

Executive Summary

Background

Maharashtra is the second largest State in India both in terms of population and geographical area. Gross State Domestic Product (GSDP) of the State has been growing at a higher compound annual growth rate of 14.18 *per cent* as compared to the General Category States. Yet, population below poverty line in Maharashtra (35.7 *per cent*) is much more than the average of the General Category States.

This Report on the Finances of the Government of Maharashtra is being brought out with a view to assess objectively the financial performance of the State during 2009-10 and to provide the State Government and State Legislature with timely inputs based on audit analysis of financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government Fiscal Responsibilities and Budget Management (FRBM) Act, 2005 and in the Budget estimates of 2009-10.

The Comptroller and Auditor General (C&AG) has been commenting upon the Government's finances for over four years since the FRBM legislation. Since these comments formed part of the Civil Audit Report, it was felt that the audit findings on State Finances remained relatively obscure in the large body of audit findings on compliance and performance audits. Accordingly, from the year 2009 onwards, the C&AG decided to bring out a separate volume titled "Report on State Finances". This Report is the second in this endeavour.

The Report

Based on the audited accounts of the State Government for the year ending March 2010, this report provides an analytical review of the Annual Accounts of the State Government. The financial performance of the State has been assessed based on the FRBM Act and Fiscal Correction Path of the Government, budget documents, Economic Review 2009-10, Twelfth Finance Commission (TFC) Report and other financial data obtained from various Government departments and organisations. The report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of the Maharashtra Government's fiscal position as on 31 March 2010. It provides an insight into trends in committed expenditure, borrowing

pattern besides a brief account of Central funds transferred directly to the State implementing agencies through off-budget route.

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

Chapter 3 is an inventory of Maharashtra Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collected from several sources in support of the findings. **Appendix 4.1** at the end gives a glossary of selected terms related to State economy, as used in this report.

Audit findings and recommendations

Return to fiscal correction:

Revenue Receipts: Growth of revenue receipts during the year was only seven *per cent* mainly due to significant decrease in non-tax revenue over the previous year. The revenue receipts were higher than the assessment made by Government in its FCP, but were lower than its Medium Term Fiscal Policy Statement (MTFPS) for 2009-10. The growth rate of State's own taxes was much lower than that of GSDP of the State. The arrears of revenue as on 31 March 2010 amounted to ₹ 38,362 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 Revenue Expenditure (NPRE) constituted 82 *per cent* of the RE and exceeded the assessment made by Government in its FCP and MTFPS. **(Para 1.6.1)**. The ratio of non-plan salary expenditure to RE 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 RE. The ratio of expenditure on Health and Family Welfare to Aggregate Expenditure was lower than the ratios of General Category States **(Para 1.7.1)**. *Government may prune unproductive expenditure and phase out implicit subsidies to contain the growth of RE. The increase in expenditure in health sector would, however, improve the overall quality of life of the population of the State.*

Deficits: State Government's early gains in achieving deficit targets suffered a setback during the current year mainly due to low growth of revenue receipts compared to very high growth in revenue expenditure over the previous year. The targets set for revenue deficit under the FRBM Act/Rules and MTFPS have not been achieved. This could be attributed largely to the slump in the economy impacting the revenue receipts and the Sixth Pay Commission award which increased committed expenditure. The fiscal deficit increased

during the year and constituted 3.14 *per cent* of GSDP, which was within the limit (4 *per cent*) fixed by Government of India (GoI). The primary deficit also increased significantly during 2009-10. *The State has the reasonable prospect of achieving the targets set out in FRBM Act of 2005 provided efforts are made to increase tax compliance, 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 over the previous year and was lower than that projected in the MTFPS. *Government may consider enhancing the priority 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 Government paid an average interest of 7.29 to 7.74 *per cent* on this investment (**Para 1.8.3**). 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. *Government should work out a revival strategy for those which can be made viable or consider closing them if they are not likely to be viable.*

Debt Management

During 2009-10, the ratio of fiscal liabilities to GSDP 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. However, the positive resource gap during 2007-08 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: The cost of holding surplus cash balances is reported high. In 2009-10, interest received on investment of cash balances was only 5 *per cent* while the Government borrowed on an average rate at 7.38 *per cent*. *Proper debt management through advanced planning and borrowing only what is required could minimise the need to hold large cash surpluses.*

Oversight of funds transferred directly from the GoI to the State implementing agencies: Funds flowing directly to the implementing agencies through off-budget routing inhibits FRBM requirements of transparency and

therefore bypasses accountability. There is no single agency monitoring its use and there is no readily available data on the amounts spent in any particular year on major flagship schemes. *A system has to be urgently put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General (A&E).*

Financial management and budgetary control: Slow pace of programme implementation in the State left an overall saving of ₹ 22,466 crore set off by excess of ₹ 2,389 crore; this requires regularisation under Article 205 of the Constitution of India. There were instances of inadequate provision of funds and unnecessary/ excessive re-appropriations. Rush of expenditure at the end of the year is another chronic feature noticed in the overall financial management. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of the year leaving no scope for utilizing these funds for other development purposes. *Budgetary controls should be strictly observed to avoid such deficiencies in financial management. The departments should submit realistic budget estimates keeping in view the trends in expenditure and actual requirement of funds; the Controlling Officers should closely monitor the expenditure against the allocations to avoid excess expenditure over the grants.*

Financial reporting: State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delays in furnishing utilization certificates against the loans and grants from various grantee institutions, indicating lack of monitoring by the departments for the utilisation of grants and loans. Delays were also experienced in submission of annual accounts by some autonomous bodies and departmental undertakings. Government's investments in such organisations remain outside the scrutiny of Audit. *Departments should ensure timely submission of utilisation certificates in respect of the grants released for specific purposes and the annual accounts in respect of the autonomous bodies to the Principal Accountant General.*

There were instances of large outstanding cases of losses and misappropriations which indicated lack of sincere efforts by the departments to make good the losses. *Departmental enquiries in such cases should be expedited to bring the defaulters to book.*

The Controlling Officers did not submit the Detailed Contingent bills in respect of large amount drawn on Abstract Contingent bills. A rigorous monitoring mechanism should be put in place in the departments to adjust these advances within the stipulated period, as required under the extant rules. Significant amounts of expenditure and receipts under Central and State schemes, booked under the Minor head '800-Other expenditure' and '800-Other receipts' were not distinctly depicted in the State Finance Accounts of 2009-10, affecting the transparency in financial reporting. *Amounts received or expended under various schemes should be depicted in the Accounts distinctly, instead of clubbing the same under the Minor head - 800.*