Chapter 1

Finances of the State Government

This chapter provides a broad perspective of the finances of the Government of Maharashtra during the current year 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. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure of Government Accounts and the lay out of Finance Accounts are shown in ***Box 1.1*** (page 2).

1.1 Summary of current year's fiscal transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09) *vis-à-vis* the previous year while **Appendix 1.3** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1 : Summary of current year's fiscal operations

(Rupees in crore)

Receipts			Disbursements				
	2007-08	2008-09		2007-08	2008-09		
Section A	**Total**	**Total**	**Section A**	**Total**	**Non-Plan**	**Plan**	**Total**
Revenue receipts	**79,583.15**	**81,270.68**	**Revenue expenditure**	**64,780.05**	63,285.61	12,408.31	**75,693.92**
Tax revenue	*47,528.45*	*52,029.94*	*General services*	*23,846.42*	*26,201.18*	*383.53*	*26,584.71*
Non-tax revenue	*16,947.97*	*9,789.94*	*Social services*	*26,773.05*	*22,765.88*	*8,286.32*	*31,052.20*
Share of Union Taxes/ Duties	*7,597.18*	*8,018.41*	*Economic services*	*13,236.89*	*13,145.49*	*3,667.75*	*16,813.24*
Grants from Government of India	*7,509.55*	*11,432.39*	*Grants-in-aid and Contributions*	*923.69*	*1,173.06*	*70.71*	*1,243.77*
Section B			**Section B**				
Miscellaneous Capital Receipts	**0.00**	**18.01**	**Capital Outlay**	**11,489.61**	**6,097.43**	**12,775.78**	**18,873.21**
Recoveries of Loans and Advances	**732.59**	**560.21**	**Loans and Advances disbursed**	**1,225.16**	**-**	**-**	**1,280.59**
Public Debt receipts*	**11,807.66**	**20,709.02**	**Repayment of Public Debt***	**2,745.48**	**-**	**-**	**3,220.77**
Appropriation from Contingency fund	**350.00**	**400.00**	**Appropriation to Contingency fund**	**350.00**	**-**	**-**	**650.00**
Contingency Fund	**405.36**	**708.94**	**Contingency Fund**	**408.94**	**-**	**-**	**401.93**
Public Account receipts	**19,785.69**	**37,356.22**	**Public Account disbursements**	**27,618.79**	**-**	**-**	**30,506.56**
Opening Cash Balance	***7,183.90***	***11,230.32***	***Closing Cash Balance***	***11,230.32***	**-**	**-**	***21,626.42***
Total	**1,19,848.35**	**1,52,253.40**	**Total**	**1,19,848.35**			**1,52,253.40**

* Excluding ways and means advances and overdraft (Receipt : Rs 903.74 crore and Disbursement : Rs 903.74 crore)

Box 1.1

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 raised by issue 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 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 subject to vote by the State Legislature.

Layout of Finance Accounts

Statement No.	About
1	Summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements *etc*., in the Consolidated Fund, Contingency Fund and Public Account of the State.
2	Summarised statement of capital outlay showing progressive expenditure to the end of 2008-09.
3	Financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, *etc*.
4	Summary of debt position of the State which includes borrowing from internal debt, Government of India, other obligations and servicing of debt.
5	Summary of loans and advances given by the State Government during the year repayments made, recoveries in arrears *etc*.
6	Summary of guarantees given by the Government for repayment of loans *etc*., raised by the statutory corporations, local bodies and other institutions.
7	Summary of cash balances and investments made out of such balances.
8	Summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2009.
9	Revenue and expenditure under different heads for the year 2008-09 as a percentage of total revenue/expenditure.
10	Distribution between the charged and voted expenditure incurred during the year.
11	Detailed account of revenue receipts by minor heads.
12	Accounts of revenue expenditure by minor heads under non–plan and plan separately and capital expenditure by major head wise.
13	Detailed capital expenditure incurred during and to the end of 2008-09.
14	Shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies *etc.,* up to the end of 2008-09.
15	Capital and other expenditure to the end of 2008-09 and the principal sources from which the funds were provided for that expenditure.
16	Detailed account of receipts disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.
17	Detailed account of debt & other interest bearing obligations of the State Government.
18	Detailed account of loans and advances given by the Government of Maharashtra, the amount of loan repaid during the year, the balance as on 31 March 2009.
19	Details of earmarked balances of reserve funds.

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

- Increase of 2 *per cent* (Rs 1,688 crore) in revenue receipts in 2008-09 was the net effect of increase in tax revenue by 9 *per cent* (Rs 4,502 crore), grants-in-aid from Government of India (GoI) by 52 *per cent* (Rs 3,923 crore) and State's share of Union Taxes and Duties by 6 *per cent* (Rs 421 crore) set off by a decrease in non-tax revenue by 42 *per cent* (Rs 7,158 crore). ***The revenue receipts at Rs 81,271 crore was higher than the assessment made by State Government in its Fiscal Correction Path (FCP) (Rs 70,363 crore), Medium Term Fiscal Policy Statement (MTFPS) (Rs 79,911 crore) for the year 2008-09 and Twelfth Finance Commission (TFC) (Rs 55,439 crore).*** Salient features of the Maharashtra Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 are given in **Box 1.2 (**page 5).
- The increase of 9 *per cent* (Rs 4,502 crore) in tax revenue in 2008-09 was mainly on account of increase in (a) taxes on Sales, Trades, *etc.,* by 15 *per cent* (Rs 3,928 crore) due to more tax collection under State Sales Tax Act, Central Sales Tax Act and tax on purchase of sugarcane; (b) taxes on goods and passengers by 130 *per cent* (Rs 504 crore) due to more receipts from tax on entry of goods into local area; and (c) State excise by 12 *per cent* (Rs 471 crore) due to more receipts of excise duty from medicinal and toilet preparations and more receipt on account of fines and confiscations. ***The tax revenue as a percentage of GSDP (7.46 per cent) was, however, less than the normative assessment of TFC (9.7 per cent) as well as the projections made by the State Government in FCP (8.5 per cent) and MTFPS (9.25 per cent).***
- Increase in GoI grants-in-aid by 52 *per cent* (Rs 3,923 crore) was on account of more receipts under 'Block grants' and 'Central plan scheme'.
- The decrease in non-tax revenue of the State by 42 *per cent* (Rs 7,158 crore) was mainly under 'Miscellaneous General Services.' This has to be viewed in the context of the unprecedented increase in non-tax revenue under its head in 2007-08 on account of transfer[1] of Rs 10,868 crore by the State Government from 18 statutory funds maintained in Public Account to Consolidated Fund of the State as non-tax receipts. ***However, the non-tax revenue of the Government significantly exceeded the FCP of the Government by 64 per cent as well as the TFC projection by 101 per cent.***
- Revenue expenditure increased by Rs 10,914 crore (16.8 *per cent*) over the previous year. While 20 *per cent* (Rs 2,133 crore) of the increase was under plan heads the remaining 80 *per cent* (Rs 8,781 crore) was under non-plan heads. The major heads that registered increases include general education by 20 *per cent* (Rs 2,643 crore), co-operation by 270 *per cent* (Rs 2,186 crore), welfare of schedule castes, schedule tribes and other backward classes by 34 *per cent* (Rs 808 crore), rural employment by 348 *per cent* (Rs 689 crore), police by 21 *per cent* (Rs 632 crore) and pensions and other retirement benefits by 23 *per cent* (Rs 962 crore). ***The revenue expenditure exceeded the assessment made by the State Government in its FCP (Rs 65,093 crore), however, it fell short of the projection made in MTFPS (Rs 78,946 crore). The NPRE remained higher than the normative assessments made by TFC and the State Government's projections (MTFPS and FCP).***
- Recoveries of Loans and Advances decreased by 24 *per cent* (Rs 173 crore). The major decline in the recoveries was from the power sector (Rs 238 crore).
- Public Debt Receipts increased by 75 *per cent* (Rs 8,901 crore) while Public Debt disbursement increased by 17 *per cent* (Rs 476 crore) ***resulting in net increase of Rs.8,425 crore in Public Debt receipts***.

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1 This transfer was effected through Government Resolutions dated 10 and 15 March 2008 issued in pursuance to Maharashtra Ordinance No. II of 2008 dated 22 February 2008 and ratified vide Maharashtra Act No. V of 2008 dated 19 March 2008 and cabinet decision dated 3 May 2007 respectively on the plea that the same cannot be utilised for any other purposes other than those mentioned in the Acts under which these funds are maintained.

- Increase of 89 *per cent* (Rs 7,570 crore) in Public Account receipts was on account of increase of receipts under reserve funds by 126 *per cent* (Rs 11,623.34 crore)[2], suspense and miscellaneous by 864 *per cent* (Rs 2,807 crore) and remittances by 15 *per cent* (Rs 2,390 crore).
- Public Account disbursements increased by 10 *per cent* (Rs 2,888 crore) mainly due to increase under remittances by 14 *per cent* (Rs 2,276 crore), deposit and advances by 14 *per cent* (Rs 1,227 crore) along with decrease under reserve funds by 40 *per cent* (Rs 542 crore).
- Appropriation from contingency fund increased by Rs 50 crore and appropriation to contingency fund also increased by Rs 300 crore from Rs 350 crore in 2007-08 to Rs 650 crore in 2008-09.
- Cash balances of the State at the close of the year 2008-09 increased by Rs 10,396 crore on account of surpluses in Consolidated Fund of the State (Rs 3,489 crore) due to more market loans, Contingency Fund (Rs 58 crore) and Public Account (Rs 6,849 crore) as a result of fiscal transactions.

Box 1.2

Maharashtra Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005

The State Government has enacted the Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 to ensure prudence in fiscal management and to maintain fiscal stability in the State. To improve the fiscal position and to bring fiscal stability, the Act envisages progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability. To ensure fiscal prudence the Act also provides for greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and matters connected therewith or thereto. The Fiscal Responsibility and Budgetary Management Rules (MFRBMR) were, however, framed in February 2006. The major fiscal targets for the State are as under:

- Reduce the revenue deficit by one *per cent* or more of the GSDP in the first year, 1.5 *per cent* or more in the first two years, two *per cent* or more in the first three years, beginning from the financial year 2005-06 and the entire deficit by 2008-09.
- Reduce the fiscal deficit by an amount equivalent to 0.3 *per cent* or more of the GSDP at the end of each financial year beginning with the financial year 2005-06 until the fiscal deficit is brought down to not more than three *per cent* of the GSDP. The fiscal deficit in 2008-09 and thereafter should not exceed three *per cent* of GSDP. (Considering the overall slowdown in the economy, the GoI had allowed the States to increase their fiscal deficit to as much as to 3.5 *per cent* of their GSDP).

Medium Term Fiscal Policy Statement

As prescribed in the Act, the State Government laid a Medium Term Fiscal Policy Statement (MTFPS) and a Fiscal Policy Strategy Statement along with the budget for the year 2008-09 before the Legislature. MTFPS presents three years (2007-10) rolling targets, assumptions underlying the fiscal indicators and assessment of sustainability relating mainly to (i) balance between revenue receipts and revenue expenditure and (ii) the use of capital receipts for generating productive assets. The major pronouncement in MTFPS-2008-09 include elimination of revenue deficit and reduction in fiscal deficit to 2 per cent of GSDP during 2008-09, increasing tax revenue at 9.25 per cent of GSDP, not availing overdraft even once during 2008-09, containing

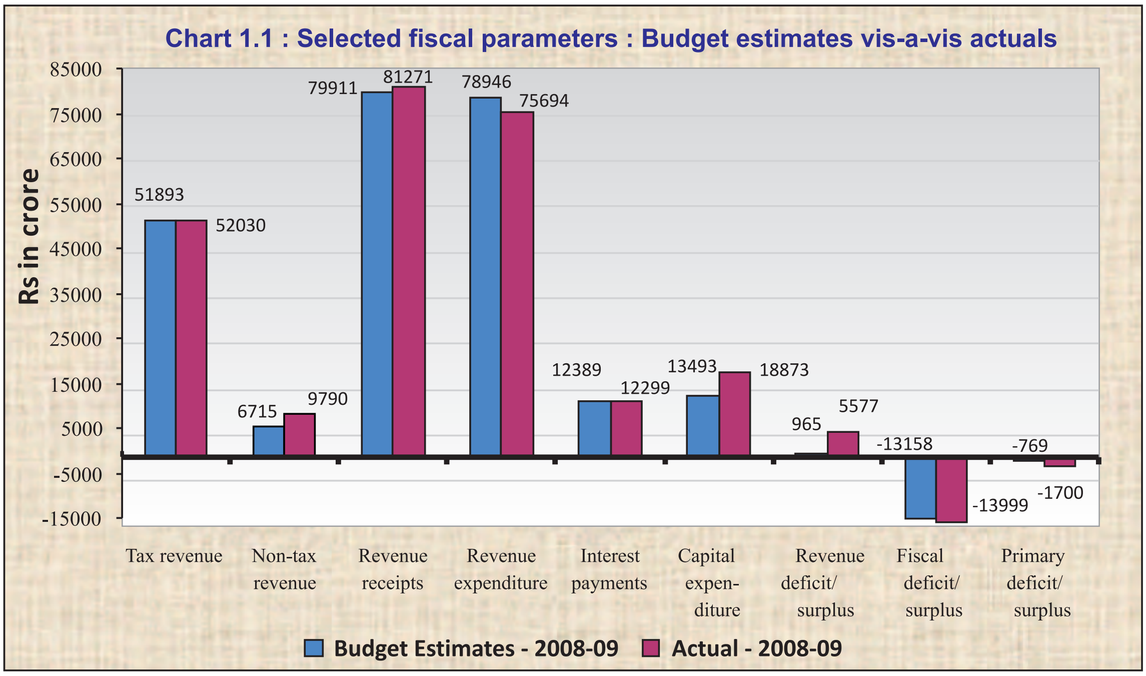
2 Actual receipt under Reserve Funds during 2008-09 is Rs 2427.79 crore. Considering the receipts of (-) Rs 9195.55 crore during 2007-08, the net increase over the previous year is Rs 11623.24 crore. The minus balance during 2007-08 was on account of closure of reserve funds and transfer of an amount of Rs 10,868 crore as also indicated in footnote 1 (page 3).

the revenue expenditure, increasing investment on infrastructure sectors particularly in irrigation, roads and power sectors, increasing funding for social sectors, improving efficiency of tax collection and reduction in debt servicing liability by containing the interest payments at 16.21 per cent of revenue receipts.

