

Finances of the State Government

Profile of Gujarat

Gujarat is situated on the west coast of India, bound by the Arabian Sea in the west and the states of Rajasthan in the north, Madhya Pradesh in the east and Maharashtra in the south. The State also shares an international border with Pakistan on the north western fringe. It has a coastline of about 1,600 kilometres, which is one third of India’s mainland coastline. It is the seventh largest State in terms of geographical area (1,96,024 sq.km) and the ninth largest by population. As indicated in **Appendix 1.1** the State’s population increased from 5.07 crore in 2001 to 6.04 crore in 2011 recording a decadal growth of 19.13 *per cent*. The percentage of population below the poverty line was 27.4 *per cent* as compared to the all-India average of 29.5 *per cent*. The State’s Gross State Domestic Product (GSDP) in 2014-15 at current prices was ₹ 8,58,189¹ crore. The State’s literacy rate increased from 69.14 *per cent* (as per 2001 census) to 78 *per cent* (as per 2011 census). General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State’s economy as it indicates the standard of living of the State’s population. The trends in the annual growth of the State’s GSDP as compared to India’s GDP at current prices are indicated below:

Table 1.1: Trends- Annual growth of State’s GSDP as compared to India’s GDP

	2010-11	2011-12	2012-13	2013-14	2014-15
India’s GDP (₹ in crore) (Base year 2004-05)	72,48,860	83,91,691	93,88,876	1,04,72,807	NA
Growth rate of GDP (percentage)	18.66	15.77	11.88	11.54	NA
State’s GSDP (₹ in crore)	5,21,519	5,98,786	6,58,540(P)	7,65,638(Q)	8,58,189(A)
Growth rate of GSDP (percentage)	20.93	14.82	9.98	16.26	12.09

Estimates: (P) = Provisional, (Q) = Quick and (A) = Advance
 (Source: Ministry of Statistics and Programme Implementation, Central Statistical Organisation, Directorate of Economics and Statistics, Gandhinagar)

1.1 Introduction

This chapter provides a broad perspective on the finances of the Government of Gujarat during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall

¹ Advance estimates by Directorate of Economics and Statistics, Gandhinagar

trends during the last five years. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1 Part B and Part C**. The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.2**.

1.1.1 Summary of Fiscal Transactions in 2014-15

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2014-15) *vis-à-vis* the previous year while **Appendix 1.3** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of Fiscal transactions

(₹ in crore)

Receipts			Disbursements				
	2013-14	2014-15		2013-14	2014-15		
					Non- Plan	Plan	Total
Section-A: Revenue							
Revenue receipts	79,975.74	91,977.78	Revenue expenditure	75,258.54	60,065.41	26,586.30	86,651.71
Tax revenue	56,372.37	61,339.81	General services	26,820.37	28,761.35	1,241.97	30,003.32
Non-tax revenue	7,018.31	9,542.61	Social services	32,381.78	19,884.80	16,829.35	36,714.15
Share of Union taxes/ duties	9,701.93	10,296.35	Economic services	15,730.72	10,883.70	8,514.98	19,398.68
Grants from Government of India	6,883.13	10,799.01	Grants-in-aid and Contributions	325.67	535.56	0.00	535.56
Section-B: Capital							
Misc. Capital receipts	0.00	241.00	Capital Outlay	22,677.37	84.00	24,073.76	24,157.76
Recoveries of Loans and Advances	140.69	621.38	Loans and Advances disbursed	603.22	48.72	301.18	349.90
Public Debt receipts*	19,343.04	19,453.94	Repayment of Public Debt*	6,203.91	-	-	5,509.20
Contingency Fund	0.00	0.11	Contingency Fund	0.11	-	-	14.16
Public Account receipts	52,019.52	62,387.52	Public Account disbursements	50,039.25	-	-	52,309.01
Opening Cash Balance	18,689.89	15,386.48	Closing Cash Balance	15,386.48	-	-	21,076.47
Total	1,70,168.88	1,90,068.21		1,70,168.88			1,90,068.21

(Source: Finance Accounts of the respective years)

*Excluding net transactions under ways and means advances and overdrafts.

The following are the significant changes during 2014-15 over the previous year:

- Revenue receipts grew by ₹ 12,002 crore (15.01 *per cent*) over the previous year. The increase was mainly due to increase in grants from the

Government of India (GoI) by ₹ 3,916 crore (56.89 *per cent*) and increase in the non-tax revenue by ₹ 2,524 crore (35.97 *per cent*). The State's own tax revenue increased by ₹ 4,967 crore (8.81 *per cent*), while the State's share of Union taxes/ duties increased by ₹ 594 crore (6.13 *per cent*).

- Revenue expenditure increased by ₹ 11,393 crore (15.14 *per cent*) over the previous year mainly due to increase in expenditure on General Services by ₹ 3,183 crore (11.87 *per cent*), on Social Services by ₹ 4,332 crore (13.38 *per cent*), and on Economic Services by 3,668 crore (23.32 *per cent*).
- Capital outlay increased by ₹ 1,480 crore (6.53 *per cent*) over the previous year whereas the disbursement of loans and advances decreased by ₹ 253 crore (41.99 *per cent*).
- Public debt receipts increased by ₹ 111 crore while repayment of public debt decreased by ₹ 695 crore. The net availability of public debt receipt of ₹ 13,945 crore during 2014-15 was 6.13 *per cent* more than that of previous year of ₹ 13,139 crore.

1.1.2 Review of fiscal situation

As per the Gujarat Fiscal Responsibility Act, 2005 (GFRA 2005) enacted in line with the recommendations of the Twelfth Finance Commission (TwFC), the State Government had agreed for elimination of revenue deficit by the end of 2007-08 and reduction of fiscal deficit to not more than three *per cent* of the GSDP by 31 March 2009. Similarly, the target of the ratio of Public Debt to GSDP was 30 *per cent* by March 2008. Total outstanding guarantees were to be capped within the limit provided in the Gujarat State Guarantee Act, 1963. Though the State had achieved the above targets by 2006-07, the fiscal deficit targets for 2009-10 and 2010-11 were relaxed by one *per cent* and 0.5 *per cent* of GSDP respectively by GoI.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (ThFC) has recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. This requires the State to reduce the revenue deficit to zero from 2011-12 onwards, reduce the fiscal deficit to three *per cent* of the estimated GSDP of the year beginning 2011-12 and maintain it thereafter and to cap the total outstanding debt of the State Government from the level of 28.8 *per cent* in 2011-12 to 27.1 *per cent* at the end of 2014-15 of the estimated GSDP for the respective financial year. The State Legislature in March 2011 amended the Fiscal Responsibility Act after the recommendations of the ThFC.

Major fiscal variables provided in the budget based on recommendations of the ThFC and the projections made in the Medium Term Fiscal Policy Statement (MTFPS) - 2014 are depicted in **Table 1.3**.

Table 1.3: Major Fiscal variables

Fiscal variables	2014-15		Achievement
	ThFC targets for the State	Targets proposed in the Budget and Projections made in MTFPS	
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	0	(+)6,837	5,326
Fiscal Deficit/GSDP (in per cent)	3	2.45	2.13
Ratio of total outstanding debt of the Government to GSDP (in per cent)	27.10	-	23.57

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as the State achieved a revenue surplus of ₹ 3,215 crore in that year. The revenue surplus stood at ₹ 5,326 crore in 2014-15 against the projection in MTFPS of ₹ 6,837 crore. At the end of 2014-15, the fiscal deficit as percentage to GSDP was 2.13 per cent, which was well within the limit of three per cent. In the Fiscal Consolidation Roadmap, ThFC fixed the target of 27.1 per cent for the ‘Total Outstanding Debt’² as percentage of GSDP at the end of 2014-15. However, the State Government fixed the target for ‘Total Public Debt’ instead of ‘Total Outstanding Debt’ as percentage of GSDP in Budget and in MTFPS. This was not in consonance with the recommendations of ThFC. Total Public Debt constitutes 81 per cent of Total Outstanding Debt in 2014-15. However, the State’s total outstanding debt as percentage of GSDP was 23.57 per cent in 2014-15 which was within the target of 27.1 per cent fixed by the ThFC.

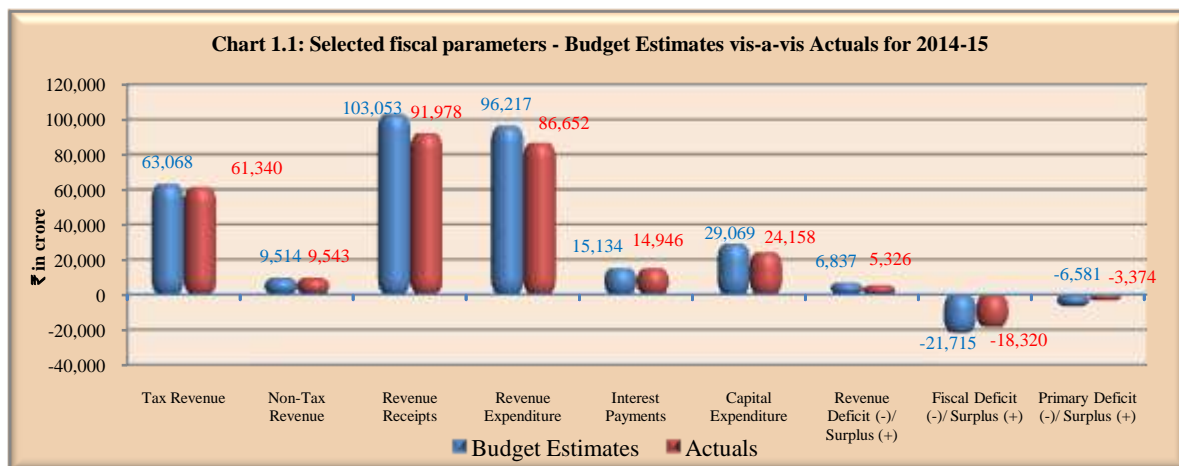
Expenditure on Grants-in-aid and subsidies should be booked under revenue expenditure in accounts. However, during 2014-15, the Government of Gujarat wrongly budgeted and booked expenditure of ₹ 871.43 crore relating to Grants-in-aid and expenditure of ₹ 55 crore on account of subsidy under the capital section instead of revenue section. This has resulted in understatement of revenue expenditure and consequent overstatement of revenue surplus to the tune of ₹ 926.43 crore.

1.1.3 Budget Estimates and Actuals

Budget estimates presented by the State Government provide a description of the projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates are indicative of the fact that due care has not been taken during their estimation. Further, it also indicates non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes, some within the control of the Government and some beyond the control of the Government.

² Total Outstanding Debt includes Public Debt and Public Account Liabilities. Public Debt includes only Internal Debt and Loans from Government of India. Public Account Liability includes liabilities under small saving funds, GPF, Reserve funds etc.

Chart 1.1 Presents the budget estimates and actuals of some important fiscal parameters.



During 2014-15, compared to the budget estimates, the tax revenue were lower by ₹ 1,728 crore (2.74 per cent) while non-tax revenue were marginally higher by ₹ 29 crore. Further, the revenue receipts decreased over the budget estimates by ₹ 11,075 crore (10.75 per cent) mainly on account of lower realization of tax revenue against the budget estimates. Against an estimated revenue surplus of ₹ 6,837 crore, the financial year ended with a revenue surplus of ₹ 5,326 crore.

The revenue expenditure was lower than the budget estimates by ₹ 9,565 crore (9.94 per cent). The actual capital expenditure, though increased over the previous year, stood lower than the budget estimate by ₹ 4,911 crore (16.89 per cent), indicating asset creation was not given as much priority as initially intended in the budget estimates. The non achievement of estimated revenue surplus was mainly on account of lower realisation of revenue receipts than estimated in the budget. Due to lower revenue and capital expenditure than budgeted, the actual fiscal deficit stood lower than the budget estimates and consequently resulted in lower primary deficit than the budget estimates.

The following tax proposals were made in the budget for the year 2014-15 with a net concession of ₹ 117 crore.

- The budget proposals included reduction of the tax credit of one per cent from two per cent on purchase of goods made within the state and used in inter-state Sales.
- In case of dealers engaged only in civil work contracts, a scheme was proposed for payment of lump sum tax retrospectively at rate of 0.6 per cent with remission of interest and penalty.
- The Budget proposed to delete the entry relating to exemption of LPG for domestic use in the State. Stamp duty on development agreement for transfer of development rights in the land was proposed to increase from one per cent to 3.5 per cent.

- If partners bring immovable property in partnership firm as capital, Stamp duty at the rate of 3.5 per cent was proposed to be levied.
- The passenger tax on sale of ticket by Gujarat State Road Transport Corporation was proposed to be reduced from 17.5 per cent to 7.5 per cent.
- The motor vehicle tax on certain vehicles was proposed for upward revision.
- It was also proposed that entertainment tax on cable TV has to be collected by local bodies.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and Grants-in-aid from the Government of India. 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. **Table 1.2** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts. **Chart 1.2** depicts the components and sub-components of resources during the year 2014-15.

