CHAPTER - I

FINANCES OF THE STATE GOVERNMENT

Goa became a State on 30 May 1987 before which it was a Union Territory having a Legislative Assembly. It has a land area of 3,702 sq. km. and a coastline of 104 km. It has two districts, 11 talukas and 359 villages, with a relatively lower population density of 258 persons compared to the all India average of 325 persons per sq.km. Goa has one of the highest literacy rates among the States of the country. Besides, the infant mortality rate and the population living below the poverty line is very low as compared to the all India average. For the period 2000-2001 to 2008-09, the Compound Annual Growth Rate (CAGR) of the Gross State Domestic Product (GSDP) of Goa was 14.35 *per cent* which was higher than the growth of GSDP of other General Category States. However, for the same time period, the population growth rate in Goa was much higher (nearly 30 *per cent*) than that of other General Category State's average of 13.42 *per cent*. Hence, the impact of high GSDP growth on per capita income would be insignificant **(Appendix 1.1 Part A)**.

This chapter provides a broad perspective of the finances of the Government of Goa 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 structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1 Part B and Part C.** The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.2.**

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 (2009-10) vis-à-vis the previous year, while **Appendix 1.3** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1 Summary of Current Year's Fiscal Operations

(*₹ in crore*)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section-A: Revenue							
					Non-Plan	Plan	Total
3528.27	Revenue receipts	4100.27	3425.48	Revenue expenditure	3468.92	758.55	4227.47
1693.55	Tax revenue	1762.34	1061.87	General services	1338.82	12.09	1350.91
1236.16	Non-tax revenue	1731.20	801.57	Social services	897.08	65.46	962.54
415.44	Share of Union taxes/duties	427.42	1119.88	Economic services	1079.80	248.02	1327.82
183.12	Grants from Government of India	179.31	442.16	Grant-in-aid and Contributions	153.22	432.98	586.20
Section-B: Capital and others							
--	Misc Capital receipts	--	897.07	Capital Outlay	5.70	1078.38	1084.08
9.77	Recoveries of Loans and Advances	12.74	28.67	Loans and Advances disbursed	33.23	3.99	37.22
662.83	Public Debt receipts*	631.99	166.29	Repayment of Public Debt*	♣	♣	177.69
--	Contingency Fund	0.06	0.06	Contingency Fund	♣	♣	2.99
5025.45	Public Account receipts	6177.89	4642.30	Public Account disbursements	♣	♣	5471.44
725.13	Opening Cash Balance	791.58	791.58	Closing Cash Balance	--	--	713.64
9951.45	**Total**	**11714.53**	**9951.45**	**Total**			**11714.53**

(Source: Finance Accounts for the years 2008-09 and 2009-10)

* Excluding net transactions under ways and means advances and overdraft.

♣ Bifurcation of Plan and Non-Plan not available.

The following are the significant changes during 2009-10 over the previous year:

- Revenue receipts grew by ₹ 572 crore (16 *per cent*) over the previous year. The increase was mainly contributed by tax revenue (₹ 69 crore), non-tax revenue (₹ 495 crore) and share of Union taxes and duties (₹ 13 crore), offset by a decrease of ₹ four crore in grants from the Government of India.
- Revenue expenditure increased by ₹ 802 crore over the previous year. The increase was mainly under Education, Sports, Art and Culture (₹ 160 crore), Pension and Retirement benefits (₹ 129 crore), Power (₹ 76 crore) and Health and Family Welfare (₹ 53 crore).
- Receipts under Public Debt decreased by ₹ 31 crore and repayment of Public Debt increased by ₹ 11 crore over the previous year.
- Public Account receipts and disbursements increased by ₹ 1,152 crore and ₹ 829 crore respectively over the previous year.
- The cash balance at the end of the year decreased by ₹ 78 crore.

Review of fiscal situation

As per the normative projections made by the Twelfth Finance Commission (TFC), the State's own tax revenue and own non-tax revenue would be ₹ 1,985.83 crore and ₹ 509.25 crore respectively in 2009-10 against which the Government collected tax revenue of ₹ 1,762.34 crore and non-tax revenue of ₹ 1,731.20 crore. Similarly, against a Non-Plan revenue expenditure projection of ₹ 1,748.89 crore, the actual Non-Plan revenue expenditure incurred was ₹ 3,468.92 crore.

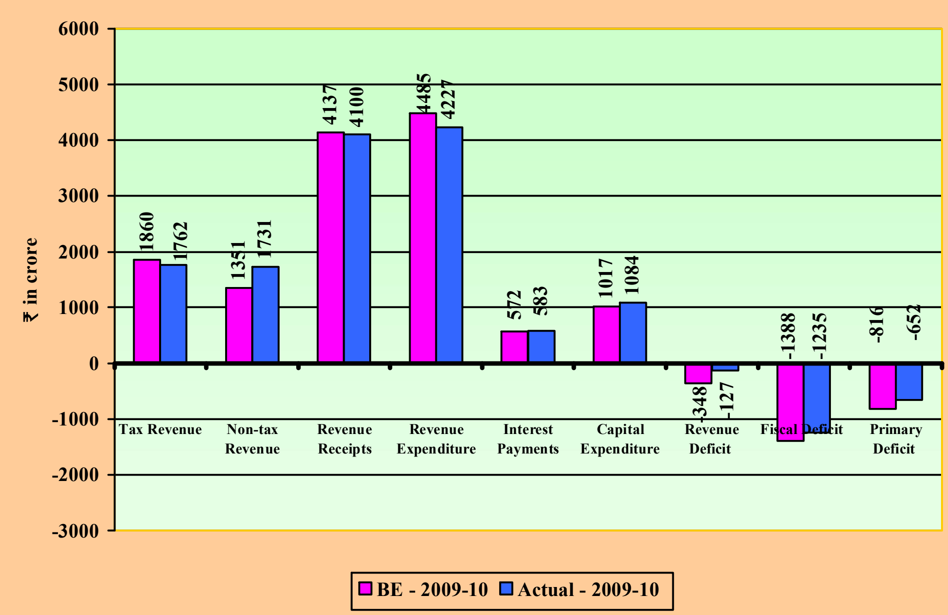
The overall fiscal liabilities of the State increased from ₹ 5,018 crore in 2005-06 to ₹ 7,902 crore in 2009-10. This included loans of ₹ 149.49 crore given by GOI to the erstwhile Union Territory of Goa, Daman and Diu. The growth rate of fiscal liabilities was 11.96 *per cent* during 2009-10 over the previous year. The ratio of fiscal liabilities to GSDP decreased from 37.58 *per cent* in 2005-06 to 35.10 *per cent* in 2009-10. This ratio is still on the higher side keeping in view the target of 30 *per cent* to be achieved by 31 March 2009 as laid down in the Goa Fiscal Responsibility and Budget Management Act, 2006. The fiscal deficit during 2009-10 was 5.49 *per cent* of GSDP.

Budget analysis

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

Chart 1.1 presents the budget estimates and actuals of some important fiscal parameters.

Chart 1.1 : Selected Fiscal Parameters : Budget estimates vis-a-vis Actuals for 2009-10



During 2009-10**,** compared to the budget estimates, the actual revenue receipts were less by ₹ 37 crore and the actual revenue expenditure was also less by ₹ 258 crore. Resultantly, the revenue deficit of ₹ 348 crore decreased by ₹ 221 crore, depicting an actual revenue deficit of ₹ 127 crore.

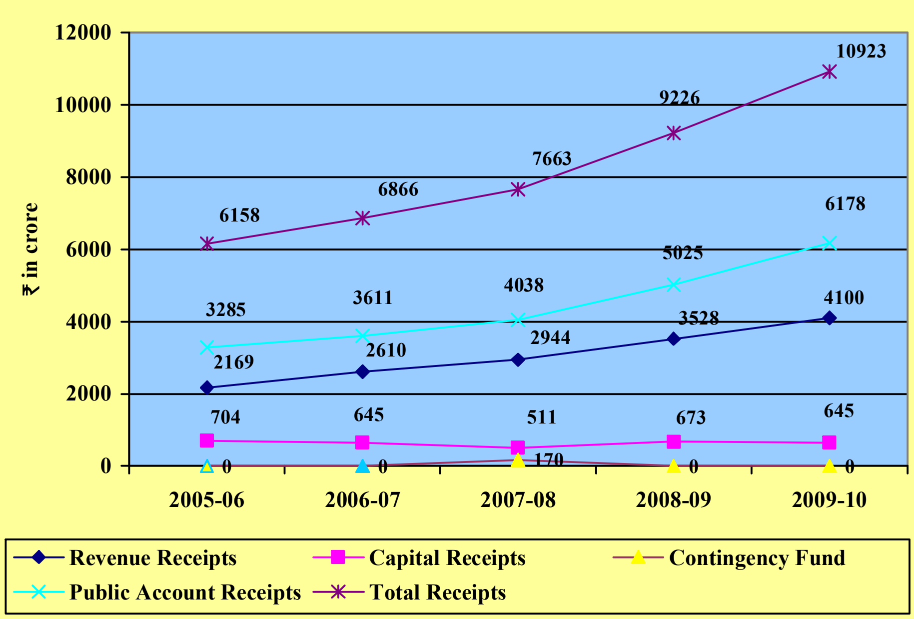
The State could nearly achieve the target of revenue receipts and it could also considerably reduce the estimated revenue expenditure, resulting in a reduction of actual revenue deficit than anticipated.

