Chapter I

Finances of the State Government

Profile of Maharashtra

Maharashtra occupies the western and central part of the country and has a long coastline along the Arabian Sea. It is the second largest State in India both in terms of population (11.36 crore as per 2011 census) and geographical area (3.08 lakh sq km). As indicated in **Appendix 1.1**, in the last 10 years, the density of population of Maharashtra has increased from 315 persons per sq km to 365 persons per sq km. Still Maharashtra has a lower density of population as compared to the all-India average of 382. The State has shown a higher economic growth in the past decade as the compound annual growth rate of its Gross State Domestic Product (GSDP) for the period 2002-03 to 2011-12 has been 17.17 *per cent* as compared to 14.46 *per cent* in General Category States. The population below the poverty line in Maharashtra is lower than the average of General Category States. During the above mentioned period, its population grew by 17.23 *per cent* against 13.90 *per cent* in General Category States. The per capita income compound annual growth rate in Maharashtra (15.12 *per cent*) has been higher than that of the General Category States (13.09 *per cent*) in the current decade.

1.1 Introduction

This chapter is based on the audit of the Finance Accounts and makes an assessment of the State's fiscal position as on 31 March 2012. It provides a broad perspective of the finances of the State during 2011-12 and analyses critical 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**. The methodology adopted for assessment of the fiscal position and norms/ceilings prescribed by the Fiscal Responsibility and Budgetary Management (MFRBM) Act, 2005; MFRBM (Amendment) Act, 2006; MFRBM Rules, 2006; MFRBM (Amendment) Rules, 2008; MFRBM (Second Amendment) Rules, 2011 and MFRBM (Amendment) Rules, 2012 of the State are given in **Appendix 1.3**. According to the Act, Government developed its own Fiscal Correction Path (FCP) given in **Appendix 1.4**. As prescribed in the Act, Government laid its Medium Term Fiscal Policy Statement (MTFPS) for 2011-12 in the State legislature in March 2011.

1.1.1 Summary of Current Year's Fiscal Transactions

A summary of the State Government's fiscal transactions during 2011-12 *vis-à-vis* the previous year is presented in **Table 1.1. Appendix 1.6** provides details of receipts and disbursements as well as the overall fiscal position during 2011-12.

Table 1.1 : Summary of current year's fiscal operations

(₹ in crore)

2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
		Section-A: Revenue			Non Plan	Plan	Total
105867.82	**Revenue Receipts**	**121286.14****	**106459.38**	**Revenue Expenditure**	**101519.15**	**22035.04**	**123554.19**
75027.10	Tax revenue	87608.46	37704.23	General services	42352.03	500.85	42852.88
8225.04	Non-tax revenue	8167.70**	48282.06	Social services	40525.19	14287.02	54812.21
11419.78	Share of Union Taxes/ Duties	13343.34	19285.36	Economic services	17743.52	7125.23	24868.75
11195.90	Grants from Government of India	12166.64	1187.73	Grants-in-aid and Contributions	898.41	121.94	1020.35
		Section B : Capital					
17.28	Miscellaneous Capital Receipts	455.83	17963.37	Capital Outlay	**2848.16**	**15031.38**	**17879.54**
640.09	Recoveries of Loans and Advances	558.74	959.08	Loans and Advances disbursed			**836.28**
20739.78	Public debt receipts*	24452.56	4773.61	Repayment of Public Debt*			**6458.35**
0.00	Appropriation from Contingency fund	1000.00	850.00	Appropriation to Contingency fund			**500.00**
853.00	Contingency Fund	511.20	11.20	Contingency Fund			**1000.00**
48406.32	Public Account Receipts	53389.38	39557.62	Public Account Disbursements			**46962.93**
25559.36	**Opening Cash Balance**	**31509.39**	**31509.39**	**Closing Cash Balance**			**35971.95**
202083.65	**Total**	**233163.24**	**202083.65**	**Total**			**233163.24**

(Source : State Finance Accounts of the respective years.)

* Excluding ways and means advances and overdraft (Receipt : nil and Disbursement : nil)

** Includes ₹ 170.23 crore, the outstanding central loans under Central Plan Schemes and Centrally Sponsored Schemes advanced to State Governments by the Ministries other than Ministry of Finance written off as per the recommendation of the Thirteenth Finance Commission (ThFC).

The following are the major changes in fiscal transactions during 2011-12 over the previous year:

- Revenue receipts (RR) grew by ₹ 15,418 crore (15 *per cent*) over the previous year. The increase was the net effect of increase in tax revenue by ₹ 12,581 crore (17 *per cent*), State's share of Union Taxes and Duties by ₹ 1,923 crore (17 *per cent*) and Grants from Government of India (GoI) by ₹ 971 crore (nine *per cent*), set off by a decrease in non-tax revenue by ₹ 57 crore (0.7 *per cent*). The revenue receipts at ₹ 1,21,286 crore were 99.8 *per cent* of the assessments made by the State Government in its FCP and the MTFPS (₹ 1,21,504 crore) for the year 2011-12.
- The decrease in non-tax revenue receipts by ₹ 57 crore (0.7 *per cent*) over 2010-11 was mainly under 'Miscellaneous General Services' due to less receipts on account of Guarantee Fees. The non-tax revenue receipts (₹ 8,168 crore) of the Government was also lower than the projections made in the FCP and the MTFPS/Budget (₹ 9,731 crore) of the Government by 16 *per cent* and the Thirteenth Finance Commission (ThFC) (₹ 12,168 crore) by 33 *per cent*.
- Revenue expenditure increased by ₹ 17,095 crore (16 *per cent*) over the previous year, mainly due to increase in expenditure on general services (₹ 5,149 crore), social services (₹ 6,530 crore) and economic

services (₹ 5,584 crore), set-off by decrease in grants-in-aid and contributions (₹ 168 crore). While 30 *per cent* of the increase was under Plan head the remaining 70 *per cent* was under Non-Plan head. The major heads that registered increases include General Education, Interest Payment, Power, Industries, Pension and other Retirement Benefits, relief on account of Natural Calamities, District Administration, Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes, Urban Development, Medical and Public Health and Social Security. The revenue expenditure (₹ 1,23,554 crore) was, however, more than the assessment made by the State Government in its FCP and MTFPS/Budget by 1.74 *per cent*. The Non-Plan Revenue Expenditure (₹ 1,01,519 crore) exceeded the normative assessments made by ThFC (₹ 73,742 crore) and the State Government's projections (MTFPS/Budget/FCP) (₹ 95,542 crore) **(Table 1.11).**

- Capital expenditure *(*₹ 17,880 crore) decreased marginally by 0.47 *per cent* over the previous year. The decrease was mainly due to less contribution of Government's share capital to Vidarbha Irrigation Development Corporation, as discussed in **Para 1.4.1**. The capital expenditure was lower than the assessment made by the State Government in its FCP and Budget by 20.32 *per cent* (₹ 22,439 crore) and the projections made in MTFPS by 23.38 *per cent* (₹ 23,337 crore) for the year 2011-12. The major areas of decrease are commented in Chapter II under **Para 2.7**.

- Recoveries of loans and advances decreased by 12.66 *per cent* (₹ 81 crore) and its disbursements also decreased by 12.83 *per cent* (₹ 123 crore).

- Public debt receipts increased by 17.90 *per cent* (₹ 3,713 crore) and public debt disbursement also increased by 35.30 *per cent* (₹ 1,685 crore) resulting in net increase of ₹ 2,028 crore in public debt receipts.

- Increase of 10.29 *per cent* (₹ 4,983 crore) in Public Account receipts over the previous year was on account of increase of receipts under Deposits and Advances by 16.55 *per cent* (₹ 3,627 crore), Small Savings, Provident Fund *etc*. by 14.60 *per cent* (₹ 567 crore) and Remittances by 7.81 *per cent* (₹ 1,582 crore), set off by decrease under Suspense and Miscellaneous by 50.24 *per cent* (₹ 499 crore) and Reserve Funds by 8.77 *per cent* (₹ 294 crore).

- Public Account disbursements increased by 18.72 *per cent* (₹ 7,405 crore) mainly due to increase under Reserve Funds by 38.57 *per cent* (₹ 460 crore), Deposit and Advances by 34.20 *per cent* (₹ 5,354 crore), Small Savings, Provident Fund *etc.* by 17.67 *per cent* (₹ 329 crore) and Remittances by 6.54 *per cent* (₹ 1,355 crore), set off by decrease under Suspense and Miscellaneous by 83.87 *per cent* (₹ 93 crore).

- Appropriation from the Contingency Fund increased by ₹ 1000 crore in 2011-12 from 'nil' in 2010-11 while appropriation to the

Contingency Fund decreased by ₹ 350 crore from ₹ 850 crore in 2010-11 to ₹ 500 crore in 2011-12, as discussed in **Para 2.□**

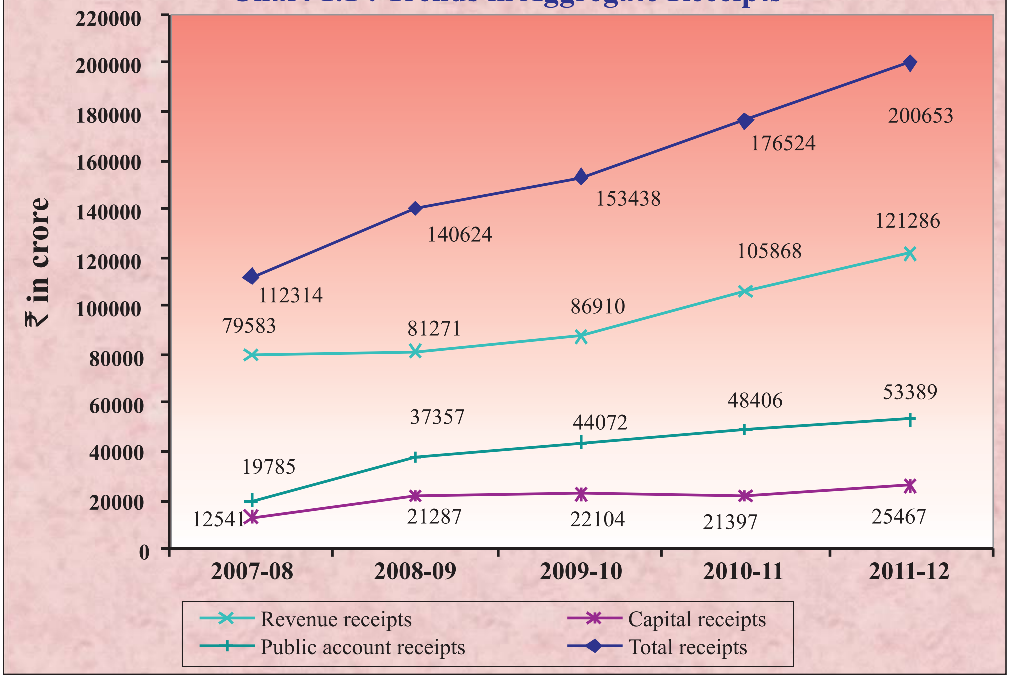
- Cash balances of the Government at the close of the year 2011-12 (₹ 35,972 crore) increased by ₹ 4,463 crore (14 *per cent*) over the previous year. Of the above, ₹ 25,884 crore was invested in GoI Treasury Bills, as also discussed in **Para 1.□.□**

1.2 Resources of the State

1.2.1 Resources of the State as per Finance Accounts

Revenue[1] and capital[2] are the two streams of receipts that constitute the resources of the State Government. **Table 1.1** presents the receipts and disbursements of the State during 2011-12, as recorded in its Finance Accounts 2011-12 while **□hart 1.1** and **Table 1.2** depicts the trends in various components of the aggregate receipts of the Government during 2007-12.

Chart 1.1 : Trends in Aggregate Receipts



□ote: Total receipts include Contingency Fund receipts of ₹ 511 crore (0.25 *per* cent of total receipt) during 2011-12.

(Source: State Finance Accounts of the respective years).

□hart 1.2 depicts the composition of resources of the Government during 2011-12.

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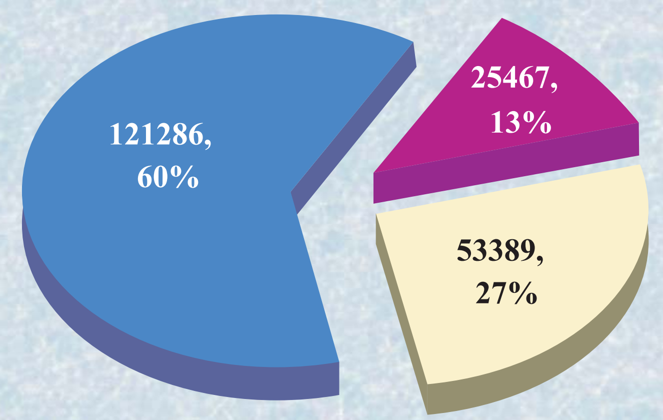
[1] Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from GoI.

[2] Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, 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.

Chart 1.2 : Composition of Aggregate Receipts during 2011-12
(₹ in crore and percentage to total receipts)



(Source: State Finance Accounts).

Table 1.2: Trends in growth and composition of aggregate receipts

(₹ in crore)

	Sources of State's Receipts	2007-08	2008-09	2009-10	2010-11	2011-12
I	**Revenue Receipts**	**79,583**	**81,271**	**86,910**	**1,05,868**	**1,21,286**
II	**Capital Receipts (CR)**	**12,541**	**21,287**	**22,104**	**21,397**	**25,467**
	Miscellaneous Capital Receipts	–	18	25	17	456
	Recovery of Loans and Advances	733	560	515	640	559
	Public Debt Receipts	11,808	20,709	21,564	20,740	24,452
	Growth rate of debt capital receipts	(-)0.71	75.38	4.13	(-)3.82	17.90
	Growth rate of non-debt capital receipts	1,337.25	(-)21.15	(-)6.57	21.67	54.49
	Growth rate of GSDP	16.03	17.22	30.11	18.53	16.86
	Rate of growth of CR (per cent)	***5.01***	***69.74***	***3.84***	***(-)3.20***	***19.02***
III	**Contingency Fund**	**405**	**709**	**352**	**853**	**511**
IV	**Public Account Receipts**	**19,785**	**37,357**	**44,072**	**48,406**	**53,389**
	a. Small Savings, Provident Fund *etc.*	2,060	2,220	3,309	3,882	4,449
	b. Reserve Fund	(-)9,196	2,428	2,559	3,346	3,052
	c. Deposits and Advances	10,847	11,438	14,150	21,918	25,544
	d. Suspense and Miscellaneous	325	3,132	4,166	(-)993	(-)1,491[3]
	e. Remittances	15,749	18,139	19,888	20,253	21,835
V	**Total Receipts**	**1,12,314**	**1,40,624**	**1,53,438**	**1,76,524**	**2,00,653**

(Source : Finance Accounts).

The total receipts of the State increased by ₹ 88,339 crore (78.65 *per cent*) from ₹ 1,12,314 crore in 2007-08 to ₹ 2,00,653 crore in 2011-12. Though the amount of revenue receipts increased in absolute terms, the share of revenue receipts in total receipts of the State decreased from 71 *per cent* in 2007-08 to 60 *per cent* in 2011-12, while the share of public account receipts in total

[3] Minus credit is due to realization of cheques being more than the cheques issued during the year owing to clearance of last years cheques.

receipts of the State increased from 18 *per cent* in 2007-08 to 27 *per cent* in 2011-12.

Table 1.2 shows that the capital debt receipts registered a positive growth of 17.90 *per cent* in 2011-12 as compared to the negative growth of 3.82 *per cent* in 2010-11. The growth of non-debt capital receipts increased from 21.67 *per cent* in 2010-11 to 54.49 *per cent* in 2011-12.

Public Account receipts increased by 169.85 *per cent* over the period 2007-12. As compared to 2010-11, the increase during 2011-12 was 10.29 *per cent*, which was mainly under Deposits and Advances, Remittances and Small Savings, Provident Fund, *etc*.

1.2.2 Funds transferred to State Implementing Agencies outside the State Budgets

The GoI has been transferring a sizeable quantum of funds directly to State implementing agencies[4] for implementation of various schemes/ programmes in social and economic sectors for human and social development of the population. As these funds are not routed through the State Budget/ State Treasury System, the Annual Finance Accounts do not capture their flow and to that extent the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them are understated. To present a holistic picture on the availability of aggregate resources, funds directly transferred to State implementing agencies during 2011-12 are presented in **Appendix 1.8.** As could be seen, GoI directly transferred ₹ 7,144 crore to State implementing agencies during 2011-12. The major transfers were to:

a) the District Rural Development Agencies (DRDAs) (₹ 2,341.24 crore *i.e* 33 *per cent*) for Indira Awas Yojana, Swarnajayanti Gram Swarojgar Yojana, the Integrated Watershed Management Programme, DRDA administration and the National Rural Employment Guarantee Scheme,

b) the Maharashtra Prathamik Shikshan Parishad (₹ 1,179.63 crore *i.e.* 17 *per cent*) for Sarva Shiksha Abhiyan,

c) the National Rural Health Mission (₹ 1,152.65 crore *i.e* 16 *per cent*), and

d) Pradhan Mantri Gram Sadak Yojana (₹ 796.01 crore *i.e* 11 *per cent*).

Since the funds are generally not being spent fully by the implementing agencies in the same financial year in which they are given, there remain unspent balances in the bank accounts of these implementing agencies. The aggregate amount of the unspent balances in the accounts of the implementing agencies, kept outside Government accounts, in bank accounts, is not ascertainable.

As compared to the previous year, the increase in transfer of funds ₹ 1,498.28 crore was mainly under a) the National Rural Health Mission

[4] State implementing agencies include any organisation/institutions including non-governmental organisations which are authorized by the State Government to receive funds from the GoI for implementing specific programmes in the State, *e.g.* Sarva Shiksha Abhiyan, National Rural Health Mission *etc*.

