

Chapter I

Finances of the State Government

Socio-economic indicators of the State

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 northwestern fringe. It has a coastline of about 1,600 km., 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. The State's population increased from 5.79 crore in 2009 to 6.53 crore in 2019, recording a decadal growth of 12.73 *per cent*. The percentage of population below poverty¹ line was 16.60 *per cent* in 2011-12 as compared to the all-India average of 21.90 *per cent*. The Gross State Domestic Product (GSDP) in 2018-19 at current prices was ₹ 15,01,496 crore. The *per capita* GSDP of the State at ₹ 2,32,329 during 2018-19 was higher than all India average of ₹ 1,42,719 during the same period. The State's literacy rate was 78 *per cent* (as per 2011 census). The Social and Economic indicators of the State are shown in **Appendix 1.1 Part A**.

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The trends in annual growth of GSDP as compared to India's Gross Domestic Product (GDP) at current prices² and constant prices during 2014-15 to 2018-19 are indicated in **Table 1.1**.

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

	2014-15	2015-16	2016-17	2017-18	2018-19
Current Prices					
India's GDP ³ (₹ in crore)	1,24,67,959	1,37,71,874	1,53,62,386	1,70,95,005	1,90,10,164
Growth rate of GDP (percentage)	10.99	10.46	11.55	11.28	11.20
GSDP ⁴ (₹ in crore)	9,21,773	10,29,010	11,53,327(P)	13,14,680 (Q)	15,01,496 (A)
Growth rate of GSDP (percentage)	14.13	11.63	12.08	13.99	14.21
State contribution to GDP	7.39	7.47	7.51	7.69	7.90
Constant Prices					
India's GDP ³ (₹ in crore)	105,27,674	1,13,69,493	1,22,98,327	1,31,79,857	1,39,51,849
Growth rate of GDP (percentage)	7.41	8.00	8.17	7.17	5.86
GSDP ⁴ (₹ in crore)	8,11,428	8,94,465	9,80,736	10,90,260	11,90,121
Growth rate of GSDP (percentage)	10.51	10.23	9.64	11.17	9.16
State contribution to GDP	7.71	7.87	7.97	8.27	8.53

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

- 1 Economic Survey 2018-19, Vol. II page A 168-169 Table 9.8
- 2 Prior to 2011-12, Base Year was 2004-05 and thereafter, it was 2011-12
- 3 Ministry of Statistics and Programme Implementation, Central Statistical Office
- 4 Directorate of Economics and Statistics, Gandhinagar - Statement under Gujarat Fiscal Responsibility Act, 2005 (Budget Publication No.30 of 2019-20)

The GSDP as a percentage of India's GDP was consistently above seven *per cent* during 2014-19. It increased from 7.39 *per cent* in 2014-15 to 7.90 *per cent* in 2018-19, indicating higher growth in State's GSDP than India's GDP during the period.

1.1 Fiscal Transactions

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 fiscal aggregates relative to the previous year and the overall trends during the preceding four 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

A summary of State Government's fiscal transactions during the current year (2018-19) *vis-à-vis* previous years (2009-10 and 2014-18) is presented in **Table 1.2** while **Appendix 1.3** provides details of receipts and disbursements as well as the overall fiscal position of the State during 2017-19.

Table 1.2: Summary of Fiscal transactions

(₹ in crore)

Receipts	2009-10	2014-15	2015-16	2016-17	2017-18	2018-19	CAGR ⁵ during 2009-19
Revenue receipts	41,672	91,978	97,483	1,09,842	1,23,291	1,36,002	14.05
Tax revenue	26,740	61,340	62,649	64,443	71,549	80,103	12.96
Non-tax revenue	5,452	9,543	10,194	13,346	15,074	13,417	10.52
Share of Union Taxes/Duties	5,891	10,296	15,691	18,835	20,782	23,489	16.61
Grants from Government of India	3,589	10,799	8,949	13,218	15,886	18,993	20.34
Capital Receipts	14,532	20,316	23,611	28,074	27,299	43,362	12.92
Miscellaneous Capital Receipts	136	241	0	240	0	65	-
Recoveries of Loans and Advances	151	621	125	166	346	151	-
Public debt receipts*	14,245	19,454	23,486	27,668	26,953	43,146	13.10
Appropriation from Contingency Fund	0	0	0	0	0	0	-
Amount transferred to Contingency Fund	34	0	14	4	0	0	-
Public Account Receipts	58,660	62,388	65,132	58,959	89,133	1,05,721	6.76
Opening Cash Balance	13,119	15,386	21,077	18,559	23,249	16,529	2.60
a) Earmarked Balances	4,527	5169	9,034	10,209	10,967	11,686	11.11
b) Cash balance	8,592	10,217	12,042	8,350	12,282	4,843	-
Total	1,28,017	1,90,068	2,07,317	2,15,438	2,62,972	3,01,614	9.99

5 Compound Annual Growth Rate

Disbursements	2009-10	2014-15	2015-16	2016-17	2017-18	2018-19	CAGR during 2009-19
Revenue expenditure	48,638	86,652	95,779	1,03,895	1,18,060	1,32,790	11.81
General services	16,934	30,003	32,876	35,804	41,402	47,564	12.16
Social services	19,605	36,714	42,120	44,926	49,039	53,285	11.75
Economic services	11,993	19,399	20,224	22,749	27,145	31,576	11.36
Grants-in-aid and Contributions	106	536	559	416	474	365	14.73
Capital Outlay	8,047	24,158	24,169	22,355	26,313	28,062	14.89
Loans and Advances disbursed	428	350	675	478	631	1,731	16.80
Repayment of Public Debt*	3,245	5,509	6,194	9,073	13,700	15,432	18.92
Appropriation to Contingency Fund	0	0	0	0	0	0	-
Amount transferred from Contingency Fund	47	14	4	0	0	0.25	-
Public Account Disbursements	56,088	52,309	61,937	56,388	87,739	1,03,998	7.10
Closing Cash Balance	11,524	21,076	18,559	23,249	16,529	19,601	6.08
a) Earmarked Balances	5,027	9,034	10,209	10,967	11,686	12,705	10.85
b) Cash balance	6,497	12,042	8,350	12,282	4,843	6,896	0.66
Total	1,28,017	1,90,068	2,07,317	2,15,438	2,62,972	3,01,614	9.99

Source: Finance Accounts of respective years

*Excluding net transactions under ways and means advances and overdrafts

The following are the significant changes during 2018-19 over the previous year:

- Revenue receipts grew by ₹ 12,711 crore (10.31 *per cent*) over the previous year. All the components of revenue receipts except non-tax revenue showed an increasing trend during 2018-19. The grants from Government of India (GoI) increased by ₹ 3,107 crore (19.56 *per cent*), tax revenue increased by ₹ 8,554 crore (11.95 *per cent*), State's share of Union taxes increased by ₹ 2,707 crore (13.03 *per cent*) while State's non-tax revenue decreased by ₹ 1,657 crore (10.99 *per cent*).
- Revenue expenditure increased by ₹ 14,730 crore (12.48 *per cent*) over the previous year mainly due to increase in expenditure on General Services by ₹ 6,162 crore (14.88 *per cent*), Social Services by ₹ 4,246 crore (8.66 *per cent*) and Economic Services by ₹ 4,431 crore (16.32 *per cent*). Grants-in-aid released by the State Government decreased by ₹ 109 crore (23.04 *per cent*) over the previous year. It was observed that CAGR of Social Services (11.75) and Economic Services (11.36) *i.e.* developmental expenditure was less than CAGR of General Services (12.16) *i.e.* non-developmental expenditure.
- Capital outlay increased by ₹ 1,749 crore (6.65 *per cent*) over the previous year and disbursement of loans and advances also increased by ₹ 1,100 crore (174.37 *per cent*). CAGR of capital outlay (14.89) was higher than CAGR of revenue expenditure (11.81).

- Public debt receipts increased by ₹ 16,193 crore whereas, public debt repayments increased by ₹ 1,732 crore. However, CAGR of public debt receipt (13.10) was less than CAGR of revenue receipts (14.05).
- The Public Account receipts increased by ₹ 16,588 crore and Public Account disbursement increased by ₹ 16,259 crore, resulting in net increase of ₹ 329 crore in Public Account.

The status of other fiscal indicators *i.e.* revenue surplus, fiscal deficit and primary deficit are discussed in **Paragraph 1.1.3** and **1.11** of this Report.

Composition of sources and application of funds in the Consolidated Fund during 2018-19 is given in **Chart 1.1** and **1.2**.

Chart 1.1: Rupee comes from
(₹ in crore)

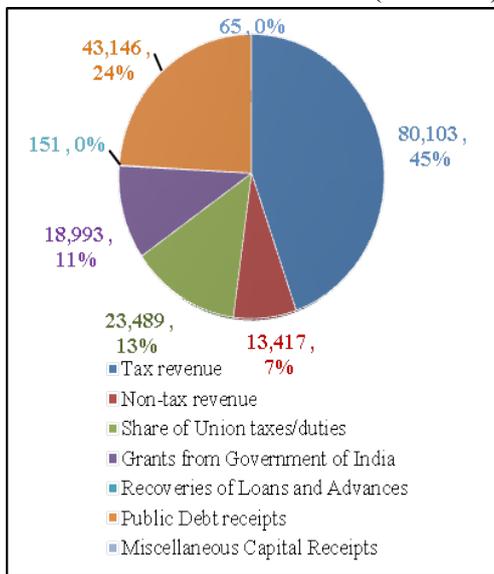
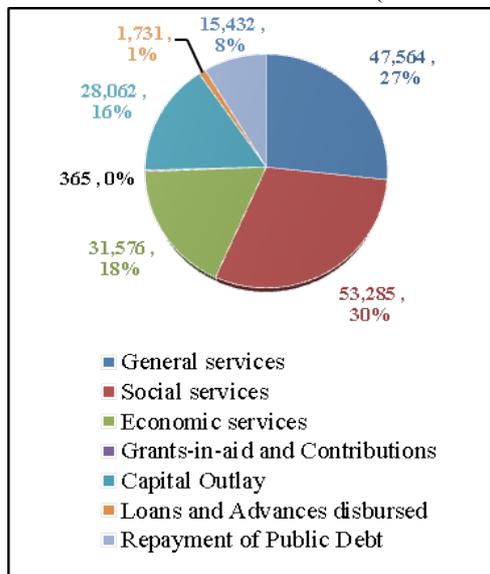


Chart 1.2: Rupee goes to
(₹ in crore)



The trends of Revenue Receipts (RR)/ Revenue Expenditure (RE)/ Capital Outlay (CO) relative to GDP at current as well as constant prices are presented in **Table 1.3**.

Table 1.3: Trends of Revenue Receipts, Revenue Expenditure and Capital Outlay at Current and Constant Prices

(₹ in crore)

Year	2014-15	2015-16	2016-17	2017-18	2018-19
GSDP at current prices ⁶ (₹ in crore)	9,21,773	10,29,010	11,53,327	13,14,680	15,01,496
GSDP at constant prices (₹ in crore)	8,11,428	8,94,465	9,80,736	10,90,260	11,90,121
GSDP deflator ⁷	114	115	118	121	126

6 Directorate of Economics and Statistics, Gandhinagar - Statement under Gujarat Fiscal Responsibility Act, 2005 (Budget Publication No.30 of 2019-20)

7 GSDP deflator calculated by dividing GSDP at current prices by GSDP at constant prices. For converting Revenue receipts, Revenue expenditure and Capital outlay at current prices into constant prices, GSDP deflator is used.

Year	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Receipts at Current and Constant Prices					
Revenue Receipts at current prices	91,978	97,483	1,09,842	1,23,291	1,36,002
Rate of growth of RR at current prices (in per cent)	15.01	5.99	12.68	12.24	10.31
Revenue Receipts at constant prices	80,967	84,737	93,405	1,02,245	1,07,798
Rate of growth of RR at constant prices (in per cent)	11.35	4.66	10.23	9.46	5.43
Revenue Expenditure at Current and Constant Prices					
Revenue Expenditure at current prices	86,652	95,779	1,03,895	1,18,060	1,32,790
Rate of growth of RE at current prices (in per cent)	15.14	10.53	8.47	13.63	12.48
Revenue Expenditure at constant prices	76,279	83,256	88,348	97,907	1,05,252
Rate of growth of RE at constant prices (in per cent)	11.48	9.15	6.12	10.82	7.50
Capital Outlay at Current and Constant Prices					
Capital Outlay at current prices	24,158	24,169	22,355	26,313	28,062
Rate of growth of CO at current prices (in per cent)	6.53	0.05	-7.51	17.71	6.65
Capital Outlay at constant prices	21,266	21,009	19,010	21,821	22,243
Rate of growth of CO at constant prices (in per cent)	3.14	-1.21	9.52	14.79	1.93

1.1.2 Review of fiscal situation

In pursuance of recommendations of the Twelfth Finance Commission (12th FC) for the period 2005-10, the State Government enacted the Gujarat Fiscal Responsibility Act, 2005 to ensure prudence in fiscal management and to maintain fiscal stability in the State. As per Section 3 of the Act, the State Government is required to lay before the Legislature in every financial year the Medium Term Fiscal Policy Statement (MTFPS) along with the budget. The MTFPS and the Fiscal Policy Strategy Statement set forth the fiscal objectives, strategic priorities of the State Government and a three-year rolling target for fiscal management. The targets for fiscal consolidation *viz.*, revenue deficit/surplus, fiscal deficit, total public debt and outstanding guarantees have been set forth in Section 5 of the Act.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (13th FC) for the period 2010-15 had recommended a fiscal consolidation roadmap for the States by amending (2011) their fiscal responsibility legislations. This required the States 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 28.80 *per cent* in 2011-12 to 27.10 *per cent* at the end of 2014-15 of the estimated GSDP of the respective financial year.

