

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

Summary of the finances of the Government of Maharashtra for the year 2007-08 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 are shown in **Table 1.1**.

Table-1.1: Summary of receipts and disbursements for the year 2007-08

(Rupees in crore)

2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
1	2	3	4	5	6	7	8
Section-A: Revenue					Non Plan	Plan	Total
62,195.38	Revenue receipts	79,583.15	61,385.28	Revenue expenditure	54,504.62	10,275.43	64,780.05
40,099.25	Tax revenue	47,528.45	25,106.29	General services	23,468.97	377.45	23,846.42
7,518.24*	Non-tax revenue	16,947.97	23,558.86	Social services	19,558.13	7,214.92	26,773.05
6,022.76	Share of Union Taxes/Duties	7,597.18	11,703.04	Economic services	10,589.06	2,647.83	13,236.89
8,555.13	Grants from Government of India	7,509.55	1,017.09	Grants-in-aid and Contributions	888.46	35.23	923.69
Section-B: Capital							
0.11	Miscellaneous Capital Receipts	0.00	10,092.18	Capital Outlay	2,022.68	9,466.93	11,489.61
50.70	Recoveries of Loans and Advances	732.59	2,321.62	Loans and Advances disbursed			1,225.16
11,891.69	Public debt receipts	11,807.66 ¹	2,041.92	Repayment of Public Debt			2,745.48
1,850.00	Appropriation from Contingency fund	350.00	1,050.00	Appropriation to Contingency fund			350.00
1,288.57	Contingency Fund	405.36	1,905.36	Contingency Fund			408.94

¹ Excluding Ways and Means advances and overdraft - Receipt : Rs 1953.63 crore and Disbursement : Rs 1953.63 crore

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1	2	3	4	5	6	7	8
30,640.21	Public Account receipts	19,785.69	26,974.70	Public Account disbursements			27,618.79
5,038.30	Opening Cash Balance	7,183.90	7,183.90	Closing Cash Balance			11,230.32
1,12,954.96	Total	1,19,848.35	1,12,954.96	Total			1,19,848.35

* Lower rounding

Following are the significant changes in receipts and expenditure/ disbursements during 2007-08 over the previous year (2006-07):

- Revenue receipts increased by Rs 17,388 crore in 2007-08 mainly contributed by tax revenue (Rs 7,429 crore), non-tax revenue (Rs 9,430 crore) and State's share of Union Taxes and Duties (Rs 1,574 crore). The grants-in-aid from GOI, however, declined by Rs 1,046 crore during the year.
- An increase of Rs 9430 crore (125 *per cent*) in Non-tax revenue of the State was mainly on account of transfer of Rs 10,868 crore by State Government from 18 statutory funds maintained in Public Account to Consolidated Fund of the State as non-tax receipts during the year through its Resolutions dated 10 and 15 March 2008 issued in pursuance to Maharashtra Ordinance No. II of 2008 dated 22 February 2008 and ratified vide Maharashtra Act No. V of 2008 dated 19 March 2008 and cabinet decision dated 3 May 2007 respectively. Had such transfers not effected, the non-tax receipts of the State would have been Rs 6,080 crore in 2007-08.
- The revenue buoyancy of the State which has increased from 1.596 in 2006-07 to 2.063 in the current year mainly owing to transfer of huge surplus funds from various statutory funds to consolidated fund as non-tax receipts through an Act, would have been 0.774 in 2007-08 in the absence of such transfers.
- Revenue expenditure increased by Rs 3,395 crore, of which 60 *per cent* (Rs 2,040 crore) was under plan heads while remaining 40 *per cent* (Rs 1,355 crore) under non-plan heads. The major heads that registered increases include roads and bridges (Rs 1,556 crore), general education (Rs 1,272 crore), power (Rs 798 crore), urban development (Rs 688 crore) and pensions and other retirement benefits (Rs 649 crore).
- Recoveries of Loans and Advances increased by Rs 682 crore. A major increase in the recoveries was from the power sector (Rs 202 crore).
- Public Debt Receipts reduced by Rs 84 crore while Public Debt disbursement increased by Rs 703 crore resulting in net reduction of Rs 787 crore in Public Debt receipts during 2007-08.
- Public Account receipts reduced by Rs 10,855 crore mainly on account of closure of inoperative reserve funds and transfer of amount to the Consolidated Fund of State. Public Account disbursements on the other

hand increased by Rs 644 crore during the year mainly due to increase under remittances (Rs 1,083 crore), deposit and advances (Rs 1,787 crore), small savings, Provident funds etc (Rs 120 crore) along with decrease under reserve funds (Rs 2,292 crore).

- Appropriation from contingency fund reduced by Rs 1,500 crore from Rs 1,850 crore in 2006-07 to Rs 350 crore in 2007-08. Similarly, appropriation to contingency fund also reduced by Rs 700 crore from Rs 1,050 crore in 2006-07 to Rs 350 crore in 2007-08.
- Cash balances of the State at the close of the year 2007-08 increased by Rs 4,046 crore as a result of fiscal transactions summarised in **Table 1.1**.

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)

2006-07	Sr. No	Major Aggregates	2007-08
62,195	1.	Revenue Receipts (2+3+4)	79,583
40,099	2.	Tax Revenue (Net)	47,528
7,518	3.	Non-Tax Revenue	16,948
14,578	4.	Other Receipts	15,107
51	5.	Non-Debt Capital Receipts	733
51	6.	of which Recovery of Loans	733
62,246	7.	Total Receipts (1+5)	80,316
57,582	8.	Non-Plan Expenditure	57,753
53,150	9.	on Revenue Account	54,505
11,656	10.	of which Interest Payments	12,204
2,110	11.	on Capital Account	2,023
2,322	12.	on Loans disbursed ²	1,225
16,217	13.	Plan Expenditure	19,742
8,235	14.	on Revenue Account	10,275
7,982	15.	on Capital Account	9,467
73,799	16.	Total Expenditure (13+8)	77,495
810	17.	Revenue Surplus(+)/Deficit(-) [1-(9+14)]	14,803
(-)11,553	18.	Fiscal Deficit(-)/Surplus(+) [(1+5) -16]	2,821
103	19.	Primary Deficit (-)/Surplus (+)[(1+5)-(16-10)]	15,025

Table-1.2 shows that revenue receipts increased by Rs 17,388 crore (28 per cent) during 2007-08 while revenue expenditure increased only by Rs 3,395 crore (6 per cent) over the previous year resulting an increase of Rs 13,993 crore in revenue surplus in 2007-08 over the previous year. Given the incremental revenue surplus of Rs 13,993 crore, an increase of Rs 1,398 crore

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

in capital expenditure along with a decline of Rs 1,779 crore in net disbursement of loans and advances led to an incremental fiscal surplus of Rs 14,374 crore in 2007-08 which turned the fiscal deficit of Rs 11,553 crore in 2006-07 into a fiscal surplus of Rs 2,821 crore during the current year. The prevalence of fiscal surplus in 2007-08 also led to steep increase in primary surplus from Rs 103 crore in 2006-07 to Rs 15,025 crore in the current year.

It may, however, be pertinent to note that a steep increase of Rs 13,993 crore in revenue surplus and a turnaround situation in case of fiscal deficit of Rs 11,553 crore in 2006-07 to a fiscal surplus of Rs 2,821 crore in 2007-08 was mainly on account of transfer of Rs 10,868 crore by the State Government from 18 statutory funds maintained in Public Account to Consolidated Fund of the State as non-tax receipts during the year through an Act No. V of 2008 dated 19 March 2008. In the absence of these transfers of funds through an unusual act of State Government for raising the revenue receipts in current year, the revenue surplus would have increased only by Rs 3,125 crore while fiscal deficit would have reduced by Rs 3,506 crore in 2007-08 from their corresponding levels of Rs 810 crore and Rs 11,553 crore in 2006-07.

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 behavior. In its Restructuring Plan of State finances, Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States are required to enact 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 States 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 Gross State Domestic Product (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 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,

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

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 1999-2000 as base year (**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	2003-04	2004-05	2005-06	2006-07	2007-08
Gross State Domestic Product (GSDP) (Rupees in crore)	333145	371878	432413	509356 ⁴	578475 ⁵
GSDP growth (per cent)	12.86	11.63	16.28	17.79	13.57

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 1.2 to 1.5**). The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 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.

⁴ Based on Economic Survey of Maharashtra (Preliminary Estimates)

⁵ Advance estimates as furnished by Directorate of Economics and Statistics, Government of Maharashtra

1.2.1.1 Fiscal Policy Statements 2007-08

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 2007-08 before the Legislature. MTFPS presents three years (2007-10) 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 major pronouncement in MTFPS-2007-08 include bringing down the revenue deficit by more than 2 *per cent* of GSDP and reduction in fiscal deficit to 1.78 *per cent* of GSDP during 2007-08, not availing overdraft even once during 2007-08, rationalising the revenue expenditure, increasing expenditure on infrastructure sectors including those in irrigation, roads and power sectors, increasing funding for social sectors like education, health etc, healthy growth in tax revenues through a commitment to improve efficiency of tax collection that leads to increase in revenue receipts and reduction in debt servicing liability.

