

Executive Summary

Background

This State Finances Audit Report of the Government of Gujarat is being brought out with a view to objectively assess the financial performance of the State Government during 2018-19 and to provide the State Government and State Legislature with 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 in the Gujarat Fiscal Responsibility Act, 2005, Finance Commission Recommendations and the Budget Estimates of 2018-19 and other financial data obtained from various Government Departments.

The Report

Based on the audited accounts of the Government of Gujarat for the year ending March 2019, 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 2019. 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.

Achievements of the State Government: A Brief Summary

The *per capita* income of Gujarat at ₹ 2,32,329 during 2018-19 was higher than the all India average of ₹ 1,42,719.

The State achieved all the targets of major fiscal variables set under the Gujarat Fiscal Responsibility Act, 2005. The State has been revenue surplus since 2011-12. The ratio of fiscal deficit to Gross State Domestic Product (GSDP) at 1.76 *per cent* and public debt at 16 *per cent* were within the targets set under Gujarat Fiscal Responsibility Act, 2005.

Outstanding guarantees of the State at ₹ 4,699 crore during 2018-19 was much lower than the ceiling of ₹ 20,000 crore prescribed under the Gujarat State Guarantees Act, 1963. All the four State-owned power distribution companies (DISCOMS) achieved financial turnaround in 2005-06 and no financial assistance is being provided by State Government under *Ujwal DISCOM Assurance Yojana* (UDAY) Scheme.

Tax revenue of the State showed an increasing trend from ₹ 61,340 crore to ₹ 80,103 crore during 2014-19. The percentage of tax revenue to revenue receipts of the State increased from 58.03 *per cent* in 2017-18 to 58.90 *per cent* in 2018-19.

The State also took initiatives for better fiscal management by setting up of the Consolidated Sinking Fund to provide a cushion for repaying market loans as well as the Guarantee Redemption Fund to provide a cushion for servicing contingent liabilities.

Capital expenditure increased from ₹ 26,313 crore in 2017-18 to ₹ 28,062 crore in 2018-19, and accounted for 65 *per cent* of the total public debt receipts (₹ 43,146 crore) during 2018-19. The percentage of capital expenditure to total expenditure of the State stood at 17.26 during 2018-19.

Contents of the Report

Chapter I

Finances of the State Government

Fiscal position

The State achieved the target of elimination of revenue deficit from 2011-12 onwards. The revenue surplus at ₹ 3,212 crore in 2018-19 was lower than the projections made in the Medium Term Fiscal Policy Statement (MTFPS) and 14th FC targets for 2018-19.

At the end of 2018-19, the fiscal deficit as percentage of GSDP stood at 1.76 *per cent*, which was within the limit of three *per cent* recommended by 14th FC but exceeded the Government's own projections of 1.71 *per cent* in MTFPS.

In the fiscal consolidation roadmap, the 14th FC had recommended the percentage of outstanding liabilities¹ to GSDP at 25.79 *per cent* for 2018-19, against which, the percentage of actual outstanding liabilities stood at 19.04 *per cent*. The State Government could maintain the percentage of public debt to GSDP at 16.00 *per cent* during 2018-19 against the target of 15.96 *per cent* set out in MTFPS.

Indian Government Accounting Standard (IGAS)-2 prescribes that grants-in-aid should be booked under revenue expenditure. However, in 2018-19, the State Government incorrectly budgeted and booked expenditure of ₹ 11.01 crore relating to grants-in-aid under the capital section instead of the revenue section. This resulted in understatement of revenue expenditure and consequent overstatement of revenue surplus to that extent.

(Paragraph 1.1.2 and 2.6)

Trends in deficits

During 2018-19, fiscal deficit increased by ₹ 4,999 crore (23.40 *per cent*) from ₹ 21,366 crore in 2017-18 to ₹ 26,365 crore in 2018-19, on account of increase in net capital expenditure by ₹ 1,684 crore, decrease in revenue surplus by ₹ 2,020 crore and increase in net loans and advances disbursed by ₹ 1,295 crore.

During 2018-19, primary deficit increased by ₹ 3,770 crore from ₹ 2,412 crore in 2017-18 to ₹ 6,182 crore in 2018-19. This was due to an increase of ₹ 4,999 crore in fiscal deficit during the current year over the previous year, offset by an increase of ₹ 1,229 crore in interest payment.

