Executive Summary

Background

This Report on the Finances of the Government of Chhattisgarh is being brought out with a view to assess objectively the financial performance of the State during 2010-11 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 in the Fiscal Responsibilities and Budget Management (FRBM) Act, 2005 and in the Budget Estimates of 2010-11, and norms recommended by the Thirteenth Finance Commission.

The Report

Based on the audited accounts of the State Government for the year ending March 2011, 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, budget documents, Thirteenth Finance Commission (ThFC) recommendations 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 Chhattisgarh Government's fiscal position as of 31 March 2011. It provides an insight into trends in committed expenditure and 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. Besides, comments arising out of audit of budgetary process and budget assumptions and outcome of review of two grants (Grant No.6 and 25) pertaining to Finance and Mineral Resources department have also been made in this chapter.

Chapter 3 is an inventory of 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.

Audit findings and recommendations

Amendment to the State FRBM Act: The Thirteenth Finance Commission (ThFC) recommended amendment to the State FRBM Act, setting a target of three *per cent* of fiscal deficit by 2011-12 and for creating an independent review/ monitoring system. On the basis of the recommendation of ThFC the Government amended (September 2011) the FRBM Act 2005.

Oversight over funds transferred directly from the GoI to the State implementing agencies: GoI directly transferred substantial amount of grants-in-aid to the State Implementing Agencies for implementation of different schemes. The aggregate amount of unspent balances in the accounts of the implementing agencies kept outside the Government accounts (in Bank account) is also not readily ascertainable. The Government releases as well as actual expenditure as reflected in the accounts to that extent are, therefore, not final. The State Government has to put in place an appropriate mechanism to ensure proper accounting and utilization of the funds directly transferred by GoI to implementing agencies.

Revenue Receipts**:** The Revenue receipts (₹ 22,720 crore) grew by 25 *per cent* in 2010-11 over the previous year compared to 12 *per cent* in 2008-09 and 16 *per cent* in 2009-10. The increase was contributed by own tax revenue (26 *per cent*), non-tax revenue (26 *per cent*)), State's share of union taxes and duties (24 *per cent*) and grants-in-aid receipts (23 *per cent*) from Government of India (GoI). Mining receipts was one of the major source of revenue receipts in Chhattisgarh and this alone constituted 64 *per cent* of the non-tax revenue receipts during the year 2010-11 as compared to 55 *per cent* in 2009-10.

The growth rate of Revenue receipts showed a decreasing trend during 2006-09 but showed increasing trend during 2009-11. As a result the revenue buoyancy ratio relative to GSDP which was at its lowest at 0.80 in 2008-09 rose to 1.39.

The *Revenue Expenditure*: Revenue Expenditure (RE) which constituted 85 *per cent* of the total expenditure during 2010-11, increased by 12 *per cent* over the previous year. Non-Plan Revenue Expenditure (₹ 11,286 crore) which constituted 58 *per cent* of RE, increased by eight *per cent* over the previous year and exceeded the ThFC's normative assessment (₹ 8,901 crore) by 27 *per cent*. The increase in NPRE was mainly due to 17 *per cent* increase in committed expenditure (₹ 11,844 crore) under salary, pension, interest payments and subsidies during the year. These together constituted 87 *per cent* of NPRE.

The major recipients of subsidies of ₹ 1,763.81 crore during 2010-11 were agriculture and allied activities (₹ 622.54 crore), energy (₹ 202.10 crore) and Social Welfare and Nutrition (₹ 88.73 crore). This was lower than the level of subsidies in the previous year (₹ 1,994.30 crore.) Expenditure on salaries and wages (₹ 6,363 crore) and pension (₹ 1810 crore) exceeded the ThFC's projection (₹ 3,548 crore and ₹ 984 crore) by ₹ 2,815 crore and ₹ 826 crore, respectively, thus, narrowing fiscal space for undertaking developmental expenditure.

The expenditure on salaries and pension witnessed substantial increase during this year due to release of arrears of Sixth Pay Commission and revision of pension. As the expenditure on these items is expected to stabilize in the coming years, the state has an opportunity to reduce the level of subsidies, to reduce interest burden by more discreet borrowings and to use borrowings for creation of productive capital assets.

Review of fiscal position

Fiscal position of the State viewed in terms of trends in deficit/surplus indicators revealed that in 2010-11, while revenue surplus increased, fiscal and primary deficits declined over the previous year. The consequential fiscal and primary surplus are indicative of the continuing effort of the State Government towards a path of fiscal correction and consolidation.

The fiscal deficit of ₹ 1,759 crore in 2009-10 has yielded to fiscal surplus of ₹ 410 crore in 2010-11, due to increase in revenue receipts as well as lower growth of revenue expenditure. The significant gap between the growth rates of the revenue receipts (*25 per cent*) and revenue expenditure (12 *per cent*) over the previous year resulted in increase of revenue surplus from ₹ 888 crore in 2009-10 to ₹ 3,364 crore during 2010-11. As against the year 2009-10, when the primary deficit was ₹ 664 crore, the year 2010-11 ended with a primary surplus of ₹ 1,608 crore.

