

CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

In summary

The finances of the State indicate a mixed trend in deficit indicators during the year 2004-05. The revenue deficit increased from Rs.3,706 crore in 2003-04 to Rs.4,037 crore in 2004-05. However, the fiscal deficit decreased from Rs.9,142 crore (2003-04) to Rs.8,691 crore (2004-05).

The Revenue receipts of the State increased from Rs.15,739 crore in 2000-01 to Rs.20,265 crore in 2004-05. The growth in 2004-05 was attained primarily due to increase in the tax revenue on account of Sales Tax (Rs.1,139.04 crore), Taxes and duties on Electricity (Rs.236.88 crore) and Stamps and Registration fees (Rs.138.13 crore). Of non-tax revenue sources, Non-ferrous mining and metallurgical industries receipts (46 *per cent*) was principal contributor. There was an increase in State's own tax revenue by 16 *per cent* compared to previous year.

The total expenditure of the State increased from Rs.25,953 crore in 2000-01 to Rs.29,142 crore in 2004-05. Interest payments and Pensions together consumed 39 *per cent* of total revenue receipts of the State during the year.

The overall fiscal liabilities of the State increased from Rs.40,007 crore in 2000-01 to Rs.71,083 crore in 2004-05. Although it is not uncommon for a State to borrow for increasing its social and economic infrastructure and for creating additional income generating assets, a low or negligible return on investments is cause for concern.

Only through some hard measures for reduction of revenue deficit/fiscal deficit like compressing non-developmental revenue expenditure and enhanced additional resource mobilisation through improved tax collection and periodical revision of user charges for increased cost recoveries of Government services, prudent debt management and greater fiscal management in medium term framework, the State Government can achieve long term fiscal stability.

1.1 Introduction

The Finance Accounts of the Government of Gujarat are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State Government. The layout of the Finance Accounts is depicted in the Box 1.

Box 1

Lay out of Finance Accounts

Statement No.1 presents the summary of transactions of the State Government-Receipts and Expenditure, Revenue and Capital, Public debt receipts and disbursements etc. in the Consolidated Fund, Contingency Fund and the Public Accounts of the State.

Statement No.2 contains the summarised statement of Capital Outlay showing progressive expenditure to the end of 2004-05.

Statement No.3 gives financial results of Irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No.4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No.5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No.6 gives the summary of guarantees given by the Government for repayment of loans etc. raised by the Statutory Corporations, local bodies and other institutions.

Statement No.7 gives the summary of cash balances and investments made out of such balances.

Statement No.8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Accounts as on 31 March 2005.

Statement No.9 shows the Revenue and Expenditure under different heads for the year 2004-05 as a percentage of total revenue/expenditure.

Statement No.10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No.11 indicates the detailed account of revenue receipts by minor heads.

Statement No.12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and Centrally Sponsored Schemes separately, and capital expenditure major head wise.

Statement No.13 depicts the detailed capital expenditure incurred during and to the end of 2004-05.

Statement No.14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies etc. upto the end of 2004-05.

Statement No.15 depicts the capital and other expenditure to the end of 2004-05 and the principal sources from which the funds were provided for that expenditure.

Statement No.16 gives the detailed account of receipts, disbursements and balances under the heads of account relating to debt, Contingency Fund and Public Accounts.

Statement No.17 presents detailed account of debt and other interest bearing obligations of the Government of Gujarat.

Statement No.18 provides the detailed account of loans and advances given by the Government of Gujarat, the amount of loan repaid during the year, the balance as on 31 March 2005 and the amount of interest received during the year.

Statement No.19 gives the details of earmarked balances of reserved funds.

1.2 Trend of Finances with reference to previous year

Finances of State Government during the current year compared to previous year were as under:

(Rupees in crore)

2003-04	Sl. No	Major Aggregates	2004-05
18248	1.	Revenue Receipts (2+3+4+5)	20265
11173	2.	Tax Revenue (own tax Revenue)	12958
1966	3.	Tax transfers	2219
3272	4.	Non-Tax Revenue	3090
1837	5.	Other Receipts	1998
200	6.	Non-Debt Capital Receipts (7+8)	186
18	7.	Capital Receipts	6
182	8.	Recovery of Loans and Advances	180
18448	9.	Total Receipts (1+6)	20451
20783	10.	Non-Plan Expenditure (11+13+14)	20720
18645	11.	On Revenue Account	20056
5857	12.	Of which, interest payments	6074
159	13.	On Capital Account	189
1979	14.	On Loans disbursed	475
6807	15.	Plan Expenditure (16+18+19)	8422
3309	16.	On Revenue Account	4246
18	17.	Of which interest payments	5
3052	18.	On Capital Account	3911
446	19.	On Loans disbursed	265
27590	20.	Total Expenditure (10+15)	29142
3706	21.	Revenue Deficit (11+16-1)	4037
9142	22.	Fiscal Deficit (20-1-6)	8691
3267	23.	Primary Deficit (22-12-17)	2612

1.3 Summary of Receipts and Disbursements for the year 2004-05

Table 1 summarises the finances of the State Government for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and Public Accounts receipts and disbursements made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1: Summary of Receipts and Disbursements for the year 2004-05

(Rupees in crore)

2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
Section-A: Revenue							
			Total				Total
				Non-Plan	Plan		
18247.52	I Revenue receipts	20264.94	21954.14	I Revenue expenditure	20055.79	4246.01	24301.80
11173.43	Tax revenue	12957.70	9250.16	General Services	9954.02	70.29	10024.31
3271.96	Non-tax revenue	3090.50	7075.68	Social Services	5646.86	2204.07	7850.93
1965.48	Share of Union Taxes/Duties	2219.30	5528.32	Economic Services	4311.60	1971.65	6283.25
1836.65	Grants from Govt. of India	1997.44	99.98	Grants-in-aid / Contributions	143.31		143.31
Section-B: Capital							
17.95	II Misc. Capital Receipts	5.90	3211.43	II Capital Outlay	189.46	3910.75	4100.21
181.60	III Recoveries of Loans and Advances	180.20	2424.80	III Loans and Advances disbursed	474.97	264.60	739.57
15007.75	IV Public debt receipts*	13328.48	5395.39	IV Repayment of Public Debt	5815.04 [#]		5815.04
25038.70	V Public accounts receipts	32787.59	25021.98	V Public account disbursements	31018.87 [#]		31018.87
1483.20	Opening Balance	1887.95	1887.95	Closing Balance			2565.05
59976.72	Total	68455.06	59895.69	Total	57554.13	8421.36	68540.54

Note : *- Includes net ways and means advances and overdraft also

#- Bifurcation of plan and non- plan not available

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2004-05 and wherever necessary, show these in the light of time series data (**Appendix I to IV**) and periodic comparisons.

