Chapter

1 Finances of the State Government

Profile of Maharashtra

Maharashtra occupies the western and central part of the country and has a long coastline along the Arabian Sea. Maharashtra is the second largest State in India both in terms of population (around 10 crore) and geographical area (3.08 lakh sq.km.). Population of Maharashtra has been growing at a higher annual growth rate (13.87 *per cent*) as compared to other General Category States (13.42 *per cent*) for the past decade (***Appendix 1.1***). Maharashtra has a higher literacy rate (77 *per cent)* and higher life expectancy at birth (67 *per cent*) when compared to General Category States' average. However, the infant mortality rate (33 *per thousand*) of the State is above the General Category States' average. The Gross State Domestic Product (GSDP) of Maharashtra State has been growing at a compound annual growth rate (14.18 *per cent*) as compared to other General Category States (12.54 *per cent*[1]). Despite this, population below poverty line in Maharashtra (35.7 *per cent*) is much more than the average of General Category States (27.5 *per cent*). The State has 0.31 *per cent* of rural inequality when compared to General Category States' average (0.30 *per cent*).

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Maharashtra during 2009-10 and analyses the changes observed in the major fiscal aggregates in relation to the previous year, keeping in view the overall trends during the last five years. The structure and form of government accounts have been explained in ***Appendix 1.2 Part A*** and the layout of the Finance Accounts is depicted in ***Appendix 1.2 Part B.*** In April 2005, Maharashtra Government responded to the Twelfth Finance Commission (TFC) recommendation by legislating its "Fiscal Responsibility and Budgetary Management (FRBM) Act". According to the Act, Government developed its Own Fiscal Correction Path (FCP). As prescribed in the Act, Government laid in State Legislature (June 2009) the Medium Term Fiscal Policy Statement (MTFPS) for 2009-10. A summary of FRBM Act, 2005 of the State and the 'Outcome Indicators of the State's own Fiscal Correction Path' are given in ***Appendix 1.3*** and ***Appendix 1.4*** respectively.

1.2 Summary of current year's fiscal transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during 2009-10 *vis-à-vis* the previous year while ***Appendix 1.6*** provides details of receipts and disbursements as well as overall fiscal position during the current year.

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1 General Category States' average is for 2000-01 to 2008-09; average of Maharashtra is for 2000-01 to 2009-10.

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
81270.68	**Revenue receipts**	**86910.29**	**75693.92**	**Revenue expenditure**	**78179.04**	**16736.93**	**94915.97**
52029.94	Tax revenue	59106.34	26584.71	General services	31857.42	213.54	32070.96
9789.94	Non-tax revenue	8352.61	31052.20	Social services	29604.93	11399.73	41004.66
8018.41	Share of Union Taxes/ Duties	8248.11	16813.24	Economic services	15343.75	5028.19	20371.94
11432.39	Grants from Government of India	11203.23	1243.77	Grants-in-aid and Contributions	1372.94	95.47	1468.41
Section-B: Capital							
18.01	**Misc Capital Receipts**	**25.07**	**18873.21**	**Capital Outlay**	**2760.36**	**14668.30**	**17428.66**
560.21	**Recoveries of Loans and Advances**	**514.84**	**1280.59**	**Loans and Advances disbursed**	—	—	**1261.08**
20709.02	**Public debt receipts***	**21564.42**	**3220.77**	**Repayment of Public Debt***	—	—	**3825.39**
400	**Appropriation from Contingency fund**	**600**	**650**	**Appropriation to Contingency fund**	—	—	**350**
708.94	**Contingency Fund**	**351.93**	**401.93**	**Contingency Fund**	—	—	**603**
37356.22	**Public Account receipts**	**44071.51**	**30506.56**	**Public Account disbursements**	—	—	**31721.02**
11230.32	**Opening Cash Balance**	**21626.42**	**21626.42**	**Closing Cash Balance**	—	—	**25559.36**
152253.40	**Total**	**175664.48**	**152253.40**	**Total**			**175664.48**

* Excluding ways and means advances and overdraft (Receipt: nil and Disbursement : nil).

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

- **Revenue receipts grew by 6.9 *per cent* over the previous year.** The increase was the net effect of increase in tax revenue by 14 *per cent* and State's share of Union Taxes and Duties by 3 *per cent* set off by a decrease in non-tax revenue by 15 *per cent* and grants-in-aid from Government of India (GoI) by 2 *per cent*. ***The revenue receipts at ₹ 86,910 crore were higher (by 9.6 per cent) than the amount assessed by the Government in its FCP. However, it was lower (by 2.4 per cent) than the MTFPS projection for the year 2009-10.***
- **The decrease in non-tax revenue by 15 *per cent* over 2008-09** was mainly under 'Miscellaneous General Services' due to less receipts of Guarantee fees (₹ 551.77 crore in 2009-10 compared to ₹ 3,539.02 crore in 2008-09). ***The non-tax revenue significantly exceeded the FCP of the Government by 36 per cent as well as TFC projection by 48 per cent. These were, however, 40 per cent below the MTFPS projection.***
- **Revenue expenditure increased by 25 *per cent* over the previous year.** While 23 *per cent* of the increase was under plan heads the remaining 77 *per cent* was under non-plan heads. The major heads that registered increases include general education, interest payments, urban development, power, police, pension and other retirement benefits and welfare of scheduled castes, scheduled tribes and other backward classes. ***The revenue expenditure (₹ 94,916 crore) exceeded the assessment made by the State Government in its FCP by 36.7 per cent, however, it fell short of the projection made in MTFPS by 1.3 per cent. The Non-plan revenue expenditure (NPRE) remained higher than the normative assessments made by TFC and the State Government's projections in its FCP (by 30 per cent) and MTFPS (by 5 per cent).***
- **Capital expenditure** (₹ 17,429 crore) **decreased** by 7.65 *per cent* over the previous year. ***The Capital expenditure was lower than the assessment made by the State Government both in its FCP by 5.2 per cent and MTFPS by 12 per cent for the year 2009-10.*** The decrease was mainly due to less contribution of Government's share capital

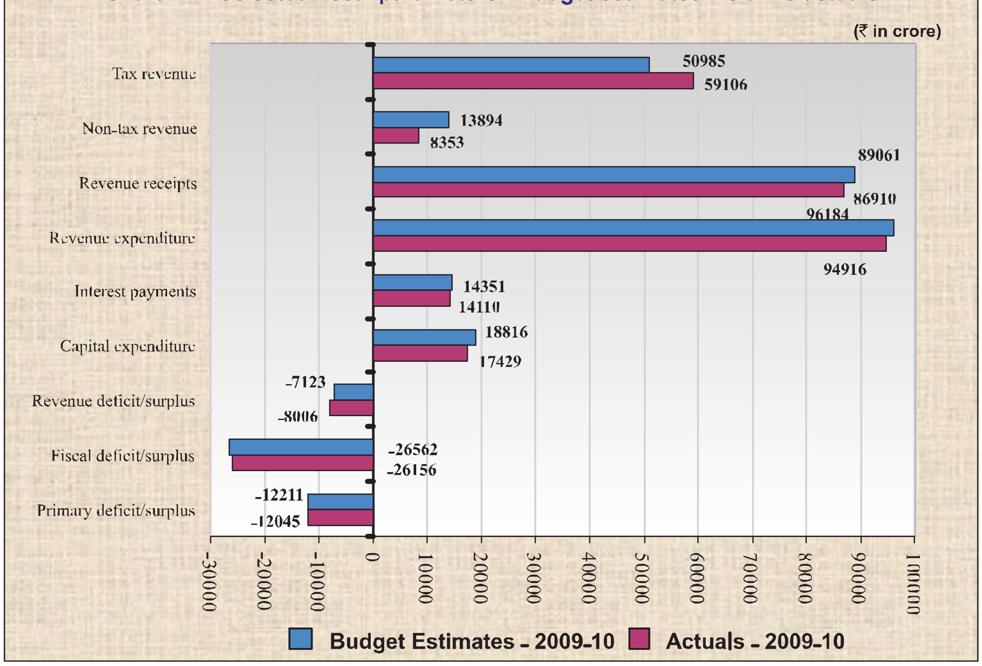
to the Irrigation Corporations, as discussed in **para 1.6.1.**

- **Recoveries and disbursements of Loans and Advances decreased** by eight *per cent* and two *per cent* respectively.
- **Public Debt receipts** increased by four *per cent* (₹ 855 crore) while Public Debt disbursement increased by 19 *per cent* (₹ 604 crore) ***resulting in net increase of ₹ 251 crore in Public Debt receipts.***
- **Increase of 18 *per cent* (₹ 6,716 crore) in Public Account receipts** over the previous year was on account of increase of receipts under deposits and advances by 24 *per cent* (₹ 2,712 crore), remittances by 10 *per cent* (₹ 1,749 crore), small savings and provident fund by 49 *per cent* (₹ 1,089 crore), suspense and miscellaneous by 33 *per cent* (₹ 1,034 crore) and reserve funds by 5 *per cent* (₹ 131 crore).
- **Public Account disbursements increased** by four *per cent* (₹ 1,214 crore) mainly due to increase under reserve funds by 108 *per cent* (₹ 874 crore), deposit and advances by 4 *per cent* (₹ 451 crore), suspense and miscellaneous by 1067 *per cent* (₹ 160 crore) and small savings and provident funds by 7 *per cent* (₹ 102 crore) along with decrease under remittances by 2 *per cent* (₹ 373 crore).
- **Appropriation from contingency fund increased** by ₹ 200 crore from ₹ 400 crore in 2008-09 to ₹ 600 crore in 2009-10 while appropriation to contingency fund decreased by ₹ 300 crore from ₹ 650 crore in 2008-09 to ₹ 350 crore in 2009-10.
- **Cash balances** of the State at the close of the year 2009-10 (₹ 25,559 crore) **increased** by ₹ 3,933 crore (18 *per cent*) over the previous year. Of the above, ₹ 19,762 crore was invested in GoI Treasury Bills, as also discussed at **para 1.8.6.**

1.3 Budget estimates and actuals

During 2009-10, the actual revenue receipts were less than the budget estimates by 2.4 *per cent* while actual revenue expenditure was less than the estimates by 1.3 *per cent* resulting in increase in revenue deficit. The capital expenditure decreased by eight *per cent* and interest payments decreased by two *per cent* over the budget estimates. The budgeted and actual figures under revenue receipts and expenditure are given in **Chart 1.1** and **Appendix 1.8.**

Chart 1.1 : Selected fiscal parameters : Budget estimates *vis-a-vis* actuals



As may be observed from **Chart 1.1** (also see ***Appendix 1.8***) there was considerable variation between budget estimates and actuals in the case of several key parameters. ***Due to the general economic slowdown, revenue receipts had a negative variation (₹ 2,151 crore: 2.42 per cent) over budget estimates and almost all categories of revenue receipts (with the exception of Taxes on Sales, Trade etc., Stamps and Registration Fees, Taxes on Goods and Passenger and Non-ferrous Mining and Metallurgical Industries) were lower than budget estimates.*** Revenue expenditure also showed a negative variation of 1.32 *per cent* over budget estimates, mainly because of less expenditure in General Education, Social Welfare and Nutrition and Water Supply and Sanitation.

The decrease in revenue receipts was the net result of increase in tax revenue by 16 *per cent* set off by a decrease in non-tax revenue by 40 *per cent*, grants-in-aid from GoI by 28 *per cent* and share in Central taxes by 4 *per cent*.

The actual capital expenditure was less by ₹ 1,387 crore (7 *per cent*) compared to the original budget estimates during 2009-10. The shortfall was mainly under rural development (₹ 11,131 crore) set off by increase in irrigation (₹ 4,959 crore), transport (₹ 1,790 crore) and power (₹ 1,131 crore). This has also been discussed in **para 1.6.1.**

The actual revenue deficit was more than the budget estimates by 12 *per cent* (₹ 883 crore), mainly because of shortfall under non-tax revenue by 40 *per cent* over the budget estimates. Non-tax revenue decreased mainly under miscellaneous general services due to less receipt (by ₹ 2,988 crore) of guarantee fees over the previous year, as also discussed in **para 1.5.1.**

Actual fiscal deficit[2] was less than the assessment made in the budget estimates by 2 *per cent* (₹ 407 crore), mainly due to decrease in capital expenditure.

1.4 Resources of the State

1.4.1 Resources of the State as per annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the GoI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks) and loans and advances from GoI as well as accruals from Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its annual Finance Accounts while **Chart 1.2** and **Table 1.2** depict the trends in various components of the aggregate receipts of the State during 2005-10. **Chart 1.3** depicts the composition of aggregate resources of the State during the current year.

The total receipts of the State increased by 56 *per cent* from ₹ 98,064 crore in 2005-06 to ₹ 1,53,438 crore in 2009-10. The share of revenue receipts in total receipts of the State increased from 49 *per cent* in 2005-06 to 57 *per cent* in 2009-10. While the share of capital receipts in total receipts decreased from 21 *per cent* in 2005-06 to 14 *per cent* in 2009-10, the share of public account receipts increased marginally from 28 *per cent* to 29 *per cent* during the same period.

The **table 1.2** shows that the growth of debt capital receipts reduced from 75.38 *per cent* in 2008-09 to 4.13 *per cent* in 2009-10 while non-debt capital receipts showed negative growth of (-) 21.15 *per cent* in 2008-09 and (-) 6.57 *per cent* in 2009-10.

