

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. 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 16.6 *per cent* in 2011-12 as compared to the all-India average of 21.9 *per cent*. The State's Gross State Domestic Product (GSDP) in 2016-17 at current prices was ₹ 11,25,654 crore¹. 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 Part A**.

Gross State Domestic Product

The 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

	2012-13	2013-14	2014-15	2015-16	2016-17
India's GDP ^{\$} (₹ in crore)	9944013	11233522	12445128	13682035	15183709
Growth rate of GDP (percentage)	13.82	12.97	10.79	9.94	10.98
State's GSDP* (₹ in crore)	724495	807623	895027(P)	994316(Q)	1125654(A)
Growth rate of GSDP (percentage)	17.69	11.47	10.82	11.09	13.21

^{\$} Source: Ministry of Statistics and Programme Implementation, Central Statistical Organisation

*Directorate of Economics and Statistics, Gandhinagar

^{*}Source: Statement under Gujarat Fiscal Responsibility Act, 2005 (Budget Publication No.30 of 2017-18)

Estimates: (P) = Provisional, (Q) = Quick and (A) = Advance

¹Advance estimates by 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 and the overall trends during the preceding 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 2016-17

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2016-17) *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				
	2015-16	2016-17		2015-16	2016-17		
					Non- Plan	Plan	Total
Section-A: Revenue							
Revenue receipts	97482.58	109841.81	Revenue expenditure	95778.54	67185.61	36709.22	103894.83
Tax revenue	62649.41	64442.71	General services	32876.05	34312.51	1491.84	35804.35
Non-tax revenue	10193.52	13345.66	Social services	42119.90	22092.05	22833.97	44926.02
Share of Union taxes/ duties	15690.43	18835.39	Economic services	20223.86	10365.10	12383.41	22748.51
Grants from Government of India	8949.22	13218.05	Grants-in-aid and Contributions	558.73	415.95	0.00	415.95
Section-B: Capital							
Misc. Capital receipts	0.00	240.05	Capital Outlay	24169.44	53.41	22301.98	22355.39
Recoveries of Loans and Advances	125.46	165.77	Loans and Advances disbursed	675.19	62.35	415.21	477.56
Public Debt receipts*	23486.19	27668.31	Repayment of Public Debt*	6194.26	-	-	9073.17
Contingency Fund	14.16	3.75	Contingency Fund	3.75	-	-	0.00
Public Account receipts	65131.92	58958.90	Public Account disbursements	61936.12	-	-	56388.19
Opening Cash Balance	21076.47	18559.48	Closing Cash Balance	18559.48	-	-	23248.93
Total	207316.78	215438.07		207316.78			215438.07

Source: Finance Accounts for the year 2015-16 and 2016-17

*Excluding net transactions under ways and means advances and overdrafts

The following are the significant changes during 2016-17 over the previous year:

- Revenue receipts grew by ₹ 12,359.23 crore (12.68 *per cent*) over the previous year. All the components of revenue receipts showed an increasing trend during 2016-17. The grants from Government of India (GoI) increased by ₹ 4,268.83 crore (47.70 *per cent*), non-tax revenue by ₹ 3,152.14 crore (30.92 *per cent*), State's share of union taxes by ₹ 3,144.96 crore (20.04 *per cent*) while State's tax revenue increased by ₹ 1,793.30 crore (2.86 *per cent*).
- Revenue expenditure increased by ₹ 8,116.29 crore (8.47 *per cent*) over the previous year mainly due to increase in expenditure on General Services by ₹ 2,928.30 crore (8.91 *per cent*), Social Services by ₹ 2,806.12 crore (6.66 *per cent*) and Economic Services by ₹ 2,524.65 crore (12.48 *per cent*). The grants-in-aid released by the State Government decreased by ₹ 142.78 crore (25.55 *per cent*) over the previous year.
- Capital outlay decreased by ₹ 1,814.05 crore (7.51 *per cent*) over the previous year and the disbursement of loans and advances also decreased by ₹ 197.62 crore (29.27 *per cent*).
- Public debt receipts increased significantly by ₹ 4,182.12 crore and repayment of public debt increased by ₹ 2,878.91 crore.
- The public account receipts and disbursements decreased significantly by ₹ 6,173.02 crore and ₹ 5,547.93 crore respectively.

1.1.2 Review of fiscal situation

In pursuance of recommendations of the Twelfth Finance Commission (12th FC), the State Government enacted the 'Gujarat Fiscal Responsibility Act, 2005', with a view to ensuring prudence in fiscal management and to maintain fiscal stability in the State. This was amended in the year 2011.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (13th FC) had recommended a fiscal consolidation roadmap for the States by amending their Fiscal Responsibility Legislations. This required the States 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 Fourteenth Finance Commission (14th FC) also recommended (December 2014) a revised fiscal roadmap to consolidate the finances of the State Government from the financial year 2015-16 onwards. Major fiscal variables provided in the recommendations of the 14th FC and the projections made in the Medium Term Fiscal Policy Statement (MTFPS) - 2017 by the State Government are depicted in **Table 1.3**.

Table 1.3: Major fiscal variables

Fiscal variables	2016-17		Actual Achievement
	14 th FC targets for the State	Targets proposed in the Budget and Projections made in MTFPS	
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	(+)15081	(+)3236	(+)5947
Fiscal Deficit/GSDP (in <i>per cent</i>)	3.00	2.25	1.46
Ratio of total outstanding liabilities to GSDP (in <i>per cent</i>)	25.87	-	21.60
Ratio of Public debt to GSDP (in <i>per cent</i>)	-	18.55	17.71

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as it reported a revenue surplus of ₹ 3,215 crore in that year. The revenue surplus stood at ₹ 5,947 crore in 2016-17 which was significantly higher than the projection in MTFPS of ₹ 3,236 crore. Indian Government Accounting Standard (IGAS)-2 prescribes that grants-in-aid should be booked under revenue expenditure. However, in 2016-17, the State Government incorrectly budgeted and booked expenditure of ₹ 89.66 crore² relating to grants-in-aid under the capital section instead of revenue section. This resulted in understatement of revenue expenditure and consequent overstatement of revenue surplus by ₹ 89.66 crore. Even after taking into consideration the impact of this misclassification on the revenue surplus, the State Government exceeded the projected revenue surplus as per MTFPS.

At the end of 2016-17, the fiscal deficit as percentage to GSDP was 1.46 *per cent*, which was within the limit of three *per cent* as recommended by 14th FC and also within limit of Government's own projections of 2.25 *per cent* in MTFPS. The State Government maintained the percentage of public debt to GSDP at 17.71 during 2016-17 against the target of 18.55 *per cent* set in MTFPS. In the fiscal consolidation roadmap, the 14th FC had recommended a percentage of outstanding liabilities³ to GSDP at 25.87 for 2016-17. However, the percentage of outstanding liabilities to GSDP stood at 21.60 during 2016-17.

The State had non-debt capital receipts of ₹ 405.82 crore and revenue surplus of ₹ 5,947 crore available during 2016-17. During the year, the State expended ₹ 31,906 crore for capital outlay, disbursement of loans and repayment of loans and advances which necessitated the need for borrowings to meet capital expenditure.

1.1.3 Budget estimates, revised estimates and actuals

The budget papers presented by the State Government provide projections or estimations of receipts and expenditure for a particular fiscal year. The

² Details of booked expenditure are shown in Table 2.10 under paragraph 2.6; Chapter - II

³ Total Outstanding Liabilities include 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.*

importance of accuracy in the estimation of receipts and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates (BE) are indicative of non-attainment/non-optimisation of the desired fiscal objectives due to various reasons, some within the control of the Government and some beyond its control. The State Government presented its revised estimates (RE) of financial year 2016-17 along with BE of 2017-18 on 21 February 2017.

A comparison of actuals with BE and RE for the year 2016-17 is given in **Table 1.4** below and detailed comparison is shown in **Appendix 1.4**.

Table 1.4: Budget estimates, revised estimates and actual for the year 2016-17

(₹ in crore)

Fiscal Parameters	Budget estimates	Revised estimates	Actuals	Difference between actuals and BE	Difference between actuals and RE
Tax revenue	71369.88	64759.46	64442.71	(-)6927.17	(-)316.75
Non-tax revenue	12428.04	14378.20	13345.66	(+)917.62	(-)1032.54
State's share of Union taxes and duties	18520.00	18835.39	18835.39	(+)315.39	0
Grants-in-aid from Gol	14048.06	14548.06	13218.05	(-)830.01	(-)1330.01
Revenue receipts	116365.98	112521.11	109841.81	(-)6524.17	(-)2679.30
Revenue expenditure	113129.90	109009.47	103894.83	(-)9235.07	(-)5114.64
Interest payments	17465.81	17916.35	17796.83	(+)331.02	(-)119.52
Capital expenditure	27035.22	23751.27	22355.39	(-)4679.83	(-)1395.88
Revenue deficit (-)/surplus (+)	(+)3236.08	(+)3511.64	(+)5946.98	(+)2710.90	(+)2435.34
Fiscal deficit (-)	(-)24608	(-)20224	(-)16480.17	(+)8127.83	(+)3743.83
Primary deficit (-)/surplus(+)	(-)7142.19	(-)2307.65	(+)1316.66	(+)8458.85	(+)3624.31

Source: Finance Accounts of the State and the budget publication of the State

Analysis of the important parameters is given below:

1.1.3.1 Revenue receipts

Revenue receipts were lower by ₹ 6,524.17 crore (5.61 per cent) and ₹ 2,679.30 crore (2.38 per cent) over BE and RE respectively mainly due to less collection of tax revenue by the State Government than BE and RE on account of less collection of land revenue, goods and passenger tax and taxes on immovable property other than agricultural land.

1.1.3.2 Revenue expenditure

Revenue expenditure was less than BE and RE by ₹ 9,235 crore (8.16 per cent) and ₹ 5,115 crore (4.69 per cent) respectively. The revenue expenditure was less than BE mainly due to less expenditure in education, arts, sports and culture (₹ 639 crore); social welfare and nutrition (₹ 1,114 crore); agriculture and allied activities (₹ 738 crore); rural development (₹ 999 crore) and industry and minerals (₹ 207 crore). In all the above components of revenue expenditure, the actuals were also lower than the projections made in RE.

1.1.3.3 Capital expenditure

During 2016-17, the capital expenditure was lower by ₹ 4,679.83 crore (17.31 per cent) and ₹ 1,395.88 crore (5.88 per cent) than BE and RE respectively. The capital expenditure was less than projections made in BE mainly due to less expenditure on education, arts, sports and culture (₹ 754 crore); irrigation and flood control (₹ 820 crore); transport (₹ 665 crore). In all these components of capital expenditure, the actuals were also lower than the projection made in the RE.

1.1.3.4 Deficit/surplus

Against the projected revenue surplus of ₹ 3,236.08 crore and ₹ 3,511.64 crore as projected in BE and RE respectively, the State had actual revenue surplus of ₹ 5,946.98 crore, mainly due to decrease (₹ 9,235 crore than BE) in revenue expenditure set off by decrease in revenue receipt (₹ 6524.17 crore). Against primary deficit⁴ of ₹ 7,142 crore and ₹ 2,307 crore as projected in BE and RE respectively, the State had primary surplus at ₹ 1,317 crore. In 2016- 17, fiscal deficit stood at ₹ 16,480 crore (1.46 per cent of GSDP) which was lower than that estimated in BE and RE by ₹ 8,127 crore and ₹ 3,744 crore respectively.

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 GoI. 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 1.1** depicts the components and sub-components of resources during the year 2016-17.

⁴ Primary Deficit = Fiscal Deficit - Interest payments

Chart 1.1: Components and sub-components of resources in 2016-17

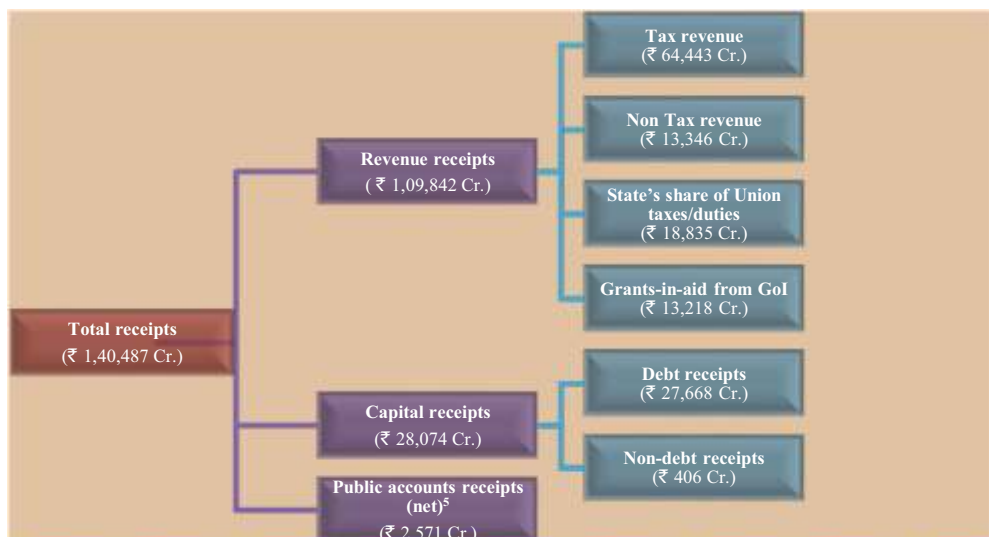


Chart 1.2 depicts the trends of various components of the State's receipts during 2012-13 to 2016-17.