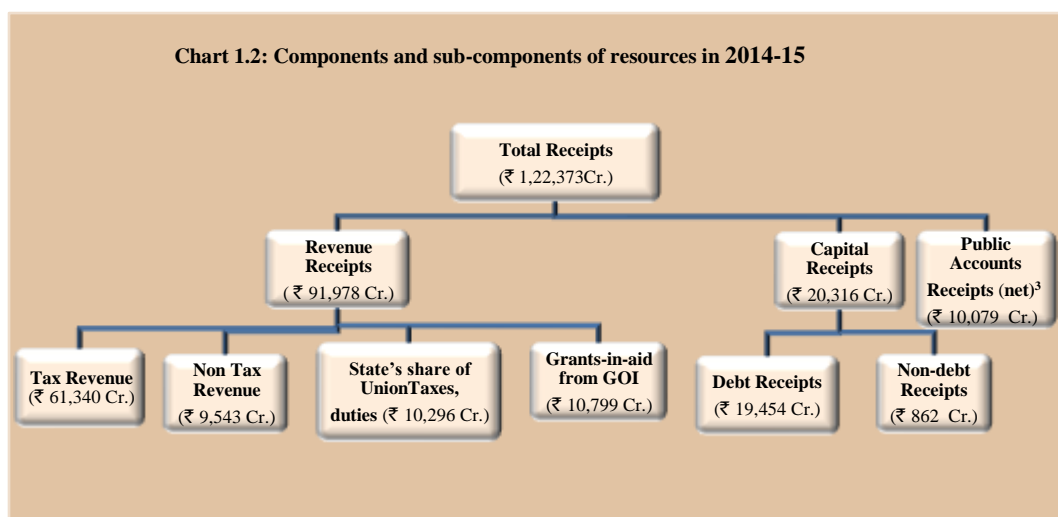
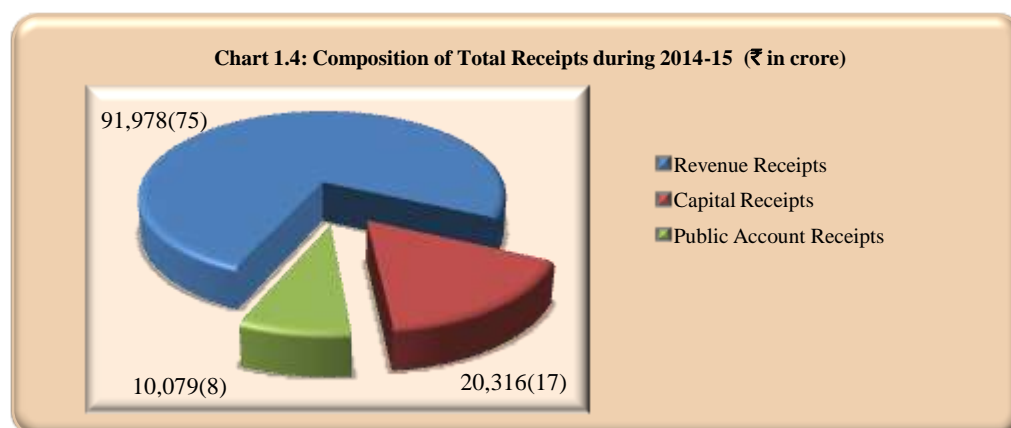
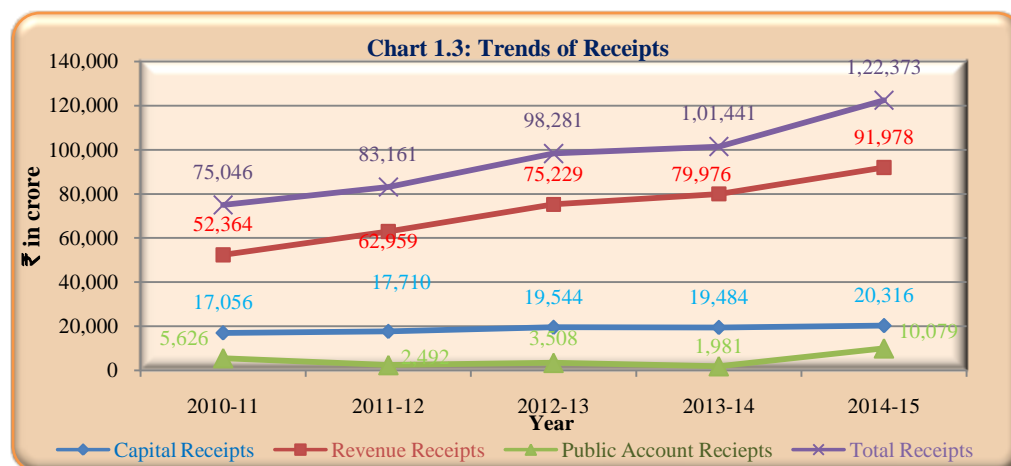


Chart 1.3 depicts the trends of various components of the State's receipts during 2010-11 to 2014-15 and **Chart 1.4** depicts the composition of resources of the State during the current year 2014-15.

³ Public Account Receipts (Gross) is ₹ 62,388 crore

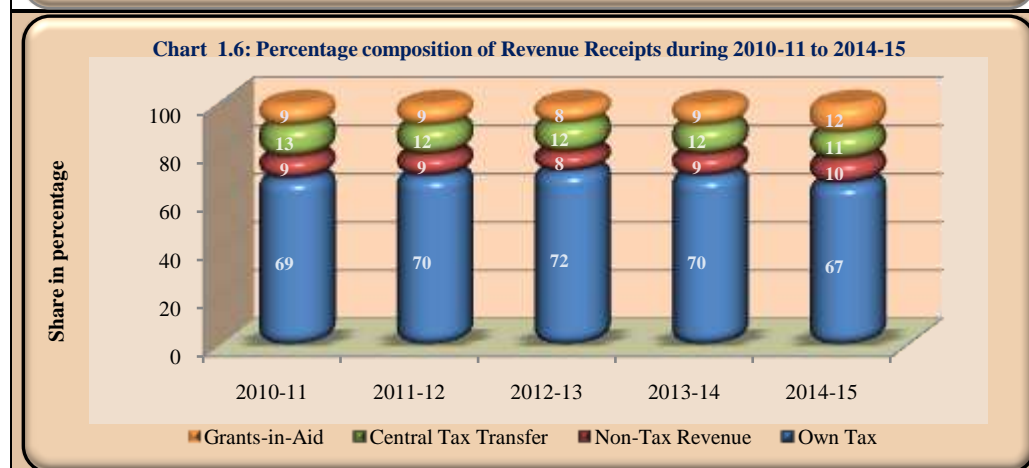
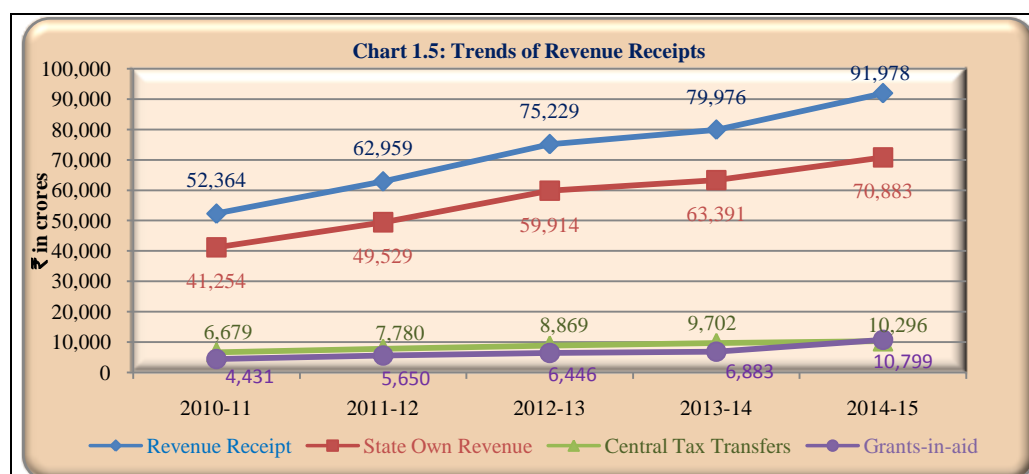


Figures in parenthesis indicate percentage share

The total resources of the State Government show a progressive increase steadily from ₹ 75,046 crore in 2010-11 to ₹ 1,22,373 crore in 2014-15. The increase in total resources during the period of 2010-11 to 2014-15 was 63.06 per cent. The relative share of Revenue receipts which stood at 70 per cent of the total resources in 2010-11 increased to 75 per cent in 2014-15, while that of Capital receipts and Public Account receipts to total resources, declined from 22.73 per cent and 7.50 per cent in 2010-11 to 16.60 per cent and 8.23 per cent in 2014-15 respectively.

1.3 Revenue Receipts

Statement-14 of the Finance Accounts details the revenue receipts of the Government. Revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and Grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2010-11 to 2014-15 are presented in the **Charts 1.5** and **1.6** and also depicted in **Appendix 1.4**.



The revenue receipts during the year 2014-15 grew by 15.01 per cent over the previous year due to 35.97 per cent increase in non-tax revenue, 8.81 per cent increase in State's own tax revenue, 56.89 per cent increase in grants-in-aid and 6.13 per cent increase in central tax transfer.

Chart 1.6 depicts that 77 per cent of revenue came from State's own resources during 2014-15 and the balance was from GOI in the form of State's share of taxes and Grants-in-aid. The share of own tax revenue increased from 69 per cent in 2010-11 to 72 per cent in 2012-13 and then decreased in subsequent years.

Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As the GSDP grows, the ability of the State's own tax revenue should increase. The trends of revenue receipts relative to GSDP are presented in **Table 1.4** below:

Table 1.4: Trends of Revenue Receipts relative to GSDP

	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Receipts (RR) (₹ in crore)	52,364	62,959	75,229	79,976	91,978
Rate of growth of RR (<i>per cent</i>)	25.66	20.23	19.49	6.31	15.01
R R/GSDP (<i>per cent</i>)	10.04	10.51	11.42	10.44	10.72

	2010-11	2011-12	2012-13	2013-14	2014-15
Buoyancy Ratios					
Revenue Buoyancy w.r.t. GSDP ⁴	1.23	1.37	1.95	0.39	1.24
State's Own Tax Buoyancy w.r.t. GSDP	1.72	1.47	2.18	0.28	0.73
Revenue Buoyancy with reference to State's own taxes	0.71	0.93	0.89	1.39	1.70

Source: Finance Accounts of the respective years

The GSDP at current prices increased from ₹ 7,65,638 crore in 2013-14 to ₹ 8,58,189 crore in 2014-15 representing an increase of 12.09 *per cent*. The growth rate of revenue receipts continuously declined from a high of 25.66 *per cent* in 2010-11 to 6.31 *per cent* during the year 2013-14. During 2014-15, revenue receipts grew at 15.01 *per cent* mainly on account of higher Grants-in-aid by the Central Government. It is evident from **Table 1.4** that the buoyancy of revenue receipts is more than one from the period 2010-11 to 2014-15 except during 2013-14, indicating that revenue receipts grew at higher rate than the growth of GSDP. The sharp decline in revenue buoyancy in 2013-14 was mainly on account of exceptionally low growth rate of revenue receipts. Further, State's own tax revenue was more responsive to GSDP compared to revenue receipts of the state from 2010-11 to 2012-2013 but the situation reversed for 2013-14 and 2014-15.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid from GoI are determined on the basis of recommendations of the Central Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes etc., the State's performance in mobilisation 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, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2010-11 to 2014-15 along with the respective all-India average are presented in **Appendix 1.5**.

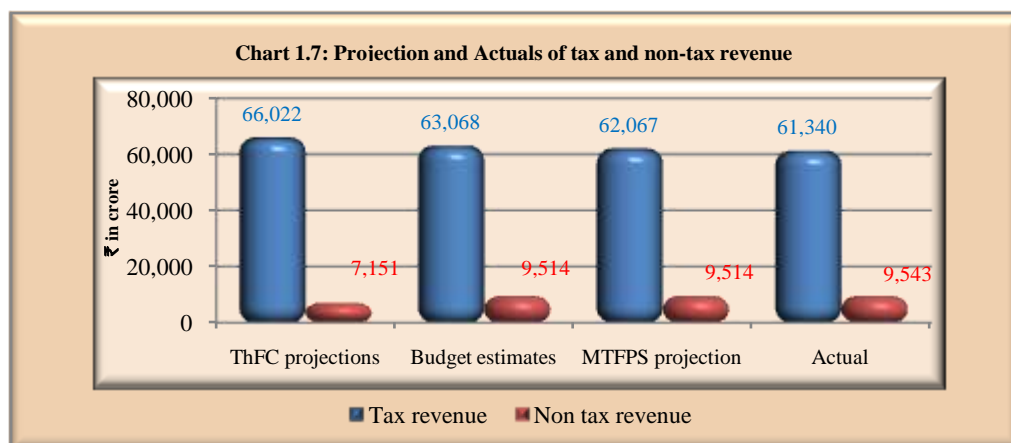
The State's actual tax and non-tax receipts for the year 2014-15 *vis-à-vis* assessment made by ThFC and MTFPS (February 2014) are presented in **Chart 1.7** and **Table 1.5** below:

Table 1.5: Projections and Actuals of tax and non-tax revenues

	(₹ in crore)			
	ThFC projections	Budget estimates	MTFPS projection	Actual
Tax revenue	66,022	63,068	62,067	61,340
Non tax revenue	7,151	9,514	9,514	9,543

Source: Finance Accounts of Gujarat State 2014-15 and Budget Publication No. 30 of GoG.

