

# **CHAPTER-I**

## **FINANCES OF THE STATE GOVERNMENT**

# CHAPTER I

## FINANCES OF THE STATE GOVERNMENT

### 1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix I(i)-Part A**). 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 of Gujarat. The lay out of the Finance Accounts is depicted in **Appendix-I(i)-Part B**.

#### 1.1.1 Summary of Receipts and Disbursements

**Table-1** summaries the finances of the Government of Gujarat for the year 2006-07, covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

**Table-1: Summary of receipts and disbursements for the year 2006-07.**

(Rupees in crore)							
2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section-A: Revenue					Non Plan	Plan	Total
<b>25,066.87</b>	<b>Revenue receipts</b>	<b>31,002.21</b>	<b>25,465.49</b>	<b>Revenue expenditure</b>	<b>23,470.72</b>	<b>5,761.41</b>	<b>29,232.13</b>
15,698.11	Tax revenue	18,464.62	11,288.09	General services	11,929.10	191.42	12,120.52
3,353.37	Non-tax revenue	4,948.78	8,272.87	Social services	7,117.23	3,397.09	10,514.32
3,372.43	Share of Union Taxes/Duties	4,425.95	5,796.48	Economic services	4,291.97	2,172.90	6,464.87
2,642.96	Grants from Government of India	3,162.86	108.05	Grants-in-aid and Contributions	132.42	--	132.42
Section-B: Capital							
<b>7.94</b>	<b>Misc Capital Receipts</b>	<b>2.69</b>	<b>6,958.66</b>	<b>Capital Outlay</b>	<b>190.82</b>	<b>7,654.62</b>	<b>7,845.44</b>
<b>1,783.69</b>	<b>Recoveries of Loans and Advances</b>	<b>797.58</b>	<b>704.22</b>	<b>Loans and Advances disbursed</b>	<b>62.95</b>	<b>310.70</b>	<b>373.65</b>
<b>10,663.19</b>	<b>Public debt receipts*</b>	<b>6,948.30</b>	<b>1,128.41</b>	<b>Repayment of Public Debt*</b>	#	#	<b>1,770.90</b>
<b>7.26</b>	<b>Contingency Fund</b>	<b>76.11</b>	<b>76.11</b>	<b>Contingency Fund</b>	#	#	<b>2.51</b>
<b>36,334.35</b>	<b>Public Account receipts</b>	<b>39,079.91</b>	<b>34,827.48</b>	<b>Public Account disbursements</b>	#	#	<b>36,590.06</b>
<b>2,565.05</b>	<b>Opening Cash Balance</b>	<b>7,267.98</b>	<b>7,267.98</b>	<b>Closing Cash Balance</b>	--	--	<b>9,360.09</b>
<b>76,428.35</b>	<b>Total</b>	<b>85,174.78</b>	<b>76,428.35</b>	<b>Total</b>			<b>85,174.78</b>

\* Excluding Ways and Means Advances and Overdraft

# Bifurcation of plan & non-plan not available

- Revenue receipts of the State increased significantly from Rs 25,067 crore in 2005-06 to Rs 31,002 crore in 2006-07 due to increase in own tax revenue by Rs 2,767 crore (18 per cent), non tax revenue by

Rs 1,596 crore (48 per cent), Grant in aid by Rs 520 crore (20 per cent) and state share of Union Taxes and Duties by Rs 1,054 crore (31 per cent).

- Revenue Expenditure also increased significantly by Rs 3,767 crore (15 per cent) mainly due to increase in expenditure on Social Services by Rs 2,241 crore (27 per cent). Capital expenditure increased by Rs 887 crore (13 per cent) over previous year while disbursement of loans and advances significantly decreased by Rs 330 crore (47 per cent).
- Public Debt receipts decreased by Rs 3,715 crore (35 per cent) during the year; however repayment increased significantly by Rs 643 crore (57 per cent) during the year.
- Public Account receipts increased by Rs 2,746 crore (eight per cent) over previous year, however, Public Account disbursement increased by only Rs 1,763 crore (five per cent).
- Cash balance of the State at the end of the year increased by Rs 2,092 crore from Rs 7,268 crore in 2005-06 to Rs 9,360 crore in 2006-07.

### **1.1.2 State Fiscal Position by Key Indicators**

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table 2**.

**Table 2**

(Rupees in crore)

2005-06	Sl. No	Major Aggregates	2006-07
<b>25,067</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4+5)</b>	<b>31,002</b>
15,698	2.	Tax Revenue (own tax Revenue)	18,464
3,373	3.	Tax transfers	4,426
3,353	4.	Non-Tax Revenue	4,949
2,643	5.	Other Receipts	3,163
<b>1,792</b>	<b>6.</b>	<b>Non-Debt Capital Receipts (7+8)</b>	<b>801</b>
8	7.	Capital Receipts	3
1,784	8.	Recovery of Loans and Advances	798
<b>26,859</b>	<b>9.</b>	<b>Total Receipts (1+6)</b>	<b>31,803</b>
<b>22,007</b>	<b>10.</b>	<b>Non-Plan Expenditure (11+13+14)</b>	<b>23,725</b>
21,544	11.	On Revenue Account	23,471
6,135	12.	Of which, interest payments	6,889
164	13.	On Capital Account	191
299	14.	On Loans disbursed	63
<b>11,120</b>	<b>15.</b>	<b>Plan Expenditure (16+18+19)</b>	<b>13,726</b>
3,921	16.	On Revenue Account	5,761
8	17.	Of which, interest payments	<sup>1</sup> 43
6,794	18.	On Capital Account	7,654
405	19.	On Loans disbursed	311
<b>33,127</b>	<b>20.</b>	<b>Total Expenditure (10+15)</b>	<b>37,451</b>
<b>398</b>	<b>21.</b>	<b>Revenue Deficit/ Surplus (11+16-1)</b>	<b>(+) 1,770</b>
<b>6,268</b>	<b>22.</b>	<b>Fiscal Deficit (20-1-6)</b>	<b>5,648</b>
<b>125</b>	<b>23.</b>	<b>Primary Deficit /Surplus (22-12-17)</b>	<b>(+) 1,284</b>

<sup>1</sup> This amount of interest payments was incurred against the budget provision made under plan head.

Table 2 depicts that revenue receipts increased by Rs 5,935 crore during 2006-07 over previous year where as revenue expenditure increased by Rs 3,767 crore over previous year resulting in a surplus of Rs 2,168 crore in revenue account during 2006-07 as compared to the revenue deficit of Rs 398 crore in 2005-06. Given the surplus of Rs 2,168 crore in revenue account and decrease in non debt capital receipts by Rs 991 crore along with an increase of Rs 887 crore in capital expenditure and decline of Rs 330 crore in disbursement of loans and advances, the fiscal deficit decreased by Rs 620 crore in 2006-07 from the level of Rs 6,268 crore in 2005-06. The decline of Rs 620 crore in fiscal deficit together with an increase of Rs 789 crore in interest payments resulted in primary surplus of Rs 1,284 crore in 2006-07 as compared to the deficit of Rs 125 crore in previous year.

### 1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analyzed wherever necessary over the period 2001-07 and observations have been made on their behavior. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact a Fiscal Responsibility (FR) Act and draw their respective or fiscal correction paths during medium to long run. The norms/ceiling prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Government in their FR Acts were used to make qualitative assessment of the trends and patterns of major aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major 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 GSDP at current market prices. The buoyancy coefficient for tax revenue, non-tax revenues, revenue expenditure etc. with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilization of resources, pattern of expenditure etc. are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP. The trends in the growth of GSDP as provided by Directorate of Economics and Statistics, Government of Gujarat are given in **Table – 3**.

**Table -3: Trends in Growth of GSDP**

(Rupees in crore)

Estimates	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP)	*1,23,573	*1,41,534	*1,68,080	*1,86,181	*2,16,651	**2,37,308
Rates of Growth of GSDP ( <i>per cent</i> )	11.19	14.53	18.76	10.77	16.37	9.53

\* Source: Directorate of Economics and Statistics (Gujarat)

\*\* Estimated using Log linear regression method on the time series data of GSDP for the period of 1999-2000 to 2005-06

The key fiscal aggregates for the purpose has been grouped under four major heads (i) Resources by volume and sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of deficits (**Appendices II to V**). The 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 definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix I(i)-Part C**.

### ***1.2.1 The Gujarat Fiscal Responsibility Act, 2005***

The State Government enacted the Gujarat Fiscal Responsibility Act, 2005 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal frame work. To give effect to the fiscal management principles as laid down in the Act and /or the rules framed there under, the Government prescribed the following fiscal management targets:

- a) Reduce the revenue deficit in each of financial year commencing from the 1<sup>st</sup> April 2005 so as to eliminate it by 31<sup>st</sup> March 2008 and maintain it at that level or generate revenue surplus thereafter.
- b) Reduce fiscal deficit in each of financial year commencing from the 1<sup>st</sup> April 2005 so as to bring it down to not more than three *per cent* of GSDP by 31<sup>st</sup> March 2009.
- c) Cap within a period of three years commencing from the 1<sup>st</sup> April 2005 and ending on the 31<sup>st</sup> March 2008, the total public debt of the State Government at thirty *per cent* of estimated GSDP for that year.
- d) Cap outstanding guarantees within the limit provided in the Gujarat State Guarantees Act, 1963.

The revenue deficit and the fiscal deficit may exceed the specified limits on account of unforeseen circumstances or natural calamity to the extent of actual fiscal cost spent to meet the situation.

#### **1.2.1.1 Roadmap to achieve the Fiscal Targets as laid down in FRBM Act/Rules**

Keeping in view the fiscal targets laid down in the Fiscal Responsibility and Budget Management (FRBM) Act and/or the rules made there under and the anticipated annual rate of reduction of fiscal deficit of the States worked out by the Government of India for the Twelfth Finance Commission (TFC) award period following its recommendation, the State Government has developed its Own Fiscal Correction Path indicating the milestones of outcome indicators with target dates of implementation during the period from 2004-05 to 2009-10 (**Appendix I (ii)**).

