

Chapter 1

Finances of the State Government

Introduction

The accounts of the Government of the National Capital Territory (NCT) of Delhi are kept in two parts (i) Consolidated Fund and (ii) Contingency Fund. There is no public account. Transactions relating to debt (other than those included in the Consolidated Fund), deposits, advances, remittances and suspense are merged in the Public Account of the Union Government. Similarly, the cash balance of the Government of NCT of Delhi is merged and forms part of the general cash balance of the Union Government. The Finance Accounts of the Government of National Capital Territory of Delhi are laid out in sixteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund and Contingency Fund of Government of NCT of Delhi.

This chapter provides a broad perspective of the finances of the Delhi Government during the year ending March 2009 and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents a summary of the State Government's fiscal transactions during the current year (2008-09) vis-a-vis the previous years while **Appendix 1.1** provides details of receipts and disbursements and overall fiscal position during the current year.

Table 1.1 : Summary of current year's Fiscal Operations

(Rupees in crore)

Receipts			Disbursement				
	2007-08	2008-09					
<i>Section-A Revenue</i>	<i>Total</i>	<i>Total</i>	<i>Section-A Revenue</i>	<i>Total</i>	<i>Non Plan</i>	<i>Plan</i>	<i>Total</i>
Revenue receipts	14912.38	16352.21	Revenue expenditure	9770.52	7818.42	3944.14	11762.56
Tax revenue	11782.80	12180.70	General services	3245.25	3344.96	89.60	3434.56
Non-tax revenue	1816.70	2300.72	Social services	5222.10	3175.40	3419.97	6599.37
Share of Union Taxes/ Duties			Economic services	631.85	836.13	434.57	1272.70
Grants from Government of India	1312.88	1870.79	Grants-in-aid and Contributions	667.32	455.95	455.95
<i>Section-B Capital</i>			<i>Section-B Capital</i>				
Misc. Capital Receipts			Capital Outlay	3764.46	3.19	3992.21	3995.40
Recoveries of Loans and Advances	231.26	799.00	Loans and Advances disbursed	3649.56	2518.33	1698.99	4217.32
Public Debt receipts*	746.02	428.74	Repayment of Public Debt*	975.09	386.03	386.03
Opening Cash Balance\$	10826.46	8556.49	Closing Cash Balance\$	8556.49			5775.13
Total	26716.12	26136.44	Total	26716.12	10725.97	9635.34	26136.44

*Includes loans and advances from Government of India largely in the form of share in small savings.

\$Cash balance is merged with the general cash balance of Government of India.

(Source: Finance Accounts and information collected from PAO, Delhi)

Box 1.1

(Reference: Paragraph 1.1; Page 1)

Part A: Structure and Form of Government Accounts:

Structure of Government Accounts: The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

Part I: Consolidated Fund : All revenues received by the State Government, all loans of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled The Consolidated Fund of State established under Article 266(1) of the Constitution of India.

Part II: Contingency Fund: Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.

Part III: Public Account: Receipts and disbursement in respect of certain transactions such as small savings, provident fund, 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 subject to vote by the state legislature.

PART B: Layout of Finance Accounts

Statement	Layout
Statement No.1	Summary of transactions of the State Government –receipts and expenditure, revenue and capital, public debt receipts and disbursements etc., in the consolidated Fund of the Govt. of NCT of Delhi
Statement No.2	Summarized statement of capital outlay showing progressive expenditure to the end of the year.
Statement No.3	Summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.
Statement No.4	Summary of loans and advances given by the Government of NCT of Delhi during the year, repayments made, recoveries in the arrears, etc.
Statement No.5	Summary of guarantees given by the Government of India on behalf of Government of NCT of Delhi
Statement No.6	Summary of balances at the end of the year.
Statement No.7	Revenue and expenditure under different heads for the year as a percentage of total revenue/expenditure.
Statement No.8	Distribution between the charged and voted expenditure incurred during the year.
Statement No.9	Detailed account of revenue by minor heads.
Statement No.10	Accounts of revenue expenditure by minor head under non-plan and plan separately and capital expenditure major head-wise for the year.
Statement No.11	Detailed capital expenditure incurred during and to the end of the year.
Statement No.12	Details of investment of the government in Government companies and corporative institutions upto the end of the year.
Statement No.13	Capital and other expenditure (outside the revenue accounts) to end of the year and the principal sources from which the funds were provided for that expenditure.
Statement No.14	Detailed account of receipts, disbursements and balances under heads of account relating to Debt, Loans, Advances etc.
Statement No.15	Detailed account of debt of the Government.
Statement No.16	Detailed account of loans and advances given by the Government, the amount of loans paid during the year and the balances at the end of the year.

Following are the significant changes during 2008-09 over the previous year:

- Revenue receipts grew by Rs. 1439.83 crore (9.66 *per cent*). The increase was mainly contributed by tax revenue (Rs. 397.90 crore) and non-tax revenue (Rs.484.03 crore) and grants from Government of India (Rs. 557.90 crore).
- Revenue expenditure and capital expenditure increased by Rs.1992.04 crore (20.39 *per cent*) and Rs. 230.94 crore (6.13 *per cent*) respectively.
- Recoveries of loans and advances and the disbursement of loans increased by Rs. 567.73 crore (245.49 *per cent*) and Rs.567.76 crore (15.56 *per cent*).
- Public debt receipts decreased by Rs. 317.28 crore (42.53 *per cent*) and repayment also decreased by Rs. 589.06 crore (60.41 *per cent*).
- The cash balance at the close of 2008-09 decreased by Rs. 2781.36 crore (32.51 *per cent*) over the previous year as a result of inflow and outflow of funds during the year.