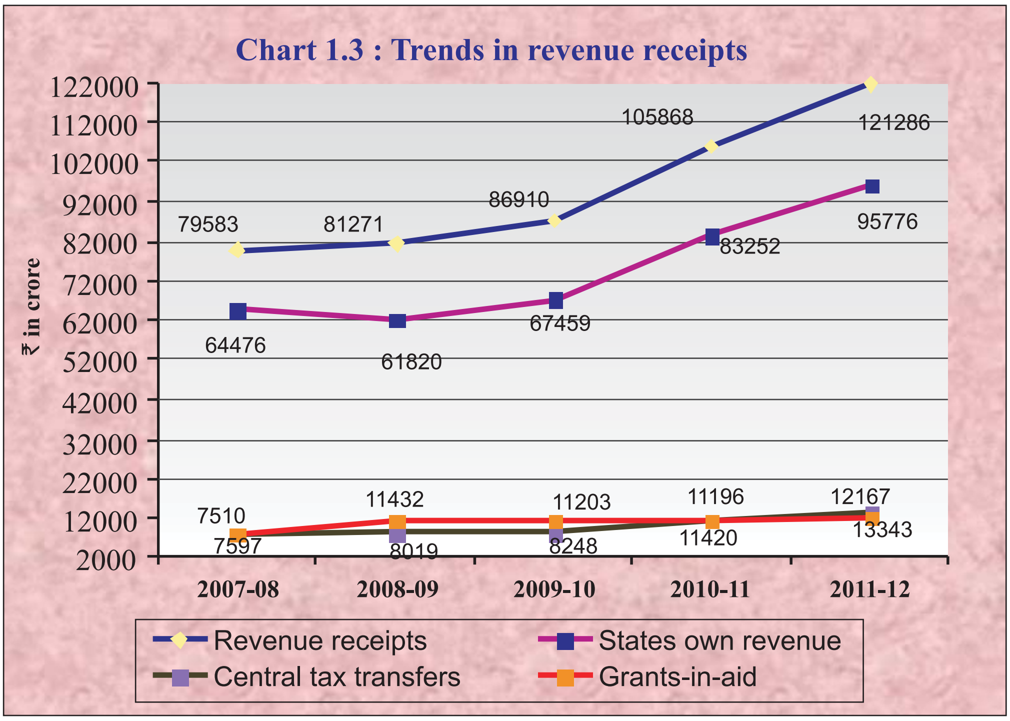
(₹ 477.36 crore *i.e* 71 *per cent*), b) the Maharashtra Prathamik Shikshan Parishad (₹ 324.26 crore *i.e.* 38 *per cent*) as well as for Sarva Shiksha Abhiyan and c) DRDAs (₹ 878.52 crore *i.e* 60 *per cent*) for the Integrated Watershed Management Programme, DRDA administration and the National Rural Employment Guarantee Scheme. In respect of the State Water and Sanitation Mission for the Accelerated Rural Water Supply Scheme, no funds were provided during 2010-11, however, during 2011-12 ₹ 718.36 crore were provided.

The transfer of funds decreased mainly under the Pradhan Mantri Gram Sadak Yojana (₹ 446.54 crore *i.e* 36 *per cent*). In respect of Agriculture Technology Management Agency for micro-irrigation no funds were provided during the year resulting in decrease of ₹ 222.37 crore as compared to previous year.

Direct transfer of funds from the GoI to State implementing agencies ran the risk of 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, it would be difficult to monitor the end use of these direct transfers.

1.3 Revenue receipts

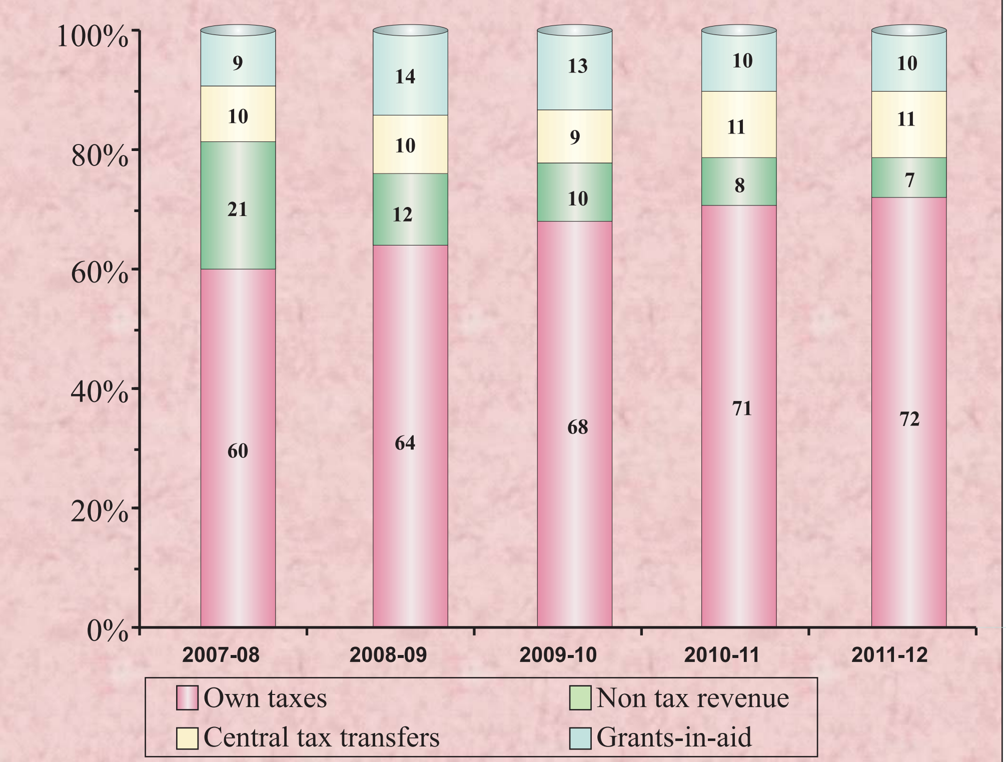
Statement 11 of the Finance Accounts details the revenue receipts of the Government. These consist of the State's own tax and non-tax revenues, Central tax transfers and grants-in-aid from GoI. The trends of revenue receipts over the period 2007-12 are presented in **Chart 1.3** and also in **Appendix 1.5**.



(Source: State Finance Accounts of the respective years)

The composition of revenue receipts over the period 2007-12 are presented in **Chart 1.4**

Chart 1.4 : The composition of revenue receipts during 2007-12
(Share in *per cent)*



(Source: State Finance Accounts of the respective years)

The revenue receipts have shown a progressive increase over the period 2007-12. As shown in **Chart 1.4**, there was an increasing trend in the share of the State's own taxes during the period 2007-12. The shares of non-tax revenue showed a declining trend during 2007-12 while the share of Central transfers was relatively stable during 2007-12. The share of grants-in-aid increased during 2007-09 however, it decreased in 2009-11, but remained stable during 2011-12.

During 2002-03 to 2010-11, the compound growth rate of revenue receipts (16.55 *per cent*) was less than the growth rate of other General Category States (16.86 *per cent*). This growth rate for the period 2002-03 to 2011-12 decreased to 16.32 *per cent* **(Appendix 1.1)**.

Revenue receipts at ₹ 1,21,286 crore were 99.8 *per cent* of the assessments made by the State Government in its FCP and the MTFPS for the year 2011-12.

The trends in revenue receipts relative to GSDP at current prices are presented in **Table 1.3** :

Table 1.3 : Trends in revenue receipts relative to GSDP

	2007-08	2008-09	2009-10	2010-11	2011-12
I Revenue Receipts (₹ in crore)	**79,583**	**81,271**	**86,910**	**1,05,868**	**1,21,286**
Rate of growth[5] of RR (*per cent*)	28	2.1	6.9	21.8	14.56
RR/GSDP (*per cent*)	13.5	11.7	9.6	9.9	9.71
Buoyancy Ratios[6]					
Revenue Receipts Buoyancy w.r.t. GSDP	**1.747**	**0.122**	**0.229**	**1.176**	**0.864**
State's own taxes Buoyancy w.r.t. GSDP	1.156	0.550	0.452	1.454	0.995
Gross State Domestic Product (₹ in crore)	**5,90,995**	**6,92,749**	**9,01,330**	**10,68,327**	**12,48,453#**
Growth rate of GSDP	16.03	17.22	30.11	18.53	16.86

(Source: Finance Accounts and Economic Survey of Maharashtra [Preliminary Estimates]).

Advance estimates furnished by Directorate of Economics & Statistics, Government of Maharashtra.

The increase in revenue receipts during 2011-12 (14.56 *per cent*) as compared to previous year was due to the net effect of increase in tax revenue by 17 *per cent* (₹ 12,581 crore), the State's share of Union taxes and duties by 17 *per cent* (₹ 1,923 crore) and Grants from GoI by nine *per cent* (₹ 971 crore), set off by a decrease in non-tax revenue by 0.7 *per cent* (₹ 57 crore).

The ratio of State's own tax buoyancy with reference to GSDP gradually decreased from 1.156 in 2007-08 to 0.452 in 2009-10, however, it increased to 1.454 in 2010-11 but again decreased to 0.995 in 2011-12 mainly because the growth rate of tax revenue (16.77 *per cent*) was almost equal to the growth rate of GSDP (16.86 *per cent*).

Grants-in-aid from Government of India

The grants-in-aid from GoI increased by nine *per cent* from ₹ 11,196 crore in 2010-11 to ₹ 12,167 crore in 2011-12. The increase was mainly under Centrally Sponsored Plan Schemes (41 *per cent*) and State Plan Schemes (10 *per cent*), while the grants under Central Plan Schemes and Non-Plan grants decreased by 73 *per cent* and 25 *per cent* respectively in 2011-12 **(Table 1.4)**.

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[5] see Glossary at page 175.

[6] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.9 implies that revenue receipts tend to increase by 0.9 percentage points, if the GSDP increases by one *per cent* (also see Glossary at page 175).

Table 1.4: Grants-in-aid from Government of India

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Grants for State Plan schemes	3,780	6,683	5,396	5,805	6,380
Non-Plan grants	2,106	2,832	3,707	2,304	1,723
Grants for Central Plan Schemes	63	139	87	245	65
Grants for Centrally Sponsored Plan Schemes	1,561	1,778	2,013	2,842	3,999
Total	**7,510**	**11,432**	**11,203**	**11,196**	**12,167**
Percentage of increase/decrease over previous year	(-)12.2	52.22	(-)2.0	(-)0.06	8.67

(Source : Finance Accounts).

The increase under grants from Centrally Sponsored Plan Schemes (₹ 1,157 crore) was due to increase under (a) Social Securities and Welfare (₹ 394 crore), (b) Nutrition (₹ 458 crore) and (c) Family Welfare (₹ 246 crore). The increase under grants from the State Plan Schemes (₹ 575 crore) was due to increase under grants under proviso to Article 275(1) of the Constitution (₹ 666 crore).

The decreases under Central Plan Schemes (₹ 180 crore) were mainly under (a) Village and Small Industries (₹ 83 crore), (b) Technical Education (₹ 47 crore) and (c) Sports and Youth Services (₹ 43 crore). The decrease under Non-Plan grants (₹ 581 crore) was under (a) Central Road Fund (₹ 257 crore) and (b) Grants towards contribution to the State Disaster Response Fund (₹ 171 crore).

Central tax transfers

Central tax transfers increased by 17 *per cent* from ₹ 11,420 crore in 2010-11 to ₹ 13,343 crore in 2011-12. The increase was mainly under corporation tax (₹ 773 crore), service tax (₹ 449 crore), customs duty (₹ 310 crore) and taxes on income other than corporation tax (₹ 301 crore).

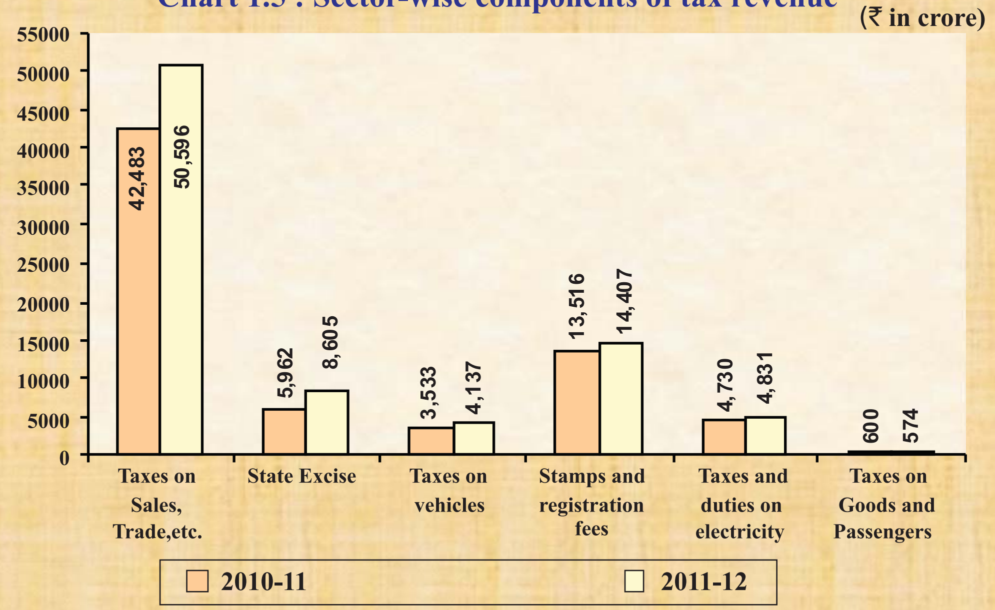
1.3.1 State's Own Resources

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 mobilization 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 and the percentage of such expenditure to the gross collection during the years from 2007-08 to 2011-12 are presented in **Appendix 1.5**.

Tax Revenue

The tax revenues exceeded the projections made in the FCP by 4.69 *per cent*, however, it was less than the projections made in MTFPS by 10.06 *per cent.* The sector-wise components of tax revenue during the period 2010-11 to 2011-12 are shown in **Chart 1.5.**

Chart 1.5 : Sector-wise components of tax revenue



(Source: State Finance Accounts of the respective years)

The tax revenue increased by ₹ 12,581 crore (17 *per cent)* over the previous year. The increase over the previous year was mainly under (a) taxes on Sales, Trades, *etc*. by ₹ 8,113 crore (19 *per cent*) due to more tax collection under 'Value Added Tax', (b) state excise by ₹ 2,643 crore (44 *per cent*) due to receipt of more excise duty on wines and spirits, (c) stamps and registration fees by ₹ 891 crore (seven *per cent*) due to increase in sale of stamps and (d) taxes on vehicles by ₹ 604 crore (17 *per cent*) due to more tax collection under 'State Motor Vehicles Taxation Act'.

During 2002-03 to 2010-11, the compound growth rate of tax revenue (16.05 *per cent*) was less than the growth rate of other General Category States (16.74 *per cent*). This growth rate for the period 2002-03 to 2011-12 increased to 16.13 *per cent* **(Appendix 1.1)**.

The tax revenue as a percentage of GSDP (7.02 *per cent*) was less than the normative assessment of ThFC (8.52 *per cent*), MTFPS (8.23 *per cent*) and marginally lower than the FCP (7.07 *per cent*).

Non-tax revenue

The non-tax revenue of the State marginally decreased by 0.7 *per cent* (₹ 57 crore) from ₹ 8,225 crore in 2010-11 to ₹ 8,168 crore in 2011-12, mainly due to less receipts on account of Guarantee Fees (₹ 422 crore) booked under the Major Head 'Miscellaneous General Services', set off by increase under Power (₹ 240 crore) due to more collection of lease money from Maharashtra State Electricity Board and under Medical and Public Health (₹ 102 crore) due to more receipts from Scheme under Drugs and Cosmetics Rules and receipts from Employees State Insurance Corporation.

The non-tax revenue includes write off of central loans of ₹ 170.23 crore as per the recommendation of the ThFC on account of central loans received from GoI under Central Plan Schemes and Centrally Sponsored Schemes.

During 2002-03 to 2010-11, the compound growth rate of non-tax revenue (7.78 *per cent*) was less than the growth rate of other General Category States (12.84 *per cent*). This growth rate for the period 2002-03 to 2011-12 further decreased to 6.80 *per cent* **(Appendix 1.1)**.

Table 1.5: Revenue receipts relative to ThFC and State's projections

(₹ in crore)

	Assessments made by ThFC	Projections in FCP	Projections in MTFPS Budget	Actuals
Tax revenue	80,721	83,686	97,404	87,608
Non-tax revenue	12,168	9,731	9,731	8,168
GSDP	9,47,978	11,84,064	11,84,064	12,48,453

(Source: Finance Accounts, Budget Documents, Report of ThFC and Economic Survey of Maharashtra).

Table 1.5 shows that the actual realisation of tax revenue during the year was higher than the normative assessment of ThFC as well as the projections made in the FCP but less than the projections in MTFPS. The non-tax revenue of the Government was lower for both the FCP and MTFPS projections (16 *per cent*) as well as the ThFC (33 *per cent*).

1.3.2 Cost of collection

The gross collection in respect of three major heads of revenue receipts, the expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years 2009-10, 2010-11 and 2011-12, along with the relevant all-India average percentage of expenditure on gross collection for the year 2010-11 are given in the **Table 1.6** :

Table 1.6 : The expenditure incurred on collection of taxes

Sl. No.	Head of revenue	Year	Gross collection[7] (₹ in crore)	Expenditure on collection (₹ in crore)	Percentage of expenditure to gross collection	All India average percentage for the year 2010-11
1.	Sales tax/ VAT	2009-10 2010-11 2011-12	32,676.02 42,482.72 50,596.36	283.65 298.08 346.02	0.87 0.70 0.68	0.75
2.	State excise	2009-10 2010-11 2011-12	5,056.63 5,961.85 8,605.47	62.68 62.68 61.58	1.24 1.05 0.72	3.05
3.	Taxes on vehicles	2009-10 2010-11 2011-12	2,682.29 3,532.90 4,137.42	76.96 90.62 92.22	2.86 2.57 2.28	3.71

(Source: Finance Accounts and Information received from departments concerned)

As compared to the previous year, the percentage of expenditure on collection of taxes decreased in all heads of revenue for the period 2009-12. It would be seen that the cost of collection of revenue in the State is less than the all-India average in all the three important heads of revenue. However, it would be prudent to improve the tax administration in order to increase the revenue and thereby, reduce the cost of collection.