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 statement envisaged that GSDP would continue to grow at the rate of 13.70 *per cent* at current prices and 8.5 *per cent* in real terms during 2007-08, to take measures to recover arrears of tax revenues and prevent further build-up of such arrears, mobilisation of additional resources through rationalisation of tax system and strengthening of VAT system and achieving fiscal targets by 2007-08 itself instead of 2008-09. A closer monitoring of guarantees to prevent invocation, creation of guarantee database, restructuring the legal agreements etc are the steps that have been initiated to ensure that management of Government guarantee becomes prudent and effective.

The trends in major fiscal parameters/variables vis-à-vis projections made in FCP and MTFPS for 2007-08 are summarised in **Table 1.4**. The comparative position presented in the Table below reveals that the State has achieved the targets for revenue and fiscal deficits as laid down in MFRBM Rules, 2006 as well as in MTFPS, FCP and TFC for the year 2007-08. The State has achieved fiscal targets as laid down in the MFRBM Act/Rules and TFC much before the timeline indicated in them with the current year ending in revenue surplus of Rs 14,803 crore and fiscal surplus of Rs 2,821 crore which was 0.49 *per cent* of GSDP. As a result of consistent performance the State Government received a debt waiver of Rs 339.97 crore during 2007-08 linked to its fiscal

performance from Government of India under Debt Consolidation and Relief Facility⁶.

Table 1.4: Trends in Major Fiscal Parameters/Variables vis-à-vis projections for 2007-08

Fiscal variables	2007-08					
	TFC (2009-10)	MTFPS	FCP	Actuals	Variations over :	
					MTFPS	FCP
Revenue deficit(-)/Surplus(+) as percentage of GSDP	0.0	0.05	0.29	2.56	2.51	2.27
Fiscal Deficit(-)/Surplus(+) as percentage of GSDP	3.0	(-)1.97	(-)2.71	0.49	2.46	3.2
Tax Revenue as percentage of GSDP	9.7	9.38	8.46	8.22	(-) 1.16	(-) 0.24
Total Debt Stock as percentage of GSDP	30.8	25.53	26.84	27.33	1.8	0.49
Total Contingent Liability (Guarantee) as percentage of GSDP	-	9.28	10.63	10.07	1.01	(-) 0.34
Interest Payment as percentage of Revenue receipts	15	18.16	19.47	15.33	(-) 2.83	(-) 4.14

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 2005-06, budget estimates for 2006-07 and the projections for 2007-08 onwards and up to 2009-10 for major fiscal variables are shown in **Appendix 1.6**.

1.2.1.3 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).

Test-check of CFS for 2007-08 in general and actual expenditure under 13 major heads of accounts⁷ of three Departments (Public Works Department, Revenue and Forests Department and Water Resources Department) in central audit vis-à-vis their CFS, revealed that the percentile variation of excess over projections in CFS is ranging between 25 and 1794 indicating that the departments had neither considered the pattern of average monthly

⁶ 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 State's 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.

⁷ 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-Housing, 3054-Roads and Bridges, 4059-CO on Public Works, 4216-CO on Housing, 2406-Forestry and Wildlife, 4406-CO on Forestry and Wildlife.

expenditure during the past three years nor had projected the monthly cash flow requirement realistically. Excess of expenditure over the projections in the CFS for the year 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 2007-08 were Rs 1,12,314 crore. Of these, the revenue receipts were Rs 79,583 crore, constituting 71 *per cent* of the total receipts. The balance came from borrowings, receipts from Contingency Fund and the Public Account (**Appendix 1.5**).

Table 1.5: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of State's Receipts	2003-04	2004-05	2005-06	2006-07	2007-08
I Revenue Receipts	34370	41013	48438	62195	79583
II Capital Receipts	22863	24230	20525	11943	12541
Recovery of Loans and Advances	482	2041	551	51	733
Public Debt Receipts	22381	22189	19974	11892	11808
Miscellaneous Capital Receipts	--	--	--	--	
III Contingency Fund	887	348	1955	1289	405
IV Public Account Receipts	24452	27991	27146	30640	19785
a. Small Savings, Provident Fund etc	1714	1684	1794	1895	2060
b. Reserve Fund	5441	6461	5504	5988	-9196
c. Deposits and Advances	5609	7466	8371	8898	10847
d. Suspense and Miscellaneous	1461	1202	(-905)	436	325
e. Remittances	10227	11178	12382	13423	15749
Total Receipts	82572	93582	98064	106067	112314

The revenue and other receipts constituted 71 and 29 *per cent* of total receipts respectively. The total receipts of the State increased from Rs 82,572 crore in 2003-04 to Rs 1,12,314 crore in 2007-08. The Debt capital receipts which create future repayment obligation consistently decreased from Rs 22,381 crore in 2003-04 to Rs 11,808 crore in 2007-08. The recovery of loans and advances increased by Rs 682 crore over previous year. The Public Accounts receipts reduced by Rs 10,855 crore from Rs 30,640 crore in 2006-07 to Rs 19,785 crore in 2007-08 mainly due to decrease under reserve fund receipts

by Rs 15,184 crore on account of transfer of surplus funds from non-operational reserve funds and suspense and miscellaneous (Rs 111 crore) along with an increase under small saving, provident fund etc (Rs 165 crore), deposits and advances (Rs 1,949 crore) and remittances (Rs 2,326 crore).

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**.

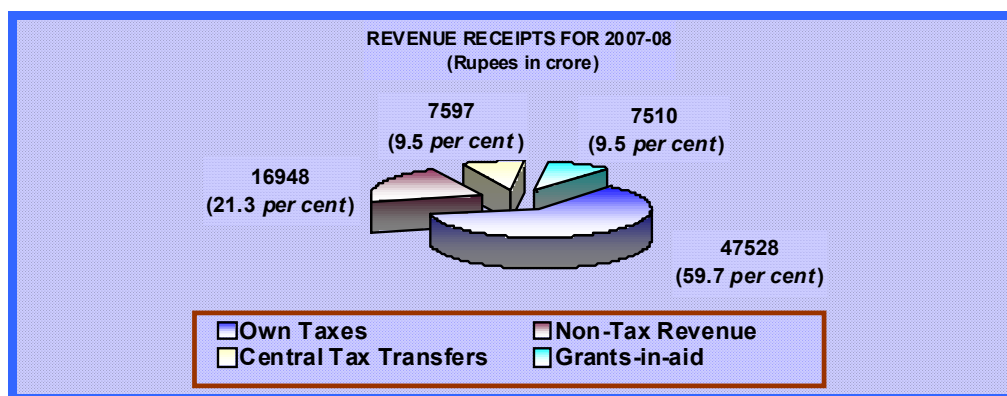
Table-1.6: Revenue Receipts - Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (RR) (Rupees in crore)	34370	41013	48438	62195	79583
Own Taxes (per cent)	25162 (73.2)	30606 (74.6)	33540 (69.2)	40099 (64.5)	47528 (59.7)
Non-Tax Revenue (per cent)	3549 (10.3)	4119 (10)	5935 (12.2)	7518 (12.0)	16948 (21.3)
Central Tax Transfers (per cent)	3389 (9.8)	3595 (8.7)	4982 (10.2)	6023 (9.7)	7597 (9.5)
Grants-in-aid (per cent)	2270 (6.6)	2694 (6.5)	3981 (8.2)	8555 (13.8)	7510 (9.5)
Rate of growth of RR (per cent)	10.5	19.3	18.1	28.4	28
RR/GSDP (per cent)	10.3	11.0	11.2	12.2	13.8
Buoyancy Ratio's					
Revenue Buoyancy w.r.t GSDP	0.816	1.659	1.112	1.596	2.063
State's own taxes Buoyancy w.r.t. GSDP⁸	0.397	1.797	0.842	1.158	2.609
Revenue Buoyancy with reference to State's own taxes (ratio)	2.059	0.921	1.321	1.379	0.791

General Trends

The revenue receipts have shown a progressive increase over the period 2003-08 with the declining trend in the share of own taxes and an increase in the share of grants-in-aid during the period 2003-08 with inter year variations especially during 2007-08 when grants-in-aid reduced to 9.5 *per cent*. The shares of non-tax revenue and central transfers exhibited relative stability during the period except during 2007-08 when the share of non-tax revenue increased considerably to 21.3 *per cent*. The sharp increase of 28 *per cent* in revenue receipts during 2007-08 over the previous year was mainly on account of increase in State's own taxes (19 *per cent*), non-tax revenue (125 *per cent*) and central tax transfers (26 *per cent*).

⁸ State's own taxes includes tax and non-tax revenue



Tax Revenue

The major sectors where the tax revenue of the State increased are shown in **Table 1.7**.

Table 1.7: Sector-wise increase in tax revenue (Rupees in crore)

Tax Revenue	2003-04	2004-05	2005-06	2006-07	2007-08
Taxes on Sales, Trade, etc.	15326	18817	19677	24131	26753
State Excise	2324	2219	2824	3301	3963
Taxes on Vehicles	1206	1177	1309	1841	2143
Stamps and Registration fees	3354	4116	5266	6416	8550
Taxes and duties on electricity	630	1674	1661	1577	2688
Other taxes	2322	2603	2803	2833	3431
Total	25162	30606	33540	40099	47528

The tax revenue of the State increased by 19 per cent over the previous year from Rs 40,099 crore in 2006-07 to Rs 47,528 crore in 2007-08, mainly on account of increase in (a) taxes on sales, trade etc (Rs 2,622 crore) due to shift to VAT regime, (b) stamps and registration fees (Rs 2,134 crore) due to more receipts on impressing of documents, other items and sale of other non-judicial stamps, (c) taxes and duties on electricity (Rs 1,111 crore) due to sharp increase in consumption and sale of electricity, (d) state excise (Rs 662 crore) due to more receipts under foreign liquors, spirits and malt liquor and (e) taxes on vehicles (Rs 302 crore) due to increased sale of vehicles during the year.