2 See glossary at page 99.

Chart 1.2 : Trends in receipts

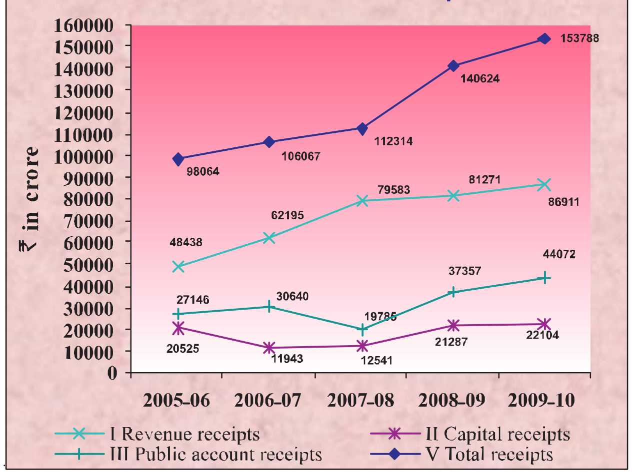
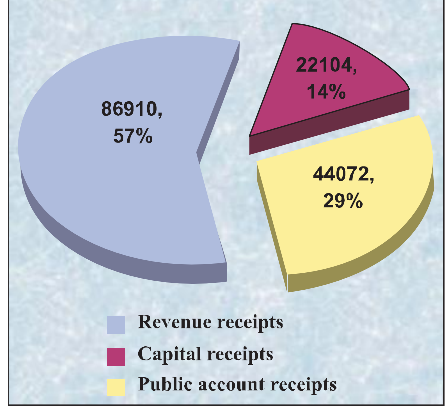


Chart 1.3 : Composition of aggregate receipts during 2009-10 (₹ in crore)



Note: IV Contingency Fund receipts were ₹ 251 crore (0.16 *per cent* of total receipts) during 2009-10.

Table 1.2 : Trends in growth and composition of aggregate receipts

(₹ in crore)

	Sources of State's Receipts	2005-06	2006-07	2007-08	2008-09	2009-10
I	**Revenue Receipts**	**48,438**	**62,195**	**79,583**	**81,271**	**86,910**
II	**Capital Receipts (CR)**	**20,525**	**11,943**	**12,541**	**21,287**	**22,104**
	Miscellaneous Capital Receipts	–	–	–	18	25
	Recovery of Loans and Advances	551	51	733	560	515
	Public Debt Receipts	19,974	11,892	11,808	20,709	21,564
	Growth rate of debt capital receipts	-9.98	-40.46	-0.71	75.38	4.13
	Growth rate of non-debt capital receipts	-73.00	-90.74	1337.25	-21.15	-6.57
	Growth rate of GSDP	16.28	17.79	16.03	17.22	20.10
	Rate of growth of CR (per cent)	***-15.29***	***-41.81***	***5.01***	***69.74***	***3.84***
III	**Contingency Fund***	**1,955**	**1,289**	**405**	**709**	**352**
IV	**Public Account Receipts**	**27,146**	**30,640**	**19,785**	**37,357**	**44,072**
	a. Small Savings, Provident Fund etc	1,794	1,895	2,060	2,220	3,309
	b. Reserve Fund	5,504	5,988	-9,196	2,428	2,559
	c. Deposits and Advances	8,371	8,898	10,847	11,438	14,150
	d. Suspense and Miscellaneous	-905	436	325	3,132	4,166
	e. Remittances	12,382	13,423	15,749	18,139	19,888
V	Total Receipts	98,064	1,06,067	1,12,314	1,40,624	1,53,438

* Under the Contingency Fund ₹ 3 crore was not recouped at the end of the year.

Source : Finance Accounts.

Public Account receipts increased by 62.35 *per cent* over the period 2005-10. As compared to 2008-09, the increase during 2009-10 was 17.97 *per cent*, which was mainly under deposits and advances, remittances, suspense and miscellaneous and small savings, provident fund *etc.*

1.4.2 Transfer of funds to State implementing agencies outside the State budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[3] for implementation of various schemes/programmes in social and

3 State Implementing Agencies include any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State.

economic sectors for the human and social development of population. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underscored and underestimated. To present the holistic picture on availability of aggregate resources, funds directly transferred to State implementing agencies during 2009-10 are presented in **Appendix 1.9.**

The GoI directly transferred ₹ 4,369.52 crore to the State implementing agencies during 2009-10. The major recipients were National Rural Health Mission (₹ 659.31 crore i.e 15 *per cent*), Accelerated Rural Water Supply Programme (₹ 656.16 crore *i.e.* 15 *per cent*), Maharashtra Prathamik Shikshan Parishad (₹ 564.32 crore *i.e.* 13 *per cent*) for Sarva Shiksha Abhiyan and District Rural Development Agencies (₹ 950.16 crore *i.e.* 22 *per cent*) for Indira Awas Yojana, Swaranajayanti Gram Swarojgar Yojana and National Rural Employment Guarantee Scheme. Since the funds are generally not being spent fully by the implementing agencies in the same financial year, there remain unspent balances in the bank accounts of these implementing agencies. The aggregate amount of the unspent balances in the accounts of the implementing agencies kept outside Government accounts (in bank accounts) is not readily ascertainable. The Government expenditure as reflected in the Accounts to that extent is, therefore, not final. ***Transfer of funds directly from the Union to the State Implementing Agencies results in failure to monitor the expenditure incurred by them on various schemes as these funds are not reflected in the State budget. This also contradicts the FRBM requirement of transparency in fiscal operations and thus bypasses accountability.***

1.5 Revenue receipts

The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2005-10 are depicted in **Charts 1.4** and **1.5** respectively and also presented in **Appendix 1.5.**

Chart 1.4 : Trends in revenue receipts

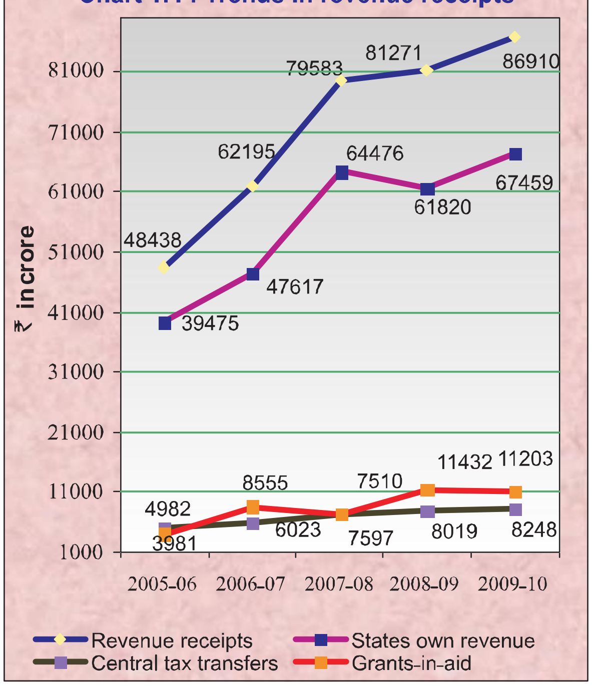
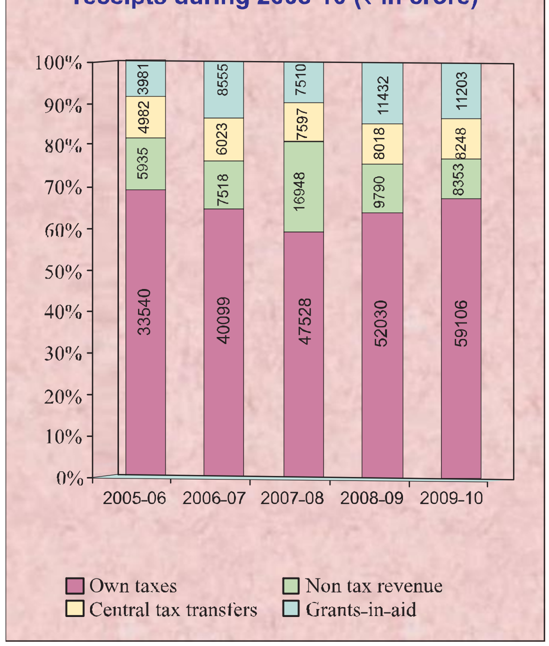


Chart 1.5 : The composition of revenue receipts during 2005-10 (₹ in crore)



The revenue receipts have shown a progressive increase over the period 2005-10. As shown in **Chart 1.5**, there was a declining trend in the share of the own taxes during the period 2005-08 which increased during 2008-10. The share of grants-in-aid decreased in alternative years during 2005-10. The shares of non-tax revenue and Central tax transfers after showing a relative stability during 2005-09 decreased marginally in 2009-10. ***The revenue receipts at ₹ 86,910 crore was higher (9.6 per cent) than the assessment made by the State Government in its Fiscal Correction Path (FCP) but lower (2.4 per cent) than Medium Term Fiscal Policy Statement (MTFPS) for the year 2009-10.***

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

Table 1.3 : Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts(RR) (₹ in crore)	**48,438**	**62,195**	**79,583**	**81,271**	**86,910**
Rate of growth[4] of RR *(per cent)*	18.1	28.4	28	2.1	6.9
RR/GSDP *(per cent)*	11.2	12.2	13.5	11.7	10.4
Buoyancy Ratio's[5]					
Revenue Buoyancy w.r.t. GSDP	1.112	1.596	1.747	0.122	0.343
State's own tax buoyancy w.r.t. GSDP	0.589	1.099	1.156	0.550	0.677
Gross State Domestic Product (₹ in crore)	**432413**	**509356**	**590995***	**692749***	**831971#**
Growth rate of GSDP	16.28	17.79	16.03	17.22	20.10

Source: * Based on Economic Survey of Maharashtra (Preliminary estimates).
Advance estimates furnished by Directorate of Economics & Statistics, Government of Maharashtra.

The increase in revenue receipts during 2009-10 (6.9 *per cent*) as compared to the previous year was due to the net effect of increase in tax revenue by 14 *per cent* (₹ 7,076 crore) and State's share of Union Taxes and Duties by 3 *per cent* (₹ 230 crore), set off by a decrease in non-tax revenue by 15 *per cent* (₹ 1,437 crore) and grants-in-aid from GoI by 2 *per cent* (₹ 229 crore).

State's own tax buoyancy with reference to GSDP gradually increased from 0.589 in 2005-06 to 1.156 in 2007-08. However, it decreased to 0.550 in 2008-09 and 0.677 in 2009-10, mainly because the non-tax revenue declined during 2008-09 and then slightly improved in 2009-10 while GSDP increased substantially during these years.

Grants-in-aid from Government of India

The grants-in-aid from GoI decreased marginally by 2 *per cent* from ₹ 11,432 crore in 2008-09 to ₹ 11,203 crore in 2009-10. The decrease was mainly under grants for Central Plan schemes (37 *per cent*) and State Plan schemes (19 *per cent*). The non-plan grants increased by 31 *per cent* while the grants for Centrally Sponsored Plan schemes increased by 13 *per cent* in 2009-10 (**Table 1.4**).

The decrease under plan grants for the State plan schemes was due to decrease in 'Block Grants' (₹ 1,479 crore) while the increase under non-plan grants was due to increase in grants for contribution towards Calamity Relief Fund (₹ 489 crore) and grants from National Calamity Contingency Fund (₹ 182 crore). Under Centrally sponsored schemes, the increase was mainly in social securities and welfare (₹ 535 crore), welfare of scheduled castes, scheduled tribes and other backward classes (₹ 144 crore) and family welfare (₹ 100 crore).

4 See glossary at page 99.

5 Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.6 implies that revenue receipts tend to increase by 0.6 percentage points, if the GSDP increases by 1 *per cent* (also see glossary at page 99).

Table 1.4 : Grants-in-aid from Government of India

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Grants for State Plan Schemes	1,255	3,919	3,780	6,683	5,396
Non-Plan grants	1,582	3,489	2,106	2,832	3,707
Grants for Central Schemes	286	89	63	139	87
Grants for Central and Centrally Sponsored Schemes	858	1,058	1,561	1,778	2,013
Total	**3,981**	**8,555**	**7,510**	**11,432**	**11,203**
Percentage of increase/decrease over previous year	47.8	114.9	(-)12.2	52.22	(-)2.0

Source : Finance Accounts.

Central tax transfers

Central tax transfers increased by 3 *per cent* from ₹ 8,018 crore in 2008-09 to ₹ 8,248 crore in 2009-10. The increase was mainly under corporation tax (₹ 766 crore).

Debt waiver under Debt Consolidation and Relief facilities

The Twelfth Finance Commission has framed a scheme of debt relief of Central loans named Debt Consolidation and Relief Facilities based on 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 consolidation and reschedulement of loans, will be eligible for write-off. The amount sanctioned by GoI as debt relief each year will be adjusted by showing repayment of Central loans and crediting the amount to the head of account '0075 Miscellaneous receipts'. The States will be eligible for the benefit subject to fulfillment of certain conditions, *viz.* legislating FRBM Act, gradual abolition of revenue deficit by 2008-09, bringing annual reduction targets for fiscal deficit, bringing out the Annual Fiscal Policy Statement *etc.* As assessed by the TFC, in the case of Maharashtra, the amount of repayment due for the period 2005-10 after consolidation and reschedulement was ₹ 1,953.22 crore. The ratio of total repayment to average revenue deficit (2001-02 to 2003-04) is 0.22 by which repayments will be written off for every rupee reduction in revenue deficit. Thus, the annual repayment due was ₹ 390.64 crore. During the period 2005-10, GoI sanctioned ₹ 1,379.22 crore as debt relief for Government of Maharashtra, as detailed below.

Table 1.5 : Debt relief sanctioned by Government of India (₹ in crore)

Year	Debt relief due as per TFC recommendations	Debt relief sanctioned by the Central Government
2005-06	390.64	0.00
2006-07	390.64	231.74
2007-08	390.64	467.54 [6]
2008-09	390.64	339.97
2009-10	390.64	339.97
Total	1953.20	1379.22

The shortfall of ₹ 573.98 crore in receipt of the benefit of debt relief scheme and the non-tax revenue receipts to that extent was due to non-fulfillment of the conditionalities for receiving the debt relief, by the State Government.