[7] Figures as per the Finance Accounts.

1.4 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 the 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 directed towards development and social sectors.

1.4.1 Growth and composition of expenditure

The total expenditure and its compositions during the years 2007-08 to 2011-12 are presented in the **Table 1.7.**

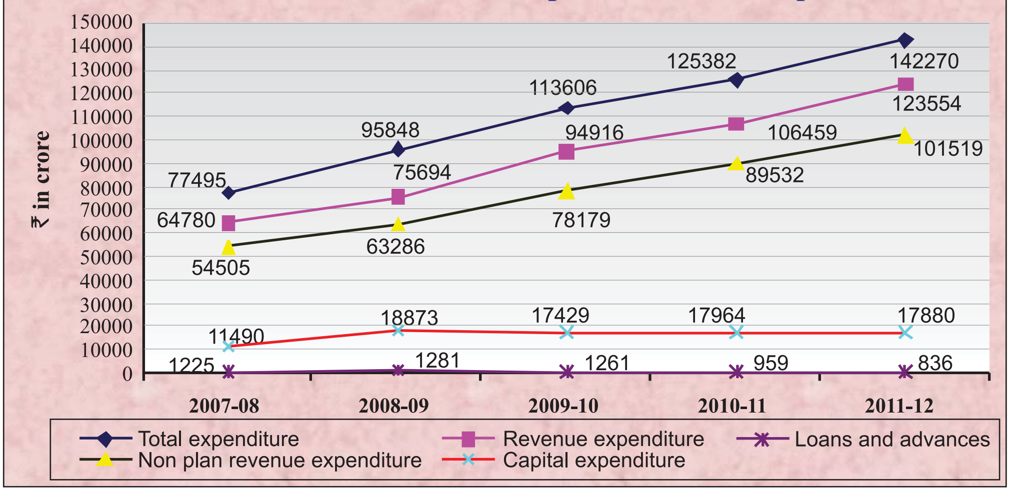
Table 1.7 : Total expenditure and its composition (₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Total Expenditure	**77,495**	**95,848**	**1,13,606**	**1,25,382**	**1,42,270**
Revenue Expenditure	64,780	75,694	94,916	1,06,459	1,23,554
of which, Non-Plan Revenue Expenditure	*54,505*	*63,286*	*78,179*	*89,532*	*1,01,519*
Percentage of revenue expenditure to total expenditure	84	79	84	85	87
Capital Expenditure	11,490	18,873	17,429	17,964	17,880
Percentage of capital expenditure to total expenditure	21	30	22	20	18
Loans and Advances	1,225	1,281	1,261	959	836

(Source: Finance Accounts).

Chart 1.6 presents the trends in total expenditure over a period of the last five years (2007-12) and its composition both in terms of 'economic classification' and 'expenditure by activities' depicted in **Charts 1.7 and 1.8** respectively**.**

Chart 1.6 : Trends in various components of total expenditure



(Source : Finance Accounts of respective years).

Total expenditure

The total expenditure of the State increased at an average growth rate of 21 *per cent* from ₹ 77,495 crore in 2007-08 to ₹ 1,42,270 crore in 2011-12. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.8**. During 2002-03 to 2010-11, the compound growth rate of total expenditure (13.40 *per cent*) was less than the growth rate of other General Category States (14.58 *per cent*). This growth rate remained unchanged at 13.40 *per cent* for the period 2002-03 to 2011-12 **(Appendix 1.1)**.

Table 1.8 : Total expenditure – basic parameters

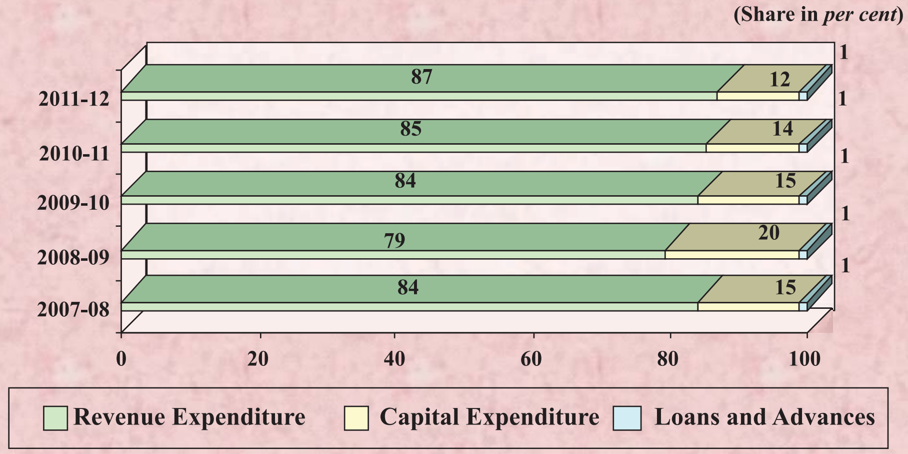
	2007-08	2008-09	2009-10	2010-11	2011-12
Total expenditure (TE) (₹ in crore)	77,495	95,848	1,13,606	1,25,382	1,42,270
Rate of growth *(per cent)*	5	23.7	18.53	10.37	13.47
TE/GSDP ratio *(per cent)*	13.1	13.8	12.60	11.7	11.4
RR /TE ratio *(per cent)*	102.7	84.8	76.5	84.4	85.25
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	0.312	1.376	0.615	0.560	0.799
RR (ratio)	0.179	11.286	2.681	0.476	0.925

The increase of ₹ 16,888 crore (13.47 *per cent*) in total expenditure in 2011-12 over the previous year was mainly on account of an increase of ₹ 17,095 crore in revenue expenditure, set off by a decrease of ₹ 84 crore in capital expenditure and of ₹ 123 crore in disbursement of loans and advances.

The ratio of total expenditure to GSDP decreased from 13.1 *per cent* in 2007-08 to 11.4 *per cent* in 2011-12, mainly due to increase in the GSDP at a faster rate as compared to total expenditure. The ratio of revenue receipts to total expenditure decreased from 102.7 *per cent* in 2007-08 to 85.25 *per cent* in 2011-12 which shows that 85 *per cent* of the total expenditure was met from revenue receipts.

The ratio of total expenditure buoyancy with reference to GSDP increased from 0.312 in 2007-08 to 1.376 in 2008-09, but decreased to 0.615 in 2009-10. However, it gradually increased to 0.799 in 2011-12. This indicated that for each one *per cent* increase in GSDP, total expenditure grew by 0.799 *per cent*.

Chart 1.7 : Total Expenditure : Trends in share of its components (2007-12)



Revenue expenditure

Revenue expenditure constituted 87 *per cent* of the total expenditure **(Chart 1.7)**. The increase in revenue expenditure was mainly on (a) General Education (₹ 2,681 crore), (b) Interest Payments (₹ 1,857 crore), (c) Power (₹ 1,854 crore), (d) Industries (₹ 1,679 crore), (e) Pension and other Retirement Benefits (₹ 1,619 crore), (f) Relief on account of Natural Calamities (₹ 1,008 crore), (g) District Administration (₹ 718 crore) and (h) Welfare of Scheduled Caste, Scheduled Tribes and Other Backward Classes (₹ 599 crore).

Capital expenditure

Capital expenditure constituted 12 *per cent* of the total expenditure **(Chart 1.7)**. The decrease of ₹ 84 crore (0.47 *per cent*) in capital expenditure during 2011-12 was mainly on account of decrease in the Government's share capital contribution to the Vidharbha Irrigation Development Corporation (₹ 1,375 crore), set off by increases in the share capital contribution to the Krishna Valley Development Corporation (₹ 499 crore), the Tapi Irrigation Development Corporation (₹ 87 crore), Transport (₹ 304 crore) and Welfare of Scheduled Castes/Tribes Other Backward Classes (₹ 400 crore).

Loans and advances

Loans and advances constituted one *per cent* of the total expenditure **(Chart 1.7)**. The decrease of ₹ 123 crore in disbursement of loans and advances during 2011-12 was mainly in loans for co-operation (₹ 115 crore).

The buoyancy ratio of total expenditure with reference to revenue receipts rose to 11.286 during the period 2008-09 from 0.179 in 2007-08 indicating increase in expenditure at a pace greater than that of receipts. However, the ratio declined to 0.476 during 2010-11 but again increased to 0.925 during 2011-12. This was due to increase in the rate of growth of total expenditure as compared to previous year, whereas the rate of growth revenue receipts decreased as compared to the previous year.

The buoyancy ratio of total expenditure with reference to GSDP was less than one during the period 2007-08 to 2011-12 except during 2008-09, when it was 1.376. The decrease was due to the combined effect of low rate of growth in expenditure along with a high rate of growth in GSDP during these years (except 2008-09). This indicated a relative fall in the State's propensity to spend, with the increase in GSDP.

Of the total expenditure during 2011-12, Non-Plan expenditure contributed 74 *per cent* while Plan expenditure was 26 *per cent*. Of the increase of ₹ 16,888 crore in total expenditure, the share of Plan expenditure was 27 *per cent*, while Non-Plan expenditure contributed 73 *per cent*.

During 2002-03 to 2010-11, the compound growth rate of capital expenditure (21.90 *per cent*) was higher than the growth rate of other General Category States (21.25 *per cent*). This growth rate for the period 2002-03 to 2011-12, however, decreased to 19.19 *per cent* **(Appendix 1.1)**.

Trends in total expenditure in terms of activities

In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. Relative shares of these components in the total expenditure are indicated in **Table 1.9** and **Chart 1.8**.

Table 1.9: Components of expenditure – relative shares

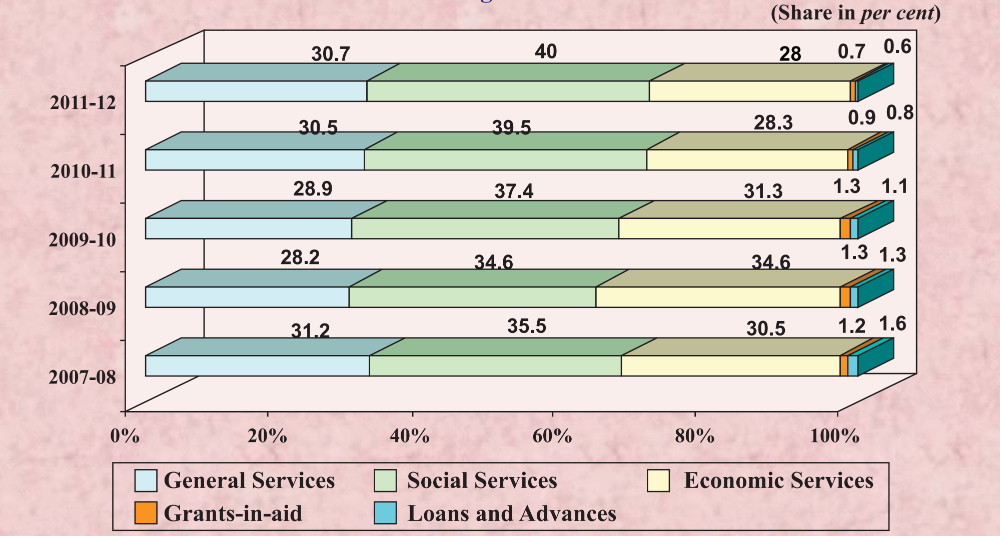
(in *per cent*)

	2007-08	2008-09	2009-10	2010-11	2011-12
General Services	**31.2**	**28.2**	**28.9**	**30.5**	**30.7**
of which, Interest Payments	15.7	12.8	12.4	12.5	12.3
Social Services	**35.5**	**34.6**	**37.4**	**39.5**	**40.0**
Economic Services	**30.5**	**34.6**	**31.3**	**28.3**	**28.0**
Grants-in-aid	**1.2**	**1.3**	**1.1**	**0.9**	**0.7**
Loans and Advances	**1.6**	**1.3**	**1.3**	**0.8**	**0.6**

The movement of the relative shares of the above components of expenditure indicated that the shares of General Services and Social Services in the total expenditure increased during 2011-12 over the previous year. These increases were set off by decreases in the respective shares of Economic Services, grants-in-aid and loans and advances.

Chart 1.8 : Trends in composition of Total Expenditure by Activities during 2007-12

(Share in *per cent*)



The shares of General Services in total expenditure increased mainly on account of increase in Interest Payments (₹ 1,857 crore), Pension and other Retirement Benefits (₹ 1,619 crore), District Administration (₹ 718 crore), Police (₹ 334 crore), Taxes on Vehicles (₹ 165 crore) and Administration and Justice (₹ 158 crore), whereas the share of Social Services increased mainly due to General Education (₹ 2,681 crore), Social Welfare and Nutrition (₹ 1,465 crore), Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹ 599 crore) and Health and Family Welfare (₹ 528 crore).

The decrease in the share of Economic Services was mainly due to decrease in Government's share capital contribution to the Vidarbha Irrigation Development Corporation (₹ 1,375 crore) and Agriculture and Allied Activities (₹ 172 crore).

The decrease in grants-in-aid was mainly due to decrease under the head 'Aid Material and Equipment' (₹ 319 crore) and set off by increase under the head

'Compensation and Assignment to Local Bodies and Panchayati Raj Institutions' (₹ 152 crore).

Though the share of Economic Services in total expenditure decreased, there was increase in expenditure on Economic Services (₹ 4,390 crore), mainly on Industries and Minerals (₹ 1,677 crore), Energy (₹ 1,664 crore) and Transport (₹ 1086 crore).

In 10[8] major schemes (as listed in Annexure to Statement No.12 of the Finance Accounts 2011-12), of ₹ 1,207 crore released by the GoI, the State Government released only ₹ 921 crore for the schemes and the balance amount of ₹ 286 crore was lying in the cash balance of the State Government and to that extent though the money was available, the intended beneficiaries were deprived of its benefit.

Incidence of revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for past obligations and as such, does not result in any addition to the State's infrastructure and service network. Revenue expenditure had the predominant share of around 87 *per cent* in the total expenditure during 2011-12. The overall revenue expenditure, its rate of growth, the ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.10.**

Table 1.10 : Revenue expenditure: basic parameters

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Expenditure (RE), *of which*	**64,780**	**75,694**	**94,916**	**1,06,459**	**1,23,554**
Non-Plan Revenue Expenditure (NPRE)	54,505	63,286	78,179	89,532	1,01,519
Plan Revenue Expenditure (PRE)	10,275	12,408	16,737	16,927	22,035
Rate of Growth of					
RE (*per cent*)	5.5	16.8	25.4	12.2	16.1
NPRE (*per cent*)	2.5	16.1	23.5	14.5	13.4
PRE (*per cent*)	24.8	20.8	34.9	1.1	30.2
Revenue Expenditure as percentage to TE	83.6	79.0	83.5	84.9	86.84
NPRE/GSDP (*per cent*)	9.2	9.1	8.7	8.4	8.1
NPRE as percentage of TE	70.3	66.0	68.8	71.4	71.4
NPRE as percentage of RR	68.5	77.9	90	84.6	83.7
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.343	0.976	0.844	0.658	0.955
Revenue Receipts (ratio)	0.196	8	3.681	0.560	1.106

(Source : Finance Accounts).

The revenue expenditure increased by ₹ 17,095 crore (16.1 *per cent*) over the previous year. The buoyancy ratio of revenue expenditure with reference to both GSDP and revenue receipts fluctuated widely. The revenue expenditure was more (1.7 *per cent*) than the assessment made by the State Government in its FCP and Budget for the year 2011-12.

[8] Suwarna Jayanthi Shahari Rojgar Yojana, Financial Assistance under Rashtriya Krishi Vikas Yojana, Subsidy for Central Annapurna Scheme, Macro Management of Agriculture (MMA) Scheme-Rajiv Gandhi Scheme for Empowerment of Adolescent Girls, Promotion for Agriculture Mechanisation, Jawaharlal Nehru National Urban Renewal Mission-Integrated Housing and Slum Development Programme, Indira Gandhi Matritva Sahyog Yojana, Strengthening of Vocational Training, World Bank Project, Integrated Handloom Development Scheme, National Service Scheme.

Plan Revenue Expenditure

The Plan Revenue Expenditure increased by ₹ 5,108 crore (30 *per cent*) during the year, mainly due to increase in expenditure under Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes (₹ 807 crore), Social Welfare and Nutrition (₹ 785 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 701 crore), Agriculture and Allied Activities (₹ 696 crore), Transport (₹ 639 crore), Education, Sports, Art and Culture (₹ 439 crore) and Health and Family Welfare (₹ 266 crore).

Non-Plan Revenue Expenditure

The Non-Plan Revenue Expenditure (NPRE) constituted a dominant share of 82 *per cent* in the revenue expenditure and increased by ₹ 11,987 crore (13 *per cent*) over the previous year. The variations in NPRE under the major heads indicate increase in expenditure under General Services (₹ 4,795 crore), Education, Sports, Art and Culture (₹ 2,496 crore), Energy (₹ 1,799 crore), Industries and Minerals (₹ 1,682 crore) and Social Welfare and Nutrition (₹ 680 crore).

The NPRE as percentage of revenue receipts increased from 68.5 *per cent* in 2007-08 to 90 *per cent* in 2009-10 but reduced to 83.7 *per cent* in 2011-12, indicating that 83.7 *per cent* of the revenue receipts were used to meet the NPRE.

Table 1.11 provides the comparative position of NPRE with reference to assessments made by ThFC and the projections of the State Government.

Table 1.11 : NPRE *vis-à-vis* assessment made by ThFC, FCP and MTFPS

(₹ in crore)

Year	Assessments made by ThFC	Projection in FCP	Projection in MTFPS/Budget	Actuals
2010-11	67,884	91,682	82,706	89,532
2011-12	73,742	95,542	95,542	1,01,519

(Source: Finance Accounts, Budget Documents and Report of ThFC).

