

## 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 2020-21 and to provide the State Government and State Legislature with inputs, based on analysis of the financial data. To provide 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 2020-21 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 2021, 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/surpluses.

**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 way 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 ₹ 2,35,969 during 2020-21 was higher than the all-India average of ₹ 1,45,680.

The State achieved all the targets of major fiscal variables set under the Gujarat Fiscal Responsibility Act, 2005 except revenue surplus. The percentage of fiscal deficit to Gross State Domestic Product (GSDP) at 2.44 *per cent* and to public debt at 18.01 *per cent* were within the targets set under the Gujarat Fiscal Responsibility Act, 2005.

Outstanding guarantees of the State at ₹ 3,656 crore during 2020-21 were 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 was being provided by State Government under *Ujwal DISCOM Assurance Yojana* (UDAY) Scheme.

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 (7.73 *per cent*) which was lower than 8.66 *per cent* achieved during 2019-20. Also, the percentage of revenue expenditure to total expenditure at 84.33 *per cent* during 2020-21 was higher than 83.94 *per cent* during 2019-20.

## Contents of the Report

### Chapter 1

#### Overview

#### *Fiscal Position*

The State achieved the target of elimination of revenue deficit from 2011-12 onwards. However, it turned revenue deficit at ₹ 22,548 crore in 2020-21 against the projections of revenue surplus of ₹ 789 crore made in the Medium-Term Fiscal Policy Statement (MTFPS) target for 2020-21.

At the end of 2020-21, fiscal deficit as percentage to GSDP stood at 2.44 *per cent*, which was within the limit of three *per cent* target set in Gujarat Fiscal Responsibility Act by State Government.

In the fiscal consolidation roadmap, the State Government could maintain the percentage of public debt to GSDP at 18.01 *per cent* during 2020-21 against the target of 15.72 *per cent* set out in MTFPS.

**(Paragraph 1.5.1)**

***Trends in Deficits***

During 2020-21, fiscal deficit increased by ₹ 15,857 crore (64.51 per cent) from ₹ 24,581 crore in 2019-20 to ₹ 40,438 crore in 2020-21, on account of decrease in revenue receipts by ₹ 14,688 crore, increase in total expenditure by ₹ 10,857 crore, decrease in recovery of loans and advances by ₹ 174 crore offset by increase of ₹ 9,862 crore under other receipts.

During 2020-21, primary deficit increased by ₹ 14,103 crore from ₹ 2,132 crore in 2019-20 to ₹ 16,235 crore in 2020-21. This was due to increase of ₹ 15,857 crore in fiscal deficit during the current year over the previous year, offset by an increase of ₹ 1,754 crore in interest payment.

***(Paragraph 1.5.3)***

The Indian Government Accounting Standard (IGAS)-2 prescribes that grant-in-aid should be booked under revenue expenditure. However, during 2020-21, the State Government incorrectly budgeted and booked expenditure of ₹ 36.38 crore relating to subsidies under the capital section instead of the revenue section.

The State Government did not discharge interest liabilities of ₹ 138 crore on Deposits under Contributory Pension Scheme and Other than Contributory Pension Scheme. There was a shortfall of ₹ 10,434 crore in the State Government contribution to Consolidated Sinking Fund and non-transfer of Labour Cess of ₹ 337 crore. This resulted in understatement of revenue expenditure and consequent understatement of revenue deficit by ₹ 10,977.93 crore.

***(Paragraph 1.6.1)***

**Chapter 2****Finances of the State Government*****State's Own Resources***

During 2020-21, 63 per cent of revenue receipts came from State's own resources. The State's own tax revenue decreased by ₹ 8,741 crore (11.06 per cent) in 2020-21 over the previous year, while non-tax revenue decreased by ₹ 7,611 crore (42.04 per cent) over the previous year. The own tax revenue as well as non-tax revenue in 2020-21 were lower than the budget estimates. The State Government was entitled for Goods and Services Tax compensation of ₹ 26,933.48 crore during the year 2020-21 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 ₹ 20,219 crore in 2020-21, registering decrease of 0.07 per cent over the previous year. Grants-in-aid from GoI in 2020-21 increased by ₹ 1,678 crore (6.58 per cent) over the

previous year. During 2020-21, 37 *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 ₹ 1,03,895 crore in 2016-17 to ₹ 1,50,704 crore in 2020-21, with an increase of ₹ 9,805 crore (6.96 *per cent*) during 2020-21 over the previous year. Revenue expenditure as a percentage of GSDP decreased over the period (2016-20) but increased and stood at 9.08 *per cent* during 2020-21.

The share of revenue expenditure in total expenditure increased from 81.98 *per cent* in 2016-17 to 84.33 *per cent* in 2020-21.

**(Paragraph 2.4.2)**

### **Capital Expenditure**

Capital expenditure increased from ₹ 22,355 crore in 2016-17 to ₹ 26,781 crore in 2020-21.

