>Assistance as percentage of RE</i>	<i>0.58</i>	<i>0.48</i>	<i>2.40</i>	<i>0.62</i>	<i>0.31</i>

Financial assistance extended to Local Bodies NGOs and other Institutions with inter-year variations decreased by 41.68 *per cent* from ₹ 44.63 crore in 2014-15 to ₹ 26.03 crore in 2015-16. The share of financial assistance in Revenue Expenditure also significantly decreased from 0.62 *per cent* in 2014-15 to 0.31 *per cent* during the current year. University and Educational Institutions were the major recipients (around 28 *per cent*) of the financial assistance followed by Other Institutions (Other Scientific Bodies 27 *Per cent*, Municipal Council 26 *Per cent*).

### 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 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 the expenditure on General Services is treated as Non-Development Expenditure.

#### 1.7.1 Adequacy of public Expenditure

The expenditure responsibilities relating to Social sector and Economic infrastructure are largely assigned to State Governments. Enhancing human development levels requires the State to step up their expenditure on Key Social Services like Education, Health, etc. **Table 1.19** analyses the fiscal priority given by the State Government to various expenditure heads in 2012-13 and the current year viz., 2015-16 with regard to Developmental Expenditure, Social Sector Expenditure and Capital Expenditure.

<sup>6</sup> Other Institutions include Municipal committees and Scientific Bodies



## Finances of The State Government

**Table-1.19: Fiscal priority of the State in 2012-13 and 2015-16**

Fiscal priority by the State	(in per cent)					
	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
Special Category State Average (Ratio) 2012-13	22.23*	69.92	38.42	15.53	20.86	5.58
Arunachal Pradesh Average (Ratio) 2012-13	47.79	74.81	29.78	20.12	12.90	4.54
Special Category State Average (Ratio) 2015-16	21.66*	70.41	39.78	13.95	20.63	6.41
Arunachal Pradesh Average (Ratio) 2015-16	53.25	72.36	28.73	19.22	13.46	4.97
<p>* Exclude Jammu &amp; Kashmir and Manipur            AE: Aggregate Expenditure; DE: Development Expenditure; SSE: Social Sector Expenditure; CE: Capital Expenditure            #Developmental expenditure includes Developmental revenue expenditure, Developmental capital Expenditure and Loans and Advances disbursed.            (Source: For GSDP, Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation website as on 29 July 2016)</p>						

A comparison of the data related to Arunachal Pradesh with that of the Special Category States (SCS) revealed the following:

- Development Expenditure as a proportion of aggregate expenditure has been higher in the State as compared to the SCS average both during 2012-13 and 2015-16.
- Expenditure on Social Sector as a proportion of aggregate expenditure was lower than the SCS average during 2012-13 and 2015-16. The share of expenditure on education as a proportion of aggregate expenditure was also lower than the SCS averages in both the years, though it improved in 2015-16. The share of expenditure on health as a proportion of aggregate expenditure was also less than the SCS averages in 2012-13 and 2015-16.
- The share of Capital Expenditure of the State was higher than the SCS average in both the years 2012-13 and 2015-16.

### 1.7.2 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 goods<sup>7</sup>. 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 infrastructure. The higher the ratio of these components to Total Expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.20** 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 1.21** shows details of Capital Expenditure and components of Revenue Expenditure incurred on maintenance of the selected Social and Economic Services infrastructure.

<sup>7</sup> Appendix - I.1.C.



## Finances of The State Government

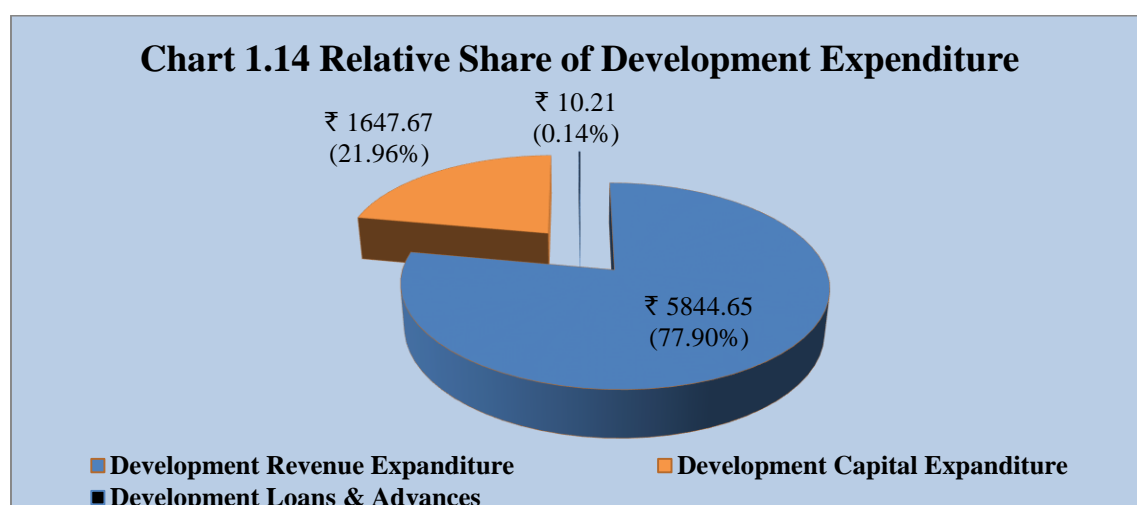
**Table - 1.20: Development Expenditure**

