

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. It is the second largest State in India both in terms of population (11.24 crore as per 2011 census) and geographical area (3.08 lakh sq km). As indicated in **Appendix 1.1**, in the last 10 years, the density of population of Maharashtra has increased from 315 persons per sq km to 365 persons per sq km. However, Maharashtra still has a lower density of population as compared to all-India average. However, it has higher poverty levels as compared to the all-India average. The State has shown higher economic growth in the past decade as the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2010-11 has been 15.87 *per cent* as compared to 14.68 *per cent* in General Category States. Despite this, the population below the poverty line in Maharashtra is much higher than the average of General Category States. During the above mentioned period, its population grew by 15.99 *per cent* against 17.56 *per cent* in General Category States. The per capita income compound annual growth rate in Maharashtra (12.51 *per cent*) has been higher than that of the General Category States (11.32 *per cent*) in the current decade. Per capita GSDP income/ contribution during 2010-11 was also second highest as compared to the average of other General Category States. The State has higher urban inequality when compared to the all-India average.

1.1 Introduction

This chapter is based on the audit of Finance Accounts and makes an assessment of the Maharashtra Government's fiscal position as on 31 March 2011. It provides a broad perspective of the finances of the Government of Maharashtra during 2010-11 and analyses critical 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**. The methodology adopted for assessment of the fiscal position and norms/ceilings prescribed by the Maharashtra Fiscal Responsibility and Budgetary Management (MFRBM) Act, 2005, MFRBM Rules, 2006, MFRBM (Amendment) Rules, 2008 and MFRBM (Second Amendment) Rules, 2011 of the State are given in **Appendix 1.3**. According to the Act, Government developed its own Fiscal Correction Path (FCP) given in **Appendix 1.4**. As prescribed in the Act, Government laid its Medium Term Fiscal Policy Statement (MTFPS) for 2010-11 in the State legislature in March 2010.

1.1.1 Summary of Current Year's Fiscal Transactions

A summary of the State Government's fiscal transactions during 2010-11 *vis-à-vis* the previous

Finances of the State Government

year is presented in **Table 1.1. Appendix 1.6** provides details of receipts and disbursements as well as the overall fiscal position during 2010-11.

Table 1.1 : Summary of current year's fiscal operations

(₹ in crore)							
2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section-A: Revenue					Non Plan	Plan	Total
86910.29	Revenue Receipts	105867.82	94915.97	Revenue Expenditure	89531.79	16927.59	106459.38
59106.34	Tax revenue	75027.10	32070.96	General services	37557.18	147.05	37704.23
8352.61	Non-tax revenue	8225.04	41004.66	Social services	37025.58	11256.48	48282.06
8248.11	Share of Union Taxes/ Duties	11419.78	20371.94	Economic services	13773.51	5511.85	19285.36
11203.23	Grants from Government of India	11195.90	1468.41	Grants-in-aid and Contributions	1175.52	12.21	1187.73
Section B : Capital							
25.07	Miscellaneous Capital Receipts	17.28	17428.66	Capital Outlay	2309.32	15654.05	17963.37
514.84	Recoveries of Loans and Advances	640.09	1261.08	Loans and Advances disbursed	—	—	959.08
21564.42	Public debt receipts*	20739.78	3825.39	Repayment of Public Debt*	—	—	4773.61
600.00	Appropriation from Contingency fund	0.00	350.00	Appropriation to Contingency fund	—	—	850.00
351.93	Contingency Fund	853.00	603.00	Contingency Fund	—	—	11.20
44071.51	Public Account Receipts	48406.32	31721.02	Public Account Disbursements	—	—	39557.62
21626.42	Opening Cash Balance	25559.36	25559.36	Closing Cash Balance	—	—	31509.39
175664.48	Total	202083.65	175664.48	Total			202083.65

(Source : State Finance Accounts of the respective years.)

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

The following are the major changes in fiscal transactions during 2010-11 over the previous year:

- Revenue receipts grew by ₹ 18,958 crore (22 per cent) over the previous year. The increase was the net effect of increase in tax revenue by ₹ 15,921 crore (27 per cent) and State's share of Union Taxes and Duties by ₹ 3,172 crore (38 per cent), set off by a decrease in non-tax revenue by ₹ 128 crore (two per cent). The revenue receipts at ₹ 1,05,868 crore was lower (by 1.2 per cent) than the amount assessed by the Government in its Fiscal Correction Path (FCP) (₹ 1,07,159 crore). However, it was higher (by nine per cent) than the Medium Term Fiscal Policy Statement (MTFPS) (₹ 97,043 crore) for the year 2010-11.
- The decrease in non-tax revenue by ₹ 128 crore (two per cent) over 2009-10 was mainly under 'Miscellaneous General Services' due to less receipts on account of write-off of amounts in terms of the recommendations of the Tenth Finance Commission and unclaimed deposits. The non-tax revenue (₹ 8,225 crore) of the Government was also lower than the projections made in the FCP (₹ 8,993 crore - nine per cent) of the Government, the Thirteenth Finance Commission (ThFC) (₹ 11,560 crore - 29 per cent) and the MTFPS/Budget (₹ 10,216 crore - 19 per cent).
- Revenue expenditure increased by ₹ 11,543 crore (12 per cent) over the previous year, mainly due to increase in expenditure on general services (₹ 5,633 crore) and social services (₹ 7,277 crore), set off by economic services (₹ 1,087 crore) and grants-in-aid and contributions (₹ 280 crore). While one per cent of the increase was under Plan head the remaining 15 per cent was under the Non-Plan head. The major heads that registered

increases include General Education, Pension and other Retirement Benefits, relief on account of Natural Calamities, Interest Payments, Police, Medical and Public Health, Social Security and Welfare, Nutrition, District Administration, Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes and Roads and Bridges. The revenue expenditure (₹ 1,06,459 crore) was, however, lower than the assessment made by the State Government in its FCP by 5.66 *per cent* and MTFPS/Budget by 1.7 *per cent*. The Non-Plan Revenue Expenditure (NPRE) (₹ 89,532 crore) remained higher than the normative assessments made by ThFC (₹ 67,884 crore) and the State Government's projections (MTFPS/Budget) (₹ 82,706 crore) but was lower than that projected in FCP (₹ 91,682 crore) (Table 1.12).

- Capital expenditure (₹ 17,963 crore) increased by 3.06 *per cent* over the previous year. The capital expenditure was lower than the assessment made by the State Government in its FCP by 4.6 *per cent* (₹ 18,823 crore) and was higher than the projections made in MTFPS by 5.7 *per cent* (₹ 16,993 crore) for the year 2010-11. The increase was mainly due to more contribution of Government's share capital to the Irrigation Corporations, as discussed in para 1.4.1.
- Recoveries of loans and advances increased by 24 *per cent* (₹ 125 crore) and its disbursements decreased by 24 *per cent* (₹ 302 crore).
- Public debt receipts decreased by four *per cent* (₹ 824 crore) while public debt disbursement increased by 25 *per cent* (₹ 949 crore) resulting in net decrease of ₹ 1,773 crore in public debt receipts.
- Increase of 10 *per cent* (₹ 4,334 crore) in Public Account receipts over the previous year was on account of increase of receipts under Deposits and Advances by 55 *per cent* (₹ 7,768 crore), Remittances by two *per cent* (₹ 365 crore), Small Savings, Provident Fund etc. by 17 *per cent* (₹ 573 crore) and Reserve Funds by 31 *per cent* (₹ 787 crore) set off by decrease under Suspense and Miscellaneous by 124 *per cent* (₹ 5,158 crore).
- Public Account disbursements increased by 25 *per cent* (₹ 7,837 crore) mainly due to increase under Deposit and Advances by 47 *per cent* (₹ 5,009 crore), Small Savings, Provident Fund etc. by 22 *per cent* (₹ 341 crore) and Remittances by 17 *per cent* (₹ 3,010 crore) along with decrease under Reserve Funds by 29 *per cent* (₹ 491 crore) and Suspense and Miscellaneous by 23 *per cent* (₹ 34 crore).
- Appropriation from the Contingency Fund decreased by ₹ 600 crore from ₹ 600 crore in 2009-10 to 'nil' in 2010-11 while appropriation to the Contingency Fund increased by ₹ 500 crore from ₹ 350 crore in 2009-10 to ₹ 850 crore in 2010-11.
- Cash balances of the Government at the close of the year 2010-11 (₹ 31,509 crore) increased by ₹ 5,950 crore (23 *per cent*) over the previous year. Of the above, ₹ 23,986 crore was invested in Government of India (GOI) Treasury Bills, as also discussed at para 1.6.6.

1.2 Resources of the State

1.2.1 Resources of the State as per Finance Accounts

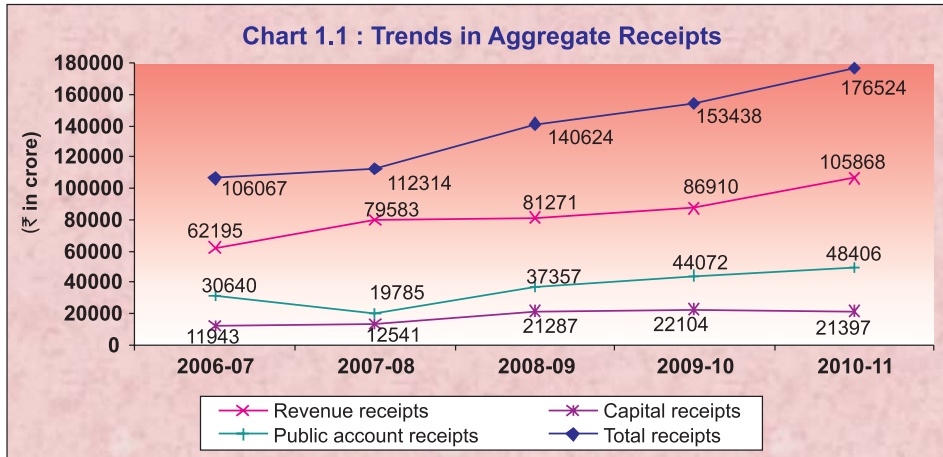
Revenue¹ and capital² are the two streams of receipts that constitute the resources of the State Government. Table 1.1 presents the receipts and disbursements of the State during 2010-11,

¹ Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from GOI.

² Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, 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.

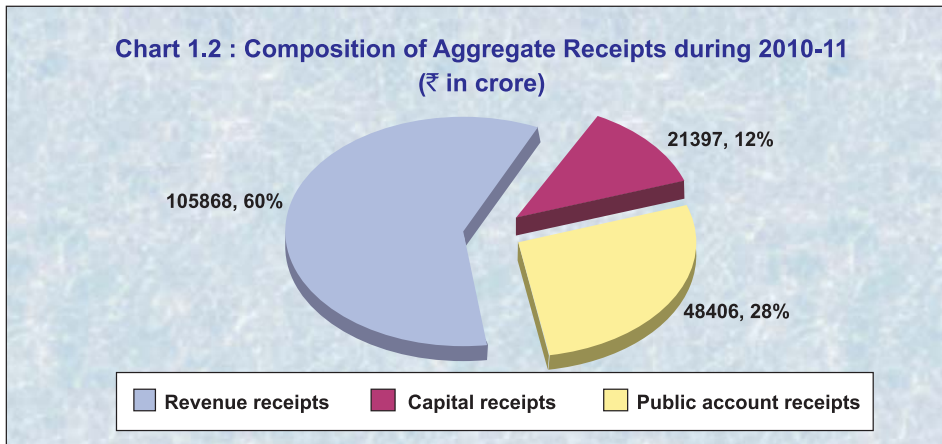
Finances of the State Government

as recorded in its Finance Accounts 2010-11 while **Chart 1.1** and **Table 1.2** depicts the trends in various components of the aggregate receipts of the Government during 2006-11.



Note : Contingency Fund receipts were ₹ 853 crore (0.48 per cent of total receipt) during 2010-11.
(Source : State Finance Accounts of the respective years)

Chart 1.2 depicts the composition of resources of the Government during 2010-11.



The total receipts of the State increased by ₹ 70,457 crore (66 per cent) from ₹ 1,06,067 crore in 2006-07 to ₹ 1,76,524 crore in 2010-11. The share of revenue receipts and capital receipts (including public debt receipts) in total receipts of the State increased marginally from 59 per cent in 2006-07 to 60 per cent in 2010-11 and from 11 per cent in 2006-07 to 12 per cent in 2010-11 respectively. The share of public account receipts decreased marginally from 29 per cent to 27 per cent during the same period.

The **Table 1.2** shows that the growth of capital debt receipts reduced from 4.13 per cent in 2009-10 to a negative growth of (-)3.82 per cent in 2010-11, while non-debt capital receipts increased from negative growth of (-)6.57 per cent in 2009-10 to a positive growth of 21.67 per cent in 2010-11.

Table 1.2: Trends in growth and composition of aggregate receipts

(₹ in crore)

	Sources of State's Receipts	2006-07	2007-08	2008-09	2009-10	2010-11
I	Revenue Receipts	62,195	79,583	81,271	86,910	1,05,868
II	Capital Receipts	11,943	12,541	21,287	22,104	21,397
	Miscellaneous Capital Receipts	—	—	18	25	17
	Recovery of Loans and Advances	51	733	560	515	640
	Public Debt Receipts	11,892	11,808	20,709	21,564	20,740
	Growth rate of debt capital receipts	-40.46	-0.71	75.38	4.13	-3.82
	Growth rate of non-debt capital receipts	-90.74	1337.25	-21.15	-6.57	21.67
	Growth rate of GSDP	17.79	16.03	17.22	30.11	14.23
	Rate of growth of CR (per cent)	-41.81	5.01	69.74	3.84	-3.20
III	Contingency Fund*	1,289	405	709	352	853
IV	Public Account Receipts	30,640	19,785	37,357	44,072	48,406
	a. Small Savings, Provident Fund etc.	1,895	2,060	2,220	3,309	3,882
	b. Reserve Fund	5,988	-9,196	2,428	2,559	3,346
	c. Deposits and Advances	8,898	10,847	11,438	14,150	21,918
	d. Suspense and Miscellaneous	436	325	3,132	4,166	-993
	e. Remittances	13,423	15,749	18,139	19,888	20,253
V	Total Receipts	1,06,067	1,12,314	1,40,624	1,53,438	1,76,524

* Under the Contingency Fund, ₹ 11.20 crore was not recouped at the end of the year.

Source : Finance Accounts

Public Account receipts increased by 57.98 per cent over the period 2006-11. As compared to 2009-10, the increase during 2010-11 was 9.83 per cent, which was mainly under Deposits and Advances, Remittances and Small Savings, Provident Fund etc and Reserve Funds.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budgets

The Government of India has been transferring a sizeable quantum of funds directly to State implementing agencies³ for implementation of various schemes/ programmes in social and economic sectors for human and social development of the population. As these funds are not routed through the State Budget/ State Treasury System, the Annual Finance Accounts do not capture their flow and to that extent the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are understated. To present a holistic picture on the availability of aggregate resources, funds directly transferred to State implementing agencies during 2010-11 are presented in **Appendix 1.8**.

