Chapter 1
Finances of the State Government

Profile of Rajasthan

Rajasthan is a desert State, comprising of about 11 *per cent* of India's geographical land mass. During the period (2001-11), its population has grown by 21.44 *per cent* against 17.56 *per cent* in General Category States and consequently the *per capita* income growth (10.53 *per cent*) in Rajasthan has also gone down as compared to General Category States (11.32 *per cent*) (***Appendix 1.1)***. In the last ten years, the density of population in the State has increased from 165 person per square km to 201 persons. However, Rajasthan still has lower density of population as compared to All India. Rajasthan's Gross State Domestic Product (GSDP) has grown at a lower rate (14.19 *per cent*) in the past decade, compared to the average GSDP growth of General Category States (14.68 *per cent*).

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Rajasthan (GoR) during 2010-11 and analyses the changes observed in the major fiscal aggregates in relation to the previous year, keeping in view the overall trends during the last five years. The structure and form of Government accounts have been explained in ***Appendix 1.2 Part A*** and the layout of the Finance Accounts is depicted in ***Appendix 1.2 Part B***. In May 2005, Rajasthan Government responded to the Twelfth Finance Commission (TFC) recommendation by legislating its "Fiscal Responsibility and Budgetary Management (FRBM) Act" and as per the recommendations of Thirteenth Finance Commission (XIII-FC) the State Government amended the Act in March 2011. As prescribed in the Act, Government has laid in legislature (March 2010) the Medium Term Fiscal Policy Statement (MTFPS) for 2010-11.

A summary of the FRBM Act, 2005 and FRBM (Amendment) Act, 2011 of the State is given in ***Appendix 1.3.***

1.2 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2010-11) *vis-à-vis* the previous year while ***Appendix 1.5*** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1: Summary of fiscal operations

(₹ in crore)

Receipts			Disbursements				
	2009-10	2010-11		2009-10	2010-11		
Section A	***Total***	***Total***	***Section A***	***Total***	***Non-Plan***	***Plan***	***Total***
Revenue receipts	**35,385.01**	**45,928.20**	**Revenue expenditure**	**40,132.19**	**36,120.68**	**8,752.67**	**44,873.35**
Tax revenue	*16,414.27*	*20,758.13*	*General services*	*15,647.04*	*16,562.49*	*175.01*	*16,737.50*
Non-Tax Revenue	*4,558.22*	*6,294.12*	*Social services*	*16,494.30*	*13,966.39*	*3,928.85*	*17,895.24*
Share of Union Taxes/ Duties	*9,258.13*	*12,855.62*	*Economic services*	*7,972.00*	*5,570.79*	*4,648.81*	*10,219.60*
Grants from Government of India	*5,154.39*	*6,020.33*	*Grants-in-aid and Contributions*	*18.85*	*21.01*	-	*21.01*
Section-B			***Section B***				
Total Capital receipts	**8,917.36**	**8,309.17**	**Total Capital disbursements**	**8,617.62**	**-**	**-**	**8,829.97**
Miscellaneous Capital receipts	8.94	13.42	Capital Outlay	5,174.73	20.06	5,230.56	5,250.62
Recoveries of Loans and Advances	112.00	318.40	Loans and Advances disbursed	497.82	72.88	189.23	262.11
Public Debt receipts[1]	8,796.42	7,977.35	Repayment of Public Debt[1]	2,945.07	-	-	3,317.24
Contingency Fund	**-**	**-**	**Contingency Fund**	**-**	**-**	**-**	**-**
Public Account receipts	**1,09,357.35**	**1,19,489.98**	**Public Account disbursements**	**1,07,714.18**	**-**	**-**	**1,16,297.92**
Opening Cash Balance	**5,165.92**	**2,361.65**	**Closing Cash Balance**	**2,361.65**	**-**	**-**	**6,087.76**
Total	**1,58,825.64**	**1,76,089.00**	**Total**	**1,58,825.64**			**1,76,089.00**

Source: Finance Accounts

Detailed explanations of this statement are given in subsequent paragraphs.

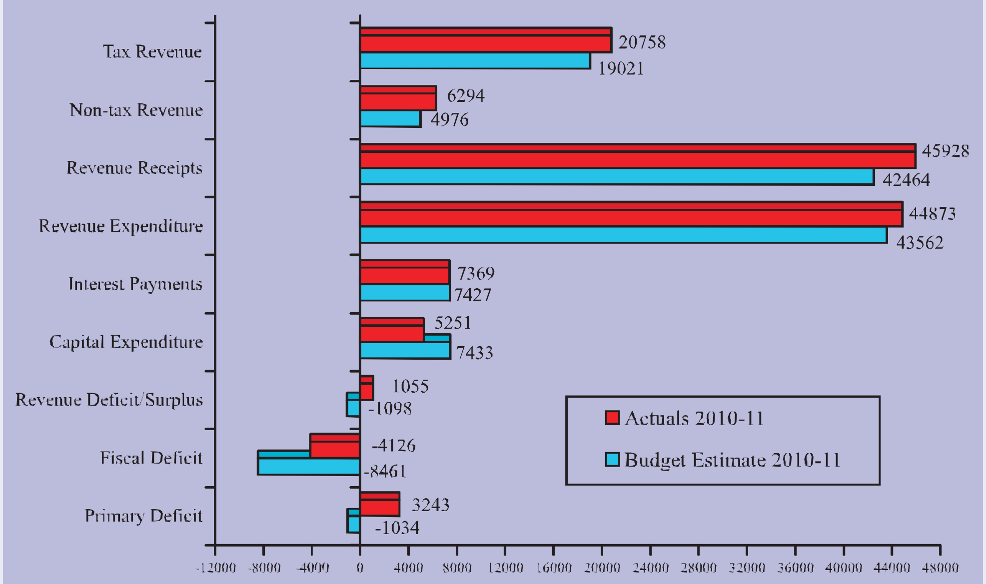
1.3 Budget estimates and actuals

As per the State Budget Manual (1995), the Finance Department is responsible for preparation of the annual budget for different departments. The departmental estimates of receipts and expenditure are prepared by Controlling Officers on the advice of the Heads of Departments and submitted to the Finance Department by the prescribed dates. The Finance Department then consolidates the estimates and prepares the Budget Estimates.

[1] Excluding net transactions under ways and means advances and overdraft.

Compared to the budget estimates for 2010-11, the actual revenue receipts and revenue expenditure increased by 8.2 *per cent* and three *per cent* respectively. Resultantly, the estimated revenue deficit turned into revenue surplus. The capital expenditure decreased by 29.4 *per cent* over the budget estimates. The budgeted and actual figures under revenue receipts and expenditure are shown in **Chart 1.1** and ***Appendix-1.7***.

Chart 1.1 Selected Fiscal Parameters: Budget Estimates *vis-a-vis* Actuals (₹ in crore)



Source: Finance Accounts and Budget Documents

As may be observed from **Chart 1.1** and ***Appendix 1.7*** there was considerable variation between budget estimates and actuals in the case of several key parameters. *During the year, revenue receipts had a positive variation (₹ 3,464 crore: 8.16 per cent) over budget estimates and almost all categories of revenue receipts (with the exception of Taxes on Immovable Property other than Agricultural land, Taxes on Goods and Passengers and Police) were higher than budget estimates.* Revenue expenditure showed a positive variation of three *per cent* over budget estimates, mainly because the expenditure in Administration of Justice, Pension and Other Retirement Benefits, Urban Development, Social Security and Welfare, Crop Husbandry, Other Rural Development Programmes, Power and Civil Supplies exceeded the budget estimates. *As a result, the targeted revenue deficit (₹ 1,098 crore) turned into revenue surplus (₹ 1,055 crore) and the fiscal deficit*[2] *decreased from the budget estimate of ₹ 8,461 crore to ₹ 4,126 crore. The estimated primary deficit also turned into primary surplus (₹ 3,243 crore).* Asset creation was not given as much priority as intended in the budget estimates as

[2] see glossary at page 143

there was a shortfall of 29.4 *per cent* in Capital expenditure over the budget estimates mainly under Capital Outlay on Water Supply and Sanitation, Capital Outlay on Urban Development, Capital Outlay on Other Fiscal Services, Capital Outlay on Power Projects and Capital outlay on Minor Irrigation.

1.4 Resources of the State

1.4.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the State Government's resource base. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Government of India (GoI). Capital receipts comprise 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 as well as accruals 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 1.2** depicts the trends in various components of the receipts of the State during 2005-11. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart 1.2 Trends in receipts
(₹ in crore)

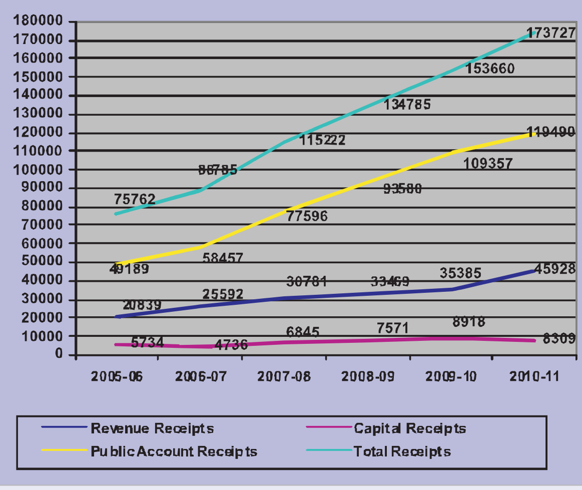
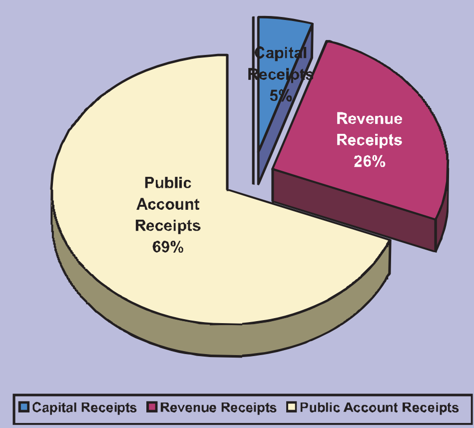


Chart 1.3 Composition of Receipts during 2010-11
(in *per cent*)



Source: Finance Accounts

Chart 1.2 shows that during 2010-11, the revenue receipts were 26 *per cent* of the total receipts. The balance came from capital receipts, borrowings and Public Account receipts. During 2006-11, the average revenue receipts were ₹ 31,999 crore, constituting 26 *per cent* of the average total receipts (₹ 1,23,657 crore).

The total receipts of the State increased by 129 *per cent* from 2005-06 to 2010-11. Public Debt receipts (₹ 7,977 crore) constitute nearly 96 *per cent* of the Capital receipts. Major share of the Public Debt (₹ 7,617 crore: 95 *per cent*) was from Internal Debt.

Deposits and Advances (₹ 1,07,666 crore) constitute about 90 *per cent* of the total receipts under Public Account. Major share of the Deposits and Advances (₹ 87,115 crore: 81 *per cent*) were in the form of working funds of five power companies[3] formed after the dismantling of Rajasthan State Electricity Board and channelised through the 'Minor Head 107–State Electricity Boards Working Funds'. Similarly, 87 *per cent* (₹ 5,079 crore) of the remittances (₹ 5,810 crore) have come from Public Works Remittances.

1.4.2 Funds transferred to State implementing agencies outside the State Budget

The GoI has been transferring a sizeable quantum of funds directly to the State implementing agencies[4] for implementation of various schemes/ programmes in Social and Economic sectors recognized as critical for the development of Rajasthan. As these funds are not routed through the State budget/State treasury system, the annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are underestimated. To present a holistic picture on availability of aggregate resources, the implementing agencies/departments were requested to furnish the details of funds received by them directly from GoI. The information obtained is presented in ***Appendix 1.8***.

It was observed that the funds transferred directly to State implementing agencies (Central Share) decreased during the current year (₹ 8,674 crore) compared to the previous year (₹ 9,207 crore). The overall decrease of ₹ 533 crore (5.8 *per cent)* was the combined effect of decrease under Mahatama Gandhi National Rural Employment Guarantee Scheme (MNREGS) (₹ 1,527 crore), *Sarva Shiksha Abhiyaan* (₹ 490 crore) and Renovation of Co-operative Credit Structure (₹ 164 crore) set off by increase under Crop Compensatory Scheme (₹ 620 crore), *Pradhan Mantri Gram Sadak Yojana* (₹ 303 crore), Integrated Water Shed Management Programme (₹ 185 crore), Indira *Awas Yojana* (₹ 169 crore), Crop Insurance (₹ 140 crore), Model School (₹ 92 crore), Micro Irrigation Scheme (₹ 63 crore), National Secondary Education Campaign (₹ 53 crore) and National Rural Health Mission (₹ 43 crore).

[3] (i) Rajasthan *Rajya Vidyut Utpadan Nigam* Limited, (ii) Rajasthan *Rajya Vidyut Prasaran Nigam* Limited, (iii) Jaipur *Vidyut Vitran Nigam* Limited, (iv) Jodhpur *Vidyut Vitran Nigam* Limited and (v) Ajmer *Vidyut Vitran Nigam* Limited.

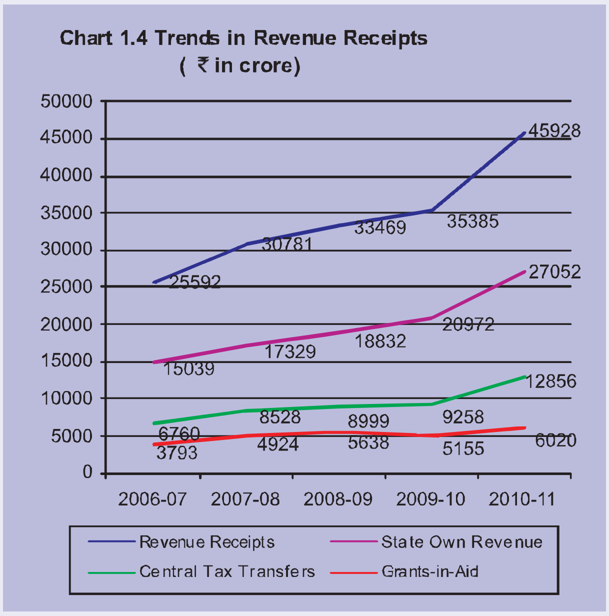
[4] State implementing agency may be any Organization/Institution including Non-Governmental Organization which is authorized by the State Government to receive the funds from the GoI for implementing specific programmes in the State, e.g. *Zila Parishad* (Rural Development Cell) for MNREGS and Rajasthan State Health Society Mission for NRHM etc .

