Executive Summary

Background

Maharashtra is the second largest State in India, in terms of population and third in terms of geographical area. The State has shown higher economic growth in the past decade as the compound annual growth rate of its Gross State Domestic Product for the period 2003-04 to 2012-13 has been 16.73 *per cent* as compared to 16.37 *per cent* in the General Category States of the country. The population below the poverty line in Maharashtra (17.35 *per cent*) is lower than the All India Average (21.92 *per cent*). During the above mentioned period, its population grew by 16 *per cent* against 13.22 *per cent* in General Category States. However, the per capita income compound annual growth rate in Maharashtra (14.83 *per cent*) has been lower than that of the General Category States (14.94 *per cent*) in the current decade.

This Report on the Finances of the Government of Maharashtra is being brought out with a view to objectively assess the financial performance of the State during 2012-13 and to provide the State Government and State Legislature with timely inputs based on audit analysis of financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government Fiscal Responsibilities and Budgetary Management Act, 2005 and in the Budget Estimates of 2012-13.

The Report

Based on the audited accounts of the Government of Maharashtra for the year ended March 2013, this Report provides an analytical review of the Annual Accounts of the Government. The Report is structured in three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of the Maharashtra Government's fiscal position as on 31 March 2013. It provides an insight into trends of committed expenditure and the borrowing pattern, besides giving a brief account of Central funds transferred directly to the State implementing agencies, without routing it through the State budget.

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

Chapter III is an inventory of the Maharashtra Government's compliance with various reporting requirements and financial rules. The report also compiles the data collated from various Government Departments/ organisations in support of the findings.

Audit findings and recommendations

Chapter I

Finances of the State Government

Fiscal Correction: The fiscal parameters *i.e.* revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of the

State Government during a specified period. The significant gap between the growth rates of the revenue receipts (18 *per cent*) and revenue expenditure (12 *per cent*) over the previous year resulted in a turn around to revenue surplus during 2012-13 from the revenue deficit for the past three years.

During 2012-13 the State achieved both the major parameters specified by the Thirteenth Finance Commission (ThFC) *viz.,* revenue deficit to zero and fiscal deficit within three *per cent* of Gross State Domestic Product (GSDP).

Interest payments: Interest payments (₹ 19,076 crore), which increased by nine *per cent* during the year over 2011-12, were within the projection made in the ThFC (₹ 20,783 crore), but more than the projections made in the Medium Term Fiscal Policy Statement (₹ 18,523 crore) and less than the projections made in the Fiscal Correction Path (₹ 21,117 crore).

Non-Plan revenue expenditure: The revenue expenditure (₹ 1,38,736 crore) constituted 88 *per cent* of the total expenditure (₹ 1,57,550 crore), of which, 82 *per cent* was the Non-Plan component (₹ 1,14,206 crore). The Non-Plan Revenue Expenditure remained higher than the normative assessments made by the Thirteenth Finance Commission (₹ 85,884 crore), the State Government's projections (Medium Term Fiscal Policy Statement/Budget) (₹ 1,07,755 crore) and that projected in the Fiscal Correction Path (₹ 1,09,832 crore).

Capital Expenditure: The percentage of Capital expenditure to total expenditure showed a declining trend from 20 *per cent* in 2008-09 to 11 *per cent* in 2012-13. The ratio of Capital Expenditure to Aggregate Expenditure in 2012-13 was lower than the ratio of General Category States. Greater fiscal priority needs to be given to this area as increased priority to physical capital formation will increase the growth prospects of the State by creating durable assets.

Fiscal Priority: The priority given to health and family welfare in the State was less than that given to the General Category States. Greater fiscal priority needs to be given to the area of health by the State Government.

Ongoing Projects: Of the 601 ongoing irrigation projects, 225 projects were under execution for more than 15 years of which, 77 projects were under execution for more than 30 years. The balance estimated cost of 601 ongoing projects was ₹ 82,609.64 crore of which, there was cost overrun of ₹ 47,427.10 crore in 363 ongoing projects. In respect of 181 ongoing projects relating to Public Works and Roads and Bridges, time overrun up to six years was noticed as of 31 March 2013.

