

# Chapter 1 Finances of the State Government

Gujarat, comprising about six *per cent* of India's geographical mass, is its seventh largest State. It is situated on the west coast of India, bounded by the Arabian Sea in the west, Rajasthan in the north, Madhya Pradesh in the east and Maharashtra in the south. The State also shares an international border with Pakistan at the north western fringe. It has a coast line of about 1600 kilometres, which is one third of India's mainland coastline. It is one of the most prosperous states of the country owing to its booming economy and industry. As per the 2001 census, it had a population of 5.07 crore, of which the tribal population was 14.75 *per cent*. The population has been growing at a compound annual growth rate (1.49 *per cent*) which is comparable with that of other General Category States (1.48 *per cent*). The literacy rate was higher than the national average. The infant mortality rate was lower than the all India average. The Gross State Domestic Product (GSDP) of Gujarat has been growing at a higher compound growth rate (14.67 *per cent*) as compared to other General Category States (12.5 *per cent*). As far as population below the poverty line is concerned, Gujarat was far below the national average and also fared better than other General Category States. Gujarat has lower levels of rural and urban inequalities compared to the all-India average. (**Appendix 1.1 Part A**)

This chapter provides a broad perspective of the finances of the Government of Gujarat 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 Fiscal Operations**

(₹ in crore)

Receipts			Disbursements				
2008-09		2009-10	2008-09		2009-10		
					Non-Plan	Plan	Total
<b>Section-A: Revenue</b>							
38,675.71	Revenue receipts	41,672.36	38,741.46	Revenue expenditure	34,307.42	14,330.85	48,638.27
23,557.03	Tax revenue	26,740.23	13,385.32	General services	16,429.58	504.58	16,934.16
5,099.32	Non-tax revenue	5,451.71	14,932.14	Social services	11,744.45	7,860.85	19,605.30
5,725.86	Share of Union taxes/ duties	5,890.92	10,256.47	Economic services	6,027.42	5,965.42	11,992.84
4,293.50	Grants from Government of India	3,589.50	167.53	Grants-in-aid and Contributions	105.97	-	105.97
<b>Section-B: Capital</b>							
20.60	Misc. Capital receipts	136.30	10,219.76	Capital Outlay	20.54	8,026.19	8,046.73
181.11	Recoveries of Loans and Advances	150.67	353.75	Loans and Advances disbursed	77.23	350.38	427.61
10,306.11	Public Debt receipts*	14,244.69	2,604.91	Repayment of Public Debt*	**	**	3,245.07
9.94	Contingency Fund	33.97	33.97	Contingency Fund	**	**	47.12
49,626.36	Public Account receipts	58,659.95	47,284.61	Public Account disbursements	**	**	56,087.85
13,537.65	Opening Cash Balance	13,119.02	13,119.02	Closing Cash Balance	-	-	11,524.31
<b>1,12,357.48</b>	<b>Total</b>	<b>1,28,016.96</b>	<b>1,12,357.48</b>	<b>Total</b>			<b>1,28,016.96</b>

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

\* Excluding net transactions under ways and means advances and overdrafts.

\*\* Bifurcation of Plan and Non-Plan not available.

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

- Revenue receipts grew by 7.75 per cent (₹2,997 crore) over the previous year. The increase was due to increase in the State's own tax revenue (₹3,183 crore), increase in non-tax revenue (₹352 crore), State's share of Union taxes and duties (₹165 crore), offset by a decrease in grants from the Government of India (GOI) (₹704 crore).
- Revenue expenditure increased by ₹ 9,897 crore (25.55 per cent) mainly due to increase in expenditure on Social Services by ₹4,673 crore and on General Services by ₹3,549 crore.
- Capital expenditure decreased by ₹ 2,173 crore (21.26 per cent) whereas the disbursement of loans and advances increased by ₹74 crore (20.88 per cent).
- Receipts under Public Debt increased by ₹ 3,939 crore (38.22 per cent) against an increase of ₹ 640 crore in payments (24.58 per cent).
- Public Account receipts and payments increased by ₹ 9,034 crore (18.20 per cent) and ₹8803 crore (18.62 per cent) respectively.
- The cash balance at the end of the year decreased by ₹ 1,595 crore.

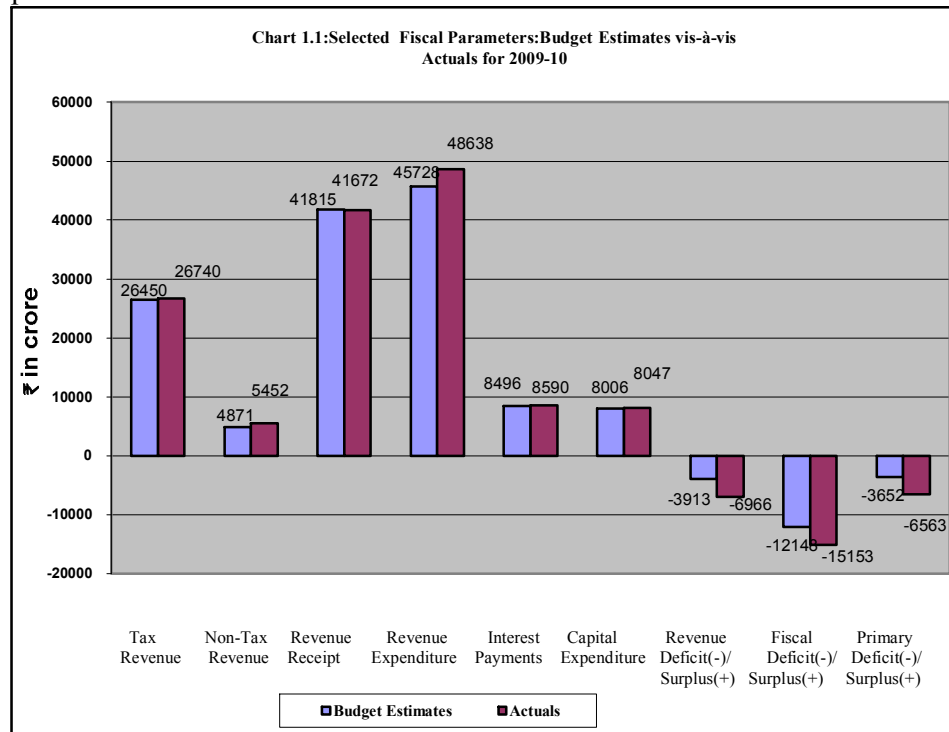
**Review of fiscal situation**

As per the Gujarat Fiscal Responsibility Act, 2005 (FRBM Act), in line with the recommendations of the Twelfth Finance Commission, the State Government had agreed for elimination of revenue deficit by the end of 2007-08 and reduction of fiscal deficit to not more than three *per cent* of the Gross State Domestic Product (GSDP) by 31 March 2009. Similarly, the target of the ratio of Public Debt to GSDP was 30 *per cent*. Total outstanding guarantees were to be capped at ₹16,000 crore by 2007-08. In the wake of the global financial crisis, the fiscal deficit targets for 2008-09 and 2009-10 were relaxed by 0.5 *per cent* and one *per cent* of GSDP respectively. The requirement of maintaining revenue deficit at zero was also relaxed for 2008-09 and 2009-10. Though the State had achieved the above targets by 2006-07, during 2008-09, the State had a revenue deficit of ₹ 66 crore (0.02 *per cent* of GSDP), which further increased to ₹6,966 crore (1.83 *per cent* of GSDP) in 2009-10. The ratio of public debt to GSDP at 25.72 *per cent* during the current year remained, however, within the limit of 30 *per cent* prescribed under the Act. The fiscal deficit during 2009-10 was 3.98 *per cent* of GSDP (just within the relaxed limit of four *per cent*).

**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.



During 2009-10, compared to the budget estimates, the tax revenue increased by ₹290 crore though there was a decrease in revenue receipts by ₹143 crore. Against an estimated revenue deficit of ₹3,913 crore, the financial year ended with a revenue deficit of ₹6,966 crore. The primary deficit was ₹6,563 crore against the estimate of ₹3,652 crore.

