Evaluation of State Finances: Jammu and Kashmir

2006-07 to 2016-17

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Contents

List of Figures

List of Tables

Preface

This study on outcome evaluation of State Finances for Jammu and Kashmir for the period of ten years from 2006-07 to 2015-16 covering 11th Plan and 13th and an year of 14th finance commission recommendation period was entrusted to National Institute of Public Finance and policy (NIPFP) by Fifteenth Finance Commission, Government of India. The total duration of this study was 4 months May - August 2018, the aim of the study is to critically analyse the overall State's finance over the period of ten years with reference to the terms of reference suggested by Fifteenth Finance Commission.
At the onset of the report I would like to thank individuals in-charge for maintaining NIPFP Data Bank on Public Finance for all the states. Most of the budget and finance account related data has been extracted from there. I would also like to thank Dr. Pinaki Chakraborty and Dr. Manish Gupta for their valuable input and guidance.

The views and opinions expressed in this Report are solely that of the author.

Executive Summary

This study is completed by NIPFP at the request of the Fifteenth Finance commission. The report discusses fiscal position of Jammu and Kashmirand provides an analysis of the state's finances over a period of 10 years starting from 2006-07 to 2015-16.

Methodology

The study undertakes an exploratory data analysis as suggested in the literature on state finances and uses the standard statistical tools and techniques. The basic approach is to analyse the trends and ratios in revenue, expenditure, debt and deficit of J&K for the ten year period from 2006-07 to 2016-17. Wherever relevant, we have compare data across states to get inter-state perspective. Study also provides various buoyancy for fiscal variables. Various alternative scenario analysis for debt road map and simple forecasting is undertaken.

Data Source

The study uses secondary data from budget documents, Economic Survey, relevant issues of Reserve Bank of India publication "State Finances: A Study of Budgets", CAG audit reports and other publications of Government of J&K. Depending on the requirement we also collect data and information from other published sources. GSDP figures is sourced from Central Statistical Organisation and population figures are taken as brought out by Census of India.

Plan of the report

The report is structured into thematic chapters keeping in view the Terms of Reference (TOR). The report has following themes:

1. Analysis of trends in revenue receipts. and expenditure is done in the first chap-

ter. First, J&K's resource position in terms of its growth, resource composition, tax effort and the status of non-tax revenue (pertaining to TOR 1 and 2) will be discussed. The scope for additional resource mobilization through tax and non-tax resources is examined in detail and suggestions are put forwarded for increasing the productivity of tax and non-tax resources. Second, trends and growth of public expenditure by important categories such as revenue and capital; development and non-development; plan and non-plan categories and changes due to changes in the structure of budget is covered (TOR 3). Third, the expenditure management and state's capacity to enhance its efficiency is analyzed, here, the scope for enhancing the efficiency of public expenditure by curtailing unproductive and wasteful expenditure is discussed. Finally, this chapter includes discussion relating to subsidies of the state (TOR 11).

2. Trends in deficits, debt and liabilities (TOR 4, 5 and 10) and its impact on the underlying economy is the focus of this chapter. The implementation of FRBM Act, 2005 and the commitment of the State towards achievement of the targets. MTFP of aggregate (TOR 6) is also analyzed here. Finally, this chapter explores the various options and sources before the state for fiscal consolidation.

3. Analysis of the trends in state's transfers to urban and rural local bodies, and the major decentralisation initiatives (TOR 7) are the focus of this chapter.

4. Fourth chapter reviews the performance of public sector enterprises(PSE) including State Electricity Board and explores the impact of PSE performance on the fiscal health of the state. (TOR 8)

5. Issues pertaining to the power sector and its implications on state's health are dealt with in this chapter (TOR 9). Government of India, in 2015 launched an ambitious scheme, the Ujwal DISCOM Assurance Yojana (UDAY) to improve operational and financial transformation of the electricity distribution companies. These policy developments have implications on finances of state governments both in the short run and in the long run. The discussion in this chapter will be with respect to the J&K state and its experience with UDAY scheme.

6. Following the implementation of the Fourteenth Finance Commission's (FFC) recommendations and subsequent restructuring of grants by the Union Government, different states have experienced varied impact on their fiscal space and overall transfer from the central government. In this chapter we discuss the likely impact of these changes on finances of J&K government. (TOR 12)

7. Determination of a sustainable debt road map for 2020-25, taking into account impact of introduction of GST and other tax/non-tax trend forecasts is done (TOR 13) for two scenarios. First, business as usual scenario gives projection of the fiscal path of the State based on past trends of revenue and expenditure and second, the reform scenario uses targeted norms for revenue mobilization and expenditure contraction to arrive at a sustainable fiscal path.

8. The final chapter summarizes the main findings of the other chapters and gives out the conclusions and recommendations based on those findings.

Major findings and conclusions

Analysis of revenue receipts show that the State, being a special category State, had high level of share in Central taxes and grants from the Central government. However, the State's dependence on central resources has been steadily declining. It came down from 74 per cent of total revenue in 2006-07 to 69 per cent in 2015-16, but it showed an upward tick in 2016-17 with 71 percent share. State's Own Tax Revenue (SOTR) grew from 1,761 crore in 2006-07 to 7,819 crore in 2016-17. Service Tax is the only Central Tax that is presently not applicable to the State of J & K. The State has its own Service Tax under State Law. Since the Central Service Tax is not applicable to the State, the State is not entitled to a share in the total Service Tax collected by the Central Government all over the country. The foregone share is 1.551 per cent of the Service Tax collected by the Centre. As per assessment made by the 13th Finance Commission regarding likely Central Service Tax collection during 2010-15, the 1.551 per cent share foregone by the J & K works out to 8,363.38 crore against which the State Service Tax collection was 4,461.09. As per the 14th Finance Commission, the likely Service Tax collection during 2015-16 as State share should have been 3,815.55 crore i.e.,1.854 per cent of State share of Central Service Tax (2,05,815.55) against which the State collected the actual service tax to the tune of 1,236.77 crore and had foregone 2,578.78 crore.
Central Government has been transferring a sizeable quantum of funds for CSS schemes such as SSA, NRHM, MGNERGS, etc. in the form of Grant-in-aid which is taken under revenue receipts by the State Government but the expenditure is being incurred under Capital Heads for creation of assets. This has lead to increase in revenue Surplus and Capital outlay. The expenditure on salaries, wages, pension and other post-retirement

benefits, interest payments and power development departments' was nearly 69.67 per cent of total expenditure and 79.89 per cent of normal revenue expenditure in 2016-17. Targets for collection of power departments' tariff were not achieved in the period understudy. For the year, 2016-17 the shortfall in collection of revenue was 210 crore vis-a-vis targets and shortfall vis-a-vis expenditure on power purchased was 3,363 crore. Government did not present a time bound action plan to recover minimum of 50 per cent of service charges after accounting for operation and maintenance expenses from the users as recommended by the 13th Finance Commission. There was also an increase in the total capital expenditure from 2,456 crore in 2006-07 to 8,285 crore in 2016-17. The dependence of the Government on high interest rate bearing market loans and WMA from RBI to fund its expenditures was on increasing trend instead of improving States own revenue resources to generate developmental funds. The Development Capital Expenditure registered a persistent decreasing trend from 2011-12 to 2014-15 and increased during 2015-16 and 2016-17 indicating that the developmental works were getting inadequate resources upto 2014-15.
The State Government had investment of 547.83 crore in 3 statutory corporations, 23 companies, 8 co-operative institutions/local bodies, 2 rural banks and 2 joint stock companies. The return of 128.88 crore came only from J & K Bank Ltd.

Some major findings of the study are as follows:

1. The Share of Central Taxes has shown an increase of 21.44 percent during 2016-17 over the previous year. Transfer from the Union Government of State's share in Union taxes and duties and grant-in-aid together constituted on an average 74 percent of the State's revenue receipt. Grant-in-aid represents the significant component from the union government in the budgetary resource base of the State Government. The grant-in-aid from union government in absolute terms has remained 49 percent in 2016-17 vis-a-vis total revenue receipts and 42.75 percent vis-a-vis total expenditure. There has also been a good improvement in the collection of non-tax revenue which has increased by 4.06 percent.

2. The revenue expenditure likewise has shown an increasing trend over 2015-16 with increase of 9.31 percent in 2016-17.

3. Increase in the Revenue Expenditure, to a large extent, has impacted revenue surplus envisaged to be Rs 7606 crore in the 2016-17 budget. Revenue surplus in actual term was reduced to Rs 2166 crore as per finance account of 2016-17.

4. The tax policy of 2016-17 was based on a more realistic growth estimation keeping

in view the lower tax buoyancy in the previous years. The underlying theme was to give a boost to domestic manufacture, bring about greater clarity in tax laws, maintaining stable rates and rationalizing the tax structure. The tax revenue has been showing constant progressive trend with these structural reforms. Own tax revenue has increased to Rs 7819 crore during 2016-17 from Rs 7326 crore in 2015-16. Expenditure on collection of taxes on sales and trade was Rs 45 crore, State Excise Rs 27 crore. Percentage of expenditure on gross collection of revenue was 0.86 percent and 5 percent on sales tax and state excise tax, respectively. The percentage of cost of collection in respect of the land revenue was the highest. Expenditure on collection of land revenue was Rs 148 crore which is an area of concern.

5. More concerted efforts can bring more buoyancy in the tax revenue. Buoyancy in non-tax revenue has not remained much attractive over the years. The policy has been to reform power sector which constitutes the most significant component of State's non-tax revenue which has been realized to Rs 2770 including subsidy of Rs 1200 crore much less than the budget estimates. Big impediment to achieve growth in this category are non-realisation of any progress on recovery of atleast 50 percent of the service charges from the user after accounting for the operation and maintenance expenses.

6. The loans and advances from the Union Government and market borrowing/Institutional Finance have crossed Rs 4902 crore during 2016-17. The ways and means advances and overdraft has touched Rs 15848 crore. Dependence on borrowing to manage cash/ liquidity balance has largely affected the interest burden of the State resulting in deterioration of the fiscal parameters.

7. A policy initiatives to curb interest burden by clearing power liability through UDAY/Power bonds without affecting the fiscal indicators has been undertaken. By virtue of this lifting of Bonds exemption granted for calculation of the fiscal parameters by the union Government to bail out the distribution companies (discoms) of the State Governments has been fully utilised.

8. The share of salary/wages/pension in the total expenditure during 2016-17 stood at 40.20 per cent, which had increased to 3.41 per cent during the period. The sector wise expenditure reveals 36.08 percent of expenditure on General Services, 27.61 percent on Social Services and 31.37 percent on Economic Service.

9. The expenditure on payment of interest increased marginally from Rs.3719 crore

in 2015-16 to Rs. 4567 crore in 2016-17. The share of revenue expenditure in the total expenditure increased from 81.61 percent in 2015-16 to 87.14 per cent in 2016-17.

10. Growth in revenue on account of GST has been at 30.4 percent.

11. Fiscal deficit in J &K has always been on the higher side, the average in the period understudy was 5.5 percent, even after adoption of FRBM Act. However, the State continued to maintain revenue surplus during the period 2010-14 but the surplus declined sharply and reduced to Revenue deficit of 640 crore during 2015-16.

12. Compared to few other Special Category states, J&K's debt/GSDP ratio has been highest during 2005-2016 and 2015-16 it stood at 45.5 percent. Other state's like H.P. Tripura and Uttarakhand which started around the same level or higher level were able to bring down their debt to GSDP ratio.

13. The dependence of the government on high interest rate bearing market loans to fund its expenditures was on increasing trend in the period under study. Instead of improving States own revenue resources to generate developmental funds government took the easy way out by borrowing the fund.

14. The Development Capital Expenditure registered a persistent decreasing trend from 2011-12 to 2014-15 and increased during 2015-16 indicating that the developmental works were getting inadequate resources upto 2014-15.

15. 13th finance commission recommended basic and performance grants to both PRIs and ULBs. Against the sanctioned grant of 204.18 crore for the period 2010-15, (GBG: 133.50 crore and GPG: 70.68 crore) funds amounting to 34.90 crore (GBG: 30.69 crore and GPG: 4.21 crore) were released by GoI during the period 2010-13. No funds were released during 2013-14 and 2014-15 due to not conducting elections to the ULBs after 2010. As a result State Government lost the financial assistance of 169.28 crore which resulted in not taking up of developmental activities envisaged under the schemes.

16. In the 13th Finance Commission Award, an amount of 918 crore were sanctioned for rural local bodies of the State. Out of this, 600 crores falls under General Basic Grant and Rs 318 crore falls under General Performance Grant. Out of the sanctioned funds government released 592 crores (GBG: 524 crore and GPG: 68 crore) during the period 2011-15.

17. Under the 14th finance commission recommendation J&K is expected to receive Rs. 1305.64 Cr (GBG: 1044 cr, GPG: 261 crore) for urban local bodies and Rs. 3463.73 crore (GBG: 3117 crore and GPG: 346 crore) for rural local bodies. While ULBs haven't received any grants for 2015-16, RLBs have received 367 crores, though utilization certificate for 180 crores is still pending.

18. Pay Commission awards has led to a steep increase in the allocation for revenue expenditure between 2017-18 and revised estimates of 2018-19. Revenue expenditure of J&K grew by 44 percent between 2017-18 and 2018-19(it jumped from 40917 crores to 59042 crores), however the average of five years pre-implementation of recommendation was just 13 percent.

19. State's fiscal position deteriorated during 2016-17 due to the taking over of Discom debt under UDAY schemes. Consequently, the consolidated fiscal deficit and outstanding liabilities rose above the FRBM threshold level.

20. The state gains from the recommendation of Fourteenth Finance Commission. tax devolution to the States increased from 4.6% of GSDP in 2014-15 to 6.7% in 2015-16, 7.5% in 2016-17 and to 8.3% in 2017-18, in three years share of State in central taxes almost double as a percent of its GSDP. The growth rate in grants from the centre for the period prior to 2015-16 was around 3.5% which increased to 23% (2016-17) and 35% (2017-18(RE)).

The major conclusions derived and the areas of concern are put forth as under:

1. There is a steep rise in salary and pension bills, administrative costs, burgeoning hidden subsidies including power deficit, rising interest liabilities and loan repayments, deficit on account of Non-tax Revenue, increased interest payments outgo.

2. Revenue Expenditure has increased unabated. The major reason being periodical increase of salaries, regularization/appointment of new employees, power revenue deficit, interest liability and subsidies.

3. Revenue generation from the both tax and non-tax sources have not recorded impressive jump commensurate to the demands and requirements of the State.

4. Dependence on borrowings is more indicative now to maintain at least constant level of Capital spending. Major borrowings are through open market and WMA from RBI apart from public account.

5. Financing of Capital spending in the wake of ever expanding Revenue Expenditure and squeezed resources is another challenge to handle.
6. The degradation of infrastructure created due to absence of adequate maintenance grants is another area of concern and needs to be addressed by way of providing adequate funds in the capital /revenue expenditure whichever is applicable on a fixed basis.
7. Major portion of the Government expenditure is incurred under revenue component which does not usually result in fresh creation of the assets.
8. Reform in the power sector has remained key focus area during 2016-17 and a separate power budget was also presented in the legislature to highlight status of power scenario in the State with its impact on the overall resource position of the State. A positive outcomes from these reforms are still awaited
9. During 2016-17 major thrust area of the Government has remained to address ever increasing liabilities of various kinds at the State Treasury which has distorted fiscal management principles and has culminated into deficit.
10. If the State follows the current path of revenue generation and expenditure then in 2024-25, the revenue surplus in 2016-17 will turn into deficit in 2019-20 and state will have a revenue deficit of 6 percent of GSDP in 2024-25. Its fiscal deficit would increase to 11.96 percent in 2024-25 from a 4.87 percent in 2016-17. The outstanding liabilities as percentage of GSDP increase to 75.46 percent in 2024-25 and increase of about 26.42 percentage points between 2016-17 and 2024-25. Such a scenario is clearly not sustainable.

Main Recommendations

Paucity of resources and other limitation adds to the severity of the issues which need focused attention to make conditions conducive for the economic and social growth. The multi-pronged strategy for mobilization of additional resources, improvement in tax and non-tax collections, cost recovery of user charges, expenditure compression, particularly establishment related and increase in efficiency levels should be of prime importance.

1. Special efforts are required to identify new sources of revenues besides augmenting

collection from existing sources on the non tax revenue side as well as tax side.

2. Improve buoyancy of tax revenue, it can be achieved in various ways like by increasing compliance, efficient implementation and buoyancy is also expected to improve after complete movement towards GST.

3. Reforms in the power trading processes should be carried out as early as possible, so as to avail best standard operating practices available to bring down power purchase cost which is increasing at an alarming rate and completely distorting fiscal balance of the State.

4. Since the major chunk of the Revenue Expenditure is on Salaries, Pension and interest payments which is largely uncontrollable, the State Government may explore measures for containing other components of Revenue Expenditure so that Revenue deficit could be eliminated and recourse to borrowal of funds reduced.

5. If the state undertake the reforms of increasing tax buoyancy and slower rate of growth of expenditure, it will be able to reduce its fiscal deficit to less than 3 percent in 2024-25. Its Fiscal deficit in 2024-25 would be around 2.74 percent. The state will have a revenue surplus of 3.22 percent in the terminal year and its outstanding liabilities would decline from the current 49.04 percent to 44.72 percent in 2024-25, as decline of about 4.33 percentage points.

6. State should adhere to FRBM Act and restrict its fiscal deficit to 3%

7. The FC-XIII had recommended that States should bring down their debt-GDP ratio to 25 per cent by 2014-15. Steps should be taken to achieve that.

8. The State Government enacted (April 2011) the Jammu and Kashmir State Finance Commission for Panchayats and Municipalities Act 2011. As per the Act, the State Government, at the commencement of the Act and thereafter at the expiration of every fifth year, was required to constitute a State Finance Commission for Panchayats and Municipalities to review the financial position of Panchayats and Municipalities and to exercise the powers conferred upon and to perform the functions assigned to it under the Act. The Commission had not been constituted so far (December 2015) despite lapse of almost four years. It should be constituted as early as possible.

9. The MoU signed by government of J&K under UDAY scheme require the state to take a set of measures to improve the power sector, however, state is behind in achieving almost all the goals. There should be conscious effort from the state

to achieve the same.

10. There were three non-working PSUs as on 31 March 2015. Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, therefore, these PSUs may be considered either to be closed down or revived.

11. Local bodies should be allowed to explore innovative financing mechanisms like Public private partnership, venture capital financing, crowd source financing and municipal bonds.

12. A review of property tax system should be undertaken to improve efficiency and transparency in collection and mobilization of resources which would help local bodies to increase their own revenue pool.

13. FC-XIV recommended that the urban local bodies should rationalise their service charges in a way that they are able to at least recover the operation and maintenance costs from the beneficiaries. This should be actively implemented.

Chapter 1

Introduction

1.1 State's Profile

The State of Jammu and Kashmir (J&K) is strategically located with its borders touching Pakistan, Tibet and China and is spread over a geographical area of 2.22 lakh sq.kms, which includes an area of 1.21 lakh sq.kms under illegal occupation of China and Pakistan. J&K is the 10th largest state of India occupying 6.76 per cent of the country's geographical area. The three regions of the State viz., Kashmir, Jammu and Ladakh, have been organized into 22 districts.

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

Incidence of poverty in the State has been on declining trend. The proportion of Below Poverty Line (BPL) persons in the total population was estimated at 40.86 per cent in 2000 by the Department of Food and Public Distribution, Government of India. This declined to 21.63 per cent of total population according to a BPL head count survey carried out by the State government in 2007-08 and to 15.1 per cent in 2011-12 according to an assessment made by the Planning Commission.

The Gross State Domestic Product (GSDP) growth rate of the state has been slowing down for last couple of years. Average GSDP growth rate at constant price (base year 2004-05) from 2006-07 to 2010-11 was at 5.79 per cent. Post 2011, the GSDP growth rate at constant price (base year 2011-12) has slowed down to 3.2 in 2012-13; with little increase to 5.3 percent in 2013-14, the growth rate became negative to 0.3 percent in 2014-15 and finally there was huge jump in 2015-16 to 14.7 percent. However, this trend in growth rate is way below the national GDP growth over the same period.

1.2 Special Category Status: Article 370

Article 370 of the constitution relates to "Temporary provisions with respect to the state of Jammu and Kashmir" under part XXI called "Temporary, Transitional and Special Provisions". It was adopted by the Indian Constitution Assembly in 1949. It guaranteed a special status and internal autonomy for J&K with Indian Parliament's jurisdiction being limited only to the three areas - *defence, external affairs and communication*, the state retaining its autonomy in all other matters. In July 1952, an agreement known as the 'Delhi Agreement', was signed between the Indian Government and Kashmir Government by which the provisions of the Indian Constitution regarding fundamental rights, jurisdiction of the Supreme court of India, India Parliament's authority to make laws for the State and the President's authority over the State Government including the power to impose President Rule under article 356 – all these were extended to the State. The Constitution (Application to J&K) order 1954, supersedes the order of 1950. It additionally empowers the Government of India to legislate on 91 out of 101 subjects in the Union List in full in J&K. For the remaining 10 entries four entries have been applied in modified form and six entries do not apply to the State at all. The State List does not apply to the State. Out of the 52 entries in the Concurrent List, 19 entries apply in full; eight entries are applicable in modified form and 25 entries are not applicable to the State of J&K.

1.3 Salient features of the State's Budgetary and Accounting System

The State follows a system of classification of receipts and expenditure, which generally conforms to the function-cum-programme based system followed by the Central and other State governments at top level of major/minor heads of accounts. From FY-2015-16 the State government has changed the structure of State budget under budgetary reforms. The budget now has only two parts; the Receipts Budget and the Expenditure Budget. The expenditure budget have only the revenue and capital expenditure estimates. The former being spent to meet daily expenses and the latter for making assets on the ground. The old classification of the Plan and Non Plan has been discarded. The budget allotment process is highly centralized. There is no system of outcome/performance budgeting/reporting by the departments to the State Legislature, as the departments do not prepare annual reports of their activities and achievements for which dissemination of information is limited on some government websites.

There has also been a change in the way the transfer of funds take place from Center to State. Prior to 2014-15, transfer of funds under Centrally Sponsored Schemes (CSS) used to take place through two modes vis-a-vis, the State Budget and the Direct Transfer mode to District Rural Development Officers and independent societies. Starting with 2014-15, the entire financial assistance to the States for CSS was to be routed through the Consolidated Fund of the State under the head Central Assistance to State/UT Plans (CASP). The financial assistance provided by the Centre for CSS is now in the nature of Grants and is reflected under Revenue Receipts of the State. The budget of some of the major schemes e.g., SSA, NRHM and MGNREGS is placed under Capital Section for creation of the Asset. This routing of CSS transactions through the State Budget has contributed to the decrease in revenue deficit and increase in Capital outlay of the States.

1.4 Public Finance in J&K

In 1969-70 when J&K had become a special category state, the state's own tax and non tax revenues together amounted to 41 percent of its total revenue. 50 percent of its revenue came from the central grants, only 9 per cent from its share of union taxes. The revenue receipts constituted 39 percent of its total receipts into the Consolidated fund, while capital receipts, i.e, borrowings, constituted the rest. The bulk of its borrowings amounting to 44 percent of the total also came from the Centre. Thus about two thirds of its total receipts then came from gross central transfers including loans. By 2010-11, the share of central grants in total receipts increased to 66 percent with share of its own revenue reduced to 21 percent. 57 percent of its aggregate disbursements were met from the total central transfers.

The State, being part of special category state group, is entitled to 90 per cent financing for schemes/projects included in the State Plan in the form of grants-in-aid from the Union Government. Higher (90 per cent) financing of State plan schemes/projects by way of grants-in-aid from the Central government and access to substantial Central grants, coupled with State's own efforts at revenue mobilisation, have ensured that the State has continued to be a revenue surplus state upto 2013-14 despite having deficit after excluding central transfers. However, for the next two years the state experienced the revenue deficit led by fall in own non- tax revenue in 2014-15. Despite increase in State's Own Non-Tax Revenues by Rs. 1,935 crore vis-a-vis, previous year, the State could not maintain Revenue Surplus during the year 2015-16. The state however bounced back in 2016-17 with a surplus.

J& K is one of the most heavily indebted states in India. In 1969-70 the debt to GSDP ratio was 93 percent, it was still high in 2000-01 at 50 percent. After the FRBMA was enacted in 2005-06, the debt to GSDP ratio had since came down to 46 per cent (2015-16). The state generates a revenue surplus, but not enough to contain the ratio of its fiscal deficit to within 3 per cent of GSDP.

1.5 The current study

The present study to be undertaken by NIPFP at the request of the Fifteenth Finance commission has the following terms of reference:

The study is to provide an analysis of the State Finances for the state of J&K over a period of 10 years starting from 2006-07 to 2015-16. The terms of reference of the study as contained in the communication received from the office of FFC are the following:

1. Estimation of revenue capacities of state and measures to improve the tax-GSDP ratio during the last five years. Suggestions for enhancing the revenue productivity of the tax system in the state;

2. Analysis of the state's own non-tax revenues and suggestions to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises;

3. Expenditure pattern and trends separately for non-plan and plan, revenue and capital, and major components of expenditure there under. Measures to enhance

allocative and technical efficiency in expenditure during the last 5 years. Suggestions for improving efficiency in public spending;

4. Analysis of deficits-fiscal and revenue;

5. The level of debt-GSDP ratio and use of debt (i.e. whether it has been used for capital expenditure or otherwise). Composition of state's debt in terms of market borrowing, Central government debt (including those from bilateral/multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc.) and borrowings from agencies such as NABARD, LIC etc.;

6. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate;

7. Analysis of the state's transfers to urban and rural local bodies in the state. Major decentralization initiatives.

8. Impact of state public enterprises finances on the state's financial health and measures taken to improve their performance and /or alternatives of closure, disinvestment etc;

9. Impact of power sector reforms on state's fiscal health. In case reforms have not been implemented, the likely outcome on the state's fiscal health;

10. Analysis of contingent liabilities of the state; and

11. Subsidies given by the states (other than Central subsidies), its targeting and evaluation.

12. Outcome evaluation of state finances in the context of recommendations of the 14th Finance Commission.

13. Determination of a sustainable debt road-map for 2020-25, taking into account impact of introduction of GST and other tax/non-tax trend forecasts.

As per the communication received from Finance Commission, the dates for submission of the draft report and final report are expected to be June 30, and August 30, 2018 respectively.

Methodology

The study undertakes an exploratory data analysis as suggested in the literature on state finances and uses the standard statistical tools and techniques. The basic approach is to analyse the trends and ratios in revenue, expenditure, debt and deficit of J&K for the ten year period from 2006-07 to 2016-17. Wherever relevant, we have compare data across states to get inter-state perspective. Study also provides various buoyancy for fiscal variables. Various alternative scenario analysis for debt road map and simple forecasting is undertaken.

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1.6 Plan of the report

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1. Analysis of trends in revenue receipts. and expenditure is done in the first chapter. First, J&K's resource position in terms of its growth, resource composition, tax effort and the status of non-tax revenue (pertaining to TOR 1 and 2) will be discussed. The scope for additional resource mobilization through tax and non-tax resources is examined in detail and suggestions are put forwarded for increasing the productivity of tax and non-tax resources. Second, trends and growth of public expenditure by important categories such as revenue and capital; development and non-development; plan and non-plan categories and changes due to changes in the structure of budget is covered (TOR 3). Third, the expenditure management and state's capacity to enhance its efficiency is analyzed, here,

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6. Following the implementation of the Fourteenth Finance Commission's (FFC) recommendations and subsequent restructuring of grants by the Union Government, different states have experienced varied impact on their fiscal space and overall transfer from the central government. In this chapter we discuss the likely impact of these changes on finances of J& K government. (TOR 12)

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8. The final chapter summarizes the main findings of the other chapters and gives

out the conclusions and recommendations based on those findings.

Chapter 2

Trends in Revenue Receipts, Expenditure and Subsidies

This chapter deals with analysis of trends in revenue receipts, public expenditure and subsidies extended to various sectors in the State. Under the revenue receipts, the chapter covers J&K's resource position in terms of its growth, resource composition, tax effort and the status of non-tax revenue (pertaining to TOR 1 and 2). The scope for additional resource mobilization through tax and non- tax resources is examined in detail and suggestions are put forward for increasing the productivity of tax and non-tax resources while discussing cost of collection, arrears and buoyancy in revenue receipts of the state.

Next, the chapter discusses trends and growth of public expenditure by important categories such as revenue and capital; development and non-development; plan and non-plan categories and changes due to changes in the structure of budget (TOR 3). Further, expenditure management and state's capacity to enhance its quality was analyzed using adequacy, efficiency and effectiveness of expenditure. The scope for enhancing the efficiency of public expenditure by curtailing unproductive and wasteful expenditure was focused on in this section. Finally, this chapter also discusses subsidies of the state (TOR 11).

The buoyancy coefficients for relevant fiscal variables with reference to the base represented by GSDP was worked out to assess as to whether the mobilization of resources, pattern of expenditure etc. are keeping pace with the change in the base or fiscal aggregates.

2.1 Revenue Receipt

2.1.1 Overall picture

The revenue receipts consist of tax and non-tax revenues, central tax transfers and grants-in-aid from the Central government. **Table 2.1** presents major components of state's revenue in relation to GSDP at current prices. It shows that all the components of J&K's revenue in relation to GSDP except Central transfers to GSDP registered an improvement during the Twelfth Plan period compared to the Eleventh Plan period. Over all there is a fall in total revenue to GDP ratio from 36 percent average in 2007-12 period to 33 per cent in 2012-17 period. Reduction in Central transfer is wholly responsible for this reduction. Transfers from the Union government of State's share in Union taxes and duties and grants in aid together constituted on an average 73 per cent of the State's revenue receipts during 2011-12 and declined to 70 per cent and 66 per cent in 2012-13 and 2013-14 respectively. It increased to 71 per cent during 2014-15 but further decreased to 69 per cent during 2015-16.