The NPRE during 2010-11 remained significantly higher than the normative assessments of the ThFC and MTFPS but was less than the FCP. However, during 2011-12, it was higher than the ThFC as well as FCP and MTFPS/ Budget projections.

Subsidies

Subsidies during the years 2007-08 to 2011-12 are presented in the **Table 1.12**.

Table 1.12: Subsidies

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12 BE	2011-12 Actuals
Subsidies	4,935 (6)	4,308 (5)	8,041 (9)	5,485 (5)	7,100 (6)	9,833 (8)
Total Revenue Expenditure	64,780	75,694	94,916	1,06,459	1,21,446	1,23,554
Revenue Receipts	79,583	81,271	86,910	1,05,868	1,21,504	1,21,286

Figures in parentheses indicate percentage to Revenue Receipts.

(Source : Finance Accounts).

Table 1.12 indicates that expenditure under subsidies increased by 79 *per cent* from ₹ 5,485 crore in 2010-11 to ₹ 9,833 crore in 2011-12. The subsidies as a percentage of revenue receipts decreased in alternative years during 2007-11 and further increased during 2011-12. During the current year, subsidies constituted about seven *per cent* of the total expenditure; the major areas which received subsidy include distribution / transmission licencees for reduction in Agriculture and Powerloom tariff (53 *per cent*), medium and large industries under the graded Package Scheme of Incentives (24 *per cent*), covering the deficit in foodgrain transactions (one *per cent*) and transport (six *per cent*).

The subsidies projected by the Government in the FCP and the actual expenditure during 2010-11 and 2011-12 are presented in **Table 1.13.**

Table 1.13: Subsidies *vis-à-vis* FCP

(₹ in crore)

	2010-11		2011-12	
	Projections in FCP	Actuals	Projections in FCP	Actuals
Power (Subsidy for reduction in Agriculture and Powerloom tariff)	3,131	3,131	3,000	5,163
General/Others	4,818	2,354	4,100	4,670
Total	**7,949**	**5,485**	**7,100**	**9,833**

(Source: Finance Accounts and Budget Documents).

The subsidies to 'Power' (Subsidy for reduction in Agriculture and Powerloom tariff) and for other schemes with reference to the projections in the FCP of the State Government as shown in **Table 1.13** above indicate that expenditure on subsidies to Power and on other schemes increased during 2011-12.

The State Government provided food subsidy of ₹ 247 crore in the State budget 2011-12 but the actual expenditure was ₹ 326 crore (against ₹ 605 crore in 2010-11). Similarly, for the schemes 'Subsidy to Distribution / Transmission licencees for reduction in Agriculture and Powerloom Tariff', Government provided ₹ 3,000 crore in the FCP during 2011-12, however, actual expenditure incurred was ₹ 5,163 crore (as against ₹ 3,131 crore in 2010-11). For the schemes 'Subsidy to medium and large industries under graded Package Scheme of Incentives' Government provided ₹ 400 crore in the State budget during 2011-12, however, the actual expenditure incurred was ₹ 2,366 crore (as against ₹ 700 crore in 2010-11).

1.4.2 Committed expenditure

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages and pensions. Inspite of the recommendation from the Twelfth Finance Commission, the statement of committed liabilities is not included in the Finance Accounts due to non-receipt of the complete information from the Government. **Chart 1.9** and **Table 1.14** present the trends in the expenditure on these components during 2007-12.

Chart 1.9 : Trend of committed expenditure during 2007-12
(₹ in crore)

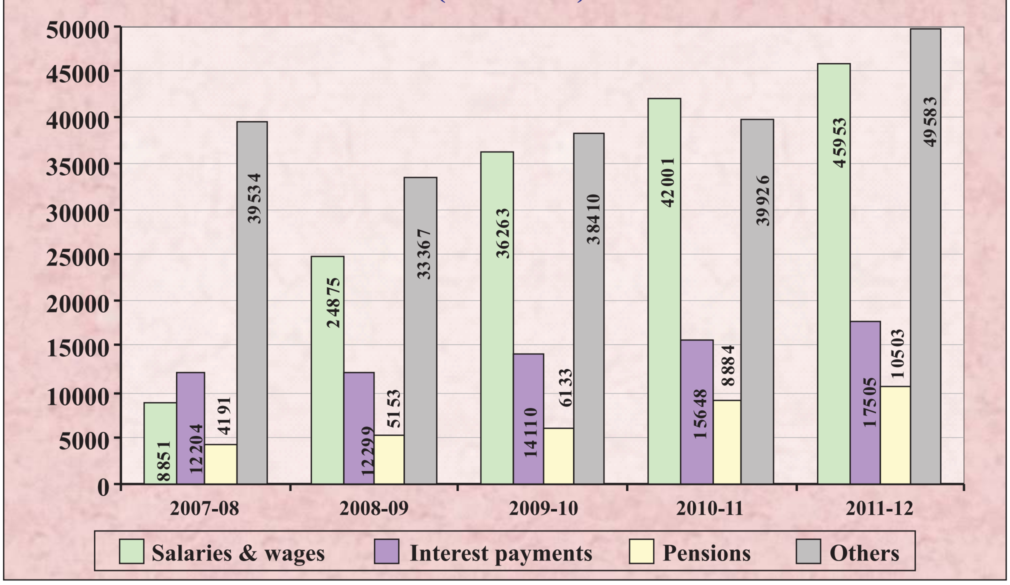


Table 1.14: Components of committed expenditure

(₹ in crore)

Components of Committed Expenditure	2007-08#	2008-09*	2009-10*	2010-11*	2011-12 BE	2011-12 Actuals*
Salaries & Wages , *of which*	8,851 (11)	24,875 (31)	36,263 (42)	42,001 (40)	48,761 (40)	45,953$ (38)
Non-Plan Head	8,015 (10)	23,627 (29)	34,574 (40)	40,917 (39)	–	42,955 (35)
Plan Head**	836 (01)	1,248 (02)	1,689 (02)	1,084 (01)	–	2,998 (03)
Interest Payments	12,204 (15)	12,299 (15)	14,110 (16)	15,648 (15)	17,540 (14)	17,505 (14)
Pensions	4,191 (05)	5,153 (06)	6,133 (07)	8,884 (08)	9,156 (08)	10,503 (09)
Total Committed expenditure[9]	**25,246 (32)**	**42,327 (52)**	**56,506 (65)**	**66,533 (63)**	**75,457 (62)**	**73,961 (61)**
Other Components[10]	39,534 (50)	33,367 (41)	38,410 (44)	39,926 (38)	45,989 (38)	49,583 (41)
Total Revenue Expenditure	**64,780**	**75,694**	**94,916**	**1,06,459**	**1,21,446**	**1,23,554**
Revenue Receipts	**79,583**	**81,271**	**86,910**	**1,05,868**	**1,21,504**	**1,21,286**

Figures in parentheses indicate percentage to Revenue Receipts.
* includes the salaries paid out of grants-in-aid.
\# does not include salaries paid out of grants-in-aid as information is not available for the period 2007-08.
$ Salaries : ₹ 44,483 crore (Finance Accounts) + Wages : ₹ 1,470 crore (Finance Accounts).
** Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.
(Source : Finance Accounts).
Note : Expenditure on Salaries and Wages included grants-in-aid component during 2008-09 (₹ 14,405 crore), 2009-10 (₹ 22,666 crore), 2010-11 (₹ 25,937 crore) and 2011-12 (₹ 27,358 crore).

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9 Differs from previous year State Finance Report figures as Subsidy has been excluded from the total Committed Expenditure.

10 Revenue expenditure under General Services, Social Services, Economic Services and Grant-in-aid (excluding salary and wages, interest payments and pension payments).

Salaries and Wages

The average annual growth in salaries and wages excluding the grant-in-aid component during 2007-12 was 27.52 *per cent*. The expenditure on salaries and wages (including grant-in-aid component) increased by ₹ 3,952 crore (nine *per cent*) from ₹ 42,001 crore in 2010-11 to ₹ 45,953 crore in 2011-12. The expenditure of ₹ 45,953 crore on salaries (including grant-in-aid component) was lower than the State's own FCP and the projections made in MTFPS of the Government (₹ 48,761 crore).

During 2002-03 to 2010-11, the compound growth rate of salary and wages (14.36 *per cent*) was higher than the growth rate of other General Category States (13.43 *per cent*). This growth rate for the period 2002-03 to 2011-12 further increased to 14.52 *per cent* **(Appendix 1.1)**.

Pension payments

The expenditure on pension payments had increased at an average annual growth of 38 *per cent* from ₹ 4,191 crore in 2007-08 to ₹ 10,503 crore in 2011-12.

The increase in pension payments of ₹ 1,619 crore (18 *per cent*) during 2011-12 over the previous year was mainly due to revision of pension consequent to the award of the Sixth Pay Commission.

During 2002-03 to 2010-11, the compound growth rate of pension (17.02 *per cent*) was higher than the growth rate of other General Category States (16.89 *per cent*). This growth rate for the period 2002-03 to 2011-12 further increased to 17.15 *per cent* **(Appendix 1.1)**.

The **Table 1.15** below shows actual pension payments with reference to assessment made by ThFC and projections of the State Government.

Table 1.15: Pension payments *vis-à-vis* ThFC assessment and State's projections

(₹ in crore)

Year	Projection in MTFPS	Assessment made by ThFC	Projection in FCP	Actuals
2010-11	8,889	6,071	11,384	8,884
2011-12	11,431	6,678	11,431	10,503

(Source: Finance Accounts, Budget Documents and Report of ThFC).

The pension payments during 2010-11 and 2011-12 were higher than the normative assessments made by ThFC while they were lower than the projections of the State Government under MTFPS. As compared to the projections made in the FCP, it was lower during 2010-11 and 2011-12. In order to limit future pension liabilities, the Government had introduced the Defined Contribution Pension Scheme for employees recruited after 1 November 2005.

The expenditure on Pension and Other Retirement Benefits to State Government Employees during the year was ₹ 10,503 crore. An amount of ₹ 748.41 crore towards employee's contribution and employer's share was deposited during 2011-12 under the head '8342-Other Deposits - 117 - Defined Contribution Pension Scheme for Government Employees.' The State Government's liability on this account as on 31 March 2012 was

₹ 1,682.32 crore. Out of these deposits, no investments were made by the State Government till 31 March 2012. Therefore, the main objective of introducing the Defined Contribution Pension Scheme to limit future pension liabilities was defeated. This aspect was stated in the State Finance Report 2010-11 also.

Interest payments

Interest payments increased by 43 *per cent* from ₹ 12,204 crore in 2007-08 to ₹ 17,505 in 2011-12, primarily due to increase in debt liabilities. However, relative to revenue receipts, interest payments revealed a marginal declining trend. They declined from 15 *per cent* in 2007-08 to 14 *per cent* in 2011-12, except during 2009-10, when it was 16 *per cent*.

Table 1.16: Interest payments *vis-à-vis* ThFC assessments and State's projections

(₹ in crore)

Year	Projection in MTFPS	Assessment made by ThFC	Projection in FCP	Actuals
2010-11	16,294	16,213	15,566	15,648
2011-12	18,049	18,343	17,540	17,505

(Source: Finance Accounts, Budget Documents and Report of ThFC).

The interest payments, with reference to the assessments made by ThFC and the projection in the MTFPS of the State Government (**Table 1.16**) indicate that the interest payments were lower than the assessments made during 2010-11 and 2011-12. As compared to the projections made in the FCP, it was more or less the same during both the years.

During 2011-12, the State Government raised open market loans of ₹ 21,000 crore at an average interest rate of 8.77 *per cent*. The Government also borrowed ₹ 3,146 crore from the National Small Savings Fund and other institutions and ₹ 306 crore from GoI during the year.

The increase in interest payments was ₹ 1,857 crore over the previous year and was mainly due to more interest on market loan (₹ 963 crore), interest on special securities issued to the National Small Savings Fund of the Central Government (₹ 478 crore), interest on State Provident Fund (₹ 365 crore) and interest on deposits (₹ 43 crore).

1.4.3 Financial assistance by State Government to local bodies and other institutions

Introduction

Local bodies in Maharashtra consist of Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs). In conformity with the provisions of the 73rd and 74th Constitutional Amendment, the State Government established a three tier system of PRIs comprising Zilla Parishads (ZPs) at the district level, Panchayat Samitis (PS) at block level and Village Panchayats (VPs) at village level. There are Municipal Corporations (MC), Municipal Councils and Nagar Panchayats (NP) for urban area population in the State. Though the second State Finance Commission (SFC) recommended (March 2002) allocation of 40 *per cent* of State revenues to Local Bodies (LBs), it was not accepted by the State Government. The report of the third SFC submitted in June 2006 is yet to be placed in the Legislature even after a period of six years (October 2012).

1.4.3.1 Accounts and Finances of Panchayati Raj Institutions

ZPs are required to prepare the budget for the planned development of the District and utilization of the resources. Government of India schemes, funded through the District Rural Development Agency (DRDA) and State Government schemes are also implemented by ZPs. The District Fund consist of money received from the Central Government for centrally sponsored schemes, through State budget funds for plan and non-plan State schemes, assigned tax and non-tax revenue, receipts of ZPs, interest on investment, etc **(Table 1.17–Sr No. 3)**. ZPs are empowered to impose water tax, pilgrim tax and special tax on land and buildings. The intermediate tier PSs at the block level in the State do not have their own source of revenue and are totally dependent on the Block Grants received from ZPs. PSs undertake development works at the block level. VP is the body consisting of persons registered in the electoral rolls of the village within a VP. VPs are empowered to levy tax on buildings, betterment charges, pilgrim tax, taxes on fairs/ festivals/entertainment, taxes on bicycles, vehicles, shops, hotels, etc.

Accounting arrangements

Under the provisions of Section 136(2) of ZP Act, the Block Development Officer (BDO) forward the accounts approved by the PSs to the ZPs and these form part of the ZPs account. Under provision of Section 62(4) of the VP Act, the Secretaries of the VPs are required to prepare annual accounts of VPs. Chief Executive Officer (CEO) of ZPs are required to prepare every year, statements of account of revenue and expenditure of the ZPs for placement before the Finance Committee. The accounts are finally placed before the ZPs for approval along with the Finance Committee reports.

Audit Arrangements

The Audit of PRIs is conducted by the Chief Auditor, Local Fund Account (CALFA) in accordance with provisions of the Bombay Local Fund Act, 1930 and who prepares an Annual Audit Review Report on the financial working of PRIs for placement before the State legislature.

Transfer of functions and functionaries

The 73rd Constitutional Amendment envisaged that all 29 functions along with funds and functionaries mentioned in the XI Schedule of the Constitution of India would be eventually transferred to the PRIs through suitable legislation of the State Governments.

As on 31 March 2012, the State Government has transferred 11 functions and 15,480 functionaries to PRIs. Non-transfer of functions and functionaries has been commented in earlier two Local Bodies Audit Reports (2007-08 and 2009-10).

1.4.3.2 Accounts and Finances of Urban Local Bodies

In accordance with the 74th Constitutional Amendment, the Government of Maharashtra (GoM) amended (December 1994) the existing Mumbai Municipal Corporation (MMC) Act, 1888, The Bombay Provincial Municipal

Corporation (BPMC) Act, 1949, The Nagpur City Municipal Corporation (NCMC) Act, 1948 and The Maharashtra Municipal Councils Act, 1965. All the Municipal Corporations (MC) except Municipal Corporation of Greater Mumbai (MCGM) and NCMC which had their own Acts are governed by the provisions of amended BPMC Act. There are 26 MCs which have been created for urban agglomerations having a population of more than three lakh. These MCs have been classified into four categories i.e. A, B, C and D based on the criteria of population, per capita income and per capita area. Similarly, 226 Municipal Councils including eight NPs have been created for smaller urban areas and categorized based on their population.

Financial profile

Municipals Funds are constituted under the provisions contained in the Acts. All the money received by or on behalf of the MCs under the provisions of the respective Acts, all money raised by way of taxes, fees, fines and penalties, all moneys received by or on behalf of MC from the Government, public or private bodies, from private individuals by way of grants or gifts or deposits and all interests and profits are credited to the Municipal Funds. The State Government and Central Government release grants to the MCs for implementation of schemes of the State sector and for centrally sponsored schemes respectively. In addition, grants under the State Finance Commission and the Central Finance Commission recommendations are released for developmental works **(Table 1.17: Sr No.2)**.

Under the Acts, MCs are required to constitute special purpose funds e.g. Water and Sewerage Fund, Depreciation Fund, Sinking Fund, *etc*. The capital works of water supply schemes and sewerage projects are to be executed out of the Water and Sewerage Fund. The Depreciation fund is to be created for replacement of capital assets. The Sinking Fund is to be created for redemption of long term loans.

Accounting arrangements

Section 93 of the BPMC Act and Section 123 of MMC Act provide that the accounts of the MCs should be maintained in the formats prescribed by the Standing Committee.

Audit Arrangements

Municipal Chief Auditor (MCA) is appointed by the respective Corporation under the Acts except NCMC where audit is entrusted to CALFA. MCA should audit the Municipal accounts and submit a report thereon to the Standing Committee. The Comptroller and Auditor General (CAG) of India conducts audit of MCs under Section 14(2) of the CAG's (DPC) Act, 1971. The audit of Municipal Councils and NPs has been entrusted (March 2011) by GoM to the Comptroller and Auditor General of India under Technical Guidance and Supervision.