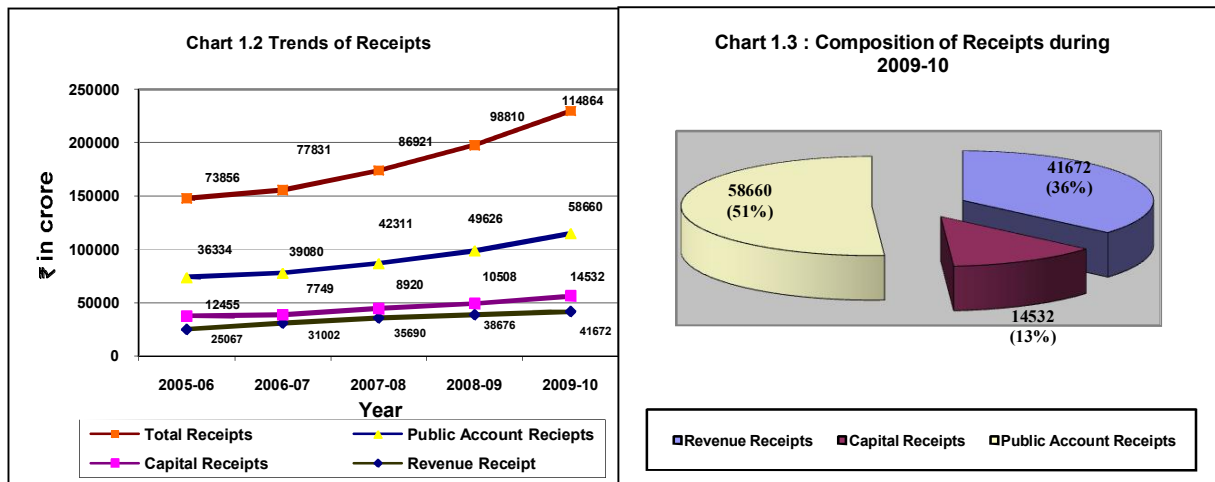
For the welfare of building and other construction workers who are the most vulnerable segment of the unorganized labour sector, the State Government constituted (December 2004) the Building and Other Construction Workers' Welfare Board (Board) under the Buildings and Other Construction Workers' Welfare Cess Act, 1996. Under this Act, the State Government collected labour cess of ₹234.77 crore (₹ 0.15 crore in 2005-06; ₹22.10 crore in 2006-07; ₹30.77 crore in 2007-08; ₹49.44 crore in 2008-09 and ₹132.31 crore in 2009-10), but no part of the receipts was transferred to the Welfare Board for spending on social security schemes meant for building and other construction workers.

The revenue expenditure reflected a variation of 6.36 per cent over the budget estimates due to increase in expenditure under General and Social Services. As a result, the revenue deficit increased to ₹6,966 crore against ₹3,913 crore projected in the budget estimates. Capital expenditure of ₹8,047 crore showed a significant decrease (21.26 per cent) over the previous year.

➤ **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. 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.



The relative share of revenue receipts and Public Account receipts which stood at 34 per cent and 49 per cent of the total receipts in 2005-06 increased to 36 per cent and 51 per cent in 2009-10; while that of capital receipts, declined from 17 per cent in 2005-06 to 13 per cent in 2009-10. During the period, the State's tax revenue increased from ₹15,698 crore in 2005-06 to ₹26,740 crore in 2009-10, but the percentage of tax receipts to revenue receipts remained the same at 64 per cent.

### 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<sup>1</sup> 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. During 2009-10, ₹3,553 crore was transferred to State implementing agencies; which was an increase of 130 per cent over the previous year. The funds directly transferred to State implementing agencies are presented in **Table 1.2**

**Table-1.2: Funds transferred directly to State implementing agencies**

Programme/Scheme	Implementing Agency in the State	₹ in crore)	
		2008-09	2009-10
Integrated Watershed Management Program DPAP DDP IWDP DLR	DRDA	33.30	258.66
National Rural Employment Guarantee Scheme	DRDA	59.69	781.93
Swaranajayanti Gram Rozgar Yojana	DRDA	21.96	39.81
Accelerated Rural Water Supply Scheme	Gujarat Water Supply and Sewerage Board	223.28	488.91
Rural Housing (Indira Awas Yojana)	DRDA	124.26	372.41
Sarva Shiksha Abhiyan	Gujarat Council of Primary Education	254.32	200.32
National Rural Health Mission	State Health Society Gujarat	154.30	372.31
Pradhan Mantri Gram Sadak Yojana	Gujarat State Rural Roads Development Agency	112.01	117.80
MPs Local Area Development Scheme	District Collectors	68.00	74.00
Scheme for Integrated Textile Park	R.J.D. Integrated Textile Park	52.95	85.58
Upgradation of Government it is	IMC Society of ITIs	0.02	62.50
Micro Irrigation	Gujarat Green Revolution Company Limited	48.99	44.69
Adult Education and Skill Development Scheme	State Literary Mission Authority	0.65	23.99
National Aids Control Programme	Gujarat State Aids Control Society	29.77	36.95
Assistance to States for Developing Export Infrastructure and Allied Activities	Gujarat Industrial Development Corporation	38.93	35.57
Central Rural Sanitation Scheme	DRDA	0.27	30.37
Project Based Support to Autonomous Institutes	National Institute of Design	0.00	28.00
National Horticulture Mission	Gujarat Horticulture Mission	35.32	25.21
National Afforestation Programme	Forest Department	23.66	24.44
Rashtriya Swasthya Bima Yojana	State Health Society	8.77	22.57
Others (55 schemes)	NGOs and other institutions (each receiving less than ₹20 crore)	257.54	427.44
<b>Total</b>		<b>1,547.99<sup>2</sup></b>	<b>3,553.46</b>

(Source: Finance Accounts of the State.)

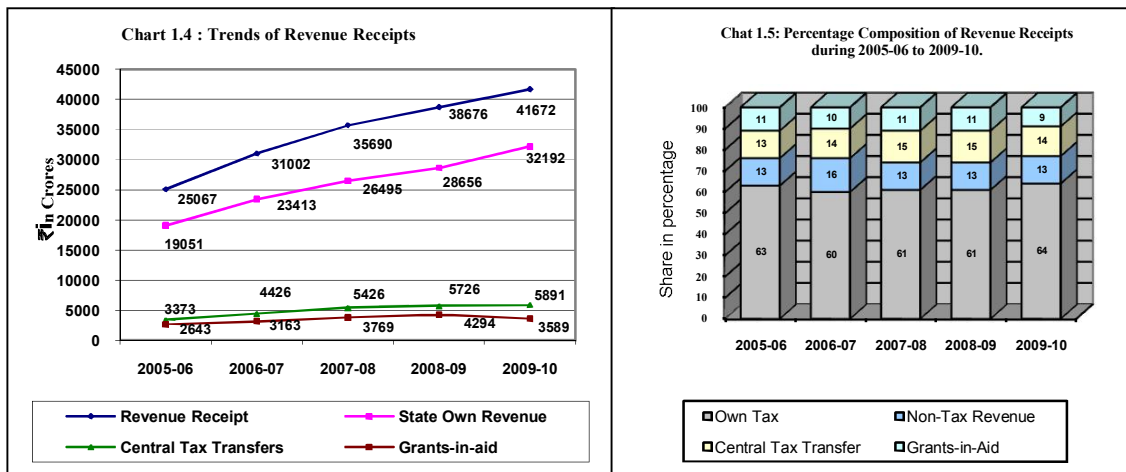
<sup>1</sup> State implementing agencies includes any organizations/institutions including non-Governmental organizations which are authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State Implementation Society for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

<sup>2</sup> Figures differ from last year's report due to correction.

Direct transfer of funds from the Union to the State implementing agencies ran the risk of improper utilization of funds by these agencies. Unless uniform accounting practices are followed by all these agencies with 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 2005-06 to 2009-10 are presented in **Appendix 1.4** and also depicted in **Charts 1.4** and **1.5** respectively.



During the award period (2005-06 to 2009-10), the State’s own tax revenue and non-tax revenue registered a compound annual growth rate of 14.26 *per cent* and 13.07 *per cent* respectively. The growth rates in Central tax transfers and grants- in- aid were 14.96 *per cent* and 7.95 *per cent* respectively. During 2009-10, the State achieved a growth rate of 13.51 *per cent* in its own tax revenue collection over the previous year. However, the grants-in-aid from the Central Government decreased by 16.42 *per cent*. During the year 2009-10, the growth rate was 6.92 *per cent* in respect of non- tax revenue. As regards Central tax transfers, the increase was 2.88 *per cent* over the previous year.