Box 1.2

(Reference: Paragraph 1.2; Page 5)
Methodology Adopted for the Assessment of Fiscal Position
Part A

Assuming that GSDP is a good indicator of the performance of the state's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The buoyancy coefficients for relevant fiscal variables with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilization of resources, pattern of expenditure etc, are keeping pace with the change in the base or the base or these fiscal aggregates are also affected by factors other than GSDP.

The trends in GSDP for the last five years are indicated below:

Trends in Gross State Domestic Product (GSDP)

	2004-05	2005-06	2006-07	2007-08	2008-09
Gross State Domestic Product (Rs. in crore)	92053(R)	105815 (R)	125282(P)	143911(Q)	162428*
Growth rate of GSDP	15.84	14.95	18.40	14.87	12.87
Source:	O/o Directorate of Eco & Statistical Government of NCT of Delhi				

Vis-a-vis (R)-Revised, (P)-Provisional, (Q)-Quick Estimates, *-As the Government of NCT of Delhi has not released the figures for GSDP for 2008-09, it is estimated by using log linear regression equation on the GSDP series at current prices.

Methodology for Estimating the fiscal capacity

For working out the fiscal capacity of the State Government, the following methodology given in Twelfth Finance Commission report has been adopted.

Step 1: Calculate the national average of AE/GSDP and CO/DE/SSE-AE

Step 2: Based on the national average of AE/GSDP ratio, derive the aggregate expenditure so that no State is having a ratio AEGSDP less than the national average, i.e., if

$$AE/GSDP = x$$

$$AE = x * GSDP \dots \dots \dots (1)$$

Where x is the national average of AE/GSDP ratio.

Wherever the States are having AE/GSDP ratio higher than national average, no adjustments were made. Wherever this ratio was less than average, it was made equal to the national average.

Step 3: Based on the national average of DE = AE, SSE-AE and CO/AE, derive the respective DE,

SSE and CO, so that no State is having these ratios less than national average, i.e., if

$$DE/AE = y$$

$$DE = y * AE \dots \dots \dots (2)$$

Where y is the national average of DE-AE ratio

Substituting (1) in (2), we get

$$DE = y * x * GSDP \dots \dots \dots (3)$$

Wherever the States are having DE-AE, SSE-AE and CO-AE ratio higher than national average, no adjustment have been made. Wherever these ratios were less than average, it was made equal to the national average.

Step 4: Based on the derived DE, SSE and CO as per equation (3), respective per capita expenditure was calculated, i.e.,

$$PCDE = DE/P \dots \dots \dots (4)$$

Where PCDE is the per capita development expenditure and P is the population.

Substituting (3) in (4), we get

$$PDE = (y * x * GSDP)/P \dots \dots \dots (5)$$

Equation (5) provides the adjusted per capita expenditure. If the adjusted per capita expenditure is less than the national average of per capita expenditure, then the States' low level of spending is due to the low fiscal capacity. This gives a picture of actual level of expenditure when all the State Governments are attaching fiscal priority to these sectors equivalent to the national average.

The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given below :

Terms	Basis of calculation
Buoyancy of a parameter	Rate of Growth of the parameter/GSDP Growth
Buoyancy of a parameter (X)	Rate of Growth of parameter (X)/
With respect to another parameter(Y)	Rate of Growth of parameter (Y)
Rate of Growth (ROG)	$[(\text{Current year Amount} / \text{Previous year Amount}) - 1] * 100$
Development Expenditure	Social Services + Economic Services
Average interest paid by the State	$\text{Interest payment} / [(\text{Amount of previous year's Fiscal Liabilities} + \text{Current year's Fiscal Liabilities}) / 2] * 100$
Interest spread	GSDP growth – Average Interest Rate
Quantum spread	Debt Stock * Interest spread
Interest received as <i>per cent</i> to Loans Outstanding	$\text{Interest Received} / [(\text{Opening balance} + \text{Closing balance of Loans and Advance}) / 2] * 100$
Revenue Deficit	Revenue Receipt – Revenue Expenditure
Fiscal Deficit	Revenue Expenditure + Capital Expenditure + Net Loans and Advances – Revenue Receipts – Miscellaneous Capital Receipts
Primary Deficit	Fiscal Deficit – Interest payments
Balance from Current Revenue (BCR)	Revenue Receipts minus all Plan grants and Non-plan Revenue Expenditure excluding expenditure recorded under the major head 2048 – Appropriation for reduction of Avoidance of debt

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from recoveries of loans and advances, debt receipts and loans and advances from GOI as well as deposits from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.1** depicts the trends in various components of the receipts of the State during 2004-08. **Chart 1.2** depicts the composition of resources of the State during the current year.

Chart 1.1: Trends in Receipts

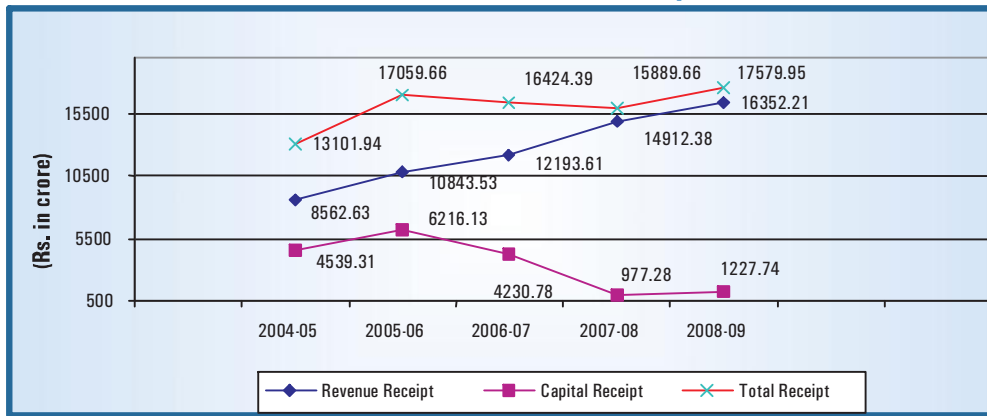
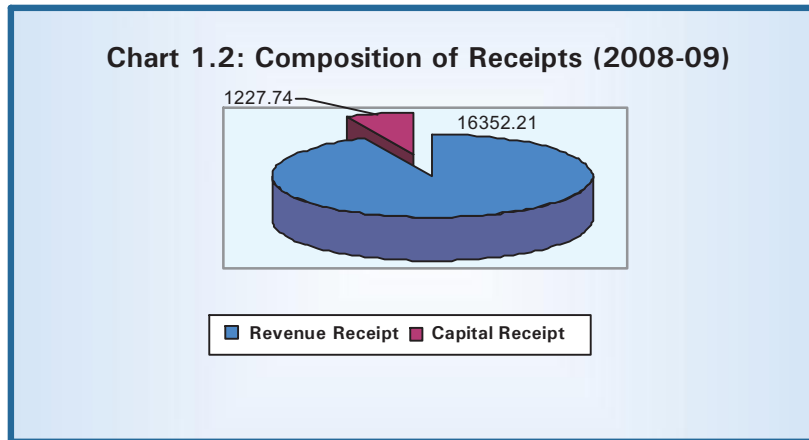


