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 Maharashtra are laid out in 19 statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State of Maharashtra. The layout of the Finance Accounts is depicted in **Appendix 1.1-Part B**.

1.1.1 Summary of Receipts and Disbursements

Table-1.1 summarises the finances of the Government of Maharashtra for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table-1.1: Summary of receipts and disbursements for the year 2006-07

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
			Section-A: Revenue		Non Plan	Plan	Total
48,438.29	**Revenue receipts**	**62,195.38**	**52,279.85**	**Revenue expenditure**	**53,150.20**	**8,235.08**	**61,385.28**
33,540.24	Tax revenue	40,099.25	21,696.50	General services	24,821.32	284.97	25,106.29
5,935.05	Non-tax revenue	7,518.24*	19,917.19	Social services	18,254.73	5,304.13	23,558.86
4,982.00	Share of Union Taxes/Duties	6,022.76	9,314.71	Economic services	9,107.99	2,595.05	11,703.04
3,981.00	Grants from Government of India	8,555.13	1,351.45	Grants-in-aid and Contributions	966.16	50.93	1,017.09
			Section-B: Capital				
0	**Miscellaneous Capital Receipts**	**0.11**	**10,078.44**	**Capital Outlay**	**2,109.90**	**7,982.28***	**10,092.18**
551.25	**Recoveries of Loans and Advances**	**50.70**	**4,261.62**	**Loans and Advances disbursed**			**2,321.62**
19,973.70	**Public debt receipts**	**11,891.69**[1]	**2,056.71**	**Repayment of Public Debt**			**2,041.92***
1,050.00	**Appropriation from Contingency fund**	**1,850.00**	**1,850.00**	**Appropriation to Contingency fund**			**1,050.00**
1,954.52	**Contingency Fund**	**1,288.57**	**1,288.57**	**Contingency Fund**			**1,905.36**
27,145.89	**Public Account receipts**	**30,640.21**	**24,383.17**	**Public Account disbursements**			**26,974.70**
2,123.01	**Opening Cash Balance**	**5,038.30**	**5,038.30**	**Closing Cash Balance**			**7,183.90**
1,01,236.66	**Total**	**1,12,954.96**	**1,01,236.66**	**Total**			**1,12,954.96**

* Lower rounding

Following are the significant changes in receipts and expenditure/ disbursements during 2006-07 over the previous year (2005-06) as under:

- Revenue receipts grew by Rs 13,757 crore. The increase was mainly contributed by tax revenue (Rs 6,559 crore), non-tax revenue (Rs 1,583 crore), State's share of Union Taxes and Duties (Rs 1,041 crore) and grants from Government of India (Rs 4,574 crore).

[1] Excluding Ways and Means advances and overdraft - Receipt : Rs 2664.83 crore and Disbursement : Rs 2664.83 crore

- Revenue expenditure increased by Rs 9,105 crore, of which 67 *per cent* (Rs 6,102 crore) was under non-plan heads while remaining 33 *per cent* (Rs 3,003 crore) under plan heads. The major heads that registered increases include interest payments (Rs 2,308 crore), general education (Rs 1,544 crore), urban development (Rs 1,367 crore) and power (Rs 742 crore).
- Recoveries of Loans and Advances reduced by Rs 500 crore. A major fall in the recoveries was from the power sector (Rs 148 crore)
- Public Debt Receipts reduced by Rs 8,082 crore mainly due to decrease in internal debt by Rs 8,090 crore.
- Public Account disbursements increased by Rs 2,592 crore mainly on account of increase of disbursements under remittances (Rs 2,179 crore)
- Cash balances of the State increased by Rs 2,146 crore on account of an increase of Rs 1,452 crore in the form of cash balances investments and investments in earmarked funds (Rs 698 crore)

1.1.2 State Fiscal Position by Key Indicators

The fiscal position of the State Government during the current year as compared to the previous year is given in **Table 1.2**.

Table 1.2 **(Rupees in crore)**

2005-06	Sr. No	Major Aggregates	2006-07
48,438	**1.**	**Revenue Receipts (2+3+4)**	**62,195**
33,540	2.	Tax Revenue (Net)	40,099
5,935	3.	Non-Tax Revenue	7,518
8,963	4.	Other Receipts	14,578
551	**5.**	**Non-Debt Capital Receipts**	**51**
551	6.	of *which* Recovery of Loans	51
48,989	**7.**	**Total Receipts (1+5)**	**62,246**
54,588	**8.**	**Non-Plan Expenditure**	**57,582**
47,048	9.	on Revenue Account	53,150
9,347	10.	of which Interest Payments	11,656
3,278	11.	on Capital Account	2,110
4,262	12.	on Loans disbursed[2]	2,322
12,032	**13.**	**Plan Expenditure**	**16,217**
5,232	14.	on Revenue Account	8,235
6,800	15.	on Capital Account	7,982
66,620	**16.**	**Total Expenditure (13+8)**	**73,799**
(-)3,842	17.	Revenue Surplus(+)/Deficit(-) [1-(9+14)]	810
(-)17,631	18.	Fiscal Deficit(-)/Surplus(+) [(1+5) -16]	(-)11,553
(-)8,284	19.	Primary Deficit (-)/Surplus (+)[(1+5)-(16-10)]	103

Table-1.2 shows that revenue receipts increased by Rs 13,757 (28 *per cent*) during 2006-07 while revenue expenditure increased by Rs 9,105 crore (17 *per cent*) over the previous year resulting in increase in revenue surplus by Rs 810 crore during the current year from the deficit of Rs 3,842 crore in the previous year. The surplus of Rs 4,652 crore in revenue account in 2006-07 along with

[2] Bifurcation of loan disbursement into plan and non-plan heads is not available.

the marginal increase of only Rs 14 crore in capital expenditure and a decline of Rs 1,440 crore in net disbursement of loans and advances resulted in a decline of Rs 6,078 crore in fiscal deficit during 2006-07 from the level of Rs 17,631 crore in the previous year.

1.2 Methodology adopted for the assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts have been analysed wherever necessary over the period of last five years and observations are made on their behaviour. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact the Fiscal Responsibility Acts and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/Ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Governments in their Fiscal Responsibility Acts and in other Statements required to be laid in the Legislature under the Act have been used to make a qualitative assessment of the trends and pattern of major fiscal aggregates during the current year.

Assuming that GSDP[3] is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates are also affected by factors other than GSDP. The New GSDP series with 1993-94 as base **(Table 1.3)** as published by the Directorate of Economics and Statistics of the State Government have been used in estimating these percentages and buoyancy ratios.

Table 1.3: Gross State Domestic Product (GSDP) – Growth Trends

Estimates	2002-03	2003-04	2004-05	2005-06	2006-07
Gross State Domestic Product (GSDP) (Rupees in crore)	295191	333145	371878	432413	497172
GSDP growth (*per cent*)	8.76	12.86	11.63	16.28	14.98

The key fiscal aggregates for the purpose are grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits (**Appendix 1.3 to 1.6**). The overall financial performance of the State Government as a body

[3] GSDP is defined as the total income of the State or the market value of goods and services produced using labour and all other factors of production.

corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part C**.

1.2.1 The Maharashtra Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005

The State Government has enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 to ensure prudence in fiscal management and to maintain fiscal stability in the State. To improve the fiscal position and to bring fiscal stability, the Act envisages progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with fiscal sustainability. To ensure fiscal prudence the Act also provides for greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and matters connected therewith or thereto. The Fiscal Responsibility and Budgetary Management Rules (MFRBMR) were however, framed belatedly in February 2006. Rule 3 of MFRBMR prescribed the following fiscal targets for the State Government.

- Reduce the revenue deficit by one *per cent* or more of the GSDP in the first year, 1.5 *per cent* or more in the first two years, two *per cent* or more in the first three years, beginning from the financial year 2005-06 and the entire deficit by 2008-09.
- Reduce the fiscal deficit by an amount equivalent to 0.3 *per cent* or more of the GSDP at the end of each financial year beginning with the financial year 2005-06 until the fiscal deficit is brought down to not more than three *per cent* of the GSDP. The fiscal deficit in 2008-09 and thereafter should not exceed three *per cent* of GSDP.

1.2.1.1 Fiscal Policy Statements 2006-07

As prescribed in the Act, the State Government laid a Medium Term Fiscal Policy statement (MTFPS) and a Fiscal Policy Strategy statement along with the budget for the year 2006-07 before the Legislature.

MTFPS presents three years rolling targets, assumptions underlying the fiscal indicators and assessment of sustainability relating mainly to (i) balance between revenue receipts and revenue expenditure and (ii) the use of capital receipts for generating productive assets. The Fiscal Policy Strategy Statement included (a) prospects of the State's economy and fiscal policy overview; (b) the fiscal policy for the ensuing financial year; (c) strategic priorities for the ensuing year and their rationale; (d) targets for the ensuing year and (e) policy evaluation.