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 ability of the State’s own tax revenue should increase. In 2008-09, the growth rate in own tax revenue as compared to the growth rate in GSDP was lower than the previous year, but in the current year the situation had improved. 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)	25,067	31,002	35,690	38,676	41,672
Rate of growth of RR ( <i>per cent</i> )	23.70	23.68	15.12	8.37	7.75
R R/GSDP ( <i>per cent</i> ) <sup>©</sup>	11.05	11.80	11.75	11.47	10.94
<b>Buoyancy Ratios</b>					
Revenue Buoyancy w.r.t. GSDP <sup>©</sup>	1.19	1.50	0.97	0.76	0.60
State's Own Tax Buoyancy w.r.t. GSDP.	1.06	1.12	1.10	0.43	1.04

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

The GSDP at current prices was estimated to increase from ₹ 3,37,217 crore in 2008-09 to ₹3,81,028 crore in 2009-10, representing an increase of 12.99 *per cent*. However, the rate of growth of revenue receipts showed a declining trend despite the increase in GSDP, indicating that the State's aim to widen the tax base and to augment its revenues could not be achieved. Revenue buoyancy widely fluctuated during the period with reference to the growth rate of GSDP. In 2006-07, the growth rate of revenue receipts was 1.5 times the GSDP growth rate. However, in the next three years, the low growth rate of revenue receipts relative to GSDP pushed the revenue buoyancy ratio down. The revenue buoyancy ratio was low, i.e. 0.60, in 2009-10.

### 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 the 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**.

During 2008-09, in respect of the main components of taxes and duties, the collection charges were below the all-India average except for State excise. 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**

Sr. 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	
<b>Tax Revenue</b>								
1	Sales tax/Vat	10,561.34	12,817.46	15,104.54	16,810.65	18,215.00	18,199.79	(-0.08
2	State excise	48.06	41.94	47.20	48.71	50.00	65.94	(+)31.88
3	Stamp duty and Registration fees	1,153.16	1,425.03	2,018.43	1,728.50	1,750.00	2,556.72	(+)46.10
4	Taxes and duties on Electricity	1,899.68	2,087.77	2,046.52	2,369.91	2,445.00	2,643.65	(+)8.12
5	Taxes on vehicles and taxes on goods and passengers	1,310.27	1,197.11	1,461.29	1,551.01	1,715.00	1,549.55	(-)9.65
6	Others	725.60	895.32	1,207.17	1,048.25	1,275.00	1,724.58	(+)35.26
<b>Total</b>		<b>15,698.11</b>	<b>18,464.63</b>	<b>21,885.57</b>	<b>23,557.03</b>	<b>25,450.00</b>	<b>26,740.23</b>	<b>(+)5.07</b>

<sup>©</sup>Figures differ from last years report due to change in GSDP figures of 2007-08 and 2008-09.

## Finances of the State Government

Non-Tax Revenue								
1	Interest Receipts	130.91	283.07	329.88	567.81	550.00	419.44	(-)23.74
2	Non-ferrous Mining and Metallurgical Industries	1,880.18	2,173.76	2,082.14	1,559.82	1,400.00	2,138.98	(+)52.78
3	Major and Medium Irrigation Projects	248.62	330.61	452.82	455.77	500.00	504.61	(+)0.09
4	Medical and Public Health	53.83	66.68	66.25	126.50	130.30	62.40	(-)52.11
5	Police	71.28	90.66	86.24	77.44	79.76	101.45	(+)27.19
6	Others	968.55	2,004	1,591.98	2,311.98	2,210.94	2,224.83	(+)0.63
<b>Total</b>		<b>3,353.37</b>	<b>4,948.78</b>	<b>4,609.31</b>	<b>5,099.32</b>	<b>4,871.00</b>	<b>5,451.71</b>	<b>(+)11.92</b>
<b>Grand Total</b>		<b>19,051.48</b>	<b>23,413.41</b>	<b>26,494.88</b>	<b>28,656.35</b>	<b>30,321.00</b>	<b>32,191.94</b>	<b>(+)6.17</b>

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

The sales tax revenue during the year increased by ₹1,404 crore over the previous year. Taxes and duties on electricity showed an increase of ₹273.74 crore during the year and was 8.12 *per cent* more than the budget estimates. Similarly, stamp duty and registration fees showed an increase of ₹828.22 crore, which was 46.10 *per cent* over the budget estimates. The State excise revenue showed an increase of ₹17.23 crore, representing an increase of 31.88 *per cent* over the budget estimates. In Medical and Public Health, there was a decrease in revenue receipts by ₹64.10 crore, indicating reduction of 50.67 *per cent* over the previous year's revenue and 52.11 *per cent* over the budget estimates. There was an increase of ₹ 828.22 (47.91 *per cent*) crore in stamp duty and registration fees over the previous year. However, interest receipts declined by ₹148.37 crore (26.13 *per cent*) over the previous year. As regards revenue from non-ferrous mining and metallurgical industries, the increase was of ₹579.16 crore. Receipts under this component were more by 52.78 *per cent* compared to the budget estimates.

### 1.3.2 Loss of Revenue due to Evasion of Taxes.

Details of cases of evasion of tax detected by the departments and the additional demands raised by them are given in **Table 1.5**.

**Table 1.5: Cases of evasion of tax detected and additional demands raised**

Sr. No.	Nature of duty	No. of cases pending as on 31 March 2009	No. of cases detected during 2009-10	No. of cases in which assessments completed and additional demands raised		No. of cases pending finalization as on 31 March 2010
				No. of cases	Amount (₹ in crore)	
1	Sales tax/VAT	718	394	262	101.79	850

(Source: Office of the Principal Accountant General (C&RA), Ahmedabad)

Effective steps need to be taken to clear the backlog in assessments so as to avoid loss of revenue.

### 1.3.3 Revenue Arrears

As on 31 March 2010, revenue arrears amounted to ₹12,677.42 crore (sales tax: ₹11,197.53 crore- of which ₹4,178.08 crore was outstanding for more than five years; electricity duty: ₹1,479.89 crore). Recovery proceedings for ₹4,372.97 crore (sales tax: ₹3,648.48 crore; electricity duty: ₹724.49 crore) were stayed by judicial and executive authorities.

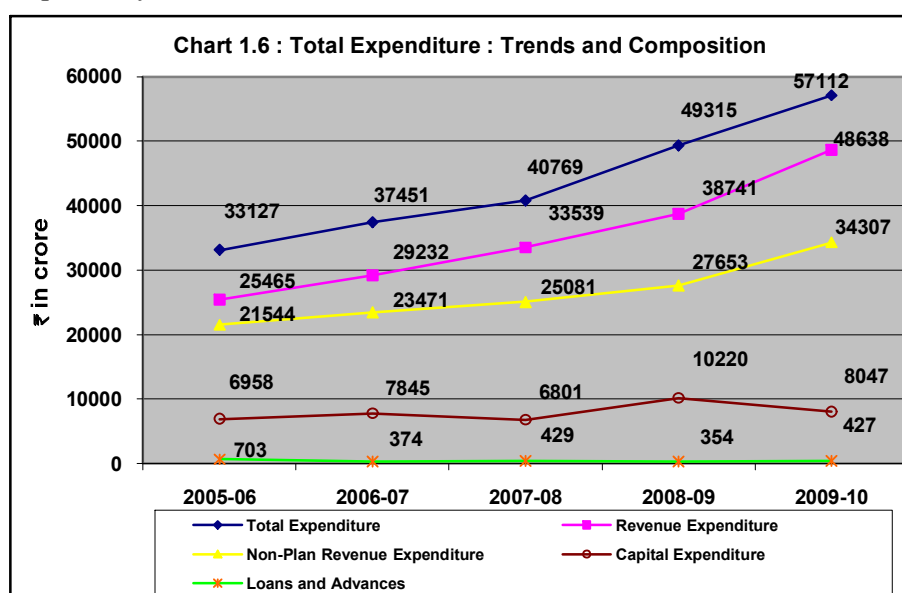


## ➤ 1.4 Application of resources

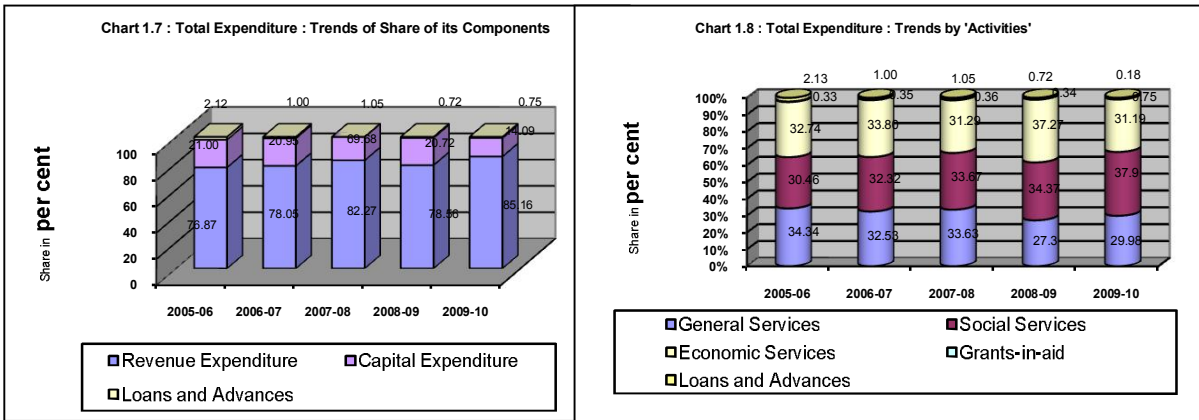
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit 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 sector.

