

CHAPTER - 1

Finances of the State Government

Profile of Delhi

Delhi, the country's capital is a densely populated region as compared to other regions of the country. The density of population in Delhi increased from 9340 persons per sq. km (as per Census of India 2001) to 11297 persons per sq. km (Census of India 2011). Delhi has higher literacy rate and lower infant mortality rate when compared to all India average. Its Gross State Domestic Product (GSDP) grew at a higher rate (16.84 *per cent*) in the 2002-03 to 2011-12 decade compared to the average GSDP growth rate of General Category States (14.46 *per cent*) (**Appendix 1.1**).

1.1 Introduction

The accounts of the Government of the National Capital Territory (NCT) of Delhi are kept in two parts (i) Consolidated Fund and (ii) Contingency Fund. There is no public account. Transactions relating to debt (other than those included in the Consolidated Fund), deposits, advances, remittances and suspense are merged in the Public Account of the Union Government. Similarly, the cash balance of the Government of NCT of Delhi is merged and forms part of the general cash balance of the Union Government. The Finance Accounts of the Government of NCT of Delhi are laid out in sixteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund and Contingency Fund of Government of NCT of Delhi (**Appendix 1.2**).

This chapter provides a broad perspective of the finances of the Delhi Government during the year ending March 2012 and analyses critical changes in the major fiscal aggregates as compared to the previous year keeping in view the overall trends during the last five years.

1.2 Summary of current year's fiscal transactions

Table 1.1 presents a summary of the State Government's fiscal transactions during the current year (2011-12) vis-a-vis the previous year while **Appendix 1.3** provides details of receipts and disbursements and overall fiscal position during the current year.

Table 1.1: Summary of current year's fiscal operations

(₹ in crore)

Receipts			Disbursements				
	2010-11	2011-12		2010-11	2011-12		
Section-A Revenue	Total	Total	Section-A Revenue	Total	Non Plan	Plan	Total
Revenue receipts	25024.10	22393.17	Revenue expenditure	14381.74	11524.00	6440.85	17964.85
Tax revenue	16477.75	19971.67	General services	3728.95	4254.62	92.61	4347.23
Non-tax revenue	4188.95	460.87	Social services	8718.80	4902.82	5814.29	10717.11
Share of Union Taxes/ Duties			Economic services	1392.46	1638.27	533.95	2172.22
Grants from Government of India	4357.40	1960.63	Grants-in-aid and Contributions	541.53	728.29	0	728.29
Section-B Capital			Section-B Capital				
Misc. Capital Receipts	-		Capital Outlay	3984.80	4.31	3999.96	4004.27
Recoveries of Loans and Advances	436.77	376.25	Loans and Advances disbursed	6364.73	85.93	3259.48	3345.41
Public Debt receipts*	4388.94	556.08	Repayment of Public Debt*	793.05	1087.88	0.00	1087.88
Opening Cash Balance #	3387.70	7713.19	Closing Cash Balance\$	7713.19	-	-	4636.28
Total	33237.51	31038.69		33237.51			31038.69

* Includes loans and advances from Government of India largely in the form of share in small savings.

Cash balance is merged with the general cash balance of Government of India.

(Source: Finance Accounts of Delhi and information from Pr. Accounts Office, Delhi)

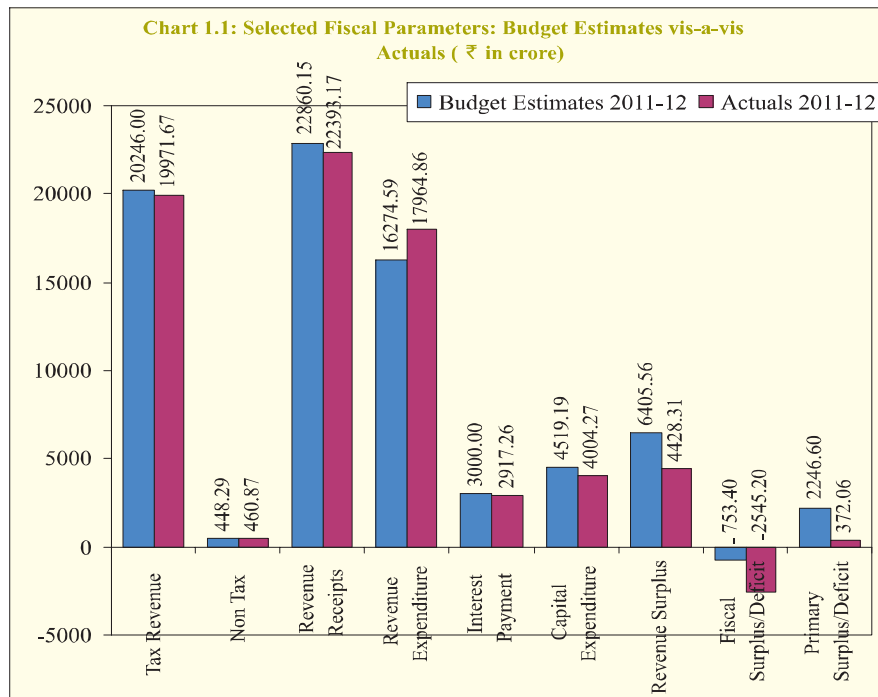
Following are the significant changes during 2011-12 over the previous year:

- Revenue receipt decreased by ₹ 2630.93 crore (10.51 per cent). The tax revenue had increased by ₹ 3493.92 crore, while non-tax revenue and grants from Government of India had decreased by ₹ 3728.08 crore and ₹ 2396.77 crore respectively.
- Revenue expenditure increased by ₹ 3583.11 crore (24.91 per cent) and capital expenditure increased by ₹ 19.47 crore (0.49 per cent) respectively.