The trends in major fiscal parameters/variables vis-à-vis projections made in FCP and MTFPS for 2006-07 are summarised in **Table 1.4** follows:

Table 1.4: Trends in Major Fiscal Parameters/Variables vis-à-vis projections for 2006-07

Fiscal variables	2006-07		
	MTFPS	FCP	Actuals
Revenue deficit(-)/Surplus(+) as percentage of GSDP	(+) 0.05	(-) 0.31	(+) 0.16
Fiscal Deficit/(-)/Surplus(+) as percentage of GSDP	(-) 2.22	(-) 3.3	(-) 2.32
Tax Revenue as percentage of GSDP	10.01	8.4	8.07
Total Debt Stock as percentage of GSDP	28.25	27.4	31.60
Total Contingent Liability as percentage of GSDP	12.16	12.0	12.77
Interest Payment as percentage of Revenue receipts	20.44	19.57	18.74

The comparative position presented in the Table above reveals that the State has achieved the targets for revenue and fiscal deficits as laid down in MFRBM Rules, 2006 as well as in MTFP and FCP for the year 2006-07. The State has achieved fiscal targets as laid down in the MFRBM Act/Rules much before the timeline indicated in them with the current year ending in revenue surplus of Rs 810 crore and fiscal deficit of Rs 11,553 crore which was 2.3 *per cent* of GSDP. As a result, the State Government received a debt waiver of Rs 359.31[4] crore linked to its fiscal performance from Government of India under Debt Consolidation and Relief Facility[5].

1.2.1.2 Roadmap to achieve the fiscal targets laid down in the FRBM Act/Rules

The State's fiscal correction path containing pre-actuals for 2004-05, budget estimates for 2005-06 and the projections for 2006-07 onwards and up to 2009-10 for major fiscal variables are enclosed at **Appendix 1.2**.

1.2.1.3 Mid-Term Review of Fiscal Situation

As per the Maharashtra FRBM Act, 2005, the Minister-in-charge of the Finance Department had to review every quarter, the trends in receipts and expenditures in relation to the budget and place the outcome of such reviews before both the Houses of the State Legislature. However, as per the information made available by the Finance Department, only a half yearly mid-term review was conducted by Finance Minister in December 2006.

1.2.1.4 Failure to spend as per cash flow projected to Legislature

In order to enforce control over expenditure, Government directed (July 2005) all Departmental heads to project monthly expenditure as per approved budget estimates in the form of a 'cash flow statement' (CFS). Government had also clarified (April 2006) that the unspent amount projected in the CFS of a

[4] Includes Rs 231.74 crore adjusted during the year. Rs 127.57 crore would be adjusted during 2007-08

[5] In pursuance of the recommendations of the Twelfth Finance Commission (TFC) for fiscal consolidation and elimination of revenue deficit of the States, Government of India formulated a scheme **"The States' Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10)"** under which general debt relief is provided by consolidating and rescheduling at substantially reduced rates of interest the Central loans granted to States on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States

particular month would not be available in the next month for spending by the department concerned.

Test-check of CFS for 2006-07 in general and actual expenditure under 13[6] major heads of accounts of three Departments (Public Works Department, Revenue and Forests Department and Water Resources Department) in central audit vis-à-vis their CFS showed (August 2007) that the departments had neither considered the pattern of average monthly expenditure during past three years nor had projected the monthly cash flow requirement realistically. None of them spent in any month as per the projections set out in their CFS. Excess of expenditure over the projections in the CFS for the year as a whole is shown in **Appendix 1.7**. Projected cash flow by these departments, thus, proved unrealistic.

1.3 Trends and Composition of Aggregate Receipts

The aggregate receipts of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from the Public Account. **Table-1.5** shows that the total receipts of the State Government for the year 2006-07 were Rs 1,06,067 crore. Of these, the revenue receipts were Rs 62,195 crore, constituting 59 *per cent* of the total receipts. The balance came from borrowings, receipts from Contingency Fund and the Public Account (**Appendix 1.6**).

Table 1.5: Trends in Growth and Composition of Aggregate Receipts (Rupees in crore)

Sources of State's Receipts	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue Receipts	**31103**	**34370**	**41013**	**48438**	**62195**
I Capital Receipts	**10228**	**22863**	**24230**	**20525**	**11943**
Recovery of Loans and Advances	469	482	2041	551	51
Public Debt Receipts	9759	22381	22189	19974	11892
Miscellaneous Capital Receipts	--	--	--	--	--
III Contingency Fund	**466**	**887**	**348**	**1955**	**1289**
IV Public Account Receipts	**44867**	**24452**	**27991**	**27146**	**30640**
a. Small Savings, Provident Fund etc	1406	1714	1684	1794	1895
b. Reserve Fund	4439	5441	6461	5504	5988
c. Deposits and Advances	5225	5609	7466	8371	8898
Sources of State's Receipts	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
d. Suspense and Miscellaneous	26510	1461	1202	(-)905	436
e. Remittances	7287	10227	11178	12382	13423
Total Receipts	**86664**	**82572**	**93582**	**98064**	**106067**

* Higher rounding adopted

[6] 2701-Major and Medium Irrigation, 2702-Minor Irrigation, 4701-CO on Major and Medium Irrigation Projects, 4702-CO on Minor Irrigation, 4801-CO on Power Projects, 5054-CO on Roads and Bridges, 2059-Public Works, 2216-Housinig, 3054-Roads and Bridges, 4059-CO on Public Works, 4216-CO on Housing, 2406-Forestry and Wildlife, 4406-CO on Forestry and Wildlife.

The revenue and capital receipts constituted 59 and 41 *per cent* of total receipts respectively. The total receipts of the State increased from Rs 86,664 crore in 2002-03 to Rs 1,06,067 crore in 2006-07. The Debt capital receipts which create future repayment obligation increased from Rs 9,759 crore in 2002-03 to Rs 11,892 crore in 2006-07. The recovery of Loans and Advances was reduced by Rs 500 crore over previous year.

1.3.1 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and their buoyancies are indicated in **Table-1.6.**

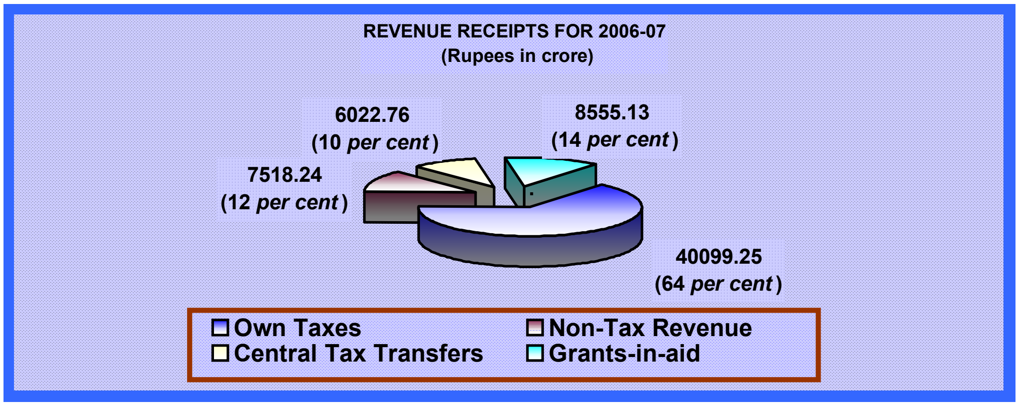
Table-1.6: Revenue Receipts - Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR) (Rupees in crore)	31103	34370	41013	48438	62195
Own Taxes (*per cent*)	73.3	73.2	74.6	69.2	64.5
Non-Tax Revenue (*per cent*)	14.5	10.3	10	12.2	12.0
Central Tax Transfers (*per cent*)	7.3	9.8	8.7	10.2	9.7
Grants-in-aid (*per cent*)	4.8	6.6	6.5	8.2	13.8
Rate of growth of RR (*per cent*)	3.3	10.5	19.3	18.1	28.4
RR/GSDP (*per cent*)	10.5	10.3	11.0	11.2	12.5
Buoyancy Ratios[7]					
Revenue Buoyancy w.r.t GSDP	0.383	0.816	1.659	1.112	1.896
State's own taxes Buoyancy w.r.t. GSDP	0.605	0.397	1.797	0.842	1.375
Revenue Buoyancy with reference to State's own taxes (ratio)	0.623	2.059	0.921	1.321	1.379

General Trends

The revenue receipts have shown a progressive increase over the period 2002-07 with the declining trend in the share of own taxes and a consistent increase in the share of grants-in-aid during the period 2002-07. The shares of non-tax revenue and central transfers exhibited minor variations during the period. The sharp increase of 28 *per cent* in revenue receipts during 2006-07 over the previous year was mainly on account of increase in State's own taxes (20 *per cent*), non-tax revenue (27 *per cent*), central tax transfers (21 *per cent*) and grants-in-aid from Government of India (115 *per cent*).

[7] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 1.896 during 2006-07 implies that revenue receipts tend to increase by 1.9 percentage points if the GSDP increases by one *per cent*.



Tax Revenue

The tax revenue of the State increased by 20 *per cent* over the previous year from Rs 33,540 crore in 2005-06 to Rs 40,099 crore in 2006-07, mainly on account of increase in (a) taxes on sales, trade etc (Rs 4,454 crore) due to adjustments carried out for the previous year in respect of deferral sales tax converted into loans, (b) stamps and registration fees (Rs 1,150 crore) due to more receipts under 'Sale of other Non-Judicial stamps' and (c) taxes on vehicles (Rs 532 crore). The finance accounts of the State reveal that increase of Rs 398.57 crore under sales tax was on account of conversion of deferred sales tax revenue into loans which has enhanced the State's sales tax revenue thereby raising its revenue receipts only in accounting terms instead of an accretion to cash inflow during the year.

Non-Tax Revenue

The non-tax revenue of the State increased by 27 *per cent* over the previous year from Rs 5,935 crore in 2005-06 to Rs 7,518 crore in 2006-07, mainly due to increase in interest receipts (Rs 767 crore) from public sector and other undertakings and the non-cash receipts of Rs 231.74 crore booked under miscellaneous general services on account of debt waiver received from Government of India under DCRF relating to States.