Chart 1.2: Composition of Receipts (2008-09)

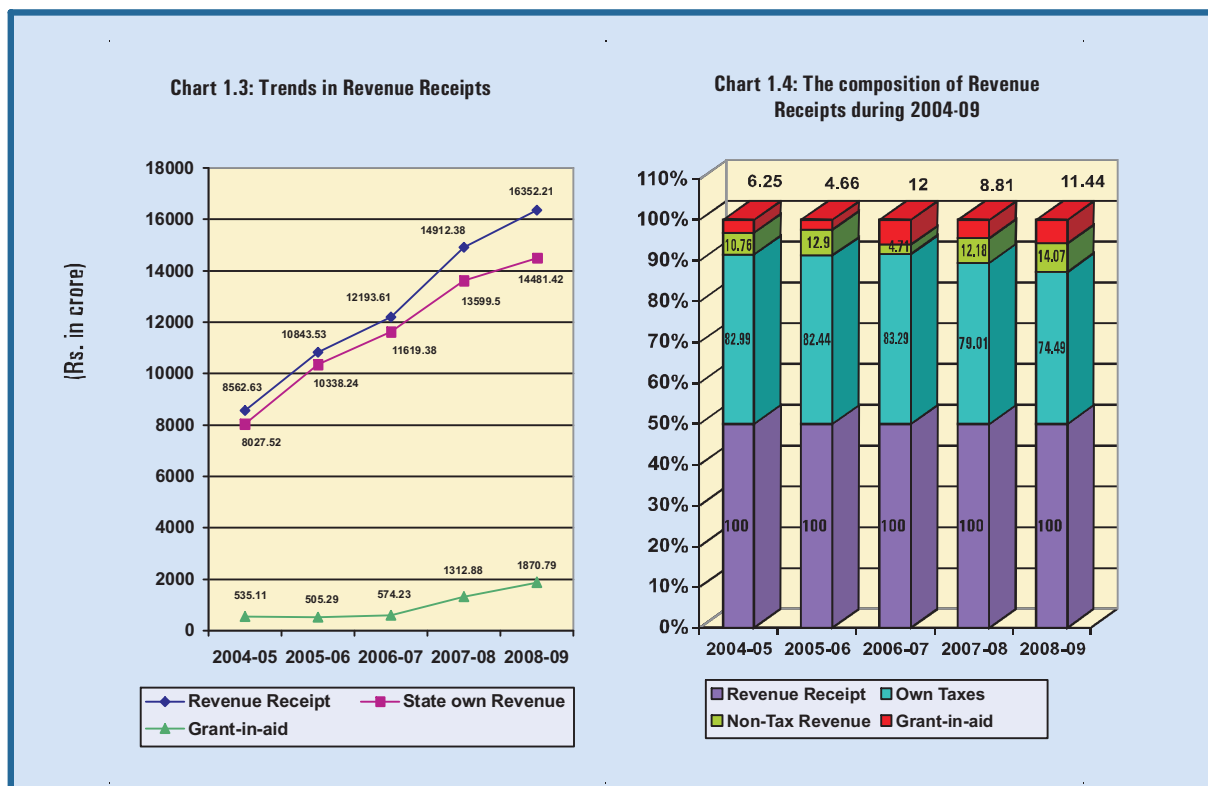


The composition of the total receipts of the NCT of Delhi has significantly changed during the period 2004-09 in favour of revenue receipts the share of which has increased from 65.35 per cent in 2004-05 to 93 per cent in 2008-09.

A sharp decline was registered in public debt receipts from Rs. 746.02 crore (4.24 per cent) to Rs. 428.74 crore (2.4 per cent) due to decline in net collection under small savings in Delhi.

▶ 1.3 Revenue Receipts

Statement 9 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the state's own tax and non-tax revenues and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in Appendix 1.1 and also depicted in Charts 1.3 and 1.4 respectively.



The trends in revenue receipts relative to GSDP are presented in Table 1.2 below:

Table 1.2: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts(RR) (Rupees in crore)	8562.63	10843.53	12193.61	14912.38	16352.21
Rate of growth of RR (<i>per cent</i>)	16.52	26.64	12.45	22.30	9.66
R R/GSDP (<i>per cent</i>)	9.30	10.25	9.73	10.36	10.06
Buoyancy Ratios					
Revenue Buoyancy w.r.t GSDP	1.04	1.78	0.68	1.50	0.75
State's Own Tax Buoyancy w.r.t. GSDP	1.31	1.72	0.74	0.92	0.26
Revenue Buoyancy with reference to state's own taxes	0.80	1.03	0.91	1.39	2.86

(Source: Finance Account of Delhi)

The revenue receipts have shown an increasing trend over the period 2004-09 with significant change in composition i.e., share of state's own resources has declined from 83 *per cent* in 2004-05 to 74 *per cent* in 2008-09. It is evident that in the years 2004-05, 2005-06 and 2007-08 there was a higher growth in revenue relative to GSDP. The year 2006-07 and the current year 2008-09 were marked by a much lower growth in revenue receipts compared to growth in GSDP. In the current year, the buoyancy of state's own taxes reached an all time low when compared to the previous four financial years viz., 2004-05 to 2007-08.

