

1.1 Introduction

1.1.1 Delhi, the country's capital is a highly densely populated region (9340 persons per sq.km.) as compared to the all India average of 325 persons per sq. km. Population of Delhi has been growing at twice the rate (27.24 *per cent*) of other General Category States¹ (13.42 *per cent*) for the past decade, whereas the Gross State Domestic Product (GSDP) of Delhi has been growing at a compound annual growth rate of 13.53 *per cent* which is slightly higher when compared to other General Category States (12.54 *per cent*). The total population of Delhi accounts for 1.34 *per cent* of the All-India Population whereas in area, it is only 0.05 *per cent* of total area of country. Population below poverty line (14.7 *per cent*) is less than the all India average (27.5 *per cent*). **(Appendix 1.1)**

1.1.2 The accounts of the Government of the National Capital Territory (NCT) of Delhi are kept in two parts (i) Consolidated Fund and (ii) Contingency Fund. There is no public account. Transactions relating to debt (other than those included in the Consolidated Fund), deposits, advances, remittances and suspense are merged in the Public Account of the Union Government. Similarly, the cash balance of the Government of NCT of Delhi is merged and forms part of the general cash balance of the Union Government. The Finance Accounts of the Government of National Capital Territory of Delhi are laid out in sixteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund and Contingency Fund of Government of NCT of Delhi. **(Appendix 1.2)**

This chapter provides a broad perspective of the finances of the Delhi Government during the year ending March 2010 and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years.

1.2 Summary of Current Year's Fiscal Transactions

Table 1.1 presents a summary of the State Government's fiscal transactions during the current year (2009-10) vis-a-vis the previous years while **Appendix 1.3** provides details of receipts and disbursements and overall fiscal position during the current year.

¹All states except North East States, Himachal Pradesh and Jammu & Kashmir

Table 1.1: Summary of Current Year's Fiscal Operations

(₹ in crore)

Receipts			Disbursement				
	2008-09	2009-10		2008-09	2009-10		
Section-A Revenue	Total	Total	Section-A Revenue	Total	Non Plan	Plan	Total
Revenue receipts	16352.21	20451.34	Revenue expenditure	11762.56	9158.12	4742.76	13900.88
Tax revenue	12180.70	13447.86	General services	3434.55	3548.52	81.15	3629.67
Non-tax revenue	2300.72	3467.40	Social services	6599.37	4244.62	3858.96	8103.58
Share of Union Taxes/Duties			Economic services	1272.70	847.62	802.66	1650.28
Grants from Government of India	1870.79	3536.08	Grants-in-aid and Contributions	455.95	517.35	-	517.35
Section-B Capital			Section-B Capital				
Misc. Capital Receipts			Capital Outlay	3995.40	3.65	4713.62	4717.27
Recoveries of Loans and Advances	799.00	318.15	Loans and Advances disbursed	4217.32	1671.96	4029.34	5701.30
Public Debt receipts*	428.74	1769.00	Repayment of Public Debt*	386.03	606.44	0.03	606.47
Opening Cash Balance‡	8556.49	5775.13	Closing Cash Balance‡	5775.13	-	-	3387.70
Total	26136.44	28313.62	Total	26136.44	11440.17	13485.75	28313.62

* Includes loans and advances from Government of India largely in the form of share in small savings.

‡ Cash balance is merged with the general cash balance of Government of India.

(Source: Finance Accounts of Delhi and information from PAO, Delhi)

Following are the significant changes during 2009-10 over the previous year:

- Revenue receipts grew by ₹ 4099.13 crore (25.07 per cent). The increase was mainly contributed by tax revenue (₹ 1267.15 crore) and non-tax revenue (₹1166.68 crore) and grants from Government of India (₹1665.29 crore).
- Revenue expenditure and capital expenditure increased by ₹ 2138.32 crore (18.18 per cent) and ₹ 721.87 crore (18.07 per cent) respectively.
- Recoveries of loans and advances decreased by ₹ 480.85 crore (60.18 per cent) and the disbursement of loans increased by ₹ 1483.98 crore (35.18 per cent).
- Public debt receipts and repayments increased by ₹ 1340.26 crore (312.60 per cent) and by ₹ 220.44 crore (57.10 per cent).
- The cash balance at the close of 2009-10 decreased by ₹ 2387.43 crore (41.34 per cent) over the previous year as a result of inflow and outflow of funds during the year.

1.3 Resources of the State

1.3.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as

proceeds from recoveries of loans and advances, debt receipts and loans and advances from GOI as well as deposits from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.1** depicts the trends in various components of the receipts of the State during 2005-10. **Chart 1.2** depicts the composition of resources of the State during the current year.

