Executive Summary

Background

In order to secure fiscal stability and sustainability by eliminating revenue deficit and reducing fiscal deficit within a time frame and transparency in fiscal operations, the Twelfth Finance Commission recommended enactment of fiscal responsibility legislation by the States. Accordingly, Maharashtra Government enacted its “Fiscal Responsibilities and Budget Management Act (FRBM)” in April 2005 and framed the relevant rules in February 2006. Government’s commitment to carry forward the reform agenda set out in its Medium Term Fiscal Policy Statement is largely reflected in certain policy initiatives announced in the State budgets subsequently.

Government has established an institutional mechanism on fiscal transparency as evident from the presentation of Government liabilities including off-budget borrowings, quality of investment on outcomes in selected sectors, along with the State budgets. They do not, however, give the status of other important aspects such as returns from the investment made in State undertakings and co-operatives, cash management by the Government, financing the deficit, position of incomplete projects and how the allocated resources are managed by the departments. The civil report of the Comptroller and Auditor General covers all these aspects.

CAG’s civil reports for last three years have commented upon the Government’s finances since the FRBM legislation. Since the audit findings on State finances formed part of the civil audit report, it was felt that these comments remained camouflaged in the large body of audit findings on compliance and performance audits and hence did not receive due attention. In recognition of the need to bring State finances to center stage once again, a stand-alone report on State Government finances is considered appropriate. Accordingly, from the report year 2009 onwards, C&AG has decided to bring out a separate volume titled “Report on State Finances.”

The report

Based on the audited accounts of the Government of Maharashtra for the year ending March 2009, this report provides an analytical review of the Annual

Accounts of the State Government. The report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and it analyses the Maharashtra Government's fiscal operations during the current year as well as the trends in revenue receipts, committed expenditure, borrowing pattern and Government investment. It provides a brief account of Central funds transferred directly to the State implementing agencies through off-budget route. It also makes an assessment of the adequacy of the State's fiscal priorities to developmental, social sector and capital expenditure.

Chapter 2 is based on audit of Appropriation Accounts and it gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of Maharashtra Government's compliance with various reporting requirements and financial rules. It also gives a brief account of utilisation of funds by the grantee institutions and submission of accounts by the autonomous bodies and departmental undertakings.

The report also has an appendage of additional data collated from several sources in support of the findings. Appendices 4.1 and 4.2 at the end give a glossary of selected terms related to State economy and the abbreviations and acronyms used in this report.

Audit findings and recommendations

Return to fiscal correction: The State has achieved the fiscal targets as laid down in the State FRBM Act and Rules and the TFC, much before the time frame set. The reduction in revenue surplus combined with increase in capital expenditure and net disbursement of loans and advances in 2008-09 resulted in a fiscal deficit as against the fiscal surplus during the previous year. This also led to primary deficit during the current year from primary surplus in 2007-08. The capital expenditure and net disbursement of loans and advances exceeded the assessment made in the budget estimates resulting in increase in actual fiscal deficit. However, the revenue deficit and fiscal deficit targets relative to GSDP laid down under the Rules framed under the MFRBM Act have been achieved.

High incidence of non-plan revenue expenditure: The revenue expenditure constituted 79 *per cent* of the total expenditure during 2008-09 and its NPRE component exceeded both the normative projection of the TFC for the State and State's projection in its FCP. The non-plan expenditure was 74 *per cent* of the total expenditure while the plan expenditure was 26 *per cent* (para 1.4.1). The committed expenditure *viz.,* salaries, pension liabilities, interest payments and subsidies constitute 70 *per cent* of NPRE during 2008-09 (para 1.4.2).

Government should initiate suitable measures to compress the non-plan revenue expenditure and to mobilise the additional resources in ensuing years.

Review of Government investments: The average return on Governments' investment (0.11 *per cent*) in State undertakings and Co-operatives was negligible relative to its average cost of borrowings (7.57 *per cent*) during 2004-09 and remains a cause of concern (para 1.6.3).

Government should revisit the working of State-owned public sector undertakings incurring huge losses and take remedial measures.

Incomplete projects: Inordinate delays in completion of the projects, particularly the irrigation projects in the State, resulted in huge cost and time overruns and is a cause of concern. This also indicates weak control systems in the Government departments (para 1.6.2).

The State Government should work towards further improvements in this area so that the envisaged benefits reach the people at the earliest.

Prudent cash management: The cost of holding surplus cash balances is reported high. In 2008-09, interest received on investment of cash balances was only 5 *per cent* while Government borrowed on an average rate at 7.29 *per cent* (para 1.6.6).

Government should ensure proper debt management through advanced planning which could minimise the need to hold large cash surpluses.

Debt sustainability: There was a positive resource gap during the years 2006-07 and 2007-08 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 (para 1.8).

State Government should endeavour to maintain a proper debt-GSDP ratio so that incremental non-debt receipts become adequate to cover the interest burden.

Outstanding guarantees: The position of outstanding guarantees as on 31 March 2009 has improved and stood at 63 per cent of the total revenue receipts and 7.38 per cent of GSDP in the current year compared to 73 *per cent* of revenue receipts and 10.7 *per cent* of GSDP respectively during the previous year (para 1.7.3). However, in case the Statutory corporations, Government companies, 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.

Government should immediately set up the Guarantee Redemption Fund to meet such eventualities.

Oversight of funds transferred directly from the GoI to the State implementing agencies: Funds flowing directly to the implementing agencies through off-budget routing inhibits FRBM requirements of transparency and therefore bypass accountability. There is no single agency monitoring its use and there is no readily available data on the amounts spent in any particular year on major flagship and other important schemes (para 1.2.2).

A system has to be urgently put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General (A&E).

Financial management and budgetary control: There was an overall saving of Rs 22,466 crore offset by excess of Rs 2,389 crore (para 2.1). The excess requires regularisation under Article 205 of the Constitution of India. There were also instances of inadequate provision of funds and unnecessary/ excessive re-appropriations (para 2.2.8). Rush of expenditure at the end of the year was also noticed. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of the year leaving no scope for utilising these funds for other development purposes (para 2.2.13). Detailed bills were not submitted for large amount of advances drawn on abstract contingent bills (para 2.3.1). Large expenditure incurred by most of the departments remained unreconciled with the expenditure booked by the Accountant General (A&E).

Budgetary controls should be strictly observed to avoid the deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/ surrender orders should be avoided. The Controlling officers should reconcile the figures recorded by them with that recorded by the Principal Accountant General (A&E).

Financial reporting: State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delays in furnishing utilisation certificates against the loans and grants from various grantee institutions. Delays also figured in submission of annual accounts by some autonomous bodies (para 3.3) and departmental undertakings (para 3.4). There were instances of losses and misappropriations due to negligence of Government employees (para 3.5).

Government departments should take urgent action for submission of outstanding accounts of the autonomous bodies. Departmental enquiries in misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases in future.