1.3.1 State's Own Resources

The revenue receipts of the State have indicated an increasing trend over the period 2004-09 despite the fact that the growth rate dipped drastically in the year 2006-07 and the current financial year i.e. 2008-09. The relative share of its own tax and non-tax revenue exhibited relative stability during the period. The share of Grants-in-aid indicated variations and its share increased from 8.89 *per cent* in 2007-08 to 11.4 *per cent* during the current year.

The Tax Revenue has increased by Rs. 397.90 crore (3.38 *per cent*) during the current year (Rs 12180.70 crore) over previous year (Rs. 11782.80 crore). The revenue from sales tax not only contributed about three fourth of the total tax revenue but also grew by 10.13 *per cent* over the previous year. The value added tax (VAT) introduced in April 2005 had enhanced the buoyancy of sales tax revenue and generated higher collection of Rs. 944.69 crore during 2007-08 and Rs. 841.61 crore during 2008-09. Collection under Stamp duty decreased by Rs 530.40 crore and taxes on vehicles decreased by Rs. 1.08 crore during 2008-09 over the previous year.

The Non-tax Revenue which constituted 14.06 *per cent* of total revenue receipts during 2008-09 increased by Rs. 484.03 crore recording a growth rate of 26.64 *per cent* over previous year. The growth of non-tax revenue during the last five years(2004-09) indicated an increase of 149.70 *per cent*. The interest receipts made up an average of 90 *per cent* of the total non-tax receipts during the period 2004-09.

1.3.2 Loss of Revenue due to Evasion of Taxes, Write offs/Waivers and Refunds

During the year the Department of Trade and Taxes reported detection of 956 cases of evasion of tax involving discrepancies in stock figures and cash figures of Rs. 44.07 crore and seized goods worth Rs. 240.26 crore. Besides local audits conducted during the year revealed under assessments/short or non-levy of tax etc., amounting to a revenue loss of Rs. 2225.52 crore involving 2483 cases (revenue loss of Rs. 26.13 crore has been accepted by the department).

The numbers of refund cases allowed during the year 2008-09 as reported by the departments are indicated below:

Department	(Rupees in crore)	
	No. of cases	Amount
Department of Trade and Taxes	21847	289.57
Transport Department	42	0.02
Department of Revenue	1051	7.59

1.3.3 Revenue Arrears

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue amounted to Rs. 8674.85 crore, of which Rs. 8674.12 crore related to taxes on sales, trade etc. The Department stated (October 2009) that most of the arrears relate to Delhi Sales Tax regime. Demand of tax worth Rs. 150 crore in 2000 cases has been raised in the last two months. In the case of Luxury Tax, the outstanding arrears in the beginning of the year were Rs. 0.72 crore which increased to Rs. 0.73 crore at the end of year. Details were not furnished by the Transport Department and the Stamp Duty Department (October 2009).

1.4 Application of resources

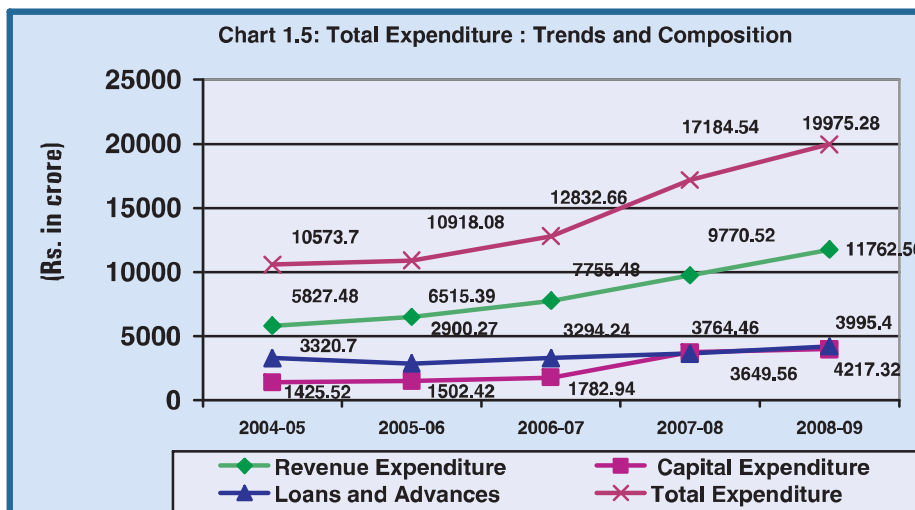
1.4.1 Growth and Composition of Expenditure

