

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 1.1- Part A**). The Finance Accounts of the Government of Madhya Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State of Madhya Pradesh. The lay out of the Finance Accounts is depicted in **Appendix 1.1-Part B**.

In terms of the Madhya Pradesh Re-organisation Act 2000 (No.28 of 2000) 16[@] districts of the erstwhile State of Madhya Pradesh formed the new State of Chhattisgarh on 1 November 2000, 'the appointed day'. The apportionment of assets and liabilities of the composite State of Madhya Pradesh immediately prior to the appointed day as also the other financial adjustments are being carried out in each case in accordance with the provisions of the Act *ibid*. The actual progress achieved in this direction is indicated in **Appendix-1.3**.

1.1.1 Summary of Receipts and Disbursements

Table-1 summarises the finances of the Government of Madhya Pradesh for the year 2005-06 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 2005-06

(Rupees in crore)

2004-05	Receipts	2005-06	2004-05	Disbursements	2005-06		
Section-A: Revenue							
					Non-Plan	Plan	Total
19743.25	I. Revenue receipts	20596.79	18026.37	I. Revenue expenditure	16351.00	4212.47	20563.47
7772.97	Tax revenue	9114.70	7468.35	General services	7563.32	29.79	7593.11
4461.86	Non-tax revenue	2208.20	5672.45	Social Services	4397.92	2260.42	6658.34
5076.68	Share of Union Taxes/Duties	6341.35	3968.91	Economic Services	3475.06	1719.64	5194.70
2431.74	Grants from Govt. of India	2932.54	916.66	Grants-in-aid / Contributions	914.70	202.62	1117.32
Section-B: Capital							
--	II Misc. Capital Receipts	--	4950.98	II Capital Outlay	2923.47	3699.81	6623.28
53.20	III. Recoveries of Loans and Advances	2851.98	3310.86	III Loans and Advances disbursed	796.54	37.91	834.45
8849.00	IV Public debt receipts	5160.65	3391.38	IV Repayment of Public # Debt	953.96	--	953.96
24790.22	V Public account receipts	29037.68	23591.45	V Public account # disbursements	28095.77	--	28095.77
--	VI Inter State Settlement	--	--	VI. Inter State Settlement	--	--	--
1.00	VII Contingency Fund	--	--	VII Contingency Fund	8.14	--	8.14
94.21	Opening Cash Balance	259.84	259.84	Closing Cash Balance	827.87	--	827.87
53530.88	Total	57906.94	53530.88	Total	49956.74	7950.20	57906.94

Bifurcation of plan and non- plan not available

@ Bastar, Bilaspur, Dantewada, Dhamtari, Durg, Janjgir-Champa, Jashpur, Kanker, Kawardha, Korba, Koriya, Mahasamund, Raigarh, Raipur, Rajnandgaon and Surguja

Under revenue receipts section tax revenue increased from Rs. 7772.97 crore in 2004-05 to Rs. 9114.70 crore in 2005-06. While non-tax revenue decreased from Rs. 4461.86 crore to Rs. 2208.20 crore during 2005-06. Revenue expenditure under Social Services and Economic Services increased sharply from Rs. 5672.45 crore and Rs. 3968.91 crore in 2004-05 to Rs. 6658.34 crore and 5194.70 crore in 2005-06 respectively. Expenditure under Capital Section also increased from Rs. 4950.98 crore in 2004-05 to Rs. 6623.28 crore in 2005-06. There was healthy recovery of loans & advances of Rs. 2851.98 crore in 2005-06 as against Rs. 53.20 crore in 2004-05.

1.1.2 The Fiscal Responsibility and Budget Management (FRBM) Act, 2005

The State Government has enacted the Madhya Pradesh Rajkoshiya Uttardayitva Avam Budget Prabandhan Adhiniyam, 2005 (Fiscal Responsibility and Budget Management (FRBM) Act 2005) which came into force from 1st January 2006 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto. To give effect to the fiscal management objectives as laid down in the Act, and/or the rules framed (30 January 2006) thereunder the following fiscal targets were prescribed for the State Government:

- reduce revenue deficit in each of the financial year so as to eliminate it by 31st March 2009 and generate revenue surplus thereafter
- reduce fiscal deficit in each of the financial year so as to bring it down to not more than 3 per cent of GSDP by 31st March 2009
- ensure that within a period of 10 years, i.e. as on the 31st March 2015, total liabilities do not exceed 40 per cent of the estimated GSDP for that year.
- limit the annual incremental guarantees so as to ensure that the total guarantees do not exceed 80 per cent of the total revenue receipts in the year preceding the current year.

Provided that revenue deficit and fiscal deficit may exceed the limits specified under this section due to ground(s) of shortfall in the Central tax devolutions in relation to the budgetary estimates of the Union of India and/or unforeseen demands on the finances of the State Government arising out of internal disturbance or natural calamity or such other exceptional grounds as the State Government may specify.

Provided further that the Minister of Finance, shall review, every half year, the trends in receipts and expenditure in relation to the budget estimates and place before the State Legislature, the outcome of such review.

1.1.3 Fiscal policy statement (s) 2005-06

In accordance with the provisions of the FRBM Act 2005, State Government is required to place the (a) Macro-Economic framework Statement,

(b) Medium Term Fiscal Policy Statement and (c) Fiscal policy strategy statement alongwith the Budget.

As FRBM Act came into force w.e.f. 1st January 2006, the first set of these statements was placed in legislature alongwith the budget for the year 2006-07.

Para 1.1.4 Roadmap to achieve the Fiscal Targets as laid down in FRBM Act/Rules

Keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made thereunder and the anticipated annual rate of reduction of fiscal deficit of the States worked out by the Government of India for the TWFC award period following its recommendation, the State Government is required to develop its Own Fiscal Correction Path indicating fiscal indicators with target dates of implementation during the period from 2004-05 to 2009-10. The trends in select indicators for the period from 2004-05 to 2006-07 available in Macro Economics Framework Statement are given in **Appendix 1.2**.

1.2 Overview of Fiscal situation of the State

1.2.1 Trends in Fiscal Aggregates

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)

2004-05	Sl. No	Major Aggregates	2005-06
19743	1.	Revenue Receipts (2+3+4)	20597
7773	2.	Tax Revenue	9115
4462	3.	Non-Tax Revenue	2208
7508	4.	Other Receipts	9274
53	5.	Non-Debt Capital Receipts	2852
53	6.	<i>Of which</i> Recovery of Loans	2852
19796	7.	Total Receipts (1+5)	23449
19019	8.	Non-Plan Expenditure (9+11)	20070
14861	9.	On Revenue Account	16351
3661	10.	Of which, Interest Payments	3422
4158	11.	On Capital Account	3719
2775	12.	Of which Loans disbursed	796
7269	13.	Plan Expenditure (14+15)	7950
3165	14.	On Revenue Account	4212
4104	15.	On Capital Account	3738
536	16.	Of which Loans disbursed	38
26288	17.	Total Expenditure (8+13)	28020
(+) 1717	18.	Revenue surplus (+) (9+14-1)	(+) 34*
6492	19.	Fiscal Deficit (17-1-5)	4571
2831	20.	Primary Deficit (19-10)	1149

The revenue surplus of Rs. 1717 crore achieved by the State during 2004-05 has substantially declined to Rs. 34 crore. The surplus of Rs. 1717 crore during 2004-05 was overstated due to adjustment of grant of Rs. 2749 crore given to the MPSEB in 2003-04 as loan in 2004-05 resulting in increase in non-tax revenue. Fiscal deficit & Primary deficit had significantly decreased from Rs. 6492 crore and Rs. 2831 crore in 2004-05 to Rs. 4571 crore and

* Revenue Surplus is understated by Rs. 814.78 crore due to conversion of Investment of earlier years under Rural Electrification Corporation into grant by State Government.

Rs. 1149 crore in 2005-06 respectively mainly due to better recovery of loans and advances. The fiscal deficit during the year was 4.19 per cent of GSDP.

1.3 Audit Methodology

Audit observations on the statements of Finance Accounts for the year 2005-06 bring out the trends in the major fiscal aggregates of receipts and expenditure; wherever necessary to analyse them, in the light of time series data (**Appendix 1.4 to 1.6**) and periodic comparisons. Major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The New GSDP series with 1993-94 as base, as published by the Director of Economics and Statistics of the State Government, have been used. For tax revenues, non-tax revenues, revenue expenditure etc., buoyancy projections have also been provided for a further estimation of the range of fluctuation with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) resources by volumes and sources, (ii) application of resources (iii) assets and liabilities, and (iv) management of deficits. Audit observations also take into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. 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. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in **Appendix 1.1-Part C**.

1.4 State Finances by key Indicators

1.4.1 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consists of tax revenues, non-tax revenues, state's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise of miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/ commercial banks) and loans and advances from GOI as well as accruals from the Public account. **Table-3** shows that the total receipts of the State Government for the year 2005-06 were Rs. 57648 crore. Of these, the revenue receipts of the State Government were Rs. 20597 crore only, constituting 35.73 per cent of the total receipts. The balance of receipts came from borrowings, receipts from Contingency Fund and the Public Account.