1.5.1 State's Own Resources

The gross collection in respect of major taxes and duties as well as the components of non-tax receipts, the expenditure incurred on their collection and the percentage of such expenditure

6 Debt relief of ₹ 108.23 crore and interest relief of ₹ 19.34 crore pertaining to 2006-07 were adjusted during 2007-08.

to the gross collection during the years from 2005-06 to 2009-10 are presented in **Appendix 1.5.** The actual revenue receipts during 2009-10 *vis-à-vis* assessments made by TFC and State Government are given in **Table 1.6.**

Table 1.6 : Revenue receipts relative to TFC and State's projections

(₹ in crore)

	Assessments made by TFC	Projections in FCP	Projections in MTFPS	Actuals
Tax revenue	58150	57041	59554	59106
Non-tax revenue	5649	6155	13894	8353
GSDP	–	668204	797840	831971

Tax revenue

The tax revenues exceeded the projections made in FCP by 3.62 *per cent*; these were almost equal to the projections made in MTFPS. The sector-wise components of tax revenue during the period 2005-10 are shown in **Table 1.7.**

Table 1.7 : Sector-wise components of tax revenue

(₹ in crore)

Tax Revenue	2005-06	2006-07	2007-08	2008-09	2009-10		
					Budget Estimates	Actuals	Percentage w.r.t. budget estimates
Taxes on Sales, Trade, *etc.*	19,677	24,131	26,753	30,681	27,006	32,676	**21.00**
State Excise	2,824	3,301	3,963	4,434	4,800	5,057	**5.35**
Taxes on Vehicles	1,309	1,841	2,143	2,220	2,600	2,682	**3.15**
Stamps and Registration fees	5,266	6,416	8,550	8,288	9,600	10,774	**12.23**
Taxes and duties on electricity	1,661	1,577	2,688	2,395	3,000	3,289	**9.63**
Land Revenue	429	484	512	546	770	714	**(-)7.27**
Taxes on Goods and Passengers	505	224	388	892	665	977	**46.92**
Other taxes	1,869	2,125	2,531	2,574	2,544	2,937	**15.45**
Total	**33,540**	**40,099**	**47,528**	**52,030**	**50,985**	**59,106**	**15.93**

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

The tax revenue of the State during 2009-10 exceeded the budget estimates by ₹ 8,121 crore. It increased by ₹ 7,076 crore (14 *per cent*) over the actuals for 2008-09. The increase over previous year was mainly under (a) taxes on vehicles by 21 *per cent* (₹ 462 crore) due to more tax collection under State Motor Vehicles Taxation Act, (b) Stamps and Registration fees by 30 *per cent* (₹ 2,486 crore) due to growth in stamp duty and registration fees collection, (c) State excise by 14 *per cent* (₹ 623 crore) due to receipt of more excise duty on commercial and denatured spirits and medicated wines, distillery spirit, beer manufactured in India, medicinal and toilet preparation containing alcohol, opium *etc.* and licence fees for sale of foreign liquor and (d) taxes on Sales, Trades, *etc.* by 6 *per cent* (₹ 1,995 crore) due to more tax collection under Value Added Tax and Sales Tax.

The tax revenue as a percentage of GSDP (7.10 per cent) was also more than the normative assessment of TFC (6.99 per cent) as well as the projections made by the State Government in FCP (6.86 per cent) and MTFPS (7.46 per cent).

Non-tax revenue

The non-tax revenue of the State decreased by 15 *per cent* (₹ 1,437 crore) from ₹ 9,790 crore in 2008-09 to ₹ 8,353 crore in 2009-10, mainly due to sharp decrease in receipts on account of Guarantee Fees (₹ 2,987 crore)[7] under the Major Head 'Miscellaneous General Services' and less receipt of rents from lands under Urban Development (₹ 265 crore).

Table 1.6 shows that the actual realisation of tax revenue during 2009-10 was higher than the normative assessment of TFC as well as the projection made by the State Government in FCP; but it was less than the MTFPS projection. ***The non-tax revenue of the Government significantly exceeded both the FCP (36 per cent) of the Government as well as the TFC projection (48 per cent).*** These were, however, 40 *per cent* below the MTFPS projection. The components under which the non-tax revenue increased were Unclaimed Deposits (₹ 48 crore), State Lotteries (₹ 53 crore) and Debt Relief from GoI under Debt Consolidation and Relief Facilities (₹ 339.97 crore) booked under miscellaneous general services (also see **para 1.5** at page 8).

1.5.2 Cost of collection

The gross collection in respect of three major heads of revenue receipts, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of expenditure on gross collection for the year 2008-09 are given in the following table:

Table 1.8 : The expenditure incurred on collection of taxes

(₹ in crore)

Sl. No.	Head of revenue	Year	Gross collection[8]	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2008-09
1.	Sales Tax/ VAT	2007-08 2008-09 2009-10	26,752.80 30,680.53 32,676.02	155.53 216.38 283.65	0.58 0.71 0.87	0.83 0.88
2.	State Excise	2007-08 2008-09 2009-10	3,963.05 4,433.76 5,056.63	39.45 39.25 62.68	1.00 0.89 1.24	3.27 3.66
3.	Taxes on Vehicles	2007-08 2008-09 2009-10	2,143.11 2,220.22 2,682.29	46.52 57.93 76.96	2.17 2.61 2.86	2.58 2.93

As compared to the previous year, percentage of expenditure on collection of taxes increased gradually in all heads of revenue for the period 2007-08 to 2009-10 (except in 2008-09 for State Excise). ***It would be seen that the cost of collection of revenue in the State is less than the All India average in all the three important heads of revenue.*** However, it would be prudent to improve the tax administration in order to increase the revenue and thereby reduce the percentage of expenditure on collection of taxes.

1.5.3 Revenue arrears

The arrears of revenue as on 31 March 2010 in respect of some principal heads of revenue as furnished by the department amounted to ₹ 38,361.87 crore, of which ₹ 30,995.32 crore had been outstanding for more than five years, as mentioned in **Table 1.9.**

7 2008-09 : ₹ 3,539 crore; 2009-10 : ₹ 552 crore (also discussed in Para 1.9.3).

8 Figures as per the Finance Accounts.

Table 1.9 : Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2010	Amount outstanding for more than five years as on 31 March 2010	Remarks
1.	Sales Tax, *etc.*	38,357.32	30,991.47	Stay orders were granted by the appellate authorities for ₹ 18,097.80 crore; recovery proceedings for ₹ 10,413.42 crore were not initiated as the time limit was not over and the remaining amount was in different stages of recovery.
2.	State Excise	4.55	3.85	Recoveries amounting to ₹ 1.93 crore were pending in the courts. Out of the balance amount of ₹ 2.62 crore, recovery of ₹ 2.18 crore was in progress as arrears of land revenue and ₹ 0.44 crore was in the normal process of recovery.
	Total	**38,361.87**	**30,995.32**	

1.6 Application of resources

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

1.6.1 Growth and composition of expenditure

The total expenditure and its compositions during the years 2005-06 to 2009-10 are presented in the **Table 1.10.**

Table 1.10 : Total expenditure and its composition (₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Total Expenditure	**66,620**	**73,799**	**77,495**	**95,848**	**1,13,606**
Revenue Expenditure	52,280	61,385	64,780	75,694	94,916
Of which, Non-plan Revenue Expenditure	*47,048*	*53,150*	*54,505*	*63,286*	*78,179*
Capital Expenditure	10,078	10,092	11,490	18,873	17,429
Loans and Advances	4,262	2,322	1,225	1,281	1,261

Source : Finance Accounts.

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

Chart 1.6 : Total expenditure : trends and composition

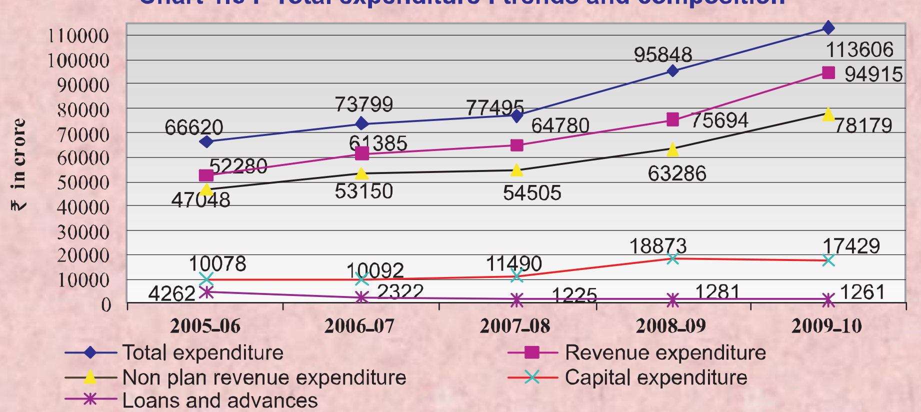


Chart 1.7 : Total Expenditure : Trends in share of its Components (2005-10)

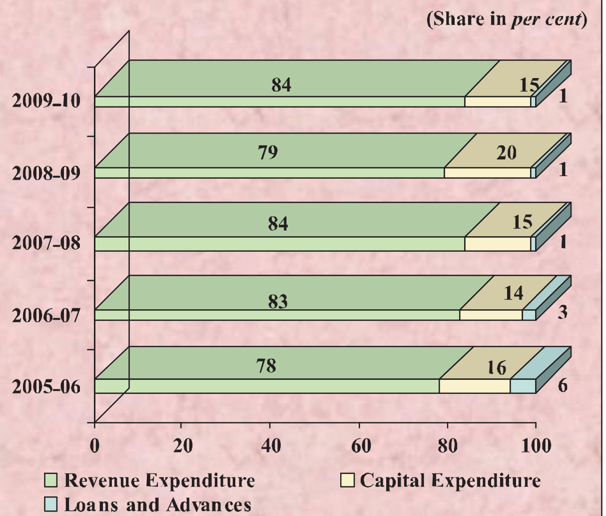
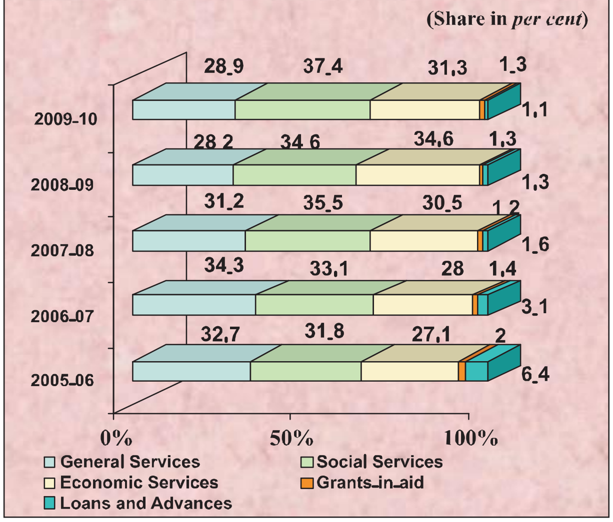


Chart 1.8 : Trends in composition of Total Expenditure by Activities during 2005-10



Total expenditure

The total expenditure of the State increased at an average growth rate of 14 *per cent* from ₹ 66,620 crore in 2005-06 to ₹ 1,13,606 crore in 2009-10. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.11.**

Table 1.11 : Total expenditure – basic parameters

	2005-06	2006-07	2007-08	2008-09	2009-10
Total expenditure (TE) (₹ in crore)	66,620	73,799	77,495	95,848	1,13,606
Rate of growth *(per cent)*	8.0	10.8	5	23.7	18.53
TE/GSDP ratio *(per cent)*	15.4	14.5	13.1	13.8	13.7
RR /TE ratio *(per cent)*	72.7	84.3	102.7	84.8	76.5
Buoyancy of Total Expenditure with reference to :					
GSDP (ratio)	0.491	0.607	0.312	1.376	0.92
RR (ratio)	0.442	0.380	0.179	11.286	2.681

The increase of ₹ 17,758 crore (18.5 *per cent*) in total expenditure in 2009-10 was mainly on account of an increase of ₹ 19,222 crore in revenue expenditure set off by decrease of ₹ 1,444 crore in capital expenditure and ₹ 20 crore in disbursement of loans and advances.

Revenue expenditure

Revenue expenditure constituted 84 *per cent* of the total expenditure. The increase in revenue expenditure was mainly on (a) General education (₹ 5,496 crore), (b) Interest Payments (₹ 1,811 crore), (c) Urban Development (₹ 1,797 crore), (d) Power (₹ 1,334 crore), (e) Police (₹ 1,127 crore), (f) Pension and other retirement benefits (₹ 980 crore), (g) Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹ 945 crore), (h) Housing (₹ 632 crore), (i) Medical and Public Health (₹ 526 crore) and (j) Crop Husbandry (₹ 513 crore).

Capital expenditure

The decrease of ₹ 1,444 crore (7.65 *per cent*) in capital expenditure during 2009-10 was mainly on account of decrease in Government's share capital contribution (₹ 2,555 crore) to Maharashtra Krishna Valley Development Corporation and Vidarbha Irrigation Development Corporation set off by increase in Energy (₹ 809 crore), Agriculture and allied activities (₹ 202 crore) and Police (₹ 208 crore). The decrease in disbursement of loans and advances during 2009-10 was mainly in power projects (₹ 21 crore).

There was a consistent fall in buoyancy ratio of total expenditure with reference to revenue receipts during the period 2004-08. The ratio which rose to 11.286 during 2008-09 indicating increase in expenditure at a pace greater than the receipt, however, declined to 2.681 during 2009-10. This was due to decrease in rate of growth of total expenditure as compared to previous year whereas the rate of growth of revenue receipts increased as compared to previous year.

The buoyancy of total expenditure with reference to GSDP was less than one during 2005-06 to 2007-08, due to the combined effect of decrease in rate of growth in expenditure along with sharp rise in GSDP during these years. This indicated a relative fall in the State's propensity to spend with the increase in GSDP. However, this ratio rose to 1.376 during 2008-09 but once again declined to less than one during 2009-10 due to decrease in rate of growth of total expenditure as compared to the rate of growth of GSDP.

Of the total expenditure during 2009-10, non-plan expenditure contributed 72 *per cent* while the plan expenditure was 28 *per cent*. Of the increase of ₹ 17,758 crore in total expenditure, non-plan expenditure contributed 65 *per cent*, while plan expenditure shared 35 *per cent*.