⁴ Figures differ from last year's report due to change in GSDP figures of 2010-11 to 2014-15



The tax revenue of the State in 2014-15 stood lower than the ThFC projection by ₹ 4,682 crore. Also, it could not achieve the target of budget estimates and MTFPS projection and stood lower by ₹ 1,728 crore and ₹ 727 crore respectively. Actual non-tax revenue was slightly higher than MTFPS projections and budget estimates. The non-tax revenue showed a significant improvement over the ThFC projections.

1.3.1.1 Tax revenue

The main components of tax revenue raised in the State during 2010-11 to 2014-15 are given in **Table 1.6**.

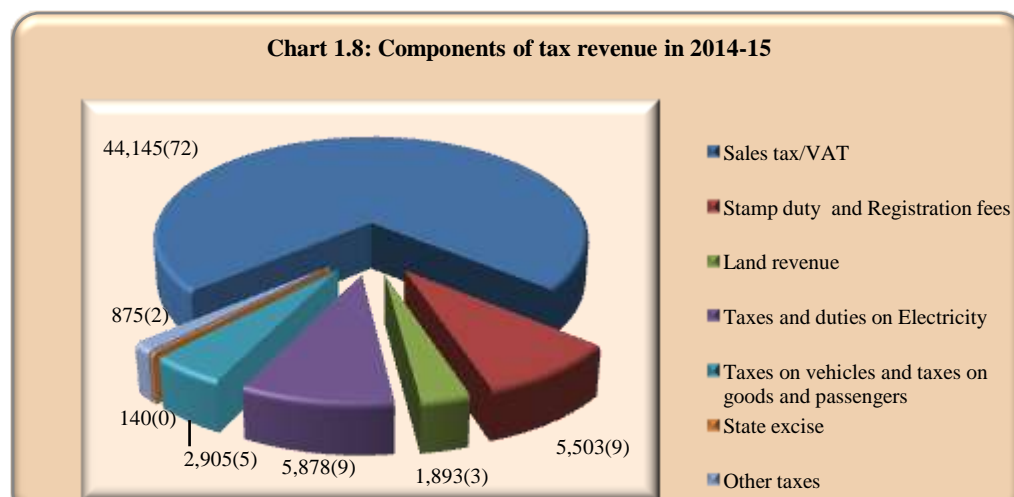
Table 1.6: Main components of State's tax revenue

(₹ in crore)

Revenue Head	2010-11	2011-12	2012-13	2013-14	2014-15	Percentage increase over previous year
Sales tax/VAT	24,893.45	31,202.31	39,464.67	40,976.06	44,145.26	7.73
Stamp duty and Registration fees	3,666.24	4,670.27	4,426.93	4,749.35	5,503.34	15.88
Land revenue	1,788.78	1,477.18	2,207.85	1,727.41	1,892.65	9.57
Taxes and duties on Electricity	3,262.64	3,654.56	4,406.60	4,692.77	5,877.65	25.25
Taxes on vehicles and taxes on goods and passengers	2,010.07	2,459.37	2,486.84	3,116.37	2,905.44	(-)6.77
State excise	62.97	72.11	84.91	109.82	140.27	27.73
Other taxes	654.48	716.49	818.89	1,000.59	875.20	(-)12.53
Total	36,338.63	44,252.29	53,896.69	56,372.37	61,339.81	8.81

Source: Finance Accounts of the respective years

The components of tax revenue for the year 2014-15 are presented in **Chart 1.8**.



Figures in parenthesis indicate percentage share

The State's own tax revenue increased only by 8.81 *per cent* during 2014-15 over the previous year. Except taxes on vehicles and taxes on goods and passengers, all the components of own tax revenue grew during 2014-15. Receipts under VAT, the most important contributor to the state's own resources grew at 7.73 *per cent* in 2014-15 mainly due to more receipt of tax on crude oil, motor spirit and lubricants. There was an improvement in growth rate of VAT receipts as the growth rate was only 3.83 *per cent* in 2013-14.

The Finance Department (FD) attributed (December 2015) lower growth rate of VAT receipts to decrease in price of petrol/diesel, decrease in rate of tax credit deduction in interstate transactions and non-receipt of instalment of ₹ 694 crore from Essar Oil Limited in the financial year 2014-15.

Taxes and duties on electricity showed a significant increase of ₹ 1,185 crore during the year and was 25.25 *per cent* more than previous year. Land Revenue increased by ₹ 165 crore registering 9.57 *per cent* increase during 2014-15 from the previous year. The ThFC projected the tax-GSDP ratio in 2014-15 at 8.58 *per cent* for Gujarat. However it actually stood at only 7.15 *per cent*. Thus, to achieve the target as projected by the ThFC, the state government needs to take necessary steps to augment the tax revenue especially by better tax compliance.

1.3.1.2 Non-tax Revenue

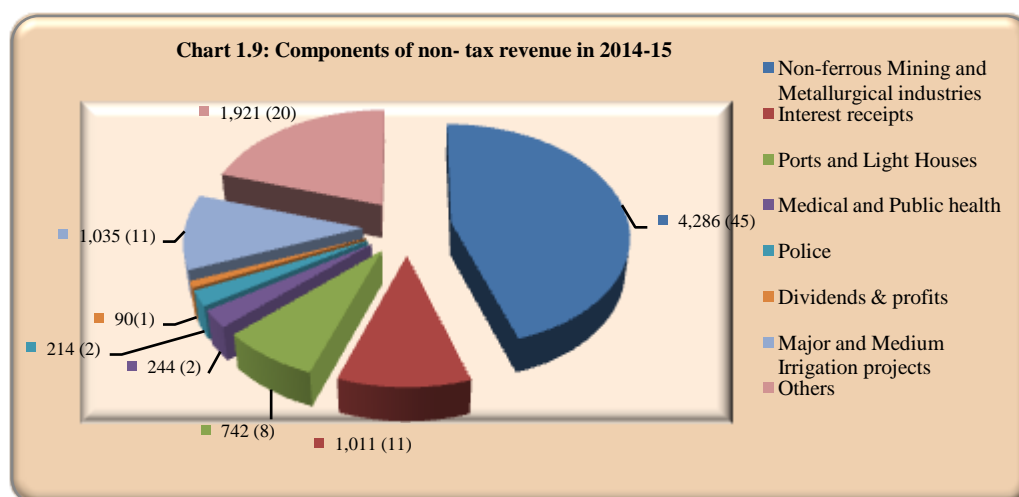
The main components of non-tax revenue raised in the State during 2010-11 to 2014-15 are given in **Table 1.7**.

Table 1.7: Main components of State's non-tax revenue

Revenue Head	(₹ in crore)					Percentage increase over previous year
	2010-11	2011-12	2012-13	2013-14	2014-15	
Interest receipts	403.89	631.89	1,325.84	1,267.18	1,011.47	-20.18
Non-ferrous Mining and Metallurgical industries	2,019.31	1,819.64	1,847.16	1,578.34	4,285.85	171.54
Major and Medium Irrigation projects	618.14	684.15	714.13	897.51	1,034.91	15.31
Ports and Light Houses	361.23	453.51	577.68	636.84	742.08	16.53
Medical and Public health	118.11	90.76	126.34	111.88	243.57	117.70
Police	149.08	138.97	163.84	177.81	214.20	20.47
Dividends & profits	114.43	128.93	54.31	277.44	89.54	-67.73
Others	1,130.83	1,328.67	1,207.69	2,071.31	1,920.99	-7.26
Total	4,915.02	5,276.52	6,016.99	7,018.31	9,542.61	35.97

Source: Finance Accounts of the respective years

The components of non-tax revenue for the year 2014-15 are presented in **Chart 1.9** below.



Figures in parenthesis indicate percentage share

The non-tax revenue of the State during 2014-15 increased by ₹ 2,524 crore (35.97 per cent) over the previous year mainly on account of high growth in Non-ferrous Mining and Metallurgical Industries receipts. The interest receipts declined sharply by 20 per cent over the previous year mainly due to decrease in interest realised on investment of cash balances to ₹ 637 crore in 2014-15 from ₹ 804 crore in 2013-14. Due to growth of 172 per cent in 2014-15 over the previous year, the share of receipts from Non-ferrous mining and Metallurgical Industries in non-tax revenue significantly improved from 22 per cent in 2013-14 to 45 per cent in 2014-15.

The dividends and profits decreased by 68 per cent during 2014-15 over the previous year. The Government received dividends mainly from Gujarat Mineral Development Corporation Ltd. (₹ 71 crore), Gujarat State Seeds

Corporation Ltd. (₹ 3.69 crore) and Tourism Corporation of Gujarat Limited (₹ two crore). The receipts from major and medium irrigation projects during the period continuously increased from ₹ 618 crore in 2010-11 to ₹ 1,035 crore in 2014-15.

As pointed out earlier in the **Chart 1.6**, the share of non-tax revenue in revenue receipt ranged between eight to ten *per cent* during five years period from 2010-11 to 2014-15 indicating that non tax resources did not contribute a significant role in financing the state expenditure.

1.3.2 Central Tax transfers

The ThFC had recommended the States' share of Central taxes to be increased to 32 *per cent* from 30.50 *per cent* as recommended by TwFC. It awarded 3.041 *per cent* of shareable taxes excluding service tax and 3.089 *per cent* of shareable service tax to Gujarat in its award period (2010-11 to 2014-15). The central tax transfer stood at ₹ 10,296 crore in 2014-15 registering growth of only 6.12 *per cent* over the previous year (₹ 9,702 crore). Among all the Constituents of revenue receipts, the growth of Central tax transfers was the least.

1.3.3 Grants-in-aid from Government of India

The components of grants in aid received from the Government of India (GoI) during 2010-11 to 2014-15 are given in **Table 1.8**.

Table 1.8: Main components of Grants-in-aid from GoI

Particulars	(₹ in crore)				
	2010-11	2011-12	2012-13	2013-14	2014-15
Non-Plan Grants	1,063.60	1,467.13	1,230.30	2,079.21	2,668.94
Grants for State Plan Schemes	2,029.25	2,227.79	3,466.74	2,604.46	7,341.11
Grants for Central Plan Schemes	94.46	70.71	83.41	58.21	104.78
Grants for Centrally Sponsored Schemes	1,243.24	1,884.23	1,665.35	2,141.25	684.18
Total	4,430.55	5,649.86	6,445.80	6,883.13	10,799.01
Percentage of increase over previous year	23.43	27.52	14.09	6.78	56.89
Total grants as a percentage of Revenue Receipts	8.46	8.97	8.57	8.61	11.74

Source: Finance Accounts of the respective years

The Grants-in-aid from GoI increased from ₹ 4,431 crore in 2010-11 to ₹ 10,799 crore in 2014-15 (143.71 *per cent*) mainly on account of increase in grant for State Plan Schemes (261.80 *per cent*) and non-plan grants (150.93 *per cent*). The high growth in receipts for State Plan Schemes in 2014-15 was due to changed classification of plan assistance to State Plan and its routing through Consolidated Fund of the State.

1.3.4 Funds transferred by the Central Government to State Implementing Agencies

The Central Government had been transferring a sizeable quantum of funds directly to the State Implementing Agencies⁵ for the implementation of various schemes/programmes in the social and economic sector. As these funds were not routed through the State Budget/State Treasury System, the Annual Finance Accounts did 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 were not representing the whole picture.

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

1.3.5 Optimisation of the ThFC grants

The recommendations of ThFC for the award period 2010-15 include release of grants-in-aid to the State Governments. Consequently, Gujarat State had to receive various grants in conformity with the recommendations of the ThFC.

The category wise amounts allocated as per the ThFC award and the amounts received there against are given in **Table 1.9** below:

Table 1.9: Details of amounts awarded and received for the years 2010-15

(₹ in crore)

Sl. No.	Transfers	Amount awarded	Amount received	Difference
1.	Local Bodies	3,757.50	2,723.04	1,034.46
	Grants to PRIs	1,525.44	1,545.82	(-)20.38
	General performance grants to PRI	807.65	173.17	634.48
	Grants to ULBs	851.16	862.52	(-)11.36
	General performance grants to ULBs	450.65	56.06	394.59
	Scheduled Area Grant	72.10	72.00	0.10
	Scheduled Area Performance Grant	50.50	13.47	37.03
2	Disaster Relief including capacity building	2,110.90	2,110.90	0.00
3	Improving outcome grants	494.45	317.57	176.88
4	Environment related grants	1,053.29	876.29	177.00
5	Elementary education	483.00	483.00	0.00
6	Maintenance of Roads and bridges	1,261.00	915.00	346.00
7	State specific grants	1,300.00	1,060.66	239.34
	Total	10,460.14	8,486.46	1,973.68

Source: Finance Department of Government of Gujarat

It is evident from **Table 1.9** that State was entitled to receive ₹ 10,460.14 crore from the GoI, however it received only ₹ 8,486.46 crore in

⁵ See glossary

the ThFC's award period. Thus the Government received 19 *per cent* less grants-in-aid from awarded amount.