Non-Tax Revenue

The non-tax revenue of the State increased by (Rs 9,430 crore) 125 per cent over the previous year from Rs 7,518 crore in 2006-07 to Rs 16,948 crore in 2007-08, mainly due to sharp increase in receipts booked under Major Head 'Miscellaneous General Services' (Rs 9,909 crore). Owing to the fact that surplus amount lying in various statutory reserve funds in Public Account which cannot be utilised for any other purposes mentioned in Acts under which these funds are maintained, State Government through Resolutions dated 10 and 15 March 2008 issued in pursuance to Maharashtra Ordinance No. II of 2008 dated 22 February 2008 and ratified vide Maharashtra Act No. V of 2008 dated 19 March 2008 and cabinet decision dated 3 May 2007 respectively, transferred Rs 10,868 crore from 18 such funds to Consolidated Fund of the State under the above mentioned Major Head as non-tax receipts

during the year. Besides, a credit entry of Rs 467.54 crore (debt relief of Rs 339.97 crore for 2007-08 and Rs 108.23 crore for 2006-07, interest relief of Rs 19.34 crore for 2006-07) was also booked under Major Head 'Miscellaneous General Services' on account of debt waiver received from Government of India under DCRF. As a result, non tax receipts of the State recorded an impressive increase of 125 *per cent* during 2007-08 over the previous year.

The actual Revenue receipts vis-à-vis assessments made by TFC and State Government are given in **Table 1.8**.

Table 1.8: Revenue Receipts Relative to TFC and State's Projections

(Rupees in crore)

	Assessments made by TFC	Projections in FCP	Projections in MTFPS	Actuals
Tax revenue	43970	45070	45874	47528
Non-tax revenue	4193	5801	5748	16948

Table 1.8 reveals that the actual realisation of tax revenue during 2007-08 was higher than the normative assessment of TFC as well as the projections made in FCP/MTFPS. The non-tax revenue of the Government significantly exceeded both the FCP (192 *per cent*) of the Government as well as the TFC projection (304 *per cent*) mainly due to increase of Rs 9,909 crore in receipts under miscellaneous general services due to transfer of credit balances from public account to consolidated fund on account of closure of selected statutory reserve funds (Rs 10,868 crore) as well as credit entry of Rs 467.54 crore on account of debt waiver received from Government of India.

Central Tax Transfers

The Central tax transfers of the State increased by 26 *per cent* over the previous year from Rs 6,023 crore in 2006-07 to Rs 7,597 crore in 2007-08. The increase was mainly under (a) corporation tax (Rs 531 crore), (b) taxes on income other than corporation tax (Rs 477 crore), (c) customs duties (Rs 261 crore), (d) service tax (Rs 181 crore), and (e) union excise duties (Rs 123 crore).

Grants-in-aid

The grants-in-aid from the Government of India have decreased by 12 *per cent* from Rs 8,555 crore in 2006-07 to Rs 7,510 crore in 2007-08. While non-plan grants decreased by 40 *per cent* from Rs 3,489 crore in 2006-07 to Rs 2,106 crore in 2007-08, grants for State Plan Schemes decreased by 4 *per cent* from Rs 3,919 crore in 2006-07 to Rs 3,780 crore in 2007-08. Further, grants for central schemes also decreased by 29 *per cent* from Rs 89 crore in 2006-07 to Rs 63 crore in 2007-08 while the grants for Centrally Sponsored Plan Schemes increased by 48 *per cent* from Rs 1,058 crore in 2006-07 to Rs 1,561 crore in 2007-08 (**Table 1.9**).

Table 1.9: Grants-in-aid from Government of India (Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State plan schemes	797	1266	1255	3919	3780
Non Plan grants	639	570	1582	3489	2106
Grants for Central Schemes	85	86	286	89	63
Grants for Central and Centrally Sponsored Schemes	749	772	858	1058	1561
Total	2270	2694	3981	8555	7510
Percentage of increase/decrease over previous year	50.7	18.7	47.8	114.9	(-)12.2

The major decrease under plan grants for the State plan schemes was in the form of decrease in 'Block Grants' (Rs 345 crore) while under non-plan grants, the decrease was due to less receipt on account of central road fund, contribution to calamity relief fund and national calamity contingency fund. The increase in grants under centrally sponsored schemes (CSS) was mainly on account of increases in CSS relating to 'social services' (Rs 258 crore) and 'Family welfare' (Rs 232 crore).

Revenue Arrears

The arrears of revenue in respect of some principal heads have decreased by 20.73 *per cent* from Rs 30,836 crore as of March 2007 to Rs 24,444 crore as of March 2008. Arrears mainly pertained to taxes on Sales, Trade, State Excise *etc.*, (Rs 24,430 crore). The arrears of revenue as presented, however, do not reflect the actual 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 9 *per cent* from Rs 52,781 crore in 2003-04 to Rs 77,495 crore in 2007-08. 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 1.10**.

Table-1.10: Total Expenditure – Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Total expenditure (TE) (Rupees in crore)	52781	61674	66620	73799	77495
Rate of growth (per cent)	15.0	16.8	8.0	10.8	5
TE/GSDP ratio (per cent)	15.8	16.5	15.4	14.5	13.4
RR /TE ratio (per cent)	65.1	66.5	72.7	84.3	102.7
Buoyancy of Total Expenditure with reference to :					
GSDP (ratio)	1.166	1.445	0.491	0.607	0.368
RR (ratio)	1.436	0.870	0.442	0.380	0.179

The increase of Rs 3,696 crore in total expenditure in 2007-08 was mainly on account of an increase in revenue expenditure by Rs 3,395 crore and an increase of Rs 1,398 crore in capital expenditure together with a decline of Rs 1,097 crore in disbursement of loans and advances. The increase in revenue expenditure during 2007-08 was mainly due to increase in (a) expenditure on bridges under roads and bridges (Rs 1,556 crore), (b) expenditure on grants-in-aid to ordinary secondary school, training of teachers and free education to children of primary teachers under general education (Rs 1,272 crore), (c) expenditure on thermal power generation and transmission and distribution under power (Rs 798 crore) and (d) expenditure on Jawaharlal Nehru National Urban Renewal Mission, providing facilities to Dalit Basties in urban places, Mumbai Urban infrastructure facilities project and special programmes for pilgrim places under urban development (Rs 688 crore).

The increase in capital expenditure during 2007-08 was mainly on account of increase in Government's contribution in share capital of Vidharbha Irrigation Development Corporation, Maharashtra Krishna Valley Development Corporation, Godavari Marathwada Irrigation Development Corporation, Tapi Irrigation Development Corporation and Konkan Irrigation Development Corporation. The decrease in disbursement of loans and advances during 2007-08 was mainly due to decline in loans for co-operation (Rs 1,164 crore).

The trends in total expenditure in the form of plan and non-plan expenditure during 2007-08 reveal that non-plan expenditure contributed dominant share of 75 per cent while remaining 25 per cent was in the form of plan expenditure. Moreover, of the increase of Rs 3,696 crore in total expenditure, plan expenditure shared 95 per cent (Rs 3,525 crore) while non-plan expenditure contributed only 5 per cent (Rs 171 crore) in 2007-08. Moreover, 58 per cent of the incremental plan expenditure during the current year was under revenue heads of various programmes/transfers.

The increase in ratio of revenue receipts to total expenditure from 84.3 per cent in 2006-07 to 102.7 per cent in 2007-08 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 2003-04 and 2004-05 significantly declined during 2005-06 to 2007-08 due to the combined effect of decrease in

rate of growth in expenditure, while GSDP rose sharply during these years indicating a relative fall in the State's propensity to spend with the increase in GSDP. Similarly, there was a consistent fall in buoyancy ratio of total expenditure with reference to revenue receipts during the period 2003-08 indicating increase in receipts at a pace greater than the expenditure.

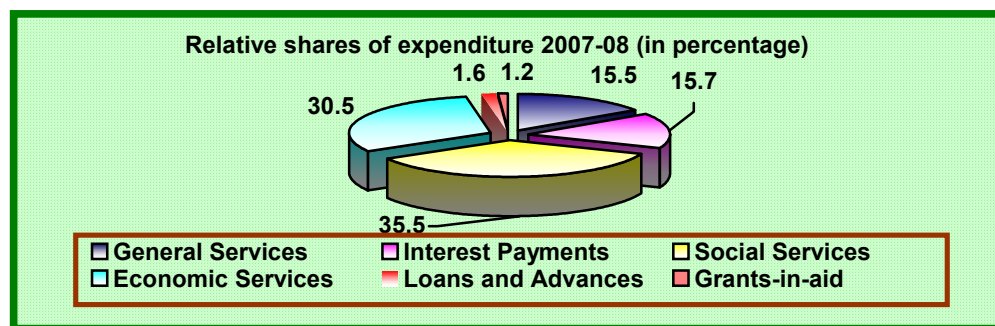
Trends in Total Expenditure by Activities

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-1.11**.

