

## Executive Summary

### Background

In response to the 12<sup>th</sup> Finance Commission's (FC) recommendations, the Government of Gujarat enacted the Gujarat Fiscal Responsibility Act, 2005 which incorporated the objectives of prudence in fiscal management, fiscal stability by progressive elimination of revenue deficit, sustainable debt management and greater transparency in the fiscal operations of the Government.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the 13<sup>th</sup> FC recommended a fiscal consolidation roadmap for the States by amending their Fiscal Responsibility Legislations. The Gujarat State Legislature in March 2011 amended its Fiscal Responsibility Act in line with the recommendations of the 13<sup>th</sup> FC.

Recognising that the fiscal environment should be conducive to equitable growth, the 14<sup>th</sup> FC recommended that the States should target improving the quality of fiscal management encompassing receipts and expenditures while adhering to the roadmap outlined by 14<sup>th</sup> FC.

### The Report

Based on the audited accounts of the Government of Gujarat for the year ending March 2018, 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 2018. It provides an insight into trends of different components of the Government's receipts, expenditure and borrowing pattern, besides giving a brief account of fiscal imbalances.

**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.

## **Achievements of the State Government: A Brief Summary**

The per capita income of Gujarat at ₹ 2,06,447 during 2017-18 was higher than the all India average of ₹ 1,29,800. The State achieved all the targets of major fiscal variables set under the Gujarat Fiscal Responsibility Act, 2005. The State has been revenue surplus since 2011-12. The ratios of fiscal deficit as well as public debt to Gross State Domestic Product (GSDP) at 1.62 *per cent* and 16.10 *per cent* respectively were significantly better than that achieved by the Government of India (3.53 *per cent* and 39.07 *per cent* respectively). The State Government spent 98 *per cent* of the total public debt receipts on capital expenditure, indicating better utilisation of borrowed funds for capital formation in creating productive assets. Investment held in 'Cash Balance Investment Account' by the State Government came down from ₹ 12,750 crore at the end of 2016-17 to ₹ 5,198 crore at the end of 2017-18, indicating better utilisation of cash balances.

The outstanding guarantees of the State at ₹ 4,834 crore during 2017-18 was much lower than the ceiling of ₹ 20,000 crore prescribed under the Gujarat State Guarantees Act, 1963. The quantum of outstanding utilisation certificates in terms of numbers and money value has shown a decreasing trend from 2015-16 (6,115 and ₹ 3,686.07 crore) to 2017-18 (2,465 and ₹ 1,996.80 crore). The tax and non-tax revenue receipts of the State showed an increasing trend during the last five years. All the four State-owned power distribution companies (DISCOMS) achieved financial turnaround in 2005-06 and no financial assistance is being provided by State Government under *Ujwal DISCOM Assurance Yojana* (UDAY) Scheme.

The State also took initiatives for better fiscal management by setting up of the Consolidated Sinking Fund to provide a cushion for repaying market loans of states and the Guarantee Redemption Fund to provide a cushion for servicing any contingent liabilities. As on 31 March 2018, balances in both the funds exceeded the minimum requirement prescribed for administration of these funds.

The State Government, however, needs to improve its Tax-GSDP ratio (5.42 *per cent*) which was lower than the GoI ratio of 7.42 *per cent* during 2017-18.

## **Contents of the Report**

### **Chapter I**

#### **Finances of the State Government**

##### ***Fiscal position***

The State achieved the target of elimination of revenue deficit in 2011-12 and reported a revenue surplus of ₹ 3,215 crore in that year. The revenue surplus continued thereafter in successive years and stood at ₹ 5,232 crore in 2017-18,

which was lower than the projections made in the Medium Term Fiscal Policy Statement (MTFPS) and 14<sup>th</sup> FC targets for 2017-18.

At the end of 2017-18, the fiscal deficit as percentage to GSDP stood at 1.62 *per cent*, which was within the limit of three *per cent* recommended by 14<sup>th</sup> FC and that of the Government's own projections of 1.82 *per cent* in MTFPS.

The State Government maintained the percentage of public debt to GSDP at 16.10 during 2017-18, against the target of 16.83 *per cent* set in MTFPS. In the fiscal consolidation roadmap, the 14<sup>th</sup> FC had recommended the percentage of outstanding liabilities<sup>1</sup> to GSDP at 25.83 for 2017-18, against which, the actual outstanding liabilities stood at 19.42 *per cent*.

The fiscal deficit increased from ₹ 18,422 crore in 2013-14 to ₹ 21,366 crore in 2017-18. Significant increase in fiscal deficit during the current year (29.65 *per cent*) was mainly on account of increase in capital expenditure (₹ 3,958 crore) and a decrease of revenue surplus (₹ 715 crore) compared to the previous year.