GOI directly transferred ₹ 5,645.35 crore to State implementing agencies during 2010-11. The major transfers were for the Pradhan Mantri Gram Sadak Yojana (₹ 1,242.55 crore i.e 22 per cent), the National Rural Health Mission (₹ 675.29 crore i.e 12 per cent), the Maharashtra Prathamik Shikshan Parishad (₹ 855.37 crore i.e. 15 per cent) for Sarva Shiksha Abhiyan and District Rural Development Agencies (DRDAs) (₹ 1462.72 crore i.e 26 per cent) for Indira Awas Yojana, Swarnajayanti Gram Swarajgar Yojana, the Integrated Watershed Management Programme, DRDA administration and the National Rural Employment Guarantee Scheme. Since the funds are generally not being spent fully by the implementing agencies in the same

³ State implementing agencies include any organisation/institutions including non-governmental organisations which are authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, eg. Sarva Shiksha Abhiyan, National Rural Health Mission etc.

Finances of the State Government

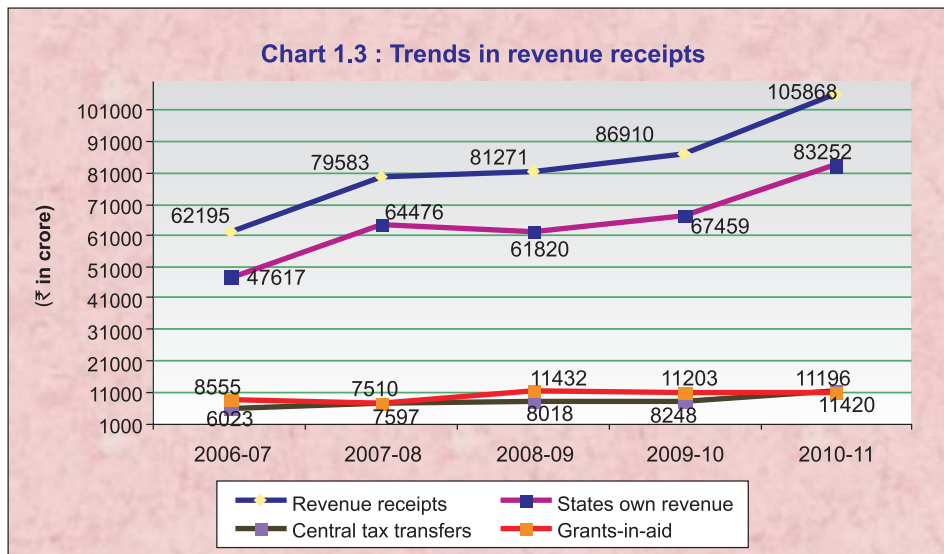
financial year in which they are given, there remain unspent balances in the bank accounts of these implementing agencies. The aggregate amount of the unspent balances in the accounts of the implementing agencies, kept outside Government accounts (in bank accounts), is not readily ascertainable.

As compared to the previous year, the increase in transfer of funds was mainly under the Pradhan Mantri Gram Sadak Yojana (₹ 943.37 crore *i.e* 315 *per cent*), the National Rural Health Mission (₹ 675.29 crore *i.e* 12 *per cent*), the Maharashtra Prathamik Shikshan Parishad (₹ 291.05 crore *i.e.* 52 *per cent*) for Sarva Shiksha Abhiyan, DRDAs (₹ 296.21 crore *i.e* 25 *per cent*) for Indira Awas Yojana, Swarnajayanti Gram Swarajgar Yojana, the Integrated Watershed Management Programme, DRDA administration and the National Rural Employment Guarantee Scheme as well as the Agriculture Technology Management Agency (₹ 115.30 crore *i.e.* 108 *per cent*) for micro-irrigation. However, the transfer of funds decreased mainly under the State Water and Sanitation Mission (₹ 625.98 crore *i.e.* 83 *per cent*) for the Accelerated Rural Water Supply Scheme as well as the Central Rural Sanitation Scheme and the Maharashtra Industrial Development Corporation Ltd. (₹ 93.09 crore *i.e.* 92 *per cent*) for assistance to the State for developing export infrastructure and allied activities.

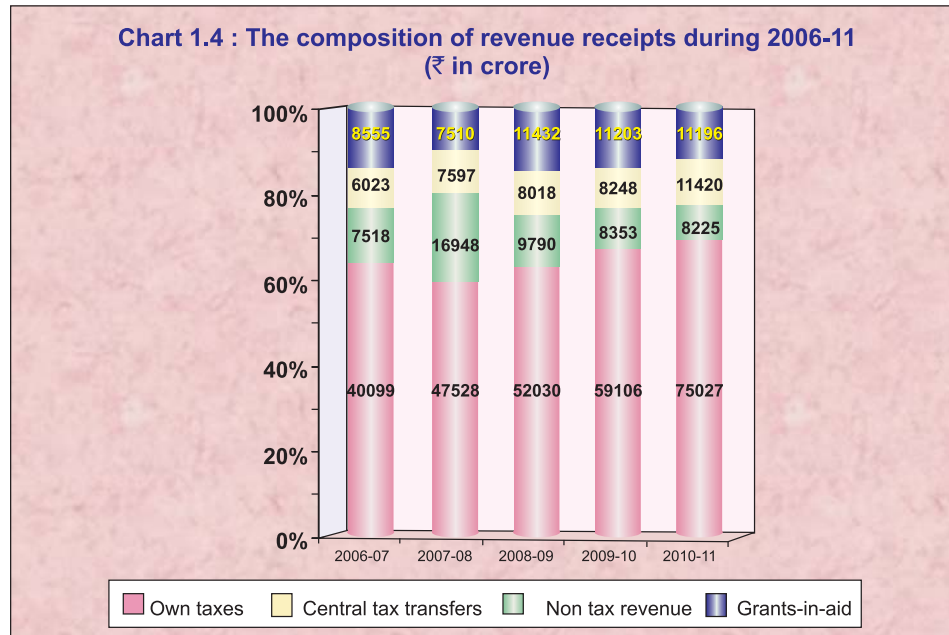
Direct transfer of funds from the GOI to State implementing agencies ran the risk of improper utilisation of funds by these agencies. Unless uniform accounting practices are followed by all these agencies, with proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers.

1.3 Revenue receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. These consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends of revenue receipts over the period 2006-11 are presented in **Chart 1.3** and also in **Appendix 1.5**.



The composition of revenue receipts over the period 2006-11 are presented in **Chart 1.4**.



The revenue receipts have shown a progressive increase over the period 2006-11. As shown in **Chart 1.4**, there was a declining trend in the share of the State's own taxes during the period 2006-08, which increased during 2008-11. The share of grants-in-aid decreased in alternative years during 2006-10 and further decreased during 2010-11. The shares of non-tax revenue showed a declining trend during 2006-11 except in 2007-08 and Central transfers were relatively stable during 2006-11.

During 2001-02 to 2009-10, the compound growth rate of revenue receipts (14.18 per cent) was less than the growth rate of other General Category States (15.20 per cent). This growth rate for the period 2001-02 to 2010-11 increased to 14.98 per cent (**Appendix 1.1**).

Revenue receipts at ₹ 1,05,868 crore was lower (1.2 per cent) than the assessments made by the State Government in its FCP but higher (9.09 per cent) than the MTFPS for the year 2010-11.

The trends in revenue receipts relative to GSDP at current prices are presented in **Table 1.3** :

Table 1.3 : Trends in revenue receipts relative to GSDP

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (₹ in crore)	62,195	79,583	81,271	86,910	1,05,868
Rate of growth ⁴ of RR (per cent)	28.4	28	2.1	6.9	21.8
RR/GSDP (per cent)	12.2	13.5	11.7	9.6	10.28
Buoyancy Ratio's⁵					
Revenue Buoyancy w.r.t. GSDP	1.596	1.747	0.122	0.229	1.532
State's own taxes Buoyancy w.r.t. GSDP	1.099	1.156	0.550	0.452	1.893
Gross State Domestic Product (₹ in crore)	5,09,356 *	5,90,995 *	6,92,749 *	9,01,330 *	10,29,621 #
Growth rate of GSDP	17.79	16.03	17.22	30.11	14.23

Source: * Based on Economic Survey of Maharashtra (Preliminary Estimates)

Advance estimates furnished by Directorate of Economics & Statistics, Government of Maharashtra.

⁴ see Glossary at page 112

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 1.9 implies that revenue receipts tend to increase by 1.9 percentage points, if the GSDP increases by one per cent (also see Glossary at page 112).

Finances of the State Government

The increase in revenue receipts during 2010-11 (21.8 per cent) as compared to previous year was due to the net effect of increase in tax revenue by 27 per cent (₹ 15,921 crore) and the State's share of Union taxes and duties by 38 per cent (₹ 3,172 crore), set off by a decrease in non-tax revenue by two per cent (₹ 128 crore).

The State's own tax buoyancy with reference to GSDP gradually increased from 1.099 in 2006-07 to 1.156 in 2007-08. However, it decreased to 0.550 in 2008-09 and 0.452 in 2009-10, but increased to 1.893 in 2010-11 mainly because the increase in tax revenue (27 per cent) was more as compared to the increase in GSDP (14 per cent).

Grants-in-aid from the Government of India

The grants-in-aid from GOI decreased marginally by 0.06 per cent from ₹ 11,203 crore in 2009-10 to ₹ 11,196 crore in 2010-11. The decrease was mainly under Non-Plan grants (38 per cent), while the grants for State Plan Schemes; Central Schemes and Central and Centrally Sponsored Plan Schemes increased by eight per cent, 182 per cent and 41 per cent respectively in 2010-11 (Table 1.4).

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

	2006-07	2007-08	2008-09	2009-10	2010-11
Grants for State Plan schemes	3,919	3,780	6,683	5,396	5,805
Non-Plan grants	3,489	2,106	2,832	3,707	2,304
Grants for Central Schemes	89	63	139	87	245
Grants for Central and Centrally Sponsored Schemes	1,058	1,561	1,778	2,013	2,842
Total	8,555	7,510	11,432	11,203	11,196
Percentage of increase/decrease over previous year	114.9	(-)12.2	52.22	(-)2.0	(-)0.06

Source : Finance Accounts

The decrease under Non-Plan grants (₹ 1,403 crore) was due to decrease under grants from National Calamity Contingency Fund (₹ 182 crore), Grants towards contribution to the State Disaster Response Fund (₹ 178 crore) and other grants⁶ (₹ 1,227 crore) set off by an increase under grants from the Central Road Fund (₹ 184 crore). The increase under State Plan schemes (₹ 409 crore) was mainly due to increases under (a) the Accelerated Irrigation Benefit Programme and other water related schemes (₹ 640 crore) and (b) grants under proviso to Article 275(1) of the Constitution (₹ 574 crore), set off by a decrease under Submission on Urban Infrastructure and Governance (₹ 455 crore), National Social Assistance Programme Annapurna (₹ 129 crore) and Additional Central assistance for other projects (₹ 246 crore). Increases under grants for Central schemes (₹ 158 crore) were mainly in (a) Village and Small Scale Industries (₹ 83 crore), (b) Technical Education (₹ 43 crore), (c) Sports and Youth Services (₹ 41 crore) and (d) Elections (₹ 40 crore), set off by a decrease, mainly under Welfare of Scheduled Castes and Scheduled Tribes and Other Backward Classes (₹ 28 crore). Increases under Centrally Sponsored schemes (₹ 829 crore) were mainly under (a) General Education (₹ 357 crore), (b) Welfare of Scheduled Castes and Scheduled Tribes and Other Backward Classes (₹ 279 crore) and (c) Social Securities and Welfare (₹ 161 crore).

Central tax transfers

Central tax transfers increased by 38 per cent from ₹ 8,248 crore in 2009-10 to ₹ 11,420 crore in 2010-11. The increase was mainly under customs duty (₹ 843 crore), Union excise duties

⁶ Decrease mainly under Compensation on account of implementation of Value Added Tax (₹ 1,491 crore) and Grants under recommendations of XIIth Finance Commission (₹ 835 crore) set off by increase mainly under Grants under recommendation of XIth Finance Commission (₹ 664 crore), compensation to States for revenue loss due to introduction of Value Added Tax (₹ 277 crore).

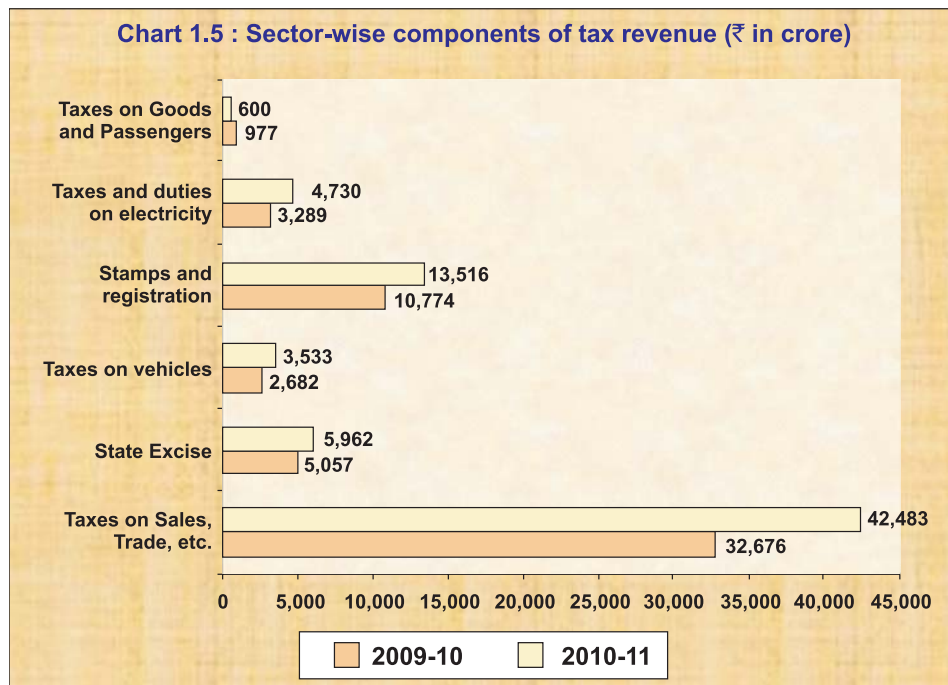
(₹ 523 crore), corporation tax (₹ 1,069 crore), taxes on income other than corporation tax (₹ 468 crore) and service tax (₹ 268 crore).

1.3.1 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 *vis-a-vis* 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 are presented in **Appendix 1.5**.

Tax Revenue

The tax revenues exceeded the projections made in the FCP by 2.08 *per cent*, and in MTFPS by 18 *per cent*. The sector-wise components of tax revenue during the period 2009-10 to 2010-11 are shown in **Chart 1.5**.