### 1.2.1.2 Fiscal Policy Statements

As prescribed in the Act, the State Government was required to lay the following statements of fiscal policy along with the budget before the Legislature.

- a) The Medium Term Fiscal Policy Statement (MTFPS).
- b) The Fiscal Policy Strategy Statement.

The Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement shall set forth the fiscal objectives, strategic priorities of the State Government and a three years policy target for fiscal management as stated in Paragraph 1.2.1. The State Government in its MTFPS estimated own tax revenue at Rs 16,244 crore for the year 2006-07 (BE). The State's own non-tax revenue was estimated at Rs 3,334 crore for the year 2006-07 (BE). The State Government estimated growth rate of seven *per cent* and 4.95 *per cent* for the plan and non-plan revenue expenditure respectively for the year 2005-06 onwards. The average cost of borrowing for the year 2006-07 was estimated at 9.33 *per cent*. The growth rates of salaries and pension payments were projected at 3.8-4 *per cent* and nine *per cent* respectively.

### 1.2.1.3 Mid-Term Review of Fiscal Situation

The Gujarat Fiscal Responsibility Act, 2005 was enacted in March 2005; the rules for carrying out the provisions of the Act were published in February 2006. As per section 7(3) of Gujarat Fiscal Responsibility Act, 2005 the review report was to be placed before the State Legislature during the session immediately following the end of second quarter of the financial year, however, it was placed in February, 2007.

The State achieved Fiscal targets laid down in the Act one year ahead, with the current year ending in revenue surplus of Rs 1,770 crore. Fiscal deficit at Rs 5,648 crore during 2006-07 remained at 2.38 *per cent* of GSDP. The guarantees given were also well within the limit prescribed in the Act. The ratio of Public Debt to GSDP at 30.60 *per cent* during current year stood a little higher than to be capped at 30 *per cent* at the end of 2007-08. In view of the fiscal performance of the State measured in terms of the trends in revenue and fiscal deficits relative to their base year values and improvements over the previous year, the State Government received debt waiver of Rs 846 crore as an incentive under DCRF<sup>2</sup> from the Government of India during 2006-07.

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<sup>2</sup> In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the State, Government of India formulated a scheme "The States' Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10) under which general debt is provided by consolidating and rescheduling of substantially reduced rate of interest the central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal programmes linked to the reduction of revenue deficit of the State.

### 1.3 Trends and Composition of Aggregate Receipts

The aggregate receipts of State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenues, State's share of union taxes and duties and grants-in aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institution/commercial banks) and loans and advances from GOI as well as accruals from the Public Account. **Table-4** shows that total receipts of the State Government for the year 2006-07 were Rs 77,907 crore. Of these, the revenue receipts were Rs 31,002 crore, constituting nearly 40 *per cent* of total receipts. The balance came from capital receipts, borrowing, receipts from the Contingency Fund and the Public Account (**Appendix II**).

**Table-4: Trends in Growth and Composition of Aggregate Receipts**

(Rupees in crore)						
Sources of State's Receipts	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>I Revenue Receipts</b>	15,986	17,875	18,248	20,265	25,067	31,002
<b>II Capital Receipts</b>	10,367	9,907	15,208	13,514	12,455	7,749
Recovery of Loans and Advances	2,207	171	182	180	1,784	798
Public Debt Receipts	8,158	9,684	15,008	13,328	10,663	6,948
Miscellaneous Capital receipts	2	52	18	6	8	3
<b>III Contingency Fund</b>	109	7	12	93	7	76
<b>IV Public Accounts Receipts</b>	23,703	20,666	25,039	32,788	36,334	39,080
a. Small Saving, provident Funds, etc.	802	842	895	825	884	941
b. Reserve Fund	334	879	370	429	1,963	1,899
c. Deposits and advances	9,762	9,277	9,668	10,857	12,193	12,524
d. Suspense and Miscellaneous	10,466	6,706	9,770	15,165	13,249	14,803
e. Remittances	2,339	2,962	4,336	5,512	8,045	8,913
<b>Total Receipts (I+II+III+IV)</b>	50,165	48,455	58,507	66,660	73,863	77,907

The total receipts of the State continually increased from Rs 48,455 crore in 2002-03 to Rs 77,907 crore in 2006-07. The capital receipts of the State decreased from Rs 12,455 crore in 2005-06 to Rs 7,749 crore in 2006-07 mainly on account of decrease in debt receipt (Rs 3,715 crore). The debt receipts in 2006-07 stood lowest at Rs 6,948 crore during the period 2001-07 with the highest level of Rs 15,008 crore in 2003-04. Similarly, accruals in Public Account increased from Rs 23,703 crore in 2001-02 to Rs 39,080 crore in 2006-07, contributing to 50 *per cent* of total receipts.

#### 1.3.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. Overall revenue

receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancies are indicated in **Table-5**.

**Table-5: Revenue Receipts - Basic Parameters**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Revenue Receipts (RR) (Rupees in crore)</b>	<b>15,986</b>	<b>17,875</b>	<b>18,248</b>	<b>20,265</b>	<b>25,067</b>	<b>31,002</b>
Own Taxes ( <i>per cent</i> )	9,247 (57.84)	9,520 (53.25)	11,173 (61.23)	12,958 (63.94)	15,698 (62.63)	18,464 (59.56)
Non-Tax Revenue ( <i>per cent</i> )	3,761 (23.53)	3,995 (22.36)	3,272 (17.93)	3,090 (15.25)	3,353 (13.38)	4,949 (15.96)
Central Tax Transfers ( <i>per cent</i> )	1,488 (9.31)	1,363 (7.63)	1,966 (10.77)	2,219 (10.95)	3,373 (13.45)	4,426 (14.28)
Grants-in-aid ( <i>per cent</i> )	1,490 (9.32)	2,996 (16.76)	1,837 (10.07)	1,997 (9.86)	2,643 (10.54)	3,163 (10.20)
Rate of growth of RR ( <i>per cent</i> )	1.57	11.82	2.08	11.05	23.70	23.68
RR/GSDP ( <i>per cent</i> )	12.94	12.63	10.86	10.88	11.57	13.06
Revenue Buoyancy (ratio)	0.14	0.81	0.11	1.03	1.45	2.48
State's own taxes Buoyancy (ratio)	0.20	0.20	0.93	1.48	1.29	1.85
Revenue Buoyancy with reference to State's own taxes (ratio)	0.70	4.05	0.11	0.69	1.12	1.34
GSDP Growth ( <i>per cent</i> )	11.19	14.53	18.76	10.77	16.37	9.53

#### ▪ General Trends and Composition

Revenue receipts of the State increased steadily from Rs 15,986 crore in 2001-02 to Rs 31,002 crore in 2006-07 with marginal changes in the share of State's own tax revenue and grants-in-aid from GOI while the share of non tax revenue declined from 23.53 *per cent* in 2001-02 to 15.96 *per cent* in 2006-07 which was largely counterbalanced by an increase in the share of central tax transfers by five percentage points during the period. The growth rate of revenue receipts was 23.68 *per cent* during 2006-07 mainly due to 48 *per cent* increase in non tax revenue; 31 *per cent* increase in Central tax transfer, 20 *per cent* increase in Grant-in-aid and 18 *per cent* increase in Own tax revenue. Revenue Buoyancy increased significantly from 1.45 in 2005-06 to 2.48 in 2006-07 whereas State's own taxes Buoyancy increased only to 1.85 in 2006-07. Revenue receipt of the State increased steadily during 2001-07 however the ratio of State's own resources to total revenue receipts stood lowest at 75.52 *per cent* during 2006-07.

#### ▪ Own Tax Revenue

The own tax revenue of the State increased from Rs 9,247 crore in 2001-02 to Rs 18,464 crore in 2006-07. The own Tax Revenue of State increased by 17.62 *per cent* during 2006-07 over previous year. The increase in tax revenue during 2006-07 was mainly due to increase in Taxes on Sales, Trade etc., (Rs 2,257 crore), Stamps and Registration fees (Rs 272 crore) and Land Revenue (Rs 119 crore) were other contributors for increase during the current year (Table 6). Realizing the need of tax reforms, the State Government

implemented the Value Added Tax (VAT) in lieu of Sales Tax from April 2006.

**Table – 6: Tax Revenue**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Sales Tax	5,857	6,252	7,170	8,309	10,561	12,818
Taxes and Duties on Electricity	1,657	1,384	1,592	1,829	1,900	2,088
State Excise	47	47	46	47	48	42
Taxes on Vehicles	677	808	936	1,061	1,154	1,191
Stamps and Registration Fees	539	650	825	963	1,153	1,425
Land Revenue	87	95	127	235	380	499
Other Taxes	383	284	477	514	502	401
<b>Total</b>	<b>9,247</b>	<b>9,520</b>	<b>11,173</b>	<b>12,958</b>	<b>15,698</b>	<b>18,464</b>

The taxes on Sales, Trade etc. (now VAT) was the major source of State's own tax revenue which contributed 69 *per cent* followed by taxes and duties on Electricity (11 *per cent*), Taxes on vehicles (six *per cent*) and Stamp duty and Registration fees (eight *per cent*).

▪ **Non Tax revenue**

Non- Tax revenue of the State increased from Rs 3,761 crore in 2001-02 to Rs 4,949 crore in 2006-07. The non-tax revenue receipts during 2006-07 increased by Rs 1,596 crore (48 *per cent*) over previous year mainly due to booking of debt waiver of Rs 846 crore received by the State as an incentive under DCRF as 'Miscellaneous General Services' with contra entry as reduction of debt. The increase in receipts from Non ferrous Mining and Metallurgical Industries by Rs 294 crore (15.6 *per cent*), dividend and profit by Rs 215 crore (154 *per cent*) and Interest receipts by Rs 152 crore (116 *per cent*) were the other major contributors. Of non-tax revenue receipts, Non-ferrous Mining & Metallurgical Industries (44 *per cent*), Miscellaneous General Services (20 *per cent*) and Dividend and Profits (seven *per cent*) were main contributors during 2006-07.