The actual Revenue receipts vis-à-vis assessments made by TFC and State Government are given in **Table 1.7** below:

Table 1.7: Revenue Receipts Relative to TFC and State's Projections (Rupees in crore)

	Assessments made by TFC	Projections in FCP	Projections in MTFP	Actuals
Tax Revenue	38235	40062	41454	40099
Non-Tax Revenue	3591	5632	5322	7518

Table 1.7 reveals that the actual realisation of tax revenue during 2006-07 was only Rs 37 crore more than the projection in FCP while it was Rs 1,864 crore higher than the normative assessment of TFC. The non-tax revenue of the Government significantly exceeded both the FCP (33.49 *per cent*) of the Government as well as the TFC projection (109.36 *per cent*) mainly due to increase in interest receipts (Rs 767 crore) from public sector and other undertakings and the non-cash receipts of Rs 231.74 crore on account of debt waiver received from Government of India.

Central Tax Transfers

The Central tax transfers of the State increased by 21 *per cent* over the previous year from Rs 4,982 crore in 2005-06 to Rs 6,023 crore in 2006-07. The increase was mainly under (a) corporation tax (Rs 501 crore), (b) service tax (Rs 216 crore), (c) customs duties (Rs 204 crore) and (d) taxes on income other than corporation tax (Rs 182 crore).

Grants-in-aid

The grants-in-aid from the Government of India have increased by 115 *per cent* from Rs 3,981 crore in 2005-06 to Rs 8,555 crore in 2006-07. While non-plan grants increased by 121 *per cent* from Rs 1,582 crore in 2005-06 to Rs 3,489 crore in 2006-07, grants for State Plan Schemes increased by 212 *per cent* from Rs 1,255 crore in 2005-06 to Rs 3,919 crore in 2006-07 and grants for Centrally Sponsored Plan Schemes increased by 23 *per cent* from Rs 858 crore in 2005-06 to Rs 1,058 crore in 2006-07 **(Table 1.8)**.

Table 1.8: Grants-in-aid from Government of India **(Rupees in crore)**

	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State plan schemes	548	797	1266	1255	3919
Non Plan grants	376	639	570	1582	3489
Grants for Central Schemes	117	85	86	286	89
Grants for Central and Centrally Sponsored Schemes	465	749	772	858	1058
Total	**1506**	**2270**	**2694**	**3981**	**8555**
Percentage of increase/decrease over previous year	(-)10.4	50.7	18.7	47.8	114.9

The major increase under plan grants for the State plan schemes was in the form of increase in 'Block Grants' (Rs 2,652 crore) while under non-plan grants, the increase was on account of compensation to States for revenue loss due to introduction of value added tax (Rs 2,236 crore).

Revenue Arrears

The arrears of revenue increased by 101 *per cent* from Rs 15,347 crore as of March 2006 to Rs 30,836 crore as of March 2007. Arrears mainly pertained to taxes on Sales, Trade *etc.,* (Rs 30,824 crore). The arrears of revenue, however, do not reflect the position of total arrears, as information from all departments was not made available.

1.4 Application of Resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, extend the network of these services through capital expenditure and investments and discharge their debt service obligations. The total expenditure of the State, which includes revenue expenditure, capital expenditure and loans and advances, increased at an average growth rate of 12 *per cent* from Rs 45,862 crore in 2002-03 to

Rs 73,799 crore in 2006-07. The total expenditure, its annual growth rate, the 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 1.9**.

Table-1.9: Total Expenditure – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Total expenditure (TE) (Rupees in crore)	45862	52781	61674	66620	73799
Rate of growth *(per cent)*	11.0	15.0	16.8	8.0	10.8
TE/GSDP ratio *(per cent)*	15.5	15.8	16.5	15.4	14.8
RR /TE ratio *(per cent)*	67.8	65.1	66.5	72.7	84.3
Buoyancy of Total Expenditure with reference to :					
GSDP (ratio)	1.264	1.166	1.445	0.491	0.721
RR (ratio)	3.300	1.436	0.870	0.442	0.380

The increase of Rs 7,179 crore in total expenditure in 2006-07 was mainly on account of an increase in revenue expenditure by Rs 9,105 crore together with a decline of Rs 1940 crore in disbursement of loans and advances and a marginal increase of Rs 14 crore in capital expenditure. The increase in revenue expenditure during 2006-07 was mainly due to increase in (a) interest payments (Rs 2308 crore) on 'Special Securities issued to the National Small Saving Fund'. (b) expenditure on Government secondary schools under general education (Rs 1,544 crore), (c) grants to urban local bodies (Rs 1,367 crore) as per the recommendations of the TFC and for providing facilities to *Dalit Bastis* in urban areas and (d) expenditure on subsidy on the power distribution/transmission (Rs 742 crore) for supplying power at subsidised tariff rates to agriculture and power looms.

The trends in total expenditure in the form of plan and non-plan expenditure during 2006-07 reveal that non-plan expenditure contributed dominant share of 78 *per cent* while remaining 22 *per cent* was in the form of plan expenditure. Moreover, of the increase of Rs 7179 crore in total expenditure, plan expenditure shared 58.3 *per cent* (Rs 4,185 crore) while non-plan expenditure contributed 41.7 *per cent* (Rs 2,994) in 2006-07. Moreover, 72 *per cent* of the incremental plan expenditure during the current year was under revenue heads of various programmes/transfers.

The ratio of revenue receipts to total expenditure increased from 72.7 *per cent* in 2005-06 to 84.3 *per cent* in 2006-07 indicates increasing reliance on State's own and mandated resources for meeting expenditure requirements of the State. The buoyancy of total expenditure with reference to GSDP which was greater than one during the years 2002-03 to 2004-05 significantly declined during 2005-06 to 2006-07 due to the combined effect of decrease in rate of growth in expenditure, while GSDP rose sharply during these years indicating towards a relative fall in the State's propensity to spend with the increase in GSDP. Similarly, a consistent fall in buoyancy ratio of total expenditure with reference to revenue receipts during the period 2002-07 was also observed.

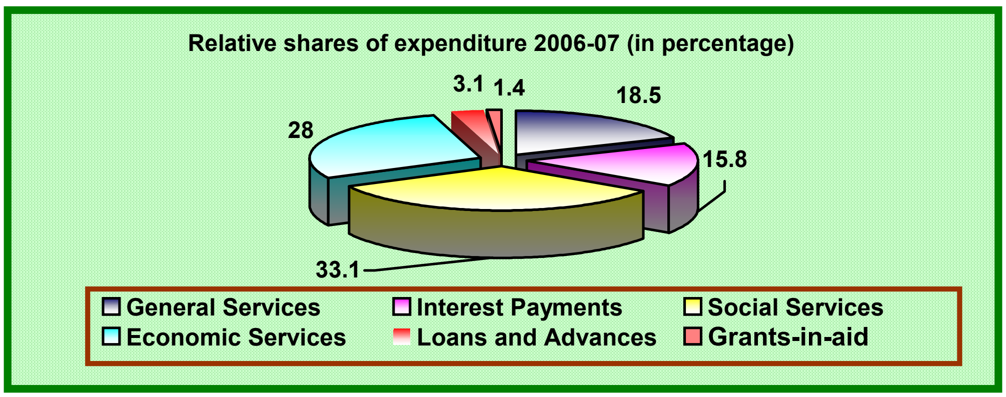
Trends in Total Expenditure by Activities

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 the total expenditure is indicated in **Table-1.10.**

Table-1.10: Components of Expenditure – Relative Shares **(in *per cent*)**

	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	**39.3**	**37.7**	**36.1**	**32.7**	**34.4**
of which Interest Payments	15.6	15.8	14.5	14.0	15.8
Social Services	**31.4**	**30.8**	**28.9**	**31.8**	**33.1**
Economic Services	**24.2**	**26.1**	**29.1**	**27.1**	**28.0**
Grants-in-aid	**1.4**	**1.8**	**1.4**	**2.0**	**1.4**
Loans and Advances	**3.7**	**3.6**	**4.5**	**6.4**	**3.1**

The movement of relative shares of the above components of expenditure indicated that the share of general services in total expenditure increased because of increase in interest payment. The shares of social services and of economic services in the total expenditure also increased during 2006-07 over the previous year. These increases were set off by decrease in the respective share of grants-in-aid and of loans and advances.



The share of general services increased mainly due to increase in interest payments (Rs 2,308 crore), the share of social services increased mainly on account of increase in general education (Rs 1,544 crore) and urban development (Rs 1,367 crore) while the share of economic services increased mainly due to increased expenditure under power (Rs 742 crore) and co-operation (Rs 399 crore). The share of grants-in-aid reduced mainly due to less receipt of aid material and equipment (Rs 360 crore) from the Central Government while the share of loans and advances disbursed reduced mainly due to steep decline in loans disbursement for power projects and co-operation.

