

Profile of Gujarat

Gujarat, comprising about six *per cent* of India's geographical mass, is its seventh largest State. It is situated on the west coast of India, bound by the Arabian Sea in the west, Rajasthan in the north, Madhya Pradesh in the east and Maharashtra in the south. The State also shares an international border with Pakistan on the north western fringe. It has a coast line of about 1600 kilometres, which is one third of India's mainland coastline. Gujarat has shown a relatively high economic growth in the past decade as the Compound Annual Growth Rate (CAGR) of its Gross State Domestic Product (GSDP) for the period 2002-03 to 2011-12 has been 17.22 *per cent* as compared to 14.46 *per cent* in Other General Category States¹. During this period, its population has grown by 19.17 *per cent* against 13.90 *per cent* in General Category States.

Key socio-economic parameters of the State *viz.* population below poverty line (16.8 *per cent*), infant mortality rate (48 per thousand live births) and life expectancy at birth (64.1 years) are better than the all India average. Also, inequality of income distribution, as reflected by the Gini-coefficient², was marginally lower in the State in rural areas than in the urban areas. Gujarat has lower levels of rural and urban inequalities as compared to the all India average (**Appendix 1.1 Part A**).

1.1 Introduction

This chapter provides a broad perspective on the finances of the Government of Gujarat during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The structure of Government Accounts and the layout of the Finance Accounts are shown in **Appendix 1.1 Part B and Part C**. The methodology adopted for the assessment of the fiscal position of the State is given in **Appendix 1.2**.

1.2 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2011-12) *vis-à-vis* the previous year while **Appendix 1.3** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

¹ Andhra Pradesh, Bihar, Chhatisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

² See glossary.

Table 1.1 Summary of Fiscal Operations

(₹ in crore)

Receipts			Disbursements				
2010-11		2011-12	2010-11		2011-12		
					Non- Plan	Plan	Total
Section-A: Revenue							
52,363.64	Revenue receipts	62,958.99	57,440.02	Revenue expenditure	43,053.93	16,690.53	59,744.46
36,338.63	Tax revenue	44,252.29	19,840.46	General services	20,738.84	741.68	21,480.52
4,915.02	Non-tax revenue	5,276.52	23,701.61	Social services	14,902.66	9,643.13	24,545.79
6,679.44	Share of Union taxes/ duties	7,780.31	13,712.67	Economic services	7,212.65	6,305.72	13,518.37
4,430.55	Grants from Government of India	5,649.87	185.28	Grants-in-aid and Contributions	199.78		199.78
Section-B: Capital							
91.18	Misc. Capital receipts	10.00	9,683.54	Capital Outlay	204.47	13,607.23	13,811.70
283.10	Recoveries of Loans and Advances	165.44	687.99	Loans and Advances disbursed	70.57	534.77	605.34
16,681.34	Public Debt receipts*	17,534.76	3,817.53	Repayment of Public Debt*	-	-	5,275.19
47.12	Contingency Fund	0.66	0.66	Contingency Fund	-	-	80.50
72,281.47	Public Account receipts	79,653.14	66,655.62	Public Account disbursements	-	-	77,160.79
11,524.31	Opening Cash Balance	14,986.80	14,986.80	Closing Cash Balance	-	-	18,631.81
1,53,272.16	Total	1,75,309.79	1,53,272.16	Total			1,75,309.79

Source: Finance Accounts for the years 2010-11 and 2011-12.

* Excluding net transactions under ways and means advances and overdrafts.

The following are the significant changes during 2011-12 over the previous year:

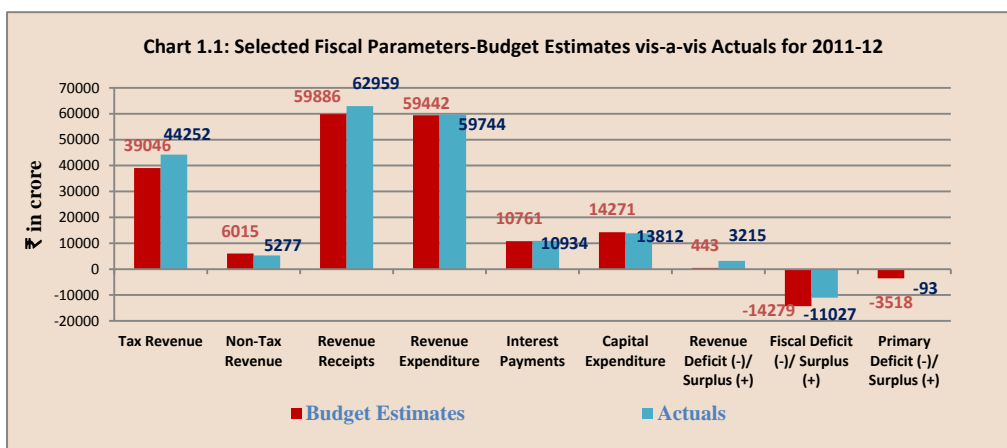
- Revenue receipts grew by ₹ 10,595 crore (20 per cent) over the previous year. The increase was mainly contributed by increase in the State's own tax revenue of ₹ 7,914 crore (22 per cent), increase in grants from the Government of India (GoI) of ₹ 1,219 crore (28 per cent), increase in State's share of Union taxes and duties of ₹ 1,101 crore (16 per cent). The increase in non-tax revenue of ₹ 361 crore (7 per cent) was least among all constituents of Revenue receipt.
- Revenue expenditure increased by ₹ 2,304 crore (4 per cent) mainly due to increase in expenditure on General Services by ₹ 1,640 crore (8 per cent) and on Social Services by ₹ 844 crore (4 per cent).
- Capital expenditure increased by ₹ 4,128 crore (43 per cent) whereas the disbursement of loans and advances decreased by ₹ 83 crore (12 per cent).
- Receipts under Public Debt increased by ₹ 853 crore (5 per cent) against an increase of ₹ 1,458 crore in payments (38 per cent). The net availability of public debt receipt of ₹ 12,260 crore during 2011-12 was 5 per cent less than that of previous year ₹ 12,864 crore.

- Public Account receipts increased by ₹ 7,372 crore (10 per cent) while public account disbursement increased by ₹ 10,505 crore (16 per cent)
- Total inflow during 2011-12 of ₹ 1,60,323 crore against ₹ 1,41,748 crore in 2010-11 along with total outflow during 2011-12 of ₹ 1,56,678 crore against ₹ 1,38,285 crore led to increase in the cash balance of the State by ₹ 3,645 crore (24 per cent) over previous year.

1.3 Budget Analysis

Budget estimates presented by the State Government provide a description of the projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from the budget estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes, some within the control of the Government and some outside.

Chart 1.1 Presents the budget estimates and actuals of some important fiscal parameters.



During 2011-12, compared to the budget estimates, the tax revenue increased by an additional ₹ 5,206 crore (13 per cent). During 2011-12, the actual revenue receipts grew over the budget estimates by 5 per cent (₹ 3,073 crore). Against an estimated revenue surplus of ₹ 443 crore, the financial year ended with a revenue surplus of ₹ 3,215 crore.

The revenue expenditure reflected only slight increase (below one per cent) over the budget estimates while capital expenditure against budget estimates was less by ₹ 459 crore (3 per cent). The increase in actual revenue receipts over budget estimates along with slight increase in revenue expenditure over budget estimates resulted in significant improvement in budgeted revenue surplus. The actual fiscal deficit improved over budget estimates by 23 per cent mainly due to increase in actual revenue receipts along with less capital expenditure than estimated. Significant decrease in actual fiscal deficit together with increase of only ₹ 173 crore in interest payment led to decrease in primary deficit by 97 per cent (₹ 3,425 crore) than estimated primary deficit.