The Fourteenth Finance Commission (14th FC) for the period 2015-20 also recommended (December 2014) a revised fiscal roadmap to consolidate the finances of the State Government from the financial year 2015-16 onwards. The targets for major fiscal variables set out by the 14th FC and the projections made by the State Government in the MTFPS for the year 2018-19 compared to actual achievements are depicted in **Table 1.4**.

Table 1.4: Major fiscal variables- targets and achievements for 2018-19

Fiscal variables	14 th FC targets for the State	Targets proposed in MTFPS	Actual achievement
Revenue Deficit ⁸ (-)/ Surplus (+) (₹ in crore)	(+)24,101	(+)5,998	(+)3,211.97
Fiscal Deficit ⁹ /GSDP (in <i>per cent</i>)	3.00	1.71	1.76
Ratio of total outstanding liabilities to GSDP (in <i>per cent</i>)	25.79	-	19.04
Ratio of Public debt to GSDP (in <i>per cent</i>)	-	15.96	16.00
Outstanding Government Guarantees (₹ in crore)	-	Below 16,000	4,698.55

Source: 14th FC Report, Budget Estimates and Finance Accounts for the year 2018-19

The State achieved zero revenue deficit targets in 2011-12 and reported a revenue surplus of ₹ 3,215 crore in that year and the revenue surplus continued thereafter. The revenue surplus stood at ₹ 3,212 crore in 2018-19 which was lower than the projections made in 14th FC and MTFPS.

Indian Government Accounting Standards (IGAS)-2 prescribes that grants-in-aid should be booked under revenue expenditure. However, in 2018-19, the State Government incorrectly budgeted and booked expenditure of ₹ 11.01 crore¹⁰ 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.

At the end of 2018-19, the fiscal deficit as a percentage of GSDP stood at 1.76 *per cent*, which was within the limit of three *per cent* recommended by the 14th FC but exceeded the limit of the Government's own projection of 1.71 *per cent* in MTFPS. The State Government could maintain the percentage of public debt to GSDP at 16 *per cent* during 2018-19 against the target of 15.96 *per cent* set out in MTFPS.

8 Revenue Deficit = Revenue expenditure – Revenue receipts

9 Fiscal Deficit=Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Miscellaneous capital receipts

10 Details of expenditure booked are shown in Table 2.12 under paragraph 2.6, Chapter - II

In the fiscal consolidation roadmap, 14th FC had recommended the percentage of outstanding liabilities¹¹ to GSDP at 25.79 *per cent* for 2018-19, against which, the percentage of actual outstanding liabilities to GSDP stood at 19.04 *per cent* during 2018-19.

During 2018-19, State Government had a revenue surplus ₹ 3,212 crore together with a net public debt receipts of ₹ 27,714 crore, net public account receipts of ₹ 1,722 crore, miscellaneous capital receipts of ₹ 65 crore and recovery of loans and advances of ₹ 151 crore totalling ₹ 32,864 crore. Of this, State Government used ₹ 28,062 crore for meeting capital expenditure, ₹ 1,731 crore for disbursement of loans and advances and the balance of ₹ 3,071 crore reflected the increase in closing cash balance. This showed that State Government had utilised its revenue surplus and borrowings towards gross fixed capital formation.

1.1.3 Budget estimates, revised estimates and actuals

The budget papers presented by the State Government provide projections or estimations of receipts and expenditure for a particular fiscal year. The importance of accuracy in the estimation of receipts and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates (BE) are indicative of non-attainment/non-optimisation of the desired fiscal objectives due to various reasons, some within the control of the Government and some beyond its control. The State Government presented its revised estimates (RE) of financial year 2018-19 along with modified BE of 2019-20 on 02 July 2019.

Taking a cue from the Centre, State Government decided to do away with the distinction between plan and non-plan expenditure in its budget from the financial year 2017-18 onwards and named it as State Fund Expenditure. Government believes that the merger will enable it to provide an appropriate budgetary framework having focus on revenue and capital expenditure.

A comparison of actuals with BE and RE for the year 2018-19 is given in **Table 1.5** below and a detailed comparison is shown in **Appendix 1.4**.

Table 1.5: Budget estimates, revised estimates and actuals for the year 2018-19

(₹ in crore)

Fiscal Parameters	Budget estimates	Revised estimates	Actuals	Difference between BE and actuals	Difference between RE and actuals
(1)	(2)	(3)	(4)	5(4-2)	6(4-3)
Tax Revenue	88,728.80	89,900.10	80,102.74	(-)8,626.06	(-)9,797.36
Non-tax Revenue	11,705.04	12,102.30	13,416.99	1,711.95	1,314.69
State's share of Union taxes and duties	24,307.08	23,489.32	23,489.33	(-)817.75	0.01
Grants-in-aid from GoI	15,890.23	15,040.00	18,992.48	3,102.25	3,952.48
Revenue receipts	1,40,631.15	1,40,531.72	1,36,001.54	(-)4,629.61	(-)4,530.18
Revenue expenditure	1,34,633.30	139,153.06	1,32,789.57	(-)1,843.73	(-)6,363.49

11 Total Outstanding Liabilities include Public Debt and Public Account Liabilities. Public Debt includes only Internal Debt and Loans from GoI. Public Account Liability includes liabilities under small saving funds, General Provident Fund, Reserve funds etc.

Fiscal Parameters	Budget estimates	Revised estimates	Actuals	Difference between BE and actuals	Difference between RE and actuals
(1)	(2)	(3)	(4)	5(4-2)	6(4-3)
Interest payments	20,179.11	20,339.87	20,183.36	4.25	(-)156.51
Capital expenditure	30,341.64	31,417.24	28,061.90	(-)2,279.74	(-)3,355.34
Revenue surplus (+)	5,997.85	1,378.66	3,211.97	(-)2,785.88	1,833.31
Net loans and advances	1,249.92	1,813.42	1,580.10	330.18	(-)233.32
Miscellaneous capital receipts	10.00	65.00	65.00	55.00	0.00
Fiscal deficit (-)	(-)25,583.71	(-)31,787.00	(-)26,365.03	781.32	(-)5,421.97
Primary deficit (-) ¹²	(-)5,404.60	(-)11,447.13	(-)6,181.67	777.07	(-)5,265.46

Source: Finance Accounts and budget publications of the State Government for the year 2018-19

Analysis of the important parameters is discussed in the succeeding paragraphs.

1.1.3.1 Revenue receipts

Actual revenue receipts were lower by ₹ 4,629.61 crore (3.29 per cent) and ₹ 4,530.18 crore (3.22 per cent) over BE and RE respectively. Shortfall *vis-à-vis* BE was on account of less collection of major components, namely (i) revenue from State Goods and Services Tax (SGST) (₹ 7,861.29 crore); (ii) taxes on vehicles (₹ 666.40 crore); (iii) taxes and duties on electricity (₹ 781.79 crore); (iv) stamp duty and registration fees (₹ 599.38 crore); and (v) receipts from ports and light houses (₹ 246.65 crore).

This was counter-balanced *vis-à-vis* BE on account of excess collection in (i) Taxes on sales, trade *etc.* (₹ 1,631.13 crore); (ii) State Excise (₹ 51.51 crore); (iii) Interest receipts (₹ 411.71 crore); (iv) Urban development (₹ 238.86 crore); and (v) Non-ferrous mining receipts (₹ 651 crore).

1.1.3.2 Revenue expenditure

Actual revenue expenditure was less than BE and RE by ₹ 1,843.73 crore (1.37 per cent) and ₹ 6,363.49 crore (4.57 per cent) respectively. Shortfall *vis-à-vis* BE was mainly due to less expenditure on Miscellaneous General Services (₹ 6,987.33 crore); Housing (₹ 1,239.87 crore); Nutrition (₹ 1,195.01 crore); and Urban Development (₹ 661.73 crore). The actual revenue expenditure under social and economic services was less than RE.

1.1.3.3 Capital expenditure

Actual capital expenditure was lower by ₹ 2,279.74 crore (7.51 per cent) and ₹ 3,355.34 crore (10.68 per cent) than BE and RE respectively. Capital expenditure was less than the projections made in BE mainly due to less expenditure on Major Irrigation (₹ 1,682.21 crore); Education, Arts, Sports and Culture (₹ 800.26 crore); Road Transport (₹ 465.51 crore); and Public Works (₹ 297.60 crore). However, actuals were higher than the BE under Medium Irrigation (₹ 2,279.91 crore).

¹² Primary deficit = Fiscal deficit – interest payments

1.1.3.4 Deficits/surpluses

Against the projected revenue surplus of ₹ 5,997.85 crore and ₹ 1,378.66 crore in BE and RE respectively, the State had an actual revenue surplus of ₹ 3,211.97 crore (0.21 *per cent* of GSDP). Against the projected primary deficit of ₹ 5,404.60 crore and ₹ 11,447.13 crore in BE and RE respectively, the State had a primary deficit of ₹ 6,181.67 crore (0.41 *per cent* of GSDP). The fiscal deficit stood at ₹ 26,365.03 crore (1.76 *per cent* of GSDP) which was higher than BE (₹ 25,583.71 crore) by ₹ 781.32 crore and lower than RE (₹ 31,787 crore) by ₹ 5,421.97 crore.

1.2 Resources of the State

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of State's own tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise non-debt receipts (miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances), debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GoI. Besides, there are receipts and disbursements in respect of certain transactions such as small savings, provident fund, reserve funds, deposits, suspense, remittances, *etc.* which do not form part of the Consolidated Fund. These 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.

Table 1.2 presents the receipts and disbursements of the State during the current year and previous years as recorded in its annual finance accounts. **Chart 1.3** depicts the components and sub-components of resources during the year 2018-19.

Chart 1.3: Components and sub-components of resources in 2018-19

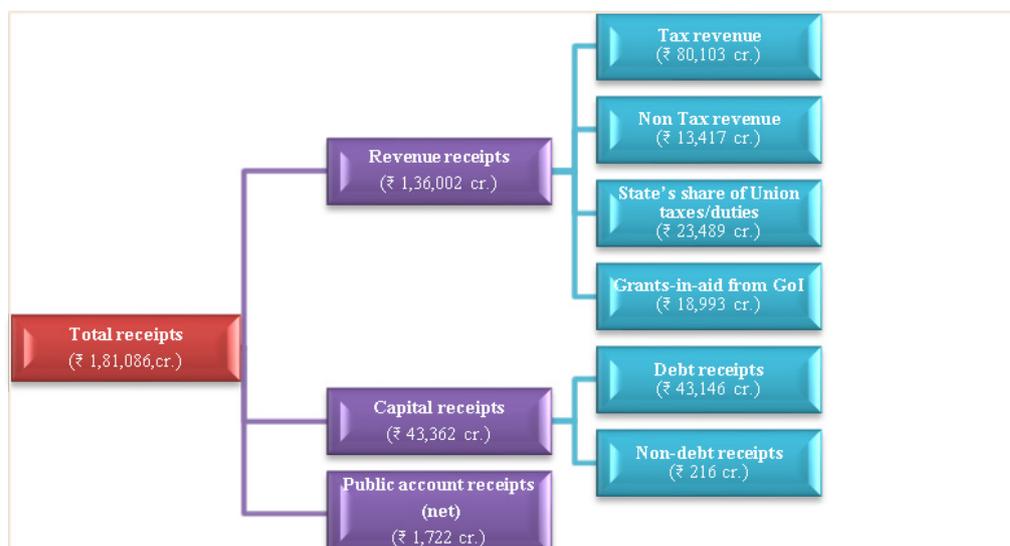


Chart 1.4 depicts the trends of various components of the State’s receipts during 2014-15 to 2018-19.