Chart 1.1: Trends in Receipts

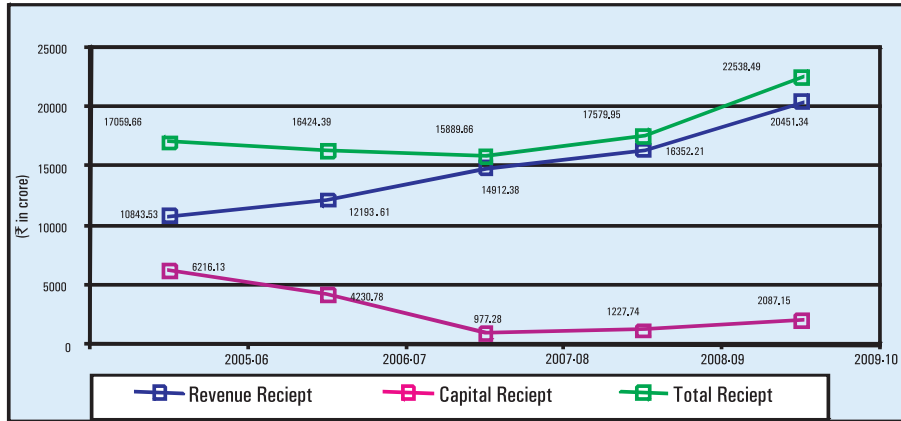
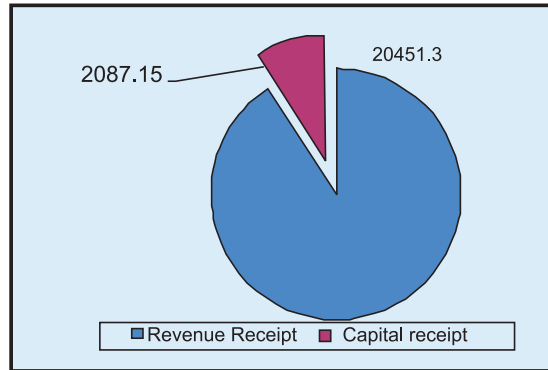


Chart 1.2 : Composition of Receipts for 2009-10 (₹ in crore)



The composition of the total receipts of the NCT of Delhi has significantly changed during the period 2005-10 in favour of revenue receipts, the share of which has increased from 63.56 per cent in 2005-06 to 90.74 per cent in 2009-10.

1.4 Revenue Receipts

Statement 9 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the state’s own tax and non-tax revenues and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2005-10 are presented in **Appendix 1.3** and also depicted in **Charts 1.3** and **1.4** respectively.

Chart 1.3: Trends in Revenue Receipts

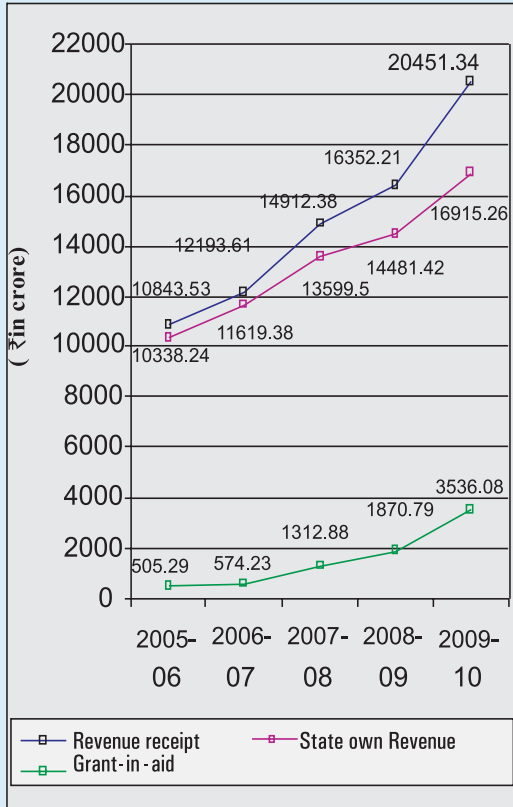
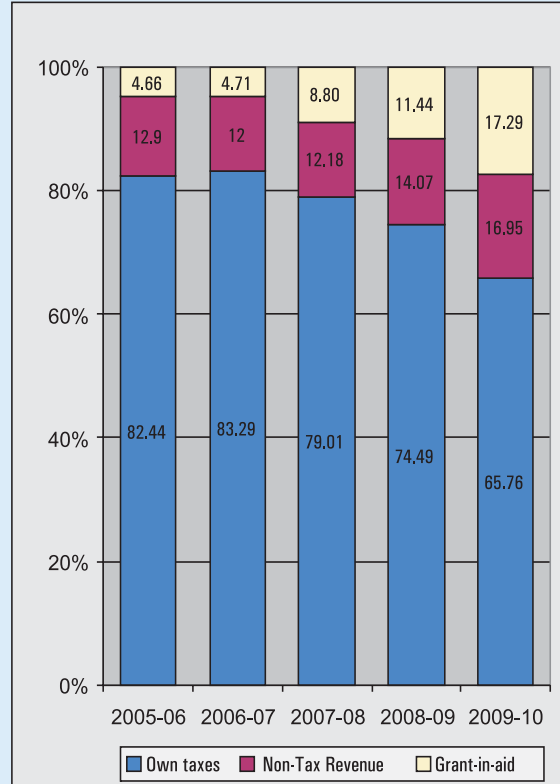


Chart 1.4: The composition of Revenue Receipts during 2005-10



The trends in revenue receipts relative to GSDP are presented in **Table 1.2** below:

Table 1.2: Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (₹ in crore)	10843.53	12193.61	14912.38	16352.21	20451.34
Rate of growth of RR (<i>per cent</i>)	26.64	12.45	22.30	9.66	25.07
R R/GSDP (<i>per cent</i>)	10.25	9.73	10.33	9.85	10.87
Buoyancy Ratios					
Revenue Buoyancy w.r.t GSDP	1.78	0.67	1.48	0.64	1.88
State's Own Tax Buoyancy w.r.t. GSDP	1.72	0.74	1.06	0.23	0.78

(Source: Finance Accounts of Delhi)

The revenue receipts have shown an increasing trend over the period 2005-10 with significant change in composition, i.e., share of state's own taxes has declined from 82 *per cent* in 2005-06 to 66 *per cent* in 2009-10. The revenue receipts grew significantly by 25 *per cent* during 2009-10, whereas it was only 9.66 *per cent* during the previous year, i.e., 2008-09.

The growth in revenue receipts (25.07 *per cent*) was much higher as compared to growth in GSDP (13.32 *per cent*) during the year 2009-10 (**Appendix 1.4**). In the current year the revenue buoyancy with reference to GSDP reached an all time high (1.88 *per cent*) when compared to previous four financial years viz 2005-06 to 2008-09.

Ideally, as GSDP grows the State Government has the potential to increase own tax/non-tax collection because people have a greater ability to pay taxes due to increased income. In 2008-09 the state's own tax buoyancy w.r.t. GSDP was very low (for every one *per cent* growth of GSDP only 0.23 *per cent* growth in state's own tax). However, the position considerably changed in 2009-10, when state's own tax buoyancy rose to 0.78 *per cent*. State government may consider ensuring that the state's own tax buoyancy w.r.t. GSDP is at least one if not greater than one, by considering options for widening the tax base.

1.4.1 State's Own Resources

The revenue receipts of the State have indicated a mixed trend over the period 2005-10. The growth rate dipped drastically in the year 2006-07 and 2008-09, but it increased by 22 *per cent* and 25 *per cent* during the years 2007-08 and 2009-10 respectively. The relative share of its own tax and non-tax revenue exhibited relative stability during the period 2005-06 to 2008-09. However, the share of own tax receipt decreased by nine *per cent* and share of non-tax receipt increased marginally by three *per cent* during the year 2009-10 as compared to previous year. The share of Grants-in-aid indicated variations and its share increased from 11.44 *per cent* in 2008-09 to 17.29 *per cent* during the current year.

The Tax Revenue has increased by ₹ 1267.16 crore (10.40 *per cent*) during the current year (₹ 13447.86 crore) over previous year (₹ 12180.70 crore). The revenue from sales tax not only contributed about three fourth of the total tax revenue but also grew by 10.64 *per cent* over the previous year. Contribution of other taxes has decreased by ₹ 114.93 crore (28.69 *per cent*) during the current year (₹ 285.64 crore) over previous year (₹ 400.57 crore).

Collection under Stamp duty and state excise have increased by ₹ 141.97 crore and ₹ 222.65 crore respectively during 2009-10 over the previous year.

The Non-tax Revenue which constituted 16.95 *per cent* of total revenue receipts during 2009-10 increased by ₹ 1166.68 crore recording a growth rate of 50.71 *per cent* over previous year. The growth of non-tax revenue during the last five years (2005-10) indicated an increase of 147.86 *per cent*. The interest receipt, which increased from ₹ 2101.41 crore in 2008-09 to ₹ 3236.62 crore in 2009-10, which contributed 91.34 *per cent* in 2008-09 and 93.34 *per cent* in 2009-10 of total non-tax receipt. Out of total interest receipt of ₹ 3236.62 crore in 2009-10, ₹ 1859.88 crore and ₹ 1353.82 crore contributed by local bodies and public sector and other undertakings.

1.4.2 Loss of Revenue due to Evasion of Taxes, Write offs/Waivers and Refunds

During the year 2009-10, the Department of Trade and Taxes reported detection of 1451 cases of evasion of tax involving discrepancies in stock figures and cash figures of ₹ 45.64 crore.

The numbers of refund cases allowed during the year 2009-10 as reported by the departments are indicated below:

Department	No. of cases	(₹ in crore)
		Amount
Department of Trade and Taxes	17273	259.78
Transport Department	36	0.03
Department of Revenue	3160	37.63

1.4.3 Revenue Arrears

The arrears of revenue as on 31 March 2010 in respect of some principal heads of revenue amounted to ₹ 9945.01 crore, of which ₹ 9944.38 crore related to taxes on sales, trade etc. Department of Trade & Taxes attributed (November 2010) the reasons for arrears as (i) the demand generated by repeated ex-parte assessment even if the dealers became non-functional, (ii) Arrears were accumulated in the past 30 years, (iii) amount deposited with bank but the department did not reflect it in the ward record, and (iv) the records have not been updated. Arrears outstanding in the case of State Excise, Luxury Tax and Entertainment Tax were related to interest on late payment of tax, penalty on non-filing/late filing of return and other penalties.

1.5 Application of resources

1.5.1 Growth and Composition of Expenditure

Statement 10 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. The total expenditure of the State increased from ₹ 10918.08 crore in 2005-06 to ₹ 24319.45 crore in 2009-10.