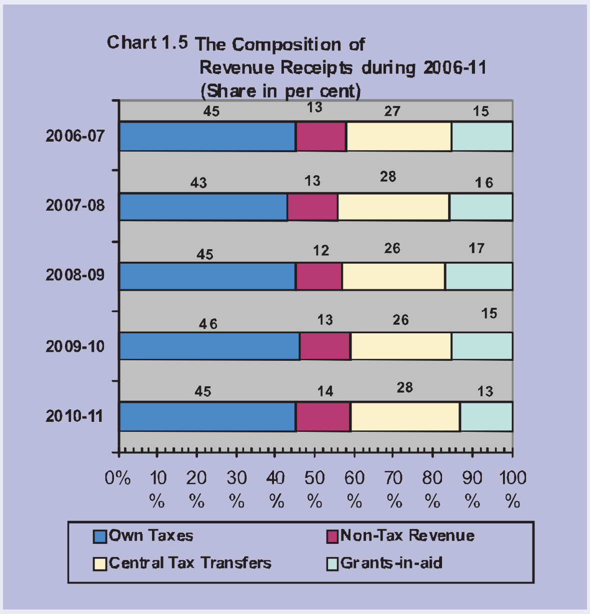
The GoI directly transferred ₹ 8,674 crore (***Appendix 1.8***) to State implementing agencies during 2010-11, out of which ₹ 4,363 crore (50 *per cent*) transferred to the *Zila Parishad* (Rural Development Cell) and in which ₹ 3,423 crore was only for MNREGS. Further, GoI transferred ₹ 1,462 crore (17 *per cent*) for *Sarva Shiksha Abhiyaan;* ₹ 886 crore (10 *per cent*) for *Pradhan Mantri Gram Sadak Yojana;* ₹ 679 crore (eight *per cent*) for Crop Compensatory Scheme and ₹ 501 crore (six *per cent*) for National Rural Health Mission.

Direct transfers from the GoI to the State implementing agencies run the risk of poor oversight. Unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the proper end use of these direct transfers.

1.5 Revenue Receipts

The revenue receipts consist of State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2006-11 are presented in ***Appendix 1.4*** and also depicted in **Charts 1.4** and **1.5** respectively.





Source: Finance Accounts

The revenue receipts have shown a progressive increase over the period 2006-11 with only marginal changes in its composition i.e. the share of own taxes, non-tax revenue and Central transfers in revenue exhibited relative stability during the period 2006-11 with marginal inter-year variations.

The trends in revenue receipts relative to Gross State Domestic Product (GSDP) are as follows:

Table 1.2: Trends in Revenue Receipts relative to GSDP

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	**25,592**	**30,781**	**33,469**	**35,385**	**45,928**
Rate of growth[5] of RR (*per cent*)	22.8	20.3	8.7	5.7	29.8
RR/GSDP (*per cent*)	15.0	15.8	14.9	13.9	15.1
Buoyancy Ratios					
Revenue Buoyancy w.r.t GSDP	1.1	1.5	0.6	0.4	1.6
State's Own Tax Buoyancy w.r.t GSDP	0.9	1.0	0.8	0.7	1.4
Gross State Domestic Product (GSDP)[@] (₹ in crore)	**1,71,043**	**1,94,822**	**2,25,254[6]**	**2,55,295[7]**	**3,03,358[8]**
Rate of growth of GSDP	20.3	13.9	15.6	13.3	18.8

[@] **Source of GSDP: Directorate of Economic and Statistics, Government of Rajasthan.**

Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As GSDP grows, the ability of the Government to mobilize own tax revenue should also increase. In 2008-10, the growth in Own Tax Resources as compared to growth in GSDP was lower than one but in the current year, the situation improved and revenue buoyancy was higher than one.

The increase of 29.8 *per cent* in revenue receipts during 2010-11 was on account of increase in State's own taxes (26.5 *per cent*), non-tax revenue (38.1 *per cent*), Central tax transfers (38.9 *per cent*) and Grant-in-aid (16.8 *per cent*). ***The revenue receipts were eight per cent higher than the assessment made by the State Government in the MTFPS (₹ 42,464 crore) for the year 2010-11.***

The Central tax transfers increased by ₹ 3,598 crore over the previous year and constituted 28 *per cent* of revenue receipts. The increase was under Corporation Tax (₹ 1,215 crore), Customs (₹ 952 crore), Union Excise Duties (₹ 592 crore), Taxes on Income other than Corporation Tax (₹ 533 crore), Service Tax (₹ 304 crore) and Taxes on Wealth (₹ two crore).

Grants-in-aid

The Grants-in-aid from GoI during 2010-11 increased by 17 *per cent* over the previous year. The increase was under Grants for State Plan Schemes (₹ 882 crore) which was counterbalanced by decrease in Grants for Central, Centrally Sponsored Plan Schemes and Special Plan Schemes (₹ 18 crore). Details of Grant-in-aid from GoI are given in **Table 1.3.**

[5] see glossary at page 143
[6] Provisional estimates
[7] Quick estimate
[8] Advance estimates

Table 1.3: Grants-in-aid from Government of India

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Grants for State Plan Schemes	1,128	1,768	2,077	1,606	2,488
Non-Plan Grants	1,209	1,051	1,272	1,715	1,716
Grants for Central, Centrally Sponsored Plan Schemes and Special Plan Schemes	1,456	2,105	2,289	1,834	1,816
Total	**3,793**	**4,924**	**5,638**	**5,155**	**6,020**
Percentage of increase/decrease over previous year	29.9	29.8	14.5	(-) 8.6	16.8

Source: Finance Accounts

As per recommendation of XIII-FC, the GoI released ₹ 855.19 crore during the current year under Non-Plan for Local Bodies: ₹ 481.46 crore, Capacity buildings: ₹ six crore, Primary Education: ₹ 287 crore, Environmental: ₹ 11.04 crore, Incentives to issue Unique Identity Card: ₹ 13.49 crore, Judicial Improvement: ₹ 53.70 crore and Database of Employees and Pensioners: ₹ 2.50 crore.

1.5.1 Under utilisation of grant-in-aid recommended by XIII-Finance Commission (FC)

As per recommendation of Thirteenth Finance Commission (XIII-FC) GoI allocated grant-in-aid of ₹ 5,297 crore[9] to GoR to be utilised during 2010-15. The GoR constituted (June 2010), a High Level Monitoring Committee (HLMC) headed by the Chief Secretary to ensure proper utilisation of grant-in-aid.

Test check (March, April and June 2011) of records of Forest, Information Technology and Communication and Law and Legal Affairs Department pertaining to utilisation of assistance received from GoI as per recommendations of XIII-FC revealed the following:

- In Forest Department, as per the recommendation of XIII-FC, GoI released (September 2010) grant of ₹ 11.04 crore for maintenance of Forests. The State Government (FD) released the same to Forest Department after five months in February 2011. Resultantly, Forest Department could not fully utilise the grants during the year and surrendered ₹ 3.83 crore due to non-completion of working plan.

The matter was brought to the notice of Finance Department, GoR (July 2011), reply was awaited (October 2011).

- In Information Technology and Communication Department, as per the recommendation of XIII-FC, GoI released (July 2010) ₹ 13.49 crore towards incentive for issuing Unique Identification (UID) for BPL persons. State Government released (March 2011) after eight months

[9] Elementary Education: ₹ 1,766 crore, Maintenance of Forests: ₹ 88 crore, Improving delivery of Justice: ₹ 269 crore, Incentive Grant for issuing Unique Identification: ₹ 135 crore, District Innovation Fund: ₹ 33 crore, Improvement of Statistical System at State and District Level: ₹ 33 crore, Employee and Pension Data-base: ₹ 10 crore, Water Sector Management: ₹ 224 crore, Maintenance of Roads and Bridges: ₹ 1,509 crore, Capacity Building ₹ 30 crore and State Specife Grants: ₹ 1,200 crore.

grant of ₹ 13.49 crore and deposited the same into non-interest bearing Personal Deposit Account of the Department as it could not start the work of registration for UID.

- In Finance Department, GoI released (June 2010-January 2011) grants of ₹ 53.70 crore in two instalment of ₹ 26.85 crore each for improving delivery of Justice during 2010-11. The State Government released (February 2011) ₹ 16.12 crore to Law and legal Affairs Department. However, Department could utilise only ₹ 8.82 crore during 2010-11 due to late receipt of Action Plan from Hon'ble High Court and release of grant by State Government in February 2011.

Audit observed that the Departments have not finalised their action plan and were not prepared to use the assistance which led to non-utilisation of grant of ₹ 62.20 crore[10] (80 *per cent*) against ₹ 78.23 crore sanctioned.

The State Government should monitor the release and utilisation of grant recommended by XIII-FC more effectively to ensure that the grants are utilised in effective and timely manner.

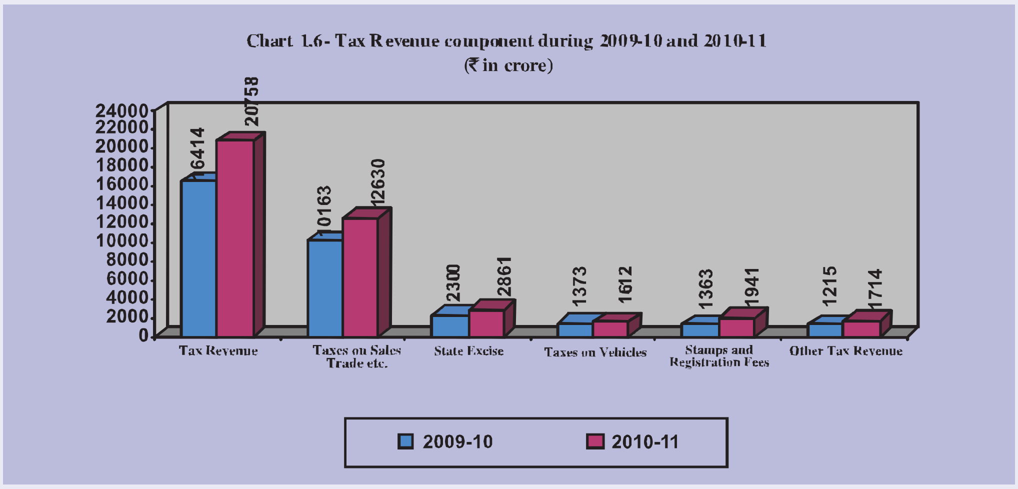
The matter was brought to the notice of Government (September 2011), reply was awaited (October 2011).

1.5.2 State's Own Resources

The gross collection in respect of major taxes and duties as well as the components of non-tax receipts, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years from 2006-07 to 2010-11 are presented in ***Appendix 1.4.***

Tax revenue

The components of tax revenue during the current year *vis-a-vis* previous year are given in **Chart 1.6**.



Source: Finance Accounts

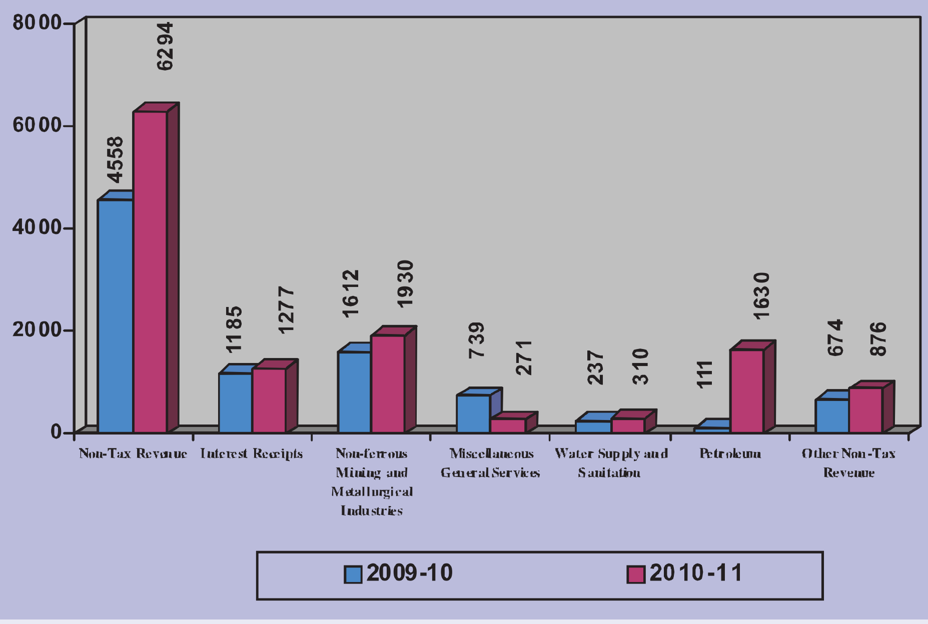
[10] Forest Department: ₹ 3.83 crore: Information Technology and Communication: ₹ 13.49 crore and Law and legal Affairs Department: ₹ 44.88 crore.

The tax revenue increased by 26 *per cent* during the year as compared to previous year. The revenue through Sales Tax not only contributed a major share of tax revenue (61 *per cent*) but also increased by 24 *per cent* over the previous year. The tax revenue increased mainly in State Excise, Taxes on Vehicles, Stamps and Registration Fees, Taxes and Duties on Electricity (other tax revenue) due to more receipt from sale of country spirits and foreign liquor and spirits, receipts under the State Motor Vehicles Taxation Acts, sale of Non-judicial stamps, fees for registering documents, court fees and revision in District Level Committee (DLC) rates, receipt of taxes on consumption and sale of electricity respectively.