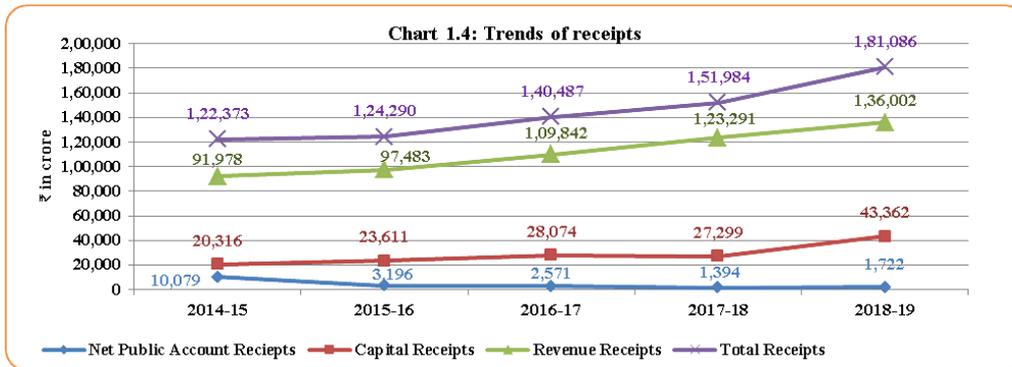
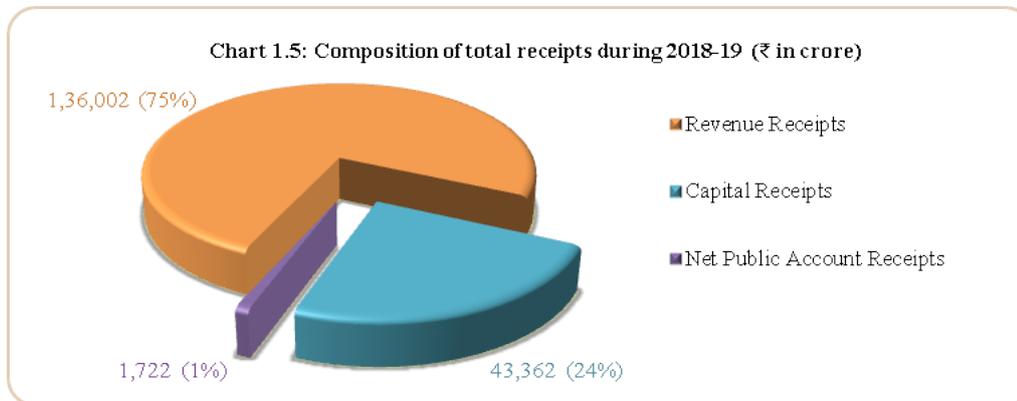


Chart 1.5 depicts the composition of resources of the State in total receipts during the current year 2018-19.



The total receipts of the State Government show a steady increase from ₹ 1,22,373 crore in 2014-15 to ₹ 1,81,086 crore in 2018-19. The total receipts increased by ₹ 29,102 crore in 2018-19 over the previous year. The increase was mainly due to increased growth in all the three components *i.e.* revenue receipts, capital receipts and net public account receipts.

The revenue receipts remained the highest contributor (more than 75 per cent) of the total receipts over the five year period. The components of revenue receipts, capital receipts and public account receipts are discussed in Paragraph 1.3 to 1.5.

1.3 Revenue Receipts

Revenue receipts of State Government are detailed in Statement-14 of the Finance Accounts for the year 2018-19. Revenue receipts consist of State’s own tax and non-tax revenues, State’s share of Union taxes and duties and grants-in-aid from GoI. The trends of revenue receipts over the period 2014-19 are presented in **Charts 1.6** and also in **Appendix 1.5**.

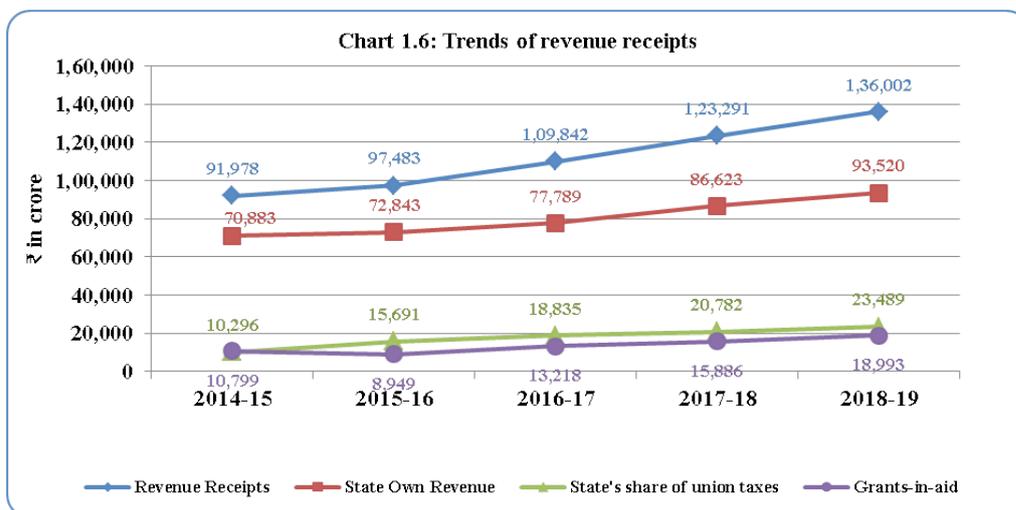


Chart 1.6 shows that revenue receipts grew by ₹ 12,711 crore (10.31 *per cent*) over the previous year. The State’s tax revenue increased by ₹ 8,554 crore (11.95 *per cent*) and the non-tax revenue decreased by ₹ 1,657 crore (10.99 *per cent*). The State’s share of Union taxes increased by ₹ 2,707 crore (13.03 *per cent*) and the grants-in-aid from GoI increased by ₹ 3,107 crore (19.56 *per cent*).

The composition of State’s revenue receipts (in percentages) over the period 2014-19 is presented in **Chart 1.7**.

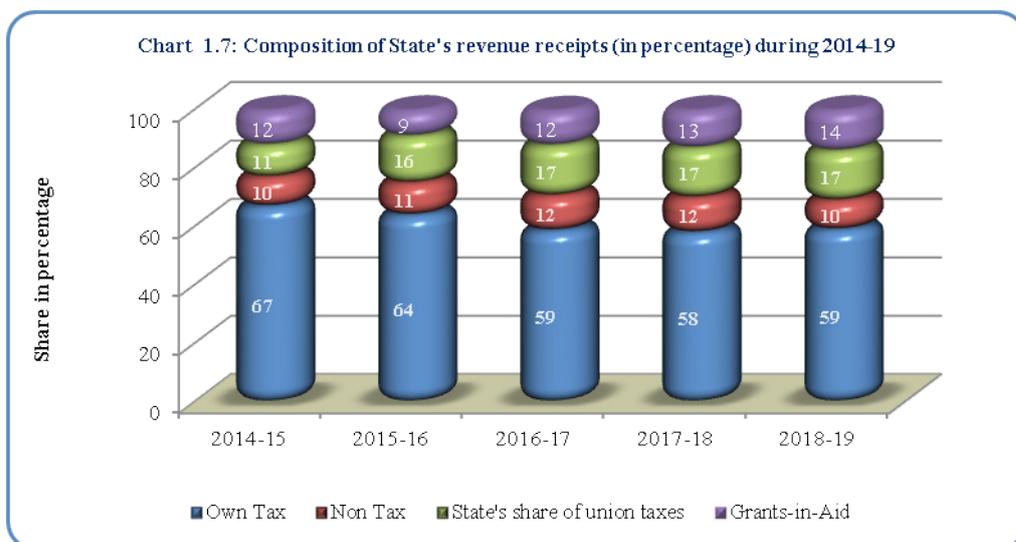


Chart 1.7 shows that 69 *per cent* of revenue receipts came from State's own resources during 2018-19 and the balance 31 *per cent* was from GoI in the form of State's share of union taxes and grants-in-aid. The share of own tax revenue decreased from 67 *per cent* in 2014-15 to 58 *per cent* in 2017-18 and increased marginally by one *per cent* during 2018-19. Whereas, the share of union taxes transfers had remained steady at 17 *per cent* during 2016-19.

1.3.1 Trends of revenue receipts and State's own resources

The trends of revenue receipts relative to GSDP and State's own resources to revenue receipts are presented in **Table 1.6** below.

Table 1.6: Trends of revenue receipts and State's own resources

	2009-10	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue receipts (RR) (₹ in crore)	41,672	91,978	97,483	1,09,842	1,23,291	1,36,002
Growth of RR over previous year (in <i>per cent</i>)	7.75	15.01	5.99	12.68	12.24	10.31
Percentage of RR to GSDP	9.66	9.98	9.47	9.52	9.38	9.06
State's own resources (₹ in crore)	32,192	70,883	72,843	77,789	86,623	93,520
Growth of State's own resources over previous year (in <i>per cent</i>)	12.34	11.82	2.77	6.79	11.36	7.96
Percentage of State's own resources to GSDP	7.46	7.69	7.08	6.74	6.59	6.23
Percentage of State's own resources to RR	77.25	77.07	74.72	70.82	70.26	68.76

Source: Finance Accounts of respective years

The table above reveals that while the revenue receipts during 2018-19 increased by 10.31 *per cent* over the previous year, CAGR of revenue receipts during the period 2009-18 was 14.52 *per cent* (**Appendix 1.1 Part A**), indicating that rate of growth of revenue receipts was sluggish during the current year.

The table above also shows that revenue receipts have not kept pace with the rate at which GSDP grew during 2014-19, as the percentage of revenue receipts to GSDP decreased from 9.98 *per cent* in 2014-15 to 9.06 *per cent* in 2018-19. The decrease was primarily due to decrease in the rate of growth of State's own resources (which is a major component of State's revenue receipts) from 11.82 *per cent* to 7.96 *per cent* during the same period.

1.3.2 Trends in buoyancy ratios

Buoyancy ratio¹³ indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. The value more than one indicates high degree of responsiveness of a fiscal variable to the base variable. As GSDP grows, the ability of the Government to mobilise revenue should also increase. The growth rate, percentages, ratios and buoyancy ratios with respect to revenue receipts are presented in **Table 1.7** below.

¹³ Buoyancy ratio is the rate of growth of a parameter with respect to rate of growth of another parameter

Table 1.7: Growth rate, percentage, ratio and buoyancy ratios

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Growth of Revenue Receipts (RR)	15.01	5.99	12.68	12.24	10.31
Growth of Revenue Expenditure (RE)	15.14	10.53	8.47	13.63	12.48
Growth of outstanding Public debt	9.33	10.58	10.29	6.65	13.04
RR/GSDP (%)	9.98	9.47	9.52	9.38	9.06
Outstanding Public Debt/RR (ratio)	1.78	1.85	1.81	1.72	1.77
Buoyancy ratio w.r.t. RR					
Revenue Expenditure	1.01	1.76	0.67	1.11	1.21
Public Debt	0.62	1.77	0.81	0.54	1.26
Interest payments	0.81	1.51	0.72	0.53	0.63

Source: Finance Accounts of respective years

It is evident from **Table 1.7** that the percentage of revenue receipts to GSDP was the lowest in 2018-19 (9.06) during the period 2014-19, which reinforces the fact that revenue receipts grew at a lower rate than GSDP in these years. In view of the robust economic growth (more than 11 *per cent*) in the last 10 years, the State Government needs to harness its potential to improve its own resources. Further, the buoyancy of revenue expenditure to revenue receipts has also increased over the last year, indicating the need to improve its own resources.

1.3.3 State's own resources

As the State's share in Central taxes and grants-in-aid from GoI are 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 tax and non-tax sources. The gross collection of major taxes and duties, expenditure incurred on their collection and percentage of such expenditure to the gross collection during 2014-19 along with the respective all-India average are presented in **Appendix 1.6**.

The State's actual tax and non-tax revenue for the year 2018-19 *vis-à-vis* assessments made by 14th FC and MTFPS (July 2019) are presented in **Table 1.8** below.