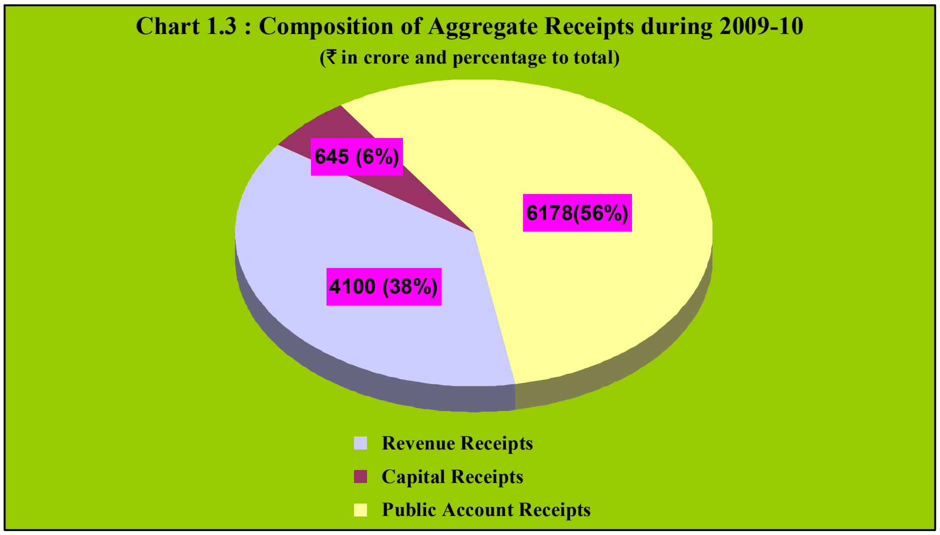
1.2 Resources of the State

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 Government of India (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 the 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** depicts the trends of various components of the receipts of the State during 2005-10. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart 1.2: Trends of Receipts





The revenue receipts increased from ₹ 2,169 crore in 2005-06 to ₹ 4,100 crore in 2009-10 and Public Account receipts increased from ₹ 3,285 crore in 2005-06 to ₹ 6,178 crore in 2009-10 whereas Capital Account receipts decreased from ₹ 704 crore in 2005-06 to ₹ 645 crore in 2009-10.

Chart 1.2 show that the total receipts of the State Government for the year 2009-10 were ₹ 10,923 crore. Of these, the revenue receipts were ₹ 4,100 crore, consisting 38 *per cent* of the total receipts. The balance came from capital receipts, borrowings and Public Account receipts.

Capital receipts (including Public Account receipts) constituted 62 *per cent* of the total receipts. The total receipts of the State increased by 77 *per cent* from ₹ 6,158 crore in 2005-06 to ₹ 10,923 crore in 2009-10.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to State implementing agencies[1] for the implementation of various schemes/programmes in social and economic sectors which are recognized as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. The funds directly transferred to State implementing agencies during 2009-10 are presented in **Table 1.2.**

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[1] State implementing agencies include any organizations/institutions including non-Governmental organizations which are authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for SSA, State Health Mission for NRHM etc.

Table 1.2: Funds transferred by GOI directly to State implementing agencies

(₹ in crore)

Sl. No.	Implementing agency in the State	Amount
1	District Collector North Goa	4.00
2	District Collector South Goa	2.00
3	DRDA Panjim North Goa	4.52
4	DRDA South Goa	3.01
5	National Rural Drinking Water Mission, Govt. of Goa	2.32
6	Technology Development Programme, Govt. of Goa	157.52
7	Goa Electronics Ltd	3.99
8	Goa Handicrafts Rural & Small Scale Industries Development Corporation Ltd, Goa	1.10
9	Goa Industrial Development Corporation	5.41
10	Goa Sarva Shiksha Abhiyan Society	5.51
11	Goa State Aids Control Society	4.31
12	Goa State Horticulture Corporation Ltd	1.61
13	Goa University	2.50
14	ITI Bogda, Vasco (Upgradation of ITIs)	2.50
15	State Health Society, Goa	6.73
16	State Institute of Hotel Management & Catering Technology Farmagudi, Ponda, North Goa	4.00
17	Other Agencies/Programmes	169.53
	Total	**380.56**

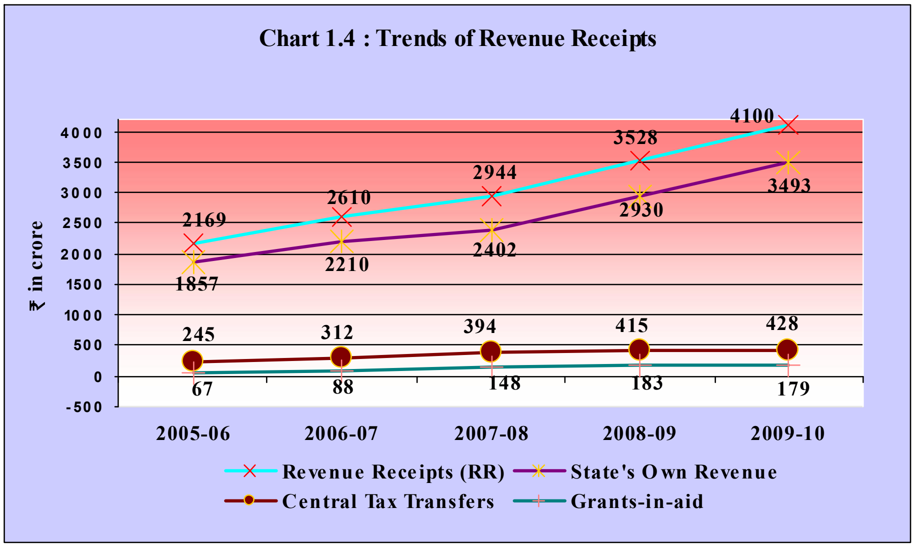
(Source: e-lekha portal of the Controller General of Accounts, Ministry of Finance, Government of India)

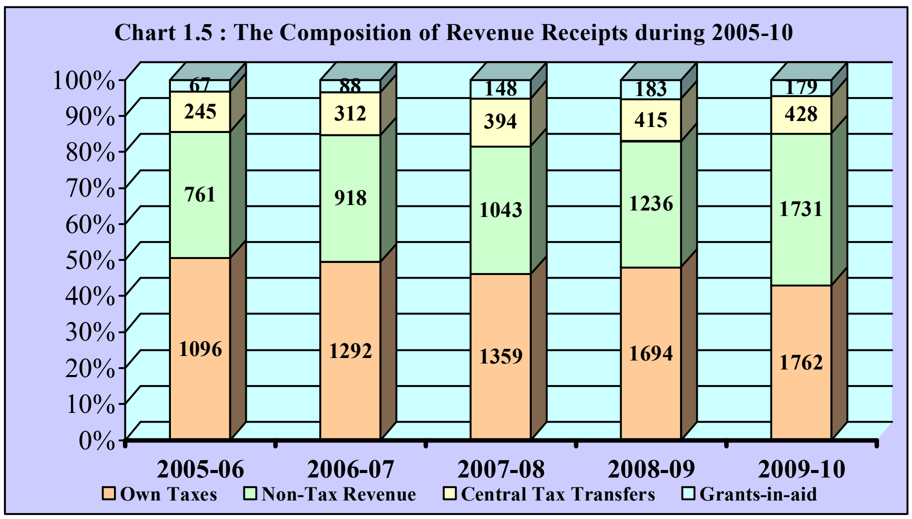
GOI directly transferred ₹ 380.56 crore to State implementing agencies during 2009-10. The departments/institutions which were major recipients of these funds were (i) Technology Development Programme (₹ 157.52 crore), District Rural Development Agencies (₹ 7.53 crore), State Health Society (₹ 6.73 crore), Goa Industrial Development Corporation (₹ 5.41 crore) and State Institute of Hotel Management & Catering Technology (₹ four crore).

Direct transfers from the Union to State implementing agencies without routing them through the State budget can be risky unless uniform accounting practices are diligently followed by all these agencies. Further, without proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2005-10 are presented in **Appendix 1.4** and also depicted in **Charts 1.4** and **1.5** respectively.





The revenue receipts showed a progressive increase over the period 2005-10 with only marginal changes in the share of own taxes and Central transfers.

The increase of 16.21 *per cent* in revenue receipts during 2009-10 was on account of increase in the State's own taxes (four *per cent*), non-tax revenue (40 *per cent*), Central tax transfers (three *per cent*). There was a marginal decline in receipt of grants from GOI.

The buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As the GSDP grows, the States own tax revenue should also increase. It is seen that as against the GSDP growth rate of 14 *per cent* during 2009-10, the growth rate of State's own taxes was only 4.01 *per cent* over the previous year. However, there was considerable increase in the growth rate of the State's own taxes (24.65 *per cent*) during 2008-09. The trends of revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table-1.3: Trends of Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) ***(₹ in crore)***	**2169**	**2610**	**2944**	**3528**	**4100**
State's own Taxes *(₹ in crore)*	1096	1292	1359	1694	1762
Rates of growth					
Revenue Receipts (*per cent*)	19.18	20.33	12.80	19.85	16.21
State's own Taxes *(per cent)*	27.89	17.88	5.18	24.65	4.01
GSDP *(per cent)* ¥	15.50	14.98	14.74	12.87	14.00
RR/GSDP (*per cent*) ¥	16.35	17.12	16.83	17.87	18.21
Buoyancy Ratios					
Revenue Receipts with GSDP ¥	1.24	1.36	0.87	1.54	1.16
State's own taxes with GSDP (ratio) ¥	1.80	1.19	0.35	1.92	0.29

(Source: Finance Accounts for the years 2005-06 to 2009-10)

¥ *Percentage of last year's figure differs due to revision of GSDP figures received from the State Government*

The ratio of the State's own taxes to its GSDP declined considerably during 2007-08 and 2009-10 due to a decline in tax revenue of ₹ 25 crore under "Taxes on Goods and Passengers" from ₹ 138 crore in 2006-07 to ₹ 113 crore in 2007-08 and a decline in the State's share of Customs and Union Excise duties from ₹ 148.78 crore in 2008-09 to ₹ 108.02 crore in 2009-10. In the remaining years, the growth of revenue receipts was more than the growth of GSDP.

In the year 2008-09, the State's own taxes was very buoyant compared to GSDP since there was almost two *per cent* growth in the State's own taxes for every *per cent* growth of GSDP. However, in 2009-10, the GSDP growth was as high as 14 *per cent*, but the State's own taxes grew only by four *per cent* indicating very low tax buoyancy.

Debt Waiver under Debt Consolidation and Relief Facilities (DCRF)

The Twelfth Finance Commission (TFC) framed a scheme of debt relief of Central loans named Debt Consolidation and Relief Facilities based on the fiscal performance of the State linked to the reduction of deficits of the States. Under the scheme, the repayments due on Central loans from 2005-06 to 2009-10 after their consolidation and re-schedulement would be eligible for write-off. The amount sanctioned by GOI as debt relief each year would be adjusted by showing repayments of Central loans and crediting the amounts to the head of account 0075 Miscellaneous Services-800-Other Receipts. The States would be eligible for the benefit subject to fulfilment of certain conditions viz., legislating the FRBM Act, gradual abolition of revenue deficit by 2008-09, bringing annual reduction targets for fiscal deficit, bringing out annual fiscal policy statement etc.

The FRBM Act was enacted by the Government of Goa in 2006. Subsequently, during the years 2006-07 and 2007-08, Goa received ₹ 20.21 crore and ₹20.20 crore respectively. As regards the years 2008-09 and 2009-10 the Government of Goa has not received any debt waiver under DCRF since necessary conditionalities were not met *viz.* the fiscal deficit of Goa was much higher than the ceiling of 3.5 and four *per cent* respectively.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts, Central assistance for Plan Schemes etc., the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. 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 percentage of such expenditure to the gross collection during the years from 2007-08 to 2009-10 along with the respective all India average are presented in **Appendix 1.5.**

While the expenditure on collection of Sales Tax/VAT and Taxes on vehicles and goods and passengers was lesser in comparison with the all-India average, the expenditure on collection of Stamp duty and registration fees and State Excise was above the all-India average.

The main components of revenue raised by the State during 2005-06 to 2009-10 are given in **Table 1.4.**

Table 1.4 Main components of revenue

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10		Percentage increase(+) or decrease(-) with reference to BE
						Budget Estimates	Actuals	
Tax Revenue								
1	Sales tax/Vat	743	845	879	1132	1257	1142	(-) 9.15
2	State excise	55	57	76	89	88	104	(+) 18.18
3	Stamp duty and Registration fees	60	116	118	115	113	111	(-) 1.77
4	Taxes on goods and passengers	131	138	113	157	112	161	(+) 43.75
5	Taxes on vehicles	64	75	82	90	103	105	(+) 1.94
6	Others	43	61	91	111	693	139	(-) 79.94
Total		**1096**	**1292**	**1359**	**1694**	**2366**	**1762**	**(-) 25.53**
Non-Tax Revenue								
1	Interest Receipts	13	16	17	20	11	14	(+) 27.27
2	Non-ferrous Mining and Metallurgical Industries	27	34	36	36	130	292	(+) 124.61
3	Major and Medium Irrigation Projects	10	3	4	9	10	11	(+) 10.00
4	Medical and Public Health	13	9	8	8	7	6	(-) 14.28
5	Power	595	682	796	987	1069	941	(-) 11.97
6	Water supply and sanitation	57	58	61	66	116	70	(-) 39.66
7	Others	46	116	121	110	8	397[€]	(+) 242
Total		**761**	**918**	**1043**	**1236**	**1351**	**1731**	**(+) 28.12**
Grand Total		**1857**	**2210**	**2402**	**2930**	**3717**	**3493**	**(-) 6.03**

(Source: Finance Accounts and Annual Financial Statements (Budget) of State Government)

The **Own Tax revenue** in Goa has been growing at a Compound Annual Growth Rate (CAGR) of 16.05 *per cent* which is much higher than the 13.59 *per cent* rate of other General Category States. Tax revenue increased by four *per cent* during the current year (₹ 1,762 crore) over the previous year (₹ 1,694 crore). Revenue from 'Taxes on sales' contributed the major share of tax revenue (65 *per cent*) mainly due to transition from Sales Tax to VAT.

[€] Includes 259.88 crore under Miscellaneous General Services

However, the increase of 'Taxes on sales' over the previous year was negligible (one *per cent*). While taxes on goods and passengers were nine *per cent* of Tax Revenues, State excise, taxes on vehicles, Stamp duty and registration fees were six *per cent* each.

Though the CAGR of **Non-tax revenue** of 5.65 *per cent* is lesser than the 12.08 *per cent* rate of the other General Category States, there was a steady growth during the period from 2005-06 to 2009-10. Further, non-tax revenue increased by 40 *per cent* during the current year (₹ 1,731 crore) over the previous year (₹ 1,236 crore). Of the total non-tax revenue, 54 *per cent* was from electricity charges/fees (₹ 941 crore), 17 *per cent* from non-ferrous mining and metallurgical industry (₹ 292 crore) and Miscellaneous General Services (₹ 260 crore). The increase in revenue from non-ferrous mining and metallurgical industry was mainly due to more receipts under mineral concession fees and royalties. The steep increase in the case of other receipts was due to waiver of special term loan of ₹ 259.86 crore pertaining to the Union Territory period of Goa by the GOI.

1.3.2 Loss of Revenue due to Evasion of Taxes, Write off/Waivers

Twenty six cases of evasion of taxes/duties pending as on 31 March 2010 were reported by the Commissioner of State Excise.

During the year 2009-10, losses amounting to ₹ 12.12 crore in 281 cases were written off by competent authorities as detailed below:

Table 1.5: Cases of loss of revenue

Sl. No.	Name of Department/Office	No. of Cases	Amount (*In* ₹)
1	Director, Printing & Stationery	1	2357621[2]
2	Director, Animal Husbandry & Veterinary Services	41	185925
3	Director, Health Services	29	367294
4	Director, Institute of Psychiatry & Human Behaviour	1	15821
5	Principal, Goa College of Pharmacy	207	19965
6	Principal, Govt. Polytechnic Mayem, Bicholim	1	39911
7	Chief Electrical Engineer	1	118220103
	Total	**281**	**121206640**

1.3.3 Revenue Arrears

The arrears of revenue as on 31 March 2010 in respect of some principal heads of revenue amounted to ₹ 389.52 crore as indicated in **Table1.6**.

[2] 6,38,173 unused copies of Official Gazettes published during the period from 1970-71 to 2008-09 have been written off vide order dated 17.07.2009.

Table 1.6: Revenue arrears

(₹ in crore)

Head of Revenue	Amount of arrears as on 31 March 2010	Arrears more than three years old	Cases pending in court		Amount involved in cases pending due to other reasons	Amount of arrears as on 31 March 2006
			No.	Amount		
Commercial Taxes	205.57	60.44	1264	17.32	188.25	206.30
State Excise	0.84	0.08	-	-	0.84	0.38
Taxes on vehicles	6.85	1.55	-	-	6.85	6.06
Chief Engineer – Water Resources Department						
i) Water Tax	1.12	0.86	147	0.03	1.09	-
ii) Water Charges	41.61	17.26	-	-	41.61	3.19
iii) Rent on shops	2.26	1.06	3	0.01	2.25	2.47
iv) Hire charges of machinery	0.35	0.35	-	-	0.35	0.34
Chief Engineer - Public Works Department						
i) Rent of Building/Shops	0.56	0.31	-	-	0.56	0.44
ii) Water charges, meter rent and sewerage charges	18.48	8.76	2097	6.97	11.51	26.17
Chief Electrical Engineer[@] Energy charges	105.99	Not available	4079	38.37	67.62	179.93
Agriculture	3.27	3.06	4	0.00[♣]	3.27	-
River Navigation	0.56	0.50	5	0.07	0.49	-
Printing & Stationery	1.42	-	-	-	1.42	-
Tourism	0.64	0.31	11	0.28	0.36	-
Total	**389.52**	**94.54**	**7610**	**63.05**	**326.47**	**425.28**

(Source: Information furnished by concerned departments)

The arrears of revenue decreased by 8.4 *per cent* during the last five years from ₹ 425.28 crore in 2005-06 to ₹ 389.52 crore at the end of 2009-10, which accounted for 11.15 *per cent* of the State's own resources during the year. Of the total outstanding arrears in 2009-10, ₹ 94.54 crore was outstanding for more than three years and only ₹ 63.05 crore was pending in the Revenue Recovery courts. In view of the large arrears, being 11.15 *per cent* of the State's own resources, efforts need to be stepped up to recover the revenue arrears.