Non-tax revenue

The components of non-tax revenue during the current year *vis-a-vis* previous year is given in **Chart 1.7**.

Chart 1.7- Non-tax Revenue component during 2009-10 and 2010-11
(₹ in crore)



Source: Finance Accounts

The non-tax revenue which constituted 14 *per cent* of total revenue receipts increased by 38 *per cent* over the previous year. Petroleum receipts increased by ₹ 1,519 crore due to more receipt of royalty. Interest Receipts were mainly due to book adjustment of interest received from departmentally managed Irrigation Projects and interest received on investment of cash balances.

Receipt of Miscellaneous General Services decreased mainly due to transfer of ₹ 850.96 crore by State Government from Rajasthan Development and Poverty Alleviation Fund (Major Head 8229-200) to Miscellaneous General Services after amendment made in the FRBM Act, 2005 during 2009-10.

The State's Own Resources (₹ 27,052 crore) constituted 50 *per cent* of the total receipts (₹ 54,237 crore) under Consolidated Fund of the State.

The actual receipts under State's tax and non-tax revenue *vis-à-vis* assessment made by XIII-FC and the State Government in MTFPS are as follows:

Table 1.4: Revenue receipts relative to XIII-FC and State's projections for 2010-11

(₹ in crore)

	Assessments made by XIII-FC	Assessments made by State Government in MTFPS	Actual
State's Tax Revenue	19,562	19,021	20,758
State's Own Non-Tax Revenue	3,940	4,976	6,294
GSDP	2,44,946	2,41,746	3,03,358

Source: Finance Accounts, Budget Documents and Report of XIII-FC.

The receipts under tax revenue and non-tax revenue during 2010-11 exceeded the normative assessment made by XIII-FC at 6.1 per cent and 59.7 per cent respectively and the targets fixed by the State Government in the MTFPS at 9.1 per cent and 26.5 per cent respectively.

The actual tax revenue as a percentage of GSDP (6.8 per cent) was lower than the normative assessment made by XIII-FC (eight per cent) and the assessment made by the State Government in the MTFPS (7.9 per cent) for the year 2010-11. This is because the GSDP was higher than estimated. The actual non-tax revenue as a percentage of GSDP (2.07 per cent) was however higher than the normative assessment made by XIII-FC (1.61 per cent) and the assessment made by the State Government in the MTFPS (2.06 per cent) for the year 2010-11.

1.5.3 Cost of collection

The gross collection of the major revenue receipts, expenditure incurred on collection and the percentages of such expenditure to gross collection during the years 2008-09 to 2010-11 along with the relevant All India average percentage of expenditure on collection to gross collection for 2008-09 and 2009-10 are as follows:

Table 1.5: Cost of collection

(₹ in crore)

Heads of Revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentages for the year 2008-09 and 2009-10
Taxes on Sales, Trade etc.	2008-09	8,904	70	0.79	0.88
	2009-10	10,163	86	0.85	0.96
	2010-11	12,630	87	0.69	
State Excise	2008-09	2,170	64	2.95	3.66
	2009-10	2,300	86	3.74	3.64
	2010-11	2,861	88	3.08	
Taxes on Vehicles	2008-09	1,214	29	2.39	2.93
	2009-10	1,373	27	1.97	3.07
	2010-11	1,612	31	1.92	
Stamp Duty and Registration Fees	2008-09	1,357	29	2.14	2.77
	2009-10	1,363	31	2.27	2.47
	2010-11	1,941	34	1.75	

Source: Finance Accounts and Office of the Accountant General (C & RA).

During 2010-11 the percentage of expenditure on collection decreased in Taxes on Sales, Trade etc., State Excise, Taxes on Vehicles and Stamp Duty and Registration Fees over the previous year.

1.5.4 Revenue arrears

The revenue arrears as on 31 March 2011 in respect of following three heads of revenue as reported in Report of Comptroller and Auditor General of India (Revenue Receipts) amounted to ₹ 3,134 crore, of which ₹ 890 crore were outstanding for more than five years. The arrears increased from ₹ 2,244 crore in 2005-06 to ₹ 3,134 crore at the end of 2010-11. The outstanding arrears of revenue were as mentioned in **Table 1.6**:

Table 1.6: Arrears of revenue

(₹ in crore)

Heads of Revenue	Outstanding arrears of revenue as on 31 March 2011		
	Up to five years	More than five years	Total
Taxes on sales, trade etc.	2,162.43	857.26	3,019.69
Taxes on vehicles	20.15	19.32	39.47
Land revenue	61.30	13.91	75.21
Total	**2,243.88**	**890.49**	**3,134.37**

Thus, 96 *per cent* of the total outstanding arrears of revenue as on 31 March 2011 were under the revenue head "Taxes on sales, trade etc". ***If these arrears of revenue were collected by the State Government during the year, the revenue surplus and primary surplus would have increased to that extent and fiscal deficit reduced to that extent.***

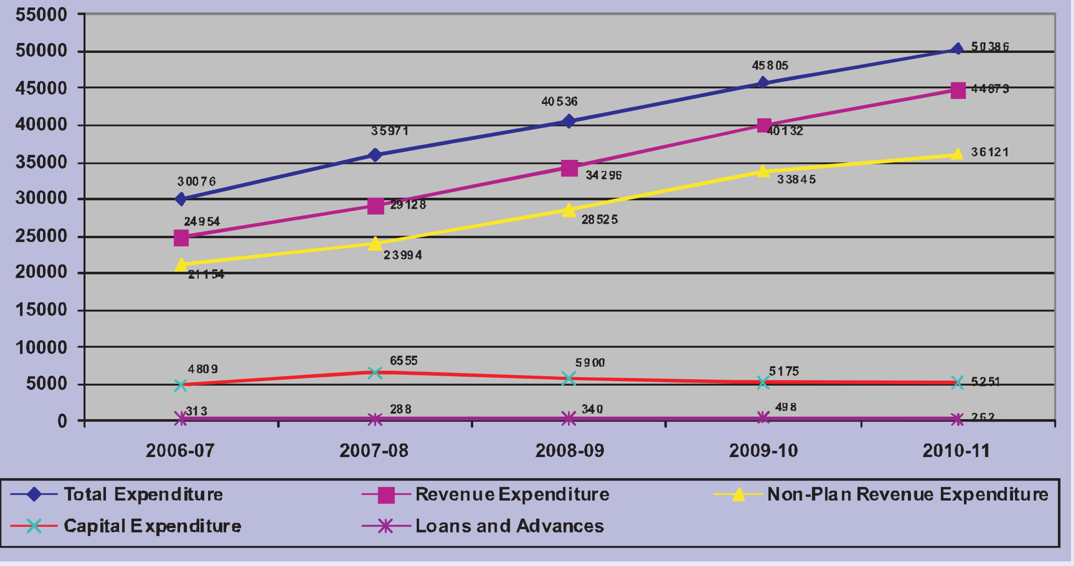
1.6 Application of Resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. 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 done at the cost of expenditure, especially expenditure directed towards development and social sectors.

1.6.1 Growth and composition of expenditure

Chart 1.8 presents the trends in total expenditure over a period of five years (2006-11) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in **Charts 1.9 and 1.10** respectively**.**

Chart 1.8 Total Expenditure : Trends and Composition
(₹ in Crore)



Source: Finance Accounts

Total expenditure

The total expenditure of the State has increased by 68 *per cent* from 2006-07 to 2010-11. It has increased by 10 *per cent* over the previous year. While the revenue expenditure increased by ₹ 4,741 crore (12 *per cent*) and capital expenditure increased by ₹ 76 crore (1.5 *per cent*) over the previous year, there was a decrease of ₹ 236 crore (47 *per cent*) in repayment of loans and advances during 2010-11 relative to the previous year.

Chart 1.9 Total Expenditure
Trends in share of its Components
(Share in *per cent*)

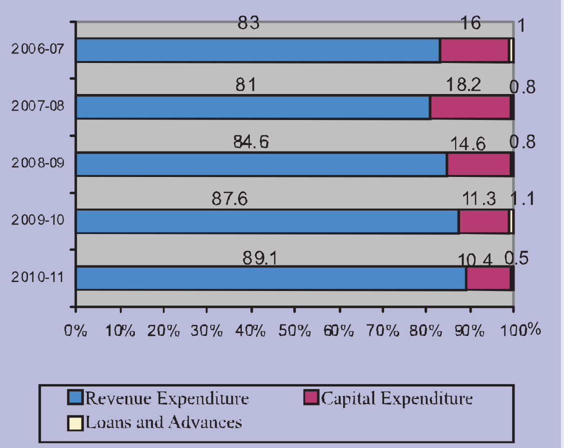
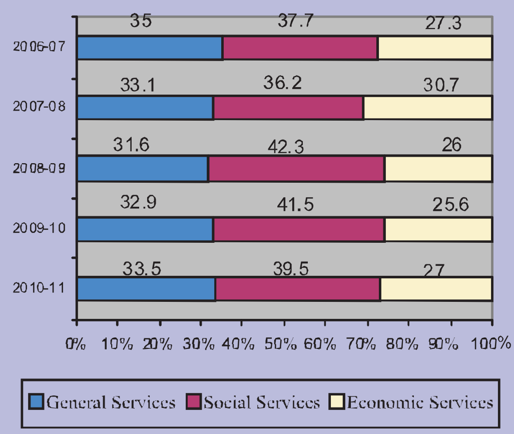


Chart 1.10 Total Expenditure: Trends by "Activities" (Share in *per cent*)



The movement of relative share of these components of total expenditure indicated that while the share of general services and economic services together in total expenditure declined from 35 *per cent and 27.3 per cent* in 2006-07 to 33.5 *per cent and 27 per cent* respectively in 2010-11, the relative share of social services increased from 37.7 *per cent* in 2006-07 to 39.5 *per cent* in 2010-11. Expenditure considered as non-Development on general services, accounted for 33.5 *per cent* in 2010-11 as against 32.9 *per cent* in 2009-10, an increase of 0.6 percentage points over the previous year. On the other hand, Development expenditure i.e. expenditure on social and economic services together accounted for 66.5 *per cent* in 2010-11 as against 67.1 *per cent* in 2009-10, a decrease of 0.6 percentage points over the previous year. There was a fall in share of social service as capital expenditure in social sector decreases by 26.7 *per cent* over the previous year mainly due to savings of ₹ 818 crore under Water Supply and Sanitation.

Revenue expenditure

The revenue expenditure constituted 89 *per cent* of the total expenditure during 2010-11, while the Non-Plan Revenue Expenditure (NPRE) constituted 80 *per cent* of revenue expenditure and 72 *per cent* of total expenditure. The revenue expenditure exceeded the assessments made by the State Government in the MTFPS (₹ 43,562 crore) for the year 2010-11 by three *per cent*.

Similarly, NPRE increased by 6.7 *per cent* during the year relative to the projections of 4.3 *per cent* made by the State Government in MTFPS for 2010-11.

The Plan Revenue Expenditure (PRE) and NPRE have shown consistent increase over the period 2006-11. The PRE increased by 39.2 *per cent* over the previous year. The PRE was more than the projected increase of 12.9 *per cent* in MTFPS for 2010-11.

Plan revenue expenditure

The increase in PRE by ₹ 2,465 crore over previous year was mainly due to increased expenditure on *Sarva Shiksha Abhiyan* under Elementary education (₹ 1,186 crore), assistance to Gram Panchayats under Other Rural Development Programmes (₹ 321 crore), National Agriculture Development Project under Crop Husbandry (₹ 319 crore), Crop Compensation under Crop Husbandry (₹ 302 crore), Special Component plan for Scheduled Castes under Crop Husbandry (₹ 198 crore), Tribal Area Sub-plan under Crop Husbandry (₹ 162 crore), Special Nutrition Programmes under Nutrition (₹ 151 crore), Government Secondary School (₹ 132 crore), Crop Insurance under Crop Husbandry (₹ 75 crore), Transfer to Reserve Funds/ Deposits Accounts under Roads and Bridges (₹ 74 crore), Family Welfare (₹ 61 crore) and Medical and Public Health (₹ 50 crore) which was counterbalanced by decrease in Non-formal education (₹ 703 crore), assistance to Municipalities/Municipal Councils under Urban Development (₹ 123 crore) and National Rural Employment Guarantee Scheme under Rural Employment (₹ 117 crore).

Non-Plan revenue expenditure

The increase in NPRE by ₹ 2,276 crore during the current year was mainly due to Interest Payments (₹ 600 crore), Power (₹ 494 crore), Pensions and other Retirement Benefits (₹ 264 crore), Civil Supplies Schemes under Civil Supplies (₹ 235 crore), Pensions under Social Security Schemes (₹ 171 crore), Supply of fodder in Drought under Relief on account of Natural Calamities (₹ 161 crore), assistance to Municipal Corporations, Municipalities/Municipal Councils under Urban Development (₹ 204 crore), Medical and Public Health (₹ 91 crore) and Civil and Session Courts (₹ 90 crore) which was counterbalanced by decrease in expenditure for State Disaster Response Fund (₹ 320 crore) and Other expenditure in Drought under Relief on account of Natural Calamities (₹ 220 crore).

The actual NPRE and PRE *vis-à-vis* assessments made by the XIII-FC and by the State Government are given below:

Table 1.7 NPRE and PRE *vis-à-vis* assessments made by XIII-FC and MTFPS

(₹ in crore)

	Assessments made by XIII-FC	Assessments made by State Government in MTFPS	Actuals
Non-Plan Revenue Expenditure	27,491	35,810	36,121
Plan Revenue Expenditure	Not Applicable	7,752	8,752

Source: Finance Accounts, Budget Documents and Report of XIII-FC.

The actual NPRE exceeded the normative assessment made by XIII-FC by ₹ 8,630 crore (31 *per cent*) and the assessment made by the State Government in MTFPS for the year 2010-11 by ₹ 311 crore (one *per cent*). The actual PRE was more than the projections made in MTFPS by ₹ 1,000 crore (13 *per cent*).

