

CHAPTER - I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government, based on the analysis of the information contained in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the chapter also contains a section on the analysis of indicators of financial performance of the Government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are described in the Annexure to this chapter.

1.2 Financial position of the State

In the Government accounting system comprehensive accounting of the fixed assets like land and buildings etc., 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 by the Government. Exhibit I gives an abstract of such liabilities and the assets as on 31 March 2001, compared with the corresponding position on 31 March 2000. While the liabilities in this statement consist mainly of external and internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. It would be seen from Exhibit I that while the liabilities grew by 25.55 *per cent*, the assets grew by only 8.42 *per cent* during 2000-2001, mainly as a result of a high (78.59 *per cent*) increase in the deficit on the Government account. This shows an overall deterioration in the financial position of the Government.

EXHIBIT-I

SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF GUJARAT AS ON 31 MARCH 2001

(Rupees in crore)

As on 31.03.2000	Liabilities		As on 31.03.2001
4021.13	Internal Debt		11669.02
3023.63	Market Loans bearing interest	3525.69	
46.29	Market Loans not bearing interest	66.82	
185.29	Loans from LIC	226.25	
538.87	Loans from other Institutions	938.35	
227.05	Ways and Means Advances	888.89	
Nil	Overdrafts from Reserve Bank of India	Nil	
	Special securities issued to NSS Fund of Central Government	6023.02	
17054.52	Loans and Advances from Central Government		15870.63
307.36	Pre 1984-85 Loans	263.73	
11745.14	Non-Plan Loans	9372.01	
4878.99	Loans for State Plan Schemes	6113.10	
70.43	Loans for Central Plan Schemes	67.98	
52.45	Loans for Centrally Sponsored Plan Schemes	53.73	
0.15	Loans for Special Schemes	0.08	
186.25	Contingency Fund		90.76
2535.48	Small Savings, Provident Funds, etc.		2873.71
7606.36	Deposits		9087.86
27.73	Cash in treasuries and local remittances		17.58
---	Deposits with Reserve Bank		--
353.92	Reserve Funds		516.53
865.44	Suspense and Miscellaneous		825.09
68.08	Remittance Balances		128.96
32718.91			41080.14
As on 31.03.2000	Assets		As on 31.03.2001
18085.71	Gross Capital Outlay on Fixed Assets		21080.56
3771.71	Investments in shares of Companies, Corporations, etc.	4706.65	
14314.00	Other Capital Outlay	16373.91	
6054.43	Loans and Advances		4744.99
3970.22	Loans for Power Projects	2452.72	
1731.80	Other Development Loans	1889.57	
352.41	Loans to Government servants and Miscellaneous loans	402.70	
00.45	Advances		00.52
587.96	Cash -		983.83
81.21	Deposit with Reserve Bank	477.79	
129.88	Departmental Cash Balances including Permanent Advances and investment of earmarked Funds	128.64	
376.87	Cash Balance Investments	377.40	
7990.36	Deficit on Government Accounts		14270.24
3545.66	(i) Revenue Deficit of the Current Year	6302.23	
0.14	(ii) Miscellaneous Government Account	--	
4460.17	Add : Deficit on Government Account as on 31 March 2000	7990.36	
(-) 15.61	Other Adjustments	(-)22.35	
32718.91	Total		41080.14

EXHIBIT-II
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2000-2001

(Rupees in crore)

	Receipts				Disbursements				
1999-2000			2000-2001	1999-2000		Non-Plan	Plan	Total	2000-2001
	<u>Section-A: Revenue</u>								
13971.44	I Revenue receipts		15738.59	17517.10	I Revenue expenditure-	19039.64	3001.18	22040.82	22040.82
8161.73	Tax revenue	9046.83		5753.07	<u>General services</u>	6073.15	72.01	6145.16	
2990.36	Non-tax revenue	3349.14		6229.35	<u>Social Services-</u>	6244.10	1472.38	7716.48	
				3392.95	Education,	3378.26	294.10	3672.36	
				913.13	Sports, Art and Culture				
1665.04	State's share of Union Taxes	1573.75		913.13	Health and Family Welfare	725.58	168.17	893.75	
				630.02	Water Supply, sanitation	236.13	463.52	699.65	
					Housing and Urban Development				
				22.14	Information and Broadcasting	16.47	12.97	29.44	
260.73	Non-Plan grants	824.03		414.58	Welfare of Scheduled Castes, Scheduled tribes and Other Backward Classes	159.77	267.59	427.36	
				108.29	Labour and labour Welfare	75.31	45.90	121.21	
574.48	Grants for State Plan Scheme	695.33		730.44	Social Welfare and Nutrition	1634.23	220.13	1854.36	
				17.80	Others	18.35	--	18.35	
319.10	Grants for Central and Centrally sponsored Plan Schemes	249.51		5484.96	<u>Economic Services-</u>	6672.75	1456.79	8129.54	
				673.19	Agriculture and Allied Activities	480.56	228.07	708.63	
				565.08	Rural Development	232.64	528.09	760.73	
				24.95	Special Areas Programmes	24.14	3.88	28.02	
				1774.00	Irrigation and Flood control	1795.38	153.46	1948.84	
				1385.99	Energy	3478.15	69.50	3547.65	
				244.48	Industry and Minerals	35.71	249.87	285.58	
				591.82	Transport	412.46	194.58	607.04	
				0.02	Communications	0.01	--	0.01	
				15.19	Science, Technology and Environment	0.26	3.96	4.22	
				210.24	General Economic Services	213.44	25.38	238.82	
				49.72	<u>Grants-in-aid and Contributions</u>	49.64	----	49.64	
3545.66	II Revenue deficit carried over to Section B		6302.23						
17517.10			22040.82	17517.10	Total				22040.82

Audit Report (Civil) for the year ended 31 March 2001

Receipts		Disbursements							
1999-2000		2000-2001	1999-2000		Non-Plan	Plan	Total	2000-2001	
	Section-B								
512.36	III Opening Cash balance including Permanent Advances and Cash Balance Investment	560.23	NIL	III Opening Overdraft from RBI				NIL	
15.61	IV Miscellaneous Capital receipts	22.35	2695.14	IV Capital Outlay-	133.21	2861.63	2994.84	2994.84	
			29.77	<u>General Services-</u>	8.55	31.40	39.95		
			631.39	<u>Social Services-</u>	108.41	941.62	1050.03		
			19.06	Education, Sports, Art and Culture	2.35	10.06	12.41		
			38.08	Health and Family Welfare	--	25.17	25.17		
			559.45	Water Supply, Sanitation, Housing and Urban Development	106.04	895.08	1001.12		
			0.10	Information and Broadcasting	--	0.06	0.06		
			12.10	Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	--	9.67	9.67		
			1.18	Social Welfare and Nutrition	0.01	0.46	0.47		
			1.42	Others	0.01	1.12	1.13		
			2033.98	<u>Economic Services-</u>	16.25	1888.61	1904.86		
			208.75	Agriculture and Allied Activities	9.18	191.36	200.54		
			Nil	Rural Development	--	--	--		
			1.30	Special Areas Programmes	--	1.33	1.33		
			1425.80	Irrigation and Flood Control	--	1151.76	1151.76		
			5.94	Energy	--	29.90	29.90		
			51.93	Industry and Minerals	0.67	121.73	122.40		
			331.90	Transport	6.40	392.33	398.73		
			0.11	Science & Technology	--	0.01	0.01		
			0.11	Communication	--	--	--		
			8.14	General Economic Services	--	0.19	0.19		
145.98	V Recoveries of Loans and Advances-	2226.62	626.05	V Loans and Advances disbursements				917.17	
15.41	From Power Projects	2095.01	324.97	For Power Projects			577.51		
89.57	From Government Servants and Miscellaneous Loans	97.94	136.32	To Government Servants and Miscellaneous Loans			148.22		
41.00	From others	33.67	164.76	To Others			191.44		
NIL	VI Revenue surplus brought down	NIL	3545.66	VI Revenue deficit brought down				6302.23	