The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in the Box 1.2.

Box 1. 2 Reporting Parameters
<p>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The New GSDP series with 1993-94 as base as published by the Directorate of Economics and Statistics of the State Government have been used.</p> <p>For tax revenues, non-tax revenues, revenue expenditure, etc. buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP.</p> <p>For most series a trend growth during 2000-05 has been indicated. The ratios with respect to GSDP have also been depicted. Some of the terms used here are explained in Appendix-V.</p>

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

Box 1.3 State Government Funds and the Public Account	
<p>Consolidated Fund</p> <p>All revenues received by the State Government, all loans raised, ways and means advances and all moneys received by the Government in repayment of loans shall form one consolidated fund entitled 'The Consolidated Fund of State' established under Article 266(1) of the Constitution of India.</p>	<p>Contingency Fund</p> <p>Contingency Fund of State established under Article 267(2) of the Constitution of India is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</p>
<p>Public Account</p> <p>Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution of India and the related disbursements are made from it.</p>	

State Finances by key Indicators

1.5 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz. market loans, borrowings from financial institutions/commercial banks, etc. and loans and advances from Government of India as well as accruals from the Public Account.

Table 2 shows that the total receipts of the State Government for the year 2004-05 were Rs.66,567 crore. Of these, the revenue receipts of the State Government were Rs.20,265 crore only, constituting 30 *per cent* of the total receipts. The balance of receipts came from borrowings and public account receipts.

Table 2: Resources of Gujarat

		(Rupees in crore)
I Revenue Receipts		20265
II Capital Receipts		13514
a	Miscellaneous Receipts	6
b	Recovery of Loans and Advances	180
c	Public Debt Receipts	13328
III Public Account Receipts		32788
a	Small Savings, Provident Fund, etc.	825
b	Reserve Fund	429
c	Deposits and Advances	10857
d	Suspense and Miscellaneous	15165 [^]
e	Remittances	5512
Total Receipts		66567

1.5.1 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the State Government. The Revenue Receipts of the State consist mainly of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in Table 3.

[^] Clearance on the disbursement side amounting to Rs.14753.44 crore is given in Appendix-II

Table 3: Revenue Receipts – Basic Parameters(Value: Rupees in crore and others in *per cent*)

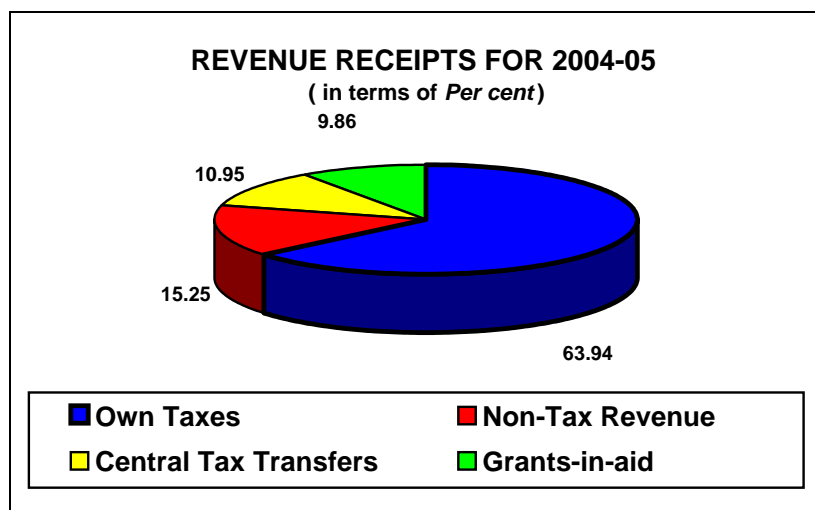
	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Receipts	15739	15986	17875	18248	20265
Own Taxes	57.48	57.84	53.25	61.23	63.94
Non-Tax Revenue	21.28	23.53	22.36	17.93	15.25
Central tax Transfers	10.00	9.31	7.63	10.77	10.95
Grants-in aid	11.24	9.32	16.76	10.07	9.86
Rate of Growth	12.65	1.57	11.82	2.08	11.05
Revenue Receipt/GSDP	14.51	13.21	12.67	10.90	NA
Revenue Buoyancy	(-)33.77	0.14	0.71	0.11	NA
Own Tax Buoyancy	(-) 29.30	0.19	0.18	0.93	NA
GSDP Growth	(-) 0.37	11.57	16.55	18.64	NA

Note:- Due to revision of GSDP figures, the ratios and percentages involving GSDP figures (2000-2004) have undergone change from last Audit Report.

NA – GSDP figure for the year 2004-05 not available (February 2006).

Revenue receipts of the State increased from Rs.15,739 crore in 2000-01 to Rs.20,265 crore in 2004-05. The increase of 11.05 *per cent* in 2004-05 was mainly due to 16 *per cent* increase in State's own tax revenue.

The increase in the tax revenue during the year 2004-05 was mainly due to increase in Sales Tax (Rs.1,139.04 crore), Taxes and Duties on Electricity (Rs.236.88 crore) and Stamps and Registration Fees (Rs.138.13 crore) etc. The contribution of own tax revenue to the revenue receipts, after showing significant decline from 57.48 *per cent* in 2000-01 to 53.25 *per cent* in 2002-03, again reached 63.94 *per cent* in 2004-05.