### 1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2005-06 to 2009-10) 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 during 2009-10 increased by 15.81 per cent over the previous year. The increase in revenue expenditure by 25.55 per cent was offset by decrease in capital expenditure by 21.26 per cent. The decrease in capital expenditure was mainly due to decrease in expenditure on irrigation and flood control by 43.44 per cent over the previous year. The capital expenditure included ₹2,193 crore invested in Sardar Sarovar Narmada Nigam Limited. The revenue expenditure was 85.16 per cent of the total expenditure, of which 70.53 per cent was the Non-Plan component. The Non-Plan expenditure (including loans and advances) increased by 24.02 per cent over the previous year. The relative share of expenditure under General Services and Economic Services declined from 34 per cent and 33 per cent in 2005-06 to 30 per cent and 31 per cent in 2009-10 respectively. The expenditure under Social Services increased from 30 per cent to 38 per cent.



### 1.4.2 Committed Expenditure

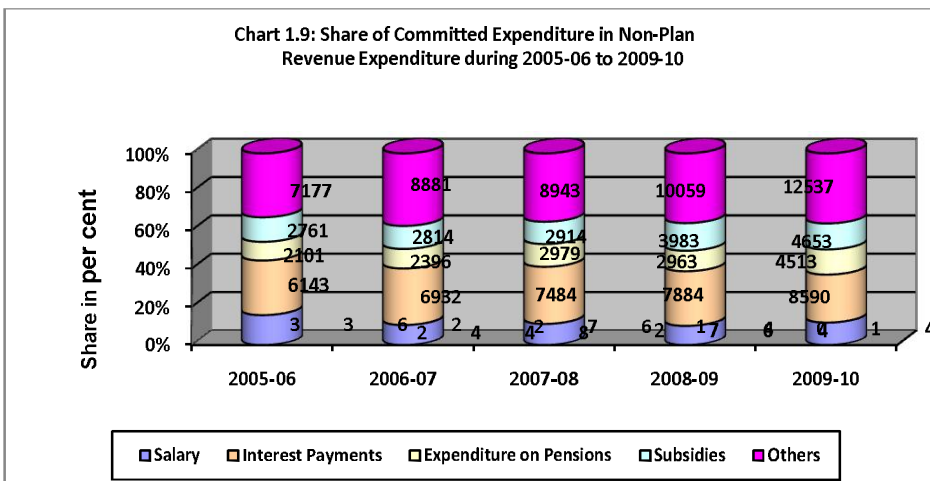
The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.6** and **Chart 1.9** present the trends in the expenditure on these components during 2005-06 to 2009-10.

**Table-1.6: Components of Committed Expenditure**

	(₹ in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Salaries, <i>Of which</i>	3,624 (14.5)	2,669 (8.6)	3,119 (8.7)	3,189 (8.24)	4,760 (11.42)
Non-Plan Head	3,362	2,448	2,761	2,764	4,014
Plan Head*	262	221	358	425	746
Interest Payments	6,143 (24.5)	6,932 (22.4)	7,484 (21)	7,884 (20.4)	8,590 (20.61)
Expenditure on Pensions	2,101 (8.4)	2,396 (7.7)	2,979 (8.3)	2,963 (7.7)	4,513 (10.83)
Subsidies	2,761 (11)	2,814 (9.1)	2,914 (8.2)	3,983 (10.3)	4,653 (11.17)
Total committed expenditure	14,629 (58.36)	14,811 (47.77)	16,49 (46.22)	18,019 (46.59)	22,516 (54.03)
Other components, i.e. other than committed expenditure	10,836 (43.2)	14,421 (46.5)	17,043 (47.8)	20,722 (53.6)	26,122 (62.68)
<b>Total Revenue Expenditure</b>	<b>25,465</b>	<b>29,232</b>	<b>33,539</b>	<b>38,741</b>	<b>48,638</b>

\*Plan head includes Salaries and Wages under Centrally Sponsored Schemes. Figures in parentheses indicate per centage of Revenue Receipts.

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



The expenditure on salaries under the Non-Plan head increased from ₹3,362 crore in 2005-06 to ₹4,014 crore in 2009-10, mainly due to implementation of the recommendations of the Sixth Pay Commission. As a percentage of the revenue receipts, the expenditure on salaries increased from 8.24 *per cent* in 2008-09 to 11.42 *per cent* in 2009-10. It was also 13.39 *per cent* of the revenue expenditure (net of pensions and interest payments) and within the limit of 35 *per cent* as recommended by the Twelfth Finance Commission (TFC). The amount spent on subsidies increased from ₹2,761 crore in 2005-06 to ₹4,653 crore in 2009-10, mainly due to increase in subsidy to the energy sector (subsidy in fuel prices and power purchase adjustment charges). Expenditure on pensions increased from ₹2,963 crore in 2008-09 to ₹4,513 crore in 2009-10. The State implemented a new Pension Scheme for its employees, to contain its revenue expenditure. As a percentage of revenue receipts, the expenditure on pensions which was 8.4 *per cent* in 2005-06 came down gradually to 7.7 *per cent* in 2008-09, but increased to 10.83 *per cent* in 2009-10.

Interest payments as a percentage of revenue receipts as well as revenue expenditure declined from 24.5 *per cent* and 24.12 *per cent* in 2005-06 to 20.61 *per cent* and 17.66 *per cent* in 2009-10 respectively. The interest payments, however, increased by 8.95 *per cent* over the previous year. The increase was mainly due to more payment of interest on market loans (₹652 crore) than that of the previous year. The State Government envisaged increasing the share of market borrowings through the auction route. The State had been availing of loans from NABARD under the Rural Infrastructure Development Fund (RIDF) to contain the interest payments on borrowings. The average rate of interest on borrowings progressively declined from 8.06 *per cent* in 2005-06 to 7.64 *per cent* in 2009-10. The percentage of interest payments to revenue receipts was 20.61 *per cent* during 2009-10, which was higher than the recommendations of TFC (15 *per cent*).

### 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 **Table 1.7**.

**Table 1.7: Financial Assistance to Local Bodies etc**

(₹ in crore)					
Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	92	367	4,793	5,028	4,195
Municipal Corporations and Municipalities	263	621	1,094	334	1,127
Zilla Parishads and Other Panchayati Raj Institutions	2,026	2,668	518	528	532
Other Institutions	1,100	2,112	1,025	2,574	6,425
<b>Total</b>	<b>3,481</b>	<b>5,768</b>	<b>7,430</b>	<b>8,464</b>	<b>12,279</b>
<b>Assistance as per percentage of RE</b>	<b>13.67</b>	<b>19.73</b>	<b>20.38</b>	<b>21.85</b>	<b>25.25</b>

(Source: Office of the Accountant General (A&E), Rajkot)

Financial assistance to local bodies and other institutions increased from ₹3,481 crore in 2005-06 to ₹12,279 crore in 2009-10, which included payment of grants-in-aid to Municipal Corporations/Municipalities on account of abolition of octroi in November 2006. As a percentage of the revenue

expenditure, the increase was from 13.67 to 25.25. Assistance to educational institutions showed a quantum jump from ₹92 crore in 2005-06 to ₹4,195 crore in 2009-10. As a percentage of the revenue expenditure, the increase was from 0.36 to 8.62.

## ➤ 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.

### 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 average. **Table 1.8** analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2009-10.