The MTFPS envisaged GSDP growth at 13.75 *per cent* during 2008-09, mobilisation of additional resources through rationalisation of tax system and strengthening of VAT. A closer monitoring of guarantees to prevent invocation, creation of guarantee database, restructuring the legal agreements *etc.* are the steps that have been initiated to ensure that management of Government guarantee becomes prudent and effective.

The State's fiscal correction path containing the projections for major fiscal variables are at **Appendix 1.1**.

Chart 1.1 presents the budget estimate and actual for some important fiscal parameters.



During 2008-09, the actual revenue receipts exceeded the budget estimates by 2 *per cent* (Rs 1,360 crore) while actual revenue expenditure declined by 4 *per cent* (Rs 3,252 crore) resulting in increase in revenue surplus. The capital expenditure increased by 40 *per cent* and interest payments decreased by one *per cent* over the budget estimates. The budgeted and actual figures under revenue receipts and expenditure are given in **Appendix 1.5**.

The increase in revenue receipts was the net result of increase in tax revenue by 0.26 *per cent* (Rs 137 crore) and non-tax revenue by 46 *per cent* (Rs 3,075 crore) set off by a decrease in share in Central taxes by 10 *per cent* (Rs 926 crore) and grants-in-aid from GoI by 7 *per cent* (Rs 925 crore).

The decrease in revenue expenditure was the combined effect of more expenditure under Social Services by 8 *per cent* (Rs 2,358 crore), Economic Services by 24 *per cent* (Rs 3,208 crore) and grants-in-aid by 24 *per cent* (Rs 242 crore) offset by less expenditure under General Services by 25 *per cent* (Rs 9,060 crore).

The increase under Social Services were under Education, Sports, Arts and Culture by 11 *per cent* (Rs 1,658 crore), Social Welfare and Nutrition by 44 *per cent* (Rs 993 crore), Welfare of SC, ST and OBC by 22 *per cent* (Rs 567 crore) and Health and Family Welfare by 8 *per cent* (Rs 218 crore) set off by less expenditure under Water Supply, Sanitation, Housing and Urban Development by 21 *per cent* (Rs 1,169 crore).

Similarly the significant increases under Economic Services were under Agriculture and Allied Services by 87 *per cent* (Rs 2,980 crore), Transport and Communication by 29 *per cent* (Rs 600 crore), Energy by 17 *per cent* (Rs 416 crore) and Irrigation and Flood Control by 13 *per cent* (Rs 216 crore) set off by less expenditure under Rural Development by 35 *per cent* (Rs 1,073 crore).

Significant decrease in expenditure under General Services were mainly under Administrative Services by 53 *per cent* (Rs 7,388 crore) and under Pensions and Miscellaneous General Services by 27 *per cent* (Rs 1,969 crore) set off by more expenditure under Fiscal Services by 53 *per cent* (Rs 443 crore).

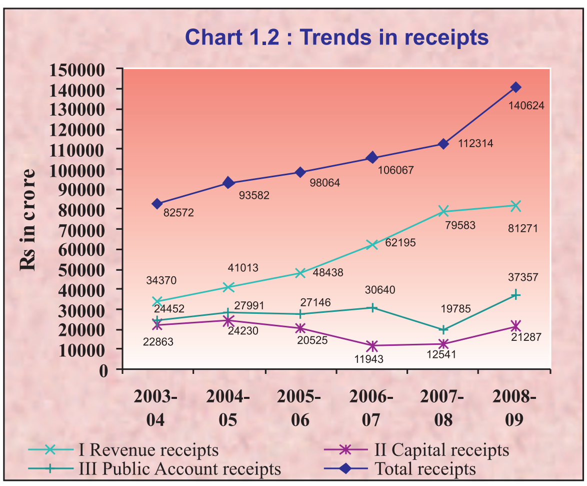
The capital expenditure *vis-à-vis* the budget estimates was more by 40 *per cent* (Rs 5,380 crore). The variation in capital expenditure was mainly due to increase in expenditure under Irrigation and Flood Control by 69 *per cent* (Rs 4,600 crore), Transport by 47 *per cent* (Rs 690 crore), Power by 31 *per cent* (Rs 215 crore), Health and Family Welfare by 145 *per cent* (Rs 201 crore) and Education, Sports, Arts and Culture by 85 *per cent* (Rs 178 crore) set off by decrease in expenditure under Rural Development by 67 *per cent* (Rs 968 crore).

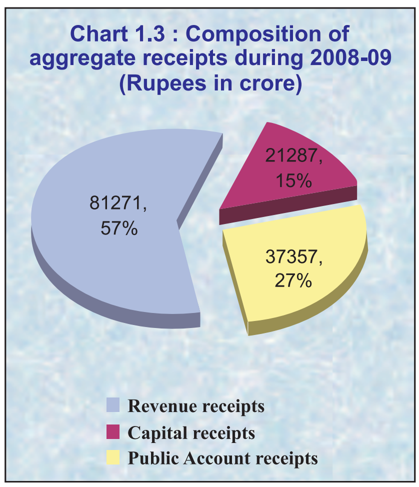
Actual fiscal deficit[3] exceeded the assessment made in the budget estimates by 6 *per cent* (Rs 841 crore), mainly due to increase in capital expenditure and net disbursement of loans and advances. The increase in fiscal deficit together with an increase of Rs 90 crore in interest payments led to increase in primary deficit by 121 *per cent* (Rs 931 crore) than the assessment made in the budget estimates.

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, State's share of Union taxes and duties and grants-in-aid from the GoI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI as well as accruals 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 1.2** and **Table 1.2** depict the trends in various components of the aggregate receipts of the State during 2003-09. **Chart 1.3** depicts the composition of aggregate resources of the State during the current year.





Note : Contingency Fund receipts were Rs 709 crore and 1 *per* cent of total receipt during 2008-09.

3 see glossary at page 97

Table 1.2: Trends in growth and composition of aggregate receipts

(Rupees in crore)

	Sources of State's Receipts	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
I	**Revenue Receipts**	**34,370**	**41,013**	**48,438**	**62,195**	**79,583**	**81,271**
II	**Capital Receipts**	**22,863**	**24,230**	**20,525**	**11,943**	**12,541**	**21,287**
	Miscellaneous Capital Receipts	--	--	--	--	--	18
	Recovery of Loans and Advances	482	2,041	551	51	733	560
	Public Debt Receipts	22,381	22,189	19,974	11,892	11,808	20,709
	Growth rate of debt capital receipts	129.33	-0.86	-9.98	-40.46	-0.71	75.38
	Growth rate of non-debt capital receipts	2.77	323.44	-73.00	-90.74	1337.25	-21.15
	Growth rate of GSDP	12.86	11.63	16.28	17.79	16.03	18.05
	Rate of growth of CR (per cent)	***123.53***	***5.98***	***-15.29***	***-41.81***	***5.01***	***69.74***
	CR Buoyancy w.r.t. GSDP	***9.605***	***0.514***	***-0.939***	***-2.350***	***0.313***	***3.864***
III	**Contingency Fund**	**887**	**348**	**1,955**	**1,289**	**405**	**709**
IV	**Public Account Receipts**	**24,452**	**27,991**	**27,146**	**30,640**	**19,785**	**37,357**
	a. Small Savings, Provident Fund *etc*	1,714	1,684	1,794	1,895	2,060	2,220
	b. Reserve Fund	5,441	6,461	5,504	5,988	-9,196	2,428
	c. Deposits and Advances	5,609	7,466	8,371	8,898	10,847	11,438
	d. Suspense and Miscellaneous	1,461	1,202	-905	436	325	3,132
	e. Remittances	10,227	11,178	12,382	13,423	15,749	18,139
	Total Receipts	**82,572**	**93,582**	**98,064**	**1,06,067**	**1,12,314**	**1,40,624**

Source : Finance Accounts

The total receipts of the State increased by 70 *per cent* from Rs 82,572 crore in 2003-04 to Rs 1,40,624 crore in 2008-09. The share of revenue receipts in total receipts of the State increased from 42 *per cent* (Rs 34,370 crore) in 2003-04 to 57 *per cent* (Rs 81,271 crore) in 2008-09. While the share of capital receipts in total receipts decreased from 28 *per cent* (Rs 22,863 crore) in 2003-04 to 15 *per cent* (Rs 21,287 crore) in 2008-09, the share of public account receipts decreased from 30 *per cent* (Rs 24,452 crore) to 27 *per cent* (Rs 37,357 crore) during the same period.

The Debt capital receipts which create future repayment obligation consistently decreased from Rs 22,381 crore in 2003-04 to Rs 11,808 crore in 2007-08 but increased to Rs 20,709 crore in 2008-09. The Public Accounts receipts increased from Rs 24,452 crore in 2003-04 to Rs 37,357 crore in 2008-09. During 2008-09, the increase was mainly under reserve funds (Rs 2,428 crore), suspense and miscellaneous (Rs 2,807 crore), remittances (Rs 2,390 crore) and deposits and advances (Rs 591 crore).

The rate of growth of debt capital receipts increased from (-) 0.71 *per cent* in 2007-08 to 75.38 *per cent* in 2008-09 while the rate of growth of non-debt capital receipts decreased from 1337.25 *per cent* in 2007-08 to (-) 21.15 *per cent* in 2008-09.

The rate of growth of debt capital receipts reduced from 129.33 *per cent* in 2003-04 to 75.38 *per cent* in 2008-09 while the rate of growth of GSDP increased from 12.86 *per cent* in 2003-04 to 18.05 *per cent* in 2008-09 resulting in decrease in the rate of growth of debt capital buoyancy from 10.056 in 2003-04 to 4.176 in 2008-09.

The rate of growth of non-debt capital receipts reduced from 2.77 *per cent* in 2003-04 to (-) 21.15 *per cent* in 2008-09 resulting in decrease in the rate of growth of non-debt capital buoyancy from 0.215 in 2003-04 to (-) 1.172 in 2008-09.

1.2.2 Funds transferred to State implementing agencies outside the State budgets

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[4] for implementation of various schemes/programmes in social and

4 State Implementing Agency includes any Organisation/Institution including Non-Governmental Organisation which is authorised by the State Government to receive the funds from the Government of India for implementing the specific programme in the State

economic sectors for the human and social development of population. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underscored and underestimated. To present the holistic picture on availability of aggregate resources, funds directly transferred to State implementing agencies during 2008-09 are presented in **Table 1.3**.

Table 1.3: Funds transferred directly to State implementing agencies

(Rs in crore)

Programme/Scheme (Central share in bracket)	Implementing agency in the State	Central share
DRDA- Administration (75 *per cent*)	District Rural Development Agency	7.44
Indira Awas Yojana (75 *per cent*)	District Rural Development Agency	152.08
Swaranajayanti Gram Swarojgar Yojana (75 *per cent*)	District Rural Development Agency	87.01
National Rural Employment Guarantee Scheme (100 *per cent*)	District Rural Development Agency#	95.27
Integrated Watershed Management Programme (92 *per cent*)	District Rural Development Agency	7.60
Sarva Shiksha Abhiyan (60 *per cent*)	Maharashtra Prathamik Shikshan Parishad	673.86
Micro Irrigation (80 *per cent*)	Agriculture Technology Management Agency	135.67
Swarnjayanti Rojgar Yojana (75 *per cent*)	State Urban Development Agency	89.98
Pradhan Mantri Gram Sadak Yojana (100 *per cent*)	Maharashtra Rural Roads Development Agency	100.00
National Rural Health Mission (85 *per cent*)	State Health Society Maharashtra	336.39
MPs Local Area Development Scheme (100 *per cent*)	District Collector	142.00
National Horticulture Mission (85 *per cent*)	Maharashtra State Horticulture and Medicinal Plants Board, Pune	130.22
	National Horticulture Research and Development Foundation, Nasik	8.59
	National Research Centre for Citrus, Nagpur	2.34
Development of Market Infrastructure Grading and Standardisation (100 *per cent*)	National Bank for Agriculture and Rural Development	62.50
Gramin Bhandar Yojana (100 *per cent*)	National Bank for Agriculture and Rural Development	98.00
Dairy Venture Capital Fund (100 *per cent*)	National Bank for Agriculture and Rural Development	35.00
National Bamboo Mission (92 *per cent*)	Director Maharashtra Ekatmik Padik Jamin Vikas Yantrana	4.84
Pollution Abatement (100 *per cent*)	Maharashtra Pollution Control Board	5.21
Total		**2174.00**

\# Though the cheques are received in the name of DRDA, the same are forwarded to the Collector, since the NREGS in the State is implemented by him.

Source: Ministry of Finance, GoI and E-lekha, Controller General of Accounts.

The GoI directly transferred Rs 2,174 crore to the State implementing agencies during 2008-09. The major recipients were Maharashtra Prathamik Shikshan (Rs 673.86 crore *i.e.,* 31 *per cent*) for Sarva Shiksha Abhiyan, District Rural Development Agencies (Rs 349.40 crore *i.e.,* 16 *per cent*) for Indira Awas Yojana, Swaranajayanti Gram Swarojgar Yojana, Integrated Watershed Management Programme and DRDA Administration and State Health Society (Rs 336.39 crore *i.e.*, 15 *per cent*) for National Rural Health Mission. ***Funds transferred directly from the Union to the State Implementing Agencies results in failure to monitor the expenditure incurred by them on various schemes as these funds are not reflected in the State budget. It also inhibits the FRBM requirement of transparency in fiscal operations and thus bypasses accountability.***

1.3 Revenue receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2004-09 are depicted in **Charts 1.4** and **1.5** respectively and also presented in **Appendix 1.2**.