Table-1.11: Components of Expenditure – Relative Shares (in per cent)

	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	37.7	36.1	32.7	34.4	31.2
of which Interest Payments	15.8	14.5	14.0	15.8	15.7
Social Services	30.8	28.9	31.8	33.1	35.5
Economic Services	26.1	29.1	27.1	28.0	30.5
Grants-in-aid	1.8	1.4	2.0	1.4	1.2
Loans and Advances	3.6	4.5	6.4	3.1	1.6

The movement of relative shares of the above components of expenditure indicated that the shares of social services and of economic services in the total expenditure increased during 2007-08 over the previous year. These increases were set off by decrease in the respective share of general services, grants-in-aid and of loans and advances.



The share of social services increased mainly on account of increase in general education (Rs 1,272 crore) and urban development (Rs 688 crore) while the share of economic services increased mainly due to increased expenditure under roads and bridges (Rs 1,554 crore), power (Rs 798 crore) and industries (Rs 531 crore). The share of general services reduced mainly due to less transfer of contribution to Employment Guarantee Fund from the head 'Collection of taxes on income and expenditure' (Rs 1,279 crore) in 2007-08 over the previous year. The share of loans and advances disbursed reduced mainly due to steep decline in loans disbursement for co-operation (Rs 1,164 crore).

1.4.2 Incidence of Revenue Expenditure

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. Revenue expenditure had the predominant share of little more than 80 *per cent* in the total expenditure during the period 2003-08. 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-1.12**.

Table-1.12: Revenue Expenditure – Basic Parameters

(Rupees in crore)					
	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE)	42680	51046	52280	61385	64780
<i>of which</i>					
Non-Plan Revenue Expenditure (NPRE)	39135	46392	47048	53150	54505
Plan Revenue Expenditure (PRE)	3545	4654	5232	8235	10275
Rate of Growth of					
RE (<i>per cent</i>)	5.4	19.6	2.4	17.4	5.5
NPRE (<i>per cent</i>)	5.1	18.5	1.4	13.0	2.5
PRE (<i>per cent</i>)	9.3	31.3	12.4	57.4	24.8
Revenue Expenditure as percentage to TE	80.9	82.8	78.5	83.2	83.6
NPRE/GSDP (<i>per cent</i>)	11.7	12.5	10.9	10.4	9.4
NPRE as percentage of TE	74.1	75.2	70.6	72.0	70.3
NPRE as percentage of RR	113.9	113.1	97.1	85.5	68.5
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.420	1.685	0.147	0.978	0.405
Revenue Receipts (ratio)	0.519	1.015	0.132	0.613	0.196

The revenue expenditure has increased only by Rs 3,395 crore from Rs 61,385 crore in 2006-07 to Rs 64,780 crore in 2007-08. The NPRE which constituted a dominant share of 84 *per cent* in the revenue expenditure has increased marginally by Rs 1,355 crore in 2007-08 over the previous year. The variations in NPRE under the major heads indicate increase in expenditure under education, sports, arts and culture (Rs 1,453 crore), transport (Rs 1,439 crore), energy (Rs 787 crore) and industries and minerals (Rs 643 crore) while decreases were observed in expenditure under general services (Rs 1,352 crore), social welfare and nutrition (Rs 575 crore), and rural development (Rs 1,483 crore). The PRE increased by Rs 2,040 crore during the year mainly due to increase in expenditure under water supply, sanitation, housing and urban development (Rs 1,387 crore). The buoyancy of revenue expenditure with reference to both GSDP and revenue receipts fluctuated widely and do not seem to be determined by these factors during the period 2003-08. This might be 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 1.13** provides the comparative position of NPRE with reference to assessments made by TFC and the projections of the State Government.

Table 1.13: NPRE vis-à-vis assessment made by TFC and FCP

(Rupees in crore)

Year	Projections in MTFPS	Assessments made by TFC	Projections in FCP	Actuals
2006-07	54097	39222	50536	53150
2007-08	56329	43795	53568	54505

The NPRE during 2006-07 and 2007-08 remained significantly higher than the normative assessments made by TFC while as compared to State Government's projections (MTFPS and FCP); 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 31 *per cent* from Rs 6,756 crore in 2003-04 to Rs 8,851 crore in 2007-08 as indicated in **Table 1.14**.

Table-1.14: Expenditure on Salaries

(Rupees in crore)

Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries and Wages of which	6756	7225	7956	8136	8851
Non-Plan Head	5502	5916	6837	7155	8015
Plan Head	1254	1309	1119	981	836
As percentage of GSDP	2.0	1.9	1.8	1.6	1.5
As percentage of RR	19.7	17.6	16.4	13.1	11.1

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 increased by Rs 715 crore from Rs 8,136 crore in 2006-07 to Rs 8,851 crore in 2007-08 mainly due to increase in expenditure under the major head 'administrative services' (Rs 472 crore). The ratio of non-plan salary expenditure to revenue expenditure net of interest payments and pensions stood at 17 *per cent* during 2007-08 which was well within the TFC norms of 35 *per cent*.

1.4.3.2 Pension Payments

The expenditure on pension payments increased by 59 *per cent* from Rs 2,636 crore in 2003-04 to Rs 4,191 crore in 2007-08 as indicated in **Table 1.15**.

Table-1.15: Expenditure on Pensions (Rupees in crore)

Heads	2003-04	2004-05	2005-06	2006-07	2007-08
Pension Expenditure	2636	2872	3328	3542	4191
Rate of growth	4.4	9.0	15.9	6.4	18.3
As percentage of GSDP	0.8	0.8	0.8	0.7	0.7
As percentage of RR	7.7	7.0	6.9	5.7	5.3
As percentage of RE	6.2	5.6	6.4	5.8	6.5

The increase in pension payments of Rs 649 crore (18 *per cent*) during 2007-08 over the previous year was mainly due to allowing domestic help allowance and medical allowance to retired Judges and revision of good number of pension cases of Judges. The **Table 1.16** below shows actual pension payments with reference to assessment made by TFC and projections of the State Government.

Table 1.16: Pension Payments vis-à-vis TFC Assessment and State's projections

Year	Projections in MTFPS	Assessments made by TFC	Projections in FCP	Actuals
	(Rupees in crore)			
2006-07	5326	3304	4598	3542
2007-08	5643	3635	4965	4191

The pension payments during 2006-07 and 2007-08 were higher than the normative assessments made by TFC while they were lesser than the projections of the Government under MTFPS and FCP during both the years. The larger gap of pension payments with reference to projections of the State Government further emphasized need of working out the pension liabilities on actuarial basis. In order to limit future pension liabilities, the Government had however, 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 2003-08 are depicted in **Table 1.17**.

Table-1.17: Interest Payments (Rupees in crore)

Year	Total Revenue Receipts	Interest Payments	Percentage of Interest Payments with reference to	
			Total Revenue Receipts	Revenue Expenditure
2003-04	34370	8335	24	20
2004-05	41013	8978	22	18
2005-06	48438	9347	19	18
2006-07	62195	11656	19	19
2007-08	79583	12204	15	19

In absolute terms, interest payments increased by 46 *per cent* from Rs 8,335 crore in 2003-04 to Rs 12,204 crore in 2007-08, primarily due to increase in debt liabilities. However, relative to revenue receipts, interest payments reveal

a declining trend. It declined from 24 *per cent* in 2003-04 to 15 *per cent* in 2007-08.

The interest payments with reference to assessment made by TFC and the projections in FCP of the State Government (**Table 1.18**) indicate that the interest payments during 2006-07 and 2007-08 exceeded the assessments made by TFC and projection made by State Government in FCP. However, as compared to MTFPS, it reflected only marginal variations during both the years. During the current year, the interest payment exceeded the TFC's assessment by 14 *per cent*.

Table 1.18: Interest Payments vis-à-vis TFC Assessment and State's Projections
(Rupees in crore)

Year	Projections in MTFPS	Assessments made by TFC	Projections in FCP	Actuals
2006-07	11769	9970	10904	11656
2007-08	12406	10717	12178	12204

During 2007-08, the State Government raised Rs 8,520 crore at the average interest rate of 8.18 *per cent* from the open market. Besides, it also borrowed Rs 2,958 crore from the National Small Savings Fund and other institutions and Rs 329 crore from Government of India during the year.

The increase in interest payments was Rs 548 crore over the previous year mainly due to payment of more interest on 'Special Securities issued to National Small Saving Fund' (Rs 715 crore), interest on loans for State/Union Territory plan schemes (Rs 267 crore⁹) and interest on State Provident fund (Rs 170 crore) which was offset by decrease (Rs 659 crore) in interest on other internal debts.

1.4.3.4 Subsidies

Though the finances of the State are under strain, State Government has been paying subsidies to various institutions/bodies/Corporations, *etc.* The trends in the subsidies given by the State Government are given in **Table 1.19**.

Table-1.19: Subsidies

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2003-04	975	-51.4	2
2004-05	3994	309.6	6
2005-06	2885	-27.7	4
2006-07	3777	30.9	5
2007-08	4935	30.7	6

Subsidies increased by 31 *per cent* from Rs 3,777 crore in 2006-07 to Rs 4,935 crore in 2007-08. During the current year, subsidies constituted about six *per cent* of the total expenditure; the major sectors being given subsidy include

⁹ Includes interest relief of Rs 19.34 crore

power (57 per cent), industries in backward areas (17 per cent) and subsidy on food (3 per cent) etc.