The tax revenue increased by ₹ 15,921 crore (27 *per cent*) over the previous year. The increase over the previous year was mainly under (a) land revenue by 53 *per cent* (₹ 381 crore), due to more receipts from sale of Government estates, (b) taxes and duties on electricity by 44 *per cent* (₹ 1,441 crore) due to more receipts under 'Taxes on Consumption and Sale of Electricity' and 'Fees under the Indian Electricity Rules, 1956' due to increase in rates of inspection fees, (c) taxes on vehicles by 32 *per cent* (₹ 851 crore) due to more tax collection under 'State Motor Vehicles Taxation Act', (d) taxes on Sales, Trades, etc. by 30 *per cent* (₹ 9,807 crore) due to more tax collection under 'Value Added Tax', (e) Stamps and Registration fees by 25 *per cent* (₹ 2,742 crore) due to growth in Stamp duty and registration fees collection and (f) State excise by 18 *per cent* (₹ 905 crore) due to receipt of more excise duty on wines and spirits.

During 2001-02 to 2009-10, the compound growth rate of tax revenue (13.62 *per cent*) was less than the growth rate of other General Category States (14.53 *per cent*). This growth rate for the period 2001-02 to 2010-11 increased to 15.01 *per cent* (**Appendix 1.1**).

Finances of the State Government

The tax revenue as a percentage of GSDP (7.29 per cent) was less than the normative assessment of ThFC (8.49 per cent). However, it was marginally higher than that projected in the MTFPS (7.21 per cent) and the FCP (7.14 per cent).

Non-tax revenue

The non-tax revenue of the State decreased by 1.5 per cent (₹ 128 crore) from ₹ 8,353 crore in 2009-10 to ₹ 8,225 crore in 2010-11, mainly due to a sharp decrease in receipts booked under the Major Head 'Miscellaneous General Services' (₹ 434 crore), due to less receipts on account of write-off of amounts in terms of the recommendations of the Tenth Finance Commission and unclaimed deposits.

During 2001-02 to 2009-10, the compound growth rate of non-tax revenue (7.58 per cent) was less than the growth rate of other General Category States (13.87 per cent). This growth rate for the period 2001-02 to 2010-11 further decreased to 6.52 per cent (**Appendix 1.1**).

Table 1.5 : Revenue receipts relative to ThFC and State's projections

(₹ in crore)

	Assessments made by ThFC	Projections in FCP	Projections in MTFPS / Budget	Actuals
Tax revenue	70,649	73,496	63,838	75,027
Non-tax revenue	11,560	8,993	10,216	8,225
GSDP	8,31,964	10,29,621	8,85,374	10,29,621

Table 1.5 shows that the actual realisation of tax revenue during 2010-11 was higher than the normative assessment of ThFC as well as the projections made in the MTFPS and FCP. The non-tax revenue of the Government was lower for both the FCP (nine per cent) of the Government as well as the ThFC projection (29 per cent). These were, however, 19 per cent below the MTFPS projection. The components under which the non-tax revenue increased were under other administrative services (₹ 472.91 crore) and non-ferrous mining and metallurgical industries (₹ 374.46 crore).

1.3.2 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 2008-09, 2009-10 and 2010-11, along with the relevant all-India average percentage of expenditure on gross collection for the year 2009-10 are given in the **Table 1.6** :

Table 1.6 : The expenditure incurred on collection of taxes

(₹ in crore)

Sl. No.	Head of revenue	Year	Gross collection ⁷	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2009-10
1.	Sales tax / VAT	2008-09	30,680.53	216.38	0.71	0.96
		2009-10	32,676.02	283.65	0.87	
		2010-11	42,482.72	298.08	0.70	
2.	State excise	2008-09	4,433.76	39.25	0.89	3.64
		2009-10	5,056.63	62.68	1.24	
		2010-11	5,961.85	62.68	1.05	
3.	Taxes on vehicles	2008-09	2,220.22	57.93	2.61	3.07
		2009-10	2,682.29	76.96	2.86	
		2010-11	3,532.90	90.62	2.57	

⁷ Figures as per the Finance Accounts.

As compared to the previous year, the percentage of expenditure on collection of taxes increased gradually in all heads of revenue for the period 2008-10. However, it decreased during 2010-11. 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 cost of collection.

1.3.3 Revenue arrears

The arrears of revenue as on 31 March 2011 in respect of some principal heads of revenue as furnished by the department (except State excise) amounted to ₹ 37,862.13 crore, of which ₹ 4,197.03 crore had been outstanding for more than five years, as mentioned in **Table 1.7**.

Table 1.7 : Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March, 2011	Amount outstanding for more than five years as on 31 March 2011	Remarks
1.	Sales tax, etc.	36,328.09	3,260.69	Stay orders were granted by the appellate authorities for ₹ 22,062.42 crore; recovery proceedings for ₹ 3,214.67 crore were not initiated as the time limit was not over and the remaining amount was in different stages of recovery.
2.	Sale of jail manufactures	7.88	4.75	Suitable instructions regarding recovery of arrears of revenue have already been issued to subordinate offices. Efforts were being made for speedy recovery.
3.	Electricity duty/ Inspection fees	1,526.16	931.57	Demand notices issued by the Department for recovery.
	Total	37,862.13	4,197.03	

1.4 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.

1.4.1 Growth and composition of expenditure

The total expenditure and its compositions during the years 2006-07 to 2010-11 are presented in the **Table 1.8**.

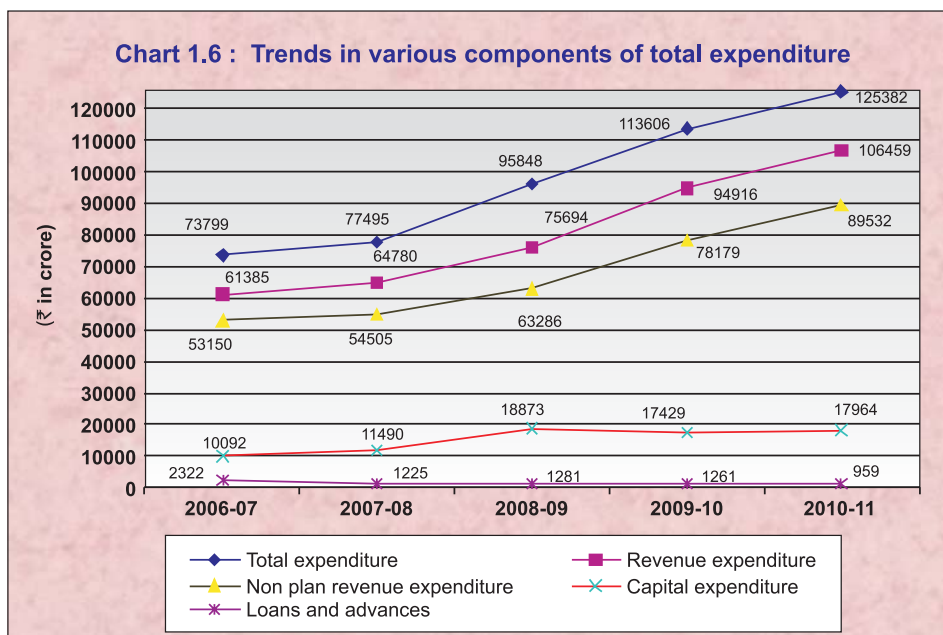
Table 1.8 : Total expenditure and its composition

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure	73,799	77,495	95,848	1,13,606	1,25,382
Revenue Expenditure	61,385	64,780	75,694	94,916	1,06,459
<i>Of which, Non-Plan Revenue Expenditure</i>	<i>53,150</i>	<i>54,505</i>	<i>63,286</i>	<i>78,179</i>	<i>89,532</i>
Capital Expenditure	10,092	11,490	18,873	17,429	17,964
Loans and Advances	2,322	1,225	1,281	1,261	959

Source : Finance Accounts

Chart 1.6 presents the trends in total expenditure over a period of the last five years (2006-11) and its composition both in terms of 'economic classification' and 'expenditure by activities' depicted in Charts 1.7 and 1.8 respectively.



(Source : Finance Accounts of respective years)

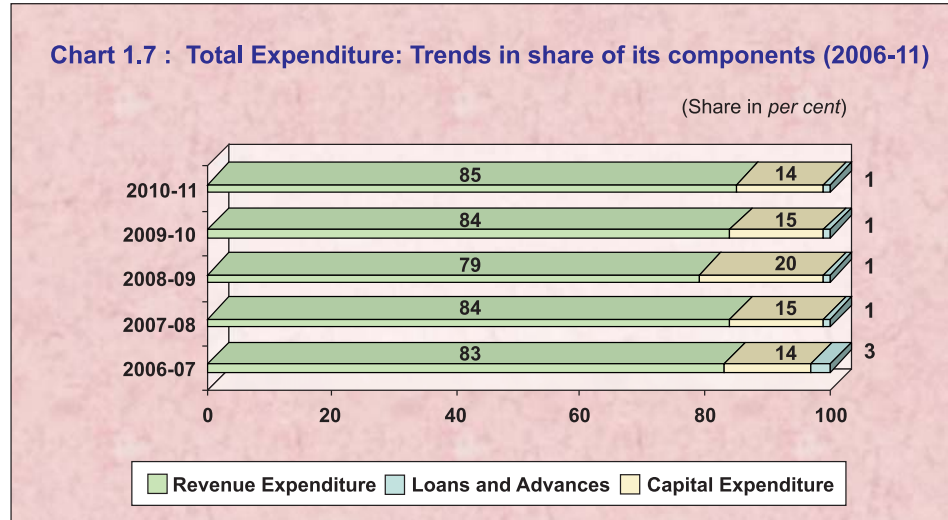
Total expenditure

The total expenditure of the State increased at an average growth rate of 17 per cent from ₹ 73,799 crore in 2006-07 to ₹ 1,25,382 crore in 2010-11. 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 1.9. During 2001-02 to 2009-10, the compound growth rate of total expenditure (13.49 per cent) was less than the growth rate of other General Category States (13.53 per cent). This growth rate for the period 2001-02 to 2010-11 further decreased to 13.12 per cent (Appendix 1.1).

Table 1.9 : Total expenditure – basic parameters

	2006-07	2007-08	2008-09	2009-10	2010-11
Total expenditure (TE) (₹ in crore)	73,799	77,495	95,848	1,13,606	1,25,382
Rate of growth (per cent)	10.8	5	23.7	18.53	10.37
TE / GSDP ratio (per cent)	14.5	13.1	13.8	12.60	12.2
RR / TE ratio (per cent)	84.3	102.7	84.8	76.5	84.4
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	0.607	0.312	1.376	0.615	0.729
RR (ratio)	0.380	0.179	11.286	2.681	0.476

The increase of ₹ 11,776 crore (10.37 per cent) in total expenditure in 2010-11 over the previous year was mainly on account of an increase of ₹ 11,543 crore in revenue expenditure, ₹ 535 crore in capital expenditure, set off by a decrease of ₹ 302 crore in disbursement of loans and advances.



Revenue expenditure

Revenue expenditure constituted 85 per cent of the total expenditure (**Chart 1.7**). The increase in revenue expenditure was mainly on (a) General Education (₹ 4,523 crore), (b) Pension and other Retirement Benefits (₹ 2,751 crore) (c) Relief on account of Natural Calamities (₹ 1,751 crore), (d) Interest Payments (₹ 1,607 crore), (e) Police (₹ 989 crore), (f) Medical and Public Health (₹ 701 crore), (g) Social Security and Welfare (₹ 676 crore) and (h) Nutrition (₹ 632 crore).

Capital expenditure

Capital expenditure constituted 14 per cent of the total expenditure. The increase of ₹ 535 crore in capital expenditure during 2010-11 was mainly on account of increase in the Government’s share capital contribution (₹ 1,555 crore) to the Vidarbha Irrigation Development Corporation, the Tapi Irrigation Development Corporation, the Konkan Irrigation Development Corporation, the Godavari Marathwada Irrigation Development Corporation, Welfare of Scheduled Castes/ Tribes and Other Backward Classes (₹ 166 crore), Rural Development (₹ 175 crore), Energy (₹ 398 crore), set off by decreases in Transport (₹ 750 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 306 crore), General Services (₹ 171 crore) and Agriculture and Allied Activities (₹ 96 crore).

Loans and advances

Loans and advances constituted one per cent of the total expenditure. The decrease of ₹ 302 crore in disbursement of loans and advances during 2010-11 was mainly in power projects (₹ 270 crore).

There was a consistent fall in the buoyancy ratio of total expenditure with reference to revenue receipts during the period 2006-08. The ratio which rose to 11.286 during 2008-09, indicating increase in expenditure at a pace greater than receipts, however, declined to 0.476 during 2010-11. This was due to decrease in the rate of growth of total expenditure as compared to the previous year, whereas the rate of growth of revenue receipts increased as compared to the previous year.

The buoyancy of total expenditure with reference to GSDP was less than one during 2006-07 to 2007-08, due to the combined effect of decrease in the rate of growth in expenditure along with a 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 and 2010-11, due to a decrease in the rate of growth of total expenditure as compared to the rate of growth of GSDP.

Finances of the State Government

Of the total expenditure during 2010-11, Non-Plan expenditure contributed 74 per cent while Plan expenditure was 26 per cent. Of the increase of ₹ 11,776 crore in total expenditure, Plan expenditure shared 10 per cent, while Non-Plan expenditure contributed 90 per cent.

During 2001-02 to 2009-10, the compound growth rate of capital expenditure (24.87 per cent) was higher than the growth rate of other General Category States (22.61 per cent). This growth rate for the period 2001-02 to 2010-11, however, decreased to 22.21 per cent (**Appendix 1.1**).

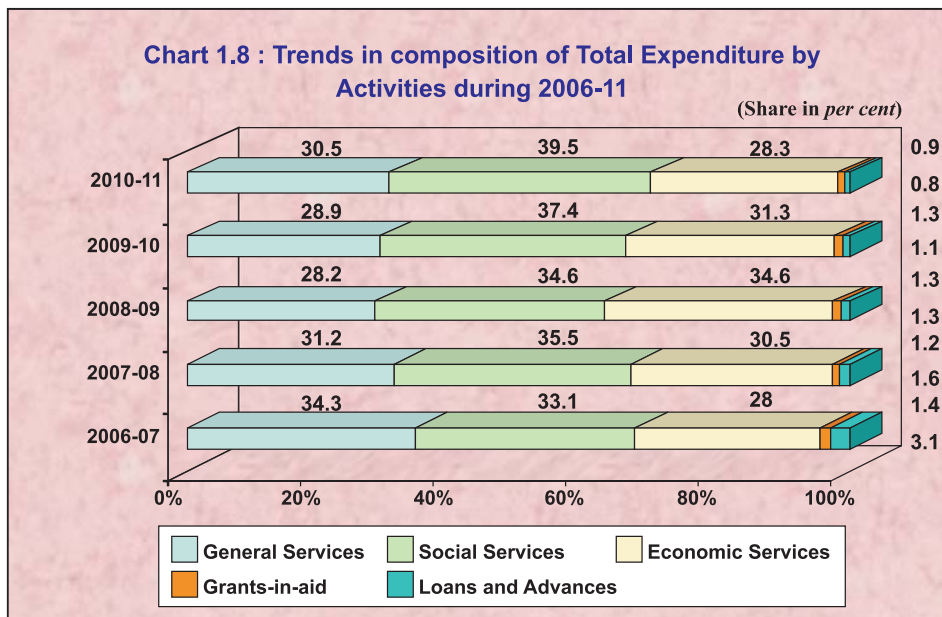
Trends in total expenditure in terms of activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. Relative shares of these components in the total expenditure are indicated in **Table 1.10** and **Chart 1.8**.

