
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 2019-20 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 2019-20 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 2020, this Report provides an analytical review of the Annual Accounts of the State Government. The Report is structured in four Chapters.

Chapter 1 describes the basis and approach to the Report and the underlying data provides an overview of structure of Government Accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/surplus.

Chapter 2 provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the last five years, debt profile of the State and key Public Account transactions, based mainly on the Finance Accounts of the State.

Chapter 3 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 4 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 ₹ 2,54,789 during 2019-20 was higher than the all-India average of ₹ 1,51,677.

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 1.48 *per cent* and public debt at 16.06 *per cent* were within the targets set under Gujarat Fiscal Responsibility Act, 2005.

Outstanding guarantees of the State at ₹ 4,462 crore during 2019-20 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 had been being provided by State Government under *Ujwal DISCOM Assurance Yojana* (UDAY) Scheme.

The percentage of non-tax revenue to revenue receipts of the State increased from 9.87 *per cent* in 2018-19 to 12.67 *per cent* in 2019-20.

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

The State Government, however, needs to improve its revenue receipts-GSDP ratio (8.59 *per cent*) which was lower than 9.06 *per cent* achieved during 2018-19. Also, the percentage of capital expenditure to total expenditure at 15.28 *per cent* during 2019-20 was lower than 17.26 *per cent* during 2018-19.

Contents of the Report

Chapter 1

Overview

Fiscal Position

The State achieved the target of elimination of revenue deficit from 2011-12 onwards. There venue surplus at ₹ 1,945 crore in 2019-20 was lower than the projections made in the Medium-Term Fiscal Policy Statement (MTFPS) and 14th FC target for 2019-20.

At the end of 2019-20, fiscal deficit as percentage to GSDP stood at 1.48 *per cent*, which was within the limit of three *per cent* recommended by 14th FC and the Government's own projections of 1.84 *per cent* in MTFPS.

In the fiscal consolidation roadmap, the 14thFC had recommended the percentage of outstanding liabilities¹ to GSDP at 25.76 for 2019-20, against which, the actual outstanding liabilities stood at 18.96 *per cent*. The State Government could maintain the percentage of public debt to GSDP at 16.06 *per cent* during 2019-20 against the target of 15.69 *per cent* set out in MTFPS.

(Paragraph 1.5.1)

Trends in Deficits

During 2019-20, fiscal deficit decreased by ₹ 1,784 crore (6.77 *per cent*) from ₹ 26,365 crore in 2018-19 to ₹ 24,581 crore in 2019-20, on account of decrease in net capital expenditure by ₹ 2,453 crore and decrease in net loans and advances disbursed by ₹ 598 crore, offset by decrease in revenue surplus by ₹ 1,267 crore.

During 2019-20, primary deficit decreased by ₹ 4,050 crore from ₹ 6,182 crore in 2018-19 to ₹ 2,132 crore in 2019-20. This was due to decrease of ₹ 1,784 crore in fiscal deficit during the current year over the previous year, offset by an increase of ₹ 2,266 crore in interest payment.

(Paragraph 1.5.3)

Indian Government Accounting Standard (IGAS)-2 prescribes that grants-in-aid should be booked under revenue expenditure. However, during 2019-20, the State Government incorrectly budgeted and booked expenditure of ₹ 4.83 crore relating to grants-in-aid under the capital section instead of the revenue section.

The State Government did not discharge interest liabilities of ₹ 115.41 crore on State Disaster Response Fund, Deposits under Contributory Pension Scheme and Other than Contributory Pension Scheme. There was a shortfall in the State Government contribution to Consolidated Sinking Fund of ₹ 766.05 crore and non-transfer of Labour Cess of ₹ 1000.10 crore. This resulted in understatement of revenue expenditure and consequent overstatement of revenue surplus of ₹ 1,886.39 crore.

(Paragraph 1.6.1)

Chapter 2

Finances of the State Government

State's Own Resources

During 2019-20, 68 *per cent* of revenue receipts came from State's own resources. The State's own tax revenue decreased by ₹ 1,095 crore (1.37 *per cent*) in 2019-20 over the previous year while non-tax revenue increased by ₹ 4,687 crore (34.93 *per cent*) over the previous year. The own

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.*

tax revenue in 2019-20 was lower than the budget estimates while non-tax revenue was higher than the budget estimates. The State Government was entitled for Goods and Services Tax compensation of ₹ 14,870.47 crore during the year 2019-20 to compensate for loss of revenue on implementation of Goods and Services Tax Act, 2017.

(Paragraphs 2.3.2.1 and 2.3.2.2)

Share of Union Taxes and Duties and Grants-in-Aid

The State's share of union taxes stood at ₹ 20,232 crore in 2019-20, registering decrease in 13.87 *per cent* over the previous year. Grants-in-aid from GoI in 2019-20 increased by ₹ 6,507 crore (34.26 *per cent*) over the previous year. During 2019-20, 32 *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 2.3.2.3)

Revenue Expenditure

Revenue expenditure continuously increased from ₹ 95,779 crore in 2015-16 to ₹ 1,40,899 crore in 2019-20, with an increase of ₹ 8,109 crore (6.11 *per cent*) during 2019-20 over the previous year. Revenue expenditure as a percentage of GSDP decreased over the last five years (2015-20) and stood lowest at 8.47 *per cent* during 2019-20.

