CHAPTER I

FINANCES OF THE STATE GOVERNMENT

CHAPTER I
FINANCES OF THE STATE GOVERNMENT

Profile of the State

Manipur is located in the north-eastern corner of India. Both in terms of geographical area and population it ranks twenty-third amongst the States in India. The land-locked State is bound by Nagaland in the north, Mizoram in the south, Cachar district of Assam in the west, and has an international border-line with Myanmar in the east. The total geographical area of 22,327 sq. km. of the State is divided into two parts – the central valley and the hills surrounding the valley. There are nine districts in the State, of which four are in the valley and five districts are located in the hills. The State is connected by three National Highways (NH) *viz.,* NH-39, NH-53 and NH-150. There is an airport at Imphal, the capital town of the State. Presently, rail-line connects only Jiribam town at the border of Assam. The State's population increased from 21.67 lakh in 2001 to 27.22 lakh in 2011 recording a decadal growth of 26 *per cent*. The density of population is 122 per sq. km. The percentage of population below the poverty line was 17.30 *per cent* (All India Average- 27.5 *per cent*). The State's literacy rate has increased from 70.53 *per cent* (as per 2001 census) to 79.21 *per* cent (as per 2011 census). Manipur ranks fifth among the North Eastern States of India in terms of literacy. Other related details are given in **Appendix 1.1 (Part D)**.

Gross State Domestic Product

Gross State Domestic Product (GSDP) is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the vibrancy of the State's economy. The trends in the annual growth at current prices of the State's GSDP are indicated in the following table**:**

Table 1.1: GSDP and the rate of growth during 2008-13

(₹ in crore)

Year	2008-09	2009-10	2010-11	2011-12	2012-13
State's GSDP*	7399	8254	9108(P)	10410(Q)	11713(A)
Growth rate of GSDP (percentage)	8.82	11.56	10.35	14.30	12.52

*At current price with base year 2004-05. (P) – Provisional estimates, (Q) - Quick estimates, (A) - Advanced estimates

(Source: Department of Economics and Statistics, Government of Manipur)

GSDP of the State grew at the rate of 12.52 *per cent* (₹ 11713 crore) at current price during 2012-13 against a growth of 14.30 *per cent* (₹ 10410 crore) during 2011-12. The Compounded Annual Growth Rate (CAGR) of GSDP of the State during 2003-13 was 13.52 *per cent* (**Appendix 1.1 - Part D**).

This chapter provides a broad perspective of the finances of the Government of Manipur during 2012-13 and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years (2008-13). The details of structure, form of

Government accounts, layout of Finance Accounts, methodology adopted for assessment of fiscal position, profile of the State *etc*. are given in **Appendix 1.1 (Part C).**

1.1 Introduction

1.1.1 Summary of fiscal transactions

The following table presents the summary of the State Government's fiscal transactions during the current year (2012-13) *vis-à-vis* the previous year (2011-12), while **Appendix 1.2** provides details of Receipts and Disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of Fiscal operations

(₹ in crore)

Receipts	2011-12	2012-13	Disbursements	2011-12	2012-13		
Section-A: Revenue					**Non Plan**	**Plan**	**Total**
Revenue receipts	5653.55	6819.76	Revenue expenditure	5006.92	4250.33	1066.20	5316.53
Tax revenue	368.07	332.83	General Services	2133.60	2273.98	7.85	2281.83
Non-tax revenue	311.53	231.78	Social Services	1439.29	970.11	558.11	1528.22
Share of Union Taxes/ Duties	1154.03	1317.83	Economic Services	1257.37	813.02	500.24	1313.26
Grants-in-aid from the Government of India	3819.92	4937.32	Grants-in-aid and Contributions	176.66	193.22	-	193.22
Section-B: Capital							
Miscellaneous Capital Receipts	-	-	Capital expenditure	1695.41	7.87	1493.69	1501.56
Recoveries of Loans and Advances	1.89	0.59	Loans and Advances disbursed	0.08	2.30	1.00	3.30
Public Debt receipts	293.33	340.25[1]	Repayment of Public Debt	160.24			171.81[2]
Contingency Fund	-	-	Contingency Fund	-	-	-	-
Public Account receipts	5582.21	3921.37	Public Account disbursements	5396.61			3772.34
Opening Cash Balance	356.48	(-)371.80	Closing Cash Balance	(-)371.80			(-)55.37
Total	**11887.46**	**10710.17**	**Total**	**11887.46**			**10710.17**

(Source: Finance Accounts for the respective years)

The following are the significant changes during 2012-13 over the previous year:

[1] ₹ 340.25 crore = ₹ 332.28 crore *(*Internal debt receipt other than Ways and Means Advances and overdrafts*) plus* ₹ 7.97 crore *(*Net transactions under Ways and Means Advances*)*

[2] ₹ 171.81 crore = ₹ 127.81 crore (Repayment of Internal debt other than Ways and Means Advances and Overdrafts) *plus* ₹ 44.00 crore (Repayment of Loans and Advances to Central Government)

- Revenue receipts increased significantly by ₹ 1166.21 crore (21 *per cent*) over the previous year. Despite the decrease in Tax revenue (₹ 35.24 crore) and Non tax revenue (₹ 79.75 crore) over the previous year, Revenue receipts increased by ₹ 1166.21 crore, mainly due to increase in Grants-in-aid. In fact, increase in Grants-in-aid from the Government of India constituted 96 *per cent* of increase of Revenue receipt of the State. The State's share of Union Taxes and Duties also increased by ₹ 163.80 crore over the previous year. The Revenue receipt of ₹ 6819.76 crore in 2012-13 was, however, lower than the projection made in the Medium Term Fiscal Policy Statement (MTFPS) (₹ 7746.44 crore).

- Revenue expenditure increased by ₹ 309.61 crore over the previous year while Capital expenditure decreased by ₹ 193.85 crore. The Revenue expenditure (₹ 5316.53 crore) and Capital expenditure (₹ 1501.56 crore) for the year 2012-13 were less than the projections made under MTFPS (Revenue expenditure - ₹ 6139.57 crore) and (Capital expenditure - ₹ 2258.43 crore).

- Public debt receipts increased by ₹ 46.92 crore (16 *per cent*) over the previous year. Repayment of Public debt also increased by ₹ 11.57 crore (7 *per cent*) over the previous year.

- Public Account receipts decreased significantly by ₹ 1660.84 crore (30 *per cent*) in 2012-13 over the previous year. Similarly, Public Account disbursement decreased by ₹ 1624.27 crore (30 *per cent*) in 2012-13 as compared to the previous year. The decrease under Public Accounts receipts and disbursement during the year was mainly due to decrease in Suspense and Miscellaneous (₹ 1970.47 crore under receipt and ₹ 1966.00 crore under disbursement).

- The total inflow during 2012-13 was ₹ 10,710.17 crore against ₹ 11,887.46 crore in 2011-12, while the total outflow during 2012-13 was ₹ 10,765.54 crore against ₹ 12,259.26 crore during the previous year, leading to a negative cash balance of ₹ 55.37 crore, at the end of 2012-13.

1.1.2 Review of the fiscal situation

The State Government enacted the Manipur Fiscal Responsibility and Budget Management (FRBM) Act in August 2005 to ensure prudence in fiscal management and fiscal stability by achieving sufficient revenue surplus; reduction in Fiscal deficit; prudent debt management consistent with fiscal sustainability; and greater transparency in fiscal operations of the Government. As per Manipur FRBM Rules, 2005 (enacted in December 2005 and subsequent amendments thereafter) framed under the Act, various fiscal targets of revenue surplus and fiscal deficit *etc*. were set. The targets under the Act and the Rules are given in **Appendix 1.1 (Part E).** Yearly targets are also set in the Medium Term Fiscal Policy Statements (MTFPS) placed in the State Legislative Assembly.

Major fiscal variables provided in the recommendations of the 13th Finance Commission (FC), targeted in the FRBM Act and FRBM Rules, as well as those laid down in the Budget and MTFPS of the State is depicted in the following table:

Table 1.3: Trends in Major fiscal parameters/variables *vis-à-vis* targets for 2012-13

(₹ in crore)

Fiscal variables	Targets				
	13th FC	**FRBM Act**	**Budget**	**MTFPS**	**Actual**
Revenue Deficit (-)/ Surplus (+)	Eliminate Revenue deficit by 2011-12 and maintain revenue balance or attain a surplus thereafter	Maintain Revenue surplus	1606.87	1606.87	1503.23
Fiscal Deficit/GSDP (in *per cent)*	3.5 *per cent*	Below 3.5 *per cent*	4.19	4.19	0.01
State's outstanding guarantees	NA	Not to exceed thrice the State's own tax revenue receipts of the second preceding year *i.e.* ₹ 801.15 crore [3]	NA	NA	191.36
Salary expenditure	1333.51	35 *per cent* of Revenue expenditure net interest payment and pension *i.e.* ₹ 1443.13 crore[4]	NA	NA	2351.63[5]
Total outstanding debt /GSDP (in *per cent*)	60.10 *per cent*	60.10 *per cent*	47.52	47.52	34.50

(NA: - Not available)
(Source: 13th FC, FRBM Act, Budget documents, MTFPS and Finance Accounts)

While the State could maintain Revenue surplus as envisaged in the recommendation of 13th FC and FRBM Act, the Revenue surplus (₹ 1503.23 crore) was short by ₹ 103.64 crore *vis-a-vis* the projections of Budget/MTFPS (₹ 1606.87 crore). The above table reveals that the State could achieve the targets of fiscal parameters of Fiscal Deficit-GSDP ratio, State's Outstanding Guarantee and Total Outstanding debt-GSDP ratio.

Fiscal Deficit-GSDP ratio came down to 0.01 *per cent* against target of 3.5 *per cent* to 4.19 *per cent*. As against FRBM Act limit of ₹ 801.15 crore of State's Outstanding guarantee, the actual was ₹ 191.36 crore. The Total Outstanding debt –GSDP ratio stood at 34.50 *per cent* against 47.52 *per cent* to 60.10 *per cent* targeted.

Salary expenditure emerged as an area of concern, as the actual has considerably exceeded the corresponding target figures. Against targeted amount of ₹ 1333.51 crore (13th FC) and ₹ 1443.13 crore (FRBM Act), the actual expenditure on salary was ₹ 2351.63 crore.

[3] ₹ 267.05 crore x 3
[4] 35 *per cent* of (₹ 5316.53 crore –₹ 433.01 crore –₹ 760.28 crore)
[5] including ₹ 5 crore on wages and excluding ₹ 96.16 crore (Leave Encashment benefits) booked under 'Major Head-2071-Pensions and Other Retirement Benefits'

1.1.3 Budget estimates and actual

The budget papers presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the Budget Estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes, some within the control of the Government and some beyond the control of the Government.

The following table and chart present the consolidated picture of budget estimates and actuals of the State Finances during 2012-13.

Table 1.4: Statement showing budget estimates and actuals

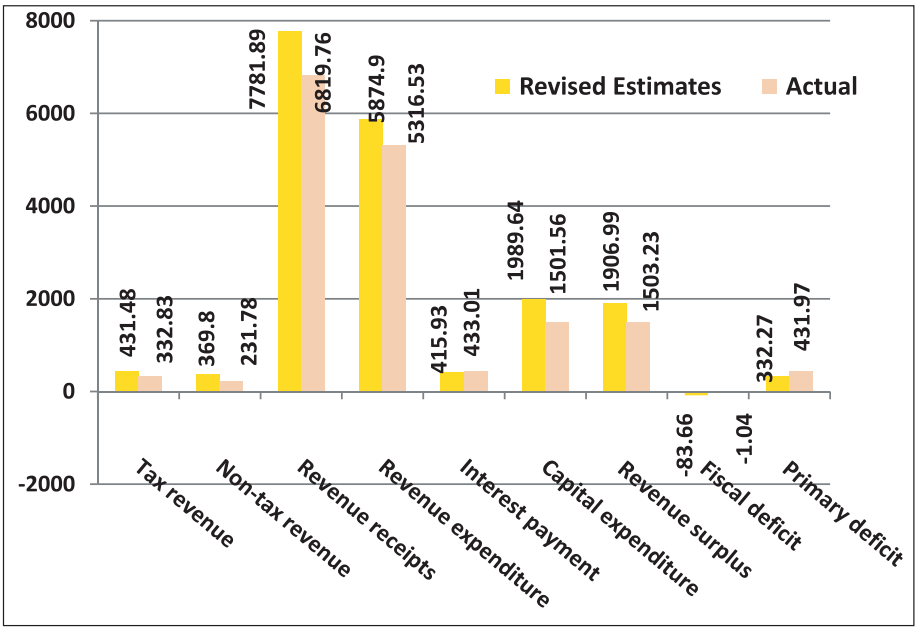
(₹ in crore)

Particulars	Budget Estimates (BE)	Revised Estimates (RE)	Actual	Percentage of excess (+)/ shortfall (-) w.r.t RE
Tax revenue	325.51	431.48	332.83	(-) 22.86
Non-tax revenue	385.84	369.80	231.78	(-) 37.32
Revenue receipts	7746.43	7781.89	6819.76	(-) 12.36
Revenue expenditure	6139.57	5874.90	5316.53	(-) 9.50
Interest payment	410.42	415.93	433.01	4.11
Capital expenditure	2075.77	1989.64	1501.56	(-) 24.53
Disbursement of Loans & Advances	7.00	4.60	3.30	(-) 28.26
Revenue surplus	1606.86	1906.99	1503.23	(-) 21.17
Fiscal deficit	(-) 472.32	(-) 83.66	(-) 1.04	98.76
Primary deficit (-)/surplus (+)	(-) 61.90	(+) 332.27	(+) 431.97	30.01
Recoveries of Loans and Advances	3.59	3.59	0.59	(-) 83.57

(Source: Budget documents and Finance Accounts)

Chart 1.1: Selected fiscal parameters, budget estimates *vis-à-vis* actual

(₹ in crore)



(Source: Budget documents and Finance Accounts)

It can also be seen from the table and in the preceding chart that Revenue receipts, Revenue expenditure and Capital expenditure were less than the budget projections. The actual Revenue receipts were less than the budgeted Revenue receipts by ₹ 962.13 crore. Further, the actual tax revenue and the actual non-tax revenue were less than the budget projections by ₹ 98.65 crore and ₹ 138.02 crore respectively. The Revenue surplus was less than the budget estimates by ₹ 403.76 crore due to high variation of estimate and actual figures of Revenue receipt. The figures of Fiscal deficit were better than the budget estimate by ₹ 82.62 crore (98.76 *per cent*). In case of Primary Surplus, it was better than the budget estimate by ₹ 99.70 crore (30.01 *per cent*). This indicates that Fiscal deficit of the current year was due to past liabilities, as Fiscal deficit net of Interest payment is surplus by ₹ 431.97 crore.

The year 2011-12 closed with an Overdraft of ₹ 493 crore. Despite such re-payment liability, only ₹ 175.64 crore was provided in the budgetary provision for the year 2012-13 under capital head in "Appropriation No. 2 – Interest Payment and Debt Services". The fund earmarked under this Appropriation was inadequate, and the budget should have anticipated re-payment of the Overdraft along with other debt re-payment burden. The actual expenditure under this Appropriation was ₹ 698.49 crore, resulting in excess expenditure of ₹ 522.85 crore *vis-a-vis* budgetary provision. No supplementary was also given to the Appropriation, indicating lack of control in budgetary management.

1.1.4 Major policy initiatives in the budget

The following points were mentioned in the Budget speech of the Chief Minister of Manipur:

The total receipt of the State was estimated at ₹ 8232.66 crore in 2012-13, a jump of 30 *per cent* over the revised budget estimate figures of 2011-12 of ₹ 6331.79 crore.

Total expenditure was estimated at ₹ 8434.64 crore in 2012-13 against actual expenditure of ₹ 6821.39 crore. Under Non-Plan Revenue Expenditure, expenditure on Salary was projected at ₹ 2175.77 crore against actual expenditure of ₹ 2217.97 crore.

Normal Central assistance was fixed at ₹ 840.54 crore in 2012-13. Against this projection, actual receipt was ₹ 786.55 crore. A sum of ₹ 450 crore sought from the Government of India, for taking up important and priority projects in the State under Special Plan Assistance was considered and received wholly.

Capital expenditure was estimated at ₹ 1818.18 crore during 2012-13 while actual expenditure was ₹ 1501.56 crore. Capital expenditure under agriculture was to be increased to ₹ 164.66 crore in 2012-13. However, capital expenditure under Agriculture and allied activities decreased by ₹ 7.41 crore in 2012-13 as compared to the previous year.

There was no mention of gender budgeting in the budget speech of the Chief Minister.

1.2 Resources of the State

1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the main resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise miscellaneous capital receipts such as recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the GoI. Besides the funds available in the Public accounts after disbursement is also utilised by the State Government to finance its deficit. **Table-1.2** at page 2 presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** at page 8 depicts the trends in various components of the receipts of the State during 2008-13. **Chart 1.3** depicts the composition of resources of the State during the current year.

