Executive Summary

Background

In response to the Twelfth Finance Commission's recommendations, the Gujarat Government enacted the Gujarat Fiscal Responsibility Act, 2005 (GFRA) which incorporated the objectives of prudence in fiscal management, fiscal stability by progressive elimination of revenue deficit, sustainable debt management, greater transparency in fiscal operations of the Government and State Government is committed to carry forward these objectives.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (ThFC) recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. The State Legislature in March 2011 amended the Fiscal Responsibility Act in line with the recommendations. This required the State to reduce the revenue deficit to zero by 2011-12, the fiscal deficit to not more than three *per cent* of the estimated GSDP for the year beginning 2011-12, to cap the total public debt of the State Government to 27.1 *per cent* of the estimated GSDP by end of 2014-15 and to cap the outstanding guarantees within the limit (₹ 20,000 crore) prescribed in the Gujarat State Guarantees Act, 1963.

The Report

Based on the audited accounts of the Government of Gujarat for the year ending March 2013, this Report provides an analytical review of the Annual Accounts of the State Government. The Report is structured in three Chapters.

Chapter I is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2013. It provides an insight into trends of different components of government expenditure and borrowing pattern, besides giving a brief account of Central funds transferred directly to State implementing agencies through the off-budget route.

Chapter II is based on the Appropriation Accounts and gives a grant-wise description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter III is an inventory of the Government's compliance with various reporting requirements and financial rules. The Report also has additional data collated from several other sources in support of the findings.

Audit findings and recommendations

Fiscal position

The State had a revenue deficit during the period 2008-11 which turned into a revenue surplus during 2011-12 and 2012-13. The fiscal deficit increased from ₹ 10,438 crore in 2008-09 to ₹ 16,492 crore in 2012-13. During 2012-13, the State had a revenue surplus of ₹ 5,570 crore, an increase of ₹ 2,355 crore over previous year. The increase in the revenue surplus during the current year was mainly on account of an increase of ₹ 12,270 crore (19.49 *per cent*) in revenue receipts against an increase of ₹ 9,915 crore (16.59 *per cent*) in revenue expenditure over the previous year. Fiscal deficit during the year was ₹ 16,492 crore, an increase of ₹ 5,465 crore over previous year. The increase was mainly on account of increase of ₹ 7,415 crore (53.69 *per cent*) in capital expenditure. An increase of ₹ 5,465 crore in fiscal deficit together with an increase of ₹ 1,227 crore in interest payment resulted in increase of ₹ 4,238 crore in primary deficit from ₹ 93 crore in 2011-12 to ₹ 4,331 crore in 2012-13.

The expenditure on Grants-in-aid and subsidies should be booked under revenue expenditure in accounts. However, during 2012-13, the Government of Gujarat wrongly budgeted and booked expenditure of ₹ 881.30 crore on account of Grants-in-aid and expenditure of ₹ 207.27 crore on account of subsidy under the capital section instead of revenue section. This has resulted in understatement of revenue expenditure and overstatement of revenue surplus to the tune of ₹ 1,088.57 crore

During the period 2008-09 to 2012-13, the non-debt receipts did not cover the primary expenditure resulting in primary deficit in each year. In 2012-13, all components of primary expenditure increased over the previous year without commensurate increase in non-debt receipts resulting in an increase of ₹ 4,238 crore in primary deficit.

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 13,197 crore and ₹ 13,358 crore at the end of 2011-12 and 2012-13 respectively. High level of investment held in 'Cash Balance Investment Account' at the end of these financial years indicates the need for better cash management.

State's own resources

Actual tax revenue of the State was more than ThFC projections (13.80 *per cent*), Medium Term Fiscal Policy Statement (MTFPS) projections (2.56 *per cent*) and Budget estimates (5.20 *per cent*). Actual non-tax revenue was more than MTFPS projections (12.07 *per cent*) and less than ThFC projections (3.01 *per cent*) and Budget estimates (11.14 *per cent*). The share of non-tax revenue in revenue receipt continuously decreased from 13 *per cent* in 2008-09 to 8 per cent in 2012-13.

Revenue expenditure

The share of revenue expenditure in total expenditure declined from 80.56 *per cent* in 2011-12 to 75.91 *per cent* in 2012-13 mainly on account of high growth in capital expenditure during 2012-13. At the same time, The Plan

Revenue Expenditure (PRE) has shown consistent increase over the period 2008-09 to 2012-13 except for a decrease during 2011-12. The Non Plan Revenue Expenditure (NPRE) has shown consistent increase over the period 2008-09 to 2012-13. The Plan Capital Expenditure has shown consistent increase over the period 2008-09 to 2012-13 except for a decrease during 2009-10.