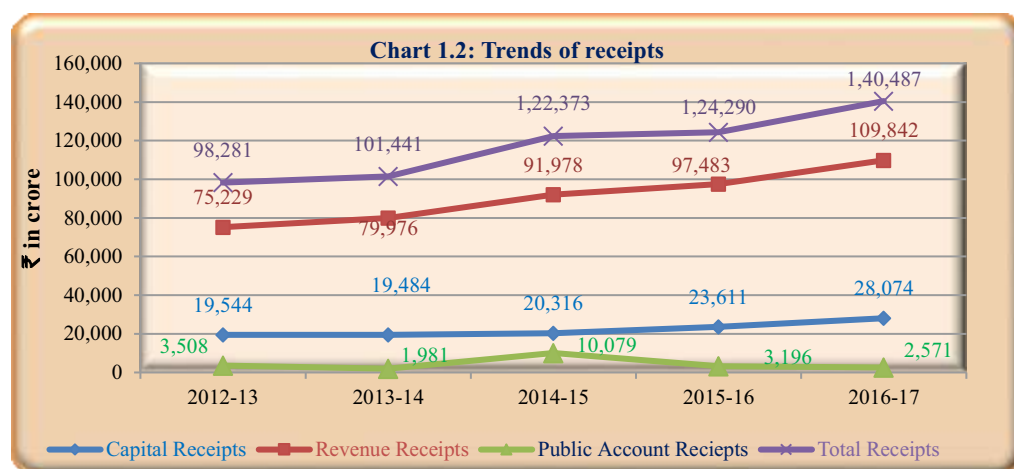
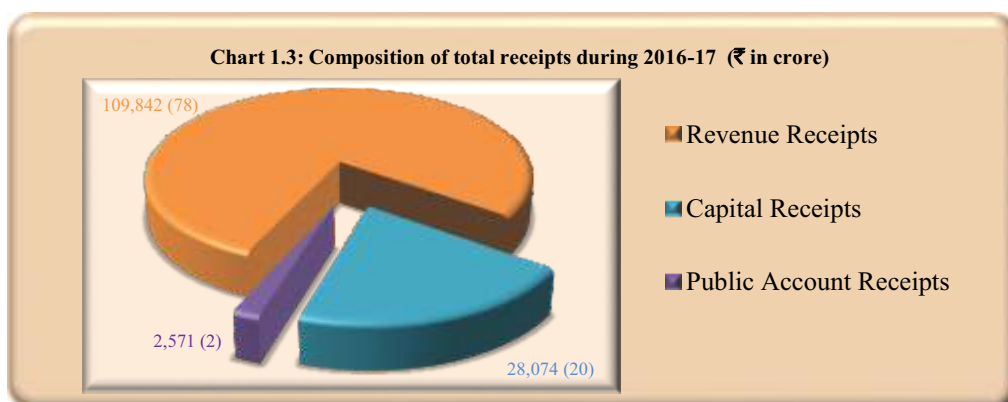


Chart 1.3 depicts the composition of resources of the State in total receipts during the current year 2016-17.



Figures in parenthesis indicate percentage share

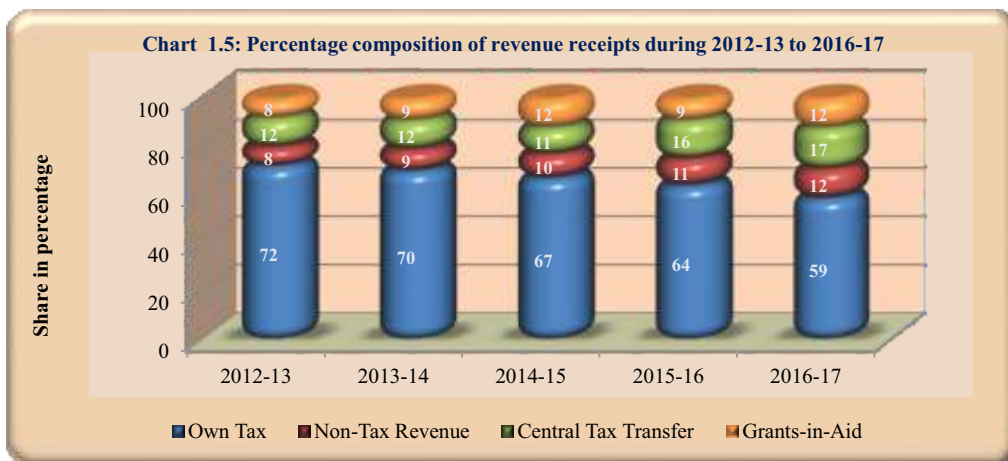
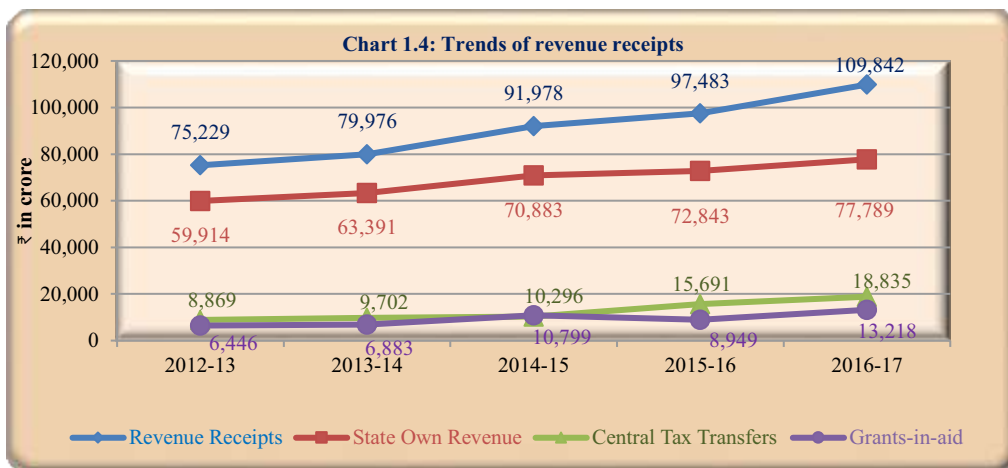
⁵ Public account receipts were ₹ 58,958.90 crore (gross). However, ₹ 2,571 crore (net) was available with the Government for use during 2016-17.

The total receipts of the State Government show a steady increase from ₹ 98,281 crore in 2012-13 to ₹ 1,40,487 crore in 2016-17. The total receipts increased by ₹ 16,197 crore in 2016-17 over the previous year. The increase was mainly due to increased growth in both revenue and capital receipts despite a decrease in net public account receipts.

The revenue receipts remained the highest contributor (over three-fourth) of the total receipts over the five-year period. The share of capital receipt in total receipts remained least in 2014-15. The share of public account receipts to total receipt remained highest in 2014-15. The relative share of net public account receipts decreased significantly from 8.24 per cent in 2014-15 to 1.83 per cent in 2016-17.

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 percentage composition of revenue receipts over the period 2012-13 to 2016-17 are presented in the **Charts 1.4 and 1.5** and also given in *Appendix 1.5*.



Revenue receipts grew by ₹ 12,359.23 crore (12.68 per cent) in 2016-17 over the previous year. The increase was mainly due to increase in Grants from GoI

by ₹ 4,268.83 crore (47.70 per cent) and increase in non-tax revenue by ₹ 3,152.14 crore (30.92 per cent). The central tax transfers increased significantly in 2016-17 by ₹ 3,144.96 crore (20.04 per cent) crore over the previous year. The State's own revenue grew by ₹ 4,945.44 crore (6.79 per cent) over the previous year.

Chart 1.5 shows that 71 per cent of revenue came from State's own resources during 2016-17 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 decreased steadily from 72 per cent from 2012-13 to 59 per cent in 2016-17.

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 State's own tax revenue should increase. The trends of revenue receipts relative to GSDP are presented in **Table 1.5** below:

Table 1.5: Trends of revenue receipts relative to GSDP

	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue receipts (RR) (₹ in crore)	75229	79976	91978	97483	109842
Rate of growth of RR (per cent)	19.49	6.31	15.01	5.99	12.68
Rate of growth of State's own tax (per cent)	20.97	5.80	11.82	2.77	6.79
RR/GSDP (per cent)	10.38	9.90	10.28	9.80	9.76
Buoyancy Ratios					
Revenue buoyancy with respect to GSDP ⁶	1.10	0.55	1.39	0.54	0.96
State's own tax buoyancy with respect to GSDP	1.19	0.51	1.09	0.25	0.51
Revenue buoyancy with respect to State's own taxes	0.89	1.37	1.70	2.16	1.87

Source: Finance Accounts of the respective years

The GSDP at current prices increased from ₹ 9,94,316 crore in 2015-16 to ₹ 11,25,654 crore in 2016-17 representing growth of 13.21 per cent. The growth rate of revenue receipts fluctuated during 2012-13 to 2016-17 ranging between a high of 19.49 per cent in 2012-13 and to a low of 5.99 per cent in 2015-16. The revenue receipts grew by 12.68 per cent in 2016-17 over the previous year. The growth in revenue receipts in 2016-17 was more due to tax transfers and grants-in-aid by the Central Government. It is evident from **Table 1.5** that the buoyancy of revenue receipts with respect to GSDP was less than one during 2013-14 to 2016-17, except in 2014-15, indicating that revenue receipts grew at a lower rate than the growth rate of GSDP. The decline in revenue buoyancy with respect to State's own taxes in 2016-17 was on account of low growth rate of State's own taxes (4.02 per cent) vis-à-vis rate of growth of revenue receipts (6.69 per cent) in 2016-17 over the previous year. The State's own tax buoyancy with respect to GSDP stood at 0.51 in 2016-17, indicating the need to ensure better tax compliance.

⁶ Figures differ from last year's Report due to change in GSDP figures of 2011-12 to 2015-16

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 2012-13 to 2016-17 along with the respective all-India average are presented in **Appendix 1.6**.

The State's actual tax and non-tax receipts for the year 2016-17 *vis-à-vis* assessment made by 14th FC and MTFPS (February 2016) are presented in **Table 1.6** below.

Table 1.6: Projections and actuals of tax and non-tax revenue

(₹ in crore)					
	14 th FC projections	MTFPS projection	Budget estimates	Revised estimates	Actuals
Tax revenue	98890	71271	71370	64760	64443
Non-tax revenue	12878	12780	12428	14378	13346

Source: Finance Accounts of State for the year 2016-17 and Budget publication No. 30 of the State

The tax revenue of the State in 2016-17 stood lower by a significant margin of ₹ 34,447 crore than the 14th FC projections of ₹ 98,890 crore. Also, it could not achieve the target of budget estimates and MTFPS projection. Actual non-tax revenue was higher than MTFPS projection, budget estimates as well as 14th FC projections. The actual non-tax revenue in 2016-17 was more than the budget estimates by ₹ 918 crore, which was mainly due to increase in interest receipts on investment of cash balance and other interest receipts. However, the actual non-tax revenue was less than the revised estimates by ₹ 1,032 crore.

1.3.1.1 Tax revenue

The main components of State's tax revenue during 2012-13 to 2016-17 are given in **Table 1.7**.