Chart 1.4 : Trends in revenue receipts

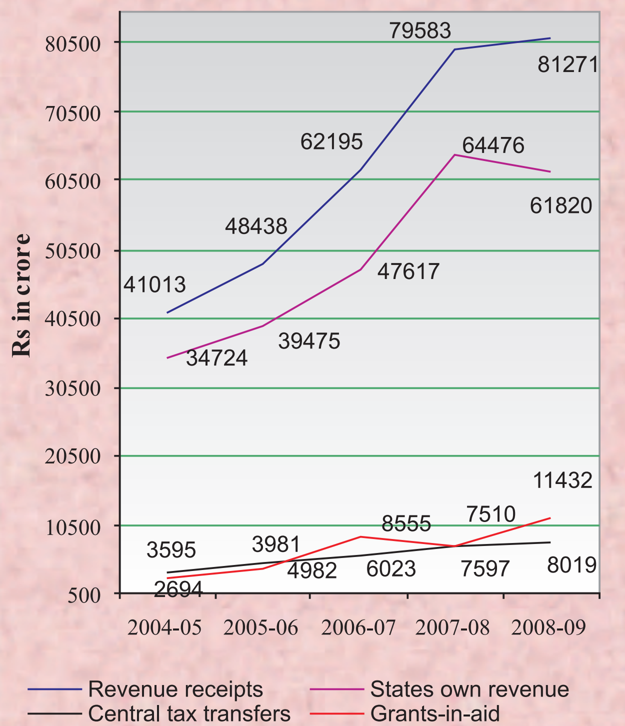
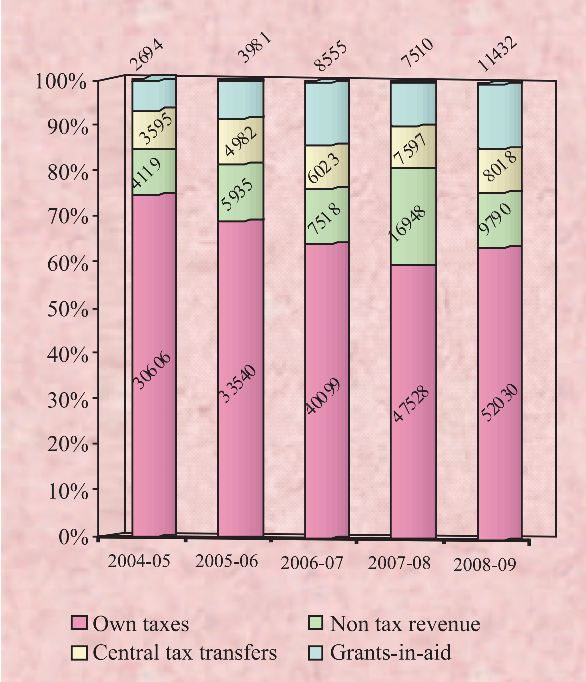


Chart 1.5 : The composition of revenue receipts during 2004-09 (Rupees in crore)



The revenue receipts have shown a progressive increase over the period 2004-09. However, there was a declining trend in the share of the own taxes during the period 2004-08 with marginal increase during 2008-09. The share of grants-in-aid during 2004-09 showed an increasing trend except during 2007-08. The shares of non-tax revenue and Central transfers showed relative stability during the period. However, during 2007-08 the share of non-tax revenue increased considerably to 21.3 *per cent* due to closure of inoperative reserve funds and transfer of an amount of Rs 10,868 crore to the Consolidated Fund of the State as non-tax receipts. ***The revenue receipts at Rs 81,271 crore was higher than the assessment made by the State Government in its Fiscal Correction Path (FCP) (Rs 70,363 crore), Medium Term Fiscal Policy Statement (MTFPS) (Rs 79,911 crore) for the year 2008-09 and Twelfth Finance Commission (TFC) (Rs 55,439 crore).***

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

Table 1.4 : Trends in revenue receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
I Revenue Receipts (Rs in crore)	**41,013**	**48,438**	**62,195**	**79,583**	**81,271**
Rate of growth[5] of RR (*per cent*)	19.3	18.1	28.4	28	2.1
RR/GSDP (*per cent*)	11.0	11.2	12.2	13.5	11.6
Buoyancy Ratio's[6]					
Revenue Buoyancy w.r.t. GSDP	**1.659**	**1.112**	**1.596**	**1.747**	**0.116**
State's own taxes Buoyancy w.r.t. GSDP[7]	1.797	0.842	1.158	2.208	-0.227
Revenue Buoyancy with reference to State's own taxes (ratio)	0.921	1.321	1.379	0.791	-0.512
Gross State Domestic Product (Rs in crore)	**3,71,878**	**4,32,413**	**5,09,356**	**5,90,995***	**6,97,683#**
Growth rate of GSDP	11.63	16.28	17.79	16.03	18.05

Source: * Based on Economic Survey of Maharashtra (Preliminary Estimates)

Advance estimates furnished by Directorate of Economics & Statistics, Government of Maharashtra

The rate of growth of revenue receipts was between 18.1 *per cent* and 28.4 *per cent* during the years 2004-05 to 2007-08. The slow growth in revenue receipts during 2008-09 (2.1 *per cent*) was due to sharp decline in non-tax receipts as discussed in para 1.1 and less receipts under taxes and duties on electricity as well as stamps and registration fees. In addition, the recession in economy has also resulted in fall in tax revenues of the State.

The revenue buoyancy with reference to State's own taxes increased from 0.921 in 2004-05 to 1.379 in 2006-07. However, it gradually declined to 0.791 in 2007-08 and (-) 0.512 in 2008-09.

1.3.1 State's own resources

The gross collection in respect of major taxes and duties as well as the components of non-tax receipts, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2004-05 to 2008-09 are presented in **Appendix 1.2**. The actual revenue receipts during 2008-09 *vis-à-vis* assessments made by TFC and State Government are given in **Table 1.5.**

Table 1.5: Revenue receipts relative to TFC and State's projections

(Rupees in crore)

	Assessments made by TFC	Projections in FCP	Projections in MTFPS	Budget	Actuals
Tax revenue	50,566	50,703	51,894	60,839	52,030
Non-tax revenue	4,873	5,975	6,715	6,715	9,790

Tax revenue

The sector-wise components of tax revenue during the five year period from 2004-05 to 2008-09 is as shown in **Table 1.6.**

5 see glossary at page 97.

6 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 at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by one per cent (also see glossary at page 97).

7 State's own taxes includes tax and non-tax revenue.

Table 1.6 : Sector-wise components of tax revenue

(Rupees in crore)

Tax Revenue	2004-05	2005-06	2006-07	2007-08 Estimates	2008-09		
					Budget	Actuals w.r.t. budget estimates	Percentage
Taxes on Sales, Trade, *etc.*	18,817	19,677	24,131	26,753	29,039	30,681	5.65
State Excise	2,219	2,824	3,301	3,963	4,500	4,434	-1.47
Taxes on Vehicles	1,177	1,309	1,841	2,143	2,426	2,220	-8.49
Stamps and Registration fees	4,116	5,266	6,416	8,550	9,600	8,288	-13.67
Taxes and duties on electricity	1,674	1,661	1,577	2,688	2,600	2,395	-7.88
Land Revenue	361	429	484	512	700	546	-22.00
Taxes on Goods and Passengers	428	505	224	388	594	892	50.17
Other taxes	1,814	1,869	2,125	2,531	11,380	2,574	-77.38
Total	**30,606**	**33,540**	**40,099**	**47,528**	**60,839**	**52,030**	**-14.48**

Source : Finance Accounts, Budget Estimates : Financial Statement (Budget) Government of Maharashtra

Though the tax revenue of the State during 2008-09 fell short of Budget estimates by Rs 8809 crore, it increased by Rs 4502 crore (9 *per cent)* over the previous year. The increase was mainly under (a) taxes on sales, trade *etc.,* (Rs 3,928 crore) which was mainly due to lifting of stay granted during the earlier years on levy of tax on sugarcane purchase which was not extended for the year 2008-09 by the department, introduction of filing of e-returns resulting in increase of compliance level from the dealers, economic growth upto November 2008 and increase in receipts on sale of motor spirit, (b) taxes on goods and passengers (Rs 504 crore) as the passenger tax receivable during 2007-08 from Maharashtra State Road Transport Corporation adjusted during 2008-09 and (c) State excise (Rs 471 crore) due to more receipts of excise duty from country liquor, medicinal and toilet preparations containing alcohol, opium *etc*., and licence fees.

The tax revenue as a percentage of GSDP (7.46 per cent) was less than the normative assessment of TFC (9.7 per cent) as well as the projections made by the State Government in FCP (8.5 per cent) /MTFPS (9.25 per cent).

Non-tax revenue

The non-tax revenue of the State decreased by 42 *per cent* (Rs 7,158 crore) from Rs 16,948 crore in 2007-08 to Rs 9,790 crore in 2008-09, mainly due to sharp decrease in receipts booked under Major Head 'Miscellaneous General Services' (Rs 7,570 crore).[8]

Table 1.5 reveals that the actual realisation of tax revenue during 2008-09 was higher than the normative assessment of TFC as well as the projections made by the State Government in FCP/MTFPS. ***The non-tax revenue of the Government significantly exceeded both the FCP (64 per cent) of the Government as well as the TFC projection (101 per cent)*** mainly due to increase in guarantee fees (Rs 3,415 crore) and debt relief of Rs 339.97 crore (on account of debt waiver received from Government of India under DCRF) booked under Miscellaneous General Services.

Central tax transfers

Central tax transfers increased by 6 *per cent* from Rs 7,597 crore in 2007-08 to Rs 8,018 crore in 2008-09. The increase was mainly under corporation tax (Rs 218 crore), service tax (Rs 107 crore) and customs duties (Rs 97 crore).

8 also see footnote 1 at page 3

Grants-in-aid

The grants-in-aid from GoI increased (52 *per cent)* from Rs 7,510 crore in 2007-08 to Rs 11,432 crore in 2008-09. The increase was mainly under grants for Central schemes (121 *per cent)* and State Plan Schemes (77 *per cent*). The non-plan grants increased by 34 *per cent* while the grants for Centrally Sponsored Plan Schemes increased by 14 *per cent* in 2008-09 **(Table 1.7)**.

Table 1.7 : Grants-in-aid from Government of India

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Grants for State plan schemes	1,266	1,255	3,919	3,780	6,683
Non-Plan grants	570	1,582	3,489	2,106	2,832
Grants for Central Schemes	86	286	89	63	139
Grants for Central and Centrally Sponsored Schemes	772	858	1,058	1,561	1,778
Total	**2,694**	**3,981**	**8,555**	**7,510**	**11,432**
Percentage of increase/decrease over previous year	18.7	47.8	114.9	(-)12.2	52.22

Source : Finance Accounts

The increase under plan grants for the State plan schemes was due to increase in ‘Block Grants’ (Rs 2,709 crore) while the increase under non-plan grants was due to increase under other grants (Rs 998 crore). The increase under grants for Central schemes was due to increase under welfare of scheduled castes, scheduled tribes and other backward classes (Rs 49 crore). Under Centrally sponsored schemes, the increase was mainly in ‘General Education’ (Rs 354 crore) and ‘Social Welfare and Child Welfare’ (Rs 191 crore).

1.3.2 Loss of revenue due to tax evasion, write off/ waivers and refunds

1.3.2.1 Evasion of taxes

During the year, the Sales Tax Department detected 855 cases of evasion of taxes. Out of 3,280 cases detected upto 2008-09, it could finalise only 471 cases raising a demand of Rs 128 crore. In respect of State Excise Department, only one case was detected during the year which was finalised by raising a demand of Rs 11 lakh. In respect of Taxes on vehicles, 745 cases were detected during 2008-09. Out of 3,968 cases detected upto 2008-09, 2,037 cases were finalised by raising a demand of Rs 2.75 crore.

1.3.2.2 Write off/waivers of revenue

During the year 2008-09, demands for Rs 3.33 crore in 6,510 cases and Rs 12.83 lakh in 17 cases, relating to Sales Tax and State Excise respectively were written off by the departments as irrecoverable due to the reasons indicated in **Table 1.8**.

Table 1.8 : Reasons of write off/waiver of revenue

(Rupees in lakh)

Reasons	Sales tax, *etc*		State excise	
	No of cases	Amount	No of cases	Amount
Whereabouts of defaulters not known	217	280.06	07	4.74
Defaulters no longer alive	--	--	03	0.24
Defaulters not having any property	6,292	52.83	01	0.50
Defaulters adjudged insolvent	--	--	02	0.30
Other reasons	1	0.38	04	7.05
Total	**6,510**	**333.27**	**17**	**12.83**

1.3.2.3 Refund of taxes and duties

The number of refund cases pending at the beginning of the year 2008-09, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2008-09, as reported by the departments are indicated in **Table 1.9.**

Table 1.9 : Refunds allowed by various departments during the year

(Rupees in crore)

Particulars	Taxes on vehicles		Taxes and duties on electricity		State excise		Sales Tax, *etc*	
	No of cases	Amount	No of cases	Amount	No of cases	Amount	No of cases	Amount
Claims outstanding at the beginning of the year	1,105	0.87	93	5.77	78	1.65[9]	4,577	502.94
Claims received during the year	656	0.47	308	24.39	23	0.20	25,573	4,382.34
Refunds made during the year	680	0.96	256	28.26	20	0.17	14,311	3,018.79
Balance outstanding at the end of the year	1,081	0.38	145	1.90	81	1.68	15,839	1,866.49

1.3.3 Revenue arrears

The arrears of revenue in respect of some principal heads of revenue increased by 40 *per cent* from Rs 24,444 crore as of 31 March 2008 to Rs 34,185 crore as on 31 March 2009, of which Rs 6,904.71 crore were outstanding for more than five years, as mentioned in **Table 1.10**.

Table 1.10 : Arrears of revenue

(Rupees in crore)

	Amount outstanding as on 31 March 2009		Remarks
Head of revenue	Total	Pending for more than five years	
Sales tax *etc*.	33,971.82	6,824.87	Stay orders were granted by the appellate authorities for Rs 11,439.68 crore; recovery proceedings for Rs 9,382.70 crore were not initiated as the time limit was not over and the remaining amount was in the process of recovery.
State excise	8.52	7.71	Recoveries amounting to Rs 2.05 crore were pending in the courts. Out of the balance amount of Rs 6.47 crore, recovery of Rs 1.71 crore was in progress as arrears of land revenue and Rs 4.76 crore was in the process of recovery.
Sale of jail articles	10.44	6.27	Suitable instructions regarding recovery of arrears of revenue have been issued to subordinate offices. Efforts were being made for speedy recovery.
Electricity duty / Inspection fees	194.48	65.86	The Government had instructed the concerned District Collectors to recover the arrears of electricity duty as arrears of land revenue.
Total	**34,185.26**	**6,904.71**	

1.4 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising the 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 directed towards development and social sectors.

9 reconciled position furnished by the Department.