- Recoveries of loans and advances decreased by ₹ 60.52 crore (13.86 per cent) and the disbursement of loans decreased by ₹ 3019.31 crore (47.44 per cent).
- Public debt receipt drastically decreased by ₹ 3832.86 crore while repayments increased by ₹ 294.83 crore (37.18 per cent).
- The cash balance at the close of 2011-12 decreased by ₹ 3076.91 crore (39.89 per cent) over the previous year.

1.3 Budget estimates and actuals

The budgeted and actual figures under revenue receipts and expenditure are shown in **Chart 1.1**.



As may be observed from **Chart 1.1** there was considerable variation between estimates and actuals in the case of several key parameters. During the year, Revenue receipts was less than the targets by 2.04 per cent while Revenue expenditure showed a opposite trend, it was in excess by 10.39 per cent (₹ 1690.27 crore) over budget estimates. Fiscal deficits estimated at ₹ 753.40 crore went out of control and was ₹ 2545.20 crore. Primary surplus was at ₹ 372.06 crore against target of ₹ 2246.60 crore.

1.4 Resources of the State

1.4.1 Resources of the State as per Annual Finance Accounts

Revenue Receipts and Capital Receipts are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues and Grants-in-Aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from recoveries of loans and advances, debt receipts and loans and advances from GOI as well as deposits from Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in receipts of the State during 2007-12. **Chart 1.3** depicts the composition of resources of the State during the current year.

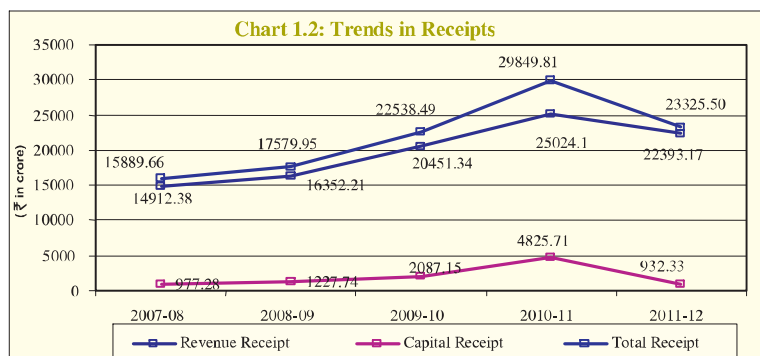
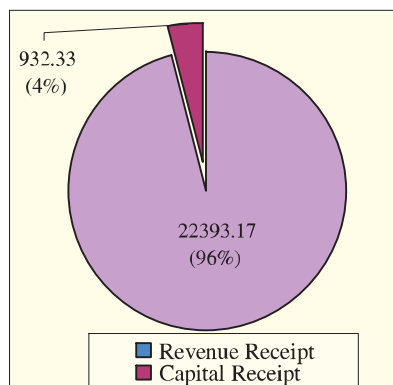


Chart 1.3 : Composition of resources for 2011-12 (₹ in crore)



The revenue receipts constitute major part of the total receipts of the Government of Delhi. The share of revenue receipts in total receipts which stood at 93.85 per cent in 2007-08 increased to 96.00 per cent in 2011-12.

1.5 Revenue receipts

Statement 9 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the state's tax and non-tax revenues and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2007-12 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively.

Chart 1.4: Trends in Revenue Receipts

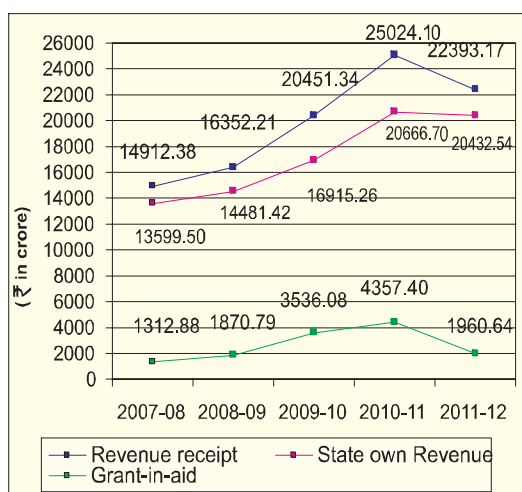
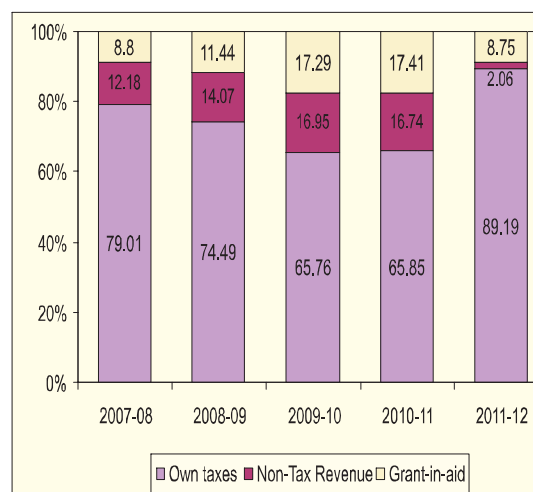


Chart 1.5: The composition of Revenue Receipts during 2007-12



The trends in revenue receipts relative to GSDP are presented in **Table 1.2** below:

Table 1.2: Trends in Revenue Receipts relative to GSDP

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	14912.38	16352.21	20451.34	25024.10	22393.17
Rate of growth of RR (<i>per cent</i>)	22.30	9.66	25.07	22.36	(-) 10.51
R R/GSDP (<i>per cent</i>)	9.44	8.63	9.14	9.46	7.13
Buoyancy Ratios					
Revenue Buoyancy w.r.t GSDP	1.35	0.48	1.39	1.23	(-) 0.56
State's Own Tax Buoyancy w.r.t. GSDP	0.97	0.17	0.58	1.24	1.13

(Source: Finance Accounts of Delhi)

The revenue receipts showed an increasing trend over the period 2007-11 with significant change in composition. The share of tax revenue in State Receipt declined from 79.01 *per cent* in 2007-08 to 65.85 *per cent* in 2010-11. This trend is reversed during 2011-12, when it increased to 89.19 *per cent*.