Indian Government Accounting Standard (IGAS)-2 prescribes that Grants-in-aid should be booked under revenue expenditure. However, during 2017-18, the State Government incorrectly budgeted and booked expenditure of ₹ 119.38 crore relating to grants-in-aid under the capital section instead of the revenue section. This resulted in understatement of revenue expenditure and consequent overstatement of revenue surplus to that extent.

*(Paragraph 1.1.2)*

### ***Trends in deficits***

An increase of ₹ 4,886 crore in the fiscal deficit together with an increase of ₹ 1,157 crore in interest payment in 2017-18 over the previous year turned the primary surplus of ₹ 1,317 crore in 2016-17 to a primary deficit of ₹ 2,412 crore in 2017-18.

*(Paragraph 1.11.1)*

### ***Cash Balance Investment Account***

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 12,750 crore, at the end of 2016-17 and came down to ₹ 5,198 crore at the end of 2017-18, indicating better utilisation of cash balances.

*(Paragraph 1.8.5.2)*

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<sup>1</sup> Total Outstanding Liabilities include 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.*

### ***State's own resources***

The tax revenue of the State in 2017-18 stood lower by a significant margin of ₹ 41,170 crore *vis-à-vis* the 14<sup>th</sup> FC projections of ₹ 1,12,719 crore. Also, the tax revenue in 2017-18 was lower than the budget estimates and revised estimates. The State received Goods and Services Tax compensation of ₹ 3,687 crore till March 2018 to compensate for decrease in revenue on implementation of Goods and Services Tax Act, 2017. Actual non-tax revenue (₹ 15,074 crore) was higher than the 14<sup>th</sup> FC projections but lower than the budget estimates and revised estimates.

***(Paragraphs 1.3.3 and 1.3.5.1)***

### ***Revenue expenditure***

The share of revenue expenditure in total expenditure increased from 76.38 *per cent* in 2013-14 to 81.42 *per cent* in 2017-18. Whereas, the share of capital expenditure in total expenditure decreased from 23.01 *per cent* in 2013-14 to 18.15 *per cent* in 2017-18.

Revenue expenditure continuously increased from ₹ 75,259 crore in 2013-14 to ₹ 1,18,060 crore in 2017-18, with an increase of ₹ 14,165 crore during 2017-18 over the previous year. The growth rate of revenue expenditure fluctuated widely from a low of 8.04 *per cent* in 2013-14 to a high of 15.14 *per cent* in 2014-15. Revenue expenditure as a *per cent* of GSDP decreased over the last four years (2014-18) and stood lowest at 8.94 *per cent* during 2017-18.

***(Paragraph 1.6.2)***

### ***Efficiency of expenditure***

Development expenditure of the State comprises revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from ₹ 70,525 crore in 2013-14 to ₹ 1,02,203 crore in 2017-18. As a percentage of the total expenditure, the development expenditure of the State decreased slightly from 70.88 *per cent* in 2016-17 to 70.48 *per cent* in 2017-18.

***(Paragraph 1.7.2)***

### ***Investment and returns***

As of 31 March 2018, the State Government invested ₹ 86,113.96 crore in statutory corporations, Government companies, rural banks, joint stock companies, co-operative institutions and local bodies. The average return on investments in these companies/corporations/institutions was 0.21 *per cent* during 2013-18 while the Government paid an average interest of 7.67 *per cent* on its borrowings during the same period.

***(Paragraph 1.8.3)***

The investment in 73 working State Public Sector Undertakings increased from ₹ 1,10,319.66 crore in 2013-14 to ₹ 1,56,615.95 crore in 2017-18. The return on investments ranged between 4.90 *per cent* and 6.82 *per cent* during

2013-18. Similarly, the total equity of the State Public Sector Undertakings increased from ₹ 69,689.57 crore in 2013-14 to ₹ 99,784.53 crore in 2017-18. The return on equity ranged between 0.27 per cent and 2.56 per cent during 2013-16 while it was nil during 2016-18 due to net losses.

*(Paragraph 1.8.3.1)*

### ***Transactions under reserve funds***

There were 15 Reserve funds earmarked for specific purposes during 2017-18 of which, five funds were inoperative with a balance of ₹ 2.11 crore. The total accumulated balance in these funds as on 31 March 2018 was ₹ 14,931.88 crore of which, ₹ 11,686.04 crore was invested.

*(Paragraph 1.9.3)*

### ***Debt sustainability***

The total outstanding liabilities of the State increased from ₹ 1,83,057 crore in 2013-14 to ₹ 2,56,366 crore in 2017-18. The outstanding liabilities at the end of 2017-18 comprised of internal debt (₹ 2,06,643 crore), loans and advances from the Central Government (₹ 5,947 crore) and other liabilities (₹ 43,776 crore). The percentage of total outstanding liabilities to GSDP has continuously reduced from 23 per cent (2013-14) to 19 per cent (2017-18). The net availability of borrowed funds for current operations after debt redemption (principal and interest payments) was negative, as debt redemption was more than debt receipts.