Trends in total expenditure in terms of activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social services and economic services, grants-in-aid and loans and advances. Relative shares of these components in the total expenditure are indicated in **Table 1.12.**

Table 1.12 : Components of expenditure – relative shares

(in *per cent*)

	2005-06	2006-07	2007-08	2008-09	2009-10
General Services	32.7	34.4	31.2	28.2	**28.9**
of which, Interest Payments	14.0	15.8	15.7	12.8	12.4
Social Services	31.8	33.1	35.5	34.6	**37.4**
Economic Services	27.1	28.0	30.5	34.6	**31.3**
Grants-in-aid	2.0	1.4	1.2	1.3	**1.1**
Loans and Advances	6.4	3.1	1.6	1.3	**1.3**

The movement of the relative shares of the above components of expenditure indicated that the shares of general services and social services in the total expenditure increased during 2009-10 over the previous year. These increases were set off by decrease in the respective shares of economic services and grants-in-aid, while loans and advances remained the same.

The shares of general services in total expenditure increased mainly on account of increase in Interest Payments (₹ 1,181 crore), Police (₹ 1,127 crore), Pension and other retirement benefits (₹ 979 crore), District Administration (₹ 352 crore) and Election (₹ 339 crore) whereas the share of social services increased mainly due to General Education (₹ 5,496 crore), Urban Development (₹ 1,797 crore), Welfare of Schedule Castes, Schedule Tribes and other backward classes (₹ 945 crore), Housing (₹ 632 crore) and Medical and Public Health (₹ 526 crore).

The decrease in the share of economic services was mainly on account of Co-operation (₹ 641 crore) and capital expenditure on Irrigation and Flood Control (₹ 3,250 crore).

Though the shares of economic services and grants-in-aid in total expenditure decreased there was increase in expenditure on economic services mainly on account of increase in expenditure on Energy (₹ 1,330 crore), Transport (₹ 536 crore), Rural Development (₹ 513 crore) and Irrigation and Flood Control (₹ 401 crore). The increase in grants-in-aid was on account of aid, material and equipment (₹ 279 crore).

Incidence of revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and as such, does not result in any addition to the State's infrastructure and service network. Revenue expenditure had the predominant share of around 83.5 *per cent* in the total expenditure during 2009-10. The overall revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.13.**

Table 1.13:Revenue expenditure – basic parameters

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Expenditure (RE), *of which*	**52,280**	**61,385**	**64,780**	**75,694**	**94,916**
Non-Plan Revenue Expenditure (NPRE)	47,048	53,150	54,505	63,286	78,179
Plan Revenue Expenditure (PRE)	5,232	8,235	10,275	12,408	16,737
Rate of Growth of					
RE *(per cent)*	2.4	17.4	5.5	16.8	25.4
NPRE *(per cent)*	1.4	13.0	2.5	16.1	23.5
PRE *(per cent)*	12.4	57.4	24.8	20.8	34.9
Revenue Expenditure as percentage to TE	78.5	83.2	83.6	79.0	83.5
NPRE/GSDP *(per cent)*	10.9	10.4	9.2	9.1	11.3
NPRE as percentage of TE	70.6	72.0	70.3	66.0	68.8
NPRE as percentage of RR	97.1	85.5	68.5	77.9	90
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.147	0.978	0.343	0.976	1.264
Revenue Receipts (ratio)	0.132	0.613	0.196	8	3.681

Source : Finance Accounts.

The revenue expenditure increased by ₹ 19,222 crore (25.4 *per cent*) over the previous year. ***The revenue expenditure exceeded (36.7 per cent) the assessment made by the State Government in its FCP, however, it decreased (1.3 per cent) with respect to MTFPS for the year 2009-10.***

Plan Revenue Expenditure

The PRE increased by ₹ 4,329 crore (35 *per cent*) during the year mainly due to increase in expenditure under rural development (₹ 670 crore), welfare of scheduled castes, scheduled tribes and other backward classes (₹ 626 crore), social welfare and nutrition (₹ 381 crore) and education, sports, arts and culture (₹ 144 crore). The buoyancy of revenue expenditure with reference to both GSDP and revenue receipts fluctuated widely. This might be on account of the fact that NPRE largely forms committed expenditure of the Government and constitutes the dominant share in the revenue expenditure and is not affected greatly either by GSDP or revenue receipts.

Non Plan Revenue Expenditure

The NPRE constituted a dominant share of 82 *per cent* in the revenue expenditure and has increased by ₹ 14,893 crore (24 *per cent*) over the previous year. The variations in NPRE under the major heads indicate increase in expenditure under general services (₹ 5,656 crore), education, sports, arts and culture (₹ 5,617 crore), water supply, sanitation, housing and urban development (₹ 481 crore) and energy (₹ 1,662 crore).

Table 1.14 provides the comparative position of NPRE with reference to assessments made by TFC and the projections of the State Government.

Table 1.14: NPRE *vis-à-vis* assessment made by TFC and FCP

(₹ in crore)

Year	Assessments made by TFC	Projections in FCP	Projections in MTFPS	Actuals
2008-09	47429	56782	64296	63286
2009-10	51537	60189	74434	78179

The NPRE during 2008-09 and 2009-10 remained significantly higher than the normative assessments made by TFC and MTFPS, while it reflected only marginal variations with reference to State Government's projections (MTFPS) during both the years.

1.6.2 Committed expenditure

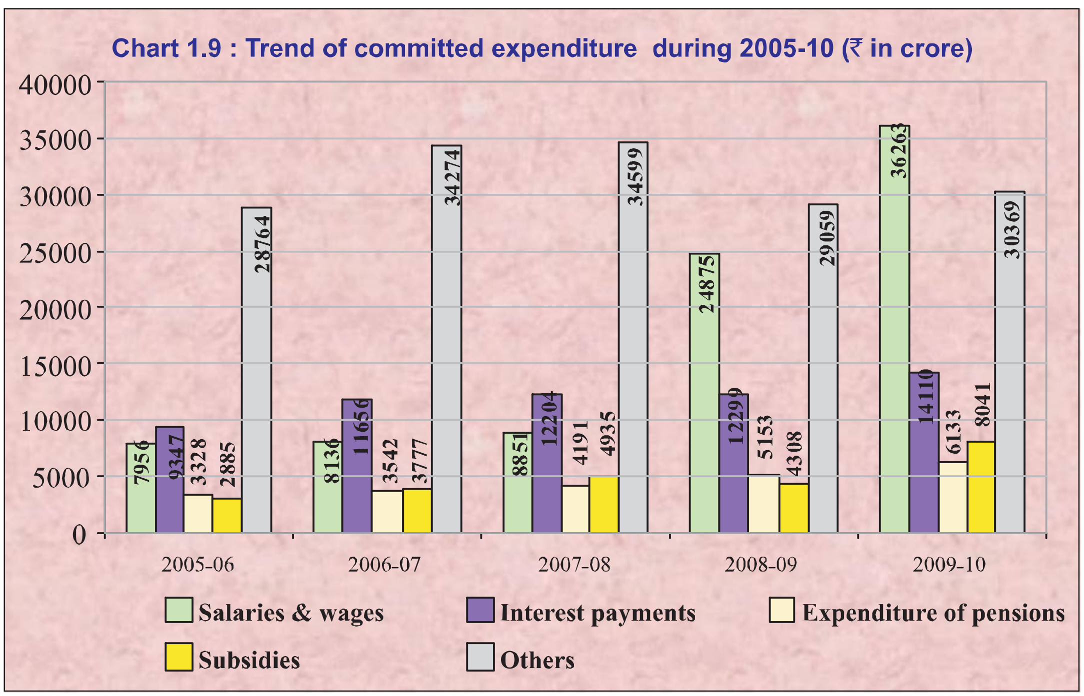
The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. The committed expenditure constituted 68 *per cent* of total revenue expenditure during 2009-10. **Table 1.15** and **Chart 1.9** present the trends in the expenditure on these components during 2005-10.

Table 1.15: Components of committed expenditure

(₹ in crore)

Components of Committed expenditure	2005-06#	2006-07#	2007-08#	2008-09*	2009-10 BE*	2009-10 Actuals*
Salaries & Wages, *Of which*	7956(16)	8136(13)	8851(11)	24875(31)	34346	36263(42) $
Non-Plan Head	6837(14)	7155(12)	8015(10)	23627(29)	NA	35721(41)
Plan Head**	1119(02)	981(02)	836(01)	1248(02)	NA	542(01)
Interest Payments	9347(19)	11656(19)	12204(15)	12299(15)	14351	14110(16)
Pensions	3328(07)	3542(07)	4191(05)	5153(06)	5406	6133(07)
Subsidies	2885(06)	3777(06)	4935(06)	4308(05)	NA	8041(09)
Total Committed expenditure	**23516(49)**	**27111(44)**	**30181(38)**	**46635(57)**	**54103**	**64547(74)**
Other Components	28764(59)	34274(55)	34599(43)	29059(36)	34958	30369(35)
Total Revenue Expenditure	**52280**	**61385**	**64780**	**75694**	**96184**	**94916**
Revenue Receipts	**48438**	**62195**	**79583**	**81271**	**89061**	**86910**

Figures in the parentheses indicate percentage to Revenue Receipts
* includes the salaries paid out of grants-in-aid.
\# does not include salaries paid out of grants-in-aid as information is not available for the period 2005-08.
$ Salaries : ₹ 35,721 crore (Finance Accounts) + Wages : ₹ 542 crore (VLC data of PAG(A&E))
** Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.
Source : Finance Accounts.



Note: Expenditure on Salaries and Wages included grants-in-aid component during 2008-09 (₹ 14,405 crore) and 2009-10 (₹ 22,666 crore).

Salaries and Wages

The average annual growth in salaries excluding the grant-in-aid component during 2005-09 was 10.53 *per cent*.

The expenditure on salaries and wages (including grant-in-aid component) increased by ₹ 11,388 crore (46 *per cent*) from ₹ 24,875 crore in 2008-09 to ₹ 36,263 crore in 2009-10 mainly on account of payment of Sixth Pay Commission arrears. ***The ratio of non-plan salary expenditure (inclusive of grants-in-aid component) to revenue expenditure net of interest payments and pensions was 48 per cent during 2009-10 which was much higher than the TFC norms of 35 per cent.***

Pension payments

The expenditure on pension payments had increased at an average annual growth of 21 *per cent* from ₹ 3,328 crore in 2005-06 to ₹ 6,133 crore in 2009-10.

The increase in pension payments of ₹ 980 crore (19 *per cent*) during 2009-10 over the previous year was mainly due to more expenditure on Superannuation and Retirement allowances, commutations of pension, family pension and contribution for defined contribution pension scheme.

The **Table 1.16** below shows actual pension payments with reference to assessment made by TFC and projections of the State Government.

Table 1.16: Pension payments *vis-à-vis* TFC assessment and State's projections

(₹ in crore)

Year	Projections in MTFPS	Assessments made by TFC	Projections in FCP	Actuals
2008-09	6,223	3,998	5,363	5,153
2009-10	6,831	43,98	5,792	6,133

The pension payments during 2008-09 and 2009-10 were higher than the normative assessments made by TFC while they were lower than the projections of the State Government under MTFPS but higher than the projections in FCP during 2009-10. The large gap of pension payments with reference to projections of the State Government further emphasised the need of working out the pension liabilities on actuarial basis. In order to limit future pension liabilities, the Government had, however, introduced contributory pension scheme for employees recruited after 1 November 2005.

The expenditure on "Pension and Other Retirement Benefits to State Government Employees" during the year was ₹ 6132.51 crore. However, the State Government employees recruited with effect from 1 November 2005 are eligible for New Pension Scheme. An amount of ₹ 278.44 crore towards employee's contribution and employer's share has been deposited under the head '8342-Other Deposits-117' Defined Contribution Pension Scheme for Government Employees during the year. The State Government liability on this account as on 31 March 2010 was ₹ 362.22 crore. Out of these deposits no investments were made by the State Government till 31 March 2010.

Interest payments

Interest payments increased by 51 *per cent* from ₹ 9,347 crore in 2005-06 to ₹ 14,110 crore in 2009-10, primarily due to increase in debt liabilities. However, relative to revenue receipts, interest payments reveal a declining trend. It declined from 19 *per cent* in 2005-06 to 15 *per cent* in 2008-09, however, marginally increased to 16 *per cent* in 2009-10.

The interest payments with reference to assessment made by TFC and the projections in FCP of the State Government (**Table 1.17**) indicate that ***the interest payments during 2008-09 and***

2009-10 exceeded the assessments made by TFC. Further, during 2008-09 and 2009-10, it was lower than the projection made by State Government in FCP. However, as compared to MTFPS, it reflected marginal variations in both the years. During the current year, actual interest payment exceeded the TFC's assessment by 14 *per cent*.

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

(₹ in crore)

Year	Projections in MTFPS	Assessments made by TFC	Projections in FCP	Actuals
2008-09	12,388	11,521	13,380	12,299
2009-10	14,860	12,385	14,473	14,110

The actual interest payment as a percentage of revenue receipts (16.23 per cent) was lower than the normative assessment of TFC (19.4 per cent), projections made by the State Government in FCP (22.90 per cent) and MTFPS (16.69 per cent).

During 2009-10, the State Government raised open market loans of ₹ 15,500 crore at an average interest rate of 8.26 *per cent*. Government also borrowed ₹ 5,312 crore from the National Small Savings Fund and other institutions and ₹ 752 crore from Government of India during the year.

The increase in interest payments was ₹ 1,811 crore over the previous year and was mainly due to more interest on market loan (₹ 1,604 crore) and interest on State provident fund (₹ 187 crore).

