

## **Profile of Gujarat**

**G**ujarat comprising about six *per cent* of India's geographical mass, is its seventh largest State. It is situated on the west coast of India, bounded by the Arabian Sea in the west, Rajasthan in the north, Madhya Pradesh in the east and Maharashtra in the south. The State also shares an international border with Pakistan at the north western fringe. It has a coast line of about 1600 kilometres, which is one third of India's mainland coastline. It is one of the most prosperous states of the country owing to its booming economy and industry. As indicated in **Appendix 1.1 Part A**, in the last ten years, the density of population in Gujarat has increased from 258 persons per sq. km to 308 persons. However, Gujarat still has lower density of population as compared to All India. Gujarat State has shown a relatively high economic growth in the past decade as the Compound Annual Growth Rate (CAGR) of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2010-11 has been 17.16 *per cent* as compared to 14.68 *per cent* in Other General Category States<sup>1</sup>. During this period, its population has grown by 19.17 *per cent* against 17.56 *per cent* in General Category States.

Key socio-economic parameters of the State viz.-population below poverty line (16.8 *per cent*), infant mortality rate (48 per thousand live births) and life expectancy at birth (64.1 years) are better than the All India average. Also, inequality of income distribution, as reflected by the Gini-coefficient<sup>2</sup>, was marginally lower in the State in rural areas than in the urban areas. Gujarat has lower levels of rural and urban inequalities as compared to the All India average (**Appendix 1.1 Part A**).

### **1.1 Introduction**

This chapter provides a broad perspective of the finances of the Government of Gujarat during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1 Part B and Part C**. The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.2**.

<sup>1</sup> Andhra Pradesh, Bihar, Chhatisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

<sup>2</sup> See glossary.

## 1.2 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2010-11) vis-à-vis the previous year while Appendix 1.3 provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1 Summary of Fiscal Operations

(₹ in crore)

Receipts			Disbursements				
2009-10		2010-11	2009-10		2010-11		
					Non- Plan	Plan	Total
<b>Section-A: Revenue</b>							
41,672.36	Revenue receipts	52,363.64	48,638.27	Revenue expenditure	39,886.70	17,553.32	57,440.02
26,740.23	Tax revenue	36,338.63	16,934.16	General services	19,184.84	655.62	19,840.46
5,451.71	Non-tax revenue	4,915.02	19,605.30	Social services	14,086.48	9,615.13	23,701.61
5,890.92	Share of Union taxes/ duties	6,679.44	11,992.84	Economic services	6,430.10	7,282.57	13,712.67
3,589.50	Grants from Government of India	4,430.55	105.97	Grants-in-aid and Contributions	185.28	-	185.28
<b>Section-B: Capital</b>							
136.30	Misc. Capital receipts	91.18	8,046.73	Capital Outlay	22.36	9,661.18	9,683.54
150.67	Recoveries of Loans and Advances	283.10	427.61	Loans and Advances disbursed	60.83	627.16	687.99
14,244.69	Public Debt receipts*	16,681.34	3,245.07	Repayment of Public Debt*	**	**	3,817.53
33.97	Contingency Fund	47.12	47.12	Contingency Fund	**	**	0.66
58,659.95	Public Account receipts	72,281.47	56,087.85	Public Account disbursements	**	**	66,655.62
13,119.02	Opening Cash Balance	11,524.31	11,524.31	Closing Cash Balance	**	**	14,986.80
<b>1,28,016.96</b>	<b>Total</b>	<b>1,53,272.16</b>	<b>1,28,016.96</b>	<b>Total</b>			<b>1,53,272.16</b>

Source: Finance Accounts for the years 2009-10 and 2010-11.

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

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

The following are the significant changes during 2010-11 over the previous year:

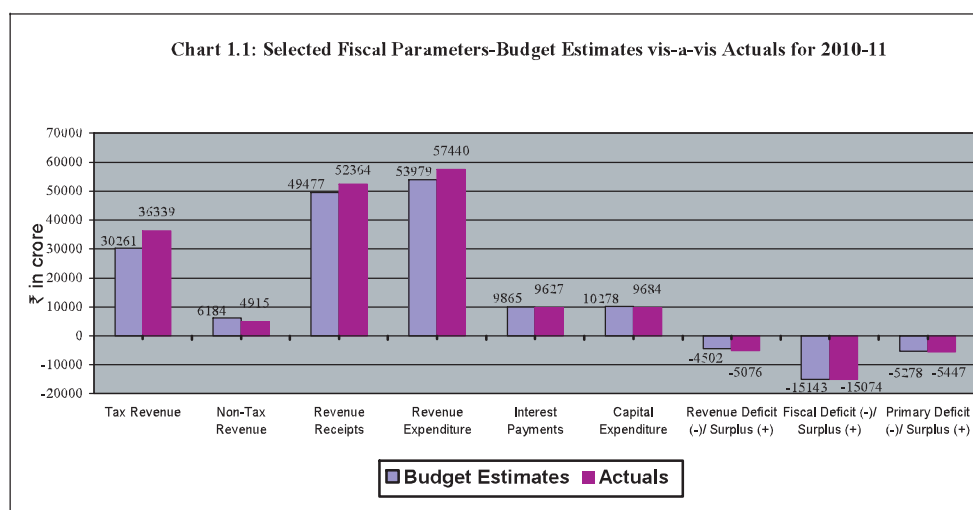
- Revenue receipts grew by 25.66 per cent (₹10,691 crore) over the previous year. The increase was due to increase in the State's own tax revenue (₹9,598 crore), increase in grants from the Government of India (GOI) (₹841 crore), increase in State's share of Union taxes and duties (₹789 crore), offset by a decrease in non-tax revenue (₹537 crore).
- Revenue expenditure increased by ₹8,802 crore (18.10 per cent) mainly due to increase in expenditure on Social Services by ₹4,096 crore and on General Services by ₹2,906 crore.
- Capital expenditure increased by ₹1,637 crore (20.34 per cent) whereas the disbursement of loans and advances increased by ₹260 crore (60.89 per cent).

- Receipts under Public Debt increased by ₹ 2,437 crore (17.11 per cent) against an increase of ₹ 572 crore in payments (17.64 per cent).
- Public Account receipts and payments increased by ₹13,622 crore (23.22 per cent) and ₹10,568 crore (18.84 per cent) respectively.
- The cash balance at the end of the year increased by ₹3,462 crore.

### 1.3 Budget Analysis

Budget papers presented by the State Government provide a description of the projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates are indicative of non-attainment and non-optimization of the desired fiscal objectives, due to a variety of causes, some within the control of Government and some outside.

**Chart 1.1** Presents the budget estimates and actuals of some important fiscal parameters.



During 2010-11, compared to the budget estimates, the tax revenue increased by ₹6,078 crore. Against an estimated revenue deficit of ₹4,502 crore, the financial year ended with a revenue deficit of ₹5,076 crore. The primary deficit was ₹5,447 crore against the estimate of ₹5,278 crore.

The revenue expenditure reflected a variation of 6.41 per cent over the budget estimates due to increase in expenditure under General and Social Services. As a result, the revenue deficit increased to ₹5,076 crore against ₹4,502 crore projected in the budget estimates. Capital expenditure of ₹9,684 crore showed a decrease of ₹ 594 crore from the budget estimates.

## **1.4 Review of fiscal situation**

As per the Gujarat Fiscal Responsibility Act, 2005 (FRBM Act), enacted in line with the recommendations of the Twelfth Finance Commission (TFC), the State Government had agreed for elimination of revenue deficit by the end of 2007-08 and reduction of fiscal deficit to not more than three *per cent* of the Gross State Domestic Product (GSDP) by 31 March 2009. Similarly, the target of the ratio of Public Debt to GSDP was 30 *per cent*. Total outstanding guarantees were to be capped at ₹16,000 crore by 2007-08. Though the State had achieved the above targets by 2006-07, in the wake of the global financial crisis, the fiscal deficit targets for 2008-09 and 2009-10 were relaxed by 0.5 *per cent* and one *per cent* of GSDP respectively. The requirement of maintaining revenue deficit at zero was also relaxed for 2008-09 and 2009-10. Thus during 2008-09 the State had a revenue deficit of ₹66 crore (0.02 *per cent* of the GSDP), which further increased to ₹6,966 crore (1.83 *per cent* of GSDP) in 2009-10, which reduced to ₹5,076 crore (0.99 *per cent* of GSDP) in 2010-11. The ratio of Public Debt to GSDP (25.72 *per cent*) during 2009-10 remained within the limit of 30 *per cent* prescribed under the Act. The fiscal deficit during 2009-10 at 3.98 *per cent* remained just within the relaxed limit of four *per cent*.