(₹ in crore)

Components of Development Expenditure	2011-12	2012-13	2013-14	2014-15	2015-16	
					BE (Net)	Actuals
<b>Development Expenditure {(a) to (c)}</b>	5024.44 (77.38)	4486.17 (74.81)	5459.08 (73.48)	6456.92 (74.69)	8076.79 (66.32)	7502.53 (72.36)
<b>(a) Development Revenue Expenditure</b>	3133.42 (48.26)	3362.78 (56.08)	3951.34 (53.18)	5094.00 (58.93)	6331.82 (52.00)	5844.65 (56.37)
<b>(b) Development Capital Expenditure</b>	1885.07 (29.03)	1122.42 (18.72)	1491.89 (20.08)	1362.48 (15.76)	1744.97 (14.32)	1647.67 (15.89)
<b>(c) Development Loans &amp; Advances</b>	5.95 (0.09)	0.97 (0.01)	15.85 (0.21)	0.44 (0.01)	6.00 (0.05)	10.21 (0.10)

(Figures in brackets indicate percentage to Aggregate Expenditure)

Development Expenditure increased by 16.19 *per cent* over the previous year, but fell short of the assessment made in the Budget Estimates by 7.11 *per cent*. The relative share of Development Expenditure during 2015-16, given in **Chart 1.14** below, shows that around 77.90 *per cent* of Development Expenditure was incurred on Revenue Account and only 21.96 *per cent* was utilized for Capital Expenditure.



During the current year, Development Capital Expenditure as a percentage of Total Expenditure increased to 15.89 *per cent* as compared to 15.76 *per cent* in 2014-15, but fell short to the budget projection by 5.58 *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.

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**Table - 1.21 Efficiency of Expenditure Use in selected Social and Economic Services**

(Figures in per cent)

Social/Economic Services	2014-15		2015-16	
	Capital Exp. to Total Exp.	Share of Salary in Revenue Exp.	Capital Exp. to Total Exp.	Share of Salary in Revenue Exp.
<b>Social Services</b>	<b>15.80</b>	<b>46.53</b>	<b>14.17</b>	<b>47.04</b>
General Education	4.71	60.10	3.94	54.02
Technical Education, Sports and Arts & Culture	52.67	45.62	44.95	46.03
Health & Family Welfare	5.87	51.38	5.05	59.66
Water Supply & Sanitation, Housing and Urban Development	38.24	23.75	32.30	21.70
Other Social Services	11.41	29.11	14.36	39.12
<b>Economic Services</b>	<b>25.18</b>	<b>31.27</b>	<b>27.15</b>	<b>28.46</b>
Agriculture & Allied Activities	1.05	34.49	2.07	39.81
Irrigation & Flood Control	20.09	42.68	40.91	32.08
Energy	19.55	40.27	18.74	37.20
Transport	41.18	20.15	41.99	15.10
Other Economic Services	20.73	34.57	16.36	30.90

### **Social Services**

Trends in Capital Expenditure on Social Services revealed that the share of Capital Expenditure to Total Expenditure during the period in 2014-15 was 15.80 *per cent* and decreased to 14.17 *per cent* in 2015-16, which indicated that Revenue Expenditure was dominant. There was significant decrease in the share of Capital Expenditure to Total Expenditure on Technical Education, Sports and Arts & Culture followed by Water Supply & Sanitation, Housing and Urban Development, Health & Family Welfare and General Education but, an increase in Other Social Services. Under General Education only 3.94 *per cent* of the Total Expenditure was incurred on Capital Account during 2015-16, and also showed significant decline as against 4.71 *per cent* during the previous year.

Of the Revenue Expenditure on Social Services, the share of Salary component increased from 46.53 *per cent* in 2014-15 to 47.04 *per cent* in 2015-16. Within the priority Sectors, non-salary components continued to have the dominant share under Water Supply, Sanitation, Housing and Urban Development. High Salary Expenditure was observed under General Education (2014-15: 60.10 *per cent* and 2015-16: 54.02 *per cent*) and Health & Family Welfare Services (2014-15: 51.38 *per cent*; 2015-16: 59.66 *per cent*).

### **Economic Services**

Expenditure on Economic Services (including Loans & Advances) during 2015-16 (₹ 4523.60 crore) accounted for about 43.63 *per cent* of the Total Expenditure<sup>8</sup> and 60.16 *per cent* of Development Expenditure during the year. Out of the Total Expenditure on Economic Services during the current year, 42.80 *per cent* (₹ 1931.54 crore) was incurred on Transport, 15.26 *per cent* (₹ 688.73 crore) on Energy and 15.07 *per cent* (₹ 680.14 crore) on Agriculture & Allied Activities.