Subsidies

Table 1.18 indicates that expenditure under subsidies increased by 87 *per cent* from ₹ 4,308 crore in 2008-09 to ₹ 8,041 crore in 2009-10. The subsidies as a percentage of revenue receipts increased from 6 *per cent* in 2005-06 to 9 *per cent* in 2009-10. During the current year, subsidies constituted about 8.5 *per cent* of the revenue expenditure; the major areas which received subsidy include power (42 *per cent*), agriculture (14 *per cent*), food (11 *per cent*), medium and large industries under graded Package Scheme of Incentives (9 *per cent*) and gharkul yojana for schedule castes and *nav boudh* people (6 *per cent*) *etc.*

The subsidies projected by the Government in the FCP and the actual expenditure during 2009-10 were as under:

Table 1.18: Subsidies *vis-à-vis* FCP

(₹ in crore)

	2008-09		2009-10	
	Projections	Actuals	Projections	Actuals
Power	1,611	2063	1,611	3,354
General/Others	740	2245	740	4,687
Total	**2,351**	**4308**	**2,351**	**8,041**

As per recommendation of the TFC, food subsidy for Maharashtra was fixed at ₹ 96.75 crore each year during the period 2005-10. State Government provided food subsidy of ₹ 218 crore in the State budget 2009-10 and actual expenditure was ₹ 908.25 crore (against ₹ 391.37 crore in 2008-09). Similarly, for the schemes 'Subsidy to Distribution/ Transmission licencees for reduction in Agriculture and Power loom Tariff' and 'Subsidy to medium and large industries under graded Package Scheme of Incentives' Government provided ₹ 2,082 crore and ₹ 400 crore respectively in the State Budget 2009-10. Actual expenditure incurred was, however, ₹ 3,354 crore (2008-09 : ₹ 2,063 crore) and ₹ 750 crore (2008-09 : ₹ 467 crore) respectively.

The subsidies to power and General (other) subsidies with reference to the projections in FCP of the State Government as shown in **table 1.18** above indicate that expenditure on subsidies increased significantly during 2009-10 and the subsidy payments exceeded the projection made by State Government in FCP in 2008-09 and 2009-10.

1.6.3 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 2009-10 relative to the previous years is presented below:

Table 1.19: Financial assistance to local bodies *etc.*

(₹ in crore)

Institutions	2005-06	2006-07	2007-08	2008-09	2009-10
Educational Institutions (Aided Schools, Aided Colleges, Universities, *etc.*)	2,200.13	5,234.33	6,859.58	8,214.83	11,638.18
Municipal Corporations and Municipalities	1,031.02	2,652.27	1,351.25	1,651.47	1,708.89
Zilla Parishads and Other Panchayati Raj Institutions	7,472.84	7,321.27	8,007.34	10,501.98	11,726.62
Development Agencies	2,463.92	761.65	1,148.03	1,914.93	299.45[9]
Hospital and Other Charitable Institutions	131.07	64.15	80.57	674.43	1,065.48
Other Institutions	14,088.71	10,818.55	10,842.90	12,711.32[10]	18,150.70[11]
Total	**27,387.69**	**26,852.22**	**28,289.67**	**35,668.96**	**44,589.32**
Assistance as per percentage of RE	52	44	44	47	47

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

It would be seen that the financial assistance to local bodies and other institutions by the Government has increased from ₹ 27,388 crore in 2005-06 to ₹ 44,589 crore in 2009-10. During 2009-10, more financial assistance was given to (a) educational institutions (₹ 3,423 crore) due to more expenditure on grant-in-aid to secondary schools; (b) municipal corporations and councils (₹ 58 crore) mainly for aesthetic improvements in Greater Mumbai; (c) zilla parishads and other panchayati raj institutions (₹ 1,225 crore) due to expenditure on account of establishment grants to zilla parishads; and (d) hospitals and other charitable institutions (₹ 391 crore) due to increased grants given to primary health centres and (e) others (₹ 5,440 crore).

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

1.7 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects *viz.*, adequacy of the expenditure (*i.e.* adequate provisions for providing public services); efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services).

9 Huge variation due to misclassification in the previous year.

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

11 Includes Agriculture and Allied Activities : ₹ 2,320.47 crore, Education, Sports, Art & Culture ₹ 2,028.41 crore, General Services : ₹ 804.98 crore, Rural Development : ₹ 1,809.43 crore, Social Welfare and Nutrition : ₹ 1,151.00 crore, Water Supply, Sanitation, Housing and Urban Development : ₹ 5,121.62 crore and Welfare of SCs, STs and OBCs : ₹ 1,488.85 crore.

1.7.1 Adequacy of public expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health *etc.* Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.20** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2005-06 and 2009-10.

Table 1.20: Fiscal Priority of the State in 2005-06 and 2009-10

Fiscal Priority by the State	AE / GSDP	DE# / AE	SSE / AE	CE / AE	Education, Sports, Art and Culture / AE	Health and Family Welfare / AE
General Category State's Average (Ratio) 2005-06	17.75	61.76	30.76	13.97	14.95	4.05
Maharashtra's Average (Ratio) 2005-06	15.18	65.30	32.14	15.13	16.17	3.32
General Category State's Average (Ratio) 2009-10	18.24	66.05	35.76	14.85	16.21	4.28
Maharashtra's Average (Ratio) 2009-10	13.66	69.85	37.80	15.34	19.70	3.44

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.

As shown in **Table 1.20,** the comparison of fiscal priority given to different categories of expenditure of the State in 2005-06 (the first year of award period of TFC) and current year 2009-10 (terminal year of the TFC award period) is given below:

- The ratios of AE to GSDP in 2005-06 and 2009-10 (15.18 *per cent* and 13.66 *per cent*) were lower in the State as compared to general category States (17.75 *per cent* and 18.24 *per cent*). This means that other general category States are spending more as a proportion of their GSDP when compared to Maharashtra.
- Government has given adequate fiscal priority to DE and SSE respectively in 2005-06 and 2009-10, as their ratios to AE were higher than the average ratio of general category States.
- The ratio of CE to AE (15.13 *per cent*) in 2005-06 and (15.34 *per cent*) in 2009-10 was higher than the ratio of General Category States (13.97 *per cent*) and (14.85 *per cent*) respectively.
- The ratios of expenditure on Education, Sports, Art and Culture to AE in 2005-06 and 2009-10 were higher than the ratios of general category States.
- The ratio of expenditure on Health and Family Welfare to AE in 2005-06 and 2009-10 were lower than the ratios of General Gategory States.

Since Maharashtra State has a higher population below poverty line as compared to the General Category States, it would be prudent to utilise the funds in such manner which would reduce the population below the poverty line.

1.7.2 Efficiency of expenditure use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[12]. Apart from improving the allocation towards development expenditure[13], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While the **Table 1.21** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and during the previous year. **Table 1.22** provides the details of capital expenditure and the component of revenue expenditure incurred on the maintenance of the selected social and economic services.

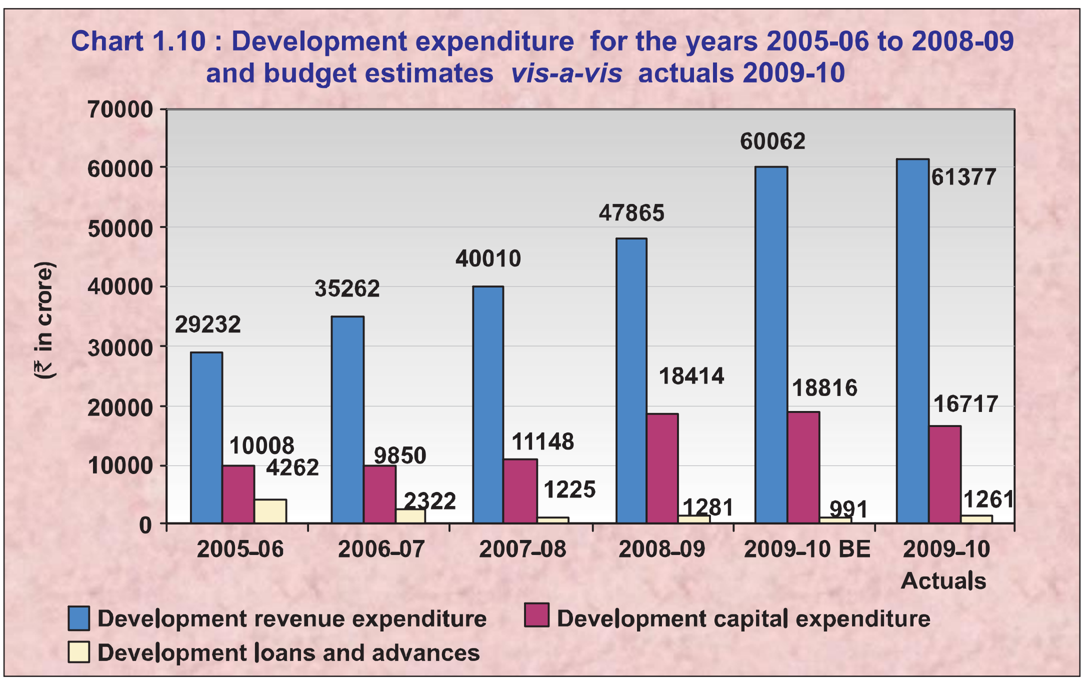
Table 1.21: Development expenditure

(₹ in crore)

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actuals
Development Expenditure (a to c)	**43,502 (65.3)**	**47,433 (64.3)**	**52,383 (67.6)**	**67,560 (70.5)**	**79,869 (65.0)**	**79,355 (69.8)**
a. Development Revenue Expenditure	29,232 (43.9)	35,262 (47.8)	40,010 (51.6)	47,865 (49.9)	60,062 (48.9)	61,377 (54.0)
b. Development Capital Expenditure	10,008 (15)	9,849 (13.3)	11,148 (14.4)	18,414 (19.2)	18,816 (15.3)	16,717 (14.7)
c. Development Loans and Advances	4,262 (6.4)	2,322 (3.1)	1,225 (1.6)	1,281 (1.3)	991 (0.8)	1,261 (1.1)

Source: Finance Accounts

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



12 See the glossary at page 99.

13 The analysis of the expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances are 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 revenue expenditure

The development revenue expenditure increased by ₹ 13,512 crore from ₹ 47,865 crore in 2008-09 to ₹ 61,377 crore in 2009-10. The increase under social services was ₹ 9,953 crore while increase under economic services was ₹ 3,559 crore. The actual development revenue expenditure was more than the State's projection in budget by ₹ 1,315 crore.

Development capital expenditure

The development capital expenditure decreased by ₹ 1,697 crore from ₹ 18,414 crore in 2008-09 to ₹ 16,717 crore in 2009-10. The decrease under social services was ₹ 586 crore (mainly under welfare of scheduled castes, scheduled tribes and other backward classes and education, sports, art and culture) while decrease under economic services was ₹ 1,111 crore (mainly under irrigation and flood control). The actual development capital expenditure was less than the State's projection in budget by ₹ 2,099 crore.

Development loans and advances

The development loans and advances decreased by ₹ 20 crore from ₹ 1,281 crore in 2008-09 to ₹ 1,261 crore in 2009-10. The actual development loans and advances was more than the State's projection in budget by ₹ 270 crore.

Table 1.22 – Efficiency of expenditure used in selected social and economic services

(in *per cent*)

Social / Economic Infrastructure	2008-09			2009-10		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S &W	O&M		S&W	O &M
Social Services (SS)						
Education, Sports, Art & Culture	0.79	76.68	0.05	0.79	84.46	0.06
Health and Family Welfare	9.87	63.2	0.01	5.51	74.37	0.10
Housing & Urban Development and Water Supply, Sanitation	10.03	6.47	0.34	8.4	5.31	4.22
Total Social Services (SS)	**6.24**	**51.83**	**0.38**	**3.48**	**57.86**	**0.76**
Economic Services (ES)						
Agriculture & Allied Activities	16.89	26.63	0.05	18.88	46.89	0.18
Irrigation and Flood Control	85.32	30.8	0.56	77.41	34.94	0.14
Power & Energy	24.23	0.53	0.02	29.21	0.44	0.00
Transport	44.52	2.16	1.5	50.25	1.69	37.65
Total Economic Services (ES)	**49.3**	**17.11**	**2.77**	**42.79**	**21.66**	**6.04**
Grand Total of SS and ES	**27.78**	**39.63**	**3.14**	**21.41**	**45.84**	**2.51**

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

The trends presented in **Table 1.22** reveal that development capital expenditure as a percentage to total expenditure decreased from 27.78 in 2008-09 to 21.41 in 2009-10. While the share of salary and wages in revenue expenditure increased from 39.63 *per cent* in 2008-09 to 45.84 *per cent* in 2009-10, operations and maintenance in revenue expenditure decreased (2.51 *per cent*) as compared to the previous year.

The percentage of capital expenditure on social services to total expenditure decreased from 6.24 in 2008-09 to 3.48 in 2009-10 while percentage of capital expenditure on economic services to total expenditure also decreased from 49.30 *per cent* in 2008-09 to 42.79 *per cent* in 2009-10. The decrease was mainly seen under health and family welfare and water supply, sanitation and housing and urban development under social services and irrigation and flood control under economic services.

The share of salary and wages in revenue expenditure on social services increased from 51.83 *per cent* in 2008-09 to 57.86 *per cent* in 2009-10 while the share of salary and wages in revenue expenditure on economic services also increased from 17.11 *per cent* in 2008-09 to 21.66 *per cent* in 2009-10. The increase was mainly seen under education, sports, art & culture and health and family welfare under social services while the increase was seen under agriculture and allied activities and irrigation and flood control under economic services.

The share of operations and maintenance in revenue expenditure on social services increased from 0.38 *per cent* in 2008-09 to 0.76 *per cent* in 2009-10 while the share of operations and maintenance in revenue expenditure on economic services increased from 2.77 *per cent* in 2008-09 to 6.04 *per cent* in 2009-10. The increase was mainly seen under water supply, sanitation and housing and urban development under social services while the increase was seen under agriculture and allied activities and transport under economic services.

1.8 Financial analysis of Government expenditure and investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its capital expenditure/ investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.8.1 Financial results of irrigation works

The financial results of six major irrigation projects[14] of the Government which are considered as commercial projects having a capital outlay of ₹ 700.14 crore at the end of March 2010, showed that revenue realised from these projects during 2009-10 (₹ 143.86 crore) was 20.54 *per cent* of the capital outlay. After considering the working and maintenance expenses (₹ 11.40 crore) and interest charges (₹ 70.51 crore), the schemes gained a net profit of ₹ 61.95 crore during 2009-10.