Sales tax was the major source of State's own tax revenue having contributed 64 *per cent* of the tax revenue followed by taxes and duties on electricity (14 *per cent*), taxes on vehicles (eight *per cent*) and Stamp and Registration fees (eight *per cent*) etc.

Of non-tax revenue sources (Rs.3,090.50 crore), non ferrous mining and metallurgical industries receipts (46 *per cent*) and interest receipts (15 *per cent*) were principal contributors. The current levels of cost recovery in supply of merit goods and services by Government are 0.29 *per cent* for secondary education, 0.37 *per cent* for university and higher education, 0.24 *per cent* for technical education, 1.60 *per cent* for health and family welfare, 0.05 *per cent* for water supply and sanitation, 6.70 *per cent* for major and medium irrigation and 0.16 *per cent* in minor irrigation.

Besides, the arrears of revenues increased by 132 *per cent* from Rs.5,663 crore in 2000-01 to Rs.13,166 crore at the end of 2004-05. Of these, Rs.2,965 crore were outstanding for a period of more than five years. Arrears were mainly in respect of Taxes on Sales, Trade, etc. (Rs.2,951 crore). The deterioration in the position of arrears of revenue showed a slackening of the revenue realising efforts of the State Government.

The receipts under different heads and GSDP during 2000-05 are indicated in Table 4.

Table 4: Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
2000-01	15739	2227	7686	25129	50781	108484
2001-02	15986	2207	8158	23703	50054	121038
2002-03	17875	171	9684	20666	48396	141066
2003-04	18248	200	15008	25039	58495	167356
2004-05	20265	186	13328	32788	66567	NA

NA – GSDP figure for the year 2004-05 not available (February 2006).

1.6 Application of resources

1.6.1 Trend of Growth

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major head. The total expenditure of the State increased from Rs.25,953 crore in 2000-01 to Rs.29,142 crore in 2004-05.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 5 below:

Table 5: Total Expenditure – Basic Parameters

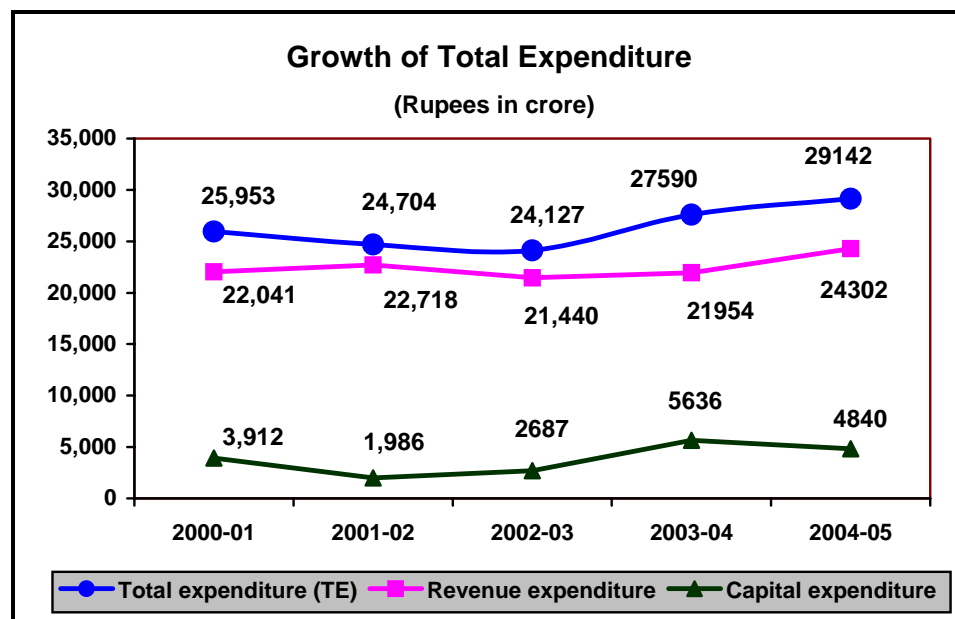
(Value: Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Total Expenditure (TE)	25953	24704	24127	27590	29142
Rate of Growth	24.55	(-)4.81	(-)2.34	14.35	5.63
TE/GSDP	23.92	20.41	17.10	16.49	NA
Revenue Receipt / TE Ratio	60.64	64.71	74.09	66.14	69.54
Buoyancy of Total Expenditure with					
GSDP	Negative	Negative	Negative	0.77	NA
Revenue Receipts	1.94	Negative	Negative	6.88	0.51

Note: Due to revision of GSDP figures, the ratios and percentages involving GSDP figures (2000-2004) have undergone change from last Audit Report.

NA – GSDP figure for the year 2004-05 not available (February 2006).

There was moderate increase in the ratio of revenue receipts to total expenditure from 60.64 per cent in 2000-01 to 69.54 per cent in 2004-05, indicating that nearly 70 per cent of the State's total expenditure was met from its revenue receipts, leaving the balance to be met from borrowings.

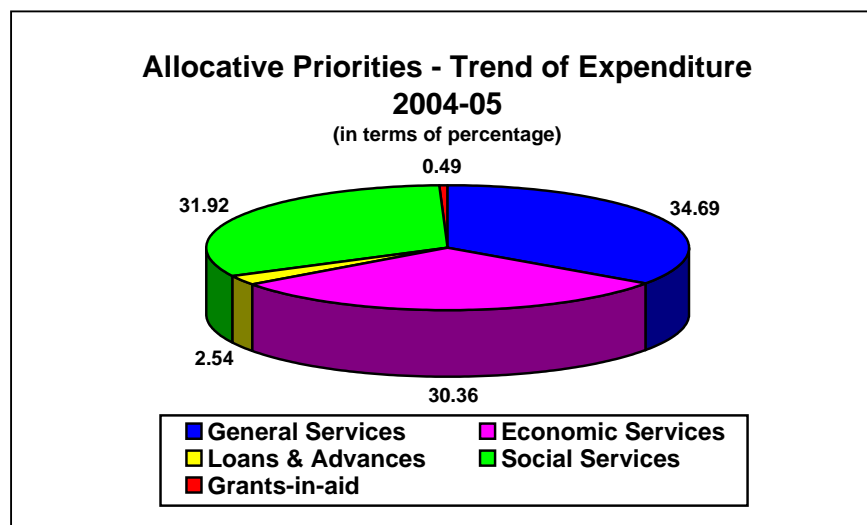


In terms of activities, total expenditure comprised expenditure on General Services including interest payments, Social and Economic Services and Loans and Advances. The relative shares of these components in total expenditure are indicated in Table 6.