1.4.3.3 Quantum of assistance

The quantum of assistance provided by way of grants and loans to local bodies and others during 2011-12 relative to the previous years is presented below:

Table 1.17 : Financial assistance to local bodies and other institutions

(₹ in crore)

Sr No	Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
1	Educational Institutions (Aided Schools, Aided Colleges, Universities, *etc.*)	6,859.58	8,214.83	11,638.18	11,482.61	13,844.84
2	Municipal Corporations and Municipalities	1,351.25	1,651.47	1,708.89	4,350.04 [11]	4,871.33
3	Zilla Parishads and Other Panchayati Raj Institutions	8,007.34	10,501.98	11,726.62	13,260.93	14,294.73
4	Development Agencies	1,148.03	1,914.93	299.45	187.26	276.83
5	Hospital and Other Charitable Institutions	80.57	674.43	1,065.48	1,084.74	1,313.33
6	Other Institutions	10,842.90	12,711.32	18,150.70	17,280.87 [12]	20,761.95 [13]
	Total	**28,289.67**	**35,668.96**	**44,589.32**	**47,646.45**	**55,363.01**
	Assistance as per percentage of RE	44	47	47	45	45

(Source : Finance Accounts and vouchers compiled by Principal Accountant General (Accounts and Entitlements)).

It would be seen from **Table 1.17** that the financial assistance to local bodies and other institutions by the Government increased from ₹ 28,290 crore in 2007-08 to ₹ 55,363 crore in 2011-12. As compared to previous year, the assistance increased by 16 *per cent*. During 2011-12, more financial assistance was given to (a) Educational Institutions (Aided Schools, Aided Colleges, Universities *etc*; ₹ 2,362 crore) mainly due to payment of more assistance to non-Government colleges and (b) Zilla Parishads and other Panchayati Raj Institutions (₹ 1,034 crore) due to payment of more educational grant under Section 182 of the Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961.

1.5 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 effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 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

[11] Huge variation due to misclassification in the previous year.

[12] Includes Education, Sports, Art and Culture : ₹ 4,616.36 crore; Agriculture and Allied Activities : ₹ 1,943.47 crore, Social Welfare and Nutrition : ₹ 1822.49 crore, Welfare of SC,ST and OBC : ₹ 1,335.60 crore, Special programme for Rural Development : ₹ 1,301.70 crore and General Services : ₹ 930.92 crore.

[13] Includes Education, Sports, Art and Culture : ₹ 5,136.34 crore Social Welfare and Nutrition : ₹ 2,888.36 crore; Agriculture and Allied Activities: ₹ 2,300.01 crore; Welfare of SC, ST and OBC : ₹ 1,596.41 crore, Administrative Services : ₹ 1,159.23 crore and Housing : ₹ 1,020.31 crore.

priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if it is below the respective national average. An analysis of the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure during 2008-09 and 2011-12 has been indicated in **Table 1.18**.

Table 1.18 : Fiscal Priority of the State in 2008-09 and 2011-12

Fiscal Priority by the State	AE/GSDP	DE#/AE	SSE/AE	CE/AE	Education, Sports, Art and Culture/AE	Health and Family Welfare/AE
General Category States Average (Ratio) 2008-09	17.00	67.09	34.28	16.47	15.41	3.97
Maharashtra's Average (Ratio) 2008-09	13.84	70.49	34.74	19.21	17.56	3.59
General Category Average (Ratio) 2011-12	16.09	66.44	36.57	13.25	17.18	4.30
Maharashtra Average (Ratio) 2011-12	11.40	68.60	40.10	12.57	21.11	3.80

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.

As shown in **Table 1.18**, the comparison of fiscal priority given to different categories of expenditure of the State in 2008-09 and 2011-12 is given below:

- The ratios of AE to GSDP in 2008-09 and 2011-12 (13.84 *per cent* and 11.40 *per cent*) were lower in the State as compared to other General Category States (17 *per cent* and 16.09 *per cent*). This means that other General Category States are spending more as a proportion of their GSDP when compared to Maharashtra.
- Government has given adequate fiscal priority to Development Expenditure and Social Sector Expenditure respectively in 2008-09 and 2011-12, as their ratios to AE were higher than the average ratio of other General Category States.
- The ratio of CE to AE in 2008-09 as compared to the ratio (16.47 *per cent*) of other General Category States was higher in the State (19.21 *per cent)* whereas in 2011-12 it was lower (12.57 *per cent)* than the ratio (13.25 *per cent*) of other General Category States. Greater fiscal priority needs to be given to this area as increased priority to physical capital formation will increase the growth prospects of the State by creating durable assets.
- Significant improvement was observed in the ratio of expenditure on education, sports, art and culture to AE which increased from 17.56 *per cent* in 2008-09 to 21.11 *per cent* in 2011-12. The priority given to

these areas in Maharashtra was higher than that in other General Category States.

- The priority given to health and family welfare in Maharashtra was less than in other General Category States in 2008-09 and 2011-12. Greater fiscal priority needs to be given to the area of health by the Government.

1.5.2 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], 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 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. **Table 1.19** and **Chart 1.10** present the trends in DE relative to the AE of the State during the current year *vis-à-vis* budget estimates of the current year and the actual expenditure during the previous years.

Table 1.19 : Development expenditure

(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE	Actuals
Development Expenditure (a to c)	**52,159 (67.3)**	**67,293 (70.2)**	**79,118 (69.6)**	**85,708 (68.4)**	**98,577 (68.1)**	**97,389 (68.4)**
a. Development Revenue Expenditure	40,010 (51.6)	47,865 (49.9)	61,377 (54.0)	67,567 (53.9)	76,635 (52.9)	79,681 (56)
b. Development Capital Expenditure	11,148 (14.4)	18,414 (19.2)	16,717 (14.7)	17,422 (13.9)	21,427 (14.8)	17,084 (12)
c. Development Loans and Advances	1,001 (1.3)	1,014 (1.0)	1,024 (1.0)	719 (0.6)	515 (0.4)	624 (0.4)

(Source : Finance Accounts).

Figures in the parentheses indicate as *per cent* to total expenditure.

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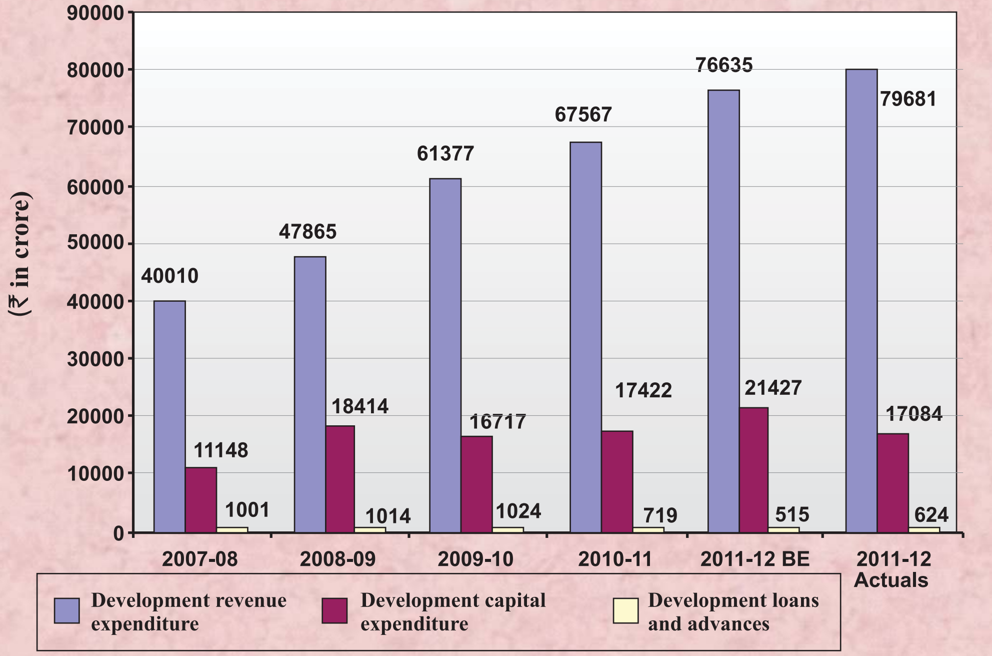
14 See the Glossary at page 175.

15 The analysis of the expenditure data is segregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances are 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 1.10 : Development expenditure for the years 2007-08 to 2010-11 and budget estimates *vis-a-vis* actuals 2011-12



(Source: Finance Accounts).

Development revenue expenditure

The development revenue expenditure increased by ₹ 12,114 crore from ₹ 67,567 crore in 2010-11 to ₹ 79,681 crore in 2011-12. The increase was under Social Services (₹ 6,530 crore) and Economic Services (₹ 5,584 crore). The actual development revenue expenditure was more than the State's projection in the budget by ₹ 3,046 crore.

Development capital expenditure

The development capital expenditure decreased by ₹ 338 crore from ₹ 17,422 crore in 2010-11 to ₹ 17,084 crore in 2011-12. The decrease under Economic Services was ₹ 1,194 crore (mainly under Irrigation and Flood Control) while the increase under Social Services was ₹ 856 crore (mainly under Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes, Health and Family Welfare and Water Supply, Sanitation, Housing and Urban Development). The actual development capital expenditure was less than the State's projection in the budget by ₹ 4,343 crore.

Development loans and advances

Development loans and advances decreased by ₹ 95 crore from ₹ 719 crore in 2010-11 to ₹ 624 in 2011-12. The actual development loans and advances were more than the State's projections in the budget by ₹ 109 crore.

Table 1.20 provides the details of capital expenditure and the component of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.20 – Efficiency of expenditure use in selected Social and Economic Services

(in *per cent*)

Social / Economic Infrastructure	2010-11			2011-12		
	Ratio of CE to TE	In RE, the share of		Ratio of CE to TE	In RE, the share of	
		S & W	O & M		S & W	O & M
Social Services (SS)						
Education, Sports, Art & Culture	0.52	83.01	0.06	0.52	78.22	0.05
Health and Family Welfare	3.93	73.36	0.99 [16]	7.49	71.39	1.07
Housing & Urban Development and Water Supply, Sanitation	4.83	2.72	4.53	5.70	2.54	0.41
Total (SS)	**2.51**	**58.31**	**0.76**	**3.68**	**49.50**	**0.18**
Economic Services (ES)						
Agriculture & Allied Activities	19.98	48.44	0.16	16.74	49.30	9.15
Irrigation and Flood Control	78.36	36.44	20.70	74.84	36.72	29.50
Power & Energy	36.77	0.54	0.00	25.20	0.38	0.00
Transport	42.33	1.69	3.91	40.11	1.23	30.08
Total (ES)	**45.62**	**21.53**	**3.45**	**37.60**	**16.46**	**10.54**
Total (SS+ES)	**20.50**	**47.81**	**1.53**	**17.65**	**39.19**	**3.41**

TE: Total Expenditure; CE: Capital Expenditure; RE: Revenue Expenditure; S&W: Salaries and Wages; O&M: Operations & Maintenance.

The trends presented in **Table 1.20** reveal that development capital expenditure as a percentage to total expenditure decreased from 20.50 in 2010-11 to 17.65 in 2011-12. The percentage of capital expenditure on Social Services to the total expenditure increased from 2.51 in 2010-11 to 3.68 in 2011-12. The increase was mainly seen under Health and Family Welfare. The percentage of capital expenditure on Economic Services to the total expenditure decreased from 45.62 in 2010-11 to 37.60 in 2011-12. The decrease was mainly seen under Power and Energy.

The share of salary and wages in revenue expenditure decreased from 47.81 *per cent* in 2010-11 to 39.19 *per cent* in 2011-12. The share of salary and wages in revenue expenditure on Social Services decreased from 58.31 *per cent* in 2010-11 to 49.50 *per cent* in 2011-12. The decrease was mainly under Education, Sports, Art and Culture. The share of salary and wages in revenue expenditure on Economic Services decreased from 21.53 *per cent* in 2010-11 to 16.46 *per cent* in 2011-12. The decrease was under Power and Energy and Transport.

The share of operations and maintenance in revenue expenditure increased from 1.53 *per cent* in 2010-11 to 3.41 *per cent* in 2011-12. The share of operations and maintenance in revenue expenditure on Social Services decreased from 0.76 in 2010-11 to 0.18 in 2011-12. The decrease was mainly seen under Housing and Urban Development and Water Supply, Sanitation under Social Services. While the share of operations and maintenance in revenue expenditure on Economic Services increased from 3.45 *per cent* in 2010-11 to 10.54 *per cent* in 2011-12. The increase was mainly seen under Agriculture and Allied Activities, Irrigation and Flood Control and Transport.

16 Figure differs from last years' report due to correction.

1.6 Analysis of Government Expenditure and Investments

In the post-MFRBM 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 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 the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year *vis-à-vis* previous years.

1.6.1 Financial results of irrigation works

The financial results of six major irrigation projects[17] of the Government which are considered as commercial projects having a capital outlay of ₹ 700.14 crore at the end of March 2012, showed that revenue realised from these projects during 2011-12 (₹ 80.68 crore) was 11.52 *per cent* of the capital outlay. After considering the working and maintenance expenses (₹ 20.37 crore) and interest charges (₹ 70.88 crore), the schemes incurred a net loss of ₹ 10.57 crore during 2011-12.

1.6.2 Incomplete projects

1.6.2.1 Public Works Department

As on 31 March 2012, in respect of 188 incomplete projects (expenditure incurred: ₹ 411.42 crore) pertaining to Public Works Department (**Appendix 1.9**), there was time overrun up to four years in respect of 62 projects of buildings and housings (expenditure incurred : ₹ 180.73 crore) and up to five years in respect of 126 projects of roads and bridges (expenditure incurred : ₹ 230.69 crore).

1.6.2.2 Water Resources Department

As on 31 March 2012, in respect of 426 incomplete projects (expenditure incurred: ₹ 43,270.01 crore) pertaining to Water Resources Department and five[18] Irrigation Development Corporations (**Appendix 1.9**), the time overruns were up to 40 years. In respect of 242 out of 426 incomplete irrigation projects, the initial budgeted cost increased from ₹ 7,215.03 crore to ₹ 33,832.29 crore, resulting in significant cost overrun totaling ₹ 26,617.26 crore.

The major cost overrun (above ₹ 800 crore) was seen under the projects as shown in the **Table 1.21**.

[17] Bagh River Project; Bhatsa Project; Itiadoh Project; Kal River Project; Pench Project; and Surya Project (Appendix IX (i) of Finance Accounts).

[18] Maharashtra Krishna Valley Development Corporation; Konkan Irrigation Development Corporation; and Vidarbha Irrigation Development Corporation, Tapi Irrigation Development Corporation and Godavari Marathawada Irrigation Development Corporation.

Table 1.21: Table showing details of major cost overruns

(₹ in crore)

Corporation	Name of the Project	Year of Commencement	Initial Budgeted cost	Revised total Cost	Cost Overrun*
Maharashtra Krishna Valley Development Corporation (MKVDC)	Kukadi	1967	31.18	2,184.16	2,152.98
Godavari Marathwada Irrigation Development Corporation (GMIDC)	Krishna Marathwada Irrigation Project	2007	2,382.50	4,845.05	2,462.55
	Lower Dudhna Project	1979	28.41	1,025.78	997.37
	Nandur Madhmeshwar Project	1979	48.70	866.30	817.60
Tapi Irrigation Development Corporation (TIDC)	Waghur Project	1976	12.28	1,183.55	1,171.27
	Lower Tapi Project	1997	142.64	1,127.74	985.10
	Shelgaon Barrage Medium Project	1999	198.05	1,068.07	870.02
	Bodwad Parisar Sinchan Yojna	1999	689.14	1,508.23	819.09
Others	Koyana HEP St IV	1992	49.24	1,140.51	1,091.27

* Cost overrun = Revised Total Cost – Initial Budgeted Cost.

(Source: Finance Accounts and information received from MKVDC, GMIDC and TIDC).

Though these irrigation projects commenced five to 45 years ago, they are not yet complete. The oldest being Kukadi project, in respect of which the year of commencement was 1967 with a target date of completion of five years (1972). In respect of 98, 27 and three projects under Vidarbha Irrigation Development Corporation, TIDC and GMIDC respectively, no cost revision had been reported by the Corporation, though these projects were commenced three to 37 years ago.

1.6.3 Investments and returns

As of 31 March 2012, Government had invested ₹ 83,016 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives (**Table 1.22**). The average return on this investment was 0.13 *per cent* in the last five years while the Government paid average interest rate of 7.37 *per cent* on its borrowings during 2007-12.

Table 1.22: 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 (₹ in crore)	44,256.26	56,386.38	64,192.68	74,391.39	83,016.00
Return (₹ in crore)	122.00	71.16	80.88	44.82	30.20
Return *(per cent)*	0.28	0.13	0.13	0.06	0.04
Average rate[19] of interest on Govt borrowing *(per cent)*	7.74	7.29	7.38	7.23	7.21
Difference between interest rate and return *(per cent)*	7.46	7.16	7.25	7.17	7.17

(Source : Finance Accounts).

The increase in investments of ₹ 8,625 crore during 2011-12 was mainly attributable to increased capital contributions to the Godavari Marathwada

[19] See Glossary at page 175 for method of calculation.

Irrigation Development Corporation (₹ 1,469 crore), the Konkan Irrigation Development Corporation (₹ 633 crore), the Maharashtra Krishna Valley Development Corporation (₹ 1,947 crore), the Tapi Irrigation Development Corporation (₹ 619 crore), the Vidarbha Irrigation Development Corporation (₹ 2,879 crore), Maharashtra Water Conservation Development Corporation (₹ 223 crore), Mahatma Phule Backward Class Development Corporation Ltd. (₹ 136 crore) and the Maharashtra Irrigation Finance Company Ltd. (₹ 83 crore) as compared to the previous year.

As on 31 March 2012, 27 companies **(Appendix 1.14)** in which Government had invested ₹ 17,954.12 crore (share capital: ₹ 13,691.38 crore, loan: ₹ 4,262.74 crore) were incurring losses and their accumulated losses amounted to ₹ 13,166.98 crore (net).

According to the information furnished by the Commissioner for Co-operation and Registrar of Co-operative Societies, as on 31 March 2012, 3817 societies with an aggregate investment of ₹ 189.02 crore (equity: ₹ 131.08 crore and loan : ₹ 57.94 crore) had incurred losses and their accumulated losses (₹ 212 crore) were 112 *per cent* of the initial investments made in these societies.