The following flow-diagram shows the components and major sub-components of resources:

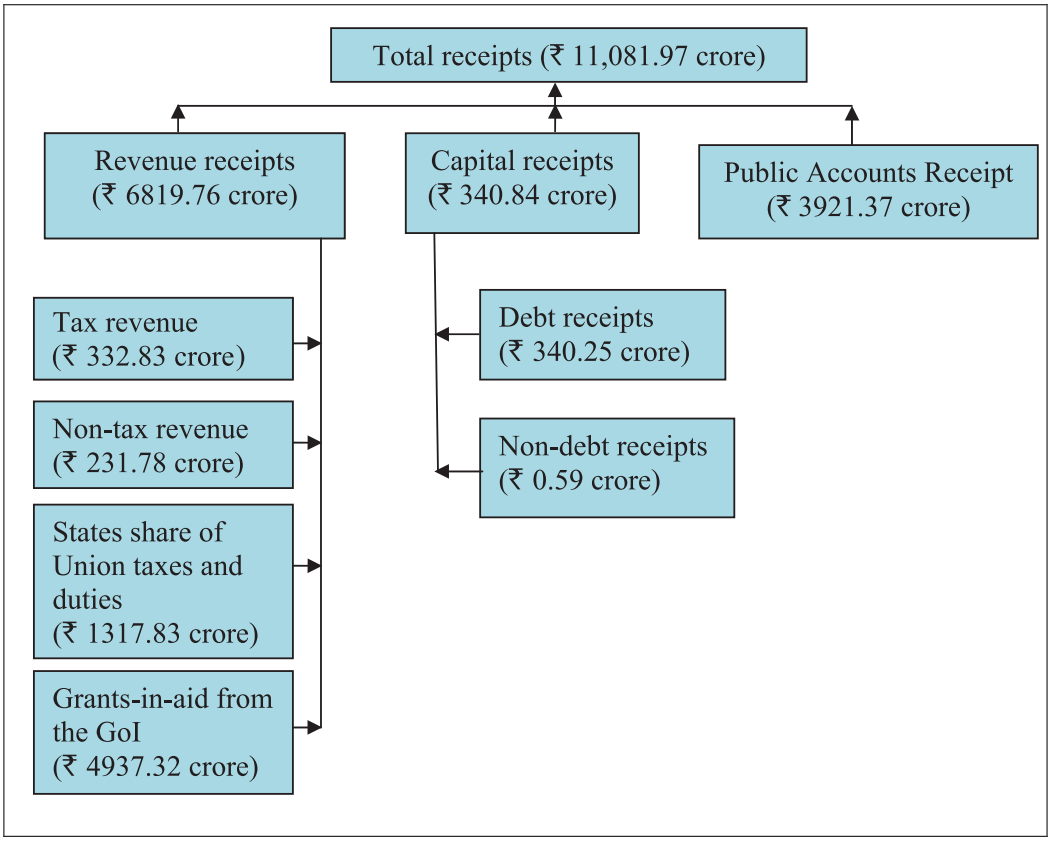


Chart 1.2: Trends in Receipts

(₹ in crore)

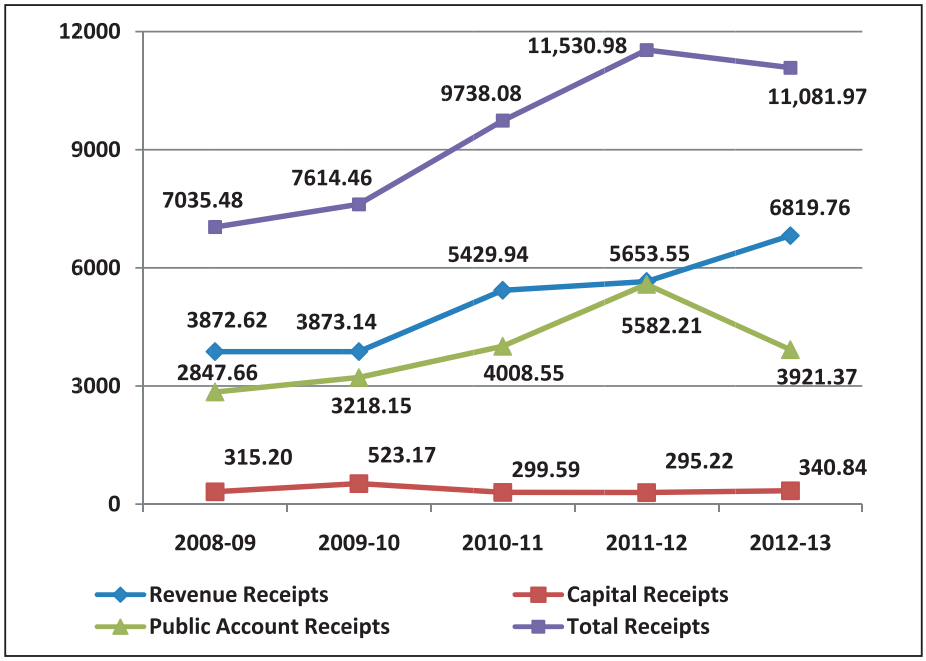
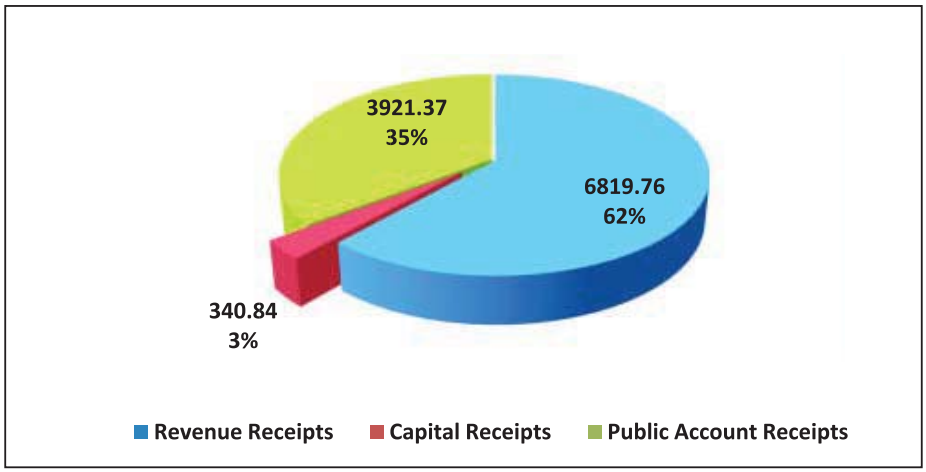


Chart 1.3: Composition of Receipts during 2012-13

(₹ in crore)



Total receipts of the State decreased from ₹ 11,530.98 crore in 2011-12 to ₹ 11,081.97 crore in 2012-13. The decrease in Total receipts was mainly due to decrease in Public Account receipts (₹ 1660.84 crore).

Capital receipts increased by ₹ 45.62 crore in 2012-13 over the previous year. Public debt receipts were the main contributor to Capital receipts during 2008-13. The Public Debt receipts, however, have interest payment obligation and repayment obligation, which may put pressure on the fiscal health of the State, in the coming years.

Contribution of the State's own revenue to the Revenue receipt was in the range of 8 *per cent* to 12 *per cent* for the period 2008-13.

The State's share of Union taxes and duties and Grants-in-aid from GoI contributed in the range of 88 *per cent* to 92 *per cent* to the Revenue receipt during 2008-13 and thus remained the main contributor to Revenue receipt of the State.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[6] for implementation of various schemes/programmes in Social and Economic sectors, which are recognised as critical. In the present mechanism, these funds are not routed through the State Budget/State Treasury System and hence do not find mention in the Finance Accounts of the State. As such, the Annual Finance Accounts of the State does not provide a complete picture of the resources under the control of the State Government. During the year 2012-13 central funds of ₹ 1349.46 crore were transferred directly to the State implementing agencies. The programmes assisted by Government of India where funds were transferred are presented in **Appendix 1.3.** Amounts released for some major programmes/schemes are detailed in the following table:

Table 1.5: Funds transferred directly to State Implementing Agencies

(₹ in crore)

Programme/scheme	Implementing Agency in the State	Funds transferred directly by the GoI during 2012-13
Nirmal Bharat Abhiyan (Central Rural Sanitation Scheme)	State Water and Sanitation Mission/CCDU	35.09
Indira Awaz Yojana	9 DRDAs	21.38
Integrated Watershed Management Programme	2 DRDAs and SLNA Manipur	34.77
Mahatma Gandhi National Rural Employment Guarantee Scheme	9 DRDAs	590.23
National AIDS Control Programme III	Manipur State AIDS Control Society	21.44
National Rural Drinking Water Programme	State Water and Sanitation Mission, Manipur	66.21
Pradhan Mantri Gram Sadak Yojana	Manipur Rural Roads Development Agency	186.14
Rashtriya Madhyamik Shiksha Abhiyan	State Implementation Society, Manipur	43.01
Sarva Shiksha Abhiyan	State Implementation Society, Manipur	173.62
Total		**1171.89**

(Source: Finance Accounts)

CCDU- Communication and Capacity Development Unit, DRDA- District Rural Development Agency, SLNA- State Level Nodal Agency

[6] State Implementing Agencies include any organization/institution including Non-Governmental organizations, which are authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State.

The preceding table shows that an amount of ₹ 590.23 crore (about 44 *per cent* of the total funds transferred) was for Mahatma Gandhi National Rural Employment Guarantee Scheme, ₹ 186.14 crore (about 14 *per cent*) for Pradhan Mantri Gram Sadak Yojana and ₹ 173.62 crore (about 13 *per cent*) for Sarva Shiksha Abhiyan.

There is no single agency monitoring the funds directly transferred by the GoI and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by the State Implementing Agencies and therefore, utilization of these funds runs the risk of poor accountability. It would be helpful if the accounts are kept in a uniform manner to ensure transparent reporting of the actual expenditure, for facilitating tracking of end use of funds.

Analysis of two of these schemes *viz.,* Nirmal Bharat Abhiyan (NBA) and Rashtriya Madhyamik Siksha Abhiyan (RMSA) are as follows:

- **Nirmal Bharat Abhiyan**

The Total Sanitation Campaign (TSC) was renamed (April 2012) as "Nirmal Bharat Abhiyan (NBA)". The main objectives of the NBA are to bring about an improvement in the general quality of life in the rural areas; accelerate sanitation coverage in rural areas; and motivate communities and Panchayati Raj Institutions in promoting sustainable sanitation facilities.

The scheme is implemented through the Communication and Capacity Development Unit (CCDU) under Public Health Engineering Department (PHED), as the nodal agency, in the State.

During 2012-13, ₹ 38.99 crore was received from the Government of India (GoI) through eight sanction orders (including three sanction orders of 2011-12) for the implementation of the scheme. With interest earned (₹ 0.13 crore) and earlier cash at bank (₹ 0.27 crore), the total receipt amounted to ₹ 39.39 crore. Out of the total amount, ₹ 13.34 crore was allocated to nine Programme Implementing Units (PIUs). An amount of ₹ 26.05 crore remained as cash at bank. Details are given in the following table:

Table 1.6: Allocation of funds under NBA

(₹ in crore)

Implementing Unit	Amount released
Churachandpur	3.00
Thoubal	2.00
Imphal East	2.07
Imphal West	1.90
Bishnupur	0.80
Chandel	1.00
Senapati	0.87
Kangpokpi	0.70
Tamenglong	1.00
Sub-Total	**13.34**
Cash at Bank	26.05
Total	**39.39**

(Source: Finance Accounts)

Out of the nine PIUs, two divisions *viz*. Imphal East Division and Imphal West Division were test checked (September 2013). In case of Imphal East Division, no cash book entries were made for NBA for the year 2012-13. The matter was pointed out (September 2013) to the Division; corrective action has not been intimated (October 2013).

In Imphal West Division, PHED the total receipt was ₹ 3.15 crore (including GoI share, State share, opening balance, interest earned). Out of this, only ₹ 1.27 crore was made as expenditure {(including Sanitary Complex, Individual Household Latrines (IHHL), Information Education & Communication, Eco Sanitary Toilet, Administration, Solid Waste Management}.The remaining amount of ₹ 1.88 crore was kept in the bank account. The Division stated (December 2013) that due to slow progress of the work under IHHL by the Non-Government Organisation/Village Level Water and Sanitation Committee attributable to bandhs and blockades, the allocated amount could not be utilized. It was further stated that the Division has taken up maximum efforts for completion of works under tight supervision of the field staff.

- **Rashtriya Madhyamik Shiksha Abhiyan**

Rashtriya Madhyamik Shiksha Abhiyan (RMSA) was launched with the objective to enhance access to secondary education and to improve its quality. It envisages to achieve an enrolment rate of 75 *per cent* from 52.26 *per cent* in 2005-06 at the secondary stage within 5 years of implementation of the scheme. The other objectives include improving quality of education imparted at secondary level by conforming to prescribed norms; removing gender, socio-economic and disability barriers; providing universal access to secondary level education by 2017, *i.e*., by the end of 12th Five Year Plan and achieving universal retention by 2020. The Mission is implemented in the State by the State Implementation Society, RMSA, Manipur.

The amount of funds received and expenditure made under RMSA during 2012-13 are given in the following table:

Table 1.7: Statement of funds received and expenditure under RMSA

(₹ in crore)

Sl. No.	Head of Account		Amount	Remarks
Receipt				
1	Opening Balance	Recurring	4.81	R*
		Non-recurring	10.59	NR*
2	Central share		12.45	R
3	Central share		30.56	NR
4	State share		1.38	R
5	Others[7]		1.26	R
Total			**61.05**	
Expenditure				
1	Civil Works Advance (School Management and Development Committee)		0.36	NR
2	Civil Works Advance (Engineering Wing)		14.72	NR
3	Civil Works Advance (Manipur Development Society)		10.44	NR
4	3 *per cent* contingency of Civil Works		0.85	NR
5	Value Added Tax (VAT) Payment		0.51	R
6	Annual School Grant		1.71	R
7	Minor Repair Grant		0.54	R
8	Others[8]		14.13	R
	Sub-Total		**43.26**	
9	Advance Graduate Teacher Salary		4.78	R
10	Cash in Hand		$	
11	Cash in Bank		13.08	
Sub-Total			**17.86**	
Grand total			**61.12**	

* *R - Recurring and NR - Non- recurring*
$: ₹ 9627
(Source: Departmental records)

The Society received ₹ 43.01crore {Sl.no. 2 & 3 of (receipt) above} from the GoI during 2012-13. The total fund available along with opening balance, bank interest *etc*. was ₹ 61.05 crore during 2012-13. Out of the total fund, ₹ 43.26 crore was spent leaving an amount of ₹ 17.86 crore as balance. It was also observed that the central share was released by the GOI in five tranches during the month of October 2012. However, the Annual School Grant and Minor repair Grant were released by the Implementing society to the schools in the months of February and March 2013. Thus, there were delays of 4 to 5 months in releasing of grants to the schools. Further, in the receipt and payment statements (2012-13) furnished to Audit, the amounts did not balance; reasons for which are yet to be furnished.

Test checks were conducted in 8 schools receiving grants of RMSA, Manipur in three districts (Imphal West, Thoubal and Bishnupur). The account of RMSA was yet to be audited by Chartered Accountant (September 2013) for the year 2012-13. In 7 out of 8 schools, installment of civil works grants sanctioned in the year 2011-12 were credited to the School Management

[7] Includes Bank interest, Regional Workshop, VAT collection, Settlement of advance
[8] Includes Salary of Graduate Teacher, Refund of Security Deposit, Bank Charge, Teacher Exposure Visit, In Service Teacher Training, Head Master Training, Local Excursion for Students, Video Spot Documentary Movie, Workshop on Module Preparation, Remedial Coaching, SMDC Training, Management, Monitoring, Evaluation and Research, Advance to Staff

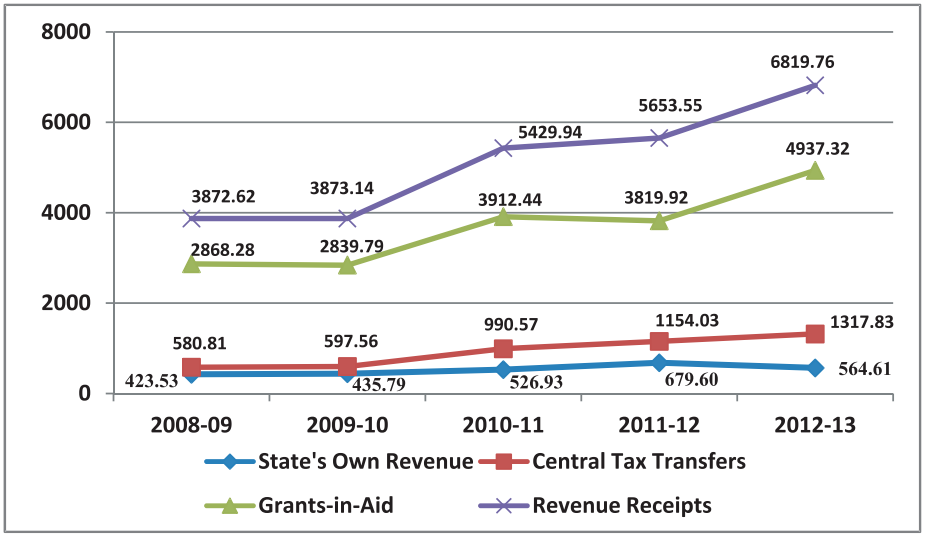
Development Committees (SMDCs) bank account in the year 2012-13. In reply, the State Implementing Society, RMSA stated (December 2013) that the sanctioned funds were kept under transit due to lack of confirmation of satisfactory progress report of the work undertaken by SMDCs, and this practice was followed for all 204 schools receiving civil works grants during 2011-12. A junior high school (Practicing Junior High school, Kakching) was yet to be upgraded to High School (September 2013). However, the school was receiving grant from the State Implementation Society since 2011-12. The school had utilised the grant for the year 2011-12 but the grant for the year 2012-13 remained unutilized, though annual grant is to be utilised in a time bound manner. Actual Payment/Payee Receipts (APRs) of utilization of funds of Langjing High School (Imphal West District) bore the signature of the Principal of another school (Recent Higher Secondary School); thereby casting a doubt on the veracity of expenditure incurred.

1.3 Revenue Receipts

The Revenue receipts of the State Government consist of the State's own tax and non-tax revenues, central tax transfers and grants-in-aid from the GoI. The trends and composition of revenue receipts over the period 2008-13 are presented in **Appendix 1.4** and are also depicted in the following chart:

Chart 1.4: Trends in Revenue receipts

(₹ in crore)



Revenue receipt increased significantly by ₹ 1166.21 crore from ₹ 5653.55 crore in 2011-12 to ₹ 6819.76 crore in 2012-13. This was mainly due to increase in Grants-in-aid from GoI which increased by ₹ 1117.40 crore from ₹ 3819.92 crore in 2011-12 to ₹ 4937.32 crore in 2012-13. The increase in Grants-in-aid constituted 96 *per cent* of increase of Revenue receipts.

The trends in revenue receipts relative to GSDP are presented in the following table:

Table 1.8: Trends in Revenue Receipts relative to GSDP

(₹ in crore)

	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Receipts (RR)	3872.62	3873.14	5429.94	5653.55	6819.76
Rate of growth of RR (*per cent)*	10.39	0.01	40.19	4.12	20.63
GSDP *	7399	8254	9108 (P)	10410 (Q)	11713 (A)
Rate of growth of GSDP *(per cent)*	8.82	11.56	10.35	14.30	12.52
RR/GSDP (*per cent)*	52.34	46.92	59.62	54.31	58.22
Buoyancy Ratios[9]					
Revenue Buoyancy w.r.t GSDP	1.18	0.0009	3.88	0.29	1.65
State's Own Tax Buoyancy w.r.t GSDP	4.05	0.25	2.02	2.03	(-) 1.35
Revenue Buoyancy with reference to State's own taxes	0.29	0.003	1.92	0.14	(-) 1.22

** GSDP at current price with base year 2004-05. P- Provisional estimates, Q – Quick estimates and A – Advance estimates*
(Source: Finance Accounts)

From the above table, it is seen that the Revenue receipts of the State increased marginally between 2008-09 to 2009-10 and 2010-11 to 2011-12. However, the increase in Revenue receipts was appreciable during 2010-11 and 2012-13, which corresponds to the significant increase in Grants-in-aid from the Government of India. The increase in the Revenue receipts in the current year over the previous year occurred despite reduction in collection of State own resources, both under Own Tax Revenue and Own Non-Tax Revenue. This shows the extent to which the State is dependent on the Central Government.

