EXECUTIVE SUMMARY

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Background

Maharashtra is the second largest State in India, in terms of population (11.24 crore as per 2011 census) and has 3.08 lakh sq. km. of geographical area. The compounded annual growth rate of its Gross State Domestic Product for the period 2008-09 to 2017-18 has been 14.2 *per cent* as against 12.9 *per cent* in the General Category States of the country. During the above mentioned period, its population grew by 12.3 *per cent* as against 11.9 *per cent* in General Category States. The population below the poverty line in Maharashtra (17.4 *per cent*) was lower than the all India average of 21.9 *per cent*. The State's per capita income compounded annual growth rate in the current decade was higher at 12.8 *per cent* when compared with General Category States' growth rate of 11.5 *per cent*.

This Report on the Finances of the Government of Maharashtra is being brought out with a view to objectively assess the financial performance of the State during 2017-18 and to provide the State Government and State Legislature with timely inputs, based on analysis of the financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 and the Budget Estimates of 2017-18.

The Report

Based on the audited accounts of the Government of Maharashtra for the year ended March 2018, this Report provides an analytical review of the Annual Accounts of the Government. The Report is structured in three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of the State's fiscal position as on 31 March 2018. It provides an insight into trends of committed expenditure and the borrowings made by the State.

Chapter II is based on audit of Appropriation Accounts and gives a grant-wise description of Appropriations voted for by the Legislature and the extent to which the allocated resources were managed by the service delivery Departments of the Government.

Chapter III gives a selected insight into the State Government's compliance to various reporting requirements and Financial Rules. The Report also compiles the data collated from various Government Departments/Organisations in support of the audit findings.

Audit findings and recommendations

Chapter I

Finances of the State Government

Fiscal correction: The fiscal parameters i.e. revenue, fiscal and primary deficits indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period.

During 2017-18, the State achieved two of the three major parameters specified in the Fourteenth Finance Commission (FFC) Report i.e. (i) the fiscal deficit at 0.96 *per cent* of Gross State Domestic Product (GSDP) and (ii) the ratio of debt to GSDP at 17.32 were lower than the 23.3 *per cent* ceiling. However, the third parameter Interest Payment/Revenue Receipt ratio at 13.55 was higher than the norm prescribed by FFC and State's Medium Term Fiscal Policy Statement (MTFPS) (12.7 *per cent*). As against the revenue deficit of ₹ 8,536 crore during 2016-17, there was a revenue surplus of ₹ 2,082 crore due to higher growth rate of the revenue receipts (19 *per cent*) than the revenue expenditure (13 *per cent*).

Revenue receipts: The growth rate of revenue receipts increased significantly at 19 *per cent* (₹ 38,961 crore) in 2017-18 over 2016-17.

Central tax transfers: Tax devolutions from the Central Government increased from ₹ 33,715 crore in 2016-17 (17 *per cent* of revenue receipts) to ₹ 37,219 crore in 2017-18 (15 *per cent* of revenue receipts). The devolution of the State's share of Union Taxes assigned to the State increased by 10 *per cent* during the third year of award period of Fourteenth Finance Commission as compared to the second year of Fourteenth Finance Commission. Grants-in-aid from GoI, which constituted 11 *per cent* of revenue receipt in 2016-17 however, decreased to nine *per cent* in 2017-18.

Interest payments: Interest payments (₹ 33,018 crore), which increased by 16 *per cent* during the year over 2016-17, was more than the projections made in MTFPS and FCP (₹ 31,027 crore) but less than the assessment made in the FFC (₹ 34,569 crore) Report.

Capital expenditure: The percentage of capital outlay to total expenditure declined marginally from 10.43 *per cent* in 2016-17 to 9.97 *per cent* during 2017-18. Considering the declining trend in the capital expenditure to total expenditure over the last five years, there is scope for the Government to prioritize its spending on creation of more capital assets.

Fiscal priority: During 2017-18, priority given to Health and Family Welfare in the State was lower (4.5 *per cent*) than that given by the General Category States (4.9 *per cent*). Thus greater Fiscal priority needs to be given to this sector.

Review of Government investments: The average return on the State Government's investment in Government Companies, Joint Stock Companies and Partnerships and Statutory Corporations *etc.* was 0.04 *per cent* during 2013-18 while the Government paid average interest at the rate of eight *per cent* on its borrowings during the same period.