Receipts				Disbursements					
1999-2000			2000-2001	1999-2000		Non-Plan	Plan	Total	2000-2001
4623.18	VII Public debt receipts-		7685.78	627.21	VII Repayment of Public Debt-				1221.77
814.76	Internal debt other than ways and means	#7121.59		124.71	Internal debt other than Ways and Means Advances and Overdraft			135.54	
227.05	Advances and Overdraft								
	Net transaction under Ways and Means Advances including over draft	* 661.84			Net transaction under Ways and Means Advances including over draft.			NIL	
3581.37	Loans and Advances from Central Government	#(-)97.65		502.50	Repayment of Loans and Advances to Central Government			1086.23	
Nil	VIII Appropriation to Contingency Fund		Nil	Nil	VIII Appropriation to Contingency Fund				NIL
21.20	IX Amount transferred to Contingency Fund		13.75	13.75	IX Expenditure from Contingency Fund				109.24
22453.16	X Public Account receipts-		25128.54	19703.45	X Public Account disbursements-				23125.77
809.19	Small Savings and Provident funds	827.82		382.59	Small Savings and Provident Funds			489.60	
337.53	Reserve funds	390.69		205.15	Reserve Funds			228.10	
5995.96	Suspense and Miscellaneous	6810.53		6023.67	Suspense and Miscellaneous			6850.88	
3574.65	Remittance	2873.05		3604.03	Remittances			2812.17	
11735.83	Deposits and Advances	14226.45		9488.01	Deposits and Advances			12745.02	
				560.23	XI Cash Balance at end-				966.25
NIL	Closing overdraft from Reserve Banks of India		NIL	(-)27.73	Cash in Treasuries and Local Remittances			(-)17.58	
				81.21	Deposits with Reserve Bank			477.79	
				129.88	Departmental Cash Balance Including permanent Advances			128.64	
				376.87	Cash Balance Investment			377.40	
27771.49	Total		35637.27	27771.49	Total				35637.27

Due to change in Budget Head as intimated by the Finance Department Loans booked under 6004-01 savings collection were transferred to Internal Debt (6003-111-Securities issued to NSS Fund of Central Government).

* Represents receipts Rs. 4631.47 and disbursement Rs. 3969.63 crore.

**EXHIBIT - III
SOURCES AND APPLICATION OF FUNDS**

(Rupees in crore)

1999-2000		Sources	2000-2001
13971.44	1	Revenue receipts	15738.59
145.98	2	Recoveries of Loans and Advances	2226.62
15.60	3	Miscellaneous Capital Receipts	22.35
3995.98	4	Increase in Public debt other than overdraft	6464.01
2757.16	5	Net receipts from Public account	2002.77
426.60		Increase in Small Savings	338.22
2247.82		Increase in Deposits and Advances	1481.43
132.38		Increase in Reserve Funds	162.59
(-) 27.71		Net effect of suspense and Miscellaneous transactions	(-)40.35
(-) 29.38		Net effect of Remittance transactions	60.88
7.45	6	Net effect of Contingency Fund transactions	(-)95.49
20886.16		Total	26358.85
		Application	
17517.10	1	Revenue expenditure	22040.82
626.05	2	Lending for development and other purposes	917.17
2695.14	3	Capital expenditure	2994.84
47.87	4	Increase in closing Cash balance	406.02
20886.16		Total	26358.85

Explanatory Notes for Exhibit I, II and III

The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts.

Government accounts being mainly on cash basis, the deficit on Government account, as shown in Exhibit I, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures etc., do not figure in the accounts.

Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and other pending settlement etc.

There was a difference of Rs.191.30 lakh (debit) between the figures reflected in the accounts i.e. Rs.47778.57 lakh (Debit) and that intimated by the RBI i.e. Rs.47969.87 lakh (Credit) under "Deposit with Reserve Bank" included in cash balance as of 31 March 2001.

EXHIBIT - IV
TIME SERIES DATA ON STATE GOVERNMENT FINANCES

	1996-97	1997-98	1998-99	1999-2000	2000-2001
	(Rupees in crore)				
Part A. Receipts					
1. Revenue Receipts	9668	11125	12743	13971	15739
(i) Tax Revenue	6066(63)	6591(59)	7616(60)	8162(59)	9047(58)
Sales Tax	4026(66)	4403(67)	4796(63)	5134(63)	5943(66)
Taxes and duties on Electricity	901(15)	1024(15)	1447(19)	1402(17)	1521(17)
State Excise	24	24	27	32	40
Taxes on vehicles	334(5)	396(6)	460(6)	602(7)	627(7)
Stamps and Registration fees	399(7)	411(6)	507(7)	522(6)	537(6)
Land Revenue	77(1)	75(1)	72(1)	117(1)	82(1)
Taxes on goods and passengers	96(2)	38(1)	62(1)	89(1)	26
Other Taxes	198	220	245	264	271
(ii) Non Tax Revenue	1573(16)	2221(20)	2766(21)	2990(21)	3349(21)
(iii) State's share in Union taxes and duties	1174(12)	1574(14)	1642(13)	1665(12)	1574(10)
(iv) Grants in aid from GOI	855(9)	739(7)	719(6)	1154(8)	1769(11)
2. Misc Capital Receipts	NIL	172	1	16	22
3. Total revenue and Non debt capital receipts (1+2)	9668	11297	12744	13987	15761
4. Recoveries of Loans and Advances	196	129	267	146	2227
5. Public Debt Receipts	1845	2528	3563	4623	7686
Internal Debt (excluding Ways and Means Advances and Overdrafts)	407	507	722	815	7122
Net transaction under Ways and Means Advances and Overdrafts	--	--	--	227	662
Loans and Advances from Government of India	1438	2021	2841	3581	(-)/98
6. Total receipts in the consolidated Fund (3+4+5)	11709	13954	16574	18756	25674
7. Contingency Fund Receipts	476	285	58	21	14
8. Public Accounts receipts	14350	16232	19344	22453	25129
9. Total receipts of the state (6+7+8)	26535	30471	35976	41230	50817
Part B. Expenditure /Disbursement	11745	14002	17895	20212	25036
10. Revenue Expenditure	10260(87)	12143(87)	15606(87)	17517(87)	22041(88)
Plan	1146(11)	1501(12)	2150(14)	2680(15)	3001(14)
Non Plan	9114(89)	10642(88)	13456(86)	14837(85)	19040(86)
General Services (incl. Interests payments)	3298(32)	3674(31)	4769(31)	5753(33)	6145(28)
Social Services	3422(33)	4240(35)	5437(35)	6229(36)	7716(35)
Economic Services	3492(35)	4177(34)	5349(34)	5485(31)	8130(37)
Grants in aid and contributions	46	53	51	50	50
11. Capital Expenditure	1485(13)	1859(13)	2289(13)	2695(13)	2995(12)
Plan	1409(95)	1779(96)	2214(97)	2664(99)	2862(96)
Non Plan	76(5)	80(4)	75(3)	31(1)	133(4)
General Services	30(2)	27(1)	29(1)	30(1)	40(1)
Social services	151(10)	218(12)	450(20)	631(24)	1050(35)
Economic Services	1304(88)	1614(87)	1810(79)	2034(75)	1905(64)
12. Disbursement of Loans and Advances	478	426	733	626	917
13. Total (10+11+12)	12223	14428	18628	20838	25953
14. Repayment of Public Debt	354	446	544	628	1222
Internal Debt (excluding Ways & Means Advances and Overdrafts)	19	48	97	125	136
Net transactions under Ways and Means Advances and Overdraft	NIL	NIL	NIL	NIL	NIL
Loans and Advances from Government of India	335	398	447	503	1086
15. Appropriation to Contingency Fund	450	250	NIL	NIL	NIL
16. Total disbursement out of Consolidated Fund (13+14+15)	13027	15124	19172	21466	27175
17. Contingency Fund disbursements	486	158	21	14	109
18. Public Account disbursements	13619	15200	17001	19703	23126
19. Total disbursement by the state (16+17+18)	27132	30482	36194	41183	50410
Part C. Deficits					
20. Revenue Deficit (1-10)	592	1018	2863	3546	6302
21. Fiscal Deficit (3+4-13)	2359	3002	5617	6705	7965
22. Primary Deficit (21-23)	749	1118	3355	3897	4834
Part D. Other data					
23. Interest Payments (Included in revenue exp. In column 10)	1610	1884	2262	2808	3131
24. Arrears of Revenue (Percentage of Tax & non-tax Revenue)	3299(43)	1832(21)	1686(16)	4130(37)	5663(36)
25. Financial Assistance to local bodies etc.	850	2767	829	2563	834
26. Ways and Means Advances/Overdraft availed (days)	Nil	Nil	6	69	173/45
27. Interest on WMA/overdraft	Nil	Nil	0.06	1.36	8.16
28. Gross State Domestic Product (GSDP)	86414	92966	105443	107606	119141\$
29. Outstanding Debt (year end)	17024	20139	24757	31561	40007
30. Outstanding guarantees (year end)	6962	6833	7669	8842	12693
31. Maximum Amount Guaranteed (Year end)	7527	7395	8231	9403	13255
32. Number of incomplete projects	--	8	11	26	65
33. Capital blocked in incomplete projects	--	18.76	53.96	107.86	310.51#