In the year 2010-11, the growth rate of Revenue receipts was more than three times that of GSDP growth rate while the growth rate of Revenue receipts was nearly two times that of GSDP growth rate in 2012-13. These uneven trends in the growth rate further illustrate the high dependency and contribution of Grants-in-aid from the GoI to the Revenue receipts.

State's Own Tax buoyancy with respect to GSDP decreased significantly from 2.03 in 2011-12 to a negative of 1.35 in 2012-13, mainly due to decrease in the collection of Taxes on Sales, Trades *etc*. and Other Taxes and Duties on Commodities and services.

1.3.1 State's Own Resources

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

The contribution of Tax revenue to the Total Revenue Receipts of the State ranged between 4 *per cent* to 6 *per cent* during 2008-13. Tax revenue decreased from ₹ 368.07 crore in 2011-12 to ₹ 332.83 crore mainly due to

[9] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy of 0.6 implies that revenue receipts tend to increase by 0.6 percentage points if the GSDP increases by one *per cent*.

decrease in Taxes on Sales, Trades *etc*. and Other Taxes and Duties on Commodities and services**.**

The State's actual Tax and Non-tax receipts for the year 2012-13 *vis-a-vis* assessment made by the 13th Finance Commission (FC) and MTFPS (2012) are shown in the following table:

Table 1.9: Own Tax revenue and Own Non-tax revenue *vis-à-vis* targets

(₹ in crore)

Particular	13th FC projections	Budget estimates	MTFPS projection	Actual
Own Tax revenue	287.47	325.51	325.51	332.83
Own Non-tax revenue	211.76	385.84	385.84	231.78

(Source: Budget documents, 13th Finance Commission Report and Finance Accounts)

From the above table, it is seen that the actual Own Tax revenue was more than the normative assessment by the 13th FC by 16 *per cent.* The actual Own Tax revenue was more than the budget estimates/MTFPS projection for the current year. The Own non-Tax revenue realised during the year was more than the normative assessment made by the 13th FC projection by 9 *per cent* but less than the budget estimates/MTFPS projection by 40 *per cent*. However, given the low share of Tax and Non-tax revenue to the Total Revenue receipts of the State, greater efforts will be necessary on the part of the State to improve these collections.

1.3.1.1 Tax revenue

The gross collection in respect of major taxes and duties are given in the following table:

Table 1.10: Components of State's own resources

(₹ in crore)

Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13	% increase over previous year
Taxes on sales, trades *etc*.	141.38	163.28	227.57	296.92	258.52	(-) 12.93
State excise	3.91	4.70	6.61	9.80	9.94	1.43
Taxes on vehicles	4.03	4.34	4.44	13.21	15.83	19.83
Stamp duty and Registration fees	3.18	4.26	3.57	4.82	5.98	24.07
Land revenue	0.78	0.81	1.29	0.84	1.24	47.62
Taxes on goods and passengers	0.80	0.81	0.90	1.40	1.43	2.14
Other taxes[10]	15.99	17.84	22.67	41.08	39.89	(-) 2.90
Total	**170.07**	**196.04**	**267.05**	**368.07**	**332.83**	**(-)9.57**

(Source: Finance Accounts for the respective years)

The Tax revenue during 2012-13 decreased by 10 *per cent* over the previous year mainly due to decrease in Sales tax by ₹ 38.40 crore. As in the previous years, Sales tax (₹ 258.52 crore) remained the main contributor to the State's Own Tax resource and accounted for 78 *per cent* of the Tax revenue. Decrease

[10] Other taxes include taxes on immovable property other than agricultural land, taxes and duties on electricity and agricultural income.

in Sales Tax collection is a cause of concern, especially when the GSDP is reported to be growing at a robust rate. It may indicate the need for efforts to plug leakages in tax collection and for a relook at the tax base and tax rates. Decrease in Sales Tax/VAT could also have a link with reduction of Capital expenditure, as construction work/capital nature works are major contributors to Sales Tax/VAT.

1.3.1.2 Non-tax revenue

Non-Tax revenue as a percentage of Revenue receipts decreased from 6 *per cent* in 2011-12 to 3 *per cent* in 2012-13. Non-tax revenue decreased by ₹ 79.75 crore over the previous year mainly due to decrease in Miscellaneous General Services (₹ 63.04 crore), Public Works (₹ 9.13 crore) and Medium Irrigation (₹ 4.86 crore). The MTFPS stated that the Medium Irrigation would be a major contributor of Non-Tax revenue. However, there was an actual decrease in the revenue collection of Medium Irrigation during 2012-13. The trends in Non-Tax revenue during 2008-13 is given in the following table:

Table 1.11: Trends of Non-Tax Revenue during 2008-13

(₹ in crore)

Revenue Head	2008-09	2009-10	2010-11	2011-12	2012-13	% increase over previous year
Interest receipts	39.99	32.73	44.65	25.18	20.66	(-)17.95
Others* *of which*	213.47	207.01	215.23	286.35	211.12	(-)26.27
Miscellaneous General Service	*92.77*	*61.47*	*76.87*	*138.33*	*75.29*	*(-) 45.57*
Power	*88.28*	*104.07*	*88.29*	*106.59*	*108.30*	*1.60*
Total	**253.46**	**239.74**	**259.88**	**311.53**	**231.78**	**(-)25.60**

* Including other fiscal services, dividend and profit, if any.

(Source: Finance Accounts)

As seen from the table, Other non-tax receipts increased sharply in 2011-12 and decreased significantly in 2012-13. Interest receipt decreased from ₹ 25.18 crore in 2011-12 to ₹ 20.66 crore in 2012-13. Decrease in Interest receipt since 2011-12 indicates a decrease in earnings from investment instruments of the State. This can be attributed to unfavourable cash balance position of the State Government during 2011-13, which reduced from an Opening Cash balance of ₹ 356.48 crore to a negative Closing Cash balance of ₹ 371.80 crore in 2011-12. Though there was improvement in 2012-13, the year still ended with a negative Closing Cash balance of ₹ 55.37 crore. The receipts from the Miscellaneous General Service declined considerably in 2012-13, while that from the Power sector reflects negligible growth rate. These adverse trends could be worthy of attention on the part of the State Government.

- ***Cost of recovery in supply of merit goods and services***

The cost of recovery of Non-Tax Revenue Receipts (NTR) as a percentage of Non-plan Revenue Expenditure (NPRE) in supply of merit goods and services of two selected socio-economic services by Government are shown in the following table:

Table 1.12: Cost of recovery of socio-economic services during 2011-13

(₹ in crore)

Name of Services	2011-12			2012-13		
	Non-tax revenue (NTR) receipts	Non-plan revenue expenditure (NPRE)	NTR as percentage of NPRE	NTR receipts	NPRE	NTR as percentage of NPRE
Water Supply and Sanitation	5.87	64.32	9	6.15	59.71	10
Irrigation	8.80	31.63	28	3.82	30.69	12

(Source: Finance Accounts)

NTR as a percentage of NPRE under Water Supply and Sanitation increased marginally from 9 *per cent* in 2011-12 to 10 *per cent* in 2012-13. In case of Irrigation, NTR as a percentage of NPRE decreased from 28 *per cent* to 12 *per cent,* mainly due to decrease in NTR receipt, which decreased from ₹ 8.80 crore (2011-12) to ₹ 3.82 crore (2012-13). As NTR as a percentage of NPRE is very low, efforts needs to be explored to limit NPRE and increase NTR collection so as to make the provision of these important services self sufficient.

1.3.2 Grants-in-aid from the Government of India

The details of Grants-in-aid from the Government of India during 2008-09 to 2012-13 are shown in the following table:

Table 1.13: Grants-in-aid from the Government of India during 2008-13

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Non-Plan Grants	1017.08	1059.41	1302.84	1293.10	1882.87
Grants for State Plan Schemes	1491.04	1416.73	2137.55	2119.73	2659.00
Grants for Central Plan Schemes	12.53	6.22	12.71	12.47	36.56
Grants for Centrally Sponsored Schemes	329.92	328.30	413.20	349.81	306.34
Grants for Special Plan Schemes	17.71	29.13	46.14	44.81	52.55
Total	**2868.28**	**2839.79**	**3912.44**	**3819.92**	**4937.32**
Percentage of increase over previous year	8.41	(-)0.99	37.77	(-)2.36	29.25
Total grants as a percentage of Revenue Receipts	74.07	73.32	72.05	67.57	72.40

(Source: Finance Accounts)

Grants-in-aid from Government of India increased by ₹ 1117.40 crore from ₹ 3819.92 crore in 2011-12 to ₹ 4937.32 crore in 2012-13. The increase in Grants-in-aid was mainly due to increase in Non-Plan Grants (₹ 589.77 crore) and Grants for State Plan Schemes (₹ 539.27 crore). As in the previous years, the Grants-in-aid continue to be the major contributor to the Revenue receipts of the State. The Grants-in-aid was in the range of 67.57 *per cent* to 74.07 *per cent* of the Revenue receipts of the State during 2008-13.

1.3.3 Optimisation of the 13th FC grants

The details of funds transferred to the State as recommended by the 13th FC during award period of 2010-15, and fund released and expenditure thereon as on 31 March 2013 are shown in the following table: -

Table 1.14: Transfer of funds under 13th FC

(₹ in crore)

Sl. No.	Transfers/Items	Recomm-endation of the 13th FC grants	Actual release	Expenditure under relevant revenue head of account
(1)	(2)	(3)	(4)	(5)
1	Local Bodies, *of which*	315.90	51.02	51.02
	General Basic Grant to PRIs	*143.16*	*Details of funds released under each component and Expenditure thereon, not furnished by the Finance Department*	
	General Performance Grant to PRIs	*75.84*		
	General Basic Grant to ULBs	*53.54*		
	General Basic Performance to PRIs	*28.36*		
	Special Areas Basic Grant	*8.80*		
	Special Areas Performance Grant	*6.20*		
2	Disaster Relief (including capacity building)	40.90	23.48	23.48
3	Elementary Education	15.00	11.51	11.51
4	Improving outcome grants	38.60	65.77	65.77
5	Environment related grants	158.30	3.00	3.00
6	Maintenance of Roads and Bridges	100.00	46.00	46.00
7	State specific grants	301.00	104.00	104.00
	Total	**969.70**	**304.78**	**304.78**

(Source: 13th FC and State Finance Department)

The 13th FC had recommended transfer of ₹ 969.70 crore during 2010-15 for the items as mentioned in the above table. Against this, ₹ 304.78 crore (31.43 *per cent*) had been released till 31 March 2013, and the amount has been spent.

1.4 Capital Receipts

The details of Capital receipts during 2008-09 to 2012-13 are shown in the following table:

Table 1.15: Trends in growth and composition of receipts

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Capital Receipts (CR)	315.20	523.17	299.59	295.22	340.84
Miscellaneous Capital Receipts	-	-	-	-	-
Recovery of Loans and Advances	0.66	3.28	1.19	1.89	0.59
Public Debt Receipts	314.54	519.89	298.40	293.33	340.25
Rate of growth of debt capital receipts	20.51	65.29	(-)42.60	(-)1.70	16.00
Rate of growth of non-debt capital receipts	(-)71.18	396.97	(-)63.72	58.82	(-) 68.78
Rate of growth of GSDP	8.82	11.56	10.35	14.30	12.52
Rate of growth of CR (*per cent*)	19.72	65.98	(-)42.74	(-)1.46	15.45

(Source: Finance Accounts)

As can be seen from the preceding table, almost the entire amount of Capital receipts was contributed by the Public debt receipts. The total Public Debt

receipt increased by ₹ 46.92 crore from ₹ 293.33 crore in 2011-12 to ₹ 340.25 crore in 2012-13. The main contributors to the increase in Public Debt receipt were Market Borrowings (₹ 275 crore) and Loans from National Bank for Agricultural and Rural Development (₹ 44 crore). The State had raised amounts totalling ₹ 275 crore through four Market Borrowings with interest rates in the range of 8.80 *per cent* to 8.95 *per cent* during the year 2012-13. During the year, the State also repaid an amount of ₹ 108.70 crore. Thus, the net addition from Market Borrowings to the public debt was ₹ 166.30 crore.

The State had an opening balance of Ways and Means Advance (WMA) of ₹ 89.95 crore as on 1 April 2013. During the year the State availed WMA of ₹ 534.65 crore and repaid an amount of ₹ 526.68 crore, leaving a closing balance of ₹ 97.92 crore under WMA. The State had to resort to Special WMA for 72 days to meet its requirements. This indicates the tenuous Fiscal position of the State.

1.4.1 Recoveries of loans and advances

Recovery of loans and advances decreased by ₹ 1.30 crore from ₹ 1.89 crore in 2011-12 to ₹ 0.59 crore in 2012-13. Recovery from Loans to Government Servants (₹ 55.89 lakh) and Loans for Economic Services (₹ 2.72 lakh) are the two significant heads under which transactions occurred during 2012-13.

1.4.2 Loans and advances from the Government of India

No Central loans were contracted during the year 2012-13. The opening balance of the Loans and Advances from the Government of India to the State were ₹ 574.43 crore as on 1 April 2013. The State repaid an amount of ₹ 44.00 crore of the Central Loans. Thus, an amount of ₹ 530.43 crore remained as unpaid Loans and Advances from Government of India as on 31 March 2013.

1.5 Public Accounts Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances *etc.* which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subjected to vote by the State Legislature. Here the Government acts as a banker. The balance after disbursements is the fund available with the Government for use. The details of Public Account Receipts are shown in the following table:

Table 1.16: Public Account receipts

(₹ in crore)

Sl. No.	Resources under various heads	2008-09	2009-10	2010-11	2011-12	2012-13
1	Small Savings, Provident Fund *etc.*	343.36	143.75	179.56	348.34	297.28
2	Reserve Fund	25.08	30.51	27.87	38.36	48.08
3	Deposits and Advances	481.71	868.12	1053.75	624.86	821.44
4	Suspense and Miscellaneous	45.26	45.37	53.11	2079.13	108.66
5	Remittances	1952.25	2130.40	2694.26	2491.52	2645.91
Total		**2847.66**	**3218.15**	**4008.55**	**5582.21**	**3921.37**

(Source: Finance Accounts)

As may be seen from the preceding table, Public Account receipts decreased by ₹ 1660.84 crore in 2012-13 over the previous year. The decrease in Public Account receipts was mainly due to reduction in Suspense and Miscellaneous (₹ 1970.47 crore) and Small Savings, Provident Fund *etc*. (₹ 51.06 crore), offset by an increase in Remittances (₹ 154.39 crore).

1.6 Application of Resources

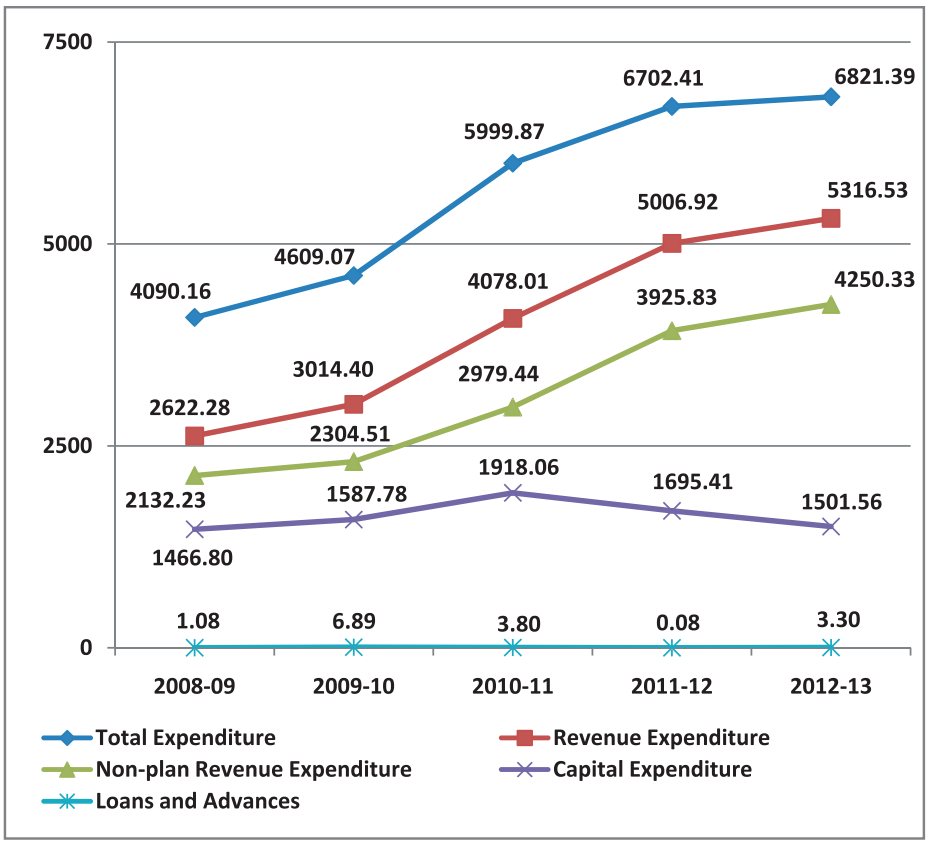
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with the State Government. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed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

1.6.1 Growth and Composition of Expenditure

Chart 1.5 presents the trends in total expenditure over a period of the last five years (2008-13). The composition of expenditure both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.6** and **1.7.**

Chart 1.5: Trends in various components of Total Expenditure during 2008-13

(₹ in crore)



The total expenditure of the State increased from ₹ 4090.16 crore in 2008-09 to ₹ 6821.39 crore in 2012-13 at an annual average rate of 15 *per cent* and increased by ₹ 118.98 crore (2 *per cent*) to ₹ 6821.39 crore in 2012-13 from ₹ 6702.41 crore in 2011-12. The Revenue expenditure of the State increased from ₹ 2622.28 crore in 2008-09 to ₹ 5316.53 crore in 2012-13 and increased by 6 *per cent* from ₹ 5006.92 crore in 2011-12 to ₹ 5316.53 crore in 2012-13. The Capital expenditure increased from ₹ 1466.80 crore in 2008-09 to ₹ 1501.56 crore in 2012-13 and decreased by 11 *per cent* from ₹ 1695.41 crore in 2011-12 to ₹ 1501.56 crore in 2012-13.