Table 3 – Resources of Madhya Pradesh

		(Rupees in crore)
I Revenue Receipts		20597
II Capital Receipts		8013
a	Recovery of Loans and Advances	2852
b	Public Debt Receipts	5161
c	Miscellaneous Capital Receipts	--
III Contingency fund Receipts		--
IV Public Account Receipts		29038
a	Small Savings, Provident Fund, etc.	1330
b	Reserve Fund	676
c	Deposits and Advances	4156
d	Suspense and Miscellaneous	16559
e	Remittances	6317
Total Receipts		57648

Suspense and Miscellaneous receipts were Rs 16559 crore as against disbursement of Rs. 16499 crore which indicates a marginal difference between receipts and disbursements. Suspense and Miscellaneous receipts of Rs 16559 crore constitute 57 per cent of Public Account Receipts.

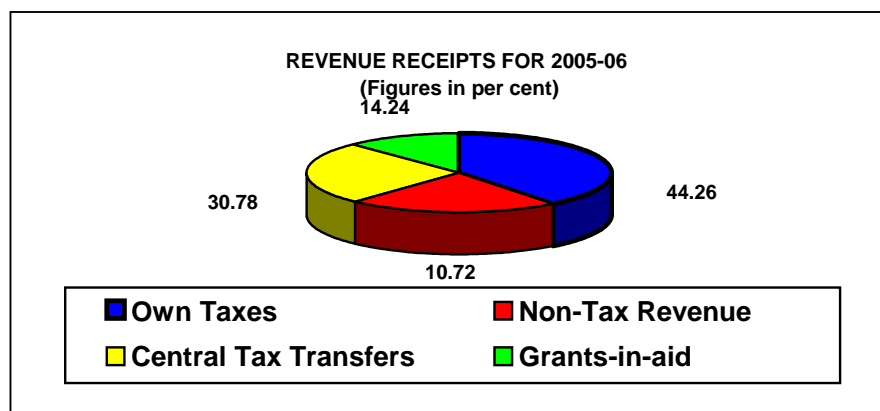
1.4.2 Revenue receipts

Statement-11 of the Finance Accounts details revenue receipts of the Government. The revenue receipts consists 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 buoyancies are indicated in **Table 4**.

Table 4: Revenue Receipts – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Receipts (RR) (Rupees in crore)	12839	11211	13391	14289	19743	20597
Own taxes (Rupees in crore and per cent)	5640 (43.93)	4679 (41.74)	6165 (46.04)	6789 (47.51)	7773 (39.37)	9115 (44.26)
Non-Tax Revenue (Rupees in crore and per cent)	1724 (13.43)	1602 (14.29)	1635 (12.21)	1480 (10.36)	4462 (22.60)	2208 (10.72)
Central Tax Transfers (Rupees in crore and per cent)	3955 (30.80)	3439 (30.68)	3729 (27.85)	4247 (29.72)	5077 (25.72)	6341 (30.78)
Grants-in-aid (Rupees in crore and per cent)	1520 (11.84)	1491 (13.30)	1862 (13.90)	1773 (12.41)	2431 (12.31)	2933 (14.24)
Rate of Growth of RR (per cent)	(-)2.76	(-) 12.68	19.45	6.70	38.16	4.32
RR/GSDP (per cent)	14.52	13.79	16.13	14.14	18.29	18.88
Revenue Buoyancy (ratio)	*	*	9.166	0.309	5.588	4.130
State's own tax buoyancy (ratio)	*	*	14.962	0.466	2.122	16.501
Revenue buoyancy with reference to State's own taxes (ratio)	*	*	0.612	0.662	2.633	0.250
GSDP Growth (percent)	(-) 10.45	(-) 8.09	2.122	21.703	6.828	1.046

* Growth of RR and own Tax revenue as also GSDP was negative during 2000-01 and 2001-02.



General Trend

The revenue receipts of Rs. 20597 crore during 2005-06 were less than the estimate of Rs. 21344 crore which was mainly due to decrease of Rs. 862 crore estimated for grants-in-aid from GOI. As against the estimated share of Tax revenue and non-tax revenue of 41.85 per cent and 10.49 per cent in revenue receipts respectively in 2005-06, these were actually 44.26 and 10.72 per cent during 2005-06.

Rate of growth of revenue receipts, which was 38.16 per cent during 2004-05 has significantly decreased to 4.32 per cent during the year 2005-06 mainly due to decrease in non-tax revenue. While the receipts from Own Taxes, Central Tax Transfers and grant-in-aid increased by 4.89 per cent, 5.06 per cent and 1.93 per cent respectively, the receipts from non-tax revenue decreased by 11.88 per cent. The increase of Rs. 854 crore in the revenue receipts during 2005-06 was due to increase in receipts mainly under Taxes on Sales, Trades etc. (Rs. 596 crore), Interest Receipts (Rs. 501 crore), Corporation Tax (Rs. 306 crore) and Taxes on Income other than Corporation Tax (Rs. 304 crore). Increase in the collection of revenue receipts by Rs. 854 crore helped State Government in achieving the revenue surplus of Rs. 34 crore during the year.

On an average around 55 per cent of the revenue had come from the State's Own Resources, while Central Tax Transfers and Grant in Aid together continued to contribute nearly 45 per cent of the total revenue. Taxes on Sales, Trades etc was the major source of State's own tax revenue having contributed 50 per cent of the tax revenue followed by State Excise (15 per cent), Taxes on Stamps and Registration (11 per cent) etc.

Own Tax Revenue

The TWFC has projected State own tax revenue to grow at 14.40 per cent for the period 2005-06 to 2009-10. The actual growth during 2005-06 was 17.26 per cent, which shows that the projection given by TWFC was well achieved by the State Government. State Own tax revenue and non-tax revenue of Rs. 9115 crore and Rs. 2208 crore respectively during 2005-06 were more than Rs. 9034 crore and Rs. 2137 crore respectively as projected by the TWFC. The sharp increase of Own Tax buoyancy from 2.12 in 2004-05 to 16.5 in 2005-06 was mainly due to marginal growth of GSDP during 2005-06 as compared to the previous year.

Non-Tax Revenue

TWFC has suggested annual growth of 11 per cent in non-tax revenue. It was observed that there was a negative growth of 30.17 per cent and 9.48 per cent during 2000-01 and 2003-04 respectively. During 2004-05 it was increased to 201 percent and declined to 51 percent in 2005-06 mainly due to refund of grant of Rs. 2749 crore by the MPSEB to the State Government during 2004-05. Of non-tax revenue Sources, non-ferrous Mining and Metallurgical Industries (37 per cent), Interest Receipts (24 per cent) and Forestry and Wild Life (22 per cent) were the principal contributors. There was increase of Rs. 501 crore under interest receipts and decrease of Rs. 8 crore, Rs. 13 crore, Rs. 274 crore under irrigation, social services and economic services respectively during the year as compared to the previous year.

Central Tax transfer

The Central tax devolutions are determined by the TWFC award. The Central tax transfer of Rs. 6341 crore was marginally less than the estimated amount of Rs. 6377 crore as given in Macro Economic Framework Statement.

Grant-in-aid

The non-plan grant which was Rs. 458.82 crore in 2004-05 increased to Rs. 767.86 crore in 2005-06 mainly due to increase under head "Grant under the proviso to Article 275 (i) of constitution" (Rs. 183 crore) and "Grant towards contribution to Calamity Relief Fund" (Rs. 132 crore). Grants for Central Plan and Centrally Sponsored Plan Schemes increased from Rs. 59.73 crore and Rs. 599.44 crore in 2004-05 to Rs. 65.88 crore and Rs. 835.20 crore in 2005-06 respectively, while Grants for State plan schemes decreased from Rs. 1313.75 crore in 2004-05 to Rs. 1263.60 crore in 2005-06.

Arrears of revenue

Department wise status of arrears of revenue during 2005-06 are as detailed below:

Department-wise status of the arrears of Revenue during 2005-06

Sl. No.	Name of Department	Arrear of Revenue (Rupees in crore)
1.	Tax on vehicle	33.83
2.	State Excise	53.73
3.	Electricity	32.85
4.	Commercial Tax	759.30
5.	Mining	11.11
6.	Co-operation	9.36
7.	Stamp duty and Registration	66.38
8.	Forest	18.99
	Total	985.55

The Departments concerned have not furnished information regarding the arrears on account of cases pending in courts.

1.4.3 Sources of Receipts

The source of receipts under different heads as well as GSDP during 2000-06 is indicated in Table-5.