Table 6: Components of expenditure – Relative Share (in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
General Services	23.83	29.12	34.57	33.73	34.69
Social Services	33.78	34.74	31.32	29.86	31.92
Economic Services	38.67	34.99	32.25	27.25	30.36
Grants-in-aid and contributions	0.19	0.22	0.43	0.37	0.49
Loans & Advances	3.53	0.93	1.43	8.79	2.54

The movement of relative share of these components indicates that while the share of Economic Services in total expenditure declined sharply from 38.67 per cent in 2000-01 to 30.36 per cent in 2004-05; the relative share of General Services considered as non-developmental, increased from 23.83 per cent in 2000-01 to 34.69 per cent in 2004-05. The share of Social Services declined from 33.78 per cent in 2000-01 to 31.92 per cent in 2004-05.



1.6.2 Incidence of Revenue expenditure

Revenue expenditure usually incurred to maintain the current level of assets and services, had the predominant share in the total expenditure of the State and increased from Rs.22,041 crore in 2000-01 to Rs.24,302 crore in 2004-05. This increase was mainly due to increase in expenditure on Urban Development (Rs.324 crore), General Education (Rs.314 crore) and Interest payment (Rs.274 crore) in comparison to the previous year.

Over all revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts are indicated in Table 7 below:

Table 7: Revenue Expenditure – Basic Parameters(Value: Rupees in crore and others in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue Expenditure	22041	22718	21440	21954	24302
Rate of Growth	25.83	3.07	-5.63	2.40	10.70
RE/GSDP	20.32	18.77	15.20	13.12	NA
RE as <i>per cent</i> of TE	84.93	91.96	88.86	79.57	83.39
RE as <i>per cent</i> to Revenue Receipt	140.04	142.11	119.94	120.32	119.92
Buoyancy of Revenue Expenditure with					
GSDP	Negative	0.27	Negative	0.13	NA
Revenue Receipts	2.04	1.96	Negative	1.15	0.97

Note: Due to revision of GSDP figures, the ratios and percentages involving GSDP figures (2000-2004) have undergone change from last Audit Report.

NA – GSDP figure for the year 2004-05 not available (February 2006).

As only 83 *per cent* of revenue expenditure could be financed from revenue receipts, this led to revenue deficit. Though the ratio of revenue expenditure to revenue receipts declined from 140.04 *per cent* in 2000-01 to 119.92 *per cent* in 2004-05, dependence of the State on borrowings, for meeting its current expenditure, continued primarily due to the fact that interest payments (Rs.6079 crore) and pensions (Rs.1,892 crore) consumed nearly 39 *per cent*¹ of total revenue receipts of the State during the year.

• **Huge expenditure on pension payments**

Pension payments have increased by 31.49 *per cent* from Rs.1,438.60 crore in 2000-01 to Rs.1,891.60 crore in 2004-05. Year-wise break-up of expenditure incurred on pension payments during the years 2000-01 to 2004-05 was as under:

Table 8: Pension Payments

Year	Expenditure	Percentage to total Revenue Receipts
	Rupees in crore	
2000-01	1438.60	9
2001-02	1502.17	9
2002-03	1588.33	9
2003-04	1733.94	10
2004-05	1891.60	9

With the increase in the number of retirees, the pension liabilities were likely to increase further in future. The State Government had not constituted any fund to meet the fast rising pension liabilities of the retired State employees. Considering the rate at which the pension liabilities were increasing, reforms in the existing pension schemes assume critical importance.

¹ Expenditure figures relating to salary were not made available by the Finance Department

• **Interest payments**

The Eleventh Finance Commission had recommended (August 2000) that as a medium term objective, the States should endeavour to keep interest payment as a ratio to revenue receipts of 18 *per cent*. It was, however, observed that interest payments as a percentage of revenue receipts had reached 30 *per cent* in 2004-05.

Table 9: Interest Payments

Year	Interest payment	Percentage of interest payment with reference to	
	(Rupees in crore)	Revenue Receipts	Revenue Expenditure
2000-01	3131	20	14
2001-02	4206	26	19
2002-03	4949	28	23
2003-04	5875	32	27
2004-05	6079	30	25

In absolute terms, the interest payments increased steadily by 94 *per cent* from Rs.3,131 crore in 2000-01 to Rs.6,079 crore in 2004-05 primarily due to increasing borrowings for financing the fiscal deficit.

• **Subsidies by the Government**

Though the finances of the State were under strain, State Government had been paying subsidies to the various Nigams, Corporations, etc. During the last five years, State Government paid the subsidies under various schemes as under:

Table 10: Subsidy

Sr. No.	Particulars	(Rupees in crore)				
		2000-01	2001-02	2002-03	2003-04	2004-05
1	Gujarat Electricity Board (GEB)	2021.26 [#]	3359.93	1858.75	2460.05	2548.56
2	Others	N.A	715.92	191.41	364.13	823.41
	Total	2021.26	4075.85	2050.16	2824.18	3371.97
	Percentage of subsidy to total expenditure*	8.07	16.65	8.62	11.22	11.87

* **Total Expenditure excludes Loans and Advances**

N.A: information not furnished by the concerned department

Figures adopted from Audit Report (Commercial)

The Power Sector continued to be highly subsidised and subsidy of Rs.2,549 crore was paid during 2004-05, which constituted 76 *per cent* of the total subsidy during the year. The State should initiate steps for reforming the Power Sector.