Table 1.8: Projections and actual of tax and non-tax revenue for 2018-19

(₹ in crore)

	14 th FC projections ¹⁴	MTFPS / Budget estimates	Revised estimates	Actuals
Tax revenue	1,28,483	88,729	89,900	80,103
Non-tax revenue	16,169	11,705	12,102	13,417

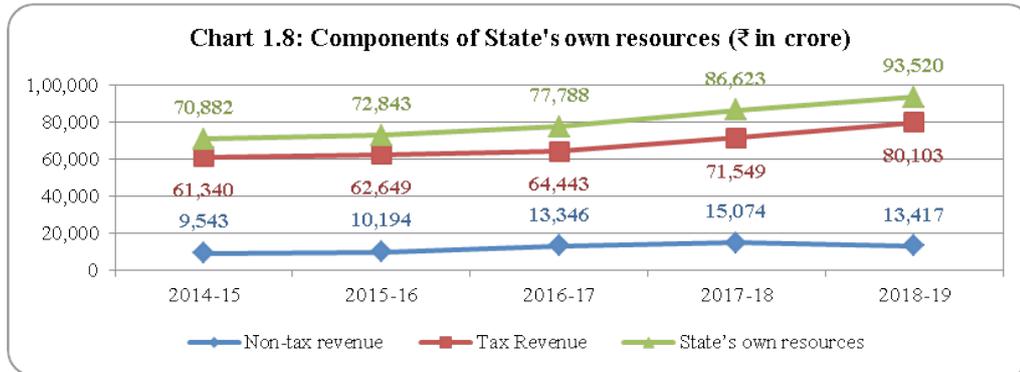
Source: Finance Accounts of the State Government for the year 2018-19 and Budget publication No. 30 of the State

The actual tax revenue of the State in 2018-19 stood significantly lower than the projections made in the 14th FC, MTFPS/budget estimates and revised estimates. The actual tax revenue was lower than budget estimates mainly due to less collection of SGST (₹ 7,861 crore), Stamps and registration fees, (₹ 599 crore) and taxes on duties on electricity (₹ 782 crore). Actual non-tax revenue was

14 These projections were made by the 14th FC in Pre-GST regime.

lower than the 14th FC projections but higher than the MTFPS/ budget estimates and revised estimates.

The components of State's own resources during the period 2014-19 are presented in **Chart 1.8**.



1.3.3.1 Tax revenue

The main components of State's tax revenue during 2014-19 are shown in **Table 1.9**.

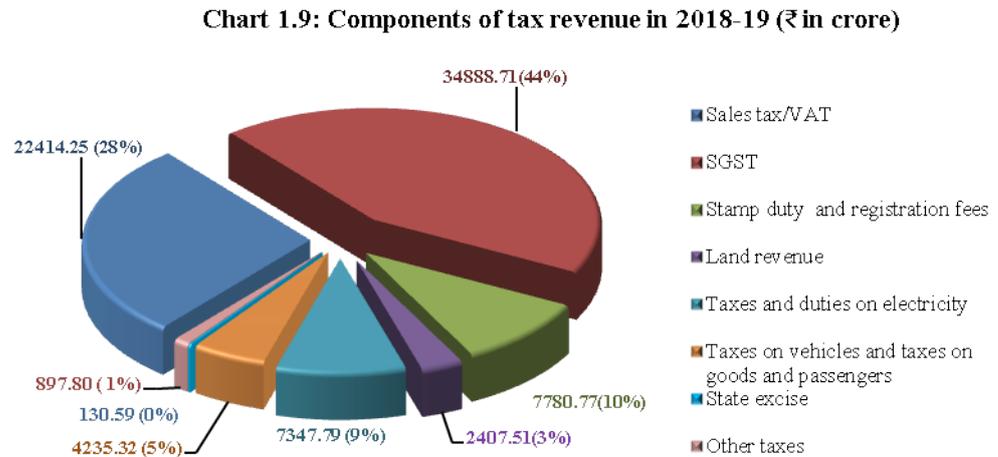
Table 1.9: Main components of State's tax revenue

(₹ in crore)						
Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19	Percentage change over previous year
Sales tax/VAT	44,145.26	44,091.05	46,313.78	29,638.88	22,414.25	(-) 24.38
Entertainment Tax and Luxury Tax	185.06	195.63	223.57	85.41	3.32	(-) 96.11
SGST	-	-	-	21,250.85	34,888.71	64.18
State excise	140.27	123.32	151.53	84.75	130.59	54.09
Stamp duty and registration fees	5,503.34	5,549.42	5,782.93	7,254.75	7,780.77	7.25
Land revenue	1,892.65	2,528.50	1,998.52	1,859.04	2,407.51	29.50
Taxes and duties on electricity	5,877.65	5,999.66	5,833.10	6,484.29	7,347.79	13.32
Taxes on vehicles and taxes on goods and passengers	2,905.44	3,273.17	3,279.35	4,016.72	4,235.33	5.44
Other taxes	690.14	888.66	859.93	874.72	894.47	2.26
Tax Revenue	61,339.81	62,649.41	64,442.71	71,549.41	80,102.74	11.95
<i>Tax Revenue as a percentage of GSDP</i>	6.65	6.09	5.59	5.44	5.33	
<i>Tax Revenue as a percentage of RR</i>	66.69	64.27	58.67	58.03	58.90	

Source: Finance Accounts of respective years

The State's tax revenue increased by ₹ 8,553.33 crore (11.95 per cent) in 2018-19 over the previous year. In 2018-19, the tax revenue increased mainly due to increase of ₹ 13,637.86 crore in SGST; ₹ 526.02 crore in stamp duty and registration fees; ₹ 548.47 crore in land revenue and ₹ 863.50 crore in taxes and duties on electricity. However, receipts under Sales tax/VAT decreased during the current year compared to previous year by ₹ 7,224 crore, as these were subsumed under GST.

The components of tax revenue for the year 2018-19 are presented in **Chart 1.9** below.



Figures in parenthesis indicate percentage share in total tax revenue

Chart 1.9 depicts that during 2018-19, State Government collected *72 per cent* of the tax revenue from Sales Tax/VAT and SGST.

1.3.3.2 Non-tax revenue

The main components of State's non-tax revenue during 2014-19 are shown in **Table 1.10**.

Table 1.10: Main components of State's non-tax revenue

(₹ in crore)

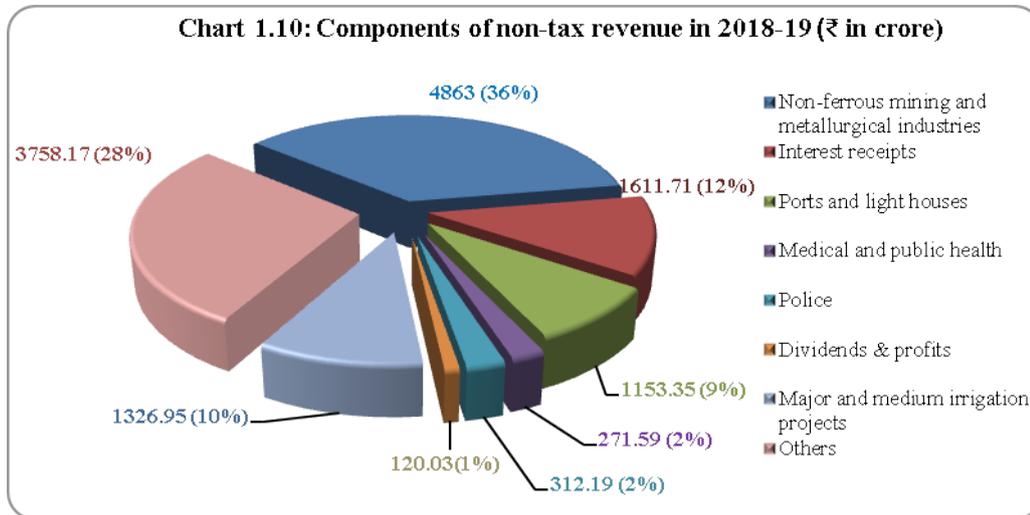
Revenue Head	2014-15	2015-16	2016-17	2017-18	2018-19	Percentage change over previous year
Interest receipts	1,011.47	843.00	2,580.10	1,081.44	1,611.71	49.03
Non-ferrous mining and metallurgical industries	4,285.85	3,350.19	3,746.50	8,988.62	4,863.00	(-)45.90
Major and medium irrigation projects	1,034.91	1,028.42	1,086.10	1,211.52	1,326.95	9.53
Ports and light houses	742.08	922.24	933.49	967.59	1,153.35	19.20
Medical and public health	243.57	171.51	981.98	173.81	271.59	56.26
Police	214.20	219.82	248.88	318.01	312.19	(-)1.83
Dividends & profits	89.54	96.06	110.10	96.29	120.03	24.65
Others	1,920.99	3,562.27	3,658.51	2,236.69	3,758.17	68.02
Non-tax revenue	9,542.61	10,193.51	13,345.66	15,073.97	13,416.99	(-)10.99
<i>Non-tax revenue as a percentage of GSDP</i>	<i>1.04</i>	<i>0.99</i>	<i>1.16</i>	<i>1.15</i>	<i>0.89</i>	
<i>Non-tax revenue as a percentage of RR</i>	<i>10.38</i>	<i>10.46</i>	<i>12.15</i>	<i>12.23</i>	<i>9.87</i>	

Source: Finance Accounts of respective years

During 2014-19, non-tax revenue showed an increasing trend from ₹ 9542.61 crore in 2014-15 to ₹ 15,073.97 crore in 2017-18. Non-tax revenue during 2018-19 decreased by ₹ 1,656.98 crore (10.99 per cent) over the previous year, largely

due to less receipts in Minor Head 102-‘Mineral Concession Fees, Rents and Royalties’ under Major Head 0853-‘Non-Ferrous Mining and Metallurgical Industries’.

The components of non-tax revenue for the year 2018-19 are presented in **Chart 1.10** below.



Figures in parenthesis indicate percentage share in total non-tax revenue

Chart 1.10 depicts that during 2018-19, State Government collected 48 per cent of the tax revenue from non-ferrous mining and metallurgical industries, and interest receipts.

1.3.3.3 Unspent balances of previous years incorrectly credited as Revenue Receipts

As per Paragraph 103 of the Gujarat Budget Manual, 1983, spending Departments should surrender unspent grants/appropriations or portions thereof to the Finance Department (FD) as and when savings are anticipated. These unspent balances should be credited to the concerned revenue expenditure Major Heads as reduction in expenditure. The FD vide circular of October 2016 directed all Public Sector Enterprises to park funds with Gujarat State Financial Services Limited (GSFS¹⁵) which were not required either immediately or within 10 days of the receipt of funds.

During test-check of Utilisation Certificates/*Challans* of Revenue Department and Health and Family Welfare Department, it was observed that unspent balances of revenue/capital expenditure of previous years (2008-09 to 2018-19) totalling ₹ 933.61 crore had either been held by these two Departments or parked with GSFS for years and subsequently deposited as revenue receipts into the Government Account. This affected the correct depiction of revenue receipts of those years to that extent.

¹⁵ GSFS is a wholly owned subsidiary of Government of Gujarat in which the Government has 100 per cent holding and is registered with Reserve Bank of India as a Non-Banking Finance Company.

1.3.3.4 Repayment of loans & advances incorrectly credited as Revenue Receipts

Asian Development Bank granted loan of ₹ 412.17 crore to Gujarat Energy Transmission Corporation Limited (GETCO) during the period 2012-18. Repayment of loan was to be booked under the Head Loans and Advances (MH – 6801). However, it was wrongly booked under Receipt Head (MH 0810-800) by ₹ 9.97 crore in 2016-17; ₹ 20.70 crore in 2017-18; and ₹ 22.95 crore in 2018-19. This overstated the revenue receipts and consequently the revenue surplus to that extent during the years 2016-17, 2017-18 and 2018-19.

1.3.4 Central tax transfers

The main components of central tax transfers during 2014-19 are shown in Table 1.11

Table 1.11: Components of central tax transfers

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Percentage change over previous year
Direct Taxes						
Corporation Tax	3,595.53	4,928.55	6,027.35	6,361.23	8,167.69	28.40
Taxes on income other than Corporation Tax	2,567.54	3,423.89	4,189.02	5,371.41	6,015.16	11.98
Taxes on Wealth	9.70	1.19	13.80	0	2.99	-
Sub-total	6,172.77	8,353.63	10,230.17	11,732.64	14,185.84	20.91
Indirect Taxes						
Central Goods and Services Tax	GST was implemented with effect from 01 July 2017			291.72	5,796.85	1,887.13
Integrated Goods and Services Tax				2,097.04 ¹⁶	462.60	-77.94
Customs	1,665.21	2,505.81	2,592.73	2,096.40	1,664.82	-20.59
Union Excise	940.29	2,087.30	2,960.67	2,191.29	1,106.37	-49.51
Service Tax	1,517.99	2,732.28	3,051.76	2,373.20	218.18	-90.81
Others	0.09	11.41	0.06	0	54.66	-
Sub-total	4,123.58	7,336.80	8,605.22	9,049.65	9,303.48	2.80
Total	10,296.35	15,690.43	18,835.39	20,782.29	23,489.32	13.03
<i>Total central tax transfers as percentage of revenue receipts</i>	<i>11.19</i>	<i>16.10</i>	<i>17.15</i>	<i>16.86</i>	<i>17.27</i>	

Source: Finance Accounts of respective years

The 14th FC had recommended the States' share of Central taxes¹⁷ to be increased to 42 per cent from 32 per cent as recommended by the 13th FC. Gujarat's share in the net proceeds of Central tax and Service tax was fixed at 3.084 per cent and 3.172 per cent respectively by the 14th FC for the award period 2015-20. The Central tax transfers stood at ₹ 23,489 crore in 2018-19, registering a growth of 13.03 per cent over the previous year. Of the total Central tax transfers, the direct tax transfers (₹ 14,185.84 crore) increased by 20.91 per cent. The indirect tax transfers (₹ 9,303.48 crore), which included the Central Goods and Services Tax

¹⁶ This includes advance apportionment of unsettled IGST on ad hoc basis (₹ 1,062 crore).