Table-5: Source of Receipts – Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts				Total Receipts	Gross State Domestic Product
		Non-Debt Receipts	Debt Receipts	Contingency Fund Receipts	Accruals in Public Account		
2000-01	12839	13	3101	7	16520	32480	88445
2001-02	11211	1588	3281	--	15013	31093	81286
2002-03	13391	43	4949	--	20120	38503	83011
2003-04	14289	36	9938	--	22285	46548	101027
2004-05	19743	53	8849	1	24790	53436	107926
2005-06	20597	2852	5161	--	29038	57648	109055 (A)

A- Advance estimates

The relative share of revenue receipts in total Receipts decreased from 39.53 per cent in 2000-01 to 35.73 per cent in 2005-06, while the share of Capital Receipts in total Receipts increased from 60.47 per cent in 2000-01 to

64.27 per cent in 2005-06. The non-debt receipts and accruals in the Public Account increased sharply by 5281 per cent and 17.14 per cent respectively during 2005-06 over previous year, while debt receipts decreased by 41.68 per cent during 2005-06 over previous year.

The sharp increase in non-debt receipts during the year 2005-06 was mainly on account of repayment of loan by MPSEB under Major Head 6801-Loan for power projects (Rs. 2816.82 crore).

1.5 Application of resources

1.5.1 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. 16391 crore in 2000-01 to Rs. 28020 crore in 2005-06. 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-6**.

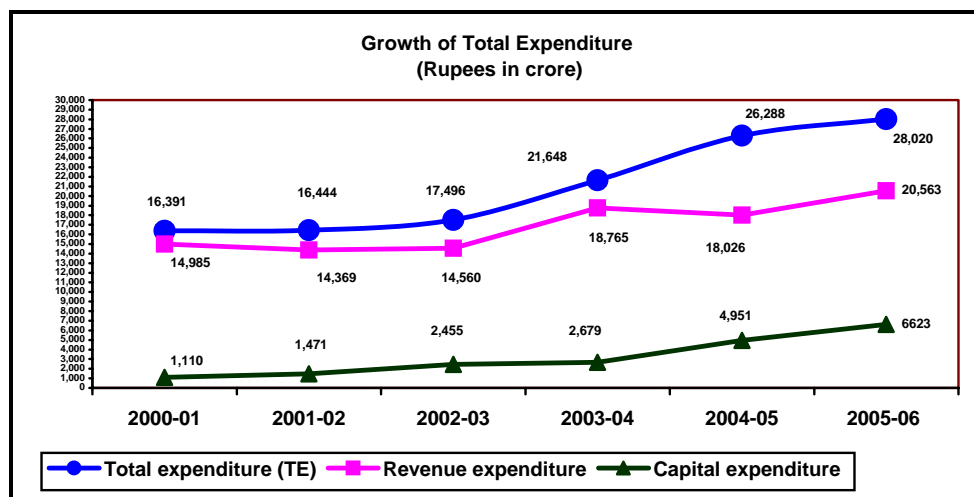
Table-6: Total Expenditure – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Total expenditure (TE)* (Rupees in crore)	16391	16444	17496	21648	26288	28020
Rate of Growth (per cent)	--	0.32	6.40	23.73	21.43	6.58
TE/GSDP Ratio (per cent)	18.53	20.23	21.08	21.43	24.36	25.69
RR /TE Ratio (per cent)	78.33	68.18	76.54	66.00	75.10	73.50
Buoyancy of Total Expenditure with reference to:						
GSDP (ratio)	♣	♣	3.014	1.093	3.142	6.290
RR (ratio)	♣	♣	0.328	3.541	0.561	1.523

* Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

♣ Growth of RR as well as GSDP was negative during 2000-01 and 2001-02.

The increase in total expenditure in the current year was primarily due to increase of Rs. 2537 crore under Revenue Section, Rs. 1672 crore under Capital Section. The ratio of revenue receipts to total expenditure decreased from 75 per cent in 2004-05 to 74 per cent in 2005-06 indicating that about 74 per cent of the States total expenditure was met from its current revenue and the balance of 26 per cent was financed from borrowings. The buoyancy ratio of total expenditure with reference to GSDP and revenue receipts increased from 3.142 and 0.561 in 2004-05 to 6.290 and 1.523 in 2005-06 due to marginal growth of GSDP during 2005-06 in comparison to 2004-05.

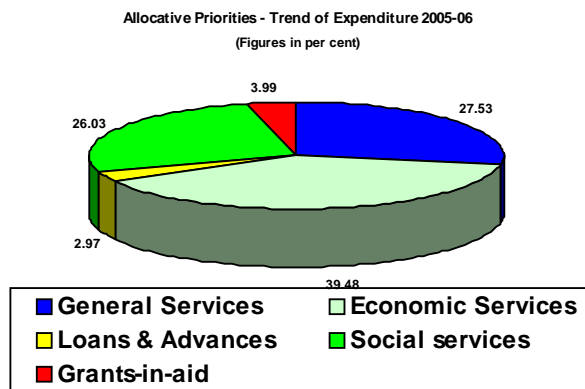


Trends in Total Expenditure by Activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table-7**.

Table-7: Components of Expenditure – Relative Share

	(in per cent)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
General Services	32.57	30.80	31.33	30.53	28.96	27.53
Of which Interest payments	14.70	13.70	14.30	14.80	13.92	12.21
Social Services	36.43	28.92	33.26	27.05	23.22	26.03
Economic Services	25.97	34.30	30.34	38.74	31.73	39.48
Grants-in-aid	3.22	2.27	2.32	2.73	3.49	3.99
Loans and Advances	1.81	3.64	2.75	0.95	12.60	2.97

The movement of the relative shares of these components of expenditure indicated that the share of disbursement of loans and advances in total expenditure declined from 12.60 per cent in 2004-05 to 2.97 per cent in 2005-06 respectively. However, the share of Social services and Economic Services in total expenditure increased from 23.22 and 31.73 per cent in 2004-05 to 26.03 and 39.48 per cent in 2005-06 respectively. The sharp decline in relative share of loans and advances was mainly due to less disbursement under Energy Sector, while increase in relative share of social services was mainly due to more revenue expenditure under 'Education Sports Art & Culture' (Rs. 354 crore), "Social Welfare and Nutrition" (Rs. 330 crore) and "Welfare of SC,ST & OB Class (Rs. 156 crore). Increase in relative share of Economic services was mainly due to more expenditure under 'Energy' (Rs. 517 crore) and 'Transport' (Rs. 158 crore).



1.5.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is incurred to maintain the current level of services and payments, 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-8**.

Table-8: Revenue Expenditure: Basic Parameters

(Rupees in crore and percent in bracket)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue Expenditure (RE)	14985	14369	14560	18765	18026	20563
Of which Non Plan Revenue Expenditure (NPRE)	12302 (82.10)	11853 (82.49)	11040 (75.82)	15949 (84.99)	14861 (82.44)	16351 (79.52)
Plan Revenue Expenditure (PRE)	2683 (17.90)	2516 (17.51)	3520 (24.18)	2816 (15.01)	3165 (17.56)	4212 (20.48)
Rate of Growth (<i>per cent</i>) NPRE	Neg.	Neg.	Neg.	44.46	Neg.	10.02
PRE	Neg.	Neg.	39.90	Neg.	12.39	33.08
NPRE/ GSDP (<i>per cent</i>)	13.90	14.58	13.29	15.78	13.76	14.99
NPRE as <i>per cent</i> of TE	75.05	72.08	63.10	73.67	56.53	58.35
NPRE as <i>per cent</i> of RR	95.81	105.72	82.44	111.61	75.27	79.38
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	♣	♣	0.622	1.330	♣	13.451
Revenue Receipts (ratio)	♣	♣	0.067	4.310	♣	3.256

♣- Growth of RR and GSDP during 2000-01 and 2001-02 as also of RE during 2004-05 was negative.

Revenue expenditure of the State increased by 14 per cent from Rs. 18026 crore in 2004-05 to Rs. 20563 crore in 2005-06. The increase was mainly due to more expenditure on Power (Rs. 518 crore), General Education (Rs. 356 crore), Relief on account of Natural Calamities (Rs. 320 crore), Pension and Other Retirement benefits (227 crore) and Other Rural Development Programmes (Rs. 289 crore) in comparison to previous year. Both the components of revenue expenditure, non-plan revenue expenditure and plan revenue expenditure had increased from Rs. 14861 crore and 3165 crore in 2004-05 to Rs. 16351 crore and Rs. 4212 crore in 2005-06 respectively. The rate of growth of NPRE and PRE sharply increased from negative and 12.39 per cent in 2004-05 to 10.02 per cent and 33.08 percent during 2005-06. The ratio of non-plan revenue expenditure to total expenditure and revenue receipts increased from 56.53 and 75.27 per cent in 2004-05 to 58.35 and 79.38 per cent in 2005-06. Buoyancy ratio of revenue expenditure with GSDP

was 13.451 during the year which was maximum during the entire period 2000-06. Buoyancy of revenue expenditure with revenue receipts was 3.256 during the year due to decrease in non-tax revenue. As against the growth of 11.46 per cent estimated for non plan revenue expenditure there was actual growth of 10.02 per cent in 2005-06. However the expenditure on Salary (Rs. 5669 crore), Interest payment (Rs. 3422 crore) and Pension (Rs. 1557 crore) together consumed 52 per cent of the total revenue receipts of the State during the year. Total non-plan revenue expenditure of Rs. 16351 crore was more than the projected figure of Rs. 13150 crore by TWFC. The increase was mainly under 'Interest Payment' (Rs. 167 crore) 'General Services' (Rs. 565 crore), 'Social Services' (Rs. 393 crore) and 'Economic Services' (Rs. 1910 crore).

