Executive Summary

Background

In response to the Twelfth Finance Commission's recommendations, the Gujarat Government enacted the Gujarat Fiscal Responsibility Act, 2005 (GFRA) which incorporated the objectives of prudence in fiscal management, fiscal stability by progressive elimination of revenue deficit, sustainable debt management and greater transparency in the fiscal operations of the Government.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (ThFC) recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. The State Legislature in March 2011 amended the Fiscal Responsibility Act in line with the recommendations. This required the State to reduce the revenue deficit to zero by 2011-12, the fiscal deficit to not more than three *per cent* of the estimated GSDP for the year beginning 2011-12, to cap the total public debt of the State Government to 27.1 *per cent* of the estimated GSDP by end of 2014-15 and to cap the outstanding guarantees within the limit (₹ 20,000 crore) prescribed in the Gujarat State Guarantees Act, 1963.

The Report

Based on the audited accounts of the Government of Gujarat for the year ending March 2014, this Report provides an analytical review of the Annual Accounts of the State Government. The Report is structured in three Chapters.

Chapter I is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2014. It provides an insight into trends of different components of the government's receipts, expenditure and borrowing pattern, besides giving a brief account of Central funds transferred directly to State implementing agencies through the off-budget route.

Chapter II is based on the Appropriation Accounts and gives a grant-wise 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 Government's compliance with various reporting requirements and financial rules. The Report also has additional data collated from several other sources in support of the findings.

Audit findings and recommendations

Fiscal position

The State had a revenue deficit during the period 2009-11 which turned into a revenue surplus during the period of 2011-12 to 2013-14. In 2013-14, the State had a revenue surplus of ₹ 4,717 crore, a decrease of ₹ 853 crore over the previous year. The decrease in the revenue surplus during the current year was mainly on account of an increase of only ₹ 4,747 crore (6.31 *per cent*) in revenue receipts against an increase of ₹ 5,601 crore (8.04 *per cent*) in revenue expenditure over the previous year. The fiscal deficit increased from ₹ 15,153 crore in 2009-10 to ₹ 18,422 crore in 2013-14. Fiscal deficit during the year increased by ₹ 1,930 crore over the previous year. The increase was mainly on account of increase of ₹ 1,450 crore (6.83 *per cent*) in capital expenditure. An increase of ₹ 1,930 crore in fiscal deficit together with an increase of ₹ 1,171 crore in interest payment resulted in increase of ₹ 759 crore in primary deficit from ₹ 4,331 crore in 2012-13 to ₹ 5,090 crore in 2013-14.

The expenditure on Grants-in-aid and subsidies should be booked under revenue expenditure in the accounts. However, during 2013-14, the Government of Gujarat wrongly budgeted and booked expenditure of ₹ 1,462.75 crore on account of Grants-in-aid and expenditure of ₹ 170.75 crore on account of subsidy under the capital section instead of revenue section. This has resulted in understatement of revenue expenditure and overstatement of revenue surplus to the tune of ₹ 1,633.50 crore.

During the period 2009-10 to 2013-14, the non-debt receipts did not cover the primary expenditure[1] resulting in primary deficit in each year. In 2013-14, primary revenue expenditure and capital expenditure increased over the previous year without commensurate increase in non-debt receipts resulting in increase in primary deficit from ₹ 4,331 crore to ₹ 5,090 crore.

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 13,358 crore and ₹ 11,923 crore at the end of 2012-13 and 2013-14 respectively. The high level of investment held in 'Cash Balance Investment Account' at the end of these financial years indicates that there is need for better cash management.

State's own resources

The tax revenue of the State in 2013-14 slightly exceeded the ThFC projection by ₹ 430 crore. However, it could not achieve the target of budget estimates and MTFPS projection and stood lower by ₹ 3,835 crore (6.37 *per cent*). Actual non-tax revenue was slightly less than MTFPS projections and more than ThFC projections (5.44 *per cent*) and Budget estimates (10.00 *per cent*).

[1]Primary Expenditure is total expenditure except interest payments of the concerned year.

Revenue expenditure

The share of revenue expenditure in total expenditure declined from 85.16 *per cent* in 2009-10 to 76.38 *per cent* in 2013-14 mainly on account of high growth rate attained by capital expenditure during this period except 2013-14.