The revenue receipts declined 10.51 *per cent* during 2011-12 when compared to the revenue receipts during 2010-11. The growth in GSDP for the same period was 18.69 *per cent* (**Appendix 1.4**). In the current year the State's tax buoyancy with reference to GSDP also declined to 1.13 *per cent* when compared to previous financial year.

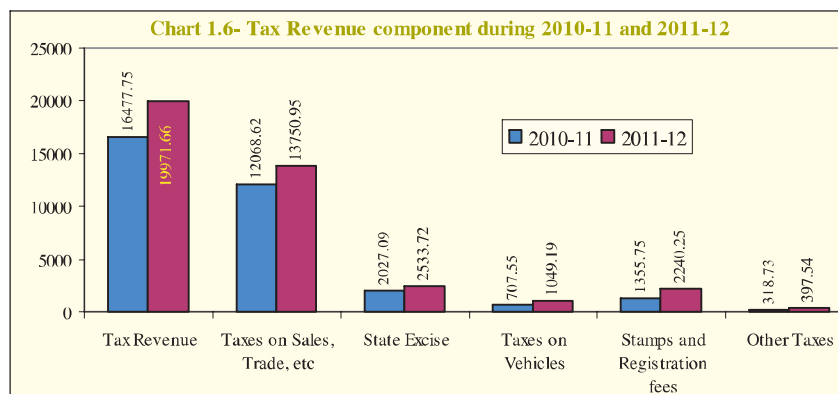
Ideally, as GSDP grows the State Government has the potential to increase own tax/non-tax revenue because people have a greater ability to pay taxes due to increased income. In 2009-10 the State's tax revenue buoyancy w.r.t. GSDP was very low (for every one *per cent* growth of GSDP only 0.58 *per cent* growth in state's tax revenue). However, the position changed considerably in 2010-11, when State's tax revenue buoyancy rose to ever high 1.24 *per cent*. But the trend could not be maintained as this came down to 1.13 *per cent* during 2011-12.

1.5.1 State's own resources

The growth of revenue receipts of the State indicated mixed tendency over the period 2007-12. It dipped drastically in the year 2008-09 while it recorded an increase of 25.07 *per cent* during the year 2009-10. However, the growth rate could not be sustained in 2011-12 and was less by 10.51 *per cent* when compared to revenue receipts during 2010-11. The share of tax receipts in total receipts decreased from 79.01 *per cent* in 2007-08 to 65.85 *per cent* in 2010-11, however, this trend reversed during 2011-12. It increased to 89.19 *per cent* of total receipts in 2011-12. The share of non-tax receipts decreased from 16.74 *per cent* to 2.06 *per cent* in 2011-12 as compared to previous year. The share of grants-in-aid increased from 8.80 *per cent* in 2007-08 to 17.41 *per cent* in 2010-11 but this trend reversed during the current year, it decreased to 8.75 *per cent*.

Tax revenue

The components of tax revenue during the current year vis-à-vis previous year are given in **Chart 1.6** below:



Source: Finance Accounts

The tax revenue has increased by ₹ 3493.92 crore (21.20 per cent) during the current year (₹ 19971.67 crore) over previous year (₹ 16477.75 crore). The major contribution in revenue was from taxes on Sales, Trade, etc. which contributed about 69 percent of the total tax revenue and grew by 13.94 per cent over the previous year.

Collection under stamp duty and state excise have increased by ₹ 884.50 crore (65.24 per cent) and ₹ 506.63 crore (24.99 per cent) respectively during 2011-12 over the previous year. Contribution of other taxes has increased by ₹ 78.83 crore (24.73 per cent) during the current year (₹ 397.54 crore) over previous year (₹ 318.71 crore).

Non- Tax revenue

The non-tax revenue which constituted 2.06 per cent of total revenue receipts during 2011-12 decreased by ₹ 3728.08 crore (89 per cent) over previous year. The growth of non-tax revenue which indicated an increase of 130.58 per cent over the period of 2007-11, reversed during 2011-12 with a sharp decline of 89 per cent over the previous year. The interest receipt which decreased from ₹ 3869.84 crore in 2010-11 to ₹ 174.14 crore in 2011-12, contributed 92.38 per cent in 2010-11 and 37.79 per cent in 2011-12 of total non-tax receipts. Out of total interest receipt of ₹ 174.14 crore in 2011-12, ₹ 169.25 crore was contributed by local bodies.