The details of amounts awarded and received for the year 2014-15 are given below in **Table 1.10**

Table 1.10: Details of amounts awarded and received for the award period 2014-2015
(₹ in crore)

Sl. No.	Transfers	Amount awarded	Amount received	Difference
1.	Local Bodies	1,110.34	744.68	365.66
	Grants to PRIs	413.04	390.06	22.98
	General performance grants to PRI	281.13	115.74	165.39
	Grants to ULBs	230.46	217.64	12.82
	General performance grants to ULBs	156.87	0.00	156.87
	Scheduled Area Grant	14.42	14.40	0.02
	Scheduled Area Performance Grant	14.42	6.84	7.58
2	Disaster Relief including capacity Building	463.75	463.75	0.00
3	Improving outcome grants	110.79	70.07	40.72
4	Environment related grants	814.85	755.85	59.00
5	Elementary education	115.00	115.00	0.00
6	Roads and bridges	346.00	0.00	346.00
7	State specific grants	325.00	116.55	208.45
	Total	3,285.73	2,265.90	1,019.83

Source: Finance Department of Government of Gujarat

As per the ThFC award, during 2014-15 the State was entitled to receive ₹ 3,285.73 crore as grants-in-aid from GoI against which it had received ₹ 2,265.90 crore only (68.96 *per cent* of the award). On being pointed out (in case of general performance grants to ULBs) that there was a difference of ₹ 156.87 crore in amounts awarded and received, the Urban Development and Urban Housing Department intimated (July 2015) that due to non fulfillment of three conditionalities out of nine conditionalities, the grant was not released from Government of India. In case of other grants, replies have not been received from the concerned departments (October 2015).

State specific needs

The State was entitled to receive ₹ 325 crore as grant from GoI during 2014-15 under the category of state specific needs. The amounts allocated and the amounts received during the period 2010-15 are given in **Table 1.11**. The details of amount allocated and amount received for the year 2014-15 are given below in **Table 1.12**.

Table 1.11: Details of amounts awarded and received for the award period 2010-15
(₹ in crore)

Sl. No.	Specific need	Amount awarded	Amount received	Difference
1	Ingress of Salinity	150.00	116.98	33.02
2	Coastal Erosion	150.00	135.00	15.00
3	Ground Water Recharge	200.00	177.28	22.72
4	Police Training	215.00	193.50	21.50
5	Tribal Area Development	200.00	150.00	50.00
6	Public Health	237.00	177.75	59.25
7	Construction of Border Roads	100.00	62.15	37.85
8	Gir Lion Project	48.00	48.00	0.00
	Total	1,300.00	1,060.66	239.34

Source: Finance Department of Government of Gujarat

The State was entitled to receive state specific grant of ₹ 1,300 crore from 2011-12 to 2014-15. Out of ₹ 1,300 crore, the Government received only ₹ 1,061 crore leaving a balance of ₹ 239 crore.

Table 1.12: Details of amounts awarded and received for the year 2014-15
(₹ in crore)

Sl. No.	Specific need	Amount awarded	Amount received	Difference
1	Ingress of Salinity	37.50	0.00	37.50
2	Coastal Erosion	37.50	60.15	(-)22.65
3	Ground Water Recharge	50.00	0.00	50.00
4	Police Training	53.75	32.25	21.50
5	Tribal Area Development	50.00	0.00	50.00
6	Public Health	59.25	0.00	59.25
7	Construction of Border Roads	25.00	12.15	12.85
8	Gir Lion Project	12.00	12.00	0.00
	Total	325.00	116.55	208.45

Source: Finance Department of Government of Gujarat

Out of eight projects/schemes, in two schemes pertaining to Narmada, Water Resources, Water Supply and Kalpsar (NWRWSK) department and one scheme pertaining to Health and Family Welfare Department and Tribal Development Department, the State Government did not receive ₹ 196.75 crore in 2014-15. For Police Training and construction of Border Roads, the Government did not receive amount of ₹ 21.50 crore and ₹ 12.85 crore respectively in 2014-15. On being pointed out, NWRWSK Department accepted (June 2015) that grant of ₹ 33.02 crore and ₹ 22.72 crore was yet to be released for the year 2014-15 in case of ingress of salinity and ground water recharge respectively. In case of other grants replies have not been received from the concerned departments (October 2015).

1.4 Capital Receipts

Trends in growth and composition of receipts of the State are given in the **Table 1.13**.

Table 1.13: Details of Capital Receipts

Sources of State's Receipts	2010-11	2011-12	2012-13	2013-14	2014-15
Capital Receipts (CR)	17,056	17,710	19,544	19,484	20,316
Miscellaneous Capital Receipts	91	10	0	0	241
Recovery of Loans and Advances	283	165	47	141	621
Public Debt Receipts	16,681	17,535	19,497	19,343	19,454
Rate of growth of debt capital receipts	17.10	5.11	11.19	(-)0.79	0.57
Rate of growth of non-debt capital receipts	30.31	-53.21	-73.14	200	340
Rate of growth of GSDP	20.93	14.82	9.98	16.26	12.09
Rate of growth of CR (<i>per cent</i>)	17.34	3.83	10.36	(-)0.30	4.27

Source: Finance Accounts of the respective years

The capital receipts of the State increased from ₹ 17,056 crore in 2010-11 to ₹ 20,316 crore in 2014-15. The public debt receipts stood at almost 95.76 *per cent* of capital receipts. During 2014-15 the growth rate of capital receipt was 4.27 *per cent* mainly due to realisation of miscellaneous capital receipts of ₹ 241 crore and 340 *per cent* increase in recovery of loans and advances over the previous year. The trends in the Public Debt Receipts are given in **Table 1.14**.

Table 1.14: Public Debt Receipts

	2010-11	2011-12	2012-13	2013-14	2014-15
Market Borrowings	11,500	16,500	15,546	15,493	14,920
NSSF (National Small Saving Fund)	4,136	67	1,659	1,912	2,774
Loans from Other Financial Institutions	886	780	1,700	1,777	1,437
Total Internal Debt	16,522	17,347	18,905	19,182	19,131
Loans and Advances from GoI	159	188	592	161	323
Total Public Debt Receipts	16,681	17,535	19,497	19,343	19,454

Source: Finance Accounts of the respective years

During 2014-15, the internal debt receipt decreased by ₹ 51 crore mainly on account of decrease in market borrowings. The NSSF loans increased by ₹ 862 crore in 2014-15 over the previous year. The total receipt of debt from internal sources increased continuously from 2010-11 to 2013-14 and then decreased marginally in 2014-15.

The total public debt receipts also increased by 17 *per cent* from 2010-11 to 2014-15. In 2014-15 the loan and advances from GOI increased by 101 *per cent* over 2013-14 on account of more receipts of Block loans.

1.5 Public Accounts Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State legislature. Here the Government acts as a banker. The balance after disbursements is the fund available with the Government for use. The resources under various heads of Public Account Receipts are given in **Table 1.15**.

Table: 1.15: Public Accounts Receipts (Net)

(₹ in crore)

Resources under various heads	2010-11	2011-12	2012-13	2013-14	2014-15
Public Account Receipts					
a. Small Savings, Provident Fund etc.	705	558	589	507	502
b. Reserve Fund	998	680	488	84	5,568
c. Deposits and Advances	2,533	1,358	1,844	2,242	3,107
d. Suspense and Miscellaneous	1,312	(-57)	656	(-1,033)	843
e. Remittances	78	(-47)	(-69)	181	59
Total	5,626	2,492	3,508	1,981	10,079

Source: Finance Accounts of the respective years

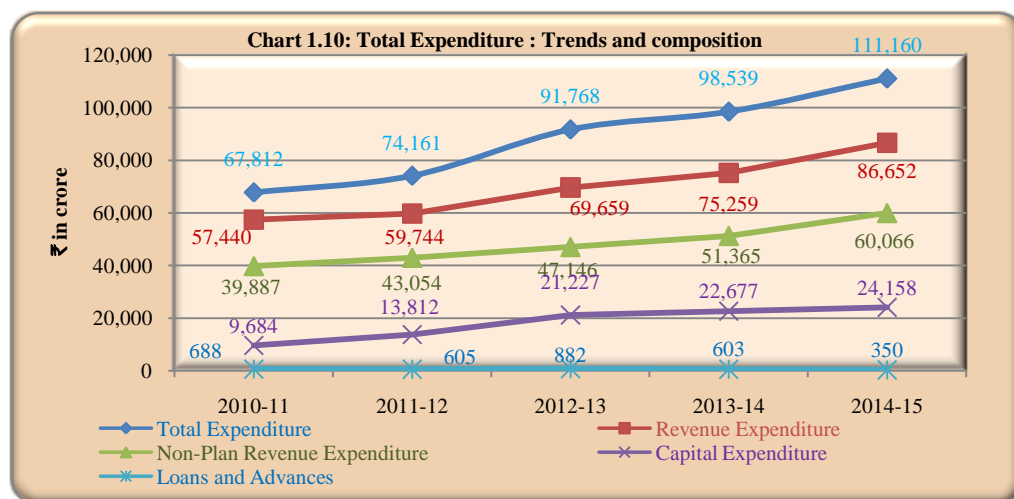
The net Public Account Receipts decreased from ₹ 5,626 crore in 2010-11 to ₹ 1,981 crore in 2013-14 with a deviation of ₹ 3,508 crore in 2012-13. During 2014-15, except Small saving, Provident Fund etc. and Remittance, the receipts from other constituents increased significantly over the previous year. In Reserve Fund, the increase was mainly on account of Sinking Fund and Guarantee Redemption Fund. In Deposits and Advances, the increase was on account of Deposits of Local Fund. In Suspense and Miscellaneous, the increase was on account of Treasury cheques. The net availability of funds under Small Savings, Provident Fund, Reserve Fund and Deposits and Advances are being consistently used in financing of fiscal deficit.

1.6 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 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 the expenditure directed towards the State's working as a welfare state.

1.6.1 Growth and Composition of Expenditure

Chart 1.10 presents the trends in total expenditure over a period of five years (2010-11 to 2014-15) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Tables 1.16** and **1.17** respectively.



The total expenditure during 2014-15 increased by 12.81 per cent over the previous year due to 15.14 per cent increase in revenue expenditure and 6.53 per cent in capital expenditure. The revenue expenditure stood at 78 per cent of the total expenditure. The non plan component was 69 per cent of revenue expenditure.

During 2014-15, the plan revenue expenditure grew at 11.27 per cent while the non plan revenue expenditure grew at 16.94 per cent.

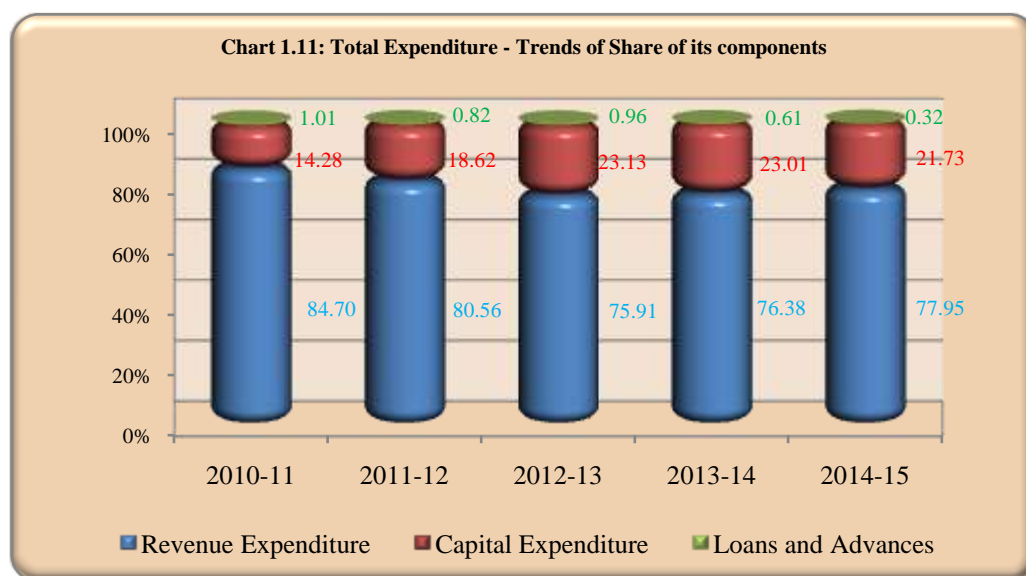
Table 1.16: Total Expenditure- Trends of Share of its components

(Figures in per cent)

	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Expenditure	84.70	80.56	75.91	76.38	77.95
Capital Expenditure	14.28	18.62	23.13	23.01	21.73
Loans and Advances	1.01	0.82	0.96	0.61	0.32

Source: Finance Accounts of the respective years

Chart 1.11 presents composition of total expenditure over a period of five years (2010-11 to 2014-15).



The share of revenue expenditure in total expenditure declined from 84.70 per cent in 2010-11 to 77.95 per cent in 2014-15 mainly on account of high growth rate attained by capital expenditure during this period except 2013-14.