Capital expenditure

The capital expenditure at ₹ 5,251 crore was lower than the assessment made by the State Government in MTFPS (₹ 7,433 crore) by 29 *per cent* for the year 2010-11. Capital expenditure increased by only 1.47 *per cent* over the previous year. The increase was mainly under Other Fiscal Services (₹ 688 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes and Roads and Bridges but there was decrease in Water Supply and Sanitation (₹ 848 crore), Power Project (₹ 244 crore) and Major Irrigation (₹ 165 crore). During 2007-08, the State Government had transferred ₹ 900 crore from the Consolidated Fund of the State (Capital outlay on Other Fiscal Services) to Rajasthan State Investment Fund (Public Account of the State), whereas the State Government during 2008-09 and 2009-10 transferred ₹ 212 crore and ₹ 688 crore respectively from the Rajasthan State Investment Fund to Capital outlay on Other Fiscal Services (Consolidated Fund of the State) to meet the liabilities arising due to payment of arrears of Sixth Pay Commission. During 2010-11, no amount was transferred from the Rajasthan State Investment Fund to Capital outlay on Other Fiscal Services (Consolidated Fund of the State).

1.6.2 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 1.8** and **Chart 1.11** present the trends in the expenditure on these components during 2006-11.

Table 1.8: Components of committed expenditure

(₹ in crore)

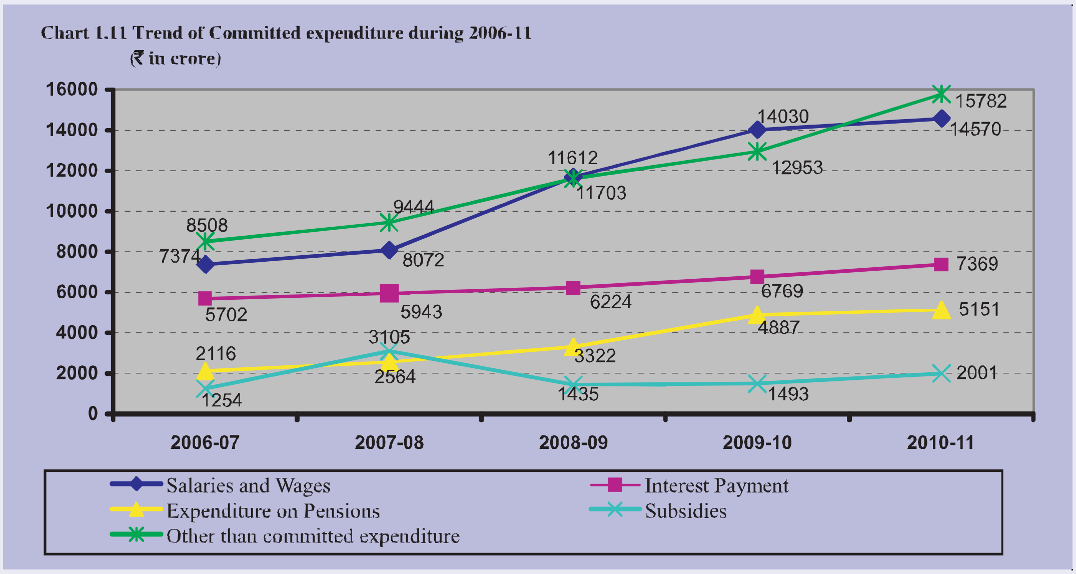
	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Salaries & Wages, *Of which*	7,374 (28.8)	8,072 (26.2)	11,703 (35.0)	14,030 (39.7)	14,989	14,570 (31.7)[$]
Non-Plan Head	6,863	7,579	11,053	13,348	14,989	13,730
Plan Head*	511	493	650	682		840
Interest Payments	5,702 (22.3)	5,943 (19.3)	6,224 (18.6)	6,769 (19.1)	7,427	7,369 (16.0)
Expenditure on Pensions	2,116 (8.3)	2,564 (8.3)	3,322 (9.9)	4,887 (13.8)	4,996	5,151 (11.2)
Subsidies	1,254 (4.9)	3,105 (10.1)	1,435 (4.3)	1,493 (4.2)		2,001 (4.4)
Total committed expenditure	16,446 (64.3)	19,684 (63.9)	22,684 (67.8)	27,179 (76.8)		29,091 (63.3)
Other Components, i.e. other than committed expenditure	8,508 (33.2)	9,444 (30.7)	11,612 (34.7)	12,953 (36.6)		15,782 (34.4)
Total Revenue Expenditure	**24,954**	**29,128**	**34,296**	**40,132**	**43,562**	**44,873**
Revenue Receipts	**25,592**	**30,781**	**33,469**	**35,385**	**42,464**	**45,928**

Note: Figures in the parentheses indicate percentage to Revenue Receipts

$ Salaries: ₹ 14,191 crore + Wages: ₹ 379 crore

*Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.

Source: Finance Accounts



Source: Finance Accounts

Salaries and wages

The expenditure on salaries and wages increased by 98 *per cent* from ₹ 7,374 crore in 2006-07 to ₹ 14,570 crore in 2010-11. Expenditure on salaries and wages increased by four *per cent* over the previous year. The salaries and wages growth rate at four *per cent* was lower than six *per cent* as recommended by XIII-FC[11]. The salaries and wages expenditure was three *per cent* lower than the assessment made by the State Government in MTFPS (₹ 14,989 crore) for the year 2010-11.

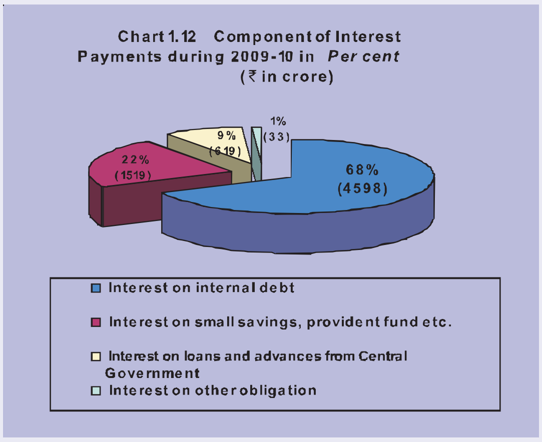
Pension payments

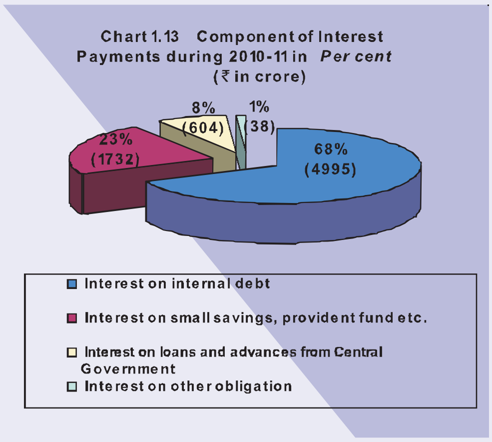
The expenditure on pension payments increased by 143 *per cent* from ₹ 2,116 crore in 2006-07 to ₹ 5,151 crore in 2010-11 The pension payments recorded a growth of five *per cent* over the previous year which was lower than the projected growth of 10 *per cent* recommended by XIII-FC[12]. The increase in expenditure under pension was due to increase in total number of pensioners by 9,836 [13] (three *per cent*). The comparative analysis of actual pension payments and the assessment/projection made by XIII-FC and the State Government shows that actual pension payment (₹ 5,151 crore) exceeded the normative assessment made by XIII-FC (₹ 3,615 crore) by 42 *per cent* and the assessment made by the State Government in MTFPS (₹ 4,996 crore) for the year 2010-11 by three *per cent*.

The expenditure on pension and other retirement benefits to State Government employees during the year was 11 *per cent* of total revenue expenditure. However, the State Government has switched over to the new pension scheme with effect from January 2004. An amount of ₹ 424.45 crore towards employee's contribution has been deposited under the head '8011-106(03) New Pensions Scheme for Government Employees' during the year. The State Government liability on this account was ₹ 1,098.86 crore at the end of March 2011.

Interest Payments

The components of Interest Payments during the current year *vis-a-vis* previous year are given in **Chart 1.12 and 1.13**.





Note: Figures in brackets represent ₹ in crore.

Source: Finance Accounts.

---

[11] XIII-FC Report Para No. 7.60.
[12] XIII-FC Report Para No. 7.65.
[13] Number of pensioners 2009-10: 3,05,787 and 2010-11: 3,15,623.

The interest payments increased by nine *per cent* over the previous year. It contributed a major share of interest on internal debt and interest on small savings, provident fund etc.

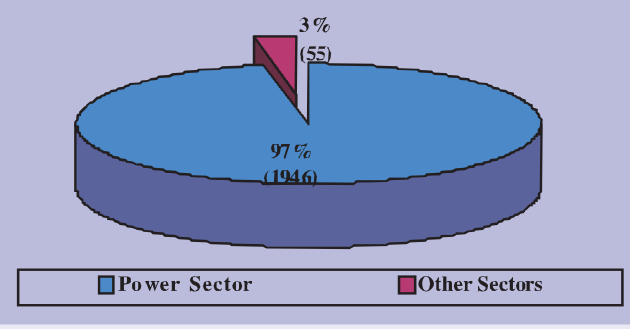
The interest on internal debt increased by nine *per cent* over the previous year mainly on account of increase in payment of interest on market loans by 22 *percent* over the previous year. The interest on small savings, provident fund etc. also increased by 14 *per cent* on account of increase in interest on State provident funds, interest on insurance and pension fund and interest on defined contribution pension scheme by 13 *per cent*, 12 *per cent* and 62 *per cent* respectively relative to previous year.

The interest payments made during the year remained lower than the projection made by State Government in MTFPS (₹ 7,427 crore) for the year 2010-11 but was equal to the projections made in XIII-FC (₹ 7,369 crore).

Subsidies

The components of Subsidies during the current year given in **Chart 1.14**.

Chart 1.14 Component of Subsidies during 2010-11 in *Per cent* and ₹ in crore



Note: Figures in brackets represent ₹ in crore.
Source: Finance Accounts

The percentage of subsidies to revenue receipts decreased by 0.5 percentage point during 2010-11 in comparison to 2006-07. During the year, major subsidy paid to power sector for cash assistance under financial re-modification programme (₹ 400 crore), non-increase of rates (₹ 644 crore) and Grant for electricity duty (₹ 781 crore).

During the year, subsidy to power sector (₹ 1,946 crore) accounted for 97 *per cent* of the total subsidy (₹ 2,001 crore). Subsidy was paid to power sector mainly for cash assistance under financial re-modification programme (₹ 400 crore), non-increase of rates (₹ 644 crore), Grant for electricity duty (₹ 781 crore), Grant for interest (₹ 39 crore) and re-establishment of weaker industries (₹ 45 crore).

The ratio of committed expenditure (salaries and wages, interest payments, pensions and subsidies) to revenue receipts of the State during the current year was 63 *per cent* showing a decrease of 13.5 percentage points over the previous year. During 2010-11, the committed expenditure decreased by one percentage point in comparison to 2006-07.

1.6.3 Financial assistance to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during 2010-11 relative to the previous years is as follows:

Table 1.9: Financial Assistance to Local Bodies etc.

(₹ in crore)

Financial Assistance to Institutions	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actual
Educational Institutions (Aided Schools, Aided Colleges, Universities, etc.)	209.23	202.27	234.99	448.63	1,506.33	1,506.21
Municipal Corporations and Municipalities	720.21	793.82	932.41	1,047.23	1,130.10	1,130.04
Zila Parishads and Other *Panchayati Raj* Institutions	2,050.78	2,651.43	2,993.02	3,868.59	4,369.54	4,365.15
Development Agencies	48.41	49.72	52.96	376.36	354.41	354.18
Hospitals and Other Charitable Institutions	86.50	135.63	96.23	107.51	117.03	117.03
Other Institutions	2,738.66	1,402.86	2,178.99	2,195.49	2,776.09	2,743.03
Total	**5,853.79**	**5,235.73**	**6,488.60**	**8,043.81**	**10,253.50**	**10,215.64**
Revenue Expenditure (RE)	24,954	29,128	34,296	40,132	43,562	44,873
Assistance as per percentage of RE	23	18	19	20	24	23

Source: Finance Accounts and vouchers compiled by PAG (A & E).

Financial assistance to local bodies and other Institutions increased by ₹ 2,171.83 crore recording a growth rate of 27 *per cent* over the previous year and constituted 18 to 23 *per cent* of revenue expenditure during the years 2006-07 to 2010-11. During 2010-11, the financial assistance was given by the Government mainly to local bodies for Primary Education: ₹ 1,840 crore (18 *per cent*), Other Rural Development: ₹ 2,091.71 crore (20 *per cent*), *Sarva Shiksha Abhiyan*: ₹ 1,186.41 crore (12 *per cent*), Urban Development: ₹ 1,130.05 crore (11 *per cent*), Relief on account of Natural Calamities: ₹ 505.32 crore (five *per cent*) and Mahatma Gandhi National Rural Employment Guarantee Scheme: ₹ 284.93 crore (three *per cent*).

The funds are generally not being spent fully by the implementing agencies in the same financial year. The aggregate amount of the unspent balances in the accounts of the implementing agencies kept outside Government accounts (in bank accounts) is not readily ascertainable. The Government expenditure as reflected in the Accounts to that extent is, therefore, not final.

1.7 Quality of expenditure

Availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. 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).

1.7.1 Adequacy of public expenditure

The expenditure responsibilities relating to the social sector and the economic infrastructure assigned to the State Governments are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education and health etc. Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective National average. **Table 1.10** analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2010-11.