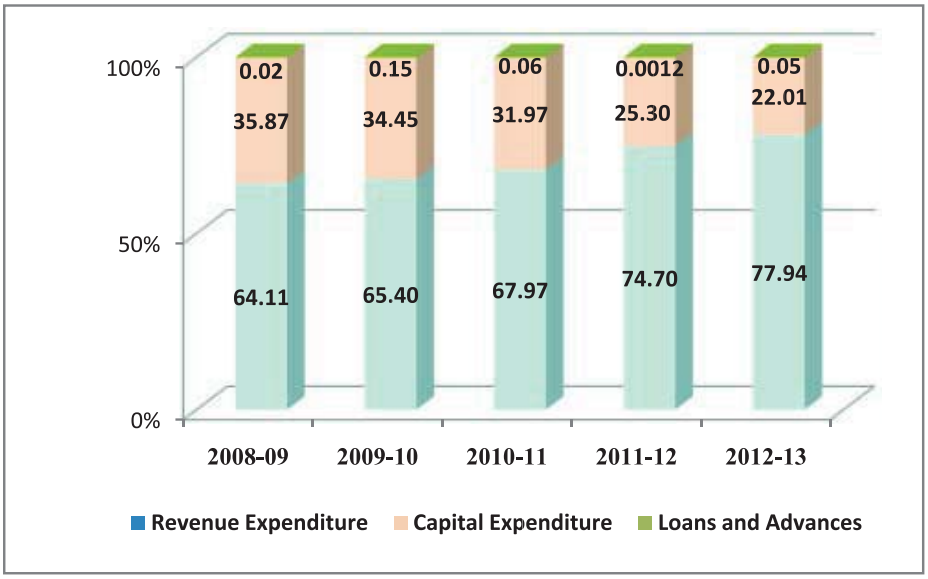
The increase in Revenue expenditure during 2012-13 (₹ 309.61 crore) as compared to 2011-12 was mainly due to increase in expenditure relating to General Education (₹ 133.50 crore), Pensions and Other Retirement Benefits (₹ 132.50 crore), Interest Payment (₹ 35.57 crore) and Food Storage and Warehousing (₹ 15.03 crore).

The decrease in Capital expenditure (₹ 193.85 crore) was mainly due to decrease in Minor Irrigation (₹ 114.35 crore), Roads and Bridges (₹ 111.36 crore), Medical and Public Health (₹ 64.64 crore) and Education, Sports, Art and Culture (₹ 44.96 crore) offset by increase in Thoubal River Irrigation Project (₹ 219.73 crore).

Capital expenditure exhibited a declining trend since 2010-11. Revenue expenditure, on the other hand has increased steadily during 2008-13. Revenue expenditure as a percentage of the total expenditure increased from 74.70 *per cent* in 2011-12 to 77.94 *per cent* in 2012-13. This shows that a bulk of the Total expenditure has been spent on meeting current expenditure. The composition of Revenue expenditure, Capital expenditure and Loans and Advances as a percentage of Total expenditure, during 2008-09 to 2012-13 are shown in the following chart:

Chart 1.6: Trends showing share of components of Total expenditure

(in *per cent*)



The details of expenditure in terms of Plan expenditure and Non-plan expenditure are given in the following table:

Table 1.17: Trends in composition of expenditure in terms of Plan and Non-Plan Classification

(₹ in crore)

Types of Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13
NON-PLAN					
Revenue	2132.23	2304.51	2979.44	3925.83	4250.33
Capital	3.01	(-) 0.80	0.99	(-) 3.22	7.87
Loans and Advances	0.34	0.19	0.25	0.08	2.30
Sub-total *	**2135.58 (52)**	**2303.90 (50)**	**2980.68 (50)**	**3922.69 (59)**	**4260.50 (62)**
PLAN					
Revenue	490.05	709.89	1098.57	1081.09	1066.20
Capital	1463.79	1588.58	1917.07	1698.63	1493.69
Loans and Advances	0.74	6.70	3.55	-	1.00
Sub-total *	**1954.58 (48)**	**2305.17 (50)**	**3019.19 (50)**	**2779.72 (41)**	**2560.89 (38)**
Total (Non-Plan & Plan)					
Revenue	2622.28	3014.40	4078.01	5006.92	5316.53
Capital	1466.80	1587.78	1918.06	1695.41	1501.56
Loans and Advances	1.08	6.89	3.80	0.08	3.30
Total Expenditure	**4090.16**	**4609.07**	**5999.87**	**6702.41**	**6821.39**

(Source: Finance Accounts)

*Figures in bracket represent percentage with respect to the Total Expenditure

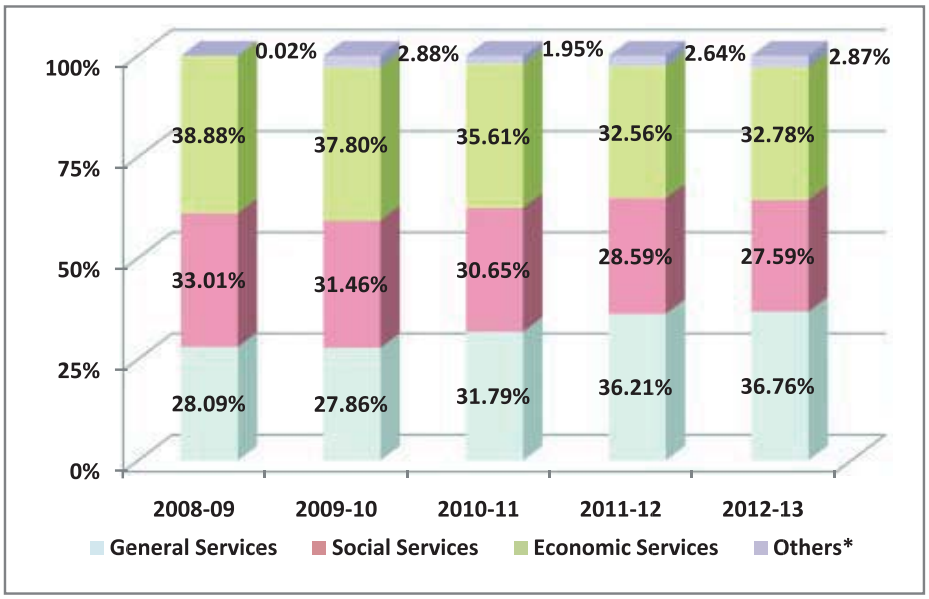
The table above discloses that Non-plan expenditure as a percentage of total expenditure increased from 59 *per cent* in 2011-12 to 62 *per cent* in 2012-13. It also shows that the Non-plan expenditure as a percentage of total expenditure remained around 50 *per cent* during 2008-13. Plan expenditure as a percentage of total expenditure decreased from 50 *per cent* in 2010-11 to 38 *per cent* in 2012-13. Under Plan expenditure there were decrease in both

Revenue expenditure and Capital expenditure in 2012-13 over the previous year.

Expenditure is also classified by its activities like General Service, Social Service, *etc.* A chart showing the percentage of expenditure under General Services, Social Services, Economic Services, *etc.* is given in the following chart:

Chart 1.7: Trends in composition of Total Expenditure by activities during 2008-13

(₹ in crore)



* *Grants-in-aids and Contributions*

The share of expenditure on account of Economic Services decreased from 38.88 *per cent* in 2008-09 to 32.78 *per cent* in 2012-13. Similarly, the share of Social Services decreased from 33.01 *per cent* in 2008-09 to 27.59 *per cent* in 2012-13. The share of expenditure on General Services, on the other hand, increased from 28.09 *per cent* in 2008-09 to 36.76 *per cent* in 2012-13. Thus, share of Development expenditure *i.e.* expenditure on Economic Services and Social Services decreased during the period 2008-13.

The details of Revenue receipts, Revenue expenditure and Revenue surplus as percentage of GSDP are given in the following table:-

Table 1.18: Trends of Revenue receipt and expenditure

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Revenue Receipt as a percentage of GSDP	52.34	46.92	59.62	54.31	58.22
Revenue Expenditure as a percentage of GSDP	35.44	36.52	44.77	48.10	45.39
Revenue Surplus as a percentage of GSDP	16.91	10.41	14.84	6.22	12.83

(Source: Finance Accounts and Department of Economics and Statistics, Government of Manipur)

The Revenue receipts as a percentage of GSDP was in the range of 46.92 *per cent* to 59.62 *per cent* during 2008-13. Revenue expenditure as a percentage of GSDP increased from 35.44 *per cent* in 2008-09 to 48.10 *per cent* in 2011-12 before it decreased to 45.39 *per cent* in 2012-13. This indicates that in 2012-13, there was a better Revenue Receipt *vis-à-vis* GSDP ratio as

compared to the previous year while Revenue expenditure *vis-à-vis* GSDP ratio was reduced in 2012-13 as compared to previous year. The combined effect of increase in Revenue receipt and decrease in Revenue expenditure *vis-à-vis* GSDP resulted in doubling the Revenue surplus-GSDP ratio to 12.83 *per cent* in 2012-13 as compared to 6.22 *per cent* in 2011-12.

1.6.2 Committed Expenditure

The Committed expenditure of the State Government on revenue account mainly consists of Interest payments, expenditure on Salaries and Wages, Pensions and subsidies. The following table presents the trends in the expenditure on these components during 2008-2013.

Table 1.19: Components of Committed Expenditure

(₹ in crore)

Components of Committed Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13	
					BE*	Actuals
Salaries & Wages, *of which*	1094.75 (28.27)	1140.77 (29.45)	1677.95 (30.90)	2215.87 (39.19)	2651.87	2351.63** (34.48)
Non-Plan Head	1041.12	1077.25	1595.49	2091.56	2412.58	2217.97
Plan Head	53.63	63.52	82.46	124.31	239.29	133.66
Interest Payments	313.83 (8.10)	322.57 (8.33)	364.78 (6.72)	397.44 (7.03)	410.42	433.01 (6.35)
Expenditure on Pensions	267.06 (6.90)	292.79 (7.56)	400.15 (7.37)	628.15 (11.11)	679.71	760.28 (11.15)
Subsidies	2.41 (0.06)	2.92 (0.08)	1.86 (0.03)	1.84 (0.03)	2.47	1.36 (0.02)
Total	**1678.05 (43.33)**	**1759.05 (45.42)**	**2444.74 (45.02)**	**3243.30 (57.37)**	**3744.47**	**3546.28 (52.00)**

* *Budget estimates* ** *Including ₹ 5.00 crore on account of Wages; and excluding ₹ 96.16 crore on Leave Salary encashment booked under 'MH-2071-Pensions and Other Retirement Benefits'*

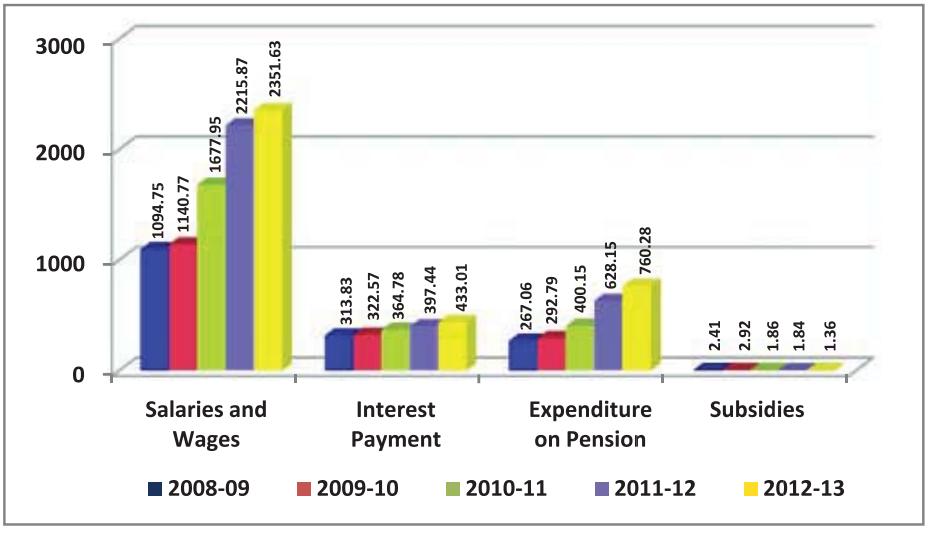
(Figures in the parentheses indicates percentage to Revenue receipts)

(Source: Voucher Level Computerisation of the Accountant General (A&E) for Salaries & Wages and Finance Accounts for others)

A graphical representation of the committed expenditure of the State is shown in the following chart:

Chart 1.8: Trend of Committed expenditure for the years 2008-13

(₹ in crore)



Salaries and Wages:- Salaries and Wages accounted for about 34 *per cent* of the Revenue receipts of the State during 2012-13 and increased by ₹ 135.76 crore (6 *per cent*) over the previous year. However, expenditure under Salary and Wages was less than the budget estimate by ₹ 300.24 crore. The outgo on Salary and Wages in 2012-13 was 114 *per cent* of that of 2008-09. Salary expenditure under non-plan head increased from ₹ 2091.56 crore in 2011-12 to ₹ 2217.97 crore in 2012-13. The Non-plan salary expenditure (₹ 2217.97 crore) was more than the projection (₹ 1333.51 crore) made by the 13th Finance Commission.

Interest payment:- Interest payment increased by ₹ 35.57 crore from ₹ 397.44 crore in 2011-12 to ₹ 433.01 crore in 2012-13. Interest payment increased continually from ₹ 313.83 crore in 2008-09 to ₹ 433.01 crore in 2012-13. As in the previous year, Interest on internal debt constituted a major portion of Interest payment and accounted for 66 *per cent* while the remaining share was for payment of interest on Small Savings, Provident Funds *etc*. and on Loans and Advances from Central Government. Interest payment was more than the Budget estimate by ₹ 22.59 crore during 2012-13. Further, Interest payment exceeded the 13th Finance Commission projection (₹ 400.16 crore) by ₹ 32.85 crore.

Pension payment:- Pension payment increased by ₹ 493.22 crore (185 *per cent*) from ₹ 267.06 crore in 2008-09 to ₹ 760.28 crore in 2012-13. Pension payment increased significantly from ₹ 628.15 crore in 2011-12 to ₹ 760.28 crore in 2012-13 mainly due to increase in Leave Encashment Benefits (₹ 46.96 crore) and Gratuity (₹ 33.23 crore). Pension payment exceeded the projected figures in the 13th Finance Commission during the period 2010-13.

The payment of pension and other retirement benefits of All India Service officers prior to 1 April 2008 was a liability of the State Government. As per the new procedure introduced from 1 April 2008, the payment was to be reimbursed by the Central Government. The State Government had paid an amount of ₹ 3.26 crore till 31 March 2013 to All India Service officers. However, the Central Government was yet to reimburse the outstanding amount since 2009-10 to the State Government. Since the cash position of the State is poor, the State Government may need to take up requisite steps to obtain this amount from the Central Government.

The State Government had adopted (August 2010) the new Restructured Defined Contribution Pension Scheme of the GoI *mutatis mutandis* in respect of new entrants to the State's service with effect from 1 January 2005. The funds available under the head "Defined Contribution Pension Scheme for Government Employees" increased from ₹ 53.11 crore in 2011-12 to ₹ 84.87 crore in 2012-13. As in the previous years, the State Government had not fully contributed its matching share and contributed only ₹ 12.50 crore as its matching share while the State Government employees has contributed ₹ 46.48 crore during 2012-13. Thus, there is an appreciable shortfall here on the part of the State Government.

The Finance Department stated (January 2014) that the Government has started contribution of its share from November 2010. However, the status of Government contribution to the fund prior to November 2010 has not been intimated.

Subsidies: - As per Finance Accounts, minor amounts ranging from ₹ 1.36 crore to ₹ 3.00 crore is shown to have been given as subsidies by State Government to various departments. However, a closer look revealed that the State Government could be implicitly providing higher levels of support, particularly in the power sector, as cost of purchase of power was less than Non-tax revenue collection under Power. The Electricity Department stated (September 2013) that an amount of ₹ 221 crore was given as subsidy by the State Government. Therefore, there is a need for proper booking of subsidies under appropriate head of account, so that the finances of the State could be depicted in a more transparent manner.

1.6.3 Non-plan Revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and as such does not result in any addition to the State's infrastructure and service network.

Non-plan revenue expenditure (NPRE) in 2012-13 was ₹ 4250.33 crore and was nearly 62 *per cent* of the total expenditure. The NPRE in the current year exceeded the projections made in the MTFPS/budget estimates (₹ 4149.80 crore) by ₹ 100.53 crore.

The targets of various components of expenditure fixed by the 13th Finance Commission *vis-à-vis* Actuals in respects of NPRE and its component are as shown in the following table:-

Table 1.20: 13th FC recommendations of NPRE *vis-à-vis* Actuals

(₹ in crore)

13th FC/ Actuals	Salary	General Services (GS)	Interest Payment (under GS)	Pension (under GS)	Social Services	Economic Services	Assignment to Local Bodies	Total of Non-Plan revenue expenditure
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)(2+3+6+7+8)
13th FC	1242.73	738.34	350.29	273.78	151.54	135.95	110.46	2379.02
Actuals	2214.66	1407.59	433.01	760.28	79.73	355.13	193.22	4250.33

(Source: 13th Finance Commission Report and Finance Accounts)

All the components of expenditure except for expenditure under Social Services exceeded the limits set by the 13th FC. NPRE in 2012-13 exceeded the targets of 13th Finance Commission by ₹ 1871.31 crore.

The NPRE increased from ₹3925.83 crore in 2011-12 to ₹ 4250.33 crore in 2012-13 mainly due to increase in Pensions and Other Retirement Benefits (₹ 132.13 crore), General Education (₹ 97.92 crore), Power (₹ 46.75 crore) and Interest payment (₹ 35.57 crore) as compared to the previous year. During the period 2008-13, the NPRE grew by ₹ 2118.10 crore (99 *per cent*) from ₹ 2132.23 crore in 2008-09 to ₹ 4250.33 crore in 2012-13.