The State Government should review the working of Statutory Corporations, Rural Banks, Joint Stock Companies, Co-operatives and Departmental Commercial Undertakings incurring losses and take appropriate steps for their closure/revival. Since the chances of obtaining return on investment made in companies incurring losses and where the accumulated losses has resulted in erosion of the net-worth, are remote, the State Government should consider making future payments to these Companies in form of Grants instead of Share Capital so as to reduce the disparity in investment *vis-à-vis* return.

Debt servicing: The average expenditure on debt servicing during 2013-18 was ₹ 34,897 crore which accounted for 88.1 *per cent* of average public debt receipts during the same period, implying that a larger percentage of debt was being used for debt servicing. This also indicated that a very insignificant portion of the debt was available for meeting developmental expenditure to promote growth.

Cash balances: There was an increase of 29 *per cent* in the cash balances of the State Government over the previous year, significant part of which pertained to balances in the Public Account. The cash balances of the State Government at the end of March 2018 was ₹ 88,469 crore, which included an amount of ₹ 33,972 crore invested in Sinking Fund meant for Appropriation for reduction or avoidance of debt. The interest earned on this fund is ploughed back to the fund. As on 31 March 2018, the interest earned on the Sinking Fund was ₹1,993 crore. Further there was also an outstanding balance under 'Cheques and bills' amounting to ₹ 15,969 crore. Hence the resultant effective cash balance of the State Government as on 31 March 2018 was ₹ 38,528 crore which is 14 *per cent* of the total expenditure of the State Government (₹ 2,69,392 crore) during the year.

Fiscal liabilities: During 2017-18, the fiscal liabilities (₹ 4,32,433 crore) increased over the previous year (₹ 3,95,858 crore). These liabilities were nearly twice the revenue receipts and more than twice the State's own resources at the end of 2017-18.

Chapter II

Financial Management and Budgetary Control

The programme implementation of various social and developmental programmes in the State left an overall saving of ₹ 77,892.26 crore, set-off by an excess of ₹ 47.15 crore. This requires regularisation under Article 205 of the Constitution of India. There were instances of inadequate provision of funds. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of March 2018.

All the departments may submit realistic budget estimates, keeping in view the trends of expenditure and the actual requirement of funds in order to avoid large savings/excesses. Departments may closely monitor the expenditure against the allocations and incurring of excess expenditure over the grants should be strictly avoided. Surrender of funds should be done much before the last working day of the closing year so as to enable the State Government to utilize the funds on other schemes. Release of funds at the end of the year should be avoided.

Instances of Government receipts being kept in Personal Ledger Accounts without crediting the same to the Consolidated Fund of the State were also noticed.

Chapter III

Financial Reporting

The Government's compliance with various rules, procedures and directives was found wanting in various Departments which was evident from delays in furnishing of Utilisation Certificates by various Grantee Institutions against the loans and Grants-in-aid received by them from the State Government.

Delays were also seen in submission of Annual Accounts by Autonomous Bodies and Departmentally managed Commercial Undertakings. The Controlling Departments may identify the reasons for delay in finalisation of Accounts of Autonomous Bodies/Undertakings and institute remedial measures to ensure that arrears in Accounts are cleared in a time bound manner.

There were instances of large outstanding cases of losses and misappropriations for which Departmental action was pending since long. Departmental enquiries in respect of all fraud and misappropriation cases should be expedited to bring the defaulters to book and internal controls in all the organisations should be strengthened.

Omnibus Minor Head across Major Heads continued to be operated during the year for recording receipts and expenditure. This affects transparency in financial reporting.

Non-reconciliation of 24 *per cent* (₹ 52,759 crore) of total expenditure and five *per cent* (₹ 8,760 crore) of total receipts during the year, despite being highlighted in earlier years, indicated violation of Codal provisions and Financial Rules by the Controlling Officers.

Detailed Contingency Bills were not submitted on time or not furnished at all in violation of prescribed Rules and Regulations, indicating lack of internal controls besides raising apprehensions about proper end-use of funds. Prolonged non-submission/delay in submission of Detailed Contingent Bills render the expenditure on Abstract Contingency Bills opaque. Further, to the extent of non-submission of Detailed Contingency Bill, the expenditure shown in the Finance Accounts could not be vouched as correct or final. An effective monitoring mechanism needs to be put in place in the Departments to adjust the advances drawn on Abstract Contingent Bills within the stipulated period, as required under the extant rules.