Table 1.10: Fiscal Priority of the State in 2007-08 and 2010-11

Fiscal Priority by the State*	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education/AE	Health/AE
General Category States Average (Ratio) 2007-08	16.85	64.28	32.54	16.14	14.64	3.98
Rajasthan's Average (Ratio) 2007-08	18.46	66.85	36.18	18.22	15.27	4.24
General Category Average (Ratio) 2010-11	16.65	64.42	36.75	13.27	17.42	4.35
Rajasthan Average (Ratio) 2010-11	16.61	66.43	39.51	10.42	20.32	5.08

* As *per cent* to GSDP

AE: Aggregate Expenditure DE: Development Expenditure

SSE: Social Sector Expenditure CE: Capital Expenditure.

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

Source: Finance Accounts

Table 1.10 indicates the following:

1. Rajasthan is spending marginally more of its GSDP as Aggregate Expenditure compared to General Category States. However, compared to 2007-08, Rajasthan is spending a smaller proportion of its GSDP on Aggregate Expenditure.

2. Development expenditure as a proportion of Aggregate Expenditure in Rajasthan has also been higher than the General Category States' average. Development expenditure consists of both economic service expenditure and social sector expenditure. Social sector expenditure (as a proportion of Aggregate Expenditure) in Rajasthan has been much higher than that of the average of general category states. Significant improvement in priority to health and education has been observed by looking at the improvement in the proportion of expenditure spent on these two sectors in the current year.

3. Capital expenditure however, seems to have been given less priority in the current year not only when compared to other General Category States but also when compared to the priority given in 2007-08.

1.7.2 Efficiency of Expenditure Use

In view of the 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 goods[14]. Apart from improving the allocation towards development expenditure[15], the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. Development expenditure comprised revenue and capital expenditure including loans and advances on socio-economic services. **Table 1.11** and **Chart 1.15** present the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted for the year as well as actuals in the previous years.

Table 1.11: Development Expenditure

(₹ in crore)

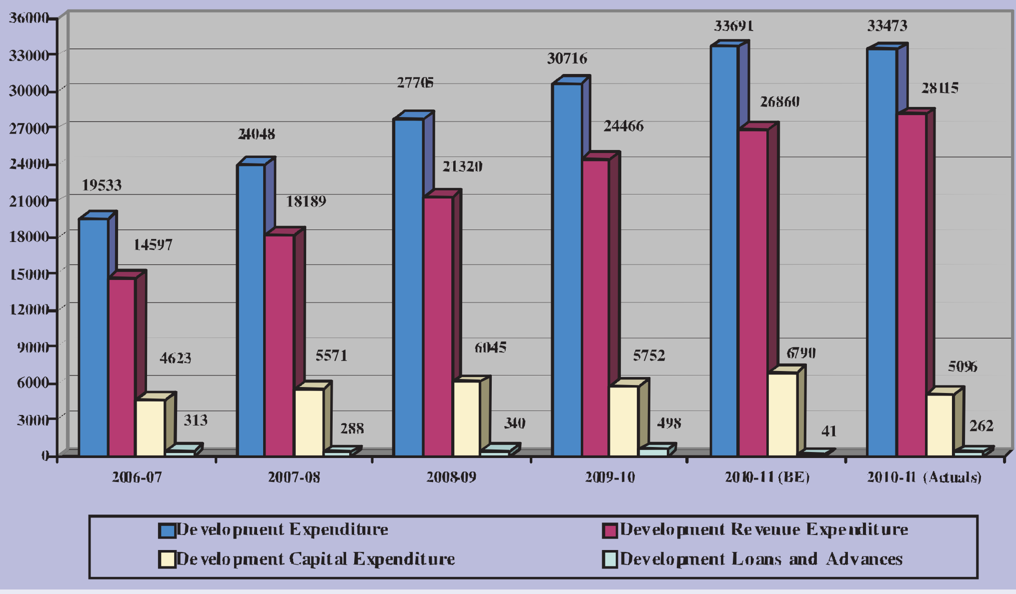
Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE	Actuals
Development Expenditure (a to c)	**19,533 (64.9)**	**24,048 (66.9)**	**27,705 (68.3)**	**30,716 (67.1)**	**33.691**	**33,473 (66.4)**
a. Development Revenue Expenditure	14,597 (48.5)	18,189 (50.6)	21,320 (52.6)	24,466 (53.4)	26,860	28,115 (55.8)
b. Development Capital Expenditure	4,623 (15.4)	5,571 (15.5)	6,045 (14.9)	5,752 (12.6)	6,790	5,096 (10.1)
c. Development Loans and Advances	313 (1.0)	288 (0.8)	340 (0.8)	498 (1.1)	41	262 (0.5)
Figures in parentheses indicate percentage to aggregate expenditure						

Source: Finance Accounts and Budget Documents.

14 *Core public goods* are which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of that goods, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

15 The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Chart 1.15 Development Expenditure for the year 2006-07 to 2009-10 and Budget Estimates *vis-a-vis* Actuals 2010-11 (₹ in crore)



Source: Finance Accounts and Budget Documents.

Table 1.12 provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.12: Efficiency of Expenditure Use in Selected Social and Economic Services

(In *per cent*)

Social/Economic Infrastructure	2009-10			2010-11		
	Ratio of CE to TE	In RE, the share of S &W	In RE, the share of O&M *	Ratio of CE to TE	In RE, the share of S&W	In RE, the share of O &M*
Social Services (SS)						
General Education	0.13	65.70	Negligible	0.05	61.46	Negligible
Health and Family Welfare	1.19	83.05	0.14	1.41	80.84	0.10
Water Supply, Sanitation, Housing and Urban Development	46.59	33.38	1.78	36.13	33.31	1.92
Total (SS)	**13.19**	**55.56**	**0.31**	**9.31**	**53.12**	**0.30**
Economic Services (ES)						
Agriculture and Allied Activities	6.91	54.40	1.23	6.50	32.95	0.68
Irrigation and Flood Control	39.58	20.10	4.19	35.47	19.65	6.24
Power & Energy	49.45	0.06	-	38.51	-	-
Transport	31.65	9.98	12.52	39.14	11.05	15.33
Total (ES)	**28.94**	**17.62**	**2.36**	**24.18**	**14.15**	**2.30**
Total (SS+ES)	**19.04**	**43.20**	**0.98**	**15.34**	**38.95**	**1.03**

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.
* As per Finance Accounts it represents actual expenditure booked under Detailed Head-21-Maintenance and Repairs.

Source: Finance Accounts.

Share of Capital expenditure should ideally show an increase in total expenditure since this indicates assets creation. The ratio of capital expenditure to the total expenditure for social and economic services decreased from 19.04 in 2009-10 to 15.34 in 2010-11, indicating less improvement in the efficiency of expenditure. Due to lower priority given to capital expenditure, there was decrease in the share of capital expenditure as a ratio of total expenditure under Water Supply, Sanitation, Housing and Urban Development in the social service sector and under Agriculture and Allied Activities, Irrigation and Flood Control and Power in the economic service sector. However, the improvement was visible in the Transport sector

Ideally, the share of salary and wages should be controlled, which the State has managed to do. The share of salary and wage in revenue expenditure of social and economic services decreased by 4.25 percentage point from 43.20 *per cent* in 2009-10 to 38.95 *per cent* in 2010-11. The ratio of salary and wage to revenue expenditure under social services decreased by 2.44 percentage point from 55.56 *per cent* in 2009-10 to 53.12 *per cent* in 2010-11 mainly on account of decrease in the share of salaries and wage under General Education and Health and Family Welfare by 4.24 and 2.21 percentage point respectively over the previous year.

The ratio of salary and wage to revenue expenditure under economic services decreased by 3.47 percentage point from 17.62 *per cent* in 2009-10 to 14.15 *per cent* in 2010-11 mainly on account of decrease in the share of salaries and wage under Agriculture and Allied Activities by 21.45 percentage point over the previous year, however, it increased in Transport by 1.07 percentage point.

It is important to ensure that adequate funds are allocated to operations and maintenance since assets have to be maintained. Only one *per cent* of total revenue expenditure was allotted to operations and maintenance which was very low to preserve the assets created.

The share of operations and maintenance decreased in revenue expenditure on social services and economic services from 0.31 *per cent* and 2.36 *per cent* in 2009-10 to 0.30 *per cent* and 2.30 *per cent* respectively in 2010-11. The decrease was mainly under Health and Family Welfare and Agriculture and Allied Activities while the increase was under Water Supply, Sanitation, Housing and Urban Development, Irrigation and Flood Control and Transport. During 2010-11, as per Finance Accounts the State Government booked only ₹ 348 crore under Detailed Head-21-Maintenance and Repairs to maintain its public assets. The total corpus of assets, being maintained with ₹ 348 crore, was rather large and the limited allocation of funds may not suffice to keep assets in a good state of repair.

1.8 Analysis of Government Expenditure and Investment

In the post-FRBM framework, the State is expected to keep its fiscal deficit at low levels and also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and take requisite steps to infuse transparency in financial operations. This section presents an analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.8.1 Financial results of completed Irrigation Projects

The financial results of six major and 11 medium irrigation projects (***Appendix 1.9***) completed with a capital outlay of ₹ 4,857 crore at the end of March 2011 revealed that revenue realised (₹ 49 crore) from these projects during 2010-11 was only 1.01 *per cent* of the capital expenditure which was not sufficient to cover the direct working expenses. After meeting the working and maintenance expenditure (₹ 136 crore) and interest charges (₹ 470 crore), the projects suffered a net loss of ₹ 557 crore.

Indira Gandhi Nahar Project (IGNP) is the largest irrigation project under execution in Rajasthan and various stages of it have been completed over the years. At the end of March 2011, the capital expenditure on IGNP was ₹ 3,819 crore. During 2010-11 the revenue realised from IGNP was ₹ 15 crore comprising just 0.39 *per cent* of the capital expenditure. This revenue was negligible (3.46 *per cent*) even with reference to total working and maintenance expenditure (₹ 59 crore) incurred and the interest charges of ₹ 374 crore, the project suffered a net loss of ₹ 418 crore.

Gang Canal is the second largest irrigation project in the State. At the end of March 2011, the capital expenditure on Gang Canal was ₹ 428 crore. During 2010-11 the revenue realised from Gang Canal was ₹ 4.66 crore, which was not sufficient to cover the working and maintenance expenditure (₹ 15.54 crore) and interest charges (₹ 42.21 crore), the project suffered a net loss of ₹ 53 crore.

1.8.2 Incomplete projects

The department-wise information pertaining to incomplete projects as on 31 March 2011 is as follows:

Table 1.13: Department-wise profile of incomplete projects

(₹ in crore)

Department	Total no. of incomplete projects	Original sanctioned cost of all incomplete projects	Original estimated cost of 32 projects which were revised		Revised cost of 32 incomplete projects	Cost Over run of 32 projects which were revised	Cumulative actual exp. of all incomplete projects as on 31.3.2011
			No.	Amount			
Irrigation Works/Projects	32	1,201.58	18	867.03	3,260.47	2,393.44	2,383.33
Public Works Department/ Project	46	783.08	2	30.00	30.05	0.05	290.37
Public Health Engineering Department	74	8,361.43	12	1,168.50	2,271.25	1,102.75	4,468.31
Total	**152**	**10,346.09**	**32**	**2,065.53**	**5,561.77**	**3,496.24**	**7,142.01**

Source: Finance Accounts 2010-11.

According to information received from the State Government, as of 31 March 2011, there were 152 incomplete projects (cost more than ₹ 10 crore in each project) in which ₹ 7,142 crore were blocked. Of these, 113 projects involving ₹ 3,976 crore remained incomplete for less than five years, 39 projects involving ₹ 4,166 crore remained incomplete for periods ranging from five to 28 years. The revised cost of 32 incomplete projects increased by 169 *per cent* from ₹ 2,066 crore (initial budgeted cost) to ₹ 5,562 crore (total revised cost). Out of the total cost overrun of ₹ 3,496 crore, ₹ 2,393 crore pertained to Irrigation Works/Projects, of which *Narmada Jalore* Project alone increased by 431 *per cent* (₹ 2,013.96 crore) from ₹ 467.53 crore to ₹ 2,481.49 crore.

1.8.3 Investment and returns

As of 31 March 2011, Government had invested ₹ 11,112.16 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.14**). The average return on this investment was 0.2 to 0.5 *per cent* during the last three years while the Government paid an average interest rate of 7.7 *per cent* on its borrowings during 2008-2011. ***Continued use of borrowed funds for investments which does not yield sufficient financial return will lead to unsustainable financial position. The Government may ensure commensurate results by better monitoring.***

Table 1.14: Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (₹ in crore)	5,485.26	6,575.97	7,929.63	9,533.57	11,112.16
Return (₹ in crore)	9.62	12.67	43.39	37.26	20.76
Return *(per cent)*	0.2	0.2	0.5	0.4	0.2
Average rate[16] of interest on Govt. borrowing *(per cent)*	8.3	8.0	7.7	7.7	7.7
Difference between interest rate and return *(per cent)*	8.1	7.8	7.2	7.3	7.5

Source: Finance Accounts

During 2010-11, the State Government has invested ₹ 1,578.59 crore in Government Companies, Rural Banks and Co-operative Banks and Societies. The sectors/ companies where major investments were made during 2010-11 were (i) Co-operative Banks and Societies (₹ 22.04 crore), (ii) Rajasthan *Rajya Vidyut Prasaran Nigam* Limited (₹ 400 crore), (iii) Rajasthan *Rajya Vidyut Utpadan Nigam* Limited (₹ 336 crore), (iv) Jodhpur *Vidyut Vitran Nigam* Limited (₹ 217.90 crore) (v) Jaipur Metro Rail Corporation, Jaipur (₹ 179 crore), (vi) Ajmer *Vidyut Vitran Nigam* Limited (₹ 173.90 crore), (vii) Jaipur *Vidyut Vitran Nigam* Limited (₹ 168.20 crore) and (viii) Rajasthan State Food and Civil Supply Corporation Limited, Jaipur (₹ 50 crore)

The investment of State Government included ₹ 10,323.35 crore in 36 Government Companies, of which only six companies declared dividend aggregating to ₹ 19.25 crore against an investment of ₹ 137.38 crore. As on 31 March 2011 of five power companies in which Government had invested

[16] see glossary at page 143 for method of calculation

₹ 9,659.09 crore (86.9 *per cent* of total investment) three companies showed nil Profit/Loss in their accounts upto 2008-09, two companies showed loss in their accounts upto 2009-10 and no dividend was paid to the Government. Accounts of the three companies' were prepared on no Profit/no Loss basis as per financial restructuring plan. These companies were not showing any accumulated losses in their accounts.