Table 1.7: Main components of State's tax revenue

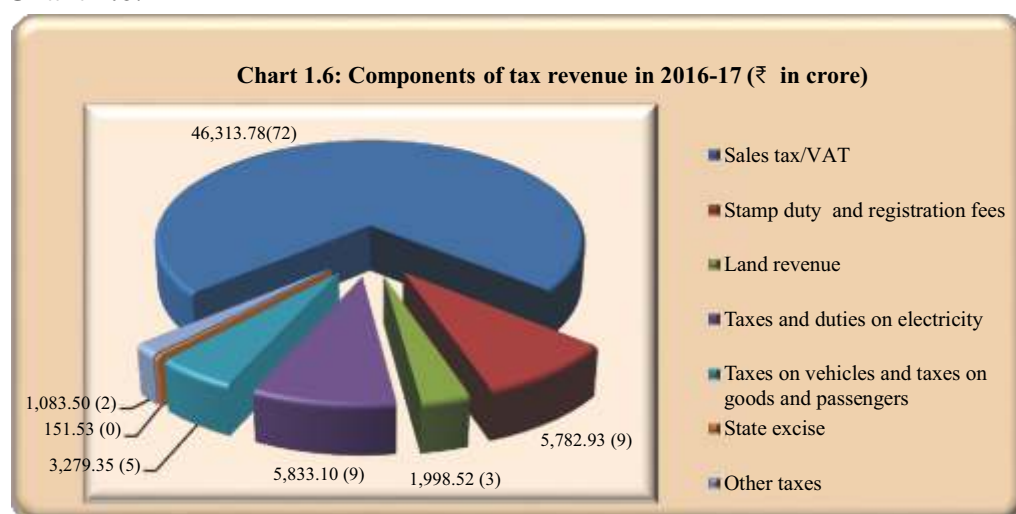
(₹ in crore)						
Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage change over previous year
Sales tax/VAT	39464.67	40976.06	44145.26	44091.05	46313.78	(+) 5.04
Stamp duty and registration fees	4426.93	4749.35	5503.34	5549.42	5782.93	(+) 4.21
Land revenue	2207.85	1727.41	1892.65	2528.50	1998.52	(-) 20.96
Taxes and duties on electricity	4406.60	4692.77	5877.65	5999.66	5833.10	(-) 2.78

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage change over previous year
Taxes on vehicles and taxes on goods and passengers	2486.84	3116.37	2905.44	3273.17	3279.35	(+) 0.19
State excise	84.91	109.82	140.27	123.32	151.53	(+) 22.88
Other taxes	818.89	1000.59	875.20	1084.29	1083.50	(-) 0.07
Total	53896.69	56372.37	61339.81	62649.41	64442.71	(+) 2.86

Source: Finance Accounts of the respective years

The State's tax revenue increased by ₹ 7,443.12 crore during 2012-13 to 2014-15 (13.81 *per cent*) however, it increased by only ₹ 3,102.90 crore during 2014-15 to 2016-17 (5.06 *per cent*).

The components of tax revenue for the year 2016-17 are presented in **Chart 1.6**.



Figures in parenthesis indicate percentage share in total tax revenue

The State's tax revenue increased by 2.86 *per cent* during 2016-17 over the previous year. Except land revenue, taxes and duties on electricity and other taxes, all other components of tax revenue grew during 2016-17. Land revenue decreased by ₹ 530 crore registering 20.96 *per cent* decrease during 2016-17 over the previous year. The decrease was mainly due to less receipts on survey and settlement operations, land revenue/tax and rates and cesses on land. The receipt from State excise increased by 22.88 *per cent* over 2015-16 due to increase in receipts from 'foreign liquor and spirits' and 'medicines and toilet preparations containing alcohol, opium etc.'

From the year 2012-13 to 2016-17, only stamp duty and registration fees has shown a consistent increasing trend. There was negative growth in taxes on vehicles and taxes on goods and passengers (2014-15), sales tax/VAT and State excise (2015-16) and taxes and duties on electricity (2016-17).

The 14th FC projected the tax-GSDP ratio of 9.36 *per cent* for 2016-17. However, it actually stood lower at 5.72 *per cent*. Thus, to achieve the target as

projected by the 14th FC, the State Government needs to take necessary and urgent steps to augment the tax revenue especially through better tax compliance.

1.3.1.2 Non-tax revenue

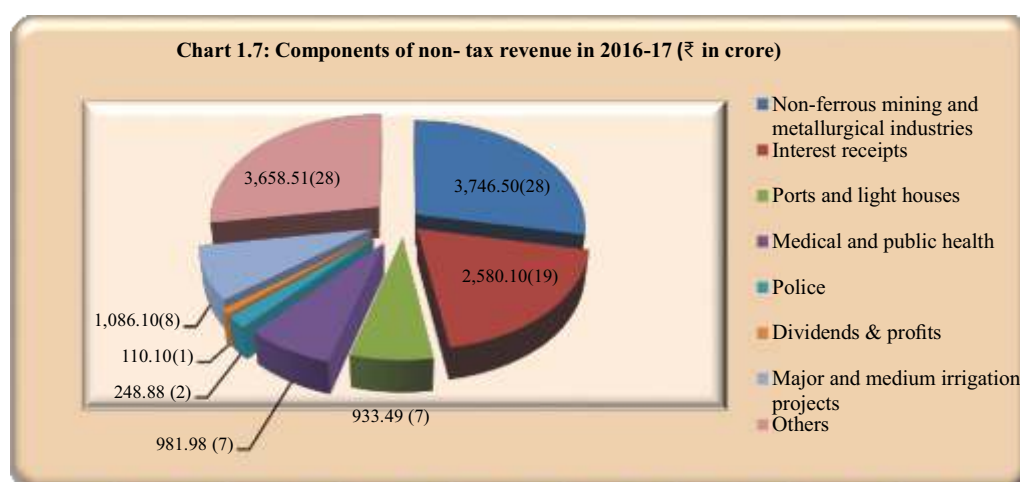
The main components of State's non-tax revenue during 2012-13 to 2016-17 are given in **Table 1.8**.

Table 1.8: Main components of State's non-tax revenue

Revenue Head						(₹ in crore)
	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage increase over previous year
Interest receipts	1325.84	1267.18	1011.47	843.00	2580.10	(+)206.06
Non-ferrous mining and metallurgical industries	1847.16	1578.34	4285.85	3350.19	3746.50	(+)11.83
Major and medium irrigation projects	714.13	897.51	1034.91	1028.42	1086.10	(+)5.61
Ports and light houses	577.68	636.84	742.08	922.24	933.49	(+)1.22
Medical and public health	126.34	111.88	243.57	171.51	981.98	(+)472.55
Police	163.84	177.81	214.20	219.82	248.88	(+)13.22
Dividends & profits	54.31	277.44	89.54	96.06	110.10	(+)14.62
Others	1207.69	2071.31	1920.99	3,562.27	3658.51	(+)2.70
Total	6016.99	7018.31	9542.61	10193.51	13345.66	(+)30.92

Source: Finance Accounts of the respective years

The components of non-tax revenue for the year 2016-17 are presented in **Chart 1.7** below.



Figures in parenthesis indicate percentage share in total non-tax revenue

The non-tax revenue of the State during 2016-17 increased by ₹ 3,152 crore (30.92 per cent) over the previous year mainly due to increased growth in interest receipts and revenue generated in medical and public health. The interest receipts increased by ₹ 1,737 crore (206.06 per cent) over the previous year due to increased booking of ₹ 1,867.41 crore under Minor Head '800'

Other receipts. Similarly, the receipts in medical and public health increased by ₹ 810 crore (472.55 *per cent*) over the previous year due to more receipts under fees and fines and other receipts. The dividends and profits improved by ₹ 14.04 crore (14.62 *per cent*) during 2016-17 over the previous year. The Government received dividends mainly from Gujarat State Mineral Development Corporation Limited (₹ 70.60 crore), Gujarat State Petroleum Gas Company Limited (₹ 2.24 crore) and Gujarat State Financial Services Limited. (₹ 17.39 crore).

During 2012-13 to 2016-17, only ports and light houses receipts and police receipts have shown an increasing trend. Receipts from non-ferrous mining and metallurgical industries and medical and public health have shown inconsistent growth. Interest receipts showed a decreasing trend during initial four years which turned around during 2016-17.

As pointed out earlier in the **Chart 1.5**, the share of non-tax revenue in revenue receipt ranged between eight to 12 *per cent* during five years period from 2012-13 to 2016-17, indicating that non-tax revenue did not contribute significantly in financing the State expenditure.

1.3.2 Central tax transfers

The 14th FC had recommended the States' share of central taxes to be increased to 42 *per cent* from 32 *per cent* as recommended by 13th FC. The State's share in the net proceeds of central tax and net proceeds of service tax were fixed at 3.084 *per cent* and 3.172 *per cent* respectively. The central tax transfer stood at ₹ 18,835 crore in 2016-17 registering growth of 20.04 *per cent* over the previous year.

In 2015-16, the State Government received ₹ 15,690 crore as share of Union taxes and duties which was ₹ 5,394 crore more than the devolution in 2014-15. However, capital expenditure incurred in 2015-16 was only ₹ 11 crore more than the previous year, while there was an increase of ₹ 9,127 crore in revenue expenditure over the previous year. In 2016-17, the State Government received ₹ 18,835 crore as share of Union taxes and duties which was ₹ 3,145 crore more than the devolution in 2015-16. However, capital expenditure incurred in 2016-17 was ₹ 1,814 crore less than the previous year, while there was an increase of ₹ 8,116 crore revenue expenditure over the previous year. Thus, the increase in capital expenditure was not commensurate to increase in share of union taxes and duties during 2015-16 and 2016-17.

1.3.3 Grants-in-aid from Government of India

The components of grants-in-aid received from the GoI during 2012-13 to 2016-17 are given in **Table 1.9**.

Table 1.9: Main components of grants-in-aid from GoI

Particulars	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Non-plan grants	1230.30	2079.21	2668.94	2179.28	3192.93
Grants for State plan schemes	3466.74	2604.46	7341.11	6064.11	8505.95
Grants for Central plan schemes	83.41	58.21	104.78	104.28	53.41
Grants for Centrally Sponsored Schemes	1665.35	2141.25	684.18	601.55	1465.76
Total	6445.80	6883.13	10799.01	8949.22	13218.05
Percentage of increase over previous year	14.09	6.78	56.89	(-17.13)	47.70
Total grants as a percentage of revenue receipts	8.57	8.61	11.74	9.18	12.03

Source: Finance Accounts of the respective years

The grants-in-aid from GoI increased continuously from ₹ 6,446 crore in 2012-13 to ₹ 13,218 crore in 2016-17 except a decrease in 2015-16. The grants for State plan Schemes in 2014-15 increased due to changed classification of plan assistance under Centrally Sponsored Schemes (CSS) and routing of direct transfers to State implementing units through consolidated fund of the State. In 2015-16, the discontinuation of grants-in-aid by 14th FC except post-devolution revenue deficit, disaster relief and local bodies grants resulted in lower receipts in 2015-16 than that of previous year.

Among all the constituents of revenue receipts, the growth of grants-in-aid from GoI was the highest with an increase of ₹ 4,269 crore (47.70 per cent) in 2016-17 over the previous year. This increase was mainly due to an increase of allocation by GoI in the Accelerated Power Development Reform Programme (₹ 588.17 crore), Urban Development (₹ 482.80 crore) and Urban Housing (₹ 271.89 crore).

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 agencies⁷ 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 did not present the complete picture.

In 2014-15, GoI decided to transfer the central assistance through the consolidated fund of the State in a phased manner from 2014-15 onwards. However, direct transfers to State implementing agencies by GoI had been continuously increasing from ₹ 1,201.89 crore in 2014-15 to ₹ 2,542.77 crore in 2015-16 and to ₹ 3,392.86 crore in 2016-17. Major component (₹ 541 crore)

⁷ See Glossary, Appendix 4.1

was for Metro Link Express for Gandhinagar and Ahmedabad Company Limited (MEGA) for Ahmedabad Metro.

1.3.5 Grants awarded by the 14th Finance Commission

The 14th FC had recommended devolution of funds under only three types of grants-in-aid to States viz. local Government, disaster management and post-devolution revenue deficit. The 14th FC had desisted from recommending specific-purpose grants and suggested a separate institutional arrangement for the purpose. Other GIA viz. State-specific grants, environment related grants, roads and bridges *etc.* have not been recommended by the 14th FC. For the period 2016-17, the State received two types of grants from GoI *i.e.* grants for local Government and disaster management amounting ₹ 3,117.92 crore. The State Government had not received post-devolution revenue deficit grants, being a revenue surplus State. The details of amounts awarded and received for the year 2016-17 are shown in **Table 1.10**.

Table 1.10: Details of amounts awarded and received for the award period 2016-17

(₹ in crore)			
Sl. No.	Transfers	Amount awarded	Amount received
1.	Local bodies		
	Grants to PRIs	1290.86	1290.86
	General performance grants to PRI	169.32	169.32
	Grants to ULBs	851.45	851.45
	General performance grants to ULBs	251.29	251.29
2	State disaster relief fund	555.00	555.00
	Total	3117.92	3117.92

Source: Finance Department of Government of Gujarat

1.4 Capital Receipts

Trends in growth and composition of capital receipts of the State are given in the **Table 1.11**.