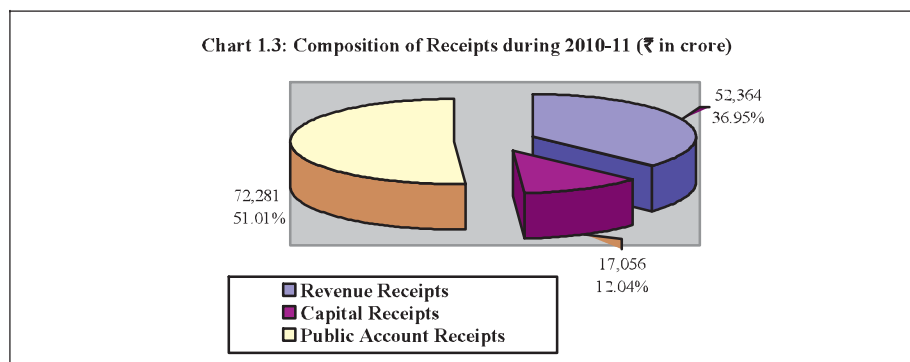
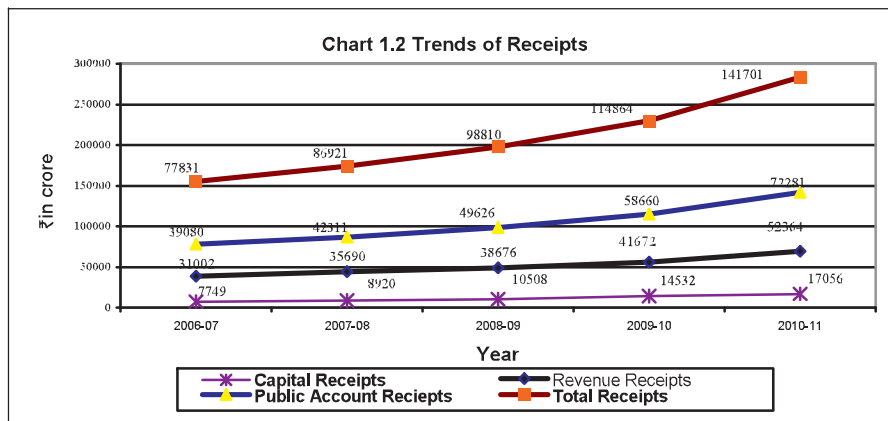
To maintain a stable and sustainable fiscal environment consistent with equitable growth, the 13<sup>th</sup> Finance Commission (ThFC) has recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. This requires the State to reduce the revenue deficit to zero by 2011-12, reduce the fiscal deficit to not more than three *per cent* of the estimated GSDP of the year beginning 2011-12, to cap the total public debt of the State Government to 27.1 *per cent* by the end of 2014-15 of the estimated GSDP for the financial year beginning April 2011 and ending on 31 March 2015 and to cap the outstanding guarantees within the limit provided in the Gujarat State Guarantees Act, 1963. The State Legislature in March 2011 amended the Fiscal Responsibility Bill in line with the recommendations of the ThFC. At the end of 2010-11, the fiscal deficit as percentage to GSDP was 2.93, which was just within the limit of three *per cent*. The public debt as percentage of GSDP was 21.54 against the cap of 27.1 *per cent*.

## **1.5 Resources of the State**

### ***1.5.1 Resources of the State as per Annual Finance Accounts***

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

of the receipts of the State during 2006-11. **Chart 1.3** depicts the composition of resources of the State during the current year.



The relative share of Public Account receipts and Capital receipts which stood at 50.21 per cent and 9.96 per cent of the total receipts in 2006-07 increased to 51.01 per cent and 12.04 per cent in 2010-11; while that of Revenue receipts, declined from 39.83 per cent in 2006-07 to 36.95 per cent in 2010-11. During the period, the State’s tax revenue increased from ₹18,464 crore in 2006-07 to ₹36,339 crore in 2010-11. The percentage of tax receipts to revenue receipts increased from 59.56 per cent in 2006-07 to 69.40 per cent in 2010-11.

### 1.5.2 Funds transferred by the Central Government to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to State Implementing Agencies<sup>3</sup> for the implementation of various schemes/programmes in social and economic sectors, which are recognized as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture these fund flows and to that extent, the State’s receipts and expenditure as well as other fiscal variables/parameters derived from them are unwholesome. During 2010-11, ₹4,451 crore was transferred to State Implementing Agencies; which was 25 per cent more than the previous year. The funds directly transferred to State Implementing Agencies are presented in **Table 1.2**

<sup>3</sup> See glossary

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

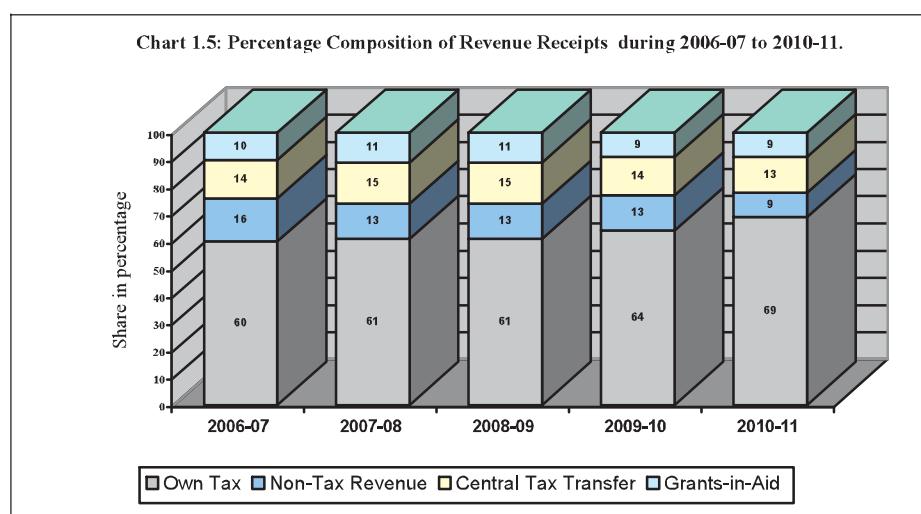
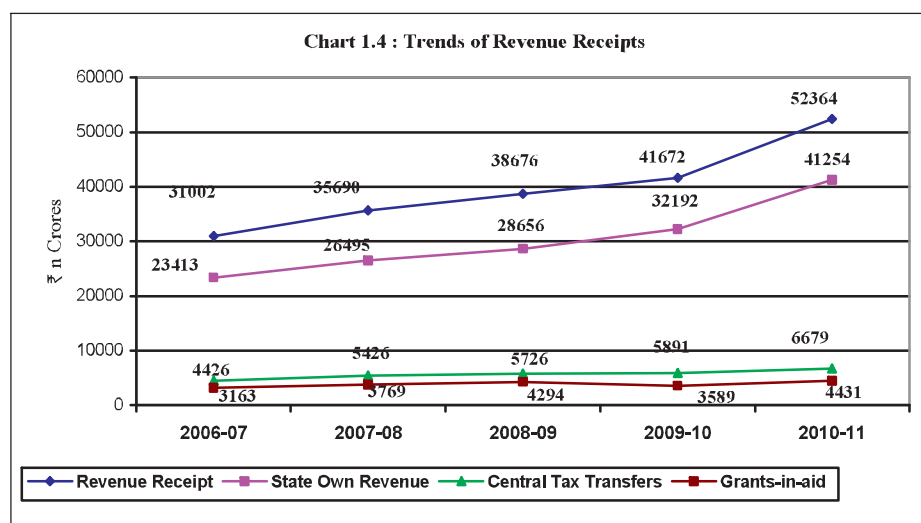
(₹ in crore)					
Sr. No.	Programme/Scheme	Implementing Agency in the State	2008-09	2009-10	2010-11
1	Integrated Watershed Management Program DPAP DDP IWDP DLR	DRDA	33.30	258.66	224.75
2	National Rural Employment Guarantee Scheme	DRDA	59.69	781.93	889.65
3	Swaranajayanti Gram Rozgar Yojana	DRDA	21.96	39.81	44.37
4	Accelerated Rural Water Supply Scheme	Gujarat Water Supply and Sewerage Board	223.28	488.91	609.10
5	Rural Housing (Indira Awas Yojana)	DRDA	124.26	372.41	527.81
6	Sarva Shiksha Abhiyan	Gujarat Council of Primary Education	254.32	200.32	440.65
7	National Rural Health Mission	State Health Society Gujarat	154.30	372.31	388.04
8	Pradhan Mantri Gram Sadak Yojana	Gujarat State Rural Roads Development Agency	112.01	117.80	160.02
9	MPs Local Area Development Scheme	District Collectors	68.00	74.00	78.00
10	Scheme for Integrated Textile Park	R.J.D. Integrated Textile Park	52.95	85.58	28.00
11	Upgradation of Government ITIs	IMC Society of ITIs	0.02	62.50	2.50
12	Micro Irrigation	Gujarat Green Revolution Company Limited	48.99	44.69	120.00
13	Adult Education and Skill Development Scheme	State Literary Mission Authority	0.65	23.99	-
14	National Aids Control Programme	Gujarat State Aids Control Society	29.77	36.95	505.06
15	Assistance to States for Developing Export Infrastructure and Allied Activities	Gujarat Industrial Development Corporation	38.93	35.57	-
16	Central Rural Sanitation Scheme	DRDA	0.27	30.37	46.92
17	Project Based Support to Autonomous Institutes	National Institute of Design	0.00	28.00	36.70
18	National Horticulture Mission	Gujarat Horticulture Mission	35.32	25.21	54.97
19	National Afforestation Programme	Forest Department	23.66	24.44	29.43
20	Rashtriya Swasthya Bima Yojana	State Health Society	8.77	22.57	34.31
21	Others (113 schemes)	NGOs and other institutions (each receiving less than ₹25 crore)	257.54	427.44	230.36
<b>Total</b>			<b>1,547.99</b>	<b>3,553.46</b>	<b>4,450.64</b>