Note : Figures in brackets represent percentages (rounded) to total of each sub heading.

* Includes Ways and Means Advances from GOI **Figures adopted as per the information furnished by the department \$ GSDP figure for the years from 1996-97 to 1999-2000 had undergone change due to change in base year to 1993-94 Figures of GSDP for 2000-2001 were worked out based on growth in Gross National domestic products. # This amount does not include investment of Rs.6497.21 crore in Narmada Project which is being funded through Sardar Sarovar Narmada Nigam Limited, a State Government Public Sector Undertaking vide comments in Para 1.9.3.

1.3 Sources and application of fund

1.3.1 Exhibit III gives the position of sources and application of funds during the current and the preceding year. The main sources of funds include the revenue receipts, recoveries of the loans and advances, public debt and net receipts in Public Account. These were applied mainly on revenue and capital expenditure and lending for developmental purposes. It would be seen that the revenue receipts constitute the most significant source of fund for the State Government though its relative share declined from 66.89 *per cent* in 1999-2000 to 59.71 *per cent* in 2000-2001. The net receipt from Public Account decreased from 13.20 *per cent* in 1999-2000 to 7.60 *per cent* in 2000-2001 mainly due to reduction in receipt of deposits and advances and small savings PF etc. The net receipt from the Public debt increased from 19.13 *per cent* to 24.52 *per cent* as a result of receipt of Rs.6023 crore under Public Debt (Major Head 6003-111) on account of Special Securities issued to NSS fund of Central Government during 2000-2001.

1.3.2 The application of funds was mainly for revenue expenditure, being 83.62 *per cent* in the total expenditure in 2000-2001 compared to 83.87 *per cent* in 1999-2000. It remained significantly higher than the share of the revenue receipts (59.71 *per cent*) in the total receipts of the State Government. This led to the Revenue Deficit. The percentage of capital expenditure declined from 12.90 *per cent* to 11.36 *per cent* and lending for development purposes increased from 3.00 *per cent* to 3.48 *per cent*.

1.4 Financial operations of the State Government

1.4.1 Exhibit II gives the details of the receipts and disbursements made by the State Government. The Revenue expenditure (Rs.22041 crore) during the year exceeded the revenue receipts (Rs 15739 crore) resulting in a revenue deficit of Rs. 6302 crore. The Revenue receipts comprised tax revenue (Rs.9047 crore), non-tax revenue (Rs.3349 crore), State's share of Union taxes and duties (Rs.1574 crore) and grants-in-aid from the Central Government (Rs.1769 crore). The main sources of tax revenue were sales tax (66 *per cent*), taxes and duties on electricity (17 *per cent*) and stamps and registration fees (6 *per cent*). Non-tax revenue came mainly from interest receipts (58 *per cent*) and receipts from non-ferrous mines and metallurgical industries (18 *per cent*).

1.4.2 The capital receipts comprised Rs.2227 crore from recoveries of loans and advances and Rs.11655 crore from public debt. Against this, the expenditure was Rs.2995 crore on capital outlay, Rs.917 crore on disbursement of loans and advances and Rs.5191 crore on repayment of public debt. The receipts in the Public Account amounted to

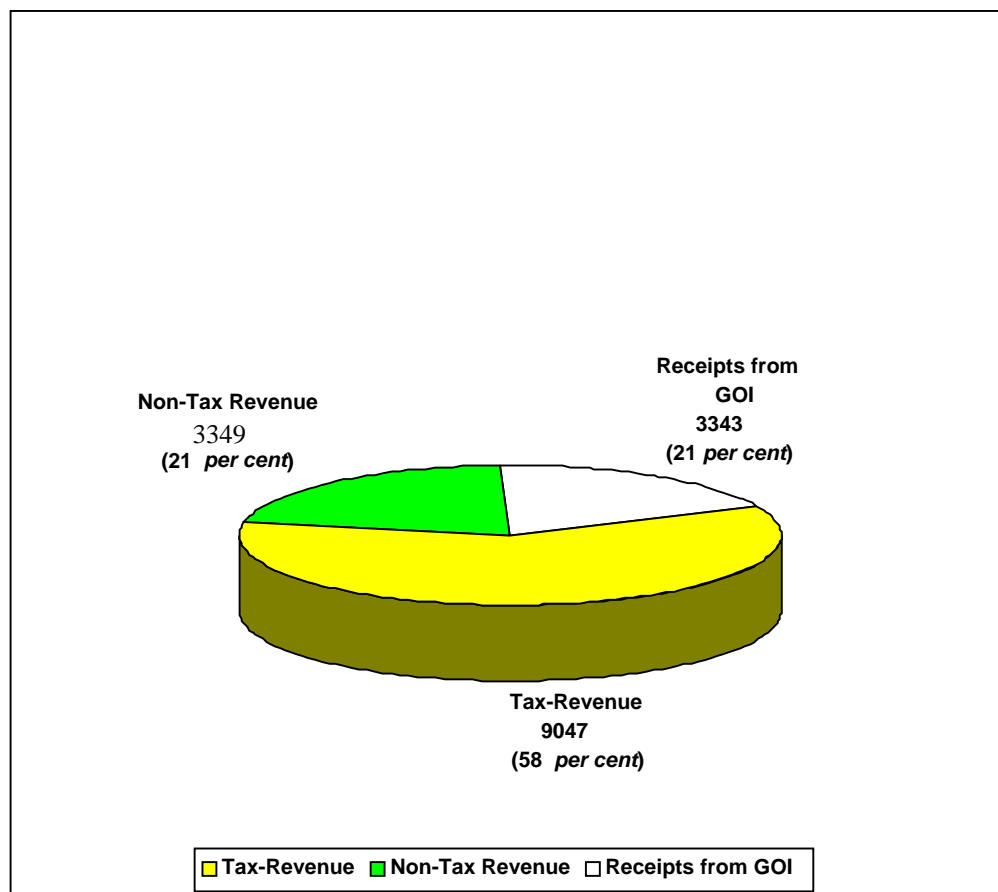
Rs.25129 crore, against which the disbursements of Rs.23126 crore were made. The net effect of the transactions in the Consolidated Fund, Contingency Fund and Public Account was an increase in the cash balance from Rs.560 crore at the beginning of the year to Rs.966 crore at the end of the year.