1.5.2 Cost of collection

The gross collection of the major revenue receipt, expenditure incurred on collection and the percentages of such expenditure to gross collection during

the years 2009-10 to 2011-12 are as follows:

Table 1.3: Cost of collection

(₹ in crore)

Heads of Revenue	Year	Collections	Expenditure on collection of Revenue	Percentage of expenditure on collection
Taxes on sales, Trade etc.	2009-10	10126.01	50.83	0.50
	2010-11	12068.62	50.69	0.42
	2011-12	13750.95	53.67	0.39
State Excise	2009-10	1643.56	8.75	0.53
	2010-11	2027.09	9.44	0.47
	2011-12	2533.72	10.79	0.43
Stamp Duty and Registration Fees	2009-10	929.97	19.53	2.10
	2010-11	1355.75	19.30	1.42
	2011-12	2240.25	31.60	1.41
Taxes on Vehicles	2009-10	462.65	34.34	7.42
	2010-11	707.55	37.03	5.23
	2011-12	1049.19	31.79	3.03

During the year 2011-12 the percentage of expenditure on collection decreased in Taxes on Sales, Trade etc., State Excise, Taxes on vehicles and Stamp Duty and Registration Fees over the previous year. However, in case of stamp Duty and registration fees, the cost of collection increased abnormally from ₹ 19.30 crore to ₹ 31.60 crore.

1.6 Application of resources

1.6.1 Growth and composition of expenditure

Statement 10 of the Finance Accounts depicts the detailed revenue expenditure incurred under minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from ₹ 17184.54 crore in 2007-08 to ₹ 25314.55 crore in 2011-12.

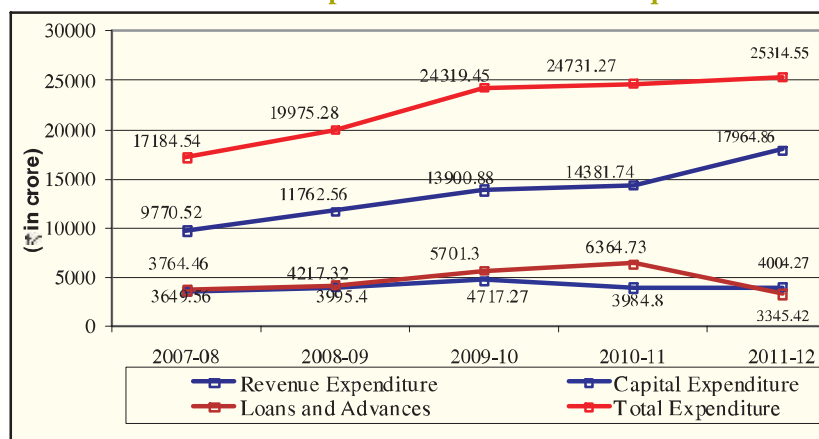
The total expenditure during the current year at ₹ 25314.55 crore has marginally increased by ₹ 583.28 crore (2.36 per cent) over the previous year. Of the total increase, revenue expenditure constituted ₹ 3583.12 crore and

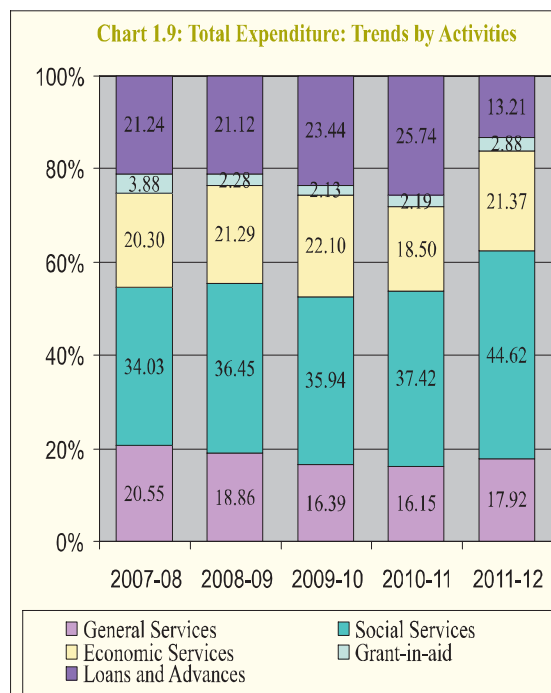
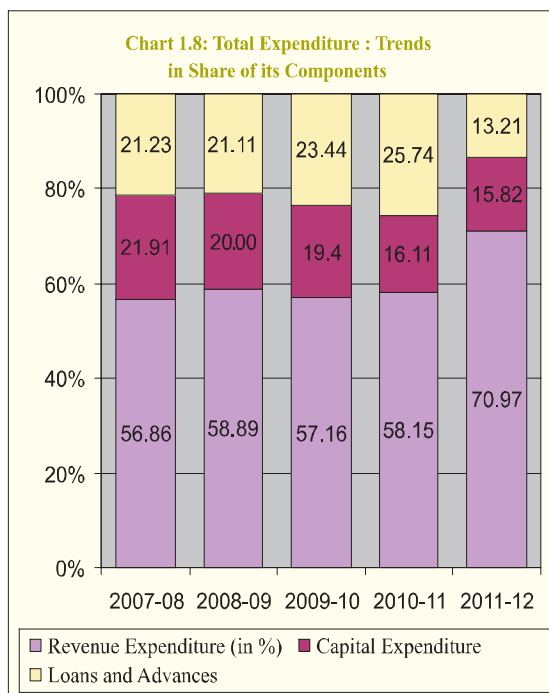
capital expenditure ₹ 19.47 crore, while loans and advances decreased by ₹ 3019.31 crore. The marginal increase in share of capital expenditure during the current year is an indicator of allocation of funds by the State to less productive areas. Over the last five years, revenue expenditure increased from ₹ 9770.52 crore in 2007-08 to ₹ 17964.86 crore in 2011-12 which constituted an increase of 83.87 per cent. Similarly, capital expenditure which was ₹ 3764.46 crore in 2007-08, increased to ₹ 4004.27 crore in 2011-12 registering an increase of mere 6.37 per cent during this period.