Table 1.11: Details of capital receipts

(₹ in crore)					
Sources of State's receipts	2012-13	2013-14	2014-15	2015-16	2016-17
Capital receipts (CR)	19544	19484	20316	23611	28074
Non-debt capital receipts	47	141	862	125	406
<i>Miscellaneous capital receipts</i>	0	0	241	0	240
<i>Recovery of loans and advances</i>	47	141	621	125	166
Public debt receipts	19497	19,343	19454	23486	27668
Rate of growth of non-debt capital receipts	(-) 73.14	200.00	511.35	(-) 85.50	224.80
Rate of growth of public debt receipts	11.19	(-) 0.79	0.57	20.73	17.81
Rate of growth of GSDP	17.69	11.47	10.82	11.09	13.21
Rate of growth of CR (<i>per cent</i>)	10.36	(-) 0.30	4.27	16.22	18.90

Source: Finance Accounts of the respective years

The capital receipts of the State increased from ₹ 19,544 crore in 2012-13 to ₹ 28,074 crore in 2016-17. The share of public debt receipts stood at almost 98.55 *per cent* of capital receipts in 2016-17. During 2016-17, the growth rate of capital receipt was 18.90 *per cent* mainly due to 17.81 *per cent* increase in public debt receipts over the previous year. The trends in the public debt receipts are given in **Table 1.12**.

Table 1.12: Public debt receipts

Components	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Market borrowings	15546	15493	14920	16260	24720
NSSF (National Small Saving Fund)	1659	1912	2774	4269	0
Loans from other financial institutions	1700	1777	1437	2704	2,757
Total internal debt	18905	19182	19131	23233	27477
Loans and advances from GoI	592	161	323	253	191
Total public debt receipts	19497	19343	19454	23486	27668

Source: Finance Accounts of the respective years

During 2016-17, the internal debt receipt increased by ₹4,244 crore over 2015-16 on account of increase in market borrowings and loans from other financial institutions. The State Government did not resort to any borrowings under NSSF for the first time in the last five years. Instead, there was a repayment of ₹ 3,447.44 crore in 2016-17 under NSSF. This was because the 14th FC had recommended discontinuing the release of NSSF loans from the Centre to the States. Market borrowings remained the highest contributor of internal debt during the last five years.

The total internal debt increased continuously from 2012-13 to 2016-17, except a marginal decrease in 2014-15. During 2012-13 to 2016-17, the internal debt of the State Government grew at 45.34 *per cent*.

In 2016-17, the loans and advances from GoI decreased by 24.51 *per cent* over 2015-16 while, the total public debt receipts increased by 41.91 *per cent* from 2012-13 to 2016-17.

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 accounts set up under Article 266(2) of the Constitution of India 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 1.13**.

Table: 1.13: Public accounts receipts (net)

Resources under various heads	₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Public account receipts					
a. Small savings, provident fund <i>etc.</i>	589	507	502	478	533
b. Reserve fund	488	84	5568	(-)295	1416
c. Deposits and advances	1844	2242	3107	2476	2270
d. Suspense and miscellaneous	656	(-)1033	843	256	(-) 1579
e. Remittances	(-)69	181	59	281	(-) 69
Total	3508	1981	10079	3196	2571

Source: Finance Accounts of the respective years

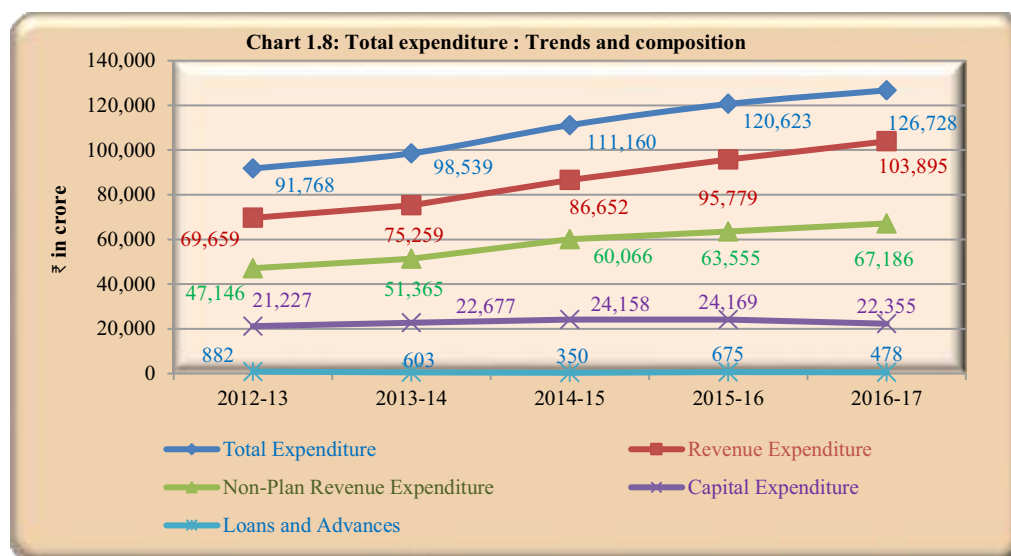
The net public account receipts decreased from ₹ 10,079 crore in 2014-15 to ₹ 3,196 crore in 2015-16 and further to ₹ 2,571 crore in 2016-17. In reserve fund, the increase was mainly on account of increase in balances under sinking fund and state disaster response fund. In deposits and advances, the decrease was on account of withdrawal of deposits for work done for public/private bodies. In suspense and miscellaneous, the decrease was on account of treasury cheques and pre-audit cheques held in the suspense account pending final classification.

1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted to the State Government. 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 development of social sector.

1.6.1 Total expenditure

Chart 1.8 presents the trends in total expenditure over a period of five years (2012-13 to 2016-17) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Tables 1.14** and **Table 1.15** respectively.



The total expenditure during 2016-17 increased by 5.06 per cent over the previous year, mainly due to an increase of 8.47 per cent in revenue expenditure. The growth rate of total expenditure continuously declined from 12.81 per cent in 2014-15 to 8.51 per cent in 2015-16 and to 5.06 per cent in 2016-17. The share of revenue expenditure to total expenditure in 2016-17 stood at 81.98 per cent. The non-plan revenue expenditure was 64.67 per cent of the total revenue expenditure in 2016-17. The plan revenue expenditure grew at 13.92 per cent while the non-plan revenue expenditure grew at 5.71 per cent in 2016-17.

Table 1.14: Total expenditure- Trends of share of its components

(Share in per cent)

Components of total expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue expenditure	75.91	76.38	77.95	79.40	81.98
Capital expenditure	23.13	23.01	21.73	20.04	17.64
Loans and advances	0.96	0.61	0.32	0.56	0.38

Source: Finance Accounts of the respective years

The share of revenue expenditure in total expenditure increased continuously from 75.91 per cent in 2012-13 to 81.98 per cent in 2016-17. The share of capital expenditure to total expenditure remained almost constant during 2012-13 to 2013-14, but it declined to 17.64 per cent in 2016-17.

Table: 1.15: Total expenditure- Trends by activities

(Share in per cent)

	2012-13	2013-14	2014-15	2015-16	2016-17
General services	27.07	28.05	27.79	27.93	28.74
Social services	38.81	39.61	39.49	40.24	40.35
Economic services	32.98	31.40	31.92	30.81	30.20
Loans and advances	0.96	0.61	0.32	0.56	0.38
Grants-in-aid	0.18	0.33	0.48	0.46	0.33

Source: Finance Accounts of the respective years

The movement of relative share of general, social and economic services exhibited stability from 2012-13 to 2016-17 with marginal inter year variations. The share of social services improved by 1.54 *per cent* in five year period and stood at 40.35 *per cent* in 2016-17. The share of loans and advances indicated decline of 18 basis points in 2016-17 over previous year.

The share of social services and general services (except in 2014-15) had increased whereas it decreased in economic services (except in 2014-15) during the period 2012-13 to 2016-17.

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 1.16**.

Table 1.16: Trends of revenue expenditure relative to GSDP

	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue expenditure (RE) (₹ in crore)	69659	75259	86652	95779	103895
Rate of growth of RE (<i>per cent</i>)	16.60	8.04	15.14	10.53	8.47
RE/ GSDP ratio (<i>per cent</i>)	9.61	9.32	9.68	9.63	9.23

Source: Finance Accounts of the respective years

Revenue expenditure continuously increased from ₹ 69,659 crore in 2012-13 to ₹ 1,03,895 crore in 2016-17. The revenue expenditure grew by ₹ 8,116 crore during 2016-17 over the previous year. The increase in revenue expenditure in 2016-17 was mainly due to more expenditure on interest payments (₹ 1,497 crore), pension and other retirement benefits (₹ 1,340 crore), medical and public health (₹ 818 crore), urban development (₹ 701 crore) and power (₹ 604 crore) than in the previous year.

The growth rate of revenue expenditure fluctuated widely from a low of 8.04 *per cent* in 2013-14 to a high of 16.60 *per cent* in 2012-13. In 2016-17, it increased by 8.47 *per cent* over the previous year. Revenue expenditure as a *per cent* of GSDP decreased to 9.23 in 2016-17 from 9.63 in 2015-16.

1.6.3 Capital expenditure

The capital expenditure increased continuously from ₹ 21,227 crore in 2012-13 to ₹ 24,169 crore in 2015-16, but decreased to ₹ 22,355 crore in 2016-17. In 2016-17, capital expenditure declined by 7.51 *per cent* (₹ 1,814 crore) over previous year. The decrease was mainly due to decrease in capital outlay on public works: ₹ 129 crore; capital outlay of education, sports, arts and culture: ₹ 114 crore; capital account of health and family welfare: ₹ 438 crore; capital account of water supply and sanitation, housing and urban development: ₹ 717 crore. The percentage share of capital expenditure to total expenditure decreased from 20.04 *per cent* in 2015-16 to 17.64 *per cent* in 2016-17.

1.6.4 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 1.17** and **Chart 1.9** present the trends in the expenditure on these components during 2012-13 to 2016-17.

Table 1.17: Components of committed expenditure

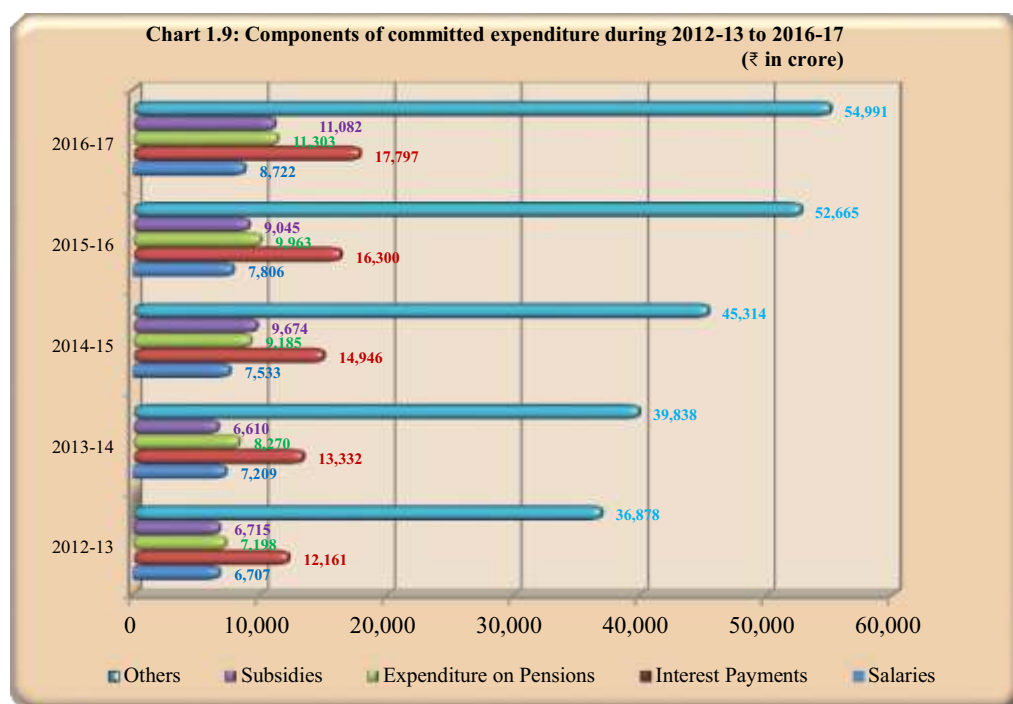
Components of committed expenditure	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Salaries	6707 (8.92)	7209 (9.01)	7533 (8.19)	7806 (8.01)	8722 (7.94)
Non-plan head	5174	5497	5702	5886	6451
Plan head*	1533	1,712	1831	1920	2,271
Interest payments	12161 (16.17)	13332 (16.67)	14946 (16.25)	16300 (16.72)	17797 (16.21)
Expenditure on pension	7198 (9.57)	8270 (10.34)	9185 (9.99)	9963 (10.22)	11303 (10.29)
Subsidies	6715 (8.93)	6610 (8.26)	9674 (10.52)	9045 (9.27)	11082 (10.09)
Total committed expenditure	32781 (43.57)	35421 (44.29)	41338 (44.94)	43114 (44.23)	48904 (44.52)
Other components	36878 (49.02)	39838 (49.81)	45314 (49.27)	52665 (54.02)	54991 (50.06)
Total revenue expenditure	69659	75259	86652	95779	103895
Total revenue receipts	75229	79976	91978	97483	109842
Committed expenditure as <i>per cent</i> of revenue expenditure	47.06	47.07	47.71	45.01	47.07

Source: Finance Accounts of the respective years

*Plan head includes salaries and wages under Centrally Sponsored Schemes

Figures in parenthesis indicate percentage to revenue receipts

The share of committed expenditure to revenue receipts increased from 43.57 *per cent* in 2012-13 to 44.52 *per cent* in 2016-17. The committed expenditure amounted to 48,904 crore in 2016-17, which was 47.07 *per cent* and 44.52 *per cent* of the revenue expenditure and revenue receipts respectively.