The State Government had invested ₹ 6,866.83 crore in two statutory corporations, one rural bank, 14 Government companies and six joint stock companies and their accumulated losses amounted to ₹ 4,503.48 crore as per the accounts furnished by these companies up to 2010-11.

1.8.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the investment made by the Government up to the year for which *pro forma* accounts are finalised, net profits/loss as well as return on capital invested in these undertakings are given in ***Appendices-1.10 and 3.4***. It is observed that:

- An amount of ₹ 9194.37 crore had been invested by the State Government in 12 undertakings at the end of financial year up to which their accounts were finalised. The accumulated losses of these departmental undertakings were ₹ 7161.52 crore as against the total investment of ₹ 9194.37 crore.

- Of the total 12 undertakings, only two undertakings[17] (16.67 *per cent*) could earn net profit during current year amounting to ₹ 26.23 crore and accumulated profit of ₹ 241.88 crore up to the year of accounts finalised against the capital invested[18]. Though two undertakings[19] incurred loss of ₹ 0.13 crore during the year, these have accumulated profit of ₹ 2.98 crore up to the year end.

- Of all the loss making undertakings, seven undertakings[20] were incurring losses continuously for more than five years.

Detailed analysis of *pro forma* accounts of Rajasthan Water Supply and Sewerage Management Board (RWSSMB) for the year 2009-10 revealed the following:

- Despite repeatedly being pointed out in the Reports of the Comptroller and Auditor General of India (Civil) from the year ended 31 March

---

17 Departmental Trading of Forest Coupes (₹ 16.09 crore) and Tendu Patta Scheme (₹ 10.14 crore)

18 Capital investment of the Government is nil, as the remittances from the undertakings were more than the amount invested by the Government.

19 Sodium Sulphate Works, Deedwana (₹ 0.06 crore) and Government Salt Works, Deedwana (₹ 0.07 crore).

20 Jail Manufacture, Ajmer (₹ 1.45 crore), Alwar (₹ 0.47 crore), Bikaner (₹ 1.14 crore), Jaipur (₹ 2.07 crore), Jodhpur (₹ 1.53 crore), Kota (₹ 0.38 crore) and Rajasthan Water Supply and Sewerage Management Board, Jaipur (₹ 7,153.58 crore). Figures in bracket indicate the accumulated losses as on 31 March 2010

2007, RWSSMB, Jaipur did not maintain essential Ledgers/ Reports[21]. The year-wise break up of sundry debtors of ₹ 227.60 crore was also not available.

- The revenue of RWSSMB from sale of water (₹ 183.03 crore) was insufficient even to recover the cost of electricity charges (₹ 356.78 crore) for the year 2009-10. The accumulated loss in the undertaking has mounted to ₹ 7153.58 crore mainly due to very low uneconomical tariff for water charges fixed by the State Government without considering the actual cost of distribution. Besides, the other direct costs like salaries, repairs & maintenance, interest on loan, rent, rates and taxes etc. also remained unrecovered.

In view of the huge losses of some of the State-owned public sector undertakings, Government should review their working so as to reduce their losses, to make them economically viable or ensure their closure.

1.8.5 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 of these institutions/organisations. **Table 1.15** presents the outstanding loans and advances as on 31 March 2011, interest receipts *vis-à-vis* interest payments during the last three years**.**

Table 1.15: Average interest received on loans advanced by Government

(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	**2008-09**	**2009-10**	**2010-11**	
			BE	**Actual**
Opening Balance	2,738	2,989	3,370	3,375
Amount advanced during the year	340	498	41	262
Amount repaid during the year	89	112	111	319
Closing Balance	**2,989**	**3,375**	**3,300**	**3,318**
Of which, outstanding balance for which terms and conditions have been settled	N.A.	N.A.	N.A.	N.A.
Net addition	251	386	(-) 70	(-) 57
Interest Receipts	124	151		144
Interest receipts as *per cent* to outstanding Loans and advances	4.3	4.7		4.3
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.7	7.7		7.7
Difference between interest payments and interest receipts (*per cent*)	(-) 3.4	(-) 3.0		(-) 3.4

Source: Finance Accounts

Out of the total loans and advances of ₹ 3,318 crore as on 31 March 2011, the loans and advances of ₹ 2,363 crore (71.2 *per cent*) were given to Power Projects. The amount of loans and advances disbursed during the year decreased by ₹ 236 crore from ₹ 498 crore in 2009-10 to ₹ 262 crore in 2010-11. Out of the total amount of loans advanced during the year ₹ 179 crore were transferred to social services and ₹ 83 crore to economic services.

[21] Works Abstract, General Ledgers, Trial Balance, Journal Adjustment Book, Fixed Assets Registers and Works Registers.

During the current year major portion of loan was advanced for Integrated Development of Small and Medium Towns under Urban Development (₹ 160 crore), Rajasthan Pensioner Medical Fund for Indoor Medical Facility Scheme to Pensioners of State Government (₹ 10 crore), Agriculture Universities under Crop Husbandry (₹ 55 crore), Macro Co-operative Development Project (₹ 11 crore) and Spin fed/Cotton Complex (₹ 12 crore) under Co-operation.

During 2010-11, the recovery of loans and advances increased by ₹ 207 crore. During 2010-11 9.5 *per cent* (₹ 319 crore) loan was repaid by institutions/ organisations (Rajasthan State Co-operative Bank Limited under Co-operation: ₹ 155 crore. Rajasthan *Rajya Vidyut Prasaran Nigam* Limited: ₹ 43 crore, Rajasthan Agriculture Marking Board under Crop Husbandry: ₹ 24 crore, Spin fed/Cotton Complex under Co-operation: ₹ 18 crore and Jaipur *Vidyut Vitran Nigam* Limited: ₹ 16 crore). More than ₹ 87.52 crore of loans were not repaid by the institutions (***Appendix 1.11***) since last eight or more years.

Similarly, interest received against these loans decreased from 4.7 *per cent* in 2009-10 to 4.3 *per cent* in 2010-11. The interest received against these loans decreased by ₹ seven crore over the previous year. The decrease was mainly due to less interest receipts from Guaranteed Loans from Life Insurance Corporation (₹ 9.57 crore), *Panchayati Raj* Institutions for Rural Housing (₹ 6.29 crore), Power Projects (₹ 4.76 crore) and Rajasthan Financial Corporation (₹ 1.63 crore) over the previous year which was counterbalanced by increase in interest receipts on Loans for godown construction in rural areas under Food Storage and Warehousing (₹ 14.47 crore).

1.8.6 Cash balances and Investment of Cash balances

Table 1.16 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.16: Cash balances and Investment of Cash balances

(₹ in crore)

Particulars	As on 1 April 2010	As on 31 March 2011	Increase/ Decrease (-)
Cash in Treasuries	0.06	0.05	(-) 0.01
Deposits with Reserve Bank	(-) 573.41	(-) 23.43	549.98
Remittances in Transit-Local	0.07	(-) 2.93	(-) 3.00
Cash with the departmental Officers, Viz., Divisional Officers of the Public Works and Forest Departments	1.65	1.38	(-) 0.27
Permanent advance for contingent expenditure with departmental officers	7.90	5.43	(-) 2.47
Investments from Cash balances (a to d)	2,675.66	5,708.67	3,033.01
a. GoI Treasury Bills/Securities	2,675.50	5,708.51	3,033.01
b. Securities of the State Government	0.03	0.03	-
c. Sterling Securities	0.05	0.05	-
d. Short-term deposit with banks and other accounts	0.08	0.08	-
Funds-wise Break-up of Investment from Earmarked balances (a to c)	249.72	398.59	148.87
a. Guarantee Redemption Fund Investment account	-	148.87	148.87
b. Government of India Securities	172.08	172.08	-
c. Pay back of Rajasthan State Development Loans	77.64	77.64	-
Total Cash Balance	**2,361.65**	**6,087.76**	**3,726.11**
Interest realised	*130.83*	*180.44*	*49.61*

Source: Finance Accounts 2010-11.

The State Government's cash balances at the end of the current year amounted to ₹ 6,088 crore. It increased by ₹ 3,726 crore (158 *per cent*) over the previous year. It was observed that ₹ 5,709 crore were invested in Government of India Treasury Bills/Securities, which earned an interest of ₹ 180 crore during the year. Further, ₹ 399 crore was invested in earmarked funds. However, deposits with Reserve Bank of India were (-) ₹ 23.43 crore as on 31 March 2011. State Government maintained a minimum cash balance of ₹ 2.34 crore as per agreement with the Reserve Bank of India during the year.

Surplus cash balance was mainly due to market borrowings of ₹ 6,180 crore raised during 2010-11 on May (₹ 500 crore at 8.05 *per cent*), June (₹ 500 crore at 8.11 *per cent* and ₹ 500 crore at 8.09 *per cent*), July (₹ 500 crore at 8.15 *per cent* and ₹ 500 crore at 8.12 *per cent*), August (₹ 500 crore at 8.44 *per cent*), October (₹ 500 crore at 8.35 *per cent* and ₹ 500 crore at 8.51 *per cent*), November (₹ 500 crore at 8.39 *per cent*) and February (₹ 800 crore at 8.50 *per cent* and ₹ 880 crore at 8.52 *per cent*).

The entire loan amount was invested in fourteen days treasury bills of RBI with an interest rate of five *per cent* per annum as against an average rate of interest 7.7 *per cent* per annum at which the borrowings were made. Government of India Treasury Bills amounting to ₹ 65,469 crore were purchased and ₹ 62,436 crore rediscounted during 2010-11. Resultantly, investment from cash balance increased by ₹ 3,033 crore (113 *per cent*) over the previous year. ***In view of the comfortable position of cash balances, the open market borrowings could have been limited to meet the short term liabilities of the Government.***

1.9 Assets and Liabilities

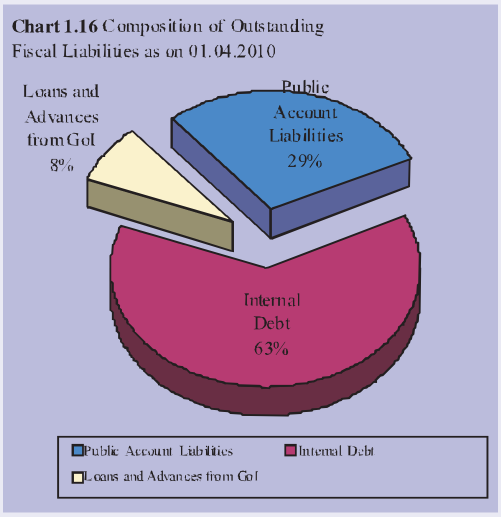
1.9.1 Growth and composition of Assets and Liabilities

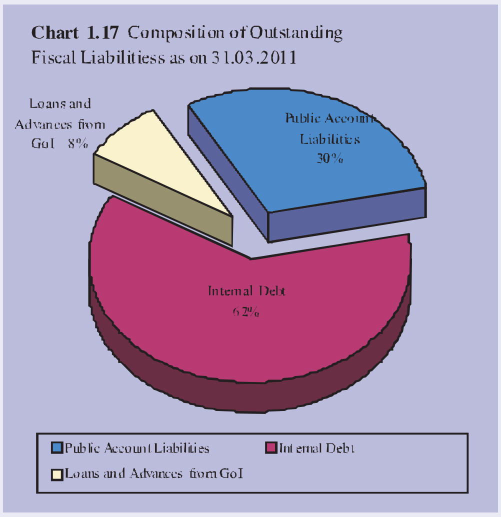
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix 1.6*** gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

According to Rajasthan Fiscal Responsibility and Budget Management (FRBM) Act, 2005, the total liability means the explicit liabilities under Consolidated Fund of the State and the Public Account of the State including General Provident Fund.

1.9.2 Fiscal Liabilities

The outstanding fiscal liabilities[22] of the State at the end of 2010-11 was ₹ 99,285 crore, which showed an annual growth of 9.9 *per cent* during 2006-11. The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Chart 1.16** and **1.17.**





Source: Finance Accounts

During 2010-11, the fiscal liabilities increased by eight *per cent* (₹ 7,752 crore) over the previous year. The Consolidated Fund Liability (₹ 69,278 crore) comprised of market loan (₹ 35,448 crore), loans from Government of India (₹ 7,381 crore) and other loans (₹ 26,449 crore). The Public Account liabilities (₹ 30,007 crore) comprise of Small Saving, Provident Fund (₹ 21,813 crore), interest bearing obligations (₹ 2,672 crore) and non-interest bearing obligations like deposits and other earmarked funds (₹ 5,522 crore). ***During 2010-11, the fiscal liabilities to GSDP ratio at 32.73 per cent was lower than the norm of 40.5 per cent[23] (for Rajasthan) recommended by the XIII-FC. These liabilities stood at 2.2 times the revenue receipts and 3.7 times the States own resources at the end of 2010-11.***

1.9.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. According to FRBM Act, State Government shall ensure that the total outstanding debt, excluding Public Account, and risk weighted outstanding guarantees in a year shall not exceed twice the estimated receipts in the Consolidated Fund of the State at the close of the Financial Year.