1.7 Expenditure by Allocative Priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts reflect the allocative priorities of the State. Higher the ratio of these components to total expenditure better is deemed to be the quality of expenditure.

Table 11 below gives the percentage share of these components of expenditure in State's total expenditure.

Table 11: Quality of expenditure (per cent to total expenditure)*

	2000-01	2001-02	2002-03	2003-04	2004-05
Plan Expenditure	23.42	14.08	17.98	25.28	28.72
Capital Expenditure	11.96	7.18	9.84	12.76	14.44
Development Expenditure	75.10	70.38	64.49	62.61	63.90

* Total expenditure excluded expenditure on loans and advances

The relative shares of these components improved during 2004-05, Plan Expenditure increased from 23.42 per cent of total expenditure in 2000-01 to 28.72 per cent in 2004-05. Capital Expenditure also increased from 11.96 to 14.44 per cent. But the share of Development Expenditure declined from 75.10 per cent in 2000-01 to 63.90 per cent in 2004-05 indicating increasing trend in non-development expenditure.

Out of the Development Expenditure (Rs.18,150 crore), Social Services (Rs.9,301 crore) accounted for 51 per cent during the year. General Education, Health and Family Welfare, Water Supply, Sanitation, Housing and Urban Development consumed 76 per cent of the expenditure on social sector.

Table 12: Social Sector Expenditure

(Rupees in crore)*

	2000-01		2001-02		2002-03		2003-04		2004-05	
General Education	3685	(3.40)	3264	(2.70)	3634	(2.58)	3693	(2.21)	4002	(NA)
Health & Family Welfare	919	(0.85)	729	(0.60)	864	(0.61)	887	(0.53)	971	(NA)
Water Supply, Sanitation, Housing and Urban Development	1701	(1.57)	796	(0.66)	1142	(0.81)	1480	(0.88)	2072	(NA)
Total	6305		4789		5640		6060		7045	

* The expenditure as percentage of GSDP in brackets

NA – GSDP figure for the year 2004-05 not available (February 2006).

Similarly, the expenditure on Economic Services (Rs.8849 crore) accounted for 49 per cent of the Developmental Expenditure of which Energy (Rs.2,775 crore), Irrigation and Flood Control (Rs.2,141 crore) and Transport (Rs.1,489 crore) accounted for 72 per cent of the expenditure on economic sector.

Table 13: Economic Sector Expenditure

(Rupees in crore)*

	2000-01	2001-02	2002-03	2003-04	2004-05
Energy	3578 (3.30)	3503 (2.89)	2133 (1.51)	2570 (1.54)	2775 (NA)
Irrigation and flood control	3101 (2.86)	2335 (1.93)	2787 (1.98)	1710 (1.02)	2141 (NA)
Transport	1006 (0.93)	838 (0.69)	1086 (0.77)	1275 (0.76)	1489 (NA)
Total	7685	6676	6006	5555	6405

* The expenditure as percentage of GSDP in brackets

NA – GSDP figure for the year 2004-05 not available (February 2006).

1.7.1 Financial assistance to Local bodies and other institutions

Autonomous bodies and authorities perform non-commercial functions of public utility services. These bodies/authorities receive substantial financial assistance from Government. Government also provides substantial financial assistance to other institutions such as those registered under the respective State Co-operative Societies Act and Companies Act, 1956, to implement various programmes of Government. The quantum of assistance provided to different Bodies during the period of five years ending 2004-05 was as follows:

Table 14: Financial assistance to Local bodies and other institutions

(Rupees in crore)

Sr. No.	Bodies/authorities, etc.	2000-01	2001-02	2002-03	2003-04	2004-05
1.	Universities and Educational Institutions	*NA	100.63	95.45	85.01	83.75
2.	Municipal Corporations and Municipalities	331.72	208.89	222.71	244.03	823.49
3.	Zilla Parishads and Panchayati Raj Institutions	288.83	1470.91	1637.43	1572.61	1815.79
4.	Other Institutions (including statutory bodies)	213.32	1191.95	1011.97	1058.32	480.83
	Total	833.87	2972.38	2967.56	2959.97	3203.86
	Percentage increase (+) / decrease (-) over previous year	(-)67	256	Negligible	Negligible	8.24
	Assistance as a percentage of revenue receipts	5	19	17	16	16

* N.A: information not furnished by the concerned department

Delay in submission of accounts by Autonomous Bodies

The status of submission of accounts by the autonomous bodies and submission of Audit Reports thereon to the State Legislature as of September 2005 is given in **Appendix VI**.

1.7.2 Misappropriations, defalcations, etc.

The State Government reported that final action on 171 cases involving Rs.6.73 crore on account of misappropriations and defalcations of Government money, pertaining to the period from 1952-53 to the end of March 2005, was pending at the end of September 2005. The department-wise/year-wise and category-wise break-up of pending cases is given in **Appendix-VII and VIII** respectively.

1.7.3 Write off of losses

During 2004-05, Rs.0.57 lakh representing losses due to theft, fire and irrecoverable revenue were written off in four cases by the competent authorities as reported to audit. The relevant details were as under:

Table: 15

Sr. No.	Department	Number of cases	Amount (Rs. in lakh)
1.	Home	1	0.42
2.	Education	3	0.15
	Total	4	0.57

1.8 Assets and Liabilities

The Government accounting system does not attempt a comprehensive accounting of fixed assets i.e. land and buildings owned by the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement 16 read with details in Statement 17 of Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. Appendix-I presents an abstract of such liabilities and the assets as on 31 March 2005, compared with the corresponding position on 31 March 2004. Liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the Government of India, receipts from the Public Accounts and Reserve Funds, the assets comprise mainly of the capital expenditure and loans and advances given by the State Government.

The liabilities of Government of Gujarat depicted in the Finance Accounts, however, do not include the pension, other retirement benefits payable to serving/retired State employees, guarantees/letters of comforts issued by the State Government. Appendix IV depicts the Time Series Data on State Government Finances for the period 2000-2005.