1.6.4.1 Salaries and wages

In 2016-17, expenditure on salaries increased by 11.73 per cent over 2015-16, as compared to an increase of 3.62 per cent in 2015-16 over 2014-15. As a percentage of the revenue receipts, expenditure on salaries decreased from 8.01 per cent in 2015-16 to 7.94 per cent in 2016-17. The rise in expenditure on salary was mainly due to implementation of seventh pay commission in the year 2016-17. The expenditure on salaries (₹ 8,722 crore) in 2016-17 remained higher by ₹ 190 crore against its own projections in budget estimates (₹ 8,532 crore).

1.6.4.2 Interest payments

Interest payments increased steadily from ₹ 12,161 crore in 2012-13 to ₹ 17,797 crore in 2016-17. In percentage terms, it increased by 9.18 per cent in 2016-17 over the previous year. The increase was mainly due to increased interest liability (16.65 per cent) on market loans. During 2016-17, interest payment on market borrowings stood at 57.57 per cent while it was 27.04 per cent on special securities issued to NSSF. During 2012-13 to 2016-17, ₹ 74,536 crore had been spent on interest payments, indicating that 16.40 per cent of the total revenue receipts of last five years had been utilised on interest payments.

1.6.4.3 Pension payments

The expenditure on pension (₹ 11,303 crore) in 2016-17 increased by 13.45 per cent over the previous year (₹ 9,963 crore). This expenditure accounted for 10.29 per cent of the total revenue receipts of the State. The increase in pension payment liabilities over the previous year was mainly on account of increase in payment of superannuation and retirement allowances

along with family pensions. The estimated yearly pension liabilities were prepared on the basis of trend growth rates instead of actuarial basis.

In its disclosure in compliance of Gujarat Fiscal Responsibility Act, 2005, the State Government estimated the pension payment as percentage of revenue receipts at 9.48 *per cent*. However, it stood higher at 10.29 *per cent* in 2016-17.

1.6.4.4 Migration to new pension Scheme

The State Government introduced the New Defined Contribution Pension Scheme (NPS) with effect from 01 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 State Government contributed ₹ 415.89 crore as matching contribution in 2016-17 as compared to ₹ 315.77 crore in 2015-16. The funds kept in public accounts, which were to be transferred to the trustee, stood at ₹ 20.57 crore at the end of the financial year 2016-17.

1.6.4.5 Expenditure on subsidies

The expenditure on subsidies increased by 65.03 *per cent* from ₹ 6,715 crore in 2012-13 to ₹ 11,082 crore in 2016-17. The expenditure on subsidies increased during the current year by 22.52 *per cent* over the previous year. However, it stood more than two-fold when compared to the budget estimates for 2016-17.

The subsidy to Agriculture and Co-operation Department was ₹ 1,082.18 crore in 2016-17 while it was ₹ 705.96 crore in 2015-16. An amount of ₹ 4,466.55 crore was given in 2016-17 to *Urja Vikas Nigam Limited* on account of supply free electricity to water works in villages, fuel price and power purchase adjustment charges, compensation in Gujarat Electricity Regulatory Commission (GERC) agriculture tariff and horse-power based tariff to agriculturists. The Energy and Petrochemical Department received the highest amount of subsidy of ₹ 5,038.72 crore in 2016-17 while the subsidy in 2015-16 was ₹ 4,438.83 crore.

1.6.5 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 1.18**.

Table 1.18: Financial assistance to local bodies etc.

	(₹ in crore)				
Financial assistance to institutions	2012-13	2013-14	2014-15	2015-16	2016-17
<i>Panchayati Raj</i> Institutions (PRIs)	14464.38	17295.00	17503.96	22085.57	16123.76
Urban local bodies	3100.74	2914.06	8289.19	8479.84	7336.19
Public sector undertakings	4.05	27.55	59.60	54.93	76.98
Autonomous bodies	644.45	650.77	2912.78	3090.62	4720.06

Financial assistance to institutions	2012-13	2013-14	2014-15	2015-16	2016-17
Others	12910.99	15273.20	11198.62	10337.45	19798.39
Total	31124.61	36160.58	39964.15	44048.41	48055.38
Assistance as percentage of revenue expenditure	44.68	48.05	46.12	45.99	46.25

Source: Finance Accounts of the respective years

Financial assistance to local bodies and other institutions continuously increased from ₹ 31,124.61 crore in 2012-13 to ₹ 48,055.38 crore in 2016-17. As a percentage of the revenue expenditure, it ranged from the low of 44.68 *per cent* in 2012-13 to a high of 48.05 *per cent* in 2013-14.

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 are assigned to the State Governments as these 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 is attached to a particular sector, if the ratio of expenditure under a category to aggregate expenditure is below the respective national average. **Table 1.19** shows the fiscal priority of the State with regard to development expenditure, social expenditure and capital expenditure in 2012-13 and 2016-17.

Table 1.19: Fiscal priority of the State in 2012-13 and 2016-17

Fiscal Priority by the State	AE /GSDP	DE# /AE	SSE /AE	ESE /AE	CE /AE	Education /AE	Health/ AE
General Category States' Average (Ratio) 2012-13	14.80	70.00	38.20	29.80	13.70	17.70	4.60
Gujarat's Average (Ratio) 2012-13	12.67	72.69	38.83	33.86	23.13	15.28	5.04
General Category States' Average (Ratio) 2016-17	16.70	70.90	32.20	35.10	19.70	15.20	4.80
Gujarat's Average (Ratio) 2016-17	11.30	70.90	40.50	30.40	17.60	15.60	6.10

Source: Finance Accounts of the respective years

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

Development expenditure includes development revenue expenditure, development capital expenditure and loans and advances disbursed

Table 1.19 reveals the following:

- Gujarat spent a smaller proportion of its GSDP on aggregate expenditure in 2012-13 as well as in 2016-17 as compared to the General Category States' (GCS) average.

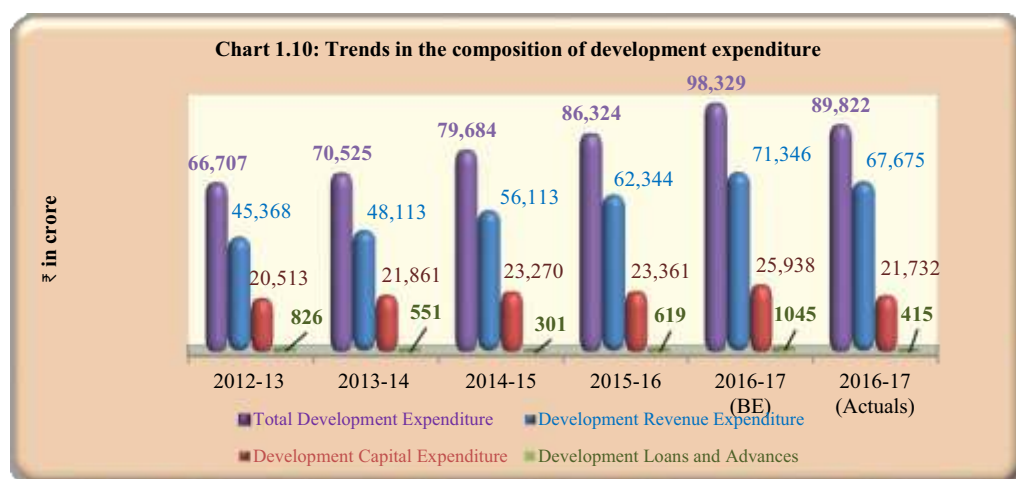
- Development expenditure as a proportion of aggregate expenditure in Gujarat was higher than the GCS average during 2012-13 but was equal to GCS in the current year. Development expenditure consists of both economic services expenditure and social sector expenditure. The expenditure on social sector as a proportion of aggregate expenditure in the State was higher than that of the GCS average in 2012-13 and 2016-17. The expenditure on economic sector as a proportion of aggregate expenditure in the State was higher in 2012-13 but lower in 2016-17 than that of GCS average.
- A higher ratio of capital expenditure to aggregate expenditure indicates that the State Government had adequately prioritised the capital expenditure in 2012-13 as compared to GCS average. However, CE as a percentage of AE which was 23.13 *per cent* in the year 2012-13, declined to 17.6 *per cent* in 2016-17.
- Gujarat's spending on education sector as a proportion of its aggregate expenditure was less as compared to GCS average in 2012-13 but increased marginally in 2016-17 when compared to GCS average. Gujarat had given adequate priority to health sector in 2012-13 and 2016-17 as compared to GCS average.

1.7.2 Efficiency of expenditure

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 goods⁸. Apart from improving the allocation towards development expenditure⁹, 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 1.10** presents the trends in development expenditure relative to the aggregate expenditure *vis-à-vis* budget estimates during the current year *i.e.* 2016-17. **Table 1.20** provides the details of capital expenditure and the components of revenue expenditure under selected social and economic services.

⁸ See Glossary, Appendix 4.1

⁹The aggregate expenditure data is 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 ₹ 66,707 crore in 2012-13 to ₹ 89,822 crore in 2016-17. As a percentage of the total expenditure, the development expenditure of the State decreased from 71.56 per cent in 2015-16 to 70.88 per cent in 2016-17. The capital expenditure component decreased from ₹ 23,361 crore in 2015-16 to ₹ 21,732 crore in 2016-17. In the five years period from 2012-13 to 2016-17, the development revenue expenditure grew by 49.17 per cent while the development capital expenditure grew by 5.94 per cent. However, in 2016-17 the development revenue expenditure grew by 8.55 per cent but development capital expenditure declined by 6.97 per cent over the previous year. The disbursement of loans and advances for development purposes also decreased by 32.96 per cent in 2016-17 over the previous year. Thus, development expenditure in the State in 2016-17 was largely revenue expenditure driven.

Table 1.20: Efficiency of expenditure under selected social and economic services

(In per cent)

Social/economic infrastructure	2015-16		2016-17	
	Share of capital expenditure to total expenditure	Share of salaries in revenue expenditure	Share of capital expenditure to total expenditure	Share of salaries in revenue expenditure
Social services (SS) (absolute figures- ₹ in crore)	6417	2580	6215	2605
Education	6.65	3.76	5.91	3.84
Health and family welfare	26.61	24.58	18.93	21.50
Water supply, sanitation, housing and urban development	19.58	0.45	21.46	0.39
Total (SS)	13.18	6.13	12.10	5.80
Economic services (ES) (absolute figures- ₹ in crore)	16944	1030	15517	1013
Agriculture & allied activities	17.98	12.11	13.81	10.28
Irrigation and flood control	89.24	27.55	85.63	21.84
Power & energy	41.62	0.92	34.29	0.59
Transport	38.62	0.86	38.91	0.76
Total (ES)	45.02	5.09	40.34	4.46
Total (SS+ES)	27.06	5.79	24.19	5.35

Source: Finance Accounts of the respective years

Expenditure on social services

Capital expenditure on the social services decreased by ₹ 202 crore from ₹ 6,417 crore in 2015-16 to ₹ 6,215 crore in 2016-17. The capital expenditure on education decreased mainly due to less expenditure on projects related to technical education (₹ 32 crore), art and culture (₹ 10 crore). In health and family welfare, the capital expenditure decreased mainly due to less expenditure on urban health services (₹ 294 crore), medical education and training and research (₹ 165 crore). In water supply, sanitation, housing and urban development, the capital expenditure increased on account of more expenditure on water supply (₹ 684 crore). The share of salaries in revenue expenditure under social services decreased from 6.13 per cent in 2015-16 to 5.80 per cent in 2016-17.

Expenditure on economic services

Capital expenditure on economic services decreased from ₹ 16,944 crore in 2015-16 to ₹ 15,517 crore in 2016-17, registering a decline of 8.42 per cent. In agriculture and allied activities, the capital expenditure during current year decreased by ₹ 138.92 crore due to less expenditure on forestry and wild life (₹ 59 crore) and food storage and warehousing (₹ 63 crore). In Power & Energy, the capital expenditure decreased during the year due to rural electrification (₹ 177 crore) and transmission and distribution (₹ 200 crore). The share of salaries in revenue expenditure under economic services decreased from 5.09 per cent to 4.46 per cent.