The actual receipts under State's tax and non-tax revenue vis-à-vis assessment made by TFC and the State Government in the budget estimates are given below:

**Table-7: Comparative statement of revenue receipts**

(Rupees in crore)

	Assessments made by TFC	Budget Estimates of 2006-07	Actuals
<b>Tax Revenue</b>	<b>16,209</b>	16,244	18,464
<b>Non-Tax Revenue</b>	<b>3,553</b>	3,334	4,949
<b>Total</b>	<b>19,762</b>	19,578	23,413

The receipts from own tax revenue at Rs 18,464 crore during 2006-07 was higher by 14 *per cent* and 13.67 *per cent* than the normative projection of Rs 16,209 crore made by the Twelfth Finance Commission (TFC) and Rs 16,244 crore assessed in the budget estimates of the State Government, respectively for 2006-07. Similarly, non-tax revenue at Rs 4,949 crore was higher by 39 *per cent* and 48 *per cent* than the normative projection of Rs 3,553 crore made by TFC and Rs 3,334 crore assessed in the budget estimates of the State Government respectively from 2006-07.

▪ **Central Tax Transfers**

The Central tax transfers for the State increased from Rs 3,373 crore in 2005-06 to Rs 4,426 crore in 2006-07. The contribution of the Central tax transfers to the revenue receipts also increased from 13.45 *per cent* in 2005-06 to 14.28 *per cent* in 2006-07. The increase in Central tax transfers (Rs 1,053 crore) was mainly due to increase in Corporation Tax (Rs 439 crore), Union Excise Duties (Rs 56 crore), Taxes on Income other than Corporation Tax (Rs 182 crore), Customs (Rs 208 crore) and Service Tax (Rs 168 crore).

▪ **Grant-in-aid**

The Grants-in-aid from Government of India increased from Rs 2,643 crore in 2005-06 to Rs 3,163 crore in 2006-07. The non-plan grants increased by 83.72 *per cent* (Rs 1,292.60 crore) due to increase in grant under proviso to Article 275(1) of the Constitution (Rs 444.88 crore) and to the Calamity Relief Fund (Rs 303.74 crore). The grants for State Plan Scheme decreased by 7.81 *per cent* during 2006-07 to Rs 1,228.22 crore. The grants for Central and Centrally sponsored plan schemes increased by 5.77 *per cent* during 2006-07 to Rs 642.04 crore.

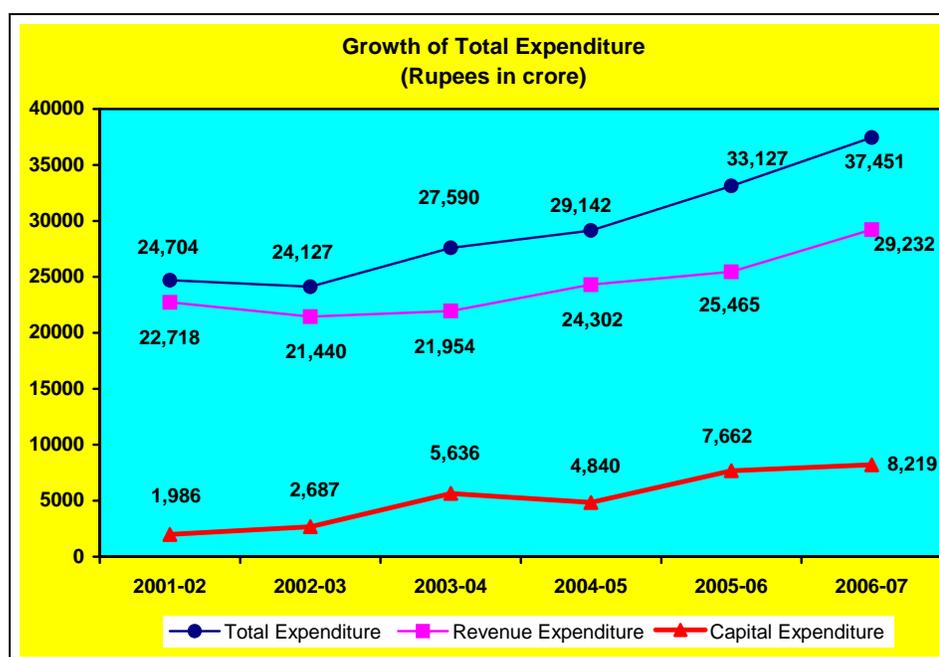
## **1.4 Application of resources**

### **1.4.1 Growth of Expenditure**

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from Rs 24,704 crore in 2001-02 to Rs 37,451 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table-8**.

**Table-8: Total Expenditure – Basic Parameters**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total expenditure (TE) <sup>3</sup> (Rupees in crore)	24,704	24,127	27,590	29,142	33,127	37,451
Rate of Growth ( <i>per cent</i> )	(-) 4.81	(-) 2.34	14.35	5.63	13.67	13.05
TE/GSDP Ratio ( <i>per cent</i> )	19.99	17.05	16.41	15.65	15.29	15.78
RR /TE Ratio ( <i>per cent</i> )	64.71	74.09	66.14	69.54	75.67	82.78
<b>Buoyancy of Total Expenditure with reference to:</b>						
GSDP (ratio)	(-) 0.43	(-) 0.16	0.76	0.52	0.84	1.37
RR (ratio)	(-) 3.07	(-) 0.20	6.88	0.51	0.58	0.55



The total expenditure during 2006-07 increased by Rs 4,324 crore (13 *per cent*) over previous year. The increase in revenue expenditure by Rs 3,767 crore (15 *per cent*), Capital expenditure by Rs 887 crore (13 *per cent*) and decrease in disbursement of loans and advances by Rs 330 crore (47 *per cent*) contributed the over all increase in total expenditure. The increase in capital expenditure was due to increase in capital expenditure on Major and Medium Irrigation projects as well as on making the provision of water supplies and sanitation. Out of total expenditure of Rs 37,451 crore, non-plan expenditure stood at Rs 23,725 crore (63 *per cent*) while plan expenditure stood at Rs 13,726 crore (37 *per cent*). The buoyancy of total expenditure with respect to GSDP depicted upward trend except in 2004-05 where total expenditure increased marginally. There was significant increase in ratio of revenue receipts to total expenditure from 75.67 *per cent* in

<sup>3</sup> Total expenditure comprises revenue expenditure, capital expenditure and loans and advances.

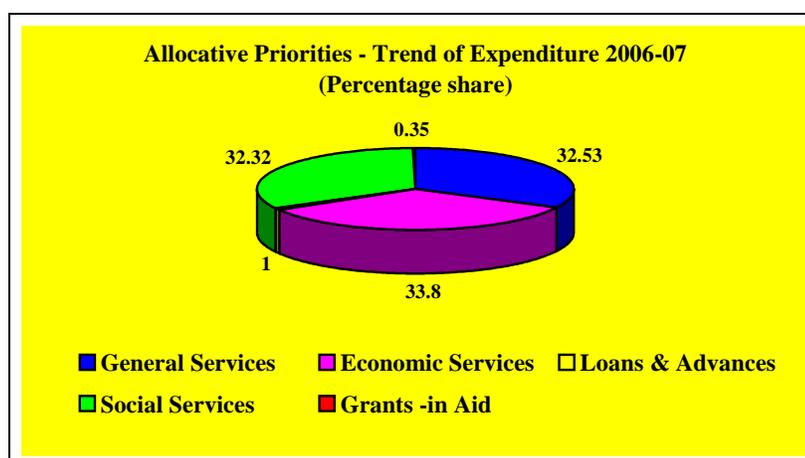
2005-06 to 82.78 *per cent* in 2006-07, indicating that nearly 83 *per cent* of the State's total expenditure was met from its revenue receipts.

▪ **Trends in total expenditure by activities:**

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-9**.

**Table-9: Components of Expenditure – Relative Share**

	<i>(In per cent)</i>					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	29.12	34.57	33.73	34.69	34.34	32.53
Of which Interest payments	17.03	20.51	21.29	20.86	18.54	18.51
Social Services	34.74	31.32	29.86	31.92	30.46	32.32
Economic Services	34.99	32.25	27.25	30.36	32.74	33.80
Grants-in-aid	0.22	0.43	0.37	0.49	0.33	0.35
Loans and Advances	0.93	1.43	8.79	2.54	2.13	1.00



The movement of relative share of these components indicates that the share of General services showed decreasing trend from 34.69 *per cent* in 2004-05 to 32.53 *per cent* in 2006-07. The relative share of Social Services ranged between 29.86 to 34.74 *per cent* during the period 2001-06 and stood at 32.32 *per cent* during 2006-07. The share of economic services being developmental expenditure continuously improved from 27.25 *per cent* in 2003-04 to 33.80 in 2006-07. The share of Loans and Advances indicated decreasing trend from 8.79 *per cent* in 2003-04 to one *per cent* in 2006-07.

**1.4.2 Incidence of Revenue expenditure**

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment, for the past obligations and as such does not result in any addition to the States infrastructure and service network. The overall revenue expenditure,

its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-10**.