Lokshahir Annabhau Sathe Development Corporation Limited, Mumbai had incurred loss of ₹ 1.09 crore as per the accounts of 2003-04. The GoM has given ₹ 195.11 crore towards equity and ₹ 19.39 crore towards grants/subsidy for the period from 2004-05 to 2011-12 for which accounts are in arrears.

1.6.4 Departmental commercial undertakings

Activities of quasi-commercial nature are also performed by departmental undertakings of certain Government departments. The position of department-wise investments by the Government up to the year for which *proforma* accounts have been finalised, net profits/loss as well as return on capital invested in these undertakings are given in **Appendix 1.10**. It was observed that:

- An amount of ₹ 2,015.53 crore had been invested by the State Government in four[20] undertakings at the end of the financial year up to which their accounts were finalised **(Appendix 3.3).**
- Of the four undertakings having 49 units, six[21] units (12.24 *per cent*) could earn net profit amounting to ₹ 20.46 crore against capital investment of ₹ 668.30 crore, thereby yielding a rate of return of 8.32 *per cent*. The major profit-making units were 'Procurement and Distribution and Price Control Scheme in Mumbai and Thane Rationing Area' (₹ 10.36 crore); 'Allappalli and Pendigundam Forest Ranges of Forest divisions[22] including Saw Mills & Timber Depot' (₹ 3.83 crore); 'Unit Scheme, Mumbai' (₹ 4.72 crore) and 'Water

[20] Agriculture, Animal Husbandry, Dairy Development and Fisheries; Food, Civil Supplies and Consumer Protection; Land Development Bulldozer Scheme; and Revenue and Forest.

[21] Unit Scheme, Mumbai; Water Supply Scheme, Mumbai; Cattle Feed Scheme, Mumbai; Land Development by Bulldozer Scheme, Nagpur, Allappalli and Pendigundam Forest divisions including Saw Mills & Timber Depot and Procurement and Distribution and Price Control Scheme in Mumbai and Thane Rationing Area.

[22] As per accounts of 1985-86.

Supply Scheme, Mumbai' (₹ 1.17 crore) as per the last accounts finalised.

- Of the loss-making units, 25[23] units had been incurring losses continuously since the last five years.
- As per the accounting system being followed by the departmental commercial undertakings of 'Government Milk Schemes', 'Procurement, Distribution and Price Control Scheme in Mumbai and Thane Rationing Area and in Mofussil Area', the net loss/profit for the year is deducted/ added directly from/to the Capital Account in the Balance Sheet. Therefore, the figures of accumulated loss cannot be ascertained from the *proforma* accounts of the departmental undertakings.

In view of the heavy losses of some of the undertakings, Government should review their working to make them self-sustaining in the medium to long term.

1.6.5 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, the Government has also been providing loans and advances[24] to many of these institutions/ organizations. **Table 1.23** presents the outstanding loans and advances as on 31 March 2012, interest receipts *vis-à-vis* interest payments during the last three years**.**

Table 1.23 : 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	18,844	19,590	19,909
Amount advanced during the year	1,261	959	837
Amount repaid during the year	515	640	559
Closing Balance	**19,590**	**19,909**	**20,187**
of which Outstanding balance for which terms and conditions have been settled	NA	NA	NA
Net addition	746	319	278
Interest Receipts	691	89	228
Interest receipts as *per cent* to outstanding Loans and advances	3.60	0.45	1.15
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government.	7.38	7.23	7.21
Difference between interest payments and interest receipts (*per cent*)	(-)3.78	(-)6.78	(-)6.06

(Source: Finance Accounts).

As could be seen from the **Table 1.23**, the total outstanding loans and advances as on 31 March 2012 was ₹ 20,187 crore. The amount of loans disbursed during the year decreased from ₹ 959 crore in 2010-11 to

23 Greater Mumbai Milk Scheme, Worli; Electrical Scheme, Mumbai; Dairy Project, Dapchari; Government Milk Chilling Centre, Saralgaon (Dist.: Thane); Government Milk Schemes in Mahad, Ratnagiri, Kankavli, Nashik, Wani, Ahmednagar, Chalisgaon, Dhule, Aurangabad, Udgir, Beed, Nanded, Bhoom, Amravati, Akola, Yavatmal, Nandura, Nagpur, Wardha and Gondia; and Procurement and Distribution and Price Control Scheme in Mofussil Area.

24 Loan balances and complete information in respect of recoveries in arrears could not be confirmed for want of information from Government.

₹ 837 crore in 2011-12. Out of the total amount of loans and advances paid during the year, ₹ 143 crore went to Social Services and ₹ 481 crore to Economic Services. Under the Economic Services, the major portion of loans went to Co-operatives[25] (41 *per cent*) followed by Power (39 *per cent*) and Other Loans to Industries and Minerals (seven *per cent*). Recovery of loans and advances decreased from ₹ 640 crore to ₹ 559 crore during the current year, mainly on account of less recoveries from Loans for Co-operatives (₹ 95 crore).

However, interest received against these loans increased from 0.45 *per cent* during 2010-11 to 1.15 *per cent* in 2011-12, mainly due to more interest receipts from Power Projects (₹ 118 crore).

1.6.5.1 Non-recovery of dues from Power Loom Co-operative Societies

The GoM in the Department of Co-operation and Textile had resolved (October 1996) to obtain the financial assistance from National Co-operative Development Corporation (NCDC) to boost the Power Loom Co-operative Societies (PLCSs) in the State.

All the terms and conditions as stipulated by NCDC and the State Government were obligatory to those PLCSs who have availed financial assistance from Government. The terms and conditions of recoveries of the financial aid were to be decided by the State Government in terms of share capital and loan along with interest chargeable. The Department of Co-operation and Textile of the State Government and the Director of Textiles, Nagpur were to monitor the transactions of Government dues and overall functioning of the Textile industries.

Scrutiny of the records in respect of registered PLCSs revealed that, since 1996 to 2012, total 425 PLCSs were registered to whom NCDC and the State Government had extended financial assistance to the extent of 90 *per cent* (10 *per cent* membership, 20 *per cent* share capital and 70 *per cent* loan). As per the terms and conditions, each PLCS was required to repay the share capital and loan with interest as determined by the department to the consolidated fund of the State as a revenue receipt within the span of 10 years in equal installments from the year of allotment of financial assistance. It was, however, seen in respect of 425 PLCSs [major 20 shown in **Appendix 1.13 (A)**] that the department failed to make the recovery as per terms and conditions and had effected recoveries of only ₹ 21.65 crore (5.26 *per cent*) out of ₹ 411.36 crore due, leaving outstanding dues of ₹ 389.71 crore recoverable up to June-2012 as shown in **Table 1.24.**

Table 1.24: Total outstanding Government dues

Sr. No.	Particulars	Amount recoverable	Amount recovered	Amount outstanding	Percentage of recovery
		(₹ in crore)			
1	Share capital	55.37	2.05	53.32	3.70
2	Loan	125.29	8.55	116.74	6.82
3	Interest	223.46	11.05	212.41	4.94
4	Penalties	7.24	0.00	7.24	0.0
	Total	**411.36**	**21.65**	**389.71**	**5.26**

(Source: Information received from Directorate of Textiles, Nagpur).

[25] Co-operative Spinning Mills (₹ 191 crore).

Further scrutiny of the above PLCSs revealed the following :

PLCSs which failed to repay the Government dues

i) Seventy six PLCSs [major 20 shown in **Appendi□1.13□(□)**] had received 100 *per cent* financial assistance prior to the year 2001 from NCDC and State Government and had already completed their stipulated period of 10 years even after grant of moratorium period of one year for repayment of Government dues in March 2012. Out of the recoverable dues of ₹ 130.98 crore an amount of ₹ 3.84 crore (2.93 *per cent*) only could be recovered, leaving an outstanding balance of ₹ 127.14 crore even after the lapse of the conditional period of 10 years. Out of these, 25 PLCSs [**Appendi□1.13□(C)**] with outstanding dues of ₹ 45.34 crore were closed, six[26] PLCSs with outstanding dues of ₹ 3.66 crore were cancelled[27] and six[28] PLCSs with outstanding dues of ₹ 12.02 crore were liquidated.

(ii) Further, 36 PLCSs [major 20 shown in **Appendi□ 1.13□ (□)**] had received 100 *per cent* financial assistance during the year 2002 from the State Government and have completed nine years even after grant of moratorium period of one year for repayment of Government dues. Out of the recoverable dues of ₹ 113.80 crore, only an amount of ₹ 5.75 crore (5.05 *per cent*) could be recovered, leaving an outstanding balance of ₹ 108.05 crore. Out of these, three[29] PLCSs with outstanding dues of ₹ 2.86 crore were closed, one[30] PLCS with outstanding dues of ₹ 50 lakh was cancelled and one[31] PLCS with outstanding dues of ₹ 1.12 crore was liquidated.

(iii) Apart from the above closed PLCSs, 25 other PLCSs [major 20 shown in **Appendi□1.13□(□)**] were also declared as closed upto March 2012, as these were under liquidation. Out of the Government dues of ₹ 17.30 crore, recovery of ₹ 0.40 crore (2.31 *per cent*) could only be effected, leaving recoverable amount of ₹ 16.90 crore as of March 2012.

The Assistant Director of Textiles, GoM stated (July 2012) that i) the Director of Textiles issues instructions to the Regional Offices of Textile to recover the amount from the PLCSs as per guidelines, ii) owing to meagre profit from the business, the PLCSs were not in a position to repay the Government dues, iii) the 53 closed societies were under process of liquidation and their assets would be sold and iv) the valuation of assets of seven liquidated societies was under process by the Government valuer and after final valuation of the assets, the societies would be sold out so as to recover the Government dues.

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26 Gireshwar YSS, Mumbai; Nagpur Yarn Processors Lt Nagpur, Vidarbha; Parvati Anusuchit Jati, Solapur; Sant Kabir YSS Lt Pargaon, Marathwada; Shrinath YSS Lt Vita, Solapur; and Vivek Chhaya YSS Pargaon, Marathwada.

27 Once the powerloom project is cancelled then it is referred for liquidation to the Registrar of the Co-operative societies for recovery process.

28 Ashwamegh Y.A.Co-operative.S.kalmeshwar, Vidarbha; Jaishree Magasvargiya Y.A. Co-operative. S. Lt Solapur; New Anand Y A Co-operative S, Solapur; Saibaba Y.A. Co-operative. S. Javrabodi Bhiwapur, Vidarbha; Sana Y.A.Co-operative.S, Vidarbha; and Shri. Hanuman YSS Lt Shipur, Solapur.

29 Prabhakar Y.A.Co-operative.S, Mumbai; Shri Sai YSS Lt Pimpri Khurd, Mumbai; and Vidarbha Y.A. Co-operative.S. Khamgaon, Vidarbha.

30 Bhairavnath YVSS Lt Vita, Solapur.

31 Shashikamal Y A Co-operative S, Solapur.

The reply of the department is not acceptable as the action taken for recovery was not adequate as borne out by the fact that the department had fixed the target of recovery as ₹ 60 crore only for the year 2011-12 against the recoverable dues of ₹ 389.71 crore but the achievement was of ₹ 7.67 crore only. This consequently led to shortfall in recovery of Government dues and non-realization of the revenue receipts of ₹ 389.71 crore from the PLCSs. Further a lower target of recovery of ₹ 10 crore was set for the year 2012-13. On the other hand, the repayment of loan to NCDC is prompt as budget provision under Grant Numbers V-4 (Internal Debt of the State Government) and V-1 (Interest Payments) was being made every year for the same.

The matter was referred to the Government (July 2012). Reply is still awaited (September 2012).

1.6.6 Cash balances and investment of cash balances

Table 1.25 and **Chart 1.11** depict the cash balances and investments made by the State Government out of cash balances during the year.

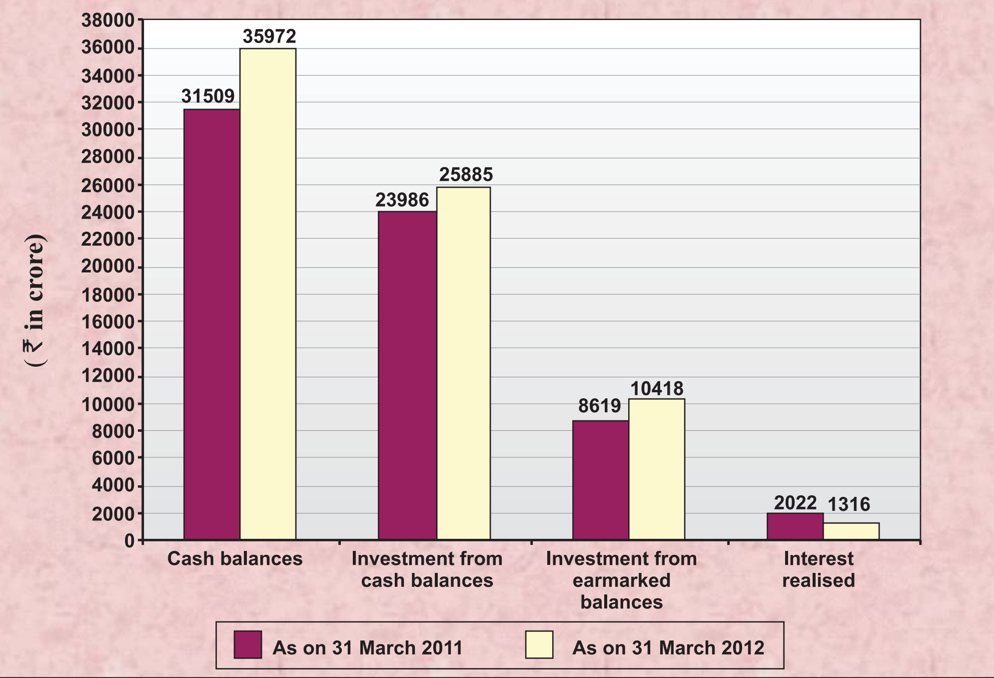
Table 1.25: Cash balances and investment of cash balances

(₹ in crore)

Particulars		As on 31st March 2011	As on 31st March 2012	Increase (+)/ Decrease(-)
Cash in treasuries		**0.17**	**0.14**	**(-)0.03**
Deposits with Reserve Bank		**(-)1,276.75**	**(-)368.47**	**908.28**
Remittances in transit-Local		**47.64**	**33.55**	**(-)14.09**
Cash with the departmental officers		**132.45**	**3.89**	**(-)128.56**
Permanent advance for contingent expenditure with departmental officers		**0.46**	**0.47**	**0.01**
Investments from cash balances (a to d)		**23,986.65**	**25,884.62**	**1,897.97**
a.	GoI Treasury Bills	23,985.95	25,883.92	**1,897.97**
b.	GoI Securities	--	--	--
c.	Other Securities, if any specify	--	--	--
d.	Other Investments	0.70	0.70	**0.00**
Funds-wise break-up of investment from Earmarked balances (a to e)		**8,618.77**	**10,417.75**	**1,798.98**
a.	General and other Reserve Funds	10.63	10.82	**0.19**
b.	Sinking Fund	8,593.64	10,392.43	**1,798.79**
c.	Funds for Development of Milk supply	1.00	1.00	--
d.	Other Development and Welfare Funds	13.42	13.42	--
e.	Miscellaneous Deposits	0.08	0.08	--
Total Cash Balances		**31,509.39**	**35,971.95**	**4,462.56**
Interest Realized		*2,021.73*	*1,316.09*	***(-)705.64***

(Source : Finance Accounts).

Chart 1.11 : Cash balance and investment of cash balance



(Source: Finance Accounts).

The cost of holding surplus cash balances was high. The interest received on investment of cash balances in 'RBI Investment in Treasury Bills' was 2.03 *per cent* during 2011-12, while average interest paid by Government on its borrowings during the year was 7.21 *per cent*.

The State Government's cash balances of ₹ 35,972 crore at the end of the current year showed an increase by 14 *per cent* (₹ 4,463 crore) over the previous year. Of the above, ₹ 25,884 crore was invested in GoI Treasury Bills which earned an interest of ₹ 525 crore during the year. Further, ₹ 10,418 crore was invested in earmarked funds. No ways and means advances or overdrafts were taken during the year.

1.6.6.1 Outstanding balances under the head 'Cheques and Bills'

This head is an intermediary accounting head for initial record of transactions which are eventually to be cleared. When the cheque is issued, the functional head is debited and the Major Head-8670-Cheques and Bills is credited. On clearance of the cheque by the bank, the minus credit is given to Major Head 8670-Cheques and Bills by crediting the Major Head- 8675-Deposits with Reserve Bank and thereby reducing the cash balance of the Government. Thus, the outstanding balance under the Major Head 8670-Cheques and Bills represents the amount of un-encashed cheques.

As on 31 March 2012, there was an outstanding balance (cumulative) of ₹ 9,961.05 crore and to this extent the Government Cash Balance of ₹ (-) 368.47 crore (Deposits with the Reserve Bank of India) stands overstated.

1.7 Assets and Liabilities

1.7.1 Growth and composition of assets and liabilities

In the existing cash-based 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 1.7** 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 consist mainly of internal borrowings, loans and advances from the GoI, receipts from the Public Account and Reserve Funds, the assets mainly comprise the capital outlay and loans and advances given by the State Government and cash balances.

According to the MFRBM Act, 2005, the "total liabilities of the State" means the liabilities under the Consolidated Fund of the State and the Public Account of the State.

1.7.2 Fiscal liabilities

The composition of fiscal liabilities during the current year *vis-à-vis* the previous year is presented in **Charts 1.12** and **1.13.**

Chart 1.12 : Composition of outstanding fiscal liabilities as on 31.03.2011 (₹ in crore)

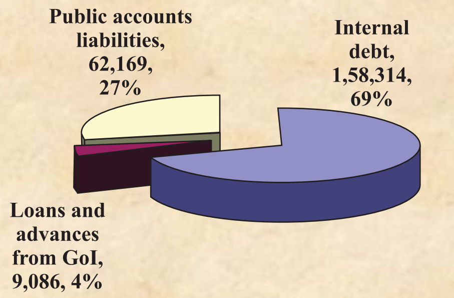
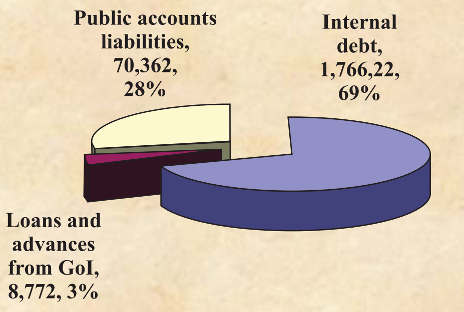


Chart 1.13 : Composition of outstanding fiscal liabilities as on 31.03.2012 (₹ in crore)



(Source: Finance Accounts).