1.4.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit II and the time series data for the five year's period from 1996-97 to 2000-2001, presented in Exhibit IV.

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India (GOI). Their relative shares are shown in Figure 1. The revenue receipts grew at an average annual rate of 13 per cent during 1996-97 to 2000-2001.

Figure 1
Revenue Receipts 2000-2001
(Rupees in crore)



1.5.2 Tax revenue

These constitute the major share (58 *per cent*) of the revenue receipts and its share in the revenue receipts declined from 59 *per cent*. The annual rate of growth of tax revenue increased from 7 *per cent* in 1999-2000 to 11 *per cent* during 2000-2001. This is mainly due to a moderate growth in Sales Tax. As a result the relative contribution of sales tax increased from 63 *per cent* in 1999-2000 to 66 *per cent* in 2000-2001, while that of taxes and duties on electricity remained steady at 17 *per cent*. Gujarat being an industrialised State, growth in Sales Tax collection relative to growth in GSDP was not commensurate which was not justified. Failure to proportionately increasing the collection of Sales Tax (relative to growth in GSDP), led to huge increase in Revenue Deficit of the state due to increased revenue expenditure.

1.5.3 Non-tax revenue

The non-tax revenue constituted 21 *per cent* of the revenue receipts of the Government which remained almost constant since 1997-1998 between 20 *per cent* and 21 *per cent*. Tax compliance in respect of General services was reduced by 20 *per cent* during the year compared to previous year, though there was increase in other sector including interest and dividend.

1.5.4 State's share of Union taxes and duties and grants-in-aid from the Central Government

The State's share of Union taxes (excise duties and income and corporation taxes) declined by 5.47 *per cent* while the grants-in-aid from the Central Government increased by 53 *per cent* during the year as per recommendations of the 11th Finance Commission. The increase was mainly in grant-in-aid for Non-Plan grants from Rs.260.73 crore in 1999-2000 to Rs.824.03 crore in 2000-2001. Grants towards contribution to Calamity Relief Fund (Rs.716 crore) and Grants on recommendation of 11th Finance Commission as well as to local bodies (Rs.37 crore) were the major contributions for the increase during the year. However, as a percentage of revenue receipts they (both taken together) increased from 19 *per cent* in 1998-99 to 21 *per cent* during 2000-2001. This was mainly due to increase (from 8 *per cent* to 11 *per cent*) in share of grants-in-aid, whereas, the State's share in Union Taxes decreased from 12 *per cent* to 10 *per cent* during the year.

1.6 Revenue expenditure

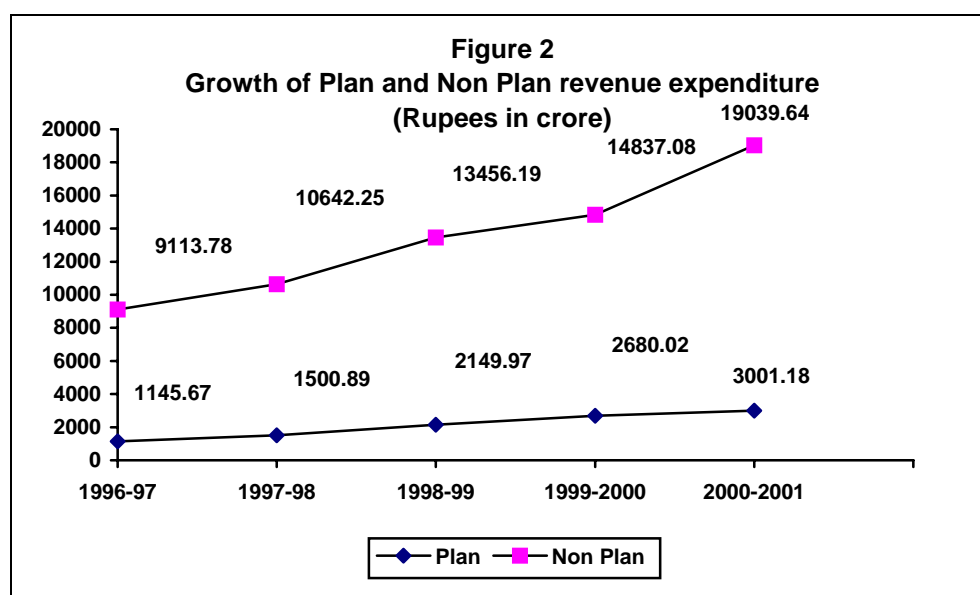
(a) The revenue expenditure accounted for most (88 *per cent*) of the expenditure of the State Government and increased by 26 *per cent* during 2000-2001 mainly due to increase in Non-plan expenditure. During the last 5 years revenue expenditure has grown by 115 *per cent*.

(b) Sector wise analysis shows that as a percentage of total revenue expenditure, the expenditure on General Services decelerated from 33 per cent to 28 per cent, while the expenditure on Social Services too decelerated by 1 per cent from 36 per cent to 35 per cent whereas the expenditure on Economic Services accelerated from 31 per cent to 37 per cent.

The expenditure in General Services was mainly towards interest payments (Rs.3131 crore) and pension and other retirement benefits (Rs.1439 crore). The increase in expenditure on General services was mainly due to increase in expenditure on interest payments (Rs.323 crore) larger payment of interest on GOI loans (Rs.79.67 crore) internal debt (Rs.108.81 crore) and on other obligations (Rs.107.57 crore)

The increase in expenditure on Social services was mainly due to increased expenditure under (i) General Education (Rs.279.41 crore) due to higher expenditure on Elementary Education, Universities and higher education and on (ii) Social Welfare and Nutrition (Rs.1123.92 crore) for Gratuitous relief under floods and cyclones and as assistance for repair/reconstruction for Houses. Under Social Services, (Revenue Account) there was increase in Non-Plan expenditure to the tune of Rs.497 crore mainly on account of earthquake which occurred in Gujarat in January 2001 i.e. gratuitous relief (Rs.239.42 crore), drinking water supply (Rs.6.90 crore), ex-gratia payments to bereaved families (Rs.89.30 crore) and assistance for repair/reconstruction for houses (Rs.161.78 crore).

The increase in expenditure on Economic services was mainly due to increased expenditure under (i) Energy (Rs.2161.66 crore) due to payment of more assistance to SEB, and on (ii) Rural Development (Rs.195.65 crore) due to more expenditure on other Rural Development programmes.



However, the increased payment in subsidy to the power sector is to be seen in the context of recoveries of loans and advances from the power sector. Thus, while Rs.4054.74 crore was paid to Electricity Boards etc., Rs.2095.05 crore was recovered from them on account of loans given to power projects and Rs.1508.88 crore was recovered on account of electricity duty and taxes on sale of electricity. The expenditure, therefore, did not result in any significant cash flow to the energy sector.

1.6.1 Interest payments

Interest payments increased steadily by 94 *per cent* from Rs.1610 crore in 1996-97 to Rs.3131 crore in 2000-2001. During the year it increased by 12 *per cent* mainly due to increase in payment of interest on loans received from Central Government. It amounted to 20 *per cent* of Revenue receipts and 14 *per cent* of Revenue expenditure. This is further discussed in the section on financial indicator at para 1.11.