(Paragraph 1.11.1 and 1.11.3)

State's own resources

The State's tax revenue increased by ₹ 8,553.33 crore (11.95 *per cent*) in 2018-19 over the previous year while, non-tax revenue decreased by ₹ 1,656.98 crore (10.99 *per cent*) over the previous year. The tax revenue of the State in 2018-19 stood lower by a significant margin of ₹ 48,380 crore vis-à-vis the 14th FC projections of ₹ 1,28,483 crore. Also, the tax revenue in 2018-19 was lower than the budget estimates and revised estimates. The State Government was entitled for Goods and Services Tax compensation of ₹ 7,311.47 crore during the year 2018-19 to compensate for loss of revenue on implementation of Goods and Services Tax Act, 2017. Actual non-tax revenue (₹ 13,417 crore) was higher than the budget estimates and revised estimates but lower than the 14th FC projections. During 2018-19, 69 *per cent* of revenue receipts came from State's own resources.

(Paragraphs 1.3, 1.3.3 and 1.3.5.1)

¹ 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.*

Share of union taxes and duties and grants-in-aid

The State's share of union taxes stood at ₹ 23,489 crore in 2018-19, registering a growth of 13.03 *per cent* over the previous year. Grants-in-aid from GoI in 2018-19 increased by ₹ 3,107 crore (19.56 *per cent*) over the previous year. During 2018-19, 31 *per cent* of revenue receipts of the State came from GoI in the form of State's share of union taxes and grants-in-aid.

(Paragraphs 1.3, 1.3.4 and 1.3.5)

Revenue expenditure

Revenue expenditure continuously increased from ₹ 86,652 crore in 2014-15 to ₹ 1,32,790 crore in 2018-19, with an increase of ₹ 14,730 crore (12.48 *per cent*) during 2018-19 over the previous year. Revenue expenditure as a percentage of GSDP decreased over the last five years (2014-19) and stood lowest at 8.84 *per cent* during 2018-19.

The share of revenue expenditure in total expenditure increased from 77.65 *per cent* in 2014-15 to 81.68 *per cent* in 2018-19.

(Paragraph 1.6.1 and 1.6.2)

Capital expenditure

Capital expenditure continuously increased from ₹ 24,158 crore in 2014-15 to ₹ 28,062 crore in 2018-19, except for a decrease in 2016-17.

The share of capital expenditure in total expenditure decreased from 18.15 *per cent* in 2017-18 to 17.26 *per cent* in 2018-19. During 2018-19, capital expenditure (₹ 28,062 crore) accounted for 65 *per cent* of the total public debt receipts (₹ 43,146 crore).

(Paragraph 1.6.3)

Nature of expenditure

Development expenditure of the State comprises revenue and capital expenditure including loans and advances on socio-economic services. Total development expenditure increased from ₹ 79,684 crore in 2014-15 to ₹ 1,13,728 crore in 2018-19. As a percentage of the total expenditure, total development expenditure of the State ranged between 70 and 72 *per cent* during 2014-19.

(Paragraph 1.7.2)

Investment and returns

As of 31 March 2019, the State Government invested ₹ 92,804 crore in statutory corporations, Government companies, rural banks, joint stock companies, co-operative institutions and local bodies. Average return on investments in these companies/corporations/institutions was 0.13 *per cent* during 2014-19 while the Government paid an average interest of 7.63 *per cent* on its borrowings during the same period.

(Paragraph 1.8.3)

Investment in 71 working State Public Sector Undertakings increased from ₹ 1,18,060.71 crore in 2014-15 to ₹ 1,69,957.91 crore in 2018-19. Return on Investment ranged between 6.82 *per cent* and 4.78 *per cent* during 2014-19. Similarly, total equity of the SPSUs increased from ₹ 60,021.95 crore in 2014-15 to ₹ 1,08,927.41 crore in 2018-19. Return on Equity ranged between 2.56 *per cent* and 0.88 *per cent* during 2014-19.

