Executive Summary

Background

Maharashtra is the second largest State in India, both in terms of population and geographical area. The State has shown higher economic growth in the past decade as the compound annual growth rate of its Gross State Domestic Product 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.

This Report on the Finances of the Government of Maharashtra is being brought out with a view to objectively assess the financial performance of the State during 2011-12 and to provide the State Government and State Legislature with timely inputs based on audit analysis of financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government Fiscal Responsibilities and Budgetary Management Act, 2005 and in the Budget Estimates of 2011-12.

The Report

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

Chapter I is based on the audit of Finance Accounts and makes an assessment of the Maharashtra Government's fiscal position as on 31 March 2012. It provides an insight into trends of committed expenditure and the borrowing pattern, besides giving a brief account of Central funds transferred directly to the State implementing agencies, without routing it through the State budget.

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

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

Audit findings and recommendations

Chapter I

Finances of the State Government

Fiscal Correction: The fiscal parameters i.e. revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the

State Government during a specified period. The significant gap between the growth rates of the revenue receipts (15 *per cent*) and revenue expenditure (16 *per cent*) over the previous year increased the revenue deficit during 2011-12 as compared to 2010-11.

As per the recommendations of the Thirteenth Finance Commission, the revenue deficit was required to be brought down to zero for 2011-12. However, during 2011-12, this target of generating revenue surplus could not be achieved.

Interest payments: Interest payments (₹ 17,505 crore), which increased by 12 *per cent* during the year over 2010-11, were within the projection made in the Thirteenth Finance Commission (₹ 18,343 crore), the Medium Term Fiscal Policy Statement (₹ 18,049 crore) and Fiscal Correction Path (₹ 17,540 crore).

Non-Plan revenue expenditure: The revenue expenditure (₹ 1,23,554 crore) constituted 87 *per cent* of the total expenditure (₹ 1,42,270 crore), of which, 82 *per cent* was the Non-Plan component (₹ 1,01,519 crore). The Non-Plan Revenue Expenditure remained higher than the normative assessments made by the Thirteenth Finance Commission (₹ 73,742 crore) and the State Government's projections (Medium Term Fiscal Policy Statement/Budget) (₹ 95,542 crore) and projected in the Fiscal Correction Path (₹ 95,542 crore).

Incomplete Projects: In respect of 426 incomplete irrigation projects, 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.

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 to 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 this investment. Thus, this is an unsustainable proposition.

The Government should take steps to ensure better value for money in investments. Otherwise, high-cost borrowed funds will continue to be invested in projects with low financial returns. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritized with full justification for channelling high-cost borrowings there. The working of State Public Sector Undertakings which are incurring huge losses should be reviewed and a strategy should be worked out for those undertakings which can be made viable.

Debt sustainability: During 2011-12, the fiscal liabilities (₹ 2,55,756 crore) of the State increased over the previous year by 11 *per cent*. The fiscal liabilities to Gross State Domestic Product ratio at 20.5 *per cent* was lower than the norm of 26.10 *per cent* recommended by the Thirteenth Finance Commission and Maharashtra Fiscal Responsibility and Budgetary Management Rules of 2011. The revenue deficit indicates that some portion of the high-cost borrowings is being used by the Government for meeting its current expenditure.

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

Oversight of funds transferred directly from Government of India to the State implementing agencies: The Government of India directly transferred ₹ 7,144 crore to State implementing agencies during 2011-12 which was an increase of ₹ 1,498 crore (27 *per cent*) over the previous year. Funds transferred directly from Government of India 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.

There is a need for uniform accounting practices to be followed by all the implementing agencies in receipt of direct funds from Government of India and a system of timely reporting of the expenditure incurred, to the State Government for proper monitoring.

Chapter II

Financial Management and Budgetary Control

The slow pace of programme implementation of various social and developmental programmes in the State left an overall saving of ₹ 21,155.62 crore, set off by an excess of ₹ 1,272.28 crore. The excess requires regularisation under Article 205 of the Constitution of India. There were instances of inadequate provision of funds and unnecessary/excessive reappropriations. Rush of expenditure at the end of the financial year was another chronic feature noticed in the State. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of March 2012, leaving no scope for utilizing these funds for other developmental purposes.

All departments should closely monitor the expenditure against the allocations and incurring of excess expenditure over the grants should be strictly avoided. Surrender of funds should be done much before the close of the year so as to enable the Government to utilize the funds on other schemes. Release of funds at the end of the year should be avoided.

Chapter III

Financial Reporting

The Government's compliance with various rules, procedures and directives was lacking in various departments, which was evident from delays in furnishing of utilization certificates against loans and grants by various grantee institutions. Delays were also experienced in submission of annual accounts by autonomous bodies and departmentally managed commercial undertakings. There were instances of large outstanding cases of losses and misappropriations for which departmental action was pending since long. There were delays in submission of Detailed Contingent bills drawn against Abstract Contingent bills. Significant amounts of expenditure and receipts under Central and State schemes, booked under the Minor head '800-Other expenditure' and '800-Other receipts' were not distinctly depicted in the State Finance Accounts of 2011-12.

The departments should ensure timely submission of utilisation certificates in respect of the grants released for specific purposes to the grantee institutions and the annual accounts in respect of the autonomous bodies to the Principal Accountant General (Audit) I, Maharashtra, Mumbai and Accountant General (Audit) II, Maharashtra, Nagpur. Departmental enquiries in respect of all fraud and misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases. A rigorous monitoring mechanism should be put in place in the departments to adjust the advances drawn on Abstract Contingent bills within the stipulated period, as required under the extant rules.