1.6.2 Loans and Advances by the State Government

The Government gives loans and advances to Government companies, corporations, local bodies, autonomous bodies, co-operatives, non-Government institutions, etc., for developmental and non-developmental activities. The position for the last five years is given below.

	(Rupees in crore)				
	1996-97	1997-98	1998-99	1999-2000	2000-2001
Opening balance	4528	4810	5107	5574	6054
Amount advanced during the year	478	426	733	626	917
Amount repaid during the year	196	129	266	146	2227
Closing balance	4810	5107	5574	6054	4744
Net addition	(+)282	(+)297	(+)467	(+)480	(-)1310
Interest received	55	303	368	347	371

There was huge increase in loans and advances repaid during the year from Rs.146 crore in 1999-2000 to Rs.2227 crore in 2000-2001 due mainly to repayments made by the State Electricity Board during the year. It has been observed that Rs.3477 crore has been paid as assistance by the State Government to the Electricity Board. Of this Rs.2095 crore had been accounted for as recovery towards loan repayments.

Out of loans advanced to municipalities, panchayatiraj institutions, other local bodies, public sector undertakings etc., the detailed accounts of which were kept by the Accountant General (Accounts and Entitlements), recovery of Rs.537.65 crore (principal : Rs.459.53 crore and interest: Rs.78.12 crore) was in arrears as on 31 March 2001.

In respect of loans granted to others, the detailed accounts of which are kept by 84 departmental officers, information regarding overdue instalments of principal and interest thereon as at the end of 31 March 2001 were not furnished by 76 departmental officers. Hence the amount of loans disbursed and their recoveries were unknown. As per

information furnished by remaining departmental officers, Rs.161.83crore (principal : Rs.84.00 crore and interest : Rs.77.83 crore) became overdue.

1.7 Capital expenditure

1.7.1 Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e. public sector undertakings (PSUs), corporations, etc. and loans and advances. The progressive capital expenditure increased from Rs.9757.43 crore at the beginning of 1996-97 to Rs.21080.56 crore at the end of 2000-2001, an increase of 116 *per cent*. Out of Rs.21080.56 crore incurred towards capital expenditure till the end of 2000-2001, Rs.6497.21 crore (30.82 *per cent*) was incurred towards Narmada Project.

The expenditure under the Social Services increased by Rs.418.64 crore (66 *per cent*) over past year mainly as a result of increase in expenditure to the tune of Rs.880.29 crore for Accelerated Urban Water Supply (Rs.10.49 crore) and Rural Water Supply (Rs.869.80 crore) under “Water Supply, Sanitation, Housing and Urban Development”-Rs.441.67 crore.

Whereas the expenditure on Economic Services decreased by Rs.129.12 crore. The reduction in expenditure was under “Irrigation and Flood Control” from Rs.1425.80 crore in 1999-2000 to Rs.1151.76 crore mainly as a result of reduced expenditure under Narmada Project, Major Irrigation and Medium Irrigation.

1.8 Quality of Expenditure

1.8.1 Government spends money for different activities ranging from maintenance of law and order and regulatory functions to various developmental activities. Government expenditure is broadly classified into Plan and Non-plan and Revenue and Capital. While the Plan and Capital expenditure are usually associated with asset creation, the Non-plan and Revenue expenditure are identified with expenditure on establishment, maintenance and services.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account, after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General services, to the detriment of Economic and Social Services.

1.8.3 The following tables lists out the trend in these indicators :

Table A

(Rupees in crore)

Year	Plan Expenditure (per cent)		Non-Plan Expenditure (per cent)	
	Revenue	Capital	Revenue	Capital
1996-97	1146(11)	1409(95)	9114(89)	76(5)
1997-98	1501(12)	1779(96)	10642(88)	80(4)
1998-99	2150(14)	2214(97)	13456(86)	75(3)
1999-2000	2680(15)	2664(99)	14837(85)	31(1)
2000-2001	3001(14)	2862 (96)	19040(86)	133(4)

It would be seen that plan revenue expenditure increased nearly 300 per cent during the four years (1997-98 to 2000-01) taking the year 1996-97 as the base year, while the plan capital expenditure increased by only 100 per cent during this period.

This can be attributable to the fact that in many cases additions to plans of the previous plan period are not being transferred to Non-plan side, after the completion of the plan schemes.

Table B

	1996-97	1997-98	1998-99	1999-2000	2000-2001
1 Expenditure on General Services	(per cent)				
-Revenue	32	31	31	33	28
-Capital	2	1	1	1	1
(Rupees in crore)					
2 Amount of wastages and diversion of funds detected during test audit	21.00	46.22	40.14	315.17	
3 Non-remunerative expenditure on incomplete projects	--	18.76	53.96	107.86	310.51*
4 Unspent balances under deposits heads, booked as expenditure at the time of their transfer to the deposit head	848	1347	1644	2982	3318

Of the earmarked Plan outlay of Rs.7600 crore for the year 2000-2001, the state could spent Rs.6569.51 crore (Revenue Rs.3001.18 crore, Capital Rs.2861.63 crore and Loan Rs.706.70 crore). The major areas of shortfall were Irrigation and flood control Rs.590.64 crore (31 per cent), Energy Rs.170.15 crore (20 per cent) and General Economic Services Rs.187.88 crore (88 per cent). Although there was a provision of Rs.17 crore under communication, no expenditure was incurred, whereas under Science Technology and Environment against a provision of Rs.138.55 crore only Rs.3.97 crore (3 per cent) was spent.

* Excluding the expenditure of Rs.6497.21 crore on Narmada Project (reference to para 1.9.3)

In the Non-Plan expenditure there was no appreciable increase in the expenditure on General Services during 1996-2001.

The total closing balances under Deposit Heads *viz.* Personal Deposits increased year after year and there was sharp increase in last two years. This indicates that huge funds were lying unspent even though these amounts were booked as expenditure in the Accounts and facilitated the ways and means position of the Government.

1.9 Financial Management

The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

1.9.1 Investments and returns

Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under:

Serial Number	Sector	Number of concerns	Amount invested (Rupees in crore)	
			As on 31-03-2001	During 2000-2001
1	Statutory Corporations	6	498.45	47.10
2	Government Companies	42	4047.66	886.13*
3	Joint Stock Companies and Partnerships	29	4.93	NIL
4	Co-operative Institutions	2004	155.61	1.71
	Total	2081	4706.65	934.94

The details of investments and the returns realised during the last five years by way of dividend and interest were as follows :

Year	Investment at the end of the year	Return	Percentage of Return	(Rupees in crore)
				Rate of interest on Government borrowing(%)
1996-97	3489.44	22.78	0.66	13.85 and 13.75
1997-98	3600.34	14.49	0.40	13.50
1998-99	3661.78	22.37	0.61	12.50 and 12.15
1999-2000	3771.71	27.03	0.71	12.25 and 12.15
2000-2001	4706.65	26.07	0.55	11.85 and 12.25

* Rs.721.33 crore was invested in Sardar Sarovar Narmada Nigam Limited during 2000-2001.

Thus, while the Government was raising high cost borrowings, its investments in Government companies etc., fetched negligible returns. As per accounts finalised, losses accumulated till 31 March 2001 by 22 Government companies, 2 deemed Government companies and 3 Statutory Corporations were Rs.1300.56 crore, Rs.6.17 crore and Rs.3302.89 crore respectively.

1.9.2 Financial results of irrigation works

The financial results of one major and four medium irrigation projects (vide Statement Number 3 of the Finance Accounts) with a capital outlay of Rs.228.54 crore at the end of March 2001 showed that revenue realised from these projects during 2000-2001 (Rs.58.23 crore) was 25.48 *per cent* of the capital outlay. After reckoning the working and maintenance expenditure (Rs.23.26 crore) and interest charges (Rs.33.93 crore), the schemes earned a net profit of Rs.1.04 crore. But the loss was substantial (Rs.33.20 crore) in four of the five medium irrigation projects.