1.4 Review of fiscal situation

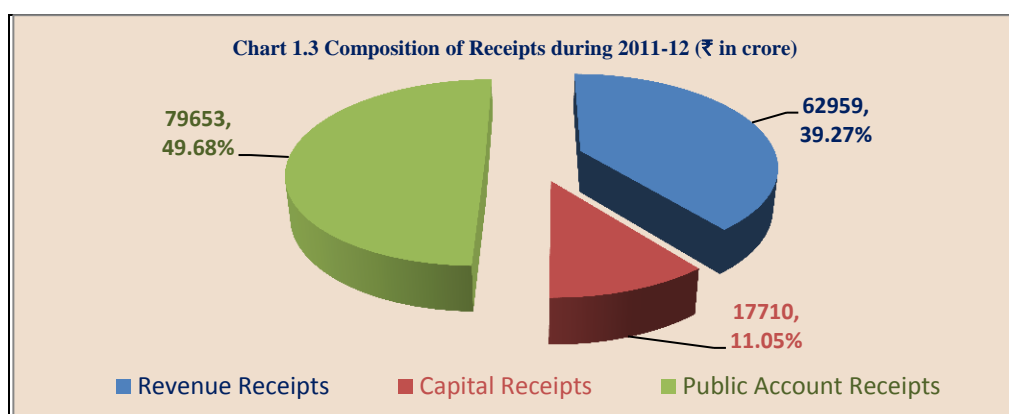
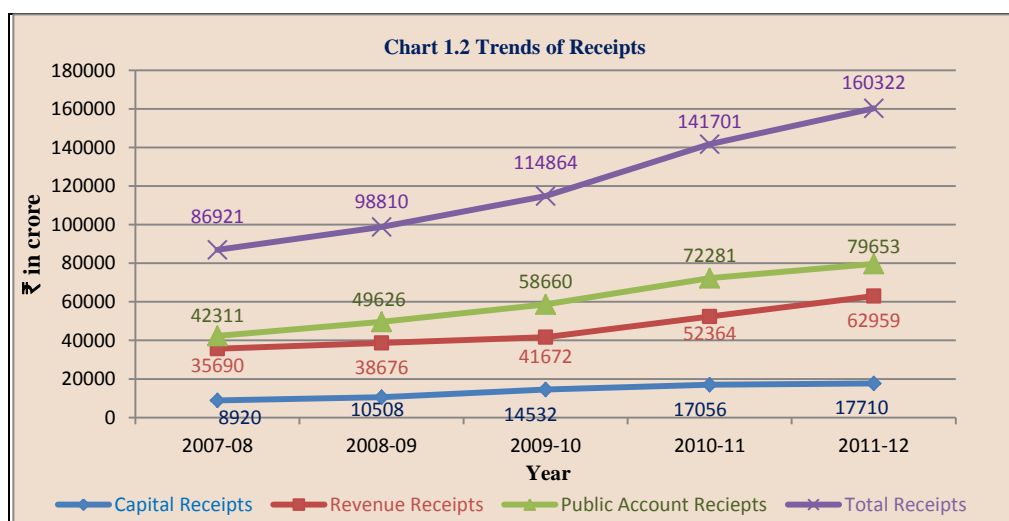
As per the Gujarat Fiscal Responsibility Act, 2005 enacted in line with the recommendations of the Twelfth Finance Commission (TFC), the State Government had agreed for elimination of revenue deficit by the end of 2007-08 and reduction of fiscal deficit to not more than three *per cent* of the Gross State Domestic Product (GSDP) by 31 March 2009. Similarly, the target of the ratio of Public Debt to GSDP was thirty *per cent* by March 2008. Total outstanding guarantees were to be capped within the limit provided in the Gujarat State Guarantee Act, 1963. Though the State had achieved the above targets by 2006-07, in the wake of the global financial crisis, the fiscal deficit targets for 2009-10 and 2010-11 were relaxed by one *per cent* and 0.5 *per cent* of GSDP respectively.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission (ThFC) has recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. This requires the State to reduce the revenue deficit to zero by 2011-12, reduce the fiscal deficit to not more than three *per cent* of the estimated GSDP of the year beginning 2011-12, to cap the total public debt of the State Government from the level of 28.8 *per cent* in 2011-12 to 27.1 *per cent* at the end of 2014-15 of the estimated GSDP for the financial year beginning April 2011 and ending on 31 March 2015. The State Legislature in March 2011 amended the Fiscal Responsibility Act in line with the recommendations of the ThFC. The State achieved the target of reduction of revenue deficit to zero in 2011-12, as the State achieved a revenue surplus of ₹ 3,215 crore. At the end of 2011-12, the fiscal deficit as percentage to GSDP was 1.87, which was within the limit of three *per cent*. The public debt as percentage of GSDP was 20.87 *per cent* in 2011-12 against the target of 22.01 *per cent* given in the Medium Term Fiscal Policy Statement.

1.5 Resources of the State

1.5.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Government of India. 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 the 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 of various components of the receipts of the State during 2007-08 to 2011-12. **Chart 1.3** depicts the composition of resources of the State during the current year.



The total receipts of the State Government increased by more than 84 per cent from ₹ 86,921 crore in 2007-08 to ₹ 1,60,322 crore in 2011-12. The relative share of Public Account receipts and Capital receipts which stood at 48.68 per cent and 10.26 per cent respectively of the total receipts in 2007-08 increased to 49.68 per cent and 11.05 per cent in 2011-12, while that of Revenue receipts to total receipts, declined from 41.06 per cent in 2007-08 to 39.27 per cent in 2011-12. During the period, the State's tax revenue increased by 102 per cent from ₹ 21,885 crore in 2007-08 to ₹ 44,252 crore in 2011-12. The percentage of tax receipts to revenue receipts increased significantly from 61.32 per cent in 2007-08 to 70.28 per cent in 2011-12.

1.5.2 Funds transferred by the Central Government to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to State Implementing Agencies³ for the implementation of various schemes/programmes in social and economic sectors, which are recognised as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture these fund flows and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them are not representing the whole picture. During 2011-12, ₹ 4,392.84 crore was transferred to State Implementing

³ See glossary

Agencies which was 1.30 *per cent* less than the previous year. The funds directly transferred to State Implementing Agencies are presented in **Table 1.2**

Table 1.2: Funds transferred directly to State Implementing Agencies
(₹ in crore)

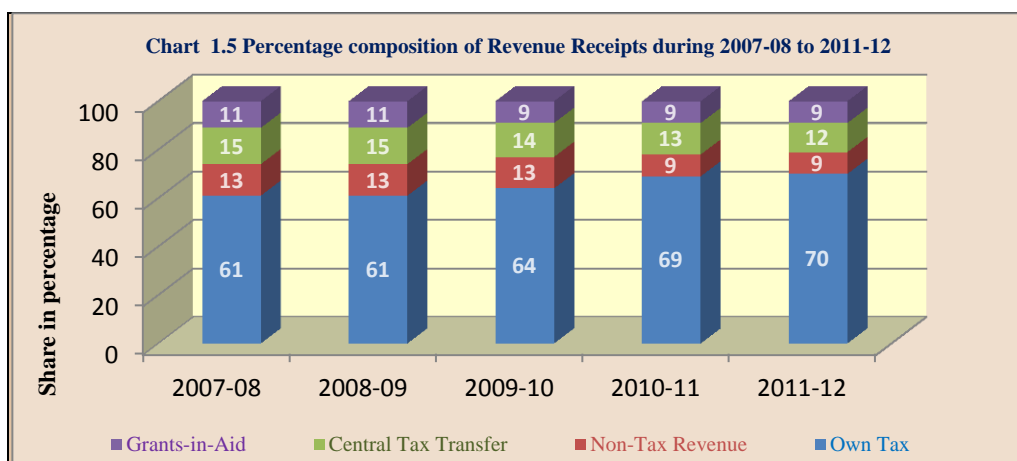
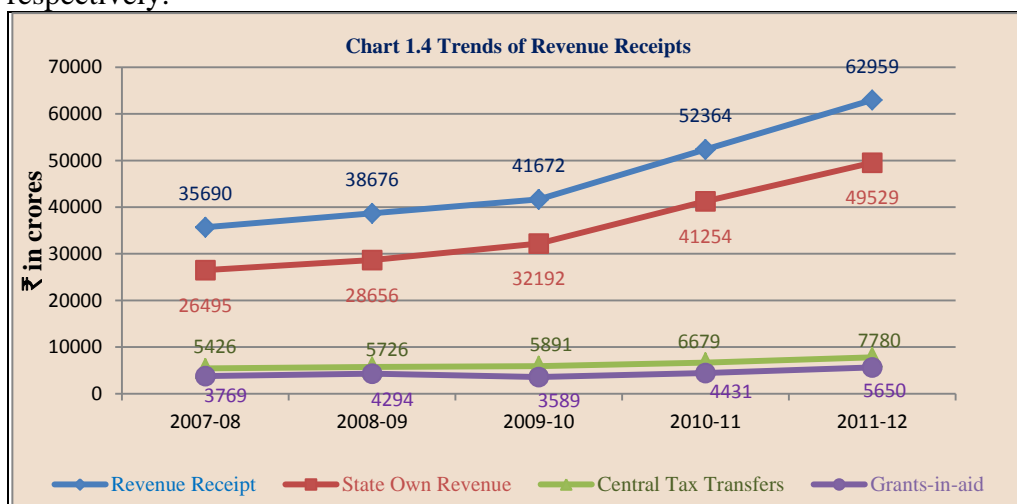
Sr. No.	Programme/Scheme	Implementing Agency in the State	2009-10	2010-11	2011-12
1	Integrated Watershed Management Program DPAP DDP IWDP DLR	DRDA	258.66	224.75	198.06
2	National Rural Employment Guarantee Scheme	DRDA	781.93	889.65	324.29
3	Swaranajayanti Gram Rozgar Yojana	DRDA	39.81	44.37	36.72
4	Accelerated Rural Water Supply Scheme	Gujarat Water Supply and Sewerage Board	488.91	609.10	571.05
5	Rural Housing (Indira Awas Yojana)	DRDA	372.41	527.81	380.53
6	Sarva Shiksha Abhiyan	Gujarat Council of Primary Education	200.32	440.65	880.28
7	National Rural Health Mission	State Health Society Gujarat	372.31	388.04	550.92
8	Pradhan Mantri Gram Sadak Yojana	Gujarat State Rural Roads Development Agency	117.80	160.02	66.59
9	MPs Local Area Development Scheme	District Collectors	74.00	78.00	103.50
10	Scheme for Integrated Textile Park	R.J.D. Integrated Textile Park	85.58	28.00	16.00
11	Upgradation of Government ITIs	IMC Society of ITIs	62.50	2.50	60.00
12	Micro Irrigation	Gujarat Green Revolution Company Limited	44.69	120.00	166.64
13	Adult Education and Skill Development Scheme	State Literary Mission Authority	23.99	-	14.43
14	National Aids Control Programme	Gujarat State Aids Control Society	36.95	505.06	57.48
15	Central Rural Sanitation Scheme	DRDA	30.37	46.92	43.09
16	Project Based Support to Autonomous Institutes	National Institute of Design	28.00	36.70	36.15
17	National Horticulture Mission	Gujarat Horticulture Mission	25.21	54.97	92.98
18	National Afforestation Programme	Forest Department	24.44	29.43	18.12
19	Rashtriya Swasthya Bima Yojana	State Health Society	22.57	34.31	112.03
20	National Institute of Technology NIT DHE	Sardar Vallabhai Institute of Technology	94.00	130.00	95.00
21	Technology Up gradation Funds TUFs	Private sector companies	37.51	21.78	67.27
22	Development and strengthening of Infrastructure facilities for production and distribution of quality seeds	Gujarat State Seeds Corporation Ltd	18.32	19.84	43.32
23	Setting up of new IITs	Indian Institute of Technology, Gandhinagar	12.50	23.00	35.52
24	National Food Security Mission	State Agricultural Management and Extension Training Institute	-	23.90	28.32
25	Others	NGOs and other institutions (each receiving less than ₹ 25 crore)	300.68	11.84	394.55
	Total		3,553.46	4,450.64	4,392.84

Source: Central Plan Scheme Monitoring System (CPSMS) of the Controller General of Accounts (CGA).