1.8 Financial Analysis of Government Expenditure and Investments

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 State Government during the current year *vis-à-vis* the previous year.

1.8.1 Financial results of irrigation projects

At the end of March 2017, ₹ 2,360.85 crore was spent on 33 major and medium irrigation projects. The revenue realized from these completed irrigation projects during the year was ₹ 618.10 crore, against which the maintenance expenditure was ₹ 128.71 crore, indicating a revenue surplus of ₹ 489.39 crore. When compared with the investment on these projects, the return was 20.73 per cent.

1.8.2 Incomplete projects

At the end of March 2017, there were 65 incomplete capital works involving an expenditure of ₹ 6,059.85 crore. The Department-wise details of incomplete works (each valuing ₹ 10 crore or more) are given in **Table 1.21**.

Table 1.21: Department-wise profile of incomplete works

(₹ in crore)			
Department	Number of incomplete works	Initial budgeted cost	Cumulative actual expenditure as on 31 March 2017
Road and buildings	59	5942.00	5456.35
Narmada, Water Resources, Water Supply and Kalpsar	6	673.01	603.50
Total	65	6615.01	6059.85

Source: Finance Accounts of the year 2016-17

It can be seen from the **Table 1.21** that Road and Buildings Department could incur expenditure to the extent of 91.83 per cent on the 59 incomplete projects when compared to the initial budgeted cost. In Narmada, Water Resources, Water Supply and Kalpsar Department, six projects remained incomplete and expenditure to the extent of 89.67 per cent of the initial budgeted cost was incurred.

In view of involvement of large financial cost, the State Government needs to redirect its efforts and resources to complete these projects so that intended benefits flow to users without further delay.

1.8.3 Investment and returns

Statement No. 19 of the Annual Finance Accounts of the State Government contains the details of investments made by the State Government in statutory corporations, Government companies, rural banks, joint stock companies, co-operative institutions and local bodies. As of 31 March 2017, the State Government invested ₹ 77,833.26 crore in these companies/corporations/institutions (**Table 1.22**).

The average return on investments in these companies/corporations/institutions was 0.21 *per cent* on an average investment of ₹ 62,744.20 crore during 2012-17. The Government paid an average 7.68 *per cent* as interest on its borrowings during the same period.

During 2012-17, the State Government's investments increased by ₹ 30,662 crore. During 2016-17, the State Government made an additional investment of ₹ 7,103 crore over the previous year which included ₹ 537.15 crore in statutory corporations, ₹ 6,561.22 crore in Government companies and ₹ 5.22 crore in co-operative institutions. Of the additional ₹ 7,103 crore, 58 *per cent* (₹ 4,104 crore) was invested in *Sardar Sarovar Narmada Nigam Limited*.

Continued use of borrowed funds to fund investments which do not have sufficient returns may lead to an unsustainable financial position. The State Government may examine the rationale for investment in high cost funds in low yielding investments.

Table 1.22: Return on investment

Investment/Return/Cost of Borrowings	2012-13	2013-14	2014-15	2015-16	2016-17
Investment at the end of the year (₹ in crore)	47,171	55,058	62,929	70,730	77,833
Return (₹ in crore)	54.31	277.44	89.54	96.06	110.10
Return (<i>per cent</i>)	0.12	0.50	0.14	0.14	0.14
Average rate of interest on Government borrowings (<i>per cent</i>)	7.66	7.62	7.76	7.69	7.67
Difference between average interest rate on Government borrowings and rate of return (<i>per cent</i>)	7.54	7.12	7.62	7.55	7.53

Source: Finance Accounts of the respective years

As per the latest finalised accounts (up to September 2017) of State Public Sector Undertakings (PSUs), of the 77 working PSUs, 54 PSUs earned a profit of ₹ 3,647.96 crore while 14 PSUs incurred a loss of ₹ 18,412.39 crore. Of the remaining nine PSUs, one had not commenced commercial operations, five had not finalised their first accounts, one PSU's excess of expenditure over income was adjusted against capital reserve non-plan grants, one PSU's excess of expenditure over income was transferred to works completed while one PSU's expenditure incurred was set off from grant income.

The State Government received only ₹ 110.10 crore as dividend from 54 profit-making PSUs in financial year 2016-17. In view of negligible return (3.02 per cent) from PSUs, the State Government may consider formulation of a suitable dividend policy to be applicable to the State PSUs.

Erosion of capital in State PSUs due to losses

As per the latest finalised accounts (September 2017), the investment¹⁰ and accumulated losses of the 77 working PSUs was ₹ 1,49,499.29 crore and ₹ 11,366.47 crore respectively. As on 31 March 2017, the aggregate networth¹¹ of these PSUs was positive. A further analysis of investment and accumulated losses revealed that 11 of 77 working PSUs had registered an erosion in networth which was negative at ₹ 13,277.57 crore at the end of March 2017. Five of these 11 PSUs engaged in manufacturing sector had registered a negative networth of ₹ 9,829.29 crore at the end of March 2017. The networth of the entire manufacturing sector comprising eight PSUs consequently eroded to ₹ 5,862.43 crore. The remaining six PSUs engaged in agriculture, finance, infrastructure, services and miscellaneous sectors registered a negative networth of ₹ 3,448.28 crore at the end of March 2017. The networth erosion in these six PSUs did not impact the aggregate networth of the PSUs in their respective sectors.

The investment in working PSUs increased from ₹ 1,02,689.21 crore in 2012-13 to ₹ 1,49,499.29 crore in 2016-17. The return on investment ranged between 4.95 per cent and 6.82 per cent during 2012-13 to 2015-16. Similarly, the total equity of the PSUs increased from ₹ 59,130.71 crore in 2012-13 to ₹ 85,112.91 crore in 2016-17. The return on equity ranged between 0.27 per cent and 4.53 per cent during 2012-13 to 2015-16. However, in 2016-17, net loss was ₹ 14,764.43 crore.

Investment in joint stock companies and partnerships

The Finance Accounts (Statement No. 19) revealed investment (₹ 32.56 crore) of the State Government in shares of 28 other Joint Stock Companies (JSC) and partnerships. The investment in seven of 28 JSC dated prior to the formation of the State of Gujarat in 1960. Three of 28 JSC were under liquidation, one had already been dissolved while shares of one was yet to be transferred to the State Government. No dividend was received by the State Government from these 28 JSC during 2016-17.

Audit enquired (October 2017) from the State Government about the existence of these JSC along with the reasons for non-payment of dividend and steps taken to write-off the investment of the Government in JSC under liquidation. The State Government stated (January 2018) that the concerned Administrative Departments have been requested to provide the required information.

¹⁰ Investment comprises paid up capital plus long term borrowings plus free reserves.

¹¹ Networth comprises the sum total of paid-up share capital and free reserves and surplus less accumulated losses and deferred revenue expenditure.

Investment in PPP projects

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

The status of PPP projects in infrastructure sector at various stages is presented in **Table 1.23**.

Table 1.23: Status of PPP projects in infrastructure sector (As on 31 March 2017)

(₹ 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	21	2703.21	14	4450.11	10	3575.32
2.	Urban infrastructure	110	2150.47	15	992.06	33	984.62
3.	Water sector	0	0.00	0	0.00	7	5853.00
4.	Power sector	4	7,600.00	0	0.00	11	22245.00
5.	Ports	62	56896.63	32	20444.95	32	21695.00
6.	Logistic parks	0	0.00	0	0.00	3	2200.00
7.	Aviation	0	0.00	0	0.00	6	2500.00
8.	IT, ITES and Biotech	5	230.00	1	80.00	1	100.00
9.	Railways	1	395.00	2	1262.25	0	0.00
10.	Agriculture	2	23.18	0	0.00	0	0.00
11.	Health	1	5.12	0	0.00	0	0.00
	Total	206	70003.61	64	27229.37	103	59152.94

Source: Gujarat Infrastructure Development Board

Table 1.23 shows that out of 373 PPP projects valuing ₹ 1,56,386 crore in infrastructure sector in Gujarat, 206 projects valuing ₹ 70,004 crore were completed at the end of 2016-17. The ports sector involved maximum investment in completed projects and maximum number of projects under implementation while urban infrastructure sector has maximum number of completed projects and maximum number of projects in pipeline.

1.8.4 Loans and advances by State Government

In addition to investments in co-operative institutions, corporations and companies, the State Government had also been providing loans and advances to many of these institutions/organisations. **Table 1.24** presents the position of loans and advances and interest receipts *vis-à-vis* interest payments during last three years.

Table 1.24: Average interest received on loans and advances given by State Government

(₹ in crore)			
Quantum of loans and advances /Interest receipts/ Cost of borrowings	2014-15	2015-16	2016-17
Opening balance	7048	6777	7327
Amount advanced during the year	350	675	477
Amount repaid during the year	621	125	166

Quantum of loans and advances /Interest receipts/ Cost of borrowings	2014-15	2015-16	2016-17
Closing Balance	6777	7327	7638
Balance for which terms and conditions have been settled	6517	6811	7459
Net addition	(-271)	550	311
Interest receipts	142	172	117
Interest receipts as percentage of outstanding loans and advances	2.10	2.35	1.53
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.39	7.37	7.32
Difference between interest receipts and interest payments (per cent)	(-)5.29	(-)5.02	(-)5.79

Source: Finance Accounts of the respective years

The total amount of outstanding loans and advances increased from ₹ 6,777 crore in 2014-15 to ₹ 7,638 crore in 2016-17. The loans advanced during the year decreased by ₹ 198 crore over the previous year. Of the total loans advanced and disbursed during the year, ₹ 216.87 crore was under social services, ₹ 198.25 crore under economic services and ₹ 62 crore as personal advances to Government and local self-Government employees. The loans advanced under social services were used for urban development and welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes and Minorities. Major portion of the loan advanced for economic services went to road transport (₹ 84.44 crore), power (₹ 61.79 crore) and engineering industries (₹ 39.49 crore).

Audit conducted a study (August 2016 to February 2017) of the system of sanction of loans by the FD and the monitoring of recovery of loans granted by two Administrative Departments namely, Industries and Mines (IMD) and Social Justice and Empowerment (SJED). The findings of the study are as under:

1.8.4.1 Finalization and adherence to terms and conditions of loans

As per Rule 71 of the Gujarat Financial Rules, 1971, an authority competent to sanction a loan shall, while sanctioning a loan, specify terms and conditions of loan including the terms and conditions of repayment of loan and rate of interest in the sanction order. The above provision was reiterated *vide* FD circular dated 08 July 2010 by laying down the procedure for finalisation of terms and conditions for these loans. This circular also required the Administrative Departments to maintain a register of loans so sanctioned, in accordance with Rule 78 of Gujarat Financial Rules. The circular also envisaged monitoring of repayment of loans and interest recovery by the concerned Administrative Departments. The Departments were also required to send a return in a prescribed format to the FD of the status of all their loans at the end of each financial year. Audit observed the following instances of violation in compliance to the above requirements:

Non-monitoring of loan repayment and interest recovery

For implementing various State Government Schemes, the State Government provides loans to various Departmental commercial undertakings, PSUs, local bodies, co-operative societies as per terms and conditions mentioned in the sanction orders. Audit observed that IMD and SJED did not maintain any register of loans nor did they send any returns to FD, despite the fact that both these Departments had disbursed loans amounting to ₹ 172.03 crore and ₹ 186.03 crore respectively during 2014-15 to 2016-17. Therefore, it was not possible to ascertain in audit the extent of loans or interest overdue in the various loan accounts of IMD and SJED.

Further test-check of records of four¹² loanees of IMD revealed that loans aggregating ₹ 622.01 crore were disbursed to Gujarat State Financial Corporation (GSFC) during 2003-04 to 2011-12. However, only ₹ 0.65 crore had been repaid during 2007 leaving an outstanding balance of 621.36 crore (March 2016). The interest of ₹ 1,384.02 crore worked out till March 2016 on these loans was also outstanding. The GSFC requested (October 2012) the Government to treat these loans as interest free loans from 1 July 2012. In case of another loanee namely, Alcock Ashdown (Gujarat) Limited, the moratorium period for the loans sanctioned (₹ 93.50 crore) during 2008-09 to 2010-11 was up to 31 March 2013. However, neither repayment of instalments of loan were made after completion of moratorium period nor interest due on loans worked out. Thus, IMD was not in a position to effectively monitor the repayment of outstanding loans.

Sanction of loans without finalisation of terms and conditions

During 2013-14 to 2015-16, the SJED sanctioned a loan of ₹ 15.30 crore to State Channelising Agencies¹³ being matching share of 10 *per cent* of the loan sanctioned by the National Backward Class Finance and Development Corporation and National Minorities Finance and Development Corporation, New Delhi. Audit observed that no terms and conditions for repayment of loans, rate of interest, period of repayment of loans *etc.* were finalised by SJED.

