

Finances of the State Government

Profile of Gujarat

Gujarat is situated on the west coast of India, bound by the Arabian Sea in the west and the states of Rajasthan in the north, Madhya Pradesh in the east and Maharashtra in the south. The State also shares an international border with Pakistan on the north western fringe. It has a coast line of about 1,600 kilometres, which is one third of India’s mainland coastline. It is the seventh largest State in terms of geographical area (1,96,024 sq.km) and the ninth largest by population. As indicated in **Appendix 1.1** the State’s population increased from 5.07 crore in 2001 to 6.04 crore in 2011 (Provisional figure) recording a decadal growth of 19.13 *per cent*. The percentage of population below the poverty line was 16.63 *per cent* as compared to the all-India average of 21.92 *per cent*. The State’s Gross State Domestic Product (GSDP) in 2013-14 at current prices was ₹ 7,73,990¹ crore. The State’s literacy rate increased from 69.14 *per cent* (as per 2001 census) to 79.31 *per cent* (as per 2011 census). General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State’s economy as it indicates the standard of living of the State’s population. The trends in the annual growth of the State’s GSDP as compared to India’s GDP at current prices are indicated below:

Table 1.1: Trends- Annual growth of State’s GSDP as compared to India’s GDP

	2009-10	2010-11	2011-12	2012-13	2013-14
India’s GDP (₹ in crore) (Base year 2004-05)	61,08,903	72,48,860	83,91,691	93,88,876	1,04,72,807
Growth rate of GDP (percentage)	15.18	18.66	15.77	11.88	11.54
State’s GSDP (₹ in crore)	4,31,262	5,21,519(P)	5,94,563(P)	6,70,016(Q)	7,73,990(A)
Growth rate of GSDP (percentage)	17.22	20.93	14.01	12.69	15.52

Estimates: (P) = Provisional, (Q) = Quick and (A) = Advance

(Source: Ministry of Statistics and Programme Implementation, Central Statistical Organisation, Directorate of Economic and Statistics, Gandhinagar)

1.1 Introduction

This chapter provides a broad perspective on the finances of the Government of Gujarat during the current year and analyses critical changes in the major

¹ Advance estimates by Directorate of Economic and Statistics, Gandhinagar

fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1 Part B and Part C**. The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.2**.

1.1.1 Summary of Fiscal Transactions in 2013-14

Table 1.2 presents the summary of the State Government's fiscal transactions during the current year (2013-14) *vis-à-vis* the previous year while **Appendix 1.3** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.2: Summary of Fiscal transactions

Receipts			Disbursements				
	2012-13	2013-14		2012-13	2013-14	Total	
				Non-Plan	Plan		
Section-A: Revenue							
Revenue receipts	75,228.53	79,975.74	Revenue expenditure	69,658.49[#]	51,365.15	23,893.39	75,258.54
Tax revenue	53,896.69	56,372.37	General services	24,128.27	25,707.44	1,112.93	26,820.37
Non-tax revenue	6,016.99	7,018.31	Social services	29,528.97	17,372.10	15,009.68	32,381.78
Share of Union taxes/ duties	8,869.05	9,701.93	Economic services	15,838.97	7,959.94	7,770.78	15,730.72
Grants from Government of India	6,445.80	6,883.13	Grants-in-aid and Contributions	162.28	325.67	0.00	325.67
Section-B: Capital							
Misc. Capital receipts	0.00	0.00	Capital Outlay	21,226.52	166.67	22,510.70	22,677.37
Recoveries of Loans and Advances	46.90	140.69	Loans and Advances disbursed	882.25	52.05	551.17	603.22
Public Debt receipts*	19,497.19	19,343.04	Repayment of Public Debt*	6,536.52	-	-	6,203.91
Contingency Fund	80.50	0.00	Contingency Fund	0.00	-	-	0.11
Public Account receipts	50,046.35	52019.52	Public Account disbursements	46,537.61	-	-	50,039.25
Opening Cash Balance	18,631.81	18689.89	Closing Cash Balance	18,689.89	-	-	15,386.48
Total	1,63,531.28	1,70,168.88		1,63,531.28			1,70,168.88

(Source: Finance Accounts of the respective years)

* Excluding net transactions under ways and means advances and overdrafts

Rounded off to ₹ 69,659 crore and used in the subsequent paragraphs in the report (after rounding off Non-plan and plan revenue expenditure as ₹ 47,146 crore and ₹ 22,513 crore respectively).

The following are the significant changes during 2013-14 over the previous year:

- Revenue receipts grew by ₹ 4,747 crore (6.31 per cent) over the previous year. The increase was mainly due to increase in the State's own tax revenue by ₹ 2,476 crore (4.59 per cent), increase in State's share of Union taxes/ duties by ₹ 833 crore (9.39 per cent), increase in grants from the Government of India (GoI) by ₹ 437 crore (6.78 per cent) and increase

in the non-tax revenue by ₹ 1,001 crore (16.64 *per cent*). The growth rate of own tax revenue (4.59 *per cent*) was least among all the constituents of revenue receipts.

- Revenue expenditure increased by ₹ 5,600 crore (8.04 *per cent*) over the previous year mainly due to increase in expenditure on General Services by ₹ 2,692 crore (11.16 *per cent*), on Social Services by ₹ 2,853 crore (9.66 *per cent*) and on grants-in-aid and contribution by ₹ 163 crore (100.68 *per cent*).
- Capital outlay increased by ₹ 1,451 crore (6.84 *per cent*) over the previous year whereas the disbursement of loans and advances decreased by ₹ 279 crore (31.63 *per cent*).
- Public debt receipts decreased by ₹ 154 crore while repayment of public debt decreased by ₹ 333 crore. The net availability of public debt receipt of ₹ 13,139 crore during 2013-14 was 1.37 *per cent* more than that of previous year of ₹ 12,961 crore.

1.1.2 Review of fiscal situation

As per the Gujarat Fiscal Responsibility Act, 2005 (GFRA 2005) enacted in line with the recommendations of the Twelfth Finance Commission (TwFC), the State Government had agreed for elimination of revenue deficit by the end of 2007-08 and reduction of fiscal deficit to not more than three *per cent* of the GSDP by 31 March 2009. Similarly, the target of the ratio of Public Debt to GSDP was 30 *per cent* by March 2008. Total outstanding guarantees were to be capped within the limit provided in the Gujarat State Guarantee Act, 1963. Though the State had achieved the above targets by 2006-07, the fiscal deficit targets for 2009-10 and 2010-11 were relaxed by one *per cent* and 0.5 *per cent* of GSDP respectively by GoI.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (ThFC) has recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. This requires the State to reduce the revenue deficit to zero from 2011-12 onwards, reduce the fiscal deficit to three *per cent* of the estimated GSDP of the year beginning 2011-12 and maintain it thereafter and to cap the total outstanding debt of the State Government from the level of 28.8 *per cent* in 2011-12 to 27.6 *per cent* in 2013-14 and to 27.1 *per cent* at the end of 2014-15 of the estimated GSDP for the respective financial year. The ThFC target for total outstanding debt to GSDP ratio for the year 2013-14 was 27.6 *per cent*. The State Legislature in March 2011 amended the Fiscal Responsibility Act after the recommendations of the ThFC.

Major fiscal variables provided in the budget based on recommendations of the ThFC and the projections made in the Medium Term Fiscal Policy Statement (MTFPS) - 2013 are depicted in **Table 1.3**.

Table 1.3: Major Fiscal variables

Fiscal variables	2013-14		Achievement
	ThFC targets for the State	Targets proposed in the Budget and Projections made in MTFPS	
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	0	(+) 4,602	4,717
Fiscal Deficit/GSDP (in per cent)	3	2.57	2.38
Ratio of total outstanding debt of the Government to GSDP (in per cent)	27.6	-	23.65

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as the State achieved a revenue surplus of ₹ 3,215 crore in that year. The revenue surplus stood at ₹ 4,717 crore in 2013-14 against the projection in MTFPS of ₹ 4,602 crore. At the end of 2013-14, the fiscal deficit as percentage to GSDP was 2.38, which was well within the limit of three per cent. In the Fiscal Consolidation Roadmap, ThFC fixed the target of 27.6 per cent for the 'Total Outstanding Debt'² as percentage of GSDP at the end of 2013-14. However, the State Government fixed the target for 'Total Public Debt' instead of 'Total Outstanding Debt' as percentage of GSDP in Budget and in MTFPS. This was not in consonance with the recommendations of ThFC. Total Public Debt constitutes only 82 per cent of Total Outstanding Debt in 2013-14. In any case, the State's total outstanding debt as percentage of GSDP was 23.65 per cent in 2013-14 which was within the target of 27.6 per cent fixed by the ThFC.

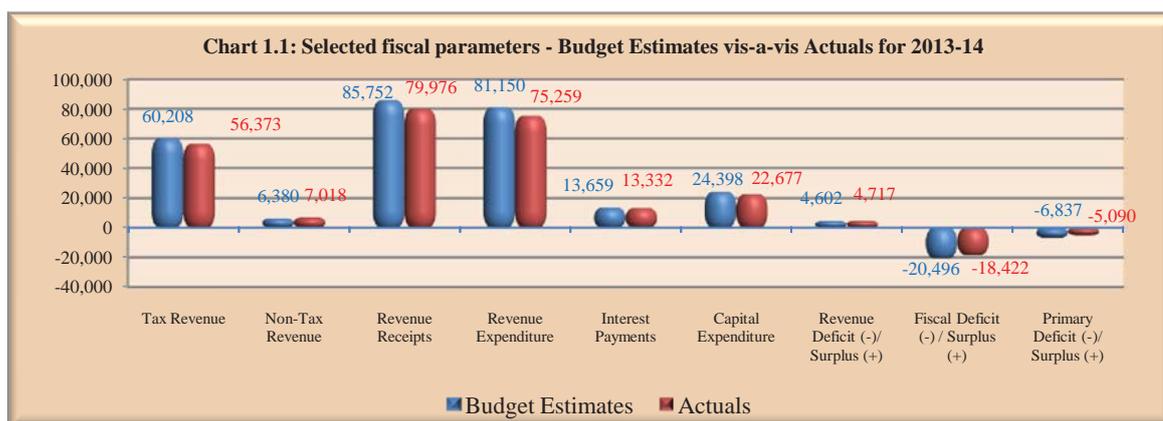
The expenditure on Grants-in-aid and subsidies should be booked under revenue expenditure in accounts. However, during 2013-14, the Government of Gujarat wrongly budgeted and booked expenditure of ₹ 1,462.75 crore relating to Grants-in-aid and expenditure of ₹ 170.75 crore on account of subsidy under the capital section instead of revenue section. This has resulted in understatement of revenue expenditure and consequent overstatement of revenue surplus to the tune of ₹ 1,633.50 crore.

1.1.3 Budget Estimates and Actuals

Budget estimates presented by the State Government provide a description of the projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates are indicative of the fact that due care has not been taken during their estimation. Further, it also indicates non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes, some within the control of the Government and some beyond the control of the Government.

Chart 1.1 Presents the budget estimates and actuals of some important fiscal parameters.

²Total Outstanding Debt includes Public Debt and Public Account Liabilities. Public Debt includes only Internal Debt and Loans from Government of India. Public Account Liability includes liabilities under small saving funds, GPF, Reserve funds etc.



During 2013-14, compared to the budget estimates, the tax revenue decreased by ₹ 3,835 crore (6.37 per cent) while non-tax revenue increased by ₹ 638 crore (10.00 per cent). Further, the revenue receipts decreased over the budget estimates by ₹ 5,776 crore (6.74 per cent) mainly on account of lower realization of tax revenue against budget estimates. Against an estimated revenue surplus of ₹ 4,602 crore, the financial year ended with a revenue surplus of ₹ 4,717 crore.

The revenue expenditure reflected decrease of ₹ 5,891 crore (7.26 per cent) over the budget estimates and capital expenditure on General, Social and Economic Services decreased by ₹ 1,721 crore (7.05 per cent) against the budget estimates. The actual capital expenditure, though increased over the previous year, stood lower than the budget estimate, indicating asset creation was not given as much priority as initially intended in the budget estimates. The improvement in actual revenue surplus over the budget estimates has mainly been on account of lower revenue expenditure than estimated. Due to lower revenue and capital expenditure than budgeted, the actual fiscal deficit stood lower than what was estimated and consequently resulted in lower primary deficit than estimated.