Direct transfer of funds from the Union to the State Implementing Agencies ran the risk of insufficient control on the part of Union as well as State Government and consequential improper utilisation of funds by these agencies. Unless uniform accounting practices are followed by all these agencies with proper documentation and timely reporting of expenditure to the State/ Union Government, it will be difficult to monitor the end use of these direct transfers.

1.6 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GoI. The trends and composition of revenue receipts over the period 2007-08 to 2011-12 are presented in **Appendix 1.4** and also depicted in **Charts 1.4** and **1.5** respectively.



The revenue receipt during the year 2011-12 grew by 20.23 per cent over the previous year, mainly due to 28 per cent increase in grants-in-aid, 20 per cent increase in State's own revenue and 16 per cent increase in central tax transfers.

The revenue receipts of the State increased steadily from ₹ 35,690 crore in 2007-08 to ₹ 62,959 crore in 2011-12 with significant changes in the share of State's own tax revenue while share of non-tax revenue declined from 13 per cent in 2007-08 to 9 per cent in 2011-12.

Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. As the GSDP grows, the ability of the State's own tax revenue should increase. The trends of revenue receipts relative to GSDP are presented in **Table 1.3** below:

Table 1.3: Trends of Revenue Receipts relative to GSDP

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	35,690	38,676	41,672	52,364	62,959
Rate of growth of RR (<i>per cent</i>)	15.12	8.37	7.75	25.66	20.23
R R/GSDP (<i>per cent</i>) [©]	10.84	10.51	9.75	10.20	10.65
Buoyancy Ratios					
Revenue Buoyancy w.r.t. GSDP [©]	0.94	0.71	0.48	1.28	1.33
State's Own Tax Buoyancy w.r.t. GSDP.	1.15	0.65	0.83	1.79	1.43

The GSDP at current prices was estimated to increase from ₹ 5,13,173 crore in 2010-11 to ₹ 5,91,175 crore in 2011-12, representing an increase of 15 *per cent*. The rate of growth of revenue receipts had shown a declining trend during the Twelfth Finance Commission (TFC) period despite the increase in GSDP. The growth rate during the year 2011-12 declined from a high of 25.66 *per cent* in 2010-11 to 20.23 *per cent* mainly due to sharp decline in growth rate of own tax revenue. Revenue Buoyancy during this period with reference to the growth rate of GSDP fluctuated widely. Witnessing a low in the year 2009-10, Revenue Buoyancy increased during 2011-12 despite a decline in State's Own Tax Buoyancy indicating a degree of exogeneity of revenue receipts in the State.

1.6.1 State's Own Resources

As the State's share in Central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts, Central assistance for Plan schemes etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. 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 2007-08 to 2011-12 along with the respective all-India average are presented in **Appendix 1.5**.

During 2010-11, in respect of the main components of taxes and duties, except Sales Tax/Commercial Tax, the collection charges were above the all-India average for State excise, Taxes on Vehicles & Taxes on Goods and Passengers and Stamp duty and Registration. The main components of revenue raised by the State during 2007-08 to 2011-12 are given in **Table 1.4**.

Table 1.4: Main components of revenue

Sr. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12		Percentage of increase(+) or decrease(-) with reference to BE
						Budget Estimates (BE)	Actuals	
	Tax Revenue							
1	Sales tax/VAT	15,104.54	16,810.65	18,199.79	24,893.45	26,000.00	31,202.31	(+)20.01
2	State excise	47.20	48.71	65.94	62.97	66.58	72.11	(+)8.31
3	Stamp duty and Registration fees	2,018.43	1,728.50	2,556.72	3,666.24	5,000.00	4,670.27	(-)6.59
4	Taxes and duties on Electricity	2,046.52	2,369.91	2,643.65	3,262.64	3,200.00	3,654.56	(+)14.21

[©]Figures differ from last year's report due to change in GSDP figures of 2007-08 to 2010-11.

Sr. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12		Percentage of increase(+) or decrease(-) with reference to BE
						Budget Estimates (BE)	Actuals	
5	Taxes on vehicles and taxes on goods and passengers	1,461.29	1,551.01	1,549.55	2,010.07	2,180.00	2,459.37	(+)12.82
6	Others	1,207.17	1,048.25	1,724.58	2,443.26	2,599.32	2,193.67	(-)15.61
	Total	21,885.15	23,557.03	26,740.23	36,338.63	39,045.90	44,252.29	(+)13.33
	Non-Tax Revenue							
1	Interest Receipts	329.88	567.81	419.44	403.89	641.52	631.89	(-)1.50
2	Non-ferrous Mining and Metallurgical Industries	2,082.14	1,559.82	2,138.98	2,019.31	2,020.00	1,819.64	(-)9.92
3	Major and Medium Irrigation Projects	452.82	455.77	504.61	618.14	629.19	684.15	(+)8.74
4	Medical and Public Health	66.25	126.50	62.40	118.11	151.98	90.76	(-)40.28
5	Police	86.24	77.44	101.45	149.08	93.03	138.97	(+)49.38
6	Others	1,591.98	2,311.98	2,224.83	1,606.49	2,479.72	1,911.11	(-)22.93
	Total	4,609.31	5,099.32	5,451.71	4,915.02	6,015.44	5,276.52	(-)12.28
	Grand Total	26,494.46	28,656.35	32,191.94	41,253.65	45,061.34	49,528.81	(+)9.91

Source: Finance Accounts and Annual Financial Statement (Budget) of the State Government

The own tax revenue of State increased by 21.78 *per cent* during 2011-12 over the previous year and it was also 13.33 *per cent* more than the estimate for the year. The increase was mainly due to 25 *per cent* growth in Sales tax/VAT and 27 *per cent* growth in Stamp duty and registration fee.

The Sales tax/VAT receipt during the year increased by ₹ 6,309 crore over the previous year and was 20 *per cent* more than the budget estimates. Taxes and duties on electricity showed an increase of ₹ 392 crore during the year and was 14 *per cent* more than the budget estimates. Similarly, Stamp duty and registration fees showed an increase of ₹ 1,004 crore during the year and was 6.59 *per cent* less than the budget estimates.

1.6.2 Non-tax Revenue

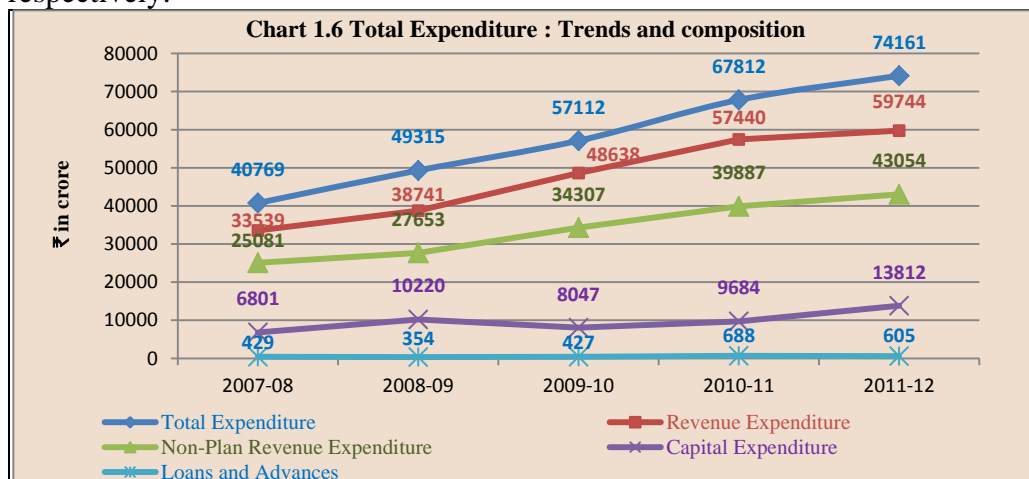
The non-tax revenue of the State during 2011-12 increased by ₹ 361 crore (7 *per cent*) over previous year but remained low as compared to year 2009-10. The interest receipts grew at significant 56 *per cent* over previous year mainly due to increase of interest income of ₹ 434 crore as against ₹ 311 crore in year 2010-11 on surplus cash balance invested with RBI. The actual receipts from Non-Ferrous Mining and Metallurgical Industries, the major contributor of non tax revenue, decreased by 10 *per cent* in 2011-12 over the previous year.

1.7 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 at the cost of expenditure, especially the expenditure directed towards development of social sector.