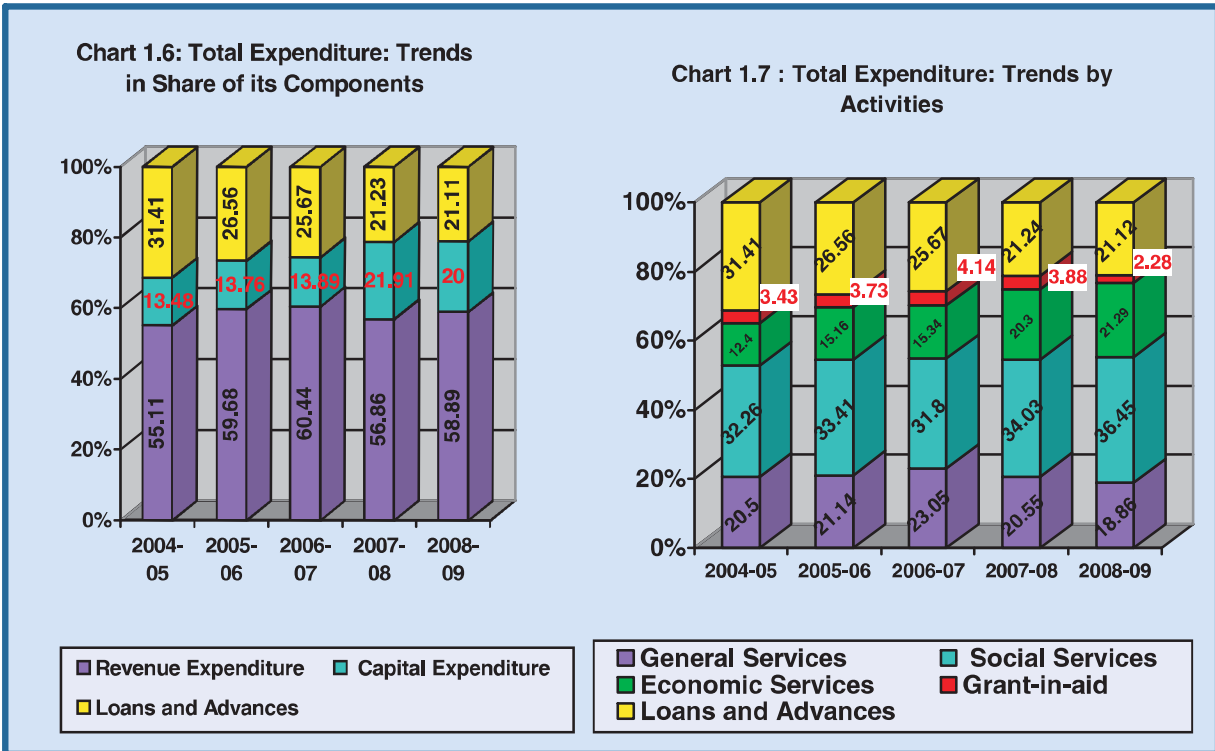
Statement 10 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs. 10573.77 crore in 2004-05 to Rs. 19975.28 crore in 2008-09.

The total expenditure during the current year at Rs. 19975.28 crore has increased by Rs. 2790.74 crore (16.23 *per cent*) over the previous year. Of the total increase, revenue expenditure constituted Rs. 1992.04 crore (20.39 *per cent*), capital expenditure Rs. 230.94 crore (6.13 *per cent*) and remaining Rs. 567.76 crore (15.56 *per cent*) was that of loans and advances. Over the last five years, revenue expenditure increased from Rs. 5827.48 crore in 2004-05 to Rs. 11762.56 crore in 2008-09 which constituted an increase of 101.85 *per cent*. Similarly capital expenditure which was Rs. 1425.52 crore in 2004-05, increased to Rs. 3995.40 crore in 2008-09 registering an increase of 180.28 *per cent* during this period.

Capital expenditure and revenue expenditure were 19.65 *per cent* and 80.35 *per cent* of total expenditure (excluding loans advances) in 2004-05, while in 2008-09 they were 25.35 *per cent* and 74.65 *per cent* respectively. The increasing share of capital expenditure is an indicator of more productive use of funds by the state. Total expenditure under plan had increased from Rs. 2754.02 crore in 2004-05 to Rs. 7936.35 crore in 2008-09 registering an increase of 188.17 *per cent* while non-plan expenditure increased to Rs. 4498.98 crore in 2008-09 from Rs. 7821.61 crore in 2004-05 registering an increase of 73.85 *per cent* during the corresponding period. The bifurcation of total expenditure into plan and non-plan expenditure revealed that the share of plan and non plan expenditure was 50.36 *per cent* and 49.64 *per cent* respectively.

Chart 1.5 presents the trends in total expenditure over a period of five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in Charts 1.6 and 1.7.





Share of loans and advances has decreased from 31 per cent to 21 per cent during 2004-09. PAO, Delhi stated that expenditure on salary and wages was not maintained separately as a number of schemes were provided lump sum provisions and not bifurcated into object heads in the demand for grants. Therefore by not providing for such classification to be captured in the accounts, useful information for analyzing the quality of expenditure by the Delhi Government was not available.

1.5 Quality of Expenditure

The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services) and efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services) which has been elaborated in the following paras:

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels require the States to step up their expenditure on key social services like education and health etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while low fiscal

capacity would be reflected if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. **Table 1.3** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table 1.3: Fiscal Priority and Fiscal capacity of the State during 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All State/National Average*(Ratio) 2005-06	19.50	61.44	30.41	14.13
NCT Delhi's Average(Ratio) 2005-06	10.36	75.12	33.40	13.76
All State/National Average*(Ratio) 2008-09	19.16	67.68	33.90	16.87
NCT Delhi Average(Ratio) 2008-09	12.30	74.04	36.45	20.00
Fiscal Capacity of the State	DE#	SSE	CE	
All State Average Per capita Expenditure 2005-06	3010	1490	692	
NCT Delhi's per Capita expenditure (Amount in Rs) in 2005-06	5191	2308	951	
Adjusted Per Capita ** Expenditure (Amount in Rs) 2005-06	NR	NR	1838	
All States' Average per capita expenditure 2008-09	5030	2520	1254	
NCT Delhi's per Capita expenditure (Amount in Rs) in 2008-09	8599	4233	2323	
Adjusted Per Capita ** Expenditure (Amount in Rs) in 2008-09	NR	NR	NR	

*As per cent to GDP

** Calculated as per the methodology explained in the Box 1.2

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure

CE: Capital Expenditure

Population of NCT Delhi 1.58 crore in 2005-06 and 1.72 crore in 2008-09.