The share of capital expenditure in total expenditure decreased from 17.64 *per cent* in 2016-17 to 14.99 *per cent* in 2020-21. During 2020-21, capital expenditure (₹ 26,781 crore) accounted for 46 *per cent* of the total public debt receipts (₹ 58,857 crore).

**(Paragraph 2.4.3)**

### **Investment and Returns**

As of 31 March 2021, the State Government had invested ₹ 1,07,518 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 0.12 *per cent* during 2020-21 while the Government paid an average interest of 7.19 *per cent* on its borrowings during the same period.

**(Paragraph 2.4.3.4)**

As on 31 March 2021, the aggregate net worth of all the 97 State Public Sector Undertakings (SPSUs) was ₹ 1,46,121 crore against their paid-up capital of ₹ 1,26,187 crore. Investment in 97 SPSUs in the form of equity and long-term loans increased from ₹ 1,62,689 crore in 2019-20 to ₹ 1,64,830 crore in 2020-21. Return on Equity in these SPSUs increased from 0.86 *per cent* in 2018-19 to 3.17 *per cent* in 2020-21.

**(Paragraphs 2.4.3.2 and 2.4.3.4)**

### **Debt Profile: Components**

Total outstanding liabilities of the State grew from ₹ 2,43,146 crore in 2016-17 to ₹ 3,57,893 crore in 2020-21. In 2020-21, the outstanding liabilities grew at 13.45 *per cent* over the previous year. It comprised internal debt of ₹ 2,90,031 crore (81.04 *per cent*), public account liabilities of ₹ 49,863 crore

(13.93 *per cent*) and loans and advances from GoI of ₹ 17,999 crore (5.03 *per cent*).

The percentage of total outstanding liabilities to GSDP increased from 20.83 *per cent* (2016-17) to 21.02 *per cent* (2020-21). The net availability of borrowed funds for current operations after debt redemption (principal and interest payments) was ₹ 19,889 crore during 2020-21.

*(Paragraph 2.7.1)*

### **Debt Sustainability**

Public Debt receipts increased from ₹ 27,668 crore in 2016-17 to ₹ 58,857 crore in 2020-21 and Public Debt repayments increased from ₹ 9,073 crore in 2016-17 to ₹ 17,922 crore in 2020-21. The ratio of public debt to GSDP ranged between 15.99 *per cent* and 18.01 *per cent* during 2016-21. However, during this period, the burden of interest payment on public debt ranged from 13.39 *per cent* to 17.22 *per cent* of the revenue receipts. The percentage of public debt repayment to public debt receipts decreased sharply over the previous year. The above indicators show that there is a need to review sustainability of debt of the State.

*(Paragraph 2.8.1.1)*

## **Chapter 3**

### **Budgetary Management**

Against total budgetary provision of ₹ 2,28,776 crore during 2020-21, an expenditure of ₹ 2,00,216 crore was incurred. This resulted in net savings of ₹ 28,561 crore (savings of ₹ 30,280 crore offset by an excess of ₹ 1,719 crore).

*(Paragraphs 3.1 and 3.1.1)*

Excess expenditure of ₹ 10,856 crore pertaining to the period from 2007-08 to 2011-12 and 2013-14 to 2020-21 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 ₹ 30,279.09 crore in 173 out of 189 Grants/Appropriations during 2020-21, 97.69 *per cent* savings amounting to ₹ 29,579.10 crore occurred in 59 Grants/Appropriations (₹ 50 crore and above in each case). During 2020-21, Supplementary provisions (₹ 10 crore or more in each case) aggregating ₹ 356.06 crore were made in two Grants/Appropriations, which proved unnecessary.

*(Paragraphs 3.3.4.1 and 3.3.2)*

Substantial surrenders (exceeding ₹ 50 crore) were made in 53 out of 189 Grants/Appropriations. Against the total provision of ₹ 1,15,267 crore made under these 53 Grants/Appropriations, ₹ 28,853 crore were surrendered.

*(Paragraph 3.3.4.2)*

## Chapter 4

### Quality of Accounts and Financial Reporting Practices

As on March 2021, 4,611 utilisation certificates aggregating ₹ 12,437 crore in respect of grants disbursed up to 31 March 2020 remained outstanding, indicating lack of proper monitoring by the Departments in utilisation of grants given for specific purposes.

As on March 2021, there was pendency in submission of 3,650 detailed contingent bills amounting to ₹ 553 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 4.4 and 4.5)*

There were 470 personal deposit accounts in operation in district treasuries with a closing balance of ₹ 1,004 crore as of 31 March 2021.

*(Paragraph 4.6)*

During 2020-21, expenditure aggregating ₹ 14,993 crore constituting 7.62 *per cent* of the total expenditure of the State was classified under Minor Head '800-Other Expenditure'. Similarly, revenue receipts aggregating ₹ 12,791 crore constituting 6.49 *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 4.7)*