1.4.2 Incidence of Revenue Expenditure

Revenue expenditure had the predominant share of little more than 80 *per cent* in the total expenditure during the period 2002-07. Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and as such, does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table-1.11.**

Table-1.11: Revenue Expenditure – Basic Parameters (Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE)	40474	42680	51046	52280	61385
of which					
Non-Plan Revenue Expenditure (NPRE)	37230	39135	46392	47048	53150
Plan Revenue Expenditure (PRE)	3244	3545	4654	5232	8235
Rate of Growth of					
RE (*per cent*)	5.7	5.4	19.6	2.4	17.4
NPRE (*per cent*)	5.2	5.1	18.5	1.4	13.0
PRE (*per cent*)	12.6	9.3	31.3	12.4	57.4
Revenue Expenditure as percentage to TE	88.3	80.9	82.8	78.5	83.2
NPRE/GSDP (*per cent*)	12.6	11.7	12.5	10.9	10.7
NPRE as percentage of TE	81.2	74.1	75.2	70.6	72.0
NPRE as percentage of RR	119.7	113.9	113.1	97.1	85.5
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.653	0.420	1.685	0.147	1.162
Revenue Receipts (ratio)	1.706	0.519	1.015	0.132	0.613

The revenue expenditure increased by Rs 9,105 crore from Rs 52,280 crore in 2005-06 to Rs 61,385 crore in 2006-07. The NPRE which constituted a dominant share of 72 *per cent* in the revenue expenditure increased by Rs 6,102 crore in 2006-07 over the previous year mainly due to increase in expenditure under general services (Rs 3,198 crore) and expenditure under education, sports, arts and culture (Rs 1,307 crore) while the PRE increased by Rs 3,003 crore mainly due to increase in expenditure under water supply, sanitation, housing and urban development (Rs 1,430 crore). The buoyancy of revenue expenditure with reference to both GSDP and revenue receipts fluctuated widely and do not reflect any definite pattern during the period 2002-07 mainly on account of the fact that NPRE, largely forms committed expenditure of the Government and constitutes the dominant share in the revenue expenditure.

The **Table 1.12** provides the comparative position of NPRE with reference to assessments made by TFC and the projections of the State Government.

Table 1.12: NPRE vis-à-vis assessment made by TFC and Revised Estimates

(Rupees in crore)

Year	Assessments made by TFC	Projections in FCP	Revised Estimates	Actuals
2005-06	36228	45977	45977	47048
2006-07	39222	50536	54097	53150

The NPRE during 2005-06 and 2006-07 remained significantly higher than the normative assessments made by TFC while as compared to State Government's projections, it reflected only marginal variations during both the years.

1.4.3 Committed Expenditure

1.4.3.1 Expenditure on Salaries and Wages

Expenditure on salaries and wages increased by 29 *per cent* from Rs 6,318 crore in 2002-03 to Rs 8,136 crore in 2006-07 as indicated in **Table 1.13**.

Table-1.13: Expenditure on Salaries **(Rupees in crore)**

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Salaries and Wages of which	6318	6756	7225	7956	8136
Non-Plan Head	5291	5502	5916	6837	7155
Plan Head	1027	1254	1309	1119	981
As percentage of GSDP	2.1	2.0	1.9	1.8	1.6
As percentage of RR	20.3	19.7	17.6	16.4	13.1

Note 1: Expenditure on salary and wages does not include the salary component of grants-in-aid by the State Government to its institutions.
2: It includes both revenue and capital expenditure
3: Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes

The expenditure on salaries and wages as a percentage of GSDP and of revenue receipts reduced from 2.1 and 20.3 in 2002-03 to 1.6 and 13.1 in 2006-07 respectively. The ratio of salary expenditure to revenue expenditure relative to the revenue expenditure net of interest payments and pensions stood at 18 *per cent* during 2006-07 which was well within the TFC norms of 35 *per cent*.

1.4.3.2 Pension Payments

The expenditure on pension payments increased by 40 *per cent* from Rs 2,526 crore in 2002-03 to Rs 3,542 crore in 2006-07 as indicated in **Table 1.14**.

Table-1.14: Expenditure on Pensions **(Rupees in crore)**

Heads	2002-03	2003-04	2004-05	2005-06	2006-07
Pension Expenditure	2526	2636	2872	3328	3542
Rate of growth	(-)2.4	4.4	9.0	15.9	6.4
As percentage of GSDP	0.9	0.8	0.8	0.8	0.7
As percentage of RR	8.1	7.7	7.0	6.9	5.7
As percentage of RE	6.2	6.2	5.6	6.4	5.8

The increase in pension payments of Rs 214 crore (6 *per cent*) during 2006-07 over the previous year was mainly due to payment of more death-cum-retirement gratuity under the Pension Rules of 1950 for the employees in service after 1 April 1936. The **Table 1.15** below shows actual pension payments with reference to assessment made by TFC and budget estimates/revised estimates.

Table 1.15: Pension Payments vis-à-vis TFC Assessment and State's projections
(Rupees in crore)

Year	Assessments made by TFC	Projections in FCP	Revised Estimates by the State Government for 2006-07	Actuals
2005-06	3004	4257	4257	3328
2006-07	3304	4598	5326	3542

The pension payments during 2005-06 and 2006-07 were higher than the normative assessments made by TFC while they were lesser than the projections of the Government during both the years. The larger gap of pension payments with reference to projections of the State Government indicates a need for improvement in Government's budget/revised estimates.

Although the Government has not worked out the pension liabilities on actuarial basis but in order to limit future pension liabilities, the Government had introduced contributory pension scheme for employees recruited after 1 November 2005.

1.4.3.3 Interest payments

The trends in interest payments and their percentages against the total revenue receipts and revenue expenditure during the period 2002-07 are depicted in **Table 1.16**.

Table-1.16: Interest Payments

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest Payments with reference to	
	(Rupees in crore)		Total Revenue Receipts	Revenue Expenditure
2002-03	31103	7130	23	18
2003-04	34370	8335	24	20
2004-05	41013	8978	22	18
2005-06	48438	9347	19	18
2006-07	62195	11656	19	19

In absolute terms, interest payments increased by 63 *per cent* from Rs 7,130 crore in 2002-03 to Rs 11,656 crore in 2006-07, primarily due to increase in debt liabilities. However, relative to revenue receipts, interest payments reveal a declining trend and remained static at 19 *per cent* in 2005-06 and 2006-07.

The interest payments with reference to assessment made by TFC and the projections in FCP and revised estimates made in MTFP of the State Government (**Table 1.17)** indicate that although in 2005-06, the interest payments were comparable to both TFC assessment and the projections in FCP/MTFP but in the current year they exceeded the TFC's assessment by 17 *per cent*.

Table 1.17: Interest Payments vis-à-vis TFC Assessment and State's Projections

(Rupees in crore)

Year	Assessments made by TFC	Projections in FCP	Revised Estimates in MTFP	Actuals
2005-06	9274	9538	9538	9347
2006-07	9970	10904	11769	11656

During 2006-07, the State Government raised Rs 1,738 crore at the average interest rate of 8 *per cent* from the open market. Besides, it also borrowed Rs 9,655 crore from the National Small Savings Fund and other institutions and Rs 498 crore from Government of India during the year.

The increase in interest payments was Rs 2,308 crore over the previous year mainly due to payment of more interest on 'Special Securities issued to National Small Saving Fund' (Rs 1,467 crore) and interest on other internal debts (Rs 1,043 crore) which was offset by decrease (Rs 305 crore) in interest on Central Government loans.

1.4.3.4 Subsidies

Though the finances of the State are under strain, State Government has been paying subsidies to various Corporations, *etc.* The trends in the subsidies given by the State Government are given in **Table 1.18.**

Table-1.18: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2002-03	2009	11.6	4
2003-04	975	-51.4	2
2004-05	3994	309.6	6
2005-06	2885	-27.7	4
2006-07	3777	30.9	5

Subsidies increased by 88 *per cent* from Rs 2,009 crore in 2002-03 to Rs 3,777 crore in 2006-07 except during 2003-04 and 2005-06 when they were Rs 975 crore and Rs 2,885 crore. During the current year, subsidies constituted about five *per cent* of the total expenditure; the major areas being power (53 *per cent*), industries in backward areas (5 *per cent*) and subsidy on food (5 *per cent*).

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore the ratio of capital expenditure to total expenditure as well as to GSDP and the proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. The higher the ratio of these components to the total expenditure and GSDP, the better would be the quality of expenditure. **Table 1.19** gives these ratios during 2002-07.

Table-1.19: Indicators of Quality of expenditure (Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure#	3684	8199	7877	10078	10092
Revenue Expenditure	40474	42680	51047	52280	61385
of which Social and Economic Services with (i) Salary & Wage Component$ (ii) Non-Salary & Wage Component	 21854 3313 18541	 21873 3594 18279	 27930 3822 24108	 29232 4079 25153	 35262 4009 31253
As percentage of Total Expenditure					
Capital Expenditure	8.0	15.5	12.8	15.1	13.7
Revenue Expenditure	88.3	80.9	82.8	78.5	83.2
As percentage of GSDP					
Capital Expenditure	1.2	2.5	2.1	2.3	2.0
Revenue Expenditure	13.7	12.8	13.7	12.1	12.3

Capital expenditure does not include Loans and Advances

$ Expenditure on salary and wages does not include the salary component of grants-in-aid by the State Government to its institutions

The trends presented in the Table 1.19 reveal that capital expenditure not only increased marginally by Rs 14 crore but relative to both the total expenditure and GSDP, it indicates the declining tendency since 2003-04 and declined significantly during 2006-07 over the previous year. As salary and wage component of the revenue expenditure does not include the corresponding grants-in-aid component, it is difficult to draw a definite inference from the trends in expenditure on salary and wages but expenditure on non-salary wage component has picked since 2003-04 and increased by 24 *per cent* during the current year. These trends reflect the fact that the focus of the Government seems to be on improvement in the quality of the existing social and economic services.

1.5.2 Expenditure on Social Services

Given the fact that 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 1.20** summarises the expenditure incurred by the State Government in expanding and strengthening of social services during 2002-07.