1.6.4 Financial Assistance by the State Government to Local Bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and other institutions during the current year relative to the previous years is presented in the following table*:*

Table 1.21: Financial Assistance to local bodies, other institutions *etc.*

(₹ in crore)

Financial Assistance to Institutions[11]	2008-09	2009-10	2010-11	2011-12	2012-13	
					BE*	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities *etc*.)	29.75	32.04	35.17	44.81	34.31	42.24
Municipal Corporations and Municipalities	19.90	3.60	3.81	3.72	28.40	15.57
Co-operative institutions	**	**	**	1.39	0.80	0.63
Other Institutions	1.02	1.67	2.11	0.86	7.68	6.42
Total	**50.67**	**37.31**	**41.09**	**50.78**	**71.19**	**64.86**
Assistance as percentage of RE	1.93	1.24	1.01	1.01	1.16	1.22

* BE – Budget estimates

** included in Other Institutions

(Source: Budget documents and Finance Accounts)

The total assistance (₹ 64.86 crore) provided during 2012-13 was less than the estimates made in the budget (₹ 71.19 crore) by ₹ 6.33 crore. As compared to 2011-12, the total assistance increased by ₹ 14.08 crore in 2012-13. Financial assistance to universities and educational institutions alone constituted nearly 65 *per cent* of the total assistance of the State Government during 2012-13. Amongst education services, maximum assistance was given to Non-Government Primary School (₹ 25.78 crore). The assistance increased from 1.01 *per cent* of the Revenue expenditure in 2011-12 to 1.22 *per cent* in 2012-13.

1.6.4.1 Local Bodies

The 73rd and 74th Constitutional amendment Acts marked a new era in the federal democratic set up of the country so far as it conferred constitutional status to the Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) and recognized them as the third tier of Government. The Constitutional amendments provide for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice and implementation of 29 subjects to PRIs and 18 subjects to ULBs listed in XIth and XIIth Schedule of the Constitution of India respectively.

Post the 73rd Constitutional amendment, the State Government enacted the Manipur Panchayati Raj (MPR) Act, 1994 and established a two-tier PRI system at the village and district levels. The State has 9 districts of which 5 districts are located in the hill areas and 4 districts are spread out in the valley. As on March 2013 there were 4 Zilla Parishads and 161 Gram Panchayats in the State. Consequent upon the 74th Constitutional amendment the

[11] Only minor heads relating to "Assistance" under the respective major head of accounts had been considered.

Government enacted the Manipur Municipality Act, 1994. There are three categories of ULBs in the State *viz.,* Municipal Councils (MCs), Nagar Panchayats (NPs) and Small Town Committee (STC). As of March 2013 there were 9 Municipal Councils (MCs), 18 Nagar Panchayats (NPs) and one Small Town Committee (STC) in the State.

Devolution of funds, functions and functionaries (3 Fs) to PRIs and ULBs

The 73rd Constitutional amendment and the Manipur Panchayati Raj Act, 1994 envisaged transfer of the functions to PRIs listed in the XIth Schedule. Accordingly, the State Government through executive orders had to transfer all the 29 functions to the PRIs. For effective functioning of both the State Government and PRIs, Activity Mapping delineated the role and responsibility of PRIs. Out of 29 functions, the State Government devolved functions of 16 departments to PRIs as of March 2013. There has been no change in the 3Fs transferred since the first time the order was issued in 2005.

The 74th Constitutional amendments provide for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice and implementation relating to 18 subjects listed in the XIIth Schedule for ULBs. The Directorate of Municipal Administration, Housing and Urban Development (MAHUD), Government of Manipur intimated (January 2013) that out of 18 functions, 7 functions are now being performed by ULBs.

Thus, transfer of funds, functions and functionaries to PRIs and ULBs was not adequate and effective to enable them to function as institutions of local self government.

Accounting and auditing arrangement of PRIs and ULBs

PRIs: Sections 43 and 73 of MPR Act stipulated that the accounts of GPs and ZPs shall be kept in such form and manner as may be prescribed. However, the basic records like Advance Register, Cheque Issue Register, Assets Registers *etc*., and Receipt and Payment Accounts were not maintained in PRIs. Model Accounting Structure for PRI prescribed by the Ministry of Panchayati Raj (MoPR), Government of India in consultation with the C&AG of India was also not adopted in any of the GPs and ZPs.

The Director, Local Fund Audit (DLFA), Government of Manipur is the Primary Auditor and conducts audit of accounts of GPs and ZPs under Sections 44(1) and 74(1) of the Manipur Panchayati Raj Act, 1994 and is to forward the audit reports to GPs and ZPs within one month from the completion of date of audit.

The Accountant General (Audit), Manipur conducts the audit of the accounts of PRIs under Sections 14(1) and 20(1) of C&AG's Duties, Power and Condition of Service (DPC) Act, 1971. The State Government had entrusted audit of PRIs to the C&AG of India under Technical Guidance and Support (TGS) arrangement in March 2012 by way of Gazette notification in pursuance of the 13th Finance Commission recommendations.

ULBs: The Ministry of Urban Development, GoI and the C&AG of India developed (December 2004) National Municipal Accounts Manual (NMAM)

which is based on double entry accrual based accounting system and circulated it to the State Governments for adoption for greater transparency and control over finances. The State Government also issued an order to all ULBs in March 2011 for adoption of NMAM with immediate effect. Accordingly, the ULBs in the State were required to prepare their budget and maintain their accounts in the formats as prescribed in NMAM with appropriate codifications and classifications. It was, however, observed that none of the ULBs had adopted NMAM as of March 2013. All ULBs kept their accounts in conventional method without following any acceptable accounting standards. Thus, the actual financial position of ULBs in the State could not be ascertained.

The Director, Local Fund Audit (DLFA) conducts audit of accounts of MCs, NPs and STC under Sections 72(1) of the Manipur Municipalities Act, 1994. In June 2013, the DLFA intimated that the audits of accounts of 16 units out of 28 auditable ULBs units were conducted during the year 2012-13.

The Accountant General (Audit), Manipur conducts the audit of the accounts of ULBs under Section 20(1) of C&AG's DPC Act, 1971 under Technical Guidance and Support (TG&S) module, as entrusted by the State Government in pursuance of the recommendation of the 13th Finance Commission. The State Gazette notification regarding entrustment of TG&S to the C&AG of India was issued in March 2012.

Reporting arrangement

Under TG&S arrangement, audit findings of test checked accounts of PRIs and ULBs conducted by the Accountant General are presented in the form of Annual Technical Inspection Report (ATIR) and submitted to the State Government for necessary action. There is a provision in the terms and conditions of TG&S entrustment that the C&AG of India or his representative will have the right to report to the State Legislature, the result of audit. Accordingly, the ATIR for the year 2011-12 was placed before the State Legislature on 26 June 2013. The ATIR was discussed by the Public Accounts Committee during December 2013.

1.7 Quality of Expenditure

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

1.7.1 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 rationalization measures

and lay emphasis on provision of core public and merit goods[12]. Apart from improving the allocation towards development expenditure[13], the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components (Development expenditure or Capital expenditure) to total expenditure (and/or GSDP), the better would be the quality of expenditure. The following table presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years.

Table 1.22: Development Expenditure[14]

(₹ in crore)

Components of Development Expenditure	2008-09	2009-10	2010-11	2011-12	2012-13	
					BE*	Actual
Development Expenditure						
Development Revenue Expenditure	1,527.67 (37.36)	1707.14 (37.04)	2322.15 (38.70)	2696.66 (40.23)	3896.38	2841.48 (41.66)
Development Capital Expenditure	1,412.01 (34.52)	1484.77 (32.22)	1653.30 (27.55)	1402.00 (20.92)	1843.71	1275.69 (18.70)
Development Loans and Advances	0.74 (0.02)	6.70 (0.15)	3.55 (0.06)	-	3.00	1.00 (0.01)

* BE- Budget estimates
(Source: Budget documents and Finance Accounts)
Figures in parentheses indicate percentage to Aggregate expenditure

Development Revenue expenditure increased by ₹ 144.82 crore from ₹ 2696.66 crore in 2011-12 to ₹ 2841.48 crore in 2012-13. However, Development Revenue expenditure was less than the budget estimate. Development Capital expenditure decreased by ₹ 126.31 crore from ₹ 1402 crore in 2011-12 to ₹ 1275.69 crore in 2012-13. The Development Capital expenditure shows a steady declining trend since 2010-11. The trend of diminishing Capital expenditure does not augur well for the long term economic health of the State.

During 2012-13, Revenue expenditure as a percentage of total expenditure was 78 *per cent*, out of which Non-plan Revenue expenditure accounts for 62 *per cent* of total expenditure. Capital expenditure was 22 *per cent* of the total expenditure in the year 2012-13. Thus, as in the previous year, a major portion of total expenditure was consumed by the Non-plan Revenue expenditure during 2012-13 also.

1.7.2 Efficiency of Expenditure in Social and Economic Services

Percentages of Capital expenditure and Salaries and Wages to the aggregate expenditure of the sector/sub-sector of some selected Social and Economic Services are shown in the following table:

[12] Refer glossary in Appendix 1.10
[13] Refer glossary in Appendix 1.10
[14] Refer glossary in Appendix 1.10

Table 1.23: Efficiency of Expenditure in Selected Social and Economic Services

(in *per cent*)

Sector	2011-12			2012-13		
	Percentage of Capital expenditure (CE) to Total expenditure (TE) of the respective sector	Percentage of Revenue expenditure[15] (RE) *vis-a-vis*		Percentage of CE to TE	Percentage of RE[16] *vis-a-vis*	
		Salaries & wages	OM*		Salaries & wages	OM*
Social Services	24.90 (CE-₹ 477.23 crore) (TE-₹ 1916.61 crore)	61.30	0.41	18.81 (CE-₹ 354.04 crore) (TE-₹ 1882.26 crore)	65.75	0.62
Economic Services	42.38 (CE-₹ 924.68 crore) (TE-₹ 2182.05 crore)	39.21	6.60	41.22 (CE-₹ 921.65 crore) (TE-₹ 2235.91 crore)	36.33	6.27

* Operation and Maintenance

(Source: Finance Accounts)

It is seen that Capital expenditure under Social sector decreased by ₹ 123.28 crore from ₹ 477.32 crore in 2011-12 to ₹ 354.04 crore in 2012-13. The share of Capital expenditure to Total expenditure decreased from 24.90 *per cent* in 2011-12 to 18.81 *per cent* in 2012-13. Salaries and Wages as a percentage of Revenue expenditure increased from 61.30 *per cent* in 2011-12 to 65.75 *per cent* in 2012-13. This shows that the major outgo of Revenue expenditure under Social expenditure is for payment of Salary and Wages. The trend of diminishing Capital expenditure does not augur well for the long term economic health of the State.

Revenue expenditure under economic services increased from ₹ 1257.37 crore in 2011-12 to ₹ 1313.26 crore in 2012-13, while Capital expenditure decreased from ₹ 924.68 crore in 2011-12 to ₹ 921.65 crore in 2012-13. Operation and maintenance cost as a percentage of Revenue expenditure under Economic Services decreased from 6.60 *per cent* in 2011-12 to 6.27 *per cent* in 2012-13. The declining percentage is again not a healthy symptom.

1.8 Financial Analysis of Government Expenditure and Investments

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

[15] Revenue Expenditure - ₹ 1439.29 crore (Social Sector) and ₹ 1257.37 crore (Economic Sector)

[16] Revenue Expenditure - ₹ 1528.22 crore (Social Sector) and ₹ 1313.26 crore (Economic Sector)

undertaken by the Government during the current year *vis-à-vis* previous years.

1.8.1 Incomplete projects

The department-wise information pertaining to some major incomplete projects of which the scheduled date of completion is already over as on 31 March 2013 is given in the following table:

Table 1.24: Department-wise Profile of Incomplete Projects

(₹ in crore)

Department/Implementing Agency	No. of Incomplete Projects	Initial Budgeted Cost	Cumulative actual expenditure as on 31.03.2013
Minorities and Other Backward Classes and Scheduled Castes	8	18.27	8.28
Manipur State Road Development Agency	1	363.66	297.31
Veterinary and Animal Husbandry	1	7.49	7.34
Public Works Department	1	5.89	3.23
Total	**11**	**395.31**	**316.16**

(Source: Finance Accounts)

As of 31 March 2013, there were 11 incomplete projects each costing ₹ one crore and above, involving a total budgeted cost of ₹ 395.31 crore on which an expenditure of ₹ 316.16 crore had already been incurred. The above list is only indicative and not exhaustive and does not include projects for which the targeted dates of completion have been revised. Delay in completion of works invites the risk of escalation in cost of the works besides depriving the beneficiaries of the benefits of the projects.

1.8.2 Investment and returns

As of 31 March 2013, the State Government had invested ₹ 160.29 crore in statutory corporations, rural banks, joint stock companies and co-operatives. During the last five years (2008-13), the Government could earn only ₹ 39,000 from the investment made on these corporations/companies *etc*. while it paid an average rate of interest ranging from 6.22 *per cent* to 6.69 *per cent*. Investments as on 31 March 2013 were made in two statutory corporations, 15 Government companies and 3135 types of co-operative banks and institutions the details of which are shown in the following table:

Table 1.25: Return on Investment

(₹ in crore)

Investment/Return/Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13
Investment at the end of the year	175.83	176.25	176.31	160.18[17]	160.29
Return	-	∇	∇∇	*	$
Return (*per cent*)	-	-	-	-	-
Average rate of interest on Govt. borrowing *(per cent)*	6.68	6.19	6.21	6.27	6.52
Difference between interest rate and return *(per cent)*	6.68	6.19	6.21	6.27	6.52

∇ only ₹ 28,000; ∇∇ only ₹ 4,000; * only ₹ 3,000; and $ only ₹ 4,000
(Source: Finance Accounts)

[17] Investments of ₹ 180.93 crore as mentioned in Finance Accounts 2011-12 has since been reconciled at ₹ 160.18 crore in 2012-13.

The State's economy was heavily strained by the high Fiscal Deficits experienced in the previous years. The State Government could improve the position of Fiscal Deficit in 2012-13 only because of devolution of more Grants-in-aid from GoI and by tightly restricting expenditure even on critical areas like Capital and Plan expenditure. Thus, to keep the deficits under reign it would be expedient to carefully measure all outflows of expenditure and investments; and to ensure that the investment of ₹ 160.29 crore fetches a commensurate return. Addedly, it may be prudent on the part of the State Government to critically review the functioning of the corporations, companies and co-operatives and come out with a commensurate action plan for making their operations viable.

1.8.3 Investment in Public Private Partnership (PPP) projects

The State has PPP projects in the Infrastructure sector, Health sector and Information Technology sectors. PPP projects involving a total amount of ₹ 1147.44 crore are being conceived in the State. The summary of PPP projects under pipeline, implementation and operation are detailed in the following table:

Table 1.26: Investment in Public Private Partnership projects

(₹ in crore)

Name of the Projects[18]	Completed		Under implementation/ construction		Under Planning/pipeline		Grand total	
	No.	Cost	No.	Cost	No.	Cost	No.	Cost
Infrastructure Sector								
IT- Special Economic Zone	-	-	-	-	-	832.00	-	832.00
Upgradation of Hotel Imphal to a 5-Star Category Hotel	-	-	-	-	-	100.00	-	100.00
Cable Car/ ropeway from Sendra Hillock to Thanga Island over Loktak Lake	-	-	-	-	-	100.00	-	100.00
Golf course at Nongmaiching	-	-	-	-	-	70.00	-	70.00
Mini-Golf Course near Takmu	-	-	-	-	-	30.00	-	30.00
Social Sector								
PPP in 2 Primary Health Centres in the State	-	-	-	0.95	-	0.57	-	1.52
Economic Sector								
Information Communication Technology- Common Service Centre	-	13.92	-	-	-	-	-	13.92
Total	**-**	**13.92**	**-**	**0.95**	**-**	**1132.57**	**-**	**1147.44**

(Source: Information as furnished by the Finance Department)

As per information furnished by the State Government, PPP projects costing ₹ 13.92 crore have/has been completed. Two Primary Health Centres under PPP costing ₹ 0.95 crore are under implementation. Projects costing ₹ 1132.57 crore are in the pipeline, mostly under infrastructure sector, to promote tourism.

[18] Number of projects had not been furnished by the Government.

1.8.4 Loans and advances by the State Government

In addition to investments in co-operative societies, corporations and companies, the State Government had also been providing loans and advances to many institutions/organizations. The following table presents the outstanding loans and advances as on 31 March 2013, and Interest receipts *vis-à-vis* Interest payments during 2008-09 to 2012-13.

Table 1.27: Average Interest Received on Loans and Advances by the State Government

(₹ in crore)

Quantum of Loans/Interest Receipts/Cost of Borrowings	2008-09	2009-10	2010-11	2011-12	2012-13	
					BE*	Actual
Opening Balance	198.79	199.20	202.81	205.42	203.61	203.61
Amount advanced during the year	1.07	6.89	3.80	0.08	7.00	3.30
Amount repaid during the year	0.66	3.28	1.19	1.89	3.59	0.59
Closing Balance	**199.20**	**202.81**	**205.42**	**203.61**	**207.02**	**206.32**
Of which Outstanding balance for which terms and conditions have been settled	NA**	NA	NA	NA	NA	NA
Net addition	0.41	3.61	2.61	(-) 1.81	3.41	2.71
Interest Receipts	0.58	2.23	7.37	1.25	NA	0.94
Interest receipts as *per cent* to outstanding Loans and Advances	0.29	1.10	3.59	0.61	NA	0.46
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	6.44	5.81	5.89	6.13	NA	6.37
Difference between interest payments and interest receipts (*per cent*)	6.15	4.71	2.30	5.52	NA	5.91

* *BE- Budget estimates* ** *NA - Not available*

(Source: Budget documents and Finance Accounts)

The information of outstanding Principal and Interest in respect of loans and advances where the accounts are maintained by the State Government is not incorporated in the above table, as the details have not been submitted by the State Government.

Total amount of outstanding loans and advances as on 31 March 2013 was ₹ 206.32 crore. Against repayment of Loans/Advances of ₹ 0.59 crore, an amount of ₹ 3.30 crore was advanced during 2012-13. Interest receipt has decreased significantly from ₹ 7.37 crore in 2010-11 to ₹ 0.94 crore in 2012-13. Pertinently, interest receipt of ₹ 0.94 crore against an opening balance of ₹ 203.61 crore is insignificant. The State Government may therefore need to make better efforts to ensure realisation of commensurate returns from the Loans and Advances.

1.8.5 Cash Balances and Investment of Cash Balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatch in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from RBI has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three years average of revenue receipts and the operative limit for Special Ways and

Means Advances is fixed by the RBI from time to time, depending on the holding of Government securities. The limit for Normal Ways and Means Advances had been fixed (April 2006) at ₹ 60 crore by the RBI.