1.4 Application of Resources

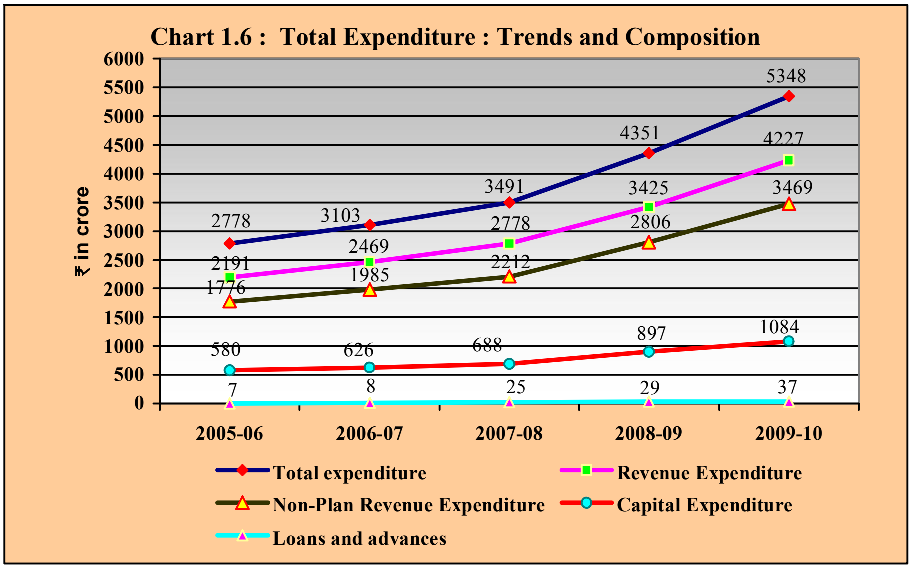
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit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

[@] Excluding information pertaining to Divisions–I (Panaji), III (Ponda), VI (Mapusa), XI (Vasco) and XIV (Verna).

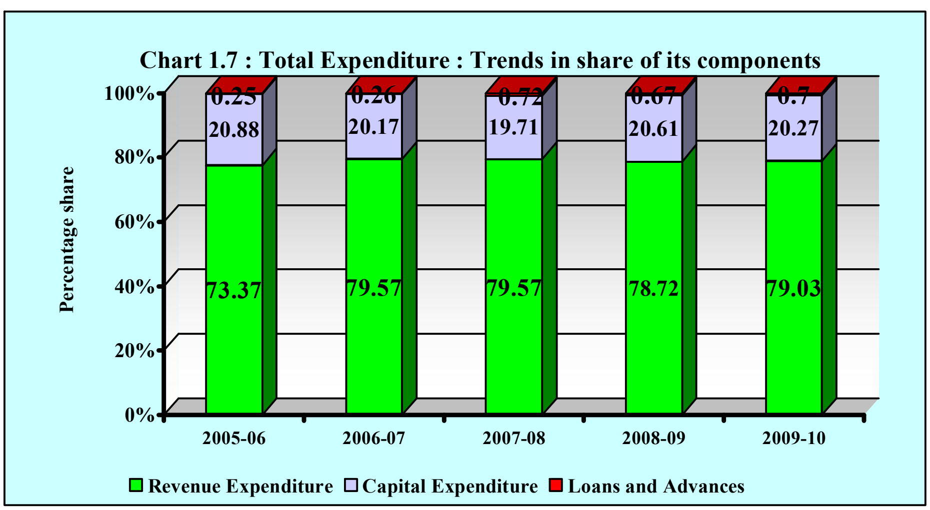
[♣] Amount involved is only ₹ 9,160.

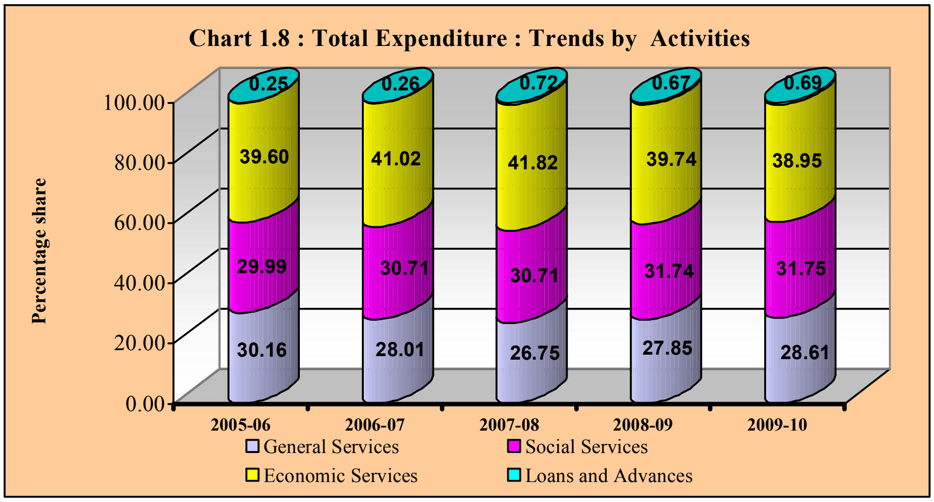
1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2005-10) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.7 and 1.8** respectively.



The total expenditure of the State increased by 93 *per cent* from ₹ 2,778 crore in 2005-06 to ₹ 5,348 crore in 2009-10. The total expenditure during the current year increased by ₹ 997 crore over the previous year. Of the total expenditure, revenue expenditure was ₹ 4,227 crore, capital expenditure ₹ 1,084 crore and loans and advances were ₹ 37 crore. The revenue and capital expenditure increased by 23 *per cent* and 21 *per cent* respectively over the previous year. Similarly, the Non-Plan revenue expenditure increased by 24 *per cent* during the year and exceeded the assessment made by the TFC by ₹ 1,720 crore.





(*GIA is included in Social and Economic Services)*

Developmental expenditure, i.e. expenditure on Social and Economic Services together accounted for 70.70 *per cent* in 2009-10 as against 71.48 *per cent* in 2008-09.

The revenue expenditure increased by 93 *per cent* from ₹ 2,191 crore in 2005-06 to ₹ 4,227.47 crore in 2009-10. The Non-Plan revenue expenditure showed consistent increase and continued to share a dominant proportion, varying in the narrow range of 80 to 82 *per cent* of the revenue expenditure during the period 2005-10. The Plan revenue expenditure showed a progressive increase over the period 2005-10.

The assessed Non-Plan revenue expenditure (NPRE) as per TFC projections from 2006-07 to 2009-10 was ₹ 1,321 crore, ₹ 1,483 crore, ₹ 1,610 crore and ₹ 1,749 crore respectively. However, the actual NPRE at ₹ 1,985 crore, ₹ 2,212 crore, ₹ 2,806 crore and ₹ 3,489 crore respectively during the period 2006-10, far exceeded the TFC's normative projections.

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 1.7** present the trends in the expenditure on these components during 2005-10 and **Chart 1.9** present the trends during 2005-10.

Table 1.7: Components of Committed Expenditure

(**₹** *in crore*)

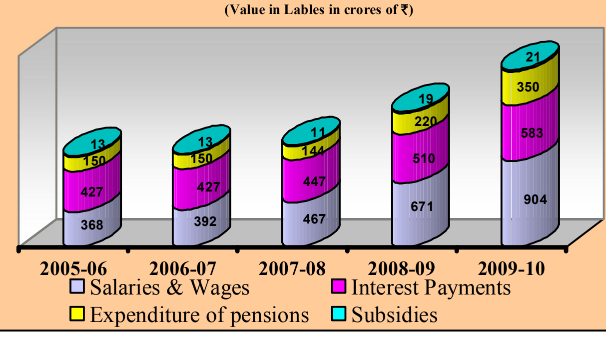
Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Salaries & Wages, *of which*	440.22 (20.30)	471.50 (18.07)	578.53 (19.65)	802.27 (22.74)	933.25 (22.76)	1070.48 (26.11)
Non-Plan Head	*367.76*	*391.87*	*467.39*	*670.83*	*774.50*	*903.88*
Plan Head	*72.46*	*79.63*	*111.14*	*131.44*	*158.75*	*166.60*
Interest Payments	400.00 (18.44)	427.00 (16.36)	447.00 (15.18)	510.00 (14.46)	572.05 (13.95)	583.00 (14.22)
Expenditure on Pension @	158.86 (7.32)	150.28 (5.76)	144.36 (4.90)	219.71 (6.23)	666.74 (16.26)	349.65 (8.53)
Subsidies	43.70 (2.01)	39.72 (1.52)	36.28 (1.23)	55.17 (1.56)	52.61 (1.28)	58.12 (1.42)
Other components	1148.22 (52.94)	1380.50 (52.89)	1571.83 (53.39)	1837.85 (52.09)	1327.24 (32.37)	2166.22 (52.83)
Total Revenue Expenditure	**2191.00**	**2469.00**	**2778.00**	**3425.00**	**4485.14**	**4227.47**
Revenue Receipts	**2169.00**	**2610.00**	**2944.00**	**3528.00**	**--**	**4100.27**
Figures in parentheses indicate percentage to Revenue Receipts. *@ Includes expenditure on pension under Social Security Schemes.*						

(Source: Finance Accounts for the years 2005-06 to 2009-10 and Budget Estimates for 2009-10)

As per the targets set by the TFC and the FRBM Act, the ratio of interest payments to total revenue should not exceed 15 *per cent* by 31 March 2009 and adhere to it thereafter. The State has been within the norms set by the TFC and there has been a gradual decrease of interest payment from 18.44 *per cent* of revenue receipts in 2005-06 to 14.22 *per cent* in 2009-10.