*(Paragraph 1.10.1)*

## **Chapter II**

### **Financial Management and Budgetary Control**

Against total provision of ₹ 1,82,971 crore during 2017-18, an expenditure of ₹ 1,61,063 crore was incurred. This resulted in net savings of ₹ 21,908 crore (savings of ₹ 22,242 crore offset by an excess of ₹ 334 crore). The major Departments incurring excess expenditure during last five years were Agriculture and Co-operation; Education; Forests & Environment; Health and Family Welfare; Narmada, Water Resources, Water Supply and Kalpsar; Panchayat, Rural Housing and Rural Development; and Roads and Buildings.

*(Paragraphs 2.2 and 2.3.1)*

Substantial surrenders (more than 50 per cent of the total provision or ₹ one crore or more) were made in respect of 714 Sub-Heads under 96 grants with a total provision of ₹ 76,471.68 crore of which, ₹ 21,617.53 crore (28.27 per cent) was surrendered. This included 100 per cent surrender in 210 Sub-Heads involving ₹ 8,509.63 crore. The major Departments were Finance; Agriculture and Co-operation; Revenue; Narmada, Water Resources, Water Supply and Kalpsar; and Social Justice and Empowerment.

*(Paragraph 2.3.7.1)*

At the close of 2017-18, there were three grants/appropriations under which savings exceeded 10 *per cent* of the total provisions but the same had not been surrendered by the concerned Departments. The total savings involved in these cases was ₹ 346 crore. Of ₹ 346 crore, ₹ 345 crore pertained to Education Department, which was not surrendered.

*(Paragraph 2.3.7.3)*

### **Chapter III**

#### **Financial Reporting**

As on March 2018, 2,465 utilisation certificates aggregating ₹ 1,996.80 crore in respect of grants disbursed up to 2016-17 remained outstanding, indicating lack of proper monitoring by the Departments in utilisation of grants given for specific purposes. Of ₹ 1,996.80 crore, 46 *per cent* (₹ 922.51 crore) pertained to the Agriculture and Co-operation Department while 14 *per cent* (₹ 271.73 crore) pertained to the Urban Development and Urban Housing Department. However, the number of outstanding utilisation certificates as well as their money value has shown a decreasing trend over the period 2015-18.

As on March 2018, there was pendency in submission of 4,476 detailed contingent bills amounting to ₹ 514.54 crore drawn on abstract contingent bills by various Departmental authorities.

Pendency of utilisation certificates and detailed contingent bills for long periods was fraught with the risk of fraud and misappropriation.

*(Paragraphs 3.1 and 3.2)*

There were delays in submission/non-submission of accounts by autonomous bodies/authorities. Of 209 bodies/authorities audited under Section 14 of CAG's (DPC) Act, 1971, accounts of 34 bodies/authorities were in arrears for more than five years. Only seven of the 62 autonomous bodies audited under Section 19 (2), 19 (3) and 20 (1) of CAG's (DPC) Act, 1971 had submitted their accounts within the prescribed time frame.

*(Paragraphs 3.3.2 and 3.4)*

There were 482 personal deposit accounts in operation in district treasuries with a closing balance of ₹ 447.41 crore as of 31 March 2018. The Education Department held the highest number of personal deposit accounts (171), followed by Agriculture and Co-operation Department (69) and General Administration Department (54). There were also 280 personal ledger accounts pertaining to Panchayats at the district and the *taluka* level with a closing balance of ₹ 12,785.81 crore as of 31 March 2018.

*(Paragraph 3.5)*

The State Government reported 157 cases of misappropriation, losses, defalcation, *etc.* involving Government money of ₹ 14.40 crore (up to March 2018) on which final action was pending.

*(Paragraph 3.6)*

During 2017-18, expenditure aggregating ₹ 11,017.30 crore constituting 6.94 *per cent* of the total expenditure of the State was classified under Minor Head '800-Other Expenditure'. The major defaulting Departments were Revenue; Panchayats Rural Housing and Rural Development; Industries and Mines; Roads and Building; Education; and Women and Child Development. Similarly, revenue receipts aggregating ₹ 2,336.52 crore constituting 1.90 *per cent* of total receipts of the State were classified under omnibus Minor Head '800 – Other Receipts'. The major defaulting Departments were Agriculture and Co-operation; Industries and Mines; Narmada, Water Resources, Water Supply and Kalpsar; and Finance. Budgeting of large amounts under the omnibus Minor Head 800-Other Expenditure/Receipts affects transparency in financial reporting, as it fails to indicate disaggregated information on different activities of the Government separately in the accounts.

*(Paragraph 3.7)*