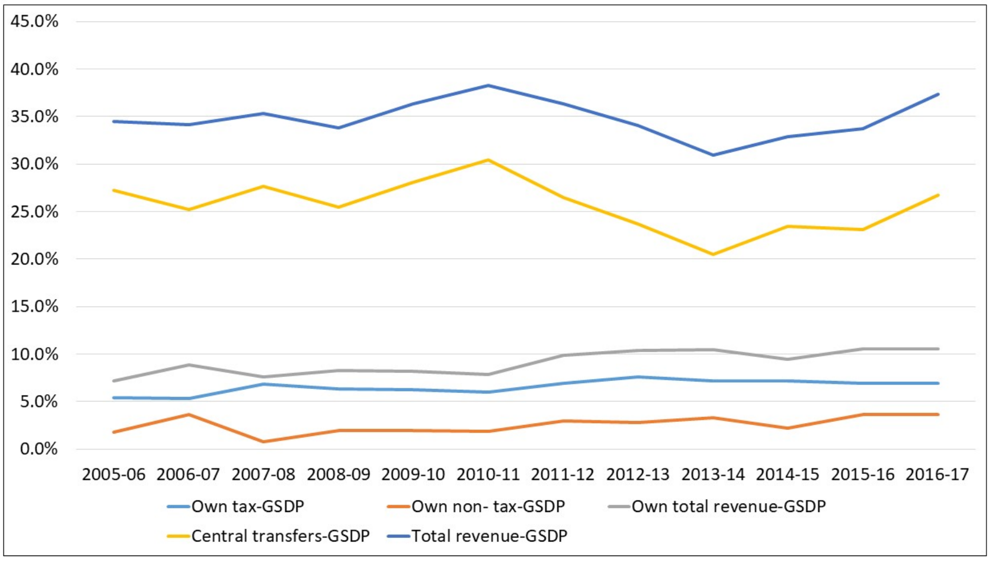
The **Figure 2.1** shows that the trend in Total Revenue - GSDP ratio matches the trend of Central Transfers - GSDP ratio which is sum of grants from the center and share in central taxes. Grants from the center comprises majority of central transfer, therefore total revenue matches the trend of grants from the center.

Table 2.1: Major components of J& K's revenue in relation to GSDP (in percent)

	2006-07 to 2016-17	11th Plan (2007-12)	12th Plan (2012-17)
Own tax-GSDP	6.58	6.49	7.16
Own non- tax-GSDP	2.55	1.9	3.13
Own total revenue-GSDP	9.13	8.39	10.29
Central transfers-GSDP	25.7	27.6	23.5
Total revenue-GSDP	34.82	36.02	33.81

Source: Finance Account, Government of J & K several years

Figure 2.1: Trend in J& K revenue in relation to GSDP



Source: Finance Account, Government of J & K relevant years

How J&K's performance compares with that of few other Special Category States (SCS) (namely Assam, Himachal Pradesh (H.P.), Tripura, Uttarakhand) is presented in **Table 2.2**. **Table 2.2** shows that J& K is highest in total revenue-GSDP ratio among SCS states during the ten year period. While J&K is among the states with highest tax-GSDP ratio, in non-tax GSDP ratio J&K is marginally lower than Himachal Pradesh. It may be noted that Central transfers-GSDP ratio of J&K is also among the highest in SCS States, little lower than Tripura. When comparing J&K with all states average we find that J&K performance is above all India state average.

Table 2.2: Comparison of major components of revenue of Special Category States in relation to GSDP (Average for 2006-2017) (in percent)

	Own Tax revenue	Own non-tax revenue	Own total revenue	Central transfers	Total revenue receipts
J&K	6.58	2.55	9.13	25.69	34.82
Assam	5.42	2.23	7.65	13.79	21.44
HP	6.00	2.98	8.98	13.65	22.63
Tripura	3.63	0.85	4.48	26.27	30.75
Utarakhand	5.94	1.21	7.15	8.31	15.47
All States	6.60	1.40	7.90	5.70	13.60

Source: Finance Accounts of the states, several years

Average rate of growth of various sources of revenue during the period presented in

table 2.3 provides another dimension for understanding revenue decomposition. Revenue receipts showed a progressive increase over the period 2006-07 to 2016-17 with an annualized growth rate of 12 percent. However, the annual growth rate of Revenue Receipts shows declining trend from 26.6 per cent in 2010-11 to 3.4 per cent in 2013-14 and increased 23.64 per cent in 2015-16 coming down again to 17.32 per cent in 2016-17, which means the buoyancy of States own tax revenue to GSDP has shown declining trend upto 2013-14 but increased in 2014-15 due to slow growth rate in GSDP but decreased again in 2015-16. Again, **Table 2.3** shows that rate of growth of total revenue reflects rate of growth of central transfers. While central transfers contribute about 74 per cent of the revenue on an average, state's total own revenue is about 26 per cent of the total revenue. The higher rate of growth observed in the case of non-tax revenue during the 11th Plan period did not impact the overall rate of growth of total revenue presumably due to its small contribution to total revenue.

Table 2.3: Rate of growth of various components of J&K's revenue (annualized) (in percent)

	2006-07 to 2016-17	11th Plan (2007-12)	12th Plan (2012-17)
Own Tax revenue	14	13	6
Own non- tax revenue	18	48	14
Own total revenue	15	19	8
Central transfers	11	12	11
Total revenue receipts	12	14	10

Source: Finance Account, Government of J & K several years

Table 2.4 presents a comparative picture of the average rate of growth of various components of revenue in SCS for the period under study. Rate of growth of total revenue of J&K is slightly above that of Himachal Pradesh and Tripura but lesser than Assam and Uttarakhand and significantly lower than that of All India State average. The rate of growth of own-tax revenue and own-non-tax revenue in the case of J& K on an average is higher when compared to other SCS and all India state average.

Table 2.4: Rate of growth of revenue in Special Category States 2006-07 to 2016-17 (annualized)) (in percent)

	J& K	Assam	HP	Tripura	Utarakhand	All states
Own Tax revenue	13.98	11.61	13.77	13.97	16.27	13.92
Own non-tax revenue	18.41	9.54	7.9	10.84	6.25	12.4
Own total revenue	15.26	11.01	12.26	13.48	14.41	13.66
Central transfers	11.5	14.41	15.42	22.99	13.58	16.32
Total revenue receipts	12.41	12.45	12.26	10.15	13.34	14.8

Source: Finance Accounts of the states, several years

Change in the relative shares of various components of revenue

The changes in the relative shares of various components of total revenue are presented in Appendix, table 1.2. In the case of Assam and Tripura, share of own revenue in total revenue has remained around one-third, in case of Uttarakhand the ratio has been 50 per cent. In all the three cases, it is attributable to the rise in the share of own-tax revenue. In the case of J& K, the increase in the share of own-revenue from 20 to 31 per cent from 2006 to 2016 was contributed equally from own tax and own non-tax revenue. The share of Central transfers in all the four states have either been constant or declining in the period understudy.

2.1.2 Disaggregated picture

The State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The trend in annualised growth in State's own tax and non-tax revenue over the period under study is shown in **Table 2.5**.

Overall the State's own tax receipt showed a growth of 14 percent from 2006 to 2017. In the 11th plan period all the components showed the robust growth, however in the 12th Plan period Stamps and Registration, Land Revenue, State Sales Tax, Taxes and Duties on Electricity displayed negative growth rate. Worst performers were, Land Revenue (-29.3 percent) and Taxes and Duties on Electricity (-20.2 percent). The biggest contributor to the movement in own tax revenue include Sales tax which contributed to 66 percent of own tax in 2006-07 and has steadily increased to 76 percent in 2016-17. However, within Sales tax the composition has changed. While the State Sales Tax grew moderately in the first half and turn negative in the 12th plan period around which the share of Other Receipts and Tax on Sale of Motor Spirits and Lubricants increased.

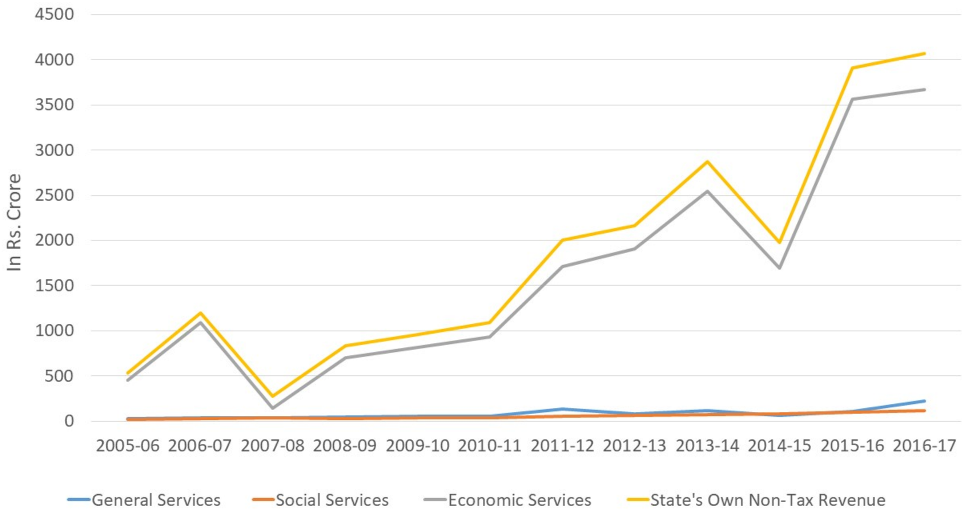
Table 2.5: Rate of growth of various sources of own revenue of J& K (in percent)

	2006-07 to 2016-17	11th Plan (2007-12)	12th Plan (2012-17)
A. Own tax revenue	14	13.2	6
Stamps and registration	14.2	21.1	-1.1
Land Revenue	14.1	28	-29.3
Sales Tax of which:	16	13.6	7.6
(a) State sales tax/VAT	6.3	6.4	-8
(b) Central sales tax	0	0	0
State excise	8.3	9.6	6.2
Motor vehicle tax and taxes on goods and passengers	10	10.8	7.6
Taxes and duties on electricity	3.7	13.9	-20.2
B. Own non- tax revenue	18.4	48.3	13.5
Interest receipts, dividend and profits	8.1	9.2	-9.3
General services	17.8	29.7	21.1
Social service	14.3	11.9	11.5
Economic Services	19	63.8	14
C. Own total revenue	15.3	18.9	8.3

Source: Finance Account, Government of J & K various years

An itemized break-up of growth non-tax revenue during the period 2006-17 along with percentage increase/decrease over 11th and 12th plan period is also given in the table. For Non-tax revenue the growth was much more robust in 11th plan period than 12th plan, which grew at 48 percent in the former and only 13 percent in the latter period with Interest Receipts, Dividends and Profit exhibiting negative growth. The biggest contributor to non-tax revenue are Economic services which covered 80 percent of the non tax revenue in 2006-07 and about 90 percent in 2016-17. Within Economic services biggest contributor is power which contributed 75 percent to economic services and 68 percent to non-tax revenue in 2016-17. The high contribution of economic services is also reflected in the movement in the non - tax revenue, the trend of own non-tax-revenue mimics the trend of economic services **(See Fig 2.2)**.

Figure 2.2: Trend in J& K's own non tax revenue and its component



Source: Finance Account, Government of J & K several years

Service Tax

The Central Government of India levies service tax according to norms set by the Finance Act, 1994. Although every state is included in this provision,service tax is not applicable in the state of J&K. The state of J&K levies its own taxes for services provided in the state.

The State has been taxing Services under the Jammu and Kashmir General Sales Tax Act, 1962 since March 1997, which yielded 1,236.77 crore in 2015-16 and 1,686.8 crore in 2016-17. Although the Government has initiated several measures to widen the tax base and improve collection of tax on Services, yet the tax collected under the State law is significantly less than the share foregone by the State in the Central Services Tax collections. As per the assessment made by the 13th Finance Commission regarding likely Central Services Tax collection during 2010-15, the share (1.551 per cent, 13th FC) forgone by the State works out to 8,363.38 crore, and 3,815.82 crore against which the State Service Tax collection was 5074.57 crore[1] and the State's share in Central

[1]887.66 crore in 2011-12, 1,018.96 crore in 2012-13, 1,046.72 crore in 2013-14, 884.53 crore in 2014-15 and 1,236.70 crore in 2015-16

Service Tax would have been about 9,674.30 crore i.e., 1.551 per cent of total central service collection of 6,23,746 crore. Further, as per the 14th Finance Commission, the likely Service Tax collection during 2015-16 as State Share should have been 3,815.55 crore i.e.,1.854 per cent of State share of Central Service Tax (2,05,815.55) against which the State has collected the actual service tax to the tune of 1,236.77 crore and foregone 2,578.78 crore.

Comparison with other SCS (**Table 2.6**) gives mixed result. Table 2.4 showed that both Assam, and Uttarakhand are ahead of J & K in the rate of growth of tax revenue, but all the states are behind J & K in total own revenue growth rate. However, at a disaggregated level (Table 2.6), in case of rate of growth of Sales tax (which is major contributors to own tax revenue) J& K is behind H.P. and Uttarakhand. In terms of social and economic services, J & K is among the states with highest rate of growth during the reference period. The comparatively higher rate of growth in the state of non-tax revenue seems to be due to its low level in 2006-07. This has only marginal impact on the overall rate of growth as non-tax revenue sources contribute only a small share of the total own revenue. The trend analysis shows that J & K out performs other SCS when own revenue is compared and its performance is even better than All India state average of own revenue. However, the sluggish growth of Central transfers, which is the major component of total revenue for the State may be the factor behind the fiscal stress that J & K is at present confronted with.

Table 2.6: Rate of growth of major sources of own revenue in Special Category States-2006 to 17 (perceent per annum)

	J& K	Assam	HP	Tripura	Uttarakhand
Taxes on Income	0	5.69	0	5.51	19.44
Taxes on Property and Capital Transactions	14.14	8.99	8.41	10.52	8.79
Sales Tax	15.98	10.76	16.15	15.22	17.68
State excise	8.3	16.12	12.19	14.45	16.89
Interest Receipts	12.75	23.88	9.44	6.91	6.27
Dividends and Profits	6.73	18.98	21.28	-13.11	56.58
Social Services	13.28	1.2	8.57	5.22	16.28
Economic Services	11.6	8.18	5.21	14.5	4.64

Source: Finance Accounts for states, various years

Table 2.7: Share of various components of expenditure in total expenditure (in percent)

	2006-07 to 2016-17	11th Plan (2007-12)	12th Plan (2012-17)
Revenue expenditure	77	72	81
Capital expenditure	23	28	19
Capital outlay	19	24	15
Development expenditure	63	64	60
Non-development expenditure	33	32	36
Non -plan expenditure	81	70	87*
Plan expenditure	22	26	17*

*for four years 2012 to 2015-16 Note: Development expenditure and non-development expenditure do not add up to 100% as we have excluded the grants-in-aid and contributions to local bodies
Source: Finance Account, Government of J & K, various years

2.2 Public Expenditure

2.2.1 Overall picture

The overall picture of different components of public expenditure during the study period is presented in **Table 2.7**. Bulk of Government expenditure goes towards Revenue expenditure which does not usually result in fresh creation of assets for the government and is meant for normal running and maintenance of government machinery. The total revenue expenditure of the state comprises of 81 per cent of total expenditure.

Table 2.7 shows that while the share of revenue expenditure, non-development and non-plan expenditure registered an uniform increase as a percent of total expenditure, that of development expenditure and plan expenditure registered a decrease during the 12th Plan period compared to the 11th Plan period. What stands out in the overall picture is the sharp decrease in the share of capital outlay and capital expenditure during the 12th Plan period. The steady increase in non-plan expenditure has eroded the resource base for developmental interventions. It may be noted that the four major items - salaries, pension, interest payments and revenue expenditure on power took away more than 80 per cent budgetary resources leaving little for other expenditures.

The distinguishing feature of J&K's public expenditure is sharply brought out when we compare it with other Special Category states (**Table 2.8**). Comparing Table 2.7 and 2.8 shows that compared to other SCS, the proportion of revenue expenditure in total expenditure is among the lowest, non-development expenditure and development

Table 2.8: Share of various components of expenditure in total expenditure in Special Category states -2006 to 17 (perceent per annum)

	Assam	HP	Tripura	Uttarakhand	All States
Revenue expenditure	91	85	75	82	85
Capital expenditure	9	15	24	18	15
Capital outlay	9	6	20	9	5
Development expenditure	63	62	64	66	67
Non-development expenditure	32	34	33	31	31

Source: Finance Accounts of the states, several years

expenditure in total expenditure is comparable to other states. The share of capital expenditure at 23 percent and capital outlay at 19 percent is highest among special category state (marginally lower than Tripura) and way above All India State average of 15 and 5 percent.

The predominance of social and community services with its high non-plan revenue content implies that the expenditure on salary and pensions will be comparatively high. This, together with interest payments account for lion's share of J&K's public expenditure. They also are major part of state's committed expenditure. The trends in salary, pension and interest payments during the period under study are presented in **Table 2.9**.

Table 2.9 shows that the expenditure on salary, pension and interest payments as a percentage of own revenue is very high, but in the recent years it exhibited a marginal falling trend.

Table 2.9: Trends in salary, pension and interest payments -2006 to 17 (in Rs. crore)for J&K

	Salaries	Interest payment	Pensions	Salary, pension and IP as a % of total own revenue
2010-11	7440	2283.0	2241.8	261
2011-12	9608	2383.1	3296.5	227
2012-13	10137	2706.7	3462.9	204
2013-14	10739	3000.9	3591.5	190
2014-15	11734	3532.8	3686.1	228
2015-16	14909	3719.3	3781.3	199
2016-17	15122	4567.3	4216.5	201

Source: Budget of the states, relevant years

Data on salaries was not available for all the states so scross states comparison is done of pensions and interest payment. **Table 2.10** shows that across states there has been reduction in the burden of interest payment from 2005-06 to 2016-17. Though in levels it has increased but as a percent of own revenue it has declined. In case of pension most of the states have experienced an increasing trend except for Tripura which shows a decline in pensions. When compared at levels among all the SCS the burden of both interest payments and pension is very large in J&K but as a percent of own revenue it is comparable. The compound annual growth rate for interest payments is highest at 12.8 percent and for pension is lowest at 15.1 percent in the case of J&K when compared to other states.

Table 2.10: Pension and interest payments across other SCS (in Rs. crore)

	2005-06	2015-16	2005-06	2016-17
	Interest Payment		IP as a % of Own Revenue	
J&K	1114.9	3719.6	51.55	33.09
HP	156.3	315.4	71.46	36.97
Assam	151.1	261.8	32.19	20.38
Tripura	37.1	72.9	103.04	45.74
UK	80.8	297.1	33.17	28.04
	Pensions		Pension as a % of Own Revenue	
J&K	928.7	3781.4	42.94	33.65
HP	66.9	383.6	30.63	44.96
Assam	101.1	598.5	21.56	46.58
Tripura	24.2	102.5	67.17	64.29
UK	45.3	262.8	18.61	24.80

Source: Finance Accounts of the states, several years

Impact of 7th Pay Commission

The 7th Central Pay Commission recommended revisions in salaries and pensions, and other allowances for central government employees. J&K was the first State to have implemented the Commission's recommendations for its employees. Government committed to the implementation of Recommendations from April 1, 2018. Not only that, government planned to pay the arrears to the employees in 2018 itself, which will be effective from 1st January, 2016. Government of J&K constituted the Pay Committee in 2018 to recommend the revised pay structures for the State Government employees, it also, side by side, was given the responsibility to examine the various anomalies in different departments and try to address them during the course of implementation of 7th Pay Revision.

In the budget speech 2018-19, the finance minister also announced the reduction in the eligibility for full pension from 28 years of qualifying service to 20 years of qualifying service. This measure will benefit more than half of the number of employees on the rolls of the Government, as they were denied full pension for want of qualifying service.

After implementation of the Pay commission recommendation there is a growth of 69 percent in expenditure on salaries between 2017-18 and revised estimate of 2018-19, as against the average growth of 12 percent from 2010-11 to 2016-17. However, this year-on-year increase includes arrears, and thus is overstated to that extent. Expenditure on salaries and pensions forms a part of revenue expenditure. The implementation of Pay

Table 2.11: Salaries and Pension trend in J&K (in Rs. crore)

	Salaries	Pension
2010-11	7440	2242
2011-12	9608	3296
2012-13	10137	3463
2013-14	10739	3592
2014-15	11734	3686
2015-16	14909	3781
2016-17	15122	4216
2017-18	16120	5408
2018-19 (RE)	27258	5800

Source: Finance Accounts of the states, several years

Commission awards has led to a steep increase in the allocation for revenue expenditure between 2017-18 and revised estimates of 2018-19. Revenue expenditure of J&K grew by 44 percent between 2017-18 and 2018-19(it jumped from 40917 crores to 59042 crores), however the average of five years pre-implementation of recommendation was just 13 percent.

2.2.2 Disaggregated picture

Only a disaggregated analysis can throw light on the nature of public expenditure. As we have seen, the single largest component of total expenditure is revenue expenditure which is further divided into expenditure on social, economic and general s
ervices. Within Economic services largest spending is on energy and agriculture and allied activities. Together, spending on these two categories is about 75 percent of total economic services and within energy is mostly on power. Within social services; education, sports, art and culture, medical and public health and water supply and sanitation are the main spenders. They together cost about 80 percent of social services. In case of general services main expenditure is on pensions, administrative services and interest payments and servicing of debt. They comprise about 97 percent of total expenditure. The disaggregated table on total expenditure is presented in appendix in Table A.3.

A comparative picture of the level of revenue expenditure and services within that in SCS is given in **Table 2.12**. The table also gives the changes in the revenue expenditure from two stand points 2006-07 and 2016-17. As can be seen from the **Table 2.12**, both in 2006-07 and 2016-17, J&K occupied the second position in per capita revenue expenditure just behind H.P. Within revenue expenditure, for J&K, the share of general services declined significantly (six percent). This decline was shifted to an increase in social services (marginally, two percent) and economic services, which increased by four percent. The annualised growth rate across all the categories was between nine percent and 12 percent. When compared to other states, the per capita expenditure of J&K on economic services was highest among all SCS in the sample and it is just behind H.P in per capita expenditure on general services. However, in the case of social services expenditure by other states was much higher than J&K. Looking at the share of services in total expenditure we find that share of general services is highest, though declining, in all the states. While focus of other states is on social services, J&K gives equal weightage to both social and economic services.

Table 2.12: Per capita revenue expenditure in SCS states (in Rs. Cr)

	Jammu and Kashmir		Assam		Tripura		Himachal Pradesh		Uttarakhand	
	2006-07	2016-17	2006-07	2016-17	2006-07	2016-17	2006-07	2016-17	2006-07	2016-17
Revenue expenditure	9618.7	29620	3964.9	14912.8	7234.6	25776.9	11763.7	35107.4	6960.9	23250.5
a) General services	4217.6	11242	1488.8	5173.0	3365.3	9899.5	5078.5	13475.6	2554.6	9139.8
% to total	44	38	38	35	47	38	43	38	37	39
b) Social services	2610.8	8604	1549.4	6849.6	2532.0	11120.8	3979.7	13312.1	2638.4	9687.2
% to total	27	29	39	46	35	43	34	38	38	42
c) Economic	2790.3	9775	923.7	2693.0	1191.7	4246.3	2700.9	8305.9	1475.6	3590.9
% to total	29	33	23	18	16	16	23	24	21	15
d) Grants-in-aid contributions	0	0	2.7	197.1	143.1	509.9	4.5	13.9	291.6	833.7
% to total	0	0	0	1	2	2	0	0	4	4

Source: State finances: A study of budgets by Reserve Bank of India, relevant issues

2.3 Revenue Effort of the State

2.3.1 Cost of Collection

Cost of collection of a tax is a parameter used for measuring the efficiency of the taxation system. For a tax to be viable the cost of collection of the tax has to be significantly lower than that of the tax mobilized. J&K's tax performance in terms of cost of collection vis-a-vis the national average has been very poor, the percentage of collection expenditure to gross collection faring under the national ratio in almost all the instances.

From a disaggregated perspective (**Table 2.13**) the cost of collection of sales tax is relatively less than that of other taxes. Besides the collection cost incurred is comparable with that of the national average collection cost of sales tax. But in the case of State excise, Stamps and registration fees and taxes on vehicles the cost of collection in J&K are significantly higher than the national average which is an indication of the relative inefficiency of the taxation machinery in the state. The relative inefficiency in revenue mobilization is the highest in case of Stamps & Registration receipts where in the collection cost in J&K is four to five times than that of the national average.

Table 2.13: Cost of Collection

Head of revenue	Year	Collection(Cr.)	Expenditure on collection of revenue(Cr.)	% of expenditure to total collection	All India Average (%)
Sales Tax	2005-06	1014	12.94	1.28	0.91
	2006-07	1159	13.88	1.2	0.82
	2007-08	1804	14.52	0.8	0.95
	2008-09	1835	15.3	0.83	0.95
	2009-10	2145	73.56	3.42	0.88
	2010-11	2424	22.17	0.91	0.96
	2011-12	3414	27.59	0.81	0.75
	2012-13	4174	88.08	2.11	0.83
	2013-14	4578	38.66	0.84	0.73
	2014-15	4609	40.1	0.87	

	2015-16	5240	45.07	0.86	
Taxes on vehicles	2005-06	49.17	2.98	6.06	2.67
	2006-07	63.96	3.12	4.88	2.47
	2007-08	72.6	3.98	5.48	2.74
	2008-09	65.47	4.73	7.22	2.74
	2009-10	83.1	4.56	5.49	2.93
	2010-11	115.33	5.38	4.66	3.07
	2011-12	104.52	7.44	7.12	3.71
	2012-13	117.89	7.66	6.5	2.96
	2013-14	134.23	10.05	7.49	4.17
	2014-15	132.38	8.42	6.36	
	2015-16	145.09	14.06	9.69	
State excise	2005-06	218.68	9.98	4.56	3.4
	2006-07	212.8	9.43	4.43	3.3
	2007-08	244.15	9.88	4.05	3.34
	2008-09	238.67	11.1	4.65	3.35
	2009-10	293.78	12.37	4.21	3.66
	2010-11	337.24	14.38	4.26	3.64
	2011-12	385.46	17.09	4.43	3.05
	2012-13	421.28	18.88	4.48	2.98
	2013-14	440.06	19.71	4.48	2.96
	2014-15	466.02	19.2	4.12	
	2015-16	533.6	26.68	5	
Stamps & registration fees	2005-06	46.43	4.83	10.4	2.87
	2006-07	56.93	4.55	7.99	2.33
	2007-08	65.63	13.41	20.43	3.44
	2008-09	57.14	6.04	10.57	3.2
	2009-10	69.51	7.8	11.22	2.77
	2010-11	78.58	12.68	16.14	2.47
	2011-12	170.97	20.87	12.21	1.6
	2012-13	240.14	23.26	9.69	1.89
	2013-14	260.68	23.88	9.16	3.25
	2014-15	248.02	26.91	10.85	
	2015-16	264.19	27.74	10.5	

Source: Report of CAG on State finances, Govt. of J & K, relevant issues

2.3.2 Arrears in Revenue

Arrears in Revenue constitutes another dimension of revenue effort and indicates the inefficiency of the tax administration. Defined as the outstanding amount of revenue receipt, both tax and non-tax, which the state has so far failed to collect, arrears in revenue indicate the existing institutional and operational lacuna that results in under mobilization of resources given the tax potential of the state. Examination of trends in the study period indicate that revenue arrears as a percentage of own revenue receipt has been correcting since 2009-10 (**Table 2.14**). Thus from a whopping 55.19 percent (Rs. 2198 crs) in 2009-10 there has been a dramatic correction in revenue arrears over the years which have culminated in a much more acceptable 12.45 percent (Rs. 1399 crs). The much needed tightening was attained through the computerization of the taxation machinery which led to significant enhancement in detection, surveillance and compliance. This was part of the Fiscal Reform Facility adopted by the government of J & K which led to a comprehensive tightening of the tax administration of the state. CAG audit reports points out the great scope for enhancing revenue receipts through greater efforts to address the problem of revenue arrears through punitive action and also the application of higher interest on outstanding arrears.

Table 2.14: Arrears on Revenue Receipt of the State

Year	Arrears of Revenue Receipt (Cr)	Arrears of Revenue Receipt as Percentage of Own Revenue Receipt
2005-06	920	42.5
2006-07	992	33.5
2007-08	1011	35.68
2008-09	752	21.4
2009-10	2198	55.19
2010-11	1494	32.7
2011-12	1172	17.37
2012-13	1614	20.19
2013-14	1433	15.67
2014-15	1399	16.83
2015-16	1399	12.45

Source: Report of CAG on State finances, Govt. of J & K, relevant issues

2.3.3 Cost Recovery of Social and Economic Services

Due to paucity of time, a rigorous estimation of subsidies on the lines of Srivastava and Sen (1997) was not done. However, we have attempted a crude estimate of subsidies and cost recoveries in the case of 'social services' and 'economic services'. For this purpose, the non plan revenue expenditure on the particular service is taken as the cost of providing it and the revenue receipts as the cost recovery. The difference between the two is taken as a measure of subsidy. Recovery Rate is worked out as the ratio of the revenue receipt in that head against the non-plan revenue expenditure incurred in it. While the subsidy arrived at by this method would vary from the estimate on the lines of Srivastava and Sen (1997), the difference is only in degree. From the policy point of view, the question is whether total subsidies are increasing or decreasing. Viewed from this angle, our estimate, despite its obvious limitations, serves the purpose. The estimate of subsidy is calculated for 2006-07 and 2014-15 (last year of plan and non-plan bifurcation, post which this distinction was eliminated) is presented in **Table 2.15**.

Table 2.15 shows that the share of 'social services' in total subsidy was 44 percent in 2006-07 and this has gone up to 50 percent in 2014-15. This means that the relative share of subsidy in 'economic services' has come down. While the cost recovery in social sector has remained unchanged between the two years at 1.1, cost recovery for economic services has improved from 15 in 2006-07 to 21 in 2014-15. Analysis at the disaggregated level show that in case of all the sectors in social services recovery rate remains at a low level or has even fallen as in the case of health and labor and employment. Within economic services, recovery increased in case of fisheries, major irrigation and power and for the rest of the categories recovery rate declined.

It is unanimously acknowledged that cost recovery from public service constitute one of the most critical instrument variables that can be addressed to make state finance sustainable. Effort to raise cost recovery by the state must adopt a strategy that should incorporate measures to raise rates in user charge, greater efficiency and transparency in mobilisation, enhancement in the quality of the service provided.

Cost recoveries are undertaken in economic and social services and traditionally the extent of recoveries are always higher in the former than that in the latter. Hence as policy strategy there is always a concerted effort to enhance cost recovery in economic services such as power and irrigation. Conversely considering the positive externalities generated by provision of services in the social sector a lower priority is set for cost recovery in areas of health and primary education.

The existing subsidised rates of public services make their provision nonviable and put enormous pressure on the state exchequer. Any efforts to increase rates are met with tremendous public opposition. In this context, although the government need to firmly deal with such opposition by a population who is used to living on subsidised public services, it needs to ensure that there is no leakages or mis-utilisation of funds raised as user charges and also that the service provided is of the highest quality, which will induce more consumer compliance.

