Executive Summary

Background

In response to the Twelfth Finance Commission's recommendations, the Gujarat Government enacted the Gujarat Fiscal Responsibility Act, 2005 with a view to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework. The State Government's commitment to carry forward these reforms is largely reflected in the policy initiatives announced in its subsequent budgets. Though the fiscal management targets on revenue deficit and fiscal deficit of FRBM legislation have been achieved by 2006-07, in the subsequent years such deficits increased substantially.

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. The State Legislature in March 2011 amended the Fiscal Responsibility Act in line with the recommendations. This requires the State to reduce the revenue deficit to zero by 2011-12, the fiscal deficit to not more than three *per cent* of the estimated GSDP for the year beginning 2011-12, to cap the total public debt of the State Government to 27.1 *per cent* of the estimated GSDP by end of 2014-15 and to cap the outstanding guarantees within the limit (₹ 20,000 crore) prescribed in the Gujarat State Guarantees Act, 1963.

The Report

Based on the audited accounts of the Government of Gujarat for the year ending March 2012, this Report provides an analytical review of the Annual Accounts of the State Government. The Report is structured in three Chapters.

Chapter 1 is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2012. It provides an insight into trends of different components of government expenditure and borrowing pattern, besides giving a brief account of Central funds transferred directly to State implementing agencies through the off-budget route.

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

Chapter 3 is an inventory of the Government's compliance with various reporting requirements and financial rules. The Report also has additional data collated from several other sources in support of the findings.

Audit findings and recommendations

Fiscal discipline

The revenue surplus of ₹ 2,151 crore in 2007-08 turned into a revenue deficit in 2009-10 and turned back into a revenue surplus of ₹ 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 to a high of ₹ 15,153 crore in 2009-10 and again decreased to ₹ 11,027 crore in 2011-12.

Fiscal Deficit and its Financing Pattern

A redeeming feature of the fiscal deficit is that the Government is primarily borrowing to finance its 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 an 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. However a increase of 41 *per cent* in net market borrowing in 2011-12 over previous year for financing the deficit would lead to increased interest burden for incoming years. It is evident from the above that Government raised excess market loans than was required for financing its deficit. Prudence in management of debt by the State Government may avoid such situation in future.

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. 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 of high cost funds.

Financial management and budgetary control

During 2011-12, there was a total savings of ₹ 5,520.38 crore which was a result of the total savings of ₹ 6,181.00 crore being offset by the excess of expenditure ₹ 660.62 crore. The excess expenditure requires regularisation under Article 205 of the Constitution of India. In 28 cases, as against savings of ₹ 902.82 crore, the amount surrendered was ₹ 1,285.26 crore, resulting in excess surrender of ₹ 382.45 crore, indicating inadequate budgetary control. In 13 grants/appropriations in which savings of ₹ 34.40 crore occurred, the amounts had not been surrendered by the concerned departments. Under 89 grants, out of the total provision of ₹ 16,563.26 crore in respect of 580 sub-heads, ₹ 5,982.12 crore (36.12 *per cent*) were surrendered. Budgetary controls should be strengthened to avoid such deficiencies in financial management.

Instances of excessive/unnecessary re-appropriation/ surrender orders brought out in this report indicate the need to strengthen the controls.

Financial reporting

Non-submission of utilisation certificates of ₹ 9,066.34 crore indicated lack of proper monitoring by the departments in utilisation of grants given for specific purposes. There has been non-submission/delay in submission of accounts of autonomous bodies/authorities. There is no timely submission of detailed contingent bills against large amounts drawn on abstract contingent bills amounting to ₹ 293.51 crore by the departmental authorities. The 169 outstanding cases of misappropriations, losses etc. and non recovery of amounts indicated lack of efforts by the departments to make good the losses and fix responsibility. Further, accountal of various important items of expenditure relating to various sectors, revenue receipts etc. under omnibus Minor Head – 800 resulted in non classification of diverse activities of the Government under available minor heads.