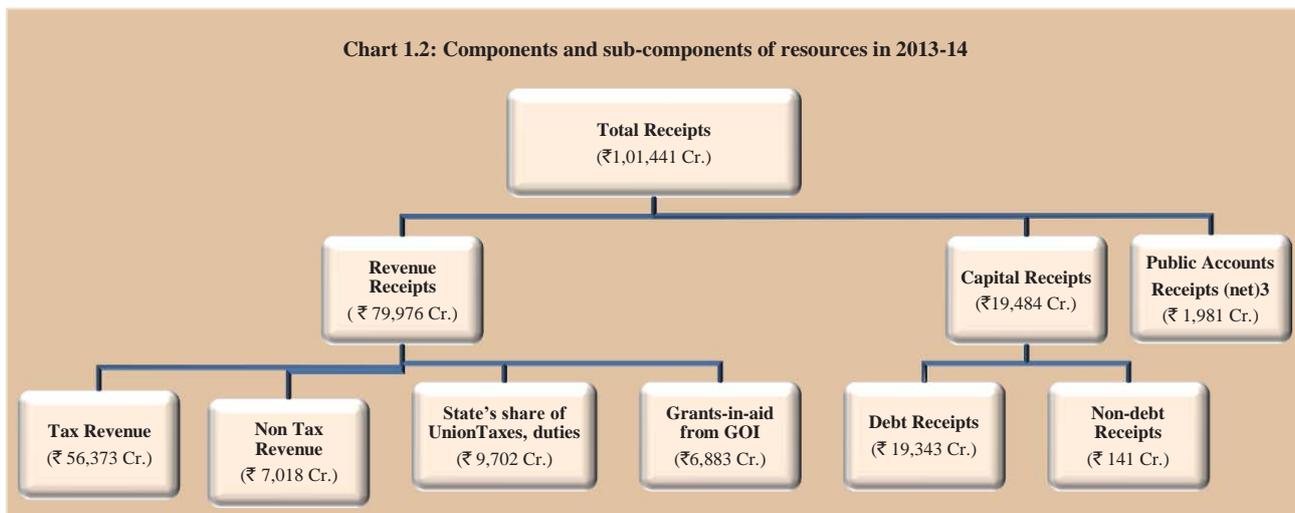
The budget proposals included an increase of tax rate on cigarette made from tobacco and included sale of used two wheelers and commercial vehicles in tax net for increasing the State's revenue receipts. Also concessions were given in VAT and property tax and electricity duty totalling about ₹ 245 crore.

1.2 Resources of the State

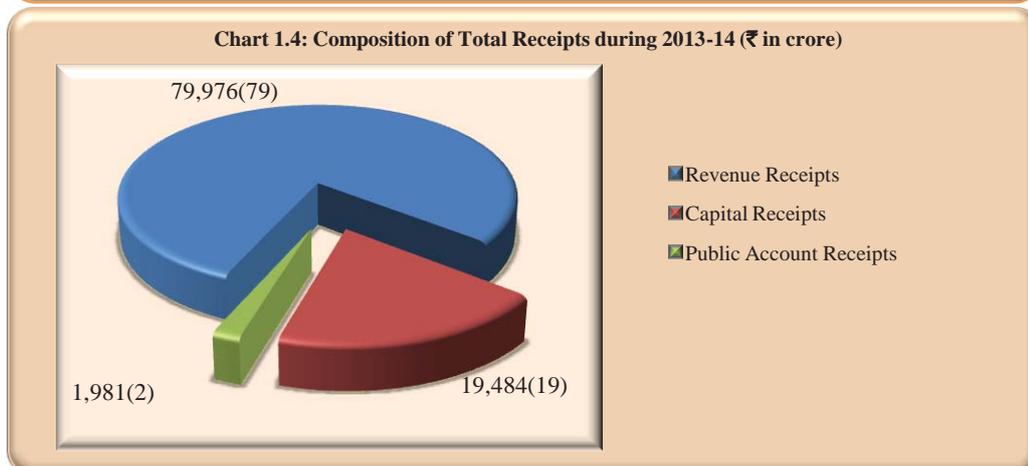
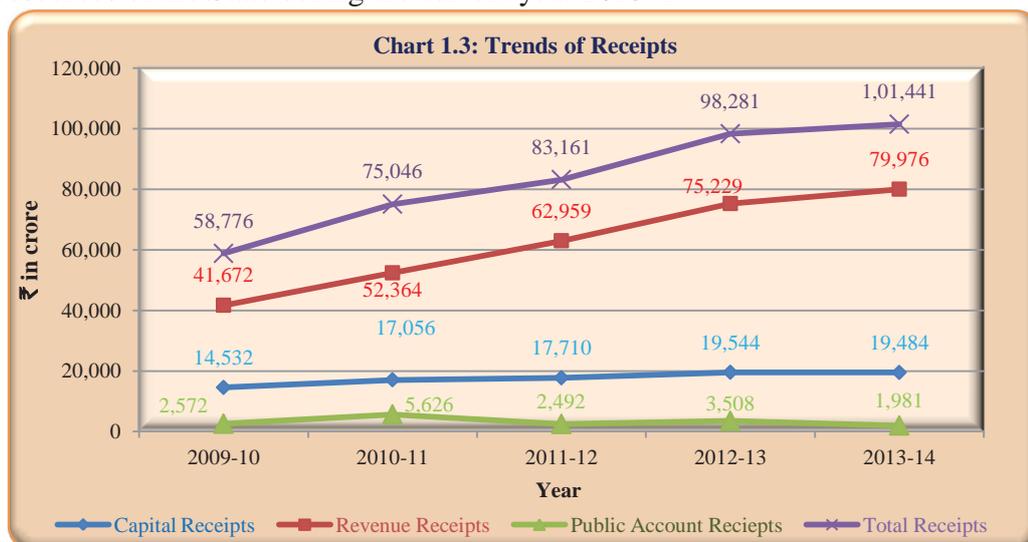
1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. 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. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, 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 1.2** presents the receipts and disbursements of the State during the current year as recorded in its Annual

Finance Accounts. The flow **Chart 1.2** depicts the components and sub-components of resources during the year 2013-14.



While **Chart 1.3** depicts the trends of various components of the State's receipts during 2009-10 to 2013-14, the **Chart 1.4** depicts the composition of resources of the State during the current year 2013-14.



Figures in parenthesis indicates percentage share

³Public Accounts Receipts (Gross) is ₹ 52,020 crore

The total resources of the State Government increased steadily from ₹ 58,776 crore in 2009-10 to ₹ 1,01,441 crore in 2013-14. The increase in total resources during the period of 2009-10 to 2013-14 was 72.59 per cent. The relative share of Revenue receipts which stood at 71 per cent of the total resources in 2009-10 increased to 79 per cent in 2013-14, while that of Capital receipts and Public Account receipts to total resources, declined from 24.72 per cent and 4.54 per cent in 2009-10 to 19.20 per cent and 1.95 per cent in 2013-14 respectively. The percentage of tax receipts to revenue receipts increased significantly from 64 per cent in 2009-10 to 70 per cent in 2013-14.

1.2.2 Funds transferred by the Central Government to State Implementing Agencies outside the State Budget

The Central Government had been transferring a sizeable quantum of funds directly to the State Implementing Agencies⁴ for the implementation of various schemes/programmes in the social and economic sector. As these funds were not routed through the State Budget/State Treasury System, the Annual Finance Accounts did 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 were not representing the whole picture. During 2013-14, ₹ 4,785.40 crore was transferred to the State Implementing Agencies which was ₹ 34.24 crore less than that of the previous year. The funds directly transferred to State Implementing Agencies are presented in **Table 1.4**.

Table 1.4: Funds transferred directly to State Implementing Agencies

(₹ in crore)

Sl. No.	Programme/Scheme	Implementing Agency in the State	2011-12	2012-13	2013-14
1	Sarva Shiksha Abhiyan	Gujarat Council of Primary Education	880.28	1,139.18	805.60
2	Accelerated Rural Water Supply Scheme	Gujarat Water Supply and Sewerage Board	571.05	717.47	515.07
3	National Rural Health Mission	State Health Society Gujarat	550.92	455.39	538.51
4	Integrated Watershed Management Program	Gujarat State Watershed Management Agency, Gandhinagar	198.06	348.05	62.77
5	Mahatma Gandhi National Rural Employment Guarantee Scheme	DRDA and Gujarat State Watershed Management Agency, Gandhinagar	324.29	342.59	335.30
6	Rural Housing (Indira Awas Yojana)	DRDAs	380.53	206.49	266.52
7	National Mission on Micro Irrigation	Gujarat Green Revolution Company Limited	166.64	182.00	220.00
8	MPs Local Area Development Scheme	District Collectors	103.50	144.50	192.50
9	Pradhan Mantri Gram Sadak Yojana	Gujarat State Rural Roads Development Agency	66.59	125.74	519.24
10	National Horticulture Mission	Gujarat Horticulture Mission	92.98	100.25	119.22
11	Others	NGOs and other institutions (each receiving less than ₹ 100 crore)	1,058.00	1,057.98	1,210.67
Total			4,392.84	4,819.64	4,785.40

Source: Central Plan Scheme Monitoring System (CPSMS) of the Controller General of Accounts (CGA).

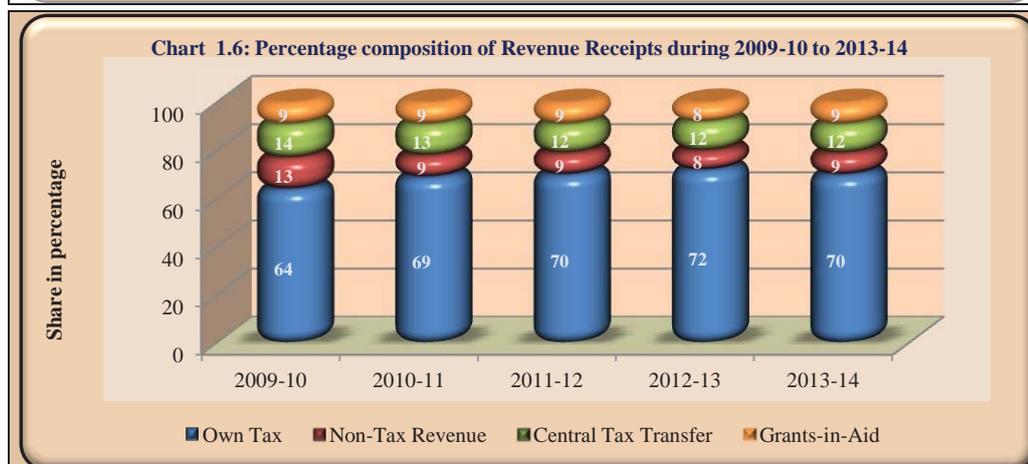
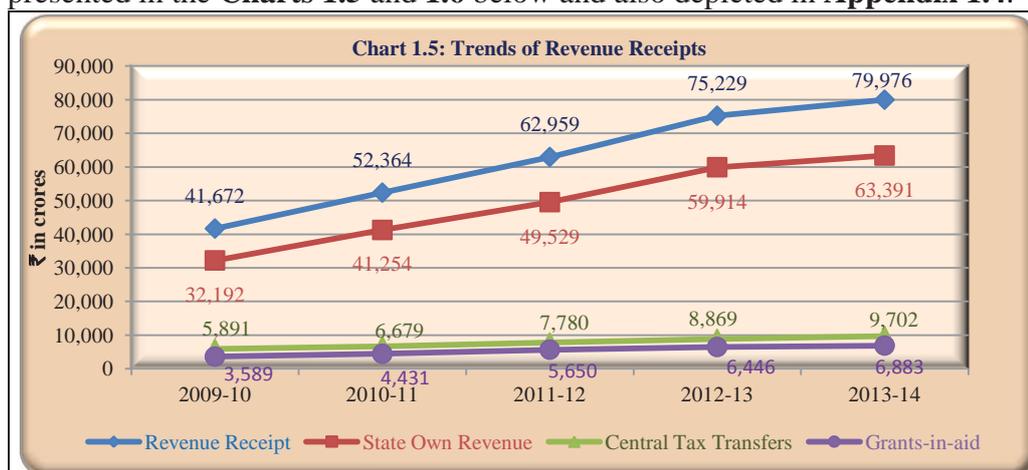
⁴ See glossary

During 2013-14, direct transfers from the Union Government to Sarva Shiksha Abhiyan constituted 16.83 per cent of the total transfers. Other major programmes/schemes which received funds directly from the Union Government were Accelerated Rural Water Supply Scheme (10.76 per cent), National Rural Health Mission (11.25 per cent), Pradhan Mantri Gram Sadak Yojana (10.85 per cent) and Mahatma Gandhi National Rural Employment Guarantee Scheme (7.01 per cent).

The Government of India has now decided that the plan assistance under all Centrally Sponsored Schemes (CSS) and block grants would be classified as Central Assistance to State Plan. It has also decided to transfer the central assistance through the Consolidated Fund of the state in a phased manner from 2014-15 onwards.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State’s own tax and non-tax revenues, Central tax transfers and Grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2009-10 to 2013-14 are presented in the **Charts 1.5 and 1.6** below and also depicted in **Appendix 1.4**.



The revenue receipts during the year 2013-14 grew by 6.31 per cent over the previous year due to 16.63 per cent increase in non-tax revenue, 4.59 per cent increase in State’s own tax revenue, 6.78 per cent increase in grants-in-aid and

9.39 *per cent* increase in central tax transfer. The growth rate of own tax revenue of 4.59 *per cent* was least among all constituents of revenue receipts.

The revenue receipts of the State increased steadily from ₹ 41,672 crore in 2009-10 to ₹ 79,976 crore in 2013-14 with significant improvement in the share of State's own tax revenue while share of non-tax revenue declined from 13 *per cent* in 2009-10 to nine *per cent* in 2013-14.

Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As the GSDP grows, the ability of the State's own tax revenue should increase. The trends of revenue receipts relative to GSDP are presented in **Table 1.5** below:

Table 1.5: Trends of Revenue Receipts relative to GSDP

	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue Receipts (RR) (₹in crore)	41,672	52,364	62,959	75,229	79,976
Rate of growth of RR (<i>per cent</i>)	7.75	25.66	20.23	19.49	6.31
R R/GSDP (<i>per cent</i>)	9.66	10.04	10.59	11.23	10.33
Buoyancy Ratios					
Revenue Buoyancy w.r.t. GSDP ⁵	0.45	1.23	1.44	1.54	0.41
State's Own Tax Buoyancy w.r.t. GSDP.	0.78	1.72	1.55	1.72	0.30
Revenue Buoyancy with reference to State's own taxes	0.57	0.71	0.93	0.89	1.37

Source: Finance Accounts of the respective years

The GSDP at current prices increased from ₹ 6,70,016 crore in 2012-13 to ₹ 7,73,990 crore in 2013-14 representing an increase of 15.52 *per cent*. The growth rate of revenue receipts continuously declined from a high of 25.66 *per cent* in 2010-11 to 19.49 *per cent* in 2012-13 and further declined to 6.31 *per cent* during the year 2013-14. This was mainly due to sharp decline in growth rate of own tax revenue from 36 *per cent* in 2010-11 to 22 *per cent* in 2012-13 and further to 4.59 *per cent* in 2013-14. During the period from 2009-10 to 2013-14, the revenue receipts grew at lowest rate in 2013-14 mainly on account of lowest growth rate of own tax revenue.

Revenue Buoyancy during this period with reference to the growth rate of GSDP showed continuously increasing trend except for 2013-14. The sharp decline in revenue buoyancy in 2013-14 was mainly on account of exceptionally low growth rate of revenue receipts. The decline in state's own tax buoyancy in 2013-14 largely contributed to the steep fall in state's revenue buoyancy.

1.3.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid is determined on the basis of recommendations of the Central Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. The gross collection in respect of major taxes and duties as well as

⁵ Figures differ from last year's report due to change in GSDP figures of 2009-10 to 2011-12

the components of non-tax receipts, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2009-10 to 2013-14 along with the respective all-India average are presented in **Appendix 1.5**.

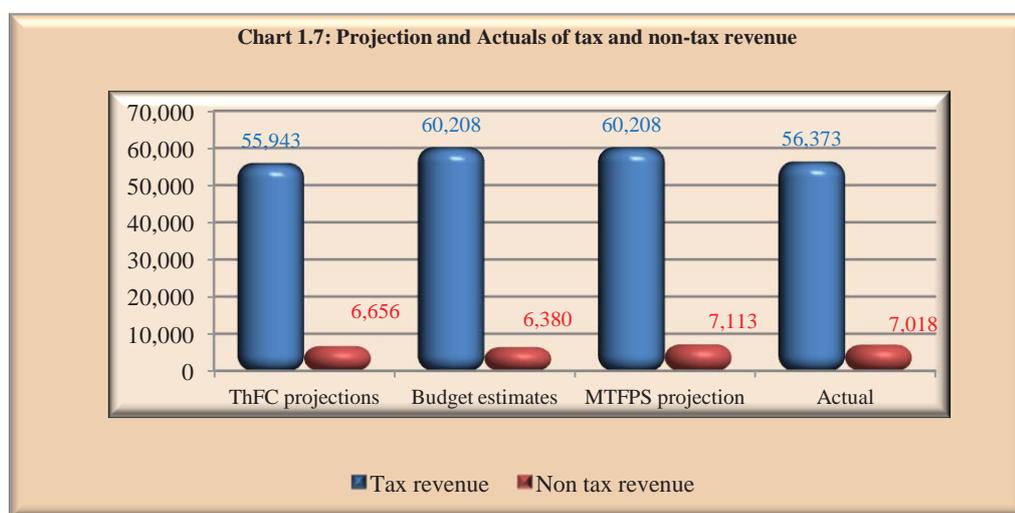
The State's actual tax and non-tax receipts for the year 2013-14 *vis-à-vis* assessment made by ThFC and MTFPS (February 2013) are presented in **Chart 1.7** and **Table 1.6** below:

Table 1.6: Projections and Actuals of tax and non-tax revenues

(₹ in crore)

	ThFC projections	Budget estimates	MTFPS projection	Actual
Tax revenue	55,943	60,208	60,208	56,373
Non tax revenue	6,656	6,380	7,113	7,018

Source: Finance Account of Gujarat State 2013-14 and Budget Publication No. 30 of GoG.



The tax revenue of the State in 2013-14 slightly exceeded the ThFC projection by ₹ 430 crore. However, it could not achieve the target of budget estimates and MTFPS projection and stood lower by ₹ 3,835 crore (6.37 per cent). Actual non-tax revenue was slightly less than MTFPS projections and more than ThFC projections (5.44 per cent) and budget estimates (10.00 per cent).

1.3.1.1 Tax revenue

The main components of tax revenue raised in the State during 2009-10 to 2013-14 are given in **Table 1.7**.

Table 1.7: Main components of State's tax revenue

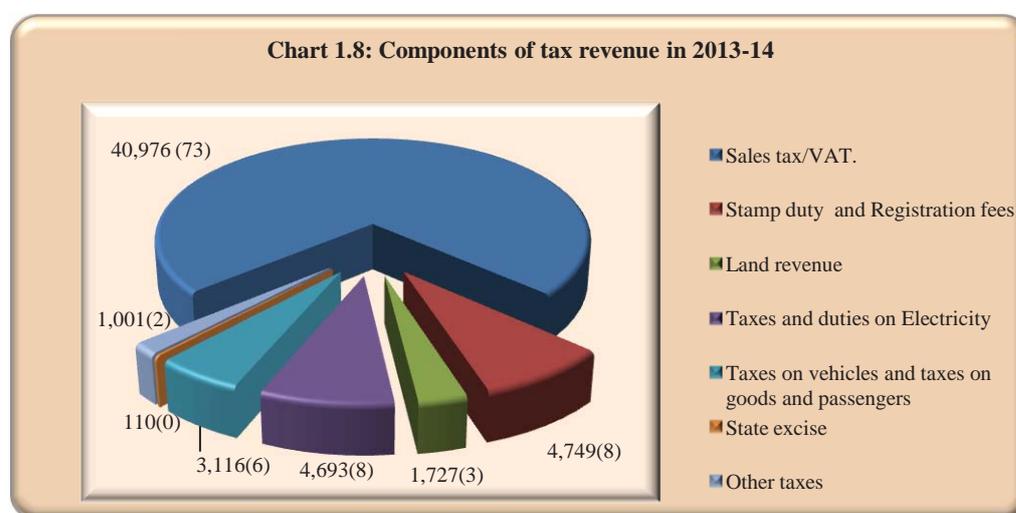
(₹ in crore)

Revenue Head	2009-10	2010-11	2011-12	2012-13	2013-14	Percentage increase over previous year
Sales tax/VAT	18,199.79	24,893.45	31,202.31	39,464.67	40,976.06	3.83
Stamp duty and Registration fees	2,556.72	3,666.24	4,670.27	4,426.93	4,749.35	7.28
Land revenue	1,161.20	1,788.78	1,477.18	2,207.85	1,727.41	(-)21.76

Revenue Head	2009-10	2010-11	2011-12	2012-13	2013-14	Percentage increase over previous year
Taxes and duties on Electricity	2,643.65	3,262.64	3,654.56	4,406.60	4,692.77	6.49
Taxes on vehicles and taxes on goods and passengers	1,549.55	2,010.07	2,459.37	2,486.84	3,116.37	25.31
State excise	65.94	62.97	72.11	84.91	109.82	29.34
Other taxes	563.38	654.48	716.49	818.89	1,000.59	22.19
Total	26,740.23	36,338.63	44,252.29	53,896.69	56,372.37	4.59

Source: Finance Accounts of the respective years

The components of tax revenue for the year 2013-14 are presented in **Chart 1.8** below.



Figures in parenthesis indicates percentage share

The State's own tax revenue increased by 4.59 *per cent* during 2013-14 over the previous year. Except land revenue, all the components of own tax revenue grew during 2013-14. Receipts under VAT, the most important contributor to the state's own resources grew only at 3.83 *per cent* in 2013-14 mainly due to less receipt of tax on crude oil, motor spirit and lubricants. The lower growth rate of VAT receipts mainly resulted in decline in growth rate of revenue receipts in 2013-14 over the previous year.

Taxes and duties on electricity showed an increase of ₹ 286 crore during the year and was 6.49 *per cent* more than previous year. Land Revenue decreased by ₹ 480 crore registering decrease of 21.76 *per cent* during 2013-14 from the previous year due to decline in the receipt. The ThFC projected the tax-GSDP ratio in 2013-14 at 8.33 *per cent* for Gujarat, however it actually stood at only 7.28 *per cent*. Thus, to achieve the target as projected by the ThFC, the state government should take necessary steps to augment the tax revenue especially by better tax compliance.

1.3.1.2 Non-tax Revenue

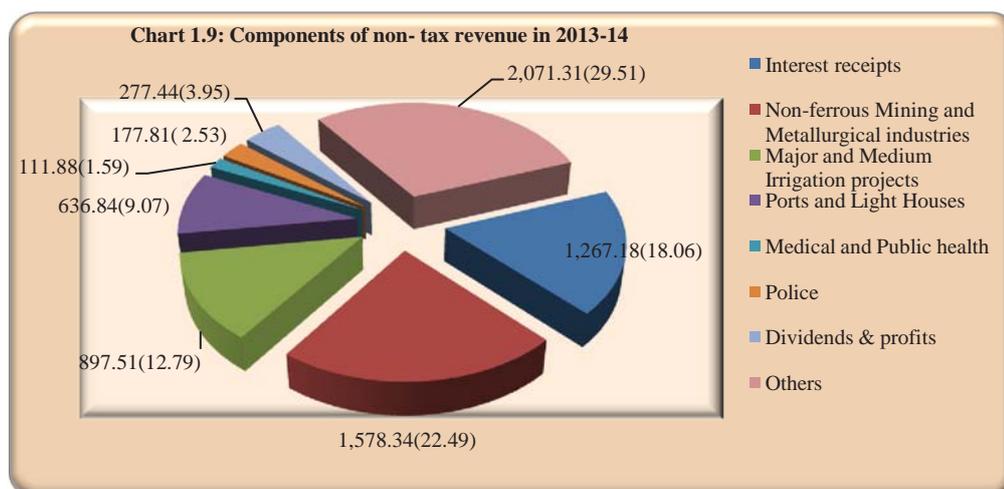
The main components of non- tax revenue raised in the State during 2009-10 to 2013-14 are given in **Table 1.8**.

Table 1.8: Main components of State's non-tax revenue

Revenue Head	₹ in crore)					Percentage increase over previous years
	2009-10	2010-11	2011-12	2012-13	2013-14	
Interest receipts	419.44	403.89	631.89	1,325.84	1,267.18	(-)4.42
Non-ferrous Mining and Metallurgical industries	2,138.98	2,019.31	1,819.64	1,847.16	1,578.34	(-)14.55
Major and Medium Irrigation projects	504.61	618.14	684.15	714.13	897.51	25.68
Ports and Light Houses	344.41	361.23	453.51	577.68	636.84	10.24
Medical and Public health	62.40	118.11	90.76	126.34	111.88	(-)11.45
Police	101.45	149.08	138.97	163.84	177.81	8.53
Dividends & profits	76.72	114.43	128.93	54.31	277.44	410.85
Others	1,803.70	1,130.83	1,328.67	1,207.69	2,071.31	71.51
Total	5,451.71	4,915.02	5,276.52	6,016.99	7,018.31	16.64

Source: Finance Accounts of the respective years

The components of non-tax revenue for the year 2013-14 are presented in **Chart 1.9** below.



Figures in parenthesis indicates percentage share

The non-tax revenue of the State during 2013-14 increased by ₹ 1,001 crore (16.64 per cent) over the previous year mainly on account of higher growth of dividends and profit along with irrigation receipts. The interest receipts declined by four per cent over the previous year mainly due to decrease of interest income to ₹ 397 crore in 2013-14 from ₹ 1,169 crore in 2012-13 from local bodies. The major contributor of non-tax revenue i.e. the receipts from Non-Ferrous Mining and Metallurgical Industries decreased by 14.55 per cent in 2013-14 over the previous year.

The dividends and profits increased by 411 per cent during 2013-14 over the previous year. The Government received dividends mainly from

Gujarat Mineral Development Corporation Ltd. (₹ 141 crore), Gujarat State Petrochemical Corporation Ltd. (₹ 100 crore) and Gujarat State Financial Services Corporation Ltd. (₹ 26 crore). However, the State Government had not yet formulated any dividend policy regarding payment of minimum return by the PSUs on paid up share capital contributed by the State Government.

As pointed out earlier in the **Chart 1.6** the share of non-tax revenue in revenue receipt continuously decreased from 13 *per cent* in 2009-10 to nine *per cent* in 2013-14.