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

Source: (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics (2) Population figures were taken from Projection 2001-2026 of the Registrar General & Census Commissioner, India (Website:<http://www.censusindia.gov.in>) Population = Average of Projected population for 2005 and 2006.

NR = No adjustment required since the state is giving adequate fiscal priority.

Data for Arunachal Pradesh has not been included.

(Source: Finance Account and PAO, Delhi)

In **Table 1.3** we are comparing the fiscal priority given to different categories of expenditure and fiscal capacity of Delhi in 2005-06 and the current year 2008-09.

- In both the years under consideration viz.2005-06 and 2008-09, AE as a percentage of GSDP is lower in Delhi compared to all states average. In 2008-09, the AE/GSDP ratio for Delhi was closer to the all states average than what it was in 2005-06.
- In both years under consideration SSE as a proportion of AE was higher in Delhi than the all states average indicating adequate fiscal priority to SSE.
- In case of DE, adequate fiscal priority was given in 2005-06 and 2008-09 (percentage of DE/AE for Delhi was higher than all states).
- CE as a proportion of AE was lower in Delhi than the all states average in 2005-06 indicating low fiscal priority to CE. However, this position was reversed during the current year when the CE/AE ratio for Delhi was much higher than the all states average.
- Despite the relatively low AE as a percentage of GSDP in Delhi, the per capita expenditure on DE, SSE and CE was higher in both the years compared to the national average.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods apart from improving the allocation towards development expenditure, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years. **Table 1.4** 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 1.4: Development Expenditure

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	(Rupees in crore)	
					BE	Actuals
Development Expenditure(a to c)						
a. Development Revenue Expenditure	3389.97	3883.78	4413.26	5853.95	8509.08	7872.07
b. Development Capital Expenditure	1332.27	1418.72	1636.10	3482.40	4369.75	3661.92
c. Development Loans and Advances	3319.64	2899.30	3292.73	2786.09	3968.55	4215.93

Actual development expenditure under revenue and capital have been lower (RE-7.49%, CE-16.20%) than the estimates and actual for loans and Advances was higher than the BE (6.23%) during the years 2008-09, indicating that estimates were unrealistic and the preparedness of the

implementing agencies to implement various plan schemes was not assessed realistically while framing the budget estimates.

1.6 Financial Analysis of Government Expenditure and Investments

This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Investment and returns

As of 31 March 2009, Government had invested Rs. 9682 crore in statutory corporations, rural banks, joint stock companies and co-operatives (**Table 1.5**). The average return on this investment was a meagre 0.49 *per cent* in the last three years while the Government paid, on an average, interest rate of 9.70 *per cent* on its borrowings during 2006-2009.

Table 1.5: Return on Investment

	(Rupees in crore)				
Investment/return/cost of borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year	1715.19	2063.66	2850.38	8235.43	9682.02
Return	3.75	38.62	22.17	31.15	29.92
Return (%)	0.22	1.87	0.78	0.38	0.31
Average rate of return on Govt. borrowing (%)	10.34	8.87	9.35	9.84	9.90
Difference between interest rate and return (%)	10.12	7.00	8.57	9.46	9.59

Total investment in government companies increased from Rs. 8235.43 crore at the end of March 2008 to Rs. 9682.02 crore at the end of March 2009. The increase in investment in 2008-09 over the previous fiscal year was mainly on account of new investment of Rs. 731.50 crore, Rs. 250 crore and Rs. 464.50 crore in Delhi Metro Rail Corporation Ltd., Delhi Transport Corporation (DTC) and Pragati Power Corporation Ltd. (PPCL) respectively. As per adopted accounts of the four companies; PPCL, Delhi Transco Limited (DTL), Delhi Tourism and Transportation Development Corporation (DTTDC), Indraprastha Power Generation Company Limited (IPGCL) and one Corporation Delhi Financial Corporation (DFC) where government investment was to the extent of Rs.5726.01 crore earned profits of Rs.334.38 crore in 2008-09. Two companies viz., Delhi State Civil Supplies Corporation (DSCSC) and Delhi Power Company Limited (DPCL) and one Corporation viz., DTC where government investment was to the extent of Rs.751.35 crore registered net losses of Rs.5.01 crore, Rs.106.53 crore and Rs.1697.69 crore respectively during 2008-09.

1.6.2 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many institutions/

organizations. Total outstanding loans and advances as on 31 March 2009 was Rs. 33836.63 crore (Table 1.6).

Table 1.6: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

Quantum of Loans/Interest Receipts/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09
Opening Balance	25144.02	27724.60	*27000.02	30418.31
Amount advanced during the year	2900.26	3294.24	3649.55	4217.32
Amount repaid during the year	319.68	228.64	231.26	798.99
Closing Balance	27724.60	30467.02	30418.31	33836.64
Net addition	2580.58	3065.60	3418.29	3418.32
Interest Receipts	1254.17	1284.98	1634.79	2101.41
Interest receipts as <i>per cent</i> to outstanding Loans and advances	4.52	4.22	5.37	6.91
Interest payment as <i>per cent</i> to outstanding fiscal liabilities of the state Government	8.87	9.35	9.84	9.90
Difference between interest payments and interest receipts (<i>per cent</i>)	4.35	5.13	4.47	2.99

*Prior period adjustment of Rs. 15.00 crore due to conversion of loan of Social Services into Grant-in-aid and Rs. 3452.00 crore adjusted due to loan as equity under Energy Sector
(Source: Finance Account of Delhi and PAO, Delhi)

Loans outstanding against state level organizations/institutions constitute the major portion of total outstanding loans of NCT Delhi. Majority of the State enterprises and institutions to whom the loans and advances were given and remained outstanding at the end of 2008-09 by the Government of NCT of Delhi were in the sectors of water supply (Rs. 5805.91 crore), sewerage and sanitation (Rs. 2861.21 crore), urban development (Rs. 1120.48 crore), Road Transport (Rs. 8063.27 crore) and in Energy Sector for Power Projects (Rs. 5711.57 crore).