(Source: Finance Accounts of the State)

Direct transfer of funds from the Union to the State implementing agencies ran the risk of insufficient control on the part of Union as well as State Government and consequentially improper utilization of funds by these agencies. Unless uniform accounting practices are followed by all these agencies with proper documentation and timely reporting of expenditure to the State/ Union Government, the end use of these direct transfers would remain unmonitored and cannot, therefore, be fully vouched in audit.

### 1.6 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2006-07 to 2010-11 are presented in **Appendix 1.4** and also depicted in **Charts 1.4** and **1.5** respectively.



During 2010-11, State's Own Tax Revenue (SOTR), Share of Central Tax Transfers and Grants-in-Aid from Government of India grew by 35.90, 13.38 and 23.46 *per cent* respectively over the previous year. However, Non Tax Revenue (NTR) decreased by 9.85 *per cent* over the previous year.

Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As the GSDP grows, the ability of the State's own tax revenue should increase. The trends of revenue receipts relative to GSDP are presented in **Table 1.3** below:

**Table 1.3: Trends of Revenue Receipts relative to GSDP**

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Revenue Receipts (RR) (₹ in crore)</b>	<b>31,002</b>	<b>35,690</b>	<b>38,676</b>	<b>41,672</b>	<b>52,364</b>
Rate of growth of RR ( <i>per cent</i> )	23.68	15.12	8.37	7.75	25.66
R R/GSDP ( <i>per cent</i> <sup>©</sup> )	10.93	10.84	10.53	9.71	10.17
<b>Buoyancy Ratios</b>					
Revenue Buoyancy w.r.t. GSDP <sup>©</sup>	1.49	0.94	0.72	0.46	1.29
State's Own Tax Buoyancy w.r.t. GSDP.	1.11	1.15	0.65	0.81	1.80

(Source: Finance Accounts for the years 2006-07 to 2010-11)

<sup>©</sup>Figures differ from last year's report due to change in GSDP figures of 2006-07 to 2009-10.

## Finances of the State Government

The GSDP at current prices was estimated to increase from ₹4,29,356 crore in 2009-10 to ₹5,14,750 crore in 2010-11, representing an increase of 19.89 per cent. The rate of growth of Revenue Receipts had shown a declining trend during the TFC period despite the increase in GSDP. Revenue Buoyancy during this period with reference to the growth rate of GSDP fluctuated widely. There was, however, a marked improvement in the growth rate of Revenue Receipts, Revenue Buoyancy and State's Own Tax Buoyancy with reference to GSDP during 2010-11.

### 1.6.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes etc., the State's performance in mobilization of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as the components of non-tax receipts, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2006-07 to 2010-11 along with the respective all-India average are presented in **Appendix 1.5**.

During 2009-10, in respect of the main components of taxes and duties, the collection charges were below the all-India average except for State excise and Taxes on Vehicles & Taxes on Goods and Passengers. The main components of revenue raised by the State during 2006-07 to 2010-11 are given in **Table 1.4**.

**Table 1.4: Main components of revenue**

(₹ in crore)

Sr. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11		Percentage of increase(+) or decrease(-) with reference to BE
						Budget Estimates (BE)	Actuals	
<b>Tax Revenue</b>								
1	Sales tax/VAT	12,817.46	15,104.54	16,810.65	18,199.79	21,000.00	24,893.45	(+)18.54
2	State excise	41.94	47.20	48.71	65.94	58.00	62.97	(+)8.57
3	Stamp duty and Registration fees	1,425.03	2,018.43	1,728.50	2,556.72	2,750.00	3,666.24	(+)33.32
4	Taxes and duties on Electricity	2,087.77	2,046.52	2,369.91	2,643.65	2,753.50	3,262.64	(+)18.49
5	Taxes on vehicles and taxes on goods and passengers	1,197.11	1,461.29	1,551.01	1,549.55	1,950.00	2,010.07	(+)3.08
6	Others	895.32	1,207.17	1,048.25	1,724.58	1,749.40	2,443.26	(+)39.66
	<b>Total</b>	<b>18,464.63</b>	<b>21,885.15</b>	<b>23,557.03</b>	<b>26,740.23</b>	<b>30,260.90</b>	<b>36,338.63</b>	<b>(+)20.08</b>
<b>Non-Tax Revenue</b>								
1	Interest Receipts	283.07	329.88	567.81	419.44	594.00	403.89	(-)32.01
2	Non-ferrous Mining and Metallurgical Industries	2,173.76	2,082.14	1,559.82	2,138.98	2,425.18	2,019.31	(-)16.74
3	Major and Medium Irrigation Projects	330.61	452.82	455.77	504.61	540.00	618.14	(+)14.47
4	Medical and Public Health	66.68	66.25	126.50	62.40	140.72	118.11	(-)16.07
5	Police	90.66	86.24	77.44	101.45	86.14	149.08	(+)73.07
6	Others	2,004	1,591.98	2,311.98	2,224.83	2,397.70	1,606.49	(-)33.00
	<b>Total</b>	<b>4,948.78</b>	<b>4,609.31</b>	<b>5,099.32</b>	<b>5,451.71</b>	<b>6,183.74</b>	<b>4,915.02</b>	<b>(-)20.52</b>
	<b>Grand Total</b>	<b>23,413.41</b>	<b>26,494.46</b>	<b>28,656.35</b>	<b>32,191.94</b>	<b>36,444.64</b>	<b>41,253.65</b>	<b>(+)13.20</b>

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



The sales tax revenue during the year increased by ₹6,693.66 crore (36.78 per cent) over the previous year and was 18.54 per cent more than the budget estimates. Taxes and duties on electricity showed an increase of ₹618.99 crore during the year and was 18.49 per cent more than the budget estimates. Similarly, stamp duty and registration fees showed an increase of ₹1,109.52 crore, which was 33.32 per cent over the budget estimates. In Medical and Public Health, there was an increase in revenue receipts by ₹55.71 crore, but a decrease of 16.07 per cent with reference to the budget estimates. However, revenue from non-ferrous mining and metallurgical industries decreased by ₹119.67 crore.