1.3.2 Grants-in-aid from Government of India

The components of grants in aid received from the Government of India (GoI) during 2009-10 to 2013-14 are given in **Table 1.9**.

Table 1.9: Main components of Grants-in-aid from GoI

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Non-Plan Grants	837.39	1,063.60	1,467.13	1,230.30	2,079.21
Grants for State Plan Schemes	1,801.22	2,029.25	2,227.79	3,466.74	2,604.46
Grants for Central Plan Schemes	55.98	94.46	70.71	83.41	58.21
Grants for Centrally Sponsored Schemes	894.91	1,243.24	1,884.23	1,665.35	2,141.25
Total	3,589.50	4,430.55	5,649.86	6,445.80	6,883.13
Percentage of increase over previous year	-16.40	23.43	27.52	14.09	6.78
Total grants as a percentage of Revenue Receipts	8.61	8.46	8.97	8.57	8.61

Source: Finance Accounts of the respective years

The Grants-in-aid from GoI increased from ₹ 3,590 crore in 2009-10 to ₹ 6,883 crore in 2013-14 (91.72 *per cent*) mainly on account of increase in non-plan grants (148.30 *per cent*) and Centrally Sponsored Schemes (139.27 *per cent*).

The increase of 6.78 *per cent* in grants-in-aid from GoI in 2013-14 over previous year was mainly due to increase in non-plan grants (69.00 *per cent*) and grants for Centrally Sponsored Schemes (28.58 *per cent*).

1.3.3 Central Tax transfers

The ThFC had recommended the States' share of Central taxes to be increased to 32 *per cent* from 30.50 *per cent* as recommended by TwFC. It awarded 3.041 *per cent* of shareable taxes excluding service tax and 3.089 *per cent* of shareable service tax to Gujarat in its award period (2010-11 to 2014-15). The central tax transfer stood at ₹ 9,702 crore in 2013-14 registering a growth of 9.39 *per cent* over the previous year (₹ 8, 869 crore).

1.3.4 Optimisation of the ThFC grants

The recommendations of ThFC for the award period 2010-15 include release of grants-in-aid to the State Governments. Consequently, Gujarat State had to receive various grants in conformity with the recommendations of the ThFC.

The category wise amounts allocated as per the ThFC award and the amounts received there against are given in **Table 1.10** below:

Table 1.10: Details of amounts awarded and received

				(₹ in crore)
Sl. No.	Transfers	Amount awarded	Amount received	Difference
1.	Local Bodies	943.64	596.50	347.14
	Grants to PRIs	348.85	356.87	(-)8.02
	General performance grants to PRI	238.32	23.69	214.63
	Grants to ULBs	194.65	199.12	(-)4.47
	General performance grants to ULBs	132.98	0.00	132.98
	Scheduled Area Grant	14.42	14.40	0.02
	Scheduled Area Performance Grant	14.42	2.42	12.00
2	Disaster Relief	441.95	441.95	0.00
3	Improving outcome grants	85.80	5.20	80.60
4	Environment related grants	79.48	20.48	59.00
5	Elementary education	113.00	113.00	0.00
6	Roads and bridges	324.00	324.00	0.00
7	State specific grants	325.00	240.12	84.88
	Total	2,312.87	1,741.25	571.62

Source: Finance Department of Government of Gujarat

As per the ThFC award, during 2013-14 the State was entitled to receive ₹ 2,312.87 crore as grants-in-aid from GoI against which it had received ₹ 1,741.25 crore only (75.28 per cent of the award). On being pointed out (June 2014), in case of general performance grants to ULBs, the Urban Development and Urban Housing Department replied that due to non fulfillment of condition to bring the elected representatives of PRIs and ULBs under an independent Ombudsman/Lokayukta the grant was not released.

State specific needs

The State was entitled to receive ₹ 325 crore as grant from GoI during 2013-14 under the category of state specific needs. The amounts allocated and the amounts received there against are given in **Table 1.11**.

Table 1.11: Details of amounts awarded and received

				(₹ in crore)
Sl. No.	Specific need	Amount awarded	Amount received	Difference
1	Ingress of Salinity	37.50	0.00	37.50
2	Coastal Erosion	37.50	0.00	37.50
3	Ground Water Recharge	50.00	65.12	(-)15.12
4	Police Training	53.75	53.75	0.00
5	Tribal Area Development	50.00	50.00	0.00
6	Public Health	59.25	59.25	0.00
7	Construction of Border Roads	25.00	0.00	25.00
8	Gir Lion Project	12.00	12.00	0.00
	Total	325.00	240.12	84.88

Source: Finance Department of Government of Gujarat

Out of eight projects/schemes, in two schemes pertaining to Narmada, Water Resources, Water Supply and Kalpsar (NWRWSK) department and one scheme pertaining to Road and Buildings Department the State Government did not receive ₹ 100 crore in 2013-14. On being pointed out, NWRWSK

Department replied (July 2014) that grant of ₹ 43.30 crore for 2013-14 was released only in June 2014 in case of ingress of salinity. In case of Coastal erosion works, the department stated (July 2014) that grant was not disbursed as physical verification was not carried out by Ministry of Environment and Forest. In case of construction of Border Roads, no reply has been received from the concerned department (October 2014).

1.4 Capital Receipts

Trends in growth and composition of receipts of the State are given in the **Table 1.12**.

Table 1.12: Details of Capital Receipts

(₹ in crore)					
Sources of State's Receipts	2009-10	2010-11	2011-12	2012-13	2013-14
Capital Receipts (CR)	14,532	17,056	17,710	19,544	19,484
Miscellaneous Capital Receipts	136	91	10	0	0
Recovery of Loans and Advances	151	283	165	47	141
Public Debt Receipts	14,245	16,681	17,535	19,497	19,343
Rate of growth of debt capital receipts	38.21	17.10	5.11	11.19	(-0.79)
Rate of growth of non-debt capital receipts	42.08	30.31	-53.21	-73.14	200
Rate of growth of GSDP	17.22	20.93	14.01	12.69	15.52
Rate of growth of CR (per cent)	38.29	17.34	3.83	10.36	(-0.30)

Source: Finance Accounts of the respective years

The capital receipts of the State increased from ₹ 14,532 crore in 2009-10 to ₹ 19,484 crore in 2013-14. As public debt receipts form almost 99.27 per cent of capital receipts, the growth rate of capital receipts of state reflected a similar trend as debt capital receipts. During 2013-14 the growth rate of debt capital receipt was negative mainly due to less public debt receipt over the previous year. The trends in the total Public Debt Receipts are given in **Table 1.13**.

Table 1.13: Public Debt Receipts

(₹ in crore)					
	2009-10	2010-11	2011-12	2012-13	2013-14
Market Borrowings	9,000	11,500	16,500	15,546	15,493
NSSF (National Small Saving Fund)	4,168	4,136	67	1,659	1,912
Loans from Other Financial Institutions	991	886	780	1,700	1,777
Total Internal Debt	14,159	16,522	17,347	18,905	19,182
Loans and Advances from GoI	86	159	188	592	161
Total Public Debt Receipts	14,245	16,681	17,535	19,497	19,343

Source: Finance Accounts of the respective years

During 2013-14, the internal debt receipt increased by ₹ 277 crore mainly on account of increase in NSSF loans. The market borrowings having predominant share decreased by ₹ 53 crore in 2013-14 over the previous year. The total receipt of debt from internal sources increased continuously (35 per cent) from 2009-10 to 2013-14.

The total public debt receipts also increased by 36 per cent from 2009-10 to 2013-14. Against increase of 1.46 per cent in debt receipts from Internal

Sources in 2013-14 over the previous year, there was decrease of 0.79 per cent in total public debt receipts. This happened mainly due to decrease in loans and advances from the Government of India and also minor decrease in market borrowings.

1.5 Public Accounts Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc. which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State legislature. Here the Government acts as a banker. The balance after disbursements is the fund available with the Government for use. The resources under various heads of Public Account Receipts are given in **Table 1.14**.

Table: 1.14: Public Accounts Receipts (Net)

(₹ in crore)

Resources under various heads	2009-10	2010-11	2011-12	2012-13	2013-14
Public Account Receipts					
a. Small Savings, Provident Fund etc.	1,019	705	558	589	507
b. Reserve Fund	768	998	680	488	84
c. Deposits and Advances	1,178	2,533	1,358	1,844	2,242
d. Suspense and Miscellaneous	-583	1,312	-57	656	-1,033
e. Remittances	190	78	-47	-69	181
Total	2,572	5,626	2,492	3,508	1,981

Source: Finance Accounts of the respective years

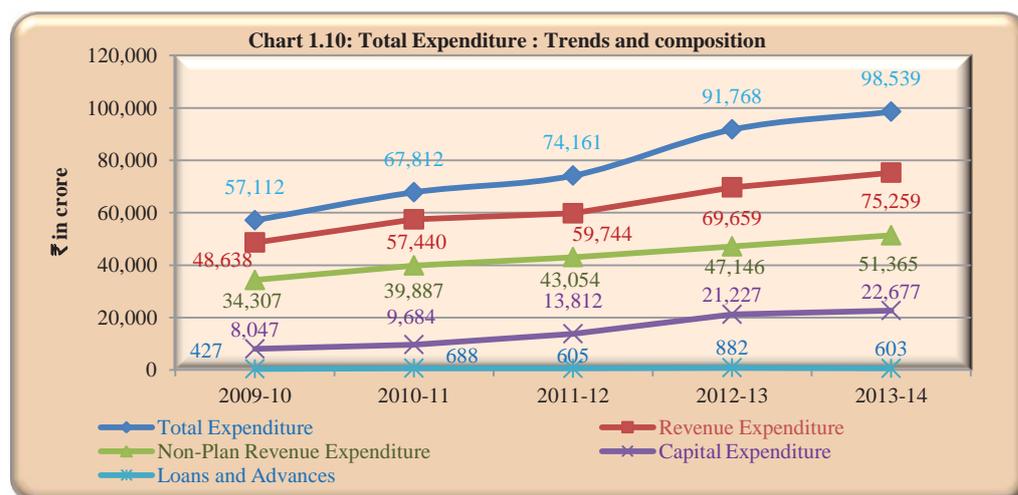
The net Public Account Receipts decreased from ₹ 2,572 crore in 2009-10 to ₹ 1,981 crore in 2013-14 with a high of ₹ 5,626 crore in 2010-11. The net availability of funds under Small Savings, Provident Fund, Reserve Fund and Deposits and Advances are being consistently used in financing of fiscal deficit.

1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards the State's working as a welfare state.

1.6.1 Growth and Composition of Expenditure

Chart 1.10 presents the trends in total expenditure over a period of five years (2009-10 to 2013-14) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Tables 1.15** and **1.16** respectively.



The total expenditure during 2013-14 increased by 7.38 per cent over the previous year due to 8.04 per cent increase in revenue expenditure and 6.83 per cent in capital expenditure. The revenue expenditure stood at 76 per cent of the total expenditure, of which 68 per cent was the Non-Plan component.

During 2013-14, the plan revenue expenditure grew at 6.13 per cent while the non plan revenue expenditure grew at 8.95 per cent.

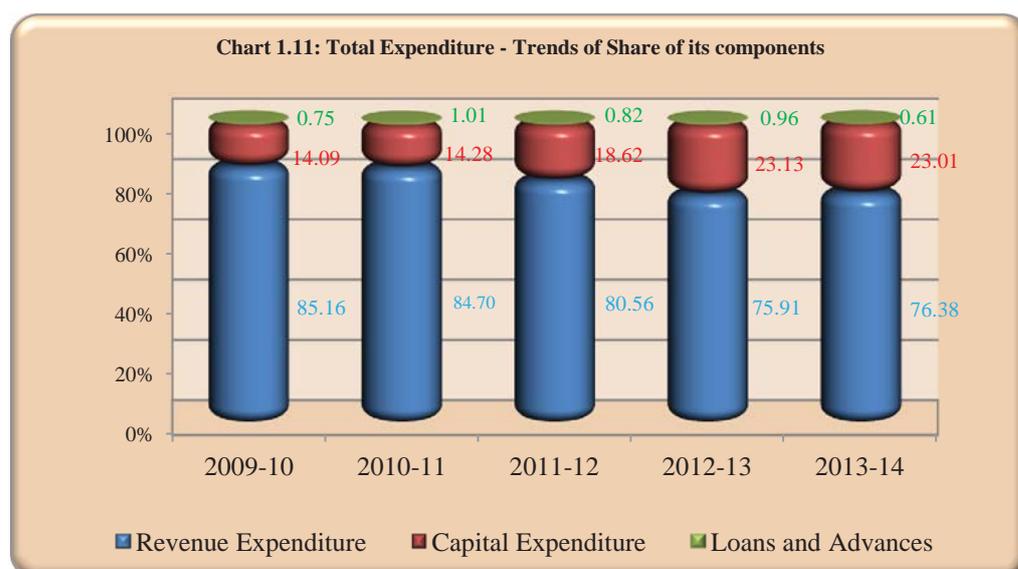
Table 1.15: Total Expenditure- Trends of Share of its components

(Figures in per cent)

	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue Expenditure	85.16	84.70	80.56	75.91	76.38
Capital Expenditure	14.09	14.28	18.62	23.13	23.01
Loans and Advances	0.75	1.01	0.82	0.96	0.61

Source: Finance Accounts of the respective years

Chart 1.11 presents composition of total expenditure over a period of five years (2009-10 to 2013-14).