Table 1.20: Subsidies vis-à-vis FCP

(Rupees in crore)

	Projections in FCP	Actuals
Power	1611	2791
General	740	2144

The subsidies to power and general subsidies with reference to the projections in FCP of the State Government (**Table 1.20**) indicate that the subsidies payments exceeded the projection made by State Government in FCP.

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 1.21** gives these ratios during 2003-08.

Table-1.21: Indicators of Quality of expenditure

(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Capital Expenditure[#]	8199	7877	10078	10092	11490
Revenue Expenditure	42680	51047	52280	61385	64780
of which					
Social and Economic Services	21873	27930	29232	35262	40010
with					
(i) Salary & Wage Component ^{\$}	3594	3822	4079	4009	4444
(ii) Non-Salary & Wage Component	18279	24108	25153	31253	35566
Non-Salary & Wage component (net of subsidy)	17304	20114	22268	27476	30631
As percentage of Total Expenditure					
Capital Expenditure	15.5	12.8	15.1	13.7	14.8
Revenue Expenditure	80.9	82.8	78.5	83.2	83.6
As percentage of GSDP					
Capital Expenditure	2.5	2.1	2.3	2.0	2
Revenue Expenditure	12.8	13.7	12.1	12.1	11.2

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 increased by Rs 1,398 crore in 2007-08 over the previous year. Capital expenditure as a percentage of total expenditure remained on an average around 14.38 per cent during the period 2003-08 with inter-year variations. As

a percentage of GSDP too, it exhibited relative stability around an average of 2.18 *per cent* with inter-year variations during the period 2003-08. 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 (net of subsidy) has picked up since 2003-04 and increased by 11 *per cent* during the current year.

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 1.22** summarises the expenditure incurred by the State Government in expanding and strengthening of social services during 2003-08.

Table-1.22: Expenditure on Social Services (Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
(1)	(2)	(3)	(4)	(5)	(6)
General Education					
Revenue Expenditure	9014	9693	10107	11651	12923
of which					
(a) Salary & Wage Component	157	155	167	179	153
(b) Non-Salary & Wage Component	8857	9538	9940	11472	12770
Capital Expenditure	1	1	2	3	4
Total	9015	9694	10109	11654	12927
Health and Family Welfare					
Revenue Expenditure	1768	1891	2124	2254	2695
of which					
(a) Salary & Wage Component	772	842	973	1027	1084
(b) Non-Salary & Wage Component	996	1049	1151	1227	1611
Capital Expenditure	157	94	91	76	88
Total	1925	1985	2215	2330	2783
Water Supply, Sanitation, Housing and Urban Development					
Revenue Expenditure	1894	2491	2302	3566	5045
of which					
(a) Salary & Wage Component	33	32	33	35	38
(b) Non-Salary & Wage Component	1861	2459	2269	3531	5007
Capital Expenditure	14	21	902	29	60
Total	1908	2512	3204	3595	5105
Other Social Services					
Revenue Expenditure	3314	3474	5384	6088	6110
of which					
(a) Salary & Wage Component	511	563	648	691	739
(b) Non-Salary & Wage Component	2803	2911	4736	5397	5371
Capital Expenditure	111	168	252	764	591
Total	3425	3642	5636	6852	6701

(1)	(2)	(3)	(4)	(5)	(6)
Total (Social Services)					
Revenue Expenditure	15990	17549	19917	23559	26773
of which					
(a) Salary & Wage Component	1473	1592	1821	1932	2014
(b) Non-Salary & Wage Component	14517	15957	18096	21627	24759
Capital Expenditure	283	284	1247	872	743
Grand Total	16273	17833	21164	24431	27516

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 14 *per cent* from Rs 16,273 crore in 2003-04 to Rs 27,516 crore in 2007-08 reaching the level of 36 *per cent* of total expenditure and 54 *per cent* of development expenditure¹⁰ during the current year (Rs 27,516 crore).

Out of the total expenditure on social services of Rs 27,516 crore in 2007-08, general education received the major share of 47 *per cent* (Rs 12,927 crore), health and family welfare shared only 10 *per cent* (Rs 2,783 crore) and 19 *per cent* (Rs 5,105 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 nine *per cent*, while the growth rate in respect of water supply, sanitation, housing and urban development was 34 *per cent* during the period 2003-08. The revenue expenditure (non-salary and wage component) on general education increased by Rs 1,298 crore from 2007-08 due to more expenditure in the form of grants-in-aid to government secondary schools, training of teachers and free education to children of primary teachers. The enhanced expenditure mainly under urban development and housing led to a steep increase of Rs 1,476 crore in non-salary component of revenue expenditure under water supply, sanitation, housing and urban development in 2007-08. In case of health and family welfare it increased by Rs 384 crore during the year due to more expenditure on Employees State Insurance Scheme hospitals and mental hospitals.

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.

¹⁰ Development expenditure is defined as the total expenditure made on social and economic services.

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 State's economy. The expenditure on economic services (Rs 23,642 crore) accounted for 30 per cent of the total expenditure (**Table 1.23**). Of this, agriculture and allied activities, irrigation and flood control, energy and transport consumed nearly 27 per cent of the total expenditure.

Table-1.23: Expenditure on Economic Sector (Rupees in crore)

Sector (1)	2003-04 (2)	2004-05 (3)	2005-06 (4)	2006-07 (5)	2007-08 (6)
Agriculture, Allied Activities					
Revenue Expenditure	2386	3492	2732	3363	3469
of which					
(a) Salary & Wage Component	885	908	987	1019	1144
(b) Non-Salary & Wage Component	1501	2584	1745	2344	2325
Capital Expenditure	422	284	326	772	816
Total	2808	3776	3058	4135	4285
Irrigation and Flood Control					
Revenue Expenditure	357	815	1318	1514	1648
of which					
(a) Salary & Wage Component	177	231	444	454	451
(b) Non-Salary & Wage Component	180	584	874	1060	1197
Capital Expenditure	6102	6003	6064	5323	6644
Total	6459	6818	7382	6837	8292
Power & Energy					
Revenue Expenditure	353	2983	1993	2601	3411
Of which (a) Salary & Wage Component	11	11	12	13	10
(b) Non-Salary & Wage Component	342	2972	1981	2588	3411
Capital Expenditure	297	483	562	800	804
Total	650	3466	2555	3401	4215
Transport					
Revenue Expenditure	262	220	554	697	2254
of which					
(a) Salary & Wage Component	0	0	0	0	0
(b) Non-Salary & Wage Component	262	220	554	697	2254
Capital Expenditure	1033	752	1085	1475	1526
Total	1295	972	1639	2172	3780
Other Economic Services					
Revenue Expenditure	2525	2871	2718	3528	2455
of which					
(a) Salary & Wage Component	1048	1081	815	591	825
(b) Non-Salary & Wage Component	1477	1790	1903	2937	1630
Capital Expenditure	14	23	724	607	615
Total	2539	2894	3442	4135	3070

(1)	(2)	(3)	(4)	(5)	(6)
Total (Economic Services)					
Revenue Expenditure	5883	10381	9315	11703	13237
of which					
(a) Salary & Wage Component	2121	2231	2258	2077	2430
(b) Non-Salary & Wage Component	3762	8150	7057	9626	10807
Capital Expenditure	7868	7545	8761	8977	10405
Grand Total	13751	17926	18076	20680	23642

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

The expenditure on economic services increased at the annual growth rate of 14.4 *per cent* from Rs 13,751 crore in 2003-04 to Rs 23,642 crore in 2007-08. Out of the total expenditure on economic services during 2007-08, 18 *per cent* on agriculture and allied activities, 35 *per cent* on irrigation and flood control and 16 *per cent* on transport was incurred. As compared to 2003-04, significant increases in expenditure were observed during 2007-08 in power and energy (548 *per cent*), agriculture and allied activities (53 *per cent*) and transport services (192 *per cent*). The salary and wage component in revenue expenditure on economic services ranged between 18 and 36 *per cent* during 2003-04 to 2007-08.

The trends in expenditure on Economic Services also reveal that the share of capital expenditure in total expenditure decreased from 57 *per cent* (Rs 7,868 crore) in 2003-04 to 44 *per cent* (Rs 10,405 crore) in 2007-08, 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 four years (2004-08). The significant increases under non-salary component of revenue expenditure were observed under transport (Rs 1,557 crore) and energy (Rs 823 crore) sectors while the increase in capital expenditure (Rs 1,428 crore) during 2007-08 over the previous year was mainly due to increased share of the Government in share capital of Vidarbha Irrigation Development Corporation, Maharashtra Krishna Valley Development Corporation, Godavari Marathwada Irrigation Development Corporation, Tapi Irrigation Development Corporation and Konkan Irrigation Development Corporation.

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 2003-08 is presented in **Table 1.24**.