<sup>8</sup> Revenue Expenditure + Capital Expenditure + Disbursement of Loans & Advances

## Finances of The State Government

Trends in Revenue Expenditure on Economic Services indicated that under these heads, expenditure showed an increasing trend of ₹ 552.37 crore. Capital Expenditure on Economic Services increased by ₹ 305.44 crore compared to previous year. The share of Capital Expenditure on Economic Services to the total Revenue and Capital Expenditure on Economic Services increased from 25.18 *per cent* in 2014-15 to 27.15 *per cent* in 2015-16. Revenue Expenditure on Economic Services also consistently increased from ₹ 1748.00 crore in 2011-12 to ₹ 3287.98 crore (88.10 *per cent*) in the current year. An increase of ₹ 552.37 crore (20.19 *per cent*) during 2015-16 over the previous year in Revenue Expenditure was mainly due to the increase under Transport (₹ 255.82 crore), Rural Development (₹ 143.07 crore) and Energy (₹ 119.82 crore) partly offset by decrease under Special Areas Programme (₹ 88.76 crore). Within Revenue Expenditure on Economic Services, the Salary component constituted 31.27 *per cent* and 28.46 *per cent* during 2014-15 and 2015-16 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 8 and 19 of the Finance Accounts for 2015-16, as of 31 March 2016, the State Government invested ₹ 249.11 crore in 5 Government Companies (₹ 9.00 crore) and 150 Co-operative Banks and Societies (₹ 240.11 crore). Details are given in **Table 1.22**.

**Table-1.22: Return on Investment**

(₹ in crore)					
Investment/Return/Cost of Borrowings	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Investment at the end of the year (₹ in crore)</b>					
(i) Government Companies	9.04	9.04	9.00	9.00	9.00
(ii) Co-operative Bank/Societies	212.62	215.14	236.05	238.59	240.11
<b>TOTAL</b>	<b>221.66</b>	<b>224.18</b>	<b>245.05</b>	<b>247.59</b>	<b>249.11</b>
<b>Return (₹ in crore)</b>	-	-	-	-	-
<b>Return (per cent)</b>	-	-	-	-	-
<b>Average Rate of Interest on Government Borrowings (per cent)</b>	7.52	6.41	6.66	6.35	6.92
<b>Difference between Interest Rate &amp; Return rate (per cent)</b>	7.52	6.41	6.66	6.35	6.92

## Finances of The State Government

During 2011-16, the average return on investment was 'Nil', while the Government paid interest at an average rate of 6.35 to 7.52 *per cent* on its borrowings during the period. Out of ₹ 9.00 crore invested in five government companies, ₹ 7.97 crore was invested in three loss making companies, which had accumulated loss of ₹ 26.66 crore as detailed in **Table 1.23**. Up to date working results of four government companies and all the Co-operative societies had not been intimated (October 2016).

**Table-1.23: Details of loss making Government companies**

(₹ in crore)

Name of the companies	Amount invested as of March 2016	Invested up to	Accumulated loss	Periods up to <sup>9</sup>
Arunachal Pradesh Forest Corporation Limited	3.80	1995-96	4.58	2006-07
Arunachal Pradesh Industrial Development and Financial Corporation	1.78	2006-07	20.27	2014-15
Arunachal Pradesh Mineral Development and Trading Corporation	2.39	2006-07	1.81	1999-00
<b>Total</b>	<b>7.97</b>		<b>26.66</b>	

### 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 1.24** shows outstanding Loans & Advances as on 31 March 2015 and Interest Receipts *vis-à-vis* Interest Payments during the last five years.

**Table - 1.24: Average Interest received on Loans & Advances given by the State Government**

(₹ in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
<b>OPENING BALANCE</b>	<b>59.07</b>	<b>65.86</b>	<b>66.86</b>	<b>81.97</b>	<b>59.49</b>
Amount advanced during the year	9.69	3.95	18.53	4.93	12.98
Amount recovered during the year	2.90	2.95	3.42	27.41	5.48
<b>CLOSING BALANCE</b>	<b>65.86</b>	<b>66.86</b>	<b>81.97</b>	<b>59.49</b>	<b>66.99</b>
<i>Net Addition</i>	<b>6.79</b>	<b>1.00</b>	<b>15.11</b>	<b>-22.48</b>	<b>7.50</b>
Interest Receipts	0.66	1.32	1.84	0.78	1.04
Interest received as <i>percentage</i> to outstanding Loans & Advances	1.06	1.99	2.47	1.10	1.55
Interest payments as <i>percentage</i> to outstanding fiscal liabilities of the State Govt.	7.52	6.41	6.66	6.35	6.92
Difference between Interest Payments & Receipts ( <i>percentage</i> )	6.46	4.42	4.19	5.25	5.37

Loans & Advances given by the State Government increased from ₹ 4.93 crore in 2014-15 to ₹ 12.98 crore in 2015-16. During 2011-12 to 2015-16, recovery of Loans & Advances was ₹ 42.16 crore against ₹ 49.98 crore advanced during the period. The total outstanding Loans

<sup>9</sup> Accounts for the subsequent years are in arrears

## Finances of The State Government

& Advances as on 31 March 2016 was ₹ 66.99 crore. Interest Receipts of ₹ 1.04 crore on Loans & Advances by the Government of Arunachal Pradesh during 2015-16 constituted only 1.55 per cent of outstanding Loans & Advances at the end of 2015-16.