The share of revenue expenditure in total expenditure declined from 85.16 per cent in 2009-10 to 76.38 per cent in 2013-14 mainly on account of high growth rate attained by capital expenditure during this period except 2013-14.

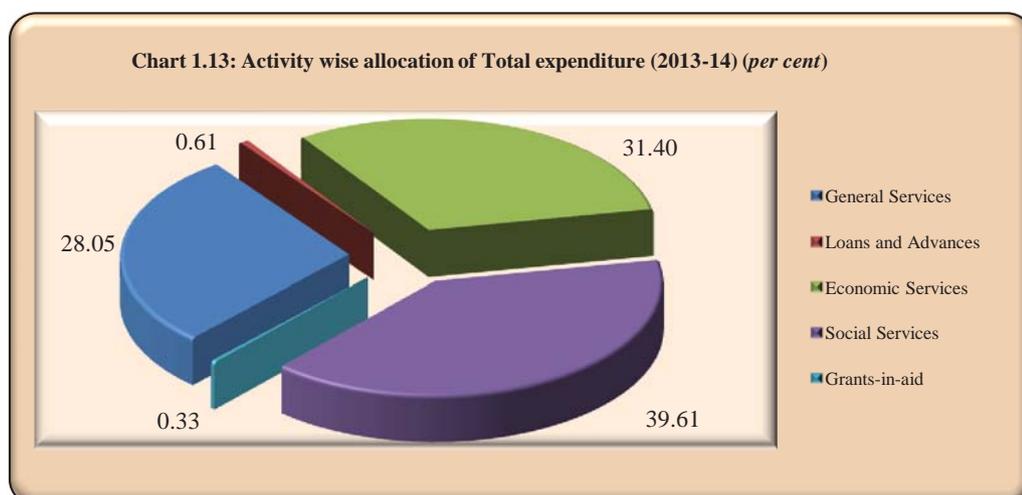
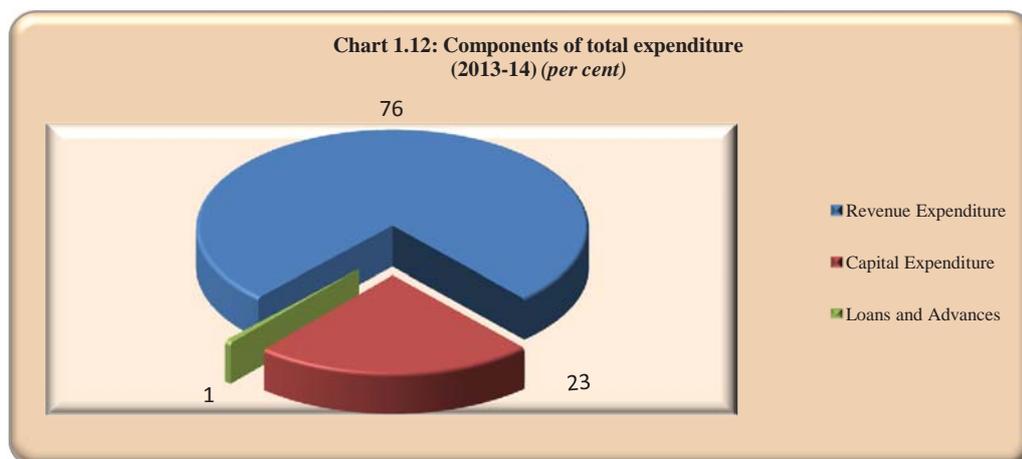
Table: 1.16: Total Expenditure- Trends by activities *(Share in per cent)*

	2009-10	2010-11	2011-12	2012-13	2013-14
General Services	29.98	29.62	29.72	27.07	28.05
Social Services	37.90	38.91	37.56	38.81	39.61
Economic Services	31.19	30.19	31.64	32.98	31.40
Loans and Advances	0.75	1.01	0.82	0.96	0.61
Grants-in-aid	0.18	0.27	0.26	0.18	0.33

Source: Finance Accounts of the respective years

The movement of relative share of these components indicates that the share of General Services remained static from 2009-10 to 2011-12 and decreased during 2012-13. The increase in share of General Services in 2013-14 resulted in decrease in share of development expenditure. The share of social services has shown an increasing trend as to percentage of total expenditure at 39.61 per cent during 2013-14.

Chart 1.12 and **Chart 1.13** present components to total expenditure (in per cent) and activity wise allocation of total expenditure (in per cent) for the year 2013-14.



1.6.2 Revenue Expenditure

Revenue expenditure is incurred to maintain the current level of services. The overall revenue expenditure, its rate of growth and ratio of revenue expenditure to GSDP are indicated in **Table 1.17**.

Table 1.17: Trends of Revenue Expenditure relative to GSDP

	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue Receipts (RR) (₹ in crore)	41,672	52,364	62,959	75,229	79,976
Rate of growth of RR (<i>per cent</i>)	7.75	25.66	20.23	19.49	6.31
Revenue Expenditure (RE) (₹ in crore)	48,638	57,440	59,744	69,659	75,259
Rate of growth of RE (<i>per cent</i>)	25.55	18.10	4.01	16.59	8.04
RE/ GSDP Ratio (<i>per cent</i>)	11.28	11.01	10.05	10.40	9.72

Source: Finance Accounts of the respective years

Revenue expenditure continuously increased from ₹ 48,638 crore in 2009-10 to ₹ 75,259 crore in 2013-14. However, the growth rate fluctuated widely from 25.55 *per cent* in 2009-10 to 4.01 *per cent* in 2011-12 to 8.04 *per cent* in 2013-14. The revenue receipts grew at 6.31 *per cent* in 2013-14 while the revenue expenditure grew at 8.04 *per cent*. Revenue expenditure as a *per cent* of GSDP decreased from a high of 11.28 *per cent* in 2009-10 to 9.72 *per cent* in 2013-14.

The increase in revenue expenditure during 2013-14 was mainly due to more expenditure on General Education (₹ 1,357 crore), Interest Payments (₹ 1,171 crore), Pension and Other Retirement Benefits (₹ 1,072 crore) and Housing (₹ 719 crore). Revenue expenditure during 2013-14 decreased for Rural Employment (₹ 197 crore), Power (₹ 182 crore), Roads & Bridges (₹ 72 crore) and Urban Development (₹ 147 crore). However, there was an overall increase of ₹ 5,600 crore in 2013-14 over the last year.

1.6.3 Committed Expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.18** and **Chart 1.14** present the trends in the expenditure on these components during 2009-2014.

Table 1.18: Components of Committed Expenditure

Components of Expenditure	2009-10	2010-11	2011-12	2012-13	2013-14	
					BE	Actuals
Salaries, of which	4,760	5,555	6,216	6,707	7,220	7,209
	(11.42)	(10.61)	(9.87)	(8.92)	(8.42)	(9.01)
Non-Plan Head	4,014	4,563	4,900	5,174	@	5,497
Plan Head*	746	992	1,316	1,533		1,712
Interest Payments	8,590	9,627	10,934	12,161	13,659	13,332
	(20.61)	(18.38)	(17.37)	(16.17)	(15.93)	(16.67)
Expenditure on Pensions	4,513	5,779	6,145	7,198	7,270	8,270
	(10.83)	(11.04)	(9.76)	(9.57)	(8.48)	(10.34)

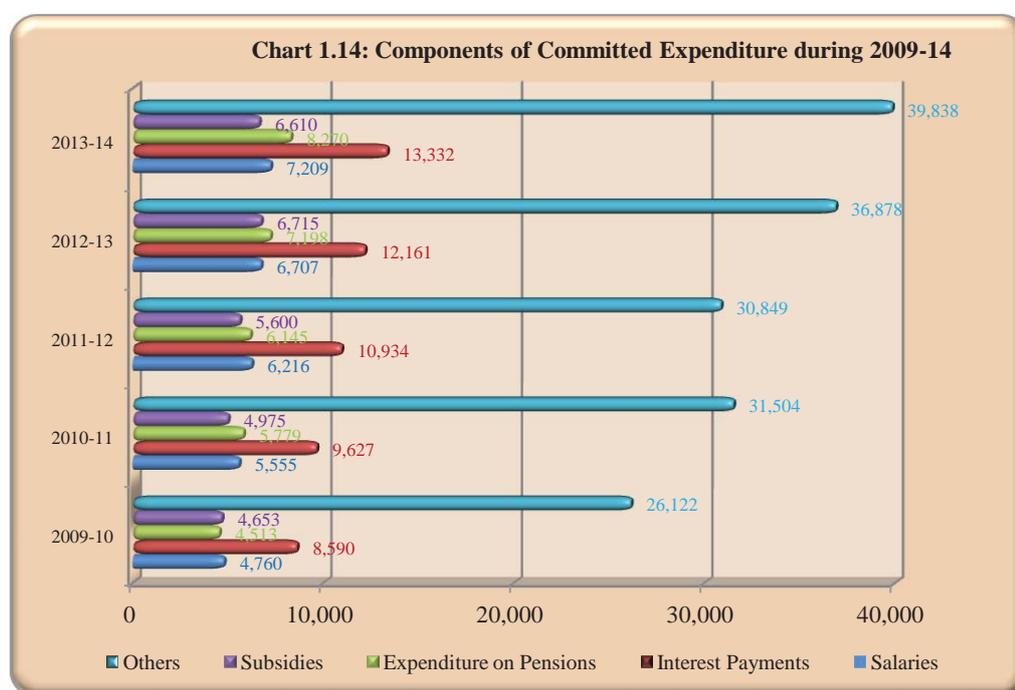
Components of Expenditure	2009-10	2010-11	2011-12	2012-13	2013-14	
					BE	Actuals
Subsidies	4,653 (11.17)	4,975 (9.50)	5,600 (8.89)	6,715 (8.93)	4,311 (5.03)	6,610 (8.26)
Total expenditure on Salaries, Interest Payments, Pensions and Subsidies	22,516 (54.03)	25,936 (49.53)	28,895 (45.89)	32,781 (43.57)	32,460 (37.85)	35,421 (44.29)
Other components	26,122 (62.68)	31,504 (60.16)	30,849 (49.00)	36,878 (49.02)	48,690 (56.78)	39,838 (49.81)
Total Revenue Expenditure	48,638	57,440	59,744	69,659	81,150	75,259
Total Revenue Receipts	41,672	52,364	62,959	75,229	85,752	79,976

*Plan head includes Salaries and Wages under Centrally Sponsored Schemes.

@ The bifurcation in Non-Plan and Plan is not available for BE.

Figures in parentheses indicate percentage of Revenue Receipts.

Source: Finance Accounts of the respective years



1.6.3.1 Expenditure on Salaries

In 2013-14, the expenditure on salaries increased by 7.48 per cent over the previous year. As a percentage of the revenue receipts, the expenditure on salaries increased from 8.92 per cent in 2012-13 to 9.01 per cent in 2013-14. The expenditure on salaries under the Non-Plan head increased from ₹ 4,014 crore in 2009-10 to ₹ 5,497 crore in 2013-14 mainly due to implementation of the recommendations of the Sixth Pay Commission.

1.6.3.2 Interest Payments

Interest payments increased steadily from ₹ 8,590 crore in 2009-10 to ₹ 13,332 crore in 2013-14. Interest payments, however, increased by 9.63 per cent over the previous year. The increase was mainly due to more payment of interest on market loans (₹ 934 crore) than that in the previous year. The share

of interest payment on market borrowings and special securities issued to NSSF was 47 *per cent* and 35 *per cent* respectively. However, interest payments as a percentage of revenue receipts declined from 20.61 *per cent* to 16.67 *per cent* during 2009-10 to 2013-14 respectively.

1.6.3.3 Pension Payments

The actual expenditure on pension was 13.76 *per cent* higher than the budget estimates of the Government. The estimated yearly pension liabilities were prepared on the basis of trend growth rates instead of actuarial basis. The expenditure on Pension during current year increased by ₹ 1,072 crore (14.89 *per cent*) over previous year, mainly on account of increase in payment of family pensions along with gratuities.

In its disclosure in compliance of Gujarat Fiscal Responsibility Act, 2005 the Government estimated the pension payment as percentage of Revenue Receipts to 7.93 *per cent*, however, it stood much higher at 10.34 *per cent*.

1.6.3.4 Migration to New Pension Scheme

The State Government has introduced the New Defined Contribution Pension Scheme (NPS) with effect from 1 April 2005. The State Government signed (January 2009) agreements with the NPS trust for the fund management of the Scheme and adopted (May 2009) the central architecture designed for this scheme. The Government contributed ₹ 206.45 crore as matching contribution in 2013-14 as compared to ₹ 152.50 crore in 2012-13.