Further scrutiny of records of IMD revealed that an interest free loan of ₹ 39.50 crore was sanctioned (April 2013) to Gujarat Industrial Investment Corporation Limited (GIIC) under Golden Gujarat Growth Fund for the financial year 2013-14. However, no terms and conditions for the repayment of loan by GIIC were specified.

1.8.5 Cash balances and investment of cash balances

Details of cash balances and investments made by the State Government during 2016-17 are shown in **Table 1.25**.

¹² Gujarat State Khadi Gramodyog Board; Gujarat State Handloom and Handicrafts Development Corporation Limited; Gujarat State Financial Corporation; and Alcock Ashdown (Gujarat) Limited

¹³ Gujarat Thakor and Koli Vikas Nigam Limited (₹ 1.80 crore); Gujarat Gopalak Vikas Nigam Limited (₹ 3.00 crore); Gujarat Backward Class Development Corporation Limited (₹ 6.00 crore); and Gujarat Minorities Finance and Development Corporation (₹ 4.50 crore)

Table 1.25: Cash balances and investment of cash balances

(₹ in crore)		
Cash balances and investment of cash balances	Opening balance on 1/4/2016	Closing balance on 31/3/2017
(a) General cash balance -		
Cash in treasuries	0.00	0.00
Deposits with Reserve Bank ¹⁴	(-)598.63	(-)471.82
Remittances in transit - Local	4.19	4.19
Investments held in Cash balance investment account	8945.52	12749.99
Total (a)	8351.08	12282.36
(b) Other Cash balances and investments		
Cash with Departmental officers viz. Public Works Department Officers, Forest Department Officers, District Collectors	(-)0.38	(-)0.28
Permanent advances for contingent expenditure with departmental officers	0.27	0.27
Investment of earmarked funds	10208.51	10966.58
Total (b)	10208.40	10966.57
Grand total (a)+ (b)	18559.48	23248.93

Source: Finance Accounts of the respective years

Due to large surplus cash balance during 2016-17, 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 un-encashed cheques. Cheques amounting to ₹ 1,818.50 crore remained un-encashed as on 31 March, 2017.

Fresh borrowings despite availability of large cash balances

The 13th FC had suggested that there should be a directed effort by States with large balances to utilise their existing cash balances before resorting to fresh borrowings. Further, such States should consider utilising their surplus cash balances for lump sum repayment of market borrowings raised during the period 2002-05 onwards, which would be due for repayment 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 ₹ 8,946 crore and ₹ 12,750 crore at the end of 2015-16 and 2016-17 respectively.

The high level of investment held in ‘Cash Balance Investment Account’ at the end of 2015-16 and 2016-17 indicated the need for a better cash management.

¹⁴The 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.

In view of availability of resources under Public Accounts of the State, the Government could have curtailed the market borrowings to avoid interest burden for the coming years. The State Government may consider the policy of need-based borrowing and maintain only 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 2017 compared with the corresponding position on 31 March 2016. 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 disclosure form B-2(A) 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 and provident fund of other employees
- (ix) Other liabilities

1.9.2 Fiscal liabilities

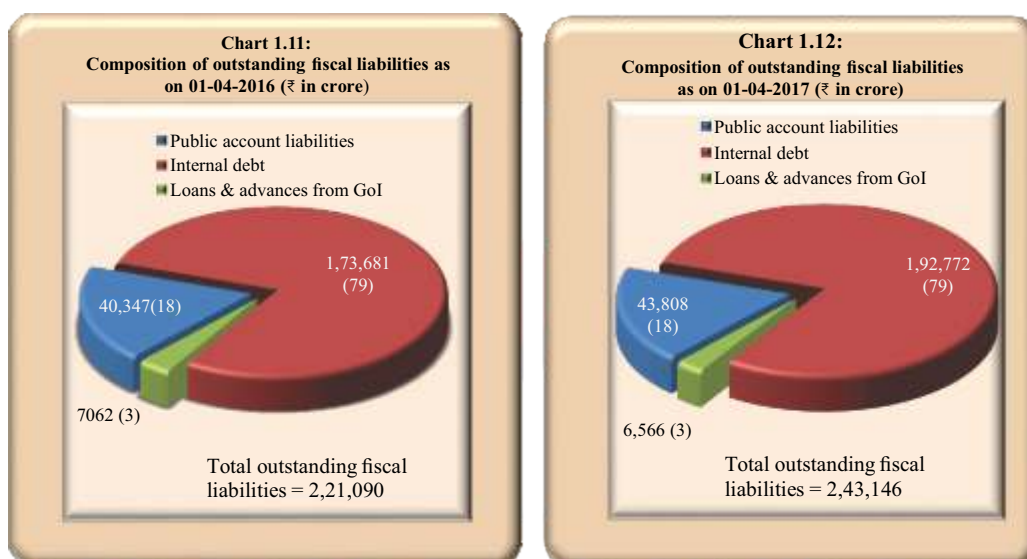
The outstanding fiscal liabilities of the State increased from ₹ 1,66,667 crore in 2012-13 to ₹ 2,43,146 crore at the end of 2016-17 at an average annual rate of 10.02 *per cent*. In 2016-17, the fiscal liabilities grew at 9.98 *per cent* over the previous year. The trends in fiscal liabilities relative to GSDP, revenue receipts and own resources are shown in **Table 1.26**.

Table 1.26: - Fiscal liabilities – Basic parameters

	2012-13	2013-14	2014-15	2015-16	2016-17
Fiscal liabilities (₹ in crore)	166667	183057	202313	221090	243146
Rate of growth (<i>per cent</i>)	10.53	9.83	10.52	9.28	9.98
Ratio of Fiscal liability to					
GSDP (<i>per cent</i>)	23.00	22.67	22.60	22.24	21.60
Revenue receipts (<i>per cent</i>)	222	229	220	227	221
Own resources (<i>per cent</i>)	278	289	285	304	313
Buoyancy of Fiscal liability to					
GSDP (ratio)	0.60	0.86	0.97	0.84	0.76
Revenue receipts (ratio)	0.54	1.56	0.70	1.55	0.79
Own resources (ratio)	0.50	1.69	0.89	3.35	1.47

Source: Finance Accounts of the respective years

The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is as presented in the **Charts 1.11** and **1.12** below:



Figures in parenthesis indicate percentage share

The fiscal liabilities comprised internal debt of ₹ 1,92,772 crore (79 *per cent*), public account of ₹ 43,808 crore (18 *per cent*) and loans and advances from GoI of ₹ 6,566 crore (three *per cent*) as at the end of 2016-17. The internal debt comprised mainly of market loans (₹ 1,36,102 crore) and special securities issued to National Small Savings Fund (₹ 46,370 crore). The fiscal liabilities at the end of 2016-17 stood at 221 *per cent* of the revenue receipts. The outstanding liabilities to GSDP ratio at 21.60 *per cent* in the current year was in line with the projected ratio of 25.87 *per cent* in the fiscal consolidation roadmap of 14th FC.

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.5**.

1.9.3 Transactions under reserve funds

There were 15 reserve funds earmarked for specific purposes of which, seven funds were inoperative. The total accumulated balance as on 31 March 2017 in these funds was ₹ 15,679.53 crore (₹ 15,676.48 crore in operational funds and ₹ 3.05 crore in non-operational funds). However, the investment out of these funds was only ₹ 10,966.25 crore.

1.9.4 Ujwal DISCOM Assurance Yojana

The *Ujwal DISCOM Assurance Yojana* (UDAY) was launched by the GoI in November 2015 for operational and financial turnaround of State owned power distribution companies (DISCOMs). The Scheme aimed to reduce the interest burden, cost of power, power losses in distribution sector and improve operational efficiency of DISCOMs.

The UDAY envisaged signing of an agreement between State Governments, DISCOMs and GoI for stipulating the respective responsibilities of the parties for achieving operational and financial milestones as described in the Scheme, after which, the State Governments were to take over 75 per cent of outstanding debt of DISCOMs as on 30 September 2015 over two years *i.e.* 50 per cent in 2016-17 and 25 per cent in 2017-18.

The Government of Gujarat entered (February 2016) into a tripartite Memorandum of Understanding with four State owned DISCOMs and Ministry of Power (GoI). Since all the four DISCOMs of Gujarat had already achieved financial turn-around in 2005-06, the State Government decided to participate in the Scheme without the component of financial turnaround and financing of future losses and working capital. In view of this, no financial assistance had been provided by the State Government to the State DISCOMs during 2016-17 under UDAY Scheme.

1.9.5 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 by the State Government. The maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years is given in **Table 1.27**.

Table 1.27: Guarantees given by the Government of Gujarat

Guarantees	(₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Ceiling limit on Government guarantees under Gujarat State Guarantees Act, 1963	20,000	20,000	20,000	20,000	20,000
Maximum amount guaranteed	10,525	11,175	11,235	11,333	11,333
Outstanding amount of guarantees	6,195	6,549	5,984	5,236	4,804
Percentage of outstanding amount of guarantees to total revenue receipts	8.23	8.19	6.51	5.37	4.37

Source: Finance Accounts of the respective years

The Gujarat Fiscal Responsibility Act, 2005 prescribed capping of outstanding guarantees within the limit of ₹ 20,000 crore as provided for in Gujarat State Guarantees Act, 1963. During 2016-17, the State Government extended guarantees amounting ₹ 80 crore to co-operatives. Of the total outstanding guarantees of ₹ 4,804 crore, 31 *per cent* (₹ 1,469 crore) were in respect of *Sardar Sarovar Narmada Nigam Limited* and 14 *per cent* (₹ 650 crore) in respect of Gujarat Water Infrastructure Limited. The outstanding guarantees (₹ 4,804 crore) accounted for 4.37 *per cent* of the revenue receipts (₹ 1,09,842 crore) of the State Government and were well within the limit prescribed under the Gujarat Fiscal Responsibility Act, 2005.

The 12th FC recommended setting up of guarantee redemption Fund (GRF) to meet the contingent liabilities arising from the guarantees given by the State Government. Consequently, the GRF was set up in February 2006. In terms of the guidelines of the RBI, which administers the fund, the corpus of the fund is to be gradually increased to the desired level of five *per cent* of outstanding guarantees. Against the minimum requirement of ₹ 240.20 crore, the balance in GRF was ₹ 640.23 crore. The State Government made a contribution of ₹ 24.84 crore to the fund during 2016-17. The State Government received ₹ 9.01 crore as guarantee fees against ₹ 15 crore received in previous year.

As per IGAS-1: Guarantee given by Governments, when a guarantee is invoked and payment is made by Government, the payment is to be treated as loan to the concerned entity/beneficiary on the behalf of which the guarantee was given and recoveries there-against are monitored. Further, the expenditure, loan and recoveries are required to be distinctly clarified in the financial statement. Hence, it is required to be depicted in the Statement of 'loans and advances made by Government'. During 2016-17, a guarantee of ₹ 7.39 crore given for National Co-operative Tobacco Growers Federation, Anand was invoked. An amount of ₹ 6.39 crore was paid by the State Government in the above case during 2015-16. Necessary adjustments have been made in the GRF but necessary entry showing the same as recoverable under 'loans and advances' had not been done in the Finance Accounts.

1.10 Debt Management

Debt sustainability

Debt sustainability¹⁵ 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 sustainability of the State. The analysis of various debt sustainability indicators of the State for the period of five years beginning from 2012-13 is given by **Table 1.28**.

¹⁵ See Glossary, Appendix 4.1

Table 1.28: Debt sustainability: Indicators and trends

Indicators of debt sustainability	₹ in crore)				
	2012-13	2013-14	2014-15	2015-16	2016-17
Outstanding debt (₹ in crore)	1,66,667	1,83,057	2,02,313	2,21,090	2,43,146
Rate of Growth of outstanding debt	10.53	9.83	10.52	9.28	9.98
Rate of growth of GSDP	17.69	11.47	10.82	11.09	13.21
Average rate of interest of outstanding debt	7.66	7.62	7.76	7.69	7.67
Interest/revenue receipt (<i>per cent</i>)	16.17	16.67	16.25	16.72	16.20
Debt repayment/debt receipts	0.70	0.71	0.70	0.73	0.69
Public debt repayment/tax revenue (<i>per cent</i>)	0.12	0.11	0.9	0.10	0.14
Net availability of borrowed funds	3,722	3,058	4,310	2,477	4,259

Source: Finance Accounts of the respective years

Table 1.28 reveals that total outstanding liabilities increased from ₹ 1,66,667 crore in 2012-13 to ₹ 2,43,146 crore in 2016-17. The outstanding liabilities at the end of year 2016-17 comprised of internal debt (₹ 1,92,772 crore), loans and advances from the Central Government (₹ 6,566 crore), small savings and provident fund *etc.* (₹ 43,808 crore). The net funds available from borrowings for current operations after providing for the interest and repayment increased from ₹ 2,477 crore in 2015-16 to ₹ 4,259 crore in 2016-17.