Table-1.24: Financial Assistance (Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	6139.77	2068.11	2200.13	5234.33	6859.58
Municipal Corporations and Municipalities	2136.39	1852.32	1031.02	2652.27	1351.25
Zilla Parishads and Other Panchayati Raj Institutions	5784.58	6300.48	7472.84	7321.27	8007.34
Development Agencies	5.61	1766.17	2463.92	761.65	1148.03
Hospitals and Other Charitable Institutions	96.62	256.10	131.07	64.15	80.57
Other Institutions	4353.06	8975.06	14088.71	10818.55	10842.90
Total	18516.03	21218.24	27387.69	26852.22	28289.67
Assistance as per percentage of revenue expenditure	43	42	52	44	44

Trends in **Table 1.24** indicate that financial assistance to local bodies and other institutions by the State Government has consistently increased from Rs 18,516 crore in 2003-04 to Rs 28,290 crore in 2007-08 except in 2006-07 when it reduced to Rs 26,852 crore. Further, except in case of Zilla Parishads and other PRIs where the assistance has indicated increasing trend during the period 2003-08, it has widely fluctuated in case of other institutions during the period. The financial assistance to Educational institutions increased by Rs 1,626 crore due to increased grants to ordinary secondary schools (Rs 455 crore), non-Government Junior colleges (Rs 104 crore) and non-Government Arts, Science, Commerce and Law colleges (Rs 849 crore). An increased financial assistance to PRIs was mainly due to increase in purposive grants to Zilla Parishads under the Zilla Parishads and Panchayat Samitis Act (Rs 501 crore). A significant proportion of financial assistance is being given to 'other institutions' every year but the details of the same are not available. Similarly, the steep reduction of Rs 1,301 crore in the financial assistance to Municipal Corporations and Municipalities in 2007-08 was mainly under Secondary Education (Rs 913 crore), Family Welfare Schemes (Rs 208 crore) and Grants for Twelfth Finance Commission (Rs 234 crore).

1.5.5 Delay in furnishing utilisation certificates

Of the 1,08,279 utilisation certificates (UCs) due in respect of grants and loans aggregating Rs 21,866 crore paid upto 2007-08, 1,08,097 UCs for an aggregate amount of Rs 21,629 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 2008, nine departments of the Government had not furnished details for the year 2007-08 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 214 cases of misappropriation, defalcation, etc involving Government money amounting to Rs 6.40 crore upto the period 31 May 2008 on which final action was pending. The department-wise break up of pending cases is given in **Appendix 1.11**.

As reported to Audit by the Food, Civil Supplies and Consumer Protection Department, losses due to theft, fire and irrecoverable revenue, etc amounting to Rs 12.69 lakh in 47 cases were written-off during 2007-08 by the competent authorities.

1.7 Assets and Liabilities

In the existing 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 1.2** gives an abstract of such liabilities and the assets as on 31 March 2008, compared with the corresponding position on 31 March 2007. 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 1.5** depicts the data on State Government finances for the period 2003-08.

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 out of 29 major irrigation projects of the Government having a capital outlay of Rs 692.60 crore at the end of March 2008, showed that revenue realised from these projects during 2007-08 (Rs 95.04 crore) was 13.72 per cent of the capital outlay. After considering the working and maintenance expenses (Rs 12.17 crore) and interest charges (Rs 70.01 crore), the schemes gained a net profit of Rs 12.86 crore during 2007-08.

1.7.1.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2008 is given in **Table 1.25**.

Table-1.25: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Total number of Incomplete Projects/ Initial Budgeted cost	No. of incomplete project of which Revised cost available/Initial Budgeted Cost	Revised cost	Cost escalation	Cumulative Actual Expenditure as on 31.3.2008
Public Works	97/ 572.93	9/ 37.49	53.04	15.55	518.06
Irrigation	25/ 911.61	23/ 893.80	3467.72	2573.92	5042.21
Total	122/ 1484.54	32/ 931.29	3520.76	2589.47	5560.27

The details of incomplete projects pertaining to only two departments are presented in **Table 1.25**. Moreover, the details of revised costs for majority of the incomplete projects especially relating to public works are not captured in the finance accounts. In respect of 32 incomplete projects, of which revised costs are available, the cost overrun was Rs 2,589.47 crore and the significant cost overruns are observed in irrigation projects. An analysis of the delays in completion of these 122 incomplete projects reveal the time overruns ranging between 1 to 22 years in case of major and medium irrigation projects and between 1 to 13 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, *pro forma* accounts showing the results of financial operations so that Government can assess the results of their working.

As of March 2008, there were 49 such undertakings (42 Government Milk Schemes (GMSs), four Schemes of Land Development by Bulldozer, two Food and Civil Supplies and one Saw Mill and timber Depot) in the State. Out of 42 GMSs in six regions only 9 GMSs have finalized their *pro forma* accounts for 2007-08 by 4 August, 2008 and accounts for 33 Schemes are in arrears.

The Comptroller and Auditor General of India has 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 1.12** and **1.13** respectively. The

summarised financial statement of these undertakings is given in **Appendix 1.14**.

1.7.2.2 Investments and Returns

As of 31 March 2008, Government had invested Rs 44,256 crore in statutory corporations, rural banks, joint stock companies and co-operatives (**Table 1.26**). 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 8.66 *per cent* on its borrowings during 2003-2008.

Table-1.26: Return on Investment

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing ¹¹	Difference between interest rate and return
	(Rupees in crore)		(per cent)		
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
2007-08	44256.26	122.00	0.28	7.74	7.46

The increase in investments of Rs 6,725 crore during 2007-08 was attributable to increased capital contributions to Vidarbha Irrigation Development Corporation (Rs 2,588 crore), Maharashtra Krishna Valley Development Corporation (Rs 850 crore), Godavari Marathwada Irrigation Development Corporation (Rs 1,688 crore), Tapi Irrigation Development Corporation (Rs 664 crore), Konkan Irrigation Development Corporation (Rs 361 crore), Maharashtra State Road Transport Corporation (Rs 159 crore) and Maharashtra Water Conservation Development Corporation (Rs 148 crore) as compared to the previous year.

As on 31 March 2008, as per the provisional estimates available, 48 Companies and one corporation in which Government had invested Rs 12,251.89¹² crore (Share Capital: Rs 11,764.16 crore, Loan: Rs 487.73 crore) were incurring losses and their accumulated losses amounted to Rs 6,305.16 crore. According to the information furnished by the Commissioner for Co-operation and Registrar of Co-operative Societies as on March 2008, 3,891 societies with an aggregate investment of Rs 141.83 crore (Rs 88.60 crore by way of equity and Rs 53.23 crore by way of loan) had incurred losses and their accumulated losses (Rs 182.93 crore) were 129 *per cent* of the initial investments made in these societies.

¹¹ Interest payment/[(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100

¹² These figures are updated on the basis of accounts received upto 31 July 2008

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 2008, was Rs 18,126 crore (**Table 1.27**). The amount of loans disbursed during the year reduced from Rs 2,322 crore in 2006-07 to Rs 1,225 crore in 2007-08. Out of the total amount of loans advanced during the year, Rs 320 crore went to social services and Rs 405 crore to economic services. Under the economic services, the major portion of loans went to co-operatives (39 per cent) followed by power (27 per cent). Interest received against these loans declined from 3.87 per cent in the previous year to 2.92 per cent during 2007-08 mainly on account of fall in interest receipts on loans advanced to power projects (Rs 148 crore). However, recovery of loans and advances increased from Rs 51 crore in 2006-07 to Rs 733 crore during the current year mainly on account of more recoveries from the power and energy sector (Rs 202 crore).

Table-1.27: Average Interest Received on Loans Advanced by the State Government (Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	9522	10942	11652	15363	17634
Amount advanced during the year	1902	2751	4262	2322	1225
Amount repaid during the year	482	2041	551	51	733
Closing Balance	10942	11652	15363	17634	18126
Net addition	1420	710	3711	2271	492
Interest received	337	311	1095	639	522
Interest received as <i>per cent</i> to outstanding Loans	3.29	2.75	8.11	3.87	2.92
Average interest paid ¹³ on borrowings by State Government (<i>per cent</i>)	8.76	7.97	7.09	7.78	7.74
Difference between average interest paid and received (<i>per cent</i>)	-5.47	-5.22	1.02	-3.91	-4.82

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.

¹³ Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities)/2]*100

The limits fixed by RBI of normal ways and means advances was Rs 1,050 crore from 1 April 2007 while for special ways and means advances, it was Rs 6.45 crore from 2 April 2007, Rs 938.49 crore from 15 June 2007, Rs 1,871.87 crore from 22 June 2007, Rs 2,338.32 crore from 29 June 2007, Rs 3,274.02 crore from 6 July 2007, Rs 2,341.97 crore from 14 September 2007, Rs 1,408.60 crore from 21 September 2007, Rs 942.15 crore from 28 September 2007, Rs 942.10 crore from 1 October 2007, Rs 3.18 crore from 5 October 2007, Rs 3.15 crore from 1 January 2008 and Rs 1,870.47 crore from 25 January 2008. During the year 2007-08, special ways and means advances of Rs 1,953.63 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 1.28**.

Table-1.28: Ways and Means Advances and Overdrafts of the State
(Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Ways and Means Advances					
Availed of in the year	7898.67	2675.04	2386.62	2664.83	1953.63
Number of occasions	15	11	4	3	2
Outstanding	--	--	--	--	--
Interest paid	29.2	8.47	5.34	3.12	3.18
Number of days	168	68	21	42	25
Overdrafts					
Availed of in the year	1422.7	862.87	1298.31	--	--
Number of occasions	23	12	9	--	--
Interest paid	4.92	0.76	3.70	--	--
Number of days	39	12	20	--	--

The cash balance of the State increased by Rs 4,046 crore from Rs 7,184 crore in 2006-07 to Rs 11,230 crore in 2007-08 in the form of an increase of Rs 3,747 crore in the form of cash balance investments and investments in earmarked funds (Rs 1,169 crore).

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.