1.7 Assets and Liabilities

1.7.1 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 1.2** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. The liabilities in this Appendix consist only of loans and advances from the GOI, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

1.7.2 Fiscal Liabilities

Overall fiscal liabilities of the State increased from Rs. 16026.86 crore in 2004-05 to Rs. 25381.66 crore in 2008-09 (58.37 *per cent*). The fiscal liabilities of Rs. 25381.66 crore comprised of small savings collection (Rs. 25381.62 crore) and cooperative assistance to other cooperatives (Rs. 0.04 crore). The growth rate was 0.17 *per cent* during 2008-09. The ratio of fiscal liabilities to GSDP decreased marginally from 17.82 *per cent* in 2004-05 to 17.64 *per cent* in 2008-09. These liabilities stood at 1.6 times of the revenue receipts and 1.5 times the States own resources as at the end of 2008-09.

1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization; sufficiency of non-debt receipts; net availability of borrowed funds; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.7** gives the debt sustainability of the State according to these indicators for the period of three years beginning from 2006-07.

Table 1.7: Debt Sustainability: Indicators and Trends

	(Rs in crore)				
Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit)	(+)872.82	(+)2892.39	(+)3763.64	(+)1749.51	(+)440.37
Sufficiency of Non-Debt Receipts (Resource Gap)	745.94	1384.73	18.94	706.35	15.53
Net Availability of Borrowed Funds	1709.70	5672.79	3868.39	(-)2733.42	(-)2469.16
Burden of Interest Payments (IP/RR Ratio)	18.32	15.43	18.13	16.79	15.36
Debt/GSDP Ratio	17.41	20.51	20.41	17.61	15.62

(Source: Finance Account of Delhi and PAO, Delhi)

A major indicator for debt stability viz. quantum spread + primary deficit shows that debt/GSDP ratio for Delhi is stable. During 2004-09 the resource gap was positive, however it declined from a comfortable Rs. 1384.73 crore (2005-06) to a meagre Rs. 15.53 crore (2008-09). In the year 2008-09 though non-tax revenue and tax revenue increased by Rs. 484.03 crore and Rs. 397.90 crore respectively, recovery of loans and advances and grant-in-aid also increased by Rs. 567.73 crore and Rs. 557.91 crore respectively during this period. However, since revenue expenditure increased by Rs. 1992.04 crore during this period, sufficiency of incremental non-debt revenue decreased in comparison to previous years. The net availability of borrowed funds turned negative during 2007-08 and 2008-09 which meant that the borrowings were not sufficient even for

repayment of past debts and in any case, were not available for any productive expenditure. This situation is thus a cause of concern. However, the debt/GSDP ranged between 15.62 *per cent* to 20.51 *per cent* during 2004-09 and thus was below the critical 28 *per cent* fixed by the 12th Finance Commission. Thus, debt was sustainable but due to deterioration in various fiscal parameters, the debt situation was worsening.

1.9 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 and also the assessment of actual levels of revenue and fiscal deficits.

1.9.1 Trends in Deficits

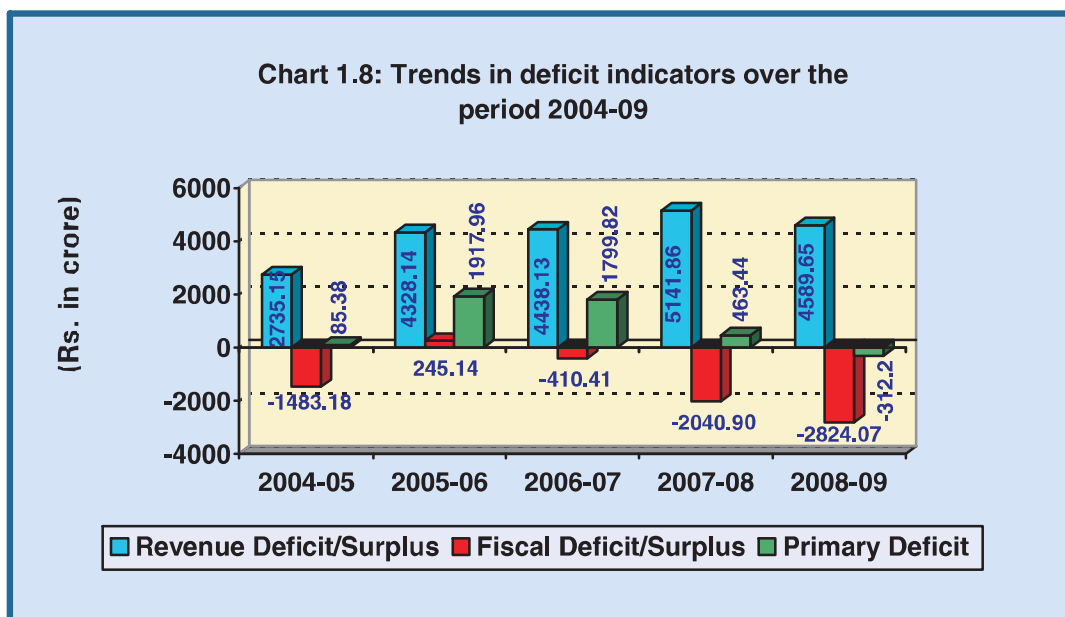


Chart 1.8 reveals that the revenue account experienced a consistent surplus in revenue during the period 2004-09 which stood at Rs. 4589.65 crore in the current year. A decrease of Rs. 552.21 crore during the current year was mainly on account of an increase in revenue expenditure vis-à-vis revenue receipts.