1.5.3 Committed Expenditure

Expenditure on Salaries

Table-9: Expenditure on Salaries

(Rupees in crore)						
Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Salaries	5715*	4669*	5258*	5312*	6176*	5669* [@]
Of which						
Non-Plan Head	NA	NA	NA	NA	NA	5058
Plan Head	NA	NA	NA	NA	NA	611
As per cent of GSDP	6.46	5.74	6.33	5.26	5.72	5.20
As per cent of RR	44.51	41.65	39.27	37.17	31.28	27.52

* Figures as were obtained from Department

@ Source: Finance Accounts of year 2005-06

Salary for year 2005-06 was 5.20 per cent of GSDP and 27.52 per cent of revenue receipts. Macro Economic framework statement estimated increase in salary @ 7.5 percent from 2007-08.

Pension Payments

Table 10: Expenditure on Pensions

(Rupees in crore)						
Heads	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Expenditure on Pensions	962.65	1010.76	1082.68	1197.27	1329.89	1557.14
As per cent of GSDP	1.09	1.24	1.30	1.18	1.23	1.43
As per cent of RR	7	9	8	8	7	8

The State Government has estimated in medium term fiscal policy statement average increase rate of 9.66 per cent in pension from 2007-08. TWFC adopted an annual growth rate of 10 percent and applied it to base year estimated to generate payment levels in the forecast period. It was however observed that there was higher growth rate of 11.11 percent and 17.06 percent in 2004-05 and 2005-06 respectively, mainly due to more expenditure on superannuation and Retirement allowances and normal growth expenditure.

While the State Government projected pension liabilities of Rs. 1548 crore during 2005-06, the actual pension payments were Rs. 1557 crore.

Interest payments

Table-11: Interest payments

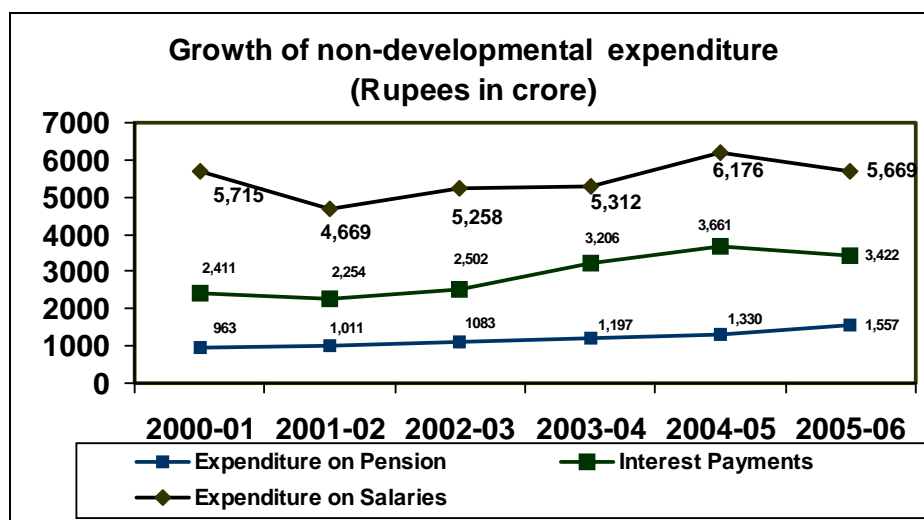
Year	Total Revenue Receipts	Interest Paym	Percentage of Interest payments with reference to	
	(Rupees in crore)		Total Revenue Receipts	Revenue Expenditure
2000-01	12839	2411	18.78	16.09
2001-02	11211	2254	20.11	15.69
2002-03	13391	2502	18.68	17.18
2003-04	14289	3206	22.43	17.08
2004-05	19743	3661	18.54	20.31
2005-06	20597	3422	16.61	16.64

The State Government had paid interest of Rs. 3422 crore during the year as against the estimated amount of Rs. 3686 crore prescribed in Macro Economic Framework Statements on account of loans borrowed from many sources. During the year State Government had paid Rs. 826 crore as interest mainly on the Loans borrowed from open market and Rs. 946 crore as interest on special securities issued to NSS fund of the Central Government by the State Government. The State Government paid Rs. 490 crore as interest to various autonomous bodies on loans received from them and also paid Rs. 699 crore as interest for the loans borrowed from the Government of India.

The TWFC (November 2004) and Macro Economic Framework Statements had recommended that the level of interest payments relative to revenue receipts should fall to about 15 per cent by 2009-10. It was observed that interest payments as percentage of revenue receipts during the year 2005-06 were 17 per cent. As per Macro Economic Framework Statements, an amount of Rs. 587.55 crore at 14.5 per cent of the GOI loan was swapped in 2002-03. In the year 2003-04 an amount of Rs. 1507.17 crore was swapped on interest rates ranging between 13 percent and 14.5 per cent. Similarly Rs. 732 crore of NABARD Loan was also swapped in 2004-05. The interest relief due to debt swap in these three years was about Rs. 225 crore.

Impact of Debt Consolidation

Macro Economic Framework Statements prescribed that general debt relief comprising consolidation, rescheduling and lowering of Interest rate to 7.5 per cent shall be available to all States with effect from the year they enact the fiscal responsibility legislation. A sum of Rs. 7256 crore has been rescheduled for Madhya Pradesh under this scheme. The total savings on account of Debt repayment and interest payment are estimated at Rs. 1927.60 crore over a period of five years.



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 12**.

Table-12: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2001-02	2038.16	(+)395.26	12.40
2002-03	938.88	(-)53.93	5.37
2003-04	3926.78	(+)318.24	18.14
2004-05	1465.93	(-)62.67	5.58
2005-06	1983.47	(+)35.30	7.08

Note: Details of subsidies paid is related to MPSEB & MPSRTC only. Details in respect of other Corporations and Nigam were not made available by the Finance Department.

Though the expenditure on payment of subsidies increased by 35 per cent during the year it still constituted 7 per cent of total expenditure which was paid to MPSEB.

1.6 Expenditure by Allocative Priorities

1.6.1 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, the better is quality of expenditure. **Table13** gives these ratios during 2000-06.

Table 13 – Indicators of Quality of Expenditure

	(Rs in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Capital Expenditure	1110	1471	2455	2679	4951	6623
Revenue Expenditure	14985	14369	14560	18765	18026	20563
<i>Of which</i>						
Social and Economic Services with (i) Salary & Wage Component*	NA	NA	NA	NA	NA	4140
(ii) Non-Salary & Wage component						7712
As per cent of Total Expenditure						
Capital Expenditure	6.77	8.95	14.03	12.39	18.83	23.64
Revenue Expenditure	91.42	87.38	83.22	86.68	68.57	73.39
As per cent of GSDP						
Capital Expenditure	1.25	1.81	2.96	2.65	4.59	6.07
Revenue Expenditure	16.94	17.68	17.53	18.57	16.70	18.86

* Figures pertain to salary only

Macro Economic Framework Statements estimated Revenue and Capital expenditure of Rs. 21370 crore and Rs. 6853 crore respectively during 2005-06.

Both the Revenue and Capital expenditure had increased from Rs. 18026 crore and Rs. 4951 crore in 2004-05 to Rs. 20563 crore and Rs. 6623 crore in 2005-06 respectively. As percentage of total expenditure and GSDP, both the expenditures have incremental trends during the year. Higher ratios of these components show that the quality of the expenditure was better. The growth of Revenue and Capital expenditure was 14 and 34 per cent respectively during 2005-06. Significant growth of capital expenditure shows better financial position. The developmental expenditure (Rs. 18355 crore) accounted for 65.5 per cent of Total Expenditure (Rs. 28020 crore). The expenditure on non-developmental purposes (Rs. 4140 crore) was 22.6 per cent of the developmental expenditure (Rs. 18355 crore). Out of Revenue Expenditure on Social and Economic Services, 35 per cent and 65 per cent were incurred on salary and non-salary components respectively. Expenditure on non-salary component includes 46 per cent of Social Services and 54 per cent on Economic Services.

1.6.2 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 14** summarises the expenditure incurred by the State Government in expanding and strengthening of social services in the State during 2000-06.