Built upon early gains in achieving deficit targets, the Government continued to consolidate the same in the current year (2010-11) despite pressure on the committed expenditure due to implementation of the recommendations of Sixth Pay Commission.

Greater priority to capital expenditure: The Capital Expenditure (₹ 2,952 crore) increased by 7.54 *per cent* over the previous year (₹ 2,745 crore) but was less than the budget estimates (₹ 4,068 crore) and even lower than the projection made (₹ 5,019 crore) in the FRBM Act. The need for greater emphasis on asset creation through higher level of capital expenditure is evident.

Review of Government investments: An investment of ₹ 260 crore was made during the year 2010-11 in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives. The overall return (₹ four crore) on equity capital invested in these bodies during 2010-11 was 1.65 *per cent*, as against an average interest rate of seven *per cent* on funds borrowed by government. Financial unviability of funding such low yielding investments through high cost borrowings pointed out in the Audit Report for the year 2009-10 has not been given serious attention so far. The Government needs to urgently address this problem.

Prudent cash management: As against the required minimum cash balance of ₹ 0.72 crore with the Reserve Bank of India (RBI), the State had maintained cash balance ranging from ₹ 824 crore to ₹ 3,241 crore on the last date of each month during 2010-11. Surplus cash balance was invested by the State government intermittently in short term deposits of Government of India (GoI) Treasury bills and GoI securities and earned interest of ₹ 89.73 crore during the year 2010-11 While the State earned an interest on these deposits at an average of 2.65 *per cent*, it paid average interest at the rate of 7.34 *per cent* on it's market borrowings. One option for prudent cash management would be to use the surpluses to retire or pre-pay some of the high cost debts.

Debt sustainability: The debt position of the State indicated the sufficiency of incremental non-debt receipts which registered a positive change from ₹ (-) 731 crore in 2009-10 to ₹ 2,169 crore during the current year. This signified the enhanced capacity of the State to sustain the debt in the medium term.

Since large amounts of repayments to the extent of 38 *per cent* of the State debt would be taking place in the next five years, the State may consider restricting its short-term borrowings so that repayment obligations in the next five years do not rise unduly.

Financial Management and Budgetary Control

During 2010-11, there was net savings of ₹ 5,268 crore. The total savings of ₹ 5,463 crore was offset by excess expenditure of ₹ 195 crore in four Grants and two Appropriation under Revenue section and two Grants and one Appropriation under Capital section. The above excess needs regularization under Article 205 of the Constitution of India. The savings largely contributed to surpluses on the revenue account and decline in fiscal deficit.

There were instances of savings exceeding ₹ 10 crore and also more than 20 *per cent* of the total provison in 14 cases relating to 12 grants and one appropriation. This included huge savings of ₹ 923 crore under four grants exceeding ₹ 100 crore in each case. There were persistent savings up to 41 *per cent* in nine grants during 2010-11. There were also instances of excess expenditure, unnecessary/excessive supplementary provision, substantial surrenders, non-surrender of anticipated savings during the current year and instances of rush of expenditure during the last month of the financial year. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issue of re-appropriation/ surrender statements should be avoided.

Financial reporting

Out of the 17200 Utilisation Certificates (UCs) in respect of grants aggregating ₹ 5,880.59 crore given for the period 2007-10, 10888 UCs amounting to ₹ 4,264.71 crore were pending. In the absence of the UCs, it could not be ascertained whether the recipients had utilised the grants for the purposes for which these were given. This was mainly due to non adherence to the existing instructions for watching timely receipt of UCs.

At the year ended March 2011 an amount of ₹ 45.22 crore involving 1799 cases of misappropriations, losses and defalcations were awaiting conclusive investigation and settlement for periods ranging from one to 25 years and above in various State Government Departments despite this being pointed out regularly in earlier Audit Reports. Departmental enquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organizations should be strengthened to prevent occurrence of such cases in future.

The Chief Controlling Officers did not submit the Detailed Contingent Bills against the advances drawn on Abstract Contingent (AC) Bills of ₹ 4.53 crore up to five years as of 31 March 2011. A rigorous monitoring mechanism needs to be put in place by the Drawing and Disbursing Officers (DDOs) to adjust AC Bills in time and not to advance further amounts without adjustment of earlier advances.

A large unspent balance of ₹ 496.34 crore was lying in 153 inoperative PD accounts, of which 59 PD Accounts involving ₹ 24.03 crore were not operated for more than three years. This included one PD account with a balance of ₹ 16.02 crore lying unchanged since August 1996. Parking of funds in PD accounts adversely affected the transparency of State accounts as it inflated the revenue expenditure and locked up resources which could otherwise have been utilised elsewhere. Further, it also erodes budgetary and legislative control over the State's finances. Government may take suitable measures for closure of inoperative PD accounts and transfer the balance fund to the Consolidated Fund as required by the codal provisions.