As per Statement 9 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years is as follows:

---

[22] 2005-06: ₹ 66,407 crore, 2006-07: ₹ 71,146 crore, 2007-08: ₹ 77,138 crore, 2008-09: ₹ 84,023 crore, 2009-10: ₹ 91,533 crore and 2010-11: ₹ 99,285 crore,

[23] XIII-FC Report **Annexure 9.1.**

Table 1.17: Guarantees given by the Government of Rajasthan

(₹ in crore)

Guarantees	2008-09	2009-10	2010-11
Maximum amount guaranteed	46,080	63,621	88,112
Outstanding amount of guarantees	27,765	39,069	50,692
Percentage of maximum amount guaranteed to total revenue receipts	137.7	179.8	191.8

Source: Finance Accounts

The outstanding guarantees increased by 30 *per cent* from ₹ 39,069 crore in 2009-10 to ₹ 50,692 crore in 2010-11. The outstanding guarantees of ₹ 50,692 crore mainly pertained to five Power Companies (₹ 48,118 crore: 95 *per cent*), and eight Co-operative Banks/institutions (₹ 1684 crore: 3 *per cent*). The guarantees of Power Companies were given for repayment of loans/overdraft, amount raised by issue of bonds/debentures and payment of interest at stipulated rates. The outstanding guarantees were 110 *per cent* of the revenue receipts of the Government, which were well within the ceiling limit (twice of the estimated receipts) prescribed by the FRBM Act. No guarantee was invoked during the year 2010-11.

The State Government set up a Guarantee Redemption Fund in 1999-2000 and as on 31 March 2011 there was a balance of ₹ 194.67 crore (₹ 187.42 crore as Guarantee Fees and ₹ 7.25 crore interest received on investment of this Fund) under this Fund. During the year no amount has been reimbursed from this Fund. During 2010-11, Government received ₹ 46.55 crore as guarantee commission which was booked as Miscellaneous Receipts and was not transferred to Guarantee Redemption Fund. Hence, the revenue surplus was over stated by ₹ 46.55 crore.

It is pertinent to note that if the liabilities arising out of the outstanding guarantees are added to the fiscal liabilities of the State Government at the close of the current year, the ratio of total liabilities to GSDP would increase to 49.44 per cent from the existing 32.73 per cent.

1.9.4 Borrowings by the Public Sector Undertakings for fulfillment of State Plans

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the fiscal liabilities of the State, the State guaranteed loans are availed of by Government companies/corporations. These companies/ corporations borrow funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Although the State Government projects that funds for these programmes would be met out of the resources mobilised by these companies/corporations outside the State budget, in reality the borrowings of many of these concerns ultimately turn out to be the liabilities of the State Government termed as 'off-budget borrowings'. Off-budget borrowings are not permissible under Article 293 (3). As per information furnished by the concerned Departments of the State (May and June 2011) the State undertakings borrowed (guaranteed or not guaranteed by the State

Government) funds for implementation of the State Plans programmes, as shown below:

Table 1.18: Borrowings by the Public Sector Undertakings for fulfillment of State Plans

(₹ in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Outstanding Balance as on 31.03.2011
Power Utilities (Rajasthan Rajya Vidyut Prasaran Nigam Limited)	605.12	877.26	3,796.94	4,244.09	5,501.74[24]	6,814.76[24]	18,991.96[25]
Rajasthan State Road Transport Corporation	95.43	68.98	59.83	141.59	161.33	330.57	453.48
Rajasthan State Road Development and Construction Corporation Limited	15.80	6.67	-	-	-	232.00	244.48
Rajasthan Housing Board	0.40	-	-	-	-	-	20.93
Total	**716.75**	**952.91**	**3,856.77**	**4,385.68**	**5,663.07**	**7,377.33**	**19,710.85**

Source: Concerned Department.

The Finance Department intimated (June 2011), that the Boards, Companies and Public Sector Undertakings raise loans as per their requirement. In case the guarantees are provided, the Government charges certain commission under the relevant rules. State Government does not use the borrowings of Public Sector Undertakings for meeting State's budgeted plan expenditure and also that its debt servicing is not made through Consolidated Fund of the State. Hence, the State Government treated these as the borrowings of Public Sector Undertaking only and not off-budget borrowings of the State Government.

Funds borrowed by Government companies could become a contingent liability for the Government if the companies are unable to repay. There is often a pressure on the State Government to step in even though there may be no legal requirement to do so. Hence, it is imperative that borrowings of State owned companies are managed prudently.

1.9.5 Reserve Funds

As on 31 March 2011, there was a closing balance of ₹ 529.95 crore in 34 Reserve Funds. Out of ₹ 529.95 crore, Government had invested ₹ 398.59 crore (Government of India Securities: ₹ 172.08 crore, Guarantee Redemption Fund Investment account: ₹ 148.87 crore and Pay back of Rajasthan State

[24] The figures are provisional as reported by the Department.

[25] Bifurcation of repayment made in respect of Renewable Energy Corporation (REC) loans under Plan and Non-Plan was not available with the Department, hence the total repayment figures have been taken into account.

Development Loans: ₹ 77.64 crore) at the end of the year. During the year an amount of ₹ 872.88 crore (net) was transferred as annual contribution in various Reserve Funds. The contribution was mainly under State Disaster Response Fund: ₹ 300.33 crore (share of GoI: ₹ 225.25 crore and share of State Government: ₹ 75.08 crore), National Rural Employment Guarantee Fund: ₹ 284.93 crore, State Road and Bridges Fund: ₹ 250 crore and Guarantee Redemption Fund: ₹ 36.94 crore. The Reserve Funds of the State decreased by ₹ 485.22 crore over the previous year, hence the fiscal liabilities of the State Government was reduced to that extent at the end of the year 2010-11.

1.9.6 Large number of adverse balances under DDR Heads

Adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayments than the original amount advanced.

As of 31 March 2011, there were 53 cases in 6 Major Heads[26] amounting to ₹ 466.57 crore of adverse balances under Debt, Deposit and Remittances (DDR) heads. The adverse balances were mainly under State Disaster Response Fund due to non-receipt of II instalment of Central share (₹ 225.25 crore) and State share (₹ 75.08 crore) under 'General and Other Reserve Fund', Pension Funds of employees of Municipalities/Municipal councils (₹ 145.19 crore) under 'Insurance and Pension Fund, Remittance to Treasury (₹ 8.76 crore) under 'Cash Remittance and adjustments between officers rendering accounts to the same Accounts Officers' and District Rural Development Authority (₹ 5.56 crore) under 'Deposits of Local Fund'.

1.10 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also indicates the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt. **Table 1.19** analyses the debt sustainability of the State according to these indicators for the period of three years beginning 2008-09.

[26] Loans to Government Servants (41 cases: ₹ 1.08 crore), Insurance and pension Funds (1 case: ₹ 145.19 crore), General and other Reserve Funds (2 cases: ₹ 300.33 crore), Deposits of Local Funds (2 cases: ₹ 7.24 crore), Suspense Accounts (2 cases: ₹ 1.18 crore) and Cash Remittance and adjustments between officers rendering accounts to the same Accounts Officer (5 cases: ₹ 11.55 crore).

Table 1.19: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2008-09	2009-10	2010-11
Debt Stabilization (Quantum Spread + Primary Deficit)	5,344	1,175	13,403
Sufficiency of Non-debt Receipts (Resource Gap)	(-) 3,566	(-) 3,325	6,173
Net Availability of Borrowed Funds	661	741	383
Burden of Interest Payments (IP/RR *per cent*)	19	19	16

Debt Stabilisation

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

The sum of Quantum Spread and Primary deficit was positive during 2008-11 resulting in declining trend in debt-GSDP ratio. These trends indicate that the State is moving towards debt stabilization, which, if continued would eventually improve the debt sustainability position of the State.

Sufficiency of Non-Debt Receipts

For debt stability and its sustainability the incremental non-debt receipts of the State should be adequate 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.

The persistent negative non-debt receipts (Resource Gap) indicate the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. The resource gap which was negative during 2008-10, turned positive in 2010-11. This meant that the State did not depend on borrowed funds for meeting current revenue and capital expenditure. During 2010-11, the non-debt receipts increased by ₹ 10,754 crore (30 *per cent*) while the total expenditure increased by ₹ 4,581 crore (10 *per cent*).

Net availability of borrowed funds

Net availability of borrowed funds is defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption.

The net fund available from borrowing after providing for the interest and repayment decreased from ₹ 741 crore in 2009-10 to ₹ 383 crore in 2010-11.

During the current year the available borrowed fund increased by ₹ 9,685 crore while the Government repayment increased by ₹ 10,043 crore over the previous year. Total receipts and tota l repayments (including interest) of liabilities during 2010-11 were ₹ 1,21,613 crore and ₹ 1,21,230 crore respectively, hence ₹ 383 crore was available for current operations.

Interest burden

The ratio of interest payments to revenue determines the debt sustainability of the State. During the year, interest payments reduced by three percentage points over the previous year and constituted 16 *per cent* of Revenue Receipts of the State.

Maturity Profile of State Debt

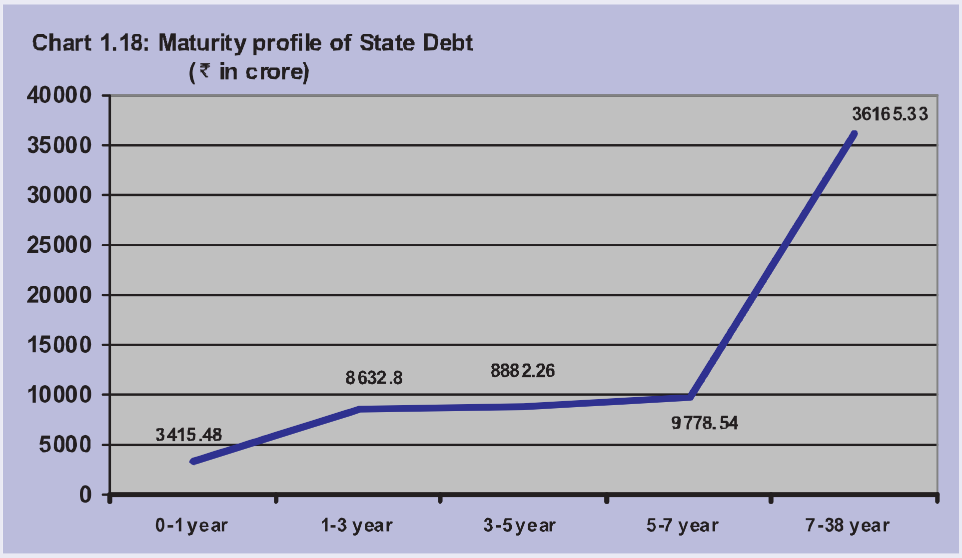
The Maturity Profile of State Debt as on 31 March 2011 is as follows:

Table 1.20: Maturity Profile of State Debt

(₹ in crore)

Maturity Profile	Amount	*Percent*
0-1 year	3,415.48	4.93
1-3 Years	8,632.80	12.46
3-5 Years	8,882.26	12.82
5-7 Years	9,778.54	14.12
7-38 Years	38,165.33	55.09
Information of maturity profile not furnished by the State Government	403.27	0.58
Total	**69,277.68**	**100.00**

Source: Finance Accounts



Source: Finance Accounts

As per data shown in **Table 1.20**, the maturity profile of ₹ 403.27 crore is not clearly defined. There will be a bunching of repayments in around 1-3 years time (₹ 8,632.80 crore) and 3-5 years time (₹ 8,882.26 crore) as well as 5-7 years time (₹ 9,778.54 crore). A well thought out debt repayment strategy will ensure that no additional borrowings which mature in these critical years are undertaken.

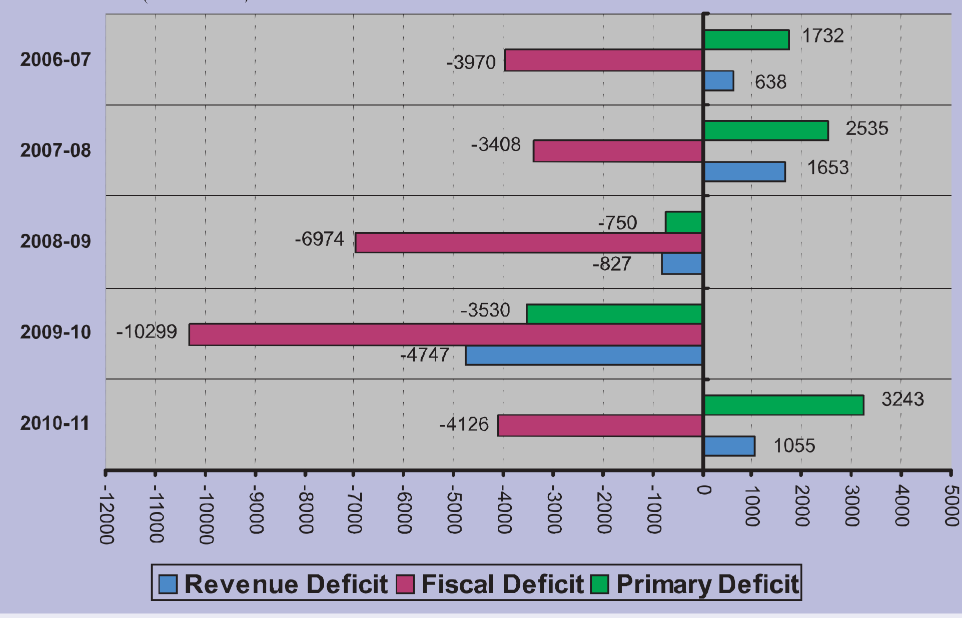
1.11 Fiscal Imbalances

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 way in which the deficit is financed and the resources 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 *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2010-11.

1.11.1 Trends in Deficits

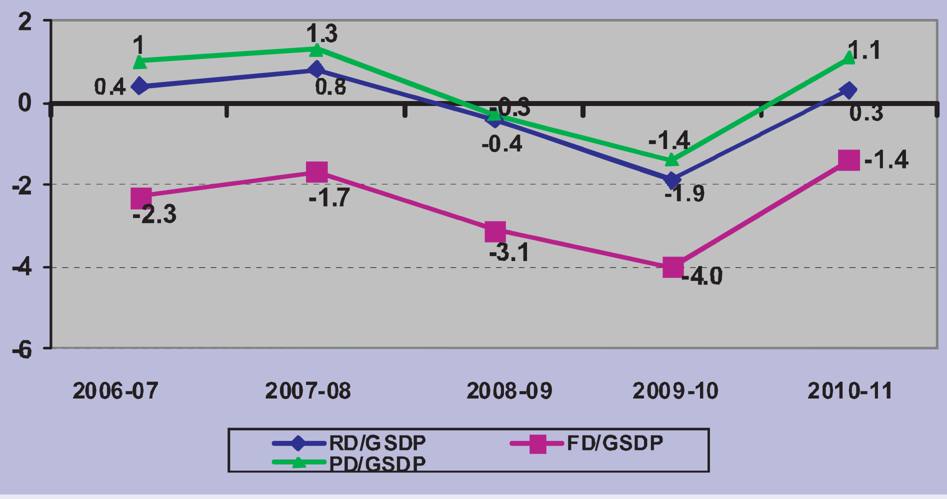
Charts 1.19 and **1.20** presents the trends in deficit indicators over the period 2006-11.