1.6.3.5 Expenditure on Subsidies

The expenditure on subsidies increased by 42.06 *per cent* from ₹ 4,653 crore in 2009-10 to ₹ 6,610 crore in 2013-14. The expenditure on subsidies decreased during the current year by 1.56 *per cent* over the previous year though was much higher when compared to the Budget estimates for 2013-14. The subsidy in the Power Sector decreased to ₹ 3,611 crore in the current year when compared to ₹ 3,820 crore in the previous year, registering a decline of 5.47 *per cent*. The subsidy for the Power Sector against total subsidy was 54.62 *per cent* in the current year. The food and related subsidy decreased by 8.53 *per cent* from ₹ 211 crore (2012-13) to ₹ 193 crore (2013-14).

1.6.4 Financial Assistance by the 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 current year relative to the previous years is presented in **Table 1.19**.

Table 1.19: Financial Assistance to Local Bodies etc.

	(₹ in crore)				
Financial Assistance to Institutions	2009-10	2010-11	2011-12	2012-13	2013-14
Panchayati Raj Institutions (PRIs)	8,526.14	7,039.32	13,087.87	14,464.38	17,295.00
Urban Local Bodies	4,000.48	10,258.27	3,619.49	3,100.74	2,914.06
Public sector Undertakings	638.11	-----	119.69	4.05	27.55
Autonomous Bodies	5,410.85	8,574.68	1,626.18	644.45	650.77
Others	1,849.81	----	9,489.01	12,910.99	15,273.20
Total	20,425.39	25,872.27	27,942.24	31,124.61	36,160.58
Assistance as percentage of Revenue Expenditure	41.99	45.04	46.77	44.68	48.05

Source: Finance Accounts of the respective years

Financial assistance to local bodies and other institutions increased from ₹ 20,425 crore in 2009-10 to ₹ 36,161 crore in 2013-14 which included payment of grants-in-aid to Municipal Corporations/Municipalities on account of abolition of octroi in November 2006. As a percentage of the revenue expenditure, it increased from 41.99 *per cent* in 2009-10 to 48.05 *per cent* in 2013-14.

1.7 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, *viz.* adequacy of the expenditure, efficiency of expenditure use and its effectiveness.

1.7.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. **Table 1.20** depicts the trend in revenue expenditure indicating the percentage of expenditure on developmental and non-developmental activities and **Table 1.21** depicts Share of Revenue and Capital Expenditure in Plan and Non Plan Expenditure during 2009-10 to 2013-14.

Table 1.20: Percentage of expenditure on Developmental and Non-developmental activities

	(₹ in crore)				
Components of Revenue Expenditure (RE)	2009-10	2010-11	2011-12	2012-13	2013-14
⁶ Development Revenue Expenditure (DRE) (₹ in crore)	31,598	37,414	38,064	45,368	48,113
Share of DRE in RE (<i>per cent</i>)	64.97	65.14	63.71	65.13	63.93

⁶ Development revenue expenditure represents revenue expenditure on social and economic services.

Components of Revenue Expenditure (RE)	2009-10	2010-11	2011-12	2012-13	2013-14
⁷ Non-Development Revenue Expenditure (NDRE) (₹ in crore)	17,040	20,026	21,680	24,291	27,146
Share of NDRE in RE (<i>per cent</i>)	35.03	34.86	36.29	34.87	36.07
Total Revenue Expenditure (₹ in crore)	48,638	57,440	59,744	69,659	75,259

Source: Finance Accounts of the respective years

Table 1.21: Share of Revenue and Capital expenditure in Plan and Non-plan expenditure (₹ in crore)

	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue Expenditure	48,638	57,440	59,744	69,659	75,259
Plan Revenue Expenditure	14,331	17,553	16,690	22,513	23,894
Non-Plan Revenue Expenditure	34,307	39,887	43,054	47,146	51,365
Capital Expenditure	8,047	9,684	13,812	21,227	22,677
Plan Capital Expenditure	8,026	9,662	13,608	21,151	22,511
Non-Plan Capital Expenditure	21	22	204	76	166
Total Expenditure[#]	57,112	67,812	74,161	91,768	98,539
Percentage of Total Expenditure					
Plan Revenue Expenditure	25.09	25.88	22.51	24.53	24.25
Non-Plan Revenue Expenditure	60.07	58.82	58.05	51.37	52.13
Capital Expenditure (Plan and Non-Plan)	14.09	14.28	18.62	23.13	23.01

Source: Finance Accounts of the respective years

[#]Includes Loans and Advances

The Plan Revenue Expenditure (PRE) has shown consistent increase over the period 2009-10 to 2013-14 except for a decrease during 2011-12. The Non Plan Revenue Expenditure (NPRE) has also shown consistent increase over the period 2009-10 to 2013-14. The Plan Capital Expenditure has also shown consistent increase over the period 2009-10 to 2013-14.

The increase in PRE during 2013-14 over previous year was mainly due to increased expenditure on Housing (₹ 713 crore) and Rural Development (₹ 241 crore) over the previous year. The increase in NPRE during 2013-14 was mainly due to increased expenditure on General Education (₹ 1,116 crore), Pension and other Retirement benefits (₹ 1,072 crore) and Interest payments (₹ 934 crore). The increase in Plan Capital Expenditure during 2013-14 over the previous year was mainly due to increased expenditure on Major Irrigation (₹ 1,836 crore), Water Supply and Sanitation (₹ 812 crore) and Urban Development (₹ 666 crore).

1.7.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods⁸. Apart from

⁷ Non Development revenue expenditure represents revenue expenditure on general services and grants-in-aid and contributions.

⁸ See glossary

improving the allocation towards development expenditure⁹, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. **Chart 1.15** presents the trends in development expenditure relative to the aggregate expenditure *vis-à-vis* budget estimates during the current year i.e. 2013-14. **Table 1.22** provides the details of capital expenditure and the components of revenue expenditure under selected social and economic services.



Development expenditure of the State comprises revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from ₹ 39,806 crore in 2009-10 to ₹ 70,525 crore in 2013-14. As a percentage of the total expenditure, the total development expenditure of the State increased from 69.70 *per cent* in 2009-10 to 71.57 *per cent* in 2013-14. The capital expenditure component increased from ₹ 7,858 crore in 2009-10 to ₹ 21,861 crore in 2013-14. The percentage of development capital expenditure to the aggregate expenditure during the current year was 22.19 *per cent* whereas the revenue expenditure component was 48.83 *per cent*. The percentage of Development Loans and Advances to aggregate expenditure decreased from 0.61 *per cent* in 2009-10 to 0.56 *per cent* in 2013-14.

⁹ The aggregate expenditure data segregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorised into social services, economic services and general services. Broadly, the expenditure on social and economic services constitutes development expenditure, while expenditure on general services is treated as non-development expenditure.

Table 1.22: Efficiency of Expenditure under selected Social and Economic Services

(figures in *per cent*)

Social/Economic Infrastructure	2012-13		2013-14	
	Share of Capital Expenditure to Total Expenditure	In Revenue Expenditure, the share of Salaries	Share of Capital Expenditure to Total Expenditure	In Revenue Expenditure, the share of Salaries
Social Services (SS) (absolute figures- ₹ in crore)	6,083	-	6,650	-
Education	6.72	4.64	7.53	4.45
Health and Family Welfare	27.21	31.65	32.01	33.54
Water Supply, Sanitation, Housing and Urban Development	28.66	0.62	26.62	0.61
Total (SS)	17.08	7.50	17.03	7.36
Economic Services (ES) (absolute figures- ₹ in crore)	14,430	-	15,211	-
Agriculture & Allied Activities	14.98	12.85	17.76	13.12
Irrigation and Flood Control	86.97	28.13	87.36	30.35
Power & Energy	25.48	1.03	33.64	0.52
Transport	41.74	1.02	47.32	1.11
Total (ES)	47.67	6.62	49.15	6.70
Total (SS+ES)	31.14	7.19	31.24	7.15

Source: Finance Accounts of the respective years

Expenditure on Social Services

Capital expenditure on the Social Services increased by 9.32 *per cent* in absolute terms from ₹ 6,083 crore in 2012-13 to ₹ 6,650 crore in 2013-14. The share of Capital expenditure to the total expenditure under Social Services decreased from 17.08 *per cent* to 17.03 *per cent*.

In education, the capital expenditure increased mainly due to expenditure on elementary education and tribal area sub plan. In Health and Family Welfare, the capital expenditure increased mainly on construction of medical colleges and general nursing schools at various places. In Water Supply, Sanitation, Housing and Urban Development, the Capital expenditure decreased on account of less investment in housing boards and rural water supply.

The share of salaries in revenue expenditure under Social Services decreased from 7.50 *per cent* in 2012-13 to 7.36 *per cent* in 2013-14.

Expenditure on Economic Services

Capital expenditure on Economic Services increased from ₹ 14,430 crore in 2012-13 to ₹ 15,211 crore in 2013-14, registering a growth of 5.41 *per cent*. The share of capital expenditure to total expenditure under Economic Services increased from 47.67 *per cent* in 2012-13 to 49.15 *per cent* in 2013-14. In Agriculture and Allied activities, the capital expenditure during current year increased mainly due to increase in expenditure on forest and wildlife alongwith animal husbandry. Capital expenditure on Irrigation and Flood Control increased mainly due to more expenditure on medium and minor

irrigation projects. In power and energy, capital expenditure increased mainly due to investment in Gujarat Urja Vikas Nigam Limited and Gujarat Power Corporation Limited.

The share of salaries in revenue expenditure under Economic Services increased from 6.62 per cent to 6.70 per cent, mainly on account of increase in the share of salaries under Irrigation and Flood Control (28.13 per cent to 30.35 per cent) and under Agricultural and Allied activities (12.85 per cent to 13.12 per cent).

1.8 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market-based resources, the State Government needs to initiate measures to earn adequate returns on its investments, recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous year.

1.8.1 Financial Results of Irrigation Projects

At the end of March 2014, ₹ 2,286.16 crore was spent on 33 Major and Medium Irrigation Projects which were treated as completed. The revenue realized from these irrigation projects during the year was ₹ 546.87 crore, against which the maintenance expenditure was ₹ 130.19 crore, indicating a revenue surplus of ₹ 416.68 crore. When compared with the investment on these projects, the return was 18.22 per cent.

1.8.2 Incomplete projects

At the end of March 2014, there were 75 incomplete capital works involving ₹ 1,204.34 crore. The Department-wise details of incomplete works (each costing ₹ 10 crore or more) are given in **Table 1.23**.

Table 1.23: Department-wise Profile of Incomplete Works

Department	Number of incomplete works	Initial Budgeted Cost	(₹ in crore)	
			Cumulative expenditure as on 31 March 2014	actual as on 31 March 2014
Road and Buildings	68	1,710.27		1,076.94
Narmada, Water Resources, Water Supply and Kalpsar	7	536.57		127.40
Total	75	2,246.84		1,204.34

Source: Finance Accounts of the year 2013-14

It can be seen from the **Table 1.23** that Road and Buildings Department could incur expenditure to the extent of 63 per cent on the 68 incomplete projects when compared to the initial budgeted cost. In Narmada Water Resources,

Water Supply and Kalpsar Department seven projects remained incomplete incurring expenditure to the extent of 24 *per cent* only of the initial budgeted cost.

1.8.3 Investment and returns

As of 31 March 2014, Government had invested ₹ 55,058 crore in Statutory Corporations, Government Companies, Rural Banks, Joint Stock Companies, Co-operative Institutions and Local Bodies (**Table 1.24**). The average return on the investments was 0.31 *per cent* in the last five years while the Government paid an average 7.62 *per cent* as interest on its borrowings during 2009-10 to 2013-14. Forty two PSUs earned a net profit of ₹ 4,468 crore in financial year 2012-13. However, the State Government received only ₹ 273 crore as dividend from PSUs in financial year 2013-14. In view of negligible return from PSUs, the State Government may consider formulation of suitable dividend policy.

Although average return on investment increased and payment of interest on borrowings has decreased during 2013-14, 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.

Table 1.24: Return on Investment

Investment/Return/Cost of Borrowings	2009-10	2010-11	2011-12	2012-13	2013-14
Investment at the end of the year ¹⁰ (₹ in crore)	31,051	34,496	39,179	47,171	55,058
Return (₹ in crore)	76.72	114.43	128.93	54.31	277.44
Return (<i>per cent</i>)	0.25	0.33	0.33	0.12	0.50
Average rate of interest on Government borrowings (<i>per cent</i>)	7.64	7.56	7.63	7.66	7.62
Difference between average interest rate on Government borrowings and rate of return (<i>per cent</i>)	7.39	7.23	7.30	7.54	7.12

Source: Finance Accounts of the respective years

During the period of last five years, 2009-10 to 2013-14, the State Government's Investments had increased by ₹ 24,007 crore. During 2013-14, Government invested ₹ 603 crore in Statutory Corporations, ₹ 7,188 crore in Government Companies and ₹ 96 crore in Co-operative institutions etc. Out of ₹ 7,887 crore invested during 2013-14, 50 *per cent* (₹ 3,921 crore) was invested this year also in the Sardar Sarovar Narmada Nigam Limited, a State-owned Company, which is executing the multi-purpose Narmada Project.