1.7.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2007-08 to 2011-12) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted in Tables 1.5 and 1.6 respectively.



The total expenditure during 2011-12 increased by 9.36 per cent over the previous year mainly due to 42.63 per cent increase in capital expenditure. Despite the 7.94 per cent growth in Non-plan Revenue Expenditure (NPRE), the 4 per cent increase in revenue expenditure indicates negative growth in plan revenue expenditure during 2011-12. The revenue expenditure stood at 80.56 per cent of the total expenditure, of which 72.06 per cent was the Non-Plan component.

Table 1.5: Total Expenditure- Trends of Share of its components

	(Figures in per cent)				
	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Expenditure	82.27	78.56	85.16	84.70	80.56
Capital Expenditure	16.68	20.72	14.09	14.28	18.62
Loans and Advances	1.05	0.72	0.75	1.01	0.82

The share of revenue expenditure in total expenditure declined significantly from 84.70 per cent in 2010-11 to 80.56 per cent in 2011-12. The Plan Revenue Expenditure (PRE) and NPRE have shown consistent increase over the period 2007-08 to 2011-12 except for a decrease in PRE during 2011-12. The decrease in PRE by ₹ 863 crore over previous year was mainly due to decreased expenditure on Community Development (₹ 612 crore) and assistance to local bodies, Corporations etc. under Urban Development (₹ 634 crore). Over the last year, the increase in NPRE by ₹ 3,167 crore during the 2011-12 was mainly due to increased expenditure on interest payment (₹ 1,307 crore), pension and other retirement benefits (₹ 365 crore) and general education (₹ 530 crore).

The capital expenditure during 2011-12 increased significantly by 42.63 per cent over the previous year thus resulting in increase of its share to 18.62 per cent of the total expenditure. The sharp increase in capital expenditure was due to increased expenditure on Major Irrigation (₹ 878 crore), General

Education (₹ 291 crore), Urban Development (₹ 636 crore), Medium Irrigation (₹ 161 crore) and Road and Bridges (₹ 407 crore).

The loans and advances disbursed during 2011-12 decreased by ₹ 83 crore over the previous year and its share in total expenditure decreased from 1.01 to 0.82 per cent.

Table: 1.6: Total Expenditure- Trends by activities

(Share in per cent)

	2007-08	2008-09	2009-10	2010-11	2011-12
General Services	33.63	27.30	29.98	29.62	29.72
Social Services	33.67	34.37	37.90	38.91	37.56
Economic Services	31.29	37.27	31.19	30.19	31.64
Loans and Advances	1.05	0.72	0.75	1.01	0.82
Grants-in-aid	0.36	0.34	0.18	0.27	0.26

The movement of relative share of these components indicates that the share of General Services remained static from 2009-10 to 2011-12. During 2011-12, the decrease in share of Social Services from 38.91 per cent to 37.56 per cent along with increase in the share of Economic Services from 30.19 per cent to 31.64 per cent resulted in no significant change in development expenditure as a whole.

1.7.2 Expenditure on Salaries, Interest Payments, Pension Payments and Subsidies

The expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.7** present the trends in the expenditure on these components during 2007-08 to 2011-12.

Table 1.7: Components of Expenditure

(₹ in crore)

Components of Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries, of which	3,119	3,189	4,760	5,555	6,216
	(8.74)	(8.24)	(11.42)	(10.61)	(9.87)
Non-Plan Head	2,761	2,764	4,014	4,563	4,900
Plan Head*	358	425	746	992	1,316
Interest Payments	7,484	7,884	8,590	9,627	10,934
	(20.97)	(20.38)	(20.61)	(18.38)	(17.37)
Expenditure on Pensions	2,979	2,963	4,513	5,779	6,145
	(8.35)	(7.66)	(10.83)	(11.04)	(9.76)
Subsidies	2,914	3,983	4,653	4,975	5,600
	(8.16)	(10.30)	(11.17)	(9.50)	(8.89)
Total expenditure on Salaries, Interest Payments, Pensions and Subsidies	16,496	18,019	22,516	25,936	28,895
	(46.22)	(46.59)	(54.03)	(49.53)	(45.89)
Other components	17,043	20,722	26,122	31,504	30,849
	(47.75)	(53.58)	(62.68)	(60.16)	(49.00)
Total Revenue Expenditure	33,539	38,741	48,638	57,440	59,744
Total Revenue Receipts	35,690	38,676	41,672	52,364	62,959

*Plan head includes Salaries and Wages under Centrally Sponsored Schemes.

Figures in parentheses indicate percentage of Revenue Receipts.

Source: Finance Accounts for the years 2007-08 to 2011-12 of the State Government

1.7.2.1 Expenditure on Salaries

In 2011-12, the expenditure on salaries increased by 12 *per cent* over the previous year. As a percentage of the revenue receipts, the expenditure on salaries decreased from 10.61 *per cent* in 2010-11 to 9.87 *per cent* in 2011-12. The expenditure on salaries under the Non-Plan head increased from ₹ 2,761 crore in 2007-08 to ₹ 4,900 crore in 2011-12 mainly due to implementation of the recommendations of the Sixth Pay Commission. In Revenue Department, the expenditure on salaries increased by 17 *per cent* in 2011-12 over previous year, on account of other Special Area Programmes (Dang District) and creation of posts under 'Apno Taluko Vibrant taluko'.

1.7.2.2 Interest Payments

The interest payment increased steadily from ₹ 7,484 crore in 2007-08 to ₹ 10,934 crore in 2011-12. Interest payments as a percentage of revenue receipts as well as revenue expenditure declined from 20.97 *per cent* and 22.31 *per cent* in 2007-08 to 17.37 *per cent* and 18.30 *per cent* in 2011-12 respectively. The interest payments, however, increased by 13.58 *per cent* over the previous year. The increase was mainly due to more payment of interest on market loans (₹ 994 crore) and on special securities issued to National Small Savings Fund (NSSF) (₹ 329 crore) than that of the previous year. The high interest bearing NSSF loans which accounted for 39.51 *per cent* of total public debt resulted in 45.05 *per cent* share of interest payment on these Loans. The average rate of interest on borrowings progressively declined from 8.12 *per cent* in 2007-08 to 7.63 *per cent* in 2011-12.

1.7.2.3 Pension Payments

The expenditure on Pension during current year increased by ₹ 366 crore (6.34 *per cent*) over previous year. However, as a percentage of revenue receipts it declined to 9.76 *per cent* from 11.04 *per cent* in 2010-11.

1.7.2.4 Migration to New Pension Scheme

The State Government has introduced New Defined Contribution Pension Scheme (NPS) with effect from 1 April 2005. The State Government signed agreements with NPS trust for the fund management of the State and adopted the central architecture designed for this scheme in January 2009 and May 2009 respectively. The NPS was introduced in April 2005. However, the fund was transferred only in April 2012 for 2005-06 and in June 2012 for 2006-07 and 2007-08. The interest was paid at the rate of 8 *per cent* until the fund was transferred to NPS trust. The interest paid on this scheme increased significantly to ₹ 25.35 crore in 2011-12 from 11.78 crore in 2010-11 on account of substantial delay in transferring the fund. The Government contributed ₹ 99.88 crore as matching contribution in 2011-12.

1.7.2.5 Expenditure on Subsidies

The expenditure on subsidies increased by 92 *per cent* in five year period from ₹ 2,914 crore in 2007-08 to ₹ 5,600 crore in 2011-12. The expenditure on subsidies increased during current year, by 12.56 *per cent* over the previous year. A substantial increase in 2011-12 compared to 2010-11 has been

observed in Power Sector (₹ 556 crore), Road Transport (₹ 203 crore) and Welfare of Scheduled Castes, Scheduled Tribes and other Backward Classes (₹ 116 crore). The share for Power Sector in total subsidy is substantially high at 58 *per cent*. The Government should initiate long term measures to contain the power subsidy.

The Finance Department (FD) stated (December 2012) that due to Government's concerns towards agriculture sector and support to the farmers, the power subsidy was being given. The increase in the amount of power subsidy was due to hike in the cost of power generation. The reply is not acceptable. Adequate efforts for ensuring proper energy accounting system in order to minimise the amount of power subsidy were not made as till March 2012, only 54 *per cent* metering of agriculture consumers was completed.

1.7.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.8**.

Table 1.8: Financial Assistance to Local Bodies etc.

	(₹ in crore)			
Financial Assistance to Institutions	2008-09	2009-10	2010-11	2011-12
Panchayati Raj Institutions (PRIs)	5,926.51	8,526.14	7,039.32	13,087.87
Urban Local Bodies	1,496.21	4,000.48	10,258.27	3,619.49
Public sector Undertakings	1,205.26	638.11	----	119.69
Autonomous Bodies	2,625.12	5,410.85	8,574.68	1,626.18
Others	1,359.73	1,849.81	----	9,489.01
Total	12,612.83	20,425.39	25,872.27	27,942.24
Assistance as percentage of Revenue Expenditure	32.56	41.99	45.04	46.77

Source: Finance Accounts for the years 2008-09 to 2011-12 of the State Government

Financial assistance to local bodies and other institutions increased from ₹ 12,613 crore in 2008-09 to ₹ 27,942 crore in 2011-12 which included payment of grants-in-aid to Municipal Corporations/Municipalities on account of abolition of octroi in November 2006. As a percentage of the revenue expenditure, it continuously increased from 32.56 *per cent* in 2008-09 to 46.77 *per cent* in 2011-12. During 2011-12, the assistance to PRIs increased by 86 *per cent* over the previous year mainly due to increased assistance to Zilla Parishads.