Table 14: Expenditure on Social Services

(Rs in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (®)
Education, Sports, Art and Culture						
Revenue Expenditure	2750	2110	2296	2355	2552	2906
<i>Of which</i>						
(a) Salary & Wage Component*	NA	NA	NA	NA	NA	1786(97.8)
(b) Non-Salary & Wage component	NA	NA	NA	NA	NA	1120(39.6)
Capital Expenditure	13	16	17	20	24	42
Total	2763	2126	2313	2375	2576	2948
Health and Family Welfare,						
Revenue Expenditure	832	667	761	761	856	925
<i>Of which</i>						
(a) Salary & Wage Component*	NA	NA	NA	NA	NA	596(82.9)
(b) Non-Salary & Wage component	NA	NA	NA	NA	NA	329(62.6)
Capital Expenditure	30	21	18	38	43	64
Total	862	688	779	799	899	989
Water Supply, Sanitation, Housing and Urban Development						
Revenue Expenditure	683	536	397	459	479	556
<i>Of which</i>						
(a) Salary & Wage Component*	NA	NA	NA	NA	NA	109(95.4)
(b) Non-Salary & Wage component	NA	NA	NA	NA	NA	447(36.0)
Capital Expenditure	18	72	394	361	242	394
Total	701	608	791	820	721	950
Other Social Services						
Revenue Expenditure	1571	1270	1830	1747	1785	2271
<i>Of which</i>						
(a) Salary & Wage Component*	NA	NA	NA	NA	NA	600(74.3)
(b) Non-Salary & Wage component	NA	NA	NA	NA	NA	1671(37.4)
Capital Expenditure	75	63	107	116	123	135
Total	1646	1333	1937	1863	1908	2406
Total (Social Services)						
Revenue Expenditure	5836	4583	5284	5322	5672	6658
<i>Of which</i>						
(a) Salary & Wage Component*	NA	NA	NA	NA	NA	3091(90.3)
(b) Non-Salary & Wage component	NA	NA	NA	NA	NA	3567(45.0)
Capital Expenditure	136	172	536	535	432	635
Total	5972	4755	5820	5857	6104	7293

*pertains to salary expenditure (®)Figures in bracket shows share of Non Plan Revenue Expenditure in percentage.

The growth of Revenue expenditure and Capital expenditure on social services was 17.38 per cent and 47 per cent during 2005-06 as against 6.58 per cent and negative growth respectively during 2004-05. The growth of 13.87 per cent, 8.06 per cent and 16.08 percent of revenue expenditure were noticed during 2005-06, under the components "Education, Sports, Art and Culture, "Health and Family Welfare" and "Water Supply and Sanitation, Housing and Urban Development" respectively. During 2005-06, the expenditure on salary were 61.46 percent, 64.43 per cent and 19.60 per cent under the components "Education, Sports, Art & Culture", "Health & Family Welfare" and "Water Supply, and Sanitation, Housing and Urban development" respectively. Social Services (Rs. 7293 crore) accounted for 40 per cent of the Developmental Expenditure (Rs. 18355 crore) during the year. Out of the expenditure on Social Services, 40 per cent was spent on 'Education, Sports, Art & Culture', 13 per cent on 'Water Supply and Sanitation, Housing and Urban Development', 14 per cent on Health & family welfare and 33 per cent on other social services. Non-Plan Revenue Expenditure on salary in Revenue Section in respect of 'Education, Sports, Art & Culture' and 'Health & Family Welfare' was 98 percent and 83 percent respectively as against 85 percent and 75 percent observed by the TWFC.

1.6.3 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. 11061 crore) accounted for 39.48 per cent of the total expenditure (**Table 15**). Of this, Agriculture and Allied activities, Irrigation and Flood Control, Energy and Transport consumed nearly 83.4 per cent .

Table-15: Expenditure on Economic Sector

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Agriculture, Allied Activities.						
Revenue Expenditure	1215	1108	1226	1148	1244	1285
<i>Of which (a) Salary & Wage Component*</i>	NA	NA	NA	NA	NA	544(86.4)
<i>(b) Non-Salary & Wage component</i>	NA	NA	NA	NA	NA	741(47.6)
Capital Expenditure	43	23	34	50	59	38
Total	1258	1131	1260	1198	1303	1323
Irrigation and Flood Control						
Revenue Expenditure	336	261	251	270	300	327
<i>Of which (a) Salary & Wage Component*</i>	NA	NA	NA	NA	NA	233(67.8)
<i>(b) Non-Salary & Wage component</i>	NA	NA	NA	NA	NA	94(94.7)
Capital Expenditure	487	685	950	1081	1699	1254
Total	823	946	1201	1351	1999	1581
Power & Energy						
Revenue Expenditure	410	2037	980	3954	1466	1983
<i>Of which (a) Salary & Wage Component*</i>	NA	NA	NA	NA	NA	--
<i>(b) Non-Salary & Wage component</i>	NA	NA	NA	NA	NA	1983(96.7)
Capital Expenditure	239	173	348	328	1747	3236
Total	649	2210	1328	4282	3213	5219
Transport						
Revenue Expenditure	295	246	224	190	140	298
<i>Of which (a) Salary & Wage Component*</i>	NA	NA	NA	NA	NA	98(100)
<i>(b) Non-Salary & Wage component</i>	NA	NA	NA	NA	NA	200(100)
Capital Expenditure	116	237	315	407	547	809
Total	411	483	539	597	687	1107
Other Economic Services						
Revenue Expenditure	1042	711	744	717	819	1301
<i>Of which (a) Salary & Wage Component*</i>	NA	NA	NA	NA	NA	174(79.3)
<i>(b) Non-Salary & Wage component</i>	NA	NA	NA	NA	NA	1127(72.6)
Capital Expenditure	74	159	236	241	321	530
Total	1116	870	980	958	1140	1831
Total (Economic Services)						
Revenue Expenditure	3298	4363	3425	6279	3969	5194
<i>Of which (a) Salary & Wage Component*</i>	NA	NA	NA	NA	NA	1049(82.4)
<i>(b) Non-Salary & Wage component</i>	NA	NA	NA	NA	NA	4145(63.0)
Capital Expenditure	959	1277	1883	2107	4373	5867
Total	4257	5640	5308	8386	8342	11061

* Figure pertains to Salary Expenditure only

(&) Figures in brackets shows share of Non Plan Revenue Expenditure in percentage

Both the revenue and capital Expenditure on Economic Services increased from Rs.3969 crore and Rs.4373 crore in 2004-05 to Rs.5194 crore and Rs.5867 crore in 2005-06 respectively. Out of Rs.5194 crore on revenue expenditure, Rs.4145 crore (80 per cent) were spent on non salary and wages component. It shows that a substantial amount was spent on maintenance of these Economic Services.

1.6.4 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 2000-06 is presented in **Table 16**

Table-16: Financial Assistance

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	156.20	154.80	134.56	173.96	158.74	133.37
Municipal Corporations and Municipalities	190.72	430.72	506.00	557.35	320.61	1027.34
Zilla Parishads and Other Panchayati Raj Institutions	218.89	431.90	526.29	524.58	437.82	685.98
Development Agencies	9.08	153.05	253.29	21.30	7.33	2.00
Hospitals and Other Charitable Institutions	18.90	4.60	7.08	13.71	8.67	7.14
Other Institutions	170.36	29.65	121.22	113.72	170.90	311.43
Total	764.15	1204.72	1548.44	1404.62	1104.07	2167.26
Assistance as per percentage of RE	Not possible*	8	11	7.5	6.12	10.54

The Financial Assistance to Local bodies and other institutions increased from Rs. 1104.07 crore in 2004-05 to Rs. 2167.26 crore in 2005-06. The increase was mainly under "Municipal Corporations and Municipalities" and "Zila Parishad and other Panchayati Raj Institutions". The assistance as percentage of Revenue Expenditure increased from 6.12 percent in 2004-05 to 10.54 percent in 2005-06.

1.6.5 Delay in furnishing utilisation certificates

Utilisation Certificates (2478 nos.) in respect of Grants and Loans aggregating Rs. 2859.86 crore paid up to 2005-06 were in arrears. Details of Department-wise break up of outstanding utilisation certificates are given in **Appendix 1.7**.

1.6.6 Non-submission of accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. As of September 2006, none of the Departments of the Government furnished details for the year 2005-06.

1.6.7 Abstract of performance of the autonomous bodies

The audit of accounts of three 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 1.8**.

* Due to re-organisation of State

1.6.8 Misappropriations, losses, defalcations, etc

State Government reported 801 cases of misappropriation, defalcation, etc involving Government money amounting to Rs. 5.30 crore upto the period from 1965-66 to the end of March 2006 on which final action was pending. The Department-wise break up of pending cases is given in **Appendix 1.9**.

1.6.9 Write off of losses, etc

As reported to Audit, losses due to theft, fire and irrecoverable revenue, etc amounting to Rs. 29.84 Lakh in 80 cases were written-off during 2005-06 by competent authorities. The relevant details are given in **Appendix-1.10**.

1.7 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 1.4** gives an abstract of such liabilities and the assets as on 31 March 2006, compared with the corresponding position on 31 March 2005. 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 1.11** depicts the time series data on State Government finances for the period 2000-06.