### **1.6.2 Evasion of Taxes**

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

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

Sr. No.	Nature of duty	No. of cases pending as on 31 March 2010	No. of cases detected during 2010-11	No. of cases in which assessments completed and additional demands raised		No. of cases pending finalization as on 31 March 2011
				No. of cases	Amount (₹in crore)	
1	Sales tax/VAT	850	475	470	398.82	855
2	Motor Vehicles Tax	67,370	26,648	20,257	18.15	73,761

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

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

### **1.6.3 Revenue Arrears**

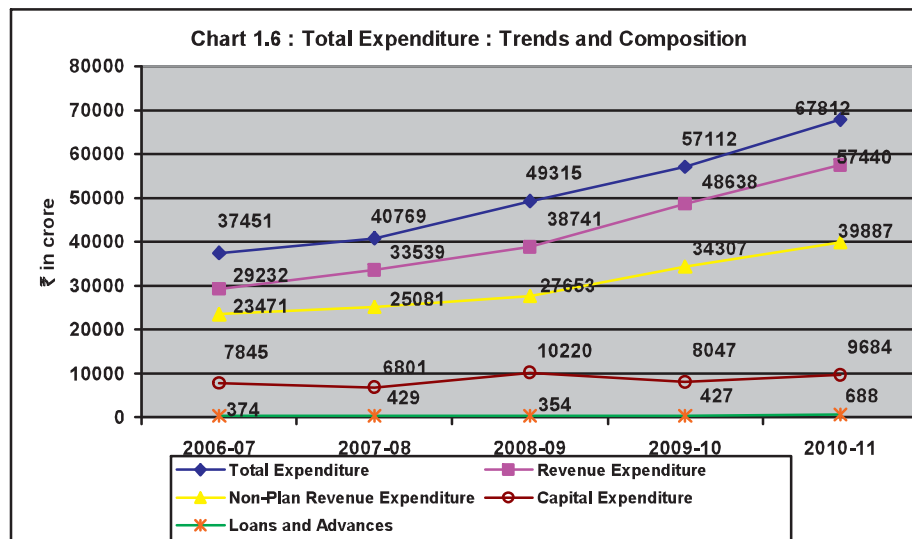
As on 31 March 2011 revenue arrears amounted to ₹15,265.08 crore (sales tax/VAT: ₹14,506.08 crore of which ₹4,047.82 crore was outstanding for more than five years; motor vehicle tax: ₹759.00 crore of which 49.36 crore was outstanding for more than five years). Recovery proceedings for ₹5,943.81 crore (sales tax: ₹5,937.09 crore; motor vehicles tax: ₹6.72 crore) were stayed by judicial and executive authorities.

## **1.7 Application of resources**

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

1.7.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2006-07 to 2010-11) and its composition both in terms of ‘economic classification’ and ‘expenditure by activities’ is depicted in Tables 1.6 and 1.7 respectively.



The total expenditure during 2010-11 increased by 18.74 per cent over the previous year. The increase in revenue expenditure was by 18.10 per cent and that of capital expenditure by 20.34 per cent. The capital expenditure included ₹2,192 crore invested in Sardar Sarovar Narmada Nigam Limited. The revenue expenditure was 84.70 per cent of the total expenditure, of which 69.44 per cent was the Non-Plan component. The Non-Plan expenditure (including loans and advances) increased by 16.82 per cent over the previous year. The relative share of expenditure under General Services and Economic Services declined from 32.53 per cent and 33.56 per cent in 2006-07 to 29.62 per cent and 30.19 per cent in 2010-11 respectively. The expenditure under Social Services increased from 32.32 per cent to 38.91 per cent.

Table 1.6: Total Expenditure- Trends of Share of its components

	(Figures in per cent)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Expenditure	78.05	82.27	78.56	85.16	84.70
Capital Expenditure	20.95	16.68	20.72	14.09	14.28
Loans and Advances	1.00	1.05	0.72	0.75	1.01

Though, the revenue expenditure during 2010-11 increased by ₹8,802 crore over the previous year, its share in total expenditure declined marginally from 85.16 to 84.70 per cent. There was significant increase under revenue expenditure under (i) General education (₹2,923.16 crore), (ii) Pensions and other retirement benefits (₹1,266.42 crore) and Interest payments (₹1,037.24 crore).

The capital expenditure during 2010-11 increased by ₹1,637 over the previous year, its share in total expenditure increased from 14.09 to 14.28 per cent. The increase was mainly under (i) investment in Gujarat State Petrochemicals

Company Limited (₹ 471.58 crore), (ii) Water Supply and Sanitation (₹377.25 crore), (iii) investment in PSUs relating to transmission and distribution of power (₹293.29 crore)

The loans and advances disbursed during 2010-11 increased by ₹261 crore over the previous year, its share in total expenditure increased from 0.75 to 1.01 *per cent*.

**Table: 1.7: Total Expenditure- Trends by activities**

(Share in *per cent*)

	2006-07	2007-08	2008-09	2009-10	2010-11
<b>General Services</b>	32.53	33.63	27.30	29.98	29.62
<b>Social Services</b>	32.32	33.67	34.37	37.90	38.91
<b>Economic Services</b>	33.80	31.29	37.27	31.19	30.19
<b>Loans and Advances</b>	1.00	1.05	0.72	0.75	1.01
<b>Grants-in-aid</b>	0.35	0.36	0.34	0.18	0.27

The relative share of Social Services, Loans and Advances and Grants-in-aid in total expenditure increased from 37.90, 0.75 and 0.18 *per cent* to 38.91, 1.01 and 0.27 *per cent* respectively as compared to the previous year.

### 1.7.2 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.8** present the trends in the expenditure on these components during 2006-07 to 2010-11.

**Table 1.8: Components of Committed Expenditure**

(₹ in crore)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Salaries, Of which</b>	<b>2,669</b> (8.61)	<b>3,119</b> (8.74)	<b>3,189</b> (8.24)	<b>4,760</b> (11.42)	<b>5,555</b> (10.61)
Non-Plan Head	2,448	2,761	2,764	4,014	4,563
Plan Head*	221	358	425	746	992
Interest Payments	6,932 (22.36)	7,484 (20.97)	7,884 (20.38)	8,590 (20.61)	9,627 (18.38)
Expenditure on Pensions	2,396 (7.73)	2,979 (8.35)	2,963 (7.66)	4,513 (10.83)	5,779 (11.04)
Subsidies	2,814 (9.08)	2,914 (8.16)	3,983 (10.30)	4,653 (11.17)	4,975 (9.50)
Total committed expenditure	14,811 (47.77)	16,496 (46.22)	18,019 (46.59)	22,516 (54.03)	25,936 (49.53)
Other components, i.e. other than committed expenditure	14,421 (46.52)	17,043 (47.75)	20,722 (53.58)	26,122 (62.68)	31,504 (60.16)
<b>Total Revenue Expenditure</b>	<b>29,232</b>	<b>33,539</b>	<b>38,741</b>	<b>48,638</b>	<b>57,440</b>
<b>Total Revenue Receipts</b>	<b>31,002</b>	<b>35,690</b>	<b>38,676</b>	<b>41,672</b>	<b>52,364</b>
*Plan head includes Salaries and Wages under Centrally Sponsored Schemes. Figures in parentheses indicate percentage of Revenue Receipts.					

(Source: Finance Accounts for the years 2006-07 to 2010-11 of the State)

The expenditure on salaries under the Non-Plan head increased from ₹2,448 crore in 2006-07 to ₹4,563 crore in 2010-11, mainly due to implementation of the recommendations of the Sixth Pay Commission. As a percentage of the revenue receipts, the expenditure on salaries marginally decreased from 11.42 per cent in 2009-10 to 10.61 in 2010-11. It was also 13.22 per cent of the revenue expenditure (net of pensions and interest payments). The amount spent on subsidies increased from ₹2,814 crore in 2006-07 to ₹4,975 crore in 2010-11. Compared with 2009-10, the subsidies during the current year increased by ₹501 crore in Road Transport, ₹210 crore in Crop Husbandry and decreased by ₹476 crore in Power sector. Expenditure on pensions increased from ₹4,513 crore in 2009-10 to ₹5,779 crore in 2010-11. The State implemented a new Pension Scheme for its employees, to contain its revenue expenditure. As a percentage of revenue receipts, the expenditure on pensions which was 7.73 per cent in 2006-07 came down to 7.66 per cent in 2008-09, but increased to 11.04 per cent in 2010-11.

Interest payments as a percentage of revenue receipts as well as revenue expenditure declined from 22.36 per cent and 23.71 per cent in 2006-07 to 18.38 per cent and 16.76 per cent in 2010-11 respectively. The interest payments, however, increased by 12.07 per cent over the previous year. The increase was mainly due to more payment of interest on market loans (₹626 crore) and on special securities issued to National Small Savings Fund (₹255 crore) than that of the previous year. The State had been availing of loans from NABARD under the Rural Infrastructure Development Fund (RIDF) to contain the interest payments on borrowings. The average rate of interest on borrowings progressively declined from 8.19 per cent in 2006-07 to 7.56 per cent in 2010-11. The percentage of interest payments to revenue receipts declined from 20.61 during 2009-10 to 18.38 during 2010-11.

### **1.7.3 Financial Assistance by State Government to local bodies and other institutions**

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.9**.

