

Executive Summary

Background

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

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (ThFC) recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. The State Legislature in March 2011 amended the Fiscal Responsibility Act in line with the recommendations.

Recognising that the fiscal environment should be conducive to equitable growth, the Fourteenth Finance Commission (FFC) recommended the State should target improving the quality of fiscal management encompassing receipts and expenditures while adhering to the roadmap outlined by FFC.

The Report

Based on the audited accounts of the Government of Gujarat for the year ending March 2016, this Report provides an analytical review of the Annual Accounts of the State Government. The Report is structured in three Chapters.

Chapter I is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2016. It provides an insight into trends of different components of the Government's receipts, expenditure and borrowing pattern, besides giving a brief account of fiscal imbalances.

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

Chapter III is an inventory of the Government's compliance with various reporting requirements and financial rules. The Report also has additional data collated from several other sources in support of the findings.

Audit findings and recommendations

Fiscal position

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as the State achieved a revenue surplus of ₹ 3,215 crore in that year. The revenue surplus stood at ₹ 1,704 crore in 2015-16 which was significantly lower than the projection in MTFPS of ₹ 7,308 crore. At the end of 2015-16, the fiscal deficit as percentage to GSDP was 2.34 *per cent*, which was within the limit of three *per cent* recommended by FFC, however stood higher than its own projections in MTFPS. In the Fiscal Consolidation Roadmap, FFC fixed the target of 25.91 *per cent* for the 'Total Outstanding Debt' as percentage of GSDP at the end of 2015-16. However, the State Government fixed the target for 'Total Public Debt' instead of 'Total Outstanding Debt' as percentage of GSDP in Budget and in MTFPS. This was not in consonance with the recommendations of FFC.

The fiscal deficit increased from ₹ 11,027 crore in 2011-12 to ₹ 23,015 crore in 2015-16. The significant increase in fiscal deficit during current year was mainly on account of substantial decline in revenue surplus compared to the previous year. An increase of ₹ 4,695 crore in fiscal deficit together with an increase of ₹ 1,354 crore in interest payment resulted in increase in primary deficit from ₹ 3,374 crore in 2014-15 to ₹ 6,715 crore in 2015-16. The fiscal deficit (2.34 *per cent*) still remained within the targeted level of three *per cent* of GSDP as set under the Gujarat Fiscal Responsibility Act.

The Expenditure on Grants-in-aid and subsidies should be booked under revenue expenditure in accounts. However, during 2015-16, the Government of Gujarat incorrectly budgeted and booked expenditure of ₹ 492.17 crore relating to Grants-in-aid and expenditure of ₹ 5.25 crore on account of subsidy under the capital section instead of revenue section. This has resulted in understatement of revenue expenditure and consequent overstatement of revenue surplus to the tune of ₹ 497.42 crore.

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 12,402 crore and ₹ 8,946 crore at the end of 2014-15 and 2015-16 respectively. The high level of investment held in 'Cash Balance Investment Account' at the end of these financial years indicates that there is need for better cash management.

State's own resources

The tax revenue of the State in 2015-16 stood lower by a significant margin of ₹ 24,108 crore than the FFC projections of ₹ 86,757 crore. Also, it could not achieve the target of budget estimates or MTFPS projection. Actual non-tax revenue was also less than MTFPS projection, budget estimates as well as FFC projections.

Revenue expenditure

The share of revenue expenditure in total expenditure declined from 80.56 *per cent* in 2011-12 to 75.91 *per cent* in 2012-13 and continuously increased thereafter to 79.40 *per cent* in 2015-16.

Revenue expenditure continuously increased from ₹ 59,744 crore in 2011-12 to ₹ 95,779 crore in 2015-16. However, the growth rate fluctuated widely from 4.01 *per cent* in 2011-12 to 15.14 *per cent* in 2014-15. In 2015-16, it increased by 10.53 *per cent* over the previous year.

Quality of expenditure

Development expenditure of the State comprises revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from ₹ 51,855 crore in 2011-12 to ₹ 86,324 crore in 2015-16. As a percentage of the total expenditure, the development expenditure of the State increased from 69.92 *per cent* in 2011-12 to 71.57 *per cent* in 2015-16.