**Table 1.8: Fiscal priority of the State in 2005-06 and 2009-10**

Fiscal Priority of the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category State's Average*(Ratio) 2005-06	17.58	61.39	30.91	13.92	15.02	4.06
Gujarat's Average(Ratio) 2005-06	14.60	65.10	30.75	21.00	13.01	3.23
General Category State's Average (Ratio) 2009-10	18.18	66.11	35.76	14.85	16.18	4.29
Gujarat's Average* (Ratio) 2009-10	14.99	69.70	37.93	14.09	14.56	4.00

\*As per cent to GSDP

AE: Aggregate Expenditure DE: Development Expenditure

SSE: Social Sector Expenditure CE: Capital Expenditure

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

Source: For GSDP—budget publication no.30 of 2010-11.

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 General Category States.

- AE as a ratio of GSDP in both 2005-06 and 2009-10(14.60 per cent and 14.99 percent) was lower as compared to General Category States (17.58 per cent and 18.18 per cent).
- The Government had given adequate fiscal priority to DE as its ratio to AE was higher than the average ratio of General Category States in both the years.

- Though the ratio of SSE to AE was marginally lower than the General Category States' average ratio in 2005-06, it was higher in 2009-10.
- The CE to AE ratio was higher than the General Category States' average ratio in 2005-06, but the same was marginally lower in 2009-10.
- Gujarat had a higher literacy rate and life expectancy at birth compared to the All-India Average (refer Appendix 1.1 Part A).

### 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<sup>3</sup>. Apart from improving the allocation towards development expenditure<sup>4</sup>, 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 the proportion of revenue expenditure 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 1.9** and **Chart 1.9(A)** present 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 1.10** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

**Table-1.9: Development Expenditure**

(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
<b>Development Expenditure (a to c)</b>	<b>21,567</b> (65.1)	<b>25,091</b> (67)	<b>26,866</b> (65.9)	<b>35,612</b> (72.2)	<b>36,859</b> (68.01)	<b>39,806</b> (69.7)
a. Development Revenue Expenditure	14,069 (42.5)	16,979 (45.3)	19,738 (48.4)	25,188 (51.1)	<b>28,768</b> (53.08)	<b>31,598</b> (55.3)
b. Development Capital Expenditure	6,870 (20.7)	7,783 (20.8)	6,746 (16.6)	10,140 (20.6)	<b>7,729</b> (14.26)	<b>7,858</b> (13.8)
c. Development Loans and Advances	628 (1.9)	329 (0.9)	382 (0.9)	284 (0.6)	<b>362</b> (0.67)	<b>350</b> (0.6)

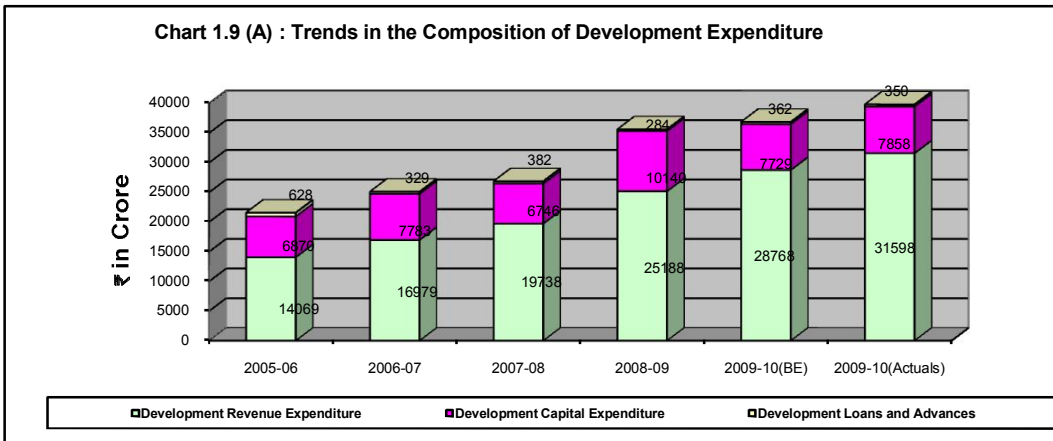
Figures in parentheses indicate percentage of aggregate expenditure.

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

<sup>3</sup> Core public goods are goods which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of those goods, 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.

<sup>4</sup> The analysis of expenditure data 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.



Development expenditure of the State comprised revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from ₹21,567 crore in 2005-06 to ₹39,806 crore in 2009-10. As a percentage of the total expenditure, the total development expenditure of the State increased from 65 in 2005-06 to 70 in 2009-10. The capital expenditure component increased from ₹6,958 crore in 2005-06 to ₹8,047 crore in 2009-10, showing an average yearly increase of 5.44 per cent. The percentage of development capital expenditure to the aggregate expenditure during the current year, i.e. 2009-10 was 13.76 per cent whereas it accounted for 55.3 per cent under the revenue expenditure component.

Table 1.10 –Efficiency of Expenditure under selected Social and Economic Services

(In per cent)

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
<b>Social Services (SS)</b>				
General Education	4.10	4.24	4.35	4.59
Health and Family Welfare	10.77	34.67	12.67	38.36
Water Supply, Sanitation, & Housing and Urban Development	20.02	0.52	13.25	0.57
<b>Total (SS)</b>	<b>11.88</b>	<b>6.77</b>	<b>9.41</b>	<b>7.85</b>
<b>Economic Services (ES)</b>				
Agriculture & Allied Activities	12.39	14.27	11.06	16.99
Irrigation and Flood Control	89.54	26.39	80.64	31.47
Power & Energy	10.01	-	11.87	-
Transport	30.75	1.58	30.57	1.55
<b>Total (ES)</b>	<b>43.57</b>	<b>6.08</b>	<b>32.08</b>	<b>7.44</b>
<b>Total (SS+ES)</b>	<b>28.47</b>	<b>6.49</b>	<b>19.74</b>	<b>7.69</b>

TE: Total Expenditure in the concerned subject; CE: Capital Expenditure; RE: Revenue Expenditure; Salaries; : (Source : Finance Accounts of the State)

The percentage of capital expenditure to the total expenditure for Social and Economic Services decreased from 28.47 in 2008-09 to 19.74 in 2009-10, indicating decline in the efficiency of expenditure. This was evident in the irrigation and flood control sector. In the Social Service sector, due to lower priority to capital expenditure, there were decreases in the share of capital

expenditure as a percentage of total expenditure under Water Supply, Sanitation and Housing and Urban Development.

### **Expenditure on Social Services**

Capital expenditure on Social Services increased in absolute terms from ₹2,016.96 crore in 2008-09 to ₹2,038.21 crore in 2009-10 (1.05 *per cent*). However, there was a decrease in the share of capital expenditure to the total expenditure under Social Services from 11.88 *per cent* to 9.41 *per cent*.

It was observed that lower priority to capital expenditure was mainly under water supply, sanitation and housing and urban development where capital expenditure as a percentage of the total expenditure reduced from 20.02 *per cent* to 13.25 *per cent*.

The share of salaries in revenue expenditure under Social Services increased from 6.77 *per cent* in 2008-09 to 7.85 *per cent* in 2009-10, mainly on account of increase in the share of salaries under Health & Family Welfare from 34.67 *per cent* to 38.36 *per cent*.

### **Expenditure on Economic Services**

Capital expenditure on Economic Services decreased from ₹8,122.61 crore in 2008-09 to ₹ 5,819.94 crore in 2009-10, registering a negative growth of 28.35 *per cent*. The percentage of capital expenditure to total expenditure decreased from 20.72 to 14.09. This was mainly due to decrease in capital expenditure under irrigation and flood control from 89.54 *per cent* in 2008-09 to 80.64 *per cent* in 2009-10.

The share of salaries in revenue expenditure under Economic Services increased from 6.08 *per cent* to 7.44 *per cent*, mainly on account of increase in the share of salaries under irrigation and flood control from 26.39 *per cent* to 31.47 *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 a 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**

At the end of March 2010, ₹1,656.45 crore was spent on 33 Major and Medium Irrigation Projects which were treated as completed. The revenue realized during the year was ₹237.09 crore, against which the maintenance expenditure

was ₹80.14 crore, indicating a revenue surplus of ₹156.95 crore. When compared with the investment, the return was 9.48 *per cent*.

### 1.6.2 Incomplete projects

At the end of March 2010, there were 56 incomplete capital works involving ₹506 crore. The department-wise details of incomplete works, each costing ₹ five crore or more, are given in **Table 1.11**.