1.7.1 Financial Results of Irrigation Works

The financial results of 13 major, medium and minor irrigation projects with revenue expenditure of Rs. 324.75 crore during the year showed that revenue realised (Rs. 37.32 crore) from these projects during 2005-06 was 11.49 per cent of revenue expenditure which was far from sufficient to meet even the expenditure on maintenance.

1.7.2 Investments and returns

As of 31 March 2006, Government had invested Rs.6965.99 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 18**). Of these, 3 Statutory Corporations and 13 Government Companies with an aggregate investment of Rs. 638 crore upto 2005-2006 were incurring losses and their accumulated losses amounted to Rs.2899 crore as per the accounts furnished by these companies upto 2005-06 (**Appendix-1.12**).

Thus, Government needs not only to invest the high cost borrowings more judiciously to get better returns, but also address the losses on account of these sick units by disinvestment of such units. During 1996-98, Rs.710 crore were invested in Madhya Pradesh State Electricity Board which was restructured (November 2000) into Chhattisgarh and Madhya Pradesh States but its assets and liabilities were yet to be redistributed.

Out of the total investment of Rs.6965.99 crore at the end of March 2006, Rs.1619.56 crore pertained to the composite State of Madhya Pradesh but retained in MP pending allocation between MP and Chhattisgarh State

(Statutory Corporations (Rs.935.47 crore) Government Companies (Rs.199.54 crore), Co-operative Banks and Societies (Rs.483.01 crore) and Joint-Stock Companies (Rs.1.54 crore).

The return on this investment was 0.08 *per cent* in 2005-06 while the Government paid interest at the average rate of 7.33 to 9.94 *per cent* on its borrowings during 2000-2006.

Table-18: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on government borrowing	Difference between interest rate and return
	(Rupees in crore)			(per cent)	
2000-01	1679.09	0.31	0.02	9.94	9.92
2001-02	1687.08	1.64	0.10	9.19	9.09
2002-03	1702.39	4.09	0.24	8.81	8.57
2003-04	1737.29	8.42	0.48	9.41	8.93
2004-05	4151.65	2.50	0.06	8.96	8.90
2005-06	6965.99	5.72	0.08	7.33	7.25

1.7.3 Loans and advances by State Government

In addition to investments in Co-operative societies, Corporation and Companies, Government has also been providing loans and advances to many of these institutions/organizations. Total outstanding loans and advances as on 31 March 2006, was Rs. 3848 crore (**Table 19**). Interest received against these loans advanced was 12.50 *per cent* during 2005-06 as against 0.09 *per cent* in previous year.

Table-19: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Opening Balance	2845	2991	2002	2440	2608	5866
Amount advanced during the year	295	599	481	204	3311	834
Amount repaid during the year	13	1588	43	36	53	2852
Closing Balance	2991	2002	2440	2608	5866	3848
Net addition	146	(-989)	438	168	3258	(-)2018
Interest Received	157	237	24	11	5	481
Interest received as <i>per cent</i> to outstanding Loans and advances	5.25	11.84	0.98	0.42	0.09	12.5
Weighted interest rate (in <i>per cent</i>) paid on borrowings by State Government.	9.48	7.23	7.20	6.90	7.22	7.45
Difference between weighted interest paid and received (<i>per cent</i>)	4.23	(-)4.61	6.22	6.48	7.13	(-)5.05

The interest received on these loans has been increased by Rs. 476 crore during the year in comparison to previous year mainly due to interest on loans to MPSEB (Rs. 465 crore) and other Loans and Advances (Rs. 11 crore). The weighted interest paid on borrowing at the rate of 7.45 percent was less than interest received at the rate of 12.5 percent on Loans and Advances given by the Government during 2005-06. As per the revised estimates of the year 2005-06, Rs. 3757 crore of Loans and Advances are outstanding. The recoveries are projected to grow at 25 percent average annual growth rate from the budget estimates of the year 2006-07.

The steep increase in Loans and Advances during 2004-05 was due to payment of loans of Rs. 2749 crore to MPSEB which was repaid by MPSEB during 2005-06.

1.7.3.1 Non-recovery of loan

Government of Madhya Pradesh, Public Health Engineering Department (PHED) granted loan to Municipal Corporation, Gwalior each year from 1989-90 onwards for Sewerage and Sewage Disposal Project for Greater Gwalior. Agreements were executed by Collector Gwalior on behalf of PHED with Municipal Corporation regarding conditions of repayment of loan. The loan along with interest was recoverable in 25 equal installments, commencing after four years from the year of sanction of loan or two years after completion of work which ever was earlier. In case of failure in repayment of loan the loanee was liable to penal interest at 3 per cent.

Test-check (March 2006) of records of Collector, Gwalior and further information collected in November 2006 revealed that between 1991-92 and 1999-2000 loans of Rs. 22.73 crore (1991-92: Rs. 0.23 crore; 1997-98: Rs. 0.20 crore; 1998-99: Rs. 0.30 crore and 1999-2000: Rs. 22.00 crore) were granted to Municipal Corporation Gwalior for above work but no installment towards repayment of loan was paid so far by the loanee. This resulted in non-recovery of loan of Rs. 2.82 crore upto November 2006, besides interest on loan and amount of penalty at the rate of three per cent was also leviable.

On this being pointed out in audit (March and November 2006), the Collector stated that action will be taken to recover the loan.

The matter was reported to Government (April 2006); their reply is awaited (November 2006).

1.7.4 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 Reserve Bank of India has been put in place. During the year, the State has not availed any Ways and Means Advances.

Ways and Means Advances and Overdrafts availed, the number of occasions it was availed during 2000-2006 and interest paid by the State is detailed in **Table 20**.

Table-20: Ways and Means and Overdrafts of the State

	(Rupees in crore)					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Ways and Means Advances						
Availed in the Year	2246.46	2491.64	2306.65	5330.26	2234.74	Nil
Outstanding WMAs, if any	--	--	--	266.78	--	Nil
Interest Paid	8.22	10.51	11.55	14.06	3.75	Nil
Number of Days	165	117	103	200	127	Nil
Overdraft						
Availed in the year	1220.14	3722.79	4140.40	1083.54	--	Nil
Number of Days	47	172	176	60	--	Nil
Interest Paid	2.79	5.08	6.69	3.41	--	Nil

1.8 Undischarged Liabilities

The FRBM Act, 2005, describes "Total Liabilities" as the liabilities under the Consolidated fund of the State and the Public Accounts of the State and includes risk weighted guarantee obligations of the State Government where the principal and/or interest are to be serviced out of the State Budget.

1.8.1 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-21 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-21: Fiscal Liabilities – Basic Parameters

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal Liabilities (Rupees in crore)	22548	26487	30340	37525	44235	49173*
Rate of Growth (<i>per cent</i>)	Neg.	17.46	14.55	23.68	17.88	11.16
Ratio of Fiscal Liabilities to						
GSDP (<i>per cent</i>)	25.49	32.58	36.55	37.14	40.99	45.09
Revenue Receipts (<i>per cent</i>)	175.62	236.26	226.57	262.61	224.05	238.73
Own Resources (<i>per cent</i>)	306.19	421.70	388.97	453.80	361.54	434.28
Buoyancy of Fiscal Liabilities to						
GSDP (ratio)	♣	♣	6.856	1.091	2.618	10.669
Revenue Receipts (ratio)	♣	♣	0.748	3.534	0.468	2.583
Own Resources (ratio)	♣	♣	0.601	3.940	0.372	♣

* Includes Rs. 662 crore not yet apportioned between Madhya Pradesh and Chhattisgarh

♣ Growth of RR during 2000-01 and 2001-02 as also own receipts during 2000-01, 2001-02 and 2005-06 was negative.

Overall fiscal liabilities of the State increased from Rs. 22548 crore in 2000-01 to Rs. 49173 crore in 2005-06. The increase of fiscal liabilities of Rs. 4938 crore during the year 2005-06 was mainly due to increase in internal debt of government (Rs. 4328 crore) i.e. mainly under market loans (Rs. 944 crore), loan from the national agriculture credit fund of the RBI (Rs. 399 crore) and NSS fund of Central Government (Rs. 2999 crore). The growth rate was 11.16 *per cent* during 2005-06 over previous year. The ratio of fiscal liabilities to GSDP also increased from 25.49 *per cent* in 2000-01 to nearly 45.09 *per cent* in 2005-06. These liabilities stood at 2.39 times the revenue receipts and 4.34 times of the States own resources as at the end of 2005-06. The fiscal liabilities had grown faster than the State's GSDP. The buoyancy of these liabilities with respect to GSDP during the year was 10.669 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 10.67 *per cent* the buoyancy of fiscal liabilities to Revenue receipts increased from 0.468 in 2004-05 to 2.583 in 2005-06. The FRBM Act, 2005, prescribes the target to limit the liabilities so that total liabilities do not exceed 40 per cent of the

estimated GSDP for that year within a period of 10 years i.e. 31 March 2015. During the year the fiscal liability was 45.09 per cent of the GSDP. The ratios of total liability to GSDP and Revenue receipts was 45.09 percent and 238.73 per cent respectively during 2005-06, which was less than estimated ratios of 52.35 percent and 278.03 per cent prescribed in fiscal situation statement.