Table 2.15: Cost Recovery of Social and Economic Services

	2005-06		2014-15	
	Subsidy	Recovery Rate	Subsidy	Recovery Rate
1. Social services	2016.46	1.1	6329.5	1.2
Education, sports, art and culture	782.8	0.2	2936.9	0.1
Medical and public health	324.02	2.7	1304.39	1.7
Housing	26.1	4.3	56.6	4.4
Urban development	110.56	0	592.3	0.1
Labour and employment	5.2	19.5	42.61	13.5
Social security and welfare	71.68	1.2	137.72	2
Water supply and sanitation	219.93	4.2	797.01	4.4
Others	18.65	0.6	56.69	0.1
2.Economic services	2586.21	15	6329.59	21.1
Crop husbandry	41.65	9.5	227.43	3.4
Animal husbandry	104.39	3.7	304.76	2.1
Fisheries	13.39	7.5	44.83	9.4
Forestry and wild life	63.95	41.63	409.98	14.7
Co-operation	9.7	1.4	26.05	0.6
Other agricultural programmes	4.41	0.5	19.7	2.4
Major and medium irrigation	18.82	4.5	-48.45	180.4
Minor irrigation	81.93	2.5	245.09	2.3
Power	1481.28	20.6	3550.1	28.7
Village and small industries	61.59	2	208.45	1.5
Industries	-0.55	106.9	-19.22	165.6
Tourism	17.9	1.2	65.69	2
Others	4.74	48.5	43.58	15.1
3. Total (1+2)	4602.67	9.4	12659.08	12.3
% share of social services in total subsidy	44%		50%	
% share of economic services in total subsidy	56%		50%	

2.3.4 Buoyancy of Tax

The enactment and implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2006 and the subsequent fiscal reforms initiated made it mandatory for all the states to embark on a process of fiscal consolidation. The tax effort which constitutes a big part of this process was sought to be assessed in terms of the Own Tax Revenue - GSDP ratio. However, what this ratio reveals is how much the states have achieved in their mobilisation effort rather than their actual capacity to mobilise the resources. The latter is perceived in the concept of Buoyancy of Tax. In India state wise buoyancy are estimated in terms of proportionate change in Own Tax Revenues to proportionate increase in the GSDP.
Evidence presented in **Table 2.16**, reveals that with the adoption of the FRBM Act, the deliberate fiscal consolidation process which was resorted to in J&K did not lead to a significant improvement in tax effort. The buoyancy of State's revenue to GSDP has shown declining trend upto 2013-14 but increased in 2014-15 due to slow growth rate in GSDP but again fell in 2015-16. Own tax revenue buoyancy is slightly better than total revenue buoyancy. It is greater than one in seven out of eleven years.

Table 2.16: Buoyancy Coefficients of Own Revenue and Own tax

Year	Revenue Buoyancy w.r.t GSDP	Own Tax Revenue Buoyancy w.r.t GSDP
2005-06	1.75	2.18
2006-07	0.89	1.13
2007-08	1.97	3.62
2008-09	0.82	0.52
2009-10	1.49	0.89
2010-11	0.73	0.85
2011-12	0.65	2.08
2012-13	0.45	1.79
2013-14	0.25	0.54
2014-15	16.7	2.42
2015-16	5.3	3.51

Source: Report of CAG on State finances, Govt. of J & K, relevant issues

2.4 Quality of Expenditure

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

2.4.1 Adequacy of Public Expenditure

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods. Apart from improving the allocation towards development expenditure, the adequacy of expenditure is reflected by the ratio of development capital expenditure to total expenditure and proportion of revenue expenditure spent on operation and maintenance of the existing social and economic services. The higher the ratio of thesis components to total expenditure the better would by quality of expenditure and availability of services.

Table 2.17 presents the trend in development expenditure relative to the total expenditure of the State. The total development expenditure showed a 3 fold increase in nominal terms during 2006-07 to 2016-17 and also increased from 64 per cent to 67 per cent vis-a-vis, the Total Expenditure during the same period. The share percentage of Development capital expenditure in total expenditure fell from 28.2 per cent in 2008-09 to 12.2 per cent in 2013-14 and since then there has been only a marginal improvement in its share. The share of Development Revenue Expenditure in total expenditure increased from 45.2 per cent to 51.4 per cent during the same years.

The Government has made known its intention for a major upgradation of infrastructure and enhancing allocation for social sectors and social safety nets which is reflected in various schemes launched by the State Government during 2015-16 and 2016-17 and also allocations made under prime ministers' package (Tameir) for various infrastructural and developmental activities which include investment in energy sector, roads and bridges, relief and rehabilitation, strengthening of police force and flood mitigation projects aided and assisted by the World Bank.

Table 2.17: Share of Development Expenditure in Total Expenditure

	Total Expenditure	Total Development Expenditure	Development Revenue Expenditure	Share of Development revenue expenditure in total expenditure (per cent)	Development Capital Expenditure	Share of Development Capital Expenditure in total expenditure (per cent)	Loans/Advances for Development	Total Development Revenue & Capital to total Expenditure (per cent)
2006-07	13,070	8,359	5,960	45.6	2,399	18.4	44	64.0
2007-08	15,906	10,167	6,565	41.3	3,602	22.6	38	63.9
2008-09	17,012	11,580	6,775	39.8	4,805	28.2	42	68.1
2009-10	21,558	14,874	8,879	41.2	5,995	27.8	49	69.0
2010-11	24,530	16,296	10,690	43.6	5,606	22.9	71	66.4
2011-12	28,645	18,460	12,955	45.2	5,505	19.2	66	64.4
2012-13	30,434	19,079	14,491	47.6	4,588	15.1	93	62.7
2013-14	31,686	19,514	15,655	49.4	3,859	12.2	121	61.6
2014-15	34,550	21,903	17,290	50.0	4,526	13.1	87	63.4
2015-16	43,845	29,058	22,745	51.9	6,219	14.2	94	66.1
2016-17	48,098	32,218	24,701	51.4	7,517	15.6	76	67.0

Source: RBI study on State finances, relevant issues

2.4.2 Efficiency of Expenditure use

Table 2.18 provides analysis of the sector-wise expenditure. The ratio of capital expenditure to total expenditure in Social and Economic service sectors showed consistent increase from 19.77 per cent in 2013-14 to 20.75 per cent in 2014-15 and to 21.47 per cent in 2015-16 after a decrease from 2011-12 and 2012-13. In the revenue expenditure, salary and wages form major component within the social and economic service and their share has been more than 50 percent in all the years from 2011-2016 except for 2014-15 when it dipped about five percent to 45 percent. Further, the share of operation and maintenance (O&M) expenditure has been low in all the years in social sector except for 2015-16. In the case of economic sector, transport sector showed high O & M from 2011-12 to 2013-14, post that there was a decline in the expenditure. Other sectors like Agriculture and allied activities, irrigation and flood control and power and energy showed an increase in O&M for the year 2015-16.

Table 2.18: Efficiency of Expenditure use in selected Social and Economic services

	2011-12			2012-13			2013-14			2014-15			2015-16		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S& W	O & M		S& W	O & M		S& W	O & M		S& W	O & M		S& W	O & M
Social Sector (SS)															
General Education	13.44	81.14		13.9	85.34		12.2	82.72	0.01	11.77	75.03	1.23	8.39	66.03	1.7
Health and Family Welfare	17.44	86.71	0.56	18.67	87.45	0.56	13.08	85.19	0.78	10.57	76.04	0.72	9.22	74.01	66.33
WS, Sanitation & HUD	32.33	53.69	3.35	34.45	51.56	3.35	21.99	55.68	3.36	25.87	50.1	6.24	28.76	46.27	51.43
Others	28.85	16.93		23.65	14.67		1.3	13.17		21.78	19.68	0.25	49.95	20.68	25.55
Total (SS)	19.95	70.83		16.35	74.56		13.47	67.24		15.91	63.06	1.89	19.09	59.88	25.51
Economic Sector (SS)															
Agriculture and Allied Activities	34.01	822.39	0.15	29.11	85.36	0.15	22.29	79.78	0.18	29.56	79.05	0.86	27.59	80.37	19.48
Irrigation and Flood Control	55.85	80.72	6.46	53.35	83.65	6.46	44.49	77.29	6.95	37.67	76.21	8	42.82	78.22	50.95
Power and Energy	12.41	11.88	0.84	11.71	13.67	0.84	8.13	10.89	0.92	2.77	10	0.98	4.19	9.16	70.9
Transport	84.72	73.8	30.43	87.92	72.4	30.43	71.74	0.71	43.01	41.8	0.16	14.65	48.5	0.07	2.18
Others	52.31	34.43		57.61	31.66		10.82	42.45		72.31	46.59	0.73	48.85	8.55	11.59
Total (ES)	37.13	34.06		39.74	36.83		25.31	32.67		24.93	29.05	2.23	23.7	3.88	3.88
Total (SS+ES)	29.81	51.92		27.34	51.92		19.77	50.11		20.75	45.77	2.47	21.47	62.45	29.09

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

Source: Report of CAG on State finances, Govt. of J & K, relevant issues

2.5 Optimisation of Thirteenth and Fourteenth Finance Commission grants

The Thirteenth Finance Commission had recommended a total grant of 20,256 crore excluding share in central taxes and duties of 20,182.70 crore for the five years period from 2010-11 to 2014-15, specifically for the State. Out of this 20,182 crore in the five year period 19,050 crore was devolved to the state.

Of the 20,256 crore grant, 15,937 crore was meant for filling up the assessed deficit on non-plan revenue account, 1,000 crore is for liquidation of overdraft with the Jammu and Kashmir Bank, and 1,123 crore is meant for Local Bodies. The balance 2,000 crore was for various projects and activities to be completed during 2010-15. Almost 89 percent of total grant is general budgetary support meeting non-plan revenue gap and clearing overdraft. Out of 1,123 crore for local bodies (2011-12 to 2014-15), the State Government has received only 627 crore leading to shortfall of 496 crore due to non-existence of elected local bodies.

Under Fourteenth Finance Commission, the projection during 2015-16 was 8,748 crore against this the tax collection of share of union taxes/duties was 7,813 crore resulting in a shortfall of 935 crore. Under the 14 Finance Commission, Nil amount was received during 2015-16 by the State Government from the Union Ministry of Finance under Urban Local Bodies due to non-election of such bodies.

Table 2.19: State's share in Union taxes and duties (Actual devolution vis-à-vis Finance Commission projections) (Rs. Crores)

	13th & 14th Finance Commission Projection	Actual tax devolution
2010-11	2837	3066
2011-12	3328	3495
2012-13	3925	3870
2013-14	4630	4142
2014-15	5462	4477
2015-16	8748	7814

Source: Report of CAG on State finances, Govt. of J & K, relevant issues

2.6 Conclusion

The State, being a special category State, had high level of share in Central taxes and grants from the Central government. The States' dependence on central resources has been steadily declining. It came down from 73 per cent in 2011-12 to 69 per cent in 2015-16. There was increase in the total capital expenditure from 5,899 crore in 2011-12 to 7,331 crore in 2015-16. States Own Tax Revenue grew from 5,833 crore in 2012-13 to 7,326 crore in 2015-16. Service Tax is the only Central Tax that is presently not applicable to the State of J& K. The State has its own Service Tax under State Law. Since the Central Service Tax is not applicable to the State, the State is not entitled to a share in the total Service Tax collected by the Central Government all over the country. The foregone share is 1.551 per cent of the Service Tax collected by the Centre. As per assessment made by the 13th Finance Commission regarding likely Central Service Tax collection during 2010-15, the 1.551 per cent share foregone by the J& K works out to 8,363.38 crore against which the State Service Tax collection was 4,461.09 and States actual Share in Central Service Tax would have been about 9,674.30 crore i.e., 1.551 per cent of the Total Central Service tax collection of 6,23,746 crore.

As per the 14th Finance Commission, the likely Service Tax collection during 2015-16 as State share should have been 3,815.55 crore i.e.,1.854 per cent of State share of Central Service Tax (2,05,815.55) against which the State has collected the actual service tax to the tune of 1,236.77 crore and had foregone 2,578.78 crore. Central Government has been transferring a sizeable quantum of funds for CSS schemes such as SSA, NRHM, MGNERGS, etc. in the form of Grant-in-aid which is taken under revenue receipts by the State Government but the expenditure is being incurred under Capital Heads for creation of assets. This leads to increase in revenue Surplus and Capital outlay. The expenditure on salaries, wages, pension and other post-retirement benefits, interest payments and power development departments' was nearly 66.36 per cent of total expenditure and 79.89 per cent of normal revenue expenditure in 2015-16.

A Note on Goods and Services Tax

The GST regime was implemented in the whole of India w.e.f 1 July 2017 except J&K State. The Central GST Act 2016 was not applicable to J&K as the powers to tax in J&K State are enshrined under Section 5 of J&K state constitution. The Government of J&K tabled a resolution in State Assembly on 06 July 2017 where under it was unanimously resolved that only those Articles/Clauses of 101st Constitution Amendment will be agreed to be extended by Government of India to J&K state which were extremely necessary to implement Central GST/IGST/ITC in the state of J&K under Article 370 of Constitution of India while keeping intact the powers of J&K state to Tax in the state under section 5 of J&K State constitution. Two Presidential order were passed on 8th July 2017 where under CGST and IGST were made applicable to J&K State w.e.f 8th July 2017. The State of J&K also passed SGST Act 2017 in the State's Assembly. The State GST Council of J&K State was also constituted in terms of SGST Act 2017. Thus, GST regime came into force in J&K State w.e.f 8th July 2017 after fully safeguarding section 5 of J&K state constitution and the existing dealers of VAT are being migrated to GST system.

Till December 2017, a total of 45,000 VAT dealers stand migrated to GST Portal. New registration process is also in full swing and till date, a total of 26,400 dealers stand registered on GST Portal. Out of this count of 26,400, while 13,700 dealers pertain to Central jurisdiction and 12,000 dealers pertain to J&K State jurisdiction. As of now, 71,400 dealers (migrated + new registration) stand registered on the GST Portal taking the tax base count of dealers also to 71,400. Commercial Taxes Department J&K is proactively assisting taxpayers in the process of transition to new tax regime.

Revenue collections on account of GST for state is presented in **Table:2.20**. Till January 2018, 1803 crores was been collected with 761 crore for SGST and 1042 on account of IGST transfers. The commercial tax department had registered a cumulative growth of 30 percent in collection of revenue post implementation of GST. The compensation on account of revenue due to the implementation of GST is received on a bi-monthly basis. Till now, as presented in Table 2.20, state government has received three instalments of 367 crores (Jul-Aug 2017), 314 crore (Sept-Oct 2017), 336 crore (Nov-Dec, 2017) towards compensation.

Apart from taxes levied and collected by central government, when GST was introduced in the state of J&K, the following state taxes were subsumed in this new tax regime:

Table 2.20: Revenue Collections on account of SGST /IGST (in Rs. crore)

Month	SGST	IGST (transfer)	Total GST	Compensation	Grand Tot
August-17	103.16	83.00	186.16	367	552.1
September-17	136.54	143.00	279.54	-	279.54
October-17	113.18	196.00	309.18	314	623.25
November-17	120.23	209.00	329.23	-	329.23
December-17	141.21	186.71	328.02	336	663.9
January-18	146.88	224.53	371.41	-	371.41
Total	761.11	1042.30	1803.41	1017	2820.4

Source: Economic Survey 2017, Government of J & K

Table 2.21: Growth in Revenue on account of SGST /IGST (in Rs. crore)

	Sales Tax/ VAT /GST
Revenue Realisation ending 01/2018	2940.4
Revenue on account of GST w.e.f Aug'17 to Jan'18	1803.4
Compensation for the month of Aug to Dec'17	1017
Total Revenue ending Jan'18	5760.8
Revenue Realization ending Jan'17	4416.4
Inc/Dec	1344.36
% growth	30.4

Source: Economic Survey 2017, Government of J&K

1. VAT
2. General sales tax (except on ATF, Natural gas and liquor for human consumption)
3. Entry tax
4. Entertainment tax
5. Entertainment duty

The details of the total revenue realized by the state ending January 2018 and comparison vis-a-vis last year is given in **Table 2.21**

Understanding revenue performance of GST requires identifying all the taxes that the GST replaced from both center and state perspective: VAT, sales tax for the states, and the excise and service taxes as well as the countervailing duties/special additional duty (SAD) on imports. Economic Survey, 2018 did a first round analysis, five months after implementation of GST at all India level. They found that in the first five months of GST "amount of Rs. 10.9 lakh crores was collected, representing growth of 12 percent.

Given nominal GDP growth of 10.5 percent projected in the Survey, buoyancy amounts to 1.14, above the historical buoyancy for indirect taxes of 0.9. In the initial phase of such a large disruptive change, this performance is noteworthy. The GST promises to be a buoyant source of future revenues." (Economic Survey Chapter 1, box 7). This analysis clearly shows that buoyancy of own tax revenue in the coming year is expected to rise as a result GST. But in the case of J&K the impact may not be that large when compared to other states, this may happen because service tax which is a significant revenue source for GST is not part of GST in J&K. State levies service tax at state level, so the base of GST for J&K is smaller than when compared to other states because of the absence of service tax. So, buoyancy of OTR may increase but not as significantly as expected in other states. Also, as per provisions in Section 7 of the GST (Compensation to States) Act, 2017 loss of revenue to the States on account of implementation of GST is payable during transition period. Therefore, for next few years states are protected against any losses on account of implementation of GST and hence it will be impossible to calculate the impact of GST on buoyancy.

Chapter 3

Trends in Deficits, Debt and Liabilities

3.1 Introduction

In India, throughout the sixties, there was a deliberate strategy to finance capital formation and infrastructure development through deficit financing. However with revenue expenditure consistently exceeding revenue receipt and alarmingly low returns from earlier capital expenditures the nation was confronted with a structural deficit in its budget that had serious implication for its fiscal sustainability. Subsequently there was deliberate shift in policy with the adoption of a strategy aimed at fiscal consolidation in 2004 which significantly checked the secular deterioration of the state and union finances.

Fiscal parameters such as revenue deficit, fiscal deficit and primary fiscal deficit indicate the extent of fiscal imbalances in the finances of governments. Revenue deficit is the difference between revenue expenditure and revenue receipts. Revenue Expenditure which is synonymous with consumption and maintenance in the form of wages and salaries, consumption goods and services, interest payment, subsidies etc, are recurring in nature and do not result in the creation of assets. Similarly revenue receipts are recurring and accrue in the form of tax and non-tax revenue including transfer from the centre. Thus a deficit in the revenue account indicates an inability on part of the government to finance its recurring expenditure with its recurring receipts.

Fiscal Deficit, on the other hand, is the difference between total expenditure (net of debt repayment) and total receipt (excluding debt creating capital receipt). Thus on the receipt side only non-debt capital receipt (recoveries of loans plus disinvestment proceeds) are incorporated while debt creating capital receipts are left out. The actual state of public account is reflected by fiscal deficit as it indicates the liabilities created in the receipt disbursement process of the government.

Finally the primary deficit is calculated as the difference between the fiscal deficit and interest payment.

All the deficits in the government account represent gaps between expenditure and receipt. The significance of analyzing the deficits stems from the fact that the nature and origin of the gaps and procedure adopted to finance them has great impact on government finance and immense consequences for the overall economy. The analysis of the trends in revenue, expenditure and subsidies in the last chapter has shown that the root cause of J & K's fiscal maladies is not high level of expenditure per-se but sluggish growth of revenue and comparatively high subsidies. While the level of expenditure in 'general services' is quite high, the same on 'social and economic services' is not so when compared to other Special Categories states. In this chapter, the issues arising from the resultant deficits and its impact on the underlying economy are analysed in greater detail.

Trends in deficits, debt and liabilities (TOR 4 and 5) and its impact on the underlying economy will be the focus of this chapter. The implementation of FRBM Act and the commitment towards targets (TOR 6) will also be analyzed here and the chapter will also explore the various options and sources before the state for fiscal consolidation.

3.2 Trends in Deficit

Table 3.1 shows that J & K has been accruing primary deficit in all the years except for one, but revenue surplus throughout the period except for two recent experience. While revenue surplus has been consistently high with average of 4.4 during the 11th Plan period, it registered a declining trend during the 12th Plan period with incurring revenue deficit in 2014-15 and 2015-16. Fiscal deficit in J& K has always been on the higher side, even after adoption of FRBM Act. The period of 11th Plan was also period of financial crisis when FRBM Act was suspended and due to crisis the States incurred high Fiscal deficit. There was an improvement in Fiscal Deficit post 2010-11 but still it remained at high level way above FRBM cut off. The State has continued to maintain

Table 3.1: Trends in budgetary deficits/surpluses (Rs. Crore)

	Revenue Deficit(-)/Suplus(+)	Fiscal Deficit(-)/Suplus(+)	Primary Deficit(-)/Suplus(+)	RD/GSDP (%)	FD/GSDP (%)	PD/GSDP (%)
2005-06	394	-2643	-1528	1.3	-8.8	-5.1
2006-07	737	-1761	25	2.2	-5.3	0.1
2007-08	919	-2835	-400	2.5	-7.6	-1.1
2008-09	2255	-2748	-1171	5.3	-6.5	-2.8
2009-10	2264	-3989	-1851	4.7	-8.2	-3.8
2010-11	3767	-2367	-84	6.5	-4.1	-0.1
2011-12	2102	-3693	-1310	3.1	-5.4	-1.9
2012-13	1100	-4216	-1509	1.4	-5.5	-2
2013-14	70	-4554	-1553	0.1	-5.2	-1.8
2014-15	-390	-5609	-2076	-0.4	-6.4	-2.4
2015-16	-640	-8060	-4341	-0.7	-8.8	-4.7
2016-17	2166	-6176	-1609	1.7	-4.8	-1.3

Source: Finance Account, Govt. of J & K, relevant issues

revenue surplus during the period 2010-14 but the surplus declined sharply and reduced to Revenue deficit of 640 crore during 2015-16. The fiscal deficit increased from 3,694 crore in 2011-12 to 8,060 crore in 2015-16 and the primary deficit also increased from 1,311 crore to 4,341 crore during the same period. The year 2016-17 again saw an improvement in fiscal position of the government with 1.7 percent revenue surplus and reduced fiscal and promary deficit to 4.8 and 1.3 percent of GSDP.

How J & K's GFD/GSDP ratio compares with the major Special Category states is presented in **Table 3.2**. Table shows that J& K, for the period understudy, had the highest fiscal and primary deficit. Though J& K on an average experienced revenue surplus for the period, it is still below Tripura's performance. When compared with All India State average, J & K is below All India average for fiscal and primary deficit and a better performer in case of revenue deficit.

Perhaps a more important question is the manner in which borrowed funds to cover deficits are utilised. **Table 3.3** gives the purpose-wise use of borrowings to cover Gross Fiscal Deficit (GFD). The ratio of revenue deficit (RD) to GFD would indicate the quality of deficit in the State's finances. The ratio of RD to GFD indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of RD to GFD also indicates that the asset base of the State may be continuously shrinking and a part of borrowings (fiscal liabilities) does not having any asset backup. In J & K in most of the years RD to GFD exhibit negative numbers, which

Table 3.2: Major indicators of fiscal health in Special Category states - 2006-07 to 2016-17(per cent)

	RD/GSDP	FD/GSDP	PD/GSDP
Assam	1.0	-1.4	0.3
H.P.	-0.6	-4.0	-0.2
Tripura	6.4	-0.8	1.9
Uttarakhand	0.4	-2.9	-1.0
J& K	2.5	-6.5	-2.3
All States	0.0	-3.2	-0.9

Source: Finance Account, various states, relevant issues

Table 3.3: Decomposition of gross fiscal deficit (per cent)

	RD/GFD	Capital Out-lay/GFD	Net lend-ing/GFD
2005-06	-14.9	113.3	2
2006-07	-41.9	139.5	2.5
2007-08	-32.4	131.1	1.3
2008-09	-82.1	180.7	1.5
2009-10	-56.8	156.3	1.2
2010-11	-159.2	256.2	3
2011-12	-56.9	155.7	1.8
2012-13	-26.1	123.9	2.2
2013-14	-1.5	99	2.7
2014-15	7	91.5	1.5
2015-16	7.9	90.9	1.2
2016-17	-35.1	134.2	1.2

Source: Report of CAG on State finances, Govt. of J & K, relevant issues

shows that revenue surplus was used to finance other expenditures under fiscal deficit. Correspondingly, capital outlay has been equal to or more than 100 percent in 10 out of 12 years under study. This shows that borrowed funds are increasingly being utilised for investment purposes and this indeed is a positive trend. Net lending has been more or less constant for the same period.

Table 3.4 presents the composition of J & K's outstanding liabilities or debt or in other words financing patterns of fiscal deficit. The composition of outstanding liabilities shows that the share of market borrowings has been steadily increasing. Over the years, the share of Loans and Advances from the Centre has declined partly due to the debt relief and debt rescheduling granted by the Twelfth Finance Commissions. The Twelfth Finance Commission had decided that the loans from the Centre should gradually be

Table 3.4: Financing pattern of fiscal deficit (Rs. Crore)

	Market Borrowings	Loans from GoI	Small Savings, PF etc	Deposits and advances	Suspense and misc.	Remittances	Reserve Funds
2005-06	1428	-118	412	828	-58	101	52
2006-07	1264	-124	426	84	-53	205	152
2007-08	2198	-122	341	216	-204	112	130
2008-09	2372	-127	458	206	158	-381	11
2009-10	2113	805	693	1544	-162	-292	90
2010-11	2386	-1112	1203	58	168	-307	3
2011-12	2954	-129	2070	-27	186	-627	126
2012-13	2008	-64	1689	189	-31	-615	170
2013-14	1919	-64	1990	158	-48	1169	403
2014-15	1811	-100	2232	376	-237	2545	-677
2015-16	3926	-96	2886	112.39	-131	-208	214

Source: Report of CAG on State finances, Govt. of J & K, relevant issues

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

3.3 Debt Management

Table 3.5 presents the trends in outstanding liabilities to GSDP and revenue receipt ratio for the ten year period. It is a measure of the debt stress. It shows that debt stress for the state reduced as the ratio of liabilities to revenue receipt reduced from 150 to 129 in the 11th plan period. However, since 2012-13 the ratio has been climbing up in the 12th plan period hence adding to the debt stress of the State. The ratio of total outstanding liabilities to GSDP showed a decline from 55.5 percent in 2006-07 to 46.3 percent in 2013-14. 2014-15 saw a sudden jump but that was mostly due to decline in GSDP rather than a jump in outstanding liabilities. This blip reversed next year with a further decline to 45.5 percent.

Table 3.6 presents the debt/GSDP ratio of Special Category states. **Table 3.6** shows that compared to few other Special Category states, J& K's debt/GSDP ratio has been higher during the ten year period and the two Plan periods. However, it may be noted that during the 11th Plan period, there was a six percent point decrease in debt/GSDP

Table 3.5: Outstanding liabilities as a percentage of GSDP and Revenue Receipt

	Total outstanding liabilities (in Cr.)	Tot OL to RR	Tot OL to GSDP
2005-06	15880	153.9	53.1
2006-07	18430	162.4	55.5
2007-08	19670	150.1	53
2008-09	22100	154.5	52.2
2009-10	25080	142.6	51.8
2010-11	30120	135.5	51.9
2011-12	32150	129.7	47.2
2012-13	36700	140	47.7
2013-14	40520	149.4	46.3
2014-15	44820	154.9	51
2015-16	48220	134.8	45.5

Source: Finance accounts, Report of CAG on state finances, Govt. of J & K, relevant issues

ratio. The 12th plan period also saw a continuous decline in the ratio except for in 2014-15 when it increased to 51 percent from 46 percent last year, this as noted earlier may have been due to decline in GSDP. It should also be noted that J & K debt to GSDP ratio is almost double to that of all India state average. The Thirteenth Finance Commission of Government of India recommended that States should bring down their debt-GDP ratio to 25 per cent by 2014-15. The 14th finance commission recommended that as a percentage of GSDP, the debt of all States should decline to 21.6 percent in 2019-20. However, in state specific targets 14th Finance commission has recommended that J & K should bring its debt to GSDP ratio down to 44 percent by 2019-20. **Table 3.6** shows that debt to GSDP ratio of J & K is much higher than the recommendation of 13th and 14th Finance commission.

If we look at borrowings from agencies we find that apart from market borrowing the state seeks loan from LIC, SBI and other banks, NABARD, National co-operative Development corporation, RBI in the form of ways and means advances and through issues of special securities to national small savings fund. Table 4 of appendix show that J & K government has reduced its loan from LIC significantly, in the year 2016-17 the new loan taken from LIC was nil. Similarly, government has stopped taking loan loan from SBI and other banks like J & K Bank from the year 2011-12 and they have moved to WMA facilities provided by RBI o meet the financial requirements of the state. Loans from other banks were decided to be stopped due to their being expensive in nature. While the overdraft facility at J & K bank was charged at 16 percent to

Table 3.6: Outstanding liabilities as a percentage of GSDP for SC states

	J & K	Assam	H.P.	Tripura	Uttarakhand	All States
2005-06	53.1	31.9	68.5	54.5	40.8	31.3
2006-07	55.5	31	64.1	54.5	40.1	31.1
2007-08	53	30.1	59.9	42.4	36.2	28.9
2008-09	52.2	28.4	57.4	38.5	31.9	26.6
2009-10	51.8	28.1	52.8	34.7	30.7	26.1
2010-11	51.9	26.7	49.3	35.4	27.8	25.5
2011-12	47.2	23.5	46	34.1	25.4	23.5
2012-13	47.7	19.5	38.8	34.1	21.5	22.8
2013-14	46.3	18.9	35.5	35.4	20.4	22.2
2014-15	51	17.4	35.7	34.1	20.3	22
2015-16	45.5	18.1	36.8	34	21.1	21.7

Source: RBI study on state budget, relevant issues

the state the WMA facility at RBI was priced at much lower interest rate of 7 percent. Therefore, WMA facility since 2011-12 has become major mode of financing for the state followed by market loans. They together account for 90 percent of total internal debt of the state with WMA alone covers three quarters of the financing requirement.

Debt management implies State's sustainability to service the debt. Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability of the State. Sustainability is the capacity to endure the burden of the public debt without a financial breakdown. In the context of public debt, sustainability embodies concern about the ability of the government to service its debt. A government which does not generate enough current revenues for debt service must either default on its obligations or borrow more to service its past debt as well as to cover ongoing imbalances Usually, sustainability is measured in terms of debt-GSDP ratio. Generally, low debt-GSDP ratio is desirable as it indicates an economy that produces a large number of goods and services and probably profits that are high enough to pay back debts. However, there is no universally prudent target value of debt-GSDP ratio (Chelliah (2002)[1]; Buiter and Patel (1992)[2]).

Of all the constituents of outstanding liability of the Government, the interest payments need special focus when discussion is about sustainability, because the interest rates

[1]Chelliah, Raja J. (1996), Towards Sustainable growth: Essays in Fiscal and Financial Sector Reforms in India, Oxford University Press, New Delhi.