Chart 1.9 : Share of Committed Expenditure in Non-Plan Revenue Expenditure during 2005-10

(Value in Lables in crores of ₹)



Expenditure on salaries under Non-Plan and Plan during the current year was ₹ 903.88 crore and ₹ 166.60 crore respectively.

During the years 2008-09 and 2009-10 the expenditure on salaries increased by ₹ 224 crore and ₹ 268 crore respectively. The increase was mainly due to payment of Sixth Pay Commission arrears to the Government employees to the extent of 40 *per cent* in 2008-09 and the remaining 60 *per cent* in 2009-10. As entire arrears have already been paid, there would not be any further liability on account of Pay Commission arrears in future years.

Pension payments during the current year increased by ₹ 129.94 crore, recording a growth rate of 59 *per cent* over the previous year. The increase in expenditure was mainly due to implementation of the Sixth Pay Commission's recommendations. The normative assessment made by the TFC was ₹ 199 crore whereas the actual expenditure stood at ₹ 350 crore. The State adopted the new Defined Pension Contribution Scheme with effect from August 2005. The major source of borrowing was market loans. ₹ 439.87 crore was incurred on payment of interest on internal debt, ₹ 83.75 crore on small savings and provident fund, ₹ 33.34 crore on loans and advances from GOI and ₹ 25.65 crore on other obligations.

In absolute terms, the **subsidy** increased from ₹ 55.17 crore in 2008-09 to ₹ 58.12 crore in 2009-10. However, as a percentage of the total revenue expenditure, subsidies remained around 1.31 to 1.99 *per cent* during the period 2005-06 to 2009-10. The areas which received the major chunk of subsidies in 2009-10 were Crop Husbandry (₹ 12.16 crore), Fisheries (₹ 11.64 crore), Food, Storage and Warehousing (₹ 5.01 crore) and Transport (₹ 13.37 crore).

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 the current year relative to the previous years is presented in **Table1.8**.

Table 1.8: Financial Assistance

(₹in crore)

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	196.47	206.82	232.32	318.17	411.90
Municipal Corporations and Municipalities	35.96	40.39	43.77	50.38	63.67
Zilla Parishads and Other Panchayati Raj Institutions	39.70	41.98	35.68	51.17	60.85
Other Institutions	23.99	24.81	32.16	28.64	53.78
Total	**296.12**	**314.00**	**343.93**	**448.36**	**590.20**
Assistance as percentage of revenue expenditure	13.52	12.72	12.38	13.09	13.96

(Source: Directorate of Accounts)

Financial assistance to educational institutions mainly consisted of salary and maintenance grants to aided schools, colleges and Goa University, financial assistance for sports and youth affairs etc. This increased by ₹ 94 crore mainly due to implementation of the Sixth Pay Commission's recommendations.

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 its effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure are largely assigned to the State Governments in accordance with the provisions laid down in the Constitution. Thus in order to enhance social development levels in the States, it is essential to increase expenditure on key Social Services like education, health etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) would be attached to a particular sector if it was below the national averages. **Table 1.9** analyses the fiscal priorities of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the year 2009-10.

Table 1.9: Fiscal Priority of the State in 2005-06 and 2009-10

Fiscal Priority	AE/ GSDP	DE/AE	SSE/AE	CE/AE	Education /AE	Health/ AE
Other General Category States Average* (Ratio) 2005-06	17.75	61.76	30.76	13.97	14.95	4.05
Goa's Average (Ratio) 2005-06	20.95	69.69	30.06	20.88	12.63	5.00
Other General Category States Average* (Ratio) 2009-10	18.24	66.05	35.76	14.85	16.21	4.28
Goa's Average (Ratio)* 2009-10	23.76	70.77	31.81	20.27	14.58	5.52

* As *per cent* of GSDP

AE: Aggregate Expenditure which includes DE: Development Expenditure, SSE: Social Sector Expenditure and CE: Capital Expenditure.

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

Source: For GSDP, the information was collected from the State's Directorate of Planning and Statistics.

Fiscal priority refers to the priority given to a particular head of expenditure. The table above gives a comparison of fiscal priority given to different categories of expenditure of the State in 2005-06 (first year of the award period of TFC) and the current year, 2009-10 (terminal year of the award period of TFC) with that of the other General Category States.

AE as a ratio of GSDP in both 2005-06 and 2009-10 (20.95 *per cent* and 23.76 *per cent*) was higher as compared to other General Category States (17.75 *per cent* and 18.24 *per cent*) which means that Goa had a relatively higher public expenditure as a proportion to its GSDP.

As far as SSE is concerned the fiscal priority given in 2005-06 was marginally lower in the case of Goa as compared to other General Category States. In the current year, it is observed that the fiscal priority given to SSE was much lower compared to other General Category States. During both the years under Social Sector Expenditure, more priority had been given for education than for health.

Since DE is a sum of SSE and ES Expenditure, the fact that DE as a proportion of AE in Goa is higher than the General Category State's average, while SSE is lower than the General Category State's average, clearly shows that Goa is giving considerable priority to ES Expenditure.

The priority given to CE is much higher, which is likely to increase asset creation in the State provided the financial outlays actually translate into physical assets.

In both the years under consideration, the *per capita* expenditure in all categories of expenditure, be it DE, SSE or CE, was higher in the case of Goa than the All India average because of the relatively low population of the State.

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 rationalization measures and lay emphasis on provision of core public and merit goods[3]. Apart from improving the allocation towards development expenditure[4], particularly in view of the fiscal space being created on account of the 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 the proportion of revenue expenditure being incurred on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.10 and Chart 1.9(A)** presents the trends in development expenditure relative to the aggregate expenditure vis-à-vis budget estimates during the current year, i.e. 2009-10 and development expenditure relative to the aggregate expenditure in previous years. **Table 1.11** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

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[3] Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods, road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than the ability and willingness to pay the Government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

[4] The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized 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.

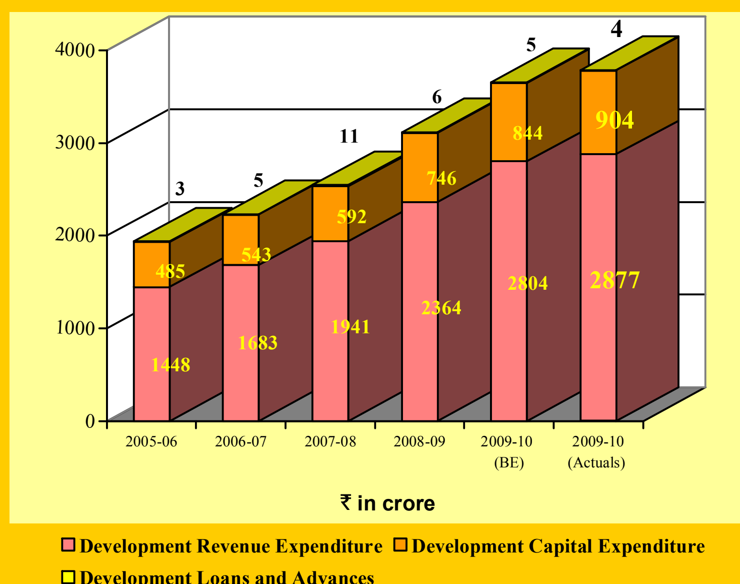
Table 1.10: Development Expenditure

(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10 BE	2009-10 Actuals
Development Expenditure (a to c)	1936 (69.7)	2231 (71.9)	2544 (72.9)	3116 (71.6)	3653 (68.3)	3785 (70.8)
a. Development Revenue Expenditure	1448 (52.1)	1683 (54.2)	1941 (55.6)	2364 (54.3)	2804 (52.4)	2877 (53.8)
b. Development Capital Expenditure	485 (17.5)	543 (17.5)	592 (17.0)	746 (17.1)	844 (15.8)	904 (16.9)
c. Development Loans and Advances	3 (0.1)	5 (0.2)	11 (0.3)	6 (0.2)	5 (0.1)	4 (0.1)
Figures in parentheses indicate percentage of aggregate expenditure						

(Source : Finance Accounts and Annual Financial statement (Budget) of the State Government).

Chart 1.9 (A) : Trends in the Composition of Development Expenditure



Development expenditure of the State comprised revenue and capital expenditure including loans and advances on socio-economic services. The development revenue and capital expenditure increased by 21.70 *per cent* (₹ 513 crore) and 21.18 *per cent* (₹ 158 crore) respectively over the previous year.

The increase in development revenue expenditure was mainly under General Education (₹ 160.42 crore), Health and Family Welfare (₹ 53.17 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 37.29 crore) and Power and Energy (₹ 75.98 crore).