1.4.1 Growth and composition of expenditure

The total expenditure and its compositions during the years 2004-05 to 2008-09 are presented in the **Table 1.11.**

Table 1.11 : Total expenditure and its composition

(Rs in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Total Expenditure	**61,674**	**66,620**	**73,799**	**77,495**	**95,848**
Revenue Expenditure	51,046	52,280	61,385	64,780	75,694
Of which, Non-plan Revenue Expenditure	*46,392*	*47,048*	*53,150*	*54,505*	*63,286*
Capital Expenditure	7,877	10,078	10,092	11,490	18,873
Loans and Advances	2,751	4,262	2,322	1,225	1,281

Source : Finance Accounts

Chart 1.6 presents the trends in total expenditure over a period of the last five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' depicted in **Charts 1.7 and 1.8** respectively.

Chart 1.6 : Total expenditure : trends and composition

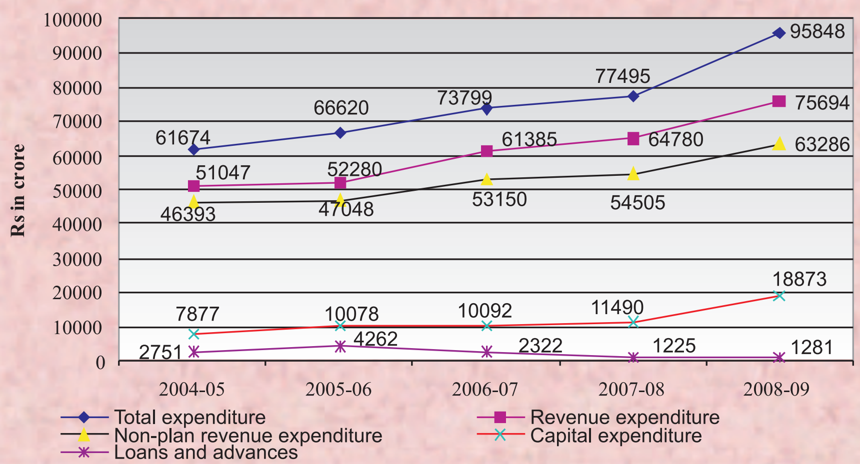


Chart 1.7 : Total Expenditure : Trends in Share of its Components

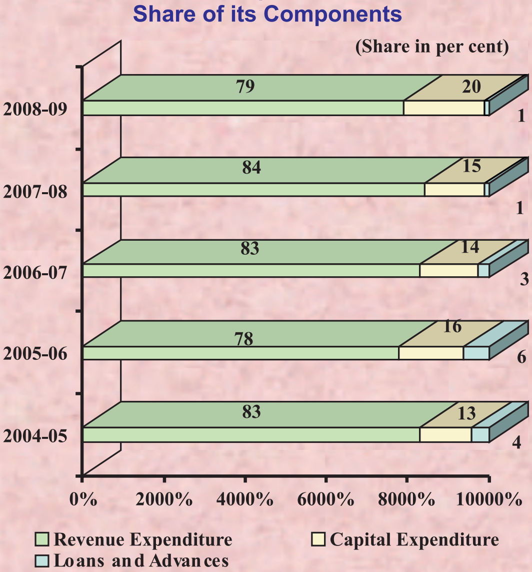
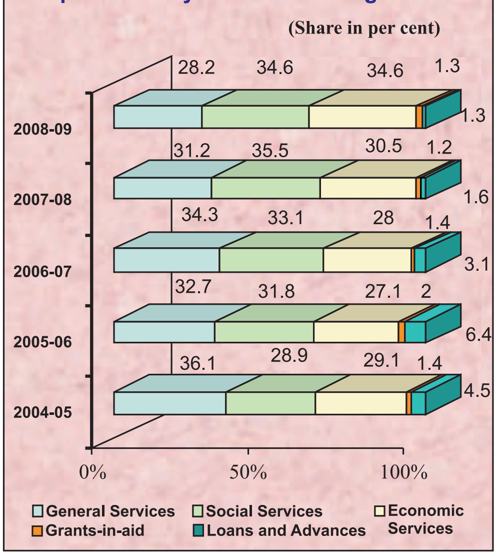


Chart 1.8 : Trends in composition of Total Expenditure by Activities during 2004-09



The total expenditure of the State increased at an average growth rate of 11 *per cent* from Rs 61,674 crore in 2004-05 to Rs 95,848 crore in 2008-09. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.12**.

Table 1.12: Total expenditure – basic parameters

	2004-05	2005-06	2006-07	2007-08	2008-09
Total expenditure (TE) (Rupees in crore)	61,674	66,620	73,799	77,495	95,848
Rate of growth *(per cent)*	16.8	8.0	10.8	5	23.7
TE/GSDP ratio *(per cent)*	16.5	15.4	14.5	13.1	13.7
RR /TE ratio *(per cent)*	66.5	72.7	84.3	102.7	84.8
Buoyancy of Total Expenditure with reference to :					
GSDP (ratio)	1.445	0.491	0.607	0.312	1.313
RR (ratio)	0.870	0.442	0.380	0.179	11.286

The increase of Rs 18,353 crore (23.7 *per cent*) in total expenditure in 2008-09 was mainly on account of an increase of Rs 10,914 crore in revenue expenditure and of Rs 7,383 crore in capital expenditure together with an increase of Rs 56 crore in disbursement of loans and advances. The increase in revenue expenditure was mainly on (a) General education (Rs 2,643 crore), (b) Co-operation (Rs 2,186 crore) (c) Pension and other retirement benefits (Rs 962 crore) (d) Welfare of scheduled castes, scheduled tribes and other backward classes (Rs 808 crore) (e) Rural employment (Rs 707 crore) on account of amount transferred to Employment Guarantee Fund and (f) Police (Rs 632 crore).

The increase in capital expenditure during 2008-09 was mainly on account of increase in Government's share capital contribution (Rs 10,779.76 crore) to Godavari Marathwada Irrigation Development Corporation, Konkan Irrigation Development Corporation, Maharashtra Krishna Valley Development Corporation, Tapi Irrigation Development Corporation and Vidarbha Irrigation Development Corporation. The increase in disbursement of loans and advances during 2008-09 was mainly due to increase in loans for co-operation (Rs 72 crore) and power projects (Rs 205 crore).

The trends in total expenditure in the form of plan and non-plan expenditure during 2008-09 reveal that non-plan expenditure contributed dominant share of 74 *per cent* while the plan expenditure was 26 *per cent*. Moreover, of the increase of Rs 18,353 crore in total expenditure, plan expenditure shared 30 *per cent* (Rs 5,442 crore) while non-plan expenditure contributed 70 *per cent* (Rs 12,911 crore) in 2008-09. Further, 61 *per cent* of the incremental plan expenditure during the current year was under capital heads of various programmes/transfers.

The decrease in ratio of revenue receipts to total expenditure from 102.7 *per cent* in 2007-08 to 84.8 *per cent* in 2008-09 is to be viewed in the light of the unprecedented increase in non-tax revenue in 2007-08 on account of transfer of funds from inoperative reserve funds maintained to Consolidated Fund of the State. The buoyancy of total expenditure with reference to GSDP which was greater than one during the year 2004-05 significantly declined during 2005-06 to 2007-08 due to the combined effect of decrease in rate of growth in expenditure along with sharp rise in GSDP during these years indicating a relative fall in the State's propensity to spend with the increase in GSDP. However, this ratio rose to 1.313 during 2008-09 due to increase in rate of growth of total expenditure as compared to the rate of growth of GSDP. Similarly, there was a consistent fall in buoyancy ratio of total expenditure with reference to revenue receipts during the period 2004-08. However, this ratio rose to 11.286 during 2008-09 indicating increase in expenditure at a pace greater than the receipt.

Trends in total expenditure in terms of activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative shares of these components in the total expenditure are indicated in **Table 1.13.**

Table 1.13: Components of expenditure – relative shares

(in *per cent*)

	2004-05	2005-06	2006-07	2007-08	2008-09
General Services	**36.1**	**32.7**	**34.4**	**31.2**	**28.2**
of which, Interest Payments	14.5	14.0	15.8	15.7	12.8
Social Services	**28.9**	**31.8**	**33.1**	**35.5**	**34.6**
Economic Services	**29.1**	**27.1**	**28.0**	**30.5**	**34.6**
Grants-in-aid	**1.4**	**2.0**	**1.4**	**1.2**	**1.3**
Loans and Advances	**4.5**	**6.4**	**3.1**	**1.6**	**1.3**

The movement of the relative shares of the above components of expenditure indicated that the shares of economic services and grants-in-aid in the total expenditure increased during 2008-09 over the previous year. These increases were set off by decrease in the respective shares of general services, social services and of loans and advances.

The share of economic services in total expenditure increased mainly on account of increase in share capital of Irrigation Corporation under Irrigation and Flood Control (Rs 10,780 crore) and capital outlay on Roads and Bridges under Transport (Rs 1,988 crore), Co-operation (Rs 2,186 crore), Rural employment (Rs 689 crore) and Crop husbandry (Rs 388 crore). The share of grants-in-aid increased under Compensation and Assignment to Local Bodies and Panchyat Raj Institutions (Rs 246 crore) due to more expenditure on stamp duty grants to Zilla Parishads under Section 158 of the Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961.

Though the share of social services in total expenditure decreased there was increase in expenditure on social services mainly on account of increase in general education (Rs 2,643 crore) and welfare of Scheduled castes, Scheduled Tribes and other Backward classes (Rs 808 crore). Similarly, though the share of general services decreased there was increase in expenditure mainly on account of pension and other retirement benefits (Rs 962 crore), police (Rs 632 crore) and taxes on vehicles (Rs 407 crore).

Incidence of 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. Revenue expenditure had the predominant share of around 79 *per cent* in the total expenditure during the period 2004-09. The overall revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.14.**

Table 1.14 : Revenue expenditure – basic parameters

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6
Revenue Expenditure (RE), *of which*	**51,046**	**52,280**	**61,385**	**64,780**	**75,694**
Non-Plan Revenue Expenditure (NPRE)	46,392	47,048	53,150	54,505	63,286
Plan Revenue Expenditure (PRE)	4,654	5,232	8,235	10,275	12,408

	2004-05	2005-06	2006-07	2007-08	2008-09
1	2	3	4	5	6
Rate of Growth of					
RE (*per cent*)	19.6	2.4	17.4	5.5	16.8
NPRE (*per cent*)	18.5	1.4	13.0	2.5	16.1
PRE (*per cent*)	31.3	12.4	57.4	24.8	20.8
Revenue Expenditure as percentage to TE	82.8	78.5	83.2	83.6	79.0
NPRE/GSDP (*per cent*)	12.5	10.9	10.4	9.2	9.1
NPRE as percentage of TE	75.2	70.6	72.0	70.3	66.0
NPRE as percentage of RR	113.1	97.1	85.5	68.5	77.9
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	1.685	0.147	0.978	0.343	0.931
Revenue Receipts (ratio)	1.015	0.132	0.613	0.196	8

Source : Finance Accounts

The revenue expenditure increased by Rs 10,914 crore (16.8 *per cent*) over the previous year. ***The revenue expenditure exceeded the assessment made by the State Government in its FCP (Rs 65,093 crore), however, it decreased with respect to MTFPS for the year 2008-09 (Rs 78,946 crore).*** The NPRE constituted a dominant share of 84 *per cent* in the revenue expenditure and has increased by Rs 8,781 crore over the previous year. The variations in NPRE under the major heads indicate increase in expenditure under education, sports, arts and culture (Rs 2,577 crore), general services (Rs 2,732 crore) and agriculture and allied activities (Rs 2,589 crore). The PRE increased by Rs 2,133 crore during the year mainly due to increase in expenditure under welfare of scheduled castes, scheduled tribes and other backward classes (Rs 328 crore), social welfare and nutrition (Rs 256 crore) and agriculture and allied activities (Rs 345 crore). The buoyancy of revenue expenditure with reference to both GSDP and revenue receipts fluctuated widely. This might be on account of the fact that NPRE largely forms committed expenditure of the Government and constitutes the dominant share in the revenue expenditure and is not affected greatly either by GSDP or Revenue Receipts.

Table 1.15 provides the comparative position of NPRE with reference to assessments made by TFC and the projections of the State Government.

Table 1.15 : NPRE *vis-à-vis* assessment made by TFC and FCP

(Rupees in crore)

Year	Projections in MTFPS	Assessments made by TFC	Projections in FCP	Actuals
2007-08	56,329	43,795	53,568	54,505
2008-09	64,296	47,429	56,782	63,286

The NPRE during 2007-08 and 2008-09 remained significantly higher than the normative assessments made by TFC, while it reflected only marginal variations with reference to State Government's projections (MTFPS and FCP) during both the years.

1.4.2 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. **Table 1.16** and **Chart 1.9** present the trends in the expenditure on these components during 2004-09.