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

Table 1.28: Ways and Means Advances and Overdrafts

(₹ in crore)

	2008-09	2009-10	2010-11	2011-12	2012-13
Ways and Means Advance					
Availed in the year	-	-	-	89.95	534.65
Outstanding WMAs	-	-	-	89.95	97.92
Interest paid	-	-	-	-	1.21
Number of days	-	-	-	1	72
Overdraft					
Number of days	-	-	-	1 *	31

* *An Overdraft of ₹ 493.26 crore was availed in 2011-12*

(Source: Finance Accounts)

The State Government resorted to Ways and Means Advance of ₹ 89.95 crore in 2011-12.

The State availed Special Ways and Means Advance (WMA) over the ordinary WMA during the current year for 72 days. During the current year, the State resorted to WMA of ₹ 534.65 crore and discharged WMA of ₹ 526.68 crore leaving an unpaid WMA of ₹ 97.92 crore[19] as on 31 March 2013. An Overdraft ranging from ₹ 25.04 crore to ₹ 195.78 crore was availed during 2012-13, and there was outstanding balance of Overdraft of ₹ 195.78 crore as on 31 March 2013.

The following table depicts the cash balances and investments made by the State Government out of cash balances at the beginning and at end of 2012-13:

Table 1.29: Cash balances and investment of cash balances

(₹ in crore)

Particulars	Opening balance on 1.4.2012	Closing balance on 31.3.2013
(a) General Cash Balance -		
Cash in Treasuries	4.62	4.62
Deposits with Reserve Bank	(-) 515.44	(-) 249.12
Deposits with other Banks	-	-
Remittances in transit - Local	0.81	1.20
Sub-total	**(-) 510.01**	**(-) 243.30**
Investments held in Cash Balance investment account[20]	2.43	2.43
Total (a)	**(-) 507.58**	**(-) 240.87**
(b) Other Cash Balances and Investments		
Cash with departmental officers[21]	36.38	49.77
Permanent advances for contingent expenditure with departmental officers	0.02	0.02
Investment of earmarked funds	99.38	135.71
Total (b)	**135.78**	**185.50**
Grand total (a)+ (b)	**(-) 371.80**	**(-) 55.37**

(Source: Finance Accounts)

[19] ₹ 534.65 crore *minus* ₹ 526.68 crore *plus* ₹ 89.95 crore (outstanding balance of 2011-12).
[20] GoI Treasury bills-Nil, Long term investment- ₹ 2.43 crore, Other investment-Nil.
[21] Public Works Department Officers, Forest Department Officers, District Collectors.

As in the previous year, the cash balances of State Government is negative (₹ 55.37 crore). Cash with the Departmental officers in 2012-13 increased by ₹ 13.39 crore from ₹ 36.38 crore in 2011-12 to ₹ 49.77 crore in 2012-13. Cash with the Departmental officers increased despite the fact that the State is experiencing a negative cash balance. Therefore the State Government may need a re-look at this position more minutely.

1.9 Assets and Liabilities

1.9.1 Growth and Composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and assets as on 31 March 2013, compared with the corresponding position on 31 March 2012. While the liabilities in this Appendix consist mainly of internal borrowings, receipts from the Public Account, Small Savings, Provident Funds and Loans and Advances from Central Government, the assets comprise mainly the capital expenditure, Remittance Balance and Loans and Advances given by the State Government.

The FRBM Act of the State has defined the total liabilities as "Total liabilities means the sum of the liabilities under the Consolidated Fund of the State, and the Public Account of the State and also include borrowings by the public sector undertakings and special purpose vehicles and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State budget".

1.9.2 Fiscal Liabilities

The trends in outstanding Fiscal liabilities of the State are presented in **Appendix 1.4**. The composition of Fiscal liabilities during the current year *vis-à-vis* the previous year are presented in the following Charts**:**

(₹ in crore)

Chart 1.9: Composition of outstanding fiscal liabilities as on 31 March 2012

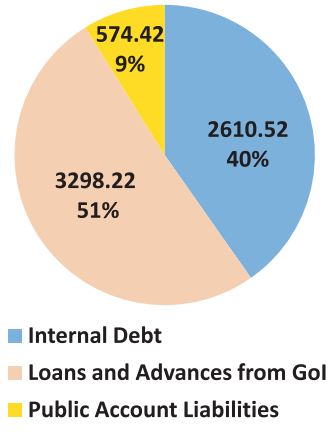
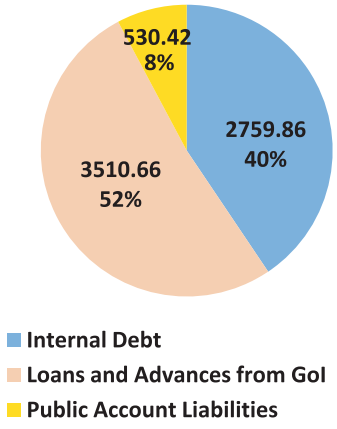


Chart 1.10: Composition of outstanding fiscal liabilities as on 31 March 2013



The following table presents the Fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP and Revenue receipts.

Table 1.30: Details showing Fiscal liabilities, its growth rate and ratio to GSDP

(₹ in crore)

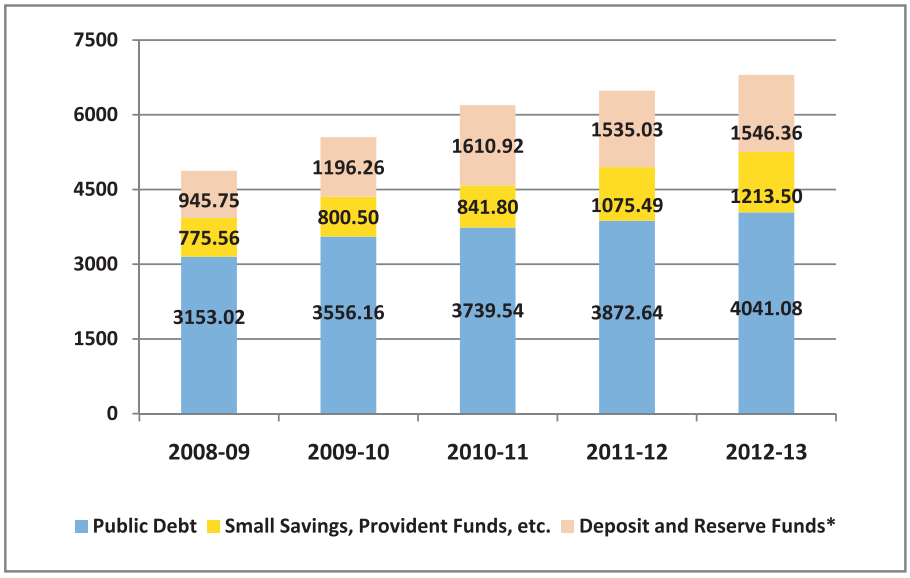
Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Fiscal liabilities [22]	4874.33	5552.92	6192.26	6483.16	6800.94
Rate of growth *(per cent)*	7.63	13.92	11.51	4.70	4.90
Ratio of Fiscal liabilities to					
GSDP (*per cent*)	65.88	67.28	67.99	62.28	58.06
Revenue receipts *(per cent)*	125.87	143.37	114.07	114.67	99.72

The overall Fiscal liabilities of the State Government increased by ₹ 317.78 crore from ₹ 6483.16 crore in 2011-12 to ₹ 6800.94 crore in 2012-13. The Fiscal liabilities to GSDP ratio which maintained an increasing trend during 2008-11 has declined since 2010-11. The ratio of Fiscal liabilities to GSDP during 2008-12 remained above 60 *per cent*. The ratio of Fiscal liabilities to GSDP decreased from 62.28 *per cent* in 2011-12 to 58.06 *per cent* in 2012-13. This indicates that the rate of Fiscal liabilities has grown at a slower pace as compared to the growth of GSDP during 2012-13. The ratio of Fiscal liabilities to Revenue receipts were above 100 *per cent* during 2008-12. The Fiscal liability was 99.72 *per cent* of Revenue receipts in 2012-13. The trends are further depicted in the following chart.

[22] Refer glossary in Appendix 1.10. Fiscal Liabilities as shown in the Table is inclusive of Investment out of Reserved Funds

Chart 1.11: Trend showing composition of fiscal liabilities during 2008-13

(₹ in crore)



**including funds bearing Interest and funds not bearing Interest under Reserve fund- ₹ 23.07 crore (2008-09); ₹ 47.58 crore (2009-10); ₹ 75.45 crore (2010-11); ₹ 113.80 crore (2011-12); and ₹ 161.88 crore (2012-13)*

(Source: Finance Accounts)

The increase in Fiscal liabilities was mainly due to increase in Internal Debt (₹ 212.44 crore), Public Account Liabilities (₹ 149.34 crore) and offset by a decrease in Loans and Advances (₹ 44.00 crore). The increase in Internal Debt was mainly due to four market loans totalling to ₹ 275 crore, borrowed with interest rate ranging from 8.80 *per cent* to 8.95 *per cent*. The increase in Public Account liabilities was mainly due to "8009-State Provident Funds" (₹ 138.50 crore). Under Deposit heads, the liabilities were mainly due to deposits into "Major Head-8449-Other Deposits" which had increased from ₹ 545.84 crore in 2008-09 to ₹ 657.36 crore in 2012-13. As per extant rules, all deposits or balances unclaimed for more than 3 completed years shall be credited to the Government accounts. As such the State Government, may need to look into this matter for appropriate compliance. The fiscal liabilities during the current year exceeded the assessed figure of ₹ 5361.19 crore in the MTFPS by ₹ 1439.76 crore. The incessant rise of Fiscal liabilities is not a good portent for the coming years and indicates the need to responsibly explore avenues to reduce the mounting burden.

1.9.3 Transactions under Reserve fund

The State has four Reserve Funds *viz.,* State Disaster Response Funds, Sinking Funds, Depreciation Reserve Funds of Government Commercial Departments/Undertakings and Guarantee Redemption Funds.

The State Disaster Response Fund has been set up by the State Government in 2010-11, as per the recommendations of the 13th Finance Commission (FC). The corpus of the funds is required to be contributed by the Central and the State Government in the proportion of 90:10. The Government of India had

released ₹ 10.57 crore and the State Government has transferred an amount of ₹ 1.18 crore in 2012-13. The fund had a closing balance of ₹ 22.76 crore as on 31 March 2013.

The Consolidated Sinking Fund for amortization of market borrowings, other loans and debt obligations has been set up (February 2008) by the State Government, as per the recommendation of the 12th Finance Commission (FC). As per guidelines of the fund, the State Government is required to contribute a minimum of 0.5 *per cent* of its outstanding liabilities (internal debt + public accounts) as at the end of the previous year. The State Government transferred an amount of ₹ 30.27 crore in 2012-13. The closing balance of the fund was ₹ 108.63 crore as on 31 March 2013. The corpus of the fund has been reinvested in purchasing of securities.

The State Government has set up (February 2008) a guarantee redemption fund to meet the contingent liabilities arising from such guarantees, as per the recommendation of the 12th FC. The State Government transferred an amount of ₹ 6.07 crore to this fund during 2012-13. The closing balance of the fund at the close of the year was ₹ 16.90 crore, which was reinvested on purchase of securities.

One reserve fund *viz.,* Depreciation Reserve Funds of Government Commercial Department/Undertakings had been inoperative at least during the last three years. An amount of ₹ 23.98 lakh is lying in the account, unutilised for the last three years.

1.9.4 Contingent liabilities

Status of Guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee had been extended. As per the FRBM Act and the Manipur Ceiling on State Government Guarantee Act, 2004, the total outstanding guarantees as of 1 April of any year shall not exceed thrice the State's own tax revenue receipts of the second preceding year.

The maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years is given in the following table:

Table 1.31: Guarantees given by the Government of Manipur

(₹ in crore)

Guarantees		**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Maximum amount guaranteed		197.24	197.24	196.04	195.55	193.98
Outstanding at the beginning of the year	Principal	210.95	189.66	110.34[@]	111.98	78.84
	Interest	NA	83.90	97.10	120.62	96.51
	Total	**NA**	**273.56**	**207.44**	**232.60**	**175.35**
Invoked during the year (Discharge)			61.18	16.39	33.14	6.80
Outstanding at the end of the year	Principal	189.66	128.48[@]	111.98	78.84	72.04
	Interest	83.90	66.27	120.62	96.51	119.32
	Total	**273.56**	**194.75**	**232.60**	**175.35**	**191.36**
Number of guarantees		17	17	15	14	13
Percentage of maximum amount guaranteed to Total revenue receipts		5.09	5.09	3.61	3.47	2.84

(Source: Finance Accounts) NA:-Not available

@ Discrepancy between Closing balance and Opening balance were due to unreconciled repayment made during 2009-10 and were corrected in 2010-11.

The outstanding guarantee of ₹ 191.36 crore was kept within the limit[23] of the FRBM Act *ibid.* No additional guarantee has been given by the State Government in respect of loans raised by Statutory Corporations, Local bodies and other institutions during 2012-13. An amount of ₹ 6.80 crore has been discharged during the year 2012-13. Despite discharging of an amount of ₹ 6.80 crore there was an increase in the outstanding Guarantees to ₹ 191.36 crore in 2012-13 from ₹ 175.35 crore in the previous year, mainly due to increase in the outstanding interest by ₹ 22.81 crore (₹ 119.32 crore - ₹ 96.51 crore)

1.10 Debt Management

Fiscal deficit is usually managed by way of borrowings by the State. The rate of growth of debt, the debt repayment liability, Public debt repayment, reliance on debt for financing current expenditure (not capital expenditure) are discussed in succeeding paragraphs.

1.10.1 Debt Profile

The maturity profile of debt at the end of 2012-13 is shown in the following table:

Table 1.32: Maturity Profile of debt

(₹ in crore)

Maturity profile (in years)	Position as on 2012-13
0 - 1	82.06
1 - 3	358.33
3 - 5	491.78
5 – 7	723.90
7 – 9	773.04
9 -11	321.07
11 - 19	539.40
Miscellaneous*	751.50
Total	**4041.08**

* *Year of Maturity not known*

(Source: Finance Accounts)

Maturity profile of the existing debt of the State reveals that repayment burden will increase from ₹ 82.06 crore in the (0-1) year slab to ₹ 358.33 crore by the (1-3) years slab. In the next (3-5) years slab, this will increase to ₹ 491.78 crore. There will be higher repayment pressure in the (5-7) years slab (₹ 723.90 crore) and at (7-9) years slab (₹ 773.04 crore). The year wise details of maturity profile at the end of 2012-13 is given in **Appendix 1.6,** alongwith a chart depicting the trend.

1.10.2 Debt sustainability

Apart from the magnitude of the debt of State Government, it is important to analyze various indicators that determine the debt sustainability[24] of the State,

[23] Not to exceed thrice the State's own tax revenue receipts of the second preceding year *i.e,* ₹ 801.15 crore (267.05 x 3)

[24] Refer glossary in Appendix 1.10

sufficiency of non-debt receipts[25]; net availability of borrowed funds[26]; *etc.* The following table analyzes the debt sustainability of the State according to these indicators during 2008-13.

Table 1.33: Debt sustainability, Indicators and Trends

(₹ in crore)

Indicators of debt sustainability	2008-09	2009-10	2010-11	2011-12	2012-13
Debt stabilization (Quantum spread[27] + Primary deficit)	193.87	(-) 148.33	25.93	(-) 152.29	820.96
Sufficiency of non-debt receipts (Resource gap)	(-) 319.03	(-) 515.77	(+)164.26	(-)478.23	1045.93
Net availability of borrowed funds	31.73	335.70	240.12	(-)137.51	(-)151.56
Burden of interest payments (IP/RR* Ratio percentage)	8.11	8.33	6.72	7.03	6.35

* *IP – Interest Payment and RR – Revenue Receipts*
(Source: Finance Accounts)

The table reveals that the quantum spread alongwith primary deficit reversed from a negative figure in 2011-12 to a positive figure during 2012-13. Further the sufficiency of non-debt receipts to cover incremental expenditure also reversed from negative to positive figure. However, it is seen that the net availability of borrowed funds is negative. It is also seen that despite the increase in the amount of interest payment in 2012-13 over the previous year, the burden of interest payment reduced from 7.03 *per cent* in 2011-12 to 6.35 *per cent* in 2012-13, mainly due to increase in Revenue receipts. The effect of the positive indicators would be fleeting, as it is arising mainly from a favourable revenue receipts contributed mainly by a surge in Grants-in-aid from the GoI in 2012-13.

1.10.3 Debt consolidation and relief facility

The States' enactment/amendment of the FRBM Act, incorporating the targets prescribed in the 13th FC was a pre-condition for release of all State-specific grant and debt relief measures. The State Government enacted the Manipur FRBM Act in August 2005 to ensure prudence in fiscal management and fiscal stability by achieving sufficient revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, and greater transparency in fiscal operations of the Government. As per Manipur FRBM Rules 2005 (enacted in December 2005) and subsequent amendments framed under the FRBM Act of August 2005, the various fiscal targets in respect of revenue surplus and fiscal deficit were set. The targets prescribed under the Act and the Rules are given in **Appendix-1.1 Part E.**

[25] Refer glossary in Appendix 1.10
[26] Refer glossary in Appendix 1.10
[27] Refer glossary in Appendix 1.10

1.10.4 Off-budget borrowings

The State Government has not reported (December 2013) any off-budget borrowings during 2012-13.

1.11 Review on Market Borrowings

1.11.1 Introduction

Fiscal deficit represents the borrowing requirement of the government during the year. The borrowings are accounted for under the consolidated fund (E-Public Debt.) The major divisions are Internal Debt of the State Government and Loans and Advances from the Central Government. The Internal Debt is further divided into market loans and negotiated loans. Market Borrowings pertain to the head of accounts under 6003- Internal Debt of the State Government – 101 Market Loans.

Market Borrowings are controlled by the Central Government and managed by the Reserve Bank of India (RBI). States may not, without the consent of the Central Government, raise any loan if they are indebted to the Central Government (Article 293). The RBI manages the domestic borrowings of the States through separate agreements with each of them. The State Government issue dated securities, termed State Development Loans (SDLs), of varying tenures.

1.11.2 Scope of Audit

The Performance Audit on Market Borrowings of the State Government for the period 2008-13 was conducted during May-June 2013. Market Borrowings of the State under Public Debt during 2008-13 was covered in the review.

1.11.3 Audit Objectives

The objectives of the Performance Audit were to assess whether:-

- the Market Borrowings and debt were sustainable, and a proper accounting system and re-payment profile existed;
- borrowings were limited as per ceiling set by Finance Commissions, there is a proper system of assessment of borrowing requirements, borrowings were made with clear objectives, and planning and flow of borrowings were closely monitored as per policy set;
- the increase in Market Borrowings led to an increase in capital expansion, and Government resources were purposefully utilised and re-paid in time by loanees to reduce pressure on borrowings; and

1.11.4 Audit Criteria

The audit criteria for benchmarking audit findings were derived from:

- Recommendations of the 12th Finance Commission (FC) and the 13th FC;
- The Manipur Fiscal Responsibility and Budget Management (FRBM) Act and Rules framed thereunder;
- Medium Term Fiscal Policy Statements (MTFPS) of the State Government; and
- Budget documents of the State Government.