Table 1.11: Efficiency of Expenditure Use under Selected Social and Economic Services

(Percentage)

Social/Economic Infrastructure	2008-09		2009-10	
	Share of CE to TE	In RE, the share of Salaries	Share of CE to TE	In RE, the share of Salaries
Social Services (SS)				
General Education	8.80	26.21	8.87	27.67
Health and Family Welfare	8.54	69.27	7.00	73.95
Water supply, sanitation and housing and urban development	33.28	9.35	30.14	11.30
Total (SS)	**13.63**	**29.64**	**12.42**	**31.83**
Economic Services (ES)				
Agriculture & Allied Activities	8.74	46.70	14.01	54.74
Irrigation and Flood Control	81.68	48.24	73.33	41.25
Power & Energy	18.39	11.16	17.59	15.17
Transport	55.60	23.90	60.70	24.72
Total (ES)	**32.28**	**18.20**	**33.30**	**21.86**
Total (SS+ES)	**24.00**	**23.97**	**23.92**	**27.01**
TE: Total expenditure in the concerned sub sector; CE: Capital Expenditure; RE: Revenue Expenditure; S & W: Salaries and Wages.				

(Source: Finance Accounts for the year 2007-08 and 2008-09)

The percentage of capital expenditure to the total expenditure for Social and Economic Services decreased marginally from 24.00 in 2008-09 to 23.92 in 2009-10. This was evident in the irrigation and flood control sector. In the Social Service sector, due to lower priority to capital expenditure, there was decrease in the share of capital expenditure as a percentage of total expenditure under Health and Family Welfare and Water Supply, Sanitation and Housing and Urban Development, whereas it increased in respect of Transport and Agriculture and Allied Activities. The overall ratio of capital expenditure to total expenditure of these services decreased only by 0.33 *per cent* over the previous year.

Expenditure on Social Services

Capital expenditure on Social Services increased in absolute terms from ₹ 188.22 crore in 2008-09 to ₹ 210.98 crore in 2009-10 (12.09 *per cent*). However, there was a decrease in the share of capital expenditure to the total expenditure under Social Services from 13.63 *per cent* to 12.42 *per cent.*

It was observed that lower priority to capital expenditure was mainly under Health and Family Welfare and Water Supply, Sanitation and Housing and Urban Development where capital expenditure as a percentage of the total expenditure reduced from 8.54 and 33.28 *per cent* to seven and 30.14 *per cent* respectively.

The share of salaries in revenue expenditure under Social Services increased from 29.64 *per cent* in 2008-09 to 31.83 *per cent* in 2009-10, mainly on account of increase in the share of salaries under Health & Family Welfare from 69.27 *per cent* to 73.95 *per cent*.

Expenditure on Economic Services

Capital expenditure on Economic Services increased from ₹ 558.26 crore in 2008-09 to ₹ 693.56 crore in 2009-10, registering a positive growth of 24.24 *per cent.* The percentage of capital expenditure to total expenditure increased from 32.28 to 33.30. This was mainly due to increase in capital expenditure under Agriculture & Allied Activities from 8.74 *per cent* in 2008-09 to 14.01 *per cent* in 2009-10 and under Transport from 55.60 *per cent* in 2008-09 to 60.70 *per cent* in 2009-10.

The share of salaries in revenue expenditure under Economic Services increased from 18.20 *per cent* to 21.86 *per cent,* mainly on account of increase in the share of salaries under Agriculture & Allied Activities from 46.70 *per cent* to 54.74 *per cent.*

1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowings) 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 returns on its investments, recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies 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 the previous years.

1.6.1 Financial Results of Irrigation Works

Irrigation works have not been declared as commercial undertakings in the State of Goa. Hence, the financial results in respect of irrigation works have not been worked out. However, the Government incurred expenditure of ₹ 29.51 crore on maintenance of irrigation projects in the State during the year, which was ₹ 12.31 crore more than the maintenance expenditure during the previous year (₹ 17.20 crore). The increase was mainly due to increase in the salary component, which increased from ₹ 6.99 crore in 2008-09 to ₹ 17.72 crore in 2009-10. This increase was attributed to implementation of Sixth Pay Commission scales to all work-charged staff.

1.6.2 Incomplete projects

Department-wise information pertaining to incomplete projects as on 31 March 2010, is given in **Table 1.12.**

Table 1.12: Department-wise Profile of Incomplete Projects

(*₹ in crore*)

Department	Number of Incomplete Projects	Initial Budgeted Cost	Revised Total Cost of Projects	Cost Over Run	Cumulative Actual Expenditure as on 31.3.2010
Public Works Department	16	45.28	Not available	N.A.	44.93
Water Resources Department (i) General works (ii) Tillari Irrigation Project	 2 1	 4.22 161.18	 N.A. 965.00@	 N.A. 803.82	 2.87 808.43
Total	**19**	**210.68**	**-**	**-**	**856.23**

(Source: Information furnished by concerned departments)

As per information received from the departments as of 31 March 2010, there were 19 incomplete projects costing more than ₹ one crore each, in which ₹ 856 crore was blocked. The Tillari Irrigation project, a joint venture of the Government of Maharashtra and the Government of Goa, which commenced in 1986 was incomplete mainly due to insufficient budgetary support and was expected to be completed in 2010-11.

1.6.3 Investment and Returns

As of 31 March 2010, Government had invested ₹ 363 crore in statutory corporations, rural banks, joint stock companies and co-operatives **(Table 1.13)**. The average return on these investments was 0.23 *per cent* in the last three years while the Government paid an average interest rate of 7.63 *per cent* on its borrowings during 2007-10. Continued use of borrowed funds to fund investments which did not have sufficient returns would lead to an unsustainable financial position. The Government may ensure proper justification for investment of higher cost funds.

Table 1.13: Return on Investment

	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	235.84	266.06	299.17	329.66	362.75
Return (₹ in crore)	0.18	0.40	0.33	0.89	1.15
Return *(per cent)*	0.07	0.15	0.11	0.27	0.32
Average rate of interest on Government borrowings *(per cent)*	8.54	7.97	7.46	7.64	7.79
Difference between interest rate and rate of return *(per cent)*	8.47	7.82	7.35	7.37	7.47

(Source: Finance Accounts of the State)

Out of ₹ 362.75 crore invested, ₹ 287.84 crore was invested in 18 Government companies of which only three companies declared dividend aggregating ₹ 94.03 lakh. Further, ₹ 18.02 crore was invested in two statutory corporations of which one company declared a dividend of ₹ 3.36 lakh. The State Government also invested ₹ 3.60 lakh in 78 joint stock companies. However, no dividends were received during 2009-10 on these investments.

@ indicates the share of the Government of Goa in the revised total cost of the project (₹ 1,390.04 crore) as revised as per 2007 price level.

Further, an investment of ₹ 56.86 crore was made in co-operative banks and societies where the dividend received during 2009-10 was ₹ 17.53 lakh only.

1.6.4 Departmentally managed quasi-commercial undertakings

There are two departmentally managed quasi-commercial undertakings *viz.,* the Electricity Department and the River Navigation Department in the State. The department-wise position of the investments made by the Government upto the year for which *proforma* accounts have been finalised, net profits/loss as well as return on capital invested in these undertakings are given in **Appendix 1.6.** It was observed that:

An amount of ₹ 629.54 crore had been invested by the State Government in the Electricity Department and the River Navigation Department at the end of the financial year upto which their accounts were finalised. The Electricity Department earned a net profit amounting to ₹ 94.43 crore against a capital investment of ₹ 536.97 crore, thereby yielding a rate of return of 17.59 *per cent*.

The River Navigation Department was incurring losses every year and the accumulated deficit was ₹ 89.91 crore as against the total investment of ₹ 92.57 crore. The Government needs to review its working so as to wipe out its losses in the short run and to make itself sustaining in the medium to long term. Though this was reported in Audit Report for the year 2008-09, no Action Taken Report has been received from the State Government.

1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the Government has also been providing loans and advances to many institutions and organisations. **Table 1.14** presents the outstanding loans and advances as on 31 March 2010 and interest receipts vis-à-vis interest payments during the last three years**.**

Table1.14: Average Interest Received on Loans Advanced by the State Government

(₹in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Opening balance	49.66	50.38	52.74	71.15	90.05
Amount advanced during the year	7.05	8.14	24.59	28.67	37.22
Amount repaid during the year	6.33	5.78	6.18	9.77	12.73
Closing balance	50.38	52.74	71.15	90.05	114.54
Of which outstanding balance for which terms and conditions have been settled	--	--	--	--	--
Net addition	(+) 0.72	(+) 2.36	(+) 18.41	(+) 18.90	(+) 24.49
Interest receipts	2.10	2.03	2.19	2.07	1.90
Interest receipts as percentage of average outstanding loans and advances	4.20	3.94	3.54	2.57	1.86
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.97	7.50	7.11	7.23	7.38
Difference between interest payments and interest receipts (*per cent*)	(-) 4.28	(-) 4.03	(-) 3.57	(-) 4.66	(-) 5.52

(Source: Finance Accounts of the State)

The quantum of loans advanced during the year had increased from ₹ 28.67 crore in 2008-09 to ₹ 37.22 crore in 2009-10, an increase of 29.82 *per cent*. Repayments during the year had also increased from ₹ 9.77 crore in 2008-09 to ₹ 12.73 crore in 2009-10 an increase of 30.30 *per cent*. The difference between interest payments and interest receipts increased from 4.28 *per cent* to 5.21 *per cent.*

Out of loans totalling ₹ 37.22 crore, disbursed during 2009-10, the major recipients were Government servants (₹ 33.23 crore). Out of the remaining ₹ 3.99 crore, ₹ 2.50 crore was disbursed for educational, sports, art and cultural purposes and ₹ 1.16 crore to Agriculture and Allied Activities.