[2]Buiter, William H. and Urjit R.Patel (1992), Debt, Deficit and Inflation: An Application to the Public Finances in India Journal of Public Economics, Vol.47, pp.171-205.

Table 3.7: Percentage of Interest to Revenue Receipt

	Total Interest Payment	Revenue receipts	Percentage of Interest to Revenue Receipts
2005-06	1115	10315	10.8
2006-07	1787	11351	15.7
2007-08	2436	13107	18.3
2008-09	1578	14303	11.0
2009-10	2139	17588	12.2
2010-11	2283	22234	10.3
2011-12	2383	24783	9.62
2012-13	2707	26217	10.3
2013-14	3001	27128	11.1
2014-15	3533	28939	12.2
2015-16	3719	35781	10.4
2016-17	4601	41978	10.9

Source: Budget documents, Govt. of J & K, relevant issues

on market loans are not administered and may go up if in the market perception the Government debt is not sustainable. The 14th finance commission also recommended that the ratio of interest payments to total revenue Receipts should be less than 10 per cent for all the states. The key debt sustainability indicators in the context of market loans are shown in the next two tables **Table3.7, and Table 3.8**. **Table 3.7** shows that interest payments account for 12 percent or less of the revenue receipts post 2008-09 period. This ratio is very close to the recommendation of 14th Finance commission.

Another widely used indicator of debt sustainability of a country or state is Domar gap. It is the difference in the rate of growth of GSDP at current prices and the average rate of interest. Domar gap for the period 2008-09 to 2015-16 is presented in **Table 3.8**. Data shows that the gap was positive and was exhibiting a decreasing trend from 2008-09 to 2013-14 after which it became negative. This suggests that the capacity of the state to service debt has been decreasing and debt of the state has become unsustainable for the last two years. Therefore, there is an immediate need for the state to reduce its public debt. It may be noted that the observed negative Domar gap is partly due to the fall in growth rate of GSDP and partly due to the increase in average interest rate experienced by the state.

Table 3.8: Domar gap for J& K (per cent)

	Growth rate GSDP at current prices	Weighted average interest rate on market loan	Domar Gap
2008-09	14.1	3.54	10.6
2009-10	14.3	3.04	11.3
2010-11	14.8	2.34	12.5
2011-12	11.4	7.32	4.0
2012-13	11.8	8	3.8
2013-14	5.4	7.88	-2.5
2014-15	13.1	7.6	5.5
2015-16	8.7	7.17	1.6
2016-17	11.6	6.88	4.7

Source: Report of CAG on State finances, Govt. of J & K, relevant issues

3.4 Contingent Liabilities

One of the ways adopted by states to overcome the ceilings on fiscal deficits and revenue deficits set by the FRBM Act is by giving guarantees to the borrowings of public sector undertakings and other institutions instead of funding them directly through the budget. These contingent liabilities do not form part of debt but in the event of default of borrowing entities, state government will have to meet the debt service obligations. **Table 3.9** presents guarantees as a percentage of GSDP for the ten year period. Table shows that the ratio of guarantees outstanding to GSDP have been exhibiting a consistently falling trend.

The FRBM Act, 2006 also enjoins upon the State government to limit the amount of annual incremental risk weighted guarantees to 75 per cent of the total revenue receipts in the year preceding the current year or at 7.5 per cent of GSDP of the year preceding the current year, whichever is lower. The total outstanding guarantees as on March 31st 2017 aggregated to Rs. 2634 crore which was 7.3 per cent of the total Revenue Receipts of Rs. 35781 crore in 2015-16 and the 2.5 per cent of the GSDP of Rs. 106077 crore in 2015-16.

Pursuant to the recommendations of the Twelfth Finance Commission, the State Government created a Guarantee Redemption Fund (GRF) in 2006, for meeting its obligations arising out of guarantees issued on behalf of the State Government Departments/

Table 3.9: Outstanding guarantees of J& K (in Rs, crore)

	Outstanding guarantees (year-end)	Lag of GSDP	Amount outstanding as a percent to GSDP of the year preceding the current year
2006-07	2565	29920	8.6
2007-08	2807	33230	8.4
2008-09	2536	37099	6.8
2009-10	3037	42315	7.2
2010-11	2708	48385	5.6
2011-12	2098	58073	3.6
2012-13	611	68185	0.9
2013-14	2714	76916	3.5
2014-15	2860	87570	3.3
2015-16	2825	87921	3.2
2016-17	2634	106077	2.5

Source: Budget documents, Govt. of J & K, relevant issues

State Own Corporations and PSUs and Other Autonomous and Statutory Bodies. As per Twelfth Finance Commission recommendations the State has to charge a fee for guarantees and deposit the same in GRF to meet any eventuality on account of default. Though, the above GRF order mentions about collection of Guarantee commission/fee, the exact percentage of Guarantee commission/fee to be levied has not been specified/ prescribed in the order. The State Government had not assessed the risks of various guarantees nor did it fixed any target for Guarantee Commission/ Fee till the year 2015-16 nor was any receipt been received by the state till then. However, in 2016-17 the State Government prescribed two per cent as guarantee commission/fee for giving guarantee. An amount of Rs. 3.22 crore was received as Guarantee Fee/Commission during 2016-17.

3.5 FRBM Act and roadmap under various finance commission

Jammu and Kashmir Fiscal Responsibility and Budget Management (FRBM) Act was enacted on 14th August 2006 to be effective from 2006-07. The principal objective of the Act was reducing the fiscal deficit to three per cent of GSDP by 2009-10. Besides

Table 3.10: Targets for fiscal liabilities and fiscal deficit set by 13th & 14th Finance Commissions (as a percent of GSDP)

	FD - Target	FD - Govt. Acc.	Fisc Liabilities - Target	Fisc Liabilities - Govt. Acc.
13th Finance Commission target				
2011-12	4.7	5.9	55.1	54.97
2012-13	4.2	5.5	53.6	51.92
2013-14	3.6	5.2	51.6	51.2
2014-15	3.25	6.38	49.3	54.95
14th Finance Commission target				
2015-16	3.25	8.8	51.42	60.26
2016-17	3.25	4.8	49.25	

Source: Finance commission reports and Budget document

it cast several other fiscal transparency obligations on the State government for the period 2006-07 to 2009-10:

1. The revenue surplus was to be maintained and steps were to be initiated for progressive strengthening of the surplus

2. The pre-devolution non-plan revenue deficit was to be progressively reduced to at most 20 per cent of GSDP by 2009-10 and to maintain the level thereafter.

3. The fiscal deficit was to be progressively reduced to at most three per cent of GSDP by 2009-10 with minimum annual reduction by 0.5 per cent of GSDP beginning from 2006-07.

4. The outstanding total liabilities were to be progressively reduced to at most 55 per cent of GSDP by 2009-10

5. The annual incremental risk weighted guarantees in any financial year were to be limited to 75 per cent of the total revenue receipts in the previous financial year or to 7.5 per cent of GSDP of the previous financial year, whichever is lower.

The FRBM Act has been amended to reset/ relax the debt/deficit reduction targets as per various Finance Commission's accepted recommendations as detailed below:

1. Under 12th FC State government recommendations accepted by the Central government, J& K enacted the FRBM Act. The principal target for the State was to achieve fiscal deficit of three per cent of GSDP by 2009-10. The State could

not achieve the targets set by the 12th FC and could not avail the debt waiver and interest relief as recommended by the 12th FC.

2. In 2008, the FRBM Act was amended to provide for reducing pre-devolution non-plan revenue deficit, Fiscal Deficit and outstanding total liabilities to at most 20 per cent, three per cent and 55 per cent respectively by March 2009 instead of March 2010 as in the original Act.

3. An amendment to the Act on 20 April 2010 raised the target fiscal deficit for 2009-10 from three per cent of GSDP to four per cent of GSDP. Since the year 2009-10 was already over, the reset target was not implementable.

4. The Thirteenth Finance Commission (13th FC) noted that for special category States like J and K, the Revenue Deficit/ Surplus is not of much significance for purposes of fiscal adjustment as all have revenue surplus in government accounts due to grants-in-aid from the Union government being classified as non-tax revenue of the State. Under 13th FC recommendations, a customized fiscal reform path of achieving fiscal deficit and outstanding debt targets was incorporated by amending the State's FRBM Act. An amendment to the Act in April 2011, reset the annual Fiscal Deficit targets for the five years' period 2010-11 to 2014-15 to be 5.3 per cent, 4.7 per cent, 4.2 per cent, 3.6 per cent and 3.0 per cent of GSDP (See **Table 3.10**.

5. In August 2011, an amendment in the FRBM Act through an Ordinance reset the annual targets for outstanding debt as percentage of GSDP to 56.1 per cent, 55.1 per cent, 53.6 per cent, 51.6 per cent and 49.3 per cent during the five years period from 2010-11 to 2014-15, as recommended by the 13th Finance Commission.

6. The Fourteenth Finance Commissions (14th FC) recommended that the State Governments may amend their FRBM Acts to provide for the statutory flexible limits on fiscal deficit. Further, the Union and State Governments may also amend their respective FRBM Acts to provide a statutory ceiling on the sanction of new capital works to an appropriate multiple of the annual budget provision

3.5.1 Implementation of the FRBM Act and Rules

1. The State has continued to be revenue surplus upto 2013-14 but only due to high levels of grants from the Central government. However, the revenue surplus has

witnessed a sharp decline from 1,100 crore (2012-13) to 70 crore (2013-14) and could not maintained it during the year 2014-15 and 2015-16 resulting in revenue deficit of 390 and 640 crore, respectively. However, in 2016-17 state again bounced back with revenue surplus of 2166 crores.

2. The original target of reducing the fiscal deficit to three per cent of the GSDP by the end of 2009-10 was missed by a very wide margin as the actual fiscal deficit shot up to 8 per cent in that year. An amendment in the FRBM Act in April 2010 raising the 2009-10 target to four per cent was of no avail. The State had to cap the fiscal deficit at 4.7 per cent of GSDP in 2011-12 and 4.2 per cent of GSDP in 2012-13 and 3.6 per cent in 2013-14 but the fiscal deficit actually was 5.4, 5.5 and 5.2 per cent respectively. The year 2015-16 and 2016-17 ended with a fiscal deficit of 8.8 and 4.8 per cent of GSDP which continued to be significantly higher than the target of 3 per cent.

3. The FRBM Act defines 'total liabilities' to mean the 'liabilities under the Consolidated Fund of the State and the Public Account of the State and includes borrowings by the Public Sector Undertakings (PSUs) and the Special Purpose Vehicles (SPVs) and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of the budget.' It was this wider aggregate that was targeted to be capped to 55.1 per cent of GSDP. However, the State government continues to include only the financial liabilities of the government forming part of the government accounts. The liabilities of PSUs/ SPVs have been excluded. This compliance was made difficult by the fact that the accounts of several PSUs are heavily in arrears and therefore their liabilities could not be ascertained. The unfunded liabilities on account of pensions and other retirement benefits are also excluded, though these were also required to be included as per the FRBM Act. Thus, substantive provisions of the FRBM Act regarding computation of 'total liabilities' have not been complied so far.

4. The annual targets for Fiscal Deficit, Total Liabilities etc. were recommended by the 12th and 13th Finance Commissions on certain assumptions and forecast about GSDP. Even after the GSDP data was revised, these targets were not correspondingly revised. After these were revised with 2004-05 as the base year, the GSDP for 2007-08 shot up to Rs. 35,620 crore. Thus, the targets set with reference to GSDP series with 1999-2000 as base year with a new GSDP series giving significantly higher numbers should have been revised downwards. However, this was not done. Thus, the debt/ deficit reduction targets (as per cent of

GSDP) under the FRBM Act stand diluted due to increase in GSDP on change in methodology of its calculation, beyond the contemplation of the 13th Finance Commission

3.6 Conclusion

The dependence of the Government on high interest rate bearing market loans to fund its expenditures was on increasing trend instead of improving States own revenue resources to generate developmental funds. The Development Capital Expenditure registered a persistent decreasing trend from 2011-12 to 2014-15 and increased during 2015-16 indicating that the developmental works were getting inadequate resources upto 2014-15.

Chapter 4

Transfers to Local Bodies and Major Decentralisation Initiatives

Under Article 243W of the Constitution of India, the State Government may, by law, endow the municipalities with such powers and authority as may be necessary to enable them to function as institutions of Self Government and such law may contain provisions for devolution of powers and responsibilities upon municipalities. The 74th Amendment to the Constitution (1992) was enacted to decentralize powers and functions to the Urban Local Bodies (ULBs) and envisaged a three tier system (a) Nagar Panchayats (b) Municipal Councils and (c) Municipal Corporations. Under the said amendment, the 12th Schedule was incorporated in the Constitution whereby 18 functions were to be transferred to the ULBs.

Though the Government of J & K has not adopted the 74th Amendment as it is, it enacted the Jammu and Kashmir Municipal Corporation Act, 2000 and Jammu and Kashmir Municipal Act, 2000. The aforesaid two Acts created three tiers of ULBs viz; Municipal Corporations, Municipal Councils and Municipal Committees with powers, functions, resources and responsibilities for making them viable and vibrant local Self-Government institutions. The term of the elected representatives of the ULBs in the State expired in March 2010 and no fresh elections had been held as of December 2015. The J& K Municipal Act 2000, not only lays down the functions devolved to ULBs but also includes preparation of plans for economic development and social justice, performance of functions and implementation of schemes relating to urban and town planning, regulation of land use and construction of buildings, roads and bridges, solid waste management, providing other civic amenities etc. and imposition of certain taxes.

In order to empower the Panchayat Raj Institutions (PRIs), instruction to devolve to certain functions of 13 departments (Agriculture, Animal Husbandry, Consumer Affairs and Public Distribution, Education, fisheries, forest, health and family welfare, horticulture, industries and commerce, public health engineering, revenue, rural development and social welfare department) were issued by State government in September 2011.

Overview of Urban local bodies

As per the J& K Municipal Corporation Act, 2000 and J& K Municipal Act, 2000, Municipal Corporations are formed in a city with population of more than four lakh, Municipal Councils for medium town and Municipal Committee for small town. At present, there are 80 ULBs which include two Municipal Corporations (one each at Jammu and Srinagar), six Municipal Councils and 72 Municipal Committees. The overall administrative control of the ULBs vests with Secretary, Housing and Urban Development Department (HUDD) at Government level. The State Government, under the provisions of the J& K Municipal Corporation Act, 2000 and J& K Municipal Act, 2000, notified (April 2013) 18 mandatory functions and powers to ULBs which are similar to those included in the 12th Schedule of the Constitution of India. The finances of the ULBs comprise receipts from own sources, grants and assistance from the Government of India, State Government etc. The own revenue sources of ULBs include tax and non-tax revenue. The non-tax revenue comprises mainly rental income from municipal properties, fees and user charges. The position of receipt of funds by ULBs in the State during the period 2011-15 is given in **Table 4.1**.

As is evident from **Table 4.1**, the funds released under Non-Plan had increased by 78 per cent during the period 2011-15 from 289.28 crore in 2011-12 to 514.68 crore in 2014-15. The generation of own resources by the ULBs had also shown an increasing trend during the same period except for the year 2014-15 during which it declined by 17 per cent.

Overview of Rural local bodies

The J& K Panchayati Raj Act was enacted in 1989. It adopted a three tier Panchayati Raj System comprising of Halqa Panchayats- 4198, Block Development Councils- 320,

Table 4.1: Resources of ULBs in (Rs. Crore)

	Funds released to ULBs			Own Resources	Total
	Plan	Non-plan	Total		
2011-12	66.05	289.28	355.33	57.29	412.62
2012-13	60.85	306.45	367.3	64.84	432.14
2013-14	57.1	306.45	363.55	68.78	432.33
2014-15	60.15	514.68	574.83	56.75	631.58

Source: Annual Technical Inspection Report on Urban Local Bodies, relevant issues

and District Panchayats- 22

The first elections under the Act were held in 2001, although they could not be completed in all parts of the state due to the prevailing situation. The panchayat bodies could not, therefore, become functional in the State in the last two decades. The state of J & K has held elections to the Halqa Panchayats (HPs) (Halqa means the area comprising a village or such contiguous number of villages as may be determined by government from time to time, provided that the Halqa shall be determined in such a manner that the population of any Halqa does not exceed 3,000 in the hilly areas and 4,500 in the plain areas) after three decades in June, 2011. The response of the electorate to these elections was unprecedented. The percentage of votes exceeded 75 percent. Elections were held to 4128 Panchayats and the number of elected PRI's is 33847 which includes 29719 Panches and 4128 Sarpanches. In order to operationalize the Panchayats the first step was to determine the level and extent of devolution of functions, functionaries and funds to the Panchayats through the Activity Mapping exercise. Accordingly a committee was appointed under the chairmanship of Chief Secretary of J & K state to look into the various aspects of devolution of funds, functions and functionaries and detailed guidelines for the devolution of funds were framed. The role of the (HPs) as envisaged in the Panchayati Raj Act (1989) is as follows:

1. to prepare the plans for the development of the Halqa;
2. to undertake measures for the implementation of the developmental plans;
3. to specifically deal with the problems of soil conservation, water management, social forestry, rural industrialization, agriculture, sheep and animal husbandry, sanitation, health and other welfare programmes;
4. regulations of buildings, shops and entertainment houses and checking of offensive or dangerous trades;
5. construction and maintenance of slaughter houses, regulation of sale and preser-

vation of meat and processing of skins and hides;

6. regulation of sale and preservation of fish, vegetables and other perishable articles and food ;

7. regulation of fairs and festivals;

8. preparation and implementation of special developmental plans.

4.1 Financial Resources of the local bodies

For the rural local bodies, the main sources of revenue are tax and non-tax sources statutorily allocated to them, resource transfer from the State under the award of State Finance Commissions (SFCs), grants-in-aid from the GoI under the award of Central Finance Commissions and discretionary grant from GoI for implementation of various Centrally Sponsored Schemes relating to poverty alleviation programmes.

The taxation powers of each tier of PRIs have been laid down separately in the J & K Panchayat Act, 1989. Sections 15, of the said Act prescribe these taxation powers of HPs. Apart from the taxes on any trade, calling or profession within the jurisdiction of HP, pilgrim tax the other levies that the HPs are empowered to collect are toll fees, user charges, fines etc which can be clubbed under the category of non-tax revenue. However, the major non-tax revenue of the rural local bodies are haats, slaughter houses, levy on grazing lands and cattle ponds located within their respective jurisdiction which are leased out annually by inviting sealed tenders.

In case of ULBs too, the main sources of revenue are own revenue collected from tax and non-tax sources statutorily allocated to them, resource transfer from the State under the award of SFCs, grants-in-aid from GoI under the award of Central Finance Commission and grants from GoI for implementation of different Centrally Sponsored Schemes. The principal source of tax revenue of ULBs is the holding tax better known as house tax. Along with holding tax other levies like water tax, latrine tax, lighting tax and urban immovable property tax are also collected as a certain percentage of the annual value. The non-tax revenue of ULBs are derived mainly from trade license fees, market fees, fees on slow moving vehicles, sale of water, parking fees, fines and penalties and others.

4.2 Transfer of Resources to the Local Bodies: An analysis

Having discussed the status of local bodies in J & K and the importance of the transfer of resources to them along with the constitutional directives to that effect, we take a look at the pattern of transfers to the local bodies that have been taking place in J & K from 2006-07 to 2015-16. The assistance provided by way of Grants-in-Aid to Local and Autonomous Bodies and other institutions by various departments of the State government during the current year relative to the previous years is detailed in **Table 4.2**. The grants in aid are mainly utilized by the autonomous organizations for the payment of salary to their employees. The government has decided to pay the arrears of pay and pension revision following the extensions of the recommendations of the sixth pay commission to state government employees in five equal installments with part of the liability being carried forward beyond 2012-13. The level of financial assistance has been rising very sharply showing a trend growth rate of 41.4 per cent per annum since 2006-07. The level of financial assistance sharply decreased from 2,084.28 crore in 2012-13 to 1,522.68 crore in 2015-16. During 2015-16, 66.94 per cent of the total assistance was given to the Education & Sports and the Housing & Urban Development. The assistance categorised as Others comprised mainly the assistance to Ladakh Autonomous Hill Development Councils for Leh to the tune of 522.35 crore and Kargil. In addition, there are 4,128 numbers of Panchayati Raj Institutions (PRIs) in the State. An amount of 367.72 crore was released by the Government as financial assistance to these institutions during 2015-16.

Table 4.2: Financial assistance to Local Bodies/Autonomous Bodies (Rs. crore)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Education, Sports Art & Culture	88.01	116.45	113.93	521.66	171.84	213.46	209.81	538.22	303.68	506.89
Housing and Urban Development	135.49	146.05	170.82	217.01	253.98	289.28	303.11	192.45	447.55	512.5
Agriculture	72.9	60.72	80.6	138.63	203.47	151.61	216.42	13.8	158.93	186.79
General Administration	2.95	4.66	4.2	11.14	6.13	8.5	9.14	19.46	12.55	13.11
Industries	5.25	7.05	7.04	25.53	11.66	21.41	75.23	23.52	20.32	21.47
Tourism	5.06	5.24	15.06	71.17	150.4	5.52	1.76	8.86	20.5	33.23
Administration of Justice	1.63	2.26	3.3	3.32	3.67	4.48	4.8	0.05	4.77	6.01
Health and Family Welfare	0.44	0.64		0.47	0.36	0.34	0.23	14.06	134.82	51.81
Others	11.83	9.86	146.02	442.47	644.76	1100	1263.78	671.38	432.23	190.87
Total	323.56	352.93	540.97	1431.4	1446.27	1,795.16	2,084.28	1,481.38	1,535.35	1,522.68
Assistance as a percent of Revenue expenditure	3.12	2.96	4.57	9.34	7.83	7.91	8.3	5.47	5.23	4.18

Source: Annual Technical Inspection Report on Urban Local Bodies, relevant issues

Grants in aid provided by the state to individual autonomous bodies is presented in **Table 4.3**. In this context, it needs to be mentioned that the State Universities, being autonomous bodies are considered to be local bodies and hence the devolution of funds to the various local bodies also includes within it the funds given to the universities and other autonomous educational institutions.

Total assistance to the local bodies increased from Rs 482 crores in 2009-10 to Rs 1522.68 crores in 2015-16, registering a CAGR of 17.80 per cent. The rate of growth of total assistance has not been steady over the seven year period. A massive increase in the flow of resources to the tune of 56.6 per cent took place in 2014-15. Likewise, notable slow down happened in 2012-13 when total assistance just grew by 9 percent. Apart from this year, the annual rates of growth have been in two digits. The CAGR of 17.80 per cent of state's fund to the local bodies is higher than CAGR of 13.1 per cent of revenue expenditure of the government for the same period.

The trend of the transfer of resources from the state government can largely be explained by looking at the shares of the different components. The high growth of 2014-15 can almost be explained by increase in Others and Srinagar municipal corporation. Others comprise of Ladakh Autonomous Hill Development Councils for Leh and Kargil.

For an in-depth understanding of the flow of funds to the local bodies in J & K, we look at the share of the different local bodies in the total assistance received from the state. In 2015-16, the largest share of the funds (42 per cent) went to the others followed by universities and other educational institutions (29 per cent), local bodies (26 per cent) Sports and handicraft each have about 1 percent share in the total grants. The high weight on others speaks of unequal distribution of resources.

4.3 Finance Commission grants

The position of funds allocated and released by the GoI under the 13th Finance Commission for ULBs during the years 2010-11 to 2014-15 was as given in **Table 4.4**. 13th finance commission recommended basic and performance grants to both PRIs and ULBs. For accessing the General Basic Grant, the elected local bodies have to be in position and the utilization of funds has to be made as per the guidelines laid down by the 13th FC, including submission of utilization certificates from time to time. Against the sanctioned grant of 204.18 crore for the period 2010-15, (GBG: 133.50 crore

Table 4.3: Grant-In-Aid provided by the State to Autonomous Bodies/ Authorities (Rs. crore)

Body/Authority	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Srinagar Municipal Corporation	73.33	107.18	112.42	89.65	117.73	161.16	158.18
Jammu Municipal Corporation	76.93	74.6	69.98	127.95	74.3	108.64	98.54
Urban Local Bodies (Kashmir)	29.56	42.67	62.39	50.32	74.49	87.36	56.03
Urban Local Bodies (Jammu)	20.24	26.96	41.3	35.03	36.97	62.94	76.65
SKUAST* – Kashmir	55.58	75.73	90.63	99.43	80.92	100.54	132.18
SKUAST* – Jammu	25.37	28.29	30.59	45.55	70.15	59.48	54.61
Kashmir University	44.48	59.83	61.85	83.94	82.6	114.67	156.8
Jammu University	50.85	43.28	63.7	58.66	74.08	76.14	85.8
J& K Sports Council	7.23	8.3	10.26	13.55	21.76	16.93	19.52
J& K Academy of Art and Culture	9.93	11.68	19.93	17.32	14.31	17.16	15.18
Institute of Management & Public Administration (IMPA)	4.97	5.89	10.51	8.7	9.63	10.47	10.13
Khadi and Village Industries Board	8.6	10.6	12.01	14.72	19.46	7.48	17.47
Others	75.4	47.18	44.96	48.27	134.37	446.28	641.59
Total	482.47	542.19	630.53	693.09	810.77	1269.25	1522.68

*Sher-e-Kashmir University of Agriculture Sciences & Technology Jammu/Kashmir Source: Annual Technical Inspection Report on Urban Local Bodies, relevant issues

Table 4.4: Status of grants-in-aid released under the award of the 13th Finance Commission (Rs.crore)

	Recommendation of 13th FC	Actual release (amount received and authorized to implementing departments)					Grants received (cumulative)	U.C's Pending	Grants Pending released
		2010-11	2011-12	2012-13	2013-14	2014-15			
Urban Local Bodies (Housing Department)									
Gen. Basis Grant	133.5	18.8	11.9	0.0	0.0	0.0	30.7	0.0	102.8
Gen. Perf. Grant	70.7	0.0	1.5	2.8	0.0	0.0	4.2	0.0	66.5
Rural Local Bodies (RDD)									
Gen. Basis Grant	600.5	0.0	108.2	121.8	140.5	153.5	524.0	63.8	76.5
Gen. Perf. Grant	317.9	0.0	5.3	0.0	17.3	45.6	68.2	45.6	249.7

Source: Annual Technical Inspection Report on Urban Local Bodies, relevant issues and economic survey 2017, Govt. of J & K

and GPG: 70.68 crore) under 13th Finance Commission for ULBs, funds amounting to 34.90 crore (GBG: 30.69 crore and GPG: 4.21 crore) were released by GoI during the period 2010-13. No funds were released during 2013-14 and 2014-15 due to not conducting elections to the ULBs after 2010. As a result State Government lost the financial assistance of 169.28 crore which resulted in not taking up of developmental activities envisaged under the schemes.

In the 13th Finance Commission Award, an amount of 918 crore were sanctioned for rural local bodies of the State. Out of this, 600 crores falls under General Basic Grant and Rs 318 crore falls under General Performance Grant. Out of the sanctioned funds government released 592 crores (GBG: 524 crore and GPG: 68 crore) during the period 2011-15. No grants were released for the first year as the election for PRIs were on and in that year elected local bodies were not in place.

The Finance Commission Grants has been an important source of untied funding especially for HPs in J & K. The 14th FC (2015-16 to 2019-20) took up a very significant decision to focus on funding only HPs in the whole PRI structure during the duration of FFC. This funding is divided into Basic Grants which come up to 90 percent and Performance Grants that are 10 percent of the total grants. The state shall distribute the funds in the ratio of 90:10 on the basis of area and population till the state finance

Table 4.5: Status of grants-in-aid released under the award of the 14th Finance Commission (Rs. Crore)

	Recommendation of 14th FC	2015-16 (projection)	Grants received (cumulative)	U.C's Pending	Grants pending released
Urban Local Bodies (Housing Department)					
Gen. Basis Grant	1,044.51	125.3	Nil	Nil	Nil
Gen. Perf. Grant	261.13	-	Nil	Nil	Nil
Rural Local Bodies (RDD)					
Gen. Basis Grant	3,117.36	373.96	367.72	180.74	6.24
Gen. Perf. Grant	346.37	-	Nil	Nil	Nil

Source: Annual Technical Inspection Report on Urban Local Bodies, relevant issues. Economic Survey, 2017 Govt. of J & K

commission is constituted. The funds shall be credited directly in to the account of HPs without any pre-conditions. The 14th Finance Commission has given leverage to the HPs for meeting the costs of technical and administrative support towards O& M and capital expenditure and should not exceed 10 percent of the allocation to a HPs.

Under the 14th finance commission recommendation J& K is expected to receive Rs. 1305.64 Cr (GBG: 1044 cr, GPG: 261 crore) for urban local bodies and Rs. 3463.73 crore (GBG: 3117 crore and GPG: 346 crore) for rural local bodies. While ULBs haven't received any grants for 2015-16, RLBs have received 367 crores, though utilization certificate for 180 crores is still pending **(Table 4.5)**.

4.4 Devolutions from the State Finance Commission

To make the PRIs fully empowered, it is necessary that they have a sustained source of untied funds. While the J & K Panchayati Raj Act, 1989 does not have any provision for SFC, the State Government has enacted, consistent with the recommendations of the 13th Finance Commission, the J& K State Finance Commission for Panchayats and Municipalities Act, 2011. The mandate of the Commission for recommending devolution of funds to PRIs includes among other things:

1. The distribution between the State and the Panchayats of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them and the allocation between the Panchayats at all levels of their respective

shares of such proceeds;

2. The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats;
3. The grants-in-aid to the Panchayats from the Consolidated Fund of the State;
4. The measures needed to improve the financial position of the Panchayats;
5. The distribution between the State and the Municipalities of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them and the allocation between the Municipalities at all levels of their respective shares of such proceeds;
6. The determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Municipalities;
7. The grants-in-aid to the Municipalities from the Consolidated Fund of the State;
8. The measures needed to improve the financial position of the Municipalities;

However, till now no such commission on the basis of new act was formed to recommend any devolution to municipalities and and PRIs.

The latest SFC report which was in 2010 arrived at the following recommendation for devolution and transfer of resources criteria to be pursued in future by the State:

1. Entitlement of urban local bodies shall comprise their share in divisible pool of:
   (a) Specified and identified states taxes (state excise, sales tax/VAT, Tax on goods and passengers and Motor vehicle tax)
   (b) Proceeds on the assigned taxes of local bodies, both levied and collected by the state
2. Second part of devolution or transfer of resources shall comprise grant-in-aid, both plan and non-plan to meet revenue expenditure in particular and expenditure on development works.