Table 1.26 gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP, to revenue receipts and to the State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table 1.26: Fiscal liabilities basic parameters

	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal Liabilities (₹ in crore)	1,58,114	1,79,262	2,03,165	2,29,569	2,55,756
Rate of Growth (*per cent*)	0.68	13.38	13.33	13.00	11.41
Ratio of Fiscal Liabilities to					
GSDP (*per cent*)	26.8	25.9	22.5	21.5	20.5
Revenue Receipts (*per cent*)	198.7	220.6	233.8	216.8	210.9
Own Resources (*per cent*)	332.7	344.5	343.7	306.0	291.9
Buoyancy of Fiscal Liabilities with reference to :					
GSDP (ratio)	0.042	0.777	0.443	0.702	0.677
Revenue Receipts (ratio)	0.024	6.371	1.932	0.596	0.784
Own Resources (ratio)	0.037	1.408	0.980	0.483	0.680

The overall fiscal liabilities of the State increased at an average annual rate of 15.44 *per cent* during the period 2007-12. The growth rate decreased from 13 *per cent* in 2010-11 to 11.41 *per cent* in 2011-12. During 2011-12, the debt to GSDP ratio at 20.5 *per cent* was higher than the projections made in MTFPS (19.17 *per cent*) and FCP (19.17 *per cent*) but lower than ThFC and MFRBM Rules, 2011 (26.10 *per cent*). These liabilities were around twice the revenue receipts and thrice the State's own resources at the end of 2011-12. The buoyancy of these liabilities with respect to GSDP during 2011-12 was 0.677, indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.677 *per cent.*

Of the total fiscal liabilities, the share of public debt was maximum (72 *per cent),* followed by deposits[32] (13 *per cent);* reserve funds (8 *per cent)* and small savings, provident fund[33] *etc* (7 *per cent*). Fiscal liabilities increased by ₹ 26,187 crore from ₹ 2,29,569 crore in 2010-11 to ₹ 2,55,756 crore in 2011-12, mainly due to increase in Public Debt (₹ 17,994 crore), Reserve Fund (₹ 1,399 crore), Deposits (₹ 4,533 crore) and Small Savings and Provident Funds (₹ 2,261 crore).

The State Government set up a Consolidated Sinking Fund during the financial year 1999-2000 for amortization of open market loans. As on 31 March 2012, the outstanding balance in the Sinking Fund was ₹ 10,392.43 crore, including ₹ 1,798.79 crore for 2011-12 and the entire amount was invested.

There were 18 Reserve Funds earmarked for specific purposes, out of which 9 funds were active as shown in the **Appendix 1.11**. The total accumulated balance as on 31 March 2012 in these funds was ₹ 20,892.02 crore (₹ 20,863.01 crore in active funds and ₹ 29.01 crore in inoperative funds). However, the investment out of this balance was only ₹ 10,417.67 crore (50 *per cent*).

32 Deposits include Security Deposits, Deposits from Government Companies, Corporations *etc*., Defined Contribution Pension Scheme for Government Employees and Civil Deposits, which are liable to be repaid by the Government to the subscribers and depositors.

33 Small Savings and Provident Fund include State Provident Fund and Insurance and Pension Funds which are liable to be repaid by the Government to the subscribers and depositors.

It was further noticed that out of nine inoperative reserve funds amounting to ₹ 29.01 crore, five[34] reserve funds amounting to ₹ 1.62 crore are inoperative for more than 10 years. Hence, Government may review the balances in these funds and consider their utilization for the intended purpose / closure as per prescribed rules / procedure.

1.7.2.1 Unreconciled differences between closing balances in the account and subsidiary records

As per the Finance Accounts for the year 2011-12, there was an unreconciled balance of ₹ 1731.52 crore under Civil Deposits and Other Civil Deposits, pertaining to the period 1960-61 to 2011-12 as shown in **Table 1.27**.

Table 1.27: Unreconciled balances

(₹ in crore)

Description	Unreconciled Amount
Civil Deposits (bearing interest)	
Provident Fund Accounts maintained by departmental officers (Extent of difference)	1,721.92
Civil Deposits (not bearing interest)	
AIS – Provident Fund	0.19
Other than Class IV Provident Fund	7.88
Educational Deposits	0
Public Works Deposits	1.46
Suspense Account	0.07
Transfer between Public Works Department	–
Total	**1,731.52**

(Source : Appendix VIII, Finance Accounts).

The amounts shown under Public Works Deposits pertained to the period 1960-61 to 2006-07. Further, the major unreconciled balances related to Provident Fund Accounts maintained by departmental officers pertained to period 1960-61 to 2011-12.

1.7.3 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.

The maximum amount for which guarantees were given by the State and outstanding guarantees for the last three years as given in the Statement 9 of the Finance Accounts (Vol.II), are summarised in **Table 1.28.**

Table 1.28: Guarantees given by the Government of Maharashtra

(₹ in crore)

Guarantees	2009-10	2010-11	2011-12
Maximum amount guaranteed	73,958	44,414	45,515
Outstanding amount of guarantees	42,683	15,041	15,041[35]
Percentage of maximum amount guaranteed to total revenue receipt	85	42	38

(Source: Finance Accounts).

[34] Transport Department Betterment Fund; Development Funds for Medical and Public Health; Development Funds for Animal Husbandry Purposes; Funds for Development of Milk Supply; and State Transport Road Development Fund.

[35] Position as on 31 March 2011, as the information is awaited from the concerned Institutions/GoM (August 2012).

During 2011-12, guarantees of ₹ 1,101.55 crore were given by the State Government to Maharashtra State Co-operative Marketing Federation (₹ 337.15 crore), Maharashtra Agricultural Industries Development Corporation (₹ 335 crore), Co-operative sugar factories (₹ 209.40 crore), Vidharbha Co-operative Marketing Federation Ltd., Nagpur (₹ 190 crore) and Moulana Azad Minority Economic Development Corporation (₹ 30 crore). Outstanding guarantees (₹ 15,041 crore) during 2011-12 accounted for 12 *per cent* of the revenue receipts (₹ 1,21,286 crore). The outstanding guarantees during 2011-12 were 1.20 *per cent* of the GSDP.

The State Government charged guarantee fees for guarantees given to institutions and the same was booked under 'Miscellaneous General Services'. Receipts under guarantee fees decreased to ₹ 128.85 crore (receivable: ₹ 60.03 crore) during 2011-12, as against ₹ 551.18 crore received during 2010-11.

Sums paid by the Government in the event of invocation of guarantees are charged to the Consolidated Fund of the State under the concerned loan head and irrecoverable sums are adjusted by debit to 'Irrecoverable loan written off' under the function for which loan has been guaranteed or where the purpose cannot be identified, by debit to 'Miscellaneous General Services', where the Guarantee Reserve Funds do not exist and under the Guarantee Reserve Fund where it exists. A Guarantee Reserve Fund created in 1963-64 to meet the liabilities which may arise as a result of the invocation of guarantees given by the Government was closed with effect from 1st April 1990. In the MTFPS for the year 2009-10, laid before the Maharashtra State Legislature, it was stated that the State was also in the process of setting up a Guarantee Redemption Fund to meet the contingent liabilities arising from the guarantees given by the Government. However, the GoM has since taken a decision not to create the Guarantee Redemption Fund.

An amount of ₹ 154.36 crore was recoverable as loan from Co-operative Sugar Mills at the end of 2010-11. An amount of ₹ 2.02 crore was recovered from the parties during the year towards the charges on account of invocation of guarantee initially met by the Government and therefore a balance of ₹ 152.34 crore is yet to be recovered as at the end of the year 2011-12. No amount was paid by the Government on account of invocation of guarantee during the year 2011-12.

1.7.3.1 Release of ad-hoc grants against pending claims of invocation of guarantee

The Maharashtra State Co-operative Bank (MSCB) has invoked the guarantees given for ₹ 1,831.22 crore in respect of loans given (11 December 1975 to 31 March 2005) to 88 co-operative units (mainly sugar factories, spinning mills, *etc*) during the period from December 2000 to March 2010. National Bank for Agriculture and Rural Development's inspection report in March 2011 indicated the precarious financial position of the bank and the necessity to maintain the minimum reserves to continue its operation as a bank. In order to enable the bank to maintain the minimum reserves, the State Government released ₹ 270[36] crore and ₹ 50 crore in March 2011 and March

[36] ₹ 100 crore as share capital contribution and ₹ 170 crore as ad-hoc grant

2012 respectively. This was to be adjusted against the invocation amount. The following conditions were stipulated by the department in August 2011 *i.e.* after four months of the initial release of grant :

- The grant was to be adjusted against invoked guarantee of those sugar co-operative units, whose assets have already been disposed under Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 by the bank.
- It had to be adjusted only against those sugar units against which the Government had executed agreement.

An expenditure of ₹ 220 crore (₹ 170 crore of March 2011 and ₹ 50 crore of March 2012) was booked as other expenditure instead of treating it as loan[37] on account of invocation of guarantee. The remaining ₹ 100 crore provided as share capital contribution by Government was actually adjusted against the pending invocation claim by MSCB. Hence, the said expenditure of ₹ 100 crore should also be treated as loan[37]. Out of the 88 defaulting units to which guarantees were given by the Government, 33 units were not functioning. The scope of further increase in the invocation amount on this account due to interest till the date of payment cannot be ruled out.

1.7.4 Off-budget borrowings

The borrowings of a State are governed under Article 293 of the Constitution of India. In addition to the contingent liabilities shown in **Table 1.28**, the State also guaranteed loans availed of by the Government companies and corporations. These companies and corporations borrowed funds from the market and 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 mobilized by these companies and 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) of the Constitution of India. As per the MTFPS Statement 2008-09, the State Government had completely stopped off-budget borrowings from the year 2005-06. There were no off-budget borrowings during the years 2006-07 to 2011-12. However, at the close of 2011-12, ₹ 2,079 crore was outstanding on account of off-budget borrowings made prior to 2005-06.

1.7.5 Adverse Balances appearing in the Finance Accounts

Adverse balances (Minus balances) appearing in the statements of the Finance Accounts show the distorted position of account balances. Adverse balance under the Loan head shows that the repayment was more than the loans advanced by the Government. The adverse balances appearing under the Loan account were mainly due to misclassification of the transactions while compiling the accounts.

During 2011-12, adverse balances that appeared in the Finance Accounts due to misclassification are shown in **Appendix 1.12**.

[37] As per Indian Government Accounting Standards (IGAS) Notification 1 "When Guarantees are invoked and payments made, the payment is treated as loan to the beneficiary on whose behalf the Guarantees were given and recoveries there-against are monitored."

The administrative departments concerned have to take initiative to clear the above-mentioned adverse balances.

1.8 Debt Sustainability

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability[38] of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilization[38], sufficiency of non-debt receipts[38], net availability of borrowed funds[38], burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.29** analyses the debt sustainability of the State according to these indicators for the period of three years beginning from 2009-10.

Table 1.29: Debt sustainability: indicators and trends

Indicators of debt sustainability	2009-10	2010-11	2011-12
Debt Stabilization (₹ in crore) (Quantum Spread + Primary Deficit)[38]	28,701	11,013	19,689
Sufficiency of non-debt receipts (Resource Gap) (₹ in crore)	(-)12,157	7,299	(-)1,112
Net Availability of Borrowed Funds (₹ in crore)	9,794	10,756[39]	8,682
Burden of Interest Payments(IP/RR Ratio) (in *per cent*)	16	15	14

Debt Stabilisation

A necessary condition for stability states that if the rate of growth of the economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided the primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt multiplied by rate spread), the debt sustainability condition states that if the quantum spread together with primary deficit is zero, the 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.

Table 1.29 reveals that the emergence of positive sum of quantum spread and primary deficit since 2009-10 indicates the tendency towards the debt stabilization which would eventually improve the debt sustainability position of the State in ensuing years.

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.

38 see Glossary at page 175.

39 Figure differs from last year due to corrections.

The negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. **Table 1.29** reveals that during the year 2009-10 the resource gap was negative which turned to positive during 2010-11, indicating increasing capacity of the State to sustain the debt in the medium to long run. However, during the current year, the resource gap turned into negative, indicating the beginning of risk of non-sustainability of debt.

Despite positive indicators in terms of debt stabilisation, the negative resource gap (₹ 1,112 crore) was a matter of concern. This was a result of insufficiency of the incremental non-debt receipt (₹ 15,777 crore) to meet the incremental primary expenditure (₹ 15,032 crore) and incremental interest payments (₹ 1,857 crore). Thus, the State needs to step up its resource mobilisation as well as prune unproductive expenditure to maintain debt stability.

Net availability of borrowed funds

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

Table 1.29 reveals that the net availability of borrowed funds increased from ₹ 9,794 crore in 2009-10 to ₹ 10,756 crore in 2010-11, however, it decreased to ₹ 8,682 crore during 2011-12. The decrease was mainly due to increase in Interest Payments (₹ 1,857 crore).

During 2011-12, Government raised internal debt of ₹ 24,146 crore, GoI loans of ₹ 306[40] crore and other obligations of ₹ 32,697 crore. Government repaid internal debt of ₹ 5,838 crore, GoI loans of ₹ 620 crore and discharged other obligations of ₹ 24,504 crore and paid interest of ₹ 17,505 crore resulting in net increase in debt receipts by ₹ 8,682 crore during the year.

Interest as a percentage of revenue receipts was almost constant (15 *per cent)* during 2007-12 which was as per the target of 15 *per cent* envisaged in the Twelfth Finance Commission.

Table 1.30 : Maturity profile of State debt

(₹ in crore)

Maturity Profile	Amount	*Per cent*
0 – 1	4,798.52	2.72
2 – 3	14,764.12	8.36
4 – 5	15,461.73	8.75
6 – 7	35,234.62	19.95
8 and above	99,579.36	56.38
Information not furnished by the State Government	6,783.65	3.84
Total	**1,76,622.00**	**100.00**

(Source : Finance Accounts).

40 Excludes central loans of ₹ 170 crore written-off as per recommendation of the ThFC, received from GoI under Central Plan Schemes and Centrally Sponsored Schemes.

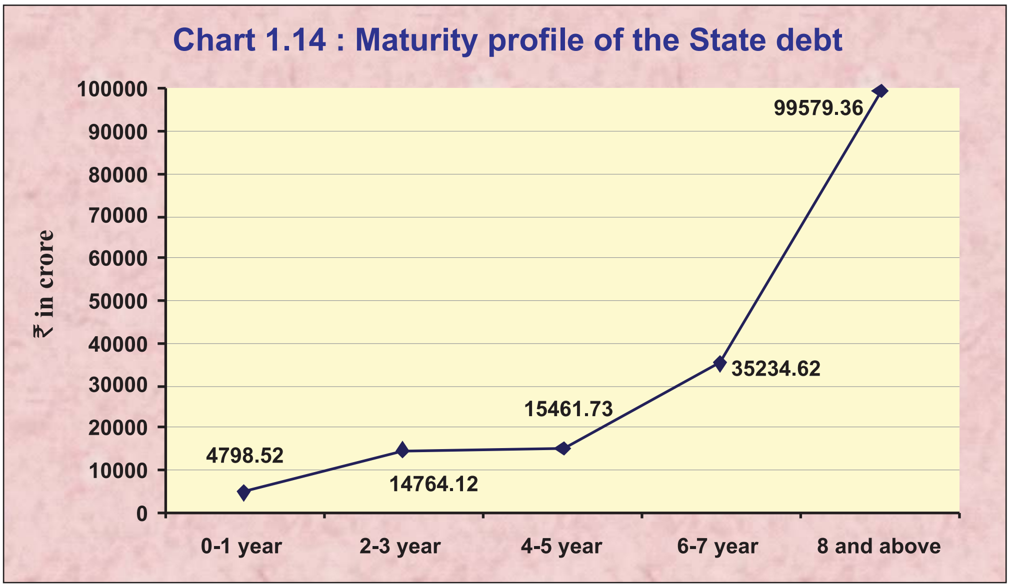


Chart 1.14 : Maturity profile of the State debt

(Source : Finance Accounts).

The maturity of the State Debt as per **Table 1.30** and **Chart 1.14** indicates that nearly 19.83 *per cent* of the total State debt is repayable within the next five years while the remaining 80.17 *per cent* is payable in more than five years. It further indicates that the liability of the State to repay the debt would be ₹ 15,461.73 crore during the period 2015-17 and ₹ 35,234.62 crore during 2017-19 which would put a strain on the Government budget during that period.

A well thought out debt repayment strategy will have to be worked out by the Government to ensure that no additional borrowings, which mature in these critical years, are made.