1.9.3 Incomplete Projects

As of 31 March 2001 there were 65 incomplete projects (each costing more than Rs.1 crore) in which Rs.310.51 crore were blocked. Besides, Government incurred expenditure of Rs.6497.21 crore as of March 2001 on Narmada Project which was still under construction. The delay in completion of projects ranged between one month and 65 months except for Narmada projects. This showed that the Government was spreading its resources thinly, which failed to yield any return. Further there was lack of adequate attention to ensure timely completion of projects.

1.9.4 Arrears of revenue

The arrears of revenue (as per information furnished by State Government) pending collection was Rs.5663 crore which was 36 *per cent* of the total tax collected during the year indicating poor tax compliance. Of the arrears of Rs.5663 crore as of March 2001, Rs.4887 crore and Rs.377 crore were on account of Sales tax and Irrigation Receipts respectively. Of these Rs.701 crore (12 *per cent*) were pending for more than five years, and pertained mainly to Sales Tax (Rs.358 crore), Irrigation Receipt (Rs.221 crore) and Interest receipt (Rs.92 crore). The arrears, however do not reflect the true state of affairs as some of the revenue collecting departments also had arrears but did not furnish the information.

1.9.5 Ways and means advances and overdraft

Under an agreement with the Reserve Bank of India, the State Government had to maintain with the Bank a minimum daily cash balance of Rs.280 lakh. If the balance fell below the agreed minimum on any day, the deficiency had to be made good by taking ways and means advances (WMA)/overdraft (OD) from the Bank. In addition,

special ways and means advances are also made by the Bank whenever necessary. Due to earth quake in January 2001, RBI completely relaxed the limit of Ways and means advances and overdraft for the state. During the year 2000-2001 the Government had obtained Rs. 1371.57 crore by WMA for 173 days and repaid Rs.709.73 crore during the year leaving an amount of Rs.661.84 crore as outstanding as on 31 March 2001. During the year overdraft of Rs.3259.90 crore was also obtained and repaid.

1.9.6 Deficit

1.9.6.1 Deficits in Government account represent gaps between the receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three aspects of deficit viz., Revenue Deficit, Fiscal Deficit and Primary Deficit.

1.9.6.2 The Revenue Deficit is the excess of revenue expenditure over revenue receipts. The Fiscal Deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over the revenue receipts (including grants-in-aid received). Primary Deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficit in Government account.

(Rupees in crore)

CONSOLIDATED FUND				
Receipt	Amount		Disbursement	Amount
Revenue	15739	Revenue Deficit: 6302	Revenue	22041
Misc. capital receipt	22		Capital	2995
Recovery of loans & advances	2227		Loans & advances disbursement	917
Sub Total	17988	Gross fiscal deficit : 7965	Sub Total	25953
Public debt	7686		Public debt repayment	1222
Total	25674	A: Deficit in Consolidated Fund: 1501		27175
CONTINGENCY FUND				
Contingency Fund	14		Contingency Fund	109
Total		B: Surplus in Contingency Fund : 95		
PUBLIC ACCOUNT				
PF etc.	828		PF etc.	490
Deposit & advances	14226		Deposit and advances	12745
Reserve funds	391		Reserve funds	228
Suspense & Misc.	6810		Suspense & Misc.	6851
Remittances	2873		Remittances	2812
Total Public Account	25128	C: Deficit in Consolidated Fund Financed by Public Account :2002		23126
Increase in cash balance (C-A+B= 406)				

The table shows that the Revenue Deficit of Rs.6302 crore was met by borrowings. The Gross Fiscal Deficit of Rs. 7965 crore was financed by net proceeds of the public debt (Rs.6464 crore) and partly by the surplus from Public Account (Rs.2002 crore). Exhibit IV shows that both the deficits have shown an increasing trend over the last five years. During the year Revenue Deficit increased by 78 per cent due to increase in revenue expenditure partly due to earthquake related expenditure as discussed in Para 1.6.1 and the fiscal deficit too increased by 19 per cent owing to an increase in capital expenditure and this indicate deterioration in the financial condition of the Government. Their possible impact of deficit on the finances of the State Government is discussed in Para 1.11.3 (viii) of this Chapter.

1.9.6.3 Application of the borrowed funds (Fiscal Deficit)

The fiscal deficit represents total net borrowings of the Government. These borrowings are applied for meeting the Revenue Deficit (RD), for making the Capital Expenditure and for giving loans to various bodies for developmental and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowing for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of the Government of Gujarat for the last five years.

Ratio	1996-97	1997-98	1998-99	1999-2000	2000-2001
RD/FD	0.25	0.34	0.51	0.53	0.79
CE/FD	0.63	0.56	0.41	0.40	0.37
Net Loans/FD	0.12	0.10	0.08	0.07	(-)0.16
Total	1.00	1.00	1.00	1.00	1.00

It would be seen that more and more of the borrowed funds have been applied over the years for meeting the revenue expenditure at the cost of Capital expenditure and lending for development and other purposes. During 2000-2001 there was a sharp decline in both these respects mainly due to increase in revenue expenditure on account of earthquake relief and rehabilitation expenditure.

If the revenue expenditure is not controlled not only capital formation is bound to suffer but more and more borrowed funds would be applied for meeting non-productive expenditure, thereby worsening the fiscal situation of the State.

1.9.7 Guarantees given by the State Government

Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc. raised by the statutory corporations, Government companies and co-operative institutions etc. and payment of interest and dividend by them. They constitute contingent liability of the State. Under Article 293 of the

Constitution of India, the Gujarat State Guarantee Act, 1963 as amended by the Act of 2001 had been passed by the State Legislature laying down the limit up to Rs.20,000 crore within which the Government may give guarantees on the security of the Consolidated Fund of the State. Exhibit-IV lists the maximum amounts of guarantees given by the Government and the amounts outstanding at the end of each year during 1996-2001. The outstanding guarantee increased by 84 *per cent* during 1996-97 to 2000-2001. Of these increase during 2000-2001 was 41 *per cent* mainly due to the guarantees given to the Statutory Corporations and Statutory Bodies (Rs.2615 crore) and Joint Stock Companies (Rs.1169 crore).

As on 31-3-2001, position of outstanding guarantee of Rs.12693 crore was as under :

	Name of Institution	Outstanding Guarantee Rs. in crore
(a)	Gujarat State Financial Corporation (Working capital and dividend thereon)	16.30
(b)	Loans, debentures, bonds, etc. raised by :	
(i)	State corporations and statutory bodies	8831.93
(ii)	Municipal corporations, Municipalities, Nagar Panchayats, etc.	712.98
(iii)	Co-operative Banks and Societies	772.48
(iv)	Joint Stock companies	2325.31
(v)	Miscellaneous	34.07
	Total	12693.07

While Rs.93.59 crore were received as guarantee fees during 2000-2001, Rs.16.80 crore were paid by Government towards discharge of guarantee liabilities (Slum Clearance Board -Rs.12.86 crore, One Sugar Co-operative society Rs.2.25 crore, Four Textile Mills-Rs.1.67 crore and eleven individuals Rs.0.02 crore vide statement No.6 of the Finance Account of Government of Gujarat for the year ending 31 March 2001) upto March 2001. No amount was recovered against the discharge during 2000-2001.

1.10 Public debt

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table. During the five-year period, the total liabilities of the Government had grown by 135 *per cent*. This was on account of 478 *per cent* growth in internal debt, 59 *per cent* growth in loans and advances from Government of India and 147 *per cent* growth

in other liabilities. During 2000-2001, Government borrowed Rs.559.26 crore in the open market at interest rates of 11.85 and 12.25 per cent per annum.