The total expenditure during the current year at ₹ 24319.45 crore has increased by ₹ 4344.17 crore (21.75 *per cent*) over the previous year. Of the total increase, revenue expenditure constituted ₹ 2138.32 crore (18.18 *per cent*), capital expenditure ₹ 721.87 crore (18.07 *per cent*) and loans and advances ₹ 1483.98 crore (35.19 *per cent*). Over the last five years, revenue expenditure increased from ₹ 6515.39 crore in 2005-06 to ₹ 13900.88 crore in 2009-10 which constituted an increase of 113.35 *per cent*. Similarly, capital expenditure which was ₹ 1502.42 crore in 2005-06, increased to ₹ 4717.27 crore in 2009-10 registering an increase of 213.98 *per cent* during this period.

Capital expenditure and revenue expenditure were 18.74 *per cent* and 81.26 *per cent* of total expenditure (excluding loans and advances) in 2005-06, while in 2009-10 they were 25.34 *per cent* and 74.66 *per cent* respectively. The increasing share of capital expenditure is an indicator of more productive allocation of funds by the state. Total expenditure under plan head increased from ₹ 3088.08 crore in 2005-06 to ₹ 9456.38 crore in 2009-10 registering an increase of 206.22 *per cent* while non-plan expenditure increased to ₹ 9161.77 crore in 2009-10 from ₹ 4929.73 crore in 2005-06 registering an increase of 85.85 *per cent* during the corresponding period. The bifurcation of total expenditure into plan and non-plan during the year 2009-10 revealed that the share of plan and non plan expenditure was 50.79 *per cent* and 49.21 *per cent* respectively.

Chart 1.5 presents the trends in total expenditure over a period of five years (2005-10) and its composition both in terms of 'economic classification' and 'expenditure by activities' are depicted in Charts 1.6 and 1.7 respectively.

Chart 1.5: Total Expenditure: Trends and composition

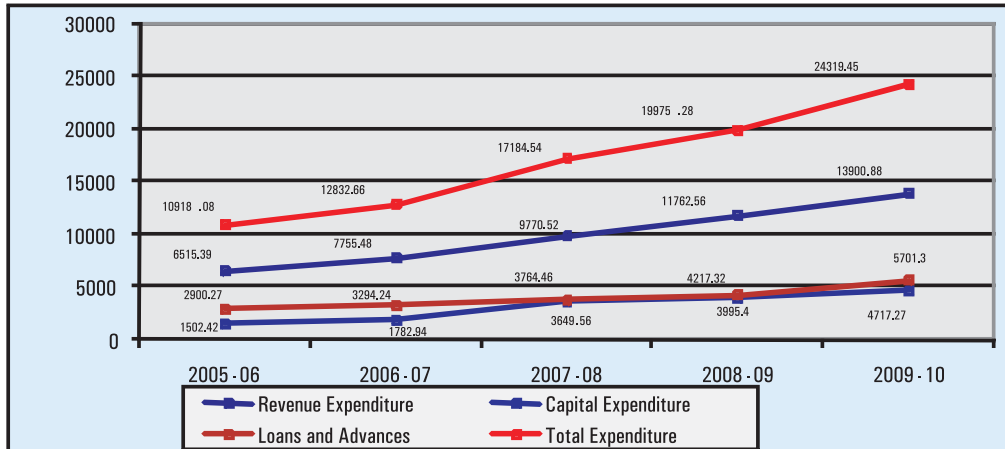


Chart 1.6: Total Expenditure : Trends in Share of its Components

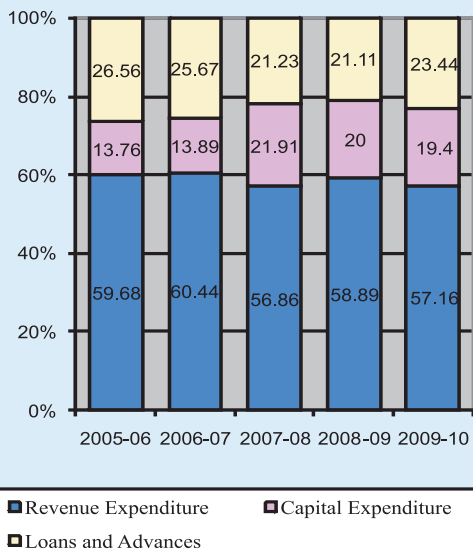
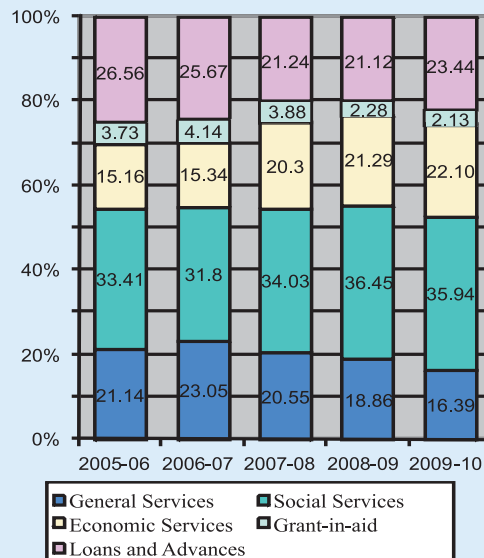


Chart 1.7: Total Expenditure: Trends by Activities



The share of loans and advances has decreased from 26.56 per cent to 23.44 per cent during 2005-2010.