¹⁷ The CGST was introduced after the 14th FC recommendations and therefore, indicate no specific rates.

(CGST) and the Integrated Goods and Services Tax (IGST) components received under the GST regime, rose by 2.80 *per cent* over the previous year.

1.3.5 Grants-in-aid from Government of India

The components of grants-in-aid received from GoI during 2014-19 are shown in Table 1.12.

Table 1.12: Main components of grants-in-aid received from GoI

(₹ in crore)

Particulars ¹⁸	2014-15	2015-16	2016-17	2017-18	2018-19
Non Plan Grants	2,668.94	2,179.280	3,192.93	0.00	0.00
Grants for State/Union Territory Plan Schemes	7,341.11	6,064.11	8,505.95	0.00	0.00
Grants for Central Plan Schemes	104.78	104.28	53.41	0.00	0.00
Grants for Centrally Sponsored plan schemes	684.18	601.55	1,465.76	0.00	0.00
Centrally Sponsored Schemes	0.00	0.00	0.00	8,942.08	8,784.58
Finance Commission grants	0.00	0.00	0.00	3,166.85	3,313.36
Other grants (including compensation)	0.00	0.00	0.00	3,776.67	6,894.54
Total	10,799.01	8,949.22	13,218.05	15,885.60	18,992.48
Percentage increase over previous year	56.89	(-17.13)	47.70	20.18	19.56
Total grants-in-aid as percentage of revenue receipts	11.74	9.18	12.03	12.88	13.96

Source: Finance Accounts of respective years

The grants-in-aid from GoI increased from ₹ 10,799 crore in 2014-15 to ₹ 18,993 crore in 2018-19, except for a decrease in 2015-16. The plan and non-plan classification in annual accounts was abolished from financial year 2017-18 and the grants-in-aid from GoI were given in the form of Centrally Sponsored Schemes, Finance Commission grants and other grants. The grants-in-aid from GoI in 2018-19 increased by ₹ 3,107 crore (19.56 *per cent*) over the previous year. The increase was mainly due to increase in GST compensation by ₹ 2,462 crore and Central Road Fund by ₹ 457 crore.

1.3.5.1 GST compensation

Gujarat implemented GST with effect from 01 July 2017. GST is levied on *intra-State* supply of goods or services (except alcohol for human consumption and five specified petroleum products¹⁹) and its components are shared by the Centre (CGST) and the State (SGST). Further, IGST is levied and collected by the Central Government on *inter-State* supply of goods and services. The IGST so collected is apportioned between the Centre and the concerned State where the goods and services are consumed.

The GoI enacted the Goods and Services Tax (Compensation to States) Act, 2017 to compensate the States on account of loss of revenue which may arise due to implementation of the GST for a period of five years. The compensation

¹⁸ The Controller General of Accounts has revised classification of grants-in-aid with effect from 01 April 2017

¹⁹ Five petroleum products are: Crude, High speed diesel, Petrol, Aviation turbine fuel and Natural gas

was to be given by considering the base figure of revenue of a State for the year 2015-16, escalated by 14 *per cent per annum* for the next five years commencing from 01 July 2017.

For the State of Gujarat, the audited base year (2015-16) revenue to be subsumed²⁰ by the GST regime was fixed by GoI at ₹ 28,856.39 crore. Thus, the protected revenue for Gujarat worked out to ₹ 42,752.01 crore²¹ for the period 2018-19.

Against the protected revenue of ₹ 42,752.01 crore, the State Government earned a revenue of ₹ 35,440.54 crore (SGST: ₹ 34,888.71 crore + subsumed VAT: ₹ 551.83 crore) during 2018-19 and therefore, entitled to a compensation of ₹ 7,311.47 crore.

The State Government received ₹ 6,149 crore as compensation till March 2019, which included ₹ 590 crore relating to the previous year. Therefore, the deficit in compensation stood at ₹ 1,752.47 crore²². Of the deficit of ₹ 1,752.47 crore, State Government received ₹ 1,668 crore in May 2019 from GoI, leaving a net deficit of ₹ 84.47 crore for 2018-19 (December 2019).

With automation of the collection of Goods and Services Tax (GST) having taken place, it is essential for Audit to transition from sample checks to a comprehensive check of all transactions, to fulfill the CAG's Constitutional mandate of certifying the Accounts. The required access to data is yet to be provided. Not having access to the data pertaining to all GST transactions has come in the way of comprehensively auditing the GST receipts. The accounts for the year 2018-19 are, therefore, certified on the basis of test audit, as was done when records were manually maintained, as a one-time exception.

1.3.5.2 Growth of revenue receipts in post-GST regime

Table 1.13 shows a comparison of revenue realised by State Government prior to GST regime and post-GST regime.

Table 1.13: Revenue realised by the State in pre-GST regime and post-GST regime

(₹ in crore)

Receipts	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	CAGR during 2010-17 (in per cent)	2017-18	2018-19	CAGR during 2017-19 (in per cent)
Sales Tax/VAT including Entertainment Tax and Luxury Tax	18,310	25,029	31,365	39,693	41,244	44,423	44,357	46,625	14.29	29,724	22,418	-
SGST including IGST	-	-	-	-	-	-	-	-	-	23,348	35,351	-
Sub-total	18,310	25,029	31,365	39,693	41,244	44,423	44,357	46,625	14.29	53,072	57,769	11.31
GST compensation	-	-	-	-	-	-	-	-	-	3,687	6,149	-
Total	18,310	25,029	31,365	39,693	41,244	44,423	44,357	46,625	14.29	56,759	63,918	17.09

Source: Finance Accounts of respective years

20 Taxes that have been subsumed under GST are: Value Added Tax, Central Sales Tax, Entertainment Tax, Luxury Tax, Entry tax, Cesses & Surcharges, Duties on Excise on medicinal and toilet preparations excluding VAT and CST on alcohol for human consumption and five specified petroleum products.

21 Base year revenue of ₹ 28,856.39 crore escalated at compound rate of 14 *per cent* annually for three years (2016-17, 2017-18 and 2018-19) worked out to ₹ 42,752.01 crore for 2018-19.

22 ₹ 7,311.47 crore – (₹ 6,149 crore – ₹ 590 crore)

It may be seen that rate of growth of revenue during post-GST regime (2017-19) decreased to 11.31 *per cent* as compared to growth rate of 14.29 *per cent* during pre-GST regime (2009-17). However, with GST compensation, the rate of growth of revenue increased to 17.09 *per cent* during 2017-19.

1.3.6 Funds transferred by the Central Government to implementing agencies in the State

Central Government had been transferring a sizeable quantum of funds directly to the State implementing agencies²³ for 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 funds flow and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them did not present the complete picture.

With effect from 01 April 2014, GoI decided to release all assistance for Centrally Sponsored Schemes/Additional Central Assistance directly to the State Governments and not to the implementing agencies. In Gujarat, however, Central funds were continued to be transferred directly to the State implementing agencies even during 2018-19 (Appendix VI of the Finance Accounts).

During 2018-19, GoI released ₹ 10,026.44 crore directly to implementing agencies, of which, ₹ 5,555.05 crore was released to 'State Government Implementing Agencies' and ₹ 4,471.39 crore to 'Other than State Government Implementing Agencies'. The Schemes involving major transfers of Central funds directly to State Implementing Agencies were Metro-link Express for Gandhinagar and Ahmedabad (₹ 1,687 crore), Mahatma Gandhi National Rural Employment Guarantee Scheme (₹ 772.33 crore), *Pradhan Mantri Kisan Samman Nidhi* (₹ 549.68 crore), National Dairy Plan (₹ 324.91 crore), Member of Parliament Local Area Development Scheme (₹ 227.50 crore) and *Pradhan Mantri Matru Vandana Yojana* (₹ 52.31 crore).

1.3.7 Grants awarded by the 14th Finance Commission

The 14th FC had recommended transfers of funds only in respect of three types of grants-in-aid to States *viz.*, local Government, disaster management and post-devolution revenue deficit. During 2018-19, the State received two types of grants from GoI *i.e.* grants for local Government and disaster management amounting to ₹ 3,475.41 crore, against ₹ 4,015.95 crore of the awarded amount. Being a revenue surplus State, the State Government was not eligible for post-devolution revenue deficit grants. The details of amounts awarded and received during 2018-19 are shown in **Table 1.14**.

²³ See Glossary; Appendix 4.1

Table 1.14: Details of amounts awarded and received during 2018-19

(₹ in crore)

Sr.No.	Transfers	Amount awarded	Amount received
1.	Local Government grants		
	General Basic grants to Panchayati Raj Institutions	1,725.36	1,725.36
	General Performance grants to Panchayati Raj Institutions	217.60	0.00
	General Basic grants to Urban Local Bodies	1,138.05	1,138.05
	General Performance grants to Urban Local Bodies	322.94	0.00
2	State Disaster Response Fund	612.00	612.00
	Total	4,015.95	3,475.41

Source: Finance Department of Government of Gujarat

Panchayats, Rural Housing and Rural Development Department (PRHRDD) and Urban Development and Urban Housing Department (UDUHD) informed Audit (January 2020) that they had fulfilled the required criteria for claim of General Performance Grant and submitted the details to the concerned Ministries in March 2019. However, the grant had not been received as of December 2019.

1.4 Capital Receipts

Trends in growth and composition of capital receipts of the State are given in the Table 1.15.

Table 1.15: Trends in growth and composition of capital receipts

(₹ in crore)

Sources of Capital receipts	2009-10	2014-15	2015-16	2016-17	2017-18	2018-19
Capital receipts (CR)	14,532	20,316	23,611	28,074	27,299	43,362
Public debt receipts	14,245	19,454	23,486	27,668	26,953	43,146
Non-debt capital receipts	287	862	125	406	346	216
Consisting of						
<i>a) Miscellaneous capital receipts</i>	136	241	0	240	0	65
<i>b) Recovery of loans and advances</i>	151	621	125	166	346	151
Growth of GSDP over previous year (in per cent)	17.22	14.13	11.63	12.08	13.99	14.21
Growth of public debt receipts over previous year (in per cent)	38.21	0.57	20.73	17.81	(-)-2.58	60.08

Source: Finance Accounts of respective years

Capital Receipts of the State increased from ₹ 20,316 crore in 2014-15 to ₹ 43,362 crore in 2018-19. The share of public debt receipts to capital receipts stood at 99.50 per cent in 2018-19. During 2018-19, capital receipts increased by 58.84 per cent over the previous year primarily due to increase of 60.08 per cent in public debt receipts.

The trends in the public debt receipts during the last 10 years are shown in **Table 1.16**.

Table 1.16: Trends in public debt receipts during last 10 years

(₹ in crore)

Components	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Market borrowings	9,000	11,500	16,500	15,546	15,493	14,920	16,260	24,720	24,000	36,970
National Small Saving Fund (NSSF)	4,168	4,136	67	1,659	1,912	2,774	4,269	0 ²⁴	0	0
Loans from other financial institutions	991	886	780	1,700	1,777	1,437	2,704	2,757	2,863	3,980
Total internal debt	14,159	16,522	17,347	18,905	19,182	19,131	23,233	27,477	26,863	40,950
Loans and advances from GoI	86	159	188	592	161	323	253	191	90	2,196
Total public debt receipts	14,245	16,681	17,535	19,497	19,343	19,454	23,486	27,668	26,953	43,146
Public Debt to GSDP Ratio (in per cent)	3.30	3.20	2.85	2.69	2.40	2.11	2.28	2.40	2.05	2.87

Source: Finance Accounts of respective years

Internal debt receipts increased continuously during 2009-19 except for decrease during 2014-15 and 2017-18, with an overall increase of 189.21 *per cent* during 2009-19. Loans and advances from GoI fluctuated widely during 2009-19 and were highest at ₹ 2,196 crore in 2018-19. These loans of ₹ 2,196 crore had been received for externally aided projects namely, Gujarat Rural Road Project (₹ 1,213 crore), Green Energy Corridors – Intra State Transmission System in Gujarat (₹ 99 crore), Gujarat Investment Promotion Programme (₹ 733 crore) and Gujarat State Highway Project (₹ 151 crore). The ratio of public debt to GSDP was below three *per cent* since 2011-12.