**Table-10: Revenue Expenditure: Basic Parameters**

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE)	22,718	21,440	21,954	24,302	25,465	29,232
Of which						
Non-Plan Revenue Expenditure (NPRE)	20,897	19,373	18,645	20,056	21,544	23,471
Plan Revenue Expenditure (PRE)	1,821	2,067	3,309	4,246	3,921	5,761
Rate of Growth ( <i>per cent</i> )	3.07	(-) 5.63	2.40	10.70	4.79	14.79
NPRE	9.75	(-) 7.29	(-) 3.76	7.57	7.42	8.94
PRE	(-) 39.32	13.51	60.08	28.32	(-) 7.65	46.93
NPRE/GSDP ( <i>per cent</i> )	16.91	13.69	11.09	10.77	9.94	9.89
NPRE as <i>per cent</i> of TE	84.59	80.30	67.58	68.82	65.03	62.68
NPRE as <i>per cent</i> of RR	130.72	108.38	102.18	98.97	85.95	75.70
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	0.27	(-)0.39	0.13	0.99	0.29	1.55
Revenue Receipts (ratio)	1.96	(-) 0.48	1.15	0.97	0.20	0.62

Revenue expenditure continuously increased from Rs 21,440 crore in 2002-03 to Rs 29,232 crore in 2006-07. During 2006-07 increase in Non-plan revenue expenditure by Rs 1,927 crore and plan revenue expenditure by Rs 1,840 crore contributed to total increase of Rs 3,767 crore (14.79 *per cent*) in revenue expenditure in 2006-07 over previous year.

The increase in revenue expenditure during 2006-07 was mainly due to more expenditure on Urban Development (Rs 790 crore), Interest payments (Rs 789 crore), Relief on account of Natural calamity (Rs 597 crore) and General education (Rs 533 crore). The ratio of non-plan revenue expenditure to total expenditure showed decreasing trend from 84.59 *per cent* in 2001-02 to 62.68 *per cent* in 2006-07 except in 2004-05. The ratio of non-plan revenue expenditure to revenue receipts continuously decreased from 131 *per cent* in 2001-02 to 76 *per cent* in 2006-07 indicating better expenditure management by State Government. The non-plan revenue expenditure during 2006-07 (Rs 23,471 crore) exceeded the normative assessment by TFC (Rs 18,315 crore) by Rs 5,156 crore. Although the State Government in its Medium Term Fiscal Policy Statement projected 7 *per cent* and 4.95 *per cent* growth rate for plan and non-plan revenue expenditure respectively, but the actual growth rates exceeded the limit prescribed for 2006-07. Buoyancy of revenue expenditure to GSDP increased from 0.29 in 2005-06 to 1.55 in 2006-07 due to higher growth rate of revenue expenditure over previous year. Buoyancy of Revenue expenditure with respect to revenue receipts improved significantly during 2006-07 due to 15 *per cent* growth in revenue expenditure as compared to five *per cent* growth in 2005-06.

### 1.4.3 Committed Expenditure

#### 1.4.3.1 Expenditure on Salaries and Wages

**Table-11: Expenditure on Salaries and Wages**

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Expenditure on Salaries &amp; Wages</b>						
Of which	3,334.54	3,024.47	3,295.44	3,586.85	3,623.88	2,668.87
Non-Plan Head	3,092.97	2,795.69	3,035.84	3,322.08	3,362.13	2,447.45
Plan Head*	241.57	232.78	259.60	264.77	261.75	221.42
As per cent of GSDP	2.70	2.14	1.96	1.93	1.67	1.12
As per cent of RR	20.86	16.92	18.06	17.70	14.46	8.60

\*Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

The expenditure on salaries and wages at Rs 2,669 crore in 2006-07 was the lowest during the period of 2001-07. The measures like abolition of vacant posts, re-deployment of existing staff to avoid filling up of vacant post and recruitment of essential staff mostly on fixed pay basis initiated by the State Government helped in containing the expenditure on Salaries and Wages. As percentage of GSDP, expenditure on salaries and wages showed continuously decreasing trend during 2001-07. During 2006-07, the expenditure on salaries and wages stood at 1.12 per cent of State's GSDP and 8.60 per cent of Revenue receipts. The salaries and wages under non-plan head accounted for 12.3 per cent of the revenue expenditure net of interest payments and pensions which was well within the norms of 35 per cent prescribed by the TFC.

#### 1.4.3.2 Pension Payments

**Table 12: Expenditure on Pensions**

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	1,502.17	1,588.33	1,733.94	1,891.60	2,101.17	2,396.00
As per cent of GSDP	1.22	1.12	1.03	1.02	0.97	1.01
As per cent of RR	9	9	10	9	8	8

The expenditure on pensions continuously increased from Rs 1,502 crore in 2001-02 to Rs 2,396 crore in 2006-07. The ratio of pension payment to GSDP indicated decreasing trend during 2001-07 except in 2006-07. During 2006-07, the pension payment increased by 14 per cent against the nine per cent growth assessed by the State Government in its Medium Term Fiscal Policy Statement mainly due to increase in number of pensioners. The actual growth rate (14 per cent) of pensions during 2006-07 remained higher against TFC norms of 10 per cent. The pension liabilities of State Government are likely to increase in future with the increase in the number of retirees and their better health indicators in the State.

### 1.4.3.3 Interest payments

**Table-13: Interest payments**

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
	(Rupees in crore)			
2001-02	15,986	4,206	26	19
2002-03	17,875	4,949	28	23
2003-04	18,248	5,875	32	27
2004-05	20,265	6,079	30	25
2005-06	25,067	6,143	25	24
2006-07	31,002	6,932	22	24

The State Government had projected in the FRBM Act, interest payment as 20.59 *per cent* of the revenue receipts in the year 2006-07. It was, however, observed that interest payment as a percentage of revenue receipts stood at 22 *per cent* in 2006-07. The interest payment increased steadily from Rs 4,206 crore in 2001-02 to Rs 6,932 crore in 2006-07 primarily due to increasing small savings collections in the State. For instance, interest on special securities issued to National Small Savings Fund constituted 57.21 *per cent* of interest payment during 2006-07. Interest payments during 2006-07 exceeded the normative assessment of TFC (Rs 6,900 crore) by Rs 32 crore.

### 1.4.3.4 Subsidies

Though the finances of the State are under strain, State Government has been paying subsidies to various Corporations, etc. The trends in the subsidies given by the State Government are given in **Table 14**.

**Table-14: Subsidies**

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2001-02	4,075.85	101.65	16.50
2002-03	2,050.16	(-) 49.70	8.50
2003-04	2,824.18	37.75	10.24
2004-05	3,371.97	19.40	11.57
2005-06	2,760.91	(-) 18.12	8.33
2006-07	2,814.18	1.93	7.51

After a sharp decrease in 2005-06, subsidies increased by two *per cent* to Rs 2,814 crore during 2006-07. The power sector continues to be highly subsidised and the subsidies of Rs 1,798 crore were paid during 2006-07 which constituted 64 *per cent* of total subsidy during the year. The Agriculture and allied activities availed subsidy of Rs 175 crore during 2006-07. The subsidy stood at 7.51 *per cent* of the total expenditure during 2006-07.

## 1.5 Expenditure by Allocative Priorities

### 1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running efficiently and effectively the existing social and economic services would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP better is quality of expenditure. **Table 15** gives these ratios during 2001-07.

**Table 15 – Indicators of Quality of Expenditure**

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	1,756.87	2,341.30	3,211.44	4,100.20	6,958.65	7,845.44
Revenue Expenditure	22,717.60	21,440.13	21,954.14	24,301.80	25,465.49	29,232.13
<i>Of which</i>						
Social and Economic Services with						
(i) Salary & Wage Component	1,676.92	1,649.54	1,632.70	1,711.22	1,747.00	1,389.88
(percentage of RE)	(7.38)	(7.69)	(7.44)	(7.04)	(6.86)	(4.85)
(ii) Non-Salary & Wage component	13,819.61	11,383.95	10,971.31	12,422.97	12,322.34	15,589.30
(percentage of RE)	(60.83)	(53.10)	(49.97)	(51.12)	(48.39)	(53.33)
<i>As per cent of Total Expenditure</i>						
Capital Expenditure	7.11	9.70	11.64	14.07	21.01	20.95
Revenue Expenditure	91.96	88.86	79.57	83.39	76.87	78.05
<i>As per cent of GSDP</i>						
Capital Expenditure	1.42	1.65	1.91	2.20	3.21	3.31
Revenue Expenditure	18.38	15.15	13.06	13.05	11.75	12.32

Share of Revenue expenditure of the State ranged between 77 to 92 *per cent* of the TE during the period 2001-07 resulting in lesser share of Capital expenditure ranging between seven to 21 *per cent* which exhibited an increasing trend. The ratio of capital expenditure to GSDP steadily improved from 1.42 *per cent* in 2001-02 to 3.31 *per cent* in 2006-07, however, it stands far below than the projection of 7 *per cent* (all state average) recommended by TFC indicating the need for change in allocative priorities.

The component of revenue expenditure on Social and Economic Services ranged between 55 to 68 *per cent* of revenue expenditure during 2001-2007. The ratio of salary and wages component to revenue expenditure on Social and Economic Services was not only relatively lower but it continuously declined during the last five year period (2002-07) while the share of non-salary component remained little more than half during the period indicating the trends towards better quality of expenditure and improvement in Social and Economic Services.

### 1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities, etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 16** summaries the

expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2001-07.