Table 1.16: Components of committed expenditure

(Rupees in crore)

Components of Committed Expenditure	2004-05#	2005-06#	2006-07#	2007-08#	2008-09		
					BE*	Actuals*	Actuals #
Salaries & Wages, *Of which*	7225(18)	7956(16)	8136(13)	8851(11)	25115	24875(31)$	10470(13)
Non-Plan Head	5916(14)	6837(14)	7155(12)	8015(10)	24284	23627(29)	9652(12)
Plan Head**	1309(03)	1119(02)	981(02)	836(01)	831	1248(02)	818(01)
Interest Payments	8978(22)	9347(19)	11656(19)	12204(15)	12389	12299(15)	12299(15)
Pensions	2872(07)	3328(07)	3542(07)	4191(05)	4564	5153(06)	5153(06)
Subsidies	3994(10)	2885(06)	3777(06)	4935(06)	NA	4308(05)	4308(05)
Total Committed expenditure	**23069(56)**	**23516(49)**	**27111(44)**	**30181(38)**	**42069**	**46635(57)**	**32230(40)**
Other Components	27977(68)	28764(59)	34274(55)	34599(43)	36877	29059(36)	43464(53)
Total Revenue Expenditure	**51046**	**52280**	**61385**	**64780**	**78946**	**75694**	**75694**
Revenue Receipts	**41013**	**48438**	**62195**	**79583**	**79911**	**81271**	**81271**

Figures in the parentheses indicate percentage to Revenue Receipts

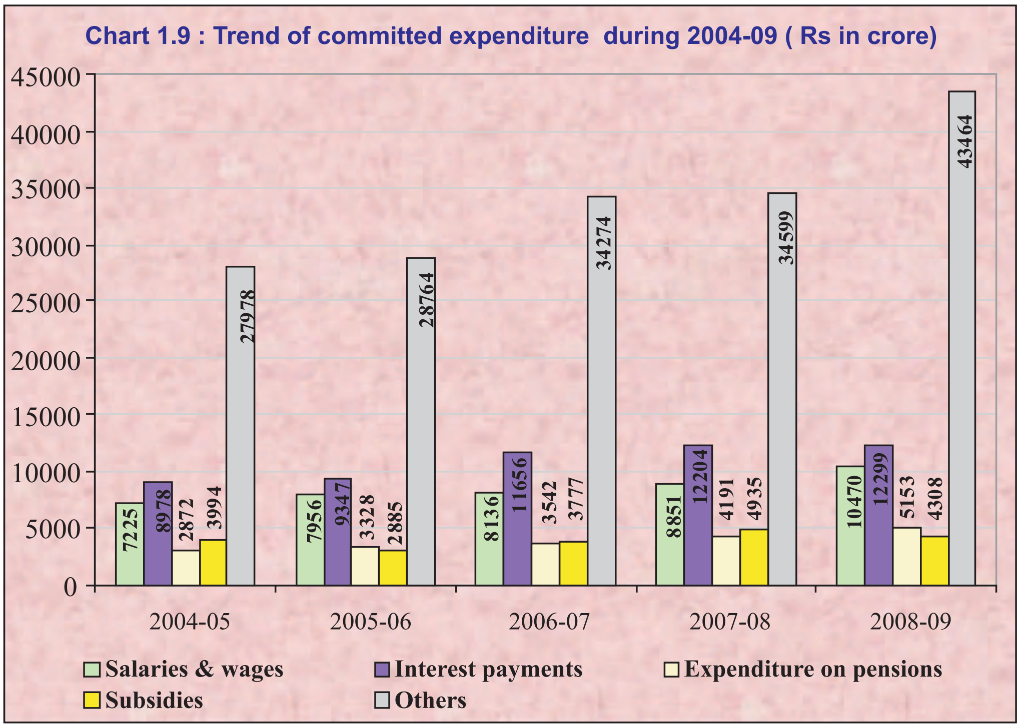
* *includes the salaries paid out of grants-in-aid.*

does not include salaries paid out of grants-in-aid as information is not available for the period 2004-08.

$ *Salaries : Rs 24,328 crore (Finance Accounts) + Wages : Rs 547 crore (VLC data of PAG(A&E))*

** Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

Source : Finance Accounts



Since the expenditure on salaries and wages for the period 2004-08 do not include salaries out of grants-in-aid component the comparison of the same with grants-in-aid component was not possible. Hence the expenditure on salaries and wages without grants-in-aid component was considered for comparison purpose.

The expenditure on salaries and wages (excluding grants in aid) increased by Rs 1,619 crore (18 *per cent*) from Rs 8,851 crore in 2007-08 to Rs 10,470 crore in 2008-09 mainly due to increase in expenditure under the major head 'administrative services' (Rs 732 crore), 'health and family welfare' (Rs 300 crore) and 'agriculture and allied services' (Rs 209 crore). ***The ratio of non-plan salary expenditure exclusive of grants-in-aid component, to revenue***

expenditure net of interest payments and pensions stood at 17 per cent during 2008-09 which was well within the TFC norms of 35 per cent. However, the ratio of non-plan salary expenditure inclusive of grants-in-aid component to revenue expenditure net of interest payments and pensions was 40 per cent during 2008-09 which was five per cent more than the TFC norms of 35 per cent.

The expenditure on pension payments had increased by 79 *per cent* from Rs 2,872 crore in 2004-05 to Rs 5,153 crore in 2008-09.

The increase in pension payments of Rs 962 crore (23 *per cent*) during 2008-09 over the previous year was mainly due to more expenditure on Superannuation and Retirement allowances, commutations of pension, family pension and contribution for defined contribution pension scheme.

The **Table 1.17** below shows actual pension payments with reference to assessment made by TFC and projections of the State Government.

Table 1.17: Pension payments *vis-à-vis* TFC assessment and State's projections

(Rupees in crore)

Year	Projections in MTFPS	Assessments made by TFC	Projections in FCP	Actuals
2007-08	5,643	3,635	4,965	4,191
2008-09	6,223	3,998	5,363	5,153

The pension payments during 2007-08 and 2008-09 were higher than the normative assessments made by TFC while they were lower than the projections of the State Government under MTFPS and FCP during both the years. The large gap of pension payments with reference to projections of the State Government further emphasized need of working out the pension liabilities on actuarial basis. In order to limit future pension liabilities, the Government had, however, introduced contributory pension scheme for employees recruited after 1 November 2005.

Interest payments increased by 37 *per cent* from Rs 8,978 crore in 2004-05 to Rs 12,299 crore in 2008-09, primarily due to increase in debt liabilities. However, relative to revenue receipts, interest payments reveal a declining trend. It declined from 22 *per cent* in 2004-05 to 15 *per cent* in 2008-09.

The interest payments with reference to assessment made by TFC and the projections in FCP of the State Government (**Table 1.18)** indicate that ***the interest payments during 2007-08 and 2008-09 exceeded the assessments made by TFC.*** Further, though it exceeded the projection made by State Government in FCP during 2007-08 it was lower than the projection during 2008-09. However, as compared to MTFPS, it reflected only marginal variations during both the years. During the current year, the interest payment exceeded the TFC's assessment by 7 *per cent*.

Table 1.18: Interest payments *vis-à-vis* TFC assessment and State's projections

(Rupees in crore)

Year	Projections in MTFPS	Assessments made by TFC	Projections in FCP	Actuals
2007-08	12,406	10,717	12,178	12,204
2008-09	12,388	11,521	13,380	12,299

The interest payment as a percentage of revenue receipts (15.13 per cent) was almost equal to the normative assessment of TFC (15 per cent) while it was lower than the projections made by the State Government in FCP(19.02 per cent) and MTFPS (16.21 per cent).

During 2008-09, the State Government raised open market loans of Rs 17,762 crore at an average interest rate of 7.81 *per cent*. Government also borrowed Rs 2,561 crore from the National Small Savings Fund and other institutions and Rs 386 crore from Government of India during the year.

The increase in interest payments was Rs 95 crore over the previous year and was mainly due to more interest on market loan (Rs 582 crore), interest on State provident fund (Rs 91 crore) which was offset by decrease in interest on other internal debts (Rs 468 crore) and interest on loans for State/Union territory Plan Schemes (Rs 133 crore).

Table 1.16 indicates that the subsidies as a percentage of revenue receipts reduced from 10 *per cent* in 2004-05 to 5 *per cent* in 2008-09. Subsidies decreased by 13 *per cent* from Rs 4,935 crore in 2007-08 to Rs 4,308 crore in 2008-09. During the current year, subsidies constituted about four *per cent* of the total expenditure; the major sectors which received subsidy include power (48 *per cent*), industries in backward areas (11 *per cent*) and subsidy on food (9 *per cent*) *etc*. The payment of subsidy to power and general sectors exceeded the projections of the State Government in FCP as shown below:

Table 1.19: Subsidies *vis-à-vis* FCP

(Rupees in crore)

	Projections in FCP	Actuals
Power	1,611	2,063
General	740	2,245

1.4.3 Financial assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during 2008-09 relative to the previous years is presented below:

Table 1.20 : Financial assistance to local bodies *etc*

(Rupees in crore)

Institutions	2004-05	2005-06	2006-07	2007-08	2008-09
Educational Institutions (Aided Schools, Aided Colleges, Universities, *etc*.)	2,068.11	2,200.13	5,234.33	6,859.58	8,214.83
Municipal Corporations and Municipalities	1,852.32	1,031.02	2,652.27	1,351.25	1,651.47
Zilla Parishads and Other Panchayati Raj Institutions	6,300.48	7,472.84	7,321.27	8,007.34	10,501.98
Development Agencies	1,766.17	2,463.92	761.65	1,148.03	1,914.93
Hospitals and Other Charitable Institutions	256.10	131.07	64.15	80.57	674.43
Other Institutions	8,975.06	14,088.71	10,818.55	10,842.90	12,711.32[10]
Total	**21,218.24**	**27,387.69**	**26,852.22**	**28,289.67**	**35,668.96**
Assistance as percentage of RE	42	52	44	44	47

Source : Finance Accounts and vouchers compiled by PAG (A&E)

It would be seen that the financial assistance to local bodies and other institutions by the Government has increased from Rs 21,218 crore in 2004-05 to Rs 35,669 crore in 2008-09 except in 2006-07. During 2008-09, more financial assistance was given to (a) educational institutions (Rs 1,355 crore); (b) Municipal Corporations and Councils (Rs 300 crore) mainly due to abolition of Octroi in Municipal Council Area; (c) Zilla Parishads and other Panchayati Raj

10 Includes Agriculture and Allied Activities : Rs 3,758.75 crore, Education, Sports, Art & Culture: Rs 2,082.34 crore, Energy: Rs 1,006.39 crore, General Services : Rs 558.87 crore, Industries & Minerals : Rs 112.23 crore, Rural Development: Rs 791.10 crore, Transport : Rs 287.73 crore, Water Supply, Sanitation, Housing and Urban Development : Rs 997.12 crore and Welfare of SC,ST and OBC : Rs 1,131.83 crore.

Institutions (Rs 2,495 crore) due to increased assistance to Jawaharlal Nehru National Urban Renewal Mission, Welfare of SC, ST and OBC, Minor Irrigation, Roads & Bridges and Stamp duty grants to Zilla Parishads; (d) Development Agencies (Rs 767 crore) for rural development programmes; (e) Hospitals and other charitable institutions (Rs 594 crore) due to increased grants given to Primary Health Centres and National Rural Health Mission and (f) Co-operatives (Rs 1,868 crore).

Huge pendency in furnishing of utilisation certificates indicated lack of monitoring on utilisation of the funds released to the local bodies *etc*.

1.5 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 the expenditure (*i.e.,* adequate provisions for providing public services), efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sectors and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like education and health *etc*. The low level of spending on any sector in 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. The 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 the 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 1.21** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure (DE), social sector expenditure (SSE) and capital expenditure (CE) in 2005-06 and 2008-09.

Table 1.21: Fiscal priority and fiscal capacity of the State in 2005-06 and 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	19.50	61.44	30.41	14.13
Maharashtra's Average (Ratio) 2005-06	15.92	65.30	31.77	15.13
All States/National Average* (Ratio) 2008-09	19.16	67.68	33.90	16.87
Maharashtra Average (Ratio)* 2008-09	**13.74**	**70.49**	**34.55**	**24.28**
Fiscal Capacity of the State	**DE#**	**SSE**	**CE**	
All States average per capita expenditure 2005-06	**3010**	**1490**	**692**	
Maharashtra's per capita expenditure (Amount in Rs) in 2005-06	**4183**	**2035**	**969**	
Adjusted per capita expenditure (Amount in Rs) in 2005-06**	NR	NR	NR	
All States' average per capita expenditure 2008-09	**5030**	**2520**	**1254**	
Maharashtra's per capita expenditure (Amount in Rs) in 2008-09	**6215**	**3047**	**1736**	
Adjusted per capita expenditure (Amount in Rs) in 2008-09**	**NR**	**NR**	**NR**	

* As *per cent* to GSDP

** **Calculated as per the methodology explained in the Box 1.3**

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

CE: Capital Expenditure.

Population of Maharashtra: 10.40 crore in 2005-06 and 10.87 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.

In **Table 1.21**, the fiscal priority given to different categories of expenditure and fiscal capacity of Maharashtra in 2005-06 (the first year of the Award Period of the Twelfth Finance Commission) has been compared with priorities during the current year 2008-09. In both the years under consideration, the Maharashtra Government had a lower Aggregate Expenditure (AE) as a percentage of GSDP (15.92 *per cent* and 13.74 *per cent*) compared to the All India average of 19.50 *per cent* and 19.16 *per cent* respectively.[11] The State has given adequate fiscal priority to DE, SSE and CE since DE/AE, SSE/AE and CE/AE in the case of Maharashtra was higher than the national average. In 2008-09, once again, while the AE/GSDP ratio was lower than the national average, it is observed adequate priority was given for all categories of expenditure compared to the national average.

In 2005-06 and 2008-09, the per capita expenditure of DE, SSE and CE was higher than the national average, indicating that the absorptive capacity[12] in the State is high and the effective systems are in place to benefit the people.

The percentage increase of State's per capita expenditure over the national average in respect of DE, SSE and CE decreased from 39, 37 and 40 in 2005-06 to 24, 21 and 38 in 2008-09 respectively.

Box 1.3

Methodology adopted for assessment of fiscal position

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

Step 1: Calculate the national average of AE-GSDP and CE/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 AE-GSDP less than the national average, *i.e.,* if

AE/GSDP = x

AE = x * GSDP ………(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 CE-AE, derive the respective DE, SSE and CE, so that no State is having these ratios less than national average, *i.e.*, if

DE/AE = y

DE = y * AE ………………(2)

where y is the national average of DE-AE ratio

Substituting (1) in (2), we get

DE = y * x * GSDP …………(3)

Wherever the States are having DE-AE, SSE-AE and CE-AE ratio higher than national average, no adjustments 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 CE as per equation (3), respective per capita expenditure was calculated, *i.e.*,

PCDE = DE/P ……………….(4)

11 Maharashtra has the highest GSDP among all the States in the country

12 see glossary at page 99

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

Substituting (3) in (4), we get

PDE = (y * x * GSDP)/P …………………..(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.