1.8.2 Incomplete projects

The department-wise information pertaining to the incomplete projects[14] as on 31 March 2010 is given in **Table 1.23.**

Table 1.23: Department-wise profile of incomplete projects

(₹ in Crore)

Department	No of incomplete projects	Initial budgeted cost	Revised total cost of projects	Cost over run	Cumulative actual expenditure as on 31.3.2010
Public Works	43	224.94	NA	NA	82.33
	25	NA	NA	NA	47.74
Housing	5	18.57	NA	NA	17.38
Road & Bridges	81	1,320.09	NA	NA	235.35
	29	NA	NA	NA	49.66
Irrigation and Flood Control	25	862.38	3,467.59	2,605.21	2,945.05
	1	49.24	NA	NA	2,255.47
Total	**209**	**2,473.22**	**3,467.59**	**2,605.21**	**5,632.95**

Source : Finance Accounts, NA = Not available

14 Details are given in Appendix IX (i) of Finance Accounts, Government of Maharashtra for 2009-10.

The details of incomplete projects pertaining to four departments are presented in **Table 1.23.** In respect of incomplete irrigation projects, the initial budgeted cost increased from ₹ 862.38 crore to ₹ 3,467.59 crore resulting in significant cost overrun of ₹ 2,605.21 crore. The time overruns occurred in the incomplete projects was up to 24 years in respect of the major and medium irrigation projects, up to eight years in respect of PWD projects, up to five years in respect of projects under Housing and up to four years in respect of the projects under Roads and Bridges.

1.8.3 Investment and returns

As of 31 March 2010, Government had invested ₹ 64,192 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.24**). The average return on this investment was 0.11 *per cent* in the last five years while the Government paid average interest rate of 7.46 *per cent* on its borrowings during 2005-10.

Table 1.24: 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)	31,917.62	37,531.49	44,256.26	56,386.38	64,192.68
Return (₹ in crore)	3.66	6.16	122.00	71.16	80.88
Return (*per cent*)	0.01	0.02	0.28	0.13	0.13
Average rate[15] of interest on govt borrowing (*per cent*)	7.09	7.78	7.74	7.29	7.38
Difference between interest rate and return (*per cent*)	7.08	7.76	7.46	7.16	7.25

Source : Finance Accounts

The increase in investments of ₹ 7,806 crore during 2009-10 was attributable to increased capital contributions to Godavari Marathwada Irrigation Development Corporation (₹ 1,386 crore), Konkan Irrigation Development Corporation (₹ 615 crore), Maharashtra Krishna Valley Development Corporation (₹ 1,853 crore), Tapi Irrigation Development Corporation (₹ 466 crore), Vidarbha Irrigation Development Corporation (₹ 3,131 crore) and Maharashtra State Road Transport Corporation (₹ 176 crore) as compared to the previous year.

As on 31 March 2010, 33 Companies in which Government had invested ₹ 13,947.90 crore (share capital: ₹ 9,830 crore, loan: ₹ 4,118 crore) were incurring losses and their accumulated losses amounted to ₹ 8,724 crore (net). According to the information furnished by the Commissioner for Co-operation and Registrar of Co-operative Societies as on 31 March 2010, 18,629 societies with an aggregate investment of ₹ 477.75 crore (equity: ₹ 331.41 crore and loan: ₹ 146.34 crore) of which 8956 number of societies had incurred losses of ₹ 85.23 crore (17.84 *per cent* of the initial investments) made in these societies.

1.8.4 Departmental commercial undertakings

Activities of quasi-commercial nature are also performed by departmental undertakings of certain Government departments. Position of the department-wise investment by the Government up to the year for which proforma accounts are finalised, net profits/loss as well as return on capital invested in these undertakings are given in **Appendix 1.10.** It is observed that:

- An amount of ₹ 1,640.55 crore had been invested by the State Government in these four undertakings having 49 units, at the end of financial year up to which their accounts were finalised.
- Of the four undertakings having 49 units, five units (10.20 *per cent*) earned net profit amounting to ₹ 8.89 crore against the capital investment of ₹ 16.39 crore, thereby

15 See glossary at page 99 for method of calculation.

yielding the rate of return of 54.24 *per cent*. The major profit making units were Allapalli and Pendigundam Forest Ranges of Forest divisions including Saw Mills & Timber Depot (₹ 3.83 crore), Unit Scheme, Mumbai (₹ 3.44 crore) and Agricultural Scheme, Mumbai (₹ 1.06 crore) of Animal Husbandry, Dairy Development & Fisheries Department as per the last accounts finalised.

- Of the loss making units, 19 units were incurring losses continuously for more than five years.
- As per the accounting system being followed by the departmental commercial undertakings (Government Milk Schemes, Procurement, Distribution and Price Control Scheme in Mumbai/Thane Rationing Area and Mofussil), the net loss/profit for the year is deducted/ added directly from the/to the Capital Account in the Balance Sheet. Therefore, the figures of accumulated loss cannot be ascertained from the *Proforma* Accounts of the Departmental Undertakings.

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

1.8.5 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/ organisations. **Table 1.25** presents the outstanding loans and advances as on 31 March 2010, interest receipts *vis-à-vis* interest payments during the last three years.

Table-1.25: 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	17,634	18,126	18,844*
Amount advanced during the year	1,225	1,281	1,261
Amount repaid during the year	733	560	515
Closing balance	**18,126**	**18,847**	**19,590**
Of which outstanding balance for which terms and conditions have been settled	NA	NA	NA
Net addition	492	721	746
Interest receipts	522	99	691
Interest receipts as *per cent* to outstanding Loans and advances	2.92	0.54	3.60
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.74	7.29	7.38
Difference between interest payments and interest receipts (*per cent*)	(-)4.82	(-)6.75	(-)3.78

The total outstanding loans and advances as on 31 March 2010 was ₹ 19,590 crore (**Table 1.25**). The amount of loans disbursed during the year decreased from ₹ 1,281 crore in 2008-09 to ₹ 1,261 crore in 2009-10. Out of the total amount of loans and advances paid during the year, ₹ 456 crore went to social services and ₹ 568 crore to economic services. Under the economic services, the major portion of loans went to power (23 *per cent*) followed by co-operatives (19 *per cent*). However, recovery of loans and advances decreased from ₹ 560 crore to ₹ 515 crore during the current year mainly on account of less recoveries from loans for water supply and sanitation (₹ 14 crore), loans to consumer industries (₹ 46 crore) and other loans to industries and minerals (₹ 15 crore).

* Difference in the closing balance of previous year and opening balance of current year is due to *pro-forma* correction.

Similarly, interest received against these loans increased from 0.54 *per cent* during 2008-09 to 3.60 *per cent* in 2009-10 mainly due to more interest receipts from minor irrigation, (₹ 499 crore), water supply and sanitation (₹ 70 crore) and power projects (₹ 52 crore).

1.8.5.1 Loans and Investments

In spite of the instructions from the Finance Department none of the Administrative Department of the Government has furnished the information about outstanding loans as on 31 March 2010 given by the Government. Due to non-availability of the information the balances shown as outstanding which are derived from the initial accounts received from the treasuries *etc.,* are not treated as confirmed. Further, the investments reflected in the accounts are also not confirmed as the Administrative Departments with whom the investment documents (share certificates, *etc.*) are available did not furnish the information.

1.8.6 Cash balances and investment of cash balances

Table 1.26 and **Chart 1.11** depict the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.26: Cash balances and investment of cash balances

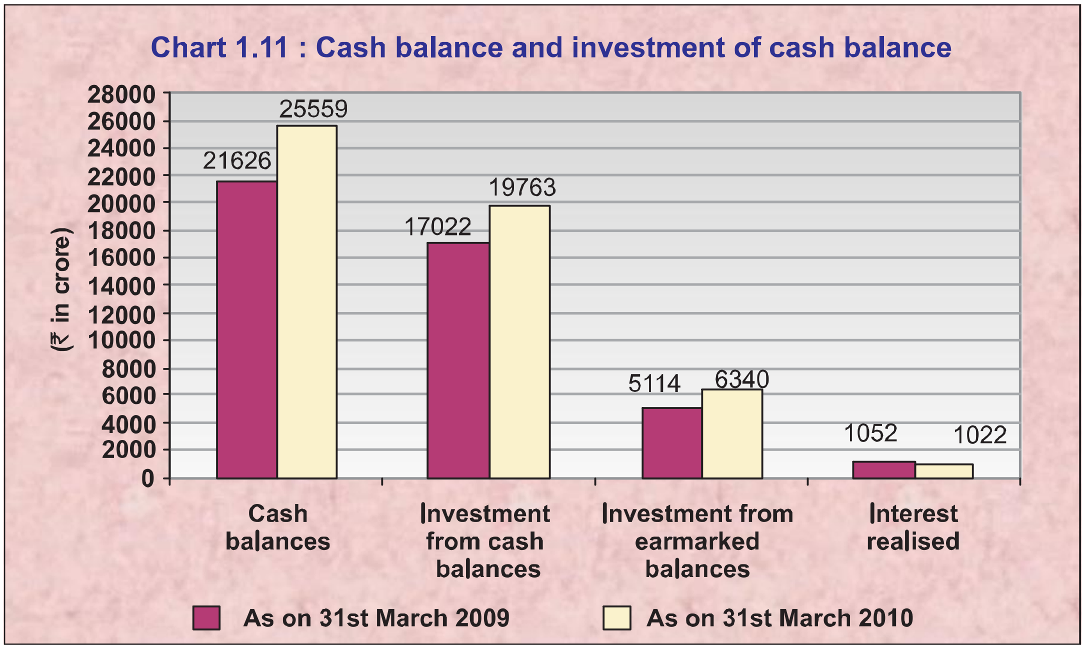
(₹ in crore)

Particulars	As on 31 March 2009	As on 31 March 2010	Increase / Decrease
Cash in treasuries	**1.16**	**0.21**	**(-) 0.95**
Deposits with Reserve Bank	**(-) 721.83**	**(-) 863.47**	**(-) 141.64**
Remittances in transit-Local	**177.88**	**182.83**	**4.95**
Cash with the departmental officers	**32.81**	**136.70**	**103.89**
Permanent advance for contingent expenditure with departmental officers	**0.46**	**0.46**	**0.00**
Investments from cash balances (a to d)	**17,022.33**	**19,762.99**	**2,740.66**
a. GoI Treasury Bills	**17,021.63**	**19,762.29**	**2,740.66**
b. GoI Securities	—	—	—
c. Other Securities, if any specify	—	—	—
d. Other Investments	**0.70**	**0.70**	**0.00**
Funds-wise break-up of investment from Earmarked balances (a to e)	**5,113.61**	**6,339.64**	**1,226.03**
a. General and other Reserve Funds	30.74	30.74	0.00
b. Sinking Fund	5,068.36	6,294.39	1,226.03
c. Funds for Development of Milk supply	1.00	1.00	0.00
d. Other Development and Welfare Funds	13.43	13.43	0.00
e. Miscellaneous Deposits	0.08	0.08	0.00
Total Cash Balances	**21,626.42**	**25,559.36**	**3,932.94**
Interest realised	*1,051.50*	*1,022.02*	*(-) 29.48*

Source : Finance Accounts

The interest received on investment of cash balances was 5 *per cent* during 2009-10 while interest paid by Government on its borrowings during the year was 7.38 *per cent*.

The State Government's cash balances of ₹ 25,559 crore at the end of current year showed an increase by 18 *per cent* (₹ 3,933 crore) over the previous year. Of the above, ₹ 19,762 crore was invested in Government of India Treasury Bills and earned an interest of ₹ 627 crore during the year. Further, ₹ 6,340 crore was invested in earmarked funds. However, the balance with Reserve Bank of India was (-) ₹ 863 crore as on 31 March 2010. The State Government



maintained the minimum cash balance of ₹ 5.58 crore with the Reserve Bank during 2009-10 under an agreement with the Reserve Bank of India.

No ways and means advance and overdraft was taken during the year.

Cash Balance as on 31 March 2010 worked out by the Accountant General was ₹ 863.47 crore (credit). The cash balance reported by Reserve Bank of India as on 31 March 2010 was ₹ 864.54 crore (debit). Thus, there was a difference of ₹ 1.07 crore (debit) between the two figures. The difference was mainly due to (1) misclassification by the treasuries ₹ 0.06 crore (Debit), (2) misclassification by the agency banks ₹ 1.39 crore (Debit) and (3) unadjusted advices of ₹ 0.38 crore (Credit). Out of this difference up to July 2010, items amounting to ₹ 1.12 crore (Debit) pertaining to misclassification by the agency banks and unadjusted advices of ₹ 0.38 crore (Credit) have been identified and taken into account during the next accounting period.

1.9 Assets and Liabilities

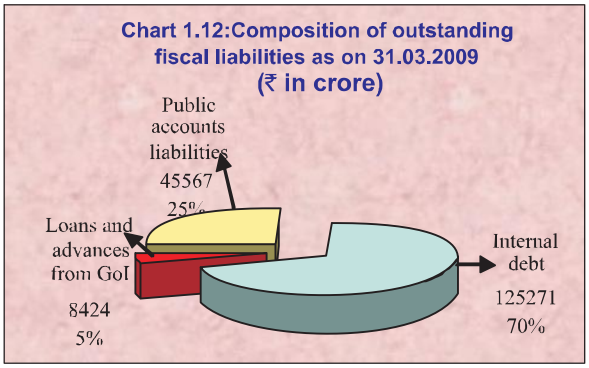
1.9.1 Growth and composition of assets and liabilities

In the government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the government is not done. However, the government accounts do capture the financial liabilities of the government and the assets created out of the expenditure incurred. ***Appendix 1.7*** 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 ***Appendix 1.7*** consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly of the capital outlay and loans and advances given by the State Government and cash balances.