Quality of expenditure

The development expenditure increased from ₹ 35,612 crore in 2008-09 to ₹ 66,177 crore in 2012-13. The percentage of development capital expenditure to the aggregate expenditure during the current year, i.e. 2012-13 was 22.35 *per cent* whereas the revenue expenditure component was 49.44 *per cent.* Government had invested ₹ 47,171 crore in Statutory Corporations, Government Companies, Rural Banks, Joint Stock Companies and Co-operatives. The average return on the investments was 0.24 *per cent* in the last five years. Continued use of borrowed funds to fund investments which do not have sufficient returns will lead to an unsustainable financial position. The Government may ensure proper justification for investment in high cost funds.

Oversight of funds transferred directly from the Union to the State implementing agencies

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies for the implementation of various schemes/programmes in social and economic sectors. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture these fund flows and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them are not representing the overall picture of the resources under the control of the State Government. During 2012-13, ₹ 4,819.64 crore was transferred to the State Implementing Agencies which was 9.72 *per cent* more than the previous year.

Funds and other Liabilities

There were 16 Reserve Funds earmarked for specific purposes, out of which 8 funds were active. The total accumulated balance as at the 31 March 2013 in these funds was ₹ 8,906.81 crore out of which ₹ 152.65 crore is in non-operational funds. However, the investment out of these funds was only ₹ 5,587.16 crore.

Debt sustainability

The positive resource gap for two consecutive years turned into negative in 2012-13. It happened mainly on account of 26 *per cent* increase in primary expenditure against 19 *per cent* increase in non-debt receipts during current year.

The OMB raised as a percentage of fiscal deficits ranged between 59 *per cent* in 2009-10 and as high as 150 *per cent* in 2011-12, with an average of 90 *per cent* during five year period. Thus, during 2008-13 a substantial portion of fiscal deficit of ₹ 68,184 crore was financed through OMB of ₹ 61,080 crore.

The maturity trends of market loans show that the government would be able to repay 22 *per cent* of the loans during first five years from 2013-14 to 2017-18. So, there will be more burden of repayment (78 *per cent*) in the long term. The Government needs to consider investing adequately in sinking funds to meet the needs of debt servicing from 2018-19 onwards.

During the period 2008-09 to 2012-13, 92 *per cent* of developmental loans were raised through OMB and the developmental loans raised were in excess of total development expenditure by ₹ 2,482 crore defeating the very purpose of raising the loan to finance the formation of productive assets.

Financial management and budgetary control

Against total provision of ₹ 1,07,439.38 crore during 2012-13, an expenditure of ₹ 99,150.78 crore was incurred. This resulted in a total savings of ₹ 8,288.60 crore which was a result of the total savings of ₹ 8,536.20 crore being offset by the excess of expenditure ₹ 247.59 crore. The excess expenditure of ₹ 12,555.87 crore relating to the period 1999-2000 to 2011-12 requires regularisation under Article 205 of the Constitution of India. In 19 cases, as against savings of ₹ 4,745.07 crore, the amount surrendered was ₹ 4,983.45 crore, resulting in excess surrender of ₹ 238.38 crore. In seven grants/appropriations in which savings of ₹ 34.50 crore occurred, the amounts had not been surrendered by the concerned departments. Under 88 grants, out of the total provision of ₹ 25,249.93 crore in respect of 645 sub-heads, ₹ 8,066.22 crore (31.95 *per cent*) were surrendered. Budgetary controls should be strengthened to avoid such deficiencies in financial management. Instances of excessive/unnecessary re-appropriation/ surrender orders brought out in this report indicate the need to strengthen the controls.

Financial reporting

Non-submission of utilisation certificates of ₹ 9,121.46 crore indicated lack of proper monitoring by the departments in utilisation of grants given for specific purposes. There has been non-submission/delay in submission of accounts of autonomous bodies/authorities. There is no timely submission of detailed contingent bills against large amounts drawn on abstract contingent bills amounting to ₹ 343.86 crore by the departmental authorities. The 166 outstanding cases of misappropriations, losses etc., and non recovery of amounts indicated lack of efforts by the departments to make good the losses and fix responsibility. Further, accountal of various important items of expenditure relating to various sectors, revenue receipts etc. under omnibus Minor Head – 800 resulted in non classification of diverse activities of the Government under available minor heads.