Debt maturity profile

From the outstanding liabilities of ₹ 2,43,146 crore as at the close of 2016-17, ₹ 43,808 crore pertains to other liabilities. The maturity profile of the remaining public debt is shown in **Table 1.29**.

Table 1.29: Maturity profile of public debt

Maturity profile (in years)	₹ in crore)	
	Amount	Per cent
0 – 1	13624.95	6.83
1 – 3	31893.74	16.00
3 – 5	40636.51	20.39
5 – 7	38939.01	19.53
7 and above	74243.74	37.25
Total	199337.95	100.00

Source: Finance Accounts of the State Government for the year 2016-17

The maturity profile of the public debt indicates that the liability of the State to repay the debt during the periods 2018-20, 2020-22 and 2022-24 would be ₹ 31,893.74 crore, ₹40,636.51 crore and ₹38,939.01 crore respectively which may put a strain on the Government budget during that period. Further, ₹1,25,094.21 crore *i.e.* 62.75 *per cent* of the total public debt would be repayable within next seven years. Therefore, the State Government would have to work out a well-thought out debt repayment strategy.

As per 12th FC recommendations, the ratio of interest payments to revenue receipts should decline to 15 *per cent* by 2009-10. However, the average interest payments on the total liabilities as a percentage of revenue receipts of the State during 2012-13 to 2016-17 stood at 16.40 *per cent* which was more than the recommended 15 *per cent*. In 2016-17, this percentage stood at 16.20 *per cent* due to higher growth rate of interest payment than that of revenue receipts.

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 and 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 Gujarat Fiscal Responsibility Act, 2005/Rules for the financial year 2016-17.

1.11.1 Trends in deficits

Chart 1.13 shows the trends in deficit indicators over the period 2012-13 to 2016-17.

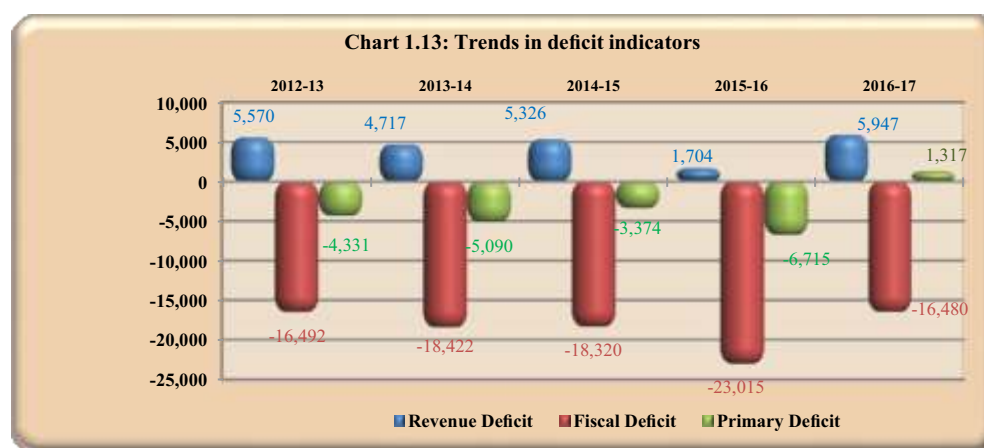
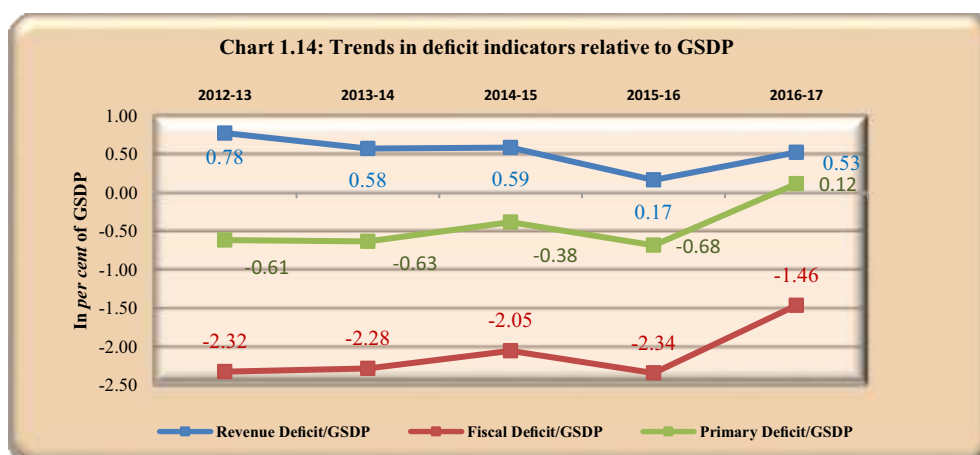


Chart 1.14 present the trends in deficit indicators relative to GSDP over the period 2012-13 to 2016-17.



The revenue surplus of ₹ 5,326 crore in 2014-15 reduced to ₹ 1,704 crore in 2015-16 and again increased to ₹ 5,947 crore in 2016-17. The increase in revenue surplus during the current year was on account of increase of ₹ 12,359 crore (12.68 per cent) in revenue receipts against an increase of ₹ 8,116 crore (8.47 per cent) in revenue expenditure over the previous year.

The fiscal deficit increased from ₹16,492 crore in 2012-13 to ₹23,015 crore in 2015-16 but decreased by 28.39 per cent to ₹ 16,480 crore in 2016-17. The significant decrease in fiscal deficit during current year was mainly on account of substantial growth of revenue surplus of ₹ 5,947 crore compared to the previous year (₹ 1,704 crore) and decrease of ₹1,814 crore in capital expenditure compared to the previous year.

A decrease of ₹6,535 crore in fiscal deficit together with an increase of ₹ 1,497 crore in interest payment in 2016-17 turned the primary deficit of ₹6,715 crore in 2015-16 to primary surplus of ₹1,317 crore in 2016-17. The fiscal deficit at 1.46 per cent remained within the targeted level of three per cent of GSDP as prescribed under the Gujarat Fiscal Responsibility Act, 2005 and 14th FC target for the year 2016-17.

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 1.30**.

Table 1.30: Components of fiscal deficit and its financing pattern

		(₹in crore)				
Particulars		2012-13	2013-14	2014-15	2015-16	2016-17
Decomposition of fiscal deficit *		16492	18422	18320	23015	16480
1.	Revenue deficit (-)/surplus(+)	5570	4,717	5326	1704	5947
2.	Net capital expenditure	(-)21227	(-)22677	(-)23917	(-)24169	(-)22115
3.	Net loans and advances	(-)835	(-)462	(-)271	(-)550	(-)312
Financing pattern of fiscal deficit *						
1.	Market borrowings	12846	13047	13246	14565	20944
2.	Loans from GoI	(-) 150	(-)495	(-)337	(-)408	(-)496
3.	Special securities issued to NSSF	(-) 561	(-)353	475	1501	(-)3447
4.	Loans from financial institutions	826	940	561	1633	1594
5.	Small savings, PF <i>etc.</i>	589	507	502	478	533
6.	Deposits and advances	1844	2242	3107	2476	2270
7.	Suspense and miscellaneous	656	(-)1033	843	256	(-)1579
8.	Remittances	(-) 69	181	59	281	(-)69
9.	Reserve Fund	488	84	5568	(-)294	1416
10.	Contingency fund	81	0	(-)14	10	4
Total		16550	15119	24010	20498	21170
(+)/Increase/(-)decrease in Cash balance		(+) 58	(-)3303	(+)5690	(-)2517	(+)4690

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

Table 1.30 reveals that during the last five years, market borrowings and net accretions in small savings, PF *etc.*, deposits and advances along with reserve fund were main sources used by the State Government to finance the fiscal deficit. In 2016-17, the fiscal deficit of ₹ 16,480 crore was mainly met from net market borrowings of ₹ 20,944 crore. There was repayment of ₹3,447 crore in NSSF in 2016-17 against receipt of ₹1,501 crore in 2015-16. The contribution from market borrowings improved significantly in current year as compared to the previous year by 43.80 *per cent* which led to an increase of ₹4,690 crore in cash balance in 2016-17, after financing the 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 1.31**) 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 1.31: Primary deficit/surplus – Bifurcation of factors

							(₹in crore)
Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure ¹⁶	Primary revenue deficit (-)/surplus (+)	Primary deficit (-)/surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2012-13	75276	57498	21227	882	79607	(+) 17778	(-) 4331
2013-14	80117	61927	22677	603	85207	(+)18190	(-)5090
2014-15	92840	71706	24158	350	96214	(+)21134	(-)3374
2015-16	97608	79479	24169	675	104323	(+)18129	(-)6715
2016-17	110248	86098	22355	478	108931	(+)24150	(+)1317

Source: Finance Accounts of the respective years

During the period 2012-13 to 2016-17, primary expenditure increased by 37 per cent from ₹79,607 crore to ₹1,08,931 crore against the increase of non-debt receipt from ₹ 75,276 crore to ₹ 1,10,248 crore (46 per cent) during the same period. Further, during 2012-13 to 2015-16, the non-debt receipts did not cover the primary expenditure resulting in primary deficit in each year. However, the non-debt receipts exceeded the primary expenditure, resulting in primary surplus of ₹1,317 crore in 2016-17.

1.12 Conclusion and Recommendations

The revenue receipts of the State increased steadily from ₹75,229 crore in 2012-13 to ₹1,09,842 crore in 2016-17. The growth rate of revenue receipts fluctuated significantly during the period from 2012-13 to 2016-17 ranging between 5.99 per cent in 2015-16 to 19.49 per cent in 2012-13. During 2016-17, revenue receipts grew by 12.68 per cent due to increase in all its constituents. State's revenue receipts were more responsive to GSDP compared to the own tax revenue of the State for the year 2016-17. The tax revenue of the State in 2016-17 could not achieve the target of budget estimates or Medium Term Fiscal Policy Statement (MTFPS) projection but non-tax revenue achieved the target of MTFPS and budget.

As per the 14th FC award, during 2016-17, the State received ₹ 3,117.92 crore as grants-in-aid from Government of India.

The State Government may explore mobilising additional resources through tax revenues by ensuring better tax compliance.

Revenue expenditure continuously increased from ₹69,659 crore in 2012-13 to ₹1,03,895 crore in 2016-17. However, the growth rate fluctuated widely from a low of 8.04 per cent in 2013-14 to a high of 16.60 per cent in 2012-13. In 2016-17, it increased by 8.47 per cent over the previous year. Revenue expenditure as a per cent of GSDP decreased to 9.23 per cent in 2016-17 from 9.63 per cent

¹⁶ Primary expenditure is total expenditure except interest payments of the concerned year

in 2015-16. However, the Non Plan Revenue Expenditure (NPRE) has also shown consistent increase over the period from ₹47,146 crore in 2012-13 to ₹ 67,186 crore in 2016-17 and stood at 64.67 per cent of revenue expenditure. The expenditure on salaries, interest payments, pensions and subsidies increased continuously from ₹ 32,781 crore in 2012-13 to ₹48,904 crore in 2016-17.

Whereas major chunk of the non-plan revenue expenditure is on salaries, pension and interest payments which is obligatory in nature, 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 2016-17, Government invested ₹537.15 crore in Statutory Corporations, ₹6,561.22 crore in Government Companies and ₹5.22 crore in Co-operative institutions etc. The average return on the investments was 0.21 per cent in the last five years while the Government paid an average 7.68 per cent as interest on its borrowings during 2012-13 to 2016-17. As per the latest finalised accounts, out of 77 working PSUs, 54 PSUs earned a profit of ₹3,647.96 crore and 14 PSUs incurred a loss of ₹18,412.39 crore. However, the State Government received only ₹110.10 crore as dividend from these PSUs in financial year 2016-17. The State could only receive a minuscule return of 3.02 per cent from PSUs for the year 2016-17. The Finance Department, Social Justice and Empowerment Department; and Industries and Mines Department were not in a position to effectively monitor the repayment of outstanding loan and interest, if any. Further, sanction of loans was done without finalisation of terms and conditions.

The State Government may consider formulation of a dividend policy for the payment of a reasonable return from the profit earning PSUs on the paid up share capital contributed by the State Government. The Government may issue strict instructions to all its Departments to ensure recovery of principal and interest as per the terms and conditions of sanction and intimate the current position of outstanding as regards overdue principal and interest on a regular basis, for monitoring centrally. The Government may establish a system of fixing terms and conditions of repayment of loan and recovery of interest before sanctioning loans.

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 8,946 crore and ₹ 12,750 crore at the end of 2015-16 and 2016-17 respectively. The high level of investment held in 'Cash Balance Investment Account' at the end of these financial years indicates that there is need for better cash management. In view of availability of resources under Public Accounts of the State, the Government could have curtailed the market borrowings to avoid interest burden for the coming years.

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