1.5 Public Account 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 of India 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. These balances (net of receipts and disbursements) in respect of various heads in Public Account are shown in **Table 1.17**.

²⁴ The 14th FC recommended that State Government be excluded from the investment operation of the NSSF. The NSSF loans come at an extra cost to the State Governments as compared to the Market loans, which were available at considerably lower rates. The Union Cabinet accepted this recommendation in January 2017 with retrospective effect from 01 April 2016.

Table 1.17: Public account receipts (Net)

(₹ in crore)

Resources under various heads	2014-15	2015-16	2016-17	2017-18	2018-19
Small savings, provident funds <i>etc.</i>	502	478	533	340	208
Reserve funds	5,568	(-)295	1,416	(-)748	571
Deposits and advances	3,107	2,476	2,270	1,096	2,002
Suspense and miscellaneous	843	256	(-)1,579	498	(-)727
Remittances	59	281	(-)69	208	(-)332
Total	10,079	3,196	2,571	1,394	1,722

Source: Finance Accounts of respective years

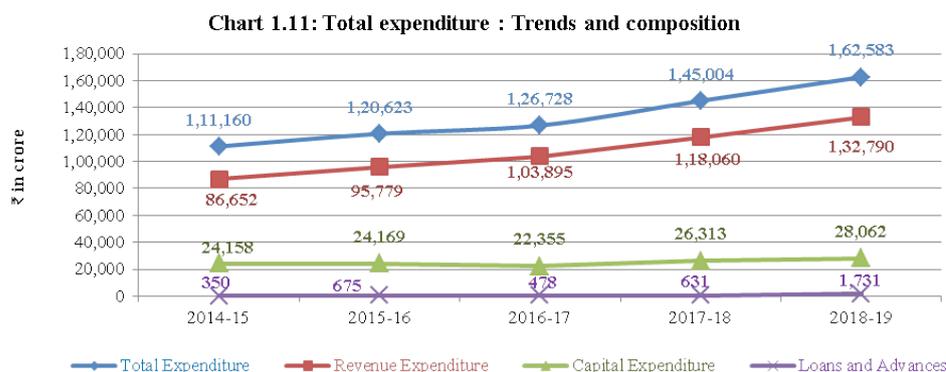
The net public account receipts decreased continuously during 2014-18 but it increased in 2018-19 by ₹ 328 crore. The net public account receipts available for use to the State Government during 2018-19 stood at ₹ 1,722 crore.

1.6 Application of Resources

Since major expenditure responsibilities are entrusted to the State Government, allocation of expenditure at the State Government level assumes significance. 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 development of the social sector.

1.6.1 Total expenditure

Chart 1.11 presents the trends and composition of total expenditure²⁵ over a period of five years (2014-19).



As may be seen from the chart above that revenue expenditure was a major component of total expenditure during 2014-19 and stood at 81.68 per cent during

²⁵ Comprising revenue expenditure, capital expenditure and disbursement of loans and advances

2018-19. State funded revenue expenditure²⁶ accounted for 88.43 *per cent* of the revenue expenditure (**Appendix 1.3 refers**).

Trends in total expenditure in terms of activities namely, general services, social services, economic services, grants-in-aid and loans and advances during 2014-19 are shown in **Table 1.18**.

Table 1.18: Trends in total expenditure in terms of activities

(Share in *per cent*)

Activities	2014-15	2015-16	2016-17	2017-18	2018-19
General services	27.79	27.93	28.74	29.15	29.79
Social services	39.49	40.24	40.35	38.51	37.51
Economic services	31.92	30.81	30.20	31.57	31.41
Loans and advances	0.32	0.56	0.38	0.44	1.06
Grants-in-aid	0.48	0.46	0.33	0.33	0.23

Source: Finance Accounts of respective years

The movement of the relative share of general, social and economic services exhibited stability during 2014-19, with marginal inter-year variations. The share of social services decreased by 1.98 *per cent* while that of general services increased by two *per cent* over the last five years.

1.6.2 Revenue expenditure

Revenue expenditure is incurred to maintain the current level of services. The overall revenue expenditure, its growth over previous years and its percentage to GSDP and revenue receipts are indicated in **Table 1.19**.

Table 1.19: Trends of revenue expenditure

	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue expenditure (RE) (₹ in crore)	86,652	95,779	1,03,895	1,18,060	1,32,790
Growth of RE over previous year (in <i>per cent</i>)	15.14	10.53	8.47	13.63	12.48
RE/TE (in <i>per cent</i>)	77.95	79.40	81.98	81.42	81.68
RE/GSDP (in <i>per cent</i>)	9.40	9.31	9.01	8.98	8.84
RE/RR (in <i>per cent</i>)	94.21	98.25	94.59	95.76	97.64

Source: Finance Accounts of respective years

Revenue expenditure increased continuously from ₹ 86,652 crore in 2014-15 to ₹ 1,32,790 crore in 2018-19 and grew by ₹ 14,730 crore (12.48 *per cent*) during 2018-19 over the previous year. The increase in revenue expenditure in 2018-19 over the previous year was mainly due to more expenditure on pension and other retirement benefits by ₹ 4,316 crore, General Education by

²⁶ Excludes expenditure met from Central Assistance

₹ 2,476 crore, Interest Payments by ₹ 1,229 crore, Power by ₹ 1,571 crore and Industries by ₹ 1,206 crore.

The rate of growth of revenue expenditure fluctuated widely with a low of 8.47 *per cent* in 2016-17 to a high of 15.14 *per cent* in 2014-15. Revenue expenditure as a percentage of GSDP decreased over the period 2014-19 and stood lowest during 2018-19. Average revenue expenditure as a percentage of revenue receipts during last five years was 96 *per cent*.

1.6.3 Capital expenditure

Capital expenditure is the money spent on the acquisition of assets like land, buildings, machinery, equipment, as well as investment in shares. The overall capital expenditure, its growth over previous year and its percentage to GSDP are indicated in **Table 1.20**.

Table 1.20: Trends of capital expenditure

	2014-15	2015-16	2016-17	2017-18	2018-19
Capital Expenditure (CE) (₹ in crore)	24,158	24,169	22,355	26,313	28,062
Growth of CE over previous year (in <i>per cent</i>)	6.53	0.05	(-)7.51	17.71	6.65
CE/TE (in <i>per cent</i>)	21.73	20.04	17.64	18.15	17.26
CE/GSDP (in <i>per cent</i>)	2.62	2.35	1.94	2.00	1.87

Source: Finance Accounts of respective years

Capital expenditure continuously increased from ₹ 24,158 crore in 2014-15 to ₹ 28,062 crore in 2018-19, except for a decrease in 2016-17.

Increase in capital expenditure by ₹ 1,749 crore during 2018-19 over the previous year was mainly on account of increase in expenditure on Medium Irrigation by ₹ 2,314 crore, Medical and Public Health by ₹ 523 crore, Minor Irrigation by ₹ 269 crore and Water Supply and Sanitation by ₹ 133 crore, offset by decrease in expenditure on Major Irrigation by ₹ 1,319 crore, Road Transport by ₹ 359 crore, Police by ₹ 161 crore and Urban Development by ₹ 149 crore.

An amount of ₹ 6,689.97 crore (23.84 *per cent*) of the total capital expenditure was invested by the State Government in PSUs/ Co-operatives during the year. Further, an amount of ₹ 3,800.66 crore was invested in three loss making active SPSUs. Of which ₹ 3,585.17 crore was invested in Sardar Sarovar Narmada Nigam Limited (SSNNL), and ₹ 214.49 crore in Gujarat State Road Transport Corporation (GSRTC), which had accumulated losses of ₹ 3,636.72 crore, and ₹ 3,410.80 crore respectively. The net worth of GSRTC had eroded and was ₹ (-)774.89 crore. SSNNL and GSRTC are booking losses since 2014-15.

The percentage share of capital expenditure to total expenditure decreased from 18.15 per cent in 2017-18 to 17.26 per cent in 2018-19. During 2018-19, capital expenditure (₹ 28,062 crore) accounted for 65 per cent of the total public debt receipts (₹ 43,146 crore).

Recommendation: *As the chance of earning return on investment made in Companies incurring losses, and where their accumulated losses have resulted in erosion of the net-worth, is remote, the State Government may consider making future payments to these Companies in the form of Grants instead of Share Capital, so as to reduce the disparity in investment vis-à-vis return.*

1.6.4 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 1.21** present the trends in the expenditure on these components during 2014-19.

Table1.21: Components of committed expenditure

(₹ in crore)					
Components of committed expenditure	2014-15	2015-16	2016-17	2017-18	2018-19
Salaries	7,533 (8.19)	7,806 (8.01)	8,722 (7.94)	10,485 (8.50)	11,042 (8.12)
Interest payments	14,946 (16.25)	16,300 (16.72)	17,797 (16.21)	18,954 (15.37)	20,183 (14.84)
Pension	9,185 (9.99)	9,963 (10.22)	11,303 (10.29)	13,979 (11.34)	18,295 (13.45)
Subsidies	9,674 (10.52)	9,045 (9.27)	11,082 (10.09)	13,621 (11.05)	17,269 (12.70)
Total committed expenditure	41,338 (44.94)	43,114 (44.23)	48,904 (44.52)	57,039 (46.26)	66,789 (49.11)
Total revenue receipts	91,978	97,483	1,09,842	1,23,291	1,36,002
Total revenue expenditure	86,652	95,779	1,03,895	1,18,060	1,32,790
<i>Total committed expenditure as a percentage of revenue expenditure</i>	<i>47.71</i>	<i>45.01</i>	<i>47.07</i>	<i>48.31</i>	<i>50.30</i>

Source: Finance Accounts of respective years
 Figures in parenthesis indicate percentage to revenue receipts

As a percentage of revenue expenditure, committed expenditure increased from 47.71 per cent in 2014-15 to 50.30 per cent in 2018-19. As a percentage of revenue receipts, committed expenditure increased from 44.94 per cent in 2014-15 to 49.11 per cent in 2018-19. The component wise break-up of committed expenditure is given below.

1.6.4.1 Salaries

In 2018-19, expenditure on salaries increased by 5.31 per cent over 2017-18,

as compared to an increase of 20.21 *per cent* in 2017-18 over 2016-17. As a percentage of the revenue receipts, expenditure on salaries decreased slightly from 8.19 *per cent* in 2014-15 to 8.12 *per cent* in 2018-19.

1.6.4.2 Interest payments

Interest payments increased from ₹ 14,946 crore in 2014-15 to ₹ 20,183 crore in 2018-19. Interest payments increased by 6.48 *per cent* in 2018-19 over the previous year due to increased interest liability by ₹ 1,194 crore on market loans. During 2018-19, interest payment on market loans stood at 63.21 *per cent* of the total interest payments while interest on special securities issued to National Small Savings Fund accounted for 20.53 *per cent* of the total interest payments. As a percentage of the revenue receipts, expenditure on interest payments decreased from 16.25 *per cent* in 2014-15 to 14.84 *per cent* in 2018-19.

1.6.4.3 Pension payments

There were 4.53 lakh pensioners²⁷ in Gujarat State as of 31 March 2019. Expenditure on pension in 2018-19 (₹ 18,295 crore) increased by 30.87 *per cent* over the previous year (₹ 13,979 crore), mainly on account of payment of superannuation and retirement benefits along with family pensions, gratuities and commuted value of pension. Expenditure on pension in 2018-19 accounted for 13.45 *per cent* of the total revenue receipts of the State.

In its disclosure in compliance of Gujarat Fiscal Responsibility Act, 2005, the State Government estimated (July 2019) the pension payments as a percentage of revenue receipts at 10.66 *per cent*. However, it stood higher at 13.45 *per cent* in 2018-19.

1.6.4.4 Expenditure on subsidies

Expenditure on subsidies increased by 26.78 *per cent* from ₹ 13,621 crore in 2017-18 to ₹ 17,269 crore in 2018-19. The major beneficiary Departments of subsidy during 2018-19 were: Energy and Petrochemicals; Industries and Mines; and Agriculture, Farmer's Welfare and Co-operation.