After considering the proportion of revenue expenditure both of ULB and PRIs the commission recommends 12.5 percent of divisible pool net of the cost of collection of 10 percent for ULB and 7 percent for PRIs Devolution criteria gave 50 percent weight to the population, 30 percent to Area and 20 percent to fiscal efficiency.

Table 4.6: State finance commission devolution for ULBs (Rs. crore) – Actual transfers

	Municipal Corporation	Municipalities
2010-11	160.31	93.67
2011-12	182.59	106.69
2012-13	193.43	113.02
2013-14	193.43	113.02
2014-15	324.87	189.8
2015-16	327.09	191.1
2016-17	376.12	219.74

Source: Annual Technical Inspection Report on Urban Local Bodies, relevant issues. Economic Survey 2017, Govt of J & K

Table 4.7: Expenditure out of resources for ULBs (Rs. crore)

Year	Opening balance	Own resource	Grant-in-aid and others	Total	Expenditure	Closing balance
2012-13	152.4	53.8	285.6	491.8	374.4	117.4
2013-14	152.2*	63.7	334.6	550.4	413.9	136.6
2014-15	137.5*	103.5	421.7	662.7	441.4	221.3

Source: Annual Technical Inspection Report on Urban Local Bodies, relevant issues.

Urban local bodies in the state have a multifarious role to play and therefore require a sizeable amount of funds. The State Finance Commission Report (2011), points out that a sizeable amount of the funds allotted to the local bodies goes to meet the salary/remunerations need of the members of the Local Bodies, which means almost nothing is left to meet the developmental needs of the areas. This goes very much against the spirit of decentralization as mandated by the Indian Constitution. With less than 2 per cent of the revenue expenditure in going towards urban local bodies, it is obvious that such bodies have lost their liberty in functioning and have merely become agencies involved in implementing certain central government flagship programmes like Indira Awas Yojana, JNNURM, Sarva Siksha Abhiyan, etc.

Expenditure of local bodies

We could not find any data of expenditure incurred by the ULBs. However, the CAG report on Annual Technical Inspection Report on Urban Local Bodies for the year ending March, 2015 gives out the position of receipt and expenditure for 2012-15

The **Table 4.7** gives out expenditure figures for ULBs, as we can see the opening balance in 2013-14 and 2014-15 have different opening balance than the closing balance a year prior. Therefore, the Audit notes that the correct financial position of ULBs is difficult to ascertain given the absence of complete information. However, the data shows that expenditure of ULBs is increasing at 8 percent on an average, but the ULBs had not been able to utilise funds fully during 2012-15 which resulted in piling up of unspent balance which accumulated from Rs. 117.44 crore ending March 2013 to Rs. 221.32 crore ending March 2015 which constituted an increase of 88 per cent.

Issues and possible solutions for local bodies finances

While the Constitution of India specified the taxes to be divided between the Centre and State Governments, it does not specify the revenue base for urban local bodies. Even the 74th Amendment Act does not make specific recommendations about the type of taxes that urban local bodies should have. It simply states that the Legislature of a State may, by law, i) authorize a municipality to levy, collect and appropriate such taxes, duties, tolls and fees, ii) assign to a municipality such taxes, duties, tolls and fees levied and collected by the State Government, iii) provide for making such grants-in-aid to the municipality from the consolidated fund of the state and iv) provide for the constitution of such funds for crediting all cash received. Hence, the power for determining the revenue base of Urban Local Bodies rests with the State Governments.

A look at the urban local finances in India indicates that most of the ULBs are lacking in mobilization of resources and financial autonomy. The above table also shows that overall own revenues of the ULBs are very low. The total own revenues of all ULBs was just at 15 percent of total resources in the year 2014-15. The resource base of ULBs typically consists of their own sources, state revenue, government grant, loans from state governments, and market borrowings. The urban local bodies are sometimes not even aware of the opportunities and avenues of generating revenues through taxes and non-tax charges. Even if they are aware, they do not have the skill to optimize tax collection. ULBs in India, therefore, have a minimal revenue base and largely dependent on Central and State grants, which constrained the ability of ULBs to invest adequately in capital expenditure like creating infrastructure.

Central Finance Commissions have recommended for financial strengthening of ULBs from time to time. The Tenth Finance Commission was the first to recommend grants for rural and urban local bodies. The Thirteenth Finance Commission recommended allocation of Rs. 23,111 crore to ULBs with the aim of strengthening municipal finances and urban governance in India. Besides, the above, TFC has also suggested the following to broad base municipal resource base i) All local bodies should be fully enabled to levy property tax (including tax for all types of residential and commercial properties) and any hindrances in this regard must be removed. ii) The Government of India and the State Governments should issue executive instructions that all their respective departments pay appropriate service charges to local bodies (Para 10.178). iii) Given the increasing income of State Governments from royalties, they should share a portion of this income with those local bodies in whose jurisdiction such income arises (Para 10.179).

Taking this forward, the 14th Finance Commission awarded total grants of Rs.87,144 crores to Urban Local Bodies in all States/UTs as Basic Grant (80%) and Performance Grant (20%) which linked to ULBs increase in revenues, ensuring audit of accounts and notification of Service Level Improvement Plans in respect of basic services. AMRUT (Atal Mission for Rejuvenation and Urban Transformation) reforms are some of the steps taken by Government towards financial strengthening of these ULBs. The recent updates shows 5 cities in J&K receive credit ratings from rating agencies such as CRISIL; as part of the cities preparations for issuing municipal bonds. For instance, Pune Municipal Corporation raised Rs. 200 crore by issuing 10-year municipal bonds in 2018-19 are welcoming steps towards the financial empowerment of ULBs.

Apart from this, they should also explore innovative financing mechanisms like Public private partnership, venture capital financing, crowd source financing, review of property tax system to improve efficiency and transparency in collection and mobilization of resources etc. All of the above however depend on robust financial management systems and processes and high quality talent. Further, it is also important to set up States Finance Commission once in five years to decide the distribution of taxes between State and local bodies. In this context TFC has made the following recommendations: State Governments should ensure that the recommendations of SFCs are implemented without delay and that the Action Taken Report is promptly placed before the legislature (Para 10.129).

4.5 Decentralization initiatives undertaken in the state

The 73rd and 74th Constitutional amendment gave the constitutional status to PRIs and ULBs and established a system of uniform structure, holding of regular elections, regular flow of funds through Finance Commissions, etc. As a follow up, the States are required to entrust these bodies with such powers, functions and responsibilities so as to enable them to function as institutions of self-governance. In particular, the PRIs and ULBs are required to prepare plans and implement schemes for economic development and social justice including those enumerated in the Schedule XI and XII of the Constitution. A comparison between the J & K Panchayati Raj Act, 1989 and the 73rd Constitutional amendment (together with 11th Schedule of the Constitution of India) is often made in the context of the non-applicability of the latter to the State of J & K. The state government has taken several salient steps to minimise this gap.

Given below are a few decentralisation initiatives taken in J & K with the aim of increasing the involvement of local bodies in the development process of the state and also in improving their financial reporting processes.

1. After passing of Jammu & Kashmir Panchayati Raj Act 1989, the state of J & K has held elections to the Halqa Panchayats after three decades in June, 2011. The response of the electorate to these elections was unprecedented. The percentage of votes exceeded 75 percent. Elections were held to 4128 Panchayats and the number of elected PRI's is 33847 which includes 29719 Panches and 4128 Sarpanches.

2. In order to operationalize the Panchayats there was a felt need to determine the level and extent of devolution of functions, functionaries and funds to the Panchayats. Accordingly a committee was appointed under the chairmanship of Chief Secretary of J & K state to chalk out road map for the empowerment of the PRIs in the State; to look into the various aspects of devolution of funds. Functions and functionaries and detailed guidelines for the devolution of funds were framed by this committee.

3. **Setting up of J & K State Finance Commission for Panchayats and Municipalities:** While the J & K Panchayati Raj Act, 1989 does not have any provision for State Finance Commission, the State Government has enacted, consistent with the recommendations of the 13th Central Finance Commission, the J & K State Finance Commission for Panchayats and Municipalities Act, 2011. The mandate of the Commission for recommending devolution of funds to PRIs.

4. **Setting up of District Planning and Development Board:** The existing guidelines of the District Development Board do not provide for any transfer of funds or responsibility to the Block Development Councils or to the Halqa

Panchayats, as these tiers of Local Government had not been in existence in the State earlier. With the elected membership of the Block Development Council and Panchayat Halqa, the District Planning and Development Board will be mandated to transfer funds for the performance of various functions to the lowest two tiers of the PRIs.

5. The PRIs at the district, block and village level have now become the principal authorities for planning and implementation of a number of central schemes such as Mahatma Gandhi National Rural Employment (MNREGA), Backward Regions Grant Fund (BRGF) and Border Area Development Programme (BADP). In addition, several other schemes of the central government envisage a vibrant role for the elected representatives of the Panchayati Raj Instituions, eg. Sarva Shiksha Abhiyan, Rashtriya Madhyamik Shiksha Abhiyan, National Rural Health Mission, Integrated Child Development Scheme, Indira Awas Yajana etc. The quality of interventions under these schemes is expected to improve considerably with the oversight responsibilities of the PRIs.

6. The Government has also amended the Jammu and Kashmir Panchayati Raj Act, 1989 to constitute State Election Commission.

7. It is proposed that a Working Group should be constituted be set up at the Cluster Gram Panchayat Level(3-4 HPs) and headed by the Charge Officer and shall consist of officials and outside professionals/experts to draw up the draft Village Development Plan on the basis of the needs prioritized by the people. The charge officer to be nominated can be Panchayat Inspector/ Junior Engineer/ Statistical Officer (Planning). The schemes that can be converged with 14th FC Grants can be IAY, SBM, MGNREGA, etc. For example, Halqa Panchayat can plan for the funds available under MGNREGA. Under SBM Funds shall not be made directly available to panchayats, but can be used for convergence purpose if and when needed.

4.6 A note on Auditing mechanism of PRIs and ULBs

Eleventh Finance Commission, as part of its terms of reference, was required to suggest measures to augment the Consolidated Fund of the States to enable them to supplement the resources of the local bodies. In their Report dealing with accounts and audit the Finance Commission, among other things, recommended that (a) the C&AG should be entrusted with the responsibility of exercising control and supervision over proper maintenance of accounts and their audit for all the three tiers/ levels of Panchayats and Urban Local Bodies, (b) the Director, Local Fund Audit or any other agency made responsible for the audit of the accounts of local bodies, should work under the technical guidance and supervision (TGS) of the C&AG, (c) the C&AG should prescribe the format for the preparation of budget and for keeping of accounts for the local bodies.(d) audit of accounts of the local bodies be entrusted to the C&AG who may get it done through his own staff or by engaging outside agencies; (e) the report of the C&AG relating to audit of accounts of Panchayats and Municipalities should be placed before a Committee of State Legislature.

Consequent upon entrustment (October 2012) of audit of accounts of PRIs and ULBs to the CAG of India and providing suitable Technical Guidance and Supervision (TGS) to the primary external auditors of PRIs and ULBs, viz Director, Local Fund, Audit and pension several steps have been taken by the AG (Audit) as envisaged under Sections 152 to 154 of Regulations on Audit and Accounts, 2007 issued by the CAG under Section 23 of the CAG's (DPC) Act, 1971. C&AG's mandate for audit of Local Bodies flows from the CAG's Duties Powers and Conditions of Service (DPC) Act 1971 and C&AG has been conducting the audit of receipts and expenditure of those local bodies both rural and urban, which are substantially financed from Union or State revenues under Section 14 of this Act.

In case of J&K, Section 161 of J&K Municipal Corporation Act, 2000 and Section 256 of J&K Municipal Act, 2000 provides for audit of ULBs by a separate and independent audit agency under the control of a Director. The Director, Local Fund, Audit and pension (LFA&P) was authorised (October 2012) by the State Government to conduct audit of the ULBs and PRIs. The State Government also entrusted (October 2012) the audit to the CAG of India under Section 20(1) of CAG's Duties Powers and Conditions of Service(DPC) Act, 1971 in respect of accounts of all the three tiers of PRIs and all categories of ULBs together with providing suitable Technical Guidance and Supervision (TGS) to the Director LFA&P or any other such designated statutory agency for the purpose of strengthening public financial management and accountability in PRIs/ ULBs. TGS includes assistance in auditing standards, audit planning, improved audit methodology and professional training to the auditors of the DLFA&P by the CAG's institution. In accordance with the provisions contained under Section 152 (1) of the

Regulations on Audit and Accounts, 2007, the Director, LFA&P is required to prepare by the end of March every year, an annual Audit Plan for the ensuing financial year and submit the same to AG (Audit).

The entrustment of audit inter alia authorizes CAG to conduct test-check of the accounts, comment thereon, supplement the report of the statutory auditor and communicate results thereof to the ULB/ PRI concerned and the State Government. The entrustment of audit also authorises the CAG to report results of audit to the State Legislature at his discretion.

As per the accepted recommendations (July 2006) of the sixth report of the Second Administrative Reforms Commission of the GoI on Local Bodies, the arrangement between the CAG and the State Governments with regard to providing TGS over maintenance of accounts and audit of ULBs and PRIs was to be institutionalized by making provisions in the State Laws governing local bodies. Although the State Government entrusted audit of PRIs and ULBs to the CAG, yet the amendments to J&K Municipal Corporation Act, 2000 and Jammu and Kashmir Municipal Act, 2000 had not been made by the State Government (December 2015).

Chapter 5

Impact of State Public Sector Enterprises finances on the State's financial health

In J & K, Public Sector Undertakings (PSUs) were set up as an integral part of developmental strategy, adopted at the national level and in sectors where private investment was not forthcoming. State Public Sector Undertakings (SPSUs) consist of State Government Companies and Statutory Corporations. The State Government exercises control over the affairs of these SPSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the Government. The idea was that these SPSUs would generate further surpluses and yield some minimum rate of return on the investment made in them. However, over the years in majority of the cases, they have been found to be earning low or even going on losses.

As on 31 March 2016, there were 33 SPSUs. Of these, one SPSU i.e. Jammu and Kashmir Bank Limited, is listed (July 1998) on the stock exchange. Of the total paid up equity of the Bank, 53.17 per cent is held by the State Government and remaining 46.83 per cent is held by the foreign institutional investors, resident individuals and others. During the year 2015-16, no PSU was either incorporated or closed down. The details of the State PSUs as on 31 March 2016 are given in **Table 5.1**. Out of 33 there are 30 working and 3 non-working PSUs which all are Government companies. The three statutory corporations are State forest, State financial and State Road Transport Corporations.

Table 5.1: Total number of PSUs as on 31 March 2016

Type of PSUs	Working PSUs	Non-working PSUs	Total
Government Companies	27	3	30
Statutory Corporations	3	Nil	3
Total	30	3	33

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

The working PSUs registered a turnover of 8,416.54 crore as per their latest finalised accounts as of 30 September 2016. This turnover was equal to 9.16 per cent of the State Gross Domestic Product (GDP) of 91,850 crore for 2015-16. The working PSUs earned an aggregate profit of 678.28 crore as per their latest finalised accounts as of 30 September 2016. They had employed 23,876 employees as at the end of March 2016. As on 31 March 2016, the three non-working PSUs had an investment of 3.40 crore (Source: Report of CAG on Revenue Sector and PSU, 31st March 2016).

5.1 Investment in SPSUs

As on 31 March 2016, the investment (capital and long-term loans) in 33 PSUs was 7699.94 crore as given in **Table 5.2**. As on 31 March 2016, 99.96 per cent of the total investment in State PSUs was in working PSUs and the remaining 0.04 per cent in non-working PSUs. This total investment consisted of 11.39 per cent towards capital and 88.61 per cent in long-term loans. The investment has grown by 56.90 per cent from 4907.42 crore in 2011-12 to 7699.94 crore in 2015-16 as shown in the **Figure 5.1**.

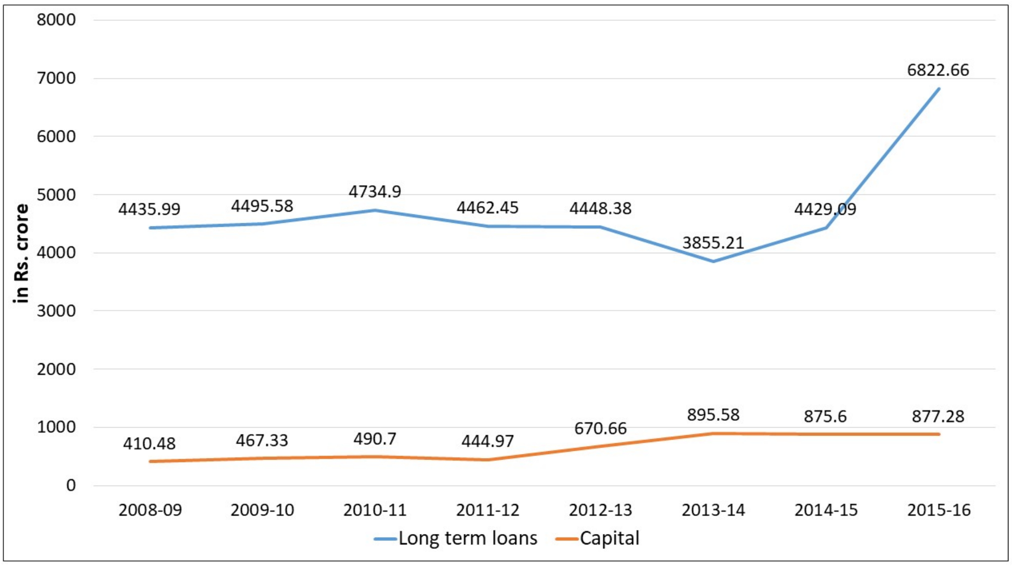
Table 5.2: Total investment in PSUs (Rs. crores)

Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	Grand Total
Working PSUs	559.39	6173.43	6732.82	315.32	648.4	963.72	7696.54
Non-working PSUs	2.57	0.83	3.4	Nil	Nil	Nil	3.4
Total	561.96	6174.26	6736.22	315.32	648.4	963.72	7699.94

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

The sector-wise summary of investments in the PSUs as on 31 March 2016 is presented in **Table 5.4**. As of March 2016, the biggest investment in PSUs was in power sector,

Figure 5.1: Total investment in PSUs



Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

closely followed by finance. They together comprise 70 percent of total investement in PSUs. The third largest investment is in manufacturing sector (15 percent). Residual 15 percent goes to others sector, which includes Services, Infrastructure, Agriculture and Allied.

The trend over time, as shown by **Table 5.3** shows that though the highest investment during 2015-16 was in the power sector (35.14 per cent), the share of power sector has remained stagnant in total investment when compared to 2011-12. The thrust of PSU investment was in finance sector which experienced the percentage share rising from 29.60 per cent in 2011-12 to 32.87 per cent in 2015-16. Manufacturing sector experienced increase in investment in absolute numbers. However, the share of manufacturing in total investment declined from 19.9 percent in 2011-12 to 17.7 percent in 2015-16.

Table 5.3: Sector-wise investment in PSUs (Rs. Crore)

Sector	2008-09	2011-12	2012-13	2015-16
Power	2061.54	1743.06	1847.82	2705.44
Finance	1288.15	1452.55	1346.61	2531.13
Manufacturing	761.74	980.37	1023.89	1366.9
Others	745.04	731.44	901.04	1096.47

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

Table 5.4: Sector-wise investment in PSUs for the year 2015-16 (Rs. Crore)

Sector	Government companies		Statutory corporations	Total Investment
	Working	Not working	Working	
Power	2705.44	Nil	Nil	2705.44
Finance	2432.13	Nil	99	2531.13
Manufacturing	1363.9	3	Nil	1366.9
Service	51.33	Nil	793.55	844.88
Agriculture & Allied	80.79	Nil	71.17	151.96
Infrastructure	95.12	Nil	Nil	95.12
Miscellaneous	4.11	0.4	Nil	4.51
Total	6732.82	3.4	963.72	7699.94

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

The State Government has substantial financial stake in these PSUs which is mainly of three types:

- **Share Capital and Loans**- In addition to Share Capital Contribution, State Government also provides financial assistance by way of loans to the PSUs from time to time.
- **Special Financial Support**- State Government provides budgetary support by way of grants and subsidies to the PSUs as and when required.
- **Guarantees**- State Government guarantees the repayment of loans with interest availed by the PSUs from financial institutions.

The summarized details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived in respect of PSUs are given in **Table 5.5** for six years ending 31 March 2016. Excluding 2010-11 when budgetary outgo was very high at 813 crores and just looking at the period 2011-12 to 2015-16, the budgetary outgo of the State Government towards equity contribution, loan, grant and subsidy was an all-time high in 2013-14 at 251.57 crore. The budgetary outgo was 84.67 crore in 2014-15 which increased to 142.48 crore during 2015-16.

In order to enable PSUs to obtain financial assistance from banks and financial institutions, State Government provides guarantees and charges guarantee fee/ commission at percentage of two per cent. The guarantee commitment against amount guaranteed by the State Government in favour of PSUs had increased from 1805.66 crore in 2011-12 to 2546.97 crore in 2015-16.

Table 5.5: Details regarding budgetary support to PSUs (in Rs. Cr)

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16	
	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
Equity Capital outgo from budget	3	7	3	6.09	3	7	5	25.03	2	1.21	2	6.85
Loans given from budget	10	488.54	10	70.26	10	76.08	7	69.84	8	54.76	10	69.19
Grants/Subsidy from budget	6	317.49	8	96.95	7	30.23	8	156.7	7	28.7	8	66.44
Total Outgo (1+2+3)	14	813.03	15	173.3	13	113.31	13	251.57	15	84.67	13	142.48
Waiver of loans and interest	1	27.78	1	50.66	1	11.42	Nil	Nil	Nil	Nil	Nil	Nil
Guarantees issued	2	2.7	2	10.09	3	2193.97	3	36.37	0		1	2
Guarantee Commitment	9	2411.39	9	1805.66	9	1789.8	4	2164.64	5	2574.78	4	2546.97
Guarantee Fee		Nil		Nil	1	43.58	1	43.58	Nil	Nil	1	0.04

Source: Report of the CAG on Public Sector Undertakings 2015 and relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

5.2 Performance of PSUs as per their latest finalized accounts

The ratio of PSUs turnover to State GDP shows the extent of PSUs activities in the State economy. **Table 5.6** below provides the details of working PSUs turnover and State GDP for a period of five years ending 2015-16. During the last five years, the turnover of working PSUs increased from 5552.37 crore to 8416.54 crore ending 2015-16 and its percentage to the GDP of the State increased from 8.14 per cent in the year 2011-12 to 9.16 per cent at the end of the year 2015-16.

Table 5.6: Details of working PSUs turnover vis-a vis State GDP (Rs. crore)

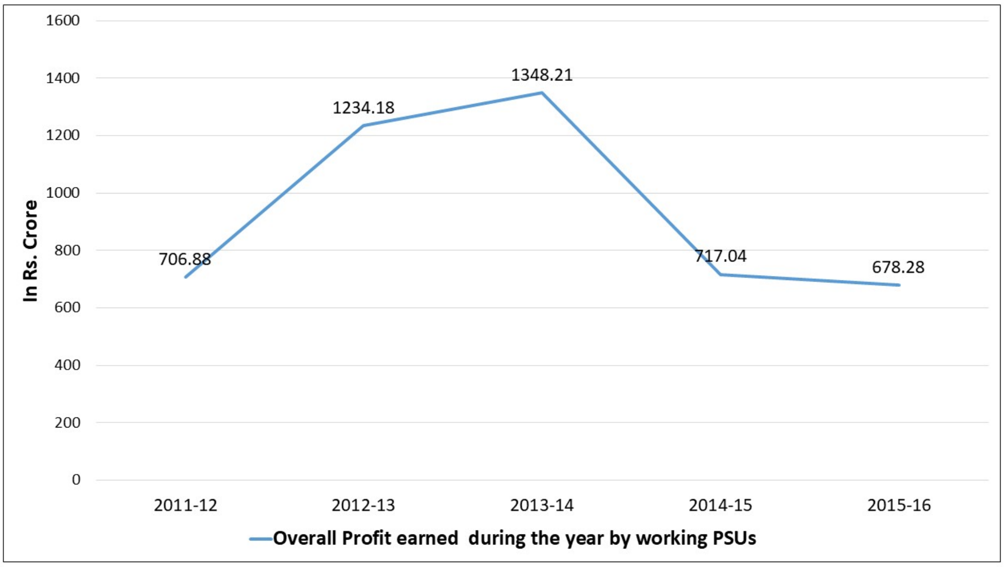
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover	5552.37	8071.43	8272.38	8652.4	8416.54
GSDP	68185	76916	87570	87921	91850
Turnover to GSDP (per-cent)	8.14	10.49	9.45	9.84	9.16

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

Overall profit (losses) earned (incurred) by State working PSUs during 2011-12 to 2015-16 are given in **Graph 5.2**. During the year 2015-16 overall profit earned was 678.28 crores which shows a declining trend from 1348 crores earned in 2013-14 to 717 crores in 2014-15.

Some other key parameters of PSUs are given in **Table 5.7**. The debts of PSUs increased from 4,462.45 crore in 2011-12 to 5,328.65 crore in 2015-16 which impacted its profits. The debt-turnover ratio showed a continuous decline from 2011 to 2014 and them it start rising again, it was at 0.63 in 2015-16. Interest payments and accumulated losses have remained high from 2011 to 2016.

Figure 5.2: Profit/Loss of working PSUs



Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

Table 5.7: Key Parameters of State PSUs (in Rs. Crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital Employed (Per cent)	11.99	13.94	15.35	14.79	6.9
Debt	4462.45	4448.38	3855.21	4429.09	5328.65
Turnover	5552.37	8071.43	8272.38	8652.4	8416.54
Debt/Turnover Ratio	0.80	0.55	0.46	0.51	0.63
Interest Payments	3081.46	4202.74	4431.88	4762.65	4462.23
Accumulated Profits (losses)	(-)1651.07	(-)2909.13	(-)2697.69	(-)2907.29	(-)2433.70

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

Winding up of non-working SPSUs

There were three non-working SPSUs as on 31 March 2016. The numbers of non-working companies during past five years have remained at three. The non-working PSUs are not contributing to the State economy and not meeting the intended objectives. The stages of closure in respect of non-working PSUs are given in **Table 5.8**. Of the three non- working SPSUs, the two SPSUs are being liquidated on the order and under the supervision of the court and for one closing orders/instructions have been issued but liquidation process have not yet started. During the year 2015-16 no company/corporation was finally wound up. Two companies which have taken the route of winding up by Court order are under liquidation for more than ten years. The Gov-

Table 5.8: Closure of Non-working PSUs

	Companies	Statutory Corporations	Total
1. Total No. of non-working PSUs Of (1) above, the No. under	3	Nil	3
Liquidation by Court	2	Nil	2
Voluntary winding up	0	Nil	0
Closure, i.e. closing orders/instructions issued but liquidation process not yet started	1	Nil	1

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

ernment is expected to take a decision regarding commencement of liquidation process in respect of the remaining company where closing instructions have been issued.

During the year 2015-16, 10 out of the 30 working PSUs earned profit of 834.97 crore and 11 PSUs incurred a loss of 156.69 crore (**Table 5.9**). One working PSU did not prepare its profit and loss account while seven newly formed PSUs had not submitted their Accounts since incorporation. Further, one PSU viz. the J & K State Forest Corporation had not submitted its accounts since 1996-97 after its audit was entrusted to C & AG. The major contributors to profit in 2015-16 were J& K Bank Ltd. (416.03 crore); J & K Power Development Corporation (403.29 crore) and J & K Cable Car Corporation (6.23 crore). The heavy losses were incurred by J & K State Road Transport Corporation (57 crore); J & K Industries Ltd. (46.83 crore) and J & K Minerals Ltd. (28.92 crore).

Table 5.9: List of PSUs and their latest financial outcomes (Rs. Crore)

Sl. No.		Accumulated profit(+) or losses (-)	Turnover	Net profit/loss
	Working Government companies			
	A. Agriculture and Allied	(-)97.00	47.62	(-)5.55
1	J & K State Agro Industries Development Corporation Limited	(-) 18.46	44.45	(-)3.52

2	J & K State Horticulture Produce Marketing and Processing Corporation Limited	(-) 78.54	3.17	(-)2.03
	B. FINANCE	0.13	6852.29	414.07
3	J & K Bank Limited	0	6843.57	416.03
4	JK Bank Financial Services Limited	(-) 3.12	4.66	(-)1.51
5	J & K Scheduled castes, Scheduled Tribes and Other Back-ward Classes Development Corporation Limited	(-) 1.61	0.4	(-)1.94
6	J & K State Women's Development Corporation Limited	4.86	3.66	1.49
	C. INFRASTRUCTURE	(-)110.80	170.55	(-)4.07
7	J & K Small Scale Industries Development Corporation Limited	(-)10.01	33.26	(-)2.12
8	J & K State Industrial Development Corporation Limited	(-)107.51	27.53	(-)3.95
9	J & K Projects Construction Corporation Limited	1.78	107.92	0.92
10	J & K Police Housing Corporation Limited	4.94	1.84	1.08
11	J & K State Road Development Corporation			
12	J & K International Trade Centre			
	D. MANUFACTURE	(-)580.25	101.23	(-)82.69
13	J & K Industries Limited	(-)447.47	6.44	(-)46.83
14	J & K Handicrafts (Sales and Export) Development Corporation Limited	(-)30.54	3.91	(-)5.33
15	J & K State Handloom Development Corporation Limited	(-)13.59	5.36	(-)3.54
16	J & K Cements Limited	(-)16.62	81.36	1.93
17	J & K Minerals Limited	(-)72.03	4.16	(-)28.92
	E. POWER	(-)503.36	1119.90	405.76
18	J & K State Power Development Corporation Limited	(-)519.06	1119.90	403.29
19	Chenab Valley Power Projects Private Limited (Deemed Government Company	15.70	0.00	2.47
20	J & K State Power Transmission Company Limited			
21	J & K State Power Trading Company Limited			
22	Jammu Power Distribution Company Limited			
23	Kashmir Power Distribution Company Limited			

	F. SERVICES	(-)7.86	43.24	6.49
24	J & K State Tourism Development Corporation Limited	(-)3.88	30.74	0.26
25	J & K State Cable Car Corporation Limited	(-)3.98	12.50	6.23
	Miscellaneaous	(-)1299.14	8334.83	734.01
26	J & K State Overseas Employment Corporation Limited			
27	J & K Medical Supplies Corporation Limited			
	WORKING STATUTORY CORPORATION			
28	J & K State Forest Corporation			
29	J & K State Financial Corporation	(-)134.94	7.05	1.27
30	J & K State Road Transport Corporation	(-)988.09	74.66	(-)57.00
	NON WORKING GOVERNMENT COMPANIES			
31	Tawi Scooters Limited	(-)1.04	0.00	(-)0.06
32	Himalyan Wool Combers Limited	(-)10.49	0.00	(-)1.29
33	J & K State Handloom Handicrafts Raw Material Supplies Organisation Limited	0	0	0

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

5.3 Overview of some of the State PSUs

1. **J & K State Industrial Development Corporation Ltd. (SIDCO)** was incorporated in the year 1969 as a fully owned Government Company under the Companies Act 1956 with the prime objective to promote and develop medium and large scale industries in the State. For this purpose, the Corporation undertakes various activities which include development of infrastructure in Industrial Estates, establishment of Industrial Growth Centres, Industrial Parks, Food Processing Zones, Software Technology Park besides facilitating export promotion, Development Banking, Disbursement of Soft loans,Large & Medium Scale Industry. The authorized share capital and paid up capital of the Corporation is Rs. 20.00 crore and Rs. 17.64 crore respectively

2. **J& K Small Scale Industries Development Corporation (SICOP):** With a view to promote and develop the small scale industries in the State, SICOP was

incorporated on 28th November 1975 as a fully owned Government Undertaking under the Company Act 1956 with authorized share capital of Rs. 5.00 Crore. The paid up capital of the Corporation is Rs. 3.12 Crore. The main objectives of the Corporation are to provide marketing support to SSI Units, procure and supply raw materials, provide testing facilities and develop Industrial Estate. The Corporation has developed 9 Industrial Estates, spread over an area of 4617 kanals (1 kanal =4500 square feet) which have been provided with facilities with power supply, water supply, roads and drains etc. 1209 SSI Units have so far been established in these industrial estates which fall in various sectors like Iron & Steel, Wood Plastic, Ferrous and Non-Ferrous, Food, Textiles, Cement etc.