### 1.8.3 Cash Balances and Investment of Cash Balances

**Table 1.25** depicts Cash Balances and Investments made by the State Government out of Cash Balances during the year.

**Table-1.25: Cash Balances and Investment of Cash Balances**

(₹ in crore)			
Particulars	As on 1 <sup>st</sup> April 2015	As on 31 <sup>st</sup> March 2016	Increase(+)/ Decrease(-)
<b>Cash Balances<sup>10</sup></b>	<b>1073.43</b>	<b>1275.61</b>	<b>202.18</b>
<b>Investments from Cash Balances (a &amp; b)</b>	<b>825.83</b>	<b>2026.86</b>	<b>1201.03</b>
a. GoI Treasury Bills	825.83	2026.86	1201.03
b. GoI Stock/Securities	-	-	-
<b>Fund-wise break-up of Investment from Earmarked Balances (a &amp; b)</b>	<b>169.90</b>	<b>369.90</b>	<b>200.00</b>
a. Sinking Fund Investment Account	169.90	369.90	200.00
b. Other Development & Welfare Funds	-	-	-
<b>Interest realized on Investment of Cash Balances</b>	<b>12.34</b>	<b>38.07</b>	<b>25.73</b>

Cash Balances of the State Government at the end of the current year increased from ₹ 1073.43 crore in 2014-15 to ₹ 1275.61 crore in 2015-16. As of 31 March 2016, the State Government invested ₹ 2026.86 crore in GoI Treasury Bills. During 2015-16, Interest of ₹ 38.07 crore was earned on investment of Cash Balances.

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA), Ordinary or Special, from the Reserve Bank of India (RBI) has been put in place. The operating limit for ordinary WMA is reckoned as the three year average of Revenue Receipts and the operative limit for special WMA is fixed by RBI from time to time depending on the holding of Government securities.

Under the agreement with the RBI, the State Government has to maintain an all-time minimum balance of ₹ 26.00 lakh with RBI. If the balance falls below the agreed minimum, the government can take ordinary WMA from the RBI, in addition, special WMA are made available against GoI securities held by the State Government. Overdrafts are given by the RBI, if the state has a minus balance after availing of the maximum advances.

During the year 2015-16, the state government have availed WMAs and overdrafts as detailed in the **Table 1.26**

<sup>10</sup> Excluding investment of Earmarked Funds

## Finances of The State Government

**Table - 1.26: Transaction relating to WMAs obtained from the RBI during 2015-16**  
(₹ in crore)

Particulars	Balance as on 1st April 2015	Amount obtained	Amount repaid	Balance as on 31st March 2016	Interest paid during the year	Number of days
Ordinary Ways and Means Advance	95.13	11.40	108.90	(-)2.37	0.76	2
Special Ways and Means Advance	258.13	88.41	138.96	207.58	0.42	12
Shortfall/Overdraft	(-)24.01	233.37	814.75	(-)605.39	3.23	14
<b>Total</b>	<b>329.25</b>	<b>333.18</b>	<b>1062.61</b>	<b>(-)400.18</b>	<b>4.41</b>	<b>28</b>

As it can be seen from the above table, during the year 2015-16, the government resorted to normal and special Ways and Means Advances and Overdrafts from (RBI for 2, 12 and 14 days respectively (total 28 days). During 2015-16, the quantum of the advances was ₹ 333.18 crore and the State government repaid ₹ 1062.61 crore leaving a favourable balance of ₹ 400.18 crore as on 31 March 2016. The increase in the cash balance as on 31 March 2016 over 31 March 2015 was to the extent of ₹ 729.43 crore.

### 1.9 Assets and Liabilities

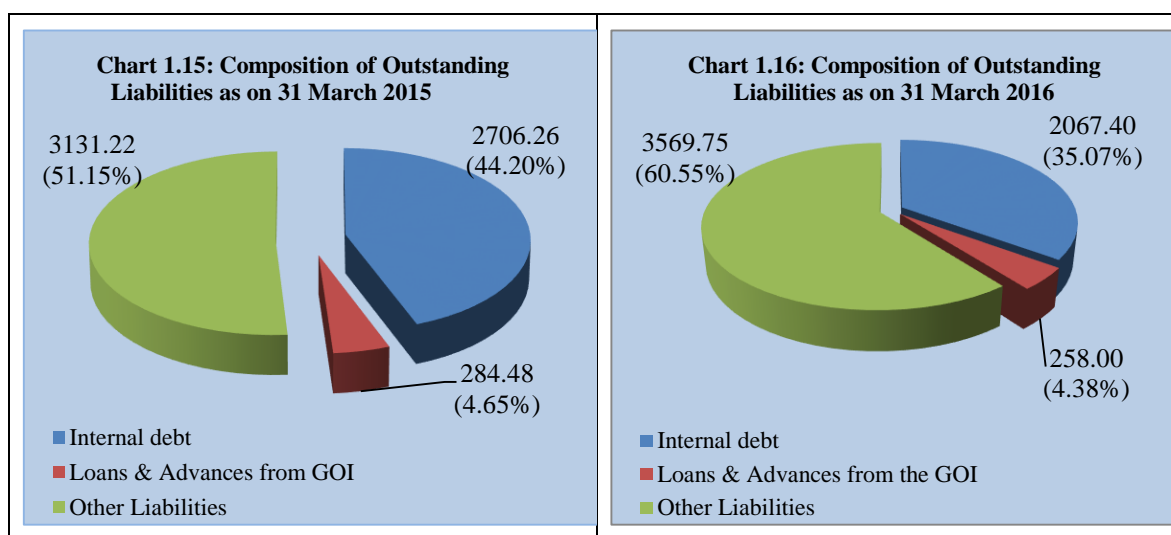
#### 1.9.1 Growth and Composition of Assets and Liabilities