**Table 1.11: Department-wise Profile of Incomplete Works**

Department	No. of Incomplete Works	Initial Budgeted Cost	(₹ in Crore)
			Cumulative Actual exp as on 31.3.2010
Roads & Buildings	19	154.01	132.80
Narmada Water Resources, Water Supply and Kalpsar	37	297.41	373.23
<b>Total</b>	<b>56</b>	<b>451.42</b>	<b>506.03</b>

(Source: Finance Accounts of the State)

The main reasons for the delays in completing the works were (i) changes/revisions in design, (ii) non-availability of land, (iii) contractors abandoning the works, (iv) non-receipt of approval for extra items of work, (v) flood damages, and (vi) delays in providing power supply.

### 1.6.3 Investment and returns

As of 31 March 2010, Government had invested ₹31,051.17 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.12**). The average return on these investments was 0.22 *per cent* in the last three years while the Government paid an average 7.85 *per cent* as interest on its borrowings during 2007-08 to 2009-10. Continued use of borrowed funds to fund investments which do not have sufficient returns will lead to an unsustainable financial position. The Government may ensure proper justification for investment of high cost funds.

**Table-1.12: Return on Investment**

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (₹ in crore)	15,199	18,515	21,117	26,542	31,051
Return (₹ in crore)	139.58	354.79	47.57	49.40	76.72
Return ( <i>per cent</i> )	0.92	1.92	0.23	0.19	0.25
Average rate of interest on Government borrowings ( <i>per cent</i> )	8.06	8.19	8.12	7.80	7.64
Difference between interest rate and rate of return ( <i>per cent</i> )	7.14	6.27	7.89	7.61	7.39

(Source: Finance Accounts of the State)

Out of ₹4,509 crore invested during 2009-10, ₹ 2,193 crore was invested in the Sardar Sarovar Narmada Nigam Limited, a State-owned Government Company, executing the multi-purpose Narmada Project.

There are 71 Government Companies and Statutory Corporations whose paid-up capital aggregated ₹36,662 crore. Equity participation by the State



Government in these Companies and Corporations was to the tune of ₹31,688.80 crore (Working Companies/ Corporations: ₹30,949.55 crore; Non-working Companies/ Corporations: ₹649.15 crore). During the current year, the State Government paid ₹ 5,726.30 crore as subsidy/ loans (subsidy: ₹ 5437.52 crore: loans: ₹ 288.78 crore) to the working Companies/ Corporations. At the end of 2009-10, ₹ 664.81 crore was outstanding to be paid back to the State Government by the non-working Companies/ Corporations. Based on the latest accounts finalized, the return on investment was ₹ 4,622.25 crore, representing 14.59 *per cent* on the paid up capital. Considering that the capital employed was ₹88,223.04 crore, the return was a mere 5.24 *per cent*.

### 1.6.4 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/ organizations. **Table 1.13** presents the outstanding loans and advances as on 31 March 2010 and interest receipts vis-à-vis interest payments during the last three years.

**Table-1.13: Average Interest Received on Loans Advanced by the State Government**

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2007-08	2008-09	2009-10
Opening Balance	4,241	4,456	4629
Amount advanced during the year	429	354	427
Amount repaid during the year	214	181	151
<b>Closing Balance</b>	<b>4,456</b>	<b>4,629</b>	<b>4905</b>
<i>Of which</i> Outstanding balance for which terms and conditions have been settled			
Net addition	214	173	276
Interest Receipts	66	180	98
Interest receipts as percentage of outstanding Loans and Advances	1.56	3.89	2.00
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	8.12	7.46	7.21
Difference between interest payments and interest receipts ( <i>per cent</i> )	(-)6.56	(-)3.57	(-)5.21

(Source: Finance Accounts of the State)

The quantum of loans advanced during the year had increased from ₹354 crore in 2008-09 to ₹427 crore in 2009-10, an increase of 20.62 *per cent*. Repayments declined from ₹181 crore in 2008-09 to ₹151 crore in 2009-10 (16.57 *per cent*), resulting in increase in the outstanding balance from ₹4,629 crore in 2008-09 to ₹4,905 crore in 2009-10. The difference between interest payments and interest receipts decreased from 6.56 *per cent* in 2007-08 to 5.21 *per cent* in 2009-10. The major recipients of loans and advances were (i) Social Sector–Welfare of Scheduled Castes/Scheduled Tribes/Other Backward Classes (₹21.43 crore), (ii) Economic Sector- Power Projects (₹69.75 crore); Industrial Finance Institutions (₹20 crore) and Transport Sector ₹235.70 crore, out of which ₹185.50 crore were given to PSUs in the road transport sector.

### 1.6.5 Cash Balances and Investment of Cash balances

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.14**.

**Table-1.14: Cash Balances and Investment of Cash balances**

(₹ in crore)

Particulars	As on 1 <sup>st</sup> April 2009	As on 31 <sup>st</sup> March 2010	Increase/Decrease
Cash Balances	13,119.02	11,524.31	(-)1,594.71
Investments from Cash Balances (a to b)			
a. GOI Treasury bills	8,465.87	6,597.83	(-)1,868.04
b. GOI Securities	4,527.49	5,027.49	(+)500.00
Funds-wise Break-up of Investment from Earmarked balances (a to d)			
a. Sinking Fund	3,466.27	3,966.27	(+)500.00
b. Development and Welfare Fund	3.38	3.38	-nil-
c. General and other Reserve Funds	1,057.50	1,057.50	-nil-
d. Investment in Misc. Deposits	0.34	0.34	-nil-
<i>Interest Realized</i>	<i>387.31</i>	<i>320.35</i>	<i>(-)66.96</i>

(Source: Finance Accounts of the State)

During 2009-10, the State Government did not avail of any Ways and Means Advance for maintenance of its minimum cash balance.

As seen from the above table, the interest amount realised from investment in GOI treasury bills was lower by ₹66.96 crore during the year as compared to the previous year.

## ➤ 1.7 Assets and Liabilities

### 1.7.1 Growth and composition of Assets and Liabilities

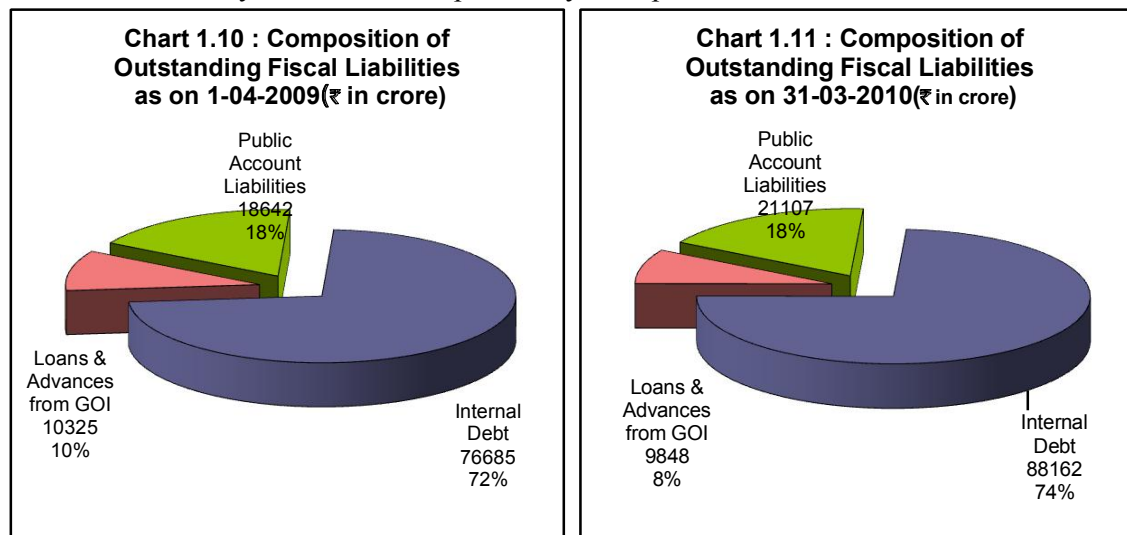
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.3** gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. 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 the capital outlay and loans and advances given by the State Government and cash balances.

As per the Statement under the Gujarat Fiscal Responsibility Act, 2005 the State Government liabilities comprise the following components –

(i) Special Securities issued to the National Small Savings Fund, (ii) Loans and Advances from Central Government, (iii) Market Loans, (iv) Loans from Financial Institutions/Banks, (v) Ways and Means Advances/Overdraft from RBI, (vi) Small Savings, Provident Fund of Government Employees etc., (vii) Pension Liabilities, (viii) Reserve Fund/Deposits & Provident Fund of other employees, (ix) Other Liabilities.

### 1.7.2 Fiscal Liabilities

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**.