Table 5.10: SICOP: Annual Turnover (Rs. Crore)

	Raw Material	Marketing	Others	Total	% increase
2014-15	572.11	258.29	31.52	861.92	-4.74
2015-16	395.69	244.22	16.72	656.63	-23.82
2016-17	403.34	256.38	24.81	684.55	4.25
2017-18(ending 10/17)	255.17	195.58	28.46	479.22	39.9

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

The Annual turnover has increased from Rs. 88.63 Crore in 2001-02 to Rs. 684.55 Crore during 2016-17. During 2017-18 (ending 10/2017) the turnover of the SICOP is to the tune of Rs. 479.22 Crore. Activity wise yearly turnover of the Company is given in **Table 5.10** and its yearly financial result is given in **Table 5.11**. Comparing the two tables we can see that the Corporation performed well and is showing surplus consistently though fluctuating in volume, on yearly basis. During the year 2017-18 (ending 10/2017), the SICOP has achieved composite turnover of Rs. 479.22 Crore which generated a total income of Rs.25.94 Crore against which total expenditure was recorded at Rs.18.97 Crore, resulting in Cash Surplus of Rs.6.97 Crore.

Table 5.11: SICOP: Yearly financial results in (Rs. Crores)

	Income	Expenditure	Net Result
2014-15	28.36	26.3	2.06
2015-16	25.98	23.8	2.18
2016-17	30.87	29.66	1.21
2017-18(ending 10/17)	25.94	18.97	6.97

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

3. The **J& K Handicrafts (Sales & Export) Corporation Ltd.** was established in the year 1970 with the aim of providing market cover within and outside the country for assorted handicraft items produced by the artisans/weavers and small manufacturers to save them from the exploitation of middlemen and also to provide meaningful support for their sustained growth. The Corporation was incorporated with authorized share capital of Rs. 8.00 Crore, out of which paid up capital amounts to Rs. 7.97 Crore. In order to achieve the objectives, the Corporation has established a network of 18 marketing outlets and showrooms, out of which 7 are located in the State and 11 in metropolitan cities of the country. These showrooms play twin role of sale cum advertisement Centres. The Corporation also undertakes promotional measures like holding of expos, craft bazaars and participates in exhibitions at various places both within and outside the country, to provide additional marketing cover for the goods produced by the artisans/craft-persons. The domestic sales turnover has increased from Rs. 6.59 Crore during 2002-03 to Rs. 13.92 Crore in 2016-17. The Corporation has achieved sales turnover of Rs. 5.93 Crore up to ending October, 2017. The result of turnover from 2013 to 2016 shows a declining trend, with a 14 percent fall in turnover from 16 crore to 14 crore in the year 2014-15 and 2015-16, respectively (**Table 5.12**).

Table 5.12: JKHC Ltd.: Domestic Sales turnover (Rs. crores)

	Domestic Sales Turnover	% increase
2013-14	16.23	2.25
2014-15	16.36	0.8
2015-16	14.27	(-)14.67
2016-17	13.93	(-)2.45
2017-18(ending 10/17)	5.93	

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

4. **J& K State Handloom Development Corporation (JKSHDC)** Established in the year 1981-82 with authorized share capital of Rs. 300 lakhs and paid up capital of Rs. 499.50 lakhs, the JKSHDC aims to assist handloom weavers societies and SSI units in the handloom sector by providing handlooms and accessories for production besides rendering technical support in production and marketing of the products. The Corporation has played a vital role in establishing handloom projects and common facility centres in far-flung areas of the State and also implemented various schemes to uplift the economic conditions of the poor weavers and artisans. The sales turnover registered by the Corporation over the year has been indicated in **Table 5.13**. Over the years the sales turnover of the company has remained more or less constant around 10 crores.

Table 5.13: JKSHDC: Sales Turnover (Rs. Cr)

	Sales Turnover	% increase
2013-14	9.1961	-16.25
2014-15	10.8	17.44
2015-16	14.36	32.96
2016-17	13.04	-2.92
2017-18(ending 11/2017)	10.08	15.93

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

5. **Jammu and Kashmir Industries Limited(JKIL)** was incorporated in 1963 as Government undertaking with an authorized share capital of Rs. 20 crores and paid up capital of Rs. 16.26 crores. The undertaking started its activities with 15 industrial units which were engaged in manufacturing of textiles, resin, leather

Table 5.14: JKIL Production and Sales (Rs. In crore)

	Production	Sales
2008-09	15.89	3.64
2009-10	15.16	4.09
2010-11	11.88	2.63
2015-16	32.34	5.84
2016-17	11.14	8.12
2017-18 (October, 2017)	6.37	11.21

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

goods, woolen fabrics, wooden goods etc. Out of these 15 Industrial Units, nine units stand already closed, four units are functional and two, non functional. Both on production and sales front, the JKIL has not performed well over the years due to variegated reasons. The **Table 5.14** depicts the position of production and sales from 2008-09 to Oct. 2017. Although, the value of production recorded increase from Rs. 21.24 crores in 2000-01 to Rs. 32.34 crore during 2015-16 but it now reduced to only Rs. 11.13 crores in 2016-17. The sales volume of the undertaking were of the order of Rs. 17.22 crores during 2001-02 and in subsequent years, it started decreasing quite sharply and reached to only Rs. 3.64 crores in 2008-09. Although, during 2009-10, the sales recovered marginally and stood at Rs. 4.09 crores, but again fell to Rs. 2.63 crores in 2010-11. When compared to production, sales figures are disappointing. Therefore, making the unit a loss incurring unit. However, in 2017 the situation improved a little when sales touched Rs. 11.21 crores ending Oct 2017.

The position with regard to losses incurred with effect from 2005-06 to Oct. 2017 are given in **Table 5.15**. The Company has been continuously running into losses due to various reasons including surplus staff, low productivity, obsolete and worn out machinery and equipment, closure of most of the units, non-availability of technical staff.

Table 5.15: Losses incurred by JKIL (Rs. Crore)

	Loss incurred
2005-06	47.04
2006-07	23.29
2007-08	15.34
2008-09	28.97
2009-10	38.78
2010-11	28.28
2011-12	21.65
2012-13	16.04
2013-14	8.94
2014-15	8.26
2015-16	8.63
2016-17	13.86
2017-18 (Oct.2017)	3.58

Source: Report of the CAG on Public Sector Undertakings, relevant issues and Report of the CAG on Revenue sector and PSUs, 2016

6. **J& K Minerals limited (JKML)** was incorporated in 1960 as the first public sector undertaking of the State. The company was initially registered with an authorized share capital of Rs. 500 lakhs which was subsequently raised to Rs. 800 lakhs during 1964- 65. The Principal business of the Corporation is to exploit the mineral resources and to establish mineral based industries in the State. Since the corporation had been incurring colossal loss every year right from its inception, therefore it had precarious financial health. However, from 2009-10 onwards, the corporation has improved its liquidity position manifolds. Consequently, the corporation is remitting monthly salary/ wages to its working employees timely The corporation is in the process of disposal of its land assets that is in excess of the requirement and lying idle so that through the funds realized on this account, the pending statutory liabilities are knocked off and also funds redeployed on growth of companies business.

7. **J& K State Power Development Corporation Limited (JKSPDCL)** was established in order to harness the power potential in the State in a sustained manner, Government of J & K established JKSPDCL as a Private limited company on 16th February 1995. The Corporation was incorporated to takeover, execute, complete, operate and maintain all power stations and power projects of the State. The assets of all the power projects in the State, both existing and under implementation were transferred to the Corporation.

5.4 Major initiatives for the public sector undertakings in the state

1. The State Cabinet approved the setting up of Jammu and Kashmir Trade Promotion Organization (JKTPO) as a Joint Venture Company between the State Government, India Trade Promotion Organization (ITPO) and Export Promotion Council for Handicrafts (EPCH) for Export promotion of the Handicrafts and Handloom products within the Country and globally.

2. Upgradation of Kashmir Govt. Arts Emporium and various other showrooms is in progress at many places so that more business can be attracted. Additionally Rs. 8.59 crores has been provided during 2016-18 for upgradation stocks and finished goods and renovation of showrooms.

3. Government Joinery Mill Srinagar has been rebuilt, spending Rs. 8.50 Crore. The Mill has been made functional since July, 2017 which was completed in 18 Months. Government Joinery Mill Jammu is also under development having a project cost of Rs. 8.50 Crore Show-room has been completed. It is expected that mill would be ready in all respect by March 2018

4. Rajbagh Silk Factory upgradation project got approved under World bank funded Jhelum and Tawi Flood Recovery Project. The Factory is being upgraded with replacement of 44 Looms, commissioning of Finishing Plant, Boiler and other machinery besides execution of civil works at a total cost of Rs 22.85 crore. The Silk production of the State is projected for increase from 2.80 lakh meters to 6.80 lakh meters per annum. The project is expected to be completed in 18 months by July 2019 and the net revenue earnings are expected to be of the order of Rs. 3.79 Crore from 2020-21.

5. Woolen Mills Bemina upgradation project got approved under World bank funded Jhelum and Tawi Flood recovery Project. The Mill is being upgraded with installation of high-speed plant, carding machine, boiler and rapier looms along with execution of some civil works at a total cost of Rs 11.74 crore under World bank funded Jhelum and Tawi Flood Recovery Project. The project is expected to be completed by July 2019 and the net revenue earnings are expected to be of the order of Rs. 2.20 Crore form 2019-20.

6. Jammu Filatures and Jammu Silk Factories are being established in Bari Brah-

mana at an estimated cost of approximately Rs 23 Crore for reeling of cocoons and about 36,000 kgs of quality silken yarn would become available and would benefit cocoon growers of Jammu Division. The net revenue earnings will be of the order of Rs. 4.14 Crore from 2019-20.

7. The erstwhile Kashmir Filatures at Solina is being revived along with capacity enhancement at an estimated cost of Rs. 5.60 crore for reeling of cocoons. The net revenue earnings will be of the order of Rs. 1.15 Crore from 2019-20.

8. Upgradation of Export Oriented Handloom Development Project of Handloom Development Corporation at Samba was taken up in hand. The Civil works have been completed and procurement and the installation of the upgraded machinery is in progress. This would benefit about 500-600 Weavers in and around Samba town and will generate a business of Rs 2 crore per annum for the corporation from 2018-19.

9. Upgradation of Export Oriented Handloom Development Project of Handloom Development Corporation at Samba was taken up in hand. The Civil works have been completed and procurement and the installation of the upgraded machinery is in progress. This would benefit about 500-600 Weavers in and around Samba town and will generate a business of Rs 2 crore per annum for the corporation from 2018-19.

10. The JK Minerals Ltd. started exploitation of Parlanka Gypsum Mines through outsourcing arrangement at Savlakot Hydro Electric Dam site for the first time. The current income of Rs. 12.76 Crore is expected to go up by this new Mining activity.

11. Samba Cement Factory has been made operational.

Chapter 6

Impact of power sector reforms on state's fiscal health

Power sector in J & K accounted for 35.14 per cent of total investment in PSUs by the state, i.e. 2,705.44 crore as on 31 March 2016. The total investment consisted of 11.39 per cent as capital and 88.61 per cent as long-term loans. The overall investment in PSUs has grown by 56.90 per cent from 4,907.42 crore in 2011-12 to 7,699.94 crore in 2015-16.

6.1 Overview of power sector in J & K

The J & K Power Development Department (JKPDD) was earlier responsible for generation, transmission and distribution of electricity in the state for the J& K. Subsequently, the Power Development Corporation (PDC), a fully State Government Owned Company, was established in 1999, when the operation and maintenance of existing generating stations and future generating stations were entrusted to this corporation.

Presently, JKPDD looks after Transmission and Distribution (T & D) functions only. These functions have been further entrusted to various wings of the department. Two Electric Maintenance and Rural Electrification (EM & RE) wings look after distribution in the provinces. Two more System and Operation (S & O) wings look after Transmission in the state. Besides, there are three more wings namely, Planning & Design (P & D), Procurement and Material Management (P & MM) and Commercial and Surveys (C & S) which support EM & RE and S& O Wings.

The Government of J & K (GoJK), in 2012, ordered for unbundling of JKPDD and setting up of one transmission company, two distribution companies (one each for Jammu and Kashmir divisions) and one trading company with the function of a holding company. In line with the above order, GoJK has ordered for setting up of the following companies:

1. J & K State Power Transmission Company Limited
2. J & K State Power Trading Company Limited
3. Jammu Power Distribution Company Limited
4. Kashmir Power Distribution Company Limited.

However, unbundling continues to be a work-in-progress as the newly formed companies have not yet taken charge of their respective functions.

Table 6.1 shows the key highlights of the power sector in the State. Peak deficit has decreased from 28 percent in 2012-13 to 23 percent in 2015-16. The State's performance on peak deficit has consistently remained poorer than the national average. JKPDD operates and maintains the intra-state transmission network having a transformation capacity of 4,050 MVA at 220/132 KV level and 4,503 MVA at 132/66-33 KV level along with transmission lines of 1,220 Ckt kms at 220 KV and 2,134 Ckt kms at 132 KV, spread over the entire stretch of the State. This is supported by the inter-state transmission systems totaling 2,648 ckt kms of transmission lines and a transformation capacity of 3,465 MVA. Comparing consumption and generation we see that consumption in the state is well below the generation capacity of the state. high share of hydro in the generation mix combined with outages in transmission and generation sources has led to seasonal variations in power availability situation in the State and has to rely on power purchases from Northern Region Grid to meet its requirements especially during winters and peak summers when demand peaks and own generation reduces drastically. As such, there remains a huge gap between the requirement and availability of energy. State owned thermal power plants mostly remain non-operational due to high per unit generation cost.

Reform in the power sector has remained key focus area during 2016-17 and a separate power budget was also presented in the legislature to highlight status of power scenario in the State with its impact on the overall resource position of the State. Major initiation in this front has been to bring reforms in the power trading processes so as to avail best standard operating practices available to bring down power purchase cost

Figure 6.1: Overview of Power Sector in J & K

DEMAND – SUPPLY: The state's demand-supply is not at par with the National Average (3.6% Energy Deficit and 4.7% Peak Deficit). The FY15 demand supply situation is highlighted in the table

Item	Peak	Energy
Requirement	2650 MW	16214 MU
Availability	2043 MW	13119 MU
Surplus/(Deficit)	23% (-607)	19% (-3095)

CONSUMPTION: Per capita consumption (At generation bus bar including all losses) in kWh for last five years (Source: CEA)

2010-11	2011-12	2012-13	2013-14	2014-15
988	1,015	1,043	1,066	1,169

GENERATION: The total generation capacity available to the state (March, 2016)

Sector	Thermal	Hydro	RE	Total (MW)
State	198.41	1,110	110.96	1,419.37
Private			42.5	42.5
Central	630	1,041	-	1,671.00
Total	828	2,151	153.46	3,132.87

TRANSMISSION: JKPDD is the state transmission utility for Jammu and Kashmir. The total intra and inter-state transmission systems available to J&K (March, 2016)

Mode		Transformation Capacity (MVA)	Line Length (ckt kms)
Intra State	220/132KV	4,050.00	1,220.10
	132/33-66 KV	4,503.00	2,134.07
	Total	8,553*	3,354.17*
Inter State	400/220 KV	3,465 (4 Substations)	1,005
	400/220 KV	3,465 (4 Substations)	1,823
	132KV	-	262.3
	765KV	-	562.5
	Total	3465	2,648

DISTRIBUTION: JKPDD is the sole distribution utility in the State of Jammu and Kashmir. The sub-transmission and distribution infrastructure (March, 2015)

Parameters		Unit	Total
Distribution Capacity	66-33/11-6.6 kV	MVA	4,958.85
	66-33/11-6.6 kV	Nos	503
	11-6.6/0.4 kV	MVA	5,763.15
	11-6.6/0.4 kV	Nos	47,764.00
Distribution Line	HT Lines	Ckt. Kms	38107.9
	LT Lines	Ckt. Kms	73,259.80

Table 6.1: Deficit in power component (Rs. Cr)

	Power purchase cost	Target	Actuals	deficit
2003-04	1135	455	368	767
2004-05	1318	483	383	935
2005-06	1674	461	384	1290
2006-07	1355	405	479	876
2007-08	1750	780	601	1149
2008-09	2034	922	630	1404
2009-10	1997	1065	702	1295
2010-11	2310	1209	822	1488
2011-12	3000	1486	1007	1993
2012-13	3870	2387	1589	2281
2013-14	3738	2841	1533	2205
2014-15	4404	2630	1428	2976
2015-16	6127	2980	1477	4650
2016-17	6133	2980	2770	3363

Source: Economic Survey, 2017 Govt. of J & K

which is increasing at an alarming rate and completely distorting fiscal balance of the State. Government has been buying and distributing power in the State since long. All the expenditures on account of Power Purchase are being met by the State Government. All the revenue generated goes to the State Exchequer. But there remains a huge gap between the actual power purchase bill and revenue realization. The deficit in power receipts over the years is presented in **Table 6.1**.

6.2 Ujwal DISCOM Assurance Yojana (UDAY)

The Power Development Department incurred a huge deficit during financial year 2014-15 amounting to Rs. 3913.5 crores. The outstanding liabilities of the CPSU have reached to Rs.3537.55 crore. The Government of India and Government of Jammu and Kashmir entered into a bipartite MOU in 2015 in order to achieve improvement in operational and financial efficiencies of power distribution utilities (DISCOM) which is Power Development Department in J & K - under a scheme called "UDAY - Ujwal Discom Assurance Yojana". Under this scheme the state of J & K is allowed to borrow the outstanding dues of 3538 crores of the CPSU during 2015-16 and 2016-17. An important feature of the Uday Power Bond is that the debt taken over shall not be included in the calculation of fiscal deficit in the financial years 2015-16 and 2016-17. The MoU further paves way for improving operational efficiency of the Power Distribution Department of the State. Through compulsory Distribution Transformer metering, consumer indexing and GIS mapping of losses, upgrade/change transformers, meters etc., smart metering of high-end consumers, feeder audit etc. AT& C losses and transmission losses would be brought down, besides eliminating the gap between cost of supply of power and realisation.

Under this scheme the government of J & K is required to take the following measure:

1. The borrowings shall be utilized solely for the purpose of payment of dues outstanding towards the CPSU
2. State government is required to issue only non-SLR bonds to raise funds for meeting outstanding dues
3. Replacement of street lights with LEDs in all municipal towns through Nagar Nigam/Municipal Corporations
4. The state government will undertake tariff hike as laid down in MoU and presented in **table 6.2**.

Table 6.2: Tariff hike under UDAY

Year	2015-16	2016-17	2017-18	2018-19	2019-20
Tariff Hike	0 %	15 %	17 %	19 %	19 %

Source: MoU between Ministry of power and Govt. of J & K for achieving improvement in financial and operational efficiencies in distribution of power, 2016

5. The state government will ensure that all operational target
6. The state government will endeavor to reduce the transmission losses from 4.31perceny in 2014-15 to 4 percent by 2019
7. The state government will reduce AT & C losses from 61.3 percent in 2014-15 to 15 percent by 2019-20 as given in **Table 6.3**

Table 6.3: Reduction in AT & C losses as required under UDAY

Year	2015-16	2016-17	2017-18	2018-19	2019-20
AT & C	56 %	46 %	35 %	25 %	15 %

Source: MoU between Ministry of power and Govt. of J & K for achieving improvement in financial and operational efficiencies in distribution of power, 2016

8. The Government will eliminate the ACS-ARR (Average Cost of Supply (ACS)

Table 6.4: Recommended ACS-ARR gap under UDAY

Year	2015-16	2016-17	2017-18	2018-19	2019-20
ACS-ARR gap	-2.41	-0.68	-0.71	-0.49	0.09

Source: MoU between Ministry of power and Govt. of J & K for achieving improvement in financial and operational efficiencies in distribution of power, 2016

per unit of power and per unit average revenue realized (ARR)) gap by 2019-20. The recommended ACS-ARR gap is as given in **Table 6.4**.

9. Government will take following measures for cost reduction:
   (a) Achieving 100 percent distribution transformer (DT) metering by 2017
   (b) Achieving 100 percent feeder metering by 2016
   (c) Installing smart meters for all the consumers other than agricultural consumers consuming above 500 units/month by 2017 and consumers above 200 units/month by 31 Dec 2019
   (d) Providing access to 3.56 lakhs unconnected households by 2019
   (e) Providing LED bulbs under Domestic efficient lighting programme (DELP) by 2018
10. Undertake name and shame campaign to control power theft from time to time.
11. Prepare loss reduction targets at sub-division/division/circle level and making the concerned official responsible for loss reduction targets
12. Implementation of performance monitoring and management system MIS for tracking meter-replacement and loss reduction and day-to-day progress for reporting to top management

While efforts is made by the Power Distribution Department of the State to improve its operational efficiency, to meet the targets as laid down in MoU and thereby reduce the cost of supply of power, the Central government is also obligated to provide incentives to the DISCOMs and the State Government for improving Power infrastructure in the State and for further lowering the cost of power. The Central schemes such as DDUGJY, IPDS, Power Sector Development Fund or such other schemes of Ministry of Power and Ministry of Non Renewable Energy are already providing funds for improving Power Infrastructure in the State and additional/priority funding would be considered under these schemes, if the State/DISCOMs meet the operational milestones outlined in the scheme. The State shall also be supported through additional coal at notified prices and in case of availability through higher capacity utilization, low cost power from NTPC and other CPSUs. Other benefits such as coal swapping, coal rationalization, correction in coal grade slippage, availability of 100 percent washed coal would help the state to further reduce the cost of Power.

Given the targets under the UDAY scheme above, we will use the data for J & K as given by the UDAY web portal accessed in July 2018 to measure the achievement of the state in case of some of the quantifiable targets. The data, presented in **Table 6.5** signifies the post UDAY cumulative progress made by State distribution sector on targets set against selected UDAY parameters. The performance of State distribution sector is evaluated by comparing the achievement with respect to the targets submitted or MoU projections. The data in **Table 6.5** shows that State government, as of 31st march 2018, has achieved the target laid down by MoU only in case of Feeder Metering and has missed almost all the others. Reduced levels of transmission and AT & C losses would mean lesser cost per unit of electricity to consumers. While it was expected by the state to reduce AT & C losses to 35 percent by 2017-18, it could achieve only 54 percent, i.e. just 2 percent reduction since the adoption of the scheme. While ACS-ARR gap were expected to come down to -0.71 by 2018, state's average cost is still very high keeping the gap high and positive for per unit of power supplied. In case of electricity access to unconnected household and distributions of LEDs under Ujala, though the state government is behind the timeline yet it has shown good progress by achieving 86 and 87 per cent of the target, respectively. In case of rest of the targets either state government has shown no progress or is way behind.

6.2.1 Comparing J & K achievements with other Special category states

As mentioned, under the UDAY scheme, States agreed to convert 75 percent of the DISCOM debt into State government non-SLR bonds. These UDAY bonds were priced at not more than 75 basis points above the prevailing cut-off yield rate of government security of 10 year maturity. At aggregate level, so far, around 86 percent of UDAY bonds were issued, J & K has issued 100 percent of the bonds to the DISCOMs as mandated in the UDAY scheme. Of the other participating special category states H.P and Meghalaya issued 75 percent of the total bonds so far. For rest of the states, Tripura, Assam, Uttarakhand, Manipur no information on the issuance of bond is available. As

Table 6.5: Targets and achievement under UDAY

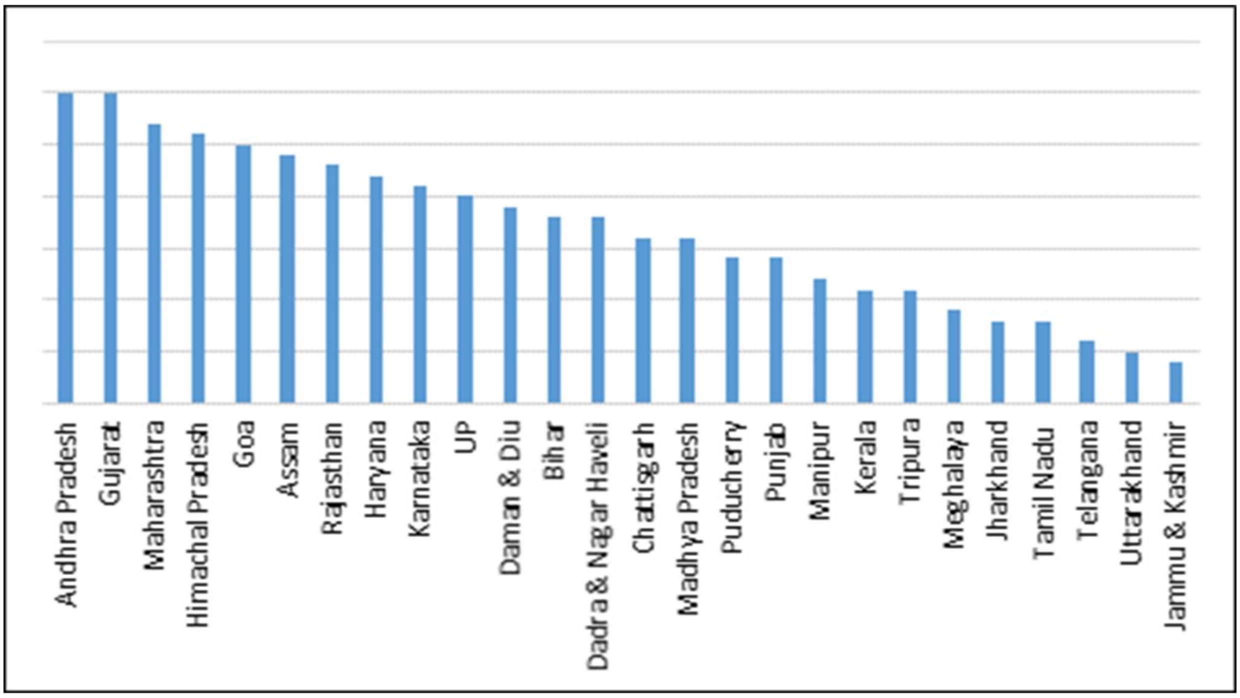
	Actual (as on 31.3.18)	% covered	Target for 17-18
Bonds issued (Rs cr)	3538	100	
AT & C losses	53.78 %		35 %
ACS-ARR Gap	1.96		-0.71
State-wise Feeder Metering (Urban)	644	100	644
State-wise Feeder Metering (Rural)	1227	100	1227
DT Metering (Urban)	5359	43	12442
DT Metering (Rural)	0	0	40193
Electricity access to unconnected households	15.71 lakhs	86	18.18 lakh
Smart Metering Above 500kWH	0	0	215828
Smart Metering above 200 kWH up to 500kW	0	0	582149
Distribution of LEDs under UJALA	69.92	87	80
Feeder segregation	0	0	116
Rural feeder audit	0	0	1227

Source: UDAY web portal

per the MoUs, there were no debt takeover in most of these States. The **Figure 6.2** below gives Discom quarterly performance ranking for all the 26 participating states and union territories as on 31st March 2018, (source UDAY web portal). J & K ranks the last among 26 states and UTs, implying that a lot of improvement is required for J & K Power Development Department to initiate and implement as per the UDAY scheme's requirement.