1.5.2 Efficiency of expenditure use

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 Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods.[13] Apart from improving the allocation towards development expenditure,[14] particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, 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 to total expenditure (and/or GSDP), the better would be the quality of expenditure. While the **Table 1.22** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and during the previous year, **Table 1.23** provides the details of capital expenditure and the component of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.22: Development expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure (a to c)	**38,510 (62.4)**	**43,502 (65.3)**	**47,433 (64.3)**	**52,383 (67.6)**	**56,770 (60.77)**	**67,560 (70.5)**
a. Development Revenue Expenditure	27,930 (45.3)	29,232 (43.9)	35,262 (47.8)	40,010 (51.6)	42,299 (45.28)	47,865 (49.9)
b. Development Capital Expenditure	7,829 (12.7)	10,008 (15)	9,849 (13.3)	11,148 (14.4)	13,493 (14.44)	18,414 (19.2)
c. Development Loans and Advances	2,751 (4.5)	4,262 (6.4)	2,322 (3.1)	1,225 (1.6)	978 (1.05)	1,281 (1.3)

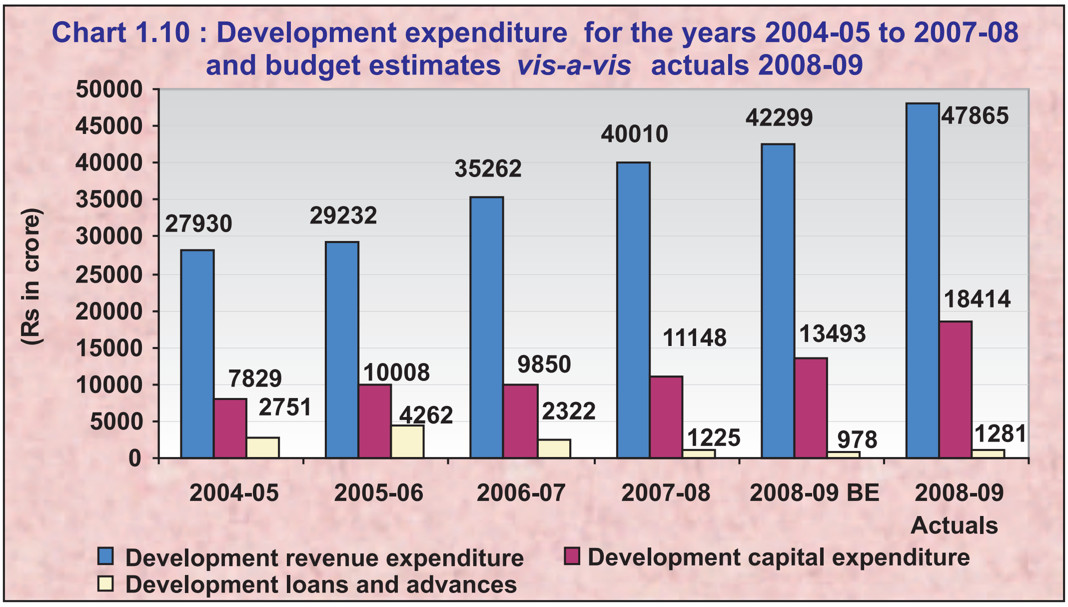
Source : Finance Accounts

Figures in the parentheses indicate as *per cent* to total expenditure

The development revenue expenditure increased by Rs 7,855 crore from Rs 40,010 crore in 2007-08 to Rs 47,865 crore in 2008-09. The increase under social services was Rs 4,279 crore while increase under economic services was Rs 3,576 crore. The actual development revenue expenditure was more than the State's projection in budget by Rs 5,566 crore.

13 See the glossary at page 99

14 The analysis of the expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances are categorised into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.



The development capital expenditure increased by Rs 7,266 crore from Rs 11,148 crore in 2007-08 to Rs 18,414 crore in 2008-09. The increase under social services was Rs 1,322 crore while increase under economic services was Rs 5,944 crore. The actual development capital expenditure was more than the State's projection in budget by Rs 4,921 crore.

The development loans and advances increased by Rs 56 crore from Rs 1,225 crore in 2007-08 to Rs 1,281 crore in 2008-09. The actual development loans and advances was more than the State's projection in budget by Rs 303 crore.

Table 1.23 –Efficiency of expenditure use in selected social and economic services

(In *per cent*)

Social / Economic Infrastructure	2007-08			2008-09			
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of		
		S &W	O&M$		S&W	S&W*	O &M$
Social Services (SS)							
Education, Sports, Art & Culture	1.09	1.12	0.17	2.30	2.74	76.68	0.05
Health and Family Welfare	3.16	40.2	0.01	9.87	44.61	63.2	0.01
Housing, Urban Development, Water Supply & Sanitation	1.18	0.75	0.27	10.03	0.99	6.47	0.34
Total (SS)	**2.7**	**7.52**	**0.32**	**6.24**	**8.31**	**51.83**	**0.38**
Economic Services (ES)							
Agriculture & Allied Activities	19.04	32.98	0.08	16.89	21.35	26.63	0.05
Irrigation and Flood Control	80.13	27.37	0.37	85.32	28.61	30.8	0.56
Power & Energy	19.07	0.29	0.02	24.23	0.53	0.53	0.02
Transport	40.37	0	1.86	44.52	0.04	2.16	1.5
Total (ES)	**44.01**	**18.36**	**3.1**	**49.3**	**14.33**	**17.11**	**2.77**
Total (SS+ES)	**21.79**	**11.11**	**3.42**	**27.78**	**10.42**	**39.63**	**3.14**

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance

* includes the salaries paid out of grants-in-aid.

$ *Source : Finance Accounts*

The trends presented in **Table 1.23** reveal that development capital expenditure as a percentage to total expenditure increased from 21.79 in 2007-08 to 27.78 in 2008-09. While the share of salary and wages in revenue expenditure marginally decreased from 11.11 *per cent* in 2007-08 to 10.42 *per cent* in 2008-09, operations and maintenance in revenue expenditure reduced from 3.42 *per cent* in 2007-08 to 3.14 *per cent* in 2008-09.

The percentage of capital expenditure on social services to total expenditure increased from 2.70 in 2007-08 to 6.24 in 2008-09 while percentage of capital expenditure on economic services to total expenditure increased from 44.01 in 2007-08 to 49.30 in 2008-09. The increase was mainly seen under health and family welfare and water supply, sanitation, housing and urban development under social services and irrigation and flood control, power and energy and transport under economic services.

The share of salary and wages in revenue expenditure on social services increased from 7.52 *per cent* in 2007-08 to 8.31 *per cent* in 2008-09 while the share of salary and wages in revenue expenditure on economic services decreased from 18.36 *per cent* in 2007-08 to 14.33 *per cent* in 2008-09.[15] The increase was mainly seen under general education, health and family welfare and water supply, sanitation, housing and urban development under social services while the decrease was seen under agriculture and allied activities under economic services.

The share of operations and maintenance in revenue expenditure on social services increased from 0.32 *per cent* in 2007-08 to 0.38 *per cent* in 2008-09 while the share of operations and maintenance in revenue expenditure on economic services decreased from 3.10 *per cent* in 2007-08 to 2.77 *per cent* in 2008-09. The increase was mainly seen under water supply, sanitation, housing and urban development under social services while the decrease was seen under agriculture and allied activities and transport under economic services.

1.6 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 its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents 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 Financial results of irrigation works

The financial results of six out of 35 major irrigation projects of the Government having a capital outlay of Rs 692.60 crore at the end of March 2009, showed that revenue realised from these projects during 2008-09 (Rs 140.57 crore) was 20.30 *per cent* of the capital outlay. After considering the working and maintenance expenses (Rs 8.14 crore) and interest charges (Rs 70.14 crore), the schemes gained a net profit of Rs 62.29 crore during 2008-09.

1.6.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2009 is given in **Table 1.24.**

15 salaries & wages exclusive of grants-in-aid was considered for comparison, as the previous year's figures did not include salaries paid out of grants-in-aid.

Table 1.24: Department-wise profile of incomplete projects

(Rs in Crore)

Department	No of incomplete projects	Initial budgeted cost	Revised total cost of projects	Cost over run	Cumulative actual expenditure as on 31.3.2009
Public Works	52	224.94	NA	NA	87.17
Housing	3	9.01	NA	NA	11.77
Road & Bridges	64	842.64	NA	NA	204.75
Irrigation and Flood Control	23	893.80	3,467.72	2,573.92	5,017.22
	2	17.81	NA	NA	20.83
Total	**144**	**1,988.20**	**3,467.72**	**2,573.92**	**5,341.74**

Source : Finance Accounts *NA = Not available*

The details of incomplete projects pertaining to four departments are presented in **Table 1.24**. In respect of incomplete irrigation projects, the initial budgeted cost increased from Rs 893.80 crore to Rs 3,467.72 crore resulting in significant cost overrun of Rs 2,573.92 crore. Of the 144 incomplete projects, time overruns occurred up to 23 years in respect of major and medium irrigation projects, up to six years in respect of PWD projects, up to two years in respect of housing projects and up to three years in respect of roads and bridges.

1.6.3 Investment and returns

As of 31 March 2009, Government had invested Rs 56,386 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.25**). The average return on this investment was 0.11 *per cent* in the last five years while the Government paid average interest rate of 7.57 *per cent* on its borrowings during 2004-09.

Table 1.25: Return on investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rupees in crore)	25,829.74	31,917.62	37,531.49	44,256.26	56,386.38
Return (Rupees in crore)	26.73	3.66	6.16	122.00	71.16
Return (*per cent)*	0.10	0.01	0.02	0.28	0.13
Average rate[16] of interest on govt borrowing (*per cent)*	7.97	7.09	7.78	7.74	7.29
Difference between interest rate and return (*per cent)*	7.87	7.08	7.76	7.46	7.16

Source : Finance Accounts

The increase in investments of Rs 12,130 crore during 2008-09 was attributable to increased capital contributions to Godavari Marathwada Irrigation Development Corporation (Rs 1,824 crore), Konkan Irrigation Development Corporation (Rs 622 crore), Maharashtra Krishna Valley Development Corporation (Rs 3,916 crore), Tapi Irrigation Development Corporation (Rs 794 crore), Vidarbha Irrigation Development Corporation (Rs 3,623 crore), Maharashtra State Road Transport Corporation (Rs 171 crore) and Maharashtra Water Conservation Development Corporation (Rs 378 crore) as compared to the previous year.

As on 31 March 2009, 21 Companies and one Corporation in which Government had invested Rs 9,052.05 crore (share capital: Rs 8,608.14 crore, loan: Rs 443.91 crore) were incurring losses and their accumulated losses amounted to Rs 4,080.45 crore (net). According to the information furnished by the Commissioner for Co-operation and Registrar of Co-operative Societies as on 31 March 2009, 9,069 societies with an aggregate investment of Rs 152.82 crore (equity: Rs 114.99 crore and loan: Rs 37.83 crore) had accumulated losses of Rs 151.91 crore (99 *per cent* of the initial investments) made in these societies.

16 see glossary at page 97 for method of calculation.

1.6.4 Departmental commercial undertakings

Activities of quasi-commercial nature are also performed by departmental undertakings of certain Government Departments. The Department-wise position of the investment made by the Government up to the year for which *Proforma Accounts* are finalised, net profits/loss as well as return on capital invested in these undertakings are given in **Appendix 1.6.** It is observed that:

- An amount of Rs 1,285.73 crore had been invested by the State Government in these four undertakings having 49 units, at the end of financial year up to which their accounts were finalised.
- Of the four undertakings having 49 units, seven units (14.29 *per cent*) could only earn net profit amounting to Rs 23.92 crore against the capital invested of Rs 398.05 crore thereby yielding the rate of return of 6.01 *per cent.* The major profit making units were Procurement and Distribution and Price Control Scheme in Mumbai and Thane Rationing Area (Rs 18.35 crore), Allapalli and Pendigundam Forest Ranges of Forest Divisions including Saw Mills & Timber Depot (Rs 3.83 crore) and Agricultural Scheme, Mumbai (Rs 0.81 crore) as per the last accounts finalised.
- Of the loss making units, 19 units were incurring losses continuously for more than five years.
- As per the accounting system being followed by the departmental commercial undertakings (Government Milk Schemes, Procurement, Distribution and Price Control Scheme in Mumbai/ Thane Rationing Area and Mofussil), the net loss/profit for the year is deducted/ added directly from the Capital Account in the Balance Sheet. Therefore, the figures of accumulated loss cannot be ascertained from the *Proforma Accounts* of the Departmental Undertakings. However, the matter has been taken up with the departmental commercial undertakings to indicate the accumulated losses in all the future balance sheets.

In view of the heavy losses of some of the undertakings, Government should review their working so as to clean their balance sheets in the short run and to make them self-sustaining in the medium to long term.

1.6.5 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 of these institutions/organisations. **Table 1.26** presents the outstanding loans and advances as on 31 March 2009, interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.26: Average interest received on loans advanced by the State Government

(Rupees in crore)

Quantum of loans/interest receipts/ cost of borrowings	2006-07	2007-08	2008-09
Opening Balance	15,363	17,634	18,126
Amount advanced during the year	2,322	1,225	1,281
Amount repaid during the year	51	733	560
Closing Balance	**17,634**	**18,126**	**18,847**
Of which Outstanding balance for which terms and conditions have been settled	NA	NA	NA
Net addition	2,271	492	721
Interest Receipts	639	522	99
Interest receipts as *per cent* to outstanding Loans and advances	3.87	2.92	0.54
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.78	7.74	7.29
Difference between interest payments and interest receipts (*per cent*)	(-)3.91	(-)4.82	(-)6.75

The total outstanding loans and advances as on 31 March 2009 was Rs 18,847 crore **(Table 1.26).** The amount of loans disbursed during the year increased from Rs 1,225 crore in 2007-08 to Rs 1,281 crore in 2008-09. Out of the total amount of loans advanced during the year, Rs 177 crore went to social services and Rs 628 crore to economic services. Under the economic services, the major portion of loans went to power (50 *per cent*) followed by co-operatives (37 *per cent*). However, recovery of loans and advances decreased from Rs 733 crore in 2007-08 to Rs 560 crore during the current year mainly on account of less recoveries from the power and energy sector (Rs 238 crore).

Similarly, interest received against these loans declined from 2.92 *per cent* in the previous year to 0.54 *per cent* during 2008-09 mainly due to less interest receipts from power projects (Rs 365 crore).