1.7.3.1 State Finance Commission

Article 243 I of the Constitution had made it mandatory for the State Government to constitute a State Finance Commission (SFC) within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992 and thereafter on expiry of every five year to review the financial condition of the PRIs and to make recommendations to the Governor for devolution of funds. Article 243 Y of the Constitution further provides that the Finance Commission constituted under Article 243 I shall make similar recommendation for Municipalities.

It was observed that the State Government had neither maintained periodicity for constitution of SFCs nor placed the two reports received within a reasonable time in the Legislature. The reports were placed in the Legislature after around four years.

1.7.3.2 Technical Guidance and Supervision

In pursuance of the Eleventh Finance Commission recommendations, the State Government entrusted (May 2005) the Technical Guidance and Supervision (TGS) in respect of PRIs, Nagarpalikas and Notified Areas to CAG under section 20(1) of the CAG's (DPC) Act, 1971.

1.8 Quality of Expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, *viz.*, adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure use and its effectiveness.

1.8.1 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, 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 1.9** analyses the fiscal priority of the State with regard to development expenditure, social expenditure and capital expenditure during 2011-12.

Fiscal Priority by the State*	AE /GSDP	DE# /AE	SSE /AE	CE /AE	Education /AE	Health /AE
**General Category State's Average (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Gujarat's Average(Ratio) 2008-09	13.40	72.21	34.42	20.72	12.31	3.25
General Category State's Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Gujarat's Average (Ratio) 2011-12	12.54	69.92	37.58	18.62	16.87	4.49

*As per cent to GSDP

** General Category of States exclude three states i.e Delhi, Goa and Puducherry

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 of GSDP—Budget publication No.30 of 2011-12.

Table 1.9: Fiscal priority of the State in 2008-09 and 2011-12

Table 1.9 indicates the following:

- 1) In Gujarat the proportion of aggregate expenditure to GSDP was lesser as compared to the General Category States.
- 2) Development expenditure as a proportion of aggregate expenditure in Gujarat is higher than the General Category States' average during 2008-09 as well as in the current year. Developmental expenditure

consists of both economic service expenditure and social sector expenditure.

- 3) The ratio of Capital expenditure to aggregate expenditure indicates that the State Government adequately prioritised the capital expenditure in the current year as well as in 2008-09.
- 4) Gujarat has been spending less proportion of its aggregate expenditure on education sector as compared to other General Category States. Gujarat has also spent less proportion of its aggregate expenditure on health sector in 2008-09 but Gujarat has given adequate priority to health sector in 2011-12 as compared to other General Category States.

1.8.2 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 goods⁴. Apart from improving the allocation towards development expenditure⁵, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and the proportion of revenue expenditure on operation and maintenance of the existing social and economic services. The higher the ratio of these components to the total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.10** and **Chart 1.7** present the trends in development expenditure relative to the aggregate expenditure *vis-à-vis* budget estimates during the current year i.e. 2011-12, **Table 1.11** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.10: Development Expenditure

(₹ in crore)

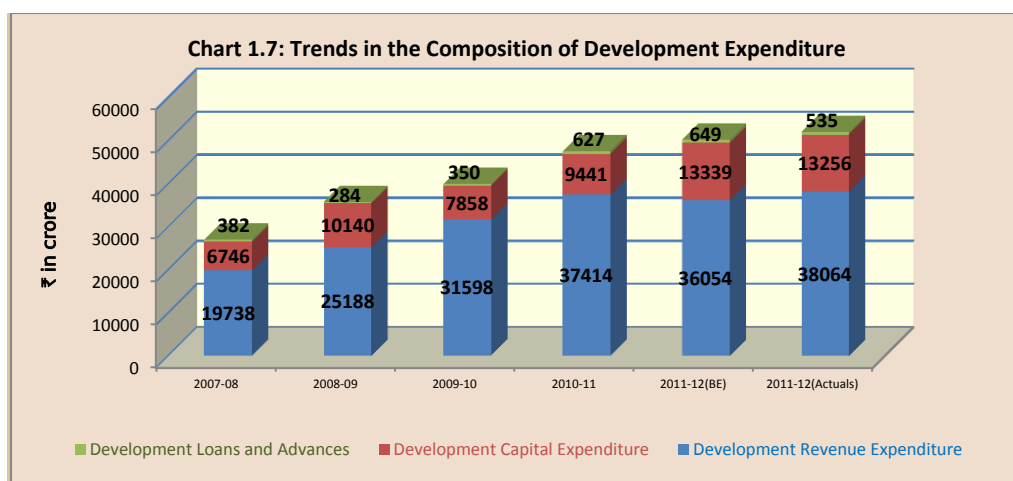
Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actual
Development Expenditure (a to c)	26,866 (65.90)	35,612 (72.21)	39,806 (69.70)	47,482 (70.02)	50,042 (67.23)	51,855 (69.92)
a. Development Revenue Expenditure	19,738 (48.41)	25,188 (51.08)	31,598 (55.33)	37,414 (55.17)	36,054 (48.44)	38,064 (51.33)
b. Development Capital Expenditure	6,746 (16.55)	10,140 (20.56)	7,858 (13.76)	9,441 (13.92)	13,339 (17.92)	13,256 (17.87)
c. Development Loans and Advances	382 (0.94)	284 (0.57)	350 (0.61)	627 (0.93)	649 (0.87)	535 (0.72)

Figures in parentheses indicate percentage of aggregate expenditure.

Source : Finance Accounts and Annual Financial Statement (Budget) of the State Government

⁴ See glossary

⁵ The aggregate expenditure data segregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorised into social services, economic services and general services. Broadly, the expenditure on social and economic services constitutes development expenditure, while expenditure on general services is treated as non-development expenditure.



Development expenditure of the State comprised revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from ₹ 26,866 crore in 2007-08 to ₹ 51,855 crore in 2011-12. As a percentage of the total expenditure, the total development expenditure of the State increased from 65.90 per cent in 2007-08 to 69.92 per cent in 2011-12. The capital expenditure component increased from ₹ 6,746 crore in 2007-08 to ₹ 13,256 crore in 2011-12. The percentage of development capital expenditure to the aggregate expenditure during the current year, i.e. 2011-12 was 17.87 per cent whereas the revenue expenditure component was 51.33 per cent. The percentage of Development Loans and Advances to aggregate expenditure decreased from 0.93 per cent in 2010-11 to 0.72 per cent in 2011-12.

Table 1.11: Efficiency of Expenditure under selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2010-11		2011-12	
	Share of CE to TE	In RE, the share of Salaries	Share of CE to TE	In RE, the share of Salaries
Social Services (SS) (absolute figures- ₹ in crore)	2,681.81	---	3,305.90	---
Education	3.72	4.21	6.41	4.32
Health and Family Welfare	16.98	35.84	20.16	36.38
Water Supply, Sanitation, Housing and Urban Development	18.60	0.68	22.06	0.81
Total (SS)	10.16	7.67	11.86	8.22
Economic Services (ES) (absolute figures- ₹ in crore)	6,758.74	---	9,950.14	---
Agriculture & Allied Activities	11.53	15.89	18.97	16.37
Irrigation and Flood Control	79.83	30.61	83.21	38.10
Power & Energy	17.76	---	20.36	1.16
Transport	30.52	1.39	33.24	1.13
Total (ES)	32.07	7.04	41.49	7.96
Total (SS+ES)	19.88	7.44	25.56	8.17

TE: Total Expenditure in the concerned subsector; CE: Capital Expenditure; RE: Revenue Expenditure; Salaries.
Source : Finance Accounts of the State Government

Expenditure on Social Services

Capital expenditure on Social Services increased by 23 per cent in absolute terms from ₹ 2,682 crore in 2010-11 to ₹ 3,306 crore in 2011-12. The share of

Capital expenditure to the total expenditure under Social Services improved marginally from 10.16 *per cent* to 11.86 *per cent*.

In the selected components of Social Services, the share of Capital expenditure improved significantly in 2011-12 over previous year. In 2011-12, the Capital expenditure in education increased mainly due to construction of classrooms and compound walls for primary schools and providing sanitation facilities for girls in upper primary schools. In Health and Family Welfare, the capital expenditure increased mainly on Primary Health Centres and Medical colleges during current year. In Water Supply, Sanitation, Housing and Urban Development, the Capital expenditure increased on account of Capital Contribution of ₹ 50 crore in Metro-link Express for Gandhinagar and Ahmedabad (MEGA) Company Limited during 2011-12.

The share of salaries in revenue expenditure under Social Services increased from 7.67 *per cent* in 2010-11 to 8.22 *per cent* in 2011-12, mainly on account of increase in the share of salaries in almost all components of Social Services.

Expenditure on Economic Services

Capital expenditure on Economic Services increased from ₹ 6,759 crore in 2010-11 to ₹ 9,950 crore in 2011-12, registering a growth of 47 *per cent*. In the Economic Services, the share of the Capital expenditure increased significantly from 32.07 *per cent* in 2010-11 to 41.49 *per cent* in 2011-12. In Agriculture and Allied activities, the Capital expenditure increased mainly on account of Soil Conservation and setting up marketing facilities in 2011-12. In Irrigation and Flood Control, the Capital expenditure increased mainly due to investment in Sardar Sarovar Narmada Nigam Limited.

The share of salaries in revenue expenditure under Economic Services marginally increased from 7.04 *per cent* to 7.96 *per cent*, mainly on account of increase in the share of salaries under Irrigation and Flood Control from 30.61 *per cent* to 38.10 *per cent*.