1.6 Quality of Expenditure

The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure use

and the effectiveness (assessment of outlay-outcome relationships for select services), which has been elaborated in the following paragraphs:

1.6.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure are largely assigned to the State Governments in accordance with the provisions laid down in the Constitution. Thus, in order to enhance social development levels in the States, it is essential to increase expenditure on key social services like education, health etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) would be attached to a particular sector, if it was below the national average. **Table 1.3** analyses the fiscal priority of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during 2009-10.

Table-1.3 Fiscal Priority of the State in 2005-06 and 2009-10

Fiscal Priority by the State	(in per cent)					
	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/AE	Health/ AE
16* General Category States Average (Ratio) 2005-06	17.75	61.76	30.76	13.97	14.95	4.05
Delhi State's Average (Ratio) 2005-06	10.32	75.12	40.93	13.76	15.22	8.32
16* General Category States Average (Ratio) 2009-10	18.24	66.05	35.76	14.85	16.21	4.28
Delhi State's Average (Ratio) 2009-10	12.93	73.06	42.54	19.40	16.80	8.22

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Service Expenditure
CE: Capital Expenditure

Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

Source : For GSDP, the information was collected from the State's Directorate of Economics and Statistics

* Excluding Delhi, Goa and Puducherry

Fiscal priority refers to the priority given to a particular head of expenditure. The table above gives a comparison of fiscal priority given to different categories of expenditure of the State in 2005-06 and the current year, 2009-10 with that of the General Category States.

- AE as a ratio of GSDP in both the years, i.e., 2005-06 and 2009-10 (10.32 per cent and 12.93 per cent) was lower as compared to General Category States (17.75 per cent and 18.24 per cent).
- The Government had given adequate fiscal priority to DE as its ratio to AE was higher than the average ratio of General Category States in both the years. However, the proportion of aggregate expenditure spent on development seems to have fallen from over 75 per cent in 2005-06 to 73 per cent in 2009-10.
- The ratio of SSE to AE was higher than the General Category States' average ratio in 2005-06 and 2009-10.
- Since the priority of social sector expenditure has increased to 42.54 per cent in 2009-10 as compared to nearly 41 per cent in 2005-06, it was clear that lower priority was given to economic sector in 2009-10 since DE = SSE + ESE (Development Expenditure, Social Service Expenditure, Economic Service Expenditure)

- The CE to AE ratio was marginally lower than the General Category States' average ratio in 2005-06, but the same was higher in 2009-10.
- The capital expenditure has also increased significantly from 13.76 per cent in 2005-06 to 19.40 per cent in 2009-10, which shows the priority given to infrastructural development in Delhi.
- The ratio of expenditure on Education to AE in 2005-06 and 2009-10 were marginally higher than the ratio of General Category States.
- The ratio of expenditure on Health and Family Welfare to AE in 2005-06 and 2009-10 was almost double than the ratio of General Category States.
- In the case of social sector expenditure, the priority of education in 2009-10 was higher than 2005-06, but priority given to health was marginally lower.

1.6.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods apart from improving the allocation towards development expenditure, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years. **Table 1.4** presents the trends in development expenditure of the State during the current year and the previous years.

Table 1.4: Development Expenditure

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					Budget (Final Estimates)	Actual
a. Development Revenue Expenditure	3883.78	4413.26	5853.95	7872.07	10074.15	9753.86
b. Development Capital Expenditure	1418.72	1636.10	3482.40	3661.92	4506.90	4361.14
c. Development Loans and Advances	2899.30	3292.73	2786.09	4215.93	3653.63	3653.13

Actual development expenditure during 2009-10 under revenue and capital was lower by ₹ 320.29 crore and ₹ 145.76 crore respectively than the estimates (final). This shows that the preparedness of the implementing agencies to implement various plan schemes was not assessed while framing the budget estimates.

The above table would also reveal that the development revenue expenditure and capital expenditure increased by 151.14 per cent and 207.40 per cent respectively during the year 2005-06 to 2009-10. Increase in development expenditure shows a positive trend towards social and economic development of the citizens of NCT of Delhi.

The decrease of 13.35 per cent in 2009-10 over the previous year under the head 'loans and advances' shows that the State Government was moving towards self-sufficiency in development expenditure in NCT of Delhi.