**Table 1.9: Financial Assistance to Local Bodies etc.**

	(₹ in crore)				
<b>Financial Assistance to Institutions</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Educational Institutions (Aided Schools, Colleges, Universities, etc.)	367	4,793	5,028	4,195	1,604
Municipal Corporations and Municipalities	621	1,094	334	1,127	1,021
Zilla Parishads and Other Panchayati Raj Institutions	2,668	518	528	532	1,637
Other Institutions	2,112	1,025	2,574	6,425	9,893
<b>Total</b>	<b>5,768</b>	<b>7,430</b>	<b>8,464</b>	<b>12,279</b>	<b>14,155</b>
Assistance as per percentage of RE	19.73	20.38	21.85	25.25	24.64

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

Financial assistance to local bodies and other institutions increased from ₹5,768 crore in 2006-07 to ₹14,155 crore in 2010-11 which included payment of grants-in-aid to Municipal Corporations/Municipalities on account of abolition of octroi in November 2006. As a percentage of the revenue expenditure, the increase was from 19.73 to 24.64. Assistance to educational institutions showed a quantum jump from ₹367 crore in 2006-07 to ₹5,028 crore in 2008-09, but significantly reduced to ₹1,604 crore in 2010-11. Financial assistance to Zilla Panchayats and Other Panchayati Raj Institutions decreased from ₹2,668 crore in 2006-07 to ₹ 518 crore in 2007-08, but increased from ₹532 crore in 2009-10 to ₹1,637 crore in 2010-11. Similarly, assistance to Other Institutions increased from ₹2,112 crore in 2006-07 to ₹9,893 crore in 2010-11, showing an increase of ₹3,468 crore over the previous year.

## 1.8 Quality of Expenditure

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

### 1.8.1 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 1.10** analyses the fiscal priority of the State with regard to development expenditure, social expenditure and capital expenditure during 2010-11. **Appendix 1.1 Part D** presents the comparison of fiscal priority of the State with respect to Other General Category States.

**Table 1.10: Fiscal priority of the State in 2007-08 and 2010-11**

Fiscal Priority by the State*	AE /GSDP	DE <sup>#</sup> /AE	SSE /AE	CE /AE	Educati on/AE	Health /AE
<b>General Category State's Average (Ratio) 2007-08</b>	16.85	64.28	32.54	16.14	14.64	3.98
<b>Gujarat's Average(Ratio) 2007-08</b>	12.38	65.90	33.71	16.68	14.04	3.37
<b>General Category State's Average (Ratio) 2010-11</b>	16.65	64.42	36.75	13.27	17.42	4.35
<b>Gujarat's Average (Ratio) 2010-11</b>	13.17	70.02	38.94	14.28	16.83	4.44
*As per cent to GSDP AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure # Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed. Source of GSDP—Budget publication No.30 of 2010-11.						

**Table 1.10** indicates the following:

- 1) Gujarat has been spending a less proportion of its GSDP on aggregate expenditure as compared to General Category States.

- 2) Development expenditure as a proportion of aggregate expenditure in Gujarat is higher than the General Category States' average during 2007-08 as well as in the current year. Developmental expenditure consists of both economic service expenditure and social sector expenditure.
- 3) Capital expenditure as a corresponding ratio to aggregate expenditure ratio has also been given adequate priority in the current year as well as in 2007-08. Increased priority to physical capital formation which will further increase the prospects of the State by creating durable assets.
- 4) Gujarat has been spending less proportion of its aggregate expenditure on education sector as compared to other General Category States. Gujarat has also spent less proportion of its aggregate expenditure on health sector in 2007-08 but Gujarat has given adequate priority to health sector in 2010-11.

### 1.8.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods<sup>4</sup>. Apart from improving the allocation towards development expenditure<sup>5</sup>, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.11** and **Chart 1.7** present the trends in development expenditure relative to the aggregate expenditure vis-à-vis budget estimates during the current year i.e. 2010-11, **Table 1.12** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

**Table 1.11: Development Expenditure**

(₹ in crore)

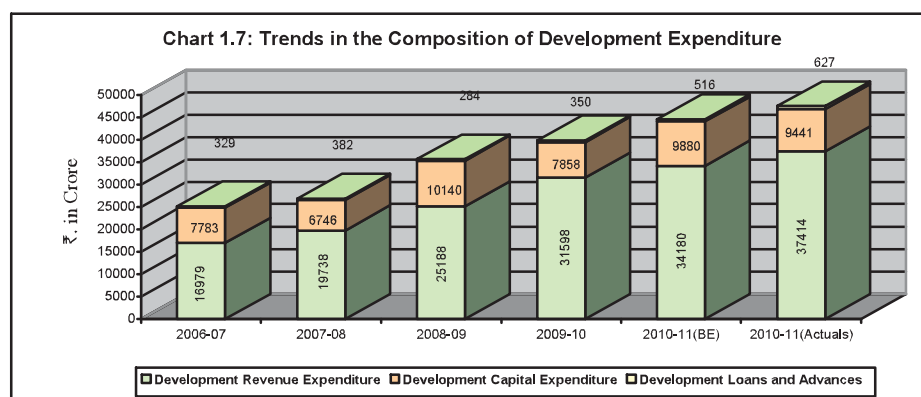
Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
<b>Development Expenditure (a to c)</b>	<b>25,091</b> (67.00)	<b>26,866</b> (65.90)	<b>35,612</b> (72.21)	<b>39,806</b> (69.70)	<b>44,576</b> (68.72)	<b>47,482</b> (70.02)
<b>a. Development Revenue Expenditure</b>	16,979 (45.34)	19,738 (48.41)	25,188 (51.08)	31,598 (55.33)	<b>34,180</b> (52.69)	<b>37,414</b> (55.17)
<b>b. Development Capital Expenditure</b>	7,783 (20.78)	6,746 (16.55)	10,140 (20.56)	7,858 (13.76)	<b>9,880</b> (15.27)	<b>9,441</b> (13.92)
<b>c. Development Loans and Advances</b>	329 (0.88)	382 (0.94)	284 (0.57)	350 (0.61)	<b>516</b> (0.80)	<b>627</b> (0.93)

Figures in parentheses indicate percentage of aggregate expenditure.

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

<sup>4</sup> See glossary

<sup>5</sup> The aggregate expenditure data segregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the expenditure on social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.



Development expenditure of the State comprised revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from ₹25,091 crore in 2006-07 to ₹47,482 crore in 2010-11. As a percentage of the total expenditure, the total development expenditure of the State increased from 67 in 2006-07 to 70.02 in 2010-11. The capital expenditure component increased from ₹7,783 crore in 2006-07 to ₹9,441 crore in 2010-11. The percentage of development capital expenditure to the aggregate expenditure during the current year, i.e. 2010-11 was 13.92 per cent whereas it accounted for 55.17 per cent under the revenue expenditure component.

**Table 1.12: Efficiency of Expenditure under selected Social and Economic Services**

(In per cent)

Social/Economic Infrastructure	2009-10		2010-11	
	Share of CE to TE	In RE, the share of Salaries	Share of CE to TE	In RE, the share of Salaries
<b>Social Services (SS) (absolute figures- ₹ in crore)</b>	<b>2,038.21</b>	-	<b>2,681.81</b>	-
General Education	4.35	4.59	3.72	4.21
Health and Family Welfare	12.67	38.36	16.98	35.84
Water Supply, Sanitation, & Housing and Urban Development	13.25	0.57	18.60	0.68
<b>Total (SS)</b>	<b>9.41</b>	<b>7.85</b>	<b>10.16</b>	<b>7.67</b>
<b>Economic Services (ES) (absolute figures- ₹ in crore)</b>	<b>5,819.94</b>	-	<b>6,758.74</b>	-
Agriculture & Allied Activities	11.06	16.99	11.53	15.89
Irrigation and Flood Control	80.64	31.47	79.83	30.61
Power & Energy	11.87	-	17.76	-
Transport	30.57	1.55	30.52	1.39
<b>Total (ES)</b>	<b>32.08</b>	<b>7.44</b>	<b>32.07</b>	<b>7.04</b>
<b>Total (SS+ES)</b>	<b>19.74</b>	<b>7.69</b>	<b>19.88</b>	<b>7.44</b>

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

The percentage of capital expenditure to the total expenditure for Social and Economic Services increased from 19.74 in 2009-10 to 19.88 in 2010-11, indicating moderate improvement in the efficiency of expenditure. In the Social Service sector, due to lower priority to capital expenditure, there was decrease in the share of capital expenditure as a percentage of total expenditure under General Education.

### *Expenditure on Social Services*

Capital expenditure on Social Services increased in absolute terms from ₹2,038.21 crore in 2009-10 to ₹2,681.81 crore in 2010-11 (31.58 *per cent*). The share of capital expenditure to the total expenditure under Social Services increased from 9.41 *per cent* to 10.16 *per cent*.

It was observed that lower priority to capital expenditure was mainly under General Education where capital expenditure as a percentage of the total expenditure reduced from 4.35 *per cent* to 3.72 *per cent*.

The share of salaries in revenue expenditure under Social Services marginally decreased from 7.85 *per cent* in 2009-10 to 7.67 *per cent* in 2010-11, mainly on account of decrease in the share of salaries under Health & Family Welfare from 38.36 *per cent* to 35.84 *per cent*.