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 1.5** gives an abstract of such liabilities and assets as on 31<sup>st</sup> March 2016, compared with the corresponding position on 31<sup>st</sup> March 2015. While liabilities in the Appendix consist mainly of Internal Borrowings, Loans & Advances from 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 1.15** and **1.16**.

## Finances of The State Government



**Table 1.27** 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. And Chart 1.17 depicts the composition of the Fiscal Liabilities.

**Table - 1.27: Fiscal Liabilities – Basic Parameters**

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Fiscal Liabilities<sup>11</sup> (₹ in crore)</b>	<b>4036.15</b>	<b>4443.04</b>	<b>4935.59</b>	<b>6121.96<sup>12</sup></b>	<b>5895.15</b>
<b>Rate of Growth (per cent)</b>	16.78	10.08	11.09	24.04	(-)3.70
<b>Ratio of Fiscal Liabilities to</b>					
<b>GSDP (per cent)</b>	36.48	35.41	33.79	37.35	30.27
<b>Revenue Receipts (per cent)</b>	73.40	77.12	84.80	67.01	55.86
<b>Own Resources (per cent)</b>	594.99	739.62	587.87	665.58	635.81
<b>Buoyancy of Fiscal Liabilities to</b>					
<b>GSDP (ratio)</b>	0.74	0.75	0.68	1.97	(-)0.20
<b>Revenue Receipts (ratio)</b>	11.82	2.11	10.87	0.42	(-)0.24
<b>Own Resources (ratio)</b>	(-) 1.87	(-) 0.88	0.28	2.52	(-)4.61

Fiscal Liabilities of ₹ 5895.15 crore during 2015-16 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.): ₹ 2067.40 crore; Loans & Advances from the Central Government: ₹ 258.00 crore; Public Account Liabilities (e.g. Small Savings, Provident Funds, Reserve Funds and Deposits, etc.): ₹ 3569.75 crore. While the Fiscal Liabilities of the State increased from ₹ 4036.15 crore

<sup>11</sup> Includes Internal Debt, Loans & Advances from Government of India, Small Savings, Reserve Funds Deposits and Provident Funds, etc.

<sup>12</sup> The difference of ₹ 0.25 crore between last year Closing Balance and this year Opening Balance is due to correction of error in calculation



## Finances of The State Government

in 2011-12 to ₹ 5895.15 crore in 2015-16, it decreased by 3.70 per cent from ₹ 6121.96 crore in 2014-15 to ₹ 5895.15 crore in 2015-16. The ratio of Fiscal Liabilities to GSDP decreased from 37.55 per cent in 2014-15 to 30.27 per cent in 2015-16. *These liabilities were around 56 per cent of Revenue Receipts. The overall liability was about 5.95 times the State's own receipts at the end of 2011-12, whereas it has become more than 6 times the State's own resources at the end of March 2016, which is a matter of concern.*

### 1.9.3 Transactions under Reserve Fund

The total fiscal liabilities of ₹ 5895.15 crore include balance of ₹ 414.57 crore under Reserve Funds as on 31 March 2016. The State has three Reserve Funds viz., State Disaster Response Fund (SDRF), Sinking Funds and Other Funds.

The State Disaster Response Fund was set up by the State Government in 2010-11 with contribution of fund from GoI and the State Government in the ratio of 90:10. During 2015-16, GoI contributed ₹ 46.80 crore and ₹ 5.20 crore from the State Government which totalled ₹ 52.00 crore was transferred to current bank account without investing in the Central Government securities/interest bearing deposits as per the guidelines. No detail of expenditure incurred on natural calamities have been furnished by the government during current year. Moreover, as on 31<sup>st</sup> March 2016, an amount of ₹ 44.54 crore of previous year's balance remained in the fund un-invested.

The State Government set up a 'Consolidated Sinking Fund' in 1999-2000 for amortization of market borrowings, other loans and non-debt obligations as per the recommendation of XII FC. According to the guidelines of the RBI, which is responsible for management of the Fund, State Government is required to contribute a minimum of 0.5 per cent of the outstanding liabilities (internal debt plus public account) of the previous year. Accordingly, the contribution due from the state government was ₹ 30.61 crore (0.5 per cent of the total outstanding liabilities of ₹ 6,121.96 crore of State Government as on 31 March 2015). Against this, the State Government contributed ₹200.00 crore to the fund. As of 31 March 2016, ₹ 369.90 crore (including previous year's balance of ₹ 169.90 crore) was invested in GoI Securities.