1.6.6 Cash balances and investment of cash balances

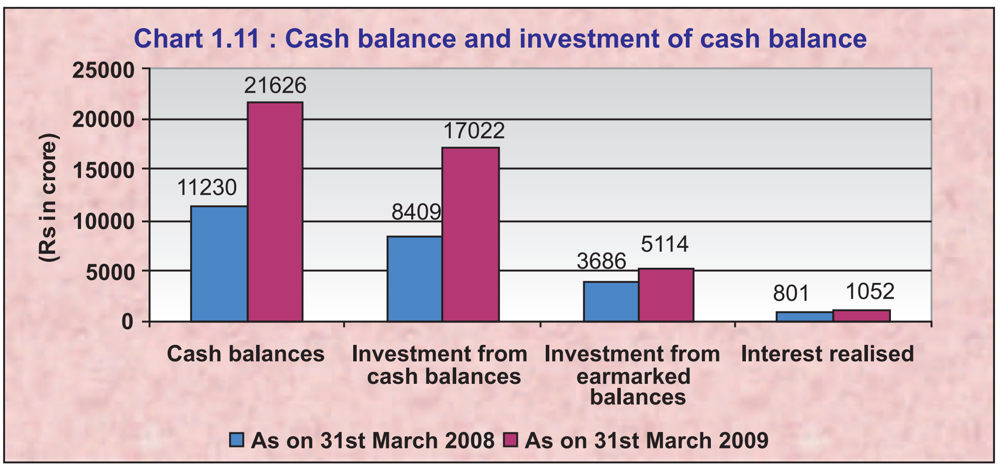
Table 1.27 and **Chart 1.11** depict the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.27: Cash balances and investment of cash balances

(Rs in crore)

Particulars	As on 31 March 2008	As on 31 March 2009	Increase/ Decrease
Cash in treasuries	**2.89**	**1.16**	**(-) 1.73**
Deposits with Reserve Bank	**(-) 1,040.19**	**(-) 721.83**	**318.36**
Remittances in transit-Local	**130.37**	**177.88**	**47.51**
Cash with the departmental officers	**42.39**	**32.81**	**(-) 9.58**
Permanent advance for contingent expenditure with departmental officers	**0.43**	**0.46**	**0.03**
Investments from cash balances (a to d)	**8,408.55**	**17,022.33**	**8,613.78**
a. GoI Treasury Bills	8,407.85	17,021.63	8,613.78
b. GoI Securities	--	--	--
c. Other Securities, if any specify	--	--	--
d. Other Investments	0.70	0.70	--
Funds-wise break-up of investment from Earmarked balances (a to e)	**3,685.88**	**5,113.61**	**1,427.73**
a. General and other Reserve Funds	30.74	30.74	--
b. Sinking Fund	3,640.62	5,068.36	1,427.74
c. Funds for Development of Milk supply	1.00	1.00	--
d. Other Development and Welfare Funds	13.44	13.43	-0.01
e. Miscellaneous Deposits	0.08	0.08	--
Total Cash Balances	**11,230.32**	**21,626.42**	**10,396.10**
Interest Realised	*800.88*	*1051.50*	*250.62*

Source : Finance Accounts



The interest received on investment of cash balances was 5 *per cent* during 2008-09 while interest paid by Government on its borrowings during the year was 7.29 *per cent*.

The State Government's cash balances of Rs 21,626 crore at the end of current year showed an increase by 93 *per cent* (Rs 10,396 crore) over the previous year. Of the above, Rs 17,022 crore was invested in Government of India Treasury Bills and earned an interest of Rs 223 crore during the year. Further, Rs 5,114 crore was invested in earmarked funds. However, the balance with Reserve Bank of India was (-) Rs 722 crore as on 31 March 2009**.**

1.7 Assets and Liabilities

1.7.1 Growth and composition of assets and liabilities

In the 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 1.4** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly of the capital outlay and loans and advances given by the State Government and cash balances.

According to the Maharashtra Fiscal Responsibility and Budgetary Management Act, 2005, the "total liabilities of the State" means the liabilities under the Consolidated Fund of the State and the Public Account of the State.

1.7.2 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 is presented in **Charts 1.12** and **1.13.**

Chart 1.12:Composition of outstanding fiscal liabilities as on 31.03.2008 (Rs in crore)

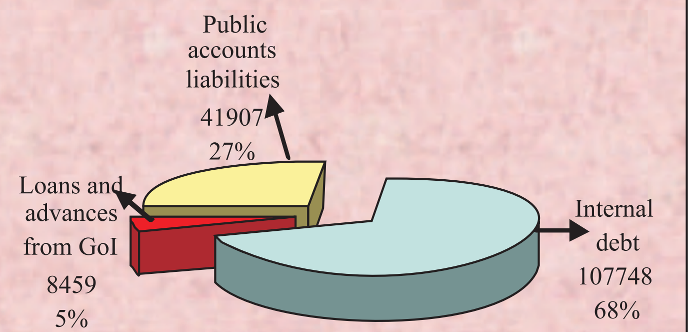


Chart 1.13:Composition of outstanding fiscal liabilities as on 31.03.2009 (Rs in crore)

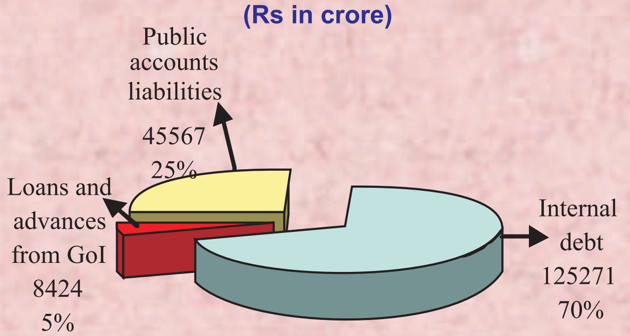


Table 1.28 gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP, to revenue receipts and to State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table-1.28: Fiscal liabilities – basic parameters

	2004-05	2005-06	2006-07	2007-08	2008-09
Fiscal Liabilities (Rs in crore)	1,21,026	1,42,491	1,57,039	1,58,114	1,79,262
Rate of Growth (*per cent*)	15.92	17.74	10.21	0.68	13.38
Ratio of Fiscal Liabilities to :					
GSDP (*per cent*)	32.5	33	30.8	26.8	25.7
Revenue Receipts (*per cent*)	295	294.1	252.5	198.7	220.6
Own Resources (*per cent*)	348.5	360.9	329.8	245.2	290
Buoyancy of Fiscal Liabilities with reference to :					
GSDP (ratio)	1.369	1.09	0.574	0.042	0.741
Revenue Receipts (ratio)	0.824	0.98	0.36	0.024	6.371
Own Resources (ratio)	0.76	1.296	0.496	0.019	-3.263

The overall fiscal liabilities of the State increased at an average annual rate of 9.6 *per cent* during the period 2004-09. The growth rate increased sharply from 0.68 *per cent* in 2007-08 to 13.38 *per cent* in 2008-09 mainly due to steep increase in internal debt and marginal increase in reserve funds and deposits. During 2008-09, debt to GSDP ratio at 25.7 *per cent* was slightly higher than the projections made in MTFPS (24.09 *per cent)* and it was lower than projections in FCP (25.89 *per cent)* and TFC (30.8 *per cent*). These liabilities were around two times the revenue receipts and three times the State's own resources at the end of 2008-09. The buoyancy of these liabilities with respect to GSDP during the year was 0.741, indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.74 *per cent*.

Of the total fiscal liabilities, the share of public debt was maximum (75 *per cent)*, followed by deposits (10 *per cent);* reserve funds (9 *per cent)* and small savings, provident fund *etc.,* (6 *per cent)*. Fiscal liabilities increased by Rs 21,148 crore from Rs 1,58,114 crore in 2007-08 to Rs 1,79,262 crore in 2008-09 mainly due to increase in public debt (Rs 17,488 crore), reserve fund (Rs 1,617 crore), deposits (Rs 1,239 crore) and small savings and provident funds (Rs 803 crore).

The State Government set up a Consolidated Sinking Fund during the financial year 1999-2000 for amortisation of open market loans. As on 31 March 2009, the outstanding balance in Sinking Fund was Rs 5,068.36 crore, including Rs 1,427.74 crore for 2008-09 and the entire amount was invested.

1.7.3 Status of guarantees – contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended.

As per the Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is given in **Table 1.29.**

Table-1.29: Guarantees given by the Government of Maharashtra

(Rupees in crore)

Guarantees	2006-07	2007-08	2008-09
Maximum amount guaranteed	87,778	84,164	88,371
Outstanding amount of guarantees	63,509	58,276	51,471
Percentage of maximum amount guaranteed to total revenue receipt	141	106	109

During the year 2008-09, guarantees of the order of Rs 3,143.98 crore were given by the State Government. Guarantees were given for repayment of share capital, raising loans, debentures, bonds *etc.,* by Co-operative sugar factories (Rs 136.48 crore), Maharashtra State Cotton Co-operatives (Rs 1,100 crore), Ratnagiri Gas and Power Private Limited (Rs 300 crore), Shabari Adivasi Finance and Development Corporation (Rs 25 crore), Maharashtra State Handicapped Finance and Development Corporation (Rs 25 crore), Maharashtra State Other Backward Finance and Development Corporation (Rs 50 crore), Lokshahir Annabhau Sathe Development Corporation (Rs 50 crore) and Maharashtra Agriculture Industries Development Corporation (Rs 457.50 crore). Outstanding guarantees (Rs 51,471 crore) during 2008-09 accounted for 63 *per cent* of the revenue receipts (Rs 81,271 crore). The outstanding guarantees during 2008-09 were 7.38 *per cent* of the GSDP. The State Government has achieved the commitment made in MTFPS (March 2008) to bring it down to approximately 10 *per cent in* 2008-09 from 10.07 *per cent* in previous year. However, ***State Government has not set up the Guarantee Redemption Fund so far despite the recommendation of TFC to meet the contingent liabilities arising from the guarantees given by the Government*.**

The State Government charges guarantee fees for guarantees given to institutions and the same is booked under 'Miscellaneous General Services'. The Guarantee fees recovered during 2008-09 was Rs 3,539.02 crore.

Sums paid by the Government in the event of invocation of guarantee are charged to Consolidated Fund of the State under the concerned loan head and irrecoverable sums are adjusted under the concerned revenue expenditure heads where the Guarantee Reserve Fund does not exist and under the Guarantee Reserve Fund where it exists. Rupees 186.72 crore were recoverable on account of invocation of guarantee at the end of 2005-06. Out of Rs 165.39 crore recoverable at the end of 2007-08 on account of invocation of guarantee, initially met by the Government, Rs 11.03 crore was recovered from the institutions during 2008-09 leaving a balance of Rs 154.36 crore as at the end of the year. No amount was paid by the Government on account of invocation of guarantee during 2008-09.

1.7.4 Off-budget borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the liabilities shown in **Table 1.29**, the State also guaranteed loans availed of by the Government companies/corporations. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the State Government projected that funds for these programmes would be met out of the resources mobilised by these companies/corporations outside the State budget, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. The off-budget borrowings are not permissible under Article 293 (3) of the Constitution. There were no off-budget borrowings during the years 2005-06 to 2007-08. However, at the close of 2008-09, Rs 4,277 crore was outstanding on account of off-budget borrowings prior to 2005-06.

As per Fiscal Policy Strategy Statement 2008-09, the State Government had completely stopped off-budget borrowings from the year 2005-06. The Government did not envisage any difficulty in raising the necessary resources to finance the Plan for 2008-09.

1.8 Debt sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability[17] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[17], sufficiency of non-debt receipts[17], net availability of borrowed fund[17], burden of interest payments (measured by interest payments to

17 see glossary at page 97

revenue receipts ratio) and maturity profile of State Government securities. **Table 1.30** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2006-07.

Table 1.30: Debt sustainability: indicators and trends

Indicators of debt sustainability	2006-07	2007-08	2008-09
Debt Stabilisation (Rs in crore)			
(Quantum Spread + Primary Deficit)[18]	14,366	28,044	15,313
Sufficiency of Non-debt Receipts (Resource Gap) (Rs in crore)	6,078	14,375	-16,820
Net Availability of Borrowed Funds (Rs in crore)	2,892	-11,130	8,848
Burden of Interest Payments(IP/RR Ratio) (in *per cent*)	0.19	0.15	0.15

Table 1.30 reveals that the emergence of positive sum of quantum spread and primary deficit since 2006-07 indicates the tendency towards the debt stabilisation which would eventually improve the debt sustainability position of the State in ensuing years.

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. During the years 2006-07 and 2007-08 there was a positive resource gap indicating increasing capacity of the State to sustain the debt in the medium to long run; however, during the year 2008-09 there was negative resource gap indicating the beginning of risk of non-sustainability of debt.

During 2008-09, Government raised internal debt of Rs 20,323 crore, GoI loans of Rs 386 crore and other obligations of Rs 15,875 crore. Government repaid internal debt of Rs 2,800 crore, GoI loans of Rs 421 crore and discharged other obligations of Rs 12,216 crore along with interest of Rs 12,299 crore resulting in net increase in debt receipts by Rs 8,848 crore during the year.

Table 1.31: Maturity profile of State debt

(Rupees in crore)

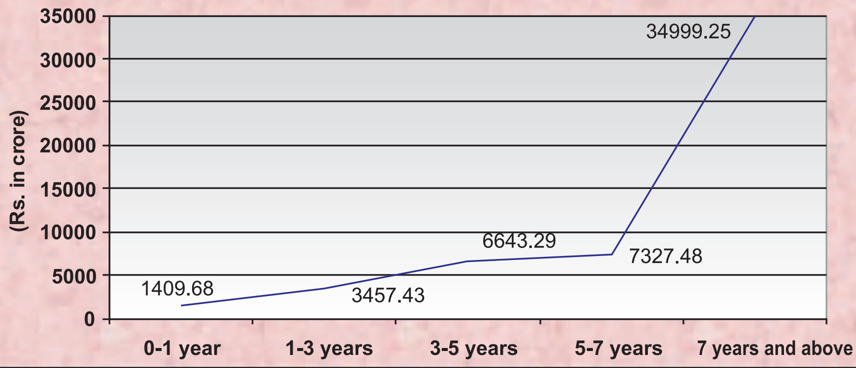
Maturity Profile	Amount	Percent
0 – 1 year	1,409.68	1.05
1 – 3 years	3,457.43	2.59
3 – 5 years	6,643.29	4.97
5 – 7 years	7,327.48	5.48
7 years and above	34,999.25	26.18
Information of maturity profile not furnished by the State Government	79,857.50	59.73
Total	**1,33,694.63**	**100.00**

Source : Finance Accounts

The maturity of the State Debt (for which information was furnished by the State Government) as per **Table 1.31** indicates that nearly 21.38 *per cent* of the total State debt is repayable within the next five years while the remaining 78.62 *per cent* are required to be paid in more than five years. It further indicates that the liability of the State to repay the debt would be Rs 6,643.29 crore during the period 2012-14 and Rs 7,327.48 crore during 2014-16 which would put a strain on the Government budget during that period. The State may have to borrow further to repay those loans.