Table-1.20: Expenditure on Social Services **(Rupees in crore)**

	2002-03	2003-04	2004-05	2005-06	2006-07
General Education					
Revenue Expenditure	8538	9014	9693	10107	11651
of which					
(a) Salary & Wage Component	258	157	155	167	179
(b) Non-Salary & Wage Component	8280	8857	9538	9940	11472
Capital Expenditure	1	1	1	2	3
Total	**8539**	**9015**	**9694**	**10109**	**11654**
Health and Family Welfare					
Revenue Expenditure	1656	1768	1891	2124	2254
of which					
(a) Salary & Wage Component	723	772	842	973	1027
(b) Non-Salary & Wage Component	933	996	1049	1151	1227
Capital Expenditure	96	157	94	91	76
Total	**1752**	**1925**	**1985**	**2215**	**2330**
Water Supply, Sanitation, Housing and Urban Development					
Revenue Expenditure	1480	1894	2491	2302	3566
of which					
(a) Salary & Wage Component	27	33	32	33	35
(b) Non-Salary & Wage Component	1453	1861	2459	2269	3531
Capital Expenditure	15	14	21	902	29
Total	**1495**	**1908**	**2512**	**3204**	**3595**
Other Social Services					
Revenue Expenditure	2544	3314	3474	5384	6088
of which					
(a) Salary & Wage Component	462	511	563	648	691
(b) Non-Salary & Wage Component	2082	2803	2911	4736	5397
Capital Expenditure	47	111	168	252	764
Total	**2591**	**3425**	**3642**	**5636**	**6852**
Total (Social Services)					
Revenue Expenditure	14218	15990	17549	19917	23559
of which					
(a) Salary & Wage Component	1470	1473	1592	1821	1932
(b) Non-Salary & Wage Component	12748	14517	15957	18096	21627
Capital Expenditure	159	283	284	1247	872
Grand Total	**14377**	**16273**	**17833**	**21164**	**24431**

Note **1:** Expenditure on salary and wages does not include the salary component of grants-in-aid by the State Government to its institutions

The allocation to social sector increased at the annual growth rate of eight *per cent* from Rs 14,377 crore in 2002-03 to Rs 24,431 crore in 2006-07 reaching the level of 33 *per cent* of total expenditure and 54 *per cent* of development expenditure[8]during the current year (Rs 24,431 crore).

Out of the total expenditure on social services of Rs 24,431 crore in 2006-07, general education received the major share of 48 *per cent* (Rs 11,654 crore), health and family welfare shared only 10 *per cent* (Rs 2,330 crore) and 14 *per cent* (Rs 3,595 crore) was spent on water supply, sanitation, housing and urban development. The expenditure on education and health services increased at an annual average rate of seven *per cent,* while the growth rate in respect of water supply, sanitation, housing and urban development was 28 *per cent* during the period 2002-07.

Recognising the need to improve the quality of education and health services, TFC recommended that non-plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. The expenditure on salary and wages does not present the complete picture as it is exclusive of salary component of grants-in-aid but the trends in expenditure on non-salary and wage component (even including expenditure under both plan and non plan heads) remained significantly below the norms of TFC during the current year.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditures which directly or indirectly promote the productive capacity within the States' economy. The expenditure on economic services (Rs 20,680 crore) accounted for 28 *per cent* of the total expenditure **(Table 1.21).** Of this, agriculture and allied activities, irrigation and flood control, energy and transport consumed nearly 22 *per cent* of the expenditure.

Table-1.21: Expenditure on Economic Sector **(Rupees in crore)**

Sector	2002-03	2003-04	2004-05	2005-06	2006-07
(1)	(2)	(3)	(4)	(5)	(6)
Agriculture, Allied Activities					
Revenue Expenditure	2651	2386	3492	2732	3363
of which					
(a) Salary & Wage Component	838	885	908	987	1019
(b) Non-Salary & Wage Component	1813	1501	2584	1745	2344
Capital Expenditure	150	422	284	326	772
Total	2801	2808	3776	3058	4135
Irrigation and Flood Control					
Revenue Expenditure	1811	357	815	1318	1514
of which					
(a) Salary & Wage Component	170	177	231	444	454
(b) Non-Salary & Wage Component	1641	180	584	874	1060
Capital Expenditure	2514	6102	6003	6064	5323
Total	4325	6459	6818	7382	6837
Power & Energy					
Revenue Expenditure	759	353	2983	1993	2601
Of which (a) Salary & Wage Component	10	11	11	12	13

[8] Development expenditure is defined as the total expenditure made on social and economic services.

(1)	(2)	(3)	(4)	(5)	(6)
(b) Non-Salary & Wage Component	749	342	2972	1981	2588
Capital Expenditure	291	297	483	562	800
Total	1050	650	3466	2555	3401
Transport					
Revenue Expenditure	997	262	220	554	697
of which (a) Salary & Wage Component (b) Non-Salary & Wage Component	 0 997	 0 262	 0 220	 0 554	 0 697
Capital Expenditure	522	1033	752	1085	1475
Total	1519	1295	972	1639	2172
Other Economic Services					
Revenue Expenditure	1418	2525	2871	2718	3528
of which (a) Salary & Wage Component (b) Non-Salary & Wage Component	 825 593	 1048 1477	 1081 1790	 815 1903	 591 2937
Capital Expenditure	8	14	23	724	607
Total	**1426**	**2539**	**2894**	**3442**	**4135**
Total (Economic Services)					
Revenue Expenditure	7636	5883	10381	9315	11703
of which (a) Salary & Wage Component (b) Non-Salary & Wage Component	 1843 5793	 2121 3762	 2231 8150	 2258 7057	 2077 9626
Capital Expenditure	3485	7868	7545	8761	8977
Grand Total	11121	13751	17926	18076	20680

Note 1: Expenditure on salary and wages does not include grants-in-aid

The expenditure on making the provision of economic services increased at the annual growth rate of 17 *per cent* from Rs 11,121 crore in 2002-03 to Rs 20,680 crore in 2006-07. The expenditure on agriculture and allied activities, irrigation and flood control and transport services increased within the range of 9 to 12 *per cent* during the period 2002-07 but the expenditure on power and energy picked up steeply by little more than five times in 2004-05 over the previous year and maintained the momentum in subsequent years too resulting in an annual average growth of as high as 45 *per cent* during the period 2002-07.

The trends in expenditure on Economic Services also reveal that (a) the share of capital expenditure in total expenditure increased from 31 *per cent* (Rs 3,485 crore) in 2002-03 to 43 *per cent* (Rs 8,977 crore) in 2006-07 picking up significantly after 2003-04, while the share of revenue expenditure on non-salary components increased steeply from 2003-04 and maintained its average share in total expenditure around 44 *per cent* during last three years (2004-07), (b) the share of revenue expenditure on non-salary and wage component in total expenditure has increased significantly in all economic services sectors ranging from 35 *per cent* in power to 21 *per cent* in irrigation and flood control during 2006-07 resulting in increase over the levels attained in the previous year.

1.5.4 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the five year period 2002-07 is presented in **Table 1.22**

Table-1.22: Financial Assistance **(Rupees in crore)**

	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	525.60	6139.77	2068.11	2200.13	5234.33
Municipal Corporations and Municipalities	378.40	2136.39	1852.32	1031.02	2652.27
Zilla Parishads and Other Panchayati Raj Institutions	696.96	5784.58	6300.48	7472.84	7321.27
Development Agencies	441.62	5.61	1766.17	2463.92	761.65
Hospitals and Other Charitable Institutions	208.19	96.62	256.10	131.07	64.15
Other Institutions	3007.78	4353.06	8975.06	14088.71	10818.55
Total	**5258.55**	**18516.03**	**21218.24**	**27387.69**	**26852.22**
Assistance as per percentage of revenue expenditure	13	43	42	52	44

Trends in **Table 1.22** indicate that financial assistance to local bodies and other institutions by the State Government has consistently increased from Rs 5,258.55 crore in 2002-03 to Rs 27,387.69 crore in 2005-06 but declined marginally by Rs 535 crore in 2006-07. Further, except in case of Zilla Parishads and other PRIs where the assistance has consistently increased during the period 2002-07, it has widely fluctuated in case of other institutions during the period.

1.5.5 Delay in furnishing utilisation certificates

Of the 1,05,625 utilisation certificates (UCs) due in respect of grants and loans aggregating Rs 20,560 crore paid upto 2006-07, 1,05,551 UCs for an aggregate amount of Rs 20,450 crore were in arrears. Details of department-wise break-up of outstanding UCs are given in **Appendix 1.8**.

1.5.6 Non-submission/delay in 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 the assistance granted and the total expenditure of the institutions. As of June 2007, nine departments of the Government had not furnished details for the year 2006-07 as shown in **Appendix 1.9**.

1.5.7 Abstract of performance of the autonomous bodies

The audit of accounts of 13 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 Reports and their placement in the Legislature is indicated in **Appendix 1.10**.

1.6 Misappropriations, losses, defalcations *etc* and write off of losses *etc.*

The State Government reported 228 cases of misappropriation, defalcation, etc involving Government money amounting to Rs 6.71 crore upto the period 31 May 2007 on which final action was pending. The department-wise break up of pending cases is given in **Appendix 1.11**.

As reported to Audit, losses due to theft, fire and irrecoverable revenue, *etc* amounting to Rs 10.97 lakh in 187 cases were written-off during 2006-07 by the competent authorities. The relevant details are given in **Appendix 1.12**.