1.7 Financial Analysis of Government Expenditure and Investments

This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.7.1 Investment and returns

As of 31 March 2010, Government had invested ₹ 11017.56 crore in statutory corporations, rural banks, joint stock companies and co-operatives (**Table 1.5**). *The average return on this investment was a meagre 0.36 per cent in the last three years while the Government paid, on an average, interest rate of 9.75 per cent on its borrowings during 2007-2010.*

Table 1.5: Return on Investment

	(₹ in crore)				
Investment/return/cost of borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year	2063.66	2850.38	8235.43	9682.02	11017.56
Return	38.62	22.17	31.15	29.92	41.56
Return (%)	1.87	0.78	0.38	0.31	0.38
Average rate of return on Govt. borrowing (%)	8.87	9.35	9.84	9.90	9.52
Difference between interest rate and return (%)	7.00	8.57	9.46	9.59	9.14

Total investment in government companies increased from ₹ 9682.02 crore at the end of March 2009 to ₹ 11017.56 crore at the end of March 2010. The increase in investment in 2009-10 over the previous fiscal year was mainly on account of new investment of ₹ 825.02 crore and ₹ 620 crore in Delhi Metro Rail Corporation Ltd. and Delhi Transport Corporation (DTC) respectively.

As per adopted accounts of the companies and corporations; five companies viz, Delhi Power Company Limited (DPCL), Delhi Transco Limited (DTL), Indraprastha Power Generation Company Limited (IPGCL), Pragati Power Corporation Limited (PPCL) and Delhi Tourism and Transportation Development Corporation (DTTDC), and one Corporation, i.e., Delhi Financial Corporation (DFC) with government investment of ₹ 8,329.69 crore earned a profit of ₹ 59.40 crore, ₹ 93.09 crore, ₹ 120.67 crore, ₹ 147.34 crore, ₹ 9.45 crore and ₹ 5.29 crore respectively during 2009-10. Similarly, four companies/corporations viz., Delhi State Civil Supplies Corporation (DSCSC), Shajahanabad Redevelopment Corporation, Geospatial Delhi Limited and Delhi Transport Corporation where government investment amounted to ₹ 10,931.74 crore registered net losses of ₹ 2.33 crore, ₹ 0.22 crore and ₹ 0.10 crore and ₹ 2042.73 crore (provisional) respectively during 2009-10.

1.7.2 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many institutions/organizations. Total outstanding loans and advances as on 31 March 2010 was ₹ 39219.78 crore (**Table 1.6**).

Table 1.6: Average Interest Received on Loans Advanced by the State Government

	(₹ in crore)			
Quantum of Loans/Interest Receipts/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10
Opening Balance	27724.60	27000.02*	30418.31	33836.63
Amount advanced during the year	3294.24	3649.55	4217.32	5701.30
Amount repaid during the year	228.64	231.26	798.99	318.15
Closing Balance	30467.02	30418.31	33836.64	39219.78
Net addition	3065.60	3418.29	3418.32	5383.15
Interest Receipts	1284.98	1634.79	2101.41	3236.62
Interest receipts as per cent to outstanding Loans and advances	4.22	5.37	6.91	8.25
Interest payment as per cent to outstanding fiscal liabilities of the state Government	9.35	9.84	9.90	9.52
Difference between interest payments and interest receipts (per cent)	5.13	4.47	2.99	1.27

*Prior period adjustment of ₹ 15.00 crore due to conversion of loan of Social Services into Grant-in-aid and ₹ 3452.00 crore loan to equity under Energy Sector
(Source: Finance Accounts of Delhi and PAO, Delhi)

Loans outstanding against state level organizations/institutions constitute the major portion of total outstanding loans of NCT of Delhi. Majority of the State enterprises and institutions to whom the loans and advances were given and remained outstanding at the end of 2009-10 by the Government of NCT of Delhi were in the sectors of water supply (₹ 6670.71 crore), sewerage and sanitation (₹ 3429.71 crore), urban development (₹ 1255.16 crore), road transport (₹ 10059.54 crore) and energy sector for power projects (₹ 5645.72 crore).

1.8 Assets and Liabilities

1.8.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.5** gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position as on 31 March 2009. The liabilities in this Appendix consist only of loans and advances from the GOI. The assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

1.8.2 Fiscal Liabilities

Overall fiscal liabilities of the State increased from ₹ 21699.65 crore in 2005-06 to ₹ 26544.20 crore in 2009-10 (22.33 *per cent*). The fiscal liabilities of ₹ 26544.20 crore during 2009-10 comprised of small savings collection of ₹ 26544.19 crore and cooperative assistance to other cooperatives ₹ 0.01 crore. Whereas during the year 2008-09 the small saving collection and assistance to other cooperatives were ₹ 25381.63 crore and ₹ 0.04 crore respectively of the total liabilities of ₹ 25381.67 crore. The fiscal liabilities stood at 1.30 times of the revenue receipts and 1.57 times of the State's own resources as at the end of 2009-10.

1.9 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyze the various indicators that determine the debt sustainability² of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization³; sufficiency of non-debt receipts⁴; net availability of borrowed funds⁵; burden of interest payments (measured by interest payments to revenue receipts ratio) and the maturity profile of State Government securities. **Table 1.7** analyzes the debt sustainability of the State according to these indicators for the period from 2005-06 to 2009-10.