### *Expenditure on Economic Services*

Capital expenditure on Economic Services increased from ₹5,819.94 crore in 2009-10 to ₹ 6,758.74 crore in 2010-11, registering a growth of 16.13 *per cent*. The percentage of capital expenditure to total expenditure under economic services slightly decreased from 32.08 to 32.07.

The share of salaries in revenue expenditure under Economic Services marginally decreased from 7.44 *per cent* to 7.04 *per cent*, mainly on account of decrease in the share of salaries under irrigation and flood control from 31.47 *per cent* to 30.61 *per cent*.

## **1.9 Financial Analysis of Government Expenditure and Investments**

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

### *1.9.1 Financial Results of Irrigation Works*

At the end of March 2011, ₹1,667.82 crore was spent on 33 Major and Medium Irrigation Projects which were treated as completed. The revenue realized from these irrigation projects during the year was ₹146.39 crore, against which the maintenance expenditure was ₹94.55 crore, indicating a revenue surplus of ₹51.84 crore. When compared with the investment, the return was 3.11 *per cent*.



### 1.9.2 Incomplete projects

At the end of March 2011, there were 43 incomplete capital works involving ₹948.57 crore. The department-wise details of incomplete works, each costing ₹ 10 crore or more, are given in **Table 1.13**.

**Table 1.13: Department-wise Profile of Incomplete Works**

(₹ in Crore)				
Department	No. of Incomplete Works	Initial Budgeted Cost	Cumulative expenditure as on 31.3.2011	Actual
Roads & Buildings	31	614.67		293.07
Narmada Water Resources, Water Supply and Kalpsar	12	333.90		218.63
<b>Total</b>	<b>43</b>	<b>948.57</b>		<b>511.70</b>

(Source: Finance Accounts of the State)

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

### 1.9.3 Investment and returns

As of 31 March 2011, Government had invested ₹34,495.92 crore in Statutory Corporations, Government Companies, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.14**). The average return on the investments was 0.58 *per cent* in the last five years while the Government paid an average 7.86 *per cent* as interest on its borrowings during 2006-07 to 2010-11. Continued use of borrowed funds to fund investments which do not have sufficient returns will lead to an unsustainable financial position. The Government may ensure proper justification for investment of high cost funds.

**Table 1.14: Return on Investment**

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year <sup>□</sup> (₹ in crore)	18,515	21,117	26,542	31,051	34,496
Return (₹ in crore)	354.79	47.57	49.40	76.72	114.43
Return ( <i>per cent</i> )	1.92	0.23	0.19	0.25	0.33
Average rate of interest on Government borrowings ( <i>per cent</i> )	8.19	8.12	7.80	7.64	7.56
Difference between interest rate and rate of return ( <i>per cent</i> )	6.27	7.89	7.61	7.39	7.23

(Source: Finance Accounts of the State)

Out of ₹3,445 crore invested during 2010-11, ₹2,192 crore was invested in the Sardar Sarovar Narmada Nigam Limited, a State-owned Company, executing the multi-purpose Narmada Project.

<sup>□</sup> Includes all allotments to Government companies, Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives.

## ***Finances of the State Government***

The State Government have equity participation of ₹34,369.10 crore in 61 Government Companies and Statutory Corporations. (Working Companies/Corporations: ₹34,321.34 crore; Non-working Companies/Corporations: ₹47.76 crore). During the current year, the State Government paid ₹1,797.54 crore as subsidy to the companies/ corporations (₹1,784.02 crore to *Gujarat Urja Vikas Nigam Limited* for horse power based tariff on agriculturalists, free electricity to water works of village panchayats, compensation in GERC agricultural tariffs, *Sagar Khedu Sarvangi Vikas Yojana*). The State Government also advanced ₹451.93 crore as loans to the working Companies/Corporations. At the end of 2010-11, total loans advanced to the Companies/Corporations amounted to ₹2,803.48 crore.

### ***1.9.4 Loans and Advances by State Government***

In addition to investments in co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/ organizations. **Table 1.15** presents the position of loans and advances as on 31 March 2011 and interest receipts vis-à-vis interest payments during the last three years.

**Table 1.15: Average Interest Received on Loans Advanced by the State Government**

	(₹ in crore)		
<b>Quantum of Loans/Interest Receipts/ Cost of Borrowings</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Opening Balance	4,456	4,629	4,905
Amount advanced during the year	354	427	688
Amount repaid during the year	181	151	283
<b>Closing Balance</b>	<b>4,629</b>	<b>4,905</b>	<b>5,310</b>
<i>Of which</i> Outstanding balance for which terms and conditions have been settled	4,319	4,595	5,000
Net addition	173	276	405
Interest Receipts	180	98	92
Interest receipts as percentage of outstanding Loans and Advances	3.89	2.00	1.73
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.46	7.21	7.10
<b>Difference between interest receipts and interest payments (per cent)</b>	<b>(-)3.57</b>	<b>(-) 5.21</b>	<b>(-)5.37</b>

(Source: Finance Accounts of the State)

a) The quantum of loans advanced had increased from ₹354 crore in 2008-09 to ₹688 crore in 2010-11. Repayments increased from ₹181 crore in 2009-10 to ₹283 crore in 2010-11, but the outstanding balance increased from ₹4,629 crore in 2008-09 to ₹5,310 crore in 2010-11. The difference between interest payments and interest receipts increased from 3.57 *per cent* in 2008-09 to 5.37 *per cent* in 2010-11. The major recipients of loans and advances were (i) Social Sector–Welfare of Scheduled Castes/Scheduled Tribes/Other Backward Classes (₹20.40 crore), (ii) Economic Sector- Power Projects (₹259.25 crore); Industry and Minerals (₹48.52 crore) and Transport Sector (₹296.00 crore).

b) Terms and conditions of the loans were not yet finalized in respect of ₹309.96 crore granted to financial institutions between 2001-02 and 2006-07.

c) As on 31 March 2011, overdue loans amounting to ₹777.52 crore were recoverable from the loanees. The interest recoverable thereon was ₹131.96 crore. Details are given in **Table 1.16**

**Table 1.16: Details of Outstanding Loans**

(₹ in crore)					
Sr. No.	Major Head	Particulars	Principal Amount	Interest	Period from which outstanding
1.	6216	Housing Board, Co-operative Societies	142.54	17.79	1996
2.	6217	Municipalities	213.96	23.73	1997
3.	6245	Nagarpalikas	11.05	2.02	1995
4.	6250	Welfare Board	0.27	0.04	1992
5.	6404	Dairy Development	1.98	1.32	2008-09
6.	6408	Co-operative Societies	2.96	0.18	1998
7.	6425	Co-operative Societies	27.19	2.44	2002
8.	6851	Village and Cottage Industries	0.47	0.14	2004-05
9.	6885	Industries and Mines	376.87	84.09	2004-05
10.	7075	Municipalities	0.23	0.21	1960
<b>Total</b>			<b>777.52</b>	<b>131.96</b>	

(Source: Finance accounts of the State and information furnished by Accountant General (A&E), Gujarat, Rajkot)

### *1.9.5 Cash Balances and Investment of Cash Balances*

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.17**.

**Table 1.17: Cash Balances and Investment of Cash Balances**

(₹ in crore)			
Particulars	As on 1 <sup>st</sup> April 2010	As on 31 <sup>st</sup> March 2011	Increase/Decrease
Cash Balances	11,524.31	14,986.80	(+)3,462.49
Investments from Cash Balances (a to b)			
a. GOI Treasury bills	6,597.83	9,245.94	(+)2,648.11
b. GOI Securities	5,027.49	5,587.49	(+)560.00
Funds-wise Break-up of Investment from Earmarked balances (a to d)			
a. Sinking Fund	3,966.27	4,526.27	(+)560.00
b. Development and Welfare Fund	3.38	3.38	-nil-
c. General and other Reserve Funds	1,057.50	1,057.50	-nil-
d. Investment in Misc. Deposits	0.34	0.34	-nil-
Interest realised	320.35	310.65	(-)9.70

(Source: Finance Accounts of the State)

During 2010-11, the State Government did not avail of any Ways and Means Advance for maintenance of its minimum cash balance.

As seen from the above table, the interest amount realized from investment in GOI treasury bills was lower by ₹9.70 crore during the year as compared to the previous year.