1.9 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to complete dependence on market-based resources, the State Government needs to initiate measures to earn adequate returns on its investments, recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies and take requisite steps to infuse transparency in financial operations. This section presents a broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* the previous years.

1.9.1 Financial Results of Irrigation Works

At the end of March 2012, ₹ 1,676.54 crore was spent on 33 Major and Medium Irrigation Projects which were treated as completed. The revenue realised from these irrigation projects during the year was ₹ 297.05 crore, against which the maintenance expenditure was ₹ 113.20 crore, indicating a

revenue surplus of ₹ 183.85 crore. When compared with the investment, the return was 10.97 per cent.

1.9.2 Investment and returns

As of 31 March 2012, Government had invested ₹ 39,179 crore in Statutory Corporations, Government Companies, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.12**). The average return on the investments was 0.27 per cent in the last five years while the Government paid an average 7.75 per cent as interest on its borrowings during 2007-08 to 2011-12. Continued use of borrowed funds to fund investments which do not have sufficient returns will lead to an unsustainable financial position. The Government may ensure proper justification for investment in high cost funds.

Table 1.12: Return on Investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year ⁶ (₹ in crore)	21,117	26,542	31,051	34,496	39,179
Return (₹ in crore)	47.57	49.40	76.72	114.43	128.93
Return (per cent)	0.23	0.19	0.25	0.33	0.33
Average rate of interest on Government borrowings (per cent)	8.12	7.80	7.64	7.56	7.63
Difference between interest rate and rate of return (per cent)	7.89	7.61	7.39	7.23	7.30

Source: Finance Accounts of the State Government

During the period of last five years, 2007-08 to 2011-12, the State Government's Investments have increased by ₹ 18,062 crore. During 2011-12, Government has invested ₹ 15.75 crore in Statutory Corporations, ₹ 3.00 crore in Rural Banks, ₹ 4,582.15 crore in Government Companies, ₹ 27.60 crore in other Joint Stock Companies and ₹ 54.51 crore in Co-operative institutions and local bodies. Out of ₹ 4,683 crore invested during 2011-12, ₹ 3,164 crore was invested only in the Sardar Sarovar Narmada Nigam Limited, a State-owned Company, which is executing the multi-purpose Narmada Project.

The FD stated (December 2012) that much of the equity investment by the Government is made in those State PSUs which are providing utility services along with social objectives. These include PSUs in power, water supply and irrigation sectors. The investments are made in large scale infrastructure with long gestation periods and immediate returns are not expected. The appropriate measure of returns on such investments may not be the monetary returns in the form of dividend to Government rather, the socio economic benefits and upliftment of the disadvantaged sections of society should be taken into consideration.

1.9.3 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

⁶ Includes all investments to Government companies, Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives.

of these institutions/organisations. **Table 1.13** presents the position of loans and advances as on 31 March 2012 and interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.13: Average Interest Received on Loans Advanced by the State Government
(₹ in crore)

Quantum of Loans/Interest Receipts/ Cost of Borrowings	2009-10	2010-11	2011-12
Opening Balance	4,629	4,905	5,310
Amount advanced during the year	427	688	605
Amount repaid during the year	151	283	165
Closing Balance	4,905	5,310	5,750
<i>Of which</i> Outstanding balance for which terms and conditions have been settled	4,595	5,000	5,599
Net addition	276	405	440
Interest Receipts	98	92	192
Interest receipts as percentage of outstanding Loans and Advances	2.00	1.73	3.34
Interest payments as percentage of outstanding fiscal liabilities of the State Government.	7.21	7.10	7.25
Difference between interest receipts and interest payments (per cent)	(-) 5.21	(-)5.37	(-) 3.91

Source: Finance Accounts of the State Government

a) The total amount of outstanding loans and advances increased continuously from ₹ 4,905 crore in 2009-10 to ₹ 5,750 crore in 2011-12. However, loans advanced during the year decreased by ₹ 83 crore over the previous year. Out of the total amount of loans advanced during the year, ₹ 20.55 crore disbursed to Social Services, ₹ 514.22 crore to Economic Services and ₹ 70.57 crore as personal advances to Government and local self government employees. The loans advanced to the Social Services were used for the welfare of Scheduled Caste, Scheduled Tribes and other Backward Classes. Major portion (83 per cent) of the loan advanced to Economic Services went to Road Transport.

b) Terms and conditions of the loans were not yet finalised in respect of ₹ 151 crore granted to State PSUs.

c) As on 31 March 2012, overdue loans amounting to ₹ 636.35 crore were recoverable from the loanees. The interest recoverable thereon was ₹ 117.62 crore. Details are given in **Table 1.14**.

Table 1.14: Details of Outstanding Loans

Sr. No.	Major Head	Particulars	Principal Amount	Interest	Period from which outstanding
1.	6216	Housing Board, Co-operative Societies	142.54	19.27	1996
2.	6217	Municipalities	213.96	25.71	1997
3.	6245	Nagarpalikas	11.23	2.29	1995
4.	6250	Welfare Board	0.27	0.03	1992
5.	6404	Dairy Development	1.98	1.35	2008-09
6.	6408	Co-operative Societies	2.56	2.37	1999
7.	6425	Co-operative Societies	27.19	2.48	2002
8.	6851	Village and Cottage Industries	0.47	0.16	2004-05
9.	6885	Industries and Mines	235.92	63.74	2005-06
10.	7075	Municipalities	0.23	0.22	1960
		Total	636.35	117.62	

Source: Finance accounts of the State and information furnished by Accountant General (A&E), Gujarat, Rajkot

In respect of non-finalisation of terms and conditions of loans given by Government, the FD stated (December 2012) that the concerned administrative departments were required to finalise the terms and conditions in view of standard terms and conditions finalised by FD. Further, concerned administrative departments were instructed to expedite the finalisation of terms and conditions of the loans given by Government.

1.9.4 Cash Balances and Investment of Cash Balances

Details of cash balances and investments made by the State Government during the year are shown in **Table 1.15**.

Table 1.15: Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 1 st April 2011	As on 31 st March 2012	Increase/Decrease
Cash Balances	14,986.80	18,631.81	(+)3,645.01
Investments from Cash Balances (a to b)			
a. GOI Treasury bills	9,245.94	13,196.92	(+)3,950.98
b. GOI Securities	5,587.49	5,587.49	
Funds-wise Break-up of Investment from Earmarked balances (a to d)			
a. Sinking Fund	4,526.27	4,526.27	Nil
b. Development and Welfare Fund	3.38	3.38	Nil
c. General and other Reserve Funds	1,057.50	1,057.50	Nil
d. Investment in Misc. Deposits	0.34	0.34	Nil
Interest realised	310.65	433.86	(+)123.21

Source: Finance Accounts of the State Government

During 2011-12, the State Government did not avail of any Ways and Means Advance for maintenance of its minimum cash balance.

Total receipts in Government Accounts of ₹ 1,60,323 crore in 2011-12 against disbursement of ₹ 1,56,678 crore resulted in increase of cash balance of ₹ 3,645 crore.

1.10 Assets and Liabilities

1.10.1 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 1.3** gives an abstract of such liabilities and the assets as on 31 March 2012 compared with the corresponding position on 31 March 2011. 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.

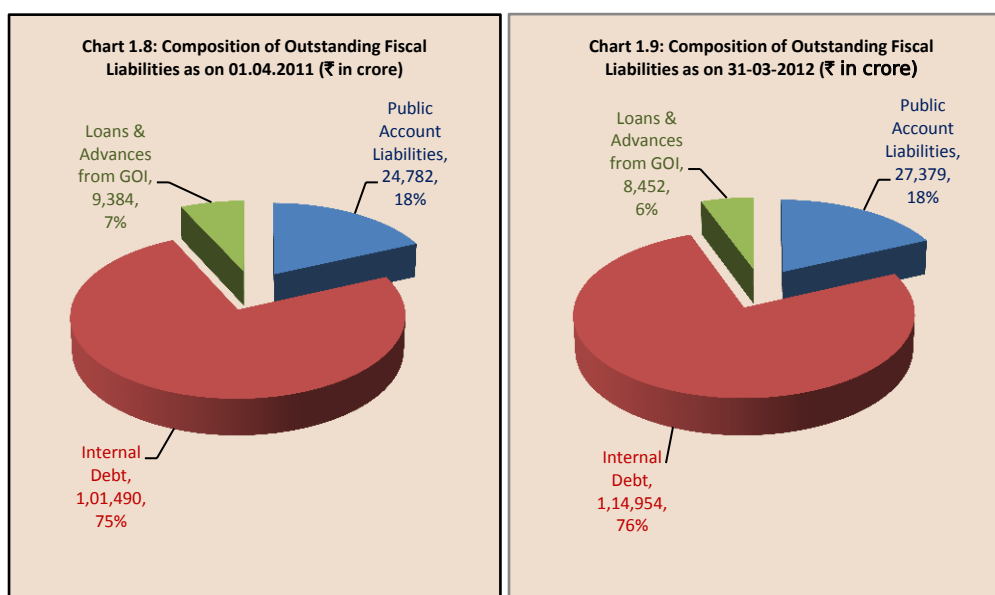
As per the Statement under the Gujarat Fiscal Responsibility Act, 2005 the State Government liabilities comprise the following components –

- (i) Special Securities issued to the National Small Savings Fund
- (ii) Loans and Advances from Central Government
- (iii) Market Loans

- (iv) Loans from Financial Institutions/Banks
- (v) Ways and Means Advances/Overdraft from RBI
- (vi) Small Savings, Provident Fund of Government Employees etc.
- (vii) Pension Liabilities
- (viii) Reserve Fund/Deposits & Provident Fund of other employees
- (ix) Other Liabilities.