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 1.3** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets mainly comprise the capital outlay and loans and advances given by the State Government and the cash balances. **Appendix 1.6** depicts the data on State Government finances for the period 2002-07.

1.7.1 Financial analysis of the projects under Irrigation and Public Works

1.7.1.1 Financial Results of Irrigation Works

The financial results of the six major irrigation projects of the Government having a capital outlay of Rs 689.92 crore at the end of March 2007, showed that revenue realised from these projects during 2006-07 (Rs 95.25 crore) was 13.81 *per cent* of the capital outlay. After considering the working and maintenance expenses (Rs 14.92 crore) and interest charges (Rs 68.50 crore), the schemes gained a net profit of Rs 11.83 crore during 2006-07. Fourteen other irrigation projects had been handed over to the five Irrigation Corporations created during 1996-98.

1.7.1.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2007 is given in **Table 1.23.**

Table-1.23: Department-wise Profile of Incomplete Projects **(Rupees in crore)**

Department	Number of Incomplete Projects	Initial Budgeted Cost	Cost Over runs w.r.t. cum exp	Cumulative Actual Expenditure as on 31.3.2007
Public Works	72	465.23	(-)43.71	421.52
Irrigation	24	909.43	2708.41	3617.84
Total	**96**	**1374.66**	**2664.70**	**4039.36**

The details of incomplete projects pertaining to only two departments are presented in table 1.23. Moreover, the details of revised costs for majority of the incomplete projects are not captured in the finance accounts; therefore cost overruns are estimated with reference to cumulative expenditure which comes to Rs 2,664.70 crore. The cost overruns would have been much higher, had their revised costs are available as these projects are yet to be completed. Moreover, the delays in completion of these projects indicate the time overruns ranging between 4 to 20 years in case of major and medium irrigation projects and between 1 to 12 years in respect of the PWD projects.

1.7.2 Financial analysis of Government Investments

1.7.2.1 Departmental Commercial Undertakings

Activities of quasi-commercial nature are performed by Departmental undertakings of certain Government departments. These undertakings are required to prepare annually, p*ro forma* accounts showing the results of financial operations so that Government can assess the results of their working.

As of March 2007, there were 49 such undertakings (42 Government Milk Schemes (GMSs), four Land Development by Bulldozer Schemes, two Food and Civil Supplies and one Saw Mill and timber Depot) in the State. Out of 42 GMSs in six regions only 17 GMSs have finalized their p*ro forma* accounts for 2006-07 by 21 August 2007 and accounts of 25 Schemes are in arrears. In 17 GMSs, the Government Mean Capital as of 31 March 2007 was Rs 150.95 crore, with a turnover of Rs 161.26 crore. These 17 schemes suffered a net loss of Rs 56 crore during the year including Rs 0.31 lakh profit in case of GMS, Gove Bhiwandi. In respect of remaining 25 GMSs the Government Mean Capital was Rs 166.57 crore and loss was Rs 67.61 crore as on 31 March 2007.

The Comptroller and Auditor General of India have repeatedly commented about the arrears in preparation of accounts. Accountant General (Commercial Audit) reminded Principal Secretary (Finance) and the Secretary of the Departments concerned regularly in this matter. The department-wise position of arrears in preparation of *pro forma* accounts and the investment made by the Government are given in **Appendix 1.13** and **1.14** respectively. The summarised financial statement of these undertakings is given in **Appendix 1.15**.

1.7.2.2 Investments and Returns

As of 31 March 2007, Government had invested Rs 37,531 crore in statutory corporations, rural banks, joint stock companies and co-operatives **(Table 1.24)**. The return on these investments was negligible and much below one *per cent* in the last five years while the Government paid interest at the average rate of 7.09 to 8.91 *per cent* on its borrowings during 2002-2007.

Table-1.24: 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*)		
2002-03	13781.40	1.87	0.01	8.91	8.90
2003-04	19790.89	18.92	0.10	8.76	8.66
2004-05	25829.74	26.73	0.10	7.97	7.87
2005-06	31917.62	3.66	0.01	7.09	7.08
2006-07	37531.49	6.16	0.02	7.78	7.76

The increase in investments of Rs 5,614 crore during 2006-07 was attributable to increased capital contributions to Vidharba Irrigation Development Corporation (Rs 1,469 crore), Maharashtra Krishna Valley Development Corporation (Rs 1,424 crore), Godavari Marathwada Irrigation Development Corporation (Rs 1,094 crore), Maharashtra State Power Generation Corporation Limited (Rs 400 crore), Tapi Irrigation Development Corporation (Rs 368 crore), Konkan Irrigation Development Corporation (Rs 274 crore), Co-operative Spinning Mills (Rs 177 crore) and Maharashtra State Road Transport (Rs 149 crore) as compared to the previous year.

As on 31 March 2007, as per the provisional estimates available for 26 Companies in which Government had invested Rs 4,104.99 crore (Share Capital: Rs 3,516.01 crore, Loan: Rs 588.98 crore) were incurring losses and their accumulated losses amounted to Rs 2,847.11 crore. According to the information furnished by the Commissioner for Co-operation and Registrar of Co-operative Societies as on March 2007, 6,312 societies with an aggregate investment of Rs 161.28 crore (Rs 110.46 crore by way of equity and Rs 50.82 crore by way of loan) had incurred losses and their accumulated losses (Rs 204.31 crore) had eroded 127 *per cent* of the investments made in these societies.

1.7.2.3 Loans and Advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/organisations. The total outstanding loans and advances as on 31 March 2007, was Rs 17,634 crore **(Table 1.25).** The amount of loans disbursed during the year reduced from Rs 4,262 crore in 2005-06 to Rs 2,322 crore in 2006-07. Out of the total amount of loans advanced during the year, Rs 384 crore went to social services and Rs 1,539 crore to economic services. Under the economic services, the major portion of loans (86 *per cent*) went to co-operatives (Rs 1,323 crore). Interest received against these loans advanced declined from 9.4 *per cent* in the previous year to 4.16 *per cent* during 2006-07 mainly on account of fall in interest receipts on loans advanced to power projects (Rs 429 crore). Apart from the fall in interest receipts, recovery of loans and advances also reduced steeply from Rs 551 crore in 2005-06 to Rs 51 crore during the current year mainly on account of less recoveries from the power and energy sector.

Table-1.25: Average Interest Received on Loans Advanced by the State Government

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	8458	9522	10942	11652	15363
Amount advanced during the year	1704	1902	2751	4262	2322
Amount repaid during the year	469	482	2041	551	51
Closing Balance	9693	10942	11652	15363	17634
Net addition	1235	1420	710	3711	2271
Interest received	176	337	311	1095	639
Interest received as *per cent* to outstanding Loans	2.08	3.54	2.84	9.40	4.16

	2002-03	2003-04	2004-05	2005-06	2006-07
Average interest paid[9] on borrowings by State Government (*per cent*)	8.91	8.76	7.97	7.09	7.78
Difference between average interest paid and received (*per cent*)	-6.83	-5.22	-5.13	2.31	-3.62

1.7.3 Management of cash balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of ways and means advances (WMA) – ordinary and special – from the Reserve Bank of India (RBI) has been put in place. The operative limit for normal ways and means advances is reckoned on the three year average of revenue receipts and the operative limit for special ways and means advances is fixed by RBI from time to time, depending on the holding of Government securities and SF and GRF.

The limits fixed by RBI of normal ways and means advances was Rs 1,050 crore from 1 April 2006 while for special ways and means advances, it was Rs 12.80 crore from 1 April 2006, Rs 6.78 crore from 12 May 2006, Rs 6.66 crore from 3 July 2006, Rs 6.62 crore from 3 October 2006 and Rs 6.53 crore from 2 January 2007. During the year 2006-07, normal ways and means advances of Rs 2,625.83 crore and special ways and means advances of Rs 39 crore were taken and repaid by the Government.

The ways and means advances and overdrafts availed of by the State, the number of occasions on which they were availed and the interest paid by the State are detailed in **Table 1.26**.

Table-1.26: Ways and Means Advances and Overdrafts of the State (Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and Means Advances					
Availed of in the year	7716.25	7898.67	2675.04	2386.62	2664.83
Number of occasions	22	15	11	4	3
Outstanding	--	--	--	--	--
Interest paid	34.46	29.2	8.47	5.34	3.12
Number of days	301	168	68	21	42
Overdrafts					
Availed of in the year	6281.28	1422.7	862.87	1298.31	--
Number of occasions	17	23	12	9	--
Interest paid	8.42	4.92	0.76	3.70	--
Number of days	154	39	12	20	--

1.8 Undischarged Liabilities

The total liabilities of the State as defined under the FRBM Act, 2005 of the Government means liabilities under the Consolidated Fund of the State and the Public Account of the State.

[9] Interest Payment/[(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100.

1.8.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities of the State Government namely, public debt and other liabilities. Public debt consists of the 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 the Public Account, include deposits under small savings schemes, provident funds, reserve funds and other deposits.