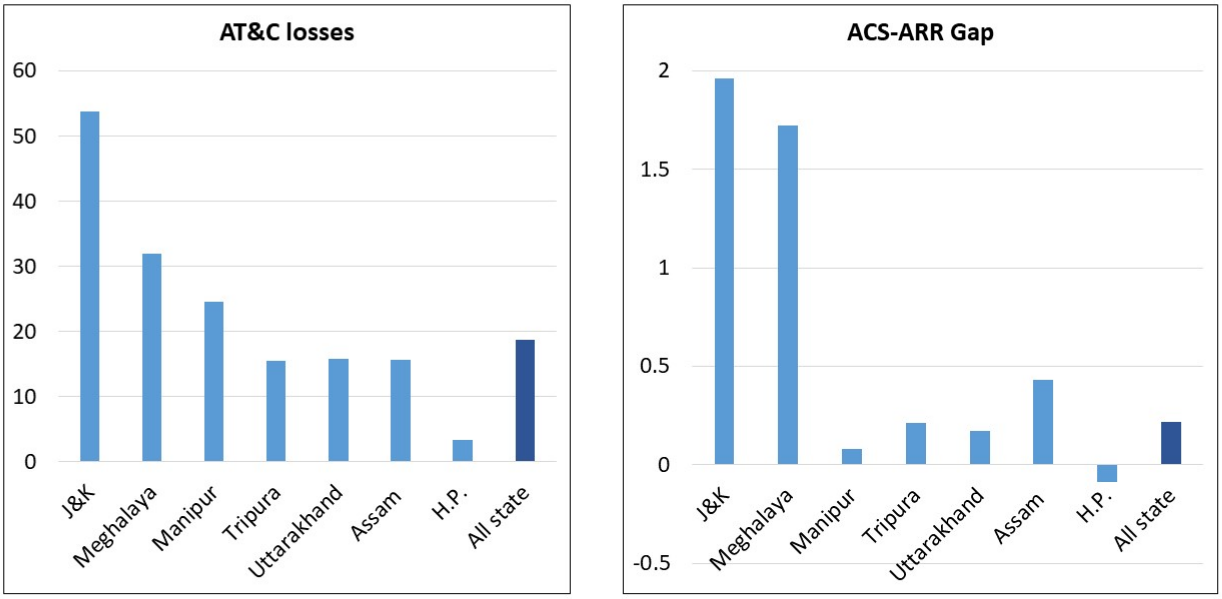
Comparing J & K with other special category states and all India state average on the basis of AT & C losses and ACR – ARR gap (**Figure 6.3**)show that J & K reports AT & C loss of 53.78 percent which is the highest while H. P. has reported 3.41 percent AT & C loss which is the lowest in the scale. Three States report AT &C losses in the around 15 percent (Tripura, Uttarakhand and Assam) which is very close to the final target specified by UDAY scheme. Meghalaya and Manipur have high AT & C charges in the range of 20-30 percent, however, their numbers are still within the limits of path projected by the scheme. Another milestone to be achieved under UDAY is reduction in the difference between average cost of Supply (ACS) per unit of power and per unit average revenue realised (ARR) to nil by 2018-19 **(Figure 6.3)**. This tests the commercial viability by covering the cost through revenues. The overall gap in India

Figure 6.2: Discom quarterly performance ranking for all the 26 participating states (as on 30th June 2018)



Source: UDAY web portal

Figure 6.3: AT & C losses and ACR – ARR gap of SCS (as on 30th June 2018)

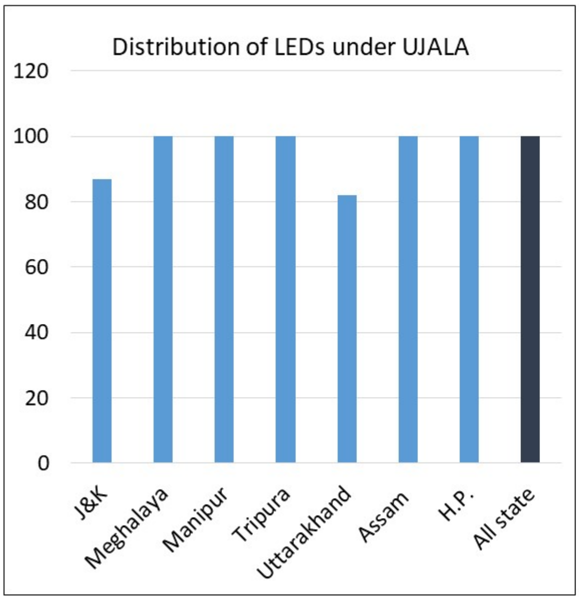


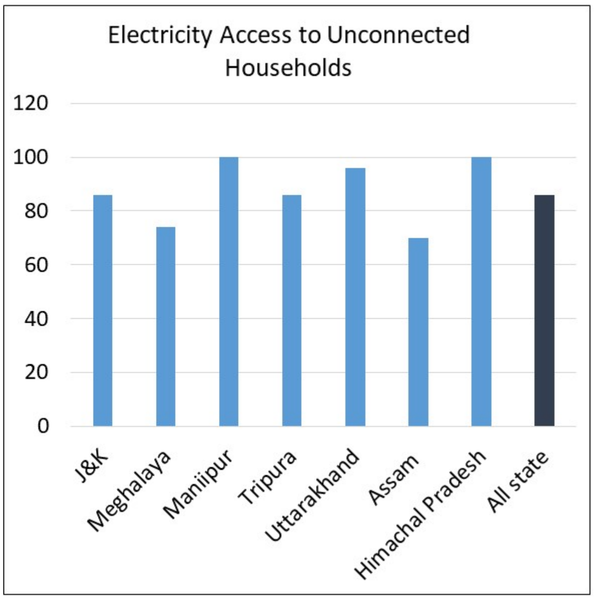
Source: UDAY web portal

is INR 0.22 per unit, all the other special category state except for Meghalaya and J & K report gap ratio of less than 0.5. J & K and Meghalaya both reported very high ACS – ARR gap, J & K tops the list of having a ratio of 1.97 followed by Meghalaya (1.72).

Figure 6.4 below provides the progress of the States on the basis of their targets for the financial year, in percent achievement, for electricity access to unconnected households. While Manipur and H.P among the special category states achieved 100 percent electrification other states like J & K , Tripura, Uttarakhand have achieved electrification in more than 86 percent of the unconnected villages which is above all state average of 86 percent. Meghalaya and Assam are the laggard state. Even though the States have not been able to achieve their targets, a pre and post UDAY analysis shows improvement in electricity access to households vis-a-vis prior to UDAY. UJALA, an acronym for Unnat Jyoti by Affordable LEDs for All, is being implemented by Energy Efficiency Services Limited (EESL). Under this scheme, superior quality energy efficient LED bulbs are distributed to domestic consumers at INR 75 to 95, which is 80 percent less than the market price of INR 350-450. **Figure 6.4** provide State-wise distribution of LEDs under UJALA scheme. Out of the 7 States that we

Figure 6.4: Progress of the SCS under UDAY for 2017-18





Source: UDAY web portal

looked at, five states have achieved 100 percent distribution of LEDs only J & K and Uttarakhand report distribution of less than the total no. of LEDs targeted.

Other operational efficiency indicators monitored under UDAY scheme include feeder metering, distribution transformer metering, smart metering, feeder segregation and rural feeder audit. Target for 100 percent metering is the stated goal under UDAY which J & K has achieved, apart from this target J& K fails to achieve any other targets promoting operational efficiency. In fact it has not even started working towards achievement of smart metering, feeder segregation and rural feeder audit.

6.2.2 Other Programs in conjunction with UDAY

1. **24X7 power for all program** 24X7 Power for All (24x7 PFA) is a joint initiative of the Government of India and State Government, aiming to achieve 24X7 availability of reliable and quality power to all households, industrial, commercial and all other electricity consuming entities by the end of 2018-19. Total of 107 villages and 3.56 lakh households are un-electrified which are planned to be completely electrified by the end of 2018-19. Government has finalized the PFA

Road map document in consultation with the Ministry of Power and its agencies like REC, CEA, PFC and BEE, highlighting all encompassing power sector interventions including generation, transmission, distribution, renewable energy and energy efficiency/DSM measures proposed to be implemented during 2016-17 to 2018-19. (Source: Budget Speech 2017-18)

2. **Unnat Jyoti by Affordable LEDs for All(UJALA)**To promote efficient use of energy at the residential level; enhance the awareness of consumers about the efficacy of using energy efficient appliances and aggregating demand to reduce the high initial costs thus facilitating higher uptake of LED lights by residential users. In J& K EESL is carrying out UJALA scheme for distribution of LED to each household in the state. Under this scheme Energy Efficiency Services Limited (EESL) will provide upto five 9W LED Bulbs to each registered Domestic Consumer at subsidized cost of Rs. 70 per LED bulb. Till now EESL has distributed 79.5 lakhs LED bulbs thus saving 10.3 lakh MWh of energy in 2017-18 leading to saving of Rs. 413 crores in cost. (Source: UJALA web portal)

3. **Saubhagya: Pradhan Mantri Sahaj Bijli Har Ghar Yojana** a new scheme was launched on 25th September 2017. Under Saubhagya free electricity connections to all households (both APL and poor families) in rural areas and poor families in urban areas will be provided. Out of total 2.5 lakh unelectrified household at the start of the scheme, 19,084 households were electrified under the scheme. Project Cost of Rs. 133.42 Cr has been sanctioned for (Rural - Rs. 130.91 Cr. and Urban- Rs. 2.51 Cr.) by the Union government. Out of which Rs. 21.56 Cr. fund has been released to state depending upon the development under the scheme. ((Source: PMSBHGY web portal)

4. **Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY)** launched in July 2015, focuses on feeder separation (rural households and agricultural) and strengthening of sub-transmission and distribution infrastructure including metering at all levels in rural areas. This will help in providing round the clock power to rural households and adequate power to agricultural consumers. The earlier scheme for rural electrification viz. Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) has been subsumed in the new scheme as its rural electrification component. The Centre has approved an amount of Rs 616.59 crore for the state in 2015 under the DDUGJY for 10 districts of Jammu region, nine districts of Kashmir and two districts of Ladakh region. However, cancellation of tendering process and pending litigation in the High Court is proving a major obstacle

for setting off of the scheme (Source: DDUJY web portal)

5. **Integrated power development scheme(IPDS)** Keeping in view the present financial condition of Discoms/Power Deptt., GoI launched the IPDS in December 2014 to extend financial assistance against capital expenditure to address the gaps in sub transmission and distribution network and metering in Urban areas to supplement the resources of DISCOMs/Power Deptt. For J & K the approval has been accorded for Sub-transmission and Distribution network strengthening (446.72 crores) and IT enablement of distribution sector (20.78 crores). However, total grants released from GoI towards this scheme has been only 37.99 crores under first component. (Source: IPDS web portal)

6.3 State finances and UDAY

In accordance with the scheme, the Government of J& K borrowed funds to the tune of 3,537.55 crore (2,140 crore in 2015-16 and 1,397.55 crore in 2016-17) from Reserve Bank of India by issue of non SLR bonds at varying interest rates ranging from 7.07 per cent to 8.72 per cent to the participating lender banks. As per Government of India, Department of Expenditure, Ministry of Finance the additional borrowing limits proposed under UDAY to take over DISCOMS liabilities by the State would be beyond the limits prescribed by the 14th Finance Commission and would not be counted against the fiscal deficit limits of the State. Availability of loan at cheaper rate was aimed at entailing an annual saving of 1,200 crore (over 4 years) towards interest cost.

It is pertinent to ask about the likely impact and future implications of the UDAY debt on State finances. Various targets set under the Act as per 14th Finance Commission and achieved during the year 2016-17 are as given in **Table 6.6**. State's fiscal position deteriorated during 2016-17 due to the states taking over of Discom debt under UDAY schemes. Consequently, their consolidated fiscal deficit rose above the FRBM threshold level. As per the revised estimates, GFD-GDP ratio continued to remain above the FRBM threshold during 2017-18 due to shortfall in revenue receipts and higher revenue expenditure from implementation of farm loan waivers and the pay commission recommendations on salaries and pensions.

Table 6.6: Targets set under the FRBM Act as per 14th Finance Commission and achieved during the year 2016-17

SL. No	Financial Parameter	Target (BE)	Achievement	
			With UDAY	Without UDAY
1	Revenue Surplus	12.60 per cent of Total Revenue Receipts	Revenue surplus (2,166.29 crore) of 5.16 per cent of Total Revenue Receipts	Revenue surplus (3,563.84 crore) of 8.49 per cent of Total Revenue Receipts
2	Fiscal Deficit	3.00 per cent of GSDP	Fiscal Deficit (6,176.11crore) 5.34 per cent of GSDP*	4.13 per cent of GSDP*
3	Outstanding Liabilities	49.25 per cent of GSDP*	53.79 per cent of GSDP*	(i) 52.58 per cent of GSDP** (ii) 50.73 per cent of GSDP***
4	Risk of outstanding Guarantees	Annual Incremental risk weighted guarantees were to be 75 per cent of total Revenue Receipts preceding the current year or 7.5 per cent of GSDP of the year preceding the current year whichever is lower	The State Government has not yet assessed the risk of various guarantees.	

* GSDP figure 1,15,654.00 crore, as per Government of India, Ministry of Finance letter dated 29 March 2016. ** Excluding 1,397.55 crore of UDAY taken over as DISCOMs liabilities during 2016-17 in view of instructions contained in the Government of India, Ministry of Finance letter dated 29 March 2016. *** Excluding 3,537.55 crore of UDAY taken over as DISCOMs liability during 2015-16 and 2016-17 Source: Finance Accounts 2016-17, for Govt. of J & K by CAG

Chapter 7

Outcome evaluation of state finances in the context of the 14th finance commission

In the last two years intergovernmental fiscal relations in India have changed considerably following the implementation of the 14th Finance Commission's recommendations and subsequent restructuring of grants by the Union Government. The Government of India replaced the Planning Commission with a new institution called the NITI Aayog, with an objective of bringing "States to act together in the national interest, and thereby foster Cooperative Federalism". The other major development is the 122nd Constitutional Amendment to introduce Goods and Services Tax (GST) in India. GST is expected to develop a common market through a simplified tax structure. In addition to this, Government of India has launched an ambitious scheme, the Ujwal DISCOM Assurance Yojana (UDAY) to improve operational and financial transformation of the electricity distribution companies. These policy developments have implications on finances of state governments both in the short run and in the long run. Our analysis quantifies the effect of enhanced devolution recommended by 14th Finance Commission and grants restructuring by the Union government on state's fiscal space.

7.1 Major recommendations of 14th Finance commission

1. The 14th Finance Commission has radically enhanced the share of the states in the central divisible pool from the current 32 percent to 42 per cent which is the biggest ever increase in vertical tax devolution. The last two Finance Commissions viz. 12th (period 2005-10) and 13th (period 2010-15) had recommended a state share of 30.5 per cent (increase of 1 percent) and 32 per cent (increase of 1.5 percent), respectively in the central divisible pool.

2. The 14th Finance Commission has also proposed a new horizontal formula for the distribution of the states' share in divisible pool among the states. There are changes both in the variables included/excluded as well as the weights assigned to them relative to the 13th Finance commission. The weights assigned are as follows: Population 1971: 17.5 percent Population 2011: 10 percent, Fiscal capacity/Income distance: 50 percent, Area: 15 percent, Forest Cover 7.5 percent.

3. Several other types of transfers have been proposed including grants to rural and urban local bodies, a performance grant along with grants for disaster relief and revenue deficit. As per the recommendations of the 14th Finance Commission, grants-in-aid constitute 12 percent of the central transfers to states.

4. The 14th Finance Commission has not made any recommendation concerning sector specific-grants unlike the 13th Finance Commission.

The decomposition of the resource transfers through tax devolution due to the increase in the divisible pool per se and due to the change in the horizontal devolution formula itself is given in the last two columns of **Table 7.1**. The significant impact due to increase in the divisible pool is on states like J & K, Tripura and Manipur while states like Arunachal Pradesh, Mizoram and Sikkim are the major gainers due to a change in the horizontal devolution formula which now gives greater weight to a state's forest cover. Therefore, most of the special category states stand to gain from the change in state share recommended by 14th finance commission when compared to 13th finance commission. Overall biggest gainers which surface when comparing the first two columns to **Table 7.1** are J & K, Arunachal Pradesh and Meghalaya. However 3 states viz. Assam, Himachal Pradesh and Uttarakhand stand to lose, there share in resource transfer given by 14th Finance Commission is lower than 13th Finance Commission.

Table 7.1: Decomposition of FFC Transfers to SCS

	State share in 14th FC	State share in 13th FC	Decomposition of FFC Transfers	
			Due to change in divisible pool	Due to change in share
Arunachal Pradesh	0.0137	0.00328	24.9	75.1
Assam	0.03311	0.03628	129	-29
Himachal Pradesh	0.00713	0.00781	128.9	-28.9
Jammu & Kashmir	0.01854	0.01551	69.5	30.5
Manipur	0.00617	0.00451	56.6	43.4
Meghalaya	0.00642	0.00408	47.7	52.3
Mizoram	0.0046	0.00269	43.7	56.3
Nagaland	0.00498	0.00314	47.3	52.7
Sikkim	0.00367	0.00239	49	51
Tripura	0.00642	0.00511	64.1	35.9
Uttarakhand	0.01052	0.0112	118.2	-18.2

Source: 14th Finance commission report

7.2 Impact of Changes in Fiscal Federalism and Fourteenth Finance Commission Recommendations

J&K public finance with its narrow tax base (due to low per capita income) is heavily dependent on central transfers.As mentioned, post the FFC award, the central transfer story has changed dramatically for all the states. The FFC recommendations have resulted in a fundamental shift in the structure of transfers. Emerging reforms and changes in the intergovernmental fiscal relations in India post aimed at enhanced autonomy to the state governments in order to prioritize their needs. It was envisaged that this will not only help states with flexibility to allocate as per their priority. The flow of grants to any state comprises four major components, namely, non-plan grants, grants for state plan schemes, grants for central plan schemes and grants for centrally-sponsored plan schemes. The practice of direct fund flow to the district to finance some of the big-ticket centrally sponsored plan schemes has been discontinued from 2014–15. Fund flows for all schemes are now routed through the state budget as a component of the state plan schemes.

Table 7.2: Central Transfers actuals in crores and as percent of GDP

	Grants in aid	Tax Devolution	Grants as % of GSDP	Tax dev. as % of GSDP
2011-12	14540.8	3495.1	18.6	4.5
2012-13	14353.9	3870.4	16.5	4.4
2013-14	13843.4	4142.1	14.5	4.3
2014-15	16149.4	4477.2	16.4	4.6
2015-16	16728.1	7813.5	14.3	6.7
2016-17	20598.6	9488.6	16.2	7.5
2017-18(a)	27978.5	11803.2	19.6	8.3
2018-19(b)	35666.4	8500.83	22.4	5.4

Source: J&K Finance Account, various years a: GSDP figure is 1st revision figure and Grants and Tax devolution is revised estimate b: GSDP figure is Advance estimate and Grants and Tax devolution is revised estimate

It is visible from the **Table 7.2** that the tax devolution to the State increased from 4.6% of GSDP in 2014-15 to 6.7% in 2015-16, 7.5% in 2016-17 and to 8.3% in 2017-18, in three years share of State in central taxes almost double as a percent of its GSDP. There was slight fall in 2018-19 when compared to the last two years in the state's share in net proceed of taxes from central government, but still the levels was much higher than pre-FFC recommendation period. There is more than 150 percent rise in tax devolved at levels between 2014-15 to 2017-18. Next, we look at the Grants-in-aid from the central government. There has been significant increase in the grants. The growth rate in the period prior to 2015-16 was around 3.5% which increased to 23% (2016-17) and 35% (2017-18(RE)). It seems like the change in accounting practice resulted in a doubling of total grants for the state in the matter of four years. It is important to examine what constitute these flows of grants. Our focus is on the changing composition of grants. Block grants under state plan schemes constitute roughly 60% of total grants till 2014-15. Major components of block grants are Normal Central Assistance (NCA), Special plan assistance for prime minister's reconstruction programme (PMRP) and Special Plan assistance (SPA) share of other schemes were very small. As evident from **Table 7.3**, all the three were discontinued from 2015-16, infact all the components of block grants were discontinued. Not only block grants but the budget data for 2017-18(RE) and 2018-19(RE) shows that all the components of state plan schemes grants were discontinued, instead there was jump in the allocation to non-plan grant and grants for centrally sponsored plan scheme. The only component left in grants for the state plan scheme was others, which for the 2017-18(RE) and 2018-19(RE) comprise only of new scheme "The Aggregative Multi-sector Economic & Infrastructure Rebuilding (TAMIER)- Plan 2015-2020" under which there was a large fund release to the state and this new scheme is also the reason for the movement in overall grants in aid from from 20598 crores in 2016-17 to 27978 cr. and 35666 cr. in 2017-18(RE) and 2018-19(RE), respectively.

Table 7.3: Disaggregated Structure of Grant Flow to J&K (in Rs. Crore)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18(RE)	2018-19(RE)
Share in net proceed of tax	3495.11	3870.37	4142.1	4477.23	7813.48	9488.6	11803.18	8500.83
Grants-in-aid from Center	14540.75	14353.86	13843.44	16149.36	16728.14	20598.55	27978.49	35666.37
I. Non plan grant	4251.26	4080.16	4009.15	3342.32	11135.59	12776.4	14331.85	16942.61
II. Grants for state plan schemes (A+b+C+D+E+F)	9255.35	9546.85	9008.03	9341.41	521.42	2668.18	5445.87	8382.8
A. Block Grants	9027.28	9292.84	8791.44	9173.53	401.09	2475.89		
-BADP	124.62	133.94	158	115.2	130.11	-		
-PMRP	591.31	1703.9	2038.16	2890.04		2207.3		
-SPA	5534.74	4400	3441	3441	-	-		
-NCA	1888.55	2412.35	2594.87	2518.2	-	-		
-EAP	225.38	127.66	137.48	109.33	154.89	222.34		
-AIBP	480.58	238.87	172.04	44.68	81.02	-		
-JNNURM	150.46	246.84	202.39	12.64	-	-		
-NEGAP	7.92	1.07	5.77	7.91	0.72	0.57		
-NSAP	23.72	28.21	41.73	34.53	34.35	45.68		
B. Grants under 275(1)	13.9		11.46					
C. CRF	114.44	111.93	79.19	43.96	42.97	81.9		
D. RKVY	57.9	103.22	88.52	78.25	37.36	38.29		
E. TSP	11.43	1.5	17.02		40	72.1		
F. BRGF	30.4	37.36	20.4	45.67				
G. Others	300.09			3378.76	3843.07	5097.75	5445.87	8382.8
III. Grants for central plan schemes	85.34	111.87	119.51	84.5	1227.6	56.21		
IV. Grants for centrally-sponsored plan schemes	648.71	614.94	706.7	2.26	-	-	8200	10340.96

Source: J&K Finance Account, various years and Budget Documents Acronyms: 1. Special central plan assistance for border area development programme (BADP) 2. Special plan assistance for prime minister's reconstruction programme (PMRP) 3. Normal central assistance (NCA) 4. Central Assistance for externally aided projects (EAP) 5. Rashtriya krishi vikas yojana (RKVY) 6. Accelerated irrigation benefit program (AIBP) 7. Grants for e-governance (NEGAP) 8. National social assistance programme(NSAP) 9. Central Road Fund(CRF) 10. Tribal Sub Plan (TSP) 11. Backward Region Grant Fund (BRGF)

Table 7.4: Trends in Grants-in-aid from the Union Government (Rs Cr.)

	Grants-in-aid	Total Expenditure	Grants as per cent of Total Expenditure	Total Revenue Receipts	Grants as per cent of Total Revenue Receipts
2011-12	14,541	28,579	51 %	24,783	59 %
2012-13	14,354	30,341	47 %	26,217	55 %
2013-14	13,843	31,565	44 %	27,128	51 %
2014-15	16,150	34,463	47 %	28,939	56 %
2015-16	16,728	43,751	38 %	35,781	47 %
2016-17	20,599	48,098	43 %	41979	49 %

Source: Budget Document, relevant years. Govt. of J & K

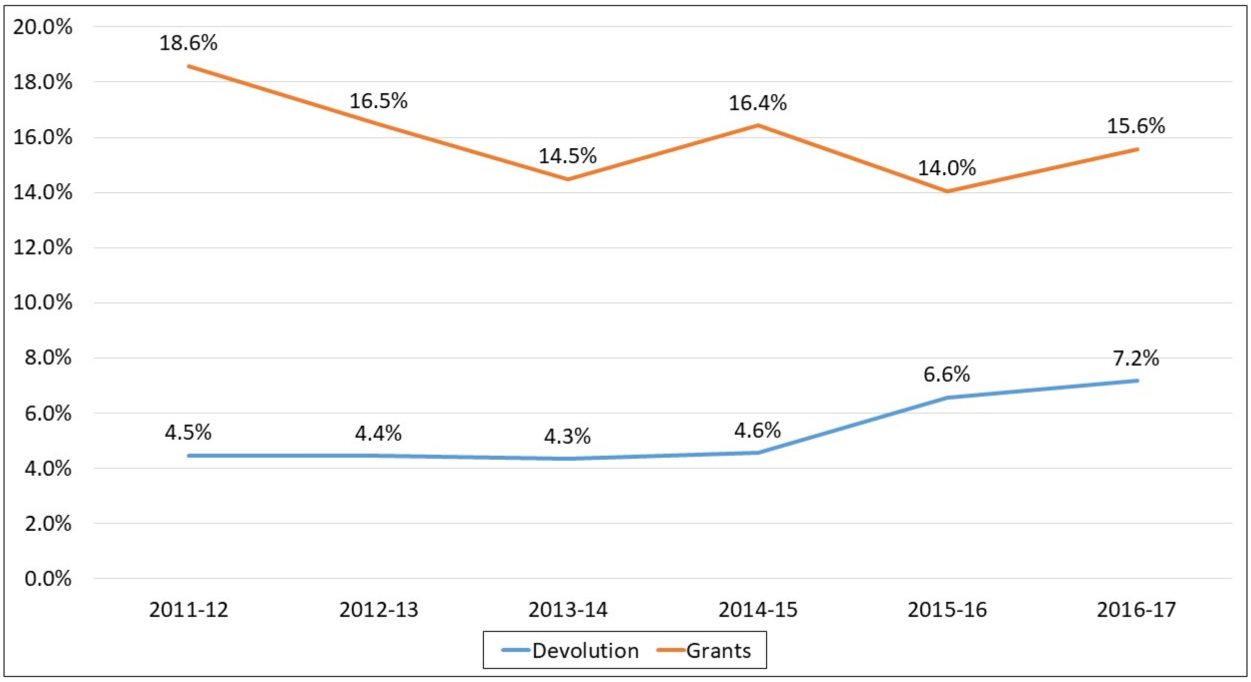
7.3 Outcome evaluation of state finances

Figure 7.1 gives out trends in central transfer, both tax devolution and grants, for 13th and 14th Finance Commission tenure. Tax devolution as percentage of GSDP has increased in J & K in 2015-16 as compared to 2014-15, the terminal year of the 13th Finance Commission award. The devolution in 2016-17 was also higher than the devolution in the last two year. Grants as percentage of state GSDP show an opposite trend when compared to 2015-16. The share of grants for 2015-16 and 2016-17 were lower than the share of grants for 2014-15. This is not surprising given the restructuring of grants to accommodate enhanced tax devolution.

Table 7.4 shows the significance of Grants-in-aid from the Union government in the budgetary resource base of the State government. The grant-in-aid from Union Government increased from 14,541 crore during 2011-12 to 16,728 crore during 2015-16 in absolute terms but decreased from 59 per cent in 2011-12 to 47 per cent in 2015-16 vis-a-vis total revenue receipts and from 51 per cent to 38 per cent vis-a-vis, total expenditure.In 2016-17 there is a further increases in grants in absolute numbers, as a result the share of grants in total expenditure and revenue receipts increase from 2015-16 to 43 and 49 percent but is still lower than the share achieved in 13th Finance Commission time period.

The actual release of share in Union taxes and duties to the State during five years of the award period of 13th and 14th Finance Commission vis-a-vis the projections made by the Commission are tabulated in **Table 7.5**. Under 14th Finance Commission, the projection during 2015-16 was 8,748 crore against this the tax collection of share of union taxes/duties was 7,813 crore resulting in a shortfall of 935 crore. Similarly for 2016-17, there was a gap of 1200 crores

Figure 7.1: Central Transfer to J & K (Devolution and Grants (% of GSDP)



Source: Budget Document, relevant years. Govt. of J & K

As per 14th Finance Commission Recommendation, 6,178.37 crore was projected (2015-20) for Urban Local Bodies, Rural Local Bodies and SDRF. Against this, an amount of 753.26 was to be released/allocated during the year 2015-16. However only 621.72 crore was received by the State government from the Ministry of Finance and Utilisation Certificate of 186.98 crore was submitted to GoI. Nil amount was received during 2015-16 by the State Government from the Union Ministry of Finance under Urban Local Bodies due to non-election of ULB's. The utilisation certificates for 316.26 crore were pending as at 31st March 2016 and that of 353 crores were pending as on 31st March 2017.

Table 7.5: State's share in Union taxes and duties (Actual devolution vis-a-vis Finance Commission projections) (Rs. Crore)

	13th & 14th F.C. Projection	Actual tax devolution
2011-12	3,328	3,495
2012-13	3,925	3,870
2013-14	4,630	4,142
2014-15	5,462	4,477
2015-16	8,748	7,814
2016-17	10,772	9,489

Source: 13th and 14th Finance commission report, Budget Document, relevant years. Govt. of J & K

Chapter 8

Determination of sustainable debt road map for 2020-25

In order to estimate the sustainable fiscal road map we have developed two projections of fiscal profile of the State. The first scenario is the Business As Usual Scenario. In this scenario, we have projected the fiscal path of the State based on past trends of revenue and expenditure as specified in the next section. The second scenario is the Reform Scenario where we have applied targeted norms for revenue mobilization and expenditure contraction to arrive at a sustainable fiscal path.

8.1 Business As Usual Scenario

8.1.1 Assumptions

For the Business as Usual scenario we make the following assumptions:

1. The base year for the projections is 2016-17 for which we have the audited statement of finances of Jammu & Kashmir.
2. For the Business as usual scenario we use the trend growth rates (TGR) for the period 2011-12 to 2016-17 for the items given in **Table 8.1** for making projections of the finances of the State up to the fiscal year 2024-25, the terminal year of the award period of FC-XV.
3. The trend growth rate for Share in central taxes (i.e., devolution) for the period

2011-12 to 2016-17 is very high at 22.77 percent. Devolution as percentage of GSDP was 7.48 percent in 2016-17, 8.38 percent in 2017-18 RE and 8.25 percent in 2018-19 BE. We do not expect substantial increase in the devolution figures and hence cannot use the trend growth rate for the purpose of projection. We, however, assume that in the fiscal year 2024-25, devolution to the state would be around 9 percent of GSDP. Accordingly we have assumed a gradual increase in devolution as percentage of GSDP increasing from 7.48 percent in 2016-17 to 9.00 percent in 2024-25.

4. For projection of interest payments, we first calculate the average rate of interest for the base year. This is done as follows:
   Average rate of interest in period t i.e., ARI(t) = IP(t)/OD(t-1), where OD(t-1) = outstanding debt in period (t-1); IP(t) = interest payments in period t.
   We assume that average rate of interest to remain the same for each of the projection years. For the base year 2016-17, average rate of interest was 8.25 percent.
   Having calculated the average rate of interest we project the interest payments as follows: IP(t) = OD(t-1)*ARI(t)

5. For each of the years, the outstanding liabilities is calculated as follows: OD(t) = OD(t-1) + FD(t), where FD(t) = fiscal deficit in period t.

Table 8.1: Trend growth Rate (2011-12 to 2016-17)

	percent
Own Tax Revenue	9.54
Own Non-Tax Revenue	15.23
Share in Central Taxes	22.77
Grants-in-aid	6.96
Revenue Expenditure	
Other Gen Services	7.43
Social Services-RE	14.05
Economic Services-RE	14.52
Capital Expenditure	
Gen Services CE	15.20
Social Services-CE	11.27
Economic Services-CE	5.94
GSDP	9.99

The projections under the Business as usual scenario is presented in **Table 8.2**. From the table it is evident that, going forward, under this scenario the state will be in financial crisis. In 2024-25, the revenue surplus in 2016-17 will turn into deficit in 2019-20 and state will have a revenue deficit of 6 percent of GSDP in 2024-25. Its fiscal deficit would increase to 11.96 percent in 2024-25 from a 4.87 percent in 2016-17. The outstanding liabilities as percentage of GSDP increase to 75.46 percent in 2024-25 and increase of about 26.42 percentage points between 2016-17 and 2024-25. Such a scenario is clearly not sustainable.