The Finance Department (FD) stated (December 2014) that the appropriate measures of returns in such investments may not be the monetary returns in the form of dividend to Government, rather, the socio-economic benefits and upliftment of the disadvantaged sections of society should be taken into consideration.

While acknowledging the efforts of the Government for socio-economic benefits, the Audit intended to flag the aspect of poor returns from profit making PSUs.

¹⁰ Includes all investments to Government companies, Statutory Corporations, Rural Banks, Joint Stock Companies, Co-operatives Institutions and Local Bodies

Investment in PPP projects

Public Private Partnership (PPP) is formed by the government agencies and bodies usually to promote and develop infrastructure facilities.

The status of Public Private Partnership (PPP) projects in infrastructure sector at various stages is presented in **Table 1.25** below:

Table 1.25: Status of Public Private Partnership (PPP) projects in infrastructure sector
(As on 31 March, 2014) (₹ in crore)

Sl. No.	Sector /Project Name	Projects completed		Projects under Implementation		Projects in Pipeline	
		No.	Estimated Cost	No.	Estimated Cost	No.	Estimated Cost
1	Road Sector	18	2,081.10	06	2,925.10	08	2,900.09
2	Urban Infrastructure	96	1,993.53	10	815.30	29	2,938.75
3	Water Sector	01	53.83	-	-	06	5,853.00
4	Power Sector	04	7,600.00	-	-	11	22,245.00
5	Ports	34	21,977.00	25	8,886.00	28	8,069.00
6	Any Other Sector	31	3,037.72	03	1,262.25	21	17,110.73
	Total	184	36,743.18	44	13,888.65	103	59,116.57

Source: Gujarat Industries Development Board

The **Table 1.25** shows that out of 331 PPP projects of ₹ 1,09,748 crore in infrastructure sector in Gujarat, 184 projects of ₹ 36,743 crore were completed at the end of 2013-14. The maximum number of projects and investment was in Ports sector.

1.8.4 Loans and Advances by State Government

In addition to investments in Co-operative institutions, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. **Table 1.26** presents the position of loans and advances and interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.26: Average Interest received on Loans and Advances given by the State Government
(₹ in crore)

Quantum of Loans and Advances /Interest Receipts/ Cost of Borrowings	2011-12	2012-13	2013-14
Opening Balance	5,310	5,750	6,585
Amount advanced during the year	605	882	603
Amount repaid during the year	165	47	141
Closing Balance	5,750	6,585	7,048
<i>Of which</i> Outstanding balance for which terms and conditions have been settled	5,599	6,585 ¹¹	6,536
Net addition	440	835	463
Interest Receipts	192	26	100
Interest receipts as percentage of outstanding Loans and Advances	3.34	0.39	1.42
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.25	7.30	7.28
Difference between interest receipts and interest payments (per cent)	(-) 3.91	(-) 6.91	(-)5.86

Source: Finance Accounts of the respective years

¹¹ This does not include loans of ₹ 35 lakh given to Gujarat Industrial Investment Corporation Limited and ₹ 10 lakh to Gujarat Small Industries Corporation Limited

The total amount of outstanding loans and advances increased from ₹ 5,750 crore in 2011-12 to ₹ 7,048 crore in 2013-14. The loans advanced during the year decreased by ₹ 279 crore over the previous year. Out of the loans advanced and disbursed during the year, ₹ 20 crore was under Social Services, ₹ 531 crore under Economic Services and ₹ 52 crore as personal advances to Government and local self-government employees. The loans advanced under Social Services were used for the welfare of Scheduled Caste, Scheduled Tribes and other Backward Classes. Major portion of the loan advanced for Economic Services went to engineering industries (48 per cent) and road transport (47 per cent).

1.8.5 Cash Balances and Investment of Cash Balances

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.27**.

Table 1.27: Cash Balances and Investment of Cash Balances

Cash Balances and Investment of Cash balances	Opening balance on 1/4/2013	Closing balance on 31/3/2014
(₹ in crore)		
(a) General Cash Balance -		
Cash in Treasuries	0.00 ¹²	0.00 ¹²
Deposits with Reserve Bank ¹³	-286.17	-1,735.22
Remittances in transit - Local	4.19	4.19
Investments held in Cash Balance investment account	13,357.65	11,923.20
Total (a)	13,075.67	10,192.17
(b) Other Cash Balances and Investments		
Cash with departmental officers viz Public Works Department Officers, Forest Department Officers, District Collectors	26.45	25.02
Permanent advances for contingent expenditure with departmental officers	0.27	0.27
Investment of earmarked funds	5,587.50	5,169.02
Total (b)	5,614.22	5,194.31
Grand total (a)+ (b)	18,689.89	15,386.48

Source: Finance Accounts of the respective years

Due to large surplus cash balance, during 2013-14, the State Government did not avail of any Ways and Means Advance from the RBI for maintenance of its minimum cash balance.

Outstanding balances under the head 'Cheques and Bills'

The Major Head '8670 – Cheques and Bills' is an intermediary account head for initial record of transactions which are to be cleared eventually. The outstanding balance under the Major Head '8670 –Cheques and Bills' represents the amount of unencashed cheques. Cheques amounting to ₹ 1,817.10 crore remained unencashed as on 31 March, 2014.

¹² ₹ 48,000

¹³ The balance under the head 'Deposits with Reserve Bank' is arrived at after taking into account the Inter-Government monetary settlements pertaining to transactions of the Financial Year 2013-14 advised to the RBI till 15 April-2014.

Fresh borrowings by State with large cash balance

The ThFC has also suggested that there should be a directed effort by States with large balances towards utilising their existing cash balances before resorting to fresh borrowings. Further, it has suggested to consider utilising their surplus cash balances for lumpsum repayment of market borrowings raised for debt swap during the period 2002-05, which was likely to become due during the next few years. The Reserve Bank of India also has reiterated the fact and advised the States to manage their cash balance more efficiently. The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 13,358 crore and ₹ 11,923 crore at the end of 2012-13 and 2013-14 respectively. The high level of investment held in 'Cash Balance Investment Account' at the end of these financial years indicates that there is need for better cash management. The State Government should adopt the policy of need based borrowing and maintain minimum surplus cash balance.

1.9 Assets and Liabilities

1.9.1 Growth and composition of Assets and Liabilities

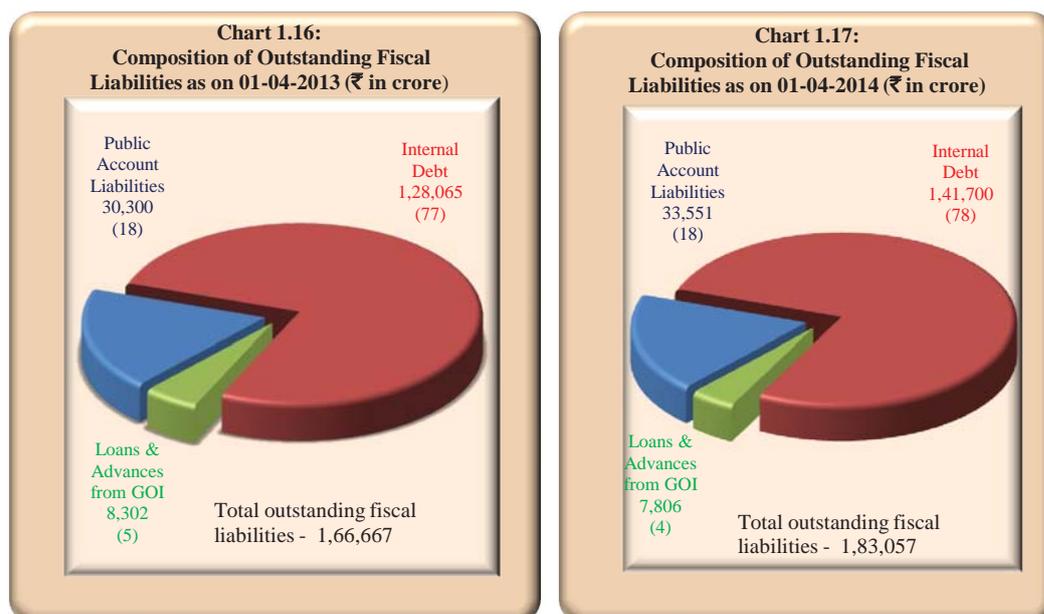
In the existing Government accounting system, comprehensive accounting of the fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.3** gives an abstract of such liabilities and the assets as on 31 March 2014 compared with the corresponding position on 31 March 2013. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

As per the Statement under the Gujarat Fiscal Responsibility Act, 2005 the State Government liabilities comprise the following components –

- (i) Special Securities issued to the National Small Savings Fund
- (ii) Loans and Advances from Central Government
- (iii) Market Loans
- (iv) Loans from Financial Institutions/Banks
- (v) Ways and Means Advances/Overdraft from RBI
- (vi) Small Savings, Provident Fund of Government Employees etc.
- (vii) Pension Liabilities
- (viii) Reserve Fund/Deposits & Provident Fund of other employees
- (ix) Other Liabilities.

1.9.2 Fiscal Liabilities

The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is as presented in the **Charts 1.16** and **1.17** below:



Figures in parenthesis indicates percentage share

The outstanding fiscal liabilities have shown a steady increase over the years from ₹ 1,19,117 crore at the end of 2009-10 to ₹ 1,83,057 crore as at the end of 2013-14. The fiscal liabilities comprised internal debt of ₹ 1,41,700 crore (78 per cent), public account of ₹ 33,551 crore (18 per cent) and loans and advances from GoI of ₹ 7,806 crore (4 per cent) as at the end of 2013-14. The internal debt comprised mainly of market loans (₹ 87,347 crore) and special securities issued to National Small Savings Fund (₹ 47,841 crore). The fiscal liabilities increased by 9.83 per cent in 2013-14 over the previous year mainly due to increase of Internal Debt and Public Account Liabilities. The fiscal liabilities at the end of 2009-10 represented 286 per cent of the revenue receipts during the year 2009-10, which reduced to 229 per cent at the end of 2013-14. The outstanding debt to GSDP ratio at 23.65 per cent in the current year was in line with the projected ratio of 27.60 per cent in the fiscal consolidation roadmap of ThFC.

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**.

1.9.3 Transactions under Reserve fund

There were 16 Reserve Funds earmarked for specific purposes, out of which six funds were inoperative. The total accumulated balance as on 31 March 2014 in these funds was ₹ 8,990.38 crore (₹ 8,838.83 crore in operational funds and ₹ 151.55 crore in non-operational funds). However, the investment out of these funds was only ₹ 5,168.68 crore.

1.9.4 Contingent liabilities

Status of Guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended.

As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last five years is given in **Table 1.28**.

Table 1.28: Guarantees given by the Government of Gujarat

Guarantees	₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Ceiling limit on Government guarantees under Gujarat State Guarantees Act 1963	20,000	20,000	20,000	20,000	20,000
Maximum amount guaranteed	10,202	10,382	10,387	10,525	11,175
Outstanding amount of guarantees	9,667	8,661	7,449	6,195	6,549
Percentage of outstanding amount of guarantees to total revenue receipts	23.20	16.54	11.83	8.23	8.19

Source: Finance Accounts of the respective years

The Gujarat Fiscal Responsibility Act, 2005 prescribed to capping of outstanding guarantees within the limit (₹ 20,000 crore) as prescribed in the Gujarat State Guarantees Act, 1963. During the year, the State Government extended guarantees of ₹ 650 crore, ₹ 89 crore and ₹ 60 crore to Gujarat Water Infrastructure Limited (GWIL), Cooperative Banks and Gujarat Tribal Development Corporation. Out of total outstanding guarantees of ₹ 6,549 crore, 37 per cent (₹ 2,391 crore) were towards Sardar Sarovar Narmada Nigam Limited and nearly 19 per cent (₹ 1,226 crore) were towards Gujarat UrjaVikas Nigam Limited. The outstanding guarantees (₹ 6,549 crore) accounted for 8.19 per cent of the revenue receipts (₹ 79,976 crore) of the State Government and were well within the ceiling limit prescribed under the Fiscal Responsibility Act.

The Gujarat State Guarantees Redemption Fund set up in February 2006 to take care of any contingent liabilities arising out of State Government Guarantees, had a balance of ₹ 1,321 crore at the end of 2013-14. During the year the Government did not contribute any amount towards the Guarantee Redemption Fund. During the year, the Government received ₹ 27 crore as guarantee fees against ₹ 33 crore received in the previous year.

1.10 Debt Management

Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability¹⁴ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation¹⁵; sufficiency of non-debt receipts¹⁶; net availability of borrowed funds¹⁷ and burden of interest payments (measured by interest payments to revenue receipts ratio). **Table 1.29** analyses the debt sustainability of the State according to these indicators for the period from 2009-10 to 2013-14.