Table-1.27 gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP, to revenue receipts and to State's own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table-1.27: Fiscal Liabilities[10] – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities (Rupees in crore)	85800	104404	121026	142491	157039
Rate of Growth (*per cent*)	15.62	21.68	15.92	17.74	10.21
Ratio of Fiscal Liabilities to					
GSDP (*per cent*)	29.1	31.3	32.5	33.0	31.6
Revenue Receipts (*per cent*)	275.9	303.8	295.0	294.1	252.5
Own Resources (*per cent*)	314.1	363.6	348.5	360.9	329.8
Buoyancy of Fiscal Liabilities with reference to :					
GSDP (ratio)	1.782	1.686	1.369	1.090	0.682
Revenue Receipts (ratio)	4.654	2.064	0.824	0.980	0.360
Own Resources (ratio)	2.949	4.249	0.760	1.296	0.496

The overall fiscal liabilities of the State increased at an average annual rate of growth of 16.7 *per cent* from Rs 85,800 crore in 2002-03 to Rs 1,57,039 crore in 2006-07. The growth rate was 10.21 *per cent* during 2006-07 over the previous year. During 2006-07, debt to GSDP ratio at 31.6 *per cent* was higher than both the MTFPS of 28.25 *per cent* and FCP of 27.40 *per cent*. These liabilities stood at two and a half times the revenue receipts and more than three times the State's own resources as at the end of 2006-07. The growth rate of fiscal liabilities was less than that of the State's GSDP during the year 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was less than one, indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.682 *per cent*.

Out of the total fiscal liabilities during 2006-07, the share of public debt was maximum (68 *per cent)*, followed by reserve funds (16 *per cent);* deposits (10 *per cent)* and small savings, provident fund *etc* (6 *per cent)*. Fiscal liabilities increased from Rs 1,42,491 crore in 2005-06 to Rs 1,57,039 crore in 2006-07 mainly due to increase in public debt (Rs 9,850 crore) and reserve funds (Rs 2,344 crore).

[10] Includes internal debt (market loans, loans from NSSF and loans from other financial institutions), loans and advances for GOI, the liabilities arising from the transactions in the Public Account of the State

The State Government set up a Consolidated Sinking Fund during the financial year 1999-2000 for amortization of open market loans. As on 31 March 2007, the outstanding balance in Sinking Fund was Rs 2,464.68 crore, of which Rs 698 crore were the accretions during 2006-07.

1.8.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of default by borrowers for whom the guarantees are extended. No explicit ceiling on giving guarantees upon the security of the Consolidated Fund of the State has been fixed. The State resorted to giving guarantees for raising resources in a big way during the last five years.

The maximum amounts for which guarantees were given by the State and the outstanding guarantees at the end of year since 2002-03 are given in **Table 1.28.**

Table-1.28: Guarantees given by the Government of Maharashtra (Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipt s
2002-03	37521	62428	121
2003-04	82228	70126	239
2004-05	80184	60871	195
2005-06	86725	66239	179
2006-07	87778	63509	141

During the year 2006-07, guarantees of the order of Rs 1,382 crore were given by the State Government. Guarantees were given for repayment of share capital, raising loans, debentures, bonds etc by Government companies (Rs 4 crore), co-operative Banks (Rs 157 crore), co-operative sugar factories (Rs 7 crore) and other co-operative societies (Rs 1214 crore). Outstanding guarantees (Rs 63,509 crore) during 2006-07 accounted for 102 *per cent* of the revenue receipts (Rs 62,195 crore). The outstanding guarantees during 2006-07 were 12.77 *per cent* of the GSDP despite the commitment of the State Government in MTFPS (March 2006) to bring it down to approximately 10 *per cent*. Moreover, State Government has not set up the Guarantee Redemption Fund so far despite the recommendation of TFC to meet the contingent liabilities arising from the guarantees given by the Government.

1.8.3 Off - Budget Borrowings

As per Fiscal Policy Strategy Statement 2007-08, the State Government had completely stopped off-budget borrowings from the year 2005-06. The Government did not envisage any difficulty in raising the necessary resources to finance the Plan for 2006-07. During the year 2005-06 and 2006-07, there was no off-budget borrowing.

1.9 Debt Sustainability

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

1.9.1 Debt Stabilisation

A necessary condition for debt stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilisation are indicated in **Table 1.29**.

Table-1.29: Debt Sustainability–Interest Rate and GSDP Growth **(in *per cent*)**

	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	8.91	8.76	7.97	7.09	7.78
GSDP Growth	8.76	12.86	11.63	16.28	14.98
Interest spread	-0.15	4.10	3.66	9.19	7.20
Quantum Spread (Rs in crore)	-111	3518	3821	11122	10259
Primary Deficit(-)/ Surplus (+) (Rupees in crore)	-7160	-9593	-9642	-8284	103

Table 1.29 reveals that quantum spread together with primary deficit has been consistently negative during the first three years (2002-05) indicating rising debt-GSDP ratios during the period. The emergence of positive sum of quantum spread and primary deficit during 2005-06 and a significant increase in the current year of the sum of these indicate that the State was moving towards the debt stabilisation which in turn would improve the debt sustainability position of the State.

1.9.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 1.30** indicates the resource gap as defined for the period 2002-07.

Table 1.30: Incremental revenue receipts and Revenue Expenditure (Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
2002-03	1181	3874	701	4575	(-)3394
2003-04	3281	5713	1205	6918	(-)3637
2004-05	8201	8250	644	8894	(-)693
2005-06	5936	4577	368	4945	(+)991
2006-07	13256	4871	2309	7180	(+)6076

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. During the period 2002-07, although three out of five years reflects the negative gaps but the positive resource gap during 2005-06 and steep increase in marginal surplus from non-debt receipts after meeting the incremental interest liabilities and incremental primary expenditure during 2005-06 and 2006-07 indicate towards the increasing capacity of the State to sustain the debt in the medium to long run.

1.9.3 Net Availability of Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, *i.e.,* they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table-1.31 below gives the position of the receipts and repayments of internal debt and other fiscal liabilities of the State over the last five years.

Table-1.31: Net Availability of Borrowed Funds (Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Internal Debt					
Receipt	8797	21129	20387	19484	11394
Repayment (Principal +Interest)	3064	4466	7178	8604	11251
Net Funds Available	5733	16663	13209	10880	143
Net Funds Available (*per cent*)	65.1	78.8	64.8	55.8	1.3
Loans and Advances from GOI					
Receipt	962	1252	1802	490	498
Repayment (Principal +Interest)	4179	10892	11440	1381	954
Net Funds Available	(-)3217	(-)9640	(-)9638	-891	-456
Net Funds Available (*per cent*)	(-)334.4	(-)769.9	(-)534.8	-181.8	-91.6
Other obligations					
Receipt	10774	12435	15236	15302	16566
Repayment (Principal +Interest)	8981	9582	11164	13174	13361
Net Funds Available	1793	2853	4072	2128	3205
Net Funds Available (*per cent*)	16.6	22.9	26.7	13.9	19.3
Total liabilities					
Receipt	20533	34816	37425	35276	28458
Repayment (Principal+Interest)	16224	24940	29782	23159	25566
Net Funds Available	4309	9876	7643	12117	2892
Net Funds Available (percentage)	20.9	28.3	20.4	34.3	10.2

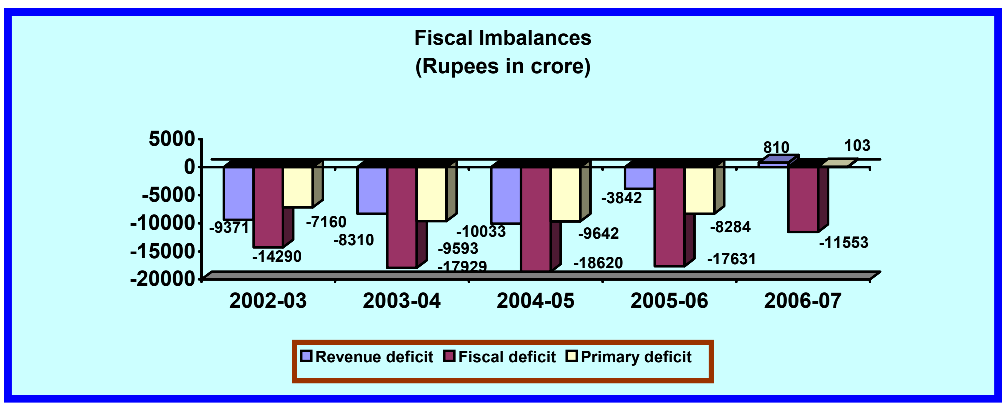
The net funds available on account of the internal debt and loans and advances from Government of India and other obligations after providing for the interest and repayments varied between 10.2 *per cent* in the current year and 34.3 *per cent* during 2005-06. During the current year the Government repaid internal debt of Rs 1,639 crore, Government of India loans amounting to Rs 403 crore[11] and also discharged other obligations of Rs 11,868 crore along with interest obligations of Rs 11,656 crore as a result of which only Rs 2,892 crore were available which was 10 *per cent* of the total receipts. During 2006-07, in view of the large cash balances, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payment on loans raised from the market as well as from the Government of India.