The outstanding fiscal liabilities have shown a steady increase over the years from ₹71,083 crore at the end of 2004-05 to ₹1,19,117 crore as at the end of 2009-10. The composition of fiscal liabilities at the end of March 2010 remained more or less the same as that of the previous year with Internal Debt accounting for 74 per cent, Public Account Liabilities for 18 per cent and Loans and Advances from Government of India for 8 per cent. The fiscal liabilities represented 325 per cent of the revenue receipts at the end of 2004-05, which was reduced to 286 per cent at the end of 2009-10. During 2009-10, the fiscal liabilities to GSDP ratio at 31 per cent was slightly higher than the norm of 30 per cent recommended by the TFC for the terminal year 2009-10.

### 1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. As per Statement 9 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 1.15**.

**Table-1.15: Guarantees given by the Government of Gujarat.**

Guarantees	(₹ in crore)		
	2007-08	2008-09	2009-10
Maximum amount guaranteed	11,843	10,562	10,202
Outstanding amount of guarantees	11,308	10,027	9,667
Percentage of maximum amount guaranteed to total revenue receipts	33	27	24
Ceiling limit on Government guarantees under Gujarat State Guarantees Act 1963.	20,000	20,000	20,000

(Source: Finance Accounts of the State)

The Gujarat Fiscal Responsibility Act, 2005 prescribed limitation of outstanding guarantees within the limit (₹20,000 crore) prescribed in the Gujarat State Guarantees Act, 1963. The outstanding guarantees of ₹9,666.80 crore comprised (i) guarantees given for raising of working capital by a Corporation (₹432.99 crore) and (ii) loans and advances raised by State

Corporations (Power) (₹2,257.41 crore); Roads and Transport (₹202.15 crore); Boards/Corporations under Urban Development and Urban Housing Department (₹117.94 crore); Sardar Sarovar Narmada Nigam Ltd. (₹5,163.73 crore); Municipalities / Local Bodies (₹473.52 crore) and Others (₹1,019.06 crore). The outstanding guarantees (₹9,667 crore) accounted for 23 per cent of the revenue receipts (₹41,672 crore) of the State Government and were within the ceiling limit prescribed under the Fiscal Responsibility Act. The Gujarat State Guarantees Redemption Fund set up in February 2006 to take care of any contingent liabilities arising out of State Government Guarantees, had a balance of ₹761.19 crore at the end of 2009-10. During the year, the Government received ₹75.07 crore as guarantee fees which were not transferred to the Guarantee Redemption Fund. Hence, the revenue deficit was understated by ₹75.07 crore.

## ➤ 1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze the various indicators that determine the debt sustainability<sup>5</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization<sup>6</sup>; sufficiency of non-debt receipts<sup>7</sup>; net availability of borrowed funds<sup>8</sup>; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.16** analyzes the debt sustainability of the State according to these indicators for the period from 2005-06 to 2009-10.

**Table 1.16: Debt Sustainability: Indicators and Trends**

(₹ in crore)					
Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread +/- Primary Deficit/Surplus)	8,348	7,468	10,332	7,226	(-911)
Sufficiency of Non-debt Receipts (Resource Gap)	(+)2,423	(+)620	(+)878	(-)5,667	(-)4,716
Net Availability of Borrowed Funds	4,141	(-)327	996	1,317	4,874
Burden of Interest Payments (IP/RR Ratio)	0.25	0.22	0.21	0.20	0.21
Maturity Profile of State Debt					
Year	Amount				
0-1			2,896	5,253	5,923
1-3			7,031	8,600	10,831
3-5			10,831	11,875	10,516
5-7			10,516	9,430	8,279
7 and above			48,035	51,852	62,461
<b>Total</b>			<b>79,309</b>	<b>87,010</b>	<b>98,010</b>

(Source: Finance Accounts of the State)

<sup>5</sup> Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to the sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings and returns from such borrowings. It means that a rise in fiscal deficit should match the increase in capacity to service the debt.

<sup>6</sup> A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided the primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate-interest rate) and quantum spread (Debt\* rate spread), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising and in case it is positive, the debt-GSDP ratio would eventually be falling.

<sup>7</sup> Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

<sup>8</sup> Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption, indicating the net availability of borrowed funds.

In view of the above, to maintain debt sustainability, the Government should avoid further borrowings.

As per the recommendations of the Reserve Bank of India as well as the TFC, the State Government constituted a Debt Management Office (DMO) in the Finance Department in April 2007, mainly to estimate temporary liquidity mismatches based on the repayment profile and accordingly raise resources so as to obviate the need for recourse to Ways and Means Advances; to monitor adherence to the Fiscal Responsibility Act and effective and efficient management of public debt with an aim to attain debt sustainability. The State could maintain financial discipline by not taking recourse to Ways and Means Advances, and to maintain debt sustainability.

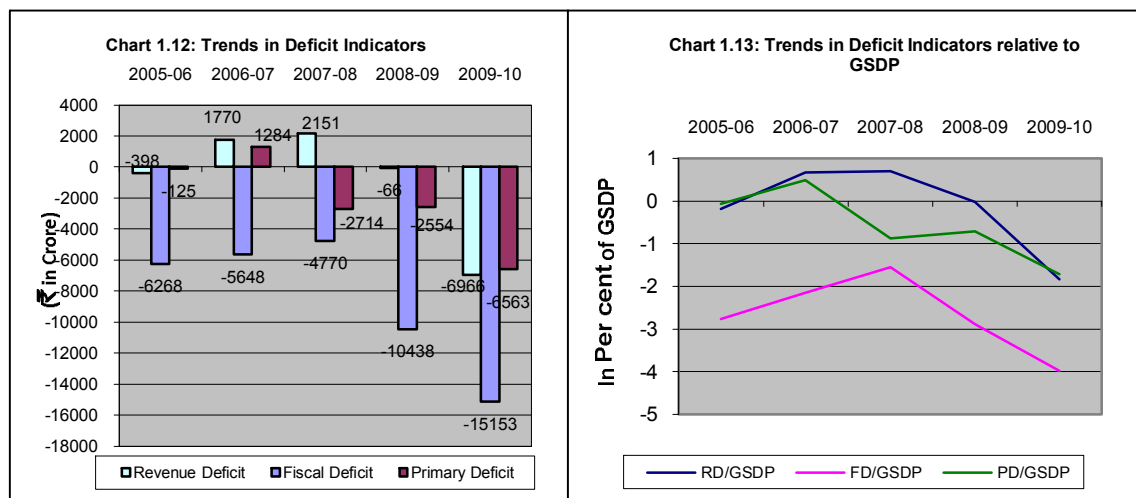
The quantum spread together with primary deficit have been positive from 2005-06 to 2008-09 which is indicative that the debt was sustainable. However, the quantum spread together with primary deficit turned into negative during 2009-10. The trend of net availability of borrowed funds is also in favourable condition. As regards repayment of debts, large amounts of repayments to the extent of 28 per cent of State debt would be taking place in the next five years.

### ➤ 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 deficits are 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 the targets set under the FRBM Act/Rules for the financial year 2009-10.

#### 1.9.1 Trends in Deficits.

Charts 1.12 and 1.13 present the trends in deficit indicators over the period 2005-06 to 2009-10.



- The State had a revenue surplus of ₹1,770 crore and ₹2,151 crore during 2006-07 and 2007-08. However, it turned into a revenue deficit of ₹ 66 crore in 2008-09, which increased to ₹6,966 crore during 2009-10, though the Medium Term Fiscal Policy statement (MTFPS) targeted a revenue surplus of ₹52 crore during 2008-09 and estimated a revenue deficit of ₹3,913 crore during 2009-10.
- The fiscal deficit increased from ₹5,648 crore in 2006-07 to ₹15,153 crore in 2009-10 against ₹12,148 crore projected in the MTFPS (24.74 per cent increase).
- Revenue receipts increased by 7.75 per cent but revenue expenditure increased by 25.55 per cent, resulting in a revenue deficit.
- Despite the increase in revenue receipts for the year 2009-10, due to a much higher increase in expenditure (mainly on account of increase in General Services: 26.51 per cent and Social Services: 31.3 per cent), there was a revenue deficit during the current year.