**1.10 Assets and Liabilities**

*1.10.1 Growth and composition of Assets and Liabilities*

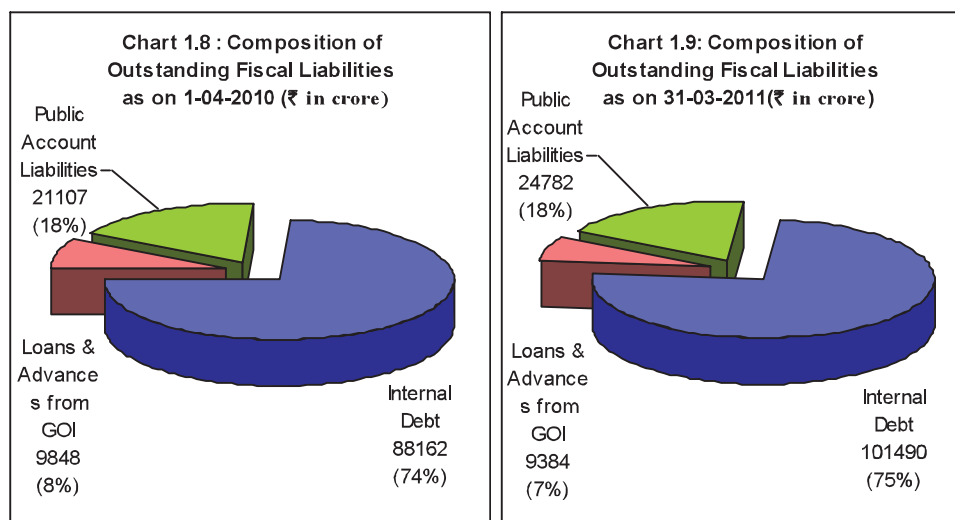
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.3** gives an abstract of such liabilities and the assets as on 31 March 2011 compared with the corresponding position on 31 March 2010. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

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

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

*1.10.2 Fiscal Liabilities*

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**. However, the composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.8** and **1.9**.



The outstanding fiscal liabilities have shown a steady increase over the years from ₹87,971 crore at the end of 2006-07 to ₹1,35,656 crore as at the end of 2010-11. The composition of fiscal liabilities at the end of March 2011 remained more or less the same as that of the previous year with Internal Debt accounting for 75 per cent, Public Account Liabilities for 18 per cent and Loans and Advances from Government of India for 7 per cent. The fiscal liabilities at the end of 2006-07 represented 284 per cent of the revenue receipts during the year 2006-07, which was reduced to 259 per cent at the end of 2010-11. At the end of 2010-11, the outstanding public debt was ₹1,10,874 crore. The public debt to GSDP ratio at 21.54 per cent was in line with the projected ratio of 25.89 per cent in the Medium Term Fiscal Policy Statement.

### **1.10.3 Status of Guarantees – Contingent liabilities**

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years is given in **Table 1.18**.

**Table 1.18: Guarantees given by the Government of Gujarat**

<b>Guarantees</b>	<b>(₹ in crore)</b>				
	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Ceiling limit on Government guarantees under Gujarat State Guarantees Act 1963	20,000	20,000	20,000	20,000	20,000
Maximum amount guaranteed	12,983	11,843	10,562	10,202	10,382
Outstanding amount of guarantees	12,448	11,308	10,027	9,667	8,661
Percentage of maximum amount guaranteed to total revenue receipts	41.88	33.18	27.31	24.48	19.83

(Source: Finance Accounts of the State)

The Gujarat Fiscal Responsibility Act, 2005 prescribed a ceiling of ₹16,000 crore on outstanding guarantees within the limit (₹20,000 crore) prescribed in the Gujarat State Guarantees Act, 1963. The outstanding guarantees of ₹8,660.80 crore comprised (i) guarantees given for raising of working capital by a Corporation (₹432.99 crore) and (ii) loans and advances raised by State Corporations (Power) (₹2,075.85 crore); Roads and Transport (₹202.15 crore); Boards/Corporations under Urban Development and Urban Housing Department (₹254.00 crore); Sardar Sarovar Narmada Nigam Ltd. (₹4,540.59 crore); Municipalities / Local Bodies (₹335.99 crore), Gujarat Water Supply and Sewerage Board (₹221.90 crore) and Others (₹597.33 crore). The outstanding guarantees (₹8,661 crore) accounted for 16.54 per cent of the revenue receipts (₹52,364 crore) of the State Government and were within the ceiling limit prescribed under the Fiscal Responsibility Act. The Gujarat State Guarantees Redemption Fund set up in February 2006 to take care of any contingent liabilities arising out of State Government Guarantees, had a balance of ₹811.19 crore at the end of 2010-11. During the year, the Government received ₹52.99 crore as guarantee fees out of which ₹ 50 crore were transferred to the Guarantee Redemption Fund. The contingent liabilities of the State Government, as defined in terms of its outstanding guarantees, have shown significant reduction over the last few years. The total outstanding

guarantees have come down to ₹8,661 crore in 2010-11 from ₹12,448 crore in 2006-07.

### 1.11 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze the various indicators that determine the debt sustainability<sup>6</sup> of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization<sup>7</sup>; sufficiency of non-debt receipts<sup>8</sup>; net availability of borrowed funds<sup>9</sup>; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.19** analyzes the debt sustainability of the State according to these indicators for the period from 2006-07 to 2010-11.

**Table 1.19: Debt Sustainability: Indicators and Trends**

(₹ in crore)					
Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilization (Quantum Spread +/- Primary Deficit/Surplus)	7,468	10,332	7,226	(-)911	9,240
Sufficiency of Non-debt Receipts (Resource Gap)	(+)620	(+)878	(-)5,667	(-)4,716	(+)80
Net Availability of Borrowed Funds	(-)327	996	1,317	4,874	6,912
Burden of Interest Payments (IP/RR Ratio)	0.22	0.21	0.20	0.21	0.18
Maturity Profile of State Debt					
Year	Amount				
0-1	2,896	5,253	5,923	6,791	
1-3	7,031	8,600	10,831	11,875	
3-5	10,831	11,875	10,516	9,430	
5-7	10,516	9,430	8,279	13,330	
7 and above	48,035	51,852	62,461	69,448	
<b>Total</b>	<b>79,309</b>	<b>87,010</b>	<b>98,010</b>	<b>1,10,874</b>	

(Source: Finance Accounts of the State)

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

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

The quantum spread together with primary deficit have been positive from 2006-07 to 2010-11, except during 2009-10, which is indicative that the debt

<sup>6</sup> See glossary

<sup>7</sup> See glossary

<sup>8</sup> See glossary

<sup>9</sup> See glossary

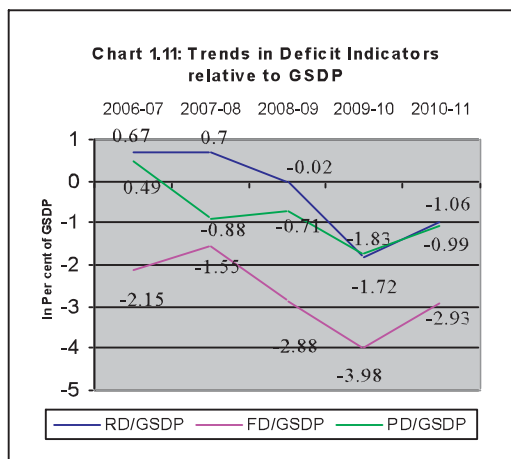
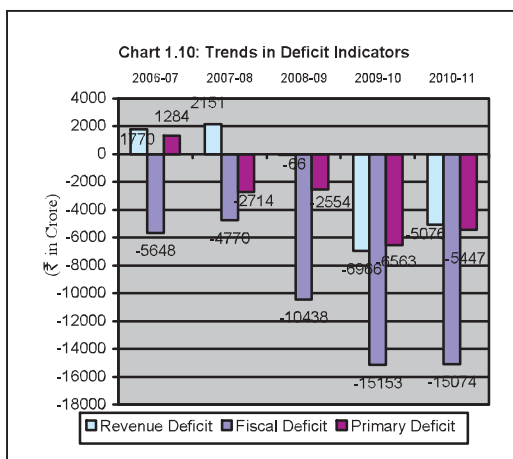
was sustainable. The trend of net availability of borrowed funds is also in favourable condition. As regards repayment of debts, large amounts of repayments to the extent of 25 per cent of State debt would be taking place in the next five years.

### 1.12 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficits are financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis the targets set under the FRBM Act/Rules for the financial year 2010-11.

#### 1.12.1 Trends in Deficits

Charts 1.10 and 1.11 present the trends in deficit indicators over the period 2006-07 to 2010-11



- The State had a revenue surplus of ₹1,770 crore and ₹2,151 crore during 2006-07 and 2007-08. However, it turned into a revenue deficit of ₹66 crore in 2008-09, which increased to ₹6,966 crore in 2009-10, but reduced to ₹5,076 crore during 2010-11. The estimated revenue deficit as per the Medium Term Fiscal Policy Statement (MTFPS) was, however ₹4,502 crore.
- The fiscal deficit increased from ₹5,648 crore in 2006-07 to ₹15,074 crore in 2010-11, which was slightly less than that projected (₹ 15,143 crore) in the MTFPS.
- Revenue receipts increased by 25.66 per cent over the previous year but revenue expenditure increased by 18.10 per cent, resulting in a reduction in revenue deficit by ₹1,890 crore from the previous year.