Investment and returns

As of 31 March 2016, Government had invested ₹ 70,730 crore in Statutory Corporations, Government Companies, Rural Banks, Joint Stock Companies, Co-operative Institutions and Local Bodies (**Table 1.23**). The average return on the investments was 0.25 *per cent* in the last five years while the Government paid an average 7.67 *per cent* as interest on its borrowings during 2011-12 to 2015-16. Forty nine PSUs earned a net profit of ₹ 3,726 crore in financial year 2014-15. However, the State Government received only ₹ 96.06 crore as dividend from these PSUs in financial year 2015-16.

Funds and other Liabilities

There were 15 Reserve Funds earmarked for specific purposes, out of which five funds were inoperative. The total accumulated balance as on 31 March 2016 in these funds was ₹ 14,263.74 crore (₹ 14,260.87 crore in operational funds and ₹ 2.87 crore in non-operational funds). However, the investment out of these funds was only ₹ 10,208.17 crore.

Debt sustainability

As per TwFC recommendations, the ratio of interest payments to revenue receipts should decline to 15 *per cent* by 2009-10. The interest payments on the total liabilities as a percentage of revenue receipts of the State for the period 2011-12 to 2015-16 ranged between 16.17 *per cent* and 17.37 *per cent* which was more than the recommended 15 *per cent*. In 2015-16, this percentage increased to 16.72 *per cent* due to higher growth rate of interest payment than that of revenue receipts.

Outstanding debt increased from ₹ 1,50,785 crore in 2011-12 to ₹ 2,21,090 crore in 2015-16. The outstanding debt at the end of year 2015-16 comprise of Internal debt (₹ 1,73,681 crore), Loans and advances from the Central Government (₹ 7,062 crore) and small savings, Provident Fund etc. (₹ 40,347 crore). The net debt available after providing for the interest and

repayment declined from ₹ 4,310 crore in 2014-15 to ₹ 2,477 crore in 2015-16. During the last five years, net debt available stood lowest in 2015-16.

Financial management and budgetary control

Overall savings of ₹ 17,391.24 crore were the result of savings of ₹ 17,690.33 crore in 92 grants and 21 appropriations under the Revenue Section and 52 grants and seven appropriations under the Capital Section offset by excess of ₹ 299.09 crore in one grant and two appropriations under the Revenue Section and one grant under the Capital Section.

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularised by the State Legislature. However, excess expenditure amounting to ₹ 4,612.55 crore for the years 2007-08 to 2014-15 was yet to be regularised.

At the close of the year 2015-16, there were six grants/ appropriations under which savings exceeded 10 *per cent* of the total provision but the same had not been surrendered by the concerned Departments. The total amount involved in these cases was ₹ 19.07 crore.

Substantial surrenders (more than 50 *per cent* of the total provision or more than ₹ one crore) were made in respect of 899 sub-heads under 95 grants, mainly on account of either non-implementation or slow implementation of schemes/programmes. Out of the total provision amounting to ₹ 53,041.05 crore in these sub-heads, ₹ 15,114.51 crore (28.50 *per cent*) were surrendered, which included cent *per cent* surrender in 254 cases (₹ 5,107.86 crore).

Financial reporting

It was observed that 7,164 UCs aggregating to ₹ 5,385.40 crore due in respect of grants released during the period 2001-02 to 2015-16 were outstanding as on 31 March 2016. In respect of autonomous bodies/ authorities, 572 annual accounts of 136 bodies/ authorities due up to 2015-16 were not received as on 31st July 2016 by the offices of Principal Accountant General (Economic and Revenue Sector Audit) and the Accountant General (General and Social Sector Audit). AC bills numbering 9,275 and amounting to ₹ 613.18 crore were drawn up to March 2016 for which Detailed Contingency (DC) bills were not furnished. The State Government reported 146 cases of misappropriation, defalcation, etc. involving Government money of ₹ 13.87 crore (up to March 2016) on which final action was pending.

During 2015-16, expenditure aggregating ₹ 13,071.38 crore, constituting 10.31 *per cent* of the total expenditure was classified under Minor Head '800-other expenditure' against 75 Major Heads under Revenue and Capital sections. Budgeting of large amounts under the omnibus Minor Head 800-Other Expenditure/Receipts affects the transparency in financial reporting, as it fails to indicate disaggregated information on different activities of the Government separately in the accounts.