Table 1.10: Components of expenditure – relative shares

	(in per cent)				
	2006-07	2007-08	2008-09	2009-10	2010-11
General Services	34.4	31.2	28.2	28.9	30.5
<i>of which, Interest Payments</i>	15.8	15.7	12.8	12.4	12.5
Social Services	33.1	35.5	34.6	37.4	39.5
Economic Services	28.0	30.5	34.6	31.3	28.3
Grants-in-aid	1.4	1.2	1.3	1.1	0.9
Loans and Advances	3.1	1.6	1.3	1.3	0.8

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 2010-11 over the previous year. These increases were set off by decrease in the respective shares of Economic Services, grants-in-aid and loans and advances.



The shares of General Services in total expenditure increased mainly on account of increase in Interest Payments (₹ 1,607 crore), Police (₹ 989 crore), Pension and other Retirement Benefits (₹ 2,751 crore), District Administration (₹ 374 crore) and Administration and Justice (₹ 208 crore) whereas the share of Social Services increased mainly due to Education, Art, Sports

and Culture (₹ 4,698 crore), Social Welfare and Nutrition (₹ 1,711 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹ 539 crore) and Health and Family Welfare (₹ 745 crore).

The decrease in the share of Economic Services was mainly on account of Agriculture and Allied Activities (₹ 920 crore) and Transport (₹ 559 crore).

The decrease in grants-in-aid was mainly on account of compensation and assignments to Local Bodies and Panchayati Raj Institutions (₹ 150 crore) and Aid Material and Equipment (₹ 131 crore).

Though the share of Economic Services in total expenditure decreased, there was increase in expenditure on Economic Services, mainly on account of increase in expenditure on Irrigation and Flood Control (₹ 1,296 crore).

In the major 12⁸ schemes (as listed in Annexure-I to Statement No.12 of the Finance Accounts 2010-11), out of ₹ 505 crore released by the Government of India, the State Government released only ₹ 141 crore for the schemes and the balance amount of ₹ 364 crore was lying in the cash balance of the State Government.

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 85 per cent in the total expenditure during 2010-11. 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 1.11**.

Table 1.11 : Revenue expenditure – basic parameters

	(₹ in crore)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Expenditure (RE), of which	61,385	64,780	75,694	94,916	1,06,459
Non-Plan Revenue Expenditure (NPRE)	53,150	54,505	63,286	78,179	89,532
Plan Revenue Expenditure (PRE)	8,235	10,275	12,408	16,737	16,927
Rate of Growth of					
RE (per cent)	17.4	5.5	16.8	25.4	12.2
NPRE (per cent)	13.0	2.5	16.1	23.5	14.5
PRE (per cent)	57.4	24.8	20.8	34.9	1.1
Revenue Expenditure as percentage to TE	83.2	83.6	79.0	83.5	84.9
NPRE/GSDP (per cent)	10.4	9.2	9.1	8.7	8.7
NPRE as percentage of TE	72.0	70.3	66.0	68.8	71.4
NPRE as percentage of RR	85.5	68.5	77.9	90	84.6
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.978	0.343	0.976	0.844	0.857
Revenue Receipts (ratio)	0.613	0.196	8	3.681	0.560

Source : Finance Accounts

⁸ Jawaharlal Nehru National Urban Renewal Mission, Assistance to States for Control of Animal Diseases, National Rural Health Mission – BCG Vaccination and T.B. Control Programme, National Land Records Modernisation Programme, Integrated Child Development Scheme – Integrated Child Development Scheme Urban (Nutrition), Integrated Child Development Scheme - Integrated Child Development Scheme (Urban), Accelerated Irrigation Benefit Programme (MKVDC), Accelerated Irrigation Benefit Programme (VIDC), Accelerated Irrigation Benefit Programme (KIDC), Accelerated Irrigation Benefit Programme (TIDC), Accelerated Irrigation Benefit Programme (GMIDC) and National Social Assistance Programme including Anapurna.

Finances of the State Government

The revenue expenditure increased by ₹ 11,543 crore (12.2 per cent) over the previous year. The buoyancy of revenue expenditure with reference to both GSDP and revenue receipts fluctuated widely. The revenue expenditure was less (5.7 per cent) than the assessment made by the State Government in its FCP. However, it increased (1.7 per cent) with respect to the projections made in the budget for the year 2010-11.

Plan Revenue Expenditure

The Plan Revenue Expenditure increased by ₹ 190 crore during the year, mainly due to increase in expenditure under Health and Family Welfare (₹ 205 crore), Social Welfare and Nutrition (₹ 475 crore), Education, Sports, Art and Culture (₹ 444 crore), Agriculture and Allied Activities (₹ 378 crore) and General Economic Services (₹ 219 crore) set off by decreases mainly under Water Supply, Sanitation, Housing and Urban Development (₹ 1,072 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹ 195 crore) and Rural Development (₹ 175 crore).

Non-Plan Revenue Expenditure

The Non-Plan Revenue Expenditure (NPRE) constituted a dominant share of 84 per cent in the revenue expenditure and increased by ₹ 11,353 crore (15 per cent) over the previous year. The variations in NPRE under the major heads indicate increase in expenditure under General Services (₹ 5,700 crore), Education, Sports, Art and Culture (₹ 4,291 crore), Social Welfare and Nutrition (₹ 1,276 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 643 crore), Health and Family Welfare (₹ 573 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹ 568 crore) and Transport (₹ 215 crore).

Table 1.12 provides the comparative position of NPRE with reference to assessments made by TFC/ThFC and the projections of the State Government.

Table 1.12 : NPRE vis-à-vis assessment made by TFC/ThFC and FCP

(₹ in crore)

Year	Assessments made by TFC/ThFC	Projection in FCP	Projection in MTFPS / Budget	Actuals
2009-10	51,537	60,189	74,434	78,179
2010-11	67,884	91,682	82,706	89,532

The NPRE during 2009-10 remained significantly higher than the normative assessments of the TFC and the FCP. However, during 2010-11, it was higher than the ThFC projection but lower than the FCP projection. Marginal variations were seen on the higher side with reference to the State Government's projection (MTFPS) during both the years.

1.4.2 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 1.13** and **Chart 1.9** present the trends in the expenditure on these components during 2006-11.

Table 1.13 : Components of committed expenditure

(₹ in crore)						
Components of Committed Expenditure	2006-07 [#]	2007-08 [#]	2008-09 [*]	2009-10	2010-11 BE [*]	2010-11 Actuals [*]
Salaries & Wages, of which	8136 (13)	8851 (11)	24875 (31)	36263 (42)	42851 (44)	42001 ^{\$} (40)
Non-Plan Head	7155 (12)	8015 (10)	23627 (29)	34574 (40)	—	40917 (39)
Plan Head ^{**}	981 (02)	836 (01)	1248 (02)	1689 (02)	—	1084 (1)
Interest Payments	11656 (19)	12204 (15)	12299 (15)	14110 (16)	15960 (16)	15648 (15)
Pensions	3542 (07)	4191 (05)	5153 (06)	6133 (07)	6665 (7)	8884 (8)
Subsidies	3777 (06)	4935 (06)	4308 (05)	8041 (09)	—	5485 (5)
Total Committed expenditure	27111 (44)	30181 (38)	46635 (57)	64547 (74)	—	72018 (68)
Other Components	34274 (55)	34599 (43)	29059 (36)	30369 (35)	—	34441 (33)
Total Revenue Expenditure	61385	64780	75694	94916	104698	106459
Revenue Receipts	62195	79583	81271	86910	97044	105868

Figures in parentheses indicate percentage to Revenue Receipts

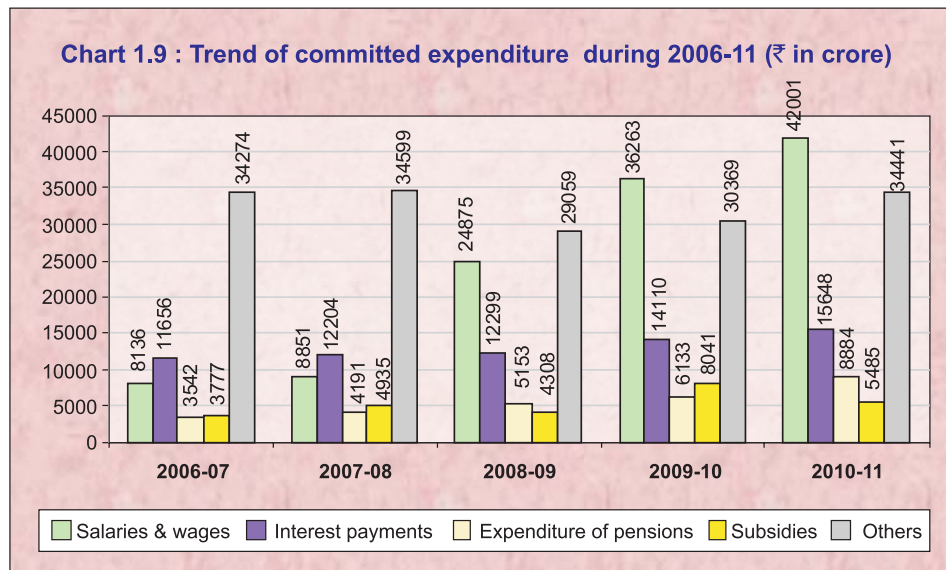
* includes the salaries paid out of grants-in-aid.

does not include salaries paid out of grants-in-aid as information is not available for the period 2006-08.

\$ Salaries : ₹ 41,286 crore (Finance Accounts) + Wages : ₹ 715 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), 2009-10 (₹ 22,666 crore) and 2010-11 (₹ 25,937 crore)

Salaries and Wages

The average annual growth in salaries and wages excluding the grant-in-aid component during 2006-11 was 24.36 per cent. The expenditure on salaries and wages (including grant-in-aid component) increased by ₹ 5,738 crore (46 per cent) from ₹ 36,263 crore in 2009-10 to ₹ 42,001 crore in 2010-11, mainly on account of payment of Sixth Pay Commission arrears. The expenditure of ₹ 41,286 crore on salaries (including grant-in-aid component) was lower than

Finances of the State Government

the State's own FCP (₹ 43,391 crore) and the projections made in MTFPS of the Government (₹ 42,851 crore).

During 2001-02 to 2009-10, the compound growth rate of salary and wages (11.79 per cent) was higher than the growth rate of other General Category States (11.45 per cent). This growth rate for the period 2001-02 to 2010-11 further increased to 12.97 per cent (**Appendix 1.1**).

Pension payments

The expenditure on pension payments had increased at an average annual growth of 38 per cent from ₹ 3,542 crore in 2006-07 to ₹ 8,884 crore in 2010-11.

The increase in pension payments of ₹ 2,751 crore (45 per cent) during 2010-11 over the previous year was mainly due to more expenditure on account of payment of arrears of pension, gratuities and commutation of pension as per Sixth Pay Commission report.

During 2001-02 to 2009-10, the compound growth rate of pension (11.38 per cent) was less than the growth rate of other General Category States (14.09 per cent). This growth rate for the period 2001-02 to 2010-11 further increased to 14.67 per cent (**Appendix 1.1**).

The **Table 1.14** below shows actual pension payments with reference to assessment made by TFC/ThFC and projections of the State Government.

Table 1.14 : Pension payments vis-à-vis TFC/ThFC assessment and State's projections

(₹ in crore)

Year	Projection in MTFPS	Assessment made by TFC / ThFC	Projection in FCP	Actuals
2009-10	6,831	4,398	5,792	6,133
2010-11	8,889	6,071	11,384	8,884

The pension payments during 2009-10 and 2010-11 were higher than the normative assessments made by TFC/ThFC while they were lower than the projections of the State Government under MTFPS. As compared to the projections made in the FCP, it was higher during 2009-10 and lower during 2010-11. In order to limit future pension liabilities, the Government had, however, introduced the Defined Contribution 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 ₹ 8,884 crore. An amount of ₹ 571.80 crore towards employee's contribution and employer's share was deposited during 2010-11 under the head '8342-Other Deposits -117 - Defined Contribution Pension Scheme for Government Employees. The State Government's liability on this account as on 31 March 2011 was ₹ 934.03 crore. Out of these deposits, no investments were made by the State Government till 31 March 2011. Therefore, the main objective of introducing the Defined Contribution Pension Scheme to limit future pension liabilities was defeated.

Interest payments

Interest payments increased by 34 per cent from ₹ 11,656 crore in 2006-07 to ₹ 15,648 crore in 2010-11, primarily due to increase in debt liabilities. However, relative to revenue receipts, interest payments revealed a declining trend. They declined from 19 per cent in 2006-07 to 15 per cent in 2010-11, except during 2009-10, when there was a marginal increase of 16 per cent.

Table 1.15 : Interest payments vis-à-vis TFC/ThFC assessments and State's projections

(₹ in crore)

Year	Projection in MTFPS	Assessment made by TFC / ThFC	Projection in FCP	Actuals
2009-10	14,860	12,385	14,473	14,110
2010-11	16,294	16,213	15,566	15,648

The interest payments, with reference to the assessments made by TFC/ThFC and the projection in the FCP of the State Government (**Table 1.15**) indicate that the interest payments during 2009-10 exceeded the assessments made by TFC but was less during 2010-11 as compared to the ThFC's assessment. As compared to the projections made in the FCP, it was lower during 2009-10 and higher during 2010-11. However, as compared to MTFPS, it was less during both the years.

During 2010-11, the State Government raised open market loans of ₹ 11,500 crore at an average interest rate of 8.40 *per cent*. The Government also borrowed ₹ 8,420 crore from the National Small Savings Fund and other institutions and ₹ 820 crore from GOI during the year.

The increase in interest payments was ₹ 1,538 crore over the previous year and was mainly due to more interest on market loan (₹ 1,028 crore), interest on special securities issued to the National Small Savings Fund of the Central Government (₹ 250 crore), interest on State Provident Fund (₹ 199 crore) and interest on deposits (₹ 66 crore).

Subsidies

Table 1.16 indicates that expenditure under subsidies decreased by 32 *per cent* from ₹ 8,041 crore in 2009-10 to ₹ 5,485 crore in 2010-11. The subsidies as a percentage of revenue receipts increased from six *per cent* in 2006-07 to nine *per cent* in 2009-10 but reduced to five *per cent* in 2010-11. During the current year, subsidies constituted about four *per cent* of the total expenditure; the major areas which received subsidy include distribution/transmission licences for reduction in Agriculture and powerloom tariff (57 *per cent*), medium and large industries under the graded Package Scheme of Incentives (13 *per cent*), covering the deficit in foodgrain transactions (eight *per cent*) and transport (eight *per cent*).