**1.12.2 Components of Fiscal Deficit and its Financing Pattern**

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.20**.

**Table 1.20: Components of Fiscal Deficit and its Financing Pattern**

		(₹ in crore)				
Particulars		2006-07	2007-08	2008-09	2009-10	2010-11
<b>Decomposition of Fiscal Deficit</b>		<b>5,648</b>	<b>4,770</b>	<b>10,438</b>	<b>15,153</b>	<b>15,074</b>
<b>1</b>	Revenue Deficit(-) / Surplus(+)	(+1,770)	(+2,151)	(-66)	(-6,966)	(-5,076)
<b>2</b>	Net Capital Expenditure	7,842	6,706	10,199	7,910	9,593
<b>3</b>	Net Loans and Advances	(-424)	215	173	277	405
<b>Financing Pattern of Fiscal Deficit*</b>						
<b>1</b>	Market Borrowings	(-446)	6,137	7,618	8,404	10,725
<b>2</b>	Loans from GOI	(-564)	(-345)	(-332)	(-478)	(-464)
<b>3</b>	Special Securities Issued to NSSF	5,473	424	(-74)	3,099	2,628
<b>4</b>	Loans from Financial Institutions	715	460	490	(-26)	(-25)
<b>5</b>	Small Savings, PF etc	285	436	320	1,018	705
<b>6</b>	Deposits and Advances	830	1,353	798	1,178	2,533
<b>7</b>	Suspense and Miscellaneous	451	(-428)	663	(-582)	1,311
<b>8</b>	Remittances	(-223)	3	(-22)	190	78
<b>9</b>	Reserve Fund	1,145	915	582	768	998
<b>10</b>	Contingency Fund	74	(-7)	(-24)	(-13)	47
<b>Total</b>		<b>7,740</b>	<b>8,948</b>	<b>10,019</b>	<b>13,558</b>	<b>18,536</b>
	Increase(+)/Decrease(-) in Cash Balance	(+2,092)	(+4,178)	(-419)	(-1,595)	(+3,462)
*All these figures are net of disbursements/outflows during the year (Source: Finance Accounts of the State).						

A redeeming feature of the fiscal deficit is that the Government primarily borrows to finance capital expenditure. With a view to bringing down the cost of borrowings as envisaged in the Fiscal Policy Strategy Statement (FPSS), the fiscal deficit was mainly financed by increased market borrowings (₹2,321 crore) rather than taking loans from the National Small Saving Fund (NSSF) which carried a higher rate of interest. However, NSSF loans comprised a major portion of the Public Debt during the current year. To compensate the higher inflow of NSSF loans, the Government had to curtail its relatively cheaper market borrowing. As on 31 March 2011, the NSSF loans comprised 45.65 per cent of the Public Debt while market loans and loans from other institutions comprised 45.75 per cent of the Public Debt.

**1.12.3 Quality of Deficit/Surplus**

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratios of revenue deficit to fiscal deficit indicate the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary



deficit (**Table 1.21**) would indicate the extent to which the deficit had been on account of enhancement in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

**Table 1.21: 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)
2006-07	31,803	22,300	7,845	374	30,519	(+)9,503	(+)1,284
2007-08	35,999	26,055	6,801	429	33,285	(+)9,944	(+)2,714
2008-09	38,877	30,857	10,220	354	41,431	(+)8,020	(-)2,554
2009-10	41,959	40,048	8,047	427	48,522	(+)1,911	(-)6,563
2010-11	52,738	47,813	9,684	688	58,185	(+)4,925	(-)5,447

(Source: Finance Accounts of the State)

During the period 2006-07 to 2010-11, primary expenditure increased from ₹30,519 crore to ₹58,185 crore (increase of 90.65 per cent) against the increase of non-debt receipt from ₹31,803 crore to ₹52,738 crore (increase of 65.83 per cent). During the years 2006-07 and 2007-08, the non-debt receipts covered the primary expenditure, resulting in surpluses. In the year 2008-09, there was a primary deficit of ₹2,554 crore due to an increase of 50.27 per cent in capital expenditure, without a commensurate increase in non-debt receipts. In 2009-10, there was a primary deficit of ₹6,563 crore, which has declined to ₹5,447 crore in 2010-11, representing a reduction of 17 per cent.

#### *1.12.4 Recommendations of Thirteenth Finance Commission*

As per the ThFC award, the State was entitled to receive ₹903.45 crore as grant-in-aid from GOI during 2010-11 under the category of Upgradation and Special Problems (₹454.59 crore), GIA to Local Bodies (₹352.82 crore), Improving Outcomes (₹85.80 crore), and Environmental Related Grant (₹10.24 crore). The amounts allocated and the amounts received thereagainst are given in **Table 1.22** below:

**Table 1.22: Details of amounts awarded and received**

(₹ in crore)				
Sr. No.	Category	Amount awarded	Amount received	Difference
<b>1</b>	<b>Upgradation and Special Problems</b>	<b>454.59</b>	<b>454.59</b>	-
(a)	Elementary Education	72.00	72.00	-
(b)	Calamities Relief/ Disaster Management	382.59	382.59	-
<b>2</b>	<b>GIA to Local Bodies</b>	<b>352.82</b>	<b>351.39</b>	<b>(-)1.43</b>
(a)	Panchayati Raj Institutions	217.20	217.24	(+)0.04
(b)	Urban Local Bodies	121.20	119.75	(-)1.45
(c)	Special /Scheduled Areas Grant	14.42	14.40	(-)0.02
<b>3</b>	<b>Improving Outcomes</b>	<b>85.80</b>	<b>76.73</b>	<b>(-)9.07</b>
(a)	Improvement on Justice Delivery	59.96	59.96	-
(b)	Incentive for issuing UIDs	18.14	9.07	(-)9.07
(c)	Improvement of Statistical Systems at State and District Level	5.20	5.20	-
(d)	Employee and Pension Database	2.50	2.50	-
<b>4</b>	<b>Environment Related Grant- Forests</b>	<b>10.24</b>	<b>10.24</b>	-
	<b>Total</b>	<b>903.45</b>	<b>892.95</b>	<b>(-)10.50</b>

(Source: Finance department, Government of Gujarat)

### **1.13 Conclusion and Recommendations**

The ratio of the State's own tax revenue to GSDP decreased from 6.51 *per cent* in 2006-07 to 6.23 *per cent* in 2009-10, but increased to 7.06 *per cent* in 2010-11. Likewise, the ratio of non-tax revenue to GSDP decreased from 1.74 *per cent* in 2006-07 to 0.95 *per cent* in 2010-11. This calls for further improvement in the tax management structure.

Revenue expenditure constituted 78 *per cent* of the total expenditure in 2006-07, which increased steadily to 85 *per cent* in 2010-11. However, the percentage of Social Service expenditure to total expenditure increased from 32 *per cent* in 2006-07 to 39 *per cent* in 2010-11.

Though the State achieved the target laid down in the FRBM Act to reduce the revenue deficit to zero by 31 March 2008, there was a revenue deficit of ₹66 crore during the year 2008-09, which increased to ₹6,966 during the TFC award period. The revenue deficit during the current year was ₹5,076 crore. The ratio of revenue deficit to GSDP reduced from 1.62 *per cent* in 2009-10 to 0.99 *per cent* in 2010-11.

The Medium Term Fiscal Policy Statement envisaged a 10 *per cent* increase per year in the capital expenditure during the TFC award period. However, the projected increase was achieved only during 2008-09. During the current year, it increased by 20.34 *per cent* over the year 2009-10.

Government of India transferred ₹4,451 crore to State Implementing Agencies during the year against ₹3,553 crore transferred during the previous year. Direct transfer of funds from the Union to the State Implementing Agencies ran the risk of poor oversight of utilization of funds by these agencies.

The outstanding fiscal liabilities have shown a steady increase over the years, from ₹87,971 crore at the end of 2006-07 to ₹1,35,656 crore at the end of 2010-11. The composition of fiscal liabilities at the end of March 2011 remained more or less the same as that of the previous year with Internal Debt accounting for 75 *per cent*, Public Account Liabilities for 18 *per cent* and Loans and Advances from Government of India for 7 *per cent*. As a percentage, fiscal liabilities to revenue receipts decreased from 284 in 2006-07 to 259 in 2010-11.