(Rupees in crore)

Year	Internal debt	Loans and Advances from Central Government	Total Public debt	Other liabilities ♣	Total liabilities	Ratio of debt to GSDP#
1996-97	2019.09	9956.92	11976.01	5048.64	17024.65	0.20
1997-98	2478.44	11580.64	14059.08	6080.04	20139.12	0.22
1998-99	3104.02	13975.64	17079.66	7677.70	24757.36	0.23
1999-2000	4021.13	17054.52	21075.65	10485.49	31561.14	0.29
2000-2001	11669.02	15870.63	27539.65	12467.81	40007.46	0.34

1.10.2 The amount of funds raised through Public debt, the amount of repayment and net funds available are given in the following table :

(Rupees in crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
Internal Debt					
-Receipt	407	508	807	2126	11753
-Repayment (Principle + Interest)	242	320	511	1636	4641
-Net funds available (<i>per cent</i>)	165(41)	188(37)	296(37)	490(23)	7112(61)
Loans and advances from Government of India					
-Receipt during the year	1437	2021	2842	3581	-98
-Repayment (principal + interest)	1390	1642	1940	2397	3060
-Net funds available (<i>per cent</i>)	47(3)	379(19)	902(32)	1184(33)	-3158
Other liabilities					
-Receipt during the year	7967	8748	10620	12704	15259
-Repayment (including interest)	7595	8073	9454	10374	13898
-Net funds available (<i>per cent</i>)	372(5)	675(8)	1166(11)	2330(18)	1361(9)

It would be seen that very little of the borrowings are available for investment and other expenditure after meeting the repayment obligations mainly due to the fact that 37 per cent of the net funds available from internal debt and other liabilities were used for repayment of the GOI loans. During the year a huge amount was to be repaid to the Government of India. Considering about 135 per cent increase in outstanding debt during last five years, the scope of borrowings and availability of funds through borrowings would be reduced further.

1.11 Indicators of the Financial Performance

1.11.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of

♣ Other liabilities include mainly provident funds, reserve funds and deposits, etc.

Changes adopted due to change in GSDP figures

financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing. Finally, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate to Annual development plans and are provided for in the State Budget. Broadly, it can be stated that non-plan expenditure represents Government maintaining the existing level of activity[#], while plan expenditure entails expansion of activity. Both these activities require resource mobilisation increasing Government's vulnerability. In short, financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows :

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of annual Financial Statement (Budget) and the Accounts. As regards the budget the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards, accounts, timeliness in submission, for which milestones exist and completeness of accounts would be the principal criteria.

1.11.2 Information available in Finance Accounts can be used to flesh out Sustainability, Flexibility and Vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in the Annexure. Exhibit V indicates the behaviour of these indices/ratios over the period from 1996-97 to 2000-2001. The implications of these indices/ratios (Exhibit – V) for the State of the financial health of the State Government are discussed in the following paragraphs.

[#] There are exceptions to this, notably transfer of Plan to the Non-plan at the end of Plan period.

Exhibit - V
Financial indicators for Government of Gujarat

	1996-97	1997-98	1998-99	1999-2000	2000-2001
(1)	(2)	(3)	(4)	(5)	(6)
Sustainability					
BCR (Rupees in crore)	22.00	(-)22.07	(-)1221.73	(-)1759.20	(-)4245.89
Primary Deficit (PD) (Rupees in crore)	748	1119	3356	3897	4834
Interest Ratio	0.09	0.07	0.06	0.09	0.09
Capital outlay/Capital receipts	0.86	0.72	0.64	0.62	0.32
Total Tax receipts/GSDP	0.08	0.09	0.09	0.09	0.09
State Tax Receipts/GSDP	0.07	0.07	0.07	0.08	0.08
Return on Investment ratio	0.0065	0.0040	0.0061	0.0072	0.0055
Flexibility					
BCR (Rupees in crore)	22.00	(-)22.07	(-)1221.73	(-)1759.20	(-)4245.89
Capital repayments/Capital borrowings	0.19	0.18	0.15	0.15	0.10
State tax receipts/GSDP	0.07	0.07	0.07	0.08	0.08
Debt/GSDP	0.20	0.22	0.23	0.29	0.34
Vulnerability					
Revenue Deficit(RD) (Rupees in crore)	*592	1018	2863	3546	6302
Fiscal Deficit(FD) (Rupees in crore)	*2359	*3002	*5617	6705	7965
Primary Deficit(PD) (Rupees in crore)	*749	*1118	*3355	3897	4834
PD/FD	0.32	0.37	0.60	0.58	0.61
RD/FD	0.25	0.34	0.51	0.53	0.79
Outstanding Guarantees/revenue receipts	0.72	0.61	0.60	0.63	0.81
Assets/Liabilities	0.97	0.92	0.83	0.76	0.65

Note:

1 Fiscal deficit has been calculated as: Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Non-loan capital receipts.

2 In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as Internal loans + Loans and Advances from Government of India + Net receipts from small savings, PF etc., + Repayments received from loans advanced by the State Government – Loans advanced by State Government.

1.11.3 The behaviour of the indices/ratios is discussed below

(i) Balance from current revenues (BCR)

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government has surplus from its revenues for meeting plan expenditure. The table shows that the State Government had positive BCRs in 1996-97 and thereafter it became negative. In 2000-2001, the negative balance increased steeply by 141 *per cent* over the previous year mainly due to stagnant growth in tax and non-tax revenue and significant increase in the Non-Plan expenditure. As a result of increasingly negative BCR large part of the Non-Plan expenditure had to be met by borrowed funds thus affecting the sustainability of government operations.

* The deficit figures were changed by 1 digit to avoid difference from deficits figures reflected in Exhibit-IV

(ii) Interest ratio

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In case of Gujarat the ratio has increased from 0.06 in 1998-99 to 0.09 in 2000-2001. In absolute terms, the interest payments have increased by 94 *per cent* during the last five years and this created significant pressure on the availability of funds for revenue and capital expenditure with adverse implications for the sustainability.

(iii) Capital outlay/capital receipts

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than one would not be sustainable in the long term in as much as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance. The table shows that there was constant decline in the ratio (from 0.86 in 96-97 to 0.32 in 2000-2001). In the case of Gujarat, there was sharp decline from 0.62 in 1999-2000 to 0.32 in 2000-2001 indicating that large part of capital receipts are utilised for activities other than capital expenditure including investment. Even the reduced CE failed to generate adequate revenue due to insignificant ROI and the blocked up funds in incomplete projects as discussed in para 1.9.3.

(iv) Tax receipts Vs. Gross State Domestic Product (GSDP)

Tax receipts consist of state taxes and state's share of central taxes. The later can also be viewed as central taxes paid by people living in the state. Tax receipts suggest sustainability. But the ratio of tax receipts to GSDP would have implications for the flexibility as well. While a low ratio would imply that the Government can tax more, and hence its flexibility, a high ratio may not only point to the limits of this source of finance but also its inflexibility. Time series analysis shows that in case of Gujarat this ratio remained constant at 0.09 since 1997-98 for four years. The ratio of state tax receipts compared to GSDP stagnated at 0.07 from 1996-97 to 1998-99 and marginally increased during 1999-2000 and 2000-2001. The problem of scarcity of own source of revenue was aggravated due to huge arrears in taxes (para 1.9.4) which indicated poor tax compliance. This also suggest that the State Government has increasingly relied on borrowings and surplus from Public Account to meet its deficit and has not paid sufficient attention to improve tax compliance.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The table presents the return on Government's investments in statutory corporations, Government

companies, joint stock companies and co-operative institutions. It shows that the ROI in case of Government of Gujarat has been insignificant.