The subsidies projected by the Government in the FCP and the actual expenditure during 2009-10 and 2010-11 were as under:

Table 1.16: Subsidies vis-à-vis FCP

	2009-10		2010-11	
	Projections	Actuals	Projections	Actuals
Power (Subsidy for reduction in Agriculture and Powerloom tariff)	1,611	3,354	3,131	3,131
General / Others	740	4,687	4,818	2,354
Total	2,351	8,041	7,949	5,485

(₹ in crore)

The State Government provided food subsidy of ₹ 351 crore in the State budget 2010-11 but the actual expenditure was ₹ 604.82 crore (against ₹ 908.25 crore in 2009-10). Similarly, for the schemes 'Subsidy to Distribution/ Transmission licencees for reduction in Agriculture and Powerloom Tariff' and 'Subsidy to medium and large industries under graded Package Scheme of Incentives' Government provided ₹ 2,281 crore and ₹ 400 crore respectively in the State Budget 2010-11. However, the actual expenditure incurred was ₹ 3,131 crore as against ₹ 3,354 crore in 2009-10 and ₹ 700 crore as against ₹ 750 crore in 2009-10 respectively.

The subsidies to 'Power' (Subsidy for reduction in Agriculture and Powerloom tariff) and for other schemes with reference to the projections in the FCP of the State Government as shown in **Table 1.16** above indicate that expenditure on subsidies to Power remained the same whereas the expenditure on other schemes decreased significantly during 2010-11.

1.4.3 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 2010-11 relative to the previous years is presented below:

Table 1.17 : Financial assistance to local bodies and other institutions

(₹ in crore)					
Institutions	2006-07	2007-08	2008-09	2009-10	2010-11
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	5,234.33	6,859.58	8,214.83	11,638.18	11,482.61
Municipal Corporations and Municipalities	2,652.27	1,351.25	1,651.47	1,708.89	4,350.04 ⁹
Zilla Parishads and Other Panchayati Raj Institutions	7,321.27	8,007.34	10,501.98	11,726.62	13,260.93
Development Agencies	761.65	1,148.03	1,914.93	299.45 ⁸	187.26
Hospital and Other Charitable Institutions	64.15	80.57	674.43	1,065.48	1,084.74
Other Institutions	10,818.55	10,842.90	12,711.32	18,150.70 ¹⁰	17,280.87 ¹¹
Total	26,852.22	28,289.67	35,668.96	44,589.32	47,646.45
Assistance as per percentage of RE	44	44	47	47	45

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 increased from ₹ 26,852 crore in 2006-07 to ₹ 47,646 crore in 2010-11. During 2010-11, more financial assistance was given to (a) municipal corporations and municipalities (₹ 2,641 crore) mainly due to payment of more grant-in-aid consequence to the increase in Levy of Stamp Duty in Municipal Area, Dearness Allowance and cancellation of Octroi Tax and (b) Zilla Parishads and other Panchayati Raj Institutions (₹ 1,534 crore) due to payment of more grant-in-aid to secondary schools and purposive grants to Zilla Parishads under Section 182 of the Maharashtra Zilla Parishads and Panchayat Samities Act, 1961.

The huge pendency in furnishing of utilisation certificates indicated lack of monitoring on utilisation of funds released to the local bodies and other institutions.

1.5 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 effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 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. An analysis of the

⁹ Huge variation due to misclassification in the previous year

¹⁰ 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 SC,ST and OBC : ₹ 1,488.85 crore.

¹¹ Includes Education, Sports, Art and Culture: ₹ 4,616.36 crore; Agriculture and Allied Activities: ₹ 1,943.47 crore, Social Welfare and Nutrition: ₹ 1822.49 crore, Welfare of SC,ST and OBC: ₹ 1,335.60 crore, Special programme for Rural Development: ₹ 1,301.70 crore and General Services: ₹ 930.92 crore.

fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2007-08 and 2010-11 has been indicated in Table 1.18 below.

Table 1.18 : Fiscal Priority of the State in 2007-08 and 2010-11

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 States Average (Ratio) 2007-08	16.85	64.28	32.54	16.14	14.64	3.98
Maharashtra's Average (Ratio) 2007-08	13.11	67.60	35.92	14.83	17.80	3.59
General Category Average (Ratio) 2010-11	16.65	64.42	36.75	13.27	17.42	4.35
Maharashtra Average (Ratio) 2010-11	12.18	68.55	39.75	14.33	21.60	3.71

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 1.18**, 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 the current year, 2009-10 (terminal year of the TFC award period) is given below:

- The ratios of AE to GSDP in 2007-08 and 2010-11 (13.11 *per cent* and 12.18 *per cent*) were lower in the State as compared to other General Category States (16.85 *per cent* and 16.65 *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 Development Expenditure and Social Sector Expenditure respectively in 2007-08 and 2010-11, as their ratios to AE were higher than the average ratio of other General Category States.
- The ratio of CE to AE in 2007-08 as compared to the ratio (16.14 *per cent*) of other General Category States was lower (14.83 *per cent*) whereas in 2010-11 it was higher (14.33 *per cent*) than the ratio (13.27 *per cent*) of other General Category States. Increased priority to physical capital formation will further increase the growth prospects of the State by creating durable assets.
- Significant improvement was observed in the ratio of expenditure on education, sports, art and culture to AE which increased from 17.80 *per cent* in 2007-08 to 21.60 *per cent* in 2010-11. The priority given to these areas in Maharashtra was higher than that in other General Category States.
- The priority given to health and family welfare in Maharashtra was less than in other General Category States in 2007-08 and 2010-11. Greater fiscal priority needs to be given to the area of health by the Government.

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

1.5.2 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

Finances of the State Government

goods¹². Apart from improving the allocation towards development expenditure¹³, 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. **Table 1.19** and **Chart 1.10** present the trends in DE relative to the AE of the State during the current year *vis-à-vis* budget estimates of the current year and the actual expenditure during the previous years.

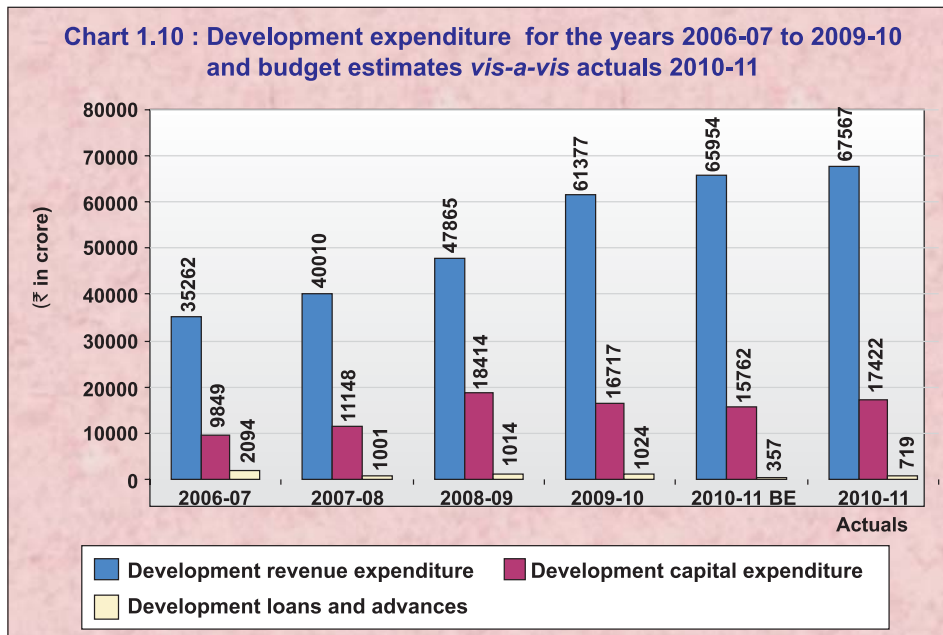
Table 1.19 : Development expenditure

(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Development Expenditure (a to c)	47,433 (64.3)	52,383 (67.6)	67,560 (70.5)	79,355 (69.8)	82,073 (67.4)	85,708 (68.4)
a. Development Revenue Expenditure	35,262 (47.8)	40,010 (51.6)	47,865 (49.9)	61,377 (54.0)	65,954 (54.2)	67,567 (53.9)
b. Development Capital Expenditure	9,849 (13.3)	11,148 (14.4)	18,414 (19.2)	16,717 (14.7)	15,762 (13.0)	17,422 (13.9)
c. Development Loans and Advances	2,094 ¹⁴ (2.8)	1,001 ¹⁴ (1.3)	1,014 ¹⁴ (1.0)	1,024 ¹⁴ (1.0)	357 (0.3)	719 (0.6)

Source : Finance Accounts

Figures in the parentheses indicate as per cent to total expenditure



¹² See the Glossary at page 112.

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.

¹⁴ Figures differ from last year's report due to corrections.

Development revenue expenditure

The development revenue expenditure increased by ₹ 6,190 crore from ₹ 61,377 crore in 2009-10 to ₹ 67,567 crore in 2010-11. The increase under Social Services (₹ 7,277 crore) was set off by a decrease under Economic Services (₹ 1,087 crore). The actual development revenue expenditure was more than the State's projection in the budget by ₹ 1,613 crore.

Development capital expenditure

The development capital expenditure increased by ₹ 705 crore from ₹ 16,717 crore in 2009-10 to ₹ 17,422 crore in 2010-11. The increase under Economic Services was ₹ 943 crore (mainly under Irrigation and Flood Control) while the decrease under Social Services was ₹ 238 crore (mainly under Water Supply, Sanitation, Housing and Urban Development and Education, Sports, Art and Culture). The actual development capital expenditure was more than the State's projection in the budget by ₹ 1,660 crore.

Development loans and advances

Development loans and advances decreased by ₹ 305 crore from ₹ 1,024 crore in 2009-10 to ₹ 719 crore in 2010-11. The actual development loans and advances were more than the State's projections in the budget by ₹ 362 crore.

Table 1.20 provides the details of capital expenditure and the component of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.20 : Efficiency of expenditure use in selected Social and Economic Services

(in per cent)

Social / Economic Infrastructure	2009-10			2010-11		
	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	84.46	0.06	0.52	83.01	0.06
Health and Family Welfare	5.51	74.37	0.10	3.93	73.36	0.01
Housing & Urban Development and Water Supply, Sanitation	8.4	5.31	4.22	4.83	2.72	4.53
Total (SS)	3.48	57.86	0.94¹⁵	2.51	58.31	0.76
Economic Services (ES)						
Agriculture & Allied Activities	18.88	46.89	0.18	19.98	48.44	0.16
Irrigation and Flood Control	77.41	34.94	0.14	78.36	36.44	20.70
Power & Energy	29.21	0.44	0.00	36.77	0.54	0.00
Transport	50.25	1.69	37.65	42.33	1.69	3.91
Total (ES)	42.79	21.66	7.61¹⁵	45.62	21.53	3.45
Total (SS+ES)	21.41	45.84	3.14¹⁵	20.50	47.81	1.53

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

The trends presented in **Table 1.20** reveal that development capital expenditure as a percentage to total expenditure decreased from 21.41 in 2009-10 to 20.50 in 2010-11. While the share of salary and wages in revenue expenditure increased from 45.84 per cent in 2009-10 to 47.81 per cent in 2010-11, the share of operations and maintenance in revenue expenditure decreased sharply from 3.14 per cent in 2009-10 to 1.53 per cent in 2010-11.

¹⁵ Figures differ from last year's report due to corrections.

The percentage of capital expenditure on Social Services to the total expenditure decreased sharply from 3.48 in 2009-10 to 2.51 in 2010-11. The decrease was mainly seen under Education, Sports, Art and Culture, Health and Family Welfare, Water Supply, Sanitation and Housing and Urban Development. The percentage of capital expenditure on Economic Services to the total expenditure increased from 42.79 in 2009-10 to 45.62 in 2010-11. The increase was mainly seen under Irrigation and Flood Control, Agriculture and Allied Services and Power and Energy.

The share of salary and wages in revenue expenditure on Social Services increased from 57.86 *per cent* in 2009-10 to 58.31 *per cent* in 2010-11. However, there were decreases in Education, Sports, Art and Culture, Health and Family Welfare and Water Supply, Sanitation and Housing and Urban Development.

The share of salary and wages in revenue expenditure on Economic Services decreased marginally from 21.66 *per cent* in 2009-10 to 21.53 *per cent* in 2010-11. However, there were increases under Agriculture and Allied Activities, Irrigation and Flood Control and Power and Energy.

The share of operations and maintenance in revenue expenditure on Social Services decreased from 0.94 *per cent* in 2009-10 to 0.76 *per cent* in 2010-11 and the share of operations and maintenance in revenue expenditure on Economic Services also decreased from 7.61 *per cent* in 2009-10 to 3.45 *per cent* in 2010-11. The decreases were mainly seen under Health and Family Welfare under Social Services while they were seen under Agriculture and Allied Activities and Transport under Economic Services.

1.6 Financial analysis of Government Expenditure and Investments

In the post-MFRBM 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 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.

1.6.1 Financial results of irrigation works

The financial results of six major irrigation projects¹⁶ of the Government which are considered as commercial projects having a capital outlay of ₹ 700.14 crore at the end of March 2011, showed that revenue realised from these projects during 2010-11 (₹ 121.65 crore) was 17.38 *per cent* of the capital outlay. After considering the working and maintenance expenses (₹ 13.73 crore) and interest charges (₹ 70.88 crore), the schemes gained a net profit of ₹ 37.04 crore during 2010-11.

1.6.2 Incomplete projects

As on 31 March 2011, in respect of 233 incomplete projects (expenditure incurred: ₹ 5,699.79 crore) pertaining to three departments (**Appendix 1.9**), the time overruns up to 25 years occurred in respect of 25 major and medium irrigation projects (expenditure incurred: ₹ 5,305.03 crore), up to nine years in respect of 71 PWD projects (expenditure incurred: ₹ 161.66 crore) and up to four years in respect of 137 projects of roads and bridges (expenditure incurred:

¹⁶ Details are given in Appendix IX (i) of Finance Accounts, Government of Maharashtra for 2010-11.

₹ 233.10 crore). In respect of 22 incomplete irrigation projects, the initial budgeted cost increased from ₹ 483.17 crore to ₹ 3,423.68 crore, resulting in significant cost overruns totalling ₹ 2,940.51 crore.

1.6.3 Investment and returns

As of 31 March 2011, Government had invested ₹ 74,391 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.21**). The average return on this investment was 0.12 *per cent* in the last five years while the Government paid average interest rate of 7.48 *per cent* on its borrowings during 2006-11.

Table 1.21 : 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 (₹ in crore)	37,531.49	44,256.26	56,386.38	64,192.68	74,391.39
Return (₹ in crore)	6.16	122.00	71.16	80.88	44.82
Return (<i>per cent</i>)	0.02	0.28	0.13	0.13	0.06
Average rate ¹⁷ of interest on govt borrowing (<i>per cent</i>)	7.78	7.74	7.29	7.38	7.23
Difference between interest rate and return (<i>per cent</i>)	7.76	7.46	7.16	7.25	7.17

Source : Finance Accounts

The increase in investments of ₹ 10,198 crore during 2010-11 was mainly attributable to increased capital contributions to the Godavari Marathwada Irrigation Development Corporation (₹ 1,496 crore), the Konkan Irrigation Development Corporation (₹ 627 crore), the Maharashtra Krishna Valley Development Corporation (₹ 1,465 crore), the Tapi Irrigation Development Corporation (₹ 553 crore), the Vidarbha Irrigation Development Corporation (₹ 4,477 crore), the Maharashtra Irrigation Finance Company (₹ 173 crore), the Maharashtra State Road Development Corporation (₹ 315 crore), the Maharashtra State Road Transport Corporation (₹ 150 crore) and the Maharashtra Water Conservation Development Corporation (₹ 156 crore), as compared to the previous year.