Capital expenditure and revenue expenditure were 27.81 per cent and 72.19 per cent of total expenditure (excluding loans and advances) in 2007-08, while in 2011-12 they were 18.23 per cent and 81.77 per cent respectively. Total expenditure under plan head increased from ₹ 8872.91 crore in 2010-11 to ₹ 10440.82 crore in 2011-12 registering an increase of ₹ 1567.91 crore while non-plan expenditure increased to ₹ 11528.31 crore in 2011-12 from ₹ 9493.63 crore in 2010-11 registering an increase of ₹ 2034.68 crore during the corresponding period. The bifurcation of total expenditure into plan and non-plan during the year 2011-12 revealed that the share of plan and non plan expenditure was 47.52 per cent and 52.48 per cent respectively.

Chart 1.7 presents the trends in total expenditure over a period of five years (2007-12) and its composition both in terms of ‘economic classification’ and ‘expenditure by activities’ are depicted in Charts 1.8 and 1.9 respectively.

Chart 1.7: Total expenditure: Trends and composition





It can be seen that the share of General Services in the total expenditure has decreased from 20.55 per cent to 17.92 per cent while share of Social Services has increased from 34.03 per cent to 44.62 per cent during 2007-12 showing increasing emphasis on social services.

1.7 Quality of expenditure

The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use and the effectiveness (assessment of outlay-outcome relationships for select services), which has been elaborated in the following paragraphs:

1.7.1 Adequacy of public expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure are largely assigned to the State Governments in accordance with the provisions laid down in the Constitution. Thus, in order to enhance social development levels in the States, it is essential to increase expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) would be deemed to have been attached to a particular sector, if it was below the national average. **Table 1.4** analyses the fiscal priority of the State Government with regard to

development expenditure, social sector expenditure and capital expenditure during 2011-12.

Table-1.4 Fiscal Priority of the State in 2008-09 and 2011-12

(in per cent)						
Fiscal Priority by the State**	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
16* General Category States Average (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Delhi State's Average (Ratio) 2008-09	10.54	74.04	43.58	18.32	16.20	8.33
16* General Category States Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Delhi State's Average (Ratio) 2011-12	8.06	79.02	51.58	15.07	18.96	10.37
** As per cent to GSDP AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Service Expenditure CE: Capital Expenditure # Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed. * General category States exclude three states viz- Delhi, Goa and Puducherry						

Source: For GSDP, the information was collected from the state's Directorate of Economics and Statistics

Fiscal priority refers to the importance given to a particular head of expenditure. The table above gives a comparison of fiscal priority given to different categories of expenditure of the State in 2008-09 and the current year, 2011-12 with that of the General Category States.

- Development expenditure as a proportion of Aggregate Expenditure (AE) in Delhi has been higher than the General Category States' average. Development expenditure consists of both economic service expenditure and social sector expenditure. Social sector expenditure (as a proportion of AE) in Delhi has been much higher than that of the average of General Category States. Significant improvement in priority to health has been observed by looking at the improvement in the proportion of expenditure spent on this sector in the current year. The ratio of expenditure on Education to AE in 2008-09 and 2011-12 were marginally higher than the ratio of General Category States.
- Adequate prominence has been given by Delhi Government to capital expenditure as the proportion of expenditure spent in this sector is higher than other General Category States average in both the years 2008-09 and 2011-12.
- AE as a ratio of GSDP in both the years, i.e., 2008-09 and 2011-12 (10.54 per cent and 8.06 per cent) was lower as compared to General Category States (17.00 per cent and 16.09 per cent).

1.7.2 Efficiency of expenditure use

In view of the importance of public expenditure on social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core

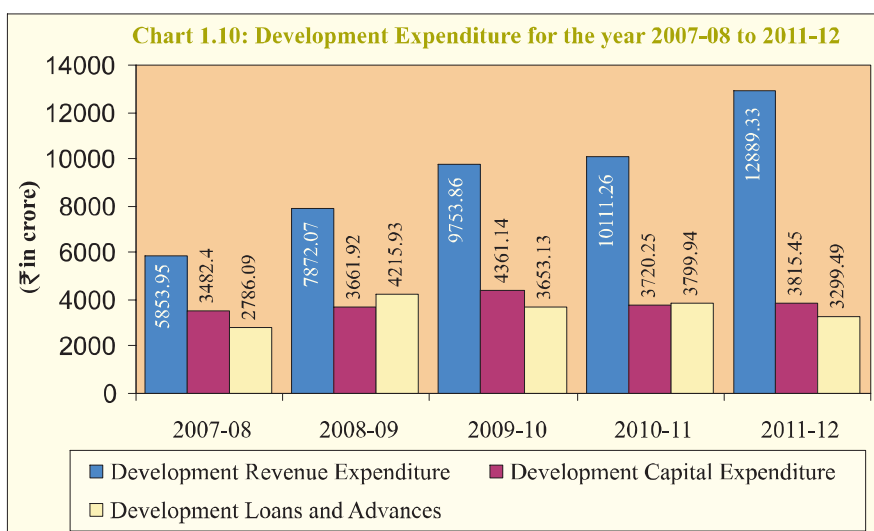
public and merit goods* apart from improving the allocation towards development expenditure, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years. **Table 1.5** presents the trends in development expenditure of the State during the current year and the previous years.