### 1.9.4 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 2011-12 to 2015-16, is given in **Table 1.28**.

**Table - 1.28: Guarantees given by the Government of Arunachal Pradesh**

Particulars	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Maximum Amount Guaranteed	2.00	2.00	2.00	2.00	2.00
Outstanding Amount of Guarantees (incl. Interest)	1.55	1.55	1.55	0.97	0.97
Percentage of Maximum Amount Guaranteed to Total Revenue Receipts	0.04	0.04	0.04	0.02	0.02

## Finances of The State Government

The Government guaranteed loans to one Company, i.e., Arunachal Pradesh Industrial Development & Financial Corporation, Ltd., which at the end of 2015-16 stood at ₹ 0.97 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 analyse various indicators that determine debt sustainability of the State.. **Table 1.29** shows the debt sustainability of the State according to these indicators for five year period from 2011-12 to 2015-16.

**Table - 1.29: Debt Sustainability: Indicators and Trends**

Indicators of Debt Sustainability	(₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Outstanding Debt	2209.36	2319.17	2504.24	2990.74	2325.40
Rate of Growth of Debt	1.44	4.97	7.98	19.43	(-)22.25
Debt Repayments/ Debt Receipts	0.81	0.60	0.48	0.68	2.07
Average interest rate of Outstanding Debt	15.74	7.76	7.66	7.99	9.16
Rate of Growth of GSDP	22.64	13.41	16.42	12.20	18.82
Debt/GSDP (in per cent)	31.24	32.17	30.42	30.12	31.44

Net availability of borrowed funds decreased from ₹ 835.25 crore in 2014-15 to negative ₹ 642.45 crore in 2015-16. In the current year, against borrowed funds of ₹ 3110.70 crore, the Government repaid ₹ 3337.51 crore as Principal and ₹ 415.64 crore as Interest on Internal Debt and other Liabilities,<sup>13</sup> as a result of which no funds were available for development purposes from the total borrowings.

<sup>13</sup> Small Savings, Provident Funds, Reserve Funds, Deposits, etc.

# Finances of The State Government

## 1.10.2 Debt Profile

Though the state had Fiscal Surplus during the period 2014-15 to 2015-16, to discharge its expenditure obligations, the State Government had borrowed funds from different sources. The maturity profile of outstanding loans as on 31 March 2016 shows that 49.06 *per cent* of the loans are in the maturity bucket of within seven years as shown in **Table 1.30**, which is high. The State needs to make proper planning for repayment of this debt.

**Table - 1.30: Maturity profile of State Public Debt**

(₹ in crore)

Maturity profile (in years)	Year of Maturity	Amount		
		Internal Debt	Loans & Advances from GoI	Total Amount
Up to one year	2016-17	2.58	0.56	3.14
One to three years	2017-19	3.79	0.37	4.16
Three to five years	2019-21	2.31	0.37	2.68
Five to seven years	2021-23	3.40	0.30	3.70
Seven years and above	2023 and above	13.45	0.75	14.20
<b>Total</b>		<b>25.53</b>	<b>2.35</b>	<b>27.88</b>

Details of the Public Debt are available in Statement-17 of Finance Accounts 2015-16 and summarized in the **Table 1.31**.

**Table - 1.31: Summary of Public Debt**

(₹ in crore)

Sl No	Description of the Debt	Balance as on 01 April 2015	Additions during the year	Repayments during the year	Balance as on 31 March 2016	Interest paid during the years
1	Internal Debt	2706.26	621.10	1259.96	2067.40	223.47
2	Loans and Advances from GoI	284.48	-	26.48	258.00	20.04
<b>Total</b>		<b>2990.74</b>	<b>621.10</b>	<b>1286.44</b>	<b>2325.40</b>	<b>243.51</b>