1.10.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**. However, the composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.8** and **1.9**.



The outstanding fiscal liabilities have shown a steady increase over the years from ₹ 96,452 crore at the end of 2007-08 to ₹ 1,50,785 crore as at the end of 2011-12. The fiscal liabilities increased by 11 *per cent* in 2011-12 over the previous year mainly due to 13 *per cent* increase in internal debt. With 13 *per cent* increase in internal debt, the share of internal debt in total fiscal liabilities increased to 76 *per cent* from 75 *per cent* counter-balancing the decrease in share of Loans and Advances from Government of India. The fiscal liabilities at the end of 2007-08 represented 270 *per cent* of the revenue receipts during the year 2007-08, which was reduced to 239 *per cent* at the end of 2011-12. The public debt to GSDP ratio at 20.87 *per cent* was in line with the projected ratio of 22.01 *per cent* in the Medium Term Fiscal Policy Statement.

The FD stated (December 2012) that the creation and maintenance of Consolidated Sinking Fund (CSF) by the State Government, aimed at providing for necessary cushion for liquidity and credit worthiness.

1.10.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in cases of defaults by borrowers for whom the guarantees have been extended. 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 five years is given in **Table 1.16**.

Table 1.16: Guarantees given by the Government of Gujarat

	(₹ in crore)				
Guarantees	2007-08	2008-09	2009-10	2010-11	2011-12
Ceiling limit on Government guarantees under Gujarat State Guarantees Act 1963	20,000	20,000	20,000	20,000	20,000
Maximum amount guaranteed	11,843	10,562	10,202	10,382	10,387
Outstanding amount of guarantees	11,308	10,027	9,667	8,661	7,449
Percentage of maximum amount guaranteed to total revenue receipts	33.18	27.31	24.48	19.83	16.50

Source: Finance Accounts of the State Government

The Gujarat Fiscal Responsibility Act, 2005 prescribed to cap on outstanding guarantees within the limit (₹ 20,000 crore) prescribed in the Gujarat State Guarantees Act, 1963. Out of total outstanding guarantees of ₹ 7,449 crore, 52 per cent (₹ 3,904 crore) were towards Sardar Sarovar Narmada Nigam Limited and nearly 22 per cent (₹ 1,607 crore) were towards Gujarat Urja Vikas Nigam Limited. The outstanding guarantees (₹ 7,449 crore) accounted for 11.83 per cent of the revenue receipts (₹ 62,959 crore) of the State Government and were well within the ceiling limit prescribed under the Fiscal Responsibility Act. The Gujarat State Guarantees Redemption Fund set up in February 2006 to take care of any contingent liabilities arising out of State Government Guarantees, had a balance of ₹ 861.19 crore at the end of 2011-12. During the year, the Government received only ₹ 47 crore as guarantee fees while ₹ 50 crore were transferred to the Guarantee Redemption Fund. The contingent liabilities of the State Government, as defined in terms of its outstanding guarantees, have shown significant reduction over the last few years.

1.11 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse the various indicators that determine the debt sustainability⁷ of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation⁸; sufficiency of non-debt receipts⁹; net availability of borrowed funds¹⁰; burden of interest payments (measured by interest payments to revenue receipts ratio). **Table 1.17** analyses the debt sustainability of the State according to these indicators for the period from 2007-08 to 2011-12.

Table 1.17: Debt Sustainability: Indicators and Trends

	(₹ in crore)				
Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread +/- Primary Deficit/Surplus)	10,332	7,226	(-)911	9,240	10,176
Sufficiency of Non-debt Receipts (Resource Gap)	878	(-)5,667	(-)4,716	80	4,047
Net Availability of Borrowed Funds	996	1,317	4,874	6,912	3,921
Burden of Interest Payments (IP/RR Ratio)	0.21	0.20	0.21	0.18	0.17

Source: Finance Accounts of the State Government

⁷ See glossary

⁸ See glossary

⁹ See glossary

¹⁰ See glossary

The net funds available from borrowed fund after providing for the interest and repayment declined significantly from ₹ 6,912 crore in 2010-11 to ₹ 3,921 crore in 2011-12. The public debt receipts increased by five *per cent* from ₹ 16,681 crore in 2010-11 to ₹ 17,535 crore in 2011-12. However, the repayment increased by 38 *per cent* from ₹ 3,818 crore in 2010-11 to ₹ 5,275 crore in 2011-12. This shows that considerable part of the current borrowings was used to meet past debt obligations.

As per the recommendations of the Reserve Bank of India as well as the TFC, the State Government constituted a Debt Management Office (DMO) in the Finance Department in April 2007, mainly to estimate temporary liquidity mismatches based on the repayment profile and accordingly raise resources so as to obviate the need for recourse to Ways and Means Advances, to monitor adherence to the Fiscal Responsibility Act and effective and efficient management of public debt with an aim to attain debt sustainability.

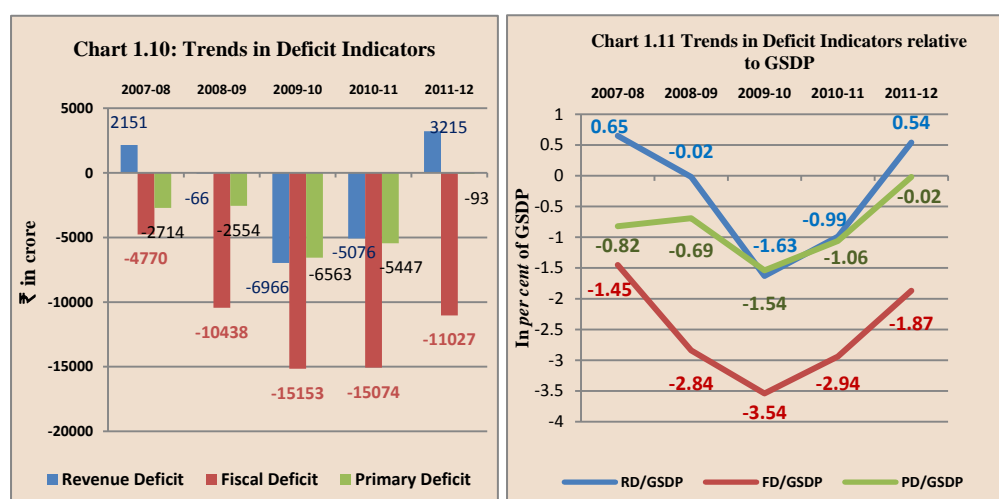
The quantum spread together with primary deficit have been positive from 2007-08 to 2011-12, except during 2009-10, which is indicative that the debt was sustainable.

1.12 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficits are financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* the targets set under the FRBM Act/Rules for the financial year 2011-12.

1.12.1 Trends in Deficits

Charts 1.10 and 1.11 present the trends in deficit indicators over the period 2007-08 to 2011-12.



The revenue surplus of ₹ 2,151 crore in 2007-08 turned into a high of revenue deficit in 2009-10 and again as revenue surplus which stood at ₹ 3,215 crore

in 2011-12. The turnaround in revenue account during the current year was mainly on account of an increase of ₹ 10,595 crore (20 per cent) in revenue receipts against an increase of only ₹ 2,304 crore (4 per cent) in revenue expenditure.

The fiscal deficit increased from ₹ 4,770 crore in 2007-08 with a high of ₹ 15,153 crore in 2009-10 and again decreased to ₹ 11,027 crore in 2011-12. Despite an increase of ₹ 4,128 crore in capital expenditure during 2011-12, the fiscal deficit decreased by ₹ 4,047 crore mainly due to a revenue surplus of ₹ 3,215 crore. A decline of ₹ 4,047 crore in fiscal deficit together with an increase of ₹ 1,307 crore in interest payment resulted in a primary deficit of only 93 crore in 2011-12 from ₹ 5,447 crore in 2010-11.

1.12.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.18**.

Table 1.18: Components of Fiscal Deficit and its Financing Pattern

		(₹ in crore)				
Particulars		2007-08	2008-09	2009-10	2010-11	2011-12
Decomposition of Fiscal Deficit		4,770	10,438	15,153	15,074	11,027
1	Revenue Deficit(-)/(+)Surplus	(+)2,151	(-)66	(-)6,966	(-)5,076	(+)3,215
2	Net Capital Expenditure	6,706	10,199	7,910	9,593	13,802
3	Net Loans and Advances	215	173	277	405	440
Financing Pattern of Fiscal Deficit*						
1	Market Borrowings	6,137	7,618	8,404	10,725	15,083
2	Loans from GOI	(-)345	(-)332	(-)478	(-)464	(-)932
3	Special Securities Issued to NSSF	424	(-)74	3,099	2,628	(-)1,864
4	Loans from Financial Institutions	460	490	(-)26	(-)25	(-)28
5	Small Savings, PF etc	436	320	1,018	705	558
6	Deposits and Advances	1,353	798	1,178	2,533	1,358
7	Suspense and Miscellaneous	(-)428	663	(-)582	1,311	(-)56
8	Remittances	3	(-)22	190	78	(-)47
9	Reserve Fund	915	582	768	998	680
10	Contingency Fund	(-)7	(-)24	(-)13	47	(-) 80
Total		8,948	10,019	13,558	18,536	14,672
Increase/Decrease(-) in Cash Balance		4,178	(-)419	(-)1595	(+)3,462	(+)3,645

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

Source: Finance Accounts of the State Government

A redeeming feature of the fiscal deficit is that the Government primarily borrows to finance capital expenditure. During 2011-12, the revenue deficit of ₹ 5,076 crore of 2010-11 turned into revenue surplus of ₹ 3,215 crore. The revenue surplus lowered the fiscal deficit in 2011-12 despite the increase in capital expenditure. The fiscal deficit of ₹ 11,027 crore in 2011-12 was met out from net borrowing of ₹ 15,083 crore resulting in increase in the cash balance by ₹ 3,645 crore. The increase of 41 per cent in net market borrowing in 2011-12 over previous year for financing the deficit increased the interest burden for the coming years. It is evident from above that Government raised excess market loans than it was required for financing its deficit.