Energy and Petrochemicals Department received a subsidy of ₹ 7,612.31 crore (44 *per cent*) of which, major portion was ₹ 3,200 crore on account of fuel price and power purchase adjustment charges, ₹ 2,079.05 crore for compensation in agriculture tariff, ₹ 1,100 crore for horse power based tariff to agriculturists.

In Industries and Mines Department, of the total subsidy of ₹ 3,897.97 crore (23 *per cent*), ₹ 1,740.45 crore was given for development of textile industry.

Of ₹ 1,904.82 crore (11 *per cent*) received as subsidy by Agriculture, Farmer's Welfare and Co-operation Department, ₹ 999.98 crore was given as financial assistance to farmers for subvention of interest.

²⁷ As per Fiscal Policy Strategy Statement under Gujarat Fiscal Responsibility Act, 2005 for 2019-20 (July 2019), there were 4.53 lakh pensioners in the State. These are pensioners of Gujarat Government and aided institutions and do not include Social Security Pension.

The Gujarat State Road Transport Corporation was also given a subsidy of ₹ 350 crore to compensate for operations in uneconomic routes, student concessions *etc.*

1.6.5 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 other institutions during the current year relative to previous years is presented in **Table 1.22**.

Table 1.22: Financial assistance to local bodies and other institutions

(₹ in crore)

Financial assistance to institutions	2014-15	2015-16	2016-17	2017-18	2018-19
Panchayati Raj Institutions (PRIs)	17,503.96	22,085.57	16,123.76	19,686.35	19,644.66
Urban Local Bodies	8,289.19	8,479.84	7,336.19	7,790.57	8,746.74
Public Sector Undertakings	59.60	54.93	76.98	74.32	78.73
Autonomous Bodies	2,912.78	3,090.62	4,720.06	5,307.75	6,388.05
Others	11,198.62	10,337.45	19,798.39	21,948.19	24,752.51
Total	39,964.15	44,048.41	48,055.38	54,807.18	59,610.69
<i>Assistance as percentage of revenue expenditure</i>	46.12	45.99	46.25	46.42	44.89

Source: Finance Accounts of respective years

Financial assistance to local bodies and other institutions continuously increased from ₹ 39,964.15 crore in 2014-15 to ₹ 59,610.69 crore in 2018-19. As a percentage of revenue expenditure, it decreased from 46.12 *per cent* in 2014-15 to 44.89 *per cent* in 2018-19.

1.6.6 Building and Other Construction Workers' Welfare Board

The Building and Other Construction Workers' Welfare Cess Act, 1996 and the Building and Other Construction Workers' (Regulation of Employment and Conditions of Service) Act, 1996 cover every establishment which employs, or had employed on any day of the preceding 12 months, 10 or more building workers in any building or other construction work. The Acts, *inter alia*, provide for constitution of Welfare Boards with the aim of improving the working conditions of workers and to provide financial aid to them, and to augment the resources of the Welfare Boards through the levy and collection of cess on the cost of construction. Accordingly, the State Government formed (December 2004) the Gujarat Building and Other Construction Workers' Board (Board), and, in terms of the Cess Act, levies cess at one *per cent* on cost of construction. As per provisions contained in Rule 5 of the Building and Other Construction Workers' Welfare Cess Rules, 1998, the amount collected as cess shall be transferred to the Board within 30 days of collection.

During 2006-19, State Government levied and collected cess amounting ₹ 2,506.13 crore. Out of this amount, ₹ 1,848.57 crore was transferred to the Board. The State Government failed to transfer ₹ 657.56 crore (₹ 282.52 crore pertaining to 2018-19) to the Board as on 31 March 2019, in violation of Rule 5 of the Building and Other Construction Workers' Welfare Cess Rules, 1998. This led to overstatement of revenue surplus and understatement of fiscal deficit to that extent in 2018-19.

1.7 Quality of Expenditure

Availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. Improvement in quality of expenditure basically involves three aspects, viz., quantum of expenditure, efficiency of expenditure use and its effectiveness.

1.7.1 Comparison of public expenditure

Expenditure responsibilities relating to social sector and economic infrastructure are assigned to the State Governments as these are largely State subjects. Enhancing human development levels require the States to step up their expenditure on key social services like education, health *etc.* Low fiscal priority is attached to a particular sector, if the ratio of expenditure under a category to total expenditure is below the respective national average. **Table 1.23** shows the fiscal priority of the State with regard to total expenditure, development expenditure, social sector expenditure, economic services expenditure and capital expenditure *vis-à-vis* General Category States²⁸ (GCS) during 2014-15 and 2018-19.

Table 1.23: Fiscal priority of the State during 2014-15 and 2018-19

Fiscal Priority	Total Expenditure/GSDP	Development Expenditure/Total Expenditure	Social Sector Expenditure/Total Expenditure	Economic Sector Expenditure/Total Expenditure	Capital Expenditure/Total Expenditure	Education/Total Expenditure	Health/Total Expenditure
General Category States' Average (<i>per cent</i>) 2014-15	15.99	68.51	36.15	32.36	14.02	16.54	4.92
Gujarat (<i>per cent</i>) 2014-15	12.06	71.68	39.53	32.15	21.73	15.97	5.73
General Category States' Average (<i>per cent</i>) 2018-19	16.05	67.04	36.59	30.45	14.28	14.99	5.07
Gujarat (<i>per cent</i>) 2018-19	10.83	69.95	38.08	31.87	17.26	15.37	6.14

Source: Finance Accounts of the State Government for the years 2014-15 and 2018-19

Table 1.23 reveals the following:

- The ratio of total expenditure²⁹ to GSDP in Gujarat was lower than GCS average during 2014-15 and 2018-19.

²⁸ See Glossary; Appendix 4.1

²⁹ The total expenditure data is 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.

- Development expenditure³⁰ consists of both economic services expenditure and social services expenditure. Development expenditure as a proportion of total expenditure in Gujarat was higher than GCS average during 2014-15 and 2018-19. The expenditure on social services as a proportion of total expenditure in the State was higher than GCS average during 2014-15 and 2018-19. The expenditure on economic services as a proportion of total expenditure in the State compared to GCS average was lower during 2014-15 but higher during 2018-19. As per Human Development Report brought out by United Nations Development Programme (UNDP) in 2019 (HDR 2019), Human Development Index of India was 0.647 whereas Gujarat stood at 0.672 during 2018.
- The State had a higher ratio of capital expenditure to total expenditure during 2014-15 and 2018-19, as compared to GCS average. However, capital expenditure as a percentage of total expenditure in the State declined from 21.73 *per cent* in 2014-15 to 17.26 *per cent* in 2018-19.
- Gujarat has given adequate priority to health sector in 2014-15 and 2018-19 as compared to GCS average. As per HDR 2019, Health Index of Gujarat at 0.777 was higher than that of India (0.760) in 2018.
- Although the ratio of Education to total expenditure as compared to GCS has improved in 2018-19 over 2014-15, it has reduced from 15.97 during 2014-15 to 15.37 during 2018-19. The State needs to increase outlay on Education. As per HDR 2019, Educational Index of Gujarat at 0.558 was same as that of India in 2018.

1.7.2 Nature of expenditure

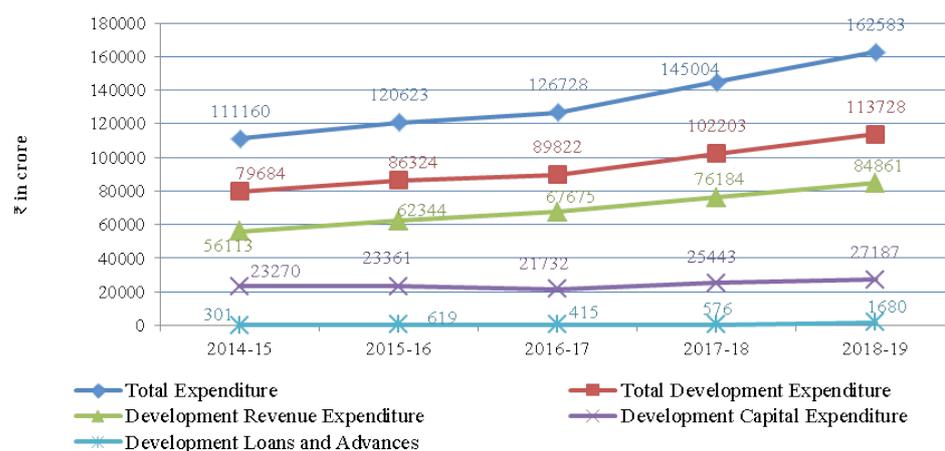
In view of importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods³¹. Apart from improving allocation towards development expenditure, the efficiency of expenditure 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 1.12 presents the trends in development expenditure relative to the total expenditure during the period 2014-19. **Table 1.24** and **Table 1.25** provide the details of capital expenditure and the components of revenue expenditure under selected social and economic services.

30 Development expenditure includes development revenue expenditure, development capital expenditure and development loans and advances disbursed.

31 See Glossary; Appendix 4.1

Chart 1.12: Trends in development expenditure



Total development expenditure increased from ₹ 79,684 crore in 2014-15 to ₹ 1,13,728 crore in 2018-19. As a percentage of the total expenditure, the total development expenditure of the State ranged between 70 and 72 per cent during 2014-19. During 2014-19, development revenue expenditure grew by 51 per cent while the development capital expenditure grew by 17 per cent. The 74.62 per cent of development expenditure in the State in 2018-19 was revenue expenditure.

1.7.2.1 Expenditure on social services

Share of capital expenditure in total expenditure under social services sector increased from 12.14 per cent in 2017-18 to 12.43 per cent in 2018-19 while, the share of salaries in the revenue expenditure increased from 6.10 per cent to 6.77 per cent over the same period. The sector as well as sub-sector wise details for the period 2014-19 are indicated in **Table 1.24**.

Table 1.24: Nature of expenditure under social services

(in per cent)

Sector and sub-sector	Share of capital expenditure in total expenditure in the sub-sector					Share of salaries in revenue expenditure in the sub-sector				
	2014-15	2015-16	2016-17	2017-18	2018-19	2014-15	2015-16	2016-17	2017-18	2018-19
Education, Sports, Art and Culture	7.48	6.65	5.91	3.56	3.66	3.95	3.76	3.84	3.94	4.21
Health and Family Welfare	30.93	26.61	18.93	18.44	20.60	27.51	24.58	21.50	22.11	21.47
Water Supply, Sanitation, Housing and Urban Development	25.47	19.58	21.46	27.12	25.44	0.52	0.45	0.39	0.39	0.53
Others	11.23	7.39	3.64	3.64	5.40	8.22	6.72	6.12	5.66	8.62
Total (Social Services)	16.37	13.18	12.10	12.14	12.43	6.79	6.13	5.80	6.10	6.77

Source: Finance Accounts of respective years

1.7.2.2 Expenditure on economic services

Share of capital expenditure in total expenditure under economic services sector decreased from 40.42 *per cent* in 2017-18 to 37.61 *per cent* in 2018-19 while, the share of salaries in the revenue expenditure decreased from 4.07 *per cent* to 3.89 *per cent* over the same period. The sector as well as sub-sector wise details for the period 2014-19 are indicated in **Table 1.25**.

Table 1.25: Nature of expenditure under economic services

(in *per cent*)

Sector and sub-sectors	Share of capital expenditure in total expenditure in the sub-sector					Share of salaries in revenue expenditure in the sub-sector				
	2014-15	2015-16	2016-17	2017-18	2018-19	2014-15	2015-16	2016-17	2017-18	2018-19
Agriculture and Allied Activities	15.98	17.98	13.81	9.56	9.18	12.71	12.11	10.28	7.57	8.04
Irrigation and Flood Control	88.06	89.24	85.63	89.30	90.61	26.36	27.55	21.84	24.22	23.89
Energy	27.42	41.62	34.29	33.15	27.12	0.74	0.92	0.59	0.59	0.58
Transport	39.62	38.62	38.91	44.76	39.86	0.83	0.86	0.76	0.73	0.69
Others	37.68	22.05	19.42	19.05	16.53	3.90	2.54	2.33	2.36	3.98
Total (Economic Services)	45.33	45.02	40.34	40.42	37.61	5.36	5.09	4.46	4.07	3.89

Source: Finance Accounts of respective years

1.8 Financial Analysis of Government Capital Expenditure and Investments

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. The State Government also 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 State Government during the current year *vis-à-vis* previous years.

1.8.1 Financial results of irrigation projects

At the end of March 2019, ₹ 4,515.66 crore was spent on 34 major and medium irrigation projects³². Revenue realised from these completed irrigation projects during the year was ₹ 278.50 crore, against which, maintenance expenditure was ₹ 132.06 crore, leaving a revenue surplus of ₹ 146.44 crore. When compared with the investments made on these projects, the return was 3.24 *per cent*³³.