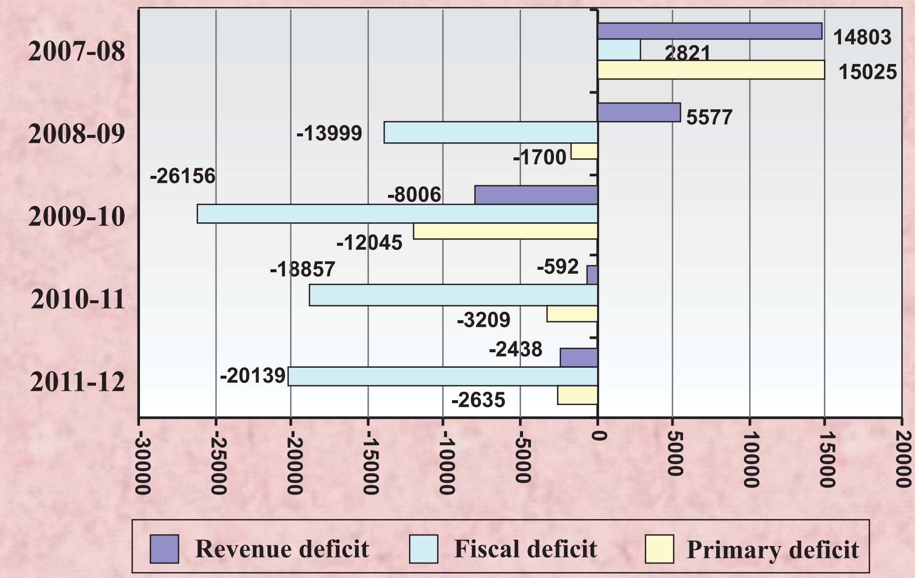
1.9 Fiscal Imbalances

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

1.9.1 Trends in deficits

Charts 1.15 and 1.16 present the trends in deficit indicators over the period 2007-12:

Chart 1.15 : Trends in deficit indicators (₹ in crore)



The revenue surplus of ₹ 14,803 crore during 2007-08 due to augmentation of non-tax receipts by way of transfer of ₹ 10,868 crore lying in various inoperative Reserve Funds in the Public Account by the State Government to its Consolidated Fund. Gradually the revenue surplus turned into revenue deficit of ₹ 8,006 crore in 2009-10, mainly due to a sharp increase in revenue expenditure by 25 *per cent* as against an increase in revenue receipts of only seven *per cent*. However, during 2010-11, the revenue deficit reduced to ₹ 592 crore mainly due to a sharp increase in revenue receipts by 22 *per cent* as against increase in revenue expenditure by 12 *per cent*. During the year 2011-12, the revenue deficit increased to ₹ 2,268 crore mainly due to an increase in revenue receipts by 15 *per cent* as against increase in revenue expenditure by 16 *per cent*.

The revenue deficit was to be brought down to zero by 2011-12 and revenue surplus is to be generated thereafter, as per the MFRBM Rules (Second Amendment), 2011. However during 2011-12, the target of generating revenue surplus could not be achieved.

The fiscal deficit of ₹ 18,857 crore during 2010-11 increased to ₹ 19,969 crore, which was the result of increase in revenue deficit (₹ 1,676 crore) and decrease in net loans and advances disbursed (₹ 42 crore) and net capital expenditure (₹ 522 crore) over the previous year.

The primary deficit[41] took a turnaround and resulted in a primary surplus during 2007-08. However, it again turned to primary deficit during 2008-12. During 2011-12, the primary deficit reduced by ₹ 745 crore from ₹ 3,209 crore in 2010-11 to ₹ 2,464 crore in 2011-12, due to a sharp increase in interest payments (₹ 1,857 crore) as compared to increase in fiscal deficit (₹ 1,112 crore).

[41] see the Glossary at page 175.

It is observed that on account of write off of central loans (March 2012) of ₹ 170 crore received from GoI, the RR of the State were raised in Finance Accounts. After considering this write off, the revenue deficit further increased to ₹ 2,438 crore, fiscal deficit to ₹ 20,139 crore and primary deficit to ₹ 2,635 crore as indicated in **Chart 1.15**.

Chart 1.16 : Trends in deficit indicators relative to GSDP

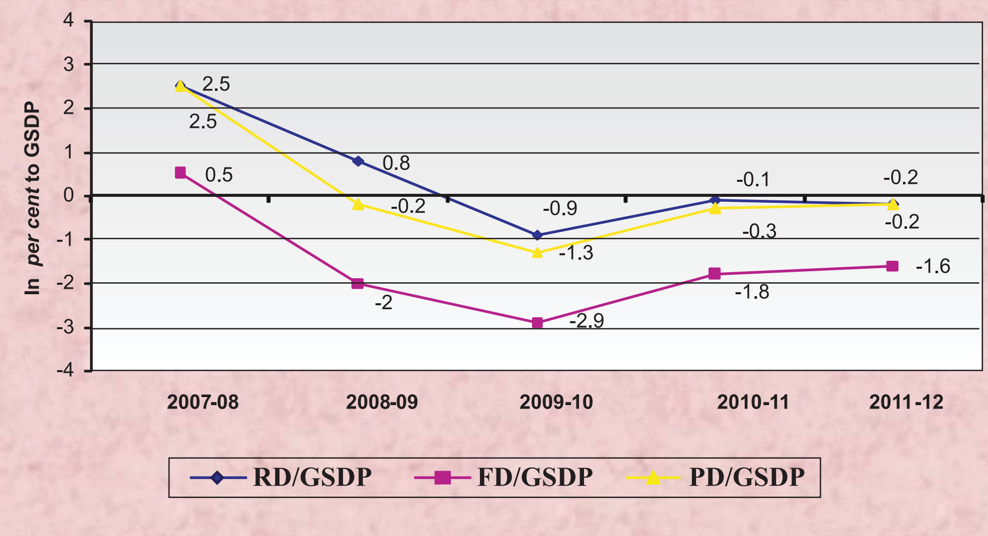


Table 1.31 : Trends in major fiscal parameters / variables *vis-à-vis* projections for 2011-12

Fiscal variables	2011-12			
	ThFC (2011-12)	MTFPS	FCP	Actuals
Revenue deficit as percentage of GSDP	0.00	0.00	0.00	0.20
Fiscal Deficit as percentage of GSDP	3.00	1.93	1.93	1.61

Table 1.31 reveals that the State could not achieve the above fiscal target in respect of revenue deficit as percentage of GSDP, with the current year ending in a revenue deficit of ₹ 2,438 crore, which was 0.20 *per cent* of GSDP. However, in respect of fiscal deficit as percentage of GSDP, the State has achieved the above fiscal targets, with the current year ending in a fiscal deficit of ₹ 20,139 crore, which was 1.61 *per cent* of the GSDP.

It was noticed that during 2011-12, out of a total of 16 cases (as per Finance Accounts – Volume I), 'Grants-in-aid' of ₹ 711.59 crore in 15 cases and 'Subsidies' of ₹ four lakh in one case, released by the State Government had been classified and booked under capital expenditure heads. These should have been booked under revenue expenditure heads of accounts, thus resulting in understatement of the revenue deficit to that extent.

1.9.2 Decomposition and financing pattern of fiscal deficit

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.32.**

Table 1.32 : 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(-) / Surplus (+) (1+2+3) (a)	**2,821 (0.48)**	**(-)13,999 (-2.01)**	**(-)26,156 (-2.90)**	**(-)18,857 (-1.83)**	**(-) 20,139 (-1.61)**
1 Revenue Deficit(-)/ Surplus (+)	14,803 (2.5)	5,577 (0.8)	(-)8,006 (-0.89)	(-)592 (-0.06)	(-)2,438 (-0.20)
2 Net Capital Expenditure	11,490 (1.94)	18,855 (2.7)	17,404 (1.93)	17,946 (1.74)	17,424 (1.4)
3 Net Loans and Advances	492 (0.08)	721 (0.1)	746 (0.08)	319 (0.03)	277 (0.02)
Financing Pattern of Fiscal Deficit#					
1 Market Borrowings	7,641 (1.29)	16,866 (2.42)	14,509 (1.61)	10,484 (1.02)	19,420 (1.56)
2 Loans from GoI	(-)84 (-0.01)	(-)35 (-0.01)	325 (0.04)	337 (0.03)	(-)144 (-0.01)
3 Special Securities Issued to NSSF*	1,475 (0.25)	428 (0.06)	2,751 (0.31)	5,155 (0.50)	(-)1,172 (-0.09)
4 Loans from Financial Institutions and other Loans	30 (0.01)	229 (0.03)	154 (0.02)	(-)9 (0.00)	60 (0.00)
5 Small Savings, PF *etc*	685 (0.12)	803 (0.12)	1,790 (0.20)	2,022 (0.20)	2,260 (0.18)
6 Deposits and Advances	1,876 (0.32)	1,240 (0.18)	3,502 (0.39)	6,259 (0.61)	4,532 (0.36)
7 Suspense and Miscellaneous	225 (0.04)	3,148 (0.45)	4,020 (0.45)	(-)1104 (-0.11)	(-)1,509 (-0.12)
8 Remittances	(-)72 (-0.01)	42 (0.01)	2,163 (0.24)	(-)482 (-0.05)	(-)256 (-0.02)
9 Reserve Funds	(-)10,547 (-1.78)	1,617 (0.23)	875 (0.10)	2,153 (0.21)	1,400 (0.11)
10 Contingency Fund	(-)4 (0.00)	307 (0.04)	(-)251 (-0.03)	842 (0.08)	(-)489 (-0.04)
11 Appropriation to/ from Contingency fund	–	(-)250 (-0.04)	250 (0.03)	(-)850 (-0.08)	500 (0.04)
12 Total (1 to 11) (b)	**1,225**	**24,395**	**30,088**	**24,807**	**24,602**
13 Increase(-)/ Decrease (+) in Cash Balance (a) – (b)	(-)4,046 (-0.68)	(-)10,396 (-1.49)	(-)3,932 (-0.44)	(-)5,950 (-0.58)	(-)4,463 (-0.36)
14 Overall deficit (12+13)	(-)2,821 (-0.48)	13,999 (2.01)	26,156 (2.90)	18,857 (1.83)	**(-) 20,139 (-1.61)**

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

All figures are net of disbursements/outflows during the year.

* National Small Savings Fund.

(Source: Finance Accounts).

The fiscal deficit increased by ₹ 1,282 crore during 2011-12 due to the increase in revenue deficit. The net capital expenditure as a percentage of the fiscal deficit decreased from 95 *per cent* during 2010-11 to 87 *per cent* in 2011-12.

During the year 2010-11, the fiscal deficit was mainly financed by market borrowings, deposits and advances and special securities issued to NSSF whereas during 2011-12, the fiscal deficit was mainly financed by market borrowings and deposits.

As can be seen from **Table 1.33** during the period 2011-12, there was an overall surplus (increase in cash balance) after financing the fiscal deficit.

Table 1.33 : Receipts and disbursements under components financing the fiscal deficit during 2011-12

(₹ in crore)

	Particulars	Receipts	Disbursements	Net
1	Market Borrowings	21,000	1,580	19,420
2	Loans from GoI	476*	620	(-)144
3	Special Securities Issued to NSSF	1,965	3,137	(-)1,172
4	Loans from Financial Institutions and other Loans	1,181	1,121	60
5	Small Savings, PF *etc*	4,449	2,189	2,260
6	Deposits and Advances	25,544	21,012	4,532
7	Suspense and Miscellaneous	(-)1,491	18	(-)1,509
8	Remittances	21,835	22,091	(-)256
9	Reserve Funds	3,053	1,653	1,400
10	Contingency Fund	511	1,000	(-)489
11	Appropriation to/ from Contingency Fund	1,000	500	500
12	**Total (1 to 11) (b)**	**79,523**	**54,921**	**24,602**
13	Increase(-)/ Decrease (+) in Cash Balance (a) – (b)			(-)**4,463**
14	Overall deficit (12+13)			**20,139**

* Includes central loans of ₹ 170 crore written-off as per recommendation of the ThFC.

(Source : Finance Accounts).

Cost of borrowings

During the year 2011-12, the State Government raised market loans of ₹ 21,000 crore under internal debt. The cost of raising of this internal debt being ₹ 15.55 crore was 0.07 *per cent* of the market loan taken by the State Government.

1.9.3 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 States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, the persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit shown in **Table 1.34** indicates the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.34 : 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	80,316	52,576	11,490	1,225	65,291	27,740	15,025
2008-09	81,849	63,395	18,873	1,281	83,549	18,454	(-)1,700
2009-10	87,450	80,806	17,429	1,261	99,496	6,644	(-)12,046
2010-11	1,06,525	90,812	17,963	959	1,09,734	15,713	(-)3,209
2011-12	1,22,131	1,06,050	17,880	836	1,24,766	16,081	(-)2,635

(Source: Finance Accounts).

During the period 2007-12, non-debt receipts of the State were enough to meet the primary revenue expenditure requirements in the revenue account. However, except for the period 2007-08, non-debt receipts were not enough to meet the primary expenditure resulting in primary deficit. This indicates the extent to which the primary deficit in the current year has been on account of capital expenditure which may be desirable to improve the productive capacity of the State's economy.

The capital expenditure as a percentage to primary expenditure[42] increased from 17.60 *per cent* during 2007-08 to 22.59 *per cent* during 2008-09. However, it came down to 14.33 *per cent* during 2011-12.

1.10 Conclusion

Pattern of Revenue and Expenditure

The revenue receipts increased during the year by 15 *per cent* over the previous year due to increase in tax revenue (17 *per cent*), Central tax transfers (17 *per cent*) and Grants from GoI (nine *per cent*). The revenue receipts were 99.8 *per cent* of the assessments made by the State Government in its FCP and MTFPS for the year 2011-12**.** The non-tax revenue of the Government was also lower than the projections made in FCP and MTFPS/Budget by 16 *per*

42 Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

cent, the ThFC by 33 *per cent*. The growth rate of the State's own taxes was almost equal to that of the GSDP of the State (**Para 1.3**).

The revenue expenditure increased by 16 *per cent* over the previous year and constituted 87 *per cent* of the total expenditure during 2011-12. Non-Plan revenue expenditure (NPRE) constituted 82 *per cent* of the revenue expenditure. The NPRE (₹ 1,01,519 crore) remained higher than the normative assessments made by the ThFC (₹ 73,742 crore) and the State Government's projections (MTFPS/Budget/FCP) (₹ 95,542 crore). The Plan revenue expenditure and NPRE increased by 30 *per cent* and 13 *per cent* respectively over the previous year (**Para 1.4.1**).

Expenditure under subsidies increased by 79 *per cent* over the previous year and constituted eight *per cent* of revenue expenditure (**Para 1.4.1**).

Capital expenditure, which constituted 12 *per cent* of the total expenditure, decreased during 2011-12 by 0.47 *per cent* (₹ 84 crore) over the previous year (**Para 1.4.1**).

The expenditure of ₹ 45,953 crore on salaries and wages (including the grant-in-aid component) was lower than the State's own FCP and the projections made in the MTFPS of the Government (₹ 48,761 crore) (**Para 1.4.2**).

Financial assistance to local bodies and other institutions (₹ 55,363 crore), which constituted 45 *per cent* of the revenue expenditure during 2011-12 increased by 16 *per cent* over 2010-11 (**Para 1.4.3**).

Deficits

The significant gap between the growth rates of the revenue receipts (15 *per cent*) and revenue expenditure (16 *per cent*) over the previous year increased the revenue deficit to ₹ 2,438 crore during 2011-12 from a revenue deficit of ₹ 592 crore during 2010-11. The targets set for the revenue deficit as a percentage of GSDP under the MTFPS and FCP were not achieved. The fiscal deficit (₹ 20,139 crore) increased as compared to the previous year and constituted 1.61 *per cent* of GSDP, which was within the limit (three *per cent*)**.** The primary deficit also decreased significantly during 2011-12 **(Para 1.9.1)**.

Debt Management

During 2011-12, the fiscal liabilities (₹ 2,55,756 crore) increased over the previous year. The fiscal liabilities to GSDP ratio at 20.5 *per cent* was lower than the norm of 26.10 *per cent* recommended by the ThFC and the MFRBM Rules of 2011. These liabilities were around twice the revenue receipts (**Para 1.7.2**).

The emergence of a positive sum of quantum spread and primary deficit since 2009-10 indicates the tendency towards debt stabilization, however the negative resource gap in the State during 2011-12 was a matter of concern. This was a result of insufficiency of the incremental non-debt receipt to meet the incremental primary expenditure and incremental interest payments. (**Para 1.8**)

Review of Government investments

The average return on the State Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.04 and 0.13 *per cent* in the past three years while the Government paid an average interest of 7.21 to 7.38 *per cent* on its borrowings. **(Para 1.6.3)**

Prudent cash management

Cash balances of the State at the close of the year 2011-12 (₹ 35,972 crore) increased by 14 *per cent* over 2010-11. The cost of holding surplus cash balances was high. In 2011-12, the interest received on investment of cash balances in RBI Investment in Treasury Bills was only 2.03 *per cent* while the Government borrowed on an average at 7.21 *per cent* (**Para 1.6.6**).

Incomplete Projects

In respect of 426 incomplete irrigation projects **(Appendix 1.9)**, time overrun was upto 40 years out of which significant cost overrun in respect of 242 irrigation projects resulted due to increase in the initial budgeted costs. In respect of 188 incomplete projects relating to Public Works and Roads and Bridges, there was a time overrun of four to five years. **(Para 1.6.2)**.

Oversight of funds transferred directly from the GoI to the State implementing agencies

GoI directly transferred ₹ 7,144 crore to the State implementing agencies during 2011-12. Funds transferred directly from the GoI to State implementing agencies result in non-monitoring of the expenditure incurred by them on various schemes as these funds are not reflected in the State budget **(Para 1.2.2)**.

1.11 Recommendations

- As per the recommendations of the ThFC, the State Government is required to maintain a revenue surplus in 2011-12 and thereafter. To achieve revenue surplus, efforts have to be made to increase tax compliance, reduce administration costs, collect revenue arrears and prune unproductive expenditure.
- Borrowed funds should be, as far as possible, utilised only for infrastructure development, whereas revenue expenditure should be met fully from the revenue receipts. Steps should be taken to achieve zero revenue deficit as soon as possible.
- The Government should take steps to ensure better value for money in investments. Otherwise, high-cost borrowed funds will continue to be invested in projects with low financial returns. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritized with full justification for channeling high-cost borrowings there.

- There is a need for uniform accounting practices to be followed by all the implementing agencies in receipt of direct funds from GoI and a system of timely reporting of the expenditure incurred, to the State Government for proper monitoring.
- The Government must prepare itself better to face future liabilities/ commitments by taking steps like proper investment of the amounts relating to contributory pension scheme and specific-purpose Reserve funds.