8.2 Reform Scenario

The state has to undertake reforms immediately if such a scenario has to be averted and the state can be brought back to the path of fiscal prudence. In order to do so we suggest the following reforms:

1. For the period 2011-12 to 2016-17, the state had own tax revenue buoyancy of 0.96, i.e., the taxes were growing at a rate that was lower that the growth of GSDP of the state. In the new scenario (or the reforms scenario) the state has to increase its own tax revenue buoyancy to 1.40 from the current 0.96

2. We assume a slower growth rate in the expenditures of the state. We assume the capital expenditures to grow at the same rate as it was growing during 2011-12 to 2016-17. However, we assume a reduction the growth of revenue expenditure. As we cannot change with the interest payments and the growth in other general services at 7.43 percent is modest, must of the reduction in revenue expenditures has to come from reduction in expenditures on social and economic services. We assume social services to grow at 12 percent, compared to 14.05 percent in business as usual scenario and economic services to growth at 10.50 percent (in the business as usual scenario economic services was assumed to grow at 14.52 percent).

The projections under the Reforms scenario is presented in **Table 8.3**. From the table we see that if the state undertake the reforms suggested it will be able to reduce its fiscal deficit to less than 3 percent in 2024-25. Its Fiscal deficit in 2024-25 would be around 2.74 percent. The state will have a revenue surplus of 3.22 percent in the terminal year and its outstanding liabilities would decline from the current 49.04 percent to 44.72 percent in 2024-25, as decline of about 4.33 percentage points. Although, its outstanding liabilities is no was closer to the 20 percent mark recommended by the FRBM Review Committee, but there would be reduction in its outstanding liabilities.

The Commission may have to suggest a separate debt path for states like Jammu and Kashmir taking into consideration the current debt level.

Table 8.2: Projections - Business as Usual Scenario

(% of GSDP)	Base Year	Projections							
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Total Revenue Receipt	33.09	32.96	32.86	32.77	32.7	32.64	32.61	32.6	32.61
Own Revenue Receipt	9.37	9.5	9.64	9.78	9.93	10.09	10.26	10.44	10.63
Own Tax Revenue	6.16	6.14	6.11	6.09	6.07	6.04	6.02	5.99	5.97
Own Non-Tax Revenue	3.21	3.36	3.52	3.69	3.87	4.05	4.24	4.45	4.66
Central Transfers	23.72	23.46	23.22	22.98	22.76	22.55	22.35	22.17	21.99
Share in Central Taxes	7.48	7.67	7.86	8.05	8.24	8.43	8.62	8.81	9
Grants-in-aid	16.24	15.79	15.36	14.93	14.52	14.12	13.73	13.36	12.99
Revenue Expenditure	31.39	32.04	32.72	33.49	34.34	35.28	36.3	37.41	38.62
General Services-RE	11.91	11.8	11.69	11.63	11.63	11.67	11.77	11.92	12.13
Interest Payment	3.6	3.68	3.76	3.89	4.06	4.28	4.55	4.87	5.24
Other Gen Services	8.31	8.12	7.93	7.75	7.57	7.39	7.22	7.05	6.89
Social Services-RE	9.12	9.45	9.8	10.16	10.54	10.93	11.33	11.75	12.18
Economic Services-RE	10.36	10.78	11.23	11.69	12.17	12.67	13.2	13.74	14.31
Capital Expenditure	6.53	6.43	6.34	6.25	6.17	6.1	6.03	5.97	5.92
General Services-CE	0.61	0.63	0.66	0.7	0.73	0.76	0.8	0.84	0.88
Social Services-CE	1.82	1.84	1.86	1.88	1.9	1.93	1.95	1.97	1.99
Economic Services-CE	4.11	3.96	3.81	3.67	3.54	3.41	3.28	3.16	3.04
Total Expenditure	37.92	38.47	39.06	39.74	40.51	41.37	42.33	43.38	44.53
General Services-TE	8.92	8.75	8.59	8.44	8.29	8.15	8.02	7.89	7.76
Social Services-TE	10.93	11.29	11.66	12.05	12.44	12.85	13.28	13.72	14.18
Economic Services-TE	14.47	14.74	15.04	15.36	15.71	16.08	16.48	16.9	17.35
RD	1.71	0.93	0.13	-0.72	-1.64	-2.63	-3.68	-4.81	-6
FD	-4.87	-5.55	-6.25	-7.02	-7.86	-8.77	-9.76	-10.82	-11.96
PD	-1.27	-1.87	-2.49	-3.13	-3.8	-4.49	-5.21	-5.95	-6.72
Outstanding Liabilities	49.04	50.13	51.83	54.14	57.08	60.67	64.92	69.84	75.46

Note: Deficit(-)/Surplus(+)

Table 8.3: Projections -The Reforms Scenario

(% of GSDP)	Base Year	Projections							
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Total Revenue Receipt	33.09	33.21	33.36	33.54	33.74	33.98	34.24	34.53	34.86
Own Revenue Receipt	9.37	9.75	10.15	10.55	10.98	11.42	11.89	12.37	12.87
Own Tax Revenue	6.16	6.39	6.62	6.86	7.11	7.37	7.64	7.92	8.21
Own Non-Tax Revenue	3.21	3.36	3.52	3.69	3.87	4.05	4.24	4.45	4.66
Central Transfers	23.72	23.46	23.22	22.98	22.76	22.55	22.35	22.17	21.99
Share in Central Taxes	7.48	7.67	7.86	8.05	8.24	8.43	8.62	8.81	9
Grants-in-aid	16.24	15.79	15.36	14.93	14.52	14.12	13.73	13.36	12.99
Revenue Expenditure	31.39	31.49	31.54	31.58	31.61	31.64	31.65	31.65	31.64
General Services-RE	11.91	11.8	11.63	11.45	11.26	11.06	10.84	10.6	10.35
Interest Payment	3.6	3.68	3.7	3.71	3.7	3.67	3.62	3.55	3.46
Other Gen Services	8.31	8.12	7.93	7.75	7.57	7.39	7.22	7.05	6.89
Social Services-RE	9.12	9.28	9.45	9.63	9.8	9.98	10.16	10.35	10.54
Economic Services-RE	10.36	10.41	10.45	10.5	10.55	10.6	10.65	10.7	10.75
Capital Expenditure	6.53	6.43	6.34	6.25	6.17	6.1	6.03	5.97	5.92
General Services-CE	0.61	0.63	0.66	0.7	0.73	0.76	0.8	0.84	0.88
Social Services-CE	1.82	1.84	1.86	1.88	1.9	1.93	1.95	1.97	1.99
Economic Services-CE	4.11	3.96	3.81	3.67	3.54	3.41	3.28	3.16	3.04
Total Expenditure	37.92	37.92	37.87	37.83	37.78	37.73	37.68	37.62	37.55
General Services-TE	8.92	8.75	8.59	8.44	8.29	8.15	8.02	7.89	7.76
Social Services-TE	10.93	11.12	11.31	11.51	11.71	11.91	12.11	12.32	12.53
Economic Services-TE	14.47	14.36	14.26	14.17	14.09	14.01	13.93	13.86	13.79
RD	1.71	1.73	1.82	1.96	2.13	2.34	2.59	2.88	3.22
FD	-4.87	-4.75	-4.56	-4.34	-4.08	-3.8	-3.48	-3.13	-2.74
PD	-1.27	-1.07	-0.86	-0.63	-0.39	-0.13	0.14	0.42	0.72
Outstanding Liabilities	49.04	49.34	49.41	49.26	48.87	48.23	47.34	46.17	44.72

Note: Deficit(-)/Surplus(+)

Chapter 9

Summary and Conclusions

Summary arrived from the study are as following

Analysis of revenue receipts show that the State, being a special category State, had high level of share in Central taxes and grants from the Central government. However, the State's dependence on central resources has been steadily declining. It came down from 74 per cent of total revenue in 2006-07 to 69 per cent in 2015-16, however it showed an upward tick in 2016-17 with 71 percent share. There was increase in the total capital expenditure from 2,456 crore in 2006-07 to 8,285 crore in 2016-17. States Own Tax Revenue (SOTR) grew from 1,761 crore in 2006-07 to 7,819 crore in 2016-17. Service Tax is the only Central Tax that is presently not applicable to the State of J & K. The State has its own Service Tax under State Law. Since the Central Service Tax is not applicable to the State, the State is not entitled to a share in the total Service Tax collected by the Central Government all over the country. The foregone share is 1.551 per cent of the Service Tax collected by the Centre. As per assessment made by the 13th Finance Commission regarding likely Central Service Tax collection during 2010-15, the 1.551 per cent share foregone by the J & K works out to 8,363.38 crore against which the State Service Tax collection was 4,461.09 and States actual Share in Central Service Tax would have been about 9,674.30 crore i.e., 1.551 per cent of the Total Central Service tax collection of 6,23,746 crore. As per the 14th Finance Commission, the likely Service Tax collection during 2015-16 as State share should have been 3,815.55 crore i.e.,1.854 per cent of State share of Central Service Tax (2,05,815.55) against which the State has collected the actual service tax to the tune of 1,236.77 crore and had foregone 2,578.78 crore.

Central Government has been transferring a sizeable quantum of funds for CSS schemes such as SSA, NRHM, MGNERGS, etc. in the form of Grant-in-aid which is taken under revenue receipts by the State Government but the expenditure is being incurred under Capital Heads for creation of assets. This leads to increase in revenue Surplus and Capital outlay. The expenditure on salaries, wages, pension and other post-retirement benefits, interest payments and power development departments' was nearly 69.67 per cent of total expenditure and 79.89 per cent of normal revenue expenditure in 2016-17. Targets for collection of power departments' tariff were not achieved in the period understudy. For the year, 2016-17 the shortfall in collection of revenue was 210 crore vis-a-vis targets and shortfall vis-a-vis expenditure on power purchased was 3,363 crore. Government did not present a time bound action plan to recover minimum of 50 per cent of service charges after accounting for operation and maintenance expenses from the users as recommended by the 13th Finance Commission.
The dependence of the Government on high interest rate bearing market loans and WMA from RBI to fund its expenditures was on increasing trend instead of improving States own revenue resources to generate developmental funds. The Development Capital Expenditure registered a persistent decreasing trend from 2011-12 to 2014-15 and increased during 2015-16 and 2016-17 indicating that the developmental works were getting inadequate resources upto 2014-15.
The State Government had investment of 547.83 crore in 3 statutory corporations, 23 companies, 8 co-operative institutions/local bodies, 2 rural banks and 2 joint stock companies. The return of 128.88 crore came only from J & K Bank Ltd.

Some major findings of the study are as follows:

1. The Share of Central Taxes has shown an increase of 21.44 percent during 2016-17 over the previous year. There has been a good sign of improvement in the collection of non-tax revenue which has increased by 4.06 percent. Transfer from the Union Government of State's share in Union taxes and duties and grant-in-aid together constituted on an average 74 percent of the State's revenue receipt. Grant-in-aid represents the significant component from the union government in the budgetary resource base of the State Government. The grant-in-aid from union government in absolute terms has remained 49 percent in 2016-17 vis-a-vis total revenue receipts and 42.75 percent vis-a-vis total expenditure.

2. The revenue expenditure likewise has shown an increasing trend over 2015-16 with increase of 9.31 percent in 2016-17.

3. Increase in the Revenue Expenditure, to a large extent, has impacted revenue surplus envisaged to be Rs 7606 crore in the 2016-17 budget. Revenue surplus in actual term was reduced to Rs 2166 crore as per finance account of 2016-17.

4. The tax policy of 2016-17 was based on a more realistic growth estimation keeping in view the lower tax buoyancy in the previous years. The underlying theme was to give a boost to domestic manufacture, bring about greater clarity in tax laws, maintaining stable rates and rationalizing the tax structure. The tax revenue has been showing constant progressive trend with these structural reforms. Own tax revenue has increased to Rs 7819 crore during 2016-17 from Rs 7326 crore in 2015-16. Expenditure on collection of taxes on sales and trade was Rs 45 crore, State Excise Rs 27 crore. Percentage of expenditure to gross collection of revenue was 0.86 percent and 5 percent respectively. The percentage of cost of collection in respect of the land revenue was the highest. Expenditure on collection of land revenue was Rs 148 crore which is an area of concern.

5. More concerted efforts can bring more buoyancy in the tax revenue. Buoyancy in non-tax revenue has not remained much attractive over the years. The policy has been to reform power sector which constitutes the most significant component of State's non-tax revenue which has been realized to Rs 2770 including subsidy of Rs 1200 crore much less than the budget estimates. Big impediment to achieve growth in this category are non-realisation of any progress on recovery of atleast 50 percent of the service charges from the user after accounting for the operation and maintenance expenses.

6. The loans and advances from the Union Government and market borrowing/Institutional Finance have crossed Rs 4902 crore during 2016-17. The ways and means advances and overdraft has touched Rs 15848 crore. Dependence on borrowing to manage cash/ liquidity balance has largely affected the interest burden of the State resulting in deterioration of the fiscal parameters.

7. A policy initiatives to curb interest burden by clearing power liability through UDAY/Power bonds without affecting the fiscal indicators has been undertaken. By virtue of this lifting of Bonds exemption granted for calculation of the fiscal parameters by the union Government to bail out the distribution companies (discoms) of the State Governments has been fully utilised.

8. The total expenditure of the State increased by 9.87 percent from Rs. 43845 crore in 2015-16 to Rs. 48174 crore in 2016-17. The revenue expenditure components

has increased by 9.31 percent and capital expenditure component has increased by 12.3 percent during the same period.

9. The share of salary/wages/pension in the total expenditure during 2016-17 stood at 40.20 per cent, which had increased to 3.41 per cent during the period. The sector wise expenditure reveals 36.08 percent of expenditure on General Services, 27.61 percent on Social Services and 31.37 percent on Economic Service.

10. The expenditure on payment of interest increased marginally from Rs.3719 crore in 2015-16 to Rs. 4567 crore in 2016-17. The share of revenue expenditure in the total expenditure increased from 81.61 percent in 2015-16 to 87.14 per cent in 2016-17.

11. Growth in revenue on account of GST has been at 30.4 percent.

12. Fiscal deficit in J &K has always been on the higher side, the average in the period understudy was 5.5 percent, even after adoption of FRBM Act. However, the State continued to maintain revenue surplus during the period 2010-14 but the surplus declined sharply and reduced to Revenue deficit of 640 crore during 2015-16.

13. Compared to few other Special Category states, J&K's debt/GSDP ratio has been highest during 2005-2016 and 2015-16 it stood at 45.5 percent. Other state's like H.P. Tripura and Uttarakhand which started around same level or higher level were able to bring down their debt to GSDP ratio.

14. The dependence of the government on high interest rate bearing market loans to fund its expenditures was on increasing trend in the period under study. Instead of improving States own revenue resources to generate developmental funds government took the easy way out by borrowing the fund.

15. The Development Capital Expenditure registered a persistent decreasing trend from 2011-12 to 2014-15 and increased during 2015-16 indicating that the developmental works were getting inadequate resources upto 2014-15.

16. 13th finance commission recommended basic and performance grants to both PRIs and ULBs. Against the sanctioned grant of 204.18 crore for the period 2010-15, (GBG: 133.50 crore and GPG: 70.68 crore) funds amounting to 34.90 crore (GBG: 30.69 crore and GPG: 4.21 crore) were released by GoI during the period 2010-13. No funds were released during 2013-14 and 2014-15 due to not conducting elections to the ULBs after 2010. As a result State Government

lost the financial assistance of 169.28 crore which resulted in not taking up of developmental activities envisaged under the schemes.

17. In the 13th Finance Commission Award, an amount of 918 crore were sanctioned for rural local bodies of the State. Out of this, 600 crores falls under General Basic Grant and Rs 318 crore falls under General Performance Grant. Out of the sanctioned funds government released 592 crores (GBG: 524 crore and GPG: 68 crore) during the period 2011-15.

18. Under the 14th finance commission recommendation J&K is expected to receive Rs. 1305.64 Cr (GBG: 1044 cr, GPG: 261 crore) for urban local bodies and Rs. 3463.73 crore (GBG: 3117 crore and GPG: 346 crore) for rural local bodies. While ULBs haven't received any grants for 2015-16, RLBs have received 367 crores, though utilization certificate for 180 crores is still pending.

19. Pay Commission awards has led to a steep increase in the allocation for revenue expenditure between 2017-18 and revised estimates of 2018-19. Revenue expenditure of J&K grew by 44 percent between 2017-18 and 2018-19(it jumped from 40917 crores to 59042 crores), however the average of five years pre-implementation of recommendation was just 13 percent.

20. State's fiscal position deteriorated during 2016-17 due to the taking over of Discom debt under UDAY schemes. Consequently, the consolidated fiscal deficit and outstanding liabilities rose above the FRBM threshold level.

21. The state gains from the recommendation of Fourteenth Finance Commission. tax devolution to the States increased from 4.6% of GSDP in 2014-15 to 6.7% in 2015-16, 7.5% in 2016-17 and to 8.3% in 2017-18, in three years share of State in central taxes almost double as a percent of its GSDP. The growth rate in grants from the centre for the period prior to 2015-16 was around 3.5% which increased to 23% (2016-17) and 35% (2017-18(RE)).

The major conclusions derived from the study and the primary areas of concern are put forth as under:

1. There is a steep rise in salary and pension bills, administrative costs, burgeoning hidden subsidies including power deficit, rising interest liabilities and loan repayments, deficit on account of Non-tax Revenue, increased interest payments outgo.

2. Revenue Expenditure has increased unabated. The major reason being periodical

increase of salaries, regularization/appointment of new employees, power revenue deficit, interest liability and subsidies.

3. Revenue generation from the both tax and non-tax sources have not recorded impressive jump commensurate to the demands and requirements of the State.

4. Dependence on borrowings is more indicative now to maintain at least constant level of Capital spending. Major borrowings are through open market and WMA from RBI apart from public account.

5. Financing of Capital spending in the wake of ever expanding Revenue Expenditure and squeezed resources is another challenge to handle.

6. The degradation of infrastructure created due to absence of adequate maintenance grants is another area of concern and needs to be addressed by way of providing adequate funds in the capital /revenue expenditure whichever is applicable on a fixed basis.

7. Major portion of the Government expenditure is incurred under revenue component which does not usually result in fresh creation of the assets.

8. Reform in the power sector has remained key focus area during 2016-17 and a separate power budget was also presented in the legislature to highlight status of power scenario in the State with its impact on the overall resource position of the State.

9. During 2016-17 major thrust area of the Government has remained to address ever increasing liabilities of various kinds at the State Treasuries which has distorted fiscal management principles and has culminated into cash deficit.

10. If the State follows the current path of revenue generation and expenditure then in 2024-25, the revenue surplus in 2016-17 will turn into deficit in 2019-20 and state will have a revenue deficit of 6 percent of GSDP in 2024-25. Its fiscal deficit would increase to 11.96 percent in 2024-25 from a 4.87 percent in 2016-17. The outstanding liabilities as percentage of GSDP increase to 75.46 percent in 2024-25 and increase of about 26.42 percentage points between 2016-17 and 2024-25. Such a scenario is clearly not sustainable.

Main Recommendations

Paucity of resources and other limitation adds to the severity of the issues which need focused attention to make conditions conducive for the economic and social growth. The multi-pronged strategy for mobilization of additional resources, improvement in tax and non-tax collections, cost recovery of user charges, expenditure compression, particularly establishment related and increase in efficiency levels should be of prime importance.

1. Special efforts are required to identify new sources of revenues besides augmenting collection from existing sources on the non tax revenue side as well as tax side.

2. Improve buoyancy of tax revenue, it can be achieved in various ways like by increasing compliance, efficient implementation and buoyancy is also expected to improve after complete movement to GST.

3. Reforms in the power trading processes should be carried out as early as possible, so as to avail best standard operating practices available to bring down power purchase cost which is increasing at an alarming rate and completely distorting fiscal balance of the State.

4. Since the major chunk of the Revenue Expenditure is on Salaries, Pension and interest payments which is largely uncontrollable, the State Government may explore measures for containing other components of Revenue Expenditure so that Revenue deficit could be eliminated and recourse to borrowal of funds reduced.

5. If the state undertake the reforms of increasing tax buoyancy and slower rate of growth of expenditure, it will be able to reduce its fiscal deficit to less than 3 percent in 2024-25. Its Fiscal deficit in 2024-25 would be around 2.74 percent. The state will have a revenue surplus of 3.22 percent in the terminal year and its outstanding liabilities would decline from the current 49.04 percent to 44.72 percent in 2024-25, as decline of about 4.33 percentage points.

6. State should adhere to FRBM Act and restrict its fiscal deficit to 3%

7. The FC-XIII had recommended that States should bring down their debt-GDP ratio to 25 per cent by 2014-15. Steps should be taken to achieve that.

8. The State Government enacted (April 2011) the Jammu and Kashmir State Finance Commission for Panchayats and Municipalities Act 2011. As per the Act,

the State Government, at the commencement of the Act and thereafter at the expiration of every fifth year, was required to constitute a State Finance Commission for Panchayats and Municipalities to review the financial position of Panchayats and Municipalities and to exercise the powers conferred upon and to perform the functions assigned to it under the Act. The Commission had not been constituted so far (December 2015) despite lapse of almost four years. It should be constituted as early as possible.

9. The MoU signed by government of J&K under UDAY scheme require the state to take a set of measures to improve the power sector, however, state is behind in achieving almost all the goals. There should be conscious effort from the state to achieve the same.

10. There were three non-working PSUs as on 31 March 2015. Since the non-working PSUs are not contributing to the State economy and meeting the intended objectives, therefore, these PSUs may be considered either to be closed down or revived.

11. Local bodies should be allowed to explore innovative financing mechanisms like Public private partnership, venture capital financing, crowd source financing and municipal bonds.

12. A review of property tax system should be undertaken to improve efficiency and transparency in collection and mobilization of resources which would help local bodies to increase their own revenue pool.

13. FC-XIV recommended that the urban local bodies should rationalise their service charges in a way that they are able to at least recover the operation and maintenance costs from the beneficiaries. This should be actively implemented.

Appendix A

Detailed Tables

Table A.0.1: SCS wise components of total revenue in Rs. Crore

	Total Revenue Receipts	States Own total revenue	States Own Tax Revenue	States Own Non-Tax Revenue	Central Transfer	Share in Central Taxes	Grants from Centre
2006-07							
Uttarakhand	7373.2	3160.6	2513.8	646.8	4212.6	1131.8	3080.8
Arunachal Pradesh	2592.2	375.4	78.2	297.2	2216.8	347.1	1869.6
Assam	13666.9	5342.6	3483.3	1859.3	8324.4	3899.0	4425.4
H.P	7835.2	2993.2	1656.4	1336.9	4842.0	629.2	4212.8
J & K	11351.2	2959.9	1761.3	1198.7	8391.2	1414.1	6977.1
Manipur	2862.7	302.6	121.6	181.0	2560.1	436.3	2123.8
Meghalaya	2142.2	489.1	304.7	184.4	1653.1	447.2	1205.9
Mizoram	1968.9	201.0	67.6	133.4	1767.9	288.1	1479.9
Nagaland	2772.5	210.2	119.0	91.1	2562.3	316.9	2245.4
Sikkim	2116.5	1211.7	126.7	1085.0	904.8	269.3	635.5
Tripura	3333.4	436.5	341.6	95.0	2896.8	515.8	2381.1
All SCS	58015.0	17682.9	10574.1	7108.7	40332.1	9694.8	30637.3
2016-17							
Uttarakhand	24889.0	12243.1	10897.3	1345.8	12645.8	6411.6	6234.3
Arunachal Pradesh	11779.6	1253.5	708.8	544.8	10526.0	8388.3	2137.7
Assam	49219.8	16432.7	12079.6	4353.1	32787.1	20188.6	12598.5
H.P	26264.3	8756.3	7039.0	1717.2	17508.1	4343.7	13164.4
J & K	41978.5	11891.3	7819.1	4072.2	30087.2	9488.6	20598.6
Manipur	9129.1	751.5	586.7	164.8	8377.6	3757.1	4620.5
Meghalaya	8939.0	1871.2	1186.0	685.2	7067.7	3911.1	3156.7
Mizoram	7398.3	807.0	441.8	365.2	6591.3	2800.6	3790.6
Nagaland	9442.3	856.3	510.8	345.5	8586.0	3032.6	5553.4
Sikkim	4610.3	1104.2	652.6	451.6	3506.1	2069.2	1436.9
All SCS	193650.1	55967.2	41921.6	14045.5	137682.9	64391.4	73291.5

Source:NIPFP Data Bank on public finance

Table A.0.2: Relative shares of various components of total revenue (in percent)

	1. Total Revenue Receipts	1.1 States Own total revenue	A. States Own Tax Revenue	B. State Own Non-Tax Revenue	1.2 Central Transfer	A. Share in Central Taxes	B. Grants from Centre
2006-07							
Uttarakhand	100	42.9	34.1	8.8	57.1	15.4	41.8
Arunachal Pradesh	100	14.5	3.0	11.5	85.5	13.4	72.1
Assam	100	39.1	25.5	13.6	60.9	28.5	32.4
H.P	100	38.2	21.1	17.1	61.8	8.0	53.8
J & K	100	26.1	15.5	10.6	73.9	12.5	61.5
Manipur	100	10.6	4.2	6.3	89.4	15.2	74.2
Meghalaya	100	22.8	14.2	8.6	77.2	20.9	56.3
Mizoram	100	10.2	3.4	6.8	89.8	14.6	75.2
Nagaland	100	7.6	4.3	3.3	92.4	11.4	81.0
Sikkim	100	57.2	6.0	51.3	42.8	12.7	30.0
Tripura	100	13.1	10.2	2.8	86.9	15.5	71.4
All SCS	100	30.5	18.2	12.3	69.5	16.7	52.8
2016-17							
Uttarakhand	100	49.2	43.8	5.4	50.8	25.8	25.0
Arunachal Pradesh	100	10.6	6.0	4.6	89.4	71.2	18.1
Assam	100	33.4	24.5	8.8	66.6	41.0	25.6
H.P	100	33.3	26.8	6.5	66.7	16.5	50.1
J & K	100	28.3	18.6	9.7	71.7	22.6	49.1
Manipur	100	8.2	6.4	1.8	91.8	41.2	50.6
Meghalaya	100	20.9	13.3	7.7	79.1	43.8	35.3
Mizoram	100	10.9	6.0	4.9	89.1	37.9	51.2
Nagaland	100	9.1	5.4	3.7	90.9	32.1	58.8
Sikkim	100	24.0	14.2	9.8	76.0	44.9	31.2
All SCS	100	28.9	21.6	7.3	71.1	33.3	37.8

Source:NIPFP Data Bank on public finance

Table A.0.3: Disaggregated revenue expenditure and relative share of components in their respective services

	Revenue Expenditure (Rs.Crore)			Relative share		
	2006-07	2011-12	2016-17	2006-07	2011-12	2016-17
A. Social Services	2881.1	6292.6	11563.7	100	100	100
1. Education, Sports, Art and Culture	1153.9	3263.7	5769.9	40.1	51.9	49.9
2. Medical and Public Health	529.4	1206.6	2300.0	18.4	19.2	19.9
3. Family Welfare	25.9	65.0	75.5	0.9	1.0	0.7
4. Water Supply and Sanitation	317.6	728.1	1121.6	11.0	11.6	9.7
5. Housing	30.5	43.8	88.9	1.1	0.7	0.8
6. Urban Development	140.2	340.7	690.3	4.9	5.4	6.0
7. Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	37.1	74.7	95.5	1.3	1.2	0.8
8. Labour and Labour Welfare	20.8	86.8	31.6	0.7	1.4	0.3
9. Social Security and Welfare	220.1	363.1	971.9	7.6	5.8	8.4
10. Nutrition	9.8	47.3	77.3	0.3	0.8	0.7
11. Relief on account of Natural Calamities	373.5	18.4	262.1	13.0	0.3	2.3
B. Economic Services	3079.4	6663.1	13137.8	100	100	100
1. Agriculture and Allied Activities	597.6	1207.6	1954.7	19.4	18.1	14.9
2. Rural Development	187.6	242.4	515.8	6.1	3.6	3.9
3. Special Area Programmes	116.4	375.2	564.9	3.8	5.6	4.3
4. Irrigation and Flood Control	211.4	368.0	506.7	6.9	5.5	3.9
5. Energy	1675.4	3768.3	8060.2	54.4	56.6	61.4
6. Industry and Minerals	116.4	230.3	303.3	3.8	3.5	2.3
C. General Services	4653.5	9724.8	15110.7	100	100	100
1. Organs of State	64.4	183.2	248.7	1.4	1.9	1.6
2. Fiscal Services	58.2	131.2	263.7	1.3	1.3	1.7
3. Interest Payments and Servicing of Debt	1786.6	2398.8	4601.3	38.4	24.7	30.5
4. Administrative Services	1723.3	3713.8	5776.0	37.0	38.2	38.2
5. Pensions	1020.9	3296.5	4216.5	21.9	33.9	27.9
6. Miscellaneous General Services	0.0	1.1	4.5	0.0	0.0	0.0

Source:NIPFP Data Bank on public finance

Table A.0.4: J & K's Market Loan and Borrowing from other agencies (in Rs. Crore)

	Internal Debt (1 to 8)	1. Market Loans	2. Loans from LIC	3. Loans from SBI and other Banks	4. Loans from National Bank for Agriculture and Rural Development	5. Loans from National Co-operative Development Corporation	6. WMA from RBI	7. Special Securities issued to NSSF	8. Others
2005-06	13475	299	127	11270	159	0	0	591	1028
2006-07	2557	690	113	1105	181	0	0	792	-323
2007-08	3826	2225	105	995	251	0	0	62	188
2008-09	5578	1844	237	2883	416	0	0	43	154
2009-10	5663	1109	247	3518	430	0	0	127	233
2010-11	8069	3382	346	1847	564	-1	0	1593	336
2011-12	8505	2975	217	0	445	0	4436	108	324
2012-13	7015	2150	241	0	413	0	3742	246	223
2013-14	5987	2080	256	0	277	0	2850	316	208
2014-15	10247	1400	255	0	366	0	7448	574	203
2015-16	14628	2250	34	0	301	0	8991	694	2358
2016-17	20724	2790	0	0	408	0	15848	0	1678

Source:NIPFP Data Bank on public finance