**Table 16: Expenditure on Social Services**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Education, Sports, Art and Culture</b>						
<b>Revenue Expenditure</b>	3,258.15	3,623.98	3,683.40	3,990.10	4,162.02	4,726.55
<i>Of which</i>						
(a) Salary & Wage Component	246.83	234.89	216.24	275.95	291.47	205.08
(b) Non-Salary & Wage component	3,011.32	3,389.09	3,467.16	3,714.15	3,870.55	4,521.47
<b>Capital Expenditure</b>	5.40	10.39	9.24	11.83	147.27	259.65
<b>Total</b>	<b>3,263.55</b>	<b>3,634.37</b>	<b>3,692.64</b>	<b>4,001.93</b>	<b>4,309.29</b>	<b>4,986.20</b>
<b>Health and Family Welfare</b>						
<b>Revenue Expenditure</b>	715.48	846.87	878.13	944.58	1,042.86	1,091.47
<i>Of which</i>						
(a) Salary & Wage Component	605.32	587.92	583.65	577.77	522.12	432.01
(b) Non-Salary & Wage component	110.16	258.95	294.48	366.81	520.74	659.46
<b>Capital Expenditure</b>	13.29	16.68	8.54	26.49	26.47	54.64
<b>Total</b>	<b>728.77</b>	<b>863.55</b>	<b>886.67</b>	<b>971.07</b>	<b>1,069.33</b>	<b>1,146.11</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>						
<b>Revenue Expenditure</b>	507.50	699.56	988.33	1,220.81	1,007.37	1,926.64
<i>Of which</i>						
(a) Salary & Wage Component	25.36	25.00	22.84	20.86	25.82	20.35
(b) Non-Salary & Wage component	482.14	674.56	965.49	1,199.95	981.55	1,906.29
<b>Capital Expenditure</b>	288.46	442.16	491.62	851.22	818.96	1,056.37
<b>Total</b>	<b>795.96</b>	<b>1,141.72</b>	<b>1,479.95</b>	<b>2,072.03</b>	<b>1,826.33</b>	<b>2,983.01</b>
<b>Other Social Services</b>						
<b>Revenue Expenditure</b>	3,241.06	1,368.81	1,525.81	1,695.44	2,060.62	2,769.66
<i>Of which</i>						
(a) Salary & Wage Component	211.38	227.75	241.45	276.93	340.10	210.56
(b) Non-Salary & Wage component	3,029.68	1,141.06	1,284.36	1,418.51	1,720.52	2,559.10
<b>Capital Expenditure</b>	552.60	548.31	652.66	560.17	826.07	218.06
<b>Total</b>	<b>3,793.66</b>	<b>1,917.12</b>	<b>2,178.47</b>	<b>2,255.61</b>	<b>2,886.69</b>	<b>2,987.72</b>
<b>Revenue Expenditure</b>	7,722.19	6,539.22	7,075.67	7,850.93	8,272.87	10,514.31
<i>Of which</i>						
(a) Salary & Wage Component	1,088.89	1,075.56	1,064.18	1,151.51	1,179.51	868.00
(b) Non-Salary & Wage component	6,633.30	5,463.66	6,011.49	6,699.42	7,093.36	9,646.31
<b>Capital Expenditure</b>	859.75	1,017.54	1,162.06	1,449.71	1,818.77	1,588.72
<b>Total (Social Services)</b>	<b>8,581.94</b>	<b>7,556.76</b>	<b>8,237.73</b>	<b>9,300.64</b>	<b>10,091.64</b>	<b>12,103.03</b>

Expenditure on Social Services in the State ranged between 30 to 35 per cent of total expenditure during 2001-02 to 2006-07. During 2006-07, out of total expenditure on Social Services 41 per cent was incurred on Education, Sports, Art & Culture and 25 per cent on water supply and sanitation, Housing and Urban Development.

The trend analysis of revenue and capital expenditure on social services revealed that the share of capital expenditure ranged between 10 to 18 per cent indicating substantial share of revenue expenditure. The capital expenditure on social services continuously increased from Rs 860 crore in 2001-02 to Rs 1,819 crore in 2005-06 and decreased by Rs 230 crore in 2006-07 due to decrease in capital expenditure on services other than education, health and water supply, sanitation and housing and urban development.

Recognizing the need to improve the quality of Education and Health services, TFC recommended that the non-plan salary expenditure on Education and Health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. However, trends in expenditure revealed that non-plan salary component under Education increased by 11 *per cent* while non-salary component increased by 27 *per cent*. Similarly under health and family welfare, the non-plan salary component grew by five *per cent* and non-salary component increased by only four *per cent*. These trends reveal the need of reprioritization in allocation of expenditure in its various components on general education and health and family welfare.

### 1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs 12,658.66 crore) accounted for 34 *per cent* of the total expenditure (Table 17).

**Table-17: Expenditure on Economic Services**

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Agriculture, Allied Activities</b>						
Revenue Expenditure	895.88	630.53	746.48	936.16	917.24	1,007.32
<i>Of which</i>						
(a) Salary & Wage Component	270.18	247.86	311.37	240.12	261.86	229.64
(b) Non-Salary & Wage component	625.70	382.67	435.11	696.04	655.38	777.68
Capital Expenditure	128.02	85.94	132.78	111.49	120.38	200.60
<b>Total</b>	<b>1,023.90</b>	<b>716.47</b>	<b>879.26</b>	<b>1,047.65</b>	<b>1,037.62</b>	<b>1,207.92</b>
<b>Irrigation and Flood Control</b>						
Revenue Expenditure	1,805.53	1,939.49	370.18	375.47	372.41	521.31
<i>Of which</i>						
(a) Salary & Wage Component	163.32	170.41	135.67	178.91	157.08	171.20
(b) Non-Salary & Wage component	1,642.21	1,769.08	234.51	196.56	215.33	350.11
Capital Expenditure	529.77	847.92	1,340.29	1,765.37	2,251.39	3,858.77
<b>Total</b>	<b>2,335.30</b>	<b>2,787.41</b>	<b>1,710.47</b>	<b>2,140.84</b>	<b>2,623.80</b>	<b>4,380.08</b>
<b>Power &amp; Energy</b>						
Revenue Expenditure	3,551.10	2,219.35	2,561.76	2,623.10	2,073.52	2,003.35
<i>Of which</i>						
(a) Salary & Wage Component	-	-	-	-	-	--
(b) Non-Salary & Wage component	3,551.10	2,219.35	2,561.76	2,623.10	2,073.52	2,003.35
Capital Expenditure	(-) 48.44	(-) 86.06	8.39	151.89	1,949.91	1,338.44
<b>Total</b>	<b>3,502.66</b>	<b>2,133.29</b>	<b>2,570.15</b>	<b>2,774.99</b>	<b>4,023.43</b>	<b>3,341.79</b>
<b>Transport</b>						
Revenue Expenditure	591.36	658.32	765.39	957.08	1,092.99	1,298.23
<i>Of which</i>						
(a) Salary & Wage Component	22.76	26.89	16.48	24.19	27.49	19.86
(b) Non-Salary & Wage component	568.60	631.43	748.91	932.89	1,065.50	1,278.37
Capital Expenditure	247.02	427.49	510.24	532.40	723.59	755.94
<b>Total</b>	<b>838.38</b>	<b>1,085.81</b>	<b>1,275.63</b>	<b>1,489.48</b>	<b>1,816.58</b>	<b>2,054.17</b>
<b>Other Economic Services</b>						
Revenue Expenditure	930.47	1,046.58	1,084.53	1,391.45	1,340.32	1,634.66
<i>Of which</i>						
(a) Salary & Wage Component	131.77	128.82	105.00	116.49	121.06	101.18
(b) Non-Salary & Wage component	798.70	917.76	979.53	1,274.96	1,219.26	1,533.48
Capital Expenditure	12.62	10.66	-0.60	4.83	5.23	40.04
<b>Total</b>	<b>943.09</b>	<b>1,057.24</b>	<b>1,083.93</b>	<b>1,396.28</b>	<b>1,345.55</b>	<b>1,674.70</b>
<b>Total (Economic Services)</b>						
Revenue Expenditure	7,774.34	6,494.27	5,528.34	6,283.26	5,796.48	6,464.87
<i>Of which</i>						
(a) Salary & Wage Component	588.03	573.98	568.52	559.71	567.49	521.88
(b) Non-Salary & Wage component	7,186.31	5,920.29	4,959.82	5,723.55	5,228.99	5,942.99
Capital Expenditure	868.99	1,285.95	1,991.10	2,565.98	5,050.50	6,193.79
<b>Total</b>	<b>8,643.33</b>	<b>7,780.22</b>	<b>7,519.44</b>	<b>8,849.24</b>	<b>10,846.98</b>	<b>12,658.66</b>

Out of total expenditure on Economic Services (Rs 12,659 crore), 9 to 12 *per cent* was incurred on Agriculture and Allied Activities, 23 to 36 *per cent* on Irrigation and Flood Control, 26 to 41 *per cent* on Power and Energy and 10 to 17 *per cent* on Transport during 2001-07. The salary and wage component in total expenditure on Economic Services ranged between 4.12 to 7.56 *per cent* during 2001-07.

The trends in expenditure on Economic Services indicate that capital expenditure consistently increased from Rs 869 crore in 2001-02 to Rs 6,194 crore in 2006-07, while revenue expenditure with inter year fluctuation decreased from Rs 7,774 crore in 2001-02 to Rs 6,465 crore in 2006-07. During 2006-07 an increase of Rs 668 crore over previous year in revenue expenditure was mainly due to increase in Road and Bridges (Rs 206 crore), Tourism (Rs 71 crore), Minor Irrigation (Rs 56 crore), and Major Irrigation (Rs 46 crore).

#### ***1.5.4 Financial Assistance to local bodies and other institutions***

The quantum of assistance provided by way of grants and loans to local bodies and others during the six-year period 2001-07 is presented in **Table 18**.

**Table-18: Financial Assistance**

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	100.63	95.45	85.01	83.75	91.96	366.93
Municipal Corporations and Municipalities	208.89	222.71	244.03	823.49	263.26	621.40
Zilla Parishads and Other Panchayati Raj Institutions	1,470.91	1,637.43	1,572.61	1,815.79	2,025.29	2,667.49
Other Institutions <sup>4</sup>	1,191.95	1,011.97	1,058.32	480.83	1,100.25	2,112.42
<b>Total</b>	<b>2,972.38</b>	<b>2,967.56</b>	<b>2,959.97</b>	<b>3,203.86</b>	<b>3,480.76</b>	<b>5,768.24</b>
Assistance as percentage of RE	13.08	13.84	13.48	13.18	13.67	19.73

The financial assistance to local bodies and other institutions increased from Rs 2,972.38 crore in 2001-02 to Rs 5,768.24 crore in 2006-07. The financial assistance as percentage of revenue expenditure increased from 13.08 *per cent* in 2001-02 to 19.73 *per cent* in 2006-07. The sharp increase in financial assistance in Municipal Corporation and Municipalities during the current year was mainly due to allocation of funds under Jawaharlal Nehru National Urban Renewal Mission.