1.8.2 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 2000-01 is given in **Table 22**.

Table-22: Guarantees given by the Government of Madhya Pradesh

(Rupees in crore)

Year	Max amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt
2000-01	9709.60	467.43	75.62
2001-02	9701.32	471.49	86.53
2002-03	11572.37	584.65	86.41
2003-04	12131.29	973.72	84.89
2004-05	12506.62	2016.27	63.34
2005-06	12636.80	613.37*	61.35

* *To the extent information was received*

Guarantees have been given by the State government for the discharge of certain liabilities like loans raised by statutory corporations, Government companies, Joint Stock companies, Co-operative institutions, local bodies, firms and individuals etc. No limit has been fixed within which the government may give guarantee on the security of the consolidated fund of the State. During the year 2005-06 Rs. 12637 crore was guaranteed by the State government out of which Rs. 613 crore was outstanding at the end of the year. Out of Rs. 613 crore outstanding guarantee, Rs. 92 crore were outstanding as interest. The State Government has constituted a Guarantee Redemption Fund amounting to Rs. 1,04 crore during 2005-06. The FRBM Act, 2005 prescribes the fiscal target to limit annual incremental guarantees so as to ensure that the total guarantees do not exceed 80 per cent of the total revenue receipts in the year proceeding the current year. The maximum amount of Rs. 12637 crore guaranteed by the State Government during 2005-06 was 61.35 per cent of Revenue Receipt. If the contingent liability on account of outstanding amount of guarantee Rs. 613 crore are not met by the borrowers it will be a liability on the consolidated fund of State and the fiscal liability would thus increase to that extent. As a result, the debt GSDP ratio will be marginally increased to 45.65 percent.

No sinking fund for amortization of all loans including loans from bank, liabilities on account of NSS etc. has been set up by the State Government.

1.8.3 Debt sustainability

The debt sustainability is defined as the ability to maintain a constant debt-GDP ratio over a period of time. In simple terms, public debt is considered sustainable as long as the rate of growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt* rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GDP ratio would be constant or sustainable. On the other hand, if $PD > QS$, debt-GDP ratio would be rising and if $PD < QS$, it would be falling.

Table-23: Debt Sustainability–Interest Rate and GSDP Growth (in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Weighted Interest Rate	9.48	7.23	7.20	6.90	7.22	7.45
GSDP Growth	(-)10.45	(-) 8.09	2.12	21.70	6.83	1.05
Interest spread	0.97	(-) 0.86	(-) 5.08	14.80	(-) 0.39	(-) 6.40
Fiscal Liabilities (Rs. Crores)	22548	26487	30340	37525	44235	49173
Quantum Spread (Rs Crores)	219	228	(-) 1541	5554	(-) 173	(-) 3147
Primary Deficit (Rs Crores)	1128	1391	1560	4117	2831	1149

Except 2003-04, debt GSDP ratio had an increasing trend indicating non-sustainability of debt position of the State.

1.8.4 Net availability of 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-25 below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last six years.

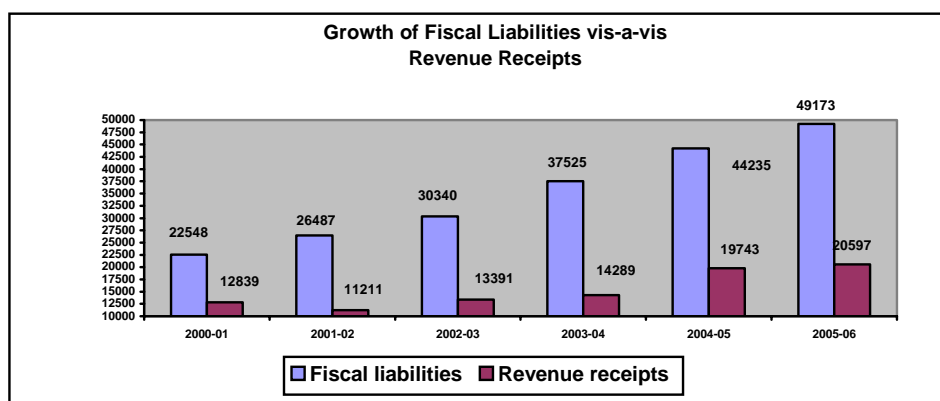


Table-25: Net Availability of Borrowed Funds

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Internal Debt						
Receipt	1876	1830	3169	7949	6968	4867
Repayment (Principal + Interest)	843	906	1105	1857	3061	2806
Net Fund Available	1033	924	2064	6092	3907	2061
Net Fund Available (<i>per cent</i>)	55	50	65	77	56	42
Loans and Advances from GOI						
Receipt	994	1451	1780	1723	1881	294
Repayment (Principal + Interest)	1494	1368	2468	3158	3052	1115
Net Fund Available	(-)500	83	(-)688	(-)1435	(-)1171	(-)821
Net Fund Available (<i>per cent</i>)	(-)50	6	(-)39	(-)83	(-)62	(-)279
Other obligations						
Receipt	1866	2625	3643	3922	3887	4574
Repayment (Principal + Interest)	1947	1963	3363	4153	3801	3916
Net Fund Available	(-)81	662	280	(-)231	86	658
Net Fund Available (<i>per cent</i>)	(-)4	25	8	(-)6	2	14
Total liabilities						
Receipt	4736	5906	8592	13594	12736	9735
Repayment (Principal + Interest)	4284	4237	6936	9168	9914	7837
Net Fund Available	452	1669	1656	4426	2822	1898
Net Fund Available (<i>per cent</i>)	10	28	19	33	22	19

The net funds available on account of internal debt and loans and advances from Government of India after providing for the interest and repayments and other obligations decreased from 22 per cent to 19 per cent during 2004-2006.

The State Government raised market loans of Rs. 1260.82 crore during the year. The average interest rate on borrowings during the year was 7.59 per cent whereas the State Government borrowed Rs. 3035.02 crore from National Small Savings Fund at the rate of 9.5 per cent per annum and Rs. 294 crore at the rate of 9 per cent per annum from Government of India. The State Government did not use the option of raising market borrowings at competitive rates through auctions. As on 31 March 2006, 44 per cent of the existing market loans of the State Government carried an interest rate exceeding 10 per cent. Thus, the effective cost of borrowings on their past loans is much higher than the rate at which Government is able to raise resources at present from the market. The maturity profile of the State Government market loans indicates that nearly one- third of the total market loans are repayable within the next five years while remaining two third loans are required to be repaid within 5 to 10 years. The receipt of Loans and Advances from Government of India has sharply decreased from Rs. 1881 crore in 2004-05 to Rs. 294 crore in 2005-06 due to less receipt under "Loan for State/Union Territories Plan Scheme" (Rs. 1330 crore) and Non-receipt of ways and means advances during the year 2005-06 as against Rs. 250 crore received in 2004-05. Similarly, the repayment has decreased from Rs. 3052 crore in 2004-05 to Rs. 1115 crore in 2005-06 under the same head as above.

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 are applied are important pointers to its fiscal health.

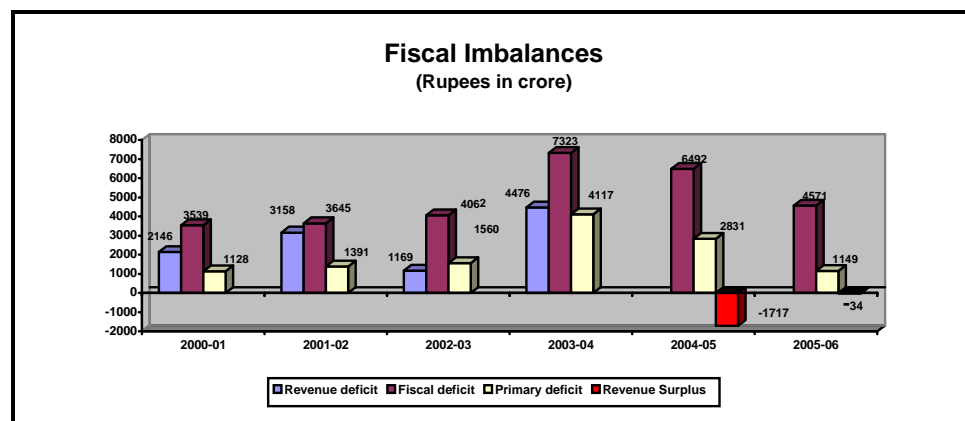
The revenue deficit of the State which indicates the excess of its revenue expenditure over revenue receipts increased from Rs. 2146 crore in 2000-01 to

Rs. 4476 crore in 2003-04. There were revenue surpluses of Rs. 1717 crore and Rs. 34 crore during 2004-05 and 2005-06 respectively. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, increased from Rs. 3539 crore in 2000-01 to Rs. 7323 crore in 2003-04 and decreased to Rs. 6492 crore and Rs. 4571 crore in 2004-05 and 2005-06 respectively. In the light of increase of 10.03 percent of Non Plan Revenue Expenditure during 2005-06 and decrease in interest payment by 6.53 per cent, the own tax GSDP ratio also increased from 7.20 percent in 2004-05 to 8.36 percent in 2005-06. The State also had a primary deficit of Rs. 1128 crore in 2000-01 which increased to Rs. 4117 crore in 2003-04 and decreased to Rs. 2831 crore and Rs. 1149 crore in 2004-05 and 2005-06 respectively as indicated in **Table-26**.