Table 1.7: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	(+) 2892.39	(+) 3783.17	(+) 1805.76	(+) 980.08	(-) 112.53
Sufficiency of Non-Debt Receipts (Resource Gap)	1384.73	18.94	706.35	15.53	1479.97
Net Availability of Borrowed Funds	5672.79	3868.39	(-) 2733.42	(-) 2469.16	1162.53
Burden of Interest Payments (IP/RR Ratio)	15.43	18.13	16.79	15.36	12.09
Debt/GSDP Ratio	20.51	20.39	17.56	15.29	14.11

(Source: Finance Accounts of Delhi and PAO, Delhi)

- The quantum spread together with primary deficit has been positive from 2005-06 to 2008-09, which is indicative that the debt was sustainable. However, the quantum spread together with primary deficit turned into negative during 2009-10 due to increase in primary deficit from ₹ 312.20 crore in 2008-09 to ₹ 1077.03 crore in 2009-10. This indication should show a positive value to indicate sustainable debt position.
- The trend of net availability of borrowed funds was also in favorable condition.
- Non-tax revenue and tax revenue increased by ₹1166.67 crore and ₹1267.16 crore respectively in 2009-10 over previous year. The recovery of Loan and Advances decreased by ₹ 480.85 crore in 2009-10 as compared to previous year, which resulted in comfortable level of non-debt receipt.

²Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to the sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings and returns from such borrowings. It means that a rise in fiscal deficit should match the increase in capacity to service the debt.

³A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided the primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate-interest rate) and quantum spread (Debt* rate spread), the debt sustainability condition states that if the quantum spread together with the primary deficit is zero, the debt-GSDP ratio would be constant or the debt would stabilize eventually. On the other hand, if the primary deficit together with the quantum spread turns out to be negative, the debt-GSDP ratio would be rising and in case it is positive, the debt-GSDP ratio would eventually be falling.

⁴Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

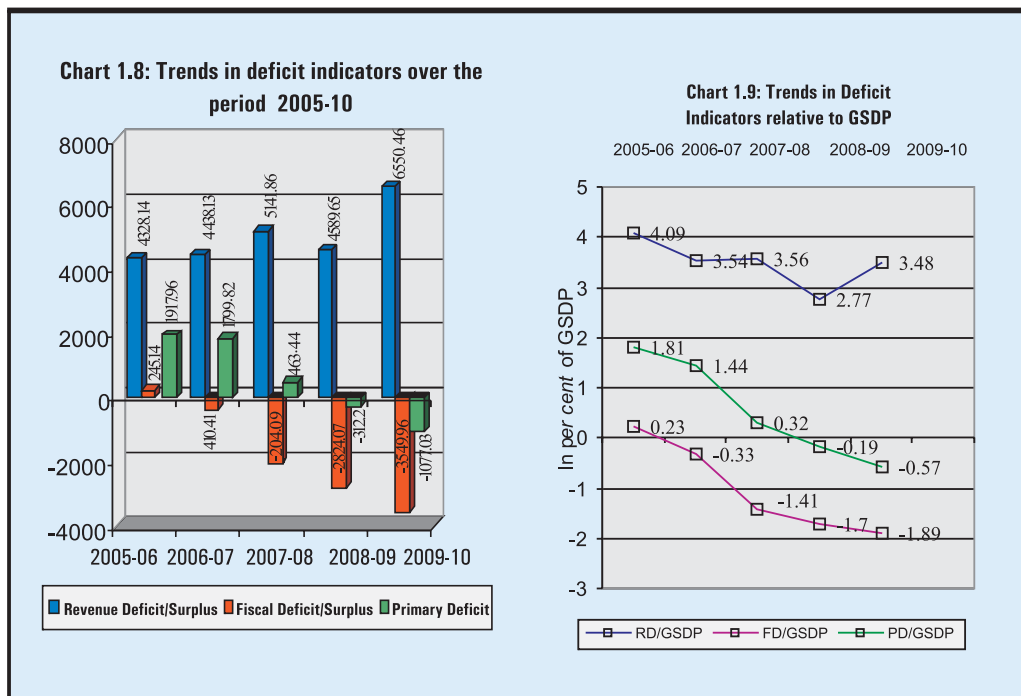
⁵Defined as the ratio of debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption, indicating the net availability of borrowed funds.

- The burden of interest payment has come down from 18.13 per cent in 2006-07 to 12.09 per cent in 2009-10. The decrease in burden of interest payment was due to continuous increase in revenue receipt.
- The debt and GSDP ratio would indicate that although the debt position has not much changed, GSDP has continuously increasing. This resulted in debt GSDP ratio going down from 20.51 per cent in 2005-06 to 14.11 per cent in 2009-10.

1.10 Fiscal Imbalances

Three key fiscal parameters – revenue, fiscal and primary deficits – indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits.

1.10.1 Trends in Deficits



- The State has continuously shown an increasing trend in revenue surplus from ₹ 4328.14 crore in 2005-06 to ₹ 6550.46 crore in 2009-10.
- The fiscal deficit has, however, shown an increasing trend from ₹ 245.14 crore in 2005-06 crore to ₹ 3549.96 crore in 2009-10.

- The primary deficit increased by ₹ 764.83 crore in 2009-10 as compared to 2008-09.
- Revenue receipts increased by 25.07 per cent in 2009-10, but revenue expenditure increased by 18.18 per cent which resulted in increase of revenue surplus by ₹ 1960.81 crore over the previous year i.e. 2008-09.