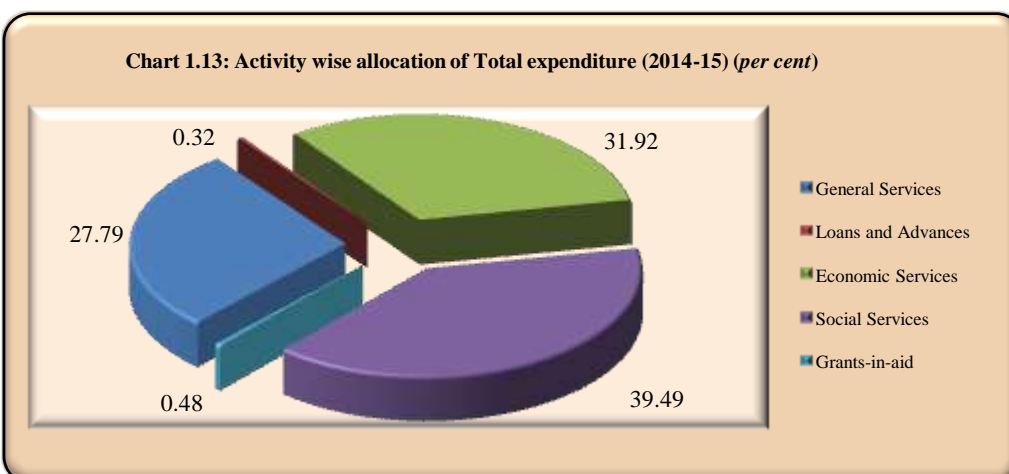
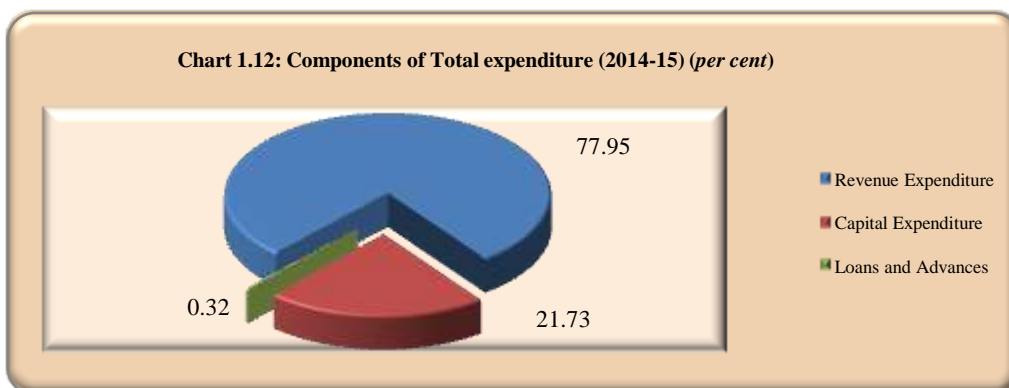
Table: 1.17: Total Expenditure- Trends by activities (Share in per cent)

	2010-11	2011-12	2012-13	2013-14	2014-15
General Services	29.62	29.72	27.07	28.05	27.79
Social Services	38.91	37.56	38.81	39.61	39.49
Economic Services	30.19	31.64	32.98	31.40	31.92
Loans and Advances	1.01	0.82	0.96	0.61	0.32
Grants-in-aid	0.27	0.26	0.18	0.33	0.48

Source: Finance Accounts of the respective years

The movement of relative share of these components exhibited relative stability during the period from 2010-11 to 2014-15 with marginal inter year variations. The share of both General and Social services declined marginally while the share of Economic Services increased slightly in 2014-15. The share of loans and advances indicated similar trend from 2011-12 to 2012-13 and declined sharply in later years.

Chart 1.12 and **Chart 1.13** present components to total expenditure (in per cent) and activity wise allocation of total expenditure (in per cent) for the year 2014-15.



1.6.2 Revenue Expenditure

Revenue expenditure is incurred to maintain the current level of services. The overall revenue expenditure, its rate of growth and ratio of revenue expenditure to GSDP are indicated in **Table 1.18**.

Table 1.18: Trends of Revenue Expenditure relative to GSDP

	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Receipts (RR) (₹ in crore)	52,364	62,959	75,229	79,976	91,978
Rate of growth of RR (<i>per cent</i>)	25.66	20.23	19.49	6.31	15.01
Revenue Expenditure (RE) (₹ in crore)	57,440	59,744	69,659	75,259	86,652
Rate of growth of RE (<i>per cent</i>)	18.10	4.01	16.59	8.04	15.14
RE/ GSDP Ratio (<i>per cent</i>)	11.01	9.98	10.58	9.83	10.10

Source: Finance Accounts of the respective years

Revenue expenditure continuously increased from ₹ 57,440 crore in 2010-11 to ₹ 86,652 crore in 2014-15. However, the growth rate fluctuated widely from 18.10 *per cent* in 2010-11 to 4.01 *per cent* in 2011-12 to 15.14 *per cent* in 2014-15. The revenue expenditure grew at higher rate than of revenue receipts in 2013-14 and 2014-15. Revenue expenditure as a *per cent* of GSDP decreased from a high of 11.01 *per cent* in 2010-11 to lowest at 9.83 *per cent* in 2013-14 and increased to 10.10 *per cent* in 2014-15.

The increase in revenue expenditure during 2014-15 was mainly due to more expenditure on General Education (₹ 1,848 crore), Interest Payments (₹ 1,614 crore), Power (₹ 1,575 crore) and Urban Development (₹ 1,398 crore). Revenue expenditure during 2014-15 decreased for Housing (₹ 836 crore), Crop Husbandry (₹ 393 crore), other Rural Development programmes (₹ 214 crore) and Soil and Water Conservation (₹ 83 crore).

1.6.3 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 1.19** and **Chart 1.14** present the trends in the expenditure on these components during 2010-2015.

Table 1.19: Components of Committed Expenditure

Components of Expenditure	2010-11	2011-12	2012-13	2013-14	2014-15	
					BE	Actuals
Salaries, of which	5,555	6,216	6,707	7,209	8,364	7,533
	(10.61)	(9.87)	(8.92)	(9.01)	@	(8.19)
Non-Plan Head	4,563	4,900	5,174	5,497		5,702
Plan Head*	992	1,316	1,533	1,712		1,831
Interest Payments	9,627	10,934	12,161	13,332	15,134	14,946
	(18.38)	(17.37)	(16.17)	(16.67)		(16.25)
Expenditure on Pensions	5,779	6,145	7,198	8,270	7,885	9,185
	(11.04)	(9.76)	(9.57)	(10.34)		(9.99)

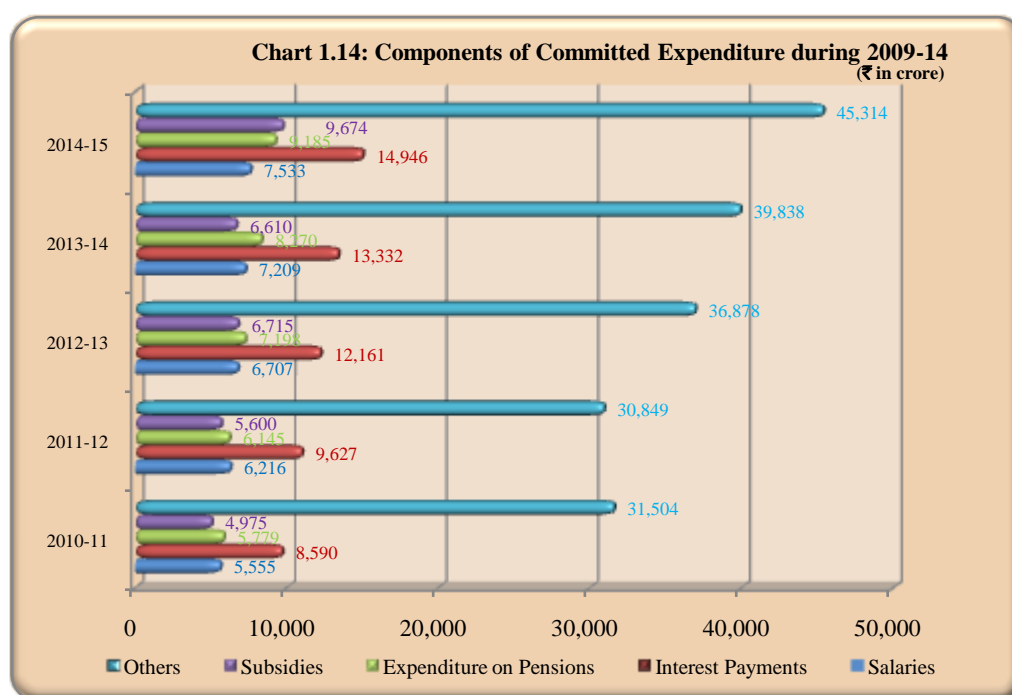
Components of Expenditure	2010-11	2011-12	2012-13	2013-14	2014-15	
					BE	Actuals
Subsidies	4,975 (9.50)	5,600 (8.89)	6,715 (8.93)	6,610 (8.26)	4,895	9,674 (10.52)
Total expenditure on Salaries, Interest Payments, Pensions and Subsidies	25,936 (49.53)	28,895 (45.89)	32,781 (43.57)	35,421 (44.29)	36,278	41,338 (44.94)
Other components	31,504 (60.16)	30,849 (49.00)	36,878 (49.02)	39,838 (49.81)	59,939	45,314 (49.27)
Total Revenue Expenditure	57,440	59,744	69,659	75,259	96,217	86,652
Total Revenue Receipts	52,364	62,959	75,229	79,976	1,03,053	91,978

*Plan head includes Salaries and Wages under Centrally Sponsored Schemes.

@ The bifurcation in Non-Plan and Plan is not available for BE.

Figures in parenthesis indicate percentage of Revenue Receipts.

Source: Finance Accounts of the respective years



1.6.3.1 Expenditure on Salaries

In 2014-15, the expenditure on salaries increased by 4.49 per cent over the previous year. As a percentage of the revenue receipts, the expenditure on salaries decreased from 9.01 per cent in 2013-14 to 8.19 per cent in 2014-15.

1.6.3.2 Interest Payments

Interest payments increased steadily from ₹ 9,627 crore in 2010-11 to ₹ 14,946 crore in 2014-15. Interest payments, however, increased by 12.11 per cent over the previous year. The increase was mainly due to 22 per cent more payment of interest on market loans than that in the previous year. The share of interest payment on market borrowings and special securities issued to NSSF was 51 per cent and 31 per cent respectively. However, interest payments as a percentage of revenue receipts declined from 18.38 per cent to 16.25 per cent from 2010-11 to 2014-15 respectively.

1.6.3.3 Pension Payments

The actual expenditure on pension was 16 *per cent* higher than the budget estimates of the Government and it stood at 10 *per cent* of total revenue receipts of the State during the year. The estimated yearly pension liabilities were prepared on the basis of trend growth rates instead of actuarial basis. The expenditure on Pension during current year increased by ₹ 915 crore (11.06 *per cent*) over the previous year, mainly on account of increase in payment of superannuation and retirement allowances along with family pensions.

In its disclosure in compliance of Gujarat Fiscal Responsibility Act, 2005, the Government estimated the pension payment as percentage of Revenue Receipts to be 9.01 *per cent*, however, it stood higher at 9.99 *per cent*.

1.6.3.4 Migration to New Pension Scheme

The State Government has introduced the New Defined Contribution Pension Scheme (NPS) with effect from 1 April 2005. The State Government signed (January 2009) agreements with the NPS trust for the fund management of the Scheme and adopted (May 2009) the central architecture designed for this scheme. The Government contributed ₹ 249.66 crore as matching contribution in 2014-15 as compared to ₹ 206.45 crore in 2013-14. The funds kept in Public Account which were to be transferred to the Trustee stood at ₹ 12.81 crore at the end of the financial year 2014-15.

1.6.3.5 Expenditure on Subsidies

The expenditure on subsidies increased by 94 *per cent* from ₹ 4,975 crore in 2010-11 to ₹ 9,674 crore in 2014-15. The expenditure on subsidies increased significantly during the current year by 46.35 *per cent* over the previous year and was much higher when compared to the Budget estimates for 2014-15. The subsidy in the Power Sector increased to ₹ 5,347 crore in the current year when compared to ₹ 3,611 crore in the previous year, registering a steep rise of 48.08 *per cent*. The subsidy for the Power Sector against total subsidy was 53.27 *per cent* in the current year. For Agriculture and Allied Activities, the subsidy increased from ₹ 619 crore in 2013-14 to ₹ 945 crore in 2014-15. The food and related subsidy increased by 78 *per cent* from ₹ 193 crore in 2013-14 to ₹ 343 crore 2014-15. Subsidy to GSRTC on account of uneconomic routes, student concessions etc. increased from ₹ 599 crore in 2013-14 to ₹ 714 crore in 2014-15.

1.6.4 Financial Assistance by the 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 the current year relative to the previous years is presented in **Table 1.20**.

Table 1.20: Financial Assistance to Local Bodies etc.

(₹ in crore)

Financial Assistance to Institutions	2010-11	2011-12	2012-13	2013-14	2014-15
Panchayati Raj Institutions (PRIs)	7,039.32	13,087.87	14,464.38	17,295.00	17,503.96
Urban Local Bodies	10,258.27	3,619.49	3,100.74	2,914.06	8,289.19
Public Sector Undertakings	----	119.69	4.05	27.55	59.60
Autonomous Bodies	8,574.68	1,626.18	644.45	650.77	2,912.78
Others	----	9,489.01	12,910.99	15,273.20	11,198.62
Total	25,872.27	27,942.24	31,124.61	36,160.58	39,964.15
Assistance as percentage of Revenue Expenditure	45.04	46.77	44.68	48.05	46.12

Source: Finance Accounts of the respective years

Financial assistance to local bodies and other institutions continuously increased from ₹ 25,872 crore in 2010-11 to ₹ 39,964 crore in 2014-15 which included payment of grants-in-aid to Municipal Corporations/Municipalities on account of abolition of octroi in November 2006. As a percentage of the revenue expenditure, it ranged between 45.04 per cent to 48.05 per cent.

1.7 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, efficiency of expenditure use and its effectiveness.

1.7.1 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 require 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. **Table 1.21** analyses the fiscal priority of the State with regard to development expenditure, social expenditure and capital expenditure during 2014-15.