As on 31 March 2011, 26 companies in which Government had invested ₹ 14,052.46 crore (share capital: ₹ 9,735.69 crore, loan: ₹ 4,316.77 crore) were incurring losses and their accumulated losses amounted to ₹ 10,779.51 crore (net).

According to the information furnished (except Nashik district) by the Commissioner for Co-operation and Registrar of Co-operative Societies as on 31 March 2011, 4,180 societies with an aggregate investment of ₹ 165.01 crore (equity: ₹ 113.45 crore and loan : ₹ 51.56 crore) had incurred losses and their accumulated losses (₹ 224.06 crore) were 136 *per cent* of the initial investments made in these societies.

1.6.4 Departmental commercial undertakings

Activities of quasi-commercial nature are also performed by departmental undertakings of certain Government departments. The position of department-wise investments by the Government up to the year for which pro forma accounts have been finalised, net profits/loss as well as return on capital invested in these undertakings are given in **Appendix 1.10**. It was observed that:

- An amount of ₹ 1,789.35 crore had been invested by the State Government in four¹⁸ undertakings at the end of financial year up to which their accounts were finalised.

¹⁷ see Glossary at page 112 for method of calculation.

¹⁸ Agriculture, Animal Husbandry, Dairy Development and Fisheries; Food, Civil Supplies and Consumer Protection; Land Development Bulldozer Scheme; and Revenue and Forest.

Finances of the State Government

- Of the four undertakings having 49 units, three¹⁹ units (6.12 *per cent*) could only earn net profit amounting to ₹ 4.47 crore against capital investment of ₹ 2.19 crore, thereby yielding a rate of return of 32.91 *per cent*. The major profit-making units were Allappalli and Pendigundam Forest divisions²⁰ including Saw Mills & Timber Depot (₹ 3.83 crore) and Cattle Feed Scheme, Mumbai (₹ 0.63 crore) as per the last accounts finalised.
- Of the loss-making units, 19²¹ units had been incurring losses continuously since last five years.
- As per the accounting system being followed by the departmental commercial undertakings of 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/to the Capital Account in the Balance Sheet. Therefore, the figures of accumulated loss cannot be ascertained from the pro forma 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.

1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the Government has also been providing loans and advances to many of these institutions/organizations. **Table 1.22** presents the outstanding loans and advances as on 31 March 2011, interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.22 : Average interest received on loans advanced by the State Government

	(₹ in crore)		
Quantum of loans / interest receipts / cost of borrowings	2008-09	2009-10	2010-11
Opening Balance	18,126	18,844 ²²	19,590
Amount advanced during the year	1,281	1,261	959
Amount repaid during the year	560	515	640
Closing Balance	18,847	19,590	19,909
<i>of which</i> Outstanding balance for which terms and conditions have been settled	NA	NA	NA
Net addition	721	746	319
Interest Receipts	99	691	89
Interest receipts as per cent to outstanding Loans and advances	0.54	3.60	0.45
Interest payments as per cent to outstanding fiscal liabilities of the State Government.	7.29	7.38	7.23
Difference between interest payments and interest receipts (<i>per cent</i>)	(-)6.75	(-)3.78	(-)6.78

¹⁹ Allappalli and Pendigundam Forest divisions including Saw Mills & Timber Depot; Cattle Feed Scheme, Mumbai and Land Development Bulldozer Scheme, Nagpur.

²⁰ As per accounts of 1985-86.

²¹ Greater Mumbai Milk Scheme, Worli; Dairy Project, Dapchari; Government Milk Scheme, Mahad, Ratnagiri, Kankavli, Nashik, Wani, Ahmednagar, Chalisgaon, Dhule, Aurangabad, Nanded, Bhoom, Amravati, Akola, Yavatmal, Nagpur, Wardha and Gondia.

²² Difference in the closing balance of 2008-09 and opening balance of 2009-10 is due to profoma correction.

The total outstanding loans and advances as on 31 March 2011 was ₹ 19,909 crore (**Table 1.22**). The amount of loans disbursed during the year decreased from ₹ 1,261 crore in 2009-10 to ₹ 959 crore in 2010-11. Out of the total amount of loans and advances paid during the year, ₹ 314 crore went to Social Services and ₹ 405 crore to Economic Services. Under the Economic Services, the major portion of loans went to Co-operatives (33 *per cent*) followed by Other Loans to Industries and Minerals (three *per cent*) and Power (2.5 *per cent*). However, recovery of loans and advances increased from ₹ 515 crore to ₹ 640 crore during the current year, mainly on account of more recoveries from Loans for Co-operatives (₹ 205 crore), Loans to Government Servants (₹ 22 crore) and Loans for Power Projects (₹ 19 crore).

Similarly, interest received against these loans decreased from 3.60 *per cent* during 2009-10 to 0.45 *per cent* in 2010-11, mainly due to less interest receipts from Minor Irrigation (₹ 499 crore), Power Projects (₹ 68 crore) and Loans for Village and Small Industries (₹ 19 crore).

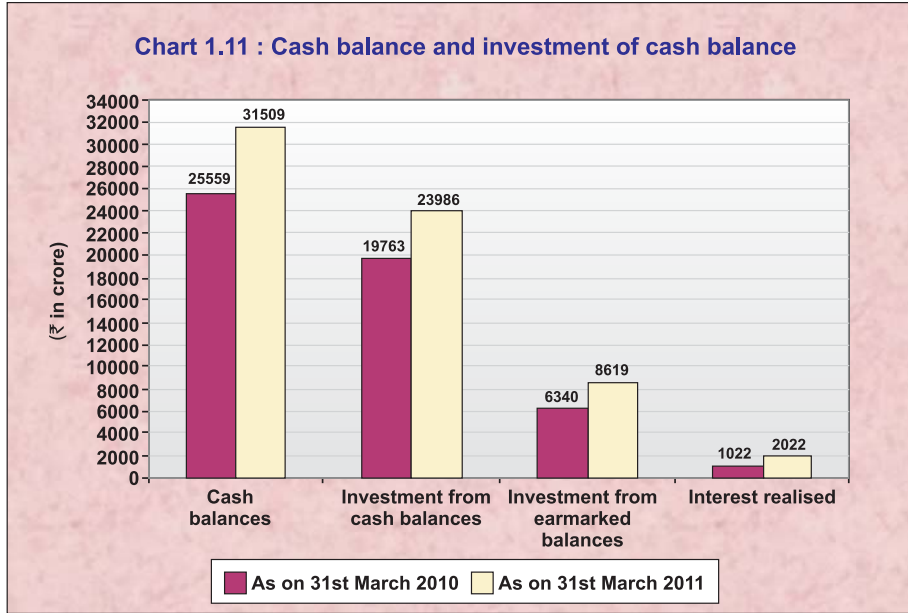
1.6.6 Cash balances and investment of cash balances

Table 1.23 and **Chart 1.11** depict the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.23 : Cash balances and investment of cash balances

Particulars	(₹ in crore)		
	As on 31 st March 2010	As on 31 st March 2011	Increase (+)/ Decrease(-)
Cash in treasuries	0.21	0.17	(-)0.04
Deposits with Reserve Bank	(-) 863.47	(-)1276.75	(-)413.28
Remittances in transit-Local	182.83	47.64	(-)135.19
Cash with the departmental officers	136.70	132.45	(-)4.25
Permanent advance for contingent expenditure with departmental officers	0.46	0.46	—
Investments from cash balances (a to d)	19762.99	23986.65	4223.66
a. GOI Treasury Bills	19762.29	23985.95	4223.66
b. GOI Securities	—	—	—
c. Other Securities, if any specify	—	—	—
d. Other Investments	0.70	0.70	—
Funds-wise break-up of investment from Earmarked balances (a to e)	6,339.64	8618.77	2279.13
a. General and other Reserve Funds	30.74	10.63	(-)20.11
b. Sinking Fund	6294.39	8593.64	2299.25
c. Funds for Development of Milk supply	1.00	1.00	—
d. Other Development and Welfare Funds	13.43	13.42	(-)0.01
e. Miscellaneous Deposits	0.08	0.08	—
Total Cash Balances	25559.36	31509.39	5950.03
Interest Realized	1022.02	2021.73	999.71

Source : Finance Accounts



The interest received on investment of cash balances was 2.60 per cent during 2010-11, while interest paid by Government on its borrowings during the year was 7.23 per cent.

The State Government's cash balances of ₹ 31,509 crore at the end of the current year showed an increase by 23 per cent (₹ 5,950 crore) over the previous year. Of the above, ₹ 23,986 crore was invested in Government of India Treasury Bills which earned an interest of ₹ 623 crore during the year. Further, ₹ 8,619 crore was invested in earmarked funds. However, the balance with the Reserve Bank of India was (-) ₹ 1,277 crore as on 31 March 2011. The State Government maintained a minimum cash balance of ₹ 5.58 crore with the Reserve Bank of India during 2010-11 under an agreement with the Reserve Bank of India. No ways and means advances or overdrafts were taken during the year.

The cash balance as on 31 March 2011 worked out by the Principal Accountant General (A&E), Maharashtra, Mumbai, was ₹ 1,276.75 crore (credit). The cash balance reported by Reserve Bank of India as on 31 March 2011 was ₹ 1,277.74 crore (debit). Thus, there was a difference of ₹ 99 lakh (debit) between the two figures which was mainly due to (1) misclassification by treasury ₹ 2.12 crore (debit) and (2) unadjusted advices of ₹ 1.13 crore (credit).

1.6.6.1 Outstanding balances under the head 'Cheques and Bills'

This head is an intermediary accounting head for initial record of transactions which are to be cleared eventually. When a cheque is issued, the functional head is debited and the Major Head-8670-Cheques and Bills is credited. On clearance of the cheque by the bank, the minus credit is given to Major Head 8670-Cheques and Bills by crediting the Major Head-8675-Deposits with Reserve Bank and thereby reducing the cash balance of the Government. Thus the outstanding balance under the Major Head 8670-Cheques and Bills represents the amount of unencashed cheques.

As on 31 March 2011, there was an outstanding balance (cumulative) of ₹ 11,427.74 crore and to this extent, the Government cash balance of (-) ₹ 1,276.75 crore (Deposits with the Reserve Bank of India) stood overstated.

1.7 Assets and Liabilities

1.7.1 Growth and composition of assets and liabilities

In the existing cash-based 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 2011, compared with the corresponding position on 31 March 2010. 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 mainly comprise 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.

1.7.2 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**.

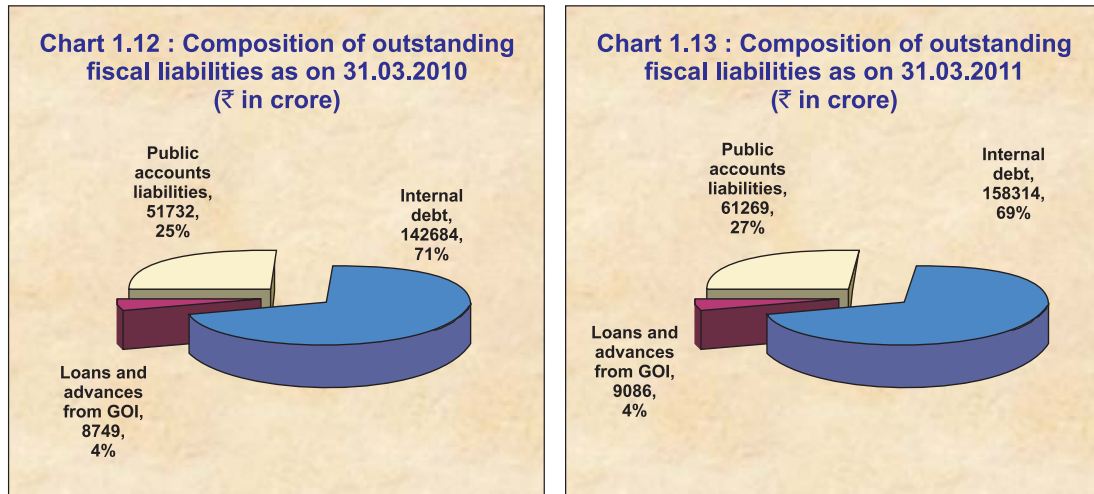


Table 1.24 gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP, to revenue receipts and to the State’s own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table 1.24 : Fiscal liabilities – basic parameters

	2006-07	2007-08	2008-09	2009-10	2010-11
Fiscal Liabilities (₹ in crore)	1,57,039	1,58,114	1,79,262	2,03,165	2,29,569
Rate of Growth (per cent)	10.21	0.68	13.38	13.33	13.00
Ratio of Fiscal Liabilities to					
GSDP (per cent)	30.8	26.8	25.9	22.5	22.3
Revenue Receipts (per cent)	252.5	198.7	220.6	233.8	216.8
Own Resources (per cent)	391.63	332.7	344.5	343.7	306.0
Buoyancy of Fiscal Liabilities with reference to :					
GSDP (ratio)	0.574	0.042	0.777	0.443	0.914
Revenue Receipts (ratio)	0.36	0.024	6.371	1.932	0.596
Own Resources (ratio)	0.521	0.037	1.408	0.980	0.483

The overall fiscal liabilities of the State increased at an average annual rate of 11.55 per cent during the period 2006-11. The growth rate marginally decreased from 13.33 per cent in 2009-10 to 13 per cent in 2010-11. During 2010-11, the debt to GSDP ratio at 22.30 per cent was lower than the projections made in MTFPS (23.71 per cent) and ThFC/MFRBM Rules, 2011 (26.30 per cent), however, it was higher than the projections in the FCP (19.98 per cent). These liabilities were around twice the revenue receipts and thrice the State’s own resources at the end of

Finances of the State Government

2010-11. The buoyancy of these liabilities with respect to GSDP during 2010-11 was 0.914, indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.91 *per cent*.

Of the total fiscal liabilities, the share of public debt was maximum (73 *per cent*), followed by deposits²³ (12 *per cent*); reserve funds (9 *per cent*) and small savings²⁴, provident fund *etc* (6 *per cent*). Fiscal liabilities increased by ₹ 26,404 crore from ₹ 2,03,165 crore in 2009-10 to ₹ 2,29,569 crore in 2010-11, mainly due to increase in Public Debt (₹ 15,966 crore), Reserve Fund (₹ 2,154 crore), Deposits²³ (₹ 6,262 crore) and Small Savings and Provident Funds (₹ 2,022 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 2011, the outstanding balance in the Sinking Fund was ₹ 8,593.64 crore, including ₹ 2,299.25 crore for 2010-11 and the entire amount was invested.

There were 18 Reserve Funds earmarked for specific purposes, out of which nine funds were active as shown in the **Table 1.25**. The total accumulated balance as on 31 March 2011 in these funds was ₹ 19,492.53 crore (₹ 19,463.52 crore in active funds and ₹ 29.01 crore in inoperative funds). However, the investment out of this balance was only ₹ 8,618.69 crore (44 *per cent*).