Owing to a decrease in revenue surplus, fiscal deficit increased by Rs. 783.17 crore. There was a steep increase of Rs. 1992.04 crore (20 *per cent*) in revenue expenditure in 2008-09 over the previous year which in turn also led to fall in primary surplus from Rs. (+) 463.44 crore in 2007-08 to Rs. (-) 312.20 crore during the current year.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficits has undergone a compositional shift as reflected in Table 1.8.

Table 1.8: Components of Fiscal Deficit

		(Rs. in crore)				
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	
Fiscal Deficit	(-) 1483.18	(+) 245.14	(-) 410.41	(-) 2040.90	(-) 2824.07	
Decomposition of Fiscal Deficit						
1	Revenue Surplus	2735.15	4328.14	4438.13	5141.86	4589.65
2	Net Capital Expenditure	1425.52	1502.42	1782.94	3764.46	3995.40
3	Net Loans and Advances	2792.81	2580.58	3065.60	3418.29	3418.32
Financing Pattern of Fiscal Deficit*						
1	Loans from GOI	1709.70	5672.79	3868.39	(-)229.07	42.71

* All these figures are net of disbursement/outflows during the year

(Source: Finance Account and PAO, Delhi)

1.9.3 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (Table 1.9) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.9: Primary deficit / Surplus-Bifurcation of factors

(Rupees in crore)							
Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) / Surplus (+)	Primary deficit(-) / Surplus (+)
1	2	3	4	5	6(3+4+5)	7(3-6)	8(2-6)
2004-05	9090.59	4258.92	1425.52	3320.77	9005.21	(-)4746.29	(+)85.38
2005-06	11163.21	4842.57	1502.42	2900.26	9245.25	(-)4402.68	(+)1917.96
2006-07	12422.24	5545.24	1782.94	3294.24	10622.42	(-)5077.18	(+)1799.82
2007-08	15143.64	7266.18	3764.46	3649.56	14680.20	(-)7414.02	(+)463.44
2008-09	17151.21	9250.69	3995.40	4217.32	17463.41	(-)8212.72	(-)312.29

(Source: Finance Account and PAO, Delhi)

Delhi enjoyed a primary surplus in the four preceding years but in the current year, the non-debt receipts could not cover the primary expenditure. CE as a percentage of primary expenditure was nearly 16 *per cent* in 2005-06 but increased to almost 23 *per cent* in 2008-09, showing a more productive use of resources.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.10** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table 1.10: Change in revenue Receipts and Correction of Deficit

(Per cent of GSDP)

Parameters	2006-07	2007-08	2008-09
Revenue Receipts (a to d)			
a. State's Own Tax Revenue	10155.80	11782.80	12180.70
b. State's Own Non-tax Revenue	1463.58	1816.70	2300.73
c. State's Share in Central Taxes and Duties	Nil	Nil	Nil
d. Grants –in-Aid	574.23	1312.88	1870.79
Revenue Expenditure	7755.48	9770.52	11762.56
Revenue Deficit/Surplus	(+)4438.13	(+)5141.86	(+)4589.65
Fiscal Deficit/Surplus	(-)410.41	(-)2040.90	(-)2824.07

(Source: Finance Account and PAO, Delhi)

Revenue surplus increased by 3.41 *per cent* in 2008-09 from the base year 2006-07. While fiscal deficit increased by 588.11 *per cent* over the last three years (2006-07 to 2008-09). **Table 1.10** also reveals that revenue account experienced a consistent improvement in revenue surplus during the period 2006-09 which stood at Rs. 4589.65 crore in the current year.

1.10 Conclusion and recommendations

The fiscal position of NCT of Delhi viewed in terms of key fiscal parameters-revenue surplus, fiscal deficit and primary deficit has shown deterioration in 2008-09 relative to previous year. Not only revenue surplus declined by Rs. 552.21 crore (10.74 *per cent*) in 2008-09 but fiscal deficit has increased by Rs. 783.17 crore (38.37 *per cent*) and primary surplus turned into primary deficit when compared to previous year. These trends may however be seen in view of the fact that capital expenditure has increased by Rs. 230.94 crore (6 *per cent*) in 2008-09 over the previous year and around 61 *per cent* of the total incremental receipts (Rs. 1440 crore) during the current year are contributed by NCT of Delhi's own resources.

The appreciable feature of the expenditure pattern during the year was that it has steadily changed in favour of capital expenditure and expenditure on social services. However, recovery of interest receipts as *per cent* to outstanding loans and advances disbursed by the NCT of Delhi remained grossly inadequate to cover the cost of borrowing during the period 2004-09. Moreover, the average return on this investment was a meagre 0.49 *per cent* in the last three years while the Government paid an average interest rate of 9.70 *per cent* on its borrowings during 2006-2009.

Recommendations

Expenditure on Salary and Wages

The Delhi government has no mechanism to work out the expenditure on salary and wages as a number of schemes are provided with lump sum provision, not bifurcated into object heads in demand for grants. Efforts should be made to develop a mechanism to work out actual expenditure incurred on salary and wages departmentally for analyzing the quality of expenditure by the Delhi Government. This will help in better application of scarce resources and enhance quality of expenditure.

Review of State Government Investment

The average return on Delhi Government's investment in statutory corporations, rural banks, joint stock companies and co-operatives varied between 0.31 to 0.78 *per cent* in the past three years while the Government paid, on an average, interest of 9.35 to 9.90 *per cent* on Government borrowings. The State Government should ensure better value for money in its investments. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification and high cost borrowings should instead be channeled there. It would also be prudent to review the working of state public sector undertakings which are incurring huge losses and work out either a revival strategy or take steps towards their closure.

Revenue Arrears

The arrears of revenue as on 31 March 2009 of some principal heads of revenue amounted to Rs. 8674.85 crore, of which Rs. 8674.12 crore relate to taxes on sales, trade, etc. Efforts should be made to recover the revenue arrears.