#### ***1.5.5 Delay in furnishing utilisation certificates***

Of the 14,387 utilisation certificates (UCs) due in respect of grants and loans aggregating Rs 4,960.40 crore paid upto 2006-07, 11,150 UCs for an aggregate amount of Rs 4,416.72 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix VI**.

<sup>4</sup> Other Institutions include Development agencies, Hospitals and other Charitable institutions

### ***1.5.6 Abstract of performance of the autonomous bodies***

The audit of accounts of six bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature is indicated in **Appendix VII**.

### ***1.5.7 Misappropriations, losses, defalcations, etc.***

State Government reported 172 cases of misappropriation, defalcation, etc. involving Government money amounting to Rs 8.43 crore up to the period September 2007 on which final action was pending. The department-wise break up of pending cases and age wise analysis is given in **Appendix VIII** and nature of these cases is given in **Appendix IX**.

### ***1.5.8 Write off of losses, etc.***

As reported to Audit, losses due to theft, fire and irrecoverable revenue, etc. amounting to Rs 1.86 lakh in two cases were written-off during 2006-07 by competent authorities. The relevant details are given in **Appendix X**.

## **1.6 Assets and Liabilities**

In the Government Accounting System, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix-II** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. **Appendix V** depicts the time series data on State Government finances for the period 2001-2007.

### ***1.6.1 Financial Results of Irrigation Works***

The financial results of Major and Medium Irrigation Projects with capital expenditure of Rs 1,626.23 crore showed that revenue realized during 2006-07 (Rs 170.54 crore) was only 10.48 *per cent* of the capital expenditure. After meeting the working and maintenance expenditure (Rs 92.35 crore) the net profit was Rs 84.19 crore.

### ***1.6.2 Incomplete projects***

As per information received from the State Government as of 31 March 2007; there were 261 incomplete projects in which Rs 1,598 crore were blocked in the project having cost above rupees one crore. Table – 19

**Table -19: Incomplete Projects**

**(Rupees in crore)**

Department	Number of incomplete Projects	Initial Budgeted cost	Revised# cost of Projects	Cumulative actual expenditure as on 31.03.2007
Road and Buildings	115	1,772.08	1,780.44	1,144.89
Irrigation	146	709.33	734.56	452.72
<b>Total</b>	<b>261</b>	<b>2,481.41</b>	<b>2,515.00</b>	<b>1,597.61</b>

*#Out of 261 incomplete projects the original cost of Rs 240.25 crore in respect of 61 projects was revised to Rs 273.84 crore. For remaining 200 projects budgeted cost is indicated.*

Out of 261 incomplete projects, 115 projects in Road and Building Department having initial budgeted cost of Rs 1,772 crore blocked Rs 1,145 crore at the end of current year. Similarly, 146 irrigation works having initial budgeted cost of Rs 709 crore blocked Rs 453 crore. Apart from other reasons, thin spread of resources could be one of the reasons for delay in completion of the projects which not only blocked the scarce resources but also delayed in accrual of benefits from the projects. In the absence of availability of revised cost of most of the incomplete projects, it is difficult to comment on their cost overruns but it is certain that at the time of their completion the total cost incurred would be higher than the cost initially budgeted for them.

### **1.6.3 Investments and returns**

As of 31 March 2007, Government had invested Rs 18,515 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 20**). The major companies and corporations in which Government invested during 2006-07 were Sardar Sarovar Narmada Nigam Limited (Rs 2,520 crore), Gujarat Urja Vikas Nigam Limited (Rs 756 crore) and Gujarat State Road Transport Corporation (Rs 33 crore).

The return on this investment ranged between 0.27 and 1.92 *per cent* in the last six years while the Government paid interest at the average rate of 8.06 to 10.17 *per cent* on its borrowings during 2001-2007.

**Table-20: Return on Investment**

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowings	Difference between interest rate and return
	(Rupees in crore)		(per cent)		
2001-02	4,978	27.52	0.55	9.86	9.31
2002-03	5,014	42.02	0.84	10.11	9.27
2003-04	11,220	29.89	0.27	10.17	9.90
2004-05	12,739	35.82	0.28	9.08	8.80
2005-06	15,199	139.58	0.92	8.06	7.14
2006-07	18,515	354.79	1.92	8.19	6.27

Out of the above investment, two statutory corporations and 19 Government companies with an aggregate investment of Rs 3,508 crore upto 2006-07 were incurring losses and their accumulated losses amounted to Rs 4,419 crore as

per the accounts furnished by these companies (**Appendix XI**). The Gujarat State Road Transport Corporation, Gujarat State Financial Corporation, Gujarat State Textile Corporation Limited., and Gujarat State Vikas Nigam Limited were main loss making enterprises of the State Government. Thus, there has not been adequate generation of revenues in the form of dividends from the State Public Sector enterprises. The State Government should relook the functioning of these enterprises in order to ensure their viability in long run.

#### 1.6.4 Loans and advances by the State Government

In addition to investments in Co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2007, were Rs 4,241 crore (**Table 21**).

**Table-21: Average Interest Received on Loans Advanced by the State Government**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	4,744	2,767	2,942	5,185	5,744	4,665
Amount advanced during the year	229	346	2,425	739	704	374
Amount repaid during the year	2,206	171	182	180	1,784	798
Closing Balance	2,767	2,942	5,185	5,744	4,665	4,241
Net addition	(-)1,977	175	2,243	559	(-)1,079	(-)424
Interest Received	67	82	0.01	0.10	0.01	42.27
Interest received as <i>per cent</i> to outstanding Loans and advances	1.78	2.87	0.00	0.00	0.00	1.00
Average interest rate (in <i>per cent</i> ) paid on borrowings by State Government	9.86	10.11	10.17	9.08	8.06	8.19
Difference between average interest paid and received ( <i>per cent</i> )	(-)8.08	(-)7.24	(-)10.17	(-) 9.08	(-)8.06	(-)7.19

The loans and advances by the State Government with inter year fluctuation decreased marginally from Rs 4,744 crore in 2000-01 to Rs 4,665 crore in 2006-07. The decrease in recovery of Loans and Advances by Rs 986 crore during the year was mainly due to less recovery from the power sector over the previous year. The interest received declined from Rs 67 crore in 2001-02 to Rs 42.27 crore in 2006-07. The interest received as *per cent* to outstanding loans and advances was negligible though the Government borrowed funds during the year at an average rate of 8.19 *per cent*.

#### 1.6.5 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 expenditure obligations, a mechanism of Ways and Means Advances (WMA) – ordinary and special – from the Reserve Bank of India has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities.

Ways and Means Advances and Overdrafts availed; the number of occasions it was availed and interest paid by the State is detailed in **Table 22**.

**Table-22: Ways and Means and Overdrafts of the State**

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Ways and Means Advances</b>						
Availed in the Year	7,059.00	5,092.13	5,394.18	3,072.59	Nil	Nil
Outstanding WMAs, if any	452.20	42.44	42.44	Nil	Nil	Nil
Interest Paid	21.78	12.28	11.62	3.47	0.26 #	0.00
Number of Days	235	250	203	127	Nil	Nil
<b>Overdraft</b>						
Availed in the year	10,212.54	9,624.93	1,766.93	Nil	Nil	Nil
Number of Days	72	47	21	Nil	Nil	Nil
Interest Paid	1.54	3.00	0.46	Nil	Nil	Nil

# Interest payments pertaining to previous year

During the year 2006-07, the State Government did not avail of this source of finance on any occasion.

## **1.7 Undischarged Liabilities**

The total liabilities of the State mean the liabilities under the Consolidated Fund of the State of Gujarat and the public account of the State.

### **1.7.1 Fiscal Liabilities – Public Debt and Guarantees**

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a 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 the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

**Table-23** gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

**Table-23: Fiscal Liabilities – Basic Parameters**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities (Rupees in crore) <sup>5</sup>	45,301	52,572	62,876	71,083	81,367	87,971
Rate of Growth ( <i>per cent</i> )	13.23	16.05	19.60	13.05	14.47	8.12
<b>Ratio of Fiscal Liabilities to</b>						
GSDP ( <i>per cent</i> )	36.66	37.14	37.41	38.18	37.56	37.07
Revenue Receipts ( <i>per cent</i> )	283.38	294.10	344.56	350.77	324.60	283.76
Own Resources ( <i>per cent</i> )	348.30	389.00	435.27	442.91	427.11	375.73
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP (ratio)	1.17	1.10	1.04	1.21	0.88	0.85
Revenue Receipts (ratio)	8.43	1.36	9.39	1.18	0.61	0.34
Own Resources (ratio)	2.68	4.12	2.85	1.18	0.77	0.35

Overall fiscal liabilities of the State increased from Rs 45,301 crore in 2001-02 to Rs 87,971 crore in 2006-07. The growth rate was 8.12 *per cent* during 2006-07 over previous year. The ratio of fiscal liabilities to GSDP ranged narrowly between 36.66 to 38.18 *per cent* during 2001-07. These liabilities stood at 2.84 times the revenue receipts and 3.76 times of State's own resources at the end of 2006-07. The buoyancy of fiscal liabilities steadily decreased from 1.17 in 2001-02 to 0.85 in 2006-07 except in 2004-05 (1.21). A significant decrease in buoyancy of fiscal liabilities to revenue receipt during 2006-07 was essentially due to much higher growth in revenue receipts.