Table 1.5: Development expenditure

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					Budget Estimates	Actual
Development Expenditure (a to c below)	12122.44	15749.92	17768.13	17631.45	21213.32	20004.27
a. Development Revenue Expenditure	5853.95	7872.07	9753.86	10111.26	13820.11	12889.33
b. Development Capital Expenditure	3482.40	3661.92	4361.14	3720.25	3988.63	3815.45
c. Development Loans and Advances	2786.09	4215.93	3653.13	3799.94	3404.58	3299.49

Source: Finance Accounts



* **Core public goods** are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of citizen's rights; pollution free air and environmental goods and road infrastructure etc.

Merit goods are commodities that public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the Government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

Actual development expenditure during 2011-12 under revenue and capital was lower by ₹ 930.78 crore and ₹ 173.18 crore respectively than the estimates. This shows that the preparedness of the implementing agencies to implement various plan schemes was not fully assessed while framing the budget estimates.

The above table would also reveal that the development revenue expenditure and capital expenditure increased by 120.18 *per cent* and 9.56 *per cent* respectively during the year 2007-08 to 2011-12. Increase in development expenditure shows a positive trend towards social and economic development of the citizens of NCT of Delhi. Though the development capital expenditure increased by ₹ 95.20 crore in 2011-12 over previous year the development loan and advances decreased by ₹ 500.45 crore over the same corresponding period.

1.8 Financial analysis of Government expenditure and investments

This section presents the broad financial analysis of investments and other capital expenditure activities undertaken by the Government during the current year vis-à-vis previous years.

1.8.1 Investment and returns

As of 31 March 2012, Government had invested ₹ 14655.90 crore in statutory corporations, rural banks, joint stock companies and co-operatives (**Table 1.6**). The return on this investment was a meagre 0.33 *per cent* in the last three years while the Government paid, on an average, interest rate of 9.46 *per cent* on its borrowings during 2009-2012.

Table 1.6: Return on investment

	(₹ in crore)				
Investment/return/cost of borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year	8235.43	9682.02	11017.56	12616.58	14655.90
Return	31.15	29.92	41.56	46.59	33.00
Return (%)	0.38	0.31	0.38	0.37	0.23
Average rate of return on Govt. borrowing (%)	9.84	9.90	9.52	9.10	9.77
Difference between interest rate and return (%)	9.46	9.59	9.14	8.73	9.54

Total investment in government companies/corporations increased from ₹ 12616.58 crore at the end of March 2011 to ₹ 14655.90 crore at the end of March 2012. The increase in investment in 2011-12 over the previous fiscal year was mainly on account of new investment of ₹ 988.32 crore, ₹ 201.00 crore, ₹ 500.00 crore and ₹ 300.00 crore in Delhi Metro Rail Corporation Ltd.,

Delhi Transport Corporation, Delhi Power Company Ltd. and Pragati Power Corporation Ltd. respectively.

Four cooperative societies and companies viz, Delhi Cooperative Housing Finance Society Ltd., Indraprastha Medical Corporation Ltd., Delhi Tourism and Transportation Development Corporation, and Pragati Power Corporation Limited with government investment of ₹ 1884.57 crore upto March 2012 gave dividend of ₹ 33.00 crore, during 2011-12, which was meager 1.75 per cent of the investment in these companies.

1.8.2 Loans and advances by state Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many institutions/organizations. Total outstanding loans and advances as on 31 March 2012 was ₹ 48116.89 crore (Table 1.7).

Table 1.7: Average interest received on loans and advanced by the State Government

	(₹ in crore)			
Quantum of Loans/Interest Receipts/Cost of Borrowings	2008-09	2009-10	2010-11	2011-12
Opening Balance	30418.31	33836.63	39219.78	45147.73
Amount advanced during the year	4217.32	5701.30	6364.73	3345.41
Amount repaid during the year	798.99	318.15	436.77	376.25
Closing Balance	33836.64	39219.78	45147.73	48116.90
Net addition	3418.32	5383.15	5927.95	2969.17
Interest Receipts	2101.41	3236.62	3869.84	174.14
Interest receipts as per cent to outstanding Loans and advances	6.91	8.25	8.57	0.36
Interest payment as per cent to outstanding fiscal liabilities of the State Government	9.90	9.52	9.10	9.77
Difference between interest payments and interest receipts (per cent)	2.99	1.27	0.53	9.41

Loans outstanding against state level organizations/institutions constitute the major portion of total outstanding loans of NCT of Delhi. Majority of the State enterprises and institutions to whom the loans and advances were given by the Government of NCT of Delhi and remained outstanding at the end of 2011-12 were in the sectors of water supply (₹ 8251.72 crore), sewerage and sanitation (₹ 4367.37 crore), urban development schemes (₹ 1592.72 crore), road transport (₹ 12758.14 crore) and energy sector for power projects (₹ 6278.39 crore), besides miscellaneous outstanding balances of ₹ 14867 crore.

1.9 Assets and liabilities

1.9.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and the assets as on 31 March 2012, compared with the corresponding position as on 31 March 2011. The liabilities in this Appendix consist only of loans and advances from the Government of India (GOI). The assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

1.9.2 Fiscal liabilities

Overall fiscal liabilities of the State increased from ₹ 25338.96 crore in 2007-08 to ₹ 29608.29 crore in 2011-12 (16.85 *per cent*). The fiscal liabilities of ₹ 29608.29 crore during 2011-12 comprised of small savings collection of ₹ 29608.28 crore and cooperative assistance to other cooperatives ₹ 0.01 crore. Whereas during the year 2010-11 the small saving collection and assistance to other co-operatives were ₹ 30140.08 crore and ₹ 0.01 crore respectively of the total liabilities of ₹ 30140.09 crore. The fiscal liabilities stood at 1.32 times of the revenue receipts and 1.45 times of the State's own resources as at the end of 2011-12.