Table 1.21: Fiscal priority of the State in 2011-12 and 2014-15

Fiscal Priority by the State	AE /GSDP	DE [#] /AE	SSE /AE	ESE /AE	CE /AE	Education /AE	Health /AE
*General Category State's Average (Ratio) 2011-12	15.98	65.39	36.63	28.76	13.23	17.10	4.68
Gujarat's Average(Ratio) 2011-12	12.39	69.92	37.58	32.34	18.62	16.87	4.49
**General Category State's Average (Ratio) 2014-15	16.49	69.12	36.50	32.61	14.01	16.23	5.04
Gujarat's Average (Ratio) 2014-15	12.95	71.68	39.53	31.93	21.73	15.97	5.73

* General Category States exclude Puducherry

** General Category States exclude Goa and Puducherry

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, ESE: Economic Sector Expenditure, CE: Capital Expenditure

Development Expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed

Table 1.21 indicates the following:

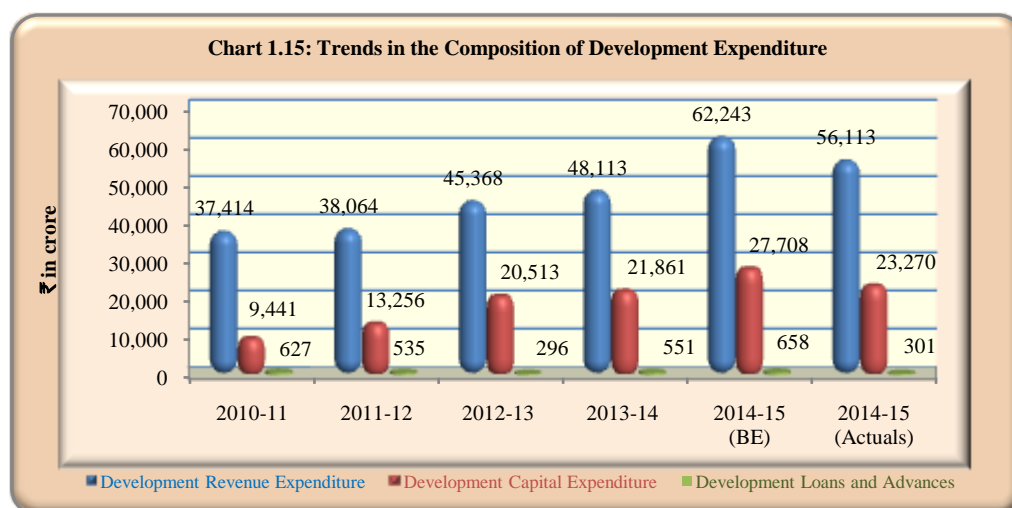
- 1) Gujarat spent a smaller proportion of its GSDP on aggregate expenditure in 2011-12 as well as in 2014-15 as compared to the General Category States. This meant that the State was spending less as a proportion of its GSDP as compared to General Category States (GCS).
- 2) Development expenditure as a proportion of aggregate expenditure in Gujarat is higher than the General Category States' average during 2011-12 as well as in the current year. Developmental expenditure consists of both economic service expenditure and social sector expenditure. The expenditure on social sector as a proportion of aggregate expenditure in the State was higher than that of the General Category States. The expenditure on economic sector as a proportion of aggregate expenditure in the State was higher in 2011-12 but lower in 2014-15 than that of General Category States.
- 3) The ratio of Capital expenditure to aggregate expenditure indicates that the State Government adequately prioritised the capital expenditure in 2011-12 as well as in the current year.
- 4) Gujarat has been spending less proportion of its aggregate expenditure on education sector as compared to other General Category States. Gujarat has also spent less proportion of its aggregate expenditure on health sector in 2011-12 but has given adequate priority to health sector in 2014-15 as compared to other General Category States.

1.7.2 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 goods⁶. Apart from improving the allocation towards development expenditure⁷, 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 the proportion of revenue expenditure on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. **Chart 1.15** presents the trends in development expenditure relative to the aggregate expenditure *vis-à-vis* budget estimates during the current year i.e. 2014-15. **Table 1.22** provides the details of capital expenditure and the components of revenue expenditure under selected social and economic services.

⁶ See glossary

⁷ The aggregate expenditure data segregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorised into social services, economic services and general services. Broadly, the expenditure on social and economic services constitutes development expenditure, while expenditure on general services is treated as non-development expenditure.



Development expenditure of the State comprises revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from ₹ 47,482 crore in 2010-11 to ₹ 79,684 crore in 2014-15. As a percentage of the total expenditure, the total development expenditure of the State increased from 70.02 per cent in 2010-11 to 71.68 per cent in 2014-15. The capital expenditure component increased from ₹ 9,441 crore in 2010-11 to ₹ 23,270 crore in 2014-15. In the five year period from 2010-11 to 2014-15 the revenue expenditure on Socio-Economic services grew by 49.98 per cent while capital expenditure grew at higher rate of 146.48 per cent. The percentage of development capital expenditure to the aggregate expenditure during the current year was 20.93 per cent whereas the revenue expenditure component was 50.48 per cent. The percentage of Development Loans and Advances to aggregate expenditure decreased from 0.92 per cent in 2010-11 to 0.27 per cent in 2014-15.

Table 1.22: Efficiency of Expenditure under selected Social and Economic Services
(figures in per cent)

Social/Economic Infrastructure	2013-14		2014-15	
	Share of Capital Expenditure to Total Expenditure	In Revenue Expenditure, the share of Salaries	Share of Capital Expenditure to Total Expenditure	In Revenue Expenditure, the share of Salaries
Social Services (SS) (absolute figures- ₹ in crore)	6,650	-	7,186	-
Education	7.53	4.45	7.48	3.95
Health and Family Welfare	32.01	33.54	30.93	27.51
Water Supply, Sanitation, Housing and Urban Development	26.62	0.61	25.47	0.52
Total (SS)	17.03	7.36	16.37	6.79
Economic Services (ES) (absolute figures- ₹ in crore)	15,211	-	16,084	-
Agriculture & Allied Activities	17.76	13.12	15.98	12.71

Social/Economic Infrastructure	2013-14		2014-15	
	Share of Capital Expenditure to Total Expenditure	In Revenue Expenditure, the share of Salaries	Share of Capital Expenditure to Total Expenditure	In Revenue Expenditure, the share of Salaries
Irrigation and Flood Control	87.36	30.35	88.06	26.36
Power & Energy	33.64	0.52	27.42	0.74
Transport	47.32	1.11	39.62	0.83
Total (ES)	49.15	6.70	45.33	5.36
Total (SS+ES)	31.24	7.15	29.31	6.30

Source: Finance Accounts of the respective years

Expenditure on Social Services

Capital expenditure on the Social Services increased by 8.06 *per cent* in absolute terms from ₹ 6,650 crore in 2013-14 to ₹ 7,186 crore in 2014-15. The share of Capital expenditure to the total expenditure under Social Services decreased significantly from 17.03 *per cent* to 16.37 *per cent*.

In education, the capital expenditure decreased mainly due to less expenditure on Engineering Colleges and Institutes. In Health and Family Welfare, the capital expenditure decreased mainly due to less expenditure on primary and community Health centres. In Water Supply, Sanitation, Housing and Urban Development, the capital expenditure decreased on account of less expenditure on urban water supply than that of the previous year.

The share of salaries in revenue expenditure under Social Services decreased from 7.36 *per cent* in 2013-14 to 6.79 *per cent* in 2014-15.

Expenditure on Economic Services

Capital expenditure on Economic Services increased from ₹ 15,211 crore in 2013-14 to ₹ 16,084 crore in 2014-15, registering a growth of 5.73 *per cent*. The share of capital expenditure to total expenditure under Economic Services decreased from 49.15 *per cent* in 2013-14 to 45.33 *per cent* in 2014-15. In Agriculture and Allied activities, the capital expenditure during current year decreased mainly due to decrease in expenditure on Soil and Water Conservation. Capital expenditure on Irrigation and Flood Control increased mainly due to more expenditure on medium and minor irrigation projects. In power and energy, capital expenditure decreased mainly due to less investment in Gujarat Urja Vikas Nigam Limited and Gujarat Power Corporation Limited.

The share of salaries in revenue expenditure under Economic Services decreased from 6.70 *per cent* to 5.36 *per cent*, mainly on account of decrease in the share of salaries under Irrigation and Flood Control (30.35 *per cent* to 26.36 *per cent*) and under Agricultural and Allied activities (13.12 *per cent* to 12.71 *per cent*).

1.8 Financial Analysis of Government Expenditure and Investments

In the post-FRBM 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, recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous year.

1.8.1 Financial Results of Irrigation Projects

At the end of March 2015, ₹ 2,407.98 crore was spent on 33 Major and Medium Irrigation Projects which were treated as completed. The revenue realized from these irrigation projects during the year was ₹ 617.12 crore, against which the maintenance expenditure was ₹ 141.14 crore, indicating a revenue surplus of ₹ 475.98 crore. When compared with the investment on these projects, the return was 19.77 *per cent*.

1.8.2 Incomplete projects

At the end of March 2015, there were 77 incomplete capital works involving ₹ 1,304.64 crore. The Department-wise details of incomplete works (each costing ₹ 10 crore or more) are given in **Table 1.23**.

Table 1.23: Department-wise Profile of Incomplete Works

(₹ in crore)

Department	Number of incomplete works	Initial Budgeted Cost	Cumulative actual expenditure as on 31 March 2015
Road and Buildings	68	2,133.75	1,143.05
Narmada, Water Resources, Water Supply and Kalpsar	9	430.50	161.59
Total	77	2,564.25	1,304.64

Source: Finance Accounts of the year 2014-15

It can be seen from the **Table 1.23** that Road and Buildings Department could incur expenditure to the extent of 53.57 *per cent* on the 68 incomplete projects when compared to the initial budgeted cost. In Narmada Water Resources, Water Supply and Kalpsar Department nine projects remained incomplete incurring expenditure to the extent of 35.11 *per cent* only of the initial budgeted cost. During 2014-15, the expenditure of ₹ 1,119.01 crore was incurred on these incomplete works.

1.8.3 Investment and returns

As of 31 March 2015, Government had invested ₹ 62,929 crore in Statutory Corporations, Government Companies, Rural Banks, Joint Stock Companies,

Co-operative Institutions and Local Bodies (**Table 1.24**). The average return on the investments was 0.28 *per cent* in the last five years while the Government paid an average 7.65 *per cent* as interest on its borrowings during 2010-11 to 2014-15. Forty six PSUs earned a net profit of ₹ 3,364 crore in financial year 2013-14. However, the State Government received only ₹ 89.54 crore as dividend from PSUs in financial year 2014-15. In view of negligible return from PSUs, the State Government may consider formulation of a suitable dividend policy.

Continued use of borrowed funds to fund investments which do not have sufficient returns will lead to an unsustainable financial position. The Government may ensure proper justification for investment in high cost funds.

Table 1.24: Return on Investment

Investment/Return/Cost of Borrowings	2010-11	2011-12	2012-13	2013-14	2014-15
Investment at the end of the year ⁸ (₹ in crore)	34,496	39,179	47,171	55,058	62,929
Return (₹ in crore)	114.43	128.93	54.31	277.44	89.54
Return (<i>per cent</i>)	0.33	0.33	0.12	0.50	0.14
Average rate of interest on Government borrowings (<i>per cent</i>)	7.56	7.63	7.66	7.62	7.76
Difference between average interest rate on Government borrowings and rate of return (<i>per cent</i>)	7.23	7.30	7.54	7.12	7.62

Source: Finance Accounts of the respective years

During the period of last five years, 2010-11 to 2014-15, the State Government's Investments had increased by ₹ 28,433 crore. During 2014-15, Government invested ₹ 389 crore in Statutory Corporations, ₹ 7,396 crore in Government Companies and ₹ 86 crore in Co-operative institutions etc. Out of ₹ 7,871 crore invested during 2014-15, 52 *per cent* (₹ 4,113 crore) was invested this year in the Sardar Sarovar Narmada Nigam Limited, a State-owned Company, which is executing the multi-purpose Narmada Project.

The FD stated (December 2015) that the motto behind the investment by the Government in Statutory Corporations and Government Companies was to increase employment opportunities for the citizens of the state thereby achieving an overall development of the state.

While acknowledging that investment by the Government is required for attaining socio-economic welfare, Audit intends to flag the aspect of poor returns from profit making PSUs.

Investment in PPP projects

Public Private Partnership (PPP) is formed by the government agencies and bodies usually to promote and develop infrastructure facilities.

⁸ Includes all investments to Government companies, Statutory Corporations, Rural Banks, Joint Stock Companies, Co-operatives Institutions and Local Bodies

The status of Public Private Partnership (PPP) projects in infrastructure sector at various stages is presented in **Table 1.25**

Table 1.25: Status of Public Private Partnership (PPP) projects in infrastructure sector

		(As on 31 March, 2015)				(₹ in crore)	
Sl. No.	Sector /Project Name	Projects completed		Projects under Implementation		Projects in Pipeline	
		No.	Estimated Cost	No.	Estimated Cost	No.	Estimated Cost
1	Road Sector	23	2,896	15	4,559	10	3,575
2	Urban Infrastructure	98	2,149	13	690	31	982
3	Water Sector	00	00	00	00	06	5,853
4	Power Sector	04	7,600	00	00	11	22,245
5	Ports	34	26,015	25	9,336	28	10,119
6	Logistic Parks	00	00	00	00	03	2,200
7	Aviation	00	00	00	00	06	2,500
8	IT & ITES Biotech	06	235	01	80	01	100
9	Railways	01	395	02	1,262	00	00
	Total	166	39,290	56	15,927	96	47,574

Source: Gujarat Industries Development Board

Table 1.25 shows that out of 318 PPP projects of ₹ 1,02,791 crore in infrastructure sector in Gujarat, 166 projects of ₹ 39,290 crore were completed at the end of 2014-15. The maximum number of completed projects and investment was in Ports sector.