The ratio of revenue surplus to fiscal deficit was 0.74 *per cent* during 2005-06 indicating that nearly one percent of the borrowed funds were used for current consumption. As proportion to GSDP, fiscal deficit had reached 4.19 *per cent* in 2005-06.

Table-26: Fiscal Imbalances: Basic Parameters

Parameters	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue deficit (-)/ Revenue Surplus (+) (Rupees in crore)	(-) 2146	(-) 3158	(-) 1169	(-) 4476	(+) 1717	(+) 34@
Fiscal deficit (Rupees in crore)	3539	3645	4062	7323	6492	4571
Primary deficit (Rupees in crore)	1128	1391	1560	4117	2831	1149
RD/GSDP (<i>per cent</i>)	2.43	3.89	1.41	4.43	1.59*	0.03*
FD/GSDP (<i>per cent</i>)	4.00	4.48	4.89	7.25	6.02	4.19
PD/GSDP (<i>per cent</i>)	1.28	1.71	1.88	4.08	2.62	1.06
RD/FD (<i>per cent</i>)	60.64	86.64	28.78	61.12	NA	NA



The FRBM Act, 2005 prescribes that State Government shall (i) reduce revenue deficit in each financial year as to eliminate it by 31 March 2009 and generate revenue surplus thereafter and (ii) reduce fiscal deficit in each Financial year so as to bring it down to not more than 3 *per cent* of GSDP by 31 March 2009. During 2005-06, there was revenue surplus of Rs. 34 crore and fiscal deficit was 4.19 *per cent* of GSDP as against estimated revenue deficit of Rs. 25 crore and fiscal deficit of 4.21 *per cent* of GSDP as per Macro Economic Framework Statement.

* Figures pertains to Revenue surplus/GSDP.

@ Revenue Surplus is understated by Rs. 814.78 crore due to conversion of Investment under Rural Electrification Corporation into grant by State Government.

Revenue Surplus of Rs. 34 crore was mainly due to increase in Revenue receipts under the Head Corporation Tax, Taxes on Income other than Corporation Tax, Taxes on Sales Trades etc, Interest Receipts and Power and decrease in expenditure on Interest Payment.

Decline in fiscal deficit during 2005-06 was mainly due to less disbursement of Loans and Advances and more recovery of borrowings. The surplus of Rs. 1717 crore during 2004-05 was overstated by Rs. 2749 crore due to adjustment of Grants given to MPSEB in 2003-04 into loans to MPSEB by per contra credit to 0801-Power. During 2005-06, FD and PD has also improved due to substantial recovery and less disbursement of loans and less interest payment.

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-27** below presents a summarized position of Government finances over 2000-2006, 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 facets.

Table-27: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
I Resource Mobilisation						
Revenue Receipt/GSDP	14.52	13.79	16.13	14.14	18.29	18.88
Revenue Buoyancy	Neg.	Neg.	9.166	0.309	5.588	4.130
Own Tax/GSDP	6.38	5.76	7.43	6.72	7.2	8.36
II Expenditure Management						
Total Expenditure/GSDP	18.53	20.23	21.08	21.43	24.36	25.69
Total Expenditure/Revenue Receipts	127.66	146.67	130.65	151.50	133.15	136.03
Revenue Expenditure/Total Expenditure	91.42	87.38	83.22	86.68	68.57	73.39
Salary &Wage expenditure on ^{##} Social and Economic Services / Revenue Expenditure	NA	NA	NA	NA	NA	15.54
Non-Salary &Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	NA	NA	NA	NA	73.72
Capital Expenditure/Total Expenditure	6.77	8.95	14.03	12.38	18.83	23.64
Capital Expenditure on Social and Economic Services/Total Expenditure.	6.67	8.81	13.82	12.20	18.27	23.20
Buoyancy of TE with RR	♣	♣	0.328	3.541	0.561	1.523
Buoyancy of RE with RR	♣	♣	0.067	4.310	♣	3.256
III Management of Fiscal Imbalances						
Revenue deficit (Rs in crore)	2146	3158	1169	4476	1717 [#]	34 [#]
Fiscal deficit (Rs in crore)	3539	3645	4062	7323	6492	4571
Primary Deficit (Rs in crore)	1128	1391	1560	4117	2831	1149
Revenue Deficit/Fiscal Deficit	60.64	86.64	28.78	61.12	NA	NA
IV Management of Fiscal Liabilities						
Fiscal Liabilities/GSDP	25.49	32.58	36.55	37.14	40.99	45.09
Fiscal Liabilities/RR	175.62	236.26	226.57	262.61	224.05	238.73
Buoyancy of FL with RR	♣	♣	0.748	3.534	0.468	2.583
Buoyancy of FL with Own Receipts	♣	♣	0.601	3.940	0.372	♣
Primary deficit vis-à-vis quantum spread	0.25	0.34	1.01	(-)0.74	16.37	0.37
Net Funds Available	10	28	19	33	22	19
V Other Fiscal Health Indicators						
Return on Investment	0.11	0.02	0.39	0.48	0.06	0.08
Balance from Current Revenue(Rs in crore)	(-)793	(-)1811	791	(-)3057	2909	2081
Financial Assets/Liabilities	0.80	0.71 [*]	0.71 [*]	0.65 [*]	0.75 [*]	0.77 [*]

Pertains to Revenue Surplus ♣ Growth of RR and own receipts during 2000-01 and 2001-02, of RE during 2004-05 as also of own receipts during 2000-01, 2001-02 and 2005-06 was negative.

Debt/GSDP ratio showed increasing trend during 2000-06. This ratio during the year has increased from 40.99 per cent in 2004-05 to 45.09 per cent in

** Salary Expenditure only

* Assets and some of the liabilities are yet to be apportioned and transferred to Chhattisgarh

2005-06. An increasing ratio indicates reduction in the governments ability to meet its debt obligations. Therefore increasing risks for the lender and adverse impact on the financial condition of the State.

As the ratio of Assets/Liabilities was less than one *per cent* in 2005-06, which indicates that liabilities are more than assets and it indicates that State Government is not solvent. However ratio of 0.75 *per cent* during 2004-05 was increased to 0.77 *per cent*, which indicates marginal improvement in Assets/Liabilities management. Positive BCR shows that the State Government has surplus from its revenue for meeting plan expenditure. However the BCR was positive during 2005-06, but it decreased from 2909 crore in 2004-05 to 2081 crore in 2005-06. Own Tax/GSDP ratio increased from 7.20 *per cent* in 2004-05 to 8.35 *per cent* in 2005-06, which indicates sustainability & flexibility. Ratio of Capital Expenditure/Total Expenditure increased from 18.83 *per cent* in 2004-05 to 23.64 *per cent* in 2005-06 and capital expenditure on social and Economic Services/Total Expenditure increased from 18.27 *per cent* in 2004-05 to 23.20 *per cent* in 2005-06, which indicates improvement in development activities.

1.11 Conclusion

As the *Madhya Pradesh Rajkoshiya Uttardayitva Avam Budget Probandhan Adhiniyam* 2005 (Act) came into force from 1st January 2006 and rules in this regard come into force from 30th January 2006, the date of its publication in the Madhya Pradesh Gazette, the actual compliance of the Act would be considered effective from 2006-07. However the State has achieved the targets of reducing Revenue Deficit and Fiscal Deficit as envisaged in the Act. There was Revenue Surplus of Rs. 34 crore and decline in fiscal Deficit of Rs. 4571 crore during 2005-06 due to better recovery and less disbursement of Loans and Advances during 2005-06 in comparison to previous year. The ratio of Fiscal Deficit to GSDP was 4.19 *per cent* as against the target of 4.21 *per cent* in 2005-06.

Debt/GSDP ratio increased from 25.49 *per cent* to 45.09 *per cent* during 2000-06, which indicate adverse impact on the financial position of the State. However Own Tax/GSDP ratio improved from 6.38 *per cent* to 8.36 *per cent* during 2000-06.

Non-Plan committed expenditure on salary (Rs. 5669 crore), interest payment (Rs. 3422 crore) and pension (Rs. 1557 crore) together consumed 52 *per cent* of the total revenue receipts during the year 2005-06 which needs to be curtailed. Non Plan Revenue Expenditure on 'Education, Sports, Arts & Culture' and 'Health and Family Welfare' was 77.10 *per cent* and 75.7 *per cent* respectively during the year, which indicates less availability of resources for development purposes.

The State's low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yields very little.