1.8.1 Financial results of irrigation works

The financial results of one major and four medium irrigation projects* with capital expenditure of Rs.228.58 crore showed that revenue realised during 2004-2005 (Rs.34.26 crore) was only 14.98 *per cent* of the capital expenditure. After meeting the working and maintenance expenditure (Rs.27.11 crore), the net profit was Rs.7.15 crore.

1.8.2 Blockage of funds in incomplete project

As per information received from the State Government, as of 31 March 2005, there were 88 incomplete capital projects in which Rs.219 crore were blocked in the project having cost above Rupees one crore.

1.8.3 Investments and returns

As on 31 March 2005, Government had invested Rs.12,739 crore in Statutory Corporations, Joint Stock Companies and Co-operatives. Government's return on this investment was not only meagre (less than one *per cent*) but also significantly declined to 0.28 *per cent* during 2004-05 as indicated in Table 16 below.

* The details of other irrigation projects could not be compiled for want of proforma accounts from the State Government

Table 16: Return on Investment

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of Return	Average Rate of Interest paid by the State
2000-01	4707	26.07	0.55	8.75
2001-02	4978	27.52	0.55	9.86
2002-03	5014	42.02	0.84	10.11
2003-04	11220	29.89	0.27	10.17
2004-05	12739	35.82	0.28	9.08

Four Statutory Corporations and 25 Government Companies with an aggregate investment of Rs.1,059 crore upto 2004-05 were incurring losses and their accumulated losses amounted to Rs.11,015 crore as per the accounts furnished by these companies (**Appendix-IX**).

1.8.4 Loans and Advances by the State Government

In addition to its investment, Government has also been providing loans and advances to many of these bodies. Total outstanding balance of the loans advanced was Rs.5,744 crore as on 31 March 2005 (Table 17). Interest received against these advances declined from Rs.371 crore in 2000-01 to Rs.0.10 crore in 2004-05.

Table 17: Average Interest received on Loans advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	6054.00	4744.00	2767.00	2942.00	5185
Amount advanced during the year	917.00	229.00	346.00	2425.00	739
Amount repaid during the year	2227.00	2206.00	171.00	182.00	180
Closing Balance	4744.00	2767.00	2942.00	5185.00	5744
Net addition	(-)1310.00	(-)1977.00	175.00	2243.00	559
Interest received	371.00	67.00	82.00	0.01	0.10
Interest received as percent to Loans advanced	6.87	1.78	2.87	0.00	0.00
Average rate of interest paid by the State	8.75	9.86	10.11	10.17	9.08
Difference between interest paid and received	(-)1.88	(-)8.08	(-)7.24	(-)10.17	(-) 9.08

1.8.5 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. Gujarat had the WMA limit of Rs.520 crore during 2004-05. During the year, the State has used this mechanism for 127 days as against 203 days last year although it raised borrowings of Rs.2,020 crore from the market on five occasions. Improving the management of cash balances, the State did not use overdraft facilities on any occasion during 2004-05.

Table 18: Ways and Means Advances and Overdrafts of the State and Interest paid thereon

	(Rupees in crore)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Ways and Means Advances					
Taken in the year	1371.57	7059.00	5092.13	5394.18	3072.59
Outstanding	888.89	452.20	42.44	42.44	Nil
Interest paid	7.32	21.78	12.28	11.62	3.47
Overdraft					
Taken in the year	3259.90	10212.54	9624.93	1766.93	Nil
Outstanding	Nil	145.05	Nil	Nil	Nil
Interest paid	0.82	1.54	3.00	0.46	Nil
Number of Days State was in Overdraft	45	72	47	21	Nil

1.8.6 Undischarged Liabilities**• Fiscal liabilities – public debt and guarantees**

The Constitution of India provides that the State may borrow within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by an Act of Legislature. However, no such law was passed by the State to lay down any such limit. Statement 4 read with Statements 16 and 17 of Finance Accounts shows the year-end balances under Debt, Deposit and Remittances heads from which the liabilities are worked out.

The overall fiscal liabilities of the State increased from Rs.40,007 crore in 2000-01 to Rs.71,083 crore in 2004-05. These liabilities stood in 2004-05 at 3.51 times of its revenue receipts and 4.43 times of its own resources comprising its own tax and non-tax revenues.

Table 19 below gives the Fiscal Liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and buoyancy of these liabilities with respect to these parameters.

Table 19: Fiscal Imbalances–Basic Parameters

	(Rupees in crore and Ratios in per cent)				
	2000-01	2001-02	2002-03	2003-04	2004-05
Fiscal Liabilities	40007	45301	52572	62876	71083
Rate of Growth	26.76	13.23	16.05	19.60	13.05
Ratio of Fiscal Liabilities to					
GSDP	36.88	37.43	37.27	37.57	NA
Revenue Receipt	254.20	283.40	294.10	344.58	350.77
Own Resources	322.70	348.30	389.00	435.27	442.91
Buoyancy of Fiscal Liabilities to					
GSDP	Negative	1.14	0.97	1.05	NA
Revenue Receipt	2.12	8.43	1.36	9.39	1.18
Own Resources	2.40	2.68	4.12	2.85	1.18

Note: Due to revision of GSDP figures, the ratios and percentages involving GSDP figures (2000-2004) have undergone change from last Audit Report.

NA – GSDP figure for the year 2004-05 not available (February 2006).

• **Guarantees**

In addition to the above liabilities, the State Government had guaranteed loans of its various Corporations and others, which in 2004-05 stood at Rs.15,587 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans, there exists an obligation on the State Government to honour these commitments. The State Government has been resorting to guarantees for raising the resources in a big way during last five years. The year-wise position of maximum amount for which guarantee given by the State Government to the end of March 2005 was as under:

Table-20: Guarantees given by the State Government

(Rupees in crore)			
Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage to total revenue
2000-01	13255	12693	81
2001-02	16781	16219	101
2002-03	19426	18866	105
2003-04	18032	17473	96
2004-05	16122	15587	77

The outstanding guarantees (Rs.15,587 crore) accounted for 77 per cent of the revenue receipt (Rs.20,265 crore) of the State Government.