¹⁴ See Glossary

¹⁵ See Glossary

¹⁶ See Glossary

¹⁷ See Glossary

Table 1.29: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Debt Stabilisation (Quantum Spread ¹⁸ +/- Primary Deficit/Surplus)	3,555	10,482	8,556	3,251	8,070
Sufficiency of Non-debt Receipts (Resource Gap)	(-)4,716	80	4,047	(-)5,465	(-)1,930
Net Availability of Borrowed Funds	4,874	6,912	3,921	3,722	3,058
Burden of Interest Payments (IP/RR Ratio)	0.21	0.18	0.17	0.16	0.17

Source: Finance Accounts of the respective years

The quantum spread together with primary deficit has been positive from 2009-10 to 2013-14, which indicates that the debt was sustainable. The persistent negative resource gap is indicative of the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. The positive resource gap for two consecutive years turned into negative in 2012-13 and continued in 2013-14. It happened mainly on account of 7.03 per cent increase in primary expenditure against only 6.43 per cent increase in non-debt receipts during current year. The net funds available from borrowed fund after providing for the interest and repayment declined from ₹ 6,912 crore in 2010-11 to ₹ 3,058 crore in 2013-14.

As per TwFC recommendations, the ratio of interest payments to revenue receipts should decline by 2009-10 to 15 per cent. The percentage gross interest payments on the total liabilities to the revenue receipts of the State for the period 2009-10 to 2013-14 had declined from 21 per cent to 17 per cent but still could not reach 15 per cent as targeted.

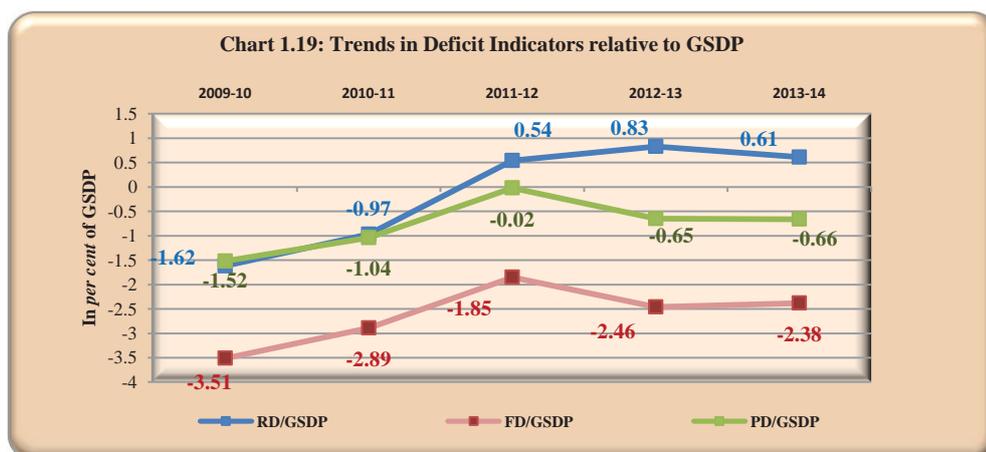
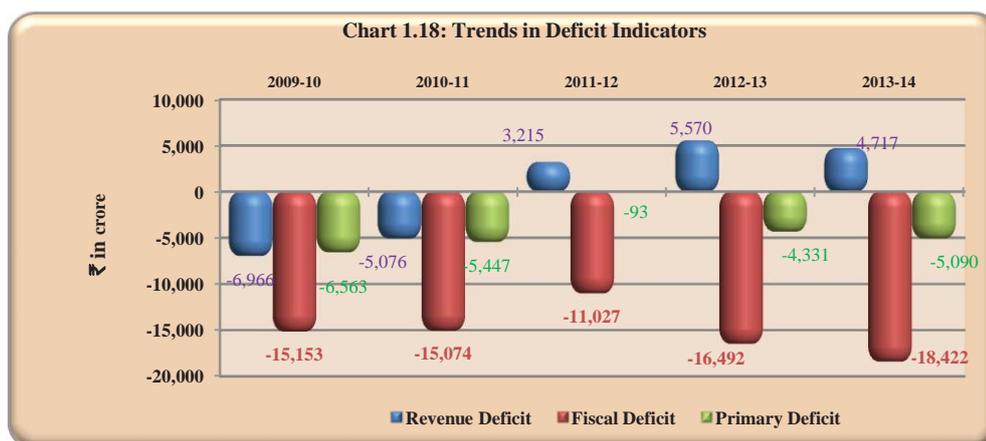
1.11 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficits are financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* the targets set under the FRBM Act/Rules for the financial year 2013-14.

1.11.1 Trends in Deficits

Charts 1.18 and 1.19 present the trends in deficit indicators over the period 2009-10 to 2013-14.

¹⁸ Debt Stock × Interest Spread
(Interest Spread = GSDP Growth Rate - Average Interest Rate)



The revenue deficit of ₹ 6,966 crore in 2009-10 turned into revenue surplus of ₹ 3,215 crore in 2011-12 and stood at ₹ 4,717 crore in 2013-14. The decrease in the revenue surplus during the current year was mainly on account of an increase of only ₹ 4,747 crore (6.31 per cent) in revenue receipts against an increase of ₹ 5,600 crore (8.04 per cent) in revenue expenditure over the previous year.

The fiscal deficit increased from ₹ 15,153 crore in 2009-10 to ₹ 18,422 crore in 2013-14. The increase in fiscal deficit during current year was mainly on account of increase of ₹ 1,450 crore (6.83 per cent) in capital expenditure. An increase of ₹ 1,930 crore in fiscal deficit together with an increase of ₹ 1,171 crore in interest payment resulted in increase in primary deficit from ₹ 4,331 crore in 2012-13 to ₹ 5,090 crore in 2013-14. The fiscal deficit still remained with targeted level of three per cent of GSDP as set under the Gujarat Fiscal Responsibility Act.

1.11.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.30**.

Table 1.30: Components of Fiscal Deficit and its Financing Pattern

		(₹ in crore)				
Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	
Decomposition of Fiscal Deficit		15,153	15,074	11,027	16,492	18,422
1	Revenue Deficit (-)/(+) Surplus	(-)6,966	(-)5,076	(+)3,215	(+)5,570	(+)4,717
2	Net Capital Expenditure	7,910	9,593	13,802	21,227	22,677
3	Net Loans and Advances	277	405	440	835	462
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	8,404	10,725	15,083	12,846	13,047
2	Loans from GOI	(-)478	(-)464	(-)932	(-) 150	(-)495
3	Special Securities issued to NSSF	3,099	2,628	(-)1,864	(-) 561	(-)353
4	Loans from Financial Institutions	(-)26	(-)25	(-)28	826	940
5	Small Savings, PF etc	1,018	705	558	589	507
6	Deposits and Advances	1,178	2,533	1,358	1844	2,242
7	Suspense and Miscellaneous	(-)582	1,311	(-)56	656	(-)1,033
8	Remittances	190	78	(-)47	(-) 69	181
9	Reserve Fund	768	998	680	488	84
10	Contingency Fund	(-)13	47	(-) 80	81	0
	Total	13,558	18,536	14,672	16,550	15,119
	Increase/Decrease(-) in Cash Balance	(-)1595	(+)3,462	(+)3,645	(+) 58	(-)3,303

*All these figures are net of disbursements/outflows during the year
Source: Finance Accounts of the respective years

The revenue surplus of ₹ 5,570 crore of 2012-13 decreased to ₹ 4,717 crore in 2013-14. The decrease in revenue surplus in 2013-14 contributed for increase in fiscal deficit. Other major contributors during 2013-14 were loan from financial institutions and deposits and advances. The fiscal deficit of ₹ 18,422 crore in 2013-14 was mainly met out from net borrowing of ₹ 13,047 crore.

1.11.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratios of revenue deficit to fiscal deficit indicate the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.31**) would indicate the extent to which the deficit had been on account of increase in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.31: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure ¹⁹	Primary Revenue Deficit(-) /surplus (+)	Primary Deficit (-) /Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2009-10	41,959	40,048	8,047	427	48,522	(+)1,911	(-)6,563
2010-11	52,738	47,813	9,684	688	58,185	(+)4,925	(-)5,447
2011-12	63,134	48,810	13,812	605	63,227	(+)14,324	(-)93
2012-13	75,276	57,498	21,227	882	79,607	(+) 17,778	(-) 4,331
2013-14	80,117	61,927	22,677	603	85,207	(+)18,190	(-)5,090

Source: Finance Accounts of the respective years

During the period 2009-10 to 2013-14, primary expenditure increased from ₹ 48,522 crore to ₹ 85,207 crore (76 per cent) against the increase of non-debt receipt from ₹ 41,959 crore to ₹ 80,117 crore (91 per cent). During the period 2009-10 to 2013-14, the non-debt receipts did not cover the primary expenditure resulting in primary deficit in each year. In 2013-14, primary revenue expenditure and capital expenditure increased over the previous year without commensurate increase in non-debt receipts resulting in increase in primary deficit from ₹ 4,331 crore to ₹ 5,090 crore.

1.12 Conclusion and Recommendations

The State achieved the target of reduction of revenue deficit to zero in 2011-12 as the State reached a revenue surplus of ₹ 3,215 crore in that year. The revenue surplus stood at ₹ 4,717 crore in 2013-14 against the projection in MTFPS of ₹ 4,602 crore. At the end of 2013-14, the fiscal deficit as percentage to GSDP was 2.38, which was well within the limit of three per cent. The State's total outstanding debt as percentage of GSDP was 23.65 per cent in 2013-14 which was also within the target of 27.6 per cent fixed by the ThFC. The share of social services expenditure as a percentage of total expenditure increased from 37.90 to 39.61 during last five years. However, some of the concerns relating to State's finances are given below.

Though, revenue receipts of the State increased steadily from ₹ 41,672 crore in 2009-10 to ₹ 79,976 crore in 2013-14, share of non-tax revenue declined from 13 per cent in 2009-10 to nine per cent in 2013-14. The growth in revenue receipts during the year 2013-14 was only 6.31 per cent as compared to 25.66 per cent, 20.23 per cent and 19.49 per cent during 2010-11, 2011-12 and 2012-13 respectively. This was mainly on account of 4.59 per cent growth of own tax revenue in 2013-14 as compared to 21.79 per cent in previous year. The State's own tax buoyancy in 2013-14 declined sharply to 0.30 from an average of 1.44 during the period from 2009-10 to 2012-13.

The tax revenue of the State in 2013-14 could not achieve the target of budget estimates and MTFPS projection and was lower by ₹ 3,836 crore (6.37 per cent).

¹⁹ Primary Expenditure is total expenditure except interest payments of the concerned year.

As per the ThFC award, the State was entitled to receive ₹ 2,312.87 crore as grants-in-aid from GoI during 2013-14 against which it received ₹ 1,741.25 crore as the State did not comply with laid down conditions.

The State Government may explore mobilizing additional resources through tax and non-tax sources by ensuring better tax compliance and rationalising the user charges/fees respectively. The State Government may ensure compliance of conditions stipulated in sanction orders so as to avail maximum amount during the remaining award period of ThFC.

While revenue expenditure of the State increased by 54.73 per cent from ₹ 48,638 crore in 2009-10 to ₹ 75,259 crore in 2013-14, its share in total expenditure declined from 85.16 per cent to 76.38 per cent during the same period indicating improvement in expenditure on Capital outlay. However, the Non Plan Revenue Expenditure (NPRE) has also shown consistent increase over the period from ₹ 34,307 crore in 2009-10 to ₹ 51,365 crore in 2013-14 and stood at 68.25 per cent of revenue expenditure. The expenditure on salaries, interest payments, pensions and subsidies increased from ₹ 22,516 crore in 2009-10 to ₹ 35,421 crore in 2013-14.

Whereas major chunk of the non plan revenue expenditure is on salaries, pension and interest payments which is largely uncontrollable, the State Government may explore suitable measures for containing the other components of non plan revenue expenditure so that revenue surplus could be maintained for allowing scope for assets creation and sustainable development of the State.

During 2013-14, Government invested ₹ 603 crore in Statutory Corporations, ₹ 7,188 crore in Government Companies and ₹ 96 crore in Co-operative institutions, etc. Though during the last five years, the State Government invested ₹ 24,007 crore, the average return by way of dividend on the investments in Government companies and Statutory Corporation etc. was 0.31 per cent. On the other hand, the Government paid 7.62 per cent interest on an average on its borrowings during 2009-10 to 2013-14. Further, 42 PSUs earned a net profit of ₹ 4,468 crore in financial year 2012-13 and paid dividend of ₹ 273 crore only to the State Government during 2013-14.

The State Government may consider formulation of a dividend policy regarding payment of reasonable return from the profit earning PSUs on paid up share capital contributed by the State Government.

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 13,358 crore and ₹ 11,923 crore at the end of 2012-13 and 2013-14 respectively. Keeping the huge amount in the Cash Balance Investment Account at lower rate of interest while borrowing at higher rate has financial implications. The high level of investment held in 'Cash Balance Investment Account' at the end of these financial years indicates that there is need for better cash management.

The outstanding fiscal liabilities have shown a steady increase over the years, from ₹ 1,19,117 crore at the end of 2009-10 to ₹ 1,83,057 crore at the end of

2013-14, though it remained within the target of 27.6 *per cent* fixed by the ThFC. The growing volume of debt has resulted in increasing liability for servicing the debt.

The State Government may consider need-based borrowings and utilising the existing cash balances before resorting to fresh borrowing.