1.8.4 Loans and Advances by State Government

In addition to investments in Co-operative institutions, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.26** presents the position of loans and advances and interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.26: Average Interest received on Loans and Advances given by the State Government
(₹ in crore)

Quantum of Loans and Advances /Interest Receipts/ Cost of Borrowings	2012-13	2013-14	2014-15
Opening Balance	5,750	6,585	7,048
Amount advanced during the year	882	603	350
Amount repaid during the year	47	141	621
Closing Balance	6,585	7,048	6,777
<i>Of which</i> Outstanding balance for which terms and conditions have been settled	6,585 ⁹	6,536	6,517
Net addition	835	463	(-)271
Interest Receipts	26	100	142

⁹ This does not include loans of ₹ 35 lakh given to Gujarat Industrial Investment Corporation Limited and ₹ 10 lakh to Gujarat Small Industries Corporation Limited

Quantum of Loans and Advances /Interest Receipts/ Cost of Borrowings	2012-13	2013-14	2014-15
Interest receipts as percentage of outstanding Loans and Advances	0.39	1.42	2.10
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.30	7.28	7.39
Difference between interest receipts and interest payments (per cent)	(-)6.91	(-)5.86	(-)5.29

Source: Finance Accounts of the respective years

The total amount of outstanding loans and advances increased from ₹ 6,585 crore in 2012-13 to ₹ 6,777 crore in 2014-15. The loans advanced during the year decreased by ₹ 253 crore over the previous year. Out of the loans advanced and disbursed during the year, ₹ 41 crore was under Social Services, ₹ 260 crore under Economic Services and ₹ 49 crore as personal advances to Government and local self-government employees. The loans advanced under Social Services were used for the welfare of Scheduled Caste, Scheduled Tribes and other Backward Classes. Major portion of the loan advanced for Economic Services went to road transport (77 per cent) and engineering industries (23 per cent).

1.8.5 Cash Balances and Investment of Cash Balances

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.27**.

Table 1.27: Cash Balances and Investment of Cash Balances

Cash Balances and Investment of Cash balances	Opening balance on 1/4/2014	Closing balance on 31/3/2015
(₹ in crore)		
(a) General Cash Balance -		
Cash in Treasuries	0.00 ¹⁰	0.00
Deposits with Reserve Bank ¹¹	(-)1,735.22	(-)389.00
Remittances in transit - Local	4.19	4.19
Investments held in Cash Balance investment account	11,923.20	12,401.93
Total (a)	10,192.17	12,017.12
(b) Other Cash Balances and Investments		
Cash with departmental officers viz Public Works Department Officers, Forest Department Officers, District Collectors	25.02	25.02
Permanent advances for contingent expenditure with departmental officers	0.27	0.27
Investment of earmarked funds	5,169.02	9,034.06
Total (b)	5,194.31	9,059.35
Grand total (a)+ (b)	15,386.48	21,076.47

Source: Finance Accounts of the respective years

¹⁰ ₹ 48,000

¹¹ The balance under the head 'Deposits with Reserve Bank' is arrived at after taking into account the Inter-Government monetary settlements pertaining to transactions of the Financial Year 2014-15 advised to the RBI till 15 April 2015

Due to large surplus cash balance, during 2014-15, the State Government did not avail of any Ways and Means Advance from the RBI for maintenance of its minimum cash balance.

Outstanding balances under the head ‘Cheques and Bills’

The Major Head ‘8670 – Cheques and Bills’ is an intermediary account head for initial record of transactions which are to be cleared eventually. The outstanding balance under the Major Head ‘8670 –Cheques and Bills’ represents the amount of unencashed cheques. Cheques amounting to ₹ 2,756 crore remained unencashed as on 31 March, 2015.

Fresh borrowings by State with large cash balance

The ThFC has also suggested that there should be a directed effort by States with large balances towards utilising their existing cash balances before resorting to fresh borrowings. Further, it has suggested to consider utilising their surplus cash balances for lumpsum repayment of market borrowings raised for debt swap during the period 2002-05, which was likely to become due during the next few years. The Reserve Bank of India also reiterated the fact and advised the States to manage their cash balance more efficiently. The investment held in ‘Cash Balance Investment Account’ by the State Government stood at ₹ 11,923 crore and ₹ 12,402 crore at the end of 2013-14 and 2014-15 respectively.

The persistence of large cash Surplus is result of higher debt which increases the accompanying debt service burden along with lower return on investments. 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. The State Government should adopt the policy of need based borrowing and maintain minimum surplus cash balance.

1.9 Assets and Liabilities

1.9.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of the 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 1.3** gives an abstract of such liabilities and the assets as on 31 March 2015 compared with the corresponding position on 31 March 2014. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

As per the Statement under the Gujarat Fiscal Responsibility Act, 2005 the State Government liabilities comprise the following components –

- (i) Special Securities issued to the National Small Savings Fund
- (ii) Loans and Advances from Central Government
- (iii) Market Loans
- (iv) Loans from Financial Institutions/Banks
- (v) Ways and Means Advances/Overdraft from RBI
- (vi) Small Savings, Provident Fund of Government Employees etc.
- (vii) Pension Liabilities
- (viii) Reserve Fund/Deposits & Provident Fund of other employees
- (ix) Other Liabilities.

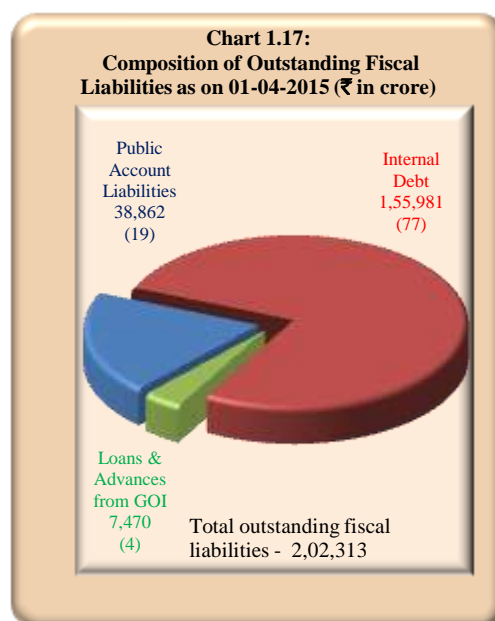
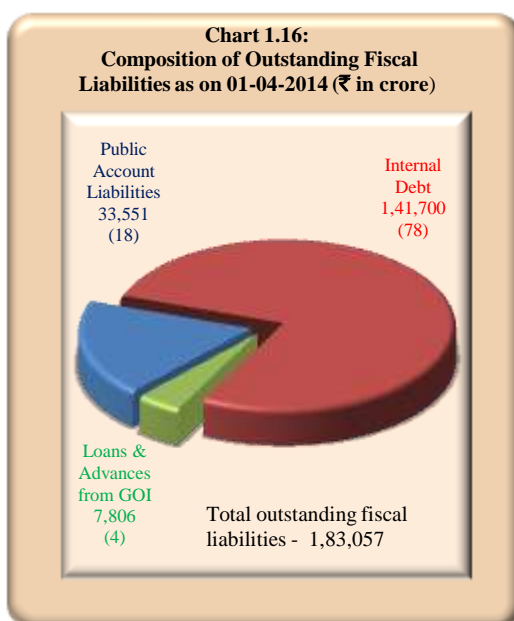
1.9.2 Fiscal Liabilities

The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is as presented in the **Charts 1.16** and **1.17** below:

Table: 1.28:- Fiscal Liabilities – Basic Parameters

	2010-11	2011-12	2012-13	2013-14	2014-15
Fiscal Liabilities (₹ in crore)	1,35,656	1,50,785	1,66,667	1,83,057	2,02,313
Rate of Growth (<i>Per cent</i>)	13.88	11.15	10.53	9.83	10.52
Ratio of Fiscal Liability to					
GSDP (<i>Per cent</i>)	26.01	25.18	25.31	23.91	23.57
Revenue Receipts (<i>Per cent</i>)	259	239	222	229	220
Own Resources (<i>Per cent</i>)	329	304	278	289	285
Buoyancy of Fiscal Liabilities to					
GSDP (Ratio)	0.66	0.75	1.05	0.60	0.87
Revenue Receipts (Ratio)	0.54	0.55	0.54	1.56	0.70
Own Resources (Ratio)	0.49	0.56	0.50	1.69	0.89

Source: Finance Accounts of the respective years



Figures in parenthesis indicate percentage share

The outstanding fiscal liabilities have shown a steady increase over the years from ₹ 1,35,656 crore at the end of 2010-11 to ₹ 2,02,313 crore as at the end

of 2014-15. The fiscal liabilities in the period from 2010-11 to 2014-15, increased by 49 *per cent* at annual average rate of 11.18 *per cent*. In 2014-15 the fiscal liabilities grew at 10.52 *per cent* against 9.83 *per cent* in 2013-14. The fiscal liabilities comprised internal debt of ₹ 1,55,981 crore (77 *per cent*), public account of ₹ 38,862 crore (19 *per cent*) and loans and advances from GoI of ₹ 7,470 crore (4 *per cent*) as at the end of 2014-15. The internal debt comprised mainly of market loans (₹ 1,00,593 crore) and special securities issued to National Small Savings Fund (₹ 48,314 crore). The fiscal liabilities at the end of 2010-11 represented 259 *per cent* of the revenue receipts during the year 2010-11, which reduced to 220 *per cent* at the end of 2014-15. The outstanding debt to GSDP ratio at 23.57 *per cent* in the current year was in line with the projected ratio of 27.10 *per cent* in the fiscal consolidation roadmap of ThFC.

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**.

1.9.3 Transactions under Reserve fund

There were 16 Reserve Funds earmarked for specific purposes, out of which six funds were inoperative. The total accumulated balance as on 31 March 2015 in these funds was ₹ 14,558.41 crore (₹ 14,555.54 crore in operational funds and ₹ 2.87 crore in non-operational funds). However, the investment out of these funds was only ₹ 9,033.72 crore.

1.9.4 Contingent liabilities

Status of Guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years is given in **Table 1.29**.

Table 1.29: Guarantees given by the Government of Gujarat

(₹ in crore)

Guarantees	2010-11	2011-12	2012-13	2013-14	2014-15
Ceiling limit on Government guarantees under Gujarat State Guarantees Act 1963	20,000	20,000	20,000	20,000	20,000
Maximum amount guaranteed	10,382	10,387	10,525	11,175	11,235
Outstanding amount of guarantees	8,661	7,449	6,195	6,549	5,984
Percentage of outstanding amount of guarantees to total revenue receipts	16.54	11.83	8.23	8.19	6.51

Source: Finance Accounts of the respective years

The Gujarat Fiscal Responsibility Act, 2005 prescribed to capping of outstanding guarantees within the limit (₹ 20,000 crore) as prescribed in the Gujarat State Guarantees Act, 1963. During the year, the State Government extended guarantees of ₹ 80 crore to Cooperative Societies. Out of total outstanding guarantees of ₹ 5,984 crore, 32 *per cent* (₹ 1,931 crore) were

towards Sardar Sarovar Narmada Nigam Limited and nearly 18 *per cent* (₹ 1,073 crore) were towards Gujarat Urja Vikas Nigam Limited. The outstanding guarantees (₹ 5,984 crore) accounted for 6.51 *per cent* of the revenue receipts (₹ 91,978 crore) of the State Government and were well within the ceiling limit prescribed under the Fiscal Responsibility Act.

The Gujarat State Guarantees Redemption Fund set up in February 2006 to take care of any contingent liabilities arising out of State Government Guarantees, had a balance of ₹ 2,569 crore at the end of 2014-15. During the year the Government did not contribute any amount towards the Guarantee Redemption Fund. During the year, the Government received ₹ 21 crore as guarantee fees against ₹ 27 crore received in the previous year.

1.10 Debt Management

Debt Sustainability

Debt sustainability implies State's ability to service the debt. Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability¹² of the State. The analysis of various debt sustainability indicators of the State for the period of five years beginning from 2010-11 is given by **Table 1.30**.

Table 1.30: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2010-11	2011-12	2012-13	2013-14	2014-15
Outstanding Debt (₹ in crore)	1,35,656	1,50,785	1,66,667	1,83,057	2,02,313
Debt / GSDP ratio (in <i>per cent</i>)	26.01	25.18	25.31	23.91	23.57
Debt / RR ratio (in <i>per cent</i>)	259	239	222	229	220
Burden of Interest Payments (IP/RR Ratio)	0.18	0.17	0.16	0.17	0.16
Sufficiency of Non-debt Receipts (Resource Gap)	80	4,047	(-)5,465	(-)1,930	102
Net Availability of Borrowed Funds	6,912	3,921	3,722	3,058	4,310

Source: Finance Accounts of the respective years

Table 1.30 reveals that though outstanding debt increased from ₹ 1,35,656 crore in 2010-11 to ₹ 2,02,313 crore in 2014-15, the Debt/GSDP ratio depicted the declining trend during this period except 2012-13. The outstanding debt at the end of 2010-11 represented 259 *per cent* of the revenue receipts during the year 2010-11, which reduced to 220 *per cent* at the end of 2014-15.