1.6.6 Cash Balances and Investment of Cash Balances

Table 1.15 depicts the cash balances and investments made by the State Government out of the cash balances during the year.

Table 1.15: Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 31 March 2009	As on 31 March 2010	Increase(+)/ Decrease(-)
Cash Balances	791.58	713.64	(-) 77.94
Investments from Cash Balances (a to b)	536.06	402.12	(-) 133.94
a. GOI Treasury Bills	534.22	400.02	(-) 134.20
b. GOI Securities	1.84	2.10	(+) 0.26
Funds-wise break-up of Investment from earmarked balances (a *and* b)	250.84	303.49	52.65
a. Sinking Fund	162.22	198.65	36.43
b. General and other Reserve Funds	88.62	104.84	16.22
Interest realized	17.89	9.97	(-) 7.92

(Source: Finance Accounts of the State)

During 2009-10, the State Government availed of Ways and Means Advances of ₹ 2.96 crore and the entire amount was repaid along with interest of ₹ 0.04 lakh during the year itself.

As seen from the above table, the interest amount realized from investments in GOI treasury bills was lower by ₹ 7.92 crore during the year as compared to the previous year. The State Government's cash balances at the end of the current year amounted to ₹ 713.64 crore. It decreased by ₹ 77.94 crore over the previous year. It was observed that ₹ 402 crore was invested in GOI securities and ₹ 303 crore was invested in earmarked funds.

1.7 Assets and Liabilities

1.7.1 Growth and Composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.3** gives an abstract of such liabilities and assets as on 31 March 2010, compared with the corresponding position on 31 March 2010 While the liabilities consist mainly of internal borrowings, loans and advances from GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

1.7.2 Fiscal Liabilities – Public Debt and Guarantees

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4.** However, the composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.10** and **1.11**.

Chart 1.10 : Composition of Outstanding Fiscal Liabilities as on 01.04.2009 (₹ in crore)

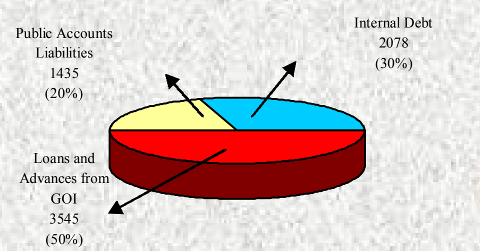
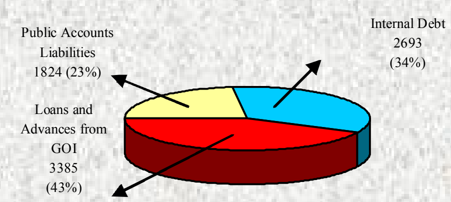


Chart 1.11 : Composition of Outstanding Fiscal Liabilities as on 01.04.2010 (₹ in crore)



There are two sets of liabilities, viz., Public Debt and other liabilities. Public Debt consists of the internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund (Capital Accounts). It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of Public Account, include deposits under the small savings scheme, provident funds and other deposits.

During 2009-10, the fiscal liabilities to GSDP ratio at 35 *per cent* was higher than the norm of 30 *per cent* recommended by the TFC.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by the borrowers for whom the guarantees have been extended.

As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and the outstanding guarantees for the last three years is given in **Table1.16.**

Table 1.16: Guarantees given by the Government of Goa

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10
Maximum amount guaranteed	527.77	602.80	602.60
Outstanding amount of guarantees	311.09	165.66	147.84
Percentage of maximum amount guaranteed to total revenue receipt	17.93	17.09	14.70

(Source : Finance Accounts of the State)

The Goa Fiscal Responsibility and Budget Management Act, 2006 specified that the Government should cap the total outstanding guarantees within the specified limit under the Goa State Guarantees Act, 1993. The Goa Legislature fixed a limit of ₹ 800 crore on the outstanding guarantees in March 2005 the outstanding guarantees at ₹ 148 crore during 2009-10 were well within the ceiling limit specified by the Legislature. The State has set up a Guarantee Redemption Fund and the amount invested against this fund as on 31 March 2010 was ₹ 96.47 crore.

1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyze various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization; sufficiency of non-debt receipts; net availability of borrowed funds; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.17** analyzes the debt sustainability of the State according to these indicators for the period of three years beginning from 2007-08.

Table 1.17 Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	192.98	2.65	(-) 213.70
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 54	(-) 276	(-) 422
Net Availability of Borrowed Funds	149	260	261
Burden of Interest Payments Ratio (IP/RR)	0.15	0.14	0.14
Maturity Profile of State Debt			
Year	**Amount**		
0-1	165.95 (3.24)	141.19 (2.51)	207.96 (3.42)
1-3	375.36 (7.32)	389.91 (6.93)	617.44 (10.16)
3-5	553.13 (10.79)	596.40 (10.61)	656.23 (10.80)
5-7	572.11 (11.16)	665.82 (11.84)	724.62 (11.92)
7 and above	3459.94 (67.49)	3420.36 (60.83)	3721.59 (61.24)
Loans pertaining to Ex-Union Territory		409.35 (7.28)	149.49 (2.46)
Total	**5126.49**	**5623.03**	**6077.33**

(Source: Finance Accounts of the State)

Figures in parentheses indicate percentage of total debt

Debt stabilization means that, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising. When we observe the various indicators of debt stabilization, we find that there has been an alarming fall and the figure has turned negative. Thus, debt stabilization has become a serious concern for the Government.

The resource gap (the difference between incremental expenditure and incremental non-debt receipts) has been widening alarmingly over the years showing that unless concerted efforts are made to narrow this gap, by increasing non-debt receipts in the coming years, or to contain primary expenditure, debt sustainability could become a major problem in future.

One indicator of debt sustainability is that a larger amount of borrowed funds is available for current operation. However, this was mainly on account of larger quantum of borrowings of ₹ 1,225 crore rather than any reduction in debt repayment of only ₹ 964 (₹ 382 being repayment of debt and an amount of ₹ 583 crore being interest).

The Twelfth Finance Commission had recommended, that interest payments should be within 15 *per cent* of revenue receipts. Goa has managed to keep this within this limit.

The maturity profile of the State Government's Public Debt indicates that nearly 24.5 *per cent* of the total Public Debt is repayable within the next five years while 73 *per cent* loans are required to be repaid after five years. The balance 2.5 *per cent* loan pertains to the erstwhile Union Territory of Goa, Daman and Diu. Ideally, further borrowings in future should be made in such a way that there is no bunching of repayments in any particular year as that will cause undue stress on the budget.

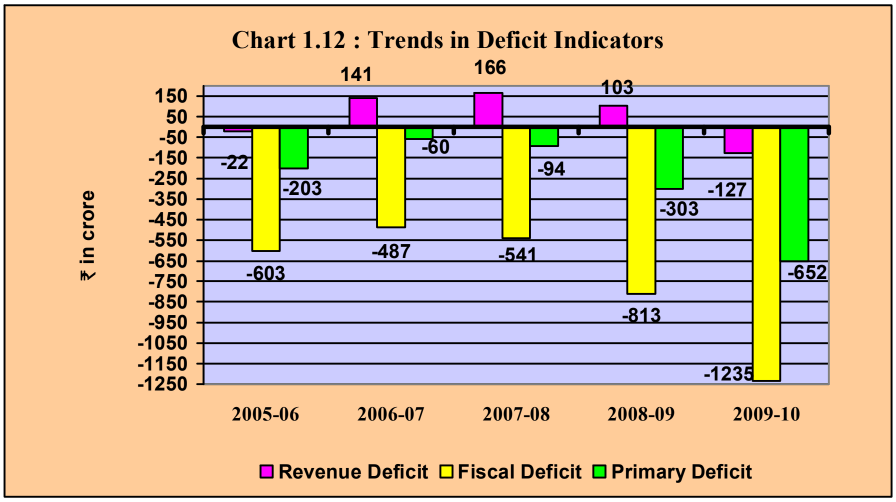
As per the Thirteenth Finance Commission recommendations the fiscal liability of the State should be brought down to 25 *per cent* of the GSDP by the year 2014-15. However, it is seen that the position has not improved as it has just reduced from 37.5 *per cent* in 2005-06 to 35 *per cent* in 2009-10.