Table 1.25 : Active and Inoperative Reserve Funds

Classification	Opening balance	Receipt	Payment	Closing Balance (₹ in crore)
Inoperative Reserve Funds				
8115-103 - Depreciation Reserve Fund Road Transport Department Betterment Fund	0.08	0	0	0.08
8121-101 - General and Other Reserve Funds of Government Commercial Departments / Undertakings	0.06	0	0	0.06
8229-102 - Development Funds for Medical and Public Health	0.08	0	0	0.08
8229-104 - Development Funds for Animal Husbandry Purposes	0.12	0	0	0.12
8229-107 - Funds for Development of Milk Supply	1.1	0	0	1.1
8229-200 - Other Development and Welfare Fund - Guarantee reserve Fund	23.36	0	0	23.36
8229-200 - Other Development and Welfare Fund - State Transport Road Development Fund	0.24	0	0	0.24
8235-101 - Calamity Relief Fund	0.33	0	0	0.33
8235-200 - Other funds - Foodgrains Reserve Funds	3.64	0	0	3.64
Total	29.01	0	0	29.01
Active Reserve Funds				
8115-103 - Depreciation Reserve Fund - Road Transport Department Depreciation Fund	0.18	0.06	-0.10	0.34
8121-109 - General Insurance Fund	204.02	117.83	32.22	289.63
8222 - Sinking Funds	6294.39	2299.25	0.00	8593.64
8229-101 - Dev. Fund for Edu.- Liabrary fund	43.27	37.44	37.44	43.27
8229-119 - Employment Guarantee Fund	10422.62	357.00	589.26	10190.36
Fund for Development schemes-Cotton price Fluctuation Fund	8.94	0.00	0.04	8.90
Consumer Protection Fund	9.59	0.50	0.00	10.09
Maharashtra Mining Development Fund	288.96	91.74	91.74	288.96
8235-200 - Other funds - Special fund for compensatory Afforestation	38.33	0.00	0.00	38.33
Total	17310.30	2903.82	750.60	19463.52

Source : Notes to Accounts, Finance Accounts

²³ Deposits include Security Deposits, Deposits from Government Companies, Corporations *etc.*, Defined Contribution Pension Scheme for Government Employees and Civil Deposits, which are liable to be repaid by the Government to the subscribers and depositors.

²⁴ Small Savings and Provident Fund include State Provident Fund and Insurance and Pension Funds which are liable to be repaid by the Government to the subscribers and depositors.

1.7.2.1 Unreconciled differences between closing balances in the account and subsidiary records

As per the Finance Accounts for the year 2010-11, there was an unreconciled balance of ₹ 8,31,452.04 crore under Civil Deposits and Other Civil Deposits, out of which ₹ 8,31,272.24 crore pertained to the period from 1960-61 to 2010-11 as shown in **Table 1.26**. The balance amount of ₹ 179.80 crore pertained to the period 2008-11.

Table 1.26 : Unreconciled balances

Description	Unreconciled Amount (₹ in crore)
Civil Deposits (bearing interest)	
Provident Fund Accounts maintained by departmental officers (Extent of difference)	997.73
Civil Deposits (not bearing interest)	
AIS – Provident Fund	10781.31
Other than Class IV Provident Fund	668186.02
Educational Deposits	215.54
Public Works Deposits ²⁵	146338.58
Suspense Account	5668.70
Transfer between Public Works Department	(-)915.64
Total	831272.24

Source : Appendix VIII, Finance Accounts

The amounts shown under Public Works Deposits pertained only to the period 1960-61 to 2005-06. Further, the major unreconciled balances related to Other than Class IV Provident Fund and Public Works Deposits.

1.7.3 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 outstanding guarantees for the last three years as given in the Statement 9 of the Finance Accounts (Vol.II), are at **Table 1.27**.

Table 1.27 : Guarantees given by the Government of Maharashtra

Guarantees	(₹ in crore)		
	2008-09	2009-10	2010-11
Maximum amount guaranteed	88,371	73,958	44,414
Outstanding amount of guarantees	51,471	42,683	15,041
Percentage of maximum amount guaranteed to total revenue receipt	109	85	42

During 2010-11, guarantees of ₹ 895.65 crore were sanctioned for repayment of share capital, raising loans, debentures, bonds etc. by co-operative sugar factories (₹ 375.65 crore), the Maharashtra State Cotton Co-operatives (₹ 260 crore) and the Maharashtra Agriculture Industries Development Corporation (₹ 260 crore). Outstanding guarantees (₹ 15,041 crore) during 2010-11 accounted for 14 per cent of the revenue receipts (₹ 1,05,868 crore). The outstanding guarantees during 2010-11 were 1.46 per cent of the GSDP.

The State Government charged guarantee fees for guarantees given to institutions and the same was booked under 'Miscellaneous General Services'. As the maximum amount

²⁵ Public Works Deposits: ₹ 1,46,061.42 crore + C.D.P Deposits: ₹ 277.16 crore

guaranteed and the outstanding amount of guarantee decreased during 2010-11, receipts under guarantee fees also decreased to ₹ 551.18 crore (receivable : ₹ 300.54 crore) during 2010-11, as against ₹ 551.77 crore received during 2009-10.

Sums paid by the Government in the event of invocation of guarantees are charged to the 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 Funds do 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 2009-10, laid before the Maharashtra State Legislature, it was stated that the State was also in the process of setting up a Guarantee Reserve Fund to meet the contingent liabilities arising from the guarantees given by the Government. However, the Government of Maharashtra has since taken a decision not to create Guarantee Reserve Fund.

An amount of ₹ 154.36 crore was recoverable at the end of 2009-10. No amount was recovered from the parties during the year towards the charges on account of invocation of guarantee initially met by the Government and therefore a balance of ₹ 154.36 crore is yet to be recovered as at the end of the year 2010-11. No amount was paid by the Government on account of invocation of guarantee during the year 2010-11.

1.7.4 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 1.27**, 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 projects that funds for these programmes would be met out of the resources mobilized 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'. Off-budget borrowings are not permissible under Article 293 (3). In Maharashtra, there were no off-budget borrowings during the years 2005-06 to 2010-11. However, at the close of 2010-11, ₹ 3,305 crore was outstanding on account of off-budget borrowings prior to 2005-06.

As per the MTFPS Statement 2008-09, the State Government had completely stopped off-budget borrowings from the year 2005-06.

1.7.5 Adverse Balances appearing in the Finance Accounts

Adverse balances appearing in the statements of the Finance Accounts show the distorted position of accounts balances. Adverse balance (Minus balances) under the Loan head shows that the repayment was more than the loans advanced by the Government. The adverse balances appearing under the Loan account were mainly due to misclassification of the transactions while compiling the accounts.

During 2010-11, the following adverse balances as shown in **Table 1.28** appeared in the Finance Accounts due to misclassification.

Table 1.28 : Adverse balances

Head	Head of Accounts	Minus Balances (₹ in lakh)	Present status
6003(104)	Loans from GIC of India	-102.72	It is under reconciliation with the Urban Development Department, Housing Department and the Pay & Accounts office, Mumbai
6202 (02)800	Other Loans for Technical Education	-1738.05	It is under reconciliation with the Education Department and the Pay & Accounts Office, Mumbai
6406(104)	Loans to Forest Development Corporation of Maharashtra	-1987.61	Minus balance is due to misclassification which is under correspondence with Principal Chief Conservator of Forests, Maharashtra State, Nagpur.
6416(190)	Loans to Agricultural Financial Institutions – Loans to Public Sector and other undertakings	-75.90	The adverse balance has been appearing in Finance Accounts from 1978-79 onwards. The matter is under correspondence with the Water Resources Department and the Pay & Accounts Office, Mumbai.
6515(103)	Loans for Other Rural Development Programmes – Rural Works Programme	-81.25	Minus balance is due to misclassification. It is under reconciliation with Executive Engineer, Works Division, Wardha
7610(203)	Loans to Government Servants – Advance for purchase of Other Conveyance	-184.96	Minus balance is due to misclassification. It is under reconciliation with various controlling officers of the Nagpur Accounting Circle.

Source : Notes to Accounts, Finance Accounts

The concerned administrative departments have to take initiative to clear the above-mentioned adverse balances.

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability²⁶ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization²⁶, sufficiency of non-debt receipts²⁶, net availability of borrowed funds²⁶, 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 2008-09.

Table 1.29 : Debt sustainability : indicators and trends

Indicators of debt sustainability	2008-09	2009-10	2010-11
Debt Stabilization (₹ in crore) (Quantum Spread + Primary Deficit) ²⁶	14,001	28,701	11,013
Sufficiency of non-debt receipts (Resource Gap) (₹ in crore)	-16,820	- 12,157	7,299
Net Availability of Borrowed Funds (₹ in crore)	8,848	9,793.92	9,968.81
Burden of Interest Payments (IP / RR Ratio) (in per cent)	15	16	15

Debt Stabilisation

A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided the primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate minus interest rate) and quantum spread (Debt multiplied by rate spread), the debt sustainability condition states that if the quantum spread together with primary deficit is zero, the 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 2008-09 indicates the tendency towards the debt stabilisation which would eventually improve the debt sustainability position of the State in ensuing years.

²⁶ see Glossary at page 112.

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 2008-09 and 2009-10 there was a negative resource gap indicating the beginning of risk of non-sustainability of debt. However, during the current year, the resource gap turned into positive indicating increasing capacity of the State to sustain the debt in the medium to long run.

Net availability of borrowed funds

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

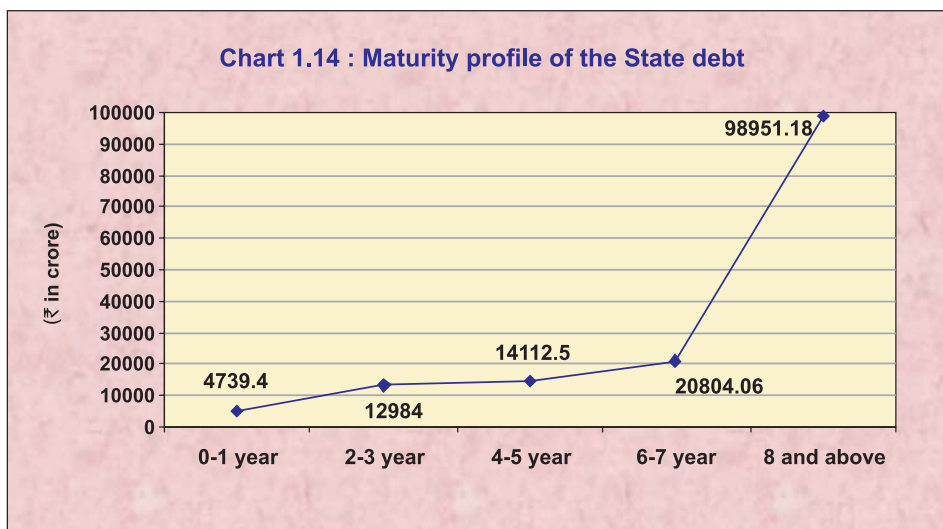
During 2010-11, Government raised internal debt of ₹ 19,920 crore, GOI loans of ₹ 820 crore and other obligations of ₹ 28,867 crore. Government repaid internal debt of ₹ 4,291 crore, GOI loans of ₹ 483 crore and discharged other obligations of ₹ 18,429 crore and paid interest of ₹ 15,648 crore resulting in net increase in debt receipts by ₹ 10,756 crore during the year.

Interest as a percentage of revenue receipts was almost constant during 2008-11 which was as per the target of 15 per cent envisaged in the TFC.

Table 1.30 : Maturity profile of State debt

(₹ in crore)		
Maturity Profile	Amount	Per cent
0 – 1	4,739.40	2.99
2 – 3	12,984.00	8.20
4 – 5	14,112.50	8.92
6 – 7	20,804.06	13.14
8 and above	98,951.18	62.50
Information not furnished by the State Government	6,722.59	4.25
Total	1,58,313.73	100.00

Source : Finance Accounts



The maturity of the State Debt as per **Table 1.30** and **Chart 1.14** indicates that nearly 20.11 *per cent* of the total State debt is repayable within the next five years while the remaining 79.89 *per cent* is payable in more than five years. It further indicates that the liability of the State to repay the debt would be ₹ 14,112.50 crore during the period 2014-16 and ₹ 20,804.06 crore during 2016-18 which would put a strain on the Government budget during that period. The State may have to borrow further to repay those loans.

A well thought out debt repayment strategy will have to be worked out by the Government to ensure that no additional borrowings, which mature in these critical years, are made.

1.9 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 MFRBM Act/ Rules for the financial year 2010-11.

1.9.1 Trends in deficits

Charts 1.15 and 1.16 present the trends in deficit indicators over the period 2006-11:

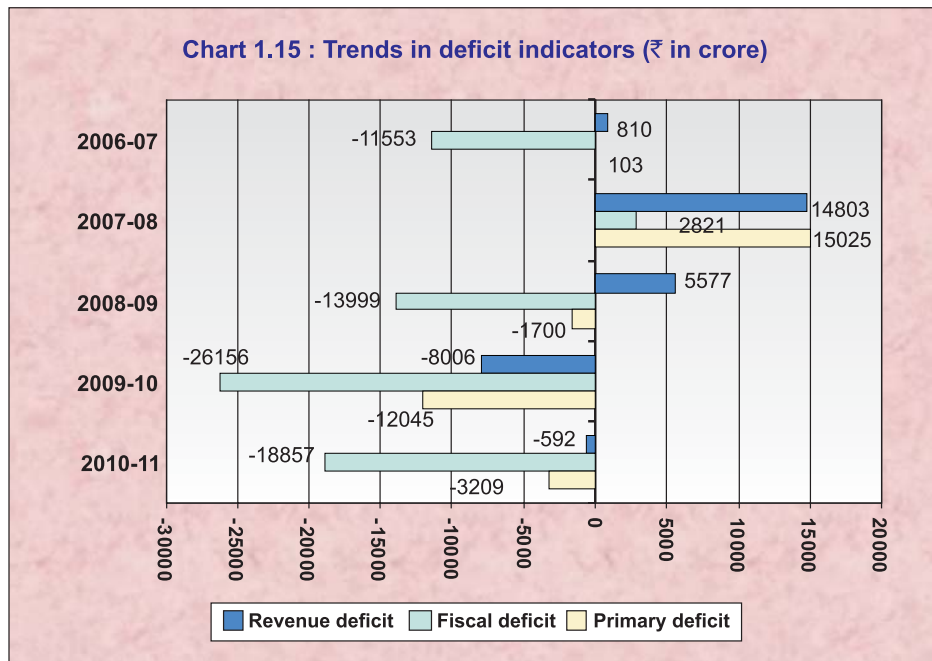


Chart 1.15 shows that revenue surplus of ₹ 810 crore in 2006-07 which increased to ₹ 14,803 crore during 2007-08 due to augmentation of non-tax receipts by way of transfer of ₹ 10,868 crore lying in various inoperative Reserve Funds in the Public Account by the State Government to its Consolidated Fund. Gradually the revenue surplus turned into revenue deficit of ₹ 8,006 crore in 2009-10, mainly due to a sharp increase in revenue expenditure by 25 *per cent* as against an increase in revenue receipts of only seven *per cent*. However, during 2010-11, the revenue deficit reduced to ₹ 592 crore mainly due to a sharp increase in revenue receipts by 22 *per cent* as against increase in revenue expenditure by 12 *per cent*. The revenue deficit is to be

Finances of the State Government

brought down to zero by 2011-12 and revenue surplus is to be generated thereafter, as per the MFRBM Rules (Second Amendment), 2011.