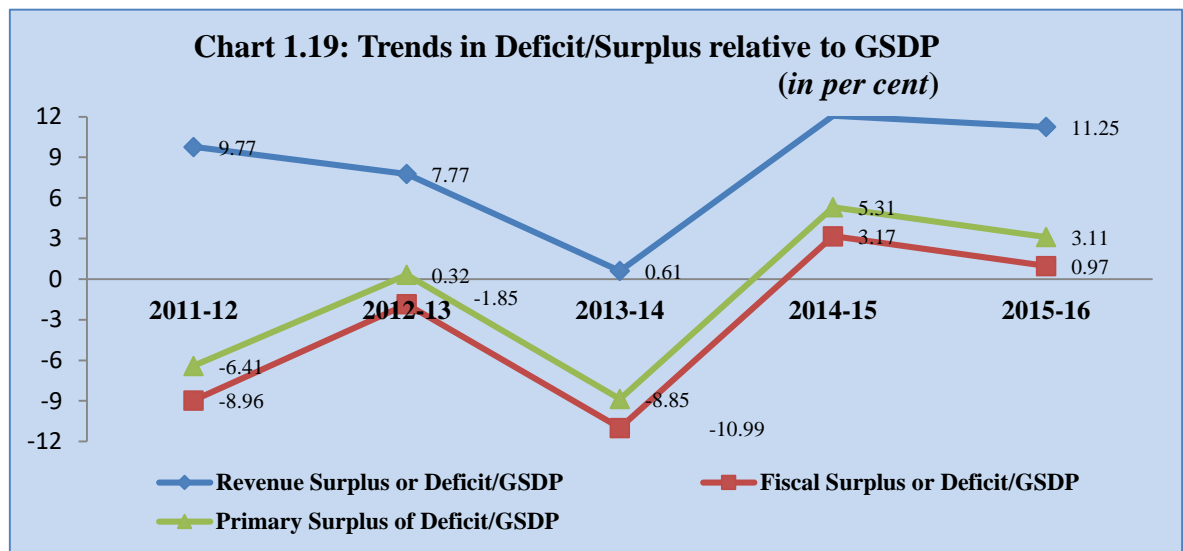
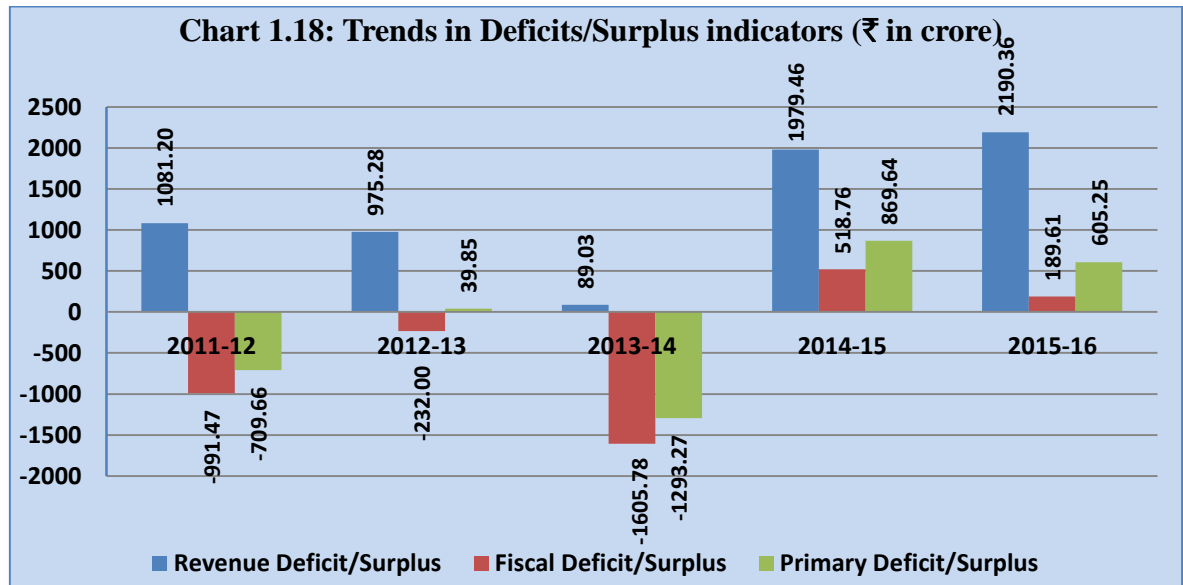
The Public Debt of the State Government as on 01 April 2015 was ₹ 2990.74 crore with addition during the year 2015-16 of ₹ 621.10 crore. After discharging/re-payment of loan amount of ₹ 1286.44 crore during the year (excluding an interest payment of ₹ 243.51 crore), there was a closing balance of ₹ 2325.40 crore as on 31 March 2016.

## 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 2015-16.

## 1.11.1 Trends in Deficits/Surplus

Charts 1.18 and 1.19 present the trends in deficit indicators over the period 2011-12 to 2015-16.



**Chart 1.18** reveals that the State had Revenue Surplus during the period 2011-12 to 2015-16, which increased from ₹ 1979.46 crore in 2014-15 to ₹ 2190.36 crore in the current year. Compared to 2014-15, Revenue Surplus in 2015-16 significantly increased by ₹ 210.90 crore (10.65 per cent) due to significant increase in Revenue Receipts by ₹ 1417.05 crore in 2015-16 and only a marginal increase in Revenue Expenditure by ₹ 1206.15 crore in 2015-16.

Fiscal Surplus, which represents excess of total resource gap over the total borrowings of the Government, decreased from ₹ 518.76 crore in 2014-15 to ₹ 189.61 crore in 2015-16. The significant increase in Revenue Surplus (₹ 210.90 crore) over the previous year, mainly led to a Fiscal Surplus of ₹ 189.61 crore in the current year.

## Finances of The State Government

As per recommendations of the XIV FC, *Fiscal Deficit of all States will be anchored to an annual limit of 3 per cent of GSDP*. The State was successful to maintain Fiscal Surplus for the last two years.