18 see the glossary at page 97

Chart 1.14 : Maturity profile of the State debt



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 *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in deficits

Charts 1.15 and 1.16 present the trends in deficit indicators over the period 2003-08:

Chart 1.15 : Trends in deficit indicators

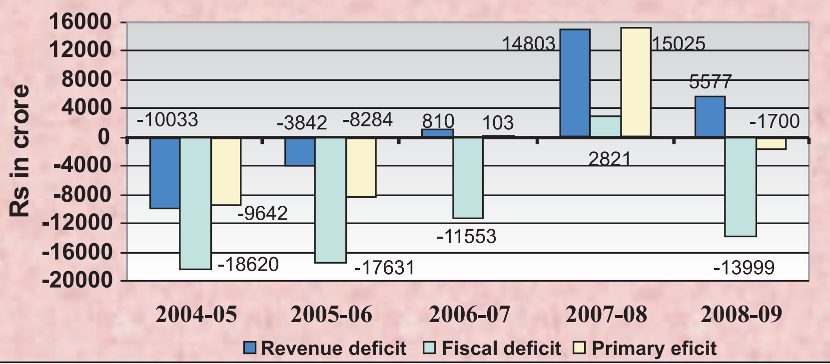


Chart 1.16 : Trends in deficit indicators relative to GSDP

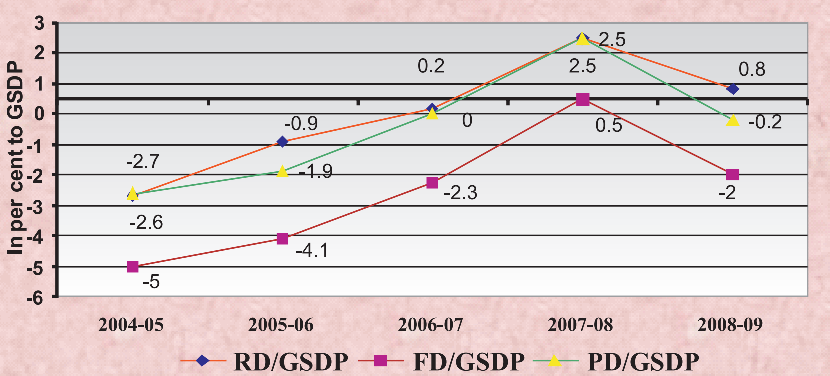


Chart 1.15 reveals that the State had a huge revenue deficit of Rs 10,033 crore during 2004-05. The deficit reduced to Rs 3,842 crore during 2005-06 and turned into a surplus of Rs 810 crore during 2006-07. The revenue surplus increased to Rs 14,803 crore during 2007-08 due to augmentation of non-tax receipts by way of transfer of Rs 10,868 crore lying in various inoperative reserve funds in Public Account by the State Government to its Consolidated Fund. During 2008-09 the revenue surplus was Rs 5,577 crore. The growth of revenue surplus declined during 2008-09 as the increase in revenue receipts was only 2 *per cent* (Rs 1,688 crore) against 17 *per cent* increase (Rs 10,914 crore) in revenue expenditure. While the grants from Government of India were increased by 52 *per cent*, the Central tax transfer increased by 6 *per cent*.

The reduction of Rs 9,226 crore in revenue surplus combined with increase of Rs 7,383 crore in capital expenditure and an increase of Rs 229 crore in net disbursement of loans and advances in 2008-09 resulted in a fiscal deficit of Rs 13,999 crore during 2008-09, as against the fiscal surplus of Rs 2,821 crore during the previous year.

The primary deficit which persisted in the State budget till 2005-06 took a turnaround and resulted into a primary surplus during 2006-07 and 2007-08 and again turned to primary deficit during 2008-09. A sharp decline of Rs 16,820 crore in fiscal surplus together with an increase of Rs 95 crore in interest payments led to primary deficit of Rs 1,700 crore during the current year from primary surplus of Rs 15,025 crore in 2007-08.

It may, however, be noted that had the revenue receipts not been increased through an unusual transfers of funds from the Public Account to the Consolidated Fund during 2007-08, as discussed earlier, the revenue surplus would have increased by Rs 1,642 crore while fiscal deficit would have increased by Rs 5,952 crore in 2008-09 from their corresponding levels of Rs 3,935 crore and Rs 8,047 crore in 2007-08. Similarly, the primary deficit which has increased by Rs 16,725 crore in 2008-09 would have reduced by Rs 2,457 crore from the level of Rs 4,157 crore in 2007-08.

Table 1.32 : Trends in major fiscal parameters / variables *vis-à-vis* projections for 2008-09

Fiscal variables	2008-09			
	TFC (2009-10)	MTFPS	FCP	Actuals
Revenue deficit(-)/Surplus(+) as percentage of GSDP	0.0	0.15	0.88	0.80
Fiscal Deficit/(-)/Surplus(+) as percentage of GSDP	3.0	(-)2.00	(-)2.12	(-)2.01

Table 1.32 reveals that the State has achieved fiscal targets as laid down in the MFRBM Act/ Rules and TFC much before the timeframe indicated in them with the current year ending in revenue surplus of Rs 5,577 crore which was 0.80 *per cent* of GSDP and fiscal deficit of Rs 13,999 crore which was 2.01 *per cent* of GSDP.

1.9.2 Decomposition and financing pattern of fiscal deficit

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.33.**

It can be seen from **Table 1.33** that the fiscal deficit in 2004-05 was mainly due to huge revenue deficit while during 2005-07 and in 2008-09 it was due to large net capital expenditure.

During the years 2004-05 to 2006-07, the fiscal deficit was financed by special securities issued to NSSF, market borrowings and reserve funds. During 2008-09, the fiscal deficit was mainly financed by market borrowings.

During the period 2004-09, there was overall surplus after financing fiscal deficit except during 2004-05 where there was overall deficit after financing fiscal deficit.

Table1.33: Decomposition and financing pattern of fiscal deficit

(Rs in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit/ Surplus (1+2+3)	**18,620(5.01)**	**17,630(4.08)**	**11,553(2.27)**	**-2,821(-0.48)**	**13,999(2.01)**
1 Revenue Deficit	10,033(2.7)	3,842(0.89)	-810(-0.16)	-14,803(-2.5)	-5,577(-0.8)
2 Net Capital Expenditure	7,877(2.12)	10,078(2.33)	10,092(1.98)	11,490(1.94)	18,855(2.7)
3 Net Loans and Advances	710(0.19)	3,710(0.86)	2,271(0.45)	492(0.08)	721(0.1)
Financing Pattern of Fiscal Deficit*					
1 Market Borrowings	3,886(1.04)	1,147(0.27)	1,167(0.23)	7,641(1.29)	16,866(2.42)
2 Loans from GoI	-7,581(-2.04)	-35(-0.01)	95(0.02)	-84(-0.01)	-35(-0.01)
3 Special Securities Issued to NSSF	15,547(4.18)	15,733(3.64)	8,838(1.74)	1,475(0.25)	428(0.06)
4 Loans from Financial Institutions	-657(-0.18)	1,072(0.25)	-250(-0.05)	30(0.01)	229(0.03)
5 Small Savings, PF *etc.*	495(0.13)	587(0.14)	640(0.13)	685(0.12)	803(0.12)
6 Deposits and Advances	1,598(0.43)	1,426(0.33)	1,714(0.34)	1,876(0.32)	1,240(0.18)
7 Suspense and Misc.	1,270(0.34)	-608(-0.14)	283(0.06)	225(0.04)	3,148(0.45)
8 Remittances	469(0.13)	-178(-0.04)	-1,315(-0.26)	-72(-0.01)	42(0.01)
9 Reserve Funds	3,334(0.9)	1,536(0.36)	2,344(0.46)	-10,547(-1.78)	1,617(0.23)
10 Contingency Fund	-57(-0.02)	666(0.15)	-617(-0.12)	-4(0)	307(0.04)
11 Appropriation to/ from Contingency fund	-	-800(-0.19)	800(0.16)	--	-250(-0.04)
12 Increase(-)/ Decrease (+) in Cash Balance	316(0.08)	-2,916(-0.67)	-2,146(-0.42)	-4,046(-0.68)	-10,396(-1.49)

Figures in brackets indicate the *per cent* to GSDP. * All these figures are net of disbursements/outflows during the year

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 States' 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 shown in **Table 1.34** indicates 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 1.34: 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	43,054	42,068	7,877	2,751	52,696	986	-9,642
2005-06	48,990	42,933	10,078	4,262	57,273	6,057	-8,283
2006-07	62,246	49,729	10,092	2,322	62,143	12,516	103
2007-08	80,316	52,576	11,490	1,225	65,291	27,740	15,025
2008-09	81,849	63,395	18,873	1,281	83,549	18,454	-1,700

During the period 2004-09, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure[19] requirements in the revenue account, rather left some receipts to meet the expenditure increased under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2004-06 and 2008-09. However, during 2006-07 and 2007-08, non-debt receipts were sufficient to meet the expenditure requirement both under revenue and capital account resulting in primary surplus. This indicates the extent to which the primary deficit in the current year has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

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 1.35** presents the change in revenue receipts of the State and the correction of the deficit during the last three years.

Table-1.35 : Change in revenue receipts and correction of deficit

(*per cent* of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	12.2	13.5	11.4	11.6
a. State's Own Tax Revenue	7.9	8.0	7.4	7.5
b. State's Own Non- tax Revenue	1.5	2.9	1.0	1.4
c. State's Share in Central Taxes and Duties	1.2	1.3	1.3	1.1
d. Grants-in-Aid	1.7	1.3	1.8	1.6
Revenue Expenditure	12.1	11	11.3	10.8
Revenue Deficit(-)/Surplus(+)	0.2	2.5	0.14	0.8
Fiscal Deficit(-)/Surplus(+)	-2.3	0.5	-1.9	-2

The percentage of State's own tax revenue to GSDP came down to 7.5 in 2008-09 from 7.9 in 2006-07 and 8 in 2007-08. Similarly, the percentage of State's own non-tax revenue to GSDP came down to 1.4 in 2008-09 from 1.5 in 2006-07 and 2.9 in 2007-08 when there was unusual increase in non-tax receipts. The percentage of State's share in Central Taxes and Duties to GSDP reduced to 1.1 in 2008-09 from 1.2 in 2006-07 and 1.3 in 2007-08, while percentage of grants-in-aid to GSDP increased to 1.6 in 2008-09 from 1.3 in 2007-08.

The percentage of revenue expenditure to GSDP decreased from 12.1 in 2006-07 to 11 in 2007-08 and further decreased to 10.8 in 2008-09. The percentage of revenue surplus to GSDP increased from 0.2 in 2006-07 to 0.8 in 2008-09.

The percentage of fiscal deficit to GSDP of 2.3 in 2006-07 came down to 2 in 2008-09. The fiscal surplus in 2007-08 turned to fiscal deficit in 2008-09 due to decrease in revenue surplus and increase in capital expenditure.

19 Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

1.10 Conclusion

During 2008-09, the revenue receipts (Rs 81,271 crore) of the State grew by only 2 *per cent* while the revenue expenditure (Rs 75,694 crore) increased by 17 *per cent* over the previous year. This resulted in revenue surplus of Rs 5,577 crore, down from the surplus of Rs 14,803 crore during 2007-08. The real fiscal situation during 2008-09 was better considering the unusual increase in non-tax revenue receipts in 2007-08, due to transfer of funds (Rs 10,868 crore) from Public Account to Consolidated Fund of the State. However, the tax revenue as a percentage of GSDP was less than the normative assessment of TFC and the target set in State's FCP. Revenue arrears also increased significantly to Rs 34,185 crore from Rs 24,444 crore up to the previous year.

The reduction in revenue surplus combined with significant increase in capital expenditure and net disbursement of loans and advances in 2008-09 resulted in a fiscal deficit of Rs 13,999 crore against the fiscal surplus of Rs 2,821 crore during 2007-08. This also led to primary deficit of Rs 1,700 crore during the current year from primary surplus of Rs 15,025 crore in 2007-08. The State has, however, achieved the revenue deficit and fiscal deficit targets relative to GSDP laid down under the Rules framed under the FRBM Act.

The revenue expenditure constituted 79 *per cent* of the total expenditure during 2008-09 and its NPRE component (Rs 63,286 crore) exceeded both the normative projection of the TFC (Rs 47,429 crore) and State's projection in FCP (Rs 56,782 crore). During 2008-09, the committed expenditure *viz*., salaries, pension liabilities, interest payments and subsidies constituted 70 *per cent* of NPRE. The capital expenditure also increased sharply by Rs 7,383 crore. The buoyancy of total expenditure with reference to GSDP which was 1.445 in 2004-05 significantly declined during 2005-06 to 2007-08, but again rose to 1.313 during 2008-09 due to higher growth of total expenditure.

The per capita development expenditure, social sector expenditure and capital expenditure in the State were more than All States' average. The State has given adequate priority to these areas.

The increasing fiscal liabilities accompanied with negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt situation in the long run, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilise the additional resources in ensuing years.

The average return on Government's investment in State undertakings and Co-operatives was 0.11 *per cent* while the cost of borrowing was 7.57 *per cent* during 2004-09. The position of outstanding guarantees as on 31 March 2009 has improved over the previous years and stood at 63 *per cent* of the total revenue receipts and 7.38 *per cent* of GSDP. However, in case the State undertakings, Co-operative banks and sugar factories continue to incur losses, there is an inherent risk of invocation of Government guarantees which the State would have to honour out of its finances as it has not set up the Guarantee Redemption Fund so far to meet such eventualities.

The State was holding large surplus cash investment which earned interest at 5 *per cent* while Government borrowed on an average rate of 7.29 *per cent*.

During 2008-09, GoI directly transferred Rs 2,174 crore to the State implementing agencies not routed through State budget. There is no single agency to monitor the expenditure incurred by these agencies.

There was inordinate delay in completion of 144 incomplete projects in four departments resulting in cost and time overruns, which needs urgent attention of the Government.