The fiscal liabilities at the end of year 2006-07 comprise of Internal debt (Rs 61,630 crore), Loans and Advances from the Central Government (Rs 11,003 crore) Small Saving, Provident funds etc. (Rs 4,415 crore). In debt Redemption and Avoidance Fund, Rs 800 crore were appropriated during the year resulting in balance of Rs 2,397 crore at the end of current year. Out of total accumulation in the funds, Rs 2,366 crore were invested in Central Government securities.

### **1.7.2 Status of Guarantees – Contingent liabilities**

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2001-07 is given in **Table 24**.

<sup>5</sup> The fiscal liabilities of the State include internal debt of the State, Loans and Advances from the Central Government, Small Savings, Provident Funds and other interest and non-interest bearing obligations

**Table-24: Guarantees given by the Government of Gujarat**

(Rupees in crore)

Year	Max amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt
2001-02	16,781	16,219	105
2002-03	19,426	18,866	109
2003-04	18,032	17,473	99
2004-05	16,122	15,587	80
2005-06	13,965	13,430	56
2006-07	12,983	12,448	42

The FRBM Act of State prescribed to cap outstanding guarantees within the limit provided in the Gujarat State Guarantees Act, 1963. The Gujarat State Guarantee Act, 1963, as amended, prescribed the limit upto Rs 20,000 crore within which Government may give guarantee on the security of the Consolidated Fund of the State. The outstanding guarantees (Rs 12,448 crore) accounted for 40 *per cent* of the revenue receipts (Rs 31,002 crore) of the State Government were well within the ceiling limit prescribed under the Act. Out of the total outstanding guarantees of Rs 12,448 crore, almost 78 *per cent* were towards Sardar Sarovar Narmada Nigam Limited (SSNNL) and Gujarat Electricity Board (GEB). The State Government has set up the Guarantee Redemption Fund to take care of any contingent liabilities arising out of the State Government guarantees.

## 1.8 Debt Sustainability

The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt. A prior condition for debt sustainability is the debt Stabilisation in terms of debt/GSDP ratio.

### 1.8.1 Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate–interest rate) and quantum spread (Debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilization are indicated in **Table 25**.

**Table-25: Debt Sustainability–Interest Rate and GSDP Growth (in per cent)**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Average Interest Rate</b>	9.86	10.11	10.17	9.08	8.06	8.19
<b>GSDP Growth</b>	11.19	14.53	18.76	10.77	16.37	9.53
<b>Interest spread</b>	1.33	4.42	8.59	1.69	8.31	1.34
<b>Quantum Spread (Rs Crore)</b>	532	2,002	4,516	1,063	5,907	1,090
<b>Primary (-)Deficit / (+)Surplus (Rs Crore)</b>	(-)2,303	(-)1,080	(-)3,267	(-)2,612	(-)125	(+)1,284

The quantum spread together with primary deficit during 2001-07 has been positive except in 2001-02 and 2004-05 indicated constant or sustainable debt–GSDP ratio. The fiscal liabilities to GSDP ratio which remained around 37 per cent during the period 2001-07 except in 2004-05 when it crossed 38 per cent as primary deficit significantly exceeded the positive quantum spread indicated sustainable position. The positive sum of quantum spread and primary deficit as well as declining fiscal deficit led to a decline in fiscal liabilities to GSDP ratio during the last two years, i.e. 2005-06 and 2006-07.

### 1.8.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table-26** indicates the resource gap as defined for the period 2001-2007.

**Table 26: Incremental revenue receipts and Revenue Expenditure**

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
1	2	3	4	5 (3+4)	6 (2-5)
2001-02	207	(-)2,324	1,075	(-)1,249	1,456
2002-03	(-)97	1,320	743	(-)577	480
2003-04	350	2,537	926	3,463	(-)3,113
2004-05	2,003	1,108	444	1,552	152
2005-06	6,408	3,921	64	3,985	2,423
2006-07	4,944	3,535	789	4,324	620

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. The debt sustainability of the State in term of the resource gap oscillated between the negative and positive phases during the period 2001-07. The positive resource gap between the periods of two years (2001-03) turned

negative during 2003-04 however, during 2004-07 it turned out of be positive indicating signs of improvement.

### **1.8.3 Net Availability of Borrowed Funds**

Another important indicator of debt sustainability is the net availability of funds after the payment of the principal on account of earlier contracted liabilities and interest.

**Table-27** below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last six years.

**Table-27: Net Availability of Borrowed Funds**

	(Rupees in crore)					
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Internal Debt</b>						
Receipt	5,926	8,365	12,004	11,510	9,941	6,654
Repayment (Principal + Interest)	1,715	2,339	3,436	4,962	5,057	6,247
Net Fund Available	4,211	6,026	8,568	6,548	4,884	407
Net Fund Available ( <i>per cent</i> )	71.06	72.04	71.38	56.89	49.13	6.12
<b>Loans and Advances from GOI</b>						
Receipt	2,231	1,318	3,004	1,818	722	295
Repayment (Principal + Interest)	2,834	4,780	7,135	6,294	1,527	1,719
Net Fund Available	(-) 603	(-) 3,462	(-) 4,131	(-) 4,476	(-) 805	(-)1424
Net Fund Available ( <i>per cent</i> )	(-)27.03	(-)262.67	(-)137.52	(-)246.20	(-)52.72	(-)482.71
<b>Other obligations</b>						
Receipt	10,759	10,898	9,508	11,964	14,883	15,189
Repayment (Principal + Interest)	12,989	10,470	10,456	11,201	14,821	14,499
Net Fund Available	(-) 2,230	428	(-) 948	763	62	690
Net Fund Available ( <i>per cent</i> )	(-)17.17	3.93	(-)9.97	6.38	0.42	4.54
<b>Total liabilities</b>						
Receipt	18,916	20,581	24,516	25,292	25,546	22,138
Repayment (Principal + Interest)	17,538	17,589	21,027	22,457	21,405	22465
Net Fund Available	1,378	2,992	3,489	2,835	4,141	(-)327
Net Fund Available ( <i>per cent</i> )	7.28	14.54	14.23	11.21	16.21	(-)1.48

The internal debt receipts decreased from Rs 9,941 crore in 2005-06 to Rs 6,654 crore in 2006-07. After accounting for the repayment of Rs 6,247 crore (including interest) in 2006-07, the net availability of fund from the internal debt stood at Rs 407 crore. The loan receipt from Government of India (GOI) decreased from Rs 2,231 crore in 2001-02 to Rs 295 crore in 2006-07. After accounting for the repayment of Rs 1,719 crore (including interest) in 2006-07, it resulted in negative net availability of fund from Loans and Advances from GOI.

The net funds available from borrowed funds after providing for the interest and repayment declined sharply from 16.21 *per cent* in 2005-06 to negative net availability in 2006-07. The State Government did not raise market loan during the year 2006-07. As on 31 March 2007, 22 *per cent* of the existing

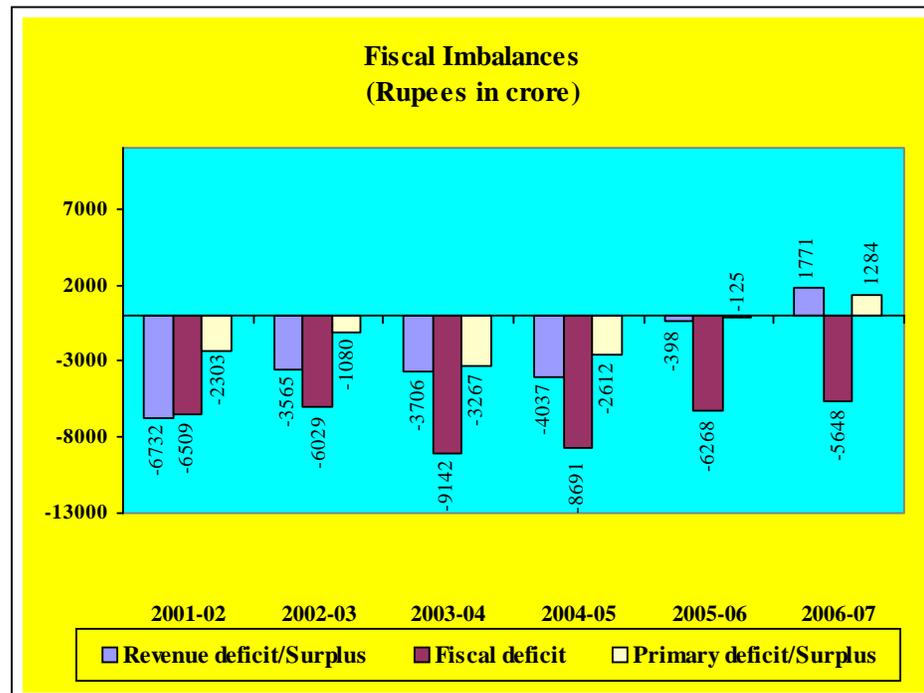
market loans of the State Government carried the interest rate exceeding 10 per cent. Thus, the effective cost of borrowings on the past loans was much higher than the rate at which the State was able to raise resources at present from the market.

### 1.9 Management of deficits

The deficit in the Government accounts represents 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 raised and applied are important pointers to its fiscal health.

#### 1.9.1 Trends in Deficits

The revenue surplus of the State which indicates the excess of its revenue receipts over revenue expenditure stood at Rs 1,770 crore in 2006-07. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, decreased from Rs 6,511 crore in 2001-02 to Rs 5,648 crore in 2006-07. The State also had a primary deficit of Rs 2,305 crore in 2001-02 which turned into primary surplus of Rs 1,284 crore in 2006-07 as indicated in **Table-28**.