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-1.29 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-1.29: Fiscal Liabilities – Basic Parameters

	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities¹⁴ (Rupees in crore)	104404	121026	142491	157039	158114
Rate of Growth (per cent)	21.68	15.92	17.74	10.21	0.68
Ratio of Fiscal Liabilities to					
GSDP (per cent)	31.3	32.5	33.0	30.8	27.3
Revenue Receipts (per cent)	303.8	295.0	294.1	252.5	198.7
Own Resources (per cent)	363.6	348.5	360.9	329.8	245.2
Buoyancy of Fiscal Liabilities with reference to :					
GSDP (ratio)	1.686	1.369	1.090	0.574	0.05
Revenue Receipts (ratio)	2.064	0.824	0.980	0.360	0.024
Own Resources (ratio)	4.249	0.760	1.296	0.496	0.019

The overall fiscal liabilities of the State increased at an average annual rate of growth of 10.3 *per cent* from Rs 1,04,404 crore in 2003-04 to Rs 1,58,114 crore in 2007-08. The growth rate reduced sharply from 10.21 *per cent* in 2006-07 to 0.68 *per cent* in 2007-08 mainly on account of reduction in reserve funds (Rs 10,547 crore) due to transfer of surplus balance to Consolidated Fund of the State as revenue receipts under the major head 'Miscellaneous General Services' owing to closure of non-operational reserve funds. During 2007-08, debt to GSDP ratio at 27.3 *per cent* was slightly higher than the State projections made in both the MTFPS (25.53 *per cent*) and FCP (26.84 *per cent*). These liabilities stood at around two times the revenue receipts and two and a half times the State's own resources as at the end of 2007-08. 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 0.05 *per cent*.

Out of the total fiscal liabilities during 2007-08, the share of public debt was maximum (74 *per cent*), followed by deposits (11 *per cent*); reserve funds (9 *per cent*) and small savings, provident fund *etc* (6 *per cent*). Fiscal liabilities increased from Rs 1,57,039 crore in 2006-07 to Rs 1,58,114 crore in 2007-08 mainly due to increase in public debt (Rs 9,062 crore) and deposits (Rs 1,875 crore).

¹⁴ 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 2008, the outstanding balance in Sinking Fund was Rs 3,640.62 crore, of which Rs 1,175.94 crore were the accretions during 2007-08. The entire amount in the fund stood invested as of 31 March 2008.

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 2003-04 are given in **Table 1.30**.

Table-1.30: 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 receipts
2003-04	82228	70126	239
2004-05	80184	60871	195
2005-06	86725	66239	179
2006-07	87778	63509	141
2007-08	84164	58276	106

During the year 2007-08, guarantees of the order of Rs 1,373 crore were given by the State Government. Guarantees were given for repayment of share capital, raising loans, debentures, bonds etc by Maharashtra State Handloom Corporation (Rs 3.50 crore), Maharashtra Krishna Valley Development Corporation (Rs 730.75 crore), co-operative sugar factories (Rs 188.87 crore) and Ratnagiri Gas and Power Pvt Ltd (Rs 450 crore). Outstanding guarantees (Rs 58,276 crore) during 2007-08 accounted for 73 *per cent* of the revenue receipts (Rs 79,583 crore). The outstanding guarantees during 2007-08 were 10.07 *per cent* of the GSDP. The State Government has achieved the commitment made in MTFPS (March 2007) to bring it down to approximately 10 *per cent* in 2007-08 from 12.47 *per cent* in previous year. 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.

The State Government charges Guarantee fees for Guarantees given to institutions and the same is booked under 'Miscellaneous General Services'. The Guarantee fees recovered during 2007-08 was Rs 123.77 crore.

Sums paid by the Government in the event of invocation of guarantee are charged to Consolidated Fund of the State under the concerned loan head and

irrecoverable sums are adjusted under the concerned revenue expenditure heads where the Guarantee Reserve Fund does not exist and under the Guarantee Reserve Fund where it exists. It is reported that State Government paid Rs 186.72 crore on account of invocation of guarantees which were recoverable at the end of 2005-06. An amount of Rs 5 crore was paid as a result of invocation of Guarantee to the Maharashtra State Co-operative Bank on behalf of Co-operative sugar factories during 2006-07. However, the information in respect of other cases of invocation of guarantee, amount recovered during 2006-07 and 2007-08 and amount recoverable at the end of the year is awaited (August 2008).

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 2007-08. During the years 2005-06 to 2007-08, there were no off-budget borrowings. However, the outstanding off-budget borrowings were Rs 5,214 crore at the close of 2007-08 which pertained to the years prior to 2005-06.

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 tend to be constant or debt would stabilize 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 1.31**.

Table-1.31: Debt Sustainability–Interest Rate and GSDP Growth*(in per cent)*

	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	8.76	7.97	7.09	7.78	7.74
GSDP Growth	12.86	11.63	16.28	14.98	13.57
Interest spread	4.10	3.66	9.19	7.20	5.83
Quantum Spread (Rs in crore)	3518	3821	11122	10259	9155
Primary Deficit(-)/ Surplus (+) (Rupees in crore)	-9593	-9642	-8284	103	15025

Table 1.31 reveals that quantum spread together with primary deficit was negative during the first two years (2003-05) indicating rising Debt-GSDP ratios during the period. The emergence of positive sum of quantum spread and primary deficit since 2005-06 indicates that the tendency towards the debt stabilisation which would eventually improve the debt sustainability position of the State in ensuing years.

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 1.32** indicates the resource gap as defined for the period 2003-08.

Table 1.32: Incremental Revenue Receipts and Revenue Expenditure*(Rupees in crore)*

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
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
2007-08	18070	3147	548	3695	(+)14375

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 2003-08, except in years 2003-04 and 2004-05 reflecting the negative resource gaps, the positive and increasing resource gap since 2005-06 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-1.33 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-1.33: Net Availability of Borrowed Funds (Rupees in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08
Internal Debt					
Receipt	21129	20387	19484	11394	11478
Repayment (Principal +Interest)	4466	7178	8604	11251	12058
Net Funds Available	16663	13209	10880	143	(-)580
Net Funds Available (<i>per cent</i>)	78.8	64.8	55.8	1.3	(-)5.1
Loans and Advances from GOI					
Receipt	1252	1802	490	498	329
Repayment (Principal +Interest)	10892	11440	1381	954	1231
Net Funds Available	(-)9640	(-)9638	(-)891	(-)456	(-)902
Net Funds Available (<i>per cent</i>)	(-)769.9	(-)534.8	(-)181.8	(-)91.6	(-)274.2
Other obligations					
Receipt	12435	15236	15302	16566	3435
Repayment (Principal +Interest)	9582	11164	13174	13361	13083
Net Funds Available	2853	4072	2128	3205	(-)9648
Net Funds Available (<i>per cent</i>)	22.9	26.7	13.9	19.3	(-)280.9
Total liabilities					
Receipt	34816	37425	35276	28458	15242
Repayment (Principal + Interest)	24940	29782	23159	25566	26372
Net Funds Available	9876	7643	12117	2892	(-)11130
Net Funds Available (percentage)	28.3	20.4	34.3	10.2	(-)73.0

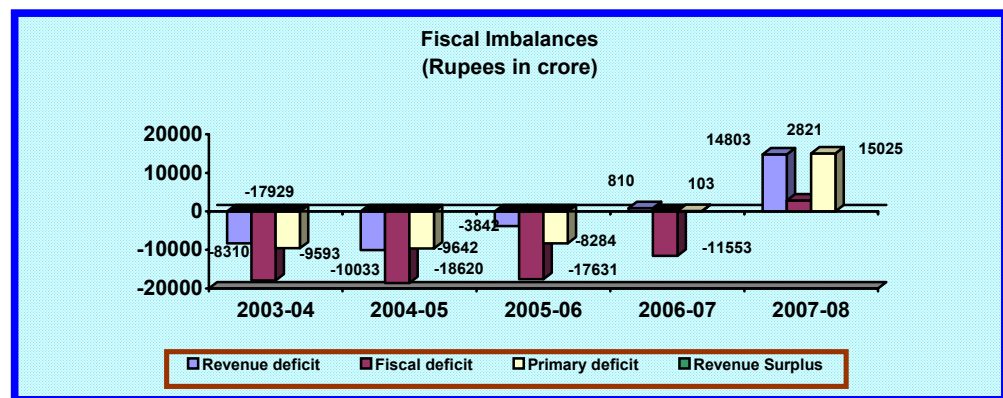
Debt redemption ratio exceeded the unity for the first time in 2007-08 during the last five years when the repayments towards the discharge of past debt obligations were significantly more than the fresh debt receipts during the year. During the current year the Government raised internal debt of Rs 11,478 crore, Government of India loans of Rs 329 crore and other obligations of Rs 3,435 crore and repaid internal debt of Rs 2,333 crore, Government of India loans amounting to Rs 413 crore and also discharged other obligations of Rs 11,422 crore along with interest obligations of Rs 12,204 crore resulting in net decrease of Rs 11,130 crore in debt receipts during the year.

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 1.34**.