1.11.5 Audit Methodology

Audit methodology included holding an entry conference (May 2013) with the State Finance Department, checking of related documents of Market Borrowings and other borrowings under Public debt as available in the Finance Accounts and State Finance Department, issuing audit queries and observations to elicit replies of the Department and analysis of data and documentary evidence on the basis of audit criteria. An exit conference was held with the concerned officials on November 2013. The replies of the Department have been incorporated at the appropriate places.

Audit Findings

The significant audit findings are discussed in succeeding paras, as per the set of audit objectives.

Whether the Market Borrowings and debt were sustainable, and a proper accounting system and re-payment profile existed?

11.6 Overall Position

The overall position of debt, its sustainability, maturity profile and interest rate are as follows:-

1.11.6.1 Debt Sustainability of market loans

The Debt Sustainability is defined as the ability of the State to maintain a constant Debt-GSDP ratio over a period of time and the ability to service its debt seamlessly. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with financial capability to service the debt. The following table indicates various debt sustainability indicators of the State during the year 2008-13:

Table 1.34: Debt Sustainability indicators

(₹ in crore)

Description	2008-09	2009-10	2010-11	2011-12	2012-13
Total liabilities	4874.33	5552.92	6192.26	6483.16	6800.94
Total Public Debt	3153.02	3556.16	3739.54	3872.64	4041.08
Total Market loans	1452.45	1897.45	2103.65	2180.62	2362.63
Percentage of Market loans to total liabilities	29.80 %	34.17%	33.97%	33.64%	34.74%
Percentage of Market loans to total public debt	46.06 %	53.36%	56.25%	56.31%	58.47%
Weighted average interest rate on market loans	7.17	6.13	7.30	7.83	7.98
Interest paid on market loans	95.23	102.71	145.99	167.79	181.34
Rate of growth of interest paid on market loans over previous year	4.24%	7.85%	42.14%	14.93%	8.08%
GSDP	7399	8254	9108(P)	10410(Q)	11713(A)
Rate of growth of GSDP	8.82%	11.56%	10.35%	14.30%	12.52%
Weighted average interest rate[@]	6.68	6.19	6.21	6.27	6.52
GSDP growth rate & interest rate ratio	1.32	1.87	1.67	2.28	1.92
Gross interest payments	313.83	322.57	364.78	397.44	433.01
Revenue Receipts	3872.62	3873.14	5429.94	5653.55	6819.76
Gross interest payments to revenue receipts ratio	0.08	0.08	0.07	0.07	0.06
Primary surplus/deficit	96.95	-410.08	-203.96	-649.53	431.97
Revenue surplus/deficit	1250.34	854.74	1351.93	646.63	1503.23
Fiscal deficit	-216.88	-732.65	-568.74	-1046.97	-1.04
Percentage of total liabilities to GSDP	65.88%	67.28%	67.99%	62.28%	58.06%
Outstanding guarantees	273.56	194.75	232.60	175.35	191.36

(Source: Finance Accounts (2008-13))

GSDP: Gross State Domestic Product

@ Weighted average Interest rate= {Gross Interest Payment/(Total Liabilities of the current year + Total Liabilities of the previous year) ÷2} x 100

It could be seen from the above table that:

- The total liabilities increased by ₹ 1926.61 crore from ₹ 4874.33 crore in 2008-09 to ₹ 6800.94 crore in 2012-13. During the same period the market loans increased by ₹ 910.18 crore. Thus, around 47 *per cent* of the total increment in the total liabilities during the period 2008-09 to 2012-13 was contributed by market loans. Further, market loans constituted more than 50 *per cent* of the total public debt in each financial year during 2009-13.

- Similarly, market loans constituted about 102 *per cent* of the total increment in the total public debt (₹ 888.06 crore) during the period 2008-09 to 2012-13. This increase in resorting to Market Borrowings is a result of significant reduction of loans and advances from the Central Government from the year 2007-08, as State Governments were expected to manage their own debt instead of relying on the Central Government. Further, no loans and advances was raised from the Central Government from 2010-11 onwards.

- The interest payment on market loans also increased from ₹ 95.23 crore in 2008-09 to ₹ 181.34 crore in 2012-13, as a result of increasing trend of Market Borrowings.

The year-wise detail of Market Borrowings during the period 2008-13 is given in the following table:

Table 1.35: Year-wise details of Market Borrowings

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Opening balance of market loans as on 1 April	1203.66	1452.45	1897.45	2103.65	2180.62
Borrowing during the year	303.30	502.78	258.14	150.00	275.00
Repayment during the year	54.51	57.78	51.94	73.03	92.99
Closing balance	1452.45	1897.45	2103.65	2180.62	2362.63
Increase/decrease of market loans as on 31 March	248.79	445.00	206.20	76.97	182.01

(Source: Finance Accounts)

The closing balance of market loans during 2008-13 exhibited an increasing trend. The closing balance increased from ₹ 1452.45 crore in 2008-09 to ₹ 2362.63 crore in 2012-13.

1.11.6.2 Maturity Profile of Market Borrowings

The details of maturity of market loans raised during the period 2008-09 to 2012-13 can be seen from the following table:

Table 1.36: Profile of Market Loans

(₹ in crore)

Details of maturity	Amount of loan raised					
	2008-09	2009-10	2010-11	2011-12	2012-13	Total
Less than 7 years	0.00	0.00	0.00	0.00	0.00	0.00
More than 7 years	303.30	502.78	258.14	150.00	275.00	1489.22
Total amount of loan raised during the year	303.30	502.78	258.14	150.00	275.00	-
Total outstanding as on 31 March	1452.45	1897.45	2103.65	2180.62	2362.63	
Percentage of loan raised during the year to total outstanding loan of that year	20.88	26.50	12.27	6.88	11.64	

(Source: Finance Accounts)

During the period of audit (2008-13), the State Government raised Market Loans through State Development Loans. The instruments were sold through the Reserve Bank of India by auction.

As may be seen from the table above, the tenure of the loans raised during the period 2008-13 was more than 7 years. No borrowings were made for less than 7 years during this period. During the period 2008-13, there was an addition of

₹ 1489.22 crore, and the outstanding Market Borrowings almost doubled from ₹ 1452.45 crore to ₹ 2362.63 crore.

1.11.6.3 Weighted Average Maturity of Market Loan

The Weighted Average Maturity (WAM)[28] of loans is the average number of years until the loans are paid off. A high WAM means that the loans will not mature for a long time and the State Government will continue to pay interest and principal, as applicable. Conversely, a low WAM means that the loans will mature in a short time. The position of WAM of market loans of the State during 2008-13 is shown in the following table:

Table 1.37: Weighted Average Maturity of market loans

(in years)

Year	Maturity of Market Borrowing	
	Raised during the year	WAM of Outstanding market loans[29]
2008-09	10	6.87
2009-10	10	7.09
2010-11	10	6.60
2011-12	10	6.08
2012-13	10	5.66

(Source: Finance Accounts)

As may be seen from the above table, the WAM of the outstanding market loans for the period 2008-13 are in the range of 5.66 years to 7.09 years. Thus, the State Government does not have any repayment pressure in the short term. However, the State Government may face rollover risks[30] beyond 6 years. The State Government, during the five years (2008-09 to 2012-13) has undertaken only long term Market Loans thereby reducing repayment burden in the short and medium term, but which creates a burden for the future. As such, a strategic planning and management of market borrowings would be required so that the future years do not suffer on account of the policies of the present.

An illustration of calculating Weighted Average Maturity of Market loans relating to the year 2008-09 is given at **Appendix 1.7**.

[28] Each outstanding loan is assigned a weight by dividing by the total outstanding loans during a particular year. Each weight is multiplied by the remaining number of years the loan is to mature. WAM is arrived by summation of these products.

[29] Illustrative calculation in respect of the year 2008-09 is shown in Appendix 1.7.

[30] Rollover risk is faced whenever the debt is about to mature and needs to be rolled over into a new debt.

1.11.6.4 Maturity Profile of Market Loans

The maturity trends of Market Loans are indicated in the following table:

Table 1.38: Maturity Trend of Market Loans

(₹ in crore)

Maturity year	Maturity amount	Outstanding market loans as on 31-3-2013	Maturity amount as a percentage of outstanding market loans as on 31-3-2013
2013-14	46.12	2362.59*	1.95
2014-15	78.06		3.31
2015-16	188.00		7.96
2016-17	213.90		9.05
2017-18	185.73		7.86
2018-19	361.56		15.30
2019-20	292.08		12.36
2020-21	314.00		13.29
2021-22	408.14		17.28
2022-23	275.00		11.64

(Source: Finance Accounts)

*excluding ₹ 0.04 crore for which details of maturity year not available

As can be seen from the table above, the repayment obligation of the Market Borrowings of the State Government is at ₹ 78.06 crore till the year 2014-15. However, from 2015-16 onwards the repayment obligation increases significantly to ₹ 188 crore and above. From 2018-19, the repayment obligation increases further. The quantum of loan maturing as a percentage of outstanding market loans (as on 31 March 2013) is low till 2014-15, at below 5 *per cent* of outstanding market loan. Thereafter, there is marginal increase till 2017-18. After 2018-19, the maturing amount as a percentage of outstanding loans (as on 31 March 2013) rises beyond 10 *per cent*. As can be observed from the trends of the finances of the State under Para 1.2.1, it is heavily reliant on the State's share of Union taxes and duties and Grants-in-aid during 2008-13. The contribution of its own tax and non-tax revenue is low. Thus, there is a likelihood that borrowings will continue to be made by the State Government to service the past debt as is presently being done. The redemption pressures on account of the market loans is likely to put a strain on the finances of the State in the coming years.

1.11.6.5 Interest rate Profile

The interest rate profile of Market Borrowings is shown in the following table:

Table 1.39: Interest Rate profile of Market Borrowings

(₹ in crore)

Rate of interest (%)	Market Loan raised during the year					
	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**Total**
7-7.99	303.30	-	-	-	-	303.30
8-8.99	-	502.78	258.14	100.00	275.00	1135.92
9-9.99	-	-	-	50.00	-	50.00
Total amount	**303.30**	**502.78**	**258.14**	**150.00**	**275.00**	**1489.22**
Total interest paid on market loan	95.23	102.71	145.99	167.79	181.34	
Outstanding loan	1452.45	1897.45	2103.65	2180.62	2362.63	
Loan Repaid during the year	54.51	57.78	51.94	73.03	92.99	
Weighted average interest rate on market loans	7.17	6.13	7.30	7.83	7.98	

(Source: Finance Accounts and Departmental Records.)

As per Finance Accounts, earlier loans raised in the 1990s with maturities up to 2009-10 were of low principal but with high rate of interest ranging from 11.50 to 13.75 *per cent*. The recent loans raised during 2008-13 were for larger principal but at comparatively lower rate of interest of 7 to 9.04 *per cent*. As such, the interest rates had migrated from higher rate to lower rate of interest. Despite this, the interest paid on Market Borrowings during 2008-09 to 2012-13 depicted an increasing trend due to continual increase of outstanding loans.

1.11.6.6 Interest payment as a percentage of Revenue Receipt

The following table shows interest payments as a percentage of revenue receipts:

Table 1.40: Interest Payments as a percentage of Revenue Receipts

(₹ in crore)

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Interest payment	313.83	322.57	364.78	397.44	433.01
Revenue receipts	3872.62	3873.14	5429.94	5653.55	6819.76
Interest payment as percentage of Revenue receipts	8.10	8.33	6.72	7.03	6.35
$12^{th}/13^{th}$ FC assessment of Interest payment	399.36	429.31	350.29	373.90	400.16

(Source:- Finance Accounts, 12^{th} and 13^{th} Finance Commission Reports)

The above table shows that Interest payment for the year 2008-10 was less than the projection made by the Twelfth Finance Commission. However, in the subsequent years 2010-13 the Interest payment was more than the projection made by the Thirteenth Finance Commission.

Whether borrowings were limited as per ceiling set by Finance Commissions, there is a proper system of assessment of borrowing requirements, borrowings were made with clear objectives and planning and flow of borrowings were closely monitored as per policy set?

1.11.7 Basis of Borrowing

1.11.7.1 Differences in the Planning Commission's Approved plan and the Budget estimate

The Budget estimates of loans to be raised through Market Borrowings should be as per the approved plan for that particular financial year. The details of borrowings made and its estimates in the Planning Commission's Approved plan and the Budget estimates of the State Government are shown in **Appendix 1.8.** As can be seen from the Appendix, the Budget estimate of 2011-12 is more than the Gross Market Borrowing as mentioned in the Approved plan. Had the borrowing in the Budget estimate of 2011-12 been actually raised, it would have crossed the ceiling limit of total borrowing of Approved plan. Thus, Budget estimates were not prepared keeping in conformity to the ceiling limits of total borrowings. The Finance Department replied (July 2013) that the Budget estimate is prepared, based on the Approved Scheme of Financing and if there is increased allocation of Market Loans than that of the Approved Scheme of Financing, the overall borrowing will be kept within the ceiling limit. The reply of the Department is not acceptable because the amount estimated in budget should not exceed the figures given in the approved plan of that particular financial year. The budgetary preparation should be made within the set parameter to avoid possibilities of aberrations.

1.11.7.2 Shortfall in Borrowing of Market Loans

Determining the borrowing needs is a critical function that requires a significant amount of information, coordination and planning. Borrowing more than the actual requirement could put pressure on the fiscal position, while under borrowing could lead to shortage of capital and create an obstacle in implementing developmental plan. The following table shows the difference in actual Market Borrowings and Approved plan of the State:

Table 1.41: Shortfall in raising of targeted market loan

(₹ in crore)

Year	Approved Plan			Actual MB raised
	Net Market Borrowings (MB)	Market Borrowings for repayment of earlier MB	Gross Market Borrowings	
(1)	(2)	(3)	(4) (2 +3)	(5)
2008-09	271.15	39.05	310.05	303.30
2009-10	332.51	41.82	503.35[31]	502.00
2010-11	343.82	36.23	380.05	258.14
2011-12	297.62	32.13	329.75	150.00
2012-13	366.08	84.47	450.55	275.00

(Source: Department Records)

[31] Including loans through ₹ 68.52 crore (Market Loan in lieu of Normal Central Assistance) and ₹ 60.50 crore (Market Loan in lieu of Special Plan Assistance)

Thus, it can be seen that there were marginal shortfall in borrowing in the years 2008-10. The shortfalls of actual Market Borrowings raised *vis-a-vis* that of Approved Plan was significantly high during 2010-13. This could contribute to creating impediment in implementing various development programmes of the Government. During these years, the actual Market Borrowings raised was less than even the projected net Market Borrowings requirement. Further, the Government of India gave approval to raise ₹ 140 crore in March 2012, which the State failed to raise. The Department replied (July 2013) that the State is totally dependent on the consent given by the Ministry of Finance. However, the State could have appropriately moved the Central Government for raising the amount upto the Approved limit of borrowing, if this was required. Thus, the State Government's borrowing was not made in a planned manner but depended on other factors.

1.11.7.3 Objectives of the Market Loans raised

As per the State Fiscal Responsibility and Budget Management (FRBM) Act, the Mid Term Fiscal Policy Statement (MTFPS)[32] shall include an assessment regarding use of borrowing for generating productive assets. However, the objective of the loans raised during the period 2007-12 seems to be for purposes other than creating productive assets. The details of objective of market loans raised are given in **Appendix 1.9.**

Audit observed that the State Government participated in the Market Borrowings programmes 13 times during the period 2008-13. In three cases, borrowing programmes had the objective *"The loan will be utilized towards financing of the Securities and the features and methods of issue of different types of Securities pertaining to the particular Security issued during the year"* The meaning of this objective seems to be ambiguous. The Department replied (July 2013) that the ambiguity in the wording will be corrected as a portion was used for repayment and the remaining balance was utilised for financing development works.

In one case, borrowing was made with the objective of financing various development programmes. In another three cases, the objective of the borrowing could not be discerned from the files and records made available to Audit. In six cases, borrowing was made with the objective "*The loan is for financing the State's annual plan and that the borrowing will be utilized exclusively for repayment of existing debt".* Thus, apparently it was utilised exclusively for serving of past debts. In such a scenario, the possibility of getting trapped in a vicious circle of debt cannot be ruled out.

In the MTFPS, it was stated (July, 2010) that *"Market Borrowings and negotiated loan availed so far has been utilized almost entirely for funding capital expenditure*". However, the market loan raised during the period 2008-13 were utilised mainly for purposes other than funding capital expenditure. Thus, there is a discrepancy between the purpose stated in the MTFPS placed in the Legislative Assembly of the State and actual practices being followed

[32] A document placed to the State Legislature during every budget session.

by the Finance Department in utilisation of Market Borrowings. The Department replied (July 2013) that it is not possible to link the fund borrowed under Open Market Borrowings with any Capital Project. The reply is not acceptable as borrowing made for specific asset creation can be easily linked with expenditure made from the Consolidated Fund of the State. The reply is also evasive as the audit observation is about the difference between the objectives stated in MTFPS and what was stated during the borrowings.

1.11.7.4 Planning and Monitoring

The Reserve Bank of India (RBI) intimates the State Government of the need to furnish the quarterly "Advance Indicative Calendar of Market Borrowings Programme". Such Calendar was to be submitted to the RBI before the particular quarter.

Further, the RBI stated (September 2010) that bunching of borrowing towards the end of the financial year may considerably increase borrowing costs. However, it was observed that during the period 2008-11, the State Government did not participate in the Market Borrowings Programme in the first and second quarters of the financial year. The State Government usually participated in the programme in the third and fourth quarters of the financial year. Thus, in contravention of the instruction of the RBI, the State Government had been indulging in bunching of borrowing towards the end of these financial years. The Finance Department stated (June 2013) that the State has been regularly sending quarterly borrowings requirement to RBI for the last two years. However, the State had been bunching the borrowings in the second quarter and the third quarter of the financial year during 2008-09 to 2010-11. The lack of initiative and anticipation of the Department was thus evident during 2011-12.

