Executive Summary

Background

In May 2005, Rajasthan Government responded to the Twelfth Finance Commission's recommendation by legislating its "Fiscal Responsibilities and Budget Management Act (FRBM)." It sets out a reform agenda through fiscal correction path in the medium term with the long-term goal of securing growth stability for its economy. The State Government's commitment to carry forward these reforms is largely reflected in certain policy initiatives announced in the budgets subsequently. While the benefits of FRBM legislation have been realised to a great extent already, in terms of reduction in major deficit indicators etc, the State Government's resolve to implement VAT, introduction of New Pension Scheme, ceilings on Government guarantees and a host of other institutional and sectoral reform measures will go a long way in building up the much needed 'fiscal space' for improving the quality of public expenditure and to promote fiscal stability.

The State Government has done well in establishing an institutional mechanism on fiscal transparency and accountability as evident from the year-on-year presentation of outcome budgets. These outcome indicators tend to serve the limited purpose of measuring the department-wise performance against the targets. They do not, however, give the 'big picture' of the status of financial management including debt position, off-budget liabilities and cash management etc. for the benefit of the State Legislature and other stakeholders.

The Comptroller and Auditor General's civil audit reports step in to fill this gap. C&AG's reports have been commenting upon the Government's finances for over three years since the FRBM legislation and have published three reports already. Since these comments formed part of the civil audit report, it was felt that the audit findings on State finances remained camouflaged in the large body of audit findings on compliance and performance audits. The obvious fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring State finances to center stage once again, a stand-alone report on State Government finances is considered an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, C&AG has decided to bring out a separate volume titled "Report on State Finances."

The report

Based on the audited accounts of the Government of Rajasthan for the year ending March 2009, this report provides an analytical review of the Annual Accounts of the State Government. The report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of Rajasthan Government's fiscal position as at 31 March 2009. It provides an insight into trends in committed expenditure, borrowing pattern besides a brief account of Central funds transferred directly to the State implementing agencies through off-budget route.

Chapter 2 is based on audit of Appropriation Accounts and it gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of Rajasthan Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collated from several sources in support of the findings. Appendix 4.1 at the end gives a glossary of selected terms related to State economy, as used in this report.

Audit findings and recommendations

Return to fiscal correction: Rajasthan Government's early gains in achieving deficit targets, suffered a setback in the current year due to the slump in the economy, impacting its revenue receipts. The Sixth Pay Commission award also put pressure on the committed expenditure. Given the robustness of the economy, the State can still achieve the FRBM targets with a concerted effort through better tax compliance, reductions in tax-collection costs, focusing on regaining revenue arrears (para 1.3.3) and by pruning unproductive expenditure. The State also needs to ensure that the Government of India releases all grants due to it by timely fulfillment of all conditionalties / pre-requisites (para 1.4.4).

Greater priority to capital expenditure: The State may consider reprioritising its outlays, in view of the fact that its capital expenditure-aggregate expenditure ratio is lower than the average for all the States (table 1.8).

Adequate thrust to development and social sector expenditure: The per capita development expenditure in Rajasthan is much lower than the national average even though the state is spending adequate amounts compared to the rest of the country (table 1.8). This calls for a serious introspection on whether the capacity of the State to utilize expenditure for developmental and social outcomes can be improved by better design of schemes, reducing administration costs, timely implementation, closer monitoring etc. Cost and time overruns of incomplete projects (para 1.6.2) are inevitable by-products of weak control systems. The State can work towards further improvements in this area so that people derive envisaged benefits in the quickest possible time. Outcome budgeting should be able to mitigate this weakness.

Review of Government investments:

The average return on Rajasthan Government's investments in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.2 to 0.5 per cent in the past three years, whereas its average interest outgo was in the range of 7.7 to 8.3 per cent (para 1.6.3). This is obviously an unsustainable proposition. The State Government should therefore hasten to seek better value for money in investments. Otherwise high-cost borrowed funds invested in projects with low financial return will continue to strain the economy. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification for the high-cost borrowings. Time has come to revisit the working of State-owned public sector undertakings, incurring huge losses (para 1.6.4) and work out either a revival strategy (for those that are strategic in nature and can be made viable) or close down (if they are not likely to be viable given current market conditions).

Prudent cash management: The cost of holding surplus cash balances is reported high. In 2008-09, interest received on investment of cash balances in RBI's Treasury Bills and Auction Bills was only 3.8 per cent while the Government borrowed on an average rate at 7.7 per cent (Para 1.6.6 refers). Proper debt management through advanced planning could minimise the need to hold large cash surpluses. Ways and Means facility of RBI can also be judiciously resorted to as long as the state does not avail of overdraft facility.

Debt sustainability: The Government of Rajasthan should endeavor to achieve the debt-GSDP ratio as specified in Fiscal Reform legislation that the total outstanding debt (excluding public account and risk-weighted outstanding guarantees) do not exceed twice the estimated receipts in its Consolidated Fund. Borrowed funds should be used as far as possible only to fund capital expenditure and revenue expenditure should be met from revenue receipts. Efforts should be made to return to the state of primary surpluses and zero revenue deficit at the earliest possible opportunity. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Oversight of funds transferred directly from the GoI to the State implementing agencies: Funds flowing directly to the implementing agencies through off-budget routing inhibits FRBM requirements of transparency and therefore bypass accountability. There is no single agency monitoring its use and there is no readily available data on the amounts spent in any particular year on major flagship and other important schemes. A system has to be urgently put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General (A&E).

Financial management and budgetary control: Slow pace of programme implementation in the State left an overall saving of Rs 2933 crore offset by excess of Rs 444 crore; this requires regularisation under Article 205 of the Constitution of India (para 2.2.5). 'Irrigation' and 'Education' sectors posted large savings persistently for the last five years (para 2.2.2). There were also instances of inadequate provision of funds and unnecessary/ excessive re-appropriations. Rush of expenditure at the end of the year is another chronic feature noticed in the overall financial management. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of the year leaving no scope for utilizing these funds for other development purposes. Detailed bills were not submitted for large amount of advances drawn on abstract contingent bills. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/ surrender orders should be avoided.

Financial reporting: State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delays in furnishing utilization certificates against the loans and grants from various grantee institutions. Delays also figured in submission of annual accounts by some autonomous bodies and departmental undertakings. There were instances of losses and misappropriations, mostly due to improper maintenance of cash book and store accounts (para 3.5). Departmental enquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases in future.