The FD stated (December 2012) that loan available from NSSF (National Small Savings Fund) was not received as per estimates and overall estimate of borrowings were considered after including the source of NSSF. Further, it was stated that the entire open market borrowing was well within the approval of ₹ 16,500 crore given by Government of India (GoI) under Article 293(3) of Constitution of India. The reply is not acceptable. The increase in the cash balance by ₹ 3,645 crore clearly indicated the excess borrowings of market loan though market borrowings was within the limit accorded by GoI. The Thirteenth Finance Commission has also stated that with reduced fiscal deficits, it is essential that States follow the practice of borrowing on requirement rather than on availability.

Prudence in management of debt by the State Government may avoid such a situation in future.

1.12.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the State's finances. The ratios of revenue deficit to fiscal deficit indicate the extent to which borrowed funds were used for current consumption. Further, persistently high ratios of revenue deficit to fiscal deficit also indicate that the asset base of the State was continuously shrinking and a part of the borrowings (fiscal liabilities) did not have any asset backup. The bifurcation of the primary deficit (**Table 1.19**) would indicate the extent to which the deficit had been on account of increase in capital expenditure, which may have been desirable to improve the productive capacity of the State's economy.

Table 1.19: Primary deficit/Surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt Receipts	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Deficit(-) /surplus (+)	Primary Deficit (-) /Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2007-08	35,999	26,055	6,801	429	33,285	(+)9,944	(+)2,714
2008-09	38,877	30,857	10,220	354	41,431	(+)8,020	(-)2,554
2009-10	41,959	40,048	8,047	427	48,522	(+)1,911	(-)6,563
2010-11	52,738	47,813	9,684	688	58,185	(+)4,925	(-)5,447
2011-12	63,134	48,810	13,812	605	63,227	(+)14,324	(-)93

Source: Finance Accounts of the State Government

During the period 2007-08 to 2011-12, primary expenditure increased from ₹ 33,285 crore to ₹ 63,227 crore (increase of 90 per cent) against the increase of non-debt receipt from ₹ 35,999 crore to ₹ 63,134 crore (increase 75 per cent). During 2007-08, the non-debt receipts covered the primary expenditure, resulting in surplus. In the year 2009-10, there was a primary deficit of ₹ 6,563 crore due to an increase of 30 per cent in revenue expenditure, without a commensurate increase in non-debt receipts. In 2010-11, there was a primary deficit of ₹ 5,447 crore, which has declined to ₹ 93 crore in 2011-12 mainly due to increase in non-debt receipt of ₹ 10,396 crore (20 per cent) and marginal increase in primary revenue expenditure.

1.12.4 Recommendations of Thirteenth Finance Commission (ThFC)

As per the ThFC award, the State was entitled to receive ₹ 1,489.81 crore as grant-in-aid from GoI during 2011-12 under the category of Upgradation and Special Problems (₹ 773.42 crore), GIA to Local Bodies (₹ 548.36 crore), Improving Outcomes (₹ 98.79 crore), and Environmental Related Grant (₹ 69.24 crore). The amounts allocated and the amounts received thereagainst are given in **Table 1.20** below:

Table 1.20: Details of amounts awarded and received

(₹ in crore)

Sr. No.	Category	Amount awarded	Amount received	Difference
1	Upgradation and Special Problems	773.42	773.42	0.00
(a)	Elementary Education	85.00	85.00	0.00
(b)	Calamities Relief/ Disaster Management/state disaster relief	395.42	395.42	0.00
(c)	Calamities Relief/ Disaster Management/Capacity building	6.00	6.00	0.00
(d)	Maintenance of Roads & Bridges (NPRES)	287.00	287.00	0.00
2	GIA to Local Bodies	548.36	462.97	(-)85.39
(a)	Panchayati Raj Institutions			
	general basic grant	251.93	272.31	20.38
	general performance grant	86.14	13.52	-72.62
(b)	Urban Local Bodies			
	general basic grant	140.57	153.4	12.83
	general performance grant	48.06	9.34	-38.72
(c)	Special /Scheduled Areas Grant			
	basic grant	14.42	14.40	-0.02
	performance grant	7.24	0.00	-7.24
3	Improving Outcomes	98.79	13.00	(-)85.79
(a)	Improvement on Justice Delivery	59.95	0.00	-59.95
(b)	Incentive for issuing UIDs	18.14	0.00	-18.14
(c)	Improvement of Statistical Systems at State and District Level	5.20	0.00	-5.20
(d)	Employee and Pension Database	2.50	0.00	-2.50
(e)	District innovation fund	13.00	13.00	0.00
4	Environment Related Grant	69.24	69.24	0.00
(a)	Forest protection & development	10.24	10.24	0.00
(b)	Water sector management	59.00	59.00	0.00
	Total	1,489.81	1,318.63	(-) 171.18

Source: Finance Department, Government of Gujarat

Regarding the reasons for not receiving any amount allocated under ThFC for the Incentive for issuing UIDs, Improvement of Statistical Systems at State and District Level, the concerned department *viz.*, General Administrative Department stated (October 2012) that the Incentive for issuing UIDs project could be launched only in May 2012 and for the Improvement of Statistical Systems, the GoI granted approval on the Action Plan of the project and released ₹ 5.20 crore only in July 2012. Reply of the other concerned departments for the non receipt of the allocated amount for the year 2011-12 was awaited (December 2012).

1.12.5 State specific needs

The recommendations of ThFC for the award period 2010-15 include release of grant-in-aid to the State Governments for state specific needs. Consequently, the Gujarat State had to receive various grants in conformity with the recommendations of the ThFC.

As per the ThFC award, the State was entitled to receive ₹ 325 crore as grant from GoI during 2011-12 under the category of state specific needs. The amounts allocated and the amounts received there against are given in **Table 1.21** below:

Table 1.21: Details of amounts awarded and received

(₹ in crore)				
Sr. No.	Specific need	Amount awarded	Amount received	Difference
1	Ingress of Salinity	37.50	31.61	(-)5.89
2	Coastal Erosion	37.50	28.75	(-)8.75
3	Ground Water Recharge	50.00	49.14	(-)0.86
4	Police Training	53.75	53.75	0.00
5	Tribal Area Development	50.00	50.00	0.00
6	Public Health	59.25	59.25	0.00
7	Construction of Border Roads	25.00	25.00	0.00
8	Gir Lion Project	12.00	12.00	0.00
	Total	325.00	309.50	(-)15.50

Source: Finance Department, Government of Gujarat

Out of eight projects/schemes, in three scheme pertaining to Narmada, Water Resources, Water Supply and Kalpsar department, the State Government did not receive ₹ 15.50 crore in 2011-12. The Department replied that since various preliminary approvals were pending in case of ingress of salinity, coastal erosion and ground water recharge, the amount received during the year had not been used in full. Hence there was less receipt than the amount awarded during 2011-12. In other cases, the entire amount of provisions had been received.

1.13 Conclusion and Recommendations

The ratio of the State's own tax revenue to GSDP decreased continuously from 6.65 per cent in 2007-08 to 6.25 per cent in 2009-10, but increased to 7.49 per cent in 2011-12 from 7.08 per cent in 2010-11. The ratio of non-tax revenue to GSDP decreased substantially from 1.40 per cent in 2007-08 to 0.89 per cent in 2011-12.

The State Government should mobilise additional resources through non- tax sources by rationalising the user charges.

The overall revenue expenditure of the State increased by 78 per cent from ₹ 33,539 crore in 2007-08 to ₹ 59,744 crore in 2011-12 and though its share in total expenditure declined from 82.27 per cent 2007-08 to 80.56 per cent in 2011-12 indicating improvement in quality of expenditure.

Government of India transferred ₹ 4,393 crore to State Implementing Agencies during the year against ₹ 4,451 crore transferred during the previous year. Direct transfer of funds from the Union to the State Implementing

Agencies ran the risk of poor oversight of utilisation of funds by these agencies.

The outstanding fiscal liabilities have shown a steady increase over the years, from ₹ 96,452 crore at the end of 2007-08 to ₹ 1,50,785 crore at the end of 2011-12. The composition of fiscal liabilities at the end of March 2012 remained more or less the same as that of the previous year with Internal Debt accounting for 76 *per cent*, Public Account Liabilities for 18 *per cent* and Loans and Advances from Government of India for 6 *per cent*. During 2011-12, the Government raised excess market loans than required for financing its fiscal deficit. As a result, the cash balance of the State as on 31 March 2012 stood at ₹ 18,632 crore, which was 24 *per cent* higher than that of previous year. The cost of holding surplus cash balances is high. 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.