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

1.9.2 Fiscal liabilities

The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.12** and **1.13.**



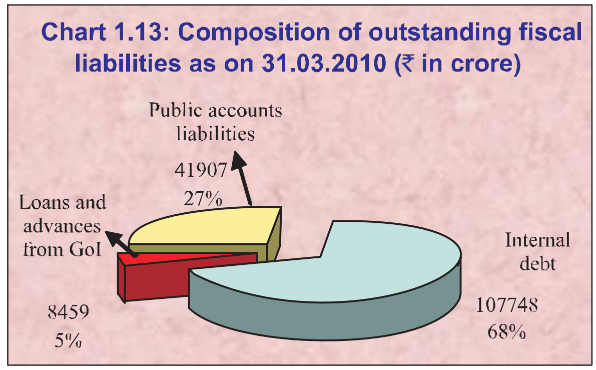


Table 1.27 gives the fiscal liabilities of the State, their rate of growth, their ratio of these liabilities to GSDP, to revenue receipts and to State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table-1.27: Fiscal liabilities – basic parameters

	2005-06	2006-07	2007-08	2008-09	2009-10
Fiscal Liabilities (₹ in crore)	1,42,491	1,57,039	1,58,114	1,79,262	2,03,165
Rate of Growth *(per cent)*	17.74	10.21	0.68	13.38	13.33
Ratio of Fiscal Liabilities to					
GSDP *(per cent)*	33	30.8	26.8	25.9	24.4
Revenue Receipts *(per cent)*	294.1	252.5	198.7	220.6	233.8
Own Resources *(per cent)*	424.8	391.63	332.7	344.5	343.7
Buoyancy of Fiscal Liabilities with reference to :					
GSDP (ratio)	1.09	0.574	0.042	0.777	0.663
Revenue Receipts (ratio)	0.98	0.36	0.024	6.371	1.932
Own Resources (ratio)	1.848	0.521	0.037	1.408	0.980

The overall fiscal liabilities of the State increased at an average annual rate of 8.5 *per cent* during the period 2005-10. The growth rate marginally decreased from 13.38 *per cent* in 2008-09 to 13.33 *per cent* in 2009-10. ***During 2009-10, debt to GSDP ratio at 18.20 per cent was lower than the projections made in MTFPS (23.29 per cent) and it was lower than projections in FCP (24.62 per cent) and TFC (30.8 per cent). These liabilities were around two times the revenue receipts and three times the State's own resources at the end of 2009-10.*** The buoyancy of these liabilities with respect to GSDP during 2009-10 was 0.663, indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.66 *per cent*.

Of the total fiscal liabilities, the share of public debt was maximum (75 *per cent*), followed by deposits (11 *per cent*); reserve funds (8 *per cent*) and small savings, provident fund *etc.* (6 *per cent*). Fiscal liabilities increased by ₹ 23,903 crore from ₹ 1,79,262 crore in 2008-09 to ₹ 2,03,165 crore in 2009-10 mainly due to increase in public debt (₹ 17,739 crore), reserve fund (₹ 875 crore), deposits (₹ 3,499 crore) and small savings and provident funds (₹ 1,790 crore).

The State Government set up a Consolidated Sinking Fund during the financial year 1999-2000 for amortization of open market loans. As on 31 March 2010, the outstanding balance in Sinking Fund was ₹ 6,294.39 crore, including ₹ 1,226.03 crore for 2009-10 and the entire amount was invested.

1.9.3 Status of guarantees – contingent liabilities

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

The maximum amount for which guarantees were given by the State and the outstanding guarantees for the last three years, as given in the Statement 9 of the Finance Accounts (Vol.II), are at **Table 1.28.**

Table-1.28: Guarantees given by the Government of Maharashtra

(₹ in crore)

Guarantees	2007-08	2008-09	2009-10
Maximum amount guaranteed	84,164	88,371	73,958
Outstanding amount of guarantees	58,276	51,471	42,683
Percentage of maximum amount guaranteed to total revenue receipt	106	109	85

During 2009-10, guarantees of ₹ 2,112.18 crore were sanctioned for repayment of share capital, raising loans, debentures, bonds *etc.* by Co-operative sugar factories (₹ 34.66 crore) Maharashtra State Cotton Co-operatives (₹ 500 crore), Shabari Adivasi Finance and Development Corporation (₹ 25 crore), Maharashtra State Road Development Corporation (₹ 1,084.52 crore), Maharashtra State Co-operative Marketing Federation (₹ 318 crore), and Maharashtra Agriculture Industries Development Corporation (₹ 150 crore). Outstanding guarantees during 2009-10 accounted for 49 *per cent* of the revenue receipts. The outstanding guarantees during 2009-10 were 5.13 *per cent* of the GSDP. The State Government has achieved the commitment made in MTFPS (March 2009) to bring it down to less than 10 *per cent*. ***However, the State Government has not set up the Guarantee Redemption Fund so far (March 2010) despite the recommendation of TFC and commitment made in the MTFPS of 2008-09 laid before the State legislature, to meet the contingent liabilities arising from the guarantees given by the Government.***

The State Government charges guarantee fees for guarantees given to institutions and the same is booked under 'Miscellaneous General Services'. As the maximum amount guaranteed and the outstanding amount of guarantee decreased during 2009-10, receipt under guarantee fees also decreased to ₹ 551.77 crore (receivable: ₹ 374.26 crore) during 2009-10, as against ₹ 3,539.02 crore received during 2008-09.

Sums paid by the Government in the event of invocation of guarantee are charged to Consolidated Fund of the State under the concerned loan head and irrecoverable sums are adjusted under the concerned revenue expenditure heads where the Guarantee Reserve Fund does not exist and under the Guarantee Reserve Fund where it exists. A Guarantee Reserve Fund created in 1963-64 to meet the liabilities which may arise as a result of the invocation of guarantees given by the Government was closed with effect from 1st April 1990. In the Medium Term Fiscal Policy Statement for the year 2008-09, laid before the Maharashtra State Legislature, it was stated that the State was in the process of setting up a Guarantee Redemption Fund to meet the contingent liabilities arising from the guarantees given by the Government. However, the fund has not been set up till 31 March 2010. Out of ₹ 165.39 crore recoverable at the end of 2007-08 on account of invocation of guarantee initially met by the Government, ₹ 11.03 crore was recovered from the institutions during 2008-09 leaving a balance of ₹ 154.36 crore as at the end of the year. No amount was paid by the Government on account of invocation of guarantee during 2009-10.

1.9.4 Off-budget borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the contingent liabilities shown in **Table 1.28**, the State also guaranteed loans availed of by the Government companies/corporations. These companies/corporations borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the State Government projected that funds for these programmes would be met out of the resources mobilised by these companies/corporations outside the State budget, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. The off-budget borrowings are not permissible under Article 293 (3). *In Maharashtra, there were no off-budget borrowings during the years 2005-06 to 2009-10. However, at the close of 2009-10, ₹ 4,098 crore was outstanding on account of off-budget borrowings prior to 2005-06.*

As per the Medium Term Fiscal Policy Strategy Statement 2008-09, the State Government had completely stopped off-budget borrowings from the year 2005-06.

1.10 Debt sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability[16] of the State. This section assesses the sustainability[16] of debt of the State Government in terms of debt stabilization[16], sufficiency of non-debt receipts[16], net availability of borrowed fund[16], burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.29** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2007-08.

Table 1.29: Debt sustainability: indicators and trends

Indicators of debt sustainability	2007-08	2008-09	2009-10
Debt Stabilization (₹ in crore) (Quantum Spread + Primary Deficit)[17]	28,044	14,001	10,757
Sufficiency of non-debt receipts (Resource Gap) (₹ in crore)	14,375	-16,820	- 12,157
Net Availability of Borrowed Funds (₹ in crore)	-11,130	8,848	9,793.92
Burden of Interest Payments(IP/RR Ratio) (in *per cent*)	15	15	16

Debt Stabilisation

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

Table 1.29 reveals that the emergence of positive sum of quantum spread and primary deficit since 2007-08 indicates the tendency towards the debt stabilisation which would eventually improve the debt sustainability position of the State in ensuing years.

16 See glossary at page 99.

17 See glossary at page 99.

Sufficiency of Non-Debt Receipts

For debt stability and its sustainability, the incremental non-debt receipts of the State should be adequate to cover the 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.

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. During the year 2007-08 there was a positive resource gap indicating increasing capacity of the State to sustain the debt in the medium to long run; however, during the year 2008-09 and 2009-10 there was negative resource gap indicating the beginning of risk of non-sustainability of debt.

Net availability of borrowed funds

Net availability of borrowed funds is defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption.

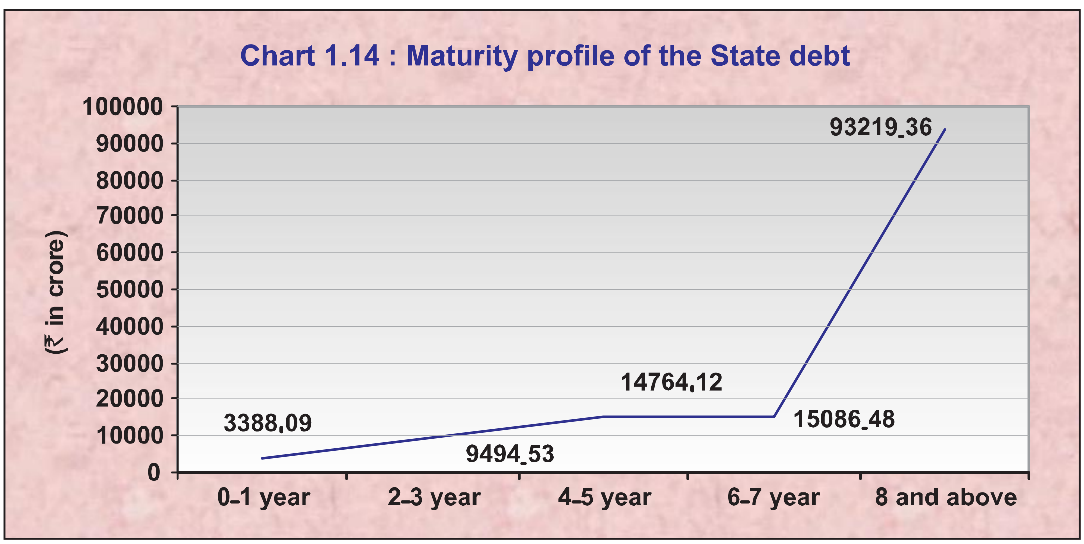
During 2009-10, Government raised internal debt of ₹ 20,812 crore, GoI loans of ₹ 752 crore and other obligations of ₹ 19,818 crore. Government repaid internal debt of ₹ 3,398 crore, GoI loans of ₹ 427 crore and discharged other obligations of ₹ 13,653 crore and paid interest of ₹ 14,110 crore resulting in net increase in debt receipts by ₹ 9,794 crore during the year.

Table 1.30 : Maturity profile of State debt

(₹ in crore)

Maturity Profile	Amount	*Per cent*
0 – 1	3388.09	2.38
2 – 3	9494.53	6.65
4 – 5	14764.12	10.35
6 – 7	15086.48	10.57
8 and above	93219.36	65.33
Information not furnished by the State Government	6731.92	4.72
Total	**142684.50**	**100.00**

Source : Finance Accounts



The maturity of the State Debt as per **Table 1.30** indicates that nearly 19.38 *per cent* of the total State debt is repayable within the next five years while the remaining 80.62 *per cent* are required to be paid in more than five years. It further indicates that the liability of the State to repay the debt would be ₹ 14,764.12 crore during the period 2013-15 and ₹ 15,086.48 crore during 2015-17 which would put a strain on the Government budget during that period. The State may have to borrow further to repay those loans.

Interest as a percentage of revenue receipts was higher in 2009-10 but still within manageable limits.

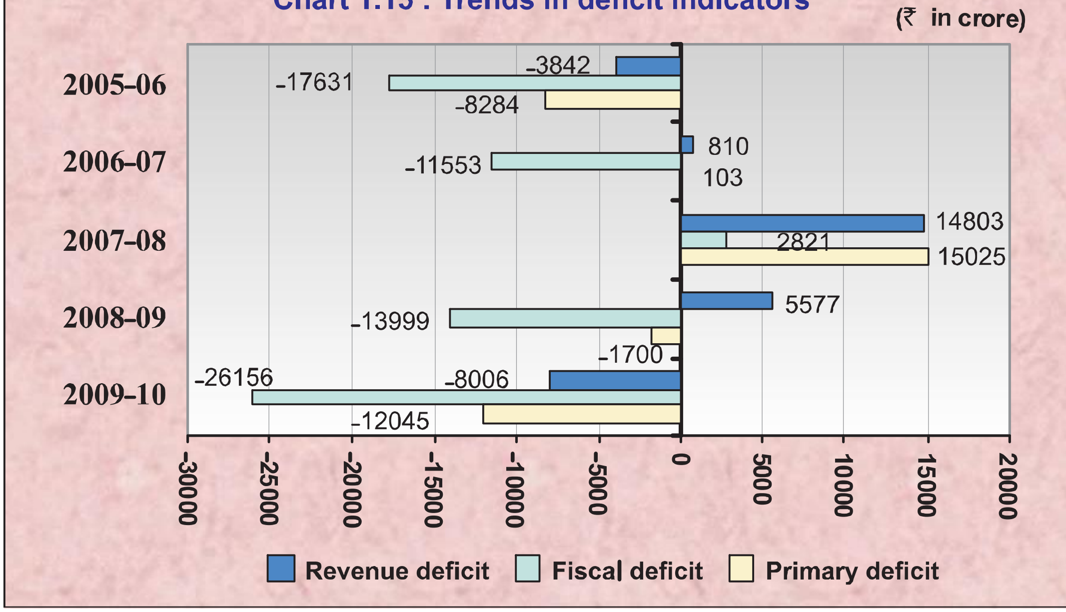
1.11 Fiscal imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/ Rules for the financial year 2009-10.