Out of the total outstanding guarantees of Rs.15,587 crore almost 79 per cent was towards Sardar Sarovar Narmada Nigam Limited (SSNNL) and Gujarat Electricity Board (GEB).

Increasing liabilities raise the issue of sustainability of State Government's finances. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP.

Debt sustainability with reference to weighted interest rate, GSDP growth rate and interest spread is indicated in Table 21.

Table 21: Debt Sustainability–Interest Rate and GSDP Growth

(in per cent)					
	2000-01	2001-02	2002-03	2003-04	2004-05
Weighted Interest Rate	8.75	9.86	10.11	10.17	9.08
GSDP Growth	- 0.37	11.57	16.55	18.64	NA
Interest spread	- 9.12	1.71	6.44	8.47	NA

Note: Due to revision of GSDP figures, the ratios and percentages involving GSDP figures (2000-2004) have undergone change from last Audit Report.

NA – GSDP figure for the year 2004-05 not available (February 2006).

Another important indication of debt sustainability is net availability of the funds after payment of the principal on account of the earlier contracted liabilities and interest. Table 22 below gives the position of the receipts and repayments of internal debt over the last five years. The net funds available on account of the internal debt and loans and advances from Government of India

after providing for the interest and repayments declined from 20.88 *per cent* (2000-01) to 11.21 *per cent* (2004-05).

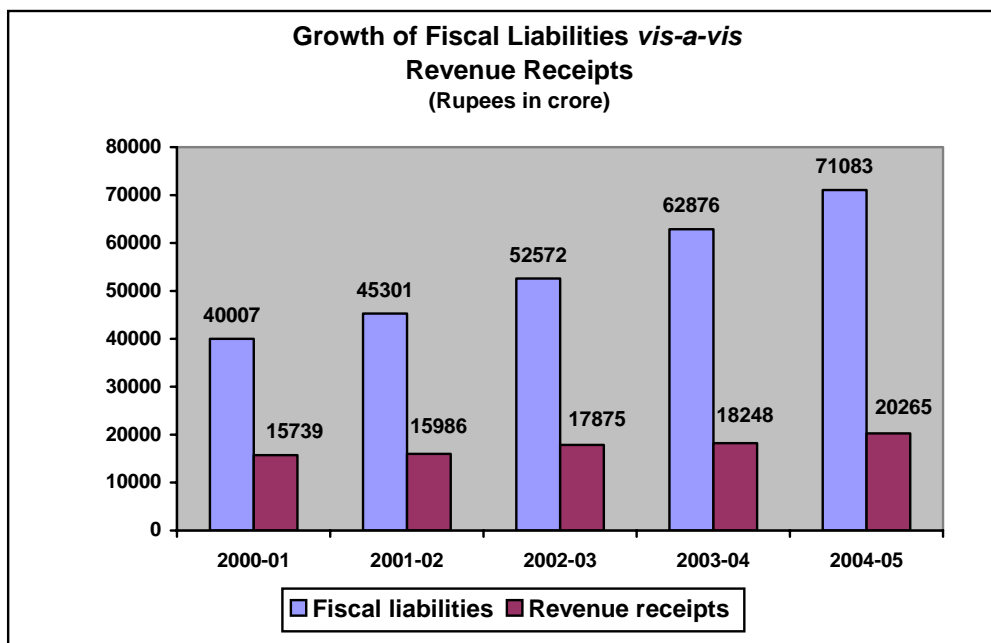


Table 22: Net Availability of Borrowed Funds

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Internal Debt *					
Receipt	7121	5926	8365	12004	11510
Repayment (Principal + Interest)	671	1715	2339	3436	4962
Loans and Advances from GOI					
Receipt	-98	2231	1318	3004	1818
Repayment (Principal + Interest)	3060	2834	4780	7135	6294
Other Liabilities					
Receipt	15259	10759	10898	9508	11964
Repayment (Principal + Interest)	13898	12989	10470	10456	11201
Total Liabilities					
Receipt	22282	18916	20581	24516	25292
Repayment (Principal + Interest)	17629	17538	17589	21027	22457
Net Fund Available	4653	1378	2992	3489	2835
Net Fund Available (<i>per cent</i>)	20.88	7.28	14.54	14.23	11.21

* Internal debt excluding ways and means advances and overdraft

The State Government raised market loans of Rs.2,020.46 crore during the year. The weighted average rate of market borrowing (Rs.2,020 crore) during the year was 6.27 *per cent*. As on 31 March 2005, 28 *per cent* of the existing market loans of the State Government carried the interest rate exceeding 10 *per cent*. Thus, the effective cost of borrowings on their past loans was much higher than the rate at which they were able to raise resources at present from the market. The maturity profile of the State Government market loans indicated that barely 23 *per cent* of the total market loans were repayable within next five years while remaining 77 *per cent* loans had a longer maturity.

1.9 Management of deficits

1.9.1 Fiscal imbalances

The deficits in Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to the fiscal health.