The Primary Deficit of ₹ 1293.27 crore, experienced by the State during 2013-14, took a turnaround in 2014-15 and followed in 2015-16, resulting in a Primary Surplus of ₹ 605.25 crore. The decrease of ₹ 264.39 crore (30.40 per cent) compared to previous year in primary surplus was due to decrease in Fiscal Surplus (₹ 329.15 crore) over the previous year which was partly offset by increase in Interest Payments by ₹ 64.76 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) does not have any asset back-up. The bifurcation of Primary Deficit (**Table 1.32**) 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 - 1.32: 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)
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
2014-15	9163.46	6805.71	1483.18	4.93	8293.82	2357.75	(+) 869.64
2015-16	10558.58	7947.10	1993.25	12.98	9953.33	2611.48	(+) 605.25

Analysis of the factors resulting into Primary Deficit or Surplus of the State during 2011-12 to 2015-16 revealed that in two of the five years (i.e., 2011-12 and 2013-14), the State experienced Primary Deficit as the Non-Debt Receipts were not enough to meet expenditure requirements under Revenue, Capital and Loans & Advances Account during 2011-12 and 2013-14. However, during 2012-13, 2014-15 and 2015-16 Non-debt Receipts were sufficient to meet the expenditure requirement under Revenue, Capital and Loans & Advances Accounts, resulting in Primary Surplus. Primary Deficit of ₹ 1293.27 crore during 2013-14 turned into Primary surplus of ₹ 869.64 crore in 2014-15 and continued as Primary Surplus of ₹ 605.25 crore during the current year, which is desirable and needs to be maintained in a consistent manner.

### **1.12 Follow-up on Audit Report on State Finances**

The State Finance Report is being presented to the State Legislature from 2008-09 onwards. A discussion in Public Accounts Committee on this report is yet to take place.

### **1.13 Conclusion and Recommendations**

The fiscal position of the State viewed in terms of key fiscal parameters - Revenue Surplus, Fiscal Deficit/Surplus and Primary Deficit/Surplus - indicated that the State maintained Revenue Surplus during 2011-12 to 2015-16, but Fiscal and Primary Deficits showed fluctuating trends. Fiscal Deficit of ₹1605.78 crore in 2013-14 took a turnaround and ended in Fiscal Surplus of ₹ 518.76 crore in 2014-15 and continued as Fiscal Surplus of ₹ 189.61 crore in 2015-16. Primary Deficit of ₹ 1293.27 crore in 2013-14 took a turnaround and ended in Primary Surplus of ₹ 869.64 crore in 2014-15 and continued as Primary Surplus of ₹ 605.25 crore in 2015-16.

### **Revenue Receipts**

Revenue Receipts during 2015-16 grew by 15.51 *per cent* (₹1417.05 crore) over the previous year. Tax Revenue was 19.78 *per cent* lower than the assessment made by the XIV FC and 5.42 *per cent* higher than the assessment made in the Budget Estimates for the year. Collection of Non-Tax Revenue during 2015-16 was higher than the assessments made by the XIV FC (71.98 *per cent*), but lower than the Budget Estimates (20.36 *per cent*). Central Transfers, comprising of the State Share of Central taxes and GIA from GoI increased by ₹ 1409.66 crore in 2015-16 and contributed about 91 *per cent* of Revenue Receipts during the year. As such, the State primarily depends on resources transferred by the Central Government. The State's Own Resources as a percentage of Total Receipts declined from 12.34 *per cent* in 2011-12 to 8.79 *per cent* in 2015-16. This indicates that Central Transfers were the key to the increase in Revenue Receipts of the State.

### **Revenue and Total Expenditure**

Revenue Expenditure of the State increased by 89.29 *per cent* from ₹ 4417.86 crore in 2011-12 to ₹ 8362.74 crore in 2015-16 and by 16.85 *per cent* (₹ 1206.15 crore) over previous year. This expenditure as a percentage of Total Expenditure decreased to 80.65 *per cent* in 2015-16 from 82.79 *per cent* in 2014-15. Non-Plan Revenue Expenditure (₹ 5659.40 crore) in 2015-16 was higher than the normative level of ₹ 5590.34 crore assessed in the Budget Estimates for the year. Further, Salaries, Pensions, Interest Payments and Subsidies continued to consume a major share of Revenue Expenditure, accounting for more than 49 *per cent* in 2015-16. Development Expenditure increased by 16.19 *per cent* over the previous year, but fell short of the assessment made in the Budget Estimates by 7.11 *per cent*. However, the relative share of Development Expenditure in 2015-16, showed that 78 *per cent* of Development Expenditure was incurred on Revenue Account and only 22 *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.

## Finances of The State Government

### *Fiscal Correction Path*

During 2015-16, there was continuation in all the three major fiscal indicators - Revenue Surplus, Fiscal Surplus and Primary surplus compared to previous year. Fiscal Surplus in the current year indicated a stable fiscal position of the State.

During 2015-16, while the Government paid interest at an average rate of 6.92 *per cent* on its borrowings, the average return on investment in Government Companies and Co-operative Bank, Societies was 'Nil'. Cash Balances of the State at the end of 2015-16 increased to ₹ 1275.61 crore

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 ratio of Fiscal Liabilities to GSDP decreased from 37.55 *per cent* in 2014-15 to 30.27 *per cent* in 2015-16. These liabilities were around 56 *per cent* of Revenue Receipts. The overall liability was about 5.95 times the State's own receipts at the end of 2011-12, whereas it has become more than six times the State's own resources at the end of March 2016, which is a matter of concern. The maturity profile of outstanding stock as on 31 March 2016 shows that 49.06 *per cent* of the loans are in the maturity bucket of within seven years, which is high.

*The State Government should make efforts to reduce its Fiscal Liabilities with better debt management keeping in view high repayment liabilities within coming seven years.*