The persistent negative resource gap is indicative of the non-sustainability of debt while positive resource gap strengthens the capacity of the State to sustain the debt. The positive resource gap for two consecutive years turned into negative in 2012-13 and 2013-14. However, in the year 2014-15 it was again positive. It happened mainly on account of 12.92 *per cent* increase in primary expenditure against 15.88 *per cent* increase in non-debt receipts during current year. The net funds available from borrowed fund after

¹² See Glossary

providing for the interest and repayment declined from ₹ 6,912 crore in 2010-11 to ₹ 4,310 crore in 2014-15. However, the same showed an increase over the year by ₹ 1,252 crore.

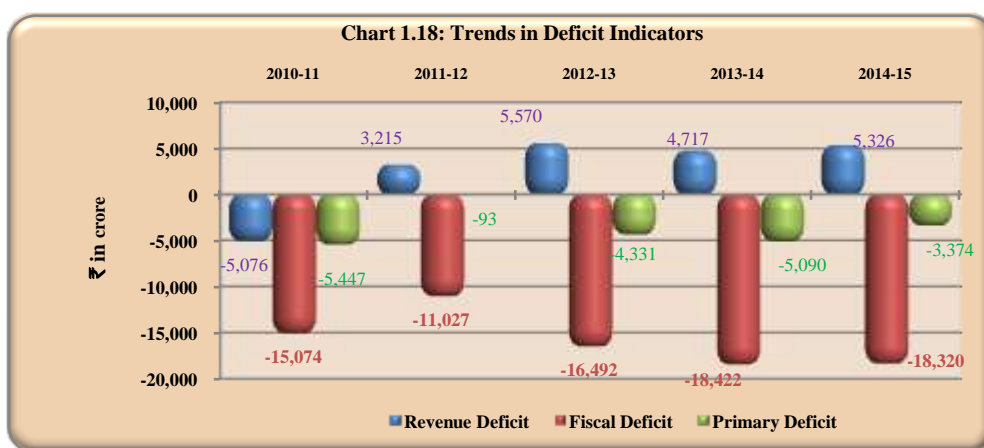
As per TwFC recommendations, the ratio of interest payments to revenue receipts should decline by 2009-10 to 15 *per cent*. The percentage gross interest payments on the total liabilities to the revenue receipts of the State for the period 2010-11 to 2014-15 ranged between 16 *per cent* and 18 *per cent* but still could not reach 15 *per cent* as targeted.

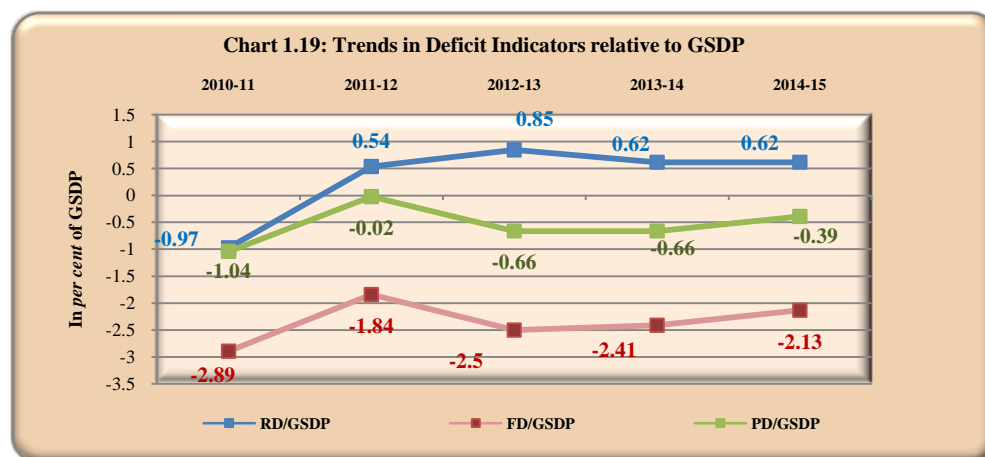
1.11 Fiscal Imbalances

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 in which the deficits are 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* the targets set under the FRBM Act/Rules for the financial year 2014-15.

1.11.1 Trends in Deficits

Charts 1.18 and 1.19 present the trends in deficit indicators over the period 2010-11 to 2014-15.





The revenue deficit of ₹ 5,076 crore in 2010-11 turned into revenue surplus of ₹ 3,215 crore in 2011-12 and continued the trend thereafter with the revenue surplus of ₹ 5,326 crore in 2014-15. The increase in the revenue surplus during the current year was mainly on account of an increase of ₹ 12,002 crore (15.01 per cent) in revenue receipts against an increase of ₹ 11,393 crore (15.14 per cent) in revenue expenditure over the previous year.

The fiscal deficit increased from ₹ 15,074 crore in 2010-11 to ₹ 18,422 crore in 2013-14 and stood at ₹ 18,320 crore in 2014-15. The marginal decrease in fiscal deficit during current year was mainly on account of larger cushion of revenue surplus than in the previous year. A decrease of ₹ 102 crore in fiscal deficit together with an increase of ₹ 1,614 crore in interest payment resulted in decrease in primary deficit from ₹ 5,090 crore in 2013-14 to ₹ 3,374 crore in 2014-15. The fiscal deficit (2.13 per cent) still remained within the targeted level of three per cent of GSDP as set under the Gujarat Fiscal Responsibility Act.

1.11.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.31**.

Table 1.31: Components of Fiscal Deficit and its Financing Pattern

Particulars		2010-11	2011-12	2012-13	2013-14	2014-15
		(₹ in crore)				
Decomposition of Fiscal Deficit		15,074	11,027	16,492	18,422	18,320
1	Revenue Deficit (-)/(+) Surplus	(-)5,076	(+)3,215	(+)5,570	(+)4,717	(+)5,326
2	Net Capital Expenditure	9,593	13,802	21,227	22,677	23,917
3	Net Loans and Advances	405	440	835	462	(-)271
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	10,725	15,083	12,846	13,047	13,246
2	Loans from GOI	(-)464	(-)932	(-)150	(-)495	(-)337
3	Special Securities issued to NSSF	2,628	(-)1,864	(-)561	(-)353	475
4	Loans from Financial Institutions	(-)25	(-)28	826	940	561

Particulars		2010-11	2011-12	2012-13	2013-14	2014-15
5	Small Savings, PF etc	705	558	589	507	502
6	Deposits and Advances	2,533	1,358	1844	2,242	3,107
7	Suspense and Miscellaneous	1,311	(-)56	656	(-)1,033	843
8	Remittances	78	(-)47	(-)69	181	59
9	Reserve Fund	998	680	488	84	5,568
10	Contingency Fund	47	(-)80	81	0	(-)14
Total		18,536	14,672	16,550	15,119	24,010
Increase/Decrease(-) in Cash Balance		(+)3,462	(+)3,645	(+)58	(-)3,303	(+)5,690

*All these figures are net of disbursements/outflows during the year
Source: Finance Accounts of the respective years

Table 1.31 reveals that during the last five years, market borrowings and net accretions in Small Savings, PF etc, Deposits and Advances along with Reserve Fund are main sources used by the State Government to finance the fiscal deficit. In 2014-15, the fiscal deficit of ₹ 18,320 crore was mainly met from net market borrowings of ₹ 13,246 crore. In view of availability of resources under Public Accounts of the State, this along with market borrowings resulted into large increase in Cash balance, after financing its deficit. In such situation, the Government could have curtailed the market borrowings to avoid interest burden for the coming years.

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 quality of deficit in the State's finances. The ratios of revenue deficit to fiscal deficit indicate the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.32**) would indicate the extent to which the deficit had been on account of increase in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.32: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)							
Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure ¹³	Primary Revenue Deficit(-) /surplus (+)	Primary Deficit (-) /Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2010-11	52,738	47,813	9,684	688	58,185	(+)4,925	(-)5,447
2011-12	63,134	48,810	13,812	605	63,227	(+)14,324	(-)93
2012-13	75,276	57,498	21,227	882	79,607	(+)17,778	(-)4,331
2013-14	80,117	61,927	22,677	603	85,207	(+)18,190	(-)5,090
2014-15	92,840	71,706	24,158	350	96,214	(+)21,134	(-)3,374

Source: Finance Accounts of the respective years

¹³ Primary Expenditure is total expenditure except interest payments of the concerned year

During the period 2010-11 to 2014-15, primary expenditure increased by 65 per cent from ₹ 58,185 crore to ₹ 96,214 crore against the increase of non-debt receipt from ₹ 52,738 crore to ₹ 92,840 crore (76 per cent). During the period 2010-11 to 2014-15, the non-debt receipts did not cover the primary expenditure resulting in primary deficit in each year. In 2014-15, primary revenue expenditure and capital expenditure increased over the previous year. However, due to commensurate increase in non-debt receipts and decrease in disbursement of loan and advances, there was decrease in primary deficit from ₹ 5,090 crore to ₹ 3,374 crore.

1.12 Conclusion and Recommendations

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as the State reached a revenue surplus of ₹ 3,215 crore in that year. The revenue surplus stood only at ₹ 5,326 crore in 2014-15 against the projection in MTFPS of ₹ 6,837 crore. At the end of 2014-15, the fiscal deficit as percentage to GSDP was 2.13, which was well within the limit of three per cent. The State's total outstanding debt as percentage of GSDP was 23.57 per cent in 2014-15 which was also within the target of 27.1 per cent fixed by the ThFC. The share of social services expenditure as a percentage of total expenditure increased from 38.91 to 39.49 during last five years.

The revenue receipts of the State increased steadily from ₹ 52,364 crore in 2010-11 to ₹ 91,978 crore in 2014-15. The growth in revenue receipts during the year 2014-15 was 15.01 per cent on account of 56.89 per cent growth of grants-in-aid in 2014-15. The State's own tax buoyancy from 2009-10 to 2012-13 ranged between 1.47 and 2.18 indicating that own taxes grew at higher rate than the growth of GSDP. However, the situation reversed in 2013-14 and 2014-15. The tax revenue of the State in 2014-15 could not achieve the target of budget estimates and MTFPS projection and was lower by ₹ 1,728 crore and ₹ 727 crore respectively.

As per the ThFC award, the State was entitled to receive ₹ 3,285.73 crore as grants-in-aid from GoI during 2014-15 against which it received ₹ 2,265.90 crore as the State did not comply with laid down conditions.

The State Government may explore mobilizing additional resources through tax and non-tax sources by ensuring better tax compliance and rationalising the user charges/fees respectively. The State Government may ensure compliance of conditions stipulated for Finance Commission's grants so that State will not suffer any financial losses on this account.

While revenue expenditure of the State increased by 50.86 per cent from ₹ 57,440 crore in 2010-11 to ₹ 86,652 crore in 2014-15, its share in total expenditure declined from 84.70 per cent to 77.95 per cent during the same period indicating improvement in expenditure on Capital outlay. However, the Non Plan Revenue Expenditure (NPRE) has also shown consistent increase over the period from ₹ 39,887 crore in 2010-11 to ₹ 60,066 crore in 2014-15 and stood at 69.32 per cent of revenue expenditure. The expenditure on salaries, interest payments, pensions and subsidies increased from ₹ 25,936 crore in 2010-11 to ₹ 41,338 in 2014-15.

Whereas major chunk of the non plan revenue expenditure is on salaries, pension and interest payments which is largely uncontrollable, the State Government may explore suitable measures for containing the other components of non plan revenue expenditure so that revenue surplus could be maintained for allowing scope for assets creation and sustainable development of the State.

During 2014-15, Government invested ₹ 389 crore in Statutory Corporations, ₹ 7,396 crore in Government Companies and ₹ 86 crore in Co-operative institutions, etc. Though during the last five years, the State Government invested ₹ 28,433 crore, the average return by way of dividend on the investments in Government companies and Statutory Corporation etc. was 0.28 per cent. On the other hand, the Government paid 7.65 per cent interest on an average on its borrowings during 2010-11 to 2014-15. Further, 46 PSUs earned a net profit of ₹ 3,364 crore in financial year 2013-14 and paid dividend of ₹ 90 crore only to the State Government during 2014-15.

The State Government may consider formulation of a dividend policy regarding payment of reasonable return from the profit earning PSUs on paid up share capital contributed by the State Government.

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 11,923 crore and ₹ 12,402 crore at the end of 2013-14 and 2014-15 respectively. Keeping the huge amount in the Cash Balance Investment Account at lower rate of interest while borrowing at higher rate has financial implications. 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.

The outstanding fiscal liabilities have shown a steady increase over the years, from ₹ 1,35,656 crore at the end of 2010-11 to ₹ 2,02,313 crore at the end of 2014-15, though it remained within the target of 27.1 per cent fixed by the ThFC. For financing its deficit, the State Government heavily relied on Market borrowing despite availability of resources under Public Accounts of the State and Cash Balance Investments. The growing volume of interest bearing liabilities has resulted in increasing liability for servicing the debt.

The State Government may consider need-based borrowings and utilising the existing cash balances before resorting to fresh borrowing.