**Table-28: Fiscal Imbalances: Basic Parameters**

Parameters	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit/Surplus (Rupees in crore)	6,732	3,565	3,706	4,037	398	(+) 1,770
Fiscal deficit (Rupees in crore)	6,509 <sup>@</sup>	6,029 <sup>@</sup>	9,142	8,691	6,268	5,648
Primary deficit/Surplus (Rupees in crore)	2,303 <sup>@</sup>	1,080 <sup>@</sup>	3,267	2,612	125	(+) 1,284
RD/GSDP (per cent)	(-)5.45	(-)2.52	(-)2.20	(-)2.17	(-)0.18	(+)0.75
FD/GSDP (per cent)	(-)5.27	(-)4.26	(-)5.44	(-)4.67	(-)2.89	(-)2.38
PD/GSDP (per cent)	(-)1.86	(-)0.76	(-)1.94	(-)1.40	(-)0.06	(-)0.54
RD/FD (per cent)	(+)103.39	(+)59.13	(+)40.54	(+)46.45	(+)6.35	(-)31.34

The ratio of revenue deficit to GSDP continuously decreased from 5.45 per cent in 2001-02 to 0.18 per cent in 2005-06. During 2006-07, revenue surplus stood at Rs 1,770 crore. The turnaround situation in revenue account during the current year was mainly on account of an increase of Rs 5,935 crore (23.7 per cent) in revenue receipts against an increase of Rs 3,769 crore (14.8 per cent) in revenue expenditure. During 2006-07, despite an increase of Rs 887 crore in capital expenditure, the fiscal deficit decreased by Rs 620 crore mainly due to a surplus of Rs 1,770 crore in revenue account. The primary deficit which continued in the state finance till the previous year took a turnaround and resulted into primary surplus during the current year. A moderate decline of Rs 620 crore in fiscal deficit together with an increase of Rs 789 crore in interest payments resulted into a primary surplus of Rs 1,284 crore during the current year from the deficit of Rs 125 crore in 2005-06.

### 1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit<sup>6</sup> and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD steeply declined from 103 per cent in 2001-02 to 6 per cent in 2005-06 and RD was wiped out and turned into surplus during current year. This trend indicates consistent improvement in the quality of deficit except in 2004-05 and during 2006-07 all borrowing were used in activities resulting in expansion of the asset base of the State.

<sup>@</sup> Figures as mentioned in the Audit Reports 2001-02 and 2002-03 are revised after adding capital receipts

<sup>6</sup> Primary revenue deficit defined as gap between non interest revenue expenditure of the state and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

**Table-29: Primary deficit/Surplus – Bifurcation of factors.**

(Rupees in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary Expenditure	Primary Revenue deficit(-) /surplus (+)	Primary deficit(-) /surplus (+)
1	2	3	4	5	6(3+4+5)	7(2-3)	8(2-6)
2001-02	18,195	18,512	1,757	229	20,498	(-)317	(-)2,305
2002-03	18,098	16,491	2,341	346	19,178	(+)1,607	(-)1,080
2003-04	18,448	16,079	3,211	2,425	21,715	(+)2,369	(-)3,267
2004-05	20,451	18,223	4,100	740	23,063	(+)2,228	(-)2,612
2005-06	26,859	19,322	6,958	704	26,984	(+)7,537	(-)125
2006-07	31,803	22,300	7,845	374	30,519	(+)9,503	(+)1,284

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2001-2007 reveals (**Table-29**) that the primary deficit during the period from 2001-02 to 2005-06 was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure<sup>7</sup> requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. The State had to borrow to meet the requirements under capital account during the period 2001-06. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy. It was only during the current year, the State has experienced a primary surplus of Rs 1,284 crore indicating that fiscal deficit was experienced by the State only on account of interest payments of Rs 6,932 crore during 2006-07.

### 1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-30** below presents a summarised position of Government finances over 2001-07, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

<sup>7</sup> Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

**Table-30 : Indicators of Fiscal Health**

**(In per cent)**

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	2	3	4	5	6	7
<b>I Resources Mobilisation</b>						
Revenue Receipt/GSDP	12.94	12.63	10.86	10.88	11.57	13.06
Revenue Buoyancy	0.14	0.81	0.11	1.03	1.45	2.48
Own Tax/GSDP	7.48	6.73	6.65	6.96	7.25	7.78
<b>II Expenditure Management</b>						
Total Expenditure/GSDP	19.99	17.05	16.41	15.65	15.29	15.78
Total Expenditure/Revenue Receipts	154.54	134.98	151.19	143.80	132.15	120.80
Revenue Expenditure/Total Expenditure	91.96	88.86	79.57	83.39	76.87	78.05
Salary &Wage expenditure on Social and Economic Services / Revenue Expenditure	7.38	7.69	7.44	7.04	6.86	4.75
Non-Salary &Wage expenditure on Social and Economic Services / Revenue Expenditure	60.83	53.10	49.97	51.12	48.39	53.33
Capital Expenditure/Total Expenditure	7.11	9.70	11.64	14.07	21.01	20.95
Capital Expenditure on Social and Economic Services/Total Expenditure.	7.00	9.55	11.43	13.78	20.74	20.78
Buoyancy of TE with RR	(-) 3.07	(-) 0.20	6.88	0.51	0.58	0.55
Buoyancy of RE with RR	1.96	(-) 0.48	1.15	0.97	0.20	0.62
<b>III Management of Fiscal Imbalances</b>						
Revenue deficit (Rs in crore)	6,732	3,565	3,706	4,037	398	+1770
Fiscal deficit (Rs In crore)	6,509	6,029	9,142	8,691	6,268	5648
Primary Deficit (Rs in crore)	2,303	1,080	3,267	2,612	125	+1284
Revenue Deficit/Fiscal Deficit	103.39	59.13	40.54	46.45	6.35	+31.34
<b>IV Management of Fiscal Liabilities</b>						
Fiscal Liabilities/GSDP	36.66	37.14	37.41	38.18	37.56	37.07
Fiscal Liabilities/RR	283.38	294.10	344.56	350.77	324.60	283.76
Buoyancy of FL with RR	8.43	1.36	9.39	1.18	0.61	0.34
Buoyancy of FL with Own Resources	2.68	4.12	2.85	1.18	0.77	0.35
Primary deficit vis-à-vis quantum spread	4.33	0.54	0.72	2.46	0.02	1.18
Net Funds Available	7.28	14.54	14.23	11.21	16.21	(-)1.48.
<b>V Other Fiscal Health Indicators</b>						
Return on Investment	0.55	0.84	0.27	0.28	0.92	1.92
Balance from Current Revenue (Rs in crore)	(-) 6,048	(-) 2,370	(-) 1,771	(-) 977	2,833	6,461
Financial Assets/Liabilities	0.56	0.55	0.56	0.56	0.61	0.66

The ratio of revenue receipts and State's own taxes to GSDP indicate the State's increasing access to resources and the nature of the tax regime. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfer of the Union Government. The ratio of revenue receipts to GSDP during the current year was 13 *per cent*, an increase of the 1.5 *per cent* points over the previous year. During 2001-07, the ratio of own taxes to GSDP showed fluctuating trend with continuous improvement in tax buoyancy during the period of 2003-07.

Various ratios concerning the expenditure management of the state indicate quality of its expenditure and their sustainability in relation to its resource mobilization efforts. The ratio of revenue expenditure to total expenditure ranged between 77 to 92 *per cent* resulting in less capital expenditure ranging between 7 to 21 *per cent*. Increasing reliance on revenue receipts to finance

the total expenditure which amounts to 83 *per cent* during 2006-07 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. The ratio of salary and wages component to revenue expenditure on Social and Economic Services was not only relatively lower but it continuously declined during the last five year period (2002-07) while the share of non-salary component remained little more than half during the period indicating the trends towards better quality of expenditure and improvement in Social and Economic Services.

The balance of current revenue of State improved continuously during 2001-07 and showed huge surplus during 2005-06 and 2006-07 indicating more availability of fund for additional infrastructure support and other revenue generating investments. The continuous improvement in revenue account which depicted surplus during the current year, declining fiscal deficit and increasing trend in the share of capital expenditure in total expenditure of the government have resulted in the improvement in the ratio of assets to liabilities which has sharply risen to 61 *per cent* in 2005-06 and 66 *per cent* in 2006-07 from 56 *per cent* in 2004-05. The return from investment in Government companies ranged between 0.27 to 1.92 *per cent* indicating unproductive investment by the State Government still remain a cause of concern and need attention of the government.

### **1.11 Conclusion**

During 2006-07, Government succeeded eliminating the revenue deficit and building up revenue surplus and also in containing the fiscal deficit within three *per cent* of GSDP two years ahead of the time schedule stipulated in State's FRBM Act 2005. The revenue surplus of Rs 1,770 crore during current year was due to increase in revenue receipts by 24 *per cent* (Rs 5,935 crore) against 15 *per cent* (Rs 3,767 crore) increase in revenue expenditure over the previous year. The increase in revenue receipts may however be seen in view of the booking of debt waiver (Rs 846 crore) given by GOI as an incentive under DCRF for the years 2005-06 and 2006-07 under the head 'Miscellaneous General Services'. Within the revenue account, the non-plan revenue expenditure during 2006-07 (Rs 23,471 crore) not only exceeded the normative projection of TFC (Rs 18,315 crore) for 2006-07 by Rs 5,156 crore but it also exceeded the seven *per cent* growth rate projected by the State in its MTFPS for 2006-07. The continuous improvement in revenue account and balance from current revenues, declining fiscal deficit and increasing trend in the share of capital expenditure in total expenditure of the government have resulted in an improvement in the ratio of assets to liabilities but 34 *per cent* of liabilities of the State still remain without the asset back up during 2006-07. Although, it is not uncommon for the State to borrow for creating and strengthening its social and economic infrastructure, but the low productivity and negligible return on the government investments as well as on the loans and advances disbursed relative to the cost of borrowed funds borne by the State government continued to remain a cause of concern and such situation if allowed to continue would not only put the strain on the government budget but also might adversely affect the maintenance and upkeep as well as efficiency in delivery of social and economic services in the State.