Revenue expenditure continuously increased from ₹ 48,638 crore in 2009-10 to ₹ 75,259 crore in 2013-14. However, the growth rate fluctuated widely from 25.55 *per cent* in 2009-10 to 4.01 *per cent* in 2011-12 to 8.04 *per cent* in 2013-14.

Quality of expenditure

Development expenditure of the State comprises revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from ₹ 39,806 crore in 2009-10 to ₹ 70,525 crore in 2013-14. As a percentage of the total expenditure, the total development expenditure of the State increased from 69.70 *per cent* in 2009-10 to 71.57 *per cent* in 2013-14.

Investment and returns

Government had invested ₹ 55,058 crore in Statutory Corporations, Government Companies, Rural Banks, Joint Stock Companies, Co-operative Institutions etc,. During 2013-14, Government invested ₹ 603 crore in Statutory Corporations, ₹ 7,188 crore in Government Companies and ₹ 96 crore in Co-operative institutions, etc. Though during the period of last five years, the State Government invested ₹ 24,007 crore, the average return by way of dividend on the investments in Government companies and Statutory Corporations etc., was 0.31 *per cent*.

Oversight of funds transferred directly from the Union to the State implementing agencies

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies for the implementation of various schemes/programmes in social and economic sectors. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture these fund flows and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them are not representing the overall picture of the resources under the control of the State Government. During 2013-14, ₹ 4,785.40 crore was transferred to the State Implementing Agencies which was ₹ 34.24 crore less than that of the previous year.

The Government of India has decided that the plan assistance under all Centrally Sponsored Schemes (CSS) and block grants would now be classified as Central Assistance to State Plan. It has also decided to transfer the central assistance through the Consolidated Fund of the state in a phased manner from 2014-15 onwards.

Funds and other Liabilities

There were 16 Reserve Funds earmarked for specific purposes, out of which six funds were inoperative. The total accumulated balance as on 31 March 2014 in these funds was ₹ 8,990.38 crore (₹ 8,838.83 crore in operational funds and ₹ 151.55 crore in non-operational funds). However, the investment out of these funds was only ₹ 5,168.68 crore.

Debt sustainability

The positive resource gap for two consecutive years turned into negative in 2012-13 and continued in 2013-14. It happened mainly on account of 7.03 per cent increase in primary expenditure against only 6.43 per cent increase in non-debt receipts during current year. The net funds available from borrowed fund after providing for the interest and repayment declined from ₹ 6,912 crore in 2010-11 to ₹ 3,058 crore in 2013-14.

Financial management and budgetary control

Against total provision of ₹ 1,18,537.03 crore during 2013-14, an expenditure of ₹ 1,05,794.46 crore was incurred. This resulted in a total savings of ₹ 12,742.57 crore which was a result of the savings of ₹ 13,768.92 crore being offset by the excess of expenditure ₹ 1,026.35 crore under various grants.

As of now the excess expenditure of ₹ 9,400.24 crore (₹ 1,026.35 crore plus ₹ 8,373.89 crore) relating to the period 2003-04 to 2013-14 requires regularisation under Article 205 of the Constitution of India.

In three grants/appropriations in which savings of ₹ 49.55 crore occurred, the amounts had not been surrendered by the concerned departments.

Under 96 grants, out of the total provision of ₹ 36,177.23 crore in respect of 924 sub-heads, ₹ 12,846.30 crore (35.51 *per cent*) were surrendered.

Financial reporting

Non-submission of utilisation certificates of ₹ 7,420.40 crore indicates lack of proper monitoring by the departments in utilisation of grants given for specific purposes. There has been non-submission/delay in submission of accounts of autonomous bodies/authorities. There is pendency in submission of detailed contingent bills against large amounts drawn on abstract contingent bills amounting to ₹ 281.53 crore by the departmental authorities. The 170 outstanding cases of misappropriations, losses etc., and non recovery of amounts indicate lack of adequate efforts by the departments to make good the losses and fix responsibility. Further, accounting of various important items of expenditure relating to various sectors, revenue receipts etc. under omnibus Minor Head – 800 resulted in non classification of diverse activities of the Government under available minor heads.