### 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. 17**.

**Table 1.17: Components of Fiscal Deficit and its Financing Pattern**

		(₹ in crore)				
	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Decomposition of Fiscal Deficit</b>		<b>6,268</b>	<b>5,648</b>	<b>4,770</b>	<b>10,438</b>	<b>15,153</b>
1	Revenue Deficit/ Surplus(-/+)	(-)398	(+)1,770	(+)2,151	(-)66	(-)6,966
2	Net Capital Expenditure	6,950	7,842	6,706	10,199	7,910
3	Net Loans and Advances	(-)1,080@	(-)424	215	173	277
<b>Financing Pattern of Fiscal Deficit*</b>						
1	Market Borrowings	353	(-)446	6,137	7,618	8,404
2	Loans from GOI	136	(-)564	(-)345	(-)332	(-)478
3	Special Securities Issued to NSSF	8,459	5,473	424	(-)74	3,099
4	Loans from Financial Institutions	587	715	460	490	(-)26
5	Small Savings, PF etc	258	285	436	320	1,018
6	Deposits and Advances	459	830	1,353	798	1,178
7	Suspense and Miscellaneous	(-)760	451	(-)428@	663	(-)582
8	Remittances	9	(-)223	3	(-)22	190
9	Reserve Fund	1,539	1145	915	582	768
10	Contingency Fund	(-)69	74	(-)7	(-)24	(-)13
	<b>Total</b>	<b>10,971</b>	<b>7,740</b>	<b>8,948</b>	<b>10,019</b>	<b>13,558</b>
	Increase(+)/Decrease(-) in Cash Balance	(+)4,703	(+)2,092	(+)4,178	(-)419	(-)1,595

\*All these figures are net of disbursements/outflows during the year  
(Source : Finance Accounts of the State) @ Figures differ due to correction.

A redeeming feature of the fiscal deficit is that the Government primarily borrows to finance capital expenditure. With a view to bringing down the cost of borrowings as envisaged in the Fiscal Policy Strategy Statement (FPSS), the fiscal deficit was mainly financed by increased market borrowings (₹786

crore) rather than taking loans from the National Small Saving Fund (NSSF) which carried a higher rate of interest. However, NSSF loans comprised a major portion of the Public Debt during the current year. To compensate the higher inflow of NSSF loans, the Government had to curtail its relatively cheaper market borrowing. As on 31 March 2010, the NSSF loans comprised 49 *per cent* of the Public Debt while market borrowings comprised 37 *per cent* of the Public Debt.

### 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 State's finances. The ratios of revenue deficit to fiscal deficit indicate 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 1.18**) 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 1.18: Primary deficit/Surplus – Bifurcation of factors**

(₹ 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 (2-3)	8 (2-6)
2005-06	26,859	19,322	6,958	704	26,984	(+)7,537	(-)125
2006-07	31,803	22,300	7,845	374	30,519	(+)9,503	(+)1,284
2007-08	35,999	26,055	6,801	429	33,285	(+)9,944	(+)2,714
2008-09	38,877	30,857	10,220	354	41,431	(+)8,020	(-)2,554
<b>2009-10</b>	<b>41,959</b>	<b>40,048</b>	<b>8,047</b>	<b>427</b>	<b>48,522</b>	<b>(+)1,911</b>	<b>(-)6,563</b>

(Source: Finance Accounts of the State)

During the period 2005-06 to 2009-10, primary expenditure increased from ₹26,984 crore to ₹48,522 crore (increase of 79.82 *per cent*) against the increase of non-debt receipt from ₹26,859 crore to ₹41,959 crore (increase of 56.22 *per cent*). During the years 2006-07 and 2007-08, the non-debt receipts covered the primary expenditure, resulting in surpluses. In the year 2008-09, there was a primary deficit of ₹2,554 crore due to an increase of 50.27 *per cent* in capital expenditure, without a commensurate increase in non-debt receipts. In the current year, there is a primary deficit of ₹6,563 crore, mainly due to less receipt of grants-in-aid from the Central Government (₹704 crore) and increase in expenditure under Social Services (₹4673 crore).

### 1.9.4 Recommendations of Twelfth Finance Commission

As per the TFC award, the State was entitled to receive ₹25,608.75 crore from GOI during the award period towards share of Central taxes and duties (₹ 21,900.47 crore); maintenance of roads and bridges (₹895.20 crore) based on the road lengths; maintenance of public buildings(₹203.61 crore) based on the plinth areas; maintenance of forests (₹20 crore) based on the forest areas; heritage conservation (₹25 crore); tackling the salinity ingress problem (₹200 crore);local bodies (₹1,345 crore) and calamity relief (₹1,019.47 crore),

subject to fulfillment of conditions attached to each category. The amounts awarded and the amounts received thereagainst are given in **Table 1.19** below:

**Table-1.19: Details of amounts awarded and received**

(₹ in crore)

Sr. No.	Category	Amount awarded	Amount received	Difference
1	Share in Central taxes and duties	21,900.47	24,842.49	(+)2,942.02
2	Maintenance of roads and bridges	895.20	895.20	-
3	Maintenance of buildings	203.61	101.81	(-)101.80
4	Maintenance of forests	20.00	20.00	-
5	Heritage conservation	25.00	25.00	-
6	State specific needs	200.00	196.18	(-)3.82
7	Local bodies	1,345.00	1,345.00	-
8	Calamity Relief	1,019.47	1,019.47	-
	<b>Total transfers</b>	<b>25,608.75</b>	<b>28,445.15</b>	<b>(+)2,836.40</b>

Scrutiny (June 2010) in audit revealed that the main reason for the shortfall in receipt of grants under the category of maintenance of buildings was due to non-completion of the works selected under this category, including that of renovation work of the first, second and third floors of Block No.7 of the New Sachivalaya Complex, involving ₹42.56 lakh.

As per paragraph 8.53 of the TFC recommendations, State Governments should not take more than 15 days in transferring the grants to local bodies after these are released by the Central Government. The State Government delayed the transfer of funds to local bodies by six days in 2005-06 and five days in 2008-09 and paid ₹7.66 lakh and ₹4.09 lakh (Total: ₹11.75 lakh) as interest to the local bodies.

In addition, a debt write-off scheme (Debt Consolidation and Relief Facility-DCRF) linked to the reduction of revenue deficit was introduced, in which the repayments due on Central loans from 2005-06 to 2009-10 were eligible for write-off. The quantum of write-off was linked to the absolute amount by which the revenue deficit was reduced in each successive year. If the revenue deficit was brought to zero, the entire repayment during the period would be written off. The State achieved a revenue surplus of ₹1,770 crore in 2006-07 and sustained the same in 2007-08 also. During the award period, the State received a debt waiver of ₹2,200.03 crore under the scheme.

## ➤ **1.10 Conclusion and Recommendations**

The ratio of the State's own tax revenue to GSDP increased from 6.92 per cent in 2005-06 to 7.21 per cent in 2007-08, but decreased to 7.02 per cent in 2009-10. Likewise, the ratio of non-tax revenue to GSDP increased from 1.48 per cent in 2005-06 to 1.88 per cent in 2006-07, but declined to 1.43 per cent in 2009-10. This calls for further improvement in the tax management structure.

Revenue expenditure constituted 77 per cent of the total expenditure in 2005-06, which increased steadily to 85 per cent in 2009-10. However, the percentage of Social Service expenditure to total expenditure increased from 31 per cent in 2005-06 to 38 per cent in 2009-10.



Though the State achieved the target laid down in the FRBM Act to reduce the revenue deficit to zero by 31 March 2008, there was a revenue deficit of ₹66 crore during the year 2008-09, which increased to ₹ 6,966 during the current year. During the award period, the ratio of revenue deficit to GSDP increased from 0.18 *per cent* in 2005-06 to 1.83 *percent* in 2009-10.

The Medium Term Fiscal Policy Statement envisaged a 10 *per cent* increase per year in the capital expenditure. Against this, the State registered a significant increase of 50.27 *per cent* in the year 2008-09, but during the current year, it decreased by 21.26 *per cent*.

Government of India transferred ₹3,553 crore to State Implementing Agencies during the year against ₹1,548 crore transferred during the previous year. Direct transfer of funds from the Union to the State Implementing Agencies ran the risk of poor oversight of utilization of funds by these agencies.

The outstanding fiscal liabilities have shown a steady increase over the years, from ₹71,083 crore at the beginning of 2005-06 to ₹1,19,117 crore as at the end of 2009-10. The composition of fiscal liabilities at the end of March 2010 remained more or less the same as that of the previous year with Internal Debt accounting for 74 *per cent*, Public Account Liabilities for 18 *per cent* and Loans and Advances from Government of India for 8 *per cent*. As a percentage, fiscal liabilities to revenue receipts decreased from 325 in 2005-06 to 286 in 2009-10.