1.10 Debt sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability¹ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization²; sufficiency of non-debt receipts³; net

¹ Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to the sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings and returns from such borrowings. It means that a rise in fiscal deficit should match the increase in capacity to service the debt.

² 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-interest rate) and quantum spread (Debt* rate spread), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising and in case it is positive, the debt-GSDP ratio would eventually be falling.

³ Adequacy of incremental non-debt receipts of the State 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.

availability of borrowed funds⁴; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.8** analyses the debt sustainability of the State according to these indicators for the period from 2007-08 to 2011-12.

Table 1.8: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilization (Quantum Spread +Primary Deficit)	(+)2163.71	(+)2247.03	(+)1090.56	(+)5727.30	(+)3060.56
Sufficiency of Non-Debt Receipts (Resource Gap)	706.35	15.53	1479.97	4210.52	(-)6274.57
Net Availability of Borrowed Funds	(-)2733.42	(-) 2469.16	1162.53	3595.88	(-)531.80
Burden of Interest Payments (IP/RR Ratio)	16.79	15.36	12.09	10.31	13.03
Debt/GSDP Ratio	16.04	13.39	11.86	11.40	9.43

(Source: Finance Accounts of Delhi and PAO, Delhi)

- The quantum spread together with primary deficit has been positive from 2007-08 to 2011-12, which is indicative of debt being sustainable. The trend of net availability of borrowed funds was mixed during the above period.
- Revenue receipts have decreased by ₹ 2630.93 crore in 2011-12 against previous year while revenue expenditure has increased by ₹ 3583.12 crore in 2011-12 against previous year. This effected the resource gap which moved into negative territory and decreased to (-) ₹ 6274.57 crore in 2011-12 from ₹ 4210.52 crore in 2010-11.
- Though the burden of interest payment has come down from 16.79 per cent in 2007-08 to 10.31 per cent in 2010-11. There was further

⁴ 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, indicating the net availability of borrowed funds.

increase in the burden of interest payment to 13.03 *per cent* during 2011-12 due to negative growth in revenue receipt.

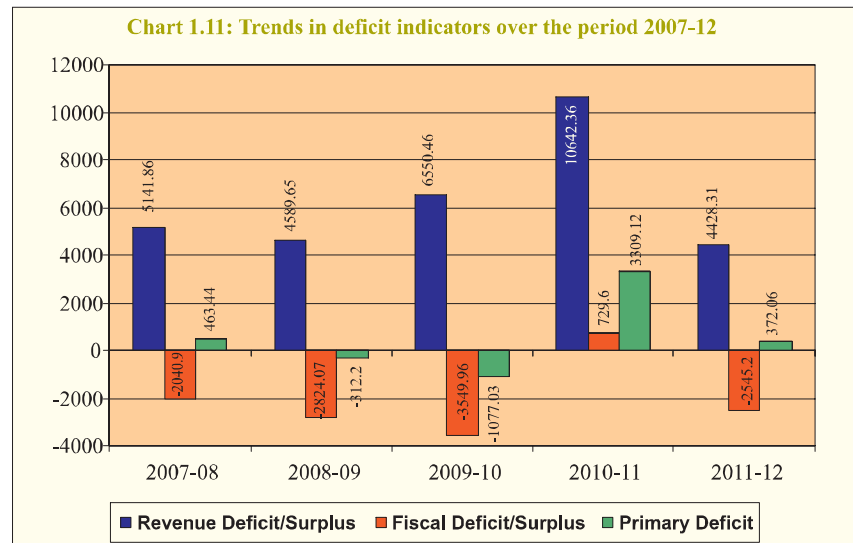
- GSDP has been continuously increasing but the debt has reduced marginally. This resulted in debt GSDP ratio going down from 11.40 *per cent* in 2010-11 to 9.43 *per cent* in 2011-12.

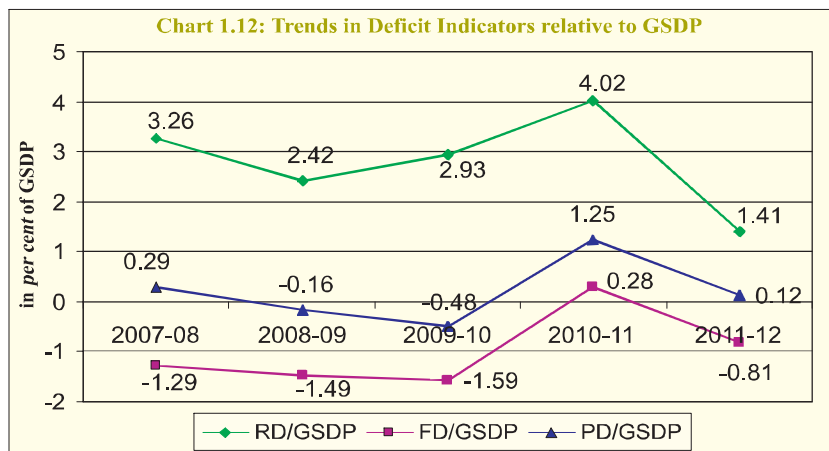
1.11 Fiscal imbalances

Three key fiscal parameters – revenue, fiscal and primary deficits – indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways of deficit financing through raising and application of resources 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.