The Department intimated (June 2011) the RBI that it would not participate in the Market Borrowings Programme during the second quarter of 2011-12. The Department later retracted and sought (25 August 2011) participation in the Programme of third tranche of second quarter (September 2011) for raising a loan amount of ₹ 150 crore. Finally, the GoI consented (30 August 2011) for raising of ₹ 100 crore only, ₹ 50 crore less than what was envisaged. Lack of planning and anticipation was evident as the Department first made a volte face about participation in the Programme and later on made a late intimation to RBI/GoI. The Department stated (June 2013) that borrowings are made as per cash position of the State. The reply is not acceptable as in the year 2011-12 the State Government experienced a negative closing cash balance of ₹ 372 crore unlike previous years. The worsening cash position was also evident from the fact that ways and means advance was taken for ₹ 90 crore (during 2011-12) for the first time in the last seven years.

The RBI had instructed the State Government to submit the tentative amount and timing of Market Borrowings on or before 20 December 2011 for the fourth quarter (January to March 2012) of 2011-12. However, the State Government intimated the RBI on 12 January 2012 the tentative date of participation in the Market Borrowings Programme for an amount of ₹ 179.75 crore. The RBI informed that no amount was raised due to lack of consent of

the Government of India as it was given on 26 March 2012 (for ₹ 100 crore) and 27 March 2012 (for ₹ 40 crore) for the auction to be held on 29 March 2012.

Due to paucity of time, the auction of 29 March 2012 to raise an amount of ₹ 140 crore (₹ 100 crore + ₹ 40 crore) failed as no dealer could participate. The failure was attributable to the State Government as it made a late submission to the RBI. Such a failure makes it imperative that the State Government should try to participate in Market Borrowings programmes in earlier quarters, which was mostly not done during review period. The Department also stated (July 2013) that it does not have any policy on Market Borrowings.

Whether the increase in Market Borrowings led to an increase in capital expansion, and Government resources were purposefully utilised and re-paid in time by loanees to reduce pressure on borrowings?

1.11.8 Application of Market Borrowings

Funds from Market Borrowings should be ideally channelized for asset creation so that productivity of the State increases and generates faster rate of growth of economy. The MTFPS also emphasises on expending funds from Market Borrowings for capital asset creation. However, during audit no instance of utilisation of Market Borrowings for capital asset creation was seen.

There was one instance where such fund was proposed (March 2011) for utilization for paying salary to police personnel and teachers of Autonomous District Councils. However, the loan of ₹ 77 crore had been raised with the objective of "*financing the State's annual plan and repayment of existing debt*". As such, the expenditure on payment of salary was in contravention of its stated objective. Such practices show the extent to which borrowings are being utilised for non-plan expenditure. If the trend continues, the purpose of Market loan for utilisation of creation of assets/productive purpose may remain unfruitful. This is pertinent as the Department does not have any policy on Market Borrowings.

1.11.9 Conclusion

During 2008-13, the Market Borrowings increased by ₹ 910.18 crore from ₹ 1452.45 crore (2008-09) to ₹ 2362.63 crore (2012-13); and constituted more than 50 *per cent* of the Public debt during this period. After 2018-19, the quantum of maturing market loans as a percentage of outstanding loans (as on 31 March 2013) would rise beyond 10 *per cent*. Given the fact that borrowings will continue to be made by the State Government to service their past debt as is presently being done, the redemption pressure with effect from 2018-19 will undoubtedly exert pressure on the finances of the State. The loans raised during 2008-13 were for larger principal but at comparatively lower rate of interest of 7 to 9.04 *per cent* as compared to those loans made during 1990s. Though the interest rates had migrated from higher rate to lower rate, the

average interest rate remained within a close range of 6.13 *per cent* to 7.98 *per cent*, as the loans raised had increased.

1.11.10 Recommendations

The State Government should ensure that:-

- *Open Market Borrowings are made strictly after ascertaining actual requirement of funds and the State needs to adhere to the objectives for seeking such borrowing;*
- *The repayment of debt and its maturity profile needs utmost attention, as there are possibility of roll-over risks of debt which can push the State's economy into a vicious cycle of debt trap in the coming years;*
- *Planning for Market Borrowings needs to be driven on need-based basis and a policy needs to be framed. The budgetary estimate should commensurate with borrowing requirements; and*
- *A strategic thinking and planning needs to be set in motion as to how to gradually find ways out to steer away from the present path of borrowing to service past debt.*

1.12 Fiscal imbalances

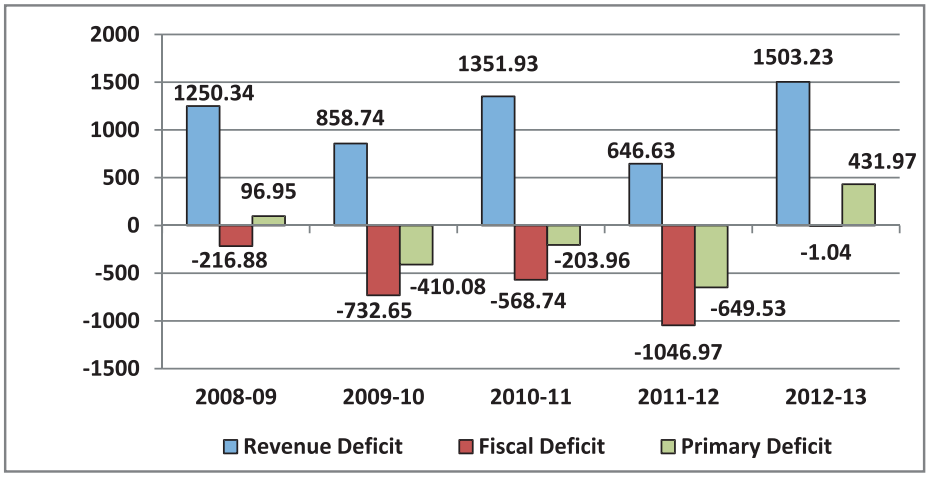
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied, are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits.

1.12.1 Trends in Deficits

The following chart presents the trends in deficit indicators during 2008-13:

Chart 1.12: Trends of deficit/surplus indicators

(₹ in crore)



The Fiscal deficit reduced significantly in 2012-13 over the previous year mainly due to the increase in Revenue surplus by ₹ 856.60 crore (132 *per cent*) over the previous year. The Fiscal deficit in 2012-13 was the lowest during the last five years. The Primary deficit experienced during 2008-12 has been turned into Primary surplus of ₹ 431.97 crore in 2012-13. Thus, substantial checks appear to have been exercised in managing debt in 2012-13.

The apparent success in bringing down of the deficits was achieved mainly by substantial increase of ₹ 1117.40 crore of Grants-in-aid from GoI in 2012-13 over the previous year, despite decrease of ₹ 114.99 crore in collection of Own State Tax and Own State Non-tax revenues. In the last five years (2008-13) Grants-in-aid has exhibited cycles of increase and decrease in alternate years as reflected by the figures in the Table 1.42. If this trend continues in the next year (2013-14), Grants-in-aid from the GoI could either remain stagnant or increase marginally.

The reduction in Fiscal deficits was also managed by reducing expenditure or maintaining expenditure in some key areas. Thus, Plan Revenue expenditure decreased by ₹ 14.89 crore to ₹ 1066.20 crore in 2012-13 from ₹ 1081.09 crore in 2011-12. The reduction in expenditure was more significant under Capital expenditure head which decreased by ₹ 193.85 crore to ₹ 1501.56 crore in 2012-13 from ₹ 1695.41 crore in 2011-12. Plan Revenue expenditure under Social Services was also curtailed to ₹ 558.11 crore in 2012-13 from ₹ 583.11 crore in 2011-12.

Thus, while the State Government may have temporarily controlled Fiscal deficit, it was achieved more with the help of Grants-in-aid from GoI and at the expense of expenditure meant for asset creation and reduction of liabilities. Given the backdrop that – (i) more devolution from GoI cannot be guaranteed; (ii) the State Government may not be able to prolong suppression of expenditure for too long; (iii) growth of Own Revenue collection is not impressive, and (iv) a poor cash position continues to constrain the State Government; it may be imperative to explore more tenable ways to manage the deficits. Thus, the State Government may need to take up steps to collect more Revenues, recover Loans, earn more Interest on investments *etc*. as pointed out earlier in this chapter.

1.12.2 Composition of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit is shown in the following table:-

Table 1.42: Components of fiscal deficit and its financing pattern

(₹ in crore)

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
Grants-in-aid from GoI		2868.28	2839.79	3912.44	3819.92	4937.32
Decomposition of fiscal deficit		(-)216.88	(-) 732.65	(-)568.74	(-)1046.97	(-)1.04
1	Revenue surplus	1250.34	858.74	1351.93	646.63	1503.23
2	Net capital expenditure	(-) 1466.80	(-) 1587.78	(-)1918.06	(-)1695.41	(-)1501.56
3	Net Loans and Advances	(-) 0.42	(-) 3.61	(-)2.61	1.81	(-)2.71
Financing pattern of fiscal deficit*						
1	Market Loans	248.79	445	206.20	76.97	182.01
2	Loans from the GoI	(-)239.96	(-) 41.97	(-) 45.27	(-)64.93	(-)44.01
3	Special Securities Issued to NSSF**	199.46	(-) 2.67	(-) 5.91	(-)12.85	(-)16.19
4	Loans from Financial Institutions	(-)4.08	2.77	28.36	43.96	38.66
5	Ways and Means Advance from the RBI	-	-	-	89.95	7.97
6	Small Savings, PF** *etc.*	52.32	24.94	41.31	233.69	138.01
7	Deposits and Advances	83.72	226	386.78	(-)114.24	(-)36.74
8	Suspense and Miscellaneous	(-)4.78	(-) 34.34	(-) 0.28	6.23	1.77
9	Remittances	(-)48.16	(-) 160.23	(-) 81.22	21.57	(-)2.09
10	Reserve Fund	5.40	24.52	27.87	38.35	48.08
Increase/decrease in cash balance		(-)75.83	248.65	10.92	728.28	(-)316.43

* *All these figures are net of additions and discharges during the year*

** *NSSF – National Small Saving Funds and PF – Provident Funds*

(Source: Finance Accounts)

The fiscal deficit reduced significantly from ₹ 1046.97 crore in 2011-12 to ₹ 1.04 crore in 2012-13 mainly due to increase in Revenue surplus and by a reduction in Capital expenditure. During 2008-13 to finance the gap, the State Government also continually relied on market borrowing and Loans from Financial Institutions. The State Government also relied on funds from Small Savings, Provident funds *etc.* to bridge the gap.

1.12.3 Quality of Deficit/Surplus

The decomposition of Primary deficit into Primary revenue deficit/surplus and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances; which would further indicate the extent to which the deficit/surplus has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. The following table analyses decomposition of primary deficit/surplus:

Table 1.43: Primary deficit/surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue expendi-ture *	Capital expendi-ture	Loans and Advances	Primary expendi-ture	Primary revenue surplus	Primary deficit (-)/ surplus (+)
(1)	(2)	(3)	(4)	(5)	6 (3+4+5)	7 (2-3)	8 (2-6)
2008-09	3,873.28	2,308.45	1,466.80	1.08	3,776.33	1,564.83	(+) 96.95
2009-10	3,876.42	2,692.83	1,587.78	6.89	4,286.50	1,184.59	(-) 410.08
2010-11	5,431.13	3,713.23	1,918.06	3.80	5,635.09	1,717.90	(-) 203.96
2011-12	5655.44	4609.48	1695.41	0.08	6304.97	1044.07	(-)649.53
2012-13	6820.35	4883.52	1501.56	3.30	6388.38	1936.83	(+)431.97

(Source: Finance Accounts)

* Net of Revenue expenditure and Interest payment

The non-debt receipts of the State during 2008-13 were sufficient to meet the primary revenue expenditure[33] and in two years *viz.*, 2008-09 and 2012-13 it was more than the primary expenditure, resulting in primary surplus in these two years. In the remaining three years (2009-12) where primary deficit had occurred, the primary surplus was not adequate to cover the capital expenditure and Loans and Advances. The non-debt receipt of the State increased by 77 *per cent* from ₹ 3873.28 crore in 2008-09 to ₹ 6820.35 crore in 2012-13. The primary expenditure, however, increased by 69 *per cent* from ₹ 3776.33 crore in 2008-09 to ₹ 6388.38 crore in 2012-13. Capital expenditure grew by 2 *per cent* from ₹ 1466.80 crore to ₹ 1501.56 crore in 2008-13.

1.13 Follow up of Public Accounts Committee meeting

The Public Accounts Committee examined the State Finance Report 2011-12 on 14 December 2013. Based on the examination, the State Government assured the Committee of taking up austerity measures on all fronts, extending potential areas for increasing the tax base and making efforts for mopping up more revenue by the State Government and also for taking concerted steps to contain Non-Plan Revenue Expenditure (NPRE). The commitments included the following:

- Expeditious actions in respect of New Pension Contributory Scheme would be taken to ensure regular monthly deposits of contributions of the employee and Government contribution to the Fund Managers, and to reconcile the outstanding contribution;

[33] Primary revenue expenditure is revenue expenditure minus interest payment.

- Information in respect of deposits lying under "MH-8449-Other Deposits" and other similar heads would be furnished in a transparent format;
- Expenditure under NPRE will be examined so as to control the financial pressure, including taking up austerity measures;
- Suitable measures will be firmed up for controlling Fiscal Liabilities and Fiscal Deficit, including broadening of Tax bases, and exploring new avenues for increasing Tax collection;
- Infirmities in the State Government's Budget, as pointed out regularly in the Audit Reports will be corrected/avoided in future budgeting; and
- Effort will be made to regularize Outstanding AC bills and UCs and arrest arrears.

1.14 Conclusion and Recommendations

Revenue receipts

Substantial increase of Grants-in-aid from the GoI of ₹ 1117.40 crore in 2012-13 over the previous year was the main cause for increase of Revenue receipts of ₹ 1166.21 crore in 2012-13 over the previous year. In fact, increase in Grants-in-aid from the GoI constituted 96 *per cent* of increase of revenue receipt of the State. During 2012-13, both Own Tax revenue and Own Non-Tax revenue decreased by an aggregated amount of ₹ 114.99 crore. As per the past five year trend, Grants-in-aid from GoI have increased or decreased/stagnated in alternative years. Therefore, were this trend to continue in the next financial year, coupled with the decline in Own Tax revenue and Own Non-Tax revenue, the lesser availability of funds under Revenue Accounts may have serious implications on the debt position of the State. Therefore, it is important that efforts are made to realise more collections from the State's Own tax revenue and Own Non-tax revenue (paras 1.1.1 and 1.12.1).

Funds transferred directly from GoI to the State Implementing Agencies

The GoI directly transferred ₹ 1349.46 crore to State implementing agencies during 2012-13. Direct transfer of funds from the GoI to the State implementing agencies run the risk of inadequate monitoring of utilization of funds by these agencies, in the absence of uniform accounting policies and effective monitoring system.

There were instances of deficiencies in transfer of funds to the implementing units. The State needs to have in place a suitable mechanism to monitor

utilisation and ensure proper maintenance of records of funds directly received by the Implementing Agencies (para 1.2.2).

Expenditure Status

During 2012-13, the total expenditure increased by ₹ 118.98 crore (2 *per cent*) from the previous year. Increase in total expenditure was restricted mainly due to decline in Capital expenditure, which decreased by ₹ 193.85 crore in 2012-13 from the previous year. Salaries and Wages accounted for about 34 *per cent* of Revenue receipts of the State during 2012-13 and increased by ₹ 135.76 crore (6 *per cent*) over the previous year. Interest payment increased by ₹ 35.57 crore in 2012-13 from the previous year; pension payment increased significantly from ₹ 628.51 crore in 2011-12 to ₹ 760.28 crore in 2012-13. Payment of pension on account of All India Service pensioners was yet to be reimbursed by the Central Government. Arrears of such reimbursement pertaining to previous years need to be reconciled by the State Government. This may also help tide over the poor cash position of the State in the short run (paras 1.6.1 and 1.6.2).

Cash Position

There was a negative cash balance of ₹ 371.80 crore at the beginning of the year. Despite tightly controlled expenditure and more devolution of Grants-in-aid from the GoI, the current financial year ended with negative cash balance of ₹ 55.37 crore. Given the backdrop that Own Tax Revenue and Own Non-Tax Revenue have declined and Grants-in-aid from GoI have been following a cyclic trend of increase and decrease in alternate years, there may be a need for a careful re-look at the cash flow. The State Government may need to examine the returns from PSUs, Rural banks, *etc.* which have given negligible returns, despite investment of ₹ 160.29 crore. The State Government also may need to focus on Loans and Advances which has not given commensurate returns in comparison to the loans advanced. Substantial cash balances amounting to ₹ 49.77 crore was also lying with the departmental officers. Closer monitoring of these matters could also help to manage the cash position (paras 1.8.2 and 1.8.5).

Review on Market borrowing

During 2008-13, the Market borrowing increased by ₹ 910.18 crore from ₹ 1452.45 crore (2008-09) to ₹ 2362.63 crore (2012-13); and constituted more than 50 *per cent* of the Public debt during this period. After 2018-19, the quantum of maturing market loans as a percentage of outstanding loans (as on 31 March 2013) would rise beyond 10 *per cent*. Given the fact that borrowings will continue to be made by the State Government to service their past debt as is presently being done, the redemption pressure in the coming years will undoubtedly exert pressure on the finances of the State. Planning for Market borrowings needs to be driven on need-based basis and a policy needs to be framed. The budgetary estimate should commensurate with borrowing requirements (para 1.11).

Fiscal liabilities and fiscal position

Fiscal liabilities increased by ₹ 317.78 crore from the previous year to ₹ 6800.94 crore in 2012-13. The increase in Fiscal liabilities was mainly due to increase in Internal debt (₹ 212.44 crore) and State Provident funds (₹ 138.50 crore). Of the outstanding fiscal liability of ₹ 6800.94 crore as of March 2013, liabilities with repayment obligations was ₹ 5254.58 crore[34] (77 *per cent* of Fiscal liability) comprising of Public debt and Small Saving, Provident funds *etc* (para 1.9.2).

Significant increase of devolution of Grants-in-aid from the GoI and a tightly controlled expenditure has resulted in temporarily managing Fiscal deficit in 2012-13. The State could also achieve Primary Surplus of ₹ 431.97 crore; indicating the expenditure obligation made by the State Government in the current year was within its non-debt receipts (para 1.12.1).

However there would be a need to see that borrowings are channelized for asset creation and the development activities to increase growth and productivity. Otherwise, the accumulated liability may prove to be a strain to the economy of the State. The position needs to be evaluated with due thoughts and actions, as the State is perched on an infirm fiscal situation.

[34] Without taking into account the repayment obligations under Deposit heads.