1.11.1 Trends in deficits

Charts 1.15 and **1.16** present the trends in deficit indicators over the period 2005-10:

Chart 1.15 : Trends in deficit indicators



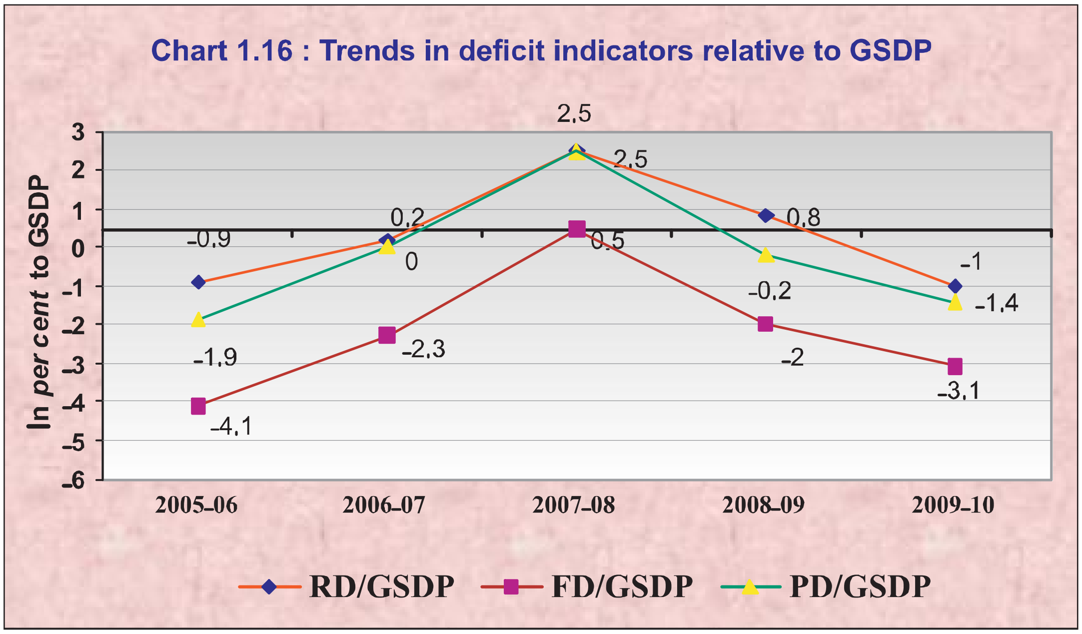


Chart 1.15 shows that revenue deficit of ₹ 3,842 crore in 2005-06 turned into a surplus of ₹ 810 crore during 2006-07. The revenue surplus increased to ₹ 14,803 crore during 2007-08 due to augmentation of non-tax receipts by way of transfer of ₹ 10,868 crore lying in various inoperative reserve funds in Public Account by the State Government to its Consolidated Fund. Gradually the revenue surplus turned into revenue deficit of ₹ 8,006 crore in 2009-10 mainly due to sharp increase in revenue expenditure by 25 *per cent* as against increase in revenue receipts by 7 *per cent*.

The fiscal deficit of ₹ 13,999 crore during 2008-09 increased to ₹ 26,156 crore which was the result of large revenue deficit (₹ 8,006 crore), net capital expenditure (₹ 17,404 crore) and net loans and advances disbursed (₹ 746 crore).

The primary deficit[18] which persisted till 2005-06 took a turnaround and resulted into a primary surplus during 2006-07 and 2007-08. It again turned to primary deficit during 2008-09 and 2009-10. A sharp increase of ₹ 12,157 crore in fiscal deficit set off by an increase of ₹ 1,881 crore in interest payments increased the primary deficit to ₹ 12,045 crore during 2009-10 from ₹ 1,700 crore in 2008-09.

The expenditure on 'Grants-in-aid' and 'Subsidies' should be booked under revenue expenditure. **However, during 2009-10, due to misclassification in the State budget, expenditure of ₹ 633.11 crore under 'Grants-in-aid' and ₹ 347.15 crore under 'Subsidies' were booked under capital expenditure, resulting in understatement of revenue expenditure and revenue deficit to the extent of ₹ 980.26 crore.**

Table 1.31 : Trends in major fiscal parameters / variables *vis-à-vis* projections for 2009-10

Fiscal variables	2009-10			
	TFC	MTFPS	FCP	Actuals
Revenue deficit as percentage of GSDP	0.0	0.89	0.88	0.96
Fiscal Deficit as percentage of GSDP	3.0*	3.33	2.12	3.14

* GoI increased the limit to 4 *per cent* of GSDP due to economic slow down in the country.

18 See glossary at page 99.

Table 1.31 reveals that the State had not achieved the target for revenue deficit as laid down in the MFRBM Act/Rules and TFC for the current year. However fiscal deficit at 3.14 *per cent* of GSDP was within the limit (4 *per cent*) fixed by GoI and the projection made in the MTFPS.

1.11.2 Decomposition and financing pattern of fiscal deficit

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.32.**

Table1.32: Decomposition and financing pattern of fiscal deficit

(₹ in crore)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit / Surplus (1+2+3)	**17,630(4.08)**	**11,553(2.27)**	**-2,821(-0.48)**	**13,999(2.01)**	**26,156(3.14)**
1 Revenue Deficit(+)/ Surplus (-)	3,842(0.89)	-810(-0.16)	-14,803(-2.5)	-5,577(-0.8)	8,006(0.96)
2 Net Capital Expenditure	10,078(2.33)	10,092(1.98)	11,490(1.94)	18,855(2.7)	17,404(2.09)
3 Net Loans and Advances	3,710(0.86)	2,271(0.45)	492(0.08)	721(0.1)	746(0.09)
Financing Pattern of Fiscal Deficit*					
1 Market Borrowings	1,147(0.27)	1,167(0.23)	7,641(1.29)	16,866(2.42)	14,509(1.74)
2 Loans from GoI	-35(-0.01)	95(0.02)	-84(-0.01)	-35(-0.01)	325(0.04)
3 Special Securities Issued to NSSF	15,733(3.64)	8,838(1.74)	1,475(0.25)	428(0.06)	2,751(0.33)
4 Loans from Financial Institutions	1,072(0.25)	-250(-0.05)	30(0.01)	229(0.03)	154(0.02)
5 Small Savings, PF *etc.*	587(0.14)	640(0.13)	685(0.12)	803(0.12)	1,790(0.22)
6 Deposits and Advances	1,426(0.33)	1,714(0.34)	1,876(0.32)	1,240(0.18)	3,502(0.42)
7 Suspense and Misc	-608(-0.14)	283(0.06)	225(0.04)	3,148(0.45)	4,020(0.48)
8 Remittances	-178(-0.04)	-1,315(-0.26)	-72(-0.01)	42(0.01)	2,163(0.26)
9 Reserve Funds	1,536(0.36)	2,344(0.46)	-10,547(-1.78)	1,617(0.23)	875(0.11)
10 Contingency Fund	666(0.15)	-617(-0.12)	-4(0)	307(0.04)	- 251(-0.03)
11 Appropriation to/ from Contingency fund	-800(-0.19)	800(0.16)	--	-250(-0.04)	250(0.03)
12 Increase(-)/ Decrease (+) in Cash Balance	-2,916(-0.67)	-2,146(-0.42)	-4,046(-0.68)	-10,396(-1.49)	-3,932(-0.47)

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

Large fiscal deficit during 2005-06 and 2009-10 was the combined effect of revenue deficit and large net capital expenditure. The net capital expenditure as a percentage of the fiscal deficit increased from 57 *per cent* during 2005-06 to 67 *per cent* in 2009-10. During 2008-09, capital expenditure was much higher at 135 *per cent* of fiscal deficit, as a part of it was met out of revenue surplus. During the years 2005-06 the fiscal deficit was financed by special securities issued to NSSF, market borrowings and reserve funds whereas during 2009-10, the fiscal deficit was mainly financed by market borrowings.

During the period 2005-10, there was overall surplus (increasing the cash balance) after financing fiscal deficit.

1.11.3 Quality of deficit/surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently, high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit shown in **Table 1.33** indicates the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.33: 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	48,990	42,933	10,078	4,262	57,273	6,057	-8,283
2006-07	62,246	49,729	10,092	2,322	62,143	12,516	103
2007-08	80,316	52,576	11,490	1,225	65,291	27,740	15,025
2008-09	81,849	63,395	18,873	1,281	83,549	18,454	-1,700
2009-10	87,450	80,805	17,429	1,261	99,495	6,644	- 12,045

During the period 2005-10, non-debt receipts of the State were enough to meet the primary expenditure[19] requirements in the revenue account and left some receipts to meet the expenditure increased under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during the years 2005-06, 2008-09 and 2009-10. However, during 2006-07 and 2007-08, non-debt receipts were sufficient to meet the expenditure requirement both under revenue and capital account resulting in primary surplus. This indicates the extent to which the primary deficit in the current year has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

The capital expenditure as a percentage to primary expenditure increased from 17.59 *per cent* during 2005-06 to 22.59 *per cent* during 2008-09 and again came down to 17.51 *per cent* during 2009-10.

1.12 Conclusion and Recommendations

Return to fiscal correction:

Revenue Receipts: The revenue receipts (₹ 86,910 crore) increased marginally by 6.9 *per cent* over the previous year. Low growth was mainly due to decrease (15 *per cent*) in non-tax revenue. *The revenue receipts were 9.6 per cent higher than the assessment made by Government in its FCP, but were 2.4 per cent lower than its MTFPS for 2009-10.* Similarly, receipts under non-tax revenue were 36 *per cent* higher than the projections in FCP, but were 40 *per cent* lower than the projections made in MTFPS. (**Para 1.5**). The growth rate of State's owns taxes was much lower than that of GSDP of the State. The arrears of revenue as on 31 March 2010 amounted to ₹ 38,361.87 crore. *Government should expand the tax base and rationalise user charges to mobilise additional resources and improve the tax administration in order to reduce the revenue arrears.*

Revenue Expenditure: The revenue expenditure (RE) increased by 25 *per cent* over the previous year, and constituted 84 *per cent* of total expenditure during 2009-10. Non-Plan

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

Revenue Expenditure (NPRE) constituted 82 *per cent of the RE. The NPRE exceeded the assessment made by the State Government in its FCP by 30 per cent and MTFPS by 5 per cent for 2009-10.* The Plan Revenue Expenditure (PRE) and NPRE increased by 35 *per cent* and 24 *per cent* over the previous year. (**Para 1.6.1**).

The ratio of non-plan salary expenditure to revenue expenditure net of interest payments and pensions was 48 per cent during 2009-10, against the TFC norms of 35 per cent. Expenditure under subsidies increased by 87 *per cent* over the previous year and constitutes 8.5 *per cent* of revenue expenditure. *Government may phase out implicit subsidies to contain the growth of revenue expenditure.*

The ratio of expenditure on Health and Family Welfare to Aggregate Expenditure in 2005-06 and 2009-10 were lower than the ratios of General Category States (**Para 1.7.1**). *The increase in expenditure in Health sector would improve the overall quality of life of the population of the State.*

Deficits: The significant gap between the growth rates of the revenue receipts (7 *per cent*) and revenue expenditure (25 *per cent*) over the previous year increased the revenue deficit to ₹ 8,006 crore during 2009-10 from a revenue surplus of ₹ 5,577 crore during 2008-09. The targets set for revenue deficit under the FRBM Act/Rules and MTFPS have not been achieved. The fiscal deficit (₹ 26,156 crore) also increased compared to the previous year and constituted 3.14 *per cent* of GSDP, which was within the limit (4 *per cent*) fixed by GoI (**Para 1.11.1**). The primary deficit also increased significantly during 2009-10.

Although there was a slippage in 2009-10 in achieving the revenue deficit targets, this could be attributed largely to the slump in the economy (which impacted revenue receipts) as well as the Sixth Pay Commission award (which increased committed expenditure). *However, the State has the reasonable prospect of achieving the targets set out in FRBM Act of 2005 provided an effort is made to increase tax compliance, make efforts to collect revenue arrears and prune unproductive expenditure so that deficits are contained to the levels envisaged in the Act.*

Capital Expenditure

Priority to Capital expenditure: The ratio of Capital expenditure as a proportion of Aggregate Expenditure in 2005-06 and 2009-10 was higher than the ratio of the General Category States (**Table 1.20**). However, the capital expenditure decreased by 7.65 *per cent* over the previous year and it was 12 *per cent* lower than that projected in MTFPS. *Government may consider enhancing the priority it gives to capital expenditure.*

Financial Management

Review of Government investments: The average return on State Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.13 to 0.28 *per cent* in the past three years while the Government paid an average interest of 7.29 to 7.74 *per cent* on this investment (**Para 1.8.3**). State Government should ensure better value for money in investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial return. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification on why high cost borrowings should be channeled there. Government should review the working of State public sector undertakings which are incurring huge losses (**Para 1.8.4**). *Government should work out a revival strategy for those which can be made viable or close them down if they are not likely to be viable.*

Debt Management

During 2009-10, the fiscal liabilities (₹ 2,03,165 crore) decreased marginally over the previous year. The fiscal liabilities to GSDP ratio at 24.4 *per cent* was lower than the norm of 30 *per* *cent* recommended by the TFC. These liabilities stood at two times of the revenue receipts (**Para 1.9.2**).

The emergence of positive sum of quantum spread and primary deficit since 2007-08 indicates the tendency towards the debt stabilisation which would eventually improve the debt sustainability position in the ensuing years. The positive resource gap in the State during 2007-08 indicated increasing capacity to sustain the debt in the medium to long run. But, the resource gap turned negative during the years 2008-09 and 2009-10, indicating the beginning of risk of non-sustainability of debt (**Para 1.10**). *A clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.*

Prudent cash management: Cash balances of the State at the close of the year 2009-10 (₹ 25,559 crore) increased by 18 *per cent* over 2008-09. The cost of holding surplus cash balances is high. In 2009-10, the interest received on investment of cash balances in RBI Investment in Treasury Bills and Auction Treasury Bills was only 5 *per cent* while the Government borrowed on an average at 7.38 *per cent* (**Para 1.8.6**). *Proper debt management through advance planning and borrowing only as per requirement could reduce the need for the State government to hold large cash surpluses.*

Transfer of funds to State implementing agencies

Oversight of funds transferred directly from the GoI to the State implementing agencies: The GoI directly transferred ₹ 4,369.52 crore to the State implementing agencies during 2009-10. Since the funds are generally not being spent fully by the implementing agencies in the same financial year, there remain unspent balances in the bank accounts of these implementing agencies. The aggregate amount of the unspent balances kept outside government account is not readily ascertainable. As long as these funds remain outside the State budget, there is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State implementing agencies but are funded directly by the GoI. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General. *Funds transferred directly from the Union to the State Implementing Agencies results in failure to monitor the expenditure incurred by them on various schemes as these funds are not reflected in the State budget. It also inhibits the FRBM requirement of transparency in fiscal operations and thus bypasses accountability (Para 1.4.2).*