Table-1.34: Fiscal Imbalances: Basic Parameters

Parameters	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue deficit (-) / Surplus (+) (Rupees in crore)	-8310	-10033	-3842	810	14803
Fiscal deficit(-)/ Surplus (+) (Rupees in crore)	-17929	-18620	-17631	-11553	2821
Primary deficit(-)/Surplus (+) (Rupees in crore)	-9593	-9642	-8284	103	15025
RD/GSDP (<i>per cent</i>)	-2.5	-2.7	-0.9	0.2 ¹⁶	2.6 ¹⁶
FD/GSDP (<i>per cent</i>)	-5.4	-5.0	-4.1	-2.3	0.5 ¹⁶
PD/GSDP (<i>per cent</i>)	-2.9	-2.6	-1.9	0 ¹⁵	2.6 ¹⁵
RD/FD (<i>per cent</i>)	46.3	53.8	21.8	0 ¹⁶	0 ¹⁶



¹⁵ There was primary surplus

¹⁶ There was revenue surplus and fiscal surplus

1.10.1 Trends in Deficits

Table 1.34 reveals that the revenue account experienced a situation of huge deficit of Rs 8,310 crore and Rs 10,033 crore during the period 2003-04 and 2004-05 respectively. The deficit reduced sharply to Rs 3,842 crore during 2005-06 and revenue account turned into a surplus of Rs 810 crore during 2006-07 which increased to Rs 14,803 crore during 2007-08. The turnaround situation in revenue account during the current year was mainly on account of an increase of Rs 17,388 crore in revenue receipts (28 *per cent*) against the increase of Rs 3,395 crore in revenue expenditure (6 *per cent*). It may, however, be observed that apart from increase in State's own tax revenue (19 *per cent*) and Central tax transfer (26 *per cent*) significant push in revenue receipts is provided by transfer of surplus amount of Rs 10,868 crore lying in various statutory reserve funds in Public Account by the State Government to its Consolidated Fund as non-tax receipts during the year.

Given the steep increase of Rs 13,993 crore in revenue surplus in 2007-08 and a decline of Rs 1,779 crore in net disbursement of loans and advances, fiscal deficit of Rs 11,553 crore turned into a fiscal surplus of Rs 2,821 crore despite an increase of Rs 1,398 crore in capital expenditure during the year.

The primary deficit¹⁷ which persisted in the State budget till 2005-06 took a turnaround and resulted into a primary surplus during 2006-07 and 2007-08. A sharp decline of Rs 14,374 crore in fiscal deficit together with an increase of Rs 548 crore in interest payments led to an increase in primary surplus to Rs 15,025 crore during the current year from Rs 103 crore in 2006-07.

It may, however, be noted that in the absence of these transfers of funds through an unusual act of State Government for raising the revenue receipts in current year, the revenue surplus would have increased only by Rs 3,125 crore while fiscal deficit would have reduced by Rs 3,506 crore in 2007-08 from their corresponding levels of Rs 810 crore and Rs 11,553 crore in 2006-07. Similarly, the primary surplus which has increased steeply to Rs 15,025 crore in 2007-08 would have been only Rs 4,157 crore from the level of Rs 103 crore in 2006-07.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit¹⁸ 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 46.3 *per cent* in 2003-04 to 21.8 *per cent* in 2005-06 and thereafter

¹⁷ 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

¹⁸ 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

revenue account turned into surplus during 2006-07 and 2007-08 indicating consistent improvement in the quality of the deficit during the period 2003-08.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2003-08 reveals (**Table - 1.35**) that throughout this period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure¹⁹ requirements in the revenue account, rather left some receipts to meet the expenditure increased 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 2003-06. However, during 2006-07 and 2007-08, non-debt receipts 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 in the past has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.35: 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)
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
2007-08	80316	52576	11490	1225	65291	(+)27740	(+)15025

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table-1.36** below presents a summarised position of the Government's finances for the period 2003-08, 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.

¹⁹ Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year

Table-1.36: Indicators of Fiscal Health

(in per cent)

Fiscal Indicators	2003-04	2004-05	2005-06	2006-07	2007-08
(1)	(2)	(3)	(4)	(5)	(6)
I Resource Mobilisation					
Revenue Receipt/GSDP	10.3	11	11.2	12.2	13.8
Revenue Buoyancy	0.816	1.659	1.112	1.596	2.063
Own Tax/GSDP	7.6	8.2	7.8	7.9	8.2
II Expenditure Management					
Total Expenditure/GSDP	15.8	16.5	15.4	14.5	13.4
Revenue Receipts/Total Expenditure	65.1	66.5	72.7	84.3	102.7
Revenue Expenditure/ Total Expenditure	80.8	82.7	78.5	83.2	83.6
Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	8.4	7.5	7.8	6.5	6.9
Non-Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	42.8	47.2	48.1	50.9	54.9
Capital Expenditure/ Total Expenditure	16.1	12.7	15.1	13.7	14.8
Capital Expenditure on Social and Economic Services/ Total Expenditure	15.44	12.69	15.02	13.35	14.39
Buoyancy of TE with RR	1.436	0.870	0.442	0.380	0.179
Buoyancy of RE with RR	0.519	1.015	0.132	0.613	0.196
III Management of Fiscal Imbalances					
Revenue deficit(-)/Surplus(+) (Rs in crore)	(-)8310	(-)10033	(-)3842	810	14803
Fiscal deficit/ Surplus (+) (Rs in crore)	(-)17929	(-)18620	(-)17631	(-)11553	2821
Primary Deficit(-)/Surplus(+) (Rs in crore)	(-)9593	(-)9642	(-)8284	103	15025
Revenue Deficit/Fiscal Deficit	46.3	53.8	21.8	0 ²⁰	0 ²¹
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	31.3	32.5	33.0	30.8	27.30

²⁰ There was revenue surplus

²¹ There was revenue surplus and fiscal deficit

(1)	(2)	(3)	(4)	(5)	(6)
Fiscal Liabilities/RR	303.8	295.0	294.1	252.5	198.70
Buoyancy of FL with RR	2.064	0.824	0.980	0.360	0.024
Buoyancy of FL with Own Receipt	4.249	0.760	1.296	0.496	0.019
Interest spread	4.10	3.66	9.19	7.20	5.83
Net Fund Available	28.3	20.4	34.3	10.2	0
V Other Fiscal Health Indicators					
Return on Investment	0.10	0.10	0.01	0.02	0.28
Balance from Current Revenue (Rs in crore)	(-)6203	(-)7280	(-)600	4505	20238
Financial Assets/Liabilities	0.6	0.6	0.6	0.6	0.7

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of State 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 13.8 *per cent*, an increase of one and half percentage point over the previous year. During 2003-08, the ratio of own taxes to GSDP hovered within the narrow range of 7.6 and 8.2 *per cent*. The ratio at 8.2 *per cent* in 2007-08 is below the budget estimate of 9.38 *per cent* for the year indicating the fact that tax efforts need to be stepped up in the State.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The revenue expenditure as a percentage to total expenditure increased from 80.8 *per cent* in 2003-04 to 83.6 *per cent* in 2007-08 (except in 2005-06 when it was 78.5 *per cent*). 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 102 *per cent* during 2007-08 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 net of subsidies 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 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 fiscal surplus along with positive BCR during 2007-08 indicates an improvement in fiscal position of the State. However, despite improvement in fiscal position and cash balances position of the State, 30 *per cent* of the liabilities of the State still remain without assets back up in 2007-08 and this ratio continues to be static at 40 *per cent* during the period 2003-07.

1.12 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – indicated significant improvement in 2007-08 relative to the previous year. The State has achieved the revenue and fiscal deficits targets relative to GSDP laid down under the Rules framed under the MFRBM Act during the year. The improvement in fiscal position of the State was observed to be mainly on account of increase in revenue receipts by Rs 17,388 crore (28 *per cent*) against an increase of Rs 3,395 crore (6 *per cent*) in revenue expenditure resulting in a steep increase of Rs 13,993 crore in revenue surplus in 2007-08 over the previous year. The State Government has managed to enhance the revenue receipts sharply during the year mainly on account of transfer of Rs 10,868 crore from 18 statutory funds maintained in Public Account to Consolidated Fund of the State as non-tax receipts through its Resolutions dated 10 and 15 March 2008 issued in pursuance to Maharashtra Ordinance No. II of 2008 dated 22 February 2008 and ratified vide Maharashtra Act No. V of 2008 dated 19 March 2008 and cabinet decision dated 3 May 2007 on the plea that the surplus amount lying in these funds cannot be utilized for any other purposes mentioned in the Acts under which these funds are maintained in the Public Account. The expenditure pattern of the State reveals that the revenue expenditure as a percentage to total expenditure still constitutes around 84 *per cent* of the total expenditure during 2007-08 and its NPPE component at Rs 54,505 crore during 2007-08 although was within the BE for the year (Rs 56,329 crore) but exceeded both the normative projection of the TFC for the State (Rs 43,795 crore) and State's projection in its FCP (Rs 53,568 crore). Moreover, within the non-plan revenue expenditure, four components – salary expenditure (exclusive of salary component of GIA), pension liabilities, interest payments and subsidies – constitute about 54 *per cent* of NPPE during 2007-08. The increasing fiscal liabilities accompanied with negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt situation in medium to long run unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilise the additional resources both through the tax and non-tax sources in ensuing years. Besides, the State resorted to giving guarantees to various institutions for raising resources in a big way and outstanding guarantees as on 31 March 2008 were almost 73 *per cent* of the total revenue receipts and amounted to 10.07 *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. The inordinate delays in completion of incomplete projects particularly irrigation projects in the State resulted in huge cost and time overruns as is also a cause of concern for the State Government as revealed by the Report even on the basis of the fractured information made available by the respective departments of the State Government.