1.10.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficits has undergone a compositional shift as reflected in **Table 1.8**.

Table 1.8: Components of Fiscal Deficit

		(₹ in crore)				
Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	
Fiscal Deficit/ Surplus* (-/+)	(+) 245.14	(-) 410.41	(-) 2040.90	(-) 2824.07	(-) 3549.96	
Decomposition of Fiscal Deficit						
1 Revenue Deficit/Surplus (-/+)	4328.14	4438.13	5141.86	4589.65	6550.46	
2 Net Capital Expenditure	1502.42	1782.94	3764.46	3995.40	4717.27	
3 Net Loans and Advances	2580.58	3065.60	3418.29	3418.32	5383.15	
Financing Pattern of Fiscal Deficit**						
1 Loans from GOI	5672.79	3868.39	(-) 229.07	42.71	1162.54	

* Deficit figure shown in – and surplus in +,

** All these figures are net of disbursement/outflows during the year

(Source: Finance Accounts and PAO, Delhi)

1.10.3 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. Since Delhi has had a revenue surplus throughout the period 2005-10, borrowed funds were being used only for capital expenditure and repayment of debt. The bifurcation of the primary deficit (**Table 1.9**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure, which may be desirable to improve the productive capacity of the State's economy.

Table 1.9: Primary deficit / Surplus-Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) / Surplus (+)	Primary deficit(-) / Surplus (+)
1	2	3	4	5	6(3+4+5)	7(2-3)	8(2-6)
2005-06	11163.21	4842.57	1502.42	2900.26	9245.25	(+) 6320.64	(+) 1917.96
2006-07	12422.24	5545.24	1782.94	3294.24	10622.42	(+) 6877.00	(+)1799.82
2007-08	15143.64	7266.18	3764.46	3649.56	14680.20	(+) 7877.46	(+)463.44
2008-09	17151.21	9250.69	3995.40	4217.32	17463.41	(+) 7900.52	(-)312.20
2009-10	20769.49	11427.95	4717.27	5701.30	21846.52	(+) 9341.54	(-)1077.03

(Source: Finance Accounts and PAO, Delhi)

Delhi enjoyed a primary surplus during the year 2005-06 to 2007-08 but in last two years, i.e., 2008-09 and 2009-10, the non-debt receipts could not cover the primary expenditure. Capital expenditure as a *percentage* of primary expenditure was nearly 16 *per cent* in 2005-06 but increased to almost 22 *per cent* in 2009-10, showing a more productive allocation of resources. However, financial outlay on capital expenditure should translate into physical assets in a timely manner for desired outcomes to be realized.

1.11 Conclusion

The fiscal position of NCT of Delhi viewed in terms of key fiscal parameters-revenue surplus, fiscal deficit and primary deficit has shown that revenue surplus increased by ₹ 1960.81 crore during the year 2009-10 over the previous year. Whereas on the other hand fiscal deficit increased by ₹ 725.89 crore (25.70 *per cent*) and primary deficit has also increased by ₹ 764.74 crore in 2009-10 as compared to previous year.

These trends may, however, be seen in view of the fact that capital expenditure has increased by ₹ 721.87 crore (18 *per cent*) in 2009-10 over the previous year. About 83 *per cent* of the total revenue receipts during the year 2009-10 was contributed from Delhi's own resources.

The appreciable feature of the expenditure pattern during the period 2005-06 to 2009-10 was that capital expenditure, expenditure on social services and economic services has continuously been showing a rising trend.

However, recovery of interest receipts as *per cent* to outstanding loans and advances disbursed by the NCT of Delhi remained grossly inadequate to cover the cost of borrowing during the period 2005-10. Moreover, the average return on this investment was a meagre 0.36 *per cent* in the last three years while the Government paid, on an average, interest rate of 9.75 *per cent* on its borrowings during 2007-2010. However, the interest burden, i.e., interest received and interest paid on loans and advances was continuously decreasing over the last three years, as it was 5.13 *per cent* during 2006-07 but came down to 1.27 *per cent* during 2009-10.

1.12 Recommendations

- Department of Trade and Taxes reported 1451 cases of evasion of tax involving discrepancies in stock figures and cash figures of ₹ 45.64 crore. Government should take necessary steps to stop tax evasion.

- The arrears of revenue as on 31 March 2010 in respect of some principal heads of revenue amounted to ₹ 9945.01 crore, of which ₹ 9944.38 crore related to taxes on sales, trade etc. Efforts should be made to recover the revenue arrears.
- Actual Development expenditure under revenue and capital was lower than the estimated final budget provision. The Government should ensure that the budget provisions are made as per the requirement of the various developmental plan schemes.
- The average return on Delhi Government's investment in statutory corporations, joint stock companies and co-operatives varied between 0.31 to 0.38 *per cent* in the past three years while the Government paid, on an average, interest of 9.52 to 9.90 *per cent* on Government borrowings. The State Government should ensure better value for money in its investments. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification and high cost borrowings should instead be channeled there. It would also be prudent to review the working of state public sector undertakings, which are incurring huge losses and work out either a revival strategy or take steps towards their closure.