Chart 1.19: Trends in Deficit Indicators
(₹ in crore)



Source: Finance Accounts

Chart 1.20: Trends in Deficit Indicators Relative to GSDP
(In *per cent* to GSDP)



From a situation of revenue deficit in 2008-09 and 2009-10, the State turned into revenue surplus in 2010-11. During 2010-11, the revenue deficit was reduced sharply by ₹ 5,802 crore and turned into a revenue surplus of ₹ 1,055 crore. Consequently, the decrease in revenue deficit combined with increase in capital expenditure and decrease in net disbursement of loans and advances in 2010-11 resulted in a decrease in fiscal deficit by ₹ 6,173 crore (60 *per cent*) from ₹ 10,299 crore in 2009-10 to ₹ 4,126 crore in 2010-11. ***Fiscal deficit as a percentage of GSDP decreased from four per cent in 2009-10 to 1.4 per cent in 2010-11 which was within the target of achieving three per cent as prescribed by revised FRBM Act for 2011-12.*** The primary deficit of ₹ 3,530 crore in 2009-10 was also reduced sharply and turned into primary surplus of ₹ 3,243 crore in 2010-11.

1.11.2 Components of fiscal deficit and its item-wise financing pattern

Table 1.21 presents the each item-wise net of disbursements/outflows financing pattern of fiscal deficits of the state during 2005-06 to 2010-11 along with receipts and disbursements during the year.

Table 1.21: Components of fiscal deficit and its each item-wise financing of pattern

(₹ in crore)

		Net disbursements/outflows					2010-11		
		2005-06	2006-07	2007-08	2008-09	2009-10	Receipts	Disburse-ments	Net
Decomposition of Fiscal Deficit (1 to 3) (a)		**5,150**	**3,970**	**3,408**	**6,974**	**10,299**			**4,126**
1	Revenue Deficit/ Surplus (-)	660	(-) 638	(-) 1,653	827	4,747	45,928	44,873	(-) 1,055
2	Net Capital Expenditure	4,294	4,809	6,554	5,896	5,166	13	5,251	5,238
3	Net Loans and Advances	196	(-) 201	(-) 1,493	251	386	319	262	(-) 57

(₹ in crore)

		Net disbursements/outflows					2010-11		
		2005-06	2006-07	2007-08	2008-09	2009-10	Receipts	Disburse-ments	Net
Financing Pattern of Fiscal Deficit									
1	Market Borrowings	643	1,065	3,233	5,196	6,112	6,180	1,343	4,837
2	Loans from GoI	(-) 19,012[27]	(-) 295	46	(-) 66	(-) 142	360	454	(-) 94
3	Special Securities Issued to National Small Saving Funds	22,681	1,745	(-) 223	(-) 434	(-) 560	402	955	(-) 553
4	Ways and Means	-	59	(-) 59	-	-	-	-	-
5	Loans from Financial Institutions	191	(-) 132	220	350	442	1,035	565	470
6	Small Savings, Provident Fund etc	1,377	1,245	1,119	1,405	2,145	5,131	2,290	2,841
7	Deposits and Advances	429	592	557	347	1,274	1,07,666	1,06,781	885
8	Suspense and Miscellaneous	(-) 19	51	2	39	(-) 14	10	59	(-) 49
9	Remittances	(-) 13	(-) [28]	(-) 14	21	(-) 1	5,810	5,810	-
10	Reserve Fund	(-) 37	710	1,198	(-) 11	(-) 1,761	873	1,358	(-) 485
11	**Total (1 to 10) (b)**	**6,240**	**5,040**	**6,079**	**6,847**	**7,495**	**1,27,467**	**1,19,615**	**7,852**
12	Increase (-)/ Decrease (+) in Cash Balance (a-b)	(-) 1,090	(-) 1,070	(-) 2,671	127	2,804	-	-	(-) 3,726
13	Overall Deficit (11+12)	5,150 (3.6)	3,970 (2.3)	3,408 (1.7)	6,974 (3.1)	10,299 (4.0)	-	-	4,126 (1.4)

Figures in brackets indicate the *per cent* to GSDP.

Source : Finance Accounts.

Fiscal deficit is the total borrowing requirement of the State and is the excess of revenue expenditure and capital expenditure including loans and advances over revenue and non-debt receipts. Decomposition of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts.

During 2010-11, the revenue deficit (₹ 4,747 crore) of 2009-10 was turned into a revenue surplus of ₹ 1,055 crore there-by affecting the extent of fiscal deficit which could be financed by revenue surplus. The fiscal deficit of ₹ 4,126 crore in 2010-11 was met out from net borrowing of ₹ 7,852 crore resulting in increase in the cash balance by ₹ 3,726 crore.

[27] *minus* figure is due to tranfer of ₹ 19,029 crore from loans and advances from GoI to Special Securities to NSSF as per Twelfth Finance Commission recommendation.

[28] only ₹ 0.29 crore.

It can be seen from **Table 1.21** that the fiscal deficit in 2005-06 to 2010-11 was due to large net capital expenditure. Market borrowings by the State Government continued to finance a major portion of fiscal deficit but its share in financing fiscal deficit increased from 59 *per cent* in 2009-10 to 117 *per cent* in 2010-11. During 2010-11, the fiscal deficit of ₹ 4,126 crore was mainly met out from market borrowings (₹ 4,837 crore), Small Savings and Provident Fund etc. (₹ 2,841 crore) which was counterbalanced by increase in Cash Balance (₹ 3,726 crore). The market borrowings and the small saving, provident fund etc, increased by 16 *per cent* and 15 *per cent* respectively over the previous year; thus increasing the interest burden in future.

Cost of Borrowings

During the year 2010-11, the State Government raised market loans of ₹ 6,180 crore under Internal Debt. The cost of raising of this internal debt being ₹ 8.72 crore was 0.14 *per cent* of market loan taken by the State Government. This increased the Fiscal deficit to the extent of ₹ 8.72 crore.

1.11.3 Quality of Deficit/Surplus

The ratio of RD to FD and the composition 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) did not have adequate asset backup. The bifurcation of the primary deficit **(Table-1.22)** indicated 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.

1.22: Primary deficit/surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts (NDR)	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	NDR *vis-à-vis* Primary Revenue Expenditure	Primary deficit (-) / surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2006-07	26,106	19,252	4,809	313	24,374	(+) 6,854	(+) 1,732
2007-08	32,563	23,185	6,555	288	30,028	(+) 9,378	(+) 2,535
2008-09	33,562	28,072	5,900	340	34,312	(+) 5,490	(-) 750
2009-10	35,506	33,363	5,175	498	39,036	(+) 2,143	(-) 3,530
2010-11	46,260	37,504	5,251	262	43,017	(+) 8,756	(+) 3,243

Source: Finance Accounts

The share of Capital expenditure in primary expenditure was 20 *per cent* in 2006-07, which decreased to 12 *per cent* in 2010-11. The non-debt receipts increased by 30 *per cent* against an increase of 10 *per cent* in primary expenditure over the previous year. This resulted in turning primary deficit

(₹ 3,530 crore) into primary surplus (₹ 3,243 crore) during the year. The primary revenue expenditure and capital expenditure increased by 12 *per cent* and 1.5 *per cent* respectively over the previous year partly offset by a decline in disbursement of loans and advance by 47 *per cent*. During 2010-11, the non-debt receipt was higher than the primary expenditure resulting in a primary surplus.

1.12 Resource availability of the State under Public Private Partnerships

The concept of Public Private Partnership (PPP) has evolved for meeting rising demands of the people for adequate and qualitative infrastructure. The PPP cell established on 26 July 2007 in the Planning Department of the State Government is the nodal agency to coordinate all efforts of the State Government regarding development of infrastructure sectors involving PPP.

As per information furnished (May 2011) by the PPP Cell during 1995-11, 104 projects involving cost of ₹ 12,866.15 crore ***(Appendix 1.12-A and 1.12-B)*** have been taken up in the State in different sectors. Of this, 72 projects (₹ 2,774.82 crore) have been completed as of March 2011 and 32 projects (₹ 10,091.33 crore) relating to road construction and water sewerage were under progress at the end of 2010-11. Besides 64 projects involving cost of ₹ 26,177.87 crore ***(Appendix 1.13)*** relating to Road, Power, Education, Tourism and Jaipur Metro have been planned for future for completion by 2030. Sector-wise details of PPP Projects completed, ongoing and to be taken in future is given in the **Table 1.23**.

Table: 1.23: Sector wise Public Private Partnership Projects

(₹ in crore)

S. No.	Name of Project	Completed		On going		Planning for future	
		No.	Estimated cost	No	Estimated cost	No.	Estimated cost
1	Road Sector	61	2,455.62	16	2,934.59	48	9,689.58
2	Urban infrastructure	10	19.20	9	1,402.04	6	12,311.11
3.	Power sector	-	-	5	5,528.09	4	1,333.18
4.	I.T. sector	-	-	2	226.61	-	-
5.	Social sector	-	-	-	-	2	650.00
6.	Water sector	1	300.00	-	-	4	2,194.00
	Total	**72**	**2,774.82**	**32**	**10,091.33**	**64**	**26,177.87**

Source: Planning Department, Government of Rajasthan

In one project (Widening and Strengthening of Delhi-Ramgarh–Alwar Road) (estimated cost ₹ 25.28 crore) State Government has contributed ₹ 4.15 crore.

1.13 Conclusion and Recommendations

The State Government has shown a return to fiscal consolidation by showing a healthy growth in both tax and non-tax revenue and by containing expenditure on salaries. As a result the fiscal deficit was a healthy 1.4 per cent of GSDP as against the target of three per cent as prescribed by revised FRBM Act for 2011-12. Some concerns regarding the State's finances are as follows:

Budget estimates

The actual revenue receipts and revenue expenditure increased by eight *per cent* and three *per cent* respectively compared to the budget estimates for 2010-11. Resultantly, the estimated revenue deficit turned into revenue surplus. The capital expenditure decreased by 29.4 *per cent* over the budget estimates. The estimated primary deficit also turned into primary surplus. The actual fiscal deficit decreased from the budget estimate by ₹ 4,335 crore.

The Finance Department consolidates the estimates and prepares the Detailed Estimates and Grants. The estimates of expenditure should be as accurate as possible. The SBM was last published in 1995. However, after fifteen years, in July 2010, the State Government entrusted the work of revision of SBM to a Private Limited Company for completion by 1 November 2011.

The General Financial and Accounts Rules (GF&ARs) were last published in 1993. After a lapse of 18 years, the State Government has entrusted the work of revision of GF&ARs also to a Private Limited Company to update the State GF&ARs considering the provisions of revised General Financial Rules of GoI.

Inadequate Priority to Capital expenditure: The capital expenditure marginally increased by 1.5 *per cent* over the previous year and constituted 10 *per cent* of total expenditure against previous year 11 *per cent*. It was 29 *per cent* lower than that projected in MTFPS for 2010-11. The progressive capital expenditure at the end of March 2011 includes ₹ 7,142 crore (11.6 *per cent*) blocked on 152 incomplete projects. Government should give adequate priority to capital expenditure since the capital expenditure was lower than the projections of State Government in its MTFPS. The State Government should formulate guidelines for quick completion of incomplete projects to avoid time and cost over runs with a view to take corrective action. Increase in asset creation even if it involves an increase in fiscal deficit (within the bounds of three *per cent*) may be to the advantage of the state.

Financial Management

Review of Government investments: The average return on State Government's investment 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 while the Government paid an average interest of 7.7 *per cent* on this investment. As of 31 March 2011, investment of ₹ 6,867 crore (61.8 *per* *cent*) was made in Statutory corporations, rural banks, Government companies and joint stock companies having accumulated loss of ₹ 4,503 crore.

It would be advisable for the State Government to ensure better value for money in investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial return. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification on why high cost borrowings should 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 (for those which can be made viable) or closed down (if they are not likely to be viable given the current market conditions).

Prudent cash management: As on 31 March 2011, the State had a surplus cash balance of ₹ 6,088 crore. It increased by 158 *per cent* over the previous year. The cost of holding surplus cash balances is high. In 2010-11, the interest received on investment of cash balances in RBI Investment in Treasury Bills and Auction Treasury Bills was only five *per cent* while the Government borrowed on an average at 7.7 *per cent*. Since, maintaining huge idle cash balance is not prudent cash management, appropriate steps should be taken for spending on capital projects for creation of assets.

Transfer of funds to State implementing agencies

Oversight of funds transferred directly from the GoI to the State implementing agencies: During 2010-11, the GoI directly transferred ₹ 8,674 crore to the State Implementing Agencies compared to ₹ 9,207 crore during the previous year. It was seen that a major portion i.e ₹ 4,363 crore (50 *per cent*) went to *Zila Parishads* (Rural Development Cell). Direct transfer of funds from the GoI to the State Implementing Agencies runs the risk of improper utilisation of funds by these agencies.

As long as these funds remain outside the State budget, there is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State implementing agencies but are funded directly by the GoI. A system has to be 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 review of release and utilisation of grants recommended by XIII-FC by some department revealed that non-finalisation of action/work plan in three departments led to non-utilisation of grant of ₹ 62.20 crore against sanctioned amount of ₹ 78.23 crore.