(Paragraph 1.8.3.1 and 1.8.3.2)

Debt sustainability

Total outstanding liabilities of the State grew from ₹ 2,02,313 crore in 2014-15 to ₹ 2,85,844 crore in 2018-19. In 2018-19, the outstanding liabilities grew at 11.50 *per cent* over the previous year. It comprised internal debt of ₹ 2,32,875 crore (81 *per cent*), public account of ₹ 45,539 crore (16 *per cent*) and loans and advances from GoI of ₹ 7,430 crore (three *per cent*). The internal debt largely composed of market loans (₹ 1,79,324 crore) and special securities issued to NSSF (₹ 39,385 crore).

The percentage of total outstanding liabilities to GSDP continuously decreased from 21.95 *per cent* (2014-15) to 19.04 *per cent* (2018-19). The net availability of borrowed funds for current operations after debt redemption (principal and interest payments) was ₹ 9,294 crore during 2018-19.

(Paragraph 1.9.2 and 1.10.1)

Chapter II

Financial Management and Budgetary Control

Against total budgetary provision of ₹ 2,00,576 crore during 2018-19, an expenditure of ₹ 1,80,480 crore was incurred. This resulted in net savings of ₹ 20,096 crore (savings of ₹ 22,490 crore offset by an excess of ₹ 2,394 crore). The major Departments incurring excess expenditure during last four years were: Agriculture, Farmer's Welfare and Co-operation; Education; Panchayats, Rural Housing and Rural Development; and Roads and Buildings.

Excess expenditure of ₹ 7,064.84 crore pertaining to the period from 2007-08 to 2018-19 had escaped legislative oversight, as it was pending regularisation as per Article 205 of the Constitution of India.

(Paragraph 2.2 and 2.3.1)

There were persistent savings of more than ₹ 100 crore of the total budget provision in 18 grants and one appropriation during 2014-19. During 2018-19, supplementary provisions (₹ 50 crore or more in each case) aggregating ₹ 1,172.52 crore were made in four cases under four different grants, which proved unnecessary, as even the original provisions were not utilised.

(Paragraph 2.3.4 and 2.3.5)

Substantial surrenders (exceeding ₹ 100 crore and more than 50 *per cent* of the total provision) were made in 21 Sub-Heads under 15 grants. Against the total provision of ₹ 13,297.24 crore made under these 21 Sub-Heads,

₹ 11,897.40 crore was surrendered. The Departments which made substantial surrenders were: Agriculture, Farmer's Welfare and Co-operation; Education; Finance; Home; Roads and Buildings; Urban Development and Urban Housing; and Social Justice and Empowerment.

(Paragraph 2.3.7.1)

Chapter III

Financial Reporting

As on March 2019, 2,573 utilisation certificates aggregating ₹ 4,233.95 crore in respect of grants disbursed up to 31 March 2018 remained outstanding, indicating lack of proper monitoring by the Departments in utilisation of grants given for specific purposes. Of ₹ 4,233.95 crore, 70.76 per cent (₹ 2,995.88 crore) pertained to the Agriculture, Farmer's Welfare and Co-operation Department, while 12.35 per cent (₹ 522.87 crore) pertained to the Tribal Development Department.

As on March 2019, there was pendency in submission of 4,496 detailed contingent bills amounting to ₹ 439.97 crore drawn on abstract contingent bills by various Departmental authorities.

Pendency of utilisation certificates and detailed contingent bills for long periods was fraught with the risk of fraud and misappropriation.

(Paragraphs 3.1 and 3.2)

There were 484 personal deposit accounts in operation in district treasuries with a closing balance of ₹ 581.01 crore as of 31 March 2019. The Education Department held the highest number of personal deposit accounts (145), followed by General Administration Department (74) and Agriculture, Farmer's Welfare and Co-operation Department (53). As of 31 March 2019, there were 280 personal ledger accounts pertaining to *Panchayats* at the district and the taluka level with a closing balance of ₹ 12,401.27 crore.

(Paragraph 3.5.1 and 3.5.3)

During 2018-19, expenditure aggregating ₹ 11,133.79 crore constituting 6.25 per cent of the total expenditure of the State was classified under Minor Head '800-Other Expenditure'. Similarly, revenue receipts aggregating ₹ 4,248.48 crore constituting 2.37 per cent of total receipts of the State were classified under omnibus Minor Head '800 – Other Receipts'.

Accounting of large items of expenditure and receipts under the omnibus Minor Head - 800 affects transparency in financial reporting, as it fails to indicate disaggregated information on specific activities of the Government separately in the accounts.

(Paragraph 3.7)