Executive Summary

Background

In July 2005, Haryana Government enacted the Fiscal Responsibilities and Budget Management (FRBM) Act. It laid down a reform agenda through a fiscal correction path in the medium term with the long term goal of securing growth with stability for its economy. The Government's commitment to carry forward these reforms is reflected in the policy initiatives announced in its subsequent budgets. The benefits of legislation of the FRBM Act have been realised to some extent in terms of reducing revenue/fiscal deficit and minimising liabilities. However, a host of institutional and sectoral reform measures will go a long way in building up the much needed 'fiscal space' for improving the quality of public expenditure and to promote fiscal stability. The Government has done well in establishing an institutional mechanism on fiscal transparency and accountability.

The report

Based on the audited accounts of the Government of Haryana for the year ended March 2010, this Report provides an analytical review of the Annual Accounts of the Government. The Report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of the Haryana Government's fiscal position as at 31 March 2010. It provides an insight into trends of committed expenditure and borrowing patterns besides giving a brief account of Central funds transferred directly to State implementing agencies through the off-budget route.

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

Chapter 3 is an inventory of the Haryana Government's compliance with various reporting requirements and financial rules. The report also compiles the data collected from various government departments/organisations in support of the findings.

Audit findings and recommendations

Chapter I

Fiscal Correction: The Government's early gains in achieving revenue surplus could not be sustained for long with the surplus turning into deficit during 2008-09. The revenue deficit further increased during 2009-10 due to the slump in the economy, impacting its revenue receipts. The Sixth Pay Commission's recommendations also put pressure on the committed expenditure. The State can still achieve the FRBM Act targets through concerted efforts for better tax compliance, reductions in tax collection costs, focusing on recovering revenue arrears and pruning unproductive expenditure.

Interest payments: Interest payments (₹ 2,737 crore), which increased by 17 *per cent* during the year over 2008-09, were within the medium-term target of 15 *per cent* of revenue receipts as envisaged by the Twelfth Finance Commission for 2009-10. Interest payments of ₹ 2,737 crore were also within the projections made in the Fiscal Correction Path (₹ 2,8,40 crore) and the Medium Term Fiscal Policy Statement (₹ 2,947 crore).

Non-Plan expenditure: Revenue expenditure was 81 *per cent* of the total expenditure of which 62 *per cent* was the Non-Plan component. Non-Plan revenue expenditure was higher than the normatic assessment of the Twelfth Finance Commission (₹ 11,374 crore) and the projection made in the Fiscal Correction Path (₹ 15,930 crore).

Incomplete projects: Fifteen (Irrigation and Buildings and Roads) projects, scheduled for completion between April 2008 and March 2010, were incomplete. Time and cost overruns of these incomplete projects will have to be reduced so as to ensure value for money for the people of Haryana.

Review of Government investments: The average return on Government's investments in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.09 and 0.18 *per cent* in the past five years, whereas its average interest outgo was in the range of 7.43 to 9.20 *per cent*. This is an unsustainable proposition. The Government should, therefore, seek better value for money in investments as otherwise, high cost borrowed funds invested in projects with low financial returns will continue to strain the economy. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritised with full justification for the high cost borrowings. Time has come to review the working of State-owned Public Sector Undertakings incurring huge losses and work out either a revival strategy (for those that are strategic in nature and can be made viable) or close down the sick units by disinvesting their equity.

Debt sustainability: As per the FRBM Act 2005, the total debt including contingent liabilities, should not exceed 28 *per cent* of the estimated Gross State Domestic Product (GSDP) for the year. The State's total liability including guarantees and letter of comfort during 2009-10 was ₹ 49,829 crore which was 24 *per cent* of the GSDP which was well within the parameters of the FRBM Act 2005. However, it was higher than that projected in the Medium Term Fiscal Policy Statements (₹ 39,654 crore) for 2009-10. Increase in the revenue deficit indicates that some portion of the high cost borrowings are being used by the Government for meeting its current expenditure. Borrowed funds should be used as far as possible only to fund capital expenditure while revenue expenditure should be fully met from revenue receipts. Efforts should be made to return to the state of primary surpluses and zero revenue deficit as soon as possible. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Oversight of funds transferred directly from Government of India to the State implementing agencies: Funds flowing directly to implementing agencies through the off-budget route inhibits FRBM Act 2005 requirements of transparency and therefore, bypasses accountability. There is no single agency monitoring their use and there is no readily available data on the amounts spent in any particular year on major flagship and other important schemes. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the Government as well as the Accountant General (A&E).

Chapter II

Financial management and budgetary control:

Slow progress in implementation of various social and developmental programmes in the State left overall savings of ₹ 5,307.13 crore even after offsetting of excess of ₹ 439.29 crore. The excess expenditure requires regularisation under Article 205 of the Constitution of India. ‘Public Debt’ posted large savings persistently for the last five years. There were instances of inadequate provision of funds and unnecessary or excessive re-appropriations. Rush of expenditure at the end of the financial year was another chronic feature noticed in the State. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of the year, leaving no scope for utilising these funds for other developmental purposes. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/ surrender orders should be avoided.

Chapter III

Financial Reporting:

The Government’s compliance with various rules, procedures and directives was lacking in various departments, which was evident from delays in furnishing of utilization certificates against loans and grants by various grantee institutions. Delays were noticed in submission of Annual Accounts by autonomous bodies and departmental undertakings. There were instances of losses and misappropriations for which departmental action was pending for long periods. Departmental inquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases in future.