1.11.1 Trends in deficits

Charts 1.11 and **1.12** give trends in surplus/deficit indicators during the period 2007-08 to 2011-12.





- The State has continuously shown an increasing trend in revenue surplus from ₹ 5141.86 crore in 2007-08 to ₹ 10642.36 crore in 2010-11. But, during 2011-12 a sharp decline can be noticed. It came down to ₹ 4428.31 crore in 2011-12.
- The fiscal deficit had shown an increasing trend from ₹ 2040.90 crore in 2007-08 to ₹ 3549.96 crore in 2009-10. It was positive during 2010-11 at ₹ 729.60 crore, it went into negative territory again and was ₹ 2545.20 crore during 2011-12.
- The primary deficit which changed to primary surplus of ₹ 3309.12 crore during 2010-11 showed a severe decline and was ₹ 372.06 crore during 2011-12.
- Revenue receipts decreased by 10.51 per cent in 2011-12, but revenue expenditure increased by 24.91 per cent when compared to previous year, which resulted in decrease of revenue surplus by ₹ 6214.05 crore over the previous year i.e. 2010-11.

1.11.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficits has undergone a compositional shift

as reflected in **Table 1.9**.

Table 1.9: Components of Fiscal Deficit

(₹ in crore)

Particulars		2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal Deficit/ Surplus* (-/+)		(-) 2040.90	(-) 2824.07	(-) 3549.96	(+) 729.60	(-)2545.20
Decomposition of Fiscal Deficit						
1	Revenue Deficit /Surplus (-/+)	5141.86	4589.65	6550.46	10642.36	4428.31
2	Net Capital Expenditure	3764.46	3995.40	4717.27	3984.80	4004.27
3	Net Loans and Advances	3418.29	3418.32	5383.15	5927.96	2969.17
Financing Pattern of Fiscal Deficit**						
1	Loans from GOI	(-) 229.07	42.71	1162.54	3595.88	(-) 531.80

* Deficit figure shown in – and surplus in +,

** All these figures are net of disbursement/outflows during the year

(Source: Finance Accounts and Pr. AO, Delhi)

1.11.3 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 nature of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistent 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. Since Delhi has had a revenue surplus throughout the period 2007-12, borrowed funds were being used only for capital expenditure and repayment of debt.

Table 1.10: 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)
2007-08	15143.64	7266.18	3764.46	3649.56	14680.20	(+) 7877.46	(+)463.44
2008-09	17151.21	9250.69	3995.40	4217.32	17463.41	(+) 7900.52	(-)312.20
2009-10	20769.49	11427.95	4717.27	5701.30	21846.52	(+) 9341.54	(-)1077.03
2010-11	25460.87	11802.22	3984.80	6364.73	22151.75	(+) 13658.65	(+) 3309.12
2011-12	22769.35	15047.60	4004.27	3345.42	22397.29	(+) 7721.75	(+) 372.06

(Source: Finance Accounts and PAO, Delhi)

Delhi enjoyed a primary surplus during the year 2007-08 but in 2008-09 and 2009-10, the non-debt receipts could not cover the primary expenditure resulting in primary deficit. Delhi again enjoyed a primary surplus in 2010-11 and 2011-12. Capital expenditure as a percentage of primary expenditure marginally decreased to 17.88 *per cent* in 2011-12 against 17.99 *per cent* over the previous year. This was significant when compared to 25.64 *per cent* in 2007-08. However, financial outlay on capital expenditure should translate into physical assets in a timely manner for desired outcomes to be realized.

1.12 Conclusions

The fiscal position of NCT of Delhi viewed in terms of key fiscal parameters such as revenue surplus, fiscal deficit and primary deficit, has shown that revenue surplus decreased by ₹ 6214.05 crore during the year 2011-12 over the previous year whereas, fiscal surplus turned into fiscal deficit and Primary deficit remained surplus by ₹ 372.06 crore during 2011-12 over the previous year.

These trends may, however, be viewed in light of the fact that capital expenditure has slightly increased by ₹ 19.47 crore (0.49 *per cent*) in 2011-12 over the previous year. About 91 *per cent* of the total revenue receipts during the year 2011-12 were contributed from Delhi's own resources.

However, recovery of interest receipts as a *percentage* to outstanding loans and advances disbursed by the NCT of Delhi remained inadequate to cover the cost of borrowing during the period 2007-12. Moreover, the average return on Government investment was a meagre 0.33 *per cent* in the last three years while the Government paid, on an average, an interest rate of 9.46 *per cent* on its borrowings during 2009-2012. However, the interest burden, i.e., difference between interest received and interest paid on loans and advances was continuously decreasing over the last three years as it came down to 0.53 *per cent* during 2010-11. However, this trend could not prevail further as it further increased to 9.41 *per cent* during 2011-12.

1.13 Recommendations

- Actual Development expenditure under revenue and capital heads was lower than the estimated final budget provision. The Government should streamline the process of providing its budget provisions as per the requirement of the various developmental plan schemes.
- The average return on Delhi Government's investment in statutory corporations, joint stock companies and co-operatives varied between 0.23 to 0.38 *per cent* in the past three years while the Government paid, on an average, interest of 9.10 to 9.77 *per cent* on Government borrowings. The State Government should ensure better value for money in its investments. Projects which are justified on account of

low financial but high socio-economic return may be identified and prioritized with full justification and high cost borrowings should instead be channeled there. It would also be prudent to review the working of state public sector undertakings, which are incurring huge losses and work out a turnaround strategy.