(vi) Capital repayments Vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In case of Gujarat Government this ratio declined from 19 *per cent* in 1996-97 to 10 *per cent* in 2000-2001 as availability of funds increased due to increased borrowings in recent years.

(vii) Debt Vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government, which can be used to service debt. An increasing ratio of Debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In case of Gujarat, this ratio increased sharply from 0.20 in 1996-97 to 0.34 in 2000-2001 indicating a significant decline in the financial position of the State. This also had a negative impact on the sustainability and flexibility of the state's financial condition.

(viii) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings etc. Evidently, higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive revenue expenditure. Thus, the higher the ratio the worse off the state because that would indicate that the debt burden is increasing without adding to asset creation and the repayment capacity of the State. There was more than three fold increase in the ratio (from 0.25 in 1996-97 to 0.79 in 2000-2001) showing an extremely unfavourable trend and position of fiscal stress.

(ix) Primary deficit Vs. Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. This means that the less the value of the ratio the less the availability of funds for capital investment. In case of Government of Gujarat, this ratio increased from 0.32 in 1996-97 to 0.61 in 2000-2001. Over the years increased level of borrowings and thus higher availability of borrowed funds *vis-à-vis* interest payments led to the increase in the value of the ratio. Even though larger amount of funds were available in the short run, the implication of the increased borrowings will adversely impact on the availability of the funds.

(x) Guarantees Vs. Revenue Receipts

Outstanding guarantees, including the letters of comfort issued by the Government, indicate the risk exposure of a State Government and should therefore be compared with the ability of the Government to pay viz., its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. In case of Gujarat this ratio increased from 0.63 in 1999-2000 to 0.81 in 2000-2001 indicating a huge increase in risk exposure of the state revenues to the outstanding guarantees and indicating vulnerability of the state revenues to such liabilities.

(xi) Assets Vs Liabilities

This ratio indicates the solvency of the Government. A ratio of more than one would indicate that the State Government is solvent (assets are more than the liabilities) while a ratio of less than one would be a contra indicator. Due to huge increase in liabilities and slower ratio of asset formation relative to growth in liability this ratio declined from 0.97 in 1996-97 to 0.65 during 2000-2001. This is an indication of significant decline in solvency of the State Government.

(xii) Budget

There was no delay in submission of the budget and their approval. The details are given in the following table :

Preparation	Month of Submission *	Month of Approval *
Budget	February 2000	March 2000
Supplementary	September 2000	October 2000
Supplementary	March 2001	March 2001

Chapter II of this Report commented on the significant variations (excess/saving) between the final budget grant and actual expenditure. These indicate defective budgeting and inadequate control over expenditure, as evident from persistent resumption (surrenders) of significant amounts every year *vis-a-vis* the final modified grant.

(xiii) Accounts

There was no delay in the submission of accounts by the treasuries/ departments during 2000-2001. Only one (Kutch Treasury) Account for the month of January 2001 was excluded during 2000-2001 due to the dislocation of work on account of earthquake.

1.11.4 Conclusion

The financial condition of the State Government considerably worsened during the last 5 years due to mounting revenue deficit and fiscal deficit.

* Submitted to Legislative Assembly.
 ♦ Approved by the Governor

While the decline in the current year was partly attributable to the increased revenue expenditure (nearly Rs. 500 crore) due to earthquake relief works, the overall decline was attributable to huge increase in debt burden and consequent increase in interest payments and increased financial burden due to investments in Narmada Project and the subsidy to Electricity Board.

Considerable increase in debt/GSDP ratio indicated that large part of expenditure is debt funded and therefore the state finances are vulnerable to outside sources of financing. The problem was compounded by a stagnant tax/GSDP ratio.

Further, in many cases additions to plans schemes of previous Plan period was not transferred to non-plan side at the end of the completion of Eight Plan. Thus, increase in Plan expenditure was mainly on revenue account, despite the ambitious Plan expenditure.

ANNEXURE

Part A. Government Accounts

I. Structure

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

Part I: Consolidated Fund

All receipts of the State Government from revenues, loans and recoveries of loans go into the Consolidated Fund of the State, constituted under Article 266(1) of the Constitution of India. All expenditure of the Government is incurred from this Fund from which no amount can be withdrawn without authorisation from the State Legislature. This part consists of two main divisions, namely, Revenue Account (Revenue Receipts and Revenue Expenditure) and Capital Account (Capital Receipts, Capital Expenditure, Public Debt and Loans, etc.).

Part II: Contingency Fund

The Contingency Fund created under Article 267(2) of the Constitution of India is in the nature of an imprest placed at the disposal of the Governor of the State to meet urgent unforeseen expenditure pending authorisation from the State Legislature. Approval of the State Legislature is subsequently obtained for such expenditure and for transfer of equivalent amount from the Consolidated Fund to Contingency Fund. The corpus of this Fund authorised by the Legislature during the year was Rs.200 crore.

Part III: Public Account

Receipts and disbursements in respect of small savings, provident funds, deposits, reserve funds, suspense, remittances, etc., which do not form part of the Consolidated Fund, are accounted for in Public Account and are not subject to vote by the State Legislature.

II. Form of Annual Accounts

The accounts of the State Government are prepared in two volumes *viz.*, the Finance Accounts and the Appropriation Accounts. The Finance Accounts present the details of all transactions pertaining to both receipts and expenditure under appropriate classification in the Government accounts. The Appropriation Accounts, present the details of expenditure by the State Government *vis-a-vis* the amounts authorised by the State Legislature in the budget grants. Any expenditure in excess of the grants requires regularisation by the Legislature.

**Part B List of Indices/ratio and basis for their calculation
(Referred to in Paragraph 1.11)**

Indices/ratio		Basis for calculation
Sustainability		
Balance from the current revenue	BCR	Revenue Receipts minus all Plan grants (under Major Head 1601-02,03,04) and Non-Plan revenue expenditure.
Primary Deficit		Fiscal deficit minus interest payments.
Interest Ratio		Net interest payment (interest payment less interest receipts) to Revenue receipts less interest receipts.
Capital Outlay Vs Capital Receipts	Capital Outlay Capital Receipts	Capital expenditure as per Statement No.16 of the Finance Accounts. Internal Loans (net of ways and means advances) + Loans and advances from Government of India + Net receipts from small savings, PF etc. + Repayments received of loans advanced by the State Government - Loans advanced by the State Government.
Total tax receipts Vs GSDP State tax receipts Vs GSDP		
Flexibility		
-Balance from current revenue -Capital repayments Vs Capital borrowings	Capital Repayments	As above Disbursements under Major Heads 6003 and 6004 minus repayments on account of Ways and Means Advances/Overdraft under both the major heads.
	Capital Borrowings	Addition under Major Heads 6003 and 6004 minus addition on accounts of Ways and Means Advances/Overdraft under both the major heads.
	State Tax Receipts	Statement No. 1 of Finance Accounts.
Incomplete Projects -Total Tax Receipts Vs GSDP -Debt Vs GSDP	Total Tax Receipts	State Tax receipts plus State's share of Union Taxes
Vulnerability		
-Revenue Deficit		Paragraph No. 1.9.6 of the Audit Report
-Fiscal Deficit		-----do-----
-Primary Deficit Vs Fiscal Deficit	Primary Deficit	Fiscal Deficit minus interest payments
Total outstanding guarantees including letters of comfort Vs Total revenue receipts of the Government	Outstanding Guarantees	Exhibit – IV
	Revenue Receipts	Exhibit – II
Assets Vs Liabilities	Assets and Liabilities	Exhibit – I
	Debt	Borrowing and other obligations at the end of the year (Statement No.4 of the Finance Accounts)