1.10 Management of Deficits

The Deficits in Government accounts represent the gaps 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 trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.32.**

Table-1.32: Fiscal Imbalances: Basic Parameters

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (-) / Surplus (+) (Rupees in crore)	-9371	-8310	-10033	-3842	810
Fiscal deficit(-) (Rupees in crore)	-14290	-17929	-18620	-17631	-11553
Primary deficit(-)/Surplus (+) (Rupees in crore)	-7160	-9593	-9642	-8284	103
RD/GSDP (*per cent*)	-3.1	-2.5	-2.7	-0.9	0.2
FD/GSDP (*per cent*)	-4.8	-5.4	-5.0	-4.1	-2.3
PD/GSDP (*per cent*)	-2.4	-2.9	-2.6	-1.9	0[12]
RD/FD (*per cent*)	65.5	46.3	53.8	21.8	0[13]



[11] Includes debt relief of Rs 359.31 crore received from Government of India under Debt Consolidation and Relief Facility relating to states
[12] There was primary surplus
[13] There was revenue surplus

1.10.1 Trends in Deficits

Table 1.32 reveals that the revenue account experienced a situation of huge deficit during the period 2002-05 varying from Rs 8,300 crore to Rs 10,000 crore during these years. The deficit was reduced sharply to Rs 3,842 crore during 2005-06 and revenue account turned into a huge surplus of Rs 810 crore during the current year. The turnaround situation in revenue account during the current year was mainly on account of an increase of Rs 13,757 crore in revenue receipts (28 *per cent*) against the increase of Rs 9,105 crore in revenue expenditure (17 *per cent*). The sharp increase in revenue receipts during 2006-07 was mainly on account of increase in state's own taxes (20 *per cent*), non-tax revenue (27 *per cent*), Central tax transfers (21 *per cent*) and in grants-in-aid (115 *per cent*). On the other hand, despite a big push in plan revenue expenditure (57 *per cent*) Government could maintain the growth in revenue expenditure below the revenue receipts by containing the growth in NPRE (13 *per cent*). It is however observed that on account of conversion of deferred sales tax revenue into loans (Rs 398.57 crore) and the non-cash receipts of Rs 231.74 crore on account of debt waiver received from Government of India the revenue receipts of the State are artificially raised in the finance accounts. Adjusting revenue receipts to these transactions would eventually reduce the surplus in revenue account during 2006-07.

The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, decreased from Rs 17,631 crore in 2005-06 to Rs 11,553 crore in 2006-07. The surplus of Rs 4,652 crore in revenue account in 2006-07 along with the marginal increase of only Rs 14 crore in capital expenditure and a decline of Rs 1,440 crore in net disbursement of loans and advances resulted in a decline of Rs 6,078 crore in fiscal deficit during 2006-07.

The primary deficit[14] which persisted in the State budget till the previous year also took a turnaround and resulted into a primary surplus during the current year. A sharp decline of Rs 6,078 crore in fiscal deficit together with a increase of Rs 2,309 crore in interest payments resulted into a primary surplus of Rs 103 crore during the current year indicating the fact that fiscal deficit was experienced in the State's budget solely on account of payment obligations arising from the past fiscal operations of the Government.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit[15] and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD which declined from 65.5 *per cent* in 2002-03 to 21.8 *per cent* in 2005-06, turned into surplus

[14] Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

[15] Primary revenue deficit defined as gap between non interest revenue expenditure of the state and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

during the current year indicating consistent improvement in the quality of the deficit during the period 2002-07.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-07 reveals (**Table - 1.33**) that throughout this period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government except during 2002-03 when the primary deficit was on account of revenue expenditure. In other words, non-debt receipts of the State were enough to meet the primary expenditure[16] requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2002-06. However, during 2006-07 non-debt receipt were sufficient to meet the expenditure requirement both under revenue and capital account resulting in primary surplus. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.33: Primary deficit/surplus - Bifurcation of factors **(Rupees in crore)**

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) / surplus (+)	Primary deficit (-) / surplus (+)
1	2	3	4	5	6(3+4+5)	7 (2-3)	8 (2-6)
2002-03	31572	33345	3684	1704	38733	(-)1773	(-)7161
2003-04	34853	34345	8199	1902	44446	(+)508	(-)9593
2004-05	43054	42068	7877	2751	52696	(+)986	(-)9642
2005-06	48990	42933	10078	4262	57273	(+)6057	(-)8283
2006-07	62246	49730	10092	2322	62144	(+)12516	(+)102

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.34** below presents a summarised position of the Government's finances for the period 2002-07, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table-1.34: Indicators of Fiscal Health (in *per cent*)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
(1)	(2)	(3)	(4)	(5)	(6)
I Resource Mobilisation					
Revenue Receipt/GSDP	10.5	10.3	11	11.2	12.5
Revenue Buoyancy	0.383	0.816	1.659	1.112	1.896
Own Tax/GSDP	7.7	7.6	8.2	7.8	8.1
II Expenditure Management					
Total Expenditure/GSDP	15.5	15.8	16.5	15.4	14.8
Revenue Receipts/Total Expenditure	67.8	65.1	66.5	72.7	84.3
Revenue Expenditure/ Total Expenditure	88.2	80.8	82.7	78.5	83.2
Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	8.2	8.4	7.5	7.8	6.5
Non-Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	45.8	42.8	47.2	48.1	50.9

[16] Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year

(1)	(2)	(3)	(4)	(5)	(6)
Capital Expenditure/ Total Expenditure	8.3	16.1	12.7	15.1	13.7
Capital Expenditure on Social and Economic Services/ Total Expenditure	7.95	15.44	12.69	15.02	13.35
Buoyancy of TE with RR	3.300	1.436	0.870	0.442	0.380
Buoyancy of RE with RR	1.706	0.519	1.015	0.132	0.613
III Management of Fiscal Imbalances					
Revenue deficit(-)/Surplus(+) (Rs in crore)	(-)9371	(-)8310	(-)10033	(-)3842	810
Fiscal deficit (Rs in crore)	(-)14290	(-)17929	(-)18620	(-)17631	(-)11553
Primary Deficit(-)/Surplus(+) (Rs in crore)	(-)7160	(-)9593	(-)9642	(-)8284	103
Revenue Deficit/Fiscal Deficit	65.5	46.3	53.8	21.8	0[17]
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	29.1	31.3	32.5	33.0	31.6
Fiscal Liabilities/RR	275.9	303.8	295.0	294.1	252.5
Buoyancy of FL with RR	4.654	2.064	0.824	0.980	0.360
Buoyancy of FL with Own Receipt	2.949	4.249	0.760	1.296	0.496
Interest spread	(-)0.15	4.10	3.66	9.19	7.20
Net Fund Available	20.9	28.3	20.4	34.3	10.2
V Other Fiscal Health Indicators					
Return on Investment	0.01	0.10	0.10	0.01	0.02
Balance from Current Revenue (Rs in crore)	(-)7101	(-)6203	(-)7280	(-)600	4505
Financial Assets/Liabilities	0.6	0.6	0.6	0.6	0.6

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year was 12.5 *per cent,* an increase of one percentage point over the previous year. During 2002-07, the ratio of own taxes to GSDP hovered within the narrow range of 7.5 and 8 *per cent* which is below the budget estimates (10 *per cent*) shown under MTFPS of Government placed before the budget for 2006-07.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation efforts. The revenue expenditure as a percentage to total expenditure indicated a declining trend during the period 2002-03 to 2005-06 but after reaching as low as 78.5 *per cent* in 2005-06 it picked up again and reached the level of 2004-05 (83.2 *per cent)* in 2006-07. The higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts indicates the propensity of the State Government to create assets by resorting to *inter alia* capital expenditure. Increasing reliance on revenue receipts to finance the total expenditure which amounts to 84 *per cent* during 2006-07 indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. Maintaining the proportion of capital expenditure in the total expenditure at 12 *per cent* or more with inter year variations and increase in share of revenue expenditure on non-salary and wage items also indicates improvement in the quality of expenditure. But the negligible return on the Government investment continued to be a cause of concern and low productivity of capital expenditure would not only put strain on the

[17] There was revenue surplus

Government budget but also might adversely affect the maintenance and upkeep as well as efficiency in delivery of social and economic services in the State.

Revenue surplus and significant decline in fiscal deficit along with positive BCR during 2006-07 indicates an improvement in fiscal position of the State. However, despite improvement in fiscal position and cash balances position of the State, 40 *per cent* of the liabilities of the State do not have assets back up and this ratio continued to be static during the period 2002-07.

1.12 Conclusion

The augmentation in the State's tax and non-tax revenue receipts led to a revenue surplus of Rs 810 crore during the year as against deficit of Rs 3,842 crore during 2005-06. The reduction in net loan disbursed along with the revenue surplus resulted in reduction of fiscal deficit by Rs 6,078 crore (34 *per cent*) during 2006-07 over the previous year. The annual reduction targets for 2006-07 of revenue and fiscal deficits relative to GSDP laid down under the Rules framed under the MFRBM Act, were successfully achieved during the year. However, the fiscal liabilities of the State increased consistently at the annual average rate of 17 *per cent* and stood at 32 *per cent* of the GSDP as on 31 March 2007. However, inflated revenue receipts of the State as emerged from the finance accounts on account of conversion of deferred sale tax revenue into loans (Rs 398.57 crore) and the non-cash receipts (Rs 231.74 crore) on account of debt waiver may be kept in view while drawing inferences from these trends of fiscal parameters. Although, it is not uncommon for the State to borrow for creating and strengthening its social and economic infrastructure, but the low productivity and negligible return on the Government investments relative to their cost of borrowings remained a cause of concern and such situation if allowed to continue would not only put strain on the Government budget but also might adversely affect the maintenance and upkeep as well as efficiency in delivery of social and economic services in the State. Besides, the State resorted to giving guarantees to various institutions for raising resources in a big way and outstanding guarantees as on 31 March 2007 were almost equal to total revenue receipts and amounted to around 13 *per cent* of GSDP in the current year. In case the statutory corporations, Government companies, co-operative Banks and sugar factories continued to incur losses, there is inherent risk of invocation of Government guarantees which the State would have to honour out of its finances as it has not even set up the Guarantee Redemption Fund so far to meet such eventualities.