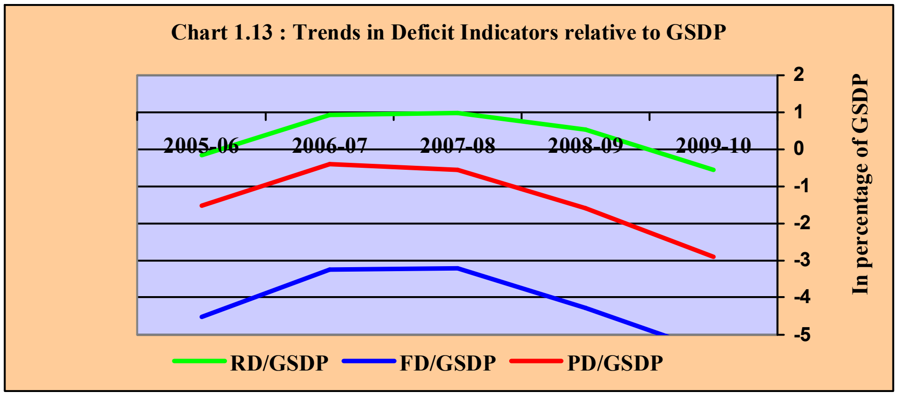
1.9 Fiscal Imbalances

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 are raised and applied are important pointers to its fiscal health. This section presents the trends, nature, magnitude and 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 2009-10.

1.9.1 Trends in Deficit/Surplus

Charts 1.12 and **1.13** present the trends in deficit indicators over the period 2005-10.





- As per the Goa FRBM Act 2006, the Government had to reduce the revenue deficit to 'nil' by 31 March 2009 and adhere to it thereafter. The revenue deficit of ₹ 22 crore in 2005-06 was reduced to a revenue surplus of ₹ 103 crore in 2008-09. However, the State has again fallen back to revenue deficit of ₹ 127 crore in 2009-10, which indicates that no effective measures have been adopted yet to sustain the zero revenue deficit position.

- The Goa FRBM Act 2006, prescribed a road map of reducing the Fiscal Deficit (FD) by 0.5 *per cent* of GSDP in each financial year beginning from 1 April 2006. The ratio of FD to GSDP increased by 1.08 *per cent* during 2008-09 over the year 2007-08 and further increased by 1.21 *per cent* during 2009-10 over the previous year.

- The primary deficit increased from ₹ 303 crore to ₹ 652 crore during the year.

- As per the Goa FRBM Act 2006, the ratio of interest payments to total revenue should not exceed 15 *per cent* by 31 March 2009 and to adhere to it thereafter. The State has been within the norms set and there has been a gradual decrease of Interest payment from 18.44 *per cent* of revenue receipts in 2005-06 to 14.22 *per cent* in 2009-10.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.18.**

Table 1.18: Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit						
		603	**487**	**541**	**813**	**1235**
1	Revenue Deficit/Surplus	(-) 22	(+) 141	(+) 166	(+) 103	(-) 127
2	Net Capital Expenditure	580	626	688	897	1084
3	Net Loans and Advances	1	2	19	19	24
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	66	81	369	404	517
2	Loans from GOI	581	508	74	5	(-) 160
3	Loans from Financial Institutions	(-) 19	(-) 23	(-) 7	87	97
4	Ways and Means	-	-	-	-	-
5	Small Savings, PF etc.	47	59	89	166	252
6	Deposits and Advances	(-) 7	51	69	106	137
7	Suspense and Miscellaneous	67	(-) 49	90	(-) 37	91
8	Remittances	16	(-) 1	51	-	71
9	Reserve Fund	28	32	35	148	155
10	Contingency Fund	-	-	-	-	(-) 3
11	Increase(-)/Decrease(+) in cash balance	(-) 176	(-) 171	(-) 229	(-) 66	(+) 78
12	**Overall Deficit**	**603**	**487**	**541**	**813**	**1235**
*All these figures are net of disbursements/outflows during the year						

(Source : Finance Accounts of the State)

During 2009-10, the fiscal deficit of ₹ 1,235 crore was mainly met out of market borrowings of ₹ 517 crore and small savings, provident funds, etc. of ₹ 252 crore. The net market borrowing and the small savings, provident fund etc. increased by 28 *per cent* and 52 *per cent* respectively over the previous year, thus increasing the interest burden in future.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit 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 ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit **(Table 1.19)** would indicate the extent to which the deficit had been on account of enhancement in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.19: Primary Deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Non debt Receipts vis-à-vis primary revenue expenditure	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2005-06	2175	1791	580	7	2378	384	(-) 203
2006-07	2616	2042	626	8	2676	574	(-) 60
2007-08	2950	2331	688	25	3044	619	(-) 94
2008-09	3538	2915	897	29	3841	623	(-) 303
2009-10	4113	3644	1084	37	4765	469	(-) 652

(Source: Finance Accounts of the State)

The non-debt receipts were higher than the primary revenue expenditure during the last five years, resulting in a primary revenue surplus. Though the non-debt receipts in the past five years were enough to cover primary revenue expenditure, the receipts were not enough to cover capital expenditure. Hence, there was a primary deficit in all the years. In 2006-07 and 2007-08, the primary deficit fell, but in 2008-09 and 2009-10 it once again increased significantly to ₹ 303 crore and ₹ 652 crore respectively, mainly due to an increase in capital expenditure from ₹ 688 crore in 2007-08 to ₹ 897 crore in 2008-09 and to ₹ 1,084 crore in 2009-10.

1.10 Conclusion and Recommendations

- The normative assessment of the tax revenue made by the TFC for the year 2009-10 was ₹ 1,986 crore against which the tax revenue was only ₹ 1,762.34 cr. *(Paragraph 1.1).*

  The Government needs to explore the ways to enhance the tax revenue, keeping in view the GSDP growth, the revenue deficit and TFC recommendations.

- The State lost about ₹ 40 crore on DCRF as the government did not meet the necessary conditions for receipt of the DCRF *(Paragraph 1.3).*

  The State Government should take care to ensure that the fiscal deficit is maintained within manageable limits as prescribed by the Thirteenth Finance Commission so that the State does not lose out on the benefit of debt waivers in future.

- The arrears of revenue as on 31 March 2010 amounted to ₹ 390 crore, which equalled more than 11 *per cent* of the State's own resources, and more than thrice the revenue deficit for the year *(Paragraph 1.3.3).*

Government needs to make urgent and concerted efforts to ensure that the respective departments recover the arrears of revenue. This will help in reducing the revenue deficit.

- Tax administration cost was higher than the all-India average in the case of Stamp duty and Registration fees and also State Excise *(Paragraph 1.3.1).*

  Government needs to make efforts to improve the efficiency of tax collection.

- The Non-Plan Revenue Expenditure (NPRE) at ₹ 3,469 crore was more by 24 *per cent* over the previous year. The NPRE exceeded the normative assessment made by the TFC by ₹ 1,720 crore *(Paragraph 1.1).*

  The Government should make serious efforts to contain the NPRE within manageable limits as it would be necessary to make available more funds for developmental purposes and also to contain revenue deficit.

- GOI directly transferred ₹ 380.56 crore to State implementing agencies during 2009-10. Transfer of funds directly from the Union to State implementing agencies without routing them through the State budget makes monitoring of its end use difficult *(Paragraph 1.2.2).*

  Government needs to ensure proper utilization of these funds by implementing uniform accounting practices, proper documentation, timely reporting of expenditure, etc.

- The Twelfth Finance Commission set a target of the ratio of fiscal liabilities to GSDP at 30 *per cent.* Further, the Thirteenth Finance Commission recommended that the fiscal liability of the State should be brought down to 25 *per cent* of the GSDP by the year 2014-15. However, it is seen that the position has not improved as the fiscal liabilities has just reduced from 37.50 *per cent* in 2005-06 to 35 *per cent* in 2009-10 *(Paragraph 1.7.2).*

  The Government needs to adopt a focused strategy to ensure that the fiscal liability is brought down to achieve the target set by the Thirteenth Finance Commission.

- As per the Goa FRBM Act 2006, the Government had to reduce the revenue deficit to 'nil' by 31 March 2009 and adhere to it thereafter. However, after achieving revenue surplus for three consecutive years from 2006-07 to 2008-09, it turned to a deficit in 2009-10. Thus, the State Government failed to achieve the FRBM target of reducing the revenue deficit to zero. The debt stabilization had turned negative and was a serious cause of concern *(Paragraph 1.9.1).*

  Government needs to make concerted efforts to increase non-debt receipt or to curtail unproductive revenue expenditure to ensure that zero deficit is achieved and maintained.

- The resource gap has been widening alarmingly over the years. If the trend is not reversed, debt sustainability could become a major problem in future *(Paragraph 1.8)*.

  The Government needs to make concerted efforts to narrow the resource gap, by increasing non-debt receipts in the coming years, or to contain unproductive expenditure to ensure debt sustainability.

- The Government's investment as on 31 March 2010 stood at ₹ 362 crore. The average return on these investments was 0.23 *per cent* in the last three years while the Government paid an average interest rate of 7.63 *per cent* on its borrowings during 2007-10 *(Paragraph 1.6.3)*.

  Government needs to ensure that funds borrowed at higher rates of interest are not invested for lesser returns. Wherever there is a clear social justification, high priority non-revenue generating projects may be taken up only after a diligent socio-economic cost benefit analysis so that there is transparency in prioritization of projects.

- The Goa Fiscal Responsibility and Budget Management Act, 2006 specified that the Government should cap the total outstanding guarantees within the specified limit under the Goa State Guarantees Act, 1993. The State has set up a Guarantee Redemption Fund and the amount invested against this fund as on 31 March 2010 was ₹ 96.47 crore. The outstanding guarantees at ₹ 147.84 crore were well within the ceiling limit specified by the legislature *(Paragraph 1.7.3)*.