Executive Summary

Background

Maharashtra is the second largest State in India, both in terms of population and geographical area. The State has shown higher economic growth in the past decade as the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2001-02 to 2010-11 has been 15.87 *per cent* as compared to 14.68 *per cent* in General Category States. Despite this, the population below the poverty line in Maharashtra is much higher than the average of General Category States. During the above mentioned period, its population grew by 15.99 *per cent* against 17.56 *per cent* in General Category States. The per capita income compound annual growth rate in Maharashtra (12.51 *per cent*) has been higher than that of the General Category States (11.32 *per cent*) in the current decade. Per capita GSDP income/ contribution during 2010-11 was second highest as compared to the average of other General Category States. The State has higher urban inequality when compared to the all-India average.

This Report on the Finances of the Government of Maharashtra is being brought out with a view to objectively assess the financial performance of the State during 2010-11 and to provide the State Government and State Legislature with timely inputs based on audit analysis of financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the Maharashtra Fiscal Responsibilities and Budgetary Management (MFRBM) Act, 2005 and in the Budget Estimates of 2010-11.

The Report

Based on the audited accounts of the Government of Maharashtra for the year ended March 2011, this Report provides an analytical review of the Annual Accounts of the Government. The Report is structured in three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of the Maharashtra Government's fiscal position as on 31 March 2011. It provides an insight into trends of committed expenditure and borrowing pattern, besides giving a brief account of Central funds transferred directly to the State implementing agencies through the off-budget route.

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

Chapter III is an inventory of the Maharashtra Government's compliance with various reporting requirements and financial rules. The report also compiles the data collated from various Government departments/ organisations in support of the findings.

Audit findings and recommendations

Chapter I
Finances of the State Government

Fiscal Correction : The fiscal parameters *i.e.* revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The significant gap between the growth rates of the revenue receipts (22 *per cent)* and revenue expenditure (12 *per cent*) over the previous year decreased the revenue deficit during 2010-11 as compared to 2009-10.

As per the recommendations of the Thirteenth Finance Commission (ThFC), the revenue deficit is required to be brought down to zero for 2011-12, for which efforts have to be made to increase tax compliance, reduce administration costs, collect revenue arrears and prune unproductive expenditure.

Interest payments : Interest payments (₹ 15,648 crore), which increased by 11 *per cent* during the year over 2009-10, were within the projection made in the ThFC (₹ 16,213 crore) and the Medium Term Fiscal Policy Statement (MTFPS) (₹ 16,294 crore). However, it exceeded the assessments made in the Fiscal Correction Path (FCP) (₹ 15,566 crore).

Non-Plan revenue expenditure : The revenue expenditure (RE) (₹ 1,06,459 crore) constituted 85 *per cent* of the total expenditure (₹ 1,25,382 crore), of which, 84 *per cent* was the Non-Plan component (₹ 89,532 crore). The Non-Plan Revenue Expenditure (NPRE) remained higher than the normative assessments made by ThFC (₹ 67,884 crore) and the State Government's projections (MTFPS/Budget) (₹ 82,706 crore) but was lower than that projected in the FCP (₹ 91,682 crore).

Incomplete Projects : In respect of 233 incomplete projects pertaining to three departments, time overruns between four to 25 years occurred as of 31 March 2011. In respect of 22 incomplete irrigation projects, significant cost overruns resulted due to increase in the initial budgeted costs.

Review of Government investments : The average return on the State Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.06 to 0.13 *per cent* in the past three years while the Government paid an average interest of 7.23 to 7.38 *per cent* on this investment. This is an unsustainable proposition.

The Government should take steps to ensure better value for money in investments. Otherwise, high-cost borrowed funds will continue to be invested in projects with low financial returns. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritized with full justification for channelling high-cost borrowings there. The working of State Public Sector Undertakings which are incurring huge losses should be reviewed and a revival strategy should be worked out for those undertakings which can be made viable. Those which are not likely to be viable may be closed down.

Debt sustainability *:* During 2010-11, the fiscal liabilities (₹ 2,29,569 crore) of the State increased over the previous year by 13 *per cent*. The fiscal liabilities to GSDP ratio at 22.3 *per cent* was lower than the norm of 26.30 *per cent* recommended by the ThFC and MFRBM Rules of 2011. The revenue deficit indicates that some portion of the high-cost borrowings is being used by the Government for meeting its current expenditure.

Borrowed funds should be, as far as possible, utilised only for infrastructure development, whereas revenue expenditure should be met fully from the revenue receipts. Steps should be taken to return to the state of primary surpluses and zero revenue deficit as soon as possible.

Oversight of funds transferred directly from the Government of India to the State implementing agencies: The Government of India (GOI) directly transferred ₹ 5,645 crore to State implementing agencies during 2010-11 which was an increase of ₹ 1,276 crore (29 *per cent*) over the previous year. Funds transferred directly from GOI to State implementing agencies result in non-monitoring of the expenditure incurred by them on various schemes as these funds are not reflected in the State budget. It also inhibits the MFRBM requirement of transparency in fiscal operations and thus bypasses accountability.

The Government should ensure proper accounting of the funds transferred to the State implementing agencies and the updated information should be validated by State Government as well as the Principal Accountant General (A&E), Maharashtra, for proper monitoring of the expenditure incurred by the implementing agencies.

Chapter II
Financial Management and Budgetary Control

The slow pace of programme implementation of various social and developmental programmes in the State left an overall saving of ₹ 21,929.61 crore, set off by an excess of ₹ 466.91 crore. This requires regularisation under Article 205 of the Constitution of India. There were instances of inadequate provision of funds and unnecessary/excessive reappropriations. Rush of expenditure at the end of the financial year was another chronic feature noticed in the State. In many cases, the anticipated savings were either unsurrendered or surrendered on the last two days of March 2011, leaving no scope for utilizing these funds for other developmental purposes.

All the departments should submit realistic budget estimates, keeping in view the trends of expenditure and the actual requirement of funds in order to avoid large savings/excesses. All departments should closely monitor the expenditure against the allocations and incurring of excess expenditure over the grants should be strictly avoided. Surrender of funds should be done much before the last working day of the closing year so as to enable the Government to utilize the funds on other schemes. Release of funds at the end of the year should be avoided.

Chapter III

Financial Reporting

The Government's compliance with various rules, procedures and directives was lacking in various departments, which was evident from delays in furnishing of utilization certificates against loans and grants by various grantee institutions. Delays were also experienced in submission of annual accounts by autonomous bodies and departmentally managed commercial undertakings. There were instances of large outstanding cases of losses and misappropriations for which departmental action was pending for long periods. There were delays in submission of Detailed Contingent bills drawn against Abstract Contingent bills. Significant amounts of expenditure and receipts under Central and State schemes, booked under the Minor head '800-Other expenditure' and '800-Other receipts' were not distinctly depicted in the State Finance Accounts of 2010-11, affecting the correctness in financial reporting.

The departments should ensure timely submission of utilisation certificates in respect of the grants released for specific purposes to the grantee institutions and the annual accounts in respect of the autonomous bodies to the Principal Accountant General (Audit) I, Maharashtra, Mumbai and Accountant General (Audit) II, Maharashtra, Nagpur. Departmental enquiries in respect of all fraud and misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases. A rigorous monitoring mechanism should be put in place in the departments to adjust the advances drawn on Abstract Contingent bills within the stipulated period, as required under the extant rules. Large amounts received or expended under various schemes should be depicted in the accounts distinctly, instead of clubbing the same under the Minor head '800-Other Expenditure' and '800-Other Receipts' to ensure correctness in financial reporting.