The fiscal deficit of ₹ 26,156 crore during 2009-10 decreased to ₹ 18,857 crore, which was the result of decrease in revenue deficit (₹ 7,414 crore) and net loans and advances disbursed (₹ 427 crore) and increase in net capital expenditure (₹ 542 crore) over the previous year.

The primary deficit²⁷ took a turnaround and resulted in a primary surplus during 2006-08. However, it again turned to primary deficit during 2008-10. During 2010-11, the primary deficit reduced by ₹ 8,836 crore from ₹ 12,045 crore in 2009-10 to ₹ 3,209 crore during 2010-11 due to a sharp decrease of ₹ 7,299 crore in fiscal deficit along with an increase of ₹ 1,537 crore in interest payments.

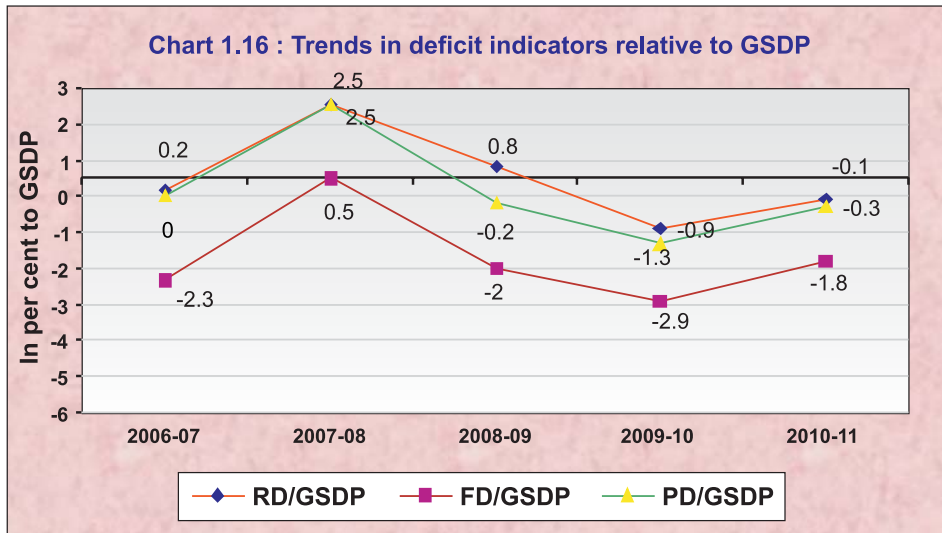


Table 1.31 : Trends in major fiscal parameters / variables vis-à-vis projections for 2010-11

Fiscal variables	2010-11			
	ThFC (2010-11)	MTFPS	FCP	Actuals
Revenue deficit as percentage of GSDP	0	0.86	0.55	0.06
Fiscal Deficit as percentage of GSDP	3.0	2.74	2.43	1.83

Table 1.31 reveals that the State has almost achieved fiscal targets as laid down in the MFRBM Act/Rules and ThFC, with the current year ending in a revenue deficit of ₹ 592 crore, which was just 0.06 per cent of GSDP and a fiscal deficit of ₹ 18,857 crore, which was 1.83 per cent of the GSDP.

It was noticed that during 2010-11, out of a total of 16 cases (as per Finance Accounts – Volume I), ‘Grants-in-aid’ of ₹ 318.62 crore in 15 cases and ‘Subsidies’ of ₹ four lakh in one case, released by the State Government had been classified/booked under capital expenditure heads. These should have been booked under revenue expenditure heads of accounts, thus resulting in understatement of the revenue deficit to that extent.

²⁷ see the Glossary at page 112

1.9.2 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**.

Table 1.32 : Components of fiscal deficit and its financing pattern

(₹ in crore)					
Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Decomposition of Fiscal Deficit / Surplus (1+2+3) (a)	11,553 (2.27)	-2,821 (-0.48)	13,999 (2.01)	26,156 (2.90)	18,857 (1.83)
1. Revenue Deficit (+) / Surplus (-)	-810(-0.16)	-14,803(-2.5)	-5,577(-0.8)	8,006(0.89)	592(0.06)
2. Net Capital Expenditure	10,092(1.98)	11,490(1.94)	18,855(2.7)	17,404(1.93)	17,946(1.74)
3. Net Loans and Advances	2,271(0.45)	492(0.08)	721(0.1)	746(0.08)	319(0.03)
Financing Pattern of Fiscal Deficit[#]					
1. Market Borrowings	1,167(0.23)	7,641(1.29)	16,866(2.42)	14,509(1.61)	10,484(1.02)
2. Loans from GOI	95(0.02)	-84(-0.01)	-35(-0.01)	325(0.04)	337(0.03)
3. Special Securities Issued to NSSF*	8,838(1.74)	1,475(0.25)	428(0.06)	2,751(0.31)	5,155(0.50)
4. Loans from Financial Institutions	-250(-0.05)	30(0.01)	229(0.03)	154(0.02)	-9(0)
5. Small Savings, PF etc.	640(0.13)	685(0.12)	803(0.12)	1,790(0.20)	2,022(0.20)
6. Deposits and Advances	1,714(0.34)	1,876(0.32)	1,240(0.18)	3,502(0.39)	6,259(0.61)
7. Suspense and Miscellaneous	283(0.06)	225(0.04)	3,148(0.45)	4,020(0.45)	-1104(-0.11)
8. Remittances	-1,315(-0.26)	-72(-0.01)	42(0.01)	2,163(0.24)	-482(-0.05)
9. Reserve Funds	2,344(0.46)	-10,547(-1.78)	1,617(0.23)	875(0.10)	2,153(0.21)
10. Contingency Fund	-617(-0.12)	-4(0)	307(0.04)	- 251(-0.03)	842(0.08)
11. Appropriation to / from Contingency fund	800(0.16)	—	-250(-0.04)	250(0.03)	-850(-0.08)
12. Total (1 to 11) (b)	13,699	1,225	24,395	30,088	24,807
13. Increase (-) / Decrease (+) in Cash Balance (a) – (b)	-2,146 (-0.42)	-4,046 (-0.68)	-10,396 (-1.49)	-3,932 (-0.44)	-5,950 (-0.58)
14. Overall deficit (12 + 13)	11,553(2.27)	-2,821(-0.48)	13,999(2.01)	26,156(2.90)	18,857(1.83)

Figures in brackets indicate the *per cent* to GSDP.

[#] All these figures are net of disbursements / outflows during the year.

* National Small Savings Fund.

The large fiscal deficit during 2009-10 was the combined effect of revenue deficit and large net capital expenditure. This reduced by ₹ 7,299 crore during 2010-11 due to the decrease in revenue deficit. The net capital expenditure as a percentage of the fiscal deficit increased from 87 *per cent* during 2006-07 to 95 *per cent* in 2010-11. 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 year 2006-07 the fiscal deficit was financed by special securities issued to NSSF, Reserve Funds and market borrowings whereas during 2010-11, the fiscal deficit was mainly financed by market borrowings, deposits and advances and special securities issued to NSSF.

As can be seen from **Table 1.33** during the period 2010-11, there was an overall surplus (increasing the cash balance) after financing the fiscal deficit.

Table 1.33 : Receipts and disbursements under components financing the fiscal deficit during 2010-11

(₹ in crore)

	Particulars	Receipts	Disbursements	Net
1.	Market Borrowings	11,500	1,016	10,484
2.	Loans from GOI	820	483	337
3.	Special Securities Issued to NSSF	7,505	2,350	5,155
4.	Loans from Financial Institutions	915	924	-9
5.	Small Savings, PF etc.	3,882	1,860	2,022
6.	Deposits and Advances	21,917	15,658	6,259
7.	Suspense and Miscellaneous	-993	111	-1104
8.	Remittances	20,253	20,735	-482
9.	Reserve Funds	3,346	1,193	2,153
10.	Contingency Fund	853	11	842
11.	Appropriation to / from Contingency Fund	0	850	-850
12.	Total (1 to 11)	69,998	45,191	24,807
13.	Increase (-) / Decrease (+) in Cash Balance	—	—	-5,950
14.	Overall deficit (12 +13)	—	—	18,857

Source : Finance Accounts

Cost of borrowings

During the year 2010-11, the State Government raised market loans of ₹ 11,500 crore under internal debt. The cost of raising of this internal debt being ₹ 13.73 crore was 0.12 *per cent* of the market loan taken by the State Government. This increased the fiscal deficit to the extent of ₹ 13.73 crore.

1.9.3 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 States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, the 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 1.34** 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 1.34 : 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	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	80,806	17,429	1,261	99,496	6,644	-12,046
2010-11	1,06,525	90,812	17,963	959	1,09,734	15,713	-3,209

During the period 2006-11, non-debt receipts of the State were enough to meet the primary revenue expenditure²⁸ requirements in the revenue account. However, except for the period 2006-08, non-debt receipts were not enough to meet the primary expenditure resulting in primary deficit. 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 16.24 *per cent* during 2006-07 to 22.59 *per cent* during 2008-09. However, it came down to 17.51 *per cent* during 2009-10 and 16.37 *per cent* during 2010-11.

1.10 Conclusion

Pattern of Revenue and Expenditure : The revenue receipts increased during the year by 22 *per cent* over the previous year due to increase (27 *per cent*) in tax revenue and (38 *per cent*) in Central tax transfers. The revenue receipts were lower by 1.2 *per cent* than the amount assessed by the Government in its Fiscal Correction Path (FCP). However, it was higher by nine *per cent* than the Medium Term Fiscal Policy Statement (MTFPS) for the year 2010-11. The non-tax revenue of the Government was also lower than the projections made in FCP by nine *per cent*, the Thirteenth Finance Commission (ThFC) by 29 *per cent* and MTFPS/Budget by 19 *per cent* (**Para 1.3**). The growth rate of the State's own taxes was much higher than that of the GSDP of the State.

The revenue expenditure increased by 12 *per cent* over the previous year and constituted 85 *per cent* of the total expenditure during 2010-11. Non-Plan revenue expenditure (NPRE) constituted 84 *per cent* of the revenue expenditure. The NPRE (₹ 89,532 crore) remained higher than the normative assessments made by the ThFC (₹ 67,884 crore) and the State Government's projections (MTFPS/Budget) (₹ 82,706 crore) but was lower than that projected in the FCP (₹ 91,682 crore) (**Table 1.12**). The Plan revenue expenditure and NPRE increased by one *per cent* and 15 *per cent* respectively over the previous year (**Para 1.4.1**).

The expenditure of ₹ 41,286 crore on salaries (including the grant-in-aid component) was lower than the State's own FCP (₹ 43,391 crore) and the projections made in the MTFPS of the Government (₹ 42,851 crore). Expenditure under subsidies decreased by 32 *per cent* over the previous year and constituted five *per cent* of revenue expenditure (**Para 1.4.2**).

Capital expenditure, which constituted 14 *per cent* of the total expenditure, increased during 2010-11 by 3.06 *per cent* over the previous year (**Para 1.4.1**).

Financial assistance to local bodies and other institutions (₹ 47,646 crore), which constituted 45 *per cent* of the revenue expenditure during 2010-11 increased by seven *per cent* over 2009-10 (**Para 1.4.3**).

Deficits: The significant gap between the growth rates of the revenue receipts (22 *per cent*) and revenue expenditure (12 *per cent*) over the previous year decreased the revenue deficit to ₹ 592 crore during 2010-11 from a revenue deficit of ₹ 8,006 crore during 2009-10. The targets set for the revenue deficit as a percentage of GSDP under the MTFPS and FCP were achieved. The fiscal deficit (₹ 18,857 crore) also decreased as compared to the previous year and constituted 1.83 *per cent* of GSDP, which was within the limit (three *per cent*) (**Para 1.9.1**). The primary deficit also decreased significantly during 2010-11.

Debt Management

During 2010-11, the fiscal liabilities (₹ 2,29,569 crore) increased over the previous year. The fiscal liabilities to GSDP ratio at 22.3 *per cent* was lower than the norm of 26.30 *per cent*

²⁸ 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

recommended by the ThFC and the MFRBM Rules of 2011. These liabilities were around twice the revenue receipts (**Para 1.7.2**).

The emergence of a positive sum of quantum spread and primary deficit since 2008-09 indicates the tendency towards debt stabilisation which would eventually improve the debt sustainability position in the ensuing years. The positive resource gap in the State during 2010-11 indicated increasing capacity to sustain the debt in the medium to long run (**Para 1.8**).

Review of Government investments: The average return on the State Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.06 to 0.13 *per cent* in the past three years while the Government paid an average interest of 7.23 to 7.38 *per cent* on this investment (**Para 1.6.3**).

Prudent cash management: Cash balances of the State at the close of the year 2010-11 (₹ 31,509 crore) increased by 23 *per cent* over 2009-10. The cost of holding surplus cash balances was high. In 2010-11, the interest received on investment of cash balances in RBI Investment in Treasury Bills was only 2.60 *per cent* while the Government borrowed on an average at 7.23 *per cent* (**Para 1.6.6**).

Incomplete Projects : In respect of 233 incomplete projects pertaining to three departments (**Appendix 1.9**), the time overruns occurred was between four to 25 years as of 31 March 2011. In respect of 22 incomplete irrigation projects, significant cost overruns resulted due to increase in the initial budgeted costs (**Para 1.6.2**).

Oversight of funds transferred directly from the GOI to the State implementing agencies: GOI directly transferred ₹ 5,645.35 crore to the State implementing agencies during 2010-11. Funds transferred directly from the GOI to State implementing agencies result in non-monitoring of the expenditure incurred by them on various schemes as these funds are not reflected in the State budget. This also inhibits the MFRBM requirement of transparency in fiscal operations and thus bypasses accountability (**Para 1.2.2**).

1.11 Recommendations

- As per the recommendations of the ThFC, the revenue deficit is required to be brought down to zero for 2011-12, for which efforts have to be made to increase tax compliance, reduce administration costs, collect revenue arrears and prune unproductive expenditure.
- Borrowed funds should be, as far as possible, utilised only for infrastructure development, whereas revenue expenditure should be met fully from the revenue receipts. Steps should be taken to return to the state of primary surpluses and zero revenue deficit as soon as possible.
- The Government should take steps to ensure better value for money in investments. Otherwise, high-cost borrowed funds will continue to be invested in projects with low financial returns. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritized with full justification for channelling high-cost borrowings there. The working of State Public Sector Undertakings which are incurring huge losses should be reviewed and a revival strategy should be worked out for those undertakings which can be made viable. Undertakings which are not likely to be viable may be closed down.
- The Government should ensure proper accounting of the funds transferred to State implementing agencies and the updated information should be validated by the State Government as well as the Principal Accountant General (A&E), Maharashtra, for proper monitoring of the expenditure incurred by the implementing agencies.