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 0.04 and 0.06 *per cent* in the past three years while the Government paid an average interest of 7.10 to 7.23 *per cent* on its borrowings. Thus, this was an unsustainable proposition.

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 strategy should be worked out for those undertakings which can be made viable.

Guarantee: The committed liabilities of the Government of Maharashtra on account of invocation of guarantees as on 31 March 2013 was ₹ 2,583.45 crore. There was lack of control and effective monitoring on recovery of guarantee fee from the beneficiary institutions.

Cash management: The State Government is having a high cash balance, significant part of which is pertaining to balances in public accounts. Serious efforts need to be made to reduce balance in public accounts. The State should utilise its surplus cash balance before resorting to borrowing.

Debt sustainability*:* During 2012-13, the fiscal liabilities (₹ 2,81,434 crore) of the State increased over the previous year by 10 *per cent*. The fiscal liabilities to Gross State Domestic Product ratio at 20.5 *per cent* was lower than the norm of 25.8 *per cent* recommended by the Thirteenth Finance Commission and the Maharashtra Fiscal Responsibility and Budgetary Management Rules of 2011.

Oversight of funds transferred directly from Government of India to the State implementing agencies: The Government of India directly transferred ₹ 7,489 crore to the State implementing agencies during 2012-13 which was an increase of ₹ 345 crore (five *per cent*) over the previous year. Funds transferred directly from Government of India to State implementing agencies results in non-monitoring of the expenditure incurred by them on various Schemes as these funds are not reflected in the State budget. It also inhibits the Maharashtra Fiscal Responsibility and Budgetary Management requirement of transparency in fiscal operations and thus, bypasses accountability. The present mechanism does not provide a complete picture of the resources under the control of the State Government.

There is a need for uniform accounting practices to be followed by all the implementing agencies in receipt of direct funds from the Government of India and a system of timely reporting of the expenditure incurred to the State Government for proper monitoring.

Chapter II

Financial Management and Budgetary Control

The slow pace of programme implementation of various social and developmental programmes in the State left an overall savings of ₹ 22,753.87 crore, set off by an excess of ₹ 1,004.16 crore. This requires regularisation under Article 205 of the Constitution of India. There were instances of inadequate provision of funds and unnecessary/excessive re-appropriations. Rush of expenditure at the end of the financial year was another chronic feature noticed in the State. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of March 2013, leaving no scope for utilizing these funds for other developmental purposes.

All the Departments should submit realistic budget estimates, keeping in view the trend of expenditure and the actual requirement of funds in order to avoid large savings/excesses. All the Departments should closely monitor the expenditure against the allocations and incurring of excess expenditure over the grants should be strictly avoided. Surrender of funds should be done much before the last working day of the closing year so as to enable the Government to utilize the funds on other Schemes. Release of funds at the end of the year should be avoided.

Instances of Government receipts being kept in Personal Ledger Account without crediting the same to the Consolidated Fund of the State were also noticed.

Chapter III

Financial Reporting

The Government's compliance with various rules, procedures and directives was lacking in various Departments, which was evident from delays in furnishing of utilization certificates against loans and grants by various grantee institutions. Delays were also seen in submission of annual accounts by autonomous bodies and departmentally managed commercial undertakings. There were instances of large outstanding cases of losses and misappropriations for which departmental action was pending since long. There were delays in submission of Detailed Contingent bills drawn against Abstract Contingent bills. Significant amounts of expenditure and receipts under Central and State Schemes booked under the Minor Head '800-Other Expenditure' and '800-Other Receipts' were not distinctly depicted in the State Finance Accounts of 2012-13 thus, adversely affecting its transparency.

The Departments should ensure timely submission of utilisation certificates in respect of the grants released for specific purposes to the grantee institutions and the annual accounts in respect of the autonomous bodies to the Principal Accountant General (Audit) I, Maharashtra, Mumbai and Accountant General (Audit) II, Maharashtra, Nagpur. Departmental enquiries in respect of all fraud and misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases. An effective monitoring mechanism should be put in place in the Departments to adjust the advances drawn on Abstract Contingent bills within the stipulated period, as required under the extant rules.