The cost recovery position of irrigation projects in the State for the period 2014-19 is depicted in the **Table 1.26**.

³² This excludes expenditure incurred on irrigation projects by Sardar Sarovar Narmada Nigam Limited

³³ (₹ 146.44/₹ 4,515.66)*100 = 3.24%

Table 1.26: Cost recovery in irrigation projects

Year	Revenue expenditure (RE) (MH 2700, 2701, 2702)	Actual revenue receipts (RR) (MH 0700, 0701, 0702)	Cost recovery projections (RR/RE)*100 made by 13 th FC/ 14 th FC	Actual cost recovery (RR/RE)*100	Surplus in cost recovery
1	2	3	4	5	6=(5-4)
	₹ in crore		in per cent		
2014-15	999.95	1,041.76	75	104.18	(+)29.18
2015-16	941.85	1,053.70	35	111.88	(+)76.88
2016-17	1,199.44	1,101.18	35	91.81	(+)56.81
2017-18	1,043.27	1,217.20	35	116.67	(+)81.67
2018-19	1,025.70	1,379.23	35	134.47	(+)99.47

Source: Finance Accounts of respective years and Reports of 13th and 14th FC

As seen from the **Table 1.26**, the State has exceeded the projections made by Finance Commissions for cost recovery in irrigation projects.

1.8.2 Incomplete projects

At the end of March 2019, 118 capital works, each valuing ₹ 10 crore or more and completion date of which was 31 March 2019, were incomplete on which an expenditure of ₹ 2,207.27 crore had been incurred. Department-wise details of incomplete projects are given in **Table 1.27**.

Table 1.27: Department-wise profile of incomplete projects

Department	Number of incomplete projects	Initial budgeted cost	Cumulative expenditure as on 31 March 2019
Roads and Buildings	112	3,848.30	2,147.42
Narmada, Water Resources, Water Supply and Kalpsar	6	153.11	59.85
Total	118	4,001.41	2,207.27

Source: Appendix IX of Finance Accounts of the State Government for the year 2018-19

It may be seen that Roads and Buildings Department incurred an expenditure of 55.80 *per cent* on 112 incomplete projects while, Narmada, Water Resources, Water Supply and Kalpsar Department incurred an expenditure of 39.09 *per cent* on six incomplete projects (with reference to initial budgeted costs).

Recommendation: As delay in completion of projects entail the risk of cost escalation and denial of intended benefits to the beneficiaries, State Government may re-evaluate the cost of all incomplete projects and evolve a mechanism for timely completion of projects.

1.8.3 Investments and returns

Statement No. 19 of Annual Finance Accounts of State Government contains the details of investments made by the State Government in statutory corporations, Government companies, rural banks, joint stock companies, co-operative institutions and local bodies. As of 31 March 2019, the State Government invested ₹ 92,804 crore in these companies/corporations/ institutions (**Table 1.28**).

Table 1.28: Returns on investments

Investments/Returns/Cost of Borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Investments at the end of the year (₹ in crore)	62,929	70,730	77,833	86,114	92,804
Returns/Dividend earned (₹ in crore)	89.54	96.06	110.10	96.30	120.03
Return on Investment (in <i>per cent</i>)	0.14	0.14	0.14	0.11	0.13
Average rate of interest on Government borrowings (in <i>per cent</i>)	7.76	7.69	7.67	7.59	7.44
Difference between average interest rate on Government borrowings and rate of return (in <i>per cent</i>)	7.62	7.55	7.53	7.48	7.31

Source: Finance Accounts of the State Government for the respective years

The **Table 1.28** shows that during 2014-19, State Government's investments increased by ₹ 29,875 crore. During 2018-19, the State Government made an additional investment of ₹ 6,690 crore over the previous year which largely included ₹ 6,449 crore in Government companies and ₹ 239 crore in statutory corporations. Of ₹ 6,449 crore invested in Government companies, ₹ 3,585 crore (56 *per cent*) was invested in *Sardar Sarovar Narmada Nigam Limited* (SSNNL).

The **Table 1.28** also shows that the average return on investments in these companies/corporations/institutions was 0.13 *per cent*³⁴ during 2014-19 while the Government paid an average interest of 7.63 *per cent* on its borrowings during the same period.

Audit cross-checked the investments made in State Public Sector Undertakings (SPSUs) and observed (December 2019) that one SPSU namely, Gujarat Industrial Investment Corporation Limited had allotted equity shares of ₹ 257 crore to Government of Gujarat. But, Finance Accounts 2018-19 showed an investment of only ₹ 219 crore in the company. Finance Department did not furnish any explanation for the differential of ₹ 38 crore.

1.8.3.1 Status of State Public Sector Undertakings

There were 87 SPSUs in the State as on 31 March 2019. Of the 87 SPSUs, 71 were working/active and the remaining 16 SPSUs were non-working/inactive. As per the latest finalised accounts (upto September 2019), of the 71 active

34 It is dividend earned on investments done by the State Government in statutory corporations, Government companies, rural banks, joint stock companies, co-operative institutions and local bodies.

SPSUs, 54 SPSUs earned a profit of ₹ 3,572.22 crore and 15 SPSUs incurred loss of ₹ 2,569.64 crore. The remaining two SPSUs³⁵ reported neither profit nor loss.

Finance Department had issued standing instructions in October 1994 by which all profit-making SPSUs were required to pay dividend to the Government regularly.

During 2018-19, State Government received ₹ 71.68 crore as dividend from five of 54 profit-making SPSUs. The remaining 49 profit-making SPSUs did not declare any dividend. In view of negligible returns (2.01 per cent)³⁶ from profit-making SPSUs, it appeared that instructions issued by Finance Department in October 1994 were not being adhered to by the SPSUs in letter and spirit.

Recommendation: The State Government may consider formulation of a dividend policy for payment of reasonable returns from profit-making State Public Sector Undertakings on the paid up share capital contributed by the State Government.

1.8.3.2 Erosion of Capital in State Public Sector Undertakings due to losses

As per the latest finalised accounts (upto September 2019), investments³⁷ and accumulated losses of 71 active SPSUs was ₹ 1,69,957.91 crore and ₹ 8,975.59 crore respectively. As on 31 March 2019, the aggregate net worth³⁸ of 71 active SPSUs was positive. Further analysis revealed that erosion in net worth occurred in 10 out of 71 active SPSUs. The accumulated losses of these 10 SPSUs were ₹ 22,207.12 crore as against their paid-up capital and free reserves of ₹ 10,285.61 crore.

Investment in 71 active SPSUs increased from ₹ 1,18,060.71 crore in 2014-15 to ₹ 1,69,957.91 crore in 2018-19. Return on Investment ranged between 6.82 per cent and 4.78 per cent during 2014-19. Similarly, total equity of the 71 SPSUs increased from ₹ 60,021.95 crore in 2014-15 to ₹ 1,08,927.41 crore in 2018-19. Return on Equity ranged between 2.56 per cent and 0.88 per cent during 2014-19.

1.8.3.3 Investment in joint stock companies and partnerships

Finance Accounts (Statement No. 19) revealed investment of the State Government to the extent of ₹ 32.56 crore in shares of 28 Other Joint Stock Companies (JSC) and partnerships. The investment in eight of 28 JSC dated prior to the formation of the State of Gujarat (1960). Four of 28 JSC were under liquidation, one had already been dissolved while, shares of one were yet to

35 In case of one SPSU (Gujarat Women Economic Development Corporation Limited), excess of expenditure over income was adjusted against capital reserve and non-plan grants. Whereas, the other SPSU (Gujarat Police Housing Corporation Limited) transferred the excess of expenditure over income to works completed.

36 It is dividend earned from profit-making SPSUs $\{(\text{₹ } 71.68 \text{ crore} / \text{₹ } 3,572.22 \text{ crore}) * 100 = 2.01\}$

37 Investment comprises paid up capital plus long-term borrowings plus free reserves.

38 Net worth comprises the sum total of paid-up share capital and free reserve and surplus less accumulated losses and deferred revenue expenditure.

be transferred to the State Government. No dividend was received by the State Government from these 28 JSC during 2018-19.

Audit followed up (December 2019) with the State Government about the existence of these JSC along with the reasons for non-payment of dividend. Finance Department stated (December 2019) that the concerned Administrative Departments have been requested to provide the requisite information. However, no progress was reported by Finance Department as of February 2020.

1.8.3.4 Investment in Public Private Partnership projects

Public Private Partnerships (PPPs) are formed by the Government agencies and bodies usually to promote and develop infrastructure facilities.

As on 31 March 2019, the status of PPP projects in infrastructure sector was as indicated in **Table 1.29**.

Table 1.29: Status of PPP projects in infrastructure sector

(₹ in crore)

Sr. No.	Sector	Projects completed		Projects under implementation	
		No.	Total investment	No.	Expenditure incurred
1.	Roads	19	2,596.06	11	6,137.09
2.	Urban infrastructure	84	1,877.87	64	5,727.81
3.	Water	0	0.00	1	2,000.00
4.	Power	6	11,350.00	1	43.30
5.	Ports	55	51,619.53	16	14,535.95
6.	Aviation	0	0.00	2	0.00
7.	IT, ITES and Biotech	3	5.12	3	255.00
8.	Railways	1	395.00	2	1,262.25
9.	Agriculture	2	23.18	0	0.00
10.	Road Transport	7	923.01	11	750.18
	Total	177	68,789.77	111	30,711.58

Source: Information provided by Gujarat Infrastructure Development Board

Table 1.29 shows that of 288 PPP projects valuing ₹ 99,501 crore in the infrastructure sector in Gujarat, 177 projects valuing ₹ 68,790 crore had been completed by March 2019. Major investments were in Urban Infrastructure sector where 84 projects have been completed and 64 projects were under implementation. Further, under the Ports sector, 55 projects valuing ₹ 51,620 crore have been completed and 16 projects with investment of ₹ 14,536 crore were in progress.

1.8.4 Loans and advances by State Government

Statement 18 of Finance Accounts gives details of loans and advances given by the State Government to various bodies and authorities. **Table 1.30** presents the status of loans and advances disbursed, repayments and interest received *vis-à-vis* interest paid by the State Government on its borrowings during 2014-19.

Table 1.30: Interest receipts and payments on loans and advances

(₹ in crore)

Quantum of loans and advances given/ Interest receipts/ Cost of borrowings	2014-15	2015-16	2016-17	2017-18	2018-19
Opening balance of loans and advances given	7,048	6,777	7,327	7,638	7,923
Loans advanced during the year	350	675	477	631	1,731
Loans repaid during the year	621	125	166	346	151
Closing Balance of loans and advances given	6,777	7,327	7,638	7,923	9,503
Loans for which terms and conditions have not been settled	309	634	373	521	1,296
Net addition during the year	(-271)	550	311	285	1,580
Interest receipts during the year	142	172	117	88	74
Interest receipts as percentage of outstanding loans and advances ³⁹	2.10	2.35	1.53	1.13	0.85
Interest payments	14,946	16,300	17,797	18,954	20,183
Interest payments as percentage of outstanding fiscal liabilities of the State Government	7.39	7.37	7.32	7.39	7.06
Difference between interest receipts and interest payments (in per cent)	(-5.29)	(-5.02)	(-5.79)	(-6.26)	(-6.21)

Source: Finance Accounts of respective years

The table above shows that interest spread on Government borrowings was negative during the period 2014-19, which indicated that State borrowings were more expensive than the loans advanced by it.

The table also shows that the total outstanding loans and advances increased from ₹ 7,923 crore in 2017-18 to ₹ 9,503 crore in 2018-19. Of the total loans advanced during the year (₹ 1,731 crore), ₹ 924 crore was advanced for social services, ₹ 756 crore for economic services and ₹ 51 crore was advanced for Miscellaneous purposes. Loans advanced under social services were used for urban development and welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes and Minorities. Major portion of the loans advanced under economic services went to power sector (₹ 69 crore) and transport sector (₹ 113 crore).

Further, of the total loans advanced during the year (₹ 1,731 crore), loans amounting ₹ 1,296 crore were disbursed by the Administrative Departments or Finance Department without setting terms and conditions for repayments of loans and rate of interest payable.

1.8.4.1 Finalisation and adherence to terms and conditions of loans

As per Rule 71 of the Gujarat Financial Rules, 1971, an authority competent to sanction a loan shall, while sanctioning a loan, specify terms and conditions of loan including the terms and conditions of repayment of loan and rate of interest in the sanction order. The above provisions were reiterated *vide* Finance

39 Interest Received /[(Opening balance + Closing balance) of Loans and Advances/2]*100