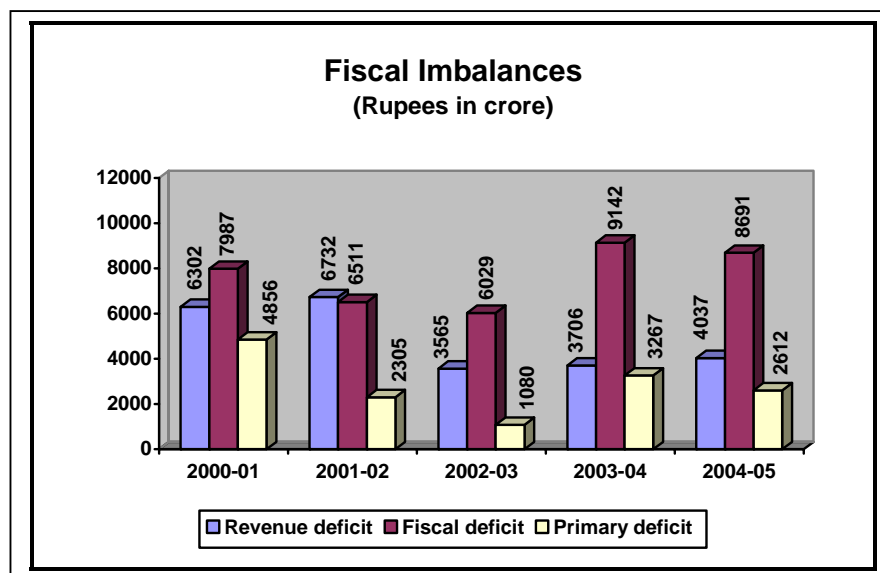
The revenue deficit of the State, which is the excess of its revenue expenditure over revenue receipts increased from Rs.3706 crore in 2003-04 to Rs.4,037 crore in 2004-05. However, the fiscal deficit decreased from Rs.9142 crore in 2003-04 to Rs.8,691 crore in 2004-05. The primary deficit of the state also decreased from Rs.3,267 crore in 2003-04 to Rs.2,612 crore in 2004-05.

Table 23: Fiscal Imbalances – Basic Parameters

(Value: Rupees in crore and Ratios in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue deficit	6302	6732	3565	3706	4037
Fiscal deficit	7987	6511	6029 [@]	9142	8691
Primary deficit	4856	2305	1080 [@]	3267	2612
RD/GSDP	5.81	5.56	2.53	2.21	NA
FD/GSDP	7.36	5.38	4.27	5.46	NA
PD/GSDP	4.48	1.90	0.77	1.95	NA
RD/FD	78.90	103.39	59.13	40.54	46.45

Note: Due to revision of GSDP figures, the ratios and percentages involving GSDP figures (2000-2004) have undergone change from the last Audit Report.
NA – GSDP figure for the year 2004-05 not available (February 2006).



Forty six per cent of the borrowings were utilised for meeting current revenue expenditure.

[@] Figures as mentioned in the Audit Report 2002-03 are revised after adding capital receipts

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 24 below presents a summarised position of Government finances over the period 2000-2005, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

The ratio of revenue receipt and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipt indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. However, the adequacy of the resources could not be assessed for the year 2004-05 as its GSDP figure was not available (February 2006).

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation. The ratio of revenue expenditure to total expenditure had increased continuously till 2001-02 and thereafter decreased nominally in 2002-03 (88.86 per cent), 2003-04 (79.57 per cent) and again increased in 2004-05 (83.39 per cent). The ratio of capital expenditure to total expenditure has shown continuous increase from 7.18 per cent in 2001-02 to 14.07 per cent in 2004-05. The development expenditure in terms of percentage of total expenditure had declined. All these indicate State's dependency on borrowings for meeting its revenue expenditure and inadequate expansion of its developmental activities.

Table 24: Indicators of Fiscal Health (in per cent)

Fiscal Ratio	2000-01	2001-02	2002-03	2003-04	2004-05
Resource Mobilisation					
Revenue Receipt/GSDP	14.51	13.21	12.67	10.90	NA
Revenue Buoyancy	Negative	0.14	0.71	0.11	NA
Own tax/GSDP	8.34	7.64	6.75	6.68	NA
Expenditure Management					
Total Expenditure/GSDP	23.92	20.41	17.10	16.49	NA
Revenue Receipts / Total Expenditure	60.64	64.71	74.09	66.14	69.54
Revenue Expenditure/ Total Expenditure	84.93	91.96	88.86	79.57	83.39
Capital Expenditure / Total Expenditure	11.96	7.18	9.84	12.76	14.07
Development Expenditure/ Total Expenditure (RE + CE)	75.10	70.38	64.49	62.62	63.90
Buoyancy of TE with RR	1.94	(-)3.07	(-)0.20	6.88	0.51
Buoyancy of RE with RR	2.04	1.96	0.48	1.15	0.97
Management of Fiscal Imbalances					
Revenue deficit (Rs. in crore)	6302	6732	3565	3706	4037
Fiscal deficit (Rs. in crore)	7987	6511	6029	9142	8691
Primary deficit (Rs. in crore)	4856	2305	1080	3267	2612
Revenue deficit/Fiscal deficit	78.90	103.39	59.30	40.54	46.45
Management of Fiscal Liabilities (FL)					
Fiscal Liabilities/GSDP	36.88	37.43	37.27	37.59	NA
Fiscal Liabilities/RR	254.20	283.40	294.10	344.58	350.77
Buoyancy of FL with RR	2.12	8.43	1.36	9.39	1.18
Buoyancy of FL with OR	2.40	2.68	4.11	2.85	1.18
Interest spread	(-)9.12	1.71	6.44	8.47	NA
Net Fund Available	20.88	7.28	14.54	14.23	11.21
Other Fiscal Health Indicators					
Return on Investment	0.55	0.55	0.84	0.27	0.28
BCR (Rs. in crore)	(-)4246	(-)6048	(-)2370	(-) 1771	(-) 977
Financial Assets/Liabilities	0.65	0.56	0.55	0.56	0.56

Note: Due to revision of GSDP figures, the ratios and percentages involving GSDP figures (2000-2004) have undergone change from last Audit Report.

NA – GSDP figure for the year 2004-05 not available (February 2006).

The State has to generate more revenue out of its existing assets or needs to provide from its current revenues for servicing its debt obligations. The State Government has also not taken any steps for pension reforms to meet the fast rising unproductive expenditure on account of pension payable to the retiring employees.

Further, aggravating the situation of the State is the unproductive investment in companies with either nil or negligible returns. The much awaited reforms in the power sector are still to take-off and the State continues to support to this sector in the form of huge subsidy.

The balance of current revenue (BCR) of the State has also continued to be negative. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability of funds for additional infrastructure support and other revenue generating investment.