EXECUTIVE SUMMARY

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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 2004-05 to 2013-14 has been 16.73 *per cent* as compared to 15.49 *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 of 21.92 *per cent*. During the above mentioned period, its population grew by 16 *per cent* against 12.94 *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 (14.88 *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 2013-14 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 2013-14.

The Report

Based on the audited accounts of the Government of Maharashtra for the year ended March 2014, 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 2014. It provides an insight into trends of committed expenditure and the borrowing pattern.

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 to various reporting requirements and financial rules. The report also compiles the data collated from various Government departments/organisations in support of the audit 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.

During 2013-14, the State achieved two of the three major parameters specified by the Thirteenth Finance Commission and under Maharashtra Fiscal Responsibility and Budgetary Management Act *viz.* (i) the ratio of fiscal liability to Gross State Domestic Product at 19.9 *per cent* was lower than the norm of 25.5 *per cent*, and (ii) the fiscal deficit at 1.76 *per cent* of Gross State Domestic Product was lower than the norm of three *per cent*. However, the third parameter of revenue surplus could not be achieved during 2013-14. The significant gap between the growth rates of the revenue receipts (five *per cent*) and revenue expenditure (12 *per cent*) over the previous year resulted in revenue deficit of ₹ 5,081 crore during 2013-14 from revenue surplus of ₹ 4,211 crore in 2012-13.

Revenue receipts: The State could not maintain the momentum of growth of revenue receipts it achieved during 2010-11 to 2012-13. The rate of growth of revenue receipts decreased from 17.86 *per* cent in 2012-13 to 4.81 *per cent* in 2013-14. There was a decrease in grants-in-aid from Government of India in 2013-14 as compared to 2012-13, mainly due to under-utilisation/ non-utilisation of Thirteenth Finance Commission grants. There was a short-receipt of interest relief of ₹ 406.52 crore during 2010-12 and ₹ 418.30 crore during 2013-14 on account of reset of National Small Savings Fund interest rates.

Interest payments: Interest payments (₹ 21,207 crore), which increased by 11 *per cent* during the year over 2012-13, were less than the projections made in the Thirteenth Finance Commission (₹ 23,577 crore) and Fiscal Correction Path (₹ 23,647 crore) but, marginally higher than the projections made in the Medium Term Fiscal Policy Statement (₹ 21,098 crore).

Non-plan revenue expenditure: The revenue expenditure (₹ 1,54,902 crore) constituted 88 *per cent* of the total expenditure (₹ 1,76,568 crore). Of the revenue expenditure (₹ 1,54,902 crore), 83 *per cent* (₹ 1,28,992 crore) was incurred on the non-plan component and as a percentage of revenue receipts, it increased to 86 *per cent* in 2013-14 from 80 *per cent* in 2012-13. The non-plan revenue expenditure remained higher than the normative assessments made by the Thirteenth Finance Commission (₹ 93,328 crore), the projections made in the Medium Term Fiscal Policy Statement/Budget (₹ 1,25,647 crore) and that projected in the Fiscal Correction Path (₹ 1,21,699 crore).

Capital expenditure: The percentage of capital expenditure to total expenditure showed a declining trend from 15 *per cent* in 2009-10 to 11 *per cent* in 2013-14. The ratio of capital expenditure to aggregate expenditure in 2013-14 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 (4.17 *per* cent) than that given to the General Category States (4.51 *per* cent). Greater fiscal priority needs to be given to this area.

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 0.02 and 0.05 *per cent* in the past three years while the Government paid an average interest of 7.42 *per cent* to 7.54 *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 channeling 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.

Loans given by the State Government: The recovery of loan and share capital given by the Co-operation, Marketing and Textiles Department to various co-operative societies was poor. As of March 2014, the Co-operation, Marketing and Textiles Department released loans and share capital of ₹ 7,033.89 crore to various co-operative societies of which, the amount due for recovery was ₹ 2,605.34 crore. However, the recoveries were meagre at ₹ 370.21 crore (14.20 *per cent*).

Cash balances: There was a decrease of four *per cent* in the cash balances of the State Government over the previous year, significant part of which pertained to balances in public accounts. The cash balances (₹ 46,883 crore) was nearly 27 *per cent* of the total expenditure (₹ 1,76,568 crore) of the State Government during 2013-14.

Debt sustainability: The resource gap in the State during 2011-12 and 2013-14 was negative, indicating decreasing capacity of the State to sustain the debt in the medium to long run. This was a result of insufficiency of the incremental non-debt receipt to meet the incremental primary expenditure and incremental interest payments.

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 saving of ₹ 27,625.88 crore, set-off by an excess of ₹ 604.64 crore. This requires regularisation under Article 205 of the Constitution of India. There were instances of inadequate provision of funds. 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 2014, leaving no scope for utilising these funds for other developmental purposes.

All the departments should submit realistic budget estimates, keeping in view the trends 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 State 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 Accounts without crediting the same to the Consolidated Fund of the State were also noticed.

Chapter III

Financial Reporting

The Government's compliance to various rules, procedures and directives was lacking in various departments which was evident from delays in furnishing of utilisation certificates by various grantee institutions against the loans and grants-in-aid. 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 2013-14 thus, adversely affecting its transparency.

The departments should ensure timely submission of utilisation certificates in respect of the grants released to the grantee institutions for specific purposes. The annual accounts in respect of the autonomous bodies should be submitted timely 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 and internal controls in all the organisations should be strengthened. 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.