The share of revenue expenditure in total expenditure increased from 79.40 *per cent* in 2015-16 to 83.94 *per cent* in 2019-20.

(Paragraph 2.4.2)

Capital Expenditure

Capital expenditure increased from ₹ 24,169 crore in 2015-16 to ₹ 25,650 crore in 2019-20, except for a decrease in 2016-17 and 2019-20.

The share of capital expenditure in total expenditure decreased from 20.04 *per cent* in 2015-16 to 15.28 *per cent* in 2019-20. During 2019-20, capital expenditure (₹ 25,650 crore) accounted for 59 *per cent* of the total public debt receipts (₹ 43,491 crore).

(Paragraph 2.4.3)

Investment and Returns

As of 31 March 2020, the State Government invested ₹ 99,919 crore in statutory corporations, Government companies, rural banks, joint stock companies, co-operative institutions and local bodies. Return on investments in these companies/corporations/institutions was 0.09 *per cent* during 2019-20 while the Government paid an average interest of 7.47 *per cent* on its borrowings during the same period.

(Paragraph 2.4.3.4)

As on 31 March 2020, the aggregate net worth of all the 88 State Public Sector Undertakings (SPSUs) was ₹ 1,27,069.45 crore against their paid-up capital of ₹ 1,05,856.96 crore. Investment in 88 SPSUs in the form of equity and long-term loans increased from ₹ 1,55,060 crore

in 2018-19 to ₹ 1,62,689 crore in 2019-20. Return on Equity in these SPSUs increased from (-) 0.44 *per cent* in 2017-18 to 2.03 *per cent* in 2019-20.

(Paragraphs 2.4.3.2 and 2.4.3.4)

Debt Profile: Components

Total outstanding liabilities of the State grew from ₹ 2,21,090 crore in 2015-16 to ₹ 3,15,455 crore in 2019-20. In 2019-20, the outstanding liabilities grew at 10.36 *per cent* over the previous year. It comprised internal debt of ₹ 2,59,661 crore (82.31 *per cent*), public account liabilities of ₹ 48,361 crore (15.33 *per cent*) and loans and advances from GoI of ₹ 7,433 crore (2.36 *per cent*).

The percentage of total outstanding liabilities to GSDP continuously decreased from 21.49 *per cent* (2015-16) to 18.96 *per cent* (2019-20). The net availability of borrowed funds for current operations after debt redemption (principal and interest payments) was ₹ 7,162 crore during 2019-20.

(Paragraph 2.7.1)

Debt Sustainability

Public Debt receipts increased from ₹ 23,486 crore in 2015-16 to ₹ 43,491 crore in 2019-20 and Public Debt repayments increased from ₹ 6,194 crore in 2015-16 to ₹ 16,702 crore in 2019-20. Thus, percentage of Public Debt repayment to Public Debt receipts has increased from 26.37 *per cent* to 38.40 *per cent*, indicating need to review sustainability of public debt of the State.

(Paragraph 2.8.1.1)

Chapter 3

Budgetary Management

Against total budgetary provision of ₹ 2,14,271 crore during 2019-20, an expenditure of ₹ 1,88,279 crore was incurred. This resulted in net savings of ₹ 25,992 crore (savings of ₹ 27,459 crore offset by an excess of ₹ 1,467 crore).

(Paragraphs 3.1 and 3.1.1)

Excess expenditure of ₹ 9,384.82 crore pertaining to the period from 2007-08 to 2019-20 had escaped legislative oversight, as it was pending regularisation as per Article 205 of the Constitution of India.

(Paragraphs 3.3.5.1 and 3.3.5.3)

Of the overall savings of ₹ 27,459.11 crore in 175 out of 192 Grants/Appropriations during 2019-20, 96 *per cent* savings amounting to ₹ 26,359.11 crore occurred in 48 Grants/Appropriations (₹ 50 crore and above in each case). During 2019-20, Supplementary provisions (₹ 50 crore or more in each case) aggregating ₹ 661.77 crore were made in three Grants, which proved unnecessary, as even the original provisions were not utilised.

(Paragraphs 3.3.4.1 and 3.3.2)

Substantial surrenders (exceeding ₹ 50 crore) were made in 44 out of 192 Grants/Appropriations. Against the total provision of ₹ 1,27,022.48 crore made under these 44 Grants/Appropriations, ₹ 25,838.06 crore was surrendered.

(Paragraph 3.3.4.2)

Chapter 4

Quality of Accounts and Financial Reporting Practices

As on March 2020, 2,807 utilisation certificates aggregating ₹ 4,403.39 crore in respect of grants disbursed up to 31 March 2019 remained outstanding, indicating lack of proper monitoring by the Departments in utilisation of grants given for specific purposes.

As on March 2020, there was pendency in submission of 4,567 detailed contingent bills amounting to ₹ 366.03 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 4.6 and 4.7)

There were 465 personal deposit accounts in operation in district treasuries with a closing balance of ₹ 795.41 crore as of 31 March 2020.

(Paragraph 4.8)

During 2019-20, expenditure aggregating ₹ 14,494.32 crore constituting 7.85 *per cent* of the total expenditure of the State was classified under Minor Head '800-Other Expenditure'. Similarly, revenue receipts aggregating ₹ 8,191.47 crore constituting 4.39 *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 4.9)